ARKANSAS Working Families PROJECT

Public Opinion & Legislative Response:

Working Families in Arkansas

June 2001 Issue 3

A Project of the Good Faith Fund, Arkansas Advocates for Children & Families, and the Arkansas Public Policy Panel

WORKING FAMILIES & PUBLIC OPINION

A recent poll of Arkansas voters, conducted in February at the beginning of the 2001 session of the Arkansas General Assembly, sheds new light on issues facing the state s working families. A major finding of the poll: programs funded by the state could be doing more to help children and working families. According to the poll, 58 percent of the state s registered voters think the state does too little to help children, while only 27 percent think it does enough.

The poll was commissioned by five organizations with an interest in children -- Arkansas Advocates for Children & Families (AACF), the Good Faith Fund (GFF), the Arkansas Kids Count Coalition, the Arkansas Public Health Association and the Pulaski County Medical Society. AACF and GFF are partners in the Arkansas Working Families Project. The margin of error for the poll was plus or minus 5 percent. Opinion Research Associates conducted the poll.

The poll indicates strong public support for policies that support working families with children who are playing by the rules and doing everything they can to support their children. Among the poll s major findings on economic issues of concern to working families:

A STRONGER GOVERNMENT ROLE IN SUPPORTING WORKING FAMILIES Voters voiced strong support for a greater government role in helping working families, even if it means an increase in their taxes. Among the findings:

- 85% favored providing help with health insurance costs.
- 83% favored increasing the minimum wage.
- 77% favored providing financial assistance with child care expenses.
- 75% favored increasing funding for K-12 public education.

PAYING FOR EXPANDED ACCESS TO QUALITY CHILD CARE Voters also were asked how the state should pay for expanding the availability of affordable quality child care for working families. Overwhelmingly, voters favored increasing taxes on alcoholic beverages and other targeted taxes and fees as the preferred way to finance child care:

- 86% favored increasing taxes on *alcoholic beverages*.
- 81% favored increasing taxes on *tobacco products*.
- 72% favored using money from a *dedicated soft drink tax*.

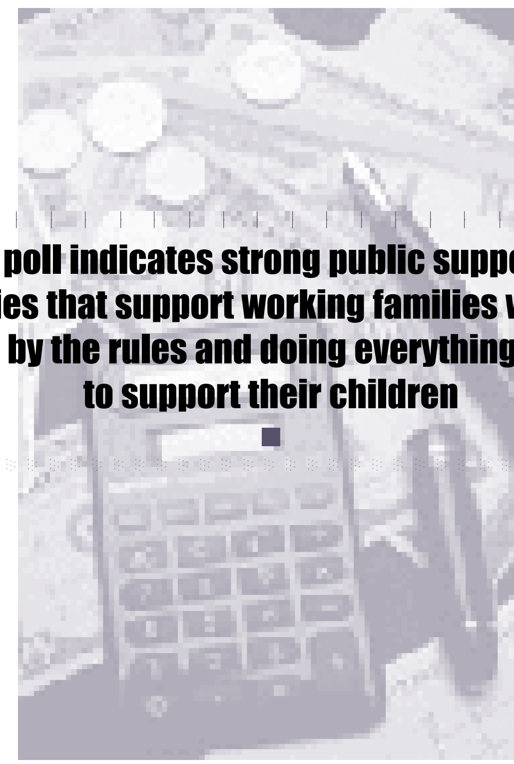
- 66% favored increasing *severance taxes*.
- 63% favored increasing *fees on marriage licenses*.
- 57% favored raising the *corporate income tax*.
- 27% favored raising *state personal income taxes*.

The tax most preferred by voters as a way to pay for expanded access to child care and early childhood education for low-income families -- a tax on alcoholic beverages -- was subsequently increased by the 2001 Arkansas General Assembly (see Child Care section).

MAKING ENDS MEET Confirming public opinion polls that have been done in other states, Arkansas voters also said that the amount of income that a family of four needs in order to make ends meet is significantly higher than the current federal poverty line ($17,650 in 2001). Eighty-four percent of voters believe the income needed by a family of four to make ends meet is above $25,000 annually. This breaks down as follows:

- 16% of voters believe it takes more than $45,000 a year;
- 27%, between $35,000 and $45,000 annually; and
- 42%, between $25,000 and $35,000.

The poll also confirms findings from a 1999 report by AACF, Making It Day-to-Day: A New Family Income Standard for Arkansas, which found that the income needed to meet basic expenses without government assistance ranges from 167 to 189 percent of the federal poverty line. A 2000 follow-up study by the Good Faith Fund and AACF, Working Families and the New Economy, found that 36 percent of all families with children earn incomes below the FIS.



The poll indicates strong public support for policies that support working families who are playing by the rules and doing everything they can to support their children

TAX BURDENS ON WORKING FAMILIES The poll also found that the largest share of Arkansas voters (46%) correctly identified the sales tax as the tax that takes up the largest share of their income. Many voters, however, mistakenly identified the property tax (25% of voters) and the state income tax (22% of voters) as the taxes taking up the largest share of their income. In reality, sales taxes take up the largest share of income for all but the richest 5 percent of Arkansas taxpayers (for these taxpayers, only the state income tax takes up a higher share of their income than do sales taxes).

An important finding in the poll that could have major policy implications for any future tax reform effort in Arkansas: 67 percent of Arkansas voters think that families with incomes below $17,000 (a level roughly equal to the current federal poverty line) should be exempt from state and local taxes.

Results from the poll were released at the beginning of the legislative session and were distributed to the press and members of the Arkansas General Assembly. The poll results provide a framework for assessing the legislation passed by the General Assembly and the extent to which they addressed economic issues facing working families and the concerns raised by Arkansas voters.

WORKING FAMILIES & THE LEGISLATURE

The recently-concluded 2001 session of the Arkansas General Assembly could have important implications for the financial bottom line of the state s working families. A legislative commitment to fund a $3,000 pay increase for K-12 public school teachers, coupled with less-than-anticipated revenues generated by a slowing economy and the threat of an impending court decision in the Lake View school funding case, placed major constraints on efforts to improve the economic prospects of the state s working families. Despite these constraints, the 2001 General Assembly passed legislation that could have important and immediate benefits for working families on two fronts:

1. Economic and workforce development policies that impact the types of jobs created, the wages paid for such jobs, and the education and training available to working families to help them compete for better-paying jobs; and
2. Income supports in areas such as child care, health care, taxes, welfare reform and housing.

In the areas of economic development and workforce development, legislation was passed that could have positive impacts for families, but it will be some time before judgements can be made about policy developments in those areas. In income supports, families will benefit from changes in child care and health care that could expand access to those services. Low-income families lost ground on the issue of tax fairness. In other areas, such as welfare reform and housing, relatively minor changes were made. Below is a summary of legislative developments in each of these areas.

ECONOMIC and WORKFORCE DEVELOPMENT

Economic Development

The 2001 session produced new economic development policies that -- to the extent that they indeed create or retain good jobs in Arkansas communities -- could benefit working families. However, most of these new polices, like many of the state s existing economic development policies, could do more to shape the number and kinds of jobs being retained and created, or establish greater public accountability for results. Such accountability is critical to ensuring economic policy benefits working families.

The 2001 General Assembly enacted major changes, including new tax incentives targeted to large employers and entire industries; a new venture capital program; a tax-increment financing redevelopment program for cities and other local jurisdictions; and a small business loan program. It also passed several interim studies aimed at improving Arkansas economic development strategies.

Several important polices were enacted that could enhance accountability in state economic development policy by requiring a much-needed evaluation of Arkansas major tax incentive programs. The Legislature appropriated funding to pay for an independent evaluation of the state s business development and incentive programs. Another bill was passed requiring the Arkansas Department of Economic Development (ADED) to provide an annual report on the impact of these programs, including the number of jobs created, wages and other specific performance data.

These two polices have great potential to benefit working Arkansans by ensuring that scarce tax dollars -- desperately needed for public services that support families -- are used wisely in tax incentive deals and help shape the public debate on economic development policy in the direction of performance standards and greater public accountability.

Tax Incentives: Evaluation and Accountability Tax incentives for business development are a primary economic development strategy in Arkansas, as in most states. As mentioned above, the 2001 session yielded two new important polices that together will enable a much-needed evaluation of the state s incentive programs. Such an evaluation is an important first step in facilitating a debate on the desired goals of the state s tax incentive strategies, how to better achieve them, and how to create greater public accountability for results, which are key issues to ensuring economic development strategies help working families.

Act 1282 requires an annual report to the General Assembly on ADED s programs, goals and strategies. ADED must provide an accounting of: 1) all projects completed the previous year, including the number of jobs created and wages, 2) all projects offered but not accepted, including an assessment of why, 3) all factory and plant closings, including an assessment of why and the number of jobs lost, 4) the department s strategies for the coming year, including plans to prevent future closings and job loses, increasing the number of proposals from within and outside the state, and creating new incentives.

Act 757 appropriates $150,000 for an independent study of Arkansas current economic incentive and business development programs. The study is required to examine the strengths and weaknesses of current programs and how they compete with the programs of other states, and to make recommendations for future legislation.

Tax Incentives: New and Expanded Incentives for Specific Employers and Industries Several new and expanded tax incentives for business development were enacted. These incentives will cost the state a total of approximately $6.4 million per year in lost revenues (note: unless otherwise noted, all estimates are Department of Finance and Administration estimates).

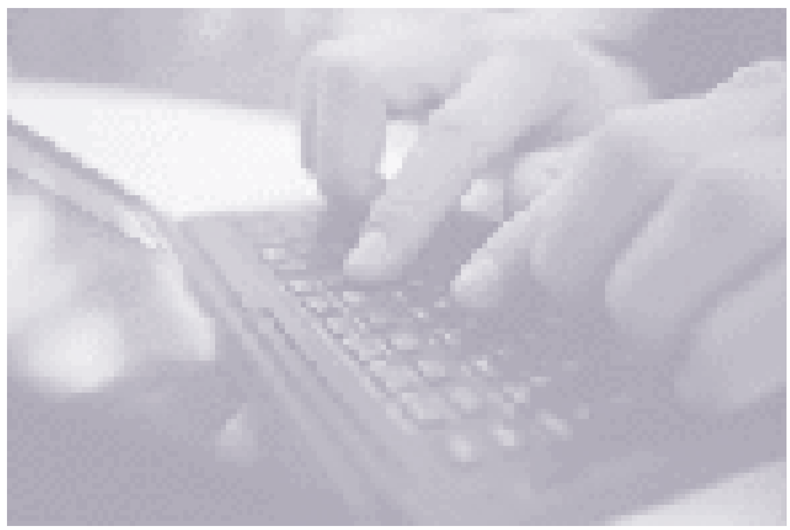
Act 1375 exempts wall and floor tile manufacturers from state and local sales and use taxes on electricity and natural gas used in the manufacturing process. Revenue Impact: $25,000 annually (for current industry participants) starting in 2004.

Act 1558 allows small businesses to take an income tax deduction for loan guarantee fees paid to the U.S. Small Business Administration for the acquisition of financing. Revenue Impact: none.

Act 1661 creates a new tax incentive for manufacturers of paper and allied products for investments in new plants and equipment. Georgia-Pacific, the state s largest paper manufacturer, is expected to utilize these incentives to expand its operations. Revenue Impact: $1.5 million annually starting 2004.

Act 1584 exempts from state income tax 100% of the net capital gain from venture capital investments, held for five or more years, in technology-based enterprises, biotechnology enterprises, and UA GENISIS Technology Incubator clients doing business in Arkansas. Revenue Impact: $300,000 annually starting in 2007.

Act 541 provides various tax incentives to manufacturers of steel. It includes a clawback provision that requires certain tax credits to be refunded if a firm ceases operations within three years of the credit s origination. Nucor-Yamato Steel in Blytheville is expected to utilize these incentives to build a new plant, promising, but not obligated by law, to create 220 new jobs with an average wage of $71,000. Revenue Impact: $8 million over 9 years starting in 2006.



Acts 1294 and **1837** lower the state privilege tax on horse and greyhound racing wagers. Revenue Impact: $1.7 million (Act 1294) and $550,000 (Act 1837) annually starting in 2002.

Act 1284 expands eligibility for the Arkansas Emerging Energy Technology Act, an incentive program to develop state-of-the-art energy technology, to businesses that produce micro-turbines, Stirling engines and nano-technology devices. It also extends the period to claim and refund credits from 6 to 14 years. DFA estimates no significant revenue impact for this Act.

Act 1683 exempts fuel packaging materials and machinery and equipment used in processing waste materials into fuel products from state sales and use taxes. Revenue Impact: $59,550 annually starting in 2002.

Act 662 extends indefinitely the timber harvesting equipment exemption from the state gross receipts tax and compensating tax. Revenue Impact: $1 million annually starting in 2002.

Act 1065 expands eligibility for the Arkansas Economic Development Act, the Arkansas Enterprise Zone Act, and the Economic Investment Tax Credit Act to coal mining operations with 25 or more employees. Revenue Impact: $517,000 over 5 years starting in 2002. (Note: The above acts, together with the Arkansas Economic Development Incentive Act, constitute Arkansas primary tax incentive programs, which, through various tax credits, exemptions or deductions, attempt to locate and expand businesses and thereby create jobs in the state.)

Act 737 extends eligibility for the Economic Investment Tax Credit Act to defense industry projects costing over $5 million, and distribution centers for products sold mostly to out-of-state customers (typically e-commerce distribution centers). It includes a job creation provision requiring eligible defense industry projects to create 250 new full-time jobs, one of few tax incentive policies with job creation performance standards. Revenue Impact: $300,000 annually starting in 2007.

Acts 975, 807 and **1054** amend several existing state tax incentive programs the Arkansas Economic Development Act, the Arkansas Enterprise Zone Act, and the Arkansas Economic Development Incentive Act, respectively. The changes extend eligibility for tax incentives to distribution centers for products sold mostly to out of state customers. They also redefine the unemployment rate at which counties qualify as high unemployment counties (effectively lowering the qualifying rate when state unemployment is below 6% and raising the qualifying rate when state unemployment is above 6%). Act 807 also reduces to 5 from 25 the number of jobs eligible computer businesses must create. It includes a dislocated worker provision that expands the definition of a high unemployment county to include counties that lose over 500 jobs or 5% the employed workforce due to a plant closing. DFA estimates no significant revenue impact for any of these Acts.

Act 899 amends the Arkansas Tourism Development Act, an incentive program for tourism businesses, to redefine the unemployment rate at which counties qualify as high unemployment counties, and eliminate the requirement that 25% of project visitors be from out-of-state. DFA estimates no significant revenue impact for this Act.

Act 900 amends the state biotechnology incentive program to tighten eligibility criteria, expand the credit carryover period from 9 to 14 years, and eliminate the provision that requires firms to refund credits if they cease operations. DFA estimates no significant revenue impact for this Act.

Act 1401 tightens the eligibility criteria for expenditures for use and sales tax refunds under the Enterprise Zone Act and Economic Development Act. DFA estimates no revenue impact for this Act.

General Economic Development Policies Several new laws, not involving new or expanded tax incentives, designed to create and retain jobs also passed. Inherent in these policies is recognition among legislators that economic development policy, to be fully effective, must include more than tax incentives.

Act 913 makes permanent ADED s Pilot Loan-Incentive Program for Small Businesses, which provides matching low-interest loans for small businesses that have received financing from various partnering community lenders. Act 787, an appropriations bill, increased funding for the program by $50,000 over the biennium (from $250,000 to $300,000).

Act 1791 creates a new state venture capital investment program. The program authorizes the Arkansas Development Finance Authority (ADFA) to provide a capital guarantee, through guaranty loan funds or income tax credits, on investments made in emerging companies by an investor group approved by ADFA. The Act caps the total amount of tax credits at $10 million per year and $60 million total. DFA estimates the revenue impact for Act 1791 to be undeterminable.

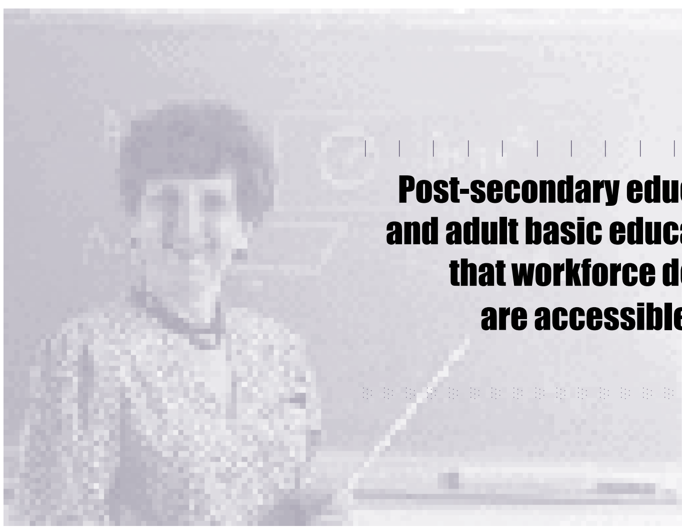
Act 1197 establishes procedures for using a tax increment method of financing local redevelopment projects, which was authorized by Amendment 78 to the Arkansas Constitution passed by voters on November 7, 2000. Cities and other local jurisdictions can use this financing method, which essentially uses property tax increase increments to secure and service debts, to fund a variety of public facilities and residential and commercial developments in blighted or distressed areas.

Act 1629 temporarily requires municipalities and counties to negotiate payments in lieu of ad valorem property taxes when contracting for the lease or sale of public property to a private entity for industrial development. The payments are required for contracts negotiated from July 1, 2001 to June 30, 2003, and the payments cannot be less than 35% of the aggregate amount of taxes that would be paid if the property were on the tax rolls. The Act requires relevant school superintendents to be notified 10 days prior to official approval of any negotiated payments. DFA did not provide a state revenue impact on this Act, but the law will have a positive impact on local revenues as prior to the Act in lieu-of-tax payments were optional.

Act 1601 creates the Arkansas Delta Development Commission, which will serve to measure the need for and coordinate state and federal economic development activities in the Delta region. The Commission will represent Arkansas to the Delta Regional Authority, a new $20 million federal grant program aimed at developing the Delta region, and administer any grant funds submitted to the state by the Authority.

Act 1032 increases the principal amount of industrial bonds that ADED may guarantee from $4 to $5 million.

Act 1681 transfers any remaining balance in the Arkansas Economic Development Fund (AEDF) as of January 1, 2002 to the General Improvement Fund. The AEDF is funded by estate taxes and funds can be used for a variety of economic development programs from capital improvement projects to job creation and training efforts.



Interim Studies

HR1056 requests the House Interim Committee on Agriculture and Economic Development to study and make recommendations concerning long-term economic development in Arkansas.

HR1022 requests the House Interim Committee on Agriculture and Economic Development to study the feasibility of establishing empowerment zones throughout the state and make recommendations to that end to the General Assembly.

SB922 asserts that the Delta region and other poor areas of the state have been unable to compete for CDBG funds in a fair and equitable manner, and requests the Senate Interim Committee on Agriculture and Economic Development to study how other states distribute CDBG funds in an equitable manner and make recommendations to that end to the 84th General Assembly. The bill was referred to the Senate Interim Committee on Agriculture and Economic Development.

[1] Is Arkansas Economy Creating Enough Jobs to Support the State s Families? Arkansas Working Families Project.

Workforce Development

Workforce Development policy in Arkansas, as in other states, is primarily concerned with creating access to quality education and training opportunities that prepare Arkansans for jobs in the state s economy. Although post-secondary education and training are typically the focus of workforce development efforts, literacy and adult basic education are critical components as well. These activities are essential to ensuring that workforce development opportunities are accessible to all working families, particularly those headed by adults with very limited skills a group that, historically at least, workforce development policy has struggled to serve well.

The 2001 legislative session produced several new workforce development policies that will benefit low-income families. However, most of these policies focus on access to higher education. The legislature adopted few policy initiatives to improve or expand non-baccalaureate workforce development efforts, such as literacy, adult basic education, and other forms of non-degree training that can be a first step on a career ladder. The highlights include: a lowering of the family income limit and adding nursing schools as approved institutions to Academic Challenge Scholarship program, the state s primary post-secondary scholarship initiative; several new scholarship programs for students preparing to teach in public schools; an employment training demonstration project for persons transitioning off of welfare; several one-time appropriations to particular educational institutions for adult education efforts; and a substantial increase in funding for Adult Basic Education Grants due to increasing federal funding to the state for adult basic education.

Post-secondary education, skills training, literacy and adult basic education are essential to ensuring that workforce development opportunities are accessible to all working families.

The legislature also established a minimum salary standard of $6.25 an hour for all full-time public school personnel (Act 1138). This creative workforce development policy focuses on improving those jobs in the state that pay relatively low wages and provide few benefits. Policies like this are needed in Arkansas where 43% of the jobs pay less than $9 an hour.[1] Improving the nature of existing jobs in the state also complements more traditional workforce development efforts by helping to improve the kinds of jobs available to those individuals who improve their education and training.

The legislature failed to enact HB2370, by House Speaker Shane Broadway, that would have helped working adults access post-secondary education and training. This bill would have provided a yearly scholarship of $1,000 to non-traditional students, those over 25 years old and ineligible for federal or state need-based financial aid, to pursue a bachelor s or associate s degree or credit certificate.

Scholarship Policies Several changes to existing state scholarship programs were enacted and several new scholarship programs were created.

Act 1836 made several changes to the Arkansas Academic Challenge Scholarship (AACS), including: raising the minimum GPA requirement from 2.75 to 3.0 for four year colleges and establishing a minimum GPA requirement of 2.75 for two year colleges; permitting the Arkansas Department of Higher Education (ADHE) to lower the minimum GPA to 2.5 if 1) the higher minimums are determined to be reducing the number of low-income disadvantaged students who otherwise would be eligible or 2) if an institution can show that a high percentage of its students receive full Pell grants; and lowering the family income limits in the definition of financial need from $70,000-$80,000 (depending on the number of children) to $50,000-$60,000.

Act 1664 adds nursing schools as approved institutions and an associate degree in nursing or a nursing diploma as approved programs of study under the AACS. Previously the program was limited to colleges/universities and baccalaureate degrees.

Act 1761 makes several changes to the Distinguished Governors Scholars Program (DGS), including: limiting the number of awards to 250 per year and capping the awards at $10,000 per year; expanding the eligibility criteria to include a minimum GPA of 3.5; giving ADHE the authority to change the eligibility criteria should eligible applicants exceed available funds; and requiring ADHE to seek Legislative Council approval of new DGS awards in the event AACS funding runs out.

Act 1607 authorizes the Higher Education Coordinating Board to continue administering the following minority scholarship programs: Freshman/Sophomore Minority Grant; Minority Teacher Scholars; Minority Master Fellows; and SREB Doctoral Scholars. All of these programs except the Freshman/Sophomore Minority Grant were funded for the biennium.

Act 1731 created the Arkansas Geographical Critical Needs Minority Teacher Scholarship program to provide Scholarships ($1,500 per year) to minority students enrolled either full-time or part-time in an accredited teaching education program and who agree to teach in a public school that is experiencing a critical teacher shortage. The program was funded this biennium.

Act 840 provides $100,000 to the University of Arkansas at Pine Bluff for scholarships for students desiring to become teachers.

Act 1692 repealed several, unfunded scholarship programs, including: the Opportunity Partnership grant program and the Opportunity Scholarship program which together were intended to help at-risk youth graduate from high school and pursue post-secondary education; the Nursing Student Loan Program which was intended to provide partially forgivable loans to nursing students who upon graduation become teachers at an accredited nursing education program; the Arkansas Literacy Corps which was intended to train and pay college students to teach literacy to adults at local adult education programs; the Minority Teacher Education Loan program and the Freshman/Sophomore Minority Prospective Teacher Loan program which were intended to provide forgivable loans to minorities who pursue a teaching degree and teach in a public school; and the Delta Region Scholarship program and the Honors College Scholarship Program which were intended to encourage more high school students in the Delta to attend college at the University of Arkansas at Pine Bluff. These programs were not funded for the 1999-2001 bienniumm.

Welfare Reform Job Training Demonstration Changes to the Transitional Employment Assistance (TEA) program included a workforce development demonstration project for TEA participants.

Act 1264 amended the TEA program to require the creation of 3 job training demonstration projects to prepare former welfare recipients for jobs paying significantly more than the minimum wage. The projects are required to be designed with input from local employers, TEA Coalitions and workforce boards, and to be contracted to technical colleges, local governments or private or community organizations for implementation.

Other Workforce Development Policies

Act 1138 establishes a minimum salary of $6.25 an hour for all full-time, non-teacher school district personnel in Arkansas.

Act 1601 creates the Arkansas Delta Development Commission, which will serve to represent Arkansas to the Delta Regional Authority, a federal agency authorized to provide grants to the Delta region for economic development activities including job training.

Act 770 disqualifies individuals who fail an illegal drug screen test from receiving unemployment benefits.

Act 1514 requires high school students also enrolled in adult education programs to report to their school guidance counselor at least monthly to review progress.

Act 1093 provides for continuation of the ACT assessment assistance pilot program and authorizes an increase the number of pilot locations until all school districts are able to participate.

Interim Studies

HR1045 requests an interim study on the feasibility of establishing a prepaid college tuition program for the state.

HR 1050 requests a study by the Interim Committee on Education of the non-baccalaureate education system.

HR1051 requests a study by the Interim Committee on Education of the Arkansas Higher Education Coordinating Board s funding formula for technical courses.

State and Federal Funding for Workforce Development

The state increased funding overall for workforce development. The significant changes include: a $14 million increase for the Academic Challenge Scholarship program; $300,000 for new scholarships for aspiring teachers; a possible substantial increase for ADED s Existing Workforce Training Program (of $1.65 million, of 220%); a slight increase for the Vocational, Technical and Adult Education Apprenticeship Program (of $380,000 or 9%), a substantial decrease for Construction Industry Craft Trades Training program grants (of $950,000 or 54%); and a decrease in funding for the Arkansas Association of Two-Year Colleges Workforce Training Consortium (by $92,825 or 19%).

In addition, the state provided one-time funding to several higher education institutions to expand their workforce development efforts: $470,000 to Southeast Arkansas Community Based Education Center (Act 525); $150,000 to Northwest Technical Institute Business and Industry Training Facility (Act 1320); $100,000 to Cotton Boll Technical Institute/Greene County Industrial Training Center (Act 1327); $300,000 to Henderson State University for the Southwest Arkansas Learning Center; and $30,000 to Ozarka College for an Adult Education Building.

The highlights of state appropriations of federal funding for workforce development include: a substantial decrease in funding for JTPA Vocational Education Grants (of $560,000 or 73%), and a substantial increase in funding for Adult Basic Education Grants (of $3.6 million or 39%).

INCOME SUPPORTS

Child Care

The most important and controversial change in child care and early childhood education for working families was the adoption of **Act 1841**, which establishes a 3 percent retail excise tax on beer. Revenues from the beer tax will be dedicated to child care and early childhood education programs for low-income working families.

Much of the beer tax money will be used to replace general revenue cut from the Arkansas Better Chance Program (ABC), the state-funded quality pre-kindergarten program for at-risk children. For the last decade, the program had received approximately $9.9 million in state general revenue annually. During the session, general revenue for the program was cut by $3.3 million (a 33% cut) for SYF 2002 and $5.6 million (a 56% cut) for SFY 2003. State general revenue for the ABC program (and for a host of other programs) was cut to help fund teacher salary increases and compensate for a slowing economy that is generating state tax revenue at a pace less than projected prior to the beginning of the session.

Revenues from the beer tax will be dedicated to child care and early childhood education programs for low-income working families.

Eighty percent of the beer tax funds will be used to support and expand the ABC program, while the remaining 20 percent of the revenues will be used to provide child care for non-TEA, low-income working families. Currently, more than 9,000 children are on a list for subsidized child care. The tax is expected to generate $6.5 million during FY2002 and $9.7 million in FY2003. The tax will sunset in two years, unless it is re-authorized. The new beer tax revenue, when combined with the remaining general revenue that the legislature committed to the ABC program for SFY 2002, will yield approximately $12 million annually for the ABC program, an increase of $2 million over its historic $9.9 million funding level. Similarly, the beer tax will generate about $1.3 million (SFY 2002) and $1.9 million (SFY 2003) in new funding for subsidized child care for low-income working families.

Other bills passed by the legislature also raise funding for child care programs. **Act 1591**, the appropriations bill for the DHS Division of County Operations (DCO), requires DCO to transfer a total of $12 million over the biennium from the state s federal Temporary Assistance to Needy Families (TANF) block grant to the Child Care Development Fund. The funds, to be administered by the Division of Child Care and Early Childhood Education (DCCECE), shall be used to provide subsidized child care for TEA, transitional child care, or other low-income families.

Act 1676 maintains special budget language, first passed during the 1999 session, requiring DCO to transfer suffi- cient general revenue to the Division of Child Care and Early Childhood Education (DCCECE) to allow the state to draw down its full allocation of federal funds through the Child Care Development Fund. General revenue transferred to DCCECE must be used as state matching funds for the TEA program s maintenance-of-effort requirement.

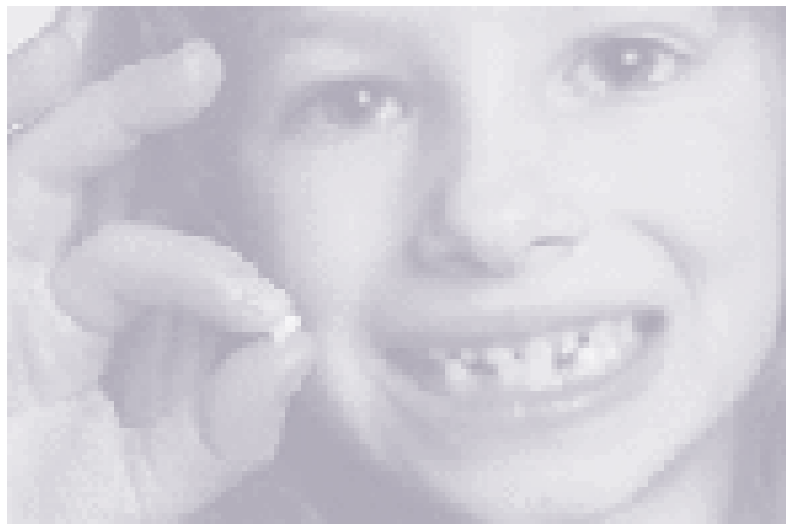
Act 1646, the State Revenue Stabilization Law, provides $1 million annually in new state general revenue funding for DCCECE (an increase of $1 million over the funding level for the previous biennium). The increase will allow DCCECE to fully draw down federal funding for the Child Care Development Fund.

Act 1271 establishes a nonprofit foundation for early child care and education. The foundation will be the vehicle for implementing a new public-private partnership designed to increase corporate involvement and leverage greater private investment in early care and education. Foundation resources will be used to enhance quality, affordability, and availability of child care and early education for all children in the state. DHS has committed $500,000 annually to establish the foundation.

House Resolution 1015 requests the House and Senate Interim Education Committees to conduct a study to identify the adequacy of funding for state child care, early care and education programs, and to recommend a long-term financing plan to address any identified deficiencies. The plan must address access to subsidized care for low-income families and quality for all families.

Health Care

It was a good legislative session for increasing health access for the uninsured. Both children and adults saw victories. The assets test on ARKids A was removed, making it possible for the lowest income children to get good health coverage yet allow their parents to have a decent car for getting to work. All low-income children will also now be able to get the same level of mental health benefits. Low-income adults are the biggest group of uninsured Arkansans, and some strides were taken to meet their health care needs, both through the implementation of the state s Tobacco Settlement and through a rural health access pilot.



- Assets Test on Medicaid - **Act 724**, an Act to Remove the Asset Test for Children to Be Eligible for Medicaid, became law. Prior to its passage, there were two different policies for low-income families needing help with health insurance. Any family with incomes up to 200 percent of the poverty line could qualify for ARKids B, and they did not have to be subject to an assets test. However, to be eligible for ARKids A, which has more generous health benefits and no co-pay, families could have incomes no higher than 100 percent of the poverty line and they had to pass an assets test. They could have assets no higher than $3000. And any equity value in a car in excess of $1500 had to be counted toward this limit. The result is that a family who had savings and a car worth more than about $4500 could not qualify for ARKids A. These low limits made it impossible for families to have a reliable car for getting to work and savings for weathering everyday financial crises like the washing machine breaking down. Now there is no assets test on either the ARKids A or ARKids B programs.

- Mental Health Parity **Act 747**, an Act to Provide Mental Health Parity for Children covered by the ARKids First Program, provides for parity in outpatient mental health services between ARKids A and ARKids B. In the past, ARKids B has had a $2500 cap for outpatient mental health services. Act 747 removes that cap. However, the Division of Medical Services at the Department of Human Services is likely to implement their ability to identify a gatekeeper for all mental health services in Medicaid and require approval for services.

- Expand Health Access Through the CHART Plan The appropriations bills to implement the state s tobacco settlement plan, known as CHART, include funding for expanded health insurance coverage through Medicaid for several groups of adults. These groups are listed in **Act 1574**, an Act to Make an Appropriation for the Medicaid Expansion Program. The areas include (1) expanded Medicaid coverage and benefits to pregnant women; (2) expanded inpatient and outpatient hospital reimbursements and benefits to adults aged 19 to 64; (3) expanded non- institutional coverage and benefits to adults aged 65 and over; and (4) creation and provision of a limited benefit package to adults aged 19 to 64.

- Rural Health Access Pilot Program Another effort to address the health care needs of the uninsured is **Act 549**, an Act to Establish a Rural Health Access Pilot program. This new law provides both subsidized and unsubsidized health services. To be eligible for subsidized services, an individual must be between the ages of 18 and 65, live in a rural area, be without health care coverage, not eligible for other government funded health insurance, have an income below 200% of the federal poverty line, and meet underwriting guidelines of the cooperative managing the pilot. Unsubsidized services are provided to adults between 18 and 65 and their children who meet the criteria listed above but who have incomes up to 300% of the poverty line. The pilot will be limited to 3000 individuals. Participants will pay dues to the cooperative on a sliding fee scale of between $0 and $30 a month. The dues will be invested and used to cover part of the health care costs of the members. This act and Act 924 allow participating insurance companies and the cooperative to provide a package of reduced benefits (at a reduced price) less than that currently mandated by the state. The providers also pay dues to the cooperative.

Family Taxes

After major changes to the state tax system in 1997 (cuts in personal income taxes), 1999 (capital gains tax cuts), and 2000 (property tax cuts and an increase in the state sales tax), the Legislature was reluctant to make further changes during the 2001 session. The motto of the tax committees for most of the session, especially on the House side, was say no to major tax increases or tax cuts for families. Their reluctance was further exacerbated by the threat of a pending court ruling in the Lake View School funding case that could impose new financial obligations of $500 million to $900 million for the state.

The legislature failed to adopt measures that would have eased the tax burden on low-income working families. The state rejected a measure (**HB 1775**) that would have gradually eliminated the state sales tax on food. It also rejected **HB 1020**, the Family Preservation Act, that would have given families a $1000 state income tax credit if one parent in two-parent families stay at home to care for a child aged four years or younger. Eligibility for the credit would have been limited to families with incomes less than $32,000. The legislature also failed to consider proposals establishing a state earned income tax credit (EITC) or exempting working families with incomes below the federal poverty line from state income taxes. The legislature also failed to adopt proposals, such as **SB 251** (a measure to increase severance taxes), that could have made the tax system more progressive.

The only bill adopted by the legislature that could provide limited tax relief for working families was **Act 1819**. It adjusts the state personal income tax credits (currently $20 for a single individual and $40 for a joint credit) annually based on the inflation rate. The adjustment will be made only in years in which state general revenue growth is projected to be 4.2 percent or higher. The tax will not take effect until July 2003, thus giving the 2003 Legislature an opportunity to rescind the measure before it takes effect. The estimated revenue loss is $2 million annually.

The legislature did pass an interim study proposal that could generate support for low-income tax relief proposals for the 2003 legislative session. **HCR 1028** requires the House and Senate Revenue and Tax committees to conduct an interim study on the tax burden of low-income families and methods of tax relief for low-income families. The study will include an analysis of low-income tax relief strategies including exempting families with incomes below the poverty line from state income taxes, exempting food from the state sales and use tax, state earned income tax credits, and child care and dependent care tax credits.

The legislature s reluctance to adopt tax cuts for working families or major tax increases to support programs that serve them did not reduce the state s need for new revenue. The tax cuts adopted in 1997 and 1999, coupled with a slowing state

economy and a promise by the Huckabee Administration to raise teacher salaries by $3000 at any cost to the state treasury, only served to increase the state s need for money.
Rather than adopting general tax increases that would impact most taxpayers, the 2001 Legislature raised and/or established numerous special fees and sin taxes, such as increases in fees on driver s licenses and birth and death certificates and taxes on beer, tobacco, and rental cars, etc. At least 27 distinct types of fee/tax increases were approved. Taxpayers who smoke and/or drink beer regularly will be the ones hardest hit by the tax and fee increases. In all, the fee and tax increases are expected to generate $75 million in new revenue annually.
The more significant tax and fee increases include:

Act 635 levies a $5.25 per day bed tax on nursing home residents. The tax is designed to produce revenue equal to six percent of each nursing facility s annual gross receipts. The tax will apply equally to private-pay and Medicaid nursing home residents and cost about $2,000 per resident annually. The state will use the money to receive federal Medicaid matching funds of $3 for every $1 in new tax revenue. The money will be used to help pay the bills of low-income nursing home residents. Revenue Impact: $42.2 million annually.

Act 1500 increases the state driver s license fee from $14 to $20. Arkansas drivers pay the fee every 4 years. The fee increase will be used bail out the Arkansas State Police health insurance fund. Revenue Impact: $2.6 million annually.

Act 949 establishes the Arkansas Public Transit Fund. The act establishes a new rental vehicle tax at the rate of 5 percent on the gross receipts or gross proceeds derived from rental vehicles. Of the tax revenue, $2,850,000 shall be deposited into a new Arkansas Public Transit Trust Fund to be used for the purpose of acquiring federal matching funds for the purchase of public transit vehicles and for the operation of federal transit programs. The remaining funds shall be deposited into a fund to be used for teacher salaries. Revenue Impact: $3.9 million in special revenue annually.

Acts 1646 and 1698 implement a tobacco tax originally adopted in 1997 but yet to be implemented. It adds an additional cigarette tax per pack of 2 cents and additional tobacco tax of 2 percent of manufacturer s price paid by the tobacco wholesaler. Twenty-nine percent of the additional monies collected will be deposited as special revenues dedicated to Meals on Wheels and a prescription drugs program for the elderly program. Revenue Impact: $7 million annually.

Act 957 increases the costs of death and birth certificates. The cost of any certificate or record other than a death certificate is increased from $5 to $8. The cost of additional copies for such records is now $5. The cost of a single copy of a death certificate is increased from $4 to $8. The cost of additional copies of a death certificate is increased from $4 to $8. The new revenues are to be deposited into a newly created Health Department Technology Fund. Revenue Impact: $1 million annually.

Act 1058 relates to the frequency of property tax appraisals. It allows counties experiencing less than 15 percent growth in new market value of real estate (compared to market value of previous reappraisal cycle) to conduct property reappraisals every five years instead of every three years as required under current law. Revenue Impact: unknown. No revenue impact statement was prepared by DF&A.

Act 1045 raises more than 20 kinds of county fees, including filing articles of incorporation, last will and testaments, marriage licenses, etc. All funds are general revenues of the county and may be used for any legitimate purposes. However, at least 35 percent of the money collected shall be used to purchase, maintain and operate automated records cases. Revenue Impact: $3 million annually.

Act 1632 imposes new court costs for misdemeanor offenses. It increases the cost of certain offenses from $50 to $75 and other offenses from $75 to $100. The additional money will be dedicated to legal counsel for indigent parents and for children in dependency-neglect proceedings in juvenile cases. Revenue Impact: $2 million annually.

While the 2001 Legislature failed to adopt proposals that would have provided tax relief for low-income working families, it was willing to cut taxes to promote economic development. The legislature passed at least 13 different tax exemptions and decreases totaling $38 million in lost revenue. (Note: this is not an annual figure. Some of the revenue loss will be spread out over seven-plus years in the future). Nearly all of the exemptions and decreases were targeted to promote business and economic development (See Economic Development -- Tax Incentive section).

Although little noticed within the state, the Legislature also passed **Act 922**, legislation that many national tax experts are calling a landmark move in the brief, but controversial history of internet taxation. **Act 922** requires an out-of-state retailer to collect use taxes on sales made to Arkansas residents if two conditions are met: (1) the vendor holds a substantial ownership interest, directly or through a subsidiary, in a retailer maintaining sales locations in Arkansas, or the vendor is owned in whole or in substantial part by the retailer or by a parent or subsidiary of the retailer; and (2) the vendor either sales the same product under the same business name or facilities/employees of the Arkansas retailer are used to advertise the sales by the vendor to Arkansas purchasers of the product.
The legislation will place substantial limits on the ability of national retail chains with stores in Arkansas that have established separate subsidiaries to sell similar good over the Internet to avoid the collection of sales taxes on products sold to Arkansas consumers. Revenue Impact: $100,000 annually.

Welfare Reform

After a major overhaul of the state s Transitional Employment Assistance program (TEA) during the 1999 legislative session, the Arkansas General Assembly made fewer changes to the program in 2001.

The general consensus among legislators, state agency officials and advocates was that the future success of the TEA program rested on more effective implementation rather than revising the legal structure of the program. Most of the changes made to the TEA program during the 2001 session are contained in **Act 1264**. The bill easily passed the House and the Senate. Among the major changes:

- State agency officials are no longer voting members of the Transitional Employment Board. Only the nine appointed members are allowed to vote on matters before the board.

Legislators, state agency officials and advocates agree that the future success of the TEA program rests on effective implementation.

- The Transitional Employment Board is required to work together with the Arkansas Workforce Investment Board to develop a plan to establish, using TANF funds, at least three job training certificate demonstration projects. The projects, which must be designed in consultation with local employers, TEA coalitions and local workforce boards, must provide short-term training to prepare parents for jobs that may significantly more than the minimum wage.

- The Transitional Employment Board has more authority over the use of child care dollars for TEA families, transitional TEA families and low-income working (non-TEA child care). If the Board certifies that the state is in danger of overspending the biennial budget for child care, the Board may authorize the following:

  (1) increasing the co-payment schedule for transitional child care;
  (2) re-allocating more TANF dollars to child care;
  (3) reducing to 24 months the transitional child care assistance available to TEA families who leave cash assistance; and
  (4) reducing spending for low-income working (non-TEA) child care.

- DHS must develop program goals, subject to Board approval, prior to July 1 of each year. The Board must review and report on progress toward these goals by December 10 and June 10th of each year.

- Subject to available funds, the independent evaluator for the TEA program must include separate analysis for the following groups:
  (a) cases closed because of noncompliance;
  (b) cases closed because of earnings and employment; and
  (c) cases closed because of reaching the 24 month lifetime limit on cash assistance.

- The process for conducting home visits with children and families who left the TEA program for reasons other than the family s successful transition to economic self-sufficiency was strengthened. Now, it is required that every reasonable effort be made to make contact with families during evenings and weekends. The department may now contract with outside entities to conduct the home visits.

- At the end of each federal fiscal year, DHS is required to take all steps necessary to make unspent TANF funds available for child care.

The most controversial change made to the TEA program, opposed by advocates, was the move to allow DHS to close cases for noncompliance. After making reasonable efforts to determine that TEA families understand requirements and do not face unknown barriers to noncompliance, DHS may withhold the family s assistance for one month.

During these 30 days, DHS must arrange a home visit to the family to monitor the well-being of the child and to determine if additional services are necessary to protect the well being of the children. If the parents comply within 30 days, benefits are restored. If not, the family s benefits would be reinstated but reduced by progressively higher amounts up to 50 percent for six months. If the family has not complied after six months, assistance could be terminated.

A second home visit would be required after six months. A family s Medicaid and Food Stamp benefits must be continued without re-application as long as they continue to meet the requirements for those programs.

Housing

The housing situation for low-income families saw some setbacks and some victories during the legislative session. An already punitive landlord and tenant law in the state was made even tougher. But a Fair Housing Commission to give victims of housing discrimination legal remedies passed the legislature and was signed into law. A predatory lending bill that would have prevented mortgage lenders from taking advantage of low-income and older homeowners stalled in a House committee. A bill that would have increased the amount of and cap on state tax credits for the creation of affordable housing passed the Senate but failed to get out of the House Revenue and Tax committee.

- Landlord and Tenant Laws In comparison to other states, Arkansas landlord and tenant laws are weighed heavily in favor of the landlord. And, Arkansas is the only state in the union with a criminal eviction statute. In Arkansas, if a tenant gets behind on his rent, the landlord can get the Prosecuting Attorney to put out a warrant for the tenant s arrest. The law basically creates a debtor s prison. The landlord gets a free attorney - the Prosecuting Attorney - and the tenant must find his own lawyer. During the 2001 legislative session, this law was made even more punitive with the passage of **Act 1733**, An Act Concerning the Offense of Refusal to Vacate Upon Notice. Prior to this new law, if a tenant had not paid his rent, the landlord could take the tenant to court, and the court could impose a fine of between $1 and $25 for the entire offense. Now, the fine is $25 per day. Also, if the tenant pleads not guilty to the charge of refusal to vacate, he is required to pay the rental amount to the court until the matter is resolved. Finally, if the tenant pleads guilty or is found guilty and has not paid the rental amount to the court, he can be found guilty of a Class B misdemeanor. Under the old law, the judge had the discretion to charge the tenant with a lesser misdemeanor.

- Fair Housing Commission **Act 1785** creates the Arkansas Fair Housing Commission. The law addresses issues related to discrimination in the sale or rental of housing based on race, color, religion, sex, disability, familial status, or national origin. The Commission is charged with receiving, initiating, investigating, and conciliation of complaints of fair housing violations. There is a range of possible courses of action including conciliation, administrative hearings, and filing of civil actions. The law sets forward penalties that can be imposed as a result of the administrative hearings and potential awards as a result of civil action including compensatory and punitive damages, attorneys fees, and court costs. The Commission has 13 members, and seven must represent consumers who have no connections to the real estate, homebuilding, banking, or mortgage lending industries. State funding was appropriated to get the Commission started, and federal funding is likely once the U.S. Department of Housing and Urban Development rules that the new state law is substantially equivalent to the federal law.

- Predatory Lending **HB 1545**, An Act to Prohibit Predatory Lending in the Home Mortgage Market would have regulated mortgages made in Arkansas to prevent mortgage lenders from adding unnecessary fees, conducting unnecessary refinancing, and charging excessive interest rates. Many older and low-income Arkansans find themselves with mortgages laden with these extra fees and find it almost impossible to meet their monthly payments. The bill failed to get out of the House Insurance and Commerce Committee. The bill would have placed limitations on the percent charged for prepayment penalties and late payments. The bill would have also forbid lenders from encouraging homeowners to default on their loans, charging fees for services they do not actually provide, and making false or misleading statements about the borrower s ability to qualify for particular mortgages. The bill would have also placed limitations on high cost home loans to keep monthly payments stable, prevented increased interest rates after default, prevented flipping or unnecessary refinancing, and kept fees to a reasonable minimum. Lenders found violating these provisions would have been liable for actual damages, damages equal to the finance charges plus 10% of the amount financed, punitive damages, and court costs and attorneys fees.

- Affordable Housing Development A bill to increase the amount of tax credits to support the development of affordable housing passed the Senate but died in the House Revenue and Tax Committee. **SB 347** by Senator Gwatney would have increased the current low-income housing tax credit from 20% of the federal credit to 100% of the federal credit. The bill would have also raised the cap on the tax credit from $250,000 to $1 million per year. The current state and federal tax credits are used to increase the supply of affordable housing by making it more financially attractive to developers who charge less than market rate rents for the housing they develop and therefore make less of a profit. Nonprofit developers can use these tax credits to raise capital for their projects.

POST-LEGISLATIVE ISSUES & BEYOND

The Lake View School Funding Case On May 25, Pulaski County Chancellor Collins Kilgore issued a long anticipated decision in the Lake View School funding case. As expected, Judge Kilgore ruled against the State of Arkansas in favor of the plaintiffs. The judge issued a sixty-four page ruling that the state s current school funding formula is unfair to poorer school districts and provides inadequate funding for educating the state s children. The case, which loomed large in everyone s minds during the recent 2001 session of the Arkansas General Assembly, is expected to have major implications for all of state government. The case will not only shape the future of the state s public education system, but could have far-reaching implications for the state tax system and funding for all state government programs, including those that provide funding for services that support the state s low-income families.

According to some finance experts who testified during the case, an additional $450-900 million in new education funding annually will be needed to meet obligations under the court s ruling. To generate this level of funding, major tax increases and/or budget cuts in other state-funded programs would have to be made. The State of Arkansas has indicated it will appeal to the Arkansas Supreme Court, a process that could take up to a year.

If upheld by the Supreme Court, the case could have economic consequences for the state s low-income working families. On the one hand, they could be the beneficiaries of a new and improved system of funding public education. On the other hand, they could be hurt economically through regressive tax increases and/or budget cuts in other programs that serve them. Only time will tell how they will be affected. A blue ribbon commission has been formed to study and develop recommendations for funding Arkansas education system. The findings of the blue ribbon commission, if eventually adopted by the state, could affect how the funding case ultimately impacts the state s working families.

Monitoring Interim Studies Other interim studies mandated by the 2001 General Assembly also could impact working families and set the stage for the 2003 legislative session. Several critical interim studies include:

Act 757 appropriates $150,000 for an independent study of Arkansas current business development tax incentive programs. The study will examine the strengths and weaknesses of current programs and make recommendations for improving them.

House Resolution 1015 requests the House and Senate Interim Education Committees to conduct a study to identify the adequacy of funding for state child care, early care and education programs, and to recommend a long-term financing plan to address any identified deficiencies.

House Concurrent Resolution 1028 requires the House and Senate Revenue and Tax committees to conduct an interim study on the tax burden of low-income families and methods of tax relief for low-income families.

Future of the Arkansas Working Families Project The Working Families Project, a project of the Good Faith Fund and Arkansas Advocates for Children & Families, recently received a two-year grant from the David and Lucile Packard Foundation. In the coming months, the project will publish reports on numerous policy issues, including the economic status of working families, hunger and nutrition, economic and workforce development, TANF reauthorization, and the results of a new poll on economic issues concerning working families to be conducted later this year. The project also will be developing a new media strategy to focus public attention on the issues facing working families. The Family Self-Sufficiency Working Group, staffed by AACF and GFF, will be a major vehicle for the project.

For more information about the Working Families Project or the Family Self-Sufficiency Working Group, contact Angela Duran (501/661-0322 or aduran@ehbt.com) or Rich Huddleston (501/371-9678 or richhudd@swbell.net). Stay tuned for further developments!

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