

June 11, 2009

## WHAT'S IN THE FINAL FY 2010 DC BUDGET? A Summary

The DC Council approved a final budget on May 12, 2009. This summary highlights some of the most significant elements of the FY 2010 budget, particularly with regard to programs for low- and moderate-income residents. This review also covers tax provisions in the FY 2010 budget, as well as budget earmarks, and transparency issues.

Balancing the budget in FY 2010 presented an especially large challenge, given that the District faced an \$800 million revenue shortfall caused by the economic downturn. Yet both the budget proposed by Mayor Fenty and the final budget adopted by the DC Council largely protect funding for programs and services. This was accomplished through a number of strategies, including use of federal stimulus funds, increases in local revenues, and significant reductions in DC government staffing, among others.

The final outcomes in the FY 2010 budget include the following changes in key program areas.

### Education

- **Compromise Reached on DC Public Schools Budget:** After years of declining enrollment, the Mayor's budget projected a modest enrollment increase for DC Public Schools (DCPS), from 44,681 students in school year (SY) 2008-2009 to 45,054 students in SY 2009-2010.<sup>1</sup> Charter school enrollment is expected to increase from 24,600 students in SY 2008-09 to 28,209 students in SY 2009-10. When charter school and DCPS enrollment is combined, the projected enrollment for SY 2009-10 is nearly 3,000 students more than the combined enrollment for the previous school year.

The Council found it hard to believe that the school systems would gain an additional 3,000 students next year and initially voted to set aside \$27.5 million from the DCPS budget until the October enrollment audit. By setting aside the funds, the Council effectively assumed that DCPS enrollment was likely to decline, though it left the funds in a protected account in case the Mayor's enrollment projection proved correct. DCPS responded that this would effectively represent a cut to its budget, because funds would not be available until after the start of the school year.

After several conversations with the Chancellor, the Council and administration reached a compromise. FY 2010 funding for DCPS will be based on this school year's audited enrollment, and \$3 million will be set aside to cover any enrollment increase that is certified by next year's enrollment audit. The Council also directed the Office of the State Superintendent

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<sup>1</sup> While the FY 2010 enrollment projection for DCPS represents an increase over the actual (audited) enrollment for this school year, it represents a decrease from the FY 2009 approved budget projection of 47,744 students.

(OSSE) to convene a working group to develop a method for projecting enrollment for both DCPS and charter schools that will be used to determine FY 2011 and future year funding levels.

- **Charter School Facilities Allotment Partially Restored:** In his FY 2010 budget, the Mayor proposed changing the method for awarding facilities funds to charter schools. Instead of awarding funds on a fixed, per-pupil basis, the new process would require schools to apply for funds based on their actual facility expenses. After hearing concerns from charter schools about their lack of involvement in the development of the proposal and its potential negative effects, the Council voted to maintain a uniform, per-pupil facilities allotment for FY 2010, but reduced the allotment from \$3,109 to \$2,800 per student. The committee also voted to establish a formal Charter School Facilities Task Force, charged with engaging stakeholders to develop a cost-based formula for the FY 2011 charter school facility allotment.
- **Pre-K for All Funding Increased:** Last year, the DC Council passed legislation to make preschool programs available to all DC children by 2014. The FY 2009 budget included \$9.5 million in local funding to begin implementing the Pre-K for All initiative. The legislation's expansion plan calls for an increase of at least 15 percent in the number of children who are enrolled in a Pre-K program in FY 2010. However, the Pre-K for All budget was reduced by about \$3 million in the middle of FY 2009, and the Mayor's proposed FY 2010 budget only included \$5.1 million in local funding for the initiative. The Council added \$5.4 million to keep implementation on track for FY 2010.
- **State Board of Education Now a Separate Agency:** Due to concerns that the state board did not have enough control over its budget, the Council voted to separate the State Board of Education budget from the OSSE budget. Beginning in FY 2010, the State Board will operate as a stand-alone agency and will retain its current mission and responsibilities. The Council also voted to transfer the Office of the Ombudsman from the Deputy Mayor for Education's office to the State Board of Education to provide the Ombudsman more independence from the school system. The Ombudsman's office responds to concerns from District residents about the public school system.

## **Affordable Housing**

- **Local Funding for Housing Will Fall Sharply in 2010:** Total local resources for affordable housing will be \$85 million in FY 2010, a nearly \$40 million drop from the original FY 2009 budget. The funding reduction largely reflects a decline in revenue for the Housing Production Trust Fund and a cut in the budget for HPAP, the District's first-time homebuyer program. The drop means that both local and gross resources for affordable housing — which include federal funding — will be at their lowest level since FY 2007. DC will receive some federal stimulus money to help address worsening affordable housing needs, but these funds will only make up for reductions in funding that the city can generate from another federal source, the federal low-income housing tax credit.
- **Housing Production Trust Fund:** The HPTF is the primary financing tool for affordable housing construction and rehabilitation in the District. It receives its funding from a portion of

DC's deed recordation and deed transfer taxes. As a result of the economic slowdown, deed tax collections have plummeted, and expected resources for the HPTF in FY 2010 are just \$18 million — far less than the \$42 million dedicated to the Trust Fund in FY 2008. In fact, the FY 2010 funding level will be the lowest since 2003. In response to declining deed taxes, the DC Council adopted legislation in the fall of 2008 setting a goal of funding the Trust Fund at a level of \$70 million or more in FY 2010 and setting a funding floor of \$80 million in future years. The FY 2010 budget did not provide a new funding mechanism or meet the funding goal set by the Council.

- **Local Rent Supplement Program:** The Mayor's FY 2010 budget for this program was funded at just \$25 million — \$6 million less than the \$31 million for FY 2009 — with a plan to use unspent funds from prior years to continue funding all existing projects. The Local Rent Supplement Program (LRSP), which is operated by the DC Housing Authority (DCHA), provides vouchers to low-income residents and provides subsidies to owners of housing developments (usually nonprofits) to make the units affordable to very low-income families. The DC Council added \$2 million to LRSP's 2010 budget — which will extend housing aid to an additional 180 households. The Council also voted to allow DCHA to use LRSP funds that remain unspent and unobligated at the end of any fiscal year to pay for construction costs of developments that will receive LRSP subsidies when completed.
- **Home Purchase Assistance Program:** HPAP provides assistance to help low- and moderate-income residents become first-time homebuyers. The Mayor's FY 2010 budget proposed a \$17 million funding level — a significant decline from the originally approved FY 2009 budget of \$38 million. The DC Council added \$750,000 to the proposed budget, but this still leaves HPAP at its lowest funding level since FY 2006.

## Health Care

- **Medicaid:** The FY 2010 budget includes funding to implement planned reimbursement rate increases that were placed on hold in FY 2009 as a result of the economic downturn. The FY 2010 budget for Medicaid also reflects an increase in the percentage of program costs that will be covered by the federal government, as a result of the federal economic stimulus package passed by Congress in February 2009. Under current law, the District generally is responsible for 30 percent of Medicaid costs. Under the economic stimulus act, the District's share of Medicaid expenses was reduced to roughly 21 percent, resulting in significant local funds savings that the District could use to address shortfalls,
- **Health Care Alliance Program:** The Health Care Alliance provides health care to low-income residents who lack private insurance and are not eligible for Medicaid or other public health insurance programs. Its 2010 budget of \$107 million represents an eight percent decline from FY 2009. This reflects a number of savings initiatives, including moving some groups of recipients from the Alliance to Medicaid, better enforcement of residency requirements and eligibility rules, and a new contract with managed care organizations that will reduce the District's costs per participant. The savings would allow the District to cover expected increases in enrollment from the economic downturn.

- **Healthy DC:** The Healthy DC program — a program to provide health care coverage for uninsured DC residents with incomes between 200 percent and 400 percent of the poverty level — was scheduled to begin in FY 2009 but was placed on hold until FY 2010 as result of the economic downturn. The initially proposed FY 2010 budget was reduced by \$4.1million by the DC Council, which used those funds to support an emergency reserve for non-profit health care clinics, health care services at the DC Jail, sexual health education programs for DC youth, and the Grandparent Caregivers Program. It is not clear at this point what effect the reduction in funding will have on the program or its start date.
- **Closing of the DC Community Services Agency:** The Department of Mental Health will close the DCCSA — the publicly run mental health care system — and will transition patients into services provided by a network of private agencies. DMH will continue to provide some services, such as pharmacy and psycho-educational services. This is expected to generate savings, most of which will be used to help individuals transition to the private network.

## Human Services

- **Temporary Assistance to Needy Families (TANF) Grant Increase:** In November, the Council eliminated the \$1.3 million TANF grant increase that was included in the FY 2009 budget. The Council's approved FY 2010 budget includes an increase of \$1.5 million in TANF cash assistance grants that will restore the cut made in November. The maximum monthly benefit for a family of three would increase about \$9, to \$437 per month. The current maximum TANF benefit of \$428 per month for a family of three equals only 28 percent of the federal poverty line. The FY 2010 increase will just cover inflation – likely leaving these families at 28 percent of the poverty line in FY 2010.

The TANF increase also will translate into an increase in benefits for participants in the Interim Disability Assistance Program (IDA). IDA provides cash assistance to residents with disabilities who have applied for the federal Supplemental Security Income (SSI) program, with IDA benefits intended to provide support until SSI benefits are approved. The IDA benefit is equal to the TANF benefit for a family of one, so increase in TANF benefits triggers an increase in IDA benefits as well.

- **Grandparent Caregivers Program:** The final budget also increased funding for the Grandparent Caregivers Pilot Program by \$1.5 million and made the program permanent beginning in FY 2010. The program provides financial assistance to low-income grandparents and other relatives who are caring for grandchildren, great-grandchildren, great-nieces, or great-nephews. The program is intended to prevent the placement of children in foster care. The increased funding is expected to serve nearly all families that are currently on the program's waiting list.

## Workforce Development

- Mayor Fenty's FY 2010 budget proposed \$65 million in local funds for workforce development services. More than two-thirds of that — \$43 million — would be devoted to the Summer

Youth Employment Program (SYEP). This reflects the effort begun in 2008 to extend the length of the program and increase participation significantly.

The DC Council cut the proposed funding level for SYEP nearly in half, from \$43 million to \$23 million. The savings would come from shortening the length of the program to six weeks (which was the duration of SYEP prior to 2008) and to limit enrollment to 21,000 youth, still a historically high level. The Council devoted \$6 million of the savings to increase other workforce development programs, including \$5.4 million for adult job training. Another \$2 million was devoted to adult literacy programs.

- Local funding for other workforce development programs will either be cut in FY 2010 — including the Transitional Employment Program — or will be funded at roughly the FY2009 level.
- The FY 2010 budget reflects an increase in federal funding for workforce development, from \$13 million to \$21 million, due to the federal economic stimulus package. The additional funds include an increase for DC's One-Stop employment centers, among others. Even with the increase, however, federal funding will be notably lower than in FY 2004, when it totaled \$32 million. The cuts include training funds for adults, dislocated workers, and youth, as well as the elimination of the federal Youth Opportunity Grant.

## **Tax and Fee Issues**

- Mayor Fenty's proposed FY 2010 budget included \$120 million in new revenues to help address the city's sharp drop in revenue collections and limit the need for program cuts. The revenue increases include \$20 million from enhanced tax compliance efforts, \$73 million in additional fees and fines, \$17 million in tax increases, and \$11 million in other measures.
- Some of the proposed increases reflected policy improvements, such as elimination of a corporate tax shelter. Some changes, however, would have increased taxes and fees with a disproportionate effect on low-income residents. This includes eliminating cost-of-living adjustments (COLA) for the standard deduction, personal exemption, and homestead deduction; a new streetlight maintenance fee; and an increase in the 911 fee.
- The DC Council eliminated \$24 million of the proposed revenue increases, including the streetlight maintenance fee and the increased 911 fee. The Council also maintained the cost of living adjustments for all three tax deductions, although the COLA for the homestead deduction will be suspended for one year.
- The Council raised \$21 million in additional revenue, through enhanced parking and public littering enforcement.
- The FY 2010 budget also includes some revenue reductions, including a number of tax abatements for development projects. The abatements will reduce revenues by \$4 million in 2010 and will reduce revenues to \$15 million by 2013 as the abatements become fully implemented.

## Earmarks

“Earmarks” — the appropriation of taxpayer dollars to private organizations and projects — amounted to less than half of last year’s total. Still, earmarking remains troubling because the process is not competitive, lacks transparency, and happens largely without public input.

A DCFPI analysis of the budget identifies roughly \$22 million in earmarked funds to approximately 130 organizations. The reduction in funds from last year — when more than \$50 million in earmarks were approved — is due not only to the economic downturn but to rules adopted by the DC Council after last year’s budget, including a \$250,000 cap per organization every two budget years. The Mayor and Council stuck mostly to the quarter-million limit, with some exceptions. In addition, the Council required recipients of earmarks to provide certain documentation before the June 2 final budget vote — and those not providing documentation had earmarks removed.

The mayor’s budget proposal included about \$5,850,000 in earmarks to organizations including the Kennedy Center, the Phillips Collection, and the DC Jewish Community Center. The remaining earmarks were added by the Council.

One possible way to level the playing field is to appropriate a certain amount of money to a community fund that would be divided equally among Council members. Under this system, the size of the earmark pot would be known and capped each year. There would be an even distribution of dollars across the city and it would enable Council members to spend the budget season thinking about important public policy priorities rather than how to find money for earmarking.

## Budget Transparency

- **New Information in the DC Budget:** This year’s budget incorporated critical new information to help improve the transparency of the FY 2010 budget and financial plan, including: narrative summaries of programs and major funding changes; reporting on revised budget figures that reflect the budget cuts made in the middle of FY 2009; a separate description of economic stimulus funds; and in some cases, additional information on performance indicators, including why the chosen indicator and a particular target was significant. This information made it easier for residents and advocates to understand the impact of proposed funding changes.