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Connecting the Dots: Expanding Economic Opportunity in Texas Through Public-Private Partnerships

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With the state revenue crisis posing an economic threat through proposed cuts in education and health and human services, Texas policymakers are not inclined to make critical investments to improve educational attainment and shore up a Texas middle class battered by stagnant wages and the damage of the Great Recession. Moreover, upward economic mobility, at the heart of the American Dream and a point of Texas pride, appears in serious danger as Texas ponders substantial cuts in proven policies that create more college graduates and a larger economic pie.

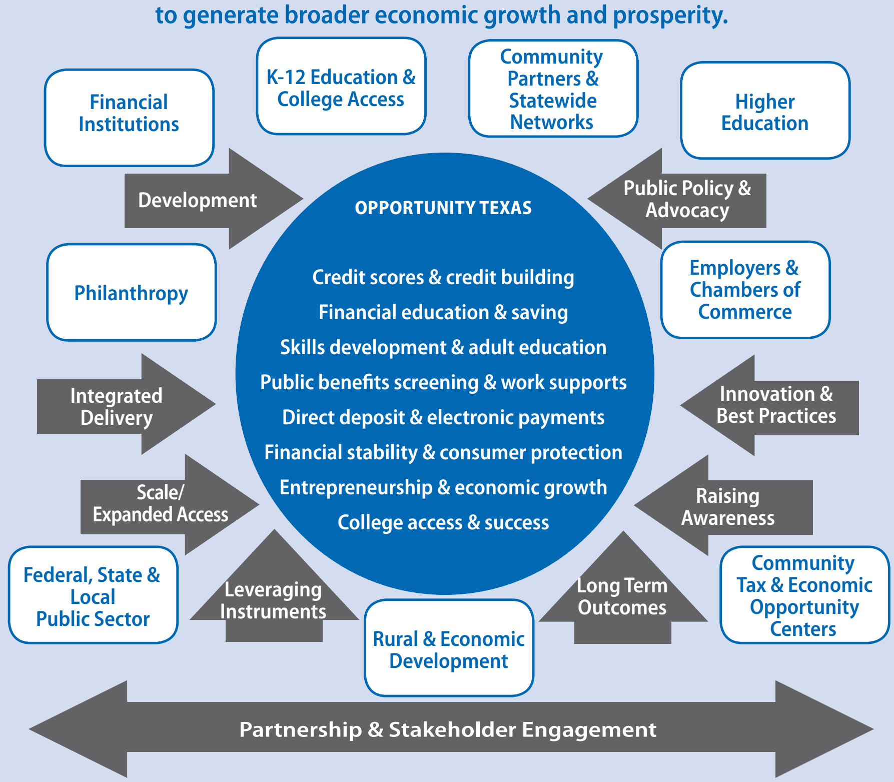
A Time for Action & Innovation

More than ever, innovative and hard-working Texans need efficient and effective systems that promote economic mobility and opportunity through the asset-building channels of education, savings, work supports, innovation, and ownership. As the Texas population grows and future jobs require increased amounts of education, the state faces great challenges in achieving greater access to higher education for its residents. The share of the state's labor force holding at least a bachelor's degree is expected to decline from a quarter of the workforce today to 17.3% by 2040.[1, 2]

With these trends, Texas needs a proactive and collaborative approach to move more families up the economic ladder and into the middle class. In times of budget austerity and limited long-term investments, such cross-sector collective impact initiatives can "connect the

Figure 1
OpportunityTexas Model

A collaborative, cross-sector partnership leverages the assets of "opportunity platforms" to generate broader economic growth and prosperity.



Source: OpportunityTexas, 2011, www.opportunitytexas.org

For several decades, Texas has been, and continues to be, a largely low-wage, low-tax, and low-investment state. In fact, Texas is last in overall per-capita spending, and near the bottom in per pupil spending and other public investments.

dots" by forging substantial, action-driven partnerships across multiple stakeholders and platforms for a limited cost with broad impact.[3]

In order for private markets to deliver broader economic prosperity, Texas needs a statewide collaborative platform to increase financial stability, especially for those on the outskirts of the economic mainstream. OpportunityTexas is a joint statewide initiative of the Center for Public Policy Priorities (CPPP) and RAISE Texas with three goals: creating (good) jobs, increasing income and financial stability, and promoting savings. OpportunityTexas works to achieve broader opportunity for all Texans by forging cross-sector partnerships, catalyzing large-scale action and innovation, and leveraging new investments.

Texas currently faces two major public policy challenges. The first is that many Texans are outside the financial mainstream with subpar credit scores, low-wage income, and limited avenues for economic mobility. The second challenge, while related to the first, should be addressed as a separate issue: many Texas students are academically prepared, yet lack financial preparation for college, including basic financial education, college savings, and screening for financial aid eligibility.

Challenge # 1

Many Texans are outside the financial mainstream, with subpar credit scores, low-wage income, and limited avenues for economic mobility. For several decades, Texas has been, and continues to be, a largely low-wage, low-tax, and low-investment state. In fact, Texas is last in overall per-capita spending, and near the bottom in per pupil spending and other public investments. Furthermore, Texas' eligibility guidelines for work-support programs are restrictive compared to other states. With lower and more limited benefits, a smaller share of struggling Texans receives any public assistance to help close those gaps.[4] Not surprisingly, this situation has yielded below-average results, when compared nationally and even regionally, as shown in Table 1.

Despite these subpar measures, Texas is typically portrayed as a place of unfettered opportunity. When lamenting the economic contraction for all states, a national magazine referred to Texas as "experiencing something of an economic boom" arising from the Great Recession. However, the structural budget flaws, coupled with a relatively meager investment in human capital, is "prompting some experts to reconsider what had been dubbed the Texas Miracle."[5]

Increasing Financial Stability

To increase financial stability, policymakers need to bridge the gaps between depressed household income and basic needs. State-federal public benefits have critical importance, especially the Children's Health Insurance Program (CHIP), Supplemental Nutrition Assistance Program (SNAP), and Medicaid.

Table 1
Critical Success Factors:
Where Texas Stands on Measures of Economic Opportunity & Mobility

Indicator	Definition	Texas (Avg)	Nat'l Avg	Nat'l Rank*
Individuals in Poverty	Share of individuals in households living below the federal poverty line	17%	14.1%	9th
Child Poverty	Share of children living in households below the federal poverty line	24%	20%	43rd
Asset Poverty	Percentage of households without sufficient net worth to subsist at the poverty level for three months in the absence of income	24.8%	22.5%	37th
Low-Wage Jobs	Percentage of jobs in occupations with median annual pay below 100% poverty threshold for a family of four	32.2%	22.2%	41st
Household Net Worth	Sum of assets attributable to any individual age 15 years and older in a household less any liabilities.	$45,434	$88,803	48th
Homeownership Rate	Percentage of occupied housing units that are owner-occupied	61.9%	64.2%	44th
High School Degrees	Percentage of population over age 25 that has at least a high school degree, 2007	81.5%	87.6%	51st
Average Credit Scores		670	692	50th

*National rankings are based on 50 states plus the District of Columbia.

Source: CPPP Analysis; Percent of People Below Poverty Level in the Past 12 Months 2009 American Community Survey 1-Year Estimates, 2009-2010 CFED Assets & Opportunity Scorecard, KIDS Count Data Center, Annie E. Casey Foundation, Experian, http://www.nationalscoreindex.com.

Table 2
The Economic Impact of Enhanced Public Benefits Access in Texas

Income/Work Support	2009 Amount	Economic Multiplier	Participation Rates	Annual Economic Activity	Lost Economic Activity
SNAP	$3.6B	1.84	55%	$6.6B	$2.9B
Medicaid and CHIP	$10.1B ($9.2B Medicaid/ $913.7M CHIP)	3.25	75% (including retroactive coverage)	$32.9B	$3.4B
Unemployment Insurance	$3.5B	2.00	26%	$7B	$1.2B
Earned Income Tax Credit	$6B	1.58	85%	$9.5B	$1.1B
TOTAL	$23.2B	--	--	$56B	$8.6B

Source: CPPP Analysis; 2009-2010 CFED Assets & Opportunity Scorecard, KIDS Count Data Center, Annie E. Casey Foundation, and the Brookings Metropolitan Policy Program, EITC interactive.

Texas foregoes an estimated $8.6 billion in economic activity because barriers to public benefits access and a fragmented eligibility system keep some eligible Texans from receiving benefits. The economic activity driven by these income and work supports, although under utilized, comprises close to 1% of the state's GSP.

Table 2 illustrates various state-federal income and work supports, with their scale of economic impact. As shown, Texas foregoes an estimated $8.6 billion in economic activity because barriers to public benefits access and a fragmented eligibility system keep some eligible Texans from receiving benefits. The economic activity driven by these income and work supports, although under utilized, comprises close to 1% of the state's GSP.[6] Accessing these funds not only benefits low-income households but also Texas businesses and the broader economy. With a significant multiplier effect, recipients are likely to spend the majority of recovered funds in their local communities, thus generating broader economic activity.[7]

With new technology and more robust statewide public-private partnerships, Texas has a unique opportunity to increase public benefits access and boost economic growth with an approach that will:

- Strengthen service capacity to leverage new web-based portals to increase claim rates;
- Ensure that community tax centers "bundle" tax preparation with savings platforms and benefits access; and
- Integrate "benefits bundling" into student support services at universities and colleges.

Building Income and Promoting Savings

The community tax center network emerges as a significant part of the opportunity infrastructure for increasing financial resources for working Texans, in order to help build income and promote savings. Volunteer Income Tax Assistance (VITA) sites, certified by the Internal Revenue Service, coordinate free tax return preparation to low- and moderate-income individuals. VITA sites, or community tax centers, are:

- Staffed with IRS-certified tax preparers;
- Coordinated by local organizations and governments; and
- Operated at convenient locations (e.g. libraries, schools, churches, supermarkets).

In 2010, 230 VITA sites in Texas operated in only about 55 counties. Although a relatively small share of overall prepared tax returns, VITA market share has grown steadily, along with their local economic impact.

Nationally, the Earned Income Tax Credit (EITC), a major low-income filer tax credit, lifts more children out of poverty than any other single program or category of programs. In 2008, the EITC pulled over 400,000 Texans out of poverty, including 217,000 children.[8] Many families can and do leverage this work support to save, build assets, and move into the middle class.

With new federal tax filing innovations, tax-time saving is becoming easier and more automatic. Several Texas community tax centers, through an OpportunityTexas pilot effort, now offer savings incentives as tax filers claim their refunds during the 2011 tax season. With high-quality tax preparation, along with bundled services such as financial education, saving, and credit building, Texas VITA centers can become regional "opportunity centers" or local "asset-building hubs." Recently in Texas, some community tax centers have adopted year-round operations that include financial coaching, FAFSA preparation, and bank account enrollment, and a handful of Opportunity Centers are emerging in Houston, Austin, and Abilene.

Savings and Economic Mobility

Although overlooked for decades in state public policy, personal and household savings

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show significant effects on the ability of low-income families to move ahead and for low-income children to rise into the middle class. Recent national research shows that family savings levels can significantly impact intergenerational mobility, as seen in Figure 2. Not surprisingly, similar research showed that a college degree is one of the most important avenues for children to emerge from poverty.

To help enhance college success, a few campuses have begun to act as asset-building hubs. Integrated student services on campuses provide students with the necessary support to balance work, school, and family while they pursue college. The Center for Working Families (CWF) model transports the "opportunity center" model to other venues, including the college campus. CWF programs bundle services such as employment and career services, income and work supports, and financial services and asset building to serve primarily a student population that works more than part-time.[9] This brings us to the second, related social challenge in Texas's current demographic landscape.

Challenge #2

Many Texas students are academically prepared, yet lack financial preparation for college, including basic financial education, college savings, and screening for financial aid eligibility. With inadequate state grant aid, many potential Texas college students have no stable funding mechanism for higher education. Overall, 58% of total financial aid in Texas comes from loans, compared to 53% nationwide.[10] Student loan dependence is likely to increase as the Texas Legislature targets state grant aid for major budget cuts, even with rapidly increasing college enrollment.

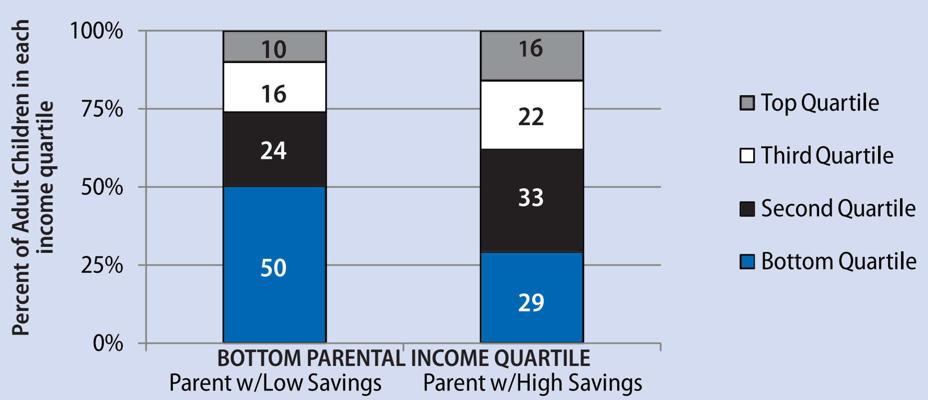
For basic needy students, primarily from households with incomes below $60,000, student loans comprised 49% of their financial aid package; for primarily moderate-income students, student loans comprise 75% of their total financial aid package. Students who are loan-averse or who lack access to sufficient grant aid often must work to cover the "unmet need" – the difference between the cost of attendance and all financial aid, including loans. Low-income students (under $20,000) have twice the unmet need of students with household incomes above $50,000.

In Texas, 80% of college students work while enrolled in school to cover their educational and living expenses. While a few hours of part-time work possibly benefits students, increasing work hours can create a "tipping point" that delays or postpones college success. About one in three undergraduates who work 15 to 34 hours a week eventually leave school without a degree, while over half who work 35 or more hours eventually leave school without a degree; as such, college non-completers have cited work and finances at the top reasons for leaving postsecondary education. Further, potential students who are highly more loan-averse may fail to even consider college because of the unmet need that cannot be bridged.

Financial Education & College Savings

College Savings Accounts provide college students with the financial resources to fill in the substantial gaps between financial aid and college costs. In addition, savings accounts can increase students' college aspirations and combat the "wilting effect" for aspiring low-income students. Research shows that children with a savings account in their name designated for college are seven times more

Figure 2
Families Who Save Generate Better Outcomes for Children



Source: Cooper, Daniel, and Maria Luengo-Prado, "Savings and Economic Mobility," *A Penny Saved is Mobility Earned: Advancing Mobility through Savings,* Economic Mobility Project, Nov. 2009.

likely – even controlling for race or income – to attend college than those children without such an account.[11]

Unfortunately, Texas uses a "back-end" financial aid system, with too few working families enrolled in savings plans at an early age, and many students and families who may overestimate the actual cost of attendance. In short, financial preparation for college happens largely amongst the group of students expected to attend college, with upper-income Texas students much more likely to be enrolled in Texas' prepaid tuition plan than their lower-income counterparts. Although over half of Texas children reside in households under $50,000, less than 10% of prepaid plan holders earn less than $50,000.[12]

College savings in Texas needs to be a stronger component of the three-legged stool of college financing, along with grant aid and student loans. A proactive and collaborative approach is needed to increase financial screening and enrollment into college savings vehicles to increase college access and success.

Financial education curriculum delivered in public schools emerges as a valuable best practice to distribute information to students and families and should include topics such as college financing and enrolling students in savings accounts that they can use to save for college. While Texas requires that high school students receive personal finance instruction in the twelfth grade, financing and saving for college are largely overlooked in the earlier grades. Further, financial education – including a college savings platform – is most valuable when initiated in elementary school.

To more appropriately address these issues, a platform such as Smarter Texas can integrate financial education into earlier grades and incorporate college savings awareness and outreach to students and families.[13] Such a partnership could also lead to preliminary financial aid screening in middle school and large-scale efforts to increase federal student aid applications in Texas, since (according to national research) 90% of students who complete the Free Application for Federal Student Aid attend college.[14] In addition, community tax centers and other stakeholders could help promote FAFSA preparation on a broader scale in Texas.

CPPP recommends the state incorporate savings as a basic needs strategy for working families; for students, the state should integrate financial education into the K-12 curriculum, with access to suitable college savings products, and early FAFSA screening. Earlier financial intervention will help prepare Texans across all income groups to identify financial need, save for college, and generate broader prosperity for Texas.

Conclusion

The Texas Legislature recently passed the Texas Saves Week resolution to "declare the week of February 21 through 27, 2011 as Texas Saves Week... and encourage all Texans to take positive financial action by increasing their savings or setting financial goals."[15] An Austin woman learning about the option to participate in the savings incentive project at Foundation Communities' Community Financial Center, jumped at the chance to purchase a savings bond. "I didn't even know I could save a part of my refund... I bought it [a savings bond] for my son... I hope he uses it for school!" New innovations bring new opportunities as community tax centers, from Midland to Beaumont, partner to create hundreds of new Texas savers.

...(according to national research) 90% of students who complete the Free Application for Federal Student Aid attend college.

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What is OpportunityTexas?

OpportunityTexas is a joint statewide initiative of the Center for Public Policy Priorities (CPPP) and RAISE Texas. We have three goals: creating (good) jobs, increasing income and financial stability, and promoting savings. OpportunityTexas seeks an enhanced public and private approach for promoting financial capability and success, along with responsible financial behavior such as savings and credit building. To that end, OpportunityTexas seeks to integrate a robust "family bottom line" approach to improving academic achievement, college success, and household financial stability.

One way OpportunityTexas is working to advance its goals is by leveraging private dollars towards Texas non-profits to expand financial education, increase household income and encourage new Texas savers. The Innovation & Investment Fund is partnering to open free tax preparation sites in rural communities, incentivizing saving at tax time, and laying the groundwork for a statewide financial education platform, Smarter Texas.