



METROPOLITAN POLICY PROGRAM  
THE BROOKINGS INSTITUTION  
IN COLLABORATION WITH SFWORKS

# Delivering a Local EITC: Lessons from the San Francisco Working Families Credit

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*In 2003, a coalition of public, private, and not-for-profit actors in San Francisco began work to create a local city/county supplement to the federal Earned Income Tax Credit. In addition to putting more money in the pockets of working families living in a high-cost city, the coalition sought to use the program to boost participation by eligible recipients in the federal EITC and to help low-income families connect to financial services and asset-building opportunities. This paper tells the story of San Francisco's Working Families Credit—now in its second year—explaining how the program worked in its first year of operation, summarizing program outcomes and outputs thus far, and describing lessons learned and best practices for those considering developing a similar program in their own local jurisdictions.*

## Introduction

For families struggling to make ends meet on earnings from low-wage jobs, the federal Earned Income Tax Credit (EITC) has become an essential form of support, boosting the size of annual tax refunds by as much as several thousand dollars. The program is widely recognized for its accessibility (working through the tax code and tax filing system), administrative efficiency and simplicity, and its effectiveness in lifting working poor households out of poverty.<sup>2</sup> Why then shouldn't the EITC serve as a model for other programs for working families, particularly in parts of the country where high costs of living create added difficulties for lower-income residents?

Beginning in 2004, community advocates and public officials in San Francisco began to ask that very question. More specifically, key elected officials were interested in ways to increase the take-up of the EITC in San

Francisco, as city residents were leaving an estimated \$12 million in EITC unclaimed each year.<sup>3</sup> The eventual outcome of their questions and discussion was a new program, a local version of the EITC dubbed the "San Francisco Working Families Credit" (WFC). The WFC is a locally funded and administered tax credit for employed low-income tax filers with children who qualify for the federal EITC and live in the city of San Francisco. WFC applicants whom the city verifies as eligible (using data supplied by the IRS) receive a check from the city and county of San Francisco equal to a percentage of their federal EITC.<sup>4</sup> In 2005, the first year of a two-year WFC pilot program, checks equal to 10 percent of applicants' EITCs, averaging \$220, were mailed to nearly 10,000 San Francisco families.

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retain these families in San Francisco—a city sometimes chided for as an expensive and artificial enclave of childless professionals. These and other arguments were sufficiently powerful to catch the attention of an energetic new mayor, a wide range of community advocates and ultimately the sponsorship of the nation’s largest tax preparation firm. Together these very different organizations crafted and piloted a new policy which is now on a road to permanency and is serving as a foundation for other efforts to support low-income families.

San Francisco was not the first city to establish a local version of the EITC. Nineteen states (including the District of Columbia) and three local jurisdictions now offer programs that supplement the federal EITC.<sup>5</sup> Denver, CO was the first city to pilot a local EITC, beginning in 2002.<sup>6</sup> Unlike San Francisco’s WFC, funded by general city revenue and private contributions, the Denver program was paid for with Temporary Aid to Needy Families (TANF) funds. Unfortunately, when TANF funds dried up, Denver was forced to suspend its program indefinitely in 2004.<sup>7</sup> San Francisco benefited from this and other lessons from Denver’s experience, and in so doing has helped advance a “state of the art” local EITC program. Other cities or counties that might contemplate a local EITC would do well to incorporate lessons from both cities’ experiences.

Local EITCs offer a new role for local government. Complex, far-reaching social problems like poverty have traditionally been the subject of federal or state policy. Local EITC programs offer a way for city and county governments to address poverty locally, in a way that is tailored to the needs of area residents and supports work. San Francisco offers an inspiring example in which local actors, working on a tremendously compressed timeframe, created a program that puts money in the pockets of almost ten thousand working families

to help them make ends meet.

This paper tells the story of San Francisco’s Working Families Credit, explains how the program worked in its first year of operation, summarizes program outcomes and outputs thus far, reflects on lessons learned to date, describes considerations interested parties may wish to reflect on before developing their own local credit, and recommends first steps for those planning to develop a similar program in their own city, county, or other local jurisdiction.

### Evolution of the San Francisco Working Families Credit

**I**n February 2004, newly elected San Francisco Mayor Gavin Newsom stood before a gathering of advocates for working poor families—the Earn it! Keep It! Save It! Campaign—and publicly announced one of the first big initiatives of his new administration: San Francisco would become the second city in the country to offer a local version of the well-regarded federal Earned Income Tax Credit (EITC). Hard-working but low-income families would be getting some much-needed extra financial help from the city, the mayor promised, as he pledged the city to offer a two-year “Working Families Credit” (WFC) pilot program.

The story of how this mayor came to attach his name and administration to the local EITC idea began many months earlier, and is a classic tale of the hard work and happenstance often underlying important public policy innovations (Box 1 provides an overview of major milestones in the WFC timeline). Those working on behalf of low-income families have long focused on the EITC as an effective, yet underutilized, program to supplement the earned income of working poor households. In recent years, a movement to publicize and connect eligible families to the EITC has taken root in cities, counties, and

states across the nation, with active participation by local organizations in San Francisco. Among those organizations were a respected child advocacy agency, Coleman Advocates for Children and Youth (“Coleman”), and a successful workforce development intermediary organization, SFWorks. In the early months of 2003, the leaders of these two non-profit organizations, while discussing EITC outreach efforts, noted a recent publication about a local version of the EITC offered by the city of Denver in the 2002 tax season. An idea was born: Why not a local EITC for San Francisco?

As it happened, an ideal date to draw attention to tax policy, the annual April 15 federal tax return filing deadline, was around the corner. Without high expectations, SFWorks Director Terri Feeley and a colleague, Anne Stuhldreher, drafted an opinion piece proposing a local EITC for San Francisco.<sup>8</sup> The piece ran as the lead op-ed in the *San Francisco Chronicle* on April 15, 2003, and the idea garnered attention almost immediately. The communications director for then-mayoral candidate Gavin Newsom called SFWorks to ask questions about the proposal, at least one local foundation interested in poverty issues asked for more information, and colleagues from community organizations contacted Feeley and Stuhldreher to explore details of the idea.<sup>9</sup>

SFWorks and Coleman Advocates sensed the idea had promise and sought to capitalize on the momentum the op-ed had created. SFWorks secured modest funding from a local foundation to convene community members and invite as a speaker the key architect of Denver’s local EITC program. In the early summer of 2003, SFWorks and Coleman co-hosted this meeting, with roughly 40 attendees. Among those who participated were representatives of community groups, city officials, three mayoral campaigns, and local foundations. The group listened, put questions to the guest

speaker, and ultimately concluded that a San Francisco “working families credit” was an idea worthy of detailed study. Roughly 20 people volunteered to participate in a steering committee tasked with conducting further research.

Despite this enthusiasm, the WFC idea did raise concerns as it circulated around the city. In particular, the Department of Human Services (DHS), the presumed home for such a program, was skeptical whether, should the credit be modeled on Denver’s use of TANF welfare funds, it would represent the best use of those funds.<sup>10</sup> The degree of political support for such a program was uncertain, either from elected or appointed city officials. Finally, among advocates for low-income families there were concerns that a campaign for this program might distract from an effort already underway to increase the minimum wage.<sup>11</sup> In planning meetings throughout the fall, community advocates expressed concern that they “didn’t want to rob Peter to pay Paul.” They recognized that the local pie for the working poor was limited and didn’t want to cannibalize it. In response to these concerns, WFC proponents chose not to go public with their campaign until after the November election in which the minimum wage question would be decided, and adopted a guiding principle that funding for the program should come from the city’s general fund rather than TANF funds or any specific departmental budget.

The tax day op-ed had registered beyond these organized constituencies, too. On the campaign trail, candidate Newsom was asked about the local EITC idea on several occasions, most notably when a voter handed him the op-ed and pointedly told him it was a good idea that he should adopt. Returning to his staff, Newsom passed on the newspaper clipping, complete with his own notes, and told his policy director, “We should do this.”

Meanwhile, the steering committee that emerged from the summer convening had begun to meet regularly to build the case for the new initiative, to develop policy recommendations, and to plan a strategy to ensure the program’s adoption. The group was large and multi-sectored, including SFWorks (an affiliate of the Chamber of Commerce), Coleman Advocates, EARN, Tax Aid, United Way, the treasurer’s office, the Department of Human Services, Parent Voices, Walter & Elise Haas Fund, the Goldman Fund, and others. Chaired by SFWorks and Coleman Advocates, the group met monthly from August through January and then continued to meet approximately every two months through the fall of 2004.

By December of 2003, candidate Newsom was Mayor-elect Newsom. Within weeks of his election, his staff called SFWorks to request a memo on their thinking about the WFC concept. While the steering committee had assumed 2006 would be the first tax season in which the program could be implemented realistically, Mayor-elect Newsom announced in February 2004 that the program pilot would begin in 2005 and run for two years. A few other changes accompanied the transition from concept to announced policy. The steering group had envisioned full public funding for the cost of benefit payments, and a pre-determined rate at which the WFC would match the federal EITC. In contrast, the new administration declared that 50 percent of the funds for the pilot would be raised from non-governmental sources, and that the match rate would be determined after funding was secured. The mayor pledged half the estimated \$6 million cost from the city’s General Fund, but announced that the city would seek private sector contributions for the remainder of the funds.<sup>12</sup>

Almost overnight the challenge for WFC backers changed from one of advocacy—how to get the mayor and Board of Supervisors to support the

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initiative—to one of implementation and, in particular, private fundraising. Layered on top of this challenge was an awareness that the new administration, while ambitious and high-energy, would have its hands full organizing a new and complex multi-million dollar program in less than 12 months, while facing all the tasks and learning curves experienced by any new mayoralty.

In consultation with SFWorks and the community working group, the Newsom team began to prepare for the WFC rollout. Heeding advice from the working group, which feared housing the WFC in the Department of Human Services (DHS) would saddle the program with a social services stigma, the mayor's office asked the San Francisco treasurer's office to lead program implementation.<sup>13</sup> Despite this and other important decisions, the question remained: Where would \$3 million in planned private contributions come from?

About that time, Anne Stuhldreher attended a meeting hosted by the nation's largest tax preparation firm, H&R Block ("Block"). Having endured years of bad publicity about some of its business practices in low-income communities, including the marketing of highly profitable and high-interest-rate refund anticipation loans (RALs), Block had begun a campaign to improve its image and position itself as the financial services provider of choice for low-income taxpayers, its core client base. Stuhldreher heard a presentation by Block officials and was struck by their thoughtfulness and the company's reach in low-income communities. She also remembered that Block had been supportive of the local EITC in Denver, and that a significant percentage of Denver EITC recipients had heard about the credit through Block offices. In September of 2004, Stuhldreher drafted a memo to Block Vice President Bernie Wilson suggesting that city government and Block explore a partnership, one which would include substantial funding for the San Francisco WFC.

Wilson was immediately enthusiastic about the partnership concept. Recognizing the opportunity, SFWorks took the idea to the mayor's office and to the community working group.<sup>14</sup> Although there was much skepticism about H&R Block's intent, the group supported a partnership so long as the request to H&R Block was a "big one" and included not only an ask for funding, but also a moratorium on certain advertising of RALs. In this way, community groups were assured that Block's participation in the WFC would, if anything, further their long-standing goal to vastly reduce or eliminate the promotion of RALs to low-income tax filers.

Weeks of difficult negotiations followed a handshake agreement between the mayor and Block's Wilson, but ultimately an agreement was reached and formalized in a Memorandum of Understanding (MOU) in late November. Under the MOU, Block would provide \$1 million in WFC funding over two years and would support the project in a host of other ways. Block agreed to halt local advertising of RALs and to redirect WFC applicants to less expensive products if they requested such loans. They also agreed to give discounts to WFC applicants for tax preparation, and to waive application fees for the Block Express IRA and Debit Plus Card products.<sup>15</sup> Although much fundraising work remained to be done, the mayor's vision of a public-private WFC partnership was beginning to come into view for the first time.

Once Block pledged to fund the WFC, the firm became heavily invested in seeing the program succeed. Block staff and consultants joined forces with the city and SFWorks to lead a "crash implementation." A marketing image and message for the program was created, application forms designed and printed, partnerships with other firms and organizations struck, and the WFC launched formally on January 13, 2005. The first applications rolled into

the treasurer's office in late January and, when the last application was accepted at the end of the tax season, over 11,000 working San Francisco families had applied for the Working Families Credit Program in its inaugural year, some 6,000 more than city officials had estimated.

From January through April the treasurer's office worked diligently to establish procedures to process applications, respond to WFC inquiries, and build an applicant database, effectively creating from scratch mechanisms to administer the program. As one senior staffer observed, "We were building the plane as we were flying it." The summer was spent confirming the eligibility of each applicant by exchanging applicant data in a manual, time-consuming process with the local Internal Revenue Service (IRS) office. In the meantime, SFWorks, the treasurer's office, and others worked to make arrangements that would help WFC claimants keep and invest the proceeds from their benefit checks. Their efforts produced agreements from over a dozen banks and credit unions to cash WFC checks for free and, in many cases, offer check recipients low-cost or no-cost accounts. In addition, each WFC recipient received a letter signed by the mayor offering free financial counseling from a professional vendor and identifying a range of services and benefits that might be of interest and use to working families.

On September 30th, Treasurer Cisneros presided over a press event at a local credit union to announce the mailing of the WFC checks.<sup>16</sup> Over 9,600 checks were issued, with an average benefit size of \$220. Less than two years after the mayor was elected—and 30 months after the idea of a San Francisco EITC had emerged—nearly 10,000 families had received a new form of direct assistance to offset the challenges of living on modest wages in high-cost San Francisco. While much work remained to be done, both to prepare for the

### Box 1. Milestones in the Development of the SF Working Families Credit

February 2003	SFWorks & Coleman Advocates discuss idea of an SF WFC
April 15, 2003	<i>San Francisco Chronicle</i> publishes op-ed piece proposing SF WFC
April 2003	Newsom campaign expresses interest in WFC concept
July 2003	SFWorks & Coleman convene community to discuss SF WFC idea
September 2003	SFWorks & Coleman receive modest planning grants to fund work on SF WFC
November 2003	SFWorks & Coleman convene community to discuss WFC proposal & advocacy strategy
December 2003	Candidate Newsom elected mayor
February 2, 2004	Mayor Newsom announces two-year WFC pilot
September 2004	SF treasurer's office takes responsibility for WFC implementation
October 2004	H&R Block pledges \$1 million in WFC funding and other supports
November 2004	H&R Block and the city sign MOU regarding WFC
December 14, 2004	H&R Block presents check to the city at press conference
January 13, 2005	Mayor Newsom publicly kicks off WFC program
April 2005	Last WFC applications accepted
September 28, 2005	9,602 WFC checks totaling \$2,112,000 mailed to applicants

second year of the pilot, and to institutionalize the program beyond the pilot, a critical first chapter had ended successfully.

### How the WFC Worked: Year One

While the concept of a local Earned Income Tax Credit is straightforward, creating an actual program that is well publicized, accurate, and efficient requires careful thought and cooperation among a range of actors. To explain how the Working Families Credit was implemented in San Francisco this section summarizes the involved partners, the roles they played, and the process flow from the perspective of an applicant to the program.

#### Actors

Numerous organizations from the public, private, and non-profit sectors played key roles in developing and implementing the WFC.

- **Advocate and convener** (SFWorks): Advocated for pro-

gram's creation, consulted on program design and pilot planning, facilitated introduction of corporate sponsor to the city, co-led marketing and public relations efforts, raised philanthropic funds to support the program and fund its evaluation, and managed the pilot evaluation.

- **Mayor's policy office:** Made design, policy and structural decisions, secured funding from the City's General Fund, and secured cooperation from other city departments.
- **Treasurer's office:** Processed more than 10,000 applications from eligibility determination through funds disbursement, acted as liaison to IRS, fielded "customer service" inquiries, raised funds (primarily from banks), participated in outreach and public relations, and assumed increasing leadership responsibility for the program as the pilot progressed.
- **Other city departments** (in particular, mayor's Office of Neighborhood Services, mayor's Office of Community Development, and Human Services

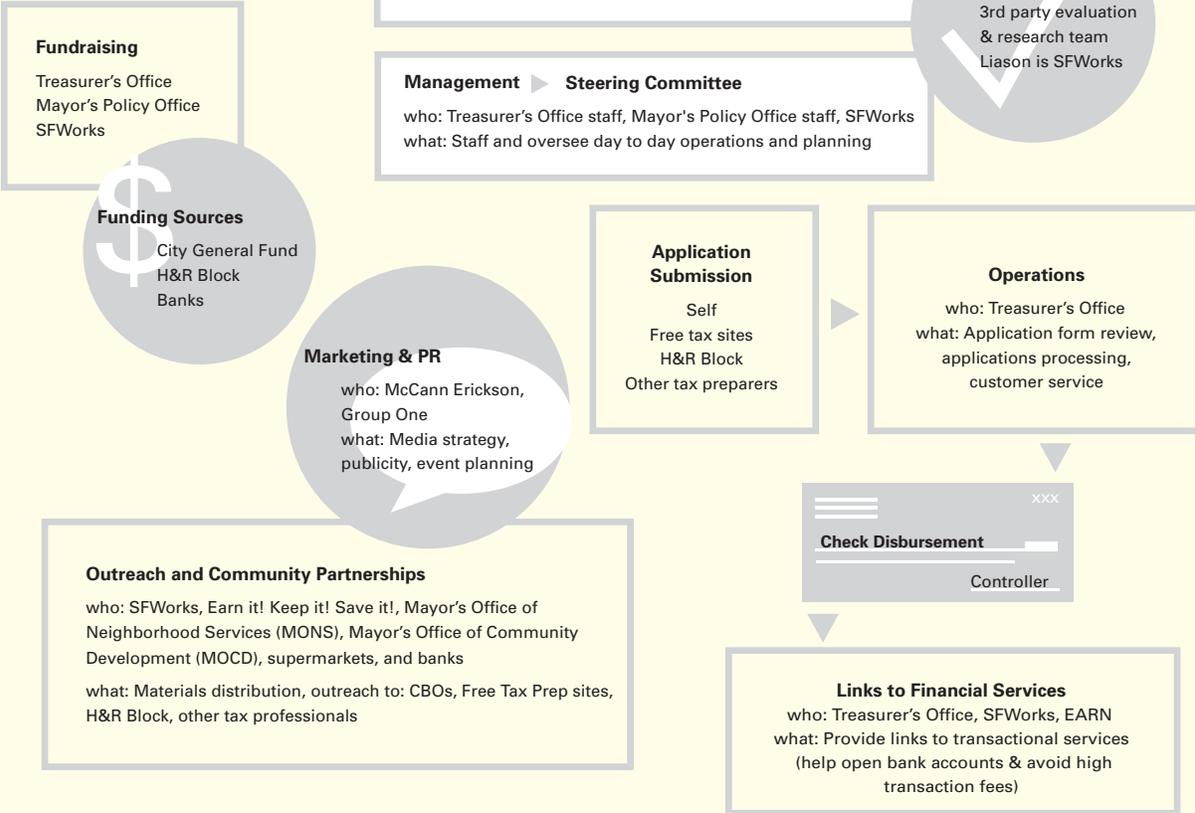
Agency): Supported community outreach and awareness building efforts.

- **Community organizations** (including members of the United Way of the Bay Area's Earn It! Keep It! Save It! Campaign and ACORN): Assisted with community outreach and awareness building, and provided free tax preparation services.
- **Corporate sponsor** (H&R Block): Provided substantial funding and in-kind support for the pilot, offered discounts and other special features to WFC applicants and city residents, and provided project management expertise and introduction to professional service firms.
- **Professional services firms** (Group One, McCann Erickson): Provided marketing, media, advertising, and market research expertise and services.
- **Financial institutions** (Wells Fargo, Bank of America): Offered discounted and free banking services including check cashing, funded program through grants, and distributed marketing materials in branch locations.

Figure 1.

# WFC

How it Worked: Year 1



Source: Authors' analysis of WFC program

- **Foundations** (Annie E. Casey Foundation, Evelyn & Walter Haas, Jr. Fund, Friedman Family Foundation, and Walter & Elise Haas Fund): Provided funding to support both the pilot evaluation and the role of the advocate and convener.
- **Evaluators** (D2D Fund, Inc., Harvard Business School): Undertook a process and outcome evaluation of the pilot intended to help strengthen program implementation and better understand its impact.

### Functions

As illustrated in Figure 1, the actors were responsible for executing a range of critical program functions, including:

- **Governance:** conducting executive oversight and overall policy design. These responsibilities were handled in a mostly unstructured way through the first year of the pilot, with the mayor's policy director and the treasurer having final decision-making authority.<sup>17</sup>
- **Management:** setting and directing policies for day to day program

administration, as well as wrestling with key structural, design and policy decisions. An ad-hoc team of representatives from the mayor's office, treasurer's office and SFWorks provided day-to-day management.<sup>18</sup>

- **Evaluation:** methodical, objective review of the program's success in implementation processes and impact. SFWorks conceived of, organized, and raised funds for an evaluation. It invited Professor Peter Tufano of the Harvard Business School to lead the impact

**Table 1. Key Actors and Functions for San Francisco Working Families Credit, 2003–2005**

	Functions										
	Governance	Management	Evaluation	Fundraising	Funding/ In-Kind Support*	Marketing & Public Relations	Outreach & Community Partnerships	Application Assistance	Processing	Check Dis- bursement	Links to Financial Ser- vices
Advocate / Convener		x	x	x		x	x				x
Mayor's Policy Office	x	x	x	x		x					
Treasurer's Office	x	x	x	x		x		x	x	x	x
Other City Departments							x			x	
Community Organizations					x		x	x			x
Corporate Sponsor		x	x		x	x	x	x			x
Professional Service Firms					x	x					
Financial Institutions					x		x				x
Foundations			x		x						
Evaluators			x								

\*In-kind support was provided from a variety of sources, including city agencies whose budgets did not include explicit funding to provide support to the WFC.

Source: Authors' analysis of WFC program

evaluation, and invited a non-profit organization focused on asset building during tax season, D2D Fund, to perform the process evaluation.

- **Fundraising:** developing and executing a strategy to secure and maintain private and public financial support. SFWorks and the treasurer's office did most fundraising in the first year of the pilot, with SFWorks focusing on foundations and corporations, and the treasurer approaching banks. The mayor's policy office conducted much of the budgetary analysis necessary to advocate for and secure funding from the General Fund.
- **Funding:** providing funds necessary for the administration and evaluation of the pilot, as well as for actual WFC benefits paid to claimants. Program administration was funded by the city or donated in-kind. Funding for benefits came from the city's General Fund, H&R Block, and various banks. Evalua-

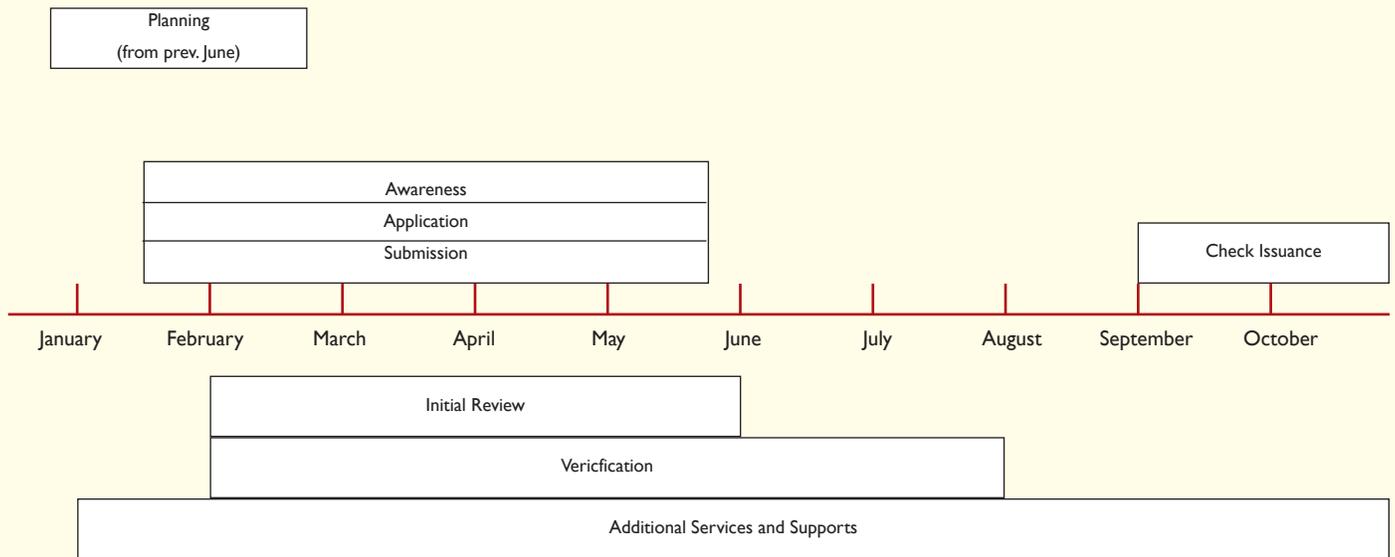
tion funding came from several foundations.

- **Marketing and public relations:** developing and executing a strategy for media coverage. Group One, a marketing firm recommended and paid for by H&R Block, and McCann Erickson, an international advertising agency which offered its services *pro bono*, provided marketing, media, advertising, and market research expertise in 2005 under guidance from the mayor's office, treasurer's office and SFWorks.
- **Outreach and community partnerships:** building awareness of the WFC in communities at the grassroots level. SFWorks, United Way of the Bay Area's Earn It! Keep It! Save It! Campaign, a host of community organizations, the mayor's Office of Neighborhood Services and the mayor's Office of Community Development played key outreach roles.
- **Application assistance:** helping prospective claimants complete

WFC applications accurately and, ideally, free of charge. Free tax preparation sites, H&R Block offices, and other professional and semi-professional preparers helped people complete applications.<sup>19</sup>

- **Processing:** receiving, reviewing and determining eligibility of WFC applications. The treasurer's office processed all applications, a task that necessitated extensive cooperation with the IRS to verify applicant eligibility.
- **Check disbursement:** issuing and mailing checks to eligible WFC applicants. The San Francisco Controller's Office cut WFC checks and worked closely with the treasurer's office to confirm all checks were accurate and mailed out on schedule.<sup>20</sup>
- **Linking clients to financial services:** creating opportunities for WFC recipients to keep and invest more of their WFC checks. The treasurer's office, with assistance from SFWorks, established key partnerships with banks and other

**Figure 2. Process Timeline, Year One of San Francisco Working Families Credit**



Source: Authors' analysis of WFC program

financial institutions and helped design and solicit discounted services for recipients.

Table 1 shows the variety of functions assumed and shared among the several key actors in developing and implementing the San Francisco WFC.

### Process Flow

Several steps constituted the process, depicted in Figure 2, from initial program publicity through final check disbursement in 2005:

- **Awareness** (January to April 15th). Prospective applicants learned about the WFC from a variety of sources: advertisements (on a bus, bus stop shelter, billboard or poster at a public library, supermarket, or post office), outreach effort by a neighborhood organization or insert in a public housing rent bill; newspaper article or public service announcement; speeches by the

mayor or treasurer; or from their tax preparer—particularly at H&R Block and free preparation tax sites. In addition, 27 percent of surveyed applicants reported that they learned of the WFC through word of mouth.<sup>21</sup>

- **Application** (January to April 15th). Tax filers applied for the credit by completing an application and, if they so chose, an optional survey attached to the application. Applications were available at 26 H&R Block offices, 31 free tax sites (most located in public agencies or community organizations), Bank of America and Wells Fargo branches, the offices of other tax preparers, libraries, post offices, Safeway supermarkets, community group offices, city health clinics, Housing Authority offices, and online on the city's web site. Applicants were not asked to attach copies of their tax returns.
- **Submission** (January to April

15th). Applicants, or their tax preparers, submitted applications by mail or dropped forms off at the treasurer's office, any H&R Block location, or any free tax preparation site. Forms completed or dropped off at free tax sites were delivered to the treasurers' office periodically. Forms completed or dropped off at Block offices were delivered to a central Block clearinghouse, where they were subject to a quality control review. Errors and omissions were corrected by consulting the originating Block office or contacting the applicant, when necessary. Once through quality control, Block batched and sent applications to the treasurer's office, approximately weekly.

- **Initial review** (February to May). The treasurer's office received and reviewed applications for completeness, separated surveys, scanned applications into a custom database, sent letters to claimants who

had errors in their applications (e.g., missing signatures or Social Security numbers), and batched tax transcript consent forms for delivery to the IRS.

- **Verification** (February to July). The treasurer's office submitted consent forms to the IRS by fax and awaited delivery of IRS data to confirm an applicant's WFC eligibility. Tax transcripts revealed whether a WFC applicant applied and had been approved for the federal EITC, in what amount, whether the address on the applicant's federal return was in San Francisco, the applicants' correct social security number, and whether the applicant had qualifying children for purposes of the EITC. All WFC applications were due by April 15. The treasurer's office spent five intense months processing the bulk of applications and communicating back and forth with the IRS and, if necessary, individual applicants.
- **Check issuance** (September to October). By September 2005, the treasurer's office determined the amount of each claimant's check and the city controller cut checks. By September 28 all checks for applications approved up to that point were mailed.<sup>22</sup>
- **Additional services and supports** (Ongoing from January). With their checks, WFC recipients received a letter from the mayor and treasurer encouraging them to avoid transaction fees by using banks or credit unions rather than check cashers to convert their payments to cash, to save their WFC to the extent possible, and to utilize a free financial counseling service. The letter informed recipients about financial institutions that would cash WFC checks for free and open no-cost bank accounts for WFC recipients. In addition, SFWorks compiled a list of public and private resources available to working families that was mailed with WFC checks.

### *The WFC in Year Two and Beyond*

As the WFC was a brand new pilot program in 2004–2005, key actors continuously sorted out various roles and responsibilities throughout the credit's first year and into its second. As of this writing, the program's home is slated to move from the treasurer's office to the Human Services Agency. City officials have struggled to find the right institutional home for a program that has no precedent, and demands participation from a range of agencies. Similarly, the role of advocate and convener SFWorks, corporate sponsor H&R Block, and other non-city actors has been evolving. As the WFC has matured it has become more clearly a city of San Francisco program, but it continues to be a multiparty collaborative with key responsibilities resting among various city departments. A by-product of the on-going evolution in program management and implementation has been the emergence of certain "gaps"—functions for which a capable, and generally public, organization has yet to assume official responsibility. Examples include fundraising, strategic planning, and overall coordination among city departments. The mayor's policy office recognizes that this ambiguity is problematic and has begun high-level discussions to find the most strategic home for these key functions.

The question of funding also hangs over the future of the WFC. While the city has built \$1.5 million into its annual "baseline" budget (the stock document from which each year's budget-building process begins), the program was originally projected to cost \$3 million a year with half the required funding coming from private sources. Even in the pilot phase—with the substantial and likely anomalous \$1 million-plus gift from H&R Block—private fundraising has not generated half the program's projected cost. Thus, steps will have to be taken to increase funding commitments, curtail program costs, or both. As

preparation begins for the 2007 WFC, planners are considering modifications to the WFC program design that would reduce the program's cost, such as lower benefits (perhaps a flat dollar amount rather than a percentage of the federal EITC) or more restrictive eligibility (such as time limits on the number of years an applicant can qualify for the WFC). In addition, the city is focusing its efforts to solicit private support, assigning responsibility for particular categories of fundraising to suitable senior officials.

## Outputs and Outcomes

**W**ho benefited from the WFC? Did the credit reach the city's low-income working families? Did the program achieve its broader goals? Two categories of data can help answer these questions. *Outputs* record program activities that are presumed to support a program's goals, but are indicators rather than evidence of impact. *Outcomes* provide a direct measure of a program's impact.

### Outputs: The WFC Reached an Impressive Number of Low-Income Families

#### 1. Number of Applications

By all accounts, the first year of the WFC generated many more applications than anticipated (more than 11,000), and San Francisco far exceeded the take-up rate Denver achieved in the first year of its local EITC.<sup>23</sup> Because 21,466 San Francisco tax filers with dependent children received the EITC in 2004, San Francisco achieved an estimated 45 percent WFC take-up rate in 2005.<sup>24</sup>

Of particular surprise was the large number of Chinese-language applications submitted (3,105; 27 percent of the total). The number of Spanish-language applications received was

**Table 2. WFC Applications Received by Application Language and Eligibility Status, 2005**

Status	English	Spanish	Chinese	Total	% of Total
Denied*	630	52	265	947	9%
Pending**	363	13	82	458	4%
Eligible	7,011	188	2,501	9,700	87%
<b>Total 8,004</b>	<b>253</b>	<b>2,848</b>	<b>11,105</b>	<b>100%</b>	
<b>% of Total</b>	<b>72%</b>	<b>2%</b>	<b>26%</b>	<b>100%</b>	

\*Applicants were denied for a range of reasons, including: (a) not qualifying for the federal EITC; (b) not having qualifying children; and (c) not having a San Francisco address.

\*\*Great effort was made to ensure that applicants were given every opportunity to qualify for the credit; applications listed as pending are those for which some question still exists about the applicant's eligibility, either because information was pending from the applicant or the IRS. The treasurer's office has been communicating with these applicants and is still deciding when to "close" pending applications.

Source: Analysis of WFC Survey Data, 2005

comparatively low (247; 2 percent of total) (Table 2). It is unclear whether the numbers of applications submitted in Spanish or Chinese accurately reflect the number of applicants with those primary languages. According to interviews with managers at H&R Block and free tax preparation sites, some staff served as translators for non-English applicants and helped them submit applications in English. Nonetheless, the numbers indicate that making applications available in languages other than English proved successful for reaching a large proportion of at least one of the city's ethnic minority groups.<sup>25</sup>

## 2. Application Sources

Efforts to track applications by where they originated (H&R Block, free tax preparation sites or other) were only marginally successful. Applications had checkboxes for tax preparers to indicate if they were from Block or a free tax site; however, in most cases, boxes were not checked. While an accurate count of the number of applications that came from each site is not available, we do have estimates based on self-reported counts from sites. Block reported that they submitted 2,424 applications (21 percent; a combination of those prepared in Block offices and those dropped off by non-

Block clients). Free tax preparation sites reported that they submitted between 500 and 1,000 applications (4 to 9 percent), among 31 sites in the city. This indicates that applicants submitted perhaps 70 to 75 percent of applications through other channels. These include self-filers, and applications prepared by other tax professionals, including large chains like Jackson Hewitt, independent firms, and informal neighborhood outfits. Planners had anticipated that Block and the free tax preparation sites would originate the majority of applications. The number of applications from other sources suggests the success of the outreach and marketing campaign.

The estimates provided by Block and free tax preparation sites are generally consistent with the information provided by survey respondents. Eight (8) percent of respondents reported having their taxes prepared at a free tax site. Thirty-two (32) percent reported using Block for tax preparation, somewhat more than the 21 percent indicated on the applications themselves (this may indicate a higher response rate to the survey among Block clients). Most of the remaining 60 percent of survey respondents reported using other paid preparers

(47 percent), with smaller shares preparing their own taxes (6 percent) or seeking help from family or friends (6 percent).<sup>26</sup>

## 3. Applicant Characteristics

Limited demographic and economic data are available for applicants who completed the WFC survey. As might be expected from the data above on language of application and first language of survey respondents, a large percentage of respondents reported their ethnicity as Chinese (52 percent). That share of respondents matched very closely the proportion of respondents reporting that their first language was Chinese. Second to Chinese, 21 percent of respondents reported their ethnicity as African American, and 11 percent reported being Hispanic. Smaller shares of respondents reported their ethnicity as "Other Asian, Pacific Islander" (7 percent), white (5 percent), Filipino (4 percent), and Other or Native American (3 percent).

As would be expected given WFC eligibility guidelines, applicants reported low adjusted gross incomes. Their incomes matched very closely those reported by federal EITC claimants with children in San Francisco in the prior tax year (Table 3).

**Table 3. Adjusted Gross Incomes, WFC and EITC Claimants, 2004–2005**

AGI Range	SF WFC Applicants, 2005	SF EITC Filers with Dependents, 2004*	All EITC Filers with Dependents, 2004
Less than \$10,000	23%	21%	26%
\$10,000 to \$14,999	20%	19%	21%
\$15,000 to \$24,999	33%	38%	38%
\$25,000 and up	24%	23%	15%

\*Estimated from TY 2003 IRS SPEC Return Database

Source: WFC Application Data, 2005 and IRS SPEC data, TY 2003

Compared with the similar population nationally, fewer WFC respondents reported income in the lowest income range (less than \$10,000) and more reported income in the highest income range (\$25,000 or more). This may reflect the somewhat higher-than-average wages earned by working poor families in San Francisco than elsewhere, which are offset by the city's higher costs of living.

The optional survey afforded an opportunity to learn about other programs in which San Francisco's working families participate. Though approximately 35 percent of survey respondents lacked health insurance, only 16 percent of their dependents were uninsured—a difference perhaps attributable to more widely available public health insurance for children. Indeed, among respondents with insurance, 65 percent were insured publicly and 35 percent privately, while 76 percent of insured dependents had public insurance. Forty-one (41) percent of respondents reported that both they and their dependents were insured through public health insurance, further demonstrating the significant overlap between the WFC and Medi-Cal (California's Medicaid program) populations and indicating the potential for coordinated program outreach.

#### 4. Eligibility

Ultimately, 9,700 applications (87 percent of the total) were deemed eligible (some were deemed eligible after the

initial check mailing) (Table 2). The most common reasons for denying applications were: the applicant did not qualify for the federal EITC (49 percent); the applicant did not receive the EITC for taxpayers with a qualifying child or children (34 percent), the applicant missed the April 15 deadline (9 percent); and the applicant was not verified to be a San Francisco resident (8 percent).<sup>27</sup> For WFC applications that omitted addresses, signatures, or social security numbers, the treasurer's office contacted applicants to seek the necessary information. Applications were considered "pending" while the treasurer's office waited for responses from applicants with missing information, or while awaiting confirmation about EITC eligibility or a San Francisco address from the IRS.

IRS data from tax year 2003 show that a little over 2 percent of EITC claims were "entirely disallowed," meaning that the taxpayers did not receive the EITC at all. This suggests a much lower denial rate for the EITC than for the WFC, which makes sense in light of the more restrictive eligibility criteria for the WFC (EITC eligibility, San Francisco residency, and one or more qualifying children). In addition, in the first year of a new program, prospective applicants were probably not yet familiar with the eligibility criteria, and may have been more likely to apply when not eligible than in subsequent years. However, because a final denial rate for the WFC cannot yet be calculated (several hundred

applications remain pending), it is perhaps premature to make an informed comparison between the EITC and WFC on this count.

#### 5. Check Value

On September 28, 2005, the city mailed 9,602 WFC checks to claimants, equal to 10 percent of their confirmed EITC and ranging in value from one dollar to \$430. The average check amount was \$220 and the median was \$223, and the majority of the check values were between \$100 and \$300. The combined value of all checks issued was \$2,111,991.<sup>28</sup> The treasurer's office retained approximately \$100,000 in a reserve fund to cover checks for pending applications that were considered likely to eventually be deemed eligible. All pending applications that have resulted in checks to date have been covered without delving into that reserve fund.

As applicants were not told at what rate the WFC would match their EITC, they presumably had few expectations about the ultimate size of their WFC checks. A lack of advance notice would also have complicated claimants' efforts to plan the use of the WFC checks. WFC organizers had originally hoped to be able match the EITC at 15 percent, but a higher-than-expected number of applications and shortfall in fundraising lowered the final match value.

Still, survey questions regarding WFC applicants' planned use of the credit are informative as to the savings

and consumption decisions faced by the city's working families. Respondents were permitted to select multiple planned uses, and a majority (57 percent) reported planning to spend at least a portion of their WFC refund on bill payments. Smaller shares of respondents listed household (24 percent) and personal expenditures (13 percent). Approximately 11 percent of respondents planned to save or invest their WFC refunds. To date, no follow-up survey has investigated the actual disposition of the WFC refunds. However, the survey to be included in the year-two application packet contains a question on how applicants ultimately used any WFC refunds received in 2005 (IRS data reflect that approximately two-thirds of EITC recipients in any given year received the credit in the prior year).

### **6. Fundraising and In-Kind Support**

San Francisco's WFC pilot is unique in utilizing private money to fund part of the credit. In addition to a \$1.5 million per-year contribution from the city's general fund, H&R Block contributed \$1 million for the credit over two years, and several banks (Bank of America, Citibank, and Wells Fargo) made one- or two-year contributions totaling \$225,000 in 2005, and \$325,000 in 2006.<sup>29</sup> The city had hoped to raise \$3 million from private-sector sources in order to bring the total program budget to \$6 million for the two-year pilot. Although the city is currently \$1.55 million short of that goal, efforts to solicit private support for 2006 are still ongoing.

The private sector provided in-kind support to the program in a variety of forms, and that support totaled approximately \$412,000 for the 2005 program year.<sup>30</sup> The largest in-kind contribution (\$294,000) came from H&R Block to support project management, materials, advertising and outreach, and technical support. A major part of Block's support funded

Group One for professional marketing and design services (e.g., design and production of application forms, brochures and posters), and for related printing costs. A number of media sources collectively contributed \$118,000 worth of newspaper, radio, and outdoor advertisements.<sup>31</sup>

In addition, SFWorks raised philanthropic funds to support its roles related to implementation and evaluation. The philanthropically-funded Earn It! Keep It! Save It! Coalition contributed outreach support, advertising the WFC on all of its San Francisco promotional materials and at community events. Other city agencies including, but not limited to, the mayor's office and the Department of Human Services provided in-kind support related to management and outreach.

### **7. Asset Building/Bank Accounts**

In its first year of implementation, WFC asset-building initiatives focused on providing recipients with access to free or low-cost financial services both at the time of application and at the time of check receipt.<sup>32</sup> Through its association with the Earn It! Keep It! Save It! Campaign and, later, the Bank on San Francisco Initiative, the WFC offered access to free bank accounts with designated financial partners, free check cashing, and the H&R Block Debit Card and Express IRA products without standard fees.<sup>33</sup> In addition, shortly before checks were mailed, WFC partners contracted with a financial counseling hotline to provide free services to WFC and EITC recipients.

Approximately 600 users of the 31 free tax sites in San Francisco opened bank accounts at the time they filed their taxes.<sup>34</sup> Access to free bank accounts was not offered at Block offices, but Block generated applications for 316 Express IRAs and 18 Block Debit Cards among WFC applicants. At least 150 people cashed their checks at designated banks or credit unions, or opened bank accounts at no

charge.<sup>35</sup> With very limited marketing, an estimated 40 WFC claimants accessed free financial counseling.<sup>36</sup>

Data from the WFC survey suggest that some applicants remain "unbanked." Approximately 42 percent of respondents reported having both a savings account and a checking account. A slightly smaller share (33 percent) had a checking account only, and just 7 percent had a savings account only. The balance, about 18 percent of respondents, held no bank account. While it is unknown if respondents replied to the WFC survey before or after they were offered the chance to open a bank account, in either case the results point to a substantial untapped opportunity for the city's financial services sector.

### **8. Reduction in RALs**

According to H&R Block, the number of refund anticipation loans (RALs) the firm made in San Francisco fell by more than 16 percent in the 2005 filing season when the WFC was introduced. Block attributed this RAL reduction to its WFC Memorandum of Understanding (MOU) with the city and called such a reduction "atypical." Under the MOU, Block agreed not to advertise RALs in San Francisco and to redirect those expressing interest to less costly products.<sup>37</sup> San Francisco already had the lowest rate of RAL usage among EITC recipients of any major city for tax year 2002, suggesting that a further reduction of 16 percent in the tax year 2004 filing season was substantial.<sup>38</sup>

### **9. New Wells Fargo—Block Partnership**

Year one of the WFC pilot laid a foundation for cooperation between Wells Fargo and H&R Block to offer Block customers Wells Fargo accounts at low cost. Midway through the first year of the pilot, in February 2005, SFWorks negotiated a pilot in which Wells Fargo bankers worked on-site at a number of Block offices during tax time to open accounts that could receive clients' tax

refunds via IRS direct deposit. In practice, Wells bankers did not remain on-site in Block offices, opting instead to leave their business cards for Block tax professionals to distribute to clients. This approach did not result in appreciable numbers of new accounts being opened for WFC applicants. However, this groundwork and the resulting goodwill between the firms encouraged both parties to enter the second year of WFC with a renewed commitment to realize a productive partnership.

### **10. Related New Initiatives**

The process of discussing, advocating, designing and implementing the WFC created a public awareness and dialogue in San Francisco about the financial challenges faced by the working poor. Questions around how to link working families to essential financial services, work supports, asset-building opportunities, and existing public benefit programs now have a place on the public agenda. In this environment, for instance, Anne Stuhldreher proposed—and Treasurer Cisneros embraced—the “Bank on San Francisco” Initiative, designed to broaden access to mainstream financial services for the city’s lower-income, unbanked population. Similarly, the city and H&R Block agreed to cooperate on a pilot project to screen low-income residents for Food Stamp Program eligibility in Block offices during the 2006 filing season. The WFC brought together new partners and allowed them to develop common knowledge, experience and passion. These new relationships, combined with the higher profile of issues impacting the working poor, are fostering initiatives with connected objectives and may well facilitate the development of other partnerships in the future.

## **Outcomes: Impacts Remain Unclear**

**A**lthough from very early on, city officials viewed the prime objective of the WFC as increasing the federal EITC take up rate, in the rush to implement the program, a full discussion of program objectives involving all WFC stakeholders did not occur until May 2005. In September 2005, the WFC principals acknowledged three objectives for the program: (a) increasing the federal EITC take-up rate; (b) promoting asset-building; and (c) retaining families in San Francisco. The late date at which a consensus about objectives was reached, together with the immense challenge of evaluating the success of the objectives identified, meant that no definitive impact evaluation was available after the first year of the pilot. Nonetheless, some discussion of the necessary path to carefully measure impact is offered here as a guide to other local EITC initiatives.

### **1. Increasing the EITC take-up rate**

The WFC campaign sought to increase the proportion of eligible families who claimed the federal EITC (referred to here as the EITC take-up rate) in order to improve their economic well-being, and also to maximize the fiscal resources transferred from the federal government to the local economy. Did the WFC campaign affect the EITC take-up rate and, if so, in what way? Determining the number of people eligible for the federal EITC, unfortunately, is extremely difficult for three primary reasons:<sup>39</sup>

- Eligible non-filers do not “self-identify” in the way filers do, which means that one has to estimate a count of eligible people using other data sources.
- No single data source has sufficient information to estimate how many residents of a defined geographic

area would qualify for the EITC, as eligibility criteria are complex and include: family structure, household residency for children throughout the calendar year, total household income, legal residency status, and details about income sources.

- Data sources that together might help one to estimate EITC eligibility often apply to different years, complicating efforts to combine them to arrive at a one-year eligibility estimate.

Furthermore, even if the EITC-eligible population could be estimated and, with that estimate, a change in take-up rate determined, evaluators would still be challenged to screen out factors beyond the introduction of the local EITC to document a causal link between the two. The most reliable way to isolate the effect of the WFC would be with a comparison or control group. Such a group would need to be created at the time the WFC program “treatment” group formed (the 2005 filing season) and, ideally, through random assignment.<sup>40</sup>

A second-best option would be for researchers to study the number of EITC applications alone, and to provide their best guess about whether a change in the number of applications might indicate a change in take-up rate. (Changes in the number of applications may indicate a change in the size of the eligible pool or the take-up rate, or both.) WFC evaluators are working to determine whether there was a notable effect on the trend line of federal EITC claims in San Francisco, but have not yet detected any significant rise in the city relative to other Bay Area locations in 2005 (see Box 2).

### **2. Promoting Saving & Asset Building**

Evaluating the asset-building impact of the program—the second objective identified for the WFC—is both more straightforward and more challenging.

## Box 2. Working Families Credit Outcome Evaluation

This research brief is an adapted version of the WFC process evaluation commissioned by SFWorks and conducted by D2D Fund, Inc. SFWorks also asked Daniel Schneider and Peter Tufano of Harvard Business School to conduct another evaluation, which focuses on the results of the WFC applicant survey and the extent to which the program reached the eligible population and boosted participation in the federal EITC. The report on that evaluation, “The San Francisco Working Families Credit: Analysis of Program Applicants,” can be found on the SFWorks website at [www.sfworks.org](http://www.sfworks.org).

Evaluators can examine how many new bank accounts applicants opened in connection with the WFC and, via the survey that accompanies the 2006 WFC application, collect information about claimants’ debt and savings history, and their plans for using the WFC. However, asset building implies a long-term commitment to savings and wealth-generating investments such as a home or post-secondary education. Measuring the long-term financial behavior of WFC claimants would require both a long time horizon and an almost unprecedented data collection effort.

In addition, the timing of the WFC meant that its proceeds arrived months after most tax filers received their federal refunds (September or October, rather than the typical February through May timeframe for the EITC). As such, decisions about how to use the WFC were likely made independently of decisions about how to use the much larger federal EITC. Families may have faced different financial challenges in October than earlier in the year, and very likely would not have treated the WFC as a large “windfall,” as EITC-related refunds may often be perceived. Families who received a \$220 check in October may thus have been less likely to save part of it than if they had received an additional \$220 on top of a \$2,200 federal tax refund in March or April.

### 3. Retaining Families in San Francisco

Measuring the credit’s impact on the third identified WFC objective, the retention of low-income families in San Francisco, would also be a substantial undertaking and would require tracking at least a random sample of WFC recipients over an extended time period.<sup>41</sup> One way to solicit this information would be through a large phone survey or a round of focus groups with claimants who had received their checks. The benefit of quantifying this outcome should be weighed against the cost, particularly since many WFC stakeholders expect the program would affect families’ decisions to stay in the city only in the context of some broader, longer-term campaign to retain working families.

#### Local EITC Programs: Questions to Consider

When deliberating the prospect of developing a local EITC like the San Francisco Working Families Credit, planners may wish to consider a series of key questions at the outset. We discuss these questions here, and reflect on how the WFC campaign ultimately came to grips with them.

#### 1. What are the program’s goals and objectives?

Clearly articulated goals provide a framework for all program design and implementation decisions, establish a basis for evaluation, and help prevent later misunderstandings among

involved parties about where priorities lie. For these reasons, involved parties should agree upon and explicitly define a manageable number of primary objectives—perhaps two to five—as early as possible. It may be tempting to avoid or postpone defining specific goals, in part because stakeholders feel that the general objective of the program is clear (helping working poor families) and in part because precise goals invite measurement and scrutiny, something especially difficult to welcome with a brand new program.

In San Francisco, stakeholders discussed a range of possible program objectives in the process of settling upon three. Among the additional objectives considered were: linking low-income workers to benefits and services; strengthening work incentives; ensuring that claimants live above a regionally-adjusted poverty line; reducing financial hardship resulting from welfare time-limits; and providing local economic stimulus. San Francisco’s experience suggests that some program objectives may be inherently challenging and require time to take root. For example, the goal of promoting savings and asset building has proven difficult in the first year of the WFC and will likely require experimentation, some failures, and a long time horizon to yield results. When choosing program goals, local EITC advocates may wish to be mindful of which ones could be achieved in the short, medium, and long terms.

#### 2. How big and expensive should the program be (and who should pay for it)?

The scope and cost of a proposed local EITC program merits consideration because resource availability is likely to be an important project constraint, a program’s design can be tailored to different budgets, and anticipating the total cost of a program requires careful analysis and planning.

Identifying available resources requires taking stock of all possible

### Box 3. Estimating the Cost of a Local EITC

The anticipated price tag of a local EITC proposal will likely be a crucial factor in whether it is ultimately adopted. Estimating a program's benefit costs (as distinct from its administrative costs) involves several steps:

- a) **Draft program design**—Local EITC proponents will need to begin with some rough ideas about eligibility and benefit design. In San Francisco, planners conceived of all EITC filers with children and city residency being eligible, while they envisioned a match to the federal EITC of between 10 and 20 percent
- b) **Size “the market”**—With a provisional sense of benefit eligibility criteria, advocates can research the number of possible recipients. In San Francisco's case, two figures were important: the number of city residents with qualifying children who had claimed the EITC in a recent year, and the estimated number of city residents with kids who were EITC-eligible (a number that includes both current claimants and eligible non-claimants). The first figure—EITC claimants—was available for recent years from the IRS. The second could only be estimated on the basis of prior research on EITC participation, which itself included no information specific to San Francisco.<sup>a</sup>
- c) **Estimate take-up rate**—A next step is to make educated guesses about the percentage of the eligible population that would apply for and receive the proposed local tax credit. In an administrative model where local EITC benefits are automatically determined and awarded to filers of state EITC benefits, one should assume take-up equivalent to 100 percent of state EITC filers living in the local jurisdiction. (It is also possible that the existence of a new local tax credit would motivate eligible individuals who have not filed for state EITC benefits in the past, to file for both the state and local credit). In an administrative model where prospective local EITC claimants must apply separately to receive the credit, it is reasonable to assume that some lesser percentage of eligible individuals will apply. In San Francisco, planners projected applications based on the experience in Denver, where 15 percent of EITC claimants filed for the local tax credit in its first year (in the end, the WFC take-up rate far exceeded this figure).<sup>b</sup> Beyond this, WFC designers hoped and expected that publicity of the new program would cause some people who were eligible for the EITC, but had not filed in the past, to file for the first time.
- d) **Translate take-up to cost**—With an estimate of how many families will claim the local EITC, planners can translate benefit volume into projected cost. An average benefit size should be estimated and multiplied by the number of claimants. In San Francisco, where WFC benefits were to be a percentage of the federal EITC, estimates could be made on the basis of actual EITC benefits claimed by San Francisco taxpayers with qualifying children. Planners elsewhere may wish to consider that the relationship between increased take-up and increased cost may not be linear; in other words, those who stand to receive the most valuable local EITC benefits may be the first to apply. By the same logic, the last to apply may be those who would qualify for the least valuable—and least costly, from a budgetary perspective—credits.

After estimating costs, planners can adjust the proposed program design in order to meet a target budget. It may be helpful to sketch out a range of possible designs with associated cost implications, as well as to consider a design like that in San Francisco, which allowed for retroactive adjustment to stay within a defined budget (the WFC did not commit to a match rate until well after applications were received).

<sup>a</sup> See, e.g., SB/SE Research, “Participation in the Earned Income Tax Credit Program for Tax Year 1996” (Internal Revenue Service, 2002).

<sup>b</sup> 15 percent based on IRS SPEC TY 2001 EITC Research Database; and The Homeless Initiative, “Review of best practice in services, programs, and systems related to homelessness” (Tampa, FL, 2005).

funding prospects. If funding is to be public, planners must ask which agencies or departments could support a local tax credit, and what would cause the funds to be earmarked in their budgets. What political alliances would need to be forged to solidify a public funding base? If part of the funding is to be private, what unique features of the program will attract and sustain private support? Once a realistic sense of funding prospects is clear, designers can pull a number of program levers to control the cost and scope of a local EITC, including eligibility, form of benefit, and administration channels. Although the cost of benefits issued directly to families often captures planners' primary attention, local EITC programs may involve considerable secondary expenses for administration and outreach. When some of these costs are absorbed by government agencies and/or are donated as in-kind contributions, the overall price tag for a local EITC program may be obscured. Yet in the long-run, the costs of running a program must be recognized and anticipated to achieve sustainability.

In San Francisco, WFC proponents concluded that the city's budget could support the cost of a local tax credit pilot program, and believed private foundations might underwrite administrative costs. The Newsom administration, on the other hand, felt private sources should account for half the cost of the pilot, though it felt no need to earmark private support for administration. In the end, both proved to be correct as at least half the program's cost came from the city's General Fund with generous corporate and foundation funding providing the rest.

San Francisco adopted the federal EITC eligibility definition but limited the WFC to families with qualifying children, thus excluding single adults who were eligible for the federal credit. The decision to narrow the federal definition was inspired by political

momentum (in favor of policies which help retain low-income children/families in San Francisco) and by cost savings. Alternatively, planners could have limited eligibility by, for example, applying a length-of-residency test. (See Box 3 for a description of how other local governments might estimate the ultimate cost of benefits for a local EITC.)

In terms of administration, because California does not have a state EITC, program designers did not have the option to rely on a state tax authority to determine WFC claimant eligibility. Planners opted instead for the most efficient alternative—asking the San Francisco treasurer's office to receive and verify applications—an administrative approach that nonetheless required significant resources. Interestingly, the true cost of administration, marketing and outreach received little attention in year one of the WFC pilot. This reflected generous corporate sponsorship, unaccounted expenses absorbed by branches of city government, and the "just get it done" nature of this relatively last-minute pilot program. As WFC managers began to plan for the future, however, they lacked good information about the full program cost or about which cost components could be reduced without sacrificing quality.<sup>42</sup>

### ***3. How should the program be implemented?***

Compared to designing, advocating and publicizing a local EITC program, the mechanics of implementation and administration may seem unglamorous. It is easy to underestimate the work required, for instance, to process a large number of applications and coordinate with the IRS, or to assume that this work is "routine." However, implementation planning is critical, demanding adequate lead-time and a clear-eyed sense of the enormity of the task.

An early implementation question to consider is which parties should be

involved in administering the program? Essential partners will depend on the program design adopted. A more complex design with ambitious objectives may call for a multi-party coalition. A more streamlined approach may simply require clearly defined instructions for state and local government departments and agencies. When multi-party coalitions are involved, strong, clear leadership with well-defined roles is essential. Such coalitions require direction and nurturing, with coordination often best orchestrated by a single organization with facilitation experience and sensitivity to organizational and political nuance. When many parties share responsibility, roles and accountability must be agreed upon at the outset, including designating a party to act as liaison between various partners. In some cases it may be sensible to formalize roles with written agreements.

San Francisco had ambitious objectives for its WFC program, which implied the need for a collaborative approach to implementation, involving numerous city departments, community-based organizations, private firms, and the IRS. These partners ensured broad outreach, collected and verified thousands of applications, and broadcasted a message about the value of saving. At the same time, however, given the number of stakeholders in San Francisco's collaborative, a coordinating and nurturing function (provided by SFWorks) was essential. In contrast, a local EITC in Montgomery County, MD was more streamlined, providing a supplemental check automatically to any state EITC recipient. This approach, and the absence of a stated goal to boost EITC rates, meant that the state tax authority and county staff could implement the program without involving such a wide range of partners.

### ***4. What are relevant political considerations?***

Because a local tax credit is an inherently public program, politics will

inevitably play an important role in creating and maintaining a local EITC. Providing a local supplement to the federal EITC has proven politically viable, even in a tough economic climate. To achieve success it is important to consider who must support a local tax credit initiative in order to bring it to life, and to establish a necessary alliance to propose and advocate for it. A key part of this process is to determine which rationales for a program resonate with essential political supporters. Proponents may also find it useful to identify and anticipate potential opposition, and be sensitive to the importance of timing.

Faced with a tight budgetary climate in which most city programs were facing cuts, proponents of a San Francisco EITC were able to convince policymakers to make a substantial financial commitment to an ambitious new program for low-income families.<sup>43</sup> The winning argument in San Francisco was that local dollars would unlock significant previously-untapped federal resources, introducing these dollars to the local economy. The argument that the program would benefit employees without requiring employers to raise wages secured employer support. The city was also able to frame the credit as a policy to help working families meet the high costs of living in San Francisco. Early resistance came from an unlikely source—low-income advocates who were concerned that funding for this new program would reduce support for other programs and/or compete with a living wage campaign currently under way. As a result, WFC proponents waited until that campaign was resolved before kicking WFC arguments into high gear. The mayoral campaign also offered an opportunity to garner political support, get publicity, and secure commitments from high-profile public leaders.

### ***5. Should the program begin as a pilot?***

Because it is challenging to both promote and implement a new local tax credit, planners may wish to consider whether the new initiative should be proposed first as a pilot project or as a permanent program. It may be easier to build political support for a pilot program, which implies a trial period, leaves open the question of permanence, and can usually be presented with a precise, time-limited price tag. Pilots may also be more appealing to private foundation funders, who are typically uncomfortable supporting permanent public programs, and may offer program managers more room to engage in experimentation. But pilot programs carry risks, too, as they may either run their course and fade away, or demand a difficult transition to full institutionalization. In addition, program stakeholders must focus on day-to-day implementation while thinking about advocating and preparing for permanent status. Managing a pilot program and preparing for permanency may demand different skills and strengths, and therefore require different teams. When considering a local EITC program, planners may wish to charge separate groups with the responsibilities of day-to-day management versus longer-term strategic planning.

Mayor Newsom in San Francisco presented the WFC as a pilot program, a decision that likely helped ease its acceptance by key stakeholders and facilitated investment by corporate and philanthropic interests. At the same time, WFC planners are still struggling with the challenge of institutionalizing the credit. Some stakeholders fear that the success of the first-year pilot could allow program managers to “rest on their laurels,” even as the program’s full potential has yet to be realized. In addition, while the city has committed to substantial funding in its baseline budget, important fundraising work remains. Had the program been conceived as a

permanent projects rather than a pilot, it is possible that issues such as ongoing funding might have been addressed earlier on.

### ***6. Should the program include an outcome evaluation?***

The task of evaluating outcomes demands expertise, resources, and commitment. Substantial time and effort can be saved if decisions about if and how to evaluate program outcomes are made at the outset, rather than once the program—or the evaluation—itself—is underway. Early decisions can ensure all parties critical to an evaluation agree and are able to cooperate fully, and can allow evaluators to integrate data collection efforts into implementation activities, explore a possible experimental design, and record baseline information before a program begins.

An outcome evaluation proved to be a challenge for San Francisco’s WFC program. While SFWorks coordinated the evaluation by securing funding and identifying a qualified research team, the city was a primary subject of the evaluation and bore ultimate responsibility for protecting the confidentiality of sensitive program data. The separation of these crucial roles—evaluation management on the one hand, and data stewardship on the other—invited tension, lack of coordination and misunderstandings. In addition, as the evaluation work unfolded, the true complexity of the task became more evident (including the number of possible data sources and the number of parties required to obtain, manually enter, and depersonalize the data). Lastly, because the WFC was executed on a highly compressed timeline, funding and preparation for an evaluation did not precede program design and implementation planning.

## Getting Started on a Local EITC

Other communities considering whether and how to pursue the adoption of a local EITC may find it helpful to follow several first steps suggested by San Francisco's experience with the Working Families Credit.

### Gather and talk.

A useful way to stimulate and gauge the interest of potential collaborators in a local EITC campaign is to convene a wide range of interested parties to discuss the idea. Such a gathering can provide a neutral, pressure-free forum to work through the pros and cons of the concept, begin to lay out parameters for any policy proposal, and identify who is likely to support, oppose or be indifferent to a local EITC. A community convening was a crucial step in the development of the WFC. By hosting a gathering and inviting a key actor from the Denver local EITC as a guest speaker, SFWorks and Coleman Advocates moved the WFC beyond the idea stage. This meeting helped clarify the concerns various stakeholders had, revealed interest on the part of several mayoral campaigns, and identified individuals and organizations that were willing to invest effort in fleshing out the WFC idea. The working group that emerged from this meeting was essential in the following months, and allowed newly-elected Mayor Newsom to draw on a fairly well-developed policy proposal when he signed onto the WFC concept.

### Take inventory.

Because designing, arguing for, and implementing a new tax credit requires substantial time and energy, it may be helpful to begin the process by taking stock of the assets that stakeholders can bring to bear and the likely obstacles that they must overcome. This exercise can reveal

strengths and weaknesses, organizations and individuals to turn to or avoid, and how ambitious a program and timeline to pursue. In San Francisco, the WFC campaign drew on a number of assets: a growing and unwelcome perception that the city was not a place where ordinary families could afford to live; an upcoming mayoral campaign with candidates in search of innovative policy ideas; and a relatively rich—if recent—tradition of EITC outreach and asset-building programs in the region. On the other hand, San Francisco's famously outspoken and sometimes politically extreme advocates for low-income individuals had ample room to oppose a local EITC on ideological or pragmatic grounds. At the time the WFC was proposed, the city was also under enormous budget pressure, having just endured the "dot-com meltdown" and recession of the early part of the decade. Recognizing these strengths and challenges, WFC backers presented the proposal as, in part, a bold policy to make San Francisco more livable, and carefully built support for the idea among the city's important community groups and social service agencies.

### Anticipate and address program challenges.

The process of creating new public policy is bound to be messy. Disagreements surface and tough choices must be made. To the extent possible, proponents must anticipate, identify, and address head-on the challenges that the process creates. In San Francisco, for instance, the idea of partnering with H&R Block could have been divisive, upsetting community advocates that had organized against the tax preparation giant in prior years. Rather than avoid the tough questions Block's interest raised, SFWorks and Coleman Advocates brought the issue to their working group and invited frank discussion. In the end, the stakeholders behind the WFC concept weighed the advantages and draw-

backs of working with Block, and decided as a group to support the city in seeking a partnership with Block, and helped determine the conditions for that partnership.

### Sketch a proposal.

It should be possible for local EITC proponents to draft a program design very early on, and to use this rough sketch to help communicate the policy idea to new audiences, prompt discussion about design choices, and estimate the cost of the new tax credit. An early draft policy proposal may not offer the optimal program design, but it can move the discussion from the abstract to the concrete, invite constructive criticism, and avoid catching potential backers off guard. Supporters of the Working Families Credit had a basic blueprint for the program early on. Their document served as a discussion piece among members of the coalition, ultimately helping to define several important features of the program (such as the choice to house it in the treasurer's office and to draw program support from the General Fund).

### Shop it around.

With a rough sketch in hand, advocates for a local EITC have a tangible "product" to show prospective supporters and to enlist sponsors or backers. Adding the names of those who sign on to support a draft proposal may help build policy momentum. In San Francisco, "shopping the WFC around" was made easier by the upcoming mayoral election. Several campaigns were seeking bold policy initiatives to which they could attach their candidates' names, and all campaigns were interested in appearing at community meetings. In addition to the usual array of community groups and public agencies, the existence and interest of local campaign representatives provided another important pool from which to enlist influential backers. However, while political campaigns offer a useful opportunity to promote new initiatives like a local

EITC, other events or circumstances can be used to shine a public spotlight on issues facing working families. Local actors can also create such opportunities themselves. Placing opinion pieces in a local newspaper highlighting a low local take-up rate for the federal EITC, despite high and rising costs of living for working families, would be one way to bring attention to the challenges of the working poor and create a context in which to introduce a local EITC proposal.

### Plan the attack.

If a local EITC seems advisable after proceeding through the steps described here, developing a policy strategy and tentative timeline is a logical next step. As important as a written policy proposal is, developing a strategy to enact it—and attaching a timeline with tasks assigned to accountable individuals—is essential to bring it to life. Equally important, proponents need to be flexible and opportunistic, as windows of opportunity to advance a local tax credit proposal will inevitably open and close. In San Francisco, a working group of WFC proponents developed a strategy for promoting the credit that recognized local events and conditions (such as possible competition with a local minimum wage campaign then underway) and incorporated special circumstances (the mayoral election). Despite this planning, events unfolded in ways advocates had not predicted, as newly elected Mayor Newsom announced the program on a much tighter timeline than had been suggested, and made some significant and unanticipated design modifications. Nonetheless, planning meant that stakeholders were “prepared for success” and had laid an important foundation for the new program. For instance, they had discussed the WFC idea with members of the city’s Board of Supervisors and officials in relevant city departments who were key to the program’s ultimate success.

## Conclusion

Today, working families in San Francisco enjoy a new local tax credit program that draws their attention to the federal Earned Income Tax Credit, encourages them to save at tax time, and helps them better meet the high costs of living in their hometown. Nearly 10,000 families benefited from the program in its first year, and countless more stand to benefit in years to come. Some \$2 million now flows into the wallets and bank accounts of these families, helping them to purchase school supplies, pay rent and utility bills, start savings plans, and negotiate the expenses of day-to-day life in the city.

The parties who brought the WFC to life created from scratch an innovative, popular, efficient, and far-reaching program in a remarkably short time period. Indeed, in less than 24 months, constituents for the working poor and public officials proposed, fought for, and ultimately implemented a new multi-million dollar program targeted to some of the most vulnerable residents of their city. They accomplished all this against the backdrop of an extremely tight city budget.

The story of the WFC holds valuable lessons for public officials, community representatives, and concerned citizens in other cities and counties around the country. A broad-based income support program administered by city or county governments might have seemed far-fetched before the advent of the WFC and a handful of similar ground-breaking programs. Today interested parties can point to these examples as evidence that organized constituencies can marshal the political will, funds and operational capacity to run programs that once might have been the sole province of federal and state governments. As the range in cost of living among American cities continues to widen, local initiatives to offset high-cost areas gain importance. Similarly,

as the federal government becomes increasingly burdened by debt and focused on international issues, the ability of local governments to play a meaningful role in supporting working families acquires added relevance. Finally, as cities themselves experience ever-tightening budgets, the possibility of increasing the take-up rate for existing federal programs offers a way to bring additional funds into a community, money that might otherwise remain in Washington, D.C.

The WFC experience illustrates the value of having a broad-based coalition participate in the design, advocacy and introductory phases of a program, if perhaps not the on-going operation. The work of a wide range of organizations led to an attention-getting marketing and outreach campaign, backed by a broad network to solicit and collect WFC applications. Strategic promotion—especially a willingness to seize opportunities presented by a high-profile election and overtures from a major corporate sponsor—both helped bring the program to life and ensured that it attracted broad support throughout city government, community groups, and the general population. Thoughtful attention to detail in program design yielded a credit that was easy for applicants to access, reasonably practical to administer, and likely to endure long beyond its pilot phase.

At the same time, WFC proponents would be the first to acknowledge that their experience offers insights into pitfalls to avoid and challenges to anticipate. A local EITC may be hard to sustain if viewed solely as a direct cash transfer program, yet fostering meaningful asset development activity among claimants or linking them to other needed economic supports and community services requires patience and a long-term commitment. A local tax credit is also expensive, and its expense increases as it becomes more successful in reaching eligible families and delivering a substantive benefit. Lining up resources for a finite pilot

test is possible; but as WFC backers are realizing, it can be more challenging to find permanent and on-going funding streams. Finally, like any substantial new public initiative, determining the best way to implement it—including which agencies and departments are well suited to different roles—requires some amount of trial and error and a willingness to confront and, where necessary, shake up entrenched bureaucracies.

At a time when many observers believe that working families face unprecedented economic pressures, local EITC programs offer a simple and efficient way to channel resources to vulnerable households who live in high-cost areas or are otherwise in need of extra assistance. The attention such a program can bring to the challenges faced by these families can also increase interest among government officials, corporations and ordinary citizens in tools that offer help. Political, corporate, and civic leaders seeking new ways to support working families in their own places should review the experience of San Francisco's WFC and consider if and how a similar program might find a home locally

## Endnotes

1. Timothy Flacke is Director of Business Development for D2D ("Doorways to Dreams") Fund, Inc., a non-profit organization working to expand access to financial services, especially asset building opportunities, for low-income families. Tiana Wertheim is a Bay Area independent consultant specializing in the evaluation of programs and policy initiatives for working poor families.
2. See Steve Holt, "The Earned Income Tax Credit At Age 30: What We Know" (Washington: Brookings Institution, 2006).
3. According to a February 8, 2006 press release from the San Francisco mayor's office, "In previous years, an estimated \$12 million of EITC funds went unclaimed by eligible San Francisco residents...."
4. San Francisco is both a city and county; the city's status as a county is relevant because many of its social service roles and programs, including the entire Human Services Agency (HSA), are county functions.
5. Ami Nagle and Nicholas Johnson, "A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty in 2006" (Washington: Center on Budget and Policy Priorities, 2006).
6. Montgomery County, MD has also offered recipients of the Maryland state EITC a local match since 1999.
7. For more information about the Denver local EITC, see Shepard Nevel, "The Local Path to Making Work Pay: Denver's Earned Income Credit Experience" (Washington: Brookings Institution, 2002).
8. Stuhldreher is a respected voice on issues of economic security for low-income households, having worked in this field at the Ford Foundation, the New America Foundation, and as the director of a large-scale Bay Area asset development program.
9. Newsom, then a member of the city's Board of Supervisors, had already taken an interest in issues affecting working families in San Francisco; his campaign had produced a policy paper about the EITC and related issues, for instance, and his campaign volunteers had distributed EITC information door to door.
10. The San Francisco Department of Human Services (DHS) has since been renamed the Human Services Agency (HSA).
11. At the time community advocates were engaged in a high profile, and ultimately successful, campaign for a higher minimum wage that would apply to all employers in the city of San Francisco.
12. The decision to seek private funding reflected the mayor's belief that the WFC was a perfect opportunity for a public-private partnership, one that would leverage each sector's strengths. It was also likely that a program half funded by private sources was more politically palatable in a tough budget climate.
13. Shortly after her office accepted a lead WFC role, Treasurer Susan Leal was appointed to head the Public Utilities Commission. The mayor's replacement appointee, Treasurer Jose Cisneros, embraced the WFC enthusiastically and, in fact, made it a major issue during his election campaign.
14. Knowing that their support was crucial to avoid later controversy, SFWorks made sure to include in the discussion several activist organizations including ACORN and the California Reinvestment Coalition.
15. H&R Block's "Express IRA" recently became the subject of a lawsuit filed by New York Attorney General Eliot Spitzer against H&R Block. Spitzer alleges that Block fraudulently marketed the product, failing to disclose fees and recommending Express IRAs to people who would likely lose money in them. Block, which cooperated with Spitzer's investigation, strongly refutes these allegations and says the attorney general's investigation overlooks important facts and circumstances. See Julie Creswell and Eric Dash, "Spitzer Sues H&R Block on IRAs," *The New York Times*, March 16, 2006, p. C1. As part of its MOU with the city of San Francisco, Block agreed to waive some of the fees that are the subject the New York lawsuit.

16. WFC checks were not mailed until September because, in order to implement the program as soon as possible in accord with Mayor Newsom's directive, funds had to be drawn from the city's budget for the fiscal year beginning in July 2005.
17. A team of "principals" was identified in September 2005 to assume responsibility for strategic oversight, including the mayor's policy director and the city treasurer. Later, in anticipation of year two of the pilot and beyond, representatives of the Human Services Agency (HSA) and the Department of Children, Youth and their Families (DCYF) joined the principals.
18. In preparation for year two of the pilot, in August 2005 a steering committee co-chaired by the treasurer's office and SFWorks was formally charged with program management.
19. Application assistance was not necessary for all filers, as applications were designed to be simple enough for self-preparers to complete.
20. WFC planners had hoped to offer claimants the option to receive their WFC check via direct deposit but were not able to establish procedures to send payments electronically for the first year of the pilot.
21. An optional client survey was completed by approximately half of applicants, but the respondents are not necessarily a representative sample of the entire WFC applicant pool; this survey is discussed in greater detail in the Outcomes and Outputs section.
22. Additional checks were cut and mailed as "pending" applications were approved.
23. "Take-up rate" as used here represents local EITC applicants as a proportion of federal EITC recipients in a prior or recent tax year (rather than as a proportion of the estimated number of individuals *eligible* to claim the federal or local EITC).
24. The 45-percent rate reflects 9,700 eligible WFC applicants divided by 21,466 federal EITC claimants; assuming all of the 458 pending WFC applicants are ultimately deemed eligible, this rate would rise to 47 percent.
25. Surveys completed by approximately half of WFC applicants indicate that these figures may undercount the WFC population with these primary languages (though it is important to note that survey respondents may not be representative of the total WFC applicant population). Approximately 53 percent of survey respondents reported that Chinese was their first language, and 6 percent of respondents reported that Spanish was their first language. These responses suggest that significant numbers of native Chinese and Spanish speakers actually completed applications in English. Indeed, only 34 percent of applicants reported that English was their first language while 71 percent of applications received were in English.
26. The survey asked applicants where they had gone to have their taxes prepared in the prior year. Compared to the prior year, it appears that Block increased its market share of EITC claimants from 26 percent to 32 percent, an increase that may have been largely generated by bringing in new filers (5 percent of survey respondents reported not filing in TY 2003, as opposed to 1 percent in TY 2004).
27. Applicants who did not qualify for the EITC, and thus were ineligible for the WFC, either applied for the EITC and were rejected by the IRS or did not apply for it in the first place. The City of San Francisco did not make independent assessments of applicants' EITC eligibility, but instead relied on IRS data.
28. Despite the pilot project's anticipated \$6 million, two-year price tag, the City distributed just \$2.1 million (or \$2.2 million with the \$100,000 reserved for pending applications) for 2005 WFC checks, in part because private fundraising goals were not met.
29. Beyond the General Fund contribution, the city added an extra \$75,000 to the 2006 budget of the treasurer's office to offset some of the expense of administering the program in year two.
30. Estimated values for in-kind donations were reported by the treasurer's office. See San Francisco treasurer's office, "Gifts to City and County of San Francisco, Donor Disclosure Form, 2004–2005."
31. These media outlets included the *San Francisco Chronicle*, *San Francisco Examiner*, *San Francisco Independent*, *El Reporter*, *El Mensajero*, *Sing Tao*, *World Journal*, *Ming Pao*, *International Daily News*, *Traffic Pulse*, Metro Traffic, Clear Channel, and Viacom.
32. WFC checks were mailed with a letter from the mayor and the treasurer that listed options for free check cashing and free checking accounts available to any WFC recipient depositing his or her WFC check.
33. The Express IRA is H&R Block's retirement savings product. It is a FDIC-insured account, similar to a savings account, although subject to the tax rules governing Individual Retirement Accounts (IRAs). The Block Debit Card is a VISA/MasterCard-branded stored value card that can be used for point-of-sale purchases and ATM withdrawals, and is offered as a bank account alternative for bank-averse clients.
34. This estimate includes WFC applicants and non-applicants and is based on informal records kept by the free tax sites and their bank partners.
35. This figure is based on reports from cooperating bank partners and should be considered an estimate.
36. As reported by the BALANCE ([www.balance-pro.net](http://www.balance-pro.net)) financial counseling service.
37. However, under the terms of the MOU, if applicants continued to request a RAL even after repeatedly being offered other options, Block could sell them one.
38. Alan Berube and Tracy Kornblatt, "Step in the Right Direction: Recent Declines in Refund Loan Usage Among Low-Income Taxpayers" (Washington: Brookings Institution, 2005).
39. Alan Berube, "Earned Income Credit Participation—What We (Don't) Know" (Washington, Brookings Institution, 2005).
40. Exactly how "random assignment" would work in the WFC context is difficult to imagine, as the control group would need to be composed of WFC-eligible individuals who did *not* receive the credit (in order to ensure the control matched the treatment group in all ways possible except



for receiving the WFC). The prospect of randomly denying the credit to eligible families for the sake of an impact evaluation seems politically untenable and ethically suspect.

41. Ideally any such “treatment group” under study would be compared to a control group of families who were eligible for but did not receive the credit.
42. In states such as Maryland that have their own EITC, the tax authority could automatically send a local tax credit to applicants who qualify for the state EITC and reside in a specified region, city or county; this approach streamlines administration but reduces program design flexibility and may limit planners’ ability to leverage the local EITC for broader policy goals (such as promoting asset building).
43. To place this commitment into context, San Francisco has an annual budget of roughly \$5 billion, of which just \$1 billion is discretionary (the rest is mandated to be spent in designated ways). In 2003-2004, the city needed to cut \$110 million to achieve a balanced budget; nonetheless, Mayor Newsom proposed a new program costing the city \$1.5 million per year for two years (and subsequently extended the program indefinitely).

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