DC FISCAL POLICY INSTITUTE

FY 2025 Budget Must Address Hardship with Equitably Raised Revenue

DCFPI's Priorities for the Revised FY 2024 Budget and FY 2025 Budget

The District made progress towards tackling poverty in 2022 thanks to federal and local public investments in residents, underscoring that deeper, intentional investments can disrupt longstanding racial and economic inequity created over time through discriminatory policy and practice.[1] Over 2021 and much of 2022, DC boosted cash assistance, increased pay for early childhood educators, and boosted supports like emergency rental assistance and housing vouchers that help people stay stably housed and, in turn, more stably employed.

DC leaders can't pull back on those investments now. Although poverty in DC declined, more than one in five Black residents continue to experience poverty, and the Black poverty rate is eight percentage points higher than the rate overall. And despite our solid national recovery overall, new polling shows a majority of Black voters (51 percent) experienced difficulty affording groceries in the past year, compared to 13 percent of white voters.[2]

The same poll also shows near unanimous support from DC voters for investments in programs and services that support residents experiencing economic hardship. Voters overwhelmingly support increasing food security (93 percent), expanding access to affordable child care (91 percent), and creating a local child tax credit (79 percent), among other proposals. Yet the District cannot fund vital government services and programs without needed tax revenue.

As budget pressures loom—including the WMATA budget shortfall, expiring federal relief funds for schools, union contracts that must be renegotiated, and declining commercial property tax collections—DC lawmakers will need to meet the moment by finding equitable funding sources to meet residents' urgent needs and address extreme inequality. This will mean prioritizing budget savings, and any surpluses, for meeting residents' basic needs and strengthening the District's ability to tax its outsized concentration of wealth.[3]

As the mayor revises the fiscal year (FY) 2024 budget and proposes the FY 2025 budget, the DC Fiscal Policy Institute (DCFPI) urges consideration and prioritization of the following recommendations:

Early Education

- **Maintain funding for the child care subsidy program**, including $64.7 million in local funds and $24.3 million in Temporary Assistance for Needy Families (TANF) funds to ensure access to high quality, affordable child care for nearly 8,000 children. The Office of State Superintendent of Education (OSSE) should closely monitor participation in the program to ensure that families with the lowest incomes and those living in Wards 7 and 8, where utilization rates have been low, face low barriers to accessing affordable child care.
- **Preserve all funding in the Early Childhood Educator Pay Equity Fund (PEF)** to ensure that OSSE can implement a well-designed and adequate compensation program for early educators. OSSE is working to address a flaw in the funding formula to fully pay child development facilities what they

need to meet the minimum salary requirements. Redesigning the funding formula could lead to higher program expenses.

- **Ensure adequate funding for rising costs in the PEF** due to anticipated higher minimum salaries (as a result of public school salary increases) and growing credential attainment among early educators. DCFPI estimates the additional cost will be at least $6.9 million, but as much as $21.8 million to cover salary increases or salary increases *and* a likely growing number of teachers complying with DC credentialing requirements.[4]

PreK-12 Education

- **Collect data from school communities to understand which Elementary and Secondary School Emergency Relief (ESSER)-funded programs and positions were most effective.** Create a plan to use local revenue to fund these programs and positions to ensure school stability and meet the ongoing needs of students, families, and educators.
- **Explore the design of a small school weight in the Uniform Per Student Funding Formula (UPSFF)** to bolster the ability of small, by-right neighborhood schools—some of which experience enrollment fluctuations or declines that destabilize their budgets—to afford valuable positions that larger schools offer, such as librarians and after school programs.
- **Sign and fund a Washington Teacher's Union contract for DC Public Schools teachers that accounts for inflation**. The contract should be retroactive to the 2023-2024 school year. Lawmakers should budget for how an increased salary scale for public school teachers will also increase the salary floor in the PEF.

Tax and Revenue

- **Adopt a local Child Tax Credit (CTC) that takes aim at child poverty and builds on strategies to boost income and wealth like guaranteed income pilots, baby bonds, and DC's expanded DC Earned Income Tax Credit (EITC).** A DC CTC for all children ages 17 and younger should be set at $500 per child, at a minimum, but a larger CTC of $1,500 per child would cut child poverty in DC by 18 percent while also helping families with low- and middle-incomes better manage the cost of raising children. The credit should include families filing taxes with an Individual Taxpayer Identification Number and be targeted first to the families most in need. A local CTC would cost between $38 million to $115 million, depending on size of the credit and eligibility parameters.[5]
- **Amend the DC EITC to allow taxpayers to opt into monthly payments, rather than it being automatic.** Unlike lump sum payments, monthly EITC payments put some taxpayers' Supplemental Nutrition Assistance Program benefits at risk because the DC Department of Human Services must include recurring income when determining eligibility and benefit levels. Beginning in tax year 2024, DC should allow taxpayers to choose whether monthly payments or a lump sum payment works best for their household.
- **Introduce progressivity into residential property tax structure by adopting a higher marginal property tax rate for single family homes valued over $1.5 million**. Doing so will not only create a more equitable distribution of tax responsibility, it could also raise around $57 million in annual revenue for the District.[6]
- **Expand the Schedule H deduction for homeowners and renters with low and moderate incomes.** Raise income eligibility to at least $78,000 and expand or eliminate the cap on the total benefit to allow for a larger credit.[7]

- **Tax all (realized) capital gains at a rate of 13 percent and create a credit to offset any tax increase for families in the bottom 80 percent of incomes.** This highly targeted proposal would increase taxes on passive income sources like selling stocks, art, or other assets. This would raise $163 million annually and only affect taxpayers in the top 20 percent of incomes, with 77 percent of the tax increase paid by those with incomes above $428,000 (the top 5 percent) and about 57 percent coming from those with incomes above $1.2 million (the top 1 percent).[8]
- **Eliminate the stepped-up basis for capital gains bequeathed at death.** If an investor leaves an appreciated asset to an heir upon death, neither they nor the heir will ever owe capital gains tax on the growth in value up to that point. This loophole costs $33 million a year. DC can either tax realized gains at the time of transfer to an heir or implement a carryover basis tax.
- **Permanently suspend the capital gains tax break for the sale or exchange of a qualified high technology company investment.** Lawmakers suspended this tax break due to evidence that these incentives were costly and ineffective. Rather than allowing the tax break to resume in 2025, DC should eliminate it.
- **Reject revenue policies that fail to advance racial justice and are poorly designed.** Avoid poorly targeted tax breaks—temporary or permanent— including ineffective economic development tax incentives. And avoid raising revenue through regressive taxes when addressing the WMATA budget gap.

Inclusive Economy

- **Provide timely record relief for individuals with prior cannabis-related offenses.** Fully fund and restore the original timeline for record relief as included in the Second Chance Amendment Act of 2022. Allocate $3.3 million to initiate the automatic expungement process for prior decriminalized records.[9]
- **Improve public transparency of DC revenues collected from fines and fees.** Invest in the capacity for the Office of Chief Financial Officer (OCFO)—and other public agencies that assess and collect fines and fees—to analyze, publish, and share fines and fees data by race, gender, and ward. Require the OCFO to bi-annually publish non-tax and special purpose revenue reports.
- **Remove financial barriers to obtain occupational and business licenses for those with unpaid fines and fees**. Pass and fully fund the Clean Hands Certification Economic Expansion and Revitalization Amendment Act of 2023 to allow DC residents with more than $100 in unpaid debts to renew District occupational and business licenses.
- **Implement the law for enrollment of eligible children in the Child Trust Fund Program and improve transparency.** The OCFO, in consultation with the Department of Human Services and Department of Health Care Finance, should begin enrolling eligible children in this "baby bonds" program. Relevant agencies should also publicize an implementation timeline for the program and release updated regulations.
- **Invest in guaranteed income strategies and design a hold harmless fund for people receiving guaranteed income.** Invest in guaranteed income strategies, including through allocating additional funding to the Strong Families, Strong Futures pilot. Drawing from lessons learned through the pilot, design and fully fund a Hold Harmless Fund to protect individuals and families whose net benefits may be lowered due to receiving guaranteed income.
- **Fund and implement a rigorous evaluation of the Marion Barry Summer Youth Employment Program (MBSYEP).** This evaluation should assess the efficacy of the MBSYEP program relative to

existing Workforce Innovation and Opportunity Act youth performance measures as well as other measures related to employment, training, education, and well-being that public officials should determine in partnership with young workers, advocates, employers, and other stakeholders.[10]

Affordable Housing

- **Commit to and fund affordable housing preservation.** Ensure that the Affordable Housing Preservation Fund has at least $5 million in flexible capital to cover carrying costs and sustain current preservation projects as they await a path to permanent financing. To ensure that preservation projects have a path to becoming safe, affordable, high-quality housing, the District should set aside at least a quarter of Housing Production Trust Fund (HPTF) allocations specifically for preservation.
- **Invest $30 million to enable tenants to purchase their building through the Tenant Opportunity to Purchase Act (TOPA).** Reopen, expand, and fund the First Right to Purchase Program, which provides affordable financing to tenants who seek to purchase their building through the TOPA process. This investment would help create stable homeownership opportunities for tenants and build Black and brown wealth.
- **Improve safety and effectiveness of DC's deeply affordable housing stock.** Invest at least $60 million in public housing repairs and implement increased transparency and oversight requirements to ensure that the Housing Authority meets improvement benchmarks.
- **Improve transparency and follow reporting requirements for the HPTF.** And ensure adequate Project- and Sponsor-based Local Rent Supplement vouchers to support the production of deeply affordable housing, as required by law.

Ending Homelessness

Move More Residents Who Are Unhoused into Housing

- **Allocate $36.6 million for 1,260 Permanent Supportive Housing (PSH) vouchers for individuals experiencing chronic homelessness and $22.8 million for 580 PSH vouchers for families.** Homeward DC 2.0, the District's strategic plan to end homelessness, anticipates that 1,260 PSH vouchers are needed in FY 2025. While there have been delays in the implementation of vouchers from recent fiscal years, DC is on track to match all FY 2022-2024 PSH vouchers by March 2024, and matches are occurring at a rate of 100 per month. And approximately 20 percent of the families in Rapid ReHousing need the intensive services that PSH provides.

Fund Homelessness Prevention and Robust Services

- **Ensure prevention programs are adequately funded.** Allocate at least $100 million to the Emergency Rental Assistance Program (ERAP) so all in need can be served. ERAP prevents evictions by helping residents pay overdue rent and legal costs. Allocate $1.75 million to Project Reconnect, up from $1.2 million, to ensure service to all who qualify can find alternatives to shelter such as reuniting with friends and family.
- **Invest $6.4 million to fully fund the Coordinated Street Outreach Network.** As of the January 2023 Point-in-Time count, unsheltered homelessness has increased 19 percent over the year prior and hit

its highest point since 2017. Full funding maintains the current baseline budget for homeless street outreach and makes up for loss of outreach staff as the CARE pilot, a time-limited initiative focused on encampments, sunsets.

- **Ensure there are at least 150 medical respite beds for individuals.** Meet the need for medical respite beds, which offer a safe place for the unhoused to recover from surgery and illness or to learn to manage a chronic condition.
- **Invest $13.275 million to operate two non-congregate shelter sites.** As the District winds down Pandemic Emergency Program for Medically Vulnerable Individuals motel sites, the Department of Human Services plans to open non-congregate shelters to replace them. By FY 2025, the Way Home Campaign anticipates that two non-congregate shelter sites (The Aston and 25 E) will be operating, with capacity of 190 people each, but the budget doesn't include funding for these critical programs. DC must build in sufficient funding to operate these shelter sites with the highest quality service provision.
- **Invest $8.4 million to maintain 24-hour shelter access and to increase staff capacity.** Prior to 24-hour shelter service, individuals had to leave shelter in the morning, with their belongings, and spending the day trying to meet their needs for food, showers, and services. They had to line up often for hours to access a shelter each evening. Allowing individuals to remain at shelter sites for 24 hours reduces these stresses and makes it easier to connect individuals with services. DC should continue this practice.
- **Create a flexible funding program at the Department of Human Services to cover one-time move-in expenses** for residents receiving a voucher or Rapid ReHousing and **provide storage space for unhoused individuals** so that unhoused residents can keep their belongings in a safe place until they find housing.
- **Increase the number of psychiatric beds.** There are not enough psychiatric beds for unhoused residents experiencing psychiatric problems who need intensive services, which often results in release before patients are ready. Adding beds can help clients stabilize while they wait to move into housing.
- **Increase Personal Needs Allowance (PNA).** DC's first assisted living facility for chronically unhoused people is undersubscribed in part because Medicaid recipients may keep only $130 per month of any income they earn as a PNA. While this reflects a much needed $30 increase made in FY 2024, the PNA still falls short of what residents need to cover essentials like hygiene products and clothing. The District should increase the PNA for assisted living recipients based on their actual needs.

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[1] Caitlin Schnur and Erica Williams, "DC Made Progress on Poverty Thanks to Public Investment in Residents," DC Fiscal Policy Institute," September 2023.
[2] DC Fiscal Policy Institute, "Press Release: DC Voters Strongly Support Public Investments that Address Economic Hardship, According to New Poll," January 2024.
[3] Erica Williams, "DC's Extreme Wealth Concentration Exacerbates Racial Inequality, Limits Economic Opportunity," DC Fiscal Policy Institute, October 2022.
[4] For more details on these cost pressures, see: Anne Gunderson, "Achieving Vision of Fairly Compensated Early Education Workforce Makes Anticipation of Cost Growth Imperative," DC Fiscal Policy Institute, January 2024.
[5] See DC Fiscal Policy Institute's full proposal here: Erica Williams, "A Child Tax Credit Would Reduce Child Poverty, Strengthen Basical Income, and Advance Racial Justice in DC," DC Fiscal Policy Institute, March 2023.
[6] See DC Fiscal Policy Institute's full proposal here: Eliana Golding, "DC Can Advance Racial Equity and Black Homeownership through the Property Tax," DC Fiscal Policy Institute, October 2023.

[7] See DC Fiscal Policy Institute's full proposal here: Eliana Golding and Erica Williams, "Better Targeted Property Tax Benefits Would Advance Racial Equity," DC Fiscal Policy Institute, October 2023.
[8] See DC Fiscal Policy Institute's full proposal here: Tazra Mitchell, "Taxing Capital Gains More Robustly Can Help Reduce DC's Racial Wealth Gap," DC Fiscal Policy Institute, October 2023.
[9] "Fiscal Year 2024 Budget Support Act of 2023," Title VII, July 2023.
[10] Employment and Training Administration, "WIOA Performance Indicators and Measures," US Department of Labor. Accessed January 26, 2024.