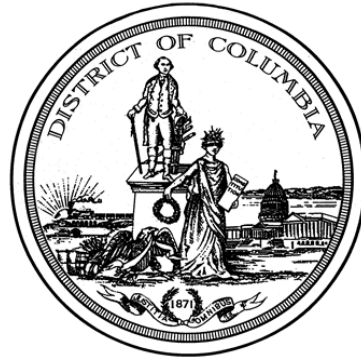


COUNCIL OF THE DISTRICT OF COLUMBIA
OFFICE OF THE BUDGET DIRECTOR | JENNIFER BUDOFF, BUDGET DIRECTOR

**ECONOMIC AND POLICY IMPACT STATEMENT:
APPROACHES AND STRATEGIES FOR PROVIDING A
MINIMUM INCOME IN THE
DISTRICT OF COLUMBIA**

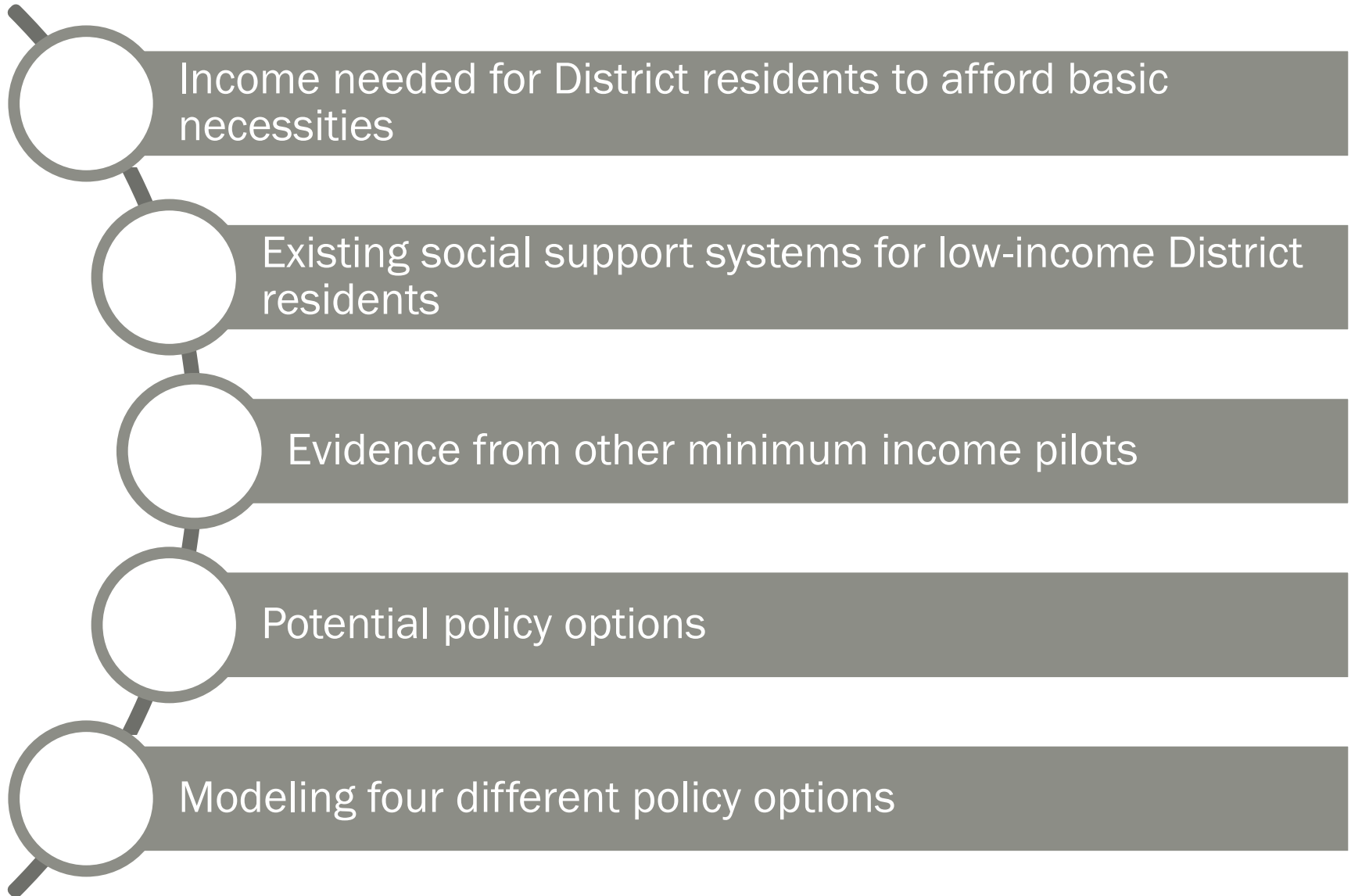


RESEARCHERS: SUSANNA GROVES & JOHN MACNEIL
WITH ANNE PHELPS, & JOSEPH WOLFE
FEBRUARY 27, 2018

Economic and Policy Impact Statements

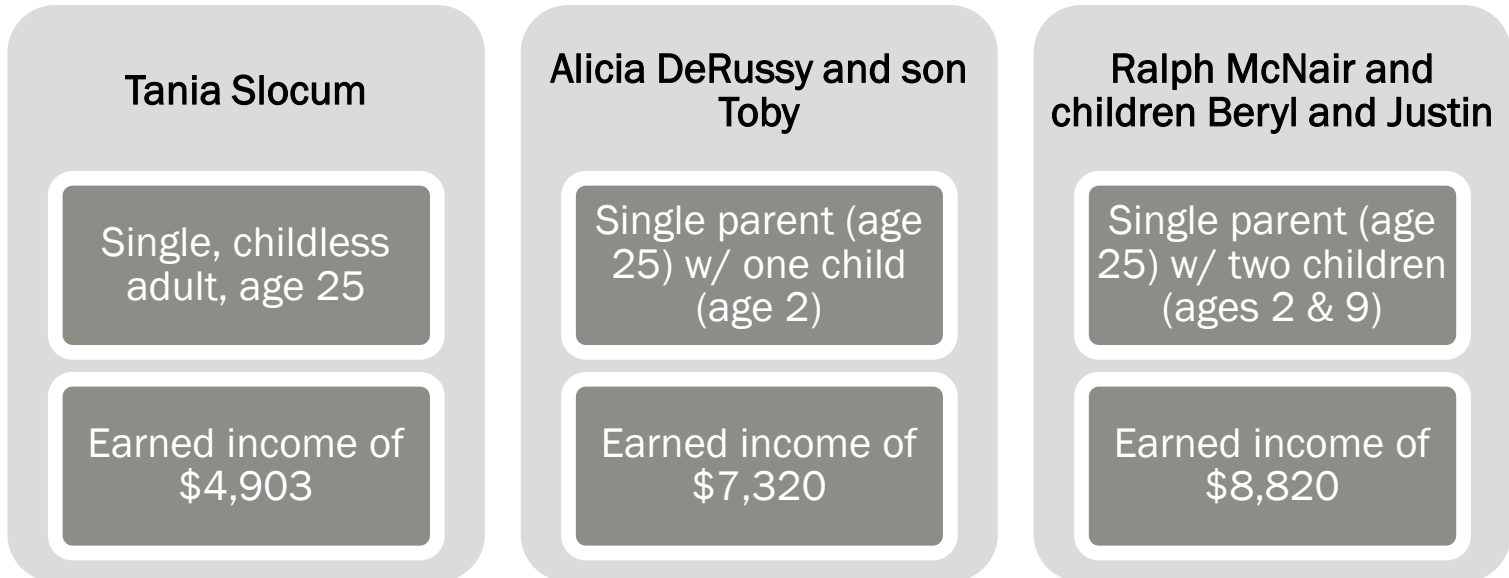
- ❑ This study analyzes the policy implications and economic costs and benefits of a minimum income or universal basic income.
 - ❑ *Prepared under Council Rule 308 at the request of Councilmember David Grosso and Chairman Phil Mendelson*
- ❑ The analysis is designed to offer Councilmembers a data- and evidence-based resource for weighing the policy implications and economic costs and benefits of the policy initiative.
- ❑ The document does not make policy recommendations, and its findings and conclusions are non-binding.
- ❑ This study is not a substitute for the Office of the Chief Financial Officer's fiscal impact statement (FIS).
- ❑ The Office of the Budget Director issued its first economic and policy impact statement on the "Universal Paid Leave Amendment Act of 2016" (UPLAA).
 - ❑ *The report was cited in at least 16 articles, including national press outlets such as The Washington Post, NPR, The Atlantic Monthly, and PBS NewsHour*
 - ❑ *The Budget Office presented the report at two REMI users conferences and in a webinar attended by over 100 online participants.*

Overview



Income Needed to Afford Basic Necessities in DC

- ❑ This study estimates the cost of living for three fictional D.C. households. They represent some of the most common household groupings for District residents living below the Federal Poverty Level.



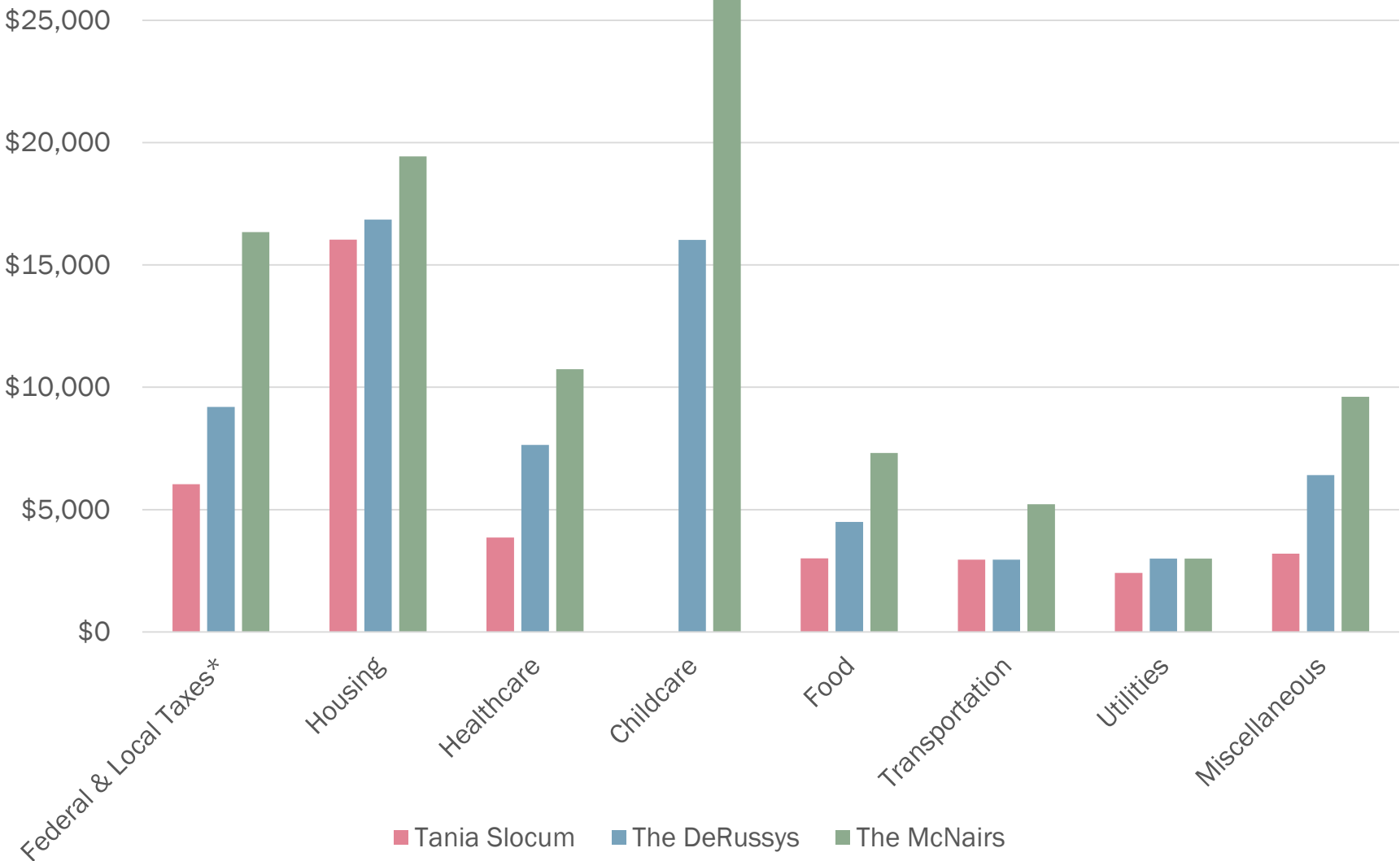
- ❑ The estimate considers D.C.-specific information and four different cost of living tools: the Federal Poverty Level (FPL), the Supplemental Poverty Measure (SPM), the MIT Living Wage Calculator (LWC), and the Economic Policy Institute's Family Budget Calculator (FBC).

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

	Tania Slocum 1 Adult (Age 25)	The DeRussys 1 Adult (Age 25) & 1 Child (Age 2)	The McNairs 1 Adult (Age 25) & 2 Children (Ages 2 & 9)
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
Equivalent Hourly Wage[†]	\$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.

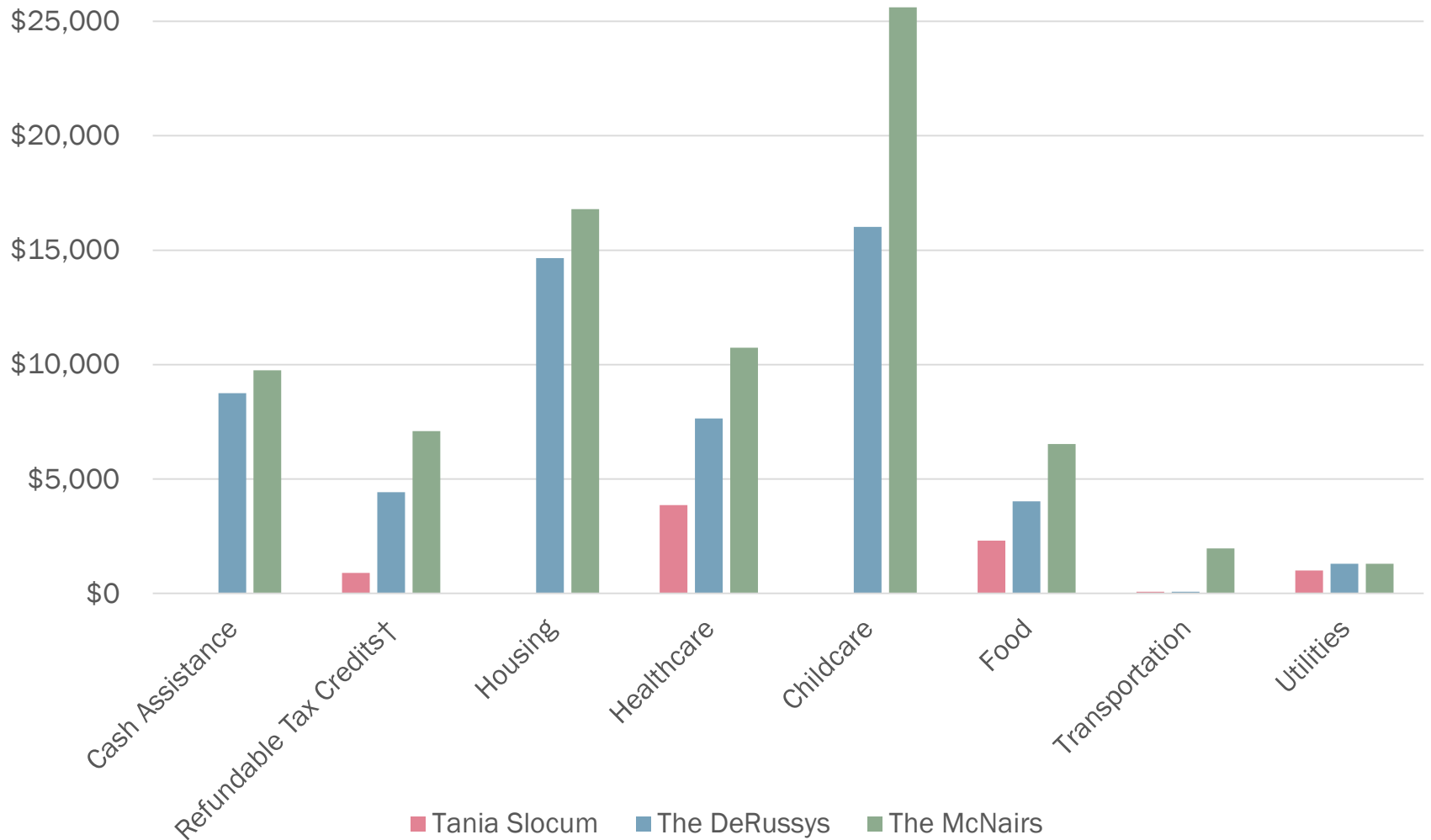
Estimated Value of Social Safety Net for Three Fictional D.C. Households*

	Tania Slocum 1 Adult (Age 25)	The DeRussys 1 Adult (Age 25) & 1 Child (Age 2)	The McNairs 1 Adult (Age 25) & 2 Children (Ages 2 & 9)
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.

[†]Assuming earned income of \$4,903 for Slocum; \$7,320 for DeRussy; and \$8,820 for McNair

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.

†Assuming earned income of \$4,903 for Slocum; \$7,320 for DeRussy; and \$8,820 for McNair.

Estimated Annual Gap between Private Resources, the Public Social Safety Net, and the Cost of Living

	Tania Slocum 1 Adult (25 yr)	The DeRussys 1 Adult (25 yr) & 1 Child (2 yr)	The McNairs 1 Adult (25 yr) & 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

Eligibility for Benefit ≠ Receipt of Benefit

*Before taxes

†Including federal and state tax liability based on fictional households' earned income but excluding refundable tax credits.

‡Positive number indicates surplus. **Note: It is unlikely that a household will receive all safety net supports they are eligible to receive.**

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

Social Safety Net Program	Number of Households Receiving Benefit	Percent of D.C. Households
TANF or local cash assistance	15,669	5.7%
Federal EITC*, †	51,000	14.8%
Local EITC*, †	58,493	17.0%
Public Housing or HCVP/LRSP Voucher	20,536	7.4%
Public Health Insurance Subsidies‡, †	277,533	39.6%
SNAP voucher†	74,126	26.8%
LIHEAP†	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.

Approximately 38,993 D.C. households (or 14.1% of the total) have incomes below the Federal Poverty Level.

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 like the HCVP and LRSP do not have sufficient resources to meet demand and have long waiting lists

Some safety net programs have additional requirements

- For example, TANF recipients must be in compliance with their IRP 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

- Tax credit programs such as the EITC and Schedule H have lower participation rates, and not all low income households file taxes

Federal and Local Funds Dedicated to Social Support Programs

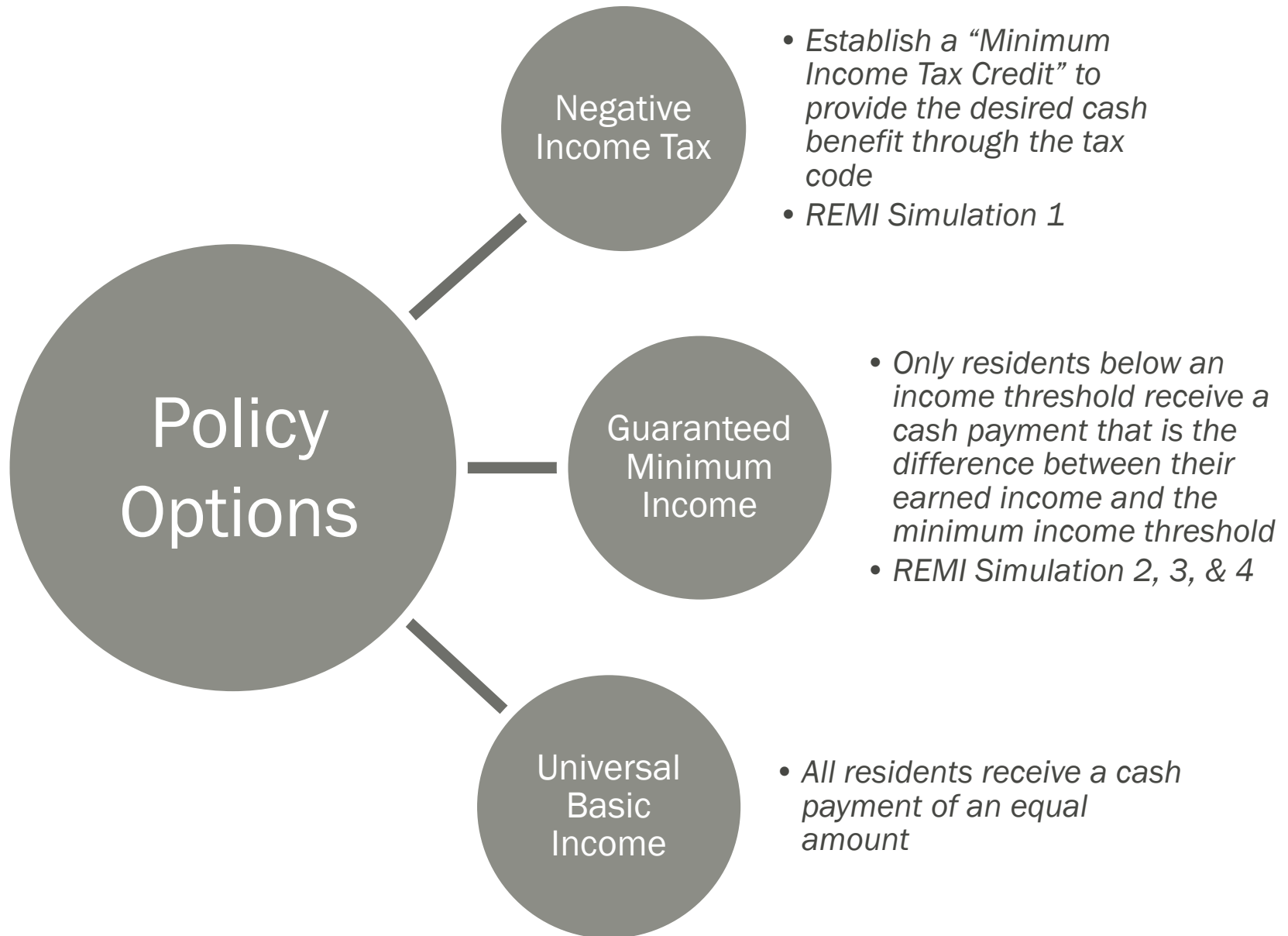
- ❑ Annual federal and local fund appropriations for social support programs in the District of Columbia’s budget approaches \$4B.
- ❑ In FY 2016, the District government received at least \$2.65B in federal payments and grants for means-tested poverty alleviation programs.
- ❑ Raising District residents’ income significantly above the FPL could put these federal payments and grants at risk.

Federally-Funded Public Benefit	Federal Grants in District’s FY16 Operating Budget
Medicaid	\$2,035,326,138
Supplemental Nutrition Assistance Program (SNAP)	\$225,333,286
Temporary Assistance for Needy Families (TANF)	\$172,404,715
Title I School Funding	\$45,881,592
Free and Reduced School Meals	\$39,875,600
Housing and Urban Development (HUD)	\$37,847,434
DC School Choice	\$32,579,571
Child Care	\$20,346,329
Head Start	\$14,396,245
Women, Infant, and Children (WIC)	\$13,492,836
Low-Income Home Energy Assistance Program (LIHEAP)	\$10,447,479
Total	\$2,647,931,225

Minimum Income Pilot Programs

- ❑ Pilot programs began in the 1960s and 1970s in the U.S. and Canada
 - ❑ Four U.S. experiments began under the Nixon administration. Took place across the country, from Seattle to rural North Carolina
 - ❑ Canada's MINCOME study was one of the country's largest controlled social science experiments
 - ❑ Only provided benefits to low-income households
 - ❑ Incentivized work by phasing out cash payments as income rose
- ❑ Findings from these experiments included:
 - ❑ Some evidence of decrease in paid employment, especially for secondary earners and youths
 - ❑ Hospital visits decreased and mental health improved
 - ❑ School attendance and high school graduation rates increased
- ❑ Newly revived interest in the policy to alleviate poverty, spark entrepreneurship, and manage changes to the labor market.
 - ❑ Studies being conducted in Oakland and Stockton, California; Canada; Finland; and the Netherlands
- ❑ 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

Three Approaches to Providing a Basic Income



Estimating the Cost to the District of Various Policy Options

The Office of the Budget Director 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 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?

Economic Model: Overview of REMI

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+ v2.0.1, 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.

Assumptions for Policy Options/Modeling Scenarios

Simulation	<u>Simulation 1</u> Negative income tax at 100% of FPL	<u>Simulation 2</u> Cash benefit of 100% of FPL	<u>Simulation 3</u> Cash benefit to 450% of FPL	<u>Simulation 4</u> Cash benefit of 450% of FPL
Estimated Cost	\$380M	\$710M	\$7B	\$9.3B
Workforce Participation	No effect	100% reduction	50% reduction	100% reduction
Impact on Federal Grants and Medicaid	No effect	No effect	\$2.6B decrease	\$2.6B decrease
Impact on Local Budget Match	No effect	No effect	\$1B offset to minimum income program	\$1B offset to minimum income program
Funding Mechanism	Personal income taxes	Personal income taxes	Personal income taxes & property taxes	Personal income taxes & property taxes

Note: Simulation color corresponds with colors on REMI output tables

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.

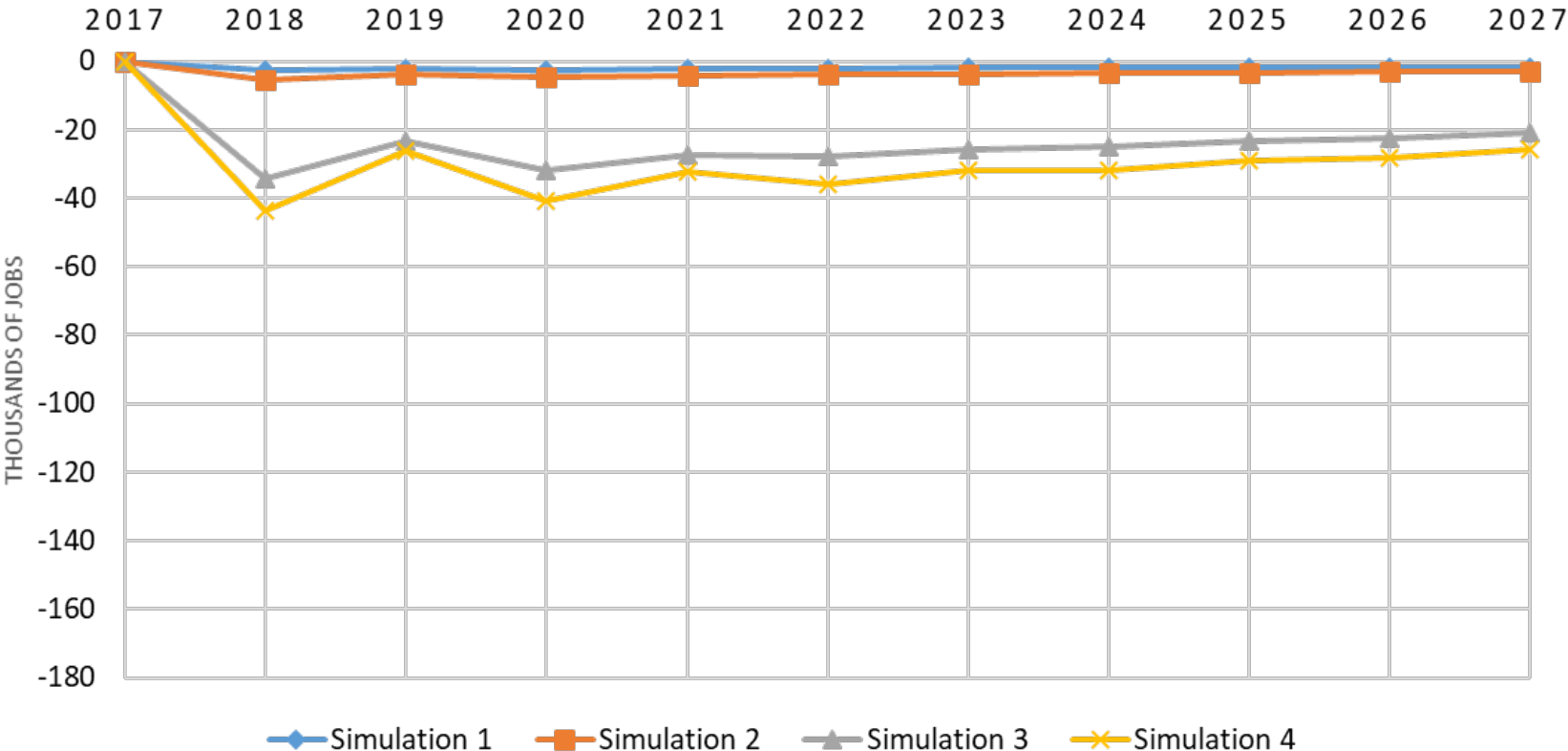
Many benefits cannot be captured in economic model

- 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

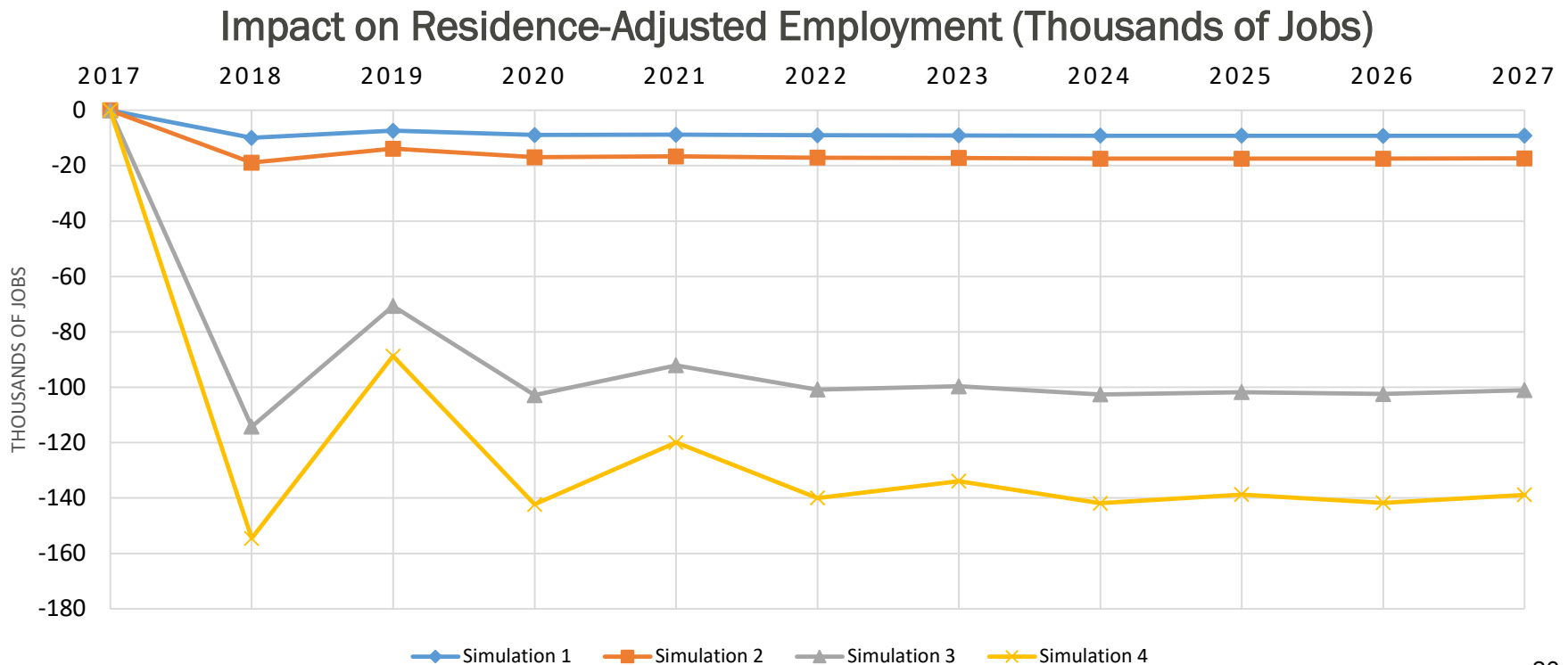
- ❑ The negative impact on total employment in the District varies significantly depending on the amount of supplemental income—from a decrease of 1,600 jobs to a decrease of 25,800 jobs after ten years.
- ❑ This represents a decrease of 2% to 36% in 10-year employment growth.
- ❑ Total employment includes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

Impact on Total District Employment (Thousand of Jobs)



Economic Impact – Residence-Adjusted Employment

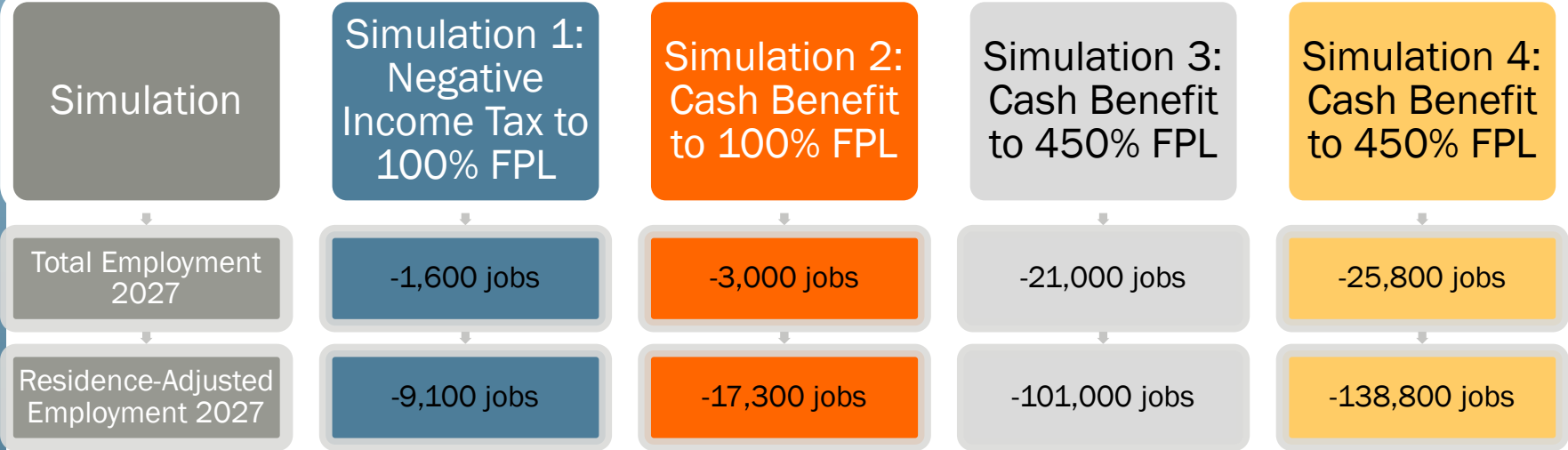
- ❑ The change in residence-adjusted employment indicates a decrease in the number of jobs located in the District that are held by District residents.
- ❑ The impact varies from a decrease of 9,100 jobs to a decrease of 138,000 jobs after ten years.
- ❑ This represents a significant decrease of 31%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



Economic Impact – Residence-Adjusted Employment

- ❑ 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 job in the District.

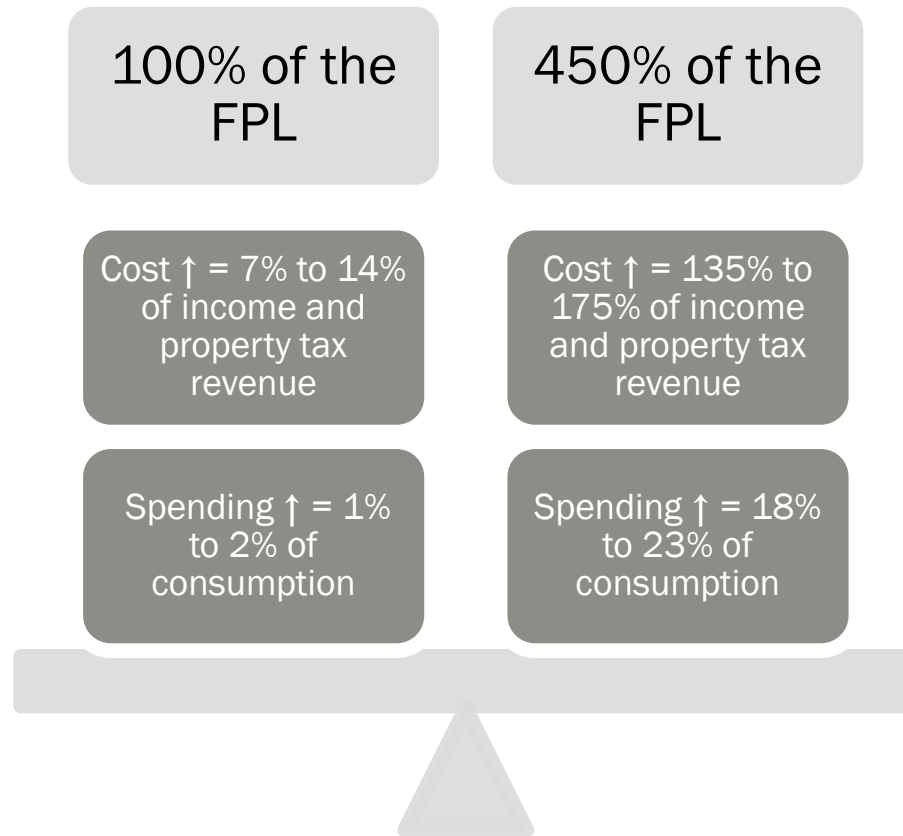
**Total Employment and Residence-Adjusted Employment in the District
Compared to the Baseline in 2027**



Economic Impact – Tax Increase vs. Consumption Increase

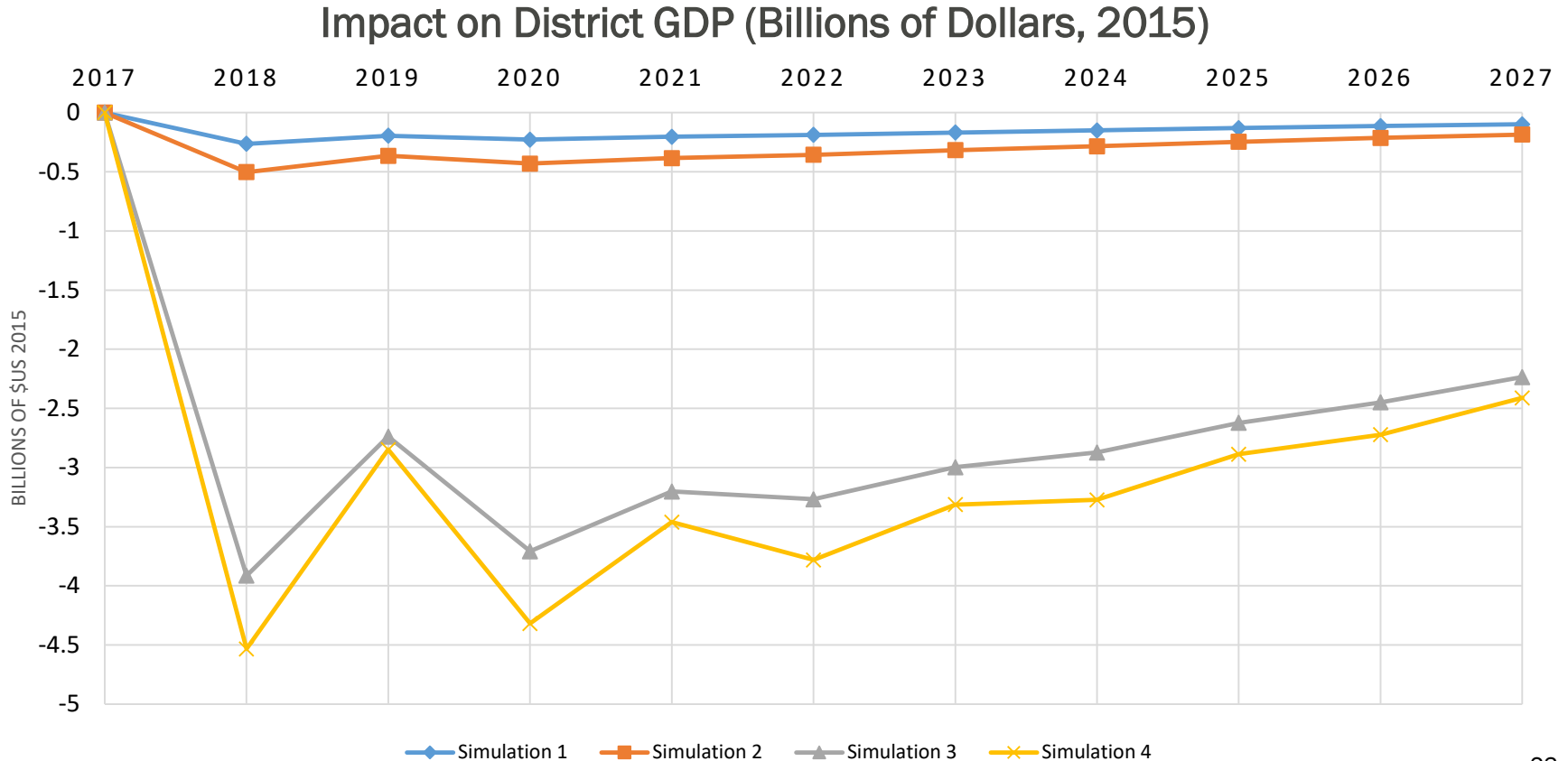
- The District collected \$2.48 billion in personal and business income taxes and \$2.65 billion in property taxes in FY 2017. By comparison, total personal consumption in the District in 2017 was about \$40 billion.

Proportionally, the “bang for the buck” is roughly the same in both scenarios; the increase in consumption is ~ 13% to ~14% of the tax increase



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 in Simulation 3 and 4.

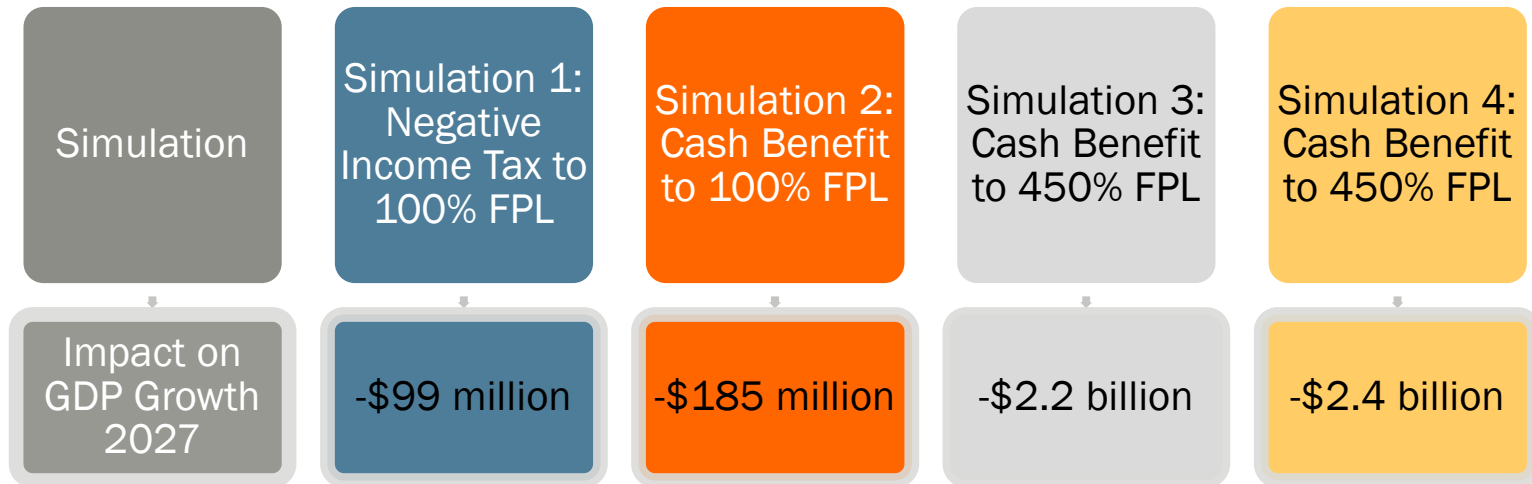


Economic Impact – GDP

- ❑ 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 in 2027

(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 basic 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 basic income to DC households, as modeled in Simulation 3 and 4 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, as modeled in Simulation 1 and 2, 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

Key Staff:

- ❑ Jennifer Budoff, Budget Director, jbudoff@dccouncil.us
- ❑ Susanna Groves, Senior Budget Analyst, sgroves@dccouncil.us
- ❑ John MacNeil, Senior Budget Analyst, jmacneil@dccouncil.us