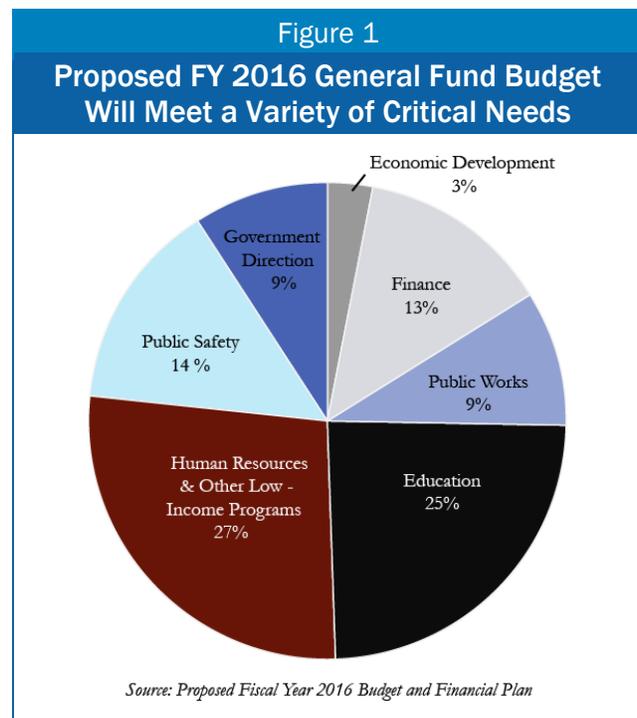


April 16, 2015

WHAT'S IN THE MAYOR'S PROPOSED F Y 2016 BUDGET?

Mayor Bowser's first budget makes substantial investments to create more affordable housing, address rising homelessness, and protect thousands of families with children from losing basic income support. These expansions occurred despite a gap between projected revenues and the costs of maintaining services. To fund these expansions and still balance the budget, the mayor's budget includes a number of reductions, some from outright cuts in services and others from improved efficiency. The budget also includes a modest amount of tax increases, including an increase in the sales tax that will add 25 cents to a \$100 purchase.

As a result of investments in housing and homeless services, programs that provide assistance received the largest funding increases in fiscal year (FY) 2016. But funding also will grow notably for public safety – with increases in police and fire budgets – and in public works, driven by a large increase in the city's contribution to the Metro system. Funding for education will decline slightly next year, adjusting for inflation, but this follows a year when DC Public Schools and public charter schools received a substantial increase in resources.



Despite the new investments, some gaps remain. While the budget provides a record level to *build* affordable housing, it offers a much more modest increase to help families pay rent, yet rental assistance is key to making housing affordable to very low-income families. In addition, a one-year plan to keep families from being cut off the Temporary Assistance for Needy Families (TANF) welfare-to-work program gives the new mayor time to design an appropriate time limit policy, but it leaves vulnerable families with too little to make ends meet, about \$156 a month for a family of three. And the budget actually reduces funding for job training for adults. These programs face administrative and implementation problems that have kept them from fully spending available

funds – and thus the reductions may make sense –but this highlights the urgency of strengthening programs critical to helping all residents thrive. These challenges could be addressed by the DC Council as it takes up the budget, or they will need to be addressed in future years.

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.

Within Overall Modest Budget Growth, Some Notable Investments

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 \$7.9 billion.¹ When federal funding for programs and services is included — in what is called “gross funds” — the District’s FY 2016 budget is \$11.2 billion.

The proposed budget represents a modest increase over FY 2015 in both revenues and spending. .

- Total local revenue collections will grow less than 2 percent in FY 2016, adjusting for inflation. (Unless otherwise noted, all figures in this analysis are adjusted for inflation to equal FY 2016 dollars.)
- The proposed local budget for FY 2016 is 2 percent higher than the revised FY 2015 budget, after adjusting for inflation, matching the revenue increase.²
- The proposed budget supported by local tax and fee collections (excluding fees and taxes that are devoted to specified purposes) is slightly below the amount needed to maintain all programs and services at 2015 levels.³

Despite this modest overall growth, the proposed budget includes notable new investments in a number of areas. These were made possible through budget reductions in a number of other areas, including some cuts in services and some savings due to improved efficiencies. (The key reductions in services are described in a later section.)

Programs that provide housing, human services, and employment assistance will grow faster than other portions of the DC budget, according to an analysis by the DC Fiscal Policy Institute. This was driven in large by increased funding for housing through the Housing Production Trust Fund and investments to end long-term homelessness. At the same time, funding for other portions of the

¹ 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.

² Mayor Bowser also proposed a supplemental FY 2015 budget that reduced expenditures by about \$80 million. This analysis uses the proposed revised FY 2015 figures for comparison purposes throughout the paper.

³ The proposed local budget of \$7.02 billion is \$25 million (0.4 percent) below the “Current Services Funding Level” of \$7.04 billion. The CSFL is the estimate by the Chief Financial Officer of the costs in the upcoming year to maintain services at current year levels.

budget will grow notably, including public safety and public works, while education funding will drop modestly. (See **Figure 2**.)

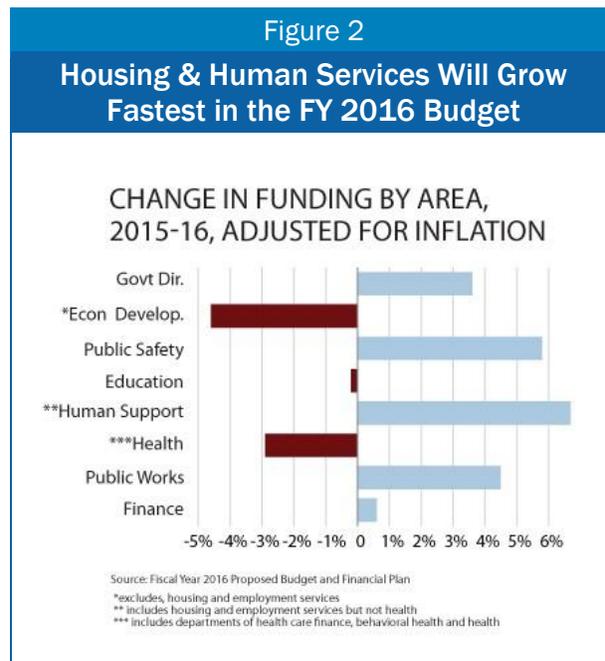
The District’s operating budget is divided into seven major categories, known as “appropriation titles.”⁴ For this analysis, two programmatic areas that are included in the “Economic Development” appropriations title – housing assistance and employment services -- are added to the “Human Support Services” in an effort to group services that focus on low-income residents. In addition, health functions that are included in the “Human Support Services” are separated from other human services, because health programs represent a large part of this title, which means that health funding trends can mask other human services trends.

Some notable changes include the following:

- **Housing and Human Services:** Funding for affordable housing will increase in three major areas – the Housing Production Trust Fund, the Local Rent Supplement Program, and Permanent Supportive Housing – bringing total local spending on housing to a record level. In addition, the FY 2016 budget makes notable progress on a new Strategic Plan to end long term homelessness. Both of these are discussed in more detail below.
- **Public Safety:** Funding for the Metropolitan Police Department will increase due to a combination of contractual salary increases, a budget proposal to add 50 civilian staff so that more officers can be on patrol, and a proposal to buy body cameras for officers. The budget for the Fire and Emergency Services Department will also grow due to contractual salary increases, but also due to a recent legal settlement that requires increases in overtime pay. And the amount needed to support the retirement fund for police officers and firefighters will grow due to a recent actuarial assessment of the fund’s needs.
- **Public Works:** The growth in funding for public works is almost entirely due to the District’s increased obligation to support operations of WMATA, the regional transportation system.

Two areas of the budget stand out for lack of increases in FY 2016:

- **Education:** Funding for DC Public Schools, public charter schools, the state superintendent’s office, DC Public Libraries, the University of the District of Columbia, and other education functions will fall slightly in FY 2016, adjusting for inflation. This is driven largely by a lack of adjustment in the per-pupil funding formula that supports DCPS and each public charter school. It is worth noting that this modest growth follows a year in which school funding



⁴ 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.

increased substantially – the DCPS budget grew 6 percent and charter school funding rose 9 percent in FY 2015. The education funding change also reflects a cut to the University of District of Columbia (UDC).

- **Health:** Local funding for health care – the departments of Health, Behavioral Health and Health Care Finance, along with the DC Healthcare Exchange Authority – will fall 3 percent, adjusting for inflation. But this largely reflects an increased reliance on federal Medicaid funds; when federal funds are included, total health spending will grow next year. The health funding change also reflects a cut in Medicaid reimbursements to hospitals for inpatient care.

More detailed summaries of funding changes in a number of program areas are available from the DC Fiscal Policy Institute’s “Budget Toolkit,” available at www.dcfpi.org/fiscal-year-2016-budget-toolkit. The Toolkit includes summaries of affordable housing, homeless services, TANF, health, education, workforce development, and tax policy.

Some of the major budget initiatives are also described below:

Homeless Services: Taking Steps to Implement New Strategic Plan

The mayor’s proposed budget makes substantial investments toward funding the new Strategic Plan to end long term homelessness by 2020. Acknowledging that it will never be possible to prevent all the life events that can lead to homelessness, such as divorce or job loss, the Strategic Plan is designed to make homelessness:

- **Rare.** Homelessness will be prevented whenever possible. This will involve the expansion of prevention programs that help people who face eviction. It also will require coordination with other agencies to ensure residents transitioning out of foster care, juvenile justice, or other systems do not become homeless.
- **Brief.** When homelessness cannot be prevented, services will be provided quickly to help residents move into stable housing.
- **Non-recurring.** The District will provide support services to make sure residents do not become homeless again.

The mayor’s budget includes funding to support a number of Strategic Planning priorities, including:

- Constructing replacement facilities for the District’s dilapidated primary family shelter, DC General, over the next two years;
- Renting 84 family shelter units beyond the replacement units;
- Helping 455 single adults exit shelter with Rapid Re-Housing;
- Providing Permanent Supportive Housing (PSH) for 250 individuals and 110 families. PSH provides housing and intensive support services to homeless residents who face significant challenges, like chronic physical or mental health issues. This will expand DC’s PSH program by roughly 20 percent; and

- Providing rental assistance or 150 families and 150 individuals. The new effort, called Targeted Affordable housing, will serve residents who need help paying rent after their Rapid Re-Housing ends or who no longer need the intensive services provided by PSH but still need help to afford housing.

Beyond these investments in the new Strategic Plan, the FY 2016 budget devotes more resources to emergency shelter. In recent years, funding has been inadequate, leading to chaotic shifts of resources to meet the need.

Affordable Housing: Investing at a Record Level to Build More Housing and Provide Rental Assistance

Local funding for affordable housing would reach a record high level in FY 2016, including expansion of programs to build affordable housing, provide rental assistance, and to provide housing and supportive services for chronically homeless residents.

Total local funding for affordable housing is proposed to be \$213 million, a \$50 million increase after adjusting for inflation. (See **Table 1** and **Figure 3**.)

Mayor Bowser’s budget commits \$100 million to the Housing Production Trust Fund – DC’s main tool to build or renovate affordable housing. This is one of the highest funding levels in the trust fund’s history – and twice the amount that would come from its standard funding formula. This will support construction or renovation of 1,000 or more homes affordable for low- and moderate-income residents, typically those with incomes under \$54,000 for a year for a family of four.

The budget also pledges \$6 million in additional rental assistance. These funds will be used to make 200 units in affordable housing projects affordable to very low-income households. They also will be used to provide rental assistance vouchers as part of the Strategic Plan to end long-term homelessness.

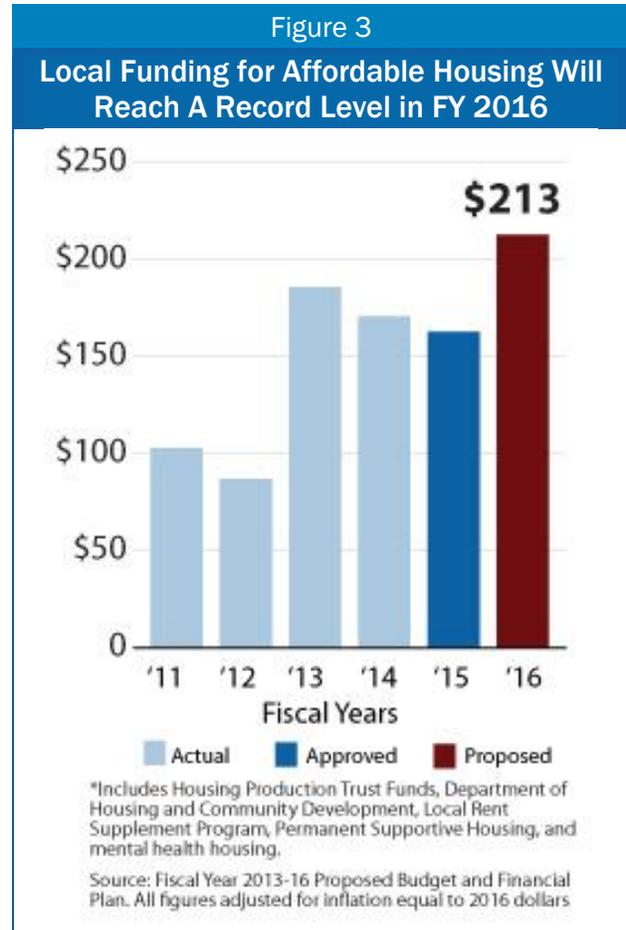


Table 1					
Changes in Funding for DC's Main Affordable Housing Sources, FY 2012 – 2016*					
	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Revised	FY 2016 Proposed
Department of Housing and Community Development	\$15	\$16	\$15	\$22	\$15
Housing Production Trust Fund	\$19	\$104	\$89	\$50	\$100
DC Housing Authority Subsidy	\$24	\$36	\$36	\$47	\$52
Permanent Supportive Housing	\$21	\$21	\$22	\$29	\$32
Home First Subsidy, Dept. of Behavioral Health	\$7	\$9	\$9	\$14	\$14
DC Low-Income Housing Tax Credit	--	--	--	--	-
Total	\$87	\$186	\$171	\$163	\$213

* Dollars are in millions, adjusted for inflation to equal FY 2016 dollars. For Housing Production Trust Fund, does not include funds securitized to support the New Communities Initiative.

Source: Fiscal Year 2013-16 Proposed Budget and Financial Plan

TANF: Taking Time to Develop Better Ways to Help Vulnerable Families

Mayor Bowser's budget plan extends income and employment assistance for one year to more than 6,000 families that face the loss of TANF cash benefits and services in October 2015. This will prevent 13,000 families from falling deeper into poverty, and it will give the mayor and the new human services leadership a year to address a troubled TANF program that has not served families well. DC's time limit policy has problems that put children at risk of hardship and raise serious questions of fairness.

- **Inadequate access to employment services:** Families wait up to 11 months to get into DC's TANF employment services, with their time clock ticking. In Maryland, by contrast, the time clock does not run when families do not receive services.
- **Families have been denied assistance due to a dysfunctional TANF computer system:** For example, the DC Council created a time limit exemption for parents with newborns. But the District has not been able to implement it because the computer system could not accommodate it.
- **DC's time limit cuts families off even when parents are doing everything they can to find a job:** Some states extend benefits when parents are doing what is expected of them to look for work, but DC does not.

Some 44 states – but not DC – offer time limit extensions recognizing that some families need more time to move to self-sufficiency. Many states offer intensive services as families reach time limits, and some use specialized assessments and services to help parents find and retain employment. These jurisdictions recognize that parents who remain on TANF for long periods often suffer from significant mental health challenges and/or developmental disabilities that are difficult to identify through traditional assessments and case management.

The mayor’s TANF proposal allows the new human services leadership to refine the time limit policy. A responsible time limit policy is important because research from other states finds that the vast majority of families cut off TANF are not able to replace lost benefits with employment income, leaving many to lead chaotic and unstable lives.

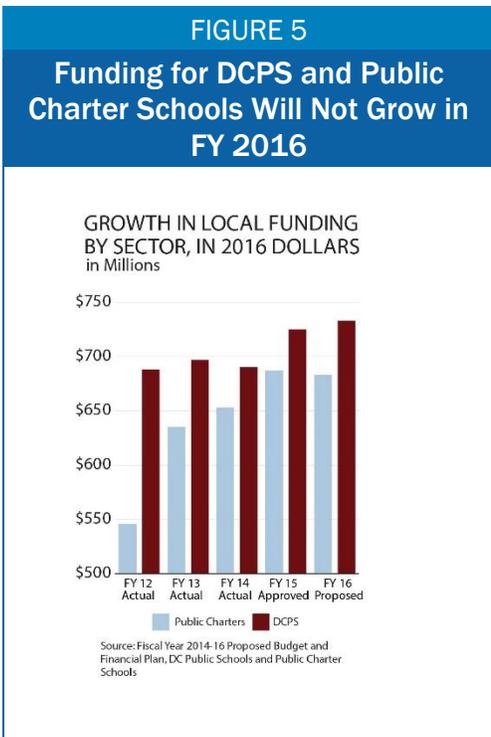
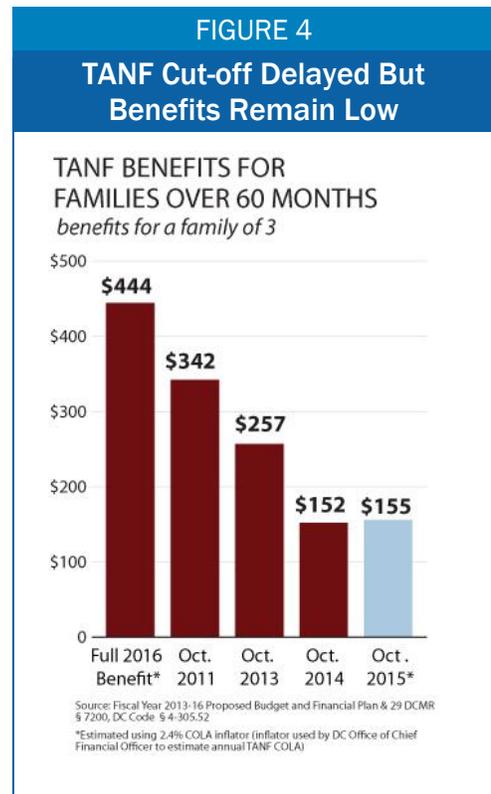
At the same time, this proposal will keep many families hanging on by a thread. Benefit cuts due to time limits have reduced benefits to just \$156 a month for a family of three for affected families. (See **Figure 4.**) Given that most TANF families do not receive housing assistance, this is too low for families to make ends meet. The Council should add to these benefits to help stabilize families as the new policy is developed. The Council also should use its oversight function to ensure that TANF families have access to employment services in a timely way over the next year.

Education: No Increase in the School Funding Formula

The FY 2016 budget proposes no changes to the main local funding source for DC Public Schools and Public Charter Schools, the Uniform Per Student Funding Formula. After adjusting for inflation, this is a cut in funding to schools

DCPS will see a small increase in funding tied to a projected 3 percent enrollment increase, and public charter schools will get funding for a 1 percent enrollment increase, adding up to over 88,000 students in both school systems. (See **Figure 5.**)

Within DC Public Schools, the proposed FY 2016 budget ensures that resources intended to serve “at-risk” students will go to the schools the at-risk students attend, unlike in this school year. For school year 2014-15, the school funding formula



was changed to create a new “at-risk” category. This followed a mayoral-commissioned study that recommended additional funding for students living in poverty. In FY 2016, there will be an estimated 24,000 at-risk kids enrolled in DC Public Schools, with a total of \$49 million in supplemental funding in the proposed FY 2016 budget to help meet the needs of these students, including the cost of providing summer school.

In 2014-15, funding for at-risk students was not allocated by DCPS to schools according to the number of at-risk students in each school. Instead DCPS used the additional funds for a number of pre-planned initiatives determined by the Chancellor. Some of the uses were not well aligned with the needs of at-risk students.

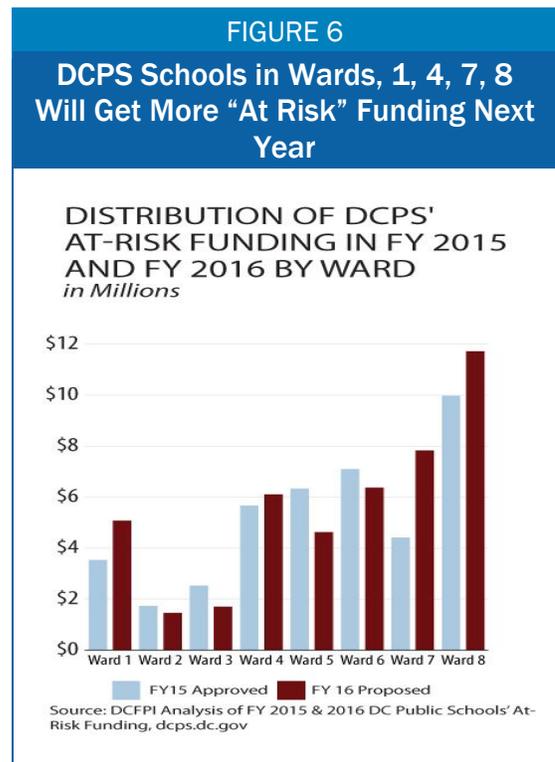
In response to public criticism, DCPS committed to allocating the at-risk funds to follow the student in 2015-16, meaning schools with large concentrations of low-income students will receive their fair share of these resources. Schools in Wards 1, 4, 7, and 8 will see more at-risk funding next year as a result of proper distribution (see **Figure 6**).

What Is Cut in the Budget?

The mayor’s spending plan includes reductions in a number of program areas. These include both scaling back programs and services as well as savings resulting from improved efficiency. The cuts also affect some programs that are important to creating pathways to the middle class, especially job training adults. These cuts were made in response to problems with the programs and highlight the need to improve the performance of services critical to residents.

The reductions in services include:

- **Medicaid In-Patient Hospital Services:** Medicaid reimbursement for inpatient hospital costs was cut by \$9 million. Medicaid covered 98 percent of the cost of services in hospitals, but would be cut to cover 86 percent, which roughly matches the average among states.
- **Healthy Tots:** The budget eliminates the new Healthy Tots program (\$3.1 million), which was intended to improve the nutritional quality of meals and snacks at early education sites. The cut starts in FY 2015 and continues in FY 2016.
- **Summer Programs at Parks and Recreation:** The budget eliminates a \$1.75 million expansion of summer programs for children that was planned to start in FY 2015.
- **The University of the District of Columbia:** UDC’s budget was cut by 5 percent, or \$3.5 million. The impact is unclear.



- **Facilities Maintenance:** Support for preventive maintenance of DC facilities was also cut 5 percent, or \$4.8 million.
- **First-Time Homeowner Assistance:** Funding for the Home Purchase Assistance Program, which provides down payment and closing cost assistance to low- and moderate-income homebuyers, was cut by about one-fifth, from \$12.2 million to \$9.7 million.

Some Programs Aimed At Helping Vulnerable Residents Remain Underfunded

Despite the many investments in the budget, some areas could benefit from additional investment.

- **Support to families with children on TANF:** Families affected by DC's time limit receive just \$156 a month for a family of three. DC's TANF program should provide financial stability while also helping parents move to greater self-sufficiency. Even with the extension of benefits for a year, the very low level does not support family stability.
- **Expand Rental Assistance:** There is virtually no affordable private-market housing in the District, which means that families with low wages or living on fixed incomes will struggle with housing cost burdens without additional assistance. Expanding rental assistance is a way to create affordable housing quickly and for the lowest-income families.
- **Additional Funding for Homeless Services:** While the FY 2016 budget makes substantial progress on the Strategic Plan to end long-term homelessness, further progress is needed to fully meet its goals. The largest gap is in Rapid Re-Housing to help single adults leave shelter.
- **Increase Resources for At-Risk Students:** The current funding devoted to helping at-risk students is well below the level recommended by a 2013 DC-commissioned study – \$2,079 per student vs. \$3,500. Increasing the at-risk weight would allow high-poverty schools to take the steps needed to help low-income students succeed.

The FY 2016 Budget Includes Modest Revenue Increases to Support Important Initiatives

The mayor proposes increasing revenues by \$36 million – or one-half of 1 percent of the local budget. While the District's tax collections have grown in recent years and erased a steep drop in revenues that occurred during the Great Recession, revenue growth has slowed in the last couple of years. The new revenues will boost the city's tax collections at a time of modest growth and will support some of the new initiatives in the proposed budget, such as improvements in homeless services.

DC's tax collections dropped sharply in FY 2009 and FY 2010 — falling by nearly \$500 million — which led to substantial cuts in a range of programs and services. The 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.

Projected revenues in FY 2016 total \$7.2 billion.⁵ This is \$600 million higher than in FY 2008, a 10 percent increase after adjusting for inflation. This means that revenues have recovered significantly from the depths of the recession. However, **Figure 7** shows that revenue growth has slowed in recent years. The growth rate for revenue collections between 2012 and 2016 is about half the rate from 2010 to 2012.

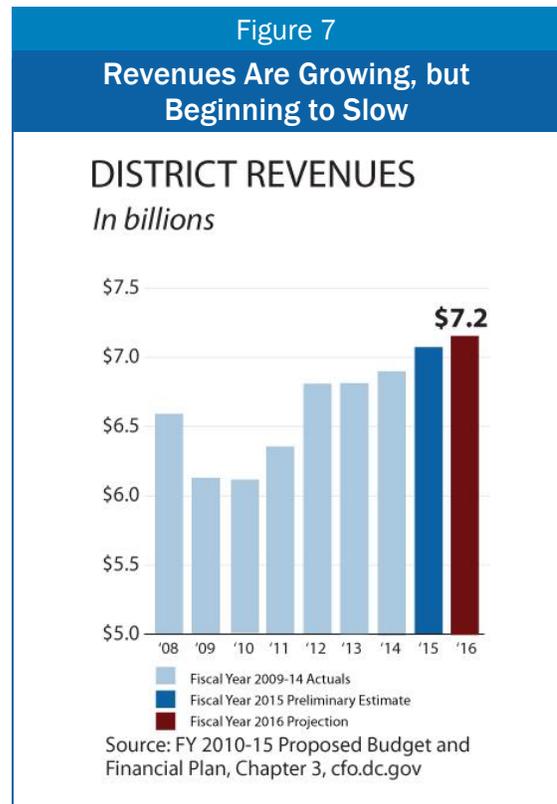
The proposed FY 2016 budget includes modest revenue increases and one reduction:

Sales Tax Rate Increase: The proposed FY 2016 budget would raise the sales tax rate from 5.75 percent to 6 percent. That would restore the District’s rate to where it was during the late recession years (2010 to 2013) and would put the District in line with the sales tax rate in Maryland and Northern Virginia. The sales tax change would increase revenues by \$22 million.

The sales tax is a broad-based tax but lower-income households pay more of it as a share of their income, which means it is not always the ideal way to raise revenue. Lower-income families spend all or nearly all of their income each month, while higher-income families put more of their income into savings or in other ways that are not subject to sales tax. However, the proposed sales tax increase is modest – just 25 cents for every \$100 taxable purchase – and many residents will benefit from offsetting income tax cuts for low- and moderate-income residents that go into effect in 2015. The income tax reductions will outweigh the sales tax increase for a large share of households. DC’s combined taxes for low-income residents are the second lowest in the nation according to the Institute for Tax and Economic Policy.⁶

Commercial Parking Tax Rate Increase: The mayor’s proposed budget would increase the tax rate for commercial parking from 18 percent to 22 percent and would raise \$10 million. The tax is levied on the gross receipts from commercial vehicle storage and parking lots. The revenue would be dedicated to a fund for the improvement and maintenance of the Washington Metropolitan Area Transit Authority (WMATA).

Taxing E-Cigarettes and Other Vaporized Nicotine Products: The proposed FY 2016 budget would tax e-cigarettes and vaporized nicotine products at the same rate as traditional cigarettes and other tobacco products. The DC Council adopted a unified tax rate for all tobacco products in FY 2015, but excluded e-cigarettes due to insufficient evidence of harmful health effects.



⁵ This includes taxes that are used for specific purposes, such as sales taxes used to pay off the Convention Center debt, but it does not “special purpose revenues,” special fees tied to certain uses.

⁶ *Who Pays: A Distributional Analysis of the Tax Systems in All 50 States*, Institute on Taxation and Economic Policy, January 2015.

Several national health organizations (including the Center for Disease Control, the American Heart and Stroke Society, American Cancer Society Cancer Action Network, and the Coalition for Tobacco Free Kids) have determined that e-cigarettes have the potential to harm health and should be taxed and regulated like other tobacco products. The mayor’s budget proposal is consistent with these recommendations.

Revenue Increases through Small Changes to the Individual Income Tax: The budget proposal would make three small changes to the individual income tax to raise \$3.6 million. The first change would lengthen the statute of limitations for tax audits, allowing the District more time to conduct audits. The second change would set the standard deduction for a married person filing separately from a spouse at one-half the standard deduction for a married couple filing jointly. The District’s standard deduction exempts a certain portion of income from taxes.

Lastly, the proposed budget changes the eligibility for the District’s Low Income Credit, which reduces income taxes for residents with very low incomes. The change was made because, currently, a part-year resident with a high income can qualify for the Low Income Credit if their income is only a small amount of their total income while living in the District. The proposed budget changes income eligibility so that part-year residents must annualize their income earned in the District and compare that amount to the District’s eligibility threshold.

New Property Tax Abatement for Qualified High Tech Companies: The FY 2016 proposed budget funds \$3 million worth of grants to help Qualified High Tech Companies (QHTCs) renovate and improve work space leased in the District. Beginning in FY 2017, these grants would turn into commercial property tax abatements for a company if it has a minimum of 50,000 square feet of commercial space and a lease of at least 12 years. The tax abatement

would be worth up to 50 percent of the value of improvements made to the work space, but could not exceed \$1 million per company. The mayor’s proposal puts a cap on tax abatements so that total abatements cannot exceed \$3 million per year or \$15 million over five years. The proposed abatement would add to numerous tax breaks offered already to QHTCs – including breaks in corporate income tax, retail sales, and other property tax protections.

New Special Purpose Fund for Bicycle Safety Improvement and Dedicated Funding Stream: The proposed budget also creates a continuing fund for bicycle and pedestrian roadway safety improvements that will receive \$500,000 annually from automated traffic enforcement fines.

Mayor’s Proposed Revenue Changes	FY 2016 (In Millions)	FY 2017 (In Millions)
Sales Tax Rate from 5.75% to 6%	\$22.2	\$23.1
Commercial Parking Tax from 18% to 22%	\$9.9	
E-cigarette & Vapor Product Tax Parity	\$0.4	\$0.5
Changes to Individual Income Tax	\$3.6	\$3.6
Tax Abatement for High-Tech Companies*	–	(\$3.0)

*\$3 million in grant funding exists for Qualified High Tech Companies in FY 2016.