TAX CUT TRIGGERS: FAQ

What are the tax-cut triggers?
Under a policy adopted by the DC Council in 2014, all growth in District's tax collections above the projections made in February 2014 has been devoted to a series of tax cuts recommended by the Tax Revision Commission. The DC Chief Financial Officer makes projections of future revenue collections four times a year. If these revenue projections show that the city's revenues are rising faster than previously expected, tax cuts are automatically "triggered" to be adopted.

What kinds of taxes are being cut?
The Tax Revision Commission recommended a number of tax changes, including reducing income taxes for low- and moderate-income families, reducing the top income tax rate for the highest earners, cutting the business income tax, and eliminating taxes for estates worth up to $5.25 million (the federal estate tax threshold). The Commission also recommended some policies to raise revenues, some of which were adopted by the DC Council and others that were rejected. The overall changes make the DC tax system more progressive, in that they lower taxes the most for low- and moderate-income families.

What tax cuts have gone into effect so far?
The Council broke the tax reductions into a series of smaller steps. Some $102 million have been implemented due to rising revenues. This includes expanding the Earned Income Tax Credit, raising the personal exemption and standard deduction, cutting the top income tax rate, reducing business income taxes, and changing the threshold for owing estate taxes to $2 million from $1 million. Some $129 million have not yet been implemented and are waiting to be triggered. The full list of tax changes, in order of adoption, is shown in Table X.

Why are tax-cut triggers a problem?
The tax cuts have locked the District into available revenue growth of less than 1 percent each year beyond inflation. The modest revenue growth allowed under the tax cuts is not enough to keep up with a growing population, increases in school enrollment, or rising Medicaid caseloads, or to address urgent problems such as the city's homelessness and affordable housing crisis.

Equally important, the automatic nature of the tax cuts prevents the mayor and DC Council from making decisions about the use of growing revenues – whether they should be used for tax cuts, for important public investments, or some combination. The 2014 action established tax cuts as the *only* priority for use of growing revenues for the foreseeable future.

What does it mean to delay the tax cuts?
The mayor and DC Council could agree, through the DC budget process, to delay implementation of the automatic tax-cut policy for the Fiscal Year 2018 budget.

Have tax cuts been delayed before?
Yes. In 1998, the District adopted a number of tax cuts slated to be implemented over a series of years. Those tax cuts were put on hold in 2002, when the District faced a recession. Most of the tax cuts were implemented after the recession ended.

USING DC'S SURPLUS: FAQ

How big is DC's fund balance?
The District's fund balance represents the city's accumulated assets, including various reserve funds. The fund balance has grown substantially in recent years, to $2.2 billion in 2015 from $900 million in 2009, due to years of annual surpluses and a policy to save 100 percent. The fund balance equals more than 25 percent of the city's locally funded budget, larger than all but X states by this measure.

How big is DC's surplus for 2016?
The surplus for any given year is the amount by which revenues for the year exceed spending. The 2016 surplus will be known in late January 2017, when the audit of 2016 finances is completed. It is very possible that the surplus will be substantial. A revenue forecast in December 2016 showed expected revenues for the year totaled almost $200 million higher than initial projections.

Has the District spent its annual surpluses in the past?
Yes. The District has a long history of using surpluses to meet important needs on a one time basis. In 2006, for example, the District used over $500 million from its fund balance because the economy was booming and the city had substantial surpluses. These were used for a variety of one-time needs, mostly to support capital projects.

How can surpluses be spent?
Because a year-end surplus is not guaranteed every year, the District cannot use the surplus to fund programs or services that have ongoing costs, like hiring more teachers or providing permanent supportive housing to residents experiencing chronic homelessness. Instead, the surplus must be spent on one-time expenses, such as housing or school construction, or setting up a computer system for paid family and medical leave.

Why is the District currently saving 100 percent of its surpluses?
The District adopted a policy in 2010 to build enough cash in reserves to fund DC government fully for 60 days. Legislation adopted that year requires the city to set aside all budget surpluses until this goal is met. DC currently has about 495 days' worth of operating cash. Having this much cash on hand mostly serves the purpose of helping managing the city's cash flow, including paying bills in between periods when major tax payments are made. This limits the need for short-term borrowing during the year.

While a 60-day cash reserve it is recommended by the association of government finance officers, it is not clear that building cash reserves needs to be a priority this year. The 49 days' worth of cash reflects $985 million in a variety of reserves, an amount that would allow the District to weather a fiscal crisis for several years. And short term borrowing currently is a small cost to the city – just $2 million in interest payments in 2016. Increasing cash reserves would result in only a very small savings in short-term interest.

What would it mean to spend the 2016 surplus?
This would mean temporarily delaying the policy to save surpluses, freeing up the surplus to be used in the 2018 budget.

CREATING A BUDGET RESERVE: FAQ

What is a budget reserve?
Budget reserves can come in many forms, including “rainy day funds” that are tapped in times of serious needs, or reserves built into a given year’s budget to address unexpected circumstances that may occur that year.

What kind of reserve are we proposing?
In this case, we are proposing building a modest reserve ($20 million or so) as part of the FY 2018 budget, to be tapped by the mayor only to address reductions in federal funding in 2018. By building it into the budget, the reserve could be tapped easily and without tapping the city’s rainy day savings. If the reserve is not needed, it would in effect go back into the city’s savings.

Why is a budget reserve needed?
The District will adopt its budget in May and June 2017, yet Congressional action on the federal budget will most likely not be completed until the summer or later. Thus, the scope of federal budget cuts will most likely not be known when the DC budget is adopted.

Has DC had a budget reserve before?
Yes. For several years in the early 2000s, the District’s budget included a $50 million cushion to address unforeseen circumstances. This was created at a time when the District was overseen by a financial control board and when its finances were less predictable. The budget reserve was eliminated in the mid-2000swhen it was perceived that finances were more stable and that a short-term budget reserve was not needed.