

**HEARING ON THE
FY 2008 BUDGET REQUEST FOR DEBT SERVICE,
RETIREE BENEFITS AND CASH RESERVES**

**Before the
Committee of the Whole
Council of the District of Columbia**

The Honorable Vincent C. Gray, Chairman

**April 17, 2007, 1:00 p.m.
Council Chambers**



**Testimony of
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Good afternoon, Chairman Gray and members of the Committee of the Whole. I am Lasana Mack, the District's Treasurer and Deputy Chief Financial Officer for Finance and Treasury in the Office of the Chief Financial Officer. In my testimony today, I will briefly discuss the proposed FY 2008 debt service budgets for short-term and long-term debt, including general obligation bonds and notes, certificates of participation, revenue bonds, Master Equipment Lease/Purchase Program, and bond issuance costs. In addition, I will briefly address the funding of the District's Other Post Employment Benefits (OPEB).

Short-term Debt Service (ZA0)

The proposed FY 2008 budget for short-term debt service is \$13.3 million. This represents an increase of \$5.3 million over the approved FY 2007 funding level of \$8 million. The FY 2007 short-term borrowing amount was \$300 million. The FY 2008 budget request assumes short-term borrowing in the amount of \$400 million at a higher interest rate, given the rise in short-term market interest rates. Seasonal short-term borrowing ensures sufficient funding for the District's operating expenditures, given the difference in timing between the receipt of revenues and the disbursement of expenditures within a given fiscal year. The increase in the level of short-term borrowing is a natural consequence of growth in the size of the District's overall budget and the planned spending of portions of the District's accumulated fund balance.

Long-term Debt Service (DS0)

The proposed FY 2008 general obligation debt service budget totals \$443.5 million on total projected long-term debt of approximately \$4 billion. This represents an

increase of approximately \$38.4 million over the approved FY 2007 general obligation bonds debt service budget of \$405.1 million. This increase is primarily attributable to debt service on new debt to be issued in FY 2007 and FY 2008 to finance capital project expenditures.

The proposed FY 2008 debt service budget includes debt service on presumed borrowing of approximately \$674 million in the first quarter of FY 2008 to support the District's Capital Improvements Plan (CIP), which includes three major initiatives (Government Centers, Consolidated Laboratory Facility, and East Washington Traffic Initiative), two of which were approved in prior-year capital plans.

Certificates of Participation (CP0)

The District's certificates of participation (COPs) budget category includes three series of COPs, one issued in 2002 to refinance the land for the One Judiciary Square facility, one issued in 2003 to finance the DC-Net/Unified Communications Center project, and the third issued in 2006 to finance the new St. Elizabeths Hospital and a new Department of Motor Vehicles facility. The FY 2008 budget request of \$32.3 million for this category is approximately \$0.9 million lower than the approved FY 2007 level of \$33.2 million.

Master Equipment Lease/Purchase Program (ELO)

The FY 2008 budget request for debt service associated with the District's Master Equipment Lease/Purchase Program is approximately \$47 million, which is approximately \$1.6 million lower than the approved FY 2007 level of \$48.6 million. This decrease is attributable to a modest decrease in planned use of this financing program by a couple of agencies.

Bond Issuance Costs (ZB0)

The proposed FY 2008 budget for bond issuance costs is \$60 million. It should be noted at the outset that this budget category has a corresponding revenue component (for which the source is bond proceeds, which are sized to match the amount actually needed), so the level of funding for this budget category produces no net effect on the budget. The \$60 million proposed for FY 2008 represents an increase of \$30 million compared to the approved FY 2007 funding level of \$30 million. The FY 2008 increase is attributable to the potential outlays associated with several sizable, unique transactions that are proposed for FY 2008.

School Modernization Fund (SM0)

The proposed FY 2008 budget for the School Modernization Fund is \$6.5 million. This represents an increase of \$4.8 million compared to the approved FY 2007 funding level of \$1.7 million. The proposed FY 2008 budget represents debt service associated with FY 2008 planned borrowing of \$90 million of the approved total of \$150 million, with the initial amount of \$60 million being financed in FY 2007.

Repayment of Revenue Bonds (DT0)

The proposed FY 2008 budget for this agency is \$12 million. This budget request represents an increase of \$6 million compared to the approved FY 2007 budget funding level of \$6 million. This represents the debt service level that the Council has approved for the financing of projects via the issuance of bonds supported by revenues from the District's Housing Production Trust Fund.

Other Post-Employment Benefits (OPEB)

The proposed FY 2008 budget contains \$110.9 million in funding to address the

District's cost of health insurance and other benefits for retirees. This budget category was funded on a pay-as-you-go basis in FY 2007, but, beginning in FY 2008, the Governmental Accounting Standards Board (GASB) requires the District (along with all other jurisdictions) to disclose and address OPEB liabilities on an actuarial basis. The amounts proposed for this line item in the FY 2008 proposed budget and financial plan provide sufficient funding to meet the District's actuarially-determined OPEB liabilities and obligations. The actuarial analysis will be updated periodically, and the required funding amounts will be revised accordingly, if necessary.

This concludes my testimony. I would be pleased to answer any questions you or other members may have.