

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer



Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: The Honorable Linda W. Cropp
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer

DATE: APR 26 2006

SUBJECT: Fiscal Impact Statement: "AWC and NCRC Debt Acquisition
Delegation Authority Amendment Act of 2006"

REFERENCE: Bill - 16-655 Draft Committee Print

Conclusion

The fiscal impact of the AWC and NCRC Debt Acquisition Delegation Authority Amendment Act of 2006 cannot be determined at this time. The proposed bill could have a significant impact on the District's budget and financial plan if it allows Independent District Entities to take on additional debt without active Council review and approval and full CFO review. AWC and NCRC debt is considered District debt by the rating agencies. Lack of central control for taking on debt will raise concerns on Wall Street about the District's debt burden.

Moving final decision making on District debt away from elected officials, or failing to set clear, financially responsible limits upon a delegate (i.e., on amount of debt and terms of its issuance), could affect the future ability of the District to borrow for capital projects, and could be perceived as circumventing the capital budgeting process. I strongly recommend adding provisions to the bill requiring (1) either Council review and approval for each request to take on debt, or the fulfillment of certain explicit and financially prudent requirements by a delegate, and (2) a CFO fiscal impact review. These two steps should add sufficient precautionary measures to assure the debt to be taken on is in the best interests of the District.

Background

The proposed bill would give the Anacostia Waterfront Corporation (AWC) and the National Capital Revitalization Corporation (NCRC) broad authority to enter into a

variety of debt obligations with very limited District review. Specifically, under the proposed bill, the AWC and NCRC would submit an approval resolution, and the Council would have a 10-calendar-day period to act on the resolution. Failure of the Council to take action within ten calendar days would be deemed to be Council approval of the resolution. The Chief Financial Officer is given no role in reviewing or certifying the debt obligation.

The proposed legislation defines debt as a special obligation of the Corporation(s) that shall not constitute a debt of the District. Neither the Council nor the CFO is required to review and approve these debt obligations. However, there are several reasons that the District should be concerned about these debt obligations:

- Rating agencies consider all Independent District Entity debt to be District debt when it determines ratios such as: debt per capita; debt to full value of property; and debt to income.
- If debt collateralized by a publicly-owned real estate asset became at risk of default, it may very well be in the best interest of the District to pay off the debt (regardless of whether the District is technically liable) rather than let it go into default, risk the loss of the asset, and/or risk a downgrade to the District's credit rating by the rating agencies.
- The District has a general fiduciary responsibility to protect the assets of the District which have been turned over to non-elected quasi-public organizations for public purpose development.

Financial Plan Impact

The CFO cannot determine if funds will be sufficient in the FY 2007-2010 budget and financial plan to implement the proposed legislation. The proposed legislation could have a significant impact on the District's budget and financial plan if it allows Independent District Entities to take on debt without active Council review and approval (or explicit and prudent limits) and full CFO review. The District has and may continue to turn over valuable real estate and other assets to these corporations, and therefore should be included in the review of each individual debt proposal. Otherwise, the District could be putting its capital borrowing capacity at risk and would be relinquishing control of much of the decision making about the public assets collateralized by such debt.

I strongly recommend adding provisions to the bill requiring (1) either Council review and approval for each request to take on debt, or the fulfillment of certain explicit and financially prudent requirements by a delegate, and (2) a CFO fiscal impact review. These two steps should add sufficient precautionary measures to assure the debt to be taken on is in the best interests of the District.