District of Columbia

General Fund Expenditure Trends, FY 2001 – FY 2011, and Looking Forward

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

- Where have we been: expenditures since the end of the Control Period, 2001 – 2011
  - Operating budget – General Fund
  - Capital budget
- Where are we going
  - Growth potential in key operating budget areas
Summary of Expenditure Growth

- District expenditures grew an overall 58.9 percent from FY 2001 through FY 2011

- Three distinct periods:
  - Growth of 8.1 percent from FY 2001 through FY 2004 (annual average growth of 2.6 percent, less than inflation in 2002 and 2003)
  - Growth of 58.5 percent from FY 2004 through FY 2008 (annual average growth of 12.2 percent)
  - Decline of 7.3 percent from FY 2008 through FY 2011 (annual average decline of 2.5 percent)

- Federal ARRA (stimulus) funds replaced some of the decreased District spending in FYs 2009, 2010, and 2011, but even including these funds, expenditures were lower than in FY 2008
ARRA funds here include only State Fiscal Stabilization Funds and enhanced Federal Medicaid Assistance Percentage funds.
Summary of Expenditure Growth

Nominal and Real Expenditures, FY 2001 - FY 2011

Dollars (billions)

Expenditures

Expenditures in 2011 $
Structural imbalance, FY 2008 – FY 2010: revenues did not cover expenditures (needed to use fund balance to achieve balanced budgets)
Spending in most object groupings fell off in 2009 – 2011; Subsidies and Transfers were the main exception.
## Appropriation Title Totals

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<tr>
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</thead>
<tbody>
<tr>
<td>Governmental Direction and Support</td>
<td>234,221</td>
<td>231,363</td>
<td>-0.4%</td>
<td>382,071</td>
<td>13.4%</td>
<td>440,426</td>
<td>4.9%</td>
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<tr>
<td>Economic Development and Regulation</td>
<td>102,311</td>
<td>151,305</td>
<td>13.9%</td>
<td>438,766</td>
<td>30.5%</td>
<td>234,611</td>
<td>-18.8%</td>
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<tr>
<td>Public Safety and Justice</td>
<td>717,389</td>
<td>746,064</td>
<td>1.3%</td>
<td>1,044,462</td>
<td>8.8%</td>
<td>993,789</td>
<td>-1.6%</td>
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<tr>
<td>Public Education System</td>
<td>908,062</td>
<td>1,026,835</td>
<td>4.2%</td>
<td>1,447,460</td>
<td>9.0%</td>
<td>1,497,639</td>
<td>1.1%</td>
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<tr>
<td>Human Support Services</td>
<td>1,104,673</td>
<td>1,117,036</td>
<td>0.4%</td>
<td>1,606,979</td>
<td>9.5%</td>
<td>1,466,639</td>
<td>-3.0%</td>
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<tr>
<td>Public Works</td>
<td>295,867</td>
<td>314,619</td>
<td>2.1%</td>
<td>563,776</td>
<td>15.7%</td>
<td>538,839</td>
<td>-1.5%</td>
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<tr>
<td>Financing and Other Uses</td>
<td>325,594</td>
<td>400,963</td>
<td>7.2%</td>
<td>835,884</td>
<td>20.2%</td>
<td>688,685</td>
<td>-6.3%</td>
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<tr>
<td><strong>Total</strong></td>
<td>3,688,117</td>
<td>3,988,185</td>
<td>2.6%</td>
<td>6,319,399</td>
<td>12.2%</td>
<td>5,860,627</td>
<td>-2.5%</td>
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</table>
Key Budget Areas

Education

- DC Public School expenditures (including OSSE and two special education agencies) grew from $744 million to $922 million from 2001 to 2011

- Public Charter School expenditures grew from $137 million to $440 million from 2001 to 2011

- ARRA funds (State Fiscal Stabilization Funds) replaced $89 million of District spending in FY 2010 but less than $1 million in FY 2011, although EduJobs funds (not included in analysis) replaced $17 million in FY 2011
Health and Medicaid

- Departments of Health and Health Care Finance expenditures grew from $365 million to $695 million from 2001 to 2011
- Annual growth rate was
  - 9.2 percent from FY 2001 to FY 2008
  - 0.9 percent from FY 2008 to FY 2011
- Enhanced FMAP (part of ARRA) made up for reduced District spending
Key Budget Areas

Health and Medicaid - Expenditures

Dollars (millions)

- With ARRA (FMAP)
- Actual


Dollars (millions): $0, $100, $200, $300, $400, $500, $600, $700, $800, $900
Human Services

- Departments of Human Services (including Disability Services and Youth Rehabilitation Services), Mental Health, and Child and Family Services expenditures grew relatively slowly, from $509 million to $648 million.

- Annual growth rate was
  - 6.6 percent from FY 2001 to FY 2008
  - -6.6 percent from FY 2008 to FY 2011
Key Budget Areas

Public Safety

- Metropolitan Police Department and Fire and EMS Department expenditures also grew relatively slowly, from $445 million to $636 million

- Annual growth rate was
  - 6.1 percent from FY 2001 to FY 2008
  - -1.8 percent from FY 2008 to FY 2011
Financing and Other

- Debt Service (multiple agencies) grew from $275 million (2001) to $513 million (2008) and then leveled off, with expenditures of $507 million in 2011

- Police/Fire and Teacher pension contributions also grew rapidly, from $49 million (2001) to $143 million (2008), with expenditures dropping to $130 million in 2011

- Retiree Health contributions were not in the budget in 2001 but cost $94 million in 2011
Capital Budget

- Large recent investment in school facilities, which will continue as we go forward
- Large investments in libraries, parks and recreation facilities, and WMATA as well
- 12 percent debt cap – means that if these areas remain high, there’s a squeeze on all other capital needs
- Increased use of pay-as-you-go (PAYGO), especially in 2006-08; spending from PAYGO lagged by a few years
Increased spending from PAYGO in 2007-09 accompanied steady increase in debt-backed spending

(Data are for General Capital Improvements Fund and thus exclude expenditures in Local Highway Trust Fund and Baseball)
• Acceleration of spending on schools
• To lesser extent, increased investment in libraries and parks & recreation facilities
• Data are by “implementer agency” – decline in OCTO is not so dramatic as shown because of Master Lease use
• Data exclude all Dept. of Transportation as well as Baseball
In FY 2011,

- The 5 largest agencies were responsible for 42.4% of all expenditures
- The 14 largest agencies were responsible for 67.5% of all expenditures

<table>
<thead>
<tr>
<th>Agency</th>
<th>Dollars (Millions)</th>
<th>Percent of Total</th>
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<tbody>
<tr>
<td>Department of Health Care Finance</td>
<td>$608.9</td>
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<tr>
<td>(Medicaid)</td>
<td></td>
<td></td>
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<tr>
<td>District of Columbia Public Schools</td>
<td>$589.2</td>
<td></td>
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<tr>
<td>Metropolitan Police Department</td>
<td>$442.5</td>
<td></td>
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<tr>
<td>Public Charter Schools</td>
<td>$440.4</td>
<td></td>
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<tr>
<td>Repayment of Loans And Interest</td>
<td>$404.8</td>
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<tr>
<td><strong>Subtotal, Top 5</strong></td>
<td>$2,485.7</td>
<td>42.4%</td>
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<tr>
<td>Mass Transit Subsidies (WMATA)</td>
<td>$257.7</td>
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<td>Fire and Emergency Medical Services</td>
<td>$193.4</td>
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<tr>
<td>Child and Family Services</td>
<td>$189.4</td>
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<tr>
<td>Department of Mental Health</td>
<td>$165.0</td>
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<tr>
<td><strong>Subtotal, Top 9</strong></td>
<td>$3,291.3</td>
<td>56.2%</td>
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<tr>
<td>Department of Corrections</td>
<td>$142.3</td>
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<tr>
<td>Department of Human Services</td>
<td>$138.2</td>
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<tr>
<td>Office for Non-Public Tuition</td>
<td>$135.2</td>
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<tr>
<td>Police / Firefighters Retirement System</td>
<td>$127.2</td>
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<tr>
<td>Municipal Facilities: Non-Capital (Fixed Costs)</td>
<td>$123.6</td>
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<tr>
<td><strong>Subtotal, top 14</strong></td>
<td>$3,957.8</td>
<td>67.5%</td>
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<tr>
<td>Remaining agencies</td>
<td>$1,902.8</td>
<td>32.5%</td>
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<tr>
<td><strong>Total</strong></td>
<td>$5,860.6</td>
<td>100.0%</td>
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</tbody>
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Another way to look at FY 2011 expenditures –
61 percent in 6 key functions

- DCPS + Charters + OSSE + Special Ed
- MPD + FEMS
- DHCF
- Debt Service
- WMATA
- DB Pensions + OPEB
- All Other
Six functions with 61 percent of FY 2011 expenditures – what are the prospects looking ahead?

- DCPS, Charters, OSSE, Special Education
- Public Safety
- Medicaid
- Debt Service
- Metro
- DB Pensions and OPEB
Looking Forward

DCPS, Charters, OSSE, Special Ed agencies

- Costs driven by
  - Enrollment
  - Inflation
  - Special education costs (tuition, transportation)

- Enrollment (DCPS + Charters) declined through 2009 but increased the past two years

- Inflation in UPSFF has been faster than CPI because of policy decisions – will this continue?

- Special education cost savings will be key
Looking Forward

Public Safety

- MPD and FEMS costs have not increased much in recent years
- Driven by salary costs
- No pay raises the past few years – could be a spike if next salary negotiation includes back-pay (salary or bonus)
Looking Forward

Medicaid

- Changes coming with health care reform – depending where health care reform ends up
Looking Forward

Debt Service

- We know this area will grow the next few years
- Debt cap will keep growth to known levels
- A sharp revenue decrease, and the subsequent expenditure decrease, would force cutbacks in the capital program
Looking Forward

Metro

- We know the needs are great
- District costs will depend on future multi-jurisdiction agreements
Looking Forward

DB Pensions and OPEB

- The District is better off than most jurisdictions
  - Defined benefit pensions fully funded
  - OPEB unfunded liability is being reduced
  - Revitalization Act played a big role

- Again, lack of pay raises for police officers and firefighters has kept required contributions low – a back pay agreement including retro salary could cause a spike in pension contributions
Sequestration – The Great Unknown:

- Sequestration would have two effects
  - Decrease in Local revenues, because of reduced overall level of economic activity in the District
  - Decrease in federal grants received by District agencies
- Pressure on General Fund expenditures if the District must make up for lost federal grant revenues to sustain programs
Notes on the Data

- Efforts have been made to make data as comparable as possible across the years

- All operating budget data are General Fund (“GF”) only
  - Local + Special Purpose + Dedicated Taxes
  - No Federal or Private

- FY 2001 data exclude one-time Refunding Bond expenditure – in more recent years, these are not counted as GF expenditures

- FY 2001 data also exclude known Federal Payments, which were classified as Local funds at that time
  - Resident Tuition Support
  - Inaugural Expenses
  - Brownfield Remediation
  - Incentives for Adoption

- FY 2001 Federal Payments within “regular” agency budgets are included (not filtered out)
Notes on the Data

- FY 2010 and FY 2011 data exclude transfers to Business Improvements Districts, Highway Trust Fund, Convention Center, and Tax Increment Financing Fund
  - Such transfers, from dedicated revenue streams, occurred in prior years and were not included in CAFR as GF expenditures; they were included starting in FY 2010
  - They do not represent a new use of District dollars – it is simply a change in how dollars are represented
  - This is different from OPEB – which is a new use of District dollars (started in 2006), and which had to be funded within existing revenue streams
  - Exception: the graph of revenues and expenditures (slide 6) does NOT make this exclusion for FY 2010 and FY 2011