

BUDGET HEARING
**FY 2007 BUDGET REQUEST FOR DEBT SERVICE,
RETIREE BENEFITS AND CASH RESERVES**

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

The Honorable Linda W. Cropp, Chairman

**March 28, 2006, 2:30 p.m.
Council Chambers**



**Testimony of
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Good afternoon, Chairman Cropp and members of the Committee of the Whole. I am Lasana Mack, the District's Treasurer and Deputy Chief Financial Officer for Finance and Treasury. In my testimony today, I will briefly discuss the proposed FY 2007 debt service budgets for short-term and long-term debt, including the District's certificates of participation, revenue bonds, master equipment lease/purchase program, school modernization program, and bond issuance costs. In addition, I will briefly address the status of the District's cash reserves.

Short-term Debt Service (ZA0)

The proposed FY 2007 budget for short-term debt service is \$8 million. This represents an increase of \$2.5 million over the approved FY 2006 funding level of \$5.5 million. The FY 2006 short-term borrowing amount was \$250 million, and the FY 2007 budget request assumes short-term borrowing in the same range, but at a higher interest rate, given the rise in market interest rates. By the end of next week, I expect to provide this committee with detailed cash flow projections based on the proposed FY 2007 budget.

Long-term Debt Service (DS0)

The proposed FY 2007 general obligation debt service budget totals \$408.1 million on total projected long-term debt of approximately \$4 billion. This represents an increase of approximately \$37.4 million over the approved FY 2006 long-term debt service budget of \$370.7 million. This increase is primarily attributable to debt service on new debt issued in FY 2006 and to be issued in FY 2007 to finance capital project expenditures.

The proposed FY 2007 debt service budget includes debt service on presumed borrowing of approximately \$714 million in the first quarter of FY 2007. This amount will support the District's Capital Improvements Plan (CIP), which includes two major initiatives (Government Centers and Great Streets) that were actually approved in the FY 2006 capital plan but will not be financed until FY 2007, and also includes the next installment in the plan to reduce the capital fund deficit.

Certificates of Participation (CP0)

The District's certificates of participation (COP) budget category includes three series of COPs – one issued to finance the land for the One Judiciary Square facility, one issued to finance the DC-Net/Unified Communications Center project, and the third issued to finance the new St. Elizabeth's Hospital and the new DMV facility on M Street. The FY 2007 budget request of \$33.2 million for this category is approximately \$18.2 million higher than the approved FY 2006 level of \$15 million. This increase is attributable to the FY 2006 issuance of COPs for the new St. Elizabeth's Hospital and the DMV facility.

Master Equipment Lease/Purchase Program (ELO)

The FY 2007 budget request for debt service associated with the District's master equipment lease/purchase program is approximately \$48.6 million, which is approximately \$13.1 million higher than the approved FY 2006 level of \$35.5 million. The increase is primarily attributable to new agencies participating in the program, notably the Office of the Chief Technology Officer and D.C. Public Schools, which will ultimately result in a more efficient means of financing for these agencies' assets than the alternatives previously utilized.

Cash Reserves

As the Council is aware, the required funding levels for the District's Emergency and Contingency Cash Reserve Funds were adjusted to a total of 6% of the District's local expenditure budget, as opposed to the previous level of 7%. In accordance with the new requirements, the amounts required as of the end of FY 2006 and FY 2007 are \$253.4 million and \$262.3 million, respectively. These amounts still represent healthy reserve levels, which compare favorably to other jurisdictions and are viewed positively by the bond rating agencies.

Tax Increment Financing (TX0)

There is no budget for the tax increment financing (TIF) budgeted reserve in FY 2007. It was previously agreed 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. At the present time, it is not expected that any funds from the TIF budgeted reserve (or fund balance) will be needed for TIF debt service in FY 2007.

Bond Issuance Costs (ZB0)

The proposed FY 2007 budget for bond issuance costs is \$30 million. This represents a decrease of \$10 million compared to the approved FY 2006 funding level of \$40 million. The FY 2006 budget was higher than the FY 2007 budget request due to the costs associated with the issuance of the ballpark revenue bonds. It should be noted that this budget category has a corresponding revenue component (for which the source is bond proceeds, which is sized to match the amount actually needed), so the level of funding for this budget category produces no net effect on the budget.

School Modernization Fund (SM0)

The proposed FY 2007 budget for the School Modernization Fund is \$1.7 million. This represents a decrease of \$10.5 million compared to the approved FY 2006 funding level of \$12.2 million. The proposed FY 2007 budget represents debt service associated with an FY 2007 borrowing of \$60 million of the approved total of \$150 million, with the remaining \$90 million being financed in FY 2008.

Repayment of Revenue Bonds (DT0)

The proposed FY 2007 budget for this agency is \$6 million. This represents debt service and related costs for revenue bonds, which are associated with the District's borrowings to leverage (or securitize) revenue from the Housing Production Trust Fund. (This budget category did not exist in FY 2006.)

Other Post-Employment Benefits (OPEB)

The proposed FY 2007 budget contains \$4.7 million in funding for this budget category, which represents the amount of funding required to cover the cost of providing for health care (and other) benefits to retirees on a pay-as-you-go basis in FY 2007. As you are aware, this budget category is being funded with \$138 million in FY 2006, to help reduce the District's outstanding long-term liability in this area. GASB requires that the District (along with other jurisdictions) disclose and address these liabilities actuarially beginning in FY 2008. As such, the proposed FY 2007 financial plan includes amounts of \$80-plus million annually from FY 2008 forward that provide full funding/amortization of the District's obligation/liability as calculated on an actuarial basis.

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