The Byzantine U.S. tax code has numerous deductions and credits aimed at reducing the tax burden of working families with children — for example, the dependent exemption, which should not be confused with the Child and Dependent Care Credit, which in turn should not be confused with either the non-refundable Child Tax Credit or the refundable Additional Child Tax Credit. Regretably, all families who work and file federal income taxes must confront (or pay someone else to confront) the varying eligibility requirements for these benefits and even varying definitions of who is a "child." For low-income families, however, the problem is more fundamental: They are, with few exceptions, unable to take advantage of any of these tax breaks. >

HEAVY DUTY

TAX REFORM THAT HELPS LOW-INCOME FAMILIES WORK THEIR WAY UP THE ECONOMIC LADDER

Even the most effective tax policy for low-income workers, the Earned Income Tax Credit (EITC), can sometimes have adverse impacts on poor and near-poor families. Created in 1975 to offset the burden of Social Security and other payroll taxes on the working poor, the EITC is refundable. In other words, if the amount of your credit exceeds your total tax liability, you receive a check for the balance from the IRS.

For very-low-income families, the value of the credit increases as work effort and earnings rise, making work more financially attractive than welfare. On the other hand, the EITC can also impose financial penalties on low-income couples who marry. Moreover, as the credit phases out, moderate-income workers can face staggering marginal tax rates.

Can the tax code do a better job of providing child-related assistance to low-income working families? Can it do this without discouraging family formation and work effort? Can the provisions of the tax code that apply to families with children be simplified? These questions and others like them have engaged an array of researchers and policy analysts at the Brookings Institution, the Center on Budget and Policy Priorities, the Economic Policy Institute, the Kennedy School of Government at Harvard University, and the Urban Institute. The report that follows draws on this research, some of which has been funded by the Annie E. Casey Foundation, and discusses specific options for providing tax breaks to families who need them most — poor and near-poor working families.

Layoffs and Car Repairs

Unlike some states, the federal government does not tax the income of poor families. For a family of four, the U.S. Department of Health and Human Services estimates that the poverty line — the annual income a family needs to meet basic needs — is $17,050. The federal government's threshold for taxable income for a two-parent family of the same size is $18,300.

For some people, the fact that poverty-level families pay no federal income tax ends any further discussion of tax benefits for the working poor. On the other hand, many analysts and researchers argue that the federal poverty line is a fairly crude and incomplete measure of economic hardship. Isabel V. Sawhill, a former associate director of the White House Office of Management and Budget, and currently a senior fellow at the Brookings Institution, notes that the federal poverty standard is adjusted for inflation, but not "for the improvement in real standards of living that have occurred throughout American society. And therefore the poor are farther away from the middle class than they were 20 or 30 years ago."

Sawhill and other researchers also question whether the official poverty line is a useful standard for providing public benefits. In a discussion paper cowritten with Brookings Senior Research Analyst Adam Thomas, "A Hand Up for the Bottom Third: Toward a New Agenda for Low-Income Working Families," the authors observe: "In the process of targeting assistance to the poorest Americans and withdrawing this assistance as they move up the income ladder, we have unwittingly created an incentive for them to remain on the bottom rung."

Many policy analysts prefer a broader measure of financial hardship — 200 percent of the federal poverty level, or about $27,000 per year for a family of three. Citing evidence that families with incomes below 200 percent of poverty struggle to afford food, shelter, and other necessities, a recent Urban Institute report concluded that these families "are near enough to the economic edge that an illness, a job layoff, or even a major car repair can have severe consequences for well-being."[1]

Valuing All Children Equally?

An incontrovertible principle of tax policy is that people with equivalent economic circumstances should pay the same amount of taxes. Another principle with longstanding and widespread support is that income taxes should be based on people's ability to pay — as income rises, so do tax rates. The consensus, however, breaks down over the desirable degree of progressivity in the tax code. Eugene Steuerle, a former Treasury Department official and currently a senior fellow at the Urban Institute, writes: "Everyone has his own version of how progressive government should be, how much it should be involved in assessing different amounts of tax on individuals

[1] "On the Bottom Rung: A Profile of Americans in Low-Income Working Families," Gregory Acs, Katherin Ross Phillips, and Daniel McKenzie, Urban Institute, October 2000.

with different means, or helping differentially those with different needs."[2]

One example of the equity dilemma in the federal tax code is the dependent exemption, which in 1999 reduced taxable income by $2,750 for each family member. Although the same for virtually everyone,[3] the dependent exemption is worth more to high-income families than to low-income families. According to calculations by economists Robert Cherry and Max B. Sawicky of the Economic Policy Institute, the dependent exemption saved taxpayers in the top 39.6 percent tax bracket $1,089 per child in taxes. For taxpayers in the 15 percent bracket, the savings were only $413 per child. "Since society presumably values all children equally," the economists observe, "a higher tax savings for children in more fortunate families doesn't make much sense."[4]

[2] "And Equal (Tax) Justice for All? Part Two: Horizontal and Vertical Equity," December 6, 1999, www.urban.org.

[3] The amount of the exemption begins to phase out at very high income levels — for example, $193,400 of adjusted gross income for married couples filing jointly for 2000.

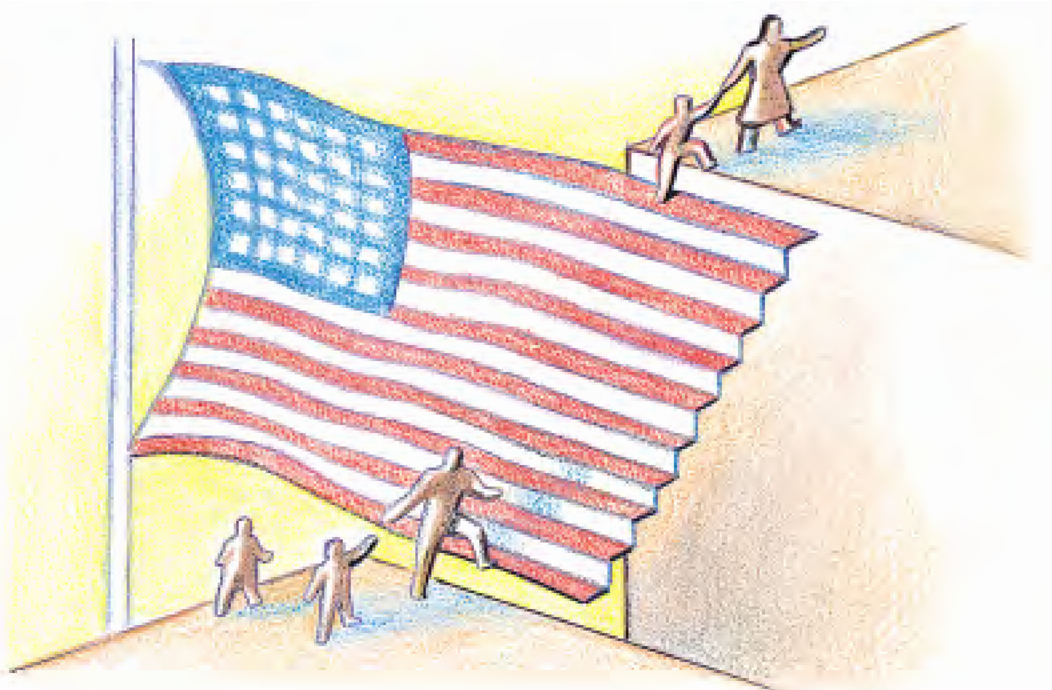
[4] "Giving Tax Credit Where Credit is Due: A 'Universal Unified Child Credit' That Expands the EITC and Cuts Taxes for Working Families," April 2000, www.epinet.org.

A similar equity challenge is posed by the Child and Dependent Care Credit, which enables working families to deduct a portion of their child care expenses from their tax liability. This credit allows families with adjusted gross incomes under $10,000 and children under the age of 13 to deduct 30 percent of their child care expenses from their total income tax liability. The credit gradually declines to 20 percent of qualifying expenses for families with incomes of $28,000 or more.

Unfortunately, the Child and Dependent Care Credit does not accurately reflect the child care expenses most families pay. Brookings Institution researchers Sawhill and Thomas estimate that working parents who pay for child care annually spend about $4,850 per year. "Most families can't qualify for more than about $480 a year," says Sawhill. "So it is a very small subsidy."

An even bigger problem for low-income families is that the Child and Dependent Care Credit is not refundable — the benefit cannot exceed the tax liability. Sawhill and Thomas estimate that making this credit refundable "would

For very-low-income families, the value of the EITC increases as work effort and earnings rise, making work more financially attractive than welfare.

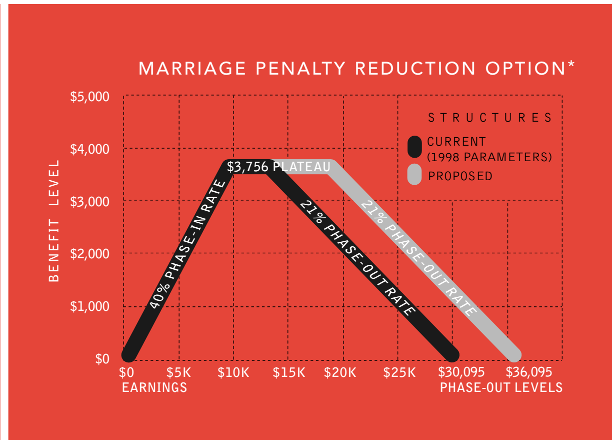


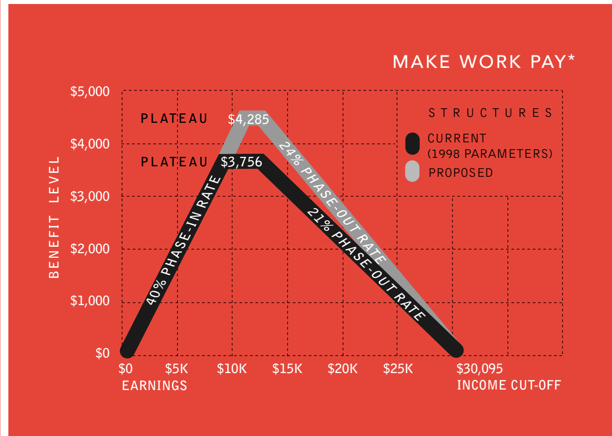
STRENGTHENING THE EITC

Perhaps the most effective government program for encouraging work and reducing poverty, the EITC can impose financial penalties on low-income workers who marry, and it does not always provide the largest rewards to low-income people who work the most. The top figure shows how extending the phase-out range for couples filing joint returns could reduce the marriage penalty for workers who both earn the minimum wage. The figure on the bottom shows how extending the phase-in range of the EITC and increasing the maximum benefit could reward full-time minimum wage work.

**Both charts are based on EITC benefits for families with more than one child, and both proposed changes would apply to families with fewer or no children.*

Source: Sawhill and Thomas, Brookings Institution, 2000





EITC: A key feature is the way in which it phases in, levels off, then phases out.

direct over 95 percent of its marginal benefits" to poor and near-poor families.[5]

The Child Tax Credit, which enables families to deduct $500 from their tax liability for each child under the age of 17, is also nonrefundable. Introduced into the tax code in 1998, the Child Tax Credit begins to phase out at $75,000 of annual earnings for a single person, and $110,000 for married couples filing jointly. President Bush's tax plan proposes doubling the Child Tax Credit to $1,000. Such an increase would help reduce the tax liability of middle- and upper-income families. An option proposed by Sawhill and Thomas is doubling the Child Tax Credit and making it partially refundable, enabling low-income working families to benefit from this credit.

Building a Better EITC

For many policy analysts, researchers, and advocates, the attraction of refundable tax credits for low-income working families is based, in part, on the nation's generally positive experience with the Earned Income Tax Credit. Targeting poor and near-poor families with children,[6] the EITC is a tax benefit that increases the net income of low-wage workers. The credit has a maximum benefit of $2,300 for a family with one child, and $3,800 for a family with two or more children.

A key feature of the EITC is the way in which it phases in, levels off, then phases out. For a family with two or more children, the phase-in range ends at $9,500 of annual income. The phase-out range begins at $12,500 and ends at

[5] "A Hand Up for the Bottom Third: Toward a New Agenda for Low-Income Working Families," discussion draft, December 2000, www.brookings.org.

[6] For very-low-income families and individuals without children, there is a small maximum benefit of about $350. This population receives about 3 percent of all EITC expenditures.

$31,150. This structure provides strong incentives for very-low-income families to increase their work effort and earnings. As the credit phases in, each dollar of earnings generates an additional 40 cents in benefits.

By increasing the financial reward for work, the EITC complements welfare reform by encouraging low-income single mothers to enter the labor force. Northwestern University economists Bruce Meyer and Dan T. Rosenbaum estimate that about 60 percent of the increased annual employment of single mothers between 1984 and 1996 is attributable to the EITC.

Despite its emphasis on encouraging work, the EITC does not always provide the largest rewards to low-income people who work the most. Because the credit is based on total annual earnings, someone with a full-time minimum wage job might receive a lower benefit than someone who works fewer hours at a higher wage. Sawhill and Thomas, whose research shows that full-time work is "the best antidote to poverty," have proposed extending the phase-in range of the credit. "I think people should get the maximum EITC once they are working full time at a minimum wage job," says Sawhill.

In addition to examining options for strengthening the EITC's work incentives, researchers are looking at ways of reducing its disincentive to work as the credit phases out. For a family with two children, each additional dollar earned during the EITC's phase-out range reduces benefits by 21 cents. By the time a single person with two children earns a little over $20,000, calculates Eugene Steuerle, the taxpayer faces a 21 percent EITC phase-out reduction in benefits, the regular 15 percent marginal tax rate, and a Social Security tax of nearly 15 percent. In other words, the federal tax system "starts taking away about one-half of additional earnings."[7]

Because the EITC is based on family rather than individual income, married recipients are more likely to have incomes in the phase-out range than single parents. A study by Berkeley economists Nada Eissa and Hilary Hoynes found that the EITC reduced the labor force participation of married women by a modest amount. "Our results," they wrote, "imply that the EITC is effectively subsidizing mothers to stay at home."[8] The researchers add that they "make no value judgments about this feature of the credit." Others, however, make the case that if one of the earners in a two-parent family with children works a little less overtime or spends more time with the children, the family and society are arguably better off.

According to David Ellwood and Jeffrey Liebman of Harvard's Kennedy School of Government, the most direct way of solving the EITC's phase-out problem would be to extend the credit and not phase it out until adjusted gross income reaches $110,000 per year. In other words, "any families with earnings above the EITC maximum would receive the full benefit."[9] As with all universal benefit programs, the downside of this option is the high price tag, which Ellwood and Liebman estimate as $53 billion above and beyond current child benefits.

Marriage Penalties

A feature of the EITC closely related to the phase-out problem is the so-called "marriage penalty." In a progressive system that taxes higher incomes at higher rates, two working individuals who marry can pay more in income taxes than if they remain single. With the EITC, some low-income couples — for example, a working woman with two children and a working man, both of whom have full-time minimum wage jobs — face reductions in EITC benefits when they marry.

Researchers who have examined the marriage penalty are skeptical that it actually affects behavior. The decision to marry, after all, generally is not an economic one. David Ellwood, a former assistant secretary at the U.S. Department of Health and Human Services, has found "no clear effects" of the EITC on marriage one way or the other. In a study written with Brookings's Isabel Sawhill, the authors suggest that "as a matter of symbolism or simple fairness, the law ought to be changed."[10]

There are a number of options for addressing the EITC's marriage penalty. One is simply to

[7] "Combining Child Credits, the EITC, and the Dependent Exemption," May 2000, www.urban.org.

[8] "Married Couples, Work and the EITC," *Poverty Research News*, Summer 1998.

[9] "The Middle Class Parent Penalty: Child Benefits in the U.S. Tax Code," National Bureau of Economic Research, December 2000.

[10] "Fixing the Marriage Penalty in the EITC," September 2000, www.brookings.org.

base the credit on individual income rather than family income. This approach is common in Europe. Another option is extending the maximum benefit plateau for married couples, while leaving it unchanged for single parents.

A related policy question is whether the EITC should be adjusted for families with three or more children. Under the current law, the credit has three different benefit levels: no children, one child, and two or more children. Proponents of an adjustment for families with three or more children note that their poverty rate is 29 percent — or about three times the poverty rate for all families. Robert Greenstein, executive director of the Center on Budget and Policy Priorities, observes that low-income families with three or more children not only have more expenses than smaller poor families, but also have greater difficulty making the transition from welfare to work. One obstacle is that "there are more children for whom child care must be arranged and paid."[11]

Although there is broad political support for ending marriage penalties in the tax code, proposals to adjust the EITC for larger families could run into substantial opposition. Some analysts believe that poverty rates for larger families do not accurately reflect "economies of scale" and consequently overestimate the financial stress on these families. Alluding to the toxic welfare debates of the 1980s and early 1990s, Sawhill and Thomas speculate that "the taxpaying public may resent having to pay higher benefits to larger families when they themselves may have limited their own family size according to what they believed was affordable."[12]

Targeting poor and near-poor families, the Earned Income Tax Credit is a tax benefit that increases the net income of low-wage workers.

Roads to Reform

Like the tax code in general, the EITC is notorious for its complexity. (The IRS publication that explains the EITC to taxpayers is 56 pages long.) Such complexity contributes to the EITC's high error rates. According to a recent IRS report, 25.6 percent of total EITC claims in 1998 were erroneous.

The Treasury Department has launched several initiatives to ensure that only eligible families receive the EITC. In addition to simplifying some IRS rules — for example, for married taxpayers who have separated from their spouses — the Treasury Department has urged Congress to make certain EITC definitions conform with other parts of the tax code.

A more comprehensive legislative proposal to simplify the tax code, improve the EITC, and increase tax breaks for working families is the Universal Unified Child Credit (UUCC). Conceived by Robert Cherry and Max Sawicky, the UUCC would convert the dependent exemption into a credit and combine it with the EITC, the Child Tax Credit, and the Additional Child Tax Credit. The goal is to encourage work, reduce marriage penalties, and unify child-related provisions and eligibility. The price tag for such comprehensive reform, however, is steep — Cherry and Sawicky estimate that the cost of the UUCC is about $30 billion per year.

Whether the UUCC or other more incremental approaches to tax reform for low-income working families are worth the public investment is ultimately a question that is political rather than economic. The closeness of the recent presidential election and the even split among Republicans and Democrats in Congress suggest that any successful tax reform legislation will be the product of a conservative-liberal coalition. As the emerging body of research demonstrates, there are any number of possible roads to tax reform. The paths we pursue and the steps we take will be one measure of the nation's commitment to helping low-income working families successfully raise their children.

[11] "Should the EITC Benefits Be Enlarged for Families with Three or More Children?" July 2000, www.cbpp.org.

[12] "A Hand Up for the Bottom Third."

GETTING HEALTH CARE RIte

PUBLIC HEALTH INSURANCE IN RHODE ISLAND

BY ROSE GUTFELD

The day Marie Darlene Cayard gave birth to her third child in Providence, Rhode Island, a social worker visited the hospital room and signed the baby up for government-provided health insurance before the family had even settled on a name for the newborn. When Christian, as he came to be known, developed seizures four days later, the state insurance program paid for the week he spent in intensive care and for the medication he required for the following year.

Known as RIte Care, the program provides free allergy medicine for Christian, who is now two years old, and a free bus pass to help the family keep appointments at Neighborhood Health Plan of Rhode Island, one of the three insurance plans that dispense health care under contract with the state. Marie Cayard, her husband, and children also see a RIte Care primary care physician regularly. "The doctors are wonderful," says Cayard, who joined the program when she lost her job at a nursing home — and her health insurance — during her pregnancy. "This has been such a blessing to me."

RIte Care's comprehensive insurance for low- and moderate-income working families — the Cayards' annual family income is about $25,000, or approximately 125 percent of the federal poverty level for family of five — has made Rhode Island a nationwide leader in the provision of health care. In RIte Care, jointly financed by the state and federal governments, families are enrolled in regular, commercial health plans rather than getting services through a separate government system. The commercial plans are then reimbursed for their cost of treating RIte Care patients.

Under this system, people have their own primary care doctors whom they visit regularly, rather than making sporadic visits to emergency rooms. The shift has greatly improved the families' access to services and the quality of their care and significantly lowered the state's costs. RIte Care began in 1994, when it covered poor families and pregnant women, many of whom had been covered under Medicaid. Since then, the program has steadily expanded and now, for example, covers parents in eligible families earning up to 185 percent of the federal poverty level, or $36,907 for a family of five.

To reach these families, many of whom previously had no insurance or inadequate coverage, RIte Care has employed an extensive outreach program, financed in part by the Robert Wood Johnson Foundation. Families can sign up when they register their children for kindergarten, and the state has reimbursed community-based agencies that enroll new RIte Care members. The program has also cut the amount of documentation required of immigrants and allows people to sign up by mail, among other innovations. Once they have joined RIte Care, members get benefits ranging from immunizations to prescription drug coverage to mental health services.

So far, the results are striking. In 1999, 6.9 percent of Rhode Islanders lacked health insurance, the lowest rate in the country, down from 11.5 percent in 1994, according to the U.S. Census Bureau. State figures show that the percentage of women getting adequate prenatal care through state-purchased insurance increased to 70 percent in 1998 from about 58 percent in 1994. Rhode Island ranked first of all states in the most recent National Immunization Survey by the Centers for Disease Control, with 90 percent of two-year-olds having completed basic immunizations.

Christine C. Ferguson, Rhode Island's director of human services, says she was surprised at how quickly health outcomes improved: "Even our critics," she says, "have begrudgingly come to the conclusion that this is something that really works."

The critics have not gone away, of course, and RIte Care faces its share of challenges. Some insurance plans and

In 1999, 6.9 percent of Rhode Islanders lacked health insurance, the lowest rate in the country, down from 11.5 percent in 1994.

providers complain that the state's reimbursement rates are far too low. A sharp rise in health care costs over the past year forced the state to delay plans for a further expansion of the program, and instead focus on restoring its fiscal health. And parts of the RIte Care rescue package passed by the legislature still await approval from federal officials in Washington.

But such problems do not detract from the gains RIte Care has made or the attention it is drawing across the country. "Rhode Island is an extremely good example of how to get moms and kids and families enrolled and provide good services," says Ian Hill, a senior research associate at the Urban Institute in Washington, D.C. "I am pretty impressed with all the things they've done."

The Vision Dimension

Studies show that efforts to improve health care for children are more effective if parents have access to care themselves. Children in families with good health coverage are more likely to see doctors regularly for immunizations and preventive care, to get treatment for chronic problems such as asthma, and to be screened for developmental problems. This, in turn, saves money by reducing the use of emergency rooms.

Like many other states, Rhode Island started expanding health coverage to low-income families more than a decade ago, after Congress began requiring states to broaden coverage under Medicaid to pregnant women. The state's all-out push really got going because of two events. First, Rhode Island received a waiver from the federal Health Care Financing Administration that allowed the state to switch its Medicaid program from a traditional fee-for-service system to RIte Care, a managed care program. The waiver also allowed the state to extend coverage to pregnant women and preschool children in families with incomes up to 250 percent of the federal poverty level and to contract with the health plans.

The second event was the state's hiring of Ferguson, who was returning to her home state of Rhode Island after spending years working on health care reform in Washington as a top aide to Republican Senator John H. Chafee of Rhode Island. She became director of the human services agency as RIte Care was struggling to get off the ground: Consumers were uncertain how to use the new system, and providers and plans were objecting to the reimbursement rates, among other problems.

The agency raised the reimbursement rates — though many providers remain unhappy — and focused on outreach. "We really made an effort, before we focused on eligibility, to get both a package of benefits and a delivery system that made sense and was accessible to people, even to those who didn't speak English and may have never had a primary care doctor," says Ferguson.

Both supporters and critics of RIte Care credit Ferguson with having the drive, listening skills, and long-term view that have been crucial to the program's success. "Christie added the vision dimension," says State Senator Thomas J. Izzo, chairman of the Senate Health, Education, and Welfare Committee. "She has a capacity to listen to folks."

Marti Rosenberg, executive director of Ocean State Action, an advocacy group, and cochair of the RIte Care Consumer Advisory Committee, agrees. "Christie was a breath of fresh air," she says.

In the early days of RIte Care, Ferguson recognized the need to shore up Neighborhood Health Plan of Rhode Island (NHPRI), a health maintenance organization that was formed by a group of 14 nonprofit community health centers that already were serving Medicaid recipients and wanted to continue to do so under RIte Care. In forming NHPRI, the centers received significant financial help from a sister organization, Neighborhood Health Plan of

The percentage of women getting prenatal care through state-purchased insurance increased to 70 percent in 1998 from about 58 percent in 1994.

In Rhode Island, 90 percent of two-year-olds have completed basic immunizations.

Massachusetts, and a grant from the Rhode Island Foundation. When NHPRI's financial health became shaky in 1995 and 1996, Rhode Island instituted a reinsurance plan in which it absorbed some of the substantial risk NHPRI incurred in providing neonatal and other high-cost care. "The reinsurance plan allowed us to plan ahead, to make investments," says Christopher F. Koller, NHPRI's chief executive officer. He says the state then took a more hands-on role in running the organization. "We quit having a lifeboat mentality."

Later, the foundation agreed to purchase the Massachusetts company's ownership stake, a sale that will make NHPRI a nonprofit organization.

Access and Use

With NHPRI on more solid ground, the state was ready to expand eligibility in incremental steps. Between March 1996 and July 1998, RIte Care added 6- and 7-year-olds, children up to age 18, and then 19-year-olds. Parents came on board in November 1998. The state began enrolling home-based child care providers and their dependents in January 1997, and two years later it began paying part of the health care cost of employees of child care centers that served significant numbers of RIte Care-eligible children. Total RIte Care enrollment is currently around 105,000, out of a state population of about 1 million. Ninety-seven percent of enrollees have annual family incomes of less than 185 percent of the poverty line; 60 percent have incomes below 110 percent of poverty.

Rhode Island officials point proudly to results showing the health care behavior and outcomes of the RIte Care enrollees approach those of their commercially insured counterparts. For example, in 1994 state figures showed that 31.8 percent of pregnant women receiving state-purchased insurance smoked cigarettes, compared with 11.7 percent of pregnant women getting employer-purchased insurance. By 1998, the gap had narrowed to 24.3 percent for pregnant women receiving state-purchased insurance, compared with 10.9 percent for pregnant women with employer-purchased insurance.

In 1994, 38.2 percent of women receiving state-purchased insurance had waited less than 18 months between births, compared with 27.8 percent of women with employer-purchased coverage. By 1998, the percentage of women with short intervals between births had fallen to 30.7 percent for women with state-purchased insurance, compared with 27.5 percent for women with employer-purchased coverage.

Tricia Leddy, administrator of the Center for Child and Family Health in the human services department, says: "The [low-income] population is much smarter than people give them credit for. As soon as they had access to doctors, they started using them."

A Public-Private Partnership

Crucial to this change in behavior has been the education and outreach campaign. A consumer advisory committee, set up several months before RIte Care began, includes advocates, consumers, representatives from the health plans, and state officials. The group has reviewed materials sent to RIte Care members from the health plans and the state, including an annual member satisfaction survey. It has limited the amount of confidential information members need to supply in order to receive free bus passes. (In emergencies the state also will pay for cabs to take RIte Care members to clinics or emergency rooms.)

The committee also helped develop the outreach project at community-based organizations. In that initiative, which ran for about 15 months in 1999 and 2000, organizations that used their own staff to sign up enrollees received a $35 reimbursement for each successful enrollment. The state also paid part of the salaries of workers

Total RIte Care enrollment is currently around 105,000, out of a state population of about 1 million.

Studies show that efforts to improve health care for children are more effective if parents have access to care themselves.

the organizations hired to enroll new members. Leddy says that about 12,000 new members were signed up through these efforts.

Covering Kids Rhode Island, a three-year, $950,000 initiative that began in 1999 and is financed by the Robert Wood Johnson Foundation and the Rhode Island Foundation, aims to eliminate barriers to health insurance enrollment. The project's lead agency is Rhode Island KIDS COUNT, a research and advocacy organization that receives support from the Casey Foundation. Among other successes, the group points to St. Joseph's Hospital in Providence, where uninsured patients are directed to a counselor who can help them fill out a RIte Care application. Last fall in Pawtucket, parents were asked on school registration forms about their insurance status; those without insurance got follow-up calls. In Central Falls, where a focus is on enrolling eligible Latino and immigrant families, parent liaisons in the schools give out information about RIte Care and help with applications. Throughout the state, applications are bilingual.

RIte Care proponents contend that the accomplishments in increasing coverage reflect the strength of the collaboration among state, business, and nonprofit groups. "There's no question in my mind that what we now have is a public-private partnership," says Ferguson. "We couldn't have done RIte Care without going to outside groups."

It also helped to be operating in a small state. Leddy says she has discussed health care at her children's soccer games with Karen Voci, executive director of the Rhode Island Foundation, and Elizabeth Burke Bryant, executive director of Rhode Island KIDS COUNT. "Things that don't look doable in other states suddenly look doable in our state," says Bryant. Her organization, which collects research on health care outcomes and trends in the state, operates "as the policy staff that the government doesn't have, a research-based intermediary that could bring the government, legislative, and foundation partners together," she says.

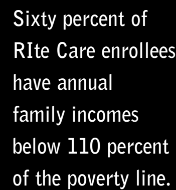
Thinking Ahead

As a leading state in the provision of health insurance, Rhode Island was in danger of moving faster than the federal government would allow on getting health care to children. In 1997, Congress passed the state Children's Health Insurance Program, which provides funds to help states expand health care coverage to low-income children. Rhode Island, however, had already extended coverage to most of the children covered by the law and has had to petition the government to be allowed to use the funds to offset other costs of the RIte Care program.

By the middle of 1999, RIte Care's success had impressed even its critics, though various groups remain dissatisfied with aspects of the program. Steven DeToy, director of government and public affairs for the Rhode Island Medical Society, complains vigorously about the reimbursement rates physicians receive from the plans and the requirement that doctors and other providers who treat commercial patients under one of the insurance plans must also treat RIte Care members participating in that plan. "From a health care standpoint, RIte Care has been just a phenomenal success," says DeToy. "From the provider standpoint, it's been anything but at this point."

Scott Fraser, a spokesman for Blue Cross & Blue Shield of Rhode Island, cited the low reimbursement rates that the plans get from the state in explaining why BlueCHiP closed its RIte Care enrollment several years ago at 5,000. But, he says, the company is talking to the state about the issue and might reopen enrollment if the reimbursement schedule were improved: "If things did get better, we'd be more than happy to open enrollment."

Sixty percent of RIte Care enrollees have annual family incomes below 110 percent of the poverty line.



The state felt confident enough in 1999 to start preparing to extend coverage further. The expansion plans quickly turned into a rescue effort, however, as surging costs began to roil the New England health care market. Two of the five health plans operating in Rhode Island left the state. One, Harvard Pilgrim Health Care of New England, had been a RIte Care participant. Faced with double-digit increases in health insurance premiums from the plans that remained, employers began dropping coverage or significantly increasing their employees' share of the cost of coverage.

At the same time, RIte Care's November 1998 expansion of coverage to parents earning up to 185 percent of the federal poverty line had taken hold, meaning that many of those employees facing higher costs or loss of insurance were now eligible for the state program. RIte Care's extensive outreach and education efforts had erased much of the stigma attached to participating in a government program, especially one as generous as RIte Care. Enrollment swelled, to 105,500 as of October 31, 2000, from 78,418 in February 1999.

The rise in enrollment was praised by consumer advocates and editorial writers as evidence that RIte Care was fulfilling its aim of reaching increasing ranks of the uninsured, including more and more working families. But the migration caused the program's budget to soar. And UnitedHealthcare closed its enrollment to new RIte Care members as of October 31, 1999; it now has slightly more than 41,000 RIte Care members. The company says it might reopen its enrollment once the migration of people from employer-sponsored plans is curtailed.

In January 2000, Republican Governor Lincoln Almond convened a group of state officials, legislators, and representatives from consumer and business groups to address the surge in costs and RIte Care enrollment. He signed the legislation that grew out of the group's proposals on July 1, 2000. Among other provisions, the new law sets up RIte Share, which will provide subsidies to reduce the health care costs of employees and keep them in employer-sponsored plans. It also creates tougher financial accountability standards for health insurers.

The new system also will usher in a $25 copayment for some services and establish more stringent waiting periods and affordability tests for RIte Care members. State officials, who are still waiting for approval of some of these items from the federal Health Care Financing Administration, express confidence that the changes will significantly improve the program's long-term health. And they are taking other steps to be prepared when health care costs skyrocket again or economic growth slows significantly. "The challenge is thinking ahead while times are good," says Ferguson, who is working to find savings in other programs.

While the changes are being phased in, one aspect of RIte Care remains unchanged: Rhode Island's commitment to the program and to a further reduction in Rhode Island's rate of uninsured residents. Everyone, including representatives from the governor's office, the provider groups, the health plans, the advocacy groups, and the business community, seems to accept that RIte Care's mission is a noble one that should be maintained. "How can you be against quality health care?" asks John Gregory, the president and chief executive officer of the Northern Rhode Island Chamber of Commerce and the chairman of the RIte Share business advisory committee. "Whether you are a business owner, an employee, whatever, health care may not be a constitutional right. But it is certainly a moral one."

Rose Gutfeld, a former reporter for The Wall Street Journal *and editor for* Congressional Quarterly*, is a freelance writer who lives in Chevy Chase, Maryland.*

MAKING WORK POSSIBLE

THE ILLINOIS CHILD CARE SUBSIDY

BY KRISTIN COFFEY

A key provision of the historic welfare reform legislation of 1996 established the Child Care and Development Fund (CCDF), a federal-state program to assist low-income families with their child care expenses. Consolidating federal funding for child care, CCDF reflects a commonsense notion that any realistic attempt to make earnings a substitute for long-term dependency requires child care subsidies for low-income families. As with welfare reform generally, the fund provides states with considerable flexibility in determining eligibility guidelines, family copayments, and other features of public child care programs. ☆ Despite the increasing attention of many states to the child care needs of working-poor families, there remains a huge gap between the need for such care and the number of families who receive assistance. According to a recent study by the U.S. Department of Health and Human Services, "in an average month in 1998, only 1.5 million of the 9.9 million low- and moderate-income children eligible for CCDF assistance actually received help through the program."[1]

[1] "Access to Child Care for Low-Income Working Families," U.S. Department of Health and Human Services, August 7, 2000.

One reason for this gap is that eligible families sometimes lack information about the availability of child care assistance. Another is that the some states require families to navigate complicated and bureaucratic processes to access the subsidy. "The single biggest reason" for the gap, says Mark Greenberg, senior staff attorney for the Center for Law and Social Policy, "is the lack of resources in the system to reach all families who could benefit from this assistance."

One state that has been a leader in ensuring that low-income families have access to child care is Illinois, which responded to federal welfare reform legislation by overhauling its system of child care and expanding subsidies. Unlike the old system, in which most child care assistance was a transitional service for mothers leaving welfare to enter the labor market, the new Illinois Child Care Subsidy program is based solely on income and the age of the children. "The new program has universal eligibility — all working families regardless of whether they are receiving TANF [Temporary Assistance for Needy Families] or not," says Linda Saterfield, chief of the Bureau of Child Care and Development in the Illinois Department of Human Services. "We wanted the child care program to be a seamless system for all low-income families, regardless of where they were in their work life or training."

Yet access is only one part of the child care equation; the other is the quality of that care. Studies have shown that an enriched and stimulating child care environment provides cognitive, linguistic, and social benefits to children that can last for years. "Child care must be understood both as a support for work and as an early learning experience," says Jerome Stermer, president of Voices for Illinois Children. "Illinois has made very important strides on the first goal, but we still have to make more progress on the second goal."

Huge Waiting Lists

For low-income working families, child care is often the second or third highest expense in their budget. The U.S. Department of Health and Human Services reports that child care costs for families range from $3,000 to $10,000 per year. According to Brookings Institution researchers, the average annual cost for working families who pay for care is nearly $5,000.

ILLINOIS HAS RESPONDED TO THE GROWING NEED FOR CHILD CARE BY DESIGNING A SYSTEM THAT MAKES IT POSSIBLE FOR LOW-INCOME FAMILIES TO WORK AND PAY FOR THEIR CHILD CARE.

In addition to being expensive, child care is often hard to find for families who work nontraditional hours — a common feature of the low-wage labor market. Researchers have found that the availability of child care increases the likelihood that low-income people will work. The absence of child care, on the other hand, means that poor people will more likely be dependent on public assistance.

Under its old system, Illinois sought to provide temporary child care assistance for low-income parents, primarily through state contracts with providers and child care centers. Yet the number of contracted child care slots was both fixed and limited. "Child care was available in theory," says Maria Whelan, executive director of the Day Care Action Council of Illinois, "but there were huge waiting lists."

After the enactment of federal welfare reform legislation, Illinois policymakers, advocates, and others worked to create a new system of child care subsidies — one based solely on a family's income. Families can qualify for the Illinois Child Care Subsidy program if they have children under the age of 13 and if their incomes are at or below 50 percent of the 1997 state median income — $21,819 for a family of three. For a family of three with

earned income, the threshold for eligibility is $24,243.

Funding for the Illinois Child Care Subsidy program comes from a combination of state and federal funds. In addition to receiving federal money from the Child Care and Development Fund, Illinois is using flexible federal dollars from Temporary Assistance for Needy Families and its own "maintenance of effort" funds. In FY 2000, Illinois spent more than $574 million on child care subsidies and served an average of 189,000 children per month.

Under the Illinois program, parents make copayments to child care providers based on family income, family size, and the number of children in care. "Our parent copay fee ranges anywhere from 6 to 11 percent of a family's income," says Saterfield.

Parents can use their child care subsidies in two ways: contracted care or child care certificates. The state has contracts with more than 160 contracted providers or child care centers throughout the state. Contracted care includes licensed child care facilities and licensed family child care homes, part and full-time care, early childhood development, and before- and after-school care. Although there is no waiting list to receive a child care subsidy from the state, there may be waiting lists at some child care centers for a "subsidy-eligible child care slot."

Most participants in the Illinois program use child care certificates to pay for care. Administered through the state's network of 17 Child Care Resource and Referral Agencies, the certificates can be used for child care provided through "any legal provider," including licensed child care centers, licensed family homes, license-exempt care (which may be relatives or neighbors caring for three or fewer children, including their own). Both the state and families pay the child care provider directly. Some providers may charge parents more than the subsidy and copay to compensate for the difference between the state subsidy and their fee for private clients.

More than 60 percent of families receiving certificates use them for child care in license-exempt settings. The most common license-exempt providers are individuals who take care of three or fewer children either in their home or in the home of the participant. Although this is often a good situation for both the children and the family, advocates are concerned that such care is not always high quality. "Some people choose their own mother, and their mother gets paid, and the kids' grandmother is fabulous," says Stermer. "And in other situations it is the neighbor from next door who turns on the television and never talks to the kids."

Quality Counts

To address quality concerns in both licensed and license-exempt child care, the Bureau of Child Care and Development is conducting a "Quality Counts" campaign. Started primarily as a public education campaign to help parents choose child care, Quality Counts also educates providers about the characteristics of quality care — for example, ensuring that children are safe, healthy, and engaged in developmentally appropriate activities, and that care is provided by responsive and well-qualified caregivers.

Each Child Care Resource and Referral Agency has a Quality Counts van, painted with a mural of children and the Quality Counts logo, and equipped with literacy materials and developmentally appropriate toys, books, and games. The vans visit both licensed and license-exempt providers to provide technical assistance and promote quality care for children. "This is primarily for license-exempt providers," says Linda Saterfield. "It is a difficult group to engage, and we are using some information from Maine and Maryland where they have determined that the most effective way to engage license-exempt providers is through home visits."

Licensed child care centers and homes are able to access training and professional development opportunities through the Child Care Resource and Referral Agencies. In addition, the Illinois Network of Child Care Resource and Referral Agencies and its member agencies administer T.E.A.C.H. (Teacher Education and Compensation Helps), which provides partial funding for college scholarships, travel,

and release time. In return, providers commit to remaining at their center or child care home for one year after receiving the scholarship.

A major barrier to quality in licensed child care is the high rate of turnover among staff. Every two years, there is a 43 percent turnover rate in Illinois, and one of the main reasons for this instability is low income. "In the last wage and salary survey we did, the average hourly wage for child care staff was $7.40," says Saterfield. "These days you can make that at McDonald's. Child care staff are very dedicated to be able to care for children all day, and $7.40 an hour just doesn't get it done, especially when you talk about wanting to impact the quality of the care that is being provided."

To help improve compensation, Governor George H. Ryan recently signed legislation creating Great START, an acronym for Strategy to Attract and Retain Teachers. Providing bonuses to child care teachers based on their training in early childhood education, Great START is modeled after the successful North Carolina WAGE$ program, which has reduced child

"WE WANTED THE CHILD CARE PROGRAM TO BE A SEAMLESS SYSTEM FOR ALL LOW-INCOME FAMILIES, REGARDLESS OF WHERE THEY WERE IN THEIR WORK LIFE OR TRAINING."

care staff turnover by as much as 75 percent. "This is a recognition on the part of the legislature that child care is such an important field that we have got to do something," says Stermer. "This is one step."

Making a Difference

In the 1990s there was a dramatic increase nationwide in the number of low-income mothers entering the labor force. Illinois has responded to the growing need for child care by designing a system that makes it possible for low-income families to work and pay for their child care. There is still more work to do in improving the quality of care in the state, but for LaDonna Calhoun, a working single mother in Chicago, the Illinois Child Care Subsidy program has made a critical difference in balancing her work and family responsibilities. "To be honest," she says, "I don't know what I would have done without the subsidy."

Kristin Coffey, a former communications associate with the Annie E. Casey Foundation, is a freelance writer and editor.

NORTH CAROLINA'S COMMITMENT TO QUALITY

Low wages and the absence of benefits contribute to high turnover among child care professionals. Because a stable relationship between provider and child is a critical part of quality child care, the state of North Carolina has established several promising programs to reduce turnover among caregivers, including the Teacher Education and Compensation Helps (T.E.A.C.H.) Early Childhood Project, NC Cares, and the Smart Start Initiative. Results from these initiatives have been impressive. The statewide turnover rate decreased from 42 percent in 1993 to 31 percent in 1998.

The T.E.A.C.H. Early Childhood Project provides educational scholarships for teachers, directors, and family child care providers statewide. Started as a pilot program in 1990, the project currently provides about 2,500 scholarships per year. Participants in the project complete 18 credit hours per year and, on average, increase their earnings by 10 percent. Because of its success in reducing staff turnover, the project is being replicated in 15 other states.

NC Cares, an acronym for Committed to Attracting and Retaining Educated Staff, has two parts. The first is a wage supplement that serves as an incentive for providers to increase their education and stay in the same job. Starting at $300 per year, wage supplements can rise up to $3,000 per year as workers increase their education and remain with their child care programs. The second part of NC Cares provides health insurance to the more than 30 percent of providers working in child care centers who do not have this benefit. The cost of the health insurance is split equally between the worker, the center, and the federal Child Care and Development Fund.

The Smart Start Initiative was established in 1993 to ensure that all children enter school healthy and ready to learn. All children up to age five are eligible for services, regardless of family income. Smart Start funds that are committed to improving the quality of child care provide training and education for providers in centers and in family child care homes. An evaluation of Smart Start by the University of North Carolina at Chapel Hill showed "a significant improvement in quality over time, with an increasing number of centers being rated as providing 'good' to 'excellent' care."

FROM WELFARE TO WORK...TO WHERE?

HOUSING EMERGES AS THE NEXT FRONTIER IN HELPING VULNERABLE FAMILIES ESCAPE POVERTY

BY RICHARD MENDEL

A familiar but almost forgotten word is reappearing on the lips of inside-the-Beltway and local community advocates: housing.

The 1990s proved a wrenching decade in the nation's low-income housing markets. The economic boom caused rents to skyrocket in many urban centers, pricing families out of the market. Meanwhile, welfare reform pushed millions of once-dependent families into a fragile self-reliance.

As a result, housing is emerging as a critical battleground in efforts to meet the needs of America's most vulnerable children and their families. Not since the homelessness crisis burst onto the U.S. landscape in the 1980s has the unavailability of decent and affordable housing received so much attention from those concerned about America's needy children and their families. Though it hasn't yet made headlines, signs of the housing issue's resurgence are increasingly apparent.

In Washington, the Center on Budget and Policy Priorities, a think tank focused on tax equity and the social safety net, launched a new housing policy thrust in 1997. More recently, Manpower Demonstration Research Corporation (MDRC), the nation's leading think tank on welfare reform issues, has also begun to focus on housing and its role in easing the welfare-to-work challenge.

In 2000, Congress approved some of the most significant housing legislation in years. The list included a 40 percent increase for a tax credit responsible for financing more than 900,000 units of low-income housing in the past 15 years, the program's first increase since 1986. Congress also provided 79,000 new housing vouchers to help low-income families pay their rent, the largest increase in years. Also passed were laws to help avert the conversion of low-income housing units owned by private landlords to market rents. Ambitious bills to fund new production of low-income housing were endorsed by members of both parties, though they ultimately died in committee.

Barbara Sard, director of Housing Policy for the Center on Budget and Policy Priorities, explains that housing, child care, and medical care are the three largest costs in most families' budgets. "As a society," she says, "we've recognized that we can't expect low-wage workers to bear their own medical costs or child care costs. If they have to, they are unlikely to be able to work. We need to reach the same recognition about housing costs."

Bruce Katz, a senior fellow the Brookings Institution, agrees: "We talk a lot about health care," he says. "We talk a lot about child care and income supports and savings policies. But housing is the nut to crack, really, when you're talking about the burden on struggling families."

The Welfare Connection

Much of the renewed interest in housing derives from its close connection to welfare reform — one of the bellwether political issues of our times.

"The kinds of wages that people make when they transition from welfare-to-work are not sufficient to solve their housing problems," Sard says. "Until we got to this point in the welfare debate there was a simplistic notion that the market takes care of housing needs. What we have to do is deal with people's income and then housing will take care of itself. Increasingly, there is recognition that we can't count on that. There is growing recognition that housing has to be a piece of this conversation."

Pat Peterson, a housing policy specialist at the Vermont Department of Housing and Community Affairs, puts it in more stark terms: "If you don't have stable housing, then anything you try to do in welfare-to-work just isn't going to work."

Indeed, a growing body of evidence suggests that housing is critical to families' success in the welfare-to-work

transition. In one Minnesota welfare-to-work demonstration project, the employment rates of welfare-dependent parents living in public or subsidized housing increased by 18 percent over three years, more than twice the gain achieved by families in private, unsubsidized housing. The quarterly earnings of families in assisted housing increased 25 percent during the three-year program, an evaluation by MDRC found, versus a statistically insignificant 2 percent gain among families in unsubsidized housing. MDRC studies in Atlanta, Columbus, and four California counties also found that families in public or subsidized housing fared far better in welfare-to-work programs than those who live without housing support.

A Goal Unfulfilled

These findings underscore the importance of "a decent home and suitable living environment for every American family." In fact, these are precisely the words chosen by Congress during the Truman administration when it established a national goal for housing 52 years ago. Today, this goal remains the official policy of our nation. However, it has never been realized — largely because Congress has never appropriated the funds necessary to serve all families in need. Unlike food stamps, unlike welfare, unlike prenatal care and Medicaid, access to affordable housing has never become a right in America. As a result, millions of needy families remain in substandard, temporary, or unsafe homes.

Last year the U.S. Department of Housing and Urban Development provided housing assistance for about 4 million low-income families nationwide. However, HUD itself estimates that three-and-one-half times that many — 14.8 million households — live in rental housing and earn less then half their area's median income. These included 8.6 million families with incomes below 30 percent of area median income (roughly equivalent to the poverty level in most jurisdictions) and 6.2 million families earning 30 to 50 percent of the area median.

Every two years, HUD publishes a report on worst case housing needs tracking the fate of needy families not fortunate enough to receive rental-housing assistance. Specifically, the report quantifies the number of low-income households who live in substandard housing or devote more than half of their total incomes to rent.

In the 1990s, as gentrification proliferated in city after city, news from these reports was consistently bad. Despite one of the longest economic expansions in U.S. history, the number of low-income households with worst case housing problems rose persistently. HUD's report for 1997 (issued in March 2000) documented the fifth consecutive two-year increase in the number of needy families with worst case housing needs — bringing the figure to an all-time high of 5.4 million households. These households included 12.3 million persons; 4.3 million of them are children.

For these households, the primary housing problem was affordability: 94 percent paid *more than half* of their income for rent, while 9 percent lived in units plagued with dangerous deficiencies in plumbing, heating, electrical systems, or general maintenance. "Families with worst case housing needs are working harder than ever," the report found, and "growth in worst case needs was fastest among working families with children."

In early 2001, HUD released a new report updating the worst case housing data to 1999. The number of families facing severe housing needs declined, dropping 440,000 to a total of 4.9 million. For the first time in a decade, the incomes of low-income families rose faster than the cost of rent, as record-breaking economic growth reduced the number of extremely-low-income renters nationwide by 4 percent from 1997 to 1999.

HUD warned, however, that the supply of housing affordable to low-income renters continues to wane. The number of rental housing units affordable to households earning less then 30 percent of area median income declined by 13 percent from 1997 to 1999, a loss of 750,000 units. As of 1999, only 40 rental units were both affordable to extremely-low-income families and *available to them* (either vacant for rent, or already occupied by a needy family) for every 100 extremely-low-income households needing housing assistance.

The affordable housing supply also dropped sharply for families earning between 30 and 50 percent of area median income, HUD found, and the problem extended to moderate-income working families as well. A June 2000 report by the Center for Housing Policy found that when homeowners and families earning up to 120 percent of area median income are included, the total number of American families spending more than half their income on housing or living in severely inadequate dwellings soars to 13.7 million. That's one out of every seven families nationwide.

No Digs in Beantown

These national statistics offer a broad outline of the housing affordability crisis facing America's families. To put the problem into clear focus, however, you need to look at the local level.

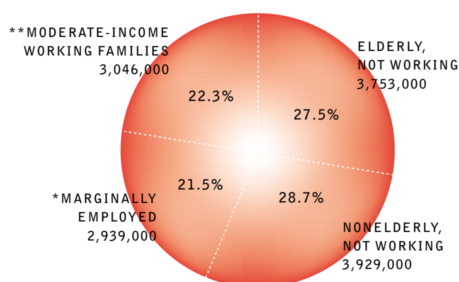
Consider the Boston area, among the nation's most expensive housing markets and one where conditions have been particularly punishing to low-income renters in recent years. In 1991, 7.2 percent of all housing units in the Boston metro area were unoccupied. This number dropped to 7.0 percent in 1992, and it has kept dropping every year since. By 1999, the vacancy rate had fallen to 3.1 percent — less than half of the 1991 figure. Buoyed by an economic boom, Boston's housing market has taken off in the past five years, leaving many low- and moderate-income renters with no place to turn. High-earning professionals, attracted to city living, reclaimed units in many neighborhoods that low-income families had occupied, driving renters out as landlords "rehabbed" entire blocks.

According to HUD's estimate, the "fair market rent" for a two-bedroom apartment in the Boston area — the 40th percentile paid by Boston-area renters — has grown from $775 per month in 1995 to $979 per month in 2001. An advisory panel to Boston Mayor Thomas Menino reported last October a far steeper rise: The average list price for a two-bedroom apartment grew from $909 to $1,448 between 1995 and mid-2000. During this same period, the city's Department of Neighborhood Development calculated that the median rent for a two-bedroom advertised in Boston-area papers rose from $825 to $1,600.

Even in a time of declining poverty, Boston's homeless population has mushroomed in recent years. The city's homeless shelters have been overflowing for 30 straight months — an all-time record. While many of the area's homeless are single adults, an increasing number are families with children, like those of Tracie Miles and Maria Pruitt. (See "Playing the Double Lottery: Two Boston Families" on page 24.) According to Leslie Lawrence of the Massachusetts Coalition for the Homeless, family homeless shelters have been overflowing since July 1999, and the number of homeless families put up in hotels has grown from ten per night in August 1999 to almost 100 per night in January 2001.

Despite the best efforts of local officials, the Boston area's housing assistance programs are not equipped to ease the dire shortage of affordable housing. Overall, 203,000 households in the Boston area paid more than half of their income on rent in 1998. The city's Housing Authority maintains a waiting list of 14,000 people for

CRITICAL HOUSING NEEDS IN THE UNITED STATES



The nearly 14 million U.S. families with critical housing needs come from many walks of life. Roughly 3.7 million are elderly, another 4 million are unemployed or dependent on welfare. The remaining 6 million are working families; about half of them are only marginally attached to the labor market and half have incomes that push them into the ranks of the middle class.

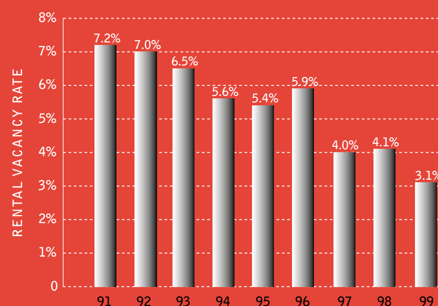
**Marginally employed families are those with earnings from wages of $2,765 - $10,700 (e.g., between one-quarter and one, full-time minimum wage equivalent).*

***Moderate-income families are those whose total income is between $10,700 and 120 percent of area median income, and whose earnings account for at least half of the family's total income.*

All data are from 1997.

Source: Housing America's Working Families *(Washington, D.C.: Center for Housing Policy, 2000, p. 27)*

RENTAL VACANCY IN BOSTON



Boston is among the nation's most expensive housing markets and one where conditions have been particularly punishing to low-income renters in recent years. Buoyed by an economic boom, housing development has taken off in the past five years, leaving many low- and moderate-income renters with no place to turn. By 1999, the rental vacancy rate had fallen to 3.1 percent — less than half of the 1991 figure.

Source: U.S. Census Bureau, "Housing Vacancies and Homeownership, Annual Statistics: 1999," downloaded in February 2000 from U.S. Census Bureau website, www.census.gov/hhes/www/housing/hvs/annual99/ann99t5.html

its 15,000 apartments. Boston's second source of affordable units — 21,854 privately owned apartments reserved for low-income tenants — is also oversubscribed. In fact, like other jurisdictions all over America, Boston is scrambling to preserve these units as affordable housing. Contracts for 20 percent of the units are set to expire by 2003, meaning that landlords could evict low-income tenants and begin leasing at market-rate rents.

The only growing component in Boston's affordable housing inventory the past two years has been tenant-based vouchers, thanks to congressional action in 1999 and 2000 to expand the federal Section 8 program (after an unprecedented four-year moratorium on new vouchers from 1995 to 1998). The Section 8 vouchers provide low-income renters with certificates entitling them to lease an apartment on the private market, with a government guarantee to pay landlords the difference between 30 percent of tenants' income and a fair market rent calculated by HUD.

A Double Lottery

In the words of the National Low Income Housing Coalition, in overheated markets like Boston's these vouchers amount to a "double lottery." Needy tenants must first be lucky (and endure endless waiting lists) to secure a voucher, and then they must be *lucky again* to find a livable apartment below or at least close to the fair market rents established by HUD. A housing task force appointed by Boston Mayor Thomas Menino reported last October that 60 percent of the lucky few households who do receive tenant-based vouchers from the Boston Housing Authority "must eventually return them because they cannot find housing at the price level required by HUD."

At the Metropolitan Boston Housing Partnership (MBHP), a private agency that also administers tenant vouchers, 57 percent of the 437 households who received new vouchers in the first half of 2000 signed leases by December. Julia Kehoe, MBHP's director of rental assistance, says the tight rental market is the primary reason for the low success rate, but the program has also been hindered by MBHP's inability to provide in-depth housing search assistance to families receiving vouchers. The state provides Kehoe's agency no funding specifically for housing search assistance. The administrative funds MBHP does receive are too limited and come only after

PLAYING THE DOUBLE LOTTERY: TWO BOSTON FAMILIES

Tracie Miles and her ten-year-old twin daughters have been living in a single room at the St. Mary's shelter in Dorchester since early December. Maria Pruitt and her two adopted nephews spent two-and-a-half months shuttling between hotel rooms and emergency shelters last winter courtesy of Travelers Aid, a private charity that provides emergency shelter for families. In February 2000, Pruitt finally landed in a temporary apartment as part of a scattered-site shelter program operated by the Metropolitan Boston Housing Partnership.

Pruitt has worked as an aide in the same nursing home for most of the past nine years. In 1999, she was evicted from the apartment she'd lived in for 30 years after getting behind on the rent. It didn't help that her teenage son had words with the landlord. As part of her participation in the scattered-site program, Pruitt has been making calls and sending dozens of letters every month to find a permanent home, aided by a housing search worker at the Metropolitan Boston Housing Partnership. Pruitt knows, however, that her income is nowhere near enough to secure a livable apartment at Boston's market rents.

Lacking a housing subsidy voucher, and stuck deep on the local housing authority's waiting list for public housing, she has applied for housing assistance in communities as far away as Maine. "I don't care where it is," Pruitt says. "I'll go wherever I can get a [subsidized unit], and once I have it I can move and start looking for a new job."

Miles, on the other hand, is determined to stay in Boston. Two years ago she moved her children and her Section 8 housing subsidy voucher from Boston to New York City. With the voucher, Miles found a subsidized apartment in just six weeks. But she never took to the Big Apple. Miles did not find work, and she began suffering from anxiety attacks. "I didn't leave my house," she recalls.

After returning to Boston last fall, Miles spent a few weeks doubled up with her parents, then applied for shelter in December after her efforts to find an apartment bore no fruit. With the Section 8 voucher, Miles is responsible to pay 30 percent of her income for any apartment costing up to $1,053 per month (without utilities), the fair market rent determined by HUD for the Boston area, with the government paying the balance. So far, Miles hasn't found a livable unit within that price range. She has sought and received an extension of her Section 8 certificate allowing her more time to search. But the new deadline was in April, and a second extension is anything but sure.

"I don't want to leave Boston," she says, "so it's going to be hard. The market here is terrible."

IN 2000, HUD PROVIDED HOUSING ASSISTANCE FOR ABOUT 4 MILLION LOW-INCOME FAMILIES NATIONWIDE. LIKEWISE, MANY STATES ARE STEPPING UP EFFORTS TO HELP FAMILIES UPGRADE THEIR HOMES.

renters sign their leases — too late in the process to allow for serious housing search assistance.

The Search for Answers

What can and should be done in Boston and throughout the nation to better meet the housing needs of low-income families and better assist them in the welfare-to-work transition? How can cities encourage more equitable development as neighborhoods are revitalized, so that mixed-income environments are created for children and families?

Synthesizing the recommendations of many advocates, the Children's Defense Fund has identified three housing priorities in its recently proposed Act to Leave No Child Behind: (1) approve 3 million additional housing vouchers over the next ten years, (2) increase the success rates of families with vouchers in securing desirable housing, and (3) spur production of additional housing to redress the dwindling supply of affordable units.

Expanding Vouchers. Unlike the early days of America's public-housing movement when large, government-run housing projects were the primary form of rental-housing assistance for low-income families, rental assistance today is provided through three sources. *Public housing authorities* still house 1.1 million households nationwide. *Project-based vouchers*, in which private landlords set aside apartments for low-income renters in exchange for government financing or subsides, house about 1.3 million. And *tenant-based vouchers*, which entitle low-income families to rent apartments in the private market, assist about 1.5 million families nationwide.

In all three programs, families contribute 30 percent of their incomes toward rent, while the government either absorbs the remaining cost (in the case of public housing) or pays landlords the difference between the families' contribution and the fair market rent designated by HUD for the local housing area.

In public and project-based housing, however, renters are locked into one particular housing unit — often in a deeply troubled neighborhood. Thirty years ago, a Nixon administration commission labeled public housing as "drab, monolithic housing projects, largely segregated, which still stand in our major cities as prisons of the poor — enduring symbols of good intentions run aground." Since then, public housing has fallen into increasing disrepute.

Though less ridiculed than public housing, project-based housing developments have also locked renters into a single location historically, exacerbating the concentration of poor families in poor neighborhoods. Some project-based developments have fallen into chaos or disrepair over the years due to owner mismanagement.

Tenant-based housing vouchers, on the other hand, enjoy broad bipartisan support today as an efficient, cost-effective means to deliver affordable housing while maximizing renters' mobility and choice. As Brookings's Katz puts it, "Two-and-a-half decades of experience have shown that providing rental assistance directly to tenants is an extremely effective and efficient mechanism for addressing the housing needs of low-income families."

Despite the difficulties suffered by voucher holders in jurisdictions like Boston, where deep rental housing shortages predominate, the large majority of families receiving vouchers nationwide succeed in leasing a housing unit. In 1994, a national study found that the nationwide success rate of voucher recipients was 87 percent.

Even when tight housing markets prevent large numbers of voucher recipients from leasing apartments within

IN THE 1990s, AS GENTRIFICATION PROLIFERATED IN CITY AFTER CITY, NEWS ABOUT AVAILABLE HOUSING WAS CONSISTENTLY BAD. DESPITE ONE OF THE LONGEST ECONOMIC EXPANSIONS IN U.S. HISTORY, THE NUMBER OF LOW-INCOME HOUSEHOLDS WITH WORST CASE HOUSING PROBLEMS ROSE PERSISTENTLY.

the 120- or 180-day search period allowed under HUD rules, argues University of Virginia housing economist Edwin Olsen, vouchers remain a more efficient vehicle for delivering housing aid than project-based alternatives.

"It is certainly true that different markets have different vacancy rates at different times, and some markets will have very low vacancy rates," Olsen says. "But essentially no housing agency ever returns vouchers to HUD. When a voucher is returned to a housing authority, they don't send it back to HUD. They give it to someone else who does find a unit."

Increasing Voucher Success. For voucher holders like Tracie Miles, however, Boston's dire shortage of vacant housing has meant dozens of hours of fruitless housing search. It has also meant continued frustration at having to remain with her two daughters in a homeless shelter, confined to a single room without privacy. Come April, when her voucher is due to expire, it may mean the loss of her ticket to financial security.

Miles is not alone. In order to achieve its goal to make sure that it fully utilizes the 620 new welfare-to-work housing vouchers it received last year, the Metropolitan Boston Housing Partnership issued more than 1,400 vouchers to welfare families. At latest count (in January) only 357 leases had been signed. In other words, more than 1,000 families are devoting their time — so far in vain — to a frustrating needle-in-the-haystack search for shelter. Half or more will never find it.

Even outside of Boston, where the housing market is presumably less inflated, success rates among housing agencies issuing tenant-based vouchers is uneven. When the Citizens' Housing and Planning Association surveyed 55 public-housing agencies in New England last year, the median success rate of voucher recipients was just 70 percent. More than one-third of the housing agencies reported that their success rates had declined in the past year, while only one agency reported an increase.

To help voucher recipients, housing agencies can provide in-depth housing search assistance — connecting renters with landlords, counseling them on credit problems, assisting them with security deposits, and alerting them to opportunities. At the Metropolitan Boston Housing Partnership, participants in the scattered-site family shelter program receive extensive search assistance from dedicated housing search specialists. Therese Johnson, the program supervisor, reports that only two of the roughly 500 families participating in the program over the past four years have had to turn back a voucher unutilized, less than 1 percent, at a time when voucher holders not receiving this help are failing at a rate of 50 percent or more.

Increasingly, experts agree that an integral part of any housing search assistance should be help for families to access apartments outside their immediate neighborhoods. Writes the National Low Income Housing Coalition: "The evidence amassed in mobility programs provides the basis for innovation throughout the entire voucher program."

Likewise, Bruce Katz at Brookings and Margery Austin Turner at the Urban Institute issued a reform proposal in late 2000 calling for vouchers to be administered cooperatively at the metropolitan area level, rather than being "balkanized" by municipal and county public-housing authorities, partly because "the fragmentation of local program administration undermines the potential of the Section 8 program as a mechanism for deconcentrating urban poverty."

Stimulating Housing Production. To an avid voucher advocate like Edwin Olsen, spending public dollars to

subsidize or build low-income housing is waste of money. Olsen has spent his career analyzing the costs of varying housing strategies, and on a per unit basis he finds vouchers are far and away the cheapest.

"People say we can't afford an entitlement housing program," Olsen says. "I think we can afford to spend more money on housing. But what I'm telling you is, we don't have to have more money. We could have an entitlement housing assistance program like food stamps, serving let's say the poorest 10 percent of the population, for the same money we are spending today." That would happen only if we abandon all support for housing production and pour all our nation's housing resources into tenant-based vouchers.

Buzz Roberts of the Local Initiatives Support Corporation (LISC) vehemently disagrees. He offers several reasons why vouchers alone will not suffice. "Vouchers won't fix up houses," he says. "Vouchers won't rehabilitate existing stock, so what's going to happen to that stock? Unless you recapitalize it, it's going to filter out. And vouchers won't revitalize neighborhoods. You have to have capital investment."

As vice president for policy at LISC, a national agency specializing in low-income housing finance and community development, Roberts is one of the leading advocates in Washington for community-based housing development. His organization has helped local community development corporations finance more than 110,000 housing units since 1980 — most using the federal Low Income Housing Tax Credit to attract investors.

"I think vouchers have an important place in low-income housing policy," Roberts says. "But let's not argue screwdrivers versus hammers," he says. "We need them both." In this era of increasing rents and a dwindling supply of affordable housing units, most housing advocates agree.

Roberts and LISC fought for almost a decade to win permanent approval for the Low Income Housing Tax Credit. The program was controversial in its early years, criticized for inefficiency, excessive transaction costs, and overly generous subsidies to private investors who receive the tax credit benefits. But in recent years the tax credit has grown more efficient and more popular politically.

A second policy priority for LISC in recent years has been increased support for new single-family-home construction and ownership opportunities in less affluent communities. "As part of an overall community stabilization program, you need to have home ownership," Roberts says. "Otherwise you'll never have a broad income base."

"But you need to have ownership opportunities — and attractive ones, competitive ones," Roberts continued. "The product that people want to buy doesn't exist in these neighborhoods. So you need to rehab or you need to build new, or people just aren't going to buy homes."

That message is beginning to take hold. Last year Congress approved a modest Section 8 Homeownership Initiative to allow low-income voucher holders to apply their subsidies toward the purchase of a home. President George W. Bush has proposed expanding homeownership opportunities as a core goal of the administration's housing policy.

Another proposal, developed by Senator John Kerry of Massachusetts, would create a National Affordable Housing Trust Fund, using surplus funds from a Federal Housing Administration insurance fund to leverage private resources in support of new housing construction. The National Low Income Housing Coalition, which has made the trust fund a top priority for 2001, estimates that such a fund would produce, rehabilitate, and preserve 1.5 million units of affordable housing by 2010.

A New Appreciation for Housing

As the new president settles into office and Congress considers a variety of reform legislation, action on housing seems certain to heat up again this year.

Barbara Sard at the Center on Budget and Policy Priorities is optimistic that progress can be made. "There's a recognition that the lack of stable, affordable housing can be a barrier," she says, "and that stable, affordable housing, or particularly housing vouchers that help people move to better neighborhoods, can enhance welfare-to-work programs."

Buzz Roberts at LISC is still worried, however. "In general political terms, housing rates very low on the public perception of issues." He agrees, however, that the issue is picking up in city halls. "Mayors are now much more alarmed as cities gain economic strength with the run-up in housing prices and the affordability crisis that's provoking. Whether that actually translates into something on Capitol Hill, we'll see."

Maybe the only sure bet on housing this year is this: Advocates for children, families, and low-income neighborhoods will be paying close attention.

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