

# The DC Budget Balancing Act: Cutting Away a Just and Progressive Approach to Government

BY ELISSA SILVERMAN AND ED LAZERE

Examining the DC budget is a bit like the DaVinci Code: The additions and subtractions of all these numbers and acronyms within the documents provide some very significant clues and truth-telling.

To what, you ask? The priorities and thinking of our elected officials.

The District has a reputation for making progressive budget and policy choices. Yet the mayor and DC Council's solution to closing a \$340 million budget shortfall this summer went in a decidedly different direction. Despite rhetoric of "putting all options on the table," our elected leadership chose to make deep cuts in human services and education, while leaving other sections of the budget largely untouched.

The regressive actions didn't end there. Mayor Adrian Fenty's budget-balancing proposal included virtually no new revenues – even though the city faces an unprecedented drop in tax collections. The council was more willing to consider tax increases, but they ended up making choices that will fall

heavily on low- and moderate-income families, dismissing more progressive options.

Budget balancing isn't a basic math exercise involving subtraction and more subtraction, but an elegant equation with variables involving short- and long-term goals, which should add up to future prosperity and growth. Most of all, budget balancing should be a true balance, a shared responsibility. One group of residents, particularly our poorest and most vulnerable, should not bear the burden of the fiscal downturn. But that's exactly what happened this summer.

## DC's Budget Ax Falls Hardest on Low - and Moderate - Income DC Households

When a June revenue projection showed a new \$340 million shortfall for fiscal year 2010 and the remainder of 2009, Fenty said that he'd address it by thoroughly scrubbing every department budget. But the Brillo pad was applied unevenly. A DC Fiscal Policy Institute analysis found that more than

half of the \$100 million in proposed cuts were concentrated in human services and programs that help low-income families. To highlight a few: The mayor proposed cutting cash assistance in DC's welfare program for families with children and slicing in half a successful program that provides civil legal services to the poor. Job training, adult literacy and affordable housing also took big hits.

The DC Council agreed to restore some of the worst cuts but then added their own – the largest being a \$30 million cut to DC Public Schools and Public Charter Schools, one area the mayor vowed to hold harmless.

These cuts will limit DC's ability to tackle its most serious challenges, such as illiteracy. Some of these cuts will push poor families into more desperate situations and could end up costing more in emergency services. And it's worthwhile to note that while human services and education took big hits, transportation and other budget-busters largely avoided the council butcher-knife.

DC Budget Cuts Fall Heavily on Human Services and Education  
(Figures in Millions)

REGRESSIVE TAXES COUNCIL VOTED FOR		PROGRESSIVE TAXES COUNCIL DECIDED AGAINST	
Tax	FY 2010 Fiscal Impact	Tax	FY 2010 Fiscal Impact
Increase retail sales tax rate from 5.75% to 6%	\$20.8M	Increase income tax for those earning more than \$500,000 to 8.9%	\$10.9M
Increased cigarette tax from \$2.00 to \$2.50	\$9.7M	Eliminate exemption for interest earned on out-of-state bonds	\$8.8M
Increased gas tax from \$.20/gallon to \$.235/gallon	\$3.5M	Increase minimum corporate franchise tax from \$100 to \$300	\$4.7M
Freeze personal exemption/standard deduction until 2013	\$5.2M	Increase sales tax on parking from 12% to 15%	\$9.4M

## It's Raining, It's Pouring, the Old Man is Snoring – But Onerous Rules Prevent DC from Using Its Rainy Day Fund

One reason additional cuts were made is because the council decided against dipping into the city's rainy day fund, as the mayor had proposed and as most states have done in recent years. DC, unlike almost every other state in the country, must pay back its fund within two years due to a Congressional mandate.

Almost everyone agrees it's "raining," but this and other restrictions make the rainy day fund impractical to use during

a prolonged economic downturn like we're in now. Some councilmembers suggested that using the rainy day fund under any circumstances is fiscally irresponsible.

But what's the point of a rainy day fund if you can't use it?

Critics forget that one benefit of such reserves is that they force cities and states to save money when times are good – rather than spend it all – in addition to making it easier to get through tough times. Personal finance guru Suze Orman beats her fists on her PBS and CNBC shows, telling viewers to have an emergency fund. Why? Orman wants people to build a cushion when they are able, so they can remain financially steady if they lose a job or face other unexpected financial burdens.

DC has been responsible in creating that financial cushion with our tax dollars. We should be allowed to use it during downturns and pay it back during recoveries. Some DC leaders said that Wall Street bond rating agencies told them we shouldn't try to change the rainy day fund rules right now. Yet this devastating economic downturn has taught us that Wall Street's advice isn't always the best.

Our elected leaders should start now to persuade Congress to reform DC's rainy day fund rules so that we can use it when we need to.

### Raising Revenues the Wrong Way

No politician is fond of tax increases, but the anti-tax mantra has gotten louder in DC in recent years. While running for mayor, Fenty made a pledge he would not raise taxes. There's one problem, however. Taxes pay for the government services we rely upon.

The mayor's plan to eliminate the budget deficit included only one modest revenue increase – an increase in a fee to help pay for 911 services; that fee is applied to phone bills. The council rejected that but identified \$50 million in other revenue increases. They deserve credit for taking the stand that the budget shouldn't be balanced with cuts alone. Yet the way they chose to raise revenues is not so noble – by increasing sales, cigarette and gas taxes, and to eliminate inflation adjustments to DC's standard deduction and personal exemption on the income tax.

Each one of these is regressive

and will place most of the burden on the poor. The council noted that raising the sales tax makes sense because some of it is paid by non-residents, and increasing the cigarette tax leads to reduced cigarette use. But there is no rationale for eliminating cost of living adjustments to income tax deductions that benefit our neediest residents the most.

The council rejected a number of progressive tax options, such as increasing the top income tax rate and eliminating an exemption for interest earned on bonds issued by other cities and states. DC and Indiana are the only places that offer this tax break, which largely impacts those with incomes greater than \$200,000. Yet the council chose to spare these high-income investors while raising taxes on working poor families.

There's another reason to adopt progressive tax increases. Many economists, including the 2001 Nobel Prize winner, Joseph E. Stiglitz, note that increasing taxes on high-income household is not particularly damaging to the local economy, since such families are unlikely to cut back on what they spend as a result.

### Budget Balancing Should Include Public Input

During these important, priority-setting budget discussions in July, the DC Council chambers were empty. That's because the council decided to keep their decision-making secret, meeting behind closed doors.

The budget is a reflection of our priorities as a city, and the public needs to be part of the discussion. This closed-door policy should be reconsidered.

That might contribute to more progressive budget-balancing choices in the future. With new shortfalls expected just around the corner, the mayor and council will face tough budget choices again very soon. We hope those decisions will reflect a true balancing act – by sparing those who need the government safety net the most right now and asking more of those who can most afford to contribute.

*Silverman and Lazere are staff of the DC Fiscal Policy Institute (www.dcfpi.org), which conducts research on tax and budget issues that affect low- and moderate-income DC residents. ★*

## ADVISORY NEIGHBORHOOD COMMISSION 6A

Chair, Joseph Fengler, 423-8868



Serving the Kingman Park, Linden, Near Northeast, North Lincoln Park, Rosedale, and Stanton Park communities



ANC 6A meets the second Thursday (September 10), 7 pm, at Miner Elementary School, 601 15th Street, NE.

[www.anc6a.org](http://www.anc6a.org)

#### Alcohol Beverage Licensing Committee

3rd Tuesday, September 15  
Sherwood Recreation Center  
Corner of 10th & G Streets, NE  
Chair, Mary Beatty, 546-4196

#### Transportation & Public Space Committee

3rd Monday, September 21  
Capitol Hill Towers, 900 G Street, NE  
Chair, Omar Mahmud, 546-1520

#### Economic Development & Zoning Committee

3rd Wednesday, September 16  
Sherwood Recreation Center  
Corner of 10th & G Streets, NE  
Chair, Drew Ronneberg, 431-4305

#### Community Outreach Committee

3rd Monday, September 21  
Church of the Lord Jesus Christ of the Apostolic Faith Annex  
1235 C Street, NE  
Chair, Elizabeth Nelson, 543-3512

#### Public Safety Committee

3rd Thursday, September 17  
Sherwood Recreation Center  
Corner of 10th & G Streets, NE  
CoChairs, Kelvin Robinson, 744-0379 and Rebecca Sibilia, 386-2089

Please check the Community Calendar on the website for cancellations and changes of venue.

Attend a meeting! Volunteer for a committee! It's your ANC!



## Department of Housing and Community Development

### FY 2011-2015 Five Year Consolidated Plan Public "Needs Assessment" Hearings

Leila Finucane Edmonds, Director of the Department of Housing and Community Development (DHCD), announces a series of public hearings to provide residents the opportunity to express their needs relating to:

Affordable Housing  
Special Needs Housing  
Homelessness

Homeownership  
Community Development  
Public Service Activities

Residents and other stakeholders are strongly encouraged to participate!

#### Schedule of Meetings

Thursday, September 17, 2009  
6:30 p.m.  
441 4th Street NW  
Old Council Chamber

Wednesday, October 28, 2009  
6:30 p.m.  
Marshall Heights Community  
Development Organization  
3939 Benning Road NE

Wednesday, October 14, 2009  
6:30 p.m.  
DHCD  
1800 Martin Luther King, Jr. Avenue SE  
Housing Resource Center Boardroom

Thursday, November 19, 2009  
Reeves Center  
2000 14th Street NW  
2nd Floor Conference Room

If you would like to testify or need additional information, you are encouraged to email [dhcdevents@dc.gov](mailto:dhcdevents@dc.gov) or call (202) 442-7251.

Persons requiring sign language and language interpretation (i.e. Spanish, Vietnamese, etc.) assistance for the purposes of these hearings should call (202) 442-7251 seven days before the hearing.

DISTRICT OF COLUMBIA GOVERNMENT  
Adrian M. Fenty, Mayor  
Leila Finucane Edmonds, Director  
Department of Housing and Community Development

