



District of Columbia

# **Public Banking Discussion**

## **Department of Insurance Securities and Banking (DISB)**

### **Workshop**

**Jeffrey S. DeWitt**  
**Chief Financial Officer**  
**July 25, 2018**



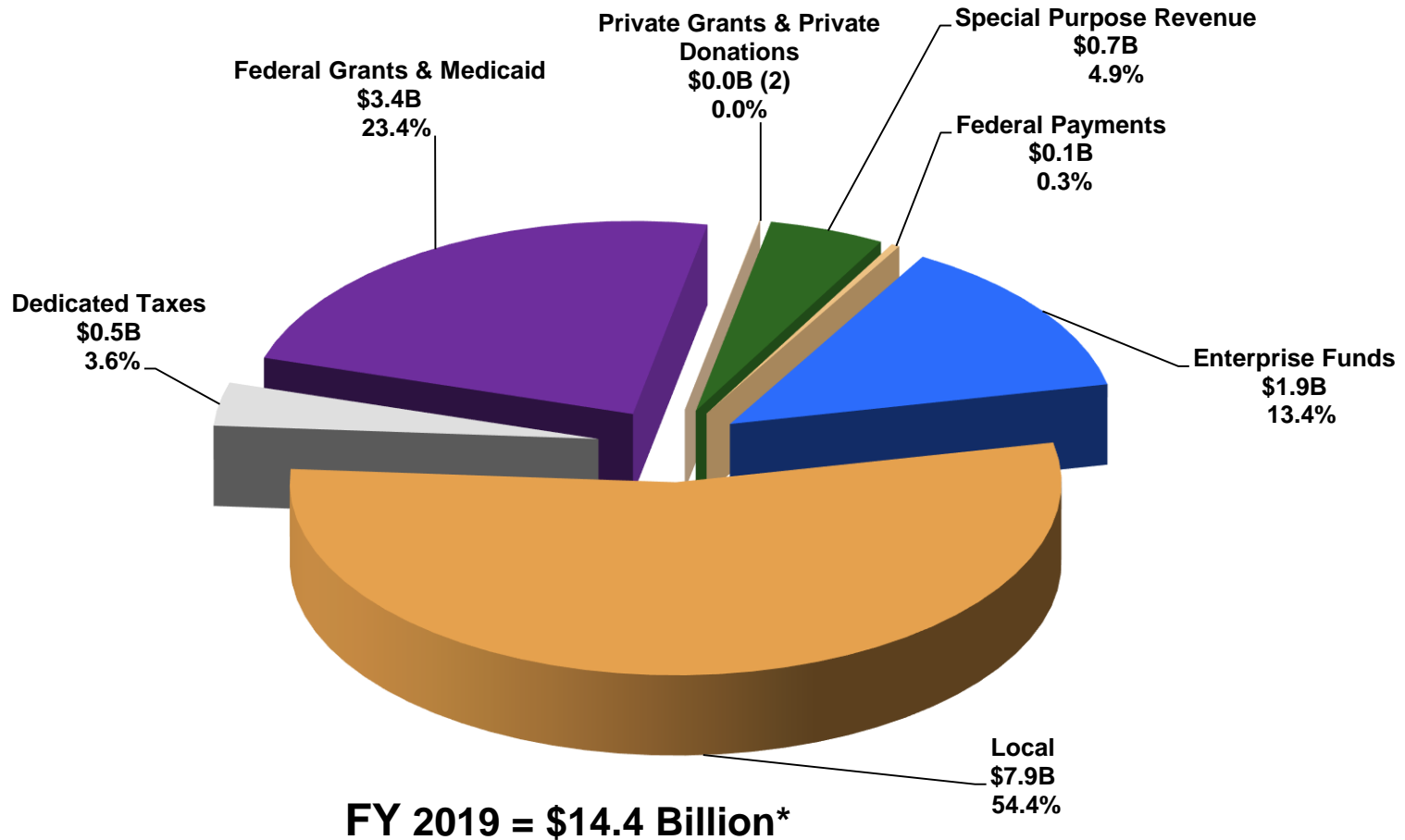
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## District Fiscal Status Overview



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## FY 2019 Revenue Sources<sup>(1)</sup>



(1) Excludes Intra-District Funds

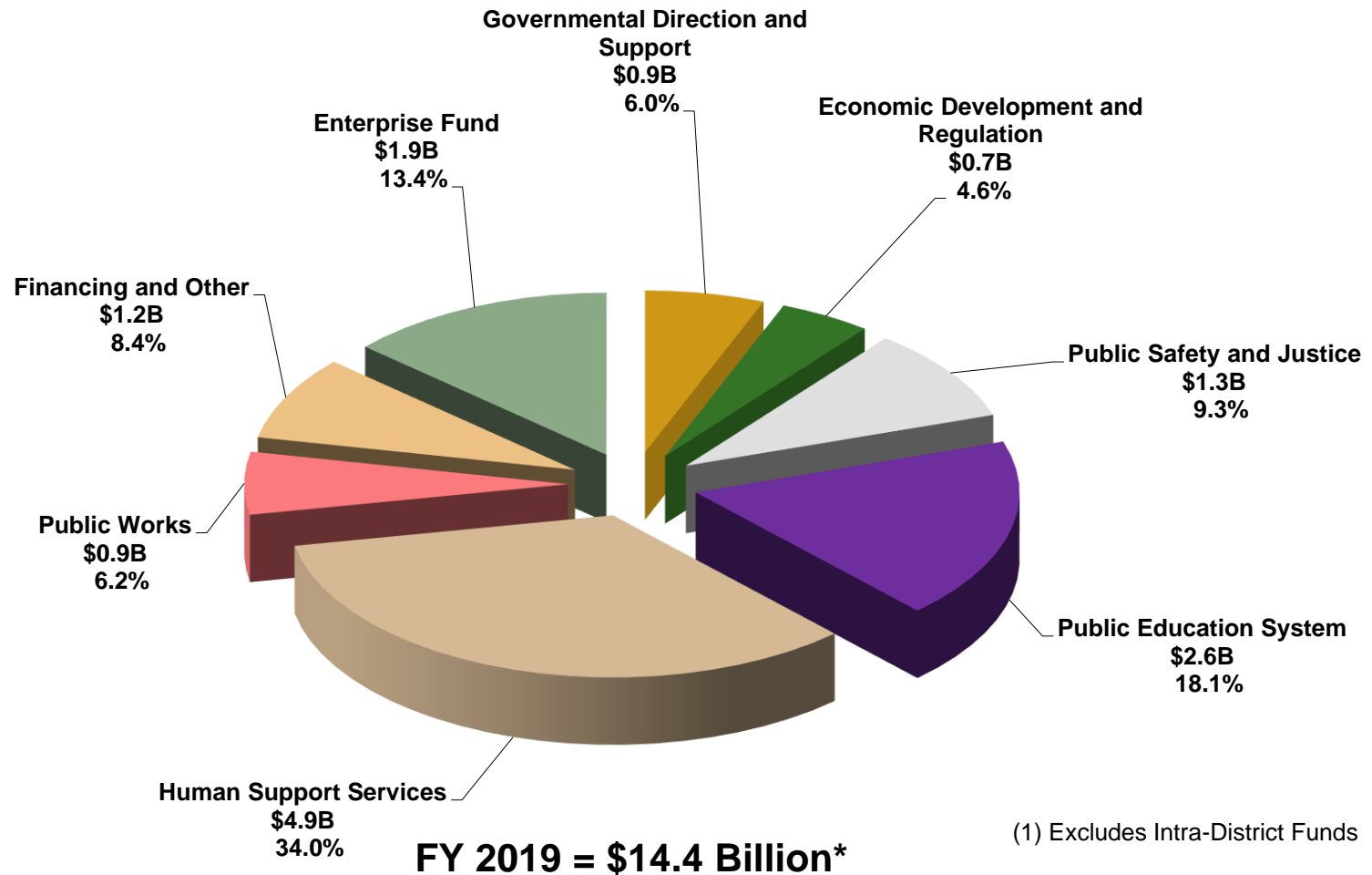
(2) The amount from this source is \$4.2 million

\*Changes proposed in the Council's budget would increase this amount to approximately \$14.6 billion.



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## FY 2019 Expenditures by Function<sup>(1)</sup>



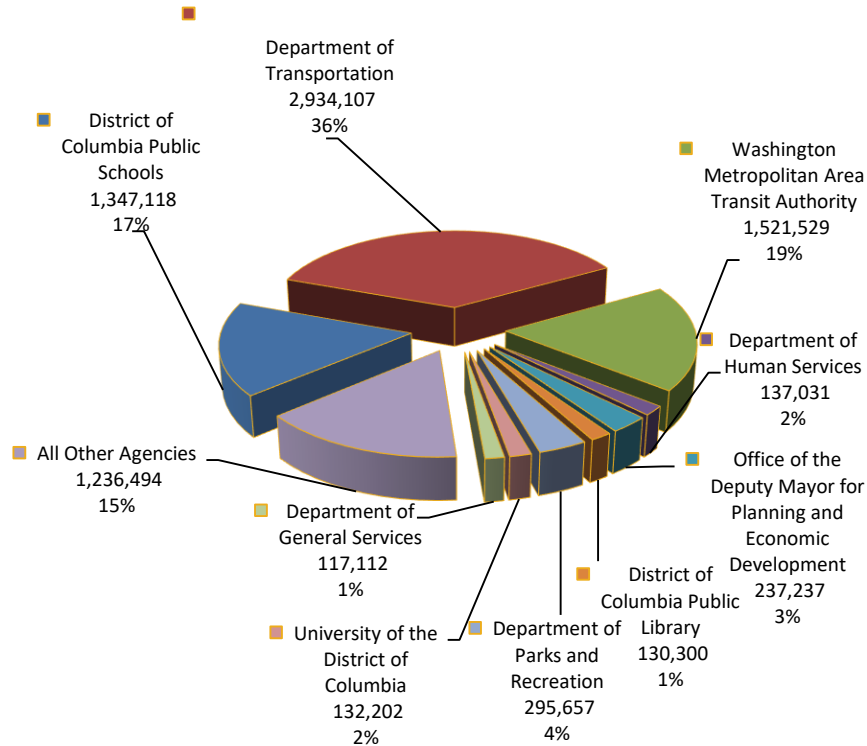
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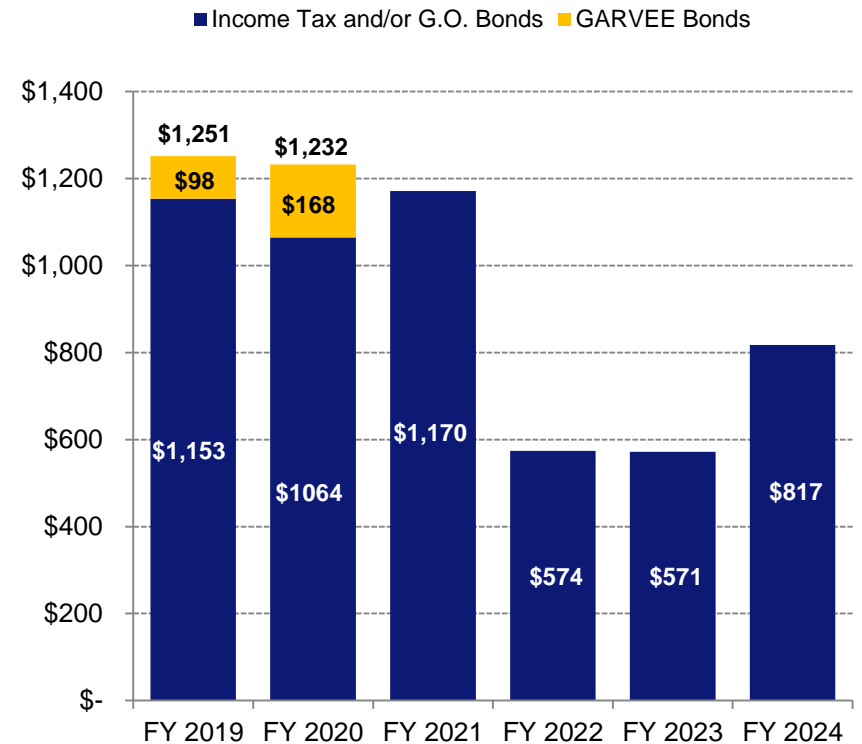
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## FY 2019 - FY 2024 Capital Improvements Program

**CIP Projected Expenditures Total \$8.1 Billion\***  
(\$ in millions)



**Projected GO/IT Debt Issuance Totals \$5.3 Billion**  
(\$ in millions)



\*Base on the capital budget in the FY 2019 Proposed Budget and Financial Plan. The capital budget approved by the Council as part of the Fiscal Year 2019 Local Budget Act of 2018 would increase to approximately \$8.22 billion.



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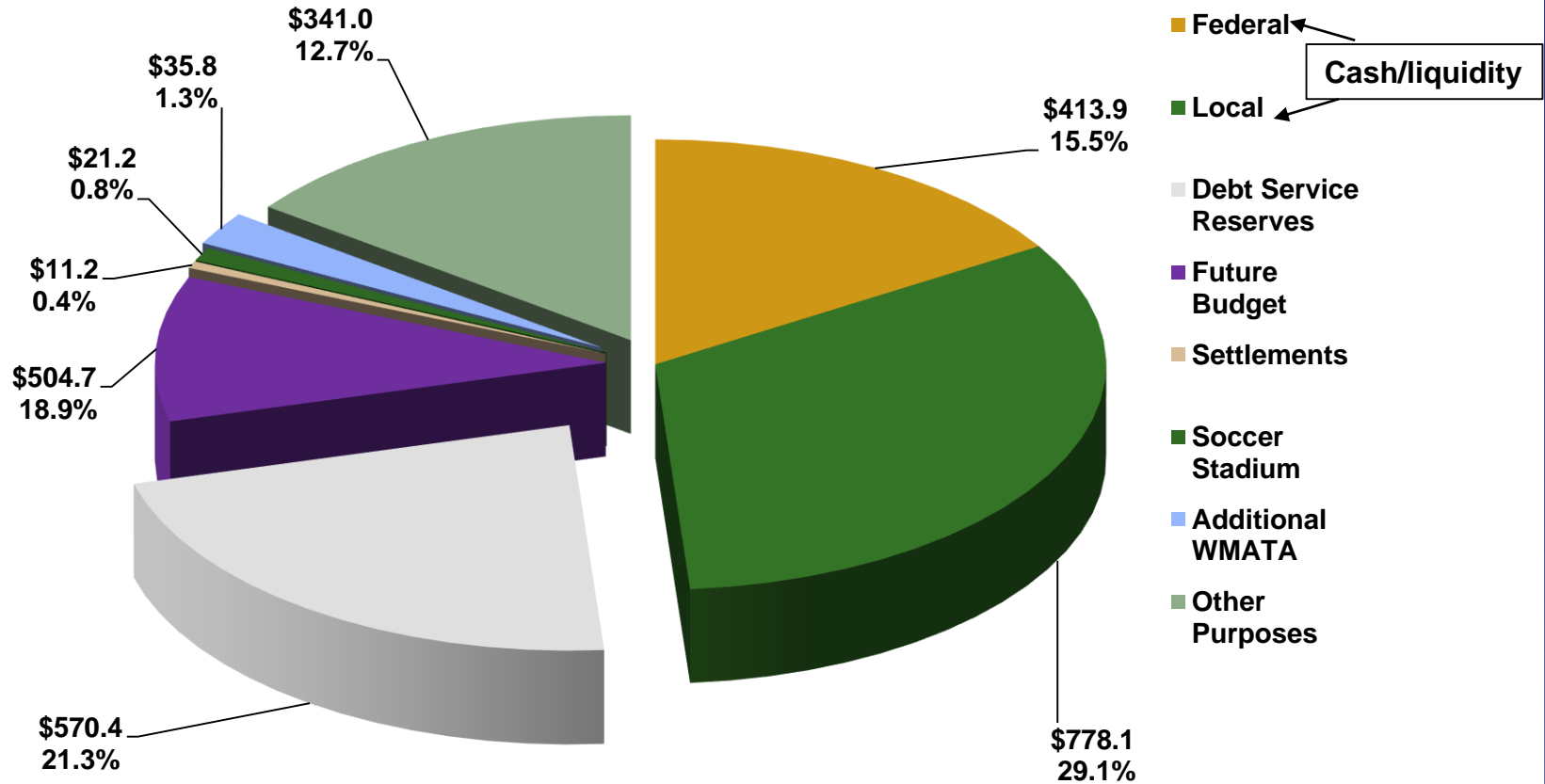
## Long-Range Capital Financial Plan - Update

- Long-range capital financial plan report was updated in October 2017
  - ✓ *96% of all District assets now cataloged in CARSS versus only 14% the prior year*
- **Identified \$4.2 billion of unfunded capital needs**
- In FY 2017, the Mayor and Council approved legislation to gradually increase the level of paygo funding to match annual depreciation (*anticipated to occur by FY 2027*)
- All unfunded capital needs scheduled to be funded by FY 2028
- FY 2019 budget funds the District's share of the \$500 million of additional funding identified by WMATA to return the system to a state of good repair
- FY 2019 budget also includes funding to bring all of the District's roads, sidewalks and alleys to a state of good repair during the 6-year CIP
  - ✓ *Roads by FY 2024, alleys by FY 2021 and sidewalks by FY 2020*



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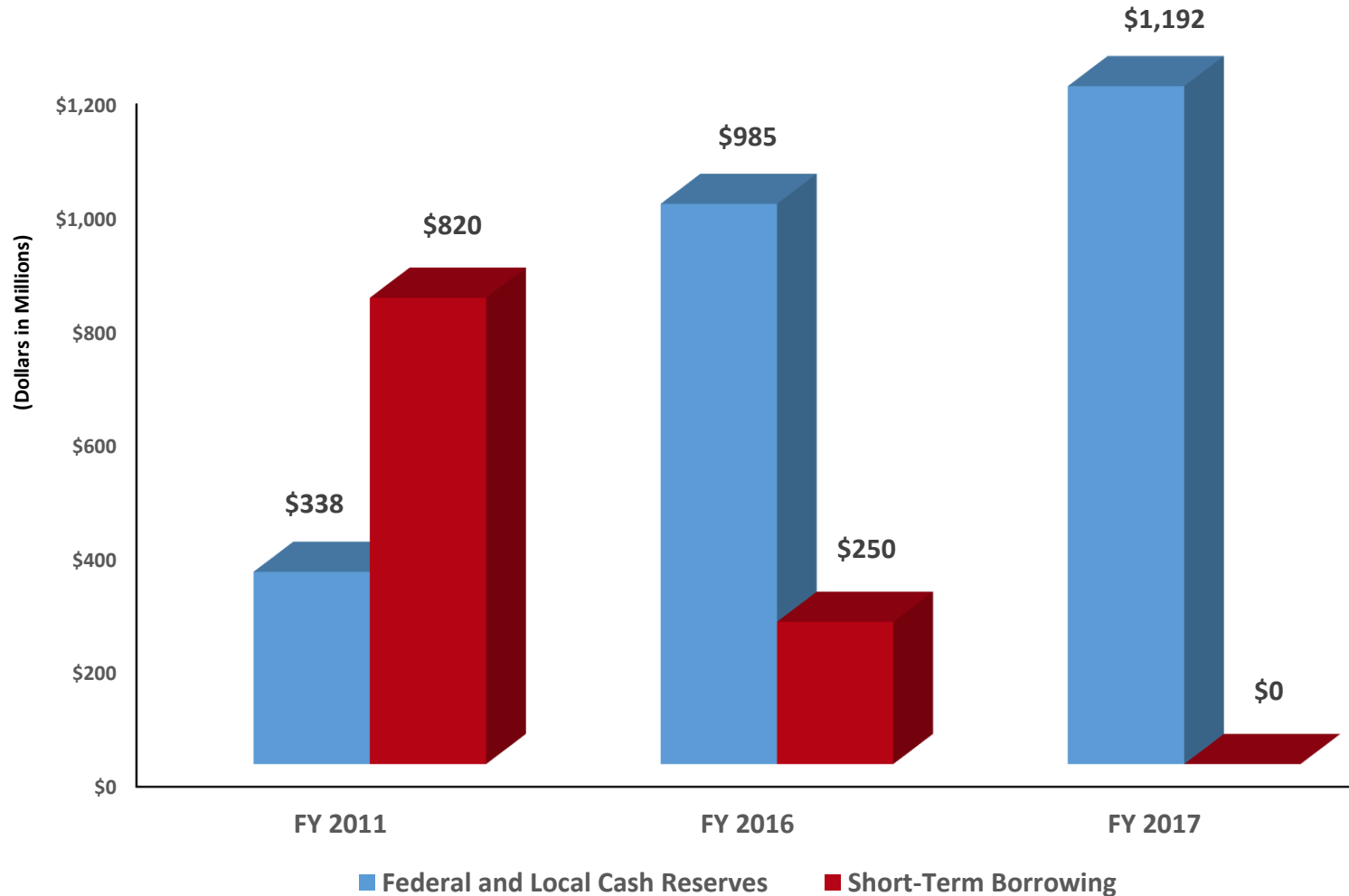
## FY 2017 Composition of General Fund Balance (Dollars in Millions)



**Total: \$2.7 Billion**

# Cash Reserve Levels vs. Short-Term Borrowing

High cash reserves (liquidity) result in no short-term borrowing for cash flow purposes

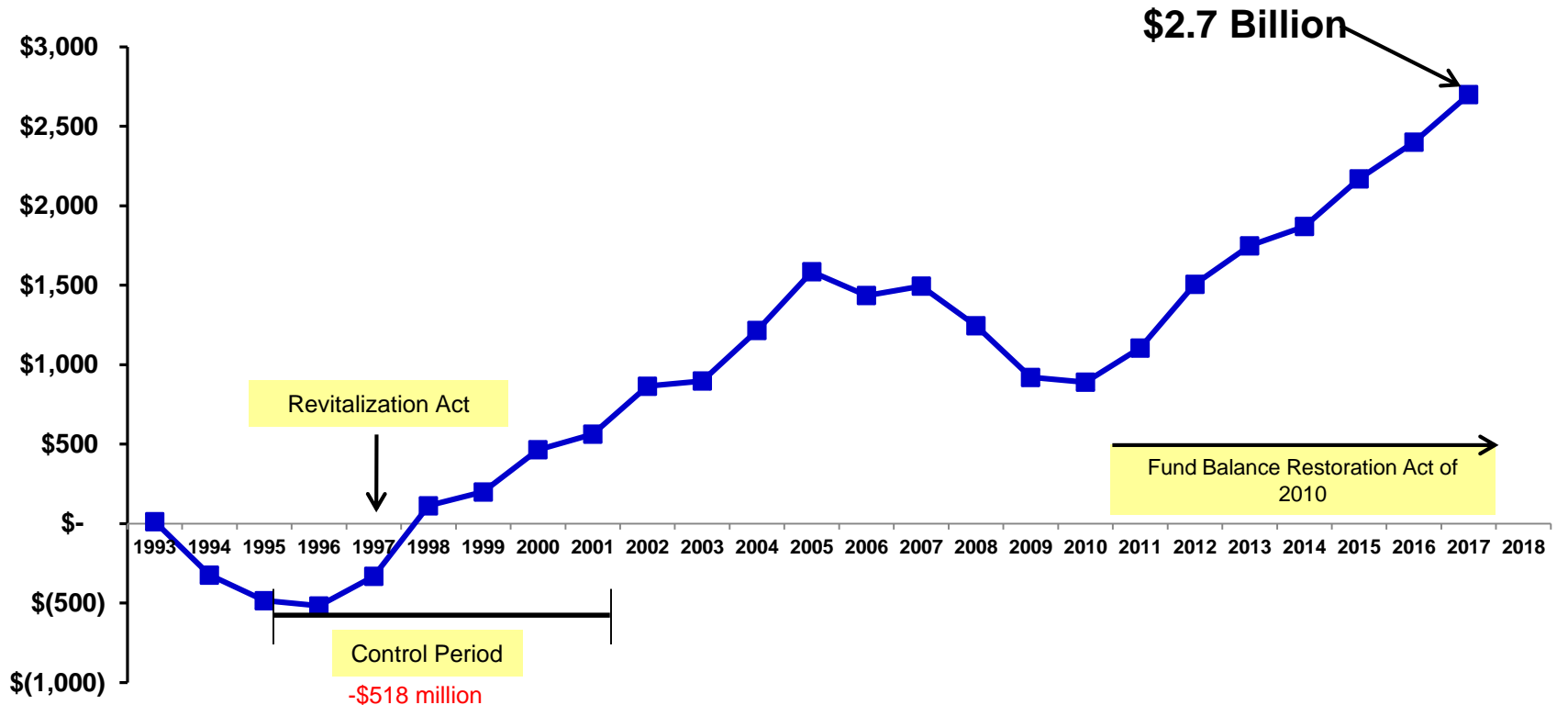






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## General Fund Reserves and Bond Rating History



### General Obligation Bond Ratings

<b>S&amp;P:</b>	A-	A-	B	B	B	BB	BBB	BBB	BBB+BBB+	A-	A-	A	A+	A+	A+	A+	A+	A+	AA-	AA	AA	AA	AA	AA	<b>AA+</b>
<b>Moody's:</b>	Baa	Baa	Ba	Ba	Ba2	Ba1	Baa3	Baa3	Baa1	Baa1	Baa1	A2	A2	A1	A1	Aa2	Aa2	Aa2	Aa2	Aa2	Aa1	Aa1	Aa1	Aa1	<b>Aaa</b>
<b>Fitch:</b>	A-	A-	BB	BB	BB	BB+BBB	BBB	BBB+BBB+	A-	A-	A	A	A+	A+	A+	AA-	AA-	AA-	AA-	AA	AA	AA	AA	AA	<b>AA+</b>

Income Tax Secured Revenue Bonds: S&P: AAA Moody's: Aa1 Fitch: AA+



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## District Financial Status Credit Rating Update

*Moody's Upgraded District Bonds to Triple A (Aaa, highest credit rating) on July 12, 2018*

### **“Credit Strengths:**

- ✓ Vibrant, growing and historically stable local economy, reflecting the core base of federal employment but also strong private sector knowledge-based sectors
- ✓ Very strong institutionalized financial governance
- ✓ Among lowest pension and OPEB liabilities of any large city, resulting in significant budget flexibility”

### **“Factors that could lead to a downgrade**

- ✓ Erosion of District's strong financial management practices, particularly leading to a budget imbalance or draw-down of fund balance below adequate levels.
- ✓ Federal budget actions that have a material negative impact on the District's economy or finances, including significant reduction in the federal work force or entitlement cuts.”



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## Questions and Issues Related to a Public Bank



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# Public Banking Questions

## **What Services is a public bank intended to provide?**

- Branch Offices?
- Depository Services?
- Checking and Savings Accounts?
- Home Loans?
- Business Loans?
- Certificates of Deposits?
- Wire Transfers?
- Trustee?
- Merchant Cards?
- ATM and online services?
- Other?



# Public Banking Questions

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- How much funding is needed to capitalize the bank?
- Does land need to be purchased and buildings constructed for branch services?
- Is the bank intended to be in direct competition with local banks?
- What banking infrastructure is necessary to provide the planned services?
- What are the staffing requirements (personnel costs)?
- What will be the underwriting criteria (risk level for various types of loans) if this service is intended to be provided?
- How will the bank be governed? If there is a board, how are members appointed or will federal law require it to be under the OCFO?
- Charter and FDIC Insurance process?



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## District Challenges with a Public Bank

- Federal Anti-deficiency laws will not allow the District to provide a backstop to the Public Bank in the event of losses as is the case for North Dakota
- This would likely be the first public bank to need FDIC approval since no backstop can be provided
- Deposits of District Funds require, by law, collateral by U.S. Government Backed Securities at 102% (for every \$100 million of deposits, \$102 million of collateral is needed). Capitalizing the bank will also likely require the purchase and holding of these types of assets
- Identification in the District budget (currently fully allocated) of funds based on the recommended services and structure of the Public Bank



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## Other Options to Fund Public Needs

Set aside a specific level of funds in the budget to be used as a grant or loan for those purposes intended to be targeted with a public bank:

- Green bank (recently established)
- Housing Production Trust Fund (funded at \$100M plus per year)

Establish a revolving loan fund at levels set aside in the budget with specific interest rates, terms and qualifying criteria awarded similar to the water and wastewater revolving funds in many states. The fund could be established for any intended financing need not being met by existing banks.

Other Ideas?



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# Questions