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: JUL -7 2005

SUBJECT: Fiscal Impact Statement: "School Modernization Financing Act of 2005" (Revised)

REFERENCE: Bill Number 16-250 as Introduced

Conclusion

Funds are not sufficient in the proposed FY 2006 through FY 2009 budget and financial plan as agreed to by the Mayor and the Council of the District of Columbia (Council) to implement the proposed legislation. **The proposed legislation would result in unbudgeted expenditures of $60 million in FY 2007 and $120 million for the period of FY 2006 through FY 2009.**

Background

Bill 16-250 would authorize the Mayor, beginning October 1, 2006 to issue up to one billion dollars ($1,000,000,000) in bonds to finance the costs of modernizing, renovating or constructing public school facilities in the District. The bill provides that debt service for the bonds would be paid by using $60 million annually from monies deposited in Lottery and Charitable Games Fund.

The bill also would require the District Board of Education, no later than October 1, 2006, to adopt a Multi-Year Facilities Plan to guide the modernization of District of Columbia Public Schools (DCPS), and to report to the District of Columbia Auditor on October 1, 2007 and each year thereafter on the use of the capital funds.

Financial Plan Impact

In practice, we expect these bonds would require coverage of at least 2 times debt service; the maximum bonds that could be issued with $60 million pledged to debt service would be $440 – 500 million, depending on interest rates; and taking reserve requirements into consideration, the net bond proceeds would be $410-470 million. With required coverage of 2 times debt service, the financial plan would have to incorporate a $60 million commitment for this purpose in FY2007, assuming an issue late in FY2006. If the objective of the bill is to generate $1 billion in bond proceeds, it is estimated that approximately $130 million would be required for annual debt service.

Under existing practice, revenues generated by the DC Lottery that are not required to make prize payouts and to fund the authorized administrative budget of the Lottery are transferred to the General Fund and are used to fund the District's general fund budget. Assuming actual debt service of $30 million, the remaining $30 million would be available in FY2008 and could be combined with another $30 million from the lottery to provide the needed coverage. While the complete budgetary and financial procedures would need to be determined in keeping with GAAP and rules of the financial markets, the net impact is an on-going reduction of funds for the general fund budget of $30 million annually.

Thus with the current expenditure budget and revenue forecast, funds are not sufficient in the FY2007-FY2009 to support the legislative proposal. The table in Figure 1 presents the reductions to financial resources impacting the FY 2006 to FY 2009 budget and financial plan.

Figure 1.

Impact to the Financial Plan ($ in millions)				
FY 2006	FY 2007	FY 2008	FY 2009	4 - Year Total
(0)	($60)	($30)	($30)	($120)