PUBLIC BRIEFING

ON THE

FISCAL YEAR 2020

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

Before the
Committee of the Whole
Council of the District of Columbia

The Honorable Phil Mendelson, Chairman

February 3, 2020, 1:30 p.m.
Virtual Platform

Testimony of
Jeffrey S. DeWitt
Chief Financial Officer
Government of the District of Columbia

Introduction

Good afternoon, Chairman Mendelson and Members of the Committee of the Whole. I am Jeffrey S. DeWitt, Chief Financial Officer of the District of Columbia. I appear before you today to report and discuss the Fiscal Year 2020 Comprehensive Annual Financial Report (CAFR). With me is Bill Slack, the District's Controller, who will assist in answering questions.

I am pleased to report that the District's financial position remains strong. The positive results reflected in the FY 2020 CAFR could not have occurred without our continued collective financial discipline and sound financial management practices. I would like to recognize the hard work of agency program and financial staff who contributed to the successful management and accounting of the District's financial resources during this extraordinary year and the completion of this document. I particularly would like to recognize the employees of the Office of Financial Operations and Systems (OFOS) and the Associate Chief Financial Officers and their staffs for their outstanding performance during FY 2020.

I also want to thank the City Administrator and the Inspector General for working with the Office of the Chief Financial Officer to address potential audit findings. Through our continued collaboration and focus on agency accountability, we, for the sixth consecutive year, were able to produce and issue the CAFR with no material weaknesses or significant deficiencies (no Yellow Book).

The Mayor, District Council, agencies, and all segments of this government should be proud of the District's FY 2020 results, the details of which are highlighted in today's presentation.

FY 2020 District of Columbia Comprehensive Annual Financial Report

February 3, 2021

Events in Fiscal Year 2020
Begin Strong; End in Covid-19 Recession

- For nearly the first six months of the fiscal year, very strong revenue growth continued the record trend from FY 2019.
- On March 11, 2020, a public health emergency was declared due to the Covid-19 virus.
- Hospitality and local retail revenues dropped dramatically.
  - ✓ 4th quarter hotel occupancy was 86.6% below the prior year
  - ✓ Restaurants were operating at 25% of the prior year revenues
  - ✓ There were 43.35% fewer hospitality jobs (Sept. 2020 vs. Sept. 2019)
- The February forecast was changed dramatically in April, and budget formulation was delayed to reflect the new fiscal situation.

Events in Fiscal Year 2020
Significant Concerns After Covid-19 Impacts

- **First few weeks after the Covid-19 pandemic hit, the equity markets crashed with S&P stock prices falling 34%**
- **Municipal markets were not functioning properly and debt issuance and access to short-term borrowing were uncertain**
- **Liquidity (cash) was a concern due to rapid drops in sales tax revenues, uncertainty if property owners would pay property taxes, and unemployment rates anticipated as high as 18%**
- **It was initially unclear which rapidly rising Covid-19 related costs could be paid by Federal funding (Contingency Fund significantly used)**

Events in Fiscal Year 2020
Significant Federal Assistance

Federal Covid-19 related assistance to the District totaled over $1.9 Billion

- **On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES) passed, but guidelines and funding mechanism were not fully developed.**
- **Payroll Protection Program (PPP) to local businesses**
- **The Federal Reserve took significant actions to prevent the collapse of markets, including municipal bond markets.**
- **Unemployment Insurance payments hit unprecedented levels of $1.57 billion ($970 million federally funded). Unemployment peaked at a rate of 11%.**

The District Ended in a Strong Financial Position
FY 2020 CAFR Highlights

Federal Funding, Use of Reserves, Managed Spending, and Covid-19 Impact Limited to Specific Sectors

- **Clean Audit Opinion (24th Consecutive)**
- **No Material Weaknesses or Significant Deficiencies (No YELLOW BOOK REPORT for the 6th Consecutive Year)**
- **Rating for General Obligation Bonds and Income Tax Bonds remained strong**
- **Pension and Retiree Health Care Trust remained fully-funded with increased net positions**
- **Federally and locally mandated reserves (working capital/liquidity) are full at 60 days**

FY 2020 CAFR Highlights

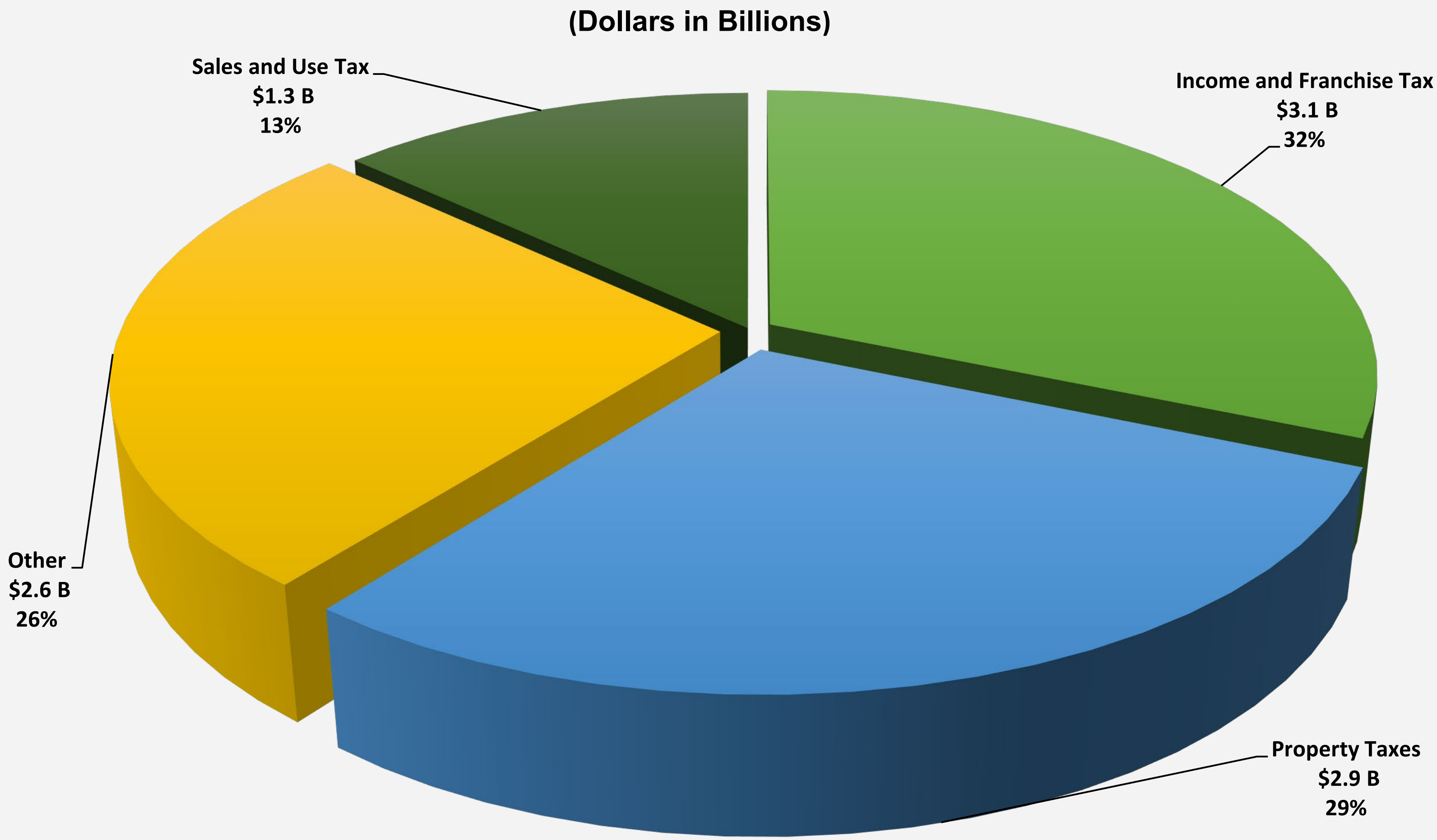
- **Total District Net Position decreased by $156.9M** *(includes General, Federal, Capital, Unemployment Insurance, Universal Paid Leave, Hospital and Lottery Funds)*

  - Total Revenues were $16,397.7 million ***($1.9 billion more than 2019 from Federal Covid-19 related funding, CARES, FEMA, and enhanced unemployment benefits)***

  - Total expenses were $16,554.6 million

Decreased Net Position is totally related to the extensive use of unemployment insurance funds

Where the Money Comes From –
Sources of the General Fund Revenue for FY 2020
(Excluding Intra-District Funds)



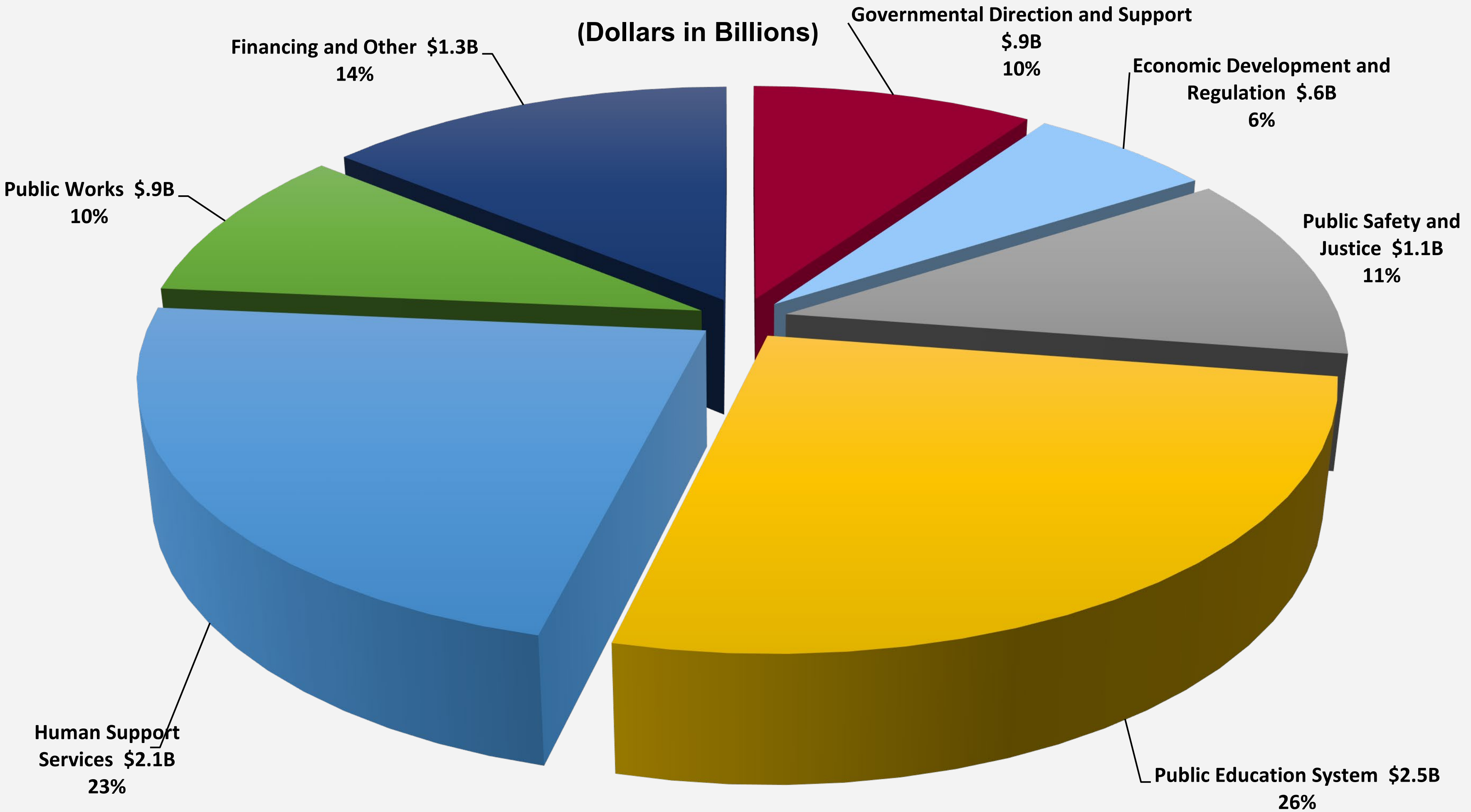
FY 2020 Actual GF Revenues = $9.9 Billion

Does not include Federal & Private, Housing Production Trust, General Capital Improvements, Lottery, Unemployment Compensation, and Non-major Governmental Funds

***Numbers may not add due to rounding.**

Where the Money Goes – General Fund Expenditures, by Appropriation Title for FY 2020

(Excluding Intra-District Funds and Enterprise and Other Funds)



FY 2020 Actual GF Expenditures = $9.3 Billion

Does not include Federal & Private Expenditures, Housing Production Trust, General Capital Improvements, Lottery, Unemployment Compensation, and Non-major Governmental Funds

FY 2020 Underspending

LOCAL FUNDS

Schedule of Budgetary Revenues and Expenditures
By Source of Funds
Exhibit A-5

	FY 2020	FY 2019	Dollar Variance	Percent Change
Total Actual Revenues and Sources	$9,207,752	$8,923,032	$284,720	3.2%
Total Actual Expenditures and Uses	8,720,210	8,494,908	225,302	2.7%
Surplus	**$487,542**	**$428,124**		

Local funds do not include other special purpose "O" type revenues and the expenses associated with these funds

Details of FY 2020
Spending Below General Fund Budget

(Dollars in Millions)

FY 2020 General Fund Sources (Includes Local Funds, Dedicated Taxes, and O-Type)

Appropriation Title	General Fund Variance	% of Revised Budget
Local Source (Local Funds & Dedicated Taxes)		
Governmental Direction and Support	$8.2	1.0%
Economic Development and Regulation	17.3	4.2%
Public Safety and Justice	10.4	1.0%
Public Education System	7.5	0.3%
Human Support Services	38.0	1.8%
Public Works	5.8	.8%
Finance and Other Uses	25.6	2.0%
SUBTOTAL	**$112.8**	**1.3%**
O-Type		
Special Purpose Revenue	**$ 106.1**	**14.9%**
Total - General Fund Underspending	**$ 218.9**	**2.3%**
Numbers may not add due to rounding.		

FY 2020 Revenues

Revenue Growth Compared to FY 2019

- **Real property tax growth of 5.1%** *(no material drop in payments as expected).*

- **Growth in individual income taxes of 3.4% from strong capital gains and withholding from DC resident wages** *(Federal wage assistance program (PPP, unemployment assistance, stimulus checks) and little impact outside of hospitality, retail, business services, and education sectors)*

- **Corporate franchise tax growth of 13.3%, a reflection of strong profits in tax year 2019 and increased prior year tax payments from compliance efforts** *(Nearly complete recovery of stock market, federal programs, and little impact outside of hospitality, retail, business services, and education sectors)*

Revenue Growth Compared to FY 2019

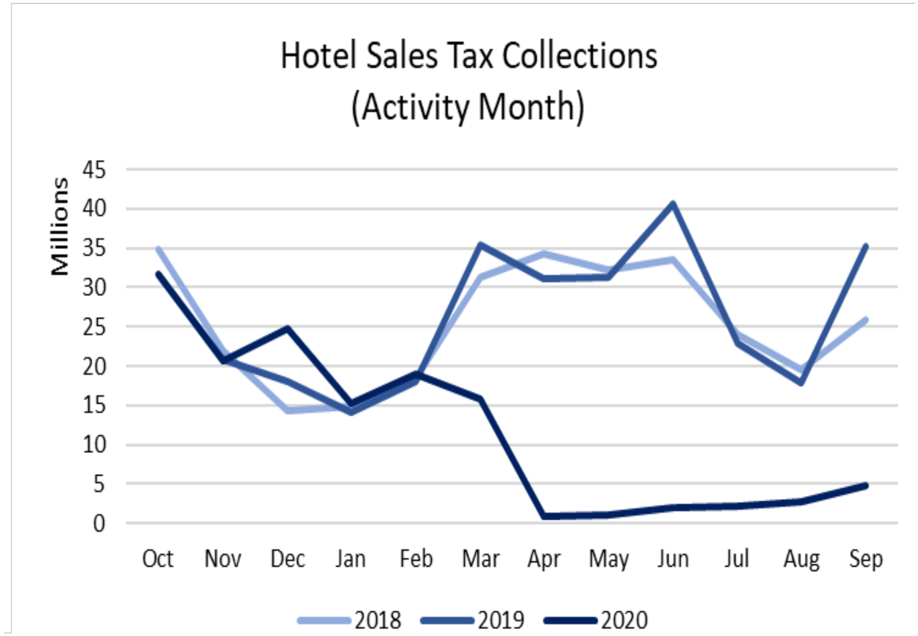
Partially offset by...

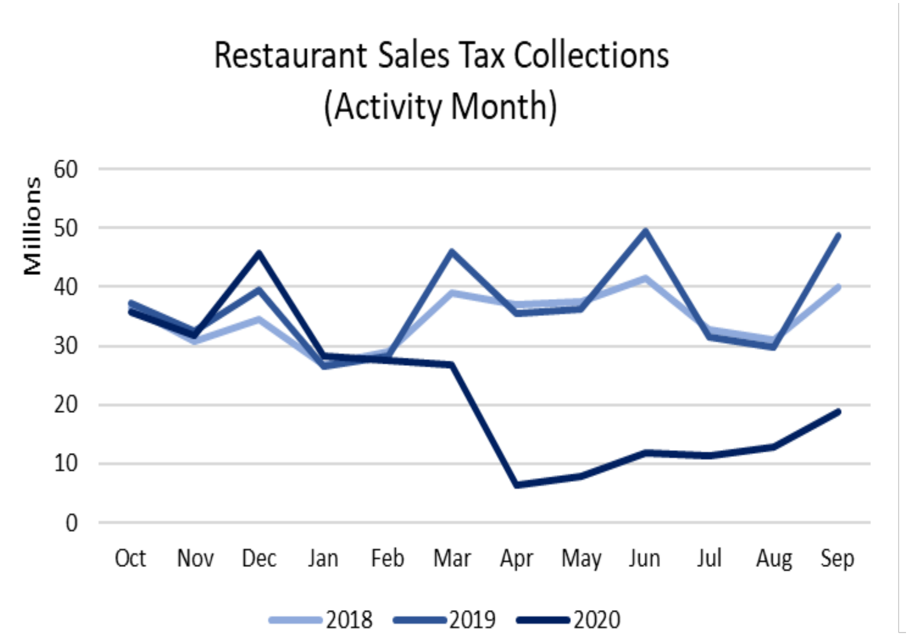
- **Sales & Use taxes decreased by 22.2% in FY 2020, particularly for hotels and restaurants.** *(slightly more losses than expected)*

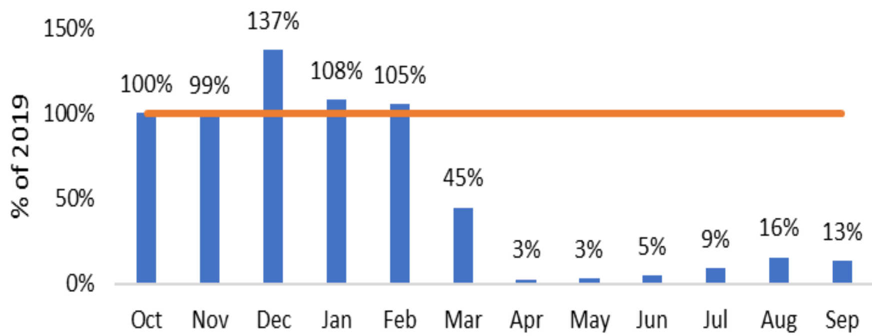
- **Deed taxes were down 19.9% related to reduced sales of large office buildings, and due to timing shifts at the beginning of the fiscal year as a result of a tax rate increase.** *(slightly more losses than expected)*

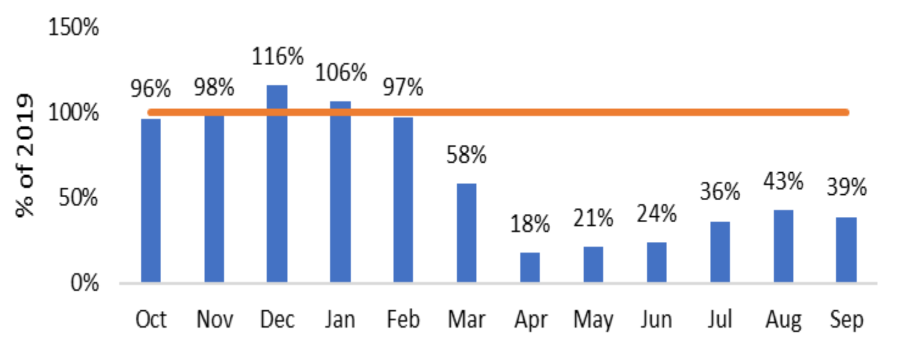
- **Nontax revenue declined from lower demand of private for-hire vehicles, reduced traffic fines (less traffic from commuters and residents), and record low interest rates and use of the fund balance to reduce investment income.**

Change in Hotel and Restaurant Sales tax

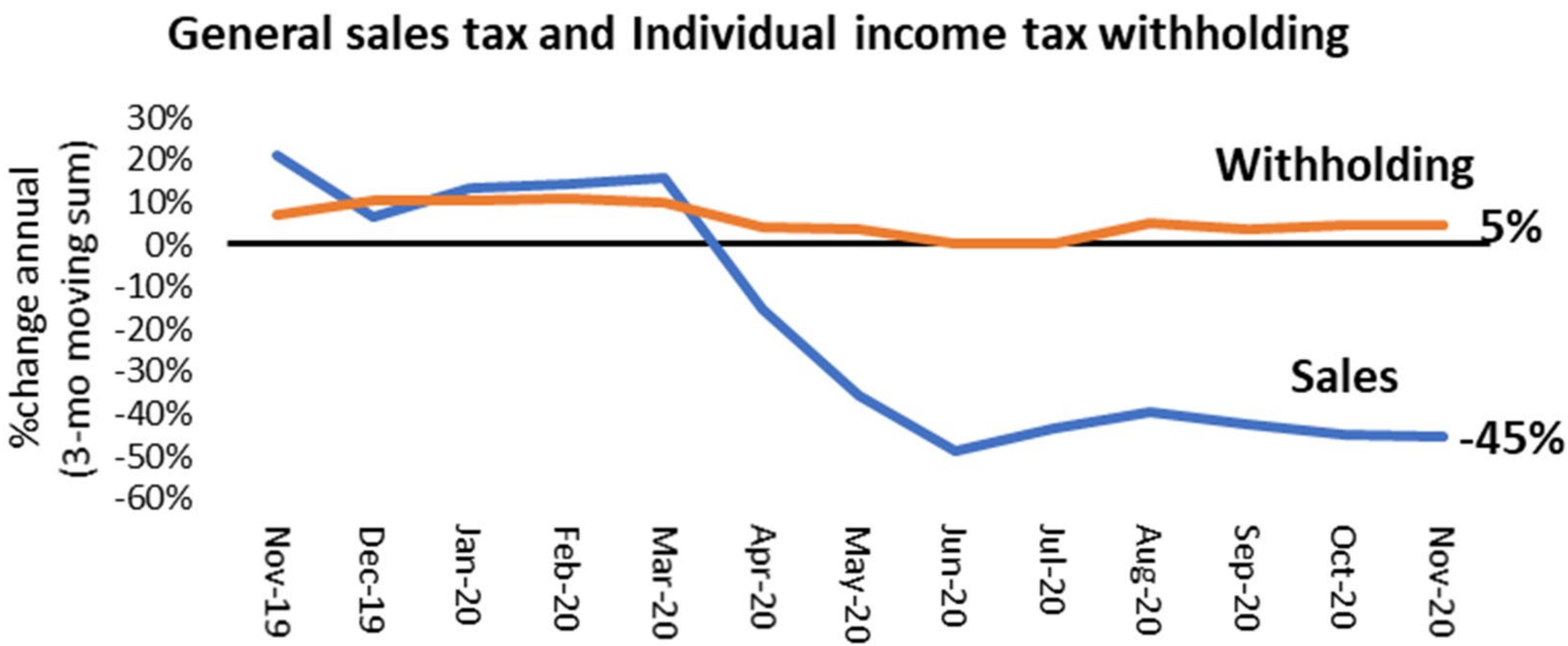








Sales tax decline while withholding grows



Discussion of Reserve Requirements

Comparison of Ending General Fund Balances

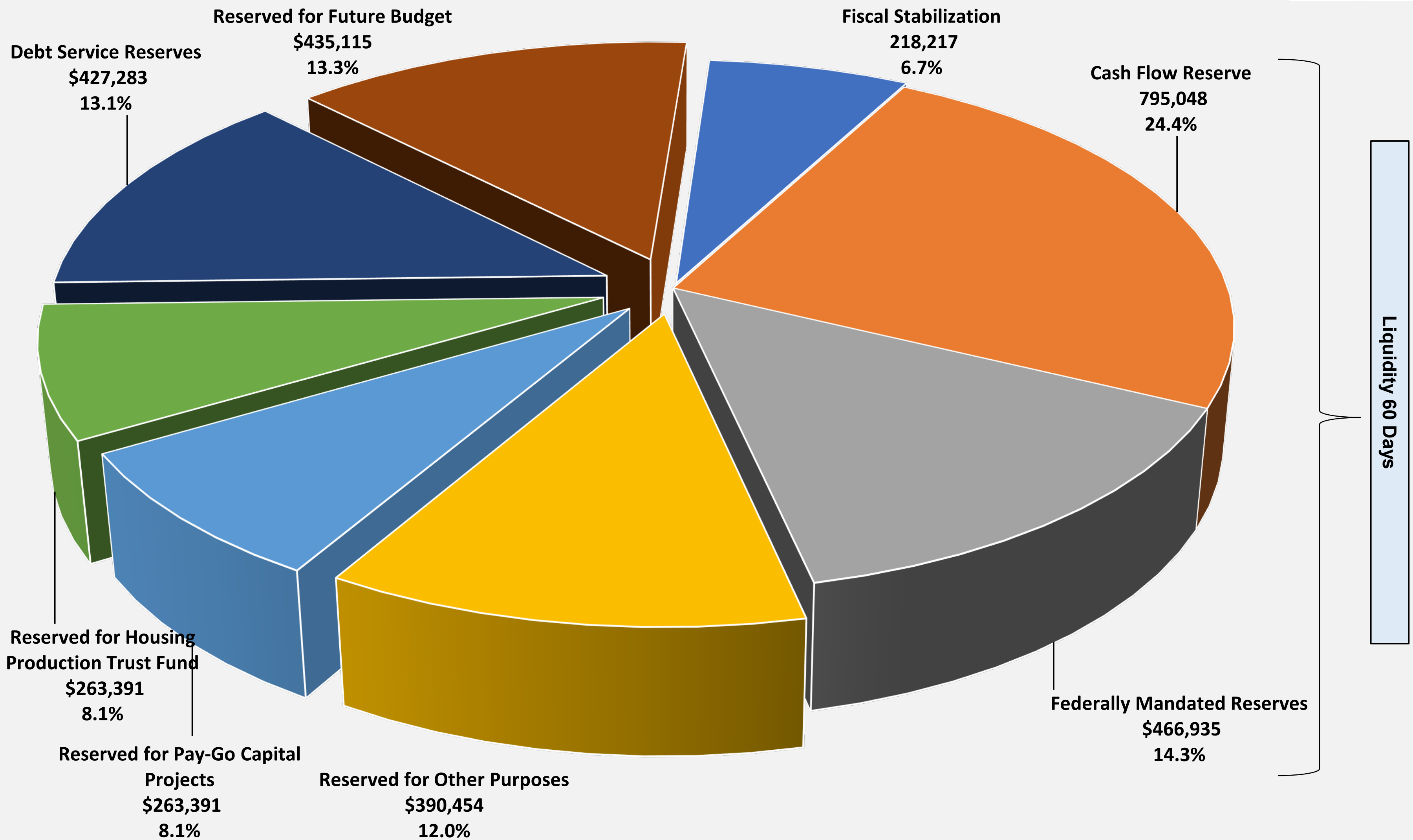
(Dollars in Thousands)

	FY 2020	FY 2019	Difference
Federally Mandated Reserves	$466,935	$447,787	19,148
Locally Mandated Reserves	1,013,265	986,327	26,938
Reserved for Future Budget	435,115	488,715	(53,600)
Debt Service Reserves	427,283	563,169	(135,886)
***Reserved for Housing Production Trust Fund**	263,391	161,825	101,566
***Reserved for Pay-Go Capital Projects**	263,391	161,825	101,566
Reserved for Other Purposes	390,454	443,668	(53,214)
TOTAL	**$3,259,834**	**$3,253,316**	**$6,518**

* *Amounts reserved for Housing Production Trust Fund and Pay-Go Capital Projects are transferred in FY2021.*

Reflects balances as of September 30, 2020, not current balances.

FY 2020
Composition of General Fund Balance
(Dollars in Thousands)



Total: $3.3 Billion

Reflects balances as of September 30, 2020, not current balances.

Federally and Locally Mandated Reserves (Working Capital, Liquidity)

Reserves	% of Expenditure/ Budget	Amount ($ in Millions)	Status
Emergency	2.00%	$ 155.6	Full
Contingency	4.00%	311.3	Full
Fiscal Stabilization	2.34%	218.2	Full
Cash Flow	8.33%	795.1	Full
Total	16.67%	**$1,480.2**	**60 days cash**

Reflects balances as of September 30, 2020, not current balances.

Benefits of Liquidity Reserves

- **The 60 days of operating cash level is a critical factor in the District's Aaa bond rating, lowers borrowing costs, and makes it possible to fund the $8.2 billion capital plan.** *(lower interest rates equal more infrastructure)*
- **The high bond rating allowed the debt service reserve fund requirement to be permanently reduced with new bond covenants and allowed refinancing savings of $40 million in 2021 to balance the budget.**
- **In March, while markets were unstable, the District was not immediately vulnerable to financial institutions while solutions were being developed.**
- **The Fiscal Stabilization Reserve was used to balance the FY 2021 budget and to prevent program cuts (repaid at the end of financial plan).**

Fully-Funded Pensions and Other Post-Employment Benefits

(Dollars in Thousands)

DCRB Trust Fund	FY 2020 Net Position	FY 2019 Net Position	Percentage Variance	Net Pension (Asset) Liability	Percentage Funded
Police, Firefighter, and Teachers Pensions	9,031,580	8,520,845	6.0%	($366,934)	104%
OPEB Trust Fund	**FY 2020 Net Position**	**FY 2019 Net Position**	**Percentage Variance**	**Net OPEB (Asset) Liability**	**Percentage Funded**
Other Post-Employment Benefits	$1,640,681	$1,509,102	8.7%	($19,047)	101%

Summary FY 2020 CAFR

District Enhances Strong Financial Position

- District received Clean/Unmodified Audit Opinion with no Material Weaknesses or Significant Deficiencies
- Covid-19 recession impacts limited to lower wage business sectors. District actions, Federal Stimulus, and Federal Reserve actions limited the expected losses of tax revenue.
- Federal funding was substantially above historical levels from CARES Act and FEMA grants
- Federally and Locally Mandated Reserves maintained at 60 days of operating expenses
- Pension and Retiree Health Care Trusts fully funded
- Surpluses provide $263.4 million in funding for PAYGO capital for infrastructure, and $263.4 million for the Housing Production Trust Fund

Observations

- The lower wage economy (hospitality, retail, business services) was severely impacted.
- Higher wage jobs were not only unaffected in many areas, but they also expanded.
- Federal stimulus checks, enhanced unemployment benefits, and the PPP program kept unemployment below expected levels and actually enhanced income taxes.
- Federal reserve actions stabilized markets allowing significant savings in new debt issuance and debt refinancings.
- Cash reserve levels provided time to prudently take actions to preserve liquidity and limit program reductions.

Observations (continued)

- In total, the District was able to contain expenses within resources given all the significant uncertainties and unexpected Covid-19 costs.
- Unemployment Insurance Reserves were substantially used to provide the unprecedented benefits required.
- The strong financial results will assist with what is a very uncertain 2021 with vaccine delivery to be determined as well as continued Federal support.
- The results provide options to address the current $462 million FY 2021-FY 2024 budget and financial plan deficit.

QUESTIONS?