FINANCING STRATEGY

Overview

The goal of the proposed financing strategy is to identify financing sources that will maximize capital project financing capacity at the lowest cost while maintaining future financing flexibility. As described in the proposed FY 2001 – FY 2006 Capital Improvement Plan (CIP), the District of Columbia (the "District") has plans to fund approximately $1.78 billion of its capital needs from debt sources over the next six years. Like most governments, the District's Capital Improvement Plan financing capacity is constrained by (i) statutory general obligation debt capacity, (ii) debt burden, which affects credit rating and (iii) level of annual operating budget resources available to pay debt service.

In developing its financing strategy, the District uses the following guidelines to determine the debt amounts to be issued during the six-year CIP period:

Statutory Requirements

- The issuance of general obligation indebtedness cannot cause maximum annual debt service to exceed 17.0% of local revenues as stipulated in the Home Rule Act.

Affordability

- The level of annual operating budget resources available to pay debt service should not impair the District's ability to fund ongoing expenditures and maintain operating liquidity.

Financing Sources

- Potential new financing sources will be identified and evaluated, with the goal of maximizing capital project financing capacity at the lowest cost available while maintaining future financing flexibility.

Credit Rating

- Issuance of additional debt should not negatively impact the District's ability to maintain and ultimately improve its credit ratings, which involves evaluating the impact of additional debt on the District's debt capacity, financing flexibility, debt burden, and rate of principal amortization.

Spending Capacity

- The financing strategy is dependent upon estimates of agencies ability to spend capital funds, if made available.

Statutory Authority

The District of Columbia Home Rule Act authorizes the District to issue short- and long-term general obligation and revenue debt. Short-term general obligation debt may be issued in the form of revenue anticipation notes to meet cash flow needs, budget notes to meet appropriations in the absence of available unappropriated revenues, and bond anticipation notes for capital projects. Long-term debt may be issued in the form of general obligation and revenue bonds to provide for the payment of the cost of acquiring or undertaking capital projects and to refund outstanding indebtedness of the District. The District is also authorized under Section 1-366 of the D.C. Code to enter into lease and lease purchase agreements that do not bind the District for a period of more than 20 years. In addition, the District of

Columbia Financial Responsibility and Management Assistance Act of 1995 authorizes the District of Columbia Financial Responsibility and Management Assistance Authority to borrow funds on behalf of the District at the request of the Mayor and pursuant to an act of the Council.

Outstanding Indebtedness

The District currently has approximately $3.08 billion of general obligation bonds outstanding. Outstanding general obligation bonds issued for water and sewer purposes is $104.2 million, the annual debt service payments for which the D.C. Water and Sewer Authority (WASA) is required to compensate the District.

WASA, the D.C. Housing Finance Agency (the HFA), the Redevelopment Land Agency (the RLA) and the Washington Convention Center Authority (the WCCA) are all quasi-independent District government entities or instrumentalities with their own bond issuance authority. As such, they have each issued revenue bonds (bonds payable from revenue sources ties to the particular projects being financed by such bonds) in recent years to finance capital expenditures that facilitate the carrying out of their respective missions. WASA has $415.9 million of revenue bonds outstanding; the HFA has $554.8 million of revenue bonds outstanding; the RLA has approximately $30 million of revenue bonds outstanding from financing the site acquisition and preparation for the MCI Center; and the WCCA has $524.5 million of revenue bonds outstanding from the financing of a new convention center in the District.

The debt service on the general fund portion of the District's long-term debt obligations is approximately $350 million in FY 2000. The schedule for repayment of outstanding general obligation bonds is set forth in the following tables by each series of bonds.

Aggregate Summary of General Obligation Debt Service, by Series of Bonds
As of
($000,000

Fiscal Year	Series 1988A	Series 1989A	Series 1991A	Series 1991B	Series 1992A	Series 1992B	Series 1993A	Series 1993B	Series 1993C	Series 1993D	Series 1993E
2000	3.30	5.60	0.47	37.94	30.32	1.53	17.52	28.51	27.23	1.17	9.03
2001	0.00	5.60	7.89	37.88	30.21	1.53	26.38	28.51	3.45	1.17	9.03
2002	0.00	0.00	0.00	38.00	24.43	1.53	26.35	42.40	3.45	1.15	9.04
2003	0.00	0.00	0.00	38.10	22.83	13.23	29.55	60.00	2.70	0.99	9.04
2004	0.00	0.00	0.00	0.00	22.89	13.26	29.52	68.22	2.69	0.63	18.85
2005	0.00	0.00	0.00	0.00	22.86	0.00	29.48	74.23	15.83	0.00	18.90
2006	0.00	0.00	0.00	0.00	12.35	0.00	54.90	66.72	15.78	0.00	18.91
2007	0.00	0.00	0.00	0.00	5.41	0.00	9.56	66.35	0.00	0.00	18.95
2008	0.00	0.00	0.00	0.00	5.45	0.00	0.00	59.41	0.00	0.00	18.98
2009	0.00	0.00	0.00	0.00	0.00	0.00	0.00	49.59	0.00	0.00	19.01
2010	0.00	0.00	0.00	0.00	0.00	0.00	0.00	34.36	0.00	0.00	19.05
2011	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.28	0.00	0.00	19.09
2012	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.01	0.00	0.00	19.13
2013	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	19.19
2014	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2015	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2016	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2017	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2018	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2019	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2020	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2021	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2022	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2023	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2024	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2025	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2026	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2027	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2028	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2029	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL	$3.30	$11.20	$8.36	$151.92	$176.75	$31.08	$223.26	$584.59	$71.13	$5.11	$226.20

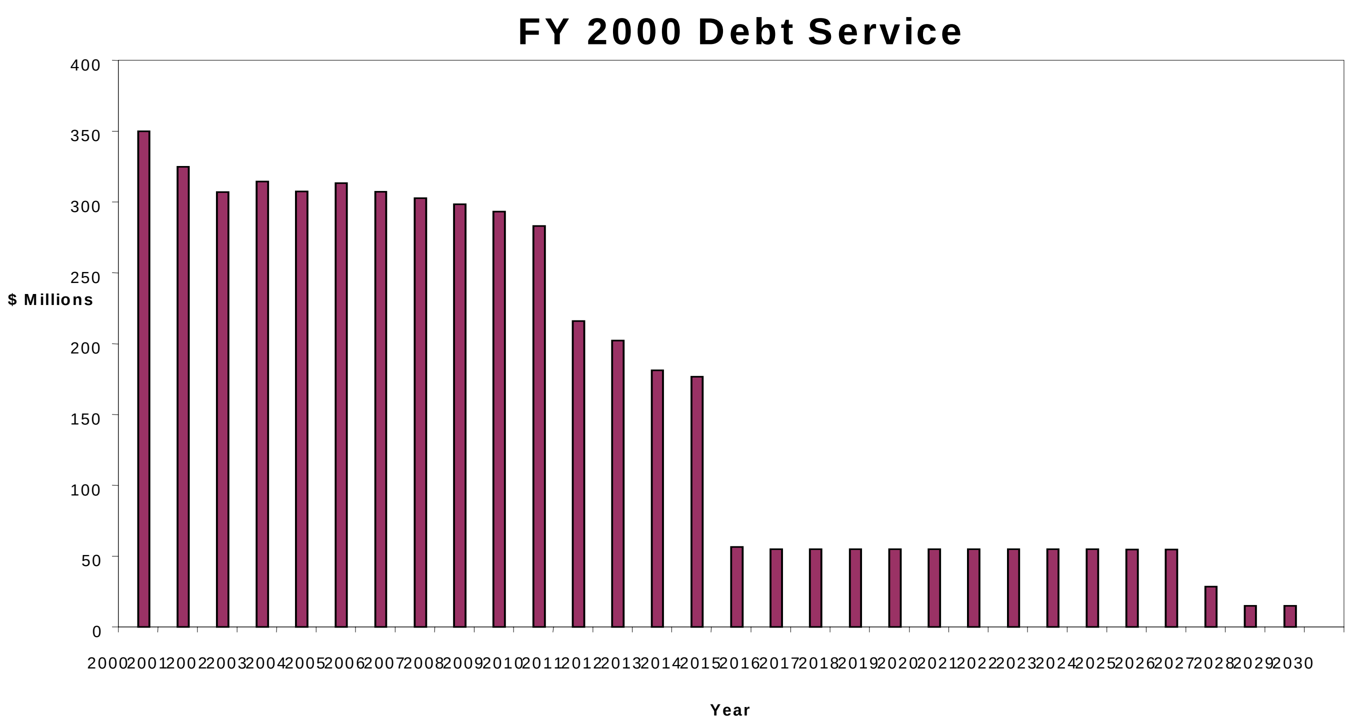
* Excludes Water and Sewer debt

Aggregate Summary of General Obligation Debt Service, by Series of Bonds Outstanding
As of 9/30/99
($000,000)

Fiscal Year	Series 1994A	Series 1994B	Series 1997A	Series 1998A	Series 1998B	Series 1999A	Series 1999B	Total
2000	42.44	2.37	8.54	10.64	31.81	13.19	79.26	350.87
2001	21.76	2.37	8.54	10.64	27.22	13.19	89.54	324.91
2002	39.50	2.37	8.54	10.63	29.60	13.28	56.80	307.07
2003	32.95	2.37	8.54	10.63	29.60	13.28	40.60	314.41
2004	28.66	2.37	8.54	10.63	25.15	13.28	62.91	307.60
2005	29.97	12.03	8.54	10.62	34.76	13.27	42.78	313.27
2006	14.74	14.67	8.54	16.90	30.62	13.27	39.78	307.18
2007	17.45	17.72	12.60	24.48	54.03	19.70	56.44	302.69
2008	3.00	0.00	12.59	24.44	74.91	19.69	79.97	298.44
2009	16.30	0.00	12.62	13.86	62.73	19.68	99.54	293.33
2010	16.31	0.00	12.66	13.86	62.77	19.67	104.37	283.05
2011	16.34	0.00	12.69	13.85	62.78	24.99	63.06	216.08
2012	0.00	28.73	12.61	13.85	37.86	24.98	62.02	202.19
2013	0.00	31.07	12.60	13.84	13.67	24.96	65.90	181.23
2014	0.00	31.07	12.60	13.84	13.66	24.95	80.56	176.68
2015	0.00	0.00	12.59	13.84	13.65	15.01	1.42	56.51
2016	0.00	0.00	12.58	13.83	13.64	15.00	0.00	55.05
2017	0.00	0.00	12.58	13.82	13.63	15.00	0.00	55.03
2018	0.00	0.00	12.56	13.82	13.63	14.99	0.00	55.00
2019	0.00	0.00	12.55	13.80	13.61	14.98	0.00	54.94
2020	0.00	0.00	12.54	13.80	13.60	14.98	0.00	54.92
2021	0.00	0.00	12.54	13.79	13.59	14.97	0.00	54.89
2022	0.00	0.00	12.52	13.77	13.61	14.96	0.00	54.86
2023	0.00	0.00	12.51	13.77	13.60	14.95	0.00	54.83
2024	0.00	0.00	12.50	13.76	13.59	14.94	0.00	54.79
2025	0.00	0.00	12.49	13.75	13.58	14.92	0.00	54.74
2026	0.00	0.00	12.47	13.74	13.57	14.91	0.00	54.69
2027	0.00	0.00	0.00	13.72	0.00	14.96	0.00	28.68
2028	0.00	0.00	0.00	0.00	0.00	14.96	0.00	14.96
2029	0.00	0.00	0.00	0.00	0.00	14.96	0.00	14.96
	$279.42	$147.14	$311.18	$391.92	$754.47	$495.87	$1,024.95	$4,897.85

* Excludes Water and Sewer debt service.

The District's current debt repayment structure is front-loaded due to the relatively short amortization of bonds issued by the District during the years prior to FY 1997. Since FY 1997, the District has issued more bonds with a 30-year amortization as a way to adjust the average maturity of the District's overall debt portfolio. The District has also initiated short-to-intermediate-term financing for those projects that may not fit the traditional criteria for long-term financing. The graph below depicts the District's current debt structure.



Statutory Long-term Debt Limit

Given the 17% debt limit ratio (maximum annual debt service to local-source revenues), the District has statutory general obligation debt capacity in excess of $2.5 billion, assuming level debt service on future debt issuances. The District's current debt ration is 11.02%. This provides sufficient debt capacity under the debt limit statute to finance the District's six-year Capital Improvement Program (CIP).

Debt Restructuring

As mentioned in a previous section, the District has front-loaded debt service, amortizing more than 38% of outstanding principal during the next five years and 69% over the next 10 years. The rating agencies view the amortization of 25% in 5 years and 50% in 10 years as adequate; thus the District exceeds these industry benchmarks. The District had an even higher percentage of near-term amortization of its debt prior to its debt restructuring in FY 1999.

In FY 1999, the District restructured a portion of its outstanding debt by issuing $685,715,000 in refunding bonds and $241,190,000 in new-money bonds for a total issuance of $926,905,000. The proceeds, including the $16,847,370 bond premium, allowed the District to:

1. Refund certain bonds in the amount of $572,280,000 in order to restructure the District's outstanding debt to (i) produce a more level amortization of the District's debt, which had much more near-term amortization than industry norms, (ii) produce budget relief over the next several fiscal years to help accommodate the tax cuts provided for in the FY 2000 Budget and Financial Plan;

2. Refund a portion of the District's outstanding debt in the amount of $113,435,000 at lower interest rates to produce debt service savings. The net present value savings associated with the refunding, including the restructuring portion was $5,184,844; and

3. Fund FY 1999 capital project expenditures in the amount of $236,876,000 in accordance with FY 1999 Budget and Financial Plan.

Debt Reduction

In FY 2000, the District plans to further reduce its outstanding general obligation debt and further reduce the percentage of near-term amortization via a securitization of tobacco settlement revenues and the prepayment of certain outstanding debt. The District plans to use $35 million from the FY 1999 surplus to defease (pay off) certain outstanding bonds that are payable over the next three years. Furthermore, the District plans to utilize Tobacco Settlement Revenues (TSRs) to defease a total of $207 million of outstanding general obligation debt scheduled to mature between 2000-2005 and to issue bonds back by TSRs, the proceeds of which will be used to advance refund (placing sufficient funds in escrow to pay off in the future) $249 million of general obligation bonds scheduled to mature between 2001 and 2014. The proposed transactions will produce debt service relief of $644 million over the next 14 years. While there will of course be debt service expenses associated with the tobacco bonds, this debt service will be outside of the District's operating budget and will be payable solely from the TSRs received by a separate entity (a trust) created specifically to facilitate this transaction.

The debt reduction is estimated to generate the following budget relief during the FY 2001 –FY 2006 CIP period:

Estimated General Obligation Debt Service Relief
from Tobacco Settlement Securitization and Debt Reduction

Fiscal Year	Estimated Budget Relief
2001	$70,041,416
2002	53,219,278
2003	60,641,137
2004	55,321,043
2005	61,929,153
2006	56,710,258

In addition to providing debt service and operating budget relief, this reduction in the District's outstanding debt will (i) provide a more level (less front-loaded) amortization schedule for the District's outstanding debt, and (ii) increase the District's capital financing capacity.

Credit Ratings

Based upon the improved financial condition of the District, Moody's Investors Service, Standard & Poor's, and Fitch, IBCA upgraded the District's credit rating to investment-grade levels, namely or Baa3, BBB and BBB, respectively, during FY 1999. Reasons cited for the upgrades include improved financial position resulting from substantial operating surpluses and the Federal government's assumption of certain former District liabilities/costs, "clean" audit results, strengthened management controls and reforms, and economic development initiatives.

Funding the FY 2001 - FY 2006 CIP

Similar to prior fiscal years, the FY 2001 CIP recommends funding from various sources, including long-term bonds, and highway trust fund moneys. As with last year, significant and intermediate-term financing is being proposed, including financing through equipment lease purchasing and intermediate-term general obligation financing. It is sound financial practice to match the weighted-average maturity of an entity's debt with the average useful life of the projects being financed. Only projects that are general governmental improvements with useful lives that will exceed the weighted-average maturity of the bonds are recommended to be financed with long-term general obligation bonds. Those projects which have short-term or intermediate-term useful lives will be financed through the District's equipment lease purchase program or through alternative financing sources, such as 15 year debt, revenue bonds or lines of credit/commercial paper. By utilizing these additional financing tools, the District will improve its asset/liability management, reduce debt service costs, reduce its debt burden, and preserve general obligation debt capacity.

SUMMARY OF FY 2001 - FY 2006 PROPOSED CAPITAL FUNDING ($000s)							
Funding	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	TOTAL FY01-06
Long Term	$406,387	$348,833	$223,199	$194,879	$229,886	$229,440	$1,632,624
Intermediate-Term	86,764	45,721	12,387	11,144	5,360	6,605	167,981
Master Equipment	37,082	13,781	5,187	3,757	557	750	61,114
Other Type	20,200	0	0	0	0	0	20,200
Highway Trust Fund -Federal	249,660	245,257	191,208	154,614	133,704	135,611	1,110,054
Highway Trust Fund - Local	51,779	50,81	40,337	32,327	26,348	34,189	235,792
Total	$851,872	$704,404	$472,318	$396,721	$395,855	$406,595	$3,227,765

Source: District of Columbia, FY 2001 to FY 2006 Capital

Long-Term Financing: This funding source is to be used for CIP projects that have a useful life of no less than 20 years. General obligation bonds or revenue bonds may be used as financing vehicles. General obligation bonds are secured by the full faith and credit and unlimited taxing power of the District. A specific pledged revenue source and not the unlimited taxing power of the District would secure the repayment of revenue bonds.

In conjunction with the use of long term bonds, the District may use Bond Anticipation Notes (BANs) and/or commercial paper as an interim financing tool. The use of either of these financing structures will allow the District to benefit from lower interest costs initially, while preparing for a more preferable time to issue long-term debt to finance capital expenditures.

Highway Trust Fund: These funds are earmarked through Public Law 104-21 and are used for the construction and repair of local and federal roads, streets and bridges. These funds are generated through the motor fuel tax and federal highway matching grant money.

Equipment Lease Purchase: The District implemented its Master Equipment Lease Purchase Program during FY 1998. The program provides funding for equipment items that have a useful life of 5 - 10 years. Equipment items eligible for the Program include rolling stock such as police and fire vehicles, centralized computer equipment, and telecommunications systems. Use of this program enables the District to improve its asset management by providing tax-exempt financing for projects with short-term to intermediate-term useful lives. In addition, financing through this program does not impact the District's debt ratio, as lease payments are subject to annual appropriation and are not considered a "debt" obligation.

Intermediate Financing: Intermediate financing sources are intended to be used for those projects which do not fit the criteria for long term debt issuance and/or should not be financed through the equipment lease program. District FY 2000 intermediate financing may include revenue bonds, lines of credit, and/or commercial paper. The intermediate financing source may include general obligation or special tax revenue bonds with a 15-year term.

Projected Debt Service Costs

The District can afford additional capital projects by identifying ways to decrease its existing debt burden, decrease debt service and/or reduce borrowing costs. In FY 2000, the District plans to issue bonds as variable-rate bonds in an effort to attain a portfolio comprised of 5% to 10% variable-rate debt and thereby reduce debt service costs. The use of variable-rate demand bonds allows an entity to issue long-term bonds that are subject to short-term market interest rates (which are lower rates). Of course, there is some risk associated with variable-rate debt, which is why only 5% to 10% of the portfolio will be issued as such. The benefit is the lower debt service costs that it is likely to produce.

FY 2001 Budget and Financial Plan

Estimated Debt Service and Statutory Debt Capacity

($000s)

	FY 2000	FY 2001	FY2002	FY2003	FY2004
Revenues					
Total Local Funds	$3,213,859	$3,263,011	$3,305,398	$3,411,121	$3,493,149
Existing Debt Service					
Total Existing Debt Service (1)	$356,866	$330,812	$312,747	$318,051	$310,703
Less: Proposed Debt Reduction	(5,446)	(70,041)	(53,219)	(60,641)	(55,321)
Debt Svc. after Debt Reduction	$351,420	$260,771	$259,528	$257,410	$255,382
General Obligation Bonds (2)					
FY 2000	$2,797	$16,783	$16,783	$16,883	$16,883
FY 2001		8,641	34,565	34,565	34,665
FY 2002			13,956	27,911	27,911
FY 2003				9,046	18,091
FY 2004					7,657
Estimated Debt Service	$2,797	$25,424	$65,304	$88,405	$105,207
Master Equipment Lease					
FY 2000	$324	$4,832	$8,524	$8,524	$8,524
FY 2001		2,551	5,554	5,554	5,554
FY 2002			1,011	2,135	2,135
FY 2003				349	899
FY 2004					98
Estimated Debt Service	$324	$7,383	$15,089	$16,562	$17,210
Estimated Debt Service and Debt Capacity					
Total Estimated Debt Service	$354,541	$293,578	$339,921	$362,377	$377,799
Debt Service to Local Revenues	11.02%	8.77%	9.83%	10.14%	10.32%
Debt ServiceRemaining Capacity	$191,815	$261,134	$221,997	$217,514	$216,036
Remaining Statutory Bond Capacity	$2,380,000	$3,240,000	$2,755,000	$2,700,000	$2,680,000

NOTES:

(1) Includes 1991B Recovery Bonds Debt Service.

(2) Assumes long-term GO borrowings for capital amortized for 30 years at an average borrowing rate of 7.0% (5.5% on variable-rate bonds).

As indicated in the chart above, the District has statutory debt capacity in excess of the long term general obligation funding needs identified in the FY 2001 - FY 2006 CIP. Therefore, the District has the legal capacity to responsibly engage in additional borrowing for major infrastructure investments, i.e. roads, utilities and school renovation/construction.

Funding the FY 2001 Seasonal Cash Needs

The District's seasonal cash need results from timing differences between the District's disbursement and receipt of funds within a given fiscal year. The District may issue general obligation tax revenue anticipation notes in the financial marketplace; these notes must be repaid with interest on or before the last day of the fiscal year.

In FY 2000, the District issued $70 million of Tax Revenue Anticipation Notes (TRANs) to fund its seasonal cash needs. This amount represents a decrease from prior years due to revenue improvements. The District plans to issue $90 million in TRANs to finance its seasonal cash needs in FY 2001. This amount could be reduced, depending on the District's increases its FY 2000 operating results and its resultant cash balances.

Conclusion

The goal of the District's capital financing plan is to identify financing sources which will maximize capital project financing capacity at the lowest cost available while maintaining future financing flexibility. In order to meet this goal, the financing plan contemplates:

(1) reducing outstanding debt to reduce debt service costs and provide operating budget relief, increasing future financing capacity and flexibility;

(2) using the Master Equipment Lease Purchase Program to finance equipment over its useful life without impacting the District's debt ratio;

(3) fully funding the $1.8 billion FY 2001 - FY 2006 CIP to meet the District's infrastructure needs;

(4) reducing the cost of capital by issuing a portion of the District's debt variable-rate debt.