The District's Dime
Going Beyond the Budget Book

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# Approved Tax Triggers Could Hurt DC's Ability To Fund Critical Services Next Year

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The DC Council approved a budget last Tuesday that will speed up a package of tax cuts and make it harder to fund DC's needs next year. Any growth in DC revenues between now and September will trigger tax cuts recommended by the Tax Revision Commission and approved last year by the Council. The problem with this is that the tax cuts will take place before we know if there is enough money for next year to cover the costs of basic city services like schools and health care or affordable housing.

Last week's vote significantly alters the timeline for tax cuts and their impact on DC's finances. The DC Council adopted a timeline a year ago which would cut taxes every February if revenues grow more than expected. The excess revenue would go toward implementing portions of the tax commission package that have not yet gone into effect – including income tax cuts for households at all income levels, an estate tax cut for estates worth more than $1 million, and cuts to the business income tax.

However, under the new timeline, tax cuts will automatically go into effect if there is any increase in revenue collections in the projection of revenues that the DC Chief Financial Officer will make in September. Chairman Mendelson had proposed that the tax cuts begin in June, but a "compromise" was reached to change the effective date to September. (**See chart book for how tax triggers work.**)

The problem with this provision is that it will devote every dollar of revenue growth above current levels – between last February and September – to tax cuts, yet some revenue growth will likely be needed just to cover the expanding cost of basic services, for things like rising health care costs, growing school enrollment, and Metro needs. Indeed, there already are budget needs for 2017, such as $100 million in services funded in fiscal year 2016 budget with one-time sources. This means that DC will have to find new money to fill big gaps to keep services going next year, including $50 million for the Housing Production Trust Fund. Lastly, there may be unexpected expenses like a lawsuit, and using all new revenues for tax cuts would leave the city without a cushion.

A revenue forecast issued just after the budget was adopted on Tuesday suggests that tax cuts will be triggered this fall. The forecast shows that revenues in 2017 and beyond will be $38 million more than previously expected. That money will not immediately go to tax cuts, but if the increase is maintained in the September revenue forecast, all of the new funds will then go to tax cuts.

This approach is notably different and riskier than waiting until next February to make decisions about tax cuts, as would occur under the Council legislation adopted last year. By February, the mayor and Council would have a clearer picture of both the city's revenues and spending needs for 2017, allowing for better decisions about how much to devote to tax cuts and how much to keep for schools, housing, and other needs.

By putting all new revenue toward tax cuts, the DC Council and the mayor will have to make tough choices to fund the programs that residents and businesses need, and may not have enough to maintain services or make new investments that would help the city grow. The tax triggers, as approved last week, pose a real threat to the city's ability to meet DC resident's basic needs.