

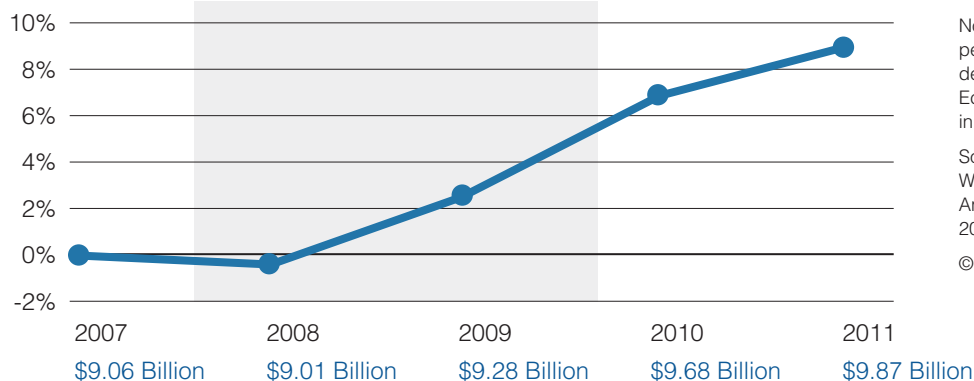
# District of Columbia

## Aid from the federal government helped the District of Columbia avoid some fiscal pain from the Great Recession

Revenue mostly grew during and after the recession, but other fiscal issues raise concerns. The city's special relationship with the federal government brought in an additional \$1.1 billion in intergovernmental aid between the 2008 revenue low point and 2011, allowing total revenue to bounce back earlier and stronger than did many other large U.S. cities. (See Figure 1.) Federal aid declined dramatically in 2012, however, and budget sequestration, which started in March 2013—resulting in federal spending cuts—is cause for concern.<sup>1</sup> Operating spending also rose between 2008 and 2011, with increases to social services and health, education, and public safety, forcing the city to tap some reserves.<sup>2</sup>

FIGURE 1

### Washington Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Washington's Comprehensive Annual Financial Reports for fiscal 2007-11.

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## Other revenue streams suffered through the downturn and beyond

Like other cities, the district received funding related to the American Recovery and Reinvestment Act for capital and operating expenditures. But the district is unique in that it simultaneously performs the functions of a city, a county, a school district, and a state, and therefore receives grant funding that in other cities is distributed to a wider array of governmental entities.

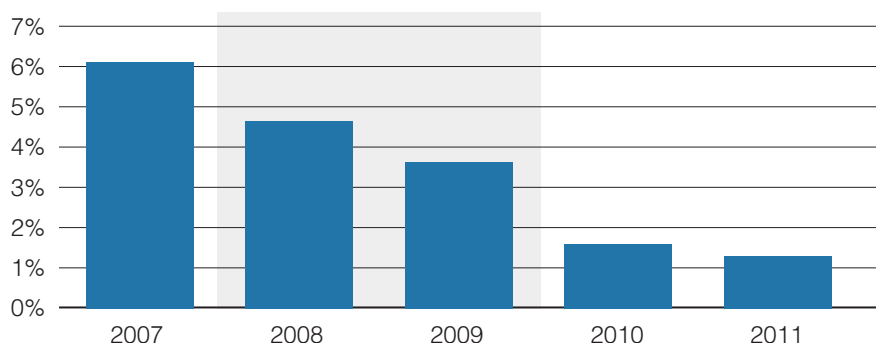
The revenue rebound rested on the strength of only two sources: intergovernmental aid and charges and fees. Specifically, charges for services increased \$66 million between 2008 and 2011. Despite rate changes, property tax collections—the district’s largest own-source revenue—declined \$29 million, after adjusting for inflation.<sup>3</sup> Other local-source revenue streams also fell during this period, including income taxes (down \$171 million), sales taxes (down \$25 million), and other taxes (down \$63 million).

## Spending grew overall, but some categories saw significant cuts

Between 2008 and 2011, the district’s operating spending increased \$409 million, forcing a drawdown of two-thirds of the city’s reserves.<sup>4</sup> (See Figure 2.) The city’s three largest expenditure categories—social services and health, education, and public safety—grew \$491 million, \$159 million, and \$93 million, respectively. Social services and health expenditures increased due to spending tied to federal and private resources, and the growth in education was due to higher enrollment, more special-needs students, additional Head Start funding, and implementation of a new early-childhood education program.<sup>5</sup>

FIGURE 2

### Washington Reserve Funds as a Percent of Total General Fund Revenue, 2007-11



Note: Reserve funds are represented by the unreserved general fund balance as a percent of total general fund revenues. Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research.

Source: Pew calculations from Washington’s Comprehensive Annual Financial Reports for fiscal 2007-11.

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The spending categories that were more dependent on local revenue, however, tended to decline between 2008 and 2011. These included public works, which reduced services such as hazardous waste collection,<sup>6</sup> and housing and economic development, where broad cost-saving measures included reductions in the Housing Production Trust Fund Subsidy, city planning, and employment services programs.<sup>7</sup>

## Managing the future: Federal responsibility for a portion of the district's pension obligations strengthened the city's long-term fiscal position

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape the district's fiscal future. Two long-term obligations which can be analyzed using the data available are pensions and retiree health care and other benefits.

The district's pension situation improved dramatically when Congress passed the National Capital Revitalization and Self-Government Improvement Act of 1997, in which the federal government assumed responsibility for the majority of the district's unfunded pension liability for teachers, police officers, firefighters, and judges up to 1997. Obligations accrued since then are the city's responsibility, and funding levels exceeded 100 percent of pension liabilities between 2007 and 2010.<sup>8</sup>

The district also had enough assets to cover more than half of its retiree health care liabilities, one of just three cities examined with at least 50 percent funding in 2010.<sup>9</sup>

See Pew's 30-city interactive at [pewstates.org/City-Fiscal-Conditions-Interactive](http://pewstates.org/City-Fiscal-Conditions-Interactive) for complete data.

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### Endnotes

1 Federal contributions and operating grants declined to \$2.5 billion in 2012, which, after adjusting for inflation, would be the district's lowest point in that revenue stream since at least 2008. District of Columbia, *Comprehensive Annual Financial Report, Year Ended September 30, 2012* (2012), 49.

2 See the full study methodology at <http://www.pewstates.org/City-Fiscal-Methodology> for a detailed explanation of the terms used in this profile and view the underlying data at [pewstates.org/City-Fiscal-Conditions-Interactive](http://pewstates.org/City-Fiscal-Conditions-Interactive).

3 District of Columbia, *Comprehensive Annual Financial Report, Year Ended September 30, 2011*, 170.

4 While significant, these losses did not touch the city's congressionally mandated cash reserve funds. The city is required to maintain 2 percent and 4 percent of operating expenditures in emergency and contingency reserves, respectively. District of Columbia, *Fourth Quarter, FY 2012, Status Report on the Emergency and Contingency Cash Reserve Funds as of September 30, 2012* (2013), 1, <http://cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/FY%202012%204th%20Quarter,%20Emergency%20and%20Contingency%20Cash%20Reserve%20Fund%20as%20of%20September%2030,%202012.pdf>.

5 District of Columbia, *Comprehensive Annual Financial Report, Year Ended September 30, 2011*, 31.

6 Ibid.

7 District of Columbia, *Comprehensive Annual Financial Report, Year Ended September 30, 2010*, 31.

8 The funding level for the district represents only liabilities accrued since 1997 in defined benefit pension plans for firefighters, police, and teachers. The federal government in 1997 took over financial responsibility for benefits accrued by those workers up to then, as well as retirement benefits for judges, relieving the city of \$4.9 billion in unfunded liabilities. The city also contributes to a defined benefit plan (for 2,700 general municipal workers hired before 1987) that is managed by the federal Civil Service Retirement System, but an estimate of the city's share of those liabilities could not be obtained. This study does not include the costs of pension benefits for general municipal employees hired since October 1987 because the city deposits a defined contribution into an individual retirement account for each employee rather than maintaining funds for all employees in a traditional centralized pension system. District of Columbia, *Comprehensive Annual Financial Report, Year Ended September 30, 2011*, 111–117.

9 For more information and analysis on the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls*, issue brief (March 2013), [http://www.pewstates.org/uploadedFiles/PCS\\_Assets/2013/Pew\\_city\\_pensions\\_brief.pdf](http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf).