DC Fiscal Policy Institute
15 Years

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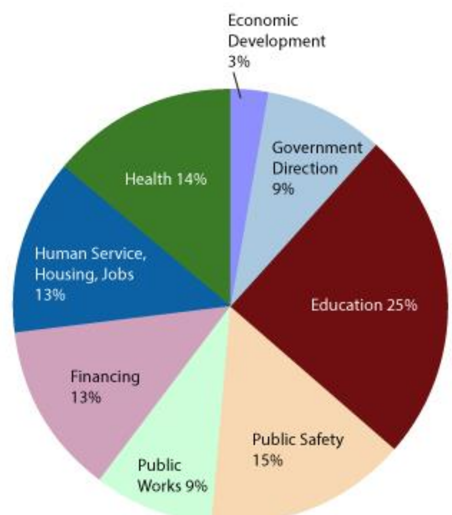
What's in the Final FY 2017 Budget? An Overview

The adopted DC budget for fiscal year (FY) 2017 maintains and adds important investments to help DC residents cope with rising housing costs and move up the economic ladder, including preK-12 education, the Housing Production Trust Fund, and homeless services.

At the same time, the budget leaves large gaps in meeting the needs of the District's poorest residents at a time when economic challenges are mounting for many. With a severe [affordable housing crisis](), rising family homelessness, [unemployment that remains high]() years after the end of the Great Recession, and [falling incomes]() among the poorest residents, the investments for the coming year do not come close to responding to the needs of residents left behind by the city's progress.

Figure 1
FY 2017 General Fund Budget



Source: Proposed FY 2017 Budget and Financial Plan

For FY 2017, human services and housing programs will grow more slowly than most parts of the budget, including education, economic development, finance, and government direction. One bright spot for low-income families is that education funding, which did not receive a notable funding increase a year ago, will get funding to cover enrollment growth and a two percent increase in the per-pupil funding formula.

The lack of progress in other areas shows up in many ways. The budget does not reform a highly flawed Temporary Assistance for Needy Families (TANF) time limit policy that already has left families with income that is not sufficient to meet their children's basic needs and that risks eliminating assistance altogether for families in dire circumstances. The budget makes only limited investments in programs to help families pay rent, even though rental assistance is key to making housing affordable to DC's lowest income families. While the budget supports expansions of homeless services, it falls far short of funding the needs outlined in the Homeward DC Strategic Plan to end homelessness. The increase in funding for Pre-K-12 education is notable, but the budget does little to improve an early care and education system that is so underfunded that it makes it hard to provide high-quality child care to infants and toddlers, a critical stage of child development. And the proposed budget does not appear to devote sufficient resources to move toward a stronger and more comprehensive job training and adult education system.

The FY 2017 budget reflects $45 million in tax cuts implemented over the past year—as a result of DC Council action—but no offsetting revenue increases. Included are cuts to income taxes for moderate- and high-income residents, cuts in business income taxes, and elimination of taxes on estates worth between $1 million and $2 million. The tax cuts limited the ability to develop a budget that would keep up with the needs of DC's poorest households.

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.

Modest Budget Growth in Fiscal Year 2017 Limits New Investment

The 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 $8.2 billion.[1] When federal funding for programs and services is included—in what is called "gross funds"—the District's FY 2017 budget is $11.6 billion.

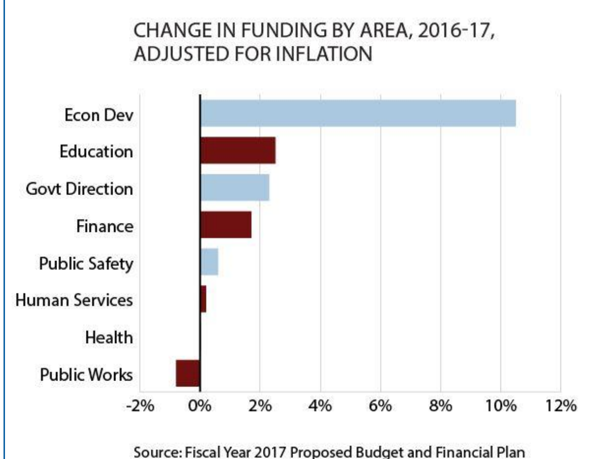
The budget represents a modest increase over FY 2016 in both revenues and spending.

- Total local revenue collections will grow less than 1 percent in FY 2017, adjusting for inflation. (Unless otherwise noted, all figures in this analysis are adjusted for inflation to equal FY 2017 dollars.) This is the second year of slow revenue growth. While DC's tax and fee collections rose at a rate of over 4 percent per year from 2010 through 2015, revenues in 2016 and 2017 are growing at a rate of just 0.2 percent.
- The local budget for FY 2017 also is just under 1 percent higher than the revised FY 2016 budget, after adjusting for inflation, matching the revenue increase.[2]

Within this modest overall growth, the budget includes some new investments in a number of areas. The largest increases in percentage terms will be in education, economic development,

Figure 2

Housing, Human Services, and Health Will Grow More Slowly than Most Other Program Areas in the FY 2017 Budget



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[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 and "dedicated taxes." Enterprise funds are not included in this analysis. They represent a variety of unique special funds for specific purposes that typically have their own funding source, such as DC Water (funded entirely by water bills) and the operations of the DC Lottery(covered by a portion of lottery ticket sales).

[2] The FY 2016 budget has been revised twice since it was adopted, including a supplemental budget adopted in the fall of 2015 and a second supplemental proposed by Mayor Bowser at the same time as the proposed FY 2017 budget was

government direction, and government financing (which primarily reflects funds to repay bonds issued to support capital projects). Meanwhile, increases will be very modest for public safety and health and human services, and local funding will decline for public works.

The District's operating budget is divided into seven major categories, known as "appropriation titles."[3] For this analysis, two programmatic areas that are included in the "Economic Development" appropriations title—housing assistance and employment services—are added to "Human Support Services" in an effort to group services that focus on low-income residents. In addition, health functions are separated from other "Human Support Services," because health programs represent a large part of this title, which means that health funding trends can mask other human services trends.

Key funding changes by appropriations title include the following:

- **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 grow 2 percent in FY 2017, adjusting for inflation. This is driven largely by a 2percent adjustment in the per-pupil funding formula that supports DCPS and each public charter school.
- **Housing and Human Services:** The local budget for housing and human services (excluding health), is virtually unchanged in FY 2017. The budget maintains housing funding increases that were made in FY 2016, including the Housing Production Trust Fund, but does not add much more. In addition, the FY 2017 budget adds $15 million for homeless services, to make continued progress on the Strategic Plan to end long-term homelessness, but this is far less than what is needed to match the scope of the city's homelessness crisis. The budget includes $11 million in one-time funding for TANF, which means that resources are not pledged past 2017. Not counting this one-time funding, the housing and human services budget will fall in 2017.
- **Health:** Local funding for health care—the Departments of Health, Behavioral Health, and Health Care Finance, along with the DC Healthcare Exchange Authority—will remain unchanged from FY 2016, adjusting for inflation.
- **Public Safety:** Funding for the Metropolitan Police Department will remain flat in FY 2017, as will funding for the Fire and Emergency Services Department, following an increase in 2016 to fund private ambulances. 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:** Funding for public works will fall 1 percent in 2017, a modest drop driven mostly by a reduced contribution to WMATA, the regional transportation system.
- **Government Direction:** The FY 2017 budget reflects 2 percent growth in this area, providing increases in a number of agencies that support basic government operations, including the Attorney General, the Chief Financial Officer, the DC Council, the Chief Technology Office, the Inspector General, and the Department of General Services.

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submitted, on March 24, 2016. This analysis uses the proposed revised FY 2016 figures for comparison purposes throughout the paper.

[3] 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.

- **Economic Development:** The economic development budget, not including housing and employment services, will grow 11 percent in 2017 adjusting for inflation. This is driven in part by an increase in funding for the Department of Consumer and Regulatory Affairs, to allow it to digitize its permitting functions, and an increase in funding for the Commission on Arts and Humanities.
- **Financing:** Funds devoted to this area will increase 2 percent in FY 2017. This is driven entirely by an increase in funding to support capital construction projects. The budget reflects higher amounts to repay bonds the city has issued for such projects—because borrowing costs have increased in recent years—and more funding devoted directly to capital projects, known as "pay-go capital."

More detailed information on the budgets for key education, housing, and human services programs are described below. Further information is available from the DC Fiscal Policy Institute's "Budget Toolkit," available at www.dcfpi.org. The Toolkit includes budget summaries on education, housing, employment and training, TANF, health care, homeless services, tax and revenue, and interim disability service.

Education: Funding Increases for PreK-12, But Only Limited Funds for Early Care and Education

The budget for DC Public Schools is $762 million, a two percent increase from FY 2016, after adjusting for inflation. This reflects the fact that the budget includes a two percent increase to the Uniform Per-Student Funding Formula (UPSFF), which is used to generate the local funding for DCPS and public charter schools. This will help schools keep up with rising costs, particularly since there was no adjustment to the UPSFF in FY 2016. It also provides per-pupil funding for the additional students expected to enroll for the 2015-16 school year; about 830 more students are expected, when compared with last year's projections. DCPS also plans to offer extended school year to 11 elementary and middle schools.

The FY 2017 general fund budget for DC public charter schools is $724 million, a 5 percent increase from 2016, adjusting for inflation. The additional funding reflects the 2percent increase in the UPSFF and an enrollment increase of nearly 2,000 students, including four new schools.

The education budget leaves two notable gaps:

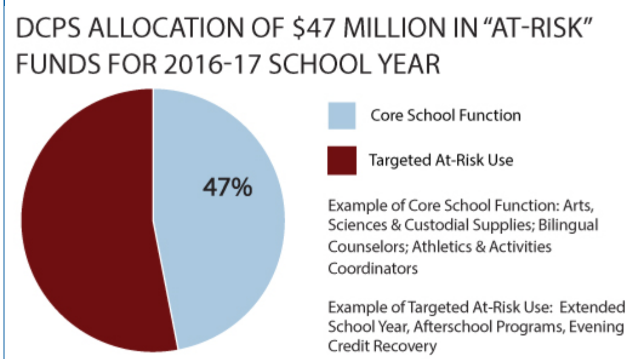
- **DCPS will use a large share of at-risk funds for core school functions rather than supplemental services for at-risk students:** An analysis of DCPS' initial school-level budget allocations for FY 2017[4] shows that 47 percent—or $22 million—of the school system's at-risk resources was allocated to items that all schools are otherwise entitled to under DCPS' staffing model. For example, DCPS' staffing model indicates that all high schools will have an attendance counselor. Yet in some schools, at-risk funds are being used to support this core position. This means that nearly half of the resources considered "extra" are being used for functions that are required through DCPS' staffing model applicable to all schools, rather than to fund additional services targeted at helping at-risk students, such as afterschool or extended school year programs. See Figure 3.

[4] Analysis completed by Mary Levy, April 2016. See http://www.dcfpi.org/analysis-of-fy-2017-dc-public-schools-at-risk-funds for more information on calculations and definitions.

- **Limited Funding to Strengthen Early Care and Education**: The proposed budget provides $3.3 million to improve the quality of child care in the District, including $1.8 million to increase reimbursement rates to providers in DC's child care subsidy program. While this investment is notable, it is well below the amount needed to address the fact that payments are well below market rates. Early education providers that serve mostly low-income children, and therefore rely mostly on the child care subsidy program for revenues, struggle to provide quality care and make ends meet due to low reimbursement rates. A recent report from DCFPI and DC Appleseed notes that many providers operate at a loss and pay their staff very low salaries. The report cites the need for at least $38 million more to help providers cover the costs of providing quality early care and education.

Figure 3

Half of DCPS' "At-Risk" Funding Will Supplant School Budgets



Source: Analysis of DCPS' initial budget allocations for FY 2017 by Mary Levy, April 2016.

TANF: The Budget Prevents Families from Being Cut Off, But Offers No Long-term Plan to Protect Poor Children

The FY 2017 budget includes $11 million to continue providing very modest income assistance and employment services to roughly 6,200 families—including 13,000 children—who would otherwise face a cutoff of all aid in October 2016. This extends a measure from FY 2016 that called for a one-year delay in implementing a time limit.

While the budget protects families from being cut off for one year, it does not make progress to reform policies that have already left families with incredibly low benefits, and it does not fix a rigid time limit policy that puts the most vulnerable families at risk of losing all assistance.

- Families that have received assistance for 60 months or more will receive just $154 a month for a family of three in FY 2017. This reflects benefit cuts due to time limits that have been implemented since 2011. Given that most TANF families do not receive housing assistance, this is far too low for families to make ends meet.
- Unless further action is taken, all families that have received assistance for more than 60 months will lose both cash assistance and employment services in October 2017, regardless of their circumstances, with no opportunity to receive assistance ever again.

In remarks surrounding the release of the budget, the mayor indicated that this gives her and the DC Council up to one year to develop a more refined time limit that protects vulnerable families. Legislation to reform DC's TANF time limit was introduced in the DC Council in 2015 but has not been adopted. That bill, the Public Assistance Amendment Act of 2015, offers extensions to families with significant barriers to employment such as low literacy and ensures that all children continue to receive benefits. More recently, the Department of Human Services convened a working group to develop recommendations on the TANF time limit. The working group, which issued its report in October 2016, recommended replacing the time limit with a policy that protects most of a family's

TANF benefits from cuts, so that families will always have access to resources to meet the needs of their children. The working group recommended that a portion of a family's benefit should be reduced if a parent is not participating in required TANF activities.

Getting the TANF time limit right—modifying it to ensure that it provides stability to families and children who need it the most—is important to child well-being and to the success of other mayoral initiatives, such as ending homelessness.

DC's time limit is one of the strictest in the nation, cutting off all families regardless of their circumstances, with no chance to ever receive assistance again. In contrast with DC, most states have used flexibility under federal TANF law to create extensions for families under certain circumstances. For example:

- **Extensions:** Forty-four states have extensions that give parents more time to deal with issues like domestic violence or caring for a family member with a disability. The District's time limit does not offer extensions under any circumstance.
- **Continued assistance after the time limit:** Five other states have other time limit policies to protect families. New York has a separate state cash assistance program that continues to provide benefits to families. California, Indiana, and Oregon allow children to continue to receive benefits. Vermont and Maryland allow families participating in work activities to continue to receive benefits, and in practice almost all families have continued to receive assistance. The District's time limit does not provide any cash or employment assistance after the time limit.

The District's rigid time limit is of concern because families reaching time limits often have substantial problems, including high rates of mental illness, domestic violence, and disabilities. Research from other states finds that the vast majority of families cut off from TANF are not able to replace lost benefits with employment income, leaving many to lead chaotic and unstable lives. This often results in increased homelessness and child neglect, as families cannot meet their children's most basic needs.

At the same time, for families who are exempted from the time limit or who have received aid for less than 60 months, the FY 2017 budget preserves increases in full TANF benefits. These changes, adopted last year, will increase the maximum benefit from $441 a month for a family of three to $508 in FY 2017 and $644 by FY 2019, which is more in line with benefits in other high-cost jurisdictions.

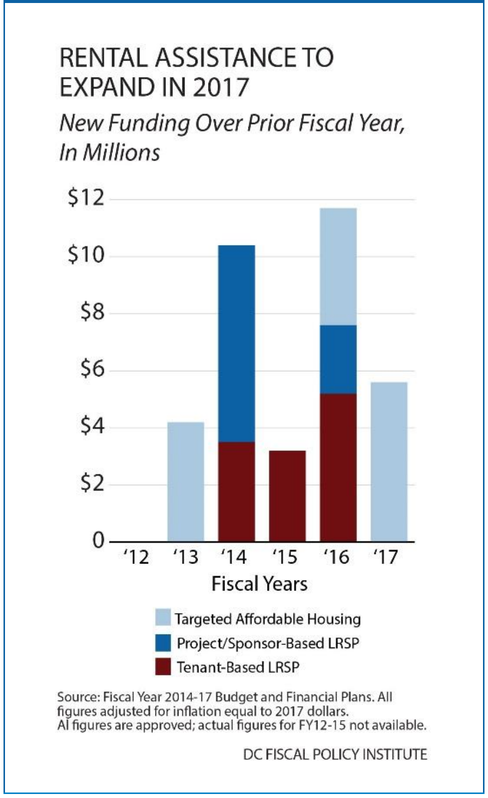
Affordable Housing: Investments to Build More Housing, But Only Limited Funds for Rental Assistance for DC's Poorest

Mayor Bowser committed $100 million to the Housing Production Trust Fund—DC's main source to build or renovate affordable housing—for the second year in a row. This important investment will support construction or renovation of 1,000 or more homes for low- and moderate-income residents, largely those making less than $54,000 a year for a family of four. The FY 2017 budget continues to keep the Trust Fund as the centerpiece of DC's affordable housing strategy.

At the same time, the budget makes little progress in expanding rental assistance to the poorest families who face severe housing cost burdens. The FY 2017 budget will extend help to 350 formerly homeless households through the Targeted Affordable Housing program. Beyond that, the budget adds no funds to move the thousands of families on the DC Housing Authority waiting list into affordable homes.

Figure 4

Rental Assistance to Expand in 2017



The budget also adds no new rent subsidies for units assisted by the Housing Production Trust Fund. This lack of new funding largely reflects the fact that construction projects usually take more than one year to complete, which means rental assistance funds do not need to be provided immediately. It is likely that rental assistance funding will be needed in the future, as projects are completed, to meet the Trust Fund's targets to serve extremely low-income residents. And there are indications that rent subsidies will be provided as needed as the newly funded units are constructed. If this does not happen, it will be difficult to make Trust Fund projects affordable to the lowest income families.

The FY 2017 budget includes two other notable housing investments:

- **Public Housing Repairs**: The budget devotes $15 million to renovate dilapidated public housing units. Most of the DC Housing Authority's stock is in need of repairs, reflecting years of underinvestment by the federal government. These funds would come from using available funds in other housing programs.
- **First Time Homebuyer Assistance**: The budget uses federal funds to increase the down payment assistance available to lower-income first time homebuyers, from $50,000 to $80,000, helping ensure that the assistance is enough to help residents acquire a home.

Homeless Services: Moving Forward but Not Enough to Be on Track to End Homelessness

The FY 2017 budget provides $179 million in funding for homeless services, a $15 million increase after adjusting for inflation. This is the city's highest funding level ever for homeless services, a recognition of the enormity of this challenge. The budget also makes some new investments towards the Interagency Council on Homelessness (ICH) Strategic Plan to end long term homelessness in the District by 2020.[5]

But the budget also falls far short of the needs outlined in the Plan. It provides too little housing to end chronic homelessness in 2017, too little support to help families and individuals exit shelter, and too little long-term affordable housing for homeless residents who need it. As a result,

[5] The value of federally funded vouchers and DC capital costs are not included in this budget analysis.

homelessness will continue to be a highly visible problem in the District in FY 2017, and the homeless services system will face many challenges.

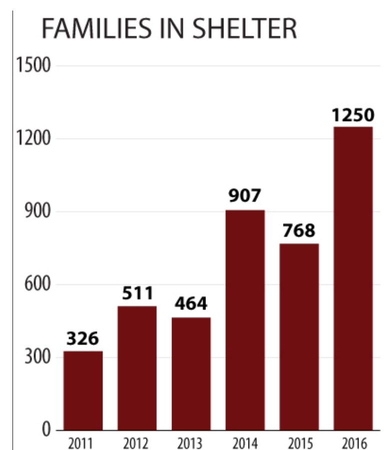
The FY 2017 budget includes $15 million in new funding to address homelessness and a number of Strategic Planning priorities, including:

- **Homeless Youth:** $2.3 million to serve homeless youth, including prevention services, 27 crisis beds and 12 transitional living spaces.
- **Permanent Supportive Housing:** $6.9 million to provide permanent supportive housing (PSH) for 380 single adults facing chronic homelessness.
- **Rapid Re-Housing:** $1.8 million to add 284 new Rapid Re-Housing slots to serve the rising number of homeless families. Rapid Re-Housing provides short-term rental assistance and services to help families exit from shelter and get back on their feet.
- **Rental Assistance for Formerly Homeless Residents:** $2.2 million to help 140 single adults and $3.9 million to help 200 families with ongoing rental assistance through Targeted Affordable Housing (TAH). TAH helps 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.
- **Homelessness Prevention:** $1 million increase for a successful prevention program for families.
- **Pilot Rental Assistance Program:** $1 million for a new program to help formerly homeless families with a head of household who is working but cannot afford the full rent.

While notable, these investments fall far short of identified needs and will not put the city on track to meet the goals of the Strategic Plan. For example, the budget provides PSH for 380 single adults when roughly 1,100 adults are in need, and it provides no new PSH support for families. The budget does not expand Rapid Re-Housing for single adults, when more than 2,500 adults are waiting for this assistance.

Figure 5

The Number of Families in Shelter (including Motels) Has Nearly Quadrupled since 2011*



Sources: 2016 is DCFPI estimate based on Emergency Shelter Nightly Census 1/27/2016 and Apartment-Style Shelter Inventory. The Community Partnership for the Prevention of Homelessness. Homelessness in the District of Columbia: The 2015 Point in Time Enumeration (May 2015) and District of Columbia 2014 Point in Time Enumeration (May 2014)

Health: No Change to Rules that Restrict Access to Health Care for Immigrants

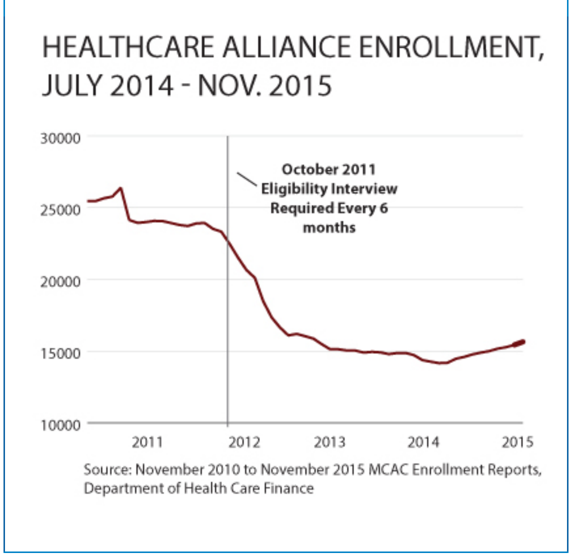
The FY 2017 budget maintains administrative rules that have restricted access to health coverage through the Healthcare Alliance, a program that largely serves immigrants. In other areas, the budget makes a number of investments to expand public health and nutrition programs.

Access to Care from the Healthcare Alliance Remains Restricted

The Healthcare Alliance (known as "The Alliance") provides health insurance coverage to low-income residents who are not eligible for Medicaid. Participants in the Alliance are largely undocumented immigrants, who are ineligible for Medicaid under federal law. While the Healthcare Alliance plays a critical role in ensuring access to care for DC residents, program rules adopted in 2012 have made it hard for eligible residents to maintain their health coverage, leading to a large drop in participation. Despite clear indications of this problem, the FY 2017 budget takes no steps to improve access to the Alliance.

Figure 6

Alliance Enrollment Continues to Decline Under Interview Requirements



Since October 2011, the program has required participants to have a face-to-face interview every six months at a DC social service center to maintain their eligibility. This has proved a substantial barrier for eligible residents to keep the benefit. Enrollment in the Healthcare Alliance declined sharply in 2012 and has remained largely unchanged since then.[6] From October 2011 to October 2012, the first year of the policy, the number of DC residents in the Alliance dropped by one-third, from 24,000 to 16,000. Enrollment has fallen and risen modestly since then, but remains close to 16,000. See Figure 6.

The intent of the six-month recertification was to discourage ineligible people from applying for the Alliance, but evidence among legal service provider cases and data analysis by the Department of Health Care Finance suggest that it is creating a barrier for *eligible* enrollees to maintain coverage under the program. In each month during FY 2015, between 56 percent and 71 percent of monthly Alliance re-certifications were not completed.[7]

The Department of Health Care Finance noted in 2015 that it might consider reinstating the one year re-certification period and allowing community health centers to assist in the application process. However, the Department has not presented any information to analyze the very low rate of Alliance participants who re-certify, and it has not put forth any proposals to modify the eligibility process.[8]

Funding Increases for Public Health and Nutrition

The FY 2017 budget includes a number of investments to expand public health and nutrition programs.

- **HIV Services:** The budget reflects a $6 million increase in funding for HIV/AIDS services, from $78 million in FY 2016 to $84 million in FY 2017. The increase is entirely from federal funds, including the Ryan White program—which supports medical, pharmaceutical, and

[6] Medicaid expansion in 2010 shifted 32,000 residents from the Alliance Program to Medicaid. However, after a period of stable enrollment, caseloads begin to decrease after a six-month, in-person recertification began in FY 2012.

[7] Department of Health Care Finance, DHCF Budget Presentation for FY 2017 at Medical Care Advisory Committee Meeting, March 2016.

[8] Department of Health Care Finance, DHCF Budget Presentation for FY 2017 at Medical Care Advisory Committee Meeting, March 2016.

support services for people with HIV/AIDS—and the Centers for Disease Control's program to provide support services for men who have sex with men.

- **Substance Abuse Treatment**: The budget adds $1 million to expand the Urban Health Initiative at Howard University which provides patient-centered care for people with substance abuse disorders.
- **Produce Plus:** The budget increases funding for the Produce Plus Farmers Market Subsidy program to $1.2 million, up from $350,000 in 2016. Produce Plus helps low-income residents purchase fresh fruits and vegetables from farmers' markets.
- **Joyful Food Markets:** The FY 2017 budget increases the Joyful Food Markets funding to $1.1 million, from $750,000 in 2016, which supports monthly pop-up food markets in public elementary schools. The expansion will allow all public elementary schools in Wards 7 and 8 to be served.
- **Healthy Corners:** The budget adds $250,000 to support a food access program that assists small retailers and corner store owners to stock and sell fresh, healthy food.
- **School-Based Health Care:** The FY 2017 budget provides $1.2 million to create a pilot program to augment school-based health clinics at Coolidge High School, Dunbar High School, and H.D. Woodson High School. The program will support behavioral health screening, community engagement, and real-time tele-video linkages to behavioral health providers.

Job Training: FY 2017 Budget Maintains Subsidized Job Programs But Invests Little to Move toward More Comprehensive Job Training System

The FY 2017 budget continues to make investments in three subsidized job training programs: Mayor Marion S. Barry Summer Youth Employment Program (MBSYEP), DC Career Connections (DC-CC), and the Learn Earn Advance Prosper (LEAP) program. Since two of these programs (MBSYEP and DC-CC) are for youth, the budget for youth employment programs will be higher than the funding for adult employment programs in FY 2017.

As the proposed FY 2017 budget was being developed, the city was also writing its State Plan to comply with the new Workforce Innovation and Opportunity Act (WIOA), and some DC government offices were reorganized to better oversee the city's workforce system. For example, early last year the mayor created a new office—the Deputy Mayor for Greater Economic Opportunity (DMGEO) —to facilitate job creation and workforce development in underserved communities in the District. In addition, the District's Workforce Investment Council (WIC), which oversees workforce development policy including federal job training funds administered by DOES, was moved from the office of the Deputy Mayor for Planning and Economic Development to the DMGEO.

For 2017, the budget includes some modest increases to accommodate WIOA implementation, including $1.5 million for the Career Pathways Innovation Fund, to begin testing and expanding new models to blend adult literacy and occupational training, as mandated by WIOA. (The FY 2017 increase was called for in the FY 2016 budget.) The FY 2017 budget also adds three new full-time staff to the office of the Deputy Mayor for Greater Economic Opportunity (DMGEO), to focus on workforce development policy and provide administrative support.

However, many new initiatives discussed in the State Plan that will require additional resources are not funded in the FY 2017 budget. For example, the State Plan calls for increasing the number of "earn while you learn" job training programs, more robust engagement with the employer community, and expansion of the "Data Vault," a new intake, assessment, and referral system. Unfortunately, the budget does not seem to reflect increases to begin implementing these activities. Agency officials have discussed finding cost savings by aligning existing resources and finding other efficiencies, but it is unclear as yet how much savings this will provide, and whether it will be sufficient to meet the goals of the State Plan.

In addition, the budget provides no funding or staffing increases for the WIC. This is unfortunate, given that additional employees could help the WIC become a stronger body with the ability to make more robust recommendations. For example, the agency has noted the need for at least one data analyst to collect and analyze performance data, in order to inform the WIC's recommendations. Such a position could be valuable in the effort to improve the city's workforce system.

What Is Cut in the Budget?

The FY 2017 budget includes some budget reductions, and it also re-directs money from a number of special funds that, in effect, reduces the ability to meet the purposes of those funds.

The budget includes a number of cuts to public health programs, including the following:

- **Pregnancy Prevention Grants:** The budget reduces funding for pregnancy prevention grants to community-based providers to $500,000, down from $1.3 million in FY 2016.
- **Tobacco Control:** The FY 2017 budget reduces resources for the District's tobacco control program to $1 million, down from $1.4 million in FY 2016. This funding will likely support a telephone "quit-line" which helps people quit with cessation products like nicotine patches and gum, and grants for community groups to do outreach and education. This is far below the $11 million recommended by the U.S. Centers for Disease Control for DC's tobacco control needs.
- **School-Based Health Centers:** The proposed FY 2017 budget cuts $430,000 from school-based health centers.
- **Healthy Development for High School Girls:** The budget cuts $569,000 in one-time funding for initiatives focused on promoting healthy development in girls attending traditional public and public charter high schools.

The proposed budget also re-directs money from a number of special funds, taking resources that could otherwise be used to enhance services for low- and moderate-income residents.

- **Healthy DC:** The proposed FY 2017 budget removes $6 million in accumulated resources from Healthy DC Fund to support other parts of the city's budget. This follows a similar sweep of Healthy DC Fund resources in 2016. The reduction leaves less money available for health services, including the locally funded Healthcare Alliance program and the local portion of DC's Medicaid program.
- **Income Assistance to Residents with Disabilities:** The budget removes $1 million from the Supplemental Security Income (SSI) Payback Fund, a dedicated fund for the Interim

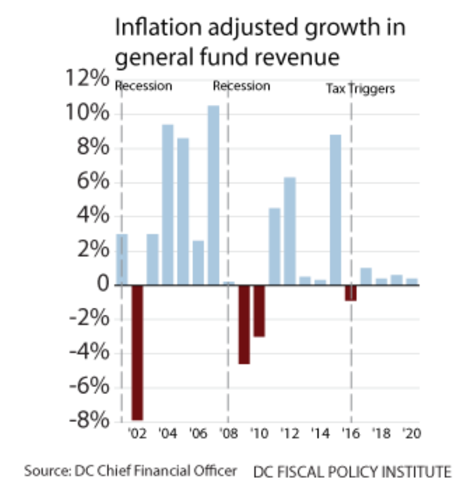
Disability Assistance (IDA) program, which supports low-income residents with disabilities. IDA provides temporary cash benefits to individuals who have applied for federal SSI disability benefits and are awaiting an eligibility determination. When an individual is approved for SSI, the federal government reimburses the District for the IDA benefit the individual received. These reimbursement dollars are put into the SSI Payback Fund so the District can provide benefits for future IDA applicants. The $1 million reduction translates to roughly 300 residents with disabilities who will be unable to get IDA assistance in 2017.

The FY 2017 Reflects Impact of Tax Cuts Implemented Over the Past Year, Limiting Opportunities for New Investments

The city's limited ability to make needed investments in its residents is partly due to the fact that taxes were cut some $45 million since FY 2016. (However, the budget does include a very small expected revenue increase—$9 million—from new compliance measures and technical changes.) DC's revenue growth has slowed dramatically in the last couple of years, and revenue collections in 2017 will be roughly the same as in 2015, after adjusting for inflation. (See Figure 7.) Slow revenue growth limits the ability to keep up with the rising costs of services or to make new investments to meet important needs of DC residents.

Figure 7

Revenues after 2016 Will Grow Slowly With Tax Cut Triggers in Place



Legislation adopted by the Council triggers automatic implementation of a series of tax cuts recommended by the Tax Revision Commission. The tax cuts are triggered when projected revenue collections increase after the given year's budget has been adopted. The tax cut triggers automatically devote 100 percent of these revenue increases to tax cuts, which means that none of the additional revenue is available to invest in new services. The FY 2017 budget leaves these tax reductions in place and offers no offsetting revenue increases. The tax reductions include:

- **Reduction in Middle-income Tax Rate:** The income tax rate for income between $40,000 and $60,000 has been reduced from 8.5 percent to 6.5 percent over the past two years. The reduction in the last year totaled $14 million.
- **Reduction in High-income Tax Rate:** The income tax rate for income between $350,000 and $1 million was reduced this year from 8.95 percent to 8.75 percent. This cost $5 million.
- **Reduction in Business Income Tax Rate:** The corporate and unincorporated business franchise income tax rate has been cut from 9.975 percent to 9.0 percent over the last two years. The reductions in the last year totaled $19 million.
- **Elimination of Estate Tax for Estates Worth between $1 million and $2 million:** The threshold for having to file estate taxes was increased from $1 million to $2 million, resulting in a $6 million loss in revenue.

The tax cut triggers continue to be in effect, which means that taxes could be cut even more after the FY 2017 budget is adopted. Under current law, if revenue forecasts issued after the FY

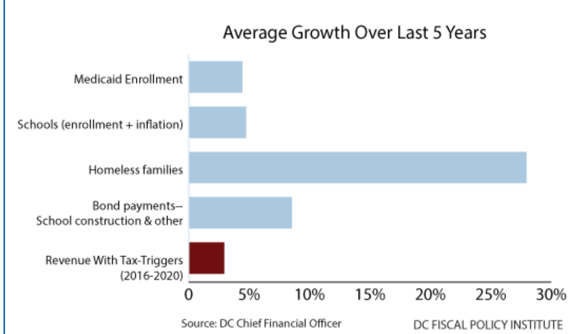
2017 budget is adopted show an increase in projected tax collections, those revenues will automatically be used to implement tax cuts recommended by the tax commission. The tax changes yet to be made represent over $139 million in revenue reductions, a large enough figure that it is likely that no revenue growth will be available for other purposes, potentially for years to come. (See Table 1.) This would again sap revenues and limit the ability to fund new investments a year from now, and beyond.

Using additional revenue *solely* for tax cuts is problematic for several reasons:

- **Tax cut triggers are contributing to historically low rates of revenue growth:** With tax cut triggers in place, revenues will grow no more than 1 percent per year, adjusting for inflation, between 2016 and 2020. (See Figure 7.) Even in the Great Recession, DC's revenue growth did not stay this low for so long. Each 1 percent growth equals about $80 million in revenue.
- **Tax cut triggers make it hard to keep up with DC's growing needs:** DC's revenues are projected to increase by just 3 percent per year for the foreseeable future, largely due to the tax cut triggers.[9] Over the last five years, population has grown 2.3 percent,[10] and inflation 1.5 percent, on average. This means that we need at least 4 percent revenue growth just to maintain the status quo. But other needs are growing faster than that. For example, over the last five years, on average: Medicaid enrollment has grown 4.5 percent per year; homeless services has grown 28 percent per year; and debt payments have grown 8.6 percent per year (to pay for school modernizations and other capital projects). See Figure 8.

Figure 8

Under Tax Cut Triggers, Revenues Will Grow More Slowly Than Key Needs



Rather than using all new revenue growth to automatically reduce taxes, additional revenues could instead have been used to fund additional services that went underfunded in FY 2017 budget. For example, the $45 million in tax cuts implemented this year could have fully funded the Public Assistance Amendment Act of 2015, which would reform DC's Temporary Assistance for Needy Families (TANF) time limit to ensure that the basic needs of low-income children are met. This money could have been further used to provide funding to reduce the DC Healthcare Alliance six-month interview requirement to an annual interview, which would ease long lines and wait times at DC's social service intake centers.

Looking Forward

This review highlights areas that the Mayor and DC Council should prioritize as they implement the FY 2017 budget and start preparing the FY 2018 budget.

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[9] The Mayor's proposed FY 2017 Budget. Chapter 3: Revenue.

[10] American Community Survey. Annual Estimates of the Resident Population: April 1, 2010 to July 1, 2015.

- **Support Families with Children on TANF:** Families affected by DC's time limit receive just $154 a month for a family of three. DC's TANF program should provide financial stability while also helping parents move to greater self-sufficiency. The Mayor and Council should work to reform DC's TANF time limit in ways that ensure that the basic needs of low-income children are met, such as the steps laid out in the Public Assistance Amendment Act of 2015.
- **Further Support the Homeward DC Plan:** The Mayor and Council should bring the city closer to funding the next phase of the plan to end homelessness, through increases in Permanent Supportive Housing, Rapid Re-Housing, and Targeted Affordable Housing.
- **Expand Rental Assistance:** The Mayor and Council should work to expand access to rental assistance through the Local Rent Supplement Program. As noted, LRSP is an important complement to the Housing Production Trust Fund, and helps create housing affordable for the lowest-income families.
- **Early Care and Education:** While the proposal includes some investments to boost program quality and improve access to early care and education for infants and toddlers, more resources are needed to cover the gap between current subsidy reimbursement rates and the median cost of care.
- **Raise Revenues if Needed:** Supporting these additional investments may require increasing revenues. This should include slowing down or delaying tax cuts that currently are automatically implemented through triggers. Other efforts to increase revenues should fall on higher-income households that are best able to absorb them.

Table 1

In 2014, Tax Revision Commission Cuts Cost Us $46 Million

Tax Commission Policy Changes	FY 2017 Fiscal Impact (In Millions)
Established a new individual income bracket of $40-60,000, reducing rates from 8.5% to 7.0%	($39.5)
Expanded the local earned income tax credit to childless workers	(11.4)
Raised the standard deduction to $5,200 for singles, $8,350 for married residents	(16.5)
Eliminated certain tax expenditures	3.9
Expanded the general sales tax rate to certain services	16.8
Phased out the personal exemption by 2% for each $2,500 above $150,000, with a complete phase out at $275,000	4.9
Exempted passive investment vehicles from the unincorporated business franchise tax	(4.6)
Reduced the business franchise tax from 9.975% to 9.4%	20.8
Changed the franchise tax apportionment method to a single weighted sales formula	(20.8)

Tax Cut Triggers Have Cost Us $47 Million This Year

Tax Commission Policy Changes	FY 2017 Fiscal Impact (In Millions)
Further reduced the rate on the new middle income tax bracket to 6.75%	($7.5)
New income tax bracket - $350,000 to $1M at 8.75%, income greater than $1M at 8.95%	(5.0)
Further reduce business franchise taxes to 9.2%	(10.1)
Finish reducing the rate on middle income tax bracket to the new rate of 6.5%	(7.5)
Reduce unincorporated & incorporated business franchise tax from 9.2% to 9.0%	(10.1)
Raise the estate tax threshold from $1 million to $2 million	(6.5)

$139 Million in Additional Cuts Will Go Into Effect Via Triggers

Tax Commission Policy Changes	FY 2017 Fiscal Impact (In Millions)
Further increase the standard deduction to $5,650 for single and $10,275 for married residents	($9.4)
Increase the personal exemption to $2,200	($13.8)
Finish raising the standard deduction and conform to federal levels	($9.8)
Further increase the personal exemption to $2,700	($16.7)
Further reduce business franchise taxes to 8.75%	($11.9)
Further increase the personal exemption to $3,200	($16.2)
Finish increasing the estate tax threshold to conform to the federal level	($12.3)
Further reduce the business franchise taxes to 8.5%	($11.9)
Further increase the personal exemption to $3,700	($15.6)
Finish reducing business income taxes to 8.25%	($11.9)
Finish increasing the personal exemption to conform to the federal level	($9.1)

Source: Mayor's Office of Budget and Finance, March 2016.