PUBLIC OVERSIGHT HEARING ON

OFFICE OF BUDGET AND PLANNING PERFORMANCE ON FISCAL YEAR 2005 AND 2006 BUDGETS

Before the
Committee of the Whole
Council of the District of Columbia
The Honorable Linda W. Cropp, Chair

March 9, 2006, 10:00 a.m.
John A. Wilson Building
Room 412

Testimony of
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Chief Financial Officer
Government of the District of Columbia

Good morning Chairman Cropp and members of the committee. My name is Lasana K. Mack, and I am the District's Treasurer and Deputy Chief Financial Officer. 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 2005 and 2006.

Long-term Debt Service (DS0)

Total FY 2005 debt service expenditures on the District's long-term general obligation bonds were $342.7 million, approximately $217,000 below the revised budget. The variance is due to the existence of variable-rate bonds in the District's debt portfolio, the interest rates on which cannot be precisely projected.

The FY 2006 long-term debt service budget is $370.7 million. Based on variable-rate projections that are slightly lower than budgeted, the Office of Finance and Treasury (OFT) currently projects a modest year-end surplus (approximately $1.5 million) for this agency in FY 2006.

It should be noted that the District received additional upgrades in the credit rating on its outstanding general obligation bonds in FY 2005 and the first quarter of FY 2006. Between November 2004 and November 2005, Standard and Poor's upgraded the District's general obligation bond rating two notches, from A- to A+; and Fitch Ratings also upgraded their ratings on the District's bonds from A- to A and changed the District's rating outlook from stable to positive. In addition, in November 2005, Moody's Investors Service changed the District's rating outlook on their A2 rating from stable to positive. These upgrades allow the District to obtain lower interest rates on its borrowings than it otherwise would.

Certificates of Participation (CP0)

In FY 2005, the revised local budget for Certificates of Participation (COPs) was $10.95 million, reflecting the debt service for One Judiciary Square and the Unified Communications Center/DC-Net COPs. FY 2005 expenditures on the District's Certificates of Participation totaled $10.9 million, which was approximately $48,000 below the budget for this category. The One Judiciary Square COPs financing required a property tax payment because 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 2006, the local budget for Certificates of Participation (COPs) is $11 million, reflecting the debt service on the One Judiciary Square obligations and the debt service on Unified Communications Center/DC-Net COPs. There may again be some relatively small 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 (ZA0)

In FY 2005, the District borrowed $250 million by issuing Tax Revenue Anticipation Notes (TRANs). Debt service expenditures on these notes totaled $4.66 million. There was no variance between the revised budget and actuals.

In FY 2006, the District again borrowed $250 million by issuing TRANs. However, market interest rates were significantly higher than the previous year, and debt service expenditures in this category are expected to be at least the budgeted amount of $5.5 million, and possibly $1.25 million higher ($6.75 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 $1.25 million to cover short-term debt service expenditures.

Cash Reserves

At of the end of FY 2005, the Emergency and Contingency Cash Reserves totaled $253.4 million. As you are aware, the required level of the Cash Reserves was reduced in the FY 2005 budget process. Therefore, we were not required to deposit additional funds into the Cash Reserves in FY 2005. In FY 2006, the amount of Cash Reserves is expected to remain at approximately that same level.

Tax Increment Financing (TX0)

There was no budget for the TIF budgeted reserve in FY 2005. 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. Approximately $5.5 million was expended in FY 2005 in this budget category, drawn from the District's fund balance, for debt service on the Gallery Place TIF bonds. In FY 2006, we do not anticipate the necessity to draw from the TIF budgeted reserve (or fund balance).

Master Lease Financing (ELO)

Total FY 2005 debt service expenditures associated with the District's Master Lease/Purchase Program were $22 million, approximately $84,000 below the revised budget. The relatively small variance is attributable to the slightly lower-than-budgeted interest rates on the District's Master Lease financings.

The FY 2006 Master Lease debt service budget is $35.4 million, which can be attributed to an increase in agency participation. In FY 2005, seven agencies participated in the Master Lease program, and in FY 2006, that number increased to 12. We do not anticipate a year-end variance for this agency in FY 2006, although there is always going to be at least a slight variance due to the utilization of variable-rate financing.

Bond Issuance Costs (ZB0)

Total FY 2005 debt service expenditures for this agency totaled $4.9 million, approximately $10 million below the budget. The variance is primarily the result of financing and debt service issuance costs that were anticipated to occur in FY 2005 but did not occur. It should be noted that this budget category has a corresponding revenue component (from bond proceeds), so to the extent that the expenditure budget is underspent, the revenue budget is also underfunded by that same amount, producing no net effect on the budget. OFT does not currently project a year-end variance for this agency in FY 2006.

School Modernization Fund (SM0)

This is a new budget category that did not exist in FY 2005. It is the OCFO's understanding that this financing will occur either in late FY 2006 or not until

FY 2007. In either case, no FY 2006 debt service payments will be required, thus a surplus of the entire budget amount of $12.2 million is expected in FY 2006.

Retiree Health Contribution (RH0)

This funding is to occur as planned in FY 2006, and therefore no variance from budget is expected. This budget category did not exist in FY 2005.

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

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