

**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 2011 - 2015 WITH ACTUAL  
AUDITED FIGURES FOR FISCAL YEAR 2010**



**CHARLES J. WILLOUGHBY  
INSPECTOR GENERAL**

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Inspector General**

Inspector General



May 31, 2011

Terry Bellamy  
Director  
District Department of Transportation  
55 M Street, SE, 7<sup>th</sup> Floor  
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 209  
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.

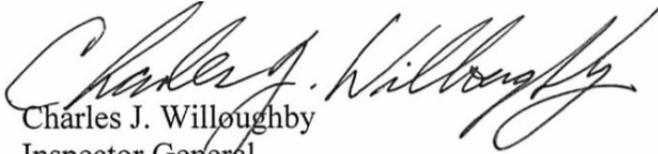
Our examination included a review of existing processes, policies, and controls for the purpose of expressing an opinion on the accompanying forecasted statements. Although we found no instances of noncompliance that would be reportable under generally accepted government auditing standards, the objective 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. 10-1-21KA(a) – Final Report  
May 31, 2011  
Page 2 of 4

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/js

Enclosure

cc: See Distribution List

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**REPORT ON THE EXAMINATION OF THE  
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FORECAST STATEMENTS FOR FISCAL YEARS 2011 – 2015  
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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) 2011 through 2015. 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.

A handwritten signature in black ink that reads "Charles J. Willoughby". The signature is written in a cursive style with a large, sweeping initial "C".

Charles J. Willoughby  
Inspector General

May 31, 2011

**REPORT ON THE EXAMINATION OF THE  
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	(\$000s)					
	D.C.			D.C.		
	Highway Trust Fund FY 2010	Federal Aid FY 2010	Total FY 2010	Highway Trust Fund FY 2011	Federal Aid FY 2011	Total FY 2011
<b>ESTIMATED FUNDING</b>						
Beginning Balance	\$ 6,809	\$ 482,872	\$ 489,681	\$ 4,484	\$ 431,513	\$ 435,997
Motor Fuel Revenues	20,568	-	20,568	23,949		23,949
Parking and Storage Revenues	12,185		12,185	9,348		9,348
Public Space Rental Revenues	3,094		3,094	3,312		3,312
Rights-of-Way Fee Revenues	6,733		6,733	6,721		6,721
Operating Fund Surplus	1,691		1,691			-
Interest Earnings	104		104	20		20
PAYGO Capital	4,842		4,842			
Other Charges for Services	-		-	1,587		1,587
Fed Aid Apportionment	-	160,140	160,140	-	154,499	154,499
<b>Total Estimated Funds</b>	<u>56,026</u>	<u>643,012</u>	<u>699,038</u>	<u>49,421</u>	<u>586,012</u>	<u>635,433</u>
<b>ESTIMATED USES</b>						
Debt payment of GARVEE Bonds	-	-	-		1,108	1,108
Project Management	2,983	25,539	28,522	3,790	29,819	33,609
Design, Site, Construction & Equipment Cost	36,254	185,960	222,214	22,352	155,423	177,775
Non-Participating Cost	12,305	-	12,305	18,904	-	18,904
<b>Total Estimated Expenditures</b>	<u>51,542</u>	<u>211,499</u>	<u>263,041</u>	<u>45,046</u>	<u>186,350</u>	<u>231,396</u>
<b>ENDING BALANCE</b>	<u>\$ 4,484</u>	<u>\$ 431,513</u>	<u>\$ 435,997</u>	<u>\$ 4,375</u>	<u>\$ 399,662</u>	<u>\$ 404,037</u>

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

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	(\$000s)					
	D.C.			D.C.		
	Highway Trust Fund FY 2012	Federal Aid FY 2012	Total FY 2012	Highway Trust Fund FY 2013	Federal Aid FY 2013	Total FY 2013
<b>ESTIMATED FUNDING</b>						
Beginning Balance	\$ 4,375	\$ 399,662	\$ 404,037	\$ 612	\$ 400,739	\$ 401,351
Motor Fuel Revenues	24,189		24,189	24,431		24,431
Rights-of-Way Fee Revenues	13,105		13,105	12,878		12,878
Interest Earnings	15	-	15	1	-	1
Fed Aid Apportionment	-	133,248	133,248	-	133,249	133,249
<b>Total Estimated Funds</b>	<u>\$ 41,684</u>	<u>\$ 532,910</u>	<u>\$ 574,594</u>	<u>\$ 37,922</u>	<u>\$ 533,988</u>	<u>\$ 571,910</u>
<b>ESTIMATED USES</b>						
Debt payment of GARVEE Bonds	-	7,596	7,596	-	7,781	7,781
Project Costs (Design/Construction) <sup>1</sup>	41,072	124,575	165,647	56,499	176,340	232,839
<b>Total Estimated Expenditures</b>	<u>41,072</u>	<u>132,171</u>	<u>173,243</u>	<u>56,499</u>	<u>184,121</u>	<u>240,620</u>
<b>ENDING BALANCE</b>	<u>\$ 612</u>	<u>\$ 400,739</u>	<u>\$ 401,351</u>	<u>\$ (18,577)</u>	<u>\$ 349,867</u>	<u>\$ 331,290</u>

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

<sup>1</sup> See Attachment A for detail of Project Costs by category.

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	(\$000s)					
	D.C.			D.C.		
	Highway Trust Fund FY 2014	Federal Aid FY 2014	Total FY 2014	Highway Trust Fund FY 2015	Federal Aid FY 2015	Total FY 2015
<b>ESTIMATED FUNDING</b>						
Beginning Balance	(18,577)	349,867	331,290	(31,476)	328,456	296,980
Motor Fuel Revenues	24,675		24,675	24,922		24,922
Rights-of-Way Fee Revenues	12,635		12,635	12,388		12,388
Interest Earnings	-	-	-	-	-	-
Fed Aid Apportionment	-	133,249	133,249	-	133,248	133,248
<b>Total Estimated Funds</b>	<u>18,733</u>	<u>483,116</u>	<u>501,849</u>	<u>5,834</u>	<u>461,704</u>	<u>467,538</u>
<b>ESTIMATED USES</b>						
Debt payment of GARVEE Bonds	-	11,669	11,669	-	11,667	11,667
Project Costs (Design/Construction)	<u>50,209</u>	<u>142,991</u>	<u>193,200</u>	<u>56,410</u>	<u>168,417</u>	<u>224,827</u>
<b>Total Estimated Expenditures</b>	<u>50,209</u>	<u>154,660</u>	<u>204,869</u>	<u>56,410</u>	<u>180,084</u>	<u>236,494</u>
<b>ENDING BALANCE</b>	<u>(31,476)</u>	<u>328,456</u>	<u>296,980</u>	<u>(50,576)</u>	<u>281,620</u>	<u>231,044</u>

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

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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 2011-2015 (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) (2008) 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 May 20, 2011. 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 revenue sources 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 11<sup>th</sup> Street Bridge project.
- The FY 2010 amounts are based on actual amounts included in the HTF’s audited financial statements prepared by the OIG and issued February 1, 2011. 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, 2009, (beginning October 1, 2009, balance), plus the fiscal year (FY) 2010 collections and receivables as of September 30, 2010, less the FY 2010 payments and audited outstanding liabilities (payables and accruals) as of September 30, 2010. 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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- Interest earnings are estimated using a 0.20 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.

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 2012 will require budgeting for the HTF at the new Master Project level. Under this proposed legislation, no other details regarding project specific budget – nonparticipating costs, design, construction, direct labor – will be isolated for forecast development. Once the fiscal year is completed, however, expenditure data for the completed fiscal year will be provided detailing how the dollars were allocated to actual subprojects within each Master Project (upon approval by FHWA) and expended – nonparticipating, design, construction, direct labor, etc.

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**NOTES TO FORECAST STATEMENTS****ESTIMATED FUNDING**

Beginning Balance – The beginning balance for FY 2010 consists of the actual FY 2009 ending HTF balance carried forward for FY 2010. 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;
- parking and storing vehicles sales and use tax in excess of \$30 million;
- the incremental increases of public rights-of-way rental fees;
- one sixth of public rental fees on surface and subsurface fuel oil vaults;
- 80 percent of DDOT's Operating Fund surplus from the previous fiscal year. Due to the uncertainty of the operating surplus balance, no revenues were estimated for FYs 2011 – 2014; and
- Other Charges for Services – funds due from DC Water (formerly District of Columbia Water and Sewer Authority) for work performed by DDOT.

Starting in FY 2012, the Fiscal Year Supplemental Budget Support Act of FY 2010 (D.C. Law 18-370) limits dedicated funding to the HTF from motor fuel excise tax revenues and public rights-of-way rental fees (in an amount sufficient to meet the local contribution to match the federal entitlement grant). Additionally, this legislation limits the HTF funds to 22 percent of proposed annual HTF expenditures beginning in FY 2011.

Interest Earnings – Interest earnings consist of the estimated annual earnings, calculated at a rate of 0.20 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. Current legislation, which initially expired in FY 2009, was extended and provides an apportionment to DDOT for FY 2011. The original FY 2011 apportionment was increased by the FHWA in May 2011 from an estimated \$133 million to \$154 million. For FYs 2012 through 2015, DDOT used the original FY 2011 apportionment amount without allocating additional estimates for discretionary spending.

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Additional Federal Funding

- 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.

**ESTIMATED USES**

Project Management Costs – These costs are annual estimated costs for salaries of in-house employees and contracted construction management services.

Estimated Design, Site, Construction, and Equipment Costs – These costs are annual estimated eligible costs on current and proposed new projects.

Non-Participating Costs – These costs are annual estimated costs not eligible for federal-aid funding and include:

- Overhead cost;
- Project enhancements, not eligible for federal grant funding; and
- Reimbursement of federal grant funds for disallowed costs.

Beginning in FY 2012, DDOT no longer separated the expenditures in the phases shown above. Instead, the forecast shows planned expenditures as a yearly, lump sum amount, which are categorized by the following Master Projects:

- Maintenance;
- Major Rehabilitation, Reconstruction, Replacement, or New Construction;
- Operations, Safety, and System Efficiency;
- Planning, Management and Compliance;
- South Capitol Corridor;
- Streetcars;
- Travel Demand Management;
- Transit Operations and Dedicated Facilities; and
- 11<sup>th</sup> 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. Once budget is moved to a sub-project, the budget authority within the umbrella Master Project will be reduced accordingly.

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Bond Servicing Costs - Future federal-aid apportionments will service bonds issued through the Grant Anticipation Revenue Vehicles (GARVEE) program and partially finance the 11<sup>th</sup> Street Bridge project. Local funding for the 11<sup>th</sup> Street Bridge project will come from general obligation bond proceeds and parking tax revenues dedicated to the project in prior years. The local estimated funding and uses for the 11<sup>th</sup> Street Bridge project are not part of the HTF forecasts.

**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.

**FORECASTED DEFICIT**

In FYs 2013 through 2015, deficit spending in the Fund is projected based on the current revenue assumptions and expenditures for approved and proposed projects. Because expenditures cannot exceed appropriations, DDOT continues to work with the City Council to create legislation that would direct additional sources of revenues to the Fund. If new funding sources are not made available, DDOT will modify the spending plan accordingly by postponing the start of projects.

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(\$000s)

**Estimated Project Cost Categories**

	<b>D.C. Highway Trust Fund FY 2012</b>	<b>Federal Aid FY 2012</b>	<b>Total FY 2012</b>	<b>D.C. Highway Trust Fund FY 2013</b>	<b>Federal Aid FY 2013</b>	<b>Total FY 2013</b>
<b>Expenditure Categories:</b>						
Maintenance	7,731	23,194	30,925	6,858	21,717	28,575
Major Rehabilitation	12,976	38,929	51,905	31,528	89,735	121,263
Operations, Safety and System Efficiency	10,451	37,052	47,503	9,451	40,289	49,740
Planning, Management and Compliance	4,573	11,196	15,769	3,474	9,394	12,868
South Capitol Corridor	1,711	4,869	6,580	1,733	5,487	7,220
Streetcars	-	-	-	-	-	-
Travel Demand Management	3,210	8,254	11,464	3,035	8,639	11,674
Transit Oper & Dedicated Facilities 11th Street Bridge	420	8,677	9,097	420	8,860	9,280
<b>Total (Design/Construction)</b>	<b>\$ 41,072</b>	<b>\$ 132,171</b>	<b>\$ 173,243</b>	<b>\$ 56,499</b>	<b>\$ 184,121</b>	<b>\$ 240,620</b>

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(\$000s)

**Estimated Project Cost Categories**

	D.C.			D.C.		
	Highway Trust Fund	Federal Aid	Total	Highway Trust Fund	Federal Aid	Total
	FY 2014	FY 2014	FY 2014	FY 2015	FY 2015	FY 2015
<b>Expenditure Categories:</b>						
Maintenance	\$ 7,219	\$ 21,657	\$ 28,876	\$ 7,130	\$ 22,576	\$ 29,706
Major Rehabilitation	24,572	66,434	91,006	25,556	69,097	94,653
Operations, Safety and System Efficiency	10,449	34,984	45,433	8,745	32,898	41,643
Planning, Management and Compliance	4,662	11,413	16,075	4,949	12,728	17,677
South Capitol Corridor	-	-	-	8,640	27,360	36,000
Streetcars	-	-	-	-	-	-
Travel Demand Management	2,887	7,423	10,310	1,390	3,758	5,148
Transit Oper & Dedicated Facilities	-	-	-	-	-	-
11th Street Bridge	420	12,749	13,169	-	11,667	11,667
<b>Total Detailed Expenditures</b>	<u>\$ 50,209</u>	<u>\$ 154,660</u>	<u>\$ 204,869</u>	<u>\$ 56,410</u>	<u>\$ 180,084</u>	<u>\$ 236,494</u>