

# EXHIBIT 1

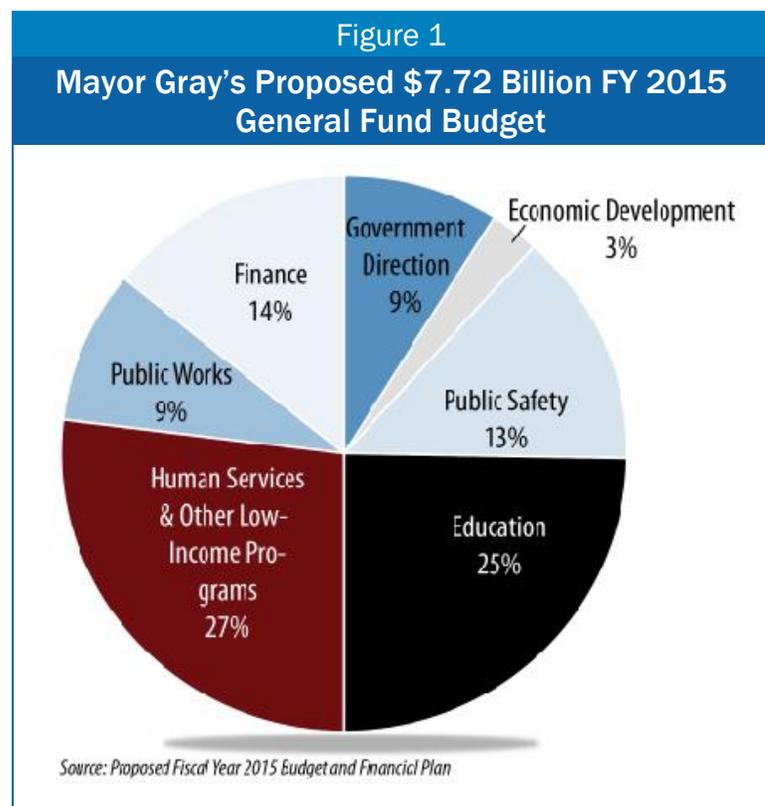
April 17, 2014

## WHAT'S IN THE MAYOR'S PROPOSED FY 2015 BUDGET REQUEST?

On April 3<sup>rd</sup>, Mayor Gray submitted his budget proposal for fiscal year 2015, which starts October 1, 2014. The proposed general fund budget — the portion of the DC budget that comes from local taxes and fees, including dedicated tax revenue and special purpose funds — is \$7.72 billion.<sup>1</sup> When federal funding for programs and services is included — in what is called gross funds — the District's fiscal year (FY) 2015 budget is \$10.8 billion.

The proposed general fund budget is \$302 million higher than the revised FY 2014 budget, after adjusting for inflation — an increase of 4 percent.<sup>2</sup> (Unless otherwise noted, all figures in this analysis are adjusted for inflation to equal FY 2015 dollars.)

This report reviews the key elements of the proposed FY 2015 budget. As Mayor Gray worked to



<sup>1</sup> The general fund budget includes the "local funds budget" — programs and services supported by taxes and fees collected by the District — as well as services supported by "special purpose" revenues or "dedicated taxes." This analysis does not include the enterprise appropriation and keeps several dedicated funds within finance instead of enterprise so year-to-year comparisons can be made.

<sup>2</sup> Mayor Gray also proposed a supplemental FY 2014 budget to the DC Council on April 3<sup>rd</sup>. This analysis uses the proposed revised FY 2014 figures for comparison purposes throughout the paper with the exception of the \$30.2 million in one-time funds for the Housing Production Trust Fund. This is because this distorts the changes in year to year funding and makes it appear that parts of the budget were significantly cut when in fact they were not. The FY 2014 proposed supplemental budget is described in greater detail in this paper.

develop a budget proposal, the city's Chief Financial Officer announced a \$139 million increase in expected revenues in FY 2015 resulting from the District's strong economy. The CFO also announced an \$18 million increase in revenues for FY 2014, the current fiscal year. Mayor Gray's budget submission also included a revised FY 2014 budget to the Council to allocate those funds, as well as \$87 million in found savings in FY 2014. This report also includes a short summary of the FY 2014 amended budget proposal.

Mayor Gray used the additional funding in both FY 2014 and FY 2015 to make a number of investments across DC government in education, health care, cash assistance for families with children and affordable housing. The largest increases from FY 2014 to FY 2015 include funds to cover: repayments of debt issued for construction and other capital projects; increases in education costs due to rising enrollment and new supplemental funding for at-risk students; increases in mental health services; higher costs from maintaining, operating and leasing DC government buildings; and other mayoral policy priorities that are discussed in greater detail below.

Despite the many investments in the budget, some areas remain left behind. Most notably, the FY 2015 budget appears to cut funding for homeless services for families, despite the tremendous increase in families seeking shelter this winter.

The proposed budget also includes a variety of changes to taxes and fees that would result in a \$27 million reduction in revenues, equal to about one-third of 1 percent of the city's locally funded budget. The proposed revenue changes would start to implement a number of recommendations issued by the DC Tax Revision Commission in February 2014 as well as a number of changes that were not recommended by the commission. Even with these reductions, FY 2015 projected revenues are expected to be 10 percent higher than in FY 2008, after adjusting for inflation, a sign that the city has recovered strongly from the recession that led to a large drop in tax collections in 2009 and 2010.

As part of his budget request, Mayor Gray also included a 19-item "Revised Revenue Estimate Contingent Priority List." This list, totaling \$139 million, would be funded if revenue projections increase over the fiscal year. The programs would be funded in order as additional revenues are added. The top three include: additional funding for childcare slots for infants and toddlers, an expansion of the Earned Income Tax Credit for childless adults and reductions in business income taxes. The complete list, in order, can be found in the appendix. The proposed budget has had such a list for the last several years, but few items from those lists were funded, either because revenue collections did not grow or other priorities were ultimately funded.

This analysis is part of an online "Budget Toolkit" developed each year by the DC Fiscal Policy Institute, which can be found at [www.dcfpi.org](http://www.dcfpi.org).

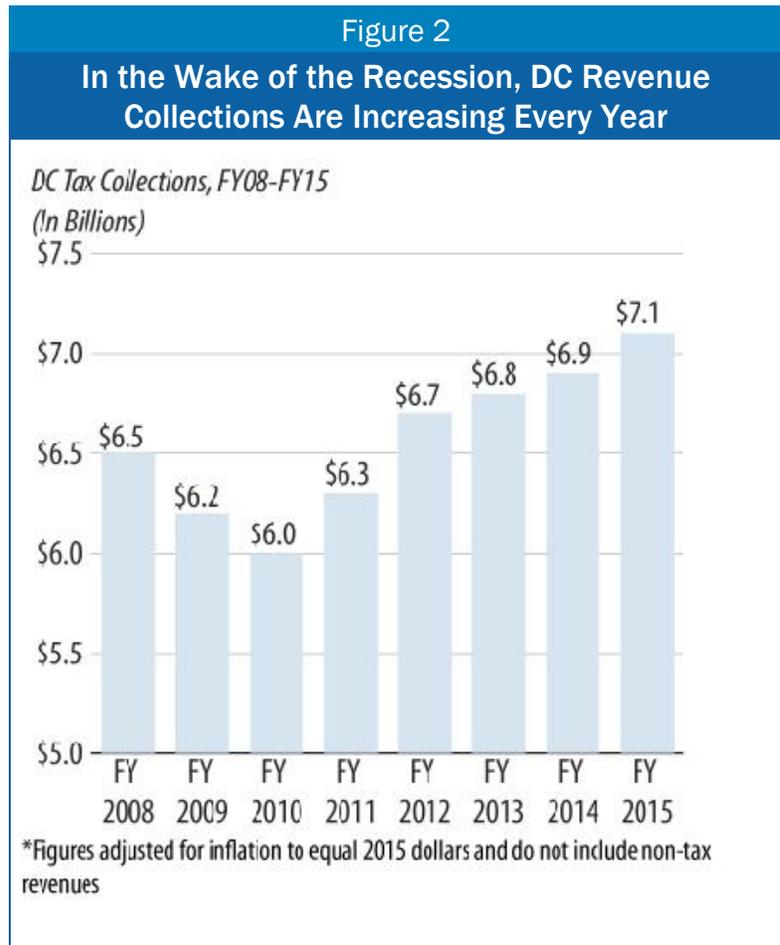
## DC Revenue Collections Are Strong

The District’s tax collections have grown sharply in recent years, erasing drops that occurred during the Great Recession. (See **Figure 2**.)

DC’s tax collections dropped significantly in the Great Recession, going from \$6.5 billion in FY 2008 to \$6.0 billion in FY 2010. The precipitous decline in revenue led to substantial cuts in public services, many of which were in human services and other low-income programs. The city’s revenue collections started to rise in fiscal year 2011, in part due to a variety of tax and fee increases, but continued to remain below pre-recession levels.

Projected revenues in FY 2015 total \$7.1 billion.<sup>3</sup> This is \$600 million higher than in FY 2008, a 10 percent increase after adjusting for inflation. This means that revenues have recovered

significantly from the depths of the recession. Going forward, DC’s revenues are projected to rise by approximately 2.8 percent over the next three years, provided the FY 2015 budget is adopted as proposed.



## Funding Changes by Major Program Area

The District’s budget includes more than 80 operating agencies, with budgets ranging from under \$100,000 to more than \$600 million in local funds. These agencies are grouped into seven major categories, known as “appropriation titles.” This analysis does not include the “Enterprise” appropriation title, as these agencies and programs directly receive their funding and it does not comprise the general fund.

**Table 1** shows how funding for each appropriation title from local sources would change in FY 2015 under the proposed budget. The table also adjusts two titles, Economic Development and

<sup>3</sup> This includes taxes that are used for specific purposes, such as sales taxes used to pay off the Convention Center debt, but it does not “special purpose revenues,” special fees tied to certain uses.

Human Services, to shift several agencies that target housing and jobs assistance from the Economic Development title to the Human Support Services title.

<b>Appropriations Title</b>	<b>FY 2014 Revised</b>	<b>FY 2015 Proposed</b>	<b>Change, 2014 to 2015</b>
Government Direction	\$612	\$704	15%
Economic Development	\$395	\$410	4%
Less Low-Income Agencies*	\$190	\$208	9%
Public Safety	\$1,058	\$1,050	-1%
Education	\$1,811	\$1,917	6%
Human Support	\$1,796	\$1,873	4%
Plus other Low-Income Agencies*	\$2,001	\$2,075	4%
Public Works	\$658	\$689	5%
Financing	\$1,053	\$1,074	2%

*Notes:*  
 All figures are in millions and adjusted for inflation to equal FY 2015 dollars.  
 FY 14 figures are adjusted to reflect proposed changes to the FY 2014 budgets for some agencies; the exception is the \$30 million in one-time funds for the Housing Production Trust Fund. Including those funds distorts the changes from year to year and makes it appear that some areas of the budget are being significantly cut when in fact they are not.  
 These figures include some adjustments to make figures comparable.  
 \* "Low-Income Agencies" includes Department of Employment Services, Housing and Community Development, Housing Authority Subsidy, and the Housing Production Trust Fund.

This section highlights the major cuts and additions within each appropriation title. A more detailed analysis of each appropriation title, including comparisons to the current year, is found in the appendix.

### **Government Direction**

The mayor's proposed general fund budget for Government Direction and Support agencies is \$704 million, a \$92 million or 15 percent increase from FY 2014. Much of the growth in the appropriation title can be attributed to two agencies: the Office of the Chief Financial Officer and the Department of General Services.

Proposed funding for the Department of General Services would increase by \$47 million for a total general fund budget of \$262 million.<sup>4</sup> The majority of the increase is due to rising fixed costs associated with the owning, maintaining, and leasing the District's buildings. The Office of the Chief Financial Officer's proposed budget would increase from \$136 million in FY 2014 to \$158 million in FY 2015, or nearly 17 percent. The increase includes support for the implementation of the "Residential Real Property Equity and Transparency Act of 2014" which includes provisions to prevent homeowners with minor unpaid property tax bills from losing their home.

<sup>4</sup> The Department of General Service's figures exclude funding for facilities maintenance for District of Columbia Public Schools and the Department of Parks and Recreation.

## Economic Development

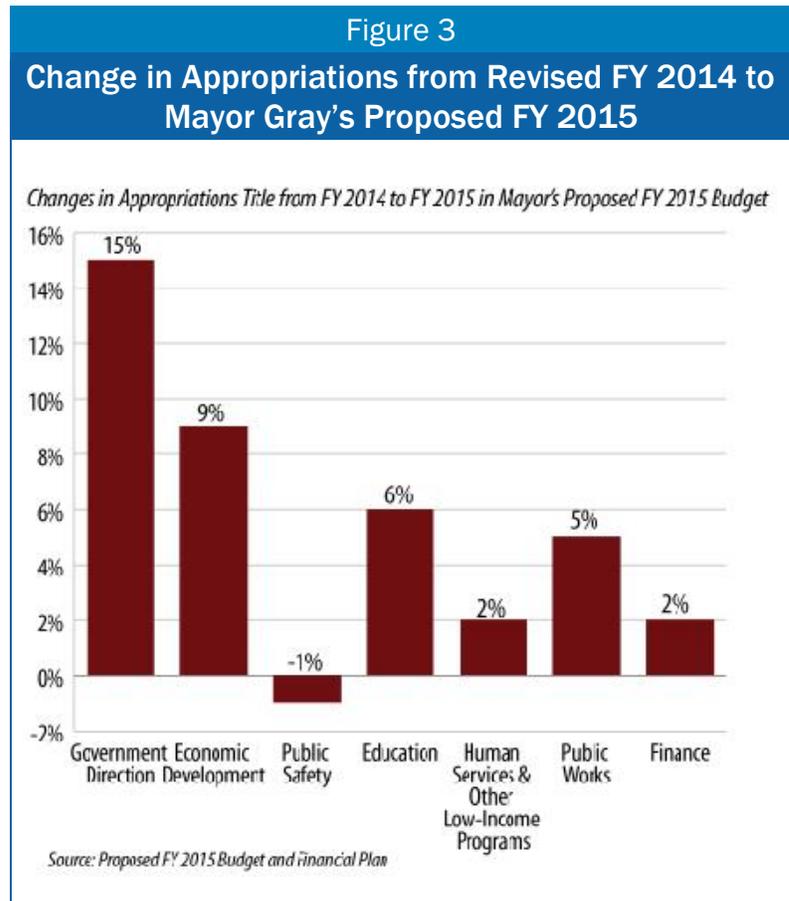
The mayor's proposed general funds budget for economic development and regulation is \$410 million, a 4 percent increase over FY 2014. Proposed funding for the Department of Housing and Community Development is \$22 million in FY 2015, an increase of 5 percent from FY 2014. Notable changes include \$1 for additional local funds for the Home Purchase Assistance Program (although federal funding for the program is down resulting in an overall decrease in funds), \$500,000 for business façade improvements in Ward 8, and \$300,000 for an East End homeownership campaign that will be focused on increasing homeownership in Wards 7 and 8.

Proposed revenue for the Housing Production Trust Fund is \$40 million in FY 2015. This is lower than funding for FY 2014 (\$69 million), because the mayor added \$31 million in one-time funds to the Trust Fund's basic FY 2014 budget. The proposed DC Housing Authority subsidy for FY 2015 — which primarily funds rental assistance programs — is \$43 million, a \$3 million increase from FY 2014. The proposed budget includes \$4 million in additional funds for the Local Rent Supplement Program that will help create about 350 new housing units affordable to very low-income families and individuals.

Proposed local funding for the Department of Employment Services is \$87 million, a \$9 million decrease in funds from FY 2014. The budget includes a \$4 million increase in funds for adult job training. That increase is largely offset by a proposed \$13 million reduction in costs associated with processing workers compensation claims which DOES is projecting a significant decrease in claims in FY 2015.

## Public Safety

The proposed general fund budget for public safety is \$1.05 billion, an \$8 million, or one percent, decrease from FY 2014. Proposed funding for the Metropolitan Police Department is \$485 million, a decrease of \$7 million which reflects a loss in one-time funding used to purchase equipment for Automated Traffic Enforcement. The proposed budget also includes a \$2.9 million increase to



support an equipment purchase and an additional 44 full-time employees to support the Automated Traffic Enforcement Program as well as other agency initiatives. Proposed funding for the Fire and Emergency Medical Services Department budget is \$204 million in FY 2015. This represents an increase of \$4 million, which covers the increased costs needed to maintain existing services. It also includes two additional full-time employees and a \$176,000 investment to aid in policy and procedure compliance to maintain security and safety plans.

## Education

The proposed general fund budget for education is \$1.9 billion, a 6 percent, or \$105 million, increase over the approved FY 2014 budget. The mayor's proposed budget includes a 2 percent increase to the locally funded Uniform Per Student Funding Formula (UPSFF), which is the source of most local funds for both DC Public Schools (DCPS) and DC Public Charter Schools. Both sectors are projecting an increase in student enrollment from the previous year. Local funding for DCPS is proposed to be \$709 million, an increase of 6 percent, while funding for Public Charter Schools is \$674 million, an increase of 9 percent from FY 2014. Notable changes to the school funding formula include a new weight for at-risk students, and increased resources for adult, alternative, English language learner, and special education students.

The Office of the State Superintendent of Education (OSSE) budget in FY 2015 is \$135 million, an increase of 1.5 percent, or \$2 million, from FY 2014. The Office of Early Childhood Education is proposed to receive \$4.2 million to build its early childhood Quality Rating and Improvement System (QRIS) and \$3 million to improve access to child care slots for infants and toddlers from low-income families. An additional \$8 million to expand child care slots for infants and toddlers is the first item on the mayor's additional revenue priority list. Funding for adult and family education and career and technical education would decline, but there is \$880,000 allocated for additional career and technical education academies.

## Human Services and Health

The proposed general fund budget for Human Support Services is \$1.86 billion, a 4 percent increase from FY 2014. The major changes within the Department of Human services are a \$4.7 million increase in Permanent Supportive Housing to end chronic veteran homelessness by 2015 and a cost-of-living adjustment (COLA) increase to Temporary Assistance for Needy Families (TANF) benefits. The Budget Support Act, the legislation accompanying the budget, calls for a 46 percent increase in benefits in FY 2017, followed by annual cost of living adjustments after that. Under the proposal, a family of three will receive an estimated \$438 per month in FY 2015, \$449 in FY 2016, and \$655 in FY 2017. This will be the first increase in benefits since 2008.

The FY 2015 budget proposal increases funding for the Department of Health Care Finance by \$19 million, for a total general fund budget of \$838 million.<sup>5</sup> The increase reflects projected enrollment growth in the Medicaid program and higher managed care costs. The Healthcare Alliance program, which provides health insurance for low-income residents who are not eligible for Medicaid, has a proposed increase of \$10 million, resulting in a total budget of \$50 million. While

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<sup>5</sup> For comparison sake, this figure includes \$51 million local program funding for the intellectual disabilities and developmental disability (ID/DD) Medicaid waiver, which beginning this FY 2015 will be located in the Department of Disability Service's budget.

enrollment in this program continues to decline, the per-member costs are rising, suggesting that an older and sicker population remains enrolled in the program.

The Department of Behavioral Health's proposed general budget is \$236 million, a \$24 million increase from the FY 2014 approved funding level. The department's proposed budget enhances funding for mental health services by 16 percent or \$5 million. The budget also proposes a \$3.3 million expansion of the school-based mental health program, adding a mental health clinician to 23 more DCPS and public charter schools.

## Public Works

The proposed general funds budget for Public Works is \$689 million, a 5 percent increase from FY 2014. Proposed funding for the Department of Transportation (DDOT) is \$107 million, which is an increase of 9 percent over FY 2014. This includes \$7.6 million of funds that were shifted from the capital budget to the operating budget, including funding to support the Streetcar program. In addition, revenues from Bike Sharing, Streetcars and Transportation mitigation services are expected to be \$7 million higher than in FY 2015. Proposed funding for the Department of Public Works is \$129 million, an increase of 4.5 percent which reflects greater funding for public space cleaning and a larger vehicle fleet.

Proposed funding for the District Department of the Environment (DDOE) is \$78 million, an 11 percent increase over FY 2014. This includes \$1.5 million for LIHEAP, the District's energy assistance program to expand benefits under DC's "Heat and Eat" program. Recipients of benefits under the Supplemental Assistance Nutrition program (SNAP), commonly known as food stamps, are eligible for higher benefits if they receive energy assistance. DC and 17 states have had "Heat and Eat" programs which give SNAP recipients a nominal LIHEAP subsidy — typically just a dollar. In the 2014 Farm Bill, Congress raised the minimum qualifying energy assistance subsidy to \$20. The \$1.5 million increase in DC's proposed budget for next year will raise the minimum annual benefit to \$20.01 to meet this new threshold, allowing residents to continue to qualify for higher SNAP benefits.

## Financing

The proposed general fund budget for financing is \$1.07 billion, an increase of 2 percent from fiscal year 2014. There are a few notable changes in the proposed FY 2015 budget. The largest increase is a 13 percent increase in debt service payment — or \$66 million — reflecting increased borrowing in recent years for school construction and other capital projects. There is also a significant increase in funding in the FY 2015 budget to support leases of major equipment; the increase is almost 20 percent, or \$8 million. The Financing budget includes \$41 million for "workforce investments," which reflects expected pay increases for DC government employees. When the pay raises are completed — typically through negotiation with collective bargaining groups — the funds for pay raises are allocated to the relevant DC government agencies.

## How Mayor Gray Balanced the FY 2015 Budget

Mayor Gray's \$7.72 billion proposed FY 2015 budget represents an increase of \$302 million from the FY 2014 revised budget, after adjusting for inflation. It represents the second time since the start of the recession that the District did not have to close a looming budget gap. Instead, the District faces a \$139 million increase in projected revenues for FY 2015 that allowed the mayor to increase funds for a number of programs and services across DC government. In addition, Mayor Gray's FY 2015 budget includes \$105 million in revenues that are being carried over from FY 2014. Lastly, overall revenues would be reduced by \$27 million as a result of a number of tax and fee changes. The revenue changes are described in greater detail further on.

Mayor Gray's proposed FY 2015 proposed budget allocates the increased revenues to a number of programs and services, including:

- **Debt Service.** The FY 2015 budget reflects proposed increased payments for debt service by \$67 million due to increased borrowing in recent years for capital construction projects, including school modernization.
- **Education Enhancements.** Funding for both DC Public Schools and DC Public Charter Schools (PCS) is proposed to increase by a combined \$94 million for several enhancements including:
  - **Increased Enrollment.** Additional funding is included to provide for a projected enrollment growth of 1,666 students in PCS and 1,232 students at DC Public Schools.
  - **Two Percent Increase to the School Funding Formula.** The FY 2015 budget increases the basic per-pupil funding level — the Uniform Per Student Funding Formula or UPSFF — for DC Public Schools and PCS by 2 percent, from \$9,306 to \$9,492 per student.
  - **New At-Risk Weight and Other Enhancements Through the School Funding Formula.** The FY 2015 budget includes the addition of a new weight for at-risk students, and increased local resources for adult, alternative, English language learner, and special education students. The new at-risk weight follows a recommendation of a mayoral-commissioned study that recommended additional funding for students living in poverty. The new weight defines a student who is 'at-risk' as a student who falls under any of the following categories: is homeless, living in foster care, an over-age high school student, eligible for Temporary Assistance for Needy Families (TANF) or the Supplemental Nutrition Assistance Program (SNAP).

Public charter schools will receive funds for an estimated 15,657 at-risk students in the 2014-2015 school year, resulting in \$33 million in additional funding from the new supplemental weight. An estimated 21,407 at-risk kids that will be enrolled in DC Public Schools in the 2014-2015 school year resulting in more than \$44 million in new funds for DCPS. (The budget would eliminate separate funding for summer school and require it to come from the at-risk weight, which means the net increase in funding is not as great as noted above.)

- **Fixed Costs.** The proposed FY 2015 budget includes a \$47 million increase to the Department of General Services. The majority of the increases will go toward rising fixed costs associated with the owning, maintaining, and leasing the District’s buildings.
- **Increases to Mental Health Services.** The proposed FY 2015 budget includes a \$24 million increase to the Department of Behavioral Health. The department’s proposed budget enhances funding for mental health services by 16 percent or \$5 million. The budget also proposes a \$3.3 million expansion of the school-based mental health program, adding a mental health clinician to 23 more DCPS and public charter schools.

Other notable changes include:

- **Cash Assistance for Families with Children.** The mayor proposes a cost of living increase in benefits for families in the Temporary Assistance for Needy Families (TANF), DC’s welfare-to-work program. The current level of TANF benefits, just \$428 a month for a family of three, leaves many families in a state of constant crisis. Then, in FY 2017, benefits would be increased by 46 percent to make the amount similar to the benefits in neighboring Maryland. Under the proposal, a family of three will receive \$438 in FY 2015, \$449 in FY 2016, and \$655 in FY 2017.
- **Affordable Housing.** The budget includes \$4 million for rental assistance, with one quarter of the funds being set aside for seniors who are leaving nursing homes to return to the community. Another \$5 million will go to help end chronic homelessness among veterans by 2015 and a \$1 million increase will be given to the Low-Income Heating and Energy Assistance in order to raise benefit levels for people enrolled in the Supplemental Nutrition Assistance Program. The Housing Production Trust Fund — DC’s main source for affordable housing construction and preservation — would see a \$30.2 million one-time increase in the current fiscal year, FY 2014.
- **Early Childhood Education.** The budget proposes an additional \$4 million to build DC’s early childhood Quality Rating and Improvement System (QRIS), which rates the quality of child care providers, offers assistance to improve quality, and provides higher reimbursements for child care subsidies to higher-quality providers. Another \$3 million is proposed to increase the number of slots for infants and toddlers in DC’s child care subsidy program.
- **Tax Changes.** The mayor’s budget adopts some recommendations from the Tax Revision Commission. It would create a new personal income tax bracket and rate for individuals with incomes between \$40,000 and \$60,000 or two-earner families with incomes between \$80,000 and \$120,000. Part of the cost for this change would be offset in the later years by maintaining an income tax rate of 8.95 percent on income above \$350,000. The rate was set to expire at the end of 2015, which would have left the top income tax rate at 8.5 percent for taxable income over \$40,000.

### Some Programs Aimed At Helping Vulnerable Residents Remain Underfunded

While the proposed FY 2015 budget includes significant investments across DC government, there are several programs that did not see increases in funding, including:

- **Homeless Families.** The overall budget for services to homeless families would fall from FY 2014 to FY 2015. The budget includes a \$1 million increase each for the Emergency Rental Assistance Program (ERAP) and the Rapid Rehousing program (RRH). Emergency Rental Assistance prevents homelessness by providing funding for households facing eviction or those seeking new housing. Rapid rehousing provides housing search assistance, supportive services, and short-term rental assistance. Yet these increases would be offset by an anticipated \$2.4 million reduction in available federal funding. Additionally, the District used \$9 million of federal TANF carryover dollars for homeless family services in FY 2014, but it is unclear how much, if any, carryover will be available in FY 2015.
- **Adult Literacy.** In four years, it is estimated that more than 70 percent of all DC jobs will require some form of postsecondary education, but approximately 60,000 DC residents don't have a high school diploma or GED, according to a recent report by DC Appleseed. Currently, DC only provides funding to serve about 8,000 DC residents. Additional funds were added in the FY 2014 budget to enhance literacy services, but that would not be continued in the FY 2015 budget.

## Revenue Changes in the FY 2015 Budget

Mayor Gray's proposed fiscal year (FY) 2015 budget includes a variety of changes to taxes and fees that would result in a \$27 million reduction in revenues, equal to about one-third of one percent of the city's locally funded budget (see **Table 2**, page 12). The proposed revenue changes would start to implement a number of recommendations issued by the DC Tax Revision Commission in February 2014 as well as implement a number of changes that were not recommended by the commission.

## Revenue Changes Based on Recommendations of the DC Tax Revision Commission

The proposed FY 2015 budget includes a number of provisions that partially or fully implement recommendations of the D.C. Tax Revision Commission.

**Income Tax Rate Reduction for Moderate- and Higher-Income Residents:** The proposed FY 2015 budget would reduce the income rate from 8.5 percent to 7.5 percent on income between \$40,000 and \$60,000 (or \$80,000 to \$120,000 for two-earner families). This would reduce revenues by \$25 million. The commission had recommended reducing the rate to 6.5 percent on a wider range of income.

The proposed change would reduce taxes by up to \$200 for a single-earner household and up to \$400 for a two-earner household. It would reduce taxes for both moderate-income households and also for higher-income households. This is because high-income households pay the lower rates on the lower portion of their income and only pay the top rate on the portion of their taxable income that exceeds the threshold for the higher brackets. As a share of income, however, the benefit of the tax reduction will be greatest for moderate-income households.

## FY 2014 Supplemental Budget

In addition to the proposed FY 2015 budget, Mayor Gray delivered a FY 2014 supplemental budget to the Council on April 3<sup>rd</sup>. The changes to the current-year budget are based on an \$18 million upward revision to FY 2014 revenue projections announced in February, \$87 million in cost savings initiatives as well proposed increases to the spending authority among several agencies by \$34 million.

A summary of the major increases are as follows:

- **Housing Production Trust Fund: \$30 million.** The FY 2014 revised proposed budget includes a significant one-time increase in funding for the HPTF – DC’s main source for affordable housing construction and renovation.
- **Contingency Cash Repayment: \$52 million.** The Mayor proposes to allocate \$52 million repay the Contingency cash reserve.
- **Increased Budget Authority for Several DC Agencies: \$34 million.** The FY 2014 supplemental budget increases the authority for several DC agencies to spend certain funds that were received in a prior year but not spent, or special fees or charges the agency will collect this year beyond what was originally anticipated. Changes range from a \$100,000 increase for the Department of Transportation’s infrastructure mitigation to \$12 million within the Washington Metropolitan Area Transportation Authority for parking tax funds. A list of proposed increases can be found on the CFO’s website: <http://1.usa.gov/1m8EHcA>

A summary of the major cost savings include:

- **Reduce the DC Film Incentive Fund: \$4.3 million reduction.** The FY 2014 proposed budget would remove all funds in the DC Film Incentive Fund which would provide incentives to out of town companies to film in DC. DCFPI has testified that film incentives used to lure out of town companies to DC are not a good use of DC taxpayer dollars and that instead funds should be focused on investing in homegrown film and video production.
- **Reduce funding for DC Public Charter Schools: \$10 million reduction.** The FY 2014 proposed budget would reduce funding for charter schools based on lower actual enrollment in the 2013-2014 school year.
- **Reduce Post Employment Benefits Account: \$21 million reduction.** The FY 2014 proposed budget would reduce funding based on actuarial projects of what is needed to be deposited into the fund.
- **Reduce various fund balances: \$52 million reduction.** The FY 2014 budget proposes to make 15 non-lapsing o-type, dedicated tax or local funds lapsing, meaning the funds will not carry over from year to year. In addition, the FY 14 budget proposes to eliminate another 14 funds altogether. This would result in a \$52 million reduction in FY 2014 spending.

The FY 2013 proposed budget also includes a proposal to carry \$105 million in FY 2014 revenues into FY 2015 to help fund a number of increases in programs and services.

### Maintain DC's Top Income

**Tax Bracket:** In order to offset some of the revenue loss from reducing income taxes on moderate-income households in the future, Mayor Gray's budget also adopts the Tax Revision Commission recommendation to maintain a top income tax rate for residents with taxable incomes above \$350,000 rather than letting it expire in 2016 as under current law. However, the proposed budget would keep the current top rate at 8.95 percent, while the commission had recommended lowering the rate to 8.75 percent. The difference between the mayor's proposal and the commission is relatively modest; a family with income of \$500,000 would pay \$300 more per year in taxes — or less than one percent of income — with an 8.95 percent top rate than with an 8.75 percent top rate.

**Table 2**  
**Revenue Changes in the Proposed FY 2014 Budget**

	<b>Amount In \$ Millions</b>
<b>Tax Commission-recommended Changes</b>	
Reduce Income Tax Rate	(\$25.0)
Reduce Business Income Tax Rate	(\$20.0)
Change Business Income Apportionment	\$20.0
Exempt Investment Firms from Income Tax	(\$4.4)
Equalize taxes on Tobacco Products	\$7.0
<b>Other Revenue Changes</b>	
Senior Property Tax Elimination	(\$8.5)
Protections for Delinquent Homeowners	(\$1.3)
Tax abatements	(\$1.3)
Sidewalk Café fees	\$1.1
Alternative Fuel Incentives	(\$0.5)
Improved Tax Compliance	\$6.1
<b>Total</b>	<b>(\$26.8)</b>

Maintaining the top rate would generate a substantial amount of revenue relative to current law — \$20 million per year starting in 2016 — that helps to offset the cost of reducing taxes on middle income residents starting in FY 2016.

**Reduction in Business Income Tax Rate, New Formula for Allocating Profits to DC:** The FY 2015 budget would reduce the income tax rate for incorporated and unincorporated businesses from 9.975 percent to 9.4 percent, resulting in a tax reduction of \$20 million.

This revenue loss would be offset by a change in how the profits of multistate corporations are apportioned to the District. State corporate income taxes require multistate business to calculate what portion of their national profits are allocated to a specific state, and this typically is based on the share of the corporation's personnel, property and/or sales that occur in that state. The proposed budget would implement "single sales weighting" under which profits would be apportioned to DC based only on the share of a corporation's sales that occur in DC. This would raise \$20 million and would affect corporations that have a large volume of sales in the District but limited personnel or property.

**Tax Exemption for Investment Firms:** The budget proposes to exempt investment firms from DC's unincorporated business franchise tax. The D.C. Tax Revision Commission concluded that imposition of the tax discourages investment firms from locating in the District — or requires firms to engage in extensive tax avoidance. The commission recommended exempting these firms from tax on the earnings of their investors, creating a "safe harbor" for such investments.

**Sales Taxes on Tobacco Products:** The proposed FY 2015 budget would broaden the definition of tobacco products that are subject to sales tax, and it would set the tax rate on all tobacco products to equal the taxes levied on cigarettes. The goal is to simplify tobacco taxation and to ensure that the cigarette tax rate — which is intended to discourage consumption of cigarettes — applies to all tobacco products.

## **Revenue Proposals Not Related to Tax Commission Recommendations**

The proposed FY 2015 budget includes a number of other revenue changes that were not part of the Tax Revision Commission's recommendations.

**Property Tax Elimination for Long-term Senior Homeowners:** The budget provides funding to implement a bill adopted earlier in 2014 — the Senior Citizen Real Property Tax Relief Amendment Act. That law eliminates property taxes for residents who are 70 or older, have owned a home in the District for 20 years or more, have incomes below \$60,000 and interest income below \$12,500. This would reduce revenues by \$8.5 million.

While the intent of this bill is sound — to prevent seniors from being priced out of their homes — the approach in the bill raises some concerns. Most important, it provides substantial tax reductions to homeowners but no assistance to renters. Yet nearly half of DC's seniors with incomes below \$60,000 are renters rather than homeowners, and lower-income senior renters are more likely than homeowners to have high housing cost burdens. This means that while this legislation provides substantial tax assistance to some lower income senior residents, it leaves out the majority of seniors who are struggling with DC's high and rising housing costs.

A better approach to helping seniors address their property tax bills would be to expand DC's property tax credit for lower-income households, known as Schedule H. Schedule H serves both renters and homeowners, and both elderly and non-elderly residents. Schedule H currently helps residents with incomes up to \$50,000. The income eligibility could be expanded to \$60,000 – and the benefits could be enhanced specifically for seniors. This would meet the goals of the Senior Citizen Real Property Tax Relief Amendment Act while ensuring that all lower-income seniors and others get the help they need.

**Protections for Homeowners with Delinquent Property Tax Bills:** The budget includes provisions to prevent homeowners with minor unpaid property tax bills from losing their home. Under current law, when a homeowner is behind on property taxes, the District can place a lien on the home and then sell that tax lien to a private party. The amount owed by the homeowner increases due to interest charges and can also increase if the lienholder adds legal fees and other charges. This has led to costs that balloon well beyond the initial tax delinquency, and it has forced some families to lose their home because they could not pay the higher costs.

These FY 2015 budget would address these issues by implementing the Residential Real Property Equity and Transparency Act. More specifically, the proposed budget would prohibit the sale of a residential real property tax lien if the amount owed is \$2,500 or less. It also would allow homeowners to enter into a payment plan if the home is their primary residence and they owe \$7,500 or less in taxes.

**Tax Abatements:** The proposed budget would provide a tax abatement of \$1 million per year to the Urban Institute and an abatement for a health clinic leased by Whitman Walker Health that would be worth \$250,000 in 2015 and about \$500,000 in subsequent years.

**Higher Fees for Sidewalk Cafes:** The budget would raise the fees charged to restaurants that use public sidewalks, raising \$1.1 million in 2015.

**Alternative Fuel Tax Incentives:** The budget would provide roughly \$500,000 in tax credits to convert vehicles to alternative fuels and for the installation of alternative fuel infrastructure.

**Improved Compliance Measures:** Through adding staff, the District's Office of Tax and Revenue intends to improve tax billing, with a projection that this will raise \$6.1 million in 2015.

### **Proposed Budget Allows Hospital "Bed Tax" to Expire**

The District adopted a new tax on hospitals in FY 2011, levied as \$2,000 per licensed hospital bed. The rate was increased to \$3,800 per bed in FY 2012. The tax was set to be a temporary source of revenue during the recession, to provide local funds for Medicaid that would draw federal matching funds. The tax was set to expire in FY 2015, and the mayor's budget maintains that plan. The budget replaces those lost local funds with general funds to prevent any cuts to Medicaid services.

## APPENDIX

### Summary of FY 2015 Funding Changes by Appropriations Title

*Note: all figures, unless otherwise noted, have been adjusted for inflation to equal FY 2015 dollars.*

#### Government Direction and Support

The proposed FY 2015 general fund budget for Government Direction and Support agencies is \$704 million, a \$92 million or 15 percent increase from FY 2014. The larger agencies within this appropriation title are the DC Council, the Office of Attorney General, the Office of the Chief Technology Officer (OCTO), the Department of General Services, and the Office of the Chief Financial Officer.

Four agencies under Government Direction and Support had significant increases in funding when compared to FY 2014, including Department of Human Resources, Office of Contracting and Procurement, Department of General Services, and Office of the Chief Financial Offer. The Department of General Services has the largest proposed increase, adding \$47 million for a total general fund budget of \$262 million.<sup>6</sup> The majority of the increase was due to rising fixed costs associated with the owning, maintaining, and leasing the District's buildings.

The Office of the Chief Financial Officer's proposed budget grew from \$136 million to \$158 million, an increase of nearly 17 percent. The mayor's proposal increases funding to the Tax Administration division within the OCFO by \$8 million to support a contract that will improve revenue collections and the financial performance of the District. The proposal also funds two employees to implement provisions of the "Residential Real Property Equity and Transparency Act of 2014" — including a delinquent tax deferred payment program for residents.

The Office of Contracts and Procurement proposed budget is \$18.1 million, a \$6 million increase. This funding includes an increase of 41 full-time equivalent positions for procurement reform efforts. DC Department of Human Resources adds \$900,000, for total budget request of \$8.2 million, to cover cost-of-living and fringe benefit adjustments, as well as to add five full-time positions for the Capital City Fellow's program.

The only Government Direction and Support agency that faces a funding decrease is the Office of the City Administrator. The agency's proposed FY 2015 budget is \$3.6 million, \$1.1 million or 25 percent less than in FY 2014. The lower proposed budget was the result of the expiration of a District property assessment that supported the Bloomingdale Flood program. The temporary program helped residents who were affected by floods in Le Droit Park and Bloomingdale, but the revenue source expired at the beginning of FY 2014.

#### Economic Development and Regulation

The proposed general funds budget for Economic Development is \$410 million, a \$15.3 million, or 4 percent increase over the FY 2014 budget. The appropriation title includes the budgets for the Deputy Mayor for Planning and Economic Development, the Office of Planning, the Department of Employment Services, the Department of Housing and Community Development, the DC

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<sup>6</sup> The Department of General Service's figures exclude funding for facilities maintenance for District of Columbia Public Schools and the Department of Parks and Recreation.

Housing Authority Subsidy, the Department of Consumer and Regulatory Affairs, the Housing Production Trust Fund, and others.

The proposed general funds budget for the Deputy Mayor for Planning and Economic Development is \$34.8 million, a 1 percent increase from FY 2014. The majority of the increase is a result of costs associated with hiring four additional staff and a shift of \$1 million from the capital budget to the operating budget for the Poplar Point project.

The proposed general funds budget for the Office of Planning is \$9.4 million, a 41 percent increase over FY 2014. The increase is not actually an increase that will result in additional services, but largely the result of a shift of \$2.5 million to the neighborhood planning division that has been budgeted in the capital budget but will be moved to the operating budget.

The proposed general funds budget for the Department of Small and Local Business Development is \$8.4 million, an \$800,000 or 10 percent increase over FY 2014. The increase largely covers funds for staff and activities that were previously funded in the capital budget. Activities included better defining a small business enterprise and certified business enterprise (CBE) and other requirements related to the CBE program.

The proposed general funds budget for the Department of Housing and Community Development is \$22 million in FY 2015, not including the Housing Production Trust Fund, which is described separately in this analysis. The proposed DHCD budget is an increase of 5 percent from \$21 million in FY 2014. The increase is largely attributed to a transfer of \$2.4 million in costs associated with projects that had previously been funded with capital dollars. Taking that into account, the total budget for DHCD is actually \$1.4 million lower than in FY 2014.

Other notable changes in DHCD's budget include \$500,000 for business façade improvements in Ward 8, and \$300,000 for an East End homeownership campaign that will be focused on increasing homeownership in Wards 7 and 8. The budget also includes \$1 million in new local funds for the Home Purchase Assistance Program which helps low-income first time homebuyers with down payment and closing cost assistance. Unfortunately, this increase in local funds is not enough to offset federal drops in funding which leave the program overall \$1 million lower than in FY 2014. The overall increases in DHCD's budget will be somewhat offset by a reduction of \$1.6 million and nearly 17 full time equivalent positions across the agency and \$2.3 million in reductions in contracts as a result of lower projected revenues in the property acquisition and disposition division.

Proposed revenue for the Housing Production Trust Fund is \$40 million in FY 2015. This a nearly \$2 million, or 4 percent, increase over the initially approved FY 2014 budget. The FY 2014 supplemental budget adds one-time funds of \$31 million that will not be repeated in FY 2015. When adjusted for those funds, total revenues for the HPTF in FY 2015, will be \$29 million, or 37 percent, lower than the \$69 million available in FY 2014.

The proposed general funds budget for the DC Housing Authority subsidy is \$43 million, an 8 percent increase over budget of \$39.7 million. The increase includes \$3 million to project/sponsor based local rent supplement program for families and individuals and \$1 million increase to tenant based assistance to target low-income seniors who are moving out of nursing homes. LRSP helps make homes affordable to very low-income residents. The increased funding should help create about 350 new affordable homes.

The proposed general funds budget for the Department of Employment Services is \$87 million, a \$9 million decrease in funds from FY 2014. The budget includes a \$4 million increase in funds for adult job training. That increase is largely offset by a proposed \$13 million reduction in costs associated with processing workers compensation claims which DOES projects a significant decrease in claims in FY 2015.

The proposed general funds for the Department of Consumer and Regulatory Affairs is \$48.5 million, an \$8 million, or 20 percent increase over FY 2014. Some of the increase reflects the addition of 34 full time equivalent positions to the permitting and enforcement division and the enforcement, licensing and administrative division. The bulk of the increase, around \$7 million, is for the licensing division to support increased contracts for the One-City portal and Green Building funds.

### **Public Safety and Justice**

The proposed general funds budget for public safety is \$1.05 billion, a 1 percent, or \$8 million, decrease from FY 2014. This appropriation title includes the budgets for the Metropolitan Police Department, Fire and Emergency Management System, the Department of Corrections, the National Guard, and the Deputy Mayor for Public Safety and Justice, among others.

The proposed budget for the Metropolitan Police Department is \$485.5 million and decreases funding for the department by \$8 million, or 1.6 percent over FY 2014. The decrease includes the removal of one-time funding included in FY 2014 for equipment for the Automated Traffic Enforcement Program. It also includes a decrease in costs because of savings anticipated to streamline the department's operations. The department will see increases to support hiring employees to run the Automated Traffic Enforcement Program.

The proposed budget for the Fire and Emergency Medical Services Department is \$204 million, a slight \$406,000 increase over FY 2014. The proposed budget includes decreases to account for the removal of one-time funding used in FY 2014 for staff training and development. There are also increases to support positions that will aid in policy and procedure compliance and help maintain safety and security plans.

The Department of Corrections proposed budget is \$154 million and includes an increase of \$8.5 million, or 5.9 percent, over FY 2014. This includes an adjustment which reallocates funding to expand a security camera system from capital to operating funding and an increase associated with eliminating the Office of Community Affairs and redirecting and increasing funding for a new Community Affairs division.

The Office of the Deputy Mayor for Public Safety and Justice proposed budget is \$20 million, a one percent increase over FY 2014. This office is tasked with providing support and guidance for the agencies under the Public Safety appropriations title. Budget increases in this office include funding to support truancy grants and financial assistance for legal services for District residents through the Access to Justice Program.

## Education

The proposed general fund budget for education is \$1.9 billion, a 6 percent, or \$105 million, increase over the approved FY 2014 budget. Agencies under the public education appropriation title include: the Deputy Mayor for Education, DC Public Schools, DC Public Charter Schools, Office of the State Superintendent of Education, University of the District of Columbia, and the DC Public Library, among others.

The mayor's proposed budget includes a 2 percent increase to the locally funded Uniform Per Student Funding Formula (UPSFF), adding \$186 more to the base per-pupil funding amount across both DC Public Schools (DCPS) and DC Public Charter Schools. Both sectors are also projecting an increase in student enrollment from the previous year. Local funding for DCPS is proposed to be \$709 million, an increase of 6 percent, while funding for Public Charter Schools is \$674 million, an increase of 9 percent from FY 2014. Notable changes to the school funding formula include a new weight for at-risk students, which will encompass funding for summer school, and increased resources for adult, alternative, English language learner, and special education students.

Public Charter Schools will also see an inflation adjustment in their non-residential facilities allotment, which will rise from \$3,000 to \$3,072 per student for FY 2015. Based on projected enrollment, this change will result in \$2.8 million more facility funds for public charter schools. The Public Charter School Board will see a 57 percent increase in local funding from FY 2014, with a proposed budget of \$6.7 million. The increase is mainly due to the increased administrative fee paid to PCSB from each public charter school.

The Deputy Mayor for Education's office will see an 82 percent increase in local funds, with a proposed budget of \$3.4 million. The additional \$1.5 million will support staff positions for the My School DC common lottery and the DC Youth Re-Engagement Center; the latter will be housed at the Department of Employment Services.

The Office of the State Superintendent of Education (OSSE) budget in FY 2015 is \$135 million, an increase of 1.5 percent, or \$2 million, from FY 2014. The Office of Early Childhood Education shows an increase of \$4.2 million to build its early childhood Quality Rating and Improvement System (QRIS) and \$3 million to improve access to child care slots for infants and toddlers in low-income families. An additional \$8 million to expand child care slots for infants and toddlers is the first item on the mayor's additional revenue priority list. Funding for adult and family education and career and technical education saw declines, but there is \$880,000 allocated for additional career and technical education academies. The sixth item on the mayor's contingency revenue list is \$3 million for adult literacy.

The proposed OSSE budget also reflects a shift of \$4.3 million from dedicated taxes to local funds in the newly created Office of Wellness and Nutrition Services to fund the Healthy Schools Act, which provides financial incentives to DCPS and public charter schools that provide healthy meals.

Proposed funding for the DC Public Library system is \$57 million, an increase of 4 percent, or \$2 million, from FY 2014. The proposed budget reflects additional funding to support mobile library services for incarcerated individuals.

Proposed funding for public education facilities is \$32 million, a decrease of 31 percent when compared to FY 2014. These funds are used to manage school capital projects for the District. The decline largely reflects re-categorizing a number of DGS staff positions that largely support parks projects but have been categorized under school projects. The mayor's proposed capital budget for DCPS is \$409 million, which includes \$205 million for high schools, \$184 million for elementary schools, and \$20 million for middle school modernization and construction in FY 2015.

The budget includes \$15 million for the DC Commission on the Arts and Humanities. While this appears to be an increase, it entirely reflects a technical adjustment that shifts \$5 million from the capital budget to the operating budget.

### **Human Support Services**

The proposed FY 2015 general fund budget for Human Support Services is \$1.86 billion, a 3 percent increase from FY 2014. The agencies in this appropriation include the Department of Human Services, the Child and Family Services Agency, the Department of Health, the Department of Behavioral Health, the Department of Youth Rehabilitative Services and the Department of Health Care Finance among others.

The proposed budget for the Department of Human Services will increase 3 percent from \$219 million in FY 2014 to \$225 million in FY 2015. The major changes to note are:

- \$4.7 million to increase Permanent Supportive Housing for individuals to end chronic veteran homelessness by 2015.
- \$2 million increase for the Family Homeless Services Continuum to be split evenly between the Rapid Re-housing Program and Emergency Rental Assistance Program (ERAP). Rapid Re-housing also known as the Family Re-Housing and Stabilization Program (FRSP), provides housing search assistance, supportive services, and up to one year of rental assistance to homeless families. ERAP prevents homelessness by providing funding for overdue rent and related legal costs for households facing eviction. The program also provides security deposits and first month's rent for residents moving into new homes. These increases do not fully offset a reduction in local funding of \$198,000 and a decrease of \$2.4 million in available federal funding for the Family Continuum.
- \$1.4 million to add a cost-of-living adjustment (COLA) increase to Temporary Assistance for Needy Families (TANF) benefits. The Budget Support Act includes a proposal to increase benefits annually by COLA in FY 2015 and FY 2016 and then to increase benefits by 46 percent in FY 2017. Under the proposal, a family of three will receive an estimated \$438 in FY 2015, \$449 in FY 2016, and \$655 in FY 2017. This will be the first increase in benefits since 2008.

The Budget Support Act includes a proposal to change the redetermination requirement for the Program on Work Employment and Responsibility (POWER) program. POWER serves TANF families whose head of household is unable to meet TANF program participation requirements because the parent is dealing with domestic violence; caring for a family member with a disability; or suffering from a physical health, mental health, or substance abuse problems. POWER families are

not subject to the TANF time limits. Currently POWER parents must recertify annually. This proposal would allow the administration to require more frequent recertifications. Additionally, if a POWER parent is suffering from a physical or mental health problem, the parent will be required to apply for Social Security Disability Insurance (SSDI) and/or Supplemental Security Insurance benefits, federal benefits for those who are unable to work due to disability.

The proposed Child and Family Services Agency (CFSA) budget is \$172.5 million, a reduction of nearly 2 percent. The budget assumes a continued reduction in the number of children placed into foster care and reinvests these savings into prevention services and new services for those who do get placed in care.

The proposed Department of Youth Rehabilitation Services (DYRS) budget increases funding by 2 percent, bringing the FY 2015 budget to \$10 million. The budget reallocates \$2.7 million within the agency to expand DC Youth Link and other community-based programs and to improve the security at the Youth Services Center (YSC) and The New Beginnings Youth Development Center (NB).

The proposed budget for the Department of Disability Services (DDS) increases from \$64 million to \$123 million, but the majority of this increase reflects a transfer of \$51 million from the Department of Health Care Finance to DDS. The transfer is for the federal waiver program that allows additional services to be provided to individuals with developmental or intellectual disabilities in community settings rather than institutional settings. Taking into account this transfer, the budget increases by 13 percent, including \$6.6 million to provide living wage increases for the home health workers and personal care attendants who provide services for DDS beneficiaries.

The proposed Budget Support Act authorizes DDS to enter into an agreement with the Department of Health Care Finance so the agencies can work together on policy design and rate setting for services targeting individuals with intellectual and developmental disabilities (IDD). It also creates a Family Support Council, composed of people with IDD and family members, tasked with developing and implementing an action plan to inform policies and programs that support families.

The FY 2015 budget proposal increases funding for the Department of Health Care Finance by \$19 million, for a total general fund budget of \$838 million.<sup>7</sup> The increase reflects projected enrollment growth in the Medicaid program and higher managed care costs. The Healthcare Alliance program, which provides health insurance for low-income residents who are not eligible for Medicaid, has a proposed increase of \$10 million, resulting in a FY 2015 budget of \$50 million. While the program's enrollment continues to decline, the per-member costs are rising, suggesting that an older and sicker population remain enrolled in the program.

The Department of Health's proposed budget for FY 2015 grew by 6.5 percent to \$89 million. The budget includes local funds to sustain DC's Home Visiting program by replacing expiring federal grant money with \$2.5 million in local funds. The program improves early childhood health and

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<sup>7</sup> For comparison sake, this figure includes \$51 million local program funding for the intellectual disabilities and developmental disability (ID/DD) Medicaid waiver, which beginning this FY 2015 will be located in the Department of Disability Service's budget.

development through home-based interventions. The agency's proposed budget also adds \$5 million to support an increase in school nurses.

The Department of Behavioral Health's proposed general budget is \$236 million, a \$24 million increase from the FY 2014 approved funding level. The department's proposed budget enhances funding for mental health services by 16 percent or \$5 million. The budget also proposes a \$3.3 million expansion of the school-based mental health program, adding mental health clinicians to 23 more DCPS and public charter schools.

Funding for the Department of Parks and Recreation (DPR) is about \$43 million, 16 percent higher than in FY 2014. However, the increase is attributable to a transfer of \$10 million to the Department of General Services in 2014. When accounting for the transfer, the budget is actually 12 percent lower than in FY 2014. The budget also includes \$1.5 million toward summer programs.

The general fund budget for the Office on Aging of \$31.7 million reflects a 20 percent increase over fiscal year 2014. The \$5.4 million increase is largely a result of a \$4.9 million technical increase to support \$3 million for existing transportation contracts and \$1.9 million for a food services contract that provides meals for seniors. The mayor's budget also provides an additional \$2 million to enhance senior programming and expand access to senior wellness centers, \$455,000 to support the Community Supplemental Food Program and the Community Automated Reliable Electronic System, and an additional \$250,000 investment in the "Age-Friendly" citywide initiative.

The budget for the Office of the Deputy Mayor for Health and Human Services (DMHHS) decreased to \$1.2 million, about 40 percent less than FY 2014. The budget decrease is mostly due to a transfer of the PASS/Truancy program to the Department of Human Services. After adjusting for this transfer, the budget for DMHHS increased by about 12 percent since FY 2014. About \$178,000 is used to create two AmeriCorps positions and hire a Real Property Tax Ombudsman.

## **Public Works**

The proposed general funds budget for public works is \$689 million for FY 2015, a 5 percent increase over FY 2014. Public works includes the Department of Public Works, Department of Transportation, Department of Motor Vehicles, District Department of the Environment, Taxicab Commission, Washington Metropolitan Area Transit Commission, and Washington Metropolitan Area Transit Authority (WMATA). All of these agencies have budget increases for FY 2015.

Proposed funding for the Department of Public Works increased to \$129 million, or 4.5 percent since FY 2014. This increase includes \$1.5 million in overtime pay for staff cleaning public spaces and \$1.3 million for District-wide fleet operations.

Proposed funding for the Department of Transportation (DDOT) is \$107 million, an increase of 9 percent. This includes \$7.6 million of funds that were shifted from the capital budget to the operating budget, including funding to support the Streetcar program. In addition, revenues from Bike Sharing, Streetcars and Transportation mitigation services are expected to be \$7 million higher than in FY 2015.

The Washington Metropolitan Area Transit Authority's (WMATA) budget increased 9 percent to \$328 million. However, several funds were transferred into and out of WMATA's budget in FY 2015. When these transfers are taken into consideration, WMATA's budget for FY 2015 is only about 1 percent higher than the previous year.

Funding for the District Department of the Environment (DDOE) increased by 11 percent to about \$78 million. Major increases include \$5.3 million to help fund the stormwater permits program and Anacostia Clean Up program as well as \$1.8 million to utilize a wetlands fund settlement award and an additional \$1.7 million for 14 full time equivalent positions for the stormwater permits program.

The proposed budget includes a provision to increase Low Income Home Energy Assistance Program (LIHEAP) benefits in a program, known as "Heat and Eat" that allows families getting utility assistance to qualify for larger benefits under the Supplemental Nutrition Assistance Program (SNAP), commonly known as food stamps. SNAP recipients are eligible for higher benefits if they receive energy assistance. DC and a number of states have "Heat and Eat" programs which give SNAP recipients a nominal LIHEAP subsidy — typically just a dollar. In the 2014 federal Farm Bill, Congress raised the minimum qualifying energy assistance subsidy to \$20. The proposed Budget Support Act raises the minimum annual benefit to \$20.01 to meet this new threshold. This will allow residents to continue to qualify for higher SNAP benefits.

## **Financing**

The general fund budget for financing in fiscal year 2015 is proposed to be \$1.07 billion, an increase of 2 percent from fiscal year 2014, after adjusting for inflation. The major items in this appropriation title include debt service, the costs of equipment leases, the convention center operations, expected pay raises for DC government employees, and legal settlements and judgments.

There are a few notable changes in the proposed FY 2015 budget. The largest increase is a 13 percent increase in debt service payment — or \$66 million — reflecting increased borrowing in recent years for school construction and other capital projects. There is also a significant increase in funding in the FY 2015 budget to support leases of major equipment; the increase is almost 20 percent, or \$8 million.

The Financing budget includes \$41 million for "workforce investments," which reflects expected pay increases for DC government employees. When the pay raises are completed — typically through negotiation with collective bargaining groups — the funds for pay raises are allocated to the relevant DC government agencies.

The Financing budget also includes a number of funding reductions. The cost of funding health and other non-pension benefits to other DC government retirees will fall \$120 million to \$90 million, reflecting a reduction in the actuarially determined amount needed to address these expenses. Dedicated taxes used to fund Convention Center operations — from a portion of restaurant and hotel taxes — will fall \$6 million, or 5 percent, in 2015.

## Gray's Revised Revenue Estimate Contingency Priority List

Mayor Gray included a list of services to be funded if revenue projections for FY 2015 improve before the end of calendar year 2014. If that happens, programs will be funded in the order in which they are listed. However, it is worth noting that few items have been funded from these contingency lists in the last several years.

The list includes:

1. Funding to the Office of the State Superintendent of Education to expand infant and toddler child care slots by 200: \$8 million.
2. Increase of the maximum Earned Income Tax Credit for childless adults from \$195 to \$487: \$10.8 million.
3. A reduction of the business income franchise tax rate from 9.4 percent to 8.9 percent: \$20.8 million.
4. A reduction of the commercial property tax rate of the first \$3,000,000 of assessed value from \$1.65 to \$1.55: \$10.2 million.
5. Additional funding, split evenly, for the University of DC and Community College of DC: \$10 million.
6. Increased funding for adult literacy programs through the Office of the State Superintendent of Education: \$3 million.
7. Expansion of the school based mental health program through the Department of Behavioral Health: \$1.9 million.
8. To provide health care coverage for residents who are ineligible for the Health Benefits Exchange insurance program through the Department of Health Care Finance: \$1.9 million.
9. To expand funding for the elderly and persons with disabilities waiver through the Department of Health Care Finance: \$1.05 million.
10. To reduce the deed recordation and deed transfer taxes from 1.45 percent to 1.4 percent. It would also increase the share of deed recordation and deed transfer taxes that are dedicated to the Housing Production Trust Fund from 15 percent to 16.5 percent: \$10.4 million.
11. Increase in summer initiatives funding through the Children and Youth Investment Trust: \$5 million.
12. Increased funding for the Mayor's Scholars program through the Office of the State Superintendent of Education: \$8.5 million.

13. To increase the personal exemption from \$1,775 to \$2,215: \$10.2 million.
14. To increase the standard deduction from \$4,250 to \$5,200: 10.1 million.
15. To increase funds for the DC Commission on Arts and Humanities: \$10 million.
16. To increase funds for the Small Business Technical Assistance program at the Department of Housing and Community Development: \$700,000.
17. To restore funding for the Realtor fund: \$501,000.
18. To increase funds for three additional attorneys and one paralegal at the Office of the Attorney General: \$453,608.
19. To raise the estate tax threshold from \$1 million to \$5.25 million: \$13.9 million.