

**PUBLIC BRIEFING ON
FISCAL YEAR 2022 PROPOSED
BUDGET AND FINANCIAL PLAN**

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

The Honorable Phil Mendelson, Chairman

**June 2, 2021, 12:00 pm
Virtual Meeting Platform**



**Testimony of
Fitzroy Lee
Interim Chief Financial Officer
Government of the District of Columbia**

Good afternoon, Chairman Mendelson and Members of the Committee of the Whole. I am Fitzroy Lee, Interim Chief Financial Officer of the District of Columbia. I am pleased to appear before you today to testify on the Fiscal Year 2022 – FY 2025 Proposed Budget and Financial Plan. The FY 2022 Proposed Budget includes \$9.1 billion in Local funds and \$17.5 billion in Gross funds (excluding Intra-District funds).

The Office of the Chief Financial Officer (OCFO) worked closely with the Mayor’s executive leadership team, the City Administrator’s Office of Budget and Performance Management staff, and agency program staff to produce a balanced budget and five-year financial plan. The FY 2022 policy budget reflects the executive’s funding priorities and determinations.

The FY 2022 – FY 2025 Budget and Financial Plan makes prudent use of federal funding and reserves, and refinances debt. Therefore, after careful review, I certify that the FY 2022 – FY 2025 Budget and Financial Plan is balanced.

REVENUE OUTLOOK

The District is beginning to re-open after more than a year of disruption caused by the COVID-19 pandemic. As the recovery continues, we expect the economy to pick up speed this summer and over the next year. The lifting of restrictions and unprecedented level of federal relief have significantly improved the District's economic outlook. Federal assistance in the form of enhanced unemployment insurance, extended Paycheck Protection Program (PPP), additional economic impact payments, and substantial direct aid to the District, will prepare the economy for the pent-up demand for restaurants, retail, entertainment, and travel and accelerate the District's economic recovery. Looking further ahead to the FY 2023 through FY 2025 Budget and Financial Plan, the expectation is that this will be a period of moderate economic growth from the COVID-19 recession, both nationally and in the District of Columbia. As the pandemic recedes, any long-lasting effects will become more apparent. As noted above, following the easing of restrictions, there will likely be a surge in demand for entertainment—dining, performances and sports—but the long-term level could be reduced if there is less appetite for travel for business or leisure, greater demand for telework or living in suburban locations, or continued discomfort about congregating.

Going forward, there are several risks to the post-pandemic economy. Reduced demand for office space is a risk to the current outlook if businesses shift to greater remote work, but it may be somewhat offset by requirements for greater floor space per employee to assuage workers' fears of returning to the office, at least in the short-term. As many District-area offices switched to full remote work because of the COVID-19 health emergency, some District residents opted to temporarily relocate outside the District. If, post-pandemic, employers shift to greater remote work, these arrangements could become permanent and could affect both real property tax and sales tax revenues from lower demand for office space and fewer commuters. There is also the possibility of inflation, which has not been a concern thus far in the pandemic, but the levels of government spending, both here and abroad, and projected in the near future, is unprecedented, and in the past has been linked to greater rates of inflation. Another concern is rising yields on government bonds, which could trigger a selloff in the stock market. We will be monitoring closely these risks to the long-term performance of both the national and local economies, which, if they materialize, could have a significant impact on the District's Budget and Financial Plan.

BUDGET OVERVIEW

The Local fund revenue estimate of \$8.48 billion for FY 2022 is an increase of \$343.4 million (4.2%) from FY 2021. Total FY 2021 general fund revenue in the financial plan, including dedicated and special purpose revenues and policy initiatives, is \$9.34 billion, \$116.0 million more than in FY 2020 and \$9.80 billion in FY 2022, \$459.8 million more than FY 2021. Various policy initiatives increase general fund revenue by \$34.3 million in FY 2022.

EXPENDITURES

Local Funds

The Mayor's Proposed FY 2022 Budget includes approximately \$9,117.0 million in spending supported by \$9,117.5 million of resources, with an operating margin of \$0.5 million, as shown in Table 1.

Table 1	
FY 2022 Proposed Budget Summary	
Local Funds	
(\$ in millions)	
Taxes	\$ 7,968.8
Non-Tax Revenues	451.4
Lottery	56.6
All Other Resources	52.0
Revenue Proposals	339.5
Fund Balance Use	249.3
Total Local Fund Resources	\$ 9,117.5
Local Expenditures	\$ 9,117.0
Projected FY 2022 Operating Margin	\$0.5

Gross Funds

The proposed FY 2022 gross funds operating budget (excluding intra-District funds) is \$17.5 billion, an increase of \$662.7 million, or 3.9 percent, over the FY 2021 approved gross budget of \$16.9 billion. The Local and non-Local funding

components of the proposed FY 2022 gross budget and changes from FY 2021 are summarized in Table 2 below.

Table 2				
FY 2021 vs. FY 2022 Gross Funds Budget by Fund Type				
(\$ in millions)				
Fund Type	<u>FY 2021</u> <u>District's</u> <u>Approved</u>	<u>FY 2022</u> <u>Mayor's</u> <u>Proposed</u>	<u>Change</u>	<u>%</u> <u>Change</u>
Local	\$ 8,619.8	\$ 9,117.0	\$497.3	5.8%
Dedicated Tax	529.3	542.1	12.9	2.4%
Special Purpose	778.4	797.0	18.6	2.4%
Subtotal, General Fund	\$ 9,927.4	\$ 10,456.2	\$528.7	5.3%
Federal	4,088.4	4,593.6	505.2	12.4%
Private	4.8	8.0	3.3	68.7%
Total, Operating Funds	\$ 14,020.6	\$ 15,057.8	\$ 1,037.2	7.4%
Enterprise and Other Funds (including from Dedicated Taxes)	2,836.1	2,461.6	-374.5	-13.2%
Total Gross Funds	\$ 16,856.7	\$ 17,519.4	\$ 662.7	3.9%

Note: Details may not add to totals due to rounding

MAJOR COST DRIVERS – LOCAL FUNDS

Overall, the proposed FY 2022 Local funds budget increased by \$497.3 million, or 5.8 percent, compared to FY 2021. Table 3 provides a snapshot of major cost drivers for the increase.

Table 3	
Mayor's FY 2022 Proposed Budget	
Cost Drivers - Local Funds (in millions)	Amount
Major Changes:	
Pay-As-You-Go Capital Fund	102.8
District of Columbia Public Charter Schools	75.7
Workforce Investments Account	72.4
Office of the Deputy Mayor for Planning and Economic Development	57.7
Repayment of Loans and Interest	53.8
Office of the Chief Technology Officer	25.9
District of Columbia Public Schools	23.6

Primary Cost Drivers

- **Pay-As-You-Go Capital Fund:** \$102.8 million over FY 2020 is primarily attributed to an increase of \$89.9 million funded by the American Rescue Plan Act (Federal funds for Local Revenue Replacement funding) to support various capital projects and \$10.9 million of Local funds allocated towards the Washington Metropolitan Area Transit Authority (WMATA) project.
- **District of Columbia Public Charter Schools:** \$75.7 million over FY 2020 is primarily attributed to a 3.6 percent increase in the Uniform Per Student Funding Formula (UPSFF) Foundation level, which is \$11,720 for FY 2022, in comparison to the FY 2021 Foundation level of \$11,310.
- **Workforce Investments Account:** \$72.4 million increase is for a proposed COLA for both union and non-union employees.
- **Office of the Deputy Mayor for Planning and Economic Development:** \$57.7 million over FY 2021, which is primarily attributed to support initiatives such as Food Access, Destination DC, Local Job Creation, and BID Vibrant Places.
- **Repayment of Loans and Interest:** \$53.8 million over FY 2021 is the result of increased borrowing and repayment of debt.

- **Office of the Chief Technology Officer:** \$25.9 million over FY 2021 primarily funded by the American Rescue Plan Act - Federal funds for Local Revenue Replacement funding to purchase cellphones, laptops and tablets to support Devices for Residents: Tech Together initiative, the Future of Work Study initiative; and to develop a system for gun violence prevention, which supports the agency's Building Blocks DC: IT system initiative.
- **District of Columbia Public Schools:** \$23.6 million over FY 2021 is primarily attributed to a 3.6 percent increase in the Uniform Per Student Funding Formula (UPSFF) Foundation level, which is \$11,720 for FY 2022, in comparison to the FY 2021 Foundation level of \$11,310.

CAPITAL IMPROVEMENTS PLAN

The District is addressing its continuing infrastructure needs through its Capital Improvements Plan (CIP). The total proposed appropriation request for the FY 2022 through FY 2027 CIP is \$8.8 billion from all sources. Much of the capital budget will be financed with municipal bonds totaling \$5 billion, along with Pay-As-You-Go (Paygo) transfers from the General Fund, Federal Highway Administration grants, a local match to the Federal Highway Administration grants from the District's Highway Trust Fund, and local transportation fund revenue. The District is committed to funding its share of WMATA's capital needs. The proposed budget reflects Dedicated Taxes of \$178.5 million per year as the

District's share of the total region-wide commitment to capital funding of \$500 million annually towards WMATA's capital needs. Additional capital contributions are included in the CIP to assist WMATA in funding improvements for a state of good repair. The total contribution to WMATA totals \$1.8 billion in the FY 2022 - FY 2027 CIP.

The proposed capital budget for FY 2022 of \$2.01 billion of planned capital expenditures will be financed by \$973.2 million in new tax-exempt Income Tax Secured or General Obligation bonds, \$193.5 million in new taxable Income Tax Secured bonds, \$193.8 million from new short-term bonds, \$352.3 million in Paygo, \$192.5 million in federal grants and payments, \$26.7 million in the Local Match to the Federal Highway Administration grants, and \$56.9 million from the Local Transportation Revenue fund. Debt service through the CIP period remains below the 12 percent debt cap.

CONCLUSION

I would like to thank Mayor Bowser, the Office of the City Administrator, the Office of Budget and Planning, the Associate Chief Financial Officers and their staffs, the Office of Revenue Analysis as well as others in the OCFO, for their hard work during this extremely difficult period. Working together, we were able to

produce a balanced budget. The OCFO team now looks forward to working with the Council during the upcoming budget deliberations process.