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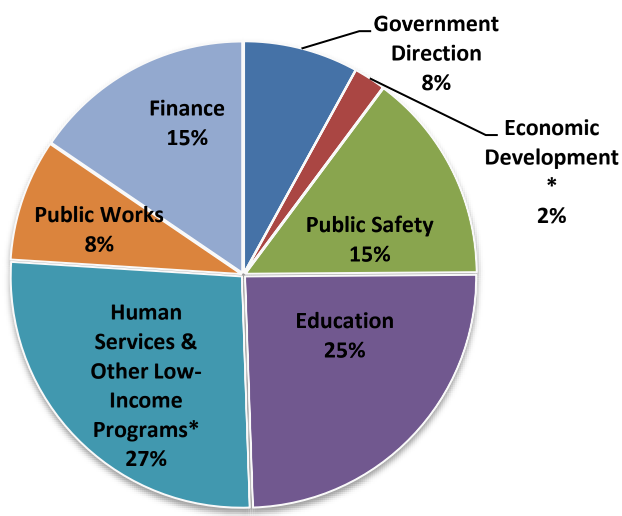
WHAT'S IN THE MAYOR'S FISCAL YEAR 2013 BUDGET REQUEST?

On March 23rd, Mayor Gray submitted his budget proposal for fiscal year 2013, which starts October 1, 2012. The proposed general fund budget — the portion of the DC budget that comes from local taxes and fees, including dedicated tax revenue and special purpose funds — is $6.75 billion.[1] When federal funding for programs and services is included—in what is called gross funds—the District's fiscal year (FY) 2013 budget is $9.9 billion.

Mayor Gray's proposed FY 2013 general fund budget is about $209 million higher than the approved FY 2012 budget, after adjusting for inflation — an increase of 3 percent. (Unless otherwise noted, all figures in this analysis are adjusted for inflation to equal FY 2013 dollars.) The boost in local spending is due to several large factors: increasing Medicaid costs, rising enrollment and costs in public schools, an uptick in repayments of debt issued for construction projects, and the need to replace federal dollars that were available in FY 2012 but will not be available in FY 2013.

Figure 1
Mayor Gray's Proposed FY 2013 General Fund Budget



*Other low-income programs include the following agencies removed from Economic Development: Employment Services, Housing and Community Development, DC Housing Authority and Housing Production Trust Fund.

This report reviews the key elements of the proposed FY 2013 budget. As Mayor Gray worked to develop a budget proposal, the city faced an estimated gap of $172 million between expected tax

[1] The general fund budget includes the "local funds budget" – programs and services supported by taxes and fees collected by the District — as well as services supported by "special purpose" revenues or "dedicated taxes." This analysis does not include the enterprise appropriation and keeps several dedicated funds within finance instead of enterprise so year-to-year comparisons can be made.

revenues and anticipated expenditures to maintain city services. In order to close the gap, Gray proposed a package that includes both new revenue initiatives and spending reductions. Reductions in agencies came from discussion with agencies as well as from Mayor Gray's One City Performance Review, a top-to-bottom analysis of the DC budget led by former DC Chief Technology Officer Suzanne Peck. It is unclear how much came from the performance review, because the report has not been released to the public.

The District's revenue collections in FY 2013 will total $6.7 billion, if the Mayor's revenue initiatives in his proposed budget are adopted. The District's tax collections dropped sharply in the Great Recession, starting in FY 2009 and have only recently recovered. FY 2013 revenue, with the inclusion of Gray's initiatives, will still be slightly lower than those in FY 2008, the final year before the recession hit. A full discussion of the proposed revenue initiatives occurs below.

As part of his budget request, Mayor Gray also included a 25-item "Revised Revenue Estimate Contingency Priority List." This list, totaling approximately $120 million, would provide funding for programs if more revenue is projected over the fiscal year. Items are arranged in numerical order, and the programs would be funded in order as additional revenues are added. Most of the programs and services that would have funding reductions in Gray's proposed budget are included in the list. The top three include restoring $7 million in homeless services funds that would be cut due to federal grant reductions; adding $14.7 million to job training and related assistance for families on public assistance; and $23 million to keep in place hospitalization benefits for DC's locally-funded healthcare program. The complete list, in order, can be found in the appendix.

The proposed FY 2013 budget continues the trend since the recession began of making investments in education, and there are also significant proposed investments in public works and economic development. Some human services programs would also see an increase. But others, including services that provide health care and affordable housing, would continue to experience deep cuts. For the second year in a row, Gray proposed taking a large share of funding from the Housing Production Trust Fund, DC's main source of financing to build and preserve affordable housing. A continued lack of affordable housing makes it difficult for low-and-moderate income families to make ends meet, and that financial pressure can have long-term costs and repercussions that might cause a decline in quality of life for District residents.

This analysis is part of an online "Budget Toolkit" developed each year by the DC Fiscal Policy Institute, which can be found at www.dcfpi.org.

DC REVENUE ALMOST RESTORED TO PRE-RECESSION LEVELS

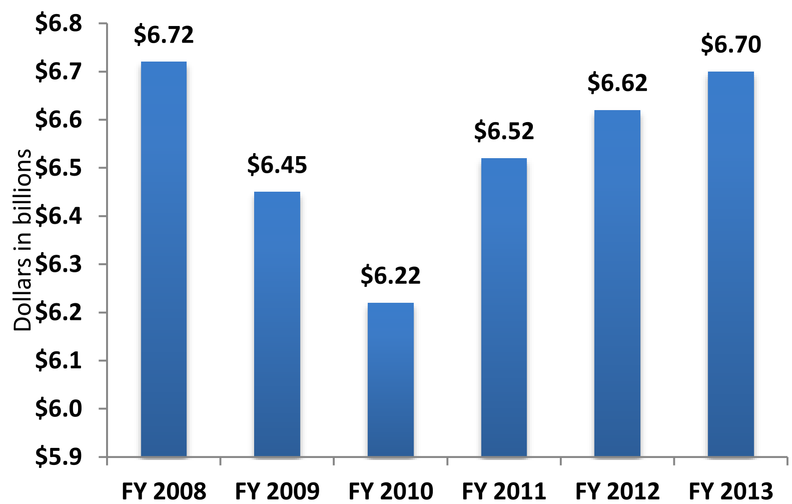
In his proposed budget, Mayor Gray includes several proposals to boost revenue. Yet even with these additions, the District's tax revenues are projected to be lower than FY 2008, the year before the start of the Great Recession, as shown in Figure 2.

DC's tax collections dropped sharply in the Great Recession, going from $6.72 billion in FY 2008 to $6.45 billion in FY 2009. Revenue kept falling in FY 2010, with actual collections bottoming at $6.22 billion. The precipitous decline in revenue of approximately $500 million over two years led to substantial cuts in public services, many of which were in human services and other low-income programs.

Since FY 2010, revenue has been back on the rise but still hasn't reached pre-recession levels. The District's revenue collections in FY 2013 will total $6.7 billion, if the Mayor's revenue proposals are adopted. This remains $20 million lower than revenues in FY 2008, the final year before the recession. The District has adopted a number of revenue increases in recent years, to address the effects of the weakened economy on collections. Without these, total revenue collections in FY 2013 would remain well below pre-recession levels.

Figure 2

DC Revenue FY 2008 Actual Through FY 2013 Projected



* Figures are in billions, adjusted for inflation to equal FY 2013 dollars and for FY 2013 include proposed changes to tax policy, fines and fees.

Moreover, the costs of public services tend to rise faster than inflation, especially in a recession, which further suggests that the FY 2013 revenue levels will not be sufficient to support services at pre-recession levels. Enrollment in publicly-funded schools has increased in recent years, and demand for services such as Medicaid has risen as a result of growing unemployment. Moreover, some core costs of providing public services, such as utility costs for public buildings or health benefits for public employees have risen far faster than overall inflation.

FUNDING CHANGES BY MAJOR PROGRAM AREA

The District's budget includes more than 80 operating agencies, with budgets ranging from under $100,000 to more than $600 million in local funds. These agencies are grouped into seven major categories, known as "appropriation titles." This analysis does not include the "Enterprise" appropriation title, as these agencies and programs directly receive their funding and it does not comprise the general fund.

Table 1 shows how funding would change for each appropriation title in FY 2013 under the proposed budget. The table also adjusts two titles, Economic Development and Human Services, to shift several agencies that target housing and jobs assistance from the Economic Development title to the Human Support Services title.

Table 1 Changes in DC's General Fund Budget, from Approved FY 2012 to Mayor Gray's Proposed FY 2013			
Appropriations Title	FY 2012 Approved	FY 2013 Proposed	Change, 2012 to 2013
Government Direction	$487	$541	11%
Economic Development	$273	$297	9%
Less Low-Income Agencies*	$133	$149	12%
Public Safety	$988	$993	1%
Education	$1,627	$1,661	2%
Human Support	$1,610	$1,647	2%
Plus other Low-Income Agencies*	$1749	$1796	3%
Public Works	$538	$575	7%
Financing	$1,017	$1,034	2%

Notes:
All figures are in millions and adjusted for inflation to equal FY 2013 dollars.
These figures include some adjustments to make figures comparable.

* "Low-Income Agencies" includes Department of Employment Services, Housing and Community Development, Housing Authority Subsidy, and the Housing Production Trust Fund.

This section highlights the major cuts and additions within each appropriation title. A more detailed analysis of each appropriation title, including comparisons to the current year, is found in the appendix.

Economic Development

Funding for the Housing Production Trust Fund – DC's main source for affordable housing construction and renovation – would take a $20 million cut under Mayor Gray's proposed budget. Similar to the $18 million cut to the fund last year, the money would be shifted to the DC Housing Authority to provide funding for a voucher subsidy program for low-income residents known as the Local Rent Supplement Program. The impact of the transfer makes the Housing Authority budget look like it has grown significantly, when, in fact, the money is needed to keep the Local Rent Supplement program merely in place and in step with inflation. For FY 2012, the Housing Authority subsidy is funded largely by transfers and use of reserves that are not reflected in the budget documents.

The Department of Housing and Community Development (DHCD)'s budget would take a 27 percent cut under Gray's proposal. The largest impact of the cut would be a decrease of $3.3 million in the Home Purchase Assistance Program (HPAP) and the DHCD United Fund. HPAP helps low-and-moderate income DC residents with down payment assistance and settlement costs in purchasing a home. Additionally, the budget reflects a reduction of $1.4 million due to the elimination of the Small Business Technical Assistance Program, which provides grants that fund community-based nonprofit organizations to provide technical assistance, support, and training to small and retail businesses in DC.

Other agencies would see a boost in Gray's proposed budget. The 9 percent growth in this appropriation title is almost entirely due to growth in the budgets of the Deputy Mayor for Planning and Economic Development (DMPED), the Department of Consumer and Regulatory Affairs (DCRA), and the Department of Employment Services (DOES).

One of the largest increases is in DMPED. Local funding for DMPED would increase by 46 percent to $19.5 million, including $1.6 million for the creation of the Workforce Intermediary, a new initiative by the Gray administration to coordinate job training and matching. DCRA would also see a 26 percent boost in dollars, half of which is due to a $3.5 million technical adjustment for the enforcement of the Nuisance Abatement Initiative, which was previously funded through capital funds. An additional $1 million increase is budgeted to promote a fair market-place initiative that supports consumer education outreach services.

DOES would see a nine percent increase in local funds under Gray's proposal, partially offsetting a decline in federal dollars from FY 2012. Much of the increase will go toward maintaining personnel and services at DC Works! one-stop career centers and other direct service facilities.

The Housing Production Trust Fund is fourth on Gray's list of priorities for use of additional revenues, the Home Purchase Assistance Program is tenth, and the Small Business Technical Assistance Program is sixteenth.

Public Safety

Nearly every public safety agency that delivers services to DC residents would see an increase over the previous year with the proposed FY 2013 budget. The largest agency increase would be for the Metropolitan Police Department (MPD), which added local funds to cover the loss of a federal grant that in the previous year paid for 50 positions. MPD would also have an uptick in expenditures for the purchase of new automated traffic enforcement equipment, one of Mayor Gray's proposed policy initiatives to increase revenue.

The largest decreases in the public safety budget are in the Deputy Mayor for Public Safety and Justice and the Police Officers and Firefighters Retirement Fund. The decrease in the Deputy Mayor's office is due to a $1.2 million decrease in funding for the Office of Victim Services, which supports victims of domestic violence, sexual assault and child abuse and neglect. The Police Officers' and Fire Fighters' Retirement System, which provides the District's required contribution to these two government employee pension funds, would have a 19 percent decrease in Gray's proposal. The drop from $118.4 million in the current year to $96.3 million next year reflects a decrease in anticipated costs, and according to the administration, does not indicate a cut in benefits.

The Office of Victims' Services is 5th on Gray's revenue priority list.

Gray's proposed FY 2013 budget also includes a new agency, the Department of Forensic Sciences. This agency combines funding transferred from the Metropolitan Police Department, the Department of Health, and the Forensic Laboratory Technician Training Program, which will become a segment of this newly created agency.

Education

The education appropriation would see a two percent increase under the mayor's proposal, largely due to more funding allocated to DC public schools (DCPS) and DC public charter schools. This growth is due primarily to two factors: a two percent increase in the uniform-per-student-funding-formula that funds both systems and increased student enrollment. Enrollment in DCPS is expected to increase by four percent and charter school enrollment is slated to increase by six percent. However, the biggest change will be the increase of special education students in the public school system who will be returning from placements in private schools. The reduction in private placements will reduce these expenditures by an estimated $40 million. While budget documents appear to show reductions in the number of special education staff positions in DCPS and a decrease in the special education local budget, DCPS has stated that a majority of the reductions reduce duplication in services and increase efficiency. According to schools officials, the actual impact stands at 92 fewer special education positions budgeted for next year than was in fiscal year 2012. Schools officials have said figures reported for FY 2012 actually over-state spending and staffing.

Despite the increase in funding, many individual DCPS schools actually will face challenges in maintaining staff and services, because the average costs for salaries, benefits, and teacher bonuses related to the IMPACT teacher performance evaluation system are growing faster than the budget increase. IMPACT, which rewards highly effective DC teachers with financial incentives, was financed with private money the past three years. As a result, DCPS middle schools and high schools will see larger class sizes.

Child care subsidies will be flat-funded next year with a greater focus on improving the supply of quality infant and toddler child care slots. Reimbursement rates for providers remain at 2004 market levels. Both afterschool and summer school programs will face reductions in FY 2013.

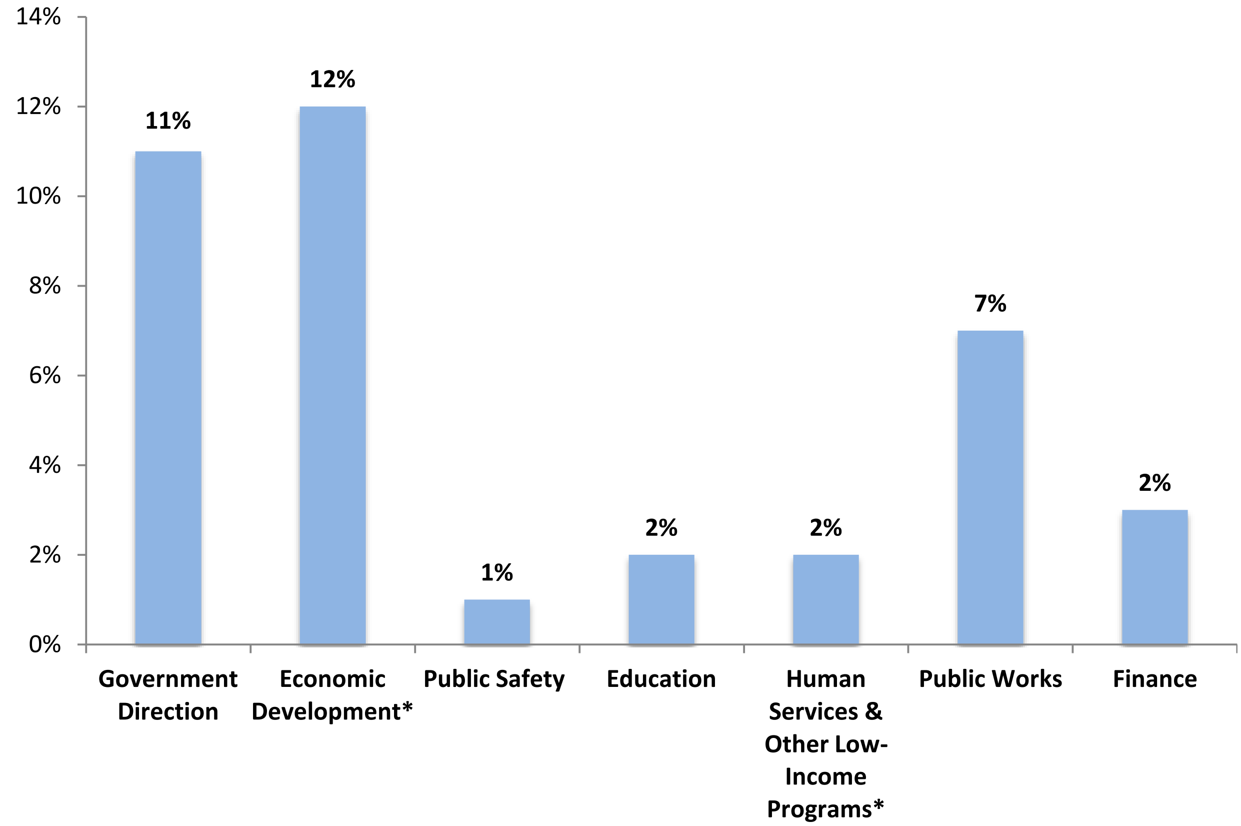
Human Services and Health

Under Mayor Gray's proposal, a $23 million cut would be made to the DC HealthCare Alliance, the District's locally funded health insurance program for uninsured residents who do not qualify for Medicaid. Alliance patients would no longer have hospitalization coverage; the insurance benefits would be limited to primary and preventative care. The Gray administration makes the argument that the cost of emergency care for Alliance patients should be covered by a hospital's Disproportionate Share Hospital (DSH) payment, a payment under the Medicaid program that covers uncompensated care to those who cannot afford to pay. Not all District hospitals receive DSH, however, and even though hospitals may receive payment in one form or another, there is concern that patients may still be billed for services and face personal financial repercussions such as an unfavorable credit reporting.

The Homeless Services Continuum faces a gap between $5.9 and $9.4 million to keep services at the fiscal year 2012 level. The FY 2012 level includes several key reductions in services, most importantly ending the practice of providing shelter to any family that had no viable alternative, at all times of the year. No new families will be provided shelter until the next hypothermia season.

Figure 3

Change in Appropriations from Approved FY 2012 to Mayor Gray's Proposed FY 2013



* Other low-income programs include the following agencies removed from Economic Development: Employment Services, Housing and Community Development, Housing Authoirty and Housing Production Trust Fund.

Gray's proposal also would keep in place several severe cuts including:

- **Temporary Assistance to Needy Families (TANF).** TANF provides cash assistance and job readiness training to low-income families with children. DC is implementing a major re-design of this training to help more families with children prepare for work and find jobs with good wages. The proposed FY 2013 budget does not provide enough resources needed to fully implement the program and provide new services in a timely manner. Additionally, the budget reflects a further cut to benefits for families with children who have participated in TANF for 60 months. Following a 20 percent reduction in benefits in April 2011, these families will experience a 25 percent reduction of benefits in October 2012 before they have a chance to access the improved services. Benefits for a family of three will be just $257 per month.

- **Interim Disability Assistance (IDA).** The IDA program provides $270 a month to residents with disabilities who are unable to work and have no other income as they await a decision on a federal Supplemental Security Income (SSI) application. Cuts in recent years have decreased the number of DC residents served from 2,900 per month in FY 2008 to an average of 727 per month in FY 2012. The FY 2013 budget provides the same level of local funding as last year—$1.5 million—and a slight increase in anticipated carryover from federal reimbursements. But more local funding is needed this year because $2.4 million of reserves were removed from the fund in FY2011, leaving less money to supplement local funding. Without additional funding, the program will serve only 750 residents this year. While this is a slight increase from FY 2012, hundreds of residents with disabilities are unable to obtain benefits and forced to rely on more costly emergency services, such as emergency rooms and shelters.

Public Works

Many agencies within public works would see increases over the previous year, including the Department of Public Works (DPW), District Department of the Environment (DDOE), Department of Motor Vehicles, and Washington Metropolitan Area Transit Authority. However, funding for the Department of Transportation would decrease by about three percent. About a third of the increase in funding for DPW would come from restoring 32 full-time equivalents (FTE) positions that were eliminated in the FY 2012 budget. The increase in funding for DDOE would largely come from increases in special purpose funds — funds supported from fees and fines and dedicated to specific purposes — for renewable energy and storm water and Anacostia River clean-up initiatives.

Finance

The largest increase in the Finance appropriation is due to an uptick in the repayment of loans and interest from borrowing for large infrastructure projects. The District has a 12 percent borrowing cap and estimates put the city close to the borrowing limit. In the past several years, DC has paid for more infrastructure improvements using debt financing, and this has increased our repayments. This analysis keeps several dedicated funds within Finance instead of Enterprise so year-to-year comparisons can be made. These funds include the baseball transfer of dedicated taxes, the TIF and PILOT transfer and the Convention Center transfer.

HOW MAYOR GRAY BALANCED THE FY 2013 BUDGET

When Mayor Gray put together his budget for FY 2013, the District faced a $172 million gap between the projected revenue the District would collect and the cost of maintaining current services. An analysis by the District's Chief Financial Officer of the amount needed to maintain services in FY 2013 that were provided in FY 2012 — the Current Services Funding Level (CSFL) — showed that costs of services would grow by $151 million. Beyond the CSFL, growth in student enrollment in both DC public and DC public charter schools added an additional $64 million to the costs of existing services. Also, in Medicaid, there was a need for $16 million additional dollars due to an increase of eligible residents accessing services.

The District has started to see a recovery in revenue, yet the recent upticks weren't enough to balance the budget. In December 2012, Chief Financial Officer Natwar Gandhi added an additional $46 million to projected FY 2013 revenues, and in February 2013 he added another $34 million. As well, a technical adjustment in FY 2013 revenue added an additional $23 million. Still, Gray was left with a $172 million gap.

The FY 2013 budget reflects a number of actions to close the gap, including both service cuts and revenue increases.

CUTS TO PROGRAMS AND SERVICES

The proposed FY 2013 budget cuts $103 million from the current services funding level budget — the total amount of funding the Chief Financial Officer projects DC needs to continue funding services provided in FY 2012.

The largest cut is actually not a cut, but a policy decision to forgo putting FY 2013 operating expenditures toward "paygo," the pay-as-you-go way to finance capital projects. Based on legislation adopted in 2010, a share of the city's growing revenues above FY 2012 levels would be devoted to paygo capital, paying for capital construction projects with operating revenues rather than borrowing to pay for such projects. While paygo capital has the advantage of limiting the need to borrow funds, this paygo provision widened the city's budget gap by $50 million. Mayor Gray's decision to eliminate this provision for FY 2013 reduced the budget gap significantly and prevented the need for deeper cuts in services or revenue increases.

The large and/or significant local funding cuts are detailed below:

- **$20 Million Cut in Affordable Housing:** Funding for the Housing Production Trust Fund — DC's main source for affordable housing construction and renovation — would be reduced by $20 million, or roughly by half, in FY 2013. This is the second year that Gray has chosen to take money from the trust fund. In the current year, Gray chose to cut $18 million from the trust fund.

- **$31 Million Reduction in Health Care Finance, including $23 Million to DC HealthCare Alliance: Under Mayor Gray's proposal, a** $23 million cut would be made to the DC HealthCare Alliance, the District's locally funded health insurance program for uninsured residents who do not qualify for Medicaid. The proposal would eliminate coverage for hospital-based care for Alliance members the insurance benefits would be limited to primary and preventative care. The proposed budget also includes eight million dollars in local funds savings from a reduction in reimbursement rates to hospitals for services they provide.

- **$6 Million Reduction in Youth Rehabilitation Services**: This was largely due to a projected decline in committed youth.

- **$2 Million for Victims' Services**: The 1.2 million cut to Victim Services is a result of a depletion of previously-available special purpose revenue funds and a $300,000 decrease in federal funds.

ADDITIONAL REDUCTIONS OF FEDERAL FUNDING

In addition, funding for several agencies will be affected by reductions in federal funding. While Mayor Gray's budget replaced lost federal funds with local dollars in some cases, there are notable cases where this did not occur.

- **Reduction in Homeless Services**. Homeless Services faces a gap between $5.9 and $9.4 million to keep services included in the continuum at the FY 2012 level. Local funding does increase in FY 2013 by $3.5 million. Recently, the District has been overwhelmed by a rise in homelessness. Even after expanding capacity at the DC General Hospital shelter, the Department of Human Services needed to place more than 210 homeless families in motels this past winter. If resources are reduced even further, the city will have to make even deeper cuts to services outside of required emergency shelter in hypothermia season. This could mean cuts to shelter for single adults, cuts to transitional housing subsidies to help move families from shelter, or other services.

- **$6 Million Reduction in Community Development Block Grants and Other Federal Assistance:** Federal funding sources that support affordable housing and community development within DC's Department of Housing and Community Development will fall this year leaving the agency with less funds to support DHCD's housing and community development programs. One of the programs that will be impacted by the reduction in federal funds is the Home Purchase Assistance Program which provides low-interest loans to low-income, first-time homebuyers. Total funding in FY 2013 is proposed to be $10.9 million which is a decrease of one-third over the FY 2012 approved budget of $16 million.

REVENUE ADDITIONS IN THE FY 2013 BUDGET

Mayor Gray's proposed FY 2013 budget includes $90 million in additional revenues to help address the city's $172 million budget gap for FY 2013. Some of the revenue proposals would improve efforts to collect tax and non-tax revenues and to enforce the city's traffic laws, which require additional staffing and equipment. Taking these associated costs into account, the net revenue increase is $84 million.

The increase in revenues largely would occur without changes to fees or taxes on residents and businesses. Approximately $13 million of the proposed new revenues would come from increases in taxes or fees. These include a proposal to limit planned inflation increases for three tax deductions, and a proposal to create a new fee for taxi rides.

The four main proposals are detailed below:

Improved Tax and Fee Collection: The FY 2013 budget would raise $36 million through a variety of measures to improve compliance with DC's taxes, fees, and fines. The budget allocates $2 million for additional staffing and other costs to achieve these goals. The two largest sources of enhanced revenue collection are the following:

- **Improved Sales Tax Collections from Retailers:** Starting in FY 2013, the Internal Revenue Service will share information with the District on the total credit card transactions of each retailer. This will allow the District to better identify retailers who are not reporting all of their sales and not remitting sales taxes in full. This will increase tax collections by $16 million.

- **Centralized Collection Unit for Non-Tax Revenues:** The budget reflects $10 million in new revenues that will come from creating a new unit to improve collection of non-tax revenues. It is expected that the largest share will come from collection of parking ticket fines from non-residents.

Expanded Automated Traffic Enforcement: The proposed FY 2013 budget would generate $26 million by expanding resources used by the Metropolitan Police Department for automated enforcement of traffic violations, including acquiring new equipment and placing "speed on green" cameras to catch drivers who speed up to make it through a light. These efforts, combined with efforts to improve the efficiency of traffic citation issuance, would raise $31 million. Taking into account roughly $5 million in new costs associated with these efforts, the net increase would be $26 million.

Scaling-Back Inflation Adjustments for Key Tax Benefits: Three tax benefits — the standard deduction and personal exemption in the income tax and the homestead deduction in the property tax — are required by law to be adjusted for inflation each year. But these benefits have been frozen in place since 2008, as a budget-saving measure. Inflation adjustments were scheduled to resume in 2013, with adjustments made to reflect inflation between 2007 and 2012. This would effectively bring these benefits to the level they would have been if they had not been frozen for several years.

Table 2

Revenue Increases in the Proposed FY 2014 Budget

	Amount (In $ Millions)
Increased Tax and Fee Compliance	$36.3
Expanded Automated Traffic Enforcement	$31.1
Limit Inflation Adjustments for Personal Exemption, Standard Deduction, Homestead Deduction	$12.0
Expand Hours of Alcohol Sales	$5.3
Establish Taxi Flag Drop Fee	$1.1
Other	$4.3

Mayor Gray's budget proposes, however, to adjust these benefits for inflation only from 2011 to 2012. This would have the following effect:

- The standard deduction in the income tax would increase to $4,050 rather than to $4,550 if it were adjusted for inflation back to 2007.

- The personal exemption will remain at $1,675 rather than rising to $1,875.

- The homestead deduction will rise from $67,500 to $69,350, rather than to $75,950.

Because the standard deduction and homestead deduction would increase modestly under the mayor's proposal, DC residents would see modest declines in their tax bills. Yet because the deductions would not increase as much as called for under current law, resident tax bills would be higher than if the increases in tax benefits under current law were left in place. For a family of four in the lowest income tax bracket, income tax payments will be $52 higher than if the full inflation adjustment were made. The limited adjustment to the homestead deduction means that a homeowner will pay $56 more in property taxes than if the full adjustment were made.

While these impacts are relatively small, it is worth noting that these tax benefits generally provide the most benefit to low-income residents, because the deductions equal a larger share of income for low-income residents than for high-income residents. Moreover, the standard deduction is primarily claimed by low and moderate-income residents, who do not have enough deductions to claim itemized deductions. As a result, the proposed changes to these deductions make the tax system slightly less progressive, in that there is a bigger impact on low income residents than those with higher incomes.

Expanded hours for Alcohol Sales: The proposed budget would allow stores to start selling alcohol at 7:00 a.m. rather than 9:00 a.m., and it would allow bars to sell alcohol one hour later in the evenings, to 3:00 a.m. Sundays through Thursdays and 4:00 a.m. on Friday and Saturday. This is expected to generate more alcohol sales and $5.3 million in additional taxes as a result.

Other Sources of Revenue: The proposed fiscal year 2013 budget reflects roughly $5 million in other sources of revenue. This includes $1 million that will be raised from a new 50-cent fee added to every taxi ride. Additional sources include $1.8 million in savings for DC's revenue department by lowering the rate of interest it pays to taxpayers who have overpaid and are due a refund. The interest rate would be set a market rate but no higher than six percent. The budget also reflects two million dollars from a settlement with providers that operate Intermediate Care Facilities (ICF/MR) related to a tax assessed on them.

REVENUE REDUCTIONS IN THE FY 2013 BUDGET

The proposed budget includes $750,000 in tax abatements for four projects, all of which had been adopted by the DC Council in recent years but not funded. The budget also includes $11 million in possible tax reductions that are part of a list of items that would get funded if revenue collections increase during FY 2013 beyond current projected levels.

Tax Abatements: These include a one-time tax refund for the Washington Ballet ($111,000), tax abatements for two affordable housing developments ($595,000) and a $55,000 tax abatement for United House of Prayer for all Peoples.

Contingent Tax Cuts: Two proposals that would give tax breaks are included in Mayor Gray's "contingent revenue priority list." One proposal would restore a tax break for interest earned on government bonds issued in other states. Last year, the DC Council eliminated this tax break for all new investments made starting in 2012. This proposal is the 6th item on the priority list and would into effect if revenues increase by $68 million.

Until recently, the District and Indiana were the only jurisdictions to offer a tax exemption for interest on out-of-state municipal bonds. Most states offered the tax break only for bonds issued within the state, to create an incentive to invest in in-state government projects. Providing a tax break for interest on out-of-state bonds creates an incentive to invest in infrastructure projects in other states. Both Indiana and the District eliminated this tax break in 2011. Both jurisdictions allowed the tax exemption to remain for existing investments and only eliminated the tax break for new investments. The mayor's proposal would make the District the only jurisdiction in the nation to offer a blanket tax exemption for interest on bonds issued in other states.

The second tax reduction proposal on the mayor's revenue priority list would reduce the commercial property tax rate for the first $3 million of a building's assessed value from $1.65 per $100 of assessed value to $1.55. This proposal would cost $10 million in FY 2013. It is the 12th item on the revenue priority list and would go into effect if revenues rise about $100 million above current levels.

This proposal builds on a tax provision adopted in 2008. That year, the DC Council adopted a reduction in the commercial tax rate for the first $3 million of any building's assessed value. The rate was reduced from the basic rate of $1.85 for every $100 of assessed value to $1.65. This provision was adopted with the goal of providing tax assistance to small businesses, although much of the benefit goes to larger businesses. The tax reduction applies to all commercial properties, from the smallest to the largest. Because the lower tax rate applies to the first $3 million of any building's value, it provides a greater benefit to smaller, lower-value buildings — which pay a lower rate on their entire building — than to higher-value buildings, that get the lower rate only for a small share of their building's value.

APPENDIX

Summary of FY 2013 Funding Changes by Appropriations Title

Note: all figures, unless otherwise noted, have been adjusted for inflation to equal FY 2013 dollars.

Government Direction and Support

The Mayor's proposed FY 2013 general fund budget for Government Direction and Support agencies is $541 million, which represents an 11 percent increase from FY 2012. The major agencies within this appropriation title are the DC Council, the Executive Office of the Mayor, the Office of the Chief Technology Officer (OCTO), the Office of the Attorney General, and the Office of the Chief Financial Officer.

A number of agencies under Government Direction would see increases in funding from FY 2012. The proposed Department of General Services budget shows an increase of $35 million as a result of increases across all city agencies in "fixed costs" such as utilities. The Council's proposed FY 2013 budget is a large increase above the current services funding level due to the creation of a new Council committee. OCTO's budget would grow by $8 million, primarily due to operating costs of technology capital projects. The Office of the Chief Financial Officer also would see an increase in funding of $4.8 million, partially due to a new Central Collections Unit. The Board of Elections and Ethics budget also faces a large increase due to new policy initiatives in preparation for the 2012 General Election.

One notable proposed reduction is in the Medical Liability Captive Insurance Agency, which helps provide liability insurance for non-profit health clinics. The proposed fiscal year 2013 budget is $2.5 million, a reduction from $3.2 million in 2012.

Economic Development and Regulation

The FY 2013 general fund budget for Economic Development and Regulation is $297 million, a 9 percent increase from FY 2012. The major agencies in this appropriations title include the Deputy Mayor for Planning and Economic Development, the Department of Housing and Community Development, the Department of Employment Services, the Department of Consumer and Regulatory Affairs, the Housing Authority, and the Department of Insurance, Securities, and Banking. For the purposes of analysis at several points in this paper, some agencies within economic development that target low-income households are combined with the human services appropriation.

For FY 2013, Mayor Gray proposes to reduce the Housing Production Trust Fund – DC's main source for affordable housing construction and renovation – by $19.9 million and transfer the money to the Housing Authority to support the Local Rent Supplement Program. This is the second year in a row the mayor has taken a large share of the trust fund's resources to pay for another housing program. While the Housing Authority subsidy appears to have increased by 14 percent, the FY 2013 funding level merely allows the rent supplement program to remain whole. In FY 2012, the Housing Authority's locally funded programs were supported in large part by transfers and the Housing Authority subsidy's own reserves that do not appear in budget tables.

Local funding for the Deputy Mayor for Planning and Economic Development would increase by 46 percent to $19.5 million. Approximately $5.9 million of this increase is due to an increase in the projected revenue estimates from various programs. An additional $1.6 million is due to the creation of the Workforce Intermediary, a new initiative by the Gray administration to coordinate job training and matching.

The Department of Housing and Community Development would experience a decrease in general funds of 27 percent. The largest portion of this decrease is reflected by a removal of $3.3 million in one-time funding for the Home Purchase Assistance Program (HPAP) and the agency's United Fund. Additionally, the budget reflects a reduction of $1.4 million due to the elimination of the Small Business Technical Assistance Program.

While general fund dollars for the Department of Employment Services would increase by nine percent, to $78.3 million, this increase in local funds is an attempt to partially offset the significant loss of federal grants.. Overall funding for DOES, including both federal and local funds, would decrease by 3 percent, or $3.9 million. The agency's general funds also increased by $500,000 to support changes to the Workforce Investment Council, which has recently been revived by Mayor Gray. The council serves as the policy-making body to set workforce policy and oversees the expenditure of Workforce Investment Act federal funds in the District.

General fund dollars for the Department of Consumer and Regulatory Affairs would increase by 26 percent to $33.1 million. Half of this increase is the result of a $3.5 million technical adjustment for the enforcement of the Nuisance Abatement Initiative, which was previously funded through capital funds.

Public Safety and Justice

The FY 2013 proposed general fund budget for Public Safety is $993 million, a $5.7 million increase, or less than 1 percent, over FY 2012. The major agencies in this appropriation title include the Metropolitan Police Department (MPD), DC Fire and Emergency Medical Services, the Department of Corrections and the Office of the Chief Medical Examiner.

New for FY 2013 is the Department of Forensic Sciences. Funding for this new department would be transferred partially from MPD, the Department of Health, and from the Forensic Laboratory Technician Training Program. The newly created Department of Forensic Sciences would provide an independent analysis of crime scenes, serve as expert witnesses, and provide emergency response testing in DC. This budget also shifts the Office of Victim Services into the Deputy Mayor for Public Safety and Justice.

Under Gray's proposal, MPD would increase in local funds by 3 percent. Much of this increase comes from the need to address the expected elimination of a federal grant that supported 50 full-time employees. Under the proposed budget, these employees would remain, but would be paid for with local funds. In addition, the proposed budget includes $4.2 million for new cameras and technology to support enhanced automated traffic enforcement initiatives, part of Mayor Gray's revenue proposals though the Mayor emphasizes this is primarily to enhance public safety. These purchases will also mean a $1.6 million recurring costs to operate the new equipment. The proposed budget for Fire and Emergency Services is an increase of 1 percent which includes funds to hire one battalion Chief and three Captains, and to provide training for the Rail Safety Program, which is needed to operate the District's streetcar program.

Under the proposed budget, funding for the Deputy Mayor for Public Safety and Justice would decline by 33 percent over fiscal year 2012. This reduction includes a $1.2 million decrease in funding for the Office of Victim Services. Funding for the Police Officers' and Fire Fighters' Retirement System would fall by 19 percent, from $116.7 million to $96.3 million, reflecting a decrease in anticipated costs but no change in benefits.

Education

The FY 2013 proposed general fund budget for Public Education is $1.7 million, a $34.2 million or 2 percent increase, over FY 2012. The major agencies in this appropriation title include DC public schools (DCPS), DC public charter schools, the Office of the State Superintendent of Education, and DC public libraries.

DC public schools and public charter schools budgets will increase by four percent and nine percent, respectively, in part due to a two percent increase to the Uniform Per Student Funding Formula. This increase serves primarily an adjustment for inflation (including rising health care costs, salaries and benefits for teachers) and increased student enrollment.

The increase allows DCPS to raise the minimum-per-student allotment to individual schools for the upcoming school year, from $8,400 to $8,568. However, local schools must also absorb the cost of increased salaries/benefits, and teacher bonuses related to the IMPACT evaluation system that have been supported to date with private funding. Because personnel costs will rise faster than the two percent funding increase, many local schools will have to find savings. The budget assumes, for example, that there will be larger student-teacher ratios in middle and high school classrooms and that smaller schools will lose funding for librarians.

The education budget increases reflect projected enrollment growth in both DCPS and public charter schools, particularly an estimated 13 percent increase in special education students at DCPS. When compared with audited enrollment, projected enrollment in DCPS is expected to increase by four percent or 1,936 students, and charter school enrollment is slated to increase by six percent or 1,931 students. The increase in special education students is due to their return to public schools in the 2012-2013 school year from more expensive placements in private schools.

The Office of Public Education Facilities Modernization (OPEFM) is now under the Department of General Services (DGS). Funding for OPEFM includes an increase of three percent or $1.2 million when compared to FY 2012. This boost in funding aligns with the mayor's plan to contribute $203 million in capital funding for new or modernized high schools in FY 2013.

Despite an estimated $40 million in tuition savings from reducing private placements of special education students and returning them to the DC public school system, the local special education budget lists reductions of 222 full-time equivalent staff positions and a $209,000 decrease in funds in FY 2013. School officials say these numbers are a result of double counting vacant staff positions (social workers and dedicated aides) that were shifted to school budgets from central administration in FY 2012, making the net loss in funding and positions appear for FY 2013. As a result of these shifts and the loss of special education coordinators next year, DCPS can account for at least 60 percent of the reductions as incorrect in the budget book. Currently, the loss stands at 92 fewer special education positions for fiscal year 2013 instead of 222. Ultimately, the special education budget staff and funding did not experience as significant a decrease. Special education transportation costs are expected to increase by one percent.

Both afterschool and summer school programs will also see reductions of $3.5 million and $1.3 million, respectively, in the DCPS budget for FY 2013. These reductions could mean there will be less hours of out-of-school time programming offered to provide academic enrichment and a safe environment to school-age children with working parents.

The Office of the State Superintendent of Education (OSSE) budget in FY 2013 is $103 million, a reduction of three percent from FY 2012. The budget book lists a $5.7 million cut from child care subsidies, but OSSE has reported that this is not accurate and that child care will be level-funded with the same number of slots available next year. (At the time of publishing, OSSE had not presented documents outlining the inaccuracies.) The OSSE budget proposes an increase of one million in local funding to support 75 infant and toddler child care slots in the child care program. This type of care is more expensive for providers to offer to parents, but the need for high quality infant toddler child care slots is an issue for DC.

The DC public library system funding will experience a 13 percent or $4.5 million increase from FY 2012. The increase addresses the need to better align staff positions by increasing staff and overtime pay and extending hours of service at some libraries. Local funding includes six FTEs to staff the new Rosedale branch, which will open in May 2012.

Human Support Services

The proposed FY 2013 general fund budget for Human Support Services is $1.65 billion, a 2 percent increase from FY 2012. The agencies in this appropriation include the Department of Human Services, the Child and Family Services Agency, the Department of Health and the Department of Health Care Finance. The change in funds is not spread evenly among agencies within the human services cluster, with a range of agency budget changes from a two percent decrease to a nearly five percent increase.

Local funds for the Department of Human Services would decline slightly from $167.5 million to $167.1 million. This budget contains a number of changes including a replacement of some federal funds no longer available, cost reductions, a benefit reduction in TANF, and some programming changes. The major changes to note are:

- $4.7 million in cost reductions in multiple programs.
- $5.7 million reduction in TANF benefits to reflect the 25 percent benefit reduction scheduled for October 2012 for families who have received benefits for more than 60 months.
- Two reductions in funding for permanent supportive housing: $1.5 million was shifted to the Homeless Services Continuum budget due to project savings as result of shifting participants

from local to federal vouchers and reducing case management requirements. In addition, there is a $450,000 decrease from fiscal year 2012 that the agency claims was "one-time funding" in the current year.

- $2.6 million in local funds to replace federal funding for TANF administration that will no longer be available due to changes in federal TANF rules.
- $1.4 million increase in the Program on Work Employment and Responsibility (POWER) which provides cash assistance to families who are unlikely to meet TANF work requirements due to short-term incapacity related to physical or mental health problems or substance abuse. The number of families referred to this program is anticipated to increase due to the more thorough assessment process offered through the redesigned welfare-to-work program.
- $787,000 increase to hire 11 full time equivalents to meet the challenges associated with the change in Healthcare Alliance recertification implemented in FY 2012. Each client must now recertify through a face-to-face interview every six months, instead of once per year.
- $1.9 million increase in fixed costs.

The Mayor's Priority Revenue list — programs that would get funded if the city's revenue collections rise above current levels, includes four programs within the human services agency:

- $7 million for homeless services to replace loss of federal block grant carryover funds. This is number one on the priority list.
- $14.7 million to fully implement the redesigned TANF welfare-to-work program, including more thorough client assessments, tailored support services, and improved job preparation and placement programs. This is second on the list.
- $1.6 million to replace loss of federal funds in refugee services, emergency shelter, pregnancy, and teen parenting programs. This is ninth on the list.
- $2.4 million for contractually mandated cost increases in homeless services. This is thirteenth on the list.

Local funding for the Department of Health Care Finance (DHCF) would increase by more than $34 million, for a total budget of $750.6 million. This reflects a number of substantial changes — both increases and decreases — in the agency including:

- $23 million in DC HealthCare Alliance by restructuring the program to only cover primary and preventive care in FY 2013. This is third on the mayor's priority revenue list.
- $8 million reduction in local funds for Medicaid from reduced Medicaid reimbursement rates for certain hospital-based services. The Department of Health Care Finance must get a state plan amendment approved before this can take effect.
- $294,000 reduction associated with a move from a leased facility to a city-owned facility.

Medicaid continues to be a major cost driver for the Department of Health Care Finance. The Medicaid growth factor for FY 2013 is $50.5 million. While lower than the FY 2012 increase of $80.3 million, this still represents an 8.1 percent increase in spending. This reflects both increased

Medicaid enrollment, due to the city's weak economy, and increases in health care costs that far outstrip inflation.

The Department of Health budget will decrease by less than one percent from $99.9 million to $99.4 million. This budget reflects a cost reduction of $1.62 million in non-personnel costs, primarily a reduction in the use of contractual services. An increase of $526,000 covers costs associated with the Commodity Food Program, which works to improve the nutrition and health of low-income pregnant, postpartum, and lactating women, preschool-age children, and elderly residents by providing nutritious food to supplement their diets and nutrition education.

The Department of Mental Health's (DMH) budget would see a $7 million increase in FY 2013, an increase of just over 4 percent. This budget reflects a cost savings of $1.7 million in reduced overtime and contracted nurse services. Some $3 million would replace federal funding for patients at St. Elizabeths Hospital, the District's public psychiatric facility. An additional 100 subsidized supportive housing units will be financed through an increase in local funds of $1.2 million. The budget includes $815,000 for improved and expanded behavioral health interventions for at-risk youth included in the South Capitol Street Memorial Act of 2012.

DMH would also receive an additional $1.9 million for school based mental health services under the Mayor's Revenue Priority List. It is 11th on the list, which means it will get funded only if revenue projections for FY 2013 increase by more than $86 million to fund priorities one through 10.

The Department of Youth Rehabilitation Services (DYRS) and Child and Family Services (CFSA) would see decreases of $2 million and $2.7 million respectively in their budgets due to decreases in anticipated caseloads. The decrease in the CFSA budget is also related to revised placement policies designed to move children from higher cost foster care placements to lower cost kinship placements.

The budget for the Office of Aging would slightly decrease to $16.2 million. The Mayor listed the addition of one full- time equivalent position to serve as a Senior Villages coordinator for a cost of $76,874 on his Revenue Priority List. The Senior Villages program aims to provide seniors with a neighborhood support system to allow them to live in their homes as long as possible.

The Children and Youth Investment Collaborative provides grants to community-based providers for child, youth, and parenting programming. The FY 2013 budget remains at three million, the same amount as in FY 2012.

The Department of Parks and Recreation would see a $1.6 million increase, four percent over their FY 2012 budget, bringing their budget to $45.7 million. Just over $620,000 will be used to create a new Partnership and Development Division, which will seek to foster support through donations, grants, establishing innovative public and private partnerships, and volunteer service by individuals, groups, and organizations. Additional funding of $312,000 will allow for the hire of 7.5 full time equivalents to provide adequate lifeguard staffing at indoor pools. Finally, just under $200,000 of the increase is for Safe Summer, a program designed to foster safe communities to keep youths safe and engaged in productive and educational activities.

The budget for the Department of Disability Services remains virtually unchanged at $61.3 million, reflecting slight increase from FY 2012. The agency plans to achieve internal cost savings in a variety of categories including security and fleet services to find funding for a new State Office of Disability Administration (SODA). This agency will address regulatory, planning, and oversight issues with an anticipated budget of approximately $500,000.

The Office of Latino Affairs and Office of Asian and Pacific Islander Affairs would have changes of less than one percent, with budgets of approximately $2.7 million and $780,000 respectively.

The Office of Human Rights would see a budget of $2.2 million, a modest increase of less than 1 percent from fiscal year 2012.

The budget for the Office of Veterans Affairs is approximately $394,000, an increase of 4 percent from last year.

The Unemployment Compensation Fund provides unemployment compensation to former DC government employees who are separated from unemployment through no fault of their own. The Employees' Compensation Fund, also known as the Disability Compensation Fund, finances the Workers' Compensation program for DC government employees. The Unemployment Compensation Fund remains flat funded for FY 2013 with a budget of $6.5 million, reflecting a 1.4 percent decrease in inflation-adjusted dollars. The Disability Compensation Fund would decrease by less than 1 percent, for a total budget of $19.8 million.

The Office of the Deputy Mayor for Health and Human Services (DMHHS) coordinates and oversees the agencies in this appropriation title. The FY2013 budget for the agency is just over $700,000, reflecting a 1 percent decrease from FY 2012.

Public Works

The FY 2013 general funds budget for the Public Works appropriation title is proposed to be $575 million, an increase of 7 percent, or $37 million over the FY 2011 budget of $538 million. The major agencies in this appropriation include the Department of Public Works, the Department of the Environment and the Department of Transportation.

Funding for the Department of Public Works would increase by 6 percent from $105 million to $111 million. About a third of the increase would come from restoring 32 full-time equivalents (FTE) positions that were eliminated in the FY 2012 budget. Another third would come from an increase to the contract for street and alley cleaning services and the remaining third would come from adjustments to fixed costs, benefits and an overall increase for operations costs.

Proposed funding for the Department of Transportation (DDOT) would fall by fall from $126 million in FY 2012 to $72 million in FY 2013, a decrease of 42 percent. However, the decrease is almost entirely due to a shift of $50.6 million in funds from DDOT to the Washington Metropolitan Area Transit Authority (WMATA) for costs associated with the Circulator, non-regional bus transit, reduced fare for east-of-the-river service, and school transit subsidies for students in DCPS and DC public charter schools. When that shift of funds is taken into account, funding for DDOT would fall by 3 percent. DDOT's proposed budget would add two new positions and $2.6 million in operating costs for DC's H Street streetcar line which is expected to become operational in FY 2013, as well as create a new Public Space Regulation Administration for permitting and enforcing public space use. However, these costs increases were offset by reductions to fixed cost, supplies and pay and benefits.

Proposed funding for the District Department of the Environment (DDOE) would grow by 27 percent, rising from $51 million in FY 2012 to $65 million in FY 2013. The increase in funds comes from special purpose revenue which is collected from fees and fines and dedicated to specific purposes. Approximately seven million of the total increases comes from increases to the Sustainable Energy Trust Fund contractual services, storm water permit compliance initiatives, and to begin contracts for the Anacostia River clean-up. Another six million increase comes from increased funds for the Renewable Energy Development Fund for solar energy incentive projects. The remaining increase comes from increases in personnel, fringe benefits and other contractual services.

Proposed funding for the Department of Motor Vehicles would increase by 8 percent, rising from $34 million in FY 2012 to $36 million in FY 2013. The increase largely comes from increases to IT assessment costs and funds to support cashier services, contractual services and inspection equipment costs. Funding for DC's Taxicab Commission would essentially remain flat at $1.6 million in FY 2013. The budget was increased due to an increase in fringe benefits and personnel costs, yet after adjusting for inflation there is essentially no change. In addition, the entire budget is being shifted from local funds to special purpose funds. Revenue to support this change will come from a new Taxi Flag Drop fee.

Proposed funding for the Washington Metropolitan Area Transit Authority (WMATA) would grow by 30 percent, rising from $221 million in FY 2012 to $288 million in FY 2013. The majority of the increase comes from the shift of $50.6 million from DDOT to WMATA for costs associated with the Circulator, non-regional bus transit, reduced fare for east-of-the-river service, and school transit subsidies for kids enrolled in DC Public and Charter schools. When that is taken into account, the growth in the WMATA budget is seven percent over last year. The remainder of the increase comes from an increased contribution from DC to help support WMATA's increased operating costs.

Financing

The general fund budget for financing in FY 2013 is proposed to be $1.02 billion, an increase of three percent from FY 2012. The major items in this appropriation title include debt service, various economic development-related funds, and settlements and judgments.

There are a few notable changes in the proposed FY 2013 budget. The largest increase is in debt service, a reflection of increased borrowing in recent years for school construction and other capital projects. The cost of repaying loans and interest increased by five percent, from $449 million in FY 2012 to $469.4 million in FY 2013.

There is also a significant increase in the non-departmental line. The general funds budget for this increased almost 20 percent, a shift of special purpose revenue to the general fund. The proposed budget for 2013 doesn't include some items that were listed under the Financing appropriations title in recent years, including funds to repay funds borrowed under the TIF and PILOT economic development programs and funds used to pay off debt for the Nationals ballpark   This analysis keeps those funds within the Finance title so year-to-year comparisons can be made.

Gray's Revised Revenue Estimate Contingency Priority List

Mayor Gray included a program wish list for funding if revenues are higher than expected for fiscal year 2013. If that happened, programs would be funded in the order in which they are listed.

The list:

1. $7 million for homeless services to cover loss of federal block grant carryover funds
2. $14.7 million for TANF job program
3. $23 million for DC HealthCare Alliance for restoration of hospitalization benefit
4. $20 million restore money to Housing Production Trust Fund
5. $2.6 million for Office of Victim Services, Emergency and Transitional Housing, and to fund the Lethality Program
6. $1.1 million to delay tax on out-of-state municipal bonds for one year
7. $8.6 million for increasing infant and toddler services/early intervention slots
8. $5 million for special education improvement, compliance, and capacity building
9. $1.6 million to cover the loss of federal funds in Family Services block grants, refugee services, emergency shelter, pregnancy and teen parenting
10. $2.9 million for the Home Purchase Assistance Program
11. $1.9 million for school-based mental health staff
12. $10 million to reduce the commercial property tax rate on the first $3 million of assessed value from $1.65 to $1.55 per $100 of assessed value
13. $2.4 million for homeless services to cover contractually mandated costs increases
14. $6.5 million for the Community College of the District of Columbia
15. $3 million for the University of the District of Columbia
16. $1.4 million for the Small Business Technical Assistance Program
17. $1.5 million for the Ward 8 Pilot budget challenge
18. $1 million for the restoration of DC public library materials/acquisition budget
19. $300,000 for Department of Corrections Career Ladder promotions
20. $540,000 to expand Fire Cadet program in Fire and Emergency Medical Services
21. $1 million for the sustainable D.C. Pilot in the Department of the Environment
22. $3 million DC Commission on the Arts and Humanities
23. $76,874 to increase one FTE for the Senior Villages coordinator in Office of Aging
24. $1 million for Destination DC/Events DC pilot advertising and marketing
25. $320,000 to restore the Capital City Fellows Program