

Takeaways from the Proposed Fiscal Year 2019 Budget: Important Investments and Missed Opportunities

By DC Fiscal Policy Institute

Mayor Bowser's proposed fiscal year (FY) 2019 budget makes important investments in early childhood development, PreK-12 education, health, and housing and homelessness. But the budget falls short of what is needed to really address our affordable housing crisis, make sufficient progress toward our goal of ending homelessness, and ensure that low-income residents and communities of color receive other critical services.

At the same time, new federal-level tax cuts will put hundreds of millions of dollars into the pockets of DC's wealthiest residents and corporations this year. Using DC's income tax to recapture some of that lost revenue could have freed up money for critical investments and reduced racial and economic inequality in the District while eliminating the need for the proposed sales tax increase, which hits low-income residents hardest.

Here are some highlights from the proposed budget:

- **Early Childhood:** The proposed budget includes a significant \$10 million investment in improving the quality of early care and education for low-income infants and toddlers. But this is only the first step of many needed to build a truly comprehensive support system for early childhood development in the District. As DC Council considers the budget, they should adopt and set aside funds for the pending “Birth to Three in DC” legislation, which charts a path to fully funding the costs of a quality early education, including competitive compensation for early educators.
- **Pre-K through 12 Education:** The proposed budget includes much-needed funding increases for out-of-school-time programming, and finally funds crucial 2014 reforms to special education. These are big steps forward. The budget also increases school funding by more than what is necessary to cover the new teacher contract, but still falls short of giving all students the resources they need to succeed. In a year dominated by realizations of the many ways we are failing our students, it's time to update our understanding of what it really costs to provide a quality education for every student, as well as ensure that every dollar of “at-risk” funding is spent on targeted services for low-income and academically struggling students.
- **Homeless Services:** While the proposed budget makes some necessary investments in homeless services, it falls short of what is needed to reach DC's goal of making homelessness rare, brief, and nonrecurring. The budget includes much-needed funding for shelter and other services for residents experiencing homelessness. However, it fails to provide enough funding for programs that prevent and end homelessness.
- **Affordable Housing:** The budget proposes \$100 million for the Housing Production Trust Fund for the fourth year in a row, and continues to invest in DC's newest housing tool, a fund dedicated

to preserving existing affordable housing (with an additional \$10 million). The budget also adds operating support for public housing redeveloped through the New Communities Initiative. But the budget provides no new rental assistance for families on the housing waiting list, or to make Housing Production Trust Fund units affordable to extremely low-income residents.

- **Health:** The proposed budget takes some important steps to boost behavioral health services and stabilize Affordable Care Act protections, insurance markets and health coverage rates. At the same time, it fails to fund crucial improvements to the DC Healthcare Alliance program, which covers residents with low incomes who aren't eligible for Medicaid, many of whom are immigrants. This means that thousands of residents will continue to face barriers to staying in the Alliance. An investment of \$17 million would fund legislation already passed unanimously by DC Council to simplify the enrollment process and make it easier for residents to maintain their coverage.
- **Jobs & Training:** The proposed budget maintains current levels of support for workforce development initiatives. The budget provides funding for the implementation of Paid Family Leave for the city's private sector workers and a \$3.5 million investment in the DC Infrastructure Academy to provide residents with industry-specific training.

Here's a more in-depth preliminary analysis of the proposed FY 2019 budget:

Early Childhood: Proposed Budget Takes a Critical Step to Advance Early Education for DC's Infants and Toddlers

Under-funding the District's child care subsidy program is preventing the city from fully supporting the healthy development of all infants and toddlers. Payments to child care providers that primarily serve children from low-income families are well below the level needed to provide high-quality care, leaving many providers struggling to make ends meet. Teachers and staff earn far less than they deserve, and low-income families often cannot secure continuous, high-quality education for their young children. Underinvestment in early childhood education has damaging lifetime effects, and intensifies DC's deep racial and economic inequality.

The Mayor's budget takes a critical step toward solving this problem by investing an essential \$10 million in new funding for early childhood education for low-income infants and toddlers¹. But this is only the first step of many needed to build a truly comprehensive support system for early childhood development in the District. DC Council should adopt and set aside funds for the pending "[Birth to Three in DC](#)" legislation, which charts a path to fully funding the costs of a quality early education, including competitive compensation for early educators.

Education: Proposed Budget Includes Critical Investments in Special Education Services and Out-of-School Time Programming, But School Funding Increase Is Not Enough to Give All Students the Resources They Need to Succeed

Funding 2014 Special Education Reforms: The Mayor's Budget funds three critical special education [reforms](#) that align services with best practices, which have been on hold since 2014 due to lack of funding. Many special education students in DC do not get the supports they need to succeed, and by high school, fewer than [one in 10](#) are college and career ready. One year after graduating or leaving school, [two-thirds](#) of

youth with disabilities in DC are not in college or working. With the 2014 special education reforms fully funded, more toddlers with developmental delays will receive early intervention services and get back on track, families will get answers sooner as evaluation timelines are shortened, and high school students with disabilities will have adequate time to plan how to achieve their aspirations for college, career and independent living.

Improving Access to Quality Out-Of-School Time Programs: The Mayor’s budget allocates a total of \$19 million for out-of-school-time learning, including an increase of \$9.6 million across two agencies.² This investment reverses nearly a decade of slashed and stagnant funding for afterschool and summer school programming that has left more children waiting to get into afterschool programs than are currently enrolled. Out-of-school time programs improve academic, social, and health outcomes, and give parents peace of mind knowing their children are in a safe environment while they work. Afterschool programs provide a significant return on investment, and summer programs limit summer learning loss. DC Council should protect and build on this investment by increasing out-of-school-time funding to \$25 million, to ensure every student “at-risk” of academic failure because of poverty benefits from the same kind of enriching, out-of-school-time opportunities as their higher-income peers.

Moderately Increasing School Resources: Investments in special education services, out-of-school-time opportunities, and mental health supports in schools, though critical, do not address the inadequacy of resources within DC public schools and public charters to fully meet students’ needs. Budget increases for DC public schools and public charter schools through the Uniform Per Student Funding Formula (UPSFF) have been arbitrary in recent years, and not connected to what’s really needed to provide quality education.

The Mayor’s FY 2019 education budget increases school funding by more than what is necessary to cover the new teacher contract, but more resources are still needed to give all students a quality education. In a year dominated by realizations of the many ways we are failing our students, school budgets will continue to be too tight. As a result, schools will likely still need to staff their classrooms using “at-risk” money that should be dedicated to targeted services for low-income and academically struggling youth.

Because of budget constraints over the last few years, roughly [half](#) of “at-risk” funds have been misspent on regular staff positions, rather than on dedicated supports. This is particularly troubling given the [distressing differences](#) in educational outcomes for low-income students and their wealthier peers. Schools are also failing to prepare students of color for college and careers to the same degree as white students. In high school English, 87 percent of white students are college and career ready, compared to only 21 percent of Black students.

Investing in Restorative Justice: There are also significant racial inequalities in the use of exclusionary discipline, like suspensions and expulsions. There is no evidence that students of color misbehave any more than white students, yet in DC, Black students are [almost eight](#) times more likely to be suspended and sent out of the classroom than their white peers. When schools rely on exclusionary discipline, students miss lessons, fall behind upon return, and are more likely to drop out. Giving schools the funds to fully staff promising solutions like Restorative Justice allows them to address the root causes of disruptive behavior. Yet, the proposed budget offers no new funds for Restorative Justice work in schools. DC Council should set aside funds to implement the “[Student Fair Access to School Act](#),” which would ensure student access to education by steering all DC schools away from an ineffective, counterproductive, and costly overreliance on punitive discipline.

Cultivating Community Schools: Another positive way to infuse schools with the resources to serve the whole child is to support Community School Models. Schools are not just centers of academic instruction. They are among our most important and trusted community institutions. Schools can build on that strength to become community hubs, by partnering with community-based organizations to connect children and their families with services that strengthen the whole community, like health care, afterschool programs, adult education, and early childhood programming. DC Council should add funding for Community Schools in the Office of the State Superintendent for Education.

Funding Revised Education Adequacy Study: As a city, we need to provide enough funds for schools to appropriately staff their classrooms, reduce inequalities, and improve student outcomes. It's time to update our understanding of what it really costs to provide a quality education for every student. DC leaders should follow recommendations to revise the [2013 Education Adequacy](#) study every five years, by allocating the funding to do so in this budget.

Affordable Housing: Proposed Budget Maintains High Investments in Affordable Housing, Yet Does Little to Help DC's Lowest-Income Residents Facing Severe Housing Challenges

The budget proposes \$100 million for the Housing Production Trust Fund (HPTF) for the fourth year in a row. This investment will support construction or renovation of affordable homes for low- and moderate-income residents, largely those with incomes below \$66,000 for a family of four.

In addition, under the proposed budget, DC will add another \$10 million to the newest tool in the city's affordable housing toolbox: the affordable housing preservation fund. This brings the total amount available to the fund to \$20 million (including last year's investment), which is expected to also leverage additional private and philanthropic dollars.

The budget also adds operating support for public housing redeveloped through the New Communities Initiative (NCI). NCI's construction and rehabilitation activities are funded through the city's capital budget, but maintaining truly affordable housing over the long term requires ongoing assistance too. The budget moves NCI forward by adding \$1.9 million to the project-based component of the Local Rent Supplement Program (LRSP) specifically for NCI properties.

While the investments above are significant, the proposed budget does not make enough progress toward reducing the number of extremely low-income households who face severe affordable housing challenges. The budget provides no new rental assistance (beyond homeless services programs), either for LRSP vouchers for families on the Housing Authority waitlist, or for LRSP operating subsidies for HPTF units. Without LRSP, projects built using the HPTF can rarely be made affordable to extremely low-income residents. That means that under the proposed budget, the District would continue to fail to meet the statutory requirement that 40 percent of HPTF resources support housing for extremely low-income residents (those with incomes below \$33,000 for a family of four).

Homeless Services: Proposed Budget Makes Necessary Investments, But Too Little to Be on Track to End Homelessness

The proposed budget makes needed investments in services and shelter for residents experiencing homelessness, but does not invest enough in the programs outlined in Homeward DC, the 2015 strategic plan to make homelessness in the District rare, brief, and non-recurring.

Improving Singles Shelters and Services: The proposed budget includes \$40 million to build a replacement for the dilapidated 801 East Men’s Shelter. This shelter will be moved to a new site on the St. Elizabeths Hospital campus to make way for a new hospital. The budget also includes \$26 million to make improvements at other shelters and a District file storage facility. Notably, this funding will allow for the creation of 25 much-needed medical respite beds for men and more beds accessible to residents with disabilities. The budget also includes \$2 million to provide a new daytime services center, \$300,000 to provide outreach to residents staying in encampments, and \$200,000 to make operational improvements at shelters such as piloting a bed reservation system.

Building and Operating Family Shelters: The proposed budget adds \$44.1 million in additional funding to meet the expected costs of replacing the dilapidated DC General Family Shelter and replacing apartment-style shelter units that were lost when a provider lost the lease for the building. The budget also adds \$10.2 million to support operations at the new shelters.

Building 50 Permanent Supportive Housing units: The proposed budget includes \$28.1 million to build a Permanent Supportive Housing (PSH) community for senior women currently living at the Harriet Tubman Shelter. PSH provides affordable housing coupled with intensive case management services, which helps people stay in housing, improves their health, and saves a substantial amount of money as a result. Many of the women at Harriet Tubman have qualified for a PSH voucher to rent their own apartments but would prefer to live in community together. This new building will allow them to do that.

Ending Homelessness: The FY 2019 proposed budget takes steps to end homelessness, but falls far short of what’s needed to fully accomplish that goal.

For single adults:

- The budget includes \$875,000 to launch a new homelessness prevention program for approximately 500 individuals. The District currently only offers prevention to families.
- The budget adds \$6 million to provide PSH to 250 individuals. Currently at least 820 individuals have been assessed as needing PSH.
- The budget adds \$1.3 million for Targeted Affordable Housing (TAH) for 70 individuals. TAH helps residents pay rent after their Rapid Re-Housing (RRH) ends or when they no longer need the intensive services provided by PSH but still need help to afford housing. The actual need is difficult to measure based on existing data, but DCFPI estimates that we need at least 1,000 more TAH units.
- The budget adds \$1 million for 100 new RRH slots for individuals. RRH provides short-term rental assistance and case management. The Strategic Plan calls for more than 2,000 slots of RRH, which will need to be phased in over time due to implementation constraints. A larger investment this year would allow the District to build the foundation needed for this growth.

For families:

- The proposed budget adds \$6.6 million to add 100 RRH slots and reflect program cost increases. The budget also includes \$1.6 million for 50 PSH units, and \$2 million for 100 TAH units. The

actual need is difficult to measure based on existing data, but these investments fall short of what is called for in the Strategic Plan.

For youth:

- The proposed budget continues the \$1.4 million in one-time funding that was included in the FY 2018 budget to maintain 5 transitional housing beds, 10 shelter beds, and 42 aftercare service slots moving forward. The budget also includes an additional \$500,000 for a 24-hour Drop- In Center and \$660,000 for 30 new shelter beds for youth aged 18 to 24. Finally, the budget includes \$250,000 for 5 new transitional housing beds and \$300,000 for 10 new PSH beds.

Health Care: Proposed Budget Includes Much-Needed Funding for Behavioral Health and Supports for the Affordable Care Act, but Continues to Forgo Needed Improvements for Health Care Program Serving Many in DC's Immigrant Population

Protecting the Affordable Care Act: Amidst continued federal uncertainty regarding the Affordable Care Act (ACA) and repeal of the individual health insurance mandate, the District is looking to several local solutions in FY 2019. The Mayor's budget moves forward with its own health insurance requirement at a cost of \$1.1 million, which will help protect insurance coverage affordability and prevent more residents from becoming uninsured. This funding will cover technology services, changes to the District's tax code, and the cost of publicizing changes, among other things. What the FY 2019 budget does not fund here, however, are other [recommendations](#) from the Health Benefit Exchange Authority's Affordable Care Act Working Group, including ways to reduce the cost of health insurance for lower- and moderate-income District residents up to 400 percent of the federal poverty level. DC Council should include more investments to bring down costs for residents.

Additionally, the FY 2019 budget includes \$107,000 for the Department of Health (DOH) to fund [Defending Access to Health Care](#)— recent Council legislation that requires insurers to cover certain health care services for women under the ACA without cost-sharing, including breast cancer screening and counseling, screenings for HIV, and counseling for sexually transmitted diseases. The Mayor's budget also includes an approximately \$500,000 increase to the Health Benefit Exchange Authority, the local agency that runs DC Health Link, DC's health insurance marketplace. This funding will go toward consumer education and outreach efforts in response to reduced spending on the federal level for marketing and outreach during health insurance open enrollment time.

Boosting Behavioral Health Services: The FY 2019 budget provides a much-needed boost to the Department of Behavioral Health (DBH), so that the agency may better serve District residents. This includes approximately \$7.4 million to increase health provider rates for those who provide substance use disorder and mental health rehabilitation services. The budget includes \$3 million to implement the recommendation of DBH's Task Force on School Mental Health, fulfilling the need for a wide array of behavioral health services in DC public schools and public charter schools. DBH will also receive \$1.6 million as a part of a criminal justice diversion program. This multi-agency collaboration will help divert individuals arrested or suspected of low-level drug offenses into social services instead of the criminal justice system.

Reaching more residents at all stages of life – and in more locations: An investment of \$1.6 million to DOH's budget will support a preterm birth prevention pilot program, to decrease preterm births and

improve the health of District infants. DOH will also receive \$4.4 million to support the School Health Services Program, including a new [requirement](#) to have a full-time nurse at all DC public schools and public charter schools beginning this August. Through the Department of Health Care Finance, \$1.35 million is allocated in the FY 2019 budget to implement a Physician Supplemental Payment program, which will help support health care providers that serve Wards 7 and 8. Furthermore, the budget includes \$300 million for a new hospital in in Ward 8 at the St. Elizabeth's east campus.

DC Healthcare Alliance – same issues, still no funding: The FY 2019 budget fails to fund [legislation](#) passed unanimously by the DC Council that would reduce barriers to the DC Healthcare Alliance Program, which covers many of the District's residents who are immigrants. 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. The budget allocates an additional \$715,000 to the Department of Human Services budget, which will go toward increasing eligibility staff and improving customer service at service centers, but this will not solve the problem. DC Council should fund the legislation, at a cost of \$17 million, and improve our immigrant neighbors' access to health coverage and care.

Taxes: Proposed Budget Is a Missed Opportunity to Fund Key Priorities with Progressive Revenue

Meeting the needs of DC residents requires bold investments, many of which were underfunded in the proposed budget. Meanwhile, DC residents are about to receive \$617.3 million in net federal income tax cuts due to December's federal legislation, according to an analysis from the Chief Financial Officer. The vast majority of this tax cut will flow to DC's wealthiest residents.³ Additionally, DC corporations are set to reap an estimated \$460 million windfall from federal corporate tax cuts in 2019.

DC taxpayers did not ask for these regressive federal tax cuts, or the federal service reductions that are likely to come with them.

There are a number of strategies that DC could use to recapture this federal revenue for DC priorities, including increasing income tax rates for high-income taxpayers, or passing a version of recently introduced legislation that would allow taxpayers to give tax-credited charitable donations to DC's school system, increasing DC revenue while reducing federal tax payments. This money could be invested in ending homelessness, and other priorities, and would allow DC to make our own tax code more progressive.

Instead, the Mayor chose to raise only modest new revenue, through a combination of sources that hit lower-income residents along with higher-income residents, and did not address some of the negative consequences of the federal tax bill:

New Revenue: The Mayor's budget proposes a package of tax increases to contribute to a dedicated funding source for Metro, which increases dedicated Metro spending from \$24 million to \$178.5 million annually:

- **Sales Tax:** A 0.25 percentage point increase in the sales tax, from 5.75% to 6%, will raise \$43 million in FY 2019.
- **For-Hire Vehicle Tax:** An increase in the tax on non-taxi vehicles for hire (like Uber and Lyft) from 1% to 4.75% of gross receipts will raise \$17.3 million in FY 2019.

- **Commercial Property Tax:** A 0.02 percentage point increase to the top commercial property tax rate, from \$1.85 per \$100 of assessed value over \$3 million to \$1.87 per \$100, will raise an estimated \$16.8 million in FY 2019.

Estate Tax: DC's estate tax, our most progressive revenue source, has been substantially eroded over the past several years, as DC has repeatedly increased the size of estates that are allowed to be passed to heirs completely tax free. Beginning this year, this "exemption" amount was set to automatically match the federal exemption, which was increased dramatically by the George W. Bush era tax cuts and subsequent legislation, from \$600,000 in the late 1990s to more than \$5 million last year. With the recent federal tax bill *doubling* the non-taxable estate size to more than \$10 million, the erosion of estate tax revenues has been made significantly worse. According to the Mayor's budget documents, DC's local estate tax revenues declined by 44% this fiscal year (FY 2018) due to the prior year's tax triggers, and are expected to fall a further 45% in FY 2019 due to the combination of the final tax trigger and the federal tax cuts. All told, DC estate tax revenue will fall to \$12.5 million in FY 2019, compared to actual collections of \$41 million in FY 2017—a loss of nearly \$30 million.

Individual Income Tax: The budget proposes few significant changes to the individual income tax, leaving in place the federal tax bill's repeal of the personal exemption—which increases DC revenue but hits middle-income families harder than the wealthy—and misses an opportunity to raise significant additional revenue from DC's highest-income taxpayers. The budget does anticipate \$12.5 million in additional income tax revenue from "OTR Compliance Activities," but it is unclear what these compliance measures are and who the additional revenue will be raised from.

Child Care Tax Credit: The budget proposes a one-year refundable tax credit for child care expenses for kids up to three years old, up to a \$1,000 maximum per child, at an estimated cost of \$2.5 million.

Tax Abatements: The budget also includes a number of questionable tax abatements, including a new abatement, outside the budget window (so with no estimated cost), for commercial tenants at St. Elizabeths. According to the budget documents, these businesses would have to meet "the Mayor's objectives of promoting inclusive prosperity and resilience, the District's innovative economy, economic prosperity, and opportunities for neighborhood development." This description does not include any relevant job creation or job quality requirements, or First Source rules.

TANF: Proposed Budget Provides Much-Needed Boost to TANF Benefits

The proposed budget preserves an increase in Temporary Assistance for Needy Families (TANF) benefits adopted in FY 2015 and modified in FY 2016 to alter the timeline for implementation. The TANF program provides cash assistance, subsidized childcare, and employment resources to help families with children facing economic hardship. Under the proposed FY 2019 budget, the maximum benefit for a family of three will increase from \$576 in FY 2018 to \$644 in FY 2019, which is more in line with benefits in other high-cost jurisdictions.

Job Training: Proposed Budget Continues Large Local Commitment to Workforce Development

The Marion Barry Summer Youth Employment Program (and associated Leadership Institute) continues to be the largest investment in the District's workforce development program, with a combined total of \$20.3 million. Meanwhile, the budget reflects a \$2.6 million reduction in Year-Round Youth Programs.

The proposed FY 2019 budget includes \$4 million in operating funds for the new “Washington DC Infrastructure Academy,” located at the St. Elizabeths East Campus, which will provide job training in the infrastructure industry, including the utility, energy efficiency, transportation, and logistics sectors. The goal is to provide training in high demand industries to underserved District Residents. The budget allocates \$7.5 million in capital money through FY 2024 for the Infrastructure Academy facility, now to be placed on St. Elizabeth's East Campus. This is a \$9.25 million decrease from the previous year's proposed budget because the Administration is no longer contemplating constructing a new facility. The budget also includes funding for staff and transportation costs for jobseekers.

The proposed budget decreases funding for the Learn, Earn, Advance, Prosper (L.E.A.P.) program by \$1 million, or nearly 50% of last year's total proposed amount of \$1.9 million. Programs such as Project Empowerment and DC Career Connections saw small growth.

The budget proposes an increase of \$552,000 for the Deputy Mayor for Greater Economic Opportunity to support the Local Business Utilization Pilot. Last year, the agency also proposed an increase of \$1.3 million for this program. Very little information has been given about the pilot program, but it is described as a program that will help small businesses identify opportunities to do business with the District.

Worker Protections: Proposed Budget Provides Funding for Paid Family Leave

The Mayor's proposed budget provides \$5.6 million for paid family leave implementation and \$40 million in capital costs through 2023, with \$19.9 in proposed funding for FY 2019. This funding will allow the paid leave program to move forward – eventually it will be self-funded through a payroll tax. Benefits from the program will allow private sector workers to be compensated for lost wages when taking time off to care for a new child, an ill family member or their own serious health conditions.

Government Operations: Funding of the Fair Elections Amendment Act in the Proposed Budget Will Strengthen Democracy in DC

The proposed FY 2019 budget includes \$860,000 to fund and implement the Fair Elections Amendment Act, which will enhance the voices of DC residents in our local democracy by providing public funding to candidates for major DC offices. It provides a base amount and a 5-to-1 public match for small donations to candidates for Mayor, DC Council, Attorney General, and the State Board of Education. This legislation was adopted unanimously by DC Council, and will cost \$20.6 million over the next four years.

According to an analysis by Demos, The Fair Elections Amendment Act will increase the racial, gender, and economic diversity of people who donate to campaigns. Most current donors to DC elections are white, most have incomes above \$100,000, and a majority are men. By contrast, half of the donors who gave \$25 or less in the 2014 mayoral race were people of color, and half of donors who gave \$50 or less were women. The Fair Elections Act will also encourage more people to run for office, and increase the economic and racial diversity among candidates. First-time candidates and candidates from lower-income communities are less likely to have access to large donors than incumbents or candidates from higher-income communities.

¹ The proposed budget also preserves and protects the \$4.5 million investment DC Council made last year in infants and toddlers, and the \$2 million investment in PreK3 and PreK4.

² The budget for the Office of Youth Outcomes in the Office of the Deputy Mayor for Education increased by \$8.1 million, and the budget for programs in the Department of Parks and Recreation grew by \$1.5 million.

³ While the OCFO report did not include distributional estimates of the net federal tax cut, according to a separate analysis from the Institute on Taxation and Economic Policy (ITEP), 60 percent of the cut will flow to the top 5 percent of DC taxpayers.