THE CITIZENS' BUDGET

AFFORDABLE HOUSING ■ EDUCATION ■ HEALTH ■ JOBS ■ LIBRARIES ■ YOUTH

FY 2007 PROPOSED BUDGET & FINANCIAL PLAN

VOLUME 3 OPERATING APPENDICES PART I

(GOVERNMENTAL DIRECTION AND SUPPORT, ECONOMIC DEVELOPMENT AND REGULATION, AND PUBLIC SAFETY AND JUSTICE)

Submitted to the
Council of the District of Columbia
by **Anthony A. Williams, Mayor,**
Government of the District of Columbia
March 20, 2006

Government of the District of Columbia

FY 2007 Proposed Budget and Financial Plan

The Citizens' Budget

Volume 3

Operating Appendices - Part I

Submitted
to the
Council of the District of Columbia

by

Anthony A. Williams, Mayor
Government of the District of Columbia

GOVERNMENT FINANCE OFFICERS ASSOCIATION

Distinguished Budget Presentation Award

PRESENTED TO

District of Columbia Government

District of Columbia

For the Fiscal Year Beginning

October 1, 2005

President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented an award of Distinguished Budget Presentation to the District of Columbia for its annual and capital budget for the fiscal year beginning October 1, 2005.

In order to receive this award, a governmental unit must publish a budget document that meets program criteria of a policy document, a financial plan, an operational guide and a communications device.

The award is the fourth in the history of the District of Columbia. The Office of Budget and Planning will submit this FY 2007 Budget and Financial Plan for consideration by GFOA, and believes the FY 2007 Proposed Budget and Financial Plan continues to conform to the GFOA's requirements.

Government of the District of Columbia

Anthony A. Williams
Mayor

Robert C. Bobb
City Administrator

Alfreda Davis
Chief of Staff

Herbert R. Tillery
Deputy Mayor for Operations

Edward D. Reiskin
Deputy Mayor for Public Safety and Justice

Brenda Donald Walker
Deputy Mayor for Children, Youth, Families, and Elders

Stanley Jackson
Deputy Mayor for Planning and Economic Development

Natwar M. Gandhi
Chief Financial Officer

Members of the Council

Linda W. Cropp
Chairman

Carol Schwartz ..... At Large
David A. Catania ..... At Large
Phil Mendelson ..... At Large
Kwame Brown ..... At Large
Jim Graham ..... Ward 1
Jack Evans ..... Ward 2
Kathleen Patterson ..... Ward 3
Adrian Fenty ..... Ward 4
Vincent B. Orange Sr. ..... Ward 5
Sharon Ambrose ..... Ward 6
Vincent Gray ..... Ward 7
Marion Barry ..... Ward 8

Executive Office of the Mayor

Dana Bryson
Chief of Staff, Office of the City Administrator

Kevin Clinton
Senior Advisor for Budget and Finance

Council of the District of Columbia

Arte Blitzstein
Council Budget Director

Office of the Chief Financial Officer

Lucille Dickinson
Chief of Staff

Lasana Mack
Deputy Chief Financial Officer
Office of Finance and Treasury

Anthony F. Pompa
Deputy Chief Financial Officer
Office of Financial Operations and Systems

Julia Friedman
Deputy Chief Financial Officer
Office of Revenue Analysis

Sheryl Hobbs Newman
Deputy Chief Financial Officer
Office of Tax and Revenue

Jerry Malone
General Counsel

Cynthia Gross
Associate General Counsel

Monica Brown
Assistant General Counsel

Associate Chief Financial Officers

Steward Beckham
Public Safety and Justice

Barbara Jumper
Government Operations

Pamela D. Graham
Government Services

Cyril Byron
Economic Development and Regulation

Deloras Shepherd
Human Support Services

Office of Budget and Planning

Humberto O. Molina Jr.
Deputy Chief Financial Officer

Gordon M. McDonald
Associate Deputy Chief Financial Officer

Budget Administration

David Meadows, Director

Human Services
David Hines, Acting Deputy Director
Timothy Mattock
Sunday Okparaocha

Grants Management
Gina Dash
Marie Rogers
Joshua Agbebakun

Heather McCabe - Senior Health Financial Policy Advisor

Government Operations and Economic Development
Viola Davies, Deputy Director
Teri Allen
Daniel Kalegha
William Powell
John Zakrajsek
Brian Waugh

Public Safety, Public Education and Public Works
Alonso Montalvo, Acting Deputy Director
Ray Cooke
Rasheed Dawodu
Anthony Devassy
Amina Elzeneiny
Sherrie Greenfield
Lydia Hallums

Financial Planning and Analysis

Leticia Stephenson, Director
Henry Wong, Deputy Director
Sumita Chaudhuri

Cost Analysis and Financial Planning
Randall Myers
Rebecca Shaw

Information Systems and Operations

John Nitz, Director

Information Systems
Freeman Murray, Acting Deputy Director
Stephen Durity
Walter Fraser
Afsar Husain
Robert Johnson
William Johnson
Darryl Miller
Sue Taing

Operations/Management Services
Gary Ayers, Acting Deputy Director
Maze Miltenberger
Traveon Smith

Production
Margaret Myers, Manager
Alicia Gadsden
Carla Jackson
Sharon Nelson
Renee Waddy
Lakeia Williams

Budget Innovation and Capital Improvements Program

James Spaulding, Director

Budget Innovation
Justin Kopca, Deputy Director
Jack Burriesci
Kevin Lee

Capital Improvement
Carlotta Osorio, Acting Deputy Director
Evelyn Bandoh
Omar Herzi
David Kintu
Bharat Kothari

FY 2007 Proposed Budget and Financial Plan

Volume 3

Operating Appendices - Part 1

(Governmental Direction and Support, Economic Development and Regulation and Public Safety and Justice

Table of Contents

How to Read the Operating Appendices

A. Governmental Direction and Support

Council of the District of Columbia (AB) A-1
Office of the District of Columbia Auditor (AC) A-10
Advisory Neighborhood Commissions (DX) A-19
Office of the Mayor (AA) A-28
Office of the Secretary (BA) A-36
Customer Service Operations (CW) A-49
Office of the City Administrator (AE) A-55
D.C. Office of Risk Management (RK0) A-68
D.C. Office of Personnel (BE) A-80
Human Resources Development Fund (HD) A-95
Office of Finance and Resource Management (AS) A-101
Office of Contracting and Procurement (PO) A-112
Office of the Chief Technology Officer (TO) A-123
Office of Property Management (AM) A-140
Contract Appeals Board (AF) A-153
Board of Elections and Ethics (DL) A-162
Office of Campaign Finance (CJ) A-175
Public Employee Relations Board (CG) A-185
Office of Employee Appeals (CH) A-194
Metropolitan Washington Council of Governments (EA) A-203
Office of the Attorney General of the District of Columbia (CB) A-209
Office of the Inspector General (AD) A-236
Office of the Chief Financial Officer (AT) A-245

B. Economic Development and Regulation

Office of the Deputy Mayor for Planning and Economic Development (EB) B-1
Office of Planning (BD) B-12
Office of Local Business Development (EN) B-23
Office of Motion Picture and Television Development (TK) B-29
Office of Zoning (BJ) B-35
Department of Housing and Community Development (DB) B-41
Department of Employment Services (CF) B-54

Board of Real Property Assessments and Appeals (DA) B-66
Department of Consumer and Regulatory Affairs (CR) B-74
Commission on the Arts and Humanities (BX) B-88
Alcoholic Beverage Regulation Administration (LQ) B-98
Public Service Commission (DH) B-109
Office of the People's Counsel (DJ) B-118
Department of Insurance and Securities Regulation (SR) B-124
Office of Cable Television and Telecommunications (CT) B-137
Housing Authority Subsidy (HY) B-145
Anacostia Waterfront Corporation Subsidy (AY) B-151

C. Public Safety and Justice

Metropolitan Police Department (FA) C-1
Fire and Emergency Medical Services Department (FB) C-20
Police Officers' and Fire Fighters' Retirement System (FD) C-38
Department of Corrections (FL) C-61
District of Columbia National Guard (FK) C-69
District of Columbia Emergency Management Agency (BN) C-77
Commission on Judicial Disabilities and Tenure (DQ) C-83
Judicial Nomination Commission (DV) C-84
Office of Police Complaints (FH) C-90
Advisory Commission on Sentencing (FZ) C-98
Office of the Chief Medical Examiner (FX) C-106
Office of Administrative Hearings (FS) C-114
Corrections Information Council (FI) C-127
Criminal Justice Coordinating Council (FJ) C-133
Forensic Health and Science Laboratory (FV) C-143
Office of Unified Communications (UC) C-149
Homeland Security Grants (FT) C-164

Volumes Bound Separately

Volume 1 - FY 2007 Proposed Budget and Financial Plan - *Executive Summary*
Volume 2 - FY 2007 Proposed Budget and Financial Plan - *Agency Budget Chapters*
Volume 4 - FY 2007 Proposed Budget and Financial Plan - *Operating Appendices – Part II*
Volume 5 - FY 2007 Proposed Budget and Financial Plan - *FY 2007 – FY 2012 Capital Appendices*
FY 2007 Proposed Budget and Financial Plan - *Special Studies*

Transmittal Letter

ANTHONY A. WILLIAMS
MAYOR

March 20, 2006

The Honorable Linda W. Cropp
Chairman
Council of the District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, NW, Suite 504
Washington, DC 20004

Dear Chairman Cropp:

It is my pleasure to submit to you the *Fiscal Year 2007 Budget and Financial Plan: the Citizens' Budget*. With a strong economy and district services improved, it is our responsibility to fulfill our current commitments to the citizens of the District of Columbia. Any proposed growth in government services is in direct response to citizen priorities, and is done by responsibly expanding select services only when we have the resources to do so.

Budget Summary

This budget fulfills our commitments by containing the growth of government through fiscal discipline; by maintaining our pledge to provide tax relief for all district residents; and by following through on the landmark initiatives we launched last year. I have also responded to the priorities that citizens have expressed in summits, public hearings and community meetings throughout the last year by making targeted investments in affordable housing, education, health, libraries, jobs and youth.

The proposed FY 2007 budget supports $7.50 billion in total funding and 34,519 full-time equivalent (FTE) staff including federal funds. The District's local fund budget supports $4.95 billion in funding and 26,723 FTEs. This local budget represents a 0.6 percent decrease from last year's funding level. Though this may appear like a reduction in funding, this is due to the large number of one-time investments in the FY 2006 budget. Funding levels for recurring services, which is a more accurate reflection of budget growth, reflects a 6.6 percent increase over FY 2006 levels.

Fulfilling Commitments

The FY 2007 Budget and Financial Plan will fulfill commitments to citizen priorities by adhering to the following:

Responsibly Containing Growth

During periods of strong economic prosperity, there is a temptation to grow the government. This budget takes the responsible approach by scaling back approximately $205 million in baseline growth. In the vast majority of cases these reductions lowered growth to an appropriate increase over the FY 2006 spending levels; however, in some cases the reductions will have an impact on services. We worked diligently to ensure that these reductions reflect minimal impact on services, but in some cases this budget reflects difficult decisions to shift resources from one area to another. This critical look at our existing programs has allowed us to meet our commitment to lowering District income taxes again this year in a package that will save District taxpayers $64 million per year over the long term.

This belt tightening effort also allows me to invest in new services. I have chosen to make the most significant investments in education and housing because these are the areas of highest priority for our residents. As a sign of my optimism that the economy will continue to strengthen, this budget includes a proposed allocation of $70 million to programs that will be implemented only if additional revenues are certified subsequent to this budget submission as part of the Chief Financial Officer's next quarterly revenue estimate, expected in May.

Continuing Promised Tax Cuts

This budget takes the final step towards completing tax reductions associated with the Tax Parity Act of 1999 which will save District taxpayers $51 million in FY 2007 and $64 million during FY 2008 and beyond. This final phase of tax parity implements reductions for individuals at lower income levels as compared to earlier phases of tax parity. For taxpayers with taxable income between $0 and $10,000, tax rates will fall from 4.5 percent to 4.0 percent. For taxable income from $10,000 to $40,000, tax rates will fall from 7.0 percent to 6.0 percent. And for taxable income above $40,000, tax rates will fall from 8.7 percent to 8.5 percent.

This last phase of tax parity caps a three-year period in which the District has provided over $350 million in tax relief to District residents and businesses, mostly in the form of property tax and income tax relief.

Following through on Landmark Initiatives

New Communities

Last year we launched the New Communities initiative, which is designed to decrease the concentration of poverty and crime through the creation of mixed-income neighborhoods with one-to-one replacement of affordable housing. This District-sponsored redevelopment of the physical and human architecture will transform distressed neighborhoods into healthy, mixed-income communities, integrating public facilities and services in a sustained, multi-year effort to offer families better housing, employment and educational opportunities.

Over the past year we have made substantial progress in our first targeted community, Northwest One. This budget proposes an investment of $4 million in social supports in Northwest One, Barry Farms, and Lincoln Heights. Human service delivery initiatives will include launching adult learning partnerships, expanding youth serving programs, and implementing intensive self-sufficiency case management support for residents. The District will also invest $1.8 million in FY 2007 for real estate advisory services, appraisals and related property acquisition services and master planning efforts.

I am requesting approval of the securitization of an additional $6 million of the Housing Production Trust Fund for the full implementation of the Northwest One New Communities Plan. I have included a $20 million capital investment in this community, which includes a health center in conjunction with the Medical Homes initiative ($6 million), a library ($2.1 million) and a recreation center ($12 million). I have also invested $6.5 million for program activities at Barry Farms and Lincoln Heights and planning activities at Park Morton.

Great Streets

Another signature initiative that we launched last year, Great Streets, aims to transform under-invested corridors into thriving and inviting neighborhood centers through physical improvements and new business development using public actions and tools to leverage private investment. The total corridor distance is 22.5-miles and the corridors pass through over 50 different neighborhoods. Approximately 5,000 individual parcels front onto Great Street corridors and approximately 35 percent or 1,750 are commercial properties. Corridors targeted within the Great Streets program are:

- Georgia Avenue and 7th Street NW (Wards 1, 2 & 4 - 5.6 miles)
- H Street NE and Benning Road NE/SE (Wards 5, 6 & 8 - 5.0 miles)
- Nannie Helen Burroughs Avenue NE (Ward 7 - 1.5 miles)
- Minnesota Avenue NE/SE (Wards 7 & 8 - 3.6 miles)
- Pennsylvania Avenue SE (Wards 6, 7 & 8 – 3.5 miles)
- Martin Luther King Jr. Avenue SE and South Capitol Street (Ward 8 - 4.0 miles)

In FY 2007 I will invest $6 million in development assistance (gap funding, acquisitions, etc.), small business development and land use planning along selected corridors. In addition, in the FY 2005 – FY 2009 spending plans, we have allocated over $100 million in local and federal funds for transportation, streetscape, and transit improvements.

Way to Work

Through this initiative, we leverage the economic development activity that has transformed the District by refocusing its impact on specific neighborhoods and targeted communities. We have developed strategies to ensure that employment and business opportunities associated with the District's booming economy are available to all residents in every ward. Recently the Council approved a core component of my Way to Work legislation, establishing a living wage in the District of Columbia. This requires that district assisted employers are required to pay employees 11.75 per hour.

I propose continued funding of $21.6 million for the Way-to-Work Initiative in FY 2007, with more than $12 million targeted at the District's youth. In my plan I propose $7.7 million for summer jobs for 10,000 district youth; $3.1 million for year round youth employment; $1.8 million for the Youth Leadership Institute and $8.4 million for transitional employment. In addition, I am recommending $8.4 million for job training for hard to employ individuals and am also funding improvements in pre-apprenticeship programs. The final component strengthens the enforcement of First Source hiring requirements to ensure the hiring of district residents. Should additional revenues become available, I propose increasing summer jobs funding by $2 million to serve an additional 1,400 youth.

Collectively, these initiatives generate jobs for District residents, provide training in high-demand occupational areas, upgrade the skills of incumbent workers, increase the wages and benefits earned by residents, strengthen the District's tax base, and secure entry into the workforce for District residents with significant barriers to employment living in neighborhoods designated as persistent problem areas.

Responding to Citizen Priorities

Housing

This budget also proposes to implement a new housing initiative based on the recommendations of the Mayor's Comprehensive Housing Strategy Task Force, which conducted a comprehensive year-long review of the housing landscape in the District of Columbia. This initiative is designed to protect and expand affordable housing so that the District is better equipped to address housing challenges including: a lack of affordable housing especially for those working at low to mid-level salaries; a need for housing for our most vulnerable residents, and the need for central coordination of the District's housing agencies.

Based on the Task Force recommendation, I am proposing an increase in the residential deed and recordation tax rates from 1.1 percent to 1.5 percent in order to provide the resources necessary to fulfill these recommendations. This will generate roughly $47.2 million in FY 2007 and I propose that this revenue will be devoted to a new dedicated fund for the implementation of the recommendations of the task force, including:

- $16.5 million for rental and emergency assistance (including funds for the D.C. Housing Authority to offset the loss of federal resources);
- $10 million for the District's Workforce Housing initiative;
- $10 million to support the Mayor's *Homeless No More* initiative;
- $4 million for mental health housing;
- $5.77 million for New Communities real estate and human capital efforts; and
- A new senior level housing coordinator for all District housing priorities;

These new deed tax revenues will also provide for net new resources to the Housing Production Trust Fund of $7.1 million.

Education

This budget includes a historically significant investment in capital funding at DCPS, with a total allocation of $223 million to support rehabilitation and modernization of DCPS school buildings. This includes full funding of $100 million in sales taxes as passed by Council and an additional $123 million from other modernization resources.

The operating budget includes a total of $1.1 billion in local funds for public education, including $811 million for District of Columbia Public Schools (DCPS) and $264 million for public charter schools. This FY 2007 budget level includes increases to the Per-Pupil Funding Formula as recommended by the State Education Office. This increases base funding for education by $402 from $7,600 to $8,002 and results in an additional $25.1 million for DCPS and $9.5 million for the D.C. Public Charter schools. This funding level also includes $4.9 million to hold DCPS harmless from the impact of students transferring from the school system to private schools as part of the federal voucher program.

Should additional revenues become available, I propose to fund additional educational initiatives as follows: $10.3 million for DCPS Special Education transportation costs; an additional $4.9 million for DCPS to help with the loss of students transitioning to private schools as part of the federal voucher program; $5.3 million for expansion of my literacy initiative ($2.5 million) as well as expansion of the DC LEAP program ($2.8 million); and $7 million to the University of the District of Columbia for Adult Education Facilities, faculty pay parity and improvements to the Nursing program.

Health

The District continues to be the only jurisdiction in the U.S. that offers health insurance coverage to all residents up to 200 percent of poverty. The FY 2007 budget demonstrates

the District's continued commitment to providing health services to residents by expanding health coverage for children from 200 to 300 percent of the federal poverty level and adding dental coverage within the Medicaid program for adults for the first time. These investments contribute to the District's goals to ensure adequate distribution across the District of high quality healthcare providers, provide additional health coverage to low-income residents, and improve public health management of chronic illness and communicable diseases.

This budget augments primary health care services with the goal of creating an electronic health record system ($2.2 million) for community health centers, along with a bricks and mortar investment in community health centers that serve low-income populations ($13.0 million). We have also added $1 million for the operating costs of my Medical Homes initiative. This budget also provides tuition reimbursement for private physicians who locate in underserved areas. We will also expand the hospital uncompensated care fund by $4.25 million, which will generate a total $14 million additional dollars (including federal funds) for District hospitals.

To complement these activities, I am proposing a new private hospital, the National Capital Medical Center, on the currently underserved east side of the District. This new hospital would ensure proper citywide distribution of emergency, trauma, inpatient and specialty services and would be funded through Tobacco Settlement Trust Fund bond revenues. These funds are in addition to $16 million for infrastructure improvements on the Reservation 13 site over the next two years. Finally, I am announcing the formation of the Mayor's HIV/AIDS Task Force, to make recommendations to improve our HIV prevention strategies and HIV/AIDS treatment in the District. I propose $275,000 to fund this Task Force.

Should additional revenues become available, we propose to add an additional $1 million for HIV/AIDS prevention and the implementation of the recommendations of the Appleseed Report. We would also provide for a further expansion in health coverage to fully funding the Medicaid adult dental benefit. These coverage expansions are augmented by Medicaid and DC Healthcare Alliance provider rate increases, targeted especially toward physicians and community health centers, to ensure adequate provider networks in the District's public health insurance programs. Finally, we would add an additional $1.2 million to expand the District's school-based health program.

Libraries

In this budget I propose significant new investments into our City's library system to expand opportunities and elevate the quality of life by providing District residents access to information and literacy services, while serving as a community gathering place.

The District is committing $16.25 million in FY 2007 as part of the over $167 million investment in major construction and renovations to neighborhood branches over the next six years. This will meet the needs of community residents, provide an attractive gathering place for neighbors, and support neighborhood economic development. We

also are investing $5.5 million in FY 2007 to enhance key library services including updated collections, expanded operating hours, new computers, and improved programming for children, youth and adults. I will also be recommending $5 million funding during the current year to spruce up branch libraries, allowing for necessary minor repairs and upgrades, such as painting and improved amenities.

I propose a new, central Martin Luther King, Jr., Memorial Library that will attract library patrons and serve as the symbolic, administrative, and technological hub of the library system. The cost will be covered with the proceeds of the disposition of the existing central library, the PILOT payment, and federal funding, including a portion of the $30 million that President Bush recently committed to the District to support my library initiative. To sustain the District's new system, we are partnering with community organizations and residents to establish and fund an endowment. Dependent upon revenues, I propose an additional expansion of library hours and increased funds for library collections and materials.

Youth

The goal of the Mayor's Youth Development Strategy is to reduce youth violence and improve the quality and effectiveness of youth programs throughout the District. During the first year of the strategy's implementation, we relied on federal resources (such as bonus funds from the Temporary Assistance for Needy Families program) to support key activities. In FY 2007, this budget includes $1 million to support interagency violence prevention efforts in addition to the resources for core initiatives already within agency budgets. I propose another $5 million for the Mayor's Youth Development Strategy in FY 2007, should additional revenues become available. I am also proposing, in partnership with Major League Baseball, an investment of $1 million in a summer youth baseball academy.

We are proud that we have developed the first ever Children's Budget for FY 2007. Our challenge *now* is to reexamine what results we are getting from our investments and whether we are investing in the right things. The youth development strategy offers a framework to realign current youth investments with effective, evidence-based programs and services that improve outcomes for all young residents from our highest functioning to our most in need. If there are the available revenues, I propose $3.9 million to increase the Adoption and Guardian Subsidies and will increase funding for child care by $5.1 million.

Lastly, we have invested $28.5 million in the Oak Hill Youth Center which will provide the resources necessary for the first phase of construction for our new youth facility.

Safety and Justice

This budget includes an increase of $4 million to provide local support to compensate for the loss of $4 million in federal funding that supported 81 officers. This budget includes $500,000 to continue our civilianization initiative which has already put 26 sworn

officers on the street. I have also provided $800,000 for additional forensics lab services, which is complemented by an additional $5 million investment in the new Consolidated Laboratory Facility. This budget also includes over $11 million in rehabilitation and construction of fire houses throughout the District.

If additional resources become available, an additional $3.3 million will be provided to expand contractual bed space at the D.C. Jail, $500,000 will be provide to improve documentation of inmates at the Department of Corrections, over $500,000 will be provided for community preparedness through the Emergency Management Agency, approximately $800,000 will be provided for crossing guards, and $1,000,000 will be provided to a non-profit organization to pay for legal services for the poor.

Arts and Culture

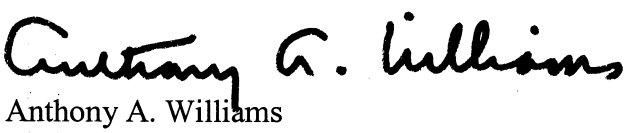
This budget also establishes a new arts endowment with a one-time infusion of capital for major arts organizations, and ongoing operating support through a $2 million commitment to arts programs throughout the District of Columbia. This endowment would reflect a true legacy in the arts, while promoting equity through competition and accountability. This program administered by the D.C. Commission on the Arts and Humanities will combine both earmarked and competitive grants to create an expanded cultural presence for all residents and visitors while providing an incentive for local artists and arts organizations to remain and thrive in the District.

Additional earmarked one-time investments in small and large cultural and arts organizations will contribute to the cultural fabric of our community. Organizations receiving funding include the Corcoran Gallery of Art, Arena Stage, the Washington Ballet, the Dance Institute of Washington, the Barracks Row Theater, the Howard Theater, the Asian Cultural Center, the Ward 7 Arts Collaborative, the Gala Theater, the Woolly Mammoth Theater, and others.

Conclusion

This proposed FY 2007 Budget and Financial Plan maintains our commitments to our citizens to be responsible stewards of public resources and make good on the commitments we have made and the programs we have initiated, while growing the government only in areas demanded by citizens when we have the resources to do so. I look forward to the Council's review of my proposal, and I look forward to our continued cooperation in finalizing and executing this package.

Sincerely,



Anthony A. Williams

Government of the District of Columbia
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer

March 20, 2006

The Honorable Anthony A. Williams
Mayor of the District of Columbia
The John A. Wilson Building
1350 Pennsylvania Avenue, N.W., 6th Floor
Washington, D.C. 20004

Dear Mayor Williams:

I am pleased to transmit the Fiscal Year (FY) 2007 Proposed Budget and Financial Plan. The Office of the Chief Financial Officer has worked with the executive leadership team, as well as agency program and budget staffs to address numerous budget issues to produce a balanced five-year financial plan. We will continue to enthusiastically support this collaborative process as the Council deliberates.

EXPENDITURES

Local Funds

The FY 2007 Mayor's Proposed Budget includes $4.95 billion in spending supported by $4.952 billion of revenues, with an operating margin of $1.8 million.

Table 1
Proposed FY 2007 Budget Summary – Local Funds
($ in thousands)

Total Taxes	$ 4,341,981
Non Tax Revenue	395,675
Miscellaneous Revenues	46,144
Appropriated Fund Balance	119,792
Revenue Enhancements – Compliance Initiatives	49,000
Total Local Fund Resources	**$ 4,952,592**
Recurring Operating Expenditures	$ 4,826,268
Non Recurring Operating Expenditures	38,305
Subtotal Operating Expenditures	$ 4,864,573
Paygo Capital and Transfer to OPEB for FY 2007 costs	86,187
Total Expenditures	**$ 4,950,760**
Projected FY 2007 Operating Margin	**$ 1,832**

The Mayor's total Local Fund proposed operating expenditures for FY 2007, not including Paygo capital or transfers to OPEB, is $4,864.6 million, an increase of $297.3 million or 6.5% over FY 2006 revised of $4,567.3 million.

CONTINGENT BUDGETING

The FY 2007 proposed Local Fund operating budget includes proposals to fund programs on a contingent basis, that is, with revenues expected to be available in the future through formal certified revenue estimates, fund balance, or triggered tax increases.

School Modernization

Starting in FY 2007 the first $100 million of Gross Sales Tax that has not previously been dedicated shall be deposited into the school modernization fund. (The calculation of the "first" $100 million starts on April 1st of each year.) In FY 2008 and thereafter, the $100 million is to be increased by the increase in the Construction Cost Index, which is projected to be 6 percent per year.

To hold the General Fund harmless from the impact of allocating the Gross Sales Tax to school modernization, certain revenue sources are dedicated to replace the Gross Sales Tax, in priority order:

1. Additional net revenues certified by the CFO since September 2005, after meeting the fiscal impact of certain legislative tax changes since December 2005. So far for FY 2007, $52.6 million of additional net revenues have been certified in the revenue estimate in September 2005, December 2005, and February 2006.

2. In FY 2007, the unrestricted General Fund Balance as of September 30, 2005. In FY 2008, the unrestricted General Fund Balance as of September 30, 2006. In FY 2009, the unrestricted General Fund Balance as of September 30, 2007. In FY 2010, the unrestricted General Fund Balance as of September 30, 2008.

3. Starting in FY 2008, if funding in 1 and 2 above is insufficient to hold the General Fund harmless from the transfer of Gross Sales Tax to school modernization, then the Deed and Recordation Tax and the Transfer Tax on commercial property transactions shall be increased. The CFO is to calculate the rate needed after its August revised revenue estimate, but prior to September 1. So by September 1, 2007, if the additional certified revenues through August 2007 and the fund balance as of September 30, 2006 (known by February 1, 2007) are insufficient, the tax rate would be increased, subject to Council approval.

Mayoral Contingent Initiatives

The Mayor's proposed budget for FY 2007 includes $70 million of proposed spending for programs that would be implemented only if additional revenues are certified by the CFO during the Council's FY 2007 budget deliberation process.

REVENUE OUTLOOK

Underlying the current revenue forecast is an economic outlook for the District that is similar to that which most economists have projected for the nation as a whole—steady growth in employment, wages,

and income. Continued high levels of federal spending means an extra "kick" locally because so many of these dollars will be spent here. Retail activity will continue to improve, as the number of retail outlets in the District continues to grow and as shoppers increase their spending.

One key question for the District in FY 2006 and on into FY 2007 is "What will happen in the market for real property?" Rising real estate assessments and transactions were major sources of revenue gains in fiscal years 2003 through 2005. The key fundamentals affecting the District's real estate markets remain strong: the District's economy is growing, individuals and businesses both continue to demonstrate a desire to locate in the District, and the supply of housing and land for commercial development cannot increase very rapidly. Accordingly, the contributions of the real estate sector are expected to be significant in FY 2006 and FY 2007 as well, but they will be more muted, especially as regards the number of transactions.

In FY 2007, District General Fund resources are forecasted to be $5.497 billion, an increase of $99.7 million over the FY 2006 approved budget. These amounts include Local Fund revenue, Special Purpose Fund revenue, as well as proposed revenue enhancements and appropriated fund balance.

The Mayor's FY 2007 Proposed Budget includes $49.0 million in Local Fund revenue enhancements from increased compliance enforcement efforts and $65.7 million in Special Purpose Revenue Fund enhancements. The Special Purpose Revenue Fund enhancements include a change in the tax treatment of CareFirst that will generate additional revenue to pay for health coverage plans for District residents, an increase in the 911 fees to fund 911 services, and residential deed transfer and recordation tax rate increase to fund housing initiatives.

GENERAL FUND BALANCE USE

The FY 2007 proposed local funds operating budget includes a proposal to use $219.8 million of fund balance. The use of these monies is for non-recurring expenditures:

- $100 million for School Modernization in FY 2007,
- $81.5 million for Paygo Capital to fund various capital projects,
- $4.7 million for transfer to trust fund for Other Post Employment Benefits (OPEB) for FY 2007 costs, and
- $32.6 million for various one-time operating program enhancements.

Beginning Fund Balance, General Fund. As recently noted in the FY 2005 Comprehensive Annual Financial Report (CAFR), the District concluded FY 2005 operations with a $1.585 billion fund balance (i.e., accumulated surplus). For the FY 2006 approved budget, $591.6 million of the fund balance ($466.9 million in local funds and $124.7 million in special purpose funds) was appropriated for use.

This FY 2005 ending fund balance consisted of $1.277 billion (or 80.5%) in local funds and $308 million (or 19.5%) in special purpose revenue funds (O-Type). Of the portion in local funds, $506.9 million was reserved in Congressionally-imposed Emergency/Contingency Cash Reserves ($253.4 million) and Debt Service Escrow ($253.5 million).

Based on current revenue and expenditure estimates for local funds in FY 2006 and the Mayor's proposal to convert O-Type balance to unreserved and undesignated fund balance, not considering the potential impact from Congressional supplemental appropriations or end-of-year CAFR audit adjustments, the

Local Fund is expected to end FY 2006 with an operating surplus of $52.7 million. This will increase the local fund balance.

As exhibited in Table 2, the fund balance for local funds is projected to be $879 million at the end of FY 2006. Approximately 58 percent of this fund balance represents on-going, required commitments such as congressional and bond covenant reserves (assuming the amount required for these two purposes remains relatively steady at the $506 million required in FY 2006). The remaining 42 percent of the balance is available for appropriation, and represents a substantial asset to the District. As always with fund balance, because it must be considered non-recurring, it should be used in a careful, judicious and strategic manner.

Table 2
FY 2006 Local Fund Balance Analysis
($ in thousands)

Beginning Fund Balance (October 1, 2005)	$ 1,277,000
Local Appropriated for FY 2006	(466,930)
Projected FY 2006 Local Operating Margin	52,709
Conversion of O type to Local	16,449
Projected Ending Fund Balance (September 30, 2006)	$ 879,228

Financing the Local Budget Request

The Mayor's proposed budget for FY 2007 utilizes $219.8 million from the accumulated fund balance. Table 3 demonstrates that the planned drawdown of fund balance will reduce the accumulated surplus for local funds to a projected $661.3 million by the end of FY 2007.

Table 3
FY 2007 Local Fund Balance Analysis
($ in thousands)

Projected Beginning Fund Balance (October 1, 2006)	$ 879,228
Appropriated for FY 2007	(219,792)
Projected FY 2007 Operating Margin	1,832
Projected Ending Fund Balance (September 30, 2007)	$ 661,268

PROPOSED FY 2007 GROSS FUNDS BUDGET

The proposed FY 2007 gross funds operating budget is $7.503 billion, an increase of $150.9 million, or 2.1 percent, over the approved FY 2006 gross funds budget of $7.352 billion. This expenditure increase is primarily due to higher funding levels for federal grants ($ 90.1 million) including Medicaid and in programs supported by user fees, fines, the dedicated portion of deed recordation and transfer taxes (for housing production), and other Special Purpose revenues ($ 68.9 million). The local and non-local

funding components of the Proposed FY 2007 gross funds budget and the changes from FY 2006 are summarized in Table 4 below.

Table 4
FY 2007 Gross Funds Budget
By Fund Type
($ in millions)

Fund Type	FY 2006	FY 2007	Change	% Change
Local	$ 4,949.5	$ 4,950.8	$ 1.3	0.03%
Federal	1,939.0	2,029.1	90.1	4.6%
Private Grants	16.2	6.8	(9.4)	(58.0)%
Special Purpose (O Type)	447.1	516.0	68.9	15.4%
Total Gross Funds	**$ 7,351.8**	**$ 7,502.7**	**$ 150.9**	**2.1%**

CAPITAL IMPROVEMENTS PLAN

The District faces a wide variety of infrastructure needs, placing great demands on its Capital Improvements Plan (CIP). The total proposed appropriation request for the FY 2007 - FY 2012 CIP is $1.995 billion for all sources (excluding the Highway Trust Fund). This six-year plan includes a net increase in budget authority of $1.637 billion ($1.698 billion of new budget authority offset by $61million of rescissions). The increased budget authority will be financed by: General Obligation (G.O.) bonds; the Master Equipment Lease Program; asset sales; and, alternative financing vehicles such as Certificates of Participation. The FY 2007 capital program includes $581.5 million in planned capital expenditures to be financed by $400 million in new G.O. bond issuance and $181.5 million of pay-as-you-go (PAYGO) transfers from the General Fund balance.

****

The leadership provided by you and the Council, along with the hard work of the Office of Budget and Planning and others in the Office of the Chief Financial Officer, allowed us to produce this balanced budget for FY 2007. As a result, I am certifying that the FY 2007 – FY 2010 Budget and Financial Plan, as proposed, is balanced. I look forward to continuing to work with you and the Council during the forthcoming budget deliberations.

Sincerely,

Natwar M. Gandhi
Chief Financial Officer