

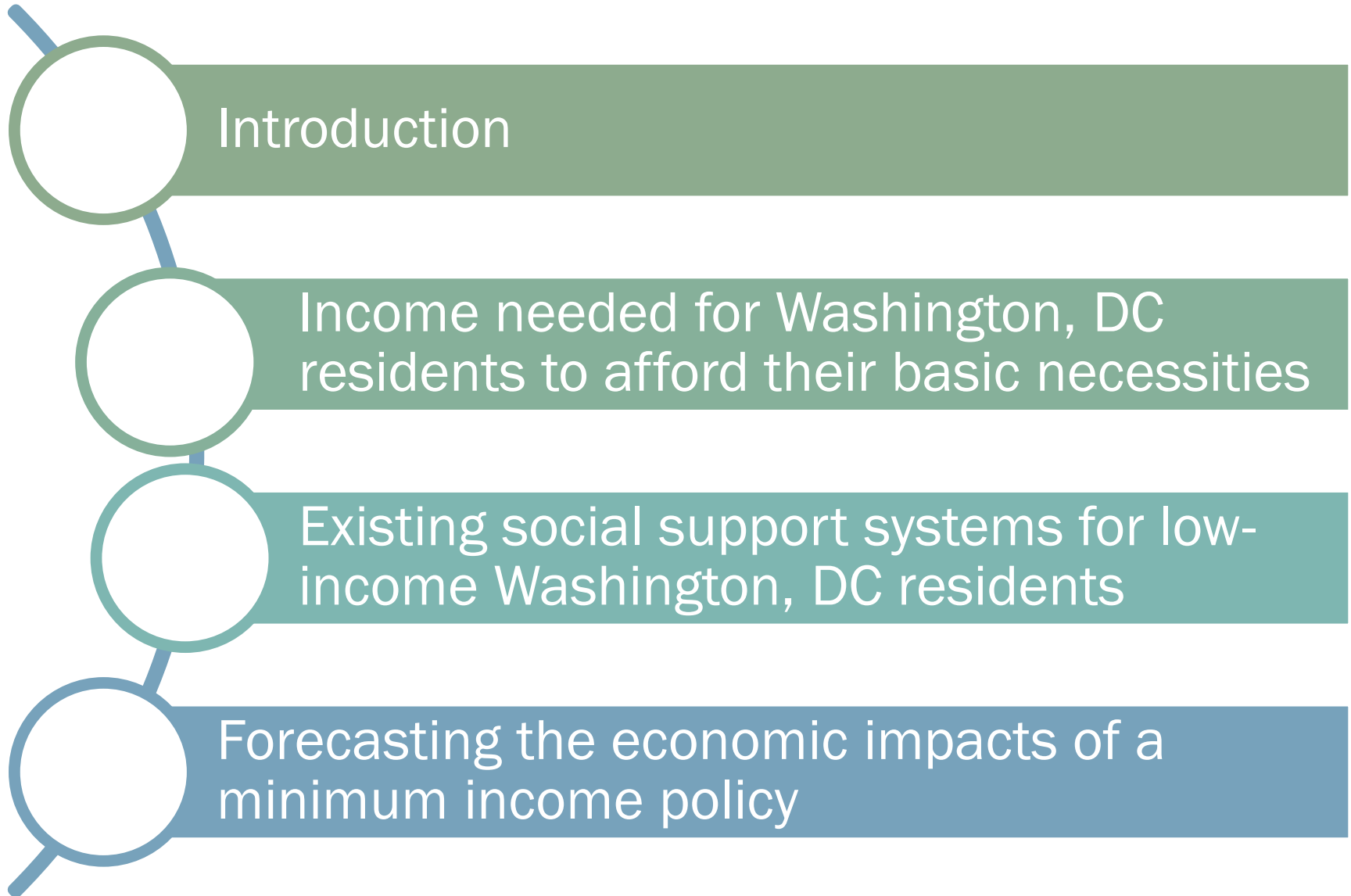
COUNCIL OF THE DISTRICT OF COLUMBIA
OFFICE OF THE BUDGET DIRECTOR | JENNIFER BUDOFF, BUDGET DIRECTOR

APPROACHES AND STRATEGIES FOR PROVIDING A
MINIMUM INCOME IN THE
DISTRICT OF COLUMBIA



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Overview



Introduction

- ❑ The Council of the District of Columbia enacts laws and sets policies for the city of Washington, District of Columbia (DC). The Council is unique in that it performs the functions of a state legislature, county council, and city council.
- ❑ The Council's Office of the Budget Director advises the body's 13 Councilmembers on matters related to DC's budget, analyzes the fiscal and economic impacts of proposed legislation, and performs policy analysis.
- ❑ This study analyzes the policy implications and economic costs and benefits of implementing a minimum income program in Washington, DC for the purpose of poverty alleviation.



Washington, DC



- ❑ Washington, DC is the capitol of the United States and the seat of the federal government. It is a thriving city-state with a population of over 700,000.¹ In 2017, its GDP was \$131 billion—similar in size to Hungary or Angola.²
- ❑ It is small - only 177 km². In comparison, Tampere is 690 km².
- ❑ DC is bordered by two prosperous states: Virginia and Maryland. Approximately 2/3 of Washington, DC's workforce lives in Virginia or Maryland. These workers' income is not subject to DC taxes.



¹US Census Bureau, Quick Facts; ²Bureau of Economic Analysis, Regional Data



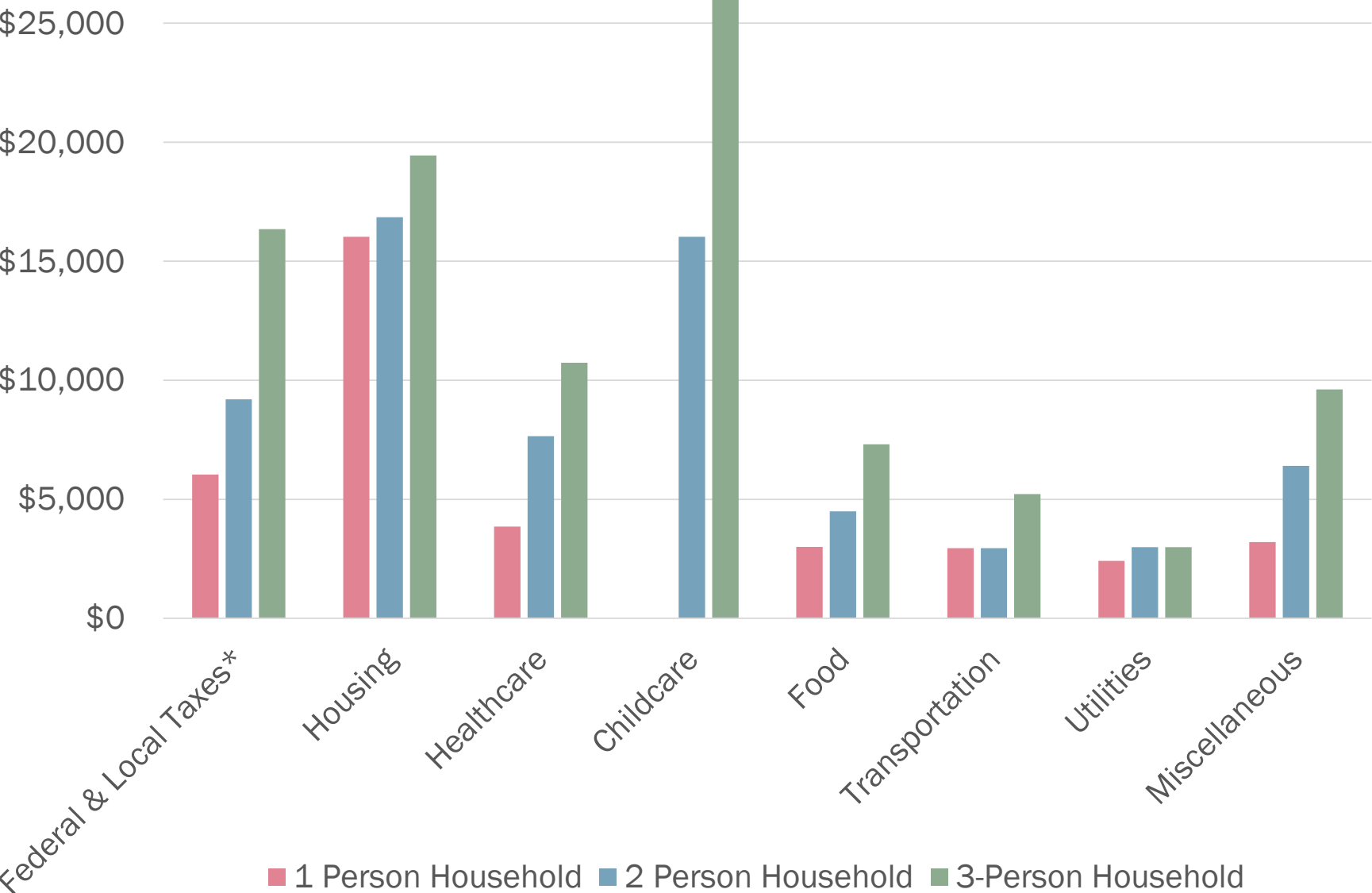
- ❑ DC is a tale of two cities. Rapid gentrification has exacerbated the considerable gap between DC's richest and poorest households.
 - ❑ *Prosperity:* A greater share of DC residents hold advanced degrees than any other U.S. state (31%). The median household income in DC is \$75,506, which is 32% higher than the U.S. national median and greater than any other state except Maryland.¹
 - ❑ *Poverty:* DC has the second highest unemployment rate of any U.S. state, at 5.6%. Nearly 1 in 5 residents (19%) meet the federal government's definition of poverty--meaning an annual income of less than \$12,060 per year for a single adult. One in ten residents have less than a high school education, with one study finding that 19% of the DC population lacked basic literacy skills in 2003.²

Estimated Income Needed to Afford Basic Necessities in DC

	1 Person Household 1 adult (25 yrs)	2 Person Household 1 Adult (25 yrs) & 1 Child (2 yrs)	3 Person Household 1 Adult (25 yrs) & 2 Children (2 & 9 yrs)
Federal & Local Taxes*	\$6,038	\$9,196	\$16,345
Housing	\$16,032	\$16,848	\$19,440
Healthcare	\$3,856	\$7,648	\$10,740
Childcare	\$0	\$16,025	\$26,052
Food	\$3,005	\$4,497	\$7,313
Transportation	\$2,953	\$2,953	\$5,221
Utilities	\$2,417	\$2,996	\$2,996
Miscellaneous	\$3,204	\$6,408	\$9,612
Cost of Living, Annual	\$36,988	\$66,113	\$96,885
Hourly Wage and Benefits[†]	\$17.78	\$31.79	\$46.58

*Tax liability assuming a wage or salary income that is high enough to support basic needs. [†]Assuming full-time, year-round employment

Estimated Income Needed to Afford Basic Necessities in DC



*Tax liability assuming a wage or salary income that is high enough to support basic needs.

Can Low-Income Households Make Ends Meet?

- ❑ How do low income households afford their basic needs in DC?
- ❑ This study examines three fictional low-income households with earnings equal to the average income for households in DC below the federal government's definition of poverty.

Single adult
(age 25)

Wage & Salary
Income:
\$4,903

Single parent
(age 25)
with one child
(age 2)

Wage & Salary
Income:
\$7,320

Single parent
(age 25)
with two children
(ages 2 & 9)

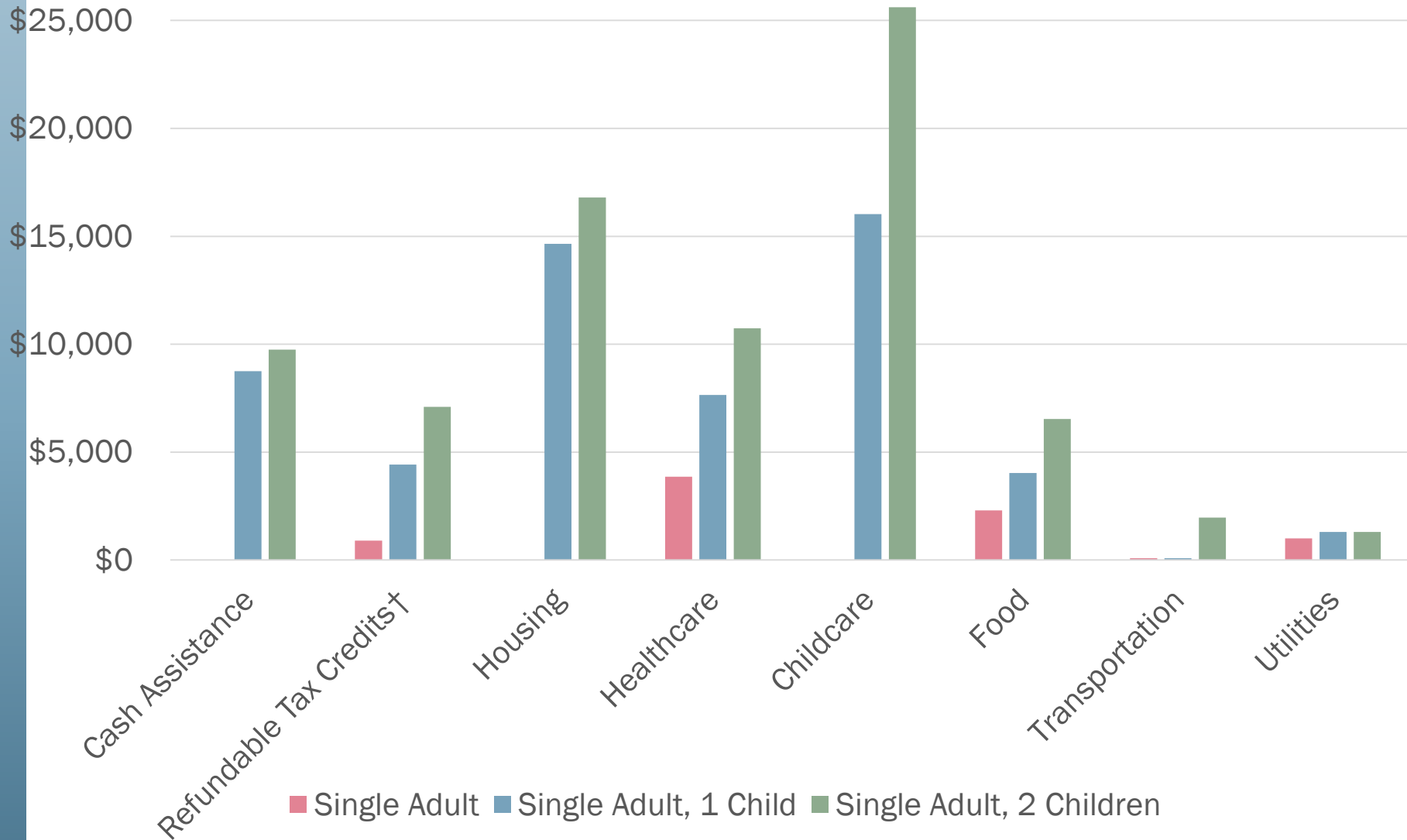
Wage & Salary
Income:
\$8,820

Estimated Value of Social Safety Net for Three Fictional Low-Income DC Households*

	1 Person Household 1 adult (25 yrs)	2 Person Household 1 Adult (25 yrs) & 1 Child (2 yrs)	3 Person Household 1 Adult (25 yrs) & 2 Children (2 & 9 yrs)
Household Wage & Salary Income	\$4,903	\$7,320	\$8,820
Cash Assistance	\$0	\$8,750	\$9,750
Refundable Tax Credits	\$897	\$4,427	\$7,100
Housing	\$0	\$14,652	\$16,794
Healthcare	\$3,856	\$7,648	\$10,740
Childcare	\$0	\$16,025	\$25,612
Food	\$2,304	\$4,028	\$6,531
Transportation	\$80	\$80	\$1,970
Utilities	\$1,002	\$1,302	\$1,302
Total Value of Public Social Safety Net	\$8,139	\$56,913	\$79,799

*Assuming that households receive all of the social assistance benefits to which they are eligible. The value of a benefit is an estimate of what the fictional households would need to spend if they did not have a public subsidy and had to privately purchase a similar set of goods or services.

Estimated Value of Social Safety Net for Three Fictional D.C. Households*



* Assuming that households receive all of the social assistance for which they are eligible. † Using earned income of \$4,903 for the single adult; \$7,320 for single adult with one child; and \$8,820 for single adult with two children.

Estimated Annual Gap/Surplus in Resources : Cost of Living vs. Household Income & Public Social Safety Net

	1 Person Household 1 adult (25 yrs)	2 Person Household 1 Adult (25 yrs) & 1 Child (2 yrs)	3 Person Household 1 Adult (25 yrs) & 2 Children (2 & 9 yrs)
Household Wage & Salary Income*	\$4,903	\$7,320	\$8,820
Value of Public Social Safety Net	\$8,139	\$56,913	\$79,799
Cost of Living [†]	(\$31,842)	(\$57,935)	(\$82,049)
Annual Gap/Surplus in Resources[‡]	(\$18,800)	\$6,298	\$6,571

Eligibility for Benefit ≠ Receipt of Benefit

- ❑ Although DC has chosen to provide residents with a more robust social safety net than most other states, it is still highly unlikely that a household will receive all the safety net supports that they are eligible to receive.

*Before taxes; †Including federal and state income and FICA tax liability based on fictional households' earned income.; ‡Positive number indicates surplus.

Most Households Do Not Receive All of the Safety Net Programs For Which they Qualify

Why?

Not all safety net programs are an entitlement

- Housing programs do not have sufficient resources to meet demand and have long waiting lists

Some safety net programs have additional requirements

- For example, cash assistance recipients must be in compliance with their employment plan to receive full benefits

Even if a safety net program is an entitlement there may be other barriers to receiving benefits

- Paperwork, time constraints, and immigration status may prevent a household from applying for a social safety net benefit.

Some households may not be aware of the benefits available to them

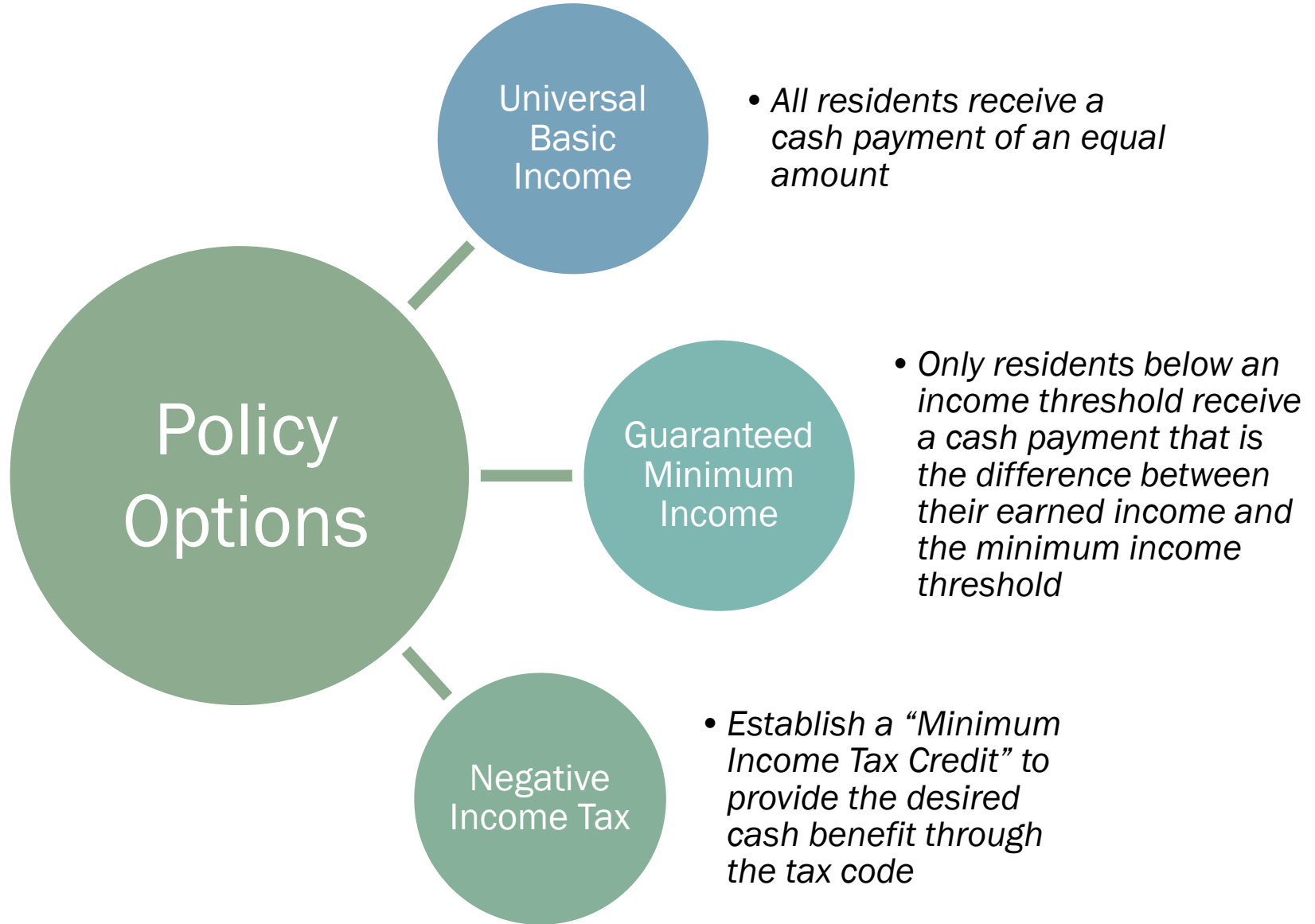
- Refundable tax credits have low participation rates, and not all low income households file taxes

Budgetary Risks of Increasing Cash Income

- ❑ In the U.S, the federal government funds the majority of anti-poverty programs.
- ❑ In FY 2016, DC spent \$4 billion on means-tested social support programs; \$2.65 billion came from federal grants and \$1.35 billion from locally-raised taxes.
- ❑ A DC-funded minimum income program that elevates household income above the federal government's definition of poverty (\$12,060 for a single adult), would disqualify households from many needs-tested federal programs.
- ❑ As a result, the DC would no longer qualify for more than \$2.65 billion in federal assistance to provide services to low-income residents.

Federally-Funded Public Benefit Programs	Federal Grants in DC's FY16 Operating Budget
Health insurance (Medicaid)	\$2.0 billion
Nutrition assistance	\$278.7 million
Cash assistance	\$172.4 million
Supplemental education funding	\$78.46 million
Housing subsidies	\$37.8 million
Child Care and Pre-Kindergarten	\$34.7 million
Energy assistance	\$10.4 million
Total	\$2.65 billion

Three Approaches to Providing a Basic Income



Estimating the Cost to DC of Various Policy Options

The study's authors considered the following when estimating the cost of the various policy options:

Workforce Participation

- How would workers respond to a minimum income program?
- Would they continue to work the same number of hours or reduce their participation in the workforce?

Eligibility for Existing Federal Programs

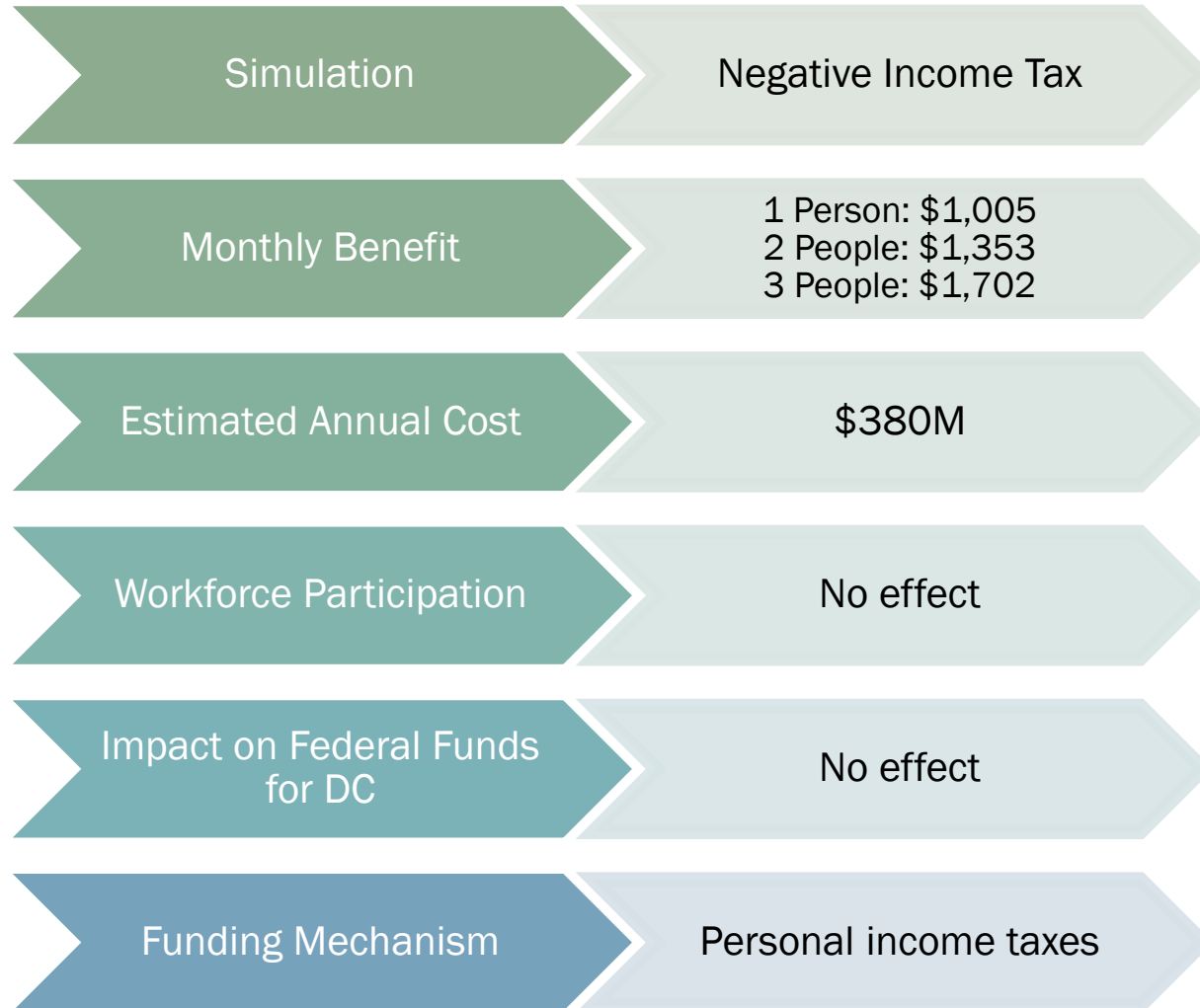
- How would a program affect DC residents' eligibility for federal income maintenance payments, or other federal payments to DC that are based on a given income threshold?

Funding Mechanism

- How would DC raise the required amount of revenue - an increase in personal taxes, property taxes, or some other funding mechanism?

Economic Model: Assumptions

Our analysis uses REMI PI+ v2.0.3, a 70-industry-sector economic model of the Washington, DC, Metropolitan Statistical Area developed by Regional Economic Modeling Inc.



Economic Model: Economic Impact of a Minimum Income Program

Total Employment

- DC would support 1,600 fewer jobs after 10 years
- This is a 2% decrease in DC's forecasted 10-year employment growth

Resident-Adjusted Employment

- DC residents would hold approximately 9,100 fewer jobs in DC by 2027
- DC residents may have an economic incentive to move to a neighboring jurisdiction and commute into DC

Gross Domestic Product

- DC's GDP would fall by about \$99 million over a 10-year period.
- This is a 0.6% decrease in DC's 10-year GDP growth

As with any policy proposal, there is a need to weigh the potential benefits of minimum income—such as increased school attendance rates, reduction in hospital visits, improved mental health, and fewer work-related injuries—against the potential costs of marginally reduced employment and lower GDP.

Conclusion

Living in DC is very expensive

- This study estimates that it costs a family of three \$96,885 per year to live in DC and meet their basic needs.

Proper sizing of the benefit is key to mitigating the structural impediments of federal funding and DC's porous borders

- Raising income higher than the federal poverty level could force DC to forgo about \$2.65B in federal funds for poverty-alleviation programs.
- DC's small size and proximity to neighboring jurisdictions could exacerbate economic migration—inwards to receive the minimum income and outwards to avoid its higher tax rate.

A “Minimum Income Tax Credit” or moderate cash payment could be achievable

- A more moderate cash payment or negative income tax could provide additional resources to DC residents without significantly impacting economic migration or putting federal funding at risk.

Contact Information

Presentation and report prepared by the Council of the District of Columbia, Office of the Budget Director.

Available for download: <http://dccouncil.us/news/entry/minimum-income-study-released-by-council-budget-office1>

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Estimated Cost of Living vs. Federal Poverty Level (2017)

Number of People in Household	1	2	3
Budget Office's D.C. Cost of Living Estimate	\$36,988	\$66,113	\$96,885
100% of the Federal Poverty Level	\$12,060	\$16,240	\$20,420
450% of the Federal Poverty Level	\$54,270	\$73,080	\$91,890

D.C. Households Actually Receiving Safety Net Benefits (select)

- Approximately 38,993 DC households (or 14.1% of the total) have incomes below the federal government's definition of poverty.

Social Safety Net Program	Number of Households Receiving Benefit	Percent of DC Households
Cash assistance (federal and local)	15,669	5.7%
Federal refundable tax credit (EITC)*, †	51,000	14.8%
Local refundable tax credit (EITC)*, †	58,493	17.0%
Housing assistance	20,536	7.4%
Public health insurance‡, †	277,533	39.6%
Nutrition assistance†	74,126	26.8%
Home heating and cooling assistance†	21,000	5.7%

*Number of tax filers, not households; †This benefit is available to households who have incomes above the Federal Poverty Level; ‡Number of individuals, not households.

Economic Model: Overview

Economic forecasting models help governments, institutions, and private sector firms make informed projections about how a policy change would affect the regional labor market and economy.

Our analysis uses REMI PI+ v2.0.3, a 70-industry-sector economic model of the Washington, DC, Metropolitan Statistical Area developed by Regional Economic Modeling Inc.

The model compares the projected economic forecast over 10 years in which the District continues to have no minimum income program, to the projected economic conditions in the District over 10 years if various versions of the program were implemented.