

**March 26, 2002**

Council of the District of Columbia

PUBLIC HEARING ON THE BUDGET REQUEST FOR DEBT SERVICE AND CERTIFICATES OF PARTICIPATION FOR FISCAL YEAR 2003

**Testimony of N. Anthony Calhoun, Deputy Chief Financial Officer, Office of Finance and Treasury, before the Committee of the Whole**

Good afternoon, Chairman Cropp and members of the Committee of the Whole. I am Anthony Calhoun, Treasurer and Deputy Chief Financial Officer for Finance and Treasury in the Office of the Chief Financial Officer. Thank you for the opportunity to appear before you today to present testimony on the District's debt service. Appearing with me today is Lasana Mack, Associate Treasurer, who is here to assist me in addressing any questions that you may have at the conclusion of my testimony. In my testimony today, I will briefly discuss the proposed FY 2003 debt service budget for both long-term and short-term debt, as well as the District's Certificates of Participation.

**Long-term Debt Service**

The proposed FY 2003 debt service budget totals approximately \$305 million on total long-term debt of approximately \$3.1 billion. This debt service figure includes approximately \$39.3 million for debt service on the deficit bonds issued in 1991. This represents an increase of approximately \$18 million over the approved FY 2002 long-term debt service budget of \$287 million, primarily due to projected debt service on new debt to be issued in FY 2002 to fund capital projects.

The FY 2003 proposed debt service budget assumes that the District will borrow \$325 million toward the end of FY 2002 to support the District's Capital Improvement Plan (CIP).

**Short-term Debt Service**

The proposed FY 2003 budget for short-term debt service is \$1,000,000. For the first time in recent history, the District did not have to borrow short-term in FY 2001 due to its improved cash position, and is also not expected to have to borrow short-term in FY 2002. However, in FY 2003, due primarily to the significant amounts that the District is required to have set-aside in cash reserves, short-term borrowing may be necessary. The amount budgeted for FY 2003 is sufficient to cover short-term borrowing in the amount of \$100 million for four to five months, which is consistent with the projected borrowing need according to our preliminary FY 2003 cash flow projections. According to the projections, a short-term borrowing in the amount of \$100-\$150 million may be necessary for a duration of four to five months. This budgeted amount represents an increase of \$500,000 over the \$500,000 budgeted in FY 2002. Ideally, we would like to be able to make it through FY 2003 without a short-term borrowing. This is possible, and we will make every effort to make it reality; however, based on current projections, it appears likely that a borrowing will be needed.

**Certificates of Participation**

The District's Certificates of Participation (COPs), issued to finance the One Judiciary Square facility, have debt service of \$7.95 million annually through 2013, with a current outstanding principal amount of approximately \$60 million. As you are aware, there was no budget in this category in the approved FY 2002 budget due to the plan to pay them off in FY 2001 in accordance with a congressional requirement. This requirement was subsequently amended to have those funds deposited into the cash reserves as opposed to using them to retire debt, thus the COPs are still outstanding and require debt service payments. As stated in Mr. Molina's testimony today, the debt service requirement for the COPs in FY 2002 is being addressed through the FY 2002 supplemental budget request. We intend to refund the COPs during FY 2002, but given the fluctuations in interest rates, it is uncertain what the amount of debt service savings will be. The current projection is for savings of approximately \$700,000 annually.

Madame Chairman, this concludes my testimony. We are prepared to address any questions that you may have.