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# **COMMUNITY INVESTMENTS**

Federal Reserve Bank of San Francisco



## **Unemployment in Low-Income Communities**

**Plus:**

**The National  
Community  
Stabilization Trust**

**Periodic Payment  
of the EITC**

**San Francisco's  
Working Families  
Credit**

**Dr. CRA**

# CI Notebook

by Laura Choi, Editor

**W**hen people learned that this issue of *Community Investments* would focus on unemployment, many of them said, “how timely.” Indeed, the topic seems to be on everyone’s mind. A recent national poll indicated that worries about unemployment have tripled over the past year, making it the primary economic concern among respondents. As the labor market continues to soften and historic rates of unemployment persist, workers from virtually every industry are affected. Weathering a job loss is challenging enough for the average worker, but for many low-income individuals who are already stretched thin, the slightest loss of income can be devastating. In addition, low levels of educational attainment and weak technical skills can create significant barriers for low-income workers looking for employment, particularly as more and more displaced workers compete for a limited number of available jobs.

In this issue, we address some of the challenges that low-income communities face in times of high unemployment and examine a range of complex issues, such as the particular employment challenges facing immigrant communities and the role of community colleges in meeting the training and education needs of low-income workers. We also explore the workforce development efforts of community development corporations and consider how the lessons learned from the past two decades of workforce development apply in today’s economic climate.

In addition, we’re pleased to introduce some changes to *Community Investments*, beginning with the new “look” you may have already noticed. Inside, you’ll find new features, such as *Dr. CRA*, an advice column in which our resident regulatory experts address today’s most challenging CRA questions, *Research Briefs*, short summaries of recently published community development research, and *Data Snapshot*, which highlights data from the 12th District and the nation as a whole. We will continue to have a special focus for each issue, but we’ve also made room for a broader range of relevant topics in the new *Eye on Community Development* section. This quarter, we provide information on the new National Community Stabilization Trust and consider potential improvements and innovations in the Earned Income Tax Credit, including a closer look at the City of San Francisco’s Working Families Credit.

Times are tough for everyone right now, but low- and moderate-income workers are especially vulnerable. We hope this issue of *Community Investments* informs and encourages your efforts to serve these communities in times of need. As always, we welcome your comments and feedback, and hope that you enjoy the “new” CI!



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This publication is produced by the Community Development Department of the Federal Reserve Bank of San Francisco. The magazine serves as a forum to discuss issues relevant to community development in the Federal Reserve’s 12th District, and to highlight innovative programs and ideas that have the potential to improve the communities in which we work.



Federal Reserve Bank of San Francisco

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# Addressing the Challenges of Unemployment in Low-Income Communities

By Carolina Reid



## Introduction

Boeing plans to lay off 10,000 workers; Yahoo announces 1,500 job cuts. Home Depot, Sprint Nextel, and Caterpillar all announce large reductions in their workforces.<sup>1</sup> Nothing evokes the effects of the current recession more than the daily reports of additional layoffs across a broad range of industries. Since the downturn began in December 2007, the U.S. economy has lost approximately 4.4 million jobs, pushing the unemployment rate up to 8.1 percent in February, the highest in a quarter century (see Figure 1.1). More than 12.4 million people are currently looking for work. Not captured in these statistics are people who are underemployed—forced to work part-time or in a job for which they are overqualified—or those who have dropped out of the labor market entirely, so the toll of the recession is likely to be much higher than the 8.1 percent figure suggests. And most economists predict that this rate will continue to increase in the near future, though much hinges on federal efforts to stimulate economic recovery.

Within the Federal Reserve's 12th District, the impacts of the downturn in the housing market and economy have been especially severe, and the unemployment rate has grown faster and more sharply than for the United States as a whole. Several states have been particularly hard hit: the unemployment rates in California, Nevada and Oregon all topped 10 percent in February (see Figure 1.2). In fact, all of the states in the 12th District except Alaska have seen considerable drops in their nonfarm payroll employment, with jobs in the construction, manufacturing, tourism, and professional business sectors showing the greatest declines (see Figure 1.3). Yet unemployment rates vary significantly across the district, with some communities harder hit than others. As Figure 1.4 shows, the highest rates of unemployment are clustered in California's Central Valley and Inland Empire, as well as in Oregon's and Alaska's rural areas.

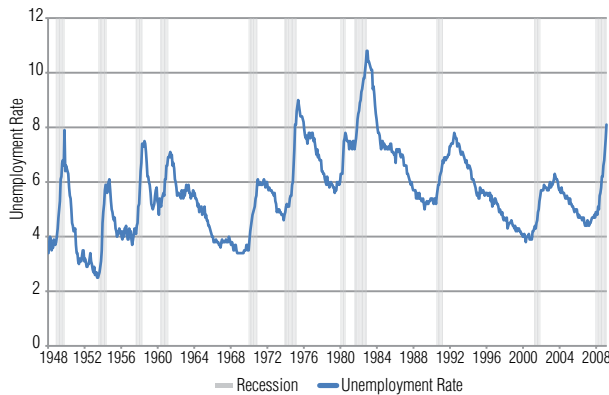
Yet, even this dismal macro-economic picture likely understates the impact that the rising unemployment rate is having on low- and moderate-income families and communities. Certainly there is evidence that the depth and duration of this recession is having broad repercussions for a large number of people, but even so, when unemployment rises, lower-skilled workers and those who earn less are particularly hard hit. Figure 1.5 shows the unemployment rate among different socioeconomic and demographic groups. For workers without a high school degree, the unemployment rate now stands at 12.6 percent; for African Americans, the rate is 13.4 percent.

The consequences of unemployment for low-income communities may also be higher; lower-income households experience greater income losses (as a percentage of income) during recessions, and it takes them longer than higher-income households to get back on their feet.<sup>2</sup> Unemployment can have particularly devastating effects on single-parent households, as well as on households that have come to depend on two full incomes to make ends meet. And consider this: for years, we've been driving home the fact that more than one in five households in the US are "asset poor," meaning that they have insufficient savings to subsist at the federal poverty level for three months in



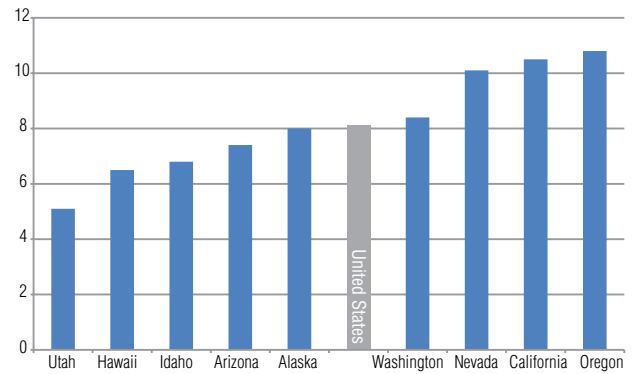


Figure 1.1  
U.S. Unemployment Rate



Source: Bureau of Labor Statistics

Figure 1.2  
Unemployment Rates in the 12th District  
February 2009



Source: Bureau of Labor Statistics, Seasonally adjusted

the absence of income. Today, the average unemployment spell lasts five months, meaning that many families will be unable to meet even their basic needs if they lose their job.<sup>3</sup>

Clearly, generating job growth and providing a stronger safety net for unemployed households are top priorities for the federal government, and these goals are embedded in the American Recovery and Reinvestment Act signed into law by President Obama in February of 2009. The Act expands unemployment benefits and other social welfare provisions and increases domestic spending in education, health care, and infrastructure. While analysts disagree about the likely impact of the stimulus package, the Congressional Budget Office estimates that the Act could increase employment by 0.8 million to 2.3 million by the end of 2009 and by 1.2 million to 3.6 million by the end of 2010.<sup>4</sup> The U.S. Department of Treasury and the Federal Reserve System have also been taking unprecedented actions to stabilize the nation's financial system and unfreeze the credit markets, both seen as important preconditions for long-term economic recovery.

But the current crisis also puts into stark relief the need to invest more broadly in workforce development in low- and moderate-income communities, and to help lower-skilled workers access stable and living wage jobs.<sup>5</sup> In low-income communities, the problems of unemployment are much more longstanding, and are not limited to recessionary times. In the recently released report, *The Enduring Challenge of Concentrated Poverty in America: Case Studies from Communities across the U.S.*, unemployment rates in all of the 16 high-poverty case study communities far exceeded the unemployment rates in their surrounding regions and for the nation as a whole. In West Fresno, California, for example, the unemployment rate in 2000 was a stag-

gering 22.7 percent, at a time when the national unemployment rate hovered closer to 4 percent.

In low-income communities, then, it will take more than a stimulus package to better link working age adults with stable and well-paying jobs. Harry Holzer, an economist who has long studied workforce issues, points out that one of the great ironies of domestic policy has been that federal investments in workforce training have dramatically declined over the past few decades, despite the fact that today's labor market places an ever-higher premium on skills and training.<sup>6</sup> Indeed, federal investments in comprehensive employment and training policies peaked in 1979: today, the United States spends only 0.1 percent of its annual GDP on workforce training, far lower than almost any other industrialized nation.<sup>7</sup>

And while it may be hard to justify more government spending at a time when the budget deficit is projected to top a trillion dollars, Holzer also argues that the lack of investment in workforce development entails direct costs to the economy, including lost productivity and direct federal expenditures for Medicaid and other means-tested programs, as well as indirect costs resulting from unemployment and its relationship to crime, incarceration, and family breakup.<sup>8</sup> In Washington State, which has implemented a rigorous system for evaluating the costs and benefits of its workforce development programs, researchers found that the return on investment averaged between \$4 and \$127 per dollar spent; for participants in the primary workforce program (WIA), lifetime returns on investment were measured at about \$7-8 for every \$1 in public funds invested in 2006.<sup>9</sup> These benefits accrued in the form of increased lifetime earnings, increased taxes paid, and significant decreases in public assistance outlays (specifically, welfare payments, food stamps, and medical benefits).

All of this suggests that investments in workforce development—particularly among lower-skilled adults—are likely to have significant payoffs down the road.

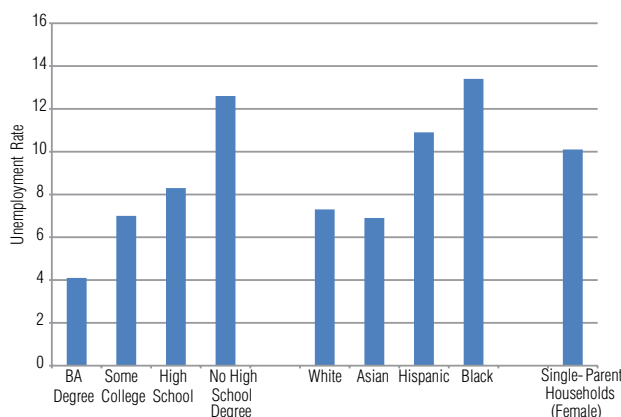
### Labor Market Issues Facing Low-Income Communities

Getting to the root causes of the labor market issues facing low-income communities is far from easy, however, and even the best intentioned policies have faced difficulties in tackling the complicated and interwoven barriers that keep lower-skilled adults from accessing living wage jobs.

In the 1990s, federal policy towards lower-skilled, unemployed adults was focused primarily on reforming the welfare system, and ending a perceived cycle of “welfare dependency” in poor communities. The passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in 1996 signaled a major shift in welfare policy, shifting from a system that guaranteed cash assistance to one that emphasized “work first.” The new Temporary Aid to Needy Families (TANF) program put time limits on welfare benefit receipts and required recipients to work or participate in work activities in order to receive cash assistance. Importantly, TANF was also supplemented by policies to “incentivize” work and help make work pay. The expansion of the Earned Income Tax Credit (EITC) and Medicaid, and the introduction of the State Children’s Health Insurance (SCHIP) program, all greatly increased the relative returns to work over welfare for poor women with children. As a result of these policy changes—initiated during a period of relatively low unemployment—the welfare rolls dropped dramatically, and many have since heralded welfare reform as a success.

Yet the success of helping lower-skilled workers achieve financial self-sufficiency has been much more

Figure 1.5  
Unemployment Rates  
February 2009



limited. In a review of studies of those who left welfare, Gregory Acs and Pamela Loprest found that among those leaving welfare, average earnings remained well below the poverty line, and fewer than half had jobs that provided health insurance coverage.<sup>10</sup> Indeed, most of the research confirms that many former TANF recipients have become the working poor, many of them without medical benefits and/or sick and family leave. Katherine Newman, a sociologist at Princeton University, sees this as a fundamental failure of our federal policies toward the unemployed. “[W]e seem to feel that as long as we’ve taken people off public assistance, our job is done,” she has written. “But it isn’t done—it isn’t good enough in a country as wealthy as this to replace welfare-dependent poverty with working poverty.”<sup>11</sup>

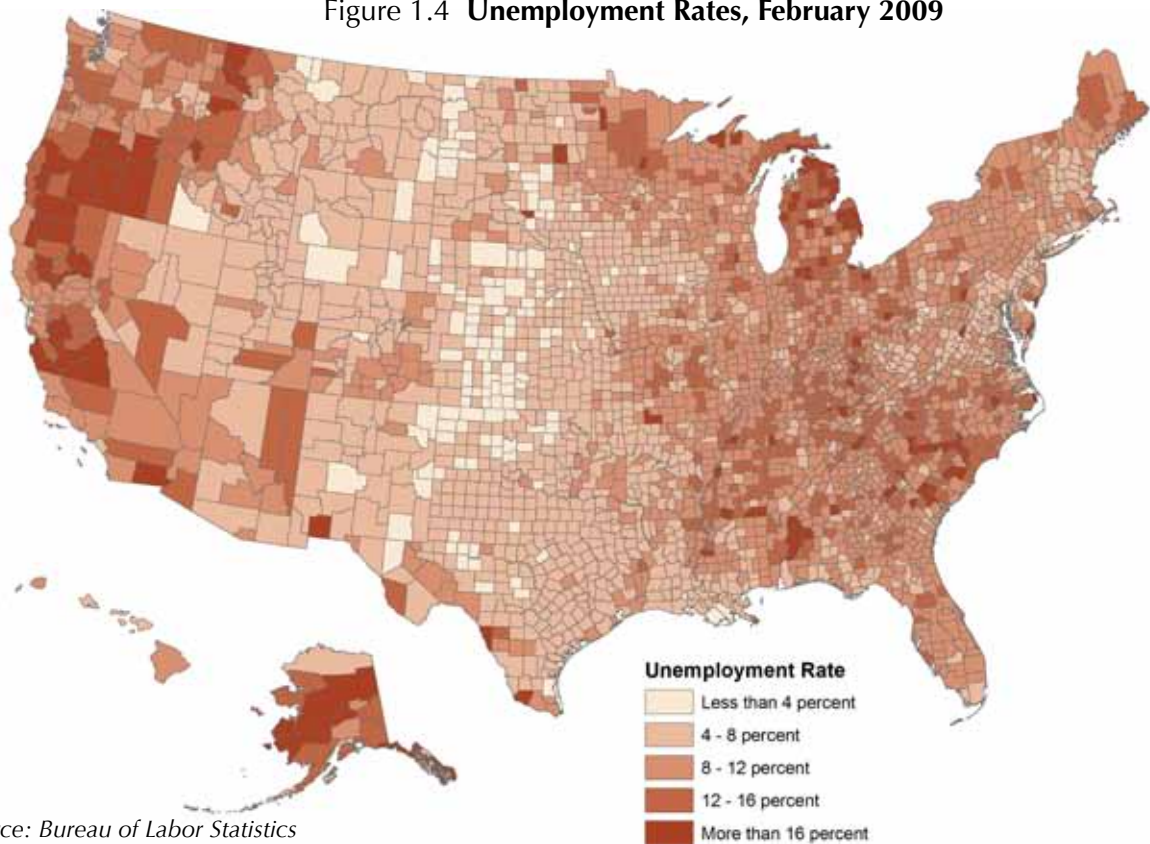
Tackling working poverty is likely to be much harder, however. Even before the current recession hit, the difficulties facing low-skilled workers in obtaining a living wage have grown, as changes in the US economy have increasingly placed more value on those with higher

Figure 1.3 12 month change in employment, February 2009

	Total	Natural Resources & Mining	Construction	Manufacturing	Professional & Business Services	Leisure & Hospitality
<b>Alaska</b>	0.9	6.8	-0.6	0	-0.4	-1.6
<b>Arizona</b>	-6.7	-4.7	-26.8	-6.4	-10.9	-6.1
<b>California</b>	-4	0.4	-18.5	-6.2	-4.5	-2.8
<b>Hawaii</b>	-3.1	-9.9	NA	-4.6	-2.5	-6
<b>Idaho</b>	-4.5	-15.9	-14	-8.8	-8.9	-5.8
<b>Nevada</b>	-5.2	1.6	-17.9	-7.3	-6.9	-6.2
<b>Oregon</b>	-4.7	-8	-17.3	-12.4	-6.6	-3.6
<b>Utah</b>	-2.1	16.2	-16.2	-7.5	-1.5	-3.6
<b>Washington</b>	-2.8	-10.4	-10.6	-6.2	-5.5	-0.4

Source: Bureau of Labor Statistics

Figure 1.4 Unemployment Rates, February 2009



Source: Bureau of Labor Statistics

education. Earnings for workers without a high school diploma fell throughout much of the 1980s and 1990s, widening the gap between wages paid at the low versus high end of the spectrum. In 2003, nearly 25 percent of all low-skilled workers earned less than \$7.73 an hour; at this wage, a family of four would still be living below the official U.S. poverty line, despite full-time, year-round work (defined as 2,000 or more hours a year).<sup>12</sup>

Second, low-skilled workers often face other significant barriers to obtaining and retaining a job. Many lack “soft” job skills, which include problem-solving and communication skills, professionalism and work ethic, and interpersonal and teamwork skills. Others often have limited English proficiency and/or are the primary caregivers for their children, siblings, or parents, or have health problems to contend with. Still others struggle with substance abuse, are victims of domestic violence, or face discrimination in the hiring process because of a prison record. All of these factors can influence someone’s ability to find and keep a job, and make it especially difficult to move up in the labor market.

While limited education and work experience—coupled with other personal barriers to work—are likely to be the biggest drivers of unemployment in low-income communities, other researchers have pointed to structural changes in the geographic location of jobs as yet another factor that can keep lower-skilled workers

from accessing employment. Known as the “spatial mismatch” hypothesis, this theory argues that residential segregation combined with the suburbanization of jobs has prevented inner-city workers from accessing jobs and opportunities in other parts of the region.<sup>13</sup> Public transit systems, in particular, often don’t support ‘reverse commutes’ to these jobs, making it difficult for those without cars to get to work. Other research suggests that social distance—limited social networks and knowledge about those jobs—is more important than actual physical proximity. For many, access to jobs is not just about overcoming physical barriers and matching personal skills to employer needs, but requires strengthening the social institutions that manage connections between employers and jobseekers. Seminal work by Mark Granovetter found that “weak ties”—e.g., casual acquaintances—are more important in job searchers than “strong ties”—close friends and family.<sup>14</sup> In low-income communities, these “weak ties” are often missing or more narrowly constructed than in higher income communities, limiting access to employment.

### Linking Workers to Living Wage Jobs

So how can we best tackle these challenges? Increasingly, researchers and policy-makers are recognizing the need for a multi-pronged strategy that can both train



lower-skilled workers and connect them to employment opportunities. Efforts that have focused on merely one or the other have been less successful. For example, efforts to relocate public housing residents to higher-income neighborhoods—through Section 8 vouchers or demonstration projects like Moving to Opportunity—have had rather disappointing outcomes on the employment of these adults. Researchers suspect that this is due to the fact that while the move may have brought them physically closer to places of employment, it did not address skill gaps or the need for workforce intermediaries and social networks in the job search process.<sup>15</sup>

In contrast, programs that combine training, job search and placement assistance, and financial and social service supports have shown impressive results. For example, training programs that involve private-sector employers and that prepare workers for specific jobs in those sectors improve both employment outcomes and earnings, particularly for low-income and at-risk individuals. Working with employers ensures that skills gains are directly applicable to available jobs, and provides a better “match” between employers/jobs and job seekers than might otherwise be obtained through basic education.<sup>16</sup> Combining job training with other financial supports and services—such as access to child care or health services, for example—has also been proven effective for low-income populations. And the evidence suggests that more intensive case management—as opposed to only providing limited employment services and/or relying on case workers with very large caseloads—is important in achieving long-term results, including opportunities for career advancement and wage progression.

Providing financial incentives that improve the returns to work can also improve employment outcomes for low-income workers. In many cases, going to work and “earning more” can actually have a negative impact on a household’s overall income: as wages go up, social benefits such as housing and childcare subsidies go down. At the poverty line, these benefits are a critical part of a household’s balance sheet. The EITC addresses this gap at the federal level by increasing the financial returns to work for lower-earning workers, but many states and municipalities have also developed financial incentives to encourage and sustain employment. When financial incentives are combined with other employment services, the effects on employment outcomes can be significant. Jobs-Plus, a demonstration project in six cities, implemented a unique strategy that provided employment and training services, financial incentives, and community support networks to residents of public housing developments. The research found positive impacts on earnings across racial/ethnic

subgroups, despite the fact that many residents had significant barriers to work.<sup>17</sup>

Because such a wide range of interventions are needed, the most promising models of workforce development today involve partnerships among industry and employer groups, community colleges, state and local agencies (including workforce boards), community groups, and intermediary organizations, such as community development corporations (CDCs). (See the articles “Back to School and Back to Work” and “Back to Our Roots” for further discussion on workforce development partnerships with community colleges and CDCs.) These partnerships are also critical to breaking down traditional workforce silos. The Annie E. Casey Foundation’s Job Initiative, an eight-year effort in Denver, Milwaukee, New Orleans, Philadelphia, St. Louis and Seattle to improve the way urban labor market systems work for low-income, low-skilled workers, concluded that an effective workforce development policy requires systems change. Too often, policies at the federal level conflict with state level policies and local goals, and the lack of communication across sectors (public and private) can thwart economic and workforce development goals. Applying the lessons learned from previous workforce development efforts, such as the need for building a more integrated workforce development system, will better support low-wage workers over the long-term. (For more on lessons learned, see the article “Lessons for a New Context.”) In addition, improved workforce development systems must also address the ever-changing dynamics of the labor force, which include demographic shifts such as waves of retiring Baby Boomers and the rapid growth of immigrant labor. (For more on the impact of unemployment on immigrant communities, see “Workforce Development Needs for Immigrant Job-seekers.”)

## Conclusion

While workforce development has traditionally existed outside of the nuts and bolts of neighborhood revitalization and community development efforts, tackling unemployment is a critical component of addressing chronic poverty in our nation’s communities. Doing so will require a coordinated effort by all levels of government, and a greater commitment to investment in workforce training systems. While job placement and the restoration of family income are immediate goals in this period of high unemployment, the community development field should identify ways that it can support workforce development efforts that lead to sustained wage progression and economic self sufficiency. **CI**



# Lessons for a New Context

## *Workforce Development in an Era of Economic Challenge*

By Robert P. Giloth, Annie E. Casey Foundation

The economic expansion and tight labor markets of the 1990s brought new attention to skill shortages, career paths, and the important linkages between economic and workforce development. The current economic downturn has muted this demand at the same time economic stimulus efforts like the American Recovery and Reinvestment Act of 2009 (ARRA) will provide new investments for workforce education, create jobs in transportation and health care, and spur new green industries and job opportunities.<sup>1,2</sup> Many of these “middle skill” jobs will be within reach of low- and moderate-income communities if job targeting policies are matched with the industry-based skill training models developed in the 1990s. This article will highlight some of the lessons learned from the past two decades of workforce development and discuss how they could help to address the present labor market challenges.

### **Defining The New Workforce Paradigm**

Workforce development is a necessary component of our nation’s recovery efforts if low-income, low-skilled workers are to fully benefit from new job opportunities. The phrase workforce development, however, implies more than employment training in the narrow sense; it means substantial employer engagement, deep community connections, career advancement, human service supports, industry-driven education and training, and the connective tissue of networks. Building on the lessons learned from past efforts, the new workforce paradigm contains an array of job strategies, including sector- and place-based employment strategies, adult education, and short- and long-term training programs that are customized to different employer and jobseeker groups.<sup>3</sup>

The new workforce paradigm brings together a variety of strategies that heretofore have been discon-



nected and frequently at odds with each other. Integration must occur between public system institutions and the array of neighborhood and nonprofit programs. At the policy level, issues of labor market retention and advancement are increasingly being considered in tandem with programs to support working poor families and enhance their skills and job experiences. This convergence of ideas bodes well for a more unified and effective workforce development system.

## What Are We Learning?

The new workforce paradigm provides a unique opportunity to learn about effective labor market practices and apply them to our current economic situation. Six themes suggest some of the areas in which workforce learning and innovation is occurring. This is not an exhaustive list; it represents ways in which the workforce field is being stretched to grow in policy and practice. The themes are (1) retention and advancement, (2) employer and jobseeker customers, (3) regions and neighborhoods, (4) race and labor markets, (5) best practices and replication, and (6) labor market reform. The following discussion identifies salient learnings, tensions, and innovations, rather than providing full-blown accounts of specific projects, policies, and research.

## Job Placement, Retention and Advancement

An anecdotal saying in the 1990s was that it was relatively easy to get a job; the challenge was keeping a job. The language of workforce development changed from a focus on job placement to that of job retention, advancement and wage progression.<sup>4</sup> Yet, today's high unemployment rate means that job placement is not so easy; in fact, low-skilled workers are competing against an array of laid-off skilled workers for the same jobs and for the same limited number of training slots at community colleges. Fair and targeted hiring practices will be necessary along with a focus on retention and advancement in all economic recovery investments.

We are now learning which types of investments have a positive impact on job and labor market retention. Placing someone in a low-quality job with little attention to training or supports is unlikely to be effective over the long-term. Instead, retention depends on the targeting of good jobs, better up-front training and job matching, appropriate and effective supports (such as child care and transportation), plus financial incentives for firms and employees, changes in the practices of internal labor markets, and peer supports and mentoring.<sup>5</sup> The successful job retention efforts of Vocational Foundation Inc. in New York City demonstrated the importance of designing programs that create an atmosphere

*Placing someone in a low-quality job with little attention to training or supports is unlikely to be effective over the long-term.*

of high expectation for participants, provide an array of intensive services, and stay connected to participants through long-run case management.<sup>6</sup>

The workforce field is also learning how to better support advancement and wage progression for entry-level and low-wage workers. Union apprenticeships, which are being reinvented in many industries, remain an important model for career advancement, and are especially relevant given ARRA's investment in a wide array of physical infrastructure projects that will create construction employment. Even in fields without traditional "apprenticeship" models, employers must support workplace learning and clarify to workers how incremental skill acquisition can increase productivity and translate into wage and benefit increases and promotions. Workforce projects should create maps of career advancement within and among firms, sectors, and clusters, as well as help employers understand the payoffs from investments in skills upgrading.

Although "work first" (the movement to transition people from welfare into unsubsidized jobs as quickly as possible in response to the 1996 welfare reform) in its early version was perceived as an impediment to career advancement strategies, increasing flexibility has produced an array of initiatives that link work and learning.<sup>7</sup> One example is the Seattle Jobs Initiative, created through the Annie E. Casey Jobs Initiative program, which combines basic skills, English as a second language, hard-and soft-skills training, internships, weekend tutoring by business volunteers, aggressive placement by industry brokers, and self-help and reunion groups. These types of targeted supports allow low-skilled workers to engage in training and skill development with the end goal of full-time employment, consistent with the self-sufficiency policy emphasis of welfare reform.

## Dual Customer

The new workforce paradigm focuses on comprehensively meeting the needs of dual customers—employers and jobseekers in the community. Employer driven workforce development means valuing employers as an integral part of program design and operation, using their expertise to design relevant curricula, inviting their participation in ongoing industry advisory groups,





and using instructors from industry to better ensure that the training meets the needs of new occupations and industries. The best indicator of employer-driven success is a satisfied business customer returning to hire additional new employees from a workforce development program. Yet, an employer-driven approach must also include the commitment of employers to invest in skills, modernization, and changing the internal culture of work in their firms to support a diverse and frequently nontraditional workforce.<sup>8</sup>

Workforce development programs—which are often run by community-based groups that are deeply rooted in the political, cultural, and religious life of a community—are also paying more attention to the customer side of their programs. Rather than concluding services for a client who has been placed in a job, successful programs are working to foster a sense of membership that entails a longer-term commitment and engagement with the organization. Jobseekers are encouraged to come back for help to get a new job or to improve skills. In short, community-based workforce development means that jobseekers perceive the program as a “home base.”

During the past decade, employers and communities have engaged in some promising new efforts. On the employer side, health-care institutions have taken the lead to fill allied health positions and to create career pathways to nursing professions. In Baltimore, eight hospitals banded together in 2005 to create the Baltimore Alliance for Careers in Health (BACH) that provides career coaching, bridge programs, and work-based learning.<sup>9</sup> One of the most promising developments in community engagement has been the role of faith-based congregations and networks in recruiting, mentoring, and supporting jobseekers while also advocating for public policy resources. In the case of Project QUEST in San Antonio and Capital Idea in Austin, for example, these faith-based coalitions have found potent allies in major business leaders.<sup>10</sup>

### **Regions, Cities, and Neighborhoods**

Today’s new workforce paradigm argues that labor markets are regional and not restricted by city jurisdictional boundaries, neighborhood sentiments or history.<sup>11</sup> Economic clusters—interdependent sets of firms and sectors, such as health care—are often regional in nature, such as the high-tech companies that characterize Silicon Valley, and argue for regions as appropriate units for workforce planning and implementation. However, most government programs and service providers operate within a different sort of geopolitics—defined by administrative geographies, political constituencies, and turfs—that tend to be more local or

place-based in nature.<sup>12</sup> Community groups may contribute to this more narrowly defined approach because their place-based strategies encourage a neighborhood-focused effort.<sup>13</sup>

Although a regional approach has new adherents and positive, long-run potential, thus far the practice of workforce development on a regional basis has produced mixed results. The underlying concept of spatial mismatch has called attention to the growth of jobs in the suburbs, whereas the job seeking population resides in the cities.<sup>14</sup> Moreover, a number of efforts to deconcentrate poverty through the provision of housing vouchers, including the Moving to Work Demonstration, have had few positive employment impacts because they have not included job targeting and employment services.<sup>15</sup> Practical and effective regional linkages around jobs and low-income communities have been limited because suburbs are scattered and often resistant to public transit solutions and integrated and affordable housing. Regional governance of workforce systems often draws skepticism from inner-city politicians, who fear that regionalism spells an additional loss of power and resources to elites who have already abandoned the cities and neighborhoods. Alternatively, inner-city revitalization efforts contend that inner-city assets, such as location, land, access to labor force, and markets, are easier to take advantage of (and therefore more worthy of investment) than are the promises of regionalism.

## Race Matters

Employers commonly complain that all they want are workers who will show up for work; skills related to “work ethic,” have been named soft skills, in contrast to the defined skills of literacy and numeracy, and technical competencies related to specific occupations. Many employers and policy makers attribute a lack of soft skills to minority communities, particularly to young urban black men, although there is mixed empirical evidence to support this claim.<sup>16</sup> Efforts to create soft skills curricula can help define more precisely the skills and state of job readiness that employers require. However, these efforts frequently lack a conceptual framework for understanding soft skills, which may contribute to another round of blaming the victim without adequately accounting for other barriers that confront people of color in their workforce experience. A more robust understanding of soft skills is needed. Contemporary businesses require skills related to critical thinking, oral communication, personal qualities, and interpersonal and/or teamwork, but many of these skills are newly shaped by structural changes in the economy, technology, and new forms of work organization. They are new and challenging for all workers—not just low-income

*Lack of readiness for today’s workplace represents a challenge for employers as much as for jobseekers.*

workers. And these skills themselves differ widely according to occupation and industry.<sup>17</sup>

In communities isolated from the economic mainstream, sometimes lacking role models of labor market success and adequate educational opportunities, many jobseekers never learn the culture of the new workplace.<sup>18</sup> But this is a matter of skill building and awareness, not a question of attitude, work ethic, and interest. Not only are many communities isolated from business culture, but jobseekers from these neighborhoods also must learn code-switching skills to navigate between cultures of neighborhood and work—the behaviors that define success in the neighborhood may be different from the behaviors needed in the workplace.<sup>19</sup>

Lack of readiness for today’s workplace represents a challenge for employers as much as for jobseekers. Many employers lack the ability and willingness to find, accept, and support workers who come from wholly different backgrounds. This happens during the hiring process in which skills and aptitudes are frequently misread and ignored, although many employers view the personal interview as the most reliable hiring tool.<sup>20</sup> This is one more reason that employers frequently rely on the weak-tied networks (friends and associates) of current employees to find new employees.<sup>21</sup>

A number of recent innovations related to job readiness, supervisory training, changing internal labor market and hiring practices, and diversity training are helping to overcome barriers and build the skills of employers and jobseekers.<sup>22</sup> These innovations reveal a new willingness of employers and the new capacities of workforce practitioners to collaborate on key issues that affect labor market functioning. Nevertheless, racism persists and will require committed action to change over time, especially in a time of high unemployment. Workforce practitioners must develop a more robust understanding of race and job readiness if significant results in job retention and advancement are to be achieved for communities of color.

## Ideas, Best Practices, and Replication

The workforce field is constantly challenged to innovate new approaches, build solid evidence for effective practices, and “scale up” or replicate promising models so that they are adopted more widely. Multiple strate-



gies are being explored and can help the workforce field address these challenges. The sector-based approach, which creates employment opportunities within a regional cluster of firms that share markets, technologies, or suppliers, requires strong partnerships between businesses, community colleges, public workforce institutions, and community groups. Sector-based approaches have had some success but now need to go beyond strategy and think clearly about the organizational capacities required to build enduring partnerships. The National Fund for Workforce Solutions (NFWS) is a new national venture fund established by philanthropic and public sector investors that is partnering with 21 local and regional funder collaboratives to adapt the workforce partnership approach to regional economies.<sup>23</sup> It is a mechanism for replicating and scaling; at the same time, it is demonstrating new variations on how workforce partnerships can be pursued with community college and public sector partners.

While workforce partnerships build connections to sectors and regions, workforce pipelines improve the preparation and readiness of jobseekers with a focus on neighborhoods and specific populations. These pipelines, sometimes referred to as “bridges” or “on ramps,” are built specifically to support sector-based projects. Unfortunately, millions of dollars are spent on parts of workforce pipelines that are not always connected to upstream training and job opportunities. The Casey Foundation has been developing neighborhood-based workforce pipelines in its Making Connections initiative sites.<sup>24</sup>

Workforce interventions alone are frequently not enough to support low-income, low-skilled workers as they enter the labor force or attempt to upgrade their skills. Other economic and social supports are needed. A range of workforce-plus efforts attempt to bundle work supports like child care and the Earned Income Tax Credit (EITC) with appropriate and affordable financial services to increase the economic well-being of families and to strengthen workforce interventions. Seedco’s Earnfair Alliance in New York City exemplifies this approach as does LISC’s network of Centers for Working Families (CWF) in Chicago. The CWF approach centralizes access to essential economic supports in a community based location that helps families build self-sufficiency, stabilize their finances, and move ahead. The Annie E. Casey Foundation is now launching CWFs in a cohort of community colleges, based upon promising evidence from early work with Central New Mexico Community College.<sup>25</sup>

Another area of innovation and replication involves the establishment of targeting and accountability mechanisms that ensure that jobs created with public

investments are accessible by low-income, low-skilled workers. Accountability progress across a number of major infrastructure projects has occurred in Los Angeles and now the LA Development Agency has committed to connect all of its investments to construction training programs. Community benefits agreements (CBA) are an innovative approach to accountability and the Partnership for Working Families is spreading emerging lessons in multiple cities.<sup>26</sup> CBAs are legally enforceable contracts setting forth a range of community benefits that a developer agrees to provide as part of a development project. These lessons and practices are especially important for the implementation of the ARRA of 2009.

Too often “best practices” in workforce development are in the “air” rather than being backed by solid evidence. This remains a major challenge for a field that is lacking in common, agreed upon outcomes, measures, and benchmarks. Public/Private Ventures’ Benchmarking Project is a promising effort that has engaged 150 workforce providers to anonymously share their data so that performance benchmarks can be established. The hope is that shared information will spur change to adopt the most effective practices.<sup>27</sup>

## Systems Change and Labor Markets

Creating change in the functions of the labor market as a whole, as opposed to individual job programs, promises the scale, sustainability, and structural changes needed to create good jobs and accessible career ladders for low-income jobseekers. Taking the route of policy change and systems reform, however, is not without peril; it requires a conceptual framework that identifies opportunities for change in labor markets, the capacity to build political alliances around change strategies, access to significant public and private resources, and a commitment to produce measurable results for low-income jobseekers.

The Workforce Investment Act (WIA) of 1998 is now more than ten years old and has received a boost of funding from the ARRA of 2009 after years of budget cuts. WIA reauthorization is also likely to occur after years of Congressional inaction. WIA’s infrastructure of one-stop centers is seeing increased numbers of customers as dislocated workers throughout the country seek employment and training assistance. Yet WIA has not succeeded in coordinating local and regional funding sources and improving overall system performance, failing to make strategies like education and skills enhancement and linkages between workforce and economic development priorities. As WIA is considered for reauthorization, the lessons that are emerging as part of a new workforce paradigm should inform its redesign.



Two contemporary advocacy campaigns represent the next generation of workforce policy and systems change. Skills2Compete is a national campaign led by The Workforce Alliance (TWA) that is advocating for public and private commitments to ensure that everyone has the opportunity to obtain post-secondary credentials. The Working Poor Family Project (WFPF) is a network of 24 state advocacy efforts that is trying to bring about policy change for education and skills enhancement, work supports, and economic development.<sup>28</sup>

## Conclusion

The new workforce paradigm that is emerging represents a pattern of convergence of outcomes, practices, and policies among practitioners of the fields of employment and training, welfare reform, community development, and regional economic development. The common concerns around retention and advancement in the labor market have brought these fields together in many respects, although much diversity in strategy and practice remains.

But we should not assume that policy makers and practitioners will build upon the success of this new workforce paradigm in a time of economic challenges. Sometimes new challenges and resources bolster the efforts of the past rather than spur new innovation and reform. Progress on at least five fronts is required in today's environment. First, engaging employers must extend their focus from the issues of job placement to the arenas of retention, advancement, financing, and shaping civic workforce agendas. Employer lead-

ership is key to long-term reform. Second, workforce innovations have to attain scale and sustainability by investing in best practices, benchmarking, information systems, and continuous improvement. In particular, we need to understand the types of leadership necessary to grow workforce innovations in different contexts. Third, investment in the capacity of community organizations to become effective workforce partners is important because outreach and recruitment, assessment, support, and follow-up are desperately needed, not only to achieve job placement but also for retention and advancement. Fourth, attention should focus on concentrating employment and economic opportunities in specific neighborhoods experiencing poverty; overall employment increases do not automatically saturate places with job opportunities, resources, labor market connects, or the confidence to find and keep a job. Finally, we must train and support human resources for the workforce development field if we seriously intend to advance practice and policy.

Many innovations in workforce and skills development grew out of the experience of economic growth in the 1990s and the acknowledgement of future skill shortages. Today's economic recession challenges these strategies in the short run but also underscores their importance related to public and private investments in infrastructure, transportation, health care, and energy efficiency and renewable energy. Adopting the lessons of the new workforce paradigm can make these public investments for jobs and careers more effective and long lasting. **CI**



Photo credit: Washington State Department of Transportation





# Back to School and Back to Work

## *Community Colleges and Workforce Development*

By Laura Choi

### Introduction

As the nation waits for economic recovery, workers from a variety of sectors and skill levels are struggling to recover from job losses. In past downturns, displaced workers could utilize unemployment insurance benefits to get by until the contraction ended, businesses expanded, and jobs were restored. But given the severity of job losses that have occurred in such a short period of time, displaced workers may face an entirely different employment landscape in the economy that emerges from this recession. A recent article in the *New York Times* reported that layoffs in key industries, such as manufacturing, financial services and retail, have accelerated so quickly that many companies may abandon whole areas of business; entire sectors of employment may not be restored and workers will have to be retrained for other careers.<sup>1</sup> This shift creates difficulties for displaced workers across the socioeco-

omic spectrum, but will be particularly impactful on low-wage, low-skilled workers trying to re-enter, or even make their first entry, into the labor market. These job seekers may face a barrage of additional challenges including limited work experience, weak information and labor market contacts, spatial mismatch (the geographic disconnect between good paying jobs and the neighborhoods where low-income workers live), and discrimination.<sup>2</sup>

The nation's community college system has a strong history of inclusive education and can play a significant role in low- and moderate-income (LMI) workforce development efforts. From the first community college built in Joliet, Illinois in 1901 to the more than 1,600 campus branches across the U.S. today, the system has expanded its reach significantly and presently serves 11.7 million students.<sup>3</sup> Well known for open-door ad-

missions policies, low tuition, flexible scheduling and accessible locations, community colleges have long been a valuable resource for LMI individuals seeking postsecondary education. In addition to their traditional roles of granting Associate's degrees and transitioning students into four-year university programs, community colleges have also become increasingly involved in local workforce development efforts. In light of the current state of the economy and the fragile labor market, worker training will likely become an even more important component going forward. This article explores the role that community colleges can play in preparing and connecting LMI adults to higher paying jobs and long-term career advancement.

### Meeting the Demand for Skilled Labor

Over the past two decades, researchers have predicted the creation of an “hourglass” labor force, characterized by rising job growth in the high-skill and low-skill occupational sectors. The declining share of “middle-skill” jobs, those requiring some training beyond high school but not a college level degree, has been cause for concern but recent data suggest that projected demand for these occupations will remain robust. According to one study, nearly half (about 45 percent) of all job openings between 2004 and 2014 will be in middle-skill occupations, as compared to 33 percent of job openings in the high-skill occupational categories and 22 percent in the low-skill service occupations.<sup>4</sup> It is projected that future growth in the supply of labor for these middle-skill jobs, including plumbers, electricians, healthcare workers, legal assistants and positions in the rapidly growing green building and clean technology sectors, will fall short of the growth in labor market demand, especially in light of the demographic shifts resulting from the immigrant labor force and retiring baby boomers.<sup>5</sup> Despite the current economic downturn, this projected shortage signals an important opportunity for LMI individuals to engage in skill building activities today that will allow them to transition into higher paying middle-skill jobs in the future.

One potential resource for connecting LMI workers with skill building opportunities and local jobs is the career “one-stop” system, created by the Workforce Investment Act (WIA) of 1998. One-stops were implemented as a response to the fragmented federal employment system and sought to efficiently provide employment and training services for workers while simultaneously linking employers with a skilled local labor pool. However, a Government Accountability Office (GAO) study found that employers predominantly utilized one-stops as a source of low-skilled labor: of

*Community colleges can also leverage their institutional strengths to improve the training and educational component of sectoral initiatives.*

the 9 percent of new employees hired through one-stop centers, two-thirds were low-skilled, in part because employers thought that labor available from one-stops were predominantly low-skilled.<sup>6</sup> Employers reported they would hire more job seekers from one-stops if they had the skills for which they were looking. These findings suggest that community colleges should play a vital role in addressing this skill deficiency by partnering with WIA one-stops to retrain low-skilled adults. In more than half the states, community college representatives serve on local Workforce Investment Boards (WIBs), providing important leadership and program capability, and valuable knowledge of what happens “on the ground” where service delivery occurs. Beyond serving on local WIBs, some community colleges are also operating one-stop centers, meaning they handle the day to day operations of the center. Community college officials explained that the benefits of this arrangement were cost efficiencies, cost savings, or access to other funding opportunities.<sup>7</sup> GAO reports that 11 percent of one-stops are operated solely or jointly by a community college and 34 percent have community college staff located at one-stop centers.<sup>8</sup> This type of collaboration adheres to the underlying intent of the one-stops to address fragmentation and increase efficiency, given the existing educational infrastructure available at community colleges and their experience in serving LMI adults with diverse educational backgrounds. In addition, formal partnerships with trusted educational institutions can lend greater credibility to the training capacity of one-stops, which may change employer perceptions about the quality of available labor.

Community colleges can also leverage their institutional strengths to improve the training and educational component of sectoral initiatives. Sectoral approaches rely on local employers and industry clusters to identify skill gaps and future labor demands, which can then be met through a variety of strategies carried out through community partners, such as community based nonprofits, local government agencies, or faith based organizations. Many sectoral strategies have proven successful, but are limited in their ability to achieve scale and serve a large number of workers and employers.<sup>9</sup> A growing number of sectoral initiatives are utilizing community



colleges as the sole training providers, allowing them to take advantage of resources such as a vast network of physical campuses, administrative competencies in admissions and financial aid, and faculty members specialized in a variety of subjects, all of which can lead to valuable increases in capacity. But perhaps the most important benefit of partnering with community colleges is their institutional expertise in understanding and meeting the needs of disadvantaged students.

*One of the key strategies to increasing access to higher learning for low-skilled adults is to provide comprehensive supports . . .*

### **Addressing the Unique Challenges Facing Low-Income Adult Workers**

LMI adult workers face a number of challenges that may hinder them from engaging in beneficial workforce training opportunities. These may include limited financial resources to pay for tuition and educational supplies, limited English speaking ability, weak literacy and math skills, as well as inflexible work schedules and the demands of caring for dependent children. In addition to these challenges, welfare reform in the nineties created additional barriers to educational attainment by instituting a “work first” policy that encouraged labor force participation among welfare recipients as soon as possible. Employment rates increased in response to the policy change but research suggests that these gains came at the cost of reduced educational attainment, particularly for low-income single mothers in low-wage jobs.<sup>10</sup>

Community colleges can partner with state Temporary Assistance for Needy Family (TANF) programs to bridge educational opportunities with work activities and transition welfare recipient students into long-term self-sufficiency. The California state TANF program known as CalWORKS partners with the California Community Colleges (CCC) system to offer: service coordination between county welfare offices, other public agencies and campus services; subsidized child care; job placement and job development services; and the development of new short-term, open entry/exit vocational programs. These shorter programs are especially vital in light of federal time limits for assistance, as TANF recipients must engage in work activities after reaching a trigger limit of no more than 24 months. Work-study is another important component of CCC CalWORKS that allows students to meet TANF work requirements while

simultaneously gaining valuable work experience and additional income.<sup>11</sup> Program implementation is done at the local level so courses can be geared towards fields with strong local labor market demand, and work study placements can become employment pipelines. For example, the Los Angeles Community College District works directly with Los Angeles government agencies to place CCC CalWORKS participants in public sector jobs. The CCC system reports that those in vocational programs and those who left with certificates or associate degrees increased their median annual earnings by 65-85 percent one year after completing their schooling and even CalWORKS recipients who entered without a high school diploma increased their earnings by 40 percent one year after exiting.<sup>12</sup>

But the challenges described above reach beyond TANF recipients, affecting the broader population of low-skilled, low-wage workers as well. One of the key strategies to increasing access to higher learning for low-skilled adults is to provide comprehensive supports, such as qualified career advisors, personal case management, affordable childcare, flexible scheduling and accessible locations. In Oregon, Portland Community College and Mount Hood Community College have developed “Career Pathways,” accelerated short term training programs for low-skill working adults. LMI adults may have academic deficiencies and lack the proper educational background to complete college-level technical courses; the pathways couple basic adult education with targeted employment training, allowing students to progressively move to higher-wage positions within an occupation as they complete more training.<sup>13</sup> The pathways model, which is being implemented state-wide, provides multiple entry, exit and reentry points into a broad range of programs which provides scheduling flexibility for working adults who may only be able to attend in short intervals.<sup>14</sup> These “modularized career pathways” are broken down into manageable pieces, imparting specific skills valued by local employers and leading to more rapid career progression.<sup>15</sup> LMI workers may have to overcome a number of other day-to-day hurdles on the path to skill attainment, such as limited means of transportation or geographic isolation from central city campus locations. The Washington State Institute for Extended Learning (part of the Community Colleges of Spokane District) addresses this need by operating more than 100 off-campus sites such as churches and community centers throughout the six-county district, including rural areas. Community colleges across the country are becoming more sensitive to the needs of LMI working students and are adapting to increase access and address attrition.

## Community College Fast Facts

Enrollment	
Total	11.7 million
Credit	6.7 million
Noncredit	5 million
Enrolled full time	40%
Enrolled part time	60%

Student Demographics	
Women	58%
Men	42%
Black	13%
Hispanic	16%
Asian/Pacific Islander	7%
Native American	1%
First generation to attend college	39%
Single parents	17%
Non-U.S. Citizens	8%

Average Annual Tuition and Fees	
Community colleges (public)	\$2,402
4-year colleges (public)	\$6,585

Source: American Association of Community Colleges.  
As of January 2009

## The Role of Noncredit Education

Many of the workforce development and training courses offered by community colleges are considered “noncredit” education, meaning they do not earn academic credit toward completion of a degree. Noncredit education makes up a significant part of community college activity; according to the American Association of Community Colleges, 43 percent of the nation’s community college students were enrolled in noncredit education in 2008. Workforce training is becoming an increasingly large component of noncredit education at community colleges and generally operates outside the confines of traditional academic programs, which offers certain advantages such as shorter terms, flexible course design and rapid responsiveness to local labor market trends. This can also be appealing to LMI students, who benefit from easier enrollment, flexible schedules, and less formal and less intimidating classroom environments.<sup>16</sup> A recent report by the Community College Research Center (CCRC), part of the Teachers College at Columbia University, found that several community colleges now promote workforce development as a major college mission and that federal and state funds have also spurred the development of noncredit program offerings in new technologies.<sup>17</sup> For example, Wenatchee Community College, located in central Washington State, offers a noncredit program in geographic information systems and the City College of San Francisco uses state economic development initiative funds to



bring advanced manufacturing, such as rapid prototyping and nanotechnology, into the classroom. However, noncredit education programs usually don't have tuition limits and are free to charge "what the market will bear," which could significantly impact equity and access issues for LMI students. According to CCRC, in 2008, more than half of the states provide general funds for noncredit workforce education, which helps to offset student costs. States allocated general funds for noncredit education in a variety of ways: California and Oregon provided funds based on "contact hours," or the amount of time students spend in class; Utah and Arizona allocated an annually determined fixed amount toward noncredit education; and in Alaska and Idaho, individual community colleges had discretion over how they choose to divide general funds between credit and noncredit education, while Washington, Nevada and Hawaii did not allow any general funds to be applied toward noncredit education.

Some groups have been resistant to support noncredit education, since it does not lead to a degree and may not lead to career advancement in the same way as degree programs. Past critics of noncredit education contend that low-funding levels and lack of outcome accountability may perpetuate class distinctions within the system as many noncredit programs serve a large share of LMI students.<sup>18</sup> But research has also shown that noncredit education can be an important point of entry into for-credit postsecondary education for this same reason, as many LMI students are introduced to the college experience through noncredit programs.<sup>19</sup> States are beginning to cultivate connections between noncredit and for-credit education and are creating innovative mechanisms to link the two, such as offering retroactive credits for students transferring from noncredit to for-credit programs and actively recruiting LMI students from noncredit programs into degree granting programs.<sup>20</sup> State policy can also play a role in increasing access to credit programs; CCRC found that colleges in states that provide general fund support for noncredit education were more likely to integrate noncredit and credit programs and to connect noncredit students to degree granting programs.<sup>21</sup> With the proper academic and comprehensive supports described above, students who may have otherwise never considered postsecondary education may be able to transition from workforce training to a college degree, allowing them to enter the workforce at higher wage levels, with greater long term career potential.

*... students who may have otherwise never considered postsecondary education may be able to transition from workforce training to a college degree, allowing them to enter the workforce at higher wage levels, with greater long term career potential.*

## Conclusion

As the country waits for economic expansion and the resulting restoration of jobs, the community development field has a timely opportunity to promote workforce development efforts. The recently passed American Recovery and Reinvestment Act (ARRA) of 2009 includes support for community colleges and their students, recognizing the importance of a skilled workforce for economic recovery. Additional financial assistance comes in the form of increased Pell Grants, a \$200 million expansion of the federal work-study program, the new "American Opportunity Tax Credit" that offers up to \$2,500 toward eligible student expenses, as well as state fiscal stabilization funds which can be used toward postsecondary educational and general expenses and facility modernization.<sup>22</sup> In addition, \$250 million will go towards the development of state-wide data systems that strongly emphasize the inclusion of postsecondary workforce information.

Community colleges that offer well designed occupational training programs should be considered valuable partners in the LMI workforce development effort. While such efforts in times of high unemployment may naturally focus on rapid job placement, the longer term goals of skill building and wage and career advancement should not be overlooked. As workforce development practitioners, policymakers, and community colleges continue to collaborate and innovate, the resulting impact on LMI communities will be significant. Going back to school today can make it easier to go back to work tomorrow, but more importantly, the additional skills and training will lead to a lifetime of economic stability and self sufficiency. **CI**





The Highline Community College Phlebotomy I-BEST program offers integrated ESL and career training.

## Workforce Development Needs for Immigrant Job-seekers

By Naomi Cytron

For the past decade, immigrant workers have been making up an increasingly large share of the workforce, composing nearly 16 percent of the labor force in 2008. For much of this time period, they have enjoyed a higher employment rate than their native born counterparts. But data released in March, 2009 from the Bureau of Labor Statistics indicate that these trends are reversing, and that for the first time since 2004, the unemployment rate among the foreign-born has edged up to match that of native-born workers.<sup>1</sup> For both groups, the jobless rate at the end of 2008 had risen to 5.8 percent, but for immigrant workers, the rate rose more steeply throughout 2008. Foreign-born Hispanic workers—who compose nearly 50 percent of the immigrant workforce—saw a particular rise in unemployment, with an 8 percent jobless rate at the end of last year.<sup>2</sup>

The disproportionate rise in job losses among immigrant workers largely stems from the fact that their recent employment gains have been mostly concentrated in only a few sectors—construction, production, and service occupations—sectors that have seen mounting job losses over the past year.<sup>3</sup> Employment in these sectors had also

been driving wage progression for immigrant workers, who, while still composing a disproportionate share of the low-wage workforce, had recently begun to move out of the lowest end of the wage distribution.<sup>4</sup>

The downturn has thus placed immigrant workers at particular risk of losing the foothold they had begun to gain in the U.S. economy. But they are additionally vulnerable because safety-net and job training resources that the native-born can utilize to help weather hard times are either more difficult for immigrants to access, or not available to them at all. For instance, One-Stop centers, the primary outlet for federal workforce development resources, often do not have bilingual staff who can assist immigrants with limited English skills. Additionally, Temporary Assistance for Needy Families (TANF) funds, which can be used not only for cash benefits but also for vocational education, English classes, and pre-employment skills training, are not accessible to legal immigrants until they have been in the U.S. for at least five years.<sup>5</sup> Undocumented immigrants face higher barriers still, as they can utilize only “core services” at One-Stop centers, which include access just to

information on local labor market needs and job-search assistance, and are ineligible to participate in intensive skills and literacy training programs.

Immigrants also face workforce barriers associated with limited educational attainment. While some immigrants arrive in the U.S. with very high skills and education credentials, many more do not. In 2008, for instance, 26 percent of the foreign-born labor force 25 years and older had not completed high school, compared with 6 percent of the native born workforce.<sup>6</sup> Not only does this limit job and earnings prospects for immigrants, it can also interfere with participation in job training programs, which can require not only spoken English proficiency but also higher reading and math skills, or even a GED. A sequential path through various education programs in language, math and jobs skills may simply take too long for immigrant workers seeking job placement or advancement.

However, training programs specifically geared toward overcoming some of the above noted hurdles have begun to operate around the country. These programs, typically cross-sector partnerships between local nonprofit groups and community colleges, and sometimes drawing in corporate partners, aim to improve job placement, retention, and advancement for immigrant workers by pairing the hard language, math and job skills needed by immigrants with “softer” cultural acclimation and on-the-job social skills.

In Chicago, for instance, the Instituto del Progreso Latino, a community based organization incorporated in 1977, has partnered with the Humboldt Park Vocational Education center, which is a campus of the City Colleges of Chicago, to connect Hispanic immigrants to jobs and skills. Their programs provide both basic English as a Second Language (ESL) classes as well as vocation-specific ESL (VESL) classes to prepare workers to participate in bilingual courses in advanced manufacturing (a “Bridge” program), and then place trained workers in area firms. An estimated 90-95 percent of participants in the Instituto’s Bridge program are first-generation immigrants. The Instituto also offers classes that help transition students with limited English-language skills into Licensed Practical Nursing positions. Here in the 12th District, Washington State’s Integrated Basic Education and Skills Training program delivers an innovative curriculum that integrates specialized automotive skills, ESL, and employability skills through Seattle’s Shoreline Community College. This program helps immigrants successfully complete an Automotive Service Associate Degree program, which in turn offers opportunities for workers to move up the career ladder to middle-management positions. Shoreline has also been able to secure additional state funding in order to offer other supportive services, including childcare

*Growing the capacity of integrated programs will thus not only entail simply creating spaces in the classroom, but will also necessitate expanding the responsiveness of programs to the array of cultural and linguistic needs of job seekers.*

and assistance with transportation, to enhance student success rates.

While there is limited research regarding the most effective ways to retrain and “upskill” displaced or underemployed immigrant workers, evaluations of individual programs indicate that this kind of “integrated” training yields significant increases in earnings, job quality, and stability over programs that focus solely on one skill set.<sup>7</sup> Yet most of these integrated programs operate at a very small scale, training 20-40 students on an annual basis. Going forward, many will not have the capacity to meet the growing ranks of displaced immigrant workers who could likely benefit from job training and placement services. Growing—or in some places, creating—the capacity to meet the needs of displaced immigrant workers should be a high priority, particularly in areas that have seen a considerable increase in low-skilled immigrant populations, including a number of 12th District states. Nevada and Arizona, for instance, rank as the states with the highest growth nationwide in their shares of foreign born residents from 2000-2007; Washington State ranks 12th.<sup>8</sup> While immigrants from Latin American countries have composed a great deal of this growth, significant numbers of immigrants have also arrived from other countries, including the Philippines, Vietnam, India as well as a number of African nations.

Growing the capacity of integrated programs will thus not only entail simply creating spaces in the classroom, but will also necessitate expanding the responsiveness of programs to the array of cultural and linguistic needs of job seekers. It may also require improved outreach to immigrant workers who may not be aware of the programs available to them.<sup>9</sup> Close collaborations between community colleges or other established adult education centers and community based organizations that have effective outreach channels can facilitate this kind of support for immigrant job-seekers. Aiming in these ways to meet what will likely be growing workforce development needs of immigrant job-seekers will be essential in the times ahead, as it can enable immigrants to progress beyond low-wage work as the economy recovers. **CI**





Seattle Vocational Institute (Pre-Apprenticeship Construction Training Program) students show the demonstration solar roof they built. Photo credit: Green For All

## Back to Our Roots, Just Greener this Time

### *Community Development Corporations and Workforce Development*

By Makini Hassan, Executive Director, Marin City Community Development Corporation

#### Introduction

Community Development Corporations (CDCs) were created in the late 1960s to help low wealth communities address the range of problems associated with economic and political exclusion. Although CDCs initially engaged in a broad array of activities, from community organizing to economic development and job services, many developed an almost exclusive focus on affordable housing development during the 1980s.<sup>1</sup> A survey conducted by the Urban Institute indicated that by the early 1990s, only about half of the responding CDCs (55 percent) engaged in workforce development.<sup>2</sup> As the economy continues to struggle and layoffs persist, CDCs have a timely opportunity to return to their roots as providers

of workforce development services that target underserved communities.

Workforce development provides skills training and career preparation services that prepare jobseekers for entry and advancement into high-demand occupations in rapidly growing industries. The results of such efforts are careers that provide living wages, benefits (such as healthcare and paid sick leave), and marketable skills that improve the economic viability of community residents. This article will discuss the role of CDCs in providing workforce development services and highlight some of the strategies and innovations, such as the green jobs movement, that will shape the future of this important field.





Participants in a job training seminar at Marin City Community Development Corporation.

## The Role of CDCs in Workforce Development

CDCs are well positioned to provide direct workforce services because of their strong community ties and their established presence as a trusted resource. Many CDCs provide a range of workforce services and align pre-vocational services such as classes in job readiness, basic training in math and writing, and computer skills courses.

For example, West Angeles Community Development Corporation (WACDC), located in south Los Angeles, offers work-readiness skills training, mentoring, and career counseling to help low-income jobseekers secure quality employment. WACDC also provides affordable housing and asset development services and has linked credit repair counseling and homeownership services to its workforce development efforts. WACDC maintains an in-depth knowledge of its client base and has a deep understanding of the requirements for success in the modern workplace; it can utilize these strengths to provide customized coaching and support. According to Dr. Lula Ballton, Executive Director of WACDC, those who have been “chronically unemployed can be what they can see.” In other words, as these clients gain skills and confidence through workforce development services, they can begin to see the real prospects and benefits of steady employment. WACDC provides leadership development and mentoring, and focuses on developing strong math, speaking, and writing skills to make clients job-ready. In addition, they provide conflict resolution training, which is an important workplace skill that improves job retention and encourages overall career success. WACDC partners with the local Urban League and Workforce Investment One Stop Career Center to connect job seekers to occupational skills training and more advanced employment services.

Successful CDCs can extend the reach of their services in the workforce development field even further. Those organizations that demonstrate expertise and have a proven track record of accomplishment have become excellent providers of technical assistance to other workforce development CDCs. For example, after receiving numerous requests for technical assistance, Marin City Community Development (MCCDC) decided to develop this core competency and now supports capacity building for workforce development service providers. In addition to helping to promote best practices, this new business line contributes to MCCDC’s financial sustainability through the fee for service contracts.

CDCs also play a role as policy intermediaries, ensuring that the public workforce and economic development systems provide meaningful services to underserved populations, and that community and faith-based organizations remain integral to the workforce delivery system. CDCs can encourage the effective implementation of policies that prioritize underserved populations facing multiple barriers to employment. One important strategy is to actively participate on the local or regional Workforce Investment Board, which has oversight of an area’s primary workforce development efforts. CDCs often have the required core competencies to provide “intensive services” within the workforce development system, and are able to enhance results because of their specific expertise with target populations. CDCs can also help to bring together other workforce institutions within the community. For example, CDCs have the flexibility to work with targeted industries, the public workforce system, educational institutions, and occupational skills providers to support the complex effort of sectoral workforce development strategies.

CDCs are particularly well-suited to serving as workforce intermediaries, since they tend to be more flexible and entrepreneurial. One example of this is the recent policy and industrial shift to “green industries” and the mission to create “green collar jobs.”

The green jobs movement is an important part of the future of workforce development, as it seeks to improve career opportunities for low-wealth communities while significantly improving the environment. Van Jones, who recently became the White House Special Advisor for Green Jobs, Enterprise, and Innovation, is an important leader in this movement. As the former Executive Director of the Ella Baker Center in Oakland, he helped develop the Oakland Green Jobs Corp Program with the Apollo Alliance. This innovative work of connecting environmental advocacy issues with the emerging growth of the green sector caught the attention of Speaker Nancy Pelosi. The idea that this new green economy could “lift all boats” by ensuring that underserved pop-

ulations become priorities in occupational skills training spurred the creation of the national Green Jobs Act, which authorizes up to \$125 million to establish job training programs for green industries.<sup>3</sup> There was an overwhelming national and international response, with many other governmental entities requesting assistance to craft similar legislation. The organization Green for All was established on January 1, 2008 to focus specifically on green jobs policy.

The green jobs movement is an exceptional approach to community economic development, as it engages low-income communities in creating social, economic, and environmental change. Recognizing this opportunity, Marin City CDC has developed a workforce development sectoral strategy for the green industry. The work of MCCDC initially began with solar industry employers providing photovoltaic installation training to job seeking clients, after initial classroom based preparation, academic advancement instruction, and a variety of other comprehensive career supports. As green sectors became more easily identifiable and opportunities in the energy efficiency industry were projected to increase, MCCDC realized the potential to link workforce training efforts to the agency's housing preservation services for local low-income homeowners. MCCDC partners with GRID Alternatives, a provider of low cost solar installation services, to promote a workforce development strategy that provides increased training, energy efficiency measures, and realized savings for low-income residents of the community. This project has also helped reach underserved residents, who benefit greatly from authentic job skills training when it is offered in their own community, along with easily accessible vocational supports. In addition, their training contributes to the community in a meaningful way. The next phase of the program will include training for weatherization and other energy efficiency services and is close to implementation. These types of programs offer meaningful benefits for jobseeking clients as well as community residents as a whole.

## Conclusion

CDCs can utilize a variety of funding sources to provide skills training to address the current challenges of unemployment in low-income communities. Investments into workforce development efforts are varied

*Effective workforce development strategies are strategically aligned with the mission of community development corporations, which began with a focus on employment and career training services.*

and have recently increased with new governmental commitments to job creation and environmental protection. Many public entities, such as the Department of Health and Human Services, Department of Energy, and HUD, are strengthening support for workforce development efforts. Philanthropic organizations, many of which have reduced support in recent years and are struggling with diminished corpuses in the current economic climate, have formed effective workforce funding collaboratives throughout California and other regions in the country. These collaboratives develop and expand investments of foundations, the public sector, and private businesses, and increase flexibility by combining a diversified funding approach with collaborative and coordinated decision-making on grants.<sup>4</sup> The private sector is an important contributor to workforce development through direct involvement in training and the provision of resources; collaboration with an industry partner often authenticates the relevance and core business value of an initiative. Many large companies and industry associations have foundations or other sources of revenue to support workforce development and many banks and financial institutions support this effort through their Community Reinvestment Act commitments.

Effective workforce development strategies are strategically aligned with the mission of community development corporations, which began with a focus on employment and career training services. Housing development and asset building strategies recognize the importance of successfully increasing incomes as an essential element to building self-sufficiency. With this mission to increase income and expand employment opportunities in high growth industries, such as the new green economy, community development corporations have the chance to reconnect with their roots, and become even more effective contributors to this dynamic field. **CI**





Photo credit: Jeff Turner

## Foreclosure Update: *The National Community Stabilization Trust*

As local governments grapple with the negative spillover effects of foreclosure in their communities, an important national initiative is underway to assist localities in acquiring and redeveloping foreclosed and abandoned properties. Known as the National Community Stabilization Trust (the Trust), this initiative represents an unprecedented collaboration of the nation's four leading housing and community development nonprofit organizations – Enterprise Community Partners, the Housing Partnership Network, the Local Initiatives Support Corporation (LISC), and NeighborWorks America. The National Urban League has also recently joined the Trust as a partner, providing an invaluable community and resident empowerment perspective as well as expertise in addressing economic development and workforce issues.

The Trust was created to provide the tools and capacity necessary to respond to concentrated REO properties at the local level. Mary Tingerthal, President for Capital Markets Company at the Housing Partnership Network, said that initially it wasn't clear how a national effort could have an impact on this issue. "Over

time, we realized that the most important thing we could do is help coordinate the transfer of REO properties from financial institutions to local housing organizations in collaboration with local and state governments." Across the country, local governments and nonprofits have struggled with this piece of the REO puzzle. Multiple barriers exist to the disposition of REO properties, including the difficulty of valuing properties in a declining real estate market, identifying the owner of record, negotiating the multiple liens on foreclosed properties, and working with servicers in a way that doesn't violate their legal obligations under pooling and servicing agreements.

With these barriers in mind, the Trust has been working with servicers to develop standardized procedures for transferring properties to nonprofits and local governments as part of their neighborhood stabilization efforts. According to Craig Nickerson, the President of the Trust, the goal is to serve as "a bridge between the servicer and local housing worlds, helping to rebuild neighborhood housing markets in a transparent and efficient manner."

The Trust has developed two separate mechanisms for transferring properties, its “First Look” program and its “Bulk Purchase” program. Both of these programs offer standardized sales procedures and property valuation. The First Look Program gives qualified buyers the opportunity to inspect and acquire foreclosed and vacant properties before they are listed for sale through traditional means. The Targeted Bulk Purchase Program gives qualified buyers the opportunity to purchase portfolios of distressed property in bulk, usually up to dozens of properties in a single transaction. In both cases, the sales price is based on a model that helps to determine the “net realizable value” of the REO, which attempts to capture the ‘current’ market value minus the costs of disposition (including the holding costs of insurance, real estate taxes, maintenance, transaction costs, rehab costs required for code compliance and marketing).<sup>1</sup> Many of the leading financial institutions are already participating in the Trust, including Bank of America, Citigroup, Fannie Mae, Freddie Mac, JPMorgan Chase, and Wells Fargo.

Initially, the Trust hopes to offer its programs to approximately 40-50 “partner” localities. In selecting partner locations, the Trust is looking to identify sites that demonstrate the 5 “C’s.” (See Box) Nickerson says that these principles form the core of an effective neighborhood stabilization effort. “Without them, the Neighborhood Stabilization Program (NSP) grants will not go nearly far enough in mitigating the problem.” Within

*The First Look Program gives qualified buyers the opportunity to inspect and acquire foreclosed and vacant properties before they are listed for sale through traditional means.*

the Federal Reserve’s 12th District, over 30 localities receiving Neighborhood Stabilization Program funds are already working with the Trust.

In addition to facilitating the transfer of foreclosed and abandoned properties, the Trust is developing a capital fund that would provide short-and intermediate-term financing for the purchase and rehabilitation of foreclosed and abandoned property. And, building on the long-standing focus of NeighborWorks, Enterprise, and LISC, the Trust is committed to building the capacity of local housing providers by providing targeted technical assistance and information on best practices. “By working together,” Nickerson notes, “we will be able to demonstrate that community and neighborhood based strategies can make a difference in responding to this crisis.” **CI**

*For more information about the National Community Stabilization Trust, visit <http://stabilizationtrust.com/>.*

## The 5 C’s of Successful Neighborhood Stabilization Efforts

**Collaboration.** The local community stabilization effort involves an established partnership with government agencies, nonprofit organizations and other local stakeholders that defines the roles and accountabilities of each participant.

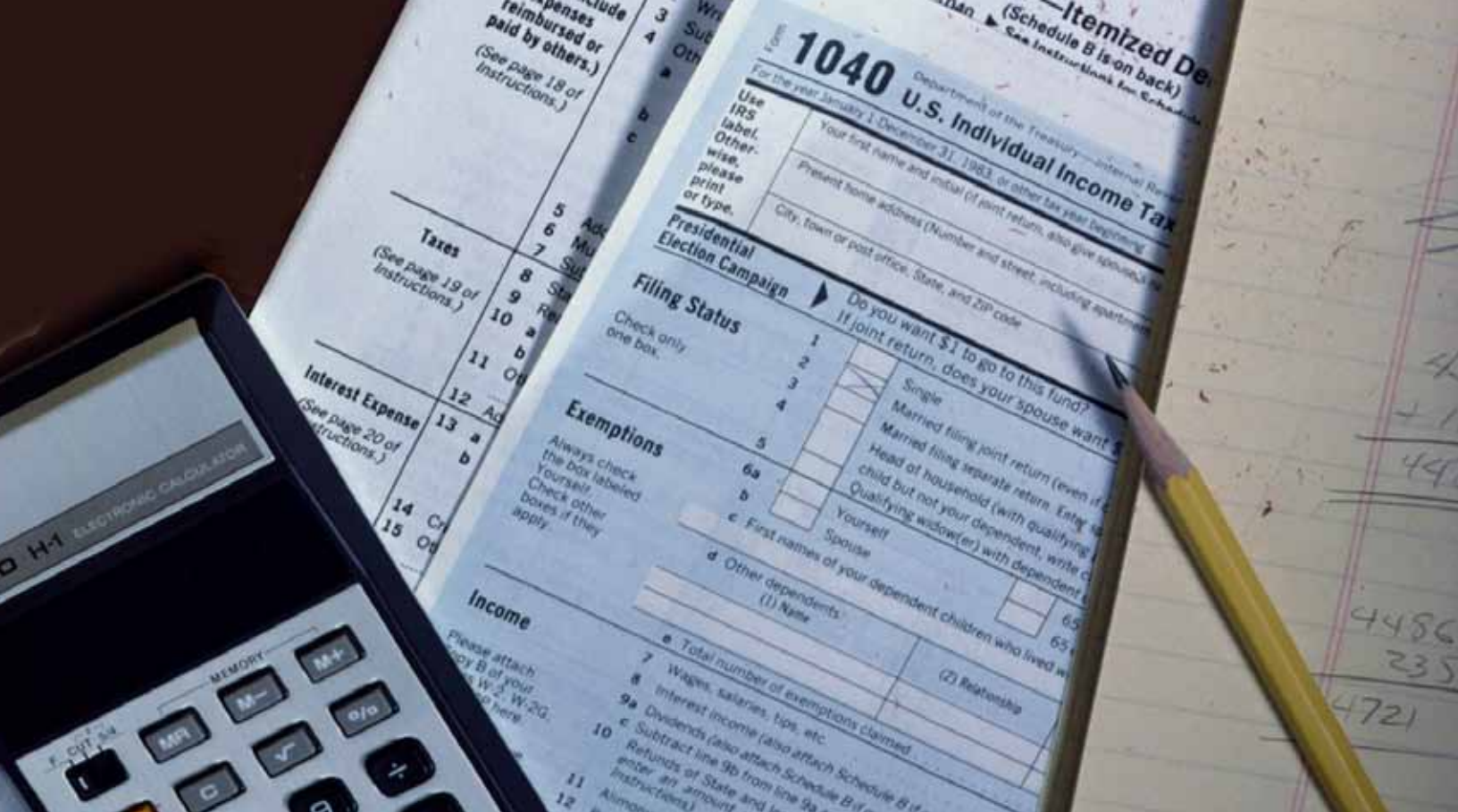
**Concentration.** The local community stabilization effort should focus on one or more defined geographic areas to increase the likelihood that a significant, visible impact can be achieved.

**Comprehensive.** Bricks and mortar activities such as the acquisition and rehabilitation of properties purchased through the Stabilization Trust should be complemented by a broader strategy that leverages related social investments and improvements to infrastructure, incorporates a marketing campaign, and otherwise integrates tangible and intangible community efforts.

**Capacity.** The local community stabilization effort should include organizations with the ability to assess, acquire, manage, rehab and convey properties at scale.

**Capital.** The program should have sufficient resources from the HUD Neighborhood Stabilization Program (NSP) funds and other public and private resources to conduct a successful stabilization program.





# Beyond Lump Sum

## *Periodic Payment of the Earned Income Tax Credit*

By Steve Holt<sup>1</sup>, The Brookings Institution

Over the last two decades, public policies designed to provide income support to impoverished households have shifted focus to encourage and support work. As a result, the tax system has become as important as the welfare office in supporting the poor, as evidenced by the nation's largest anti-poverty program for working families: the Earned Income Tax Credit (EITC).

Although the EITC is an income tax credit, it functions for many of its recipients as a transfer payment to offset payroll taxes and provide additional cash. The EITC is fully refundable, meaning that its size is not determined by a person's income tax liability. Workers eligible for the largest credits have no federal income tax liability but still qualify to receive the full value of the credit. A key difference between the EITC and other forms of income support is timing. The norm for programs such as cash assistance, Food Stamps, and Social Security is a monthly payment. In contrast, almost all EITC households receive a large, single payment after the end of the tax year for which they qualify.

This article considers the problems with almost exclusive reliance on year-end ("lump-sum") payment, the value of providing payments periodically throughout the year, and the limitations of the current EITC advance payment option. President Obama's fiscal year 2010 budget has proposed to eliminate the advance option, adding greater urgency to this debate. This paper concludes with a design framework for an alternative periodic payment system.

### **The Need for a Viable Periodic Payment Alternative**

Practical evidence and some research points to the popularity of large refunds among EITC recipients. But a transfer payment system that effectively obligates low-income working households to wait months for basic assistance they have earned is questionable social policy. For tax year 2008, refundable tax credits could comprise as much as 43 percent of annual income for the households benefiting most from the EITC.<sup>2</sup> Expansions of the Child Tax Credit and educa-



tion credits in the American Reinvestment and Recovery Act of 2009 (ARRA) will further augment refunds for some working families, at least temporarily.

From the perspectives of both recipients and society as a whole, there are additional merits to having a viable periodic payment alternative.

First, available data indicate the EITC is mostly used to finance consumption, such as everyday bills, or for some families, larger items such as appliances or furniture.<sup>3</sup> While efforts to help EITC recipients use large refunds for longer-term wealth building strategies are admirable and in some cases successful, evidence suggests that most low-income claimants use the majority of their refund dollars for more immediate needs.

Second, a significant portion of EITC dollars intended to assist households in need has instead flowed to commercial tax preparers. Much of this outflow relates to a product—the refund anticipation loan (RAL)—developed to accelerate filers’ receipt of their money.<sup>4</sup>

These high priced loans, with annual percentage interest rates ranging from 40 percent to over 700 percent, divest about \$1.57 billion in fees each year from EITC payments to working parents.<sup>5</sup> RALs are popular because they allow families to get their money more quickly, and large lump-sum refunds disguise their costs, which can be deducted from the refund amount.

Third, the EITC—in both intention and effect—makes work pay, but an almost exclusive reliance on year-end payments weakens the connection between the credit and work. The lump-sum payment can look more like a bonanza to both recipients and policy makers. A more effective and widely used periodic payment option would better underscore the “earned” quality of the credit.

Fourth, delivering the EITC primarily through year-end refunds also limits its effectiveness as a policy instrument. The credit provides a boost in purchasing power which helps families pay off bills and perhaps

Table 7.1 **Payment methods for earnings supplements and child benefits in other countries, 2007**

	AUSTRALIA	CANADA	IRELAND	NEW ZEALAND	UNITED KINGDOM	UNITED STATES
<b>Program name</b>	Family Tax Benefit, Parts A & B	Child Tax Benefit; National Child Benefit Supplement	Family Income Supplement	Working for Families Tax Credits	Child Benefit, Child Tax Credit, Working Tax Credit	Earned Income Tax Credit; Child Tax Credit
<b>Administering agency</b>	Family Assistance Office; Australian Taxation Office	Canada Revenue Agency	Department of Social and Family Affairs	Inland Revenue Department; Ministry of Social Development	HM Revenue and Customs <sup>1</sup>	Internal Revenue Service
<b>Annual benefit amount <sup>2</sup></b>	\$9,432	\$5,557	\$15,023	\$7,262	\$17,599	\$5,271
<b>Periodic payments</b>	Optional	Mandatory	Mandatory	Optional	Mandatory (choice of frequency)	Optional
<b>Basis for calculating payments</b>	Estimated earnings; current family composition	Income for prior calendar year; current family composition	Income for prior month (or other appropriate period); current family composition	Estimated income; current family composition	Prior year income; current family composition	Current period income from disbursing employer; anticipated family composition
<b>Periodic payment amount</b>	\$322 (biweekly)	\$463 (monthly)	\$289 (weekly)	\$279 (biweekly)	\$1,354 (every four weeks)	\$33 (weekly)
<b>Periodic disbursement method</b>	Direct deposit to financial institution	Direct deposit to financial institution, or check	Direct deposit to financial institution	Direct deposit to financial institution	Direct deposit to financial institution	Addition to paycheck by employer

<sup>1</sup> The scope of the tax agency role is relatively recent; the absorption of the Child Benefit Agency into Inland Revenue in the United Kingdom occurred in April 2003.

<sup>2</sup> Calculated for single parent, two pre-school children, full-time work, earning \$15,000 (any child care components excluded). To facilitate cross-national comparability, all figures are in U.S. dollars. Rates of exchange used per 1 unit of foreign currency are: Australian Dollar (\$0.80 US); Canadian Dollar (\$0.90 US); Euro (\$1.35 US); New Zealand Dollar (\$0.70 US); British Pound (\$1.95 US).

finance some larger household items. Periodic payment could increase the affordability of housing or health insurance.<sup>6</sup> It could also enhance other initiatives (such as refundable assistance for higher education and child care) where the timing of outlays does not currently coincide with tax season.<sup>7</sup>

Finally, error and fraud associated with the EITC remain major concerns. Although frequently-cited estimates of improper claims are likely overstated and include many inadvertent mistakes, the EITC does provide opportunities for those taxpayers (or tax preparers) willing to commit fraud. Reducing single-payment payoffs at tax time could reduce the potential allure of such illicit activity.<sup>8</sup>

Periodic payment is the predominant method used in several other countries to disburse earnings supplements and child benefits that are analogous to the EITC (see Table 7.1). Although each country's programs are distinctive, the general recognition of the merits of periodic payment and the operation of viable systems for providing it are instructive.

### **The EITC Advance Payment Option— Structure, Utilization, and Issues**

Federal policy recognized the merits of periodic payment and introduced an advance payment option of the EITC in 1978. Unfortunately, the Advance EITC suffers from a poor design, as reflected by the low take-up rate among recipients.

Most workers who expect to qualify for the EITC and are able to claim at least one qualifying child for the current year are eligible to receive advance payments and do so by enrolling through their employers. The employer has no role in verifying eligibility, and there is no required communication with the IRS. The advanced amount is determined according to IRS formulas and assumes the current period's wages are received for the full year; this amount is added to the employee's paycheck on a regular basis. The employer finances advance EITC payments by deducting them from its withholding and tax payments to the IRS. A worker receiving EITC advance payments must file a Form 1040 or 1040A tax return and report the payments. If the total advances exceed the credit for which the worker is eligible, the excess constitutes an additional tax owed and could result in a net payment liability.

Very few EITC recipients utilize the advance payment option. Tax return statistics show a general decline in recent years in the number and proportion of filers claiming the Advance EITC. In tax year 1997, 1.5 percent of EITC returns for workers with qualifying children reported an advance. This declined to 0.8

percent by tax year 2001 and remained at that level in tax year 2004. Total reported advance payments for tax year 2004 represented just 0.16 percent of the total EITC claimed by taxpayers with qualifying children.<sup>9</sup>

A 1992 General Accounting Office (GAO) report identified three principal reasons for low utilization of the EITC advance payment option that remain relevant today: 1) many eligible employees and their employers were not aware of the option; 2) some employees feared having to repay advances when they file their tax returns; and 3) some employees preferred a single lump-sum refund payment instead of smaller periodic payments.<sup>10</sup>

Awareness of the advance payment option likely remains low, and outreach efforts may not change this. A 1997 IRS experiment designed to inform eligible recipients led to only a very small increase in advance payment usage.<sup>11</sup> A 2006 experiment at different locations of a major national employer doubled to quadrupled advance payment use, but that similarly amounted to a small number of new participants.<sup>12</sup>

The possibility of repayment liability is another factor behind low take-up, though program design mitigates this risk. The advance payment option has a ceiling, set at 60 percent of the EITC for a family with one qualifying child, which reduces the risk of year-end tax liabilities. Most EITC recipients could safely receive advance payments and not risk a repayment liability (for example, a household earning an annual income of \$10,000 would receive a maximum advance payment equivalent to just 43 percent of the total credit for two or more children). Nonetheless, EITC recipients appear to demonstrate great aversion to any risk of owing money back at the end of the year.

The preference for a lump-sum refund also runs strong among taxpayers in general. Nearly all EITC recipients (96 percent) claim a tax refund, as do a majority of non-credit recipients (76 percent).<sup>13</sup> By intentionally generating a refund via overwithholding (having more taxes withheld than is necessary to meet annual tax liability), EITC recipients and others effectively use the IRS as a de facto savings account that enforces temporary fiscal discipline.<sup>14</sup>

In addition to low utilization, the Advance EITC also suffers from compliance problems, documented in reports from the GAO and the Treasury Department.<sup>15</sup> The GAO provides recommendations for administrative changes to address the compliance issues but also raises concerns about their practicality and effectiveness. It concludes by suggesting that the Secretary of the Treasury evaluate the options and advise Congress on whether the advance payment option should be retained. President Obama's FY 2010 budget proposal to eliminate the Advance EITC indicates the judgment of the new administration.

## Design Framework for A New EITC Periodic Payment Option

The current Advance EITC is ineffective, yet exclusive reliance on lump-sum payments is also unwise. The following are suggested design principles (also summarized in Table 7.2) to guide consideration of a viable alternative system for periodic payment of the EITC (and possibly other current and prospective tax-based income supports).

### ***Make payments directly, not through employers***

In theory, employers are good intermediaries: they already have a periodic payment relationship with their employees, and they have more frequent contact with the IRS through regular deposit of payroll taxes and withholdings and quarterly report filings. Nonetheless, employers will not play a meaningful role in periodic payment. An employer has little of the information needed to assess worker eligibility and make accurate payment calculations.<sup>16</sup> Workers appear to have little appetite for interacting with their employers in this way. There is also nothing in the international experience to indicate greater potential for employer involvement.<sup>17</sup>

### ***Use the IRS to administer periodic payments***

Although the IRS has less of an explicit social welfare function than tax agencies in other countries, it remains the best choice for making periodic payments. Governmental entities administering other public benefits are not well-suited to taking a lead role in making periodic payments, especially as most EITC recipients are not now clients of social welfare agencies.<sup>18</sup> The EITC is tied to work, which is not the focal criterion for other benefits programs. The enforcement-centered approach of traditional benefits programs runs counter to the self-determinative, voluntary compliance character of the tax system and would unreasonably differentiate EITC recipients.<sup>19</sup>

### ***Adopt a modest “safe harbor” to protect taxpayers from repayment risk***

The current EITC advance payment option has both prospective and retrospective elements: a prediction for advance payment eligibility based on current income (similar to payroll withholding), and a year-end calculation of the actual credit due.

In some situations, such as a temporarily unemployed worker returning to a well-paying job, requiring repayment of excess periodic payments may make sense. More problematic are overpayments that result from the inability to project accurately the EITC for which a taxpayer is ultimately eligible. Income may

fluctuate in unanticipated ways over the course of a year, and family composition can change unexpectedly.

A safe harbor limits liability by providing a method for a taxpayer to demonstrate presumptively that she is acting in good faith. A worker requesting and receiving EITC periodic payments in good faith should be protected against incurring a repayment liability. The safe harbor could be a combination of having properly claimed the EITC in the prior year and a reasonable expectation of eligibility in the current year.

### ***Accept some degree of target inefficiency***

Inherent in the safe harbor concept is recognition that some workers will receive payments for which they were not eligible. This will decrease the EITC's target efficiency, or the proportion of total payments that are received by the program's target population. The design challenge is to keep the inefficiency within reasonable bounds.

If prior year eligibility for the EITC is used to establish eligibility for current-year periodic payment claims, target efficiency will depend in part on how likely recipients are to claim the credit in successive years. One IRS analysis found that just over 70 percent of tax year 2000 EITC claimants also claimed the credit in tax year 2001.<sup>20</sup> Yet an IRS study looking at six consecutive tax years found that about one-quarter of EITC claimants over that period received the credit in only one year.

The tolerance for target inefficiency is also a policy decision that may vary depending on the reason for ineligibility. Two studies of the EITC population found that fluctuations in eligibility and participation were more closely tied to variations in income, rather than changes in family composition.<sup>21</sup>

The Advance Child Tax Credit was used as an economic stimulus in 2003 and set a precedent for tolerating overpayments in favor of administrative simplicity. Eligibility was based on prior-year eligibility but also required applying the advanced credit against the subsequent year's credit. However, recipients who received an advance in excess of their subsequent year credit did not incur a repayment obligation.

### ***Use communication and reporting to improve targeting and efficiency***

There is currently no means for a taxpayer to indicate directly to the IRS that she expects to be eligible for the EITC in the current tax year. She can only make a claim after the fact through the income tax return filed in the next calendar year.

Schedule EIC (part of the Form 1040 which the taxpayer completes in order to claim the credit for qualifying children) could include a section permitting the claimant to declare that she expects to be eligible again



for the credit in the coming year. The declaration would be signed under penalty of perjury. New claimants with qualifying children could submit a similar signed declaration of expected eligibility as a stand-alone document.

Creating additional, less traditional opportunities for information transfer from taxpayers to the IRS—via postcard, telephone, or online transaction—could further improve the efficiency of a periodic payment system.

### ***Limit the portion of the EITC that can be obtained through periodic payment***

Although the rationale for providing families with benefits as quickly as possible could justify accelerating the full amount of the credit, it is preferable to follow the current advance payment practice of limiting the periodically-paid percentage. This approach provides a cushion that reduces repayment risk for recipients and serves as a curb on inefficiencies resulting from the safe harbor approach. It preserves the ability to use the EITC (along with overwithholding) as a means of accumulation, and it minimizes complications related to the tran-

sition from lump sum to periodic payment. Initially, for reasons of both simplicity and transition, setting a single default (for example, 50 percent of the anticipated total credit) is probably wise.

### ***Balance liquidity with accumulation, connection to work with administrative feasibility, in determining payment frequency***

A focus on helping households with everyday needs and reinforcing the earned quality of the EITC would argue for weekly or biweekly disbursement (as occurs in other countries). However, this would ignore the demonstrated desire for some degree of forced savings; furthermore, increased frequency of payments inevitably increases administrative costs.

Most of those who interact with the IRS more than once a year do so roughly every quarter.<sup>22</sup> Quarterly periodic EITC payments would enable some accumulation while providing a regular source of funds. Once the program is established and well-tested, a monthly frequency option could be explored as well.

### ***Mandate use of direct deposit***

Direct deposit to financial institution accounts is most often the only payment vehicle available for in-work tax benefits in other countries. Private employers and the public sector in the U.S. are trying to move away from paper checks, and a new periodic payment system should reinforce that orientation.

A periodic payment system would have to address the challenge of delivering payments to “unbanked” households, perhaps by offering institutional incentives for opening accounts and new product lines.<sup>23</sup> The expansion in transaction volume that would result from greater use of periodic payments could advance those efforts. Accounts could be established for any recipient not providing deposit account information on the tax return or perhaps on the Schedule EIC or separate declaration of eligibility.<sup>24</sup> The Direct Express Card (debit card) offered to Social Security beneficiaries is another delivery model.

### ***Make periodic payments an “opt-in” for initial implementation***

There is increasing recognition of the value of automatic enrollment with an opt-out opportunity, as opposed to programs that require voluntary opt-in for enrollment. The Pension Protection Act of 2006 permits employers to use automatic enrollment with 401(k) and 403(b) plans. Workers have the right to withdraw from the plan, but the expectation is that automatic enrollment will increase retirement savings among those who

## **Encouraging Direct Deposit**

Direct deposit offers a number of advantages, such as safety and convenience, yet many people who receive Social Security and Supplemental Security Income (SSI) still get checks. Go Direct is a national campaign, sponsored by the U.S. Department of the Treasury and the Federal Reserve Banks, aimed at increasing awareness of these benefits and helping people sign up for direct deposit of federal payments. An estimated 140 million federal benefit checks are mailed each year; Treasury estimates that if these payments were converted to direct deposit, taxpayers could save about \$130 million annually.

But what if recipients don't have a bank account? The Direct Express® Debit MasterCard® card offers an innovative solution. This prepaid debit card allows recipients to receive their benefits and make purchases electronically, with no risk of lost checks or stolen cash. Recipients do not need a bank account to sign up for the card, and there is no credit check or minimum balance requirement. In addition, there is no sign up fee and no monthly fee. Most services are free; there are fees for a limited number of optional transactions and services. Payments are made every month and are automatically posted to the Direct Express® card account, allowing users to withdraw cash from ATMs, make purchases at stores that accept Debit MasterCard® or even pay bills online. Currently, the Direct Express card may only be used for Social Security and SSI payments. For more information, visit [www.GoDirect.org](http://www.GoDirect.org) and [www.USDirectExpress.com](http://www.USDirectExpress.com).

may wish to save but would have otherwise failed to take action to opt into the plan.

In this context, automatic enrollment would reflect a value judgment that periodic payment of the EITC is the preferred method from both the recipient's and society's perspectives. This proposition is yet untested. At the outset, policy makers should aim to offer recipients two equally reasonable and viable choices.

Given the history of the advance payment option, the "opt-in" approach requiring taxpayer initiation would likely lead to low initial take-up. However, this would actually be advantageous as periodic payment mechanisms are tested and improved.

**Consider implementing periodic payment in conjunction with program expansions**

Any attempt to shift from large lump-sum refunds to periodic payments requires attention to transition. The approximate current levels of EITC benefits have been in place for over a decade, and households have undoubtedly incorporated the payment pattern into their budgeting and cash management. Some sectors of the

economy are likely accustomed to the seasonal flows as well.<sup>25</sup>

ARRA makes temporary enhancements to the EITC and the Child Tax Credit which the administration and Congress will likely seek to make permanent. Expansion of either program would provide an opportunity to phase in a new periodic payment system for those credits over two to three years.

**Conclusion**

In its lump-sum form, the EITC meets a desire for large tax refunds seen throughout the population. Nevertheless, there are strong reasons for developing a viable alternative, with none more significant than accelerating payment of earned benefits to cash-strapped families. The flaws evident from experience with the existing Advance EITC recommend a new approach. The principles enumerated in this article provide a framework for developing a detailed design of a periodic payment system. Although no single approach is perfect, realizing the full potential of the EITC requires greater attention to the mechanics of how payments are made. **CI**

**Table 7.2 Elements of a Periodic Payment System**

*This table summarizes potential elements of an alternative periodic payment method for the EITC using the design framework outlined in the paper.*

<b>Administrative responsibility</b>	<ul style="list-style-type: none"> <li>• Internal Revenue Service</li> <li>• No employer role</li> </ul>
<b>Eligibility</b>	<ul style="list-style-type: none"> <li>• Prior year EITC receipt plus declaration on Schedule EIC of expected continued eligibility</li> <li>• Detailed declaration of expected eligibility from new claimants</li> </ul>
<b>Recipient choice</b>	<ul style="list-style-type: none"> <li>• "Opt-in" during initial implementation period</li> <li>• Goal of presumptive ("opt-out") participation</li> </ul>
<b>Payment method</b>	<ul style="list-style-type: none"> <li>• Direct deposit to financial institution accounts</li> <li>• Debit cards or special accounts for unbanked recipients</li> </ul>
<b>Frequency of payments</b>	<ul style="list-style-type: none"> <li>• Probably quarterly (at least initially)</li> </ul>
<b>Size of payments</b>	<ul style="list-style-type: none"> <li>• Initial default of 50 percent of anticipated total credit (equally spread over periodic payments)</li> </ul>
<b>Periodic reporting</b>	<ul style="list-style-type: none"> <li>• Development of mail, phone, or online methods for periodic verification of eligibility</li> </ul>
<b>Error reconciliation</b>	<ul style="list-style-type: none"> <li>• "Safe harbor" (no repayment obligation) for payments based on valid declarations of eligibility</li> <li>• Conventional enforcement and recovery of improper payments</li> </ul>



## San Francisco Works to Support Working Families by Vivian Pacheco

**T**he Earned Income Tax Credit (EITC) is a federal tax benefit for low- and moderate-income workers that helps offset their tax burden and increase the returns to work. In 2005, the EITC helped lift 5 million people out of poverty, including 2.6 million children—in fact, the EITC lifts more children out of poverty than any other federal program. For some workers, the EITC can represent a 40 percent pay increase.<sup>1</sup>

Yet, despite these benefits, between 15 and 25 percent of eligible families do not claim their EITC refunds—valuable dollars that can help low-income families make ends meet and help stimulate local economic activity.<sup>2</sup> In San Francisco, these unclaimed dollars add up to an estimated \$12 million.<sup>3</sup> Recognizing the magnitude of these unrealized benefits, the City of San Francisco implemented the Working Families Credit (WFC) in 2005.<sup>4</sup> This innovative program provides a local match to the federal EITC and was designed to increase awareness among low-income households and incentivize qualified residents to file EITC claims.

The WFC, one of the few, if only, city sponsored

EITC matches, has successfully demonstrated the potential of this type of program in raising awareness and uptake of the EITC. Between 2004 and 2007, more than 24,000 families received credits, amounting to \$6.7 million dollars in WFC funds that have gone to low-income families living in the City. In addition, according to Tara Cohen, Program Coordinator for the WFC, for every \$1 spent by the City to increase uptake, another \$24.15 in federal EITC funds are put back into the wallets of qualified working families. Originally, the WFC was funded partly by a grant from H&R Block, but these funds, along with other private sources, dried up when the pilot phase ended. As a result, the City has been forced to modify elements of the program from its original pilot phase structure. The program is no longer a public-private partnership; it is now a solely publically funded program, and the responsibility for program oversight shifted from the Office of the Treasurer to the City's Human Services Agency (HSA) in the tax year 2006. Mayor Newsom committed to an annual allocation out of the City's general funds for the WFC, making



the program part of the City's permanent safety net for low-income working families.

The City continues to allocate approximately \$1.4 million to the WFC program per year. But, less funding has led to a change in the WFC match. Now, WFC applicants receive a flat refund of \$100 per family, down from an average WFC refund of \$240 in prior years (which was calculated as a percentage of the EITC refund). The change in budget also significantly decreased the ability to market the program to a wide audience.

Realizing they have to do more with less, HSA has been working to develop ways to tie the WFC to other supports for low-income working families, such as ensuring that WFC recipients are fully enrolled in the programs and services for which they are eligible, from health insurance to utility bill discounts. While about 57% of WFC recipients are enrolled in other locally-run public benefit programs (ie. Medi-Cal, Food Stamps, CalWORKS), the City has previously not had an effective way to reach the remaining families to ensure that they are receiving the wide range of benefits for which they might qualify. Now, through the WFC program, the City can more easily connect families with other local services such as discounted bus passes, Food Stamps, health care, and programs that provide free-checking accounts or discounted computers. "This program helps families access benefits all year long, even though the Credit is heavily marketed during tax season," explained Ms. Cohen. The new universal \$100 credit simplifies program implementation and budgeting, as well as the marketing to the general public. The HSA has piloted targeted outreach strategies to WFC applicants to enroll them in programs and services through direct mail and phone contact.

*"This program helps families access benefits all year long, even though the Credit is heavily marketed during tax season"*

The WFC also prompted the City to develop and promote asset building strategies. In the first year of the program, the Treasurer was surprised to learn that a quarter of WFC applicants lacked a bank account or a relationship with a mainstream financial institution, and were taking their WFC checks to high-cost check cashers. This finding impelled the City to embark in developing and implementing the successful Bank on San Francisco program that works to remove the barriers for low- and moderate-income residents from obtaining a bank account, such as bad bank histories, lack of necessary identification, and the cost of maintaining an account.<sup>5</sup> The WFC and Bank on San Francisco have



worked together to help recipients keep the full amount of their refund. Clients can open an account from a participating bank or credit union and collect their refund free of charge by cashing, depositing, or direct-depositing their refund in a financial institution.

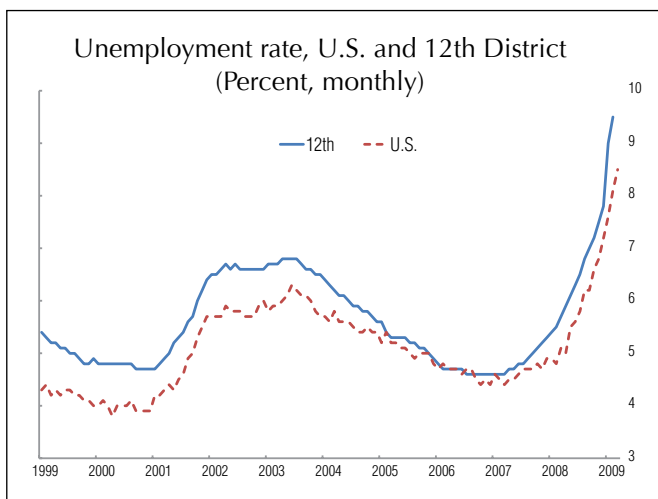
The City is also experimenting with providing the \$100 credit in the form of a savings bond. The goal is to introduce a new savings product to working families. A savings bond usually pays about 5 percent interest—more than most savings accounts. During its debut year, fewer than 1% of WFC applicants chose the savings bond as a payment option. The low up-take of this option may point to a lack of familiarity with this product among the target population. Even so, the hope is that as WFC recipients learn more about this option, they will be encouraged to think about savings and choose to buy savings bonds in the future.

The City has also used the WFC to raise awareness of predatory products like refund anticipation loans (RALs) and payday loans. According to IRS data, in the 2003 tax year, 57 percent of RAL borrowers were EITC recipients. RALs are extremely costly to the customer because they include various fees such as a "risky loan" fee, administrative fees, tax preparation fees, and even a check cashing fee, in addition to the already high APR.<sup>6</sup> A RAL can typically cost an EITC customer between 5 -13 percent of their refund, but can seem attractive because recipients get their money right away. However, the benefits of a RAL are diminished when there are alternatives like direct deposit and free tax preparation services that can shorten the process of the refund to 7-10 days without unnecessary fees. The WFC has worked to promote these alternatives and to develop a network of free tax preparation sites and banks willing to open accounts in target neighborhoods, competing against the businesses that actively promote RALs.

While on its face not enough to lift a family out of poverty, the City hopes that the \$100 WFC will leverage other important benefits for low-income families in San Francisco, and promote a wider range of asset building opportunities moving forward. **CI**

# DATA SNAPSHOT

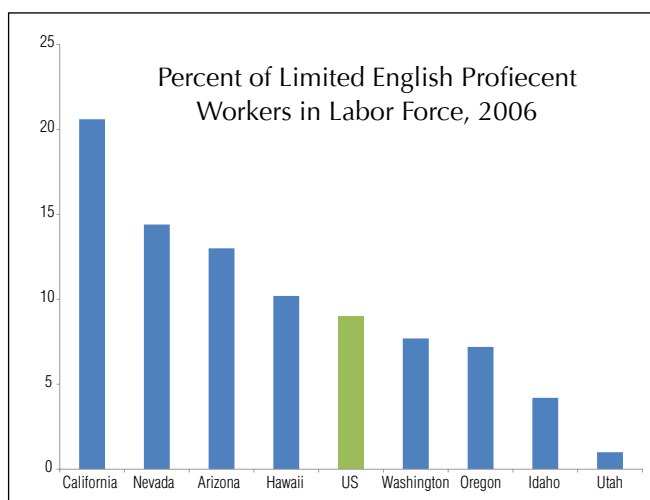
## TRENDS IN UNEMPLOYMENT



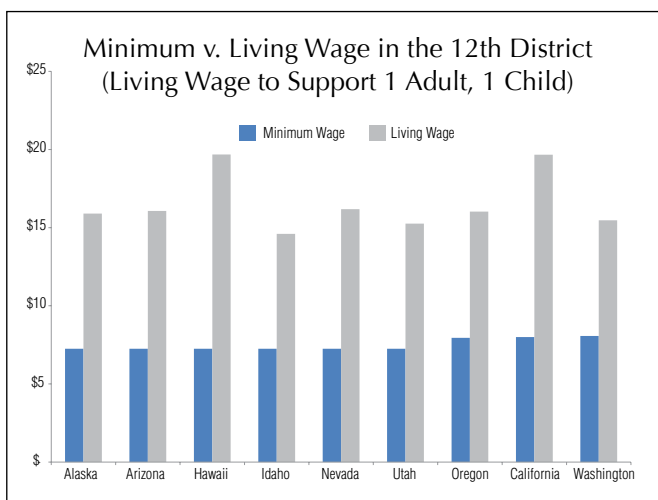
Source: Bureau of Labor Statistics

In 2006, California's laborforce had twice as many limited english proficient workers than the national average.

Number of jobs lost in the 12th District: **1,086,500**



Source: 2006 American Community Survey



Source: Poverty in America – Living Wage Calculator

In 2007, the percent of the nation's labor force that worked at least 27 weeks and lived below the poverty line: **5.1**

# DOCTOR CRA

THE DOCTOR IS IN by John Olson



Dear Doctor CRA:

*I've spent a lot of my time on foreclosure prevention activities for the past few years. Also, many of our employees have volunteered their services to help out with things like borrower outreach. Will I get CRA credit for these activities?*

Signed,  
Fighting Foreclosures in Phoenix

Dear Fighting:

This question has been on lots of people's minds recently. Many CRA officers have seen foreclosure prevention work take over their plans for the year. Fortunately, the CRA Questions and Answers that were issued in January shed some light on how this work will be considered under the CRA. There are lots of details in the Q&A to keep track of, however. As with many CRA issues, it's not a simple "yes" or "no" answer, so you'll want to examine the Q&A carefully, and consult your primary regulator for guidance on how specific activities will be treated. A link to the new Q&A, and lots of other CRA resources, are available on the San Francisco Fed's website at <http://www.frbsf.org/community/craresources/index.html>.

Now, let's dig into the details:

## Community Development Services (Question 12(i)-3)

A new item has been added to the list of examples of qualified community development services: "providing foreclosure prevention programs to low- or moderate-income (LMI) homeowners who are facing foreclosure on their primary residence with the objective of providing affordable, sustainable, long-term loan modifications and restructurings." Take special note here of the particulars: the activity must be focused on LMI homeowners' primary residences, and must be structured to provide sustainable modifications. Another item in the list of examples indicates that "providing...financial services education...including credit counseling to assist low- or moderate-income borrowers in avoiding foreclosure on their homes" is a qualified service. In the latter example, any foreclosure prevention service that is targeted to LMI homeowners should qualify as a community development service.

## Revitalizing and Stabilizing LMI Geographies (Question 12(g)(4)(i)-1)

The answer to the question on what activities revitalize and stabilize an LMI geography has been amended to include foreclosure prevention. The answer now states: "foreclosure prevention programs with the objective of providing affordable, sustainable, long-term loan restructurings or modifications to homeowners in low- or moderate-income geographies, consistent with safe and sound banking practices, may help to revitalize or stabilize those geographies." Note here that the program must be targeted to LMI geographies, and again, must be structured to provide sustainable modifications.

## Responsive Lending Activities (Question 22(a)-1)

A new item has been added to the list of activities that are considered "likely to be responsive in helping to meet the credit needs of many communities." Examiners may consider these responsive activities as augmenting the bank's lending programs. The new item states that "establishing loan programs with the objective of providing affordable, sustainable, long-term relief, for example, through loan refinancings, restructures, or modifications, to homeowners who are facing foreclosure on their primary residences" may be considered favorable. Note here that there are no qualifications regarding the income level of the borrower or of the neighborhood served.

These new additions to the Q&A should help clarify how to submit your foreclosure prevention activities for consideration on your CRA exam. Be sure to consult your regulator to get more guidance on what documentation will be required and which programs will qualify for CRA consideration.



# RESEARCH BRIEFS

## Gentrification and Equity Gains



Photo credit: Dana Files

Within the community development field, one of the big questions is how to ensure neighborhood revitalization without inducing gentrification. Between 1994 and 2004, significant new sources of capital flowed to formerly distressed minority communities, and many inner cities experienced an urban renaissance. The question is, did this gentrification help minority homeowners in the community gain wealth, as they too saw the equity in their homes rise? Or did it merely displace existing residents as new “yuppies” moved in?

Using the American Housing Survey’s Metropolitan Sample,

Jonathan Glick explores the effects of gentrification on home equity among Black and Latino homeowners in 26 major U.S. metropolitan statistical areas between 1994 and 2004. The data reveal common patterns in gentrification. At the onset, the neighborhood is generally characterized by a relatively high concentration of Black and Latino homeowners, and they see increased levels of home equity. But then, many of them appear to move to other parts of the metropolitan area as the process continues. And equity gains vary considerably. For example, in Denver, New Orleans, Seattle, and Phoenix, equity gains are comparable among Black, Latino and White homeowners in gentrifying areas. However, in Portland and Oklahoma City, only White homeowners experienced equity gains during gentrification. Glick concludes that on balance, gentrification does not benefit Black and Latino homeowners, and may in fact encourage the re-concentration of Black and Latino homeowners in other parts of the metropolitan area where home equity gains may be lower. This suggests a need to focus more policy efforts on preserving minority homeownership in these communities and stemming the negative effects of displacement.

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Glick, Jonathan. 2008. “Gentrification and the Racialized Geography of Home Equity.” *Urban Affairs Review* Vol. 44 No. 2: 280-295.

## Government Spending and Economic Mobility

Most Americans embrace the ideal of hard work and talent as a means to economic advancement; after all, we live in the “land of opportunity.” But we also know that poor children are much more likely to stay poor, even as adults. Education can break that cycle, and research has shown that investment in children’s human capital increases their future income, but most studies focus solely on parental investment, ignoring the effect of government spending on low-income children. To what extent does government investment in children’s human capital development affect intergenerational economic mobility?

Susan Mayer and Leonard Lopoo use data from the Panel Study of Income Dynamics and state spending data from the U.S. Census of Governments to address this question. The authors explore differences in the level of overall state spending per child using data from 1972, 1977, 1982, and 1987. Following the children living in those states over time, they find greater intergenerational mobility in high-spending states compared to low-spending states, and also find that the difference in mobility between advantaged and disadvantaged children is smaller in high-spending compared to low-spending states. Mayer and Lopoo also find that certain categories of spending are more significant in increasing economic mobility, such as investments in elementary and secondary education, public welfare, Medicaid, health and hospitals.

These findings indicate that government spending can be a potential mechanism to overcome parental income differences and improve the economic potential of children from low-income families.

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Mayer, Susan and Leonard M. Lopoo. 2008. “Government spending and intergenerational mobility.” *Journal of Public Economics* 92: 139–158.



Photo credit: Wonderlane

## Teacher Retention in High-Poverty Schools

Attracting and retaining high quality teachers can be a challenge, particularly for schools with low test scores or those located in high-poverty communities. A seemingly straightforward solution would be to increase teacher compensation, but political and fiscal challenges have made this approach difficult to implement. Moreover, maybe money isn't what drives teachers to tough it out another year? Does more pay entice qualified teachers to stay in low-performing schools in poor neighborhoods, to the benefit of disadvantaged students?

The answer appears to be yes, money does matter, but only slightly when the pay raise is small. Observing an incentive program in North Carolina, researchers Charles Clotfelter, Elizabeth Glennie, Helen Ladd, and Jacob Vigdor find evidence that a bonus payment was sufficient to reduce teacher turnover. The North Carolina Bonus Program, implemented from 2001 to 2004, awarded annual bonuses of up to \$1,800 to certified teachers of math, science and special education in middle and high schools serving low-income or low-performing students. The bonus reduced turnover rates from about 30 percent to 25 percent. The impact wasn't dramatic, but the bonus payment was relatively small, about four percent of the teacher's base salary. And the bonus program had the highest relative impact on experienced teachers. Experience is one of the few observable teacher characteristics that reliably predict higher student achievement, suggesting that increasing salaries may be an effective strategy for improving the quality of education in high-poverty schools.

The authors note two important program design elements. First, an incentive program perceived as permanent appears to be more effective than a temporary or one-time bonus program. Second, bonus payments are more effective at influencing decisions regarding where to teach relative to decisions regarding whether to teach. Properly structured market incentives can improve teacher retention, which could make a world of difference for disadvantaged students.

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Clotfelter, Charles, Elizabeth Glennie, Helen Ladd, and Jacob Vigdor. 2008. "Would higher salaries keep teachers in high-poverty schools? Evidence from a policy intervention in North Carolina." *Journal of Public Economics* 92: 1352–1370.

## Loan Modifications and Higher Debt?

When the OCC released its figures that more than half of loans modified in the first quarter of 2008 fell delinquent within six months, many claimed that loan modifications don't work, and that efforts to prevent foreclosures may be unsuccessful. Yet many assumed that loan modifications make a loan more affordable, not less.

Alan White challenges this assumption and argues that certain subprime loan modifications in the past year were not successful because in many cases they actually increased homeowner debt and monthly payments. Using a large database of three and a half million subprime and alt-A loans, known as the Columbia Collateral file, White analyzed data for the months of January, October, November, and December of 2008. He found that more than two-thirds (68%) of voluntary modifications reported in November 2008 actually increased debt by capitalizing unpaid interest and/or fees by adding them to the outstanding balance; the average capitalized amount was \$10,800 per mortgage. In addition, White found that debt writedowns occurred in a very small portion of modifications, and were done by only a few servicers. In 90% or more of the modifications, there was no forgiveness of past due interest, expenses, or principal reported. Comparing the monthly payments for all mortgages reported modified in November 2008, White reports that only 35% showed a reduced monthly payment, while 18% showed an unchanged payment and 47% showed an increased payment.

White encourages the mortgage industry to develop coordinated policies that will discourage foreclosures by making aggressive and permanent adjustments to failing mortgage loan contracts. Hopefully, the Administration's plan to prevent foreclosures, which focuses specifically on reducing monthly payments to affordable levels, will further encourage lenders to do just that.

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## Back to Our Roots, Just Greener This Time

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## Foreclosure Update

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## Beyond Lump Sum

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- 17 The United Kingdom formerly paid the Working Tax Credit through employers, but this ended in favor of direct payments to household bank accounts in April 2006.
- 18 At community tax sites participating in the National Tax Assistance for Working Families Campaign in 2007, 53 percent of survey respondents indicated that they had not received Food Stamps, Medicaid, SCHIP, TANF, subsidized child care, or subsidized housing during the tax year. Author's calculations for The Annie E. Casey Foundation.
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### San Francisco Works to Support Working Families

- 1 For more information, see "Policy Basics: the Earned Income Tax Credit," *Center on Budget and Policy Priorities*, [www.cbpp.org/pubs/eitc.htm](http://www.cbpp.org/pubs/eitc.htm)
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- 5 See "From Mattress Money to Bank Accounts: A Profile of Bank on San Francisco." *Community Investments*, Vol. 21, No. 1, 2008.
- 6 California Reinvestment Coalition website. <http://www.calreinvest.org/predatory-lending/refund-anticipation-loans>



## 5 Tips for Avoiding Foreclosure Scams

### **Work only with a nonprofit, HUD-approved counselor.**

If you are looking for help to prevent foreclosure, be sure the counseling agency is on the Department of Housing and Urban Development's list of approved agencies. Visit HUD's website for an easily searchable list of HUD-approved housing counseling agencies, or call 877-HUD-1515 (877-483-1515) for more information. If you are approached by foreclosure counselors--by mail, phone, or in person--make sure the counseling agency is HUD-approved before you do business with them.

### **Don't pay an arm and a leg.**

You should not have to pay hundreds--or thousands--of dollars. Most HUD-approved housing counselors provide no-cost counseling services and many more provide low-cost counseling. Do not agree to work with a counselor who collects a fee before providing you with any services or who accepts payment only by cashier's check or wire transfer. In general, do not pay money to anyone unless you know exactly what services you will receive.

### **Be wary of "guarantees."**

A reputable counselor will not guarantee to stop the foreclosure process, no matter what your circumstances. Working with a legitimate counselor can certainly increase your chances of keeping your home--but be wary of people who promise a sure thing. Again, get the details of your transaction, along with any promises, in writing first.

### **Know what you are signing--and be sure you sign it.**

Don't let a counselor pressure you to sign paperwork you haven't had a chance to read through carefully or that you don't understand. Don't sign any blank forms or let "the counselor" fill out forms for you. Be sure to talk with an attorney before signing anything that transfers the title of your home to another party.

### **If it sounds too good to be true, it probably is.**

If you feel you may be the target or victim of foreclosure fraud, trust your instincts and seek help. For tips on spotting scam artists, visit the Federal Trade Commission's webpage on foreclosure rescue scams. Report suspicious schemes to your state and local consumer protection agencies, which you can find on the Federal Citizen Information Center's Consumer Action Website.

*For more information, visit [www.federalreserve.gov/pubs/foreclosuret看tips](http://www.federalreserve.gov/pubs/foreclosuret看tips)*







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## The *Community Development Investment Review* Real Estate Owned

The national inventory of Real Estate Owned (REO) properties—foreclosed homes that revert back to the mortgage lender—is expected to peak at 1.4 million in mid-2010. From a community development standpoint, this presents an unprecedented opportunity to increase the nation's stock of affordable housing. The *Community Development Investment Review* explores the growing REO problem and several strategies to convert REO properties into affordable homes for low-income owners and renters. The *Review* is available online at <http://www.frbsf.org/cdinvestments>.