HEARING ON
BILL 20-713 AFFORDABLE HOUSING ACT OF 2014

Before the
Committee on Economic Development
Council of the District of Columbia

The Honorable Muriel Bowser, Chairwoman

Thursday, May 29, 2014
10:00 a.m., Room 120, John A. Wilson Building
1350 Pennsylvania Avenue, NW
Washington, DC 20004

Testimony of
Jeffrey Barnette
Deputy Chief Financial Officer - Treasurer
Government of the District of Columbia

Good morning Chairwoman Bowser and members of the Committee. I am Jeffrey Barnette, Deputy Chief Financial Officer and Treasurer of the District of Columbia. I am pleased to testify on Bill 20-713, the District of Columbia Affordable Housing Act of 2014. As you know the Bill's purpose is to promote affordable housing through the development of a 10-year, $1 billion plan that provides for $100 million a year to increase, build and modernize affordable housing in the District. The Bill provides authority to issue bonds to finance the reconstruction, renovation, and emergency maintenance of affordable housing facilities. The source of funding to support this bond financing would be net revenues generated by the Lottery and Charitable Games Board.

The first item to address is the impact on the General Fund. Currently the Lottery annually transfers to the General Fund all amounts not used to meet Lottery operating costs. Over the past ten years, this has averaged about $69.3 million each year. Starting with FY 2014 and ending in FY2018, the projected average annual transfer amount is $66.7 million. Thus, if the Lottery revenues are shifted from the General Fund, it will be necessary to reduce the Operating budget by an equal amount.

The proposed new bonds will also impact the District's 12% Debt Cap. As you know, there is currently very little flexibility for new debt under the Debt Cap. The Capital Improvement Plan (CIP) has utilized almost all available borrowing capacity under the Debt Cap, so in addition to the reduction to the Operating budget, any additional borrowing outside the current CIP will require reduction to the amounts borrowed to fund other District capital projects.

Another matter of concern is the overall size of the proposed borrowing. Based on our analysis, the Lottery revenues are insufficient to support the planned $1 billion bonds, even over ten years. The current projected Lottery revenues would likely produce a borrowing capacity of approximately $300 million during the next ten years. Furthermore, due to the uncertain and fluctuating nature of lottery revenues generally, rating agencies impose very conservative rating tests to determine the amount that may be borrowed based on Lottery revenues. Because Lottery-based bonds generally do not have strong bond debt service coverage levels, the Lottery-based bonds tend to have ratings in the low single-A category. Our borrowing capacity analysis assumed debt service coverage of 3 times the maximum annual debt service, which is typical of a single-A rating. In order to receive an AAA rating, we would have to have debt service coverage of at least 4 times, and to get this coverage, we would have to decrease the overall program issuance to below $300 million.

As you know, current borrowing for the CIP plan uses General Obligation or Income Tax Secured Bonds, both of which are much higher rated than single-A bonds. Higher rated bonds have lower interest costs, so using lower-rated Lottery-based bonds would result in a higher overall debt service interest cost for the District. The lottery bond interest payments for $300 million of bonds would be approximately $25.5 million more than if we issued General Obligation bonds for this purpose and $33.9 million more than if we issued Income Tax bonds over the same life of the bonds. This Bill also may impact the District's General Obligation bond ratings because we would be diverting funds otherwise available to pay General Obligation debt.

We fully support the affordable housing initiative. However, given the fact that this bond structure has a negative impact on the operating budget, creates a violation of the debt cap and is more expensive than other forms of financing; we would oppose the bill in its current form.

This concludes my remarks. I would be pleased to answer any questions you may have.