



Prosperity Campaigns Help To Lift Working Families Out of Poverty

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Abstract

Prosperity campaigns have played a critical role in improving the economic well-being of low-income, working families, boosting income levels and lifting many families out of poverty. Knight Foundation-funded organizations are part of efforts to secure and return EITC dollars to low-income working families in targeted communities. For example, in 2005, the Knight Foundation-funded organizations included in this study, collectively, operated 118 free tax preparation sites, prepared and filed over 16,000 federal income tax returns, and returned close to \$22 million in federal refunds to their local communities, including \$9 million in EITC refunds.

Community

Akron, Ohio; Biloxi, Miss.; Detroit, Mich.; Gary, Ind.; Miami, Fla.; Palm Beach County, Fla.; San Jose, Calif.

**EITC and Family Economic Security Programs:
An Assessment of Community Capacity**

Second Report to the John S. and James L. Knight Foundation

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INTRODUCTION

The Earned Income Tax Credit (EITC) is the largest antipoverty program for working families in the United States and the centerpiece of policy efforts to “make work pay.” In 2005, low- and moderate-income workers claimed \$39 billion in EITC refunds, thereby offsetting income-tax burdens and supplementing low earnings. In addition, the EITC is widely seen as providing positive incentives for low-wage workers to secure and maintain employment and it is credited with lifting more than 4 million people out of poverty each year (including 2.4 million children in 2003).¹

In the 30 years since its inception, the number of taxpayers claiming the EITC has increased steadily,² rising to more than 21 million in 2005.³ However, a significant share of low- and moderate-income families remain unaware of the tax credit and, as a result, leave unclaimed millions of dollars that could be returned to working poor families and economically distressed communities across the country. Heads of very low-income families (those earning less than 50 percent of the federal poverty level), in particular, often are unaware of the EITC and, though eligible, have not received the credit.⁴ But under-participation in the EITC is not limited to very low-income families. Nationally, it is commonly believed that less than two-thirds of eligible taxpayers receive the EITC, and the Tax Policy Center has estimated that just 58 percent of low-income parents are aware of the EITC.⁵

In an effort to increase EITC participation rates, community organizations and local coalitions have organized campaigns to encourage working poor families to claim the EITC. Many of these campaigns are embedded in broader family economic security initiatives that assist working poor families in moving towards long-term economic self-sufficiency. Together, EITC outreach and family economic security programs (e.g., financial literacy, individual development accounts, credit counseling) have become core components of local efforts to combat poverty.

Over the last several years the John S. and James L. Knight Foundation, through its Community Partners Program, has made significant investments in free tax

¹ Robert Greenstein (2005) *The Earned Income Tax Credit: Boosting Employment, Aiding the Working Poor*. Washington, DC: Center on Budget and Policy Priorities.

² Steve Holt (2006) *The Earned Income Tax Credit at Age 30: What We Know*. Washington, DC: The Brookings Institution.

³ National Low Income Housing Coalition (2006) “Earned Income Tax Credit” in *Advocates’ Guide to Housing and Community Development Policy*. Washington, DC: National Low Income Housing Coalition.

⁴ Katherin Ross Phillips (2001) *Who Knows about the Earned Income Tax Credit?* Washington, DC: The Urban Institute.

⁵ Elaine Maag (2005) *Disparities in Knowledge of the EITC*. Washington, DC: Urban Institute and Brookings Institution.

preparation services, EITC outreach, and family economic security programs in cities across the United States. Knight Foundation funding has been instrumental in assisting the creation and development of successful local initiatives aimed at improving the economic well-being of low- and moderate-income families. This report is the second in a two-year formative evaluation designed to assess the strategies employed and challenges faced by Knight Foundation-funded organizations that are involved in the delivery of free tax preparation and EITC services as well as in providing family economic security programs in nine cities. The evaluation has two purposes. The first is to provide constructive feedback to organizations charged with implementing Knight Foundation-funded family economic security programs and to share examples of innovative practices between evaluation sites. Much of this occurred during our site visits and subsequent follow-up with some of the organizations involved in local campaigns. The second purpose is to provide the Knight Foundation with an assessment of the strengths and achievements of funded initiatives as well as the challenges facing these initiatives. This report summarizes these findings.

This report has three sections. Section 1 presents a brief summary of the Year 1 findings and lessons learned. Section 2 addresses our research questions for Year 2, with emphases on program accomplishments, impact, and remaining key challenges. In addition, we explore the state and local policy environment for EITC and family economic security programs. Section 3 concludes with a discussion of the implications of our findings for Knight Foundation-supported EITC and family economic security initiatives.

SECTION 1 SUMMARY OF YEAR 1 FINDINGS AND LESSONS LEARNED

Year 1 of the evaluation focused on the lead organizations in seven cities:

- Akron, OH Akron Summit Community Action
- Biloxi, MS Gulf Coast Community Foundation
- Detroit, MI Volunteer Accounting Service Team of Michigan
- Gary, IN Northwest Indiana Community Action Corp.
- Miami, FL Human Services Coalition of Dade County
- Palm Beach, FL United Way of Palm Beach County
- San Jose, CA Catholic Charities of Santa Clara County

Our initial site visits to these organizations found that they are engaged in well-managed, ambitious, and creative EITC outreach and family economic security campaigns. Lead organizations are working to develop strategies for overcoming local service-delivery barriers, and in all cases, evaluation sites have been able to increase the number of clients served. In addition, lead organizations are working effectively with local partners to deliver services. We concluded that Knight Foundation funding has enabled these organizations to position themselves at the heart of poverty alleviation efforts in their respective cities.

The activities carried out by Knight Foundation-funded organizations extend well beyond simple tax preparation services. Rather, the provision of these services is *an intervention point* for linking low-income families to a range of financial assistance programs which can move these families along a path to self-sufficiency.

Key lessons from EITC programs in Year 1 included:

- Most successful EITC outreach programs develop strategic alliances that include a combination of employers/businesses, educational institutions, local government agencies, financial institutions, and community-based organizations. Employers, especially, need to know that they have a stake in EITC outreach efforts.
- EITC preparers and free tax preparation programs should transition fully from paper returns to electronic filings.
- Volunteer recruitment and retention is a year-round activity. Databases with volunteers need to be created by all programs and updated regularly.
- Despite progress made towards developing partnerships with municipalities, local governments are still a largely untapped resource for EITC campaigns. In addition to improving the economic well being of low-income families, Knight Foundation-funded EITC campaigns are delivering a needed economic stimulus to distressed areas. EITC refunds represent a significant

inflow of dollars into low-income communities. Most of these dollars are then spent locally, and as we show later in this report, this leads to additional rounds of local spending (i.e., the multiplier effect) that generates jobs and income in the process. Given that local governments often are constrained in pursuing elaborate economic development strategies, EITC campaigns can be seen as significant economic development programs in their own right. The case needs to be made to local officials to support these campaigns, both in assisting with outreach and publicity, but more importantly, with funding.

- Engage segments of the businesses community that can deliver skills and expertise to the campaign. Major corporations with sizable finance departments are a source where volunteer accountants can be recruited; universities may be able to supply staff and students; and other local employers may be able to encourage their employees to volunteer.
- Encourage employers of low-income workers to join the campaign, showing them how they have a stake in the campaign's success. However, it must be recognized that some of the largest local employers of low-wage workers may have little interest in actively participating in EITC campaigns. Few, if any, employers want to be known as "low-wage employers." For this reason, they shy away from participation in public efforts to assist low-wage workers, even if their own employees would substantially benefit from these efforts. Successful efforts to recruit such businesses have enlisted high-ranking corporate executives who are supportive of local EITC campaigns to recruit their peers from other companies into the effort. CEO-to-CEO recruitment may be one way for community organizations to approach major employers in a way that does not stigmatize the employer.

SECTION 2 YEAR 2 EVALUATION

The Year 2 evaluation builds upon the findings of the Year 1 study and includes two additional cities and organizations: Foothills United Way in Boulder, CO, and the United Way of the Big Bend in Tallahassee, FL. Specifically, the Year 2 report addresses the following research questions:

Organizational Development

- How were the service-delivery barriers identified in Year 1 addressed in Year 2?

Free Tax Preparation and EITC

- What is the change in participation rates of Knight Foundation-funded organizations from 2005-2006?
- Where do Knight Foundation-funded organizations stand relative to other free tax preparation/EITC campaign efforts nationwide?
- How are Knight Foundation-funded organizations linked to the larger EITC movement?

Family Economic Security/Asset Building Programs

- How well are EITC recipients being linked to other economic stabilization programs?

State/Local Policy Environment for EITC and Family Economic Security Programs

- How supportive is the local/state policy environment?

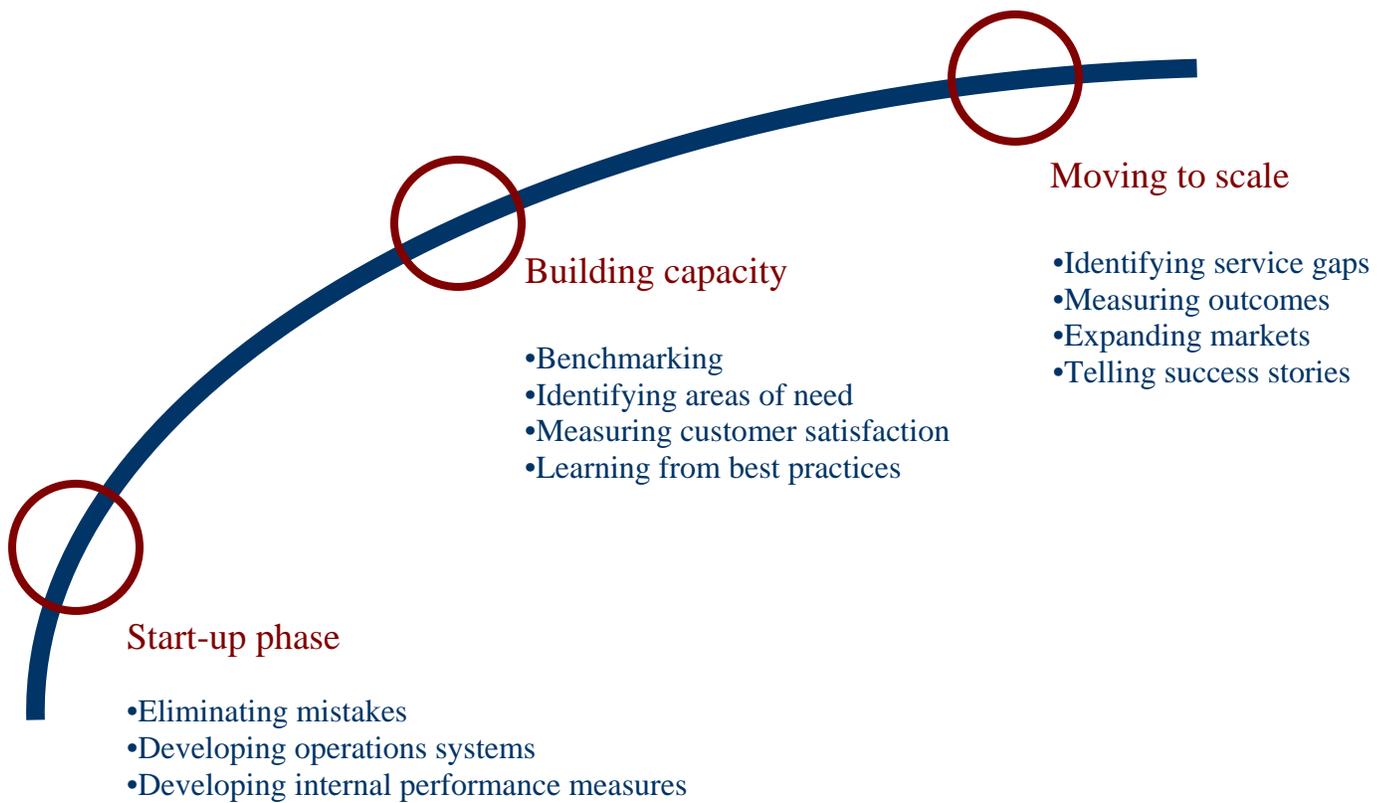
Organizational Development

How were the service-delivery barriers identified in Year 1 addressed in Year 2?

Our initial set of site visits during the 2005 tax season allowed us to closely examine the delivery systems of Knight Foundation-funded organizations leading local EITC campaigns and family economic security programs. We observed that the various organizations were at different stages of developing their family economic security programs and were operating at different scales when it came to delivering free tax preparation programs. We noted that there appears to be a “learning curve” along which most organizations travel and that this involves first progressing from the start-up phase where organizations face challenges in developing basic programs and routines that allow them to effectively reach large numbers of clients (e.g., eliminating computational mistakes, developing operating systems, and developing

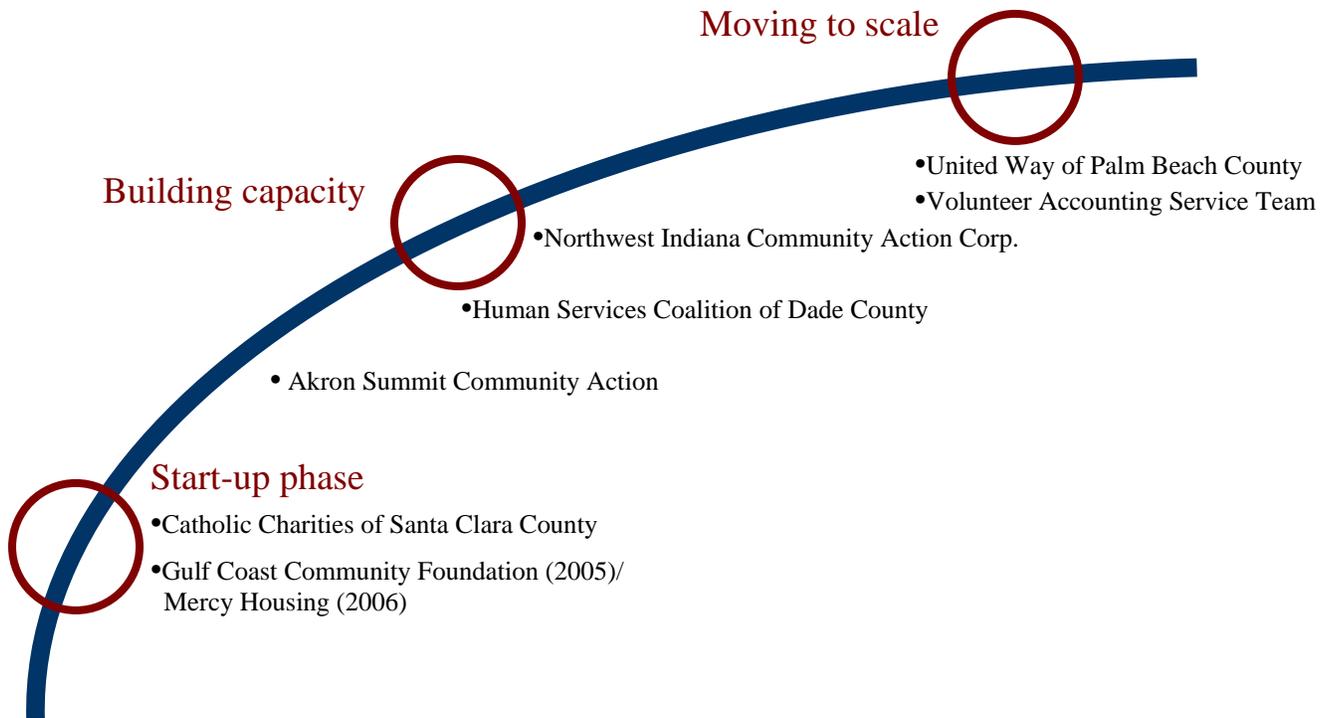
internal performance measures). Organizations that have been successful developing effective programs move to the capacity-building stage where they address issues such as performance benchmarking, identifying areas of need, measuring customer satisfaction, and learning from best practices. Organizations at the upper end of the learning curve are moving to scale—they are identifying service gaps, measuring outcomes, expanding markets, and telling success stories (Figure 1).

Figure 1
Moving to Scale: Organizational Development of Family Economic Security Programs



In completing our Year 1 evaluation we presented a stylized representation of the stage of development of the various Knight Foundation-funded evaluation sites. This is reproduced in Figure 2.

Figure 2
Stage of Progression in Developing of Family Economic Security Programs:
Knight Foundation-funded Evaluation Sites



Catholic Charities of Santa Clara County is a new program while Mercy Housing serving the Gulfport-Biloxi area has taken on a program undergoing transition during a time when the region is contending with the challenges of rebuilding after Hurricane Katrina. Akron Summit Community Action is developing its capacity to serve large numbers of taxpayers, while the Human Services Coalition of Dade County and the Northwest Indiana Community Action Corporation both are extending their reach throughout their service area. The Volunteer Accounting Service Team (not included in the Year 2 evaluation) and the United Way of Palm Beach County operate very large EITC outreach campaigns. Within this framework, we considered how the various organizations have responded to the major challenges and service delivery barriers they faced in Year 1 and their progress in moving towards scale and sustainability. Below we discuss the major issues identified and how organizations are addressing them.

Catholic Charities of Santa Clara County

Catholic Charities of Santa Clara County is offering a relatively new free tax preparation program that targets low- and moderate-income residents throughout the county. The program identified two main challenges that it hoped to address during the 2006 tax season: (1) acquisition of new space for the expansion of existing sites, and (2) service delivery barriers, principally barriers due to language and clients' immigration status. Catholic Charities has been able to create stability in the program by moving into new tax-preparation sites and developing its volunteer base. The organization continues to try to recruit multilingual tax preparers, primarily to serve Spanish- and Vietnamese-speaking populations. Education and outreach remain central activities of the program, and staff is working to overcome the mistrust that some recent immigrants have towards local programs. Some immigrants are reluctant to participate in non-profit and government programs, such as the EITC, and to access the benefits to which they are entitled.

Mercy Housing/Gulf Coast Community Foundation

Mercy Housing has assumed responsibility for the EITC outreach campaign in the Gulfport-Biloxi area, taking over for the Gulf Coast Community Foundation. This transition has been made extraordinarily more difficult by the catastrophic impact of Hurricane Katrina which devastated the region. That Mercy Housing was able to initiate an EITC outreach effort at all is a testament to the organization's commitment to the service. Mercy Housing's service area is a geographically dispersed, three-county region. The decentralization of the low-income population, even before Hurricane Katrina, poses challenges to service delivery. A dispersed target population makes it difficult to operate neighborhood-based tax-preparation sites, since the number of potential clients that can be reached through this strategy is small and placing volunteers at under-utilized sites is inefficient. But obviously, Mercy Housing was confronted with a myriad of issues, so attention to addressing service delivery barriers and refining the service delivery model fell low on the list of priorities.

Akron Summit Community Action

Volunteer recruitment, deployment, and scheduling presented a major operational capacity issue for Akron Summit Community Action (ASCA) last year. The organization lacked volunteers to work during critical daytime hours, which hindered its ability to prepare taxes during hours convenient for many taxpayers and at tax sites that clients found more accessible during daylight hours. The lack of volunteers meant that the organization largely prepared taxes during evening hours, missing potentially hundreds of clients. To address this issue, ASCA applied for and was awarded a team of eight volunteers through the Americorp National Civilian Community Corp. These volunteers were energetic and professional and, most importantly, they provided additional staffing and worked during much needed daytime hours.

Human Services Coalition of Dade County

The Human Services Coalition of Dade County coordinates a network of free tax preparation sites that are administered by local community organizations. The organization has been able to recruit partners for which free tax preparation services are a complementary service. These organizations are able to effectively target diverse population groups and the program as a whole has grown steadily. Among the challenges that Human Services Coalition identified last year were: (1) transitioning from TaxWise Software to Benefits Bank software, and (2) improving outreach to large employers of low-wage workers. As in other cities, the move to Benefits Bank software has been problematic. Tax preparers complain that the program is too time-consuming and cumbersome to use. Far more tax returns can be prepared using the IRS's TaxWise software. In expanding outreach to large employers, staff regularly participates in meetings of employers associations where they are able to discuss the benefits of the EITC with large numbers of employers. In addition, the Human Services Coalition has developed employer-outreach materials as part of the Miami Prosperity Campaign.

Northwest Indiana Community Action Corporation

During the 2005 EITC campaign, the Gary arm of the Northwest Indiana Asset Building Campaign (NWI-ABC) turned away numerous clients due to capacity issues that included:

- Inadequate facilities and limited operating hours to service clients
- A lack of trained site coordinators to manage tax sites
- An insufficient number of volunteers to service clients

Gary coalition partners hoped to address these issues in 2006 by identifying partners with sufficient space to serve a higher volume of clients; recruiting more professionals to serve as site coordinators; and establishing a more comprehensive training program for volunteers with a stronger emphasis on tax law and e-filing. Gary has made progress this year. Project Coordinator Ida Gillis, a certified CPA, hired a computer technician and two site coordinators for the 2006 campaign, improving the overall management and operation of tax sites and helping to increase the total number of tax returns prepared and filed for 2006. However, even with these significant improvements, there remain several unresolved issues: organizational structure and program identity; lack of space; and volunteer recruitment.

NWI-ABC is organized as a coalition to serve low- and moderate-income clients in Gary, Hammond, and East Chicago, Indiana. It is partly a centralized coalition model in that the Northwest Indiana Community Action Corporation (based in Hammond) serves as the fiscal agent for the campaign, provides staff and administrative support for the campaign, and plays a key decision-making role when it comes to developing campaign strategy and devising action plans. In other

respects, the coalition's operations are decentralized, as reflected in its Gary operations. For example, nine of the coalition's 34 tax sites are located in Gary. One of the most active and productive sites is housed in the Gary offices of the Consumer Credit Counseling Service of Northwest Indiana (CCCS). CCCS donates space and computer equipment for free tax preparation, and CCCS staff members volunteer their time as tax preparers. The organization has sufficient space to continue providing free tax preparation services with the potential for expansion. In addition, CCCS is well-positioned to provide a strong linkage between free tax preparation/EITC services and asset building programs, given the organization's focus on credit, banking, money management, housing workshops and mortgage counseling. The CCCS presence provides the local Gary campaign with an identity and home that is otherwise lacking in Gary. Finally, because of a depressed local economy and business climate, there are few opportunities to partner with businesses and recruit volunteers. As a result, local non-profit organizations tap the same few businesses for support and volunteers. Hence, there is a strong need to continue partnerships with organizations like CCCS who share the same client base and have existing resources to assist free tax preparation clients in asset building.

United Way of Palm Beach County

In 2005 United Way of Palm Beach County (UWPBC) identified several challenges it believes will impact the growth and direction of the PBC Prosperity Campaign in coming years:

Funding: UWPBC is seeking additional funding to sustain the campaign over the long term. Specifically, the organization hopes to expand its VITA sites and Prosperity Centers, and maintain sufficient staffing levels for each program. In addition to Knight Foundation funding, the United Way is receiving support from the Quantum Foundation and American Express for its free tax preparation services.

Evaluation: UWPBC has sought to rapidly expand its free tax preparation initiative and to effectively link this effort with family economic security programs. In an effort to identify and resolve service delivery barriers, the UWPBC has identified the need for an external, formative evaluation that can identify issues and propose options for their resolution. A two-year evaluation is currently underway throughout the county.

Recent Immigrants: Palm Beach County has a large migrant population, many of whom are VITA clients. To address this challenge, UWPBC conducts outreach to educate this population about ITINs and the EITC, appearing on Spanish language radio (Radio Fiesta) and Mayan language radio (Radio Maya).

Free Tax Preparation and EITC

What is the change in participation rates of Knight Foundation-funded organizations from 2005-2006?

EITC outreach campaigns have played a critical role in improving the economic well-being of low-income, working families, boosting income levels and lifting many families out of poverty. Knight Foundation-funded organizations are part of efforts to secure and return EITC dollars to low-income working families in targeted communities. For example, in 2005, the Knight Foundation-funded organizations included in this study, collectively, operated 118 free tax preparation sites, prepared and filed over 16,000 federal income tax returns, and returned close to \$22 million in federal refunds to their local communities, including \$9 million in EITC refunds (Table 1).

Table 1. Free Tax Preparation and EITC Outcomes, 2005 Tax Season

City/Service Area	Organization	Free Tax Preparation Sites 2005	Total Number of Volunteers 2005	Federal Returns Prepared 2005	Federal Refunds Claimed 2005	Federal EITC Refunds Claimed 2005
Akron, OH	Akron Summit Community Action	2	26	860	\$1,200,000	\$700,000
Biloxi/Gulfport, MS	Gulf Coast Community Foundation	Information not available				
Detroit, MI	Volunteer Accounting Service Team of Michigan	30	774	4,822	\$3,800,000	\$1,900,000
Gary, IN	Northwest Indiana Community Action Corp	36	88	2,178	\$2,300,000	\$540,552
Miami, FL	Human Services Coalition of Dade County	6	NA	1,247	\$1,700,000	\$883,317
Palm Beach County, FL	United Way of Palm Beach County	40	226	6,594	\$12,102,967	\$4,858,408
San Jose, CA	Catholic Charities of Santa Clara County	4	80	595	\$617,054	\$259,014
Tallahassee, FL	United Way of the Big Bend	Not included in the 2005 evaluation				
TOTAL		118	1,194	16,296	\$21,720,021	\$9,141,291

In 2006, a modified set of Knight Foundation-funded organizations prepared nearly 16,000 federal tax returns, accounting for \$24 million in total refunds and \$10 million in EITC refunds (Table 2).

Table 2. Free Tax Preparation and EITC Outcomes, Tax Season 2006

City/Service Area	Organization	Free Tax Preparation Sites 2006	Total Number of Volunteers 2006	Federal Returns Prepared 2006	Federal Refunds Claimed 2006	Federal EITC Refunds Claimed 2006
Akron, OH	Akron Summit Community Action	3	26	1,518	\$2,563,173	\$1,491,790
Biloxi/Gulfport, MS	Mercy Housing	Information not available				
Detroit, MI	Volunteer Accounting Service Team of Michigan	Not included in the 2006 evaluation				
Gary, IN	Northwest Indiana Community Action Corp	34	88	2,704	\$2,490,000	\$618,302
Miami, FL	Human Services Coalition of Dade County	11	129	2,119	\$3,245,314	\$1,483,192
Palm Beach County, FL	United Way of Palm Beach County	37		8,166	\$13,957,967	\$5,834,834
San Jose, CA	Catholic Charities of Santa Clara County	4	74	872	\$905,977	\$443,856
Tallahassee, FL	United Way of the Big Bend	8	100	610	\$515,148	\$218,859
TOTAL		97	417	15,989	\$23,677,579	\$10,090,833

Individual Program Performance

All of the Knight-funded organizations saw growth in their free tax programs/EITC campaigns in 2006. Below we summarize the results of the 2005 and 2006 campaigns for each organization.

Akron Summit Community Action, Inc.

In 2005, Akron Summit Community Action, Inc. operated two tax sites. The number of tax sites was increased to three in 2006, while the number of volunteers

(26) remained the same for both years. For 2006, the organization experienced a substantial increase in the number of federal tax returns completed (1,518 returns, for a 77 percent increase) and in the total dollar amount refunded to the Akron community (\$2.6 million, a 114 percent increase). Total EITC refunds increased by 113 percent, climbing from \$700,000 in 2005 to \$1.4 million in 2006 (Table 3).

Table 3. Akron Summit Community Action, Inc., VITA Program, Two-Year Comparison, Tax Seasons 2005-2006

Category	2005 Tax Season	2006 Tax Season	Difference	% Change
Tax Sites Operated	2	3	1	50
Number of Volunteers	26	26	0	0%
Federal Tax Returns Prepared and Filed	860	1,518	658	77%
Value of Federal Refunds Claimed	\$1,200,000	\$2,563,173	\$1,363,173	114%
Returns with EITC	NA	812	812	NA
Value of EITC Refunds Claimed	\$700,000	\$1,491,790	\$791,790	113%

Northwest Indiana Community Action Corporation

In 2005, NWICAC operated 36 tax sites with 88 volunteers and prepared 2,178 federal tax returns. These returns claimed \$2.3 million in federal refunds, including \$541,000 in EITC refunds. Although the organization reduced the number of tax sites it operated in 2006 by two, it, nonetheless, prepared 24 percent more tax returns (2,704) than it did in 2005, claimed 8 percent more in federal refunds (\$2.5 million), and secured 14 percent more in EITC refunds (\$618,302) (Table 4).

Table 4. Northwest Indiana Community Action Corporation VITA Program, Two-Year Comparison, Tax Seasons 2005-2006

Category	2005 Tax Season	2006 Tax Season	Difference	% Change
Tax Sites Operated	36	34	-2	-6%
Number of Volunteers	88	88	0	0%
Federal Tax Returns Prepared and Filed	2,178	2,704	526	24%
Value of Federal Refunds Claimed	\$2,300,000	\$2,490,000	\$190,000	8%
Returns with EITC Claims	446	487	41	9%
Value of EITC Refunds Claimed	\$540,552	\$618,302	\$77,750	14%

Human Services Coalition of Dade County

In 2005, the Human Services Coalition of Dade County operated nine tax sites, which increased to 11 in 2006. The organization retained 129 volunteers to assist with tax preparation in 2006. The number of federal tax returns prepared in 2006 was up by 43 percent, and the total dollar amount refunded to tax clients increased by 76 percent (Table 5).

Table 5. Human Services Coalition of Dade County VITA Program, Two-Year Comparison, Tax Seasons 2005-2006

Category	2005 Tax Season	2006 Tax Season	Difference	% Change
Tax Sites Operated	9	11	2	22%
Number of Volunteers	NA	129	NA	NA
Federal Tax Returns Prepared and Filed	1,478	2,119	641	43%
Value of Federal Refunds Claimed	\$1,839,875	\$3,245,314	1,405,439	76%
Value of EITC Refunds Claimed	NA	\$1,483,192	NA	NA

United Way of Palm Beach County

In the 2005 tax season, the United Way of Palm Beach County's VITA program operated 40 tax sites, retained 226 volunteers, and prepared close to 6,600 federal tax returns. These tax returns amounted to \$12.1 million in federal refunds, \$5 million of which was attributed to the EITC. In 2006, the United Way operated 3 fewer tax sites (37). However, even with fewer sites, the organization managed to increase the number of tax returns prepared and filed in 2006 by 24 percent. Federal refunds in 2006 totaled roughly \$14 million (up 15%). EITC refunds climbed to almost \$6 million (up 20 percent) (Table 6).

Table 6. United Way of Palm Beach County VITA Program, Two-Year Comparison, Tax Seasons 2005-2006

Category	2005 Tax Season	2006 Tax Season	Difference	% Change
Tax Sites Operated	40	37	-3	-8%
Federal Tax Returns Prepared and Filed	6,594	8,166	1,572	24%
Value of Federal Refunds Claimed	\$12,102,967	\$13,957,967	\$1,855,000	15%
Returns with EITC Claims	2,885	3,365	480	17%
Value of EITC Refunds Claimed	\$4,858,408	\$5,834,834	\$976,426	20%

Catholic Charities of Santa Clara County

In 2005, Catholic Charities operated 4 tax sites, retained 80 volunteers, and prepared 595 federal tax returns. These tax returns amounted to \$617,000 in federal refunds, including \$259,014 in EITC refunds. The number of tax sites operated in 2006 remained the same. However, the organization increased the number of tax returns prepared in 2006 and refund amount by 47 percent. EITC refunds increased by 71 percent in 2006 (Table 7).

Table 7. Catholic Charities of Santa Clara County VITA Program, Two-Year Comparison, Tax Seasons 2005-2006

Category	2005 Tax Season	2006 Tax Season	Difference	% Change
Tax Sites Operated	4	4	0	0%
Number of Volunteers	80	74	-6	-8%
Federal Tax Returns Prepared and Filed	595	872	277	47%
Value of Federal Refunds Claimed	\$617,054	\$905,977	\$288,923	47%
Value of EITC Refunds Claimed	\$259,014	\$443,856	\$184,842	71%

United Way of the Big Bend

In 2005, the United Way of the Big Bend B.E.S.T. Project operated eight tax sites that were staffed by 100 program volunteers. The organization prepared and filed 225 federal tax returns; captured \$195,000 in federal refunds; and returned \$56,839 in EITC refunds to clients. For the 2006 tax season, tax filings increased by 171 percent to 610 returns. Total federal refunds rose by 164 percent (\$515,000), while the value of EITC refunds increased by 285 percent to \$218,859 (Table 8).

Table 8. UWBB VITA Program, Two-Year Comparison, Tax Seasons 2005-2006

Category	2005 Tax Season	2006 Tax Season	Difference	% Change
Federal Tax Returns Prepared and Filed	225	610	385	171%
Value of Federal Refunds Claimed	\$195,000	\$515,148	\$320,148	164%
Value of EITC Refunds Claimed	\$56,839	\$218,859	\$162,020	285%

Where do Knight Foundation-funded organizations stand relative to other free tax preparation/EITC campaign efforts nationwide?

Like other organizations across the United States, Knight Foundation-funded organizations have responded to below-expected EITC participation rates by developing extensive outreach campaigns that educate taxpayers about the credit and

offer free tax-preparation services. These campaigns are undertaken by a variety of entities including community-based organizations, social service providers, community action agencies, faith-based organizations, and government agencies, as well as broader community coalitions involving a range of local stakeholders. Delivery systems tend to rely on a combination of paid staff and large teams of trained volunteers who greet clients and prepare taxes.

Most of the Knight Foundation-funded EITC campaigns that we visited are small and medium-sized programs that directly serve between several hundred and several thousand taxpayers each year. In terms of scale and participation, the accomplishments of these programs are in line with the majority of EITC programs across the country. All of the evaluation sites were able to prepare at least a minimally acceptable number of federal tax returns and all achieved at least incremental growth in the number of clients served, while some were able to record significant increases. For example, between 2005 and 2006, the Human Services Coalition of Dade County registered a 70 percent increase in federal returns prepared, and Akron Summit Community Action recorded a 77 percent increase. The observed increases in federal returns across the evaluation sites is consistent with notions of a learning curve in the development of EITC outreach programs; as staff gains experience and operational efficiencies are achieved, EITC outreach programs are able to grow to meet local needs. As these programs earn a positive reputation in the community, word spreads about the service, which increasingly is seen as a viable alternative to paid tax preparers.

One Knight Foundation-funded organization in particular stands out in terms of the scale of its free tax preparation campaign: the United Way of Palm Beach County. Of the 16,300 federal tax returns prepared by the Knight Foundation-funded organizations examined in 2005, the United Way of Palm Beach County alone accounted for nearly 6,600 returns (40%), \$12 million in total federal refunds (55%), and \$5 million in EITC refunds (53%). The United Way of Palm Beach County ranks among the top free tax preparation programs and EITC campaigns in the country (Table 9). In filing 6,594 federal returns the United Way of Palm Beach County ranked 13th in total number of returns completed and 8th in terms of total refund amount collected by low- and moderate-income taxpayers. Moreover, the United Way of Palm Beach County was able to further increase participation in 2006, filing 8,166 federal returns (an increase of 24 percent) accounting for \$13.96 million in federal refunds claimed.

Table 9. Top 15 Free Tax Preparation Programs Based on Number of Federal Tax Returns Completed in 2005 (for tax year 2004)

Organization Name	Site Locations	Federal Tax Returns Completed in 2005	Total Refund Amount
1. Food Change	New York, NY	33,612	\$92,287,248
2. City of San Antonio, Department of Community Initiatives	San Antonio, TX	24,744	\$38,587,932
3. Center for Economic Progress	Chicago, Alton, Bloomington, Champaign, Normal, Decatur, East St. Louis, Elgin, Harvey, Joliet, Moline, Marion, Peoria, Rockford, Springfield, Waukegan, LaSalle, Karnak, Macomb, IL	23,405	\$35,238,494
4. Tax Help New Mexico	Alamogordo, Albuquerque, Anthony, Bernalillo, Carlsbad, Clovix, Deming, Espanola, Farmington, Gallup, Grant, NM; Artesia, TX	17,866	\$21,912,477
5. Community Action Project of Tulsa County	Tulsa, Owasso, Claremore, Broken Arrow, OK	16,788	\$27,642,727
6. United Way of Tampa Bay	Hillsborough and Pinellas Counties, FL	14,240	\$10,798,531
7. United Way of the Bay Area	Alameda County (Oakland, Berkeley, Hayward, San Lorenzo, San Leandro), Contra Costa County (Concord, Richmond, San Pablo, Antioch), San Francisco County, San Mateo County, Napa County, Solano County, CA	13,555	\$12,543,562
8. Campaign for Working Families	Philadelphia, PA	10,878	\$19,067,678
9. Nehemiah Gateway Community Development Corporation	Wilmington, Milford, Smyrna, Seaford, Georgetown, Dover, Claymont, Newark, New Castle, DE	7,779	\$17,691,567
10. United Way of Greater Rochester	Rochester, NY	7,536	\$10,860,117
11. Social Development Commission	Milwaukee, WI	7,488	\$10,633,821
12. Foundation Communities	Austin, TX	7,413	\$10,371,471
13. United Way of Palm Beach County*	Palm Beach County, FL	6,594	\$12,102,967
14. Boston EITC Campaign	Boston, MA	5,836	\$9,177,841
15. EITC Carolinas	North & South Carolina	5,366	\$8,047,516

Source: Authors' ranking of free tax programs listed in the National Community Tax Coalition's 2005 Program Listing. Website: <http://www.tax-coalition.org/programs.cfm> (accessed October 20, 2006).

*This ranking is based upon the programs mentioned in the Coalition's 2005 Program Listing. The United Way of Palm Beach County's free tax program was not among the programs listed, and other free tax preparation programs that do greater tax volumes may not be listed as well.

The United Way of Palm Beach County's free tax preparation program is notable given that it has been in existence for only three years. In achieving these results,

United Way staff has been able to develop a network of neighborhood-based tax preparation sites located in many areas of Palm Beach County where poverty is concentrated. This provides the necessary infrastructure for program success and growth. A combination of paid staff and a large team of volunteers deliver the service, and the United Way's marketing and outreach activities (including a media campaign, outreach through community organizations and neighborhood meetings, flyering residents through utility bills, and conducting some employer outreach) are first rate. In addition, marketing and services are tailored to the diverse population in the county.

How are Knight Foundation-funded organizations linked to the larger EITC movement?

Local EITC campaigns benefit from the information and expertise provided by several national organizations that conduct research, training, and policy analysis on EITC-related issues. These organizations include the Brookings Institution, the Center on Budget and Policy Priorities, the Center for Economic Progress, and the Urban Institute. These and other organizations disseminate timely policy, campaign, and training materials that are regularly drawn on by Knight Foundation-funded EITC campaigns. This information has been used by local organizations when designing local campaigns and developing action plans. In addition, the national organizations have contributed to the framing of the EITC as an effective anti-poverty strategy, and local efforts have been able to capitalize on this work to press their case for local support.

In most cases Knight Foundation-funded organizations are loosely linked to the national EITC movement. Like other organizations involved in local EITC campaigns, Knight Foundation-funded organizations attend seminars and conferences sponsored by the National Community Tax Coalition (NCTC) where they are able to share best practices and learn from other organizations in the field. In addition to activities sponsored by NCTC, the United Way of Palm Beach County and Catholic Charities of Santa Clara County are linked to other affiliates of the United Way and Catholic Charities, respectively, through national and regional conferences of affiliates. In the case of the United Way of Palm Beach County, the organization has been an advocate for other United Way affiliates to take the lead in developing local EITC campaigns.

Family Economic Security

How well are EITC recipients being linked to other economic stabilization programs?

All of the organizations that offer free tax preparation services utilize these programs to varying degrees to link clients to other family economic security and asset building programs such as financial literacy, credit counseling and money management, as well as savings programs such as individual development accounts. Typically, these programs are offered through campaign partners that include banks, consumer credit service agencies, community colleges, and community development corporations.

The rationale behind the approach is to use free tax preparation services as an intervention point to reach working poor families. The EITC is returned to qualifying individuals and families in the form of a refund and is often the largest lump sum of money that working poor individuals and families receive in a year. Because of the large lump sum payment (up to \$4,400 for some families), clients have an opportunity to establish savings and build assets, pay off large consumer debts and household expenses, or make large purchases. Clearly, clients have a choice in how they allocate their EITC refund dollars, and the choices they make are often driven by immediate financial pressures. A study by the Federal Reserve Bank of New York found that in New York, the vast majority of EITC recipients planned to use the refund to pay down bills as opposed to saving substantial portions.⁶ Yet, for a segment of low- and moderate-income taxpayers, the EITC provides an opportunity to save and build wealth. When it comes to recruiting these clients through free tax preparation services and linking them to savings and asset building programs, the results are mixed and vary by organization as we learned from interviews with program administrators and clients.

Bank Accounts

A key step in an asset building strategy is connecting clients to mainstream financial institutions and encouraging them to open checking or savings accounts. In this way, clients have an opportunity to deposit their EITC refunds into bank accounts and save the money for future investment opportunities—for example, making a down payment toward the purchase of a home or paying tuition for higher education.

All of the Knight Foundation-funded organizations that sponsor VITA programs and EITC campaigns offer clients an opportunity to access bank products and services either by hosting banks onsite at VITA sites during the tax season to open accounts for clients that do not have them or through programs such as the Individual Development Account program. In addition, organizations often are able to ascertain through intake forms whether a client has a checking or savings account (a typical question is whether the client would like to direct deposit his or her refund into either a checking or savings account) and then refer the client to a bank partner if appropriate.

Our discussion with program administrators, volunteer tax preparers, and tax-preparation clients revealed that the vast majority of clients do in fact have bank accounts. It is possible that because so many employers use direct deposit for payroll checks, workers increasingly must open bank accounts. So, from our site visits, it seems that increasing access to banking services may be a lower priority than initially believed. For those clients who remain “unbanked,” barriers do remain in

⁶ Sherrie L.W. Rhine, Sabrina Su, Yazmin Osaki, Steven Y. Lee (2005) *Householder Response to the Earned Income Tax Credit: Path of Sustenance or Road to Asset Building?* New York: Federal Reserve Bank of New York.

the pricing structure of checking accounts.⁷ For some households, when viewed strictly in terms of costs, check-cashing facilities might provide viable alternatives to mainstream financial institutions. In those cases where working poor taxpayers have not opened a bank account, lower cost bank products might be more important than simply encouraging taxpayers to open accounts.

Individual Development Accounts

Individual Development Accounts (IDAs) are matched savings accounts designed to help working poor families establish a pattern of regular savings and build assets through the purchase of a first home, invest in post-secondary education, or start a new business. Since the program's launch at the federal level in 1996, IDAs have emerged as a key asset building tool that targets low- and moderate-income working families. By the end of 2003, approximately 300 IDA programs were active nationwide and serving 15,000 account holders.⁸ The programs are funded primarily through federal grants, financial institutions, and private foundations.

Studies examining the savings habits and economic and social mobility of the poor indicate that low-income families will save if given the right incentives and institutional supports.⁹ IDAs are viewed by many as the ideal tool to aid working poor families in improving savings habits and building assets. The role of IDAs in asset development is important because of the positive welfare effects that asset ownership promotes among individuals, families and communities, including greater economic and household security, enhanced educational-attainment levels, and support in stabilizing neighborhoods.¹⁰

Many of the Knight Foundation-funded organizations we visited dedicate time and resources to the administration of IDA programs. Below we highlight the strengths and successes of two of these programs.

⁷ Christopher Berry (2005) "To Bank or Not to Bank? A Survey of Low-Income Households," in N. P. Retsinas and E. S. Belsky, eds., *Building Assets—Building Credit: Creating Wealth in Low-Income Communities*. Washington, DC: The Brookings Institution; and Michael Sherraden and Michael S. Barr (2005) "Institutions and Inclusion in Saving Policy," in N. P. Retsinas and E. S. Belsky, eds., *Building Assets—Building Credit: Creating Wealth in Low-Income Communities*. Washington, DC: The Brookings Institution.

⁸ Ray Boshara (2005) "Individual Development Accounts: Policies to Build Savings and Assets for the Poor," *Policy Brief, Welfare Reform & Beyond* #32. Washington, DC: The Brookings Institution.

⁹ See Ray Boshara, Edward Scanlon and Deborah Page-Adams (1998) *Building Assets for Stronger Families, Better Neighborhoods and Realizing the American Dream*. Washington, DC: Corporation for Enterprise Development; and Michael Sherraden (1991) *Assets and the Poor: A New American Welfare Policy*. Armonk, NY: M.E. Sharpe.

¹⁰ Ibid.

Catholic Charities of Santa Clara County

Catholic Charities, in collaboration with community-based organizations and financial institutions, has administered an IDA program for the last seven years under the Assets for Alliance Program. During that time, the program has served over 1,500 clients, 750 of whom enrolled in the program through Catholic Charities. The program offers a two-to-one (2:1) savings match, in addition to 15 hours of money management courses taught in three languages (Vietnamese, Spanish, and English). To date, 578 IDA account holders have accumulated and subsequently invested close to \$2.3 million in savings and matched funds in the following areas: home purchase/repair (160), education (269), small business start-up (60), and retirement savings (89).

United Way of Palm Beach County

The United Way of Palm Beach County's IDA program is a matched savings program for homebuyers. The program was launched in September 2004 with funding for up to 150 participants. Program participants must qualify, and their income must be at or below 200 percent of the federal government's poverty guidelines. IDA participants agree to save a minimum of \$50 each month until they reach the program goal of \$2,000. The savings is then matched 2:1, giving the participant an additional \$4,000 for a total of \$6,000 toward the purchase of a home. Participants also enroll in money management and homeownership workshops, receive credit counseling services, and are offered vocational/educational counseling. These services are essential because IDA participants often lack sufficient knowledge and skills in these areas, and they help clients reorient their financial planning to prepare for homeownership.

We learned from interviews with program administrators and clients that the IDA program has had a positive impact on most of the participants, resulting in improvements in family economic security and stimulation of human and capital asset development. Furthermore, the program has promoted stability in the communities in which these individuals and their families reside. We encountered cases of direct linkages between the VITA program and IDA enrollment. The following example illustrates this integrated approach and the value of establishing strong linkages between components of family economic security programs:

The IDA participant had lived in Section 8 housing for eight years, a motivating factor to explore homeownership. She first opened both a savings account and IDA one year ago. The client had her tax return prepared at the United Way's Glades Prosperity Center and anticipated a refund of approximately \$2,000. She was advised by the Center's tax preparer that she could allocate the refund towards the purchase of a home. Subsequent to receiving her refund, the client opened an IDA using the \$2,000 tax refund as her initial IDA deposit. While in the program, the client received financial literacy training, as well as counseling on saving and budgeting. She also deposited \$50 a month into a savings account. She purchased a home six months after entering the IDA program. The IDA was closed following her asset purchase. However, the client indicated that she continues to save a "little bit every week" and is teaching her teenage daughter the same things she learned about saving and budgeting.

The UWPBC IDA program had 131 active accounts and several participants had moved quickly to homeownership as of January 31, 2006.

As we know from the studies and programs mentioned above, savings and the building of financial assets are essential to a family's long-term economic security. Savings and assets help families improve their living standards and plan for the future by purchasing a home and/or investing in education.¹¹ While programs like the IDA play a key role in building savings and assets for working poor families, IDAs are only one among many factors that ultimately impact a family's ownership of assets and long-term economic security. One important factor in assessing a family's potential for asset ownership is the local housing market.

Homeownership is one of the most valuable asset purchases made through IDAs.¹² Unfortunately, however, potential buyers that complete IDA programs often find themselves priced out of the housing market due to soaring housing prices and a dwindling affordable housing market. This is a growing problem in many parts of the country, including several cities with Knight Foundation-funded organizations. Housing sales data from the National Association of Realtors (NAR) bear this out. According to the NAR, the median sales price for an existing single-family home in the San Jose-Sunnyvale-Santa Clara metropolitan area was \$747,000 at the end of 2005. For the Boulder metropolitan area, the median sales price was \$349,500 at the end of last year.¹³ Rising housing prices are a challenge to IDA program effectiveness.

One of the clearest examples of the dwindling affordability of housing for IDA participants is in the Pleasant City neighborhood of West Palm Beach.¹⁴ There, we learned from interviews with several IDA participants who were pre-approved for mortgages that they had difficulty finding homes within their price range. In one case, a single mother employed full-time in a stable job qualified for a \$153,000 mortgage and spent considerable time looking for a home without success. This is

¹¹ Nancy K. Cauthen (2002) *Policies that Improve Family Income Matter for Children*. New York: National Center for Children in Poverty, Columbia University.

¹² See Ray Boshara (2005) "Individual Development Accounts: Policies to Build Savings and Assets for the Poor," *Policy Brief, Welfare Reform & Beyond* 32, Washington, DC: The Brookings Institution; Mark Schreiner, Margaret Clancy and Michael Sherraden (2002) *Saving Performance in the American Dream Demonstration: A National Demonstration of Individual Development Accounts*. St. Louis: Center for Social Development, Washington University in St. Louis.

¹³ National Association of Realtors, <http://www.realtor.org/research.nsf/files/REL06Q2T.pdf> (accessed November 1, 2006).

¹⁴ Within Palm Beach County, several housing markets remain affordable for IDA participants. For example, in the Glades region, the towns of Belle Glade, Pahokee, and South Bay have housing markets in which low- and moderate-income homebuyers can afford to purchase a home, though the market is tight, with few units available.

due largely to the average price of a single family home in the West Palm Beach area, which was \$329,950 in 2005.¹⁵

Because of escalating housing prices, there is a tremendous gap between mortgage funding for IDA participants and the actual price of housing, which imposes severe limitations on housing options for IDA participants. Most IDA participants are employed in low- to moderate-wage jobs and cannot afford to set aside substantial amounts of additional savings that could be used for a home purchase. In part, this is because in many cities, average rents are also rising rapidly, requiring a greater proportion of family income to be devoted to meeting housing costs. One way to close the gap is by enlisting local stakeholders in a campaign for more affordable housing for low- and moderate-income working families. In the short-run, however, other strategies will be needed. These might include raising income thresholds for eligibility for the IDA program. In cities like Boulder, West Palm Beach, and San Jose, even moderate-income families face financial challenges in the local housing market. It is likely that in many cities with rapidly escalating housing prices, the existing IDA program will make only minimal impacts on low-income communities.

Financial Literacy Education

All of the Knight Foundation-funded organizations offer some form of financial literacy education either in conjunction with EITC campaigns or as part of a broader family economic security strategy. With regard to EITC campaigns, financial literacy information is generally available to VITA clients when they have their taxes prepared. However, few VITA clients enroll in financial literacy classes without incentives or conditions attached, such as participation in an IDA program. Indeed, most IDA clients enrolled in Knight Foundation-funded programs participate in some combination of money management, credit counseling/repair, or home-ownership classes as a condition of program enrollment. In Akron, for example, IDA clients are required to participate in 40 hours of financial literacy education as a prerequisite “graduating” from the program. Ideally, there should be a seamless integration of financial literacy education with both VITA and IDA programs, though in the case of VITA clients, many prefer to simply have their taxes prepared and are not interested in additional services. Those who do participate in financial literacy programs often opt into these programs because they are at a stage in their lives where they are ready to resolve credit issues, build assets, and otherwise stabilize their financial situation.

¹⁵ Metropolitan Center (2006). *Palm Beach County: Workforce Housing Needs Assessment*. Miami: Metropolitan Center, Florida International University.

State/Local Policy Environment for EITC and Family Economic Security Programs

How supportive is the local/ state policy environment?

The EITC is widely considered by policy-makers to be an effective approach to boosting the incomes of low-wage workers and their families, and aspects of this approach have been transferred from federal to state and local policy. In at least 17 states and four localities the federal EITC is augmented with state or local EITC programs (Table 11). The federal and sub-national EITCs are complementary, with state and local programs extending the rationale of the federal EITC to these other jurisdictions. With the exception of the program operating in Gary, IN, however, none of the evaluation sites considered in this study are located in a state with its own EITC. Concerted state-level advocacy efforts might be warranted in other states as well.

Table 11: State and Local EITC Programs

State	Percentage of Federal EITC
Delaware	20%
Illinois	5%
Indiana	6%
Iowa	6.5%
Kansas	15%
Maine	4.92%
Maryland	20%
Massachusetts	15%
Minnesota	25% (no children); variable (33% average)
New Jersey	20%
New York	30%
Oklahoma	5%
Oregon	5%
Rhode Island	25%
Vermont	32%
Virginia	20%
Wisconsin	4%, 14%, 43% (by number of children)
Locality	
District of Columbia	35%
Montgomery County (MD)	20%
New York City	5%
San Francisco	16%

Source: Steve Holt (2006) *The Earned Income Tax Credit at Age 30: What We Know*. Washington, DC: The Brookings Institution, p. 5.

Although the state and local policy environment in most areas of the country is favorable to local EITC outreach campaigns, we would not go so far as to say that many state and local policy-makers are actively helpful in supporting the efforts of Knight Foundation-funded organizations (though there are exceptions). There is a missed opportunity here. First, in terms of program scale, many of the largest EITC outreach campaigns (such as those in San Antonio and Chicago) benefit from the active involvement of state and local policy-makers. Because policy-makers are able to influence resource allocation and generally heighten the visibility of EITC campaigns, their involvement can boost local efforts.

Second, the limited involvement of policy-makers, particularly local governments, is a missed opportunity for communities where EITC refunds may represent significant inflow of income and local spending.¹⁶ Our work on the economic impact of the EITC outreach campaign in Palm Beach County, FL reveals the considerable impacts that spending associated with the EITC can have on local economies.¹⁷ As a federal transfer payment, the EITC can be treated as net new income to a region, and therefore the impacts of spending related to the program can be modeled to estimate their wider contributions to the local economy. Given the significant economic development potential of consumer spending associated with the EITC, particularly in economically distressed areas, it might be possible to convince municipalities to contribute funding to EITC outreach campaigns.

Recipients of the EITC use this added income for many purposes. Some pay off debts incurred during the course of the year. Others use it to purchase household goods and services. Still others “invest” their refunds in education or housing, or they save this income in bank accounts and other savings plans. Expenditures arising from the EITC circulate through the local economy, generating income for business owners and workers, who in turn spend money in the economy. In this way, the income that flows into local economies from the EITC generates impacts that are well in excess of the direct spending associated with the tax credit. The number of times a dollar “turns over” in a local economy is referred to by economists as its multiplier. This section of the report estimates the broader impacts of the EITC, focusing in particular on the multiplier effects of this spending by recipients in Palm Beach County. It is worth noting that many of the economic impacts related to the EITC accrue in the poorest areas of the county where most working poor families reside.¹⁸ This added dimension to the EITC as an economic stimulus is important given the paucity of other income-generating activities in these areas.

¹⁶ Steve Holt (2006) *The Earned Income Tax Credit at Age 30: What We Know*. Washington, DC: The Brookings Institution.

¹⁷ Kimary Lee and Nik Theodore (2006) *The United Way of Palm Beach County Prosperity Campaign: Evaluation and Recommendations for Future Development*. Chicago: Center for Urban Economic Development, University of Illinois at Chicago.

¹⁸ Not surprisingly, our geographical analysis of free tax preparation clients in Palm Beach County showed a distinct clustering of clients in areas where poverty is most concentrated.

Economic Impact

EITC returns filed at United Way of Palm Beach County VITA sites have increased substantially in the past several years, rising by 88 percent between 2004 and 2006. By 2006, these sites accounted for approximately \$6 million in EITC refunds to low- and moderate-income taxpayers in Palm Beach County. But the economic impact of the EITC extends well beyond this figure. EITC refunds are used for a variety of purposes; in cases where recipients spend this income on goods and services, a portion of these expenditures circulate through the local economy, generating additional income and spending. Table 12 presents a summary of these impacts, both for Knight Foundation-funded sites and for the overall United Way initiative. The amount of EITC refunds received by residents of Palm Beach County through the United Way initiative has increased steadily during the past three years, rising from \$3.2 million in 2004 to \$6 million in 2006. Using conservative estimates tailored to local socioeconomic conditions, we estimate that consumer spending associated with EITC payments collected by clients of United Way-sponsored tax-preparation sites generated additional economic activity in the region on the order of \$5.10 million in 2004, \$7.5 million in 2005, and \$8.76 million in 2006 (all figures in 2006\$).¹⁹ Moreover, because the United Way of Palm Beach County has targeted its interventions in some of the lowest income communities in Palm Beach County, EITC returns served to boost incomes and spending in many economically disadvantaged communities, providing a much needed stimulus to the local economy. In this way, the EITC effectively targets low- and moderate-income taxpayers and the communities in which they live. Therefore, the VITA program operates both as a way to move families along a path of economic security and as a local economic development program.

¹⁹ See also Texas Perspectives (2003) *Increased Participation in the EITC in San Antonio*. Austin, TX: Texas Perspectives.

Table 12. Estimated Economic Impact of EITC Spending Associated with United Way of Palm Beach County VITA Sites

Sites in Knighted-targeted Areas 2004				Sites in Knight-targeted Areas 2005				Knight-funded sites 2006			
<i>Direct Impact</i>	<i>Indirect Impact</i>	<i>Induced Impact</i>	<i>Total</i>	<i>Direct Impact</i>	<i>Indirect Impact</i>	<i>Induced Impact</i>	<i>Total</i>	<i>Direct Impact</i>	<i>Indirect Impact</i>	<i>Induced Impact</i>	<i>Total</i>
\$249,211	\$71,447	\$134,666	\$455,324	\$995,624	\$285,439	\$538,007	\$1,819,070	\$1,179,146	\$338,053	\$637,178	\$2,154,377

All UWPBC Sites 2004				All UWPBC Sites 2005				All UWPBC Sites 2006			
<i>Direct Impact</i>	<i>Indirect Impact</i>	<i>Induced Impact</i>	<i>Total</i>	<i>Direct Impact</i>	<i>Indirect Impact</i>	<i>Induced Impact</i>	<i>Total</i>	<i>Direct Impact</i>	<i>Indirect Impact</i>	<i>Induced Impact</i>	<i>Total</i>
\$2,789,457	\$799,719	\$1,507,345	\$5,096,520	\$4,126,171	\$1,182,945	\$2,229,667	\$7,538,783	\$4,792,644	\$1,374,019	\$2,589,811	\$8,756,474

Source: Authors' calculations using IMPLAN.

SECTION 3 LOOKING FORWARD: ENHANCING FAMILY ECONOMIC SECURITY

Over the past 10 years, the EITC outreach movement has strengthened considerably through partnerships between local organizations involved in service delivery; national organizations involved in policy advocacy, data collection, and disseminating best practices; and national and local funders that support these efforts. Broad coalitions have formed to deliver family economic security programs, and through these programs many low-income families have lifted themselves out of poverty. The pattern of job growth in the United States has made the EITC and family economic security programs increasingly important tools for combating working poverty. Patterns of job creation have a distinct U-shaped distribution, with employment growth occurring at the top and the bottom of the wage distribution.²⁰ The EITC is a mechanism for redistribution through the tax system, bolstering the earnings of many of the lowest paid workers in the economy. Through the EITC, workers' earnings increase, allowing some families to build assets for the future.

EITC claimants and other low-income taxpayers also have become a target market for paid tax preparers. National chains and local tax preparers have moved to capture a significant share of this market, devising various financial products and aggressively promoting rapid refunds—at a price. According to the Brookings Institution, the proportion of EITC claimants who filed their tax returns through paid tax preparers increased from 65 percent in 2000 to 71 percent in 2003.²¹

The growth of the “EITC market” reflects the complex interplay of various forces. These include:²²

- The desire among some low-income tax filers to receive tax refunds immediately in order to offset debt and/or to make purchases.
- Complex tax codes that confuse many taxpayers and boost the appeal of commercial tax preparers.
- Aggressive marketing of refund anticipation loans (cash advances on anticipated tax refunds) and other financial products which are offered by many large private sector tax preparers.

²⁰ Erik Olin Wright and Rachel Dwyer (2003) “The Patterns of Job Expansions in the USA: A Comparison of the 1960s and 1990s,” *Socioeconomic Review* 1: 289-325.

²¹ Alan Berube (2006) *The New Safety Net: How the Tax Code Helped Low-Income Working Families During the Early 2000s*. Washington, DC: The Brookings Institution.

²² Alan Berube and Thatcher Tiffany (2004) *The “State” of Low-Wage Workers: How the EITC Benefits Urban and Rural Communities in the 50 States*. Washington, DC: The Brookings Institution; Steve Holt (2006) *The Earned Income Tax Credit at Age 30: What We Know*. Washington, DC: The Brookings Institution.

Together these factors have served to draw many low-income taxpayers to commercial tax preparers, many of which cluster in neighborhoods where large numbers of working poor families reside.²³ The Brookings Institute reports that in fiscal year 2001, the largest commercial tax preparer and tax refund lenders earned \$357 million from so-called “fast cash” financial products, while in 1999 an estimated \$1.75 billion in EITC refunds was used to pay for tax preparation and high-cost financial products.²⁴ Clearly, refund anticipation loans and other financial products greatly increase the attractiveness of commercial tax preparers, which also are able to direct substantial monies into advertising campaigns. While non-profit organizations that offer free tax preparation services work hard to educate low-income taxpayers about the costs associated with commercial tax preparation services and financial products, free tax preparation programs still find themselves at a disadvantage.

In order to counteract the influence of commercial tax preparers and to provide working poor families with an alternative to expensive services, many free tax preparation programs have sought to increase the scale of their operations and to target low-income neighborhoods where many working poor families live. Others have sought to develop their own value-added benefits, often at the urging of their funders. For example, benefits screening is now frequently offered by free tax preparation programs. Unfortunately, however, this benefit comes with consider downsides. Existing benefits screening software is cumbersome to use. Moreover, it often over-services many clients. Our interviews with program administrators and clients revealed that most clients are well aware of the public benefits for which they qualify.²⁵ In other words, little is gained through conducting benefits screening alongside tax preparation, while this service also has the disadvantage of lengthening the time that tax preparers and clients must spend to complete a return.

In reflecting on the successes and challenges of Knight Foundation-funded EITC outreach and family economic security programs, several factors contribute to the development of large, successful initiatives. These initiatives have:

- A strong organizational commitment to making free tax preparation services and family economic security programs a core function of the organization/campaign. Top management embraces these services and promotes them within and outside the lead organization and its partners.
- The ability to work in diverse communities and across various sectors (e.g., non-profit organizations, government agencies, the business community). Established organizations with a history of service in the local community are in the best position to develop the necessary relationships with key stakeholders.

²³ Alan Berube, Anne Kim, Benjamin Forman, and Megan Burns (2002) *The Price of Paying Taxes: How Tax Preparation and Refund Loan Fees Erode the Benefits of the EITC*. Washington, DC: The Brookings Institution.

²⁴ Ibid.

²⁵ In Tulsa, OK, H&R Block offered benefits screening as well, but interest among clients was low. Amy Brown (2005) *Innovations for Scale and Sustainability in EITC Campaigns: Lessons for Community Development from Two Years of Pilots*. Washington, DC: The Aspen Institute.

- A sizable and stable funding base to support family economic security efforts. As we have discussed in this report, it takes several years for most organizations to develop the capacity and expertise to effectively deliver a high-quality program. Patient financial support is a prerequisite to developing this capacity.
- An established presence in target neighborhoods or strong working relationships with other organizations with a presence in those communities. Effective programs often are both neighborhood-based and area-wide; they are able to undertake intensive activities in identified neighborhoods but their reach stretches across the service area. In other words, like many small community organizations, they conduct intensive neighborhood-based activities, but unlike small organizations they conduct these activities in communities throughout the region.
- A large base of volunteers who staff tax preparation sites. Committed volunteers who return to the program year after year develop their own expertise, which in turn reduces the staff time needed to recruit and train tax preparers.
- A strategy to effectively engage the business community. The local business community can be a source of volunteers, funding, and access to low-income workers who might benefit from the services provided. Appeals to business leaders often combine elements of civic responsibility and self-interest. There are positive benefits to businesses (in terms of worker productivity and corporate image) for participating in programs that improve the economic well being of area residents.
- A well-resourced marketing and outreach plan that utilizes multiple channels for spreading the word about available services. Print and electronic media have an important role in reaching segments of the community (i.e., during news broadcasts, non-English-language radio), and marketing strategies must be tailored to local conditions. In addition, government agencies (e.g., public housing authorities, school districts) and utility companies can be an important avenue for reaching target populations. The same holds for community organizations that conduct advocacy and provide services.

In addition to these attributes, successful family economic security programs can further improve their performance by developing and strengthening relationships with two key stakeholder groups:

- Local governments, which stand to benefit from the inflow of dollars and associated consumer spending from the EITC. As these dollars circulate through the local economy, they are responsible for generating jobs, income, and tax dollars. In this regard, family economic security programs benefit local economic development efforts and should be supported with local resources.
- Employers of low-wage workers. EITC outreach campaigns mainly rely on a neighborhood-based service delivery model. Given high levels of socioeconomic segregation in U.S. cities, this strategy allows organizations to effectively target potential clients based on their place of residence. But place-of-work strategies

might also prove fruitful. Negotiating agreements with large employers to provide free tax preparation services on-site might be a way to reach workers who otherwise are not in contact with community organizations.

Knight Foundation-funded EITC campaigns and family economic security programs, whether they are large or small, are making an impact in their communities. The spread of low-wage work and the elimination of some supports for families in poverty has meant that the EITC and family economic security programs are becoming increasingly important to local anti-poverty efforts. For smaller programs to substantially increase their impact, a more robust service-delivery infrastructure will need to be created and maintained. This will require significant organizational commitment as well as resources. Several of the largest initiatives have already developed an effective service-delivery infrastructure and they now are poised to explore alternative delivery models and services. As new approaches are tried and tested, there is an opportunity for emerging programs to learn from these more established initiatives. While the impacts of family economic security programs on individual working poor families can be immediate, their influence on entire communities occurs over time through the cumulative impact of interventions—family by family and neighborhood by neighborhood. Following years of development, many Knight Foundation-funded family economic security programs are now in a position to both make a broader impact on the lives of working poor families, and influence the ways in which policy-makers conceive of and design the anti-poverty programs to benefit the working poor.