

March 26, 2002

Council of the District of Columbia

PUBLIC HEARING ON BILL 14-608, "FY 2002 SUPPLEMENTAL BUDGET REQUEST ACT OF 2002," AND BILL 14-607, "USE OF RESERVE FUNDS OMNIBUS ACT OF 2002"

Testimony of Bert Molina, Deputy Chief Financial Officer, Office of Budget and Planning, before the Committee of the Whole

Good afternoon, Madame Chair and members of the Committee. My name is Bert Molina, and I am the Deputy Chief Financial Officer for the Office of Budget and Planning (OBP). With me is Gordon McDonald, Associate Deputy CFO for Budget and Planning. Thank you for the opportunity to talk about the FY 2002 Supplemental Budget Request and the use of the reserve funds.

"Supplemental Budget Request Act of 2002", Bill 14-608

As you know, the Mayor has submitted a Supplemental Budget Request to the Council for approval and transmittal to the Congress. This request covers two different areas: new appropriation authority and necessary legislative language changes. Let me briefly address each of these areas.

Appropriation Authority

The Supplemental seeks to transfer a projected FY 2002 surplus of \$37 million from Public Charter Schools to two agencies with FY 2002 spending pressures. The actual unaudited enrollment at Public Charter Schools as of Oct. 5, 2001 was 10,861, or more than 2,700 fewer students than had been budgeted for. Had the lower figure been used during budget formulation, the budget would have been approximately \$40 million below what was in fact budgeted. In the Supplemental, the Mayor seeks to rescind \$37 million in Public Charter Schools budget authority and to authorize budget authority as follows:

- \$26 million to the Department of Mental Health, to address a projected Medicaid revenue shortfall, and
- \$11 million to the Child and Family Services Agency, to address increased adoption case rates, higher caseloads for adoption and emergency group home utilization.

In addition, the Supplemental includes \$7.95 million for payments on the District's Certificates of Participation (COP), issued to finance the One Judiciary Square facility. COP was expected to be paid off during FY 2001, using funds from the FY 2000 fund balance that were to be used to pay down debt. However, these funds will instead be transferred to the Emergency Cash Reserve, to comply with the District's FY 2002 Appropriations Act. There is currently no local budget, and no appropriation title, for COP; however, there is a need for a budget of \$7.95 million for COP. The Supplemental establishes an appropriation title for COP and rescinds \$7.95 million from Repayment of Loans and Interest (DS0) in favor of COP. There are sufficient funds in DS0 to transfer these funds to COP and still meet the District's debt service obligations to be paid from DS0 during FY 2002.

Language Changes

The Supplemental also requests that certain legislative language be clarified with respect to provisions the District must meet regarding its reserves and various administrative requirements.

Current law requires the District to make deposits into the Emergency and Contingency Cash Reserves from several sources:

- One percent of local source expenditures each year,
- Debt service savings from tobacco securitization each year, and
- \$122.5 million from the FY 2000 fund balance that previously would have gone to pay off debt.

The cumulative effect of these provisions would build the Emergency and Contingency Cash Reserves to more than \$290 million this year, well over the original requirement of seven percent of local source expenditures (see table below). The Supplemental seeks to clarify that, notwithstanding any of the provisions found in our FY 2002 Appropriations Act, the District is not required to deposit more than the intended seven percent into the combined reserve accounts.

*Table: Emergency and Contingency Cash Reserve Funds (Combined)
(Dollars in millions)*

Target (seven percent) for FY 2002	\$248.7
Balance, September 30, 2001	\$100.9
Plus one-percent deposit (February 2002)	\$35.0
Balance, March 2002 (includes interest)	\$136.4
Plus debt service savings from tobacco	\$33.3
Plus funds previously set aside for debt service, per FY 2002 Appropriations Act	\$122.5
Total at end of FY 2002, if all required deposits are made (does not include additional interest)	\$292.2
Excess of total over FY 2002 target	\$43.5

The Supplemental also seeks to clarify language currently requiring the Emergency Cash Reserve to be funded at \$150 million before the District can access its entire reserve relief funds for FY 2002. The original four-percent target level for the Emergency Cash Reserve is \$142.1 million; the current language would thus require this fund to reach a level nearly \$8 million higher than its original target. The proposed language would allow use of reserve relief funds once this fund reaches its four-percent target.

Finally, the Supplemental adds language that would allow the District access to any funds that may be freed up by clarifying the seven-percent cap on the cash reserves. The fiscal year 2002 appropriation included language requiring any amount from the fund balance that was not needed to reach the seven-percent level for cash reserves to be used as pay-go capital. The supplemental leaves this provision but adds language that allows the District, in the case of a potential deficit, access to this surplus funding to address that deficit.

Administrative changes are as follows:

- Congressional changes to the 'Acceptance And Use Of Grants Not Included In Ceiling' language in the FY 2002 Appropriations Act had the unintended result that the Council is now required to pass a law approving the acceptance and use of each new grant. The Supplemental seeks to reestablish the language originally offered by Council in the District's FY 2002 budget request to the President. This language allows for passive approval of grants after 14 calendar days.
- General Provision 101 seeks explicit authority to use up to one percent of the funds appropriated to the District of Columbia under the Department of Defense Appropriation, Public Law 107-117, approved Jan. 10, 2002, to fund the necessary administrative costs required to fulfill the purposes of that Act. The City Administrator has been in contact with the both the House and Senate Appropriations staffs and has received indication that this provision will be looked upon in a favorable manner.
- General Provision 102 seeks to allow the District to procure insurance for property damage and tort liability. A GAO interpretation of current appropriations law says that the District can only self-insure and is not authorized to procure insurance. This provision would enable the District to purchase insurance in situations where the Mayor and the CFO feel it is appropriate, for example, bond insurance for all employees who handle cash.
- General Provision 103 seeks to amend the Social Security Act to make, effective as of October 1, 2001, an increase in the rate of Title IV, Part E reimbursement for the District of Columbia from 50 percent to 70 percent. In 1997, the Balanced Budget Amendment Act increased federal medical assistance (Medicaid) coverage to 70 percent. This increased assistance did not apply to Title IV, Part E of the Social Security Act, which provides funding for foster care and adoption assistance maintenance payments. The federal match remained at 50 percent. Since 1997, other jurisdictions

have taken steps to change their Title IV, Part E rate to match the Medicaid rate, but the rate used by the federal government for the District remains the same. This provision would bring the District into parity with other jurisdictions with respect to their percentage match for Title IV, Part E payments.

- General Provision 104 seeks to change the District's Home Rule Act to comply with the requirement to modernize the District's mental health commitment law, commonly referred to as the Ervin Act, which was enacted by Congress in the early 1960s. Because the Home Rule Act requires federal approval of all Council actions related to the Commission on Mental Health, the Supplemental includes a provision enacting into law the Mental Health Commitment Amendments Emergency Act of 2002 passed by this Council on Jan. 30, 2002, DC Act 14-265.

"Use of Reserve Funds Omnibus Act of 2002", Bill 14-607

The CFO proposes to use various reserve funds to address FY 2002 budget pressures and other requirements. The reserves come from three sources:

- 1) FY 2001 carryover (\$45.5 million),
- 2) FY 2002 budgeted reserve (\$120 million), and
- 3) FY 2002 reserve relief (\$30 million).

First, of the \$45.5 million of FY 2001 carryover reserve funds, \$11 million is earmarked for the Highway Trust Fund. We are not requesting use of these monies at this time. Should the earmarked monies not be needed to fund spending pressures during the remainder of FY 2002, the OCFO will request authority to transfer the \$11 million to the Highway Trust Fund prior to fiscal year-end.

Second, of the \$120 million of FY 2002 budgeted reserve, \$87 million will be allocated as follows:

- \$60 million for DC Public Schools, to address ongoing spending pressures
- \$14 million for the Health Care Safety Net, to pay for additional closeout costs for the Public Benefits Corporation,
- \$6 million for the Department of Corrections, to address unanticipated personal and nonpersonal service costs,
- \$4 million for Workforce Investments, to cover the cost of pay raises for FY 2002 that were higher than budgeted, and
- \$3 million for the Chief Financial Officer, to retain Medicaid experts to assist the District in reforming its Medicaid collection system.

Third, the entire \$30 million of FY 2002 reserve relief will also be provided to DC Public Schools.

This plan leaves \$34.5 million of FY 2001 carryover reserve and \$33 million of FY 2002 budgeted reserve unspent, thus providing some margin for any additional pressures that may arise during FY 2002. Please note that the OCFO's current revenue estimate for FY 2002 is \$39 million below the original figure. Should the current estimate hold true, \$39 million of the combined \$67.5 million remaining in the two reserves would, in effect, make up for the revenue shortfall.

Chairman Cropp and Members of the Committee, this concludes my testimony. I am available for questions.