

FY 2010 Budget Pressures

January 28, 2010

1350 Pennsylvania Avenue, NW

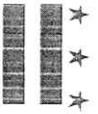
Suite 203

Washington, DC 20004

(202) 727-2476

www.cfo.dc.gov

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



FY 2010 Spending Pressure Summary

Appropriation Title	Range	
	Low	High
1. Public Education:		
Subtotal, Public Education	\$31.4	\$38.4
	12.0	15.0
	\$43.4	\$53.4
2. Public Safety and Justice		
Subtotal, Public Safety and Justice	\$15.2	\$15.2
	5.3	5.3
	\$20.5	\$20.5
3. Human Support Services		
Subtotal, Human Support Services		
	3.2	4.0
	6.9	10.1
	\$17.5	\$17.5
	12.0	12.0
	23.1	23.1
	12.6	12.6
	2.3	2.3
	\$77.6	\$81.6
4. Financing and Other		
Subtotal, Govt Direction and Support		
	\$17.0	\$23.3
	5.2	5.22
	\$22.2	\$28.5
5. Governmental Direction and Support		
Subtotal, Spending Pressures	\$175.7	\$196.0
6. Revenue Shortfall	\$17.1	17.1
7. Contingency Reserve	\$10.2	10.2
Total Budget Pressures	\$203.0	\$223.3

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Preliminary FY 2010 Budget Pressures
 As of January 27, 2010
 (\$ in millions)

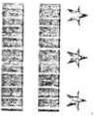
Appropriation Title/Agency	Low	High	Description
1. Public Education System			
Non-Public Tuition (GN0)	\$31.4	\$38.4	Realignment of Budget to Actuals: Projected total Local Funds expenditures for FY 2010 are currently forecasted at \$31.4M to \$38.4M over the approved budget of \$149.1M. The current projection is based on analysis of actual non-public tuition invoices, enrollment information, the effects of additional potential enrollments, and the FY 2009 NPT tuition increase.
Special Education Transportation (GO0)	\$12.0	\$15.0	FY 2009 actual expenditures total \$87.8M, but the FY 2010 budget totals \$75.8M. There have been no substantial changes to service levels that would evidence a decrease from prior year actuals.
Total Public Education System	\$43.4	\$53.4	
2. Public Safety and Justice			
Department of Corrections (FLD)	\$5.7	\$5.7	Reduced federal Marshals Service fees: This fee is used to support inmates housed at the CTF, which is contractually provided at a fixed rate. However, the U.S. Marshals Service has increased efficiencies and revenue collection has fallen to a rate where only \$22M is expected to be collected. Historically, the fee funds the cost of the CTF contract and supporting staff, which is budgeted at \$27.7M. This creates a shortfall of \$5.7M.
	\$9.5	\$9.5	Health Care Contract: During the formulation of the FY 2010 budget, it was believed that a savings based on restructuring the contract could be achieved and the contract was budgeted at \$19.5M. Presently, the contract has not been restructured. At the current rate of spending, DOC expects to spend \$29.7M this year on the contract against a budget of \$19.5M. An intra-District from the Department of Health Care Finance for \$750K will be used to offset the gap and brings the pressure to \$9.5M.
	\$15.2	\$15.2	Overtime and other pay: Staff must be deployed 24/7 and also attend periodic training. These demands plus approx 110 vacant/frozen positions (6-8 percent) result in the projection of overtime expenses beyond the budgeted amount of \$6.3M. The resulting overtime shortfall is approximately \$6.0M. Furthermore, longevity pay and the fringe benefits budget requires additional funding. The projected shortfall for both is \$1.7M.
Fire and Emergency Medical Services Department (FBO)	\$5.3	\$5.3	Reimbursement from other sources in the amount of \$2.4M will reduce the spending pressure to approximately \$5.3M for the fiscal year.
<i>subtotal DOC</i>	<i>\$15.2</i>	<i>\$15.2</i>	
Total Public Safety and Justice	\$20.5	\$20.5	
3. Human Support Services			
Disability Compensation Fund (BG0)	\$3.2	\$4.0	Increased Claims Costs: FY 2010 budget is \$2.6M less than the FY 2009 actual of \$27.8M, and the agency forecasts increased costs over FY 2009. Actuarial studies pertaining to Disability Compensation that the yearly budgetary needs to be in the neighborhood of \$30 million to sufficiently provide coverage. Actuals for this agency have been around \$27.4M for the past four fiscal years. Also affecting the steady increase is the rising cost of health care for the oldest group of individuals on disability, approximately 200 of the 500 total participants.
DC Unemployment Compensation Fund (BH0)	\$6.9	\$10.1	Increased Claims Costs: FY 2010 budget is \$2.8M less than FY 2009 actual of \$13.9M. The District will continue paying unemployment benefits to those persons still eligible from FY 2009. Values based on projections for current number of claimants at 4,760, unit costs per person of \$4,000, and the average number of weeks for benefits payments is 30 weeks.

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	Low	High	
Health Care Finance (HTO)	\$17.5	\$17.5	Alliance: Delayed savings initiatives such as the transition of enrollees to Medicaid via 1115 waiver and the enforcement of residency requirement, and unbudgeted enrollment growth.
	\$12.0	\$12.0	Medicaid: Revised estimate of cost per beneficiary and enrollment growth in the MRDD waiver; delay in savings initiatives; growth in home health and managed care; and billing issues in adult dental care.
Child and Family Services Agency (RL0)	\$23.1	\$23.1	Medicaid Billing: In FY 2009, CFSA suspended Medicaid billing for Targeted Case Management (TCM) and Rehabilitative Services Option claims based on Medicaid cost report audits. CFSA intends to resume Medicaid claiming for certain services. This excludes TCM services. This pressure includes anticipated savings that may not be realized.
Department of Youth Rehabilitation Services (JZ0)	\$12.6	\$12.6	Increased Commitments and Non-realized cost savings: The pressure includes \$4.7M to maintain services at FY 2009 levels; \$3.8M for increased commitments averaging 37 youth a day; overtime of \$2.2M; and non-realized cost savings of \$1.9M.
Department of Mental Health (RM0)	\$2.3	\$2.3	Higher Utilization of Contracted Providers and St. E overtime: Consists of funding for Mental Health Recovery Services (MHRS) consumers of \$1.5M due to the closure of D.C. Community Services Agency and additional MHRS enrollments. Also consists of \$788K of overtime at St Elizabeths based on the current rate of expenditures of \$180,286 per pay period for overtime costs.
Total Human Support Services	\$77.6	\$81.6	
4. Financing and Other			
Settlements and Judgments Fund (ZH0)	\$12.0	\$12.0	Increased settlements: Approximately \$8.2M of the \$13.7M settlement from the arrest of 680 IMF/World Bank demonstrators in FY 2000 will be paid out in FY 2010. In addition, approximately \$3.8M from the September 2002 mass demonstration settlement will be paid in FY 2010, for total FY 2010 payments of \$12.0M.
Total Financing and Other	\$12.0	\$12.0	

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Appropriation Title/Agency	Low	High	Description
5. Governmental Direction and Support City-wide fixed costs centrally managed by the Office of Finance and Resource Management (ASO) and the Department of Real Estate Services (AM0)	\$17.0	\$23.3	Variances between forecasts and agency budgets
Office of the Chief Technology Officer (T00)	\$5.2	\$5.2	<i>Data Service Costs:</i> Data center lease originally planned for FY 2011 but was accelerated to FY 2010 (\$2.7M) and cost of providing mainframe service to District agencies (\$2.5M).
Total Governmental Direction and Support	\$22.2	\$28.5	
SUBTOTAL SPENDING PRESSURES	\$175.7	\$196.0	
6. Revenue Shortfall Reduction in revenue estimates	\$17.1	\$17.1	<i>Revenue reduction:</i> Accounts for the reduction in estimated revenue in FY 2010 per the December 16, 2009 revenue estimate
Total Revenue Shortfall	\$17.1	\$17.1	
7. Contingency Reserve Replenish Contingency Reserve	\$10.2	\$10.2	<i>Contingency Reserve:</i> Replenish half of the amount drawn in FY 2009 from the Contingency Reserve for the Non-Public Tuition pressure of \$20.3M.
Total Contingency Reserve	\$10.2	\$10.2	
TOTAL BUDGET PRESSURES	\$203.0	\$223.3	

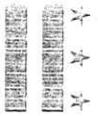


FY 2011 Current Services Funding Level Briefing

January 28, 2010

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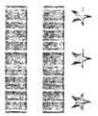


CSFL Definition

Current Services Funding Level (CSFL)

The CSFL is a representation of the cost of running an agency without consideration for policy decisions.

- Unlike the Policy Budget that the Mayor will submit to the Council on April 1, 2010, the CSFL does not have the burden of being bound by projected revenues. The CSFL represents the Chief Financial Officer's assessment of what it would cost the District Government in FY 2011 if services provided to the public were to remain constant from FY 2010.

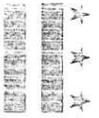


FY 2011 CSFL -- Gap in Revenue Funding

FY 2011 REVENUE PROJECTIONS VS. FY 2011 CURRENT SERVICES FUNDING LEVEL

FY 2011 Current Services Funding Level	5,590.8
FY 2011 Total Revenues Projections	5,117.5
Total Gap In Funding:	473.4

Note: Numbers may not add due to rounding

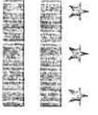


FY 2011 CSFL -- Summary

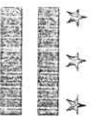
FY 2010 RECURRING BUDGET VS. FY 2011 CURRENT SERVICES FUNDING LEVEL

FY 2011 Current Services Funding Level		5,590.8
FY 2010 Approved Budget	5,180.4	
Less: one-time expenditures in FY 2010	(103.9)	
FY 2010 Recurring Budget		5,076.5
Change from the FY 2010 Recurring Budget		514.3

Memo: Change from the FY 2010 Recurring Budget percentage 10.1%


FY 2011 CSFL vs. FY 2010 Recurring Budget –
Local Funds

Appropriation Title	(in Millions)					
	FY 2010 Local Funds Recurring Budget	FY 2011 CSFL	\$ Change	% Change		
Governmental Direction and Support	\$ 309.1	\$ 321.1	\$ 12.0	3.9%		
Economic Development and Regulation	90.3	96.7	6.4	7.1%		
Public Safety and Justice	926.0	957.6	31.7	3.4%		
Public Education System	1,359.7	1,520.5	160.8	11.8%		
Human Support Services	1,307.6	1,578.0	270.4	20.7%		
Public Works	393.1	413.0	19.9	5.1%		
Financing and Other	690.8	703.9	13.1	1.9%		
Total - Local Funds	\$ 5,076.5	\$ 5,590.8	\$ 514.3	10.1%		
Operating Agencies	78.4%	\$ 3,982.2	80.1%	\$ 4,477.4	\$ 495.3	12.4%
Non-Operating Agencies	21.6%	\$ 1,094.4	19.9%	\$ 1,113.4	\$ 19.1	1.7%



FY 2011 CSFL: Major Cost Drivers - Summary

- The Step Increase Impact value and Fringe Impact value do not include adjustments for DCPS
- CPI Inflation Impact Figure does not include adjustments for any Mandatory item above

•The "FY 2011 Impact of FY 2010 Spending Pressures" value does not include spending pressures from Non-Public Tuition and Special Education Transportation, as they are included in the "Mandatory" section above.

Mandatory CSFL Adjustments	\$M Change	% of Total Growth
Non-Public Tuition	\$ 51.5	10.0%
Public Charter Schools	10.2	2.0%
Special Education Transportation	9.7	1.9%
Debt Service	7.6	1.5%
WMATA Subsidy	6.3	1.2%
DC Public Schools	5.1	1.0%
Police, Fire and Teachers' Retirement	(5.4)	-1.0%
Other Adjustments	5.5	1.1%
Subtotal - Mandatory CSFL Adjustments	\$ 90.6	17.6%

Stimulus CSFL Adjustments	\$M Change	% of Total Growth
Stimulus Funding Impact	239.8	46.6%
Subtotal - Stimulus CSFL Adjustments	\$ 239.8	46.6%

Other CSFL Adjustments	\$M Change	% of Total Growth
FY 2011 Impact of FY 2010 Spending Pressures	\$ 109.6	21.3%
CPI Inflation Increase Impact - 2.20%	22.3	4.3%
Fringe Benefit Increase Impact - 10.02%	19.0	3.7%
Step Increase Impact - 0.50%	11.7	2.3%
Other Adjustments	21.2	4.1%
Subtotal - Other CSFL Adjustments	\$ 183.9	35.8%

Total - CSFL Adjustments	\$ 514.3
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Fiscal Year 2011 CSFL: Governmental Direction, Economic Development and Public Safety and Justice

Agency	(in Millions)		Change	% Change	Comments
	FY 2010 Approved Recurring Budget	FY 2011 CSFL			
Governmental Direction and Support					
Office of the Chief Technology Officer	\$ 41.0	\$ 46.1	\$ 5.1	12.4%	\$4.1M increase in Fixed Cost based on two new locations
Office of the Chief Financial Officer	105.9	109.2	3.4	3.2%	\$2.2M increase based on Waterfront property
Department of Real Estate Services	21.8	23.7	1.9	8.7%	\$2.8M increase due to addition of RFK to AM0 inventory, offset by reallocation of expenses of (\$1.3) from 225 Virginia Ave.
Others	140.4	142.0	1.6	1.2%	
Subtotal - Governmental Direction and Support	\$ 309.1	\$ 321.1	\$ 12.0	3.9%	
Economic Development and Regulation					
Department of Housing and Community Development	\$ 5.0	\$ 9.9	\$ 4.9	99.0%	Recurring administrative costs associated with the operations of DHCD that exceed the amount allowed to be charged to existing Federal grants (\$4.5M).
Others	85.3	86.8	1.5	1.7%	
Subtotal - Economic Development and Regulation	\$ 90.3	\$ 96.7	\$ 6.4	7.1%	
Public Safety and Justice					
Department of Corrections	\$ 99.0	\$ 116.5	\$ 17.5	17.6%	Applied costs of health care contract currently being rebid (\$4.9M), supplemented an expected decrease in O-Type funds (\$6.0M), and increased Overtime and Special Pay to cover historical spending pressures (\$2M).
Metropolitan Police Department	446.4	452.4	6.0	1.3%	\$5.4M in PS increases based on CSFL Assumptions
Fire and Emergency Medical Services	187.9	196.8	8.9	4.7%	Longevity Pay (\$5.3M) included in PS costs for CSG 11 and 13.
Police Officers' and Fire Fighters' Retirement System	132.6	127.2	(5.4)	-4.1%	Adjusted based on Actuarial Study
Others	60.0	64.7	4.7	7.9%	
Subtotal - Public Safety and Justice	\$ 926.0	\$ 957.6	\$ 31.7	3.4%	

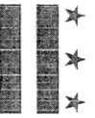
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FY 2011 CSFL: Public Education

Agency	(in Millions)				Comments
	FY 2010 Approved Recurring Budget	FY 2011 CSFL	\$M Change	% Change	
Public Education System					
Non-Public Tuition	\$ 149.1	\$ 200.6	\$ 51.5	34.5%	FY 2010 projected spending rate plus an estimated 7% growth rate (\$48.2M).
DC Public Charter Schools	374.0	423.0	49.1	13.1%	\$8,770 UPSFF, estimated enrollment of 29,610 (projected 7.0 percent enrollment growth on top of the 10/5/2009 certified enrollment, based on prior year trend analysis and may not comport to enrollment study scheduled to be released after the CSFL is published), maintaining the nonresidential facilities allowance at \$2,800 per student and the residential facilities allotment at \$8,395 per student. Also, loss of ARRA/SFSF funding requires Local fund replacement.
DC Public Schools	510.9	550.5	39.7	7.8%	\$8,770 UPSFF, certified enrollment for General Education students as of 10/5/09 (45,772), estimated Special Education enrollment (6,125), estimated General Education Summer enrollment (6,866), ICSIC program of \$2.3 million. Also, loss of ARRA/SFSF funding requires Local fund replacement.
Special Education Transportation	77.4	87.1	9.7	12.5%	Increase reflects requirements to maintain services based on court decree (\$8.6M)
Others	248.3	259.1	10.8	4.4%	
Subtotal - Public Education System	\$ 1,359.7	\$ 1,520.5	\$ 160.8	11.8%	

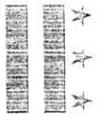
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FY 2011 CSFL: Human Support Services

Agency	(in Millions)				Comments
	FY 2010 Approved Recurring Budget	FY 2011 CSFL	\$M Change	% Change	
Human Support Services					
Health Care Finance	\$ 486.7	\$ 700.1	\$ 213.4	43.8%	Medicaid: costs estimated to grow 7.8% based on national medical cost growth rate from CMS Office of Actuary and removal of ARRA funding. Alliance: cost growth driven by 3% enrollment increase.
Child and Family Services Agency	174.4	195.7	21.3	12.2%	In FY 2009, claiming for Medicaid was suspended. CFSA intends to resume claiming by FY 2011 but for limited categories.
Department of Youth Rehabilitation Services	85.0	97.9	12.8	15.1%	Incorporation of FY 2010 spending pressure for increased services to detained youth and a projected 5% population growth based on historical data (\$10.5M).
Department of Parks and Recreation	39.3	46.3	7.0	17.9%	Includes the FY 2010 \$4.0M spending pressure for Fixed Costs, additionally \$2.3M for mowing contracts and pool maintenance contracts
Others	522.3	538.1	15.8	3.0%	
Subtotal - Human Support Services	\$ 1,307.6	\$ 1,578.0	\$ 270.4	20.7%	

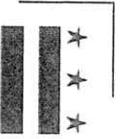
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FY 2011 CSFL: Public Works and Financing & Other

Agency	(in Millions)		Change \$M	Change %	Comments
	FY 2010 Approved Recurring Budget	FY 2011 CSFL			
Public Works					
WMATA Subsidy	\$ 231.7	\$ 238.0	\$ 6.3	2.7%	Based on WMATA assessment and Circulator costs
Others	161.4	175.0	13.6	8.4%	
Subtotal - Public Works	\$ 393.1	\$ 413.0	\$ 19.9	5.1%	
Financing and Other					
Repayment of Loans and Interest	\$ 463.8	\$ 471.4	\$ 7.6	1.6%	Based on additional \$85M borrowing in FY 2010 for 225 Virginia Ave property that was not previously budgeted for.
District Retiree Health Contribution	90.7	96.7	6.0	6.6%	Based on Actuarial Certification
Others	136.3	135.8	(0.5)	-0.4%	
Subtotal - Financing and Other	\$ 690.8	\$ 703.9	\$ 13.1	1.9%	
Total - Local Funds	\$ 5,076.5	\$ 5,590.8	\$ 514.3	10.1%	

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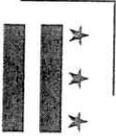
Debt Cap Considerations

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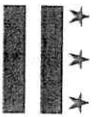
FY 2009 CAFR



Current Debt Cap Position

- The reduction in revenues since enactment of the debt cap will cause the ratio to exceed the 12 percent limit in FY 2011, 2013, and 2014, assuming no change in already authorized borrowing
- Council cannot authorize any additional long-term debt without taking action to address this issue
- A substantial reduction in the amount of planned borrowing for the Capital Improvements Program (CIP) would be needed to remain within the 12 percent debt cap

Summary of Debt Cap Numbers After December Revenue Estimates:						
(\$ in millions)						
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	
Total Existing & Projected Debt Service on Tax-Supported Debt	\$675.80	\$708.60	\$695.40	\$759.20	\$792.70	
General Fund Expenditures (per Financial Plan)	\$5,976.10	\$5,896.30	\$6,049.40	\$6,110.50	\$6,221.66	
Ratio of Debt Service to Expenditures	11.31%	12.02%	11.50%	12.42%	12.74%	
Available Debt Service Capacity:	\$41.30	(\$1.03)	\$30.52	(\$25.89)	(\$46.14)	

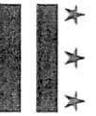


CIP Reductions to Remain within the Debt Cap

Summary of Required CIP Reductions to Remain within Debt Cap During Financial Plan Period:
(\$ in millions)

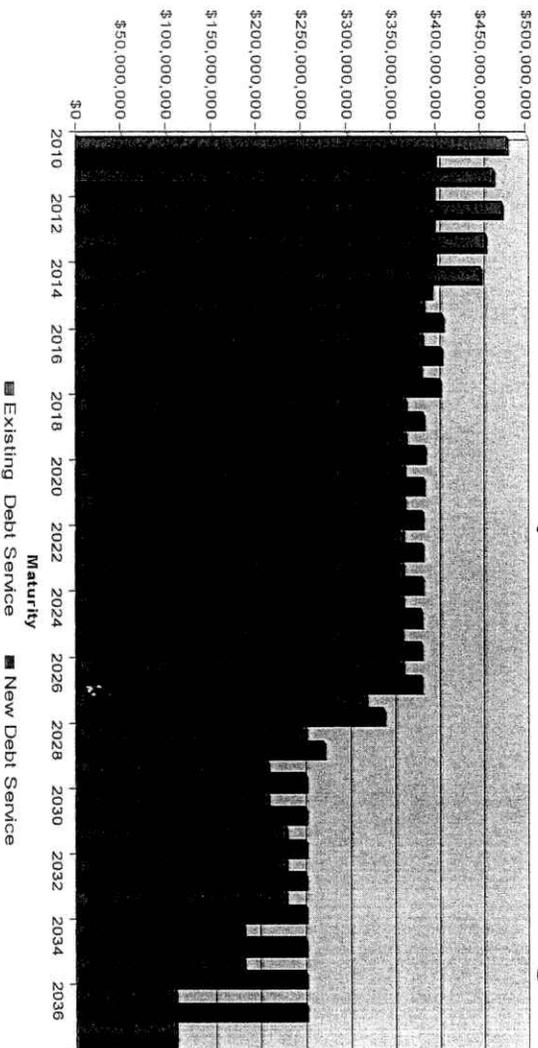
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Current Financial Plan CIP	\$660.00	\$583.72	\$566.54	\$599.07	\$450.08
Required CIP Reductions to Remain within the CAP	\$0.00	(\$583.72)	(\$141.55)	--	--
Available CIP Capacity After Reduction	\$0.00	\$0.00	\$425.00	\$599.07	\$450.08
CIP Reduction Impact on Debt Cap	11.31%	11.91%	11.00%	11.74%	11.96%

- In the absence of other action, projected borrowing for the CIP would need to be reduced by a total of approx. \$725 million in Fiscal Years 2011 and 2012 to remain within the 12 percent debt cap
- To address this challenge, we have evaluated the District's debt portfolio for alternatives to stay within the debt cap without making drastic cuts to the CIP, by restructuring/refunding certain outstanding debt
- Should a refunding be approved by Mayor and Council, by early March, exact debt service savings will be known and the debt cap will be updated based on this refunding and new revenue estimates, for inclusion in the FY11 Budget and Financial Plan



Proposed Debt Restructuring

Debt Profile Before and After Proposed Restructuring



- The District's current debt profile for General Obligation bonds and Income Tax bonds is front-loaded
- Municipal bond interest rates are near 40-year lows
- Restructuring select GO Bond maturities in fiscal years 2010-2014 would eliminate the debt service spike in 2010-2014, creating a level debt service profile in those years
- Present value dissavings associated with the restructuring is estimated to range from \$40 million to \$50 million through the maturity of the bonds
- The restructuring will not extend the current final maturity of the debt portfolio
- The restructuring would allow financing of the current CIP without exceeding debt cap through 2015

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FY 2009 CAFR