



D I S T R I C T O F C O L U M B I A B A R
District of Columbia Affairs Section

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Summary

The D.C. Affairs Section has written to Council Chair Linda Cropp to urge the Council pass Bill 15-239, the "Rainy Day Fund Act of 2003," without delay. The Section asked Chairman Cropp to set this legislation for public hearing as soon as possible to clear the way for the full Council to pass the bill, the Mayor to sign it, and the congressional approval process to begin.

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Section Web Site Address:
www.dcbbar.org/dc_affairs

Steering Committee:
James S. Bubar, Co-Chair
Bell Clement, Co-Chair
Charlotte Brookins-Hudson
Sally B. Weinbrom Kram
Grace M. Lopes
Terri A. Thompson Mallett
Thorn L. Pozen
Jenny R. Rubin
Walter A. Smith, Jr.

Board of Governors Liaisons:
Fletcher
Fletcher

The Section's letter cites a report issued this spring by the D.C. Fiscal Policy Institute catalogues practices among forty-five states that make use of reserve funds similar to the District's emergency and contingency funds. The report shows that requirements placed by Congress on District reserves are unusually restrictive and unnecessarily constrain the District's access to these funds in times of economic stress, such as those the city currently confronts. In addition, the Section suggests modifications to the reserve fund rules, which would accomplish the following: (1) permit both contingency and emergency funds to be used to address revenue shortfalls; (2) eliminate the rule requiring District reserve fund withdrawals to be replenished within one year, and (3) allow the District to carry over cash balances at the end of the fiscal year, rather than those balances dropping to the bottom line.

The Section believes that Bill 15-239 will bring the District into line with the best practices utilized by other jurisdictions with respect to the management of their reserve accounts and should not jeopardize the District's increasingly strong relationship with the bond markets. The Section stands ready to assist the District in any way in support of this legislation as it progresses both through the local and federal processes.

The following committee members participated in drafting this letter: Jon Bouker, Charlotte Brookins-Hudson, James Bubar, Bell Clement, Terri Thompson-Mallett, Thorn Pozen, and Jenny Rubin. Grace Lopes did not participate in this discussion. The letter was approved at the Steering Committee meeting on October 24, 2003, and subsequently.

Should you have any questions regarding this letter, please do not hesitate to contact Jon Bouker, Chair of the Section's Legislation Committee at (202) 857-6000.



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Board of Governors Liaisons:

FrD. Carter

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The D.C. Affairs Section supports modifications to the reserve fund rules, which would accomplish the following:

Permit both contingency and emergency funds to be used to address revenue shortfalls. Under present law, only the \$100 million contingency fund can be used in this fashion; the District's emergency fund is reserved for use in response to natural disasters and similar emergencies. No other state reserve fund operates under such a restriction.

Eliminate the rule requiring District reserve fund withdrawals to be replenished within one year. Local governments do not recover from economic downturns in the course of one year. This rule would thus require the District to replace funds withdrawn to cover the revenue effects of such a downturn while revenues are still depressed. Only six of the states operating rainy day funds set a specified period for fund replenishment; none requires one-year replenishment. Relaxing the District's rule will provide lawmakers a reasonable flexibility to use the fund to prevent cuts in core programming.

Allow the District to carry over cash balances at the end of the fiscal year, rather than those balances dropping to the bottom line. Currently, at the end of each fiscal year, any cash balance remaining in the District budget must drop to the District's bottom line where the District is unable to access the funds unless granted special permission by Congress. This requirement, which is an additional burden on the District separate and apart from the reserve requirements, has caused the District to build up a huge cash balance that within several years could amount to over \$1 billion dollars. The District is unable to utilize these funds, even in times of desperate fiscal need or to alleviate spending pressures, without affirmative congressional permission to do so. This constraint should be eliminated so that the District's cash balance carries over from year to year and is available to the District for targeted purposes.

Bill 15-239 will bring the District into line with the best practices utilized by other jurisdictions with respect to the management of their reserve accounts and should not jeopardize the District's increasingly strong relationship with the bond



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markets. The Section appreciates and supports the efforts of the Council and the Mayor in support of these changes. We understand that because Bill 15-239 would request changes in federal law, it would have to be passed by the Congress before it could go into effect.

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The Section stands ready to assist the District in any way in support of this legislation as it progresses both through the local and federal processes. Should you have any questions regarding this letter, please do not hesitate to contact Jon Bouker, Chair of the Section's Legislation Committee at (202) 857-6183.

Respectfully submitted,

District of Columbia Affairs Section
Of the District of Columbia Bar

By: 
James S. Bubar, Co-Chair

By: 
Bell Clement, Co-Chair

cc: Mayor Anthony Williams
Members of the City Council
Chief Financial Officer Natwar Gandhi

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Laurie Fletcher