



District of Columbia

District of Columbia

General Credit Update

March 5, 2015



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

Financial Advisors

Rebecca Perry-Glickstein
Grace McAllister
Public Financial Management



District of Columbia

Presentation Agenda

- I. Credit Highlights
- II. CAFR Highlights
- III. Fund Balance and Reserves
- IV. Economy and Revenue Estimates
- V. FY2015 Budget and FY2016 Budget Formulation
- VI. Debt Position, CIP and Transactions
- VII. Pension and OPEB
- VIII. Conclusion
- IX. Appendix



District of Columbia

I. Credit Highlights



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The District's Overview

Strong Economic Performance and Prudent Fiscal Management

Strong Institutionalized Fiscal Management

- The District has an institutionalized governance and disciplined financial management
- The Mayor's Administration and District Council leadership 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 audit opinions
- The FY 2014 CAFR shows an increase in the General Fund balance to \$1.87 billion, including \$863 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
- Well funded Pension and Other Post-Employment Benefit Plan (OPEB) liabilities



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II. CAFR Highlights



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FY2014 CAFR Highlights

- Clean audit opinion (18th Consecutive)
- \$1.87 Billion Cumulative General Fund Balance
 - Increased \$125 million over FY 2013 fund balance (GAAP)
- Mandated Federal and local reserves (working capital) increased by \$72 million to \$863 (45 days of operating expenses)
- Revenue slightly below the revised estimate by (0.2%) due to decreases in capital gains income taxes; offset by strong wage-related income, property, and deed taxes
- Expenditures of 3.4% or \$250 million below the revised estimate offset lower revenues and strengthen reserves



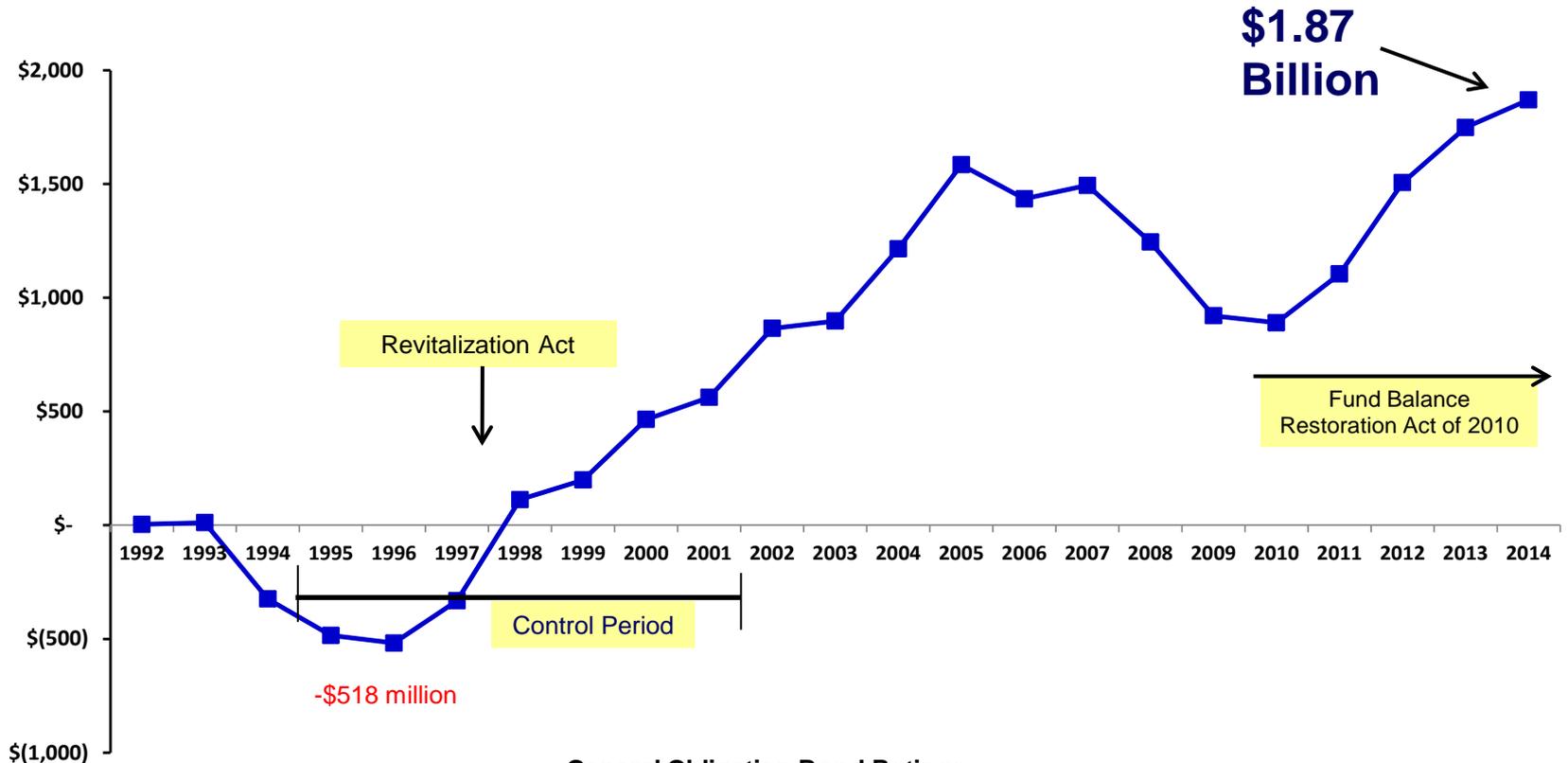
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III. Fund Balance and Reserves



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Trend of Total Reserves and Bond Rating History



General Obligation Bond Ratings

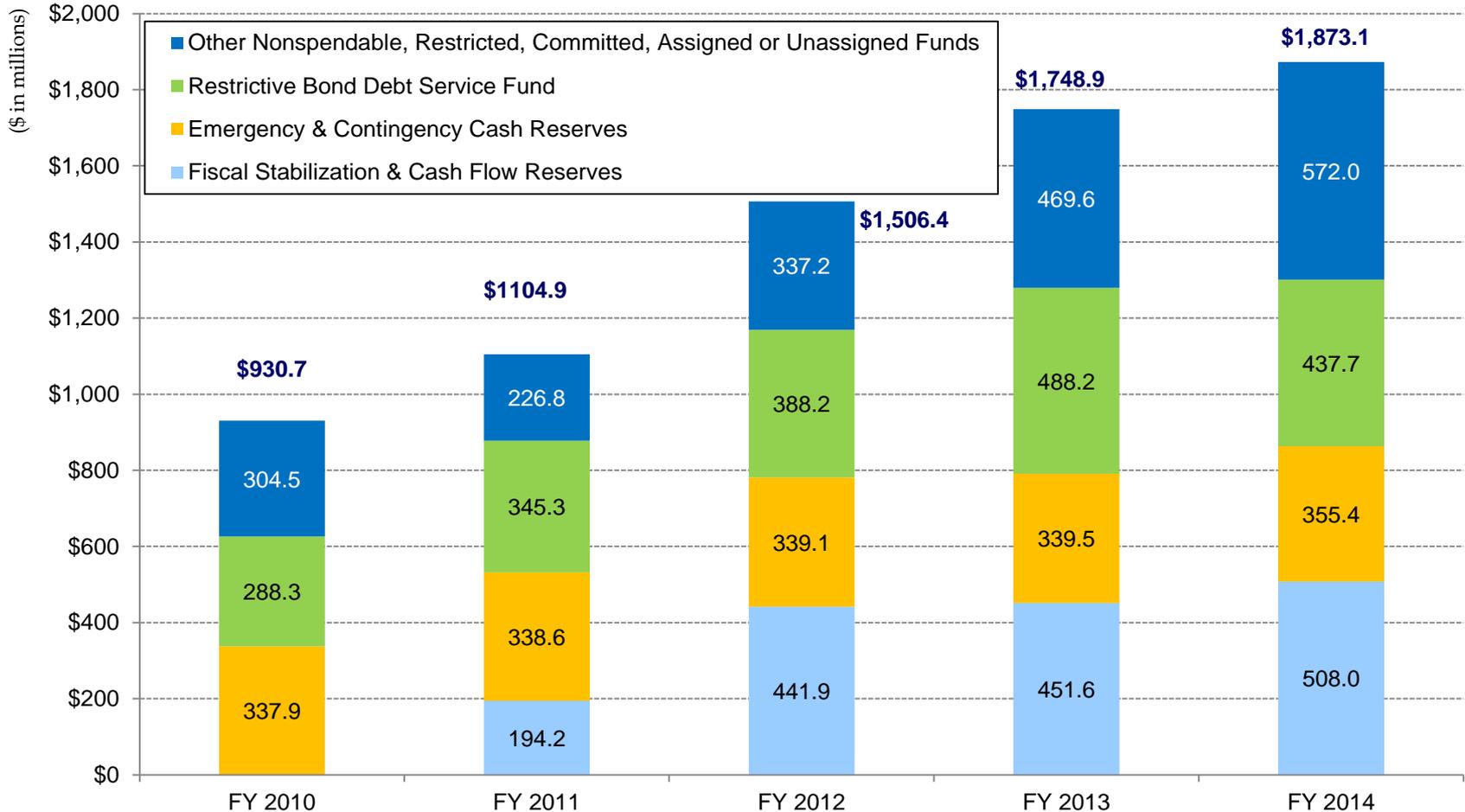
S&P:	A-	A-	A-	B	B	B	BB	BBB	BBB	BBB+	BBB+	A-	A-	A	A+	A+	A+	A+	A+	A+	A+	A+	AA-	AA
Moody's:	Baa	Baa	Baa	Ba	Ba	Ba2	Ba1	Baa3	Baa3	Baa1	Baa1	Baa1	Baa1	A2	A2	A2	A1	A1	A1	Aa2	Aa2	Aa2	Aa2	Aa2
Fitch:	A-	A-	A-	BB	BB	BB	BB+	BBB	BBB	BBB+	BBB+	A-	A-	A	A	A+	A+	A+	AA-	AA-	AA-	AA-	AA	

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



General Fund Balance Continues to Improve

District of Columbia



Source: District's CAFRs from FY 2010 through FY 2014



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Locally and Congressionally Mandated Reserves

Reserves	% of Expenditure/ Budget	Amount (\$ in Millions)	Status
Emergency	2%	116.0	Full
Contingency	4%	239.4	Full
Fiscal Stabilization	2.34%	164.6	Full
Cash Flow	8.33%	343.5	57%
Total		\$863.5	



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IV. Economy and Revenue Estimates



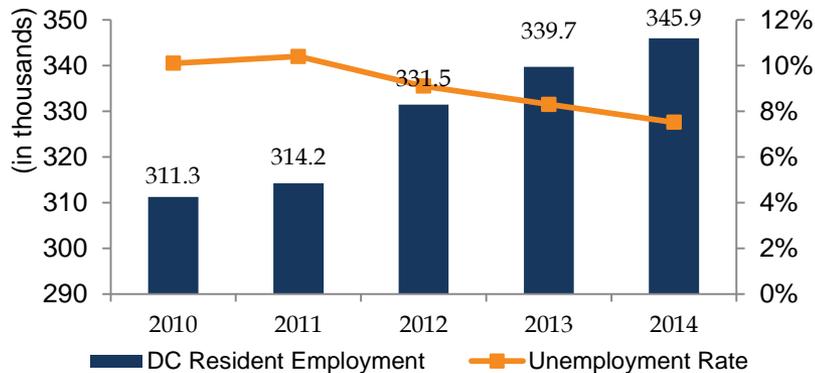
Current State of the District's Economy

District of Columbia

Labor Markets & Employment

- The District's resident employment in December 2014 was 14,566 (4.3%) more than the same period last year, measured by the 3-month moving average
- The unemployment rate was 7.3% in December 2014, down from the high of 10.4% in 2011
- December 2014 wage and salary employment in the District was up by 13,433 (1.8%) from one year earlier, measured by the 3-month moving average

District Employment and Unemployment

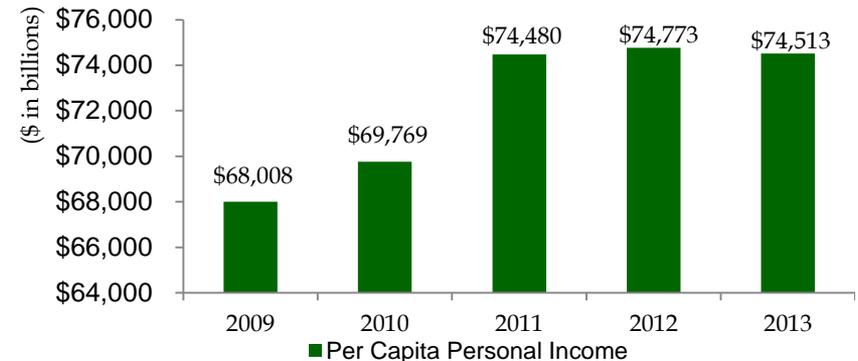


Source: U.S. Department of Labor, Bureau of Labor Statistics, U.S. Department of Commerce, U.S. Census Bureau, Bureau of Economic Analysis

Personal Income

- The District's per capita personal income was 168.3% of the U.S. average in 2013
- In the quarter ended September 2014, the District's personal income grew by 4.2% and estimated wages of District residents grew by 4.1%, as 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 for the first time in 2 ½ years.

District Per Capita Personal Income





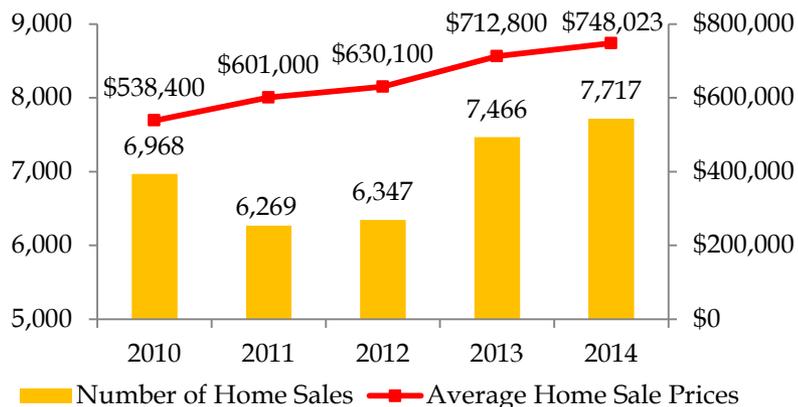
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Current State of the District's Economy (Continued)

Housing / Commercial Office Market

- The number of single family home sales in CY 2014 decreased by 0.9% and the average sales price increased 5.6%, as compared to CY 2013
- Direct vacancy rate of commercial office space was 9.7% at year-end 2014, up from 9.6% in 2013

The Housing Market Is Strong and Growing

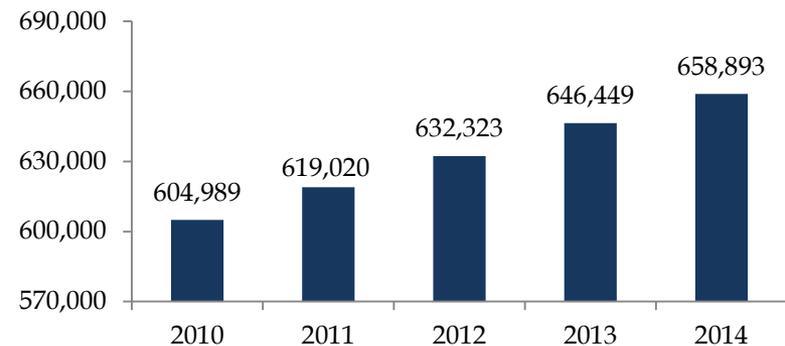


A Diverse Economic Region

- 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

The District's Population Has Been Growing

- D.C.'s population has grown by 53,904 since 2010

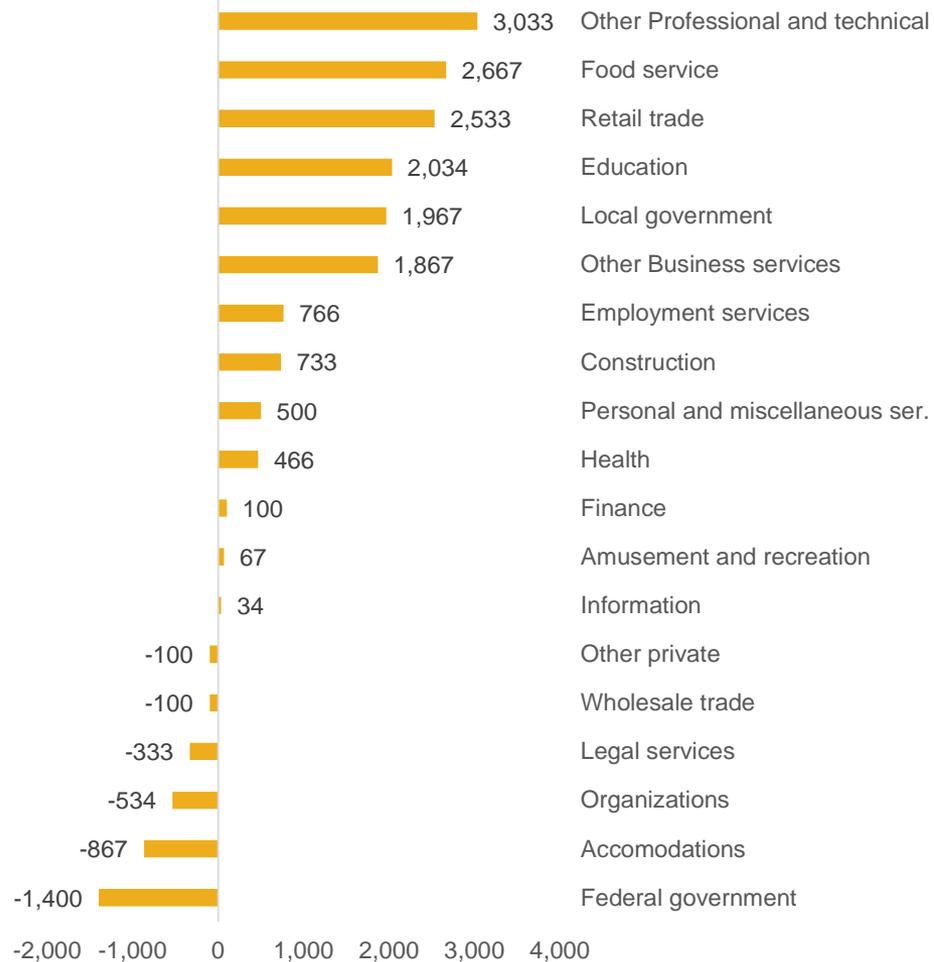


Source: February 2014 Revenue Estimates Certification Letter, U.S. Census Bureau



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Jobs in DC: Year-over-year change (December 2014)

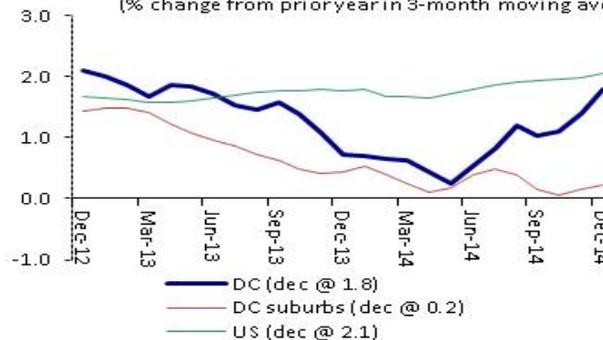




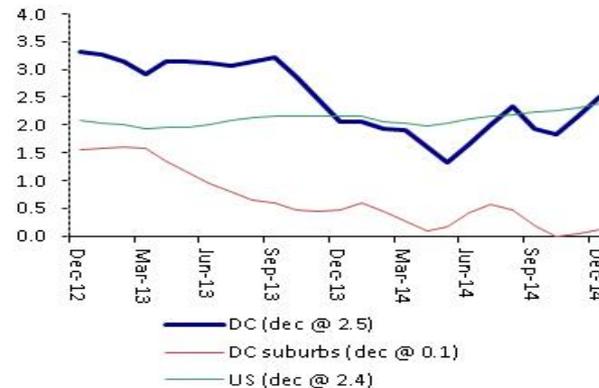
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Jobs in DC, DC suburbs, US: 2-year Trend

Change in wage and salary employment located in
DC, the DC suburbs, and the US:
December 2012 to December 2014
(% change from prior year in 3-month moving average)



Change in private sector wage and salary jobs
located in DC, the DC suburbs, and the US:
December 2012 to December 2014
(% change from prior year in 3-month moving average)

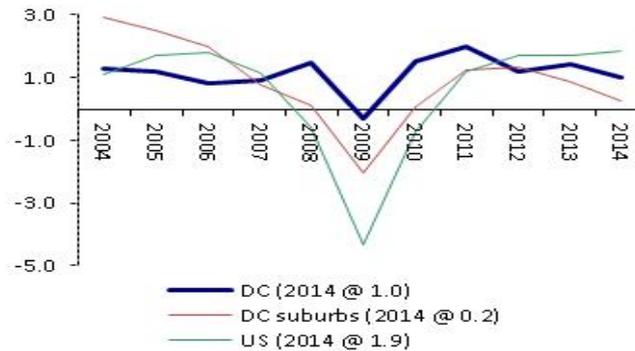




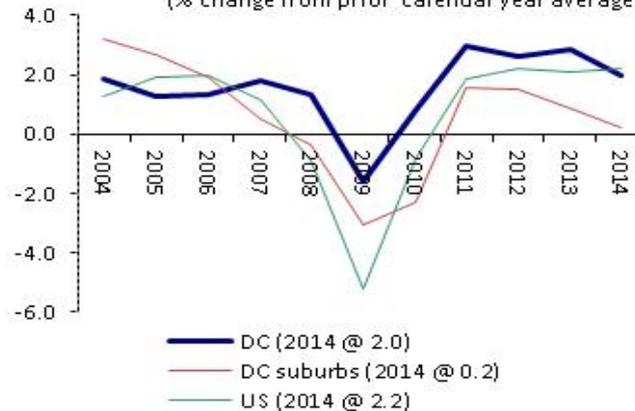
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Jobs in DC, DC suburbs, US: 10-year Trend

Change in wage and salary employment located in DC, the DC suburbs, and the US: 2004 to 2014
(% change from prior calendar year average)



Change in private sector wage and salary employment located in DC, the DC suburbs, and the US: 2004 to 2014
(% change from prior calendar year average)





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Outlook and Risks

- **National economy.** Generally favorable national economic environment—GDP growth has picked up, and Blue Chip and other forecasts are for stronger growth in FY 2015 and FY 2016.
- **Federal government.** Most likely will continue to be a stabilizing influence for DC; slower decline in spending will lessen the negative impact of this sector on DC's economy.
- **Private sector diversification.** With the federal government moving to the sidelines, the private sector is expected to drive job and wage growth in an increasingly competitive national economy.
- **Population.** Population has grown 9 years in a row, adding 91,757 (16.2%) 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 recent gains in the stock market, which has risen rapidly over the past 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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February 2015 Revenue Estimate

	Actual		Estimate		Projected	
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Local Source, General Fund Revenue Estimate (\$M)						
December 2014 Revenue Estimate		6,577.6	6,829.8	7,047.3	7,332.7	NA
February Revision to Estimate		36.5	37.3	47.7	11.3	NA
February 2015 Estimate	6,307.4	6,614.0	6,867.1	7,095.0	7,344.0	7,576.2
<i>Percent Change from Previous Year</i>	<i>1.7%</i>	<i>4.9%</i>	<i>3.8%</i>	<i>3.3%</i>	<i>3.5%</i>	<i>3.2%</i>



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Revised Revenue Estimates for FY 2015

Revenue Source	Estimate for FY 2015 (\$M)		Variance	
	Dec-14	Feb-15	Amount (\$M)	Percent
Property	2,610.6	2,623.7	13.1	0.5%
Property (net of TIF/PILOT)	2,236.9	2,242.1	5.1	0.2%
Deed taxes (net of transfers to Housing Production Trust) & Estate	373.7	381.6	8.0	2.1%
Income	2,146.8	2,172.3	25.5	1.2%
Individual Income	1,725.0	1,746.4	21.4	1.2%
<i>Withholding</i>	1502.4	1511.7	9.2	0.6%
<i>Non-withholding</i>	222.6	234.7	12.1	5.4%
Business Income (corp. franchise and UB tax)	421.8	425.9	4.1	1.0%
Sales, Excise and Gross receipts	1,352.9	1,360.6	7.7	0.6%
Sales (net of convention center transfer, TIF, parking tax transfer to DDOT, ballpark sales tax) and Excise	1,107.8	1,110.1	2.4	0.2%
Gross receipts (net of transfers)	245.1	250.4	5.3	2.2%
Non-tax and Lottery	467.3	457.4	(9.8)	-2.1%
Fines and Forfeitures	148.1	127.9	-20.2	-13.6%
Other Non-Tax	264.2	274.6	10.3	3.9%
Lottery	55.0	55.0	0.0	0.0%
Total	6,577.6	6,614.0	36.5	0.6%



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Revised Revenue Estimates for Fiscal Year 2016

Revenue Source	Estimate for FY 2016 (\$M)		Variance	
	Dec-14	Feb-15	Amount (\$M)	Percent
Property	2,714.7	2,738.9	24.2	0.9%
Property (net of TIF/PILOT)	2,335.7	2,363.3	27.6	1.2%
Deed taxes (net of transfers to Housing Production Trust) & Estate	379.0	375.6	(3.4)	-0.9%
Income	2,235.7	2,267.4	31.7	1.4%
Individual Income	1,801.3	1,828.5	27.2	1.5%
<i>Withholding</i>	1565.0	1579.4	14.3	0.9%
<i>Non-withholding</i>	236.3	249.1	12.9	5.4%
Business Income (corp. franchise and UB tax)	434.4	438.9	4.5	1.0%
Sales, Excise and Gross receipts	1,406.5	1,414.3	7.8	0.6%
Sales (net of convention center transfer, TIF, parking tax transfer to DDOT, ballpark sales tax) and Excise	1,155.9	1,158.0	2.1	0.2%
Gross receipts (net of transfers)	250.6	256.3	5.7	2.3%
Non-tax and Lottery	473.0	446.5	(26.5)	-5.6%
Fines and Forfeitures	150.6	135.5	-15.0	-10.0%
Other Non-Tax	259.9	248.5	-11.4	-4.4%
Lottery	62.5	62.5	0.0	0.0%
Total	6,829.8	6,867.1	37.3	0.5%



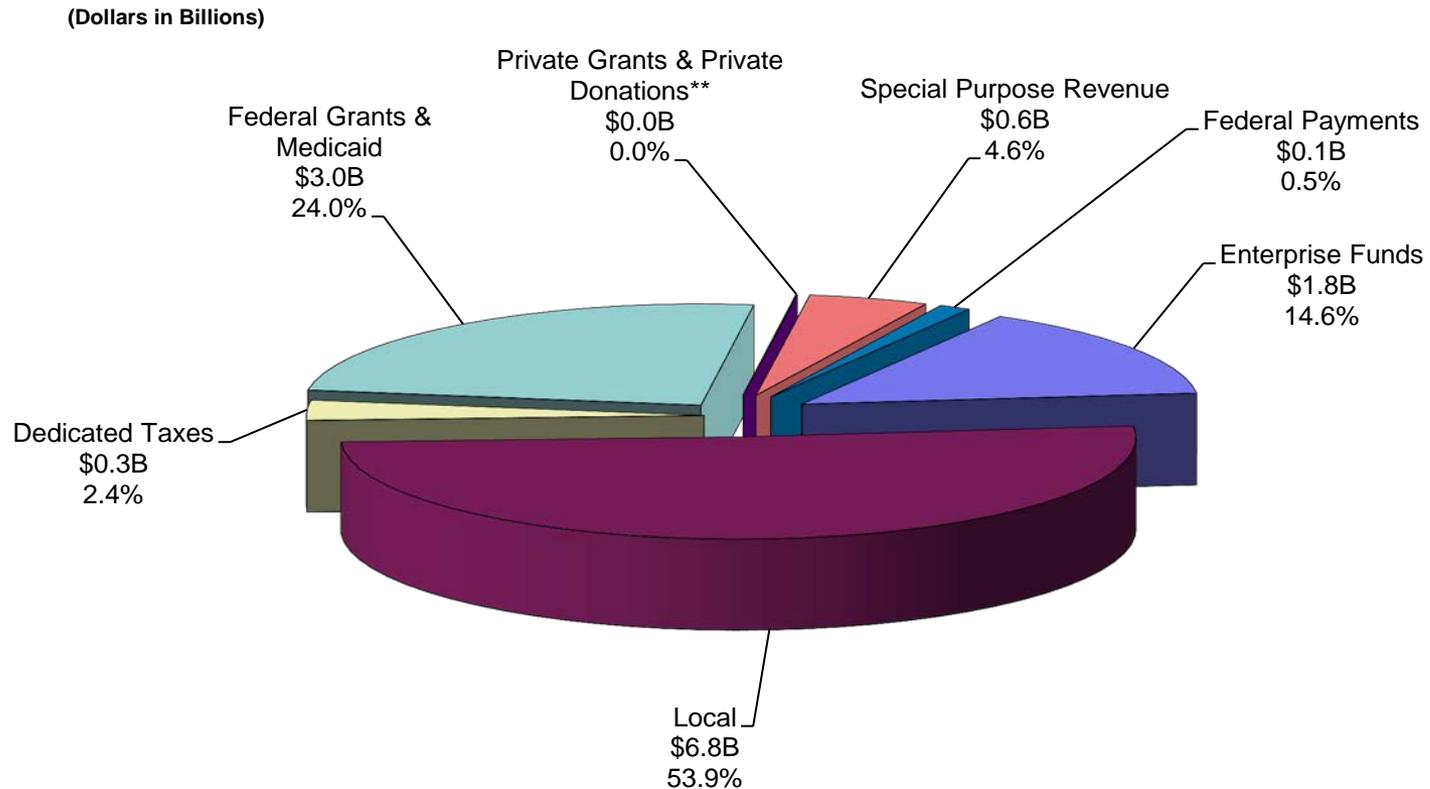
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V. FY2015 Budget and FY2016 Budget Formulation



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Diverse Total Revenue Sources - FY 2015*



* Excludes Intra-District Funds

**The amount from this source is \$6.9 million

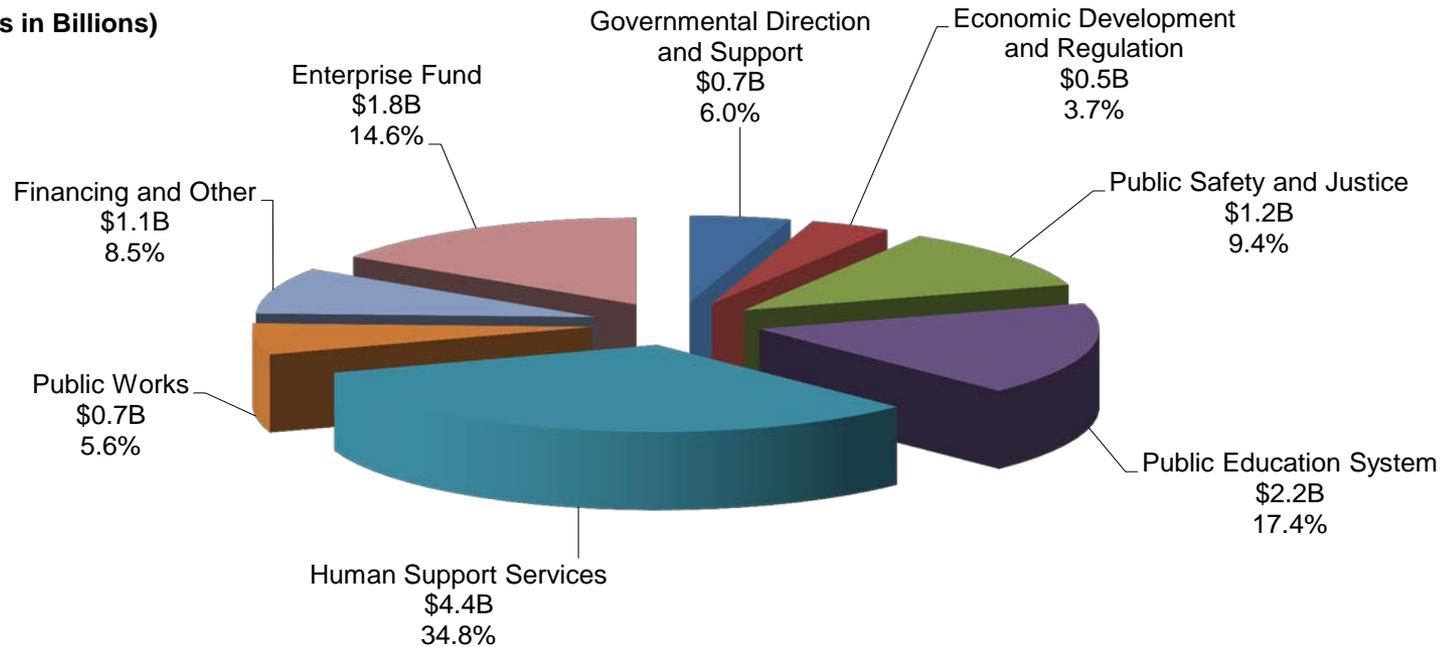
FY 2015 = \$12.6 Billion



District of Columbia

Where the Money Goes - FY 2015 *

(Dollars in Billions)



*Excludes Intra-District

FY 2015 = \$12.6 Billion



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2016 Budget Status

Budget Calendar

- CFO Releases February Revenue Estimates February 27
- Mayor Submits Certified Budget to Council April 2
- Council Hearings and Budget Adoption April - June
- Budget Transmitted to Congress June



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2016 Budget Status

FY 2016 Budget Priorities

- Balanced FY 2016 Budget and Financial Plan
- Capital Program Funds Critical Infrastructure within 12% Debt Cap
- Mayor Budget Focus
 - Affordable Housing
 - Quality Education
 - Job Creation
 - Infrastructure



2016 Budget Status

District of Columbia

- Updated FY 2016 Funding Gap of \$192.6 million (2.8%) (reflects February revenue estimate)
- Additional Funding Priorities
 - Additional \$50 million to reach \$100 million for affordable housing
 - \$40 million for other priorities/spending pressures such as homeless services
- Budget Development Approach
 - Community outreach forums to solicit citizen input
 - Agencies submit 5%, 6% and 8% reductions to develop options
 - Review of capital plan priorities
 - Development of FY 2016 structurally balanced budget and financial plan



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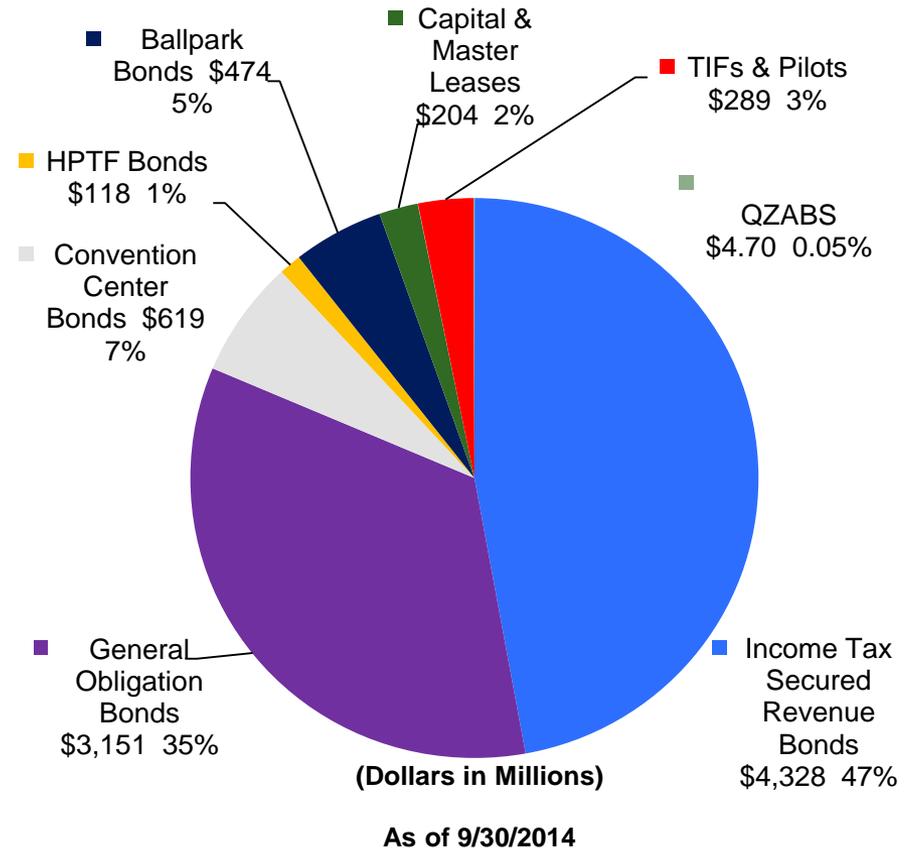
VI. Debt Position, CIP and Upcoming Transactions



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Key Debt Factors

- Total tax-supported debt outstanding – approximately \$9.1 billion.
- 7% Variable Rate that totals \$654.3 Million, with 3.5% unhedged.
- FY 2014 debt service expense was approximately \$762 million (on all tax-supported debt).
- G.O. debt has been utilized recently, saving capacity in the ITSB credit.



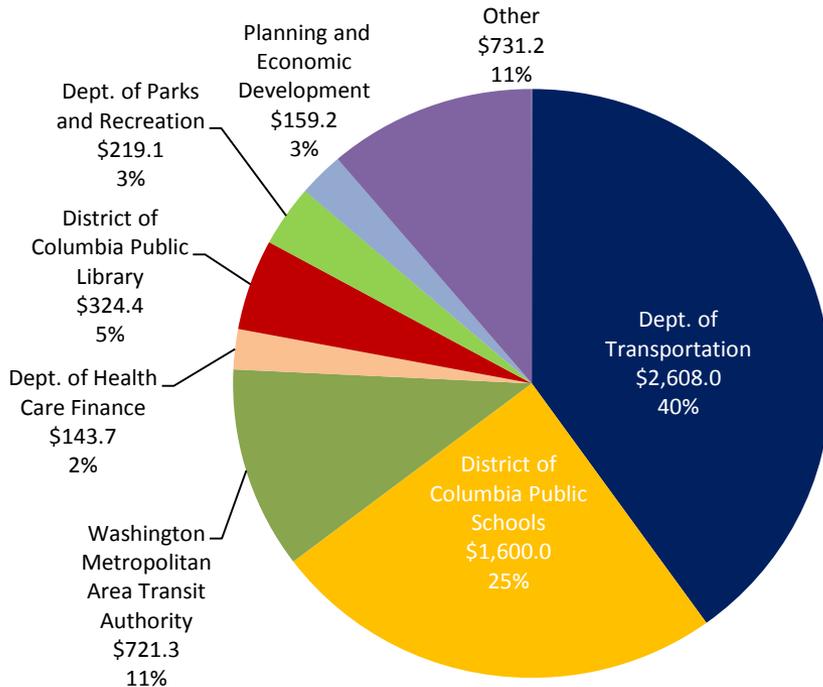


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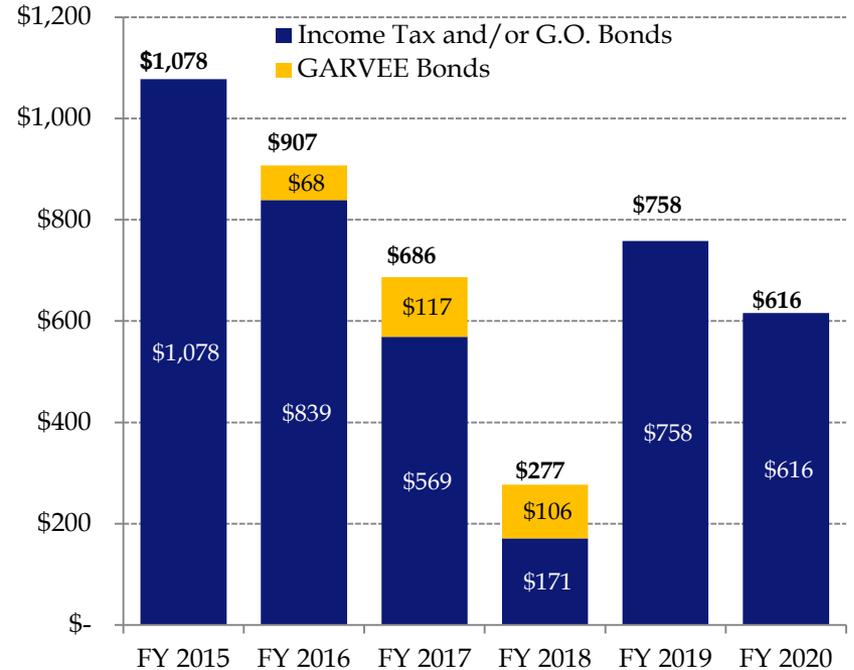
65% of the FY 2015 - FY 2020 Capital Improvements Program is Expected to be Funded with Long-Term Debt

- CIP is front-loaded to accelerate completion of the schools modernization program
- The size and the proposed funding of the multi-year CIP ensure that the District remains under 12% debt cap through the 6-year plan period

CIP Projected Expenditures Total \$6.5 Billion (\$ in millions)



Projected Debt Issuance Totals \$4.3 Billion (\$ in millions)



Source: FY 2015 Approved Budget and Financial Plan



District of Columbia

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 16, 2015

(\$ in millions)

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Total Debt Service on Existing & Planned Tax-Supported Debt	\$781.38	\$865.81	\$929.97	\$971.06	\$998.53	\$1,029.23
General Fund Expenditures	\$7,730.26	\$7,799.14	\$8,031.77	\$8,325.60	\$8,582.39	\$8,838.27
Ratio of Debt Service to Expenditures	10.11%	11.10%	11.58%	11.66%	11.63%	11.65%



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Fiscal Year 2015 Financings

Completed Transactions

- FY 2015 Tax Revenue Anticipation Notes - \$400 million issued in November 2014 for cash flow needs
- \$60,875,000 Income Tax Secured Revenue Refunding Bonds Series 2014B(SIFMA)
- \$379,355,000 G.O Series 2014C
- \$136,190,000 G.O Series 2014D
- \$34,800,000 PILOT Revenue Note, (The Yards Project) Series 2014

Anticipated Transactions*

- I. \$500-\$600 million in G.O. and/or ITSB to fund the first phase of the FY 2015 CIP (Spring)
- II. \$500-\$600 million in G.O. and/or ITSB to fund phase 2 of the CIP (Fall)
- III. \$375 million to fund Power Line Undergrounding Project (timing to be determined)
- IV. Skyland Retail Priority TIF Bonds (amount and timing to be determined)
- V. Southwest Waterfront PILOT/TIF Bonds (amount and timing to be determined)

* Preliminary/Subject to Change



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VII. Highlights of Pension and Other Post-Employment Benefits



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FY 2014 Highlights of Pensions and OPEB

Trust Fund	Fiscal Year 2014	ARC* Amount	% of ARC Paid	Funded Ratio	Discount Rate
Police, Fire and Teachers Pensions	\$ 6,334,090,000	\$ 142,402,000	100%	103.60%	6.5%
Other Post-employment Benefits	\$ 1,051,359,000	\$ 86,600,000	100%	85.70%	7.0%

* Annual Required Contribution

Note: All other District of Columbia employees hired after October 1, 1987 are on defined contribution plans. Employees hired prior to October 1, 1987 are covered by the federal Civil Service Retirement System (CSRS).

OPEB began for retirees in 1999 to subsidize health and life insurance.



District of Columbia

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 7.3% in December 2014
- 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 \$863 million in FY2014, which is 45 days of operating expenses
- FY2014 General Fund Balance reached highest level ever: \$1.87 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

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 103.6% funded
- OPEB is currently 85.7% funded



District of Columbia

IX. Appendix



District of Columbia

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 2013 (\$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	116	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	239.4	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	164.6	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	343.5	57%

Total: \$863.5

* The Contingency Reserve is expected to be fully replenished and funded by the close of the FY 2014 budget, estimated in December 2014

Note: Numbers may not add due to rounding