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Fitch Ratings Factors Congressional Home Rule Act Oversight into District of Columbia Rating.

Fitch Ratings-San Francisco/New York-16 March 2023: Recent Congressional action to repeal a District of Columbia law is indicative of Congress' unique oversight and is unlikely to affect the District's underlying credit quality and 'AA+'/Stable Issuer Default Rating (IDR), Fitch Ratings says. Fitch incorporates risks of Congressional intervention in District fiscal matters into our assessment of the District's independent legal ability to raise revenues. Fitch also notes that since the establishment of Home Rule, Congress has not voided legislation directly related to District's fiscal policy or revenue changes.

The District's 'AA+' IDR reflects exceptionally strong budget control, long-term economic and revenue growth prospects, and commitment to long-term capital planning, including a sizable pay-go program. The federal government plays a key role in the District's credit profile given its economic importance to the District and direct fiscal support for retiree liabilities as well as Medicaid.

In a rare invocation of the District of Columbia's statutory subjection to congressional oversight under the 1973 Home Rule Act, Congress presented House Joint Resolution 26, repealing the District's Revised Criminal Code Act of 2022, to the President on March 15, 2023. Fitch expects the President to sign the resolution, as he has publicly indicated.

The Home Rule Act subjects all non-budget enacted local legislation, including revenue raising measures, to a 30- (for civil matters) or 60- (for criminal matters) legislative day congressional review period. Congress can void the legislation during the review period with a joint resolution of both houses, signed by the president. This normally represents a significant political hurdle, as prior to House Joint Resolution 26, locally approved legislation had been voided only three times and not since 1990.

The Home Rule Act also establishes the District as essentially a federal agency for budgeting purposes, requiring explicit congressional approval as part of federal appropriations bills before local budget bills become effective. Local budget bills are the only way for the District to authorize spending of revenues, including tax or fee increases implemented under separate local legislation. This places untested limitations on the District's independent legal revenue-raising capability, though Fitch views a long record of District revenue actions without Congressional interference as substantially reducing the risk we assign to this factor.

Under a local Budget Autonomy Act enacted by the District council in 2012 and a local court decision upholding it, the District believes its local funds budget is now only subject to a 30-legislative day congressional review period. Some members of Congress have challenged this assertion, and in Fitch's view, the final outcome remains somewhat unclear.

Since a 2016 decision in the District's Superior Court, the District has followed the budgeting process outlined in the Budget Autonomy Act. After council and mayoral approval, the District submits the local funds' budget bills to Congress and considers them fully enacted after a 30-

legislative day congressional review period. However, Congress has continued to follow Home Rule Act provisions and included the District's local funds budget in its federal appropriation bills.

Historically, federal appropriations bills have included all provisions, including revenue changes, in the local funds budget approved at the District's level. They have also usually included additional policy riders inserted by Congress that modestly restrict the District's expenditure authority, such as provisions prohibiting any expenditure of local funds to legalize marijuana or tightly limiting expenditures for abortions. As it traditionally has, the District intends to comply with these provisions included in the federal appropriations bills. Beyond the federal provisions noted above, the District has no other legal limitations on its ability to raise revenues through tax or fee increases or base broadenings.

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