



District of Columbia

# District of Columbia

## General Credit Update

**March 10, 2016**



District of Columbia

## Presentation Participants

### Office of the Mayor

**The Honorable Muriel Bowser**  
*Mayor*

**John Falcicchio**  
*Chief of Staff*

**Rashad M. Young**  
*City Administrator*

**Matthew Brown**  
*Budget Director*

### Council of the District of Columbia

**The Honorable Phil Mendelson**  
*Council Chairman*

**The Honorable Jack Evans**  
*Chairman, Finance and Revenue Committee*

**Jennifer Budoff**  
*Council Budget Director*

**Ruth Werner**  
*Committee Director*

### Office of the Chief Financial Officer

**Jeffrey S. DeWitt**  
*Chief Financial Officer*

**Angell Jacobs**  
*Deputy CFO and Chief of Staff*

**Fitzroy Lee**  
*Deputy CFO and Chief Economist*

**Jeffrey Barnette**  
*Deputy CFO and Treasurer*

**Carmen Pigler**  
*Associate Treasurer*

**Darryl Street**  
*Senior Financial Policy Advisor*



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## Presentation Agenda

- I. Credit Highlights
- II. CAFR Highlights
- III. Fund Balance and Reserves
- IV. Economy and Revenue Estimates
- V. FY2016 Budget and FY2017 Budget Formulation
- VI. Debt Position, CIP and Transactions
- VII. Pension and OPEB
- VIII. Conclusion
- IX. Appendix



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## I. Credit Highlights



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## The District's Overview

### Strong Economic Performance and Prudent Fiscal Management

#### Strong Fiscal Management

- The District has strong, institutionalized and disciplined financial management
- The Mayor's Administration and District Council leadership continue to support building the fund balance and fully funding the multiple reserve accounts

#### Historically Stable Economy

- The Washington, D.C. area has developed into a diverse economic region
- Estimated growth in future revenue reflects improved economic performances, population growth, and a significant rebound in property values

#### Sound Budgetary Flexibility

- Long track record of balanced budgets and clean audits (no deficiencies in FY15)
- The FY 2015 CAFR shows an increase in the General Fund balance to \$2.17 billion, including \$985 million of federal and District mandated reserves

#### Prudent Debt/Pension Management

- Outstanding and projected debt obligations remain within 12% limit of total General Fund expenditures
- Pension and Other Post-Employment Benefit Plan (OPEB) remain well funded



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## II. CAFR Highlights



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## FY2015 CAFR Highlights

- Clean audit opinion (19th Consecutive)
  - No Material or Significant Deficiencies
- \$2.17 Billion Cumulative General Fund Balance
  - Increased \$293 million over FY 2014 fund balance (GAAP)
- Mandated Federal and local reserves (working capital) increased by \$121 million to \$985 million (49 days of operating expenses)
  - Increased reserves have allowed for steady decline in TRAN borrowing from a peak of \$820 million to \$250 million
- Revenue growth was helped by capital gains, real property transactions and legal settlements
  - Funded reserve growth
  - Fund future WMATA needs
  - Fund FY16 budget priorities



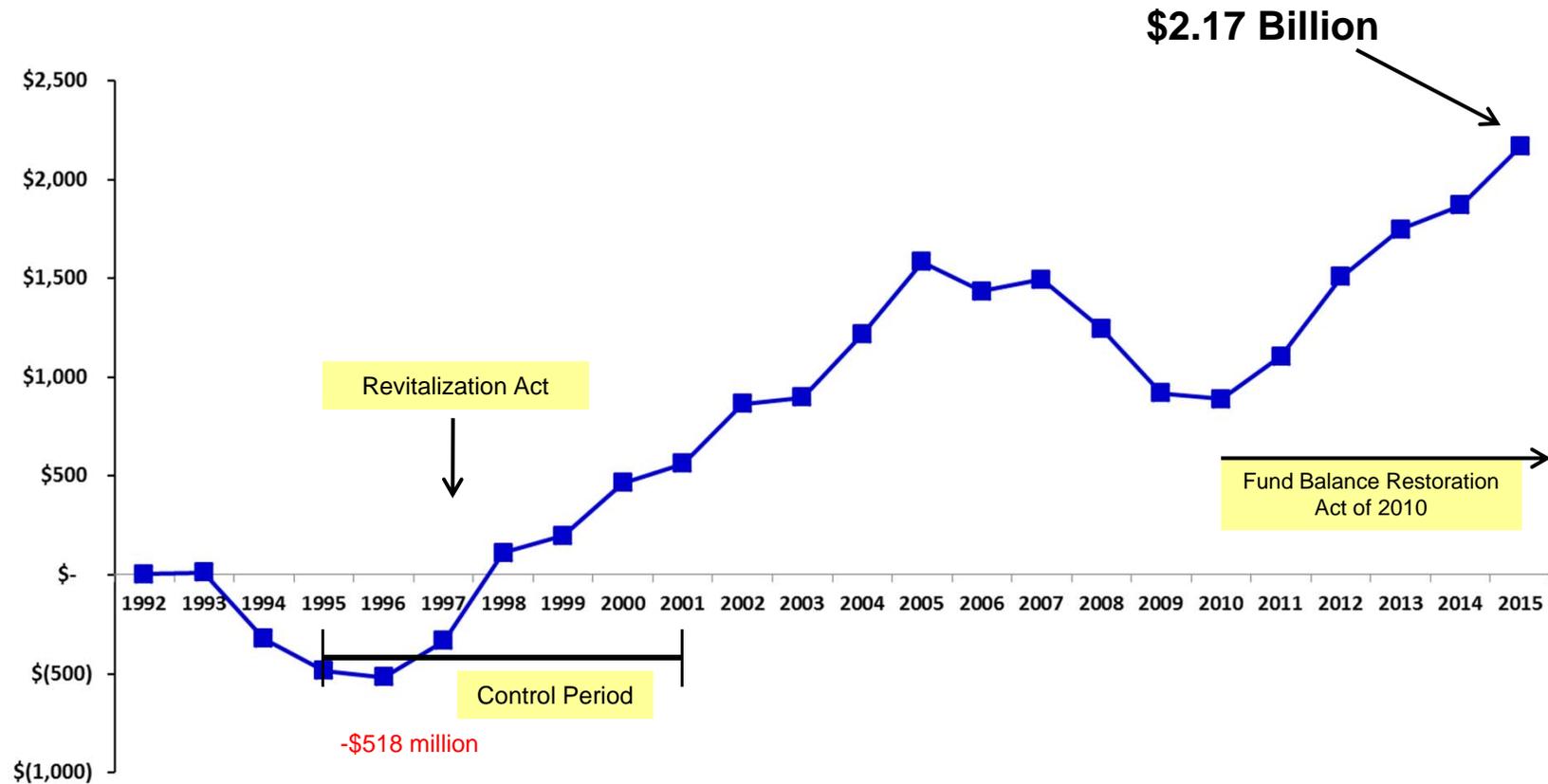
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### **III. Fund Balance and Reserves**



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## General Fund Reserves and Bond Rating History



### General Obligation Bond Ratings

<b>S&amp;P:</b>	A-	A-	A-	B	B	B	BB	BBB	BBB	BBB+	BBB+	A-	A-	A	A+	A+	A+	A+	A+	A+	A+	AA-	AA	AA
<b>Moody's:</b>	Baa	Baa	Baa	Ba	Ba	Ba2	Ba1	Baa3	Baa3	Baa1	Baa1	Baa1	A2	A2	A2	A1	A1	A1	Aa2	Aa2	Aa2	Aa2	Aa2	Aa1
<b>Fitch:</b>		A-	A-	BB	BB	BB	BB+	BBB	BBB	BBB+	BBB+	A-	A-	A	A	A+	A+	A+	AA-	AA-	AA-	AA-	AA	AA

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



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## Federally and Locally Mandated Reserves

<b>Reserves</b>	<b>% of Expenditure/ Budget</b>	<b>Amount (\$ in Millions)</b>	<b>Status</b>
<b>Emergency</b>	2%	\$ 122.0	Full
<b>Contingency</b>	4%	244.2	Full
<b>Fiscal Stabilization</b>	2.34%	174.9	Full
<b>Cash Flow</b>	8.33%	443.7	69%
<b>Total</b>		<b>\$984.8</b>	<b>49 days cash</b>

Additional \$235M required to meet 60 days cash



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## IV. Economy and Revenue Estimates



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## Current State of the District's Economy

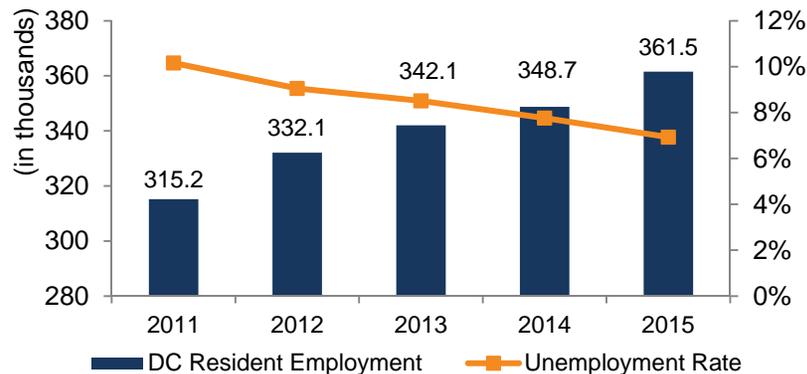
### Labor Markets & Employment

- Resident employment in December 2015 was 10,242, 2.9% increase over the same period last year
- The unemployment rate was 6.6% in December 2015, down from the high of 10.4% in 2011
- December 2015 wage and salary employment in the District was up by 9,667 (1.3%) from one year earlier

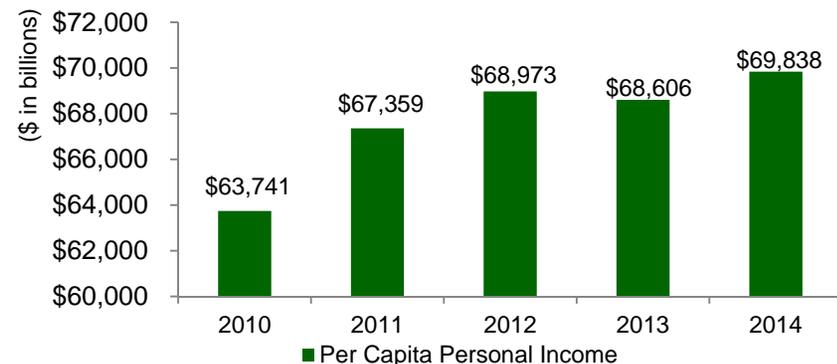
### Personal Income

- Per capita personal income was 151.7% of the U.S. average in 2014
- In the quarter ended September 2015 personal income grew by 4.8% and estimated wages of District residents grew by 5.2%, compared to same period one year earlier
- Most of the wage increase was due to growth in the private sector, but federal government wages also increased 4.7% in September 2015 over the prior year

**District Employment and Unemployment**  
(measured by the three-month moving average)



**District Per Capita Personal Income**



Source: U.S. Department of Labor, Bureau of Labor Statistics, U.S. Department of Commerce, U.S. Census Bureau, Bureau of Economic Analysis



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## Current State of the District's Economy (Continued)

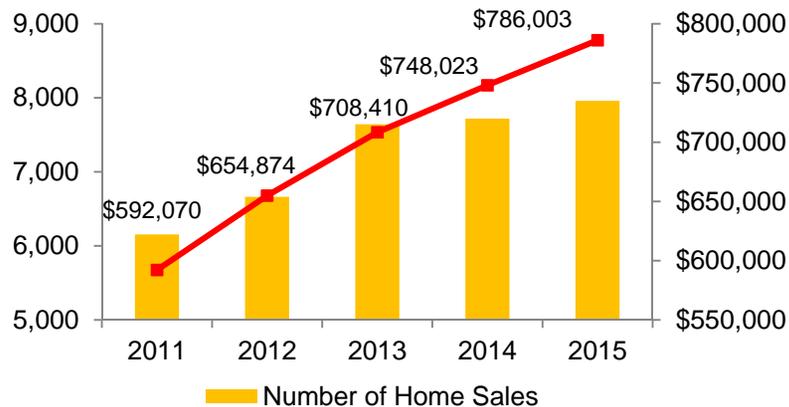
### Housing / Commercial Office Market

- The number of single family home sales in CY 2015 increased by 2.6% and the average sales price increased 5.1%, compared to CY 2014
- Direct vacancy rate of commercial office space was 10.0% at year-end 2015

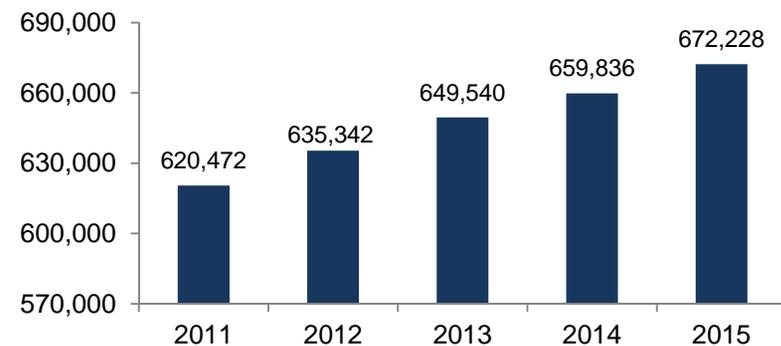
### Diverse Economic Region

- One of the most popular tourist destinations, with 350 historic sites and major cultural attractions
- Washington Metro represents the 2nd busiest rapid transit system in the nation, behind New York City Subway
- Home to many institutions, including over 9 colleges and universities, more than 50 museums, 206 foreign embassies, and a number of international organizations

### Housing Market Is Strong and Growing



### Population Growth Since 2011

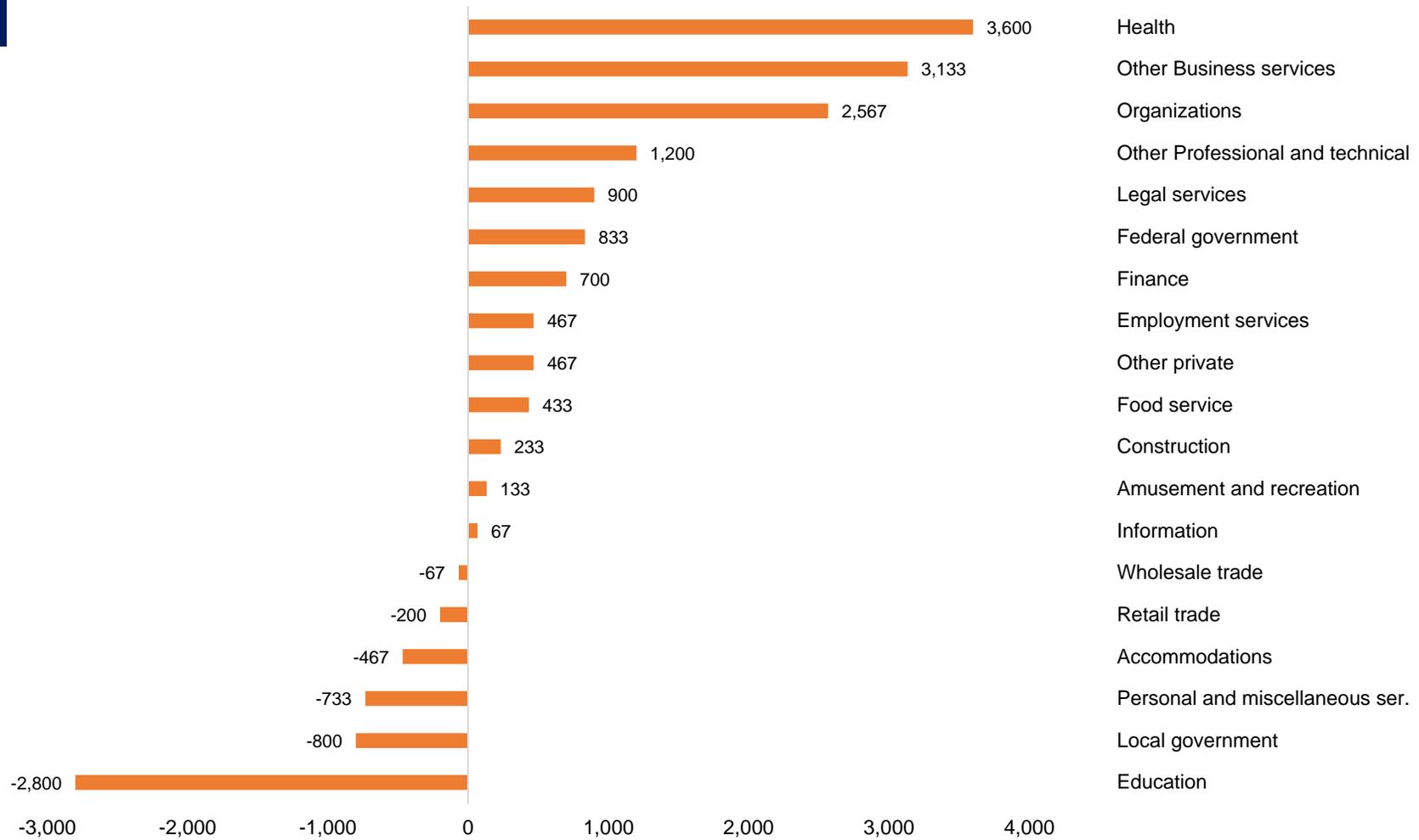


Source: February 2015 Revenue Estimates Certification Letter, U.S. Census Bureau



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## Jobs in DC: Year-over-year change (December 2015)

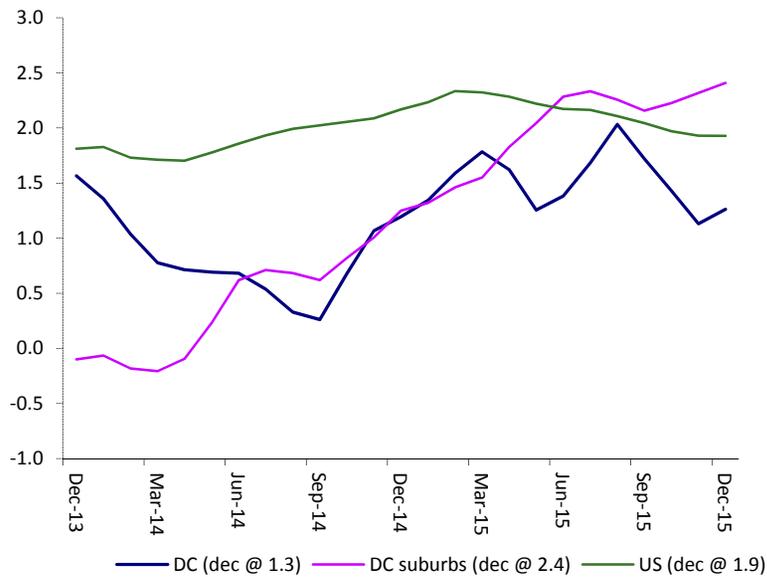




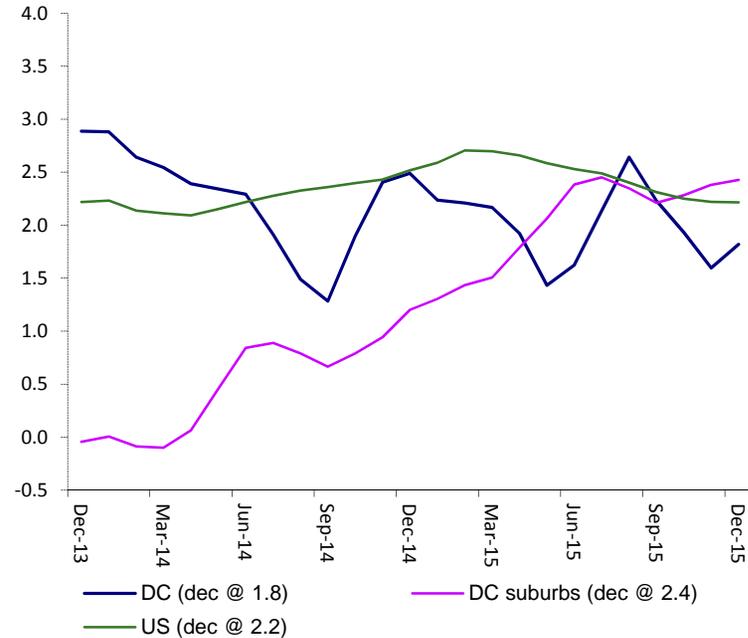
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## Jobs in DC, DC Suburbs, US: 2-year Trend

Change in Wage and Salary Employment  
(% change from prior year in 3-month moving average)



Change in Private Sector Wage and Salary Jobs  
(% change from prior year in 3-month moving average)

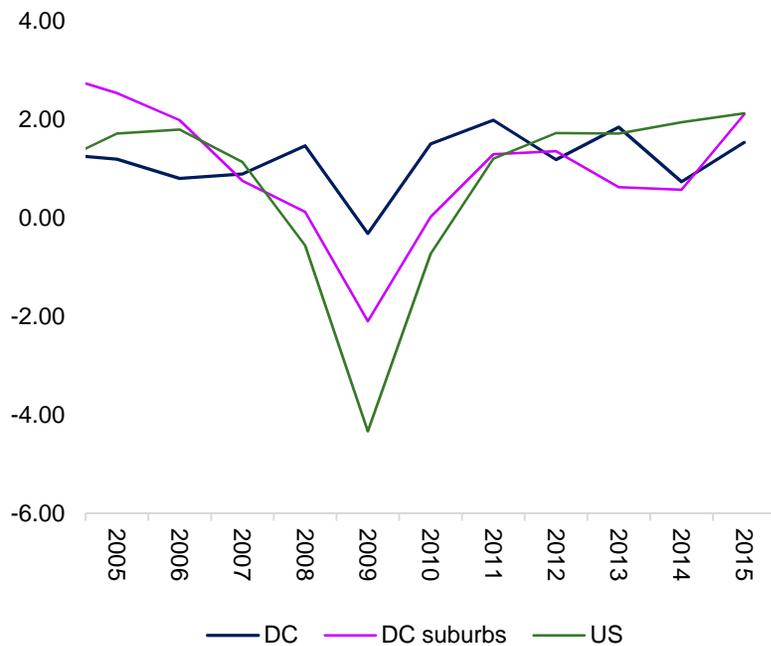




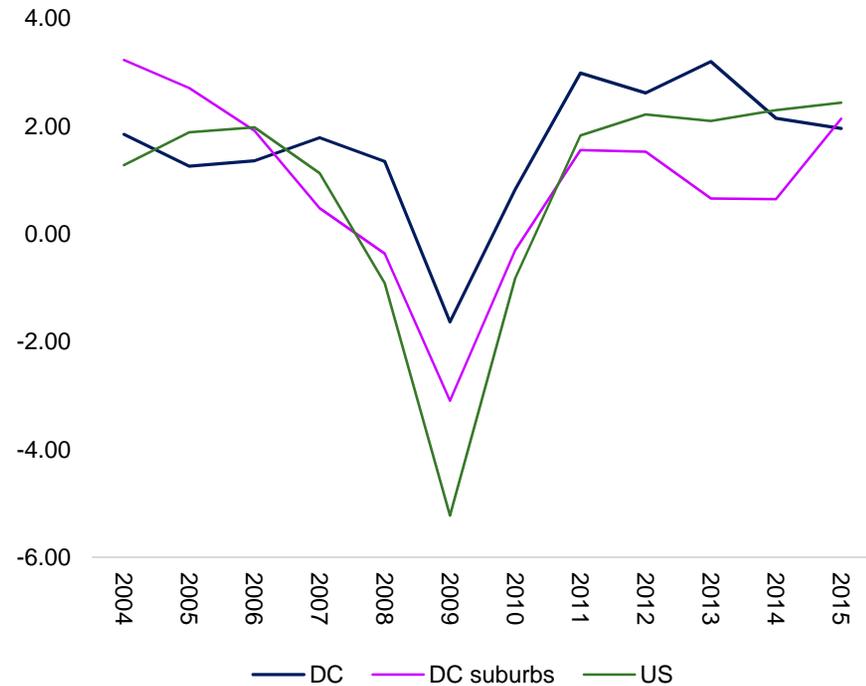
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## Jobs in DC, DC suburbs, US: 10-year Trend

Change in Wage and Salary Employment  
(% change from prior calendar year average)



Change in Private Sector Wage and Salary Employment  
(% change from prior calendar year average)





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## Outlook and Risks

- **National economy:** Generally stable national economic environment—annual real GDP growth has been about 2.5% for the past two years, and the Blue Chip and other forecasts expect this to continue for FY 2016 and FY 2017.
- **Federal government:** Most likely will continue to be a stabilizing influence for DC; declines have stopped, and federal spending is again contributing positively to the national and DC economies.
- **Private sector diversification:** With the federal government moving to a smaller role, the private sector is expected to drive job and wage growth in an increasingly competitive national economy.
- **Population:** Population has grown 10 years in a row, adding 105,092 residents, an increase of 18.5% over that time. Population growth is set to continue to boost the tax base. The extent of future population growth depends on job opportunities, the quality of public services, and affordability of housing.
- **Stock market:** The early 2016 decline in the stock market, reversing gains of the previous year, underscores the importance of national and international capital markets to DC's tax base.
- **Office market:** The strength of this sector's contribution to DC's tax base growth depends on its ability to obtain tenants, remain profitable, and attract international investors.



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## Summary of February 2016 Revenue Estimate

### February 2016 Revenue Estimate Compared to Previous Estimate

	Actual		Estimate		Projected	
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Local Source, General Fund Revenue Estimate (\$M)						
<b>December 2015 Revenue Estimate*</b>	<b>6,904.2</b>	<b>6,891.0</b>	<b>7,120.6</b>	<b>7,370.0</b>	<b>7,603.5</b>	<b>NA</b>
<i>February Revision to Estimate</i>		<i>7.0</i>	<i>22.2</i>	<i>0.5</i>	<i>0.9</i>	<i>NA</i>
<b>February 2016 Revenue Estimate</b>	<b>6,904.2</b>	<b>6,898.0</b>	<b>7,142.7</b>	<b>7,370.4</b>	<b>7,604.4</b>	<b>7,836.0</b>
Triggered Tax Proposals			(16.5)	(17.3)	(17.6)	(17.9)
<b>Net Local Fund Revenue (after enacted tax policy changes)</b>		<b>6,898.0</b>	<b>7,126.2</b>	<b>7,353.1</b>	<b>7,586.8</b>	<b>7,818.1</b>
Revenue change from previous year						
Amount		(6.2)	228.2	226.9	233.6	231.4
Percent		-0.1%	3.3%	3.2%	3.2%	3.0%

\*Includes the revenue impact of previously triggered tax policy changes.



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## Revised Revenue Estimates for Fiscal Year 2016

Revenue Source	Estimate		Variance	
	Dec-15	Feb-16	Amount (\$M)	Percent
<b>Property</b>	2,710.5	2,715.9	5.4	0.2%
Property (net of TIF/PILOT)	2,367.3	2,406.4	39.1	1.7%
Deed taxes (net of transfers to Housing Production Trust)	343.2	309.5	(33.7)	-9.8%
<b>Income</b>	2,291.2	2,277.9	(13.3)	-0.6%
Individual Income	1,870.3	1,857.0	(13.3)	-0.7%
<i>Withholding</i>	1,621.2	1,621.2	-	0.0%
<i>Non-withholding</i>	249.1	235.8	(13.3)	-5.4%
Business Income (corp. franchise and UB tax)	420.9	420.9	-	0.0%
<b>Sales, Excise and Gross receipts</b>	1,399.0	1,392.6	(6.5)	-0.5%
Sales (net of convention center transfer, TIF, parking tax transfer to DDOT, ballpark sales tax) and Excise	1,135.1	1,141.7	6.6	0.6%
Gross receipts (net of transfers)	263.9	250.8	(13.1)	-4.9%
<b>Non-tax, Lottery and Estate</b>	490.2	511.6	21.4	4.4%
Fines and Forfeitures	136.6	151.5	14.9	10.9%
Other Non-Tax, Lottery	321.5	325.5	4.0	1.8%
Estate	32.1	34.5	2.4	7.5%
<b>Total</b>	6,891.0	6,898.0	7.0	0.1%



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## Revised Revenue Estimates for FY 2017

Revenue Source	Estimate		Variance	
	Dec-15	Feb-16	Amount (\$M)	Percent
<b>Property</b>	2,788.1	2,830.8	42.7	1.5%
Property (net of TIF/PILOT)	2,438.3	2,515.9	77.6	3.2%
Deed taxes (net of transfers to Housing Production Trust)	349.9	314.9	(35.0)	-10.0%
<b>Income</b>	2,388.3	2,358.2	(30.1)	-1.7%
Individual Income	1,950.9	1,920.4	(20.5)	-1.6%
<i>Withholding</i>	1,690.2	1,690.2	-	0.0%
<i>Non-withholding</i>	260.7	240.2	(20.5)	-11.7%
Business Income (corp. franchise and UB tax)	437.4	427.7	(19.6)	-4.5%
<b>Sales, Excise and Gross receipts</b>	1,449.7	1,439.6	(10.1)	-0.7%
Sales (net of convention center transfer, TIF, parking tax transfer to DDOT, ballpark sales tax) and Excise	1,185.6	1,191.8	6.2	0.5%
Gross receipts (net of transfers)	264.1	247.8	(16.3)	-6.2%
<b>Non-tax, Lottery and Estate</b>	494.5	514.2	19.8	4.0%
Fines and Forfeitures	130.4	146.0	15.7	12.0%
Other Non-Tax, Lottery	332.0	332.2	4.1	0.1%
Estate	32.1	36.0	3.9	12.0%
<b>Total</b>	7,120.6	7,142.7	22.2	0.3%



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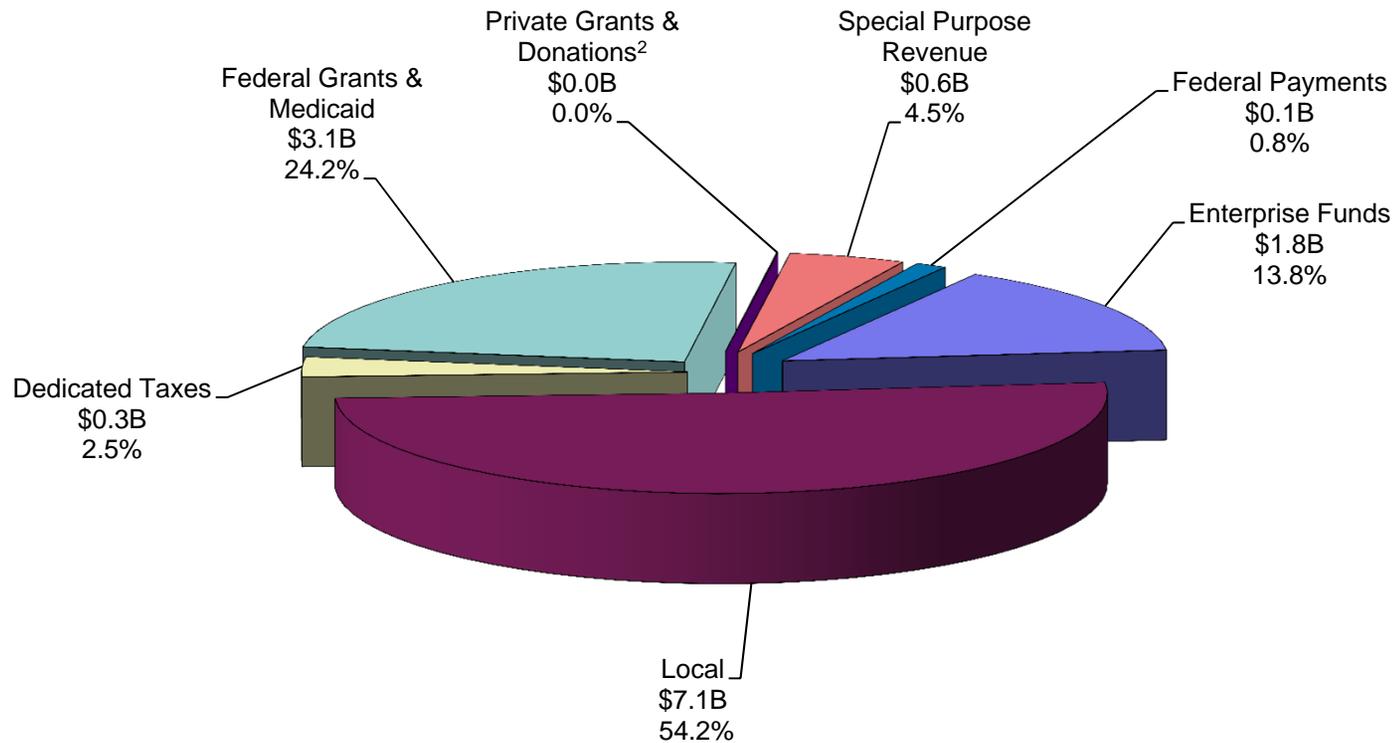
## **V. FY2016 Budget and FY2017 Budget Formulation**



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## FY 2016 Revenue Sources<sup>1</sup>

(Dollars in Billions)



- 1. Excludes Intra-District Funds
- 2. The amount from this source is \$1.5 million

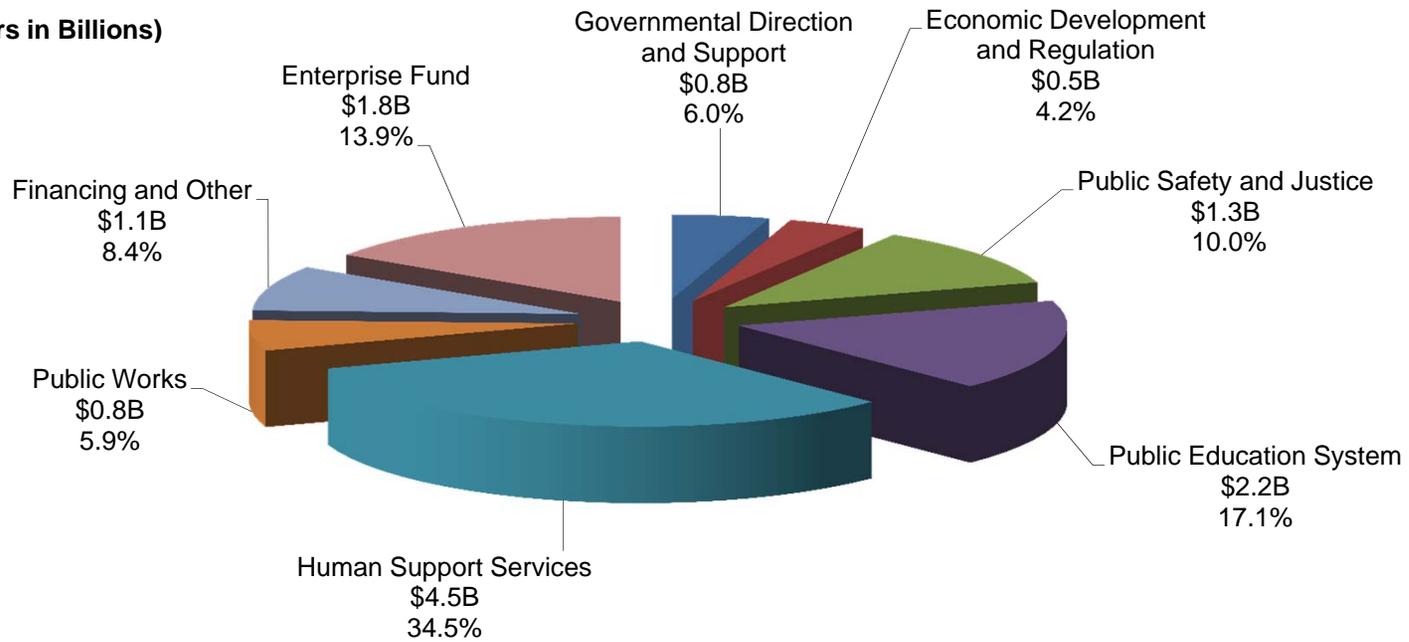
**FY 2016 = \$13.0 Billion**



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## FY 2016\* Expenditures by Function

(Dollars in Billions)



\*Excludes Intra-District

**FY 2016 = \$13.0 Billion**



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## 2017 Budget Calendar

- CFO Releases February Revenue Estimates February 29
- Mayor Submits Certified Budget to Council March 24
- Council Hearings and Budget Adoption April - June
- Budget Transmitted to Congress June - July



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## FY 2017 Budget Priorities

- Balanced FY 2017 Budget and Financial Plan
- Capital Program Funds Critical Infrastructure within 12% Debt Cap
- Mayor's Budget Focus
  - Jobs and Economic Opportunity
  - Housing
  - Public Safety
  - Education
  - Health and Human Services
  - Government Operations



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## FY 2017 Budget Status

- Additional Funding Priorities
  - Additional \$50 million to reach \$100 million for affordable housing
  - \$40 million for other priorities such as homeless services
  - Schools
- Budget Development Approach
  - Community outreach forums to solicit citizen input
  - Agencies submitted 4% reductions to allow development of options
  - Review of capital plan priorities
  - Development of FY 2017 structurally balanced budget and financial plan



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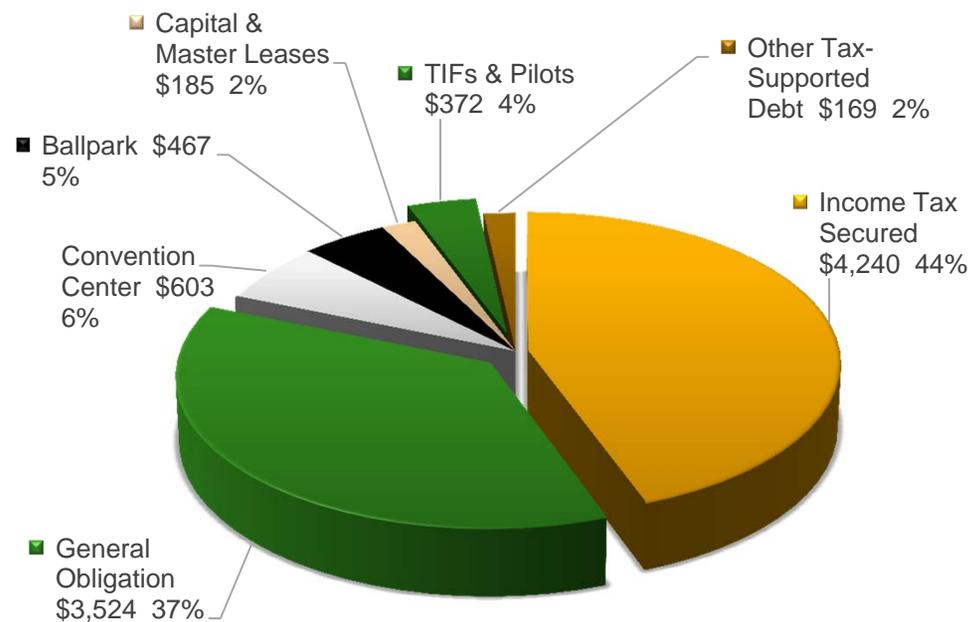
## **VI. Debt Position, CIP and Upcoming Transactions**



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## Key Debt Factors

- Total tax-supported debt outstanding \$9.56 billion
- \$612.77 million, 6.41%, debt outstanding in variable rate mode
  - \$302.51 million, 3.16%, hedged
- \$382.98 million direct placements
  - \$324.30 million expiring June 2017
  - \$58.68 million expiring June 2021
- Projected FY 16 debt service \$774 million

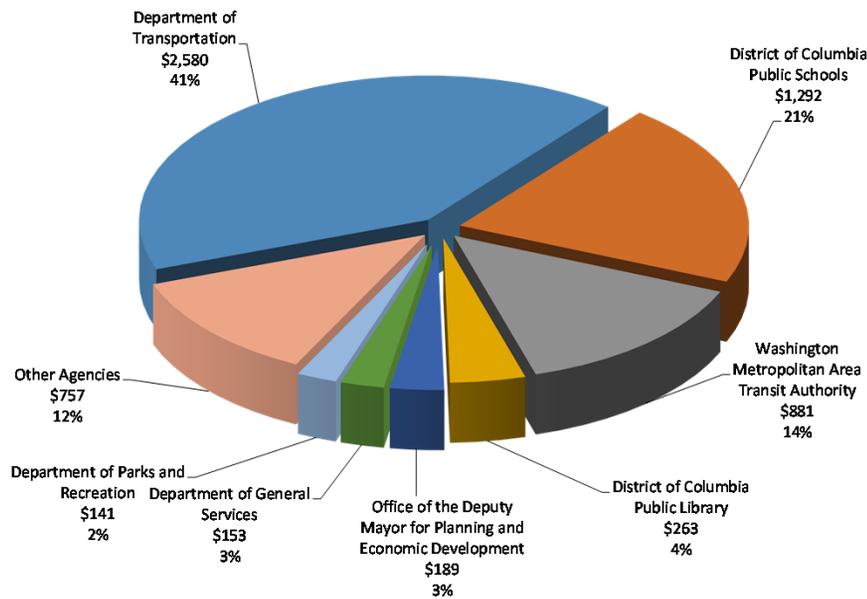




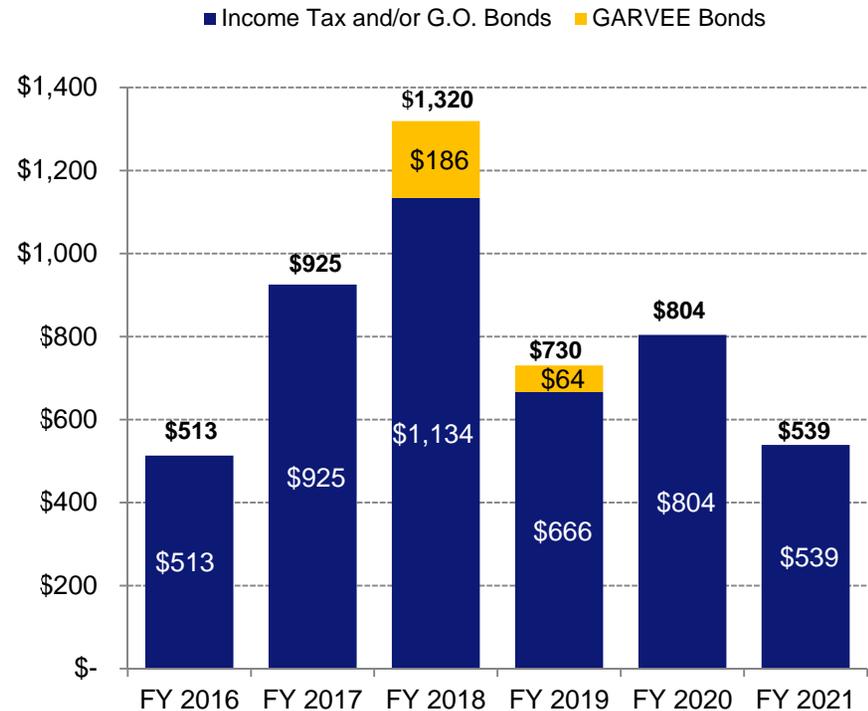
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## FY 2016 - FY 2021 Capital Improvements Program

**CIP Projected Expenditures Total \$6.3 Billion**  
 (\$ in millions)



**Projected Debt Issuance Totals \$4.5 Billion**  
 (\$ in millions)



Source: FY 2016 Approved Budget and Financial Plan



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## Current Debt Cap Position

**Expected future borrowing will remain under the 12% debt cap**

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#### Summary of Debt Cap Position as of January 29, 2016

(\$ in millions)

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
<b>Total Debt Service on Existing &amp; Planned Tax-Supported Debt</b>	\$773.99	\$808.36	\$879.23	\$1,005.80	\$1,051.92	\$1,089.75
<b>General Fund Expenditures</b>	\$8,071.77	\$8,143.16	\$8,371.99	\$8,580.13	\$8,839.73	\$9,108.15
<b>Ratio of Debt Service to Expenditures</b>	<b>9.59%</b>	<b>9.927%</b>	<b>10.50%</b>	<b>11.72%</b>	<b>11.90%</b>	<b>11.96%</b>



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## Current and Future Year Financings

### Completed Transactions

- \$95,575,000 Income Tax Secured Revenue Refunding Bonds Series 2015A (SIFMA FRN) issued November 2015
- FY 2016 Tax Revenue Anticipation Notes - \$250 million issued in December 2015 for cash flow needs

### Anticipated Transactions\*

- \$513 million GO/IT bonds to fund the CIP (June 2016)
- \$500 - 600 million GO/IT bonds to fund the next phase of the CIP (December 2016)
- \$300 – 500 million GO/IT Commercial Paper to offer short term funding of CIP needs
- Refund Ballpark Revenue Bonds, Series 2006B-1
- Refund Washington Convention Center Authority Tax Revenue Bonds, Series 2007A
- FY 2017 Tax Revenue Anticipation Notes - issued for cash flow needs if necessary

\* Preliminary/Subject to Change



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## **VII. Highlights of Pension and Other Post-Employment Benefits**



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## FY 2015 Highlights of Pensions and OPEB

Trust Fund	FY 2015 Net Position	FY 2014 Net Position	Percentage Variance	Percentage Funded in CAFR
Police, Fire, and Teachers Pensions	\$6,132,636	\$6,334,090	(3.2%)	96.8% <sup>1</sup>
Other Post-Employment Benefits	\$1,076,551	\$1,051,359	2.4%	87.2% <sup>2</sup>

1. Based on most recent Actuarial Report (adjusted for GASB 67).
2. OPEB funding ratio has recently changed due to an adjustment to the actuarial participation rate following Experience Study. New OPEB funding ratio is 120.1%.



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## Comparative Data of Pensions and OPEB

Trust Fund	Amortization method	Investment rate of return	Asset Valuation Method
Police, Fire, and Teachers Pensions	20-year closed	6.5%	7-year smoothed market
Other Post-Employment Benefits	20-year closed	6.5%	market



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## VIII. Summary and Conclusions



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## District Credit Strengths

### Wealthy and Stable Economy

- Strong private sector wage growth
- Unemployment rate continues to improve, down to 6.6% in December 2015
- Population growth is driving a robust housing market
- Commercial Real Estate is stable
- Growing and diversifying private sector offset federal fiscal austerity

### Robust Financial Position

- Congressionally and locally mandated reserves increased to \$985 million in FY2015, which is 49 days of operating expenses
- FY2015 General Fund Balance reached highest level ever: \$2.17 billion
- Highly diverse local revenue sources
- Debt ceiling percentage is projected to be below 12% limit throughout the Capital Plan years
- Well-balanced debt portfolio with limited variable debt

### Excellent Financial Management

- Strong fiscal policies and laws ensure fiscal viability:
  - ✓ Federal and local reserves
  - ✓ Debt cap
- Institutionalized practices such as multi-year financial and capital plans
- Independent Office of the Chief Financial Officer:
  - ✓ Certifies that budgets are balanced
  - ✓ Estimates revenues conservatively
  - ✓ Monitors revenues and spending throughout the year
  - ✓ Evaluates fiscal impact of all legislation
  - ✓ Coordinates issuance of debt and affirms debt cap compliance

### Well-Funded Pension/OPEB

- Pension and OPEB funds are managed using conservative actuarial assumptions
- Full payment of the Pension and OPEB ARC
- Police, fire and teachers pension plan is 96.8% funded
- OPEB was 87.2% funded per CAFR but currently now funded at 120.1%



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## IX. Appendix



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## The District's General Fund

The District is Legally Required to Maintain Sizable Reserves

- Federal law requires the District to fund and maintain the Emergency Reserve Fund and the Contingency Reserve Fund
- The District law requires that the District funds and maintains the Fiscal Stabilization Reserve Account and the Cash Flow Reserve Account
  - The District must deposit 50% of the undesignated end-of-year fund balance into each of the two District required reserve accounts, or 100% of the undesignated end-of-year fund balance into the account that has not reached its target

Fund	Requirement	Purpose	Balance Requirement	Replenishment Requirement	FY 2015 (\$mm)	Status
Emergency Reserve Fund	Federal	To fund unanticipated and nonrecurring extraordinary needs of an emergency nature; also available for cash flow purposes	2% of the actual (adjusted) operating expenditures from local source funds for the fiscal year of the most recently issued CAFR (less the amount necessary to replenish draws)	Not less than 50% of the amount drawn (or the amount needed to restore the 2% balance, whichever is less) must be replenished by the end of each of the two fiscal years following the year of the draw	122	Full
Contingency Reserve Fund	Federal	To fund nonrecurring or unforeseen needs; also available for cash flow purposes	4% of the actual (adjusted) operating expenditures from local source funds for the fiscal year of the most recently issued CAFR (less the amount necessary to replenish draws)	Not less than 50% of the amount drawn (or the amount needed to restore the 4% balance, whichever is less) must be replenished by the end of each of the two fiscal years following the year of the draw	244.2	Full
Fiscal Stabilization Reserve Account	District	Same as Contingency Reserve (except for cash flow purposes), with approval of the Council	At full funding, 2.34% of General Fund operating expenditures for each fiscal year	If either of the Cash Flow Reserve Account or the Fiscal Stabilization Reserve Account is below full funding, deposit 50% of the undesignated end-of-year Fund Balance into each account, or 100% into the account that has not reached capacity	174.9	Full
Cash Flow Reserve Account	District	To cover cash flow needs	At full funding, 8.33% of the General Fund operating budget for each fiscal year	Any amounts used must be replenished in the same fiscal year; also see replenishment requirement for the Fiscal Stabilization Reserve Account	443.7	69%
<b>Total:</b>					<b>\$984.8</b>	