

**BUDGET HEARING**  
**FY 2004 BUDGET REQUEST FOR DEBT SERVICE,**  
**CERTIFICATES OF PARTICIPATION, TOBACCO**  
**TRANSFER, AND CASH RESERVES**

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

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

**April 8, 2003, 10:15 a.m.**  
**Council Chambers**



**Testimony of**  
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**Natwar M. Gandhi**  
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Good morning, 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. With me today is Associate Treasurer Lasana Mack, who is here to assist 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 2004 debt service budget for both long-term and short-term debt, as well as the District's certificates of participation. In addition, I will address the tobacco transfer and the cash reserves.

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

The proposed FY 2004 debt service budget totals approximately \$312 million on total long-term debt of approximately \$3.4 billion. This debt service figure does not include any additional debt service on the deficit bonds issued in 1991, as the final payment on these bonds will be made in FY 2003. This represents an increase of approximately \$15 million over the approved FY 2003 long-term debt service budget of \$297 million, primarily due to projected debt service on new debt to be issued later in FY 2003 to fund capital projects.

The FY 2004 proposed debt service budget assumes that the District will borrow approximately \$300 million later in FY 2003 to support the District's on-going Capital Improvement Plan (CIP).

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

The proposed FY 2004 budget for short-term debt service is \$3 million. This represents an increase of \$2 million over the approved FY 2003 funding level. However, at the time of FY 2003 budget preparation, several variables were not known, such as the decline in revenues and the impact of the full funding of the cash reserves. In the first quarter of FY 2003, based on its FY 2003 cash flow needs, the District executed a short-term borrowing in the amount of \$150 million, which has a projected interest cost of approximately \$3 million for FY 2003. Funds from long-term debt service are being reprogrammed to cover the shortfall in the short-term debt service budget. For FY 2004, our preliminary projections indicate that the District will require a short-term borrowing in a similar order of magnitude as in FY 2003, producing a projected interest cost of \$3 million. We could not develop FY 2004 cash flows until the proposed budget was completed, and since then my staff has been working to produce such cash flows. We expect to have them completed and transmitted to the Council by the end of this week.

### **Certificates of Participation**

The District's certificates of participation (COPs), issued to finance the One Judiciary Square facility, were refunded (refinanced) in the first quarter of FY 2003 at lower interest rates, producing net present value debt service savings of approximately \$7 million. These savings are to be realized in FY 2003 and FY 2004. As a result, the debt service budget on these certificates in FY 2004 is \$4.9 million, a reduction of approximately \$3 million from the approved FY 2003 level.

## **Tobacco Transfer**

The FY 2004 Budget and Financial Plan does not include any amounts in FY 2004 to be transferred to the Tobacco Trust Fund, because the debt service savings and “residuals” for FY 2004 are to be used in the budget for the Medicaid reserves and other program expenditures. However, beginning in FY 2005, these funds are included in the Financial Plan to go to the Tobacco Trust Fund and are to be utilized half for program expenditures and half for investments, as originally contemplated. The recent court action against the parent company of tobacco manufacturer Phillip Morris has placed the residuals portion of the tobacco funds, projected at \$5.3 million in FY 2003 and \$4.3 million in FY 2004, in jeopardy. It should become clearer in the coming weeks what the outcome of this court action will mean in terms of the residuals that the District is projected to receive.

However, it should be noted that the bulk of the District’s tobacco funds, representing debt service savings on general obligation bonds that were paid off with proceeds of the tobacco securitization, are not at risk, as the District received the bulk of its benefit upfront and transferred the bulk of the risk of non-payment by tobacco companies to the tobacco bondholders through the securitization transaction.

## **Cash Reserves**

As you are aware, in FY 2002 the District fully funded its Emergency and Contingency Cash Reserve Funds at their required levels, totaling \$248 million, or 7% of the local expenditure budget. This is a significant accomplishment, achieved five years ahead of the congressionally-required time frame. By the end of FY 2003, the total cash reserves will be increased to \$254 million to maintain the 7% level. The existence of these cash reserves is viewed positively by the bond rating agencies, which assess the overall financial health of the District. One

of these agencies (Moody's) has recently given the District a "positive" outlook with regard to its rating. This is quite significant, given that these are challenging economic times in which numerous other jurisdictions have had their ratings downgraded or given a "negative" outlook.

Madame Chairman, this concludes my testimony. We are prepared to address any questions that you or other members of the committee may have.

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