

Memorandum



CITY OF DALLAS

DATE: April 11, 2008

TO: Quality of Life Committee: Pauline Medrano (Chair), Vonciel Jones Hill (Vice Chair), Carolyn R. Davis, Angela Hunt, Sheffie Kadane, David A. Neumann, Steve Salazar

SUBJECT: **Earned Income Tax Credit Briefing**

On April 14, 2008, you will be briefed on possibilities to expand the use of the Earned Income Tax Credit (EITC) in Dallas. The attached briefing summarizes this federal tax refund program and recommendations by Momentum Texas Inc. to increase the benefits it provides to Dallas residents.

Should you need additional information please contact me at (214)-670-3314.

A handwritten signature in black ink, appearing to read 'A.C. Gonzalez'.

A.C. Gonzalez
Assistant City Manager

C: Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Deborah Watkins, City Secretary
Tom Perkins, City Attorney
Craig Kinton, City Auditor
Judge Jay Robinson, Judiciary
Ryan S. Evans, First Assistant City Manager
David O. Brown, Interim Assistant City Manager
Ramon Miguez, P.E., Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Dave Cook, Chief Financial Officer
Karl Zavitkovsky, Director, Office of Economic Development
Chandra Marshall-Henson, Assistant to the City Manager



City of Dallas

Earned Income Tax Credit

Quality of Life Committee

April 14, 2008



What is the Earned Income Tax Credit (EITC)?

- A tax refund for working families to supplement wages
- Enables a family of 4 to earn up to \$40,000 per year and receive a maximum lump sum tax credit payment of up to \$4,716
 - Average credit is \$2,000
- Can be supplemented by Additional Child Tax Credit of \$1,000 per child and Child and Dependent Care Tax Credit up to \$2,100





EITC Background

- Established by Congress in 1975 and indexed to inflation
- Nationwide EITC is estimated to pump over \$40 billion annually into local economies
- Recent Brookings Institute study shows (2003):
 - Half who filed for EITC also claim ACTC
 - 70% of those eligible receive refunds
 - 70% of refunds claimed through tax preparers
- Local data from a Center for Policy Priorities/Dallas Worksource Board study reflects:
 - Dallas County (2003)
 - \$384 million EITC claimed
 - \$118 million eligible, but unclaimed
 - Average EITC per family = \$1,906
 - City of Dallas
 - \$81 million unclaimed



EITC Background (cont.)

- More than 20% of eligible families don't claim
 - Lack of awareness
 - Complexity of filling
- Or benefits are reduced because of unethical tax service providers (\$2 billion of \$42 billion earned lost in tax preparation fees)
 - Excessive fees
 - Expensive refund anticipation loans
- IRS created the Voluntary Income Tax Assistance (VITA) program
 - Provides training, forms, computers and tax software
 - Helps filers get tax credits
 - Reduces cost of filing
- Many cities collaborate with United Way, banks, foundations, social service agencies
 - Leverage VITA program to increase EITC outreach



Existing Dallas Program

- Asset Building Coalition of Dallas/Denton Counties (ABCD) started in 2003 with assistance from IRS
- ABCD mission is to assist working families through
 - Awareness and education
 - Free tax preparation
 - Asset building and financial literacy
- Primary focus on VITA program
- Operates 18 VITA sites at churches, libraries, Urban League sites, ACORN, Goodwill Headstart and North Central Texas Workforce
- Major growth constraint is lack of paid staff (all volunteer operation with donated computers and minimal formal marketing)
- ABCD May 2007 report:
 - 2006: 1,755 returns yielding \$1.2 million in benefits
 - 2007: 2,744 returns yielding \$2.2 million in benefits



Opportunity to Expand Program

- According to U.S. Census Bureau 2005 American Community Survey
 - 61% of Dallas county population had income below \$35,000
 - 18% below the poverty level
 - Dallas ranks 6th in poverty rates among 20 largest U.S. cities



City of Dallas Contract with Momentum Texas Inc (MTI)

- City contracted with MTI to prepare a report on EITC and VITA programs in Dallas
 - Review existing programs
 - Describe benefits to low moderate income working families and potential economic impact
 - Benchmark successful programs in other cities
 - Outline best practices
 - Recommend program solutions



Texas EITC Results (2007)

	Number of Centers	Returns Processed	Annual Benefits Generated
Austin	9	13,550	\$17 million
Houston	24	8,000	\$12 million
San Antonio	27	34,000	\$53 million



San Antonio Program Impact

- Brookings Institution (2006) study cited impacts of the San Antonio program:
 - Each dollar in EITC spending results in another \$1.58 in local economic activity
 - Each \$37,000 in local credits earned creates one permanent job in the community
 - Each \$1,000 in local spending produces \$2 in local tax revenue



Lessons Learned

- These programs' experiences provide several lessons for success
 - Know the customer base, provide convenient hours (including weekends) with well trained paid and volunteer staff
 - Be culturally competent to deal with linguistic and demographic backgrounds
 - Take advantage of opportunities to link the program with credit counseling,, asset-building strategies and savings programs
 - Be aware that asset building is a long-term proposition – requires building relationships with clients outside of tax season
 - Find committed partners and funders



Best Practices

- **Management:** One lead entity
- **Staff:** Professional, full time for central management and service center operations, extensive volunteer base
- **Funding:** Multiple sources: banks, city government, United Way, other foundations and charities
- **Marketing:** Concerted outreach to non-English speaking populations, Mayoral leadership / cheerleader role
- **Linkage:** Combine with broader asset building and credit education programs
- **Facilities:** Supersites emphasizing quality over quantity of many smaller sites



MTI Recommendations

- Governance
 - Expand ABCD board to seven members
 - City of Dallas and United Way should each assign a senior staff person to the board
 - Existing membership includes: ACORN, Catholic Charities, Headstart, Urban League, YWCA
 - IRS should continue as ex officio member
 - UNT should serve as fiscal agent to facilitate receipt of grants



MTI Recommendations (cont.)

- Management and Operations
 - Funding entities, in consultation with the ABCD council, should select a Dallas-based nonprofit to manage the program
 - Project manager
 - Assistant manager
 - 3 Supersites with full-time paid site managers
 - Develop 3-year workplan



MTI Recommendations (cont.)

- Marketing and Outreach
 - Key to success
 - Focus in fall on volunteer recruitment and focus on clients starting in December
 - Use effective tag lines with multi-language flyers and other materials
 - Examine option of City of Dallas water bill inserts
 - Seek pro bono media coverage and ads
 - Use City and United Way websites
 - Use 211 system and city hotlines
 - Distribute materials through public school systems
 - Partner with financial institutions to fund campaign
 - Enlist Mayor for kick-off event



MTI Recommendations (cont.)

- Successful cities' programs have multiple funding sources: United Way, local government, banks, corporations, foundations
- Match funding of 3-year workplan budget by United Way, City of Dallas, foundations and banks



MTI Recommendations (cont.)

- Goals
 - Returns filed
 - 2009 – 3,000 filers
 - 2010 – 6,000 filers
 - 2011 – 10,000 filers
 - Final year anticipated impact
 - \$26.5 million in annual benefits
 - Economic impact of 600 jobs



Dallas Benefits

- Potential to significantly increase aggregate income in low income neighborhoods of Dallas
 - Strengthens retail viability in these neighborhoods - consistent with City's goals of increasing retail opportunities
- Potential to improve long-term family economic stability
 - Linking EITC education with asset-building education can encourage more sustainable spending and saving habits and ultimately improve access to credit for housing, education and small business opportunities



Recommendations and Next Steps

- Evaluate the MTI three-year funding request from the City of Dallas (\$50K in FY 2009) in the context of the FY 2009 budget process
- City contribution subject to specified funding matches from United Way, foundations and banks
- Potential City funding source: Public-Private Partnership Program
- Identify City resources to support marketing and outreach
- Appoint a City representative to the ABCD board

