

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

DISTRICT DEPARTMENT OF TRANSPORTATION

**REPORT ON THE EXAMINATION
OF THE DISTRICT OF COLUMBIA'S
HIGHWAY TRUST FUND
FORECAST STATEMENTS FOR
FISCAL YEARS 2012 - 2016 WITH ACTUAL
AUDITED FIGURES FOR FISCAL YEAR 2011**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



March 15, 2012

Terry Bellamy
Director
Department of Transportation
55 M Street, SE, Suite 400
Washington, D.C. 20003

Natwar M. Gandhi, Ph.D.
Chief Financial Officer
Office of the Chief Financial Officer
The John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Room 203
Washington, D.C. 20004

Dear Mr. Bellamy and Dr. Gandhi:

The Office of the Inspector General has completed an examination of the District of Columbia Highway Trust Fund's 5-year forecast of expenditure conditions and operations. The District Department of Transportation and the Office of the Chief Financial Officer administer the Highway Trust Fund for the District of Columbia government and are responsible for preparing the forecast.

Our examination included a review of existing processes, policies, and controls for the purpose of expressing an opinion on the accompanying forecasted statements. Although we found no instances of noncompliance that would be reportable under generally accepted government auditing standards, the objective of our review was not to provide an opinion on overall compliance with such provisions.

In our opinion, the forecasted statements referred to above are presented in conformity with guidelines for presentation of forecasted information established by the American Institute of Certified Public Accountants. The underlying assumptions made and methodologies used to develop the statements provide a reasonable basis for the forecast.

Mr. Bellamy and Dr. Gandhi
Highway Trust Fund Forecast
OIG No. 11-1-29KA(a) – Final Report
March 15, 2012
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We appreciate the cooperation and courtesies extended to our staff during this examination. If you have questions or need additional information, please contact me or Ronald W. King, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,


Charles J. Willoughby
Inspector General

CJW/qh

Enclosure

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**REPORT ON THE EXAMINATION OF THE
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GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



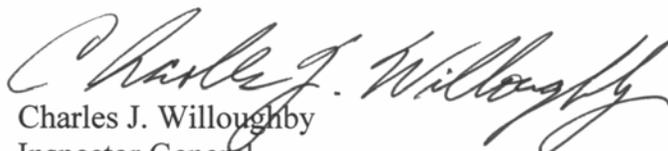
Auditor's Report on Forecast Statements

To the Director, Department of Transportation, Government of the District of Columbia; and
Chief Financial Officer, Government of the District of Columbia:

In accordance with D.C. Code § 9-109.02(e), the Office of the Inspector General has completed an examination of the District of Columbia Highway Trust Fund's 5-year forecast of conditions and operations for the forecast period, fiscal years (FYs) 2012 through 2016. The District Department of Transportation and the Office of the Chief Financial Officer are responsible for producing the forecast. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the Highway Trust Fund's 5-year forecast of expenditure conditions and operations (HTF forecast) and performing such other procedures as we considered necessary under the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the accompanying HTF forecast is presented in conformity with the guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for management's forecast. However, there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.


Charles J. Willoughby
Inspector General

March 15, 2012

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	(\$000s)					
	D.C.			D.C.		
	Highway Trust Fund FY 2011	Federal Aid FY 2011	Total FY 2011	Highway Trust Fund FY 2012	Federal Aid FY 2012	Total FY 2012
ESTIMATED FUNDING						
Beginning Balance	\$ 9,498	\$ 466,711	\$ 476,209	\$ 43,851	\$ 472,421	\$ 516,272
Motor Fuel Revenues	24,925	-	24,925	20,640	-	20,640
Parking and Storage Revenues	16,508	-	16,508	-	-	-
Public Space Rental Revenues	3,869	-	3,869	-	-	-
Rights-of-Way Fee Revenues	6,752	-	6,752	16,654	-	16,654
Interest Earnings	17	-	17	15	-	15
PAYGO Capital	4,000	-	4,000	-	-	-
Other Charges for Services	-	-	-	-	-	-
Unified Fund - Fund Balance	12,522	-	12,522	-	-	-
Fed Aid Apportionment	-	163,098	163,098	-	133,249	133,249
Total Estimated Funds	<u>78,091</u>	<u>629,809</u>	<u>707,900</u>	<u>81,160</u>	<u>605,670</u>	<u>686,830</u>
ESTIMATED USES						
Debt payment - GARVEE Bonds	-	1,108	1,108	-	7,597	7,597
Project Costs (Design/Construction) ¹	-	-	-	41,072	124,575	165,647
Project Management	1,858	17,477	19,335	-	-	-
Design, Site, Construction & Equipment Cost	19,025	138,803	157,828	-	-	-
Non-Participating Cost	13,357	-	13,357	-	-	-
Total Estimated Expenditures	<u>34,240</u>	<u>157,388</u>	<u>191,628</u>	<u>41,072</u>	<u>132,172</u>	<u>173,244</u>
ENDING BALANCE	<u>\$ 43,851</u>	<u>\$ 472,421</u>	<u>\$ 516,272</u>	<u>\$ 40,088</u>	<u>\$ 473,498</u>	<u>\$ 513,586</u>

The accompanying notes are an integral part of these forecast statements.

¹ See Appendix A for estimated Project Costs by Master Project Categories.

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	(\$000s)					
	D.C. Highway Trust Fund FY 2013	Federal Aid FY 2013	Total FY 2013	D.C. Highway Trust Fund FY 2014	Federal Aid FY 2014	Total FY 2014
ESTIMATED FUNDING						
Beginning Balance	\$ 40,088	\$ 473,498	\$ 513,586	\$ 30,783	\$ 296,200	\$ 326,983
Motor Fuel Revenues	23,750	-	23,750	23,500	-	23,500
Rights-of-Way Fee Revenues	12,722	-	12,722	10,972	-	10,972
Interest Earnings	15	-	15	15	-	15
Fed Aid Apportionment	-	140,000	140,000	-	140,000	140,000
Total Estimated Funds	<u>\$ 76,575</u>	<u>\$ 613,498</u>	<u>\$ 690,073</u>	<u>\$ 65,270</u>	<u>\$ 436,200</u>	<u>\$ 501,470</u>
ESTIMATED USES						
Debt payment - GARVEE Bonds	-	9,725	9,725	-	11,669	11,669
Project Costs (Design/Construction)	45,792	307,573	353,365	34,338	200,106	234,444
Total Estimated Expenditures	<u>45,792</u>	<u>317,298</u>	<u>363,090</u>	<u>34,338</u>	<u>211,775</u>	<u>246,113</u>
ENDING BALANCE	<u>\$ 30,783</u>	<u>\$ 296,200</u>	<u>\$ 326,983</u>	<u>\$ 30,932</u>	<u>\$ 224,425</u>	<u>\$ 255,357</u>

The accompanying notes are an integral part of these forecast statements.

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	(\$000s)					
	D.C. Highway Trust Fund FY 2015			D.C. Highway Trust Fund FY 2016		
	Federal Aid FY 2015	Total FY 2015	Federal Aid FY 2016	Total FY 2016		
ESTIMATED FUNDING						
Beginning Balance	\$ 30,932	\$ 224,425	\$ 255,357	\$ 30,294	\$ 174,515	\$ 204,809
Motor Fuel Revenues	23,250	-	23,250	23,000	-	23,000
Rights-of-Way Fee Revenues	9,222	-	9,222	10,472	-	10,472
Interest Earnings	15	-	15	15	-	15
Fed Aid Apportionment	-	140,000	140,000	-	140,000	140,000
Total Estimated Funds	<u>63,419</u>	<u>364,425</u>	<u>427,844</u>	<u>63,781</u>	<u>314,515</u>	<u>378,296</u>
ESTIMATED USES						
Debt payment - GARVEE Bonds	-	11,667	11,667	-	11,667	11,667
Project Costs (Design/Construction)	33,125	178,243	211,368	33,150	163,521	196,671
Total Estimated Expenditures	<u>33,125</u>	<u>189,910</u>	<u>223,035</u>	<u>33,150</u>	<u>175,188</u>	<u>208,338</u>
ENDING BALANCE	<u>\$ 30,294</u>	<u>\$ 174,515</u>	<u>\$ 204,809</u>	<u>\$ 30,631</u>	<u>\$ 139,327</u>	<u>\$ 169,958</u>

The accompanying notes are an integral part of these forecast statements.

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DISTRICT OF COLUMBIA’S HIGHWAY TRUST FUND
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OVERVIEW

This report summarizes the Office of the Inspector General’s (OIG) review of the District of Columbia (District) Highway Trust Fund’s (HTF) 5-year forecast statements of expenditures, conditions, and operations for fiscal years 2012-2016 (HTF forecasts). The objective of our review was to evaluate the underlying assumptions made and methodologies used to develop the HTF forecasts. These HTF forecasts are used to provide a reasonable projection of the District’s ability to meet future local matching requirements under the U.S. Department of Transportation Federal Highway Administration (FHWA) program for capital improvements to the District’s transportation infrastructure. We conducted our examination in accordance with the American Institute of Certified Public Accountants standards and *Government Auditing Standards* for attestation engagements and included such tests as we considered necessary under the circumstances. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

BACKGROUND

D.C. Code § 9-109.02(e) (Supp. 2011) requires the OIG to examine the statements of the HTF’s expected conditions and operations for the next 5 fiscal years to determine the District’s ability to meet future local matching requirements under the FHWA program for capital improvements to the District’s transportation infrastructure.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Government fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities. A fund is a separate accounting classification with a self-balancing set of accounts.

The HTF is a governmental fund used to account for the monies from motor vehicle fuel taxes and other fees that are held in escrow by the District for the District’s share of federal-aid highway projects. The District accounts for the construction of federal-aid highway projects, which are primarily financed by the FHWA grants, in the Capital Projects Fund. The Capital Projects Fund is reimbursed from monies in the HTF to cover the District’s share of the federal-aid highway projects.

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BASIS OF ACCOUNTING

The modified accrual basis of accounting is used to account for the HTF. Under the modified accrual basis of accounting, revenues are recognized when they become both “measurable” and “available.” Measurable means the amount of the transaction can be determined and available means monies are collectible within the current period, or soon thereafter, to be used to pay liabilities of the current period.

MANAGEMENT ASSUMPTIONS

The District Department of Transportation (DDOT) annually prepares a 6-year forecast for the HTF, which is part of the Capital Improvement Plan of the District. The first 5 years of this forecast are included in our examination. The current forecast reflects management’s judgment regarding the expected conditions, operations, and course of action for the HTF as of March 13, 2012. The assumptions disclosed herein are those that management believes are significant to the HTF’s forecast. There will usually be differences between the forecasted and actual results because events and circumstances frequently change due to the nature of the activities covered by the HTF (e.g., major design and construction), and those differences may be material.

The HTF forecasts are based on the following assumptions:

- The “D.C. Highway Trust Fund” columns represent estimated local motor fuel tax revenue, rights-of-way supplemental funding, and interest earnings.
- The “Federal Aid” columns represent estimated federal aid commitment balances and projection of matching grants for known highway projects, anticipated discretionary funding, stimulus funds (American Recovery and Reinvestment Act of 2009), and borrowed funding for the 11th Street Bridge project.
- The fiscal year (FY) 2011 amounts are based on actual amounts included in the HTF’s audited financial statements prepared by the OIG and issued February 1, 2012. The amounts include the beginning HTF balances for the local share and unobligated federal aid. The local share amount equals the audited fund balance as of September 30, 2010, (beginning October 1, 2010, balance), plus the FY 2011 collections and receivables as of September 30, 2011, less the FY 2011 payments and audited outstanding liabilities (payables and accruals) as of September 30, 2011. The federal-aid amount includes current year appropriations less the federal share of FHWA financed projects in progress or completed, but not closed.

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Revenues:

- Motor fuel tax revenues are provided by the Office of Revenue Analysis and certified by the Chief Financial Officer of the District of Columbia.
- Interest earnings are estimated using a 0.05 percent annual interest rate on the rolling monthly average HTF balance. Management used zero interest when the monthly rolling balance reported a cumulative negative interest earned for the year.
- Rights-of-Way Revenues – supplemental revenue source sufficient to ensure the District's local match of federal-aid highway projects. Local funding is not to exceed 22 percent of proposed annual federal-aid highway project expenditures.

Expenditures:

The estimated uses for project management, design, site, construction, equipment, and non-participating costs are based on the actual estimated completion date for the phase of each federal-aid highway project. The project management, design, site, construction, and equipment costs that are eligible for matching federal aid are allocated based on the federal and local share of each individual project. The non-participating costs are those costs that are not eligible for federal-aid match and include overhead construction engineering costs; utility and sewer repair; construction enhancements not covered by FHWA; disallowed costs reimbursable to the FHWA; and advance construction projects, which can later be converted to federally funded projects when funding is available.

Proposed legislation for FY 2013 will require that non-participating costs no longer be paid from the Highway Trust Fund (Fund 0320). Monies from the Local Transportation Fund and Enterprise Fund for Transportation Initiatives (e.g., Rights-of-Way fees) shall be used to pay for non-participating costs that are associated with federally funded capital projects. The budget for non-participating costs shall be provided through a separate Master Project (external to the Highway Trust Fund 0320) and shall be allocated to all non-participating costs associated with Highway Trust Fund projects as needed.

American Recovery and Reinvestment Act of 2009 (ARRA) - In March 2009, DDOT was apportioned \$123.5 million of highway infrastructure investment funds (stimulus money) pursuant to the ARRA. Projects funded with stimulus money are financed completely with federal money and require no local match.

Bond Servicing Costs - Future federal-aid apportionments will service bonds issued through the Grant Anticipation Revenue Vehicles (GARVEE) program and partially finance the 11th Street Bridge project. Local funding for the 11th Street Bridge project will come from

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general obligation bond proceeds and parking tax revenues dedicated to the project in prior years. The local estimated funding and uses for the 11th Street Bridge project are not part of the HTF forecasts.

Proposed legislation for FY 2012 will require budgeting for the HTF at the new Master Project level. Under this proposed legislation, DDOT will no longer separate planned expenditures for design, construction, direct labor, and non-participating costs in the forecast. The forecast will show planned expenditures as a yearly lump sum amount for “project cost.” The various Master Project categories are:

- Maintenance;
- Major Rehabilitation, Reconstruction, Replacement, or New Construction;
- Operations, Safety, and System Efficiency;
- Economic Development;
- Planning, Management, and Compliance;
- South Capitol Corridor;
- Streetcars;
- Travel Demand Management;
- Transit Operations and Dedicated Facilities (FY 2013 to FY 2018 currently show no budget for this Master Project); and
- 11th Street Bridge.

Funds will be allocated down to the “sub-project” level (also known as “related project” level) once approved by FHWA, where actual expenditures will be captured for design, construction, direct labor, and non-participating costs. Beginning FY 2013, non-participating costs will no longer be a part of the HTF expenditures; instead, they will be paid out of other local funding sources as previously discussed. Once the budget is moved to a sub-project, the budget authority within the umbrella Master Project will be reduced accordingly.

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NOTES TO FORECAST STATEMENTS

ESTIMATED FUNDING

Beginning Balance – The beginning balance for FY 2011 consists of the actual FY 2010 ending HTF balance carried forward for FY 2011. In each subsequent FY, the beginning balance is the ending balance brought forward from the prior FY.

Revenues –Dedicated revenues are from the following funding sources:

- excise tax earned on motor fuel sold in the District;
- interest income; and
- supplemental revenue from rights-of-way public rental fees.

Beginning in FY 2012, the Fiscal Year Supplemental Budget Support Act of FY 2011 (D.C. Law 18-370) limits dedicated funding to the HTF from motor fuel excise tax revenues, interest income, and public rights-of-way (ROW) rental fees (in an amount sufficient to meet the local contribution to match the federal entitlement grant). This legislation provides the ROW revenues necessary to meet the local match of federally aided highway projects, based on 22 percent of projected HTF expenditures. Supplemental funding from the ROW fees was reduced by email notification from the Executive Office of the Mayor. Table 1, below, shows the revenue projection for the HTF from ROW less adjustments.

Table 1 Projected Right-of-Way Revenue				
(1) Determine Local Match Requirement:	FY 2013	FY 2014	FY 2015	FY 2016
Expected Federal Contribution	\$ 140,000	\$ 140,000	\$ 140,000	\$ 140,000
Local Match Requirement (22% of total)	39,487	39,487	39,487	39,487
Total HTF Planned Budget	\$ 179,487	\$ 179,487	\$ 179,487	\$ 179,487
(2) Determine ROW Revenue Transfer to Highway Trust Fund				
Local Match Requirement	\$ 39,487	\$ 39,487	\$ 39,487	\$ 39,487
Less:				
Motor Fuel Tax Revenue	(23,750)	(23,500)	(23,250)	(23,000)
Interest Income	(15)	(15)	(15)	(15)
Reduction to 22% ROW Contributions	(3,000)	(5,000)	(7,000)	(6,000)
Adjusted ROW Revenue Contribution	\$ 12,722	\$ 10,972	\$ 9,222	\$ 10,472
(3) Determine ROW Revenue Transfer to Local Transportation Fund:				
Total ROW Revenue	\$ 44,255	\$ 44,256	\$ 44,257	\$ 44,258
Less: ROW Revenue Contribution	(12,722)	(10,972)	(9,222)	(10,472)
ROW Revenue to Local Transportation Fund	\$ 31,533	\$ 33,284	\$ 35,035	\$ 33,786

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Interest Earnings – Interest earnings consist of the estimated annual earnings, calculated at a rate of 0.05 percent on the beginning balance, plus annual revenues minus expenditures.

Federal-Aid Apportionment - Federal funding is provided to all states and the District through legislation enacted by Congress and administered through the FHWA. Until Congress passes new legislation, DDOT continues to estimate future federal funding at the FY 2009 funding level.

ESTIMATED USES

DDOT no longer separates the expenditures in project phases: Design, Site, Construction, and Equipment; Project Management; and Non-participating Costs; instead, the forecast expenditures will be shown as a yearly, lump sum amount. The expenditures are classified in the following categories, and are listed in detail in Attachment A:

- Maintenance;
- Major Rehabilitation, Reconstruction, Replacement, or New Construction;
- Operations, Safety, and System Efficiency;
- Economic Development;
- Planning, Management, and Compliance;
- South Capitol Corridor;
- Streetcars;
- Travel Demand Management;
- Transit Operations and Dedicated Facilities (FY 2013 to FY 2018 currently show no budget for this Master Project); and
- 11th Street Bridge.

ENDING BALANCE

The ending balance each year is determined by adding the amount of forecasted revenues, less the use of funds, to the beginning balance. The ending balance is carried over to the following fiscal year as the beginning balance.

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	(\$000s)					
	Master Project Categories					
	D.C.			D.C.		
	Highway Trust Fund FY 2013	Federal Aid FY 2013	Total FY 2013	Highway Trust Fund FY 2014	Federal Aid FY 2014	Total FY 2014
Expenditure Categories:						
Maintenance	\$ 9,064	\$ 46,841	\$ 55,905	\$ 5,755	\$ 30,261	\$ 36,016
Major Rehabilitation	23,107	111,993	135,100	16,049	73,406	89,455
Operations, Safety, and System Efficiency	6,141	37,719	43,860	6,635	38,960	45,595
Economic Development	54	217	271	-	-	-
Planning, Management, and Compliance	2,854	14,097	16,951	2,556	12,659	15,215
South Capitol Corridor	1,037	5,115	6,152	-	-	-
Streetcars	640	3,160	3,800	2,089	10,311	12,400
Travel Demand Management	2,895	19,392	22,287	1,254	9,922	11,176
Transit Operations and Facilities	-	-	-	-	-	-
11th Street Bridge	-	78,764	78,764	-	36,256	36,256
Total (Design/Construction)	<u>\$ 45,792</u>	<u>\$ 317,298</u>	<u>\$ 363,090</u>	<u>\$ 34,338</u>	<u>\$ 211,775</u>	<u>\$ 246,113</u>

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	(\$000s)					
	Master Project Categories					
	D.C. Highway Trust Fund FY 2015	Federal Aid FY 2015	Total FY 2015	D.C. Highway Trust Fund FY 2016	Federal Aid FY 2016	Total FY 2016
Expenditure Categories:						
Maintenance	\$ 5,859	\$ 30,772	\$ 36,631	\$ 6,013	\$ 28,659	\$ 34,672
Major Rehabilitation	12,038	54,312	66,350	10,417	46,632	57,049
Operations, Safety, and System Efficiency	5,529	32,436	37,965	5,360	31,634	36,994
Economic Development	34	166	200	135	665	800
Planning, Management, and Compliance	3,024	14,801	17,825	2,418	12,036	14,454
South Capitol Corridor	-	-	-	4,213	20,788	25,001
Streetcars	3,370	16,630	-	3,707	18,293	22,000
Travel Demand Management	3,271	15,080	18,351	887	4,814	5,701
Transit Operations and Facilities	-	-	-	-	-	-
11th Street Bridge	-	25,713	25,713	-	11,667	11,667
Total Detailed Expenditures	<u>\$ 33,125</u>	<u>\$ 189,910</u>	<u>\$ 203,035</u>	<u>\$ 33,150</u>	<u>\$ 175,188</u>	<u>\$ 208,338</u>