

PUBLIC BRIEFING ON

**FISCAL YEAR 2015 PROPOSED
BUDGET AND FINANCIAL PLAN**

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

The Honorable Phil Mendelson, Chairman

**April 7, 2014, 10:00 a.m.
John A. Wilson Building
Council Chambers**



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

Good morning, Chairman Mendelson and members of the Committee of the Whole. I am Jeff DeWitt, Chief Financial Officer of the District of Columbia. I am pleased to appear before you today to testify on the Fiscal Year 2015 Proposed Budget and Financial Plan. The Fiscal Year 2015 Proposed Budget includes \$6.8 billion from Local funds and \$12.6 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, Office of Budget and Finance staff, and agency program staff to resolve numerous issues to produce a balanced budget and five-year financial plan. The FY 2015 policy budget reflects the Gray administration's funding priorities and determinations.

After careful review, I certify that the FY 2015 – FY 2018 Budget and Financial Plan, as proposed, are balanced.

REVENUE OUTLOOK

The revenue outlook is predicated on a steadily improving national economy, and assumes that the District's economy will continue to grow, adding both jobs and people over the period of the financial plan.

Some significant measures to reduce federal spending are, however, expected to be in effect during the period of the financial plan, with the severity of their impact diminishing over time. Over the past year, overall employment located in the District has slowed, and commercial office vacancies have risen slightly while rents have weakened. The slowdown in employment growth is due exclusively to cutbacks in the federal government. Private employment prospects are expected to continue to improve in FY 2015 and beyond.

Population growth has been a major factor in increasing the District's income and sales tax bases, and is also a major driving force behind rising home values. In the last five years (2008 to 2013), the District's population has grown by 62,213 (11.4 percent), an increase that has averaged more than 1,000 net new residents per month over this time. Natural increase (births minus deaths) now accounts for about one third of the population gain.

The FY 2014 baseline estimate of \$6.33 billion in total Local Fund revenue, excluding Dedicated Taxes and Special Purpose Revenue, is \$131.0 million (2.1 percent) greater than FY 2013 revenue. The \$6.69 billion estimate for FY 2015 is an increase of \$356.6 million (5.6 percent) over FY 2014 and reflects a strong rebound in property values that has occurred recently. Including Dedicated

General Fund Tax Revenue, Special Purpose Revenue and policy initiatives, total FY 2014 General Fund revenue in the financial plan is \$7.13 billion. Total General Fund revenue in FY 2015 is \$7.49 billion, \$360 million more than FY 2014.

Various policy initiatives decrease General Fund revenue (Local funds and Special Purpose Revenue) FY 2015 by \$23.1 million. Of this amount, \$22.6 million are Local Fund revenues. Some of the major policy proposals for FY 2015 are listed below:

- Reforms of the personal income tax, aimed at providing tax relief to middle-income households, will result in a decline in revenues of \$25 million.
- Alignment of the tax on tobacco products with cigarette taxes adds \$7.0 million to FY 2015 revenue.
- Reduction in the business franchise tax rate to 9.4 percent reduces revenue by \$20 million in FY 2015.

- Single weighted factor for business franchise tax and unincorporated business tax based on sales tax adds \$20 million in FY 2015.
- Senior Citizen Real Property Tax Abatement reduces property taxes by \$8.5 million.
- Office of Tax and Revenue (OTR) tax compliance programs add \$6.1 million to FY 2015 revenue.

EXPENDITURES

Local Funds

The FY 2015 Proposed Budget includes \$6,794.1 million in spending supported by \$6,794.6 million of resources, with an operating margin of \$0.5 million as shown in Table 1.

| Table 1 | |
|---|-------------------|
| FY 2015 Proposed Budget Summary | |
| Local Funds | |
| (\$ in millions) | |
| Taxes | \$ 6,171.6 |
| Non-Tax Revenues | 453.1 |
| Lottery | 66.0 |
| All Other | 21.7 |
| Revenue Proposals | (22.6) |
| Fund Balance Use | 104.8 |
| Total Local Fund Resources | \$ 6,794.6 |
| | |
| Local Expenditures | \$ 6,794.1 |
| | |
| Projected FY 2015 Operating Margin | \$0.5 |

Note: Details may not add to totals due to rounding.

Gross Funds

The proposed FY 2015 gross funds operating budget (excluding intra-District funds) is \$12.6 billion, an increase of \$435.5 million, or 3.6 percent, over the FY 2014 approved gross budget of \$12.2 billion. The Local and non-Local funding components of the proposed FY 2015 gross budget and the changes from FY 2014 are summarized in Table 2 below.

| Table 2 | | | | |
|---|--|---|-----------------|---------------------|
| FY 2015 Gross Funds Budget by Fund Type | | | | |
| (\$ in millions) | | | | |
| <u>Fund Type</u> | <u>FY 2014 Approved Budget</u> | <u>FY 2015 Mayor's Proposed</u> | <u>Change</u> | <u>% Change</u> |
| Local | \$ 6,349.6 | \$ 6,794.1 | \$ 444.5 | 7.0% |
| Dedicated Tax | 296.2 | 271.4 | -24.8 | -8.4% |
| Special Purpose | 516.4 | 590.4 | 74.0 | 14.3% |
| Subtotal, General Fund | 7,162.2 | 7,656.0 | 493.7 | 6.9% |
| Federal | 2,954.2 | 3,118.6 | 164.4 | 5.6% |
| Private | 6.9 | 2.1 | -4.7 | -69.0% |
| Total, Operating Funds | 10,123.2 | 10,776.7 | 653.4 | 6.5% |
| Enterprise and Other Fund | 2,059.7 | 1,841.8 | -217.9 | -10.6% |
| Total Gross Funds | \$ 12,182.9 | \$ 12,618.4 | \$ 435.5 | 3.6% |

Note: Details may not add to totals due to rounding.

MAJOR COST DRIVERS – LOCAL FUNDS

Overall, the FY 2015 Local funds budget increased by \$444.5 million, or 7.0 percent, over FY 2014. Table 3 provides a snapshot of the major cost drivers associated with the increase.

| Table 3 | |
|---|-------------------|
| Mayor's FY 2015 Proposed Budget | |
| FY 2015 Cost Drivers - Local Funds | Amount |
| FY 2014 Approved Local Funds Budget | \$ 6,349.6 |
| Major Changes: | |
| Public Charter Schools | 57.6 |
| District of Columbia Public Schools | 56.9 |
| Repayment of Loans and Interest | 51.4 |
| Department of General Services | 44.5 |
| Department of Behavioral Health | 27.8 |
| Washington Metropolitan Area Transit Authority | 18.3 |
| Office of the State Superintendent of Education | 16.6 |
| Department of Human Services | 10.8 |
| Department of Public Works | 10.1 |
| All Other Agencies | 150.5 |
| Total Changes | \$ 444.5 |
| FY 2015 Proposed Local Funds Budget | \$ 6,794.1 |

Note: Details may not add to totals due to rounding

Primary Cost Drivers

- DC Public Charter School (DCPCS):** The \$57.6 million increase over FY 2014 is primarily the result of: (1) the change in enrollment from 37,410 to 39,076, or 4.5 percent, over FY 2014 accounts for a \$26.4 million increase in funding; (2) \$12.3 million to account for an inflation factor of 2.0 percent, which was applied to the Uniform Per Student Funding Formula (UPSFF); and (3) an increase of \$18.9 million to support the Adequacy Study.
- DC Public Schools (DCPS):** The \$56.9 million increase over FY 2014 is primarily the result of: (1) the change in enrollment from 46,060 to 47,592,

or 3.3 percent, over FY 2014; (2) 2.0 percent applied to the budget to account for inflation in the UPSFF; and (3) additional funding allocated to support the Adequacy Study.

- **Repayment of Loans and Interest:** The \$51.4 million increase over FY 2014 is the result of changes in interest rates and increased borrowing.
- **Department of General Services (DGS):** The \$44.5 million increase in Local funds is due primarily to the forecasted expenditures in fixed costs, including rent estimates and facility and security costs.
- **Department of Behavioral Health (DBH):** The \$27.8 million increase over the FY 2014 budget includes \$8.4 million to cover cost-of-living-adjustments, \$3.7 million in agency- managed fixed costs, \$2.8 million to replace federal grant funding, \$5.5 million for independent community residential facilities (ICRFs), and \$5.0 million for funds shifting from capital to operating.
- **Washington Metropolitan Area Transit Authority (WMATA):** The \$18.3 million increase over the FY 2014 budget includes an increase to the annual subsidy; expansion of DC Circulator services; a shift of funds from

the District's Department of Transportation to support Metrobus and Metrorail services; and enhanced funding for the Kids Ride Free initiative.

- **Office of the State Superintendent of Education (OSSE):** The \$16.6 million increase over the FY 2014 budget includes a \$4.3 million shift of Healthy Schools Fund dedicated taxes to Local funds; \$3.0 million to address a shortfall in the Early Childhood Education program; and a \$4.2 million increase to support the Quality Rating and Improvement system and the Infant and Toddler Infrastructure.
- **Department of Human Services (DHS):** \$10.8 million is added to housing support services to include \$1.0 million for the Emergency Rental Assistance program; \$1.0 million for rapid re-housing; and \$4.7 million for homeless veterans. Additionally, DHS received \$1.0 million to support the Truancy Program; \$722,000 to address an inflationary increase to TANF recipients; and \$3.1 million for increased fixed costs.
- **Department of Public Works (DPW):** The \$10.1 million increase over the FY 2014 budget includes \$1.7 million increase to address a recurring shortfall in fringe benefits; \$1.5 million for the restoration of one-time salary

lapse savings; \$5.4 million related to cost-of-living-adjustments; and \$1.7 million to support longevity pay.

- **All Other Agencies:** The \$150.5 million increase over the FY 2014 budget is primarily the result of various policy enhancements, technical adjustments, inflationary increases, and cost-of-living adjustments.

ITEMS TO MONITOR

The OCFO will continue to work with your Office of Budget and Finance to monitor spending to ensure that the District ends each fiscal year in balance. Unlike past years, there are no items to monitor in the FY 2015 Proposed budget; however, below are financial plan items for FY 2016 and beyond that will require monitoring:

- Revenue growth from FY 2015 to FY 2016 is estimated to be \$206 million. The FY 2015 budget includes \$104 million of revenue carried over from FY 2014, which is not recurring. Accounting for other small adjustments, resources grow by a net total of only \$105 million in FY 2016.

- The provision requiring 25 percent of new revenues to be devoted to PAYGO capital begins in FY 2016. This will mean an additional \$51 million of PAYGO capital spending.
- In FY 2015, debt service is supplemented by a one-time payment of \$25.2 from Special Purpose Revenue, relieving Local funds of this expenditure. In FY 2016, the primary debt service agency will increase by \$63.2 million in gross funds. Thus, Local funds debt service will grow by \$87.9 million in FY 2016.

The financial plan is balanced with an equivalent 8 percent reduction in FY 2016 to a large portion of nonpersonal services expenditures. Procurement reform and other initiatives will have to be successfully implemented and carefully monitored in order to achieve the requisite performance savings.

CAPITAL IMPROVEMENTS PLAN

The District is addressing its continuing infrastructure needs through its Capital Improvements Plan (CIP). The District, however, is constrained in its levels of General Obligation (G.O. bond) and Income Tax secured (I.T. bond) bonds issuances due to its 12 percent debt cap. These factors place a premium on developing a sound CIP to make the best use of limited resources. The total

proposed appropriation request for the FY 2015 through FY 2020 CIP is \$2.172 billion for all sources, which consists of \$2.966 billion of new budget authority partly offset by \$794 million of rescissions. The increased budget authority will be financed with I.T. or G.O. bonds, Grant Anticipation Revenue Vehicle (GARVEE) bonds, Revenue bonds, PAYGO transfers from the General Fund, the Master Equipment Lease Program, Federal Grants, a local match to the grants from the Federal Highway Administration, private donations, sale of assets, and local transportation fund revenue.

The proposed FY 2015 capital program includes \$1,375.3 million in planned capital expenditures to be financed by \$1,077.8 million in new I.T. or G.O. bond issuances, \$26.0 million from the Master Equipment Lease Program, \$19.0 million in PAYGO, \$186.9 million in federal grants, \$37.7 million in the local match to the Federal Highway Administration grants, \$21.4 million from the Local Transportation Revenue Fund, and \$6.5 million from the Sale of Assets. Debt service within the budget and financial plan period remains below the 12 percent debt cap.

CONCLUSION

I would like to thank Mayor Gray and the members of his administration, the District Council, the Office of Budget and Planning, the Associate Chief Financial Officers and many others in the OCFO that have worked effectively together to produce a balanced budget. I look forward to working with the Council during the upcoming budget deliberations.