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HOW SHOULD THE DISTRICT ADDRESS ITS REVENUE SHORTFALL? SOME GUIDING PRINCIPLES

The recently announced \$131 million revenue shortfall for fiscal year 2009 is the first time since 2002 that the District has faced a budget gap before a fiscal year even began. While this shortfall is smaller than in 2002, the current problem is nonetheless serious. Mayor Fenty and the DC Council will have to act quickly to adopt a gap-closing package. The sooner these changes are adopted, the easier it will be to achieve needed savings in FY 2009, which begins on October 1.

This urgency should not, however, stop the District's leaders from taking time to consider the elements of the package carefully. Eliminating a \$131 million budget shortfall is unlikely to be easy and will require difficult choices about spending cuts and revenue increases. Because weak economic conditions could lead to further worsening of DC's finances, a well-thought out proposal is important.

Some important principles should guide the development of this package:

An Open Process that Offers Sufficient Opportunity for Review by the DC Council and for Public Input: Mayor Fenty will soon develop a proposal to eliminate the deficit, and the DC Council may consider this package as soon as the October 7 legislative session. To give the Council and the public enough time to review the Mayor's proposal, however, the Council should consider delaying the vote until mid-October, perhaps in conjunction with the October 21 Committee of the Whole meeting, and holding a hearing on the package.

This would be consistent with the process used to address the budget shortfall in 2002, when the Council held a separate hearing on the package to solicit public input.

Consider Both Expenditure Reductions and Revenue Increases: The Mayor and Council will need to identify opportunities for efficiencies and reductions that would have the least effect on key services. They also should use the shortfall as an opportunity to make changes that strengthen DC's revenue system and improve its efficiency. This can include, for example, careful examination of tax exemptions and incentives to identify those that are not very effective. The District could increase revenues to address the budget shortfall without necessarily raising tax rates.

Careful Consideration over Use of Funds from Special Purpose Accounts: One option to address the budget shortfall is to withdraw funds from special-purpose accounts that have not used all their resources in recent years. While this may make sense in some cases, these decisions should be weighed carefully. In prior years, funds were taken from some accounts that serve important purposes — such as a first-time homebuyer fund — to help balance the budget. These were, in effect, budget cuts. If the Council or Mayor opt to take funds from special-purpose accounts to balance the 2009 budget, the accounts should be identified and the withdrawal should be justified.

Taken together, these guiding principles should help the District develop a balanced approach to balancing its budget. This also will help place the District in a better position to address any further worsening of its budget conditions that may occur.