



CFO Forum

March 27, 2003

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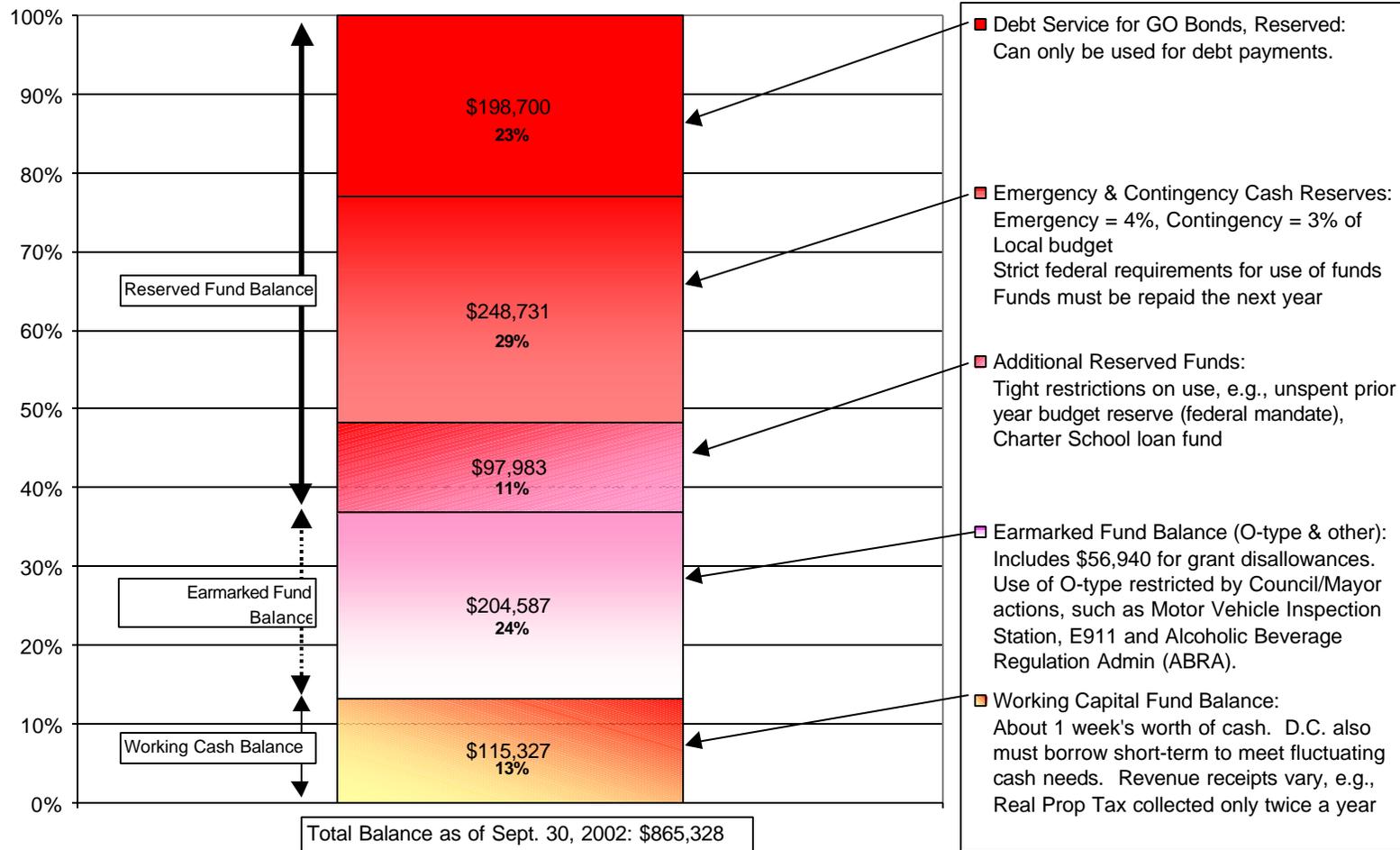
2002 CAFR Results

- Unqualified, or Clean, Opinion
- Financial Management Improvements
- \$27.4 Million General Fund Surplus
- \$865.3 Million Accumulated Fund Balance, or 24.6% of General Fund Expenditures



2002 CAFR Results

Composition of General Fund Balance, as of Sept. 30, 2002 (\$000)





Fiscal Policies

Local Anti-Deficiency Law

- A District employee shall not make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund.
- District managers shall develop year-end spending projections, on a monthly basis, which show year-to-date spending, year-end projected spending, explanations of variances greater than 5%, and in the case of overspending, a corrective action plan.
- An employee who is found in violation is subject to adverse personnel action, including removal.

Non-Recurring Revenue Policy

- The District only uses non-recurring revenues for non-recurring expenditures.



Financial Initiatives

Monitoring and Controlling Expenditures

- Financial Status reports including comparisons to prior-year spending and FTE information will be published monthly.
- Quarterly reports that include projections of year-end surplus or deficit for each agency will also be published.
- Agency monthly spending plans, comparisons of actual spending against those plans, and explanation of material variances of 5% or more are required in reports to the central budget office.
- A Medicaid Team will meet monthly to review the aging of Medicaid receivables and year-to-date collections, and to implement corrective actions.



FY 2003 Budget Overview

Spending Pressures (\$ in millions)

Pressures	Comment	Amount	%
Economy:			
Potential Net Revenue Shortfall	Planning estimate for revenue shortfall	\$ (52.5)	
Increased Demand/Higher Utilization	Health Care Safety Net (\$10.5); Medicaid operations - higher state costs (\$13); and Unemployment Compensation Fund	(27.4)	
Subtotal - Economy		(79.9)	63%
Court Order Related	MRDDA (\$12) and Youth Services Administration (\$1)	(13.0)	10%
Emergencies	Snow Removal	(3.1)	2%
Management Issues	Surplus TANF funds used in prior years	(11.0)	9%
Other	Police Overtime (\$7.3); Corrections Overtime (\$5.1); CFSA out-of-state tuition payments (\$3.8); CFSA Medicaid audit (\$2.4); and Summer Youth Program (\$2.4)	(21.0)	16%
Total Net Budget Pressures		\$ (128.0)	100%



FY 2003 Budget Overview

Spending Pressures (\$ in millions) *Potential Options*

Emergency Cash Reserve (To be replenished in FY 2004)	\$3.1
FY 2001 and FY 2002 Budgeted Reserve Carryover (of the \$45 million available, \$17 million is earmarked for specific programs and \$21 million is earmarked to address revenue shortfalls, leaving \$7 million)	\$28.0
Use of Fund Balance Equivalent to Revenue Recovery (FY03 revenue loss \$52.5 million minus FY04 revenue loss \$23.9 million)	<u>\$28.6</u>
Subtotal	<u>\$59.7</u>
Recurring Program Cuts Needed	<u>\$68.3</u>
TOTAL	<u>\$128.0</u>



FY 2004 Mayor's Proposed Local Funds Budget

- The FY Mayor's 2004 proposed budget has a projected budget basis margin of \$1.8 million.
- Expenditures increased by \$198 million over the FY 2003 revised budget.

	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8	Column 9
					Variance: FY 2003 Revised (10/02) Over FY 2002 Actuals	% Change: FY 2003 Revised (10/02) Over FY 2002 Actuals	FY 2004 Proposed Budget	Variance: FY 2004 Baseline Over FY 2003 Revised (10/02)	% Change: FY 2004 Baseline Over FY 2003 Revised (10/02)
Local Fund (\$000's)	FY 2002 Actuals	FY 2003 Original 6/02	FY 2003 Revised 10/02	FY 2003 Projected 2/03					
Total Revenues with Initiatives	3,520,742	3,751,231	3,602,857	3,609,456	82,115	2.33%	3,766,514	163,657	4.54%
Total Expenditures	3,509,474	3,750,950	3,602,411	3,608,356	92,937	2.65%	3,800,171	197,760	5.49%
Operating Margin, Budget Basis	11,268	281	446	1,100			(33,656)		
Tax Parity Trigger: Continued Postponement							24,000		
Use of Fund Balance (Contingency Funding for No Child Left Behind)							11,455		
Net Operating Margin, Budget Basis							1,799		

Note: FY 2003 figures do not include \$33,000,000 in Federal payments.

Note: FY 2003 figures do include \$10,000,000 in reserve carryover of Tobacco residuals.



FY 2004 Mayor's Proposed Local Funds Budget

<i>Local Funds (in Millions)</i>	FY 2004 Amount*	FY 2004 Gap Closing*	% of Gap Closing Measure*
1 Revenues (Based on Revised Revenue Estimate - February 20, 2003)	3,699		
2 Initial Baseline Scrub (Presented to Council - February 26, 2003)	<u>3,831</u>		
3 Initial Baseline Budget Gap	(132)		
4			
5 Revisions to the Baseline (MPD personal services funding)	<u>(12)</u>		
6			
7 Baseline Budget Gap (Presented at the Mayor Council Breakfast March 6, 2003)	(144)		
8			
9 Final Baseline Corrections (No Child Left Behind Contingency funding, OPM management of DC General)	<u>(18)</u>		
10 Mayoral Additions to the Baseline (Technical Enhancements)	<u>(22)</u>		
11			
12 FY 2004 Budget Gap		<u>(184)</u>	
13			
14 Gap Closing Solutions			
15			
16 Expenditure Reductions			
17 Agency Reductions	50		
18 Citywide Savings (Hiring and step Freeze, Security, telecom and fleet savings)	34		
19 O-Type Reductions (Revenue Transferred To Local Fund)	<u>18</u>		
20 Expenditure Reductions Subtotal		<u>102</u>	55%
21			
22 Revenue Initiatives			
23 Income Surtax (@ .6% income over \$100K)	22		
24 Parking Tax (12% to 18%)	22		
25 Add Selected Services to General Sales Tax Base (@ 5.75%)	4		
26 Additional Parking Meter Revenue	<u>1</u>		
27 Revenue Initiatives Subtotal		<u>49</u>	27%
28			
29 Other Solutions			
30 Tax Parity Trigger	24		
31 Use of Fund Balance (Unreserved, Undesignated)	<u>11</u>		
32 Other Solutions Subtotal		<u>35</u>	19%
33			
34 Operating Margin - Budget Basis		<u><u>2</u></u>	

* May not add due to Rounding



Major Cost Drivers for FY 2004 Mayor's Proposed Local Funds Budget

<i>Local Funds - (\$ millions)</i>		<u>\$ Amount</u>	<u>Total \$</u>	<u>% of</u>
<u>Cost Driver</u>	<u>Agency</u>	<u>of Increase</u>	<u>Increase</u>	<u>FY 2004</u>
				<u>Increase</u>
1 Court Order/Federal Mandates				
2 Mandatory cost of the Evans Exit Plan within MRDDA	DHS	\$12.1		
3 Mandatory cost of the Jerry M Consent Decree within YSA	DHS	\$10.2		
4 Contingency Funding for the No Child Left Behind Act of 2001	DCPS/DCPCS	\$11.5		
5 Increase in foster care rates mandated by the federal courts	CFSA	<u>\$0.7</u>		
6 Court Order Mandates Subtotal			\$34.5	17%
7				
8 Previously Approved Pay Raises/Pension Funding Increases				
9 Comp Units 3 & 4 Pay Raises*	MPD/FEMS	\$42.4		
10 DCPS Pay Raises (Above formula inflation)	DCPS	\$34.0		
11 Defined Benefit Retirement Actuarial	Police & Fire Retire.	<u>\$27.3</u>		
12 Previously Approved Pay Raises Subtotal			\$103.7	52%
13				
14 FY 2004 Inflationary Growth/Formula Increases				
15 Increase in subsidized adoption rates	CFSA	\$1.4		
16 Uniform Per Pupil Spending Formula	DCPCS	\$10.4		
17 LEA changes for Uniform Per Pupil Spending Formula and SEA inflation	DCPS	(\$11.5)		
18 (includes FY 2003 Reduction of \$18mm, and \$2mm transfer to OAH)				
19 Contractual & Utilization Growth - HCSN	DOH	\$8.1		
20 Medicaid increase for institution & managed care	DOH	\$11.4		
21 Medicaid Increase Fee for Service Physician	DOH	\$10.2		
22 Increased Medicaid Waivers	DOH	<u>\$6.3</u>		
23 FY 2004 Inflationary Growth/Formula Increases Subtotal			\$36.4	18%
* Offset by reduction in Workforce Investments				



Major FY 2004 Cost Drivers (continued)

(Continued)

<u>Cost Driver</u>	<u>Agency</u>	<u>\$ Amount of Increase</u>	<u>Total \$ Increase</u>	<u>% of FY 2004 Increase</u>
24 FY 2003 Spending Pressures				
25 Reduction of TANF Funding*	CFSA	\$11.0		
26 Educational Services for Foster Care Students	SEO	\$3.8		
27 Medicaid Disallowed Costs	DMH	\$21.7		
28 FY 2003 funds anticipating Medicaid reimbursement for YSA*	DHS	\$7.8		
29 (Previously in the Medicaid Reserve Fund)				
30 Homeless and Hypothermia Services within Family Services Administration	DHS	\$3.3		
31 Equipment Lease Debt Service	FEMS/MPD/DPW/DRP/DOH	\$9.5		
32 Public Safety Overtime Costs	MPD/FEMS/DOC	\$29.5		
33 FY 2003 Spending Pressures Subtotal			\$86.6	44%
34				
35 FY 2004 Fixed Cost Increases	District Wide		\$10.7	5%
36				
37 Multi-jurisdictional Funding Agreements	WMATA		\$10.7	5%
38				
39 Other Types Of Adjustments				
40 Net Financing and Other Adjustment	Financing & Other		\$9.4	5%
41 Other Baseline/Adjustments	District Wide		\$19.6	10%
42 Mayor's Technical Enhancement Adjustments	District Wide		\$64.5	33%
43 Medicaid Reserve Reduction**	Medicaid		(\$61.8)	-31%
44 Workforce Investment Reduction	Workforce Inv.		(\$32.4)	-16%
45 Gap Closing Solutions	District Wide		(\$84.0)	-42%
46				
47 Total Net Increases			\$197.8	100%

* Offset from Reductions in the Medicaid Reserve

** Reductions include amounts offset by increases in other agencies



Financial Plan

District of Columbia
FY 2004 -- FY 2007 Proposed Budget and Financial Plan
GENERAL FUND
(Dollars in Thousands)

	FY 2002 Actual	FY 2003 Approved	FY 2003 Proposed Adj	FY 2004 Proposed	FY 2005 Projected	FY 2006 Projected	FY 2007 Projected
1 General Fund Revenues	\$ 3,639,577	\$ 3,640,638	\$ 3,715,030	\$ 3,875,129	\$ 4,038,305	\$ 4,174,834	\$ 4,383,045
1a Carryforward from prior year	37,401	18,485	62,542	11,455	0	0	0
1b Mayor's Tax and Legislative Package	0	126,850	15,000	91,200	131,760	173,331	158,531
1c Total Revenues	<u>3,676,978</u>	<u>3,785,973</u>	<u>3,792,572</u>	<u>3,977,784</u>	<u>4,170,065</u>	<u>4,348,165</u>	<u>4,541,576</u>
<i>Program Expenditures</i>							
2 General Program Expenditures	3,629,431	3,715,527	3,721,472	3,925,984	4,059,188	4,233,448	4,393,832
3 Budgeted Reserve	0	70,000	70,000	0	0	0	0
4 Set Aside for Cash Reserve	0	0	0	50,000	50,000	50,000	50,000
5 Tobacco Trust Fund (Fill Emergency Reserves)	0	0	0	0	0	0	0
6 Tobacco Trust Fund (Program Funds)	0	0	0	0	29,375	30,796	29,939
7 Tobacco Trust Fund (Investment Funds)	0	0	0	0	29,375	30,796	29,939
8 Total Expenditures	<u>3,629,431</u>	<u>3,785,527</u>	<u>3,791,472</u>	<u>3,975,984</u>	<u>4,167,938</u>	<u>4,345,040</u>	<u>4,503,710</u>
9 Operating Margin, Budget Basis	<u>47,547</u>	<u>446</u>	<u>1,100</u>	<u>1,800</u>	<u>2,127</u>	<u>3,125</u>	<u>37,866</u>
10 GAAP Adjustments and Transfers (Net)	(20,092)	0	0	0	19,375	20,796	19,939
11 Operating Margin, GAAP	<u>27,455</u>	<u>446</u>	<u>1,100</u>	<u>1,800</u>	<u>21,502</u>	<u>23,921</u>	<u>57,805</u>
12 Beginning Fund Balance	837,873	865,328	865,328	803,886	777,126	798,628	822,549
13 Surplus/(Deficit)	27,455	446	1,100	1,800	21,502	23,921	57,805
14 Adjustments to Fund Balance	0	(18,485)	(62,542)	(28,560)	0	0	0
15 Ending Fund Balance	<u>865,328</u>	<u>847,289</u>	<u>803,886</u>	<u>777,126</u>	<u>798,628</u>	<u>822,549</u>	<u>880,354</u>
<i>Composition of Fund Balance</i>							
16 Emergency Reserve (4% of local expenditures)	142,132	145,017	145,017	158,581	166,718	173,802	180,148
17 Contingency Reserve (3% of local expenditures)	106,599	108,762	108,762	118,936	125,038	130,351	135,111
18 Set Aside for Cash Reserves	0	0	0	20,000	30,000	40,000	50,000
19 Tobacco Trust Fund (Investment Funds)	0	0	0	0	29,375	60,171	90,110
20 Cash Reserve Total	<u>248,731</u>	<u>253,779</u>	<u>253,779</u>	<u>297,517</u>	<u>351,131</u>	<u>404,324</u>	<u>455,370</u>
21 Fund Balance not in Cash Reserve	616,597	593,510	550,107	479,609	447,497	418,225	424,984

Source: Office of the Chief Financial Officer



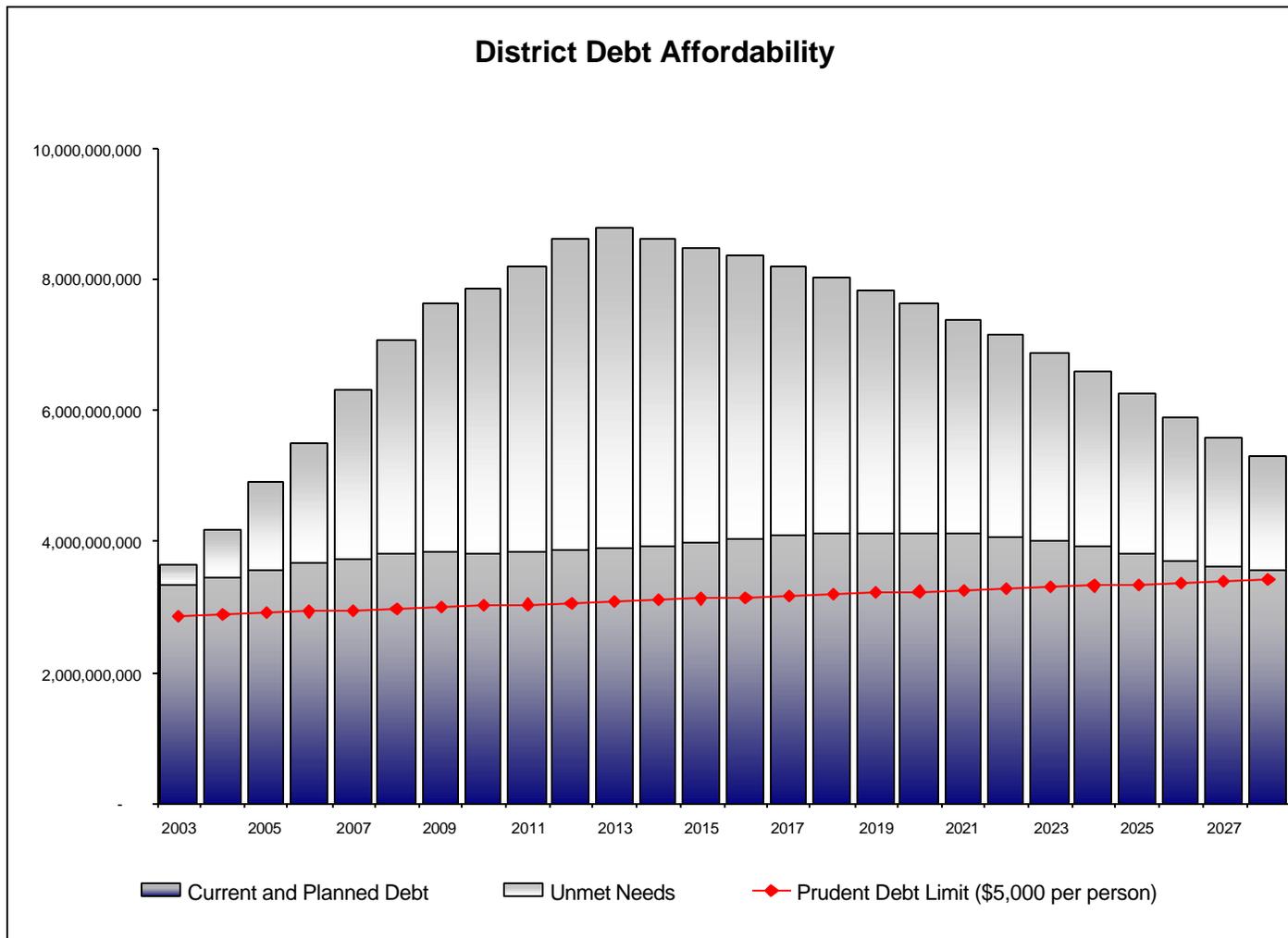
Debt Management and Debt Policies

District's Debt Parameters for Capital Budgeting

- Amount of debt issued in any given fiscal year should not exceed 15% of the total current outstanding debt as of the end of the previous fiscal year.
- Debt issuance should not cause the District's per capita debt to exceed \$7,500.
- Debt issuance should not cause the debt limit ratio (maximum annual debt service to total local revenue) to exceed 13%, and cannot (legally) exceed 17% in any given year.



Debt Management and Debt Policies





Debt Management and Debt Policies

FY 2003 Debt Financing of Capital Program

- Planning approximately \$300 million in bond issuances toward end of fiscal year.
- A portion of this \$300 million has already been expended or obligated, so a portion of this financing will be reimbursements of operating funds.
- Each \$15 million of new bond issuance results in approximately \$1 million in debt service costs in subsequent years' operating budgets.

Recommendation for FY 2004-2009 Capital Improvement Plan

- Due to the District's current position with respect to its debt ratios and debt service affordability, the OCFO recommends that capital financing be limited to a maximum of \$300 million annually. This will keep the District's debt burden at manageable/reasonable levels in terms of debt service costs to the operating budget and debt ratios (which affect the District's credit ratings and interest rates), while at the same time providing a substantial level of capital funding. (This level of funding will result in compliance with the debt parameters.)



Debt Management and Debt Policies

Debt Ratio Comparison with Major U.S. Cities

	District of Columbia (1)	Philadelphia	New York City	Detroit	Chicago	Baltimore	San Antonio	Average of Other Cities
Debt Service as a % of Total General Fund Expenditures	7.8%	6.4%	6.5%	8.8%	17.6%	9.6%	16.0%	10.8%
Net Overall Debt to Full Value	5.1%	16.2%	10.2%	12.3%	6.1%	2.4%	1.9%	8.2%
Net Overall Debt to Personal Income	11.4%	16.6%	14.3%	3.3%	15.8%	2.6%	2.7%	9.2%
Net Overall Debt per Capita	\$4,678	\$4,230	\$5,372	\$986	\$3,502	\$719	\$554	\$2,561



Structural Imbalance

Uniqueness

The District is the core of the Washington Metropolitan Area. It has the economy and demographics of a core city.

The District's finances are shaped by its roles as:

- a City
- a State
- the Nation's Capital



Structural Imbalance

As a State

- The District has state-like taxes, particularly the individual and business income taxes.
- The District does not have a state-like tax base, lacking the suburban ring where income is concentrated.
- States use income tax revenue from the suburban ring to support the urban core and poorer rural areas.



Structural Imbalance

As a City

As a city, the District has a severely restricted real property tax base.

- Over half of the District's real property, by area, is exempt from taxation because of federal and other restrictions (excluding D.C. owned property).
- Measured by assessed value, taxation restrictions are more stringent in D.C. than in other cities:
 - 3 % of Philadelphia property is federal or state exempt
 - 13 % of New York City property is federal or state exempt
 - 15 % of Boston property is federal or state exempt
 - 27 % of District property is *federal* exempt



Structural Imbalance

As the Nation's Capital

- D.C. exists because of the federal government - it is a “company town”.
- The federal government provides benefits but no direct revenue.
- Other company towns receive benefits too, along with tax revenue from the company.
- Cities provide services to their major employers, just as D.C. does for the federal government.



Structural Imbalance

Expenditure Requirements

- D.C. has the expenditure requirements of a city, a state, a school district, and a nation's capital.

Exceptions include federal pension liabilities, prisons, and 20% of Medicaid now borne by the federal government.

- D.C. offers public safety and public works services to the federal government.
- D.C. expenditures include many services usually provided at the state level.



Structural Imbalance

Signs of Structural Imbalance

- Leaving priority services out of the baseline budget.
- Spending pressures that arise immediately after the start of the fiscal year.
- Deferred capital maintenance and replacement.



Structural Imbalance

The Size of the Structural Imbalance

	<u>Approx. Annual Cost</u>
Constrained income tax base <i>(Calculated at 2% tax on non-resident earnings)</i>	\$540 M
Inability to tax federal office buildings	\$180 M
Inability to tax other federal property	\$?
Services delivered to federal government <i>(27% of public works and public safety)</i>	\$240 M
State-like services provided	\$500 M
Services to D.C. from federal government <i>(Revitalization Act)</i>	(\$200M)

TOTAL is more than a BILLION dollars a year.



Structural Imbalance

Summary

- The facts remain that D.C. has less tax base and more expenditure requirements than other urban centers.
- In the long run, this inevitably spells financial trouble.
- Financial crisis will reoccur periodically unless there is a structural solution



Structural Imbalance

Examining Structural Solutions

- Congresswoman Eleanor Holmes Norton has proposed the “Fair Federal Compensation Act of 2002”

Establishes 2% wage tax credit on nonresident earnings

- This funding would provide the District with flexibility to improve services to local taxpayers, nonresident workers, and the federal government



Structural Imbalance

Examining Structural Solutions Operating Budget Relief

1. Increase the federal match for Medicaid from 70% to 75%	\$ 75 m
<small>- Mississippi has the nation's highest rate at 76.8%. The National average is 57%.</small>	
2. Provide federal funding for local streets currently ineligible for federal-aid highway funding	\$ 30 m
3. Provide state-level funding for DC share of Metro	\$ 150 m
4. Provide PILOT for federal buildings in the District	\$ 180 m
Total	\$ 435 m