FEBRUARY 2018

# chairman's update

the NEWSLETTER of
DC Council Chairman Phil Mendelson

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## Good & Bad Financial News for the District

On February 1, 2018 the Office of the Chief Financial Officer released the Comprehensive Annual Financial Report, more commonly referred to as the CAFR, for fiscal year 2017, which ended September 30, 2017.

Our independent auditors issued another unqualified or "clean" opinion. For the third year in a row our independent auditors found no material weaknesses or significant deficiencies in the District's internal financial controls. Just four years ago (FY 2014) there were six significant deficiencies, ranging from procurement and disbursement controls to internal controls over Medicaid, TANF, and other programs.

The CAFR also shows that our pension and retirement health care benefits (OPEB) are more than fully funded, placing the District as *the* leader in the nation for a fiscally sound retirement system, and the envy of every major city.

The Council has played an important oversight role in this achievement, disapproving a multi-million dollar reprogramming out of OPEB in 2013, establishing an advisory committee for the OPEB fund, and requiring that our Chief Financial Officer engage an actuary for OPEB. We also now engage in the practice of performance and budget oversight hearings on OPEB to review assumptions and contributions.

Every year the Council hears that we should spend a portion of our general fund balance on immediate needs. While the District's general fund balance is $2.7 billion, its makeup is complicated. Spending money from our reserves is not without consequences.

To start: over half of the $2.7 billion – about $1.5 billion – has already been allocated to items like debt service reserves, special purpose revenue accounts and future budgets.

The remainder – $1.2 billion – is the District's rainy-day fund. The rainy-day fund is comprised of federally and locally mandated reserves. You can think of these funds as the District's cash-on-hand or as our working capital.

Just over a third of these reserves – $414 million – is federally mandated reserves. These reserves can only be used for items that are unanticipated and one-time, or during a state of emergency. Importantly, the federally mandated reserves must be paid back within two years, no exceptions. To spend these reserves is actually to short-term borrow, because of the repayment requirement, borrowing from next year and the year after that, which creates a budgetary problem.

So that leaves us with the locally mandated reserves of about $778 million. These reserves put the District in the enviable position of being able to navigate potential disruptions, like an economic downturn or Federal actions that cut funding to the states. For municipal finance, the best practice is to have the equivalent of 60 days' operating costs in reserves. We're at 54 days, which is actually less than we had last year.

More importantly, having a large rainy-day fund enhances our ability to invest in infrastructure such as roads, schools and libraries. The reserves the District maintains grant us a high bond rating, and that rating, in turn, allows us to borrow at lower interest rates. And because we have a 12% cap on our borrowing, lower interest rates increase our capacity to invest more in infrastructure.

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### *Upcoming Hearings of the Committee of the Whole*

***Committee of the Whole***
*February 20, 2018*
*10 a.m. in Room 500*

***Street Naming Designations: (Bill 22-117, Bill 22-518, Bill 22-531, Bill 22-557, Bill 22-586, Bill 22-629, Bill 22-664)***
*February 26, 2018*
*11:30 a.m. in Room 123*

***Public Oversight Hearing (University of the District of Columbia)***
*February 27, 2018*
*1:00 p.m. in Room 412*

***Public Oversight Hearing (Airports, COG, Planning & Zoning)***
*February 28, 2018*
*10 a.m. in Room 412*

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*(202) 724-8196*
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*cow@dccouncil.us*

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The reserves save us money in other ways besides lowering interest rates. For several years we've been able to avoid cash flow borrowing, and to time when we borrow. Both of these actions save the District additional millions.

Our financial picture is healthy, but there are warning signs nonetheless.

Debt service continues to grow and consume an ever-larger portion of our budget. Debt service is projected to exceed $1 billion dollars per year in 2021. That's because we are borrowing more than ever. In the budget we passed last year, we authorized a 6-year $6.7 billion capital budget, of which $4.5 billion will be borrowed. Despite this, the District has another $4.2 billion of unfunded capital needs.

Another worry is that we are budgeting to spend in the current and future years more than we actually receive in each of those years. We are able to do this because extra cash from past years is carried forward. Part of last year's $2.7 billion General Fund balance is $505 million being carried forward through the financial plan for expenditures.

A third concern is that we are not keeping up with our infrastructure needs. The Chief Financial Officer issued a report over a year ago stating that we could get to a state of good repair – for all our schools, public buildings, roads, alleys, IT systems, etcetera – in a decade if we add a couple of hundred million dollars in pay-as-you-go funding each year. We haven't fully started, and the longer we wait the higher will be the cost.

We should celebrate our financial health, but at the same time recognize that there are still challenges to be worked out.

## Righting the Ship at DCRA

On January 23rd, I introduced, along with eight fellow councilmembers, the "Department of Buildings Establishment Act of 2018" which would reorganize the Executive agency currently known as the Department of Consumer and Regulatory Affairs (DCRA). The goal of this legislation is to peel off a new agency that will have a more robust focus on code enforcement, clearer and consistent application of policies and standards, and a more responsive culture of customer service.

Last year, I held six oversight hearings to determine how the struggling agency could improve. Unfortunately, following those hearings, it was abundantly clear that DCRA was an agency in need of major change. I believe breaking up and reorganizing the agency is the best way.

By spinning-off the construction and property inspection functions from DCRA to the new Department of Buildings, the District can have an agency that will be less distracted by a long list of vaguely interconnected responsibilities and finally have the capacity to focus on one mission: to ensure the safety and habitability of buildings in the District.

The new Department of Buildings (DOB) is expected, but not limited to: running the permitting center, reviewing design plans, inspecting construction sites, issuing certificates of occupancy, interpreting zoning rules, citing code violations, and levying fines. This is likely to have a beneficial impact on homeowners as well as commercial real estate, development, and construction in the District.

The bill also shields the Strategic Enforcement Administrator and the Chief Building Officer – the two individuals in the new DOB responsible for code compliance and enforcement – from political influence by the Chief Executive, by giving both positions statutory employment protection.

## Constituent Services Corner

A constituent contacted my office to complain about a portable toilet that was in the alley behind their house in Northeast DC. The constituent was concerned that a driver may hit it, as it was hard to see down the dark alley.

Eventually a car did strike the Porta-Potty and tipped it over, spilling its contents right behind the constituent's house.

Our Constituent Services team was able to get a speedy response team from DDOT to clean up the horrible hazard within a few hours.

If you are in need of neighborhood clean-up, don't waste time. Contact the Chairman's constituent services team right away.

***Contact our Constituent Services Team at (202) 724-8032***

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