



CTED |

Community, Trade and
Economic Development

Expanding Asset Building in Washington

Building assets, strengthening communities

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Report to the Legislature

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EXECUTIVE SUMMARY

Overview

As individuals and families struggle with our economic downturn, the importance of saving has become amplified. Washington State's leadership has supported the development of a network of local and private organizations that help households protect themselves from hardship through asset development. This report demonstrates that the early result of Washington's asset building investment is increasing financial independence for households who have access to these programs.

This report describes the progress, outcomes, and challenges of the asset building and individual development account activities undertaken by the Department of Community, Trade and Economic Development (CTED) over the past two years. Asset building is defined as “engaging in long-term saving and investment behavior as a means to increasing financial independence.” It provides low and moderate-income individuals with tangible incentives to save and use positive financial behaviors—helping them gain financial success. In 2005, Washington State had no statewide asset building services and few local organizations provided asset building tools.

Since 2006, a wide array of private, public and non-profit organizations in Washington have joined together to improve savings and financial skills, behaviors and outcomes for working families. These groups are part of statewide Washington Asset Building Coalition (WABC) and 14 local coalitions using their collective resources to start and expand asset building services in their communities. CTED has played the lead role to develop and support the state and local coalitions and direct the Individual Development Accounts program. CTED has also led a campaign to increase federal Earned Income Tax Credit filing and make use of free volunteer tax assistance resources across the state.

Over the past two years Washington has become a leader among states, both for the work around financial literacy (led by the Department of Financial Institutions and Financial Literacy Private Public Partnership) and for the state supported network of 14 local asset building coalitions (led by CTED and the Washington Asset Building Coalition).

The Corporation for Enterprise Development (now known only as CFED) is the leading national advocate for asset building. CFED recognized Washington State for its leadership and has selected Washington as one of their 10 Assets Scorecard partner states. WABC was invited to present on a panel about state coalitions at the September Assets Learning Conference in Washington DC.

Highlights

1. The Washington Asset Building Coalition has focused the attention of leaders and private and public organizations across the state on the need to integrate financial fitness and asset building into the services provided to low and moderate-income customers and clients.
2. Since 2006, 14 local asset building coalitions have been started and supported with \$1.3 million in state funds. Those funds leveraged more than \$7 million in private and local funds that contributed to the coalitions' start up and expansion. State action served as a catalyst for this entirely new local asset building, bringing banks and credit unions together with human services organizations and many other groups. A learning network has been created through WABC that has helped leaders and practitioners share results and best practices.
3. CTED has expanded the statewide federal Earned Income Tax Credit (EITC) and free tax preparation outreach campaign. This has resulted in an 18 percent increase in tax refunds at free tax sites between the 2006 and 2007 tax years bringing an additional \$5 million in federal dollars to state citizens.
4. The Individual Development Accounts (IDA) program is fully enrolled with waiting lists in many locations. While it typically takes low-income savers 3 to 4 years to save for their home, business or other asset purchases, more than 60 have already bought their asset. \$1.7 million in contracted state IDA funds have leveraged \$1.8 million in federal and private funds that contribute to accounts. Account holders will add at least \$1.2 million of their own savings to their collective purchases.
5. Individual Development Accounts have proven to be an effective asset accumulation strategy for low and moderate-income families. A recent study found that none of the 69 homes purchased by IDA clients in King County were foreclosed. This is partly due to the extensive training and support and sound program management policies which help prevent families falling prey to predatory lenders.

Conclusion

In the past two years, Washington State's modest investment in asset building strategies including IDA, federal EITC, and asset building coalition development has resulted in rapid growth of a state and local infrastructure to support asset building. State contracted funds and CTED technical assistance have stimulated an amount of local support, creativity and investment of time and money.

Community leaders have responded to state grants and technical assistance by forming 14 local asset building coalitions and invested more than \$7 million in local funds. For the first time, asset building actions are being coordinated at the state and local levels,

resulting in more opportunities for low- and moderate-income residents to improve their financial fitness and future. These local programs benefited thousands of low-income individuals and families through financial education and counseling, new access to mainstream banking services, and savings incentives.

The state's EITC outreach campaign is increasing the number of working low-income filers each year and getting millions more dollars into the hands of Washington State residents. Tax payers are being steered away from high cost, short-term refund anticipation loans. Communities across the state are now organized to better market these opportunities. More than \$25 million in federal EITC refundable cash credits were generated at free tax preparation sites for the 2007 tax year, a 23 percent increase over the previous year.

The IDA program is beginning to demonstrate results with low-income individuals getting the incentives they need to save and build equity for their families. Most assets are purchased after three years of saving. Washington's 517 account holders have begun to show results early, 66 assets have been purchased to date. Those assets include 33 homes, nine businesses and four education-related expenses. Successful IDA outcomes are guaranteed because state funds that are matched with individual savings are only expended when the asset is purchased. If an accountholder closes their account early, the state match is retained for another accountholder's purchase.

INTRODUCTION

Overview

This report describes the progress, outcomes and challenges of the asset building and individual development account activities undertaken by CTED over the past two years. This document fulfills Legislative requests for both an annual report on the Individual Development Accounts program (RCW 43.31.450-485) and a December 2008 update on the status of other asset building activities per section 125 c 522 s 127 (55) in the 2007-09 Supplemental Budget, ESHB 2687; Laws of 2008.

WHAT IS ASSET POVERTY?

Asset poverty is a measure of economic security and mobility based on household net worth. Net worth is the total value of all assets including savings, a house and a business, minus debts. A household is asset poor if it has insufficient net worth to subsist at the federal poverty level for three months in the absence of income. An asset poor household does not have enough savings or wealth to provide for basic needs during extended periods of economic hardship, such as a sudden job loss or a medical emergency.

What is Asset Building?

Asset building is defined as “engaging in long-term saving and investment behavior as a means to increasing financial independence.” It provides low and moderate-income families with tangible incentives to save and use positive financial behaviors -- helping them gain financial success. In Washington State, asset building includes promotion and incentives for saving and banking, home ownership, individual development accounts, microenterprise development, financial education and counseling, and affordable financial services and products.

Since 2006, an array of private, public and non-profit organizations in Washington state have joined together to improve savings and financial skills, behaviors and outcomes for working families. These groups include the statewide Washington Asset Building Coalition (WABC) and 14 local coalitions who are using their collective resources to start and expand asset building services in their communities. CTED has provided technical assistance to help develop and support the statewide and local asset building coalitions. CTED has also led a campaign to increase federal Earned Income Tax Credit filing and use of free volunteer tax assistance resources across the state.

Our current economic downturn was triggered in part by excessive household debt and bad mortgage decisions. Debt and other household financial challenges emphasize the need for continued asset building leadership in Washington State. Families who have

access to these new services learn to avoid predatory lending and begin to develop sustainable financial habits like saving to meet their asset development goals.

Why does Asset Building Matter?

The data about savings and debt in our state and nation is sobering.

- Twenty percent of Washington residents are asset poor – without liquid savings to maintain their household for more than three months.
- Washington State ranks 47th in home ownership rates, with 32 percent households renting.
- More than 30 percent of Washington’s low and moderate-income individuals do not have a bank or credit union account.
- The United States savings rate has been near zero percent for the past three years.
- Forty three percent of United States households spend more than they earn annually.
- Washington ranks 43rd in the nation in credit card debt.
- In 2007, 44 percent workers say they live “paycheck to paycheck”, an increase from the prior year.
- Eighteen percent of eligible Washington workers do not apply for the federal Earned Income Tax Credit, missing out on up to a \$4,700 individual cash credit – a total of about \$60 million per year statewide.

These savings and debt facts underscore the need to provide the motivation, education and tools to low and moderate-income households for savings and asset building. Research shows that given incentives and tools, savings and ownership of assets is possible even for our lowest income families.

Low and moderate-income individuals cannot spend their way out of poverty. Savings and assets serve as a ‘rainy day fund’ to protect families in times of emergency. For example, unforeseen medical bills are the major cause of personal bankruptcy¹.

Savings and assets also help individuals and families focus attention on the future. Planning and saving for home ownership or repair, education and training, and business ownership benefits individuals, families, and communities. Incentives along with financial skill development, tools and consumer protection training are all required to help people become successful savers and meet their asset goals.

Asset building moves low and moderate-income people up the continuum toward greater self-sufficiency through the accumulation of savings, protection from non-predatory credit practices and acquisition of long-term assets. But the goal is more than increased income and assets. It also includes decreasing the degree to which an individual or a

¹ David U. Himmelstein et al., “Illness and Injury as Contributors to Bankruptcy.” Health Affairs. February, 2005, W5-63.

family is living each day in survival mode. Awareness and access to economic supports enable people to both handle crises and build their assets, regardless of income.

For some, a positive step may mean moving away from dependence on means-tested supports, such as the federal Earned Income Tax Credit (EITC) or subsidized housing. For others it could mean moving to non-means-tested supports, such as a credit-line or mortgage reduction. Buffers, such as a savings account, retirement plan, property equity, insurance, and credit enable people to weather crises so their lives don't fall apart with an illness or missed pay check. Many low-income residents could move faster up the economic continuum with financial literacy training, credit repair, an Individual Development Account (IDA) or down payment assistance for a home. By increasing knowledge and access, as opposed to simply increasing income and assets, long-term economic stability can be reached and maintained.

Washington State stepped up to this issue before it became a crisis. Through the leadership of Governor Gregoire, the Legislature, CTED, and the Department of Financial Institutions our state has generated a national reputation for innovation due to its support and funding of local asset building coalitions, its promotion of financial education, and the creative initiatives across the state. Across Washington, communities are taking action and beginning to show results. State leadership and resources have been a critical catalyst to join private, non-profit and local public leaders and organizations together at both the state and local levels.

Washington State's Investment in Asset Building

CTED administers \$2,763,000 of 2007-09 state General Funds for asset building activities across Washington. CTED has sparked efforts across the state and continues to work nationally to ensure that our local stakeholders have the best tools and ideas for the people they serve.

Asset Building Coalitions and EITC outreach campaign:

- 2007-2009 Biennial Budget: (State General Funds) \$1,763,000.

Individual Development Accounts:

- 2005-2007 Biennial Budget: (State General Funds) \$1,021,000.
- 2007-2009 Biennial Budget: (State General Funds) \$1,000,000.

Overview of Asset Building Activities

This report summarizes four key elements that highlight progress made to expand asset building over the past two years. CTED has been a leader in designing, developing and managing each component. The Washington Asset Building Coalition (WABC) has attracted more than 70 organizational members to learn about and promote asset building across the state since they began in 2006. Since 2006, 14 local asset building coalitions have started and been supported with \$1.3 million in state funds. CTED has also

coordinated expansion of the federal Earned Income Tax Credit (EITC) and free tax preparation outreach campaign in Washington. It has resulted in an 18 percent increase in tax refunds at free tax preparation sites between 2006 and 2007. The fourth key asset building element, the Individual Development Accounts program (IDA), is fully enrolled with waiting lists in locations around the state. While it typically takes low-income savers three years to save for their asset purchase, more than 60 have already bought theirs. A \$1.7 million state IDA investment has leveraged \$1.8 million in federal and private funds in addition to at least \$1.2 million in account holder investment.

WASHINGTON ASSET BUILDING COALITION

The Washington Asset Building Coalition represents 70 members including financial institutions, community action and social services agencies, CTED, the Department of Financial Institutions, tribes, advocates for people living with disabilities, housing and micro-enterprise groups, United Ways, foundations and advocacy groups. The Washington Asset Building Coalition grew out of an August 2006 Asset Building Summit in Ellensburg which attracted more than 140 leaders from across Washington State. The 2006 Summit not only educated participants about asset building imperatives and policy, it also engaged those in attendance in creating an initial set of desired goals and actions which still guides the coalition.

WASHINGTON ASSET BUILDING COALITION'S MISSION

"Raise the asset building torch high to provide financial hope, opportunity and choice to low-income individuals and families. Model and teach paths to prosperity for all, not simply create programs for a few."

The WABC has become the leading voice and learning network for community leaders and practitioners involved in this growing and timely movement. WABC has set the following policy agenda:

- *Expand Financial Skills for Success* by increasing financial fitness in schools and for adults.
- *Help People Save and Invest* by supporting small business development, IDA, home ownership, savings and the federal EITC.
- *Remove Barriers To Gaining And Keeping Assets* by expanding lower cost lending alternatives, regulate predatory lending, eliminate asset limits

Key Coalition Membership and Actions

The Washington Asset Building Coalition convenes statewide meetings three times yearly, which usually draw more than 75 attendees. Key institutional members leading and anchoring the WABC include:

- The Statewide Poverty Action Network
- CTED
- Washington Community Action Partnership (WASCAP) – representing 31 Community Action Programs across the state
- United Ways from King, Snohomish, Spokane, Pierce, and Clallam Counties
- Federal Reserve Bank of San Francisco
- WaMu (now part of JPMorgan Chase)
- Washington Credit Union League

- Sterling Savings Bank
- Yakima Savings Bank

CTED has helped coordinate and convene WABC activities focused on asset building learning and implementation. Over the past two years, key successes included:

- Design and implementation of the federal EITC outreach campaign.
- Conducting three FDIC MoneySmart “train the trainer” classes in 2008 resulting in more than 100 graduates who will work with low-income customers.
- Convened the June 2008 *Building Assets-Strengthening Communities* Conference.

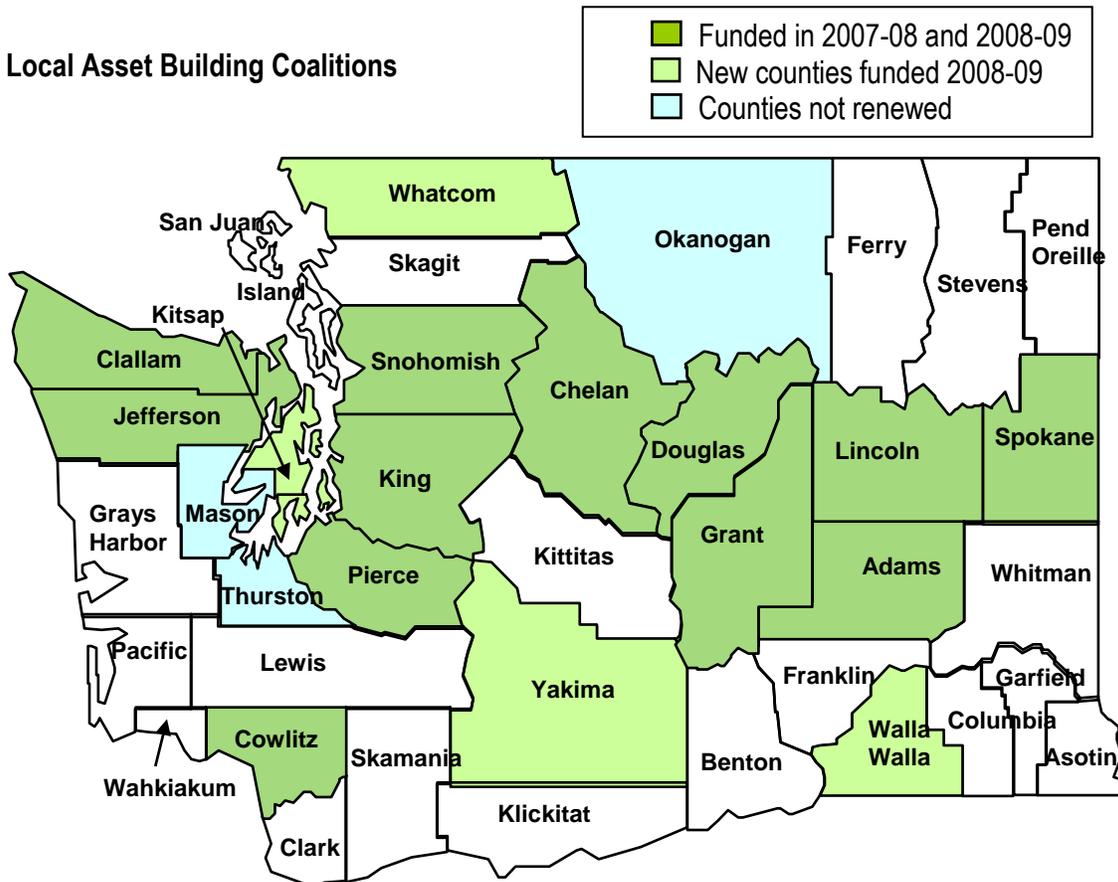
LOCAL ASSET BUILDING COALITIONS IN WASHINGTON'S COMMUNITIES

Washington State has become a national leader in asset building expansion largely due to the level of activity and results of its 14 local asset building coalitions. Many states now have statewide coalitions with financial institutions, public agencies, United Ways, housing and social service organizations promoting savings and asset building. However, only Washington State has chosen to support the formation and activities of local coalitions.

This strategy has led to a much broader and deeper involvement of local organizations to develop local opportunities and act on local needs. Instead of seeing asset building as a program this strategy has empowered community leaders to forge collaborative action that makes use of an array of local talents and resources. In 2005, only one community had organized around asset building. Today, 14 coalitions are planning and taking action. Local asset building coalitions typically include leaders from banks and credit unions, housing and social services organizations, United Ways, community action agencies, debt and credit counseling groups and many other private and public entities.

For a modest investment, the state has caused communities to promote savings and banking, provide financial education and planning opportunities, help with credit repair, market the EITC, and promote home ownership and business start-up. For the 2008 and 2009 state fiscal years, CTED has run competitive grant cycles that spurred coalition start-ups and helped existing ones expand. Of the 13 contracts awarded in 2008, four went to new local coalitions (Yakima, Whatcom, Kitsap, Walla Walla) and one to the start-up Northwest Native American Asset Building Coalition. The map on the following page shows where coalitions exist.

Local Asset Building Coalitions



CTED has worked closely to provide consultation and start-up expertise with each new coalition. Over two years, Washington State's \$1.65 million investment has leveraged significant private and public local funds as shown in the chart. Each local coalition has a work plan with clear goals, timelines and outcomes. These plans are available online at <http://www.cted.wa.gov/site/995/default.aspx>.

Local coalitions are engaged in a range of actions that are making a difference in their communities. Every local coalition is required to run a local federal EITC and free tax preparation campaign in their region. These have expanded tax savings from increased participation in federal EITC filing for low and moderate-income working families across the state. For instance, the Pierce County Coalition recruited, trained, and scheduled 55 volunteers who provided income tax services. This resulted in more than 5,500 returns that saved low-income consumers more than \$500,000 in fees and helped them avoid refund anticipation loans that would cost them much more. Refund anticipation loans high interest loans sold to filers by paid tax preparers. The IRS found in a 2007 study that 60 percent of federal EITC filers were enticed to take an anticipation loan rather than wait the three weeks for their refund.

Comparison of Local and State EITC Funds Leveraged

County	2007 CTED Award	2007 Total Project Budget	2008 CTED Award	2008 Total Project Budget
Jefferson-Clallam	44,000	77,000	40,000	122,510
Mason County	15,000	20,000	0	0
Kitsap County	0	0	10,000	63,000
Cowlitz County	75,000	132,000	86,000	332,657
Pierce County	85,000	260,500	80,000	317,674
NW Native ABC	0	0	0	73,000
White Center	40,000	800,000	0	0
Seattle-King County	85,000	780,000	85,000	1,191,380
Snohomish County	85,000	205,000	80,000	411,871
Whatcom County	0	0	15,000	32,802
Chelan-Douglas Counties	10,000	58,000	15,000	79,660
Yakima County	0	0	20,000	65,380
Grant, Adams and Lincoln Counties	40,000	100,000	80,000	299,583
Okanagan County	20,000	52,500	0	0
Thurston County	20,000	44,000	0	0
Walla Walla - Columbia Counties	0	0	10,000	25,000
Spokane County	85,000	845,000	85,000	897,132

Besides EITC outreach, local coalitions typically expand and coordinate financial education and counseling services, working to link people to mainstream banking and promote savings among their targeted audiences.

Asset Building Highlights by County

Highlights from local asset building coalitions are listed here from east to west. Most coalitions have only just entered their second year of activities. This list does not include the six newly forming coalitions in Yakima, Whatcom, Kitsap, Walla Walla, and Thurston Counties or the new Northwest Native Asset Building Coalition.

Spokane County

- A total of 318 clients have participated in financial education services. Seventy five attended financial skills classes, 106 received individual financial planning services, 94 received small business counseling, 35 participated in small business classes and 8 demonstrated consistent savings habits.
- More than 6,000 people were served at tax sites in Spokane County for the 2007 tax year. More than 1,000 of these returns claimed federal EITC resulting in \$1.4 million in credits. Nearly \$4 million in tax refunds and credits were returned to Spokane County residents. None were sold high-cost refund anticipation loans.
- Two hundred EITC eligible Spokane County residents who saved between \$100 and \$200 of their Economic Stimulus Rebate for three months and attended five hours of financial education classes received a savings match equal to the amount they saved.

Grant County

The Prosperity Center opened in 2007 providing financial one-stop assistance to clients including budgeting, credit counseling, predatory lending, EITC/Child Tax Credit education, free tax assistance, IDA, first-time homebuyer classes, pre/post-purchase counseling, foreclosure/default counseling and microenterprise development. The Center operates out of the local WorkSource Central Basin One-Stop Complex.

- A total of 1,022 tax returns were prepared and filed in 2008 for tax year 2007.
- During the August – September period, 21 clients received credit counseling.

The Prosperity Center began a new small business development program for low-income residents with a \$15,000 capacity building grant from the Washington State Microenterprise Association. Classes began in September 2008 and include evaluating a business idea, writing a business plan, marketing and advertising. Big Bend Economic Development Council, Grant County Economic Development Council, Grant County PUD, and Big Bend Community College's Center for Business and Technology provide business needs assessment in order to direct this component of the Prosperity Center's activities.

Chelan-Douglas Counties

- Peoples Bank provides quarterly first-time homebuyer classes to more than 70 people in 2008. Emphasis is on home loans, credit repair, inspections, and predatory lenders.
- FDIC MoneySmart training has been implemented to provide financial literacy education.

Snohomish County

- Financial skills and “train the trainer” professional development have been provided to more than 150 frontline staff and youth providers. These staff now counsel and teach their clients about savings, budgeting and other financial matters.

Seattle – King County

- The Seattle – King County coalition is conducting a pilot project with two, distinct subsidized-housing populations (Level 1: formerly homeless families and Level 2: families near an income level that could end subsidies) to test delivery methods of asset building services.
- Launched the Bank on Seattle–King County Initiative (described below).

BANK ON SEATTLE—KING COUNTY SERVING THE UNBANKED

The Bank on Seattle-King County initiative connects residents of Seattle/King County who are unbanked or underbanked to mainstream financial services. Unbanked and underbanked describe people who do not have relationships with mainstream financial institutions or those who have accounts but do not use them for most of their financial transactions. There are an estimated 52,000 households in King County who are unbanked, and the Coalition’s goal is to open checking accounts for at least 5,000 individuals by the end of the first year and 10,000 by the end of the second year.

This initiative is important because predatory lending and check cashing practices exploit low-and moderate-income people by stripping almost \$22 million annually from households in Seattle. According to a recent Fannie Mae study, a household with an annual income of \$20,000 pays an average of \$800 in check cashing fees each year. Bank on Seattle-King County hopes to reduce that figure.

The Seattle-King County Asset Building Collaborative has brought together more than 20 banks and credit unions to market banking services to unbanked individuals. Participating financial institutions all meet standards to serve lower-income customers including free or low-cost account fees, free check cashing, automatic bill paying and access to financial education. Community organizations market Bank on Seattle–King County to their clients and link individuals up to a convenient bank.

Pierce County

- Pierce County Coalition's EITC and free tax sites outreach resulted in 5,622 returns filed for a total of \$4,727,838 in refunds to low-income taxpayers and \$1,331,787 in EITC claimed. EITC funds brought in through free tax preparation in 2008 were twice the amount realized in 2006.
- Tacoma Goodwill delivered a comprehensive financial literacy program to 226 Pierce County residents between September 2007 and April 2008.
- Pierce County produced "Build Wealth, Not Debt" financial fair at Bates Technical College for America Saves Week, providing more than 200 consumers with resources, education, and direct assistance from financial planners. An asset-building guidebook for Pierce County has been written and 15,000 print copies distributed.

Cowlitz County

- Ninety-one individuals have been served in weekly Financial Literacy workshops.
- "Bank on Cowlitz" will launch in early 2009. The Bank on Cowlitz Initiative includes financial institutions and community-based organizations that will collaborate to help ensure that services and financial products are available locally. Committees are developing products and services, marketing and outreach plans, tracking and evaluation components. The performance measures, community assessments, product assessments, marketing of products and services, outreach to low-to-moderate-income potential account holders, and data collection are all program activities being identified and structured by the committees and its coalition members. Bank on Cowlitz was selected as one of eight communities participating in the Community Financial Access Pilot under the U.S. President's Financial Literacy Council and being implemented by the U. S. Department of the Treasury. A consultant with a background in economic development has been assigned by the Treasury Department to support efforts of the Bank on Cowlitz more than an 18 month period.

Clallam-Jefferson Counties

- The "Bank on Our Kids" program has begun for 20 middle school children. This effort includes financial education for the students and their families, asset education and matched savings account established in the name of the student.
- Blue Heron Middle School was used as the first school to bring financial education to children and their families. A grade-appropriate financial education curriculum was selected by the coalition partners. Fifteen community volunteer presenters delivered the curriculum to 320 students. An October 16 evening event: "Financial Education as part of the Public School Curriculum" and "How to speak with your children about money" was held for the entire student and parent community.

Washington State Asset Building Conference

The *Building Assets-Strengthening Communities* conference attracted 280 people from across the state to Yakima. The participants learned from a combination of national-caliber speakers and asset building leaders from Washington communities. Eighty-four percent of the conference attendees rated it as outstanding or above average and 97 percent said it met or exceeded their expectations. Sponsors contributed \$20,000 to offset attendee costs.

Conference highlights

The conference greatly enhanced the knowledge and skills of Washington’s developing asset building network. They gleaned information in interactive learning settings that went above the quality often found at national conferences. These highlights give a taste of what participants learned.

- Keynotes by Andrea Levere, President of CFED – “Expanding Economic Opportunities through Asset Building”, and Mary Laraia of the Aspen Institute – “Expanding Access to Mainstream Financial Services”.
- Twenty-four distinct workshop sessions included: Promoting Savings, Banking and Sound Financial Behaviors; Homeownership Preservation; Asset Building in Tribal Communities; Financial Services Needs of Low Income People; Measuring Outcomes in Asset Building; Microenterprise as an Asset Building Tool.
- A town hall meeting about asset building policy with state legislators highlighting Reps. Jeannie Darneille, Eric Pettigrew, Sharon Tomiko Santos and Sen. Claudia Kauffman and Craig Pridemore.

To find conference content, visit <http://www.cted.wa.gov/site/1106/default.aspx>

FEDERAL EARNED INCOME TAX CREDIT (EITC)

“The EITC already provides substantial economic benefits to local and regional economies.”

– The Brookings Institution

The federal Earned Income Tax Credit (EITC) is the nation’s largest anti-poverty program for working families. Unfortunately, according to the IRS, between 12 and 18 percent of eligible Washington residents don’t apply, losing out on approximately \$87.4 million each year. Recent Brookings Institution analysis lists Washington State as one of 17 states with the lowest federal EITC participation rate, providing impetus for Washington to promote the federal EITC and free tax preparation outreach and services.

To capitalize on unclaimed federal EITC dollars, CTED invests \$50,000 in an annual public-private federal EITC outreach and free tax preparation campaign. Main campaign partners include the 14 local asset building coalitions, community action agencies and non-profits, United Ways, AARP and IRS. The Washington State Department of Social and Health Services (DSHS) has also helped cover some of the printing and mailing costs for outreach materials targeted to their clients. The statewide 211 public assistance call system serves as the main portal which refers thousands of callers to local free tax assistance and free online tax filing software.

IRS data from tax year 2006 show that of the total federal EITC eligible population, 57 percent used paid tax preparers, 3.4 percent of households used free tax preparation services provided by our coalitions, and the balance filed their returns themselves. It is difficult to tell how many of those households who self-filed did so as a result of CTED marketing efforts to advertise “icanefile.org”, a free tax filing option for low- and moderate-income families.

Efforts to reach the federal EITC population are hindered as the paid tax preparation industry lures those families during the holiday season with Refund Anticipation Loans (RAL) before the EITC campaigns kick-off in January. RAL are marketed under names such as Express Money, Instant Refund, and Holiday Loans. These names are misleading because they are not refunds; they are high interest loans which are based on the value of an anticipated refund. In tax year 2005, of the 124,000 households who received federal EITC 63 percent used a RAL. This trend hurts low-income families because they pay high-interest loans to get their own money back, depleting the financial benefit that the federal EITC is meant to provide.

2006 and 2007 Tax Year Campaign Activities

- 14 local federal EITC outreach campaigns provided local marketing and tax preparation assistance to the state campaign.
- The statewide 211 call system served as the main communications portal and referred 11,800 callers to local free tax assistance tax filing software.
- More than 850,000 bi-lingual in English and Spanish mailing inserts reached recipients of public benefits such as medical coupons, food assistance, long-term care providers, and foster parents. More than 130,000 postcards and 2,500 color posters were distributed to promote the federal EITC.
- A special multi-language flyer using eight languages was sent to 35,000 public assistance recipients who speak languages other than English.

2006 and 2007 Tax Year federal EITC Campaign Impact

Official IRS campaign data for 2007 are not yet available, but according to estimates, the coalitions prepared 68,086 free tax returns. Of these returns, 12,803 were for EITC returns representing nearly \$26 more than \$25 million in federal income to the state, a 23 percent increase over last year's campaign.

JONI PFEIFFER, EITC CLIENT STORY



Joni is a single mother living in Everett. She works fulltime, earning less than \$20,000 a year. She maxed out her credit card on groceries and other basic needs. Because Joni can't afford repairs or insurance for her car, she's often late or misses work. Joni was caught in a cycle – earning too little to pay back her loans and pay for basic necessities.

Joni heard at work about United Way of Snohomish County's free tax preparation site, and was one of the first in line. She immediately saved the \$150 that she'd paid the year before to get her taxes prepared, and the trained volunteers helped her claim the Earned Income Tax Credit and other refunds totaling \$5,041—a quarter of her income for the entire year. She had not received the credit the previous year, even with a paid preparer doing the tax return.

Joni paid off her bills, bought car insurance and eventually bought a better used car. With more reliable transportation, she was able to get a higher-wage job as a job trainer for people with disabilities and was able to move to an apartment in a safer location.

United Way offers the tax preparation service in eight or more languages, targeting low-income neighborhoods. Records show that more than 80 percent of people served use the refunds for basic needs. The service also saves people expensive filing fees and high-interest rapid anticipation loans (RAL).

Earned Income Tax Credit Results

In 2007, 68,086 free tax returns were prepared by volunteers of our local asset building coalitions which resulted in over \$26 million of an infusion of federal EITC dollars in Washington State's economy. Last year, 10,177 more free tax returns were prepared, which generated an increase of nearly \$5 million or 23% increase in federal EITC over 2006.

Of the total 68,086 free tax returns prepared, 12,803 households claimed the EITC credit, which resulted in 983 additional EITC claims or an 8% increase over the same period last year. Electronic filings increased by 24 percent, and paper filings decreased by 27 percent, which suggest that local coalitions are continuously improving processes and increasing efficiency. The following table summarizes the results of the local coalition efforts.

Year	Total free tax returns filed		Number of EITC returns		Value of EITC credit	
2006	57,909		11,865		\$20,763,7502	
2007	68,086		12,803		\$25,606,0003	
Increase	10,177	18%	983	8%	\$4,842,250	23%

The increase of EITC claims can be attributed to a collaborative public-private partnership of new coalitions in EITC outreach campaigns. For the first time we are reaching previously unreached populations, especially in central Washington such as in Chelan-Douglas, North Columbia, Okanogan, and southwest Washington such as Cowlitz, Lewis, and Clark counties and educating those communities about the benefits of free tax preparation and federal tax credits for working families.

² Based on an average EITC return estimate of \$1,750

³ Since the EITC refund increased over 2006, this is based on an average EITC return of \$2,000

INDIVIDUAL DEVELOPMENT ACCOUNTS PROGRAM

“Learning about managing money was like learning a new language. After learning how to track my spending and sticking to a budget, I realized I can manage my money. I can build wealth.”

– Rosalia Skowron, IDA Graduate and EITC filer, United Way of King County

The IDA program was created and funded by the Washington State Legislature and signed into law in May of 2005. The IDA program goal is to encourage working low-income individuals and families to save, invest and make purchases to improve their lives and move into financial mainstream.

The IDA program is a restricted savings account in which savings are matched by private or public funds. IDA provide rewards for monthly savings of working-poor families who are saving a portion of their income for an asset by providing matched dollars and training. While they are saving, participants receive credit and debt counseling, financial education, and asset specific training. Once participants reach their savings goal, which is 4 years of enrollment in the program, the match portion of the purchase is sent directly to the vendor, and the participant never has direct access to those funds.

The state provides matches for savings at a rate of one dollar for every dollar up to \$4,000, but the average match is \$2,000. Two-thirds of IDA contractors use federal dollars to stretch the state’s investment. For instance, the state provides a 1:1 match which means that an individual has to save \$1 and CTED will match it with an additional \$1. By using the federal match, the individual

Account holders can make it a 2:1 match. For each dollar the individual saves, the state provides \$1 and the federal grant provides an additional \$1 thereby providing twice as many accounts in the state.

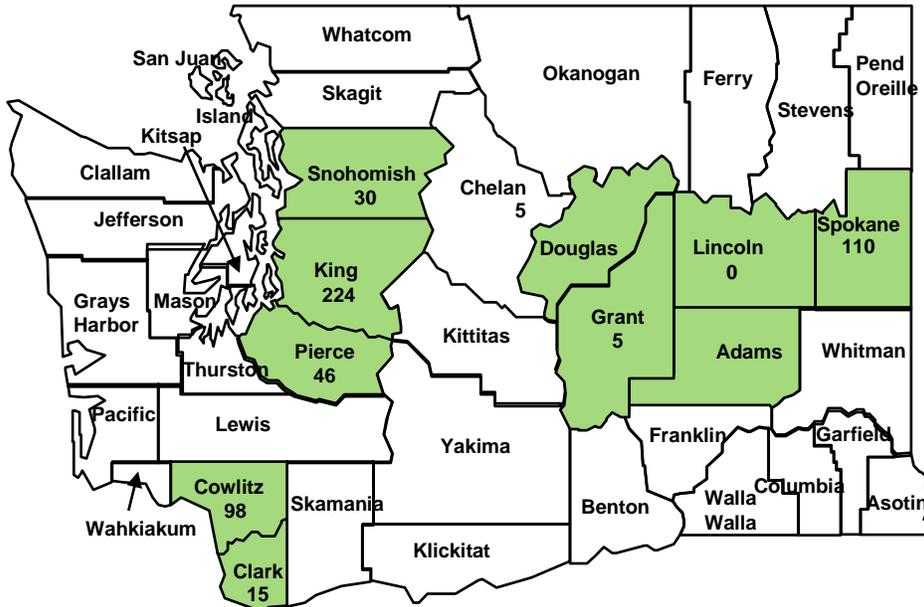
Accountholders can use their state IDA funds for a variety of asset purchases, including:

- Purchase their first home
- Obtain post-secondary education
- Capitalize a small business
- Purchase a computer for work or education
- Make home improvements or repairs
- Purchase assistive technology to meet work-related needs.
- Buy an auto for work or education

RCW 43.79A.040 and 43.31 also established a special IDA pilot for foster teens transitioning from state care. This pilot is intended to help these vulnerable young adults save for and meet their housing, higher education, healthcare and transportation needs.

While it is too early to report outcomes for the foster teen pilot, service providers are seeing positive impacts on youth stability and financial well-being.

IDA enrollment distribution in Washington



Currently IDA are offered in 11 of the state’s 39 counties. Contractors include Spokane Neighborhood Action Programs, Chelan-Douglas Community Action Agency, North Columbia Community Action, Lower Columbia Community Action, Share in Clark County, Tacoma Housing Authority, Associated Ministries, and United Way of King County.

Demand for IDA Grows

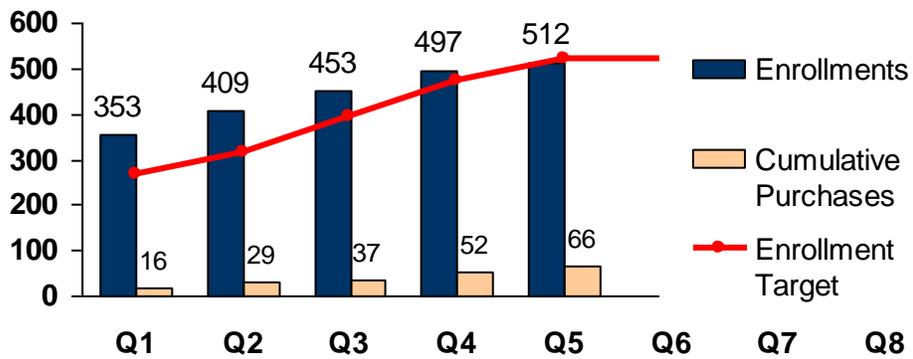
Demand for IDA programs is growing beyond the capacity of the state IDA program. Of the 14 asset building coalitions, only half have state IDA programs. Four of those seven coalitions have received federal IDA grants. Without state matching funds, communities with more than \$1 million in federal dollars risk losing their award.

As new asset building coalitions emerge in different parts of the state, each new coalition has expressed an interest in started an IDA program because the IDA program has been demonstrated as an effective asset building tool. While the present IDA program works efficiently and gets results, it is not meeting local demand. Oregon invests \$8 million annually in their statewide IDA program which allows them to leverage more federal and private money and serve more households.

Progress Report and Update for 2007-2009 IDA Accounts

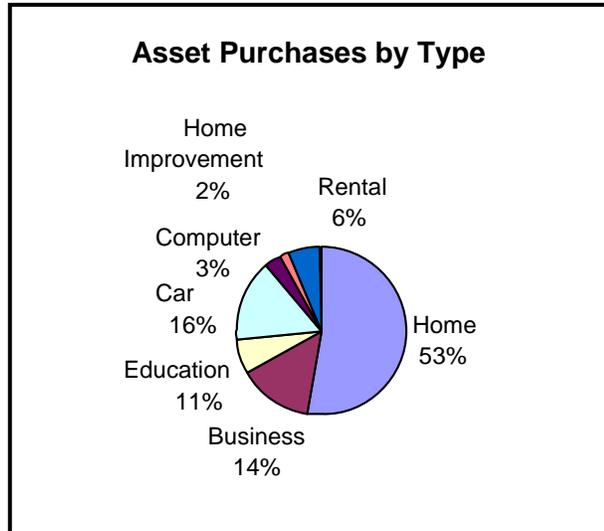
Since September 2007, an additional 233 enrollments were completed, bringing the total number of accounts in Washington State to 512. For each dollar of state match invested, many contractors leveraged an additional dollar in federal match. Since the 2006 start-up, \$1.7 million in contracted state IDA funds have generated \$1.8 million in federal and private funds that contribute to local projects. Individual account holders will add at least \$1.2 million of their own savings over time for their collective purchases.

2006-2008 IDA Enrollments and Purchases



IDA Impact to Date

As of September 2008, 66 participants reached their savings goal and purchased an asset. Homeownership remains the number one asset goal for IDA participants at more than 50 percent or 33 homes. This is followed by vehicle purchases at 16 percent or 10 cars, 14 percent or 9 for small businesses, and 11 percent or 7 for post secondary education. The remaining 11 percent includes home improvement, rental assistance and computers accounts. It typically takes three to four years for low-income participants to meet their savings goals. Given the first state IDA accounts were enrolled in 2006, CTED expects a steep increase in asset purchases by early 2010.



Of the 66 purchases to date, six were made through the foster youth pilot helping youth successfully transition from foster care to adulthood.

No IDA Purchased Homes in Foreclosure

One of the reasons for the IDA program's success is that it gives low-income account holders the opportunity to strengthen financial skills, save over a period of time, purchase and keep their asset. Because the focus is on changing long-term savings habits, training and credit repair, and policies that prevent account holders from obtaining predatory loans, participants take up to four years to save and purchase their asset. A recent evaluation⁴ conducted by United Way of King County shows that none of their IDA participants who purchased a home were foreclosed, partly due to the good case management and sound policies that protected homeowners in the IDA program.

IDA program outcomes are guaranteed as state match funds are only spent at the time of asset purchase. CTED performance-based payments are issued to contractors based on account holder savings.

⁴ Stromski, L. and Holcomb, T. "UWKC Individual Development Accounts Program: Final Report and Evaluation" (Seattle, Washington: August 2008).

FOSTER YOUTH IDA PILOT UPDATE

The Foster Youth IDA program began in 2006 when the Legislature passed HB 1408 (RCW 43.79A.040 and 43.31) which included funding for a pilot of 25 IDA accounts for foster youth between 15 to 20 years of age. Those youth are at risk because they have or are preparing to age out of the foster care system. The program is similar to the adult program in that participants are required to save monthly, attend financial literacy classes, and trainings related to their specific asset purchase. Youth participants may use their IDA for permanent housing, education, computers, vehicles, or health care premiums.

The United Way of King County has committed funding and support to this program due to its success. The case manager's dedication and ability to be flexible, adopt new policies when suggested by participants and requesting regular feedback from the participants and their caregivers has been essential to the growing program. The Foster Youth IDA program has an enormous opportunity to have significant impact with foster youth, one of the populations at greatest risk of becoming homeless in King County. With approximately 300 foster youth exiting the foster youth system each year, United Way of King County in collaboration with other funders could offer an IDA account to nearly all youth that wanted an account.

Based on the success of the Youth Pilot in King County, the Tacoma Housing Authority has teamed up with the Pierce County Alliance, a foster youth services provider, to offer 10 accounts for youth of their existing state IDA funding.

IDA Budget and statutory authority

Individual Development Account (IDA) funds support local IDA projects, program operations, and administration. Contracts were initiated in the 2005-07 biennium and renewed in the 2007-09 biennium to ensure continuity for up to the four-year savings period for account holders. The initial state General Fund appropriation was \$1,021,000. New contracts for the 2007-09 were funded with a new \$1,000,000 appropriation. CTED hopes the funds will be extended through 2009-2011 to ensure account holders have four years to save. All funds are presently allotted, and contractors are enrolling new account holders. The IDA program's authority is in RCW 43.79A.040 and RCW 43.31.450-485.

LUIS DIAZ, IDA GRADUATE AND TAX VOLUNTEER



"If it wasn't for United Way's IDA program, I wouldn't have the successful business I have today."

Luis Diaz has always had an affinity for numbers and a desire to help others. This combination led him to volunteer time preparing taxes through a program he ran at his local labor union to help low-income individuals. He saw an overwhelming demand for the services and wanted to establish his own tax preparation business. Luis had big dreams but limited resources. Could he ever hope to open his own business? Fortunately, Luis connected with King County's Individual Development Account program and chose business as his asset goal. For each dollar he saved, the state matched it with an additional dollar.

After graduating from the program, Luis opened Fabs Solutions, which offers accounting and tax preparation services and other financial services. "If it weren't for the IDA program, I wouldn't have the successful business I have today. The money I saved, combined with the match, made it possible for me to set up a real office, purchase equipment and hire the staff I needed."

As individuals and families struggle with our economic downturn, the importance of saving has become amplified. Washington State's leadership has supported the development of a network of local and private organizations that help households protect themselves from hardship through asset development. This report demonstrates that the early result of Washington's asset building investment is increasing financial independence for households who have access to these programs.

In the past two years, Washington State's modest investment in asset building services has resulted in rapid development of a state and local infrastructure to support asset building. State contracted funds and CTED technical assistance have stimulated local support, creativity and investment of time and money.

Community leaders have responded to state IDA leadership by forming 14 local asset building coalitions and investing over \$7 million in local funds toward these projects. For the first time, asset building actions are being coordinated at the state and local levels, resulting in more opportunities and better services for low and moderate income residents to improve their financial fitness and futures.

The state's EITC outreach campaign is increasing the number of working low income filers each year and getting millions more dollars into the hands of Washington State residents. Tax payers are being steered away from high cost, short-term refund anticipation loans. Communities across the state are now organized to better market these opportunities.

The IDA program is beginning to demonstrate results with low income individuals getting the incentives they need to save and build equity for their families. Outcomes are guaranteed as state match funds are only expended at time of asset purchase and CTED performance-based contracts tie operations and administrative funds to accountholder savings.

APPENDIX A

DATA SOURCES

Savings, credit and asset ownership information provided by Corporation for Enterprise Development (CFED), the U.S. Department of Commerce, Bureau of Economic Analysis, the Jump\$tart Coalition and the U.S. Department of Treasury.

Local asset building coalitions outcomes and progress was self-reported.

EITC and tax filing information was reported by the Internal Revenue Service.

Individual Development Accounts results and client stories were provided by CTED IDA and asset building contractors.

Information on lack of homeownership foreclosures for IDA participants in King County comes from the “United Way of King County IDA Evaluation Report” which is the final in a series of several reports intended to measure impact.

Washington State has one of the lowest EITC participation rates in the country. This information came from several studies conducted by the Brookings Institution which analyzed state-by-state data. For more information on the EITC series of papers visit: <http://www.brookings.edu/metro/EITC/EITC-Homepage.aspx>

APPENDIX B

WASHINGTON ASSET BUILDING COALITION MEMBERS

American Association of Retired Persons (AARP)	ShoreBank Enterprise Cascadia
Associated Ministries	Skagit County Community Action
BECU	Snohomish County Community Action Partnership
BuRSST for Prosperity	Snohomish ABC
CARES of Washington	South Puget Intertribal Planning Agency
Chelan-Douglas Community Action	South Sound Outreach Services
Columbia Legal Services	Spokane Neighborhood Action Programs (SNAP)
Consumer Education & Training Services (CENTS)	Spokane CASH
Cowlitz ABC	Statewide Poverty Action Network
Economic Opportunity Institute	Tacoma Housing Authority
Enterprise for Equity	The Alesek Institute
EPIC (Yakima)	U.S. Department of Housing and Urban Development
Federal Reserve Bank of SF	US Bank
International District Housing Alliance	United Way of Benton/Franklin Counties
Internal Revenue Service	United Way of King County
KeyBank	United Way of Mason County
King County Housing Authority	United Way of Snohomish County
Kitsap community Resources	United Way of Spokane County
Longview Housing Authority	United Way of Thurston County
Lower Columbia Community Action Programs	WAMU
Lutheran Public Policy Office	Washington ACORN
Making Connections	Washington Appleseed
Metropolitan Development Council	Washington Assistive Technology Foundation
Muckleshoot Indian Tribe	Washington CASH
Native NW Asset Building Coalition	Washington Credit Union League
North Columbia Community Action Council	Washington Community Action Partnership
Northwest Cooperative Development Center	Washington State Department of Community, Trade and Economic Development
Okanogan Community Action Council	Washington State Microenterprise Association
Olympic Community Action Programs	Yakima ABC
Opportunity Council	Yakima Federal Savings Bank
Peninsula ABC	
Pierce County Asset Building Coalition	
Pierce County Associated Ministries	
SEIU #725	
Seattle Housing Authority	
Seattle Indian Health Board	
Seattle King Asset Building Collaborative	

APPENDIX C

2008-09 LOCAL ASSET BUILDING PROJECTS – BUDGET SUMMARY

Asset Building Coalition Area & Lead Proposing Organization	Total Project Budget	CTED Contract Portion
1. Jefferson-Clallam <ul style="list-style-type: none"> ▪ Olympic Community Action Programs (OlyCAP) 	\$122,510	\$40,000
2. Kitsap County <ul style="list-style-type: none"> ▪ Kitsap Community Resources 	\$63,000	\$10,000
3. Cowlitz County <ul style="list-style-type: none"> ▪ Lower Columbia CAP 	\$332,657	\$86,000
4. Pierce County <ul style="list-style-type: none"> ▪ Associated Ministries 	\$317,674	\$80,000
5. Puget Sound Region <ul style="list-style-type: none"> ▪ NW Native ABC ▪ The Alesek Institute 	\$73,000	\$20,000
6. Seattle-King County <ul style="list-style-type: none"> ▪ Washington Appleseed 	\$1,191,380	\$85,000
7. Snohomish County <ul style="list-style-type: none"> ▪ United Way of Snohomish County 	\$411,871	\$80,000
8. Whatcom County <ul style="list-style-type: none"> ▪ Opportunity Council 	\$32,802	\$15,000
9. Chelan-Douglas Counties <ul style="list-style-type: none"> ▪ Chelan-Douglas Community Action Council 	\$79,660	\$15,000
10. Yakima County <ul style="list-style-type: none"> ▪ Enterprise for Progress in the Community (EPIC) 	\$65,380	\$20,000
11. Grant, Adams and Lincoln Counties <ul style="list-style-type: none"> ▪ North Columbia Community Action Council 	\$299,583	\$80,000
12. Walla Walla County <ul style="list-style-type: none"> ▪ Blue Mountain Action Council 	\$25,000	\$10,000
13. Spokane County <ul style="list-style-type: none"> ▪ Spokane County United Way 	\$897,132	\$85,000
TOTAL	\$3,911,649	\$626,000