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)
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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

- Property Taxes: $2.8B (29%)
- Sales and Use Tax: $1.6B (17%)
- Income and Franchise Tax: $2.9B (30%)
- Other: $2.3B (24%)

*Numbers may not add due to rounding.

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.
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)

- Public Education System $2.3B, 25.6%
- Human Support Services $2.1B, 23.5%
- Public Safety and Justice $1.2B, 13.6%
- Public Works $0.9B, 9.4%
- Financing and Other $1.2B, 12.6%
- Economic Development and Regulation $0.5B, 5.9%
- Governmental Direction and Support $0.9B, 9.4%

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

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

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

Federal non-defense procurement in the US national income accounts: estimates in June 2019 and November 2019 from 2017 Q1 to 2019 Q3 ($ billion)

Source: Bureau of Economic Analysis

Source: US Bureau of Economic Analysis

Government of the District of Columbia
Office of the Chief Financial Officer
Jeffrey S. DeWitt, Chief Financial Officer
Bureau of Labor Statistics figures released in November showed DC employment rose sharply in the last quarter of FY 2019.

Private sector jobs located in DC in FY 2019
(change from the prior year by quarter)

Source: Bureau of Labor Statistics
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)

<table>
<thead>
<tr>
<th>Appropriation Title</th>
<th>General Fund Variance</th>
<th>% of Revised Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Local Source</strong> (Local Funds &amp; Dedicated Taxes)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governmental Direction and Support</td>
<td>$20.2</td>
<td>2.5%</td>
</tr>
<tr>
<td>Economic Development and Regulation</td>
<td>19.6</td>
<td>5.1%</td>
</tr>
<tr>
<td>Public Safety and Justice</td>
<td>6.4</td>
<td>0.5%</td>
</tr>
<tr>
<td>Public Education System</td>
<td>5.1</td>
<td>0.2%</td>
</tr>
<tr>
<td>Human Support Services</td>
<td>10.4</td>
<td>0.5%</td>
</tr>
<tr>
<td>Public Works</td>
<td>8.7</td>
<td>1.3%</td>
</tr>
<tr>
<td>Finance and Other Uses</td>
<td>5.0</td>
<td>0.5%</td>
</tr>
<tr>
<td><strong>SUBTOTAL</strong></td>
<td><strong>$75.4</strong></td>
<td><strong>0.9%</strong></td>
</tr>
<tr>
<td><strong>O-Type</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special Purpose Revenue</td>
<td>$120.5</td>
<td>16.8%</td>
</tr>
<tr>
<td><strong>Total - General Fund Underspending</strong></td>
<td><strong>$195.9</strong></td>
<td><strong>2.1%</strong></td>
</tr>
</tbody>
</table>

*Numbers may not add due to rounding.*
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)

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

* 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)

- Total: $3.3 Billion

Reserved for Pay-Go Capital Projects
- $161,825
- 5.0%

Reserved for Housing Production Trust Fund
- $161,825
- 5.0%

Reserved for Other Purposes
- $424,758
- 13.1%

Reserved for Future Budget
- $488,715
- 15.0%

Reserved for Soccer Stadium
- $10,398
- 0.3%

Debt Service Reserves
- $563,169
- 17.3%

Reserved for Chartwell Settlement Requirements
- $8,512
- 0.3%

Reserved for Pay-Go Capital Projects
- $161,825
- 5.0%

Federally Mandated Reserves
- $447,787
- 13.8%

Locally Mandated Reserves
- $986,327
- 30.3%

Liquidity 60 Days
- $898,327
- 27.3%

Reserved for Housing Production Trust Fund
- $161,825
- 5.0%

Reserved for Other Purposes
- $424,758
- 13.1%

Reserved for Future Budget
- $488,715
- 15.0%

Reserved for Soccer Stadium
- $10,398
- 0.3%

Debt Service Reserves
- $563,169
- 17.3%

Reserved for Chartwell Settlement Requirements
- $8,512
- 0.3%

Reserved for Pay-Go Capital Projects
- $161,825
- 5.0%

Federally Mandated Reserves
- $447,787
- 13.8%

Locally Mandated Reserves
- $986,327
- 30.3%

Liquidity 60 Days
- $898,327
- 27.3%
## Federally and Locally Mandated Reserves
(Working Capital, Liquidity)

<table>
<thead>
<tr>
<th>Reserves</th>
<th>% of Expenditure/Budget</th>
<th>Amount ($ in Millions)</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emergency</td>
<td>2.00%</td>
<td>$ 149.3</td>
<td>Full</td>
</tr>
<tr>
<td>Contingency</td>
<td>4.00%</td>
<td>298.5</td>
<td>Full</td>
</tr>
<tr>
<td>Fiscal Stabilization</td>
<td>2.34%</td>
<td>212.7</td>
<td>Full</td>
</tr>
<tr>
<td>Cash Flow</td>
<td>8.33%</td>
<td>773.6</td>
<td>Full</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16.67%</strong></td>
<td><strong>$1,434.1</strong></td>
<td><strong>60 days cash</strong></td>
</tr>
</tbody>
</table>
**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)

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</thead>
<tbody>
<tr>
<td>Police, Firefighter, and Teachers Pensions</td>
<td>8,520,845</td>
<td>$8,199,876</td>
<td>3.9%</td>
<td>($421,981)</td>
<td>105%</td>
</tr>
</tbody>
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</thead>
<tbody>
<tr>
<td>Other Post-Employment Benefits</td>
<td>$1,509,102</td>
<td>$1,462,030</td>
<td>3.2%</td>
<td>($44,401)</td>
<td>103%</td>
</tr>
</tbody>
</table>
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.
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?