# Arkansas Legislative Taskforce on Reducing Poverty and Promoting Economic Opportunity

Act 722 of 2009

**FINAL REPORT**
**NOVEMBER 2010**

## Foreword

November 10, 2010

To: Governor Mike Beebe
President Pro Tempore of the Senate Bob Johnson
Speaker of the House of Representatives Robbie Wills

Ranking second in the nation in poverty has been a persistent and historical constant for Arkansas. The state has operated far too long with policies that cripple its citizens' efforts to attain self-sufficiency. The economic security of all our state's citizens is a moral and economic imperative. As required by ACT 722 of 2009, the Arkansas Legislative Taskforce on Reducing Poverty and Promoting Economic Opportunity was created. The Task Force began working in September 2009 and established a set of recommendations intended to reduce poverty in Arkansas to pre-recession levels in five years and to cut poverty in half in ten.

The Taskforce strongly feels that these ambitious goals are both attainable and critical to the future of our state's economic well-being. The report is a comprehensive analysis and presents recommendations adopted by the Taskforce in an effort to aid the Governor and General Assembly in considering strategies and benchmarks for reaching these ambitious goals.

The Task Force members are:

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Mr. Rich Huddleston, Co-Chair, Arkansas Advocates for Children and Families
Rep. Davy Carter, House of Representatives
Rep. David Rainey, House of Representatives
Sen. Larry Teague, Member of the Senate
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Ms. Sikia Brown, Arkansas Dept. of Human Services, Division of Volunteerism
Rev. Steve Copley, United Methodist Pastor, Arkansas Justice for our Neighbors
Ms. Bernadette Devone, Arkansas Public Policy Panel
Ms. Bessie Fowler American FSCM Employees
Ms. Mary Harris, Volunteer at the Watershed
Mr. Mike Leach, Southern Good Faith Fund
Mr. Fredrick Love, Arkansas Food Bank
Mr. Don Munro, Munro Foundation
Ms. Rhonda Sanders, Arkansas Hunger Relief Alliance
Ms. Gloria Smith, ACORN
Mr. Johnny Smith, Shiloh Baptist Church
Mr. Richard Smith, CB King Memorial School
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A special thanks goes to several individuals who worked with Taskforce members to provide additional expertise and support for the Taskforce's study efforts.

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Continuing with the status quo in policies and programs will ensure that we continue to be one of the poorest states in the nation. We, as a state, must move quickly with more than timid measures and unfunded promises.

Senator Joyce Elliott, Co-Chair

Mr. Rich Huddleston, Co-Chair

Taskforce on Reducing Poverty and Promoting Economic Opportunity

## CONTENTS

# EXECUTIVE SUMMARY

Act 722 of 2009 created the Arkansas Legislative Taskforce on Reducing Poverty and Promoting Economic Opportunity. This report is a summary of the conclusions and recommendations of the Taskforce following a year of outreach and research. Continuing with the status quo in policies and programs will ensure that we continue to be one of the poorest states in the nation. The Taskforce cannot emphasize strongly enough that reducing poverty must be an economic imperative for the state, if we are to make major strides in our ability to compete in the global economy and meet the needs of our citizens. The state must move quickly with more than timid measures and unfunded promises.

The recommendations made by this Taskforce need to be part of an on-going effort to monitor accomplishments, make adjustments to plans when needed, assess new situations that need response, and evaluate research suggesting new solutions to existing problems. As a result, the Taskforce recommends that a permanent advisory council for poverty reduction and economic opportunity be formed.

### Background

Arkansas's next-to-last ranking in poverty is historically constant. The societal consequences of poverty have been well documented, affecting the prosperity of our state and all of its citizens. Arkansans living in poverty are more likely to be poorly educated, unhealthy, and involved in crime. And it costs serious public money to alleviate the impacts of poverty. Poverty reduction should be viewed both as a social and an economic investment that will pay dividends in the form of increased economic productivity, reduced expenditures on health care and the criminal justice system, and improvements to quality-of-life and citizen's well-being. As a result of the recent recession, poverty has risen in Arkansas. In 2009, poverty had grown to nearly 19 percent of the Arkansas population, or roughly 527,378 citizens. As historically has been the case, the Arkansas poverty rate far outpaced that of the nation, 18.8 percent to 14.3 percent. Child poverty in the state now stands at more than 1 in 4 children (27 percent) compared with 1 in 5 children (20 percent) nationally.

### Who Are the Poor in Arkansas?

In Arkansas only 15 percent of whites live in poverty, compared with 36 percent for blacks and Hispanics. The eastern and southern regions of Arkansas have the highest overall poverty rates at 21 percent, compared to 18 percent in the northwest region and 15 percent in Central Arkansas. Nearly 30 percent of adult Arkansans with less than a high school degree lived in poverty in 2009, compared with just 4 percent of those with a college degree or higher. Poverty also disproportionately impacts children in single-parent households. Well over half (55 percent) of all children in female-headed households, or 112,441 children, live in poverty. In contrast, 14 percent of children in married-couple households, or 63,095 children, live in poverty.

### Definition of Poverty

At its most basic level, poverty is the result of failing to earn an income high enough to meet all of a family's basic economic needs. Some of the most common causes include the education and skill levels of workers; living in a community unable to attract or support higher paying jobs; lack of adequate job supports and policies including access to affordable child care, transportation, health insurance, affordable housing, mental health and substance abuse treatment services, and a lack of policies that allow families to develop and accumulate assets, such as individual development accounts. The federal government, which is responsible for developing official estimates of poverty, defines poverty in two ways. One is the poverty threshold. In 2010 the poverty threshold for a family of four with two children was $21,756 while the threshold for a family of three with one child was $17,268. The thresholds are used to measure the number of people living in poverty each year. The second poverty measure is the federal poverty guideline, which is calculated by the U.S. Department of Health and Human Services and is a simplified version of the federal poverty threshold.

### Areas Emphasized

The Taskforce's plan was to focus on problems that could be ameliorated with the greatest return on investment. The recommendations reflect a designation as short-term priority to implement within the next one to three years or long-term priority which will require sustained effort. The Taskforce is cognizant of the effects the recession has had on the state budget and has adjusted time frames and benchmarks accordingly as state revenues begin to recover. The words "Promoting Economic Opportunity" in the Taskforce's name are an important element in these recommendations, not just an afterthought. The vision of promoting economic opportunity as the strategy for reducing poverty permeates the recommendations. Focus was given to reducing barriers to families seeking to move from poverty to successful contributors in the state's economy.

### Community and Economic Development

Even before the recession, Arkansas trailed other states in creating economic opportunities for its citizens. The Corporation for Enterprise Development (CFED), a national non-profit that ranks states and the District of Columbia on financial success, gave Arkansas an "F" on its 2007-2008 Assets & Opportunity Scorecard. To address community and economic development issues the Taskforce focused on three types of economic programs: community development, access to capital, and tax incentives. The Taskforce identified several programs operating in Arkansas and other states that could serve as models for the rest of Arkansas. Effective community development is well demonstrated by the business incubator based in Helena-West Helena. Another example of an effective economic development program is the Tennessee Small and Minority-Owned Business Assistance program to support outreach to new, expanding, and existing businesses that do not have reasonable access to capital markets and traditional commercial lending facilities. A final strategy for promoting economic growth is the creation of low-profit, limited liability corporations (L3Cs). Several states are using L3Cs to encourage more program-related investments by foundations.

### Education

There is a strong link between poverty and educational attainment. This link is evident in Arkansas, which ranks 49th among the 50 states in the number of adults with at least Baccalaureate degrees. Efforts are needed to provide additional support services to improve student success. Many Arkansas students who enter higher education institutions are not completing degrees. Others are not adequately prepared for college-level work. Over half (54.6 percent) of all students attending two-year or four-year institutions in the state required remediation in at least one subject in 2009. Educational concerns targeted by the Taskforce include college and career counseling, college savings programs, improved remediation, and graduation and retention rates. The Career Coaches initiative should be expanded to help more students in high poverty counties understand career and college choices. The Aspiring Scholars Matching Grant program was established to lower-income parents to save for the expenses of sending their children to college. The Taskforce also focused on efforts to reduce poverty through pre-k and K-12 education programs for at-risk students. Arkansas is currently serving less than half of the 3-year olds eligible for the state's preschool program. And quality afterschool and summer programs have proven outcomes that close the education achievement gap for low-income and minority students.

### Health

The Taskforce recommendations for health care strategies attempt to get at the known intersections between health and other social factors: physical and financial health are linked; access to health care and financial stability are interrelated; and the majority of bankruptcies in the U.S. are due to medical debt. The following barriers were among those identified in the health arena related to poverty: low rates of health literacy; lack of support to consumers to navigate the health care system; lack of insurance options; lack of evidence-based substance abuse and mental health treatment; and workforce shortages in primary care and dental care.

### Individual Employment Supports

Families face numerous barriers in their efforts to climb out of poverty. Eligibility for government programs is set at fairly low-income (and asset) levels above which families become ineligible for benefits or see reduced benefits. This creates a "cliff effect" which serves as disincentives to work and potentially harm the well-being of the family, especially children. The Taskforce found that there is inadequate access to certain services—such as affordable housing, subsidized child care, and transportation—critical to the ability of low-income families to stay employed and move up the economic ladder.

### Tax Relief

Arkansas's current tax system places a disproportionate share of the tax burden on low-income families, hurting their ability to meet the basic needs of their families. Additionally, the system does not have the capacity to generate the revenues to adequately support critical programs for low-income families that help meet basic needs and that would give them the tools to move out of poverty and up the economic ladder towards economic self-sufficiency. Arkansas's low- and middle-income tax payers (those with incomes below $40,000) pay 12 cents in state and local taxes on every dollar they earn compared to just 6 cents on every dollar earned by the top 1 percent of upper income taxpayers (those with incomes over $326,000).

### System Need

The development of a common client database is a system improvement to the efficient and effective provision of both governmental and non-governmental organizational services. It eliminates repeated efforts by clients to establish eligibility and reduces duplications of services by the agencies.

| **Community and Economic Development** |
|---|
| 1. SHORT TERM: Alter tax incentive programs to better meet the needs of low-income communities. The state's tax incentive programs disproportionately benefit the highest-income counties. The lowest-income counties, which need the jobs the most, benefit the least. |
| 2. SHORT TERM: Enact L3C legislation in Arkansas. L3C legislation would provide an incentive for foundations to invest in social enterprises, which may be good options for business development in low-income parts of the state. |
| 3. SHORT TERM: Invest more in programs for developing small businesses. Arkansas should expand efforts to provide assistance to rural and minority-owned businesses that would provide both working capital loans of up to $50,000 and technical assistance to rural and minority small business entrepreneurs. |
| 4. *LONG TERM*: Facilitate markets for locally produced goods and services. The rise in consumer interest in local foods has been accompanied by increased participation of state departments of agriculture in promoting locally grown foods. |
| **Education and Workforce Development** |
| 1. SHORT TERM: Expand access to quality early childhood education for children age birth to 5 years, especially for at-risk children. |
| 2. SHORT TERM: Expand the Career Coaches (Arkansas Works!) program to every county in the state, and increase funding for the Aspiring Scholars Matching Grant Program. |
| 3. SHORT TERM: Expand access to quality before- and after-school programs, summer programs, and programs for targeted populations by better using National School Lunch Act (NSLA) funding and other sources. |
| 4. SHORT TERM: Restructure the Arkansas developmental/remedial education system to improve student success. |
| 5. SHORT TERM: Increase retention and graduation rates at two-year and four-year higher education institutions in the state. |
| 6. SHORT TERM: Other Education Issues: 1. More official state emphasis on school board training, mentoring, and cross-fertilizing. 2. More emphasis on health issues, especially obesity (e.g., BMI indexing and recording). 3. Develop policies that foster interest and interaction among interest groups such as civic groups, PTAs, economic development committees, etc. (The "social capital" represented by school boards, administrators, PTAs, athletic/band/arts groups, and other civic groups could become a powerful constituency for change). 4. Form a study group to accrete and evaluate "best practices" of non-public educational institutions. |
| **Health** |
| 1. SHORT TERM: Implement the ARKids First expansion to 250 percent of the federal poverty level, as passed during the 2009 legislative session (currently on hold). |
| 2. SHORT TERM: Expand school wellness centers/coordinated school health initiatives. This will provide preventative well-child services through the schools and reduce direct costs for medical treatment by improving services access. |
| 3. SHORT TERM: Implement substance abuse treatment under Medicaid for pregnant women and teens, agreed upon during 2009 legislative session. |
| 4. *LONG TERM:* Conduct health impact assessments on all new policies/initiatives at state and community levels. This will help ensure the health and wellness of citizens and community members is appropriately considered before state or local policy decisions are made. |
| 5. SHORT TERM: Ensure that the "navigator" required by health care reform is adequate to help consumers with the healthcare. |
| 6. *LONG TERM:* Establish a Center for Health Literacy to coordinate and fund activities that improve health literacy of Arkansans. This could include, but is not limited to developing educational materials, coordinating public education and outreach efforts, and reaching out to underserved populations. |

| **Individual Employment Supports** |
|---|
| 1. SHORT TERM: Improve case management services for young mothers seeking assistance through Temporary Assistance for Needy Families to better place them in career paths and to help them link with resources. |
| 2. SHORT TERM: Improve access to subsidized child care by using all available TANF funding for child care (the state's federal welfare reform grant). |
| 3. SHORT TERM: Expand outreach and access to federal food assistance benefits under the Supplemental Nutrition Assistance Program. |
| 4. *LONG TERM:* Fund the Housing Trust Fund that was established in the 2009 legislative session. |
| 5. SHORT TERM: Improve access to critical economic and work supports to help low-income working families meet basic needs and stay employed. |
| 6. SHORT TERM: Review and consider the recommendations of the Prison Reform Workgroup. |
| 7. *LONG TERM:* Create a Consumer Advisory Council that includes clients receiving benefits from the Department of Human Services, the Department of Health, and the Department of Workforce Services. This council will be called upon to identify areas for improvement as well as to vet changes to policies and programs. |
| **Tax Relief** |
| 1. SHORT TERM: Fix the low-income tax threshold problem and provide comparable relief for single parents with two or more children. A 2007 law designed to substantially exempt families with children at incomes below the poverty line from state income taxes (and to cut taxes for those with incomes slightly above the poverty line) contained a technical flaw and did not provide comparable benefits to taxpayers filing as heads of households with two or more children (most heads of households are single parents). |
| 2. *LONG TERM:* Create a refundable State Earned Income Tax Credit (EITC) to economically support low- and lower-middle income working families. State EITCs, which have been adopted in 24 of 42 states with state income taxes, are set at some percentage of the federal EITC received by a family, typically at a rate of 5% to 40%. |
| 3. SHORT TERM: Continue efforts to cut the state sales tax on groceries. Arkansas should gradually continue its efforts to mostly eliminate the remaining 1 and 7/8 cent state sales tax on groceries (the 1/8th cent sales conservation tax required under Amendment 75 cannot be eliminated). |
| 4. SHORT TERM: Close corporate income tax loopholes by adopting a combined reporting law for state corporate income taxes. Under loopholes in current Arkansas law, some corporations are allowed to reduce the income they report as earning in Arkansas (and thus avoid Arkansas taxes) by shifting this income to another state where they pay little or no taxes. |
| 5. *LONG TERM:* Reduce or eliminate the 30 percent exemption currently allowed for capital gains under Arkansas income taxes. This exemption heavily and disproportionately favors upper income taxpayers. |
| 6. SHORT TERM: Adopt the "Amazon Law" for collecting state taxes owed on internet purchases. Recently adopted in New York and Rhode Island, the law requires many internet retailers operating "affiliate programs" in the state to charge sales tax on the retailers' sales to state residents. |
| **System Needs** |
| 1. SHORT TERM: Develop a common client database. A common client database is a system improvement to the efficient and effective provision of both governmental and non-governmental organizational services. It eliminates repeated efforts by clients to establish eligibility and reduces duplications of services by the agencies. |
| 2. SHORT TERM: Form a permanent advisory council for poverty reduction and economic opportunity. The recommendations made by this Taskforce need to be part of an on-going effort to monitor accomplishments, make adjustments to plans when needed, assess new situations that need response, and evaluate research suggesting new solutions to existing problems. |

Note: Cost estimates, when available, are included in the main report text with the discussion of the recommendations.

# INTRODUCTION

Arkansas continues to rank as one of the poorest states in the nation. Why do we care? The societal consequences of poverty have been well documented. Citizens living in poverty are more likely to be poorly educated, unhealthy, and involved in crime. And it costs serious public money to alleviate the impacts of poverty. For example, in 2009 Arkansas spent $21,969 per year to house a prisoner, compared to $10,499 to educate a child.

The impacts of poverty on children are especially devastating. Research shows that children who grow up in poverty are at increased risk of a wide range of negative outcomes.[1] These outcomes not only impact their short term well-being but their future productivity as adults—and thus the economic productivity of the entire state. A recent report on child poverty by Arkansas Advocates for Children and Families summarized some of these negative outcomes:[2]

**Educational and cognitive consequences:** Studies have consistently shown that child poverty is associated with numerous negative educational outcomes, including poor academic performance, lower vocabularies, lower reading and achievement scores, higher drop-out rates and lower college graduation rates. These issues lower children's ability to succeed in school, attend and graduate from college, and receive a good education. They can't compete for the best jobs and earn higher incomes.

**Health Outcomes:** Low-income children are more likely to be in poor or only fair health, often for longer periods of time. They're less likely to receive access to quality health care and preventive care and less likely to have access to nutritious foods. Their parents are also less likely to be educated about good child development practices. The physical safety of low-income children is also at greater risk because of greater exposure to parent stress and domestic violence at home and violent crime in their neighborhood.

**Social and Emotional Development:** Children growing up in poverty are at greater risk of unstable home environments and behavioral and emotional problems including acting out, disobedience, aggression and not getting along with peers. Poverty is also associated with higher chances of teen pregnancy, low self-esteem and feeling of anxiety, unhappiness, and dependence. These issues often result in problems at school and with juvenile delinquency, as well as higher rates of involvement with the child welfare, mental health, and juvenile justice systems.

**Adult Poverty:** The impact of poverty is worse the deeper and longer a child lives in poverty. Child poverty can reach far into adulthood. Children who experienced persistent poverty are more likely to be poor as adults than those who never lived in poverty.

Children who live in poverty can, and often do, escape poverty later in life. The research is clear. Children who grow up in poverty have far greater obstacles to overcome and are less likely to succeed as adults than those who don't grow up in poverty. Poverty's impacts extend far beyond consequences for children. Poverty impacts the taxes we pay for government services, the quality of the state's workforce, and our ability to compete in the global economy.

In tandem with the social costs, the costs of child poverty to a state's economy are overwhelming. According to a 2008 report, children growing up in poverty cost the U.S. $500 billion annually (3.8 percent of U.S. GDP).[3] The estimate included $170 billion lost each year in income that people would otherwise have earned, thus hurting the larger economy; $170 billion a year due to crime and costs associated with the criminal justice system; and $160 billion spent on the health problems of adults who grew up in poverty. This estimate didn't include other expenses associated with poverty, such as the cost of adults living in poverty who were not raised in poverty. Another study estimated the costs for child poverty in Arkansas was $6.2 billion in 2006.[4] In contrast, the state's entire amount of general revenue distributed in 2006 was only $3.8 billion. Poverty reduction should be viewed both as a social and an economic investment that will pay dividends in the form of increased economic productivity, reduced expenditures on health care and the criminal justice system, and improvements to multiple dimensions of child well-being.[5]

The results of the Great Recession, which began in 2007 and officially ended in 2009, brought more families who had been living on the periphery into full-fledged poverty. It also reduced contributions to service organizations serving the poor. More people needed assistance and less assistance was available. A ranking of the nation's 400 biggest charities showed donations dropped by 11 percent overall last year as the recession ended—the worst decline in 20 years since the Chronicle of Philanthropy began keeping a tally.[6] Kim Evans, director for the Center for Nonprofit Organizations at the University of Arkansas at Little Rock, said she has heard mixed reports from Arkansas charities: "There are some who continue to see a slowdown in their donations, but there are some who are seeing an increase or who don't feel like they're in free fall anymore."[7]

An additional effect of the recession was to tighten the budgets of state agencies traditionally tasked with serving citizens in need. American Recovery and Reinvestment Act funds helped alleviate some of the immediate need but did little to provide long-term solutions. An example of the transitory nature of this help was the end of funding for child care programs, leaving waiting lists for 11,000 children of families with parents either employed or going to school full time.[8]

Julie Munsell, spokesperson for the Arkansas Department of Human Services noted, "It's frustrating first and foremost for the families who are trying to work and obviously make ends meet. It's clear that they are in a very difficult position and must rely on community and family support in order to meet their child-care needs." Some low-income parents must choose between working and caring for their children.[9]

## Overview of Arkansas Poverty

As a result of the recent recession, poverty has risen in Arkansas. In 2009, poverty had grown to nearly 19 percent of the Arkansas population, or roughly 527,378 citizens.[10] As historically has been the case, the Arkansas poverty rate far outpaced that of the nation in 2009, 18.8 percent to 14.3 percent. The difference in poverty rates is more dramatic for children, with more than 1 in 4 Arkansas children (27 percent) living in poverty, compared with 1 in 5 children (20 percent) nationally. See table below.

There are clear racial and ethnic differences in who's more likely to be poor in Arkansas. By virtue of their greater numbers in the overall population, whites comprise a greater number of those living in poverty than other racial and ethnic groups. There are more than twice as many whites living in poverty than blacks (322, 204 vs. 156,208), and more than five times as many whites living in poverty than Hispanics (60,335). See the first chart on the next page.

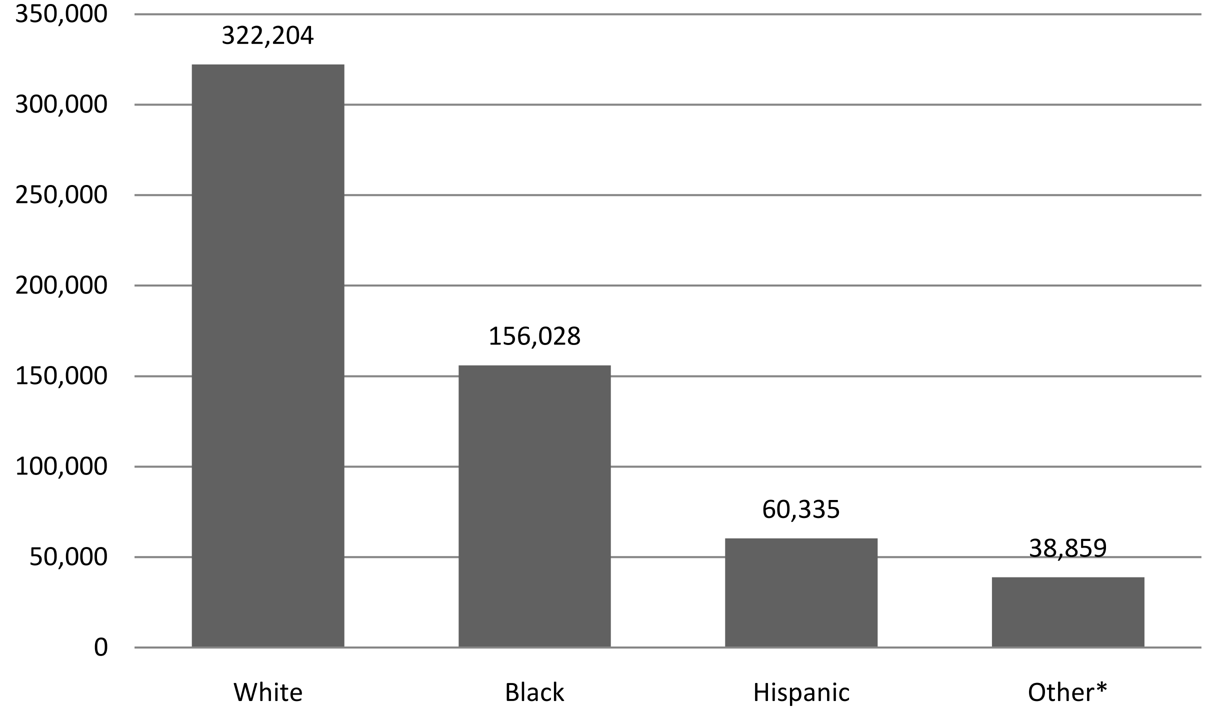
Minorities, however, are much more likely to be poor. Nearly 15 percent of whites live in poverty, compared with 36 percent of blacks and Hispanics. Black and Hispanic children in Arkansas have been especially hard hit by the recent recession, as nearly one in every two black children and two in five Hispanic children were living in poverty in 2009, compared with one in four for white children. See the second chart on the next page.

**Population Below Poverty and Poverty Rate, 2006 and 2009**

| | Arkansas | | United States | |
|---|---|---|---|---|
| | 2006 | 2009 | 2006 | 2009 |
| Under 18 years | 24.3% (164,545) | 27.1% (189,198) | 18.3% | 19.9% |
| 18 to 24 years | 26.7% (65,456) | 30.5% (75,544) | 21.6% | 23.8% |
| 25 to 34 years | 18.4% (66,040) | 19.5% (72,781) | 13.3% | 14.5% |
| 35 to 64 years | 12% (129,705) | 13.1% (142,989) | 9.3% | 10.2% |
| 65+ years | 16% (45,409) | 24.8% (46,866) | 9.9% | 9.5% |
| Total Population | 17.3% (471,155) | 18.8% (527,378) | 13.3% | 14.3% |

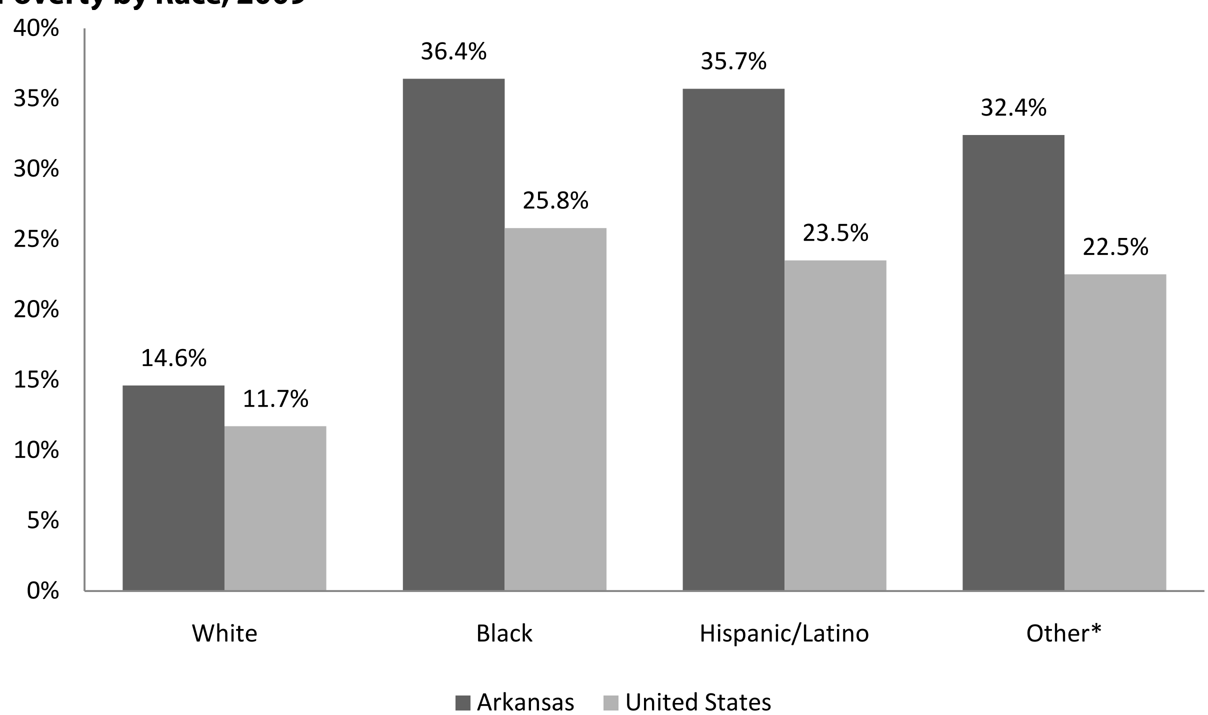
Source: U.S. Census Bureau, 2006 and 2009 American Community Survey, Table B17001

**Number of Arkansans in Poverty by Race, 2009**




Source: U.S. Census Bureau, American Community Survey, 2009, Tables B17020A, B17020B, B17020F, B17020G, B17020I
*Other incidates either some other race or two or more races as defined by the Census Bureau

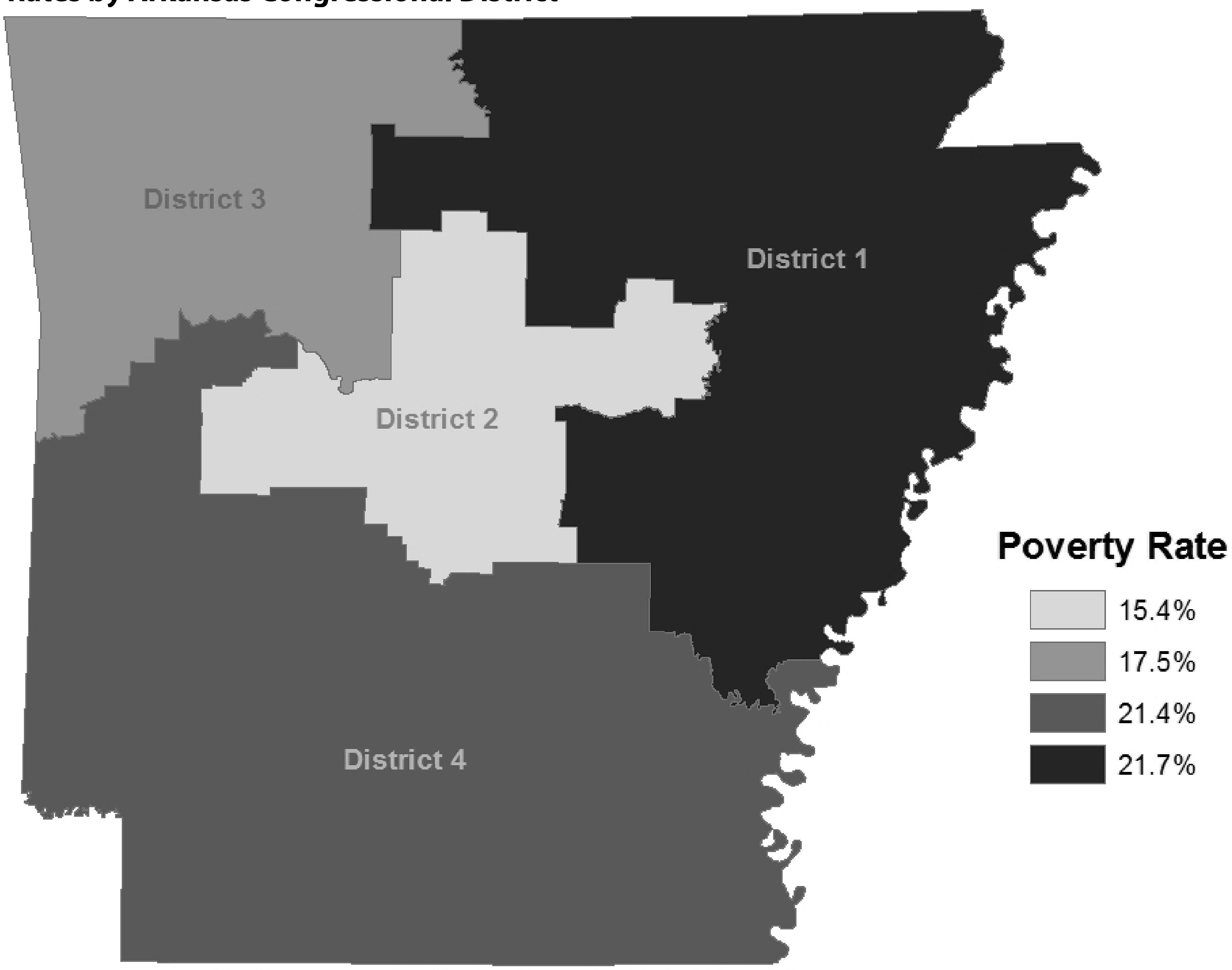
**Poverty by Race, 2009**




Source: U.S. Census Bureau, American Community Survey, 2009, Tables B17020A, B17020B, B17020F, B17020G, B17020I
*Other incidates either some other race or two or more races as defined by the Census Bureau

Poverty is clearly more pronounced in certain areas of the state than others. As the map below shows, the eastern (First Congressional District) and southern (Fourth Congressional District) regions of Arkansas have the highest overall poverty rates at 21 percent, compared with just 18 percent in Northwest Arkansas (Third Congressional District) and 15 percent in central Arkansas (Second Congressional District).

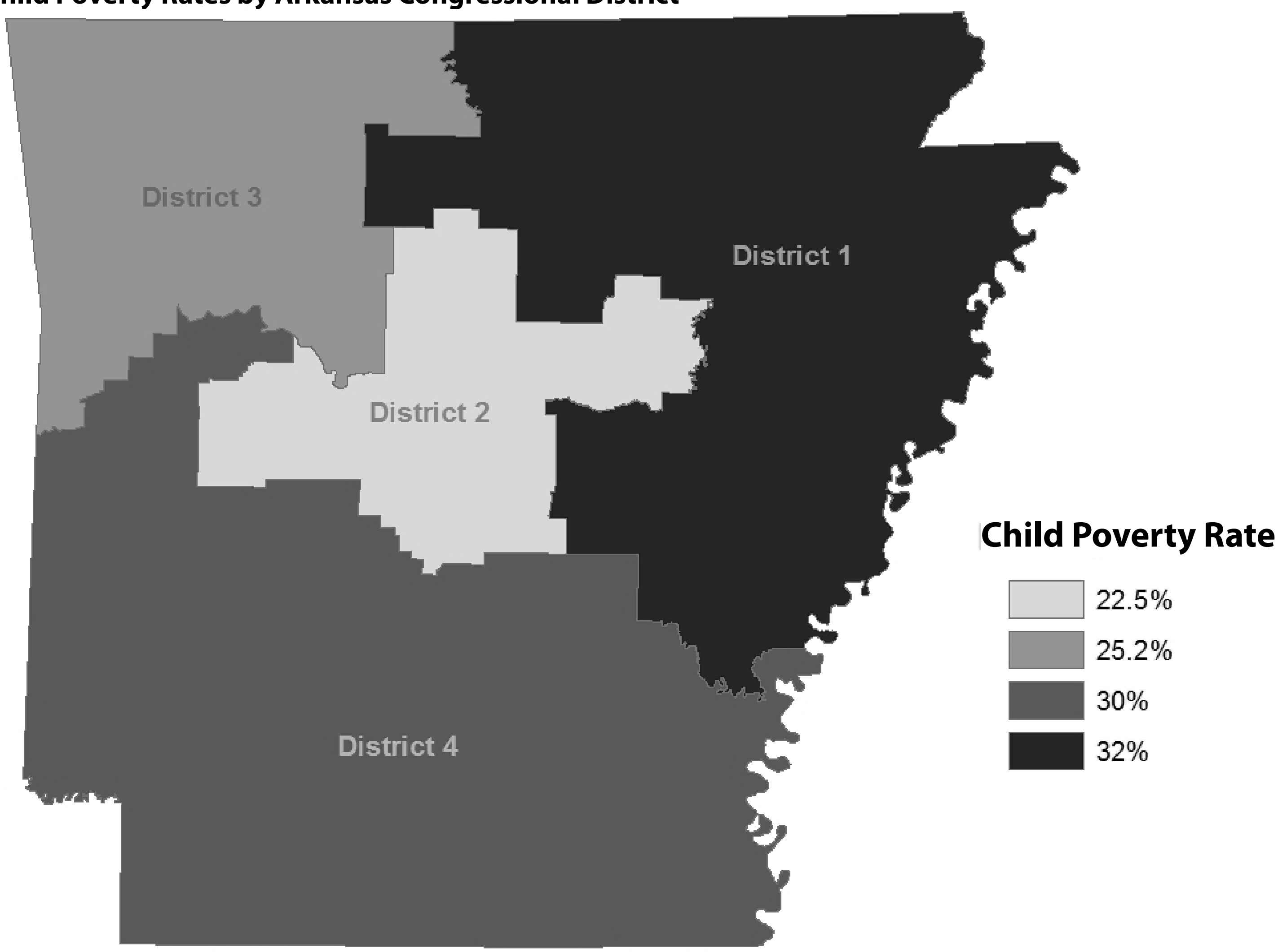
**Poverty Rates by Arkansas Congressional District**




Source: U.S. Census Bureau, 2009 American Community Survey, Table B17001

Poverty also disproportionately impacts the children in eastern and southern Arkansas, with child poverty rates of 32 and 30 percent, respectively, in those regions. However, it is worth noting that child poverty is on the rise in Northwest Arkansas, an economically growing region that has not been known for its poverty. From 2006 to 2009, child poverty in Northwest Arkansas grew from 20.6 percent to 25 percent. The region now has the largest number of children living in poverty among the four congressional districts with 51,325 children, compared to 51,102 in District 1, 38,887 in District 2, and 45,427 children in District 4.

**Child Poverty Rates by Arkansas Congressional District**

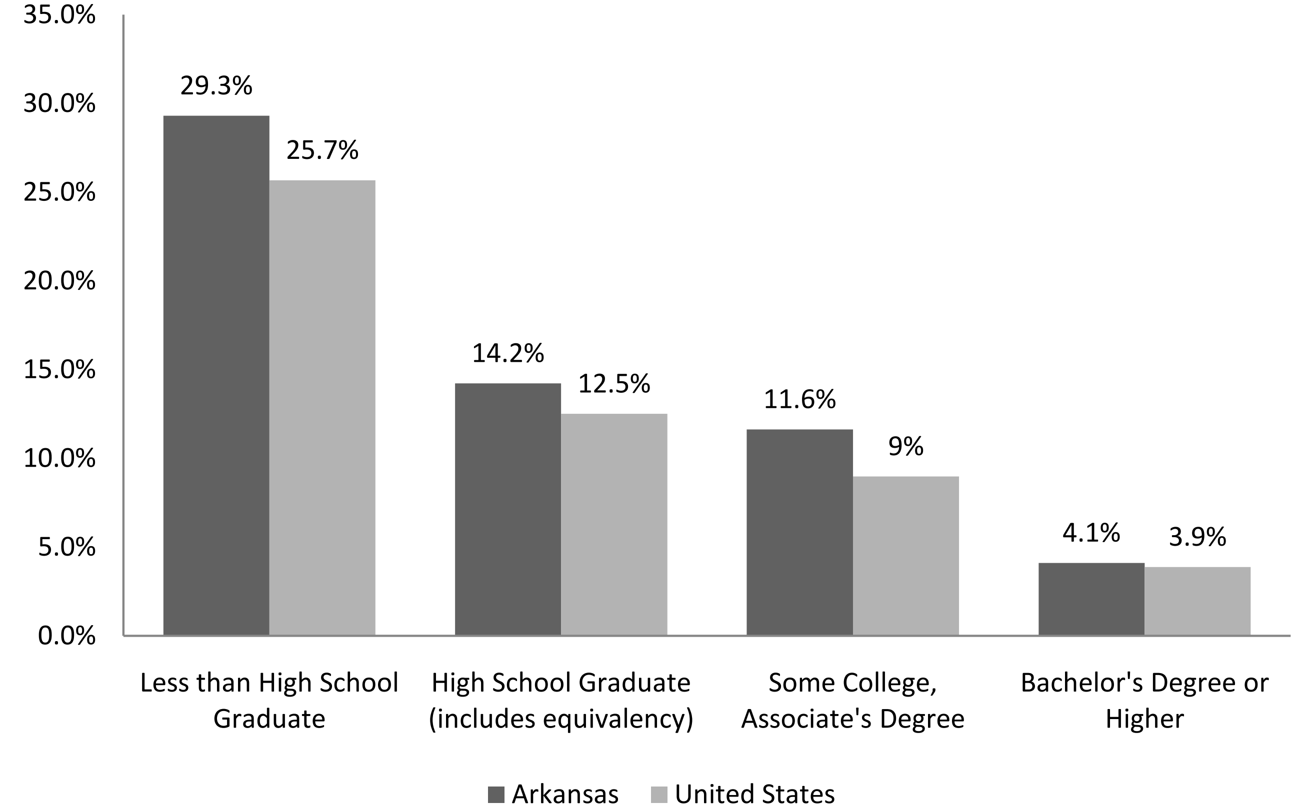



Source: U.S. Census Bureau, 2009 American Community Survey, Table B17001

There are clear differences in poverty rates among Arkansans by levels of educational attainment. Nearly 30 percent of adult Arkansans with less than a high school degree lived in poverty in 2009, compared with about 4 percent of those with a college degree or more. Even with the recent recession, it is clear that workers with higher skill levels (as measured by level of education) are more likely to be employed and in better paying jobs than those with lower skill levels. See the chart on top of the next page.

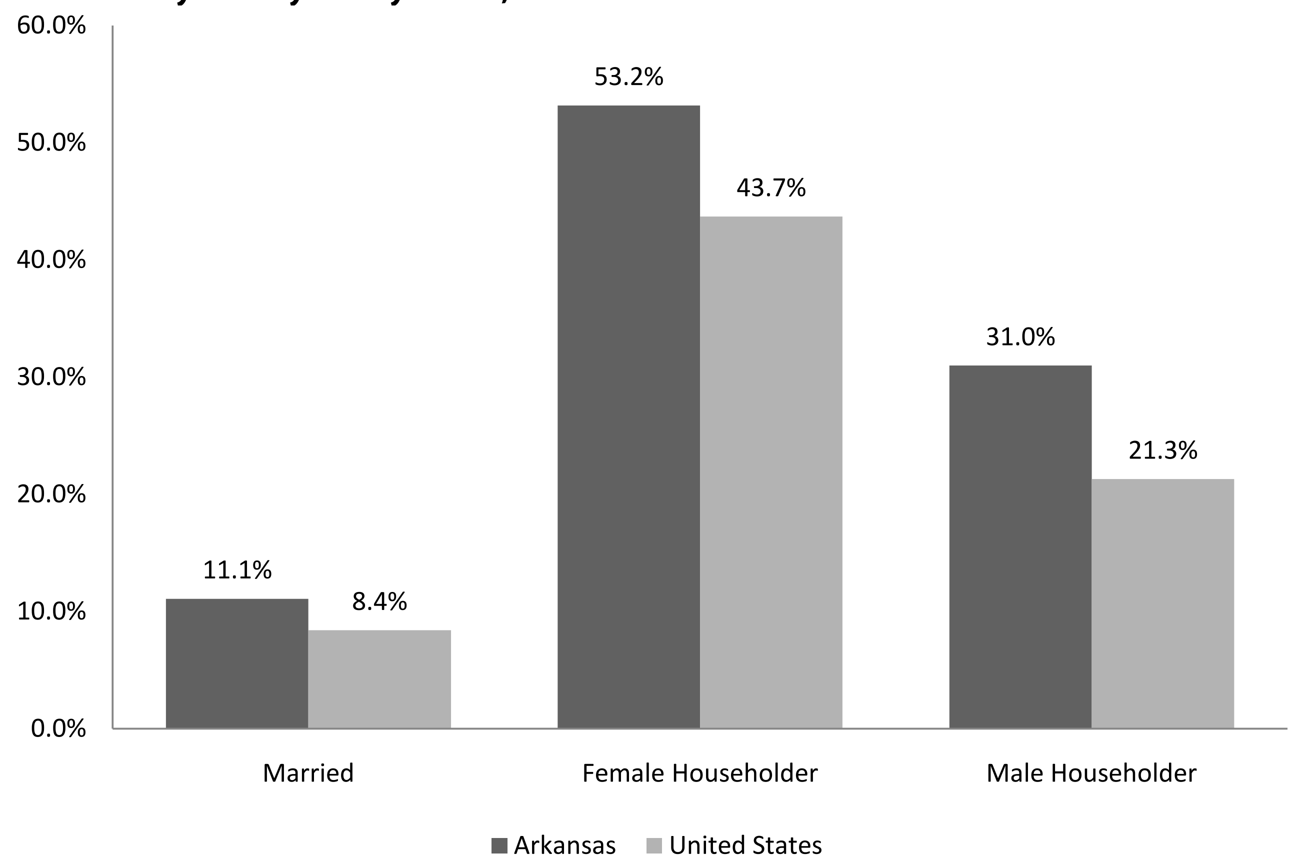
Poverty also disproportionately impacts children in single-parent households, both in terms of absolute numbers and the rate of poverty. Well over half (55 percent) of all children in female-headed households, or 112,441 children, live in poverty. In contrast, 14-percent of children in married couple households, or 63,095 children, live in poverty. This is not surprising given that single-parent households typically have one income to support the household, compared to married-couple households which often have 2 incomes to support the family. See the chart on the bottom of the next page.

**Poverty Rate by Educational Attainment**




Source: U.S. Census Bureau, 2009 American Community Survey, Table B17003

**Child Poverty Rate by Family Status, 2009**




Source: U.S. Census Bureau, American Community Survey, 2009, Table B17006

## Definition of Poverty

At its most basic level, poverty is the level of income a family needs to meet basic needs. The federal government, which is responsible for developing official estimates of poverty, defines poverty in two ways. One is the poverty threshold. Originally developed in 1963, it is updated every year by the U.S. Census Bureau using the Consumer Price Index. This measure was based on the cost of a minimum diet for a family of four. In 2010 the poverty threshold for a family of four with two children was $21,756, while the threshold for a family of three with one child was $17,268.[11] The thresholds are used to measure the number of people living in poverty each year.

The second poverty measure is the federal poverty guideline, which is calculated by the U.S. Department of Health and Human Services and is a simplified version of the federal poverty threshold. The poverty guidelines are used to determine financial eligibility for many federal programs. In 2010, the federal poverty guideline for a family of four was $22,050 and $18,310 for a family of three.[12]

## Causes of Poverty?

The causes of poverty are complex and have many dimensions. While a complete discussion of the causes of poverty is beyond the scope of this report, it's useful to list some of the most common explanations for poverty, including the following:[13]

**The Education and Skill Levels of Workers:** All other factors being equal, workers with higher education and skill levels have greater abilities to compete for higher paying jobs. States and communities with higher numbers of these workers generally have a greater ability to compete for these jobs. Low education and skill levels are the result of many factors, including the lack of early childhood systems that fail to promote the educational and healthy development of young children, policies that fail to adequately close educational achievement gaps for low-income and minority students, and inadequate public support for a strong two- and four-year university system that both gives students the opportunities to attend and graduate from college.

**Geographic Location:** Poverty rates are higher in some areas than others. Southern states typically have higher child poverty rates than other parts of the country. Poverty rates also differ within areas, as urban areas often have higher rates than suburban areas, and rural communities have higher poverty rates than urban communities.[14] Some areas are also more attractive to businesses that pay higher wages. There are many possible reasons for differences in how communities attract and compete for economic growth: quality of the workforce, quality of life considerations and public amenities, quality of public services, access to markets, the availability of capital for business investment, state tax policies that support the infrastructure and service needs of businesses, strong local leadership, accountable economic development policies, the level of civic engagement, etc.

**Lack of Economic and Job Supports:** Lack of adequate job supports and policies that promote the social and economic mobility for low-income families, including access to affordable child care, transportation, health insurance, affordable housing, the availability of mental health and substance abuse treatment services, and policies that allow families to develop and accumulate assets, such as individual development accounts.

**Family Structure:** Children in single-parent families are more likely to live in poverty because their families typically have only one income source and fewer financial resources to support other members of the family.[15] Children in single-parent families are also more than eight times as likely to grow up in "chronic" poverty, which has even deeper and longer-lasting effects on children. Two thirds of the children living in poverty live in single-parent households.

**Incarceration:** Families in high poverty areas—especially in urban areas—are more likely to be victims of crime. Also, children living in poverty are more likely to have a parent in prison who can no longer contribute to the family with earnings and time (a contributing factor to the number of single-parent households).[16] Juveniles and adults who spend time in prison are also more likely to be repeat offenders when they leave prison, and are less likely to find and maintain employment in jobs that pay wages above the poverty line when they exit prison. Certain segments of the population, such as black males, are disproportionately incarcerated.

## Benchmarks

| General Poverty Measures | Now | 5 Years | 10 Years | 20 Years |
|---|---|---|---|---|
| Percent of citizens in poverty | 19% | 14.3% | 9.5% | 4.8% |
| Percent of children in poverty | 27% | 19.7% | 13.5% | 6.8% |

## Overview of the Recommendations

The Taskforce's plan was to focus on problems that could be ameliorated with the greatest return on investment. With that outlook, benchmarks were established for each recommendation for five years, ten years and twenty years. This is also in accordance with the direction of Act 722 of 2009. The entire list of benchmarks can be found in the conclusion of the report. However, two benchmarks were designated as the overall focus of these efforts. They reflect the Taskforce's ambitious goal of reducing poverty by half in 10 years and half again in 20 years.

The Taskforce designated each recommendation as a short-term or long-term priority. Short-term priorities are those that should be adopted within the next one to three years, while long-term priorities are those that the state should begin working on immediately but that may take longer than three years to become adopted. The Taskforce is cognizant of the effects the recession has had on the state budget and has adjusted time frames and benchmarks accordingly.

The words "Promoting Economic Opportunity" in the Taskforce's name is an important element in these recommendations, not just an afterthought. The vision of promoting economic opportunity as the strategy for reducing poverty permeates the recommendations found in this report. Focus was given to reducing barriers to families seeking to move from being impoverished to being successful contributors to the state's economy. The benchmarks presented clearly indicate that the desired result is not to maintain people in poverty but to reduce and eventually eliminate poverty. The concerns were grouped into five broad areas for the purpose of developing recommendations:

- Education barriers to jobs and improving the state's income levels.
- Health barriers to individual financial stability and employability.
- Community and economic development barriers to creating jobs in areas with high poverty.
- Individual employment supports such as affordable, quality child care enabling families to work.
- Tax relief for the poorest citizens is needed to make work pay.

Two other broad-based recommendations are also proposed. The state should explore the development of a **common client database**, a system improvement to the efficient and effective provision of both governmental and non-governmental organizational services. It eliminates repeated efforts by clients to establish eligibility and reduces duplications of services by the agencies. This strategy is under consideration in some states, such as Wisconsin. Currently Arkansas is considering a similar type of database as part of its efforts to complete federal requirements for the development of a health information exchange and a health benefits exchange. The degree to which other services can be connected to this system should be explored. The Taskforce recommends the inclusion of a broader array of service tracking be supported as a part of the health information exchange.

Finally, the recommendations made by this taskforce need to be part of an on-going effort to monitor accomplishments, make adjustments to plans when needed, assess new situations that need response, and evaluate research suggesting new solutions to existing problems. As a result, the Taskforce recommends that a **permanent advisory council for poverty reduction and economic opportunity** be formed. The Taskforce cannot emphasize strongly enough that reducing poverty must be an economic imperative for the state, if we are to make major strides in our ability to compete in the global economy and meet the needs of our citizens.

## ECONOMIC AND COMMUNITY DEVELOPMENT

### Background

For Arkansans to move from poverty to prosperity, they must have jobs. In a Rural News article, Cornelia Flora, a rural development regional director, pointed out that in the past poverty was viewed as an individual problem of people who were unwilling to enter the labor force. Now, however, researchers understand that with more people out of jobs and lower wages for people who have them, poverty is unavoidable for many Americans.[17]

Even before the recession, Arkansas trailed other states in creating economic opportunities for its citizens. The Corporation for Enterprise Development (CFED), a national non-profit that ranks states and the District of Columbia on financial success, gave Arkansas an "F" on its 2007-2008 Assets & Opportunity Scorecard.[18] Some of Arkansas's most glaring weaknesses, according to the report, were in business ownership. Arkansas ranked 47th in business ownership by women, 47th in business ownership by African Americans, and 47th in business ownership by Hispanics.

The state's current leaders, however, have made economic development a top priority. The Arkansas Economic Development Commission's (AEDC) 2009 strategic plan noted that Governor Beebe established a goal to expand entrepreneurship, focusing on knowledge-based enterprises. He has also asked AEDC to ensure that economic development meets the special needs and takes advantage of the extraordinary assets of various areas of the state.

While a complete analysis of the wide range of the state's economic development programs is beyond the scope of this report, the Taskforce noted three broad types of programs: community development, access to capital, and tax incentives.

Community Development

The federally funded Community Development Block Grant is administered by the Department of Economic Development. Arkansas has received some supplemental funding from 2009 American Recovery and Reinvestment Act (ARRA) funds for this program.

A recent federal program is the New Markets Credit Program (a tax incentive program). The Heartland Renaissance Fund, an affiliate of the Arkansas Capital Development Group, is a Certified Community Development Entity and has received three allocations (in 2004, 2008, and 2009) totaling $140 million dollars for use in Arkansas.

Access to Capital

There are numerous funds and programs related to capital access administered by the Arkansas Economic Development Department, Arkansas Development Finance Authority (ADFA), Arkansas Science and Technology Authority and the Arkansas Capital Corporation Group. A partial list of these programs includes:

- Arkansas Venture Capital Investment Program (ADFA)
- Arkansas Risk Capital Matching Fund (ADFA)
- Beginning Farmer Loan Program (ADFA)
- Capital Access Program (ADFA)
- Disadvantaged Business Enterprise Program (ADFA)
- Industrial Development Bond Guaranty Program (ADFA)
- Port Facilities Revolving Loan Program (ADFA)
- Recovery Zone Bond Authority (ADFA)
- Speculative Building Loan Program (ADFA)
- Tourism Development Loan Program (ADFA)
- Waste Water Revolving Loan Fund (ADFA)
- Seed Capital Investment (Science and Technology Authority)
- Small Business Loan Program (Economic Dev.)
- SBA 7a, 504, Express Loans (Arkansas Capital Corporation Group)
- The federal Small Business Jobs and Credit Act of 2010 includes programs directly relevant to small business capital access. Programs include a Small Business Lending Fund, a State Small Business Credit Initiative for states with a Capital Access Program and a Small Business Early-Stage Investment Program.

Tax Incentives

The bulk of state resources for economic development are in the form of tax incentives. Between 2004 and 2008, the state spent an average of $66 million per year. The following is a list of selected incentive programs:

- Governor's Quick Action Closing Fund
- Targeted Business Incentives
- Investment and Job Creation Incentives, including sales and use tax refunds or credits and income tax credits

- Research and Development Incentives
- Nonprofit Incentives
- Tourism Development Incentives
- Customized Training through the Existing Workforce Training Program
- Child Care Facility Tax Credit
- Recycling Equipment Tax Credit
- Public Road Improvement Credit

Other Assistance
AEDC has a Small and Minority Business program that primarily focuses on assistance with state procurement.

**Best Practices**
The Taskforce identified programs both in Arkansas and in other states that should provide models for development or expansion within the state.

Community/Rural Development Programs
A nearby example of an innovative community development program is the business incubator based in Helena-West Helena. The incubator is the result of a partnership between the local Chamber of Commerce, the Phillips County Community College of the University of Arkansas, Southern Bancorp and Thrive, a local non-profit that works to create jobs and economic opportunity by providing design resources, identifying solutions to problems, creating new products, and training youth.[19] In addition to their efforts with the business incubator, Thrive has provided technical creative expertise in the process of implementing the new Helena brand, or advertising logo.

Southern Bancorp, one of the partners in the Helena business incubator, is a bank with rural development status. That allows the bank's dividends to go toward community development through its non-profit side. Helena-West Helena has been able to do many things with Southern Bancorp's help including: teacher recruitment and retention, parental involvement, a biodiesel facility, sweet potato farming, a $3 million revolving loan for the downtown area, a small business incubator for entrepreneurs to learn about marketing and what they need to do for their business to succeed, a broadband internet assessment, a farmer's market at the Court Square Pavilion every Friday, a new library, and the development of Civil War tourism.[20]

Support for Small Business Development Organizations
In 2004, Tennessee created the Small and Minority-Owned Business Assistance program within the state's Treasury Department. The purpose of the program is to support outreach to new, expanding, and existing businesses that do not have reasonable access to capital markets and traditional commercial lending facilities. The program consists of two components – loans and program services.

Loans can be used for acquisition of machinery and equipment, working capital, supplies and materials, and inventory. The maximum loan amount is $125,000. Interest rates range from two percent below the "Prime Rate" as published in the Wall Street Journal to two percent above the "Prime Rate" and may be fixed or variable.

Program services include technical assistance, education, and consulting services to qualifying businesses that may or may not be making applications for loans under the program. Services include financial counseling, assistance with the packaging of loan proposals, developing strategies for improved cash flow management, implementing internal financial management systems, strategic planning, conducting training workshops and seminars, and certifying businesses with the Governor's Office of Diversity Business Enterprise and identifying procurement opportunities with state, federal, and local governments.[21]

Low-Profit Limited Liability Corporations
Low-profit, limited liability corporations (L3Cs) have been created in several states around the country as a way to encourage more program-related investments (PRIs) by foundations. PRIs are IRS-sanctioned investments made by foundations, often into for-profit business ventures, to support charitable activities. PRIs may involve the potential return of capital within an established period of time. Foundations may buy ownership shares of, make loans to, or otherwise financially interact with the L3C, using all or part of that portion of its assets, which would normally be given out annually as grants.[22]

L3Cs allow layering of investments such that the foundation usually takes first risk position, thereby taking much of the risk out of the venture for other investors.

To date, five states and two Native American tribes have enacted some form of L3C legislation. Vermont took the lead, signing L3C legislation into law in April 2008.

Michigan, Wyoming, Utah, Illinois, the Crow Tribe in Montana, and the Oglala Sioux Tribe on the Pine Ridge reservation in South Dakota followed suit in 2009.[23]

North Carolina passed L3C legislation in 2010.[24] In that state, supporters of the legislation hope the measure will help revive the flagging furniture industry and provide much-needed jobs. Many of the furniture manufacturers in the state have moved production overseas, leaving behind struggling communities. Parties in North Carolina are exploring the development of an L3C capitalized by foundations and for-profit investors that would buy the closed manufacturing plants, rehabilitate and re-equip them, and then rent them at low rates to local, start-up furniture manufacturers. The proposed L3C would provide up-and-coming furniture companies in North Carolina with affordable access to manufacturing capacity.[25]

## Gaps and Barriers

Much of the emphasis of state economic development policy continues to focus on getting the big plant to locate in Arkansas. This policy ignores the fact that small businesses drive the state's economy. About 97 percent of the state's employers are small businesses, and nearly half of all private sector jobs are in small businesses. And over the past 10 years, 64 percent of all new jobs in Arkansas were created by businesses with one to four employees.

Because many of these entrepreneurs often lack the collateral needed to attract working capital from traditional banks, they are unable to expand and grow, making it more difficult to have a real impact on their community through job growth and development. And with the current national financial crisis, what lending opportunities were available have become practically nonexistent.

Most small businesses are not aware of AEDC's Small and Minority Business Office and Small Business Loan program, or ADFA's Capital Access program. And the Capital Access program is underused by financial institutions, with only five participating banks.

<u>Tax Incentives</u>

The majority of jobs created as a result of tax incentives go to the wealthiest counties. Some tax incentives are enhanced if the business is located in poorer parts of the state. For the investment and job creation incentives, the state is divided into four tiers where counties are ranked based on poverty rate, population growth, per capita income, and unemployment rate.[26] The table below is based on the tiers for the year August 1, 2009, through July 31, 2010, and the tax incentive deals that were made in 2008.

Almost half of the deals supported businesses that were located in the wealthiest tier of counties, and almost two-thirds of the jobs created were located in those counties. The other three tiers saw a similar number of deals, with the poorest tier gaining almost a quarter of the jobs created.

While the investment and job creation incentives do allow for smaller investments in lower-income counties ($2 million and minimum payroll of $800,000) compared to what is required in higher-income counties ($5 million investment and $2 million in payroll), such levels may still be too high for low-income, rural communities.

**2008 Tax Incentive Deals Broken Down by Tier**

| Tier | Total Deals | Percentage of Deals | Total Jobs | Percentage of Jobs |
|---|---|---|---|---|
| 1 (wealthiest) | 46 | 48% | 4409 | 63% |
| 2 | 16 | 17% | 451 | 6% |
| 3 | 15 | 16% | 433 | 6% |
| 4 (poorest) | 18 | 19% | 1700 | 24% |
| **Total** | **95** | **100%** | **6993** | **100%** |

Source: Arkansas Economic Development Commission

Infrastructure

While tax incentives can make the final difference in a company's decision to locate in a particular area, most businesses would acknowledge that there are certain pre-requisites for locating in a community. These include a trained workforce, basic infrastructure, and a good quality of life. The lack of these amenities is probably one of the reasons that the poorest counties benefit from the fewest tax incentive deals, as described above. Many of these communities lack basic infrastructure and quality of life amenities such as grocery stores, gas stations, dry cleaners, and doctors' offices.

## RECOMMENDATIONS

1. **Alter Tax Incentive Programs to Better Meet the Needs of Low-Income Communities:** The state's tax incentive programs disproportionately benefit the highest-income counties. The lowest-income counties, which need jobs the most, benefit the least. Current tax incentives could be amended to make room for smaller investments and for investments in basic quality-of-life businesses such as grocery stores, doctors' offices, and other everyday needs. **Short Term**

2. **Enact L3C Legislation in Arkansas:** Such legislation would cost the state relatively little—just the expense for the Secretary of State's office to develop the regulations and paperwork for entities to apply for the designation. The new law would provide an incentive for foundations to invest in social enterprises, which may be good options for business development in lower-income parts of the state. **Short Term**

3. **Invest More in Programs for Developing Small Businesses:** Arkansas should expand efforts to provide assistance to rural and minority-owned businesses that would provide both working capital loans of up to $50,000 and technical assistance to rural and minority small business entrepreneurs. The state should contract with an organization or network of organizations accessible to local businesses to provide the services around the state. **Short Term**

4. **Facilitate Markets for Locally Produced Goods and Services** (e.g., niche markets; matching local entrepreneurs with new markets): The rise in consumer interest in local foods has been accompanied by increased participation of state departments of agriculture in promoting locally grown foods. While "state grown" promotion programs have been in place since the 1930s, the number of states conducting such programs went up from 23 to 43 between 1995 and 2006 (Patterson, 2006). A large portion of this increase resulted from the Community Food Security Act, which generated $22 million of support for 166 local food system initiatives from 1996 to 2003.[27] **Long Term**

In the implementation of the recommendations listed above, efforts should be made to 1) target business sectors with broad impact and additional social benefits (e.g., grocery stores, doctors' offices, green jobs), and 2) assist local communities in planning and development (e.g., land use and traffic plans to address curb appeal and quality-of-life amenities that attract and retain a workforce and economic activity).

# EDUCATION AND WORKFORCE DEVELOPMENT

## Background

There is a strong link between poverty and educational attainment. As noted earlier in this report, the poverty rate for people over age 25 with less than a high school degree is nearly 30 percent, compared to a poverty rate of only 4 percent for those with a college degree or higher. A person's level of education attainment clearly matters in his or her ability to find and maintain employment in jobs paying wages above the poverty line. K-12 education in the post-Lake View era has made major progress in some areas. According to the 2009 Report Card on Arkansas Public Schools, published by the Office for Education Policy at the University of Arkansas, more Arkansas students are scoring at proficient and above on the state assessments (the Benchmark and end-of-course exams) each year.[28] More Arkansas students are taking advanced placement courses than ever before (although the passage rate has declined with the increase in the number of test takers).[29]

The bad news is that Arkansas students continue to trail the national average on most National Assessment of Educational Progress (NAEP) test scores.[30] Perhaps more disturbing are the large gaps in educational achievement that still remain between minority and non-minority students and between poverty and non-poverty students. At best, there have been only marginal decreases in these gaps over the past decade.[31] Given the strong relationship between poverty, educational attainment, and minority status, this does not bode well for minority students who are disproportionately impacted by poverty.

The news on college is mixed. Arkansas's students score below the national average on the ACT.[32] And while Arkansas's high school graduation rates are higher than those of the nation and surrounding states, our students graduate college at a lower rate than the national average.[33]

The Taskforce focused on the following major issues as part of its recommendations on education: quality early childhood education; K-12 extended learning programs; NSLA (poverty) school funding on strategies proven to close the achievement gap; career and college counseling; remedial and developmental education; and college retention and graduation.

<u>Quality Early Childhood Education</u>

Quality early childhood education is a proven strategy for improving outcomes for all children, especially for low-income and at-risk children. Quality pre-k has been shown to have a wide range of important benefits for children, including but not limited to: improving children's language, reading, and math skills; improving children's ability to follow directions and interact with their peers; better preparing students for kindergarten which enables their teachers to be more effective and the class to learn more quickly; reducing costly grade retention and the need for special education services; and improving high school graduation rates.

Arkansas had made major strides in expanding access to quality pre-school. Arkansas's state funded pre-k program, the Arkansas Better Chance Program (ABC), is one of the best pre-k programs in the country, according to the National Institute on Early Education Research's annual report on pre-k, The State of Preschool 2009.[34] ABC is actually two programs. The original Arkansas Better Chance Program, created nearly 20 years ago, is funded at $10 million annually and serves children ages birth to 5 meeting one or more risk factors. The Arkansas Better Chance for School Success Program, created under Act 1332 of 2003, is funded at $100 million annually and targets 3- and 4-year-old children in families below 200 percent of the poverty line. Priority is given to those children in school districts in academic distress or in which at least 75 percent of children perform below proficient on state benchmark tests.

Together, the state-funded Arkansas Better Chance Program and the federally funded Head Start program serve about 65 percent of the nearly 48,000 3- and 4-year-old children below 200 percent of the poverty line and about 35 percent of the state's 89,000 3- and 4-year-old children.[35] More 4-year-olds are participating in ABC or Head Start than 3-year-olds, with about 84 percent of 4- year-olds below 200 percent of poverty in ABC or Head Start, compared to only 45 percent of 3-year-olds.[36] ABC serves fewer than 200 infants and toddlers statewide, while Early Head Start serves fewer than 1,500 children.

<u>Out of School/Extended Learning Programs</u>

Quality after-school and summer programs, also known as out-of-school or extended learning programs, have a wide range of educational goals and proven outcomes that close the education achievement gap for low-income and minority students. A quality before- or after-school or summer program could include access to a variety of stimulating activities like art and music, the outdoors, physical activities, mentally challenging games and learning opportunities, and interactions with a variety of people and places. These experiences allow inspired learning to take place, enhance social skills, and help students overcome new challenges to take advantage of the many possibilities awaiting them in life. Students who have attended these types of programs had higher rates of daily attendance and credit accumulation, homework completion, reduction in discipline problems, higher student aspirations toward finishing school and going to college and significant gains in standardized test scores and work habits for low-income, ethnically-diverse elementary and middle school students.

Recent surveys conducted in Arkansas by the Wallace Foundation and JC Penny Afterschool Fund provides a good estimate of the supply and demand for afterschool and summer programs. The survey found that only 12 percent (59,837) of Arkansas' K-12 youth participate in afterschool programs. It also found that 44 percent (187,722) of all Arkansas children not in after-school would be likely to participate if an after-school program were available in the community, regardless of their current care arrangement.[37] Another survey determined that only 17 percent of children (82,701) in Arkansas participate in a summer learning program. Yet 58 percent of parents (with 233,509 children) are interested in enrolling their children in such programs.[38] This indicates that there are not enough of these programs. Additional funding would be needed to expand program offerings.

One possible source of funding for extended learning programs (and for other achievement gap reduction strategies such as quality pre-k or the coordinated school health program) is National School Lunch Act (poverty) funding, a categorical fund for K-12 public schools. Each year, school districts receive extra funding based on the proportion of low-income students (students who qualify for support under the National School Lunch Act program). This funding is supposed to be spent on programming to improve the educational achievement of those students, including early childhood education, after-school, and summer school. Schools may also spend the money to employ additional teachers, curriculum specialists, tutors, aides, and other support staff. The state currently distributes about $160 million annually in NSLA funding to schools, in addition to what schools receive as part of the much larger K-12 school funding formula.

<u>Career and College Counseling</u>

The Career Coaches initiative under the Arkansas Works program was recently created by Governor Beebe. The initiative is aimed at improving the career and college counseling available to middle and high school students in high poverty counties. Career coaches are stationed on community college campuses but work with middle and high school administrators to help students understand and make informed choices about careers and college.

The Aspiring Scholars Matching Grant program was established to encourage and support lower-income parents to save for the expenses associated with sending their children to college. The program matches at various rates the savings parents are able to put into a savings account with the GIFT Plan, which is Arkansas's 529 college savings plan program. The match provided by the state is up to $500 per year for five years—a total of $2,500.[39] Aspiring Scholars grants can be used for children as young as newborns, but fit well with the target population for the Career Coaches initiative. If children enroll in the eighth grade, the first year the Career Coaches initiative works with students, they can draw down all five years of Aspiring Scholars Matching Grant awards before they enter college at age 18. Having a savings account for college will provide one more tangible indicator for students that college is possible, and it offers a hands-on tool for students to better understand the costs of college and how to plan to cover those costs. Additionally, research is emerging that indicates college savings not only significantly impacts college-going rates but college-completion rates as well. For these reasons, Aspiring Scholars is an excellent complementary program to the Career Coaches initiative.

<u>Remediation/Developmental Education</u>

Remediation rates at two-year and four-year higher education institutions are high. In 2008, at four-year institutions, first-time entering freshmen had an average remediation rate of 39.1 percent, ranging from a low of 11.3 percent to a high of 93.1 percent at individual institutions. At two-year institutions, first-time entering freshmen had an average remediation rate of 74.2 percent, ranging from a low of 58.6 percent to a high of 91.5 percent at individual institutions. Overall, in 2008, first-time entering freshmen at public institutions had an average remediation rate of 51.3 percent.[40]

Act 971 is the most recent action taken by Arkansas in reaction to the high remediation rates. Passed by the 2009 Arkansas General Assembly, it requires the state to establish common exit standards for all developmental education courses at public colleges and universities. The act stipulates that the state must work with public institutions to develop standards that are comparable to the equivalent ACT or SAT score indicating college readiness in English composition, reading, and mathematics by the fall semester of 2010. Act 971 is a critical step in Arkansas's student success policy agenda. It builds on previous legislation requiring that students be assessed for college readiness using a common test and placed in developmental education courses should they fail to meet a common statewide cut score indicating academic proficiency (a 19 on the ACT). Act 971 also requires the state to collaborate with two- and four-year institutions to develop alternative methods of delivering developmental education and to provide professional opportunities so that faculty can improve their pedagogical skills.

<u>College Retention and Graduation.</u>
While students are entering two-year and four-year higher education institutions, there is evidence that many of those students are not completing degrees. In 2009 the average six-year graduation rate was only 45.7 percent at four-year higher education institutions. For two-year public institutions the average three-year graduation rate was 22.4 percent.[41] The state's most recent action to improve these rates was to change the funding formula for colleges to 90 percent of any new funding to be based on enrollment and 10 percent based on course completion.

## Gaps and Barriers

<u>Quality Early Childhood Education</u>
Arkansas is currently serving less than half of 3-year-olds eligible for the ABC program. Anecdotal reports also suggest there may be a problem with access in some isolated, rural areas that may not meet minimum requirements of 20 children for a classroom or center-based ABC program. Access to quality ABC's early childhood education for infants and toddlers is limited. ABC serves fewer than 200 infants and toddlers statewide, while Early Head Start serves fewer than 1,500 children. These unmet needs are due to lack of funding. There is simply not enough funding to serve all eligible 3- and 4-year-old children, much less children above 200 percent of poverty who would benefit from ABC, or infants and toddlers. The lack of parent education and parental involvement in their child's preschool education is often cited as a barrier to improving the quality of early childhood education.

<u>Out of School/Extended Learning Programs</u>
Funding remains a major challenge for before and after-school and summer programs, yet every year many school districts carry over NSLA funding and fail to spend thousands of dollars on programs that are proven to improve achievement for low-income students. Currently districts statewide are spending only 10 percent of their NSLA categorical funding for tutoring, summer, and extended day educational programs.[42]

Other districts shift a portion of their NSLA funds to other "categorical fund" programs, such as the English Language Learner (ELL) or Alternative Learning Environment (ALE) programs without prior approval by the Arkansas Department of Education. School districts should be required to spend the majority of their NSLA funding each year on programs proven to close the achievement, including: early childhood education, before- and after-school and summer school, in-school health programs, reduced class sizes, improved teacher development, increased parent involvement, and replicating successful programs in other public or charter schools (e.g., KIPP schools).

<u>Career and College Counseling</u>
Existing high school guidance counselors are too overwhelmed by the sheer number of students they have to serve to provide intensive career and college guidance to all students. Students clearly on a path to college are often the ones that get the most guidance in pursuing that goal.

<u>Remediation/Developmental Education</u>
There are currently large gaps in the developmental education system in Arkansas. The Arkansas Department of Higher Education (ADHE) reports that in fall 2009, more than half (54.6 percent) of all students attending two-year or four-year institutions in the state required remediation in at least one subject. When universities are removed from that statistic, more than three quarters (75.8 percent) of Arkansas college students required remediation. Arkansas's developmental education system needs to be restructured.[43] Arkansas can look to other states for models the state can use to improve remediation outcomes.

In order to make progress in reducing remediation rates and increasing academic performance, Arkansas needs to overcome barriers such as: poor student preparation, inflexible developmental education programs, inconsistency in developmental education requirements, lack of funding for developmental education programs, and lack of coordination between secondary and postsecondary systems in remediation for college preparedness.

College Retention and Graduation

While Arkansas has had improved success with getting students to attend institutions of higher education, the state still lags far behind when it comes to degree completion. In Arkansas, only 26 percent of adults aged 25-34 have a college degree, costing the state an estimated $1.6 million lost in state and local tax revenues.[44] In order to make significant progress in retention and graduation rates, Arkansas needs to overcome barriers such as: perpetuating a funding formula model based on opening enrollment versus course and degree completion, inconsistent credit transfer practices between two-year and four-year institutions, and lack of degree programs for non-traditional students, including online and accelerated options.

## Best Practices

Quality Early Childhood Education

Arkansas's ABC program is considered a model program by the National Institute on Early Education Research (NIEER). The state has developed a similar quality model serving infants and toddlers, but because so few children are served by that program, it may need additional review and development before any major expansion is implemented.

Career and College Counseling

The state of Virginia has an effective statewide career and college counseling program. Additionally, a new national pilot initiative is aimed at creating powerful synergies between college readiness counseling and college savings accounts. The initiative, called The Partnership for College Completion, will link college readiness counseling with college savings accounts. The partnering organizations include: Knowledge is Power (KIPP), CFED, United Negro College Fund, and Urban Education Institute's 6 to16 Initiative.

Remediation and Developmental Education

The taskforce identified a number of model programs that could improve remediation, including:

- **Tennessee Developmental Studies Redesign** is a program that has a variety of approaches to allow for personalized remediation based on focused diagnostics and a concentrated plan of attack to meet student needs to lead to success. One approach includes allowing students in Career and Technical Education Programs to take only those modules needed to meet their career goals and needs. Another approach is the use of technology labs offering online courses that allow students to move at their own pace to complete curriculum modules. This approach resulted in increases in student course completion, retention, and attainment of a postsecondary credentials. By making use of the technology labs with on-site instructional specialists/tutors, the postsecondary institutions reduced their costs related to paying adjunct instructors to teach remedial classes. Tennessee's remediation system is reaping positive results. After seeing dramatic improvement at a number of community colleges in the state, the Tennessee Board of Regents made the decision to expand its redesigns for developmental courses. By 2013 all community colleges in Tennessee will be required to have in place programs that integrate technology and focus on helping students master the subjects at their own pace.[45]

- **Getting Past Go,** sponsored by the Education Commission of the States (ECS), in collaboration with the Project on Education Policy, Access and Remedial Education (PREPARE), seeks to leverage developmental education at postsecondary institutions as a critical component of state efforts to increase college attainment rates. The national initiative will help education policy leaders align state and system policy to increase the college success of the large percentage of students enrolled in postsecondary education who require remedial and developmental education. To be recognized as a viable component of state strategies to increase college attainment, developmental studies programs must be able to address a variety of challenges: an increasingly diverse population of students to include adults, low-skilled workers and low-income students; an over-representation of students of color, particularly African American and Latino students; an increasing number of students who complete their developmental studies courses, immediately enroll in college-level coursework, and persist to a degree or credential; state P-20 efforts that often view developmental studies programs as a symptom of system failure and not an integral strategy for increasing college attainment; and completing all of the above in a more cost-effective manner.[46]

- **Fast Track Developmental Education Program** is a curriculum innovation that is part of Career Pathways. This curriculum targets students interested in various one-year and two-year allied health certificate and degree programs who need significant remedial or developmental education instruction before qualifying to enter these advanced college credit programs. The curriculum is intense and intended to take students from a ninth-grade Test of Adult Basic Education (TABE) level to college ready, meaning ready to enter advanced college credit programs, in one semester. This amount of remedial instruction usually takes two semesters. The curriculum, which covers reading, writing, and math, is contextualized to allied health careers. Fast Track completion rates are 95 percent, compared with 50 percent to 60 percent for traditional developmental education.[47]

- **Summer Incentive Program (SIP)** is a program at the University of Arkansas at Monticello (UAM). A student who must take the remedial courses Introduction to Algebra or Intermediate Algebra can enroll in a section of the course dedicated to first-timers (not repeaters) in the second summer session. UAM provides textbooks for each student. The student must pay tuition and fees for the course; however, if the student is successful (grade of C or better in the course), enrolls in the fall semester at UAM, and maintains a 2.00 GPA for the fall semester, his/her tuition for that SIP course will be credited to his/her account in the spring semester.[48]

- **The Arkadelphia School District and Henderson State University (Educational Renewal Zone Office)** opened the original Arkadelphia College Preparatory Academy in 2009 for 39 ninth graders who want to go to college but will not be ready as indicated by their pre-ACT test scores, EXPLORE and PLAN. The Academy is a program designed to provide early academic intervention. The partners in the venture include Arkadelphia High School, Henderson University, the Southwest Arkansas Education Renewal Zone, Southern Bancorp, and the Ross Foundation. Before entering high school, Arkadelphia eighth graders took the EXPLORE test to determine whether or not they are college bound. The EXPLORE is a test similar to the ACT, given to assess students' skills in English, math, and reading. Of the 140 students who took the exams, 78 indicated they intended to attend a four-year university, but 31 of those did not meet target scores in the three fields on which they were tested. The Academy has four modules: math, English, reading, and study skills/career exploration. Each class is co-taught by a licensed or public school teacher and a university professor. In order to be accepted, there are signed statements of commitment from the student, a parent, and the Academy. Students in the Academy are also required to be on time and wear uniforms. Each student is given a handbook, which outlines rules on attendance, tardiness, unacceptable behavior, dress, and identification. Each student is fed lunch and has incentives, such as access to university plays, movies, athletic events, lectures, and other resources on Henderson's campus.[49]

<u>College Retention and Graduation</u>

There are positive models of how to improve graduation and retention rates in the state already. For example, Achieving the Dream: Community Colleges Count is a national initiative that is working with community colleges in the state, including Pulaski Technical College, National Park Community College, Ouachita Technical College, and Phillips Community College, to improve the retention and graduation rates of students by promoting data-driven decision-making and developing student success programs.

In addition, the Career Pathways model uses intrusive student support services to improve student success. Data shows that this model has yielded a student retention rate of 88 percent.[50]

## RECOMMENDATIONS

1. **Arkansas must expand access to quality early childhood education for children from birth to 5 years, especially for at-risk children. Short Term.** The taskforce recommends an increase of $60 million to $100 million in total annual funding. Below are proposed specific, tangible actions that the Governor and/or the Legislature should take to carry forward this recommendation.
   - Expand access to quality pre-school education for all 3- and 4-year olds.
   - Arkansas Better Chance Program (ABC), the

state funded pre-k program, should be expanded from 200 percent to 300 percent of the federal poverty line.
- Funding for the ABC program should be expanded or new models developed to increase access to rural and underserved geographic areas.
- Expand access to quality early childhood education programs for infants and toddlers up to age 3, especially at-risk children in low-income families.
- Expand funding for the original ABC program to serve infants and toddlers already eligible under that program.
- Expand access to Early Head Start using state funds.
- Allocate state funding to subsidize the voucher reimbursement rate for infant and toddler programs that meet the high quality, level III standards of the Better Beginnings program (Better Beginnings is the state's new Quality Ratings Improvement System (QRIS) for child care).
- Increase parent education and involvement in their children's education.
- Expand funding under the ABC program to allow ABC centers/classrooms to partner with the home visiting programs, such as HIPPY to provide parental education and involvement.
- Provide state funding to support the consumer education of the Better Beginnings effort.

2. **Arkansas should expand access to quality before- and after-school programs, summer programs, and programs for targeted populations by better use of National School Lunch Act (NSLA) funding and other sources. Short Term.** The estimated cost of this recommendation is $10 million for start-up of additional programs. It will also require expanded use of NSLA and restructuring of categorical funding under the NSLA. Below are proposed specific, tangible actions that the Governor and/or the Legislature may take to carry forward this recommendation.
   - Expand access to quality before- and after-school programs.
   - Expand access to summer programs, especially those that are educationally focused.
   - Increase the use of the federal summer lunch program for students in areas where 70 percent or more of the student population qualifies.
   - Require a minimum percentage of the state NSLA categorical funding to be used for remediation programs in schools/districts with a history of two or more years in School Improvement for a sub-population other than special education.
   - For districts in the second year or beyond of school improvement, require a minimum investment in these educational programs.
   - Require districts to increase the amount by 10 percent each year over the prior year's expenditures for tutoring, summer, and extended day educational programs.
   - Reduce the amount of "poverty" funding that school districts can carry over year to year or transfer to another categorical funding program.

3. **Arkansas should expand the Career Coaches (Arkansas Works!) program to every county in the state, and increase funding for the Aspiring Scholars Matching Grant Program. Short Term.** The estimated cost is $16.7 million for expanding Career Coaches. A $5 million increase in funding for Aspiring Scholars would enable significant expansion of the program. Predicting cost, however, is difficult because it depends on how many families enroll in Aspiring Scholars which requires financial contributions (savings deposits) made on behalf of families. If every eligible child in every county of the state enrolled, the cost could approach $75 million. However, the program is designed to allocate existing funding on a first-come, first-served basis intentionally to control costs. A $5 million increase in funding could be allocated in this same manner, which would cap costs at $5 million while providing time to better estimate the longer-term demand for the program.

4. **Arkansas must restructure the Arkansas developmental education system to improve student success. Short Term.** The cost of this recommendation is between $4 million and $16 million for a pilot project. Below are proposed specific, tangible actions that the Governor and/or the Legislature may take to carry forward this recommendation.
   - Create an efficient and effective developmental education system.
     - › Develop and fund a large-scale demonstration project to test new approaches to delivering developmental education. In particular, test streamlined developmental education approaches where students have flexibility in

remediation—being remediated in relation to their specific skill needs and pace rather than being required to retake entire courses in semester format. Consider the Tennessee system as a potential model.
- › Encourage institutions of higher education to use creative programs and/or incentives to assist students with getting developmental education credits without exhausting financial aid funds. Consider the Summer Incentive Program (SIP) as a potential model.

- Create mechanisms to allow students to obtain the skills they need prior to remediation.
  - › Mandate a statewide early assessment program, like California's Early Assessment Program, that identifies high school students needing remediation and requires high schools to provide remedial opportunities for those students while in high school. This would build upon Act 730 of 2009, which already requires PLAN and EXPLORE tests for all Arkansas students. Encourage partnerships between high schools and higher education institutions by opening up the state-funded College Preparatory and Enrichment Program (CPEP) to support such partnerships. Consider the Arkadelphia College Preparatory Academy as a model for such partnerships. Encourage other evidence-based, proven programs to increase college entrance standardized test scores of under-performing students prior to entering higher education.
- Require school districts to offer—and students to take—college preparatory classes to lower the remediation rate. School districts should offer college preparatory classes; require all new college students to receive college course orientation, assessment, and placement support; require all college preparatory courses to be highly structured with clearly specified goals and objectives and to offer students the study skills and research training necessary to succeed in college; and increase the number of counselors and support staff available to students.

5. **Arkansas must increase retention and graduation rates at two-year and four-year higher education institutions in the state. Short Term.** The estimated cost of this recommendation is $5 million to $20 million in restricted funding for expansion of student services and $10 million to $30 million for expansion of Career Pathways. In order to accomplish this, the Taskforce has proposed specific, tangible actions that the Governor and/or the Legislature should take to carry forward this recommendation.
   - Encourage each college or university to improve student success with expanded student services, such as learning communities/cohorts, tutoring, mental health services, mentoring, flexible schedule options, and access to technology.
   - Expand Career Pathways to serve more students in the state.
   - Require each college and university to develop and implement a retention and graduation plan, based on data and use of early tracking that also includes benchmarked goals and programs for high-risk students, including non-traditional and marginalized students.
   - Encourage colleges and universities to offer more flexible scheduling and online courses leading to a degree in order to assist non-traditional students, including working parents.

6. **The Taskforce proposed other possible recommendations. Short Term.** There are only minimal costs associated with these recommendations.
   - More official state emphasis on school board training, mentoring, and cross-fertilizing.
   - More emphasis on health issues, especially obesity (e.g., BMI indexing and recording).
   - Develop policies that foster interest and interaction among interest groups such as civic groups, PTAs, economic development committees, etc. (The "social capital" represented by school boards, administrators, PTAs, athletic/band/arts groups, and other civic groups could become a powerful constituency for change.)
   - Form a study group to accrete and evaluate "best practices" of non-public educational institutions.

# HEALTH

## Background

The Taskforce recognized a number of factors that have major implications for any recommendations around health, especially related to Arkansans in poverty. To ignore the social determinants of health would be counter-productive to achieving the full Taskforce goal of reducing poverty and promoting economic opportunity. Thus, information and recommendations below attempt to get at the following known intersections between health and other social factors:

- Physical and financial health are linked. Access to health care and financial stability are interrelated: the majority of all bankruptcies in the U.S. are due to medical debt.
- Health outcomes are directly linked to educational outcomes and economic prosperity.
- Place matters. Where people work and live makes a difference in their overall health.

The Taskforce identified a range of programs that currently help mitigate poverty and promote economic activity. (Note: efforts below are listed predominantly by the age of the person served, starting with the youngest. The list is by no means exhaustive):

- ARKids First (DHS) provides free or low-cost health care to children under age 19 in families with low- to moderate-income (up to 200 percent of the federal poverty line). ARKids First A, or traditional Medicaid for children, supports children under 100 percent of the federal poverty line (children under 6 are eligible up to 133 percent). ARKids First B is available for children between 100-200 percent of the FPL who are not already eligible for ARKids First A (between 133-200 percent for children under age 6). The federal government pays for more than three-fourths the cost of the program. For more information, see www.arkidsfirst.com.
- Medicaid (DHS) provides free or low-cost health care for needy and low-income people. It uses state and federal government money. NOTE: Medicaid and Medicare are different programs. Medicare is federal health insurance for persons over 65 for aged and disabled people. For more information, see https://www.medicaid.state.ar.us.
- Southeast Targeted Area Resources (STARHealth) is a joint pilot initiative of the Arkansas Department of Health (ADH) and the Arkansas Minority Health Commission in Southeast Arkansas (Chicot, Desha, and Lincoln counties) to show a new way for delivering local public health programs and services in local communities. In this pilot project, the ADH recruits and trains Community Health Workers (CHW) from and for three counties with very high minority population ratios. All lie in Southeast Arkansas where there are also low levels of traditional health providers/resources.
- Coordinated School Health (ADH/Arkansas Department of Education (ADE)) and School Wellness Centers related school health initiatives (e.g. Child Wellness Intervention Program, healthteacher.com, school wellness center pilots).
- HIV Initiative/Outreach grants (AMHC/ADH) ($600,000).
- Mobile dental units/sealants (Arkansas Children's Hospital, ADH) $890,000 per unit per year.
- Community Health Centers and free health clinics $2 million (state).
- UAMS Area Health Education Centers.
- Variety of Home Visiting programs (Children's Trust, HIPPY/ABC, etc).
- Community Mental Health Centers and other mental health providers.
- Growing Healthy Communities – Arkansas Coalition for Obesity Prevention ($55K).
- ACH Injury Prevention Center and Outreach (Baby safety showers, ATV and roadway safety, etc).
- Children's Behavioral Health Care Commission (DHS) initiatives (e.g. new "wraparound" funding, system of care, etc.).
- Arkansas Minority Health Commission.
- Cash and Counseling and other Home- and Community-based initiatives for seniors (DHS).
- Arkansas Aging Initiative (UAMS).
- Arkansas Area Agencies on Aging (AAAs).

## Gaps and Barriers

The following barriers were identified in the health arena with respect to efforts that could help reduce and/or mitigate poverty:

**Low rates of health literacy:** The degree to which individuals have the capacity to obtain, process and understand basic health information needed to make appropriate health decisions and services needed to prevent or treat illness. Low health literacy is more prevalent among older adults, minority populations, those who have low socio-economic status, and medically underserved people. Patients with low health literacy may have difficulty locating providers and services, filling out complex health forms, sharing their medical history with providers, seeking preventive health care, knowing the connection between risky behaviors and health, managing chronic health conditions, and understanding directions on medicine.[51] (HHS HRSA, www.hrsa.gov). Cultural and linguistic barriers place additional barriers in front of non-English speaking populations.

**Inadequate outreach and care coordination:** The state lacks sufficient support to help consumers navigate the health care system. This includes accessing available insurance and other programs (enrollment/re-enrollment), making the most appropriate use of the health care system, knowing what questions to ask and who can answer them, etc. Logistical challenges also complicate this (e.g., transportation, appointment reminders, etc.).

**High uninsured rate:** About 477,000 Arkansans (17 percent) are uninsured.

- Adults: Few or no health insurance options for poor, non-disabled adults. The uninsured rate for adults ages 19 to 65 is 19.2 percent. The uninsured rate for non-elderly adults with dependents is 21 percent.
- Kids: Majority of uninsured children (43,000 of 65,000 total) in Arkansas are already eligible for ARKids First but not enrolled or not staying enrolled because of enrollment and re-enrollment barriers. The uninsured rate for children under 19 is 9 percent.

**Severe lack of evidence-based substance abuse and mental health treatment for Arkansans.** The $5 million investment passed in 2009 to cover substance abuse services for pregnant women and teenagers under Medicaid has been on hold. However in September, DHS announced plans to begin implementing this program.

**Other barriers include:**

- Severe workforce shortages, especially in primary care, dental care and multiple sub-specialties.
- Limited capacity within state government and other Arkansas partners to implement programs (e.g., health reform, new grant programs, etc.).
- Community environments that do not promote healthy living (e.g., food deserts, lack of parks or other outdoor areas, limited fresh produce, etc. in many communities).
- Immigrants—both legal and undocumented—have few, if any, options for accessing health care outside safety net providers or emergency rooms.
- In Northwest Arkansas, the growing Marshallese population is particularly challenged accessing health care as they can be in the U.S. legally under the Compact of Free Association, but do not have official "legal" immigrant status, which keeps them ineligible for health care coverage like ARKids and Medicaid.

## RECOMMENDATIONS

The Taskforce identified a range of recommendations to help meet the critical health service needs of low-income families while also laying important groundwork for health care reform. They do not address every challenge or gap the state has with regard to ensuring adequate healthcare. The Taskforce considered three important issues as part of its recommendations: (1) addressing the critical gap in trained medical professionals adequate to serve currently insured Arkansans as well as those who will be newly insured in 2014; (2) increasing federal and/or state support for safety net providers, including but not limited to community health centers (CHCs), UAMS Area Health Education Centers (AHECs), community mental health centers and other mental health and substance abuse providers; and (3) taking maximum advantage of the new health care law, including taking advantage of new funding opportunities for new structures and demonstration projects, maximizing federal Medicaid match as soon as possible, etc.

1. **Implement the ARKids expansion to 250 percent FPL as passed during the 2009 legislative session. Short Term.** In addition to covering more children by expanding eligibility up to 250 percent of poverty, it is expected that up to 75 percent of the new enrollees will be children already eligible who enroll because of increased awareness of the program ("welcome mat" effect). Cost: $11 million at full implementation.

2. **Expand school wellness centers/Coordinated School Health initiatives. Short Term.** This will provide preventative well-child services through the schools and reduce direct costs for medical treatment by improving services access. Cost: $1 million in the short term, $5 million over the long term.

3. **Implement substance abuse treatment under Medicaid for pregnant women and teens, agreed upon during 2009 legislative session. Short Term.**

Cost: $5 million annually. (Note: at publishing time, the Arkansas Department of Human Services had recently announced plans to begin implementation of this initiative).

4. **Conduct health impact assessments on all new policies/initiatives at state and community levels. Long Term.** This will help ensure the health and wellness of citizens and community members is appropriately considered before state or local policy decisions are made. Cost: $250,000 to $1 million.

5. **Fund organizations/staff to help consumers navigate the healthcare system** through community-based outreach, assistance with form completion, and care coordination. **Short Term.** Cost: $250,000 to $1 million.

6. **Establish a Center for Health Literacy, to coordinate and fund activities that improve health literacy of Arkansans. Long Term.** This could include, but not limited to: developing educational materials, coordinating public education and outreach efforts, reaching out to underserved populations. Cost: $500,000 to $1.5 million.

# INDIVIDUAL INCOME SUPPORTS

## Background

Low-income families face numerous challenges as they struggle to climb up the economic ladder, achieve economic self-sufficiency, and move out of poverty.[52] Families living in poverty struggle to earn adequate incomes to meet their basic day-to-day needs. Contrary to popular belief, it takes an income that is substantially above the poverty line just to meet basic needs.

In the Little Rock metropolitan area, a single parent with two children would have to earn a full-time hourly wage of $16.58 to meet basic needs including housing, food, child care, transportation, health care, taxes, and other basic necessities. In the same area, a two-parent family with two children would have to earn a full-time hourly wage of $19.86.

| Little Rock Metro Area Family Budgets | | |
|---|---|---|
| | One Parent, Two Children | Two Parents, Two Children |
| Monthly Housing | $678 | $678 |
| Monthly Food | $465 | $643 |
| Monthly Child Care | $717 | $717 |
| Monthly Transportation | $339 | $482 |
| Monthly Health Care | $308 | $393 |
| Monthly Other Necessities | $275 | $318 |
| Monthly Taxes | $92 | $212 |
| Monthly Total | $2874 | $3443 |
| Annual Total | $34,488 | $41,316 |
| Full-time hourly wage | $16.58 | $19.86 |

Source: Economic Policy Institute

| Rural Areas in Arkansas Family Budgets | | |
|---|---|---|
| | One Parent, Two Children | Two Parents, Two Children |
| Monthly Housing | $524 | $524 |
| Monthly Food | $465 | $643 |
| Monthly Child Care | $632 | $632 |
| Monthly Transportation | $390 | $524 |
| Monthly Health Care | $323 | $418 |
| Monthly Other Necessities | $238 | $281 |
| Monthly Taxes | $-53 | $90 |
| Monthly Total | $2519 | $3112 |
| Annual Total | $30,223 | $37,338 |
| Full-time hourly wage | $14.53 | $17.95 |

Source: Economic Policy Institute

| Eligibility for Programs at Various Hourly Wage Levels, Working Full Time for a One-parent, Two-child family | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | $7.25 | $9 | $10 | $11 | $12 | $14 | $16 | $18 | $20 | $22 |
| ARKids First | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | | |
| Arkansas Better Chance | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | | |
| Head Start | ✓ | | | | | | | | | |
| Child Care Vouchers | ✓ | ✓ | ✓ | ✓ | ✓ | | | | | |
| Earned Income Tax Credit | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | |
| Housing Vouchers | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | | | |
| SNAP (food stamps) | ✓ | ✓ | ✓ | ✓ | | | | | | |
| TEA (employment transition) | | | | | | | | | | |

Living expenses in the rural areas of Arkansas are a little lower, but not dramatically so. A single parent with two children would need to earn a full-time hourly wage of $14.53 to meet basic needs, while a two-parent family would have to earn a wage of $17.95. On an annual basis, these wage levels are much closer to two times the poverty line ($44,100, or twice the poverty level of $22,050 for a family of four).

As the table above shows, low-income families with children are eligible for a number of programs designed to help meet basic needs, most notably ARKids First (health care coverage), quality early childhood education (the state-funded Arkansas Better Chance Program or federally funded Head Start/Early Head Start program), the child care voucher program, the federal Earned Income Tax Credit (discussed in the section under tax policy), low-income housing assistance (through federal housing vouchers), SNAP (the Supplemental Nutritional Assistance Program, formerly known as food stamps), and TEA (the Arkansas Transitional Employment Assistance program, the welfare reform program through which a small monthly cash benefit and/or other employment related services may be available.

Low-income families may also be eligible for other programs, such as LIHEAP (the Low Income Energy Assistance Program), but funding for those programs is often limited or may only be available for families under very specific conditions.

As low-income families earn higher wages and move up the economic ladder, they see reduced benefits and eventually become ineligible for these programs. For each program, there is a “cliff effect” when they lose benefits all together. Low-income families with two children generally become ineligible for all programs except the EITC at an hourly wage of about $16 an hour (single-parent families with two children become ineligible for the ETIC at about $20 per hour, compared with $22 per hour for a two-parent family).

**Resources and Expenses as Earnings Increase, Single Parent With Two Children in Little Rock—With Vouchers**

| | Full-time job with work supports, hourly wage: | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | $7.25 | $9 | $10 | $11 | $12 | $14 | $16 | $18 | $20 | $22 |
| Annual Resources | | | | | | | | | | |
| Earnings | $15,080 | $18,720 | $20,800 | $22,880 | $24,960 | $29,120 | $33,280 | $37,440 | $41,600 | $45,760 |
| EITC | $5,028 | $4,543 | $4,100 | $3,669 | $3,226 | $2,352 | $1,478 | $604 | $0 | $0 |
| SNAP | $266.70 | $236.93 | $238.35 | $239.75 | 0 | 0 | 0 | 0 | 0 | 0 |
| TEA | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Total Resources | $20,375 | $23,500 | $25,138 | $26,789 | $28,186 | $31,472 | $34,758 | $38,044 | $41,600 | $45,760 |
| Annual Expenses | | | | | | | | | | |
| Housing | $2,724 | $3,816 | $4,440 | $5,064 | $5,688 | $6,936 | $8,136 | $8,136 | $8,136 | $8,136 |
| Food | $5,580 | $5,580 | $5,580 | $5,580 | $5,580 | $5,580 | $5,580 | $5,580 | $5,580 | $5,580 |
| Child Care | $0 | $1,721 | $3,442 | $5,162 | $6,883 | $8,604 | $8,604 | $8,604 | $8,604 | $8,604 |
| Transp. | $4,068 | $4,068 | $4,068 | $4,068 | $4,068 | $4,068 | $4,068 | $4,068 | $4,068 | $4,068 |
| Healthcare | $961 | $961 | $1,069 | $1,069 | $1,069 | $1,177 | $1,177 | $3,696 | $3,696 | $3,696 |
| Other Nec. | $3,300 | $3,300 | $3,300 | $3,300 | $3,300 | $3,300 | $3,300 | $3,300 | $3,300 | $3,300 |
| Taxes | $3,242 | $4,233 | $4,821 | $5,408 | $6,008 | $7,201 | $8,394 | $9,628 | $10,870 | $12,126 |
| Total Net Expenses | $19,875 | $23,679 | $26,720 | $29,651 | $32,596 | $36,866 | $39,259 | $43,012 | $44,254 | $45,510 |
| **Annual Net Resources** | **$500** | **($179)** | **($1,582)** | **($2,863)** | **($4,410)** | **($5,394)** | **($4,501)** | **($4,968)** | **($2,654)** | **$250** |

The family budget gap—the point at which living expenses are greater than earnings and benefits from government programs—facing low-income workers starts at a much lower income level than one might think. As the table below shows, even with programs such as the EITC, SNAP, TEA, ARKids First (reflected as a reduction in the family health care cost), and subsidized child care (reflected as a reduction in their child care costs), a working single parent with two children in child care begins to face a small budget gap when working for a wage of only $9 an hour. His or her budget gap worsens until it bottoms at a wage of $14 per hour, reflecting a budget gap of about $5,394. This is largely due to the declining value of program benefits as the family earns more, in programs such as child care, the EITC, housing vouchers (eligibility for SNAP, for example, ends when the family moves from $11 to $12 per hour in earnings). If and when the parent is eventually fortunate enough to earn an hourly wage of $22 per hour, the budget gap turns positive.

What is the significance of this budget gap for the family? It means family members have to do without certain necessities or use cheaper goods, such as unhealthy foods or unsafe housing, that are not good for the safety and well-being of the family.

### Gaps and Barriers

Families face numerous barriers in their efforts to climb out of poverty. As outlined above, eligibility for government programs is set at fairly low-income (and asset) levels, above which families become ineligible for benefits or see reduced benefits. The "cliff effects" serve as disincentives to work and potentially harm the well-being of the family, especially children.

In addition to these limits, it is not always easy to stay enrolled in these programs. In the ARKids First program, for example, nearly 20,000 otherwise eligible children drop off the program because of red tape and barriers in the renewal process. Families may not be accessing existing economic and work-support programs in the first place because (1) they are not aware of the program because of inadequate outreach, (2) barriers in the application process that make it difficult for them to apply and receive benefits, or (3) in more extreme cases, government caseworkers treat applicants poorly and discourages submitting an application.

In some instances, such as the subsidized child care voucher program, there may not be adequate funding to serve all of the families who are ineligible. As of October, 2010, there were nearly 12,000 low-income children on the waiting list for child care subsidies.

The taskforce also found that there is inadequate access to certain services—such as affordable housing, subsidized child care, and transportation—that are critical to the ability of low-income families to stay employed and move up the economic ladder.

Finally, the Taskforce found that something has to be done about the state's burgeoning prison population. Not only is the cost of building new prison beds and facilities unsustainable, but far too many people, many of whom are disproportionately black males, are being incarcerated in prison for nonviolent crimes when other alternatives—such as substance abuse treatment and community based programs—would be more appropriate and effective and increase their future ability to successfully rejoin the workforce and join their families.

## RECOMMENDATIONS

1. **Improve case management services for young mothers seeking assistance through Temporary Family Assistance to better place them in career paths and to help them link with resources. Short Term.**

2. **Improve access to subsidized child care by using all available TANF funding for child care (the state's federal welfare reform grant). Short Term.** States are allowed to transfer up to 30 percent of their eligible TANF funds (Arkansas's total grant is about $57 million annually) to child care for low-income families. Historically, Arkansas has had a major unspent balance in its TANF program, currently upwards of $60 million. While it may not be feasible to transfer the full allowable 30 percent to child care, we recommend a transfer of at least $10 million annually. Estimated costs: Transfer $10 million from TANF to cover 3,040 kids on waiting list or approximately 30 percent of the remaining.

3. **Expand outreach and access to federal food assistance benefits under the Supplemental Nutrition Assistance Program (SNAP). Short Term.** Estimated cost: No significant investment of state money.

4. **Fund the Housing Trust Fund that was established in the 2009 legislative session. Long Term.** Estimated cost: $10 Million.

5. **Improve access to critical economic and work supports to help low-income working families meet basic needs and stay employed. Short Term.** This would involve greater coordination of outreach across relevant state agencies, establishing data sharing policies to increase access to work supports and public benefits, assessing and revising application processes to prevent otherwise eligible families from dropping off the program, and revising income eligibility and asset limit policies to reduce the impact of potential "cliff effects" in eligibility for programs and their impacts as disincentives to work. Estimated cost: the estimated cost of greater coordination and data sharing policies would cost less than $250,000 annually. The revising of income and assets limits for government programs could make more families eligible for such programs. The potential cost of these changes would have to be assessed on a program-by-program basis.

6. **Review and consider the recommendations of the Prison Reform Workgroup. Short Term.** The Prison Reform Workgroup led by Rep. Kathy Webb is currently working on specific recommendations that will provide minor offenders with opportunities for expungement of records, support services after incarceration and alternative sentencing. The Taskforce recommends careful consideration of that Workgroup's recommendations after they are released.

7. **Create a Consumer Advisory Council. Long Term.** The council will include clients receiving benefits from the Department of Human Services, the Department of Health, and the Department of Workforce Services. This council will be called upon to identify areas for improvement as well as to vet changes to policies and programs. Estimated cost: minimal.

## TAX POLICY

### Background

A complete analysis and discussion of the Arkansas state and local tax system is beyond the scope of both this report and the recommendations of this taskforce. However, with regard to reducing poverty and promoting economic opportunity for low-income families, there are two basic issues. First, the current system places a disproportionate share of the tax burden on low-income families, thus hurting their ability to meet the basic needs. Second, the Arkansas tax system does not currently have the capacity to generate the revenues to adequately support critical programs for low-income families that help meet basic needs and that would give them the tools to move out of poverty and up the economic ladder towards economic self-sufficiency.

Before discussing these issues, a quick overview of the Arkansas state tax system is helpful. The Arkansas state budget is funded by various sources, including state general revenue, federal revenue, cash funds, special revenue, trust funds, and other revenue. State general revenue, which typically makes up 31 percent of the state budget, comes from a variety of sources and is used to fund most public services, such as education and prisons. The state Legislature has a great deal of discretion over the taxes that comprise state general revenue and how to spend this revenue, so it is typically the focus of most policy discussion at the state level. The primary sources of state general revenue include personal income taxes, sales and uses taxes (or gross receipts), corporate income taxes, and other states taxes and fees.

**Personal Income Taxes (PIT):** Arkansas's primary source of general revenue (47.5 percent) comes from the state's personal income tax, which is withheld from Arkansans' paychecks each month.[53] In theory, the state's personal income tax system is considered progressive: as income rises, its six levels of taxation are graduated from 1 percent of income up to 7 percent, with the average taxpayer paying 4.4 percent. But in practice, it really isn't that progressive. For example, the original top tax bracket was set in 1929 at $25,000 (nearly $300,000 in today's dollars), and has only increased to $31,000. Therefore, those earning $31,000 today still pay the same top rate (7 percent) as those with incomes over $1 million. Arkansas also allows a tax exemption for 30 percent of any capital gains earned (income from the sale of assets, such as stocks, bonds, or real estate)—most of which goes to the wealthiest one percent of taxpayers.

**Sales and Use Taxes (or "Gross Receipts"):** Taxes from sales and use of tangible goods make up over a third (36.2 percent) of all state general tax revenue (the use tax is the same as a sales tax except that it's paid on goods purchased out-of-state for use in-state).[54] Most of this sales tax revenue comes from the general sales tax on tangible goods, like clothes. At 6 percent Arkansas's sales tax is one of the highest in the country.

Other sales tax revenue comes from "selective sales taxes," or excise taxes, on specific products, such as tobacco, alcohol, or soda. Taxes on alcohol and tobacco, for example, comprise at least 5.4 percent of state general revenue. These taxes are referred to as "sin taxes" or "luxury taxes." Sales and selective sales taxes are considered highly regressive, because the poorest Arkansans spend more of their income on these goods than do wealthier Arkansans. Such purchases eat up a greater share of poorer Arkansans' incomes. Arkansas's sales tax base—the range of things that are taxed—is relatively narrow due to numerous exemptions, especially for most services, such as attorney fees and advertising. The sales tax burden on low-income families is made worse by added local sales taxes, which are often a major source of revenue for local governments.

**Corporate Income Taxes (CIT):** These taxes comprise 7.8 percent of all state general revenue. The CIT is based on a percentage of a corporation's net income.[55] CIT mostly affects residents of other states, who are the owners and shareholders of large corporations in Arkansas that are being taxed. In Arkansas, the top marginal tax rate (the payment indicated by an individual's tax bracket) for corporations is 6.5 percent of annual profits. However, their effective rate (what companies actually pay) is usually much lower, due to the many loopholes in our state's tax system that benefit large corporations. For that reason, CIT revenue has shrunk considerably over the past 30 years as a share of all state income tax revenue, from 31 percent in 1978 to six percent in 2008—causing the state to rely more on taxes from individuals and families to pay for public services.

**Other State Taxes and Fees:** The final sliver of the state's general revenue (about 3 percent) is made up of taxes on "miscellaneous" things like gambling, severance taxes on the extraction of natural resources (e.g., oil, coal, and natural gas), taxes on life insurance premiums, real estate transfer taxes, corporate franchise taxes, and user fees, such as a fee to camp at a state park.[56] This does not include money from the state's new lottery which has generated millions for college scholarships. Unfortunately, research shows that state lotteries are generally regressive and disproportionately place more of the burden on families who can least afford it.

**The Special Case of Local Property Taxes:** Although local property taxes are not used to fund the state budget, they comprise the third major stool of the state and local finance system (sales and income taxes being the others). In terms of who bears their burden, local property taxes are generally considered to be less regressive than sales and excise taxes but not as progressive as personal or corporate income taxes. Amendments 59 and 79 of the Arkansas constitution limit how much additional local funding for education and other services can be raised by local property taxes, even among relatively wealthy communities and individuals. These limits cap the amount of property tax increases that must be paid each year and exempt retirees from future increases, regardless of their income level. In addition, Amendment 79 provides an annual "homestead tax credit," now set at $350 per household (again, regardless of the ability to pay). As a result of the caps, Arkansas local property taxes are typically among the lowest in the country as a percentage of the incomes of its residents (Arkansas usually ranks among the five lowest states in its property tax effort, according to state and local finance data compiled by the U.S. Census Bureau).

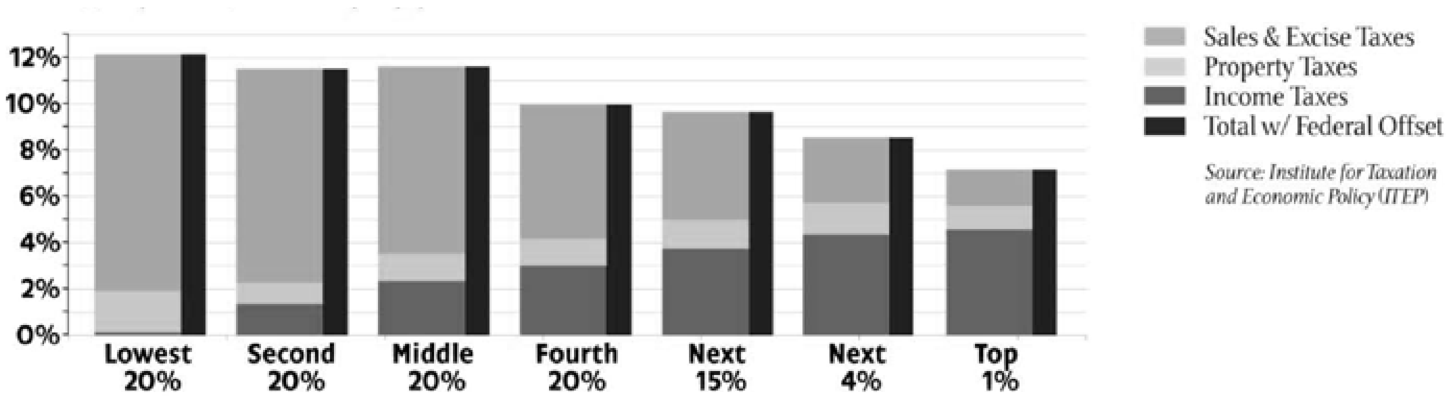
## Gaps and Barriers

The Problem of Regressive Taxation

Arkansas's overall state and local tax system is heavily regressive. That is, it imposes a disproportionate share of the state and local tax burden on low- and middle-income families. Those tax payers (with incomes below $40,000) pay 12 cents in state and local taxes on every dollar they earn compared with just 6 cents on every dollar earned by the top 1 percent of taxpayers (those with incomes over $326,000).

This is due to a number of factors, including: a heavy reliance on state and local sales taxes (including food, which is still taxed at 2 percent) and selective sales taxes (alcohol and tobacco taxes); a personal income tax lacking in real progressivity due to a top rate that in 2010 kicks in at just $32,700; a technical glitch in a 2007 law that still requires some heads of households with incomes below the poverty line to pay some state personal income tax; the lack of a state earned income tax credit; and the failure to adequately tap other, more progressive sources of tax revenue that could lessen the need to tax low-income families, including a generous exemption of capital gains income that is earned mostly by higher income earners; the lack of a state estate tax; a corporate income tax that fails to adequately capture potential revenue due to loopholes; and caps on the revenue raised from local property tax.

**State and Local Taxes in 2006: Shares of Family Income for Non-Elderly taxpayers**



Other states attempt to offset regressive taxes through tax relief policies that disproportionately benefit low-income taxpayers. Major examples of such policies include: (1) exemption of food from state and local sales taxes; (2) exempting all families with incomes below the poverty line from state personal income taxes; (3) and establishing a refundable state earned income tax credit that puts money directly back into the hands of working, low-income families.

Arkansas had made some progress in this area. Since 2007, it has cut the grocery tax from 6 percent to 2 percent, and it has virtually eliminated personal income taxes for most families with incomes below the poverty line (with the exception of single parent families with two or more children) and cut taxes for families with incomes just above the poverty line. It has yet to create a state earned income tax credit, which would be the most targeted, cost effective way to economically support low-income families through the state tax code.

<u>The Problem of the Structural Deficit</u>

Even when the economy is relatively strong or the state is lucky enough to have a surplus, Arkansas struggles to raise adequate funds to pay for many crucial services. Arkansas is plagued by what is known as a "structural deficit," defined as "the chronic inability of state revenues to grow in tandem with economic growth and the cost of government." In other words, revenues in Arkansas do not keep pace with the need to adequately fund current programs and services. This fundamental structural problem not only makes it difficult to provide essential services or meet new and emerging needs, but it also limits the state's ability to create a tax system that is fair to all of its citizens, especially low- and middle-income families who bear a disproportionate share of the tax burden.

Arkansas's constitution requires that the state balance its budget each year, which keeps the state from spending beyond its means. The flip side of this equation is that: 1) the cost of providing government services like health care often rises faster than inflation; 2) the state's changing demographics mean that more and more people will need services each year; and 3) natural, cyclical fluctuations in the economy make it hard to predict whether we will have enough revenue to meet these demands. The state Legislature often responds to these challenges by being too conservative in its budgeting and by not cutting taxes and not doing enough to help low-income families when times are good, raising regressive taxes to meet critical needs or to cover shortfalls in bad times, instead of launching new initiatives that have the potential to improve the lives of low-income families.

The state's economic growth over most of the past 15 years has hidden our underlying structural budget deficit, and the Arkansas Department of Finance and Administration's conservative revenue forecasts have provided a cushion against unexpected revenue shortages during recent years. However, Arkansas is now facing an economic slowdown in state tax revenues that has limited our ability to meet the basic needs of the state's poorest citizens or to take bold steps that would help them move out of poverty. Beyond the usual rise and fall of tax revenue coming into the state, Arkansas suffers from a bigger problem: the very structure of its tax system is outdated and incapable of adjusting to the 21st century economy.

A 2008 report by Arkansas Advocates for Children and Families identified several cracks in the state fiscal foundation that are limiting (and will continue to limit) the state's ability to generate adequate revenue and meet the real needs of low-income families.[57] These include:

- **A sales tax base that is too narrow.** It relies too much on taxing goods (which hit low-income families the hardest) and exempts many services, such as advertising and legal services, which tend to be purchased by wealthier individuals and companies and comprise the fastest growing part of the sales tax base.
- **Inadequate taxing of internet sales.** Although state residents are supposed to pay sales taxes on any items they purchase over the internet, federal law limits the ability of states to require remote sellers to collect the taxes on behalf of the state unless the remote seller is considered to have "nexus," or some type of physical presence in the state. This erodes the ability of states to fully tax internet sales to their residents. In 2005, the Center on Budget and Policy Priorities estimated that Arkansas loses $230 million to $360 million annually in lost tax revenue due to e-commerce.
- **Caps on local property taxes that limit** how much funding for education can be raised by local property taxes, even among relatively wealthy communities and individuals, and require that greater use of state funding (which is funded disproportionately by sales taxes that hurt low-income families) to meet local education needs.
- **Corporate tax loopholes** that allow large corpora-

tions to avoid paying Arkansas state income taxes, through strategies that allow them to shift part of their Arkansas income to out-of-state subsidies located in no- or low-tax states, thus reducing revenue from the corporate income tax by 10 to 25 percent, or $38 million to $95 million annually.

- **Inequities in the personal income tax.** Compared with sales taxes, only the personal income tax has the potential to grow as quickly as increases in personal income. A structurally sound state tax system requires an income tax that is progressive in nature and applies to as much income as possible. However, the top Arkansas personal income tax rate of 7 percent kicks in at $32,700 in 2010 for taxable income, meaning that a family earning $33,000 in income pays the same tax rate as someone earning $1 million. It also gives more favorable treatment to other types of income that are more likely to be earned by wealthier taxpayers, such as capital gains income earned from the profit of the sale of an asset, such as stocks or real estate. Arkansas has one of the most generous exemptions in the country and currently exempts 30 percent of all capital gains income.
- **State failure to de-couple from federal estate tax** changes adopted in 2001-03. Arkansas suffers a major revenue loss by failing to de-couple its estate tax from federal tax law, and thus loses major revenue by failing to have its own estate tax. Depending on the year, The Center on Budget and Policy estimates that this results in $25 million in lost revenue annually.

Unless steps are taken, the existing structural budget deficit will make it increasingly difficult to meet the critical needs of Arkansas's children and families in the future. Consider the case of K-12 education. Arkansas has taken historic steps to reform its education system as a result of a state Supreme Court decision in the Lake View school funding case. While the state should be applauded for this effort, much more work needs to be done. To keep the system at an "adequate" level and stay out of court, the state will have to regularly increase K-12 education spending. In fact, Act 108 of 2004, known as the "Doomsday" legislation, requires that spending for K-12 education be kept at an "adequate" level at the expense of other state needs, to meet the state's balanced budget requirement. Arkansas's revenue needs will only grow in the future. The need to adequately fund education, meet new revenue needs under national health care reform, and meet the other needs of low-income families means that Arkansas must have a state fiscal system that can grow with its current and future needs.

## RECOMMENDATIONS

The Taskforce makes two sets of recommendations: (1) recommendations designed to provide tax relief and economically support low-income families and (2) recommendations to raise new revenue in ways that don't place such a heavy burden on low- and middle-income taxpayers.

The tax code is potentially a major economic support for low-income families struggling to get out of poverty. Recommendations that would economically support low-income families include:

1. **Fix the low-income tax threshold problem and provide comparable relief for single parents with two or more children. Short Term.** A 2007 law designed to substantially exempt families with children at incomes below the poverty line from state income taxes (and to cut taxes for those with incomes slightly above the poverty line) contained a technical flaw and did not provide comparable benefits to taxpayers filing as heads of households with two or more children (most heads of households are single parents). This law should be changed so that single parents with two or more children receive comparable treatment under the law. During the 2009 session, House Bill 1378 was passed by the House but failed to get out of the Senate Revenue and Tax Committee the last week of the session. Making this change would impact 50,000 low-income families with children (mostly single mothers) and have a state revenue impact of $3.6 million. Estimated Cost: $3.6 million for 50,000 low-income families.

2. **Create a refundable State Earned Income Tax Credit (EITC) to economically support low- and lower-middle income working families. Long Term.** The federal EITC is widely regarded as one of the nation's most successful anti-poverty programs. State EITCs, which have been adopted in 24 of 42 states with state income taxes, are set at some percentage of the federal EITC received by a family, typically at a rate of 5 percent to 40 percent. Unlike other tax credits, a refundable credit is one in which taxpayers receive a cash refund if their credit is greater than the amount of taxes owed (which is typically the case for low-income families). At the federal level, the maxi-

mum EITC for a family with two children would be $5,028, so a 10 percent state level EITC would have a maximum benefit of about $500. A state EITC equal to 10 percent of the federal EITC would have a revenue impact of at least $60 million. Roughly 25 percent of all Arkansas taxpayers claim the federal EITC. Estimated Cost: A state EITC set at 5 percent of the federal EITC would cost $30 million to $32 million.

3. **Continue efforts to cut the state sales tax on groceries. Short Term.** Because expenditures on food consume a larger proportion of the income of low-income families, state sales taxes on food impose a disproportionately higher tax burden on low- and middle-income families. In actions taken during the 2007 and 2009 legislative session, the state sales tax on groceries has been cut from 6 percent to 2 percent. Arkansas should gradually continue its efforts to mostly eliminate the remaining 2 percent state sales tax on groceries (the 1/8th cent sales conservation tax required under Amendment 75 cannot be eliminated). Cutting the state sales tax on groceries by one cent has a state general revenue impact of more than $30 million. Estimated Cost: $30 million per one cent reduction.

The Taskforce also developed recommendations to raise new revenue in ways that place less of the burden on low- and middle-income families and that would help address the state's long-term structural budget deficit. Due to the constitutional changes that would be required to change current property tax limits, we did not include changes to the local property tax among our recommendations. We also included only recommendations that could be passed with a simple majority of the Legislature.

4. **Close corporate income tax loopholes by adopting a combined reporting law for state corporate income taxes. Short Term.** Under loopholes in the current Arkansas law, some corporations are allowed to reduce the income they report as earning in Arkansas (and thus avoid Arkansas taxes) by shifting this income to another state where they pay little or no taxes. For example, a number of corporations operating in multiple states avoid state taxes by shifting revenues they earn in Arkansas to a holding company in a state that does not tax corporate income. In effect, the companies "pay" an amount equivalent to what they have earned in Arkansas to the holding company, covering questionable expenses such as fees for patents and trademarks. They can then "deduct" the "payment" to eliminate or minimize their taxable income. Under combined reporting, however, a parent company and most of its subsidiaries in other states are one entity for tax purposes. Combined reporting allows the state to tax a share of that combined income that is actually earned in Arkansas. While the revenue impact is unclear, most studies find it would increase state corporate income tax revenue by 10 percent to 20 percent, or about $45 million to $90 million in Arkansas. (Note: more precise estimates should be available in the coming weeks). Estimated revenue: $45 million to $90 million revenue raised.

5. **Reduce or eliminate the 30 percent exemption currently allowed for capital gains under Arkansas income taxes. Long Term.** A capital gain is the increase in value realized at the time of sale of an asset, such as stocks or some other investment. Under Arkansas law, which is one of the most generous in the country, taxpayers are allowed to exempt 30 percent of their capital gains income for tax purposes. This exemption heavily and disproportionately favors upper income taxpayers. Eliminating this exemption could generate about $33 million in new state general revenue. Estimated Cost: $33 million in additional revenue.

6. **Adopt the "Amazon Law" for collecting state taxes owed on internet purchases. Short Term.** This law, which was recently adopted in New York and Rhode Island, requires many internet retailers operating "affiliate programs" in the state to charge sales tax on the retailers' sales to state residents. These affiliates—which can be local bloggers, newspapers, and other types of businesses—post links on their websites to online retailers and receive a commission when purchases are made through their connections. The New York law requires retailers making more than $10,000 in annual sales in the state through affiliates to charge New York sales tax on all sales in the state, not just those resulting from the affiliate program. This change would not only generate much needed revenue but (1) would reduce the competitive disadvantage faced by local retailers and those internet retailers already collecting sales taxes and (2) reduce the disproportionate impact of sales taxes on low-

income people who are not as able to buy online and thus avoid sales taxes. It is unclear how much new revenue this change might generate. Estimated revenue: $1.6 million in additional revenue.

## CONCLUSION

Part of the Taskforce's charge under Act 722 of 2009 was to develop benchmarks for reducing poverty over the next 5, 10, and 20 years. In addition, the Taskforce also felt that it was important to develop benchmarks within each of the five issue areas we examined. Those are outlined on the next page. We recognize that after decades of high poverty, it will take years of dedicated effort by the state's policymakers, the business community, and citizens to make major reductions within the next decade. Nonetheless, the Taskforce feels it is important that Arkansas aim high and set ambitious goals to reflect the fact that reducing poverty must be a moral imperative for the state. It is our hope that over the next two decades Arkansas can at least cut poverty in half, especially for children.

We also make two other observations. First, we recognize that the current status of the Arkansas economy and the Arkansas state budget will not allow full implementation of all of our recommendations, especially in the short-term. Therefore, we encourage policymakers to view our recommendations as a "menu" of policy options, prioritized as short- and long-term recommendations, from which they can choose to implement as resources become available. It is our hope, however, that the "current" availability of revenues will not be the sole driver of their decisions regarding implementation of the Taskforce recommendations. Additional resources will be needed to implement these recommendations, and Legislators will need to consider options that will increase the resources available to implement these recommendations, both in the short term and long term.

Finally, it is also our hope that the Arkansas General Assembly will consider creating a permanent Poverty Reduction Commission to monitor the implementation of the recommendations outlined in this report and to conduct additional analysis on these and other issues impacting low-income residents. Given the short time frame that we had to complete our work, we believe that additional analyses and consideration will be needed to fully implement our recommendations. The Taskforce cannot emphasize strongly enough that reducing poverty must be an economic imperative for the state, if we are to make major strides in our ability to compete in the global economy and meet the needs of our citizens.

| **BENCHMARKS** | Now | 5 Years | 10 Years | 20 Years |
|---|---|---|---|---|
| General Poverty Measures | | | | |
| Percent of citizens in poverty | 19% | 14.3% | 9.5% | 4.8% |
| Percent of children in poverty | 27% | 19.7% | 13.5% | 6.8% |
| Economic and Community Development | | | | |
| Shift tax incentives deals to low-income (Tier 3 and 4) counties | 35% | 43% | 50% | 50% |
| State ranking on minority-owned small businesses | 46th | 43rd | 40th | 35th |
| Education | | | | |
| Percentage of 3- & 4-year-olds under 200% FPL enrolled in pre-k | 73% | 100% | 100% | 100% |
| Percentage of 4th graders proficient or above on NAEP reading | 29% | 35% | 50% | 65% |
| Percentage of first-time entering freshmen needing remediation | 54.6% | 50% | 40% | 33% |
| Percent of adults with Bachelor's degrees | 18.2% | 27% | 32% | 37% |
| Health | | | | |
| Infant mortality rate per thousand live births | 8.2 | 7.5 | 7 | 6 |
| Life expectancy (years) | 75.5 | 77 | 78 | 80 |
| Income Supports | | | | |
| Percent unemployment | 7.7% | 5% | 3% | 2% |
| Median household income | $38,820 | $42,000 | $48,000 | $55,000 |
| Percent childcare needs met | 45% | 100% | 100% | 100% |
| Tax Relief | | | | |
| State & local taxes paid by poorest 20% of AR taxpayers as a percent of their personal income | 12% | 10% | 8% | 6% |
| New revenue raised to implement Poverty Taskforce Recommendations (as a percent of the estimated cost of implementing all recs - TBD) | N/A | 25% | 50% | 100% |

## ENDNOTES

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51 HHS HRSA, www.hrsa.gov)

52 For a detailed discussion of these issues, see Angela Duran, "The Impact of Government Programs on Family Finances," special report commissioned by Arkansas Advocates for Children and Families for the Arkansas Legislative Taskforce on Reducing Poverty and Promoting Economic Opportunity, August 2010.

53 AACF calculations of DFA data on sources of gross general revenue, actual collections, state fiscal year 2010, Arkansas Fiscal Notes, Arkansas Department of Finance and Administration, June 2010.

54 Ibid.

55 Ibid.

56 Ibid.

57 Ginny Blankenship and James Metzger, "Rebuilding our Fiscal Foundation: Seven Steps to Overcoming Arkansas' Structural Budget Deficit," Arkansas Advocates for Children and Families, July 2008.

**Act 722 of the Regular Session**

State of Arkansas
87th General Assembly
Regular Session, 2009

# A Bill

SENATE BILL 470

By: Senator Elliott
By: Representative Rainey

## For An Act To Be Entitled

AN ACT TO CREATE A LEGISLATIVE TASKFORCE ON REDUCING POVERTY AND PROMOTING ECONOMIC OPPORTUNITY; AND FOR OTHER PURPOSES.

## Subtitle

AN ACT TO CREATE A LEGISLATIVE TASKFORCE ON REDUCING POVERTY AND PROMOTING ECONOMIC OPPORTUNITY.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:

SECTION 1. Findings.

The General Assembly finds that:

(1) The State of Arkansas has one of the highest child and overall poverty rates in the United States;

(2) Children and families who live in poverty are subject to a number of harsh realities that include without limitation:

(A) Lacking the basic necessities of life;

(B) Poorer educational outcomes such as dropping out of school before obtaining a high school degree;

(C) Poorer health outcomes;

(D) Reduced likelihood of employment;

(E) Lower earnings; and

(F) A greater likelihood of dying earlier in life;

(3) The State of Arkansas recognizes the moral and economic

interest in reducing child and family poverty, and the potential impact of reducing poverty on the well-being of its children, families, and local communities; and

(4) The State of Arkansas needs to develop innovative strategies and a roadmap for reducing poverty and promoting economic opportunity for its most vulnerable and disadvantaged children and families.

SECTION 2. Arkansas Legislative Taskforce on Reducing Poverty and Promoting Economic Opportunity -- Creation -- Membership.

(a) There is created the "Arkansas Legislative Taskforce on Reducing Poverty and Promoting Economic Opportunity" to consist of twenty-two (22) members as follows:

(1) Seven (7) members appointed by the Speaker of the House of Representatives as follows:

(A) Two (2) members of the House of Representatives;

(B) Two (2) members of the business community or economic development organizations;

(C) One (1) member of a faith-based organization;

(D) One (1) member who is an individual living at or near poverty; and

(E) One (1) member who is a city or county government official;

(2) Seven (7) members appointed by the President Pro Tempore of the Senate as follows:

(A) Two (2) members of the Senate;

(B) Two (2) members of the business community or economic development organizations;

(C) One (1) member of a faith-based organization;

(D) One (1) member who is an individual living in or near poverty; and

(E) One (1) member who is a city or county government official;

(3) One (1) member to represent Arkansas Advocates for Children & Families;

(4) One (1) member to represent the Southern Good Faith Fund;

(5) One (1) member to represent the Arkansas Public Policy

Panel;

(6) One (1) member to represent the labor community;

(7) One (1) member to represent the Arkansas Hunger Relief Alliance;

(8) One (1) member to represent the Arkansas Association of Community Action Agencies;

(9) One (1) member to represent Arkansas Association of Community Organizations for Reform Now; and

(10) One (1) member to represent a local community development corporation.

(b) The taskforce shall hold its first meeting no later than sixty (60) days after the adjournment of the regular session of the General Assembly.

(c) The members of the task force shall elect a chair.

(d) A majority of a quorum is necessary for the transaction of business.

(e) If any vacancy occurs on the task force, the vacancy shall be filled by the same process as the original appointment.

(h) The Bureau of Legislative Research shall provide staff for the task force.

SECTION 3. Arkansas Legislative Taskforce on Reducing Poverty and Promoting Economic Opportunity -- Powers and duties.

The Arkansas Legislative Taskforce on Reducing Poverty and Promoting Economic Opportunity shall:

(1) Identify the number of individuals living at or near the poverty level in the state, and among certain subpopulations, including without limitation:

(A) Children;

(B) Households headed by single parents;

(C) The elderly; and

(D) Racial and ethnic minorities;

(2) Identify the risk factors and underlying causes of poverty through consultation with experts, service providers, and individuals living at or near poverty;

(3) Examine the long-term effects of poverty on children,

adults, families, and communities;

(4) Analyze and identify the costs of poverty to families, municipalities, and the state;

(5) Identify existing statewide public and private programs that address poverty, especially child poverty, and any deficiencies in statewide public and private programs;

(6) Identify and assess best practices, model programs, and strategies that existing research has proven to reduce poverty, including without limitation:

(A) Low and middle income tax policies including a state earned income tax credit;

(B) Education and workforce development policies;

(C) Asset development policies;

(D) Community and economic development policies;

(E) Citizen engagement strategies; and

(F) Work supports such as child care and health care.

(7) Recommend public policy strategies and legislation that have the potential to reduce poverty on a statewide or regional basis;

(8) Engage all state agencies to help determine the innovative roles each state agency, both individually and in cooperation, can play in the elimination of poverty;

(9) Explore the possible use of a Common Client Data base; and

(10) Establish measurable benchmarks for the elimination of poverty in the state by setting percentage reductions in the number of people living at or near poverty in the next five (5), ten (10), and twenty (20) years.

SECTION 4. Submission of Final Report and Recommendations

The Arkansas Legislative Taskforce on Reducing Poverty and Promoting Economic Opportunity shall submit its final report on “Recommendations for Reducing Child and Family Poverty and Promoting Economic Opportunity” to the Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate on or before November 1, 2010.

SECTION 5. Expiration.

The Arkansas Legislative Taskforce on Reducing Poverty and Promoting Economic

Opportunity shall expire on December 31, 2010 **APPROVED: 3/31/2009**