
Financial Plan and Fund Structure

Revenue growth in the District of Columbia led to a large surplus in FY 2005, and prospects are good for continued growth that will ensure a balanced financial plan in coming years. The FY 2007 Proposed Budget and Financial Plan utilizes a portion of these increased General Fund revenues to finance new initiatives, transfer funds to pay for capital projects, and make a down payment now to reduce large future liabilities.

FY 2005 marked the District's ninth consecutive balanced budget, with a large surplus and an unqualified ("clean") audit opinion. The year ended with General Fund revenues exceeding expenditures by \$369.7 million and a fund balance of \$1.6 billion.

The District's ratings on its debt continue to improve. Wall Street bond rating agencies have recognized the District's improved financial status by upgrading the ratings on its debt. For the first time, three major rating agencies--Standard & Poor's, Moody's, and Fitch--now rate the District's debt in the A range. Their actions represent a vote of confidence for the District's financial prospects.

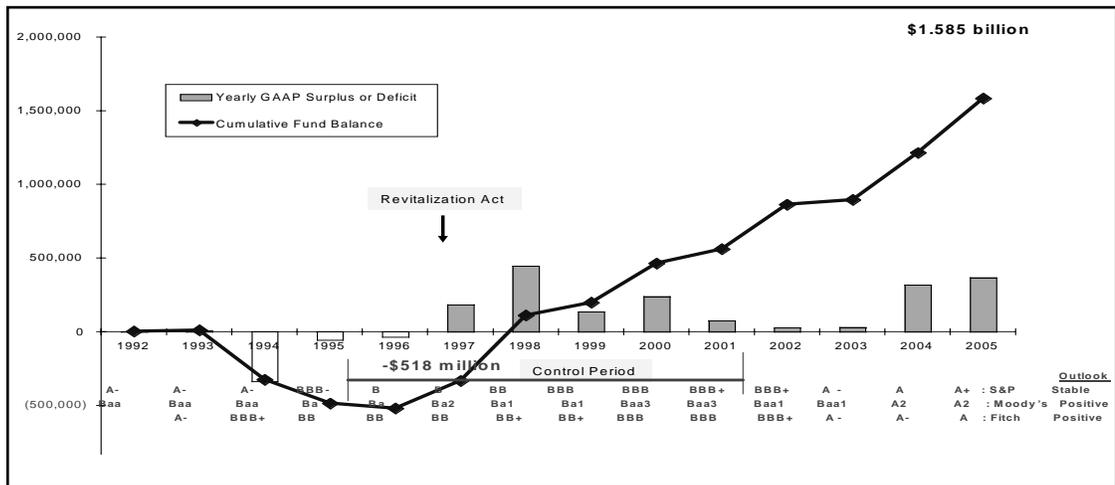
While recent years' operating budgets have ended with healthy surpluses, the District still finds it difficult to meet the challenges of providing services for the needs of a state, county, and city population. This difficulty is perhaps most evident in the capital budget, as borrowing constraints and a shortfall in the capital fund balance combine to limit capital spending below what the District would desire. The proposed budget

transfers some of the accumulated balance in the General Fund to the capital fund.

In addition, future costs can always upset a financial plan that has a small margin of surplus. One known cost that will affect the District by FY 2008 is the need to recognize as a liability the future health insurance costs of retired District workers. The District will use another portion of the accumulated fund balance to offset some of these costs. Without such a down payment now, when funds are available, the cost in 2008 will be even higher.

This chapter's primary focus is the financial plan for the General Fund operating budget, which displays the past year, the current year, the proposed FY 2007 revenue and expenditure budget, and projections for the next three years. It then describes the District's fund structure, including funds outside the operating budget.

**Figure 3-1
General Fund Surplus/Deficit and Fund Balance. FY 1992 - FY 2005**



Revenues and Expenditures: Past and Future

The District's General Fund has completed its turnaround from its deficit position in the mid-1990s (see figure 3-1). After three years of deficits ending in 1996, the District posted large surpluses in 1997 and 1998, with its fund balance becoming positive again in 1998. Seven additional surpluses have followed.

Revenue and operating expenditure trends are discussed in more detail in the respective chapters included in the Budget Highlights. The financial plan shows fairly small surpluses, as a percentage of the District's budget, for the next three years.

Understanding the Financial Plan

The financial plan is a synopsis of past, present, and future activity related to the General Special Purpose Revenue funds--certain fees collected by and dedicated to agencies for specific purposes through District legislation. Along with the full financial plan for the General Fund (table 3-1), which includes fund balance and reserve fund projections, shorter summaries of the Local and Special Purpose Revenue components of the plan are included.

The operating budget, the primary focus of this budget volume and Volumes 2 through 4,

includes the General Fund and the Federal and Private Resources Fund. The sum of activity related to the General Fund and the Federal and Private Resources Fund is sometimes called the District's "Gross Funds" budget. This chapter includes a financial plan for the Federal and Private Resources Fund, table 3-5. Finally, other funds that capture financial activity related to the District are discussed after the presentation of the financial plan.

The General Fund financial plan covers six fiscal years:

- FY 2005 financial data from the CAFR;
- FY 2006 original council budget and revised budget;
- FY 2007 proposed budget, the topic of the remainder of this volume and Volumes 2 through 4; and
- FY 2008 through FY 2010 projections of revenues and expenditures.

The Chief Financial Officer certifies revenues periodically, and details on revenue trends and future estimates are included in the Revenues chapter of this volume. The financial plan includes the use of both current-year revenues and fund balance--that is, accumulated funds from prior years--for one-time purposes. The plan also displays the effects of proposed revenue initiatives. Expenditures are projected based in

part on past trends, and more details are in the Operating Expenditures chapter of this volume. The financial plan also includes assumptions about the use of reserves and other means of financing.

The District uses the multi-year financial plan as a working tool throughout the fiscal year to monitor the impact of legislative proposals, programmatic initiatives, and economic changes on the District's near-term fiscal outlook. The plan is primarily a budget document, but it has aspects of an accounting document and a cash flow document. It includes projections of the effects of budget decisions on the fund balance, and it considers the maintenance of certain required reserve funds.

Below are line-item descriptions of the financial plan elements. For explanatory purposes, the plan is broken into four sections:

- Revenues;
- Expenditures;
- Fund balance, Generally Accepted Accounting Principles (GAAP) adjustments, and transfers; and
- Composition of fund balance.

The numbering scheme noted below refers to the line numbers on Tables 3-1, 3-2, 3-3, and 3-4.

Revenues

2. Taxes. Includes property, sales, income, and other taxes, which are projected by the Office of Revenue Analysis. See the Revenue chapter for details.

3. General Purpose Non-Tax Revenues. Includes revenue from licenses and permits, fines, charges for services, and other revenue sources that are not dedicated to particular purposes. See the Revenue chapter for details.

4. Dedicated Taxes - Housing Production Trust Fund. The Housing Production Trust Fund (HPTF) Second Amendment Act of 2002 requires that 15 percent of the District's Deed Recordation and Transfer Tax Revenue be transferred to the HPTF annually. Please see line 19 "Revenue Proposals" below for discussion of additional revenues for HPTF.

5. Special Purpose (O-Type) Revenues. Special Purpose Revenues are O-type or Other revenues from charges and fees that are collected and spent by the collecting agency. This pool is distinct from the general purpose non-tax revenue category above.

6. Transfer from Lottery. Reflects the portion of D.C. Lottery and Charitable Games Control Board revenue that is transferred to the District's general fund.

7. General Fund Revenues. This line reflects the sum of lines 1 through 6.

8. Effect of Tax Changes. This line item shows the impact on tax revenues as a result of policy decisions made during the formulation of the FY 2007 budget.

9. Gross Sales Tax Dedicated for School Modernization. Starting in FY 2007, Sales Tax, that has not previously been dedicated, shall be deposited into the school modernization fund up to \$100 million and increased annually thereafter by the Construction Cost Index (CCI). The CCI increases by 6 percent in FY 2008 - FY 2010.

10. Adjusted General Fund Revenues. This is the sum of lines 7 - 9.

11. Bond Proceeds for Issuance Costs. The portion of the proceeds that will be used to cover the cost of issuing General Obligation bonds is included as revenue.

12. Payment-in-Lieu-of-Taxes from WASA. The Water and Sewer Authority (WASA) makes payment-in-lieu-of-taxes (PILOT) to the District. The revenues are recorded on a gross basis (related expenditures are included in the expenditure section). The expenditures were recorded in the Office of Finance and Resource Management in FY 2006 and will be recorded in the Department of Public Works in FY 2007.

Table 3-1

FY 2007 - 2010 Proposed Budget and Financial Plan: General Fund

(\$ thousands)

	FY 2005 Actual	FY 2006 Approved	FY 2006 Adjusted	FY 2007 Proposed	FY 2008 Projected	FY 2009 Projected	FY 2010 Projected
1 Revenues							
2 Taxes	4,052,087	4,101,533	4,157,782	4,412,599	4,676,088	4,949,484	5,224,222
3 General Purpose Non-Tax Revenues	352,427	340,522	315,226	317,277	317,138	325,336	325,095
4 Dedicated Taxes - Housing Production Trust Fund	0	0	0	50,587	53,255	58,103	64,005
5 Special Purpose (O-type) Revenues	311,789	264,254	354,667	368,657	364,748	361,830	373,639
6 Transfer from Lottery	<u>71,450</u>	<u>73,100</u>	<u>72,000</u>	<u>72,100</u>	<u>72,100</u>	<u>72,100</u>	<u>72,100</u>
7 General Fund Revenues	4,787,753	4,779,409	4,899,675	5,221,220	5,483,329	5,766,853	6,059,061
8 Effect of Tax Changes	0	0	(908)	(276)	(307)	(346)	(388)
9 Gross Sales Tax Dedicated for School Modernization	0	0	0	(100,000)	(106,000)	(112,360)	(119,102)
10 General Fund Revenues	4,787,753	4,779,409	4,898,767	5,120,944	5,377,022	5,654,147	5,939,571
11 Bond Proceeds for Issuance Costs	4,935	40,000	40,000	30,000	30,000	20,000	20,000
12 Payment-in-Lieu-of-Taxes from WASA	0	1,576	1,576	1,551	0	0	0
13 Transfer from Federal and Private Resources	0	6,502	6,502	6,502	6,646	6,807	6,979
14 Transfer from HPTF Special Revenue Fund for Debt Svc	0	0	0	6,000	12,000	12,000	12,000
15 Transfer from Capital Funds (Bus Shelter Rev.) for Debt Svc	0	0	0	2,091	17,526	18,097	18,465
16 Fund Balance Use	80,781	591,642	605,662	284,287	65,385	8,399	0
18 Transfer to Capital	0	(30,000)	0	0	0	0	0
19 Revenue Proposals	0	<u>8,729</u>	0	<u>113,268</u>	<u>137,307</u>	<u>139,470</u>	<u>145,228</u>
20 Total General Fund Resources	4,873,469	5,397,858	5,552,507	5,564,643	5,645,886	5,858,920	6,142,243
22 Expenditures (by Appropriation Title)							
23 Governmental Direction and Support	294,778	340,858	344,033	384,759	378,512	388,375	400,497
24 Economic Development and Regulation	193,456	328,156	347,356	288,974	254,273	256,226	263,870
25 Public Safety and Justice	805,471	827,037	838,654	943,295	961,120	990,839	1,023,552
26 Public Education System	1,082,177	1,189,302	1,189,051	1,223,971	1,245,784	1,277,734	1,311,343
27 Human Support Services	1,258,537	1,307,530	1,357,342	1,423,138	1,475,718	1,545,283	1,621,441
28 Public Works	328,997	366,101	366,100	405,318	412,268	426,723	443,714
29 Financing and Other	421,070	561,276	552,287	586,296	670,135	710,075	758,932
30 Cash Reserve (Budgeted Contingency)	0	50,000	48,400	50,000	50,000	50,000	50,000
31 Lease Purchase Costs	<u>22,058</u>	<u>27,441</u>	<u>27,441</u>	<u>43,955</u>	<u>46,320</u>	<u>49,320</u>	<u>51,320</u>
32 Subtotal, Operating Expenditures	4,406,544	4,997,701	5,070,664	5,349,706	5,494,131	5,694,574	5,924,669
33 Paygo Capital	20,550	207,083	208,523	87,987	0	0	0
34 Transfer to Trust Fund for Post-Employment Benefits	0	138,000	138,000	4,700	81,000	86,200	91,800
35 General Fund Contribution to Capital Fund Balance	0	53,800	53,800	0	0	0	0
36 Transfer to HPTF Special Revenue Fund	0	0	0	120,418	69,255	75,644	83,424
37 Total General Fund Expenditures	4,427,094	5,396,584	5,470,987	5,562,811	5,644,386	5,856,418	6,099,893
38 Operating Margin, Budget Basis	446,375	1,274	81,520	1,832	1,500	2,501	42,349
40 Beginning General Fund Balance	1,215,015	1,584,683	1,584,683	1,040,541	738,086	654,201	628,304
41 Operating Margin, Budget Basis	446,375	1,274	81,520	1,832	1,500	2,501	42,349
42 Projected GAAP Adjustments (Net)	4,074	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
43 Deposits into Reserve Funds (From Fund Balance)	0	0	0	0	(34,524)	0	0
44 Deposits into Reserve Funds (To Cash Reserves)	0	0	0	0	34,524	0	0
45 Fund Balance Use	<u>(80,781)</u>	<u>(591,642)</u>	<u>(605,662)</u>	<u>(284,287)</u>	<u>(65,385)</u>	<u>(8,399)</u>	0
46 Ending General Fund Balance	1,584,683	974,315	1,040,541	738,086	654,201	628,304	650,653
48 Composition of Fund Balance							
49 Emergency Cash Reserve Balance (2%, formerly 4%)	70,532	84,622	70,532	73,001	102,004	103,154	103,452
50 Contingency Cash Reserve Balance (4%, formerly 3%)	182,905	169,244	182,905	189,307	204,008	206,308	206,904
51 Fund Balance not in Emergency & Contingency Reserves	<u>1,331,246</u>	<u>720,449</u>	<u>787,104</u>	<u>475,779</u>	<u>348,189</u>	<u>318,842</u>	<u>340,297</u>
52 Ending General Fund Balance (Line 46)	1,584,683	974,315	1,040,541	738,086	654,201	628,304	650,653

FY 2007 Proposed Budget and Financial Plan

Table 3-2

Local Funds Component of the General Fund Financial Plan

(\$ thousands)

	FY 2005 Actual	FY 2006 Approved	FY 2006 Adjusted	FY 2007 Proposed	FY 2008 Projected	FY 2009 Projected	FY 2010 Projected
1 Revenues							
2 Taxes	4,052,087	4,101,533	4,157,782	4,412,599	4,676,088	4,949,484	5,224,222
3 General Purpose Non-Tax Revenues	352,427	340,522	315,226	317,277	317,138	325,336	325,095
6 Transfer from Lottery	<u>71,450</u>	<u>73,100</u>	<u>72,000</u>	<u>72,100</u>	<u>72,100</u>	<u>72,100</u>	<u>72,100</u>
7 Local Fund Revenues	4,475,964	4,515,155	4,545,008	4,801,976	5,065,326	5,346,920	5,621,417
8 Effect of Tax Changes	0	0	(908)	(276)	(307)	(346)	(388)
9 Gross Sales Tax Dedicated for School Modernization	<u>0</u>	<u>0</u>	<u>0</u>	<u>(100,000)</u>	<u>(106,000)</u>	<u>(112,360)</u>	<u>(119,102)</u>
10 Adjusted Local Fund Revenues	4,475,964	4,515,155	4,544,100	4,701,700	4,959,019	5,234,214	5,501,927
11 Bond proceeds for Issuance Costs	4,335	40,000	40,000	30,000	30,000	20,000	20,000
12 Payment-in-Lieu-of-Taxes from WASA	0	1,576	1,576	1,551	0	0	0
13 Transfer from Federal and Private Resources	0	6,502	6,502	6,502	6,646	6,807	6,979
14 Transfer from Enterprise Fund (HPTF) for Debt Service	0	0	0	6,000	12,000	12,000	12,000
15 Transfer from Capital Funds (Bus Shelter Revenue) for Debt Svc	0	0	0	2,091	17,526	18,097	18,465
16a Fund Balance Use: To Replace Dedicated Gross Sales Taxes	0	0	0	46,477	65,385	8,399	0
16b Fund Balance Use: Transfers to Capital and Trust Fund	0	390,700	390,700	87,987	0	0	0
16c Fund Balance Use: One-time Expenditures	67,325	76,230	79,542	41,866	0	0	0
17 Transfer to Special Purpose Revenues	0	(54,395)	0	0	0	0	0
18 Transfer to Capital	0	(30,000)	0	0	0	0	0
19a Revenue Proposals- Tax Compliance Initiatives	0	0	0	49,000	70,000	66,000	64,250
19b Revenue Proposals - Council actions incl. deed tax, Care First, etc	0	0	0	49,117	51,307	55,928	61,558
19c Revenue Proposals/One-time Revenue	<u>0</u>	<u>4,976</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
20 Total Local Fund Resources	4,548,224	4,950,744	5,062,420	5,022,291	5,211,883	5,421,445	5,685,179
21							
22 Expenditures (by Appropriation Title)							
23 Governmental Direction and Support	272,404	296,632	299,807	330,101	331,262	341,504	352,096
24 Economic Development and Regulation	84,178	101,629	120,829	128,468	115,521	118,584	121,736
25 Public Safety and Justice	782,797	769,785	781,402	888,003	913,322	943,423	974,589
26 Public Education System	1,074,120	1,177,599	1,177,348	1,203,492	1,228,081	1,260,172	1,293,208
27 Human Support Services	1,229,443	1,273,676	1,323,488	1,369,566	1,429,407	1,499,342	1,574,001
28 Public Works	317,426	316,374	316,373	351,396	365,654	380,482	395,964
29 Financing and Other	421,070	537,452	528,463	562,791	649,816	689,918	738,117
30 Cash Reserve (Budgeted Contingency)	0	50,000	48,400	50,000	50,000	50,000	50,000
31 Lease Purchase Costs	<u>22,058</u>	<u>27,441</u>	<u>27,441</u>	<u>43,955</u>	<u>46,320</u>	<u>49,320</u>	<u>51,320</u>
32 Subtotal, Operating Expenditures	4,203,496	4,550,588	4,623,551	4,927,772	5,129,383	5,332,745	5,551,031
33 Paygo Capital	20,550	207,083	208,523	87,987	0	0	0
34 Transfer to Trust Fund for Post-Employment Benefits	0	138,000	138,000	4,700	81,000	86,200	91,800
35 Local Fund Contribution to Capital Fund Balance	0	53,800	53,800	0	0	0	0
37 Total Local Fund Expenditures	4,224,046	4,949,471	5,023,874	5,020,459	5,210,383	5,418,945	5,642,831
38 Operating Margin, Budget Basis	324,178	1,273	38,546	1,832	1,500	2,500	42,348

Table 3-3

Housing Production Trust Fund: Dedicated Taxes Component of the General Fund Financial Plan

(\$ thousands)

	FY 2005 Actual	FY 2006 Approved	FY 2006 Adjusted	FY 2007 Proposed	FY 2008 Projected	FY 2009 Projected	FY 2010 Projected
1 Revenues							
4 Dedicated Taxes - HPTF	<u>0</u>	<u>0</u>	<u>0</u>	<u>50,587</u>	<u>53,255</u>	<u>58,103</u>	<u>64,005</u>
7 Sub Total Dedicated Taxes - HPTF	0	0	0	50,587	53,255	58,103	64,005
19 Revenue Policy Proposals	<u>0</u>	<u>0</u>	<u>0</u>	<u>15,151</u>	<u>16,000</u>	<u>17,542</u>	<u>19,420</u>
20 Total Dedicated Taxes - HPTF	0	0	0	65,738	69,255	75,644	83,424
21							
22 Expenditures (by Appropriation Title)							
23 Governmental Direction and Support	0	0	0	0	0	0	0
24 Economic Development and Regulation	0	0	0	0	0	0	0
25 Public Safety and Justice	0	0	0	0	0	0	0
26 Public Education System	0	0	0	0	0	0	0
27 Human Support Services	0	0	0	0	0	0	0
28 Public Works	0	0	0	0	0	0	0
29 Financing and Other	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
32 Subtotal, Operating Expenditures	0	0	0	0	0	0	0
36 Transfer to HPTF Special Revenue Fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>65,738</u>	<u>69,255</u>	<u>75,644</u>	<u>83,424</u>
37 Total Dedicated Taxes - HPTF Expenditures	0	0	0	65,738	69,255	75,644	83,424
38 Operating Margin, Budget Basis	0	0	0	0	0	0	0

Table 3-4

Special Purpose Revenue Component of the General Fund Financial Plan

(\$ thousands)

	FY 2005 Actual	FY 2006 Approved	FY 2006 Adjusted	FY 2007 Proposed	FY 2008 Projected	FY 2009 Projected	FY 2010 Projected
1 Revenues							
5 Special Purpose (O-type) Revenues	<u>311,789</u>	<u>264,254</u>	<u>354,667</u>	<u>368,657</u>	<u>364,748</u>	<u>361,830</u>	<u>373,639</u>
7 General Fund Revenues	311,789	264,254	354,667	368,657	364,748	361,830	373,639
16 Fund Balance Use	13,456	124,712	135,420	109,875	0	0	0
16a Fund Balance Certified but not used	0	0	0	(1,918)	0	0	0
17 Transfer from Local Revenues	0	54,395	0	0	0	0	0
19 Revenue Proposals/One-time Revenue	<u>0</u>	<u>3,753</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
20 Total General Fund Resources	325,245	447,114	490,087	476,614	364,748	361,829	373,638
21							
22 Expenditures (by Appropriation Title)							
23 Governmental Direction and Support	22,374	44,226	44,226	54,658	47,250	46,871	48,401
24 Economic Development and Regulation	109,278	226,527	226,527	160,506	138,752	137,642	142,134
25 Public Safety and Justice	22,674	57,252	57,252	55,292	47,798	47,416	48,963
26 Public Education System	8,057	11,703	11,703	20,479	17,703	17,562	18,135
27 Human Support Services	29,094	33,854	33,854	53,572	46,311	45,941	47,440
28 Public Works	11,571	49,727	49,727	53,922	46,614	46,241	47,750
29 Financing and Other	<u>0</u>	<u>23,824</u>	<u>23,824</u>	<u>23,505</u>	<u>20,319</u>	<u>20,157</u>	<u>20,815</u>
32 Subtotal, Operating Expenditures	203,048	447,114	447,113	421,934	364,748	361,829	373,638
36 Transfer to HPTF Special Revenue Fund	0	0	0	54,680	0	0	0
37 Total General Fund Expenditures	203,048	447,114	447,113	476,614	364,748	361,829	373,638
38 Operating Margin, Budget Basis	122,197	0	42,974	0	0	0	0

13. Transfer from Federal and Private Resources. This line reflects the movement of federal grant dollars into Local funds to pay for certain indirect costs.

14. Transfer from HPTF Special Revenue Fund for Debt Service. Beginning in FY 2007, the operating activities of HPTF will be reported in a stand-alone Special Revenue Fund outside of the General Fund because its activities are like capital and multi year in nature. This line shows the amounts transferred from the HPTF Special Purpose Revenue fund to the General Fund each fiscal year to retire debt.

15. Transfer from Capital Funds (Bus Shelter Revenue) for Debt Service. This line shows the transfer of revenues collected from advertisements on bus shelters for the retirement of debt issued to finance the Great Streets and Bridges capital projects.

16. Fund Balance Use. Includes funds that fell to the fund balance in a prior year but which the District is proposing to use in the current year. This includes Local fund balance that finances transfers to other District funds, certain one-time expenditures, and Special Purpose Revenues that some agencies plan to spend from accumulated fund balances. Line 16a in Table 3-2 shows the amount of fund balance used to help balance the FY 2007 operating budget as a result of the Gross Sales Tax revenues dedicated to the School Modernization Program. The total of lines 16b and 16c in FY 2007, \$129.9 million, is the amount of one-time expenditures approved during the FY 2007 budget process. This includes \$88 million for Paygo capital projects and \$41.9 for non-recurring operating expenditures.

17. Transfer to Special Purpose Revenues. In Table 3-2, FY 2006 revenue from Bus Shelter Advertisements and the Housing Production Trust fund will be used to securitize dedicated revenues to cover bonded debt.

18. Transfer to Capital. Parking fees are proposed to be transferred to the Capital fund, representing a revenue loss to the General Fund.

19. Revenue Proposals. This line reflects one-time revenues in FY 2006 and proposed revenue changes that are detailed in the Revenue chapter of this volume. Table 3-2, line 19a, FY 2007 - FY 2010, includes several initiatives by the Office of Tax and Revenue to increase compliance, reporting and paying of District taxes. Line 19b in Table 3-2 refers to other policy proposals including an increase in the Deed Recordation and Transfer Tax rates on commercial sales and on residential sales above \$400,000 from 1.1 percent to 1.45 percent. These additional revenues will be transferred to HPTF and the Comprehensive Housing Task Force Fund. Other initiatives include changes in the tax treatment of CareFirst, Quality Teacher Incentive Act, and the Unfoldment Inc. Equitable Real Property Tax Relief Act of 2006.

20. Total General Fund Resources. The sum of lines 10 through 19.

21. Line intentionally left blank.

Expenditures

22. Expenditures (by Appropriation Title). Lines 23 - 28 are agency expenditures. These items reflect agency expenditures by appropriation title. The growth of expenditures in the out-years (FY 2008 - FY 2010) is based on growth assumptions that are discussed in the Operating Expenditures chapter. For details on expenditures for each agency, see Volumes 2 - 4.

29. Financing and Other. Includes Repayment of Debt, Short-Term Borrowings, Certificate of Participation, and other items in this appropriation title that are not specifically shown in lines 30 and 31.

30. Cash Reserve (Budgeted Contingency). The District is required to budget for a cash reserve of \$50 million each year, to provide budgetary stability in the absence of the budgeted reserve, which was eliminated after FY 2003.

31. Lease Purchase Costs. Additional costs in FYs 2008, 2009 and 2010 for lease purchase

arrangements are associated with development of new government facilities, including hospitals.

32. Subtotal, Operating Expenditures. This shows the sum of lines 23 through 31.

33. Paygo Capital. This line reflects a transfer to the capital fund to increase capital financing for FY 2007.

34. Transfer to Trust Fund for Post-Employment Benefits. This line reflects a transfer in FY 2007 to reduce the District's accumulated liability for health insurance costs for retirees. These costs must be recognized beginning in FY 2008.

35. General Fund Contribution to Capital Fund Balance. This line reflects a transfer to reduce the accumulated shortfall in the capital fund.

36. Transfer to HPTF Special Revenue Fund. To finance the activities of the HPTF stand-alone Special Revenue Fund, the resources in the local and special purpose (O type) fund will be transferred to the HPTF Special Revenue Fund. Line 36 in Table 3-3 represents the amount to be transferred from the HPTF Dedicated (local) Taxes component of the General Fund to the HPTF Special Revenue Fund. Line 36 in Table 3-4 shows that the remaining fund balance in the Special Purpose Revenue Fund (O type revenue) that will be transferred to the HPTF Special Revenue Fund.

37. Total General Fund Expenditures. This is the sum of lines 32 through 36.

38. Operating Margin, Budget Basis. This is the difference between Total General Fund Resources and Expenditures (line 20 minus line 37).

39. Line intentionally left blank.

Fund Balance, GAAP Adjustments and Transfers

40. Beginning General Fund Balance. Shows the accumulated fund balance at the beginning of the fiscal year, which is identical to the end of year fund balance for the previous fiscal year.

41. Operating Margin, Budget Basis. This is a restatement of line 38.

42. Projected GAAP Adjustments (Net). GAAP adjustments are year-end adjustments necessary to properly report the ending fund balance on an accounting basis by converting budgeted activity to resources earned and used in the current fiscal year. This includes items such as fund balance released from restrictions, current year purchases used to build up ending inventory levels, and the current year net consumption of inventories purchased in prior years.

43. Deposits into Reserve Funds (From Fund Balance). Funds will be moved from the fund balance into the Emergency and Contingency Reserve Funds as necessary. The current financial plan shows that \$34.5 million will need to be moved in FY 2008.

44. Deposits into Reserve Funds (To Cash Reserves). Shows that funds deposited into the reserve funds remain in the General Fund balance.

45. Fund Balance Use. The amount of prior-year fund balance that is used in the current year (line 16) must be subtracted when calculating the current year-end fund balance.

46. Ending General Fund Balance. This line shows the sum of the beginning fund balance, the budget-basis operating margin, and GAAP and other adjustments (lines 40 through 45).

Discussion: Fund Balance

The fund balance reflects the cumulative earnings of the District. At the end of each fiscal year, fund balance adjustments are made to show the effects of the current year's financial transactions.

Year-end adjustments are made so that the financial statements are presented in accordance with GAAP. Implementing accounting pronouncement 34 of the Government Accounting Standards Board (GASB 34) resulted in a significant restatement of the FY 2002 fund balance at October 1, 2001.

The general fund balance has two major components: (1) reserved and (2) unreserved. The unreserved fund balance is apportioned further into designated and undesignated components. Figure 3-2 shows the components of the District's General Fund balance.

Reserved Fund Balance

To use reserved fund balance items, the District must have approval from the external entity that has imposed the restriction. The reserved balance has been dominated historically by bond escrow, that is, accumulated cash that the District is required to maintain for debt service payments in the coming year. More recently, the reserved balance has been dominated by the congressionally mandated Emergency and Contingency (cash) Reserves.

Unreserved Fund Balance

Unreserved but Designated Fund Balance. The designated component of the fund balance contains items that have been purpose restricted by the legislative or executive branch of the District government.

Unreserved and Undesignated Fund Balance. Those items that fall into this category have neither internal nor external claims against them. Unlike most large cities, the District is prohibited from accessing these funds.

Comprising elements of budgeting and accounting, the financial plan reflects GAAP adjustments as well as transfers between fund balance and cash reserves that do not affect the budget basis operating margin. Hence, these items are sometimes referred to as "below-the-line" adjustments because they are outside of the budget but impact the District's financial statements.

47. Line intentionally left blank.

Composition of Fund Balance

48. Composition of Fund Balance

49. **Emergency Cash Reserve Balance (2 percent formerly 4 percent).** The District was required to establish an Emergency Reserve, by the end of FY 2004, equal to 4 percent of the District's Local expenditures. The requirement was satisfied in FY 2002. In FY 2005, the requirement was changed to 2 percent, and the base for the calculation was also changed.

50. **Contingency Cash Reserve Balance (4 percent, formerly 3 percent).** The District was required to establish a Contingency Reserve equal, by the end of FY 2007, to 3 percent of the District's Local expenditures. The requirement was satisfied in FY 2002. In FY 2005, the requirement was changed to 4 percent, and the base for the calculation was also changed.

51. **Fund Balance not in Emergency and Contingency Reserves.** This reflects the portion of the fund balance that is not composed of the two cash reserve funds. This line item does not reflect available funds, because there are several other restrictions on the District's fund balance in addition to cash reserve balances, such as bond escrow. Fund balance restrictions are addressed thoroughly in the District's Comprehensive Annual Financial Report.

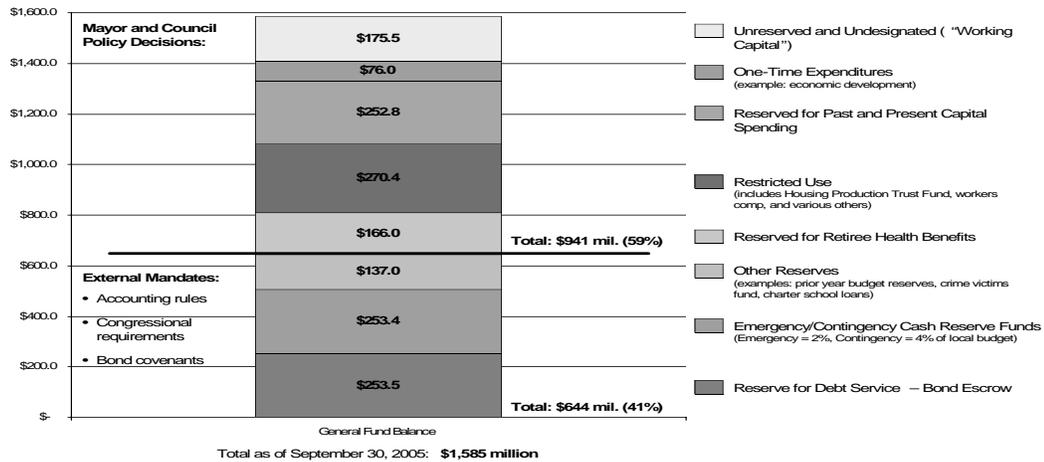
52. **Ending General Fund Balance.** This line reflects the sum of lines 49 - 51, representing the various components of the fund balance.

Discussion: Filling Emergency and Contingency Reserves

The District was required to fill the Emergency Reserve at 4 percent of its local budget by the end of FY 2004 and to fill the Contingency Reserve at 3 percent by the end of FY 2007. In FY 2002, the District filled both funds to the combined level of 7 percent, or \$248.7 million. This 7 percent level was maintained during FYs 2003 and 2004.

In its FY 2005 Appropriations Act, the District's requirement was lowered to 6 percent,

Figure 3-2
Composition of General Fund Balance, September 30, 2005
 (\$ millions)



and the calculation was changed to be based on a past year rather than the current. Congress made this change in part to recognize the District's success in restoring its fiscal balance. The District was allowed to withdraw part of the excess funds, that is, convert them to undesignated fund balance. However, it was not allowed to withdraw all of the excess above 6 percent of the new target.

Fund Structure

The General Fund, as discussed above, is one of many funds that capture the District's financial activities. Other funds and reporting entities, both governmental and non-governmental, are included in the District's CAFR and are discussed below. The primary categories are:

- Governmental Funds,
- Proprietary Funds,
- Fiduciary Funds, and
- Component Units.

In FY 2007, the District is publishing 6 budget volumes, 4 covering the operating budget and 2 covering the capital budget. The operating budget includes revenues and expenditures in the General Fund and the Federal and Private Resources Fund. These operating budget funds, plus the capital funds and the non-major funds, are considered governmental funds. In addition, the District's finances reflect a number of other

entities that are considered non-governmental, including Proprietary Funds, Fiduciary Funds, and Component Units, some of which are discussed in the operating budget volumes.

Governmental Funds

Governmental Funds consist of two operating, two capital, and two special revenue funds.

Operating Funds

The District's operating budget is the primary focus of this budget volume and Volumes 2 through 4. The operating budget has a variety of funding sources and has 2 components: the General Fund and the Federal and Private Resources Fund.

General Fund:

Local Funds are the District's primary source of revenue.

- All the District's tax receipts, the larger of which are income taxes, sales taxes, and property taxes, go into Local Funds.
 - In addition, certain non-tax revenues (those fines, fees, and miscellaneous revenues not dedicated for a particular agency's use) are part of Local Fund.
 - Finally, an annual transfer from the Lottery goes into Local Funds.
- Special Purpose Revenues are collected by

Table 3-5
Federal and Private Resources Financial Plan
(\$ thousands)

Revenues	FY 2005 Actual	FY 2006 Approved	FY 2006 Adjusted	FY 2007 Proposed	FY 2008 Projected	FY 2009 Projected	FY 2010 Projected
F1 Federal Grants	1,633,406	1,911,042	1,911,041	2,008,024	2,131,370	2,263,395	2,405,741
F2 Federal Payment/Contribution	89,166	34,500	62,617	36,400	37,258	38,099	38,960
F3 Private Grants	5,677	16,213	16,213	6,850	7,070	7,292	7,521
F4 Federal & Private Resources	1,728,249	1,961,755	1,989,871	2,051,274	2,175,698	2,308,786	2,452,222
F5 Fund Balance Use	43,420	0	0	0	0	0	0
F6 Transfer to General Fund	0	(6,502)	(6,502)	(6,502)	(6,646)	(6,807)	(6,979)
F7 Total Federal & Private Resources	1,771,669	1,955,253	1,983,369	2,044,772	2,169,052	2,301,979	2,445,243
F8							
F9 Expenditures (by Appropriation Title)							
F10 Governmental Direction and Support	120,489	171,976	171,976	157,746	161,608	165,408	169,301
F11 Economic Development and Regulation	91,671	118,312	118,312	133,742	137,261	140,745	144,325
F12 Public Safety and Justice	9,724	10,577	10,564	7,398	7,629	7,860	8,099
F13 Public Education System	200,469	240,194	265,601	226,462	232,468	238,417	244,529
F14 Human Support Services	1,300,169	1,405,819	1,407,551	1,500,033	1,610,111	1,728,991	1,857,830
F15 Public Works	13,728	8,375	9,365	19,391	19,975	20,558	21,159
F16 Financing and Other	16,697	0	0	0	0	0	0
F17 Total Federal & Private Expenditures	1,752,947	1,955,253	1,983,369	2,044,772	2,169,052	2,301,979	2,445,243
F18 Operating Margin, Budget Basis	18,722	0	0	0	0	0	0
F19							
F20 Beginning Federal & Private Fund Balance	139,607	117,947	117,947	117,947	117,947	117,947	117,947
F21 Operating Margin, Budget Basis	18,722	0	0	0	0	0	0
F22 Projected GAAP Adjustments (Net)	3,038	0	0	0	0	0	0
F23 Fund Balance Use	(43,420)	0	0	0	0	0	0
F24 Ending Federal & Private Fund Balance	117,947	117,947	117,947	117,947	117,947	117,947	117,947

District agencies and, by law, are dedicated to support the functions those agencies perform. Examples include certain fees and permit charges that the public pays for and whose proceeds are used by the agency to carry out operations in that same area. Some agencies retain unused revenues collected in a given fiscal year in the dedicated portion of the Fund Balance. They are allowed to spend those revenues, if they receive appropriation authority to do so, in a succeeding year.

Federal and Private Resources Fund:

- Federal Grants are grants the District receives from federal agencies, including block grants, formula grants, certain entitlements, and competitive grants.
- Federal Payments are direct appropriations from the Congress to the District, usually to a particular District agency for a particular purpose.

- Federal Medicaid Payments are the federal share of the District's Medicaid costs. Generally, the federal government pays 70 percent of the cost of Medicaid while the District pays 30 percent, although the proportions differ in certain circumstances.
- Private Grants are grants the District receives from non-Federal sources. This category includes private donations.

Table 3-5 displays a summary financial plan for the Federal and Private Resources Fund. The line items are as follows:

F1. Federal Grants. Federal grant awards received by District agencies.

F2. Federal Payment/Contribution. Funding contributed by the federal government for specific projects. These funds are restricted in use by the federal government.

F3. Private Grants. Revenues received from private grants.

F4. Federal and Private Resources.

F5. Fund Balance Use. Reflects amounts previously contained in the fund balance that have been released for use in the current year.

F6. Transfer to General Fund. Funds used to pay for indirect costs, as shown on line 13 of the General Fund financial plan.

F7. Total Federal and Private Resources.

F10. - F16. Agency Expenditures. These items reflect agency expenditures by appropriation title. The growth of expenditures in the out-years is based on growth assumptions that are discussed in the Operating Expenditures chapter.

F17. Total Federal and Private Fund Expenditures.

F18. Operating Margin, Budget Basis. This line provides the difference between Total Federal and Private Resources and Total Federal and Private Expenditures.

F20. - F24. Fund Balance Calculations.

Note: Intra-District budgets represent agreements between two agencies whereby one agency purchases services from the other. The buying agency spends its own budget (Local, Special Purpose Revenue, Federal, or Private). The selling agency receives this expenditure as intra-District revenue, establishes intra-District budget authority, and spends against that authority to provide the service.

An agency's total "gross funds" budget includes its intra-District budget authority. Because such arrangements appear as expenditures twice, once in each agency, the intra-District totals are excluded from the District-wide calculations of the total "gross funds" budget. They also are excluded from the CAFR totals at the end of the year.

Capital Funds

The District's Capital Budget is the focus of the other two budget volumes. The Capital Budget has three components: the General Capital Improvements Fund, the Highway Trust Fund and the Baseball Capital Projects Fund.

- The General Capital Improvements Fund accounts for all capital projects activity not in the Highway Trust Fund and the Baseball Capital Projects Fund.
- The Highway Trust Fund accounts for capital projects financed entirely or partly by transfers of taxes, fees, capital grants, and other revenue that is dedicated to highway projects.
- The Baseball Project Fund is used to account for financial resources used for the construction of a new baseball stadium.
This budget volume is produced in June for the Congressional budget submission.

Special Revenue Funds

Special Revenue Funds account for specific revenue that is legally restricted to expenditures for particular purposes:

- The Tobacco Settlement Financing Program accounts for activities relating to the tobacco litigation settlement.
- The Tax Increment Financing Program accounts for activities relating to tax increment financing development initiatives.
- The Baseball Project Fund is used to account for the proceeds of baseball related revenue sources that are legally restricted to expenditures for baseball project purposes.
- The Housing Production Trust Fund is used to account for activities related to the acquisition, construction and rehabilitation of affordable multifamily housing projects.

Proprietary Funds

Proprietary Funds are District units that charge customers for the services provided, whether to outside customers or to other units of the District. The District has three Proprietary Funds:

- D.C. Lottery and Charitable Games Board, which not only operates and is financed like a private business where net income is key to sound management, but also can finance the costs of its goods and services provided to the public on a continuing basis primarily through user charges. The Lottery accounts for revenue from lotteries and daily numbers games all operated by the District and from

licenses to conduct charitable games. The Lottery exists solely to transfer its profits to help finance the General Fund.

- Unemployment Compensation Fund, which accounts for funds used to pay benefits to unemployed former employees of the District, federal government, and private employers within the District. The fund is administered by the Department of Employment Services.
- Non-Major Proprietary Fund, which includes 3 entities grouped as Nursing Home Services:
 - Washington Center for Aging Services
 - Washington Center for Aging Services Center Care
 - JB Johnson Nursing Center.

Fiduciary Funds

Fiduciary Funds account for assets held by the District in a trustee or agency capacity. These assets cannot be used to support the District's programs. The District's Fiduciary Funds are:

- The Pension Trust Funds, which account for resources used for retirement annuity payments for police officers, firefighters, public school teachers and their survivors. Resources are contributed by employees and by the District and federal governments at amounts determined by an annual actuarial study. The funds are administered by a 13-member Retirement Board. The administrative costs of the board are accounted for in the funds.
- The Private Purpose Trust Funds, which account for the District's sponsored college tuition savings plan. - The agency funds, which account for refundable deposits required of various licenses, include monies held in escrow as an agent for individuals, private organizations or other governments.

Component Units

Component Units are legally separate organizations for which the District is financially accountable because their governing bodies are appointed by the Mayor, with the consent of the Council, or other District officials. Budgets for these entities are presented in section H, Enterprise and Other Funds, of Volume 2. The District has 6 Component Units:

- D.C. Water and Sewer Authority, which accounts for the provision of water and sewer services to the District, and specific counties in Maryland and northern Virginia.
- Washington Convention Center Authority, which accounts for maintaining and operating the Washington Convention Center for local public shows, civic events, and other activities.
- Sports and Entertainment Commission, which accounts for maintaining and operating the National Guard Armory for nonmilitary events and the Robert F. Kennedy Memorial Stadium and promoting the District as a sporting event site.
- Housing Finance Agency, which accounts for cash received from public and private sources used to alleviate the shortage of housing through greater supply and less expensive mortgage and construction loans.
- University of the District of Columbia (UDC), which accounts for resources received and used by the University of the District of Columbia. The unit contains 4 separate fund groups: Current Funds, Loan Fund, Endowment Fund, and Plant Funds. A budget is prepared for only the Current Funds. This budget is in the Enterprise and Other Funds section; the General Fund includes only the subsidy from Local funds to the University.
- Anacostia Waterfront Corporation (AWC), which is a public entity charged with leading the revitalization of the District's Anacostia Waterfront. The AWC will coordinate the implementation of a multi-year plan for land redevelopment. Additionally, the AWC will help coordinate efforts to clean up the river.

The District established the District of Columbia Tobacco Settlement Financing Corporation (the "Tobacco Corporation") as a special purpose, independent instrumentality of the District government. The Tobacco Corporation is a blended component unit because it provides services exclusively to the District.

