Government of the District of Columbia

Comprehensive Financial Management Policy

Introduction

In accordance with requirements set forth in the District of Columbia Home Rule Act, this Comprehensive Financial Management Policy provides a framework for fiscal decision-making for the Office of the Chief Financial Officer ("OCFO") and the Government of the District of Columbia ("District government" or "District"). The intent of this document is to establish policies that ensure that financial resources are available to meet the present and future needs of the citizens of the District of Columbia. This document establishes the District government's policies in the following areas:

- Debt Management
- Financial Asset Management
- Fixed Asset Management
- Reserve Management
- Determining Real Property Tax Exemptions
- Fiscal Management
- Economic Development

These financial management policies were established by the OCFO for review and comment by the Mayor of the District of Columbia ("Mayor") and the Council of the District of Columbia ("Council"). The OCFO will consider amendments to this document on a continuing basis, as needed, following this same review and approval process.

Debt Management Policy

The District government will maintain, at all times, debt management policies that are fiscally prudent, consistent with District and federal law, and reflect Washington, D.C.'s unique municipal status.

Credit Ratings

The District will do everything in its power to attain and maintain the highest possible credit ratings for its outstanding general obligation bonds, including producing balanced budgets and "clean" audits annually, implementing and maintaining sound financial management policies and practices, and maintaining regular communications with the major rating agencies.

Long-Term Debt Capacity

The District will not only stay within its statutorily mandated debt limit of 17 percent (maximum annual debt service to total current-year local revenues), but will maintain debt service-to-General Fund expenditures, debt-to-total property value, and debt-per-capita ratios that are within policy limits established by considering industry standards, rating agency benchmarks and the District's long-term financial health. The District will seek to balance the need for maintenance and development of its capital infrastructure with the need to maintain reasonable debt ratios and debt service expense levels.

Timing and Amount of Long-Term Borrowing

Notwithstanding the approved capital borrowing and spending levels, the District shall borrow funds only at the times and in the amounts actually needed to fund reasonable capital project spending over the course of one year subsequent to each borrowing.

Method of Bond Sale

The District shall issue its bonds via competitive sale unless a determination is made by the OCFO, supported by credible documentation, that issuing bonds via a negotiated sale is likely to yield a more favorable result for the District.

Composition of Debt Portfolio

The District shall issue fixed-rate, tax-free municipal bonds, typically general obligation bonds, except that a target percentage of 10 to 15 percent of its outstanding debt shall be variable-rate municipal bonds. This policy will allow the District to take advantage of the generally lower interest rates associated with variable-rate municipal debt without over-exposing itself to higher levels of risk associated with such debt. In addition, with every issuance of debt, the District shall evaluate whether or not it is financially beneficial to issue the debt with bond insurance or some comparable form of credit enhancement, and shall structure the issuance accordingly. The District will also regularly examine the marketplace and its financial structure to determine whether it would be beneficial to issue revenue bonds as opposed to general obligations bonds to fund certain governmental projects.

Timely Debt Service Payments

The District shall escrow funds received from its Special Real Property Tax levy semi-annually in amounts sufficient to ensure timely payment of all principal and interest due on its outstanding general obligation bonds.

Compliance with Arbitrage Regulations

The District shall contract with a reputable firm to perform annual analyses of the District's investment and expenditure of bond proceeds in order to ensure compliance with Federal arbitrage regulations.

Refunding of Outstanding Debt

The District will regularly monitor its outstanding debt for optimal opportunities and timing to refund such debt at lower interest rates to produce debt service savings to the District.

Selection of Financial Consultants and Service Providers

The District shall select Bond Counsel and Financial Advisor services on a competitive basis through a Request for Proposals (RFP) process, unless in an emergency situation, with the nature of such emergency documented in writing.

Master Lease/Purchase Financing

The District will maintain a Master Lease/Purchase Program to finance (on a tax-exempt basis) the acquisition of agency capital equipment with estimated useful lives of five to ten years. This program is part of the District's policy of seeking to match the useful lives of its capital assets with the duration of the debt that finances such assets, identifying the lowest available cost of financing, as well as managing agency operating costs.

Independent Agency/Instrumentality Debt Issuance

The Chief Financial Officer ("CFO") shall determine whether or not it is advisable for certain independent agencies/instrumentalities of the District that have segregated revenue streams to pursue issuing bonds supported by such revenue streams. If the CFO determines that such a transaction is advisable, the CFO shall, through the Mayor, submit a written request to the Council for enactment of the necessary authorizing legislation. The CFO must approve the ultimate structure of any such transaction, and must approve the transaction itself. In the event of such a financing, the independent agency/instrumentality must report to the CFO within 30 days after each debt service payment, and in such report confirm timely payment and the amount paid, document the amount of debt outstanding, and provide any other pertinent information requested by the CFO. (Examples of entities that have issued such debt are the Washington Convention Center Authority and the District of Columbia Water and Sewer Authority.)

Short-Term Borrowing

The District's policy is to issue short-term debt in the form of Tax Revenue Anticipation Notes to finance any intra-year seasonal cash needs. Such notes must be repaid by the end of the fiscal year in which they are issued. The policy goal is for the District to maintain sufficient operating cash balances so that short-term borrowing is not necessary.

Financial Asset Management Policy

Authorization and Responsibility

The CFO, established by the District of Columbia Financial Responsibility and Management Assistance Act of 1995 (Pub.L. 104-8, Sec 302, 109 Stat 142), is responsible for maintaining custody of all public funds belonging under the control of the District government and depositing all amounts paid in such depositories and under such terms and conditions as may be designated by the Council of the District of Columbia pursuant to Section 424 of the District of Columbia Home Rule Act (Pub.L. 93-198). Except where prescribed by law, the CFO has delegated this responsibility to the Treasurer of the District of Columbia.

The Treasurer, on behalf of the CFO, actually maintains custody of all public funds belonging to or under the control of the District government or its agencies and deposits all funds in depositories designated by law. (P.L. 104-8, Sec. 302 (e); DC Official Code 1-204.24d(1)-(2)) The Treasurer is responsible for the administration and supervision of the Office of Finance and Treasury (OFT), which includes the responsibility for the collection and deposit of all receipts. The Treasurer shall also specify operational procedures and standards to be used for all depository intake facilities.

Deposit of Cash Receipts Policy

All District government instrumentalities, including component units, boards, commissions and other public entities, are subject to DC Official Code 47-351 et seq. and shall deposit all cash, checks and other negotiable instruments received within two business days after collection or receipt of such moneys. Items deposited pursuant to DC Official Code 47-351 et seq. shall be properly posted in the District's accounting system of record within two business days of receipt.

Background: The timely deposit of moneys received provides several benefits. The most important benefit is the improved control of these funds, which reduces the risk of loss due to

errors, carelessness or theft. In addition, the timely deposit of funds results in improved interest earnings and lowers the risk of returned checks due to non-sufficient funds or accounts being closed. It also provides a responsive service to the payers who would otherwise be uncertain whether their checks were received.

Disbursement of Public Funds Policy

All disbursements from District depository accounts shall be made by check or electronic fund transfer. All District agencies shall comply with OCFO's Financial Management and Control Order No. 96-04, which establishes guidelines of authority, indicates required documentation, and requires expediency in the processing of payment vouchers. All District agencies and employees shall comply with Financial Management and Control Order No. 01-001, which governs the establishment, control and maintenance of bank accounts, checks and signature authority to prevent fraud, abuse or other irregularities. Likewise, all District agencies shall also comply with the provisions in the District's Quick Payment Act which ensures the timely payment of public funds to vendors.

Background: The District of Columbia's Office of Finance and Treasury recognizes the financial risks associated with the issuance of checks. The rapid growth of check fraud due to improvements and affordability in desktop publishing and color photocopying has prompted the development of a single state check design. Checks issued by the District government utilize a controlled paper stock with numerous security features and a background design that makes all District government checks easily recognizable as obligations of the District government.

Revolving Fund Policy

Revolving fund disbursements must be authorized and shall be limited to emergency situations that cannot be accommodated through established procedures due to time or other constraints.

Therefore, revolving funds shall only be used for approved emergency transactions, but in no case shall revolving funds be used for the following:

- loans or cash advances to employees;
- travel reimbursements;
- travel advances;
- payments to employees for personal services;
- subscriptions, memberships, registrations, or tuition;
- clearing fund for any purpose;
- monthly recurring operating expenses of the agency; and
- situations that can be accommodated through other established procedures.

Background: Revolving funds are established for the purpose of making emergency or other disbursements that cannot be accommodated through established procedures due to time constraints. When revolving funds are used, the disbursement process is not complete until claims for the payments are made from District funds and the revolving fund is reimbursed for the emergency activity.

In the District of Columbia there are four types of revolving funds:

- Internal Service Funds (DC Official Code 47-373 (2)E);
- Enterprise Funds (DC Official Code 47-373 (2)D);
- Statutorily mandated funds such as the Public Assistance and Administration Revolving Fund (DC Official Code 47-373 (2)); and
- Imprest Fund (Mayor's Memorandum 82-29, dated May 28, 1982).

Collateralization Policy

The District of Columbia shall institute guidelines sufficient to ensure that eligible financial institutions collateralize District deposits at 102 percent of the District's collected balances held that are not fully federally insured. The District's Office of Finance and Treasury shall monitor collateral on a daily basis.

Banking Services Policy

It is the policy of the District government to expeditiously establish bank accounts pursuant

to competitive award practices as prescribed in the Financial Institutions Deposit and Investment Act of 1997, DC Official Code 47-351 *et seq*. The Office of Finance and Treasury shall routinely monitor bank performance using predetermined performance standards with penalties for failure to perform.

Electronic Benefits Payment Policy

The OFT in conjunction with the Department of Human Service shall administer the District's Electronic Benefit Transfer ("EBT") in compliance with the Welfare Reform Act of 1996 and provide necessary training to eligible District of Columbia residents in utilizing this service.

Background: The Welfare Reform Act of 1996 mandates that all states and the District of Columbia establish an electronic delivery system for the distribution of food stamp benefits by October, 2002. As a result, the District's EBT system was implemented in 1998. The system electronically delivers both food stamps and cash assistance welfare benefits to District recipients. EBT is a special application of electronic funds transfer ("EFT") technology, which takes money directly from one account and transfers it to another and eliminates the cumbersome processes required by the paper food stamp and check writing systems. Also, it provides the retail food industry in the District with an improved method of accepting food stamp benefits, accounting of food stamp benefits and the transferring of funds from the U.S. Department of Agriculture to individual merchants.

Internal Control Policy

The District government shall administer Generally Accepted Auditing Standards and OCFO approved internal control practices to ensure the safeguarding of cash under the control of agencies, component units, boards and commissions. Such practices include as follows:

- All cash received by District agencies shall be deposited with OFT. Any exceptions shall be approved in advance by the OCFO.
- Bank accounts shall be reconciled monthly under the supervision of someone independent of receiving, disbursing and depositing cash.
- Employees who handle cash shall be bonded as a condition of employment and cannot maintain accounting records.
- Pre-numbered deposit tickets shall be supported with sequentially numbered cash receipts.
- Checks received shall be restrictively endorsed.
- Cash receipts shall be reconciled daily and discrepancies shall be investigated promptly by the designated authorized personnel.
- Access to cash registers and cash boxes shall be restricted to cashiers and shall be promptly secured during the cashier's absence.

Investment Priorities

The District will invest idle cash in a manner consistent with applicable District law that seeks to (i) provide for the safekeeping of principal amounts invested, (ii) maintain adequate liquidity to fund the District's daily operations, and (iii) maximize earnings on invested funds, in that order of priority. The maximization of earnings will be accomplished by analyzing (i) up-to-date cash flow projections documenting the amounts and timing of the District's operating cash needs over the course of a given fiscal year and (ii) the investment yield curve and the respective earnings (interest) rates available to the District on the various legally-permissible investment instruments, and making investment decisions accordingly.

Investment of Idle Operating Cash Balances

The Office of Finance and Treasury, each business day, will determine, using same-day data from its banks on check clearings for that day and allowing for a relatively small cushion for unexpected disbursements, the amount of cash that is not needed to fund disbursements for that particular day. All such cash will be invested in one or more of the permissible investment instruments in accordance with the policy described in the "Investment Priorities" section above.

Investment of Additional Idle Bank Account Balances

The District government will ensure that no cash balances sit idly without being invested. All District bank accounts will be structured such that all funds in collection or disbursement accounts at the end of a given day will be invested in Overnight Sweep investments and returned to these respective accounts the following morning with interest.

Investment of Bond Escrow and Note Escrow Funds

The District government will invest idle bond escrow and note escrow balances (funds set aside for the payment of principal and/or interest on outstanding District bonds or notes) in accordance with same general policy guidelines described in the "Investment Priorities" section above, except that the maximum duration of such investments (the liquidity aspect referenced above) will be determined by the principal and/or interest payment due dates on the bonds or notes as opposed to operating cash flow projections.

Investment of Bond and Note Proceeds

Proceeds from the sale of District bonds and notes shall be invested in permissible investments in accordance with District law, stipulations in the respective bond or note documents as to how such funds are to be invested, Federal arbitrage regulations regarding the investment of bond and note proceeds (both of which may be more restrictive than District law), and pre-determined payout schedules (or estimates) for such proceeds (based on the purpose and manner of use of such proceeds).

Reserve Funds

Reserve Funds (see Reserve Policy section) of the District shall be invested in permitted investments in accordance with District law, and shall be invested in a manner that will allow some or all of the investments to be liquidated within one business day in the event of an emergency need for such funds. With this stipulation, funds shall be otherwise invested in accordance with the policy described in the "Investment Policies" section above.

Limits on Placement of Funds

In accordance with applicable law, the District will not deposit/invest more than 25 percent of its funds on hand with any one financial institution, and will not deposit/invest an amount with any one financial institution that amounts to more than 25 percent of the assets of such institution.

Fixed Asset Management Policy

Policy for Defining Fixed Assets

Fixed Assets are long-lived tangible items that provide a benefit for a number of future periods. They are either classified as "capitalized assets", subject to the District's standard depreciation rules or "controllable property" which are neither capitalized nor depreciated for financial reporting purposes. The General Fixed Asset Account Group (GFAAG) includes the cost of acquiring fixed assets and the cost of improvements to existing property owned by the District government (DC Official Code 47-372 (7)).

Proper accounting for fixed assets requires the capitalization of appropriate expenditures for each of the following asset categories:

- Land - non-expendable, real property, for which title is held by the District.
- Land Improvements - shall include the cost of permanent attachments, other than buildings, which add value to land.
- Buildings - all real estate, excluding lands and land improvements, used for shelter, dwelling, and other similar purposes.
- Equipment/Furniture/Vehicles - tangible personal property that is: a) complete in itself; b) does not lose identity or become a component of the building where it resides; c) of a durable nature with an expected service life of three or more years.
- Construction-in-Progress - includes the costs incurred for uncompleted projects for construction of buildings and improvements.
- Infrastructure Assets - long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets and that normally are stationary in nature. Examples of infrastructure assets include roads, sidewalks, bridges, tunnels,

drainage systems, water and sewer systems, dams, street lighting systems and transit subway systems.

General Fixed Asset Policy

Fixed Assets must be properly authorized, classified, valued and adequately safeguarded. Physical and accounting control policies and procedures established by the Office of Financial Operations and Systems (OFOS) must be followed by each agency. Each agency must implement the following policies:

- All fixed assets that have been capitalized or part of controllable inventory shall be included on the agency's fixed asset listing.
- All capitalized or controllable inventory fixed assets shall be reported in the Fixed Assets Subsystem (FAS) of SOAR (System Of Accounting and Reporting), maintained by OFOS.
- Each Agency shall designate a Property Control Officer to account for fixed assets and ensure that all divisions within the agency comply with District requirements.
- All agencies shall use the capitalization and controllable inventory policies and procedures established by OFOS.
- All acquisitions and disposals of fixed assets shall be properly authorized by the agency Director or designee. In addition to the agency Director, some acquisitions and disposals may require the approval of the appropriate regulating bodies.
- All agencies shall maintain all documentation relating to the acquisition and disposal of the fixed asset through the life of the fixed asset and for a specified time after disposal.

Capitalization Policy

- All land, land improvements, and building additions must be capitalized regardless of cost.
- Capital improvements shall be capitalized if the total project cost is $5,000 or more, and the improvements increase the utility of the asset or significantly extend (2 years or more) its useful life. If an expenditure for improvements does not increase the utility of the asset or significantly extend its life, it should be classified as repairs and maintenance and not capitalized.
- Furniture, vehicles, and equipment shall be capitalized if the aggregate cost is $5,000 or more and the useful life of the asset is three years or greater. Cost for personal computer equipment includes monitors, cables, battery packs or any additional accessories needed for the equipment to function. It would not include printers. Printing functions can be spooled to a central printer and several computers can utilize it.
- Computer software system costs should be capitalized if the total cost including purchase, installation, and testing is $5,000 or more. Training that is directly related to installation and testing should be capitalized. The cost of training after the system has been placed in service should be expensed as incurred. Upgrades and enhancements should only be capitalized if such costs significantly increase (2 years or more) the life or functionality of the system.
- Computer hardware system costs should be capitalized if the total cost including acquisition, installation, and testing is $5,000 or more. The cost of each component of a computer hardware system should be initially recorded as controllable inventory in the Fixed Asset Subsystem (FAS). When the hardware system is ready for its intended use, the inventoried costs should be grouped and capitalized as one unit of property in the FAS. Upgrades and enhancements should only be capitalized if such costs significantly increase (2 years or more) the life or functionality of the system.
- Betterments shall be capitalized if the cost is $5,000 or more and the addition made to the fixed asset is expected to prolong its life or increase its efficiency over and above that arising from repairs or maintenance. The cost of the betterment is added to the book value of the asset. Betterments do not include building improvements. Betterments that cost less than $5,000 should be classified as expenses.
- Fixed assets with a unit cost of less than $5,000 should be identified as controllable

equipment of the agency. The minimum unit cost level required to be identified as controllable equipment of the agency is $1,000, except certain items. Equipment below $1000 may be tagged with a property identification number and recorded on a supplementary listing for stewardship and sensitivity reasons.

- Agencies may account for and record items under $5,000 in the FAS. Agencies shall record and maintain a supplementary listing internally on the agency FAS or in the OFOS FAS for those items that are between $1,000 and $5,000. The agency shall also maintain records for items less than $1,000 that are considered sensitive or at high risk of theft, such as weapons, computer components, cellular equipment, etc.

Controllable Property Policy

Controllable Property is non-capitalized tangible property that is considered valuable and/or sensitive with a high risk of theft with a value of less than $5,000 and/or with an expected life of less than three years. Similar to capitalized property, controllable property is subject to the requirements of this Comprehensive Financial Policy Management document regarding security, stewardship, maintenance, and utilization. These assets shall be excluded from depreciation calculations and financial reports. They shall, however, appear on other management information reports and fixed assets inventory records.

Acquisition Policy

Fixed assets shall be initially recorded at historical cost which is defined as cash or cash equivalent price of obtaining the asset and bringing it to the location and condition necessary for its intended use.

Donated assets shall be recorded at fair market value at the date of acquisition, generally defined as "consideration given or consideration received, whichever is more clearly determinable".

Construction-in-progress represents capitalization of labor, material, and overhead costs of a capital project. When the project is completed, costs in the construction-in-progress balance sheet account shall be reclassified to one or more of the property and equipment accounts.

Valuation Policy

The most desired method of valuation is original cost (historical). Such data can be determined by retrieving original invoices, purchase orders, check copies, contracts, minutes, or auditor's work papers. However, if the original cost cannot be established, estimated historical cost data may be used.

Stewardship Policy

Fixed assets comprise the majority of the District's total assets. Extreme care shall be used in safeguarding and accounting for all fixed assets. Persons assigned fixed assets (e.g., cellular telephones, pagers and laptop computers, etc.) for their direct official use shall be held responsible and liable for the fixed asset assigned to them. All fixed assets shall be returned to the agency when the official leaves the employment of the agency.

Document Retention Policy

Documents relating to the acquisition and disposal of fixed assets shall be retained throughout the life of the fixed asset and for a minimum of three years following the disposal of the fixed asset or as required by the funding laws and regulations.

Depreciation Policy

The FAS automatically calculates and posts depreciation for fixed assets. Depreciation expense shall be calculated using the straight-line accounting method based on the useful life of the fixed assets as determined by the District.

Property Control Policy

Each agency Director/CFO shall designate an agency Property Control Officer to account for fixed assets and ensure that all divisions within the agency comply with the District's accounting policy. Each agency shall perform a physical inventory of its fixed assets annually to ensure that adequate care is used in the control and accountability of District assets. The physical inventory shall be carefully planned and supervised by the Property Control Officer to ensure

reliable results. The agency controller shall receive all inventory representations from the Property Control Officer and approve reconciliations and adjustments to the detailed accounting records resulting from the physical inventory.

Disposal Policy

All disposals of fixed assets shall be properly authorized by the agency Director or designee. The appropriate regulating bodies shall approve some disposals in addition to the agency Director. All proceeds from the sale of District government property should be dedicated for use by the government for the construction and rehabilitation of its facilities, unless Council approves an exception. Agencies shall maintain all documentation related to the disposal of the fixed asset for a specified time after disposal.

Reserve Policy

Budgeted Reserve

It is the policy of the District government to comply with requirements for maintaining the Budget Reserve (Pub. L. 104-8, as amended by Pub. L. 107-96, 115 Stat. 995 to add Section 202(J)(1)).

Background: The Budgeted Reserve requires that of the District's actual and anticipated local funds for a fiscal year that would otherwise be available to support an appropriation request, an amount shall be set-aside for the budgeted reserve of $70 million in FY 2003. The District may spend these funds only in accordance with the following guidelines:

- the CFO shall certify that funds are available;
- the amounts shall be obligated or expended in accordance with laws enacted by the Council in support of such obligation or expenditure;
- the amounts may not be used to fund District government agencies under court receivership; and
- the Mayor must notify the Committees on Appropriations of the House of Representatives and the Senate in writing 30 days in advance of any obligation or expenditure.

Once the District has complied with these guidelines, the Reserve funds are available for expenditure and remain available until expended. The District shall replenish the fund the following fiscal year for expenditures in any one fiscal year to maintain the required balance.

Cash Set Aside

It is the policy of the District government to comply with requirements for establishing and maintaining the District of Columbia's Cash Set Aside as established under Section 202(J)(2) of Pub.L. 104-8, as amended by Pub. L. 107-96, 115 Stat. 995.

Background: The District is required to establish a Cash Set Aside (or Cumulative Cash Reserve), in addition to other reserve requirements, in the amount of $50 million for FY 2004 and FY 2005. The District may spend these funds in accordance with the guidelines established for spending Budgeted Reserve funds (see previous section). The District shall replenish expenditures in any one fiscal year the following fiscal year to maintain the required balance.

Emergency Reserve Fund Management

It is the policy of the District government to comply with current requirements for building and maintaining the District of Columbia's Emergency Reserve Fund as defined by DC Official Code 1-204.50(a). Any modifications to these requirements shall be reflected in the Policy.

It is the policy of the District to deposit all interest earned on these funds back into the Emergency Reserve. If these interest payments are not sufficient to maintain the fund at its prescribed 4 percent level, the District shall budget sufficient funds in the subsequent fiscal year to ensure that the reserve is fully funded in the District's Proposed Budget and Financial Plan.

Background: The District shall, by Fiscal Year 2004, build and maintain a cash Emergency Reserve Fund equaling 4 percent of the total local budget appropriated for operating expenditures for a fiscal year. The Emergency Reserve is currently funded at this required 4 percent level, two years prior to the required time.

This Fund may only be used for unanticipat-

ed and nonrecurring extraordinary needs of an emergency nature, including a natural disaster or calamity (as defined by section 102 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act) or unexpected liability by Federal Law. The emergency reserve fund may not be used to fund any department, agency, or office of the District government administered by a receiver or other official appointed by a court, shortfalls in any projected reductions included in the budget proposed by the District government for the fiscal year, nor settlements and judgments made by or against the District of Columbia government. Funds may only be allocated after an analysis has been prepared by the CFO and, beginning with FY 2005, only after a projection by the CFO that the entire Contingency Reserve Fund (see next section) will be completely exhausted at the time of the allocation.

The District government shall allocate sufficient funds each fiscal year in the budget process to replenish any amounts allocated from the emergency reserve fund during the preceding fiscal year.

Contingency Reserve Fund Management

It is the policy of the District of Columbia to comply with current requirements for building and maintaining the District of Columbia's Contingency Reserve Fund as defined by DC Official Code 1-204.50(a). Any modifications to these requirements shall be reflected in the Policy.

It is the policy of the District to deposit all interest earned on these funds back into the Contingency Reserve. If these interest payments are not sufficient to maintain the fund at its prescribed 3 percent level, the District shall budget sufficient funds in the subsequent fiscal year to ensure that the reserve is fully funded in the District's Proposed Budget and Financial Plan.

Background: The District shall establish and maintain a Contingency cash Reserve Fund equaling at least 3 percent of the total budget appropriated for operating expenditures for a fiscal year by FY 2007 The Contingency Reserve is currently funded at this required 3 percent level, five years prior to the required time.

The Fund may only be used for nonrecurring or unforeseen needs that arise during the fiscal year, including expenses associated with unforeseen weather or other natural disasters, unexpected liability created by Federal law or new public safety or health needs or requirements that have been identified after the budget process has occurred, or opportunities to achieve cost savings. The fund may also be used, if needed, to cover revenue shortfalls experienced by the District government for three consecutive months (based on a two month rolling average) that are 5 percent or more below the budget forecast. The Contingency Reserve Fund may not be used to fund any shortfalls in any projected reductions that are included in the budget proposed by the District government for the fiscal year. Funds may only be allocated after an analysis has been prepared by the CFO and all other surplus funds available to the District have been completely exhausted.

Finally, the District shall allocate sufficient funds each fiscal year in the budget process to replenish any amounts allocated from the Contingency Reserve Fund during the preceding fiscal year.

Policy for Determining Real Property Tax Exemptions

Real Property Tax Exemption Policy

It is the policy of the District government to grant real property tax exemptions in accordance with Federal statutes, the District of Columbia Code, and the social and economic interests of the District of Columbia. Where Federal law preempts District law and mandates that real property shall be taxed, or permits taxation of otherwise immune real property, such real property will be taxed to the fullest extent possible. The District has limited these exemptions because all taxable property owners indirectly subsidize tax-exempt property owners.

Real property tax exemptions are granted on a case-by-case basis to taxpayers who are in compliance with the real property tax exemption provisions in accordance with DC Official Code 47-1002 *et seq*. Real property tax exemptions may also be granted through specific Federal or District legislative action; however, these instances are rare.

Except for real property exempted by a specific Federal or District law and real property immune from taxation under Federal law, no real property (regardless of ownership or Federal tax exemption status) is automatically exempt from real property taxation. In the absence of such legislative action, real property owners must apply for a categorical exemption and demonstrate that the actual ownership and use of the property is within the categorical limitations prescribed by the applicable subsection of the DC Official Code 47-1002.

Generally, legislation for specific real property tax exemptions shall be referred to the OCFO for analysis and recommendation before consideration by Council.

Fiscal Management Policy

Revenues

The District shall strive to maintain a balanced and diversified revenue system to protect against adverse fluctuations in any one source of revenue which may result from changes in local and/or national economic conditions.

General Fund Balance

There are two major components of the fund balance of the General Fund, the reserved fund balance and the unreserved balance. The unreserved fund balance is apportioned further into designated and undesignated components. It is the policy of the District government to maintain the reserved fund balance of the General Fund in perpetuity in accordance with those laws and regulations governing the use of the funds.

The portion of the fund balance of the General Fund that is unreserved and designated or earmarked for use by the D.C. Code shall be maintained for its designated purpose, unless modified by subsequent legislation. The District should consider alternate uses in the event of a revenue shortfall or for nonrecurring or unforeseen needs that arise during the fiscal year, including expenses associated with unforeseen weather or other natural disasters, unexpected liability created by federal law or new public safety or health needs or requirements that have been identified after the budget process has occurred.

It is the policy of the District government to maintain as unreserved and undesignated Fund Balance an amount equal to working cash required for at least one month of District operations as determined by the District's Treasurer. Unreserved and undesignated funds in excess of that amount may be allocated and appropriated through the normal appropriations process when they become available. If allocated and appropriated, the fund balance should be allocated and appropriated to fund non-recurring items.

Background: The fund balance of the General Fund represents the difference between the District's assets and its liabilities at the end of a fiscal year, or September 30th. The ending Fund Balance of a fiscal year is also the beginning Fund Balance of the ensuing fiscal year. Positive differences between revenues and expenditures, or surpluses, increase the Fund Balance. Negative differences, or deficits, decrease the Fund Balance. An ever-growing Fund Balance that is inaccessible is not advantageous to the District because it restricts the District's ability to allocate resources among priorities. The amount of the Fund Balance is not indicative of funds that may be used for any purpose in the future. Rather, the unreserved undesignated Fund Balance represents the amount that may be used for District priorities after approval by both the District Council and the Congress.

Expenditure Reporting

The District shall make expenditures only in accordance with federal appropriations law. Financial statements will accurately reflect these expenditures. The District's Comprehensive Annual Financial Report (CAFR) shall reflect expenditures in the relevant appropriations titles.

Quarterly Revenue Adjustments

The Office of the Chief Financial Officer shall make revised quarterly adjustments to the revenue estimated for the year in progress as required by law (D.C. Code 47-317.3(5)B). These adjustments, as certified by the Chief Financial Officer, will be submitted to the Mayor and the Council of the District of Columbia.

They shall serve as the basis for determining whether revenues are in balance with anticipated expenditures. Any request for supplemental appropriations submitted to the Congress of the United States that would increase the total amount of general fund revenue appropriated to the District shall use these certified estimates as a basis for the request.

Accrual Accounting

The District shall prepare financial statements using both the modified accrual and the full accrual bases of accounting in accordance with Governmental Accounting Standards Board (GASB) Statement Number 34, Basic Financial Statements–and Management's Discussion and Analysis–for State and Local Governments.

Background: The District implemented the requirements of GASB Statements Nos. 34, 35, 36, 37, and 38 during fiscal year 2002 as required by GASB. As a result of this implementation, the District issued two new full accrual financial statements (Statement of Net Assets and a Statement of Activities) and a Management's Discussion and Analysis section in its FY 2002 CAFR. Accrual accounting reports all of the revenues and costs of providing services each year. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting helps the District meet the following important objectives of financial reporting:

- Assess the finances of the government in its entirety, including the year's operating results.
- Determine whether the government's overall financial position improved or deteriorated.
- Evaluate whether the government's current-year revenues were sufficient to pay for current-year services.
- Assess the government's cost of providing services to its citizenry.
- Assess how the government finances its programs – through user fees and other program revenues versus general tax revenues.
- Understand the extent to which the government has invested in capital assets, including roads, bridges, and other infrastructure assets.
- Make better comparisons between governments.

Tax Expenditure Budget

It is the policy of the District of Columbia to prepare a tax expenditure study every other year that summarizes all tax and other revenue deferments or preferences that are required by law.

O-Type ("Other" or "Type O") Revenues

O-Type Revenues (sometimes known as "Other" or "Type O" revenues) are funds generated from fees, fines, assessments, or reimbursements that are dedicated to the District agency that collects the revenues to cover the cost of performing the related function. O-type revenues are classified as general fund revenues and will be estimated on a quarterly basis consistent with all general fund revenues.

It is the policy of the District government to discourage the allocation of such O-type revenue funds directly to agencies as proprietary receipts to operate programs. As a general practice all revenues should be allocated through the budget and appropriations process. Dedicated funds limit the use of the District's general fund revenue by earmarking a portion of the revenue for special purposes. In certain limited cases, O-type fund accounts are necessary to support a particular program or activity. In such limited cases of need, the fund account must be created through the normal legislative process and adhere to requirements to be recommended by the CFO and adopted by the Mayor and Council. Any existing O-type fund accounts that are not supported by legislative authority may be converted to appropriated or local revenue.

O-type revenue shall be recorded on an accrual basis. O-type funds shall be available for use in subsequent years as determined by the authorizing legislation that established the fund. When required to cover a revenue shortfall, O-type revenue may be converted to appropriated or local revenue.

Grants

The District depends on federal and private grant funds to support a wide range of services and

programs for the citizens of the District. This section sets forth the District's polices related to resource development, fairness in awarding grants, grants administration and reporting, and budget authority for grants.

Resource Development: To better serve the citizens of the District, all District agencies shall pursue to the maximum extent possible all federal and other funding opportunities that enhance their financial ability to carry out the Mayor's strategic plan and initiatives and address the needs of the residents of this city, without binding the District to unrealistic financial commitments.

Background: For the last decade, grants have comprised approximately one-fourth of the District's annual budget, and as such have contributed significantly to the District's ability to meet the needs of its citizens. The District's policy is to continue and, to the extent possible, increase its use of funds from other sources to maximize delivery of services to citizens.

Fairness in Awarding Grants: It is the intent of the District of Columbia to have a fair and open competitive process for the awarding of grant funds. Toward that end the following procedures shall be followed:

- A Notice of Funds Availability (NOFA) shall be prepared and published in the D.C. Register.
- The agency administering the grant shall prepare the Request for Applications (RFA).
- For the purpose of awarding grants, District government agencies shall hold fair and open competitions that comply with the D.C. Grants Policies and Procedures Manual and the Notice of Final Rulemaking, Chapter 50: Subgrants to Private and Public Agencies.

The only exception is where an organization merits a targeted grant, and this targeted grant is made transparent and justified through the budget formulation process.

Background: After the NOFA has been published and the RFA released, the District government agency appoints a neutral and objective review panel. The panel is comprised of a minimum of three individuals with knowledge and expertise in the objectives of the grant and RFA, as well as in the standard administrative requirements mandated by the source of funds. The review panel scores the submitted applications and makes recommendations on which applications should be funded. Final decisions on awards and amounts are made by the head of the District agency administering the grant. To ensure that agencies have followed the competitive process specified above, the Office of Research and Analysis reviews and certifies the process used to award each subgrant of more than $10,000 before it can become final. After this review and before the agency issues the award documents, the District agency Chief Financial Officer shall certify that the award funds are in place and available for distribution.

Grant Administration and Reporting: The District of Columbia government, by accepting grant funds, agrees to administer and report on them in strict adherence to the grantors' programmatic and financial rules and regulations and the District's laws and its Grants Policies and Procedures Manual.

Background: The receipt of grant funds triggers many requirements, including, but not limited to, spending and reporting requirements. Grant awards typically mandate the terms and conditions governing the grants and refer to the relevant regulations and statutes. Funds that are awarded to private and public agencies by District government agencies, as subgrants, are bound by the appropriate OMB Circular and Cost Principles as well as any policy guidelines issued by the grantor. In the case of grant awards from general funds, grantees must comply with both the appropriate OMB Circular and Cost Principles and any other policy guidance included in the grant agreement.

The Chief Financial Officer will meet the District's reporting requirements by publishing the Congressional Quarterly report, sent to Congress and the Council, which provide grant-level information; and monthly financial status reports, which provide summaries at the agency level.

Budget Authority for Grants: District of Columbia agencies will spend grant funds only at

such time as a grant award has been received, and to the extent they have budget authority to do so. Budget authority applies to a particular fiscal year. If a grant covers multiple fiscal years, the sum of the budget authority across those fiscal years should not exceed the grant award amount. Changes in budget authority will be made only in accordance with the District's policies and procedures regarding budget modifications (increases or decreases in overall budget authority for a grant) or reprogrammings (increases or decreases in particular line-items within a grant that leaves the overall budget authority unchanged).

Background: Many of the grants that the District receives have performance year(s) different from the District's fiscal year. The timing differences between the grant year(s) and the District's fiscal year impact the budgeting for grants. Through the budget modification process, the Chief Financial Officer submits documentation to the Council requesting the approval of increases and decreases in budget authority that occur during the fiscal year. This process is unique among the District's funding types and is mainly due to the nature of grants in comparison to the District's fiscal year requirements. All government officials work together to insure that this administrative process is as efficient as possible. The efficiency of the process can play a critical role in grants management.

Gift Funds Monitoring Policy

Gift funds shall be monitored as required by the grantor of the gift. Gift funds shall be earmarked for the specific purpose as expressed by the grantor of the gift and shall be available for that purpose until they have been spent. The director of the appropriate agency shall be responsible for monitoring the expenditure of gift funds, as well as the receipt, acceptance, processing, disbursement, and record keeping, for such gifts in accordance with applicable law as well as the MOU between the CFO and the director relating to the proper handling of gift funds.

Capital

Prior to recommending or approving new projects, the District shall prepare a baseline capital budget expenditure baseline accounting for the acquisition, maintenance, and replacement of assets required to maintain current service levels. The annualized cost of this baseline shall then be compared to the available funding streams over a 10-year period. New projects may be approved only insofar as the long-term financing cost of the CIP stays within available funding limits.

Economic Development Policy

Real Property Tax Exemptions

The District of Columbia recognizes that granting real property tax exemptions on a limited basis may be used to promote selected economic development projects. The Council of the District of Columbia, in order to promote economic development strategies benefiting the population at large, grants these exemptions with the approval of the Mayor (and the Financial Authority during a control year). Economic development strategies may include the issuance of tax incremental financing bonds and tax abatements, reductions, or holidays for certain classes of property owners.

Financial Planning

The District budget will incorporate legislated financial assistance expenditures and reductions in revenue that result from tax abatement and from dedication of tax revenue for economic development purposes.

Management of Assistance Programs

The District shall develop and maintain financial systems and management practices consistent with applicable federal and District regulations, law and best practices – including planning for expenditures, accurate and timely transactional execution, appropriate controls and regular reporting.

Economic Development Awards of Assistance

The District shall provide public-sector financing of economic development projects only when private financing is not reasonably available and there are compelling public benefits that could be realized through use of public dollars. Because there is greater need for public financing than resources available, not all projects can be funded.

Coordination with Related Entities

The District shall coordinate economic development finance programs with programs of quasi-independent agencies.

Debt Financing Tools

The District is authorized to issue certain debt to enhance economic development. The Industrial Revenue Bond Program allows private entities (usually not-for-profit institutions) to issue bonds through the government and obtain lower (tax-exempt) interest rates than they otherwise could on funds acquired for private development projects. The debt service on these bonds is payable solely from the revenue of the private entity. The other major economic development financing tool of the government is the Tax Increment Financing Program whereby certain incremental tax revenues from a project are pledged to pay debt service on Tax Increment Bonds used to finance the project. Applications for Tax Increment Financing will be approved if they are determined to be in the District's economic development interest and, thus, produce a projected net economic benefit to the District.

Definitions

Definitions for selected items within this policy appear in Appendix J, Glossary of Budget Terms.