

**March 20, 2001**

Council Chamber

PUBLIC HEARING ON THE MAYOR'S FISCAL YEAR 2002 BUDGET REQUEST FOR THE OFFICE OF FINANCE AND TREASURY

## **Testimony of Anthony Calhoun, Deputy Chief Financial Officer for Finance and Treasury, before the DC Council Committee of the Whole**

Good afternoon, Chairman Cropp and members of the Committee of the Whole. I am Anthony Calhoun, Deputy Chief Financial Officer, Office of Finance and Treasury. Thank you for the opportunity to appear before you today to present testimony on the District's debt service. In recent years, the District has made great progress in restructuring and reducing our debt obligations. Overall, per capita debt has been reduced from approximately \$6,100 in FY 1999 to approximately \$4,800 currently. I am pleased to note that all three rating agencies have upgraded the District's bond ratings. I look forward to working with the Mayor and the Council as we continue to improve our debt management with the goal of maximizing our resources. In my testimony today, I will briefly discuss the proposed FY 2002 debt service budget, the results of the tobacco securitization and its impact on the budget, and a brief assessment of the impact of the reserve funds.

### **Long-term Debt Service – FY 2002**

The proposed FY 2002 debt service budget totals approximately \$294 million on total long-term debt of approximately \$3.4 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 \$12 million over the approved FY 2001 long-term debt service budget of \$282 million. This proposed debt service budget includes the debt service savings associated with the use of tobacco securitization proceeds and funds from the District's fund balance to reduce debt in FY 2000 and FY 2001.

The FY 2002 proposed debt service budget assumes that the District will borrow \$689 million in FY 2002 to support the proposed Capital Improvement Plan (CIP). The CIP includes significant amounts for school facilities and technology-related projects. The approved FY 2000 and FY 2001 capital budgets called for borrowing \$302 million and \$492 million, respectively. However, the District borrowed only \$189 million in FY 2000, and will borrow only a projected \$324 million in FY 2001. This reflects the current policy of borrowing in accordance with actual agency capital spending as opposed to borrowing the full amount authorized. Thus, if actual agency spending in FY 2002 does not dictate borrowing the proposed \$689 million, we will borrow less based on the actual capital spending needs. The presumed timing of the FY 2002 borrowing is July 2002.

### **Short-term Debt Service – FY 2002**

The proposed FY 2002 budget for short-term debt service is \$500,000, a relatively small amount. It appears that for the first time in recent history the District will not have to borrow short-term in FY 2001 due to its improved cash position, and the Office of the Chief Financial Officer (OCFO) is optimistic that this will be the case in FY 2002 as well. However, it is possible that a short-term borrowing will be needed in FY 2002 because the significant amount of funds from the District's fund balance being used to fund the Emergency Cash Reserve and to retire outstanding debt may result in less operating cash in FY 2002. Therefore, although the OCFO will make every effort to manage the District's cash in a manner that precludes the need for short-term borrowing, it is prudent to have some amount budgeted in this category in FY 2002 in the event that a short-term cash need materializes. The amount in the proposed FY 2002 budget would support a short-term borrowing of approximately \$50 million for 3 months, which our preliminary FY 2002 cash flow analysis indicates is prudent. There are a number of factors and uncertainties that could affect the District's cash position in FY 2002, including the FY 2001 operating results. Again, the OCFO is optimistic about the District's ability to continue its newly established trend of no short-term borrowing; however, we feel that it is prudent to budget a relatively small amount for debt service on short-term borrowing in FY 2002 in the event that such a borrowing becomes necessary.

### **Certificates of Participation – FY 2002**

The District's Certificates of Participation (COPs), issued to finance the One Judiciary Square facility, have debt service of approximately \$8 million annually through 2013, with an outstanding principal amount of approximately \$66 million. However, the OCFO intends to retire this obligation in full in FY 2001. As you are aware, there is a congressional requirement that an amount of the FY 2000 fund balance be used for debt reduction in FY 2001. As stated in the FY 2000 Comprehensive Annual Financial Report, the amount reserved for such a purpose is approximately \$122 million. A portion of these funds will be used to defease (pay off) the COPs. The Mayor's FY 2002 proposed Budget and Financial Plan includes the \$8 million annual savings associated with paying off the COPs.

### **Tobacco Securitization**

At this time, I would like to take a moment to briefly discuss the tobacco securitization. On March 13, 2001, the District executed its tobacco settlement securitization transaction. The proceeds of the bond sale were used to defease \$490 million of District general obligation bonds, producing debt service savings totaling \$684 million, an average of approximately \$49 million per year, over the course of the next 14 years. In FY 2002, the debt service savings are \$33 million, which is reflected in the FY 2002 proposed budget. However, in accordance with congressional requirements, these debt service savings, along with any residual payments, will be deposited into the District's Emergency and Contingency Cash Reserve funds until such funds have reached their required levels. This combined level, approximately \$267 million, should be reached in FY 2004. After that time, future savings will be available for other purposes.

### **Reserve Funds**

The Emergency and Contingency Reserve Fund requirements call for the District to set aside, in cash, an amount totaling of 7% of its total local expenditures in separate accounts, to be used only under certain stipulated circumstances. The District is required to deposit an amount equal to at least 1% of its total local expenditures each fiscal year, beginning in FY 2001, until the reserve requirements are met. Earlier this fiscal year, the District deposited \$33 million into the Emergency Reserve Fund to meet the FY 2001 requirement. In addition, the FY 2001 Appropriations Act requires that the savings and any "residual" payments associated with the tobacco securitization be deposited into these reserve funds until they are fully funded. Pursuant to this requirement, the District will deposit into the Emergency Reserve fund an additional amount of at least \$69 million, bringing the total to at least \$102 million by the end of FY 2001. In FY 2002, another 1% of total local expenditures, or \$35 million, will be deposited using cash on hand (attributable to fund balance), as well as another \$33 million from debt service savings resulting from tobacco securitization, bringing the total cash reserves to approximately \$170 million by the end of FY 2002.

In conclusion, I look forward to working with this Committee as we continue to improve our debt management and financial position. At this time, I am prepared to answer any questions you may have.