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## **Policy Interventions to Address Poverty in Howard County, Maryland**

Chris Barry, Ian Barnhart, Daniel Galitsky, Sean Glisson, Kiese Hansen, Daniel Klein, James Parrott, Clare Skelly, Jin Soon Stephens, Seth Windmuller

Under the supervision of Ken Coriale



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Gerrit Knaap, Executive Director  
Uri Avin, PDC Director

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## Foreword

This report comprises excerpts from the best ten reports submitted by students in the Public Finance and Public Policy class of the fall semester at the University of Maryland, College Park. In introducing these papers, I want to draw attention to what I consider to be the best program ideas to come out of the class. Each of these ideas is explained further in one of the included papers.

Ken Coriale

### Simple and low-cost program tweaks

- **Improved child support arrears forgiveness take-up** – For non-custodial parents who are eligible for the child support arrears forgiveness program, having child support staff meet with both the custodial and non-custodial parent could substantially improve take-up of this program and increase child support payments in the County.
- **FARMS enrollment through WIC** – Using WIC applications to screen for eligibility for FARMS (for older siblings) could allow more people in need to take advantage of FARMS and could reduce manual application caseloads.
- **Medicare Cliff Premium Support** – Those falling off the Medicare cliff could receive premium support to help with medical costs, which has the potential to achieve strong health improvements at a relatively low cost (given that the number of people enrolled would be small).

### Larger-scale programs that could yield large benefits to the county

- **Howard County Earned Income Tax Credit** – Economists have shown that the Earned Income Tax Credit is one of the most effective anti-poverty tools. While the program would be expensive, the limited number of low-income Howard County residents could mean that significant progress could be made in fighting poverty in the county at a relatively low cost. Montgomery County has implemented their own county level EITC, which has already cleared many of the procedural hurdles.
- **Elimination of SNAP Cliffs** – The current design of the federal SNAP (Food Stamp) program creates significant work disincentives. Modest expansions to the program that are targeted to eliminate benefit cliffs could be very effective in improving incentives to work in the County.

# Children and Families

## Child Support Arrears Reductions

Seth Windmuller

This paper reviews the basic guidelines about Maryland's child support and describes a program that helps reduce certain people's arrears or unpaid child support.

In Maryland, the Payment Initiative Program (PIP) helps parents satisfy arrears owed to the State of Maryland. People eligible for this program are noncustodial parents with an income below 225 percent of the federal poverty level.<sup>1</sup> The poverty level in Maryland varies depending on how many people are in the family/household. For example, it ranges from \$11,670 annual income for a one-person household to \$36,030 for a seven-person household.<sup>2</sup> Those with an income below 225 percent of the designated poverty level are eligible to sign up for the PIP.

Once signed up, the program then decides whether the noncustodial parent has the current ability to pay, if the program will improve the person's economic stability, and if the program serves the best interests of the children. If these standards are met, the program moves on to the initiatives themselves. To then get arrears reduced, enrollees must make continuous payments. If a caregiver makes payments for 12 consecutive months, then child support arrears owed to the state are reduced by 50 percent. The second incentive waves arrears entirely for caregivers who make their payments for 24 consecutive months.<sup>3</sup> On the surface, these incentives seem like a great way to get people to regularly pay and help support their children. However, more could be done with incentives to motivate people to pay.

The proposed PIP intervention would be relatively simple, keeping the same guidelines, but adding additional checkpoint incentives within the program, along with the current one year and two year incentives. Specifically, the intervention would add more short-term goals for incentives. For example, after six months of consecutive payments, child support would reduce arrears owed to the State by 25 percent. Then, after one year of consecutive payments, this will still result in a 50 percent reduction of arrears owed to the State. After 18 months of consecutive payments, there would be a 75 percent reduction of arrears.

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<sup>1</sup> Office of Child Support Enforcement

<sup>2</sup> Federal Poverty Guidelines

<sup>3</sup> Office of Child Support Enforcement

This intervention provides a more efficient way of motivating people to continue paying their child support. For most people, a year of consecutive payments might seem like an impossible milestone, discouraging them from making any payments whatsoever. They see it as not possible and decide to not even try to get into the program. Making checkpoints relatively easier to achieve will encourage people to try harder to reach them, providing a sense of accomplishment and more confidence moving forward with future payments.

Another PIP intervention would be to make eligibility easier to obtain. Right now, those who make less than 225 percent of the State's poverty level is a small amount of people. If eligibility is expanded to people who make less than 250 percent of the poverty level, it will allow more people to get involved in the program, which will in turn motivate people to pay off child support in the future. More people paying child support is in the best interest of the children.

One last PIP intervention deals with the consent of using this program by the custodial parent. According to Avvo legal-guides, if money is owed directly to the custodial parent, the arrears cannot be reduced by the child support agency unless the custodial parent consents to the settlement. But there are too many times when the custodial parent would not consent to this program. To decrease the instances when this happens, there should be a meeting between both parties to discuss the program's benefits, rules, and regulations before the noncustodial parent waives the program entirely. This way, both parties can be educated on the program, allowing them to thoroughly outline their situation and come to a more just agreement. As it stands now, there are too many cases where the noncustodial parent will get a form in the mail, and quickly not consent or simply ignore it and the program goes unused.

Another way of looking at the situation is that since most child support cases result from divorce, one could infer that a lot of these people aren't on the best terms. It should never be the case that child support arrears don't get paid simply because the custodial parent has a vendetta against the noncustodial parent. This is in no way looking out for the child's best interests. There should be a more organized and efficient way to reach a consent agreement by the custodial parent to help the noncustodial parent do what is required. This program criterion should be altered to make a face-to-face meeting mandatory and help reduce the cases in which the noncustodial parent is denied eligibility for arrears reduction.

These three interventions help increase the likelihood that arrears will be paid off. More payment increases the custodial parent's income through child support payments and helps pay off debts as well. This shift of income will provide custodial parents with more opportunities in raising the child, serves the child's best interests.

Research on the psychological effects of minor milestones as opposed to long-term goals proves they are beneficial. According to a Harvard Business Review article, “small wins can boost inner work life tremendously.” Research also shows that incremental progress can increase people’s engagement in their work and happiness during the day. In a survey from the article 28 percent of people who faced a minor impact on their project experienced a major impact in how they felt about the project.<sup>4</sup> The article also notes that achieving long-term goals is rare, which can make them unlikely to be completed.

This research supports the intervention of having smaller milestones in arrears reduction. Based on Harvard study, if people are trying to consecutively pay off child support, getting rewards every six months instead of every year will encourage them to keep going and stay motivated to pay. In another Harvard article about goal setting, researchers noted, “goals that can be achieved in short-term are more motivating than distant ones.”

In Howard County, there were 3,072 cases of child support arrears totaling \$35,440,705. Of those cases, only four were participating in the arrears reduction incentive program at the end of 2014. If only 0.1 percent of cases are using the incentive program to reduce arrears the program should make itself more known to Howard County residents. In the County, many people may not qualify for the program, or people see that there is no hope in beginning it. Both these reasons could and would be eliminated by the proposed interventions. There is over \$35 million dollars owed in child support, and most likely, since 99 percent of these cases aren’t participating in the program now, they won’t be trying in the future. Even if the proposed interventions increase participation by only 10 percent, it could bring in millions of dollars back from arrears.

As mentioned above, and backed by Harvard research, program milestones that come more often (every six months rather than every twelve) can encourage participation. Likewise, increasing the amount of income one can have and still be eligible will reach more people who need to benefit from the program, in turn getting more child support paid. Finally, taking away the custodial parent’s power to deny a useful program benefits both sides, helping more families get involved in the program. With these interventions, the Payment Initiative Program can continue to be useful, providing better outcomes for the economy, families, and most of all, for children.

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<sup>4</sup> Harvard Business Review

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## Child Care Subsidy Proposals

Jin Soon Stephens

### Background to Interventions

A recent study done on the Child Care Subsidy (CCS) program, called “Subsidy Continuity in Maryland” has raised focused attention on the fact that **continuity** in child care seems to be the problem of this program in Maryland and in general. One reason is that some people do not have stable employment so they are eligible when they apply and then lose their eligibility, which means they lose their child care; as a result the parent does not have the time needed to go out and search for work, which keeps them from becoming re-eligible for CCS. Thus, there is discontinuity in care.

Recipients without stable job situations and who lose eligibility tend to be lower income and lower-educated CCS recipients, such as Temporary Cash Assistance (TCA) participants. A Wisconsin paper on the stability of Child Care Subsidy found that higher human capital is connected to job stability and thus longer duration of care (because the parent remains employed and eligible for the subsidy), and lower human capital is connected to job instability and thus shorter duration of care.<sup>5</sup> A mother with lower education and job experience will have a harder time keeping a job and more likely to lose her eligibility for CCS, thus causing discontinuity in care for her children. Therefore, the job instability experienced by lower income and lower human capital parents should be taken into account when designing their participation in the program. Furthermore, the study above finds a correlation between long-term use of child care subsidy and the mother’s earnings: the longer the duration of CCS use, the higher the mother’s income. This means that longer spells of child care actually help the parent have stable employment, which leads to possible higher incomes and eventual financial independence, meeting a program goal, that participants no longer need the subsidy and can exit the program.

In Howard County, currently all CCS recipients are TCA participants. According to “Subsidy Continuity in Maryland”, families who are TCA participants had among the shortest subsidy spells between June 2007 and September 2010, which was on average 23 weeks, or about five months. It was significantly shorter than families not receiving TCA benefits. These are the lowest-income families that need the most help with the cost of care, and they are receiving the most inconsistent spells for care. Subsidies are meant to help lower the costs of working to encourage those receiving cash assistance to keep employment (the longer the person works, generally more human capital

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<sup>5</sup> Social Service Review

work experience they gain, which leads to higher incomes and self-sufficiency). Therefore, TCA recipients should be receiving much longer spells of subsidized care. However, because TCA participants are often low human capital and low-income parents facing job instability, the best way to help them maintain CCS would be to address eligibility requirements with some exemptions or a grace period.

As well, although not part of this report's specific proposals, there needs to be a smaller increase in co-payments at the lower income thresholds, particularly for TCA participants. Even if disposable income rises, a parent still may not be able to pay for child care and yet their eligibility will change. This may incentivize a mother to work fewer hours or not take a higher-paying job to meet the lower income threshold and stay eligible for the subsidy, an outcome that goes against the idea of building income to eventually be self-sufficient.

There are two possible solutions to increase CCS continuity; they are policy-changing propositions that would involve the Maryland State government. The ultimate goal for these two proposals is to gradually lead participants to financial independence and decrease the incentive to stay income-eligible by not taking higher paying jobs.

### **Interventions to Increase Continuity of Care**

The first concern is parents with low-human capital who struggle to find employment because they do not have sufficient education, skills, or work experience. For example, a mother named Mary, who has a high school diploma and limited work experience in retail, two children not yet in school, and who is currently employed at a retail store. She receives a voucher for care worth four months. After four months, she will have to prove her eligibility to continue receiving subsidized care. However, Mary loses her job due to cyclical reasons and with her limited skills, has a hard time finding a new one. She is now ineligible for the subsidy and cannot receive another voucher for care. Because she has to stay home caring for her children, she is further limited from finding a job.

The first proposal is a grace period that will give Mary time to find a job or enter into training so she does not lose her child-care eligibility. She would receive a new voucher after the initial four months is over, for a particular time period, in which she is required to find a job. Assuming Maryland does not offer a significant grace period, an appropriate period of time would be at least the average time it takes to find a job (perhaps based on Bureau of Labor Statistics unemployment data of the average time in every previous year ( $t = t-1$ ), and updated every year).

This grace period should apply to lower educated or low-human capital parents, which should be all participants in Howard County's CCS program. All CCS recipients should receive an extra

application to request a grace period. The application will include education level and work experience that will be analyzed to determine eligibility for a grace period. One option is that every mailing reminding a CCS participant that their voucher is about to expire includes a link to an online application where they can request a grace period to extend their voucher use, even without being employed (or in school or a training program). The applications will be reviewed for work experience and income threshold to determine if the applicant would be eligible for and benefit from a grace period. The key point is that proof of a job search would be required during the grace period. The CCS recipient can be required to send copies of job applications, interview request emails, or similar documentation every month after being approved for a grace period.

The second proposal is to extend the length of the validity of an issued voucher to a minimum of 12 months, instead of its current maximum of 12 months, guaranteeing continuity of care guaranteed for at least one year to assist a parent's career path into self-sufficiency. This will be costly, but as the "Subsidy Continuity in Maryland" study supports, it is beneficial to the development of a child to have consistency in care. This makes economic sense—it is better that a smaller number of families receive long and continuous care that helps the family achieve self-sufficiency and exit the program capable of fully funding their own child care, than having many families receiving short and discontinuous financial assistance for child care that keeps the family from reaching self-sufficiency due to instability in work.

In a year, a lot can happen and a parent with a one-year CCS voucher could get a higher-paying job and change their eligibility; perhaps now they can afford child care. Therefore, a half-year check on the recipient's income status documented by pay stubs and survey questions would audit their capability to pay for child care. If they can, they will be given time to transition out of the program. As families increase their earnings, the audit will create room for more participants to enter the program.

It is important that half-year audit is formatted to judge a CCS recipient's ability to afford child care on income, but takes into account living expenses. The questions should be ones the recipient can honestly answer (along the lines of "Are you now able to afford child care?").

Why not an audit earlier than six months? Because this proposal's purpose is to encourage continuity of care—long spells. The child should be guaranteed a consistent six months of care regardless of whether their parents suddenly land a higher-paying job a month or two after receiving a one-year voucher. It's important to note that there is the cliff in this program. Although a parent may be earning income above the eligibility by family size limit, it does not mean that they are fully capable of affording child care. The audit should analyze and the parent's capability, even

if their income has surpassed eligibility after six months. With sufficient proof they aren't capable of funding child care, the parent should be allowed a voucher for the remaining six months. That way, the child maintains consistent care for a whole year. After the voucher is up and if the parent is still income ineligible, the rules should be followed, transitioning the parent out of the CCS program and allowing new participants to enter the program.

### **Analysis of Cost and Benefit (without number values)**

Howard County's Child Care Subsidy program is funded by a block grant from the State of Maryland. Therefore, extra costs of these proposals will need to be funded by the County.

The first proposal to add a grace period will require more work to review applications requesting the grace period. New employees may be needed to review applications and determine eligibility. This is an added cost, but at the same time creates new jobs. The addition of new County may create the need for a larger State grant that could make up this added cost. The goal is that with the more consistent employment and child care that a grace period could allow, CCS recipients can get closer to transitioning out of the program and decrease its costs.

The second proposal to extend vouchers for at least 12 months will be costly, so if neither the State nor County can provide further funds, the most economical approach is to cut the number of families participating in the program, so that those in the program can receive better continuity of care benefitting both the child and the family's development (again, the goal is stable employment leading to financial independence that allows transition out of the program). While it is undesirable to cut the number of recipients, it is beneficial in the long run. One way to decrease the number of families participating is by lowering the highest eligible incomes to match the cost in voucher extensions.

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## Temporary Cash Assistance

Chris Barry

The Temporary Cash Assistance (TCA) program is Maryland's iteration of federal Temporary Assistance for Needy Families (TANF) program. The program provides financial support for families, based on the number of dependent children. Upon acceptance to the program, the applicant is assigned a maximum benefit based on family size. Financial eligibility is determined based on whether or not the applicant family's total income, discounted by 20 percent, is greater than their maximum allowable benefit. The actual benefit amount is the difference between maximum benefit and countable income. Countable income is calculated by discounting earned income by 40 percent.

In 2010, the maximum allowable benefit for a mother with single dependent child was \$453. The maximum benefit increases by \$100 to \$200 for each additional child. The family is issued the maximum benefit when earned income is \$0. The phase-out rate thereafter is 60 percent, meaning that for each dollar increase in earned income, 60 cents of benefits are lost. The program's phase out rate is a function of the earned income discount.

The benefits cliff created by this program is a result of the total income permissible under the program. One becomes ineligible at the point where total income, discounted by the initial 20 percent deduction, has exceeded the maximum benefit amount. In other words, the cliff occurs at the point where countable income is 40 percent more than the maximum benefit amount.

As an example of the cliff, consider a single-dependent mother who is earning \$620 per month with a maximum benefit set at \$500 per month. At her current income, her countable income is \$372 (her earned income discounted by 40 percent). Currently, she is receiving \$128 dollars in benefits. But, if she increases her earnings by \$5, she will reach the point where she no longer passes the initial means test, which states that her earned income discounted by 20 percent cannot be greater than or equal to her maximum benefit. Therefore, by increasing her earned income by only \$5, the mother has effectively decreased her total income by \$123. In this way, the cliff encourages recipients to make just less than the earnings at the cliff and avoid making any more.

To avoid this issue, the County should introduce a full phase-out to the TCA program. The phase-out period would kick in where the current program ends and ease recipients out of the need for benefits. As stated on Howard County's website, one goal of the TCA program is providing assistance to families with dependents while "preparing them for independence." The program as it

currently exists achieves this in many ways, but the existence of a cliff is counterproductive. The cliff essentially encourages recipients to accept the benefits for as long as possible because, as shown, in many cases, increasing earned income past the cliff actually decreases overall income. This does not prepare recipients for independence because for a full 24 months, recipients have no reason to establish independence from the TCA program. Introducing a full phase-out would help TCA achieve its stated goals.

One initial concern with introducing a full phase-out to the TCA program is the reimbursement of child care expenses. As the program current operates, the County pays the child care expenses of each of the recipient's children. The maximum per-child benefit for a fully employed recipient is \$200; for a recipient employed part-time, it is \$100. If the cost of child care is not phased out along with the program grant, there will still be a cliff at the end of the phase-out where increasing income by a small amount will result in a complete loss of child care reimbursement. To remedy this, child care should be considered as part of the program benefit and both should be phased-out as one. In this way, the County pays for a decreasing percentage of the recipient's child care costs.

The major concern with this proposal is what the exact rate of the phase-out should be. There is always a small amount of arbitrariness involved in setting this rate (why is the current rate .6 and not, say, .58?), and the final decision is up to the County, but there are guidelines that should determine where the rate falls.

First, the phase-out rate in the second period should be greater than the phase-out rate in the first period. Otherwise, the second period cannot really properly be called a phase-out period. More importantly, if this were not the case, the line illustrating income with benefits would be steeper in the second period than in the first. It seems some of the money spent in the second period, phasing out the benefits at a higher rate than in the first, would be better spent providing greater benefits for those recipients in the first period, who frankly need it more.

Second, the phase-out rate should be less than one-for-one. If this is the case, once a person enters the second period, the recipient has no incentive to continue increasing their income because for every dollar increase in earned income, their total income effectively stays the same. If this were the case, the recipient would be indifferent toward increasing their income.

The program phase-out rate is a function of the 40 percent income discount, so, to achieve the proper phase-out rate in the second period, the income discount should be between zero percent and 40 percent. It is ambiguous whether an income discount closer to 40 percent (phase-out rate of .6) would be more or less expensive than an income discount of zero percent (one-to-one). An

income discount of 40 percent would extend the program to cover people at higher incomes, but would also mean more recipients could maximize their utility at a point within the second period. This could prove cheaper to the County than the zero percent phase-out because a recipient in the second period receives less in benefits than a person in the first period. On the other hand, a discount closer to zero percent would essentially mean that the program would cover people up to a lower income, which would likely mean it covers fewer people overall. In this way, a zero percent discount could save the County money versus the 40 percent income discount.

There are many potential benefits to introducing a full phase-out to the TCA program. One benefit is allowing recipients to increase their earned income with no fear of decreasing their total income. As the program currently operates there is a disincentive to raise one's income above a certain amount. The recipient can spend five years at the same income level. When their benefits expire they are earning little more than they were when they enrolled in TCA. This does nothing to prepare the recipient for independence because when the program ends, they are still earning an amount low enough that they are still eligible for State benefits.

In addition, the full phase-out could actually make the program less costly to the County. As shown, recipients moving from the first to second period will cost the County less. This has to be weighed against the cost of people enrolling in the program who were not originally eligible but become eligible when the second period is introduced. This is possible but highly unlikely. The greatest savings per person that the County could experience would be among those people who maximize their utility at a point beyond the phase-out period. These people could exist in the program already, but might be afraid to increase their earned income past the point of the cliff because of the impact on their overall income. It is a distinct possibility that these people cannot immediately increase their income enough to offset the effects of the cliff, so instead they choose to stay just short of the cliff. The full phase-out would be a bridge, guiding these people to a point where they can maximize utility at a point not covered by the County. This is the ideal case; the recipient is able to better maximize utility, and the County no longer needs to subsidize this person.

In 1999, a paper by Jan L. Hagen concluded, based on statistics gathered on Aid to Families with Dependent Children, the program that was replaced by TANF, that the TANF cliff is a very real issue and not merely the result of theoretical models. In some cases, due to the implications of the cliff, 30 percent of recipients will reach the five-year limit. By 2001, Hagen estimated the total number nationwide would reach 1.42 million. All of these people will be affected by the cliff in one way or another. As she put it, "Although the introduction of time limits may result in some families finding

employment and leaving the welfare rolls who might not have done so otherwise, other families will certainly confront the welfare cliff without having become economically self-sufficient.”

Further studies by Coulton et al. (1993) and Danziger and Kossoudji (1994) suggest that the cost of subsidizing those whose TANF benefits are cut due to the time constraint are transferred to the states and counties through alternative welfare programs. In this way it is beneficial to both the county and the state to do a better job of guiding these people to a higher level of self-sufficiency and a full phase-out would help accomplish this.

A 2004 article by Anderson, Halter, and Gryzlak shows the ineffectiveness of TANF in preparing individuals for independence. Between one third and one fifth of TANF leavers return to the program within one year. About 70 percent of recipients are employed by the time the benefit window runs out, but job security is very poor and the majority of these jobs pay well below the poverty line. In many ways TANF makes strong progress towards its goal of increased independence, but it seems a full phase-out could further assist towards that end.

In addressing the costs of this proposal it is important to consider the per-person cost to the County along with the overall cost to the County. There are two distinct groups that must be accounted for: those already receiving benefits from the program as it is currently written and those who will join the program as a result of phase-out introduction. There is no reason to believe that the phase-out will increase the per-person cost for those individuals already participating in the program. On the other hand, people whose earnings are currently between the cliff and the breakeven point of the phase-out will be able to join the program; they will go from receiving no benefit to potentially receiving a fairly significant benefit.

As shown, recipients who settle in the phase-out range cost the County less than those who settle somewhere before the phase-out. Currently, every individual in the program is maximizing his or her utility with the least amount of benefit money possible. The current program prevents people from increasing their earned income beyond the cliff, but it in no way prevents people from increasing their benefit amount by decreasing their earned income. It therefore is reasonable to conclude that for the people currently in the program, and with no changes to the program, introducing the phase-out would not lead to any increase in the per-person cost. At worst, people would choose to continue earning exactly the same amount and receiving the same benefit. At best, the introduction of the phase-out would allow people who maximize their utility at a higher earned income and lower benefit amount to move to that point. These recipients would choose to settle somewhere within the phase-out or beyond the breakeven point. Consequently, for the recipients already in the program, there is no way that the per-person cost to the County could increase, in

fact it is quite likely it will decrease. It would be difficult to analyze these effects statistically prior to implementing the program, as it is not reasonably possible to estimate each recipient's utility curve and their resulting point of maximization.

While the phase-out will likely reduce costs for people already in the program some, if not all, of these cost reductions will likely be offset by people who become newly eligible for the program as a result of the phase-out. This cost can be calculated based on the amount of people with earnings between the cliff and the proposed breakeven point and their resulting benefit amounts.

Theoretically, there should be few people with earnings in the valley after the cliff, but in reality there of course will be more. The newly eligible people introduced to the program as a result of the phase-out would likely decrease the per-person cost of the program because they will likely locate along the phase-out. But, the overall cost of the program to the County would increase dramatically due to significantly more people being eligible.

There is also a concern that free-riders will join the program as a result of the phase-out. These people would have an earned income above the proposed breakeven point before the program, but would decrease earned income to a point on the phase-out line that better suits their utility curve. Due to the difficulty in predicting people's utility curves, this statistic would also be nearly impossible to gather without actually implementing the phase-out and then observing how people respond.

In truth, the probability that the decrease in overall cost for those people already in the program offsets the combined increase in overall cost from newly eligible people and freeriders is very slim. Not to mention, it would be difficult to get an accurate statistical prediction of the costs and benefits of the program. Generally, the per-person program cost would likely decrease as a result of the phase-out, but the overall cost to the County would most likely increase due to the increased number of people to whom they would be obligated to pay benefits. Whether the County decides to implement the full phase-out depends on how much value they place on eliminating the cliff. It is very unlikely that the phase-out will pay for itself, so it will need to be funded through other means.

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# Howard County Head Start Intervention: Increasing the Potential for Lasting Impact

Clare Skelly

## Literature Review

Research about preschool and Head Start aims to pinpoint how effective these pre-primary education programs are on children's short as well as long-term achievement. The population of interest is large, making research on this subject complex. Additionally, most preschool programs are not regulated, and, consequently, they vary immensely. Even Head Start classrooms differ in terms of schedules, environments, curriculums, teachers and so on. Furthermore, research on the long-term effects of Head Start is challenging and sparse.

The Perry Preschool Project, while not Head Start specific, suggests positive long-term results of a model early education intervention. The Project took place between 1962 and 1967 and studied a population of 123 three- and four-year-old children born in poverty.<sup>6</sup> The sample was randomized into two groups. The treatment group received a high-quality preschool program, while the control group received no program. The intervention lasted two years during which treatment group children attended a part-time weekday preschool and received weekly 90-minute home visits for eight months. Teacher to student ratios were 1:6 and all teachers had a master's degree and child development training. Note that this ratio is lower than the 1:10 maximum set for Head Start classrooms.<sup>7</sup> Analysis of the sample at ages 27 and 40 showed positive effects on high school graduation rates and earnings, in addition to negative effects on crime rates and welfare use. A cost-benefit analysis, taking into account education savings, welfare savings, crime savings and taxes on earnings, indicated a \$12.90 return per dollar invested.<sup>8</sup> These are encouraging results for Head Start's potential, given a similar intervention; however, it is impossible to control for all outside variables and their influence on long-term outcomes.

Due to the lack of long-term research, some critics label Head Start as government-funded child care for the country's poor.<sup>9</sup> Others argue that an observed impact fadeout around second grade has less to do with program shortcomings and, rather, is heavily influenced by subsequent school environments and experiences. These researchers suggest the cost-benefit would be high if "school achievement results were appropriately adjusted for the lower rates of special education placement

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<sup>6</sup> Schweinhart, 2003

<sup>7</sup> OHS, n.d.

<sup>8</sup> Schweinhart, 2003

<sup>9</sup> Sawhill & Haskins, 2003

and grade retention among Head Start participants”.<sup>10</sup> Literature analysis also suggests small, short-term impacts could generate benefits that exceed costs in the short and long run.

Mandated by Congress, the U.S. Department of Health and Human Services (HHS) conducted the Head Start Impact Study to determine the program’s overall impact as well as the circumstances in which it achieves its greatest impact. The study compared results of a Head Start treatment group to a control group of low-income children who did not have access to Head Start. The control group children were either enrolled in a different early childhood program or remained home. The impacts on Head Start and control group subjects were evaluated in cohorts based on age, whether subjects were three or four years-old at the beginning of the three-year study.

The study reported, in the short-term, access to Head Start benefitted both age cohorts in cognitive, health, and parenting domains. Additionally, three-year-olds benefitted in the social-emotional domain. The benefits for the four-year-old cohort were virtually absent by the end of first grade. Similarly, the study showed few sustained benefits for the younger cohort, with the exception of improved parent-child relationships, through first grade. Longer-term outcomes have not yet been evaluated.<sup>11</sup>

The study notes variances in program inputs. For example, it acknowledges varying levels of training and qualifications of Head Start teachers. In the sample studied, about 40 percent of Head Start teachers did not have post-secondary degrees.<sup>12</sup> While the executive summary admits differences in Head Start programs around the country, it is unable to evaluate the impacts associated with various program inputs in order to determine which are most effective. Inputs such as daily schedule and teacher training are likely critical elements to success. As seen with the Perry Preschool Project and other input specific research, proper treatment of these variables can be cost minimizing and beneficial in the long-term.

### *Half-day Versus Full-day Preschool*

The Office of Shared Accountability in Montgomery County, Maryland, conducted a study to examine whether the increased instructional time in full-day preschool has a lasting effect on students’ school readiness and academic performance.<sup>13</sup> The study compared outcomes of children in Head Start full-day preschool, in Head Start half-day preschool, in Montgomery County Public Schools (MCPS) half-day preschool, and students without MCPS preschool experiences.

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<sup>10</sup> Isaacs & Roessel, 2008

<sup>11</sup> “Head Start Impact Study,” 2010

<sup>12</sup> “Head Start Impact Study,” 2010

<sup>13</sup> “Evaluating Lasting Effects,” 2010

While the study did not identify differences in the groups' mathematics performances at the end of kindergarten, there were observable differences in reading outcomes. The key findings state the additional instructional time had a positive lasting impact on students' reading skills by the end of kindergarten. Head Start full-day students were 44 percent more likely to meet the Level 4 literary text reading benchmark at the end of kindergarten than Head Start half-day students. Similarly, they were 53 percent and 42 percent more likely to meet the Level 4 reading benchmark requirement than students in MCPS half-day preschool and students without MCPS preschool experience, respectively. The impact of the full-day Head Start program in Montgomery County on reading outcomes is significant in the short-term.<sup>14</sup>

This study also examined whether daily program duration impacted special education services needed the following year in kindergarten classrooms. Notably, the Head Start full-day preschool students required half as many special education services as their peers without a MCPS experience. At the time of this study, the average annual cost for kindergarten students receiving special education services in MCPS was \$16,230.<sup>15</sup> Numerous studies since 1986 show children who attended full-day preschool required lower levels of special education services.<sup>16</sup>

Due to recent research and numerous extraneous yet influential variables, it is challenging to prove the long-term impact of a full-day preschool schedule. Still, this Montgomery County research gives tangible evidence of what generates initial positive outcomes. Full-day Head Start increases the possibility of shrinking achievement gaps. Subsequent cost benefits are outlined in the proposal section of this report.

### *Teacher Development*

Research shows students with good teachers achieve at higher levels.<sup>17</sup> The federal directive mandates that 50 percent of Head Start teachers have associate's degrees.<sup>18</sup> Requiring Head Start teachers to have certain levels of higher education increases program costs, while the direct effects of each added degree are unclear. Experimental investigations suggest certain structures of professional development interventions lead to positive outcomes.

A 2010 study found one semester of an early literacy professional development program, comprising a two-day workshop and ongoing literacy coaching with Head Start teachers, has

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<sup>14</sup> "Evaluating Lasting Effects," 2010

<sup>15</sup> "Evaluating Lasting Effects," 2010

<sup>16</sup> Lee, Burkam, Ready, Honigman & Meisels, 2006

<sup>17</sup> "Investing in Head Start," 2009

<sup>18</sup> OHS, n.d.

positive effects on general classroom environment as well as on early literary and language development. This structure of professional development showed positive effects on children's letter knowledge, blending, writing, and concepts about print.<sup>19</sup>

Other studies examine Head Start teacher professional development interventions focused on promoting new curriculum resources and delivery methods. While results showed that curriculum-based professional development improved overall classroom climate, early literacy- focused professional development produced more tangible learning benefits.<sup>20</sup>

### **Proposed Intervention**

The proposed intervention aims to improve the quality of Howard County Head Start and increase the potential for lasting impacts on the County's low-income children and families with three changes. First, the County should eliminate the half-day Head Start programs at the Dasher Green and Ellicott City centers. These two centers should be converted and equipped to support full-day programs. Second, the County should set annual requirements for Head Start teachers' professional development. Finally, the County should improve communication about and advocacy for services offered by the Community Action Council as well as require that all families served receive at least one service before the program year reaches the halfway point.

The benefits outweigh those from an intervention that increases the number of children served by the program in its existing state. The majority of research shows average quality preschool programs have minimal impact on children's school readiness and long-term success. Increasing the number of children served does not remedy the impact fadeout.<sup>21</sup>

Converting all Howard County Head Start locations to full-day schedules is necessary. The First Presbyterian Center requires no change. The Old Cedar Lane Center currently runs a 6.5-hour schedule. This should be reduced to an even six hours, making the new schedule 9:00AM - 3:00PM. The other two centers will adjust and extend their hours as listed in Table 5. Modifying each center's daily schedule to six hours aims to keep program outcomes consistent throughout the County. Howard County Head Start will serve the same number of children, 264, under this intervention. The cost-benefit analysis associated with this change is outlined in the next section of this report.

The second aspect of this intervention complements the consistent and extended schedules. An annual requirement for Head Start teachers to enroll in specified professional development courses

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<sup>19</sup> Powell, Diamond, Burchinal & Koehler, 2010

<sup>20</sup> Domitrovich et al., 2009

<sup>21</sup> "Investing in Head Start," 2009

is important, enabling teachers to make the most of the full-day schedule. Some Maryland counties presently offer professional development opportunities to Head Start teachers. However, professional development is not mandatory, and there are no incentives that encourage teachers to partake. Survey feedback said existing training in one county was “short and spread out”.<sup>22</sup> Mandatory and cost-free professional development should train Head Start teachers how to understand the needs of their classroom and adjust practices accordingly. Research shows effective teacher training leads to increased school readiness and greater social-emotional development in low-income preschool students.<sup>23</sup>

The Howard County Head Start Services Snapshot for the 2014-2015 program year identified areas for improvement. The last component of this intervention aims to address those areas. Over 50 students left Howard County Head Start during the program year. While waitlisted children filled these vacancies, their experiences and outcomes were likely lessened because they were not enrolled in Head Start for the full program year, therefore making the overall program less effective. The report also revealed only 53 percent of families received one or more family service provided by the program. The County should implement a strategy for better communicating and advocating these family services. There are fifteen offered services, including but not limited to housing assistance, adult education, substance abuse prevention, and health education. The program should require that each family receive at least one service before the program year reaches the halfway point. This requirement exposes families to the nature of the services, perhaps encouraging them to use more. Increasing family involvement also aims to decrease the program’s attrition rate.<sup>24</sup>

### **Costs and Benefits**

According to Table 2, federal funding for Maryland Head Start allocated approximately \$9,000 per child in 2014.<sup>25</sup> This suggests the cost per child in Howard County was at least \$11,250 in 2014, as federal funding cannot exceed 80 percent of the total program cost.<sup>26</sup> The overall goal of the proposed intervention is to increase the quality of Howard County Head Start in order to produce more short- and long-term benefits for the County. The model (see Chart 1) suggests that lesser quality Head Start programs cause low-income children to fall behind early in their primary education, costing the County more in services such as special education over time. Although not

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<sup>22</sup> “Needs Assessment Report,” 2015

<sup>23</sup> Domitrovich et al., 2009

<sup>24</sup> “Head Start Services Snapshot,” 2015

<sup>25</sup> OHS, n.d.

<sup>26</sup> “1301.20 Matching Requirements,” 1992

depicted in the chart, the intervention also has potential positive effects on the low-income families served. There are costs and benefits associated with each of the three aspects of the intervention.

### *Schedule Adjustment*

Each Head Start center will serve the same number of children pre- and post-intervention. Nonetheless, operating four full-day centers raises the cost per child. This increase includes the cost of additional resources such as labor, food, and utilities.

If Howard County Head Start has a 1:10 teacher to student ratio there are about 27 teachers divided between four locations. The cost reflects the additional labor needed at the two centers converting to full-day schedules. The following equation calculates the additional program cost:

*(Number of teachers employed by Dasher Green Center half-day program + Number of teachers employed by Ellicott City Center) \* (2 additional hours per day \* days in school year) \* (Average wage per hour)*

The additional food cost is the price of replacing one snack for one full meal per day per child. Multiply this cost by the number of days in the school year and the number of children in the Dasher Green half-day program and at the Ellicott City Center:

*(Average cost of one meal – Average cost of one snack) \* (Days in School year) \* (Number of children served by Dasher Green Center half-day program + Number of children served by Ellicott City Center)*

Finally, this schedule adjustment will increase utility use. The monthly electric, gas, and water bill amounts will increase. The annual utilities cost increase of this change will be:

*(New total hours - Old hours) \* (Average cost per hour of utilities) \* (Days per month)*

One benefit is better nutrition for Head Start children, because every child will receive two balanced meals per day. Additionally, the extended schedule increases the potential for sustained reading outcomes and overall school readiness. This change also decreases the likelihood of a child needing special education services during primary education.<sup>27</sup> If the cost of special education mirrors that in Montgomery County, eliminating just one child's need for special education services in kindergarten saves over \$15,000. This adjustment may also positively impact the households of Head Start children, increasing how well-off the county's low-income families are. The six-hour preschool day gives parents or caretakers the opportunity to work longer shifts and earn more

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<sup>27</sup> Isaacs & Roessel, 2008

income. Parents may also use this extended schedule to attend school, which may also offer long-term benefits.<sup>28</sup>

### *Professional Development*

Professional development is the second aspect of the increased quality intervention. The County should identify the mandatory course prior to the start of the program year, as well as cover the cost; however, Head Start teachers must attend the course on their own time. This reflects professional development arrangements in other industries. The County should select courses based on the Maryland Head Start Needs Assessment Report and recent research. For example, if a previous year's assessment identified gaps in English for Speakers of Other Languages (ESOL) services, which over one fourth of Head Start children in Howard County needed in the 2014-2015 program year, training should address this topic.<sup>29</sup>

The cost depends on the number of Howard County Head Start teachers as well as the price of professional development:

*(Number of Howard County Head Start Teachers) \* (Cost of professional development per teacher)*

Professional development benefits Head Start teachers, children as well as the County. Training increases the value of these teachers, making them more competitive in the job market. Children can benefit in terms of literacy and language development.<sup>30</sup> Research also supports the notion that teacher development enhances students' social-emotional outcomes.<sup>31</sup> Similar to the presumed benefits of the schedule adjustment, this aspect of the intervention may decrease the need for future special education services that result from students falling behind their peers.

### *Family Services Requirement*

Head Start family services give low-income families access to free resources. Families may be hesitant or even embarrassed to use these services. Making it mandatory for every family to receive at least one service increases costs. The new cost of providing family services will be approximately double the cost from 2014-2015, when only 53 percent of families received services.<sup>32</sup> But there are many potential benefits. Services such as job training and adult education may increase family members' skills and competencies, which could lead to higher-income employment opportunities. Other services such as parent and relationship education can result in better home lives for Head

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<sup>28</sup> "Evaluating Lasting Effects," 2010

<sup>29</sup> "Head Start Services Snapshot," 2015

<sup>30</sup> Powell, Diamond, Burchinal & Koehler, 2010

<sup>31</sup> Domitrovich et al., 2009

<sup>32</sup> "Head Start Services Snapshot," 2015

Start children. It is important to help support safe environments inside as well as outside the Head Start classroom.

The early education federal grant program has potential. The quality of Head Start likely correlates to the likelihood of positive outcomes and benefits.

**Table 1.** Head Start Federal Funding FY2014

<b>Local Head Start Projects</b>	<b>Appropriation</b>
States & Territories	\$7,225,040,000
American Indian & Alaska Native & Migrant & Seasonal Programs	\$557,380,000
<i>Subtotal</i>	<i>\$7,782,420,000</i>
<b>Support Activities</b>	
Training & Technical Assistance	\$203,322,000
Research, Demonstration & Evaluation	\$20,000,000
Monitoring Support	\$42,000,000
Program Support	\$25,353,000
Transition Funding for Designation Renewal System	\$25,000,000
<i>Subtotal</i>	<i>\$315,675,000</i>
Early Head Start – Child Care Partnerships	\$500,000,000
<b>Total</b>	<b>\$8,598,095,000</b>

**Table 2.** Maryland’s Federal Funding and Funded Enrollment, FY 2010-2014

<b>Year</b>	<b>Federal Funding</b>	<b>Funded Enrollment</b>
2010	\$80,682,993	10,328
2011	\$85,450,156	10,885
2012	\$89,394,017	10,885
2013	\$84,707,856	10,475
2014	\$91,807,269	10,273

**Table 3.** 2015 Poverty Guidelines for the 48 Contiguous States and the District of Columbia

<b>Family Size</b>	<b>2015 Income Guidelines</b>
2	\$15,930
3	\$20,090
4	\$24,250
5	\$28,410
6	\$32,570

\*add \$4,160 for each additional family member

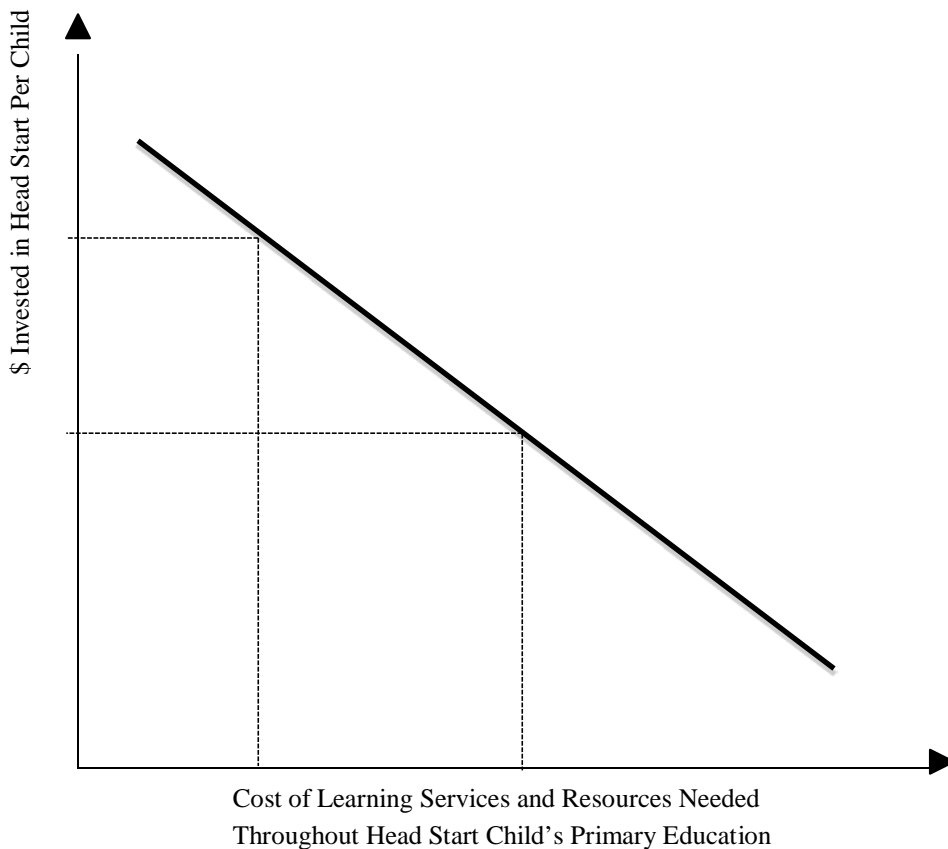
**Table 4.** Howard County Head Start Locations and Hours

Location Name	Address	Hours	Duration	Capacity
Old Cedar Lane Center	5451 Beaverkill Rd, Columbia	8:30AM - 3:00PM	6.5 hours	56
Dasher Green Center	6680 Cradlerock Way, Columbia	8:15AM - 12:15PM 8:15AM - 2:45PM	4 hours 6.5 hours	120
Ellicott City Center	8510 High Ridge, Ellicott City	9:30AM - 1:30PM	4 hours	72
First Presbyterian Center	9325 Presbyterian Lane, Columbia	10:00AM - 4:00PM	6 hours	36

**Table 5.** Post Intervention, Howard County Head Start Locations and Hours

Location Name	Address	Hours	Duration
Old Cedar Lane Center	5451 Beaverkill Rd, Columbia	9:00AM - 3:00PM	6 hours
Dasher Green Center	6680 Cradlerock Way, Columbia	8:30AM - 2:30PM	6 hours
Ellicott City Center	8510 High Ridge, Ellicott City	9:00AM - 3:00PM	6 hours
First Presbyterian Center	9325 Presbyterian Lane, Columbia	10:00AM - 4:00PM	6 hours

**Chart 1.** Intervention model



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# Howard County's Free and Reduced Meals Program

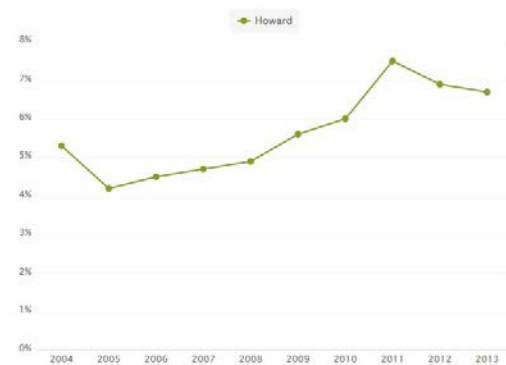
Kiese Hansen

## Income Inequality in the United States

Income inequality in the United States is growing. In 2007, the top one percent owned 42 percent of the country's financial wealth while the bottom 80 percent owned only seven percent.<sup>33</sup> This imbalanced wealth distribution is a reflection of a national trend that has been observable since the 1970s.<sup>34</sup> In an address on economic mobility in December 2013, President Obama said, "The combined trends of increased inequality and decreasing mobility pose a fundamental threat to the American Dream, our way of life, and what we stand for around the globe."<sup>35</sup> Howard County, Maryland has not been immune to this threat. While the County is consistently listed as one of the top five wealthiest counties in the United States, with a median income that exceeds \$100,000, poverty in the County is on the rise.<sup>36</sup>

Howard County has been proactive in thinking about its changing demographics and its increasing levels of poverty. An unfortunate reality of poverty in the United States is that it disproportionately affects children. In Howard County, the percentage of children living in poverty is now at 6.1 percent.<sup>37</sup> See Figure 1 and Figure 2.

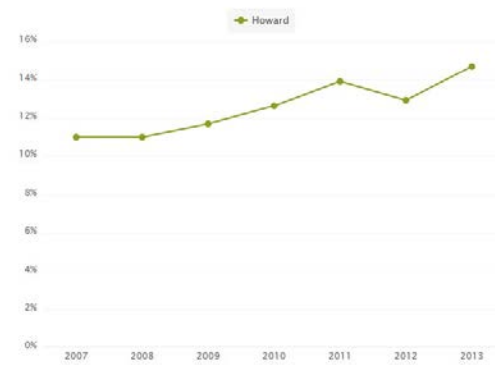
Figure 1



CHILDREN IN POVERTY (PERCENT)

Advocates for Children and Youth  
KIDS COUNT Data Center, [datacenter.kidscount.org](http://datacenter.kidscount.org)  
A project of the Annie E. Casey Foundation

Figure 2



CHILDREN LIVING BELOW 200% OF POVERTY (PERCENT)

Advocates for Children and Youth  
KIDS COUNT Data Center, [datacenter.kidscount.org](http://datacenter.kidscount.org)  
A project of the Annie E. Casey Foundation

<sup>33</sup> Jilani

<sup>34</sup> DeSilver

<sup>35</sup> Speech: President Obama Speaks on Economic Mobility, December 4, 2013.

<sup>36</sup> Walter

<sup>37</sup> Maryland Alliance for the Poor

In 2008, the County government established the Board to Promote Self-Sufficiency. The Board, which meets once a month, is tasked with exploring ways to increase economic stability and reduce poverty.<sup>38</sup> While efforts to reduce poverty are vital, the impacts and results of such efforts are not immediate. It is important to also invest in programs that are geared towards making the lives of those who are impoverished easier and more comfortable. Improving quality of life for all, regardless of where one falls on an income distribution, should be a priority.

This paper outlines recommendations to improve the delivery of one of the most important welfare programs for children, the Free and Reduced Meals program (FARMs). In line with the goals of the Board of Self-Sufficiency, these recommendations will contribute to the fight to combat poverty in the United States and improve the quality of life for those who are living in or near poverty in Howard County.

The case to improve FARMs will be framed in the following order. First, a brief explanation of the Free and Reduced Meals program, its history, and how it is currently implemented in Howard County. Second, an explanation of the concept of Self-Sufficiency, the concept from which the Board of Self-Sufficiency was created. Third, recommendations aimed to increase the number of children who automatically qualify for the program, including detailed costs and the urgency of the recommendations.

### **The FARMs Program Explained**

The Free and Reduced Meals program (FARMs) is a state-administered subset of the US Department of Agriculture's National School Lunch Program (NSLB). NSLB officially began in 1946 with the passage of the National School Lunch Act. With the goal of ensuring that no child goes without a meal during a school day, NSLB allows participating states/counties/schools to receive subsidies which allow them to serve school breakfasts and lunches at a free or discounted rate. Reduced breakfast and lunch costs are \$0.30 and \$0.40, respectively. Student eligibility for a free or discounted meal is determined by income guidelines set by the federal government. The income guidelines are derived by the poverty guidelines set annually by the Department of Health and Human Services.<sup>39</sup>

Howard County Public Schools participates in NSLB and therefore offers FARMs to qualifying families. The number of students participating in FARMs throughout the County has steadily

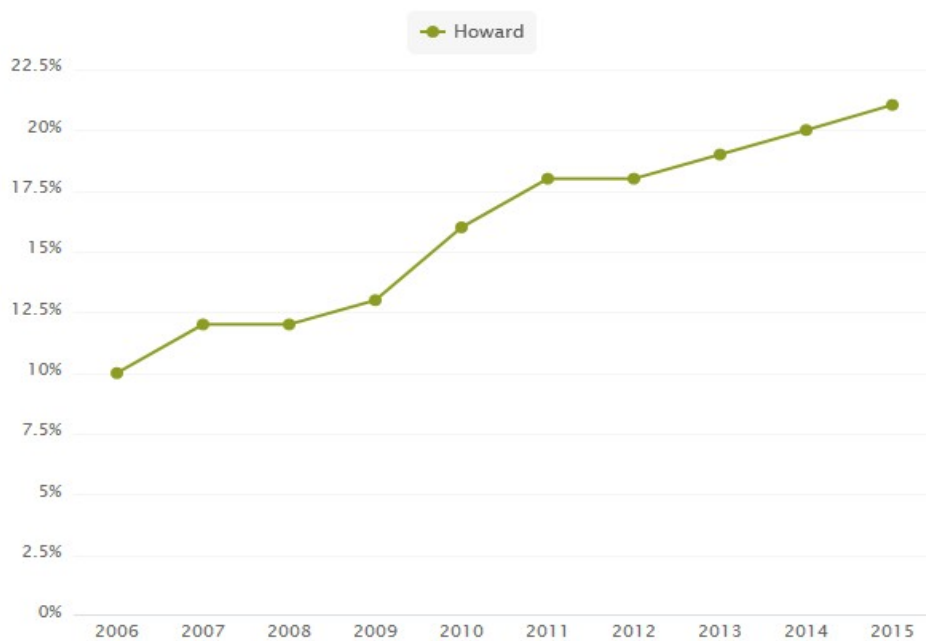
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<sup>38</sup> Howard County - Citizen Services

<sup>39</sup> 2007 HHS Poverty Guidelines

increased over the last 10 years. See Figure 3.

**Figure 3.**



## STUDENTS RECEIVING FREE AND REDUCED SCHOOL MEALS (PERCENT)

Advocates for Children and Youth  
KIDS COUNT Data Center, [datacenter.kidscount.org](http://datacenter.kidscount.org)  
A project of the Annie E. Casey Foundation

Throughout the 2014-2015 school year in Howard County, of 52,868 students, 8,805 received free meals and 1,875 students received reduced meals. Eligibility is determined by household size and income, which is broken down by year, month or week. Students are enrolled in the program in one of two ways: direct certification or via an application process. Of 10,680 students qualifying and receiving free or reduced meals in Howard County last year, 5,587 were enrolled as part of direct certification. The paper's recommendation focuses on the direct certification process. However, before delving into the specifics of direct certification, it important to explain FARMs as it relates to poverty and economic security.

### Poverty, FARMs, and Academic Achievement

The National School Lunch Program is the largest welfare program aimed at children, and the most supported, because its sole aim is to better the health of the nation's impoverished children. The

program does so by providing students with a basic necessity: a stable, consistent source of food. This source of food has two championed impacts—increased food equity and increased academic achievement. While the data supporting FARMs’ precise impact on increased academic achievement is fuzzy, it is clear that chronic under-nutrition can negatively affect child development.

The book *Free for All: Fixing School Food in America*, explains the many impacts of malnutrition. They include nutrient deficiency, which can affect a child’s ability to concentrate, which in turn can lead to disruptive behavior. A child’s energy level is also severely impacted by a poor diet, making it harder to effectively engage in social activities. The book explains, “Hungry children do less well on tests of mental ability and school performance, and are more likely to fail, to be held back, and drop out.” Large national studies of household food insecurity have found that children from food-insecure families are more likely than others to miss school, to be suspended, and to repeat a grade”.<sup>40</sup> A Wilder Research report reinforces these findings: “Poor nutrition can leave students susceptible to illness or lead to headaches and stomachaches, resulting in school absences. Access to nutrition that incorporates protein, carbohydrates, and glucose has been shown to improve students’ cognition, concentration, and energy levels”<sup>41</sup> In addressing under-nutrition, FARMs is in turn providing a diet that allows for healthier and productive child development.

### **Economic Security in Howard County: The Self-Sufficiency Standard**

The Self-Sufficiency Standard was developed in the 1990s as an alternative to the federal poverty guidelines. The standard is meant to provide more insight as to the true costs of living in the United States at a county level. The standard is defined as, “the amount of income necessary to meet basic needs (including taxes) without public subsidies (e.g., public housing, food stamps, Medicaid or child care) and without private/informal assistance (e.g., free babysitting by a relative or friend, food provided by churches or local food banks, or shared housing)”.<sup>42</sup> In regions with high costs of living like Howard County, such a measurement is crucial in enabling a more thorough understanding of living conditions facing a population.

It is important to note that the income guidelines of the FARMs program do not directly align with the federal poverty guidelines. Families with incomes below 130 percent of the poverty guideline qualify for free meals, and families with incomes between 130 and 185 percent qualify for reduced price meals. (*see Figure 4*) These income guidelines however, still do not account for all of

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<sup>40</sup> Poppendieck

<sup>41</sup> “Nutrition and Students’ Academic Performance”

<sup>42</sup> Howard County - Citizen Services

the “working poor.” According to a study conducted by the Johns Hopkins Institute for Policy Studies, the working poor are “households where income falls between the federal poverty level and the self-sufficiency standard.”<sup>43</sup>

**Figure 4: Income Guidelines by Program**  
(Monthly Gross Income)

Household Size	Federal Poverty Level	SNAP	WIC	FARMS (Free Meal)	FARMS (Reduced Meal)
1	981	1,276	1,815	1,276	1,815
2	1,328	1,726	2,456	1,726	2,456
3	1,674	2,177	3,098	2,177	3,098
4	2,021	2,628	3,739	2,628	3,739
5	2,368	3,078	4,380	3,078	4,380
6	2,714	3,529	5,022	3,529	5,022
7	3,061	3,980	5,663	3,980	5,663
8	3,408	4,430	6,304	4,430	6,304

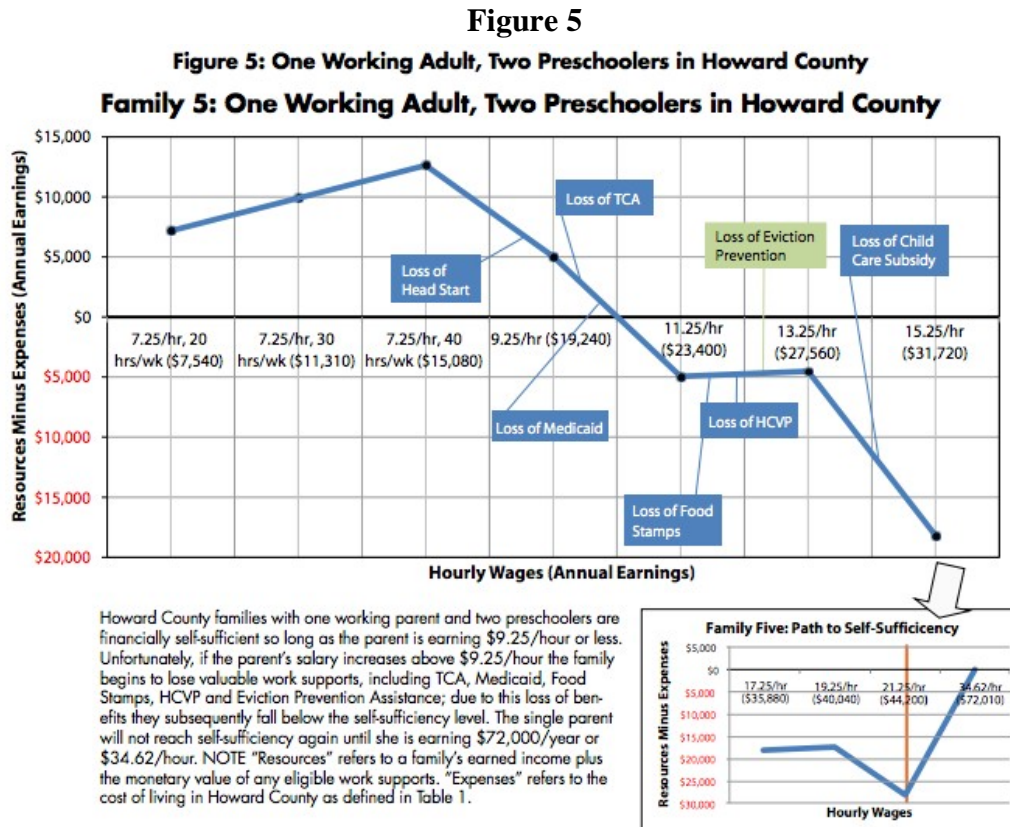
In Howard County, the self-sufficiency standard for one adult and one preschooler is over \$60,000; the poverty guideline for a two-person household is \$15,930. This means a Howard County household must make over 400 percent of the federal poverty guideline to be considered self-sufficient.<sup>44</sup> A 2011 report by the Policy Analysis Center, *Making Ends Meet in Howard County*, offers this explanation of the benefits cliff in the County:

The Federal Poverty Level (FPL) has little relevance to the reality of trying to make ends meet in Howard County and sets work program eligibility levels so low that they often provide disincentive to earn higher wages. All household types experience loss of total income as they earn more and exceed eligibility for benefits. In the most extreme example, a household with one adult and two preschoolers is surviving at minimum wage (\$7.25) working full time, but as soon as the adult earns \$1 per hour, the downward trajectory rapidly takes them below

<sup>43</sup> McPherson

<sup>44</sup> Pearce

self-sufficiency at about \$10 per hour and does not reach, “breakeven,” again until earnings are \$35/hour, or \$72,000 per year (Schactel and Spruill). See Figure 5.<sup>45</sup>



Highlighting the self-sufficiency standard brings attention to a major flaw of the guidelines that drive welfare programs. Many children are living in households that do not qualify for FARMs but could gain immensely from the program, and many of those who do qualify currently face unnecessary enrollment hurdles. The findings of Maryland Hunger Solutions further stress the need to evaluate and update the FARMs program in Howard County. Maryland Hunger Solutions is a project established by the Food Research and Action Center. Its main goal is to work under an umbrella of issues related to food equity in Maryland. Every year, they release a report card, *Reducing Childhood Hunger with the School Breakfast Program*. Each county receives a grade based on the effectiveness of their school breakfast program as it relates to its school lunch program. Howard County was one of three counties to receive a grade below a “C.” The report gave the County a grade of “Time to Act,” with only 42.7 percent of its students who participated in the school lunch program participating in the school breakfast program as well. This points to a wider problem within FARMs in Howard County. The program is not being implemented to its full

<sup>45</sup> Graphs from *Kids Count Data Center*

potential.

## **Recommendations**

Based on these findings, this paper recommends streamlining the number of children who receive aid by expanding the number who can qualify for direct certification in FARMs. As mentioned earlier, students enroll in FARMs either by direct certification or via an application process.<sup>46</sup>

Direct certification was first implemented in 1989, but in 2004, the Child Nutrition and WIC Reauthorization Act mandated that all districts that participate in NSLP directly certify children of SNAP households in FARMs.<sup>47</sup> There are two methods by which states can directly certify students: central matching and local matching. Maryland uses the local matching method. This means that a state agency shares SNAP data with school districts, which then match the data with school enrollment lists.

When it comes to the specifics of direct certification, its implementation varies by school district. Maryland Hunger Solutions describes the FARMs application process as one “which can be confusing for families and burdensome for schools to collect and process”.<sup>48</sup> Regardless of how direct certification is implemented across counties, it is carried out with one goal, to streamline the FARMs enrollment process by eliminating the need for low-income families to apply.

### *Recommendation 1: Using the Community Eligibility Provision*

In recent years, programs geared toward expanding direct enrollment have emerged. Of these programs, the most well-known is the Community Eligibility Provision (CEP). The Maryland Center on Economic Policy explains:

The Community Eligibility Provision allows high-poverty schools to eliminate school meal applications and offer breakfast and lunch to all of their students at no charge. Schools qualify for the Community Eligibility if 40 percent or more of their students are able to receive free or reduced lunches without having to apply because they have been identified as eligible by another program, like the

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<sup>46</sup> The online application can be found here: <https://www.applyforlunch.com/Application>

<sup>47</sup> Moore

<sup>48</sup> Maryland Hunger Solutions

Supplemental Nutrition Assistance Program (formerly the Food Stamp program).<sup>49</sup>

Given that Howard County is one of the wealthiest counties in the country, few schools are rated as high-poverty schools and qualify for CEP. During the 2014-2015 school year, one Howard County school participated in CEP: Bryant Woods Elementary School. This year, one other school has been deemed eligible for CEP, Homewood School in Ellicott City;<sup>50</sup> however, Homewood School is currently not participating in the program. It is important that counties like Howard, where cost of living is high, pay particular attention to programs like CEP, and actively work to make sure qualifying schools participate when deemed eligible.

### *Recommendation 2: WIC Guidelines as a Tool for Direct Certification*

Because few schools in Howard County will meet the CEP threshold, it is important to consider other methods to increase the direct certification of students in FARMs. According to the USDA report, *The National School Lunch Program Direct Certification Improvement Study*, “Direct certification may be more effective when States use data from programs that confer categorical eligibility other than SNAP. These other programs can include, and are not limited to, TANF<sup>51</sup>, FDPIR<sup>52</sup>, and foster care”.<sup>53</sup> Figure 6 shows the programs states most commonly use in direct certification.

The second recommendation aims to expand direct certification in Howard County by using data from another social welfare program, Women, Infants and Children, more commonly known as WIC. WIC allows low-income women with infants and children under the age of five to receive health assistance, including nutritional support. A woman is eligible for WIC if her income falls at or below 185 percent of the federal poverty level. This differs from SNAP in that to qualify for SNAP, the household gross income must fall at or below 130 percent of the federal poverty level. Using data from WIC households for the purpose of direct certification would capture children who are above the SNAP income/FARMs Free Meal income limit but below the WIC income limit. These students would be registered for FARMs Reduced Meals.

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<sup>49</sup> MDCEP

<sup>50</sup> Report: Maryland Schools Eligible to Elect the Community Eligibility Provision 2015-2016 School Year

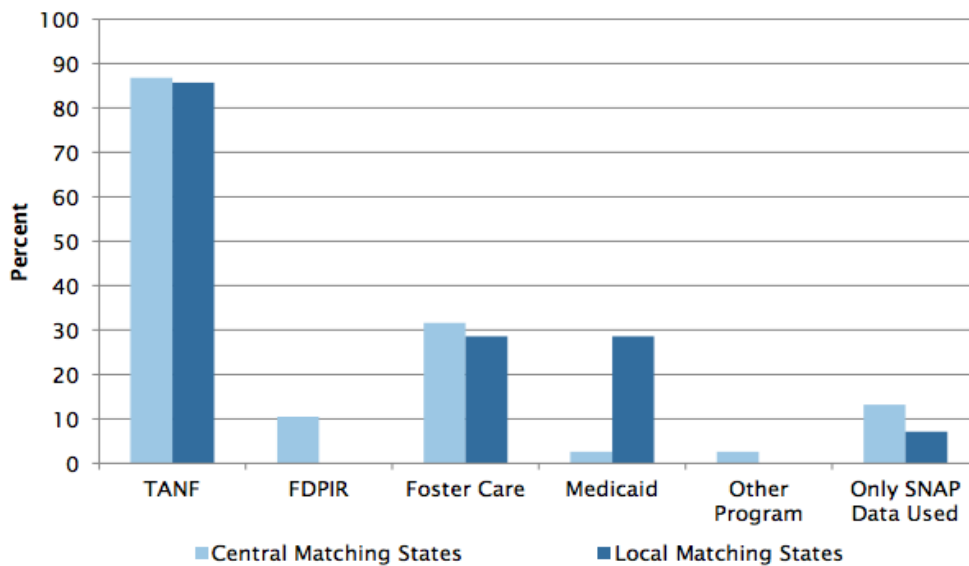
<sup>51</sup> TANF - Temporary Assistance for Needy Families

<sup>52</sup> FDPIR - Food Distribution Program on Indian Reservations

<sup>53</sup> Moore

## Figure 6

Figure ES.4. Program Data Used in Direct Certification, by Matching Method



By using the combination of SNAP and WIC data, FARMs enrollment in Howard County would become increasingly dependent on direct certification and limit the use of and need for applications. It is important to note that considering the income guidelines currently used to determine a household's self-sufficiency, an expansion of direct certification poses little risk in terms of enrolling students who are not in need.

### Implementation and Costs

Direct certification is implemented via computer matching and data sharing between State departments and school food authorities.<sup>54</sup> Because Howard County already directly certifies SNAP recipients, the infrastructure required for the stated recommendation is already in place. To implement the recommendation, WIC data would be added to the computer matching and data sharing processes. The State agency would share the data with the school districts, the school districts would then match the data with school enrollment lists. Implementation costs are low because the infrastructure and methods used to directly certify students are already developed and are currently used by the County. In fact, the recommendation is likely to save time for County departments and schools and reduce costs because there would be a decrease in use of the FARMs application.

<sup>54</sup> Poppendieck

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## The Medicare Coverage Cliff

Sean Glisson

The expense of Medicare on taxpayers is one that may never go away and will continue to grow each year. This social program faces growing challenges: it is currently in danger because of a coverage cliff that seniors are facing.

Medicare is broken up into different levels of income based on federal poverty levels that place recipients into coverage categories based on their income after age 65. Since passage of the Affordable Care Act (ACA) in some cases, older adults who had premium health care before age 65 are now losing most of their benefits once they turn 65 and are enrolled in Medicare. This drop-off in coverage is referred to as the “Medicare Cliff.” To be more specific, an adult with an income less than 138 percent of the federal poverty level (specific numbers are calculated on ACA website) will have reliable coverage from Medicaid before they turn age 65. Once seniors turn 65, the Medicaid benefits package will drop from full benefits to only Medicaid payments of their Medicare part B premium. Older adults will lose the Medicaid benefits and cost-sharing benefits that Medicare lacks and will see a significant drop in their coverage.

This cliff is what seniors are now facing as they see their coverage drop to a less beneficial plan that does not cover all their medical needs covered by their previous plan. Since the ACA, there has been much debate over Medicare and Medicaid. Policymakers struggle to find common ground persuade the public on their positions. While this problem is being debated at the national level, there are concerns at the State and local levels about what should be done. The problem of the Medicare coverage cliff problem is mainly a national one based on the program’s structure and legislation, but this doesn’t mean that there aren’t interventions at the County that can help citizens cope with this problem.

Fixing the Medicare cliff is not an easy or straightforward task because of the program’s immense complexity and the involvement of almost every level of government. A likely intervention however would be to introduce a county-implemented program of co-pay or premium support for those affected by the Medicare coverage cliff. This idea not new to Medicare, as the phrase was initially coined by Henry Aaron of the Brookings Institution and Robert Rieschauer of the Urban Institute and was the main factor in their 1995 proposals for Medicare reform to Congress.

Co-pay premium support, at its most fundamental level, is extremely simple. The government provides funds to cover the gap in premium payments that Medicare beneficiaries are enduring under their newly acquired Medicare plan. To further expand this idea, Medicare would now be

placed mostly in the hands of private health insurers. These private insurance plans would have to meet certain criteria and would be able to compete efficiently for the enrollment of Medicare beneficiaries. The cost of Medicare would be lowered and this competition would allow Medicare recipients to shop for coverage, and the subsequent gap would be subsidized from government co-pay premium support. This intervention in a federal program would require passing federal legislation before results can actually be seen. However, further exploration of co-pay premium support shows that significant results can be achieved when implemented at a local level.

While Howard County can't change federal Medicare legislation, the County can enact local legislation that eases the Medicare cliff by mirroring those principles of co-pay premium support reform. The specific intervention proposed is that the Howard County government provides subsidies to help minimize the coverage cliff for its senior citizens.

The County would use taxes collected from its residents and efficiently redistribute funds to those seniors facing the Medicare coverage cliff. This assistance or co-pay premium support would allow the County's senior citizens to overcome the Medicare cliff that they may be facing because of the new rules of the Affordable Care Act. This intervention is extremely relevant for seniors and is something that local government would be able to do to cope with the immense problem that is being debated on the federal level. Without this support seniors would face challenges because so many of them depended on the level of coverage they had before their introduction into Medicare. Certain medicines, doctors, and specialist that seniors have depended on before would now be excluded from their care.

The local government can contribute to co-pay premium support based on an applicant's income, needs, and assets. These payments will not be a fixed amount across all senior households, but instead a calculated payment based on criteria specific to the needs of each senior facing the cliff. This calculation will allow Howard County to appropriately distribute the funds from taxpayer dollars so that it is allocated efficiently to those who may need more than others. An unfixed amount is the most economically viable solution as each specific situation varies. In addition, the calculated amount will ensure that the funds are going to seniors who need it the most rather than those who have less need.

The idea of co-pay premium support is nothing new in Medicare reform, but is tough to enact on a federal level because of the many legislative hurdles and boundaries legislators must face to pass such a bill.

Data collected so far from the County has been sparse and very general, but it can be used to anticipate trends and outline the intervention's possible costs and benefits. It is also important to

note that although there is no experimental data on co-pay premium support, there is much theoretical work. As stated above, this paper's proposed intervention—co-pay premium support—was researched and coined by two well-known economists at the Brookings Institution and the Urban Institute. Their article “The Medicare Reform Debate: What is the Next Step?” in *Health Affairs* spearheaded the idea of co-pay premium support.

Since that article, many others have entertained the idea of co-pay premium support as the best remedy to an ever growing health care problem. The idea's most recent resurgence was in a bill sponsored by the House Budget Committee Chair, Paul Ryan (R-WI). Also, recent research was collected in an article by the Kaiser Family Foundation titled “The Nuts and Bolts of Medicare Premium Support Proposals.” This article does an exceptional job of exploring the potential ins and outs of how premium support would work nationwide, long with its benefits and opposing viewpoints.

The County data collected so far shows that seniors between the ages of 60-69 years old make up a significant portion of Howard's population, totaling about 10 percent. Broken down further, about 5.1 percent are aged 60-64 and 4.0 percent are aged 65-69. Although not all seniors face the Medicare cliff, their share of the County population is large and plays a big role in how the County is shaped in the future.

Looking deeper into the data we can begin to look at each subset of the Federal Poverty Level and find the total of potential seniors being affected. The target range of seniors who will most likely be affected by the Medicare cliff are those below 150 percent of the Federal Poverty Level. Next, by looking at the age range of 55-64, those citizens who will be entering into the senior citizen category, about 36 percent are potentially facing the Medicare cliff. That is a significant portion facing the cliff, but overall, from the data collected, the total number of citizens facing the Medicare cliff currently is less than 100.

A closer look at the data about these 100 or so seniors currently facing the cliff helps to understand more about the coverage gap they face, including the average size of the gap and the average amount of co-pay premium needed. The data can also show what part of their Medicare plan is affected the most and how that may show a trend for future citizens. Finally, it can show the potential costs and benefits of the proposed intervention and how best to allocate taxpayer dollars. All factors need to be considered as more data is collected to help understand the problem.

Separately from the Medicare cliff the County can begin to understand the potential economic benefits of proposed intervention on the County as a whole. A co-pay premium support plan may be a potential selling point for the County and attract more seniors from around the State to relocate to

Howard County. These seniors will indirectly produce economic benefits, because their growing population will require the services of a wide range of occupations. More nursing homes and senior centers may have to be constructed, employing the services of contractors, engineers, and added staff. More doctors may have incentives to relocate offices to Howard County and other medical services will be needed as well. These are just a few examples but the overall idea is that this proposed intervention can have a wide range of economic benefits for the County.

The problem of the changing health care market has an urgency that must be addressed, whether on the federal level or the local county level. Howard County can implement the proposed intervention to help its seniors and become a leader in advancing national health care reform.

This paper explored the immense problem of the Medicare cliff and the structure and regulations of how the program works. The intervention proposed is a start to tackling the complex problem of health care reform and places real benefits for senior citizens. Further data and analysis are needed to strengthen the idea, since it is innovative and in the early stage of implementation.

## **Bridging the Benefits Cliff: Supplemental Nutrition Assistance Program (SNAP)**

James Kyle Parrott

### **Program Description**

The Supplemental Nutrition Assistance Program (SNAP) is the nation's largest anti-hunger program, serving more than 46 million low-income Americans in 2014.<sup>55</sup> Formerly known as the Food Stamp Program, SNAP is a means-tested welfare program that provides in-kind transfers to low-income families for the purchase of food. Every month, SNAP benefits are loaded onto a recipient's Electronic Benefit Transfer (EBT) card, which essentially functions as a debit card at participating grocery stores and other food retailers. The federal government bears the full cost of these benefits but splits the administrative costs of the program with state governments. States are responsible for administering the program and may exercise some limited flexibility over certain rules, such as how vehicles are counted as assets. However, eligibility requirements and benefit levels are generally set at the federal level by the U.S. Department of Agriculture's Food and Nutrition Service (USDA FNS). The following sections outline the federal standards for both SNAP eligibility and benefit levels for the contiguous states and the District of Columbia, effective October 1, 2015 through September 30, 2016.<sup>56</sup>

### *Eligibility*

First, it is important to understand that the unit of analysis for determining eligibility and benefit levels is a *household*, defined as a group of individuals who live, purchase food, and prepare meals together. In order to be eligible for SNAP, a household must meet resource and income tests as well as various employment requirements. By the resource test, a household is determined to be eligible if it has less than \$2,250 in countable resources, such as a bank account. This threshold increases to \$3,250 for households with at least one elderly or disabled member. Depending on the state, countable resources may also include the fair market value of a vehicle remaining after a standard auto exemption of \$4,650. However, the resources of household members receiving Temporary Assistance for Needy Families (TANF) benefits or Supplemental Security Income (SSI) are excluded from this calculation. The income test, on the other hand, varies by the size of the household. To be eligible, a household's gross monthly income must be less than 130 percent of the poverty line and their net monthly income must be below the poverty line. Table 1 specifies these amounts for each household size.

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<sup>55</sup> Center on Budget and Policy Priorities

<sup>56</sup> USDA *Supplemental Nutrition Assistance Program (SNAP): Eligibility*

**Table 1. Income Eligibility by Household Size**

Household Size	Gross monthly income (130 percent of poverty)	Net monthly income (100 percent of poverty)
1	\$1,276	\$ 981
2	1,726	1,328
3	2,177	1,675
4	2,628	2,021
5	3,078	2,368
6	3,529	2,715
7	3,980	3,061
8	4,430	3,408
Each additional member	+451	+347

Source: United States. Department of Agriculture. Food and Nutrition Service. *Supplemental Nutrition Assistance (SNAP): Eligibility*. Web. 27 Sept. 2015.

Net income is calculated by applying several allowable deductions, such as those for certain medical expenses, child support payments, and dependent care when needed for work, training, or education. Finally, FNS employment requirements mandate that SNAP recipients register for work, accept jobs if they are offered, and participate in state-assigned employment and training programs. In order to maintain benefits for more than three months in a three-year period, able-bodied adults without dependents must also work or participate in a work program for at least 20 hours per week. However, these work requirements do not apply to children, seniors, pregnant women, and those that qualify for physical or mental health exemptions.<sup>57</sup>

#### *Benefit Levels and Cliffs*

SNAP benefit levels are simply calculated by subtracting 30 percent of a household's net monthly income from the maximum allotment for a given household size. These maximum benefit amounts are based on the Thrifty Food Plan (TFP), which represents the USDA's estimation of the minimum

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<sup>57</sup> USDA *Supplemental Nutrition Assistance Program (SNAP): Eligibility*

cost of a nutritious diet.<sup>58</sup> Maximum allotment values for each household size are provided in Table 2.

**Table 2. Maximum Monthly SNAP Benefit by Household Size**

People in Household	Maximum Monthly Allotment
1	\$ 194
2	\$ 357
3	\$ 511
4	\$ 649
5	\$ 771
6	\$ 925
7	\$ 1,022
8	\$ 1,169
Each additional person	\$ 146

Source: United States. Department of Agriculture. Food and Nutrition Service. *Supplemental Nutrition Assistance (SNAP): Eligibility*. Web. 27 Sept. 2015.

For example, a household of four people would be eligible to receive \$649 in SNAP benefits if it did not have any net income but would receive \$349 if its monthly net income were \$1,000. Since households are expected to spend about 30 percent of their income on food, the SNAP benefit decreases 30 cents for every additional dollar earned. While this Benefit Reduction Rate (BRR) of 30¢/\$ is much lower than most welfare programs, it still results in a problem shared by many programs—the benefit cliff.<sup>59</sup> For each household size, there is a level of income at which an additional dollar earned results in a complete loss of SNAP benefit, thereby disincentivizing labor. The magnitude of the benefit cliff for each household size can be calculated by subtracting 30 percent of the maximum net income from the maximum allotment. This difference represents the minimum benefit a household can receive while still remaining eligible. For households of one to three people, this calculated value is less than the federal minimum benefit of \$16, meaning that the cliff is flat at \$16 for a range of incomes. However, the size of the cliff rises substantially for larger households. For instance, a six-person household receives \$110.50 in SNAP benefits when it earns

<sup>58</sup> Center on Budget and Policy Priorities

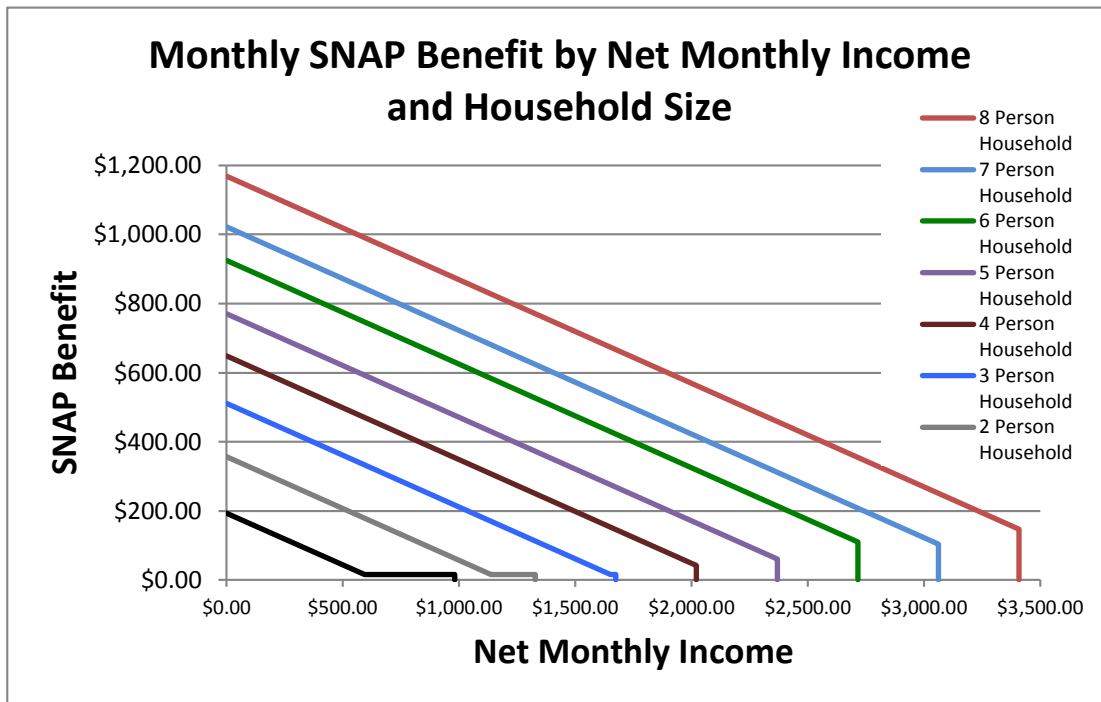
<sup>59</sup> Hoynes

\$2,715 a month, but is ineligible for any benefit if it earns \$2,716. Table 3 provides specific values for cliff heights and Figure 1 displays a graphical representation of the cliffs.

**Table 3. SNAP Benefit Cliff Values and Associated Income Levels**

Household Size	SNAP Benefit Level at Cliff	Net Monthly Income at Cliff
1	\$16	\$593.33 - \$981.00
2	\$16	\$1,136.67 - \$1,328
3	\$16	\$1,650 - \$1,675
4	\$42.70	\$2021
5	\$60.60	\$2,368
6	\$110.50	\$2,715
7	\$103.70	\$3,061
8	\$146.60	\$3,408

**Figure 1. Graphical Representation of Benefit Cliffs**



## Proposed Intervention

SNAP can be a powerful tool to fight poverty and ensure fundamental nutrition standards for the poor. Across the state of Maryland and especially in Howard County, participation in the program expanded extensively since 2000. In fact, the number of SNAP participants in Howard County grew 477 percent from 2000 to 2011, while the percentage of total population participating in SNAP increased from 2 percent to 5 percent. Over that same timespan, the ratio of SNAP participants to persons in poverty increased from 27 percent to 92 percent.<sup>60</sup> These numbers clearly indicate that Howard County has a high “take-up rate,” or ratio of SNAP enrollees to the eligible population. The County’s current poverty and unemployment rates of 4.6 percent<sup>61</sup> and 4.3 percent<sup>62</sup>, respectively, are very low compared to state and national averages. Still, there is room for improvements that can be generated by implementing county-level changes to SNAP’s benefit structure.

As previously mentioned, the SNAP BRR or phase-out rate of 30¢/\$ is very low relative to other programs and therefore provides a much greater incentive for participants to work more hours. Unfortunately, cliffs in the program restrict the impact of this work incentive by eliminating the phase-out rate at the maximum income level.

To understand this dynamic, it is helpful to examine the basic rational choice model of an individual SNAP participant. A person has limited time to commit to both work (which provides the means for consumption) and leisure, so he or she faces a tradeoff function between the two that is based on the relative importance placed on each. To maximize utility, the participant chooses the combination of labor and leisure that yields a Marginal Rate of Substitution (MRS) that is equal to the Marginal Return to Labor (MRL). This is a nuanced version of the basic principle of economic efficiency, which states that marginal cost is equal to marginal benefit at the optimal allocation point. Due to the phase-out, the MRL is 70¢/\$ between the maximum allotment and the benefit cliff. Beyond that level of income a participant loses all SNAP benefits, causing the MRL to become negative. Thus, any individual whose optimal point would have otherwise occurred beyond the cliff will choose to restrict their income (and thus hours worked) to maintain benefits.

To address this problem, Howard County should consider a full extension of the BRR to the level of income at which calculated SNAP benefits would equal zero. This would eliminate inefficient cliffs from the program and remove the powerful disincentive to work. Implementing this extension would require the County to set new maximum net income eligibility levels for each household size

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<sup>60</sup> USDA *Supplemental Nutrition Assistance Program (SNAP) Data System*

<sup>61</sup> U.S. Census Bureau

<sup>62</sup> Maryland Department of Labor, Licensing, and Regulation

as well as to remove the minimum benefit of \$16. The new income thresholds would need to be uniformly equal to 330 percent of the maximum allotment amount, rounded to the nearest dollar.

Notably, the maximum monthly income for one- and two-person households would in fact decrease by this methodology. This is because at the corresponding federal maximum incomes, the 30 percent share expected for food consumption is actually greater than the maximum allotment for one- and two-person families. This means that incomes above \$647 for a single-person or \$1,190 for a two-person household should be able to support a Thrifty Food Plan diet without any assistance. Since extending the phase-out rate and eliminating the \$16 minimum benefit would in fact take away SNAP benefits from these groups of people, the County should maintain the federal benefit structure for only these two household sizes. However, getting rid of the cliffs for all other household sizes will create a significant work incentive for participants who currently maximize their utility at the cliff. Ideally, these policy measures would strengthen Howard County’s labor force and simultaneously increase the program’s ability to lift people out of poverty. Table 4 presents the net monthly income maximums that would be necessary to eliminate the cliff at each household size.

**Table 4. Recommended Changes to Income Eligibility Requirements**

Household Size	Maximum Net Monthly Income
1	Keep at Federal Level
2	Keep at Federal Level
3	\$1,703
4	\$2,163
5	\$2,570
6	\$3,083
7	\$3,407
8	\$3,897
Each Additional Member	\$487

**Cost/Benefit Analysis**

Unfortunately, this paper lacks the appropriate county-level SNAP and income distribution data necessary to estimate the costs and benefits of this intervention. Therefore, the following can only serve as a theoretical explanation of how this intervention could result in the benefits outweighing the costs.

As described earlier, extending the phase-out rate would provide a work incentive to current SNAP enrollees who restrict their time worked to maintain benefits. However, there also could be negative behavioral impacts on the labor decisions of other individuals who are not currently enrolled in SNAP. For example, a household of four that earns a net monthly income of \$2,075 is making \$54 too much to be eligible for SNAP benefits before the intervention. After the County eliminates the cliff, though, they would be eligible to receive \$26.50 per month from SNAP without changing their work/leisure decision. Therefore, they can sign up for the program and enjoy a new total income (including SNAP benefit) of \$2,101.50. Alternatively, if the household is satisfied with a total of \$2,075/month, then it could attain this desired total income by reducing labor to the point where their net monthly income is only \$2,037 and their SNAP benefit is \$38.

Now, recall that SNAP's two objectives are to increase employment and lift people out of poverty. If a household elects to sign up for SNAP but does not change labor, then the program still serves to assist a household that is dangerously close to the poverty line. On the other hand, if a household elects to decrease work hours in order to maintain the same low level of income, then this intervention would in fact act contrary to the objectives of the program. Overall, this intervention would result in net benefits to the program as long as the positive impacts on labor are greater than the negative. It is arguably valid to assume that this would be the case, given that the disincentive to work for current enrollees at the cliff is so much higher than the disincentive created by the intervention for those not enrolled.

### **Relevant Literature**

Most research into the labor supply effects of welfare programs relies heavily on state variations in program rules. These differences allow for clear control and experimental variables that are crucial to obtaining any valuable estimates of a program's impact on labor supply. Whereas the structure of other welfare programs such as Medicaid varies substantially between states, SNAP benefit levels and income requirements do not differ at all. Given the federal nature of SNAP, a surprisingly small amount of economic research exists on the subject. There have been a few studies conducted by Robert Moffitt, Paul Hagstrom, and Michael Keane, which use structural estimation to gauge the magnitude of work disincentives associated with the Food Stamp Program (FSP). Structural estimation requires many complicated assumptions and attempts to predict the parameters of an individual's utility function subject to a budget constraint. Therefore, under experimental simulations the researchers estimated how changes to the welfare program would affect labor decisions. In all of these simulations, the FSP was found to have very small work disincentives.<sup>63</sup>

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<sup>63</sup> Moffitt

In 2012, Hilary Hoynes and Diane Schanzenbach published the first study of its kind, which created an innovative approach to analyzing labor supply impacts of the FSP. While there may be little program variation among states, Hoynes and Schanzenbach examine the national rollout of the program in the 1960s to test for the real world implications of the FSP on labor. The program went through a lengthy expansion period from its pilot stages in the early 1960s to its establishment at the federal level in 1975. This allowed the researchers to employ a difference-in-difference model that used county implementation of FSP as the treatment variable. After controlling for many different county characteristics and year-fixed effects, they found that the implementation of FSP caused a significant 12 percent reduction in employment, equivalent to a 505-hour drop in annual hours worked. These results indicate a much higher work disincentive than previously estimated by Moffitt et. al. However, it is important to keep in mind that these estimates of the work *disincentive* only represent the labor supply impacts of FSP/SNAP on someone who is currently *not enrolled* in the program. This research provides a valid basis for estimating the negative employment effects of this paper's recommended intervention. However, it does not provide any basis for estimating the major positive employment impacts that will result from removing the benefit cliff.

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# Tax Policy

## Earned Income Tax Credit

Daniel Klein

How can Howard County's poverty level be reduced? With the broadness of this question in mind, there are many different programs, incentives, and legislative actions that can reduce poverty. One that has been proven to reduce poverty across the country is tax legislation, in particular, the earned income tax credit (EITC).

According to the IRS, the EITC is "a benefit for working people with low to moderate income. To qualify, you must meet certain requirements and file a tax return, even if you do not owe any tax or are not required to file".<sup>64</sup> The reason one must file a tax return is because the benefit is given as a credit amount that counters the amount of tax liability owed by an individual.

Throughout the past several years, the EITC has been implemented on federal, state, and local levels. Additionally, much legislation indicates whether the tax credit is refundable or non-refundable. The main difference is that a non-refundable tax credit is restrictive, meant to help individuals with their tax liability only (credit in excess of the tax liability is not provided to the individual). On the other hand, a refundable tax credit is provided by the government to help a lower income individual and is not restricted to just paying off a tax liability (any additional credit is still provided to the individual).

The federal EITC varies depending on the amount of qualifying children declared and the type of filer. For the fiscal year 2015, no individual earning over \$53,267 is eligible to receive a federal EITC. Additionally, the maximum credit available is \$6,242 (married, filing jointly, with three or more dependents) and no credit is granted to any individuals with an investment income over \$3,400.<sup>65</sup>

Maryland is currently the only state to offer both a refundable and non-refundable tax credit. Credit eligibility depends on how many qualifying children one declares relative to an individual's gross income. In Maryland, EITC eligible candidates are entitled either to a state tax credit equal to 50 percent of the federal tax credit (non-refundable) or 25 percent of the federal tax credit (refundable) but not both. (Spotlight) In addition to both the federal and state EITC, Montgomery

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<sup>64</sup> "Earned Income Tax Credit (EITC)," *Internal Revenue Service*

<sup>65</sup> "2015 EITC Income Limits, Maximum Credit Amounts and Tax Law Updates," *Internal Revenue Service*

County has enacted a local refundable EITC called the Working Families Income Supplement. This credit is equal to 100 percent of the state EITC and was enacted to help lower-income families combat the County's high cost of living.<sup>66</sup> In Maryland in 2013, 417,000 people filed for the EITC receiving an average of \$2,297, costing the State \$958 million.<sup>67</sup>

There are many benefits of the EITC. While it is fairly obvious that providing low-income workers with a tax credit helps reduce liabilities and makes it easier for individuals to provide for their families, the credit also encourages workers who fall below the phase-in threshold to work more hours (in an effort to receive the maximum EITC benefit possible). As a result of working more hours, over time, they earn enough income to exceed the poverty line. According to the Center on Budget and Policy Priorities, "three out of five filers who receive the federal credit use it just temporarily, for just one or two years at a time." They continue, "The federal EITC is the nation's single most effective tool for reducing poverty among working families and children. It lifted about 6.2 million people (over half of them children) out of poverty in 2013".<sup>68</sup>

With such an effective solution in place to combat poverty in the country, more and more states have been leveraging the EITC by offering state and local EITCs (similar to Maryland). While Maryland has remained current with EITC benefits, there are still some changes that can be made to fully utilize the benefits of the credit.

One method to help make lower income individuals better off in Howard County would be to eliminate the non-refundable portion of the EITC. While Maryland does offer individuals the opportunity to choose between a refundable and non-refundable credit, it is currently one of only four states to offer a non-refundable credit as an option.<sup>69</sup> The non-refundable tax credit is effective in reducing an individual's state income tax liabilities, however it does not offer any additional monetary support for these families with respect to poverty.

The EITC's phase-in and phase-out helps reduce the effects a possible cliff situation where individuals would be incentivized to work less in an effort to not make too much money (as to not receive the full benefit of the EITC). It is important to note that while the phase-in and phase-out do help counter a steep cliff relative to hours worked, people are still incentivized to work more during the phase-in, and less during the phase-out because the transitions do not completely counter the effects of a cliff (see Figure 1).

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<sup>66</sup> Tax Credits for Working Families

<sup>67</sup> Hathaway

<sup>68</sup> Williams

<sup>69</sup> Williams

Whether or not the non-refundable EITC reinstates a cliff for the Maryland state economy is ambiguous. On one hand, individuals are incentivized to work because as tax liability increases, income increases as well. However, there is a small cliff that may occur for some individuals who will be incentivized to work only as hard as it takes to cancel out their state income tax liability. While this dilemma may not pose a huge problem to the Howard County economy, it is still an important situation to be aware of.

This concept has not been reviewed by the State. Maryland has already announced that by the year 2018, the refundable state EITC will increase to 28 percent of the federal EITC while the non-refundable portion will remain at 50 percent of the federal EITC. One main reason why State legislators passed this increase was to incentivize individuals to choose the refundable credit in an attempt to promote work. With that in mind, it would be in the State's interest to completely eliminate the non-refundable EITC and use the excess revenue to increase the percentage of the refundable EITC.

As is with most political decisions, the best way to influence individuals is through incentives. While Howard County's ability to influence State legislators may be limited, the County does have the ability to work with local legislators in creating a tax plan that will incentivize Howard County's (EITC eligible) residents to opt out of the non-refundable EITC. The best method to maximize the effects of the EITC on a local level would be for Howard County to introduce a refundable EITC, similar to Montgomery County, which would make it beneficial for residents to use the refundable EITC and make the non-refundable EITC obsolete in Howard County.

Various studies have been done on the EITC in an attempt to determine exactly how beneficial the credit is to both individuals and the economy. It is fairly clear that individuals eligible for the credit are receiving a direct benefit, while the economy is also receiving the benefit of decreasing poverty rates. There is a less clear impact on the economy at a macroeconomic level.

Some have argued that the EITC is an inefficient welfare program because it transfers to the impoverished. While this is a true statement, the effects of this idea can only be seen through changes consumption in a given economy.

Ryan D. Edwards, a professor at Stanford University's Morrison Institute for Population and Resource Studies published *Macroeconomic Implications of the Earned Income Tax Credit* in which he analyzes the effects of the EITC on consumption in the United States. Edwards uses various macroeconomic data and econometric specifications to determine his conclusions.

Edwards finds that the total marginal propensity to consume (MPC) among EITC recipients varies from .4 to 1 with an average MPC of .7. In other words, for every additional dollar that these individuals receive, they will be spend approximately 70 cents immediately (on average). These findings suggest that even though the country is investing money into a tax credit for the poor, this money is being quickly reinvested into the economy due to the rate at which these individuals are spending their excess money. Edwards writes, “the Earned Income Tax Credit is a powerful fiscal tool because EITC recipients are disproportionately spenders rather than savers”.<sup>70</sup> This conclusion suggests that the positive affect of the EITC goes beyond just decreasing poverty; it has a positive macroeconomic effect on the economy.

While the EITC provides a benefit for the working poor, it has also proven to have one of the lowest participation rates among welfare recipients. There are various schools of thought as to why this is the case. In an article titled *Participation and Compliance with the Earned Income Tax Credit*, researchers and doctoral professors concluded that high noncompliance rates are the result of various limitations in the surveys that portray the participation rate in the EITC program. Some of these caveats include the difference in “covered populations” relative to other welfare programs, particularly food stamps. The authors argue that these differences are unaccounted for in noncompliance research. Additionally, they argue that noncompliance rates are high due to mistakes among filers. “Filers who satisfy some (but not all) of the EITC program requirements are relatively more likely to mistakenly infer that they are eligible for the credit”.<sup>71</sup>

Others have argued that the high nonparticipation rate is part due to self-employment income. John K. Scholz discusses this concept in his research titled *The Earned Income Tax Credit: Participation, Compliance, and Antipoverty Effectiveness*. Scholz’s research suggests that the individuals who contributed most to the participation rate of the EITC program were those who filed mostly wage and salary income. He writes, “My evidence suggests that noncompliance was negatively correlated with wage and salary income and positively correlated with self-employment income”.<sup>72</sup>

These various studies suggest relevant information that can be applied to increasing the amount of money invested in the EITC on a local level. Edwards would argue that it would be beneficial for Howard County to invest in a local EITC because the money spent on the program will be recycled into the local economy due to the high MPC among impoverished citizens. Additionally, both studies that examined the noncompliance rate came to the same conclusion: the effectiveness of the EITC should be exploited in the United States, and to do so, legislation must be passed in an attempt to incentivize the working poor to declare the credit. By offering a local EITC to Howard County

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<sup>70</sup> Edwards

<sup>71</sup> Blumenthal

<sup>72</sup> Scholz

residents, the working poor will be incentivized to use the credit, which will further enhance the positive effects of the EITC on local citizens.

The Montgomery County EITC originally enacted a 100 percent local EITC by providing a one-to-one match of the federal EITC. As the great recession approached, this rate dropped to approximately 70 percent and resulted in many individuals dropping below the poverty level. As a result, County legislation has restored the original 100 percent effective January 1<sup>st</sup>, 2016. This change is expected to help over 30,000 working poor and cost the County \$3 million, which is 10 percent of the projected tax revenue growth (the County is expecting a tax revenue growth of \$30 million for FY2016).<sup>73</sup>

This example supports the hypothesis that Howard County should enact a local EITC that is 100 percent of the federal EITC. Though Montgomery County is approximately three times the size of Howard County, the two are very similar in that they are both wealthy relative to the state of Maryland and the country. According to the U.S. Census Bureau, an estimated 4.6 percent of citizens in Howard County fall below the poverty line compared to 9.8 percent in the State. Montgomery County statistics are similar in that only 6.4 percent of citizens fall below the poverty line. Additionally, median household income in Howard and Montgomery Counties, respectively are \$109,865 and \$98,221 (in 2013). Both of these amounts greatly exceed the State's median household income of \$73,538. Though Howard County is wealthier and has fewer poor people, it is fair to say that enacting a local EITC in Howard County will provide similar results to that of the local EITC in Montgomery County.

The best way to determine the cost of implementing this program is to examine the cost of the local EITC in Montgomery County. One can assume that the total cost of implementing the program per individual in Howard County will be almost identical to the cost in Montgomery County. With that information, one can determine the effects of implementing the EITC program in Howard County with some basic calculations.

By multiplying the estimated percentage of individuals in Montgomery County below the poverty line by the overall County population, one can determine the amount of residents below the poverty line. In Montgomery County, it is calculated to be 69,040 people. Dividing the estimated cost of the program (\$3 million) by those individuals indicates that the program will cost approximately \$43.45 per impoverished person.

Assuming that the amount does not vary across counties, multiplying this amount by the number of Howard County residents below the poverty line (using the same technique, this totals 14,227

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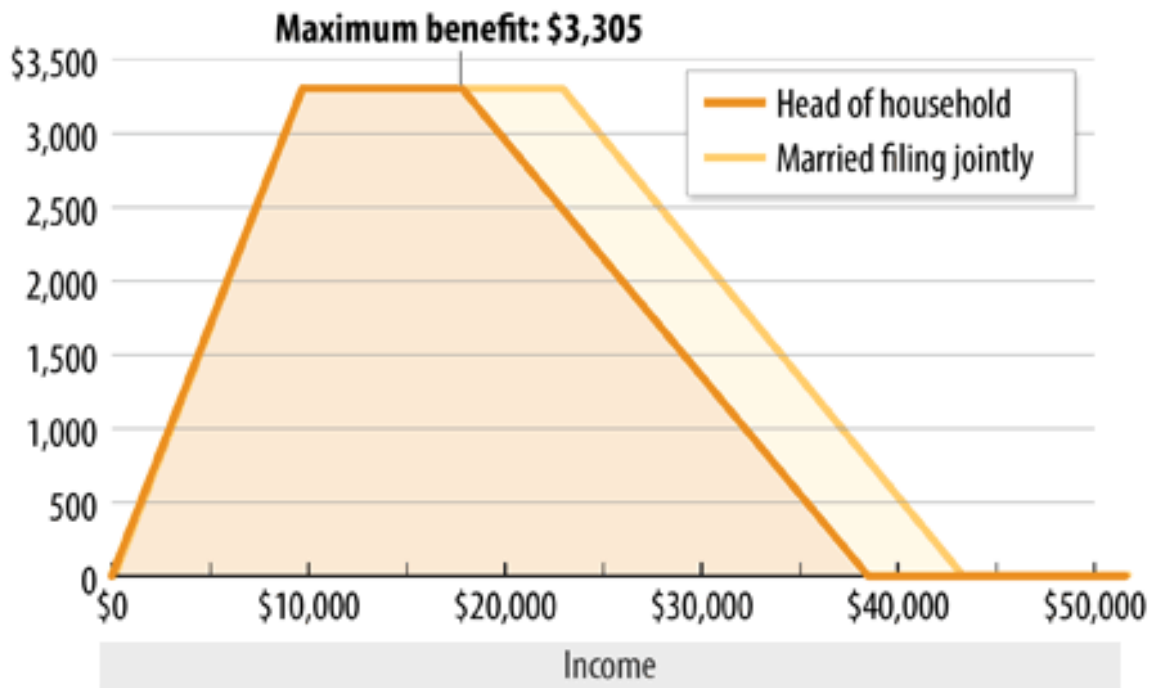
<sup>73</sup> United States Census Bureau

individuals) indicates that the cost of implementing the program in Howard County will be approximately \$618,166. (Note: this projection is based on the rounded estimate of \$3 million in 2013 and as a result is not exact. However, the same process can be applied to exact numbers. See Figure 2 for further calculations.)

Additionally, using the same technique, indicates the cost of implementing the program statewide. Currently, 9.8 percent of Maryland residents are below the poverty line, translating to 585,688 impoverished Maryland residents. Using that information, indicates that if the State enacted a similar program to Montgomery County, it would cost the State approximately \$25.5 million.

Figure 1:

### Earned Income Tax Credit for Households With One Child, 2014



Note: Assumes all income is from earnings (as opposed to investments, for example).

Source: Internal Revenue Service

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Figure 2:

(as of 2013)	Montgomery County	Howard County	Maryland
Population	1,030,447	309,284	5,976,407
% Population Below Poverty Line	6.7%	4.6%	9.8%
Population below Poverty Line	69,040	14,227	585,688
Cost of Program	\$ 3,000,000	618,166	25,448,139
Cost Per Poor Person (PRG/Pop below Pov)	\$ 43.45	\$ 43.45	\$ 43.45

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## **Two Earner Tax Credit**

Daniel Galitsky

### **Intervention Proposal**

The proposed intervention is in line with 2013 baseline proposal of Kearney and Turner, but at the state level. That is, 20 percent of the first \$60,000 earned by the household's secondary earner will be deducted, and phase out after household incomes of \$110,000. By lowering the tax obligation of these second earners, the overall implicit tax is lowered, encouraging more secondary earners to enter the labor market, and saving more disposable income for families that need it.

The intervention will not target the economy's very lowest earning households that are not in the phase-out range of the EITC, and so do not suffer from the secondary earner penalty. Families with incomes over \$50,000 will gain by reducing their tax liability. The Maryland state EITC is pegged to the federal one, so the two-earner tax credit will augment the impact of the EITC on the targeted families both at the state and federal level.

The deduction phases in until the secondary earner reaches \$60,000. Starting at \$110,000 in family income, the deduction will phase-out at a rate of 1 percent for each thousand dollars earned above \$110,000 in family income. Thus, families jointly making \$130,000 or more will gain no additional deduction. With certain exceptions, tax liability is not changed whether a couple files jointly or separately. However, married couples filing separately are not eligible to participate in the EITC and some other programs, so this analysis is focused on couples who are married, filing jointly.

The intervention also focuses on Howard County's county income tax, but it is unlikely that changes in the County tax code will have a large impact on families' decisions. A few hundred dollars change in the return to working for the secondary earner is probably not enough to change a decision about entering the labor market. However, lower liabilities for County income taxes could have a consumption impact by giving families a small but increased amount of disposable income.

A bill to implement the proposal at the federal level was introduced in 2015 by Washington Senator Patty Murray. The "21<sup>st</sup> Century Worker Tax Cut Act" failed to get through committee. This report looks at the difference the deduction can make at the state level for Maryland. The rate most relevant for Maryland families is the 4.75 percent owed on money between \$3,000 and \$150,000

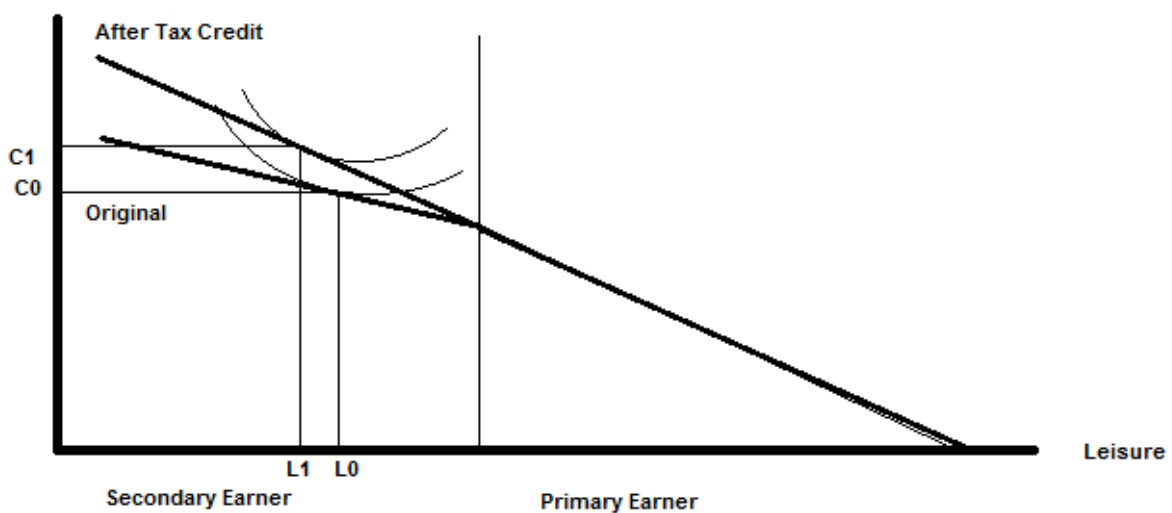
between spouses. Additionally, residents of Howard County are subject to an additional 3.20 percent income tax across all income levels.

The proposal would have costs and benefits. Costs would be accrued by the level of government offering the tax cut, while benefits would be enjoyed at all levels of government as well as by the affected families. Most importantly, families with limited means would benefit from additional disposable income afforded by lower taxes and a second income. By lowering the rate of taxation on the second earner, the actual tax revenue brought in can theoretically increase by marginal workers entering the labor force and paying taxes who weren't paying at all previously. In a sense, this can be compared to getting closer to the peak of a Laffer Curve for a specific portion of the labor market.

Further benefits will arise from the multiplier effect of increased disposable income in the hands of families with a high marginal propensity to consume. Another difficult-to-measure benefit is the potential marginal increase in marriages due to the alleviation of the tax penalty. This may have societal benefits that are economically intangible.

The graph below is a simplified representation of a budget constraint for a two-earner household in the income range for which the intervention is relevant. Holding the return to work for the primary worker as a given constant, the secondary earner faces a lower return to work before the tax credit in Case 0 (C0). Due to the implicit tax caused by phase out of the EITC or other safety net benefits, as well as the potential cost of child care, the benefits of returning to work for the secondary earner

Consumption



are lowered. When the intervention is implemented, the implied wage is higher because the deduction lowers the taxable income, raising the amount of disposable income available to the household. In theory, this change should encourage more secondary earners, typically wives, to enter the labor force. The indifference curves show a decrease in leisure and an increase in consumption. The secondary earner is able to move to a higher indifference curve, where utility will be maximized when working more hours, allowing greater consumption. Given a utility function for consumption and leisure, the secondary earner should choose to work more hours than previously, due to the higher implicit wage.

## **Literature Review**

In 2000, Eissa and Hoynes studied the impact that taxation has on couples' decisions to either marry or simply cohabitate. Their most important finding was that decreasing the marriage income tax penalty by \$1,000 would raise the probability of marriage by 0.4 percent. Young and childless couples were most sensitive to taxation in making the decision. This is a situation in which implementing the intervention at either the federal or State level could lead to an increase in marriages. However, the effect of taxation on marriage choice is relatively small, and the benefits of additional marriages are difficult to measure, so it will not be a major focus of this cost-benefit analysis.

In 2014, McClelland and Mok studied the elasticity of labor supply for secondary earners and women. They find that elasticity has fallen over time because married women are more career-oriented. The lower-earning spouse is more likely to enter or drop out, unless the couple has children, in which case women have higher elasticity. They find that the percentage of households in which the male is the higher earner is approximately constant across income levels, and women represent over 70 percent of exits from the labor force. Importantly, the researchers find a participation elasticity of .02 for married women, and .03 for secondary earners for a 1 percent change in tax rate. While small, these estimates are statistically significantly greater than zero. The authors state that "changes in taxable income in response to tax rates are not likely to be driven by participation changes among the marginal worker in a couple." Lowering taxes will encourage a small number of potential workers to enter the labor force.

In 2008, Goodman-Bacon and McGranahan at the Chicago Fed studied household spending that resulted from EITC refunds. They find that a significant portion of the refund is spent immediately after it is received, and is focused on durable goods. In particular, a large number of vehicles are bought after EITC refunds, which can be used as transportation to work. More specifically, about 25

percent goes toward food, 18 percent toward vehicles, and 7.5 percent toward gas, among a wide number of categories. These results may be used to guide thinking about how additional funds available to families might be used. Much of what is spent will be subject to sales tax or excise taxes on gasoline, tobacco, or alcohol, so the government will see some return through the additional consumption resulting from the two-earner tax credit.

### **Cost/Benefit**

The chart below represents estimates for some of the costs and benefits of the two-earner tax credit intervention. The income distribution and number of households for Howard County is taken from the 2013 American Community Survey. The breakdown of families into income brackets is not specific to families with children, so it may not exactly mirror the correct breakdown.

According to Bureau of Labor Statistics employment data, 60.2 percent of two parent households with children have both parents working. These households in the proper income brackets are the target households for the intervention. For simplicity, the middle income number of each bracket is used to represent all households in the respective bracket. Again for simplicity, it is assumed that the primary earner takes home 60 percent of the household's income, and the secondary earner takes home 40 percent. The deduction is 20 percent of the first \$60,000 earned by the secondary earner, and phases out with higher income households. However, the only bracket we have in the phase-out range has an income of \$125,000, so the deduction comes out to \$2,500. This amount is multiplied by the Maryland marginal income tax rate for the relevant bracket and the Howard County rate of 3.2 percent. This is multiplied by the number of Howard County households in each bracket.

The total cost to the State of Maryland is around \$1.9 million, and the cost to Howard County is about \$1.25 million. That takes into account the arithmetic effect of lower taxes on those individuals. In order to determine the economic effect of the tax change, the change in taxes paid is divided by household income to see the change in tax burden percentage. Using the elasticities estimated by McClelland and Mok, Howard County will add an estimated 1.2 secondary earners due to the intervention. This gives the state about \$1,800 in additional revenue and the County about \$1,200 in additional revenue due to workers entering the labor force.

Much of the increased disposable income will be spent on consumption, so the sales tax will recoup some of the money for the State. For Howard County, this is beneficial because much of the new

disposable income will be spent in the County at local retailers. The tax credit can lead to more vehicle purchases, which may impose a cost on the County in traffic and pollution on the roads.

However, Howard County has the 3<sup>rd</sup> highest median household income in the United States, and has a higher than average cost of living. For these reasons, relatively few households fit into the targeted range for the two-earner tax credit as outlined by Kearney and Turner. The intervention would be more helpful in parts of the country that have lower incomes and lower costs of living. Most Howard County households are not eligible for the EITC, so the lower tax burden is directly linked to the change in disposable income they will enjoy. The change in workers caused by the tax credit is small. It should not play an important role in deciding whether or not the tax credit is a good idea. However, it cannot be denied that the two-earner tax credit will help a number of families more easily afford groceries, gas, and other necessities.

**Table 1**

Total	31,341	HH w/KIDS	2-Earner HH/Kids	Middle of bracket	60% Primary Earner	40% Secondary Earner	Deduction
<i>Less than \$10,000</i>	0.2%	63	38	5000	3000	2000	400
<i>\$10,000 to \$14,999</i>	0.4%	125	75	10000	6000	4000	800
<i>\$15,000 to \$24,999</i>	1.3%	407	244	20000	12000	8000	1600
<i>\$25,000 to \$34,999</i>	2.3%	721	433	30000	18000	12000	2400
<i>\$35,000 to \$49,999</i>	3.4%	1066	639	42500	25500	17000	3400
<i>\$50,000 to \$74,999</i>	8.3%	2601	1561	62500	37500	25000	5000
<i>\$75,000 to \$99,999</i>	11.8%	3698	2219	87500	52500	35000	7000
<i>\$100,000 to \$149,999</i>	25.5%	7992	4795	125000	75000	50000	2500

Deduction	Less State Tax/ household	Less County Tax/ Household	State Sum	County Sum	Burden % Change	Additional Earners	Added State Revenue	Added County Revenue
400	\$19.00	\$12.00	\$714.57	\$481.40	0.62%	0.01	\$0.66	\$0.45
800	\$38.00	\$24.00	\$2,858.30	\$1,925.59	0.62%	0.01	\$2.66	\$1.79
1600	\$76.00	\$48.00	\$18,578.94	\$12,516.34	0.62%	0.05	\$17.28	\$11.64
2400	\$114.00	\$72.00	\$49,305.66	\$33,216.45	0.62%	0.08	\$45.85	\$30.89
3400	\$161.50	\$102.00	\$103,256.06	\$69,561.98	0.62%	0.12	\$96.03	\$64.69
5000	\$237.50	\$150.00	\$370,685.68	\$249,725.09	0.62%	0.29	\$344.74	\$232.24
7000	\$332.50	\$210.00	\$737,798.48	\$497,043.19	0.62%	0.41	\$686.15	\$462.25
2500	\$125.00	\$75.00	\$599,396.63	\$383,613.84	0.16%	0.23	\$575.42	\$368.27
			<b>\$1,882,594.32</b>	<b>\$1,248,083.87</b>		<b>1.20</b>	<b>\$1,768.79</b>	<b>\$1,172.23</b>

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# Housing Policy

## Strengthening Howard County's Affordable Housing Policy

Ian Barnhart

### The Problem

Why is affordable housing still a problem after decades of relatively strong U.S. economic growth and assistance programs? While economists and policymakers still disagree as to the exact nature of the problem, three main factors dominate: wage stagnation, loss of supply, and rising housing costs. After analyzing decades of wage and price data from the Bureau of Labor Statistics, Drew DeSilver of the Pew Research Center finds that today's average hourly wage (in real terms) is the same as it was in 1979.<sup>74</sup> Since 2000, U.S. workers in the bottom 10th income percentile have seen real wages fall 3 percent. With wages remaining relatively stagnant, poor and middle-class workers have largely remained stuck in similarly challenging economic situations, and are unable to dedicate greater portions of their income to housing.

In contrast, housing costs have risen sharply. Bruce Katz and Margery Turner find that a full-time worker would need a \$16/hour wage to afford the average rent for an average two-bedroom house or apartment at the 30 percent of income affordability cutoff.<sup>75</sup> Others point to supply-side failures in the housing market. By the laws of supply and demand, houses that rent for lower prices are often of lower quality. Houses and apartments which were previously affordable may have declined in quality to the point of being unrentable, and private construction does not appear to be replacing these lost units with new construction.<sup>76</sup>

Finally, low-income households overwhelmingly rent housing because of credit constraints and the difficulty of saving for a down payment, but renters are subject to economic penalties. Renters do not experience gains from appreciation of housing prices, and thus are hurt by upswings in the market. At the same time, due to the nature of rental contracts and the reluctance of landlords to cut rents (in the same way that firms rarely cut salaries), renters do not see benefits from decreases in housing problems due to price stickiness. In booming metropolitan areas, like

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<sup>74</sup> DeSilver

<sup>75</sup> Retsinas and Belsky

<sup>76</sup> Joint Center for Housing Studies

Washington D.C., rental prices are soaring as people chase jobs in the wake of the 2007-2008 financial crisis.

## **History of the Programs**

Early public housing policies primarily sought to address the problem through direct, government-financed and administrated supply-side programs. The oldest major affordable housing program in the United States is the public housing program, which began in 1937. The Public Housing program rents publically constructed and owned units directly to tenants, who must meet income means tests. Although this supply-side strategy was a noble effort to assist families and individuals, public housing facilities are notoriously low quality, with high concentrations of extreme poverty, crime, and other social problems.<sup>77</sup>

Governments have gradually, but strongly shifted toward demand-side programs like the Housing Choice Voucher Program, which are more politically popular, deliver better results for tenants and are more economically efficient. The Housing Choice Voucher Program has increased in size over time, but has not kept pace with trends in the housing market, with the number of vouchers remaining stagnant for much of the 1990s.<sup>78</sup>

## **Economists on the Housing Market**

Economists stress the importance of proper “matching” in the housing market between housing suppliers (landlords and sellers) and households seeking to rent or buy. Like the labor market and other markets characterized by information asymmetries, there are often barriers to perfect matching between the supply and demand for housing, including imperfect information, improper distribution of housing quality, and price stickiness.

While Tiebout’s model of housing is not perfect (his strong assumptions of free movement, a continuous distribution of housing districts, no moving frictions undermine his conclusion), the model elegantly illustrates concepts in zoning and public goods provision. Tiebout’s model of housing and public goods provision suggests that households “vote with their feet,” moving to areas that aggregate like-minded individuals with relatively similar incomes and similar preferences for public goods provision. Theoretically, these groups provide some level of

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<sup>77</sup> Green & Malpezzi

<sup>78</sup> Green & Malpezzi

homogeneity in the tax base and preferences of citizens; individuals with higher preferences for public goods provision thus attempt to price others out of the market through taxation, regulation, and zoning so that their level of public goods quality can be maintained and they can avoid the “free-rider” problem.

However, these policies would create regions of concentrated poverty, where the tax base would be unable to support bare minimum public goods provision. In addition, social and economic policymakers oppose developing regions of concentrated poverty, finding that these areas not only have significantly lower quality of life, but also that they impose economic and social spillover costs on the rest of the region. Many economists, sociologists, and citizens have since spoke out against the harmful effects of highly-concentrated poverty, for both inhabitants in the area as well as those surrounding these regions. Galster, Cutsinger, and Malega’s review of the existing literature found significantly lower quality of life measures in areas with high concentrations of poor households.<sup>79</sup>

Economic and sociological literature suggests that these problems are both correlational and causal. These low measures are partially the result of the market’s allocation of units, forcing similarly poor families to live in the same region. Once poverty is highly concentrated in a single area, inhabitants of that area are unlikely to be able to pay the taxes necessary for quality public services. Many academics and campaigners allege that these concentrated areas are also intentionally segregated from the general middle- and upper-income population, intentionally isolating them from public resources.<sup>80</sup>

### *Is Housing Becoming More Unaffordable?*

Although economists disagree as to the exact statistical level of divergence between real wages and housing costs, nearly all recognize a significant and increasing gap between rising rents and home sale prices, and largely stagnant real wages, especially for lower- and middle-class individuals. Economists and policymakers tend to argue that households should allocate no more than 30 percent of their income to housing expenditures, but the percentage of households doing so has shrunk in the last few decades.<sup>81</sup>

Although researchers like Green & Malpezzi argue that there is not a singular “housing affordability crisis” across the U.S., they find that areas of high economic growth and high regulation have seen significant increases in rents and have large numbers of residents unable to manage their housing

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<sup>79</sup> Retsinas and Belsky

<sup>80</sup> Briggs

<sup>81</sup> Joint Center for Housing Studies

costs while maintaining a reasonable level of housing quality. Additional study by Green and Malpezzi attributes this growth in median rental and home prices to burdensome zoning regulation, which increases the cost of housing due to delays in obtaining construction permits and makes it difficult to build low- to moderate-income housing units at a density level that would make private market development economically feasible.<sup>82</sup>

### *The Moving to Opportunity Experiment*

The Moving to Opportunity (MTO) program, financed and overseen by the Department of Housing and Human Development (HUD), offers a rare, randomized economic experiment examining the effects of the housing choice voucher program and decentralizing poverty, and is thus key to understanding both the nature of affordable housing and poverty today, as well as how to best improve these programs in the future. Participants in five cities who applied for the program were randomly assigned to three groups; one group, the experimental group, received targeted vouchers that required recipients to move to neighborhoods with low concentrations of poverty; another received the traditional Section 8 voucher; and the third group functioned as a control group, receiving no additional treatment.<sup>83</sup> This longitudinal study had mixed, but ultimately inspiring results. While it was difficult for researchers to clearly delineate differences in employment and income between the groups, participants in the experimental group had markedly better measures of health than both their Section 8 and control group counterparts.

### **Existing Howard County Programs**

The Housing Choice Voucher Program is a federal assistance program for low-income households, the elderly, and the disabled, to help them afford safe and sanitary housing in the private market. The housing subsidy comes from the U.S. Department of Housing and Urban Development (HUD) and is paid directly to the tenant, who may pay more than the voucher subsidy if they choose higher quality units or may keep the savings if they choose a cheaper unit.<sup>84</sup> The housing units are on the private market, but must meet certain program requirements to receive the subsidy.

Participating families in Howard County choose their own unit, and pay 30 percent of their adjusted gross income toward rent, with the subsidy making up the difference. For the voucher program in

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<sup>82</sup> Green and Malpezzi

<sup>83</sup> U.S. Department of Housing and Urban Development

<sup>84</sup> Green and Malpezzi

particular, the county is responsible for few of its costs and reaps much of its benefits. Since the subsidies come from the federal government, this program helps address poverty and housing issues without significantly tapping into the County's budget. The voucher program is highly cost-effective and efficient, enjoys broad support from academics and citizens from both sides of the political spectrum, and addresses a market failure through a market mechanism rather than a supply-side policy, which may lead to deadweight loss of economic output. However, the waiting list for the program closed on July 1, 2012 due to inadequate room on the list and a low supply of affordable housing.

The Public Housing program is funded and regulated by HUD, which allocates funds to the local public housing authority, which buys and manages affordable decent and safe rental units. Both programs are funded primarily through federal funds and are subject to many federal rules, but local housing authorities do have some leeway and policymaking authority of their own. There is a "benefits cliff" dilemma for both programs; households are only eligible to participate if their incomes are below certain thresholds. For the voucher program, households generally must be making less than 30 percent of the area median income, with some exceptions raising this ceiling to 50 percent of the area's median income. However, these benefit cliff concerns are somewhat mitigated by Howard County's housing programs targeted at moderate income families.

The County's Moderate Income Housing Unit (MIHU) program is also relevant when discussing affordable housing efforts in Howard. The MIHU program is an inclusionary zoning program, which ties new housing construction and development to construction of affordable housing units. New developments in these inclusionary zoning areas must have 10-15 percent of the units available for rental or sale at prices set by the County; these units are then rented and sold through both the County and the developer. Interested participants must enter a lottery after passing a means test that measures a variety of factors including household income, household size and composition, household assets, and other preferences.

### **Description of Proposed Interventions**

After evaluating a number of policy prescriptions, it is clear that the optimal solution to affordable housing problems in Howard County is an increased supply of housing choice vouchers, to meet some of the unsatisfied demand. While this solution's theoretical simplicity suggests that it would be an inadequate solution to a problem as complicated as housing, much economic theory suggests a simple demand-side subsidy is one of the most efficient ways to solve these issues.

Howard County's housing policy organizations appear to have embraced voucher programs in the past, increasing the ratio of vouchers to supplied public housing units significantly. However, it is clear that the supply of vouchers, both locally and federally, is unable to meet demand for vouchers. The County closed the waiting list for both the supply-side and demand-side public housing programs years ago, and has no timeline to reopen the list, citing uncertainty about whether or not new additions to the list would receive assistance in a satisfactory amount of time. Rather than lobbying the federal government to apportion more funds and finance more vouchers itself, it may be in Howard County's best interest to fund and administer these programs at the local or county level.

The County appears to have a very tight housing market, with very few vacancies and high demand for low-income properties. A tight housing market not only increases rental prices; it also makes it harder for households (buyers) and landlords (sellers) of housing to match properly, which can distort the market. A model of the housing market suggests that demand side subsidies lead to less deadweight loss of economic output, and that it provides better matching between beneficiaries' housing preferences and their outcomes than publicly constructed and maintained housing developments. Economists generally believe that the voucher program provides a higher level of production and consumption efficiency than publicly supplied housing units.<sup>85</sup>

Direct funding and administration of this program at the local level addresses a number of potential concerns with expanding the housing choice voucher program and offers some benefits one may not think of. If Howard County government finances the vouchers themselves, they may be able to set alternative criteria in order to more directly target certain populations of interest that policymakers see as more in need of housing subsidies. Policymakers also would have additional flexibility in deciding how to organize the program; they could fund subsidies that are identical to the federal pool and simply combine them with the existing pool (which may get the vouchers circulating and helping needy citizens faster), or they may use the local program to experiment with different methods of administration and oversight, which could lead to improvements in efficiency and ease of program use.

Although this seems like a high cost burden to place on County taxpayers, it is likely better than a scenario in which the County lobbies the federal government to increase the number of nationally

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<sup>85</sup> Green & Malpezzi

available vouchers, for a number of reasons. First, the County's low poverty rate and high median household income make it unlikely to be targeted as much as other counties nation-wide that have higher poverty levels and lack existing public resources. In addition, this expanded government spending would have to be offset at some point by either a reduction in spending services or a tax increase that would also impact Howard County residents who may not even benefit from the additional voucher expenditures if they are allocated to other public housing authorities. Howard County taxpayers are more likely to support this expanded spending if they feel that their money is going to projects in their own communities rather than a seemingly distant, centralized national program.

The costs of such a program would likely be relatively high, but it would have a larger impact on local residents than a federal program, where benefits are unlikely to go to the County. One possible way to help recoup the costs of this expansion is levying a tax on developers who opt out of clauses requiring market rate housing in their new construction; such policies could help offset the loss of this potential new low-income housing. Taxes and transfer programs like these are seen as cost-effective ways to reduce the gap between supply and demand of affordable housing.

### **Why Care About Housing?**

Maintaining a sizable supply of low-income housing is important for Howard County in both tangible and intangible ways. While Howard County has a high median income and many residents work in the neighboring cities of Baltimore and Washington, D.C, there is a need for low and moderate wage workers in the County's many businesses. Low-income households are more likely to rely on public transportation, and are unlikely to make lengthy commutes to comparatively low-wage jobs. If low- and moderate-income wage earners are unable to afford reasonable quality housing in Howard County, they are likely to move to peripheral areas or out of the County altogether. In addition, even if they do stay within the County, lengthy commutes lead to productivity loss, depressing economic activity in the region and thus tax revenues for the government. Low-income housing is thus crucial to maintaining Howard County's economic growth.

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