

November 14, 2008

## BRIDGING THE GAPS IN DC: STRATEGIES TO SUPPORT LOW-INCOME WORKING FAMILIES

By Katie Kerstetter

### Executive Summary

Most Americans believe that if you work hard, you should be able to make ends meet. This is not the reality, however, for over a third of working families in DC. Some 36 percent of DC residents who live in working families — 180,000 people — do not earn enough to meet their families' basic needs, even when government supports are considered. This report examines why so many working families in DC are unable to make ends meet and offers policy recommendations to help bridge the gap between what families' earn and the costs of basic necessities.

This work is the result of a partnership between the DC Fiscal Policy Institute and the Center for Economic Policy Research, under the "Bridging the Gaps" project covering DC and nine states.<sup>1</sup> It examines participation among low-income working DC families in six key programs that support low-income families: child care assistance, the Earned Income Tax Credit (EITC), food stamps, health insurance (Medicaid/SCHIP), housing assistance, and Temporary Assistance for Needy Families (TANF).<sup>2</sup> This project also included focus groups with low-income DC working families to better understand the challenges they face trying to access work supports.

### KEY FINDINGS

- Over one-third of DC working families are unable to make ends meet, even when government benefits are considered, because of low wages and DC's high cost of living.
- Eligibility for many work supports ends before a family reaches self-sufficiency. A family of three earning more than \$22,000, for example, is not eligible for food stamps.
- Other work supports are difficult to access due to limited funding or complicated application requirements. Some 25,000 DC households are on a waiting list for housing assistance, for example.
- The DC tax system pushes many families further below self-sufficiency. Low-income DC households pay a larger share of their income in taxes than higher-income households do.
- Improvements to DC's wage laws, tax system, and government benefit policies are needed to support more low-income working families.

<sup>1</sup> Randy Albelda and Heather Boushey, "Bridging the Gaps: A Picture of How Work Supports *Work* in Ten States," Center for Economic and Policy Research and the Center for Social Policy, October 2007, <http://www.bridgingthegaps.org/publications/nationalreport.pdf>.

<sup>2</sup> In this report, "low-income" families are those living below a self-sufficiency standard developed by Wider Opportunities for Women and based on the District's cost of living. For more information about how the self-sufficiency standard was calculated, see Table 1.

The data analysis and focus groups reveal the following:

- **The District’s lowest-wage workers earn less than a “self-sufficiency” level.** Wider Opportunities for Women (WOW) has created a “Self-Sufficiency Standard” estimating the income a DC family needs to afford necessities such as housing, food, and health care; the Self-Sufficiency Income is \$29,000 for a married couple with no children and \$54,000 for a single parent with two children, measured in 2005 dollars. One-fifth of DC workers earn hourly wages that provide less than \$22,500 a year for full-time work. This income barely places a family of four above the poverty line, and leaves it well below WOW’s self-sufficiency threshold. Even DC’s median-wage workers with children, earning \$39,700 per year, earn too little to meet their basic needs.
- **Many work supports phase out before families reach self-sufficiency.** The Food Stamp Program, for example, limits eligibility to families with incomes below 130 percent of the poverty line, or just \$22,000 for a family of three. Other programs, such as the EITC and public health insurance, serve a larger share of low-income working families. But even these programs tend to phase out around 200 percent of the poverty line — roughly \$35,000 for a family of three — although families at this income level still need help to make ends meet. About one-fourth of DC families with less than a self-sufficiency income do not qualify for *any* of six work support programs reviewed in this report.
- **Residents often don’t receive benefits even when they qualify, due to limited funding or challenging applications.** Most notably, only 22 percent of DC households eligible for housing assistance receive it because of lack of funding. Limited funding also restricts access to subsidized child care.
- **DC’s tax system places very high burdens on lower-income families.** In fact, low-income households pay a higher percentage of their income in DC taxes than higher-income households do. This pushes many working families further below self-sufficiency.

The District can take a number of steps to help working families move closer to self-sufficiency. This report includes a menu of options that policymakers can choose from to help working families. Some can be implemented relatively quickly or with fewer resources, while others require a more significant investment of resources and time. These options include:

- **Improving wages.** The District can make work pay for more low-wage workers by indexing its minimum wage to inflation and by fully implementing the living wage law.
- **Lowering the tax liability for low-income working families.** The District can reduce taxes for low-income families and increase their take-home pay by allowing families to apply for both the DC EITC and the Low-Income Tax Credit, increasing the standard deduction and personal exemption, and providing property tax relief for low-income homeowners and renters.
- **Helping people transitioning to work receive TANF and food stamp benefits.** When low-income families who have been out of the labor force transition to full-time work, they often lose important benefits that would supplement their limited earnings. The District can make the shift to work easier by providing transitional benefits for TANF and food stamp recipients.

- **Increasing the supply of child care and health care providers.** By increasing reimbursement rates, the District can improve the quality and number of child care and health care providers.
- **Improving access to affordable housing.** The District can improve the supply of affordable housing by increasing funding for the Housing Production Trust Fund, which supports the production or rehabilitation of affordable housing, and the Local Rent Supplement Program, which helps cover low-income families' rents.
- **Improving access to substance abuse and mental health treatment.** By adding coverage for mental health and substance abuse treatment to DC's HealthCare Alliance program, the District could improve health care access for 48,000 low-income working residents who receive health coverage through this program. The Alliance serves uninsured residents with incomes below 200 percent of poverty who are not eligible for Medicaid or Medicare — generally non-elderly singles and couples without children.

### DC Families Describe Life Below Self-Sufficiency

As part of the “Bridging the Gaps” Project, focus groups were held with low-income families in DC to better understand what it is like to live below the self-sufficiency standard. Many participants discussed the hard tradeoffs they make among necessities such as food, utilities, and medicine.

- *“First my gas got shut off, so I have no gas, but I have a microwave, so I keep the electric running. I said, okay...I can deal without heat in the wintertime.”*
- *“You pay more because you're limited as to where you can go. And there are only so many bags you can carry on a bus. Stuff is heavy. You only have one grocery store to choose from, what are you going to do?”*
- *“And my medicine is like \$150 by itself for my asthma medicine. They didn't pay for it. So I don't have it.”*
- *“Years ago I was always told as long as your rent is paid nobody knows if your lights are on. But you need lights so you won't be bumping into your furniture. Basically, that's primarily what a lot of us are dealing with. I mean, \$625 a week sounds like a lot of money, but when you have a family and you have expenses, and then what happens if the three-year old get sick and you can't afford the doctor's bill or you're not eligible for Medicare or things like that?”*

### High Costs, Low Wages Leave Many DC Working Families Below Self-Sufficiency

More than 180,000 DC residents in working families — representing 36 percent of those in working families — have incomes below a “self-sufficiency” level, even when both earnings and public benefits are included.<sup>3</sup> This reflects two factors: DC has one of the highest costs of living in the nation, and many DC workers have low earnings.

<sup>3</sup> Center for Economic and Policy Research analysis of data from Wider Opportunities for Women's DC Metropolitan Area Self-Sufficiency Standard.

**TABLE 1  
SELF-SUFFICIENCY STANDARD  
FOR THE DISTRICT OF COLUMBIA, 2005**

	<b>Monthly budget for two adults, no children</b>	<b>Monthly budget for one adult, an infant, &amp; a preschooler</b>
Housing	\$836	\$949
Child Care	\$0	\$1,624
Food	\$443	\$425
Transportation	\$229	\$114
Health Care	\$288	\$258
Miscellaneous*	\$180	\$337
Taxes	\$433	\$1,029
Earned Income Tax Credit (-)	\$0	\$0
Child Care Tax Credit (-)	\$0	-\$100
Child Tax Credit (-)	\$0	-\$167
Self-Sufficiency Wage	\$6.84 per adult	\$25.39
Hourly		
Monthly	\$2,408 combined	\$4,470
Annual	\$28,899 combined	\$53,634
Percent of Poverty Line	225%	333%

Source: Wider Opportunities for Women

\* Includes all other essentials: clothing, shoes, paper products, diapers, nonprescription medicines, household items, personal hygiene items, and telephone.

Wider Opportunities for Women (WOW) has developed a “Self-Sufficiency Standard” for the District of Columbia reflecting the amount needed for families of different sizes and types to purchase housing, food, health care, child care, taxes (offset by tax credits), transportation, and miscellaneous personal items at market prices in the District<sup>4</sup> (Table 1). According to this standard, a DC family of one adult and two children needed an income of \$53,600 in 2005 to meet basic needs.<sup>5</sup> This is more than three times the poverty line for a family of three, which was \$16,090 in 2005. For a married couple with no children, DC’s self-sufficiency level is nearly \$29,000.

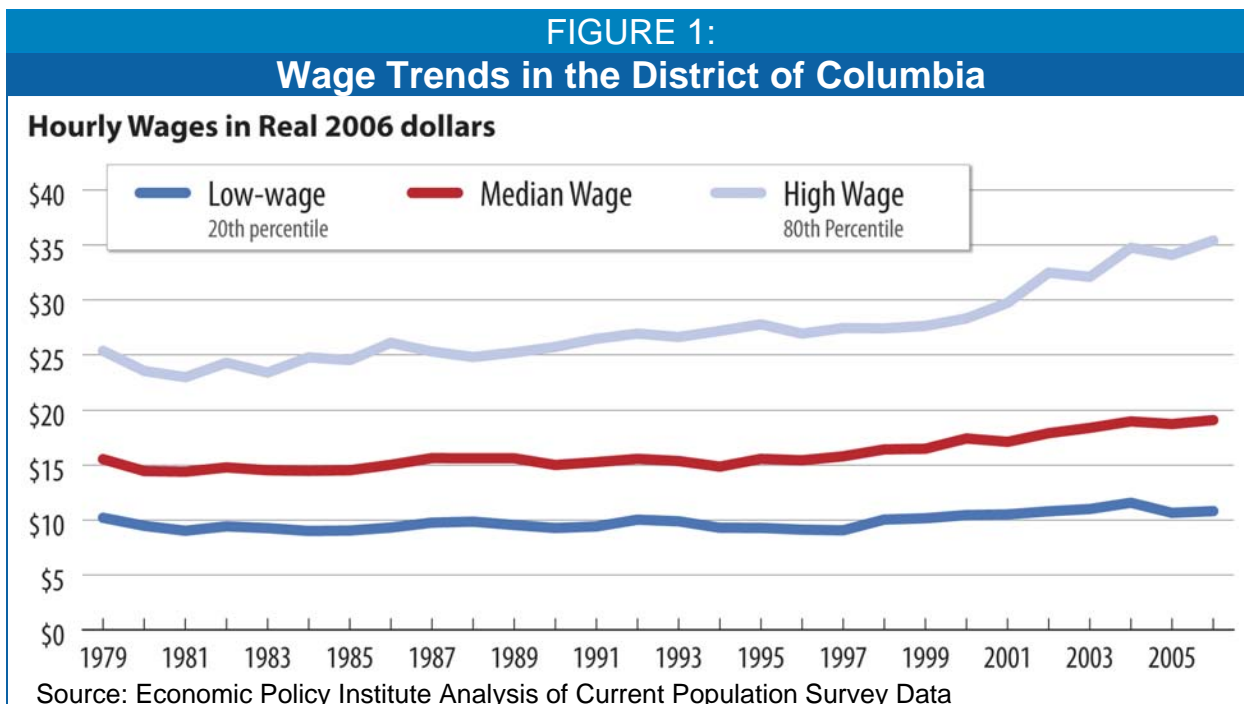
Low-wage and middle-wage workers don’t earn enough to meet these very high living costs. The bottom fifth of DC workers made \$10.81 per hour or less in 2006.<sup>6</sup> Working full-time, these workers earned about \$22,000 per year — barely above the poverty line for a family of four and not close to meeting the self-sufficiency standard.<sup>7</sup> Moreover, when DC is compared with the largest city in each of the 50 states, the gap between the earnings of low-wage workers and the local cost of

<sup>4</sup> The Self-Sufficiency Standard includes nothing for entertainment, eating out, debt repayment, or saving for retirement or children’s education.

<sup>5</sup> Diana Pearce, “The Self-Sufficiency Standard for the Washington, D.C. Metropolitan Area 2005,” Wider Opportunities for Women, September, 2005, p. 9.

<sup>6</sup> Ed Lazere, “DC’s Two Economies: Many Residents Are Falling Behind Despite the City’s Revitalization,” DC Fiscal Policy Institute, October 24, 2007, <http://dcfpi.org/?p=120>, p. 12.

<sup>7</sup> In 2006, the poverty line for a family of four was \$20,600.



living is greater in DC than in all other cities except Boston and New York.<sup>8</sup> A low-wage worker in DC making \$10.81 per hour earns just 40 percent of the self-sufficiency standard (adjusted for inflation to equal 2006 dollars) for a family of three.

The District’s cost of living is so high that even middle-wage workers may have difficulty making ends meet. In 2006, the median wage in DC was \$19.10 an hour or \$39,700 per year.<sup>9</sup> For a family of three, this equals only 71 percent of the self-sufficiency standard (adjusted for inflation to equal 2006 dollars).

Wages earned by the lowest-income DC residents have remained low over the past thirty years. Since 1979, wages earned by the lowest-wage workers have barely changed, while wages for the highest-wage workers have increased substantially (Figure 1). In 2006, the gap between the highest-paid and lowest-paid workers reached its highest level since 1979.<sup>10</sup>

### **Low-Income Workers Pay a Large Share of Their Income in Taxes**

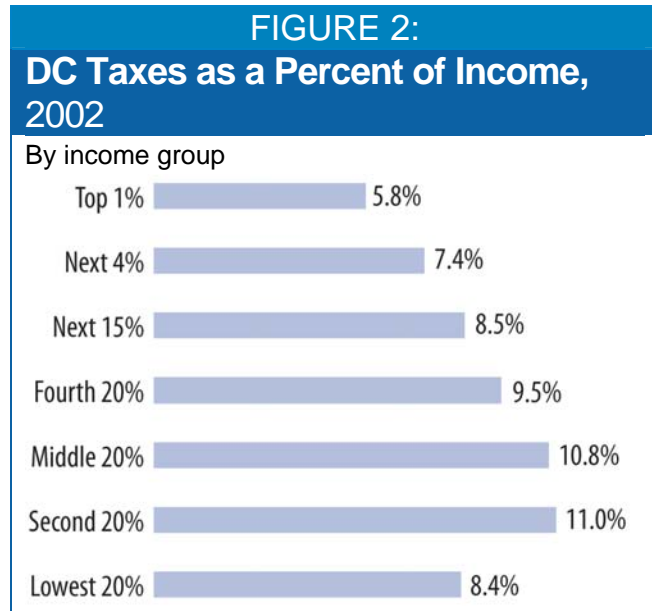
DC’s tax system pushes many working families even further below self-sufficiency. Low-income workers pay a higher percentage of their income in taxes than do the highest-income DC residents. In 2002 (the most recent year for which data are available), households earning between \$15,000 and

<sup>8</sup> Lazere, p. 14.

<sup>9</sup> Lazere, p. 12.

<sup>10</sup> Lazere, p. 12.

\$42,000 paid 11 percent of their income in DC taxes — *nearly twice as much* as households that make \$422,000 a year or more, which paid only 5.8 percent of their income in DC taxes (Figure 2).<sup>11</sup>



Low-income families have higher tax burdens in part because the District doesn't do enough to offset regressive taxes like its sales tax. Sales taxes are regressive taxes because low-income families must spend nearly all of their income on basic necessities, many of them taxable goods, while higher-income residents do not.

More progressive taxes, like the income tax, can help reduce the tax burden on low-income families. However, other District taxes fall relatively heavily on lower-income working families as well. For example, a family of four with earnings of \$40,000 — well below self-sufficiency — pays more than \$1,400 in DC income taxes, in addition to

sales taxes and other taxes.

Since 2002, the District has adopted a number of policies to reduce the tax burden on low-income families, including an expansion of its EITC and an increase in the income tax standard deduction. While these policies have helped, low-income families likely still pay a larger share of their income in taxes than do the top 1 percent of families.

### Many Low-Income Working Families Do Not Receive Government Supports

Although they have trouble making ends meet, many low-income working families in DC don't get help from work-support programs. This report examines six work supports that may be available to these families: child care assistance, the EITC, food stamps, health insurance (Medicaid, Alliance, and the State Children's Health Insurance Program or SCHIP), housing assistance, and TANF.

Some of these programs — TANF and food stamps — assist only the lowest-income residents (Table 2). Others have higher income-eligibility ceilings, but given that DC's self-sufficiency standard for a family of three in 2005 was nearly three times the poverty line, even these programs are not available to many working families who need assistance.

<sup>11</sup> Households between \$15,000 and \$42,000 correspond to the second and middle fifths of the income spectrum; households above \$422,000 constitute the top 1 percent of the income spectrum. Ed Lazere, Angie Rodgers, and Stacey Rolland, "Meeting DC's Challenges, Maintaining Fiscal Discipline: Policy Proposals for the New Mayor and Council," DC Fiscal Policy Institute, February 1, 2007, p. 43.

**TABLE 2**  
**FAMILY INCOME ELIGIBILITY THRESHOLDS**  
**FOR SINGLE PARENT FAMILY WITH TWO CHILDREN IN DC**

	Maximum Annual Income	Percent of Federal Poverty Line
Temporary Assistance for Needy Families (TANF) Applicant <sup>1</sup>	\$7,056	40%
TANF Recipient	\$17,328	98%
Food Stamps	\$22,880	130%
Medicaid/SCHIP/Alliance	\$35,200	200%
Earned Income Tax Credit (EITC)	\$38,646	220%
Child Care Assistance	\$44,000	250%
Housing Assistance <sup>2</sup>	\$44,550	253%

Source: DCFPI analysis. All numbers based on 2008 federal poverty guideline for a family of three.

<sup>1</sup>Families must have very low incomes in order to participate in the TANF program. However, once families are part of the program, the income threshold increases.

<sup>2</sup> Housing assistance maximum annual income equals 50 percent of DC's area median income for FY 2008.

In fact, one-quarter of the working DC families that are below self-sufficiency aren't eligible for *any* of these work supports.

Moreover, many low-income working families that are eligible for work supports don't receive them. This can result from limited funding, challenging applications, or lack of awareness.

### Work Support Programs

**Child Care Assistance** — provides child care subsidies to low- and moderate-income families with incomes up to 250 percent of the poverty line.

**Earned Income Tax Credit (EITC)** — provides refundable tax credit to low-income, working families; DC established its own EITC which has increased to 40 percent of the federal credit; families earning as much as \$38,000 can be eligible for the credit, depending on their marital status and number of children.

**Food Stamps (renamed the Supplemental Nutrition Assistance Program)** — provides monthly food assistance for families earning up to 130 percent of the federal poverty line.

**Housing Assistance** — includes public housing and rental vouchers provided to families earning incomes up to 50 percent of the area median income.

**Health Insurance (Medicaid, SCHIP, and Alliance)** — provides health care coverage to low-and moderate-income families and individuals up to 200 percent of the poverty line.

**Temporary Assistance to Needy Families (TANF)** — provides monthly cash assistance, employment training, and other services to very low-income families with children.



In the District, work support programs can be grouped into three broad categories:

- Programs with low income-eligibility ceilings but relatively high participation rates.**  
 TANF and food stamps generally are limited to very low-income households, but a relatively high percentage of eligible households actually receive them. (While overall food stamp participation is high, participation among *working* households is low, as discussed below.) These programs serve all eligible applicants; participation is not restricted by program funding levels.
- Programs with relatively high income-eligibility ceilings but low participation rates.**  
 Housing assistance and child care are potentially available to DC families with incomes up to 250 percent of the poverty line. Yet these programs are not required to serve all eligible applicants, and the share of eligible households receiving assistance is low, due to limited program funding.
- Programs with relatively high income-eligibility ceilings *and* high participation rates.**  
 DC’s health care programs — Medicaid, the Alliance, and SCHIP — and the EITC are available to families with incomes of up to 200 percent of the poverty line. These programs are operated as entitlements, and as a result, have a relatively high participation rate because participation is not limited by funding. As noted, however, even these programs don’t serve all working families that fall below self-sufficiency.

The following sections describe these categories in more detail. As discussed below, programs in all three categories can be improved.

**TABLE 3  
 ELIGIBILITY AND PARTICIPATION IN DC WORK SUPPORT PROGRAMS  
 AMONG FAMILIES LIVING BELOW SELF-SUFFICIENCY**

	Percent Eligible	Percent Eligible who Receive Work Support
Temporary Assistance to Needy Families (TANF)	22.1	56.0 <sup>1</sup>
Food Stamps	22.2	79.5 <sup>2</sup>
Child Care Assistance	51.8	43.6
Earned Income Tax Credit (EITC)	52.2	89.0
Housing Assistance	61.7	22.4
Medicaid/SCHIP/Alliance	69.1	87.5
Any Work Supports	74.7	NA

Sources: Percent eligible for child care and health insurance from DCFPI analysis of administrative data from the District’s Early Care and Education Administration and the DC Department of Health; all other data from Center for Economic and Policy Research analysis of Current Population Survey Annual Social and Economic Supplement data for survey years 2004-2006. Eligible families are defined as households with one or two working adults and up to three children under the age of 13.

<sup>1</sup>The percentage of those eligible for TANF is based on all working families, rather than all working families with children. Because only families with children are eligible for TANF, this number likely overestimates the number of working families with children that are not eligible for TANF.

<sup>2</sup>In 2005, the USDA estimated that about 29 percent of eligible households did *not* receive food stamps, with a 90 percent confidence interval that ranged from 23 to 35 percent.



## Low Eligibility Ceilings but High Participation: TANF and Food Stamps

Both TANF and the Food Stamp Program target only very low-income residents, so many working families living below self-sufficiency are not eligible for them. However, both programs reach over half of the eligible population.

- Fewer than 25 percent of working DC households living below self-sufficiency are eligible for TANF. A family of three is ineligible for the program if its income is just \$600 a month.

Over half of DC residents eligible for TANF receive it. While TANF applicants are ineligible for the program once their income exceeds 40 percent of the poverty line, once a family is on TANF it can continue to receive benefits until its income exceeds 98 percent of the poverty line. Yet even these families lose TANF eligibility despite having incomes below the federal poverty line.

- Similarly, fewer than one-fourth of families living below self-sufficiency are eligible for food stamps. Under federal law, a family of three is no longer eligible for food stamps once its income reaches \$22,000. This means that many low-income working families receive no food assistance.

Nearly 80 percent of all eligible DC families receive food stamps. However, only 36 percent of eligible *working* families do.<sup>12</sup>

- Food stamps and TANF not only have low income-eligibility ceilings, but their benefits phase out quickly as family earnings increase. This means that families near the eligibility limit receive only modest help. For example, a family of three with \$15,000 in earnings would qualify for only \$64 in monthly TANF benefits and \$224 in food stamps.<sup>13</sup>

## High Eligibility Ceilings but Low Participation: Housing and Child Care Assistance

Housing and child care assistance have much higher income-eligibility ceilings, meaning that many low-income working families qualify for these benefits. A much smaller share of families are able to *participate* in these programs, however, because housing and child care assistance are not entitlements and have limited funding.

- Generally, families below half of the area median income, or less than \$43,000 for a family of three, are eligible for housing assistance. This group constitutes more than 60 percent of low-income working families.

Yet only 22 percent of eligible DC residents receive housing assistance. The impact of limited availability of housing assistance is clear. Nearly 46,000 District households paid more than 50

*“But it’s like everywhere you go, you run into, ‘No, it’s not in the rule book’...if you don’t have everything that fits right in their little box, they’re helpless. They don’t know where to send you.”*

– Low-income focus group

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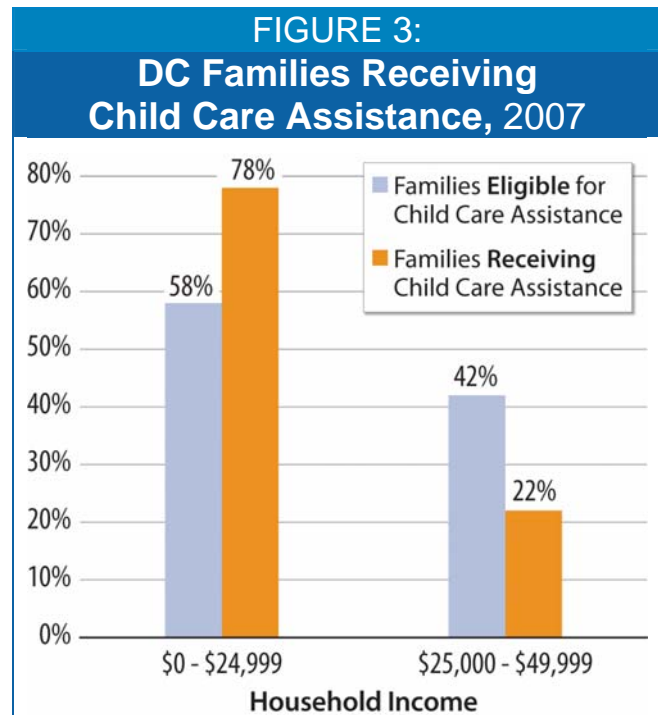
<sup>12</sup> Karen E. Cunnyngham, Laura A. Castner, and Allen L. Schrim, “Reaching Those in Need: State Food Stamp Participation Rates in 2005,” USDA Food and Nutrition Service, October 2007, p. 5.

<sup>13</sup> A family with \$15,000 of annual earnings could receive TANF only if it had applied at a time when its monthly earnings were \$600 or less. Once a family qualifies for TANF, it can remain eligible at somewhat higher earnings levels.

percent of their income for housing in 2006, and more than 25,000 District residents are on the waiting list for housing assistance.

- In DC, child care assistance is available to families with incomes up to 250 percent of the poverty line. Slightly more than half of working families living below self-sufficiency are eligible for child care assistance.

About 44 percent of those eligible for child care assistance receive it.<sup>14</sup> In particular, it appears that families near the upper end of the income-eligibility limit have low rates of participation, even though they live below self-sufficiency. For example, families with incomes above \$25,000 make up roughly 42 percent of those eligible for child care assistance but only 22 percent of those actually receiving it (Figure 3).



### High Eligibility Thresholds and High Participation: Health Insurance and the EITC

Both the EITC and the District’s health insurance programs are available to many low-income working families and also tend to have high participation rates.

- More than half of families living below self-sufficiency are eligible to claim the federal and DC EITCs. Eligibility for both credits ends at \$38,000 for a family with two children. Of those who are eligible, the vast majority — nearly nine out of ten households — claim the credits.
- Nearly 70 percent of low-income working families are eligible for government-sponsored health insurance through Medicaid, the Alliance, or SCHIP. Approximately 88 percent of eligible families participate in one of these programs.

<sup>14</sup> This estimate is lower than that provided by the District’s Early Care and Education Administration. ECEA estimates the participation rate by counting the total number of children served by each child care program and dividing this by the number of eligible children. We used the monthly average for the two largest child care programs — DC Public Schools’ After School for All and the ECEA child care subsidy program — in the belief that this would provide a more representative estimate of the number of eligible children served during any given month.

## Why Don't Many Eligible Families Receive Work Supports?

During the focus groups, low-income families described why many people who are eligible for work supports do not receive them.

- **Limited funding.** Some supports, like child care and housing assistance, are not available to everyone who applies. Because these are not entitlements, the programs' funding limits how many people can be served. The small percentage of eligible households receiving housing assistance reflects the significant need for affordable housing in the District.

*"Respondents agreed that the main weakness in the housing assistance system, and especially with Section 8 [vouchers], is the long waiting list for available housing. One participant reported waiting ten years for a voucher to be available."*

– Focus group report

- **Difficult administrative requirements.** Participants described the application process for many benefits as stressful, invasive, and repetitive. If participants are unable to meet these requirements, they can be sanctioned or lose their place on the waiting list.

*"It's like every year your birthday you have to go down there and inquire. It's not like they're going to call you, girl, come on down here. We got your voucher ready. You have to stay on top of it, because if you miss a beat, you miss a beat. They drop you all the way back down to the end."* – Focus group participant

- **Stigma associated with public benefits.** Certain supports, such as TANF and food stamps, usually require families to apply in person. Some focus group participants, especially those who did not speak English as their first language, reported being treated poorly when they applied for assistance.

*"You got the ones that are there to pay their rent; you got the ones that's going to give you all the resources you need to help get you off TANF, and then you go to the ones that are going to hold you back and say, I can't do this; you can't do that, and then they beat you down mentally."* – Focus group participant

- **Benefits phase out quickly.** As recipients' earnings increase, the amount of benefits they receive decreases, often at a very fast rate. Some focus group participants reported that while they remained eligible for benefits like food stamps when they started working, the benefits were so low (as small as \$10 to \$12) that it wasn't worth the time spent submitting the paperwork to recertify.

*"...in Medicaid they cut me off because they said I made too much money. To me it wasn't that much money, because I needed the insurance."* – Focus group participant

- The District's FY 2009 budget includes funding to establish a new health care program — Healthy DC — for residents with incomes between 200 percent and 400 percent of the poverty line who are not covered by the District's other health insurance programs, do not have private health insurance, and/or can't afford insurance provided by their employer. Unlike Medicaid and the HealthCare Alliance programs, Healthy DC would charge premiums and co-payments for services, though the intent is to keep charges low enough to allow eligible residents to participate. As of this writing, there is a proposal to delay implementation due to the District's projected budget shortfall.

## Recommendations

The District can help more working families get closer to a self-sufficiency income level by improving wages, increasing access to work supports, and lowering tax liabilities for low-income working families. Specific proposals are outlined below.

### Wages

DC has raised its minimum wage and adopted a living wage to increase working families' incomes. It can take further steps to strengthen both of these policies.

**Index the minimum wage to inflation.** In 1993, DC set its minimum wage at \$1 above the federal minimum wage. Therefore, as a result of the recent increase in the federal minimum wage, DC's minimum wage will rise to \$8.25 an hour in July 2009.

Neither the DC nor the federal minimum wage is indexed to inflation, however, so they don't rise with the cost of living each year. In fact, next year's increase in the DC wage won't fully make up for the ground lost to inflation over the past decade. (If the DC minimum wage had been adjusted for inflation since 1997, it would be \$8.30 in 2009.) Because Congress has not enacted any further increases in the federal minimum wage after 2009, it is likely that both the federal and DC minimum wage will lose ground to inflation after 2009.

To increase the earnings of low-income, working families, the District should consider indexing its minimum wage to inflation.

**Fully implement the living wage.** The District adopted a living wage of \$11.75 an hour in 2006. Government workers and workers hired by businesses that receive a government subsidy or contract are required to be paid at least the living wage. But the District doesn't consistently enforce its living wage law. For example, agency funding and government contracts awarded to nonprofits often do not take living wage rates into account, making it difficult for these employers to comply with the law.

The District could help low-wage workers by ensuring that agencies have the resources they need to comply with the living wage law.

The District also can take steps to improve wages for DC residents through a variety of workforce development strategies. There is a growing recognition, for example, that DC's lack of a community college makes it difficult for residents to acquire occupation-specific skills. (Given its large scope, this topic is not covered in detail in this report.)

### Taxes

There are a number of ways DC can reduce taxes for low-income families:

**Allow families to claim both the Low-Income Tax Credit and the DC EITC.** Currently, District residents can apply for either DC's Low-Income Tax Credit *or* the DC EITC, but not both. The Low-Income Tax Credit effectively eliminates a household's taxes if the household's income

falls below a “no-tax floor,” but it is non-refundable.<sup>15</sup> The DC EITC is a refundable credit for working families with children.

Allowing families to apply for both credits could reduce the income tax burden for many low-income families. For example, a single parent with two children and \$15,000 in earnings could qualify for an additional \$170 in tax relief if this family could claim both credits.

**Increase the standard deduction and personal exemption.** The District’s standard deduction is only \$4,000, well below the federal standard deduction of \$8,000 for a head of household and \$10,900 for married couples. The DC personal exemption of \$1,675 also is far lower than the federal exemption level of \$3,500. Increasing the standard deduction and personal exemption to match the federal level could provide an additional \$730 in tax relief to a family of four earning \$25,000 per year.<sup>16</sup>

**Improve awareness about the EITC and DC EITC.** The District has one of the most generous state-level EITCs in the nation, worth 40 percent of the federal EITC for eligible filers. Recent research has shown that most District residents who claim the federal EITC also claim the DC EITC. In 2004, about 92 percent of those who benefited from the federal EITC also benefited from the DC EITC.<sup>17</sup>

While the participation rate for the DC EITC is high among those who claim the federal credit, an estimated 7,000 to 11,000 eligible DC families fail to claim the federal credit each year. This is of concern because families must apply for the federal EITC in order to claim the DC credit. In 2005, District families lost between \$17 million and \$25 million in unclaimed federal and DC EITC benefits.

The DC government helps fund an active EITC outreach campaign in the District. However, the unclaimed benefits point to a need for continued outreach around both the federal and DC credits.

**Improve property tax relief for low-income homeowners and renters.** The District has implemented substantial property tax relief for homeowners in recent years. However, this relief has not benefited renters, who pay property taxes indirectly through their rent, and many low-income homeowners who still face sizable property tax burdens.

One option is to update the District’s Schedule H credit, a low-income property tax credit that both renters and homeowners can claim. The Schedule H income-eligibility ceiling of \$20,000 and maximum credit amount of \$750 have not been adjusted in the 30 years since the credit was created.

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<sup>15</sup> The “no tax floor” is roughly equal to the poverty line. For more information, see: Robert Zahradnik and Iris Lay, “A D.C. Earned Income Tax Credit Could Provide Tax Relief and Reduce Child Poverty,” Center on Budget and Policy Priorities, February 9, 2000, [http://www.cbpp.org/2-9-00sfp.htm#N\\_4](http://www.cbpp.org/2-9-00sfp.htm#N_4).

<sup>16</sup> Lazere, Rodgers, and Rolland.

<sup>17</sup> Katie Kerstetter, “DC’s Earned Income Tax Credit Supports Working Families Across the District,” DC Fiscal Policy Institute, April 8, 2008, <http://dcfpi.org/?p=151>.

Increasing the income ceiling and raising the maximum credit would help extend property tax relief to more low-income homeowners and renters.<sup>18</sup>

## Food Stamps

As noted, most low-income working families in the District who are eligible for food stamps do not receive them. Many aren't aware that they are even eligible. Studies have shown, for example, that fewer than half of families who leave TANF continue to participate in the Food Stamp Program, though many are still eligible for the benefit. Efforts to help this group access food stamps — with benefits that are funded entirely by the federal government — is important to moving families toward self-sufficiency.

*“To me, the Food Stamps program is one of the best things going, because children need to eat. And if they don't have food, they just don't grow well.”*  
— Low-income focus group

The District's Income Maintenance Administration (IMA), which administers the Food Stamp Program, already has adopted (or applied for federal permission to adopt) several options to make the program friendlier to low-income working families. In February 2008, IMA doubled, from 6 months to 12 months, the period over which a household can receive food stamps before having to visit the office to reapply.<sup>19</sup> IMA also recently applied for a waiver of face-to-face interviews for families who want to apply or recertify for food stamps, which would allow a large portion of applicants to apply by phone. Both of these policies make it easier for working families — who often have difficulty taking time off of work — to access food stamp benefits.

The District could reach more low-income, working families by adopting two options allowed under the food stamp program:

**Provide transitional food stamps.** States are allowed to provide food stamp benefits for up to five months to families that leave TANF, without requiring additional paperwork.<sup>20</sup> Often families leaving TANF aren't aware that they are still eligible for food stamps; this option provides a way to keep families connected to this important benefit. Transitional food stamp benefits are frozen at the amount families received just before their TANF case closed and also are adjusted for the loss of TANF income, meaning that many families' benefits will increase under this option. This helps to support families' transition to work and sends a clear signal that working families are eligible for food stamps. Currently 18 states have implemented this option.<sup>21</sup>

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<sup>18</sup> For more information about how to improve the Schedule H credit, see: Lindsay Clark, “Property Tax Relief for DC's Low-Income Residents: Improvements Needed in DC's ‘Schedule H’ Credit,” DC Fiscal Policy Institute, April 8, 2008, <http://dcfpi.org/?p=152>.

<sup>19</sup> Under this policy, recipients will mail in a short report form at the six-month mark and visit the office to reapply at the end of the year.

<sup>20</sup> The 2008 Farm Bill also allows states to extend transitional food stamps to families leaving state-funded cash assistance programs that do not use federal TANF funds. See: Dottie Rosenbaum, “Food Stamp Provision of the Final Farm Bill,” Center on Budget and Policy Priorities, July 1, 2008, <http://www.cbpp.org/5-23-08fa.htm>.

<sup>21</sup> U.S. Department of Agriculture Food and Nutrition Service, “Food Stamp Program: State Options Report,” November 2007, [http://www.fns.usda.gov/fsp/rules/Memo/Support/State\\_Options/7-State\\_Options.pdf](http://www.fns.usda.gov/fsp/rules/Memo/Support/State_Options/7-State_Options.pdf).

**Eliminate the asset test.** Low-income households cannot receive food stamps if they have more than \$2,000 in assets (\$3,000 if they are seniors or disabled).<sup>22</sup> This creates a disincentive for many low-income families to save. It also prohibits many low-income families that have built modest assets from accessing food stamp benefits unless they first spend down most of their assets.

The District can effectively waive the asset test through an option known as “categorical eligibility.” Under this option, households eligible for a TANF-funded benefit<sup>23</sup> are “categorically eligible” for food stamps, which means their food stamp eligibility is tied to the rules of the TANF-funded program: if that program has no asset test, then the household is eligible for food stamps without regard to its assets.

Under categorical eligibility, the District also could increase its gross income test (the income a family can have and still be eligible for food stamps) up to 200 percent of the poverty line.<sup>24</sup> That would extend food stamp benefits to an additional 1,500 to 4,000 low-income working families in DC. Twenty states, including Maryland, have taken advantage of this option.

*“...but for TANF, if I had to depend on it solely, I’d be in trouble. I have to go through other things to make ends meet. It helps, but it’s not enough.”*

– Low-income focus group participant

## TANF

Many low-income families with children are ineligible for TANF benefits, and those that are eligible struggle to make ends meet due to the District’s low benefit levels. In addition, families on TANF lose eligibility before their income reaches the poverty line, let alone self-sufficiency.

The District can improve its TANF program by increasing basic benefits and by providing a transitional benefit to families that leave TANF for work.

**Increase TANF benefits.** TANF benefits in the District are much lower than in other large cities and surrounding jurisdictions. For example, monthly benefits for a family of three are \$723 in Los Angeles, \$691 in New York City, and \$565 in Maryland. The District’s current maximum monthly benefit for a family of three is \$437 or just 29 percent of the federal poverty line. DC has raised TANF benefits over the past few years, but not enough to overcome the losses to inflation and the benefit cuts of the 1990s.

The District should develop a multi-year plan to raise TANF benefits that better reflects the cost of living as well as benefit levels in comparable jurisdictions. This would help families that are

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<sup>22</sup> The 2008 Farm Bill includes a provision to adjust the asset limits for annual increases in the cost of living. The Congressional Budget Office estimates that the limit for seniors and disabled recipients will increase to \$3,250 in 2012 and the limit for all other households will increase to \$2,250 in 2014. Rosenbaum, “Food Stamp Provisions,” p. 2.

<sup>23</sup> The TANF-funded benefit can be funded with federal dollars or state maintenance-of-effort dollars.

<sup>24</sup> Families would still need to have a net income (income after deductions allowed under food stamps) of 100 percent of the poverty line. According to analysis of food stamp quality control data by the Center on Budget and Policy Priorities, “90 percent of the increased benefits resulting from raising the gross income test to 200 percent of the poverty line go to households with incomes between 130 percent and 165 percent of the poverty line.” For more information, see: Stacy Dean, Colleen Pawling, and Dottie Rosenbaum, “Implementing New Changes to the Food Stamp Program: A Provision by Provision Analysis of the 2008 Farm Bill,” Center on Budget and Policy Priorities, July 2008, <http://www.cbpp.org/7-1-08fa.pdf>, p. 65.



combining work and TANF as well as non-working families that are participating in job readiness activities.

**Adopt a transitional TANF benefit.** The District also can do more to ensure that families leaving TANF for work make a successful transition. By supplementing the earnings of TANF recipients transitioning to work, it can increase employment rates, reduce poverty, and improve outcomes for longer-term TANF recipients with less education and work experience.<sup>25</sup>

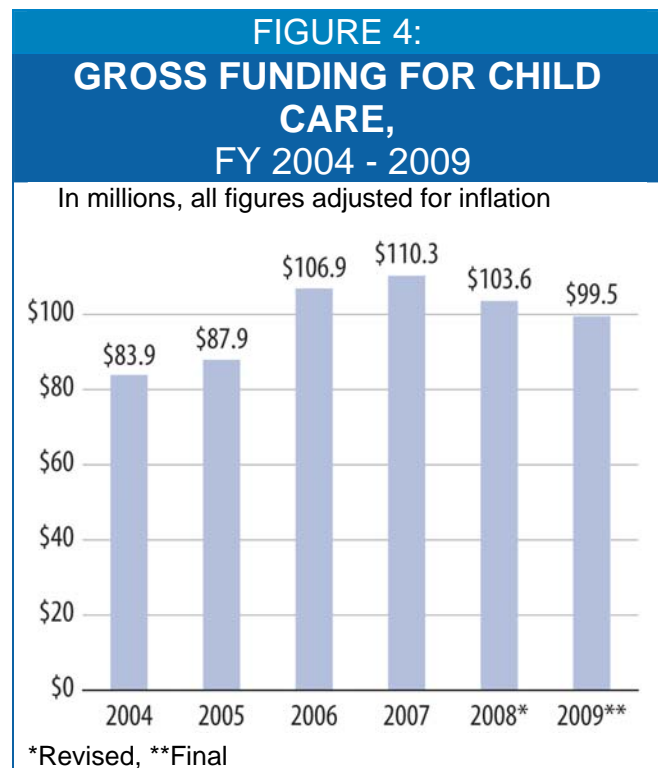
The District could provide monthly income supplements to more TANF families that move into the workforce, either by increasing the earned income and child support disregards in the regular TANF system or by creating a new transitional benefit for families that leave TANF. Either of these options would provide working families with a monthly cash payment for a certain period of time that would supplement their wages. Currently, about one-third of the states, including Virginia, have authorized or implemented supplemental cash assistance programs for families that leave the basic TANF system due to employment.<sup>26</sup>

### Child Care Assistance

With fewer than half of those eligible for child care assistance actually receiving it, DC should take steps to increase its participation rate. Total funding for child care in the District has declined in recent years. Gross funding for 2009 is 10 percent lower than the 2007 funding level, after adjusting for inflation (Figure 4).<sup>27</sup>

Reduced funding limits the number of children that can be served and affects the District’s ability to provide a quality child care program. Currently, DC’s highest reimbursement rates — which go to the providers meeting the highest quality standards — are based on market rates in 2004, while payments to lower-tier providers are based on market rates in 2002. These low rates hurt providers’ ability to hire high-quality staff.

The low reimbursement rates also are likely to contribute to an inadequate supply of



<sup>25</sup> Center on Budget and Policy Priorities and Center for Law and Social Policy, “Implementing the TANF Changes in the Deficit Reduction Act: ‘Win-Win’ Solutions for Families and States,” May 9, 2006.

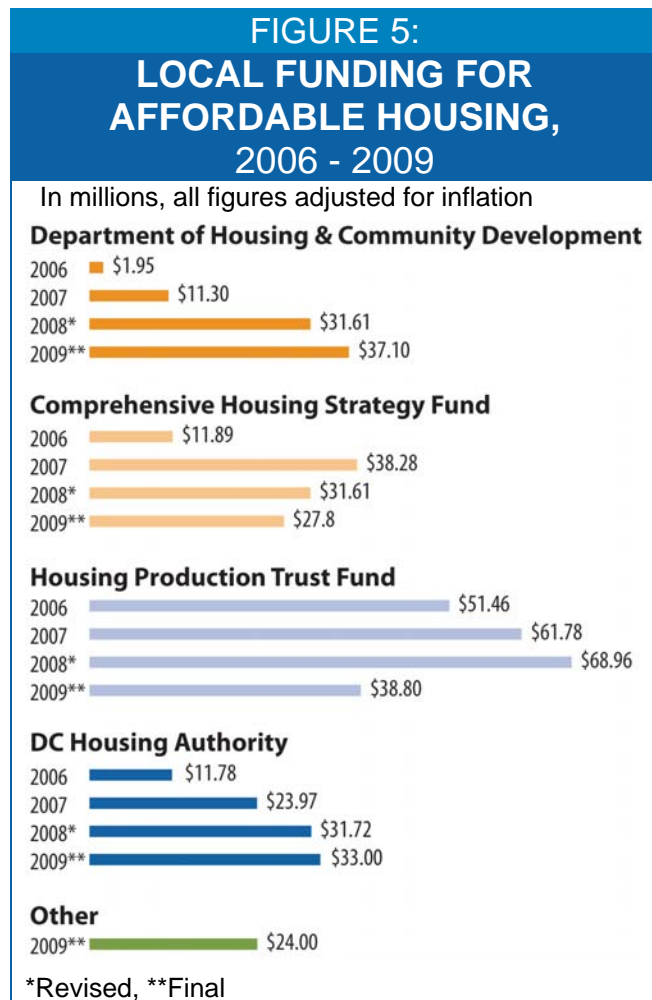
<sup>26</sup> For more information, see: Liz Schott, “Using TANF or MOE Funds to Provide Supplemental Assistance to Low-Income Working Families,” Center on Budget and Policy Priorities, July 23, 2007. <http://www.cbpp.org/5-24-07tanf.htm>.

<sup>27</sup> DC Fiscal Policy Institute, “What’s in the FY 2009 Budget for Child Care?,” <http://www.dcfpi.org/2009childcare.pdf>.

providers. Over 7,700 children in DC, about half of them under age two, are on waiting lists for a child care placement.<sup>28</sup> (This waiting list includes families that are not receiving a child care voucher.)

**Increase child care funding.** Additional funding for child care could allow the District to serve more children and to raise reimbursement rates to levels that would allow providers both to pay their staff living wages and provide access to professional development and education. Higher reimbursements also could increase the supply of child care providers. Thus, funding increases could enable the District to extend child care subsidies to more eligible families, increasing the share of eligible families that are assisted.

## Housing Assistance



Funding and production of affordable housing has not kept pace with demand. As noted, more than 25,000 DC residents are on a waiting list for assistance, and nearly 46,000 residents paid more than 50 percent of their income for housing in 2006.

A 2006 report from the city’s Comprehensive Housing Strategy Task Force recommended the creation of 19,000 new affordable units over 15 years, preservation of existing affordable housing, and creation of 15,000 new rental subsidies. But the current level of funding for affordable housing has made it difficult to achieve this goal. The mayor also has stated a goal of eliminating the waiting list for affordable housing, which will require a significant commitment of resources from the District.

Local funding for affordable housing has increased substantially in recent years, although not enough to meet the task force’s goals. The FY 2009 budget includes \$160 million for programs covered in the task force’s recommendations, an increase of \$80 million over FY 2006 (Figure 5). To reach its goals, however, the task force recommended a

funding increase of \$200 million per year over the existing FY 2006 amount.

Moreover, funding for two key affordable housing programs — the Housing Production Trust Fund (HPTF) and the Local Rent Supplement Program (LRSP) — is falling or growing only modestly.

<sup>28</sup> DC Applesseed and DC Fiscal Policy Institute, “Hometown Prosperity: Increasing Opportunity for DC’s Low-Income Working Families,” January 2008, p. 50.

**Increase funding for the Housing Production Trust Fund and the Local Rent Supplement Program.** The HPTF makes grants and loans to produce new affordable housing or rehabilitate existing housing. Funding for HPTF will decline precipitously in FY 2009 because of falling collections in DC's deed taxes, the source of the trust fund's funding. Total HPTF funding in FY 2009 will be \$38 million, far less than the \$59 million funding level in FY 2007.

The LRSP provides housing vouchers to low-income families and ongoing rent subsidies for new affordable housing projects to make the units affordable to the lowest-income DC residents. While the housing task force recommended adding 1,000 new rent subsidies per year for 15 years, the FY 2009 budget includes just \$2 million in new funding for the program, which will likely cover fewer than 200 new subsidies.

By increasing funding for the Local Rent Supplement Program and the Housing Production Trust Fund, the District can produce more affordable housing and reduce the waiting list for housing assistance.

## Health Insurance

While the District's health insurance coverage is better than in other comparable cities,<sup>29</sup> many families have difficulty accessing this coverage due to a lack of providers. Over half of District residents, a disproportionate number of them with low incomes, live in neighborhoods where there is a shortage of primary care providers.<sup>30</sup> For example, residents living in Ward 7 have six adult primary care providers for every 100,000 people, while the city-wide average is 54 providers per 100,000 people.<sup>31</sup>

Moreover, the DC HealthCare Alliance does not cover mental health or substance abuse treatment services for its more than 48,000 members. The Alliance serves uninsured residents with incomes below 200 percent of the poverty line who are not eligible for Medicaid or Medicare — generally non-elderly singles and couples without children.

Addressing these gaps is important to improving health care access for low-income working families.

**Increase reimbursement rates.** One reason for the shortage of providers is the low reimbursement rates DC pays health centers that serve Medicaid or DC HealthCare Alliance patients. This discourages health care professionals from participating in these programs. Currently, the typical cost for basic health services is \$179 per visit,<sup>32</sup> but providers are only reimbursed \$65 per visit. In recognition of this, the DC Council recently voted to raise the Medicaid fee-for-service

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<sup>29</sup> RAND, "Assessing Health and Health Care in the District of Columbia," January 2008.

<sup>30</sup> DC Primary Care Association, "Where We Are, Where We Need to Go: The Primary Care Safety Net in the District of Columbia," 2005.

<sup>31</sup> RAND, p. 68.

<sup>32</sup> DC Fiscal Policy Institute, "What's in the FY 2009 Mayor's Budget for Healthcare?," June 2008. This figure was obtained by adjusting the average rate for medical inflation. The average rate was provided by the Lewin Group in a 2006 report, "Healthcare Alliance Payment Rate Comparative Benchmarking Report," and can be obtained at <http://www.dcpca.org>.

reimbursement rates to match those of Medicare and directed that Alliance reimbursement rates for the Safety Net Clinics be increased to \$95 per visit the next time contracts with providers are negotiated. The District should continue to raise Alliance reimbursement rates to more closely match the actual cost of care. At this writing, there is a proposal to delay the Medicaid reimbursement increase due the District's financial situation.

**Expand coverage for mental health and substance abuse services.** The District's HealthCare Alliance program doesn't cover several critical services, including drug treatment and mental health services. As a result, the more than 48,000 low-income individuals and families in DC who receive coverage under this program must rely on emergency rooms or a community health center<sup>33</sup> or go without needed care.

Adding benefits for drug treatment and mental health services to the Alliance plan would improve the District's community mental health system and provide a necessary support for many low-income working families.

## **Conclusion**

More than one-third of working families in DC do not earn enough to make ends meet, even when government benefits are included. In addition, low-income working families pay a greater share of their income in DC taxes than the wealthiest families in DC. The District has developed a safety net that provides a range of benefits to working poor families; in some areas, the District's programs are generous, including our substantial DC Earned Income Tax Credit. Yet these benefits don't do enough to fill the gaps between low wages and DC's high cost of living for many families, either because eligibility is not extended to all low-income families, or because complicated application requirements or a lack of funding makes it difficult for families to access the benefits when they are eligible. While the needs are great, there are practical steps the District can take to help more working families reach self-sufficiency. These include improving wages, lowering low-income families' tax burdens, and improving the District's safety net for low-income working families.

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<sup>33</sup> Due to the cost and lack of reimbursement for mental health services, many community health centers do not have the funds to hire a psychologist or psychiatrist. For more information, see Sharon A. Baskerville, "Slipping Through the Cracks: Closing the Gaps in the District's Mental Health System," DC Primary Care Association, October 2007, [http://www.dcpca.org/images/stories/slipping\\_through\\_the\\_cracks10-16-07.pdf](http://www.dcpca.org/images/stories/slipping_through_the_cracks10-16-07.pdf).