

2005 INNOVATIONS AWARDS PROGRAM

APPLICATION

Deadline: April 4, 2005

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1. Program Name

Michigan Statewide Earned Income Tax Credit Coalition Initiative

2. Administering Agency

Michigan Department of Human Services

3. Contact Person (Name and Title)

Susan Cocciarelli, Coordinator, Statewide EITC Coalition

Ramondo Gee, IRS SPEC Executive Director

Ed LaForge, Director, DHS Bureau of Community Action and Economic Opportunity

Don Mussen, Director, DHS Family Income Support Programs

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8. Web site Address

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9. Please provide a two-sentence description of the program.

This statewide initiative is a unique partnership among the Governor's office, the Department of Human Services, and communities throughout Michigan to provide affordable, ethical access to tax preparation services to the working poor. An evaluation conducted in the first year of the initiative demonstrated that a coalition approach yielded a cost effective method that enables eligible workers to increase household income through federal and state tax refunds to which they are due.

10. How long has this program been operational (month and year)?

The Initiative began in November, 2003

11. Why was the program created? What problem[s] or issue[s] was it designed to address?

The compelling reason for initiating this Initiative was the irrefutable fact that a low number of Michigan workers were claiming the EITC, therefore leaving a large percentage of federal refunds unclaimed. Efforts to maximize income support among low wage workers was one of several solutions undertaken by the Department of Human Services to address the *polarization* that has become evident as the income gap between affluent and low income households has widened over the past six years in Michigan. Armed with the conclusive evidence that the EITC is a viable method of lifting low wage households out of poverty, the Governor's office supported a strategy that stressed information and access at the community level.

12. Describe the specific activities and operations of the program in chronological order.

May, 2002: Michigan State University and MSU Extension staff hosted a meeting with the Internal Revenue Service SPEC Detroit Office to discuss working together to increase access to the EITC among workers across the state, especially in rural areas where access to tax preparation services were non-existent

November, 2002: MSU Extension received an internal grant to both assist in the development of EITC sites in four Michigan communities and to evaluate the impact on household income.

January 2003: The Kent County Community Tax Coalition opened its first free tax preparation sites. Key leadership included the Delta Strategy and the Kent County Family Independence Agency. So effective was this coalition in reaching low wage households, that the Michigan Governor's Office, Federal Department of Health and Human Services, and the Internal Revenue Service visited the coalition in June 2003 and agreed to cooperate in efforts to expand this model to Benton Harbor, and other communities in Michigan.

September 2003: MSU Extension submitted its report on the effectiveness of the EITC on household income to the Michigan Family Independence Agency and met with the Governor's staff to organize a statewide Summit on the Earned Income Tax Credit.

October, 2003: Lt. Governor John Cherry convened the first Statewide EITC Summit, which was held in Lansing MI. Members of the Summit planning committee and invited guests became members of the inaugural Statewide EITC Coalition. A State of Michigan EITC website was announced at this summit. The website provides a portal for easy access to EITC information, resource materials. It can be accessed at michigan.gov/eitc.

November, 2003: The Michigan Family Independence Agency entered into a contract with Michigan State University Extension to lead a statewide approach to increase the number of eligible Michigan residents claiming the EITC. To accomplish this goal, strategies in the Statewide EITC Initiative included the preparation of an online tool kit, financial and technical support to four targeted community coalitions charged with creating free tax preparation and other services,

and the establishment of a statewide EITC advisory Committee to guide the projects efforts. An evaluation was created to provide the funder with the following information: the value of the coalition –building model as an effective strategy to create EITC access in communities; effective and cost-efficient delivery methods for reaching EITC-eligible taxpayers in the community; and the impact of these efforts on the intended audience, the community, and the state.

December 2003-April 2004: Four pilot Michigan communities built local coalitions and, through those efforts, assisted 7,065 households claim \$2,635,618 federal refunds, of which 60% was EITC refunds. A cost to impact study was conducted by MSU showing that for every TANF dollar spent on assisting workers to file at the tax preparation sites, a range of \$9:14 to \$29.13 was generated within the four pilot tax sites, which included volunteer time, refunds generated, and savings among taxpayers who filed for free.

Further study showed that taxpayer household income in those four pilot sites was raised between 14%-17% just for applying and receiving the EITC refund. The same taxpayers' household incomes were raised between 21% and 23% when all federal refunds were taken into consideration. Seventy-four percent (74%) of the taxpayers served in two major metropolitan areas, Detroit and Grand Rapids, spent their refunds locally for paying bills and credit debt. Fourteen percent (14%) were able to save some of their refunds. This 2004 study corroborates an 2003 MSU study in four Michigan community tax sites, where 75% of refunds were spent locally on bill paying and groceries.

Community Action Agencies used CSBG funds to prepare tax returns at some sites across Michigan.

June, 2004: The Statewide EITC Coalition hosted a “Wrap-Up Learning Event” for all coalitions and other emerging groups in Lansing.

September 2004: MSU Extension submitted an evaluation of its efforts. The evaluation was prepared by an MSU faculty in Human Ecology. This evaluation report, entitled, “Michigan’s Statewide Earned Income Tax Credit Initiative, September 2004 Evaluation Report”, can be found on the state website, www.michiganeic.org, under the publications link.

October, 2004: The Michigan Family Independence Agency entered a second year contract with Michigan State University CS Mott Group for Sustainable Food Systems to continue with efforts to support the Statewide Coalitions efforts. TANF funds were provided to community action agencies through the Michigan Bureau for Community Action and Economic Opportunity to support community action agency delivery of tax preparation services to TANF eligible individuals. These TANF funds were legislated through Public Act 172.

November 2004-March 2005: Through IRS SPEC Detroit office efforts, three new coalitions were formed, including a rural 11-county Coalition that represented Michigan’s model rural coalition effort. All but one community action agency regions offered in-house free tax preparation services to TANF eligible households, and the statewide Coalition grew to now represent twenty-four (24) statewide organizations and coalitions.

January-March, 2005: Michigan State University facilitated three strategic planning sessions to create a statewide plan and budget. This plan and budget was submitted to Marianne Udow, Director, Michigan Department of Human Services, and to the Governor's Public Policy Division.

January 2005: Michigan State University and the University of Michigan's Poverty Law Program partnered to create the website: www.michiganeic.org. The Michigan EITC Toolkit was offered on-line, as well as a complete Michigan county data base of all free tax preparation service availability throughout the state.

January 2005: The ICAN! Tutorial-based web-based free filing service was launched with Michigan Works! office locations in several Michigan communities.

13. Why is the program a new and creative approach or method?

Because a statewide approach to assisting low wage earners access to the EITC did not exist prior to the Governor's initiative, the Michigan Statewide EITC Coalition was a pioneer effort in the United States. Although Mayors of large U.S. cities have endorsed their cities' efforts to undertake an EITC campaign, Michigan is the first state in the country whose Governor has taken leadership in creating a statewide initiative for exploring and implementing a cost-effective, sustainable method for delivering free tax services to Michigan low wage earners.

The Statewide EITC Coalition is unique in that it brings grassroots community members together with public policy groups, statewide associations, municipal leaders, volunteer organizations, the private and philanthropic sector, financial institutions, and government agencies to address the financial future of low wage workers throughout Michigan through the lens of tax preparation access. Further, these entities address access to affordable and ethical financial services and public policy that ensures access.

14. What were the program's start-up costs? (Provide details about specific purchases for this program, staffing needs and other financial expenditures, as well as existing materials, technology and staff already in place.)

The initial expenditure for the pilot initiative and creation of the statewide EITC coalition was \$136,000. These funds were used for five purposes:

- 1. Coordination of the technical assistance to the pilot tax preparation sites**
- 2. Coordination of the statewide coalition**
- 3. A mini-grant program whereby mini-grants were provided to each of the coalitions out of this initial contract**
- 4. Hosting a statewide learning exchange**
- 5. Evaluation of the project**

The budget that accompanies this report details the expenses associated with developing free tax preparation sites, from the easiest to hardest to measure. Recruiting volunteers is one of the most labor intensive aspects of creating tax preparation services. Site management is the second most labor intensive component.

A complete budget for a tax preparation site developed by a coalition is included in this award application. (Appendix A)

15. What are the program's annual operational costs?

A budget was submitted to the DHS Executive Director. Please see the attached budget that outlines an annual budget based on 20 coalitions who prepare 1,000 returns. (Appendix B)

16. How is the program funded?

The Statewide EITC Coalition Initiative is funded through TANF funds, Community Service Block Grants for Community Action Agencies, Internal Revenue Service SPEC staff support, and locally-garnered support through private philanthropy and in-kind contributions among local coalition organizational members.

17. Did this program require the passage of legislation, executive order or regulations? If YES, please indicate the citation number.

Although this initiative did not require legislation, supportive boiler plate language existed in the 2003 Michigan Family Independence Agency Appropriations Bill. This supportive language allowed the Michigan Family Independence Agency, now known as the Department of Human Services, to contract with Michigan State University to create a Statewide EITC Coalition and to assist in the development of coalitions in four pilot sites, with the assistance of the IRS, as a model to create free tax preparation services in communities with high unclaimed EITC return rates.

18. What equipment, technology and software are used to operate and administer this program?

Equipment, technology, and software are necessary for tax preparation for two important reasons:

- 1) In order to provide services that enable the taxpayer to electronically file and get a return check or deposited in a financial institution, tax sites need access to newer computer systems, the Internet, and software programs that provide feedback in a report form. Taxpayers are willing to spend a huge percentage of their return for paid tax preparation services if they get their refunds immediately. The capacity of sites to electronically prepare the returns and allow direct depositing of refunds allows taxpayers to keep all their refund and prevents predatory lending services.**
- 2) Not all communities can build a coalition; however, public entities such as libraries and employment/training sites have partnered with the coalition to allow tutorial based software loaded onto computers so that tax payers can file on their own. Computers and internet services are needed to provide this type of access.**

19. To the best of your knowledge, did this program originate in your state? If YES, please indicate the innovator's name, present address, telephone number and e-mail address. YES.

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20. Are you aware of similar programs in other states? If YES, which ones and how does this program differ?

Groups across the nation are assembling to address income support for low wage earners. Some states, like Illinois, support intermediary groups (The Center for Economic Empowerment) that set up tax sites across the state. Larger cities, like Chicago, Cincinnati, New York City, and San Francisco, have experienced Mayoral leadership support in creating a city-wide campaign. Financial institution associations like the National Federation of Community Development Credit Unions and national grassroots organizations that have membership groups in states such as ACCORN have taken leadership to promote free tax preparation in the communities where their members have a constituent base. The National League of Cities and Center for Budget Policy and Priorities have created handbooks for EITC campaign development. (The Michigan Statewide EITC Coalition's Cost to Impact Ratio tool was included in the National League of Cities' EITC Handbook, page 26). The Annie E. Casey Foundation supported the development of 16 communities who developed free tax preparation services. The Foundation is continuing to support the National Community Tax Coalition policy assistance, located in Chicago, Illinois. However, no state to date has a Governor's office that has taken the lead in providing financial and staff support for a statewide campaign.

21. Has the program been fully implemented? If NO, what actions remain to be taken?
The program is just in its second year. There are areas of the state, especially rural communities, which have not built coalitions. To truly be a statewide initiative, coalitions should be established throughout the state.

Not all communities will want to or will be able to establish a coalition. That is why the Statewide Coalition is trying to address tax services through internet accessibility in public institutions. Relationships with the Michigan Municipal League and the Michigan Certified Public Accountants Association have been established in order to further the discussion of a continuum of affordable, ethical tax services for working households across Michigan.

A model for development and a corresponding budget that outlines cost estimates for effective delivery of tax preparation services is available to those communities. Establishing a time line and communication process with those communities are the next steps.

22. Briefly evaluate (pro and con) the program's effectiveness in addressing the defined problem[s] or issue[s]. Provide tangible examples.

The evaluation conducted on the coalition-based free tax services yielded the following strengths and challenges of the model:

Strengths:

- **The value of a coalition model is the potential for coordinated outreach and marketing. Recruitment of volunteers and outreach to the intended audience are greatly improved to the extent that the coalition reflects the organizations who can capitalize on both arenas.**
- **The coalition model has shown to be a cost effective approach. Social and financial capital generates resources that may be unavailable in a single-organization approach. In all four coalitions, members cited that, regardless of coalition size, coalition members brought needed resources to link supply of tax services to the local demand for those services**
- **The coalition model also encourages its members to spread out tasks in an egalitarian way, not allowing any one organization to be over-burdened in carrying out objectives. Coalition members remarked on the willingness of coalition members to “go above and beyond the call of duty”.**
- **The coalition model can yield a diversity of partners whose constituent base is the working poor. Some of the coalitions suggested that the coalition approach enabled them to reach the intended audience more so than one agency could reach, even though the intended audience may be that agency's targeted service audience.**
- **There was consensus among coalition members that plans to IMPROVE the coalition was the focus of future free tax preparation services,**
- **For those coalitions who sought out a wide array of organizations, there seemed to be broad appeal to those organizations that have contact with the intended audience outside the human services realm. Such groups include (but are not limited to) employers, consumer advocates, financial services organizations, policy groups, and economic development organizations.**
- **The mini-grant approach to coalitions fit within the democratic process of a coalition's true nature. Individual members of a coalition, in determining both the best use of and financial stewardship of the financial resources bestowed up on the coalition, worked through a process that yielded:**
 - **Trust in the integrity of the organization that is chosen as the fiduciary of the coalition's funds: and**
 - **A defined purpose for the financial resources that are akin to “gap resources: resources not provided by the individual members of the coalition, and, therefore deemed as critical to meeting demand**

- A breaking down of divisiveness between fellow organizations that sometimes arises when one organization receives funds and makes internal decisions as to the usage of the funds.
- There was broad appeal to organizations that may have contact with the intended audience even though the organizations are outside the human services field.

Challenges

- **Timing of a coalition's efforts affects the quality of the services. A short time frame from first learning about the project to when sites had to be up and running free tax preparation services was a liability in launching the efforts in all four sites.**
- **The mission and corresponding goals may not necessarily be articulated in a coalition model. Some members wanted to ensure that financial education and direct deposit options were one of the goals of the coalition even though the priority was to establish and manage tax preparation sites .**
- **Adequately-prepared volunteers to file tax returns and tax-expertise support at tax prep sites were a challenge to the sites. Each coalition stated the need for qualified tax preparers at all sites**
- **Not all sites can meet the demand. Therefore, focusing on free tax preparation services may not be the only method for creating access to affordable tax services to the working poor.**
- **Gaining the participation of financial institutions and employers was a challenge for the coalitions.**
- **Technology support for computers at tax preparation sites was a challenge.**

23. How has the program grown and/or changed since its inception?

The Coalition model has not changed and several coalitions emerged over the past year. A change in the appropriation of TANF funds to a single agency for the delivery of tax services was a significant change in 2004. Instead of funds allocated through a mini-grant process to the local coalitions for tax service preparation development, TANF funds went directly to community action agencies who then were paid to prepare tax returns. A review of this process is currently underway and recommendations will be forthcoming.

24. What limitations or obstacles might other states expect to encounter if they attempt to adopt this program?

A Coalition-based approach entrusts groups at the local level to truly act as a collaborative. This means that no one group is subsidized for services that are asked of volunteers to perform. Coalitions force individual organizations to think of themselves as part of a team. On the one hand, more resources are generated, limiting out of pocket expenses for one entity. However, management might suffer if no one group takes a leadership role to ensure that all tasks are completed. In the

Michigan model, one entity in the coalition is chosen among its peers to be both the fiduciary and lend some staff support for coordinating the coalition's efforts. Any dollars generated outside the local coalitions' in-kind contributions are given directly to the chosen lead entity.

A chief obstacle may be in the selection or acceptance of an entity to take leadership. The mini-grant approach helped with this obstacle on two levels:

- 1. A small amount of funds were available to offset the costs for the lead entity;**
- 2. A proposal had to be written that enumerated the costs associated with the responsibilities the lead entity was willing to take on. This helped the entity not take on more than was articulated in the contractual agreement.**

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