



The District's Dime

Going Beyond the Budget Book

The DC Fiscal Policy Institute blog
www.dcfpi.org

February 10, 2015

The Surplus and the Shortfall: An Explainer

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Residents might be confused by two pieces of seemingly contradictory news: 1) The District had a surplus of \$200 million last year and 2) The mayor and DC Council need to address a budget shortfall of \$240 million for next year. Many are wondering how DC can have shortfalls when carrying a surplus. That is a great question, and the District Dime is here to explain.

A surplus means that the District took in more money than it spent **last year**. That can happen for two reasons: either DC collects more tax revenue than expected or government agencies spend less than what they were budgeted. The \$200 million surplus in 2014 was due to the latter -- agencies spent much less than what the Mayor and Council allowed them to.

Since the surplus is a look into the **past**, it does not say a lot about the **future** state of the District's budget or economy. The surplus was in 2014, while the budget shortfall is for 2016, and a lot can change in two years. What's more, surpluses caused by underspending are not necessarily a sign that DC is in a great financial position. Even in bad economic years, the city will run a surplus if agencies spend less than what they had planned.

The shortfall for 2016 is based on projections of the District's **future** ability to pay for services like health care and schools. Those costs tend to rise from year to year, due to health care inflation, rising school enrollment, pay increases for DC workers, and other factors. City leaders have known since last year that tax collections for 2016 would not be enough to cover our bills. In addition, the Chief Financial Officer recently revealed that revenues from traffic cameras and income taxes are coming in lower than they had previously thought, not because the economy is slowing down but for other reasons, some of which are technical.

These factors combine to create a projected 2016 shortfall of \$240 million, which the mayor and council must address when they put together a budget this spring. That could be resolved in a number of ways.

- Revenues could start to grow faster than what is expected right now. The next revenue forecast comes out later this month.
- DC government agencies might underspend again. Some of the low spending in 2014 may carry forward into future years, to the extent that the city needed less money than budgeted to meet some of its needs.
- The mayor and council could find other savings that don't require cutting services, or unexpected resources to pay for some its bills. The city could, for example, use some of the [\\$200 million surplus to meet its needs next year](#).
- Finally, the mayor and council could cut services, raise revenues, or some combination of the two.

We will know more when the next revenue forecast comes out later this month. That will give Mayor Bowser a clear picture of the size of the financial challenges she faces. And it will frame the steps she must take to put together a budget that is balanced while also meeting important needs of DC residents, such as housing and public safety.