PUBLIC OVERSIGHT HEARING

ON

OFFICE OF BUDGET AND PLANNING, DEBT SERVICE, RETIREE HEALTH CONTRIBUTIONS, OTHER LINE ITEMS

Before the

Committee of the Whole
Council of the District of Columbia
The Honorable Vincent C. Gray, Chair

March 6, 2007, 3:30 p.m.
Council Chambers, John A. Wilson Building

Testimony of
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Good afternoon Chairman Gray and members of the committee. My name is Lasana K. Mack, and I am the District's Treasurer and Deputy Chief Financial Officer. I am here to present testimony regarding the District's debt service, Certificates of Participation and the Retiree Health Contribution for fiscal years 2006 and 2007.

Long-term Debt Service (DS0)

Total FY 2006 debt service expenditures on the District's long-term general obligation bonds were $370.2 million, approximately $34,000 below the revised budget. The variance is negligible in a budget of this size, and is due to the existence of variable-rate bonds in the District's debt portfolio, the interest rates on which cannot be precisely projected.

The FY 2007 long-term debt service budget is $405.1 million. The FY07 budget was premised on an expected December 2006 G.O. bond issuance; however, this bond issuance is now expected to occur in May 2007, due primarily to a longer-than-expected time period associated with the enactment of a new Bond Act to authorize this issuance. As a result of the later issuance, FY 2007 debt service expenditures will be significantly lower than budgeted, in an amount currently estimated to be approximately $19 million. Again, the projected results in this category cannot be precisely forecasted because of the existence of variable-rate bonds in the District's debt portfolio. In addition, there is the potential for refunding certain outstanding bonds at lower interest rates in conjunction with our upcoming bond issuance that could result in additional savings of up to approximately $6 million.

It should be noted that the District obtained another upgrade in the credit rating on its general obligation bonds in FY 2006, from A to A+ from Standard and Poor's, which represents the highest bond rating the District has ever had. The District's bonds are rated "A2" and "A" by Moody's and Fitch, respectively, and has a "positive outlook" associated with its rating from these two rating agencies. Higher credit ratings translate into lower interest rates on the District's borrowings, which result in a lower amount of District taxpayer dollars being required to pay debt service on the District's bonds.

Certificates of Participation (CP0)

In FY 2006, expenditures on the District's Certificates of Participation (COPs) totaled $10.9 million, reflecting the debt service for the One Judiciary Square and the Unified Communications Center/DC-Net COPs, which was approximately $59,000 below the budget for this category. The One Judiciary Square COPs financing requires a property tax payment because it is technically owned by a trust, and the trust is required to pay property taxes. The tax obligation is passed on to the District, as the lessee, and must be budgeted along with the principal and interest payments on this obligation; however, the net effect of the tax is zero since the recipient of the tax is the District. Having said that, the amount budgeted for the tax payment was higher than the actual payment, resulting in the variance indicated above.

In FY 2007, the budget for COPs is $33.2 million, reflecting the debt service associated with the financing of the One Judiciary Square facility, the Unified Communications Center and DC-Net, and the new St. Elizabeth's Hospital and DMV building. Based on the FY 2006 COPs financing being executed at interest rates more favorable than budgeted, we expect that there will be a surplus of approximately of approximately $1.1 million for this agency in FY 2007.

Short-term Debt Service (ZA0)

In FY 2006, the District borrowed $250 million by issuing Tax Revenue Anticipation Notes (TRANs) to finance its seasonal cash flow needs, which were repaid by September 30 as planned. Debt service expenditures on these notes totaled $6.6 million. There was no variance between the revised budget and actuals.

In FY 2007, the District borrowed $300 million by issuing TRANs, and they are due and expected to be repaid on or before September 30, as planned. There is currently no variance expected for this budget category.

Master Lease Financing (ELO)

Total FY 2006 debt service expenditures associated with the District's Master Equipment Lease/Purchase Program were $26 million, approximately $1.5 million below the revised budget. The variance is attributable to lower than projected capital spending by participating agencies.

The FY 2007 Master Lease debt service budget is $48.6 million. The debt service expenditures are currently projected to be approximately $39.5 million, due to lower than planned capital spending by participating agencies. We project an FY 2007 surplus of approximately $9 million for this agency, resulting from the combined effect of FY 2006 and FY 2007 spending levels below the originally planned levels.

Bond Issuance Costs (ZB0)

Total FY 2006 expenditures for this agency total $9.2 million, approximately $31 million below the budget. This substantial variance results from conservative budgeting in this category to cover all potential costs associated with issuing bonds in the fiscal year, which can vary widely from year to year based on the type and structure of the various planned bond issuances. Conservative budgeting in this category is harmless because it has a corresponding revenue component—bond proceeds, not operating revenues—and to the extent that the expenditure budget is underspent, the revenue budget is also underfunded by that same amount, producing no net effect on the budget.

The FY 2007 Bond Issuance Costs budget is $30 million. OFT does not expect a variance for this agency.

School Modernization Fund (SM0)

In FY 2006, $12.2 million was budgeted for this category; however, no debt was issued and the entire amount was reprogrammed. The debt that is authorized for this purpose is now planned to be issued in FY 2007 and FY 2008.

The FY 2007 debt service budget is $1.6 million. This budget was premised on a December 2006 issuance of these bonds (as a part of our larger general obligation bond issuance); however, the bonds are now expected to be issued in May 2007. Consequently, there will not be debt service expenditures for this category in FY 2007, as they will begin in FY 2008.

Housing Production Trust Fund Financing (DT0)

This agency did not exist in FY 2006. The FY 2007 debt service budget is $6 million. The FY 2007 budget was premised on an issuance early in FY 2007, but due to various issues associated with launching the specific projects to be financed by this issuance, it is now expected to occur later this month. As a result, debt service expenditures will not begin until 2008, so there will be no debt service expenditures in FY 2007 in this budget category.

Retiree Health Contribution (RH0)

In FY 2006, the actual results for this agency were equal to the FY 2006 budget. In FY 2007, there is no expected variance between the budget and the actual expenditure for this agency.

Chairman Gray and members of the committee this concludes my testimony. I am prepared to address any questions that you may have.

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