

E-PARCC

COLLABORATIVE GOVERNANCE INITIATIVE

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Maxwell School of Citizenship and Public Affairs

Program for the Advancement of Research on Conflict and Collaboration

Implementing the Earned Income Tax Credit at Accountability Minnesota Part C

Looking at the initial implementation of the Express Refund Loan & Savings Program, Bonnie Esposito decided to make some changes in the program plan for the second and third years. Working with the U.S. Federal Credit Union, AccountAbility Minnesota had successfully developed a free rapid tax refund product for low- and moderate-income people who previously were marketed only high-cost Refund Anticipation Loans (RALs). But, surprisingly, in the first year, few customers used it, preferring instead to open savings accounts rather than taking a loan. This outcome—to get more customers participating in mainstream financial services—was more desirable in the long term, anyway, and Bonnie was pleased that the program officer at the sponsoring foundation agreed.

Moving forward, it seemed important to continue to broaden the scope of the product and learn more about frontline dynamics around rapid refunds and financial institutions. Building upon the successful relationship with US Federal Credit Union, Bonnie was able to recruit City & County Credit Union as a second financial institution partner. With the details already ironed out and one successful year documented, Bonnie did not have to work as hard to build the new partnership. Additionally, AccountAbility Minnesota added seasonal program staff to assist with second year program implementation. While Eva maintained her role as Program Coordinator, three program assistants were hired to market the Express Refund Loan & Savings program in the community, screen for applications, and do initial processing of accounts. Finally, Bonnie and staff decided to broaden eligibility for the program beyond those who had previously

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received a Refund Anticipation Loan (RAL). Given the modest take up by those clients in the first year, it seemed useful to expand the potential market and see what happened.

Using the insights developed in year one about how to listen and communicate with clients, frontline staff were able to recruit and engage customers more easily. The expansion of financial partners and program staff made it possible to offer the program throughout the metropolitan area at five more community tax sites, covering most of St. Paul, Minneapolis and surrounding suburbs. This additional program capacity and larger eligibility pool allowed AccountAbility to serve 371 customers, including 244 express refund loans. The broadening of eligibility criteria enabled more people to choose which product would be most helpful in their particular circumstances, whether or not they had received a rapid refund in the past. AccountAbility and its financial partners were now competing with the private market and offering loans, albeit free ones, to anyone who wanted a quick refund. According to the evaluation, the program saved these second year customers an estimated \$72,000 in fees and interest—for each, a savings of nearly \$300. As importantly, 80% of the new savings accounts remained open with a modest balance a year later. Yet, clearly AccountAbility was just serving a tiny part of the overall market.

Another important lesson learned in the first year was that many customers were not aware of how quickly a “direct deposit” put their refund into a checking or savings account. The new configuration allowed staff to ask customers at certain points in the tax return process if they knew about and understood this service. As a result, 40% more customers had their returns deposited directly into existing accounts, decreasing their own wait time.

During the second pilot year, AccountAbility continued to partner with community-based organizations throughout the state, providing technical support so they could operate their own voluntary tax sites. Early in 2007, AccountAbility hired a Greater Minnesota Partnership Manager to coordinate all of that work, including offering training, tools for building agency and community awareness, assistance with fund development, and other asset building strategies. The community relationships, though, were delicate. Staff needed to navigate a deeply held perception that people from the “Cities” were not really sensitive to small town issues. This tension was particularly apparent in American Indian communities who had been so victimized by many non-Indian programs. To build trust, the Greater Minnesota Partnership Manager convened some tribal community leaders to discuss predatory lending and RALs targeted to their community. Together, they developed strategies to provide free tax assistance. By the end of 2007, there had been some real success.

When planning started for the third year of the Express Refund Loan and Savings pilot, the success of this partnership work became an asset. Bonnie and staff decided to double their second year goal, planning to approve 400 loans and open an unlimited number of savings accounts. Such expansion on a state-wide field required working with strong VITA sites able to consider broadening their program offerings. There also had to be a financial partner willing to take the risk on loans and opening savings accounts for people with blemished banking histories. Bonnie also wanted to target the program expansion to communities with high incidents of RALs.

So the final pilot program year involved three additional financial partners and two nonprofits in Greater Minnesota. In the metro, the City-County Federal Credit Union was brought on because of its north branch location in a high poverty neighborhood filled with fringe banking services, such as pay-day lenders, but only two mainstream financial institutions. The need was great in that community for alternatives to high-cost financial services.

In Greater Minnesota, expansion was more nuanced and required a subtle change in AccountAbility’s role. Instead of operating the tax sites, AccountAbility acted as a consultant, helping to broker relationships between other nonprofits and financial institutions. The AccountAbility staff assisted in customizing forms, tweaked processes needed to establish the program, and offered coaching and problem solving as the tax season progressed. As Bonnie reflected, “In Greater Minnesota, it is critical to have the leadership of the agency behind this type of initiative. Program staff come and go, because that’s the nature of nonprofit work. For this initiative to work, the organizational leaders must be bought into the vision of savings and asset development for their clients.”

One strong site was the White Earth Investment Initiative, located on the White Earth Indian reservation in northern Minnesota. In addition to free tax preparation, they operated an array of financial education and services, an important asset in replicating this new model. Another was Community Action Agency in Duluth, which already had close working relationships with financial institutions through their matched-savings account program. In both places, AccountAbility gave these agencies the support needed to negotiate new terms with their financial partners. To be part of the Express Refund Loan and Savings program, for example, financial institutions needed to be willing to open an account for anyone with photo identification and a social security number. Not all financial institutions were willing to accept those terms.

Working in local rural communities was delicate. In one of the sites, the local mayor was really against the Express Refund Loan and Savings program. It turns out, she happened to own and operate the local H&R Block office. After two weeks, the nonprofit partner got an indignant call that the ERLS program had cost H&R Block \$10,000 in the first two weeks. While the director wanted to come back with a pointed reply, she felt it was more prudent to withhold her opinion given the power dynamics in the small community.

In spite of these nuances, the third year of the pilot program was a success. Through these partnerships and metro-area work, AccountAbility dramatically exceeded the goal of 400 loans. Over 730 loans were made. The average income of customers using the loan was \$14,005. Sixty-two percent of the customers were 35 or younger. Interestingly, 60% of loans were taken out in the first three weeks of the tax season.

	Free Express Loans	Savings Accounts
Year 1	23	76
Year 2	243	338
Year 3	733	952

As significantly—and directly related to the first year learning—even more savings accounts were opened by customers who realized there were other options for getting quick refunds. Nearly one-third of the customers had previously forfeited part of their tax benefits in fees or loan charges from commercial tax preparers. A

similar proportion had no prior relationship with a mainstream financial institution. When participants were asked how they would use the loan, 64% indicated that their primary use would be to pay off bills and another 12% reported they would save the money. When asked about a secondary use for the money, savings, paying for car or home repairs, medical and school expenses were frequently listed.

The evaluation results also suggested long-term benefit from the program. Financial partners in Greater Minnesota reported that more than 80% of these customers were still utilizing their accounts months beyond tax season. In the Twin Cities, 94% accounts remain open.

The final evaluation report concluded:

“The program is an innovative model for building economic security and financial understanding for low-income taxpayers. In the first two years of the pilot program, enhancements and modifications were made...to increase its effectiveness and streamline its processes and procedures. In the third year of the program, AccountAbility Minnesota expanded the program to two Greater Minnesota sitesFeedback from the Greater Minnesota partners indicates that the program is easily replicated in as many locations as AccountAbility Minnesota can support with coaching, training, convening partners, and start-up funding. The policies, tools, and procedures developed by AccountAbility Minnesota are invaluable to others interested in starting such a program. AAM and the ERLSP staff are positioned to offer the model and the wealth of experience and information gained over three years of operation nationwide through their consultative role.

Bonnie felt pleased about the overall achievements of the three year pilot. The organization had saved vulnerable people significant amounts of money, developed new relationships throughout the state, and documented the learning in a program manual for others to use. Since the beginning of the pilot, she had received calls from dozens of public and private agencies across the country for information about the initiative. With the formal evaluation and process manuals in hand, she felt well poised to take what they had learned in Minnesota and share it with all working to fully implement the national and state tax credits targeted to low-income workers.

Appendix C

1) Can I tell you about the benefits of direct deposit?

- Your refund will come faster if you e-file and use direct deposit. State refund arrives in 4-5 days and federal in 9-15 days.
- There's peace of mind knowing your refund check didn't get lost in the mail.
- It's convenient. No trips to the cu/bank waiting in line to make your deposit.

2) Can I tell you about why you should consider an account with one of our credit union partners?

- The account is entirely free. No start-up fees, monthly fees, or costs to close the account.
- They require only a \$5 minimum balance.
- There are no check cashing fees.
- It allows you to direct deposit your tax refunds, and you could also have your pay check directly deposited to the account.

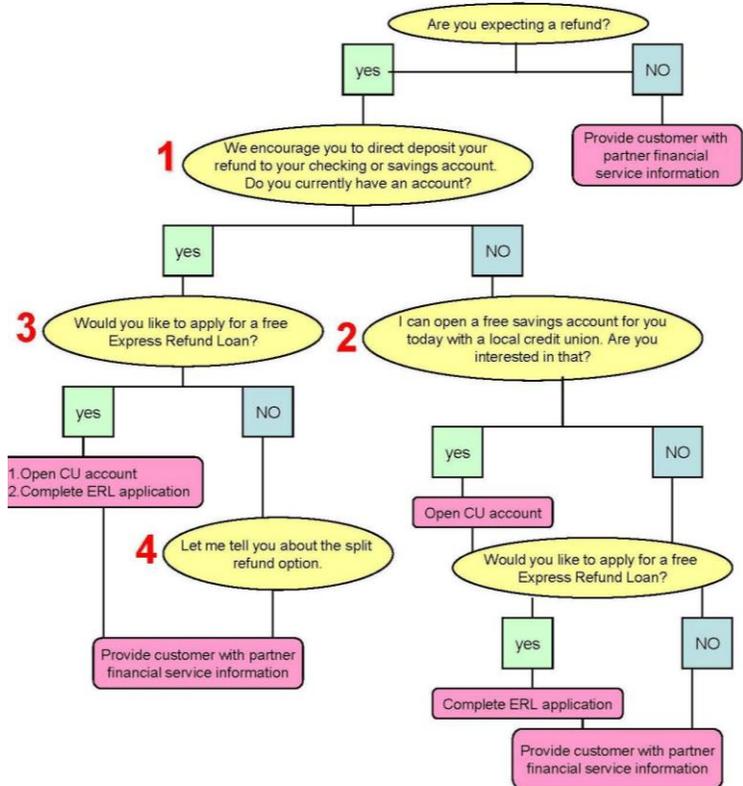
3) Can I tell you about the Express Refund Loan, which enables you to receive your federal refund in 1-2 business days?

- You can receive your refund in 1-2 business days.
- It is very low cost, although it is still a loan.
- You get a free credit union savings account.
- It only takes a few minutes to complete the paperwork.

4) Did you know that you can direct deposit your refund into as many as 3 accounts?

- Spend some, save some.
- Save some money for something you'll need later this year like Christmas shopping, back to school, vacation, or emergency funds.
- It's easy to do. Just tell your tax preparer that you want to "split your refund" and give them your account information.

Express Refund Loan & Savings Workflow



Epilogue

In 2009, after a year of succession planning, Bonnie Esposito left AccountAbility Minnesota to pursue her own interests in the field of aging services. The Board of Directors conducted a national search and hired Tracy Fischman as the organization's new executive director. Using her background in program development and policy advocacy, Tracy continued to grow the organization and its products.

In addition to the Express Refund Loan and Savings program, AccountAbility Minnesota expanded other initiatives. At some sites, customers were encouraged to access their credit reports and credit repair counseling; at others, volunteers from the Minnesota Financial Planners Association met with them to discuss asset-development strategies; at still others, volunteers showed families how to use Bridge to Benefits, a web-based tool enabling people to assess their eligibility for a range of public benefits, such as food support, health insurance, and child care subsidies. The organization continued its technical assistance throughout the state and, when requested, to other VITA sites throughout the country.

In 2010, the organization and its partners worked with nearly 800 volunteers state-wide, serving 19,301 low-income taxpayers with free tax assistance and returning \$35 million in tax refunds to Minnesota families. The organization's focus continued to be on encouraging savings and asset development. In that year, AccountAbility helped 650 low-income taxpayers open savings accounts, bringing the total to 2,700 since the ERLS began. In 2011, the organization also piloted the use of debit cards, enabling customers to access their refunds more efficiently and provide another avenue for positive engagement with financial institutions.