The District's Dime
Going Beyond the Budget Book

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Fiscal Year 2017 Budget Takes Important Steps But in Many Ways Leaves Poorest Residents Behind

By DCFPI Staff

Mayor Bowser's proposed fiscal year (FY) 2017 budget maintains and adds important investments to help DC residents cope with rising housing costs and move up the economic ladder, including preK-12 education, the Housing Production Trust Fund, and homeless services.

At the same time, the proposed budget leaves large gaps in meeting needs of the poorest residents, at a time when economic challenges are mounting for them, and spreading development is breaking the city further apart. With a severe affordable housing crisis, rising family homelessness, unemployment that remains high years after the end of the Great Recession, and falling incomes among the poorest residents, the proposed investments do not come close to matching the need.

- **Cash Assistance for Families with Children:** The budget continues to provide very modest cash assistance to families with children on TANF who otherwise would face a cutoff of income assistance this year. But the extension applies for only one year, and the budget makes no progress in reforming a time limit that already has left families with incredibly low benefits and that risks eliminating assistance for families in dire circumstances.

- **Housing:** The budget proposes $100 million for HPTF but no additional resources for rental assistance, the housing tool that is needed to make housing affordable to the poorest families. This is the first time in four years that the budget has funded no new vouchers.

- **Homeless Services:** The budget proposes $13 million to help homeless youth, families, and single adults, but it falls far short of funding the needs outlined in the Homeward DC Strategic Plan to end homelessness.

- **Education:** The budget provides $75 million to cover the cost of rising school enrollment and adds a 2 percent increase to the per-student funding formula, but it makes almost no additional investments in early care and education.

- **Adult Education and Training:** The budget increases funding for Summer Youth Employment Program to serve older youth, and continues to invest in two new subsidized job programs started last year, but it does not appear to make any other progress to invest in a comprehensive, high-performing education and training system.

The ability to fund needed services was limited in part by an effort over the past year to implement tax cuts proposed by the D.C. Tax Revision Commission. Some $45 million in tax cuts have been implemented in the past year, including cuts to income taxes for moderate-income residents and high-income residents, cuts in business income taxes, and elimination of taxes on estates worth between $1 million and $2 million. The mayor's proposed budget offers almost no new revenues to offset the impact of these cuts.

Here's a more in-depth look at selected issue areas:

TANF: The Budget Prevents Families from Being Cut Off, But Offers No Long- term Plan to Protect Poor Children

The mayor's proposed FY 2017 budget includes $10 million to continue providing very modest assistance and employment services to roughly 6,500 families – including 13,000 children – who otherwise face a cutoff of all aid this October. This repeats a proposal from the FY 2016 budget that called for a one-year delay in implementing a time limit, which was intended to give the new mayor a year to address a troubled TANF program that has not served families well, and a rigid time limit that puts many vulnerable families at risk.

The mayor's proposal does not reform policies that already have left families with incredibly low benefits, and it does not fix a time limit policy that risks eliminating assistance to families in dire circumstances a year from now. Instead, the mayor's proposal delays imposing the District's TANF time limit by one year. This means that while this proposal delays the cliff, there are still tough policy decisions to be made. If these decisions are not made, these 6,500 families still lose access to modest assistance and employment services one year later.

Getting the TANF time limit right – modifying it to ensure that it provides stability to families and children who need it the most – is important to child well-being and to the success of other mayoral initiatives, such as ending homelessness. Half of all families in DC's Rapid Re-Housing program, which helps families exit shelter, have received TANF for 60 months and will lose all cash aid in October 2017 if the time limit is not fixed. Losing their entire income source will make it incredibly hard to successfully exit homelessness.

DC's time limit is one of the strictest in the nation, cutting off all families regardless of their circumstances, with no chance to ever receive assistance again. The District's time limit even cuts off families when they are doing everything expected of them to look for work.

In contrast with DC, most states have used flexibility under federal TANF law to create time limit extensions for families who need more time.

- **Extensions:** Forty-four states have extensions that give parents more time to deal with issues like domestic violence or caring for a family member with a disability. <u>The District's time limit does not offer extensions under any circumstance.</u>

- **Continued Assistance after the Time Limit:** Six states have other time limit policies to protect families. New York has a separate state cash assistance program that continues to provide benefits to families. California, Indiana, Maryland, and Oregon remove the parent from the TANF case but allow children to continue to receive benefits. Vermont allows families participating in work activities to continue to receive benefits, and in practice almost all families have continued to receive assistance. The District's time limit does not provide any cash assistance or employment assistance after the time limit.

The District's rigid time limit is of concern because a large body of research confirms that families reaching time limits often have substantial problems, including high rates of mental illness, domestic violence, and disabilities. Research from other states finds that the vast majority of families cut off TANF are not able to replace lost benefits with employment income, leaving many to lead chaotic and unstable lives. This leads to increases in homelessness and child neglect as families cannot meet their children's most basic needs.

- **Most do not secure steady employment.** A Maryland Study found that families who left TANF because of time limits work in fewer quarters in the year after leaving TANF than other TANF leavers do.[1] In Washington, only 45 percent were working three years after their case closed due to a time limit.[2]

- **Many experience housing instability or homelessness.** A Maine study found that 1 in 5 families reported being evicted; having to relocate, often to overcrowded living conditions; or needing to go to a homeless shelter.[3] Washington State found that families who left due to time limits had the highest rates of homelessness – 20 percent were homeless at the end of the three-year follow-up; this was a full six percentage points higher than families who were on TANF for more than a year but left on their own.[4]

- **Parents struggle to keep their families together.** When parents are cut off of TANF without a secure job, their children are more likely to be abused or neglected and end up in foster care.[5]

- **Child development is threatened.** When TANF benefits are cut off from mothers of preschoolers, their children are three times more likely to have serious behavior problems than other young children.[6] Children are also more likely to repeat a grade and less likely to be engaged by their parents in important learning activities like reading when they are subject to strict TANF time limits.[7]

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[1] Hetling, Andrea, Kathryn Patterson, and Catherine Born (2006). *The TANF Time Limit: Comparing Long-Term and Other Welfare Leavers*, Family Welfare Research and Training Group, University of Maryland.
[2] Patton, Deleena, Melissa Ford Shah, Barbara E.M. Felver, Kathryn Beall (2015). *TANF Caseload Decline: The Well-Being of Parents and Children Leaving WorkFirst in Washington State*, Report to the DSHS Economic Services Administration, Office of the Assistant Secretary and the Community Services Division. https://www.dshs.wa.gov/node/10898/
[3] Butler, Sandra (2013). Time Limits and Maine Families: Consequences of Withdrawing the Safety Net. University of Maine. http://www.mejp.org/sites/default/files/TANF-Study-SButler-Feb2013.pdf
[4] Patton, Deleena, Melissa Ford Shah, Barbara E.M. Felver, Kathryn Beall (2015).
[5] Nam, Y., Meezan, W., & Danziger, S. (2006). Welfare recipient's involvement with child protective services after welfare reform. *Child Abuse & Neglect*, *30*(11), 1181-1199.
Shook Slack, K., Lee, B. J., & Berger, L. M. (2007). Do welfare sanctions increase child protection system involvement? A cautious answer. *Social Service Review*, *81*(2), 207-228.
Beimers, D., & Coulton, C. J. (2011). Do employment and type of exit influence child maltreatment among families leaving Temporary Assistance for Needy Families? *Children and Youth Services Review*, *33*, 1112-1119.
[6] Lohman, B. J., Pittman, L. D., Coley, R. L., & Chase-Lansdale, P. L. (2004). Welfare history, sanctions, and developmental outcomes among low-income children and youth. *Social Service Review*, *78*(1), 41-73.
[7] Wang, J.S. (2015). TANF coverage, state TANF requirement stringencies, and child well-being. *Children and Youth Services Review*, *53*, 121-129.

In addition to not resolving problems with DC's time limit, the mayor's proposal would keep many families struggling to survive on very low benefits. Cuts due to time limits have reduced benefits to just $156 a month for a family of three for affected families. Given that most TANF families do not receive housing assistance, this is too low for families to make ends meet.

Affordable Housing: Investing to Build More Housing, But No Funds for Rental Assistance for DC's Poorest

Mayor Bowser committed $100 million to the Housing Production Trust Fund – DC's main source to build or renovate affordable housing – for the second year in a row. This important investment will support construction or renovation of 1,000 or more homes for low- and moderate-income residents, largely those below $54,000 a year for a family of four. The FY 2017 budget continues to keep the Trust Fund as the centerpiece of DC's affordable housing strategy.

At the same time, the budget does not make any progress in providing rental assistance needed to help DC's poorest households, even though these are the households most likely to face severe housing cost burdens. The budget provides no new funding for the Local Rent Supplement Program, which provides ongoing rental assistance to cover the difference between rents that low-income families can afford and the actual costs of housing. Because LRSP bases rental subsidies on a household's income, it is the most effective housing tool to meet the needs of very low income families. Trust Fund properties often require additional LRSP subsidies to serve such families, so that operating costs are covered while keeping rents affordable.

With no new LRSP funds in FY 2017, it is not clear whether the Housing Production Trust Fund will be able to meet its requirement to spend 40 percent of its resources on housing for extremely low-income families.

The FY 2017 budget includes two other notable housing investments:

- **Public Housing Repairs**: The budget devotes $15 million to renovate dilapidated public housing units. Most of the DC Housing Authority's stock is in need of repairs, reflecting years of underinvestment by the federal government. These funds would come from using available funds in other housing programs.
- **First Time Homebuyer Assistance**: The proposed budget uses federal funds to increase the down payment assistance available to lower-income first time homebuyers, from $50,000 to $80,000, helping ensure that the assistance is enough to help residents acquire a home.

Homeless Services: Moving Forward But Not Enough to Be on Track to End Homelessness

The mayor's budget makes new investments to continue funding the Homeward DC plan, the 2015 strategic plan developed by the Interagency Council on Homelessness (ICH) to end long-term homelessness in the District by 2020. Acknowledging that it will never be possible to prevent all the life events that can lead to homelessness, such as divorce or job loss, the Strategic Plan is designed to make homelessness:

- **Rare.** Homelessness will be prevented whenever possible. This will involve the expansion of prevention programs that help people who at risk of losing their homes. It also will require coordination with other agencies to ensure residents transitioning out of foster care, juvenile justice, or other systems do not become homeless.

- **Brief.** When homelessness cannot be prevented, services will be provided quickly to help residents move into stable housing.
- **Non-recurring.** The District will provide support services to make sure residents do not become homeless again.

The mayor's FY 2017 budget includes $13 million in new funding to address homelessness, including support a number of Strategic Planning priorities, including:

- $3.1 million to serve homeless youth, including prevention services, 27 crisis beds and 12 transitional living spaces.
- $4.8 million to provide permanent support housing (PSH) for 300 single adults facing chronic homelessness.
- $1.2 million to help 100 single adults with ongoing rental assistance through Targeted Affordable Housing. TAH helps residents who need help paying rent after their Rapid Re-Housing ends or who no longer need the intensive services provided by PSH but still need help to afford housing.
- $1.8 million to add 284 new Rapid Re-Housing slots to serve the rising number of homeless families. Rapid Re-Housing provides short-term rental assistance and services to help families exit from shelter and get back on their feet.
- $1.9 million to help 100 families with ongoing rental assistance through Targeted Affordable Housing.
- $1 million to expand a successful homelessness prevention program for families.

While notable, these investments fall far short of identified needs and will not put the city on track to meet the goals of Strategic Plan. For example, the budget provides PSH for 300 single adults, when roughly 1,100 adults are in need. And the budget does not expand Rapid Re-Housing for single adults when more than 2,500 adults are waiting for this assistance. The budget does not appear to provide any new PSH support for families with children, however some PSH units may become available due to turnover. (We are waiting for more information from the Department of Human Services on this issue.) In previous years, this lack of funding has made it difficult for the District to move families with high needs out of shelter quickly, leading to long shelter stays which are expensive for District.

Education: Funding Increases for PreK-12, But Only Limited Funds for Early Care and Education

Funding for DC Public Schools (DCPS) and Public Charter Schools will grow by $75 million, or about 3 percent, adjusted for inflation. The increase includes a 2 percent increase in per-pupil funding and added money to cover the costs of educating the 4 percent more students projected to enroll in the city's publicly funded schools next year. This is different from last year, when schools received added funding to cover enrollment but no increase in the amount given on a per-student basis to DCPS and individual charter schools. The increase also supports four new charter schools and DCPS plans to offer extended school year to 11 elementary and middle schools.

The proposed budget also provides $3.6 million to improve the quality of child care in the District, with the majority going to help "bronze" and "silver" rated centers and homes take the steps needed to get the highest quality "gold" rating. Beyond this important investment, the FY 2017 budget does not include funding to increase reimbursement rates paid to child care providers, even though rates are well below market rate. Providers that serve mostly low-income children, and rely mostly on the child care subsidy program, struggle to provide quality care and make ends meet due to low reimbursement rates. Our recent report cites the need for at least $38 million more to help providers cover the costs of providing quality early care and education.

Job Training: More Funds for Subsidized Job Programs

The proposed FY 2017 budget increases funding for workforce development through the Department of Employment Services, almost entirely in the Summer Youth Employment Program (SYEP). The budget also continues to fund two new subsidized jobs programs that started last year, Career Connections and the LEAP Academy.

As the budget was being developed, the city was also writing its State Plan to comply with the new Workforce Innovation and Opportunity Act (WIOA). Many new initiatives discussed in the State Plan—which should begin to be implemented this year—will require additional funding. However, the proposed budget does not seem to reflect any major increases to begin implementing new programs or services to comply with WIOA and DC's State Plan. The budget does include a staffing increase for the Deputy Mayor for Greater Economic Opportunity (DMGEO), which may signal efforts to strengthen the planning needed to develop a more comprehensive and effective workforce development system, as envisioned by WIOA.

Recent Tax Cuts Limited the Ability to Fund New Investments

The limited ability to make needed investments in DC residents partly reflects the impact of tax cuts that have been implemented since the FY 2016 budget. As a result of Council efforts to prioritize implementation of a tax cut package based on recommendations from the DC Tax Revision Commission, $45 million in tax cuts have been implemented in the past year. The proposed FY 2017 budget leaves these reductions in place and offers no offsetting revenue increases. The budget does include a very small expected revenue increase – $9 million – from new compliance measures and technical changes.

The tax reductions include:

- **Reduction in Middle-income Tax Rate:** The income tax rate for income between $40,000 and $60,000 has been reduced from 8.5 percent to 6.5 percent over the past two years. The reduction in the last year totaled $14 million.

- **Reduction in High-income Tax Rate:** The income tax rate for income between $350,000 and $1 million was reduced this year from 8.95 percent to 8.75 percent. This costs $5 million.

- **Reduction in Business Income Tax Rate:** The corporate and unincorporated business franchise income tax rate has been cut from 9.975 percent to 9.0 percent over the last two years. The reductions in the last year totaled $19 million.

- **Elimination of Estate Tax for Estates Worth between $1 million and $2 million:** The threshold for having to file estate taxes was increased from $1 million to $2 million, resulting in a $6 million loss in revenue.

Looking Forward

This review highlights areas where the DC Council should prioritize as it considers adding resources to the mayor's spending plan.

- **Support to families with children on TANF:** Families affected by DC's time limit receive just $156 a month for a family of three. DC's TANF program should provide financial stability while also helping parents move to greater self-sufficiency. The Council should work to reform DC's TANF time limit in ways that ensure that the basic needs of low-income children are met, such as the steps laid out in legislation now before the Council, the Public Assistance Amendment Act of 2015.

- **Further Support the Homeward DC Plan:** The Council should bring the city closer to funding the next phase of the plan to end homelessness, through increases in Permanent Supportive Housing, Rapid Re-Housing, and Targeted Affordable Housing.

- **Expand Rental Assistance:** The Council should work to expand access to rental assistance through the Local Rent Supplement Program. As noted, LRSP is an important complement to the Housing Production Trust Fund and helps create housing affordable for the lowest-income families.

- **Early Care and Education:** While the proposal includes some investments to boost program quality and improve access to early care and education for infants and toddlers, more resources are needed to cover the gap between current subsidy reimbursement rates and the median cost of care.

- **Increase Unemployment Insurance Benefits:** The budget should reflect modest increases in order to support an increase in Unemployment Insurance benefits (UI). DC's UI benefits have not been increased since 2005, and since then, have lost 20 percent of their purchasing power; therefore, the cap should be raised and then adjusted to account for inflation each year. In addition, tweaks should be made to ensure that all eligible workers can get benefits for 26 weeks and that struggling workers are not disincentivized from taking part-time work. These changes can largely be paid for through the UI Trust Fund. However, there will be a modest cost to the city in order to self-ensure these benefits for city workers.

- **Raise Revenues if Needed:** Supporting these additional investments may require increasing revenues. The increases should fall on higher-income households that are best able to absorb them.