

Report to the Legislature on
AB 1078
EARNED INCOME TAX CREDIT
Stakeholder Workgroup Proposals

June 2009



STATE OF CALIFORNIA
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Legislative Mandate

Assembly Bill (AB) 1078, (Lieber, Chapter 622, Statutes of 2007), amends the Welfare and Institutions Code relating to the California Work Opportunity and Responsibility to Kids (CalWORKs) program to maximize the ability of recipients to benefit from the federal Earned Income Tax Credit (EITC) by enacting changes in CalWORKs asset regulations, re-structuring Welfare-to-Work (WTW) activities to increase eligibility for the EITC, and increasing informing activities. AB 1078 does the following:

- Enables clients to invest their EITC funds in retirement savings and other restricted accounts by changing the rules related to the treatment of savings and assets for CalWORKs eligibility. These changes include the following: exempt savings held in restricted accounts as income for CalWORKs recipients; exempt individual development account funds from eligibility determination; and exclude funds held in 401(k), 403(b), 457, IRA, 529 or Coverdell ESA plans from property limits. CDSS issued All County Letter (ACL) 08-11 in March 2008 instructing county welfare departments about the changes. Regulations to implement these changes are in progress.
- Amends rules related to WTW activities to specify that the WTW plan developed between the county welfare department and the participant shall provide for WTW activities including: subsidized and unsubsidized employment; work experience; on the job training and grant based on the job training; and structuring WTW activities to give recipients the option of maximizing the portion of their CalWORKs benefits that meet the IRS definition of “earned income”. CDSS proposes initiating an ACL to provide guidelines to counties that will promote participation in WTW activities that lead to earned income for EITC purposes.
- Adds an additional performance measure to the state’s existing Pay for Performance (P4P) program. The new performance measure is based on the percentage of current and recently discontinued CalWORKs cases that have earnings at or above the maximum EITC level. The bill requires CDSS to consult with key stakeholders to implement this measure in the P4P program. The bill acknowledges that the P4P program, and the additional measure, is contingent on budget act appropriation. Due to the state’s current economic situation and in an effort to better maintain CalWORKs funding and services for eligible families, the funding for the P4P program has been suspended and the implementation of the new performance measure has been delayed until funding is restored.
- Requires that CDSS engage in activities to inform recipients about the availability of the EITC, that WTW activities may qualify them for the EITC, and that funds received from EITC may be invested in restricted retirement and

educational funds without affecting their CalWORKs benefits. CDSS developed a publication about the EITC which was distributed to clients in January 2008. The publication included information about EITC benefits and income limits, advance EITC, claiming retroactive EITC, the Child Tax Credit and how to get free tax filing help. A flyer version was printed and mailed to 1.5 million CalWORKs and Food Stamp households in January 2008. A brochure version was printed and available to county welfare departments for distribution to clients. The publication has been updated for the 2008 tax year and an electronic version is available for download on the CDSS forms internet website. (A Copy of the flyer version of the publication is included in the attachments to this report.)

- Requires that CDSS convene a stakeholder workgroup meeting of subject matter experts to identify activities that can be accomplished legislatively and administratively to help CalWORKs clients utilize the EITC to the fullest extent allowable by law. The meeting was held on September 3, 2008 in Sacramento, California and was attended by representatives from various organizations including the legislature, non-profit, community and faith based organizations, advocacy groups, county welfare agencies, state agencies and the Internal Revenue Service.
- Requires CDSS to identify administrative and legislative options and to develop guidelines that counties may adopt to implement the provisions of the bill. CDSS has released an ACL and an All County Information Notice (ACIN) to transmit instructions related to several provisions of the bill. CDSS proposes initiating additional ACLs and ACINs to provide further guidelines as necessary.
- Requires that CDSS present options to the Governor and Legislature for any legislation necessary to further carry out the intent of AB 1078. This report will share the legislative and administrative options suggested by the stakeholder workgroup attendees. It also provides administrative options that may be pursued by the CDSS to further carry out the intent of AB 1078.

See Attachment 1 (AB 1078, Section 4 (c) (1)) for the full text of the legislative report requirement.

Additional copies of this report can be obtained from:
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Executive Summary

This report conveys the status of the California Department of Social Services (CDSS) activities initiated to implement the provisions of AB 1078 including: findings from the convening of the stakeholder workgroup meeting, development of guidelines to counties, changes to the California Work Opportunity and Responsibility to Kids (CalWORKs) asset regulations in progress, federal Earned Income Tax Credit (EITC) information outreach activities, and creation of a new pay for performance measure.

STAKEHOLDER WORKGROUP MEETING

The stakeholder workgroup meeting mandated by AB 1078 was held on September 3, 2008 in Sacramento, California and was attended by representatives from various organizations including the Legislature, non-profit, community and faith based organizations, advocacy groups, county welfare departments, state agencies and the Internal Revenue Service (IRS). See the Background section (p.11) of the report for a complete list of organizations in attendance.

The purpose of this meeting was to share ideas and to identify activities that can be accomplished legislatively and administratively to further help CalWORKs clients utilize the EITC to the fullest extent allowable by law. The ideas, suggestions, and recommendations proposed by the workgroup attendees and the activities CDSS will consider to further implement these suggestions are described in this report.

The meeting included panel presentations by outreach specialists from IRS, Office of First Lady Maria Shriver – WeConnect campaign, Sacramento County Department of Human Assistance, and San Bernardino County Human Services to share information about current best practices, information outreach and successful tax preparation assistance efforts. Participants then broke up into workgroups to discuss three primary topic areas:

1. **EITC outreach** activities to inform hard to reach clients about the availability of the EITC and how to apply for it.
2. **Asset building** options to educate and enable clients to accumulate assets to help them achieve long term self-sufficiency.
3. **Welfare-to-Work (WTW)** strategies to structure WTW activities in order to maximize CalWORKs participants' ability to qualify for the EITC.

Within the three primary areas the following questions were addressed:

- What are we currently doing that works? How can we improve it?
- What is not working and why? What are the barriers that clients encounter?

- What are some suggestions for improvement?
- Can these suggestions be implemented administratively or is legislation required to achieve our goal?

Using these questions as a framework, the workgroup participants identified several activities that could be implemented either legislatively or administratively to increase the ability of CalWORKs recipients to benefit from the EITC.

Principal Findings from the Stakeholder Workgroup Meetings

Workgroup 1: EITC Outreach

EITC outreach and free tax preparation assistance efforts are launched throughout the state of California during tax season each year. These efforts have helped CalWORKs clients and low income earners file their federal income tax returns and get the EITC. However, in spite of these efforts there are still people who are failing to access this valuable benefit. Workgroup participants identified some of the common barriers these workers share and the reasons they might not apply for the EITC. They also suggested additional actions the legislature, state, county and federal governments, and non-profit organizations could take to ensure that everyone is educated about the EITC and can get the help they need to apply for it. Some of these suggestions provided by the workgroup participants include:

- Provide funds to organizations at the local level to start and maintain outreach and free tax preparation assistance efforts for underserved low income workers.
- Establish a state grant program to provide funds to nonprofit organizations to expand EITC outreach and tax assistance efforts.
- Fund a state EITC program as an additional incentive to encourage people to file their federal income taxes.
- Require CalWORKs recipients to file their federal income taxes and apply for EITC as a condition of CalWORKs eligibility.
- Ensure that outreach and filing assistance is provided in multiple languages to serve the diverse needs of California workers.
- Improve IRS telephone and website access to make it easier to find information and tools to apply for the EITC.
- The workgroup also suggested administrative options for other organizations, which CDSS will transmit to the appropriate agencies via this report. Options included: increased use of language interpreters and materials in multiple languages at tax assistance sites; expansion of the “2-1-1” information phone lines to provide EITC information and the locations of local tax preparation assistance sites; and improved IRS telephone and online access.

Workgroup 2: Asset Building

Discussions focused on educating CalWORKs clients on the importance of savings as an avenue to self-sufficiency. The workgroup looked at asset accumulation via savings and Individual Development Accounts (IDAs) and the need for financial education to promote savings and other asset accumulation strategies. To achieve long term self-sufficiency through asset accumulation, CalWORKs recipients need to learn money management skills, be educated about finances, and be allowed to save enough money to help them pay for unexpected expenses and avoid financial setbacks. To accomplish these goals the workgroup participants suggested the following actions:

- Change CalWORKs program rules regarding savings to allow clients to save more money and to allow the savings to be used for more purposes.
- Encourage county agencies to provide money management training seminars for clients and include money management classes in their job club seminars.
- Increase financial educational resources that are available to CalWORKs clients at county welfare offices and posted on state and county websites.
- Provide financial educational resources in multiple languages for non-English speaking clients.

Workgroup 3: Welfare-to-Work Activities

This workgroup was concerned with how to structure Welfare-to-Work (WTW) activities in order to maximize CalWORKs participants' ability to qualify for the EITC. Only income that qualifies as "earned income" under the Internal Revenue Code helps an individual qualify for the EITC. Within the CalWORKs program, not all WTW activities lead to a participant receiving earned income. The workgroup focused on WTW activities that may help recipients qualify for the EITC but appear to be underutilized in the CalWORKs program, including subsidized employment, grant-based on the job training (OJT), self-employment, work study, and paid work experience assignments. Barriers to participation in these activities were identified and some of the remedies suggested by the workgroup participants include the following:

- More subsidized employment could be offered to CalWORKs participants if state-level funding were increased.
- Grant-based OJT could be made more appealing for both counties and recipients by simplifying the administrative burden on counties when diverting the OJT funds to the employer.
- Fiscal incentives could be provided to encourage recipients to volunteer for grant-based OJT assignments.
- IRS calculations for determining a low-income individuals' eligibility for the EITC during the first two years of self-employment could be changed to disregard certain self-employment related expenses in the EITC calculation

to provide needed support for low-income families trying to start a new business.

- Community college work study programs could increase the number of hours offered to recipients to ensure they are able to satisfy the CalWORKs core-hour work requirement and increase their earned income that qualifies for the EITC.
- Volunteer Income Tax Assistance (VITA) job placement assignments for CalWORKs participants could be increased to help counties promote EITC access.

Stakeholder Workgroup Meeting Outcomes and County Guidelines

The workgroups proposed several legislative and administrative options to help CalWORKs clients utilize the EITC. Due to the current state fiscal crisis, CDSS is unable to support activities that require legislation and incur additional costs at this time. However, several options can be achieved by CDSS administratively at nominal cost by developing resources, researching outreach options, or providing guidance to counties via All County Letter (ACL) or All County Information Notice (ACIN).

CDSS will implement the administrative options with the following activities:

- Release an ACIN to provide guidelines to counties to improve EITC information outreach activities to CalWORKs clients. At a minimum, the ACIN would:
 - Encourage county welfare departments to include direct links to the IRS EITC website on their county website and to include direct links to easy online tax filing programs.
 - Share financial resource information that can be made available online or locally to CalWORKs clients.
 - Provide outreach publications to counties that will include information to clients about the EITC and to inform clients that they can apply for advance EITC that would be received throughout the year.
 - Encourage Cal-Learn case managers to advise graduating Cal-Learn clients who receive the \$500 bonus of the advantages of establishing a saving account or IDA.
- Include the direct IRS EITC website link on the CDSS internet website to direct the public to EITC and tax filing assistance resources.
- Determine whether there are existing data resources that could be accessed and matched to identify CalWORKs EITC non-filers. If the data exists, this information will be shared with the counties so they can focus outreach efforts on those clients.

- Release an ACL to provide guidelines to counties that will promote participation in WTW activities that lead to earned income for EITC purposes. At a minimum, the ACL would include the following:
 - Identify CalWORKs WTW activities that lead to earned income for EITC purposes.
 - Provide direction to counties that will ease the administrative burden for structuring grant-based OJT, an activity which leads to earned income.
 - Describe how to structure grant-based OJT and subsidized employment activities concurrently. When these two activities are properly structured, counties would be able to make better use of multiple funding sources.
 - Promote work study programs that enable CalWORKs participants to meet their CalWORKs participation requirement and receive EITC qualifying income.
 - Encourage counties to increase VITA job placement activity assignments.

In addition to the convening of the AB 1078 Stakeholder Workgroup, CDSS has continued its efforts to increase CalWORKs recipients' access to EITC through intensive outreach efforts and by providing policy direction to further encourage CalWORKs recipients to apply for and save their EITC funds. These activities include:

Asset Regulations Changes

In March 2008, CDSS issued ACL 08-11 instructing county welfare departments that the \$5,000 limit on the amount a CalWORKs or Food Stamp recipient may retain in a restricted account was removed. Effective January 1, 2008, there is no maximum amount that current recipients may save in a restricted account. The letter also reminded counties that 401(k), 403(b), 457, Individual Retirement Accounts (IRA's), 529 college savings plans and Coverdell Educational Savings Accounts (ESAs) are also exempt from resource consideration for both applicants and recipients in the CalWORKs program. Regulations to implement these changes are in progress.

EITC Information Outreach Activities

- Publications
 - In January 2008, CDSS developed a publication about the EITC for distribution to clients. The publication included information about EITC benefits and income limits, advance EITC, claiming retroactive EITC, the Child Tax Credit and how to get free tax filing help. A flyer version was printed and mailed to 1.5 million CalWORKs and Food Stamp households in January 2008. A brochure version was printed and available to county welfare departments for distribution to clients. The publication has been updated for the current tax year. An electronic version is available for

download on the CDSS forms internet website. (A copy of the flyer version of the publication is included in the attachments to this report.)

- EITC Outreach Partnerships
 - CDSS participated in the Community Action Council EITC Partnership Panel discussions, the Cal Neva Annual Conference and Poverty Summit on EITC Partnerships, and the United Way of the Bay Area Annual Regional Mini-Conference to establish partnerships and discuss strategies to help low income wage earners obtain the maximum benefits from the EITC and move towards self-sufficiency.
 - CalWORKs Partnerships Summit - In December 2008, CDSS staff presented an EITC workshop to provide participants with an overview of outreach efforts made by the CDSS, the IRS and the United Way of San Francisco. The CDSS provided an overview of the EITC benefits model and related income and property rules affecting the treatment of EITC, as well as savings and retirement accounts for CalWORKs recipients. The IRS presented their outreach efforts and federal rules regarding filing for EITC. The United Way of the Bay Area provided information about their "Earn It, Keep It, Save It" EITC outreach campaign and tax filing assistance services to help low and moderate income working families with income tax return filing and asset accumulation strategies.

NEW PAY FOR PERFORMANCE MEASURE

AB 1078 added an additional performance measure to the state's existing Pay for Performance (P4P) program. The new performance measure is based on the percentage of current and recently discontinued CalWORKs cases that have earnings at or above the maximum EITC level. The bill requires CDSS to consult with key stakeholders to implement this measure in the P4P program. The bill acknowledges that the P4P program, and the additional measure, is contingent on budget act appropriation. Due to the state's current economic situation and in an effort to better maintain CalWORKs funding and services for eligible families, the funding for the P4P program has been suspended and the implementation of the new performance measure has been delayed until funding is restored.

CONCLUSIONS

CDSS will continue to evaluate the suggestions presented by the stakeholder workgroup participants to assist in efforts to increase EITC participation among CalWORKs clients. The goal is to help CalWORKs families move from welfare to work and on to self-sufficiency. With this goal in mind, CDSS will continue to develop guidelines for counties, encouraging them to engage in activities that will enhance the intent of AB 1078 and to implement options that can be achieved administratively within our limited resources.

REPORT ON AB 1078: EARNED INCOME TAX CREDIT

INTRODUCTION

The purpose of this report is to convey the status of the California Department of Social Services' (CDSS) activities to implement the provisions of Assembly Bill (AB) 1078 (Lieber), Chapter 622, Statutes of 2007, including: findings from the stakeholder workgroup meetings; development of guidelines to counties; changes to the California Work Opportunity and Responsibility to Kids (CalWORKs) asset regulations; federal Earned Income Tax Credit (EITC) information outreach efforts; and creation of a new pay for performance measure. More specifically, this report lists the ideas generated from the stakeholder workgroup meeting including current and proposed outreach efforts, asset building strategies, as well as potential options to structure Welfare to Work (WTW) activities to qualify for EITC. This report describes the administrative and legislative options suggested by the workgroup attendees and identifies those options that can be implemented by CDSS administratively at nominal cost by developing resources, researching outreach options, or providing guidance to counties via All County Letter (ACL) or All County Information Notice (ACIN).

BACKGROUND

The federal EITC is an effective anti-poverty program. The credit equals 40 percent of a worker's wages up to a specified plateau. For example, for tax year 2008, a family with two or more qualifying children with annual earnings of approximately \$12,000 could receive \$4,824 from the EITC. According to the Internal Revenue Service (IRS), the estimated EITC participation rate among taxpayers with children is 85 percent. Efforts to increase this participation rate among working CalWORKs households is essential to help them achieve self-sufficiency.

AB 1078 seeks to maximize the ability of CalWORKs recipients to benefit from the federal EITC by enacting changes in CalWORKs asset regulations, increasing informing activities, and re-structuring welfare-to-work activities to increase eligibility for the EITC. As mandated by AB 1078, CDSS convened a stakeholder workgroup meeting of subject matter experts to identify activities that can be accomplished legislatively and administratively to help CalWORKs clients utilize the EITC to the fullest extent allowable by law.

The stakeholder workgroup meeting was held on September 3, 2008 in Sacramento, California and was attended by representatives from the following organizations:

Organizations that were required by AB 1078:

- Assembly Human Services Committee
- California Budget Project
- California Catholic Conference
- California State Association of Counties
- Corporation for Enterprise Development
- County Welfare Directors Association of California
- Legislative Analyst's Office
- New America Foundation
- Public Policy Institute of California
- United States Internal Revenue Service
- Western Center on Law and Poverty

Additional organizations in attendance:

- United Way of the Bay Area
- Office of First Lady Maria Shriver/WeConnect Campaign
- California/Nevada Community Action Partnership
- Catholic Charities of California
- Alameda County Social Services Agency
- Kings County Human Services Agency
- Los Angeles County
- Sacramento County Human Assistance EITC
- San Bernardino County Human Services System

County of San Diego, Health and Human Services Agency
San Francisco City and County Human Services Agency
Department of Community Services and Development
Department of Finance
Health and Human Services Agency
California Department of Social Services

Organizations that were also invited but were not able to attend:

Senate Human Services Committee
Assets for All Alliance (Opportunity Fund)
Asset Policy Initiative of California
California Council of Churches
California Family Resource Association
Federal Reserve Bank of San Francisco
Lifetime
National Council of Churches
National Economic Development and Law Center
University of California at Los Angeles Law School
Insight Center for Community Economic Development
Legal Aid Society of Orange County
Assembly Member Lieber

The purpose of the meeting was to identify legislative and administrative options to maximize CalWORKs participants' use of the EITC, educate participants to save or invest part of their EITC funds, and encourage recipients to participate in welfare-to-work activities that maximize the use of the EITC.

The day-long meeting included panel presentations by outreach specialists from IRS, Office of First Lady Maria Shriver – WeConnect campaign, Sacramento County Department of Human Assistance, and San Bernardino County Human Services. Participants then broke up into workgroups to discuss three primary topic areas:

1. EITC Outreach
2. Asset Building
3. Welfare-to-Work Activities

Within those three primary areas the following questions were addressed:

- What are we currently doing that works? How can we improve it?
- What is not working and why? What are the barriers that clients encounter?
- What are some suggestions for improvement?
- Can these suggestions be implemented administratively or is legislation required to achieve our goal?

FINDINGS

STAKEHOLDER WORKGROUP MEETINGS

WORKGROUP 1: EITC OUTREACH

The EITC Outreach workgroup focused on identifying methods to improve outreach to eligible CalWORKs low income wage earners who do not claim the EITC. The group discussed existing outreach efforts and what more could be done to ensure maximum participation among eligible clients.

A. Existing Outreach and Tax Assistance Efforts

1. What are we currently doing that works?

Throughout the state of California numerous EITC outreach and tax filing assistance efforts are launched every year during tax season to help low income wage earners file their income taxes and claim the EITC. Although outreach efforts are not mandated by law, several partnerships exist among government and private agencies. For example, county governments have partnered with the IRS, the United Way, and the California/Nevada Community Action Partnership, among others, to establish Volunteer Income Tax Assistance (VITA) programs and EITC outreach in most large and medium sized counties.

Examples of these partnerships that were shared during the workgroup session include:

- The “Earn It, Keep It, Save It” campaign, a coalition of seven San Francisco Bay area counties, provide EITC outreach and tax filing assistance to low income residents. The effort is sponsored by the United Way and involves over 200 community based organizations, foundations, government agencies, churches, financial institutions and other organizations. Tax preparers include trained county staff that are paid for their services. Services are provided in several languages. www.uwba.org/eks
- The City of San Francisco has created a citywide \$100 “Working Families Credit.” This credit is given to residents who file their federal income taxes as an additional incentive to filing their federal income tax returns. San Francisco has partnered with the software company Intuit© to create their own local tax software for residents. www.workingfamiliescredit.org

- Sacramento County Human Services Agency partners with the Sacramento Coalition of Working Families and the IRS to provide EITC outreach and tax filing assistance to low income residents in the Sacramento region. This effort involves hundreds of local organizations. County employees volunteer to be trained by the IRS to become certified tax preparers. They are paid by the county for time spent staffing tax preparation sites located in 10 Sacramento county office buildings during tax season. Tax preparation sites have bi-lingual volunteers or access to translators that speak eight different languages.
- The IRS Stakeholders Partnership Education and Communication (SPEC) program has assisted social services agencies in 17 counties to provide EITC outreach, education and return preparation VITA sites to provide free filing assistance for low income earners. The IRS provides training and certification for the tax preparers, information outreach materials, and technical support. www.irs.gov
- “2-1-1” information phone lines are utilized in several regions of the state to provide EITC information and the locations of local tax preparation assistance sites.

2. What is not working and why?

The workgroup identified several common issues that challenge the success of tax assistance and outreach efforts.

- It is difficult to start and maintain outreach and tax assistance efforts for low income recipients without some funding to get the program started and to continue the efforts every year.
- Some tax preparation assistance sites are not at convenient locations that are close to public transportation within the community. Many low income workers and volunteer tax preparers do not own personal vehicles to get around.
- Retaining the services of volunteer tax preparation assistants can be a challenge in some regions, particularly remote rural areas. Programs that provide some monetary compensation to their volunteer tax preparers to help defer their transportation and out of pocket costs are able to retain their services longer and provide more accurate return preparation.
- Hours of operation for tax preparation assistance sites are limited and as a result require some clients to have to take time off from work if they want to get tax preparation assistance.

Workgroup Suggestions – Legislative and Administrative Options

Legislative Options

- Provide funding to counties for local EITC outreach and tax filing assistance efforts. Funds could be used by counties for their own outreach efforts or they could be distributed to local non-profit organizations. The focus of these efforts should be on reaching people in remote rural areas, non-English speaking people, and other hard to reach clients. Efforts could be expanded to provide outreach and tax filing assistance at food banks and other locations providing services to low-income people.
- Establish a state grant program to provide funds to non-profit organizations to expand EITC outreach and tax assistance efforts.
- Remove the requirement that eligibility workers distribute federal tax forms and assist recipients to take advantage of the EITC during the eligibility redetermination interview. Workgroup attendees stated that the redetermination interview may not be the most appropriate time to provide tax filing assistance and that eligibility workers are not trained to accurately provide tax filing assistance. The redetermination interview is an in depth meeting requiring completion of over 24 pages of eligibility information. Attempting to complete a federal income tax form during the same session would be overwhelming for both the recipient and the eligibility worker and would quite likely lead to errors. Also, redetermination interviews are held throughout the year and may occur during times of the year when tax forms and preparation assistance are unavailable from free local volunteer sources.

Administrative Options for CDSS

- Encourage counties to continue existing outreach activities and to improve informing activities to CalWORKs clients where needed. Provide outreach publications to counties that will inform clients about the EITC.

CDSS supports this option and will include this activity in an ACIN that will encourage counties to engage in EITC outreach activities to CalWORKs clients.

Administrative Options for Other Organizations

- Begin information outreach activities a few months before tax season begins to get people geared up to start thinking about what they might need to file their income tax forms.
- Have language interpreters on hand or readily available at tax assistance sites to assist people who do not speak English. Provide services and materials in multiple languages in addition to English and Spanish.
- Expand the use of “2-1-1” information phone lines to provide EITC information and the locations of local tax preparation assistance sites.

B. Online Tax Assistance

1. What are we currently doing that works?

There are many useful free online filing services available to help clients complete and file their income taxes and claim the EITC.

- The IRS website at www.irs.gov includes comprehensive online filing services and information. The EITC Assistant contained in the site is an easy to use tool that helps users see if they might qualify for the EITC and how much they can get.
- First Lady Maria Shriver’s WeConnect website at www.weconnect.net provides links for easy access to online filing services including the IRS. They have also partnered with the software company Intuit© to provide internet access to a WEb Connector site where people can easily determine whether they might be eligible for credits and programs such as the EITC, child and dependent care expenses credit, the Golden State Advantage Card, and utility bill credits.
- Many county social services agencies maintain websites that contain links to free income tax filing services during the tax season.
- Easy online filing programs that are currently available such as “I Can E-File” are promoted by various organizations.

2. What is not working and why?

- The IRS website is somewhat complex and can be difficult to navigate. Counties report having difficulty getting EITC information.

- Some working people do not have access to computers to file online. While some computers and internet access are available for public use in libraries and schools they are not always accessible or available in remote areas.
- Some working people do not possess adequate computer literacy to enable them to file their taxes using free online services.

Workgroup Suggestions – Legislative and Administrative Options

- No legislative options offered under this item.

Administrative Options for CDSS

- Encourage county social services agencies to include direct links to the IRS EITC website on their county website and to include direct links to easy online tax filing programs.

CDSS supports this option and will include this suggestion in an ACIN that will encourage counties to engage in EITC outreach activities to CalWORKs clients.

CDSS will also include the IRS EITC website link on the CDSS internet website to direct the public to EITC and tax filing assistance resources.

Administrative Options for Other Organizations

- Improve IRS telephone and online access to make it easier to navigate and user-friendly.
- Encourage public libraries and other sites that provide computers and internet access to do outreach during tax season to file for the EITC.

C. Overarching Barriers for Clients

Several additional barriers that prevent low income wage earners from filing their income taxes and applying for the EITC were identified.

- Language barriers make it difficult for non-English or non-Spanish speaking wage earners to file income taxes. Federal tax forms from the IRS and most online resources are only available in English and Spanish.

- Some people have immigrated to the United States from countries where they could not trust financial institutions and the government. They do not trust those institutions here either.
- First time earners might never have had any experience or knowledge of income tax filing. They might not know that they should file their income tax forms or how to do it.
- Some earners are apathetic about filing their income taxes. Finding the required documents and completing the forms is too much effort.
- Some earners received income that is unreported. Filing income taxes based on any reported earnings may expose the unreported earnings.
- Undocumented immigrant workers are unlikely to file tax returns because they may risk discovery or detection.

Workgroup Suggestions – Legislative and Administrative Options

Legislative Options

- Require CalWORKs recipients with earnings to file their federal income tax returns as a condition of CalWORKs eligibility. Workgroup members suggested that recipients with earnings could be sanctioned for one or more months for failure to file.
- Fund a state EITC program as an additional incentive to encourage people to file their federal income taxes. In 2007, 24 other states had state EITC programs.
- Fund local EITC programs such as San Francisco's "\$100 Working Families Credit" for residents who file their federal income taxes.

Administrative Options for CDSS

- Determine whether there are existing data resources that could be accessed and matched to identify CalWORKs EITC non-filers. If the data exists, this information would be shared with the counties so they can focus outreach efforts on those clients.

CDSS will research this suggestion.

WORKGROUP 2: ASSET BUILDING

This group focused on educating CalWORKs clients on the importance of savings as an avenue to self-sufficiency. The workgroup looked at asset accumulation via savings and Individual Development Accounts (IDAs) and the need or use of financial education to promote savings and other asset accumulation strategies.

A. Asset Accumulation

1. What are we currently doing that works?

- The CalWORKs program's treatment of restricted accounts and IDAs are a viable option for clients to help them to increase their resources and move towards self-sufficiency.
- Cal-Learn is a successful existing statewide program to help pregnant and parenting teens receiving CalWORKs benefits to complete high school, become independent, and form healthy families. Through this program teen parents receive a \$500 bonus when they graduate from high school. This is potentially a source of money that could be used as start-up for a savings or IDA account.
- The Family Self-Sufficiency (FSS) program, created by Congress in 1990 to help boost employment and savings for certain recipients of federal housing assistance, was cited as a good example of a model for increasing self-sufficiency. FSS creates a structure for residents to save the money that would otherwise go toward increased rents and to become independent of public assistance. The statute allows public housing authorities to create escrow accounts where these savings are stored. As the earnings of FSS participants rise, their rents go up; and while they still have to pay a higher rent, an amount equal to the increased rent is deposited into participants' accounts each month. The housing authorities are reimbursed by Housing and Urban Development to cover their lost rent.

2. What is not working and why?

- Current CalWORKs asset limits prevent clients from saving. State regulations only allow CalWORKs recipients to have \$2,000 in cash and property. These limits prevent clients from accumulating more substantive savings. Funds received from EITC are currently excluded from the asset limit for only two months unless deposited into a restricted account or an IDA.
- The nation's current economic situation has created cynicism about promoting savings to invest in a home or retirement funds. Saving

for something like a home purchase is an impractical goal for low income people because they never are able to save enough to actually purchase a home. Clients should be permitted to save for less restrictive purposes than currently allowed.

Workgroup Suggestions – Legislative and Administrative Options

Legislative Options

- Repeal CalWORKs asset limits.
- Exempt EITC refunds permanently as an unrestricted asset for CalWORKs clients. This would allow clients to deposit their tax refunds into savings or checking accounts without the dollars counting against their asset/resource limits.
- Provide match funding for IDAs. This would assist CalWORKs recipients who are saving or encourage them to begin IDAs.
- Institute a savings program similar to the FSS model for CalWORKs clients.
- Expand the allowable purposes for IDAs and restricted accounts which may create a greater incentive for CalWORKs clients to save.

CDSS has implemented an ACIN for Senate Bill (SB) 1341(Padilla), Chapter 485 Statutes of 2008, which adds another allowable purpose for recipients to save money in restricted accounts. SB 1341 allows CalWORKs families to use funds in a restricted savings account to secure permanent rental housing or make rent payment to prevent an episode of homelessness.

Administrative Options for CDSS

- Inform CalWORKs clients that they can apply for advance EITC that would be received throughout the year.

CDSS will include this suggestion in an ACIN encouraging counties to engage in EITC information outreach activities and will provide outreach publications to inform clients about the EITC and advance EITC.

- Encourage Cal-Learn case managers to advise graduating Cal-Learn clients who receive the \$500 bonus of the advantages of establishing a savings account or IDA.

CDSS will include this suggestion in an ACIN encouraging Cal-Learn case managers to discuss the advantages of establishing a savings account or IDA with their clients.

Administrative Options for Other Organizations

- Local communities should encourage banks to participate in providing matching funds for IDAs to CalWORKs recipients by presenting them with incentives such as community awards, recognition, and free publicity.

B. Financial Education

1. What are we currently doing that works?

- Some financial education is offered during tax season in conjunction with EITC outreach efforts.
- Financial education classes are allowed to count as a CalWORKs WTW activity. This benefits clients who need more work participation hours and helps them learn to manage their finances. It is important to point out, however, that no EITC-qualifying earned income is produced through this activity.

2. What is not working and why?

- CalWORKs clients often have limited financial knowledge because they have never had resources that required financial management knowledge or skills. Their immediate needs are food, shelter, and clothing. They are in a survival mode not a savings mode.
- Language barriers prevent some clients from receiving financial information and education because materials are not available in their language. More materials should be available in multiple languages.
- The pay day loan industry has proliferated in low-income neighborhoods where mainstream banks are scarce. These alternative financial institutions charge very high fees for their services. Many clients do not have other banking options and end up using their limited income to pay for vital banking services.

Workgroup Suggestions – Legislative and Administrative Options

Legislative Options

- Establish a new department to monitor and regulate the pay day loan industry.

Administrative Options for CDSS

- Increase financial educational resources for clients. County offices could supply brochures about IDAs, 529's, and checking and savings accounts in their lobbies for clients. These materials may be available free of charge from financial institutions. Resource materials could also be posted on state and county websites.

CDSS will distribute an ACIN that will share financial resource information that could be made available online or locally to CalWORKs clients.

- Provide financial educational resources in multiple languages for non-English speaking clients. There are few publications available in languages other than English.

CDSS is not required to provide financial educational resources to CalWORKs clients. However, CDSS does provide information regarding the EITC in English and Spanish and will translate these materials into additional languages for the coming tax year.

- County agencies could provide money management training seminars for clients and could include money management classes in their job club seminars.

County agencies currently have the option to utilize single allocation funds to provide money management and budgeting classes in job clubs and many counties already provide this training.

Administrative Options for Other Organizations

- Banks should be encouraged to give clients a second chance to repair their credit so they may open an account. Counties should form coalitions with banks such as CitiGroup that give second chance opportunities to CalWORKs clients.
- Encourage more banks to provide bank representatives at VITA sites during tax season to help clients understand their banking options and to manage their funds wisely.

WORKGROUP 3: WELFARE-TO-WORK (WTW) ACTIVITIES

The WTW Activities Workgroup was concerned with how to structure WTW activities in order to maximize CalWORKs participants' ability to qualify for the EITC. Only income that qualifies as "earned income" under the Internal Revenue Code helps an individual qualify for the EITC. Within the CalWORKs program, not all WTW activities lead to a participant receiving earned income. WTW activities that can result in earned income are those activities in which a participant receives an IRS W2 form or 1099 form as a result of the recipient's participation in the activity. This includes unsubsidized employment (including self-employment), subsidized employment, on-the-job training (OJT), grant-based OJT, work study, and transitional or supported work. WTW activities that do not result in earned income generally include un-paid work experience (WEX) and community service, educational programs, and barrier removal activities (i.e., mental health and substance abuse treatment and domestic abuse services).

Counties report that the majority of participants (59 percent)¹ who participate in WTW activities are engaged in unsubsidized employment, while many of the other WTW activities that may result in income that qualifies for the EITC have low numbers of participants (6 to 8.5 percent)¹.

The workgroup focused on WTW activities that may help recipients qualify for the EITC that appear to be underutilized in CalWORKs to identify barriers and success within those activities. These activities are subsidized employment, grant-based OJT, self-employment, work study, and VITA work experience assignments.

A. Subsidized employment

1. What are we currently doing that works?

- Subsidized employment is an activity that leads to EITC eligible earned income. Counties report that subsidized employment is successful at moving WTW participants into the workforce. Subsidized employment is employment in the public or private sector in which the WTW participant's employer is partially or wholly reimbursed for wages and/or training costs.
- Prior to the enactment of AB 98 (Chapter 589, Statutes of 2007), the only Temporary Assistance for Needy Families (TANF) funding available to counties for subsidized employment was the county CalWORKs Single Allocation, which is capped funding for CalWORKs administration and employment services (including supportive services, such as child care). AB 98 was enacted to provide new funding, outside of the Single Allocation, to pay for 50 percent of the wage subsidy to counties that have qualifying

¹ Based on average monthly caseload data from the WTW 25 and WTW 25A (July 2007 to June 2008).

subsidized employment programs. Counties are more likely to implement subsidized employment programs with this additional funding, given that these programs are difficult to afford through the Single Allocation alone.

2. What is not working and why?

- Subsidized employment programs are not widely offered to CalWORKs recipients primarily due to the cost to the county.

Workgroup Suggestions – Legislative and Administrative Options

Legislative Options

- Even with the additional funding provided through AB 98, subsidized employment is expensive for counties to offer, especially for small counties. Counties indicated that more subsidized employment could be offered to CalWORKs participants with additional state-level funding. Increasing county funding to create subsidized employment programs requires a legislative budget decision.

AB 98 is in the primary stages of implementation and any expansion efforts may be premature. CDSS is currently collecting data from counties on the outcomes of this implementation. The success of AB 98 can be more accurately evaluated after the findings from this data are submitted in a report to the Legislature in January 2011.

Administrative Options

- No administrative options were suggested for subsidized employment.

B. Grant-based OJT

1. What are we currently doing that works?

- Grant-based OJT, which provides earned income that is EITC eligible, diverts all or part of a recipient's cash grant, or the cash grant savings resulting from employment, to the employer as a wage subsidy in order to partially or wholly offset the payment of wages. The amount diverted to the employer cannot exceed the family's maximum aid payment. Recipients must volunteer to participate in this activity.
- To provide an incentive for recipients to participate in this activity, at least one county supplements the amount of wage earned by the

recipient through Single Allocation funding to an amount well above minimum wage. Without this supplement, recipients have little incentive to voluntarily participate in the program, as employment related expenses must be deducted from the wage. This could result in a recipient's wage being less than he or she would have received from a cash aid payment.

2. What is not working and why?

- One of the major barriers identified by counties for implementing grant-based OJT is the administrative burden on counties when diverting the grant to employers. Counties expressed concern that the CDSS grant-based OJT regulations appear to make the paperwork for the activity complicated and cumbersome by requiring that counties divert the grant to the employer before the hours are actually performed by the participant. When the required hours of work are not met by the participant, the employer must then return the unused portion of the grant to the county. When this happens, the county must then issue a grant to the recipient for the difference between what the recipient would have received through a cash grant and the amount paid to the recipient by the employer. This back and forth movement of funds to the employer and the recipient is complicated and administratively burdensome.
- State law and regulations do not allow a participant in a grant-based OJT assignment to receive the earned income disregard, which is allowed for other employment activities, when calculating the grant amount. The earned income disregard allows a specified amount of income earned by the family to be disregarded when calculating the amount of cash aid. By not allowing this disregard, the amount of money a recipient receives from participating in grant-based OJT is less than what could have been received by participating in other work activities that produce income. This makes grant-based OJT less appealing to clients.
- Some employers issue bi-monthly paychecks. Because recipients are accustomed to receiving their grant once per month, and because some living expenses, such as rent, occur once a month, bi-weekly paychecks create money management problems for the family.

Workgroup Suggestions – Legislative and Administrative Options

Legislative Options

- To create a financial incentive for participants to volunteer for grant-based OJT, state law could be changed to allow the earned income disregard for wages earned through grant-based OJT. Welfare and Institutions Code Section 11322.6(f) (4), states “Any portion of a wage from employment that is funded by the diversion of a recipient's cash grant, or the grant savings from employment pursuant to this subdivision, or both, shall not be exempt under Section 11451.5 from the calculation of the income of the family for purposes of subdivision (a) of Section 11450.”

If income from grant-based OJT placements is allowed to qualify for the earned income disregard, then there would be an increase in the overall CalWORKs grant amount a participant would receive. Given the increased cost to the CalWORKs program associated with this option, CDSS is not initiating action.

- California Labor Codes would need to be changed in order to allow counties to set up programs in which employers issue paychecks once per month rather than bi-monthly to reduce money management problems some families experience when bi-monthly income is received. This would benefit participants who typically live paycheck to paycheck, given that rent and other living expenses require once a month payments.

Administrative Options for CDSS

- The workgroup suggested that CDSS consider changing the regulations on how counties are required to divert grants to employers for grant-based OJT to reduce administrative complexity.

CDSS has researched this issue and determined that the administrative burden counties are experiencing when the grant is diverted to the employer prior to the recipient's actual participation can be eliminated or substantially reduced without changing current regulation. CDSS will be issuing an ACL that will provide guidelines to counties on the various CalWORKs work activities which lead to EITC eligible earned income. This ACL will clarify how grant-based OJT programs can be simplified to reduce administrative burdens for counties.

Administrative Options for Other Organizations

- Counties could create financial incentives for participants to volunteer for grant-based OJT assignments by supplementing grant-based OJT earnings administratively through the Single Allocation funding. The amount of supplemental payments funded with Single Allocation funds could be significantly reduced if counties set up a subsidized employment assignment in conjunction with grant-based OJT. The subsidized employment component could qualify for AB 98 funding, thereby significantly reducing the cost to counties.

CDSS will be issuing an ACL that will provide guidelines to counties on the various CalWORKs work activities which lead to EITC eligible earned income. The ACL will clarify how grant-based OJT activities can be assigned concurrently with subsidized employment activities. With proper program structuring, counties may be able to utilize both grant-based OJT and AB 98 funds in order to make grant-based OJT a financially attractive option for counties, employers, and participants.

C. Self-Employment

1. What are we currently doing that works?

- Self-employment is a viable employment activity that qualifies for EITC for CalWORKs recipients.

2. What is not working and why?

- Starting up a new business is financially difficult for low-income individuals. For most self-employed individuals, the first year or two results in little “net income.” The Internal Revenue Code requires an individual to deduct business expenses from gross profits to determine the amount of net “earned income” that is eligible for the EITC. This is a significant barrier for low-income individuals who are trying to start a new business to qualify for benefits provided through the EITC program; new business start-up costs and initial expenses can be greater than initial profits. Based on the current IRS EITC calculation, a person starting a new business would likely have little, or no, earned income to qualify them for the EITC.
- Under the federal TANF rules, the number of hours that is countable toward the TANF Work Participation Rate (WPR) is determined by dividing an individual’s “net income” by minimum wage. For low-income individuals who are starting a business, the amount of net income is usually very low and would not produce the number of

participation hours TANF requires on a monthly basis for those individuals' participation to count toward the TANF WPR.

- Under CalWORKs, California's version of TANF, self-employment is a form of employment. CalWORKs regulations require that employment be compensated in an amount equivalent to minimum wage. When calculating hours of work participation for CalWORKs, either the actual cost of doing business or a 40 percent income disregard (depending on what the participant chooses) would be subtracted from the gross income to determine net income. Using the net income, CDSS recommends that counties determine hours of participation by dividing the net income by the state or federal minimum wage. As under TANF, only "net income" is considered when calculating CalWORKs work participation hours. Due to the costs of starting a new business and the effect these costs have on a recipient's net income calculation, many recipients are not able to meet CalWORKs participation requirements through self-employment, as it does not produce minimum wage in many circumstances.

Workgroup Suggestions – Legislative and Administrative Options

Legislative Options

- The Internal Revenue Code could be changed to use a different IRS calculation for determining a low-income individual's eligibility for the EITC during the first two years of self-employment when initial expenses can be high. Costs such as depreciation, car expenses, and office in the home could be excluded in the calculation for EITC eligibility much as some military income is excluded to calculate their eligibility. By disregarding such costs from the EITC calculation, self-employed individuals could have access to more EITC money, which would provide needed support for low-income families to successfully start a new business.
- Federal regulations could be changed to allow a different method of counting hours toward the federal TANF participation requirements during the first two years of self-employment. The new method would not require a self-employed individual's hours of participation to be determined by dividing an individual's net income (gross income less business expenses) by minimum wage. Instead, the actual number of hours individuals are actively engaged in self-employment activities would count toward the WPR.

This option involves a federal regulation change. As CDSS works with other states on concerns with the final TANF regulations, this issue may be a potential discussion item.

Administrative Options for CDSS

- A state regulation change is needed to change the way in which self-employed individuals' hours of participation is determined for self-employment. However, a change in state rules that is different than TANF rules could hurt the state's ability to meet the federally required WPR. Failure to meet the federal WPR results in significant federal penalties to the state.

CDSS is not recommending this option, unless there is a change in federal regulation, due to the negative impact it could have on the state's WPR that could lead to federal penalties to the state.

D. Work Study

1. What are we currently doing that works?

- Work study is a form of subsidized employment offered by community colleges to enrolled CalWORKs recipients. As such, the earned income recipients receive through work study qualifies for the EITC.

2. What is not working and why?

- Some work study programs do not offer enough hours for recipients to meet the CalWORKs program's 20-hour per week participation requirements. This is burdensome for recipients, as they must be assigned additional hours in another activity, such as community service, to meet the 20-hour per week core participation requirement.

Workgroup Suggestions – Legislative and Administrative Options

Legislative Options

- No legislative options were suggested for work study activities.

Administrative Options for CDSS and for Other Organizations

- Community colleges should be strongly encouraged to establish work study assignments for recipients that allow them to meet the CalWORKs program's 20-hour per week core participation requirements. This would eliminate the need for a separate activity

to be assigned to such recipients and increase the amount of earned income received in work study programs that would be eligible for the EITC.

CDSS is addressing this issue by working with the California Community Colleges Chancellor's Office (CCCCO) to explore the reasons behind limiting work study hours.

E. Volunteer Income Tax Assistance (VITA) Work Experience Assignments

1. What are we currently doing that works?

- Many counties have VITA programs each tax season. These programs offer free tax return preparation, including filing for EITC, to low-income individuals. At least one county is successfully offering VITA assignments to recipients as a paid work experience assignment. The paid work experience is beneficial to recipients in three ways: the earned income it produces is eligible for EITC; the hours in such assignments count toward the CalWORKs program's 20-hour per week core participation requirement and the TANF WPR; and a VITA assignment is good training for recipients entering the workforce. In addition, this expands a county's ability to prepare tax returns for low-income individuals and promote the EITC program.

2. What is not working and why?

- Counties expressed concern with developing VITA work experience programs for recipients due to the cost and the training time required. Recipients in VITA assignments often work only one tax season after being certified as a tax preparer.

Workgroup Suggestions – Legislative and Administrative Options

Legislative Options

- No legislative options were suggested for VITA work experience assignments.

Administrative Options for CDSS

- To reduce costs to counties for establishing VITA work experience programs, training costs can be split with a participating employer who eventually hires the recipient as a tax preparer. Costs could be

further reduced by counties by assigning recipients to an unpaid work experience (WEX) activity during the training period.

CDSS agrees to pass this suggestion on to counties for further consideration. CDSS will be issuing an ACL that will provide guidelines to counties on the various CalWORKs work activities which lead to EITC-eligible earned income.

ADDITIONAL CDSS ACTIVITIES

A. ASSET REGULATION CHANGES CURRENTLY IN PROGRESS

In March 2008, CDSS issued ACL 08-11, pursuant to AB 1078, instructing county welfare departments that the \$5,000 limit on the amount a CalWORKs or Food Stamp recipient may retain in a restricted account was removed. Effective January 1, 2008 there is no maximum amount that current recipients may save in a restricted account. The letter also reminded counties that 401(k), 403(b), 457, Individual Retirement Accounts (IRA's), 529 college savings plans and Coverdell Educational Savings Accounts (ESAs) are also exempt from resource consideration for both applicants and recipients in the CalWORKs program. Regulations to implement these changes are in process. The letter also instructed county welfare departments to inform clients about the EITC at their annual redetermination interview and to provide them with publications about the EITC.

B. EITC INFORMATION OUTREACH ACTIVITIES COMPLETED

Publications

In January 2008, CDSS developed a publication about the EITC for distribution to clients. The publication included information about EITC benefits and income limits, advance EITC, claiming retroactive EITC, the Child Tax Credit and how to get free tax filing help. A flyer version was printed and mailed to 1.5 million CalWORKs and Food Stamp households in January 2008. A brochure version was printed and available to county welfare departments for distribution to clients. The publication has been updated for the current tax year. An electronic version is available for download on the CDSS forms internet website. (A copy of the flyer version of the publication is included in the attachments to this report.)

EITC Outreach Partnerships

CDSS participated in the Community Action Council EITC Partnership Panel discussions, the Cal Neva Annual Conference and Poverty Summit on EITC Partnerships, and the United Way of the Bay Area Annual

Regional Mini-Conference to establish partnerships and discuss strategies to help low income wage earners obtain the maximum benefits from the EITC and move towards self-sufficiency.

CalWORKs Partnerships Summit - In December 2008, CDSS staff presented an EITC workshop to provide participants with an overview of outreach efforts made by CDSS, the IRS and the United Way of San Francisco. CDSS provided an overview of the EITC benefits model and related income and property rules affecting the treatment of EITC, as well as savings and retirement accounts for CalWORKs recipients. The IRS presented their outreach efforts and federal rules regarding filing for EITC. The United Way of the Bay Area provided information about their "Earn It, Keep It, Save It" EITC outreach campaign and tax filing assistance services to help low and moderate income working families with income tax return filing and asset accumulation strategies.

C. PAY FOR PERFORMANCE MEASURE

AB 1078 added an additional performance measure to the state's existing Pay for Performance (P4P) program. The new performance measure is based on the percentage of current and recently discontinued CalWORKs cases that have earnings at or above the maximum EITC level. The bill requires CDSS to consult with key stakeholders to implement this measure in the P4P program. The bill acknowledges that the P4P program, and the additional measure, is contingent on budget act appropriation. Due to the state's current economic situation and in an effort to better maintain CalWORKs funding and services for eligible families, the funding for the P4P program has been suspended and the implementation of the new performance measure has been delayed until funding is restored.

CONCLUSIONS

Due to the current fiscal crisis CDSS is unable to support or implement suggestions from the stakeholder workgroups that will require additional dollars. However, activities that can be achieved by CDSS administratively at nominal cost by developing resources, researching outreach options, or providing guidance to counties via ACL or All County Information Notice (ACIN) will be encouraged and implemented. These activities include:

- Release an ACIN to provide guidelines to counties to improve EITC information outreach activities to CalWORKs clients. At a minimum, the ACIN would:
 - Encourage county social services agencies to include direct links to the IRS EITC website on their county website and to include direct links to easy online tax filing programs.
 - Share financial resource information that can be made available online or locally to CalWORKs clients.
 - Provide outreach publications to counties that will include information to clients about the EITC and to inform clients that they can apply for advance EITC that would be received throughout the year.
 - Encourage Cal-Learn case managers to advise graduating Cal-Learn clients who receive the \$500 bonus of the advantages of establishing a saving account or IDA.
- Include the direct IRS EITC website link on the CDSS internet website to direct the public to EITC and tax filing assistance resources.
- Determine whether there are existing data resources that could be accessed and matched to identify CalWORKs EITC non-filers. If the data exists, this information will be shared with the counties so they can focus outreach efforts on those clients.
- Release an ACL to provide guidelines to counties that will promote participation in WTW activities that lead to earned income for EITC purposes. At a minimum, the ACL would include the following:
 - Identify CalWORKs work activities that lead to earned income for EITC purposes.
 - Provide direction to counties that will ease the administrative burden for structuring grant-based OJT, an activity which leads to earned income.
 - Describe how to structure grant-based OJT and subsidized employment activities concurrently. When these two activities are properly structured, counties would be able to make better use of multiple funding sources.
 - Promote work study programs that enable CalWORKs participants to meet their CalWORKs participation requirement and receive EITC qualifying income.

- Encourage counties to increase VITA job placement activity assignments.

CDSS will continue to evaluate the suggestions presented by the workgroup participants to assist in efforts to increase EITC participation among CalWORKs clients. The ultimate goal is to help CalWORKs families move from welfare to work and self-sufficiency. Increasing EITC participation among eligible CalWORKs clients will help to achieve this goal. Guidelines will be developed to implement the suggestions that are feasible given limited resources.

ATTACHMENT 1.

Assembly Bill No. 1078

CHAPTER 622

An act to amend Sections 11155.2, 11155.4, 11155.6, 11322.6, and 15204.6 of, and to add Section 11322.5 to, the Welfare and Institutions Code, relating to CalWORKs.

[Approved by Governor October 13, 2007. Filed with Secretary of State October 13, 2007.]

LEGISLATIVE COUNSEL DIGEST

AB 1078, Lieber. CalWORKs: eligibility: income and assets.

Existing federal law provides for allocation of federal funds through the federal Temporary Assistance for Needy Families (TANF) block grant program to eligible states, with California's version of this program being known as the California Work Opportunity and Responsibility to Kids (CalWORKs) program.

Existing law provides for the CalWORKs program, under which each county provides cash assistance and other benefits to qualified low-income families and individuals who meet specified eligibility criteria.

Existing law imposes limits on the amount of income and personal and real property, including savings accounts, that an individual or family may possess in order to be eligible for aid under the CalWORKs program. Under existing law, principal and interest in designated federally created retirement or college savings plans held by existing CalWORKs recipients, but not new applicants, are excluded as property for purposes of redetermining eligibility and the amount of assistance.

This bill would delete the maximum amount of savings and interest that a CalWORKs recipient would be permitted to retain. The bill would extend the provisions excluding from income the principal and interest in the designated federal savings plans to CalWORKs applicants.

By increasing duties of counties administering the CalWORKs program, this bill would impose a state-mandated local program.

Federal income tax laws allow a refundable federal Earned Income Tax Credit (EITC) for low-income individuals that meet specified requirements.

This bill would declare the intent of the Legislature to maximize the abilities of CalWORKs recipients to benefit from, and be educated about, the EITC, as specified. The bill would impose various duties on the State Department of Social Services in this regard, and would authorize counties administering the CalWORKs program that choose to participate to take specified actions, in order to carry out this intent.

Existing law, contingent on a Budget Act appropriation, provides for a Pay for Performance Program to provide additional funding for counties that meet specified welfare-to-work improvement standards.

This bill would revise the Pay for Performance Program to include, only if and to the extent that a specified determination is made by the department, an improvement standard for counties with a percentage of county CalWORKs cases with earned income that equals or exceeds a specified income level, as provided.

Existing law continually appropriates money from the General Fund to pay for a share of aid grant costs under the CalWORKs program.

The bill would declare that no appropriation would be made for purposes of the bill pursuant to the provision continuously appropriating funds for the CalWORKs program.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that, if the Commission on State Mandates determines that the bill contains costs mandated by the state, reimbursement for those costs shall be made pursuant to these statutory provisions.

The people of the State of California do enact as follows:

SECTION 1. Section 11155.2 of the Welfare and Institutions Code is amended to read:

11155.2. (a) In addition to the personal property permitted by this part, recipients of aid under CalWORKs shall be permitted to retain savings and interest thereon for specified purposes. Interest earned from these savings and deposited into a restricted account shall be considered exempt as income for purposes of determining eligibility for aid and grant amounts if the interest is retained in the account. If the interest is not deposited by the financial institution into the account, the interest shall be treated as a nonqualifying withdrawal of funds from the account as specified in subdivision (b). This section shall not apply to applicants. Funds may be used by the family for education or job training expenses for the account holder or his or her dependents, for starting a business, or for the purchase of a home. Recipients who wish to retain savings for these purposes shall enter into a written agreement with the county to establish a separate account with a financial institution, with the account to be used solely for the purpose of accumulating funds for later withdrawal for a qualifying expenditure. A qualifying expenditure shall be defined by department regulations and shall be verified by the recipient. The recipient shall agree to provide periodic verification of account activity, as required by department regulations. The agreement shall notify the recipient of the penalty for nonqualifying withdrawal of funds.

(b) Any nonqualifying withdrawal of funds from the account shall result in a calculation of a period of ineligibility for all persons in the assistance unit, to be determined by dividing the balance in the account immediately prior to the withdrawal by the minimum basic standard of adequate care for the members of the assistance unit, as set forth in Section 11452. The resulting whole number shall be the number of months of ineligibility. The period of ineligibility may be reduced when the minimum basic standard of adequate care of the assistance unit, including special needs, increases.

(c) If the California Savings and Asset Project is established pursuant to Chapter 17 (commencing with Section 50897) of Part 2 of Division 31 of the Health and Safety Code, then to the extent permitted by federal law, a recipient shall be eligible to receive matching funds derived from federal contributions for the purpose of establishing an individual account in an amount not to exceed three thousand dollars (\$3,000) in addition to the amounts specified in subdivision (a) and a fiduciary organization may provide amounts in excess of the first three thousand dollars (\$3,000) limitation if contributed solely through private sources.

SEC. 2. Section 11155.4 of the Welfare and Institutions Code is amended to read:

11155.4. The principal and interest in an individual development account established in accordance with the federal requirements of Section 604(h) of Title 42 of the United States Code or established by a statewide individual development account program shall be exempt from

consideration when determining or redetermining eligibility and the amount of CalWORKs assistance.

SEC. 3. Section 11155.6 of the Welfare and Institutions Code is amended to read:

11155.6. (a) (1) The principal and interest in a 401(k) plan, 403(b) plan, or 457 plan shall be excluded from consideration as property when determining eligibility and the amount of assistance with respect to an applicant for benefits who is not a recipient of CalWORKs benefits.

(2) The principal and interest in a 401(k) plan, 403(b) plan, IRA, 457 plan, 529 college savings plan, or Coverdell ESA, shall be excluded from consideration as property when redetermining eligibility and the amount of assistance for recipients of CalWORKs benefits.

(b) For purposes of this section, the following terms have the following meanings:

(1) "401(k) plan" means a deferred compensation plan that satisfies the requirements of Section 401(k) of the Internal Revenue Code.

(2) "403(b) plan" means a qualified annuity plan that satisfies the requirements of Section 403(b) of the Internal Revenue Code.

(3) "IRA" means an individual retirement account that satisfies the requirements of Section 408 of the Internal Revenue Code.

(4) "457 plan" means a deferred compensation plan that satisfies the requirements of Section 457 of the Internal Revenue Code.

(5) "529 college savings plan" means a qualified tuition program that satisfies the requirements of Section 529 of the Internal Revenue Code.

(6) "Coverdell ESA" means an education savings account that satisfies the requirements of Section 530 of the Internal Revenue Code. SEC. 4. Section 11322.5 is added to the Welfare and Institutions Code, to read: 11322.5. (a) It is the intent of the Legislature to do each of the following:

(1) Maximize the ability of CalWORKs recipients to benefit from the federal Earned Income Tax Credit (EITC), including retroactive EITC credits and the Advance EITC, take advantage of the earned-income disregard to increase their federal Food Stamp Program benefits, and accumulate credit toward future social security income.

(2) Educate and empower all CalWORKs participants who receive the federal EITC to save or invest part or all of their credits in instruments such as individual development accounts, 401(k) plans, 403(b) plans, IRAs, 457 plans, Coverdell ESA plans, restricted accounts pursuant to subdivision (a) of Section 11155.2, or 529 plans, and to take advantage of the federal Assets for Independence Program and any other matching funds, tools, and training available from public or private sources, in order to build their assets.

(b) It is the intent of the Legislature that counties encourage CalWORKs recipients to participate in activities that will maximize their receipt of the EITC. To this end, counties may do all of the following:

(1) Structure welfare-to-work activities pursuant to subdivisions (a) to (j), inclusive, of Section 11322.6 to give recipients the option of maximizing the portion of their CalWORKs benefits that meets the definition of "earned income" in Section 32(c)(2) of the Internal Revenue Code.

(2) Inform CALWORKS recipients of each of the following:

(A) That earned income, either previous or future, may make them eligible for the federal EITC, including retroactive EITC credits and the Advance EITC, increase their federal Food Stamp Program benefits, and accumulate credit toward future social security income.

(B) That recipients, as part of their welfare-to-work plans, have the option of engaging in subsidized employment and grant-based on-the-job training, as specified in Section 11322.6, and that participating in these activities will increase their earned income to the extent that they meet the requirements of federal law.

(C) That receipt of the federal EITC does not affect their CalWORKs grant and is additional tax-free income for them.

(D) That a CalWORKs recipient who receives the federal EITC may invest these funds in an individual development account, 401(k) plan, 403(b) plan, IRA, 457 plan, 529 college savings plan, Coverdell ESA, or restricted account, and that investments in these accounts will not make the recipient ineligible for CalWORKs benefits or reduce the recipient's CalWORKs benefits.

(3) At each regular eligibility redetermination, the county shall ask each recipient whether the recipient is eligible for and takes advantage of the EITC. If the recipient may be eligible and does not participate, the county shall give the recipient the federal EITC form and encourage and assist the recipient to take advantage of it.

(c) (1) No later than December 1, 2008, the State Department of Social Services shall develop guidelines that counties may adopt to carry out the intent of this section and shall present options to the Governor and Legislature for any legislation necessary to further carry out the intent of this section.

(2) In developing the guidelines and legislative options, the department shall consult and convene at least one meeting of subject-matter experts, including representatives from the Assembly and Senate Human Services Committees, Assets for All Alliance, Asset Policy Initiative of California, California Budget Project, California Catholic Conference, California Council of Churches, California Family Resource Association, California State Association of Counties, CFED, County Welfare Directors Association of California, Federal Reserve Bank of San Francisco, Legislative Analyst's Office, Lifetime, National Council of Churches, National Economic Development and Law Center, New America Foundation, Public Policy Institute of California, University of California at Los Angeles Law School, United States Internal Revenue Service, and Western Center on Law and Poverty. Nothing in this section requires the department to compensate or pay expenses for any person it consults or invites to the meeting or meetings.

SEC. 5. Section 11322.6 of the Welfare and Institutions Code is amended to read:

11322.6. The welfare-to-work plan developed by the county welfare department and the participant pursuant to this article shall provide for welfare-to-work activities. Welfare-to-work activities may include, but are not limited to, any of the following:

(a) Unsubsidized employment.

(b) Subsidized private sector employment.

(c) Subsidized public sector employment.

(d) Work experience, which means public or private sector work that shall help provide basic job skills, enhance existing job skills in a position related to the participant's experience, or provide a needed community service that will lead to employment. Unpaid work experience shall be limited to 12 months, unless the county welfare department and the recipient agree to extend this period by an amendment to the welfare-to-work plan. The county welfare department shall review the work experience assignment as appropriate and make revisions as necessary to ensure that it continues to be consistent with the participant's plan and effective in preparing the participant to attain employment.

(e) On-the-job training.

(f) (1) Grant-based on-the-job training, which means public or private sector employment or on-the-job training in which the recipient's cash grant, or a portion thereof, or the aid grant savings resulting from employment, or both, is diverted to the employer as a wage subsidy to partially or wholly offset the payment of wages to the participant, so long as the total amount diverted does not exceed the family's maximum aid payment.

(2) A county shall not assign a participant to grant-based on-the-job training unless and until the participant has voluntarily agreed to participate in grant-based on-the-job training by executing a voluntary agreement form, which shall be developed by the department. The agreement shall include, but not be limited to, information on the following:

(A) How job termination or another event will not result in loss of the recipient's grant funds, pursuant to department regulations.

(B) (i) How to obtain the federal Earned Income Tax Credit (EITC), including the Advance EITC, and increased Food Stamp Program benefits, which may become available due to increased earned income.

(ii) This subparagraph shall only become operative when and to the extent that the department determines that it reflects current federal law and Internal Revenue Service regulations.

(C) How these financial supports should increase the participant's current income and how increasing earned income should increase the recipient's future social security income.

(3) Grant-based on-the-job training shall include community service positions pursuant to Section 11322.9.

(4) Any portion of a wage from employment that is funded by the diversion of a recipient's cash grant, or the grant savings from employment pursuant to this subdivision, or both, shall not be exempt under Section 11451.5 from the calculation of the income of the family for purposes of subdivision (a) of Section 11450.

(g) Supported work or transitional employment, which means forms of grant-based on-the-job training in which the recipient's cash grant, or a portion thereof, or the aid grant savings from employment, is diverted to an intermediary service provider, to partially or wholly offset the payment of wages to the participant.

(h) Workstudy.

(i) Self-employment.

(j) Community service.

(k) Adult basic education, which shall include reading, writing, arithmetic, high school proficiency, or general educational development certificate of instruction, and English-as-a-second-language. Participants under this subdivision shall be referred to appropriate service providers that include, but are not limited to, educational programs operated by school districts or county offices of education that have contracted with the Superintendent of Public Instruction to provide services to participants pursuant to Section 33117.5 of the Education Code.

(l) Job skills training directly related to employment.

(m) Vocational education and training, including, but not limited to, college and community college education, adult education, regional occupational centers, and regional occupational programs.

(n) Job search and job readiness assistance, which means providing the recipient with training to learn job seeking and interviewing skills, to understand employer expectations, and learn skills designed to enhance an individual's capacity to move toward self-sufficiency, including financial management education.

(o) Education directly related to employment.

(p) Satisfactory progress in secondary school or in a course of study leading to a certificate of general educational development, in the case of a recipient who has not completed secondary school or received such a certificate.

(q) Mental health, substance abuse, and domestic violence services, described in Sections 11325.7 and 11325.8, and Article 7.5 (commencing with Section 11495), that are necessary to obtain and retain employment.

(r) Other activities necessary to assist an individual in obtaining unsubsidized employment.

Assignment to an educational activity identified in subdivisions (k), (m), (o), and (p) is limited to those situations in which the education is needed to become employed.

SEC. 6. Section 15204.6 of the Welfare and Institutions Code is amended to read:

15204.6. (a) Contingent upon a Budget Act appropriation, a Pay for Performance Program shall provide additional funding for counties that meet the standards developed according to subdivision (c) in their welfare-to-work programs under Article 3.2 (commencing with Section 11320) of Chapter 2. The state shall have no obligation to pay incentives earned that exceed the funds appropriated for the year in which the incentives were earned.

(b) To the extent that funds are appropriated, the maximum total funds available to each county each year under the Pay for Performance Program shall be 5 percent of the funds the county receives that year, less the amount for child care, from the single allocation under Section 15204.2. If funds appropriated for this section are less than the incentives earned under this subdivision, each county's allocation under this section shall be prorated based on the amount of funds appropriated for that year.

(c) The funds available to each county under the Pay for Performance Program shall be divided each year into as many equal parts as there are measures established for the year under this subdivision. A county shall earn payment of one equal part for each improvement standard that it achieves for the year or by ranking in the top 20 percent of all counties in a measure identified in paragraphs (1), (2), (3), (4), and (5), except as provided in subparagraph (B) of paragraph (4). Counties may receive a pro rata share of incentive funds for each improvement standard. The department shall consult with the County Welfare Directors Association, legislative staff, and other stakeholders, when developing improvement standards and the methodology for earning and distributing incentives for each of the following measures:

(1) The employment rate of county CalWORKs cases.

(2) The federal participation rates of county CalWORKs cases, calculated in accordance with Section 607 of Title 42 of the United States Code, but excluding individuals who are exempt in accordance with Section 11320.3 and including sanctioned cases and cases participating in activities described in subdivision (q) of Section 11322.6. If valid data does not exist to measure this outcome, the funds for this measure shall be made available for the Pay for Performance Program in the following fiscal year.

(3) The percentage of county CalWORKs cases that have earned income three months after ceasing to receive assistance under Section 11450.

(4) (A) The percentage of county CalWORKs cases, including cases that have ceased receiving assistance in the previous two quarters, with earned income that equals or exceeds the income level for the maximum EITC amount available to a household, as determined under Section 22 of the Internal Revenue Code.

(B) This paragraph shall only become operative if the department, in consultation with the County Welfare Directors Association, legislative staff, and other stakeholders, determines that implementing its provisions will not create a substantial risk of California failing to meet federal welfare-to-work participation goals, and shall remain operative for so long as the department does not reverse that determination.

(5) Any additional measures that the department may establish in consultation with the County Welfare Directors Association, legislative staff, and other stakeholders.

(d) Performance measures, standards, outcomes, and payments to counties under subdivisions (a), (b), and (c) shall be based on the following schedule:

(1) For the performance measure described in paragraph (2) of subdivision (c), payments in fiscal year 2007–08 shall be based on outcomes for the period of July 1, 2006, through December 31, 2006, compared to outcomes for the period of January 1, 2007, through June 30, 2007, and payments in each subsequent fiscal year shall be based on outcomes for the fiscal year prior to payment, compared to outcomes for the fiscal year two years prior to payment.

(2) For all other performance measures, payments shall be based on outcomes for the fiscal year prior to payment, compared to outcomes for the fiscal year two years prior to payment.

(e) The department may make further adjustments to any of the performance measures listed under subdivision (c), in consultation with the County Welfare Directors Association, legislative staff, and other stakeholders. The act that both amends subdivision (c) and enacts this sentence in the 2007–08 Regular Session of the Legislature shall not limit the department's authority under this subdivision.

(f) The funds paid in accordance with this section may only be used in accordance with subdivisions (f) and (g) of Section 10544.1 and only for the purpose of enhancing family self-

sufficiency. Funds earned by a county in accordance with this section shall be available for expenditure in the fiscal year that they are received and the following two fiscal years. Following the period of availability, and notwithstanding any provisions of subdivision (f) of Section 10544.1 to the contrary, any unspent balance shall revert to the Temporary Assistance for Needy Families (TANF) block grant.

(g) Any funds appropriated by the Legislature for the Pay for Performance Program, but not earned by a county, shall revert to the TANF block grant at the end of the fiscal year for which the funds were appropriated.

(h) The department shall periodically publish the outcomes measured by the Pay for Performance Program, identified by county.

(i) Notwithstanding the rulemaking provisions of Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code, the department may implement this section through all-county letters throughout the duration of the Pay for Performance Program.

SEC. 7. No appropriation pursuant to Section 15200 of the Welfare and Institutions Code shall be made for the purposes of this act.

SEC. 8. If the Commission on State Mandates determines that this act contains costs mandated by the state, reimbursement to local agencies and school districts for those costs shall be made pursuant to Part 7 (commencing with Section 17500) of Division 4 of Title 2 of the Government Code.

ATTACHMENT 2.

IT'S YOUR MONEY
YOU EARNED IT - NOW CLAIM IT AND SAVE IT

THE FEDERAL EARNED INCOME CREDIT (EIC) is a special tax break for people who work full or part time. This means extra cash in your pocket. How much extra cash? In 2008 if you:

	were raising two or more qualifying children and earned less than \$38,646 (or \$41,646 married filing jointly) you could receive up to \$4,824
	were raising one qualifying child in your home and earned less than \$33,995 (or \$36,995 married filing jointly) you could receive up to \$2,917
	had no children in your home, earned less than \$12,880 (or \$15,880 married filing jointly) and were between the ages of 25 and 64 you could receive up to \$438

Claiming your EIC is easy. Just file your federal tax return form 1040 or 1040A and Schedule EIC. You can still get an EIC refund even if you don't owe any income tax. The EIC refund is not counted as income when your CalWORKs cash grant, food stamps or Medi-Cal benefits are figured.

<p>Boost your take-home pay!</p> <p>Eligible workers with children can get Advance EIC in their paycheck. Get Form W-5 from your employer or call 1-800-TAX-FORM (1-800-829-3676).</p>	<p>YOU CAN GO BACK THREE YEARS!!!</p> <ul style="list-style-type: none">• If you filed your income tax return but did not claim your EIC or CTC in prior years you can file amended returns for three years back.• If you did not file an income tax return for a prior year you can file a late return for up to three years and claim the EIC and CTC. There is no late filing penalty if you do not owe income tax in the prior year. <p>Contact the IRS at 1-800-TAX-FORM (1-800-829-3676) for copies of prior-year forms and instructions.</p>
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<p>THE CHILD TAX CREDIT (CTC) is for families that earned more than \$8,500. They may get up to \$1,000 for each qualifying child under age 17. See your tax instructions and get Form 8812.</p>

GET FREE TAX HELP

	Volunteer Income Tax Assistance or VITA sites help people fill out returns for free. For a site near you, or for other tax information, call the IRS at 1-800-829-1040 .
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Just think of all the ways this extra cash could help you and your family - paying off bills or putting it in the bank for a future need.