PUBLIC ROUNDTABLE

ON

PR 21-942,"The Fiscal Year 2017 Income Tax Secured Revenue Bond and General Obligation Bond Issuance Approval Resolution of 2016"

Before the
Committee on Finance and Revenue
Council of the District of Columbia

The Honorable Jack Evans, Chairman

October 17, 2016
10:00 a.m.
John A. Wilson Building
Room 412

Testimony of
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Good morning, Chairman Evans and members of the Committee on Finance and Revenue. I am Jeffrey Barnette, Deputy Chief Financial Officer and Treasurer for the Government of the District of Columbia. I direct the Office of Finance and Treasury in the Office of the Chief Financial Officer ("OCFO"). Thank you for the opportunity to present testimony regarding PR 21-942 the "Fiscal Year 2017 Income Tax Secured Revenue Bond and General Obligation Bond Issuance Approval Resolution of 2016." I am joined by David Clark, Director of the Capital Improvements Program in the Office of Budget and Planning within the OCFO.

The proposed resolution would approve financing up to $1.15 billion of various capital projects. The capital projects are associated with numerous agencies and functions of the District government, including school modernization, transportation, parks and recreation, public safety, public works and information technology infrastructure. The capital projects to be financed pursuant to this proposed resolution have been previously approved by the Council as a part of the District's capital budget process associated with the Fiscal Year 2017 Budget and Financial Plan or prior-year budgets.

As indicated in the resolution title, the proposed resolution authorizes the issuance of either or both General Obligation and Income Tax Secured Revenue Bonds to provide flexibility to finance the identified capital projects. We have added language in this resolution to identify other financing components that will improve the District's overall debt management program and, hopefully, reduce overall borrowing costs.

The two additions involve Bond Anticipation Notes and taxable debt, both of which have long been authorized by the Home Rule Act. As part of the OCFO's strategic plan, we are constantly analyzing the overall debt management program. In today's rapidly changing financial marketplace, part of our ongoing analysis is focused on how, when and in what form we should issue long-term or other bonds or notes during a fiscal year and which credit should be used to the District's advantage. Thus, we are planning to introduce the use of Bond Anticipation Notes, in the form of what is commonly referred to as Commercial Paper. This credit will be used to provide short-term financing for the capital program. The benefit of this program is a lower cost of borrowing and more efficient use of our cash. Commercial Paper will reduce the amount of debt (on which we pay interest) outstanding at one time and, in particular, the amount of debt outstanding waiting to be spent on capital projects.

The second feature that has been added is the authority to issue up to $50 million in taxable debt. So why should the District issue taxable debt? Federal law mandates that tax-exempt debt be used only for governmental projects. There are also severe restrictions on the District's ability to use tax-exempt financed projects for private uses. At the same time, the District is seeking to broaden the use of, and potential financial contributions from, private parties in existing and future projects. If financed with tax-exempt debt, certain proposed District projects may not meet the "private use" IRS standards or may lose the tax-exempt status at some point during the life of the project. By issuing taxable debt, the District is able to adhere to federal tax law requirements and avoid future IRS audit concerns that could jeopardize a tax-exempt deal. Use of taxable debt is a preemptive measure that protects both the District and investors of District tax-exempt bonds while giving the District flexibility with regard to future public/private partnerships.

Unless we see a dramatic change in the markets, we anticipate using the General Obligation tax-exempt credit for the upcoming issuance. The size of the transaction will be approximately $450 million. We anticipate issuing Commercial Paper after the new calendar year. We do not plan to issue taxable bonds in the upcoming December transaction, but they will likely be part of future transactions. As we have stated in the past, we will continue to look at the market conditions prior to each issuance and will use the credit that is the best option at that time.

As a reminder, the General Obligation credit is rated Aa1 at Moody's and AA at S&P and Fitch. The Income Tax Secured Bonds credit is rated AAA at S&P, AA+ at Fitch and Aa1 at Moody's. These ratings and our increased borrowing flexibility are a reflection of the sound financial health of the District and represent the existence of quality financial management by the District. Further evidence of the District's strengthening financial position is the fact that we do not plan to issue Tax Revenue Anticipation Notes (TRANs) this fiscal year.

Mr. Chairman, members of the committee, this concludes my testimony. Mr. Clark and I are prepared to address any questions that you may have.