Government of the District of Columbia
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: **The Honorable Vincent C. Gray**
Chairman, Council of the District of Columbia

FROM: **Natwar M. Gandhi**
Chief Financial Officer

DATE: JUN 12 2008

SUBJECT: **Fiscal Impact Statement: "Income Tax Secured Bond Authorization Act of 2008"**

REFERENCE: **B17-0741**

Conclusion

Funds are sufficient in the FY 2008 budget and the proposed FY 2009 through FY 2012 budget and financial plan to implement the proposed legislation.

Background

The proposed legislation would authorize the issuance of up to $2.919 billion of bonds payable from and secured by individual income tax and business franchise tax revenues ("Income Tax bonds"), which is the approximate amount of General Obligation ("GO") bonds contemplated to be issued in the 6-year Capital Plan between FY 2009 and FY 2014. The Income Tax bonds would be available as an alternative to the issuance of GO bonds when the District could achieve a lower interest rate by using Income Tax bonds. As a result, the debt service on Income Tax bonds would take the place of budgeted debt service on GO bonds.

The proposed legislation would not terminate the District's ability to issue GO bonds. Each time the District seeks to issue debt to fund the Capital Improvement Plan, the Chief Financial Officer ("CFO") would determine whether GO bonds or Income Tax bonds would provide the District with lower annual debt service costs.

The proposed legislation would create a special, non-lapsing fund, called the Income Tax Secured Bond Fund ("Fund"), separate from the General Fund. In a manner similar to the current allocation of property taxes for GO bonds, the legislation authorizes the CFO to deposit individual income taxes and business franchise taxes in the Fund. The amounts in the Fund would be dedicated first to the payment of debt service on the Income Tax bonds. Each year, the amounts in the Fund would accumulate until sufficient to pay the next year's debt service on outstanding Income Tax bonds, with the remainder then released to the General Fund. Because Income Tax bonds would be used in lieu of GO bonds, to the extent income taxes and business franchise taxes are allocated to pay the Income Tax bonds, the amounts of property taxes that otherwise would have been set aside for payment of GO bonds would become available for the District's operations.

There will be administrative costs associated with the issuance of the Income Tax bonds. However, these costs are expected to be similar to the costs currently associated with the issuance and tracking of the revenues set aside to pay the debt service on GO bonds, as well as the costs associated with the collection of income and business franchise taxes. The administrative costs are expected to be included in either the costs of issuance at the time of the borrowing or the existing budget for the Office of Tax and Revenue.

The legislation does not increase income taxes or business franchise taxes. The legislation allows the Council to reduce the business franchise tax and income tax rates or to modify the income subject to those rates only if the modifications do not reduce the withholding portion of the income tax revenues below two times the amount necessary to cover annual debt service on the outstanding Income Tax bonds.

At this time there is ample coverage for the Income Tax bonds. Individual income taxes and business franchise taxes generated approximately $1.7 billion in FY 2007. If the District were to sell the entire $2.919 billion of Income Tax bonds and the total income tax stream remained constant, annual debt service would be approximately $219 million, resulting in debt service coverage of almost 8 times the amount necessary to pay debt service.

The CFO believes that the Income Tax bonds may achieve ratings higher than the ratings on the GO bonds, which could lead to lower interest rates and savings in annual debt service costs. Estimates of potential savings in annual debt service costs cannot be calculated until the District has submitted a ratings request to the rating agencies.

Financial Plan Impact

The proposed legislation, which authorizes the District to issue Income Tax bonds, does not impact the budget and financial plan. Funds are sufficient in the FY 2008 budget and the proposed FY 2009 through FY 2012 budget and financial plan to implement the proposed legislation.