



# BROOKINGS GREATER WASHINGTON RESEARCH PROGRAM

## RESEARCH BRIEF

### District Budget Woes Recur

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In recent years, the District has experienced a healthy excess of revenues over expenditures and there has been little reason for concern. In the current 2002 fiscal year, however, it now appears possible that expenditures will exceed revenues for the first time since fiscal year 1996. There are also signs of a similar occurrence in the 2003 budget submitted to Congress. Expenditures exceeding revenues is a key warning sign of fiscal problems.

#### The 2002 Budget

The most recent estimate in the budget submitted to Congress shows a \$3.3 million excess of revenues over expenditures in 2002 (see Table 1). This is such a small margin that it could easily result in expenditures exceeding revenues. It should be noted, of course, that accumulated reserves are sufficient to insure that there is no immediate threat of insolvency, but left unchecked problems can escalate quite quickly.

The reason for this budget tightness is that spending will exceed the originally approved 2002 budget by \$284 million or 8.3 percent! While part of this budget overspending is attributable to the September 11 tragedy and the resulting one-time

*“Should an excess of expenditures over revenues occur in 2002, and again in 2003, it would be a clear warning sign of a return to past problems in balancing District budgets.”*

**Table 1: DC 2002 Budget Congressional Submission**  
(\$ in millions)

Revenues	2002 Budget	2002 Estimate	Estimate to Budget
Property	\$746.0	\$781.4	\$35.4
Sales	738.5	663.9	(74.6)
Income	1,361.1	1,336.8	(24.3)
Other Taxes	397.9	436.6	38.7
Non Tax Revenues	295.3	299.0	3.7
Total	\$3,538.8	\$3,517.7	(\$21.1)
Federal Contribution Revenues	38.2	194.1	155.9
	3,577.0	3,711.8	134.8
<b>Expenditures</b>			
Government Direction	\$229.4	\$302.0	\$72.6
Economic Dev.	60.8	61.8	1.0
Safety and Justice	594.8	661.4	66.6
Education	897.0	989.4	92.4
Human Services	961.6	1,003.8	42.2
Public Works	286.3	313.0	26.7
Financing and Other	361.3	343.8	(17.5)
Tobacco Transfer	33.3	33.3	
Total	\$3,424.5	\$3,708.5	\$284.0 8.3%
Revenues Less Exp.	\$152.5	\$3.3	(149.2)

Source: FY2003 Proposed Budget and Financial Plan: Congressional Submission



spending incurred, at least \$129 million are obviously not in that category. The federal government provided the District a one-time contribution of \$155 million to cover costs and losses of revenue associated with September 11. It is not possible from the budget document to determine exactly the causes of the overspending because agency spending data is provided only for the 2002 budget and not for the 2002 estimated spending. Overspending the budget has been a persistent problem in recent years and has hurt the credibility of District budgets. It also raises doubts about the 2003 budget before Congress.

There is no current evidence available to expect higher District revenues than are now estimated and any revision in estimates is likely to lower revenues. The Rockefeller Institute of Government recently reported that “State tax revenues in the January-March 2002 quarter declined by 7.9 percent compared to the year before. The state tax revenue decline is accelerating even as the national economy is improving.” The District’s most recent estimates confirm this national trend with 2002 income and sales tax revenues lower than actual 2001 revenues. If it were not for the \$155 million special federal contribution, total District revenues would be lower in 2002 than in 2001.

### The 2003 Budget

The 2003 budget reflects an increase in spending compared to 2002 estimated spending of \$5 million, or .1 of a percent (see Table 2). This excludes the \$70 million required by Congress to be budgeted for a reserve. If the reserve is eventually spent, which seems likely to occur, the increase jumps to 2 percent. The one-time September 11

spending in the 2002 estimated base makes the 2003 percentage increase understated by amounts that could not be estimated.

Some agency budgets are not affected by the September 11 funding, however. Both public and charter schools, neither of which had any September 11 funding, are budgeted for less spending in 2003 than is estimated in 2002. The public

**Table 2: DC 2003 Budget Congressional Submission**  
(\$s in millions)

<b>Revenues</b>	<b>2002 Estimate</b>	<b>2003 Congress</b>	<b>Percent Change</b>
Property	\$781.4	\$848.4	8.6%
Sales	663.9	692.6	4.3
Income	1,336.8	1,440.7	7.8
Other Taxes	436.6	467.2	7.0
Non Tax Revenues	299.0	302.2	1.1
<b>Total</b>	<b>\$3,517.7</b>	<b>\$3,751.1</b>	<b>6.6</b>
Federal Contribution	194.1	33.0	
Revenues	3,711.8	3,784.1	1.9
<b>Expenditures</b>			
Government Direction	\$302.0	\$225.2	-25.4%
Economic Dev.	61.8	64.6	4.5
Safety and Justice	661.4	620.0	-6.3
Education	989.4	980.2	-0.9
Human Services	1,003.8	1,069.6	6.6
Public Works	313.0	309.8	-1.0
Financing and Other	343.8	434.5	26.4
Tobacco Transfer	33.3	10.0	
<b>Total</b>	<b>\$3,708.5</b>	<b>\$3,713.9</b>	<b>0.1%</b>
Revenues Less Exp.	\$3.3	\$70.2	
With Spending of 2003 \$70 Million Reserve		\$3,783.9	2.0%
Revenues Less Exp.		\$0.2	

Source: FY2003 Proposed Budget and Financial Plan: Congressional Submission

school budget is \$8 million less than estimated 2002 spending. (This excludes \$27 million of school funding to be taken from the tobacco settlement fund.) For some entitlement-type expenditures, such as Medicaid, there is little that can be done to keep expenditures from increasing sharply, and perhaps exceeding the budget. The same may be the case with non-entitlement agencies, such as Police and Fire departments that are budgeted to spend less in 2003.

In short, the 2003 expenditure budget is unlikely to be realistically achievable in its present form, and will likely again require supplemental funding and use of reserves. Should an excess of expenditures over revenues occur in 2002, as it is suggested above is possible, and occur again in 2003, as also seems probable based on present numbers, it would be a clear warning sign of a return to past problems in balancing District budgets.

The solutions to the potential budget problem are limited at this time. Tax rate increases, other than deferring the reductions already enacted, are likely to be unacceptable, especially in view of the current concern over property tax assessment increases. One solution would be for the federal government to add to District revenues, as it did after Sep-

tember 11. Justifying additional revenue based on overspending the budget just submitted to Congress does not seem likely to get a favorable response, however. If no help is available on the revenue side, then the Mayor and the Chief Financial Officer must strictly enforce the budget limits contained in the 2003 budget, even if it means reducing important services such as education and public safety.

If controlling spending requires cutting important services, the cuts could serve a dual role. First, they could insure the budget stays in balance. Second, they could cause Congress and the President to recognize that the District does have a serious need for additional funding to maintain vital services.

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