February 20, 2001
Council Chamber
PUBLIC OVERSIGHT HEARING ON THE PERFORMANCE OF THE OFFICE OF BUDGET AND PLANNING DURING FISCAL YEARS 2000 AND 2001

Testimony of Anthony Calhoun, Treasurer for the District of Columbia, before the DC Council Committee of the Whole

Good afternoon, Chairman Cropp and members of the Committee. Thank you for the opportunity to appear before you today to present testimony on the District's debt service. In recent years, the District has made great progress in restructuring and reducing our debt obligations. I look forward to working with the Mayor and the Council as we assess our debt strategy with the goal of maximizing our resources. In my testimony today, I will briefly discuss the FY 2000 and 2001 debt service, the tobacco securitization, and a brief assessment of the impact of the reserve funds.

Debt Service – FY 2000 and FY 2001
The District's FY 2000 debt service expenditures on its outstanding long-term debt totaled approximately $354 million, with approximately $38.3 million for principal and interest on the deficit bonds issued in 1991. Total FY 2000 debt service expenditures were approximately $10 million below budget, primarily due to borrowing at the end of the fiscal year. Capital spending levels did not dictate the need to borrow earlier. In FY 2001, the District's debt service expenditures will be significantly lower as a result of recent debt reduction efforts. These efforts include the securitization of tobacco settlement revenues and the FY 2000 requirement to use funds from the fund balance to retire debt.

FY 2001 long-term debt service is projected to be $272 million, which includes approximately $39 million for debt service on the 1991 deficit bonds. This projected debt service is approximately $10 million below the approved budget, due to smaller than anticipated borrowings in FY 2000 and planned in FY 2001. These reduced borrowings are a reflection of (1) capital project spending below budgeted levels, and (2) the Office of the Chief Financial Officer's (OCFO's) efforts to borrow based on actual and imminent capital spending needs, rather than borrowing the full amount authorized.

In FY 2000, approximately $35 million in outstanding District debt was retired using funds from the FY 1999 operating surplus, in accordance with the FY 2000 Appropriations Act. In addition, the FY 2000 Appropriations Act required the District to pay down debt by an amount equal to at least 50 percent of funds in excess of the 4 percent fund balance requirement. According to the CAFR, we will retire approximately $123 million in debt later this year. The debt service savings associated with this debt payment will be incorporated into the FY 2002 Budget and Financial Plan.

Restatement of Debt Service
The restatements of prior-year results in the FY 2000 CAFR included a restatement of the $35 million debt reduction that occurred in FY 2000 in accordance with the FY 2000 Appropriations Act. The funds for this debt reduction were to be paid from the District's fund balance as of the end of FY 1999. However, this debt payment was booked as a FY 1999 expenditure during the closing process. Thus, the restatement was necessary to reflect the $35 million debt reduction as a FY 2000 expenditure. This restatement had no effect on the fund balance as of Sept. 30, 2000.

Short-term Debt
In FY 2000, the District's expenditures on short-term debt totaled approximately $3 million, based on a short-term borrowing of $70 million. For FY 2001, it appears that a short-term borrowing may not be necessary to meet our cash needs. We will continue to evaluate the financial impact of special cash needs such as the transition of the Public Benefits Corporation. As timelines and other information become available, we will need to re-assess our cash needs. In the event that a short-term borrowing is later deemed necessary, such borrowing would be within the limits of the District's approved FY 2001 debt service budget.

The District's legal debt limitation, as stipulated by the Home Rule Act, is that the maximum amount of debt service payable in any fiscal year cannot exceed 17 percent of the projected local source revenues in the current year or the year of issuance. The District is currently well within its legal debt limitation, at approximately 10 percent. The debt reduction efforts mentioned above will further reduce the District's current 10 percent debt ratio, leaving the District with ample additional debt capacity. I will now briefly discuss the status of the Certificates of Participation (COPs), the tobacco securitization, and deposits into the reserve funds.

Certificates of Participation – FY 2000 and FY 2001
The District's COP, issued to finance the One Judiciary Square facility, totaled $7.9 million in FY 2000 for principal and interest. In FY 2001, the principal and interest is budgeted at the same level. However, the OCFO is planning to retire these obligations in FY 2001, using funds from the FY 2000 surplus in accordance with the congressional debt reduction requirement.

Tobacco Transfer
At this time, I would like to take a moment to briefly describe the tobacco securitization transaction. This transaction involves the issuance of tobacco settlement revenue bonds by the District's Tobacco Settlement Financing Corporation, supported solely by tobacco settlement revenues to be received by the District over the next 30 years. The proceeds from this bond issuance will be used to eliminate approximately $435 million of outstanding District debt, producing debt service savings of approximately $700 million over the next 14 years (averaging approximately $50 million in savings each year).

The approved FY 2001 Budget and Financial Plan includes an expenditure line item of $61.4 million for Tobacco Trust Transfer. These funds represent the FY 2001 debt service savings that will result from the tobacco securitization. The actual amount of FY 2001 savings is now expected to be approximately $68 million. Pursuant to the FY 2001 Appropriations Act, all debt service savings resulting from the securitization must be transferred to the District's Emergency Reserve Fund. Debt service savings in future years are also to be transferred to the required Reserve Funds until the reserve is fully funded.

The Emergency Reserve Fund was established earlier this fiscal year, as a separate account, with the deposit of $33 million. This deposit represents one percent of the total local expenditures for FY 2001. In addition, the $68 million in debt service savings will be deposited into this account by the end of the third quarter. This deposit will bring the Emergency Reserve Fund balance to approximately $101 million, or 3 percent of total local expenditures.

In conclusion, I look forward to working with this Committee as we improve our debt strategy and financial position. At this time, I am prepared to answer any questions you may have.