The District of Columbia's Fiscal Year 2012 Annual Audit (FY 2012 CAFR)

FY 2012 Surplus

- The annual audit for the District of Columbia is called the Comprehensive Annual Financial Report (CAFR) and is due February 1st of each year.

- FY 2012 started October 1, 2011 and ended on September 30, 2012.

- The District's audit for Fiscal Year 2012 showed a surplus of $416.7 million.

Explanation of FY 2012 Surplus

UNDERSPENDING	
Local	$34.1 M
Dedicated Taxes	$16.5 M
Special Purpose Revenue	$66.7 M
Total Underspending	**$117.3 M**
ADDITIONAL REVENUE	
Local	$256.9 M
Dedicated Taxes	$9.1 M
Special Purpose Revenue	$29.1 M
Total Revenue	**$295.1 M**
Net of Transfers and Fund Balance Not Used	**$4.3 M**
TOTAL GENERAL FUND SURPLUS	**$416.7 M**

FY 2012 Local Fund Spending

- FY 2012 was the Mayor Gray's second consecutive structurally balanced budget, meaning the District did not spend more than it collected in revenue.

- The District's level of Local funds underspending was only $34.1M or 0.6%, meaning the District agencies effectively managed and spent their budgets.

- Supplemental spending was only $101M, the lowest level since the Control Period, and a 31% reduction from FY 2011, agencies stayed on budget and did not overspend.

FY 2012 Local Revenue

- The District's revenue grew by 11% in FY 2012. The $256.9M in increased Local revenue is broken down as follows:
  - ✓ Estate Taxes - $53M
  - ✓ Traffic Fines - $27M
  - ✓ Individual Income Taxes - $44M
  - ✓ Business Taxes - $78M
  - ✓ Sales Taxes - $68M
  - ✓ Property Taxes – ($14M)
  - ✓ Other - $1M

- **$53M - Estate Taxes:** $50M of this increase is due to a single estate, and is not likely to be recurring.

FY 2012 Local Revenue

- **$27M - Traffic Fines:** The Mayor recently reformed the automated traffic enforcement program by reducing fines and raising speed limits by 5 mph where it was safe to do so. Thus, this revenue is not expected to recur.

- **$44M - Individual Income Taxes:** This revenue increase is a direct result of the Mayor putting District residents back to work through the One City · One Hire Program

- **$78M - Business Taxes:** This increase is a result of the impact of combined reporting and a exceptionally strong economic climate in the District

- **$68M - Sales Taxes:** A direct result of the Mayor's efforts to expand neighborhood retail and prevent retail leakage into other jurisdictions

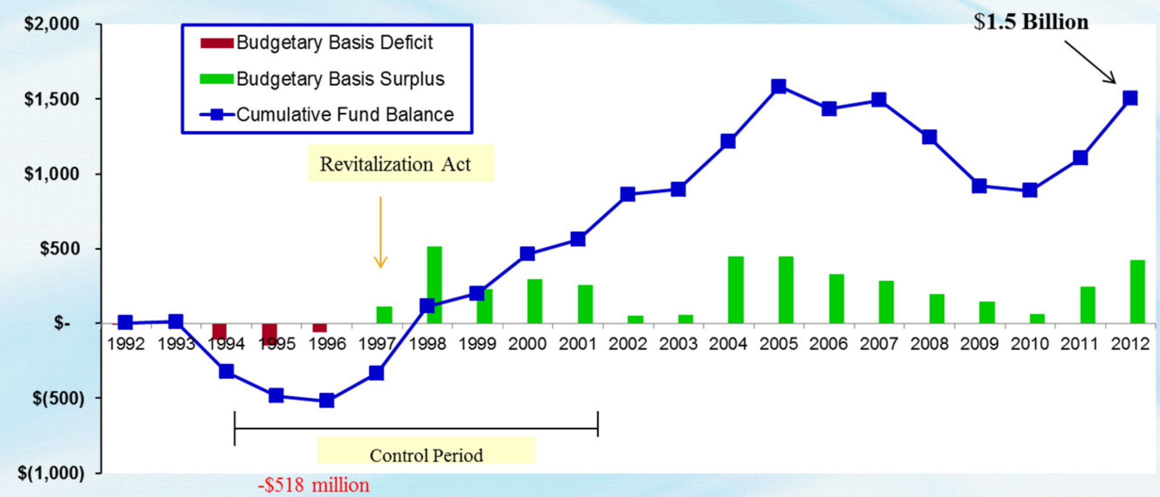
FY 2012 Dedicated Funds "Surplus"

- Additionally the District had a $121.4 million "surplus" in our dedicated funds - also known as special purpose revenue funds or dedicated taxes
- Examples of these dedicated funds are The Anacostia River Clean Up and Protection Fund (5-cent bag fee), private employment insurance contributions, and health professional licensing fees
- $83.2 million of this "surplus" came from underspending, while $38.2 million came from additional revenue over the projection
- These funds are restricted and cannot be used for anything other than the purpose for which they are dedicated

History of General Fund Balance

After a precipitous three-year decline, in just two years,Mayor Gray has rebuilt the District's General Fund Balance to the second highest point in history at $1.5 billion.

District of Columbia
Surplus and Bond Rating History



General Obligation Bond Ratings

S&P:	A-	A-	A-	BBB-	B	B	BB	BBB	BBB	BBB+	BBB+	A-	A	A+	A+	A+	A+	A+	A+	A+	A+
Moody's:	Baa	Baa	Baa	Ba	Ba	Ba2	Ba1	Ba1	Baa3	Baa3	Baa1	Baa1	A2	A2	A2	A1	A1	Aa2	Aa2	Aa2	Aa2
Fitch:		A-	BBB+	BB	BB	BB	BB+	BB+	BBB	BBB	BBB+	A-	A-	A	A	A+	A+	AA+	AA-	AA-	AA-

Income Tax Secured Revenue Bonds: S&P: AAA Moody's: Aa1 Fitch: AA+

Composition of the General Fund Balance

Composition of the General Fund Balance

$388.3M- Bond Escrow - These funds are required to be reserved in escrow for the District's borrowing under federal law.

$339.1M - Rainy Day Funds - The District is required by federal law to set aside 6% of its budget in the Congressionally mandated Emergency Cash Reserve (2%) and Contingency Cash Reserve (4%).

Composition of the General Fund Balance

$441.9M - Locally Mandated Reserves - The District is required by local law to deposit all surplus funds in the locally mandated reserves until it reaches two months cash-on-hand. As described earlier, the Fiscal Stabilization and Cash Flow Reserves compromise the locally-mandated reserves.

$337.3M - Other dedicated funds - Dedicated taxes, dedicated non-lapsing local funds, and special purpose revenue funds account for the remainder of the fund balance. These funds are attached to programs, by law, and cannot be used for other purposes.

By Law, the Surplus Must Go in the Locally Mandated Reserves

- In 2010, then-Chairman Gray introduced, and the Council unanimously passed, the law that requires all undesignated annual surplus funds to be deposited in the Locally Mandated Reserves until the District reaches two months cash on hand (or working capital).
- The Government Finance Officers Association (GFOA) has recommended two months cash on hand as its best practice for state and local municipalities.
- **$247.7 million** will be deposited into two accounts referred to collectively as the Locally Mandated Reserves until the District reaches two months cash on hand.
- The District is now just **$286.2** million shy of reaching this goal. Once the goal is hit, the law allows additional surplus funds to be spent.

Why is Cash-on-Hand Important?

- This commitment - and our commitment not to exceed a 12% “debt cap” – are cited by the bond rating agencies as the reasons for the District’s strong financial position and high bond ratings (which, in turn, keeps borrowing costs down).
- Despite our strong financial position, the District still faces a high debt burden (vs. other jurisdictions) and uncertainty about the impact of reductions in future federal spending.
- This allows the District the flexibility in its cash flow to borrow when market conditions are most favorable.
- Rebuilding the fund balance further strengthens the District’s case for budget autonomy.

Two Months Cash-on-Hand

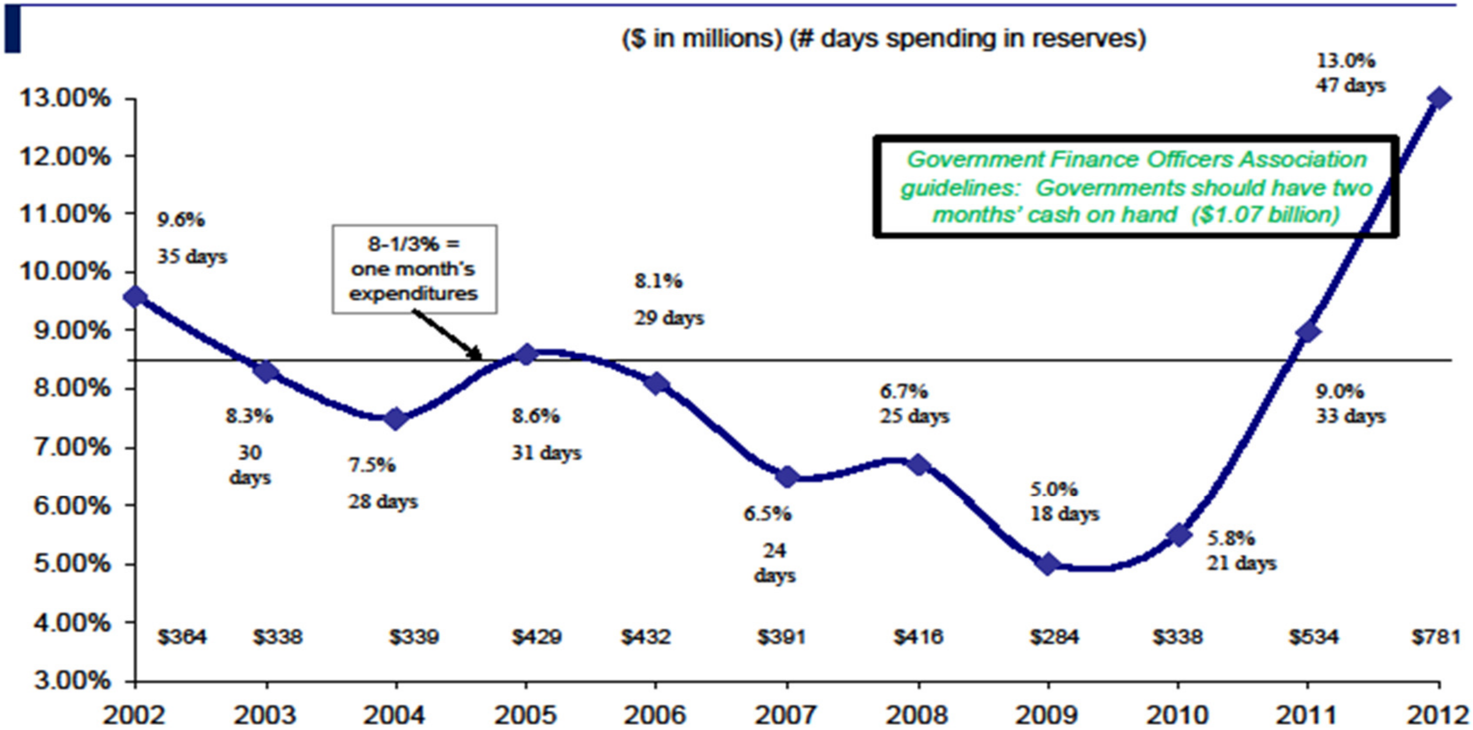
- The District's working capital (or cash-on-hand) is 47 days, just $286.2 million (or 13 days) shy of reaching the two-month goal.

- The working capital is calculated by adding the two congressionally mandated Rainy Day Funds (Emergency and Contingency Cash Reserves) to the two locally-mandated reserves (Fiscal Stabilization and Cash Flow Reserves).

- The bond escrow and dedicated fees and taxes are not included in this calculation, because they are reserved for specific uses by law, and are not permitted for allocation to the District's unrestricted General Fund.

Total Working Capital

Congressionally Mandated Emergency/Contingency Reserves and Locally Mandated Reserves as a Percent of Next Year's Budgetary Expenditures And Number of Days of Funds Available in Reserve



Government of the District of Columbia
Office of the Chief Financial Officer
Natwar M. Gandhi, Chief Financial Officer

FY 2012 CAFR

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Revenue Growth Continues in FY 2013

- February Revenue Estimates from OCFO project $190.0M additional revenue in FY 2013 and $177.8M in FY 2014

- Continued Strength in Reoccurring Revenue Streams :
  - ✓Individual Income Taxes –Estimated $166.4M higher in FY 2013 and $151.9M higher in FY 2014
  - ✓Business Taxes – Estimated $69.7M higher in FY 2013 and $69.6M higher in FY 2014
  - ✓Sales Taxes - Estimated $78.9M higher in FY 2013 and $92.8M higher in FY 2014

Making Critical Investments in FY 2013 and 2014

- At his State of the District address, Mayor Gray announced he would invest new revenue in the following priorities:
  - ✓ $100 million in affordable housing;
  - ✓ Salary increases for the District workforce;
  - ✓ $15 million for the One City Fund, a competitive grant fund for District nonprofits; and
  - ✓ Fully funding a force of 4,000 sworn officers.
- The Deputy Mayors, City Administrator, and the Mayor will also be able to consider agency enhancement requests that have been submitted through the budget process for funding out of increased revenue.

Challenges in FY 2013 - Sequestration

- Sequestration is a series of automatic, across-the-board cuts to government agencies, totaling $1.2 trillion over 10 years. The cuts would be split 50-50 between defense and domestic discretionary spending.

- Sequestration was triggered by the failure of the United States Congress Joint Select Committee on Deficit Reduction (Super Committee) to reach agreement on more surgical reductions that would curb the growth of the U.S. national debt.

- The sequester has been coming for more than a year, with Congress pushing it back from January 2nd to March 1st as part of the fiscal cliff deal at the end of the last session.

Challenges in FY 2013 - Sequestration

- Sequestration could cause a projected 8.2% reduction to certain federal grants and payments in FY 2013. Most heavily impacted could be:
  - ✓ Education;
  - ✓ Homeland Security/Emergency Management;
  - ✓ Health; and
  - ✓ Housing.

- However, there could be more severe impacts to District revenue, including lower income, commercial property, and sales taxes.

Challenges in FY 2013 – Debt Ceiling, Government Shutdown

- The federal debt ceiling has been suspended until May 19, 2013. On May 19th, the debt limit will be raised by an amount "necessary to fund commitments incurred by the Federal Government that required payment."

- It is estimated that the need to raise the national debt limit will come sometime in August 2013.

- If the debt ceiling is not increased at that time, the District could be impacted by a federal government shutdown, which would adversely impact the District's revenues and could result in a partial District government shutdown, if local funds are not exempted.