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Briefing Report to Congressional Requesters

June 1994

FINANCIAL STATUS

District of Columbia Finances

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June 22, 1994

The Honorable Fortney H. (Pete) Stark
Chairman, Committee on the District of Columbia
House of Representatives

The Honorable Julian C. Dixon
Chairman, Subcommittee on the District of Columbia
Committee on Appropriations
House of Representatives

This briefing report responds to your request that we provide information on the District of Columbia Government's financial status. It addresses the District's cash situation and budgets, as well as other issues you asked us to address. Our report documents the briefings we provided to you and your staff.

Background

The District of Columbia is a unique entity, being the only governmental unit with responsibilities for state and county, as well as city, functions. As such, it provides a variety of services and programs for its residents and visitors, including police and fire protection, local transportation, Medicaid, hospital care, sanitation, employment assistance, education, and housing. The District currently provides these services primarily from a $3.4 billion budget that was appropriated from the District's general fund by the Congress. Approximately 80 percent of the revenue financing the annual appropriation comes from income taxes, property taxes, sales taxes, and other local sources of revenue. The remainder comes primarily from the annual federal payment intended to compensate the District for nonreimbursed services provided to the federal government or revenue shortages caused by federally imposed limitations on the District's taxing powers. In addition, the District expects to receive approximately $750 million in federal grants, as well as reimbursements for services that are not included in amounts annually appropriated.

District officials note that, in recent years, the District has not only been impacted by a sluggish economy, but its financial situation has been aggravated by the migration of a significant number of middle class taxpayers to the suburbs, leaving behind a greater percentage of residents who are most in need of government assistance.

The District of Columbia Self-Government and Governmental Reorganization Act (Home Rule Act), Public Law 93-198, confers limited autonomy to the District and provides for congressional oversight. For example, the act requires the District to submit balanced budgets to the Congress and precludes the District from obligating or expending funds unless approved by the Congress. The District annually prepares budgets that include appropriated general fund revenues and expenditures, a capital projects plan for the next 5 years, and a long-term financial plan.

The act allows the District to issue general obligation bonds only for capital projects or to refinance existing maturing debt instruments. However, in August 1991, the Congress amended the District's charter to authorize issuing general obligation bonds to pay accumulated bills and provide the District with working capital. District officials described this amount as sufficient to eliminate the District's negative financial position, including $284 million that had existed when the District was created under the Home Rule Act. At the time of this bond offering, District officials said that the liquidity offered by this bond issuance would reduce the need for short-term borrowing.

Summary

The District is faced with both unresolved long-term financial issues and continual short-term financial crises. Although the District received $331 million in proceeds from general obligation bonds in 1991 to help relieve its cash shortfall, the city's cash position has declined by nearly $200 million since then, and the District is estimating that its cash balances will continue to decline.[1]

In its most recent cash forecast, the District estimated that its cash balance would dip to $65 million by September 30, 1995, even assuming the deferral of a $74 million pension payment in fiscal year 1995 until fiscal year 1996. However, on June 7, 1994, the District announced an agreement with the D.C. Retirement Board to make all payments when due in fiscal year 1995 and pay certain additional costs incurred or interest foregone as a result of deferring fiscal year 1994 pension payments. However, the pension payment the District agreed to make in fiscal year 1995 exceeds the cash projected to be available on September 30, 1995, by more than $9 million, not including additional costs and interest foregone that the District has agreed to pay. As of June 14, 1994, District officials stated that

[1]As used here cash refers to the accumulation in a pool of all unrestricted operating monies statutorily under the control of the District. These monies include the general fund and various enterprise funds, such as the Water and Sewer Fund.

they have not yet developed the action plans to produce the cash necessary to implement this agreement.

The District's year-end cash position is also affected by the District's ability to successfully execute its budget and its limited authority to obtain short-term borrowings at fiscal year-end. The District prepares its forecasted cash balance using its budget as the basis. Revenues and expenditures are then adjusted to reflect the timing of actual cash receipts and disbursements. As discussed below, the District's actual revenues have fallen short and expenditures have exceeded budgeted amounts in recent years. In addition, budgets under current congressional consideration may not fully reflect the costs of the District's programs. Further, there are uncertainties regarding the timing of collections and the collectibility of the District's newly imposed public safety fee included in the District's fiscal year 1994 supplemental budget and cash forecasts.

Under the Home Rule Act, the District's authority to issue short-term obligations spanning the year-end is limited, and District officials have indicated that such obligations may not be favorably received by the financial markets. This limitation, combined with optimistic budgets (that is, certain actions that may not be achievable to reduce expenditures or increase revenues and items not included in the budget) present a formidable challenge for the District in addressing its potential cash shortfalls. Unless the District can implement policy changes to compensate for potential cash shortfalls, it may be forced to borrow from the U.S. Treasury by fiscal year 1995.

Because of revenue shortfalls and overexpenditures, the District, in recent years, has had to increase revenues from local sources, obtain an increased federal payment, or use other measures to balance its budgets. These other measures, which amounted to additional budgetary authority of $225 million, have included transferring funds from the Water and Sewer Fund, not recording a Washington Metropolitan Area Transit Authority payment when due against appropriated expenditures, and changing the real property tax year.

For instance, in fiscal year 1993 the District changed the legal definition of the property tax year. This change and related changes resulted in counting approximately $174 million of tax collected as an increase to fiscal year 1993 budget revenue. Before the change, the $174 million would have been recorded as fiscal year 1994 revenue. This tax year change did not generate any additional cash during fiscal year 1993, but budgeted

revenue and spending authority were increased by this amount. Also, because the federal payment to the District is based upon a percentage of District revenues from local sources from the second preceding fiscal year, the fiscal year 1995 federal payment authorization may be increased by approximately $41 million under the payment formula. (These budget balancing measures are discussed in appendixes I and II.)

Furthermore, supplemental budgets to address insufficient funding of District services and programs have not included shortfalls of the D.C. General Hospital, which is subsidized by the general fund. As of September 30, 1993, the Hospital's cumulative results of operations was a $109 million deficit. The District's fiscal year 1994 supplemental budget request estimated that the Hospital's deficit would increase by $15 million during fiscal year 1994; however, no additional funds were requested for the Hospital. By not recognizing these shortfalls in its supplemental budgets, the District overstated the amount of resources available to use for other programs.

In addition, the fiscal year 1994 supplemental and fiscal year 1995 budgeted expenditures do not consistently reflect historical and projected trends. Specifically, the fiscal year 1994 and 1995 budgets for many programs are lower than past actual expenses, as well as future projections. District officials maintain that certain short-term actions will reduce the fiscal year 1994 and 1995 expenditures. However, such actions may not be achievable and these budgets may be optimistic.

For example, the fiscal year 1995 budget for the Department of Corrections projected that expenditures would decline by 6 percent. These figures were based on assumed savings from privatization of various functions, including food services, and reductions in the cost of housing prisoners in non-District facilities. While the budget estimates that 310 prisoners will reside in such facilities, it does not include funds to pay for this service. The original fiscal year 1994 budget also assumed similar short-term savings, which were not achieved. Subsequently, expenses were added to the fiscal year 1994 supplemental budget.

In another example, although Medicaid expenditures have increased significantly in recent years, the budget for fiscal year 1994 shows a decrease of 1.7 percent, and the fiscal year 1995 budget projects an increase of just 0.8 percent. Actual Medicaid payments for the first 6 months of fiscal year 1994 have exceeded budget estimates and may be understated by as much as $30 million. The District's projections for years

beyond fiscal year 1995 show Medicaid increasing an average of 7 percent per year.

Another concern is that the District's fiscal year 1995 budget and long-term financial plan projections may be incomplete. The District's multi-year projections show the long-term financial crisis with a growing shortfall between expected revenues and expenditures increasing to $742 million by fiscal year 2000. While these estimates appear reasonable under current spending and revenue policy, policy changes could occur, which may reduce or increase this imbalance. These multi-year projections do not include deficits from enterprise funds such as the Water and Sewer Fund and D.C. General Hospital. In addition, the multi-year projections and 1995 budget may not reflect all operating costs necessary to comply with court orders or consent decrees. For example, the documents do not include fines, imposed subsequent to the fiscal year 1995 budget submission, of over $21 million annually resulting from the District's failure to reduce overcrowding in juvenile facilities.

Finally, the District's fiscal year 1994-2000 capital budget does not include amounts for many already authorized projects or for projects that are likely to be needed. For example, the capital budget does not include most of the nearly $1 billion that will be required for improvements to water and sewer plants and D.C. Public School buildings. District officials said that all projects were not included because of statutory limitations on the total amount of District indebtedness and a self-imposed limitation on annual indebtedness that restricts financing of such projects. Moreover, in the longer term, the District must address the $4.4 billion in unfunded pension liabilities.

Comments From the District of Columbia

In commenting on a draft of this report, District officials did not take issue with the facts as presented. Their written comments, which are presented in appendix VI, discuss actions they intend to take to address many of the issues raised in the report. We did not assess the sufficiency or achievability of these actions.

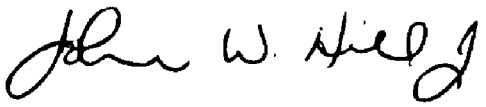
Scope and Methodology

In response to your request, we obtained more that 200 financial and other documents provided by the District and met with District officials in the Office of Financial Management and other selected agencies. The District was very helpful in providing all requested documents in a timely manner and in granting access to all needed District officials. Documents obtained

and analyzed included the District's Comprehensive Annual Financial Reports (CAFR), cash forecasts, budgets, and multi-year plans. The District's CAFR for fiscal year 1993 was audited by Coopers and Lybrand and Bert Smith & Co. The auditors issued an unqualified opinion on the 1993 financial statements, stating that the statements were fairly presented in all material respects. While it was not within the scope of our work to assess the overall quality of the auditors' work, we obtained selected information from the workpapers prepared by the auditors, including workpapers related to receivables and payables.

In addition, the Congressional Budget Office assisted in the analysis of the budgets and multi-year financial forecasts. We also met with staff of the District of Columbia Council and studied Council reports from selected committees. We performed our work from April 1994 through June 1994, in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Mayor of the District of Columbia, the Chairman of the City Council, interested congressional committees, and other interested parties. Copies will also be made available to others upon request. Please contact me at (202) 512-8549 if you or your staff have any questions concerning this report. Other major contributors to this report are listed in appendix VII.



John W. Hill, Jr.
Director, Audit Support and Analysis

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Abbreviations

BOP	Bureau of Prisons
CAFR	Comprehensive Annual Financial Report
DHS	Department of Human Services
FTE	full-time equivalent
OMB	Office of Management and Budget
TRANS	Tax Revenue Anticipation Notes
WMATA	Washington Metropolitan Area Transit Authority

The District of Columbia's Financial Status

GAO

Will the District Run Out of Cash?

District's forecasts show declining balances

Uncertainties could lower projected cash forecast

- Deferred payments
- Optimistic forecasts
- Ability to borrow short term

Will the District Run Out of Cash?

The District's forecasted cash balances for fiscal years 1994 and 1995 show positive cash balances through the end of fiscal year 1995. (See appendix III for a complete schedule of the District's forecasted cash balances.) However, a number of factors could impact the forecasted cash balances. Specifically, the District's recent forecasts do not include payment of certain items when due (deferrals), include optimistic assumptions, and utilize growing short-term borrowings to meet expected cash shortages. Furthermore, these cash forecasts do not reflect certain mandated costs (discussed later in the appendix). As a result of all these factors, the District could be required to borrow from the U.S. Treasury.

The District estimated its cash balance would dip to $65 million by September 30, 1995. This estimate assumed deferring a $74 million pension payment in fiscal year 1995 until fiscal year 1996. However, on June 7, 1994, the District announced an agreement with the D.C. Retirement Board to make all payments when due in fiscal year 1995 and pay certain additional costs incurred or interest foregone as a result of deferring fiscal year 1994 pension payments. However, the pension payment the District agreed to make in fiscal year 1995 exceeds the cash projected to be available at September 30, 1995, by more than $9 million, not including additional costs and interest foregone that the District has agreed to pay. As of June 14, 1994, District officials stated they had not developed action plans to produce the cash necessary to implement this agreement.

Furthermore, the District's estimated cash balance for fiscal year 1994 and its actual cash balances for fiscal years 1991 through 1993 may have been significantly lower had the District not anticipated or deferred certain payments. The following table compares actual or forecasted cash balances to restated cash balances assuming that payments were made when due and that no new cash was generated. District officials have stated that it is their policy to generally pay amounts when they are due.

Table I.1: Comparison of Actual/Forecasted Cash Balance to Year-End Cash Assuming Payments Made When Due

Dollars in millions

	End of fiscal year	Cash balance	Amount of restatement	Year-end cash assuming payments made when due
Actual	1991	$272	$-45[a]	$227
Actual	1992	160	–49[b]	111
Actual	1993	68	–99[c]	–31
Forecasted	1994	132	–190[d]	–58
Forecasted	1995	65	–74[e]	–9

[a]Reflects payment of $45 million pension payment deferred in 1991, but paid in 1992.

[b]Reflects payment of $27 million Washington Metropolitan Area Transit Authority (WMATA) payment deferred in 1992, but paid in 1993; and $22 million Bureau of Prisons (BOP) payment, deferred in 1992, but paid in 1994.

[c]Reflects payment of $72 million pension payment, $23 million WMATA payment, and $4 million BOP payment deferred in 1993, but paid in 1994.

[d]Reflects payment of $190 million pension payment deferred in 1994, assuming payment in 1995.

[e]Reflects payment of $74 million pension payment deferred in 1995.

The District's recent forecasts have also included a number of optimistic assumptions. As a result, the District's actual cash balance at the end of each month has been less than the District had anticipated.

The District prepares its forecasted cash balances using its annual budget as the basis. The budgeted revenues and expenditures are then adjusted to reflect the District's estimate of when revenues will be received in cash and checks written for expenditures. Forecasted cash balances can be overstated if budget amounts are unrealistic or the timing of receipts and disbursements does not correspond to estimates. Past experience indicates that the District's actual revenues and expenditures often differ significantly from budgeted amounts.

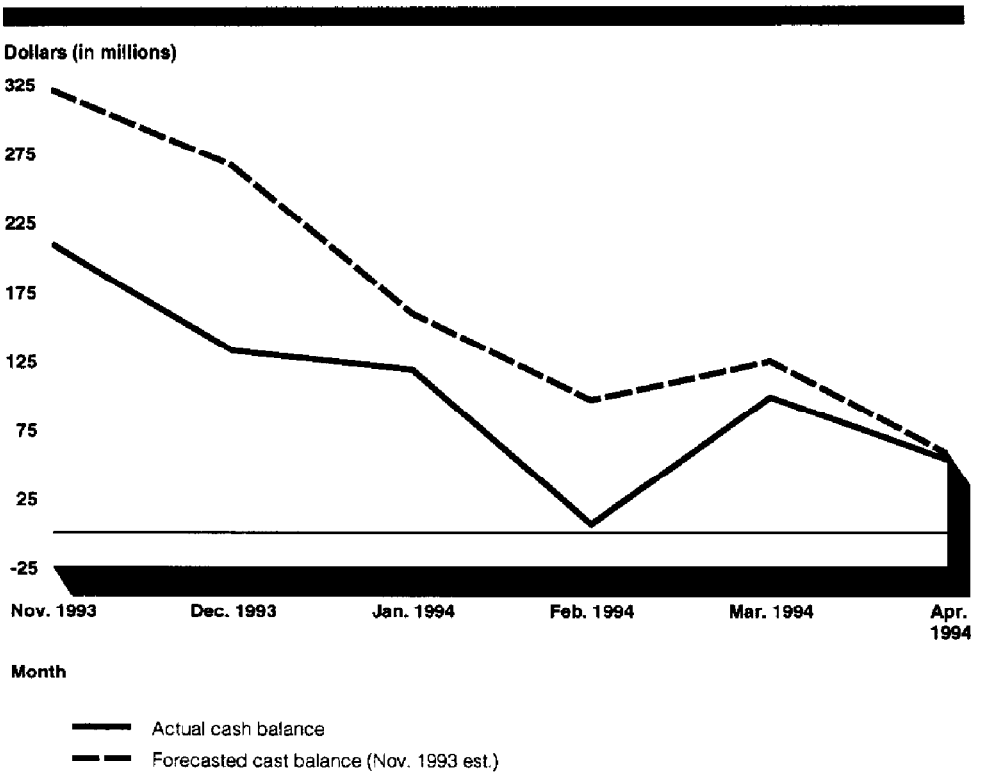
The impact of optimistic budget estimates on the cash forecast can be illustrated by looking at Medicaid expenses. For the first 6 months of fiscal year 1994, the District budgeted for Medicaid payments of approximately $51 million per month, while actual Medicaid payments averaged approximately $55 million per month. Consequently, actual payments exceeded the original estimated payments by $23.8 million over the 6 months. District officials maintained that they would not exceed the total Medicaid budget for the fiscal year. As a result, in a revised cash forecast,

Medicaid expenditures for the final 6 months of fiscal year 1994 were estimated to average only $41 million—more than $10 million less per month than the first 6 months. However, April 1994 actual Medicaid disbursements were approximately $54 million. Consequently, the District's forecasted cash balance for fiscal year 1994 may be overstated due to Medicaid expenses by as much as $30 million ($60 million less $30 million in federal reimbursements).

In another case, the forecasted cash balance for fiscal year 1994 includes a $25 million receipt for a one-time public safety fee, which will be assessed on all business revenues including not-for-profits. According to the Congressional Budget Office, this estimate is highly tentative due to the absence of reliable data on those subject to the tax and the inherent difficulties of predicting compliance rates for such a one-time, self-assessed fee. The projection of when cash receipts from this assessment will be collected is also uncertain.

Figure I.1 shows that the District's recent projected cash balances have not been realized. For example, the December 1993 forecasted balance exceeded the actual amount by approximately $134 million (102 percent).

Figure I.1: Comparison of Forecasted Cash Balance to Actual Cash Balance



Note: Data points for this figure are provided in appendix IV.

In addition to optimistic assumptions and deferrals, the District's cash balances throughout the year assume the District will be able to borrow to meet short-term cash needs. These short-term borrowings generally consist of those borrowings the District expects to receive and repay within the same fiscal year. The District's ability to borrow short term from the securities market beyond the current fiscal year is limited to 2 percent of its appropriation, or approximately $70 million in fiscal year 1994. The District's forecasted cash balances for fiscal years 1994 and 1995 include the following short-term borrowings, shown in table I.2, which are to be repaid before fiscal year-end.

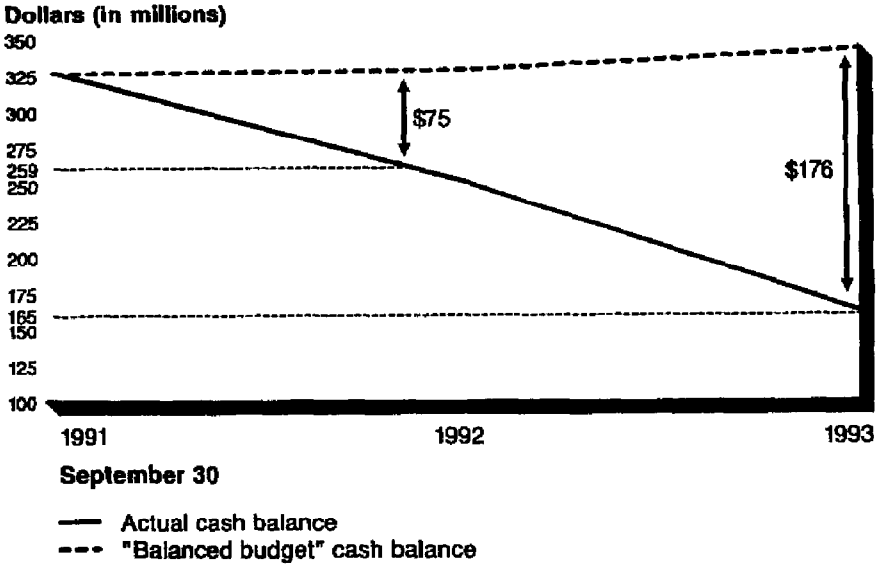
Table I.2: District Fiscal Year 1994 and 1995 Short-term Borrowings

Dollars in millions

Fiscal year	Estimated	Actual to date
1994	$150	$200
1995	250	n/a

The fiscal year 1994 short-term borrowing is the first time, since the receipt in fiscal year 1991 of $331 million in proceeds from long-term borrowings, that the District has borrowed on a short-term basis from the securities market to meet operating cash needs. Prior to this long-term borrowing, the District frequently borrowed from the securities market on a short-term basis.

GAO How Did Cash Decline With Balanced Budgets in FY92 and FY93?



How Did Cash Decline With Balanced Budgets in Fiscal Years 1992 and 1993?

During fiscal years 1992 and 1993, the general fund's cash balance declined by approximately $166 million. During these same 2 years the general fund budget showed a $10 million excess of revenues over expenditures, resulting in a difference of $176 million between cash and budget for the general fund. This seeming incongruity occurred because District budgets are prepared based on expected revenues and expenditures, which can differ from the flow of cash receipts and disbursements.

The District's budget, as is common to other municipalities, is prepared on a modified accrual basis, meaning that revenues and expenditures can be recognized in the budget before or after cash is received or expended. Revenues include amounts earned but not yet collected (receivables) and exclude amounts not yet earned for which cash was collected (deferred revenue). In addition, expenditures include cash owed but not yet paid (accounts payable) and exclude cash paid in previous years before receipt or use of the related goods or services (prepaid expenditures). Also, the payment of amounts loaned to other funds and the related repayments of these loans are not reflected as a budgetary expenditure.

Table I.3 summarizes the major differences between amounts included in the general fund budgetary accounts in fiscal years 1992 and 1993 and the related effect on cash.

Table I.3: Effect on Cash in Relation to Budget

Dollars in millions

	Fiscal year 1992 increase/ (decrease)	Fiscal year 1993 increase/ (decrease)	Cumulative effect
Fiscal year 1993 property tax year change	n/a	$ (174)	$ (174)
Receivables not yet collected	$(67)	(18)	(85)
Increase in D.C General Hospital loan not in budget	(13)	(17)	(30)
Cash collected before recognized in budget	36	(36)	0
Expenditures for budget not yet paid (accounts payable)	23	144	167
Cash paid for future budget expenditure (increase in prepaid expenses)	(54)	n/a	(54)
Total	**$ (75)**	**$ (101)**	**$ (176)**

Table I.3 shows receivables and loans to the D.C. General Hospital increasing during these years, resulting in a decline in the cash balance. However, this decline is offset by an increase in accounts payable, which conserves cash. Exclusive of the receivables and payables changes, which are discussed later in this report, the major difference during these 2 years was the result of a change in the legal definition of the tax year in 1993. This and related changes resulted in counting approximately $174 million of taxes collected in advance (previously called deferred revenue) as actual fiscal year 1993 revenue. Therefore, although no additional cash was collected, budgetary revenue and spending authority were increased by this amount. (For a detailed explanation of these changes, see appendix II.) These budgets should be viewed in conjunction with cash forecasts to obtain a more complete picture of the District's finances.

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What Types of Borrowings Are Available to the District?

Short Term
- Revenue anticipation notes
- General obligation notes
- Capital project fund

Long Term
- General obligation bonds
- Capital projects borrowings

Treasury Borrowings

What Types of Borrowings Are Available to the District?

The District of Columbia Self-Government and Governmental Reorganization Act authorizes the issuance of short- and long-term debt that is backed by the full faith and credit of the District. The District is also authorized to issue obligations that are not backed by the full faith and credit of the District. Finally, the District is authorized to borrow from the U.S. Treasury to meet its general expenses.

The District can issue short-term debt either as Tax Revenue Anticipation Notes (TRANS) or general obligation notes. TRANS can be issued to compensate for expected cash shortfalls related to delays in receipt of projected tax revenue. Although TRANS are renewable, they must be repaid no later than the last day of the fiscal year in which the notes were issued. The total amount of outstanding TRANS at any time is limited to 20 percent of the District's total anticipated revenue for the fiscal year. The District utilized this form of short-term borrowings annually from fiscal year 1986 until late in fiscal year 1991. In fiscal year 1992, the District did not utilize TRANS, but instead relied on proceeds from the previous fiscal year's general obligation bond issuance. However, in fiscal year 1994, the District again issued $200 million TRANS to make up for cash shortfalls, and is anticipating issuing $250 million in fiscal year 1995.

The District can also issue short-term general obligation notes to meet appropriation requirements when budgeted grants and private contributions are not realized. Similar to TRANS, these notes are renewable. However, they must be repaid no later than the last day of the fiscal year following the year in which they were issued. The amount of general obligation notes issued during a fiscal year is limited to 2 percent of the District's total appropriations, or approximately $70 million for fiscal year 1994. District officials said they have never issued this type of note and to do so may impair their ability to obtain financing in the securities market.

The District's annual appropriation specifically states that "the Mayor shall not expend any moneys borrowed from capital projects for operating expenses of the District of Columbia government." However, in recent years the District has borrowed from the Capital Projects Fund. For instance, in fiscal year 1993, the District borrowed $140 million from the Capital Projects Fund to finance seasonal cash flow needs. These funds were repaid by year-end. The District again borrowed from the Capital Projects Fund in early fiscal year 1994 to compensate for cash flow shortages due to a delay in the receipt of the federal payment. The $40 million borrowed at this time was repaid in November 1993. The District's Corporation Counsel has concluded that the District does not

violate its appropriation so long as borrowings from the Capital Projects Fund are repaid before the end of the fiscal year in which the borrowing is made.

The District also has the authority to issue long-term debt. Long-term debt generally takes the form of general obligation bonds. The District can issue general obligation bonds to refund (refinance) existing debt or to finance capital projects. In fiscal year 1991, the District also received authority to eliminate the general fund's accumulated deficit by issuing $331 million in general obligation bonds. The District has $2.8 billion in general obligation bonds outstanding as of May 1, 1994. The District's ability to issue general obligation bonds is restricted by the act. Specifically, general obligation bond issuances are not permitted if total debt service in the fiscal year exceeds 14 percent of the District's revenues, or $500 million as of May 1, 1994. The District's debt service for fiscal year 1995 is expected to be $362 million.

The District also is authorized to issue revenue bonds, notes, or other obligations to finance or refinance undertakings in the areas of (1) housing, (2) facilities for health, transit, utility, recreation, college, university, or pollution control, (3) college or university student loan programs, and (4) industrial and commercial development. The approximately $384 million of revenue obligations issued under this provision are not general obligations or debt of the District and are not backed by the full faith and credit or the taxing power of the District. Instead, they are payable from earnings of the respective projects and may be secured by mortgages on real property or creation of a security interest in other assets.

Finally, the District can borrow funds from the U.S. Treasury to finance its general expenses. Between 1939 and 1983 the District routinely borrowed from the U.S. Treasury under this provision. It has not borrowed from the U.S. Treasury for general expenses since then. At one time, the District also had authority to borrow funds from the U.S. Treasury to finance capital projects. While this authority to borrow for capital projects was terminated in 1983, the District had outstanding debt issued under this authority with a remaining balance of $71.8 million as of May 1, 1994.

GAO Why Did the District's Fiscal Year 1993 Receivables Increase?

General fund receivables increase included

- D.C. General Hospital
- Federal grants

Other fund receivables increase included pension fund receivable from the general fund

Why Did the District's Fiscal Year 1993 Receivables Increase?

The District's fiscal year 1993 receivables increased by a total of $90 million, or 8 percent. In the general fund, the increase was $35 million, or 6 percent. The most significant increases in the general fund were the $17 million increase in the receivable due from D.C. General Hospital and the $33 million increase in federal grants receivable. The most significant increase in other fund receivables was a $72 million increase in the pension fund receivables. These increases were offset by slight decreases in other receivable accounts.

The $17 million increase in the general fund receivable from D.C. General Hospital was to cover cash losses at the Hospital. With this increase, the total amount receivable from the Hospital was $58 million at the end of fiscal year 1993. However, we believe the Hospital's losses should have been covered by requesting additional funds through the supplemental budget process rather than through a loan.

The D.C. Code requires the D.C. General Hospital Commission, an independent agency of the District Government that operates the Hospital, to submit an annual consolidated budget to the Mayor that covers all anticipated revenues, expenditures, and capital outlays. This budget must also request a subsidy to cover the difference between anticipated expenditures (including debt service for capital expenditures and a reserve for bad debts) and anticipated revenues. The Mayor proposes any modifications to the Commission's budget and transmits it to the Council.

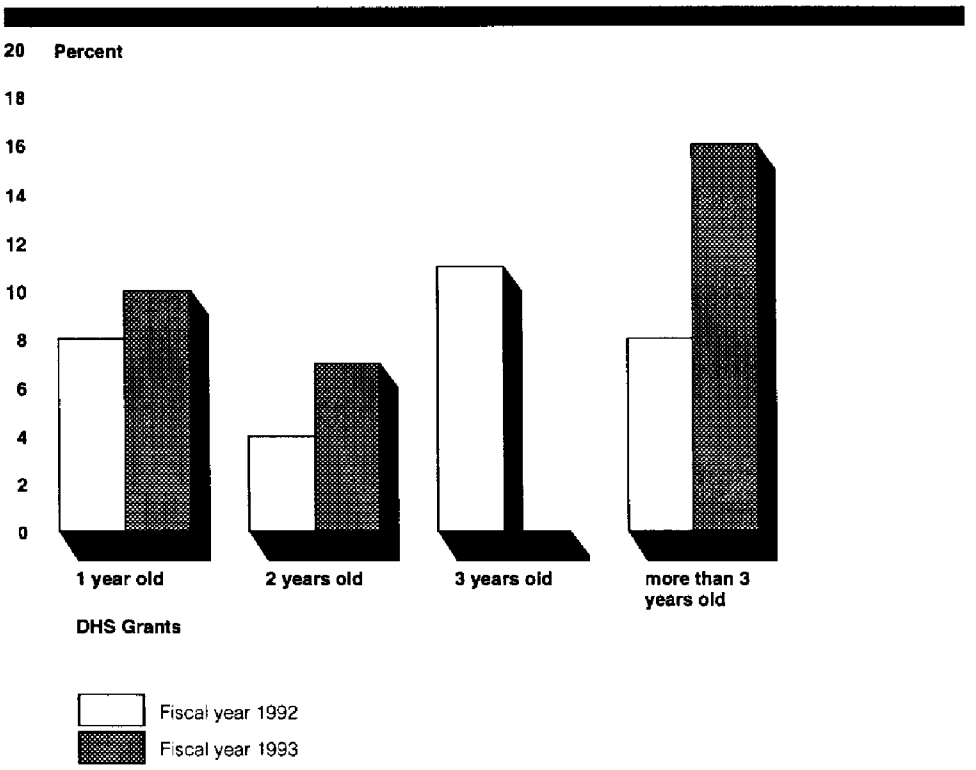
Each year, the District included an amount for the Hospital subsidy in its annual budget submission to Congress. The Congress included funds to pay the Hospital subsidy in the general fund appropriation for Human Support Services. However, except for fiscal year 1990, when expenditures continued to exceed revenue above the subsidy, neither the Commission nor the District submitted a budget requesting a supplemental appropriation to cover the actual deficit, as the District has done for other operations where available funds were insufficient to cover expenditures. Further, the District did not reprogram funds within Human Support Services to increase the subsidy. Instead, the District transferred cash from the general fund directly to the Hospital, and recorded it as a general fund receivable and a Hospital fund payable. In our opinion, the District should have requested additional funds for the Hospital through a supplemental budget request.

Furthermore, this loan to the Hospital is unlikely to be collected. The Hospital continues to operate at a deficit and the independent auditors'

opinion on the D.C. General Hospital's 1993 financial statements reports that the Hospital will be unable to repay the $58 million unless the current level of District appropriations increases or the cash generated from hospital operations increases significantly.

The District's receivables also increased because of additional federal grants. The Department of Human Services (DHS) accounts for 83 percent of the total federal grants receivable. In fiscal year 1993, DHS grants receivable increased by $27 million, or 21 percent. Of this $27 million, an increase of as much as $16 million would have been expected because of a 12 percent increase in DHS grant revenues. The remaining increase resulted from collections in 1993 of DHS grants receivable that were at a lower rate than in 1992. While District officials reported that the financial management system does not provide an aging of its grants receivable, we were able to develop the following chart of DHS grants receivable over 1 year old. Figure I.2 shows that the percentage of grants receivable 1 year and over has increased from 1992.

Figure I.2: Outstanding DHS Grants Receivable 1 Year Old and Older - Fiscal Years 1992 and 1993



In addition, Figure I.2 also shows that grants 3 years old decreased in fiscal year 1993. This decline was primarily due to the grants remaining uncollected, so that they were more than 3 years old at the end of fiscal year 1993. As of September 30, 1993, the DHS grants receivable over 3 years old totaled $24 million. The age of these grants suggests there may be issues related to their ultimate collectibility. In fact, the District estimated and recorded approximately $18 million in its accounts as an allowance for potential uncollectible grants at DHS. It is not unusual for an organization to maintain a reserve for potential uncollectible amounts rather than writing them off directly. Although the District's outside auditors did not request the District to adjust its accounts, the auditors identified an additional $16 million in DHS grants receivable as potentially uncollectible. The auditors told us they did not request an adjustment to the District's grants receivable balance or the allowance account because this potential adjustment was combined with all other potential

adjustments and in total they were considered not material to the financial statements as a whole.

The pension fund receivables increased because of the $72 million deferral of the 1993 fourth quarter payment from the general fund. This receivable is also recorded as a payable in the general fund.

GAO

Why Did the District's Fiscal Year 1993 Payables Increase?

Significant increases in payables were in

- Accounts payable
- Compensation payable
- General fund payable to pension fund

Why Did the District's Fiscal Year 1993 Payables Increase?

The District's payables increased $260 million, or 44 percent, in fiscal year 1993. Most of this change was due to increases in accounts payable, compensation payable, and general fund payable to the pension fund. Table I.4 shows the District's fiscal year 1993 payables.

Table I.4: District of Columbia Payables for Fiscal Year 1993

Dollars in millions

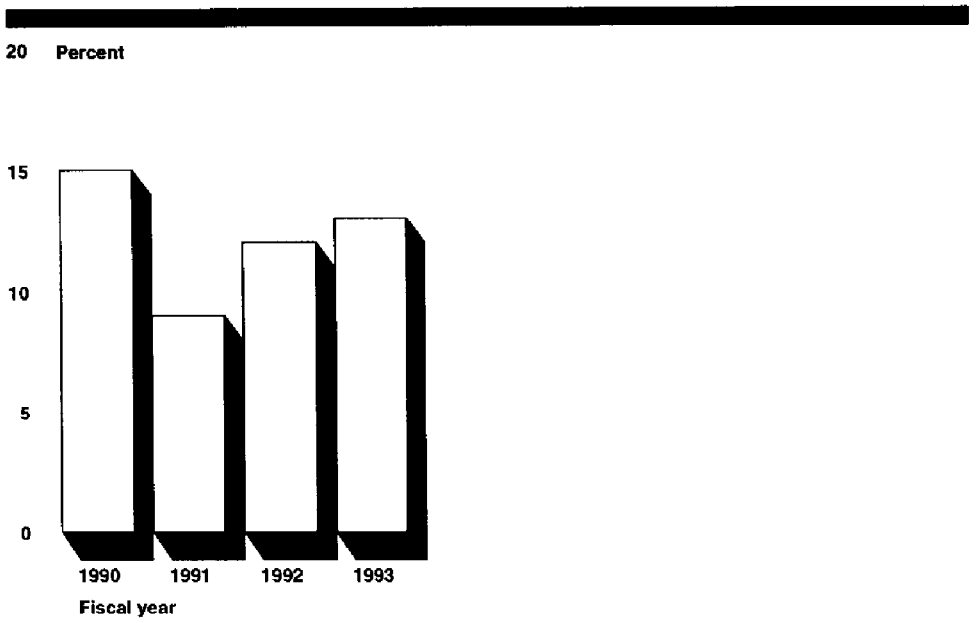
Payables	September 30, 1992	September 30, 1993	Change Amount	Change Percent
General Fund				
Accounts	$199	$242	$43	22
Compensation	143	181	38	27
Intergovernmental	14	5	–9	–64
Interfund[a]	2	74	72	360
Subtotal	**358**	**502**	**144**	**40**
Other Funds				
Accounts	156	255	99	63
Intragovernmental[b]	51	69	18	35
Other	31	30	-1	-3
Subtotal	**238**	**354**	**116**	**49**
Total	**596**	**856**	**260**	**44**

[a]Includes $72 million for D.C. pension contribution in fiscal year 1993.

[b]Includes $41 million and $58 million owed by D.C. General Hospital in fiscal years 1992 and 1993.

The $43 million increase in general fund accounts payable was distributed throughout the various agencies. This balance would have been expected to increase by as much as $19 million as a result of a 10 percent increase in general fund nonpersonal expenditures. While the District's records did not permit us to determine the age of the accounts payable within the time available, District officials told us that payments were being made when due and that the increase was not a result of withholding payments to conserve the cash balance. Changes in accounts payable as a percentage of nonpersonal expenditures are shown in figure I.3.

Figure I.3: General Fund Accounts Payable as a Percentage of Nonpersonal Expenditures



Accounts payable decreased in fiscal year 1991, when the District received $331 million in borrowing proceeds just prior to the end of the year to pay some outstanding liabilities. In fiscal years 1992 and 1993, accounts payable at year-end increased to 12 percent and 13 percent of nonpersonal expenditures.

Compensation payable in the general fund increased $38 million from year-end 1992 to 1993. This increase included (1) $6 million resulting from one more day in the accrued pay period compared to the prior year (that is, fiscal year 1992 ended on a Wednesday and fiscal year 1993 ended on a Thursday), (2) $22 million due to retroactive pay and separation incentives for teachers, and (3) $3 million in annual leave due to requirements of the Government Accounting Standards Board in the accounting for leave.

General fund payables to other funds increased due to the $72 million owed to the pension fund. This payable is also recorded as a receivable in the pension fund.

Accounts payable in other funds increased due to $100 million in payables owed by the pension fund for investments purchased close to the end of

the year. D.C. General Hospital's payable to the general fund increased by $17 million, as mentioned earlier.

GAO

Are There Other Potential Revenues Without Additional Cash?

Deferred revenues include personal property taxes on businesses

Are There Other Potential Revenues Without Additional Cash?

Table I.5 shows the deferred revenue in the general fund at the end of fiscal years 1992 and 1993, and the changes in each category.

Table I.5: General Fund Deferred Revenues

Dollars in millions

Deferred revenues	September 30, 1992	September 30, 1993	Change Amount	Change Percent
General Fund				
Property Taxes	$245	$47	$-198	–81
Intergovernmental (federal grants)	10	14	4	40
Other	83	68	-15	-18
Total	**$338**	**$129**	**$-209**	**–62**

Deferred revenue from property taxes decreased primarily due to the change in the real property tax year discussed earlier. Of the $47 million remaining in deferred revenue from property taxes, about $44 million relates to personal property taxes levied on businesses. This tax was collected on July 1 for the period July 1, 1993, to June 30, 1994. About $22 million of the other deferred revenue for 1993 is corporate and unincorporated business franchise taxes and about $5 million is cash advanced for street repairs. A change in year-end for personal property taxes, similar to 1993's change in year-end for real property taxes, would result in additional revenue without additional cash being collected in the year of the change. However, because such a change would result in a cost to taxpayers of 9 months of taxes paid in advance instead of the 3 months resulting from the real property tax year-end change (see appendix II for a discussion of the real property tax year-end change), District officials indicated that it is unlikely such a provision could be enacted. Further, District officials indicated that they had already considered such a change and rejected it.

GAO

How Realistic Are the District's Budgets?

Balanced budget requirement

Revenue estimates generally optimistic

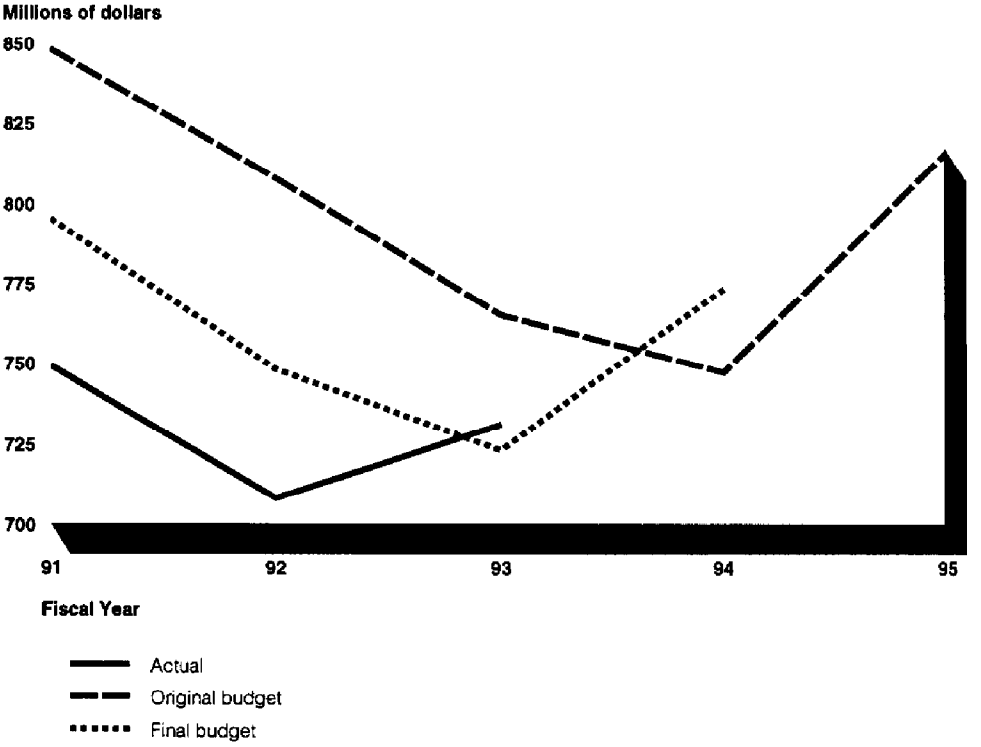
Supplemental budget revenue increases

Current budgets are not consistent with historical trends/projections

How Realistic Are the District's Budgets?

The District is required to submit a balanced budget (that is, a budget in which revenues are equal to or greater than expenditures) to the Congress, although the Congress is not required to enact a balanced budget for the District. While the District has had balanced budgets, the budgets have not always reflected historical and future projected trends. Some estimated revenues, such as sales taxes and income taxes, are consistently higher in the original budgets than actual revenues realized. Figure I.4 shows the differences between the original budgets and actual revenues for income taxes, which represent over 25 percent of the District's total revenues from sources other than the federal government.

Figure I.4: District Income Tax



Source: 1994 Multi-Year Plan and data from D.C. Office of the Budget.

As shown in figure I.4, the District has had some difficulty forecasting revenues in recent years. District officials stated that the estimates have

not been realized primarily because the District's economic recovery has been slower than expected and the loss of businesses and middle class taxpayers to the suburbs has continually diminished the tax base. As a result, revenues frequently have not generated sufficient resources for the actual expenditures. In recent years, the District has reacted to these shortfalls with supplemental budgets containing significant revenue increases to balance the budgets. For example,

- fiscal year 1991's supplemental request included a "dire emergency" increase to the federal payment of over $103 million;
- fiscal year 1992's supplemental request included a transfer of $28 million from the Water and Sewer Fund to the general fund;
- fiscal year 1993's supplemental budget changed the property tax year, generating approximately $174 million in revenues for 1993; and
- fiscal year 1994's request includes tax increases, such as the one-time public safety fee ($35 million) and raising the sales tax 1 percent ($10.8 million).

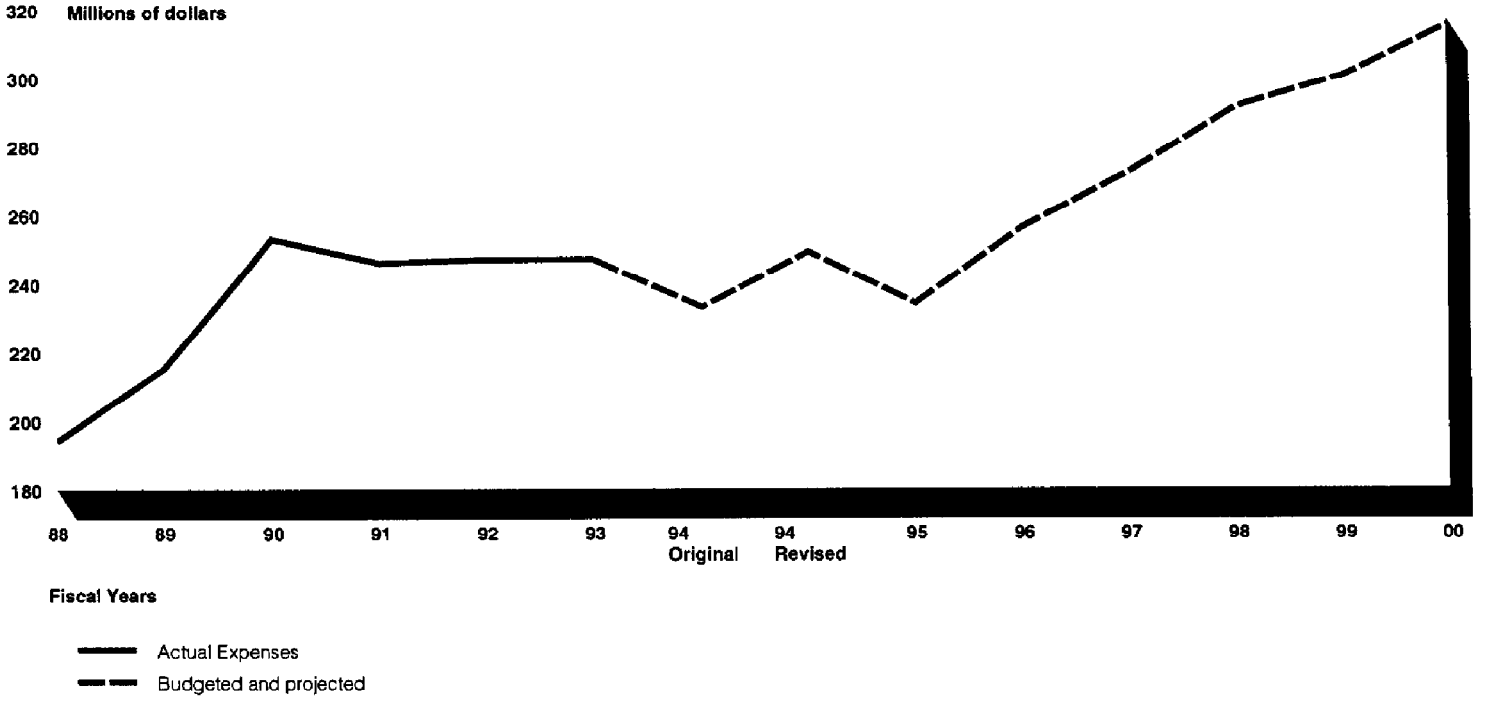
In addition, in fiscal year 1992, the District recorded $23 million in WMATA expenditures as a nonappropriated expenditure. These expenditures for Metro subsidies were previously accounted for as appropriated expenditures. District officials indicated that to record these expenditures against the appropriated budget would have resulted in an "Anti-Deficiency issue." They recorded the expenditure as a nonappropriated expenditure and requested appropriated budget authority in fiscal year 1993. In effect, recording the $23 million as nonappropriated expenditures enabled the District to incur a like amount of appropriated expenditures.

In addition, the 1993 District budget included $30.8 million of unallocated cost reductions that were to offset budgeted expenditures. District officials stated that OMB, upon review of the District's budget, requested the District to reduce its revenue from the Federal Payment by $30.8 million. To balance its budget, the District chose to include unallocated cost reductions in its budget to offset this reduced revenue. District officials indicated that these cost reductions were never actually allocated to agencies and instead were made up by revenue increases during the supplemental budget process.

Furthermore, the District's fiscal year 1994 supplemental budget request and fiscal year 1995 budget estimates for expenditures are not consistent with historical results and future year estimates. Often, the budget's

projected expenditures are substantially lower in relation to past and future amounts, as shown by figure I.5 for the Department of Corrections.[2]

Figure I.5: Department of Corrections' Total Expenses



Note: Fiscal years 1994-2000 adjusted for fiscal year 1994 pay raise based on allocations by CBO.

Source: District of Columbia Budgets and Multi-Year Plan.

As illustrated in figure I.5, Corrections' original fiscal year 1994 expenditure estimates were less than actual expenditures from the previous 2 years. The estimates were then subsequently increased in the supplemental budget. Additional funds were needed because short-term actions to reduce spending either did not occur or were significantly delayed during fiscal year 1994. However, the fiscal year 1995 expenditure

[2]Excerpts from a CBO analysis of the District's expenditures are included in appendix V.

estimates are again lower in anticipation of these same short-term actions. Specifically, Corrections has projected saving about $11.3 million by returning all prisoners from federal and state facilities. However, over 300 prisoners were still housed in other jurisdictions during fiscal year 1994 and the District needed about $5.7 million to pay for them. Furthermore, while the District's budget for fiscal year 1995 indicated that 310 prisoners would be housed in federal facilities, the budget anticipates obtaining this service without charge. Food services in the prison were also to be privatized, saving about $3.8 million. Officials believe the savings from privatization could occur in fiscal year 1995.

In another example, in fiscal year 1994 the public schools intended to pay for $17 million in salary increases granted to teachers, while reducing spending by another $30 million by (1) closing 10 schools and disposing of some buildings (saving $10 million), (2) reducing staff by 700 employees ($10 million), and (3) receiving Medicaid reimbursement for certain students ($10 million). However, the District reported that only about $2.7 million of the savings have materialized. Closing the 10 schools saved only about $600,000. More than 500 school employees either retired or resigned, but then teachers had to be hired to fill critical positions left vacant, resulting in only $2.1 million being saved. Finally, since the Medicaid reimbursement has not been implemented, additional revenues estimated at $10 million have not occurred.

In addition, as previously discussed, estimated Medicaid expenditures for the first 6 months have exceeded budget estimates, and the District's expenditures may be underestimated by as much as $30 million.

GAO

Have Actual Expenditures Exceeded the Budget?

Overexpenditures in both personal and nonpersonal services

Some personal services overexpenditures offset by nonpersonal services underexpenditures

Controls do not prevent some types of overspending

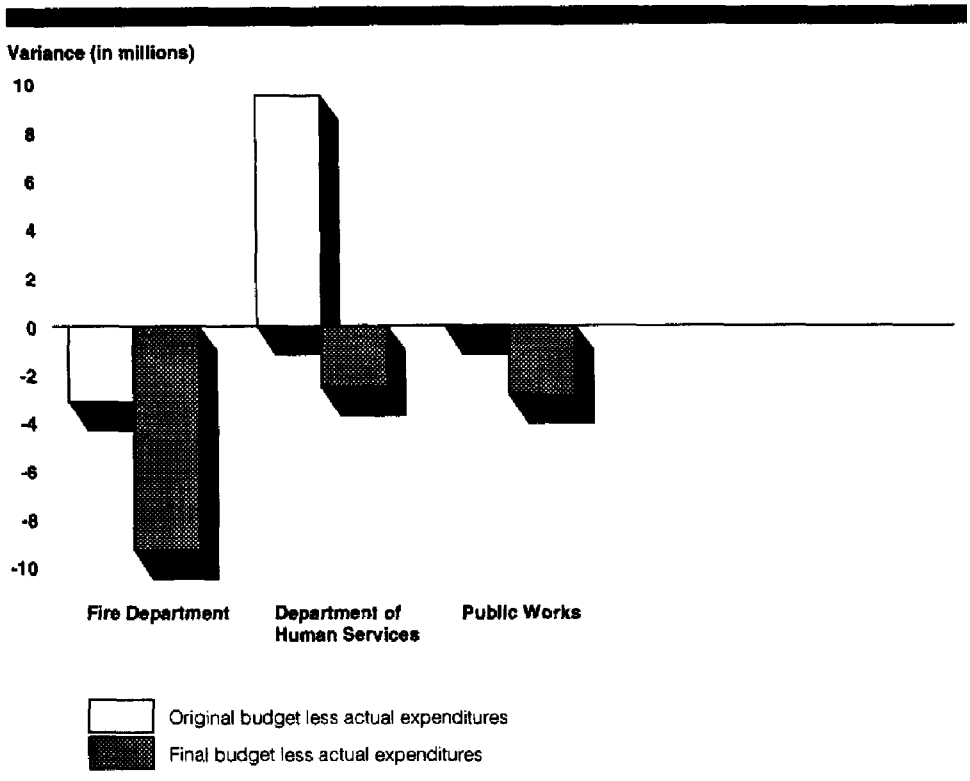
Have Actual Expenditures Exceeded the Budget?

Even though the District has submitted balanced budgets, in recent years its actual expenditures have exceeded budgeted amounts. For instance, expenditures for Human Support Services exceeded budgeted amounts by $23 million in fiscal year 1991, $21 million in fiscal year 1992, and $6.6 million in fiscal year 1993. In addition, interest and fiscal charges exceeded budgeted amounts by $8 million in fiscal year 1992 and $6.8 million in fiscal year 1993, Public Safety and Justice exceeded amounts by $2.6 million in fiscal year 1993, and Public Works exceeded budgeted amounts by $1.7 million in fiscal year 1993.[3] We compared the original and supplemental budgets to actual expenditures. We found that negative variances (actual expenditures exceeded budgeted amounts) resulted from overexpenditures in both personal services, such as salaries and benefits, and nonpersonal services, such as supplies, occupancy, contractual services, subsidies and transfers (including payments of entitlements to individuals), equipment, and debt service.

In fiscal year 1993, overexpenditures in personal services in two agencies—the Fire Department and Public Works—caused negative variances that were represented as Anti-Deficiency Act violations in the District's Comprehensive Annual Financial Report (CAFR). An overexpenditure in the Department of Human Services (DHS) personal services also contributed to the negative variance represented as an Anti-Deficiency Act violation in the CAFR. As illustrated in figure I.6, in each of these cases, the supplemental budget(s) reduced the budgeted amount for personal services. In the Fire Department, this resulted in a larger negative variance than would have occurred without the supplementals. In the other two agencies, the supplemental budgets caused a negative variance that would not have existed under the original budget.

[3]We were asked to compare actual expenditures on a cash basis to budgeted amounts. We were unable to convert budgets and actual expenditures to a cash basis at an agency level.

Figure I.6: Variance Between Original and Final Budgets and Actual Expenditures - Personal Services - Fiscal Year 1993

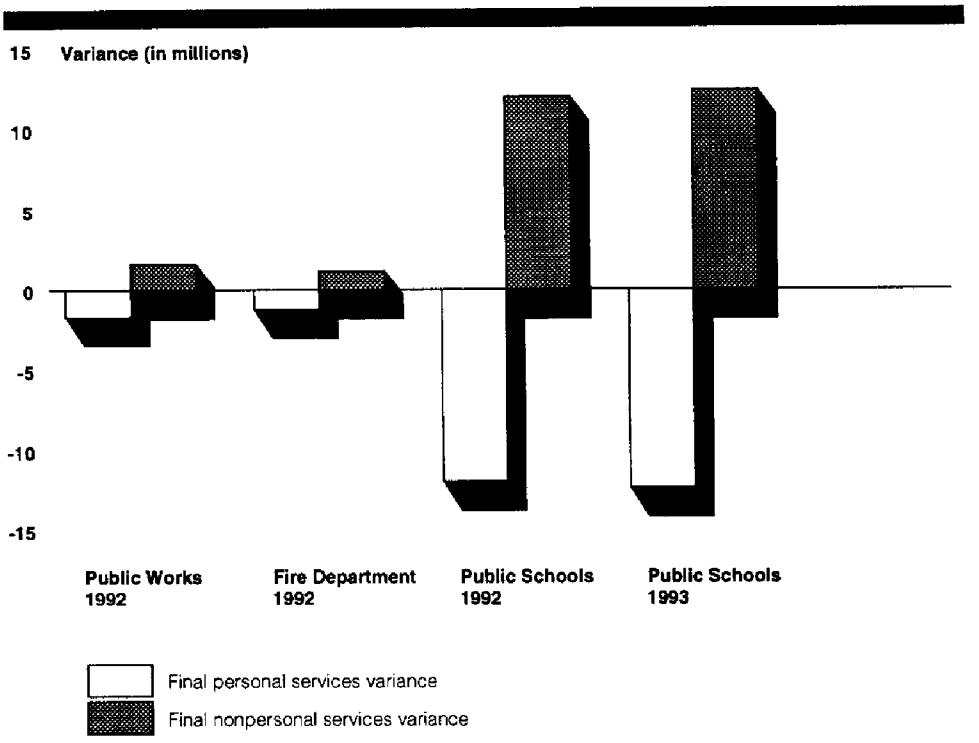


In addition, we found that in some cases negative variances resulted from overexpenditures in nonpersonal services. For example, actual expenditures for nonpersonal services at DHS exceeded both the original and final budget for fiscal years 1991, 1992, and 1993. The $6.6 million overexpenditure for Human Support Services in the CAFR includes Medicaid and other entitlement programs. Other examples in which expenditures exceeded both the original and final budget are Disability Compensation for fiscal years 1991, 1992, and 1993; Unemployment Compensation in fiscal year 1993; and Debt Service for fiscal years 1992 and 1993.

In many other instances, either personal or nonpersonal services showed negative variances at various agencies, but the agency as a whole did not go over budget because of offsetting positive variances in nonpersonal or personal services. For example, figure I.7 shows that positive variances in nonpersonal services offset the negative variances from personal services

in Public Works and the Fire Department in fiscal year 1992, and the Public Schools in fiscal years 1992 and 1993. This means that funds that had been budgeted for vehicles, textbooks, maintenance, etc., were used to pay salaries and benefits.

Figure I.7: Positive Variances in Nonpersonal Services Offset Overages in Personal Service



District officials told us that they had to rely on agencies to monitor personal services spending, but that nonpersonal services spending is monitored through the financial management system. The system does not allow agencies to post transactions that would exceed the budgeted amount. However, (1) the control is based on all spending authority, including appropriated, grant, and other authority, (2) entitlements are allowed to exceed the budget, and (3) expenditures under $10,000 can be made before the transactions are entered into the system. In addition to the DHS example given previously, many agencies had smaller overexpenditures in nonpersonal services.

GAO What Are the Potential Extraordinary Costs?

Operational programs

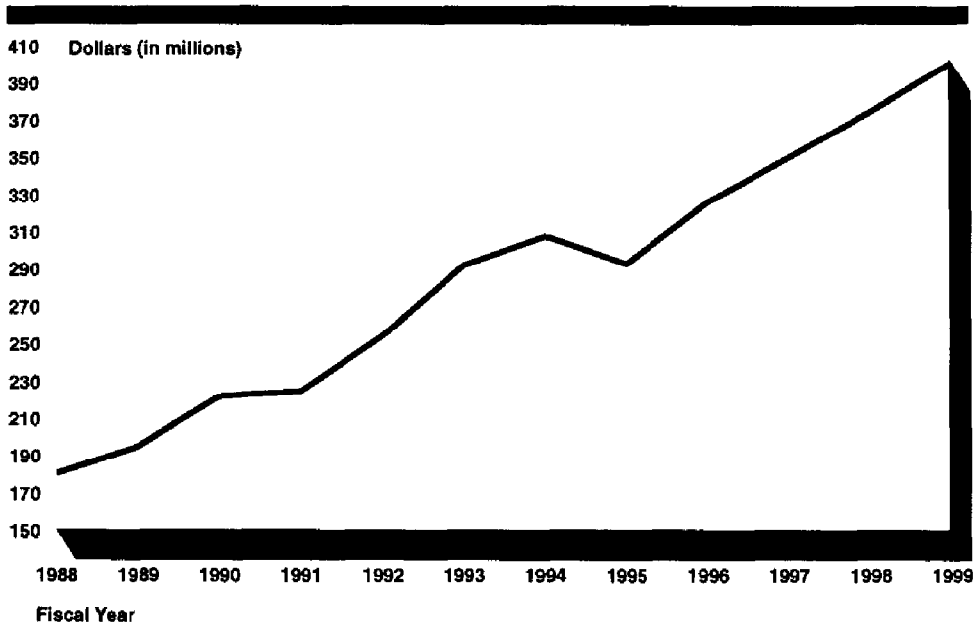
- D.C. General Hospital deficits
- Pension funding
- Water and sewer cash needs

What Are the Potential Extraordinary Costs: Operational Programs

As previously discussed, the D.C. General Hospital had a $109 million accumulated deficit, $58 million of which was funded through loans from the District, as of September 30, 1993. In fiscal year 1994, the District initiated a plan to reduce the accumulated debt, designating $10 million per year to the Hospital. However, the fiscal year 1994 supplemental budget reduced this amount for fiscal year 1994 to $4.5 million. In addition, the Mayor has also submitted a plan to the Council to address the financial operations of the Hospital with the intent of resolving the deficit growth. Prior to submitting the plan, the deficit was expected to increase to almost $280 million by fiscal year 2000.

The District's pension obligations to the retirement funds for police, fire fighters, teachers, and judges exceeded the pension funds' assets by about $4.4 billion as of September 30, 1993. The District's contributions are supposed to be sufficient to pay current costs plus a portion of the interest on the $4.4 billion unfunded liability. The contributions also increase as the number of retirees increase. As shown in figure I.8, the contribution has grown from $180 million in 1989 to about $300 million for 1995, and is expected to continue increasing to almost $400 million by 1999.

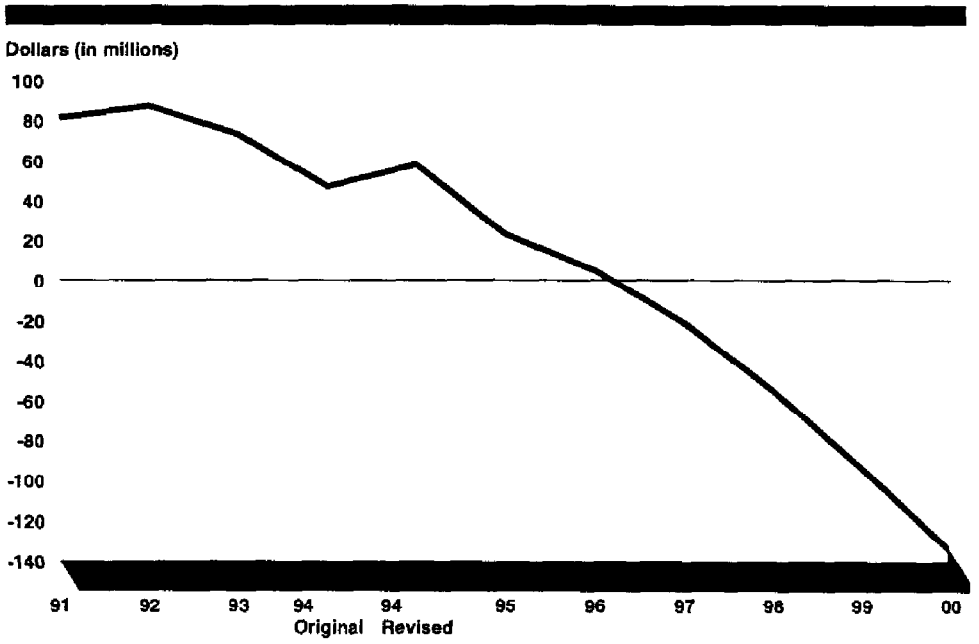
Figure I.8: District Expenditures for Pension



Source: 1989-1993 CAFR and 1995-1999 Multi-Year Plan.

In the past, the Water and Sewer Fund has maintained a working capital balance to provide for its operating needs, finance its continuing capital projects, and establish a favorable debt service ratio necessary for future revenue bond financing. Also, the fund has had cash available for the District's use in the cash pool. However, current projections show a net loss in each of the next 6 years, which is not included in the District's general fund budget or its multi-year financial forecasts (see figure I.9). Similarly, cash flow is also expected to decrease to the point where the fund will be a cash user rather than a cash provider for the District's cash pool by 1996.

Figure I.9: Water and Sewer: End of Year Cash



Note: Fiscal years 1991-1993 actuals, fiscal years 1994 and 1995 budgets, fiscal years 1996-2000 projected.

Source: Water and Sewer Utility Administration.

GAO What Are the Potential Extraordinary Costs?

Capital programs

- Public schools building and fire code violations
- Water and sewer compliance with EPA requirements

What Are the Potential Extraordinary Costs: Capital Programs

The District has over a billion dollars of capital program costs to upgrade the schools and water and sewer operations. Most of these projects are not included in the capital improvement plan. In addition, some of the authorized projects included in the capital improvements plan have no related financing. Since 1980, the District has approved more than $4 billion in capital improvement projects; however, $1.5 billion of these projects have not been financed. The ability of the District to finance capital projects is restricted by the Home Rule Act. By law, the annual payment of principal and interest charges may not exceed 14 percent of anticipated revenues. Although the debt service limit is 14 percent of anticipated revenue, the District has exceeded what it deemed the advisable 10 percent debt service ratio. As a result, the District plans to limit annual financing of capital projects to $250 million.

The public schools have about 180 facilities, most of which are old and in need of serious repairs—over half are more than 50 years old. Realizing that significant improvements were needed, D.C. Public Schools hired a consultant to develop the cost of renovating all of the schools to address serious deficiencies and code violations. Repairs and renovations outlined in the consultant study included roof and window replacements, electrical system repairs, and improvements to address fire and life safety deficiencies. The study estimated that between $522 million and $650 million was needed to correct the deficiencies. Public school officials said the schools needed at least $50 million in capital spending annually to begin correcting these deficiencies, yet capital spending is projected at $30 million annually. District officials indicated that these public school projects were not included in the capital projects plan because they represented maintenance and repairs, which should be financed from the public schools operating budget, although they acknowledged that they had not seen nor reviewed the consultant's study. As noted earlier, over the last several years the public schools have used nonpersonal services funds, including funds for maintenance, to pay for personnel costs.

Environmental Protection Agency regulations require that by the end of fiscal year 1996, Water and Sewer must construct new facilities to accomplish sewage plant expansions to 370 million gallons per day from 309 million gallons per day. The projected cost of this expansion is $350 million. In addition, Water and Sewer officials estimated that an additional $326 million is needed for improvements to other water and sewer facilities. The capital improvement plan includes planned spending for less than 60 percent of these costs.

GAO

What Are the Potential Extraordinary Costs?

Corrections court orders

- Medical care
- Inmate population
- Staffing
- Sewage system

What Are the Potential Extraordinary Costs: Corrections Court Orders

District officials provided us information relating to any court orders and consent decrees that may require $500,000 or more to fulfill the court's requirements. Even though the District either agreed to comply with consent decrees or had been ordered by the court to implement remedies, it had not estimated the costs to fully implement the required actions. District officials maintain that the full cost of compliance has been included in the applicable program's total costs. As discussed below, certain capital projects that could contribute to complying with the courts' requirements do not include adequate planned spending. Because the costs of compliance were not separately determined, we were unable to verify that all costs were included in the budgets, multi-year financial plans, or capital plans.

The District's Corrections facilities are under a number of court orders regarding medical care, environmental improvements, prisoner population, and correctional officer staffing. Specifically, District officials indicated that the following areas within Corrections will require over $500,000 to remedy.

- A Special Officer appointed by the District Court reported that medical care at the D.C. jail does not meet the basic and serious medical needs of inmates incarcerated there. The Special Officer reported that the continued violations of court orders, originally issued in 1971, evidence pervasive and systemic deficiencies in the medical delivery system that have rendered the system dysfunctional. The hiring of health care staff to provide medical, dental, and psychiatric care is key to achieving the actions ordered by the court. Furthermore, the Special Officer recently reported that Corrections is not in compliance with the court order to segregate inmates with communicable diseases and sexually transmitted diseases at the modular facility located at Lorton.
- As a result of court orders, the District's Department of Corrections capital improvements plan has identified a number of issues that need to be addressed. For example, upgrading institutional facilities, upgrading and expanding water and sewage facilities, and improving food preparation and handling facilities. The capital improvements plan includes authorization for $38 million for sewage treatment plant improvements at the Lorton correctional facility. However, only $10 million of the $38 million is included in the District's spending plan.
- District officials indicated that each District correctional facility is under court-imposed population caps as a result of inmate complaints regarding prisoner overcrowding, health and food services, and safety issues. Corrections officials stated that the capital improvements plan includes

authorization for new or expanded facilities that are needed to resolve this overcrowding, but the projects are not all financed. Included in the capital improvements plan is a new medium security facility costing $85 million for which past and planned spending totals only $3.2 million.

- A January 1993 technical assistance visit report, requested by the Special Officer, to study the District's providing of correctional officers at Lorton's Maximum and Central Facility recommended staff increases to address inmate complaints that there were insufficient measures taken to protect them from actual and threatened violence. The District's fiscal year 1994 supplemental budget request includes an increase of 149 full-time equivalent staff for the Corrections Department, but shows a decline of 184 in the fiscal year 1995 budget, primarily resulting from measures to privatize various functions, such as food services.

GAO

What Are the Potential Extraordinary Costs?

Other court orders

- Child welfare system
- Juvenile rehabilitation
- Mental health treatment

What Are the Potential Extraordinary Costs: Other Court Orders

District officials also identified the following three areas that will require over $500,000 to comply with court-ordered remedies. Again, the costs of fully implementing the court-ordered remedies were not known.

- An April 1994 progress report by the court-appointed monitor stated that the District's child welfare system needs to be reformed. Included among the reform requirements are hiring additional social workers and adoption branch staff to handle cases more timely and installing a new child welfare information system.
- A December 1993 report prepared by a court-appointed compliance monitor stated that the District must provide adequate care and services in the juvenile justice system and a suitable environment according to an individual's needs and the degree of their offense. For example, some juveniles may require more individual care and attention than other offenders, while, in other cases, more violent juveniles should be isolated from the dormitory facilities.

  The primary costs of these provisions are associated with establishing facilities to alleviate the current overcrowding of existing facilities. Fines for exceeding the population cap or for not placing a child in the proper environment in a timely manner are estimated by District officials to be over $21 million for fiscal year 1995. These fines were imposed subsequent to the budget submission. District officials are appealing these fines; however, should the fines require payment, District officials maintain that the Department of Human Services will have to reduce its other program costs.

- The final report, dated April 11, 1994, by the special master for the court, reported that the District must provide a more comprehensive continuum of community mental health treatment, rehabilitation, housing, support, and homeless services. These agreed-upon remedies include establishing residences for patients as they transition from treatment facilities into the community and additional staff for community programs.

GAO District of Columbia Staffing Trends (Fiscal Years 90-94)

- Positions not comparable (FY 90-94)
- District cannot convert all data to same basis
- Used average no. of staff being paid to show trend
- Total staff being paid decreased from 47,570 to 45,490

District of Columbia Staffing Trends (Fiscal Years 1990-1994)

The fiscal year 1995 budget provides information on District staffing from fiscal year 1990 to 1994. However, the data for fiscal years 1990 through 1992 are based on budgeted positions, while the data for fiscal years 1993 and 1994 are based on full-time equivalent positions (FTEs). In addition, District officials noted that the positions in the fiscal year 1990 to 1992 budgets were not fully funded in those budgets, while the FTEs represent fully-funded positions. As a result, all of the data are not comparable. District officials also told us that the data cannot be converted into comparable data.

To show a trend with comparable personnel data, we used information from the District of Columbia Office of Personnel on the average staff paid for fiscal years 1990 through 1994. The average staff represents the number of employees who were paid based on payroll data for four pay periods during each fiscal year: October 15, January 15, April 15, and July 14. For fiscal year 1994, only the first two payroll dates were used.

Table I.6 summarizes these data. It shows that the average number of staff being paid declined 4.4 percent, from 47,570 in fiscal year 1990 to 45,490 in fiscal year 1994.

Table I.6: District Staffing Trends, Fiscal Years 1990 to 1994

Fiscal year	1990	1991	1992	1993	1994
Appropriated[a]					
Continuous full time	28,102	26,694	26,792	26,344	26,875
Continuous part time	767	606	710	581	982
Temporary full time	1,005	1,024	975	746	795
Temporary part time	152	149	119	96	48
Total appropriated	**30,025**	**28,473**	**28,595**	**27,766**	**28,699**
Nonappropriated[b]					
District intra transfer[b]	1,376	1,412	1,409	1,429	1,437
Federal grants	13,250	14,816	13,191	14,287	12,328
Other revenues	2,919	3,131	3,127	3,208	3,026
Total nonappropriated	**17,545**	**19,359**	**17,727**	**18,924**	**16,791**
Grand Total	**47,570**	**47,832**	**46,322**	**46,690**	**45,490**

Note: Table does not include employees who did not receive a paycheck while employed by the District of Columbia. For example, an employee who was in Leave Without Pay status for the entire pay period would not be included.

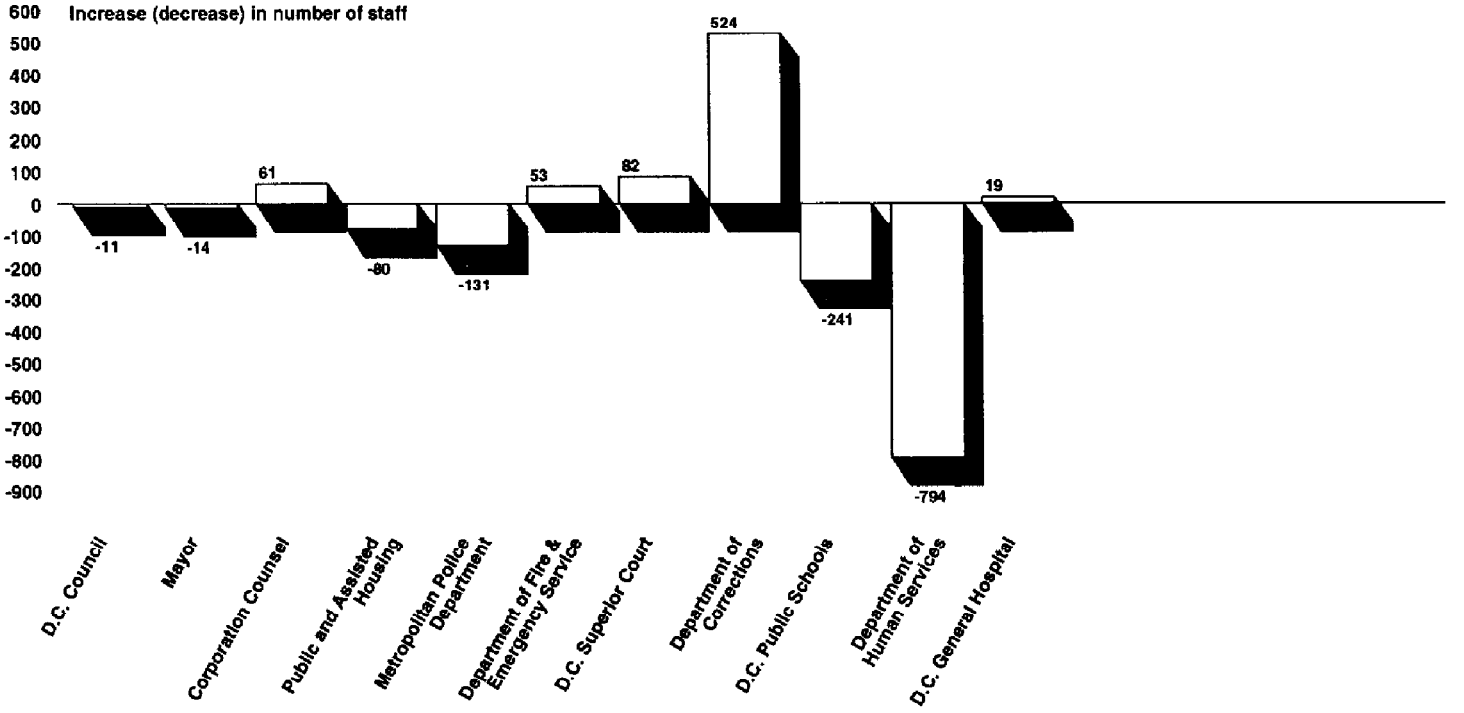
[a]Beginning with fiscal year 1990, the public schools reclassified several thousand employees in its payroll data from appropriated to grant funded positions. The Office of Personnel, however, continues to classify many of those positions as appropriated. For example, the District's fiscal year 1993 budget reports 11,967 appropriated FTEs for the public schools. The school payroll data, however, show that for fiscal year 1993, even counting part-time workers, there are only 1,803 appropriated positions. According to the Director of the Office of Personnel, the school system at the end of each fiscal year makes the necessary corrections so that the proper funding is charged. These accounting actions, however, result in the number of appropriated staff shown in this table to be understated and nonappropriated to be overstated.

[b]District intra transfer represents those employees whose positions are funded by another agency. Those funds can be either appropriated or nonappropriated.

Source: D.C. Office of Personnel.

Figure I.10 shows selected agency staff changes between fiscal years 1990 and 1994.

Figure I.10: Selected Agency Staff Changes From Fiscal Year 1990 Through January 1994



Source: District of Columbia Office of Personnel.

GAO District Per Pupil Expenditures

- Largest 40 schools by enrollment
  - D.C. highest cost at $7,383
  - Lowest cost—Granite, Utah at $2,586
- Six smaller school districts have higher costs

District Per Pupil Expenditures

Data from the 1993 Digest of Education Statistics (which we did not independently verify) containing data for 1990 and 1991, the latest available information, show that of the nation's 40 largest public school districts, the District of Columbia had the highest per pupil expenditure—$7,383. These data are compiled by the U.S. Department of Education and are to include nearly all costs of education. Most state education expenditures are allocated to local school districts; however, some state education administrative costs are not included. This may slightly understate the per pupil expenditures of all school districts other than the District of Columbia. Table I.7 shows this information.

Table I.7: Enrollment and Per Pupil Expenditures for the 40 Largest Public School Districts

Name of school district	Rank	Expenditure per pupil (1990-1991)	Enrollment (Fall 1991)
D.C. public schools	1	$7,383	80,618
New York City, NY	2	7,380	962,269
Montgomery County, MD	3	6,778	107,399
Fairfax County, VA	4	6,604	131,230
Milwaukee, WI	5	6,603	93,381
Cleveland City, OH	6	6,593	71,640
Los Angeles Unified, CA	7	5,832	636,964
Dade County, FL	8	5,788	304,554
Palm Beach County, FL	9	5,763	110,599
Philadelphia City, PA	10	5,756	195,735
Baltimore County, MD	11	5,451	89,964
Broward County, FL	12	5,440	170,032
San Diego City Unified, CA	13	5,363	123,591
Prince Georges County, MD	14	5,359	111,652
Dekalb County, GA	15	5,093	76,587
Orange County, FL	16	5,061	106,619
Hawaii Department of Education	17	5,054	174,747
Hillsborough County, FL	18	5,002	127,439
City of Chicago Schools, IL	19	4,898	409,731
Pinellas County, FL	20	4,852	96,333
Detroit City, MI	21	4,722	169,320
Charlotte-Mecklenburg County, NC	22	4,694	77,746
Baltimore City, MD	23	4,665	110,325
Long Beach Unified, CA	24	4,641	74,048
Fresno Unified, CA	25	4,594	74,693
Duval County, FL	26	4,509	115,940

(continued)

Name of school district	Rank	Expenditure per pupil (1990-1991)	Enrollment (Fall 1991)
Jefferson County, CO	27	4,433	79,244
Albuquerque, NM	28	4,356	90,155
Orleans Parish Schools, LA	30	4,228	83,847
Clark County, NV	31	4,104	129,233
Dallas ISD, TX	32	4,083	137,746
Cobb County, GA	33	4,046	71,942
Virginia Beach City, VA	34	4,003	71,683
Gwinnett County, GA	35	3,971	68,674
Fort Worth ISD, TX	36	3,831	71,224
Nashville-Davidson County, TN	37	3,813	69,103
Houston ISD, TX	38	3,667	196,689
Memphis City, TN	39	3,400	105,005
Granite, UT	40	2,586	80,330

Source: 1993 Digest of Education Statistics.

Data on school districts of greater than 20,000 students show that six school districts have higher per pupil expenditures than the District of Columbia. Table I.8 shows statistics for these six school districts and the District of Columbia.

Table I.8: Highest Expenditure Per Pupil for School Districts With More Than 20,000 Students

Name of school district	Expenditure per pupil (1990-91)	Enrollment (Fall 1991)
Rochester City, NY	$8,866	33,792
Newark City, NJ	8,400	48,374
Hartford Public Schools, CT	8,013	25,716
Pittsburgh, PA	7,931	40,384
Kansas City, MO	7,838	35,227
Boston, MA	7,791	60,992
D.C. public schools	7,383	80,618

Source: 1993 Digest of Education Statistics.

Table I.9 shows information on enrollment and per student expenditures for selected school districts in the Washington and Baltimore area and Richmond, Virginia.

Table I.9: Enrollment and Student Costs for Selected School Districts

Name of school district	Expenditure per pupil (1990-91)	Enrollment (Fall 1991)
Fairfax County, VA	$6,604	131,230
Prince Georges County, MD	5,359	111,652
Baltimore City, MD	4,665	110,325
Montgomery County, MD	6,778	107,399
Baltimore County, MD	5,451	89,964
D.C. public schools	7,383	80,618
Prince William County, VA	5,248	42,712
Howard County, MD	6,208	31,599
Richmond City, VA	6,571	27,611

Source: 1993 Digest of Education Statistics.

Change in the Real Property Tax Year

District of Columbia Real Property Tax Payment Timetable

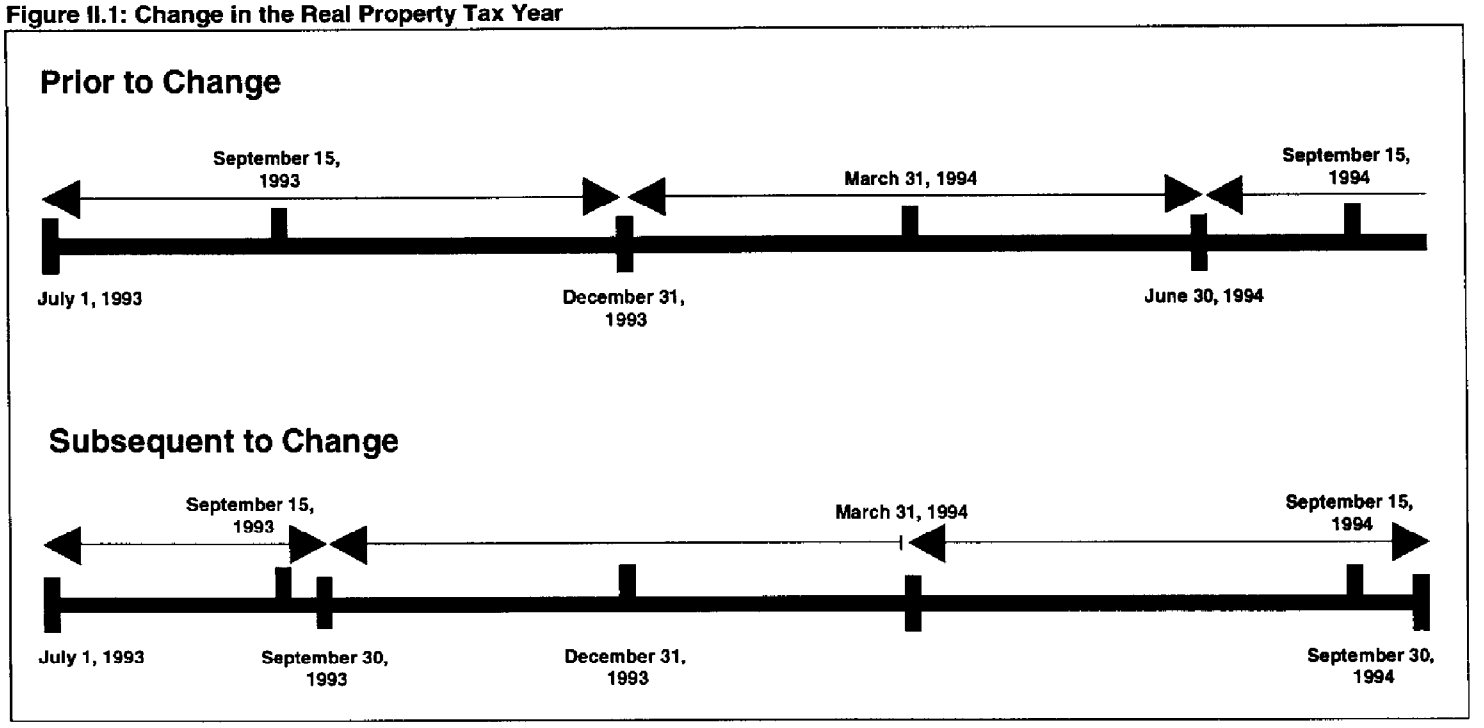
Prior to enactment of D.C. Law 10-25 (Act 10-57), the District's real property tax year was from July 1 to June 30. Property taxes were paid in two 6-month installments—one on September 15 for the period from July 1 to December 31, and the other on March 31 for the period from January 1 to June 30. Beginning October 1, 1993, D.C. Law 10-25 changed the real property tax year to run on an October 1 to September 30 cycle. The law also provided for the tax to continue to be paid in two equal installments, on March 31 (covering the first 6-month period from October 1 to March 31) and September 15 (covering the second 6-month period from April 1 to September 30).

Thus, the March 31, 1993, property tax bill covered the last half of tax year 1993 (January 1 - June 30 of 1993) as it existed under the old law, while the March 31, 1994, tax bill covered the first half of tax year 1994 (October 1, 1993 - March 31, 1994) as created by D.C. Law 10-25. These March payments had the effect of leaving a transitional 3-month period (June 30 -September 30 of 1993) uncovered by the change in the District's tax year. D.C. Law 10-25 thus provided for a specific payment on September 15, 1993, to cover the transition period, but calculated the amount of the September payment on the basis of a 6-month period.

The change in the real property tax law did not have any immediate cash impact on the District's real property owners. Property owners will continue to pay taxes on September 15 and March 31. However, for residential customers, the effect of this change will be realized at the time the taxpayer sells the owned property, because taxes that previously would have been considered as paid in advance will no longer be reimbursed at closing. In addition, commercial taxpayers who generally use accrual accounting methods were required to immediately write off 3 months of prepaid taxes.

District government officials acknowledged that the net effect of the change was a doubling of the tax rate for the one tax payment (from July 1st to September 30th) because the taxpayer paid for 6 months but received only 3 months credit. District officials initially took the position that taxpayers paid the District no additional cash and thus were not currently impacted by the change. The following example, which is illustrated in figure II.1, demonstrates the difference between the old and new procedures.

Figure II.1: Change in the Real Property Tax Year



Note: Although the amount of tax and payment dates remain the same, the effect of the change was that the September 15, 1993, tax payment was applied to a 3 month instead of a 6 month period.

On September 15, 1993, a taxpayer paid a real property tax of $1,150. Under the previous tax law, the $1,150 payment would have given the taxpayer credit for taxes paid from July 1, 1993, to December 31, 1993. Under the new tax law, the $1,150 payment only provided the taxpayer with credit for taxes paid for the period July 1, 1993, to September 30, 1993. Thus, the taxpayer lost an asset, a prepaid tax, for the 3 months from October 1, 1993, to December 31, 1993. On March 31, 1994, the taxpayer again paid a real property tax bill of $1,150 and received credit for taxes paid for the period October 1, 1993, to March 31, 1994. Thus, while the taxpayer paid, in terms of cash, nothing in additional taxes, the March payment only paid taxes through March 31, while under the previous law the March payment would have paid taxes through June.

Reasons for the Changes in the District Real Property Tax Year

District officials said the change in the real property tax year was made because the District, in fiscal year 1993, needed additional revenue to balance its budget. By changing the tax year, the District could recognize $174 million in revenues. As a result, by changing the tax year and recognizing the full 6 months of tax revenue in fiscal year 1993, instead of deferring half of that revenue to fiscal year 1994 as was required under the old tax year, the District was able to balance its fiscal year 1993 budget. This additional revenue was used to offset $174 million of spending in excess of the original budget.

District officials further agreed that while this change improved the financial and budget statements of the District, it did not provide the District with additional cash for paying bills. The net effect of the change was additional revenue, but not additional cash flow.

Consolidated Cash Flow Statements

Table III.1: Consolidated Cash Flow Statement - Fiscal Year 1995

Dollars in millions

Receipts	**October**	**November**	**December**	**January**
Individual income tax	$ 38.9	$ 43.8	$ 55.3	$ 79.4
Real property tax	5.0	2.5	4.0	1.5
Special real property tax	0.0	0.0	0.0	0.0
General sales and use tax	41.0	38.6	36.6	40.6
Miscellaneous taxes	36.9	33.7	49.2	45.9
Federal payment	673.6	0.0	0.0	0.0
Miscellaneous receipts	72.8	72.7	72.7	69.2
Water and sewer	9.6	21.8	8.4	16.8
Federal grants	63.3	63.3	63.3	63.3
Recovery bonds/notes	0.0	0.0	0.0	0.0
Receivable management	1.5	1.5	1.5	1.5
Total Receipts	**942.6**	**277.9**	**291.0**	**318.2**
Disbursements				
Payroll	147.8	165.8	183.7	173.6
Miscellaneous disbursements	77.7	78.7	78.7	78.7
Public assistance	10.8	10.8	10.8	10.8
Medicaid	48.4	48.4	48.4	48.4
Pension contribution and benefits	289.0	25.0	25.0	99.2
Transit authority contribution	29.3	0.0	0.0	29.2
Debt service	0.0	0.0	0.0	0.0
Recovery bonds/notes	16.9	0.0	0.0	0.0
Total Disbursements	**619.9**	**328.7**	**346.6**	**439.9**
Receipts Less Disbursements	322.7	(50.8)	(55.6)	(121.7)
Beginning Balance	131.9	454.6	403.8	348.2
Ending Balance	**$454.6**	**$403.8**	**$348.2**	**$226.5**

February	March	April	May	June	July	August	September	Total
$ 47.3	$ 35.9	$ 75.8	$ 69.9	$ 62.5	$ 48.0	$ 48.4	$ 78.1	$ 683.3
2.2	81.2	65.0	10.0	10.0	10.0	10.0	137.7	339.1
0.0	114.9	66.1	0.0	0.0	0.0	0.0	181.0	362.0
36.6	37.4	41.6	43.6	37.6	38.5	38.5	37.5	468.1
35.9	55.4	47.0	47.9	57.2	60.7	52.0	90.9	612.7
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	673.6
69.2	69.2	70.8	70.9	70.9	65.0	64.9	63.8	832.1
20.7	8.4	15.7	20.6	8.9	15.3	21.9	15.9	184.0
63.3	63.3	63.3	63.3	63.3	63.3	63.3	63.2	759.5
125.0	0.0	0.0	0.0	125.0	0.0	0.0	0.0	250.0
1.5	1.6	1.5	1.5	1.5	1.5	1.6	1.5	18.2
401.7	**467.3**	**446.8**	**327.7**	**436.9**	**302.3**	**300.6**	**669.6**	**5,182.6**
205.0	183.7	147.8	165.8	183.7	147.8	184.7	198.2	2,087.6
78.7	77.7	86.7	86.6	85.7	85.3	83.8	85.5	983.8
10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.9	129.7
48.4	48.5	48.5	48.5	48.5	48.6	48.6	48.6	581.8
25.0	25.0	99.8	25.5	25.5	25.5	25.5	25.5	715.5
0.0	0.0	29.3	0.0	0.0	29.3	0.0	0.0	117.1
0.0	114.9	66.1	0.0	0.0	0.0	0.0	181.0	362.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0	255.4	272.3
367.9	**460.6**	**489.0**	**337.2**	**354.2**	**347.3**	**353.4**	**805.1**	**5,249.8**
33.8	6.7	(42.2)	(9.5)	82.7	(45.0)	(52.8)	(135.5)	(67.2)
226.5	260.3	267.0	224.8	215.3	298.0	253.0	200.2	131.9
$260.3	**$267.0**	**$224.8**	**$215.3**	**$298.0**	**$253.0**	**$200.2**	**$64.7**	**$64.7**

Source: District of Columbia cash forecasts.

Table III.2: Consolidated Cash Flow Statement - Fiscal Year 1994

Dollars in millions

Receipts	**October**	**November**	**December**	**January**
Individual income tax	$ 41.8	$ 37.7	$ 57.7	$ 86.6
Real property tax	5.4	6.8	4.1	7.1
Special real property tax	0.0	0.0	0.0	0.0
General sales and use tax	37.2	35.5	39.7	38.2
Miscellaneous taxes	28.4	25.5	50.7	39.0
Federal payment	47.9	600.1	0.0	0.0
Miscellaneous receipts	117.9	56.9	67.5	56.1
Water and sewer payment	12.1	19.0	9.5	17.6
Federal grants	60.0	11.3	120.1	82.8
Short term notes	0.0	0.0	0.0	0.0
Receivable management	0.4	0.4	0.4	4.6
Total Receipts	**351.1**	**793.2**	**349.7**	**332.0**
Disbursements				
Payroll	188.4	165.0	159.9	159.8
Miscellaneous disbursements	92.0	153.3	168.0	64.0
Public assistance	10.6	11.1	10.5	11.4
Medicaid	62.1	49.6	64.8	53.2
Pension contribution and benefits	24.0	173.5	24.4	24.3
Transit authority contribution	2.4	53.8	0.0	33.0
Debt service - bond payments	0.0	0.0	0.0	0.0
Payment of notes	17.4	0.0	0.0	0.0
Total Disbursements	**396.9**	**606.3**	**427.6**	**345.7**
Receipts Less Disbursements	(45.8)	186.9	(77.9)	(13.7)
Beginning Balance	68.3	22.5	209.4	131.5
Ending Balance	**$22.5**	**$209.4**	**$131.5**	**$117.8**

February	March	April	May	June	July	August	September	Total
$ 35.3	$ 35.8	$ 74.9	$ 62.8	$ 60.7	$ 44.5	$ 44.4	$ 58.7	$ 640.9
0.4	153.0	13.4	7.5	4.5	3.4	15.0	149.3	369.9
0.0	45.0	127.2	0.0	0.0	0.0	0.0	180.7	352.9
24.4	43.5	38.2	39.6	39.6	42.6	42.7	42.7	463.9
29.0	59.3	52.2	45.4	54.3	81.1	92.4	69.7	627.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	648.0
56.5	73.8	62.5	62.5	62.5	62.5	64.5	63.6	806.8
27.6	10.2	19.1	18.7	12.3	15.2	19.1	8.4	188.8
57.0	68.8	64.0	64.0	64.0	60.1	58.9	48.8	759.8
0.0	0.0	0.0	200.0	0.0	0.0	0.0	0.0	200.0
1.4	0.8	7.8	2.3	2.4	7.2	2.4	2.4	32.5
231.6	**490.2**	**459.3**	**502.8**	**300.3**	**316.6**	**339.4**	**624.3**	**5,090.5**
151.9	177.9	189.2	153.0	153.0	153.0	169.4	181.4	2,001.9
105.9	87.3	75.1	78.4	78.4	78.4	66.8	71.6	1,119.2
10.7	11.0	10.2	10.1	10.2	10.1	10.2	10.2	126.3
50.1	52.6	43.0	40.8	40.8	40.8	40.8	40.8	579.4
24.4	24.6	24.6	64.7	24.7	24.7	24.7	24.7	483.3
0.0	0.0	31.5	0.0	0.0	22.9	0.0	0.0	143.6
0.0	45.0	127.2	0.0	0.0	0.0	0.0	180.7	352.9
0.0	0.0	0.0	0.0	0.0	0.0	0.0	202.9	220.3
343.0	**398.4**	**500.8**	**347.0**	**307.1**	**329.9**	**311.9**	**712.3**	**5,026.9**
(111.4)	91.8	(41.5)	155.8	(6.8)	(13.3)	27.5	(88.0)	63.6
117.8	6.4	98.2	56.7	212.5	205.7	192.4	219.9	68.3
$ 6.4	**$ 98.2**	**$ 56.7**	**$212.5**	**$205.7**	**$192.4**	**$219.9**	**$131.9**	**$131.9**

Note: October through March are actual amounts; April through September are estimated amounts.

Source: District of Columbia cash forecasts.

Table III.3: Consolidated Cash Flow Statement - Fiscal Year 1993

Dollars in millions

Receipts	**October**	**November**	**December**	**January**
Individual income tax	$ 39.6	$ 43.5	$ 55.1	$ 72.0
Real property tax	5.0	2.9	5.7	5.6
Special real property tax	0.0	0.0	0.0	0.0
General sales and use tax	37.1	34.4	33.8	35.3
Miscellaneous taxes	12.8	26.1	52.8	30.2
Federal payment	645.9	0.0	0.0	0.0
Miscellaneous receipts	67.1	69.7	67.3	67.4
Water and sewer payment	11.1	25.6	10.4	12.5
Federal grants	27.5	38.5	58.5	63.6
Recovery bonds/notes	0.0	0.0	0.0	0.0
Total Receipts	**846.1**	**240.7**	**283.6**	**286.6**
Disbursements				
Payroll	181.8	143.7	144.4	143.4
Miscellaneous disbursements	97.6	109.1	101.4	87.3
Public assistance	9.7	9.9	10.2	10.4
Medicaid	46.3	42.7	50.0	50.0
Pension contribution and benefits	95.8	22.7	22.7	94.1
Transit authority contribution	44.4	0.0	0.0	0.0
Debt service	43.2	0.0	0.0	0.0
Recovery bonds/notes	0.0	0.0	0.0	0.0
Total Disbursements	**518.8**	**328.1**	**328.7**	**385.2**
Receipts Less Disbursements	327.3	(87.4)	(45.1)	(98.6)
Beginning Balance	159.6	486.9	399.5	354.4
Ending Balance	**$486.9**	**$399.5**	**$354.4**	**$255.8**

February	March	April	May	June	July	August	September	Total
$ 42.8	$ 34.7	$ 70.0	$ 58.8	$ 57.7	$ 39.4	$ 44.9	$ 64.9	$ 623.4
2.7	160.3	55.2	8.2	5.1	1.6	11.4	169.3	433.0
0.0	72.2	55.2	0.0	0.0	0.0	0.0	167.0	294.4
29.7	35.4	38.1	37.2	37.5	39.6	36.3	34.8	429.2
28.0	50.6	61.7	45.2	59.9	58.5	82.9	68.9	577.6
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	645.9
65.2	74.1	51.8	68.9	79.7	191.0	52.8	52.0	907.0
25.4	13.2	13.2	19.0	17.2	18.8	20.2	13.5	200.1
63.6	59.6	59.2	74.7	66.7	62.0	69.3	62.1	705.3
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
257.4	**500.1**	**404.4**	**312.0**	**323.8**	**410.9**	**317.8**	**632.5**	**4,815.9**
146.6	168.0	192.9	132.1	144.5	152.2	160.6	135.9	1,846.1
85.3	104.3	116.5	115.0	67.2	80.2	97.2	285.3	1,346.4
10.4	10.5	10.7	10.7	10.7	10.9	10.9	11.1	126.1
46.0	46.0	51.9	40.4	56.1	53.4	54.3	52.3	589.4
22.7	22.7	95.8	22.9	22.9	23.0	23.9	24.1	493.3
49.3	0.0	26.6	0.0	0.0	7.4	0.0	0.0	127.7
0.0	74.0	94.0	0.0	0.0	0.0	0.0	167.0	378.2
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
360.3	**425.5**	**588.4**	**321.1**	**301.4**	**327.1**	**346.9**	**675.7**	**4,907.2**
(102.9)	74.6	(184.0)	(9.1)	22.4	83.8	(29.1)	(43.2)	(91.3)
255.8	152.9	227.5	43.5	34.4	56.8	140.6	111.5	159.6
$152.9	**$227.5**	**$43.5**	**$34.4**	**$56.8**	**$140.6**	**$111.5**	**$68.3**	**$68.3**

Source: District of Columbia cash forecasts.

Information on the District of Columbia's Cash Status

Table IV.1: Data Points for Figure I.1, Comparison of Forecasted Cash Balance to Actual Cash Balance

Dollars in millions

Month	Actual cash balance	Forecasted cash balance (Nov. 1993 est.)
November 1993	$209	$320
December 1993	132	266
January 1994	118	159
February 1994	6	96
March 1994	98	124
April 1994	53	57

Source: District of Columbia cash forecasts.

Excerpts From CBO Analysis of the District of Columbia's Expenditures

Table V.1: Program Level Expenditures History and Projections - Fiscal Years 1988-1994

	Actual FY 1988[a]	Actual FY 1989	Actual FY 1990	Actual FY 1991	Actual FY 1992	Actual FY 1993	Revised FY 1994
Program							
Fixed Costs:							
Debt service	$219,851	$ 226,608	$ 240,790	$256,676	$ 326,334	$ 347,977	$ 329,752
Percent increase/decrease		3.07	6.26	6.60	27.10	6.63	–5.24
Retirement - police, fire, judges, and teachers	179,554	193,300	221,600	224,315	253,220	291,300	306,200
Percent increase/decrease		7.66	14.64	1.23	12.89	15.04	5.12
Subsidies:							
D.C. Gen. Hospital subsidy	41,930	44,430	49,993	59,510	69,010	58,768	46,735
Percent increase/decrease		5.96	12.52	19.04	15.96	–14.84	–20.48
WMATA subsidy	101,882	105,876	110,406	122,440	98,973	126,893	115,732
Entitlements:							
Medicaid payment	153,250	158,973	171,226	205,096	249,713	286,181	281,377
Percent increase/decrease		3.73	7.71	19.78	21.75	14.60	–1.68
AFDC	35,781	38,058	39,955	48,926	53,688	59,001	58,659
GPI/SSI	16,849	16,846	18,147	17,967	12,342	12,209	13,271
Unemployment compensation	3,693	4,892	4,507	4,859	7,068	8,359	8,098
Disability compensation	18,237	18,573	19,539	22,639	24,177	26,623	25,562
Foster care	41,085	37,016	46,781	20,997	27,599	33,623	35,860
Mental health	92,655	75,953	79,750	83,738	140,622	132,299	122,446
Public Schools:	432,752	456,161	497,130	517,628	519,599	515,258	534,925
Percent increase/decrease		5.41	8.98	4.12	0.38	–0.84	3.89

(continued)

	Actual FY 1988[a]	Actual FY 1989	Actual FY 1990	Actual FY 1991	Actual FY 1992	Actual FY 1993	Revised FY 1994
Public Safety:							
Courts[b]	73,385	77,027	87,546	91,367	92,926	103,91	5 112,064
Police[b]	197,686	212,428	249,794	238,231	240,330	241,211	244,196
original projection						241,211	227,196
personal services						214,325	197,382
pay increase distribution							17,000
percent change in total spending		7.5	17.6	–4.6	0.9	0.4	1.2
Fire[b]	84,097	89,861	98,360	100,238	96,102	95,181	84,049
original projection						95,181	76,049
personal services						85,697	68,792
pay increase distribution							8,000
Corrections[b]	193,783	215,319	252,768	245,974	246,860	247,489	248,501
original projection							237,901
personal services						168,616	167,379
pay increase distribution							10,600
percent change in total spending		11.1	17.4	–2.7	0.4	0.3	0.4
All other programs	807,433	842,024	845,435	852,141	826,110	829,060	804,621
percent increase/decrease		4.3	0.4	0.8	–3.1	0.4	–2.9
Total Budget	**$2,707,899**	**$2,871,889**	**$3,091,566**	**$3,184,194**	**$3,298,664**	**$3,433,995**	**$3,382,048**
Percent increase/decrease		**6.1**	**7.6**	**3.0**	**3.6**	**4.1**	**–1.5**

[a]Amounts are in thousands of dollars, percentages show the percent change from the previous year.

[b]The multi-year projections for Courts, Police, Fire, and Corrections exclude pay adjustments. The pay adjustments for those agencies is captured under "All Other Programs." CBO has distributed these pay increases for fiscal year 1995 and beyond based on District management's proposal for fiscal year 1994 of a 6 percent salary adjustment for police officers and firefighters and 5 percent for all others including non-union employees. The overall personal service expenditure is projected to increase by an average annual rate of 4.5 percent from fiscal year 1995 through fiscal year 1999.

Source: Excerpts from CBO analysis of District budget office data.

Table V.2: Program Level Expenditures Projections - Fiscal Years 1995-2000

	Proposed FY 1995[a]	Projected FY 1996	Projected FY 1997	Projected FY 1998	Projected FY 1999	Projected FY 2000
Program						
Fixed Costs:						
Debt service	$ 345,447	$ 366,900	$ 385,500	$ 404,200	$ 422,600	$ 434,100
Percent increase/decrease	4.76	6.21	5.07	4.85	4.55	2.72
Retirement - police, fire, judges and teachers	297,100	325,800	349,700	374,400	400,900	428,800
Percent increase/decrease	–2.97	9.66	7.34	7.06	7.07	6.96
Subsidies:						
D.C. Gen. Hospital subsidy	46,735	50,006	53,506	57,251	61,259	65,548
Percent increase/decrease	0	7.00	7.00	7.00	7.00	7.00
WMATA subsidy	117,051	122,904	129,049	130,339	136,856	143,699
Entitlements:						
Medicaid payment	283,498	308,037	329,599	352,672	377,359	403,774
Percent increase/decrease	0.08	8.66	7.00	7.00	7.00	7.00
AFDC	60,659	63,692	66,877	67,545	70,923	73,761
GPI/SSI	13,271	13,935	14,631	14,778	15,516	16,136
Unemployment compensation	7,944	9,000	7,000	6,000	5,500	5,000
Disability compensation	20,800	21,840	22,932	23,161	24,319	25,462
Foster care	36,120	37,926	39,822	40,221	42,232	44,174
Mental health	116,339	122,156	128,264	129,546	136,024	142,477
Public Schools:	542,682	571,444	601,731	633,408	667,201	702,797
Percent increase/decrease	1.45	5.30	5.30	5.26	5.34	5.34

(continued)

	Proposed FY 1995[a]	Projected FY 1996	Projected FY 1997	Projected FY 1998	Projected FY 1999	Projected FY 2000
Public Safety:						
Courts[b]	115,919	118,237	120,602	123,014	126,705	130,506
Police[b]	254,617	268,195	282,819	297,995	313,832	330,267
original projection	226,898	230,346	234,385	238,499	242,777	247,132
personal services	225,101	235,231	245,816	256,878	268,437	280,517
pay increase distribution	27,719	37,849	48,434	59,496	71,055	83,135
percent change in total spending	4.3	5.3	5.5	5.4	5.3	5.2
Fire[b]	84,856	93,498	99,390	107,200	116,594	127,949
original projection	73,016	77,497	78,321	79,886	81,525	83,198
personal services	80,632	96,632	117,702	145,016	180,085	224,836
pay increase distribution	11,840	16,001	21,069	27,314	35,069	44,751
Corrections[b]	233,562	256,490	272,136	290,737	300,333	315,259
original projection	214,063	228,582	235,439	244,857	244,857	249,754
personal services	186,878	195,287	204,075	213,259	222,855	232,884
pay increase distribution	19,499	27,908	36,696	45,880	55,476	65,505
percent change in total spending	–6.0	9.8	6.1	6.8	3.3	5.0
All other programs	820,936	863,396	895,280	958,024	1,000,262	1,050,748
percent increase/decrease	2.0	5.2	3.7	7.0	4.4	5.0
Total Budget	**$3,408,536**	**$3,625,005**	**$3,810,965**	**$4,022,740**	**$4,231,276**	**$4,453,961**
Percent increase/decrease	**0.8**	**6.4**	**5.1**	**5.6**	**5.2**	**5.3**

[a]Amounts are in thousands of dollars, percentages show the percent change from the previous year.

[b]The multi-year projections for Courts, Police, Fire, and Corrections exclude pay adjustments. The pay adjustments for those agencies is captured under "All Other Programs." CBO has distributed these pay increases for fiscal year 1995 and beyond based on District management's proposal for fiscal year 1994 of a 6 percent salary adjustment for police officers and firefighters and 5 percent for all others including non-union employees. The overall personal service expenditure is projected to increase by an average annual rate of 4.5 percent from fiscal year 1995 through fiscal year 1999.

Source: Excerpts from CBO analysis of District budget office data.

Comments From the District of Columbia

GOVERNMENT OF THE DISTRICT OF COLUMBIA
EXECUTIVE OFFICE

441 4th ST., N.W.
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Washington, D.C. 20001

Chief Financial Officer

June 13, 1994

John W. Hill
Director, Audit Support
and Analysis Group
Accounting and Information Management Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Hill:

Thank you for the opportunity to comment on the GAO draft report, entitled FINANCIAL STATUS: District of Columbia Finances. We have welcomed your review. Mayor Kelly has asked that I respond.

As you acknowledge, the District is a "unique entity, being the only governmental unit with responsibilities for state and county, as well as city functions". Despite this unparalleled configuration, the District's financial practices, accounting principles and budgetary discipline are characteristic of other states. Our fiscal and budgetary challenges during the recession mirror the majority of the nation. And yet, for the twelfth consecutive year, the Government Finance Officers Association of the United States and Canada has awarded the District of Columbia its "Certificate of Achievement for Excellence in Financial Reporting". Only 24 states have earned this award, and only two have received it for more than twelve straight years. Additionally, since 1981, the District's audit has been performed by three of the "Big Six" accounting firms; all of which have issued unqualified opinions affirming that the District's statements fairly present its financial picture.

Like the District, many states and municipalities face mounting expenditure demands which far out pace dwindling resources, forcing many jurisdictions to deplete rainy day funds and reserves, an opportunity the District did not possess. A devastating recession, complicated by the difficulty of estimating revenue at such a time and accompanied by rising health care costs, has taken its toll on our nation. The recession translated into fewer jobs and less development which resulted in less revenue. Further exacerbating the lack of resources is the difficulty of revenue forecasting, already a formidable undertaking because of the excessive time which elapses in the District from the first estimate to the final revision. To address these fiscal problems, the concept of reinventing government has moved into the mainstream, with management action not history determining spending. Change has become the way of controlling costs and the District has been front and center in this movement to contain expenditures.

CASH MANAGEMENT

With the recent settlement of the pension cash payment schedule, the District has made substantial progress in settling the matters affecting cash in FY 94 and FY 95. The District has made a commitment to quarterly pension payments at the beginning of each quarter. A plan to identify the actions and options to produce the necessary cash, twelve months hence, is underway. A U.S. Treasury borrowing is not being considered. Rather, continued aggressive collection of tax and federal receivables, as well as sale of surplus properties are the principal sources of additional cash in FY 95.

FEDERAL GRANTS RECEIVABLES

Over the last ten months the District has established and implemented a receivables management program. The program has resulted in increased collections in the Department of Public Works, Water and Sewer Authority, the Department of Human Services and the Department of Finance and Revenue. The District will continue its implementation of the program with further success in Fiscal Year 1995. In the month of May 1994 alone, the Department of Human Services collected $5.2 million against a 1993 emergency assistance receivable and $4.3 million against a 1991 emergency assistance receivable, for a total of $9.5 million. Further, on May 16, 1994, the District was notified that it will be paid $1.4 million for a FY 1992 IV-D, Child Support Enforcement, outstanding receivable. The District's determined efforts to collect old receivables are successful and at least $16 million is in hand.

REVENUE FORECASTING

Given the long time frames involved and the very volatile experiences of other jurisdictions, the District's revenue projections have been in line. Like other states across the country, the District uses the national forecasting firm, Wharton Econo-metrics Forecasting Associates (WEFA), to assist in the projections of the local economy. There were several forecasts during this period that recovery was imminent; however, in fact the recovery was delayed. The local economy has been struggling to recover and is not rebounding with the same vigor as the national economy. Thus, the District faced reality and revised its estimates after the fiscal year began.

The District now requires quarterly reviews of spending and revenue forecasts, pursuant to the John Wilson legislation, the Financial Accountability and Management Act of 1993. More frequent forecasts and budget revisions are the most used methods in state and local governments to assure accuracy in forecasting and balanced budgets.

BUDGET PLANNING AND STRATEGIES

The District has balanced its budgets during a period involving a lengthy recession. Your report recognizes this. Budgets during this period reflect efforts to manage the impacts on the community resulting from increases in unemployment, the fluctuation in District generated

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revenues, increases in crime and drug use, increases in unsponsored health care, homelessness, the continuing exodus of working families and other related factors. States and municipalities over the country have been challenged during the past four years to produce balanced budgets. According to the National Association of State Budget Officers' (NASBO) 1993 State Expenditure Report, generally, the two-fold problem faced by states, of sluggish revenue growth and expenditure overruns, is subsiding and states are moving back toward more stabilized operations.

The 6.5% increase in state spending in FY 93 follows a 10.1% increase between 1991 and 1992. The share of total state spending financed by federal funds increased from 24% in FY 91 to 27% in FY 93. Medicaid's share of state spending has grown from just over 10% of states spending in 1987 to 18.4% in 1993. The District has contained actual increases from FY 91 to FY 93 to 7.4%. For the District as well as the nation, total Corrections spending increased 7% from 1992 to 1993.

States are limiting their general fund budget spending to 5.1% in FY 94 and plan to limit budget growth to 3.1% for FY 95 These increases are slightly above the rate of inflation over the two years. The District has experienced similar growth in entitlements as stated above, but has managed to suppress overall expenditure growth to 2 to 3%. In 1992, 35 states were forced to reduce their enacted budget and 22 states in 1993.

CONTROLLING SPENDING

Your report states that the District's budgets have been balanced. The NASBO report explains that States are restructuring major state functions, including social services, corrections, and environmental programs, in order to improve the management and efficiency of state government and to control spending. Other restructuring focuses on changes in service delivery, such as contracting with the private sector to provide government services.

In the District as an example of major restructuring, the Medicaid program has been changed to a managed care program for AFDC recipients, to future resource-based payment methods for acute, inpatient care, to lower payments for non-emergency care provided to recipients in hospital emergency rooms, to requiring more out-patient surgery, to requiring pre-authorizations for prescription drugs, to contracting for hospital beds. These and other specific actions hold the costs in Medicaid. In the area of homelessness services, unlike other major urban centers, and unlike the District until a few years ago, there are no welfare hotels on Rhode Island Avenue or New York Avenue. The costs of homeless services which had been in excess of $28 million a year are now less than $17 million annually.

These large actions to modify spending are matched with government wide severe spending controls on hiring and non-personal services spending; implementation of Rivlin Commission and management audit recommendations on contracting, relocation to District owned space, and overtime utilization.

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D.C. GENERAL HOSPITAL

In June, 1994 a 5-year plan to achieve solvency of the District's financially troubled public hospital was filed with the Council. Through a 17-point management plan for controlling costs, and increasing billings, and no increase in the subsidy from the District Government, the hospital's books will be brought into balance.

The District has undertaken a 10-year commitment to build reserves that will help offset the accumulated deficits at the hospital. Amounts are set aside in the FY 94 and FY 95 budgets.

Findings in the *District of Columbia General Hospital Operational and Financial Viability Plan* showed that up to 18% of services are delivered to non-emergency, non-D.C. citizens as well as staffing and spending above the hospitals accreditation requirements. To consider cuts in other services or increases in taxes paid by the citizens in order to support additional appropriation for D.C. General Hospital, would be to paste over these problems and offer no accountability.

PENSION

Your report recognizes that the pension liability is a huge unfunded mandate, further darkening the District's financial future. Legislation is before the Congress which will address this problem.

UNRESOLVED LONG-TERM FINANCIAL ISSUES

Most of the District's comment to your report has focused on the many management actions being taken to address the short term issues and that is where the District is putting its energy. However, one cannot ignore that the District is burdened with federally imposed taxing restrictions resulting in 68% of the income earned within the District excluded from its tax base and more than half of its land tax-exempt. The District contributes more than 2 times its federal payment to the federal treasury. These structural restraints and the resultant daunting future forecasts, which your report represents as conservative, must be the focus of a new relationship between the Federal Government and the District.

Yours truly,

Ellen M. O'Connor
Chief Financial Officer

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