

March 19, 2024

STATEMENT RE. FISCAL YEAR 2025 BUDGET SUBMISSION

I would like to take a moment to explain the situation around our consideration of the budget for next fiscal year. As you know, we were to receive from the Mayor her proposed budget for the fiscal year. By law, the Council cannot and may not consider a budget until the Mayor has submitted a proposal. That has not happened.

Last November I introduced the Fiscal Year 2025 Budget Submission Requirements Resolution. This happens every year. The introduction proposed that the Mayor submit the budget by March 20, 2024. The Council adopted the resolution at its January 9th meeting and thereby required that the budget be submitted “not later than March 20, 2024.” At no time did the Mayor or her Administration object to this date.

In January, the Chief Financial Officer stated that to actually submit the budget – in writing and with all the agency chapters, tables, etc. – he must have 10 days after pencils down to conduct the required due diligence to ensure that the budget and financial plan are balanced (including any necessary technical adjustments), that the Budget Support Act along with the Local Budget Act are thoroughly reviewed for financial and legal sufficiency, that documents required by the Council are properly vetted and assembled, and to ensure timely publication of the budget book on the web and/or physical books. At no time did either the Mayor, her Administration, or the CFO ask that the submission date be changed.

The Mayor began budget preparation last September. That was over seven months ago. Of course, some adjustments would have to be made as a result of the February Revenue Estimates, but those estimates were actually a positive surprise as they showed more revenue growth than previously expected. Nevertheless, as March 10th approached, I was aware that the Mayor’s budget team was working feverishly and might not make the CFO’s 10-day pencils down deadline. However, I was led to believe that “no later than Tuesday” (March 12th) was the target.

Last week came and went. I was told that the iterative process between the Executive and the OCFO was slow. But on Thursday I was assured that pencils down would be Friday noon.

That has not happened. In fact, the Mayor was still making changes on Sunday. Maybe even yesterday. Yesterday afternoon I wrote both the OCFO and the City Administrator about this; only the Deputy CFO/Budget Director responded, to say that “pencils down could happen as soon as tomorrow” – meaning today. This delay is 100% on the Mayor. It disregards the law. It is an affront to the Council.

As you know, our Budget Office prepares a complex schedule to accommodate 11 committees holding 3-6 each budget hearings over one month. It’s complicated because under the Home Rule Act we have 70 days to act (– and we respect deadlines). The schedule must work around religious holidays, school spring break, a major economic development conference – and now the June 4th Primary Election. All of that’s tossed out, which is unfair to the hundreds of public witnesses who now must rearrange their own schedules and don’t know how.

I have asked our Budget Director to prepare a new schedule – but only after the Mayor’s pencils down and the budget is finally with the OCFO.

Separately, there is an issue concerning the reserve funds. On this I have sided with the Executive. As you know, the government has four reserve funds. Each has different requirements. Two are required by the Home Rule Act. The other two were established by the Council, in local law, and are a reflection of the Council's commitment to good financial management. The Government Financial Officers Association recommends that governments should always have reserves, and those reserves should be equal to two months' (60 days) expenditures. That is our policy as well.

Last year, for the first time since before the pandemic, our reserves were at 51 days, not 60 days. We've been there before. The Fiscal Stabilization Reserve, a local reserve we created, is the lowest, 12% funded as of last September 30th, and the Chief Financial Officer is insisting that both the Mayor and Council must find and spend \$253.6 million to replenish the fund with this year's budget. That would mean \$253.6 million in cuts on top of the roughly \$900 million the Mayor is already taking.

When both the City Administrator and I objected, argued, and asked for the CFO's legal basis, he replied (one day after his pencils down deadline, by the way): "...there is no legal requirement that the Reserve be replenished following its use." Actually, the law states explicitly that if the Fiscal Stabilization Reserve is below full funding it shall be replenished through undesignated end-of-year fund balance – i.e., year-end surplus. That is the law. To emphasize: it is to be replenished through surplus, not direct appropriation.

At the end of last fiscal year we had almost \$1.6 billion combined in the four reserve funds. The CFO is insisting on roughly \$1.8 billion. That adversely affects our ability to restore or maintain programs necessary for the safety net, social justice, public safety, core municipal functions, public education, the elderly, and so forth.

What is equally if not more concerning, is that the CFO goes on to justify his decision by arguing that he has "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." To repeat this with emphasis: "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 [not just] balanced, [but] financially sound [whatever that means] and supportive of the District's financial stability [whatever that means]." This is a very broad interpretation and subverts our authority – the Council's authority – as appropriators.

Think of it. So last year he cancelled the free bus program. Next year he could cancel other programs or maybe insist on firing agency directors because they mismanage their budgets.

Both the City Administrator and I have asked for compromise, and I think that would be ideal. It's good practice to replenish our Reserves at 100%, but the best course is to do what we did over the past decade – essentially a payment plan that, over the next several years, brings the Reserves back to full strength. Compromise is reasonable. It's the best course. But so far he has said no, and dug in.

So this is the current situation regarding the FY 2025 budget due tomorrow.