

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER



Glen Lee
Chief Financial Officer

March 11, 2024

Kevin Donahue
City Administrator
Government of the District of Columbia
1350 Pennsylvania Avenue, N.W., Suite 513
Washington, DC 20004

Re: Fiscal Stabilization Reserve Account

Dear City Administrator Donahue:

Thank you for your letter dated March 7, 2024, regarding replenishment of the Fiscal Stabilization Reserve Account (“Reserve”) and the opportunity to provide context regarding the significance of replenishment of the Reserve in the Mayor’s Proposed FY 2025- FY 2028 Budget and Financial Plan.

The District will not enjoy the robust revenue growth during the upcoming financial plan period experienced in years passed. As outlined in our economic forecasts over the past year, annual revenue growth over the financial plan period is expected to be modest at best, and remain below the rate of inflation. Program savings, or underspending, are also expected to substantially diminish as agencies are challenged to maintain services with effectively fewer resources. Accordingly, the factors that have previously resulted in annual unanticipated surpluses no longer exist and cannot be relied upon for replenishment of this Reserve. Any surpluses that materialize are expected to be consumed by the repayment of the federally mandated contingency reserve fund, as well as other year-end requirements.

The Fiscal Stabilization Reserve is an important component of the District’s liquidity or working capital. As the timing of cash inflows and required outflows is not perfectly synchronized, this Reserve can be used to meet cash obligations during a fiscal year. The availability of this Reserve is particularly important during the FY 2025 – FY 2028 financial plan, as during this period, \$2.3 billion or approximately half of the District’s accumulated fund balance will be spent, leaving only the federally and locally mandates reserves to address both routine and unexpected obligations.

As requested, enclosed is cash flow data, prepared by the Office of Finance and Treasury, detailing the District’s cash-flow peaks and troughs in the period from FY 2019 projected through February of FY 2024. Inherent in these data is the fact that revenue recognized from

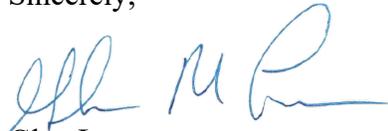
month-to-month is not sufficient to satisfy ongoing governmental operations, resulting in heavy reliance on the two reserve funds established under local law and underscoring the point that daily cash flow management is a critical issue that will become especially acute as accumulated fund balance is exhausted over the financial plan period, diminishing our capacity to address unanticipated events.

Since its use in FY 2023, there has been clear and consistent communication between our offices regarding the expected timing of the replenishment of the Reserve. In both private and public statements, including your recent testimony before the Council on February 1st of this year, you indicated that the Executive would replenish the fund in the Proposed FY 2024 Supplemental Budget and/or the Proposed FY 2025 Budget. The Executive's position of not replenishing the Reserve in either of the proposals is a very recent development which would, in my opinion, result in a clear deterioration of the District's financial condition, when coupled with low revenue growth and exhaustion of discretionary surpluses.

Therefore, while there is no legal requirement that the Reserve be replenished following its use as specified in the District's FY 2023 budget(See D.C. Official Code § 47-392.02(j-1)(2)(D)), under the Home Rule Act ("HRA"), the Chief Financial Officer ("CFO") has sole legal authority to certify the Mayor's proposed budget and financial plan ("budget"). See, e.g., HRA Section 424(d). Moreover, this authority is broad; the HRA does not limit the CFO's authority to certify the budget to specific criteria set forth under federal or local law. As Chief Financial Officer, I have the authority and responsibility to evaluate all aspects of the budget, including its failure to replenish the Reserve, in order to determine whether the proposed budget is balanced, financially sound and supportive of the District's financial stability.

Lastly, the conclusions outlined above are not based on a policy preference, but rather on the negative impact that such policy decisions will have on the District's financial position. We remain steadfast in our responsibility under federal law to ensure that policy choices by the Mayor and Council are both fiscally responsible and sustainable. As such, the Mayor's Proposed FY 2025 – FY 2028 Budget and Financial Plan must include replenishment of the Reserve in order to receive certification from my office. As always, my team and I stand ready to assist you and the Office of Budget and Performance Management in the budget formulation process.

Sincerely,



Glen Lee
Chief Financial Officer

Attachment

cc: Jennifer Reed, Director, Office of Budget and Performance Management, Office of the City Administrator

