

February 28, 2002

Council of the District of Columbia

**PUBLIC OVERSIGHT HEARING ON THE PERFORMANCE OF THE OFFICE OF THE
CHIEF FINANCIAL OFFICER DURING FISCAL YEARS 2001 AND 2002**

**Testimony of Anthony Calhoun, Deputy Chief Financial Officer, Office of Finance
and Treasury, before the Committee on Finance and Revenue**

Good morning, Chairman Evans and Members of the Committee. My name is Anthony Calhoun, and I am the Treasurer and the Deputy Chief Financial Officer for Finance and Treasury in the Office of the Chief Financial Officer. I thank you for the opportunity to present testimony regarding the operations and performance of my office for fiscal years 2001 and 2002.

The Office of Finance and Treasury (OFT) manages the assets and liabilities of the District government. As such, OFT manages and invests the District's cash balances, handles all disbursement of funds, receives and deposits payments to the District, conducts capital market borrowings, and administers the District's retirement programs.

Over the course of FY 2001 and FY 2002 to-date, as Dr. Gandhi noted, OFT has had several significant accomplishments, and is working toward several others. These accomplishments include working closely with the bond rating agencies to help facilitate an upgrade in the District's bond ratings; successfully managing the issuance of "Tobacco Bonds" by the District's Tobacco Settlement Financing Corporation; issuing general obligation bonds to finance capital projects through a complex transaction that produced historically low interest rates and corresponding debt service savings; contracting with a new service provider for the District's Deferred Compensation Plan and upgrading its features; substantially reducing the number of District bank accounts; implementing a Treasury Workstation system along with other technological improvements; and facilitating a smooth transition of the financial functions of the Financial Authority (control board).

Bond Ratings

In March 2001, the District's credit ratings on its outstanding general obligation bonds were raised to the level of BBB+. While this is an accomplishment that is attributable to the improvement in the finances and operations of the District government as a whole, OFT, as the primary point of contact with the rating agencies, plays a significant role in this process by providing the rating agencies with information on an on-going basis and maintaining good working relationships with them.

Tobacco Securitization

In March 2001, the District completed a complex and innovative "tobacco securitization" transaction, which included the issuance of bonds backed by future tobacco settlement revenues. The proceeds of those bonds were used to defease (payoff) outstanding District general obligation bonds, and the plan is to use the debt service savings from the debt reduction to fund Tobacco Trust Fund program initiatives of the Mayor and the Council. OFT staff managed this transaction on behalf of the Chief Financial Officer, in his role as treasurer of the Tobacco Corporation, and the result was a very successful transaction for the District.

General Obligation Bonds

In December 2001, OFT issued general obligation bonds on behalf of the District to finance capital projects. OFT took advantage of market conditions at the time and utilized an interest-rate swap mechanism, resulting in historically low interest rates (an average rate of 4.4 percent) on these bonds and producing debt service savings estimated at \$37 million over the life of the bonds in comparison to a typical bond issuance. In addition, OFT continues to focus on issuing its bonds based on actual capital spending needs (as opposed to previously planned spending levels), reducing the amount of unspent bond proceeds on hand and thereby reducing debt service expenses.

Deferred Compensation and College Savings Plans

In the first quarter of FY 2002, OFT contracted with a new service provider for the District's 457 Deferred Compensation Plan. Some of the features provided under the new contract are expanded investment options, lower administrative fees, and the use of information technology to provide greater access to account/plan information. OFT also contracted with a consultant to assist in establishing the 529 College Savings Plan, which is expected to be functional prior to the end of FY 2002.

Banking Activities

A reduction in the number of District bank accounts has been a goal of OFT over the past year or so, and I am pleased to report that the number has been reduced from a little over 1,000 accounts this time last year to 480 accounts currently. This has been accomplished in part through the implementation of the use of purchasing cards for certain agencies. Purchasing cards allow agencies (such as DC Public Schools) and sub-entities (such as individual schools) to have funds at their disposal without having to have a bank account. In FY 2001, OFT also implemented a new system for paying summer youth employees through the issuance of bank debit cards rather than checks. All parties involved were pleased with the outcome, including the youth employees.

Unclaimed Property

In FY 2001, OFT continued to increase the amount of unclaimed property returned to its owners through expanded public awareness and community outreach activities. The amount returned increased from \$4.2 million in FY 2000 to \$5.1 million in FY 2001, and we have established a goal for FY 2002 of \$6.5 million.

Technological Improvements

OFT has devoted a considerable amount of effort (including training and data conversion) toward the implementation of the Treasury Workstation system that it procured in FY 2001, and the system will be fully operational during this fiscal year. With the full implementation of the Treasury Workstation in conjunction with SOAR and DBC, our new debt management software, OFT's technological systems will be state-of-the art and will facilitate enhanced efficiency in our day-to-day operations.

Authority Transition

Finally, toward the end of FY 2001, OFT worked closely with Financial Authority staff to facilitate a relatively smooth transition of certain functions of the Authority to the District, such as the transfer of certain funds held by the Authority on behalf of the District and certain bond-related functions like arbitrage rebate analysis.

Budget

In FY 2001, OFT's budget was \$14.7 million, and we expended \$14.4 million. In FY 2002, OFT's budget is \$15.5 million, and, based on current spending levels, we are projected to expend up to that level. Working within its budget, OFT has managed to engineer improvements and enhancements to its operations and achieve the numerous accomplishments previously indicated.

Mr. Chairman, this concludes my testimony. I am prepared to answer any questions that you may have.