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, 2008, 2:30 p.m.
John A. Wilson Building, Room 412

★ ★ ★

Testimony of
Lasana K. Mack
Treasurer and Deputy Chief Financial Officer
Government of the District of Columbia

Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia

Good afternoon, Chairman Gray and members of the committee. My name is Lasana Mack, 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 2008 and 2009.

Long-term Debt Service (DS0)

Total FY 2008 debt service expenditures on the District's long-term general obligation bonds totaled $420.8 million, approximately $0.7 million below the revised budget. The variance is attributable to the existence of variable-rate bonds in the District's debt portfolio.

The FY 2008 long-term debt service budget is $459.7 million. The current estimate is that actual expenditures will be approximately $12 million lower than budgeted, however this is subject to change based on the actual results of our upcoming borrowing for FY 2009. This variance is primarily attributable to 1) low rates on our variable-rate bonds and 2) the fact that, due to the turmoil in the financial marketplace in recent months, the District delayed its issuance of bonds in FY 2009.

It should be noted that the District's FY 2009 bond issuance to finance expenditures in the Capital Improvements Program will be the District's inaugural issuance of Income Tax Secured Revenue Bonds. These bonds are scheduled to be issued within the next two weeks, and as you aware, Mr. Chairman, these bonds have been rated AAA by Standard and Poor's. This represents a great achievement for the District. The income tax revenue bonds are rated Aa2 and AA by Moody's and Fitch, respectively. These ratings will allow the District achieve lower debt service costs than issuing general obligation bonds, a savings estimated to be $4 million in FY 2010. The District's outstanding general obligation bonds are rated A+ by Standard and Poor's and Fitch, and A1 by Moody's.

Certificates of Participation (CP0)

In FY 2008, expenditures on the District's Certificates of Participation totaled $30.7 million, approximately $1.6 million below budget, 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. In FY 2009, the budget for agency CP0 is $32.8 million, and the actual result is expected to be close to the budgeted amount.

Short-term Debt Service (ZA0)

In FY 2008, 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 $7.8 million, consistent with the revised budget.

In FY 2009, the District borrowed $400 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 $4.8 million, which is roughly $3.3 million below the revised budget for this category, based on very favorable interest rates in the marketplace at the time of issuance.

Master Lease Financing (ELO)

Total FY 2008 debt service expenditures associated with the District's Master Equipment Lease/Purchase Program were $29.9 million, approximately $3 million below the revised budget. Variances in this category are attributable to slower-than-projected capital spending by participating agencies.

The FY 2009 Master Lease debt service budget is approximately $43 million. The debt service expenditures are currently projected to be approximately $37.5 million, producing a projected surplus of approximately $5.5 million for this agency, resulting from capital spending levels below the originally planned levels.

Bond Issuance Costs (ZB0)

Total FY 2008 expenditures for this agency were $16.2 million, approximately $43.8 million below the budget. This large variance results from 1) clarification of the accounting treatment of certain items associated with this category, resulting in lower-than-expected charges being posted to this category, and 2) the budget provided for potentially high bond issuance costs and bond proceeds allocations on two unique revenue bond transactions that were planned for FY08; one of the transactions was delayed and the structure of the other was such that the charges to this budget category were at the low end of the potential range. 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 2009 for this category is $15 million. The actual result is currently expected to be approximately $10 million. Again, this result will have no net effect on the operating budget.

School Modernization Fund (SM0)

In FY 2008, expenditures in this category were $4.7 million, consistent with the revised budget.

The FY 2009 budget for this category is $8.6 million. The actual expenditures are expected to be in line with the budget.

Housing Production Trust Fund Financing (DT0)

The FY 2008 expenditures in this category were 2.5 million, which was $9.5 million below the FY 2008 budget for this category. The variance reflects the fact that the projects for which funds are slated to be borrowed in this category have proceeded at a slower-than-expected pace. However, the funds for debt service in this category a drawn directly from the Housing

Production Trust Fund (HPTF), and the variance will stay in the Fund to be used on future HPTF expenditures.

The FY 2009 debt service budget is $6 million. Expenditures are expected to be $2.2 million, based on additional projects getting underway at a gradual pace. Again, any budget authority that is not expended in this category will remain in the HPTF for future use.

<u>Retiree Health Contribution (RH0)</u>

In FY 2008, the actual results for this agency were equal to the budget of $110.9 million. In FY 2009, the budget for this category is $81.1 million, and 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.

# # #