BUDGET HEARING

ON

FY 2009 BUDGET REQUEST FOR DEBT SERVICE AND RETIREE BENEFITS

Before the

Committee of the Whole
Council of the District of Columbia
The Honorable Vincent C. Gray, Chairman

April 4, 2008, 2:00 p.m.
Room 412, John A. Wilson Building

Testimony of
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Good afternoon, Chairman Gray and members of the Committee of the Whole. I am Lasana Mack, Deputy Chief Financial Officer and Treasurer in the Office of the Chief Financial Officer, Office of Finance and Treasury. In my testimony today, I will briefly discuss the proposed FY 2009 debt service budgets for short-term and long-term debt, including General Obligation Bonds and Notes, Certificates of Participation, Revenue Bonds, Master Equipment Lease/Purchase Program, and Bond Issuance Costs. In addition, I will briefly address the funding of the District's Other Post Employment Benefits (OPEB).

<u>Short-term Debt Service (ZA0)</u>

The proposed FY 2009 budget for short-term debt service is $0. Language in the Budget Request Act provides for an increase in the amount appropriated in this category in order to pay interest on short-term borrowing to the extent that it is necessary. Funding for such an increase would come from interest earnings, which would necessarily increase if the District does short-term borrowing, based on the additional funds on hand that would result from such borrowing. The increase in interest earnings would be sufficient to cover the interest expense. In each of the past 2 years we have borrowed $300 million. We are exploring the most effective mix of short-term borrowing from the District's Cash Reserves and borrowing from external sources. It would be ideal to avoid short-term borrowing from external sources completely, but we are not currently able to do that, even with maximum permitted use of the Cash Reserves.

Long-term Debt Service (DS0)

The proposed FY 2009 debt service for long-term borrowing in this category totals $459.7 million on total projected long-term debt of approximately $5 billion. This represents an increase of approximately $19 million over the approved FY 2008 approved budget. This increase is attributable to debt service on new debt to be issued in FY 2008 and FY 2009 to finance planned expenditures in the District's capital improvements program.

The proposed FY 2009 debt service budget reflects the borrowing included in the proposed FY 2009 Capital Improvements Plan of $649 million, which includes borrowing for on-going general capital projects and also borrowing to support three major initiatives: Government Centers, Consolidated Laboratory Facility, and East Washington Traffic Initiative.

Certificates of Participation (CP0)

The District's Certificates of Participation (COPs) budget category includes debt service on three series of COPs, one issued in 2002 to refinance the land for the One Judiciary Square facility, one issued in 2003 to finance the DC-Net/Unified Communications Center project and the third issued in 2006 to finance the new St. Elizabeth's Hospital and new DMV facility. The FY 2009 budget request of $32.8 million for this category is approximately $0.5 million higher than the approved FY 2008 level.

Master Equipment Lease/Purchase Program (ELO)

The FY 2009 budget request for debt service associated with the District's Master Equipment Lease/Purchase Program is $51.4 million, which is approximately $4.5 million higher than the approved FY 2008 level. This increase is attributable to an increase in the planned use of this financing program by agencies.

Bond Issuance Costs (ZB0)

The proposed FY 2009 budget for bond issuance costs is $15 million. It should be noted that this budget category has a corresponding revenue component (for which the source is bond proceeds, which is sized to match the amount actually needed), so the level of funding for this budget category produces no net effect on the budget. This $15 million proposed for FY 2009 represents a decrease of $45 million compared to the approved FY 2008 funding level. The FY 2009 decrease is attributable to the fact that the FY 2008 budgeted amount represented a high contingency amount for issuance costs that could occur on certain District "specialty" borrowings that were being contemplated. Borrowing types such as revenue bonds, tax increment financings (TIFs) and payment-in-lieu-of-taxes (PILOT) financings typically have substantially higher issuance costs than our regular general obligation borrowings. In addition, since last year's budgeting there has been some clarification of the accounting treatment of certain bond-funded amounts that led to a reduction in the amounts that are to be considered issuance costs. The combination of these circumstances resulted in the reduction of the budget for this category in FY 2009. Again, the reduction occurs on both the expenditure and revenue sides of the budget, producing no net effect.

School Modernization Fund (SM0)

The proposed FY 2009 budget for the School Modernization Fund is $8.6 million. This represents an increase of approximately $2.2 million compared to the approved FY 2008 funding level. The proposed FY 2009 budget for this agency represents the debt service on the $150 million of borrowing that has occurred pursuant to the legislation that produced this budget category.

Repayment of Revenue Bonds (DT0)

The proposed FY 2009 budget for this agency is $6 million. This budget request represents a decrease of $6 million compared to the approved FY 2008 funding level. This decrease represents the fact that the borrowing authorized in this category (for projects to be financed by revenues allocated to the Housing Production Trust Fund) is expected to occur in increments that will only produce debt service expenditures in FY 2009 for a portion of the amount authorized to be expended in this category.

Other Post-Employment Benefits (OPEB)

The proposed FY 2009 budget contains $81.1 million in funding to address the District's cost of health insurance and other benefits for retirees. The proposed FY 2009 budget for this category represents a decrease of approximately $29.8 million compared to the approved FY 2008 funding level, and a decrease of $23 million from the FY 2009 baseline amount.

This decrease assumes a change to a years-of-service-based level of benefits to be provided by the District. The Budget Support Act contains a provision for the Mayor to make changes to the benefit levels by regulation.

Chairman Gray, this concludes my testimony. I am prepared to address any questions that you or other members of the Committee may have.