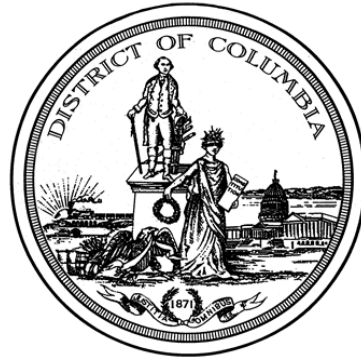


COUNCIL OF THE DISTRICT OF COLUMBIA
OFFICE OF THE BUDGET DIRECTOR | JENNIFER BUDOFF, BUDGET DIRECTOR

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



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Overview



What is a guaranteed minimum income?

Income needed for DC residents to afford basic necessities

Existing social support systems for low-income District residents

Forecasting the budgetary and economic impacts of a basic income policy

Defining Key Terms

Minimum Income: A type of social welfare support that guarantees that all households have an income that is high enough to provide for their basic living expenses. There are three primary ways to achieve this goal.

Universal Basic Income

Issue the same cash payment to all households regardless of their income or assets

Example: All households get a monthly \$500 check

Guaranteed Minimum Income

Raise all households' income to a pre-determined threshold

Example: No family can have an income below the Federal Poverty Level

Negative Income Tax

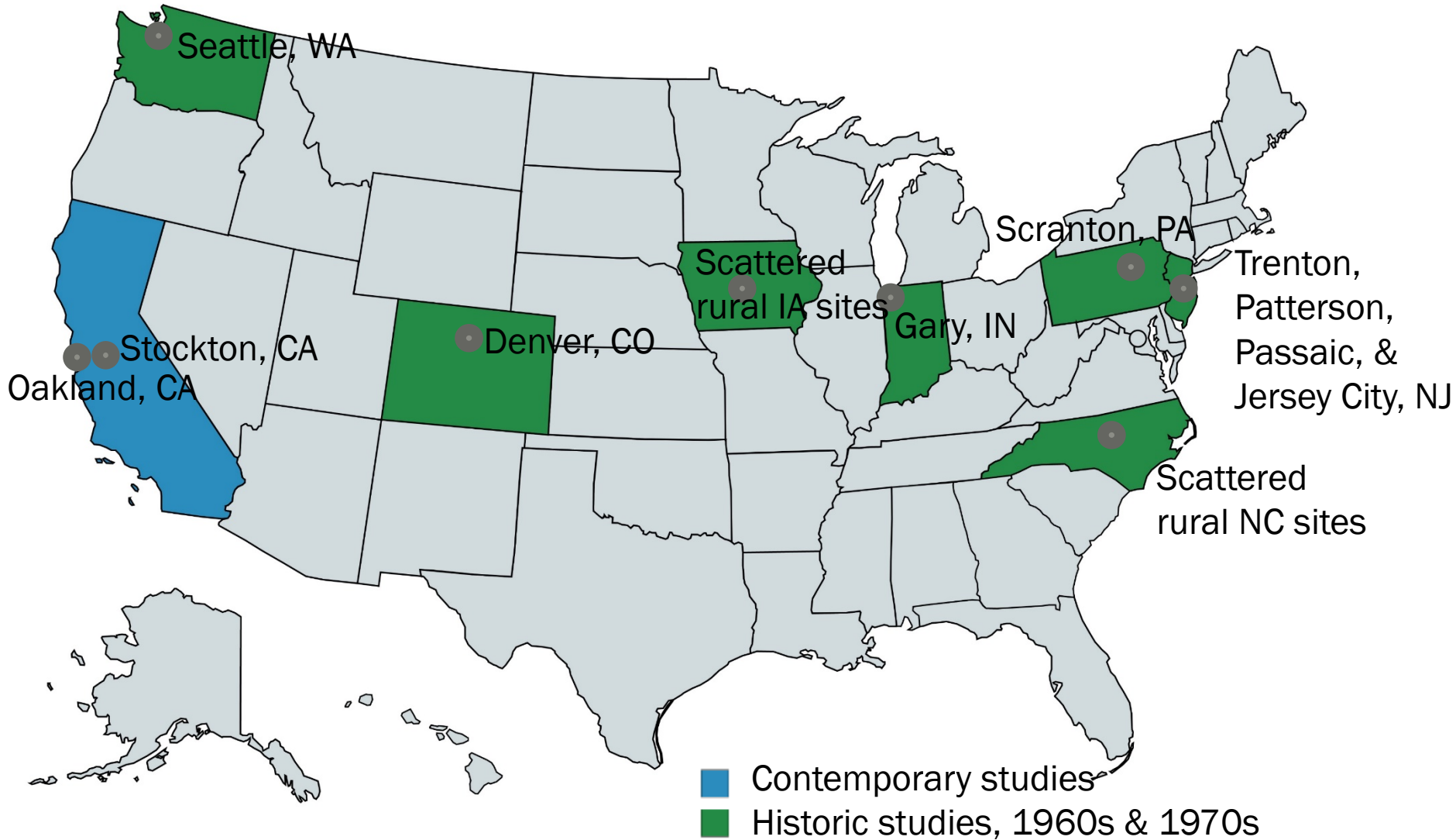
Provide refundable tax credits to households whose earned income falls below a pre-determined threshold

Example: Earned Income Tax Credit (EITC)

Minimum Income Pilot Programs

- ❑ The idea for a minimum income dates back to Sir Thomas More's political satire, *Utopia*, first published in 1516.
- ❑ The first pilot studies to test the notion were launched in 1960s and 70s.
- ❑ Findings from these experiments included:
 - ❑ School attendance and high school graduation rates increased
 - ❑ Hospital visits decreased and mental health improved
 - ❑ Some evidence of decrease in paid employment, especially for secondary earners and youths
 - ❑ However, these studies employed small sample sizes, incomplete data collection methodology, and none were replicated
- ❑ None of these pilot program, past or present, provided a cash payment that would cover 100% of basic needs.
 - ❑ Other programs provide(d) a modest cash payment to supplement other sources of income, and not a cash payment that supplants wage income

U.S. Current or Completed Minimum Income Pilots



- ❑ Washington, DC is a thriving city with a population of 700,000.¹ In 2017, its GDP was \$131 billion—similar in size to Nevada or Arkansas.
- ❑ DC is a tale of two cities. Rapid gentrification has exacerbated these differences.
 - ❑ *Prosperity:* A greater share of 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.³
 - ❑ *Deprivation:* DC has the second highest unemployment rate of any U.S. state, at 5.6%. Nearly 1 in 5 residents (19%) live in poverty--meaning an annual income of \$12,140 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 2003.⁴

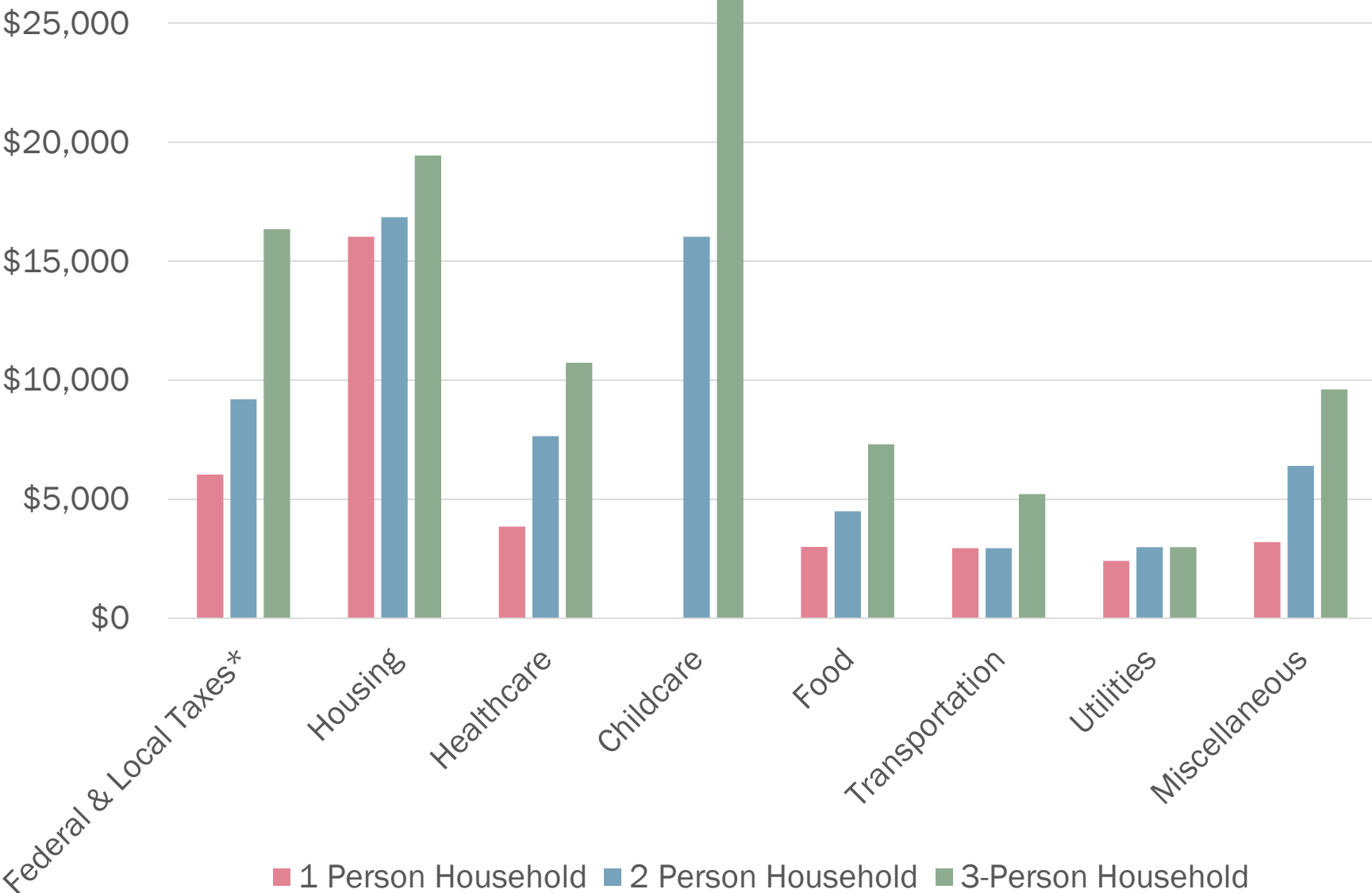
¹US Census Bureau, Quick Facts; ²Bureau of Economic Analysis, Regional Data; ³US Census Bureau, 2016 American Community Survey 1-Year Estimates; ⁴Bureau of Labor Statistics, *Local Area Unemployment Statistics*; Ibid, US Department of Education, State and County Estimates of Low Literacy

Estimated Income Needed to Afford Basic Necessities in D.C.

	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 D.C.



*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 Poverty Level

Single adult
(age 25)

Earned income:
\$4,903

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

Earned income:
\$7,320

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

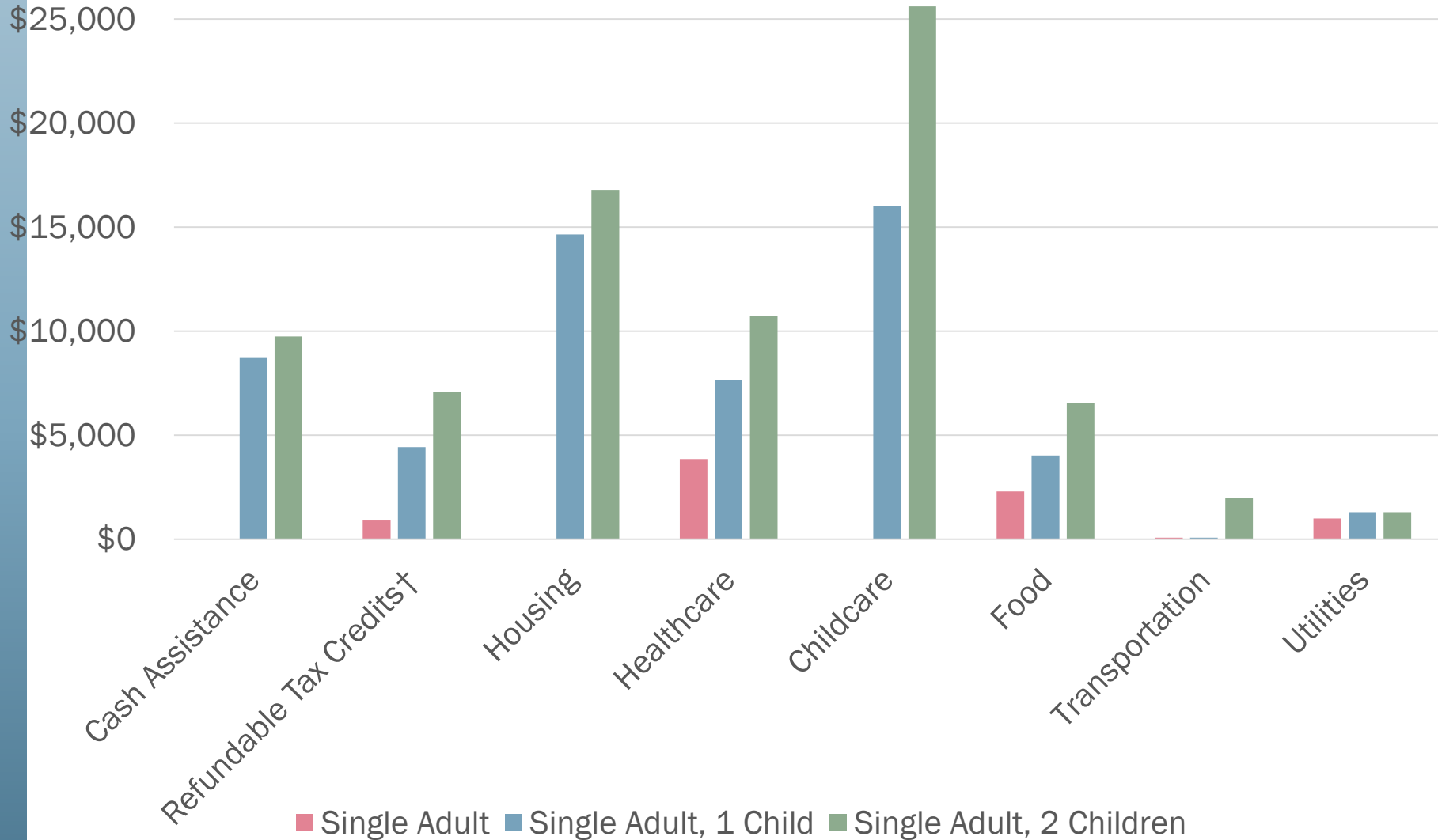
Earned income:
\$8,820

Estimated Value of Social Safety Net for Three Fictional Low-Income D.C. 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)
Earned 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 in Resources between Private Resources, the Public Social Safety Net, & the Cost of Living

Eligibility for Benefit ≠ Receipt of Benefit

- ❑ It is unlikely that a household will receive all safety net supports they are eligible to receive.
- ❑ The District of Columbia has chosen to provide residents with a much more robust social safety net than most other states

	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)
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 in Resources[‡]	(\$18,800)	\$6,298	\$6,571

*Before taxes

[†]Including federal and state income and FICA tax liability based on fictional households' earned income.

[‡]Positive number indicates surplus.

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

- Approximately 38,993 D.C. households have incomes below the Federal Poverty Level.

Social Safety Net Program	Number of Households Receiving Benefit	Percent of D.C. 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.

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

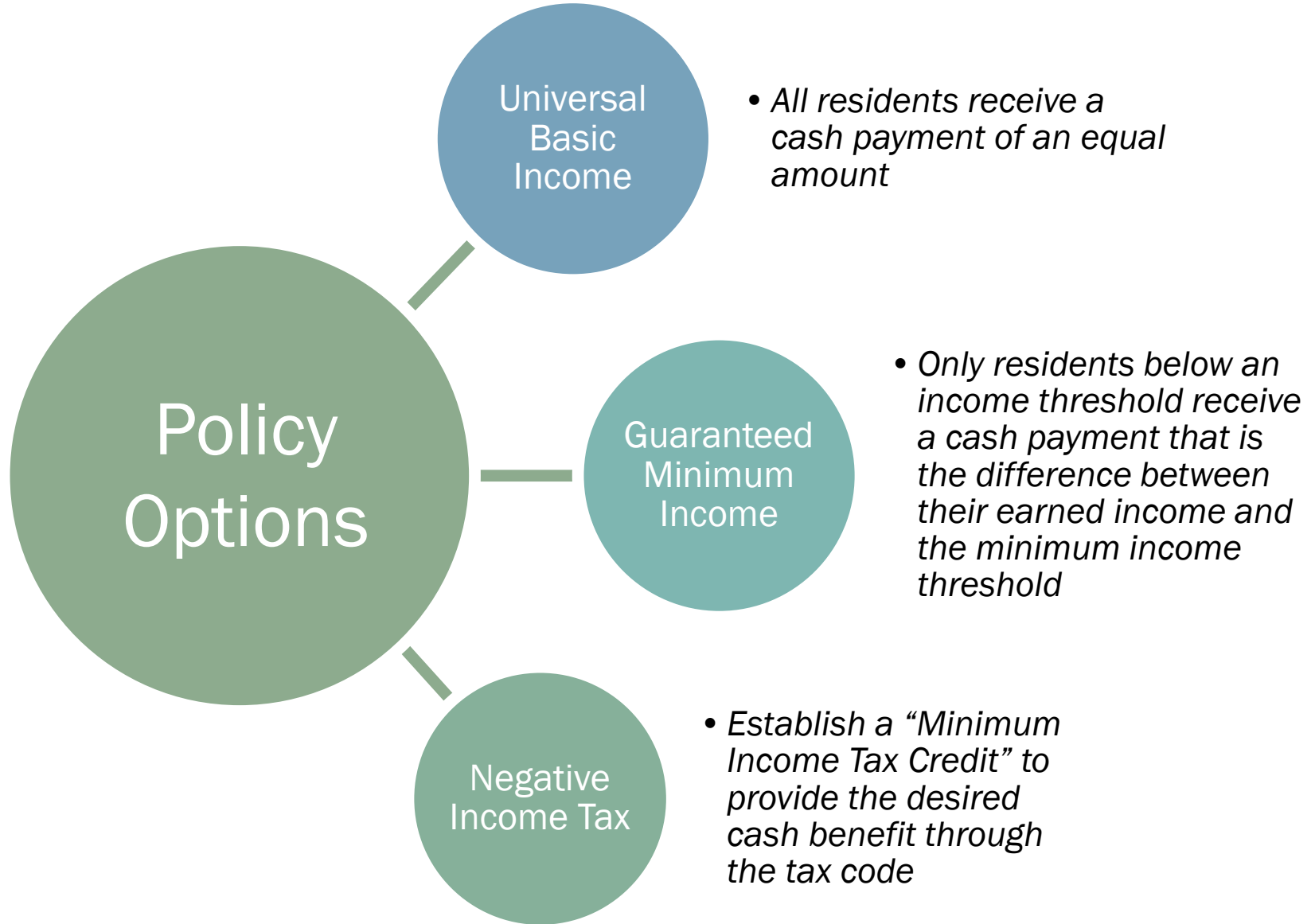
Even if a safety net program is an entitlement there may be other barriers to receiving benefits

- Paperwork, time constraints, and immigration status may prevent a household from applying for an entitlement.

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

Three Approaches to Providing a Minimum Income



Estimating the Cost to the District of 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 District residents' eligibility for federal income maintenance payments, or other federal payments to the District that are based on a given income threshold?

Funding Mechanism

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

Budgetary Risks of Raising Cash Income Above Federal Poverty Level

- ❑ Receipt of most needs-based programs is based on a household's income.
- ❑ A minimum income program that raised a District residents' annual income greater than the Federal Poverty Levels would mean that the household would no longer qualify for many needs-tested programs.
- ❑ Annual federal and local fund appropriations for social support programs in the DC's budget approach \$4 billion. In FY 2016, the District government received at least \$2.65 billion in federal payments and grants for means-tested poverty alleviation programs.
- ❑ DC could lose out on over \$2.65 billion of federal payments and grants.

Federally-Funded Public Benefit Programs	Federal Grants in District'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-K	\$34.7 million
Energy assistance	\$10.4 million
Total	\$2.65 billion

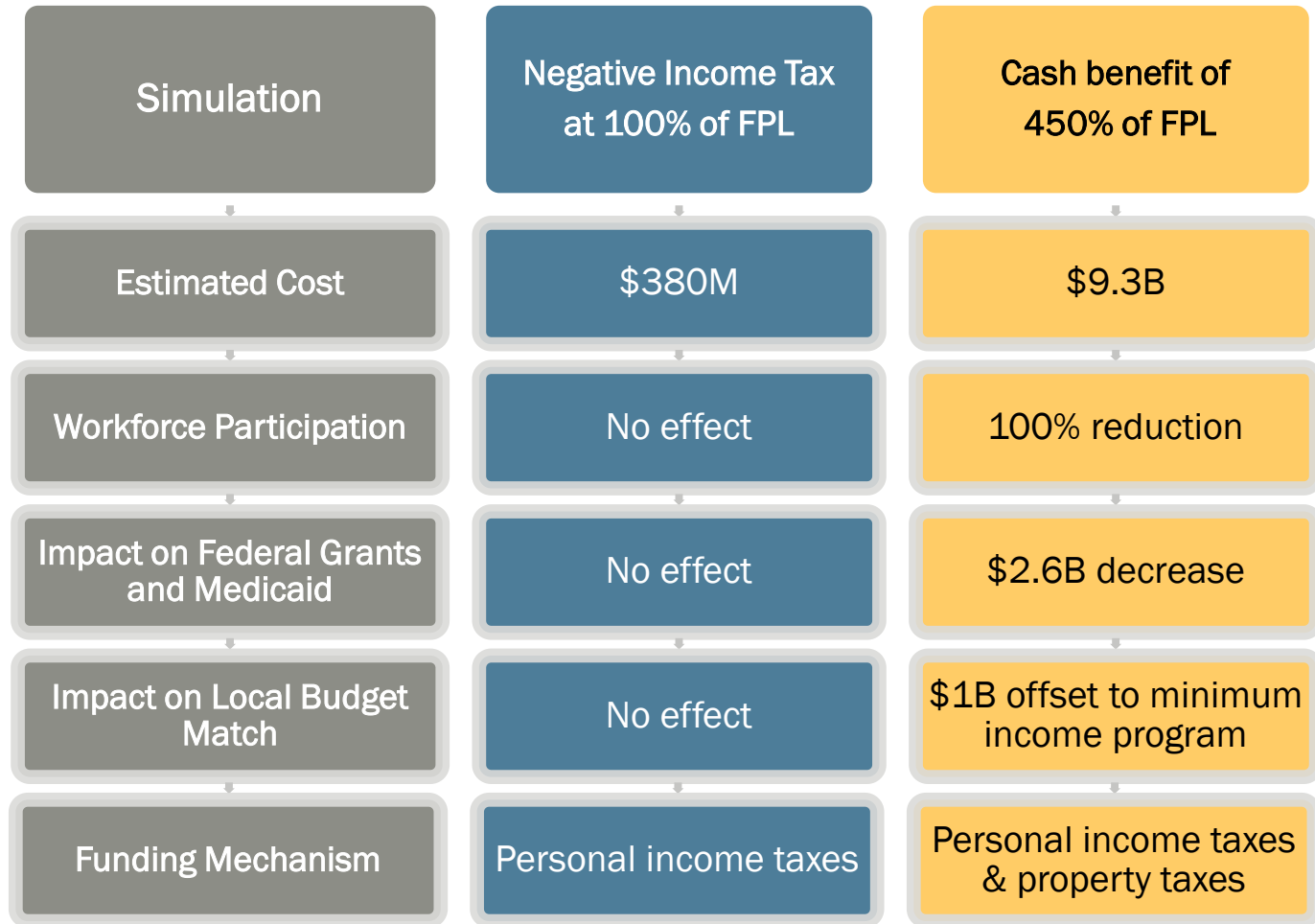
Economic Model: Overview

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 REMI

The model forecasts the economic conditions over 10 years, comparing two scenarios: (1) if District continues to have no minimum income program; (2) if the District implements a minimum income program

Assumptions for Policy Options/Modeling Scenarios



Note: Simulation color corresponds with colors on REMI output tables

REMI Variables

Negative Income Tax = 100% of Federal Poverty Level

Variable Category	Variable Detail	Region	Units	2017	2018	2019-2026	2027	2028
Personal Taxes	Total	DC	2015 Fixed National \$ (M)	0	380	380	380	0
Transfer Payments	Earned Income Tax Credit (EITC)	DC	2015 Fixed National \$ (M)	0	380	380	380	0

Cash Benefit = 450% of Federal Poverty Level

Variable Category	Variable Detail	Region	Units	2017	2018	2019-2026	2027	2028
Personal Taxes	Total (including \$0.5 billion offset)	DC	2015 Fixed National \$ (M)	0	4,150	4,150	4,150	0
Property Taxes	Total (including \$0.5 billion offset)	DC	2015 Fixed National \$ (M)	0	4,150	4,150	4,150	0
Transfer Payments	Other income maintenance benefits (including \$1 billion offset)	DC	2015 Fixed National \$ (M)	0	8,300	8,300	8,300	0
Transfer Payments	Public assistance medical care benefits (Medicaid)	DC	2015 Fixed National \$ (M)	0	-2,035	-2,035	-2,035	0
Transfer Payments	Supplemental Nutrition Assistance Program (SNAP)	DC	2015 Fixed National \$ (M)	0	-225	-225	-225	0
Transfer Payments	Other income maintenance benefits (TANF + WIC + LIHEAP + reduced lunch)	DC	2015 Fixed National \$ (M)	0	-236	-236	-236	0
Federal Civilian Government Spending	Total (Title I Schools + childcare + HUD + Head Start + DC School Choice)	DC	2015 Fixed National \$ (M)	0	-151	-151	-151	0

Summary of Modeling Results

Varying effect on employment and GDP

- The results from all four policy options/modeling scenarios indicate that establishing a minimum income program would have a negative impact on District employment and GDP, although the impact of each scenario varies greatly.

Economic stimulus is limited

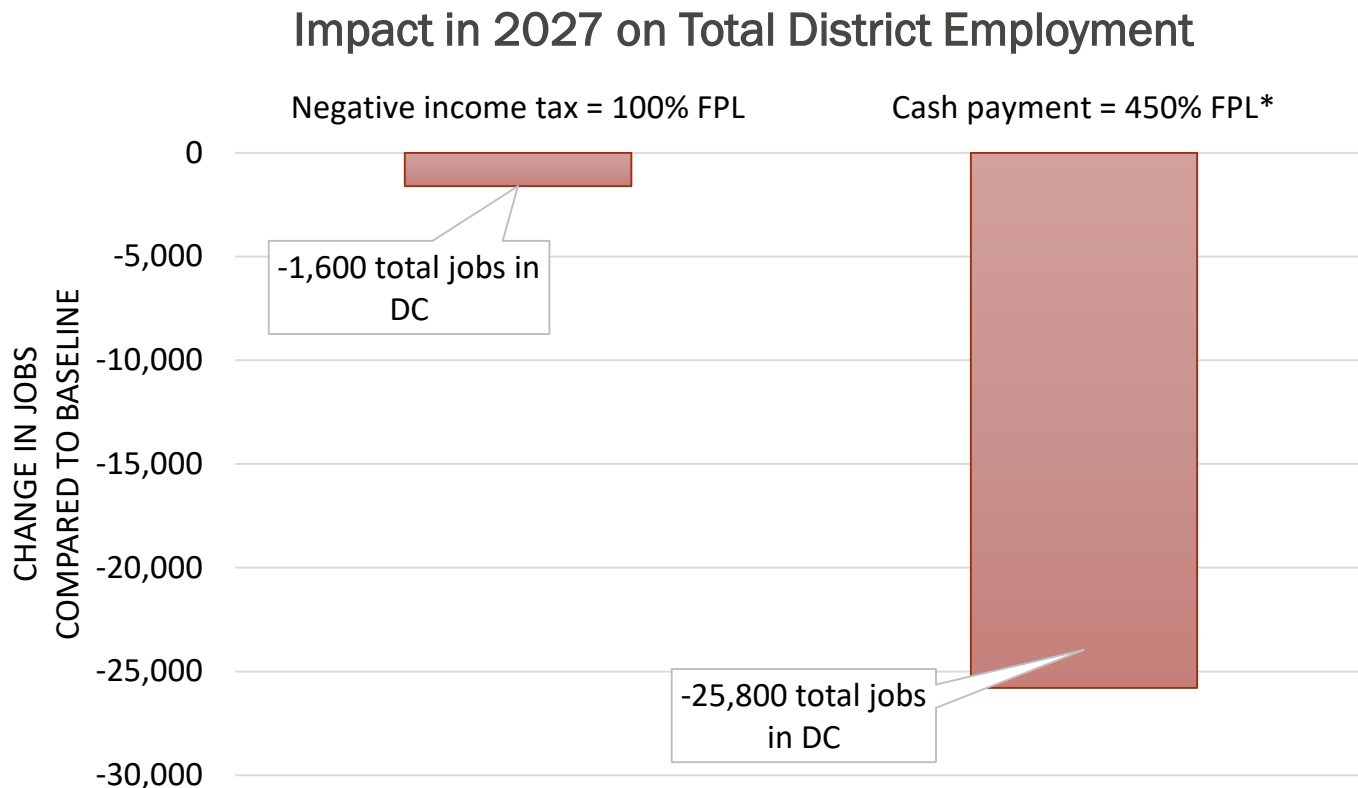
- The model predicts that the economic stimulus generated by additional spending among low-income residents would be outweighed by the dampening effect of significantly raising taxes. The latter would be exacerbated by some higher-income District residents moving to lower-tax jurisdictions.

Many benefits cannot be captured in economic model

- As with any policy proposal, Councilmembers will 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 reduced employment and lower GDP.

Economic Impact – Total District Employment

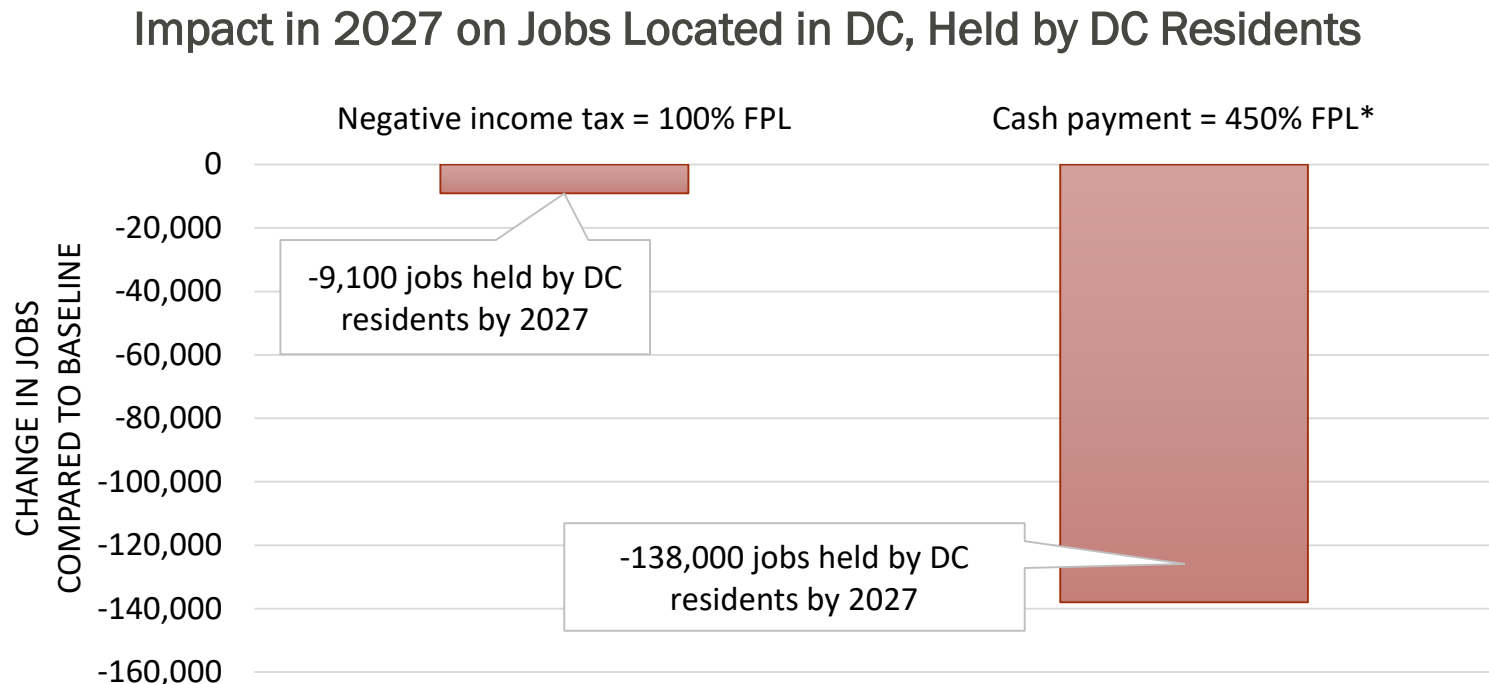
- ❑ The negative impact on total employment in the District varies significantly depending on the amount of supplemental income—from a decrease of 1,600 jobs to a decrease of 25,800 jobs after ten years.
- ❑ This represents a decrease of 2% to 36% in 10-year employment growth.
- ❑ Total employment includes residents and non-residents.



*Cash payment = 450% FPL assumes all DC residents making <450% FPL reduce work hours to zero

Economic Impact – District Resident Employment in DC

- ❑ The change in residence-adjusted employment indicates a decrease in the number of jobs located in the District that are held by District residents.
- ❑ The impact varies from a decrease of 9,100 jobs to a decrease of 138,000 jobs after ten years.
- ❑ This represents a significant decrease of 31% to 476% in DC resident employment growth over ten years.

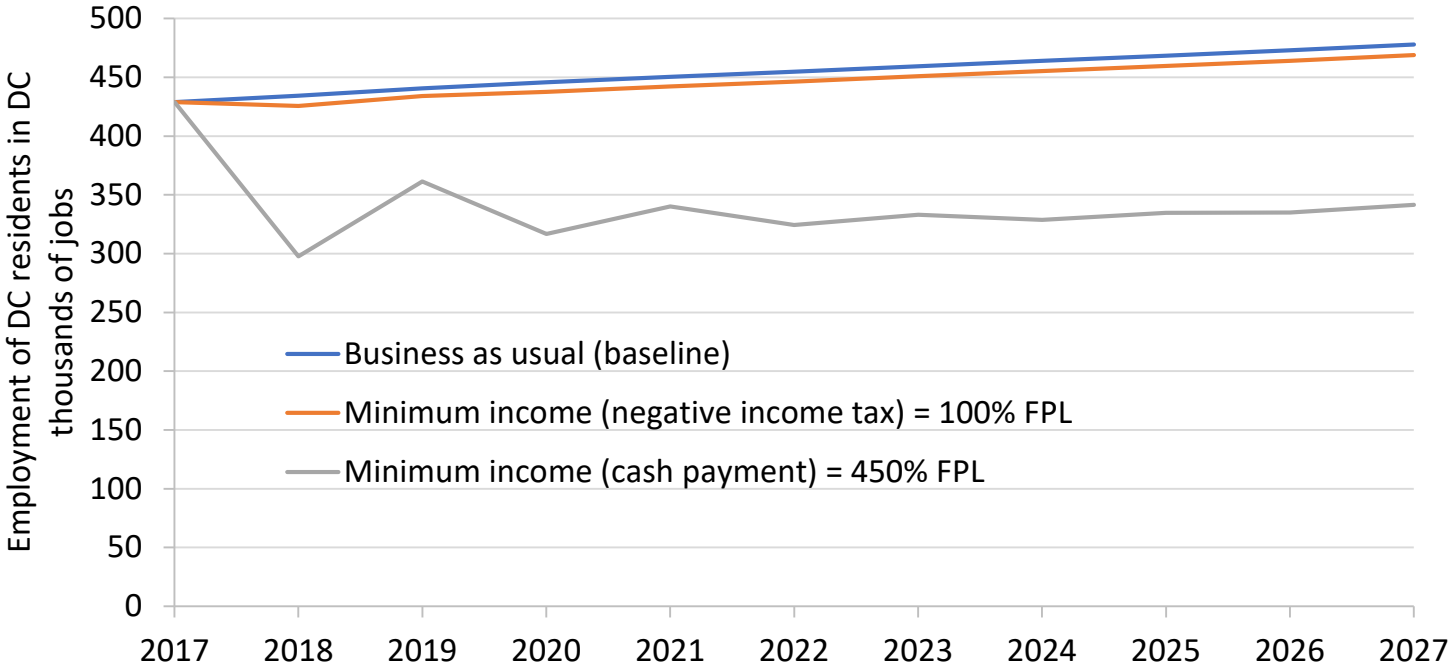


*Cash payment = 450% FPL assumes all DC residents making <450% FPL reduce work hours to zero

Economic Impact – District Resident Employment in DC

- ❑ The results indicate that the negative impact on employment would affect District residents disproportionately.
- ❑ District residents may have an economic incentive to leave the District to avoid significantly higher taxes without necessarily giving up their jobs in the District.

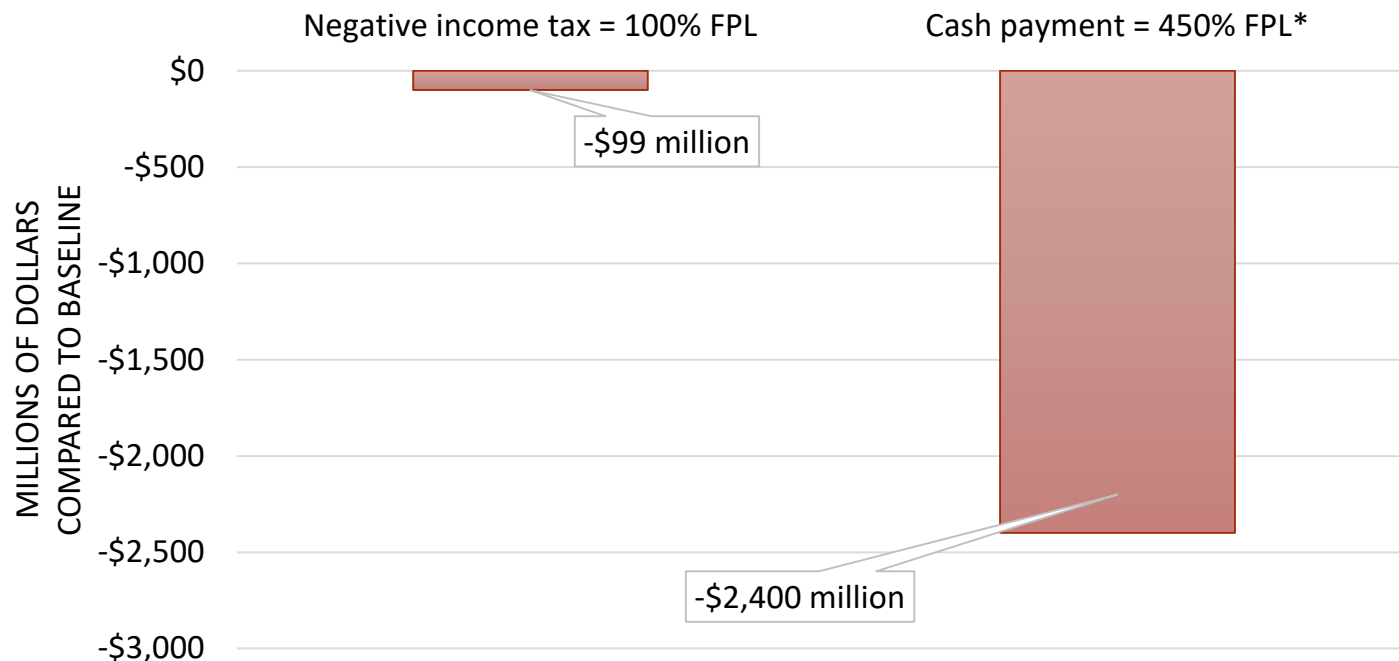
Jobs Located in DC, Held by DC Residents
Compared to the Baseline



Economic Impact - GDP

- ❑ The model results predict a negative impact on the District's overall GDP, although the magnitude differs greatly between simulations.
- ❑ The negative impact on GDP lessens over time, as the District economy recovers from the shock of losing \$2.6 billion in federal grants and payments that would occur with a minimum income equal to 450% of FPL.

Impact in 2027 on District GDP

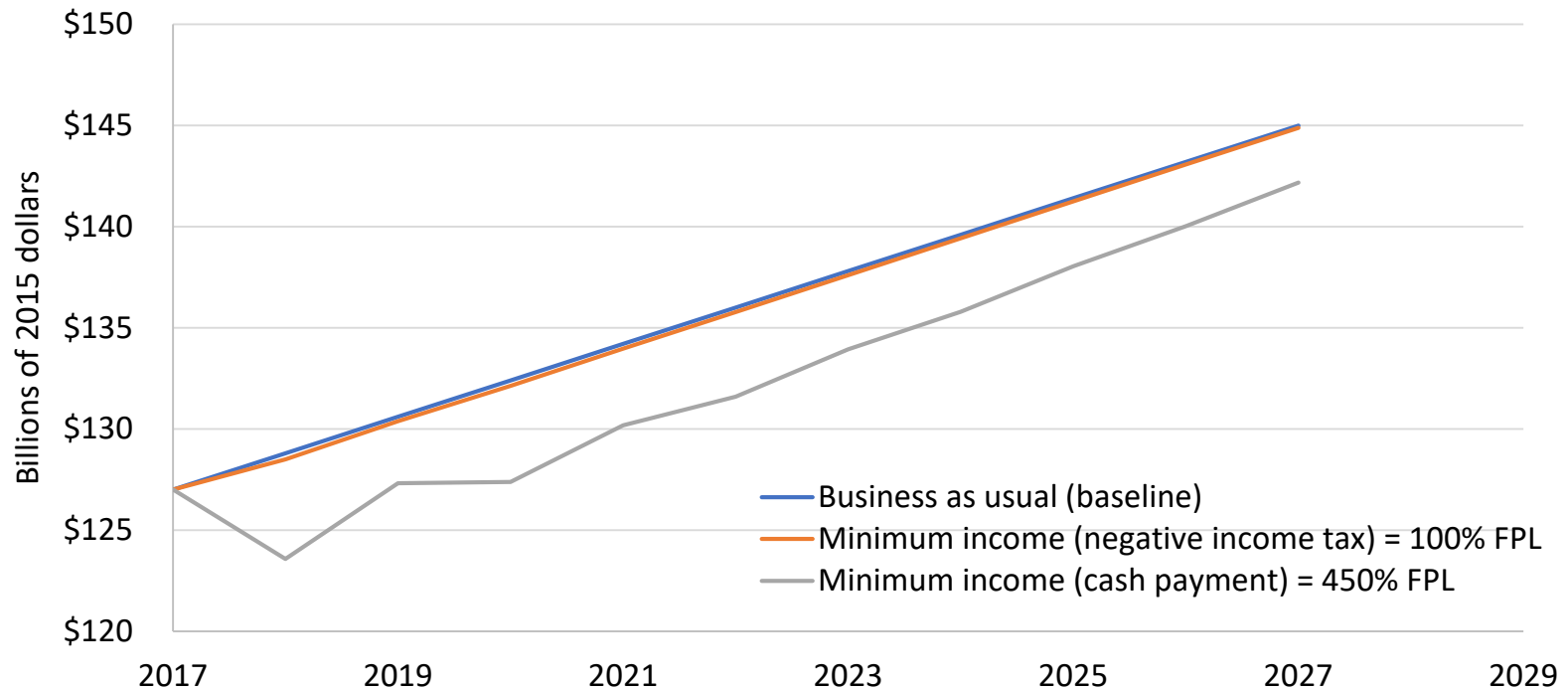


*Cash payment = 450% FPL assumes all DC residents making <450% FPL reduce work hours to zero

Economic Impact – GDP

- ❑ District GDP is projected to grow from \$127 billion in 2016 to \$145 billion in 2027.
- ❑ The minimum income program's impact on District GDP growth would range from a decrease of 0.6% to a decrease of 13%.

GDP in the District Compared to the Baseline
(2015 dollars)



Conclusion

Living in DC is very expensive

- The Budget Office estimates that it costs a family of three living in the District \$96,885 per year to meet their basic needs.

Providing a cash payment to meet the entirety of a household's basic needs would double DC's local funds budget

- Providing a minimum income equal to this threshold would require an increase in annual District expenditures of \$7B-\$9.3B.

Providing such a robust benefit would have a negative impact on DC's economy

- Providing a minimum income to DC households that would meet all basic needs would reduce overall employment in the District and could force DC to forgo about \$2.66B in federal payments and grants.

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

- A more moderate cash payment or negative income tax at least may provide additional resources to DC residents without significantly reducing employment or putting federal funds at risk.

Contact Information

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

Report available for download: <https://tinyurl.com/yakgomq5>

Presentation: <https://tinyurl.com/ycrxbr95>

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