DC FISCAL POLICY INSTITUTE

# FY 2026 Budget Must Help DC Residents Weather the Coming Storm

*DCFPI's Priorities for the Revised FY 2025 Supplemental Budget and FY 2026 Budget*

As the mayor and DC Council begin deciding how to raise and allocate resources through the budget, they are at an important crossroads. Federal threats to longstanding programs that help people meet their basic needs and the District's economy leave DC leaders with a choice between passivity or proactively shoring up and expanding programs that will help residents weather the storm.

Federal officials are working to slash funding for public services to pay for tax cuts for millionaires and wealthy corporations, which would leave DC residents worse off through lost health coverage, less money for groceries, and under resourced schools. The full costs of these cuts, as well as the potential elimination of federal jobs and rising unemployment in the District, will put extreme pressure on the DC budget as local revenues are already projected to decline as a share of the economy over the next four years.

DC leaders must rise to the occasion by protecting the most vulnerable residents and fortifying local programs that build economic security. While uncertainty remains about *how much* harm federal officials will cause, that harm will undoubtedly and disproportionately fall on Black and brown people with the fewest resources because of systemic racism. To mitigate this harm, lawmakers will need to raise adequate revenue to support these needed investments.

Now is not the time to hold back. It is time to lead. The mayor and DC Council must be bold and visionary in ensuring that the 700,000 residents that call the District home are safe and economically secure.

As Mayor Bowser develops her fiscal year (FY) 2025 supplemental budget and FY 2026 budget, the DC Fiscal Policy Institute (DCFPI) urges consideration and prioritization of the following recommendations:

## Early Education

- Increase the Pay Equity Fund by $10 million, for a total of $80 million annually, to reward credential attainment and finance modest growth in participation. An additional $8.6 million would finance a slight increase in credential attainment among participating educators and raise minimum salaries by two percent to account for inflation. An additional $1.4 million would also allow facilities who are on the waitlist for either PEF or HealthCare4ChildCare to join the program.
- Increase the child care subsidy program by $10 million to sustain the current caseload and allow new families into the program. Restoring a portion of recent cuts to the

subsidy program would allow DC to better maintain caseloads, afford forthcoming improvements including those in the new state plan, and avoid a waitlist for new families.

## Inclusive Economy

- Allocate $4.2 million to improve nutritional standards and workforce training for people incarcerated in the Department of Corrections (DOC). Fund DOC to provide nutrient-dense food that meets or exceeds federal nutrition standards in addition to requiring the Mayor to establish a hospitality and culinary arts training program for residents incarcerated in the DOC, as prescribed in the SECURE DC Omnibus Amendment Act.
- Make the DC Earned Income Tax Credit (EITC) available to returning citizens. Allow individuals formerly incarcerated in local or federal confinement to retroactively claim the DC EITC upon reentry based on the earnings for the years during which they were incarcerated or using earnings from a year prior to incarceration.
- Improve public transparency of DC revenues collected from fines and fees. Invest in the capacity for the Office of the Chief Financial Officer (OCFO) and other public agencies that assess and collect fines and fees revenue to analyze, publish, and share data related to the imposition of fines and fees, including criminal legal fines and fees. Require and fund the OCFO to update and bi-annually publish non-tax and special purpose revenue reports.
- Restore funding and strengthen the Child Wealth Building Act, or "baby bonds" program, to help close DC's outsized racial wealth gap. Restore income tiering, index the annual deposit to inflation, expand eligibility to allow more children to benefit, and use Local Funds to finance the program if online sports betting funding fails to materialize.
- Deepen investments in policies that guarantee and increase income to residents most sidelined by racism and economic exclusion. Continue investments in public pilots like $1 million annually for Strong Families, Strong Futures and the rigorous evaluation of Career MAP.
- Allocate $48 million to raise local Supplemental Nutrition Assistance Program benefits to help more residents afford groceries. Fund the Give SNAP a Raise Amendment Act, including raising the minimum benefit to 10 percent of the maximum household benefit.
- Step up to cover critical public assistance programs in the face of federal threats. Use local dollars to shore up critical federally-supported benefits—such as cash and food assistance—that are at risk of federal funding cuts.
- Invest at least $37 million to pilot a quality job guarantee to ensure DC's youth can fully participate in the economy. To address highly racialized disparities, this program would offer young workers ages 16-24 who face major barriers to employment guaranteed year-round work and robust support services.

## Affordable Housing

- **Allocate $100 million to the Housing Production Trust Fund (HPTF) and allocate $5 million for flexible capital.** To ensure that preservation projects have a path to becoming safe, affordable, high-quality housing, the District should set aside 25 percent of the HPTF for preservation. Flexible capital would support carrying costs, gap financing, and other up-front costs required for preserving affordable housing.
- **Invest $30 million to enable tenants to purchase their building through the Tenant Opportunity to Purchase Act (TOPA) to build Black and brown wealth.** 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.
- **Allocate $17.33 million to the Local Rent Supplement Program to improve housing affordability for residents and families with extremely low incomes.** This would create 800 new housing vouchers, improving housing affordability for those with extremely low incomes.

## Ending Homelessness

### Move More Residents Who Are Unhoused into Housing

- **Fund 1,260 new Permanent Supportive Housing (PSH) vouchers for individuals experiencing chronic homelessness, annually for three years. Fund 764 PSH vouchers for families and invest in Targeted Affordable Housing (TAH) for families.** PSH combines a housing voucher and individualized, intensive case management. TAH combines a housing voucher with light-touch case management, and housing search and move in assistance.

### Fund Homelessness Prevention and Robust Services

- **Allocate $100 million for Emergency Rental Assistance Program (ERAP) and $1.75 million to Project Reconnect to prevent evictions.** A $100 million ERAP investment would help approximately 15,000 households, on average, avoid evictions by helping to pay overdue rent and legal costs. The funding for Project Reconnect, the prevention program for singles, would ensure all who qualify can find alternatives to shelter such as reuniting with friends and family.
- **Allocate $6.5 million to the Coordinated Street Outreach Network.** This funding would reduce the harm of a 36 percent increase in unsheltered homelessness in DC by helping unsheltered residents meet their basic needs and move into housing, if housing is available.
- **Provide an additional $7.5 million to the Rapid Rehousing Program (RRH) for individuals and create an additional 100 slots to eliminate the wait list**. This funding would restore the FY 2025 $5 million cut to the program, which reduced the program in half, and add $2.5 million to serve all individuals on the wait list in need of RRH's support services and short-term rental assistance.

- Create a flexible funding program at the Department of Human Services to cover one-time move-in expenses for residents receiving a voucher or RRH. Also, provide storage space for unhoused individuals so they can keep their belongings in a safe place until they find housing.
- Restore $540,000 to DC Flex to create an additional 75 slots for individuals and improve rent affordability for working households. Restore FY 2025 funding cuts so that 100 individuals, up from 25 individuals, can participate in DC Flex, as originally planned.
- Ensure there are at least 100 medical respite beds for individuals. Meet the need for medical respite beds, which offer a safe place for people who are unhoused to recover from surgery and illness or to learn to manage a chronic condition.
- Increase the Personal Needs Allowance (PNA) to improve living standards for residents who were chronically unhoused and now call DC's first assisted living facility home. Improve the facility's Medicaid tenants' ability to purchase essentials like hygiene products and clothing by increasing the monthly PNA floor, which is capped at $130, and indexing it to inflation. This would likely boost participation in the program, which is currently undersubscribed.

## Tax and Revenue

- Allocate $80 million to support families and take aim at child poverty by expanding DC's Child Tax Credit (CTC). Expand the CTC to all children under age 18 (including those with an ITIN) and increase the maximum credit to at least $1,500 per child for families with the lowest incomes. Lawmakers should also consider an opt-in coaching program modeled after LIFT's Coaching + Cash program, evaluation of which found statistically significant increases in LIFT families' personal and household income, employment, financial well-being, and social support as well as educational enrollment and attainment.
- Close a loophole to ensure all businesses operating in DC pay their fair share of taxes by adopting a Business Activity Tax. Close a lucrative loophole that allows many non-resident business owners, and some high-powered corporations, to avoid DC business taxes. A 2 percent BAT could raise $500 million per year, depending on adjustments to existing business taxes.
- Create a progressively tiered surcharge on capital gains for tax units with an adjusted gross income (AGI) above $500,000 and for capital gains at/above that level only. Create a capital gains surcharge of 1, 2, and 3 percentage points for taxpayers with AGIs between $500,000 and $750,000, $750,000 and $1 million, and over $1 million, respectively; the surcharges would apply only to capital gains income at or above $500,000. This would raise $123 million annually, affecting just 1.85 percent of taxpayers overall.
- Eliminate the stepped-up basis for capital gains bequeathed at death to raise $43.7 million. 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. DC can

either tax realized gains at the time of transfer to an heir or implement a carryover basis tax. Lawmakers may want to consider an exception for residents participating in the Heirs Property Assistance Program or others with low incomes inheriting a primary residence.

- Expand DC's property tax credit (known as Schedule H) for homeowners and renters with low and moderate incomes. Raise income eligibility for non-seniors to at least $87,100, smooth out income thresholds, and expand or eliminate the cap on the credit amount to limit property taxes to 5 percent or less of income, as intended.
- Save tens of millions of dollars by rejecting poorly designed tax breaks that fail to advance racial justice. Avoid poorly targeted tax breaks, implement strong claw-back provisions in public deals, and pause the Housing in Downtown program's large expansion planned for fiscal year 2028 until there is proof the expansion is justified.
- Preserve DC revenue by decoupling from costly federal tax policies that put our tax system at risk. Take the necessary steps to avoid losing substantial revenue due to any misguided federal tax giveaways that may occur.