



District of Columbia

# District of Columbia

**District of Columbia Council Retreat**

**March 22, 2013**



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## Presentation Agenda

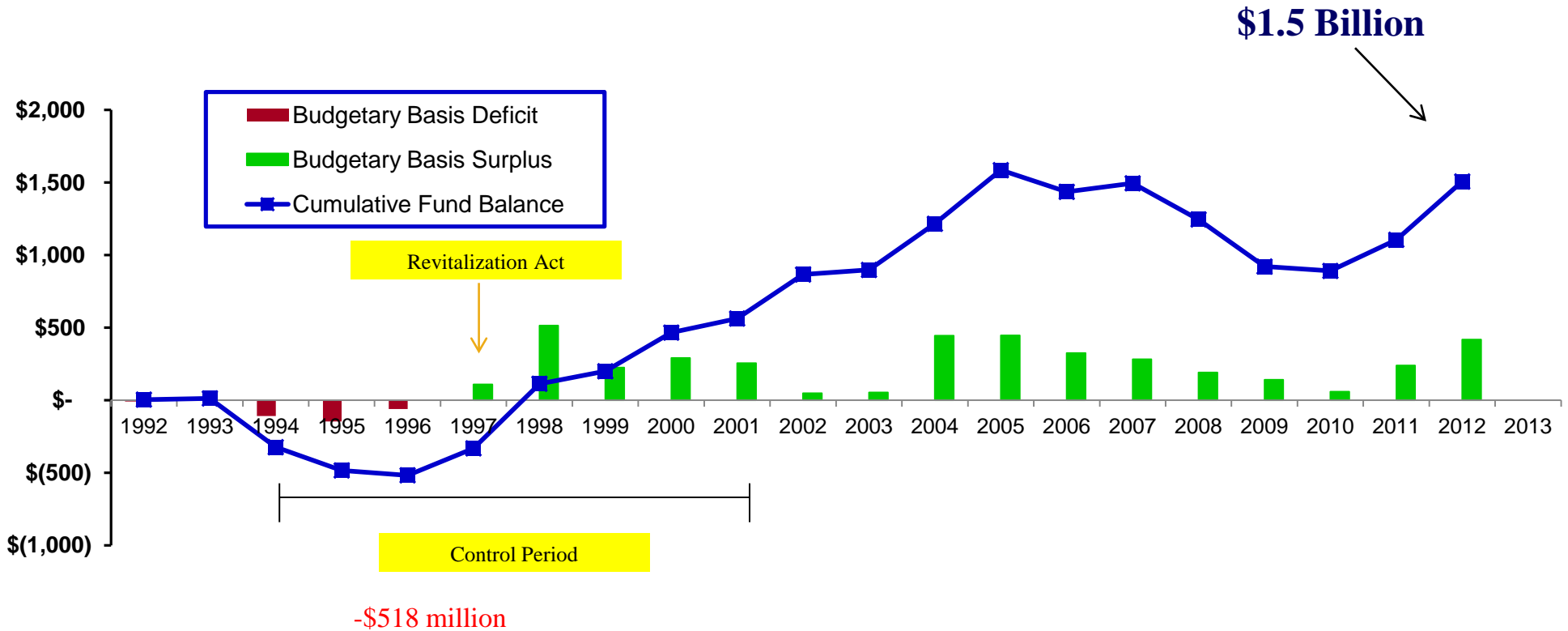
- Introduction
- District Economic Update, Federal Sequestration Impact and Revenue Estimates
- FY 2013 Major Spending Pressures
- Debt Position and Financings
- Conclusion

Just In: GO Bond Upgrade from Standard and Poor's from A+ to AA-



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## District of Columbia Surplus and Bond Rating History



### General Obligation Bond Ratings

S&P:	A-	A-	A-	B	B	B	BB	BBB	BBB	BBB+	BBB+	A-	A-	A	A+	A+	A+	A+	A+	A+	AA-	
Moody's:	Baa	Baa	Baa	Ba	Ba	Ba2	Ba1	Baa3	Baa3	Baa1	Baa1	Baa1	A2	A2	A2	A1	A1	A1	Aa2	Aa2	Aa2	Aa2
Fitch:		A-	A-	BB	BB	BB	BB+	BBB	BBB	BBB+	BBB+	A-	A-	A	A	A+	A+	A+	AA-	AA-	AA-	AA-

**Income Tax Secured Revenue Bonds: S&P: AAA Moody's: Aa1 Fitch: AA+**



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# **District Economic Update, Federal Sequestration Impact and Revenue Estimates**



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## 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.

### 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.

### 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%.

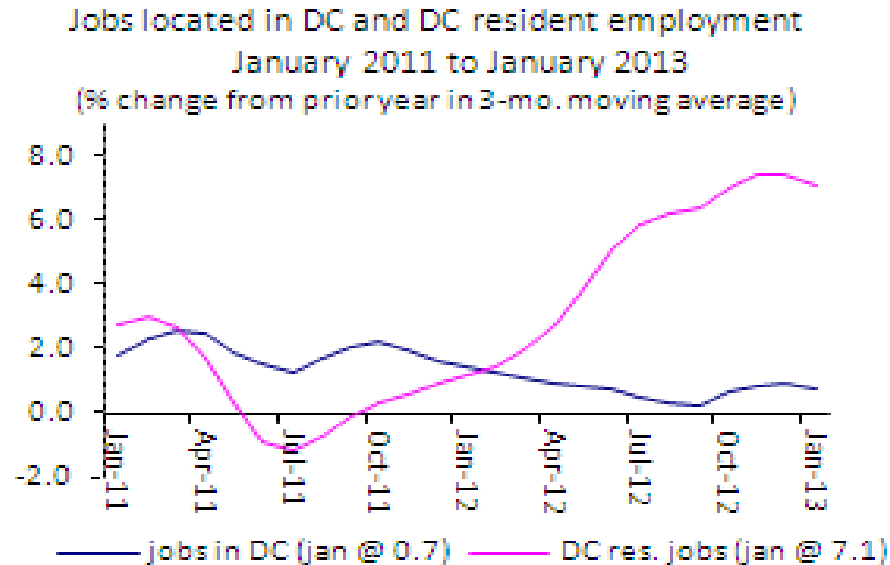
### Hospitality Industry

- 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%.



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## Resident Employment Continues to Grow Strongly



- 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 18<sup>th</sup> monthly increase in a row.
- In December initial unemployment insurance claims were down 0.2% from a year earlier (3-month moving average).



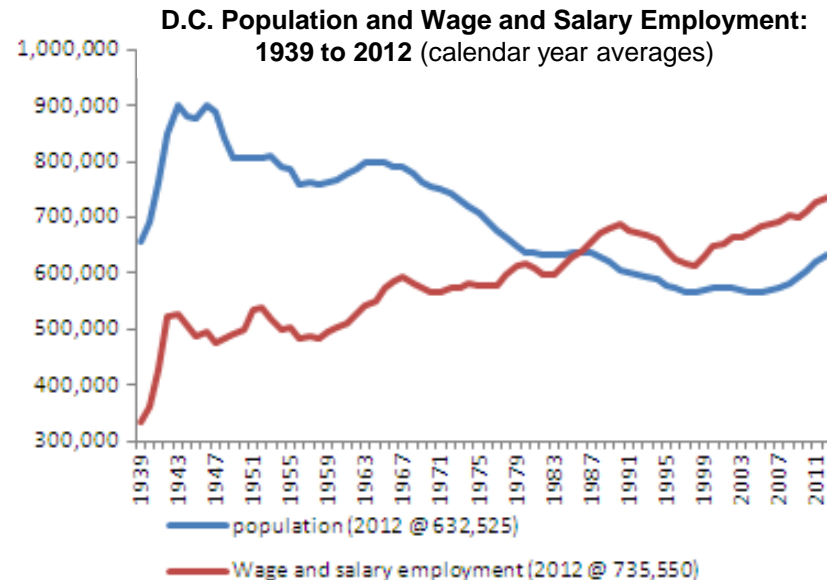
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## After several decades of decline the District is experiencing significant population growth

- 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			
Year	Number	Change from prior yr.	
		number	%
2008	580,236	5,832	1.0
2009	592,228	11,992	2.1
2010	604,989	12,761	2.2
2011	619,020	14,031	2.3
2012	632,323	13,303	2.1

Source: U.S. Census Bureau





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## 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.





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## 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.



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## Summary of February 2013 Revenue Estimate

### February 2013 Revenue Estimate Compared to Previous Estimate

<b>Local Source, General Fund Revenue Estimate (\$ millions)</b>	<b>Estimate</b>			<b>Projected</b>	
	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Previous Revenue Estimate</b>	<b>5,865.1</b>	<b>5,957.0</b>	<b>6,095.2</b>	<b>6,250.6</b>	<b>-</b>
Revisions to Estimate	190.0	177.8	178.2	198.8	-
<b>February 2013 Revenue Estimate</b>	<b>6,055.1</b>	<b>6,134.8</b>	<b>6,273.4</b>	<b>6,449.4</b>	<b>6,574.0</b>
<i>Percent change from previous year</i>	<i>1.5%</i>	<i>1.3%</i>	<i>2.3%</i>	<i>2.8%</i>	<i>1.9%</i>



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## Implications of Federal Sequestration for FY 2013 Budget: Federal Grant Revenue and Expenditure

- 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.

	\$ in millions
Total	3,067.8
Less Unemployment Insurance	(423.6)
General Operating Fund Total	2,644.2
Less Medicaid	(1,519.9)
Less Other Exempt	(519.7)
Equals Portion Subject to Sequestration	604.6
5.2% of this amount is:	31.4

### 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.



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## Sequestration's Effects on the District

- 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).



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## **FY 2013 Major Spending Pressures**



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## FY 2013 Major Spending Pressures

(As of March 21, 2013)

Agency	Description of Pressure	Amount
D.C. Public Charter Schools	<ul style="list-style-type: none"> <li>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.</li> </ul>	\$19.5
<b>Subtotal, Public Charter Schools</b>		<b>\$19.5</b>
Not-For-Profit Hospital Corporation (United Medical Center)	<ul style="list-style-type: none"> <li>\$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.</li> </ul>	
	<ul style="list-style-type: none"> <li>\$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.</li> </ul>	
	<ul style="list-style-type: none"> <li>\$2.0 million – IT Infrastructure – Capital necessary to comply with the Patient Protection and Affordable Care Act.</li> </ul>	
<b>Subtotal, Not-For-Profit Hospital Corporation</b>		<b>\$11.0</b>
<b>Total, Major Spending Pressures</b>		<b>\$30.5</b>



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# Debt Position and Financings



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## Current Debt Cap Position

Expected future Borrowing will remain Under the 12% Debt Cap

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#### Summary of Debt Cap Position as of March 21, 2013

(\$ in millions)

(\$ in millions)

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
<b>Total Debt Service on Existing &amp; Planned Tax-Supported Debt</b>	\$ 677.54	\$ 737.32	\$ 767.84	\$ 812.04	\$ 837.06	\$ 888.11
<b>General Fund Expenditures</b>	\$ 6,990.55	\$ 7,012.11	\$ 7,149.26	\$ 7,356.76	\$ 7,495.45	\$ 7,681.41
<b>Ratio of Debt Service to Expenditures</b>	<b>9.69%</b>	<b>10.51%</b>	<b>10.74%</b>	<b>11.04%</b>	<b>11.17%</b>	<b>11.56%</b>





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## Key Debt Factors

### 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%.

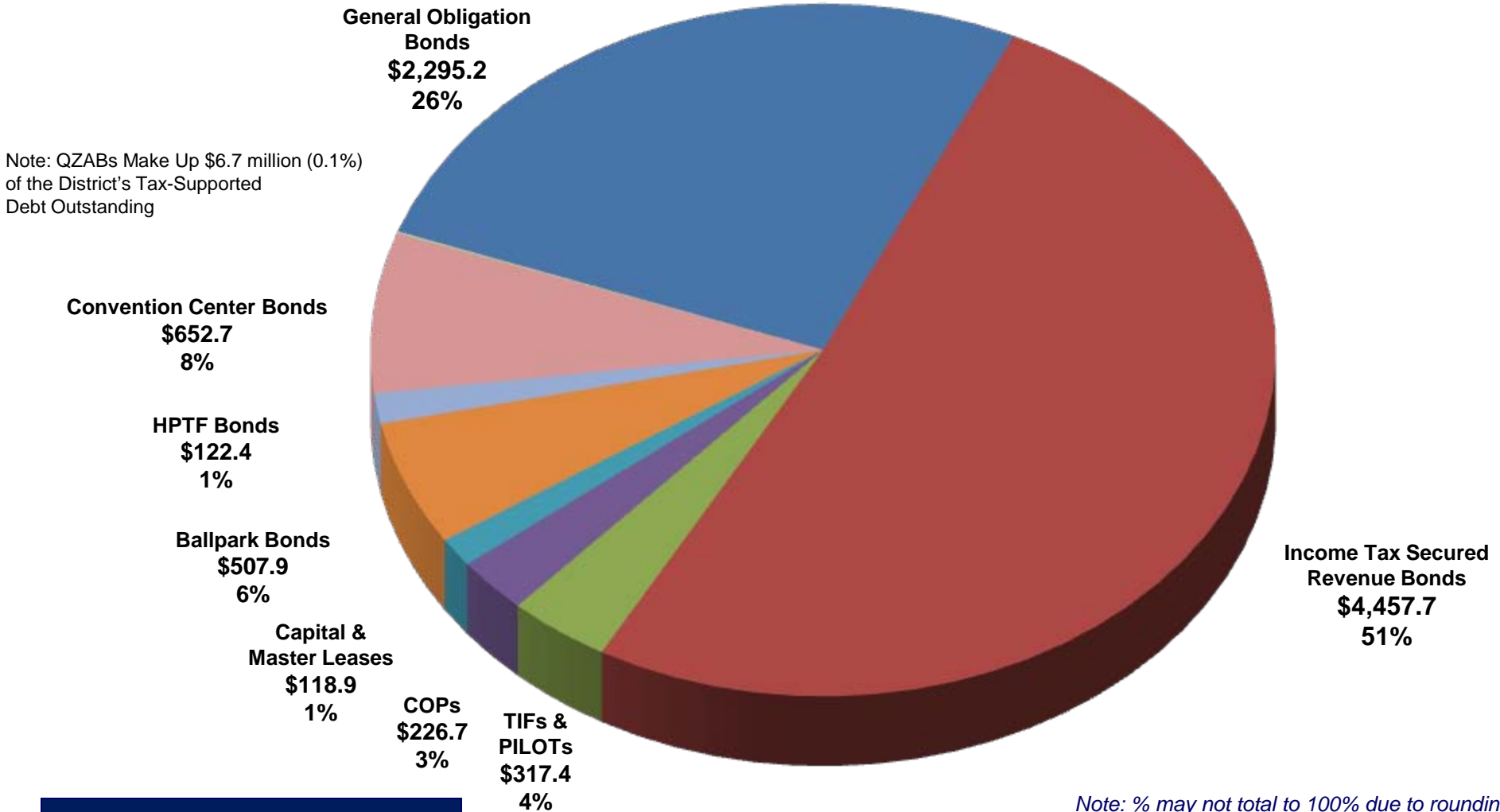


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## Current Tax-Supported Debt Profile

The District Currently Has \$8.7 Billion of Tax-Supported Debt Outstanding as of December 2012

(Dollars in millions)





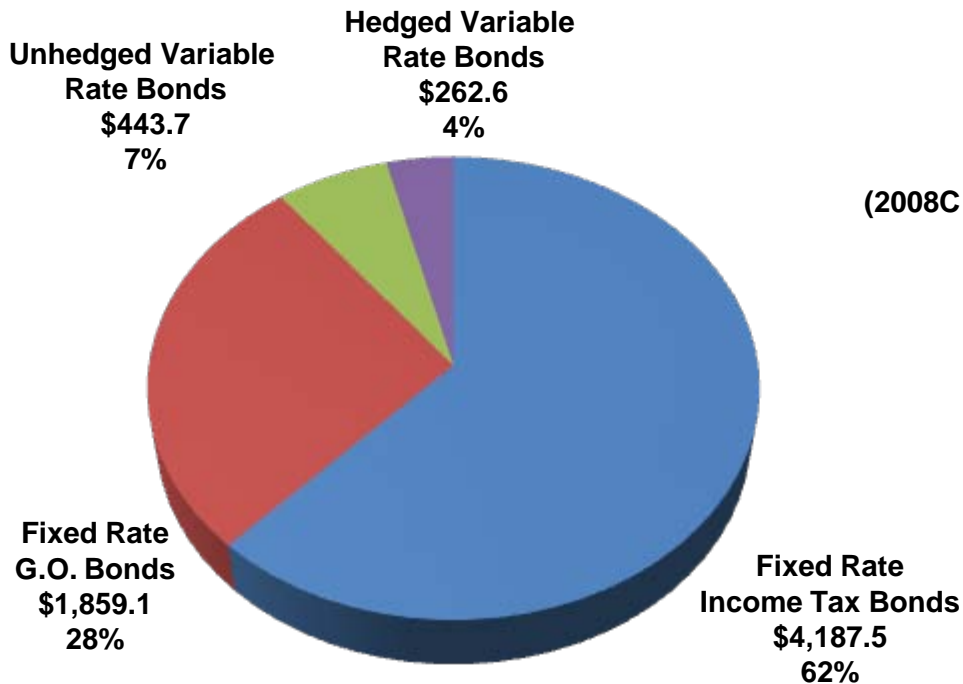
# Debt Management

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## District of Columbia Current Debt Profile

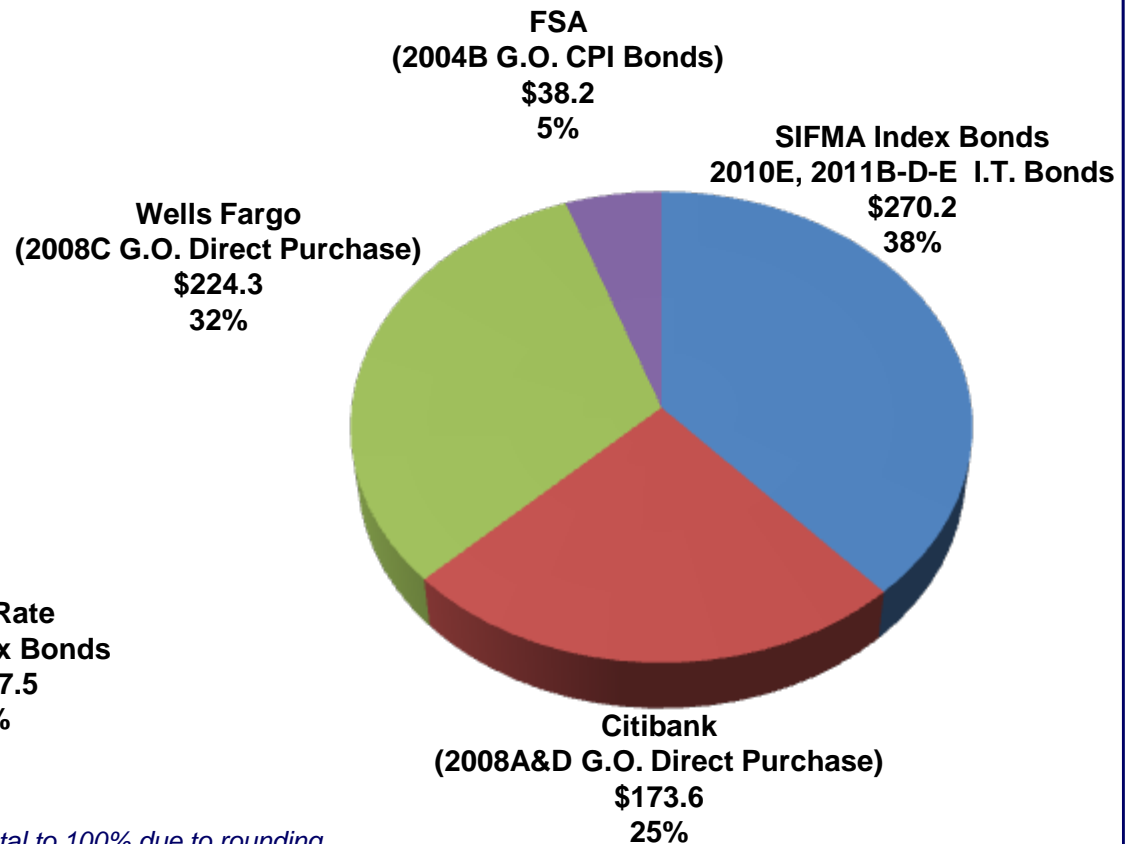
**\$6.8 billion**  
**Total G.O. and Income Tax Debt Outstanding**

(Dollars in millions)



**\$706.3 million**  
**Variable Rate Debt Outstanding**  
**Credit Enhancement Structure**

(Dollars in millions)



Note: % may not total to 100% due to rounding



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## 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)**

<b>FY 2013 - FY 2018 Planned Funding Sources (excludes Highway Trust Fund)</b>							<b>FY 13-FY 18</b>
	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>Total</b>
<b>General Obligation/Income Tax Bonds</b>	\$847,933	\$779,167	\$688,211	\$567,144	\$361,016	\$245,475	<b>\$3,488,946</b>
<b>Master Equipment Lease/Purchase</b>	26,500	16,000	14,406	27,425	16,338	14,338	<b>115,007</b>
<b>Pay-As-You-Go</b>	4,270	3,000	5,500	42,400	73,929	116,922	<b>246,021</b>
<b>Sale of Assets</b>	-	-	-	-	5,950	22,020	<b>27,970</b>
<b>Local Streets Transportation Fund Revenue</b>	28,933	33,283	35,033	33,783	36,533	41,283	<b>208,848</b>
<b>GARVEE Bonds</b>	50,000	-	-	-	-	-	<b>50,000</b>
<b>Federal Grants</b>	<u>140,000</u>	<u>147,000</u>	<u>140,000</u>	<u>140,000</u>	<u>140,000</u>	<u>140,000</u>	<b>847,000</b>
<b>Total Funding</b>	<b>\$1,097,636</b>	<b>\$978,450</b>	<b>\$883,150</b>	<b>\$810,752</b>	<b>\$633,766</b>	<b>\$580,038</b>	<b>\$4,983,792</b>



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## Calendar Year 2012 - 2013 Financings

### Completed Transactions

- \$314.1 million Income Tax Secured Revenue Refunding Bonds, Series 2012A-B
  - (Refunding of G.O. Bonds Series 2002C, 2004A and 2005A).
- \$52.4 million Tax Increment Revenue Refunding Bonds (Gallery Place Project), Series 2012
  - (Refunding of Gallery Place Project T.I.F. Bonds, Series 2002).
- \$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



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# Conclusion



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## 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.