DC Fiscal Policy Institute
15 Years

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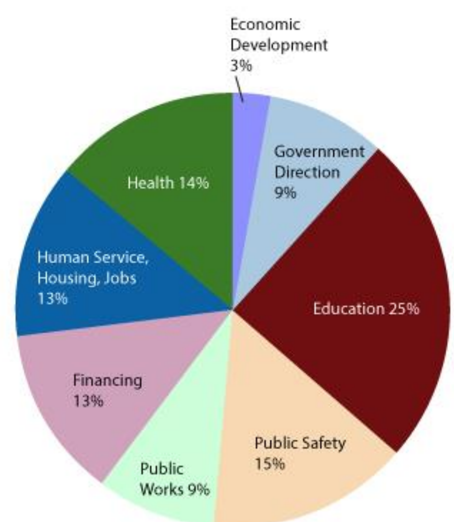
What's in the Mayor's Proposed FY 2017 Budget? An Overview

Mayor Bowser's proposed fiscal year (FY) 2017 budget maintains and adds important investments to help DC residents cope with rising housing costs and move up the economic ladder, including preK-12 education, the Housing Production Trust Fund, and homeless services.

At the same time, the budget proposal leaves large gaps in meeting needs of the poorest residents at a time when economic challenges are mounting for many. With a severe affordable housing crisis, rising family homelessness, unemployment that remains high years after the end of the Great Recession, and falling incomes among the poorest residents, the proposed investments for the coming year do not come close to matching the need.

Figure 1
Proposed FY 2017 General Fund Budget



Source: Proposed FY 2017 Budget and Financial Plan

While Mayor Bowser's first budget proposal last year stood out for the many ways in which it recognized and responded to the needs of residents left behind by the city's progress, the new budget proposal falls far short of that in two notable ways.

First, the budget proposed last year focused its investments squarely on human services and housing, and this part of the budget expanded more than any other. For FY 2017, human services and housing programs will grow more slowly than most parts of the budget, including government direction, finance, education, and economic development. One bright spot for low-income families is that education funding, which did not receive a notable funding increase a year ago, will get sufficient funding to cover enrollment growth and a two percent increase in the per-pupil funding formula.

The lack of progress shows up in many ways. The proposed budget makes no progress in reforming a Temporary Assistance for Needy Families (TANF) time limit that already has left families with virtually no income to meet their children's basic needs and that risks eliminating assistance for families in dire circumstances. The budget makes only limited investment in programs to help families pay rent, even though rental assistance is key to creating housing affordable to DC's lowest income families. While the budget supports expansions of homeless services, it falls far short of funding the needs outlined in the Homeward DC Strategic Plan to end homelessness. The increase in funding for PreK-12 education is notable, but the budget does very little to improve an underfunded early care and education system that makes it hard to provide high-quality child care to infants and toddlers, a critical stage of child development. And the proposed budget does not appear to devote sufficient resources to move toward a stronger and more comprehensive job training and education system.

Second, last year's proposed budget included modest tax increases to help ensure that important investments could be made. (Most of those increases ultimately were removed by the DC Council.) This year, the budget reflects $45 million in tax *cuts* implemented over the past year – as a result of DC Council action – but effectively no offsetting revenue increases. The tax cuts include cuts to income taxes for moderate-income residents and high-income residents, cuts in business income taxes, and elimination of taxes on estates worth between $1 million and $2 million. The tax cuts limited the ability of the mayor to develop a budget that would keep up with the needs of DC's poorest households.

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.

Modest Budget Growth in Fiscal Year 2017 Limits New Investment

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 $8.2 billion.[1] When federal funding for programs and services is included — in what is called "gross funds" — the District's FY 2017 budget is $11.6 billion.

The proposed budget represents a modest increase over FY 2016 in both revenues and spending.

- Total local revenue collections will grow less than 1 percent in FY 2017, adjusting for inflation. (Unless otherwise noted, all figures in this analysis are adjusted for inflation to equal FY 2017 dollars.) This is the second year of slow revenue growth. While DC's tax and fee collections rose at a rate of over 4 percent per year from 2010 through 2015, revenues in 2016 and 2017 are growing at a rate of just 0.2 percent.
- The proposed local budget for FY 2017 also is just under 1 percent higher than the revised FY 2016 budget, after adjusting for inflation, matching the revenue increase.[2]

Within this modest overall growth, the proposed budget includes some new investments in a number of areas. The largest dollar increases will be in education, government direction, and government financing (which primarily reflects funds to repay bonds issued to support capital

[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.

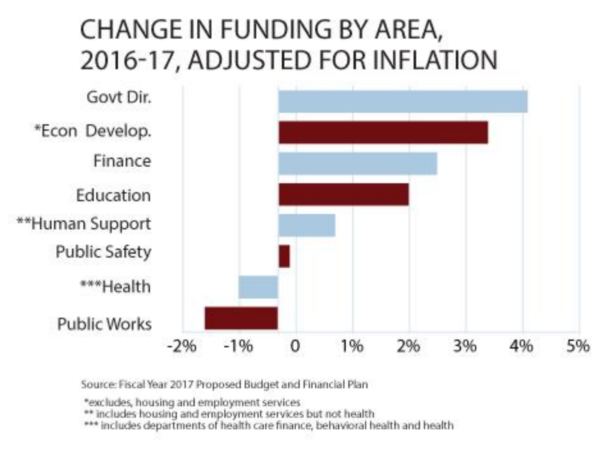
[2] The FY 2016 budget has been revised twice since it was adopted, including a supplemental budget adopted in the fall of 2015 and a second supplemental proposed by Mayor Bowser at the same time the proposed FY 2017 budget was submitted on March 24, 2016. This analysis uses the proposed revised FY 2016 figures for comparison purposes throughout the paper.

projects). Meanwhile, increases would be very modest for public safety and health and human services, and funding will decline for public works.

The District's operating budget is divided into seven major categories, known as "appropriation titles."[3] For this analysis, two programmatic areas that are included in the "Economic Development" appropriations title – housing assistance and employment services – are added to the "Human Support Services" in an effort to group services that focus on low-income residents. In addition, health functions are separated from other "Human Support Services" because health programs represent a large part of this title, which means that health funding trends can mask other human services trends.

Figure 2

Housing, Human Services, and Health Will Grow More Slowly than Most Other Program Areas in the FY 2017 Budget



Key funding changes by appropriations title include the following:

- **Education:** Funding for DC Public Schools, public charter schools, the State Superintendent's office, DC Public Libraries, the University of the District of Columbia, and other education functions will grow two percent in FY 2017, adjusting for inflation. This is driven largely by a two percent adjustment in the per-pupil funding formula that supports DCPS and each public charter school.
- **Housing and Human Services:** The total proposed budget for housing and human services (excluding health), will be one percent higher in FY 2017. This maintains the increases in housing funding made in 2016, including the Housing Production Trust Fund, but does not add much more. In addition, the FY 2017 budget adds $13 million for homeless services, to make continued progress on the Strategic Plan to end long term homelessness, but far less than needed to match the scope of the city's homelessness crisis. The budget includes $10 million in one-time funding for TANF, which means the resources are not pledged past 2017. Not counting this one-time funding, the housing and human services budget is flat.
- **Health:** Local funding for health care – the Departments of Health, Behavioral Health and Health Care Finance, along with the DC Healthcare Exchange Authority – will fall by less than 1 percent, adjusting for inflation. When federal funds are included, total health spending will remain unchanged in 2017. There has been a shift from local funding to federal funding of health care in recent years as a result of federal expansions allowed under the Affordable Care Act.
- **Public Safety:** Funding for the Metropolitan Police Department will remain flat in FY 2017, as will funding for the Fire and Emergency Services Department following an increase in 2016 to fund private ambulances. The amount needed to support the retirement fund for police officers and firefighters will grow due to a recent actuarial assessment of the fund's needs.

[3] 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.

- **Public Works:** Funding for public works will fall 1 percent in 2017, a modest drop driven mostly by a reduced contribution to WMATA, the regional transportation system.
- **Government Direction:** The FY 2017 budget reflects increases in a number of agencies that support basic government operations, including the Attorney General, the Chief Financial Officer, the DC Council, the Chief Technology Office, the Inspector General, and the Department of General Services.
- **Economic Development:** The proposed economic development budget will grow 4 percent in 2017, adjusting for inflation. This is driven in part by an increase in funding for the Department of Consumer and Regulatory Affairs, to allow it to digitize its permitting functions.
- **Financing:** Funds devoted to this area will increase 3 percent in FY 2017. This is driven entirely by an increase in funding to support capital construction projects. The budget reflects higher amounts to repay bonds the city has issued for such projects – because borrowing has increased in recent years – and more funding devoted directly to capital projects, known as "pay-go capital."

More detailed information on the budget proposals for key education, housing, and human services programs are described below. Further information is available from the DC Fiscal Policy Institute's "Budget Toolkit," available at http://www.dcfpi.org/fiscal-year-2017-budget-toolkit. The Toolkit includes summaries of affordable housing, homeless services, TANF, health, education, workforce development, and tax policy.

Education: Funding Increases for PreK-12, But Only Limited Funds for Early Care and Education

The proposed budget for DC Public Schools is $762 million, a two percent increase from FY 2016, after adjusting for inflation. This reflects the fact that the budget proposes a two percent increase to the Uniform Per-Student Funding Formula (UPSFF), which is used to generate the local funding for DCPS and charter schools. This will help schools keep up with rising costs, particularly since there was no adjustment to the UPSFF in FY 2016. It also provides per-pupil funding for the additional students expected to enroll for the 2015-16 school year, about 830 more students are expected when compared with last year's projections. DCPS plans to offer extended school year to 11 elementary and middle schools.

The proposed FY 2017 general fund budget for DC public charter schools is $724 million, a 5 percent increase from 2016, adjusting for inflation. The additional funding reflects the two percent increase in the per-pupil funding formula and an enrollment increase for the sector, from 38,962 in to 40,953, including four new schools.

The proposed education budget leaves two notable gaps:

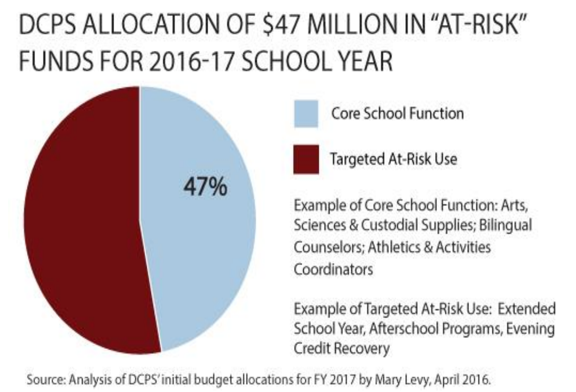
- **DCPS will use a large share of at-risk funds for core school functions rather than supplemental services for at-risk students:** An analysis of DCPS' initial school-level budget allocations for FY 2017[4] shows that 47 percent – or $22 million – of the school system's at-

[4] Analysis completed by Mary Levy, April 2016. See http://www.dcfpi.org/analysis-of-fy-2017-dc-public-schools-at-risk-funds for more information on calculations and definitions.

risk resources was allocated to items that all schools are otherwise entitled to under DCPS' staffing model. For example, DCPS' staffing model indicates that all high schools will have an attendance counselor. Yet in some schools, at-risk funds are being used to support this core position. This means that nearly half of the resources considered "extra" for schools are being used for functions that are required through DCPS' staffing model applicable to all schools, rather than to fund additional services targeted on helping at-risk students.

Figure 3

Half of DCPS' "At-Risk" Funding Will Supplant School Budgets



- **Limited Funding to Strengthen Early Care and Education**: The proposed budget provides $3.6 million to improve the quality of child care in the District, with the majority going to help providers rated as "bronze" and "silver" take the steps needed to get the highest quality "gold" rating. However, beyond this important investment, the FY 2017 budget does not include funding to increase reimbursement rates paid to child care providers, even though they are well below market rate. Providers that serve mostly low-income children, and therefore rely mostly on the child care subsidy program for revenues, struggle to provide quality care and make ends meet due to low reimbursement rates. A recent report from DCFPI and DC Appleseed notes that many providers operate at a loss and pay their staff very low salaries. The report cites the need for at least $38 million more to help providers cover the costs of providing quality early care and education.

TANF: The Budget Prevents Families from Being Cut Off, But Offers No Long- term Plan to Protect Poor Children

The proposed budget includes $11.1 million to continue providing very modest income assistance and employment services to roughly 6,200 families – including 13,000 children – who otherwise face a cutoff of all aid in October 2016. This repeats a proposal from the FY 2016 budget that called for a one-year delay in implementing a time limit.

While the proposed budget protects families from being cut off for one year, it does not make progress to reform policies that already have left families with incredibly low benefits, and it does not fix a rigid time limit policy that puts vulnerable families in dire circumstances at risk of losing all assistance.

- Under the proposed budget, families that have received assistance for 60 months or more will receive just $154 a month for a family of three in FY 2017. This reflects benefit cuts due to time limits that have been implemented since 2011. Given that most TANF families do not receive housing assistance, this is far too low for families to make ends meet.
- Under the proposed budget, all families that have received assistance for more than 60 months will lose both cash assistance and employment services in October 2017, regardless of their circumstances, with no opportunity to receive assistance again.

In remarks surrounding the release of the budget, the mayor indicated that this gives the mayor and DC Council up to one year to develop a more refined time limit that protects vulnerable families. Legislation to reform DC's TANF time limit was introduced in the DC Council in 2015. While that bill, the Public Assistance Amendment Act of 2015, has not been adopted, it could form the basis for time limit reforms. The bill offers extensions to families with big barriers to employment such as low literacy and ensures that all children continue to receive benefits. It is possible that at least some steps to reform the time limit will be developed and funded before the FY 2017 budget is finalized in June.

Getting the TANF time limit right – modifying it to ensure that it provides stability to families and children who need it the most – is important to child well-being and to the success of other mayoral initiatives, such as ending homelessness.

Yet DC's time limit is one of the strictest in the nation, cutting off all families regardless of their circumstances, with no chance to ever receive assistance again. In contrast with DC, most states have used flexibility under federal TANF law to create time limit extensions for families who need more time. Forty-four states have extensions that give parents more time to deal with issues like domestic violence or caring for a family member with a disability. And six states have other time limit policies to protect families. New York has a separate state cash assistance program that continues to provide benefits to families. California, Indiana, Maryland, and Oregon remove the parent from the TANF case but allow children to continue to receive benefits. Vermont allows families participating in work activities to continue to receive benefits, and in practice almost all families have continued to receive assistance.

The District's rigid time limit is of concern because a large body of research confirms that families reaching time limits often have substantial problems, including high rates of mental illness, domestic violence, and disabilities. Research from other states finds that the vast majority of families cut off TANF are not able to replace lost benefits with employment income, leaving many to lead chaotic and unstable lives. This leads to increases in homelessness and child neglect as families cannot meet their children's most basic needs.

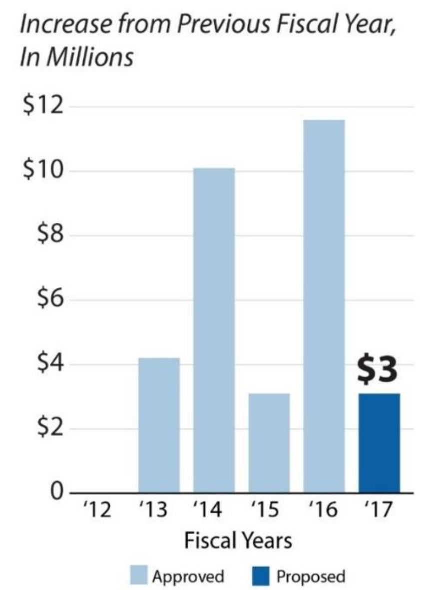
Affordable Housing: Investing to Build More Housing, But Only Limited Funds for Rental Assistance for DC's Poorest

Mayor Bowser committed $100 million to the Housing Production Trust Fund – DC's main source to build or renovate affordable housing – for the second year in a row. This important investment will support construction or renovation of 1,000 or more homes for low- and moderate-income residents, largely those below $54,000 a year for a family of four. The FY 2017 budget continues to keep the Trust Fund as the centerpiece of DC's affordable housing strategy.

At the same time, the budget does not make notable progress in providing rental assistance to help DC's poorest households find affordable housing, even though these are the households most likely to face severe housing cost burdens. The proposed budget includes $3 million in new funds for rental assistance under the Local Rent Supplement Program, only one-fourth of the amount added in FY 2016. LRSP provides ongoing rental assistance to cover the difference between rents that low-income families can afford and the actual costs of housing. Because LRSP bases rental subsidies on a household's income, it is the most effective housing tool to meet the needs of very low income families.

Figure 4

Proposed FY 2017 Budget Adds Little New Rental Assistance



Source: Fiscal Year 2012-17 Proposed Budget and Financial Plans. All figures adjusted for inflation equal to 2017 dollars. FY12-16 figures are approved; actual figures are not available.

The proposed FY 2017 budget will help 200 households in the Targeted Affordable Housing program for formerly homeless residents. But the proposed budget adds no new support for two key components of the Local Rent Supplement Program. This would make it hard for the Trust Fund to create housing affordable to the lowest-income households, and will not make any progress toward helping the thousands of families on the DC Housing Authority waiting list.

The FY 2017 budget includes two other notable housing investments:

- **Public Housing Repairs**: The budget devotes $15 million to renovate dilapidated public housing units. Most of the DC Housing Authority's stock is in need of repairs, reflecting years of underinvestment by the federal government. These funds would come from using available funds in other housing programs.
- **First Time Homebuyer Assistance**: The proposed budget uses federal funds to increase the down payment assistance available to lower-income first time homebuyers, from $50,000 to $80,000, helping ensure that the assistance is enough to help residents acquire a home.

Homeless Services: Moving Forward but Not Enough to Be on Track to End Homelessness

The proposed FY 2017 budget provides $173 million in funding for homeless services, a $9 million increase after adjusting for inflation. This is the city's highest funding level ever for homeless services, a recognition of the enormity of this challenge, and it makes some new investments towards the Interagency Council on Homelessness (ICH) Strategic Plan to end long term homelessness in the District by 2020.[5]

But the budget also falls far short of the needs outlined in the Plan. It provides too little housing to end chronic homelessness in 2017, too little support to help families and individuals exit shelter, and too little long-term affordable housing for homeless residents who need it. As a result, homelessness will continue to be a highly visible problem in the District in FY 2017, and the homeless services system will face many challenges.

[5] The value of federally funded vouchers and DC capital costs are not included in this budget analysis.

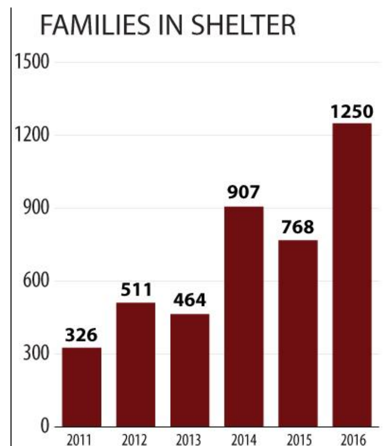
The mayor's FY 2017 budget includes $13 million in new funding to address homelessness, including support a number of Strategic Planning priorities, including:

- $2.3 million to serve homeless youth, including prevention services, 27 crisis beds and 12 transitional living spaces.
- $4.6 million to provide permanent support housing (PSH) for 300 single adults facing chronic homelessness.
- $1.2 million to help 100 single adults and $1.9 million to help 100 families with ongoing rental assistance through Targeted Affordable Housing. TAH helps residents who need help paying rent after their Rapid Re-Housing ends or who no longer need the intensive services provided by PSH but still need help to afford housing.
- $1.8 million to add 284 new Rapid Re-Housing slots to serve the rising number of homeless families. Rapid Re-Housing provides short-term rental assistance and services to help families exit from shelter and get back on their feet.
- $1 million to expand a successful homelessness prevention program for families.

While notable, these investments fall far short of identified needs and will not put the city on track to meet the goals of Strategic Plan. For example, the budget provides PSH for 300 single adults when roughly 1,100 adults are in need, and it provides no new PSH support for families. The budget does not expand Rapid Re-Housing for single adults when more than 2,500 adults are waiting for this assistance.

Figure 5

The Number of Families in Shelter (including Motels) Has Nearly Quadrupled since 2011*



Sources: 2016 is DCFPI estimate based on Emergency Shelter Nightly Census 1/27/2016 and Apartment-Style Shelter Inventory. The Community Partnership for the Prevention of Homelessness. Homelessness in the District of Columbia: The 2015 Point in Time Enumeration (May 2015) and District of Columbia 2014 Point in Time Enumeration (May 2014)

No Change to Rules that Restrict Access to Health Care for Immigrants

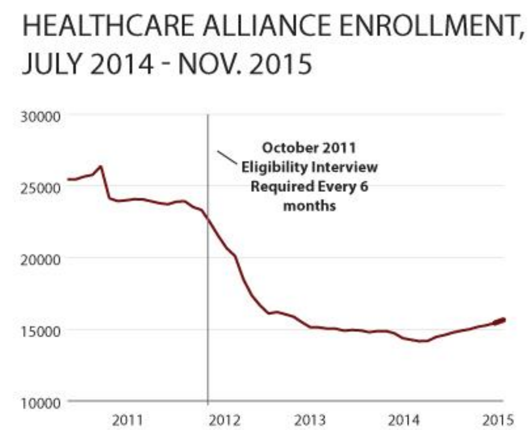
The Healthcare Alliance provides health insurance coverage to low-income residents who are not eligible for Medicaid. In recent years, as Medicaid eligibility has expanded in DC under the federal Affordable Care Act, participants in the Alliance are largely immigrants who are ineligible for Medicaid under federal law, including undocumented immigrants. While the Healthcare Alliance plays a critical role in ensuring access to care for DC residents, program rules adopted in 2012 have made it hard for eligible residents to maintain their health coverage, leading to a large drop in participation.

Despite clear indications of this problem, the FY 2017 proposed budget takes no steps to improve access to the Alliance.

Since October 2011, the program has required participants to have a face-to-face interview every six months at a DC social service center to maintain their eligibility. This has proved a barrier for eligible residents to keep the benefit. Enrollment in the Healthcare Alliance declined sharply in 2012 and has largely remained unchanged since then.[6] From October 2011 to October 2012, the first year of the policy, the number of DC residents in the Alliance dropped by one-third, from 24,000 to 16,000. Enrollment has fallen and risen modestly since then, but remains close to 16,000.

Figure 6

Alliance Enrollment Continues to Decline Under Interview Requirements



Source: November 2010 to November 2015 MCAC Enrollment Reports, Department of Health Care Finance

The intent of the six-month recertification was to discourage ineligible people from applying for the Alliance, but evidence among legal service provider cases and data analysis by the Department of Health Care Finance suggest that it is creating a barrier for *eligible* enrollees to maintain coverage under the program. In each month during FY 2015, between 56 percent and 71 percent of monthly Alliance re-certifications were not completed.[7]

The Department of Health Care Finance noted in 2015 that it might consider expanding the re-certification period from six months to a year and allowing community health centers to assist in the application process. However, as of April 2016, the Department has not presented any information to analyze the very low rate of Alliance participants who re-certify, and it has not put forth any proposals to modify the eligibility process.[8]

Job Training: FY 2017 Budget Maintains Subsidized Job Programs But Invests Little to Move toward More Comprehensive Job Training System

The proposed budget would continue to make investments in three subsidized job training programs: Mayor Marion S. Barry Summer Youth Employment Program (MBSYEP), DC Career Connections (DC-CC), and the Learn Earn Advance Prosper (LEAP) program. Since two of these programs (MBSYEP and DC-CC) are for youth, total spending on youth programs would be higher than the funding for adult programs in FY 2017.

[6] Medicaid expansion in 2010 shifted 32,000 residents from the Alliance Program to Medicaid. However, after a period of stable enrollment, caseloads begin to decrease after a six-month, in-person recertification began in FY 2012.

[7] Department of Health Care Finance, DHCF Budget Presentation for FY 2017 at Medical Care Advisory Committee Meeting, March 2016.

[8] Department of Health Care Finance, DHCF Budget Presentation for FY 2017 at Medical Care Advisory Committee Meeting, March 2016.

As the proposed FY 2017 budget was being developed, the city was also writing its State Plan to comply with the new Workforce Innovation and Opportunity Act (WIOA), and some DC government offices were reorganized to better oversee the city's workforce system. For example, early last year the mayor created a new office – the Deputy Mayor for Greater Economic Opportunity (DMGEO) – to facilitate job creation and workforce development in underserved communities in the District. In addition, the District's Workforce Investment Council (WIC), which oversees workforce development policy including federal job training funds administered by DOES, was moved from the office of the Deputy Mayor for Planning and Economic Development to the DMGEO.

For 2017, the proposed budget includes some modest increases to accommodate WIOA implementation, including $1.5 million for the Career Pathways Innovation Fund, to begin testing and expanding new models to blend adult literacy and occupational training, as mandated by WIOA. (The FY 2017 increase was called for in the FY 2016 budget.) The FY 2017 budget also adds three new full-time staff to the office of the Deputy Mayor for Greater Economic Opportunity (DMGEO), to focus on workforce development policy and provide administrative support.

However, many new initiatives discussed in the State Plan will require additional resources are not funded in the FY 2017 budget. For example, the State Plan calls for increasing the number of "earn while you learn" job training programs, more robust engagement with the employer community, and other activities. Unfortunately, the proposed budget does not seem to reflect increases to begin implementing these new activities. Agency officials have discussed finding cost savings by aligning existing resources and finding other efficiencies, but it is unclear as yet how much savings this will provide, and whether it will be sufficient to meet the goals of the State Plan.

In addition, the budget provides no funding or staffing increases for the WIC. This is unfortunate, given that additional employees could help the WIC become a stronger body with the ability to make more robust recommendations. For example, the agency has noted the need for at least one data analyst to collect and analyze performance data, in order to inform the WIC's recommendations. Such a position could be valuable in the effort to improve the city's workforce system.

What Is Cut in the Budget?

The proposed FY 2017 budget includes some budget reductions, and it also re-directs money from a number of special funds that, in effect, reduces the ability to meet the purposes of those funds.

The budget includes a number of cuts to public health programs, including the following:

- **Pregnancy Prevention Grants:** The proposed budget eliminates $1.3 million in pregnancy prevention grants to community-based service providers.
- **Tobacco Control:** The proposed budget reduces resources for the District's tobacco control program to $1 million in FY 2017, down from $1.4 million in FY 2016. This funding will likely support a telephone "quit-line" which helps people quit with cessation products like nicotine patches and gum, and grants for community groups to do outreach and education. This is far below the $11 million recommended by the U.S. Centers for Disease Control for DC's tobacco control needs.

- **Produce Plus:** The budget eliminates funding for this program, a cut of $350,000. Produce Plus helps low-income residents purchase fresh fruits and vegetables from farmers' markets.
- **School-Based Health Centers:** The proposed FY 2017 budget cuts $430,000 from school-based health centers.
- **Healthy Development for High School Girls:** The budget cuts $569,000 in one-time funding for initiatives focused on promoting healthy development in girls attending traditional public and public charter high schools.

The proposed budget also re-directs money from a number of special funds, taking resources that could otherwise be used to enhance services for low- and moderate-income residents.

- **Healthy DC:** The proposed FY 2017 budget removes $6 million in accumulated resources from Healthy DC Fund to support other parts of the city's budget. This follows a similar sweep of Healthy DC Fund resources in 2016. The reduction leaves less money available for health services, including the locally funded Healthcare Alliance program and the local portion of DC's Medicaid program.
- **Crime Victim's Assistance:** The budget removes $2.6 million from the Crime Victims Assistance Fund, the fund that compensates victims of crime for costs like health and mental health services and lost wages.
- **Income Assistance to Residents with Disabilities:** The budget removes $1 million from the Supplemental Security Income (SSI) Payback Fund, a dedicated fund for the Interim Disability Assistance (IDA) program, which supports low-income residents with disabilities. IDA provides temporary cash benefits to individuals who have applied for federal SSI disability benefits and are awaiting an eligibility determination. When an individual is approved for SSI, the federal government reimburses the District for the IDA benefit the individual received. These reimbursement dollars are put into the SSI Payback Fund so the District can provide benefits for future IDA applicants. The $1 million reduction translates to roughly 300 residents with disabilities who will be unable to get IDA assistance in 2017.

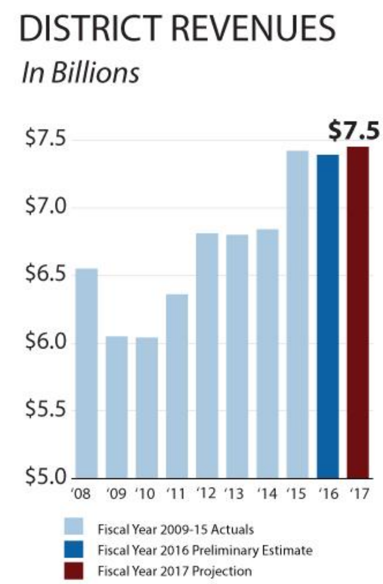
The FY 2017 Reflects Impact of Tax Cuts Implemented Over the Past Year, Limiting Opportunities for New Investments

The limited ability to make needed investments in DC residents in the FY 2017 budget partly reflects the impact of tax cuts that have been implemented since the FY 2016 budget. As noted above, DC's revenue growth has slowed dramatically in the last couple of years, and revenue collections in 2017 will be roughly the same as in 2015, after adjusting for inflation. Slow revenue growth limits the ability to keep up with the rising costs of services or to make new investments to meet important needs of DC residents.

Legislation adopted by the Council triggers automatic implementation of a series of tax cuts recommended by the Tax Revision Commission. The tax cuts are triggered when projected revenue collections increase after the given year's budget has been adopted. The tax triggers automatically devote 100 percent of these revenue increases to tax cuts, which means that none of the growing revenues is available to invest in new services. The proposed FY 2017 budget leaves these reductions in place and offers no offsetting revenue increases. The budget does include a very small expected revenue increase – $9 million – from new compliance measures and technical changes.

Figure 7

District Revenues Have Not Grown in Recent Years, In Part Due to Tax Cuts



Source: FY 2010-17 Proposed Budget and Financial Plan, Chapter 3, cfo.dc.gov

The tax reductions include:

- **Reduction in Middle-income Tax Rate:** The income tax rate for income between $40,000 and $60,000 has been reduced from 8.5 percent to 6.5 percent over the past two years. The reduction in the last year totaled $14 million.
- **Reduction in High-income Tax Rate:** The income tax rate for income between $350,000 and $1 million was reduced this year from 8.95 percent to 8.75 percent. This costs $5 million.
- **Reduction in Business Income Tax Rate:** The corporate and unincorporated business franchise income tax rate has been cut from 9.975 percent to 9.0 percent over the last two years. The reductions in the last year totaled $19 million.
- **Elimination of Estate Tax for Estates Worth between $1 million and $2 million:** The threshold for having to file estate taxes was increased from $1 million to $2 million, resulting in a $6 million loss in revenue.

The tax triggers continue to be in effect, which means that additional tax cuts could be implemented after the FY 2017 budget is adopted. This would again sap revenues and limit the ability to fund new investments a year from now. Under current law, if revenue forecasts issued after the FY 2017 budget is adopted show an increase in projected tax collections, those revenues will automatically be used to implement tax cuts recommended by the tax commission. The full list of tax changes yet to be made represent over $139 million in revenue reductions, a large enough figure that it is likely that no revenue growth will be available for other purposes.

Looking Forward

This review highlights areas where the DC Council should prioritize as it considers adding resources to the mayor's spending plan.

- **Support to families with children on TANF:** Families affected by DC's time limit receive just $156 a month for a family of three. DC's TANF program should provide financial stability while also helping parents move to greater self-sufficiency. The Council should work to reform DC's TANF time limit in ways that ensure that the basic needs of low-income children are met, such as the steps laid out in legislation now before the Council, the Public Assistance Amendment Act of 2015.
- **Further Support the Homeward DC Plan:** The Council should bring the city closer to funding the next phase of the plan to end homelessness, through increases in Permanent Supportive Housing, Rapid Re-Housing, and Targeted Affordable Housing.
- **Expand Rental Assistance:** The Council should work to expand access to rental assistance through the Local Rent Supplement Program. As noted, LRSP is an important complement to the Housing Production Trust Fund and helps create housing affordable for the lowest-income families.
- **Early Care and Education:** While the proposal includes some investments to boost program quality and improve access to early care and education for infants and toddlers, more resources are needed to cover the gap between current subsidy reimbursement rates and the median cost of care.
- **Increase Unemployment Insurance Benefits:** The budget should reflect modest increases in order to support an increase in Unemployment Insurance benefits (UI). DC's UI benefits have not been increased since 2005, and since then, have lost 20 percent of their purchasing power; therefore, the cap should be raised and then adjusted to account for inflation each year. In addition, tweaks should be made to ensure that all eligible workers can get benefits for 26 weeks and that struggling workers are not dis-incentivized from taking part-time work. These changes can largely be paid for through the UI Trust Fund. However, there will be a modest cost to the city in order to self-ensure these benefits for city workers.
- **Raise Revenues if Needed:** Supporting these additional investments may require increasing revenues. The increases should fall on higher-income households that are best able to absorb them.