



District of Columbia

District of Columbia

General Credit Update

February 19, 2014



District of Columbia

Presentation Agenda

- Introduction
- FY 2013 CAFR Results
- District Economic Update and Revenue Estimates
- FY 2014 Budget
- Debt Position and Financings
- Hospital Update
- Conclusion



District of Columbia

Introduction



District of Columbia

Presentation Participants

Office of the Mayor

The Honorable Vincent C. Gray
Mayor

Allen Y. Lew
City Administrator

Eric Goulet
Deputy Chief of Staff and 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

Fitzroy Lee
Deputy CFO and Chief Economist, Office of Revenue Analysis

Jeffrey Barnette
Deputy CFO and Treasurer, Office of Finance and Treasury

Financial Advisors

William W. Cobbs and Claire Cohen
Public Resources Advisory Group



District of Columbia

Introduction

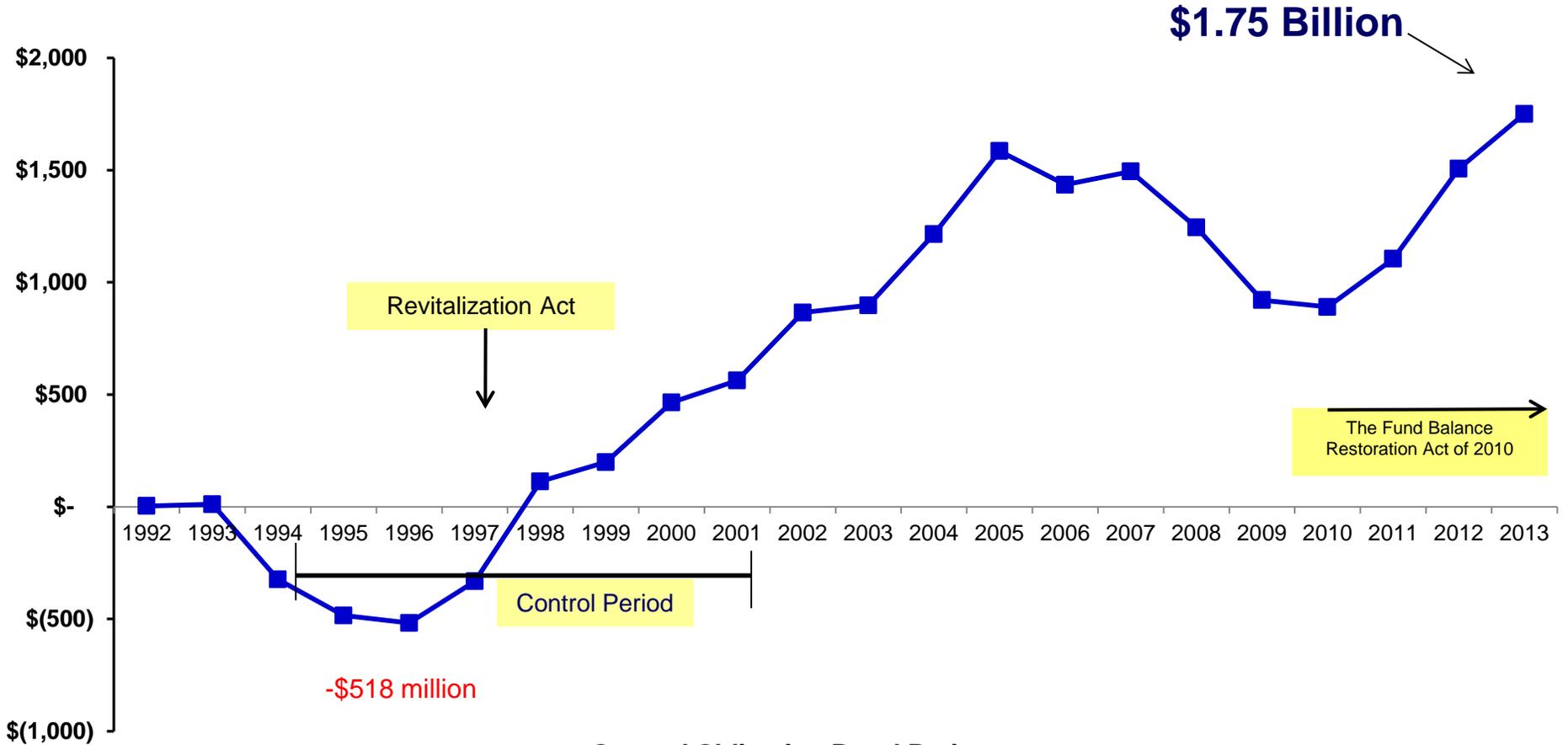
- The District has performed well during the economic downturn and is well-positioned to respond to future economic challenges.
- The FY 2013 CAFR results show an increase in General Fund balance to \$1.75 billion, with the balance of the federal and locally mandated reserves increased to \$791 million.
- The Administration and Council leadership support continuing to build the fund balance and fully fund our reserve accounts.
- The District is committed to limiting current year spending to current year revenues.
- Debt remains within the 12% debt cap.
- Independent Chief Financial Officer by federal law:
 - 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



CONTINUED STRONG RECOVERY

Trend of Total Reserves and Bond Ratings

District of Columbia



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+	AA-	
Moody's:	Baa	Baa	Baa	Ba	Ba	Ba2	Ba1	Baa3	Baa3	Baa1	Baa1	Baa1	A2	A2	A2	A1	A1	A1	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-

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



District of Columbia

FY 2013 Comprehensive Annual Financial Report



District of Columbia

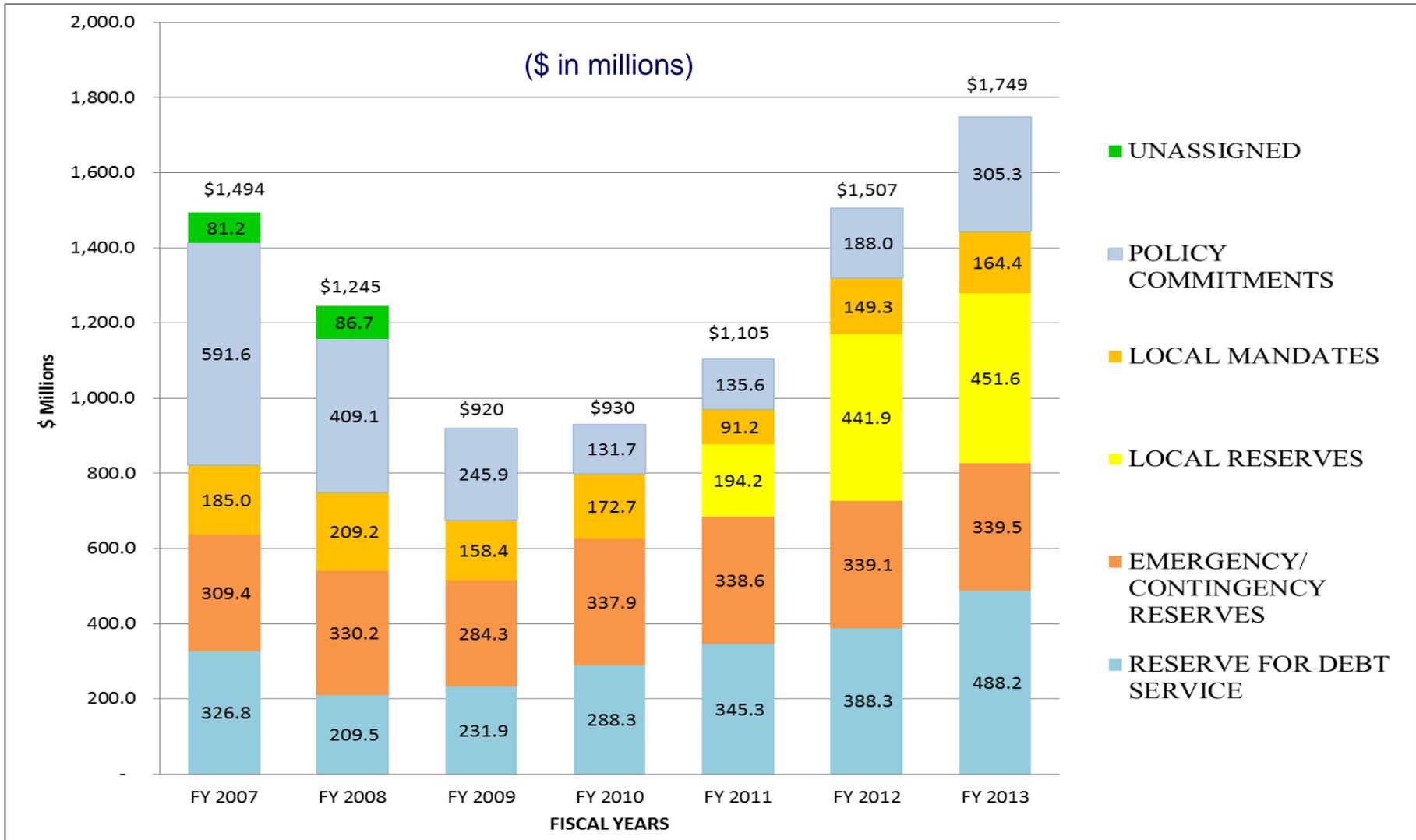
FY 2013 CAFR Highlights

- Clean Audit Opinion (17th consecutive)
- General Fund revenues and sources exceeded expenditures by \$321 million on a budgetary basis
 - Revenues 2.7% or \$168 million above revised estimate.
 - Expenditures 2.2% or \$153 million below revised budget.
- \$1.75 Billion Cumulative General Fund Balance
 - Increase of \$242 million over FY 2012 fund balance (GAAP).
 - \$2.267 billion above lowest level reached at -\$518 million in FY 1996 during Control period.



District of Columbia

Composition of General Fund Balance FY 2007 – FY 2013

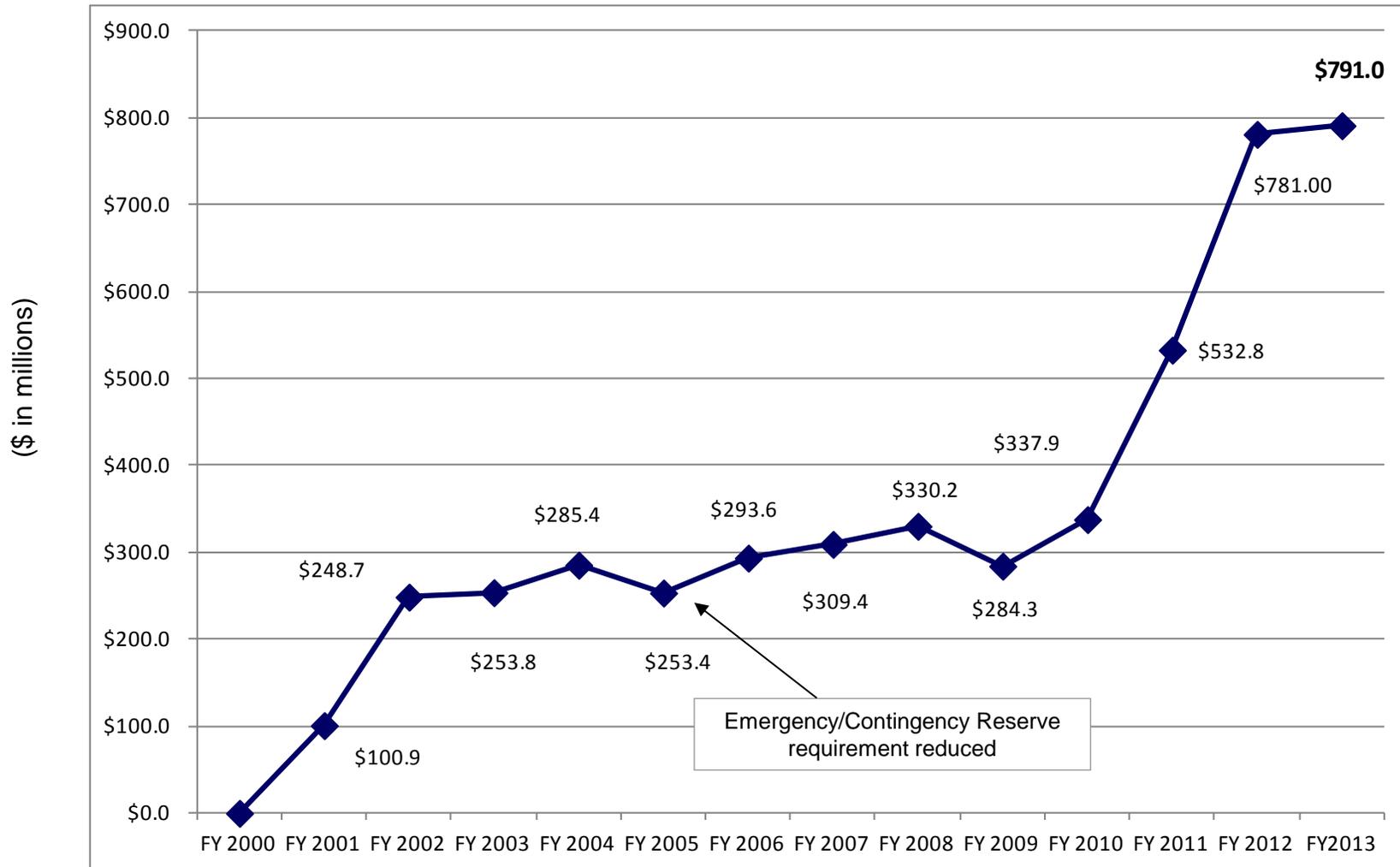




District of Columbia

Rainy Day Funds

Congressionally Mandated Emergency (2%) and Contingency (4%) Cash Reserves plus Locally Mandated Fiscal Stabilization and Cash Flow Reserves





District of Columbia

Locally and Congressionally Mandated Reserves

Reserves	% of Expenditure/ Budget	Amount (\$ in Millions)	Status
Emergency	2%	\$ 112.1	Full
Contingency	4%	227.4	Full
Fiscal Stabilization	2.34%	156.1	Full
Cash Flow	8.33%	295.4	52%
Total		\$791	



District of Columbia

Economic Update and Revenue Estimates



District of Columbia

Private Sector and Population Growth Offset Effects of Decreased Federal Spending

OVERVIEW: The District has added population at over 1,000 per month for the last 2 years. The District is becoming a place to live regardless of residents' place of work.

Labor Markets and Personal Income

- Strong private sector job growth mostly offset any losses in the Federal sector. This trend is expected to continue.
- DC's unemployment rate fell in December to 8.1%, the lowest in 5 years.
- Personal Income growth, 3.2% in the September quarter, now below the US average (3.6%), but the District's personal income per capita is 171% of the national average.

Housing

- Generally strong growth in sales and prices.
- For the 3-month period ending December 2013, single family sales were up 9.8% from the prior year, and average price declined slightly (-2.2%). Condo sales were up 11.5% and up 6.1%.
- About 11,000 apartment and condo units are under construction.

Commercial Office Market

- The commercial office vacancy rate rose slightly to 9.3% (including sublet), but is still well below the metropolitan area average of 13.4%.
- In the quarter ending December, occupied office space rose by 1.7% from the prior year.
- Commercial office rents remain fairly stable.

Hospitality Industry

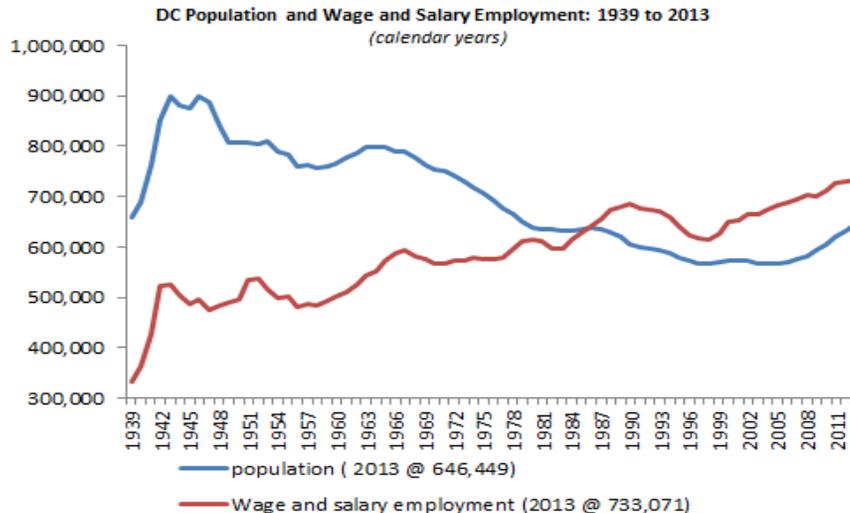
- The hospitality sector is seeing modest growth.
- For the 3-month period ending December, the number of hotel room-days sold was up 2% from a year earlier.
- The average room-rate for hotels was 3.5% higher than for the same period a year earlier, and revenues were up 5.6%.



District of Columbia

The District's Population Now a Main Driver of the Economy

- According to the US Census Bureau, DC's population on July 1, 2013 was 646,449—13,022 (2.1%) more than a year earlier.
- D.C.'s population declined steadily from the end of World War II to 1998 (except for a brief period in the early 1960s). Since then, the population has grown. From 2008 to 2013, the population increased by 66,213 (11.4%), an average net gain of more than 1,000 per month.
- Most of the recent population growth was from migration by younger adults. However, a third of the recent increase was natural increase (more births than deaths) as families with young children are not so quick to move out.
- The share of income earned within the District has increased from 33% to 45% over the last five years as a result of steady population growth.



D.C. Population: 2008 to 2013

Year	Number	Change from prior	
		number	%
2008	580,236	5,832	1.0
2009	592,228	11,992	2.1
2010	605,125	12,897	2.2
2011	619,624	14,499	2.4
2012	633,427	13,803	2.2
2013	646,449	13,022	2.1

Source: U.S. Census Bureau



District of Columbia

Impact of Federal Austerity on the District's Economy and Finances

- The recent two year federal budget deal signed into law moderates the impact of federal budget cuts on the economy.
- The Consolidated Appropriations Act of 2014 gives the District the authority to spend its local funds through the end of FY 2015 (September 30, 2015), eliminating uncertainty in the short-run of a government shutdown.
- The Budget Act restored a total of \$63 billion in discretionary funding primarily to the Defense Department. Overall deficit reduction measures are approximately \$85 billion.
- Cuts and spending restraints for domestic agencies and programs will continue to drive declines in federal employment.



District of Columbia

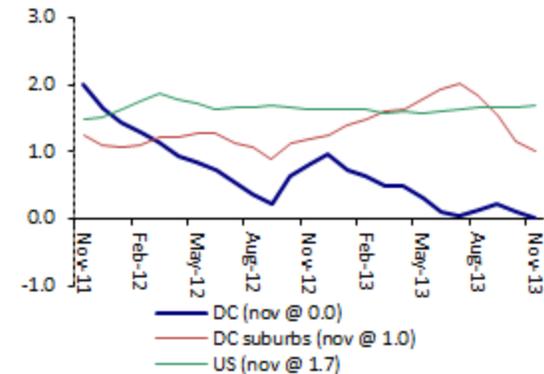
Employment Trends

Wage and salary employment located in DC: December 2013

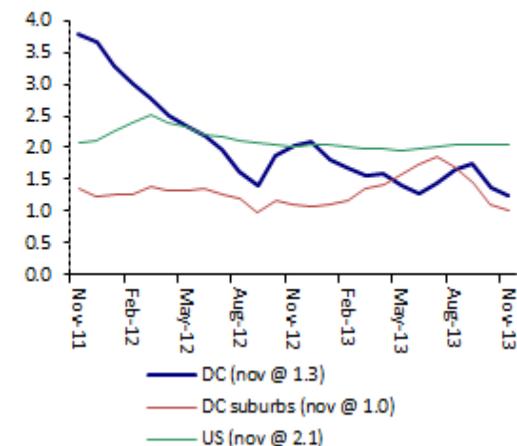
Industry sector	3-month moving average			
	Dec 2012	Dec 2013	1 year change	
			Amount	%
Federal government	206,667	200,400	-6,267	-3.0
Local government	33,400	33,900	500	1.5
Legal services	29,800	30,333	533	1.8
Other Professional and technical	77,967	79,700	1,733	2.2
Employment services	13,567	12,167	-1,400	-10.3
Other Business services	33,833	34,533	700	2.1
Information	16,900	16,300	-600	-3.6
Finance	28,167	29,133	967	3.4
Organizations	60,700	61,033	333	0.5
Education	55,800	55,067	-733	-1.3
Health	64,333	64,967	633	1.0
Food service	42,867	46,733	3,867	9.0
Accommodations	15,533	15,967	433	2.8
Amusement and recreation	6,967	6,767	-200	-2.9
Retail trade	18,600	18,667	67	0.4
Wholesale trade	5,067	5,100	33	0.7
Construction	13,667	13,000	-667	-4.9
Personal and miscellaneous ser.	7,733	7,733	0	0.0
Other private	4,967	4,900	-67	-1.3
Total	736,533	736,400	-133	0.0
<i>Public sector</i>	<i>240,067</i>	<i>234,300</i>	<i>-5,767</i>	<i>-2.4</i>
<i>Private sector</i>	<i>496,467</i>	<i>502,100</i>	<i>5,633</i>	<i>1.1</i>

Source: BLS. not seasonally adjusted.

Change in wage and salary employment located in DC, the DC suburbs, and the US: November 2011 to November 2013 (% 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: November 2011 to November 2013 (% change from prior year in 3-month moving average)





District of Columbia

Impact of First Quarter Revenue Estimates Fiscal Year 2014

Revenue Source	Estimate for FY 2014 (\$M)		Variance	
	Sep 2013	Dec 2013	Amount (\$M)	Percent
Property	2,339.3	2,379.3	40.0	1.7%
Property (net of TIF/PILOT)	2,027.1	2,061.4	34.3	1.7%
Deed taxes (net of transfers to Housing Production Trust) & Estate	312.2	317.9	5.7	1.8%
Income	2,177.6	2,191.7	14.2	0.7%
Individual Income	1,687.0	1,714.0	27.0	1.6%
<i>Withholding</i>	1450.8	1,444.5	(6.3)	-0.4%
<i>Nonwithholding</i>	236.3	269.6	33.3	14.1%
Business Income (corp. franchise and UB tax)	490.5	477.7	(12.9)	-2.6%
Sales, excise and gross receipts	1,295.0	1,268.8	(26.2)	-2.0%
Sales (net of convention center transfer, TIF, parking tax transfer to DDOT, ballpark sales tax) and Excise	1,036.9	1,024.9	(12.0)	-1.2%
Gross receipts (net of transfers)	258.1	243.9	(14.2)	-5.5%
Non-tax and Lottery	499.6	491.5	(8.1)	-1.6%
Non-tax	436.2	428.0	(8.1)	-1.9%
Lottery	63.5	63.5	-	0.0%
Total	6,311.6	6,331.4	19.8	0.3%



District of Columbia

Impact of First Quarter Revenue Estimates Fiscal Year 2015

Revenue Source	Estimate for FY 2015 (\$M)		Variance	
	Sep 2013	Dec 2013	Amount (\$M)	Percent
Property	2,418.8	2,445.6	26.8	1.1%
Property (net of TIF/PILOT)	2,078.3	2,105.1	26.8	1.3%
Deed taxes (net of transfers to Housing Production Trust) & Estate	340.5	340.5	0.0	0.0%
Income	2,250.0	2,259.4	9.4	0.4%
Individual Income	1,741.1	1,757.4	16.3	0.9%
<i>Withholding</i>	1,500.8	1,506.2	5.4	0.4%
<i>Nonwithholding</i>	240.3	251.2	10.9	4.5%
Business Income (corp. franchise and UB tax)	508.9	502.0	(6.9)	-1.4%
Sales, excise and gross receipts	1,319.1	1,301.6	(17.4)	-1.3%
Sales (net of convention center transfer, TIF, parking tax transfer to DDOT, ballpark sales tax) and Excise	1,058.8	1,053.9	(4.9)	-0.5%
Gross receipts (net of transfers)	260.3	247.8	(12.6)	-4.8%
Non-tax and Lottery	521.0	544.9	23.9	4.6%
Non-tax	454.3	478.2	23.9	5.3%
Lottery	66.7	66.7	-	0.0%
Total	6,508.8	6,551.5	42.7	0.7%



District of Columbia

December 2013 Revenue Estimate

	<u>Actual</u>	<u>Estimate</u>	<u>Projected</u>		
Local Source, General Fund					
Revenue Estimate (\$M)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
2013 Revenue Estimate	6,167.3	6,331.4	6,551.5	6,763.6	6,974.7
<i>Percent change from previous year</i>	<i>3.4%</i>	<i>2.7%</i>	<i>3.5%</i>	<i>3.2%</i>	<i>3.1%</i>



District of Columbia

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 2014 and FY 2015.
- **Federal government.** Most likely will continue to be a stabilizing influence for DC, but continuing federal austerity will lessen the positive impact of a growing private sector.
- **Private sector diversification.** With the federal government moving to the sidelines, the private sector is expected to drive higher wage job growth in an increasingly competitive national economy.
- **Population.** In the short run, population growth is set to continue to boost the tax base. The extent of future population growth depends on job growth, the quality of public services, and affordable housing opportunities.
- **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 to continue to add to DC's tax base depends on its ability to obtain tenants and remain profitable.



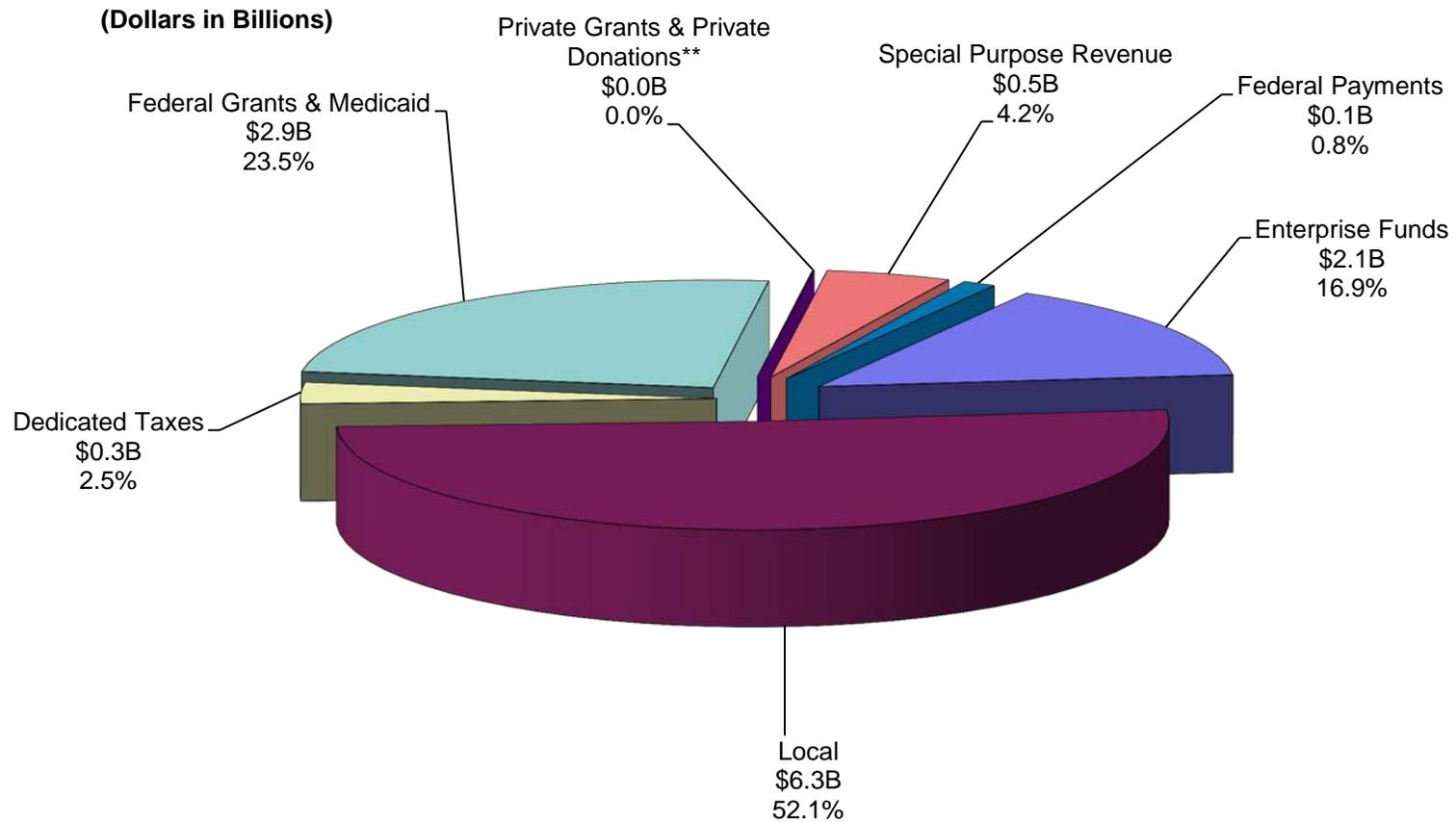
District of Columbia

FY 2014 Budget



District of Columbia

Diverse Total Revenue Sources - FY 2014*



FY 2014 = \$12.2 Billion

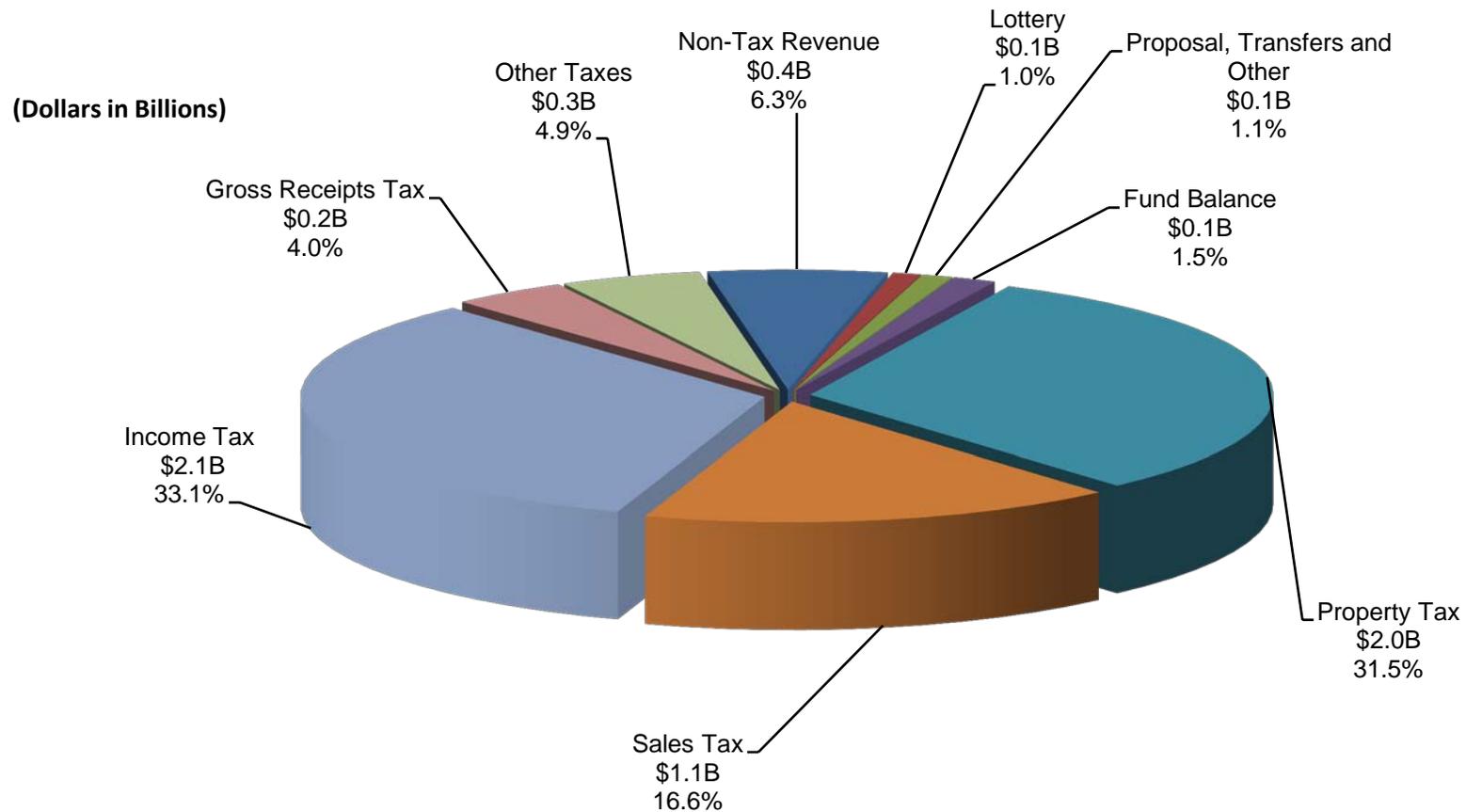
* Excludes Intra-District Funds

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



District of Columbia

Highly Diverse Local Revenue Sources - FY2014*



*Excludes Dedicated Taxes

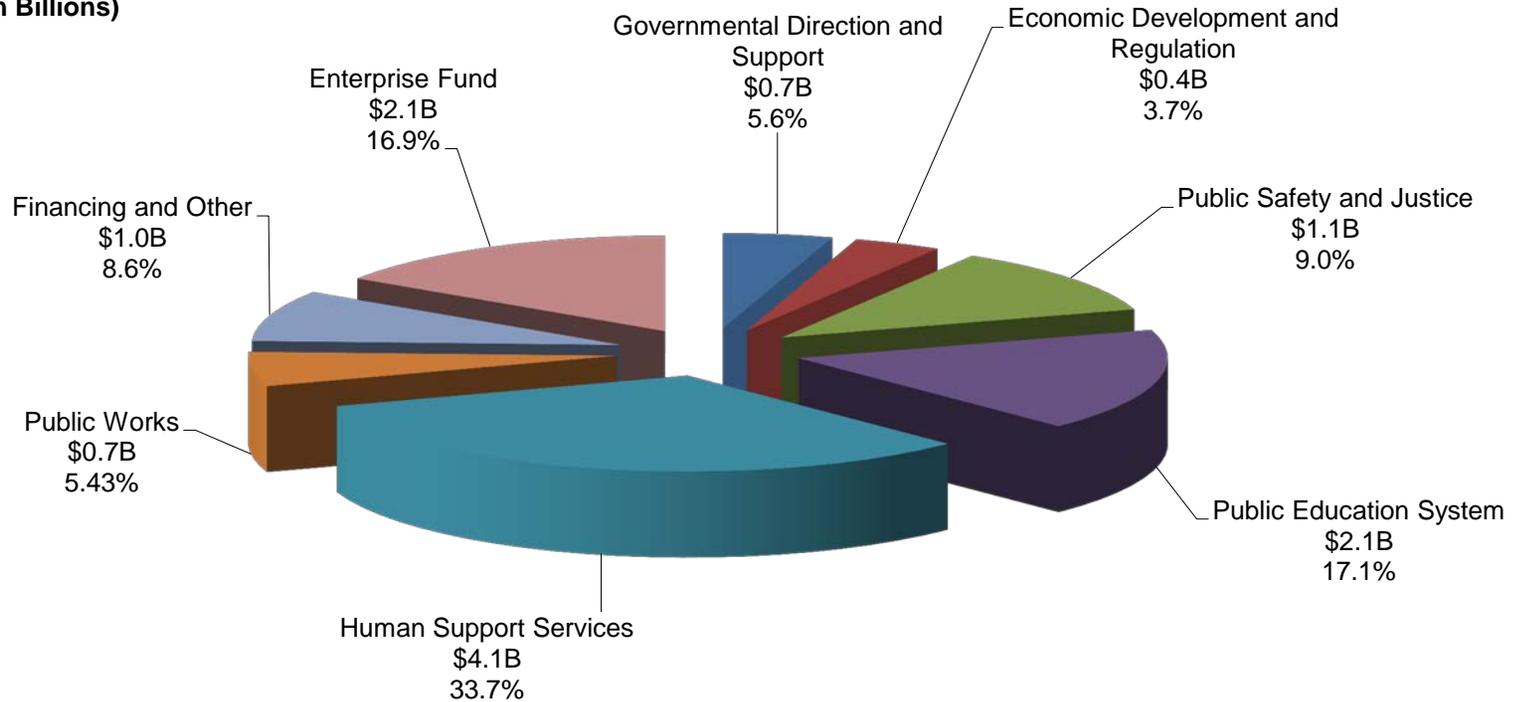
FY 2014 = \$6.4 Billion



District of Columbia

Where the Money Goes - FY 2014 *

(Dollars in Billions)



*Excludes Intra-District

FY 2014 = \$12.2 Billion



District of Columbia

FY 2015 Budget Timeline

- | | |
|---------------|--|
| April 3 | Mayor's Budget submission to Council |
| May 28 | Council vote to approve Budget (standard 56-day review) |
| Mid/Late June | Budget and Financial Plan is sent to the President for transmittal to Congress |



District of Columbia

Highlights of Pension and Other Post-Employment Benefits (OPEB)



District of Columbia

WELL-FUNDED PENSIONS AND OPEB TRUST

FY 2013 Highlights of Pensions and OPEB

Trust Fund	ARC* \$ Amount	% of ARC Paid	Funding Ratio	Discount Rate	Number of Beneficiaries (Retirees)
Police, Fire and Teachers Pensions	\$102.7M	100%	104.9%	6.5%	5324
Other Post-employment Benefits	\$107.8M	126.5%	75.4%	7.0%	555

* 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

Debt Position and Financings



District of Columbia

Key Debt Factors

- Total tax-supported debt outstanding – approximately \$9.0 billion.
- Total General Obligation Bonds outstanding – approximately \$2.74 billion.
- Total Income Tax Bonds outstanding – approximately \$4.31 billion.
- FY 2013 debt service expense was approximately \$729.3 million (on all tax-supported debt).
- The Home Rule Act limits maximum annual debt service on General Obligation Bonds to 17% of projected revenues in the current year.
- In 2009, the Council enacted a Debt Ceiling Act which statutorily limits debt service on all tax-supported debt to 12% of General Fund expenditures, imposing a much stricter limit on the issuance of debt.
 - The current outstanding \$9.0 billion of tax-supported debt produces a debt ceiling percentage of approximately 10.45%.
- Average FY 2013 interest rate for outstanding GO and Income Tax Secured fixed rate bonds - approx. 4.98%.
- Average FY 2013 interest rate for outstanding GO and Income Tax Secured variable rate bonds - approx. 0.64%.



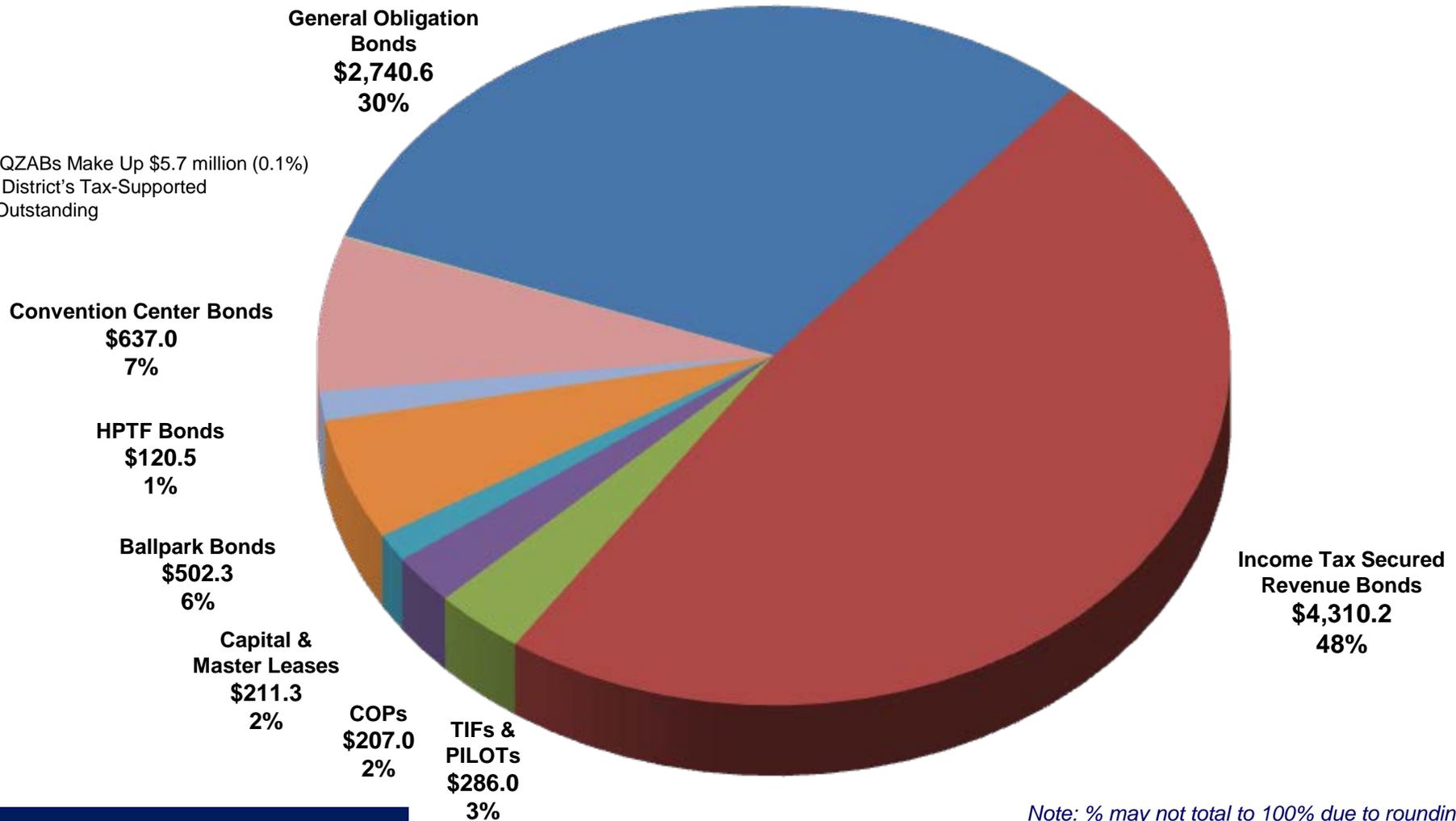
District of Columbia

Current Tax-Supported Debt Profile

The District has \$9.0 Billion of Tax-Supported Debt Outstanding as of December 31, 2013

(Dollars in millions)

Note: QZABs Make Up \$5.7 million (0.1%) of the District's Tax-Supported Debt Outstanding



Note: % may not total to 100% due to rounding



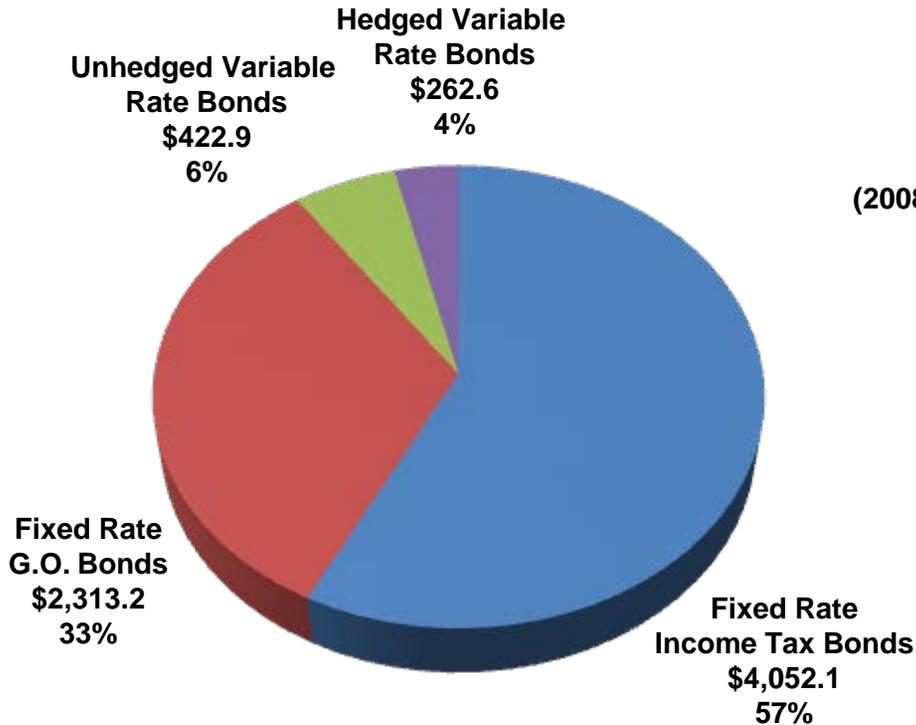
Debt Management

District of Columbia

District of Columbia Current Debt Profile

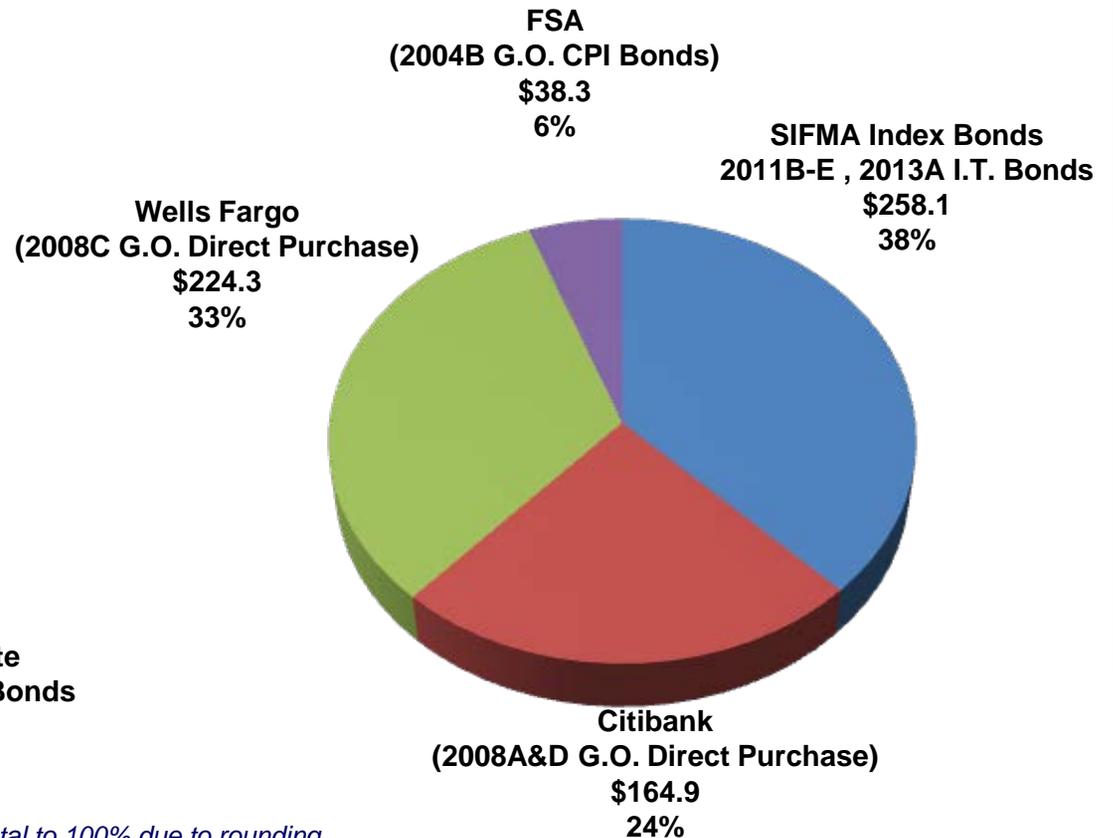
\$7.1 billion
Total G.O. and Income Tax Debt Outstanding

(Dollars in millions)



\$685.5 million
Variable Rate Debt Outstanding
Credit Enhanced Structure

(Dollars in millions)



Note: % may not total to 100% due to rounding



District of Columbia

Capital Improvement Plan: FY 2014 – FY 2019

- District's Capital Improvement Plan (CIP) is a responsible mix of debt, Pay-Go capital, and grant funding
- Plan calls for total funding of \$6.2 billion over six-year period

Fiscal Year 2014 – 2019 Capital Improvement Plan Funding (Budgetary Basis) (\$000s)

<u>FY 2014 - FY 2019 Planned Funding Sources</u>							
	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>Total</u>
General Obligation/Income Tax Bonds	\$1,087,263	\$934,763	\$713,478	\$491,219	\$460,342	\$455,738	\$4,142,803
Master Equipment Lease/Purchase	17,452	15,358	9,900	-	200	-	42,910
Pay-As-You-Go	13,279	18,136	15,474	46,624	102,712	144,826	341,051
Sale of Assets	-	9,150	25,500	-	-	-	34,650
Private Grants	-	-	-	-	5,000	-	5,000
Local Streets Transportation Fund Revenue	21,508	22,052	21,024	23,843	22,433	22,433	133,293
GARVEE Bonds	-	-	67,770	117,290	106,230	-	291,290
Local Highway Trust Fund	46,439	39,264	40,872	40,871	40,872	40,872	249,190
<u>Federal Grants</u>	<u>215,451</u>	<u>158,532</u>	<u>156,679</u>	<u>156,679</u>	<u>156,679</u>	<u>156,679</u>	<u>1,000,699</u>
Total Funding	\$1,401,392	\$1,197,255	\$1,050,697	\$876,526	\$894,468	\$820,548	\$6,240,886



District of Columbia

Variable-Rate Debt Exposure

- The District has reduced its exposure to variable-rate debt to 8.8% of total tax-supported debt, down from approximately 24% in 2008 (percentages include both unhedged and hedged variable-rate debt).
 - Unhedged variable-rate debt is approximately 5.1% of total tax-supported debt
 - Hedged variable-rate debt is approximately 3.8% of total tax-supported debt
- The District still believes that it is prudent to have some variable-rate debt (not more than 10% unhedged and not more than 20% total), to allow for some degree of asset-liability matching and to take advantage of an extremely low short-term interest rate environment.
- The District has eliminated its exposure to bank risk and diversified its variable-rate debt portfolio with SIFMA-Indexed Notes and Direct-Purchase Bonds.



District of Columbia

Current Debt Cap Position

Expected future borrowing will remain under the 12% debt cap

District of Columbia

Summary of Debt Cap Position as of January 3, 2014

(\$ in millions)

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>FY2019</u>
Total Debt Service on Existing & Planned Tax-Supported Debt	\$753.02	\$804.68	\$868.11	\$901.26	\$957.96	\$978.67
General Fund Expenditures	\$7,208.71	\$7,427.46	\$7,670.96	\$7,896.15	\$8,092.13	\$8,293.00
Ratio of Debt Service to Expenditures	10.45%	10.83%	11.32%	11.41%	11.84%	11.80%



District of Columbia

Fiscal Year 2014 Financings

Completed Transactions

- \$405.0 million FY 2014 TRANs
- \$97.1 million Income Tax Secured Revenue Refunding Bonds, Series 2013A (Adjusted SIFMA Rate)
- \$495.4 million General Obligation Bonds, Series 2013A

Anticipated Transactions*

- New Money transactions consistent with CIP
 - \$100 million of projects funded with General Obligation Direct Purchase Bonds – March 2014
 - \$437 million in projects funded with fixed rate General Obligation or Income Tax Secured Revenue Bonds – April/May 2014
- \$175 million Income Tax Secured Revenue Refunding Bonds to refinance COPS Series 2003 and Series 2006
- \$40 million in Tax Increment Revenue Bonds to fund Skyland Retail Priority TIF Project
- \$375 million in Rate Reduction Bonds to fund District's portion of Utility Securitization Project

* Preliminary/Subject to Change



District of Columbia

Hospital Update



District of Columbia

Not-for-Profit Hospital Corporation (commonly known as United Medical Center)

- The Huron Healthcare Turnaround Project began on March 4, 2013.
 - After a Community Needs Assessment, the approved strategic plan includes 5 goals: 1) alignment with a strategic partner; 2) achieve financial stability; 3) employee recruitment and development; 4) achieve superior and quality patient outcomes; and 5) contribute to overall health within the communities served.
- Long range capital needs are being evaluated in order to support the strategic goals outlined above.
- Audited FY 2013 revenues exceeded expenses by \$428 thousand compared to a deficit of \$322 thousand for FY 2012.
 - In FY 2013, operating revenues declined \$3.8 million and operating expenses declined \$6.3 million; a \$3.5 million improvement to financial performance.
 - The District provided the hospital with an \$11 million subsidy in FY 2013, of which \$3.5 million was for general operating expenses. Of the remainder, \$5.5 million was provided to reduce aged outstanding trade payables and \$2.0 million was used for IT infrastructure.



District of Columbia

Summary and Conclusions



District of Columbia

District Credit Strengths

Wealthy and Stable Economy

- Strong population growth more than offset the impact of federal austerity
- Per capita personal income in 2012 was 171.0% of the U.S. compared to 145.1% in 2002
- The District is retaining a growing share of income earned in the region as it becomes a more favorable place to live (from 33% to 45% over the last 5 years)
- Population growth is driving a robust housing market
- Growing and diversifying private sector offset federal fiscal austerity

Robust Financial Position

- Congressionally and locally mandated reserves increased to \$791.1 million in FY2013, which has improved our liquidity position with a fully rebuilt Fund Balance since the recession
- FY2013 General Fund Balance reached highest level ever: \$1.75 billion compared to \$920.5 million in FY2009
- 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 104.9% funded
- OPEB is currently 75.4% funded
 - ✓ District will contribute \$107.8 million in FY2014, which is above ARC of \$89.9 million



District of Columbia

Current Bond Ratings

	Standard & Poor's	Moody's	Fitch
General Obligation Bonds	AA-	Aa2	AA-
Income Tax Secured Revenue Bonds	AAA	Aa1	AA+