

*Updated April 26, 2013*

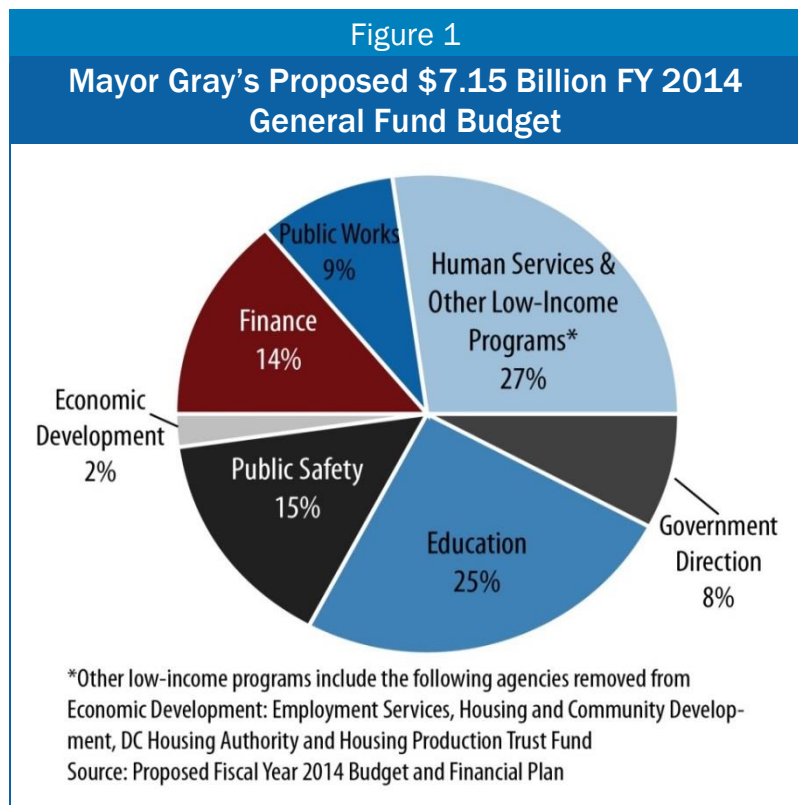
## WHAT'S IN THE MAYOR'S PROPOSED FY 2014 BUDGET REQUEST?

On March 28<sup>th</sup>, Mayor Gray submitted his budget proposal for fiscal year 2014, which starts October 1, 2013. The proposed general fund budget — the portion of the DC budget that comes from local taxes and fees, including dedicated tax revenue and special purpose funds — is \$7.15 billion.<sup>1</sup> When federal funding for programs and services is included — in what is called gross funds — the District's fiscal year (FY) 2014 budget is \$10.1 billion.

The proposed general fund budget is \$276 million higher than the revised FY 2013 budget, after adjusting for inflation — an increase of 4 percent.<sup>2</sup> (Unless otherwise noted, all figures in this analysis are adjusted for inflation to equal FY 2014 dollars.)

This report reviews the key elements of the proposed FY 2014 budget. As Mayor Gray worked to develop a budget proposal, the city's Chief Financial Officer (CFO) announced a \$178 million increases in revenues for in FY

2014 due to an uptick in tax collections from the District's recovering economy. It represented the



<sup>1</sup> The general fund budget includes the "local funds budget" — programs and services supported by taxes and fees collected by the District — as well as services supported by "special purpose" revenues or "dedicated taxes." This analysis does not include the enterprise appropriation and keeps several dedicated funds within finance instead of enterprise so year-to-year comparisons can be made.

<sup>2</sup> Mayor Gray also proposed a supplemental FY 2013 budget to the DC Council on March 28<sup>th</sup>. This analysis uses the proposed revised FY 2013 figures for comparison purposes throughout the paper with the exception of the \$67 million in one-time funds for the Housing Production Trust Fund. This is because this distorts the changes in year to year funding and makes it appear that parts of the budget were significantly cut when in fact they were not. The FY 2013 proposed supplemental budget is described in greater detail in this paper.

first year since FY 2010 that DC's mayor did not have to present a budget that first had to close a significant budget gap.

The CFO also announced a \$190 million increase in revenues for FY 2013, the current fiscal year. Mayor Gray's budget submission also included a revised FY 2013 budget to the Council to allocate those funds. This report also includes a short summary of the FY 2013 amended budget proposal.

Mayor Gray used the additional funding in both FY 2013 and FY 2014 to make a number of investments across DC government in areas like affordable housing, public safety, libraries, education, public works and human services. The largest increases from FY 2013 to FY 2014 include funds to cover rising enrollment in public schools, an increase in repayments of debt issued for construction projects, the need to replace federal dollars that were available in FY 2013 but will not be available in FY 2014, increasing Medicaid costs, pay raises for DC government employees and funds to support the rising costs of providing city services, as well as other mayoral policy priorities that will be discussed in greater detail.

While the District's improving economy allowed Mayor Gray to use his FY 2014 proposed budget to make a number of investments, many DC residents have not felt the benefits of the recovery, and a number of programs aimed at helping these residents remain strapped. For example, the District's Interim Disability Assistance Program, which helps residents who are unable to work and who are waiting for determination of eligibility for federal disability benefits, is funded well below pre-recession levels. Provisions to help Temporary Assistance for Needy Families recipients who are facing severe barriers to work remain unfunded.

The District's revenue collections in FY 2014 will total \$6.7 billion, if the Mayor's revenue initiatives in his proposed budget are adopted. The District's tax collections dropped sharply in the Great Recession, starting in FY 2009 and have only recently recovered. Fiscal year 2014 revenue, with the inclusion of Gray's initiatives, will be higher than those in FY 2008, the final year before the recession hit. A full discussion of the proposed revenue initiatives occurs below.

As part of his budget request, Mayor Gray also included a 18-item "Revised Revenue Priority List." This list, totaling \$70 million, would provide funding for programs if revenue projections increase over the fiscal year. The programs would be funded in order as additional revenues are added. The top three include: \$11 million to expand child care for 200 infants and toddlers and to increase the rates paid to child care providers by 10 percent; \$6 million for the DC Office on Aging to support provider rate increases; and \$4 million for the Office of the State Superintendent for Education for additional adult literacy, career and technology education. The complete list, in order, can be found in the appendix.

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](http://www.dcfpi.org).

## DC Revenues Have Recovered Above Pre-Recession Levels; But Growth Has Slowed

The District’s tax collections have increased sharply in recent years, helping DC’s revenue collections to recover from the recession (see **Figure 2**). However, despite recent significant increases, DC’s revenue collections in FY 2014 are only modestly above pre-recession levels.

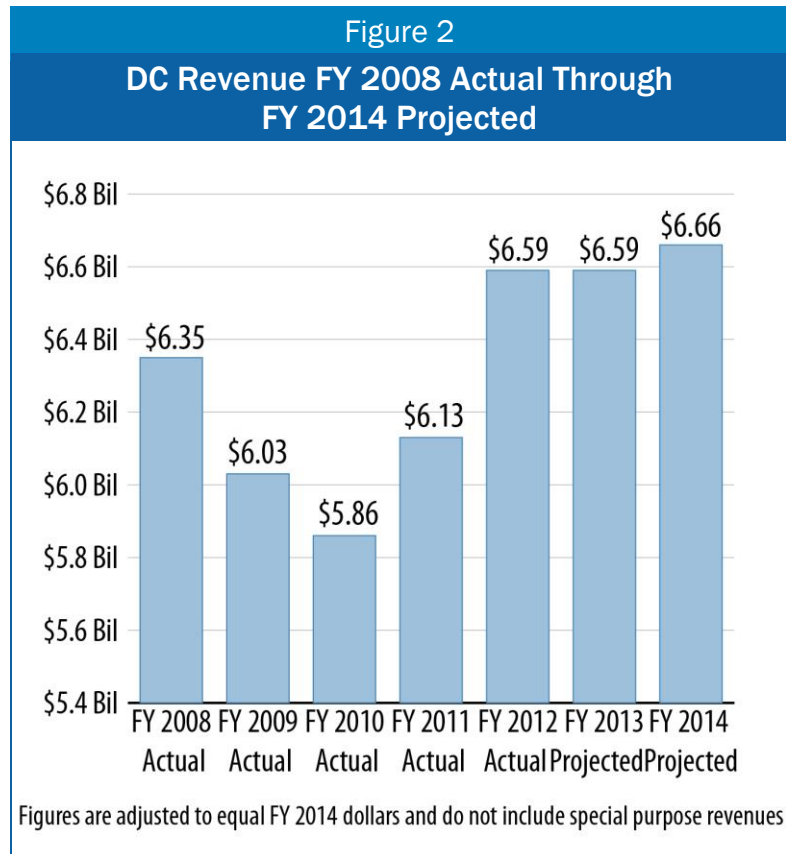
DC’s tax collections dropped sharply in the Great Recession, going from \$6.35 billion in FY 2008 to \$6.03 billion in FY 2009. Revenue kept falling in FY 2010, with actual collections bottoming at \$5.86 billion. The precipitous decline in revenue of approximately \$500 million over two years led to substantial cuts in public services, many of which were in human services and other low-income programs. The city’s revenue collections started to rise in FY 2011, in part due to a variety of tax and fee increases, but continued to remain below pre-recession levels.

Revenue collections in FY 2014 will be \$6.7 billion which is \$800 million, or 14 percent, higher than in the low point of the recession in FY 2010. However, overall growth in revenues since the start of the recession — when taking into account the fall in revenues in the recession and growth in the recovery — is modest; averaging less than one percent per fiscal year since FY 2008.

Furthermore, after significant growth in FY 2011 and FY 2012, federal budget cuts resulting from sequestration are expected to slow the DC economy by reducing employment and contracting in the DC area. This will essentially put the brakes on further growth in tax collections in FY 2013 and FY 2014. In fact, revenues in 2013 are projected to be no higher than in 2012, after adjusting for inflation, and revenues in FY 2014 are projected to be only modestly above FY 2012.

## Funding Changes 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 categories, known as “appropriation titles.” This analysis does not include the “Enterprise”



appropriation title, as these agencies and programs directly receive their funding and it does not comprise the general fund.

**Table 1** shows how funding for each appropriation title from local sources would change in FY 2014 under the proposed budget. The table also adjusts two titles, Economic Development and Human Services, to shift several agencies that target housing and jobs assistance from the Economic Development title to the Human Support Services title.

Table 1 Changes in DC's General Fund Budget from Approved FY 2013 to Mayor Gray's Proposed FY 2014			
Appropriations Title	FY 2013 Revised	FY 2014 Proposed	Change, 2013 to 2014
Government Direction	\$560	\$601	7%
Economic Development	\$336	\$371	10%
Less Low-Income Agencies*	\$169	\$177	5%
Public Safety	\$1,013	\$1,037	2%
Education	\$1,715	\$1,752	2%
Human Support	\$1,686	\$1,751	4%
Plus other Low-Income Agencies*	\$1,853	\$1,944	5%
Public Works	\$593	\$618	4%
Financing	\$973	\$1,022	5%

Notes:  
 All figures are in millions and adjusted for inflation to equal FY 2014 dollars.  
 FY 13 figures are adjusted to reflect proposed changes to the FY 2013 budgets for some agencies; the exception is the \$67 million in one-time funds for the Housing Production Trust Fund. Including those funds distorts the changes from year to year and makes it appear that some areas of the budget are being significantly cut when in fact they are not.  
 These figures include some adjustments to make figures comparable.  
 \* "Low-Income Agencies" includes Department of Employment Services, Housing and Community Development, Housing Authority Subsidy, and the Housing Production Trust Fund.

This section highlights the major cuts and additions within each appropriation title. A more detailed analysis of each appropriation title, including comparisons to the current year, is found in the appendix.

### Government Direction

The mayor's proposed FY 2014 general fund budget for Government Direction and Support agencies is \$601 million, which represents a \$45 million or 8 percent increase from FY 2013. This was largely driven by substantial budget increases for the Office of the Chief Technology Officer (OCTO), the Department of General Services, as well as the creation of the One City Fund, which will provide competitive grants to District nonprofit organizations. The Office of Contracting and Procurement also received a significant increase in its operating budget, mostly due to the addition of 15 new positions in the Procurement Division. Only the Executive Office of the Mayor would experience a decline in funding in FY 2014, partially attributable to the transfer of funding for the Office of Returning Citizen Affairs to the Department of Corrections.

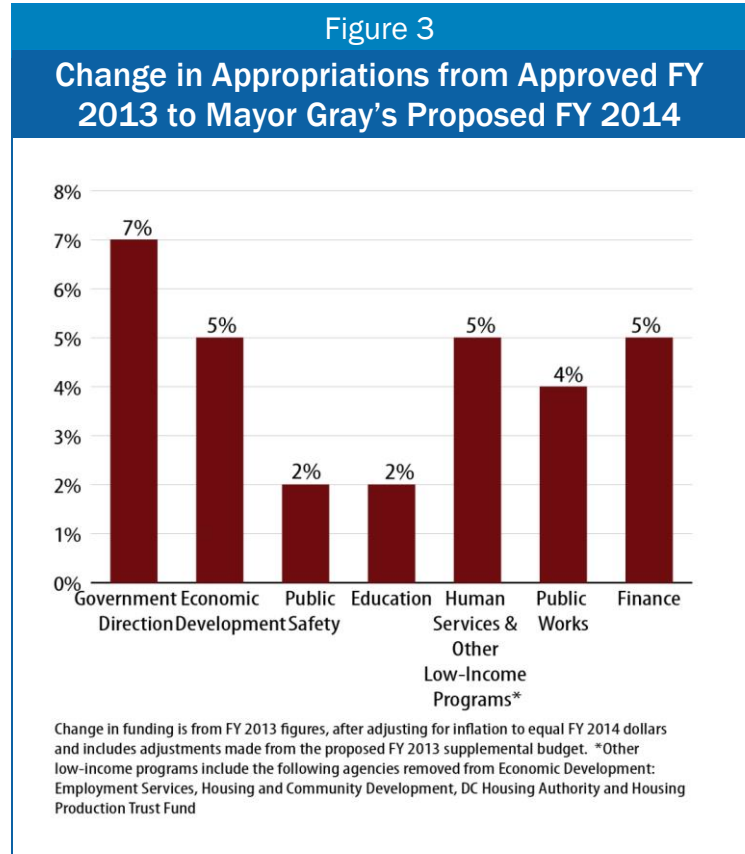
## Economic Development

The mayor’s proposed general funds budget for economic development and regulation is \$371 million, an 8 percent decrease from FY 2013. This is entirely the result of \$67 million in one-time funds that were added to the FY 2013 budget for the Housing Production Trust Fund — DC’s main source for affordable housing construction and renovation — and are not available in FY 2014. Adjusting for these funds, total funding for economic development would increase by 10 percent from FY 2013.

Proposed local funding for the Department of Housing and Community Development is \$21 million, a 7 percent increase from FY 2013. The proposed budget includes a \$1 million reduction to the Home Purchase Assistance Program (HPAP) — a program that helps provide down payment and closing cost assistance for low-income first time homebuyers—even with the \$1 million that is part of Mayor Gray’s \$100 million pledge for affordable housing funding. This reduction is offset by DHCD’s plans to use additional revenues collected from other sources to increase its technical assistance contractual budget by \$2.3 million.<sup>3</sup>

Proposed revenue for the Housing Production Trust Fund is \$44 million. The proposed budget fully restores a \$20 million cut to the HPTF that had been in place for the last few years. In addition, the DC Housing Authority’s budget includes \$5 million in additional funds for the project- and sponsor-based components of the Local Rent Supplement Program.

Proposed local funding for the Department of Employment Services is \$95 million, a 6 percent increase over the FY 2013 budget. Adult job training and a year-round program for youth would get notable funding increases. Meanwhile, funding for adult subsidized jobs and the city’s “one-stop” employment centers would fall. Funding for the Summer Youth Employment Program, which has been scaled back since the late 2000s, is flat.



<sup>3</sup> The other sources that would be tapped include the HPAP repay account and DHCD’s unified fund.

## Public Safety

Proposed funding for public safety is \$1 billion, a 2 percent, or \$24 million, increase from FY 2013. Funding for the Metropolitan Police Department would increase by two percent from FY 2013 and includes \$6 million for 93 additional police officers and \$8 million in increased funding for automated traffic enforcement. These increases are offset by a movement of 38 MPD positions to the Department of Corrections for corrections officers. Funding for the Office of the Deputy Mayor for Public Safety and Justice is proposed to be \$18 million, a 37 percent increase from FY 2013, stemming largely from proposed increases in services for victims of domestic violence; this includes \$3 million for housing programs that serve victims of crime and domestic violence as well as \$4.4 million to replace expiring federal funds for other programs that serve crime victims.

## Education

The proposed fiscal year 2014 general fund budget for education is \$1.8 billion, a 2 percent, or \$37 million, increase over the approved FY 2013 budget. The mayor's proposed budget includes a two percent increase to the locally funded Uniform Per Student Funding Formula (UPSFF). However, the proposed budget for DC Public Schools of \$655 million represents a 4 percent decrease in general funds, largely as a result of an expected drop in enrollment. Proposed funding for Public Charter Schools is \$616 million, an increase of 13 percent from FY 2013, due to a projected increase in enrollment over last year. Charter schools will also see greater local investment in their facilities allotment, which is \$3,000 per student and will be completely funded with local dollars in FY 2014. The allotment was partially funded with federal dollars in past years.

The mayor's proposed budget for Non-Public Tuition, which provides tuition for special education students placed in private schools is \$80 million, a 28 percent reduction from FY 2013 that reflects efforts in the past few years to improve capacity at DCPS to serve students with special education needs and to reduce the number of students placed in private schools. DCPS proposes expanding the number of classrooms for children with special education behavioral needs. The overall special education local budget within DCPS will see a decrease of \$3 million from FY 2013 due to the 500 reduction in projected special education enrollment in FY 2014.

The Office of the State Superintendent of Education (OSSE) budget in FY 2014 is \$110 million, an increase of 1 percent from FY 2013. This increase in part reflects an investment of \$6 million to expand early intervention services for infants and toddlers with developmental delays. The budget's "contingent priority list" includes a 10 percent increase in the child care reimbursement rates as well as the expansion of subsidized child care to 200 slots additional infants and toddlers. Proposed funding for the DC Public Library system is \$53 million, an increase of 22 percent, or \$9 million, from FY 2013. The increased funds would be used to extend the operating hours at all library locations and to purchase additional resources.

## Human Services and Health

The proposed FY 2014 general fund budget for Human Support Services is \$1.75 billion, a 4 percent increase from FY 2013. The proposed local budget for the Department of Human Services (DHS) will increase 22 percent from FY 2013 to \$208 million in FY 2014. This budget contains a

number of changes including using local funds to replace \$17 million in federal Temporary Assistance for Needy Families (TANF) carryover funds that are not available in FY 2014, a \$6 million increase to delay the timing of a TANF benefit cuts for families who have received benefits for more than 60 months, and a \$2.5 million increase for a contract with the Department of Behavioral Health to provide substance abuse treatment for parents in the TANF program.

The mayor's *\$100 Million Affordable Housing Initiative* dedicates \$1 million to homeless youth services emergency rental assistance, and rapid re-housing (which provides short-term rental assistance and supportive services to homeless families), respectively.

The proposed budget would increase local funding for the Department of Health Care Finance (DHCF) by \$31 million or 4 percent, for a total general fund budget of \$805 million. This is largely driven by increases in Medicaid enrollment and costs. Funding for the Healthcare Alliance, which serves uninsured residents not eligible for Medicaid, would fall by \$1.5 million to \$40 million. There has been a sharp reduction in Alliance enrollment since 2011, and this seems to reflect the impact of a restrictive process implemented that year that participants must go through to re-certify their eligibility. The proposed budget for the new Department of Behavioral Health is \$206 million, a 6 percent increase from FY 2013 when compared with comparable services.<sup>4</sup> The proposed DBH budget enhances reimbursement rates for mental health services for Medicaid recipients by \$7 million in local funding, and it increases rates by \$2 million for mental health services for non-Medicaid participants.

## Public Works

Proposed local funding for public works is \$618 million, a 4 percent, increase from FY 2013. The budget for the Department of Transportation (DDOT) is \$91 million, a 17 percent increase from FY 2013, including \$4 million for Streetcars and \$4 million for parking meter operations. Proposed funding for the Department of Public Works is \$118.5 million, an increase of 4 percent from FY 2013, to reflect added services needed to serve a growing population growth in the city, as well as increased funding for sandbags for flood prevention and for supercan and recycling can replacement initiatives.

Proposed funding for the Department of Motor Vehicles (DMV) is \$37 million, a 1 percent increase that partly reflects opening a new DMV center in Georgetown. Proposed funding for the District Department of the Environment (DDOE) is \$69 million, an increase of 3 percent from FY 2013 to cover costs for salary increases, additional personnel, and fringe benefits. The proposed budget for the Washington Metropolitan Area Transit Authority (WMATA) is \$300 million, a 2 percent increase from FY 2013, including costs for the new Silver Line and an increase in retirement costs.

## Finance

The general fund budget for financing in fiscal year 2014 is proposed to be \$1.02 billion, an increase of 5 percent from fiscal year 2013. The largest increase is a \$50 million, or 10 percent, increase in debt service payments reflecting increased borrowing in recent years for school

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<sup>4</sup> The FY 2014 proposal creates the Department of Behavioral Health, which is composed of the Department of Mental Health and the Addiction Prevention and Recovery Administration from within the Department of Health.

construction and other capital projects. The Financing budget also includes \$59 million for “workforce investments,” which reflects expected pay increases for DC government employees. When the pay raises are completed — typically through negotiation with collective bargaining groups — the funds are allocated to the relevant DC government agencies.

The Financing budget also includes a number of funding reductions. The cost of leasing equipment across DC government will fall \$8 million, or 16 percent, under the proposed FY 2014 budget. In addition, the District will pay off funds borrowed to renovate One Judiciary Square with a final payment in FY 2014. That payment will be \$8 million lower (26 percent) than the payment made in FY 2013. Finally, funding for “non-departmental” activities, a catch-all line in the DC budget that creates budget flexibility, will be \$8 million in FY 2014, compared with \$34 million in FY 2013.

## How Mayor Gray Balanced the FY 2014 Budget

Mayor Gray’s \$7.15 billion proposed FY 2014 budget represents an increase of \$276 million from the FY 2013 revised budget, after adjusting for inflation. It represents the first time since the start of the recession that the District did not have to close a looming budget gap. Instead, the District faces a \$178 million increase in projected revenues for FY 2014 that allowed the mayor to increase funds for a number of programs and services across DC government. In addition, Mayor Gray’s FY 2014 budget includes \$69 million in proposed revenue increases as well as \$96 million in revenues that are being carried over from FY 2013 in to FY 2014 (these are discussed in greater detail below).

Mayor Gray’s proposed FY 2014 proposed budget allocates the increased revenues to a number of programs and services, including:

- **DC Public Charter Schools.** The FY 2014 budget proposes a \$72 million increase to DCPCS that is largely driven by projected enrollment growth, from 33,700 students in 2012-13 to 37,400 students in 2013-14., and a 2 percent increase in per-pupil funding.
- **Debt service.** The FY 2014 budget reflects increased payments for debt service by \$48 million due to increased borrowing in recent years for capital construction projects, including school modernization.
- **Replacement of depleted federal funds within the Department of Human Services.** The FY 2014 budget for DHS includes a \$38 million increase from FY 2013; \$28 million of which is local funds that are needed to replace federal carryover funds that are being used this year to fund the programs and services in the Temporary Assistance for Needy Families program (TANF) and that will not be available in FY 2014.
- **Pay raises for DC government employees.** The FY 2014 budget includes \$59 million to implement pay raises for DC government employees that are proposed to begin in the latter half of FY 2013. The pay raises would cover both union and non-union DC employees, many of whom have not seen pay raises for four to seven years.



- **Medicaid.** The FY 2014 budget includes a \$31 million increase for the Department of Health Care Finance, the majority of which is needed to address rising Medicaid enrollments.
- **Affordable housing.** Mayor Gray added \$100 million for affordable housing, with \$67 million of one-time funds in FY 2013 budget and \$33 million in additional recurring funds in FY 2014. The FY 2014 proposed budget includes \$20 million to fully restore the cut to the Housing Production Trust Fund, \$1 million each for Emergency Rental Assistance, Rapid Re-Housing, Homeless Youth Initiatives, Home Purchase Assistance, and \$3 million each for the Local Rent Supplement program and housing for victims of domestic violence. The proposed budget also allocates \$4 million to further efforts to create a centralized affordable housing database.

Other notable increases include:

- **Special education early intervention.** The mayor's budget includes \$6 million in fiscal year 2014 to expand early intervention services for infants and toddlers with developmental delays. The funding will allow the DC Early Intervention Program to broaden coverage to serve children with a 25 percent developmental delay in two or more areas, rather than the current standard of only serving children with delays of 50 percent or more. The increased funds also will extend coverage until age four. Identifying and addressing delays early can improve a child's chances of succeeding in school.
- **Delay in the benefit cut for Temporary Assistance for Needy Families (TANF) recipients.** Cash assistance benefits for families who have received benefits for more than 60 months were cut 20 percent in 2011. Under current law, those benefits would have been cut further in October 2013, with the maximum benefit for a family of three falling from \$342 per month to \$171. The proposed budget slows down the pace of the reductions, setting the maximum benefit for a family of three at \$257 for affected families in fiscal year 2014.
- **Domestic violence services.** Mayor Gray's budget includes increased funding for services for victims of domestic violence, in addition to the funding for housing for these residents, to head off a potential significant cut to this area from lost federal funds.

## Some Programs Aimed At Helping Vulnerable Residents Remain Underfunded

While the proposed FY 2014 budget includes significant investments across DC government, there are several programs that were cut deeply in recent years that would not be fully restored in the FY 2014 budget:

- **Interim Disability Assistance (IDA).** The IDA program provides \$270 a month to residents with disabilities that prevent them from working. These residents are waiting for a determination on whether they qualify for federal Supplemental Security Income (SSI) benefits, which can take more than a year. Local funding for IDA – which assists residents during this period – was cut from \$6 million in FY 2008 to \$1.5 million in FY 2013, which led to an 80 percent decrease in the number of residents served, from 2,900 to 550 individuals. The mayor's budget has only a modest increase of \$125,000 for IDA in FY 2014, enough to provide benefits for only 38 additional individuals.

- **Temporary Assistance for Needy Families.** The FY 2014 budget did not address the need to better align the District's time limit policy for parents on Temporary Assistance for Needy Families (TANF) with the policy governing when parents are expected to look for work. The District, like most states, doesn't require families to be looking for employment while they are facing serious issues such as domestic violence or the need to care for a seriously ill child. Yet each family's 60-month time limit clock continues to run in DC, even though most states stop the clock to allow families time to deal with these issues. The Council's adopted budget for 2013 provided time limit exemptions for these families, but it was put on a contingent list that was not funded due to inadequate revenues. The FY 2014 budget does not include funding for these protections.

The FY 2014 budget also did not provide sufficient funding to help all work-ready parents in the TANF program access job training services. The proposed budget includes \$33 million for TANF employment vendors, sustaining FY 2013's maximum capacity to serve 3,630 unemployed TANF parents. This is not sufficient to meet the need for training and as a result there is a waitlist of nearly 1,200 TANF parents for these vendors. As of March 2013, the average wait time to access vendor services was four months. This wait time is likely to increase as DHS plans to assess the remaining 9,000 parents who have not yet received an assessment by the end of June 2013. It is anticipated that the vast majority of these parents will be referred to an employment vendor based on the results of their assessments.

Another area of concern is that the FY 2014 Budget Support Act (BSA), the legislation necessary to implement the budget, contains a number of significant changes to the Homeless Services Reform Act (HSRA). The HSRA is the law governing the District's homeless services system. Among these changes, is a new "provisional placement" for homeless families, allowing DHS to place a family in shelter for up to 14 days while the agency determines the family's eligibility for shelter.

Provisional families would not have the same legal protections as other homeless families have, such as the right to 15 days notice of shelter termination and the right to continued shelter pending a legal appeal. It also mandates that shelter residents make payments into escrow accounts, a practice that was discontinued when HSRA was enacted due to concerns about high administrative costs and the inability of some residents to both meet their basic needs and make the mandated payments.

The proposal does not appear to have a fiscal impact, according to the fiscal impact statement provided by the Office of the Chief Financial Officers, and therefore does not have an impact on the budget. Given the potential significant changes this new legislation could make, and that it does not have a fiscal impact, it may be more appropriate for these proposed HSRA changes to be removed from the BSA and considered instead through the regular legislative process, giving the Interagency Council of Homelessness (ICH) and the greater community time for careful review. The ICH is the group of government officials, service providers, advocates and homeless/ formerly

## FY 2013 Supplemental Budget

In addition to the proposed FY 2014 budget, Mayor Gray delivered a FY 2013 supplemental budget to the Council on March 28<sup>th</sup>. The changes to the current-year budget are based on a \$190 million upward revision to FY 2013 revenue projections announced in February as well proposed increases to the spending authority among several agencies by \$77 million. The FY 2013 supplemental also makes changes to revenues, although it does not include any broad-based fee or tax increases.

A summary of the major increases are as follows:

- **Housing Production Trust Fund: \$67 million.** As part of the Mayor's \$100 million pledge for affordable housing, the FY 2013 revised budget includes a significant one-time increase in funding for the HPTF – DC's main source for affordable housing construction and renovation.
- **Affordable housing database: \$600,000.** The Mayor proposed to allocate \$500,000 to the Office of the Chief Technology Officer and \$100,000 to the Deputy Mayor for Planning and Economic Development in FY 2013 to create a database that will track the District's creation of affordable housing across agencies.
- **Pay raises for DC government employees: \$24 million.** The mayor proposes to use the funds to give both union and non-union DC government employees raises in the latter half of FY 2013. Many DC government employees have been without raises for four to seven years.
- **Increased budget authority for several DC agencies: \$77 million.** The FY 2013 supplemental budget increases the authority for several DC agencies to spend certain funds that were received in a prior year but not spent or special fees or charges the agency will collect this year beyond what was originally anticipated. Changes range from a \$93,000 increase in the Department of Transportation's Tree Fund to \$10 million within DC Public Schools for an increase for the e-rate education program. A list of proposed increases can be found on the CFO's website: <http://cfo.dc.gov/node/477472>.

A summary of the major changes to revenues include:

- **Repeal out of state bonds tax and fund various tax abatements: \$4.4 million reduction.** The FY 2013 proposed budget would allocate \$1.1 million to repeal an income tax on investments in out of state bonds. This would make the District the only jurisdiction in the nation to provide a blanket tax exemption for all out-of-state bonds and is described in great detail below. The budget would also fund a variety of tax abatements for specific projects totaling \$3.3 million.

The FY 2013 proposed budget also includes a proposal to carry \$96 million in FY 2013 revenues—the amount of funding left over after the revenue reductions and new expenditures are subtracted from the \$190 million surplus—into FY 2014 to help fund a number of increases in programs and services.

homeless residents tasked with guiding the District's strategies and policies for meeting the needs of homeless individuals and families.

## Revenue Additions In the FY 2014 Budget

Mayor Gray's proposed FY 2014 budget includes \$69 million in additional revenues, equal to about 1 percent of the city's locally funded budget. The bulk would come from expansion of automated traffic enforcement, a new fee on hospitals that will be used to fund Medicaid services

and generate federal matching funds, and improved tax compliance measures. The budget includes no broad-based fee or tax increases.

The major additions are as follows:

- **Expanded Automated Traffic Enforcement:** The proposed FY 2014 budget would generate \$44 million by expanding the use of speeding and other automated traffic enforcement cameras to more locations.
- **Improved Sales and Income Tax Compliance:** The FY 2014 budget would raise \$12 million through a variety of measures to improve compliance with DC’s taxes. Some \$4.4 million would result from better use of federal matching programs to identify taxable sales and income, and \$7.6 million would come from enhanced technology to detect errors or abuse.
- **Hospital Provider Fee:** The budget proposes a new that fee will be assessed on the gross patient-based receipts of every hospital in the District of Columbia. The funds will be used to fund Medicaid-eligible outpatient services provided by hospitals. The \$12.4 million in local funds generated by the fee will draw \$29 million in federal matching funds.
- **Other Sources of Revenue:** The proposed FY 2014 budget projects \$800,000 in additional revenue from enhanced food inspection and \$350,000 from improved surplus property sales practices.

### Revenue Reductions In the FY 2014 Budget

The proposed FY 2014 budget includes one tax reduction, which would restore a tax break for interest

earned on bonds issued by other cities and states that had been eliminated in 2011 though not yet implemented. This would make the District the only jurisdiction in the nation to provide a blanket tax exemption for all out-of-state bonds. The budget also supports tax abatements for various development projects, including several that had been approved in prior years, at a total of \$800,000 in lost revenue in FY 2014.

**Out-of-State Bonds Tax Break:** The FY 2014 budget proposes to restore a tax break for interest earned on government bonds issued in other states. The DC Council eliminated this tax break for out-of-state bond investments made in or after January 2013.

Restoring this tax break would make DC the only jurisdiction to offer this tax break. It would cost \$1.7 million in lost revenue in 2014, rising to nearly \$4 million by 2017. Outside of DC, states offer tax breaks only for bonds issued within the state, as an incentive to invest in that state’s

	Amount (In \$ Millions)
<b>REVENUE INCREASES</b>	
Expanded Automated Traffic Enforcement	\$44.1
Hospital Provider Fee	\$12.4
Enhanced Tax Compliance	\$12.0
Other	\$1.1
<b>REVENUE DECREASES</b>	
Re-establish tax break for out-of-state bonds	\$1.7
Tax abatements for development projects	\$0.8

infrastructure. Creating a tax break for bonds issued elsewhere would establish an incentive to invest in out-of-state infrastructure projects.

Supporters of the tax break say that it is needed to protect seniors on limited incomes who live off such investments. Yet most out-of-state bond holders in DC are not retirees and most are not low-income. In 2008, just 6 percent of all DC taxpayers hold out-of-state bonds, and only one-fourth of them have retirement income. Two-thirds of the income from out-of-state bonds goes to households with income over \$200,000. In fact, just 2.4 percent of households with income from out-of-state bonds in a recent year — 482 households citywide — were retiree households with incomes below \$50,000.

It is worth noting that eliminating the tax break for out-of-state bonds helped spike interest in investments in the District's infrastructure bonds. In 2012, DC's Chief Financial Officer reported that demand for DC bonds from DC residents was up significantly from the prior year and that this helped lower the costs of issuing those bonds. This progress would be lost if the District once again becomes the only state to offer a tax break for investing in bonds issued by any city or state.

As noted, when the DC Council eliminated this tax break, any investment made before January 2013 remained tax exempt, preserving the tax break for residents who had already made investments with the expectation that they would be tax free. Some residents who invest in mutual bond funds are concerned that they are at a disadvantage because the mutual fund's portfolio is constantly changing. This could potentially create "new" investments subject to tax, even for mutual fund shares that they have owned for years. The District could address this by maintaining the tax break for any mutual fund shares acquired prior to 2013, no matter how the composition of the fund changes.

**Tax Abatements:** The proposed budget would fund the following tax abatements that had been adopted in previous years but not yet funded.

- United Negro College Fund — \$340,000 in FY 2014
- Carver 200 Low-Income and Senior Housing — \$99,000 in FY 2014
- Elizabeth Ministry Affordable Housing — \$7,000 in FY 2014
- Gala Hispanic Theater — \$44,000 in FY 2014
- Beulah Baptist Church — \$59,000 in FY 2014

The budget includes other tax abatements with no costs in FY 2014, either because costs are limited to FY 2013 or because costs will start in FY 2015. The latter includes a tax abatement for Parkside Mixed Income Apartments that will cost about \$500,000 per year starting in 2015.

## Contingent Tax Cuts

The FY 2014 budget includes two tax reductions that are on the "contingent priority" list. These tax reductions will go into effect if the city's revenue collections rise above current projections.

**Commercial Property Tax Rate Cut:** Item 16 on the contingent priority list would reduce the commercial property tax rate for the first \$3 million of a building's assessed value from \$1.65 per

\$100 of assessed value to \$1.55, resulting in a \$10 million revenue loss in FY 2014. This builds on a tax provision adopted in 2008, when the rate for the first \$3 million of assessed value was reduced from the basic commercial property rate of \$1.85 to \$1.65.

This provision was adopted with the goal of providing tax assistance to small businesses, although much of the benefit goes to larger businesses. Because the lower tax rate applies to the first \$3 million of any building's value, it provides a greater benefit to smaller, lower-value buildings — which pay a lower rate on their entire building — than to higher-value buildings that get the lower rate only for a share of their building's value. Nevertheless, because the tax reduction applies to all commercial buildings, it is not highly targeted on small business. Moreover, because many small businesses are located in larger buildings, a modest tax reduction for a large building has only a modest impact on the taxes paid by a small tenant in that building.

**Schedule H Property Tax Relief:** Item 17 on the contingent priority list would implement legislation adopted in 2012 to improve Schedule H, a tax credit for lower-income residents when rents or property taxes are high relative to income.<sup>5</sup> Schedule H is a property tax credit, but it helps both homeowners and renters. Schedule H assumes a portion of a household's rent — 20 percent under the new law — and reflects property taxes passed on to them by their landlord.

Schedule H has not been updated for 35 years and has several problems that result in very few residents claiming it. The changes adopted last year to address those problems include the following:

- **Raising the income eligibility limit from \$20,000 to \$50,000.** The income eligibility limit for Schedule H has remained \$20,000 for 35 years.
- **Increasing the maximum annual credit amount from \$750 to \$1,000.**
- **Allowing people who share housing to claim Schedule H separately.** Current rules require people or families sharing a home to apply together even if they do not share income or file tax returns together. This often makes it impossible for people to qualify. Of 16 states with similar credits, 14 allow people in shared housing to claim the credit separately based on their income and their share of the rent. The legislation adopted in 2012 would follow this practice.

As many as 125,000 residents would be eligible for the updated Schedule H credit based on income, according to the Chief Financial Officer. Implementing these changes will cost \$5.4 million in FY 2014.<sup>6</sup>

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<sup>5</sup> B19-0164, "The Schedule H Property Tax Relief Act of 2011."

<sup>6</sup> The fiscal impact statement for the Schedule H legislation suggests the costs would be \$10.9 million in FY 2014, and that is the figure reflected in the FY 2014 budget's "contingent priority" list. Yet this fiscal impact level assumes that families receiving federal housing choice vouchers, or other rental subsidy, would no longer be required to subtract the total value of their subsidies from their calculated Schedule H credit to get the actual refundable portion the family would ultimately be eligible for. A review of the 2012 Schedule H legislation suggests that the rules governing residents in subsidized housing would not change. Without this change, the cost of Schedule H in FY 2014 would be \$5.4 million.

## APPENDIX

### Summary of FY 2014 Funding Changes by Appropriations Title

*Note: all figures, unless otherwise noted, have been adjusted for inflation to equal FY 2014 dollars.*

#### Government Direction and Support

The mayor's proposed FY 2014 general fund budget for Government Direction and Support agencies is \$601 million, which represents a \$45 million or 8 percent increase from FY 2013. The major agencies within this appropriation title are the DC 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.

Several agencies under Government Direction will see significant increases in funding next year, including OCTO, the Office of Contracting and Procurement, and the Department of General Services. The proposed budget for OCTO increases by 29 percent or \$14.6 million, driven by a one-time allotment to fund the Affordable Housing Database and increased funding to support a new fiber optics contract. The Department of General Services will spend an additional \$11 million, due mostly to increases in fixed costs such as utilities for DC government agencies. The Office of Contracting and Procurement's FY 2014 budget will grow substantially to support a Procurement Reform Initiative, adding \$1.7 million for 15 new staff positions and \$800,000 for training and consultant services.

Two new items in the FY 2014 budget are the One City Fund and the Tax Revision Commission. The proposed budget creates the One City Fund, which will provide \$15 million in competitively-awarded grants to District nonprofit organizations. The budget also provides \$200,000 to support the Tax Revision Commission, which will release a report in 2013 with recommendations for changes to the District's tax system.

The Executive Office of the Mayor faces a 4 percent cut in funding, from \$8.6 million to \$8.3 million. The decline largely reflects the transfer of the Office of Returning Citizen Affairs out of the Mayor's Office to the Department of Corrections. Funding for the DC Council, City Administrator, Office of the Chief Financial Officer and Advisory Neighborhood Commission will decrease slightly, mostly as funding levels failed to keep up with inflation. The DC Council reorganized Council Committees, reducing the budget by \$817,000 and staffing by 15.

#### Economic Development and Regulation

The mayor's proposed general funds budget for Economic Development and Regulation is \$371 million, a 10 percent increase from FY 2013. This appropriation title includes the budgets for the Housing Production Trust Fund, Department of Housing and Community Development, DC Housing Authority subsidy, the Department of Employment Services, the Deputy Mayor for Planning and Economic Development, Department of Consumer and Regulatory Affairs, and DC Commission on Arts and Humanities, among others.

Proposed funding for the Department of Housing and Community Development is \$21 million, a seven percent increase from FY 2013. This is largely the result of two major changes. DHCD projects an increase in revenues collected from the HPAP repay account and DHCD's unified fund

and will use those revenues to increase its technical assistance contractual budget by \$2.3 million. That increase however, is offset but a net decrease in the Home Purchase Assistance Program (HPAP) — a program that helps provide down payment and closing cost assistance for low-income first time homebuyers — of \$1 million. The proposed budget includes a \$2 million reduction to HPAP from the expiration of one-time funds that were supporting the program in FY 2013 offset in part by \$1 million the Mayor added to the budget as part of his \$100 million pledge for affordable housing.

Proposed revenue for the Housing Production Trust Fund is \$44 million, an increase of \$21 million, nearly 100 percent, from the approved FY 2013 budget. The proposed budget fully removes a \$20 million cut to the HPTF that had been in place for the last few years. (As noted above, the proposed budget also includes a special one-time allocation to HPTF in FY 2013.)

Proposed funding for the Department of Employment Services is \$95 million, a 6 percent increase over the FY 2013 budget. Adult job training and a year-round program for youth would get notable funding increases. Meanwhile, funding for adult subsidized jobs and the city's "one-stop" employment centers would fall. Funding for the Summer Youth Employment Program, which has been scaled back since the late 2000s, is flat.

Proposed funding for the DC Housing Authority is \$34 million, which provides funding for the Local Rent Supplement program, the DC Housing Authority police force, and housing assistance for roughly 500 families who would have lost their assistance when federal funding was reduced. The proposed FY 2014 budget includes a \$5 million increase in the Local Rent Supplement Program for project- and sponsor-based vouchers, but it also includes a \$4 million decrease in new appropriations to the subsidy which the Housing Authority will cover with reserves.

Proposed funding for the Department of Consumer and Regulatory Affairs is \$41 million, a 23 percent increase from FY 2013. The increase is largely due to the agency's anticipated increase in fees collected from the Basic Business License, Nuisance Abatement and Corporate recordation fees. The additional \$6.7 million in special purpose revenue is proposed to support 39 new full-time positions and an increase in contractual services.

Proposed funding for the DC Commission on Arts and Humanities is \$5 million, a 54 percent decrease from FY 2013. The decrease largely comes from a \$6.8 million in one-time funding in FY 2013 that was not repeated in the FY 2014 budget. The proposed budget also includes an addition of \$750,000 to support arts initiatives associated with the mayor's five-year economic development plan and funding and one employee to support management of the Lincoln Theatre.

Proposed funding for the Deputy Mayor for Planning and Economic Development, the agency that oversees all of the agencies in this cluster, is \$34 million, a 15 percent increase from FY 2013. Major increases include \$5 million for the Great Streets Initiative, a program that aims to improve streetscapes and businesses along major DC retail corridors, \$1 million to various initiatives designed to market the District, \$1 million for an additional 14 employees to help implement the Mayor's five-year economic development plan and \$3 million for increased asset management, including the DCUSA project. Some of these cost increases were offset by reductions to fixed costs and reductions in required support for various grant requirements.



## Public Safety and Justice

Proposed local funding for public safety is \$1 billion, a 2 percent, or \$24 million, increase from FY 2013. This appropriation title includes the Metropolitan Police Department, Fire and Emergency Management System, the Department of Corrections, and Homeland and Security Management Agency. Under Mayor Gray's proposed fiscal year 2014 budget, several public safety agencies would see an increase in funding.

Proposed funding for the Metropolitan Police Department is \$485 million, a two percent increase from FY 2013. This includes \$5.6 million for 93 additional police officers and \$7.8 million in additional funding to purchase equipment for automated traffic enforcement and \$5.3 million in recurring costs to operate automated traffic enforcement equipment. The budget proposes a transfer of 38 staff positions from MPD to the Department of Corrections, with corresponding shifts in funding.

Other notable increases in public safety include upticks in funding for the Police Officers and Fire Fighters' Retirement System, due to increased retirements costs. Proposed funding for the Department of Corrections is \$142 million, which is essentially no growth from the FY 2013 budget. The proposed budget includes an increase that stems mainly from a shift of 38 employees from MPD to DOC as corrections officers. The department will see savings resulting from a reduced inmate population and a reduction in the number of inmates needing expensive HIV-related drugs.

Funding for the Office of the Deputy Mayor for Public Safety and Justice is \$18 million, a 37 percent increase from FY 2013, largely due to a \$3 million increase to fund housing programs serving victims of crime and domestic violence, as well as \$4.4 million to replace expiring federal funds for other programs that serve crime victims.

Proposed local funding for the Homeland Security and Emergency Management Agency (HSEMA) is \$2 million, a one percent decrease from FY 2013. HSEMA will see a significant decline in federal funding, its major source of funding, as a result of sequestration. The cuts total \$10.7 million, or 10 percent of the agency's federal funds budget.

## Education

The proposed FY 2014 general fund budget for education is \$1.8 billion, a 2 percent, or \$37 million, increase over the approved FY 2013 budget. Agencies under the public education appropriation title include: the Deputy Mayor for Education, DC Public Schools, DC Public Charter Schools, Office of the State Superintendent of Education, University of the District of Columbia, and the DC Public Library, among others.

The mayor's proposed budget includes a two percent increase to the locally funded Uniform Per Student Funding Formula (UPSFF), the main source of local funding for both DC Public Schools and DC Public Charter Schools. Despite this, the proposed budget for DC Public Schools is \$655 million, a 4 percent decrease in general funds, primarily reflecting an expected drop in enrollment in DCPS from FY 2013 to FY 2014. On the other hand, funding for public charter schools is proposed to increase by 13 percent from FY 2013, to \$616 million in FY 2014, largely due to a projected

increase in enrollment and the per-pupil funding increase. Charter schools will receive a facilities allotment of \$3,000 per student, the same level as in prior years but completely funded with local dollars in FY 2014. The allotment was partially funded with federal dollars in past years, and the federal funds freed up by this change will support other investments to strengthen public charter schools.

The proposed budget for Non-Public Tuition, which provides tuition for special education students placed in private schools is \$80 million, a 28 percent reduction from FY 2013. This reduction is expected to be achieved from efforts that have been put in place the past few years to improve capacity at DCPS and reduce the number of students placed in private schools. The mayor's proposed budget also includes a related reduction in funding for Special Education Transportation. Funding for special education transportation is proposed to be \$87 million, a 7 percent decrease from FY 2013. Local spending on special education within DCPS — that is, serving students with special needs served by DCPS schools — will increase from FY 2013 to FY 2014. However, because the FY 2013 special education budget was over-estimated — based on a projected number of students that proved to be too high — the budget appears to show a decrease of \$3 million from the approved FY 2013 budget. The special education budget includes funding to open additional classrooms for students with special behavioral needs.

The Office of the State Superintendent of Education (OSSE) budget in FY 2014 is \$110 million, an increase of 1 percent, or \$1.3 million, from FY 2013. This increase in part reflects an investment of \$6.4 million to expand early intervention services for infants and toddlers with developmental delays. OSSE will see a \$6.8 million funding cut for the Teaching and Learning division which provides oversight for federal grant programs, as well as a \$734,000 cut for adult and family education and a \$334,000 cut for career and technical education. Proposed funding for the child care subsidy program shows a \$1.5 million reduction from FY 2013. A 10 percent increase in the child care reimbursement rate as well as the addition of 200 slots for infants and toddlers is the first item on the mayor's "contingent priority list" of services to be funded if revenue projections improve.

As a result of the "State Board of Education Personnel Authority Amendment Act of 2012," the State Board of Education (DCSBOE) will be its own funded agency and removed from the OSSE agency budget starting in FY 2014. Proposed funding for the DCSBOE is \$587,000 in FY 2014, a 14 percent increase in funding from FY 2013. This increase is mostly from the transfer of one staff position from the Office of the OSSE Director.

Proposed funding for the DC Public Library system is \$53 million, an increase of 22 percent, or \$9 million, from FY 2013. The increased funds would be used to extend the operating hours at all library locations and to purchase additional resources. Proposed funding for public education facilities is \$46 million, an increase of 5 percent when compared to FY 2013. These funds are used to manage school capital projects for the District. The mayor's proposed budget also includes a \$2 million increase to the capital budget for DCPS, in which about \$162 million is for modernization and construction of DC high schools, \$69 million for middle schools, and \$128 million is allocated for work at elementary schools in FY 2014. An additional \$1.8 million in capital funding will create early learning centers to serve children from birth to age five in collaboration with community child care partners.

## Human Support Services

The proposed FY 2014 general fund budget for Human Support Services is \$1.75 billion, a 4 percent increase from FY 2013. The agencies in this appropriation include the Department of Human Services, the Child and Family Services Agency, the Department of Health, and the Department of Health Care Finance, among others. The change in funds is not spread evenly among agencies within the human services cluster, with a range of agency budget changes from a 10 percent decrease to a 220 percent increase.

The proposed local budget for the Department of Human Services will increase 22 percent from \$170 million in FY 2013 to \$208 million in FY 2014. This includes using local funds to replace federal Temporary Assistance to Needy Families (TANF) carryover funds that will be spent in FY 2013 and will not be available in FY 2014, a change in the schedule of benefit reductions for TANF recipients, and funding from the mayor's *\$100 Million Affordable Housing Initiative*. The major changes to note are:

- \$2.5 million increase to provide substance abuse treatment for parents in TANF, the District's welfare-to-work program.
- \$6 million increase to adjust the timing of the TANF benefit cuts for families who have received benefits for more than 60 months. These families experienced a 20 percent cut in April 2011. Without additional funds in the FY 2014 budget, families would have experienced deep cuts in benefits in October 2013, from \$342 a month for a family of three to \$171 per month. Under the proposed budget, benefits will fall to \$257 a month.
- \$28 million increase in local monies to replace lost federal funds and federal TANF carryover funds that were available in FY 2013 due to under-spending in previous fiscal years but will not be available in FY 2014.
- \$3 million from the mayor's *\$100 Million Affordable Housing Initiative*:
  - \$1 million dedicated to homeless youth services.
  - \$1 million dedicated to the Rapid Re-housing Program. This program, also known as the Family Re-Housing and Stabilization Program (FRSP), provides housing search assistance, supportive services, and short-term rental assistance to homeless families.
  - \$1 million increase for the Emergency Rental Assistance Program (ERAP). ERAP prevents homelessness by providing funding for overdue rent and related legal costs for households facing eviction. The program also provides security deposits and first month's rent for residents moving into new homes. ERAP serves low-income households that include one of the following: a child under the age of 19, an adult over the age of 59, or a person with a disability.

The FY 2014 budget's contingent priority list — programs that would get funded if the city's revenue collections rise above current levels — includes three programs within the Department of Human Services:

- \$4 million for District's special TANF program, the Program on Work, Employment, and Responsibility (POWER), that provides cash assistance to families who are unlikely to meet

TANF work requirements due to incapacity related to physical or mental health problems or substance abuse. This is number six on the priority list.

- \$967,770 to provide application assistance to first-time applicants for federal Supplemental Security Income (SSI) benefits who are also applying for the District's Interim Disability Assistance (IDA) program. There is substantial research showing that early assistance in the SSI process, which the District currently does not offer, decreases the application wait time and greatly increases the likelihood of getting approved. This is number seven on the priority list.
- \$4 million in additional funding for the rapid re-housing program for homeless families. This is ninth on the list.

The proposed Child and Family Services Agency (CFSA) budget reduces funding by 22 percent to \$176 million. The majority of the decrease, \$17 million, reflects an expected reduction in the number of children served and a significant reduction in CFSA's backlog of cases.

The proposed Department of Youth Rehabilitation Services (DYRS) budget reduces funding by 3 percent, or \$3.3 million, bringing the FY 2014 budget to \$105 million. Nearly \$2 million of this reduction is due to a staff reduction of 25 employees.

The proposed FY 2014 budget for the Office of Aging would increase 21 percent to \$20.5 million. This increase includes:

- \$1.8 million for additional nutrition services.
- \$861,000 for insurance for Washington Elderly Handicapped Transportation Service vehicles.
- \$100,000 to hire an Age-Friendly Coordinator, to ensure that seniors have access to resources needed for independent living.
- \$900,000 to hire 10 employees to assist nursing facility residents' transition into independent living arrangements. The budget does not contain additional monies to provide affordable housing to this population.

The second item on the mayor's proposed contingent priority list is \$5.8 million for the Office of Aging. Included in this is just over \$4 million for a 25 percent increase in the contracts with agencies that provide services to seniors. These contracts have remained essentially flat-funded for ten years. It also includes \$900,000 to hire two additional social workers at each of the five lead agencies that provide aging services, \$300,000 in operational support for five wellness centers, and \$440,000 for Washington Elderly Handicapped Transportation Service (WEHTS) operations, including raises for drivers, who have not received raises for several years.

The Children and Youth Investment Collaborative (CYITC) provides grants to community-based providers for child, youth, and parenting programming. The proposed FY 2014 budget remains at \$3 million, the same dollar amount as in FY 2013. This reflects a 2 percent decrease in inflation-adjusted numbers. The fifth item on the mayor's proposed contingent priority list is \$3 million for summer initiatives funded through the CYITC.

The Department of Parks and Recreation (DPR) will see a 2 percent increase over their FY 2013 budget, bringing their budget to \$47 million. This increase includes \$570,000 to provide adequate

staffing at four new recreational facilities, three pools, and a \$300,000 increase in the funds provided to the Department of General Services for DPR facility operations. The proposed Budget Support Act includes a provision allowing DPR to carryover unused General Fund monies from year to year. The capital budget includes a number of capital improvements to DPR Recreation Centers and parks.

The budget for the Department of Disability Services (DDS) remains virtually unchanged at \$62.7 million, reflecting a less than 1 percent increase from FY 2013. The proposed Budget Support Act establishes a separate fund to receive payments from the Social Security Administration for the Ticket to Work and Self Sufficiency Program, a program that provides employment services to individuals receiving federal disability benefits. This funding will not revert to the General Fund at the end of each fiscal year but will be retained by DDS to provide services in the coming year.

The Office of Human Rights will see a budget of \$2.4 million, an increase of 7 percent from FY 2013. This increase includes \$78,000 to hire an Equal Opportunity Specialist and \$99,000 for the Youth Bullying Prevention task force.

The Office of the Deputy Mayor for Health and Human Services (DMHHS) coordinates and oversees the agencies in this appropriation title. The FY2014 budget for the agency is \$1.9 million, reflecting a 220 percent increase from the FY 2013 budget of \$607,000. This increase includes \$26,000 to support the development of a Children's Budget and \$1 million for Truancy Reduction Initiative services.

The proposed budget would increase local funding for the Department of Health Care Finance (DHCF) by \$31 million or 4 percent, for a total general fund budget of \$805 million. This largely reflects increased costs per service and projected enrollment growth in DC's Medicaid program. The FY 2014 proposal also adds \$4 million for program updates needed in the Medicaid Management Information System required by the federal government.

The FY 2014 proposal also establishes a Hospital Provider Fee Fund to support outpatient hospital services for Medicaid recipients. The revenue generated from the hospital provider fee in FY 2014 increases the local budget by \$13 million and enhances federal Medicaid match payments by \$30 million.

Funding for the Healthcare Alliance, which provides health insurance to low-income residents who are not eligible for Medicaid, will fall by \$2 million to \$40 million in FY 2014. This appears to reflect the impact of a requirement implemented in 2012 that all Alliance participants recertify their eligibility every six months with a face-to-face interview, rather than annual certification without an in-person interview. Enrollment in the Alliance has fallen by more than one-third since then, far more than had been anticipated.

The mayor's proposal transfers the Addiction Prevention and Recovery Administration division from the Department of Health to the new Department of Behavioral Health. As a result, the proposed budget for the Department of Health (DOH) reflects a reduction of \$24 million in local funds and 26 full time employees. After taking that transfer into account, DOH's budget will grow by \$1 million to a total general fund level of \$82 million. The budget includes an additional \$2 million to support school-based health centers within DC Public Schools, and increased funding for food delivery to residents with chronic disease who are homebound and shelter-bound.

The FY 2014 proposal creates the Department of Behavioral Health, which is composed of the Department of Mental Health and the transferred Addiction Prevention and Recovery Administration. The mayor's general budget for Department of Behavioral Health is \$207 million, driven by funding increases in both of the former agencies. The proposed budget enhances Medicaid reimbursement for Mental Health Rehabilitation Services (MHRS) by adding \$7 million in local match funding. The proposal increases funding for reimbursement by \$2 million for mental health services for residents not on Medicaid.

An additional \$2 million for Department of Behavioral Health's school-based mental health services is fourth on the mayor's contingency priority list. The program already exists in 42 DC Public Schools and 11 Public Charter Schools, and provides intervention and treatment services. This request would expand services to 19 more schools.

## Public Works

Proposed funding for Public Works is \$618 million, a 4 percent, or \$25 million, increase from FY 2013, for the Department of Public Works, Department of Transportation, Department of Motor Vehicles, District Department of the Environment and Washington Metropolitan Transportation Authority (WMATA). Almost all of the agencies would see an increase in funds under the mayor's proposed FY 2014 budget.

Proposed funding for the Department of Public Works is \$118.5 million, an increase of 4 percent from FY 2013, reflecting the need for added services to keep up with population growth in the city, sandbags for flood prevention, and supercan and recycling can replacement initiatives. Proposed funding for the Department of Transportation (DDOT) is \$90.9 million, a 17 percent increase in funds from FY 2013, including \$700,000 to assist DC Water with its debt service, \$3.6 million for Streetcars, and \$4.1 million for parking meters operations.

Proposed funding for the Department of Motor Vehicles (DMV) is \$37 million, a 1 percent increase that partly reflects opening a new DMV center in Georgetown. Proposed funding for the District Department of the Environment (DDOE) is \$69 million, an increase of 3 percent from FY 2013, to cover costs for salary increases, additional personnel, and fringe benefits. The proposed budget for the Washington Metropolitan Area Transit Authority (WMATA) is \$300 million, a 2 percent increase from FY 2013, including costs for the new Silver Line and an increase in retirement costs.

The only agency to see a decrease is Washington Metropolitan Area Transit Commission (WMATC), whose budget of \$126,000 represents a 2 percent cut from FY 2013. WMATC keeps the same budget as 2013; the 2 percent decrease actually represents a difference due to inflation.

## Financing

The general fund budget for financing in fiscal year 2014 is proposed to be \$1.02 billion, an increase of 5 percent from fiscal year 2013, after adjusting for inflation. The major items in this

appropriation title include debt service, the costs of equipment leases, convention center operations, expected pay raises for DC government employees, and legal settlements and judgments.

There are a few notable changes in the proposed FY 2014 budget. The largest increase is a 10 percent increase in debt service payment — or nearly \$50 million — reflecting increased borrowing in recent years for school construction and other capital projects. There is also a significant increase in funding in the FY 2014 budget to support the convention center and related marketing activities; the increase is 9 percent, or \$10 million.

The Financing budget includes \$59 million for “workforce investments,” which reflects expected pay increases for DC government employees. When the pay raises are completed — typically through negotiation with collective bargaining groups — the funds for pay raises are allocated to the affected DC government agencies.

The Financing budget also includes a number of funding reductions. The cost of leasing equipment across DC government will fall \$8 million, or 16 percent, under the proposed FY 2014 budget. In addition, the District will pay off funds borrowed to renovate One Judiciary Square with a final payment in FY 2014. That payment will be \$8 million lower (26 percent) than the payment made in FY 2013. Finally, funding for “non-departmental” activities, a catch-all line in the DC budget that creates budget flexibility, will be \$8 million in FY 2014, compared with \$34 million in FY 2013.

### **Mayor Gray’s Revised Revenue Estimate Contingency Priority List**

Mayor Gray included a list of services to be funded if revenue projections for FY 2014 improve before the end of calendar year 2013. If that happens, programs will be funded in the order in which they are listed.

The list includes:

1. Office of the State Superintendent - \$11,000,000 to increase infant and toddler slots by 200 and to increase the quality of existing infant and toddler slots by increasing the subsidy rate by 10 percent;
2. D.C. Office of Aging - \$5,831,402 for sub-grantee grant increases;
3. Office of the State Superintendent - \$4,000,000 for adult literacy and career and technology education programs;
4. Department of Behavioral Health - \$1,985,000 for the expansion of the school based mental health program;
5. Children and Youth Investment Trust Corporation - \$3,000,000 to increase funding to cover summer initiatives;
6. Department of Human Services - \$4,000,000 for POWER expansion;

7. Department of Human Services - \$967,770 to provide SSI application assistance for first-time applicants;
8. Department of Behavioral Health - \$535,965 for additional staff for the Comprehensive Psychiatric Emergency Program, Mobile Crisis, and Homeless Outreach Program (8 FTEs);
9. Department of Human Services - \$4,000,000 for rapid re-housing;
10. Department of Corrections - \$400,000 for Central Cell Block medical costs, as well as to provide security for off-site medical visits;
11. D.C. Commission on the Arts and Humanities - \$7,000,000 for competitive arts grants;
12. Deputy Mayor for Planning and Economic Development- \$1,071,950 for 10 FTEs to make the District more competitive in attracting and retaining businesses and to expand economic development;
13. Office of the Chief Technology Officer - \$2,167,084 to enhance PeopleSoft program;
14. Department of Forensic Sciences - \$1,917,192 to fund Civilian Crime Scene Response Program (29 FTEs);
15. Department of Housing and Community Development - \$700,000 to Increase Small Business Technical Assistance;
16. General Fund Revenue - \$10,000,000 to reduce the commercial property tax rate on the first \$3,000,000 of assessed value from \$1.65 to \$1.55 per \$100 of assessed value;
17. General Fund Revenue - \$10,937,383 to fund the Schedule H Property Tax Relief Act of 2012; and
18. Office of the Secretary - \$450,000 to support staffing for additional D.C. self-determination advocacy.