

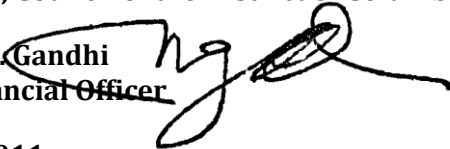
Government of the District of Columbia
Office of the Chief Financial Officer



Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: The Honorable Kwame R. Brown
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi 
Chief Financial Officer

DATE: July 12, 2011

SUBJECT: Fiscal Impact Statement – “Amendment #2” proposed
by CM Cheh

REFERENCE: Draft Amendment to Fiscal Year 2012 Budget Support Technical
Clarification Emergency Amendment Act of 2011, dated July 12, 2011

Conclusion

Funds are sufficient to implement the proposed amendment.

As a cautionary note, rating agencies and potential investors in the District’s bonds may view the reduction of the amounts previously approved for the Cash Flow Reserve as a lack of willingness and commitment to rebuild the General Fund balance and increase liquidity.¹ This reduction could lead to a negative outlook or even a downgrade on the District’s General Obligation (G.O.) bond ratings, which would result in higher interest costs on future G.O. bond sales.

Background

The proposed amendment would make the tax on interest earned on out-of-state municipal bonds applicable starting Tax Year 2013. Current law makes this tax effective starting Tax Year 2012.

The proposed amendment would also authorize the transfer of \$13.4 million in FY 2012 from the Cash Flow Reserve Account to the unrestricted fund balance of the General Fund.

¹The General Fund balance has fallen from a high of \$1.6 billion in FY 2005 to a projected \$700 million in FY 2011, a decline of 56 percent over six years. At the same time, cash flow borrowing has grown from \$250 million in FY 2005 to an expected \$900 million in FY 2012.

Financial Impact

Funds are sufficient to implement the proposed amendment. The proposed transfer is sufficient to cover the revenue loss of \$13.4 million from the postponing of the income on interest earned on out-of-state bonds.