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

February 12, 2008, 2:30 p.m.
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 and the Retiree Health Contribution for fiscal years 2007 and 2008.

Long-term Debt Service (DS0)

Total FY 2007 debt service expenditures on the District's long-term general obligation bonds totaled $385.4 million, approximately $3.6 million below the revised budget. The variance is attributable to the timing and interest rates associated with the District's FY 2007 bond issuance, and the existence of variable-rate bonds in the District's debt portfolio.

The FY 2008 long-term debt service budget is $440.7 million. It is currently expected that actual expenditures will be approximately $14.6 million lower than budgeted. This variance is primarily attributable to the fact that, due in part to the turmoil in the financial marketplace in recent months, the District decided to issue its FY 2008 general obligation bonds in two parts instead of all at once, delaying the incurrence of debt service expenditures on the second portion. In addition, the bonds were able to be issued at favorable interest rates.

It should be noted that the District obtained additional upgrades in credit ratings on its general obligation bonds in FY 2007, from A2 to A1 and from A to A+ from Moody's Investors Service and Fitch Ratings, respectively, resulting in the highest collective bond ratings that the District has ever had. (The District's rating from Standard and Poor's is also A+.) Higher credit ratings translate into lower interest rates on the District's borrowings, which result in a lower amount of District taxpayer dollars that are required to pay debt service on the District's bonds.

Certificates of Participation (CP0)

In FY 2007, expenditures on the District's Certificates of Participation totaled $30.6 million, reflecting the debt service on borrowings for One Judiciary Square, the Unified Communications Center/DC-Net, and the new St. Elizabeth's Hospital and DMV facility, and which was in accordance with the budget. In FY 2008, the budget for agency CP0 is $32.3 million, and the actual result is expected to be in line with the budget.

Short-term Debt Service (ZA0)

In FY 2007, the District borrowed $300 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 approximately $8.5 million, consistent with the revised budget.

In FY 2008, the District again borrowed $300 million by issuing TRANs, and they are due and expected to be repaid on September 30, as planned. Debt service expenditures on this borrowing will be approximately $8.1 million, which is roughly $3.1 million below the revised budget for this category, based on a lower-than-expected borrowing amount and favorable interest rates.

Master Lease Financing (ELO)

Total FY 2007 debt service expenditures associated with the District's Master Equipment Lease/Purchase Program were $26.5 million, slightly below the revised budget. Variances in this category are attributable to lower than projected capital spending by participating agencies.

The FY 2008 Master Lease debt service budget is approximately $47 million. The debt service expenditures are currently projected to be approximately $35.2 million, producing a projected surplus of approximately $11.8 million for this agency, resulting from the combined effect of FY 2007 and FY 2008 spending levels below the originally planned levels. However, in recent months agency spending has accelerated, becoming more commensurate with spending plans.

<u>Bond Issuance Costs (ZB0)</u>

Total FY 2007 expenditures for this agency were $6.4 million, approximately $23.6 million below the budget. This substantial variance results from 1) 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, and 2) clarification of the accounting treatment of certain items associated with this category, resulting in lower-than-expected charges being posted to this category. Because this category 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, it produces no net effect on the budget.

The FY 2008 Bond Issuance Costs budget is $60 million. For the above-stated reasons, we now expect that the actual expenditures charged to this category will be substantially lower, in the range of $15 to $20 million. Again, this result will have no net effect on the operating budget. We expect a substantially reduced budget request for this category in FY 2009.

School Modernization Fund (SM0)

In FY 2007, $1.7 million was budgeted for this agency; however, debt was not issued until the second half of the fiscal year, producing no debt service expenditures in FY 2007 for this category.

The FY 2008 budget for this category is $6.4 million. The actual expenditures are expected to be approximately $4.7 million, based on these bonds being able to be issued at favorable interest rates.

Housing Production Trust Fund Financing (DT0)

The revised FY 2007 budget debt service budget for this category was $4.75. The borrowing in this category did not occur until the second half of FY 2007, resulting in no debt service expenditures in FY 2007.

The FY 2008 debt service budget is $12 million. Expenditures are expected to be $2.1 million, based on the first New Communities bond issuance that occurred in FY 2007. The budget authority level for this agency is based on the amount that the Council has approved for this financing category, and budget authority that is not expended in this category will remain in the Housing Production Trust Fund for future use.

Retiree Health Contribution (RH0)

In FY 2007, the actual results for this agency were equal to the FY 2007 budget. In FY 2008, 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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