



INVEST IN DC

IT'S TIME TO USE DC'S RAINY DAY FUND

The District has substantial “rainy day” reserves, but unlike most states, the city has not tapped these funds during the current recession. Not using any of the \$284 million in reserves has forced the city to adopt substantial budget cuts – in education, libraries, recreation, homeless services, and other areas – as well as to increase taxes and fees.

The District should use a portion of its rainy day fund to help preserve important services and limit additional cuts in the fiscal 2011 budget. By all measures, DC's budget crisis qualifies as a rainy day. The recession has depressed DC's tax collections, creating a \$600 million budget shortfall for the coming year. Meanwhile, more residents are in need of help, as unemployment has soared to a record level.

Restrictive federal rules make it hard for DC to access its rainy day funds. For several reasons, Mayor Fenty and the DC Council should start working with Congress to modify these rules.

- **Rainy day reserves limit the need to cut services or raise revenues.** The District can use the rainy day fund to preserve important services like education and health care -- without tax increases. Using rainy day reserves also provides a stimulus to the local economy.
- **DC's rainy day fund is more restricted than any state rainy day fund.** Congress set rules that make DC's rainy day fund inaccessible, particularly a requirement to repay withdrawals within two years. By contrast, most states replenish reserves when the economy recovers.

QUESTIONS

How much of the rainy day fund should be used this year? While it wouldn't be wise to use all of the rainy day fund in 2011, drawing down the reserve over two or three years would make sense.

Will using the rainy day fund hurt DC's bond rating? The bond rating agencies note that rainy day funds are intended to be used. Changing DC's rainy day fund rules simply so the fund can be used should not hurt the city's bond rating.

Will Congress approve the needed changes? Congress recently relaxed restrictions on needle-exchange programs and medical marijuana. Congress should be open to giving DC the same flexibility over its rainy fund that other states have.

How will using the rainy day fund affect DC's “working capital?” The city's fund balance (essentially its savings account) has diminished in the recession, but this is to be expected. In fact, most states have drawn down their fund balances more than the District has. The District's rainy day reserves equal roughly five percent of its budget. In 33 states, however, their total fund balance is less than five percent of their budget. If DC chooses to maintain its “working capital,” it would not be able to use its rainy day fund at all, defeating the intended purpose.