District of Columbia

District of Columbia Council Retreat

March 22, 2013
Introduction

District Economic Update, Federal Sequestration Impact and Revenue Estimates

FY 2013 Major Spending Pressures

Debt Position and Financings

Conclusion

Just In: GO Bond Upgrade from Standard and Poor’s from A+ to AA-
District of Columbia
Surplus and Bond Rating History

Budgetary Basis Deficit
Budgetary Basis Surplus
Cumulative Fund Balance

-$518 million


Revitalization Act
Control Period

-$518 million

Moody's: Baa Baa Baa Ba Ba2 Ba1 Baa3 Baa3 Baa1 Baa1 Baa1 A2 A2 A1 A1 A1 Aa2 Aa2 Aa2 Aa2

District Economic Update,
Federal Sequestration Impact and
Revenue Estimates
Current State of the District’s Economy

OVERVIEW: The District’s economy is experiencing strong growth in population, resident employment, and housing sales, but employment growth has slowed.

Labor Markets and Personal Income
- The District’s unemployment rate fell to 8.6% in January from 9.4% a year earlier. Resident employment grew by a remarkable 7.1%.
- In the January, job growth was 5,400 (0.7%) above last year; loss of federal 2,800 jobs was more than offset by a 8,800 private sector gain.
- FY 2012 Personal Income was up 3.7% from FY 2011.

Commercial Office Market
- In the quarter ending December 2012, occupied office space fell by 0.4% from the prior year. The commercial office vacancy rate stood at 9.3% (including sublet), well below the metropolitan area average of 13.4%.

Housing
- The housing market has been strong in recent months.
- Single family sales for the 3-month period ending January 2013 were up 14.1% from a year ago, and the average selling price was 13.0% higher.
- Condominium sales were up 26.5%, and average prices were 6.9% higher.

Hospitality Industry
- The hospitality sector has slowed in recent months.
- For the 3-month period ending November, the average room rate for hotels was 0.5% lower than for the same period a year earlier.
- The number of hotel room-days sold was down 3.6% from a year earlier, and room sale revenues were down 4.0%. Total revenues over the past 12-month period were down 1.7%. 
In January DC resident employment rose 22,220 (7.1%) from a year earlier (3-month moving average).

In January the unemployment rate (seasonally adjusted) rose to 8.6% (it was 8.4% in December), but seasonally adjusted resident employment rose 0.2% from December, the 18th monthly increase in a row.

In December initial unemployment insurance claims were down 0.2% from a year earlier (3-month moving average).
After several decades of decline the District is experiencing significant population growth

- According to the US Census Bureau, D.C.’s population on July 1, 2012 was 632,323—13,303 (2.1%) more than a year earlier.
- D.C.’s population declined steadily from the end of World War II to 1998 (except for a brief period in the early 1960s). Since then, the population has grown by 67,093 (11.9%) over the last 14 years.
- 2012 was the fourth year in a row in which annual population growth exceeded 2%, with an average annual gain of 13,022.
- Compared to all 50 states, D.C. had the highest population growth rate from 2010 to 2012. The rate, 5.1%, was much higher than the highest states (North Dakota at 4.0% and Texas, at 3.6%), and the US average of 1.7%.

### D.C. Population: 2008 to 2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
<th>Change from prior yr.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>number</td>
</tr>
<tr>
<td>2008</td>
<td>580,236</td>
<td>5,832</td>
</tr>
<tr>
<td>2009</td>
<td>592,228</td>
<td>11,992</td>
</tr>
<tr>
<td>2010</td>
<td>604,989</td>
<td>12,761</td>
</tr>
<tr>
<td>2011</td>
<td>619,020</td>
<td>14,031</td>
</tr>
<tr>
<td>2012</td>
<td>632,323</td>
<td>13,303</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau
Sequestration’s Effects on the District Fully Integrated in Revenue Estimates

- Sequestration went into effect on March 1:
  - Slashes federal spending with an across-the-board cut of $1.2 trillion over the next 10 years, should the President and Congress fail to reach agreement to prevent the budget cuts.
  - Reduces federal activity in the city and region – effect on the District’s Local revenues.
  - Reduces the level of economic activity in the US economy as a whole.
  - Reduces grantmaking by federal agencies – effects on the District’s Federal Grant revenues and District agency spending.

- At this moment, we do not know the actual effect of sequestration on the District in FY 2013, but revenue estimates reflect estimated impact of sequestration.
Federal Government is a Key Driver of the D.C. Economy

- There are about 210,000 federal civilian employees in D.C., accounting for about 28% of all wage and salary employment in D.C. and 34% of the wages and salaries paid in the city.

- An estimated 75,000 D.C. residents are employed by the federal government, representing about 25% of all employed D.C. residents.

- In FY 2010 the Federal government spent a total of $62 billion in D.C. in salaries and wages, procurement, grants, retirement and other benefits, and other direct payments, about 60% of D.C.’s gross state product. In comparison, federal spending is about 33% of gross state product in MD and 32% in VA.

- Given the District’s exposure to federal spending and employment, its economy and revenue will be seriously impacted by federal sequestration.
# Summary of February 2013 Revenue Estimate

## February 2013 Revenue Estimate Compared to Previous Estimate

<table>
<thead>
<tr>
<th>Local Source, General Fund Revenue Estimate ($ millions)</th>
<th>Estimate</th>
<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY 2013</td>
<td>FY 2014</td>
</tr>
<tr>
<td>Previous Revenue Estimate</td>
<td>5,865.1</td>
<td>5,957.0</td>
</tr>
<tr>
<td>Revisions to Estimate</td>
<td>190.0</td>
<td>177.8</td>
</tr>
<tr>
<td>February 2013 Revenue Estimate</td>
<td>6,055.1</td>
<td>6,134.8</td>
</tr>
</tbody>
</table>

Percent change from previous year

|                                                          | 1.5%     | 1.3%     | 2.3%     | 2.8%     | 1.9%     |
Medicaid and certain other programs important to the District are exempt.

Based on high-level analysis of the exemptions as currently written, using a full year (FY 2011) (non-ARRA) grants data, sequestration would mean a reduction of about $31 million in the District’s General Operating Fund federal grants, which totaled over $2.6 billion. See table below.

<table>
<thead>
<tr>
<th>$ in millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Less Unemployment Insurance</td>
</tr>
<tr>
<td>General Operating Fund Total</td>
</tr>
<tr>
<td>Less Medicaid</td>
</tr>
<tr>
<td>Less Other Exempt</td>
</tr>
<tr>
<td>Equals Portion Subject to Sequestration</td>
</tr>
</tbody>
</table>

Notes:
These data are based on one year’s expenditures, not award amounts. The District’s Federal payments (direct appropriations) could also be reduced, by about $10 million.
Year-long Continuing Resolution just approved would leave sequestration essentially in place.

Estimated of FY 2013 and 2014 effects on individual agencies are based on best knowledge at the current time, but things could change.

Effects of reductions in education grants won’t be felt until July 1 (the next program year).
FY 2013 Major Spending Pressures
### FY 2013 Major Spending Pressures

(As of March 21, 2013)

<table>
<thead>
<tr>
<th>Agency</th>
<th>Description of Pressure</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>D.C. Public Charter Schools</td>
<td>• The spending pressure in the D.C. Public Charter Schools is due to increased student enrollment. The audited student enrollment of 34,673 for the 2012-2013 school year is 3 percent higher than the budgeted enrollment of 33,699 and 10 percent higher than the audited enrollment of 31,562 for the 2011-2012 school year.</td>
<td>$19.5</td>
</tr>
<tr>
<td><strong>Subtotal, Public Charter Schools</strong></td>
<td></td>
<td><strong>$19.5</strong></td>
</tr>
<tr>
<td>Not-For-Profit Hospital Corporation (United Medical Center)</td>
<td>• $3.5 million - The Hospital has a current operating cash deficit of approximately $500,000 per month and is operating by not paying its vendors. This jeopardizes the Hospital’s ability to obtain medical supplies and other items and to provide medical services.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• $5.5 million – The Hospital has almost $3 million in pre-foreclosure Accounts Payable and $8.8 million in post-foreclosure Accounts Payable. This forces the Hospital to use its operating revenues to pay aged accounts payable to keep vendors from stopping services.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• $2.0 million – IT Infrastructure – Capital necessary to comply with the Patient Protection and Affordable Care Act.</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal, Not-For-Profit Hospital Corporation</strong></td>
<td></td>
<td><strong>$11.0</strong></td>
</tr>
<tr>
<td><strong>Total, Major Spending Pressures</strong></td>
<td></td>
<td><strong>$30.5</strong></td>
</tr>
</tbody>
</table>
Debt Position and Financings
Expected future Borrowing will remain Under the 12% Debt Cap

### District of Columbia

<table>
<thead>
<tr>
<th>Summary of Debt Cap Position as of March 21, 2013</th>
<th>($ in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2013</td>
<td>FY 2014</td>
</tr>
<tr>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td><strong>Total Debt Service on Existing &amp; Planned Tax-Supported Debt</strong></td>
<td>$ 677.54</td>
</tr>
<tr>
<td><strong>General Fund Expenditures</strong></td>
<td>$ 6,990.55</td>
</tr>
<tr>
<td><strong>Ratio of Debt Service to Expenditures</strong></td>
<td>9.69%</td>
</tr>
</tbody>
</table>
Current Indebtedness

- Total tax-supported debt outstanding – approximately $8.71 billion.
- Total General Obligation Bonds outstanding – approximately $2.30 billion.
- Total Income Tax Bonds outstanding – approximately $4.46 billion.
  - The District will seek reauthorization to issue additional debt under the Income Tax Secured Bond Act ($519.7 million of authorization currently remaining).
- FY 2012 debt service expense was approximately $627.28 million (on all tax-supported debt).
- The Home Rule Act limits maximum annual debt service on General Obligation Bonds to 17% of projected revenues in the current year.
- In 2009, the Council enacted a Debt Ceiling Act which statutorily limits all debt service on all tax-supported debt to 12% of General Fund expenditures, imposing much stricter limit on the issuance of debt.
  - The District’s currently outstanding $8.71 billion of tax-supported debt produces a debt ceiling percentage of 9.69%.
- Average FY 2012 interest rate for outstanding GO and Income Tax Secured fixed rate bonds - approximately 5.02%.
- Average FY 2012 interest rate for outstanding GO and Income Tax Secured variable rate bonds – approximately 0.34%.
The District Currently Has $8.7 Billion of Tax-Supported Debt Outstanding as of December 2012

- **General Obligation Bonds**: $2,295.2 million (26%)
- **Income Tax Secured Revenue Bonds**: $4,457.7 million (51%)
- **Convention Center Bonds**: $652.7 million (8%)
- **HPTF Bonds**: $122.4 million (1%)
- **Ballpark Bonds**: $507.9 million (6%)
- **Capital & Master Leases**: $118.9 million (1%)
- **COPs**: $226.7 million (3%)
- **TIFs & PILOTs**: $317.4 million (4%)

Note: QZABs Make Up $6.7 million (0.1%) of the District’s Tax-Supported Debt Outstanding

Note: % may not total to 100% due to rounding
District of Columbia Current Debt Profile

$6.8 billion
Total G.O. and Income Tax Debt Outstanding

(Dollars in millions)

Unhedged Variable Rate Bonds
$443.7
7%

Hedged Variable Rate Bonds
$262.6
4%

Fixed Rate G.O. Bonds
$1,859.1
28%

Fixed Rate Income Tax Bonds
$4,187.5
62%

$706.3 million
Variable Rate Debt Outstanding
Credit Enhancement Structure

(Dollars in millions)

FSA (2004B G.O. CPI Bonds)
$38.2
5%

Wells Fargo (2008C G.O. Direct Purchase)
$224.3
32%

Citibank (2008A&D G.O. Direct Purchase)
$173.6
25%

SIFMA Index Bonds 2010E, 2011B-D-E I.T. Bonds
$270.2
38%

Note: % may not total to 100% due to rounding
District of Columbia

Capital Improvements Plan: FY 2013 – FY 2018

- District’s Capital Improvements Plan (CIP) is a responsible mix of debt, Pay-Go capital, and grant funding
- Plan calls for total funding of $4.98 billion over six-year period

Fiscal Year 2013 – 2018 Capital Improvements Plan Funding
(Budgetary Basis)
($000s)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General Obligation/Income Tax Bonds</td>
<td>$847,933</td>
<td>$779,167</td>
<td>$688,211</td>
<td>$567,144</td>
<td>$361,016</td>
<td>$245,475</td>
<td>$3,488,946</td>
</tr>
<tr>
<td>Master Equipment Lease/Purchase</td>
<td>26,500</td>
<td>16,000</td>
<td>14,406</td>
<td>27,425</td>
<td>16,338</td>
<td>14,338</td>
<td>115,007</td>
</tr>
<tr>
<td>Pay-As-You-Go</td>
<td>4,270</td>
<td>3,000</td>
<td>5,500</td>
<td>42,400</td>
<td>73,929</td>
<td>116,922</td>
<td>246,021</td>
</tr>
<tr>
<td>Sale of Assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5,950</td>
<td>22,020</td>
<td>27,970</td>
</tr>
<tr>
<td>Local Streets Transportation Fund Revenue</td>
<td>28,933</td>
<td>33,283</td>
<td>35,033</td>
<td>33,783</td>
<td>36,533</td>
<td>41,283</td>
<td>208,848</td>
</tr>
<tr>
<td>GARVEE Bonds</td>
<td>50,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>50,000</td>
</tr>
<tr>
<td>Federal Grants</td>
<td>140,000</td>
<td>147,000</td>
<td>140,000</td>
<td>140,000</td>
<td>140,000</td>
<td>140,000</td>
<td>847,000</td>
</tr>
<tr>
<td>Total Funding</td>
<td>$1,097,636</td>
<td>$978,450</td>
<td>$883,150</td>
<td>$810,752</td>
<td>$633,766</td>
<td>$580,038</td>
<td>$4,983,792</td>
</tr>
</tbody>
</table>
Calendar Year 2012 - 2013 Financings

Completed Transactions

- $314.1 million Income Tax Secured Revenue Refunding Bonds, Series 2012A-B
- $52.4 million Tax Increment Revenue Refunding Bonds (Gallery Place Project), Series 2012
- $675.0 million FY 2013 TRANs.
- $42.9 million Federal Highway Grant Anticipation Revenue Bonds (GARVEE) Series 2012.
- $775.8 million Income Tax Secured Revenue Bonds, Series 2012C-D.
- $39.6 million Deed Tax Revenue Bonds (HPTF), Series 2012A-B.

Anticipated Transactions*

- FY 2014 TRANs (1st quarter of FY 2014) – Amount TBD.
- New Money transaction consistent with CIP ($779.2 million of projects in 1st quarter of FY 2014).
- Refinancing of approximately $96.5 million of Income Tax Secured Revenue Bonds (SIFMA Notes) coming due on December 1, 2013.
- Energy Conservation Bonds – Structure and Amount TBD.
- The District actively manages and monitors its debt portfolio, evaluating refunding opportunities as they arise.

* Preliminary/Subject to Change
Conclusion
District of Columbia

Conclusion

- The District economy, although still showing effects of the recession, continues to remain stronger and more resilient than most other jurisdictions.
- The District’s population is growing faster than any state – D.C. saw the highest one-year increase in 70 years.
- The District has a solid history of ending fiscal years in a more favorable position than originally budgeted.
- Fiscal Stabilization and Cash Flow reserve accounts significantly increased “Rainy Day” funds, improving the District’s overall financial position and providing a cushion against possible negative effects of federal sequestration, should that occur.
- Debt Cap statute provides a control on future borrowing and protects the District from greater stress on the operating side of the budget.
- Office of the CFO will continue to monitor revenue collections and spending throughout each fiscal year to ensure that balance is maintained.