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DISTRICT OF COLUMBIA

Information on the District's Debt

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The Honorable Fortney H. (Pete) Stark
Chairman, Committee on the District of Columbia
House of Representatives

The Honorable Julian C. Dixon
Chairman, Subcommittee on the District of Columbia
Committee on Appropriations
House of Representatives

This report responds to your request for information on the District of Columbia's debt and supplements information contained in our report to you entitled: Financial Status: District of Columbia Finances (GAO/AIMD/GGD-94-172BR, June 22, 1994). In that report we noted that the District is facing a financial crisis.

The District of Columbia Self-Government and Governmental Reorganization Act (Home Rule Act), Public Law 93-198, authorizes the District of Columbia to issue various types of short- and long-term debt and sets various limits on that debt. The major type of long-term debt available to the District is general obligation bonds which cannot be issued unless the total projected annual debt service as a percent of revenues is less than 14 percent.

This report addresses the following three questions:

(1) What are the types of debt available to the District and the limitations on that debt?

(2) What is the current amount of District debt and what are the District's estimates of future borrowing?

(3) How does the District's level of debt compare with other selected jurisdictions?

Results in Brief

As of September 30, 1994, the District had $3.65 billion in long-term general obligation debt and the debt service as a percent of revenues was 11.42 percent. We estimate that on the basis of the District's projections for future planned long-term borrowing, the District's debt service percent will reach 13.84 percent by 2000—very close to the statutory 14-percent limit.

The District's general obligation bond rating as of September 30, 1994, (Baa by Moody's Investors Service) is the lowest investment grade rating and is below that of any state and nearly all of the largest cities. The bond rating has not changed since the District began issuing general obligation bonds in 1984.

Various debt indices are available to compare the District's debt levels with those of other jurisdictions. Two such indices, debt per capita and debt as a percent of real property, indicate the District has a high level of debt when compared with other jurisdictions. However, the District is unique and comparing its debt with other jurisdictions may not be meaningful because the District has service responsibilities which include elements of both city and state governments.

In addition, we found that the debt service percent calculations contained in the general obligation bond offering documents are based on the method required by the Home Rule Act. However, the debt service percent calculations contained in the District's multi-year plans and annual financial statements plans are not consistent with this methodology. As a result, the debt service information in the multi-year plans and financial statements could mislead users of this information.

Scope and Methodology

To answer the three questions, we analyzed information provided by the District of Columbia on past, current, and projected borrowing and met with District officials to discuss the District's debt. We also analyzed applicable laws that authorize borrowing and impose limitations on that borrowing. We obtained information on other jurisdictions debt limitations, debt ratios, and bond ratings from Moody's Investors Service, Standard & Poor's Corporation, and Fitch Investors Service, Inc. and discussed this information with officials of those organizations. We did not independently verify the information provided by the investor service organizations on other jurisdictions.

We conducted our work from August 1994 to October 1994 in accordance with generally accepted government auditing standards. The District of Columbia provided comments on a draft of this report. These comments are discussed in the "Agency Comments and Our Evaluation" section. We have incorporated agency views where appropriate.

The District's Types of Debt and Debt Limitations

The Home Rule Act authorizes and sets limits on various types of short- and long-term debt that is backed by the full faith and credit of the District. The limits have not been revised since enactment of the provisions in the Home Rule Act that authorized the various types of debt. The District also is authorized to issue revenue bonds that are not backed by the full faith and credit of the District. Finally, the District is authorized to borrow from the U.S. Treasury to meet the District's general expenses.

Short-term Debt

The District can issue Tax Revenue Anticipation Notes (TRANS) to compensate for expected cash shortfalls related to delays in receipt of projected tax revenue. Although TRANS are renewable, they must be repaid no later than the last day of the fiscal year in which the notes were issued. The total amount of outstanding TRANS at any time is limited to 20 percent of the District's total anticipated revenue for the fiscal year. The amount of TRANS borrowing is discussed later in this letter.

The District can also issue short-term general obligation notes to meet appropriation requirements when budgeted grants and private contributions are not realized. Similar to TRANS, these notes are renewable. However, they must be repaid no later than the last day of the fiscal year following the year in which they were issued. The amount of general obligation notes issued during a fiscal year is limited to 2 percent of the District's total appropriations or approximately $70 million for fiscal year 1994. District officials said they have never issued this type of note.

In lieu of these short-term borrowing vehicles, the District has borrowed moneys from its capital projects fund. The District's annual appropriation specifically states that "the Mayor shall not expend any moneys borrowed for capital projects for operating expenses of the District of Columbia government." The District's Corporation Counsel has concluded that the District does not violate the appropriation act restriction as long as borrowings from the Capital Projects Fund are repaid before the end of the fiscal year in which the borrowing is made. The District borrowed $140 million from the Capital Projects Fund in fiscal year 1993 to finance seasonal cash flow needs. These funds were repaid before the end of the fiscal year. In fiscal year 1994, the District again borrowed from the Capital Projects Fund to compensate for cash flow shortages due to a delay in the receipt of the Federal Payment. The District borrowed $40 million in October 1993 and repaid it shortly thereafter; and, the District borrowed $40 million from the Capital Projects Fund in early September 1994 and repaid it before the end of the month.

Long-term Debt

The District also has the authority to issue long-term debt. Long-term debt generally takes the form of general obligation bonds. The District can issue general obligation bonds to refund (that is, refinance) existing debt or to finance capital projects. In fiscal year 1991, the District also received authority to eliminate the general fund's existing accumulated deficit by issuing general obligation bonds.[1]

The Home Rule Act restricts the District from issuing long-term general obligation bonds if total debt service in a fiscal year will exceed 14 percent of the District's estimated revenues for the year the bonds are issued.[2] This debt limitation is calculated by the Treasurer's Office when the District requests new general obligation borrowing. At that time, the highest projected cost of debt service (including debt service from both general obligation bonds as well as long-term U.S. Treasury debt) for any fiscal year including debt service on the projected borrowing cannot exceed 14 percent of the District's estimated revenues for the fiscal year the bonds will be issued.

Revenues for this calculation do not include court fees and any fees or revenues directed to servicing revenue bonds, retirement contributions, revenues from retirement systems, revenues from Treasury loans, and the sale of general obligation or revenue bonds. This debt service calculation does not include refinancing costs of previous bonds and any obligations associated with the Redevelopment Land Agency, the National Capital Housing Authority, or obligations pursuant to the authority contained in the District of Columbia Stadium Act of 1957. The specific amount of long-term borrowing is discussed later in this letter.

U.S. Treasury Debt

The District may also borrow funds from the U.S. Treasury to finance its general expenses. Between 1939 and 1983, the District routinely borrowed from the U.S. Treasury under this provision. It has not borrowed from the U.S. Treasury since then. Under this provision, which originated before the enactment of the Home Rule Act, the Mayor of the District of Columbia may requisition the Secretary of the Treasury for "such sums as may be necessary, from time to time, to meet the general expenses of said District, as authorized by Congress, and such amounts so advanced shall be reimbursed by the said Mayor to the Treasury out of taxes and revenue collected for the support of the government of the said District of

[1]D.C. Code Section 47-321.

[2]D.C. Code Section 47-313.

Columbia."[3] The interest rate to be applied, if any, and the term of these borrowings are not specified. These borrowings are not subject to the 14-percent limitation on long-term debt. All general obligation and TRANS offering documents refer to this section of the D.C. Code and specify that the Mayor shall request funds from the U.S. Treasury as may be necessary to pay the principal and interest on the bonds when due.

In addition, the District previously had authority to borrow funds from the U.S. Treasury to finance capital projects. While the authority for new U.S. Treasury borrowing for capital projects was terminated by 1983, the District had $71.8 million and the District's Water and Sewer Authority had $15.1 million outstanding debt issued under this authority at September 30, 1994. The District's $71.8 million U.S. Treasury debt is scheduled to be repaid by 2003, and the Water and Sewer Authority's U.S. Treasury debt is scheduled to be repaid by 2014. As previously noted, the debt service on U.S. Treasury long-term capital projects debt is included in the 14-percent limitation calculation described in the previous section of this report under long-term borrowing.

Revenue Bonds

The District of Columbia also is authorized to issue revenue bonds, notes, or other obligations to finance or refinance undertakings in the areas of (1) housing, (2) facilities for health, transit, utility, recreation, college, university, or pollution control, (3) college or university student loan programs, and (4) industrial and commercial development. Such revenue obligations are not general obligations or debt of the District backed by the full faith and credit or the taxing power of the District. Instead, they are payable from earnings of the respective projects and may be secured by mortgages on real property or creation of a security interest in other assets.

New Debt Authority Sought

In addition to the current types of financing allowed, the District is proposing to partly finance the construction of a new convention center and sports arena by authorizing District enterprises to issue revenue bonds that would include as security a pledge of dedicated taxes. This proposed method of financing requires amending the Home Rule Act.[4] Specifically, the Home Rule Act would need to be revised to authorize the District

[3]D.C. Code Section 47-3401.

[4]These proposed projects and financing are discussed in two recent GAO reports: District of Columbia: Status of Convention Center Project (GAO/AIMD-94-191, September 15, 1994) and District of Columbia: Status of Sports Arena Project (GAO/AIMD-94-192, September 15, 1994).

(1) to issue such revenue bonds and (2) to delegate authority to District enterprises to issue the bonds and to receive and expend the dedicated revenues. Under this proposal these bonds would not be subject to the 14-percent long-term debt service ceiling.

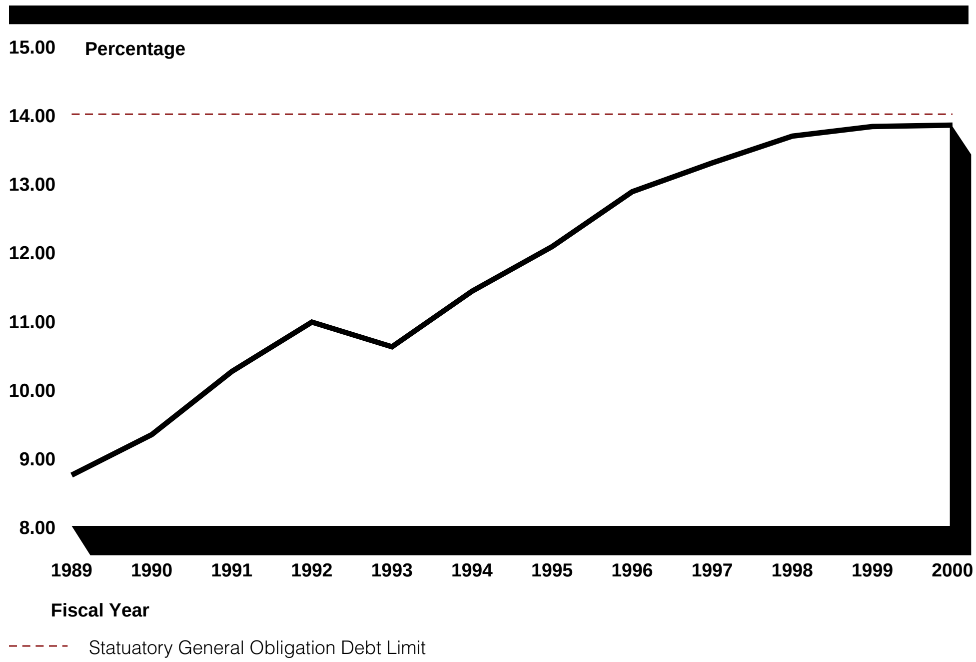
Amount of District Debt

The District's primary borrowing involves short-term tax revenue anticipation notes and long-term general obligation bonds. In May 1994 the District borrowed $200 million in short-term Tax Revenue Anticipation Notes which were paid in September by the end of fiscal year 1994. The District anticipates that in fiscal year 1995 it will need $250 million in short-term Tax Revenue Anticipation Notes ($125 million in February 1995 and $125 million in June 1995). These notes will be due in September 1995. The fiscal year 1994 short-term debt represented 6.0 percent of total anticipated revenues, and the fiscal year 1995 short-term debt represented 7.2 percent of total anticipated revenues—considerably below the 20-percent limitation on TRANS borrowing discussed earlier in this report. The District does not make short-term borrowing projections beyond the year for which a budget has been submitted to the District of Columbia Council.

Also on September 30, 1994, the District had $3.65 billion in long-term debt (both general obligation and U.S. Treasury debt). As calculated by the District Treasurer's Office, total debt service for these long-term obligations is expected to be $409 million in fiscal year 1998, the highest projected year, or 11.42 percent of total expected fiscal year 1994 revenues.

This debt service percent is projected to grow in the future. The Budget Office estimates that capital borrowing will be $250 million annually from fiscal years 1995 through 1998 and $190 million in each of fiscal years 1999 and 2000. Based on these estimates of future general obligation borrowing and Budget Office projections of revenues, we estimate that the debt service percent will rise to 13.84 percent by 2000. Figure 1 shows the debt service percents for fiscal years 1989 through 2000.

Figure 1: Debt Service Percentage: 1989-2000



Source: Fiscal years 1989 to 1993 are GAO calculations based on bond offering documents and actual revenues from financial statements, fiscal years 1994 to 2000 are GAO calculations based on future projected borrowings.

More details of the assumptions and calculations for the data contained in figure 1 are provided in appendix I.

When analyzing the projected debt service percents, two additional factors need to be considered. First, the projections in the chart are based on revenue estimates. As we noted in our June 1994 report,[5] the District has overestimated some revenues in the past. Lower than expected revenues would increase the debt service percent. And, as discussed in our June 1994 report, the District plans to limit general obligation bond borrowing below what is needed for capital projects. Capital funds requirements are particularly significant for the D.C. Public Schools and the Water and Sewer Authority.

[5](GAO/AIMD/GGD-94-172BR, June 22, 1994.)

The District's Bond Rating and Debt Compared With Other Jurisdictions

Various debt indicators are available to compare debt characteristics of jurisdictions. For example, investment services provide ratings of bonds which assess the amount of risk associated with borrowing. Moody's Investors Service ratings range from Aaa (best quality) to C (lowest quality).[6] Tables 1 and 2 show the long-term bond ratings of the 20 largest cities[7] and all 50 states.

Table 1: Long-term General Obligation Bond Ratings of the Largest Cities as of July 1994 (ratings are described in footnote 6)

City	Rating	City	Rating	City	Rating
Baltimore, MD	A1	Honolulu, HI	Aa	Philadelphia, PA	Ba
Boston, MA	A	Indianapolis, IN	Aaa	Phoenix, AZ	Aa
Chicago, IL	A	Jacksonville, FL	A1	San Diego, CA	Aaa
Columbus, OH	Aa1	Los Angeles, CA	Aa1	San Francisco, CA	A1
Detroit, MI	Ba1	Memphis, TN	Aa	San Jose, CA	Aa
District of Columbia	Baa	Milwaukee, WI	Aa	Seattle, WA	Aa1
Hempstead (Town), NY	A1	New York City, NY	Baa1		

Source: Moody's Investors Service

[6]Other investment services also develop bond ratings for jurisdictions, including Standard & Poor's Corporation and Fitch Investors Service, Inc. Standard & Poor's Corporation and Fitch Investors Service use different bond rating designations but their rating of "A-" is the same relative rating as Moody's Investors Service Baa rating. We used the ratings by Moody's Investors Service to illustrate how the District compares with other jurisdictions. Moody's definitions of long-term bond ratings are as follows:

Aaa - Best quality bonds with smallest degree of investment risk.
Aa - High quality bonds by all standards.
A - Upper-medium grade obligations.
Baa - Medium-grade obligations neither highly protected nor poorly secured.
Ba - Bonds with speculative elements.
B - Bonds that generally lack characteristics of the desirable investment.
Caa - Bonds of poor standing.
Ca - Obligations which are speculative in a high degree.
C - Lowest rated class of bonds.

When a "1" is included at the end of the rating, it indicates the jurisdiction possesses the strongest credit attributes of the class.

[7]These are the 20 largest jurisdictions categorized as cities that are included under a single governmental unit. Other cities could be larger; however, they may be separated into more than one governmental unit.

Table 2: Long-term General Obligation Bond Ratings of States as of July 1994 (ratings are described in footnote 6)

State	Rating	State	Rating	State	Rating	State	Rating
Alabama	Aa	Indiana	*	Nebraska	*	South Carolina	Aaa
Alaska	Aa	Iowa	*	Nevada	Aa	South Dakota	*
Arizona	*	Kansas	*	New Hampshire	Aa	Tennessee	Aaa
Arkansas	Aa	Kentucky	Aa	New Jersey	Aa1	Texas	Aa
California	A1	Louisiana	Baa1	New Mexico	Aa1	Utah	Aaa
Colorado	*	Maine	Aa	New York	A	Vermont	Aa
Connecticut	Aa	Maryland	Aaa	North Carolina	Aaa	Virginia	Aaa
Delaware	Aa	Massachusetts	A	North Dakota	Aa	Washington	Aa
Florida	Aa	Michigan	A1	Ohio	Aa	West Virginia	A1
Georgia	Aaa	Minnesota	Aa1	Oklahoma	Aa	Wisconsin	Aa
Hawaii	Aa	Mississippi	Aa	Oregon	Aa	Wyoming	*
Idaho	*	Missouri	Aaa	Pennsylvania	A1		
Illinois	Aa	Montana	Aa	Rhode Island	A1		

* State has no general obligation debt.

Source: Moody's Investors Service.

As can be seen from tables 1 and 2, the District's bond rating of Baa is lower than any state and all but two of the cities listed. According to Moody's Investors Service analysts, this rating reflects the District's long history of financial pressures and budget-balancing difficulties.[8] This rating has been the same since the District first issued general obligation bonds in 1984.

Other comparisons of the District's debt with other jurisdictions are more problematic. For example, comparing the District's 14-percent debt service limitation with other jurisdictions is difficult because the type of limits vary. In fact, a Moody's Investors Service official told us that no state imposes a limit on cities and counties based on a percentage of total revenues like the District's limitation. A May 1994 Moody's Investors Service report that outlined debt restrictions imposed on cities and counties by their states notes that almost all states imposed general obligation debt volume limits on cities and counties. In most states the limit is based on a percentage of the local jurisdictions's taxable real property.

[8]Approximately two-thirds of the District's general obligation debt is insured and rated Aaa, based on the claims-paying ability of the insurers. The uninsured portion is rated Baa which reflects the District's credit risk.

Although the limits imposed by states on cities and counties most often are related to property values, the way these limits are calculated varies widely. For example, some limits are based on the full property value and others on an adjusted value. In other states, limits exclude some types of borrowing; for example, enterprise fund borrowing or public school borrowing. Because the limits of other jurisdictions vary widely, we did not specifically determine how close other jurisdictions are to their legal limits.

Other indices are routinely used by investment services to compare the extent of borrowing among jurisdictions. Two of these indices are per capita debt and the amount of debt compared with the value of real property subject to tax. Table 3 shows the median, high, and low values for these indices for various population categories of cities, counties, and states.

Table 3: Fiscal Year 1994 Debt Indices for Cities, Counties, and States

	Overall net debt per capita[a]			Net debt as a percent of taxable real property		
Population range	Low[b]	Median	High[b]	Low[b]	Median	High[b]
Cities 500,000 and over	$774	$1,363	$5,699	1.1	2.9	14.6
Cities 300,000 to 499,999	$500	$1,479	$2,740	1.5	3.4	7.4
Counties 1,000,000 and over	$756	$1,287	$2,342	1.2	2.3	5.8
Counties 250,000 to 999,999	$278	$1,358	$2,676	0.5	2.6	7.3
States over 5,000,000	$100	$550	$1,947	0.2	1.4	6.4
States under 5,000,000	$37	$382	$2,602	0.1	0.9	5.3

[a]Amount of debt for a jurisdiction used in this calculation refers only to debt of that jurisdiction. For example, the debt per capita for a city would not include any debt of the state. In contrast, calculations of debt per capita of the District include debt that covers both city and state functions.

[b]High and low values are the highest and lowest values in the population range.

Source: Moody's Investors Service

The District of Columbia's overall net debt per capita was $6,315, and the ratio of net debt to taxable real property was 8.1 percent.[9] Although both

[9]These ratios are more current than the data contained in table 3 for other jurisdictions. Comparable information for the District for the same timeframe as the table is a debt per capita of $5,538 and debt-real property ratio of 7.9 percent. The debt per capita was calculated based on total general obligation debt of $3.65 billion on September 30, 1994, divided by the estimated 1993 District of Columbia population of 578,000. The ratio of net debt to taxable real property was calculated by dividing total general obligation debt of $3.65 billion by $44.98 billion in taxable real property as shown in the 1993 financial statements.

ratios are high when compared with other cities, counties, or states, comparing the District's debt limitations and amount of debt with other jurisdictions is problematic because of the unique nature of the District. For example, debt limits for state, counties, and cities would only affect the debts incurred to finance the functions carried out by the specific jurisdiction. In contrast, the District has a single debt limit applicable to carry out all its governmental functions, whether these functions are representative of those carried out by states, counties, or cities. Thus, comparing the District's ratios to state, county, or city debt ratios may not be a meaningful comparison to the extent the District's debt is used to finance functions that may overlap functions financed by state, county, and city debt. For example, the District's debt would include debt related to typical city functions (for example, police and fire protection) as well as debt associated with typical state and county functions (for example, motor vehicle and driver licensing). District officials also pointed out that other unique factors make comparing the District to other jurisdictions difficult. They noted that unlike most cities and counties, sales and income tax provide a substantial portion of the District's tax revenue. Therefore, the debt/taxable real property ratio is not meaningful to compare the District to other jurisdictions.

Debt Service Information Is Not Consistent

As discussed earlier in this letter, the general obligation debt limitation calculations are made by the Treasurer's Office at the time the District issues new general obligation bonds and are included in the bond prospectus. These debt service percent calculations are done in accordance with the methodology outlined in the Home Rule Act as described earlier in this letter. Information on the debt service percent is also included in the District's multi-year plans and annual financial reports, but this information is not consistent with the Home Rule Act methodology.

The estimates in the multi-year plans do not use the methodology required by the Home Rule Act, which is the same methodology that is used to determine whether the District may issue new general obligation bonds.[10] Instead of calculating the debt service percent by using the highest fiscal year debt service divided by the estimated revenue for the fiscal year the bonds will be issued—as is done in the bond prospectus—the debt service percent information in the multi-year plan is calculated by dividing the current year debt service by the current year revenue.

[10]D.C. Code Section 47-302(8).

The result is that the debt service percent information contained in the multi-year plans is less than what the percent would be if the Home Rule Act methodology were used. For example, for fiscal year 1994, information in the bond offering documents indicated that the debt service percent was 11.42 percent, while the debt service percent included in the multi-year plan for fiscal year 1994 was 10.14 percent. Although the fiscal year 1994 revenue estimates for each calculation were slightly different, the primary reason for the difference was the amount of debt service. The bond offering documents used the highest debt service for any fiscal year ($409.1 million which will occur in fiscal year 1998) and the multi-year plan used the fiscal year 1994 debt service of $362.2 million. The Home Rule Act not only specifies the methodology to be used in the multi-year plan, but the information in the current multi-year plans understates the debt service percentage in relation to the District's debt limit. District managers need accurate information as they outline the various options needed to deal with the financial crisis.

Table 4 outlines the differences between the debt service percents contained in the multi-year plan and our calculations using the Home Rule Act methodology.

Table 4: Comparison of Projected Debt Service Percents

Dollars in millions

Fiscal year	Multi-year plan			Home Rule Act Methodology		
	Revenues	Debt service	Percent	Revenues	Maximum debt service	Percent
1994	$3,572.5	$362.2	10.14	$3,581.4[a]	$409.1[a]	11.42
1995	3,604.8	391.4	10.86	3,604.8	435.0	12.07
1996	3,581.9	431.5	12.05	3,581.9	461.0	12.87
1997	3,660.8	452.8	12.37	3,660.8	486.4	13.29
1998	3,727.2	472.8	12.69	3,727.2	510.0	13.68
1999	3,811.9	491.0	12.88	3,811.9	526.9	13.82
2000	3,905.2	507.3	12.99	3,905.2	540.3	13.84

[a]Home Rule Act Methodology for fiscal year 1994 data is from the general obligation bond offering documents dated July 22, 1994.

Source: Multi-year Plan data from the District Office of the Budget. Home Rule Act Methodology are our calculations using projected revenues from the District Office of the Budget and our projections of debt service based on expected borrowing. See appendix I for more details.

Information on the debt service percent contained in the annual financial reports also is not consistent with information in the bond offering documents. The methodology for calculating the debt service percentage in the financial statements is not specified in law. Like the debt service percent information contained in the multi-year plan, the debt service percent included in the financial statements is calculated by dividing fiscal year debt service by fiscal year revenues rather than the highest debt service for any fiscal year. The financial statements include the debt service information in an exhibit entitled "Computation of Legal Debt Limitation". Even though portrayed as the legal calculation, the information is not consistent with the methodology stipulated in the Home Rule Act.

Table 5 outlines the differences in the debt service percentage that are currently contained in the annual financial statements and the debt service percentage using the Home Rule Act methodology. Specifically, our calculations use the highest projected annual debt service divided by the actual annual revenues.

Table 5: Comparison of Debt Service Percents in Financial Reports and Bond Offering Documents

Dollars in millions

	Annual Financial Report			Home Rule Act Methodology		
Fiscal year	**Revenues**	**Debt service**	**Percent**	**Revenues**	**Maximum debt service**	**Percent**
1989	$3,148	$260	8.26	$3,148	$275	8.74
1990	3,290	281	8.54	3,290	307	9.33
1991	3,552	311	8.76	3,552	364	10.25
1992	3,583	370	10.33	3,583	393	10.97
1993	3,724	384	10.31	3,724	395	10.61

Sources: Annual Financial Report is from the District's Comprehensive Annual Financial Report. Home Rule Act Methodology revenues are from the annual financial reports and debt service is from the general obligation bond prospectus for the bonds offered in the fiscal year.

Conclusions

As we noted in our June report, the District is faced with both unresolved long-term financial issues and continual short-term financial crises. The District's high level of general obligation debt is approaching the 14-percent debt service ceiling.

Although information on the debt service percent in the bond offering documents is calculated using the methodology required in the Home Rule Act, information on the debt service percent included in the District's financial statements and multi-year plan does not use that methodology. As a result, the debt service percent amounts shown in the financial statements and multi-year plan are less than if the Home Rule Act methodology were used. As such, the current financial statements representation of the debt service percentage and the multi-year plan debt service information could mislead users of such information. Because the District's long-term debt is approaching the legal limit, it is critical that District managers and other District stakeholders have accurate information as they make decisions about how meet the District's financing needs.

Recommendations

We recommend that the Mayor of the District of Columbia direct that (1) the multi-year plans contain debt service percentage information in the manner required by the Home Rule Act, and (2) the financial statements contain information on the debt service percentage that is calculated using the Home Rule Act methodology by dividing the maximum estimated annual debt service by the actual revenues.

Agency Comments and Our Evaluation

We provided a draft of this report to officials of the District of Columbia for their comment. In general, District officials agreed with the information contained in the report and supported the recommendations. They emphasized that comparing the District to other jurisdictions is difficult because of a variety of unique factors, including the high percentage of District property that is not subject to property tax. We believe the report sufficiently outlines the unique factors that make the comparison of the District to other jurisdictions problematic. District officials provided two additional reasons for the relatively low bond rating: the District's unfunded pension liability and lack of state sovereignty. They also noted that part of the reason the District is approaching the debt limit was the issuance of $331 million in 12-year bonds in 1991 to eliminate a deficit in the General Fund. They explained that these bonds were of shorter duration than typical general obligation bonds that are used to finance capital projects and that this increased the amount of debt service. We agree that these bonds contributed to the debt service, but regardless of the term or the purpose of the bonds the fact remains that the amount of District debt is nearing the legal limit. District officials also said they are considering reducing the amount of future borrowing for capital needs.

Although reduced future borrowing would lower the debt service percentage, such reductions need to be weighed against the District's major capital needs. District officials also made some technical comments which have been incorporated in the report where appropriate.

We are sending copies of this report to the Mayor of the District of Columbia; the Chairman of the City Council; the Chairmen and Ranking Minority Members of the Subcommittee on the District of Columbia, Senate Committee on Appropriations, and the Senate Committee on Governmental Affairs; interested congressional committees; and other interested parties. Copies will also be made available to others upon request. Please contact me at (202) 512-8549 if you or your staffs have any questions concerning this report. Major contributors to this report are listed in appendix II.

John W. Hill, Jr.

John W. Hill, Jr.
Director, Financial Management
Policies and Issues

Debt Service Assumptions and Calculations

Table I.1: GAO Calculation of Future Debt Service Percent

Dollars in millions

	Fiscal year of borrowing[a,b]						
Fiscal year of debt service[a]	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
1994	$379.4						
1995	377.3						
1996	406.5	$432.4					
1997	407.9	433.8	$459.8				
1998	**409.1**	**435.0**	**461.0**	**$486.4**			
1999	407.9	433.8	459.8	485.2	**$510.0**		
2000	406.3	432.3	458.2	483.7	508.5	**$526.9**	
2001	401.7	427.6	453.6	479.0	503.8	522.3	**$540.3**
2002	396.0	421.9	447.9	473.3	498.1	516.6	534.6
2003	390.7	416.6	442.6	468.0	492.8	511.3	529.3
Maximum amount of debt service[c]	409.1	435.0	461.0	486.4	510.0	526.9	540.3
Estimated revenue for the year the bond is issued	3,581.4	3,604.8	3,581.9	3,660.8	3,727.2	3,811.9	3,905.2
Maximum debt service as a percent of estimated revenue	11.42	12.07	12.87	13.29	13.68	13.82	13.84

[a]The year of the borrowing is indicated at the top of the column. The amount of debt service for the cumulative debt to that date plus the new borrowing in that year is shown in the column below the year of the borrowing. For example, new and existing borrowing in fiscal year 1996 is expected to incur debt service in the amounts shown in the column below 1996. The maximum debt service for that borrowing ($461.0 million) is expected to occur in fiscal year 1998. Therefore the $461.0 million would be divided by fiscal year 1996 expected revenues of $3.581 billion for a maximum debt service percent of 12.87 percent.

[b]Projected debt service for actual borrowing in fiscal year 1994. Fiscal years 1995 through 2000 are projected borrowing based on assumptions shown in table I.2.

[c]The year of maximum debt service for borrowing year is in bold print.

Table I.2: Assumptions Used for New Debt Calculations

New Debt Assumptions

Fiscal year	Amount[a] (millions)	Rate[b] (percent)	Term (years)
1995	$250	8.25	20
1996	250	8.25	20
1997	250	8.00	20
1998	250	7.65	20
1999	190	7.35	20
2000	190	7.06	20

[a]These amounts are projected annual general obligation borrowings by the District of Columbia Office of the Budget.

[b]These rates are used by the District of Columbia Office of the Budget and are based on projected interest rates published by the WEFA group in its U.S. Long-Term Economic Outlook.

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