

VIA EMAIL

April 2009

The Honorable Adrian Fenty
Mayor of the District of Columbia
1350 Pennsylvania Avenue, N.W.
Washington, DC 20004

The Honorable Vincent C. Gray
Chairman, Council of the District of Columbia
1350 Pennsylvania Avenue, N.W.
Washington, DC 20004

We are writing to express our concern over several tax and fee increases in the proposed FY 2010 budget that would fall most heavily on low-income residents, particularly on renters and the working poor. We urge the Council and Mayor to develop alternate ways to raise revenues that are progressive and do not adversely affect low-income residents.

We applaud the Mayor's efforts to identify additional revenues to offset the city's serious budget shortfall. The additional revenues help preserve funding for important public services in the FY 2010 budget. Many of the revenue proposals are sound, such as the proposal to close the "Delaware Holding Company" corporate tax shelter.

Some of the tax and fee increases, however, would be highly regressive, including the proposal to eliminate cost-of-living adjustments for the standard deduction, personal exemption, and property tax homestead deduction, as well as the proposals to create a new "streetlight maintenance" fee and to raise the E911 fee. Together, these regressive tax and fee changes total \$26 million.

The standard deduction, personal exemption, and homestead deduction make DC's tax system more progressive. The standard deduction is claimed by households that are not able to itemize deductions, including most renters and lower-income households. The personal exemption applies to all taxpayers and the homestead deduction applies to all homeowners. But because the value of these deductions is the same for all taxpayers, the deductions offset a larger share of income and home value for lower-income households.

Making annual cost-of-living adjustments to these tax benefits is important. Until recently, each of these deductions had remained frozen for 15 years or more and had lost significant ground to inflation. The deductions have been increased in recent years, and the DC Council adopted cost-of-living adjustments in 2007 so that the deductions would not lose value in the future.

Eliminating cost-of-living adjustments to the standard deduction, personal exemption, and homestead deduction would result in higher taxes for DC residents than if current law were maintained. The impact of rising taxes would fall most heavily on lower-income residents, who benefit the most from these deductions. And the tax increases would grow each year, as these deductions fall further and further below the value they would reach if they were adjusted for inflation.

The proposals to create a new streetlight maintenance fee and to increase the E911 fee also are regressive and will adversely affect low-income residents. The streetlight maintenance fee would add \$51 dollar to annual electricity bills, and the increased 911 fee would add roughly \$10 a year to phone bills. While these fees may be manageable for middle and higher-income families, they would place a burden on low-income families, many of whom struggle to pay utility bills and face utility shut-offs as a result of non-payment.

For these reasons, we urge the Mayor and Council to maintain the cost-of-living adjustments for the standard deduction, personal exemption, and homestead deduction. We also recommend rejection of the streetlight maintenance fee and the E911 fee increase — unless steps can be taken to ensure that all low-income households can be exempted. We urge the Mayor and Council to find alternate revenue sources for the FY 2010 budget that would not adversely affect low-income residents.

Submitted by: