

**OFFICE OF BUDGET AND PLANNING  
PERFORMANCE OVERSIGHT HEARING ON  
FISCAL YEAR 2004/2005 BUDGETS**

Before the  
**Committee of the Whole  
Council of the District of Columbia**

**The Honorable Linda W. Cropp, Chairman**

**February 22, 2005, 2:30 PM  
John A. Wilson Building, Rm. 412**



**Testimony of  
N. Anthony Calhoun  
Deputy Chief Financial Officer  
Office of Finance and Treasury**

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

Good morning Chairman Cropp and members of the committee. My name is N. Anthony Calhoun, and I am the District's treasurer and deputy chief financial officer for finance and treasury. I am here to present testimony regarding the District's debt service, certificates of participation, cash reserves, and tax increment financing (TIF) for fiscal years 2004 and 2005. I am accompanied by Lasana Mack, associate treasurer, who will assist me in answering any questions that the committee might have at the conclusion of my testimony.

### **Long-term Debt Service**

Total FY 2004 debt service expenditures on the District's long-term general obligation bonds were \$303.3 million, approximately \$103,000 below the revised budget. The variance is attributable to the variability of the interest rates on the District's variable-rate bonds.

The FY 2005 long-term debt service budget is \$347.7 million. The District will likely experience some level of savings in this budget category in FY 2005. The magnitude of such savings is dependent on market interest rate levels over the course of the remainder of the fiscal year. The District has a significant amount of variable-rate debt outstanding, and the amount of interest that we are required to pay annually on this debt fluctuates according to the levels of market interest rates.

It should be noted that the District received additional upgrades in the credit rating on its outstanding general obligation bonds in FY 2004 and in the first quarter of FY 2005, moving from Baa1 to A2 by Moody's Investors Service and from A- to

A by Standard and Poor's Ratings Services. These upgrades allow the District to obtain lower interest rates on its borrowings than it otherwise would.

### **Certificates of Participation**

In FY 2004, expenditures on the District's Certificates of Participation, issued to finance the land for the One Judiciary Square facility, totaled \$4.75 million, which was approximately \$159,000 below the budget for this category. Because of the type of debt issued to finance this property, it is technically owned by a trust, and the trust is required to pay property taxes. The tax payment is passed on to the District, as the lessee, and must be budgeted along with the principal and interest payments on this obligation; however, the net effect of the tax is zero since the recipient of the tax is the District. Having said that, the amount budgeted for the tax payment was higher than the actual payment, resulting in the variance indicated above.

In FY 2005, the local budget for Certificates of Participation (COPs) is \$11.2 million, reflecting the debt service on the One Judiciary Square obligations and the debt service on another series of COPs issued in 2003 to finance the new Unified Communications Center and DC-Net projects. There may again be some degree of variability in the budget versus actuals due to the associated tax payments; but again, the net effect of such variances is zero.

### **Short-term Debt Service**

In FY 2004, the District borrowed \$250 million by issuing Tax Revenue Anticipation Notes. Debt service expenditures on these notes totaled \$2.57 million, approximately \$334,000 below the revised budget for this category, due to the record low interest rate obtained on these notes, which resulted from market

conditions, the District's improved ratings and the fact that the District was able to issue them without purchasing credit enhancement.

In FY 2005, the District again borrowed \$250 million by issuing Tax Revenue Anticipation Notes. However, market interest rates were significantly higher than the previous year, and debt service expenditures in this category are not expected to be less than the budgeted amount of \$4 million. Depending on cash flows, we may be able to repay the notes early and remain within budget, or we may have to seek a reprogramming from the long-term debt service category of up to \$870,000 to cover the short-term debt service expenditures.

### **Cash Reserves**

In FY 2004, an additional \$31.6 million was deposited into the Cash Reserves to keep them in line with the statutory requirements, bringing the total of the Emergency and Contingency Cash Reserves to \$285.4 million. Toward the end of the fiscal year, the District made a loan from the Contingency Reserve Fund to WASA for lead remediation costs, per an MOU between the District and WASA. This loan was fully repaid, with interest, in November 2004. As you are aware, the required level of the Cash Reserves was reduced in the FY 2005 budget process and is projected to be at \$249.3 million as of the end of FY 2005. (The Office of Budget and Planning stands ready to provide further explanation of the new Cash Reserve requirements, if desired.)

### **Tax Increment Financing**

The Tax Increment Financing (TIF) line item in the FY 2004 budget contains \$1.94 million, which represents the amount that the District was required to budget as a reserve to cover debt service on the Gallery Place and Mandarin Hotel TIF

bonds. This amount was expended in FY 2004 to pay debt service on the Gallery Place TIF bonds, due to the Gallery Place Project becoming fully operational later than planned and, therefore, not generating the projected incremental taxes. There is no budget for the TIF budgeted reserve in FY 2005, because it was determined in the FY 2005 budget process that if additional funds were necessary to meet the TIF debt service requirements, per the conditions associated with the establishment of the TIF budgeted reserve, then such funds would be drawn from the District's fund balance. It is expected that approximately \$4 million will be expended in FY 2005 from this category, from the District's fund balance, for debt service on the Gallery Place TIF bonds.

Chairman Cropp and members of the committee, that concludes my testimony. We are prepared to answer any questions that you may have.

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