DC FISCAL POLICY INSTITUTE

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Testimony of Erica Williams, DCFPI Executive Director
at the Overall Budget Public Hearing
DC Council Committee of the Whole
June 25, 2021

Chairperson Mendelson and members of the Committee, thank you for the opportunity to testify. My name is Erica Williams. I am the Executive Director of the DC Fiscal Policy Institute (DCFPI), which is a nonprofit organization that promotes equitable tax and budget choices to address DC's racial and economic inequities through research, analysis, and advocacy.

The District has an unprecedented opportunity to leverage American Rescue Plan (ARP) dollars by pairing federal funds with local recurring revenue for a set of targeted and meaningful public investments that advance racial and economic equity.

DCFPI encourages the DC Council to:

- Raise taxes on DC's wealthiest residents to help sustain transformative, recurring local investment in several meaningful programs.
- Better use paid family leave surplus dollars and replenish the Unemployment Insurance Trust Fund through the already established mechanism.
- Stabilize child care programs and deliver on its promise to ensure that equity begins at birth, as imagined under the Birth to Three Act.
- Make bigger strides to end homelessness by increasing funding for Permanent Supportive Housing (PSH), Targeted Affordable Housing (TAH), and Local Rent Supplement Program (LRSP) vouchers.

Raise Taxes on DC's Wealthiest Residents to Sustain Transformative, Recurring Local Investment in Several Meaningful Programs

Advancing racial and economic equity requires both raising enough revenue to meet the needs of ALL our residents and doing so in a way that's based on people's ability to pay. American Rescue Plan dollars offer the District an unprecedented opportunity to address our revenue shortfall, cover COVID-related expenses due to dramatically increased need, and make some transformative investments in DC's communities to build back better. However, these dollars are temporary and to sustain any gains we make when the funds expire we will need new revenue.

The District should, at a minimum, increase the tax rate on taxable income above $250,000 by one percentage point, above $350,000 by two percentage points, and above $1 million by three percentage points, as the Fair Budget Coalition and Just Recovery DC campaign are urging. This would raise approximately $169 million through higher taxes on just 3 percent of taxpayers in the District, and more than 90 percent of the tax increase would be paid by those earning about a million dollars or more.[1] These new dollars could be put toward meaningful investments that can help transform DC's future. Getting back to normal isn't good enough. DC had a housing crisis, a homelessness crisis, and a child care affordability crisis, among others, long before the pandemic hit, and these problems won't be resolved with federal dollars alone.

In addition, we currently have a tax system that is *not* based on ability to pay. The richest 20 percent of residents pay less in taxes as a share of income than the bottom 80 percent. And while our lowest income quintile—households earning less $23,600 or less per year—pays a lower effective tax rate than the top 20 percent, the second quintile of households with low and moderate incomes between $23,600 and $44,000 pay a higher effective tax rate than the top quintile does, as do the third and fourth quintiles.[2] Because white residents account for the vast majority of DC's richest residents, *undertaxing* residents at the top privileges white residents and white wealth—and this comes at the expense of public investments for underserved communities that advance racial justice. Raising taxes on DC's wealthiest takes us in the right direction by raising resources to fund critical needs and adding progressivity to our tax code that asks too little of those with the most.

Moreover, eighty percent of DC voters support raising taxes on wealthy residents to sustain the District's long-term economic recovery, our poll shows. Voters agree that investing more local dollars in early childhood education and housing security is crucial, with solid support for investing in programs that address DC's widening racial inequality. This support holds across the District's eight wards, with greatest support in Ward 3 where many households would pay the tax. DC residents understand the urgency of the moment. They know that the pandemic has worsened DC's housing affordability and homelessness crises and exacerbated the city's racial and economic divides—and they want DC lawmakers to do something about it.

Better Use Paid Family Leave Surplus Dollars and Replenish the Unemployment Insurance Trust Fund Using the Already Established Mechanism.

The Mayor's budget proposal makes poor use of a $400 million Paid Family Leave fund surplus. Instead of leaving those dollars to their original purpose or maximizing support for workers, her plan cuts the payroll tax for employers next year by $168.2 million. This is an across-the-board tax cut that will go to employers whether they are struggling or not.

The Mayor's proposals also directs another $114.5 million to the Unemployment Insurance (UI) Trust Fund to avoid more loans. However, a commonly used mechanism already exists to replenish the UI Trust Fund. Employers are able take out loans from the federal government now to shore up the Trust Fund and repay the principal on these loans through higher federal taxes. The repayment would not be required for two years after the loan, at which point our economy will have improved and businesses will likely be stronger financially.

The two proposals amount to $282.7 million that could be better used to support workers, including by expanding paid family leave benefits and extending paid family leave benefits to those who are not currently employed.

Stabilize Child Care Programs and Deliver on its Promise to Ensure Equity Begins at Birth, As Imagined Under the Birth to Three Act

Child care is a fundamental part of the economy. Reliable, affordable, high quality care allows parents to work and supports healthy child development. For families getting by on low incomes and children in underserved communities, quality early childhood settings can stabilize family employment and income and improve child outcomes. The Child Care Subsidy/Voucher program, administered by Office of the State Superintendent of Education (OSSE), provides families with vouchers that they can use at licensed providers, but the payments to early childhood education providers do not cover the full cost of high-quality care. Inadequate reimbursement makes paying educators what they deserve difficult, and in turn, hampers recruitment and retention of teachers with the qualifications and experience needed to support a young child's development.

The Birth to Three Act aims to improve the quality of early education by offering competitive compensation for early educators, among other crucial improvements to programs that boost child and parent well-being. Little progress has been made to implement this vision since 2018, with no additional funding provided for DC's childcare subsidy program in the FY 2021 budget. DCFPI urges the Council to reimagine funding dedicated to child care programs beyond the Mayor's proposal, which fails to make significant progress towards funding higher compensation for early education under the Birth to Three Act. In fact, a sizeable portion of the Birth to Three Act is at risk of elimination without local funding by FY 2023.[3]

A recurring $60 million investment would allow OSSE to increase subsidy reimbursement rates to begin to cover the true cost of providing great care to infants and toddlers. This would help ensure our early educators are paid fair, living wages; more child care providers can offer quality care to lower income families; and children from underserved communities get the best possible start in life.

Make Bigger Strides to End Homelessness by Increasing Funding for Permanent Supportive Housing, Targeted Affordable Housing, and Local Rent Supplement Program Vouchers.

DC has an unprecedented opportunity to make great strides toward ending homelessness—a long-standing problem in the District that has a disproportionate impact on Black and brown communities. We urge the Council to dedicate funding to house thousands of District residents who have been homeless for years and suffer from life-threatening health conditions and/or serious mental illness and residents who have been waiting for more than a decade for affordable housing. We urge the Council to pair local dollars with federal funds to fully meet this urgent need.

The Mayor's budget proposal meets just 21 to 27 percent of the need PSH vouchers for individuals, depending on rents. The Council should invest $55.2 to $59.5 million more to meet the full need for 2,761 slots for individuals.

The Mayor's budget proposal meets 73 to 84 percent of the 432 PSH vouchers needed for families. The Council should invest $2.8 to $4.9 million to meet the full need for families.

The Mayor's budget provided no new funding for TAH, which combines a tenant voucher with light touch supports. We request that the Council invest $23.34 million for 928 new slots for families.

Thank you for the opportunity to testify.

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[1] Special data request to the Institute on Taxation and Economic Policy, 2021.
[2] Institute on Taxation and Economic Policy, update to Who Pays?, 6th edition, provided January 2021.
[3] DCFPI's interpretation of the DC Council Budget Office's "Council Rule 736," memo to DC Councilmembers, dated May 19, 2021.