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Mayor Bowser's Proposed Subtitle (VII)(E) Would Limit the Child Wealth Building Program's Ability to Reduce Racial Wealth Inequity in the District of Columbia

Statement of

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Council of the District of Columbia

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* The views expressed are our own and should not be attributed to the Urban Institute, its trustees, or its funders.

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Members of the Committee, thank you for the opportunity to provide testimony on the mayor's FY25 budget, and specifically the District of Columbia's Child Trust Fund. This testimony is authored by Madeline Brown, a senior policy associate at the Urban Institute, and Ofronama Biu, a principal research associate at the Urban Institute, who co-lead a research initiative focused on early life wealth building programs. The views we express today are our own and should not be attributed to the Urban Institute, its trustees, or its funders.

We submit this testimony to you today to underscore the deep risk to the efficacy of the Child Wealth Building Program posed by the Mayor's proposed FY 2025 budget. **The adjustments to the disbursements presented in the Subtitle (VII)(E) of the Budget Support Act would produce a situation in which a recipient would not be able to afford most of the allowable uses of the program. As a result, the cuts limit options and take away choice and agency.** Subtitle (VII)(E) – the Baby Bonds Amendment Act of 2024 – modifies the eligibility criteria and the deposit amounts for children eligible for the program.

Specifically, it:

1. sets eligibility at 100 percent of the federal poverty threshold (down from 300 percent),
2. changes the deposit amount to $500 each year (down from $1,000 for families at 100 percent of the federal poverty line), and
3. removes indexing to inflation.

The subtitle applies retroactively to fiscal year 2022 when the Child Wealth Building Act became effective.

According to figures from the Office of the Chief Financial Officer, this Subtitle will reduce the number of children eligible for the program annually to 1,702 from 4,150, and by 2040, assuming 7% attrition each year, 18,185 will be eligible down from 44,353. Applying new eligibility criteria retroactively means that thousands of families who have been counting on baby bonds since their children became eligible on October 1, 2021, are now having that hope revoked.

Further, the cuts to disbursements risk the program's entire purpose. According to our estimates, a child born in 2024 who receives the maximum annual contribution throughout the eligibility window based on the new Subtitle would have about **$9,100 in** 2024 dollars at age 18, compared to **$21,000** under the original one.[1]

The Urban Institute hosts a community of practice on early life wealth building programs that consists of practitioners and researchers from all over the country running and starting these programs—including many state treasurers. The community of practice recently published Principles for a Federal Early Life

[1] These estimates were calculated using the projections of the rate of inflation in the CPI-U price index published by the Congressional Budget Office. Projections of the CPI-U index for the Washington-Baltimore metropolitan area, which the 2021 bill requires, are not available. The assumed annual rate of return to investment for the Child Trust Fund is 4.2 percent.

Wealth Building Policy[2] which build off of the evidence-based best practices for wealth-building programs we highlighted in our recent brief, "The State of Baby Bonds."[3] Both publications, the former being co-signed by 21 of the nation's leading experts and practitioners in this space, emphasize the need for **large, initial deposits** yielding a **substantial ultimate endowment per child**.

In other words, to both support wealth building and reduce racial wealth inequities in early adulthood, accounts must **accumulate a balance sufficient to meaningfully expand a person's life opportunities in young adulthood**—for example, by providing them a median down payment on a home, one or two years of in-state tuition, business startup costs, or contributions towards a retirement account. In DC, according to Redfin, the median home price in February 2024 was $589,900[4]—even a 10% down payment would cost **$58,990**. Small business costs are particularly variable because expenses range so much by industry, though 2019 US Census Bureau data suggest the median cost to start or acquire a company is about **$25,000**. According to their own estimates, one year of tuition at the University of the District of Columbia—the City's only public-school option—the estimated annual cost of attendance for a student living in DC from a family making less than $30,000 a year is **$16,080.**[5]

The adjustments to the disbursements presented in the Subtitle mean that a recipient would not be able to afford most of **the allowable uses of the program. Even if young people were to invest in a retirement account, the substantially lower investment amount will** significantly reduce **the wealth they could have earned. Because of this mismatch, the City runs the risk that recipients will be blamed if the program doesn't yield long-term improvements in homeownership or educational attainment when the issue was the investment in them, not their own decisions. Further, the cuts take away choice and agency for recipients because higher education, homeownership, and business investment are less accessible as uses.** If the goal of these programs is to reduce racial wealth inequities, program designers and administrators should clearly state the ultimate dollar amounts they hope to generate per child, rather than starting with an arbitrary number of public dollars available and dividing by the number of children eligible. Public endowments often make up a big chunk of funding for these programs—but often provide an amount based on what the government has available. This means endowments may not always yield a sum large enough to reasonably move the needle on racial wealth inequalities.

During a 2021 hearing on the Child Wealth Building Act, our colleagues Steven Brown and Signe-Mary McKernan testified before the Committee on Business and Economic Development providing evidence on wealth-building policies.[6] In their testimony, they underscored that racial wealth inequities are driven primarily by systemic barriers, not individual choices. Systems-level problems require systems-level solutions. Our research indicates that child trust funds have the potential to reduce racial wealth inequities. However, they can only do so with substantial investments from the DC government. We appreciate your time today and consideration of this testimony, and we welcome any future opportunity to share research and data with the Committee.

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[2] Madeline Brown, Ofronama Biu, and Signe-Mary McKernan, "Principles for Federal Early Life Wealth Building Policy," Urban Institute, February 22, 2024, https://www.urban.org/research/publication/principles-federal-early-life-wealth-building-policy.
[3] Madeline Brown, Ofronama Biu, Catherine Harvey, and Trina R. Shanks, "The State of Baby Bonds," Urban Institute, 2023, https://www.urban.org/research/publication/state-baby-bonds.
[4] Washington, DC Housing Market: House Prices & Trends, Redfin, accessed April 5, 2024, https://www.redfin.com/city/12839/DC/Washington-DC/housing-market.
[5] University of the District of Columbia Net Price Calculator, UDC, accessed April 5, 2024, https://www.udc.edu/custom/cost_calculator/npcalc.htm.
[6] Steven Brown and Signe-Mary McKernan, "Baby Bonds Provide an Opportunity to Close the Large Racial Wealth Gap," Urban Institute, May 25, 2021, https://www.urban.org/research/publication/baby-bonds-provide-opportunity-close-large-racial-wealth-gap.