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THE DISTRICT'S DIME
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DC's Expanding Economy Means More Tax Revenue, But Not Enough to Fully Address Our Biggest Challenges

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The District's growing prosperity is showing up in larger-than-anticipated tax collections, according to the city's latest revenue estimate. This means that DC has more resources to meet community goals, like expanding access to affordable housing. But a close look also shows that this rate of revenue growth is inadequate to meet the rising costs of basic services and also address longstanding challenges, such as inequitable school outcomes. To do that, the District will need to consider raising revenues.

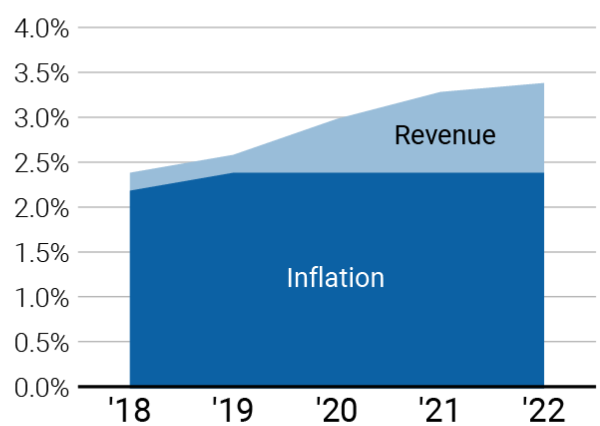
The larger tax collections reflect growing incomes in DC, which will boost both income and sales tax revenues. Some of this additional revenue is coming right away: an additional $78 million in the current fiscal year. Since some of that growth reflects one-time factors, additional revenue in future years won't be quite as much, including $41 million in additional revenue in fiscal year (FY) 2019.

While more revenue is always welcome news, a large portion of this growth will likely be needed to simply keep up with the rising cost of government services. Between FY 2020 and FY 2022, year-over-year revenue growth is expected to range from 3.0 percent to 3.4 percent. Inflation—a measure of the cost of goods and services—is forecasted to grow by 2.4 percent each year over the same period, leaving a narrow margin between rising costs and growing revenue (*Figure 1*). Other pressures include rising demand for government services. For instance, DC school enrollment is rising, requiring more teachers and textbooks, and is expected to grow 3.6 percent in the 2020-2021 school year, according to the National Center for Education Statistics. After rising costs are accounted for, there may not be much additional revenue left to strengthen or expand programs.

FIGURE 1.

Rising Costs May Consume Most of DC's Projected Revenue Growth

Projected year-over-year growth.



Source: Office of the Chief Financial Officer, June 2018 Revenue Estimate.

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Many of the District's programs essential to expanding economic opportunity and security are inadequately funded and will need additional resources beyond cost adjustments. For example, about 41 percent of dollars intended for students at risk of falling behind academically are being diverted to other education needs, limiting the ability to change troubling economic and racial inequities in academic outcomes. In another example, limited funding for DC's rental assistance program means that more than two-thirds of DC's recently-created affordable housing is out of reach of the city's lowest-income residents, who face the greatest risk of homelessness.

Strengthening the programs that support communities will require investments beyond what the District can currently provide, even with steady projected revenue growth. To address DC's persistent and growing inequities in schools, housing, and more, we should utilize the city's prosperity to find smart ways to raise revenue and reinvest in DC residents. Last year's federal tax cuts drove $254 million in income tax cuts to high-income DC residents, meaning that the District could raise local revenues while leaving wealthy residents no worse off than last year, in combined DC and federal tax liabilities.