PUBLIC OVERSIGHT HEARING ON

An Equitable End to Safety Net Protections Put in Place During The COVID-19 Pandemic

Before the Special Committee on COVID-19 Pandemic Recovery

Councilmember Charles Allen, Co-Chairperson

Councilmember Vincent C. Gray, Co-Chairperson

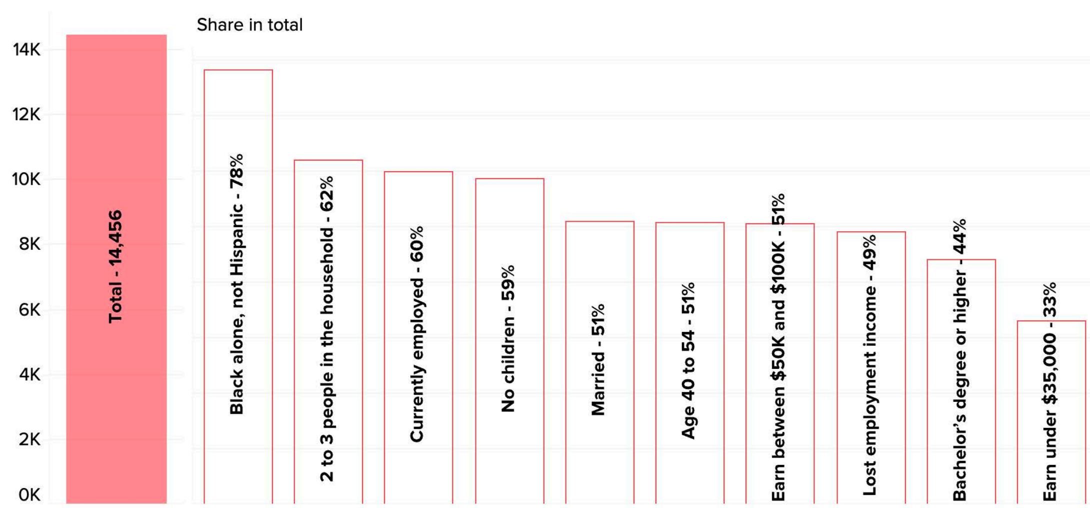
Friday May 21, 2021, 9 AM
Virtual Hearing via Zoom

Testimony of Dr. Yesim Sayin Taylor
Executive Director
D.C. Policy Center

Good morning, Councilmember Allen, Councilmember Gray, and the members of the Special Committee on COVID-19 Pandemic Recovery. My name is Yesim Sayin Taylor, and I am the Executive Director of the D.C. Policy Center—an independent non-partisan think tank advancing policies for a strong and vibrant economy in the District of Columbia. I thank you for the opportunity to testify on how the District could transition out of the public emergency by using its current resources to create a more equitable and prosperous future.

In the last fourteen months, the D.C. Council has taken important actions to minimize the destabilizing impacts of the pandemic-induced economic downturn on District residents. These measures—such as the eviction moratorium—offered protections for households experiencing financial hardship.

Figure 1
Population over 18 reported to be in a household that has not caught up with rent - April 29 to May 10 in DC



Sources: U.S. Census Bureau Household Pulse Survey Week 29 available at https://www.census.gov/data/tables/2021/demo/hhp/hhp29.html

D.C. POLICY CENTER

A difficult byproduct of these measures is that they create a future liability: many residents currently face a daunting prospect of paying back months of missed rent without extra financial resources. What is different now, from the beginning of the pandemic when these measures were first employed, is the District's access to significant federal resources[1] that can be deployed to aid renter households in distress

[1] *The District is receiving $200 million through the first round of payments under the federal Emergency Rental Assistance Program. This program was initially authorized through the Response and Relief Act in December of 2020 and expanded through the American Rescue Plan Act. For details, see here.*

and pay for much of this liability. Unfortunately, some of this federal money has a timestamp on it: the current round of Emergency Rental Assistance funds must be spent by September of 2021,[2] and the District could lose both the unspent amounts and future federal rental assistance if the city cannot get the assistance to renters.[3]

In my testimony I will offer two potential policies that can help support an equitable recovery and maximize the use of federal dollars. The D.C. Policy Center is researching more ideas on investments that could further contribute to an equitable recovery. We will share our findings with this Committee when this work is complete. I have also included a third recommendation on the gradual relaxation of pandemic related restrictions, which can help support a healthier housing market as the economic recovery begins.

1. **Provide tenant's cash incentives to participate in rental assistance applications**

The District of Columbia—like many other municipal and state governments—is having a hard time moving the federal funds quickly to aid renter households.[4] Tenant participation, which is necessary for final approval of rental assistance, has reportedly been slow. This could, of course, change with more time and more outreach.

Just this week, the D.C. Council considered ending the eviction moratorium as a means of creating greater urgency for the tenants to participate in the application process. After much debate, the Council put off deciding the fate of the moratorium, partly to better understand why tenant participating might be low, and partly to look for the least disruptive way of ending the moratorium. Unfortunately, the city does not have much time to find answers: the federal deadline makes the cost of waiting too high.

The goal of the federally funded rental assistance program should be to get assistance to qualified tenants as quickly as possible before the federal deadline. To this end, the city should consider incentives: research shows that cash incentives increase participation in

---

[2] See here for details. The expiration date for the first round of funding is September 2022, but the federal government can swipe the funds in September 2021 away from states and localities that do not use them and reallocate these to higher use/higher need jurisdictions. Specifically, the guidance notes "The Treasury Secretary may recapture funds not obligated by grantees as of September 30, 2021, and reallocate/repay those amounts to grantees who, as of that time, have obligated at least 65 percent of their original grants. The amount of the reallocation will be based on demonstrated need as determined by the Treasury Secretary."

[3] The District can also receive an additional $152 million in the second round of ERA which would be available through September 2025.

[4] See for example, here.

various government—specifically human services—programs.[5] Based on this research, paying tenants to apply for rental assistance would not only help increase public awareness and participation, but it would also get cash in the hands of lower-income households.

We estimate that such a program would have modest costs, especially when compared to the federal funds at risk. At an average monthly rent of $2,250, for example, the $200 million committed from the federal government is sufficient to pay for 91 thousand months of rent. This would cover six-month's worth of rent for 15,000 renter households. If the District offered cash incentives of $500 to each applicant, these incentives would cost the city $7.5 million, or four percent of the total federal funding.

The incentives could be paid from the unrestricted federal fiscal aid and can be administered through the Office of Tax and Revenue in the form of stimulus checks. By design (given the eligibility requirements of the federal funding), such incentives would be targeted to low-income households and communities of color, contributing to an equitable recovery. `

2. **Build up the Unemployment Insurance Trust Fund**

The pandemic took a big toll on the District's unemployment system. In January of 2020, the District's Unemployment Trust Fund balance was $525 million; at the end of 2020, it was down to $63 million.[6] While claims have declined significantly from their peak from a year ago, the number of weekly initial claims (1,583 as of May 1) and total claims (39,400 as of April 24) are still much higher compared to their levels prior to the pandemic (about 500 weekly initial claims and 7,100 continuous claims). The District has already moved to the highest possible tax rate in its current unemployment tax schedule, but the monthly benefits paid (about $21 million) still exceed monthly tax collections (about $15 million).

Building up the District's Unemployment Insurance Trust Fund could take many years. Even during the years with the strongest labor market outcomes, the District added about $41 million each year to its Trust Fund Balance.[7] Even if the labor market were to improve to match these conditions, it would take over ten years to get to pre-pandemic levels of fund balance.

---

[5] *See here for a review of evidence. For example, in housing, cash incentives have been used to increase landlord interest in participating in Section 8 housing programs. For example, see here and here.*

[6] *Data retrieved from Department of Labor. For details see here.*

[7] *Based on quarterly data from 2016 Q1 to 2020 Q4.*

The District should consider allocating some of the federal fiscal aid (see the sources of funding from the federal government in Table 1 below) to build up its Unemployment Insurance Trust Fund. This is an appropriate use of the federal fiscal aid because it would help quickly solve a fiscal problem directly linked to the pandemic, matching a one-time resource to a one-time need.

This policy would also have the benefit of delaying or preventing tax increases on businesses at a time when the economy is ailing, especially benefiting the businesses that have been hurt the most throughout the pandemic. While the investment will be one time, the impacts would have long-term effects on the cost of hiring in the District of Columbia. Research shows that small businesses owned by Black residents have experienced greater negative impacts from the pandemic than businesses owned by white residents.[8] Increasing taxes in future would only create additional barriers to Black entrepreneurship.

3. **<u>Supporting a healthier housing market by removing rent freezes on vacant units</u>**

Current rules related to the public health emergency includes a provision that prevents housing providers from increasing rents, including rents on vacant units. In rent-controlled buildings, providers are ordinarily allowed to raise rents by 10 percent (20 percent if the previous tenant had occupied the unit for longer than ten years). This higher rent increase allowance permits providers to bring rents closer to market rate (especially if the unit previously had a tenant with a long tenancy), while staying true to the price stabilization goal of rent control.

Housing providers are reporting that they are responding to the rent freeze on vacant units by not putting their vacant units up for rent.[9] This is because under current rules, providers would have to offer their vacant unit at the same rental rate paid by the previous tenant. This may not be a big problem if the previous tenant was in the unit for a year or two, but if that tenant had occupied the unit for a very long period, then the rents allowable under the rent freeze provision could be too low to make it worthwhile to lease and operate.

---

[8] *See, for example, here.*
[9] *See, for example, here.*

The impact of income loss on housing providers—especially smaller providers--can be substantial. For example, a loss of $150 in monthly rental income due to the vacancy freeze may seem modest, but its impact on the housing provider's asset value is $36,000 (at a capitalization rate of 5 percent). By holding back the unit for three months, providers might forgo some rental income, but would not take the significant hit to their asset values.

The equity impact of the rent freeze on vacant units is at best, debatable. And when units are taken out of the market, the outcome is nor supportive of low-income renters. Fewer units mean higher rents, and fewer units in rent-controlled buildings take away supply of the District's affordable housing stock.[10] The Council should seek more information on this, and consider eliminating the rent freeze provision on vacant units.

I thank you for the opportunity to testify. I am happy to answer any questions you might have.

[10] *See here for the rent differentials between rent-controlled units and uncontrolled units.*

Table 1

COVID-19 related federal funding that directly impacts District's spending

Impact area	Legislation	Description	Amount Allowed	Committed or Disbursed
State and local fiscal recovery	American Rescue Plan Act (March 2021)	Funding for D.C. capital projects related to COVID-19 response	$107,296,087	
		Relief funding to D.C.'s government that must be spent by December 31, 2024	$2,266,958,098	
	CARES Act (March 2020)	Emergency funding D.C. to offset expenses incurred due to COVID-19	$495,138,064	$495,138,064
Public health	Response & Relief Act (December 2020)	CDC funding for COVID-19 testing	$40,621,771	$40,621,771
		CDC funding for COVID-19 vaccination	$6,377,044	$6,377,044
	PPP & Health Care Enhancement Act (April 2020)	Federal funding for COVID-19 testing capacity in District of Columbia.	$91,123,627	$91,123,627
Medicaid	Families First Act (March, 2020)	A 6.2 percentage point increase in federal Medicaid match through public health emergency	$418,719,212	$183,930,540
		The federal cost of continuous coverage requirements	$401,757,690	$159,440,183
Childcare	Response & Relief Act (December 2020)	Grants for childcare providers	$16,609,664	$16,609,664
	CARES Act (March 2020)	Childcare providers	$6,000,400	$6,000,400
		Headstart funding	$3,352,650	$3,352,650
Education	American Rescue Plan Act (March 2021)	Funding for D.C. public schools based on TItle I formula	$386,317,154	$257,544,769
		Funding for testing, tracing and monitoring at schools	$21,256,814	$21,256,814
	Response & Relief Act (December 2020)	Funding for D.C. public schools based on TItle I formula	$172,013,174	$172,013,174
		Grants to K-12 agencies or schools, higher ed, or early childhood education	$2,415,567	$2,415,567
	CARES Act (March 2020)	Funding for D.C. public schools based on TItle I formula	$42,006,354	$42,006,354
		Grants to K-12 agencies or schools, higher ed, or early childhood education	$5,807,678	$5,807,678
Elections	CARES Act (March 2020)	Election security grants	$3,000,000	$3,000,000
Housing	Response & Relief Act (December 2020)	Rental Assistance Programs	$200,000,000	$200,000,000
Law enforcement	CARES Act (March 2020)	Coronavirus Emergency Supplemental Funding Program grants	$5,999,524	$5,999,524
School lunches	CARES Act (March 2020)	Federal funding to provide meals to eligible children with free meals at home	$5,926,852	$5,926,852
Social services	CARES Act (March 2020)	Grants for community organizations providing social services and emergency assistance	$16,427,550	$16,427,550
TANF	American Rescue Plan Act (March 2021)	Cash assistance to families	$14,740,312	$14,740,312
Unemployment benefits	CARES Act (March 2020)	Partial reimbursement of government & nonprofits	$21,590,875	$17,649,041
	Families First Act (March, 2020)	Administrative grants to DC	$4,325,949	$4,325,949
Grand Total			$4,755,782,110	$1,771,707,527

Source: COVIDmoneytracker.org
Note: The table only includes supports for the D.C. government and excludes WMATA and other regional public transit funding ($1.9 billion); income supports to residents through stimulus checks (approximately $500 million); cash assistance ($15 million); expanded SNAP benefits ($47.6 million); federal unemployment benefits (up to $2.3 billion); business supports through PPP, Economic Disaster Injury Loans and Main Street lending (up to $4.1 billion); grants to higher education institutions ($49 million); loans ($380 million) and grants ($382 million) to hospitals, physicians and nursing facilities; funding for community-based health care providers and community living ($13.4 million); and telehealth supports for information infrastructure ($3 million). The Medicaid match increase is partly offset by the increased spending due to the federal continuous coverage requirements under the Families First Act.

D.C. POLICY CENTER