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STATEMENT OF

WILLIAM J. ANDERSON

DIRECTOR, GENERAL GOVERNMENT DIVISION

BEFORE THE

COMMITTEE ON THE DISTRICT OF COLUMBIA

UNITED STATES HOUSE OF REPRESENTATIVES

ON

PROPOSED AUTHORIZATION FOR THE

DISTRICT OF COLUMBIA TO SELL GENERAL

OBLIGATION BONDS TO PAY CERTAIN LIABILITIES

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Mr. Chairman and Members of the Committee, we welcome the opportunity to meet with you today to present our views on the proposal, in H.R. 1807, to authorize the District of Columbia to sell general obligation bonds to pay certain liabilities outstanding at the end of fiscal year 1980. The liabilities at issue are included in the much publicized accumulated operating deficit as of September 30, 1980, reported by the District's independent auditors based on the first full audit of District accounts.

Whether the District should be authorized to issue and sell general obligation bonds to pay for an operating deficit is a matter of congressional prerogative, and we make no recommendation in that regard. However, we have some observations that may help in the deliberations on the question of authorizing the bond sale, and on the amount that should be sold if the Congress grants the authorization. We have comments on specific provisions for the Committee's consideration which we will submit for the record.

Operating deficits have been financed through general obligation bond sales by some jurisdictions, but the far more common use of general obligation bonds is to finance capital projects with a useful life at least as long as the term of the obligation involved. The District estimates that debt service of about $400 million would be required to repay the $184 million in bonds which would be authorized by this legislation. A significant amount of operating revenue--estimated at $20 million a year--would have to be dedicated for a substantial future period--20 years. Of course, the relative significance of this obligation will decrease as inflation-driven revenues continue to rise.

The District's financial condition has been of interest to us for some time. In 1975 we were actively involved in the decision to forego an independent audit of District activities at that time in favor of putting scarce resources to work in developing a financial management system. Work progressed and for the fiscal year ended September 30, 1979, the District's independent auditor rendered an unqualified opinion on the city's balance sheet. Fiscal year 1980 operations were subjected to a full scale audit and an unqualified opinion on all of the District financial statements was rendered. In both years the audit reports highlighted the existence of a substantial accumulated general fund deficit.

The amount of bonds which would be authorized by H.R. 1807 is derived from a calculation of "net eligible liabilities" from the General Fund Balance Sheet in the District's Fiscal Year 1980 Annual Report. Net eligible liabilities is equivalent to the accumulated general fund deficit as of September 30, 1980, less the amounts of three current liabilities which are deleted for technical reasons--accrued interest payable on long-term debt, accrued annual leave payable to District employees, and taxes collected which are applicable to the future.

If the intent is to restrict the amount of the bonds authorized to the cash shortfall associated with the deficit, there are other current liabilities which are similar to the liabilities excluded by the proposed bill. For example, the current liabilities include accrued payroll in the amount of $47.5 million. This is a recurring item which will always have a year-end balance, although the amount may vary from year to year.

Thus, the amount outstanding at the end of a fiscal year could vary because of the differences in the number of days between the end of the last full pay period in the year and the end of the fiscal year. For financial analysis purposes, the fact is that, as a general proposition, the District will be meeting 26 payrolls a year--no more, no less. The amount of accrued payroll will also vary, all other things being equal, because of differences in year-end employment levels and average salaries and wages.

Another item impacting on the 1980 deficit may have been overstated, namely the reserve for grant disallowances. In discussing actions taken to avoid a $60 million deficit in fiscal year 1981 operations the District announced that a $2 million reserve for grant disallowances for fiscal year 1981 would not be needed and therefore the estimated 1981 deficit would be $2 million less. District Office of Controller personnel advised us that the $13 million reserve included in the fiscal year 1980 annual report was considered adequate to cover any grant disallowances through fiscal year 1981. Thus, it appears that the fiscal year 1980 deficit was overstated by about $2 million for grant disallowances.

If each of the items discussed above are eliminated from the determination of cash needs--$47.5 million and $2 million for accrued payroll and reserve for grant disallowances respectively--cash needs would be $49.5 million less than the $184 million in proposed bonding authority.

Our problems with the District's calculation of its bond needs do not stop here, Mr. Chairman. Even this corrected amount of $134.5 million may very well misstate the amount of money that the District needs. For example, the accounts payable item is analogous to the payroll item in that there is certain to be such an item at the end of the year. What is important is what part of that accounts payable total represents past due items that should have been paid during the fiscal year.

In our view, even as adjusted, the September 30, 1980, deficit does not provide the best measure of the District's borrowing needs. A more direct and proper way of arriving at that figure would be to require the District to prepare a cash flow statement covering fiscal years 1981 and 1982. We suggest these years rather than reexamining fiscal year 1980 data, because of the District's dynamic fiscal situation which appears to have deteriorated even further since September 30, 1980. In that statement cash requirements would represent all items that will fall due and should be paid within those years. Any differences between available revenues and this amount would seem to represent the amount of additional funds required by the District to get well from the standpoint of being able to meet its obligations as they fall due. In addition, provision could be made to strengthen the District's working capital position by providing authority for some additional borrowing beyond the baseline need.

Finally, it's obvious that once the District gets current it must take whatever steps are necessary to stay that way. It must assure that revenues and expenditures are balanced in future years. If this is not done, then it's possible that the District could once again find itself in the same situation as at present--unable to pay its obligations as they become due and facing once again the need for extraordinary measures to maintain solvency.

Mr. Chairman, that concludes my statement. I would be happy to answer any questions that you may have.