DC Fiscal Policy Institute

May 18, 2010

DESPITE DECLINING, DC'S FUND BALANCE IS LARGER THAN IN MOST STATES
DC Should Start Planning for How to Replenish the Fund When Finances Recover

The District's "fund balance" — essentially the city's savings account — grew sharply in the mid-2000s in the midst of a booming economy, but it has been declining in recent years. Some of the funds have been used to support capital construction projects and some have been used to preserve services in the midst of one of the worst economic recessions in history. While the drop in fund balance has raised legitimate concerns among policymakers and the District's Chief Financial Officer, the District is not alone. Most states have drawn down their fund balances, often to a greater extent than DC has. In fact, the District's fund balance remains far higher as a share of its budget than in most states.

At the same time the District's fund balance cannot continue to be depleted much longer, and DC's leaders should come up with a plan to stabilize and then begin replenishing it, although the questions of when and how much will need to be carefully considered. Because DC's fund balance remains one of the strongest in the nation, it does not appear that the city needs to start rebuilding the fund balance in the immediate future, especially as it continues to struggle with the recession.

The District's fund balance includes funds serving a variety of important purposes — including the city's rainy day reserves, escrow funds to back DC's bond payments, and taxes dedicated to specific purposes. When DC's economy is strong, the fund balance also includes accumulated budget surpluses. The money in DC's fund balance also provides "working capital" — funds that can be used to meet operating expenses when revenues don't come into the District coffers at the time that certain expenditures need to be made. A stable supply of working capital thus helps avoid the need for short-term borrowing to cover expenditures.

DC's fund balance has fallen from a high of $1.5 billion in FY 2005 to $920 million at the end of 2009. Current projections suggest that the fund balance could fall to $600 million at the end of FY 2011, although this is the worst-case scenario.

While this reduction has raised legitimate concerns, nearly all states began reducing their fund balances in FY 2008, following the start of the national recession, and DC's fund balance remains far healthier than in nearly all states. As the recession has continued to reduce the amount of revenue flowing into states' coffers through FY 2011, states have continued to reduce their fund balances, relying on them, in part, to prevent serious budget cuts.

- In 2008, a majority of states had fund balances that exceeded 10 percent of their general fund expenditures, according to a survey of the states completed by the National Governors Association and the National Association of State Budget Officers. (See Table 1).

TABLE 1: THE MAJORITY OF STATES HAVE REDUCED THEIR FUND BALANCE LEVELS DURING THE ECONOMIC RECESSION

TOTAL YEAR-END BALANCES AS A PERCENTAGE OF EXPENDITURES, FY 2008-FY2010

	Number of States		
Percentage	FY 2008 (Actual)	FY 2009 (Preliminary Actual)	FY 2010 (Appropriated)
Less than 1.0%	2	9	11
1.0% to 4.9%	12	17	22
5.0% to 9.9%	16	14	6
10% or more	20	10	11

Source: National Association of State Budget Officers, *The Fiscal Survey of the States*, December 2009.

- By the end of FY 2010, 33 states are expected to have fund balances of 5 percent or less of expenditures.

- DC's year-end fund balance also has fallen since the recession began, but it remains far higher than in most states. In FY 2008, the District had a fund balance equal to 20 percent of general fund expenditures. Using currently available budget information, the fund balance could drop to 10 percent of general fund expenditures by the end of FY 2011 (see table 2).[1] While this represents a significant drop, but still leaves the District's fund balance higher than most states. Only 11 states are expected to have a fund balance this large at the end of FY 2010.

TABLE 2: THE DISTRICT'S FUND BALANCE HAS FALLEN SINCE THE START OF THE RECESSION, FOLLOWING THE NEED TO MITIGATE SEVERE BUDGET CUTS AS A RESULT OF THE RECESSION

DISTRICT OF COLUMBIA FUND BALANCE, GENERAL FUND EXPENDITURES, AND FUND BALANCE AS A PERCENT OF EXPENDITURES, FY 2008-FY2011

	FY 2008	FY 2009	FY 2010	FY 2011
Fund balance	$1,244,722	$920,483	$768,017	$601,181
General fund expenditures	$6,232,416	$5,926,702	$5,788,604	$5,883,973
Fund balance as a percent of total general fund expenditures	20.0%	15.5%	13.3%	10.2%

Source: District of Columbia Proposed FY 2011 Budget and Financial Plan (April 2010)

Because a healthy fund balance is an important fiscal tool for all states, it is important that the District's leaders come up with a plan to begin replenishing the fund balance when the city's finances stabilize and recover. The District's budget is still feeling the effects from the recession, and thus a substantial re-building of fund balance may not be prudent at this time, particularly considering the level of cuts to programs and services that would be necessary for a substantial increase. Just as the District drew down fund balance over a number of years, it should consider a multi-year approach to re-build the fund balance to an appropriate level as the city's finances begin to recover.

[1] The FY 2010 and FY 2011 fund balance figures are estimated by DCFPI using the actual fund balance for FY 2009 and subtracting the fund balance uses that are proposed in FY 2010 and FY 2011 in the Mayor's FY 2011 proposed budget. Actual fund balance levels will not be determined until the end of the actual fiscal year and are likely to change based on revenues the District collects and actual spending.