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At the Budget Oversight Hearing on the Fiscal Year 2017 Budget Request Act of 2016 and the Fiscal Year 2017 Budget Support Act of 2016
District of Columbia Committee of the Whole
April 29, 2016

Chairman Mendelson and members of the Committee of the Whole, thank you for the opportunity to speak today. My name is Ilana Boivie, and I am the Senior Policy Analyst at the DC Fiscal Policy Institute. DCFPI is a non-profit organization that promotes budget and policy choices to expand economic opportunity and reduce income inequality for District of Columbia residents, through independent research and policy recommendations.

While the proposed FY 2017 budget makes a number of important investments, including $100 million to the Housing Production Trust Fund and increases to schools, it also falls far short of fully funding many needed services, such as homeless services, TANF extensions, and early childhood education.

We believe that the recent policy to implement tax cuts through automatic "triggers" is affecting the city's revenue collections and the ability to meet the demands of a growing city. The policy devotes 100 percent of any revenue growth, beyond projections from last year, to a series of tax cuts recommended by the Tax Revision Commission. The tax triggers have resulted in substantial tax cuts – including $47 million last year – which slowed the city's revenue growth.

For this reason, DCFPI recommends that the Council modify the tax triggers to create a balance between using our growing revenue for tax cuts and preserving revenues to invest in services residents need. DCFPI understands the importance of the tax reduction package to the DC Council, and we support its continued implementation. At the same time, we hope the tax cuts can be implemented in a way that also ensures the city can fund its necessary programs and services.

Current Tax Triggers Make it Hard to Keep Up with DC's Growing Needs

DC's revenues are projected to increase by about 3 percent per year for the foreseeable future, largely due to the tax triggers.[1] Meanwhile, the need for services is growing faster than that in many ways. For example:

- **Inflation and Population Growth.** DC's population has grown an average of 2.3 percent per year over the last five years,[2] and annual inflation is about 1.5 percent. That means that we need at least 4 percent revenue growth just to maintain the status quo.
- **Health Care.** Medicaid enrollment has grown 4.5 percent per year over the last five years.[3]

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- **School Enrollment.** A growing number of students in DC public and charter schools and rising costs due to inflation mean that schools needed an average of 4.8 percent more funding each year over the last five years.[4]
- **Homeless Services.** The number of families in shelter has nearly tripled in the last five years – increasing an average of 28 percent per year.[5]
- **School Modernization and Other Capital Projects**. Due to added borrowing for school construction and other capital projects, debt payments have increased 8.6 percent per year over the last five years.[6]

This means that a policy limiting revenue growth to 3 percent will create ongoing challenges to support schools, housing, and other needs.

The FY 2017 Budget Fails to Fully Fund Homeless Services and Other Needs

Modest growth in the District's revenues for FY 2017 made it hard to fully fund many needed services. For example, the proposed homeless services budget for FY 2017 is not enough to end chronic homelessness in FY 2017, a goal embraced last year; fully funding the Homeward DC plan requires at least $50 million more. In addition, the proposed budget does not reform the TANF time limit to protect some 6,200 vulnerable families. Also, the proposed budget does not make key investments needed to improve early childhood education. Child care reimbursement rates need to rise $38 million to support quality care.

Without a Change, Tax Triggers Could Lead to Several Years of Constrained Public Investments

Since 2014, taxes have been cut by $93 million to implement recommendations of the Tax Revision Commission, including $47 million triggered automatically in the last year. However, the tax cuts are far from finished. There are nearly $140 million in tax cuts to go, which will continue to be triggered with any increase in revenue beyond current projections. This means that our ability to invest in services for a growing population will be limited for several more years.

DCFPI recommends that the Council modify the tax trigger formula so that it doesn't devote 100 percent of revenue increases to tax cuts. For example, for each dollar of new revenue above the baseline, half could be preserved for services and half could go to tax cuts. Another solution could be that tax cuts are triggered only if revenues rise above a rate that more closely matches needs. This approach would help us meet the needs of a growing city and its many challenges, while continuing to move forward with tax reductions.

Thank you again for the opportunity to testify. I am happy to answer any questions.

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[1] The Mayor's proposed FY 2017 Budget. Chapter 3: Revenue.
[2] American Community Survey. Annual Estimates of the Resident Population: April 1, 2010 to July 1, 2015.
[3] DC Department of Health Care Finance.
[4] DCPFI. Forthcoming. "A Changing Landscape: Examining How Public Charter School Enrollment Is Growing in DC."
[5] DCPFI FY 2017 Budget Toolkit. "What's in the Proposed FY 2017 Budget for Homeless Services?"
[6] DCFPI FY 2017 Budget Toolkit. "What Revenue Changes Are in the Proposed FY 2017 Budget?"