Government of the District of Columbia
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer

November 22, 2005

The Honorable Anthony A. Williams
Mayor of the District of Columbia
1350 Pennsylvania Avenue, NW – 6th Floor
Washington, DC 20004

Honorable Linda W. Cropp
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, NW
Suite 504
Washington, DC 20004

Dear Mayor Williams and Chairman Cropp:

The purpose of this letter is to advise the Council regarding the District's debt burden and its borrowing constraints. This subject matter is critical to the District's on-going financial health, and one that the Office of the Chief Financial Officer (OCFO) continually monitors and seeks to effectively manage. A letter addressing this same topic was sent to you on May 4, 2005, and this letter serves as an update to that letter with the inclusion of some additional information and recommendations regarding this subject matter.

Executive Summary

Out of concern for the District's financial health and future, the OCFO recommends that the District implement a management cap on its debt. This recommendation takes into consideration that the District has the highest debt-per-capita in the nation, and also has a high debt-to-full (property) value ratio in comparison with industry norms. These are two commonly used ratios for assessing a jurisdiction's debt burden. The recommended debt cap is based on another debt ratio that is commonly used by rating agencies and financial advisors to assess a jurisdiction's debt burden: debt service-to-total expenditures. This ratio is particularly important because it not only provides a statistical measure of a jurisdiction's debt burden, but also directly reflects debt affordability and the extent to which a jurisdiction is consuming, and limiting flexibility associated with, current and future operating budget resources.

It is crucial that the District continues the progress it has made in recent years to strengthen its financial health and improve its bond ratings, and avoid jeopardizing such hard-earned gains.

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Based on an assessment of the District's debt burden in relation to industry standards and in the context of its broader financial characteristics, it is recommended that the District implement a cap of 10 percent on its debt service-to-total expenditures ratio. The District's ratio is approximately 9.2 percent currently and is projected to increase to approximately 11.8 percent by 2009. A debt service-to-total expenditures ratio above 10 percent has been traditionally viewed by many analysts in the industry as a "red flag" indicating movement into the high range. Thus, the District's policymakers must be judicious about additional borrowing and set priorities among projects that are currently planned or contemplated to be financed via borrowing.

Background

General Obligation Bonds

The District finances a majority of its capital projects via the issuance of long-term general obligation bonds, as do many other municipal jurisdictions. The term general obligation bonds (G.O. bonds) indicates that they are obligations payable from any available "general" revenues of the government, and that they are backed by the "full faith and credit" of the District. The debt service (principal and interest) payments on the bonds are a part of the District's annual General Fund operating budgets. The District currently has approximately $3.6 billion of G.O. bonds outstanding, and the annual debt service on those bonds is currently at approximately $343 million (FY 2005).

Revenue Bonds

The other major category of bonds that jurisdictions issue are called revenue bonds, meaning that the debt service on them is payable from defined, limited revenue stream(s). Such bonds are not payable from all available District revenues, but only the particular revenue stream(s) identified, and are not backed by the full faith and credit of the District. Examples of District revenue bonds are a) bonds issued by the DC Water and Sewer Authority (WASA), payable from the fees that citizens pay to WASA for water and sewer services; b) bonds issued by the Washington Convention Center Authority (WCCA) to build the new convention center, payable from certain District tax revenues assigned to WCCA and pledged to pay debt service on the WCCA bonds; and c) bonds issued by the District to finance pre-development costs associated with the construction of the MCI Center, payable from the "Arena Fee" (gross receipts tax) levied on District businesses (the Arena bonds have been fully repaid).

Although revenue bonds are not general debt of the District like G.O. bonds, they are governmental debt, and must be considered in any assessment of the District's debt burden and its associated ramifications. More specifically, any debt that is payable from District tax revenues or General Fund revenues, whether G.O. bonds or revenue bonds, is considered by the credit rating agencies as a part of the District's "tax-supported debt", which is their primary measurement in assessing a jurisdiction's debt burden.

In the revenue bond examples cited above, both WCCA and MCI Center-related bonds are considered tax-supported debt and are included in the rating agencies' assessment of the District's debt burden. The WASA bonds are not considered tax-supported District debt, as this represents debt that is payable from non-tax fees that are outside of the District's General Fund and are charged and collected by an independent instrumentality for services provided that are directly related to the uses of the funds raised by the bond issuance.

An important point to be made here is that if one were to seek to create a WASA-type bond structure by carving out and segmenting revenues that are currently General Fund revenues, it would have the effect of increasing the District's general obligation debt burden by decreasing the base of General Fund revenues available to support its general obligation bonds.

The rating agencies make certain additional distinctions regarding types of debt, such as "direct" debt, debt that is payable directly from general government revenues, and non-direct or "overlapping" debt, debt that is typically issued for projects that fall outside of central government operations and is typically payable from revenue streams outside of the general fund. If overlapping debt is issued for a revenue-generating project or governmental entity and such debt is able to be repaid solely from such revenues, this debt may be considered "self-supporting" debt by the rating agencies and regarded more favorably in the debt burden analysis than direct debt and non-self-supporting debt. (Rating agencies typically remove self-supporting debt from their assessment of net tax-supported debt.)

Analysis

Bond Ratings and Debt Burden

Rating agencies assign credit ratings to the District's bonds, which directly reflect the agencies' views on the risk of non-payment of debt service by the District to bondholders. More broadly, however, the rating agencies' ratings reflect their assessment of the overall financial condition or financial health of an entity. Bond ratings are a key determinant of the interest rates that an entity must pay to borrow funds, and therefore such ratings have direct financial implications in addition to the broader implications regarding the status and direction of an entity's financial health and well-being. In determining the ratings assigned to an entity's bonds, the rating agencies assess a number of debt ratios that measure the level of its debt burden as part of assessing its overall financial condition.

High Levels of Debt and Planned Borrowing

The following chart depicts the District's current and projected future status with respect to three key debt ratios in relation to the 2002 median of other large cities' ratios as documented by Moody's Investors Service, one of the three major rating agencies. Some of the projected debt amounts shown below are defined and some of them are tentative. Specifically, the amounts indicated below for a new general hospital and for a convention center hotel and convention center expansion are conservative, given that potentially viable alternatives have been proposed

to finance at least a portion of these projects via non-District-debt sources. However, fiscal prudence led us to assume the worst case scenario (i.e., all District debt) for these planned projects for which the financing source(s) are not concretely determined. Given that, the projected future ratios assume that the District issues debt for the following:

- the current Capital Improvements Plan (CIP) for general governmental capital projects (approximately $300 million annually);
- schools modernization (approximately $150 million);
- a new mental hospital (approximately $200 million);
- a new baseball stadium ($535 million);
- Dept. of Transportation projects (approximately $143 million, supported by parking tax revenues);
- Housing Production Trust Fund (HPTF) financing (approximately $150 million, supported by dedicated HPTF revenues);
- the Mayor's Government Centers project (approximately $200 million);
- a new general hospital (approximately $200 million, representing roughly half of the total cost, in partnership with Howard University, if other proposed sources are not available);
- various Tax Increment Financing (TIF) projects (totaling approximately $150 million)
- a Convention Center headquarters hotel and convention center expansion (approximately $650 million).

Details of the incremental changes to each ratio are attached.

Effect of Projected Additional Debt on Debt Ratios - as of November 2005

		Projected Overall Tax-Supported Debt at End of FY				
	Moody's 2002 Median	**2005**	**2006**	**2007**	**2008**	**2009**
Debt to Estimated Full Value	**4.4%**	**6.5%**	**7.9%**	**9.8%**	**9.8%**	**9.7%**
Debt Per Capita	**$1,992**	**$7,663**	**$9,354**	**$11,642**	**$11,708**	**$11,642**
DS to Adjusted General Fund Expenditures	**11.5%**	**9.2%**	**9.3%**	**10.6%**	**11.8%**	**11.9%**

Analysis of Debt Ratios

As the ratios in the chart indicate, the District's current and projected ratios for two of the three key measures are quite high in relation to the Moody's median. In debt per capita, the District is the highest in the nation, far higher than most other jurisdictions, with overall tax-supported debt per capita at $7,663. (Some of this is due to the District having financed state-like capital projects over the years.) In terms of overall debt to estimated full (property) value, despite the escalation in District property values in recent years, this ratio is still high at approximately 6.5 percent and is projected to grow to approximately 9.8 percent by 2007, assuming the additional debt indicated above. In terms of the overall debt service-to-total expenditures ratio (with expenditure projections adjusted to account for debt service expenditures on the projected additional debt), the District is at approximately 9.2 percent currently and is projected to increase to approximately 11.8 percent by 2009. By this particular ratio, the District is currently not in the excessive range; our current level is below Moody's Median of 11.5 percent, and the projection of 11.9 percent by 2009 is only marginally higher than the Moody's Median. However, a debt service-to-total expenditures ratio above 10 percent has been traditionally viewed by many analysts in the industry as a "red flag" indicating movement into the high range.

In addressing debt policies that some jurisdictions put in place to contain their debt burden, Fitch Ratings, another of the three major rating agencies, states that "typical policies limit direct debt to 2-5 percent of full market value and/or $2,000-$3,000 per capita [and] debt service to 8-12 percent of budgeted expenditures...." While these policy limits refer to direct debt and not all tax-supported debt, and comparable policy limits were not cited for tax-supported debt, Fitch also states that "a comprehensive policy will include all types of tax-supported debt." [source: Fitch Ratings, "To Bond or Not to Bond: Debt Affordability Guidelines and Their Impact on Credit", June 2005] Both Moody's and Standard & Poor's (the other of the three major rating agencies) also state that they analyze all tax-supported in assessing a jurisdiction's debt burden, and they both indicate that a debt service-to-total expenditures ratio above 15 percent is considered high. [sources: Moody's Investors Service, "Moody's Approach to Analyzing Municipal Long-term Debt", February 2004; and Standard & Poor's, "Standard & Poor's Public Finance Criteria 2005"] Based on this research along with direct communication with the rating agencies and advice from the District's financial advisors regarding the District's debt burden, the OCFO recommends the implementation of a management cap on its debt (in addition to the District's existing legal debt cap), utilizing the debt service-to-total expenditures ratio as the determinant. This ratio is particularly important because it not only provides a statistical measure of a jurisdiction's debt burden, but also directly reflects debt affordability and the extent to which a jurisdiction is consuming, and limiting flexibility associated with, current and future operating budget resources. Specifics associated with this recommendation are provided in the Conclusion section of this letter.

The ratios and projections shown above are a source of serious concern to the OCFO, and have been considered in determining recommended CIP borrowing levels and constraints to the Mayor and the Budget Review Team over the past few years. These concerns are not new. The OCFO understands the substantial District infrastructure needs, particularly with regard to DC Public

Schools, and has sought to balance the infrastructure needs with the borrowing constraints in arriving at our recommended borrowing levels. We have discussed these issues at length with our financial advisors and with the ratings agencies, and have expressed our commitment to doing everything in our power to manage the District's debt burden in a responsible manner. We have championed the case of "structural imbalance", and have indicated that a key component of the structural imbalance is the inability to sufficiently fund the District's vast infrastructure needs, including schools. We are hopeful that Congresswoman Norton's current bill will result in Federal funding to address some of these needs, and recent discussions with Congress have centered on this bill producing capital dollars specifically earmarked for District schools.

"Mandatory Expenditures," including Debt Service, are Consuming Increasing Portion of Operating Budget

An additional, related concern that should be noted is the trend of "mandatory expenditures," with debt service as chief among them, becoming an increasing percentage of the District's budgeted expenditures. This obviously has the effect of reducing the Mayor's and the Council's discretion regarding future budgeting flexibility and the ability to fund various governmental functions and programs. The attached chart shows that these expenditures were at a low point of 12.8 percent in 2001, are currently at 15.5 percent, and are projected to increase to 18.2 percent by 2009. These numbers provide another incentive to carefully manage the amount of additional debt incurred by the District, in order to avoid unduly constraining policymakers' future budgeting options.

Recommendation

Implement a Management Cap on Debt

As indicated in the Executive Summary, in consideration of all of the above, the OCFO recommends that the District implement a firm management cap on its debt, using the debt service-to-total expenditures ratio on tax-supported debt as the determinant. We recommend that this cap be 10 percent. This represents what the OCFO believes is a prudent debt level to maintain its solid financial status, allow for continued financial progress, and avoid jeopardizing its current bond ratings. To be clear, even with a 10 percent cap, the District's debt burden would still be considered relatively high, and it would be ideal to have lower debt levels. However, given the District's current capital needs and constraints, we view the recommended cap level to be prudent and viable. Given that the District's debt burden is already considered quite high by all debt measures other than this particular ratio, and given that the District's financial foundation is constrained by a limited tax base and having to perform city, county and state functions without the desired level of resources or support, we believe that this is the one debt measure that the District needs to keep in the "good" range. As such, it is our position that the recommended cap represents a debt level above which the District would begin to risk compromising and jeopardizing its financial health, future and bond ratings. Declines in the District's bond ratings would not only represent regression in terms of the District's financial

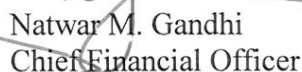
viability as judged by the financial marketplace, but would also mean that its future financings would be at higher interest rates, costing the District additional debt service dollars in its annual operating budgets. The District has a statutory legal debt limitation on its general obligation debt, but not for its overall tax-supported debt. Moreover, the general obligation debt limit, which states that maximum annual debt service cannot exceed 17 percent of total current-year revenues, provides a relatively liberal debt cap that does not impose the level of fiscal prudence necessary to maintain the District's financial health.

In order to keep its debt within the recommended cap level, the District will have to make some tough choices among the projects identified above that are currently contemplated for debt financing. The OCFO stands ready as a resource to assist policymakers in determining what combination of projects would allow the District to stay within the recommended cap. Attached are charts showing the projected incremental impact of each additional projected debt issuance on each of the three debt ratios indicated above.

All three of the rating agencies (Moody's, Standard & Poor's, and Fitch) have indicated that they consider the District's debt burden to be relatively high. In fact, in its very recent assessment of the District's financial condition during the process of rating a new District general obligation bond issuance, Fitch indicated that the District's high current and projected debt levels were a significant factor in their deciding not to further upgrade the District's rating at this time. Despite this fact, and through the significant efforts and vigilance of the Mayor and the Council, the District has steadily improved its financial condition and obtained a series of credit rating upgrades from the rating agencies over the past several years. The District's financial recovery since the mid-1990s and its elevation from below investment-grade (or "junk bond") status to its current "A" credit rating was hard-earned, and the District must continue to be vigilant in maintaining financial policies and practices that protect those hard-earned gains and keep the District progressing towards increased long-term financial health. The OCFO believes that the recommendations provided in this letter are consistent with staying on that course.

If you have any questions regarding this matter, please do not hesitate to contact me.

Sincerely,



Natwar M. Gandhi
Chief Financial Officer

Enclosures

DISTRIBUTION LIST

The Honorable Carol Schwartz (At-Large)
The Honorable Councilmember Kwame Brown (At-Large)
The Honorable David Catania (At-Large)
The Honorable Phil Mendelson (At-Large)
The Honorable Jim Graham (Ward 1)
The Honorable Jack Evans (Ward 2)
The Honorable Kathleen Patterson (Ward 3)
The Honorable Adrian Fenty (Ward 4)
The Honorable Vincent Orange (Ward 5)
The Honorable Sharon Ambrose (Ward 6)
The Honorable Vincent Gray (Ward 7)
The Honorable Marion Barry (Ward 8)
Robert Bobb, Deputy Mayor and City Administrator
Alfreda Davis, Chief of Staff to the Mayor

DISTRICT OF COLUMBIA
Effect of Projected Debt on Debt Ratios*
Ratio: Debt Per Capita

		FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Existing Debt:						
Currently outstanding GO debt		$6,368	$6,011	$5,643	$5,259	$4,862
Currently outstanding other debt		$1,296	$1,248	$1,199	$895	$850
Overall currently outstanding debt		$7,663	$7,259	$6,842	$6,154	$5,712
Projected Debt:						
Capital Improvements Plan (current) (incl. $150mm for Schools Modernization)	*incremental increase in ratio*		$595	$1,368	$1,853	$2,243
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*8.2%*	*20.0%*	*30.1%*	*39.3%*
St. Elizabeth's Mental Hospital ($200 million)	*incremental increase in ratio*		$349	$347	$339	$329
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*4.8%*	*5.1%*	*5.5%*	*5.8%*
National Capital Medical Center (NCMC) ($200 million--worst case scenario)	*incremental increase in ratio*		$0	$347	$339	$330
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*0.0%*	*5.1%*	*5.5%*	*5.8%*
Baseball Stadium ($535 million)	*incremental increase in ratio*		$933	$918	$901	$885
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*12.9%*	*13.4%*	*14.6%*	*15.5%*
DDOT Projects ($143 million)	*incremental increase in ratio*		$0	$87	$171	$241
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*0.0%*	*1.3%*	*2.8%*	*4.2%*
Housing Production Trust Fund ($150 million)	*incremental increase in ratio*		$87	$172	$254	$248
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*1.2%*	*2.5%*	*4.1%*	*4.3%*
Government Centers ($200 million)	*incremental increase in ratio*		$0	$174	$342	$334
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*0.0%*	*2.5%*	*5.6%*	*5.8%*
Convention Center Hotel and Expansion ($650 million--worst case scenario)	*incremental increase in ratio*		$0	$1,129	$1,103	$1,076
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*0.0%*	*16.5%*	*17.9%*	*18.8%*
Tax Increment Financing (TIF) ($150 million)	*incremental increase in ratio*		$131	$258	$252	$245
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*1.8%*	*3.8%*	*4.1%*	*4.3%*
Total Projected Debt	*incremental increase in ratio*		$2,096	$4,800	$5,554	$5,930
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*28.9%*	*70.2%*	*90.3%*	*103.8%*
Projected Ratio Totals with All Existing and Projected Debt		$7,663	$9,354	$11,642	$11,708	$11,642

** Projections on current and projected debt include the effect of the scheduled amortization, i.e., paydowns, of the debt over time*

DISTRICT OF COLUMBIA
Effect of Projected Debt on Debt Ratios*
Ratio: Debt To Estimated Full (property) Value

		FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Existing Debt:						
Currently outstanding GO debt		5.4%	5.1%	4.7%	4.4%	4.0%
Currently outstanding other debt		1.1%	1.1%	1.0%	0.7%	0.7%
Overall currently outstanding debt		6.5%	6.1%	5.8%	5.1%	4.8%
Projected Debt:						
Capital Improvements Plan (current) (including $150mm for Schools Modernization)	*incremental increase in ratio*		0.5%	1.2%	1.6%	1.9%
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*8.2%*	*20.0%*	*30.1%*	*39.3%*
St. Elizabeth's Mental Hospital ($200 million)	*incremental increase in ratio*		0.3%	0.3%	0.3%	0.3%
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*4.9%*	*5.1%*	*5.6%*	*5.8%*
National Capital Medical Center (NCMC) ($200 million--worst case scenario)	*incremental increase in ratio*		0.0%	0.3%	0.3%	0.3%
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*0.0%*	*5.1%*	*5.6%*	*5.8%*
Baseball Stadium ($535 million)	*incremental increase in ratio*		0.8%	0.8%	0.8%	0.7%
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*12.9%*	*13.4%*	*14.6%*	*15.5%*
DDOT Projects ($143 million)	*incremental increase in ratio*		0.0%	0.1%	0.1%	0.2%
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*0.0%*	*1.3%*	*2.8%*	*4.2%*
Housing Production Trust Fund ($150 million)	*incremental increase in ratio*		0.1%	0.1%	0.2%	0.2%
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*1.2%*	*2.5%*	*4.1%*	*4.3%*
Government Centers ($200 million)	*incremental increase in ratio*		0.0%	0.1%	0.3%	0.3%
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*0.0%*	*2.5%*	*5.6%*	*5.8%*
Convention Center Hotel and Expansion ($650 million--worst case scenario)	*incremental increase in ratio*		0.0%	0.9%	0.9%	0.9%
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*0.0%*	*16.5%*	*17.9%*	*18.8%*
Tax Increment Financing (TIF) ($150 million)	*incremental increase in ratio*		0.1%	0.2%	0.2%	0.2%
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*1.8%*	*3.8%*	*4.1%*	*4.3%*
Total Projected Debt	*incremental increase in ratio*		1.8%	4.0%	4.7%	4.9%
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*28.9%*	*70.3%*	*90.4%*	*103.9%*
Projected Ratio Totals with All Existing and Projected Debt		6.5%	7.9%	9.8%	9.8%	9.7%

** Projections on current and projected debt include the effect of the scheduled amortization, i.e., paydowns, of the debt over time*

DISTRICT OF COLUMBIA
Effect of Projected Debt on Debt Ratios*
Ratio: Debt Service To Adjusted General Fund Expenditures

		FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Existing Debt:						
Currently outstanding GO debt		7.8%	7.5%	7.0%	6.6%	6.3%
Currently outstanding other debt		1.4%	1.3%	1.2%	1.1%	1.1%
Total currently outstanding debt		9.2%	8.7%	8.2%	7.7%	7.4%
Projected Debt:						
Capital Improvements Plan (current) (incl. $150mm for Schools Modernization)	*incremental increase in ratio*		0.2%	0.7%	1.2%	1.6%
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*2.0%*	*8.6%*	*15.9%*	*21.3%*
St. Elizabeth's Mental Hospital ($200 million)	*incremental increase in ratio*		0.0%	0.2%	0.3%	0.3%
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*0.0%*	*2.6%*	*3.6%*	*3.6%*
National Capital Medical Center (NCMC) ($200 million--worst case scenario)	*incremental increase in ratio*		0.0%	0.1%	0.3%	0.3%
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*0.0%*	*1.3%*	*3.5%*	*3.6%*
Baseball Stadium ($535 million)	*incremental increase in ratio*		0.3%	0.7%	0.7%	0.6%
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*3.5%*	*8.5%*	*8.5%*	*8.6%*
DDOT Projects ($143 million)	*incremental increase in ratio*		0.0%	0.0%	0.1%	0.2%
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*0.0%*	*0.3%*	*1.3%*	*2.2%*
Housing Production Trust Fund ($150 million)	*incremental increase in ratio*		0.0%	0.1%	0.2%	0.2%
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*0.3%*	*1.2%*	*2.2%*	*2.8%*
Government Centers ($200 million)	*incremental increase in ratio*		0.0%	0.1%	0.2%	0.3%
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*0.0%*	*0.7%*	*2.4%*	*3.6%*
Convention Center Hotel and Expansion ($650 million--worst case scenario)	*incremental increase in ratio*		0.0%	0.4%	0.9%	0.9%
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*0.0%*	*4.6%*	*12.1%*	*12.1%*
Tax Increment Financing (TIF) ($150 million)	*incremental increase in ratio*		0.0%	0.2%	0.2%	0.2%
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*0.5%*	*1.9%*	*2.8%*	*2.8%*
Total Projected Debt	*incremental increase in ratio*		0.6%	2.4%	4.0%	4.5%
	% of incremental increase in ratio from current debt level (incl. scheduled debt paydowns)		*6.3%*	*29.8%*	*52.3%*	*60.5%*
Projected Ratio Totals with All Existing and Projected Debt		9.2%	9.3%	10.6%	11.8%	11.9%

** Projections on current and projected debt include the effect of the scheduled amortization, i.e., paydowns, of the debt over time*

Mandatory Expenditures as a Percent of Total ($ in 000's)

	Actual *FY 1998*	Actual *FY 1999*	Actual *FY 2000*	Actual *FY 2001*	Actual *FY 2002*	Actual *FY 2003*	Actual *FY 2004*	Budgeted *FY 2005*	Budgeted *FY 2006*	Forecast *FY 2007*	Forecast *FY 2008*	Forecast *FY 2009*
Repayment of Loans and Interest	347,358	363,194	315,656	228,364	233,251	250,649	303,397	347,700	370,778	401,707	422,839	444,075
Certificates of Participation	7,926	7,929	7,929	7,929	7,924	2,280	4,752	11,252	11,000	13,000	15,000	15,000
Police and Fire Retirement System	47,700	35,100	39,900	49,000	74,600	68,900	96,700	112,100	117,500	139,565	137,049	146,203
Teacher's Retirement System	8,900	18,600	10,700	200	0	0	0	9,200	15,500	19,200	23,735	28,603
Other Post-Employment Benefits	0	0	0	0	0	0	0	0	0	0	81,000	86,200
WMATA Subsidy	126,746	131,604	135,531	163,073	148,493	154,531	159,122	164,153	187,632	197,014	206,864	217,208
Subtotal, Mandatory	*538,630*	*556,427*	*509,716*	*448,565*	*464,268*	*476,360*	*563,971*	*644,405*	*702,410*	*770,485*	*886,488*	*937,288*
Rest of District	2,229,119	2,320,423	2,624,143	3,064,304	3,045,208	3,194,666	3,266,029	3,521,081	3,848,178	3,905,436	4,058,858	4,202,414
Total	2,767,748	2,876,850	3,133,859	3,512,869	3,509,476	3,671,026	3,830,000	4,165,486	4,550,588	4,675,921	4,945,346	5,139,702
Percent Mandatory	19.5%	19.3%	16.3%	12.8%	13.2%	13.0%	14.7%	15.5%	15.4%	16.5%	17.9%	18.2%

FY 2006 total excludes financing transfers
FY 2008/2009 totals include Other Post-Employment Benefits