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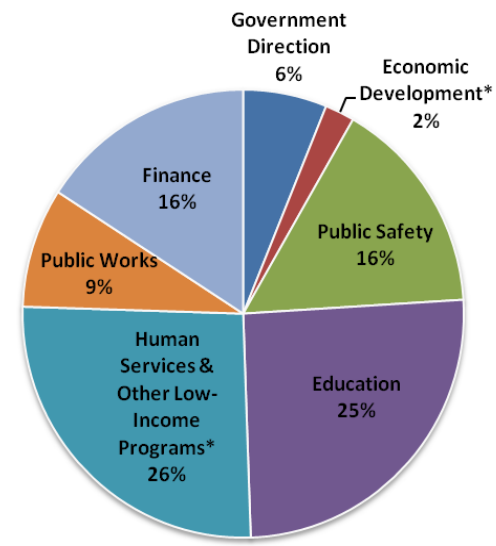
WHAT'S IN THE MAYOR'S FY 2012 BUDGET REQUEST?

On April 1, Mayor Gray submitted his budget proposal for the 2012 fiscal year, which starts in October of this year. The proposed general fund budget — the portion supported with local taxes and fees — is $6.34 billion.[1] When federal funds also are considered, the FY 2012 budget is $9.6 billion.

The proposed FY 2012 general fund budget is about $105 million higher than the approved FY 2011 budget, after adjusting for inflation — an increase of 1.7 percent. (Unless otherwise noted, all figures in this analysis are adjusted for inflation to equal FY 2012 dollars.) Yet this modest boost in local spending is needed to replace federal stimulus dollars that were available for 2011 but will not be in 2012, to address rising enrollment in public schools and Medicaid, and for staff and maintenance expenses that Mayor Gray proposed shifting from the capital budget to the operating budget. When these are taken into account, funding for most services in the FY 2012 budget is less than the amount available for FY 2011.

FIGURE 1
MAYOR'S PROPOSED FY 2012 GENERAL FUND BUDGET



*Other low-income programs include the following agencies removed from Economic Development: Employment Services, Housing and Community Development, Housing Authoirty and Housing Production Trust Fund

This report reviews the key elements of the proposed FY2012 budget. As Mayor Gray worked to develop a budget proposal, the city faced a substantial gap — $322 million — between expected resources and the costs of maintaining city services. This review finds that several steps were taken to address DC's shortfall, including spending reductions, revenue increases, and government staff reductions.

Despite including notable revenue increases, the proposed FY 2012 budget includes sizable budget cuts and leaves the District government far smaller than just a few years ago. The District's budget has been hit hard over the last four years as a result of the Great Recession — tax collections fell by $520 million over FY 2008-FY 2011 — leading to hundreds of millions of dollars in cuts to programs and services. And while FY 2012 represents the first time in four years where the District had an increase in the revenue forecast —a welcome sign that some parts of DC are starting to

[1] The general fund budget includes the "local funds budget" – programs supported by the general pool of taxes and fees collected by the District — as well as services supported by "special purpose" revenues or "dedicated taxes."

recover — total revenue collections will still be well below collections before the recession hit. Moreover, federal Recovery Act funds and District reserve funds — both of which were used to keep important programs and services whole over the last three years — have largely expired or are unavailable for use in 2012.

The proposed FY 2012 budget continues the trend since the recession began of making investments in education, but makes cuts to all other areas of the budget, particularly human services. A DCFPI analysis of DC's expenditures from FY 2008-FY2012 shows that only education, debt payments and related financing expenses have grown over that time period. Funding for every other area of government has dropped by a range of 2 percent to 20 percent. The proposed budget for next year keeps in place many cuts that have been made since 2008 — in areas ranging from libraries to child care — in addition to calling for significant additional reductions in human support services at a time when a huge number of DC residents are still out of work and unable to provide for themselves and their families.

The disproportionately large cuts proposed to human service programs were largely made to protect areas like education and public safety. However, city leaders' hopes of improved educational outcomes and public safety could be undermined by the significant cuts being made to low-income families in the FY 2012 budget and in previous budgets. The public and charter school population is largely low-income, which means that cuts to programs and services that help keep low-income families stable can hurt a child's chance at educational achievement.

This analysis is part of an online "Budget Toolkit" developed each year by the DC Fiscal Policy Institute, which can be found at www.dcfpi.org.

How Would the Budget Change under the Mayor's Proposal for FY 2012?

Mayor Gray's proposed FY 2012 general fund budget — the portion of the budget supported by local revenue sources — is $6.34 billion, which represents an increase of 1.7 percent over the $6.24 billion approved budget for FY 2011, after adjusting for inflation. However, the District actually has fewer resources for most of its programs in FY 2012, for several reasons:

- **Loss of federal Recovery Act dollars.** In FY 2011, the District was able to use federal Recovery Act funds instead of local funds to maintain some programs. Because the large majority of these funds will run out in FY 2011, the FY 2012 budget includes $113 million of local funds to replace expired Recovery Act funding for public and charter schools, Medicaid, and homeless services.

- **Movement of funds from the capital budget to the operating budget.** The proposed FY 2012 budget moves $47 million of staff and maintenance expenses previously funded in the capital budget into various agencies in the operating budget, based on an assessment that the functions served by these staff were not directly tied to capital budget infrastructure projects. Moving the positions and maintenance functions back into the operating budget makes the FY 2012 budget appear $47 million larger, although the shift does not actually increase service levels or staffing.

When these are taken into account, the proposed FY 2012 budget is actually smaller than the FY 2011 budget, after adjusting for inflation, falling from $6.24 billion to $6.18 billion, or less than one percent.

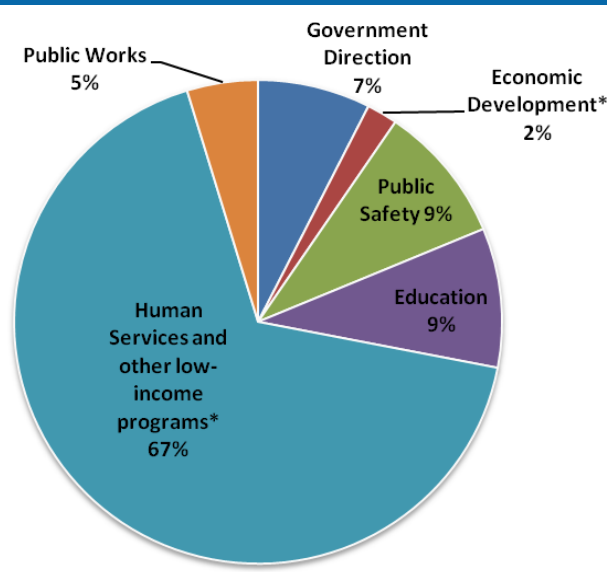
Beyond these, DC's education and health care expenses have grown substantially in recent years — due in part to rising caseloads for Medicaid and increased enrollment in DC public and charter schools. In FY 2012 alone, these two parts of the budget will increase by approximately $41 million due to caseload growth. In addition, the costs of maintaining government services rise each year due to inflation and other factors. The fact that costs are rising rapidly in some areas in an overall budget that is growing modestly means that other areas of the budget are falling. As discussed below, the proposed FY 2012 budget includes significant reductions.

Steps Taken to Balance the FY 2012 Budget

When Mayor Gray put together his budget for FY 2012, the District faced a $322 million gap between the projected revenue the District would collect and the cost of maintaining current services. The gap reflected continued weakness in revenue collections, despite a revenue forecast in February that projected an increase of $100 million, the loss expiring federal Recovery Act funds, and the inability to use District reserve funds that had been used in prior years to fund some programs and services. The FY 2012 budget reflects a number of actions to close the $322 million budget gap.

- **Cuts to Programs and Services.** The FY 2012 budget cuts $195 million from the FY 2011 current services budget — the total amount of funding the CFO projects DC needs to fund everything it did in FY 2011, in FY 2012. Two out of every three dollars cut from the budget — or 67 percent — come from human support services and other low-income programs ($131 million). All other areas of DC's budget — except for financing — also face cuts in the proposed FY 2012 budget, but not even close to the magnitude of cuts taken in the human services in other low-income programs area (see figure 2). Cuts to Education and Public Safety represent about 18 percent of the cuts, while

FIGURE 2
PROPOSED FY 2012 BUDGET CUTS FALL MOST HEAVILY ON HUMAN SERVICES & OTHER LOW-INCOME PROGRAMS



*Other low-income programs include the following agencies removed from Economic Development: Employment Services, Housing and Community Development, Housing Authority and Housing Production Trust Fund cuts to Government Direction, Economic Development and Public Works shared the remaining 15 percent.

- **Revenue Increases.** The FY 2012 proposed budget also includes $158 million in new revenues, just under half would come from increases in taxes and fees and the remaining half from other policy changes — primarily from a proposal to increase income tax withholding from DC residents. Notable tax increases include a proposal to increase the income tax, from 8.5 percent to 8.9 percent, for income over $200,000 a year and to limit the amount of itemized deductions that can be claimed by families with incomes above $200,000. In addition, the FY 2012 budget implements a provision adopted in 2009 — known as combined reporting — to close tax shelters used by multi-state corporations.

- **DC Government Staff Reductions.** The proposed FY 2012 budget would include savings from eliminating 170 government full time equivalent positions, according to a mayoral budget handout. The major reductions are found in the Department of Public Works where 100 solid waste positions and 25 parking enforcement positions would be eliminated.

FUNDING BY MAJOR PROGRAM AREA

The District's budget includes more than 80 operating agencies, with budgets ranging from under $100,000 to more than $600 million in local funds. These agencies are grouped into seven major functional categories, known as "appropriation titles."

Table 1 shows how funding would change for each appropriation title in FY 2012 under the proposed budget. It shows that funding would fall for nearly every appropriation title except for Education, which would increase by nearly 6 percent, and Financing, which would increase by 2 percent.[2]

[2] Starting in FY 2011, the budget included several accounting changes that affect the budgets for many agencies. Contracting and human resource functions that had been budgeted in all city agencies in FY 2010 are now included in the budgets for the city's central contracting and personnel agencies. In addition, the FY 2011 budget includes a new centralized agency to reflect DC government rent, utility, and related expenses. Those expenses had been reported in individual agency budgets in FY 2010. These changes continued in FY 2012. To make FY 2011 and FY 2012 budget figures comparable with prior-year budgets, this report shifts these fixed costs back to individual agency budgets.

In addition, DCFPI's analysis makes some adjustments to reflect the impact of federal Recovery Act funding. For example, the FY 2012 budget includes $81 million in local funding to replace federal Medicaid funds that were provided under the federal Recovery Act in FY2011. Because this does not reflect an expansion of local services, this analysis adds $81 million to the FY 2011 local budget for human support services to make it comparable with FY 2012 figures.

In addition, the FY 2012 budget removed the Office of Public Education Facilities Modernization (OPEFM), $10 million of fixed costs from the Department of Parks and Recreation (DPR), and $500,000 in fixed costs from Fire and Emergency Medical Services and added them to the newly created Government Service Agency with Government Direction and Support appropriation title. To make the FY 2012 budget figures comparable with FY 2011 budget figures for these agencies, this report shifts the removed fixed costs back to the individual DPR and FEMS budgets and the OPEFM budget back into the Education appropriation title in FY 2012.

Lastly, $47 million in staff and maintenance costs were shifted from the capital budget to the operating budget in various agencies in FY 2012 based on an assessment that the functions served by these staff were not directly tied to capital budget infrastructure projects. Because this does not reflect and expansion of staff or local services, this analysis adds

TABLE 1 CHANGES IN DC's GENRAL FUND BUDGET, FY 2011-FY 2012			
Appropriations Title	**FY 2011 Approved**	**FY 2012 Proposed**	**Change, 2011 to 2012**
Government Direction	$391	$389	-.4%
Economic Development	$284	$272	-4%
Less Low-Income Agencies*	$139	$137	-2%
Public Safety	$1,028	$997	-3%
Education	$1,548	$1,614	4%
Human Support	$1,579	$1,516	-4%
Plus other Low-Income Agencies*	$1,723	$1,652	-4%
Public Works	$584	$548	-6%
Financing	$982	$1,006	2%

Notes:
All figures are in millions and adjusted for inflation to equal FY 2012 dollars.
These figures include some adjustments to make figures comparable. See footnote 1.
* "Low-Income Agencies" includes Employment Services, Housing and Community Development, Housing Authority Subsidy, and Housing Production Trust Fund.

The increase in local education funding is largely attributed to enrollment growth in DC Public Schools and Public Charter schools, the use of local funds to replace expiring federal Recovery Act funds, and increased per-pupil funding for special education students.

The increase in Financing is largely due to increases for non-departmental costs — a paper agency that holds any additional special purpose fund revenue collected by agencies— and for an increase in funds collected from Rights-of-Way fees and stormwater management fees that are typically used in capital projects. (A more detailed description of funding changes by appropriation title is included in the appendix).

The changes in the proposed FY 2012 budget reflect the following:

- **Human Services and Health:** The agencies that would experience the largest cuts in this area include the Department of Human Services (DHS) and Department of Mental Health (DMH). The DHS budget would decrease by $17 million, or 11 percent, from FY 2011, including cuts in homeless services and emergency rental assistance, and the elimination of the Interim Disability Assistance program, a cash assistance program for residents with disabilities. Additionally, the budget would further cut benefits for families with children who have participated in the Temporary Assistance to Needy Families (TANF) program for 60 months. Following a 20 percent reduction in benefits this year, the FY 2012 budget would further cut benefits for families to just $257 a month — without providing additional job training or supports to help these families stay on their feet. Benefits would be fully phased out by FY 2014.

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the $47 million to the FY 2011 local budget for the various agencies affected by the shifts to make them comparable with FY 2012 figures.

For this reason, the figures reflected in this report may not match figures reported in the FY 2011 or FY 2012 budget.

The budget for the Department of Mental Health (DMH) would fall by $12 million in FY 2012. The proposed reduction would lead to cuts in the package of mental health benefits the agency provides, although it has not been determined which benefits would be scaled back at this time.

Lastly, the Department of Health Care Finance would cut the Healthcare Alliance program, which provides health coverage to uninsured residents who are not enrolled in Medicaid, by $11 million. The agency plans to remove 5,000 Alliance participants — about 20 percent of the current caseload — either by moving them into Medicaid or finding them ineligible for benefits and removing them from the program. The agency will require all participants to attend a face-to-face recertification interview every six months.

- **Economic Development.** Funding for the Housing Production Trust Fund (HPTF) — DC's main source for affordable housing construction and renovation — would be reduced by $18 million in FY 2012, and in future years as well. Funding for HPTF, which is tied to deed tax collections and has fallen by two-thirds in the recession, was expected to grow in 2012. The Mayor's budget would take away all of the increase and would significantly restrict the capacity of the city to support affordable housing construction, preservation, or to support tenant purchase efforts in the future.

  Funding for the Commercial Revitalization program — a program that provides assistance to small businesses and DC neighborhood commercial areas by providing funding for storefront and streetscape improvements — within the Office of Small and local Business Development would be cut by $1.5 million. In addition, the Neighborhood Investment Fund (NIF), located in the Deputy Mayor for Economic Development's budget, would be eliminated under the Mayor's plan. The NIF supported small businesses and affordable housing development in many of DC's neighborhood economic development corridors.

- **Public Safety.** Both the Metropolitan Police Department (MPD) and Fire and Emergency Medical Services (FEMS) would face decreases of less than one percent in FY 2012 under the proposed budget. MPD would find savings by eliminating funds for 265 positions that are vacant and at the same time would devote funding to hire another 120 officers and provide pay raises. FEMS proposes to eliminate 80 positions, most of which are vacant, and to restart the fire cadet program, a program that trains and encourages young DC residents to work with FEMS.

  Within the new Deputy Mayor for Public Safety funding for the Access to Justice and Poverty Loan Program programs—programs that provide legal services for low-income residents — are flat funded for FY 2012, but local funding for the Office of Victims Services faces a decrease, meaning that many crime victim services may have to be reduced in FY 2012.

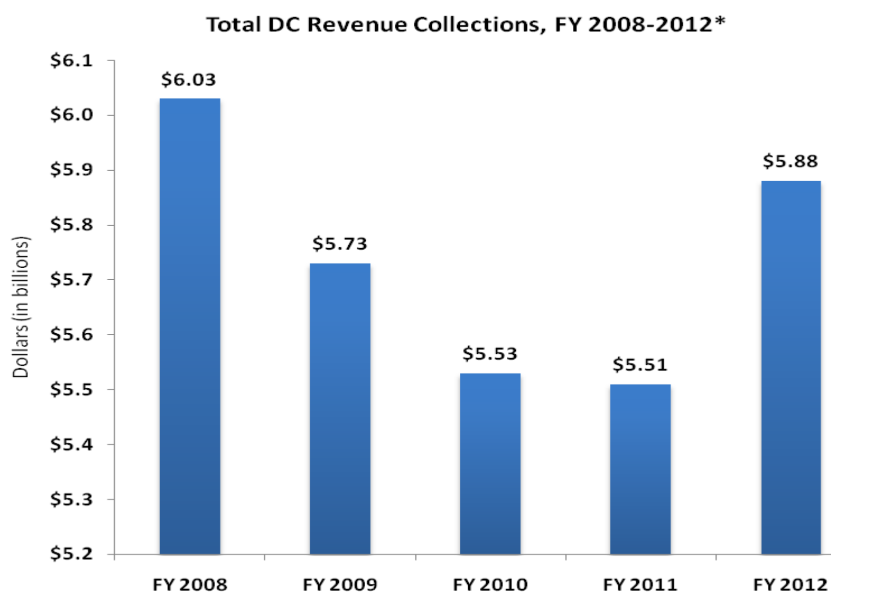
- **Public Works.** Proposed local funding for the Department of Public Works would go up just over 3 percent, to $109 million, in FY 2012. Despite the increase, the budget includes the elimination of 100 solid waste positions and 25 parking enforcement positions, and a shift of snow cleaning functions from the District Department of Transportation to the Department of Public Works. Services and schedules for trash and recycling collection, nuisance abatement, street sweeping, and other core services would remain at FY 2011 levels.

- **Education.** As mentioned previously, the increase in local education funding is attributed largely to growth in the budgets for the DC Public Schools and Public Charter schools as a result of enrollment growth and local funds needed to replace expiring federal Recovery Act funds. There are proposed cuts to other areas of education, however. Child care subsidies would be cut by $2.2 million and funding for DC Public Libraries would be reduced $2.5 million despite the opening of three new libraries in FY 2012. The proposed savings would come from limiting hours, including closing the MLK Library on Sundays, reducing staff, and cutting funds for new books.

The Impact of the Recession on DC's Budget

The impact of the recession on DC's finances is even clearer when the FY 2012 budget is compared with 2008, the last year before the recession. The District's tax collections began to fall sharply after 2008. Excluding changes in tax policy, total tax collections fell nearly $500 million between FY 2008 and FY 2009 alone, and continued to fall through FY 2011.

FIGURE 2
DC REVENUE COLLECTIONS ARE STILL BELOW 2008 LEVELS



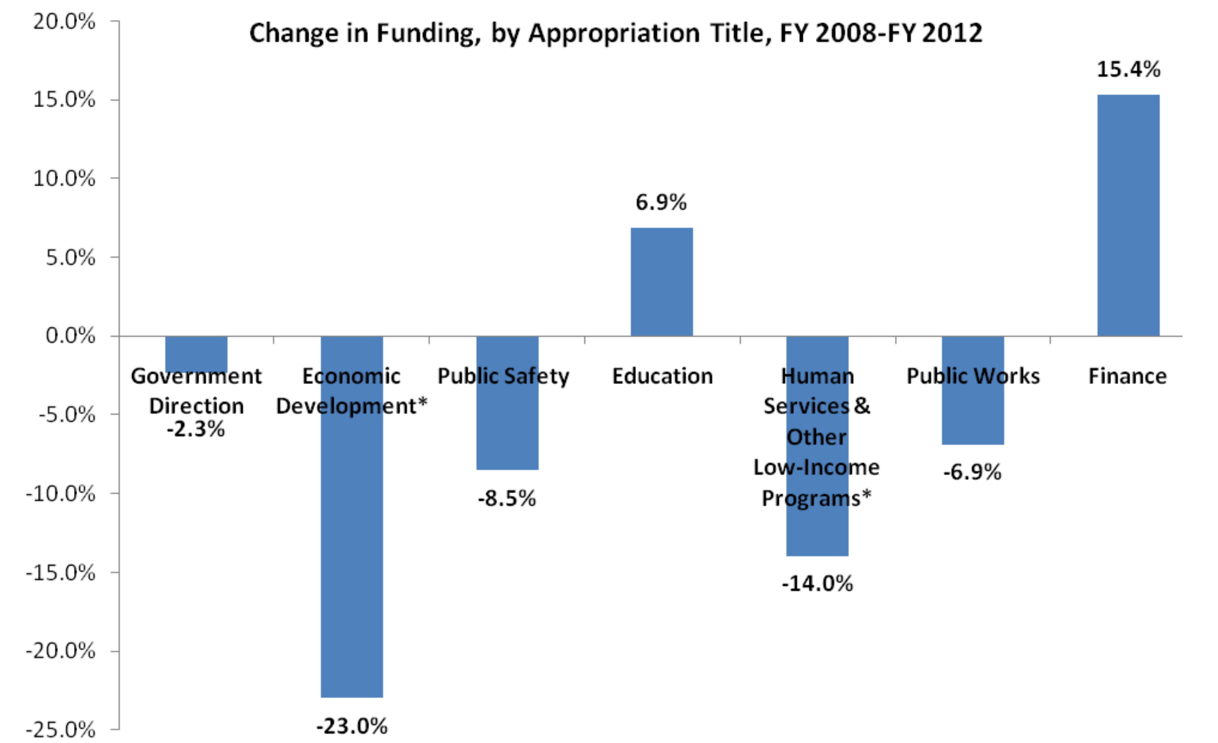
* Figures are in billions, all figures are adjusted for inflation to equal FY 2012 dollars and include changes made to tax policy.

FY 2012 represents the first year tax collections are projected to increase from year to year since the recession began. Yet even with this growth and with the Mayor's proposed revenue increases, tax collections in 2012 are still $150 million lower than before the start of the recession. (See Figure 2.)

As a result of the continued drop in revenues, the proposed general fund budget for FY 2012 is $414 million lower than in FY 2008, after adjusting for inflation. It is notable to point out that even four years later — despite rising enrollment in DC schools and increased enrollment in Medicaid and increased costs of operating the government as a result of inflation increases — the overall budget continues to be smaller.

Given that government costs have continued to rise while resources have continued to fall, the budget has been cut significantly since FY 2008. However, some areas of the budget have continued to grow, despite falling resources. A review of changes since FY 2008 in funding for

FIGURE 3
DC'S BUDGET HAS DECLINED SIGNIFICANTLY SINCE 2008



* Other low-income programs include the following agencies removed from Economic Development: Employment Services, Housing and Community Development, Housing Authoirty and Housing Production Trust Fund

DC's major budget areas (known as "appropriations titles") shows significant reductions in all areas except for education and financing. (See Figure 3).

Beyond new cuts described above, the FY 2012 budget also would keep in place many cuts that have been made since 2008, such as:

- **Affordable Housing.** Funding for the Housing Production Trust Fund — DC's main source for affordable housing construction and renovation — would be reduced by $18 million in FY 2012, and in future years as well. Funding for HPTF, which is tied to deed tax collections and has fallen by two-thirds in the recession, was expected to grow in 2012. As mentioned previously, the Mayor's budget would take away all of the increase and would significantly restrict the capacity of the city to support affordable housing construction, preservation, or to support tenant purchase efforts in the future.

  The FY 2012 budget also proposes to begin phasing out a part of DC's Local Rent Supplement Program that provides housing vouchers to low-income residents, by not issuing new vouchers when a family leaves the program. This weakens the strength of DC's main affordable housing tool for very low-income families, or those making less than $30,000 a year for a family of four. In addition, the Mayor's budget also proposes to take $4 million in federal housing vouchers for low-income families and use them to replace local funding for low-income housing vouchers.

This means fewer families will be able to be taken off of DC's housing wait list, which currently includes over 28,000 households.

- **Temporary Assistance to Needy Families (TANF).** TANF provides cash assistance and job readiness training to low-income families with children. In FY 2011 TANF benefits were cut by 20 percent – to $342 for a family of three (23 percent of the poverty line) – for any family that has received assistance for more than 60 months across their lifetimes. This is despite the fact that it is widely acknowledged that TANF employment services are not adequate and that the District does not have the capacity to serve all eligible families. The FY 2012 budget proposes to cut benefits further for approximately 7,000 families, reducing monthly benefits to just $257 a month for a family of three, and these cuts would go into effect before any changes to employment services are implemented.

- **Interim Disability Assistance.** The IDA program provides $270 a month to residents with disabilities who have no other income and are awaiting a decision on a federal Supplemental Security Income (SSI) application. Cuts in recent years have decreased the number served from 2,900 per month in FY 2008 to about 600 per month at the end of this year. The FY 2012 budget would "suspend" the program, meaning that IDA participants enrolled at the end of FY 2011 will have benefits terminated, even if federal SSI benefits have not been approved.

Revenue Issues in the FY 2012 Budget

Mayor Gray's proposed FY 2012 budget includes $81 million in additional revenues from increases in taxes and fees. It also includes $77 million in revenues from other policy changes, primarily a proposal to increase income tax withholding from DC residents. And the budget reflects $23 million in revenues by implementing a provision adopted in 2009 — known as combined reporting — to close tax shelters used by multi-state corporations.

Taxes and Fees

The FY 2011 budget would raise $81 million through a variety of tax and fee increases, primarily income taxes and taxes on parking at lots and garages.

Income tax changes — $35.4 million

New Income Tax Bracket at $200,000: The proposed budget would create a new tax bracket of 8.9 percent for taxable income (income after deductions) above $200,000. The current top tax rate of 8.5 percent starts at $40,000 of taxable income. As an example, the new rate would result in $400 tax increase for a family with $300,000 of income.

Because two-earner DC households are allowed to split their income when filing, for some families the tax increase would not go into effect until taxable income exceeds $400,000. Among families with incomes between $200,000 and $350,000, for example, only 55 percent would see any tax increase from the rate change, according to the DC Chief Financial Officer.

Limit Amount of Itemized Deductions for High-Income Households: The budget would limit the amount of itemized deductions that can be claimed by families with incomes above $200,000. Under the proposal, the disallowed amount would equal 5 percent of income above $200,000. For example, if a family has income of $300,000, the reduction in allowed itemized deductions would be $5,000 — 5 percent of $100,000 ($300,000 minus $200,000). If the family's total itemized deductions were $30,000 before the limit, the new provisions would reduce the the deductions to $25,000. With fewer deductions, the family's total taxable income would be $5,000 higher. At a tax rate of 8.9 percent, this family would pay $445 more in taxes.

This provision is similar to a provision that had existed in the federal income tax until a few years ago – and that was mirrored in DC's income tax. The federal itemized deduction limit was eliminated as part of tax breaks passed under President George W. Bush. Because DC had coupled to the federal provision, this also meant that the itemized deduction limit also was eliminated in the DC income tax.

TABLE 2: REVENUE INCREASES IN THE PROPOSED FY 2012 BUDGET

	Amount (In $ Millions)
Taxes and Fees	
Income tax rate increase and itemized deduction limit	$35.4
Increase in minimum corporate income tax	$12.0
Double-weight sales in corporate income Tax apportionment formula	$7.2
Increase parking tax to 18%	$18.2
Increase sales tax on alcohol to 10%	$2.9
Extend sales tax to live theater	$2.3
Increase various motor vehicle fees	$3.0
Non-Tax increases	
Increase income tax withholding for wage Earners	$41.0
Increase income tax withholding for others	$24.0
Apply cigarette tax at wholesale rather than retail level	$1.1
Extend hours for alcohol sales	$2.4
Lease Carnegie Library to Convention Center Authority	$5.0
Allow advertising on Capital Bikeshare	$0.5
Increase access to delinquent taxpayers' bank Accounts	$3.0

Combined Impact of Income Tax Changes: Together, these provisions would raise $35 million in FY 2012. The combined impact of these changes on DC households would result in an average tax increase of $391 for families with incomes of $200,000 to $350,000 — or less than one-fifth of one percent of income — according to the Chief Financial Officer. The increase would average $992 for families with incomes of $350,000 to $500,000 — or less than one-third of one percent of income.[3] For a family earning just above $1 million, the tax increase would be about one-half of one percent of income.

Business Income Tax Changes — $19.2 million

The proposed budget would increase business taxes in two ways – by raising the minimum corporate franchise tax and by changing the formula by which multi-state corporations determine

[3] These averages reflect the total increase for families in these income groups, divided by the number of tax fliers. The average includes families that would see no change in tax liability, such as a two-earner where each earns $125,000. While total income exceeds $200,000, the family would see no tax increase because neither worker earned more than $200,000.

the share of their profits that are taxable in the District. The budget also would increase business income tax collections by $23 million by closing corporate tax shelters that currently allow large multi-state corporations to avoid paying taxes to the District.

Minimum Franchise Tax — $12 million: Under DC's corporate income tax, businesses pay a minimum tax — currently $100 — even if their tax would be lower than that after deductions. Although the city's corporate income tax rate is set at 9.975 percent of taxable profits, two of three corporations pay just the minimum tax because they qualify for a variety of exemptions, deductions, and credits. DC's minimum corporate tax of $100 has not been adjusted for 28 years, meaning that it has lost significant ground to inflation.

The proposed budget would increase the minimum tax to $250 for corporations with gross receipts under $1 million, which would mainly adjust the minimum for inflation, since it was last raised in 1983. (Simply adjusting for inflation would set the rate at $211.) For corporations with receipts of more than $1 million, the minimum franchise tax would be $1,000 under Mayor Gray's budget proposal.

Double-Weighted Sales in Apportionment Formula — $7.2 million: Under every state's corporate income tax law, corporations that operate in multiple states must determine their profits nationally and then apportion a share of those profits to each state where they do business. The apportionment formula for a given state usually takes into account the share of a company's sales, property and personnel in that state. Under current DC law, those factors are weighted evenly. Under Mayor Gray's proposed budget, a share of a company's sales that occur in DC would be doubly weighted. This would have the impact of increasing taxes on companies that sell a lot in the District but have most of their property and workforce outside the city. It would reduce taxes for companies that have a high share of their property and staff in DC but where a relatively low share of their sales occurs in DC. As such, the likely increases would fall mostly on out-of-state corporations with a physical presence that is outside of the city.

Combined reporting — $22.6 million: Mayor Gray's proposed 2012 budget includes legislation to implement a corporate tax provision, known as "combined reporting," that was passed by the DC Council in 2009. Combined reporting, which is required in 23 of the 45 states that have a corporate income tax, prevents large multi-state corporations from using corporate subsidiaries to shift profits to states with low or no corporate income tax. Implementing combined reporting will allow the District to collect $22.6 million in additional taxes in 2012. These revenues are not reflected in tables in the FY 2012 budget because the revenues have been reflected in revenue projections since the legislation was adopted in 2009. But if the implementing legislation is not adopted this year, projected revenues for 2012 would be reduced by $22.6 million, widening DC's budget gap.

Other Taxes and Fees

Parking Tax - $18.2 Million: The budget would raise the tax charged on parking garages and lots from 12 percent to 18 percent.

Apply the Sales Tax to Live Theater — $2.3 million: The proposed budget would apply DC's 6 percent sales tax to live performances. Currently, the tax applies to events at the Nationals Ballpark and the Verizon Center, but not to other live performances.

Increase the Tax on Liquor for Off-premises Consumption — $2.9 million: The current tax on alcohol purchased at a store for off-premises consumption is 9 percent, while the tax on liquor purchased at a restaurant or bar is 10 percent. The Gray budget proposes to set the tax at 10 percent for all sales.

Implement Various DMV Fee Increases — $3 million: Fees would be increased for duplicate licenses, knowledge and road tests, and some other vehicle services.

Continue the General Sales Tax Rate at 6 Percent — no effect in 2012: In addition to these changes, the budget also would eliminate a planned reduction in the sales tax rate to 5.75 percent in 2013. Under legislation passed in 2009, the sales tax was raised from 5.75 percent to 6 percent, with the increase was set to expire in 2013. The Mayor's budget would eliminate the planned sunset, leaving the rate at 6 percent in 2013 and beyond. This will increase revenues by $16 million starting in 2013.

Non-Tax Increases in Revenues

Mayor Gray's Budget would raise roughly $77 million in general revenues in 2012 through a variety of changes that do not alter tax or fee rates. The largest portion — $65 million — would come from increasing income tax withholding rules for DC residents.

Increase Income Tax Withholding — $65 million: Working DC residents have a portion of each paycheck withheld to cover their income tax liability. Income tax withholding helps ensure that residents do not owe large amounts of income tax when they file a tax return, and it also provides a steady stream of revenue to the District.

Residents who receive substantial amounts of income outside of employment — such as retirees and others with substantial investment income — also are subject to a withholding requirement. They are required to make estimated tax payments each quarter.

Mayor Gray's budget would increase the withholding amounts for both groups. For working DC residents, withholding would be increased by $160 each year, raising $41 million in 2012.[4] While residents are able to adjust withholding, which means that any worker who does not wish to have the additional $160 withheld can do so, the budget assumes that virtually no workers will make this adjustment.

The policy rationale for these withholding changes appears to be fairly limited, beyond raising revenues in 2012. The large majority of DC households receive a tax refund when they file a return, which suggests that the withholding amounts are sufficient for most workers under current law. This also means that for most families, the additional withholding in 2012 will be returned as a tax refund in 2013. (For this reason, the withholding provision is not expected to provide substantial revenues in future years.) No official reason has been provided for the increase in withholding, although some DC finance officials have noted that an increase in withholding would improve tax compliance.

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[4] This would occur by altering the income tax withholding formula to not take into account DC's $4,000 standard deduction.

Some residents who owe substantial taxes, including back taxes, do not file a tax return. The additional withholding would help collect more of the taxes owed by these non-compliant residents.

While the added withholding for working DC residents would be relatively small, the impact could be significant for low- and moderate-income workers who already may face challenges meeting their basic needs. Moreover, the rationale for taking additional withholding from these workers is small, since 84 percent of filers under $50,000 already receive refunds under current withholding rules.

Alter the Application of the Cigarette Tax — $1.1 million: In addition to a tax of $2.50 per pack, cigarette sales also are subject to a 6 percent sales tax. The budget proposes to levy this tax on wholesalers rather than retailers, which is expected to improve collections. It would not alter the effective tax on cigarettes.

Extend Hours for Alcohol Sales — $2.4 million: The proposed budget would lengthen the amount of time that liquor could be sold in the District. The expected increase in sales would also lead to an increase in tax collections.

Payment from the Washington Convention and Sports Authority — $5 million: Under the proposed budget, WCSA would transfer $5 million to DC's general fund to reflect its use of the Carnegie Library. Because WCSA is a DC government entity, this is a fund transfer and not a fund increase.

Greater Access to Bank Accounts of Delinquent Taxpayers — $3 million: The budget would give the DC Chief Financial Officer greater access to bank accounts of delinquent taxpayers, resulting in greater tax collections.

Advertising in the Capital BikeShare Program — $0.5 million: The District would raise an anticipated $500,000 from selling advertising space through the bicycle sharing program.

APPENDIX
Summary of FY 2012 Funding Changes by Appropriations Title

Note: all figures, unless otherwise noted, have been adjusted for inflation to equal FY 2012 dollars.

Government Direction and Support: The Mayor's proposed FY 2012 general fund budget for Government Direction and Support agencies is $389 million, a less than 1 percent decrease from FY 2011. The major agencies within this appropriation title are the Council, the Executive Office of the Mayor, the Office of the Chief Technology Officer (OCTO), the Office of the Attorney General, and the Office of the Chief Financial Officer.

Mayor Gray's budget would create a new agency, the General Services Agency, to combine the functions of several existing agencies; Municipal Facilities, Non-Capital, a 'paper agency' that houses the fixed costs for the majority of DC agencies; the Department of Real Estate Services; and the Office of Public Education Facilities Modernization, formerly located in the Education appropriation title. Because of these accounting shifts, it appears the Government Direction has grown significantly since FY 2011. However, taking these shifts into account results in a slight decline in the proposed budget for government direction.

Almost every agency with a sizeable budget would see a decrease in funding from FY 2011, with the notable exceptions of OCTO and the Office of Risk Management. In FY 2012, the IT responsibilities previously budgeted within most agencies' budgets would be shifted into OCTO. This makes it looks like OCTO's budget is growing by a significant amount, but the increase is primarily a reclassification of where the funds are counted. Taking this into account, OCTO's budget still would increase by 9 percent over FY2011. This increase is the result of rising software expenditures and new initiatives in software maintenance to reflect its increased IT responsibilities. The Office of Risk Management's budget would increase due to a substantial increase in both staffing and services to support the Return to Work Program, which is designed to provide injured DC government employees medical treatment to mitigate their period of unemployment and loss of income.

Economic Development and Regulation: The FY 2012 general fund budget for Economic Development and Regulation is $272 million, a 4 percent decrease from FY 2011. The small decrease reflects significant increases in a handful of agencies and significant decreases in a handful of others. The major agencies in this appropriations title include the Deputy Mayor for Planning and Economic Development (DMPED), the Department of Housing and Community Development (DHCD), the Department of Employment Services, (DOES), the Department of Consumer and Regulatory Affairs (DCRA), the Housing Production Trust Fund, and the Office of Small and Local Business Development (SLBD).

Funding for affordable housing would face significant cuts in the proposed 2012 budget. Resources for the Housing Production Trust Fund — DC's main source for affordable housing construction and renovation — would be reduced by $18 million in FY 2012, and in future years as well. Funding for HPTF, which is tied to deed tax collections and has fallen by two-thirds in the recession, was expected to grow in 2012. The Mayor's budget would take away all of the increase and would significantly restrict the capacity of the city to support affordable housing construction, preservation or to support tenant purchase efforts in the future.

The Department of Employment Services (DOES) is the largest agency within this title and its local general funding would decrease by 11 percent, down to $76 million, in FY 2012. The major change in DOES for FY 2012 is the reduction of both the size and budget of the city's Summer Youth Employment program (SYEP). The proposed budget for SYEP is $12.1 million, which is less than half of the funding the program received in FY 2010. The proposed FY 2012 budget maintains current FY 2011 funding for adult workforce programs, such as Transitional Employment and local dollars for training.

The Office of Small and Local Business Development's FY 2012 budget decreased by 39 percent, down to $3 million for FY 2012, including a reduction in the Commercial Revitalization program which provides assistance to small businesses and DC neighborhood commercial areas by providing funding for storefront and streetscape improvements. DMPED's FY 2012 budget would decrease by 22 percent, from $17 million to $13 million. This decrease in funds primarily reflects elimination of the Neighborhood Investment Fund — a fund that provides small businesses and affordable housing assistance to DC's neighborhood commercial areas.

Public Safety and Justice: The FY 2012 general fund budget for Public Safety is $997 million, a $30 million, or 3 percent, decrease from FY 2011. A new agency, the Deputy Mayor for Public Safety, would be added to this appropriation title in FY 2012, combining the functions of for many smaller agencies currently in the public safety and government direction titles. The new Deputy Mayor's office would include the Office of Victims Services, Office of Justice Grants Administration, Corrections Information Council, Motor Vehicle Theft Commission, and Access to Justice and Poverty Loan Program.

Both the Metropolitan Police Department (MPD) and Fire and Emergency Medical Services (FEMS) would face decreases of less than one percent in FY 2012. MPD would find savings by eliminating funds for 265 vacant positions, and at the same time the budget would add funding to hire 120 officers and provide pay raises. FEMS would find savings by eliminating 80 positions, most of which are now vacant, and the budget would restart the fire cadet program, a program that trains and encourages young DC residents to work with FEMS.

The agencies with the largest decreases were the Office of Unified Communications (OUC) and the Police Officers and Firefighters Retirement agency. The FY 2012 proposed budget for the OUC would fall by 15 percent, from $53 million to $44 million in FY 2012, largely from cutting $6 million for a radio systems upgrade that will be put off for a later date. The FY 2012 proposed budget for the Police Officers and Firefighters Retirement agency is proposed to be $117 million, a drop of 9 percent, or $12 million from FY 2011. The decrease is due to fewer anticipated costs in FY 2012 and does not reflect a cut in benefits.

Within the new Deputy Mayor for Public Safety, funding for the Access to Justice and Poverty Loan Program programs are flat for FY 2012, but local funding for the Office of Victims Services has would be cut, meaning that many crime victim services may have to be reduced in FY 2012.

Education: The proposed general fund budget for education in FY 2012 is $1.61 billion. This is a 4 percent, or $66 million, increase over the approved FY 2011 budget. DC Public Schools and Public Charter Schools budgets would each increase by 10 percent, in part due to local funds provided to replace $18 million in expiring federal Recovery Act funds. The base per-pupil funding would remain at the FY 2011 level, with the exception that the FY 2012 budget would greatly increase the per-pupil funding for special education students. The education budget increases also reflect projected enrollment growth in both DCPS and Charter schools. Enrollment in DCPS is expected to increase by 3 percent or 1,366 students, and Charter School enrollment is slated to increase by 7 percent or 2,000 students.

The Mayor's budget proposes a 6 percent decrease in tuition for special education students placed in private schools, based on new initiatives that are meant to reduce the number of students placed in private schools, and a related five percent decrease in special education transportation costs.

The Office of the State Superintendent of Education (OSSE) budget in FY 2012 is $104 million, a reduction of 16 percent, or $20 million, from FY 2011. This decrease in part reflects a reduction in $12 million in special education funds that OSSE would have transferred to DC Public and DC Charter schools, but is now being funded directly through DCPS and DC Charters in the Uniform per Student Funding Formula. Additionally, $2.2 million is proposed to be cut from child care subsidies.

The DC Public Library system funding would drop by 7 percent or $3 million, despite the anticipated opening of three new libraries in FY 2012. The proposed savings come from staff reductions, decreased funding for new books, and cuts in hours. The Office of Public Education Facilities Modernization (OPEFM) would move from the Education title to the new General Services Agency within Government Direction and Support. Funding for OPEFM would include an increase of 6 percent or $1.5 million when compared to FY 2011. In addition, the budget would shift $20 million in staffing expenses from the capital budget to OPEFM's operating budget because these positions are not tied directly to construction projects. This shift does not reflect a net change in expenses or services.

Human Support Services: The FY 2012 general fund budget for Human Support Services is $1.52 billion, a 4 percent, or $63 million, reduction from FY 2011. The decrease in funds is not spread evenly among agencies within the human services cluster, with some agencies experiencing significant decreases and others facing increases. Most of the increases reflect increased caseloads rather than an expansion of services.

The Department of Youth Rehabilitate Services (DYRS) and Department of Parks and Recreation (DPR) would both see increases in their budgets in FY 2012. The increase in DYRS reflects an increase in the number of youth they project to serve and not an expansion of services. Funding for DPR in 2012 is proposed to be $47 million, an increase of $1.6 million, or 3 percent, and reflects funds to provide staff in newly constructed recreation facilities and so that summer recreation programs can be fully funded.

Local funding for the Department of Health Care Finance (DHCF) would increase over $80 million, but these mostly reflect funds needed to replace expiring federal Recovery Act funds. When that is taken into account, the FY 2012 DHCF budget actually lower, falling by $11.3 million, or 2 percent, to $670 million. To address the decrease in funds and an expected rise in Medicaid caseloads the agency proposes a number of savings initiatives most notably to save $11 million in the Health Care

Alliance program by requiring 6 month face-to-face interviews for recertification. Some 5,000 participants would either move to Medicaid or be removed from the program.

The agencies with the largest proposed cuts include the Department of Human Services (DHS) and the Department of Mental Health (DMH). The DHS budget in FY 2012 is $142 million, a decrease of $17 million, or 11 percent, from FY 2011. The proposed cut reflects reductions to most major DHS programs including Temporary Assistance to Needy Families (TANF), homeless services, emergency rental assistance, and the suspension of the Interim Disability Assistance program.

The budget for the Department of Mental Health would fall to $158 million in FY 2012, a $12 million drop, or 7 percent fall from funding in FY 2011. One of the major cuts in DMH would be to the package of mental health service benefits the agency provides. It has not been determined which mental health benefits would be scaled back as a result of the cut at this time.

Other agencies that would see large reductions include the Children and Youth Investment Collaborative (CYIC), whose funding would drop by 36 percent from $4.7 million to $3 million, and the funds for both Unemployment and Disability compensation. Funding drops for unemployment and disability compensation reflect revised estimates of the total number of people seeking compensation in FY 2012.

Public Works: The FY 2012 general fund budget for public works is $548 million, a decrease of $36 million or 6 percent from FY 2011. Funding for the Department of Public Works would increase by three percent, from $106 million to $109 million. Despite the increase, the proposed budget includes the elimination of 100 solid waste positions and 25 parking enforcement positions and a shift of snow cleaning functions from District Department of Transportation to Department of Public Works. Services and schedules for trash and recycling collection, nuisance abatement, street sweeping, and other core services would remain at FY 2011 levels.

Funding for the Department of Transportation (DDOT) would increase by $10 million or 9 percent from FY 2011. This change does not reflect an increase in services, but rather a transfer of authority for non-regional programs from Washington Metropolitan Area Transportation Administration (WMATA), including school transit, non-regional bus service, and the Circulator.

Funding for WMATA would decrease by $47 million or 18 percent, due to the shifting of certain services — including the non-regional bus service and the Circulator — to DDOT. The general WMATA subsidy would increase by 4.7 percent, in line with Maryland's contribution.

The District Department of the Environment's proposed budget is $55 million in FY 2012, an increase of $6 million, or 13 percent, from FY 2011. The increase partially fills a budget gap due to a loss of $18.5 million in federal funding. Funding for low-income utility assistance would remain flat at FY 2011 levels. Due to an expected cut in federal funding, however, the number of families getting utility assistance would fall by 6,000.

Financing: The general fund budget for financing in FY 2012 is proposed to be $1.06 billion, an increase of two percent from FY 2011. There are a few notable changes in the proposed FY 2012 budget. There were sizable increases in non-departmental costs — a paper agency that holds any additional special purpose fund revenue collected by agencies— and for an increase in funds collected from Rights-of-Way fees and stormwater management fees that are typically used in capital projects. The budget reflects a slight decrease in costs of repaying bonds used for capital construction projects, and a slight increase in short term borrowing costs. Lastly, expenses for DC government retiree health contributions are also expected to increase growing to $110 million in FY 2012, an increase of 10 percent over FY 2011.