

April 5, 2010

WHAT'S IN THE MAYOR'S FY 2011 BUDGET? A FIRST LOOK

On April 1st, Mayor Fenty submitted his proposed budget for FY 2011. It calls for spending \$6.14 billion from locally raised funds, a 2.3 percent increase over FY 2010. Yet much of this modest boost in local spending on programs and services is needed to replace federal stimulus dollars that were available for 2010, but will not be in 2011, and to address rising expenses in some parts of the budget, including special education. When these are taken into account, funding for most services in the FY 2011 budget is less than the amount available for FY 2010.

The coming year represents the third year the District has faced budget problems as a result of the recession, which has reduced the city's revenue collections at a time when a record number of residents are out of work and in need of assistance. The proposed budget for fiscal year 2011 is far lower than the budget from 2008.

Mayor Fenty has proposed a combination of spending reductions, revenue increases, and use of surplus funds in certain budget accounts to address the District's budget problems in FY 2011. Even with these steps, the proposed budget for next year keeps in place many cuts that have been made since 2008 — in areas ranging from libraries to homeless services — and it calls for significant additional reductions in services.

Overview

The recession continues to take its toll on DC's budget — and its residents. DC's revenue collections fell by roughly \$500 million between 2008 and 2009 and have been stagnant since then. Base revenues for 2011 (before considering any proposed increases) are approximately \$100 million lower than in 2010. These declines mean that the District has fewer resources to fund services like healthcare and education. At the same time that resources have fallen, unemployment has reached a record level and the number of families needing assistance has risen dramatically.

Mayor Fenty's proposed FY 2011 general funds budget — the portion of the budget supported by local revenue sources — is \$6.14 billion, which represents a 2.3 percent increase (\$135 million) over the \$6 billion approved budget for FY 2010 budget. For two reasons, however, the reality is that the District has fewer resources for most of its programs in FY 2011.

- **Loss of federal stimulus funds.** For 2010, the District was able to use stimulus funds instead of local funds to help maintain some DC programs. As stimulus funding runs out in FY 2011, local funds must either replace federal stimulus dollars or the programs could face cuts. In fact, the majority of the increase in the general fund in FY 2011 — \$100 million — consists of local

dollars for public schools and Medicaid to replace federal stimulus funding. Taking that into account, the FY 2011 budget is really no larger than the FY 2010 budget.

When federal funds are included, DC's "gross budget" for FY 2011 is down 1 percent from FY 2010, falling from \$9.55 billion in FY 2010 to \$9.46 billion for FY 2011.

- **Increased costs in some parts of the budget.** The stall in budget growth for FY 2011 is concerning because over the past two years, DC's budget has seen large increases in healthcare caseloads, public and charter school enrollment, and special education — and funding for those areas has risen as a result. In FY 2011 alone, these three parts of the budget will increase by more than \$100 million as a result of caseload growth. In addition, the costs of maintaining government services rise each year due to inflation and other factors. As a result, the basically flat funding level in FY 2011 means that while some areas of DC's budget have grown, others have been cut significantly.

The impact of the recession on DC's finances is even clearer when the FY 2011 budget is compared with 2008, the last year before the recession. The proposed budget for next year is \$400 million lower than general fund expenditures in 2008, despite the recession and its impact on residents' need for services, rising general costs due to inflation, and increase in specific areas such as special education.

In order to address the budget shortfall in FY 2011, the Mayor proposes to make significant budget cuts, restructure the city's debt (\$60 million savings), use \$100 million from special purpose accounts, create \$97 million in new taxes and fees, and use \$74 million in additional federal stimulus funds under a proposal that has been adopted by both houses of Congress. The budget cuts and tax and fee increases are summarized below.

Cuts and Increases

The District's budget has been cut substantially since 2008, even though the recession has brought increased demand for government services. From January 2008 to January 2010, the unemployment rate has nearly doubled.

The Mayor's proposed FY 2011 budget maintains many of the cuts that have been made to programs since 2008. Additionally, rising expenditures in certain areas (such as special education tuition and transportation, Medicaid, and schools) have led to proposed additional cuts in other areas for FY 2011.

- **Previous Cuts to Low-Income Programs Maintained in FY 2011 Budget:** Despite increasing demand for public benefits, staffing at the Department of Human Services' service centers is not proposed to increase from FY 2010 levels. Homeless services funding remains below FY 2009 levels, even as the number of homeless families has increased dramatically over the past year. Funding for programs to help low-income renters, such as the Local Rent Supplement Program and the Housing Production Trust Fund, remains down.

- **FY 2011 Budget Proposes Significant New Cuts to Programs:** To address revenue shortfalls and increased expenditures, the Mayor's proposed budget makes significant new cuts in a number of areas, including programs for low-income residents. Adult education and training would be reduced by nearly \$7 million. Proposed child care vouchers for low-income working families are cut by \$4 million, and a program to support grandparents caring for their grandchildren would be reduced by \$2 million. The Department of Mental Health's proposed budget represents a 12 percent decrease, including the elimination of 29 direct care positions. Funding for libraries and the Department of Recreation will remain flat from FY 2010, even though both agencies have seen significant cuts since 2008 and are expected to open several new facilities in FY 2011. The Mayor's budget also proposes to reduce funding for the Metropolitan Police Department, corrections, public works, and transportation.

The proposed FY 2011 budget also includes increases in some areas. The general fund budget for education is \$84 million higher in FY 2011, even after taking out new local funding that is replacing stimulus funds. This includes a modest increase in local funds for DC Public Schools, though this is offset by a drop in federal funding. Other education funding increases are in charter schools and special education. Beyond these, funding for Medicaid and related health care programs would grow in FY 2011 as a result of an increase in eligible residents due to the economic downturn. A few other agencies, including Fire and Emergency Services and the Office of the Chief Technology Office, are slated for increases.

Revenue

The FY 2011 budget includes approximately \$100 million in additional revenue. The proposals do not include major changes to the city's big three revenue generators: property, sales, and income tax. More than a third of the proposed revenue enhancements come from increases in driving and parking-related fees. Another third comes from two fees on the health industry, including a new 1 percent fee on patient billing for hospitals.

The mayor's proposal also includes an increased E911 fee. This proposal, which would raise the E911 fee by \$0.39 per month and raise \$7.1 million, has been proposed by the Mayor but removed from the budget by the DC Council in the past several years.

There are also a range of business-related fees, including increases on licenses and public space fees. Among the proposals, the mayor reduces a tax incentive package to help lure high technology companies to the city.

The proposals also would increase taxes paid by low-income working families, through a reduction in the Earned Income Tax Credit. Two years ago, the District increased the EITC — which creates a work incentive for those earning at or near the minimum wage — to 40 percent of the federal benefit. This proposal would scale back the credit to 39 percent, reducing critical dollars to lower-income working District families as they struggle through the downturn.

The basic revenue-raising categories include:

Driving and Parking Fees, \$34.7 million

- ***Increased traffic fines, \$28 million***

The budget would authorize the increase of 71 different fines for motor vehicle moving infractions such as speeding, running a red light, running a stop sign, turning from the wrong lane, and passing a stopped school bus.

- ***Increased parking meter rates, \$3.6 million***

This would increase by \$0.25 meters that currently charge \$0.75 per hour.

- ***Increased residential parking permit fee, \$1.2 million***

Residential parking permits, which allow residents to park vehicles on neighborhood streets without restriction, will be raised from \$15 to \$25. The District's current fee is lower than fees charged in Arlington County, and Montgomery County. Alexandria charges \$15 for the first vehicle registered at an address, \$20 for the second, and \$50 for the third.

Health Industry Fees, \$33.6 million

- ***One percent patient revenue fee for hospitals, \$25 million***

This would authorize the District to charge a general 1 percent tax on net patient revenue for hospitals, of which 90 percent would be used for healthcare-related expenditures. In addition, penalties would be imposed on hospitals that do not pay the fee on time.

- ***Two percent premium tax on HMOs for Medicaid receipts, \$8.6 million***

HMOs would pay taxes equal to 2 percent of their policy and membership fees as well as net premium receipts for DC Medicaid, the Healthy DC Program and the DC HealthCare Alliance, which had previously been exempted.

Business-Related Fees, \$10 million, including:

- ***Steel plate fee for road construction, \$3.1 million***

- ***Increased building permit fee, \$2.7 million***

- ***Increased basic business license fee for technology, \$750,000***

Miscellaneous Fees, \$12 million, including:

- ***E911 fee, \$7.1 million***

This fee, which has been proposed in prior budgets removed by the Council, would increase the E911 charge by \$0.39 for both wireless and Centrex phone lines.

- ***Uniform 2% Insurance Premium Rate Fee, \$1.8 million***