

October 2, 2009

WHAT'S IN THE AMENDED FY 2010 DC BUDGET? A Summary

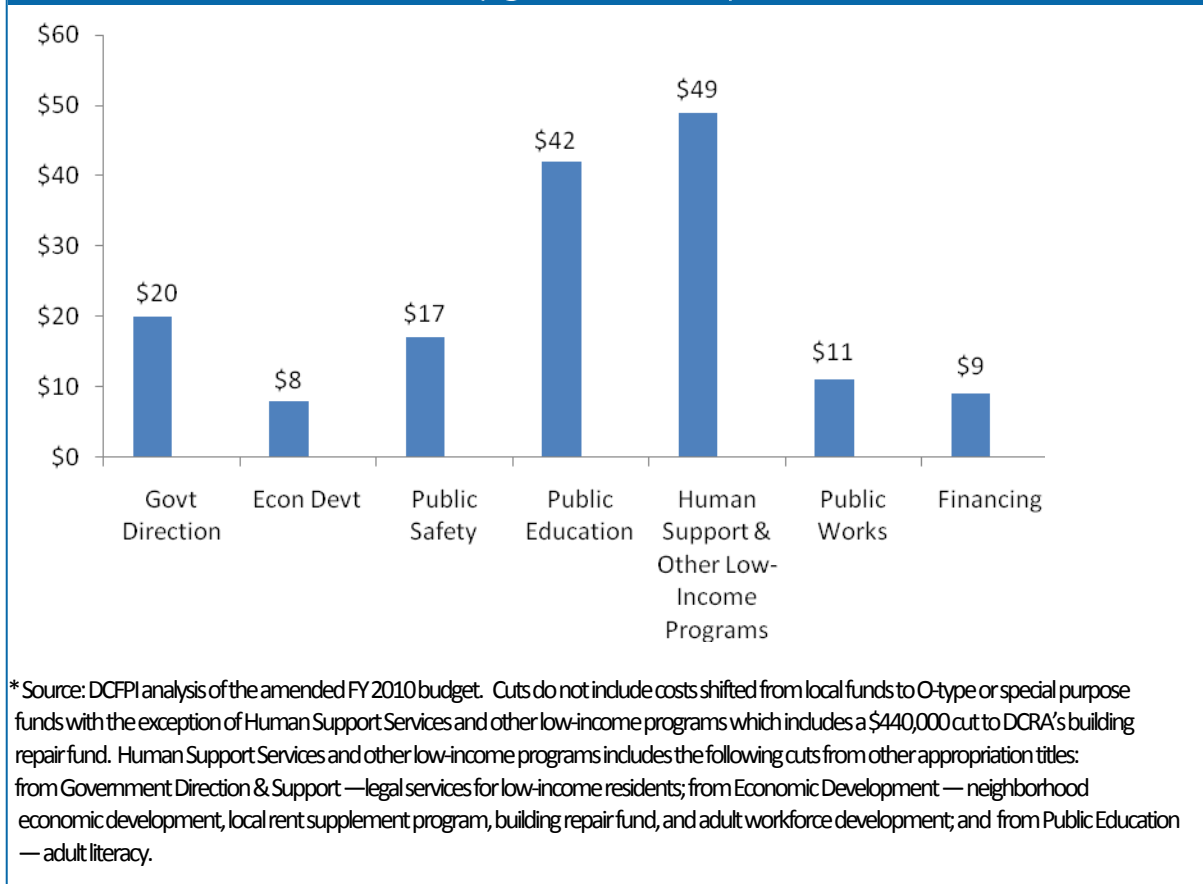
In July, Mayor Fenty and the DC Council adopted an amendment to the District's FY 2010 budget to address a revenue shortfall that was identified in June 2009. The June revenue forecast from the Chief Financial Officer, which came just a few weeks after the Council approved the FY 2010 budget for FY 2010, showed a new \$190 million revenue shortfall for 2009 and a \$150 million shortfall for 2010.

The budget-balancing plan, which was adopted by the DC Council on July 31, includes the following elements.

- **Spending Reductions:** The new plan includes \$220 million in spending reductions for FY 2010, including elimination of all budget earmarks (saving \$22 million) and more than \$150 million in cuts to District programs and services. The cuts affect all major areas of the budgets, but the largest reductions are in human services and related low-income programs and in K-12 education.
- **Revenue Increases:** The plan calls for \$42 million in new revenues, including increases in sales, cigarette, and gasoline taxes. The amended budget also eliminated annual inflation adjustments for the standard deduction and personal exemption in the income tax and the homestead deduction in the property tax. While some of these tax changes have specific rationales — for example, increasing the cigarette tax is likely to reduce cigarette use — all of these tax increases are regressive, which means they will increase taxes more for lower-income residents than for higher-income residents. The plan also reflects a change in DC's corporate income tax law that will go into effect in 2011 — called “combined reporting” — which limits the ability of multi-state corporations to avoid paying taxes to the District.
- **Tapping Excess Revenue in Special Funds:** The budget was balanced in part by finding ways to increase the use of federal funds, including stimulus funds, and by tapping funds from a number of special accounts. For example, resources were transferred from the city's Ballpark Revenue Fund to the general fund (because the ballpark fund has more than it needs to make bond payments for the Nationals stadium), as were all of the funds in the Baseball Community Benefit Fund, which was created to meet a variety of community priorities. Other funds that were tapped include the Healthy DC Fund and the Tax Increment Financing Fund.

These issues are discussed in more detail below.

FIGURE 1: BUDGET CUTS IN THE AMENDED FY 2010 BUDGET
(figures in millions)



Spending Reductions in the Amended FY 2010 Budget

The FY 2010 budget adopted on May 12 called for spending \$5.4 billion in local funds. In response to the declining revenues announced in June, the local budget was cut by \$220 million, to \$5.2 billion, when the Council adopted an amended budget on July 31. The local funding reductions include the following:

- Agency Budget Cuts:** Roughly \$150 million of the \$220 million in spending reductions reflect cuts in funding for services, staffing, and other expenses within DC government agencies, based on a review by the DC Fiscal Policy Institute. While the cuts affected every area of the District's budget, the largest reductions were made to human services and related low-income programs — \$49 million — and to education programs, primarily the DC Public Schools and DC Public Charter Schools — \$42 million. (See Figure 1.) Some of the budget cuts also are highlighted in Table 1.¹

¹ The recent budget cuts will be detailed in the agency budget chapters of the final FY2010 budget when the document is completed. The budget documents are posted at www.budget.dc.gov. The cuts are listed in the

**TABLE 1
HIGHLIGHTS OF SPENDING CUTS IN THE AMENDED FY 2010 BUDGET (IN MILLIONS)**

	Amount Cut
HUMAN SUPPORT SERVICES/LOW-INCOME PROGRAMS	
Temporary Assistance for Needy Families (cash assistance and supported work program)	\$7.2
Child and Family Services Administration	\$9.8
Department of Mental Health	\$9.4
Department of Disability Services	\$3.5
Adult Literacy	\$2.0
Neighborhood Investment Fund	\$2.0
Local Rent Supplement Program	\$2.0
Adult Job Training	\$0.8
Access to Justices (civil legal services for low-income residents)	\$0.7
EDUCATION	
Eliminate 2% cost-of living for DCPS and DCPCS per-pupil formula	\$13.4
Reduce summer school by half for DCPS and DCPCS	\$15.6
DC Public Libraries	\$6.2
Pre-K for All	\$2.2
PUBLIC SAFETY	
Metropolitan Police (mainly from police officer attrition)	\$7.5
Department of Corrections	\$3.5
Fire and Emergency Medical Services	\$1.5
Office of Unified Communications	\$1.4
GOVERNMENT DIRECTION AND SUPPORT	
Office of the Chief Technology Officer	\$6.0
Office of the Attorney General (not including Access to Justice noted above)	\$2.2
DC Council	\$1.3
Office of the Chief Financial Officer	\$4.7
ECONOMIC DEVELOPMENT AND REGULATION	
Deputy Mayor for Planning and Economic Development	\$2.4
Office of Planning	\$0.8
Department of Employment Services (in addition to cuts in training noted above)	\$1.6
Commission on Arts and Humanities (not including earmarks)	\$0.7
PUBLIC WORKS	
Department of Public Works	\$5.4
Department of Transportation	\$3.9
FINANCING	
Terminating the lease for 225 Virginia Ave, SE	\$9.1

- **Increased use of federal funds:** The amended budget includes \$36 million in additional use of federal stimulus funds for education. These reflect stimulus funds that were available for use through FY 2011 and that had been left unused in the initial FY 2010 budget. In addition, the amended budget identified ways to increase federal Medicaid reimbursements by \$9 million. The greater use of federal funds allowed the Mayor and Council to reduce local fund expenditures.

narrative section of the budget chapter for each agency under “Gap-Closing Initiatives.” They also are listed in Table 5 of each agency’s budget chapter, also under “gap-closing initiatives.”

- **Elimination of budget earmarks:** The approved FY 2010 budget included \$22 million in funds earmarked for specific organizations or individuals, such as the Kennedy Center, the D.C. Central Kitchen, and Gala Hispanic Theater. All earmarks were eliminated in the amended budget.

Revenue Increases in the Amended FY 2010 budget

The amended budget included \$42 million in new taxes and fees. These add to roughly \$120 million in various revenue increases that were included in the budget adopted on May 12.²

- **Sales Tax:** DC's general sales tax rate was increased from 5.75 percent to 6 percent, raising \$21 million for FY 2010.
- **Cigarette Tax:** The tax was raised from \$2 per pack to \$2.50, which will generate \$10 million in FY 2010.
- **Gasoline Tax:** The gas tax was raised from 20 cents per gallon to 23.5 cents, matching the rate in Maryland. This will raise \$3.5 million. Revenues from the current gas tax are dedicated to DC's highway trust fund, but the new revenue will go to the city's general fund.
- **Eliminating inflation adjustment for selected tax benefits:** The amended budget eliminated annual inflation adjustments for the standard deduction and personal exemption in the income tax. This will generate \$5 million in new revenue in 2010. The budget also eliminates such adjustments to the property tax homestead deduction for FY 2011 and beyond. (The FY 2010 adjustment had been eliminated in the approved FY 2010 budget in May.)
- **Increased parking rates for DC government employees.** Raising rates to match market rates will generate \$2 million in FY 2010.

Tax Increases for FY 2010 Are Regressive

While these tax increases helped balance the budget and limit the need for further programmatic cuts, they are also regressive, which means they will increase taxes more for lower-income residents than for higher-income residents. Some of the increases have other rationales — for example, the sales tax is paid in part by non-residents, and increasing cigarette taxes leads to reduced cigarette use, but others have no policy rationale.

Eliminating annual inflation adjustments for the standard deduction, for example, will increase taxes that low-income working families pay and will undermine an effort to maintain the value of this tax benefit. DC's standard deduction is for residents who do not

² For a full list of revenue changes in the initial FY 2010 budget and the amended budget, see "[Tax and Revenue Issues in the FY2010 Budget](#)," DC Fiscal Policy Institute, September 2009.

have sufficient deductions that would allow them to itemize. Most households that claim DC's standard deduction are renters and have incomes below \$50,000 a year, making it a progressive tax deduction. DC's standard deduction is \$4,000 — well below the federal standard deduction (\$10,300 for a married couple) and the standard deduction in the income tax in most states. Legislation was adopted in 2007 to adjust DC's standard deduction so that it would not lose ground to inflation each year. Eliminating the annual adjustment increases the taxes that lower-income working families would otherwise pay, and the impact will increase in the future as the deduction loses further ground to inflation each year.

The FY 2010 budget includes no progressive revenue provisions that could offset the regressive changes.

Amended Budget Adopts Important Corporate Income Tax Reform

In addition to the tax changes noted above, the amended budget includes a new provision to improve corporate tax collections that will be implemented in 2011. The new “combined reporting” requirement helps eliminate tax-avoidance strategies of large multistate corporations by treating the parent and most subsidiaries as one corporation for District income tax purposes. Under combined reporting — which is now used in a majority of states with a corporate income tax — corporations would be required to combine their nationwide profits, including profits from all subsidiary companies, and the District would then tax a share of that combined income using the appropriate apportionment formula.³

Implementing combined reporting will increase revenues by about \$20 million per year starting in FY 2012.

Tapping Federal Funds and Other Resources

Beyond cutting spending and raising revenues, the third strategy for addressing the FY 2010 budget shortfall was to tap into additional existing revenue sources. This included greater use of federal funds, as well as using unspent funds in a variety of special accounts in the DC budget.

Federal Funds: As noted, the amended budget includes \$36 million in additional use of federal stimulus funds for education. These reflect stimulus funds that were available for use through FY 2011 and that had been left unused in the initial FY 2010 budget. In addition, the amended budget identified ways to increase federal Medicaid reimbursements by \$9 million.

Special Funds: The District budget includes a number of “special-purpose” funds, which are financed by fees, fines, assessments, or reimbursements, and the use of these funds is restricted to certain specified purposes. Examples include the Crime Victim's Assistance Fund and the Home Purchase Assistance Program (HPAP) Fund, which provides low- and no-interest loans to help low-income first-time homebuyers. The HPAP fund is financed

³ For more information on combined reporting, See Center on Budget and Policy Priorities, [A Majority of States Have Now Adopted a Key Corporate Tax Reform — “Combined Reporting”](#), April 2009.

through the repayments of the loans granted by the program.⁴

Overall, the FY 2010 DC budget includes 230 approved special purpose funds that are expected to collect \$459 million.

Each year, some special purpose accounts build up surpluses, and these surpluses have been used in the past to cover revenue shortfalls in other parts of the budget. The amended FY 2010 budget relied on using resources from a number of special purpose accounts. Because final budget documents have not been completed, the total amount of special purpose revenues used to balance the budget is unclear, but it includes the following:

- **Ballpark Revenue Fund:** This fund was established to cover the costs associated with financing the construction of the Nationals' baseball stadium. In recent years, the fund has collected more than needed to meet these costs. The amended FY 2010 budget would use \$13 million from this fund in FY 2010.
- **Baseball Community Benefit Fund:** This fund was established in 2004 as part of the legislation to publicly finance a baseball stadium. It was intended to support a variety of community priorities and was created in response to concerns that the stadium would divert funding from such priorities. No expenditures from the fund had been made prior to this summer. The amended budget devoted the current balance of \$23 million to cover costs of the 2009 Summer Youth Employment Program, and it re-directed all of the funds expected in FY 2010 (\$13 million) to the city's general fund.
- **Healthy DC:** This fund was established to support a low-cost new health insurance program for residents with incomes between 200 percent and 400 percent of poverty. The amended budget transferred \$3 million from this fund to the general fund. (Some \$13 million was removed from the fund to address FY 2009 budget shortfalls.) It is unclear at this point what effect the cuts will have on the program or its expected start date.
- **Neighborhood Investment Fund:** This fund was created in 2004 to support a variety of neighborhood investment projects in 12 selected neighborhoods. The amended budget re-directed \$2 million from the NIF to the city's general fund.
- **Tax Increment Financing:** The District sets aside a portion of its sales and property tax collections to pay off subsidies for economic development projects under its Tax Increment Financing (TIF) program. The amended budget uses \$10 million from these set-aside funds to help address the budget shortfall.
- **Other Special Purpose Funds:** The amended FY 2010 budget taps smaller surplus amounts from a number of other special purpose accounts.

⁴ In some cases, the funds are described as "dedicated tax funds." In general, the dedicated tax funds operate like special purpose funds, in that they have designated revenue sources and designated uses of the funds.