February 7, 2002
Council of the District of Columbia
PUBLIC OVERSIGHT HEARING ON DEBT SERVICE, CERTIFICATES OF PARTICIPATION, TOBACCO TRANSFER, AND RESERVES

Testimony of Lasana Mack, Associate Treasurer for the Office of Finance and Treasury, before the Committee of the Whole

Good morning, Chairman Cropp and members of the committee. My name is Lasana Mack, and I am Associate Treasurer in the Office of Finance and Treasury. I am prepared to present testimony and subsequently answer any questions that the committee may have regarding the District's debt service, certificates of participation, tobacco transfer, and reserves for fiscal years 2001 and 2002.

Long-Term Debt Service
The District's FY 2001 debt service expenditures on its outstanding long-term debt totaled approximately $267 million, with approximately $38.4 million of that being for principal and interest on the deficit bonds that were issued in 1991. Total FY 2001 debt service expenditures were approximately $15 million below the original budget, primarily due to (i) borrowing a lower amount than assumed in the budget, and (ii) lower-than-projected interest rates on both the new fixed-rate bonds and the outstanding variable-rate bonds. FY 2001 debt service expenditures were significantly lower than they were in FY 2000 (in which they totaled $354 million), as a result of the District's recent debt reduction efforts, primarily the use of the proceeds of the issuance of Tobacco Bonds by the DC Tobacco Settlement Financing Corporation to pay off outstanding District general obligation bonds.

FY 2002 total long-term debt service is projected to be approximately $287 million, with approximately $39 million of that being debt service on the 1991 deficit bonds. This projected result is in line with the FY 2002 budget.

Certificates of Participation
In FY 2001, principal and interest on the District's Certificates of Participation (COPs), issued to finance the One Judiciary Square facility, totaled $7.9 million, in accordance with the budget for this category. In FY 2002, the budget for this category is $0, due to the fact that at the time of budget preparation it was expected that this debt would be paid off prior to the start of FY 2002 using a portion of the $122 million that had been reserved in the FY 2000 fund balance for early retirement of debt. This provision was subsequently repealed by Congress, and therefore these certificates were not paid off. As a result, there will be principal and interest payable in FY 2002 on the COPs in the amount of $7.9 million. This amount needs to be reprogrammed from the "Repayment of Loans and Interest" category, and sufficient funds are available to do this. At some point during FY 2002, the OCFO plans to refund the COPs at lower interest rates, thereby producing debt service savings currently estimated at approximately $750,000 per year from FY 2003 through the maturity of the COPs in FY 2013.

Tobacco Transfer
As you are aware, in FY 2001 the District of Columbia Tobacco Settlement Financing Corporation (the "Corporation") was established, and it issued $521 million of revenue bonds backed by future tobacco settlement payments to the District from tobacco manufacturers. The FY 2001 budget included $61.4 million as an expenditure line item for Tobacco Trust Transfer. This was the estimated amount of debt service savings on general obligation bonds resulting from the use of the proceeds of the issuance of Tobacco Bonds by the Corporation to defease (pay off) approximately $482 million of District general obligation bonds. Such debt service savings (the estimated $61.4 million) was to be transferred to the District's Tobacco Trust Fund; however, Congress subsequently required that such debt service savings be instead transferred to the District's Emergency and Contingency Reserve Funds, until those reserve funds are filled to their required levels. As a result of this requirement, there was no amount budgeted for Tobacco Trust Transfer in FY 2002.

Short-Term Debt Service
In FY 2001, the District did not do any short-term borrowing, and therefore there were no expenditures for interest on short-term debt. This marked the first time in recent history that the District was able to have

sufficient cash flow for operations throughout the entire fiscal year without the need for short-term borrowing. The budget for interest on short-term borrowing in FY 2001 was $1.1 million. The budget for interest on short-term borrowing in FY 2002 is $500,000, a relatively small amount, which serves as a contingency in the event that a short-term borrowing need arises. It is not anticipated that the District will need to borrow short-term in FY 2002; however, particularly in light of the events of September 11 and the related effects on the District's economy, the OCFO thinks that it is prudent to make provisions for the District to have the ability to borrow on short notice in the event that the need arises. A vehicle by which this can be accomplished is a bank line of credit, which the OCFO intends to establish.

Reserve Funds

In FY 2001, the District deposited a total of $102 million into the Emergency Reserve Fund. Of this amount, $33 million was transferred pursuant to the requirement to transfer 1% of local general fund expenditures per year, and $69 million was transferred pursuant to the requirement that the annual debt service savings on general obligation bonds resulting from the tobacco securitization be transferred into the reserve funds until they are filled to their required level. $3 million was transferred from the Emergency Reserve Fund during FY 2001 to help cover emergency expenses associated with the flooding in the District. This amount will be replenished in FY 2002 as the law requires.

By the end of FY 2002, both the Emergency and Contingency Reserve Funds will be filled to their required levels, totaling 7% of local general fund expenditures, or approximately $248 million. This will result from the various congressional requirements to transfer funds into these Reserves, including the provision in the FY 2002 Appropriations Act requiring the $122 million that was previously reserved for debt reduction to be deposited into the Reserve Funds.

Chairman Cropp, members of the committee, this concludes my testimony. I am prepared to answer any questions that you may have.