Opportunities for Supporting Marin County's Low-Income Residents

Analysis of Local Earned Income Credit Programs

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Disclaimer Page

This study has been prepared for the Employment and Training Branch of the Marin County Department of Health and Human Services, San Rafael, California. The student author conducted this study in partial fulfillment of the requirements for the degree of Master of Public Policy at Mills College. The judgments and conclusions are solely those of the author, and are not necessarily endorsed by the Mills College Public Policy Program, the sponsoring Client organization, or any other organization or agency.

Executive Summary

Purpose

Today, one in six Marin County residents is living below the California Poverty Measure. Current mechanisms to aid low-income residents in Marin County are not sufficient to move people out of, or reduce the level of poverty they are living in. The following paper assesses two different strategies for supporting low-income residents: Job Retention Incentives and Local Earned Income Credits.

To determine policy options for bolstering county support of low-income residents, I conducted a program assessment of the County of Marin's Job Retention Incentive Program, an offering of the Employment and Training branch. The purpose of this assessment was to determine ways to enhance the administration and impact of the incentive. In addition, I completed case studies of three Local Earned Income Credit programs from around the country. The purpose of these case studies was to identify a viable program to adopt in Marin County, by assessing different models and ascertaining smart practices.

Background

Often when people think of Marin County they envision wealth, open space, great schools, and good health outcomes. However, the high cost of living, lack of affordable housing, and prevalence of service industry jobs creates pockets of poverty and segregated neighborhoods that experience lower education outcomes, increased health problems, and decreased economic opportunities. To provide a sense of what this looks like, a family of four must earn over $87,000 a year to pay for basic needs such as rent, food, insurance, child care, and transportation.

The County of Marin offers an array of supports through state and federally funded programs to assist low-income residents. Many of these services have strict income limits and lifetime time limits. The Employment and Training branch of the Marin County government is a key provider of these services. Through their Welfare to Work program the Employment and Training branch provides comprehensive case management and coaching to CalWORKs (welfare) clients. In early 2015, they added the Job Retention Incentive Program to their list of offerings, to encourage people to more quickly seek and retain employment. This incentive is only available to clients referred to and/or participating in Job Link, a sub program of Welfare to Work. The incentive provides a tiered cash benefit, distributed in three payments, totaling up to $2,625 dollars.

Moving beyond County led efforts to support low-income residents; research shows that the most effective poverty mitigation policy is the Federal Earned Income Tax Credit (EITC). In 2013, almost 8,000 low and moderate-income tax filers in Marin County received $13,604,598 from the Federal EITC. This program has been so successful at encouraging work and helping people out of poverty that 26 states, the District of Columbia, and four local municipalities have adopted similar programs to complement the Federal program.

The local municipal programs, which are not always tied to a local tax, are often referred to as Earned Income Credits or EIC. The four local municipalities that currently operate Local Earned Income Credits include Montgomery County, Maryland, New York City, New York, San Francisco, California, and Washington, District of Columbia.

Principal Findings

The **Job Retention Incentive Program** assessment revealed that the program is beneficial to eligible clients. However, the policy governing the program creates challenges restricting effective implementation of the program. Key limitations include:

- Lack of formal enrollment process.
- Overly complicated tiered program structure.
- Inconsistent payment distribution.
- Inconsistent communication of program requirements.

In addition, participation in the program is limited to clients referred to and/or participating in a small subprogram, Job Link, which considerably reduces the number of eligible participants. In its first year of operation, 58 of the over 250 Welfare to Work clients were eligible for the incentive.

The **Local Earned Income Credit Program** case studies identified two core program models: state administered and locally administered. Both have varying benefits and limitations.

The **state administered** model defers the verification of eligibility, customer service, and payment processing to the state tax administrator. In exchange for these services the local municipality reimburses the state for the cost of the credit and pays an administrative fee. The key benefits of the state administered model include:

- Minimal administrative burden for the local municipality.
- Operates within the traditional tax filing system making it easier for tax filers to access.

The two main limitations of the state administered model are:

- Loss of autonomy to determine the credit amount and the eligibility criteria.
- Adoption is only possible in states that have an EITC offering.

The **locally administered** model retains the responsibility of verifying eligibility, providing customer service, and processing payment within the local government. The primary benefits of this model include:

- Autonomy to design, modify, and adapt the program’s structure, eligibility, and benefit amount with ease.
- Program design allows municipalities to implement in states without EITC programs.

Some of the challenges presented by this model include:

- Requires extensive staffing and coordination with internal and external partners.
- Operates outside of the traditional tax filing system, making it more complicated to complete the application and access the credit.

Through researching Local Earned Income Credit programs, seven universal smart practices emerged that can enhance the impact of either model.

- Invest in a robust outreach and marketing campaign.
- Use behavioral economic communication strategies.
- Encourage free tax preparation services and banking.
- Adopt a logical budgeting cycle.
- Build evaluation into program planning and implementation.
- Strategically engage elected officials throughout the life of program.
- Leverage respected nonprofits, religious groups, and thought leaders.

Recommendation

After assessing the program survey, case studies, and program options I decided upon a two phase recommendation.

Phase One (12 Months)

<u>Adopt an Enhanced Job Retention Incentive Program:</u>

- Establish an enrollment process that includes a participant agreement or contract.
- Broaden eligibility to all active Welfare to Work clients.
- Simplify the policy structure to pay out a flat benefit of $1,500 in two installments.
- Institute a formal tracking and data collection system.
- Conduct follow-up training with case managers.
- Provide resources for and conduct an annual evaluation.

<u>Implement a Strategic Outreach and Marketing Campaign:</u>

- Educate hard to reach residents, who are eligible for EITC and do not file for the tax credit.
- Use behavioral economic communication strategies.
- Encourage the use of free tax preparation services.
- Encourage the use of banking services and direct deposit.

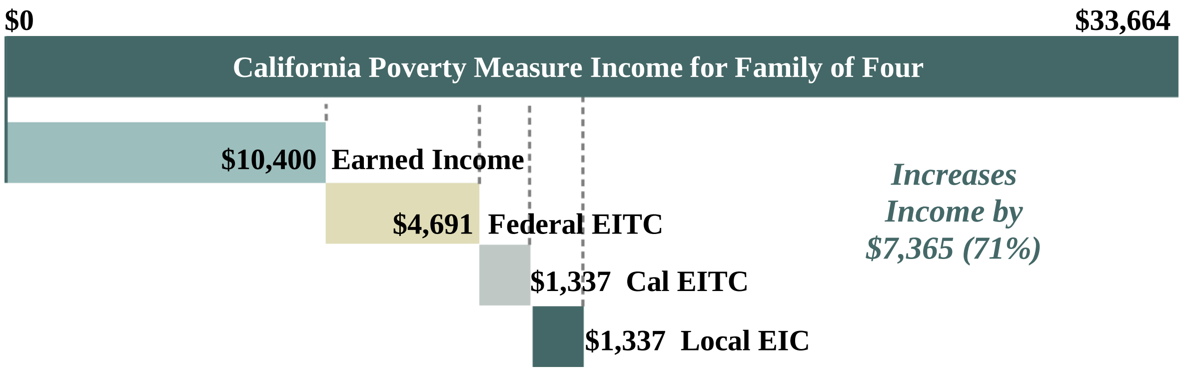
Phase Two (1 to 2 Years)

Adopt a State Administered, Local Earned Income Credit

- Provide a match to the State EITC.

Below is a visual depiction of the potential impact this policy would have on a single parent with three children working part-time.

Impact of State Match EIC on a Single Parent with 3 Children



Source: (CalEITC 4 Me, 2016b)