



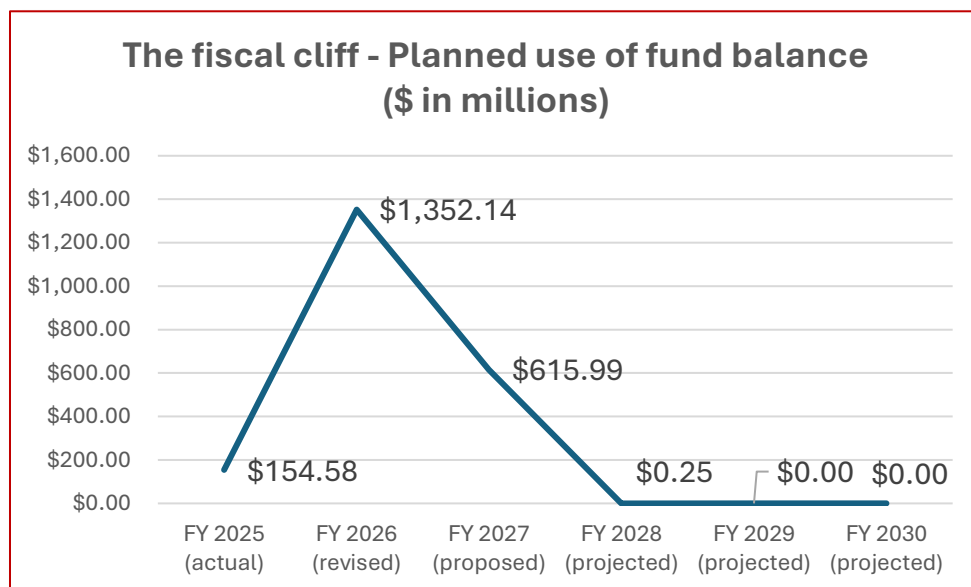
# Key Fiscal Issues at a Glance, May 2026

## Key Takeaways

- The District's budget is facing a fiscal cliff due to the use of one-time resources.
- Costs are increasing faster than revenues due to transformations in the economy.
- Once prior-year surpluses are spent, a crucial cash cushion is no longer available.
- Local reserves are essential for the District's ability to pay its bills.
- Short-term borrowing is not a solution to the District's cash flow issues.

## The Fiscal Cliff: One-time resources, ongoing expenses

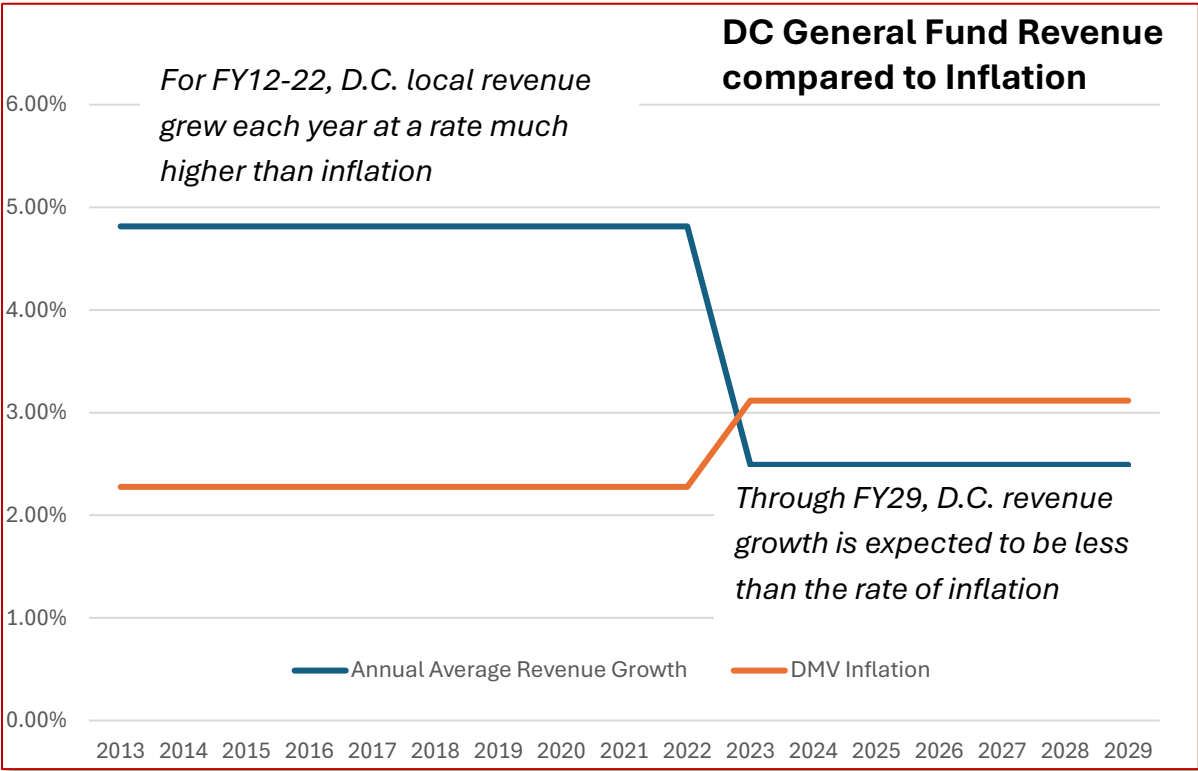
- Surpluses from prior years are one-time resources that are being used to pay for ongoing programs. They will be exhausted by the end of FY 2027.
- This creates a FISCAL CLIFF that will need to be addressed in future budgets by cutting spending, starting in FY 2028, or raising revenues.
- Proposed FY 2028 financial plan cuts include:
  - \$77.7 million cut to DC Public Schools
  - \$72.3 million cut to Department of Health Care Finance
  - \$63.2 million cut to DC Public Charter Schools



# May 2026

## The Transformation of the District’s Economy: Costs outpacing revenue growth

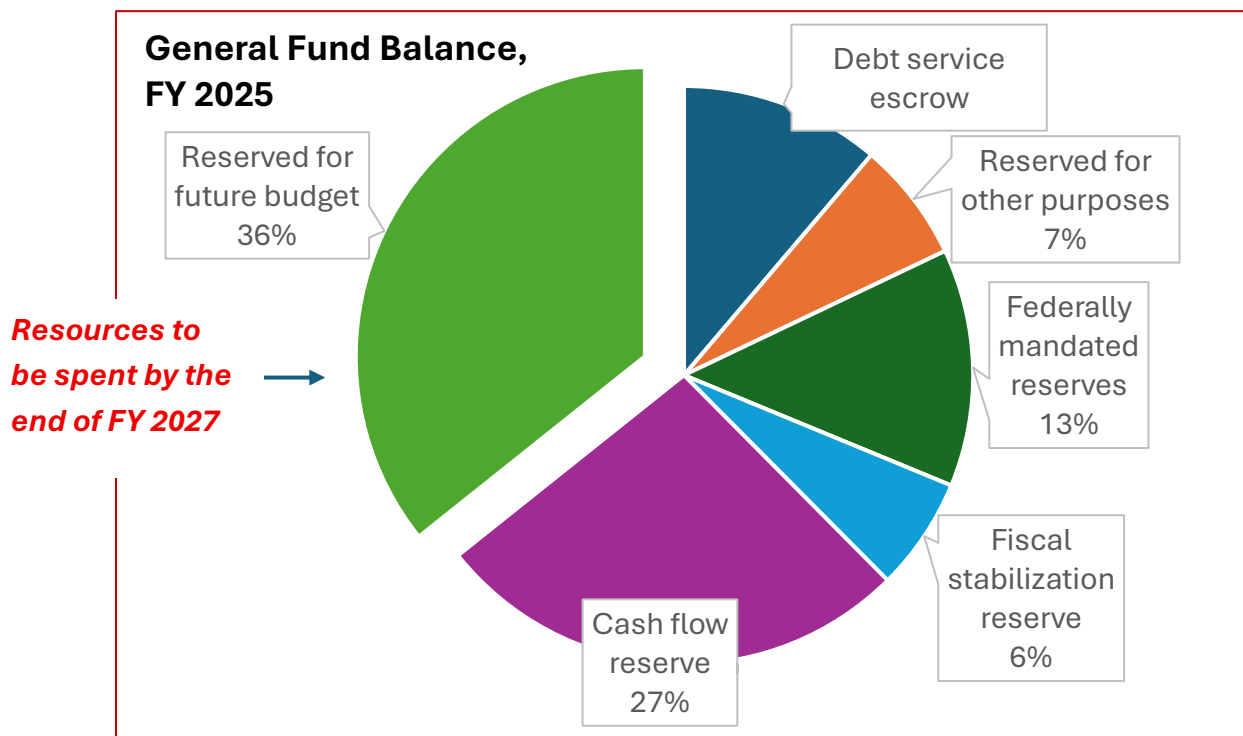
- On a typical workday, there are only 55 percent of workers in offices as compared to January 2020. This means less need for commercial office space and fewer customers for businesses – reducing D.C.’s property tax and sales tax revenues.
- The region’s federal workforce is at its lowest level since 1990. Through February 2026, the District lost approximately 26,000 federal jobs. Unlike in a recession, when growth is expected to return, these job losses represent an ongoing permanent reduction in economic activity.
- The District’s unemployment rate is 6.2% as of April 2026, the highest in the nation.
- As of April 2026, the inflation rate is estimated to be 3.8%. When the February 2026 revenue estimate was released, the inflation rate was 2.4%.
- As a result, the District government’s revenue growth is expected to be at or below the rate of inflation for the foreseeable future. This is a stark change from recent years when D.C. local revenue grew at a rate much higher than inflation.



# May 2026

## The “Surplus” Issue

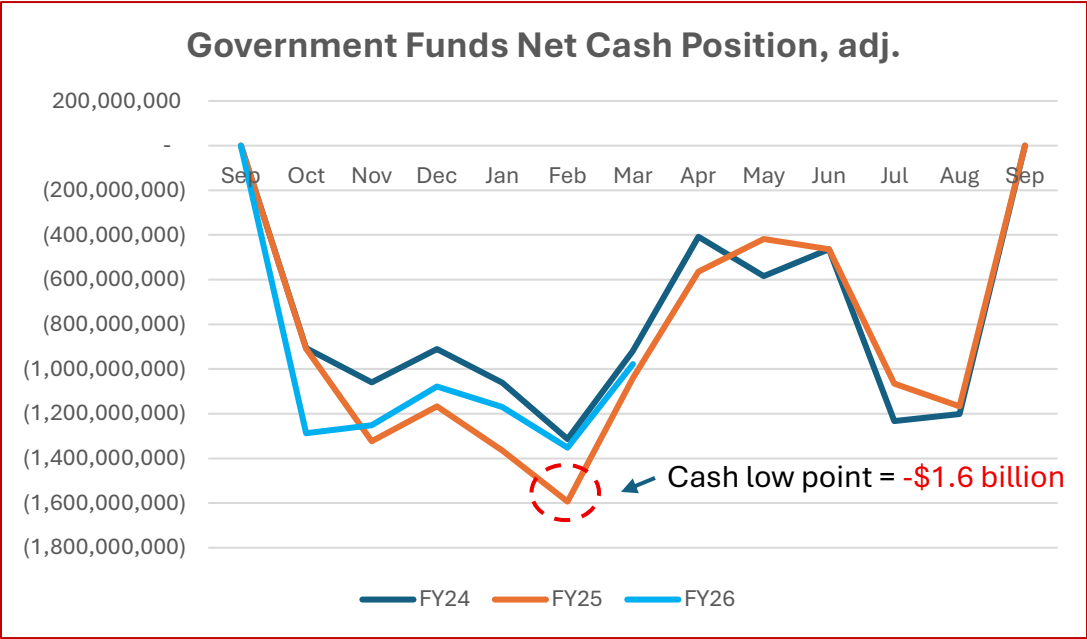
- While the General Fund balance totaled \$4.8 billion at the end of FY 2025, approximately two-thirds is unavailable to budget because it is restricted for specific purposes or set aside in local reserves (cash flow and fiscal stabilization).
- The largest portion of the fund balance – \$1.7 billion – represents prior-year one-time surpluses and is planned to be spent through FY 2027 as part of the financial plan.
- Once these one-time resources are spent, this safety cushion is no longer available, and the District will have a much-reduced buffer for managing cashflow and offsetting unexpected fiscal pressures.



# May 2026

## Local Reserves are Vital

- The District’s revenue collections are uneven over the course of a fiscal year. The two largest sources of income are received at specific times. Income tax payments are received in April, although withholding occurs throughout the year. Property tax payments are received in March and September.
- This mismatch requires the District to have enough cash on-hand to meet its obligations.
- At its lowest point in the last fiscal year, the District's general government checkbook was more than \$1.6 billion in the negative until the next chunk of tax payments started coming in. To operate under these circumstances, the D.C. government relies on local reserves to cover expenses temporarily.
- When the District had a large balance of prior-year surpluses, those resources were used to manage and support cash flow needs. Now that surpluses are being spent, the need to maintain fully funded local reserves becomes more critical, especially when national and international events can quickly disrupt revenue streams or substantially increase costs.
- Without significant local reserves, the District will be unable to meet its basic obligations and pay bills during the year, including payroll and pension obligations, triggering the return of the federal Control Board.



# May 2026

## Short-Term Borrowing Is Not a Solution

- Relying on short-term borrowing to pay bills while using reserves to support spending would represent a significant degradation of the District's financial position.
- Few municipalities use short-term borrowing. Since 2021, only about 260 of tens of thousands of state and local governments have used short-term borrowing to meet payroll.
- Credit markets would likely see the use of short-term borrowing for operations as a significant deterioration of the District's historically strong fiscal management practices, which could negatively impact upcoming borrowings and/or result in a bond rating downgrade.