


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: December 2, 2008

SUBJECT: Fiscal Impact Statement: "Limitation on Borrowing and
Establishment of the Operating Cash Reserve Act of 2008"

REFERENCE: Bill 17-0914, Committee Print¹

Conclusion

Funds are sufficient in the FY 2009 through FY 2012 budget and financial plan to implement the provisions of the proposed legislation. The proposed legislation has no net fiscal impact.

Background

The proposed legislation would amend Chapter 3 of Title 47 of the D.C. Official Code to limit debt service on the District's bonds – General Obligation (GO) bonds, Treasury capital project loans, tax-supported revenue bonds or notes (including, but not limited to tax increment financed bonds), certificates of participation, and lease-purchase financing – to 12 percent of the District's General Fund expenditures in each year of the District's budget and financial plan.²

In addition, the proposed legislation would amend D.C. Official Code § 47-392.02 to establish an Operating Cash Reserve ("Reserve") within the General Fund. The proposed Reserve would replace the District's Budgeted Cash Reserve, which policymakers chose not to include in the FY 2009 budget. (This Reserve had been mandated by Congress at one point, and District policymakers still budgeted it through FY 2008 even after the mandate had expired.) Prior to FY 2009, the Budgeted Cash Reserve was funded by an annual appropriation of \$50 million and was

¹ Committee Print dated December 2, 2008. Received in ORA December 1, 2008.

² General Fund expenditures include the "transfers" line item in the District's annual budget and financial plan.

intended to address spending pressures or revenue shortfalls that occurred during a fiscal year. Funds from the Budgeted Cash Reserve, which is one of the District's three reserve funds, are to be expended and obligated in accordance with directives of the Office of the Chief Financial Officer, the D.C. Council, the Mayor, and Congress.³

The Reserve proposed in B17-914 would be established as a segregated account within the General Fund and would be funded in the amounts of \$46 million in FY 2009, \$46 million in FY 2010, \$48 million in FY 2011, and \$50 million in FY 2012.

The proposed legislation would alter some of the conditions of use for the Reserve, compared to the expiring Budgeted Cash Reserve. The proposed Reserve would be subject to the following:⁴

- On or after October 1st of each year, the OCFO would certify that \$25 million is available for one-time expenditures, subject to \$25 million remaining in the Reserve if the OCFO determines that the "Washington Metropolitan Area Transit Authority Fund Act of 2006" is unlikely to be effective prior to March 31st of the current fiscal year;⁵
- Likewise, on or after April 1st of each year, the OCFO would certify that all remaining funds in the Reserve are available for one-time expenditures, if the OCFO also determines that the "Washington Metropolitan Area Transit Authority Fund Act of 2006" is unlikely to be effective prior to September 30th of the current fiscal year; and
- Upon the applicability of the WMATA Fund Act of 2006, the Mayor would be required to transfer all required funds, via a reprogramming, to WMATA. At this time, the provisions for transfers to WMATA from the Reserve would sunset and the Reserve would cease to exist.

Finally, the proposed legislation would amend the WMATA Fund Act of 2006 by changing the required funding amount to the WMATA Fund from 0.5% of sales tax revenue to 5.7% of general sales tax revenue (net of dedicated taxes). This change would not result in a fiscal impact because the funding required by the 5.7% transfer (approximately \$50 million) would be accounted for by the lapsing of the Reserve fund.

Financial Plan Impact

³ The other two funds are the Emergency Cash Reserve and the Contingency Cash Reserve.

⁴ Expenditures from the proposed Reserve, just as with the expired reserve, must be made in accordance with Council laws, expenditures may not be used to fund agencies of the District government under court ordered receivership, and expenditures must be made in accordance with directives of the Office of the Chief Financial Officer, the D.C. Council, the Mayor, and Congress.

⁵ D.C. Law 16-132 required the District to establish a dedicated fund funded by revenue equal to 0.5% of retail sales tax for the purpose of providing recurring funding for the Washington Metropolitan Area Transit Authority (WMATA). However, the legislation's applicability is subject to Congressional legislation providing Federal grants to WMATA and to passage of legislation in Maryland and Virginia that would dedicate similar amounts of revenue to WMATA.

Funds are sufficient in the FY 2009 through FY 2012 budget and financial plan to implement the provisions of the proposed legislation. The proposed legislation has no net fiscal impact.

Funding for the proposed Reserve would come from reductions in recurring expenditures, as adopted in the Council's budget closing measures of November 2008. The recurring expenditure reductions total \$46 million in FY 2009 and FY 2010, \$48 million in FY 2011, and \$50 million in FY 2012. These reductions are part of the baseline budget. Should the provisions of the WMATA Fund Act of 2006 become effective, an amount similar to the expenditure reductions (5.7% of net general sales tax revenue) would be allocated to the WMATA Fund but the Reserve fund would cease to exist. Thus the fiscal effect would be neutral.