

**PUBLIC ROUNDTABLE  
ON  
UNIFIED COMMUNICATIONS CENTER RESOLUTION**

**Before the  
Subcommittee on Human Rights, Asian/P.I., Latino Affairs  
and Property Management  
Council of the District of Columbia**

**The Honorable Jim Graham, Chairman**

**July 7, 2003; 10:00 a.m.  
John A. Wilson Building**



**Testimony of  
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**Natwar M. Gandhi  
Chief Financial Officer  
Government of the District of Columbia**

Good morning, Chairman Graham and members of the subcommittee. I am Anthony Calhoun, treasurer and deputy chief financial officer for finance and treasury in the Office of the Chief Financial Officer. Thank you for the opportunity to appear before you today to present testimony in connection with the proposed “Unified Communications Center Lease Agreement Approval Resolution of 2003” (the “Resolution”). Appearing with me is Craig Small, associate treasurer, who is here to assist me in answering any questions you may have at the conclusion of my remarks. In my testimony today, I will briefly address the nature of the proposed borrowing, its amount and timing, and its impact on the District’s budget.

### **Certificates of Participation**

The Resolution authorizes the District to enter into a lease agreement for the District’s proposed Unified Communications Center (“UCC”). The lease agreement underlies, and is integral to, the District’s issuance of Series 2003 Certificates of Participation, or “COPs,” to finance the construction of the UCC and the District’s associated high-speed telecommunications network, DC-NET.

Governments frequently use COPs to finance essential projects involving buildings or equipment. The cities of Baltimore and Richmond, among others, have issued COPs to pay for public safety improvements, and the District financed One Judiciary Square with COPs.

COPs are similar to bonds, in that they involve borrowing funds through the issuance of securities in the capital markets, and repaying the funds with annual

principal and interest payments. Under the COPs financing structure, a trustee bank issues the securities on behalf of the District, and the District makes annual lease payments to cover the principal and interest payments that the trustee is required to make. The District gains unencumbered ownership of the assets being financed once it repays the borrowing. I have attached to my written testimony a chart that shows the flow of funds for the proposed COPs financing.

I want to emphasize that the lease agreement is simply a mechanism to facilitate the proposed financing. It permits the financing to be characterized as an appropriation-backed borrowing rather than as a general obligation of the District. The lease agreement incorporates standard public finance provisions relating to such matters as the term of the lease, events of default, and tax status, amongst others. The lease agreement has been thoroughly reviewed by the bond rating agencies, bond insurers, financial advisors, and Corporation Counsel. The transaction has been rated and a commitment for “AAA” bond insurance has been obtained.

### **Benefits of Certificates of Participation**

The proposed COPs financing offers several benefits over a traditional general obligation bond issue:

- 1) It avoids putting additional pressure on the District’s statutory general obligation debt limit and other debt ratios, which the District and the bond rating agencies monitor on an ongoing basis;
- 2) It preserves the District’s general obligation debt capacity for other capital projects that may not be as well-suited for the COPs structure; and
- 3) It gives the UCC and DC-NET projects heightened visibility within the District’s capital improvement program to attract additional federal funding.

**Borrowing Amount and Timing**

We are proposing to issue approximately \$73 million of COPs later this month. The COPs would be repaid, with interest, over 20 years using level annual lease payments. Issuing the COPs at this time allows the project construction to continue uninterrupted, and lets the District benefit from the historically low interest rates now available in the marketplace.

**Impact on the District's Budget**

The proposed COPs borrowing would have no impact on the District's FY 2003 or FY 2004 budgets. There would be no lease payments required in FY 2003, and the FY 2004 lease payments would be capitalized in the financing, as is common with construction projects. The out-year lease payments were considered as part of the recently completed Proposed FY 2004 Budget and Financial Plan. They would be covered until FY 2007 by offsetting revenues and savings associated with the UCC and DC-NET projects and, as such, the Financial Plan accommodates this proposed financing.

Mr. Chairman, this concludes my testimony. We are prepared to answer any questions you or the subcommittee may have.

# Funds Flow for Certificates of Participation (“COPs”)

