

**PUBLIC BRIEFING
ON THE
FISCAL YEAR 2019
COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)**

**Before the
Committee of the Whole
Council of the District of Columbia**

The Honorable Phil Mendelson, Chairman

**February 5, 2020, 1:30 p.m.
Council Chambers, Room 500**



**Testimony of
Jeffrey S. DeWitt
Chief Financial Officer
Government of the District of Columbia**

Introduction

Good afternoon, Chairman Mendelson and Members of the Committee of the Whole. I am Jeffrey S. DeWitt, Chief Financial Officer of the District of Columbia. I am pleased to appear before you today to report and discuss the Fiscal Year 2019 Comprehensive Annual Financial Report (CAFR). Seated with me is Bill Slack, the District's Controller, who will assist in answering questions.

I am pleased to report that the strength of the District's financial position increased during FY 2019. In fact, the results are quite remarkable, particularly given how the fiscal year began. Recall that approximately one year ago, the federal government had just ended the longest shutdown in its history. It began December 22, 2018 and lasted an unprecedented 35 days. During that period, hotels and restaurants struggled and the District lost an estimated \$47 million of tax revenue. Federal workers had not been paid in more than a month, and many were filing unemployment claims with the District. Concerns were that the shutdown would have lasting effects as concerns of a nationwide recession also loomed. And, on top of all of that...the Washington Mystics lost in the WNBA finals and the Washington Nationals failed to make the playoffs.

Fast forward, one year later:

- Clean Audit Opinion (23rd Consecutive)
- No Material Weaknesses or Significant Deficiencies
(No YELLOW BOOK REPORT for the 5th Consecutive Year)
- Ratings for General Obligation and Income Tax Bonds remain strong
- Pension and Retiree Health Care Trust remain fully funded
- Federally and locally mandated reserves (working capital/liquidity) increased by \$98.6 million to \$1.43 billion and are full at 60 days
- The District's Net Position (assets – liabilities) increased by 17.1% over FY 2018

The positive results reflected in the FY 2019 CAFR could not have occurred without our continued collective financial discipline and sound financial management practices. I would like to recognize the hard work of agency program and financial staff who contributed to the successful management and accounting of the District's financial resources in the past year and the completion of this document. I particularly would like to recognize the employees of the Office of Financial Operations and Systems (OFOS) and the Associate Chief Financial Officers and their staffs for their outstanding performance during FY 2019.

I also want to thank the City Administrator and the Inspector General for working with the Office of the Chief Financial Officer to address potential audit findings.

Through our continued collaboration and focus on agency accountability, we, for the fifth consecutive year, were able to produce and issue the CAFR with no material weaknesses or significant deficiencies (no Yellow Book).

The Mayor, District Council, agencies, and all segments of this government should be proud of the District's FY 2019 results, the details of which are highlighted in today's presentation.



FY 2019 District of Columbia Comprehensive Annual Financial Report



The District: One Year Ago

- **The Federal Government had just ended the longest shutdown in history (35 days) lasting from December 22, 2018 to January 25, 2019**
- **Hotels and restaurants were struggling and the District lost an estimated \$47 million of tax revenue by the end of the shutdown**
- **Federal workers had not been paid in more than one month and many were filing unemployment claims with the District**
- **Concerns were that the shutdown would have lasting effects, and there were concerns of a nationwide recession**
- **And, on top of all that, the Washington Mystics lost in the WNBA finals and the Washington Nationals failed to make the playoffs**



The District: One Year Later

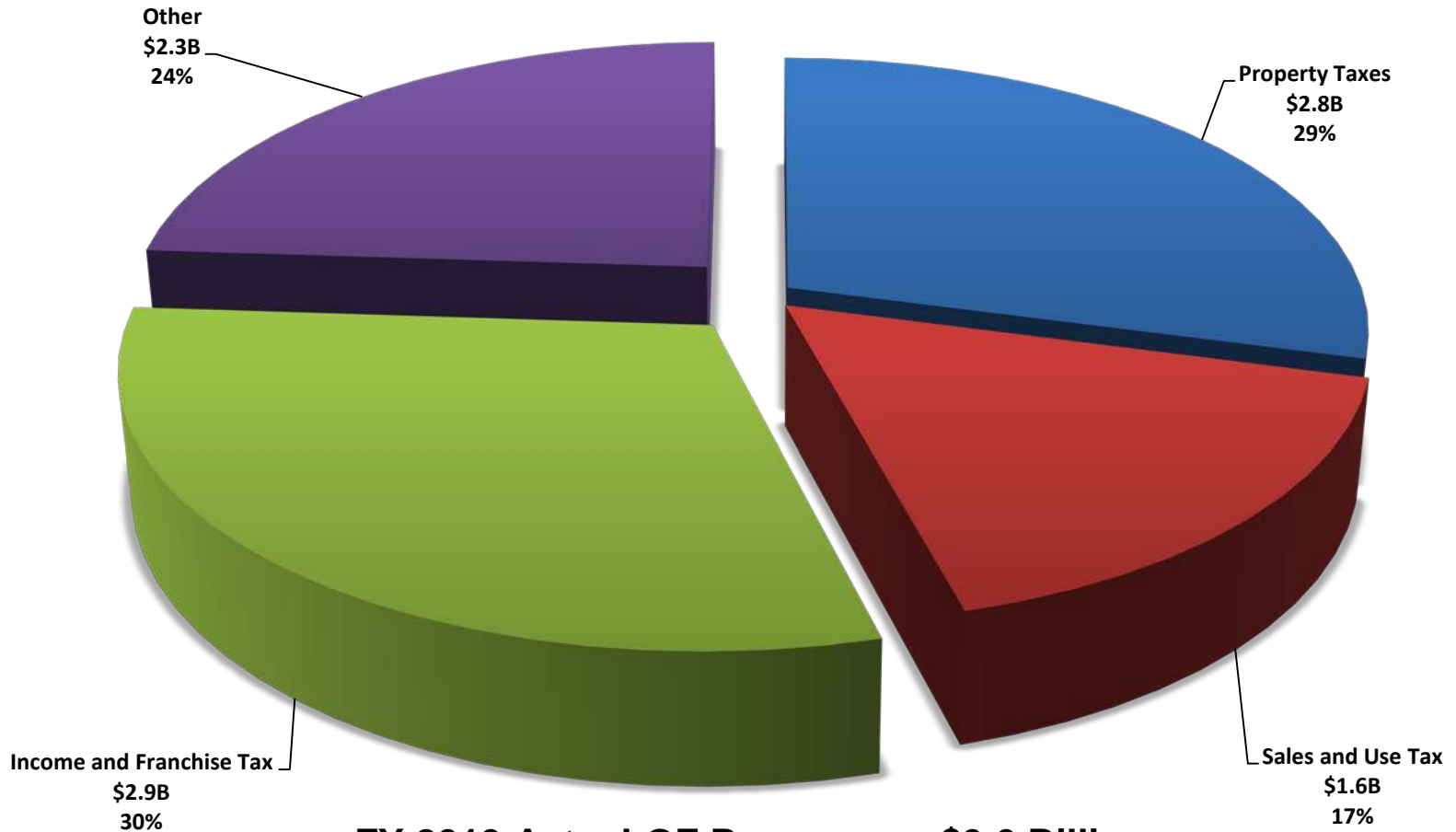
- **Clean Audit Opinion (23rd Consecutive)**
- **No Material Weaknesses or Significant Deficiencies (No YELLOW BOOK REPORT for the 5th Consecutive Year)**
- **Ratings for General Obligation and Income Tax Bonds remain strong**
- **Pension and Retiree Health Care Trust remain fully funded**
- **Federally and locally mandated reserves (working capital/liquidity) increased by \$98.6 million to \$1.43 billion and are full at 60 days**
- **The District's Net Position (assets – liabilities) increased by 17.1% over FY 2018**



Where the Money Comes From – Sources of the General Fund (GF) Revenue for FY 2019

(Excluding Intra-District Funds)

(Dollars in Billions)



FY 2019 Actual GF Revenues = \$9.6 Billion

*Does not include Federal & Private, Housing Production Trust, General Capital Improvements, Lottery, Unemployment Compensation, and Non-major Governmental Funds
Other includes gross receipts, deed and estate taxes, fees and fines, and special purpose revenue*

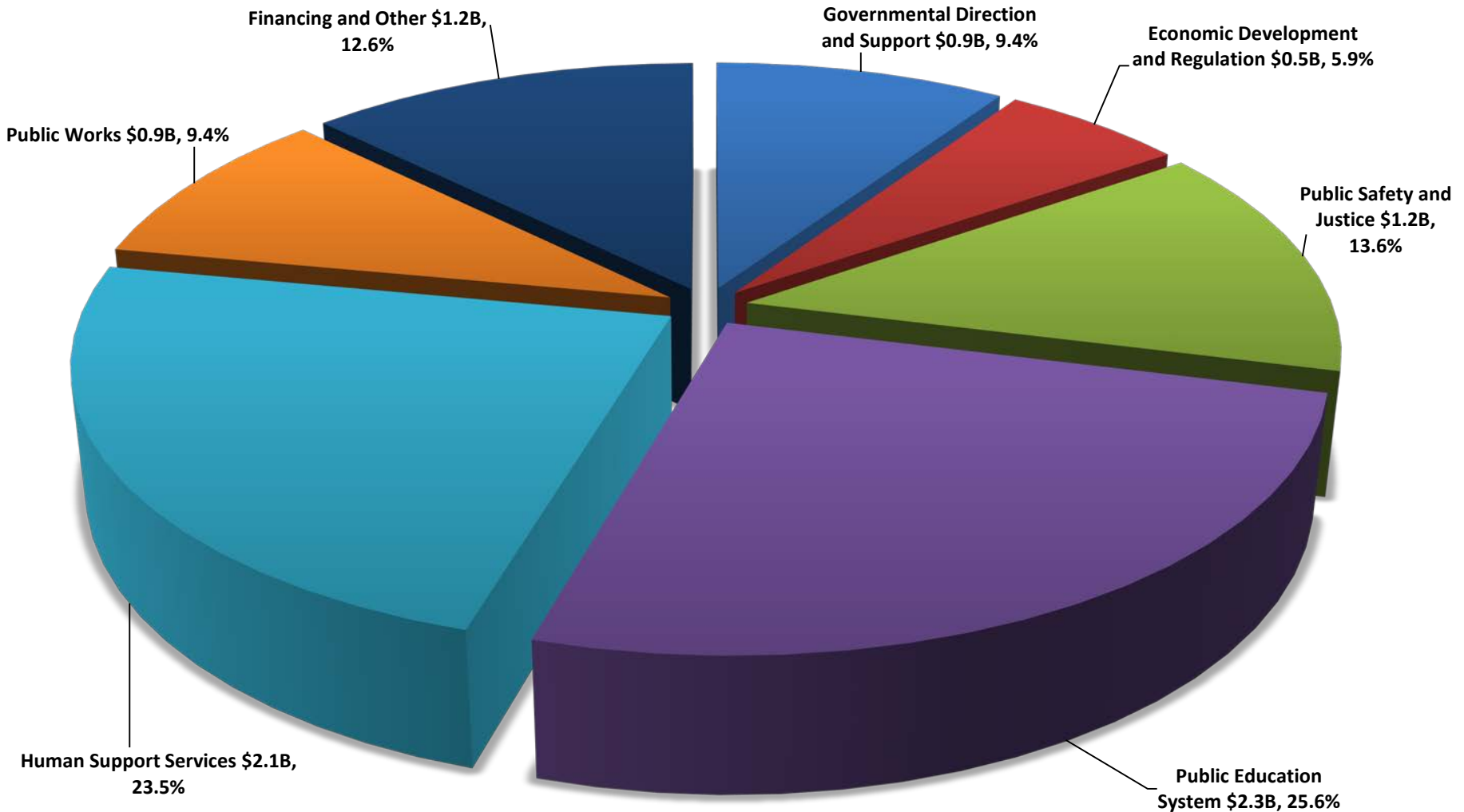
*Numbers may not add due to rounding.



Where the Money Goes – General Fund (GF) Expenditures, by Appropriation Title for FY 2019

(Excluding Intra-District Funds and Enterprise and Other Funds)

(Dollars in Billions)



FY 2019 Actual GF Expenditures = \$9.1 Billion

Does not include Federal & Private Expenditures, Housing Production Trust, General Capital Improvements, Lottery, Unemployment Compensation, and Non-major Governmental Funds



LOCAL FUNDS

Schedule of Budgetary Revenues and Expenditures

	FY 2019	FY 2018	Dollar Variance	Percent Change
Total Actual Revenues and Sources	\$8,923,032	\$8,175,428	\$747,604	9.14%
Total Actual Expenditures and Uses	8,494,908	8,153,356	341,552	4.19%
Surplus	<u>\$428,124</u>	<u>\$22,072</u>		

Local funds do not include other special purpose "O" type revenues and the expenditures associated with these funds



FY 2019 Revenues



Positive Revenue Growth Compared to FY 2018

- **Real property tax growth 6.1%, stronger than 3.1% growth in FY 2018 due to increase in commercial property tax rate**
- **Continued robust 7% growth in General Sales & Use taxes due to increase in rates for WMATA and expansion of sales tax base related to out-of-state online and catalog retailers and digital downloads**
- **Growth in individual income taxes of 11.2% from strong capital gains and strong withholding from DC resident wages**
- **Corporate franchise tax growth of 16.4% largely related to expanded tax base due to federal Tax Cuts and Jobs Act of 2017, which continues to affect taxpayer behavior**
- **Deed taxes up 15.5% from strong office investment, combined with shifting of some transactions before tax rate increase in FY 2020**



Positive Revenue Growth Compared to FY 2018

- **Nontax revenue:**
 - **License fees increased 49% primarily due to increased tax on private for-hire vehicles supporting the dedication of funding for WMATA, and fines increased 19% primarily due to automated enforcement in construction zones**
 - **Robust growth in interest income (+\$12.6 million) resulting from continuous interest rate hikes by the Federal Reserve Board and increased District funds available for investment**



Major Drivers of Extraordinary Revenue

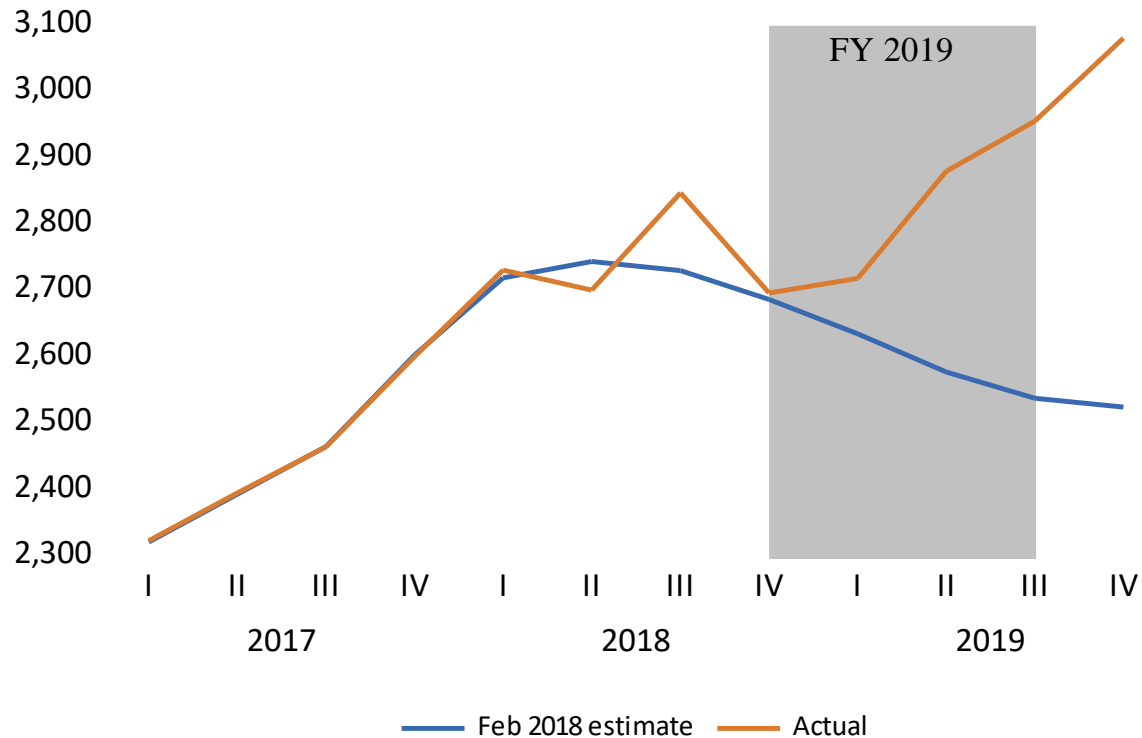
- **Stronger economy**
 - Stock market outperformed expectations creating an increase in capital gains tax revenue
 - Resident wages increased
 - Lifting of Federal sequestration increased nondefense spending for contracting
- **Significantly higher business taxes paid likely due to federal tax code changes**
- **Strong real estate market and acceleration of large office building sales in anticipation of deed tax increases**



Stock market much stronger than projected in February 2018

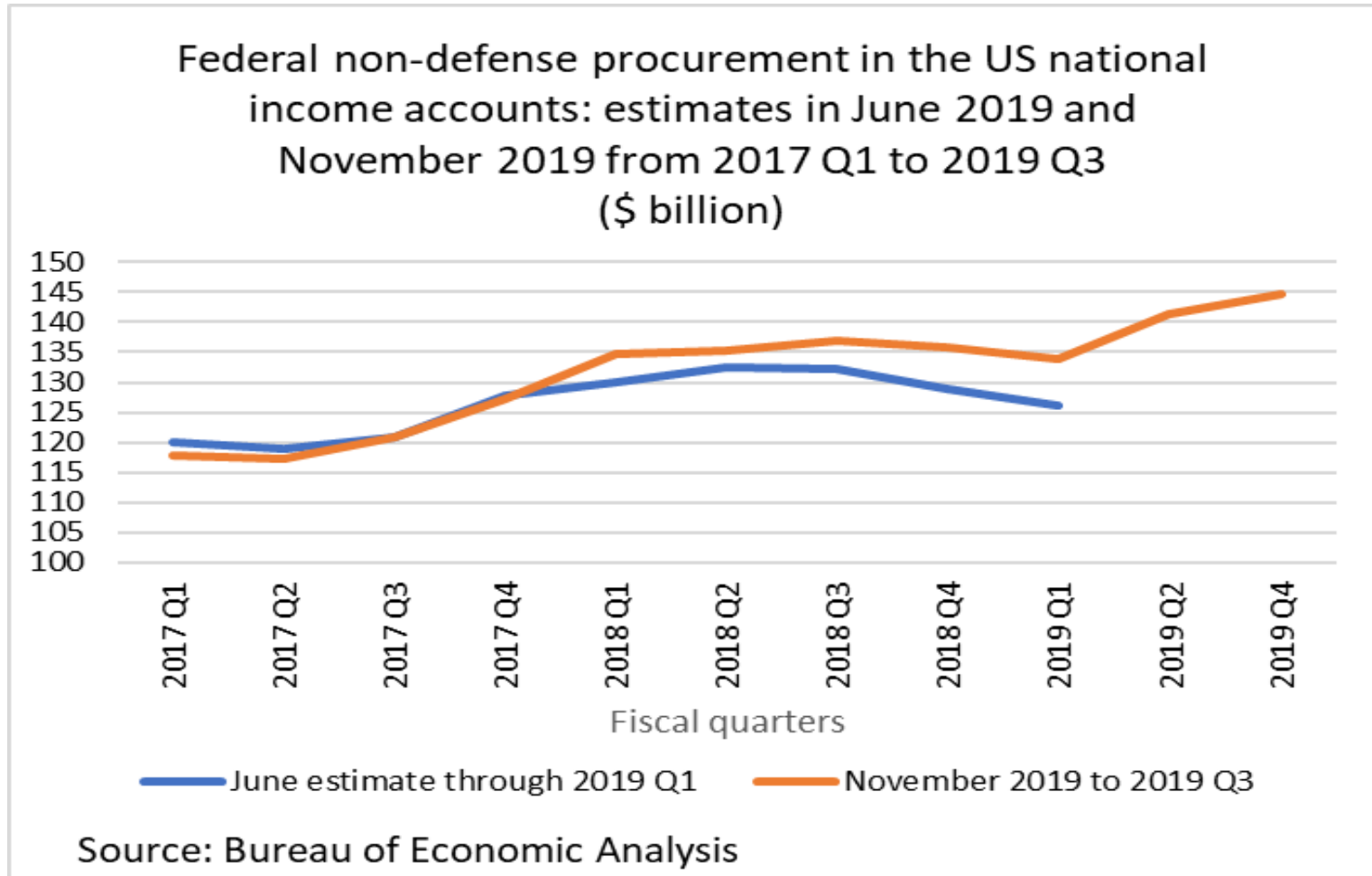
- Affects individual and business income taxes

Stock Market - S&P 500 Forecast vs Actual





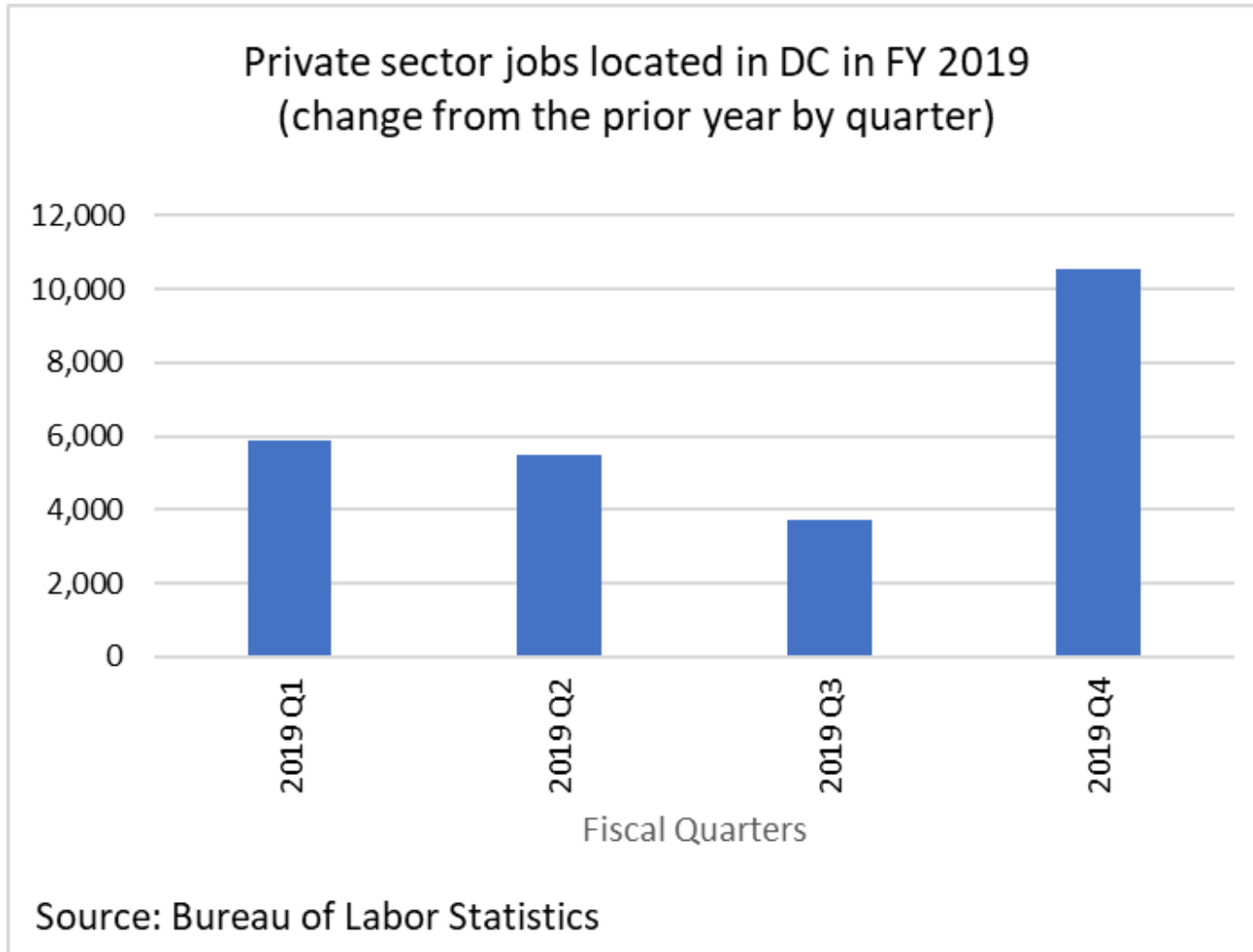
With budget constraints relaxed by Congress, the outlook for the federal sector became more positive at the end of FY 2019



Source: US Bureau of Economic Analysis



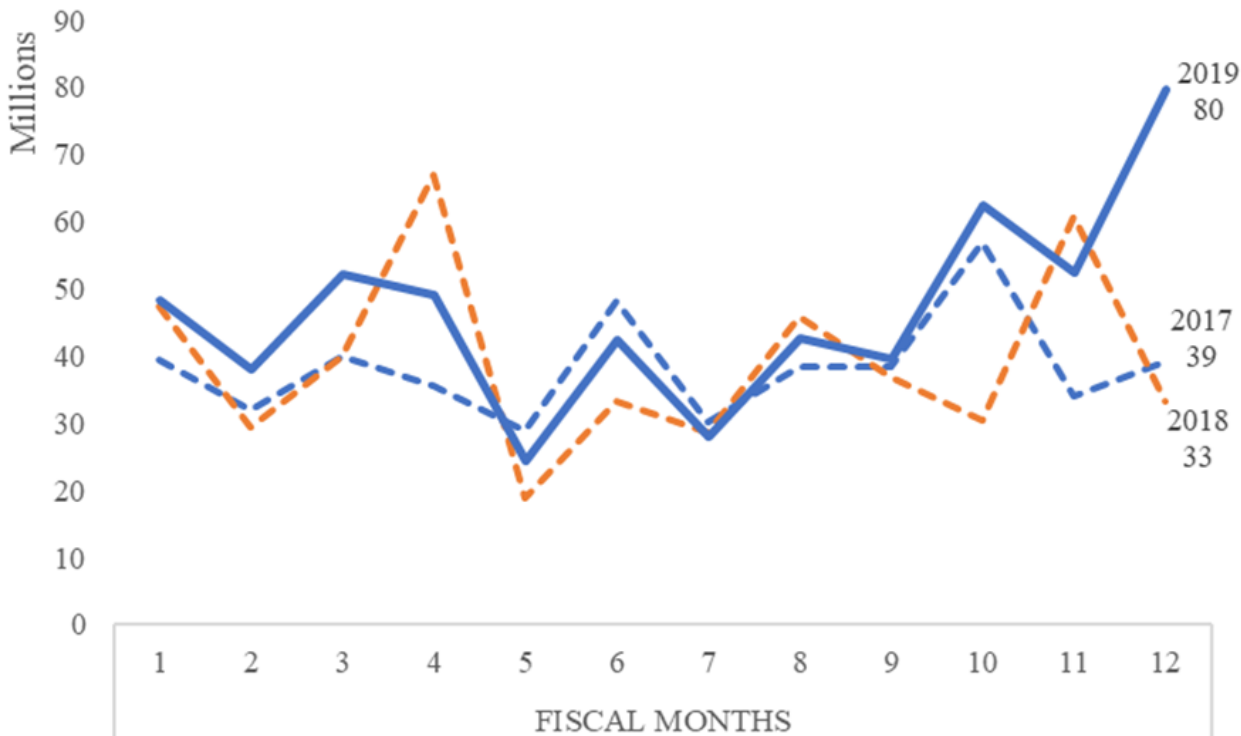
Bureau of Labor Statistics figures released in November showed DC employment rose sharply in the last quarter of FY 2019





Large office building sales shifted to September 2019 to avoid tax increase

Figure 1: Deed tax revenue – monthly pattern 2017-2019





FY 2019 Underspending



Details of FY 2019 Spending Below General Fund Budget

(Dollars in Millions)

FY 2019 General Fund Sources (Includes Local Funds, Dedicated Taxes, and O-Type)

Appropriation Title	General Fund Variance	% of Revised Budget
Local Source (Local Funds & Dedicated Taxes)		
Governmental Direction and Support	\$20.2	2.5%
Economic Development and Regulation	19.6	5.1%
Public Safety and Justice	6.4	0.5%
Public Education System	5.1	0.2%
Human Support Services	10.4	0.5%
Public Works	8.7	1.3%
Finance and Other Uses	5.0	0.5%
SUBTOTAL	\$75.4	0.9%
O-Type		
Special Purpose Revenue	\$ 120.5	16.8%
Total - General Fund Underspending	\$ 195.9	2.1%
<i>*Numbers may not add due to rounding.</i>		



Reserves



FY 2019 CAFR Highlights (Cont.)

- **Total General Fund Balance increased by \$476.9M**
 - **\$98.6 million increase in cash reserves**
 - \$28.3 million congressionally required federal reserves
 - \$70.3 million locally required reserves
 - Total days of cash increased from 58 to 60 days
 - **\$54.6 million net increase in reserves for other purposes**
 - **\$323.6 million increase in unassigned fund balance**
 - By law, this amount is set aside (committed) for two purposes:
 - \$161.8 million for Housing Production Trust Fund
 - \$161.8 million for Pay-As-You-Go capital



Comparison of Ending General Fund Balances

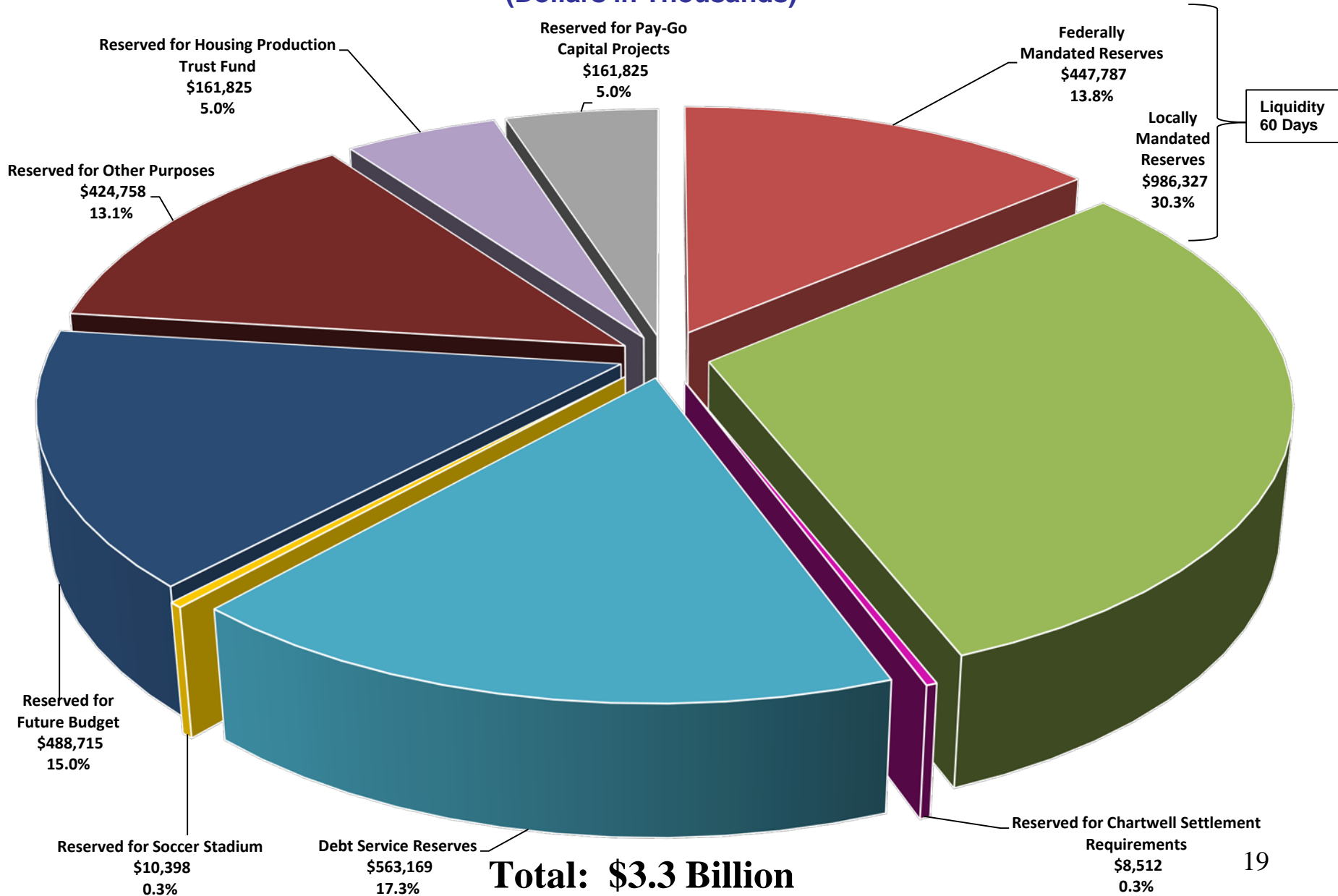
(Dollars in Thousands)

	FY 2019	FY 2018	Difference
Federally Mandated Reserves	\$447,787	\$419,504	28,283
Locally Mandated Reserves	986,327	916,038	70,289
Debt Service Reserves	563,169	553,745	9,424
Reserved for Future Budget	488,715	499,757	(11,042)
Reserved for Settlements	8,512	10,244	(1,732)
Reserved for Soccer Stadium	10,398	16,111	(5,713)
*Reserved for Housing Production Trust Fund	161,825	-	161,825
*Reserved for Pay-Go Capital Projects	161,825	-	161,825
Reserved for Other Purposes	424,758	360,984	63,774
TOTAL	\$3,253,316	\$2,776,383	\$476,933

* Amounts reserved for Housing Production Trust Fund and Pay-Go Capital Projects transferred in FY 2020.



FY 2019 Composition of General Fund (GF) Balance (Dollars in Thousands)





Federally and Locally Mandated Reserves (Working Capital, Liquidity)

Reserves	% of Expenditure/ Budget	Amount (\$ in Millions)	Status
Emergency	2.00%	\$ 149.3	Full
Contingency	4.00%	298.5	Full
Fiscal Stabilization	2.34%	212.7	Full
Cash Flow	8.33%	773.6	Full
Total	16.67%	\$1,434.1	60 days cash



Benefits of Current Reserves

- **The 60 days operating cash level strengthens the District's Aaa bond rating, lowers borrowing costs, and makes it possible to fund the \$8.3 billion capital plan.** *(lower interest rates equal more infrastructure)*
- **No short-term borrowing (TRANS) nor associated debt service costs are needed to meet cash flow needs.**
- **Recent recession analyses indicate that for a moderate recession (similar to 2001), the reserves and other treasury actions could support the District for approximately 18 months before other actions such as budget reductions are required.** *(significant resiliency from economic downturns)*
- **Approximately \$1.2 billion is available for budgetary use (additional paygo and HPTF, special purpose revenue, etc.).**



Fully-Funded Pensions and Other Post-Employment Benefits

(Dollars in Thousands)

DCRB Trust Fund	FY 2019 Net Position	FY 2018 Net Position	Percentage Variance	Net Pension (Asset) Liability	Percentage Funded
Police, Firefighter, and Teachers Pensions	8,520,845	\$8,199,876	3.9%	(\$421,981)	105%
OPEB Trust Fund	FY 2019 Net Position	FY 2018 Net Position	Percentage Variance	Net OPEB (Asset) Liability	Percentage Funded
Other Post-Employment Benefits	\$1,509,102	\$1,462,030	3.2%	(\$44,401)	103%

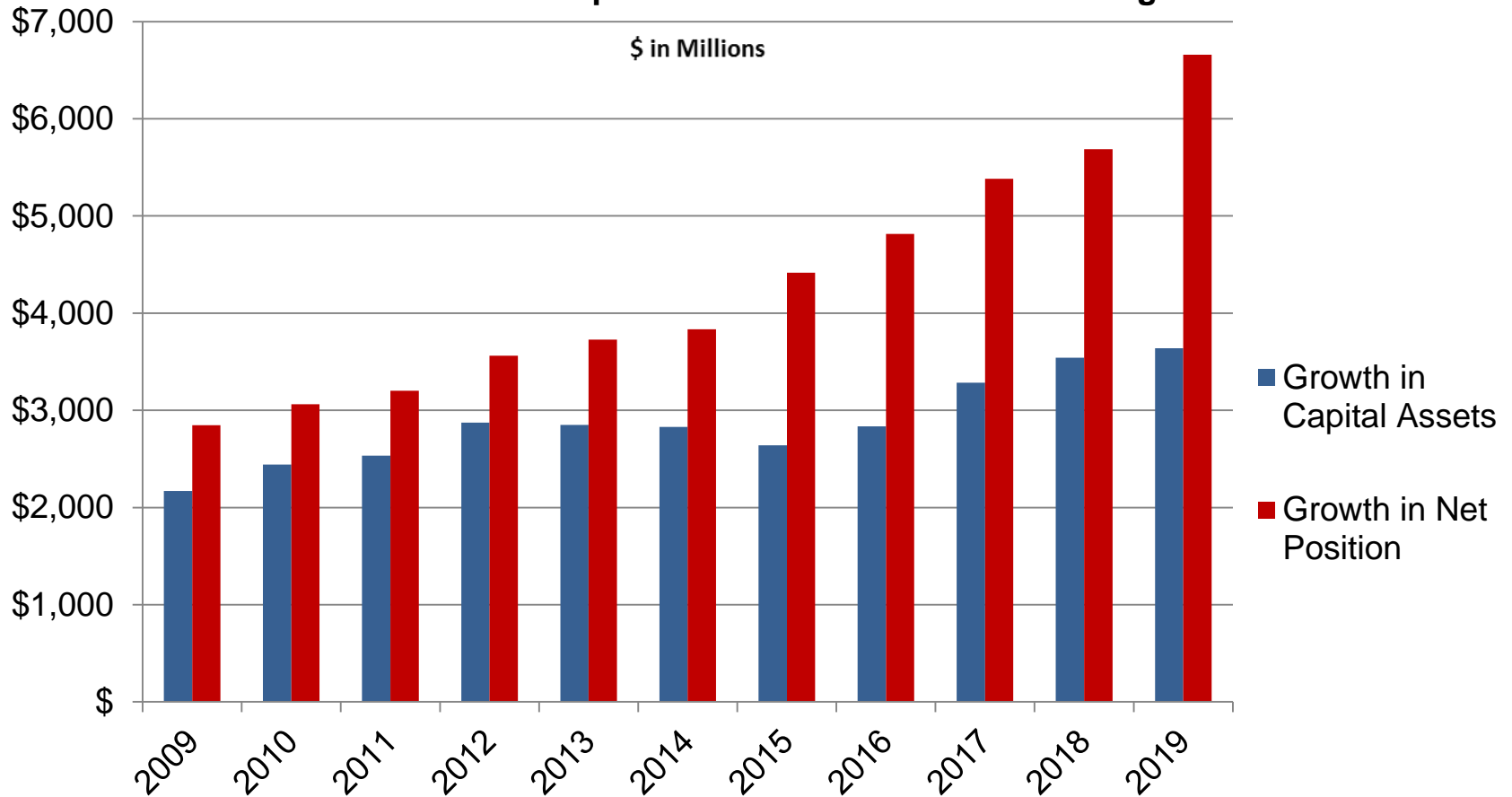


Summary of the District's Financial Position

Trend in Net Position and Capital Assets

2009-2019

Increase in Net Position and Capital Assets are measures of strong financial health



Note: Continued upward trend in both Net Position and Capital Assets indicates a strong financial position.



Observations From FY 2019

- **District revenues from income taxes and deed taxes are very volatile, but positive in 2019. These revenues can go equally negative in a recession.**
- **District reserves are now at the recommended 60 day level, providing significantly more resiliency from a downturn in the economy than the limited reserves in the last recession.**
- **Current reserves could, with other treasury actions, cover the District for approximately 18 months before budget actions would be required.**
- **The District's Net Position (assets-liabilities) increased by 17.1% over the prior year or the District is 17.1% more resilient than one year ago.**
- **Efforts to eliminate CAFR audit findings remain successful.**



Summary FY 2019 CAFR

District Further Enhances Strong Financial Position

- **District received Clean/Unmodified Audit Opinion with no Material Weaknesses or Significant Deficiencies**
- **Revenues increased at more than twice the rate of expenses when compared to FY 2018 due primarily to strong business and wage growth, significant capital gains earnings, and real estate activity**
- **Federally and Locally Mandated Reserves increased to \$1.43 billion (60 days of operating expenses)**
- **Pension and OPEB Trusts fully funded**
- **District's Net Position (all assets less all liabilities) increased by \$17.1% making the District more resilient from downturns**
- **Surpluses provide \$161.8 million for paygo capital for infrastructure and \$161.8 million for the housing production trust fund**



Most Importantly in 2019...

- **The Washington Mystics prevailed and became the WNBA Champions**
- **The Washington Nationals not only made the playoffs, but are now the reigning World Series Champions**



DISTRICT OF CHAMPIONS!



Questions?