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September 20, 2002

### **Is Spending in DC Growing Out of Control?**

By Ed Lazere

The District currently is facing a \$323 million budget shortfall for fiscal year 2003, which starts on October 1. It is the most serious budget gap the city has faced since the severe fiscal crisis of the mid-1990s.

Mayor Williams and the DC Council soon will devise a plan to address the budget shortfall. It is expected that this plan will include a mixture of spending reductions and tax increases — and possibly use of reserves — although it is not clear what the balance between spending cuts and tax increases will be. Mayor Williams has stated that he prefers an approach that would rely somewhat more on spending reductions than on tax increases. Some Council members, by contrast, have expressed the desire to solve most of the shortfall with spending cuts.

Supporters of significant program reductions argue that spending in DC has grown rapidly in recent years and must be constrained to maintain the District's long-term financial stability. Yet for two reasons, it is not reasonable to conclude that overspending is the primary cause of DC's fiscal problems. First, the current budget shortfall is almost entirely the result of declining tax revenues resulting from weakness in the local and national economies. Some \$285 million — or 88 percent — of the budget shortfall stems from falling tax revenues.

Second, an examination of expenditure trends in the District shows that spending is now growing at a relatively modest rate.

- The enacted budget for fiscal year 2003 includes \$3.78 billion in spending from local taxes and revenues. This is about eight percent higher than local spending in fiscal year 2001, which totaled \$3.51 billion. This means that spending in this two-year period is increasing at less than four percent per year.<sup>1</sup>
- Because reductions to the 2003 budget are expected to help address the shortfall, it is likely that actual spending in 2003 will be less than the approved budget — and thus that spending growth will be far less than four percent per year between 2001 and 2003.

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<sup>1</sup> These figures do not include federal funds that are shown in the DC budget as local funds. These funds totaled \$43 million in 2001 and \$33 million in 2003.

If spending over a longer period is examined, it shows that spending in the District has grown at a somewhat higher rate. For example, when the enacted budget for 2003 is compared with actual spending in 1999 — \$2.78 billion — it suggests that spending from local funds will grow an average of 7.1 percent per year. (Again, because budget cuts are expected for 2003, actual spending growth over this period will be somewhat less than 7.1 percent.) This rate is not far out of line with the spending patterns in other states in recent years.

- According to the National Association of State Budget Officers, state general fund spending rose 6.8 percent in 1999, 8.0 percent in 2000, and 7.5 percent in 2001, before falling to 2.5 percent in 2002 as most states began facing fiscal crises. (NASBO data for 2003 are not available.)
- Over the entire 1998-2002 period, spending rose at an average rate of 6.2 percent per year.<sup>2</sup>

For a variety of reasons, it is not surprising that government spending in the District and elsewhere has grown in recent years. Even without program changes, government spending typically grows from year to year as a result of inflation — that is, rising costs for the services that government provides. It is worth noting that health care costs, which represent a substantial portion of government spending, have risen dramatically in recent years. Nationally, Medicaid costs are expected to rise 11 percent this year. Finally, state spending in some areas, such as education, has risen nationally in direct response to growing public demands.

These figures should not be interpreted to mean that District policy makers need not be concerned with restraining expenditure growth. Indeed, the size of the current budget shortfall and the fact that weak revenue growth could continue for several years mean that significant spending reductions will have to be made. In addition, administrative and management issues in some agencies suggest that the District may be spending more than needed for some services. For example, special education costs within DC Public Schools have grown dramatically, in part due to the sizable attorney fees and tuition costs for students who are placed in private schools. Medicaid costs also have grown in recent years. While health care costs are rising throughout the nation, DC's Medicaid spending increases also reflect failure of the District to secure federal reimbursement for all Medicaid-eligible expenses. Addressing these administrative issues will be important to maintaining the District's fiscal health.

Nevertheless, this examination of the District's recent spending trends suggests that widespread overspending is not the source of the District's current fiscal crisis — and thus that it is not reasonable to address the budget shortfall primarily through spending reductions. A balanced approach of spending cuts, tax increases, and use of the District's rainy day fund is a more appropriate response to the extraordinary budget shortfall the District now faces.

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<sup>2</sup> National Association of State Budget Officers, *State Expenditure Reports*, various years. The reports can be found at [www.nasbo.org](http://www.nasbo.org).