DC Fiscal Policy Institute

TESTIMONY OF ED LAZERE, EXECUTIVE DIRECTOR
On the Fiscal Year 2011 Second Revised Budget Request
Emergency Declaration Resolution of 2011
District of Columbia Committee of the Whole
July 7, 2011

Chairman Brown and other members of the DC Council, thank you for the opportunity to speak today. My name is Ed Lazere, and I am the executive director of the DC Fiscal Policy Institute. DCFPI engages in research and public education on the fiscal and economic health of the District of Columbia, with a particular emphasis on policies that affect low- and moderate-income residents.

The DC Fiscal Policy Institute largely supports Mayor Gray's revised budget plan, which has been made possible by an upward revision in the District's revenue forecast for fiscal year 2011. The proposal would use additional revenues in fiscal year 2011 to address a number of current-year spending pressures and to fund a number of items in fiscal year 2012 from a priority list in the approved fiscal year 2012 budget. The Mayor's plan, which largely follows the priority list adopted by the Council in June, is a fiscally responsible approach to address the District's current-year budget needs and to support a number of important services in fiscal year 2012 that were not covered by the approved 2012 budget.

The recent revenue forecast also identified an increase in revenues for the next fiscal year, FY 2012, which will allow further items from the priority list to be funded.

At the same time, the upward revision to the revenue forecast is not sufficient to fund all of the items on the priority list, which means that a number of programs will continue to face cuts in 2012 unless subsequent revenue forecasts show even further revenue increases. Roughly $35 million from the priorities list, which mostly would serve to restore budget cuts in the adopted fiscal year 2012 budget, would remain unfunded. Because a provision of the fiscal year 2012 Budget Request Act requires half of future revenues in fiscal year 2012 be set aside in as savings in the city's working capital fund, revenues will have to grow an additional $70 million for all of these priority list items to be funded. The unfunded items include (the following. (They are not listed in the same order as in the 2012 budget):

- The **Housing First program**, which provides permanent supportive housing to chronically homeless residents ($1.6 million).
- DC's **Homeless Services Continuum**, which has been strained in recent years by a rapid increase in homelessness among families with children ($2.5 million).
- **Interim Disability Assistance**, which under current funding levels will have to terminate cash assistance in October for a number of residents with disabilities who are waiting for federal

disability benefits to be approved ($3 million).

- **Housing Production Trust Fund**. A recession-related drop in deed tax collections, the source of funding for the Trust Fund, left the District unable to support tenant purchase efforts in recent years and contributed to a large backlog of affordable housing construction or rehab projects ($18 million).
- **Children's Mental Health Services**, which still face a cut of roughly $1 million ($900,000).
- **DC Public Libraries**, where additional funding is needed for book acquisitions and to keep the central MLK library open on Sundays ($1.7 million).
- **Child Care**, which has faced reductions of more than one-fifth during the recession ($2 million).

In short, while the increase in revenues for 2011 and 2012 is promising, it still will leave in place a number of reductions in services. This suggests that the District should stick with plans adopted in the 2012 budget to make restoration of these services the next priority should revenues grow further.

In particular, the Council should not adjust the restorations list to re-instate a tax exemption for current investments in out-of-state bonds, as some Council members have suggested. As shown in the attached fact sheet, DC residents with out-of-state bonds generally are not retirees and are not low income. Moreover, the impact of eliminating the tax break would be relatively modest – under 1 percent of income for most taxpayers.

A poll conducted by the DC Fiscal Policy Institute during this year's budget season found that DC residents strongly support using budget resources to maintain services. Residents strongly opposed many of the cuts in the FY 2012 budget, and they supported modest revenue increases to help maintain services at current levels.

Thank you again for the opportunity to testify.

Elimination of Tax Exemption for Out-of-State Bonds Affects Few Retirees or Low-Income Taxpayers

On May 25, the Council voted to eliminate DC's tax exemption for interest earned on out-of-state bonds—a tax incentive offered by no other state. This policy move is a progressive change slated to be worth $13 million in FY 2012 and nearly $30 million per year in subsequent years. Nevertheless, this proposal has raised some questions about who would be affected. In particular, concerns have been raised about the effect of the new policy on lower-income retirees.

A close look at tax and income data reveals that most of the taxpayers affected would be high-income earners, and few would be retirees. Moreover, the impact of eliminating the tax break would be relatively modest – under 1 percent of income for most taxpayers.

The numbers helps illustrate why this policy move makes good sense:

- In 2008, about 20,000 DC households – just 6 percent of all taxpayers – held tax-exempt out-of-state bonds.
- Only one-fourth of households with tax-exempt interest had retirement income.
- Most residents with out-of-state bond income are higher-income. Among wage earners who hold out-of-state bonds, 72 percent have income above $100,000. Among retirees with out-of-state bonds, 67 percent have incomes over $100,000.
- In fact, there are only 482 DC lower-income retiree households (below $50,000 adjusted gross income) that earn any income from out-of-state bonds. This is just 2.4 percent of the DC households with income from out-of-state bonds.

Overall, the impact on tax bills for DC residents would be relatively small:

- For most taxpayers, taxes will increase by less than one percent of income.
- For retirees with incomes below $50,000, the increase would be $276 per year on average, or 0.9 percent of the average income. For retirees at higher-income levels, the increase averages 0.3 percent of income.
- Most of the increased tax would be paid by higher-income residents: among retirees with out-of-state bonds, two-thirds of the additional taxes will be paid by those over $200,000 in income, and 87 percent will be paid by those over $100,000.