

Bridging the Gap

ALABAMA'S WORKING FAMILIES AND THE BROKEN
PROMISE OF ECONOMIC OPPORTUNITY JANUARY 2008



About Arise Citizens' Policy Project

Arise Citizens' Policy Project (ACPP), founded in 1994, is a statewide nonprofit organization composed of 155 congregations and community groups and some 1,400 individuals representing much of the state's racial, economic, religious and geographic diversity. Arise members are united in their belief that low-income people are suffering because of state policy decisions. Through ACPP, groups and individuals join together to promote state policies that improve the lives of low-income Alabamians. In a state that by many measures is the worst place for poor people to live in the United States, Arise believes acts of charity are vital, but they are not enough; we also must engage in advocacy on policy issues. Arise provides the structure for Alabamians to participate in the democratic process, exercising their rights as citizens to engage in public debates with the goal of improving the welfare of all Alabamians.



Acknowledgements

THE ALABAMA WORKING POOR FAMILIES PROJECT received funding from a consortium of foundations including the Annie E. Casey Foundation, the Charles Stewart Mott Foundation, the Ford Foundation and the Joyce Foundation. The Southern Poverty Law Center provided additional support. Ron Gilbert, senior policy analyst at Arise Citizens' Policy Project, wrote the report, with editorial assistance from ACPD communications director Jim Carnes; research assistance from ACPD policy fellow Rebecca Jackson and policy analyst Chris Sanders; technical assistance from Christina Robinson of Auburn University at Montgomery Center for Demographic Research; and design by Valerie Downes of the Southern Poverty Law Center. The project staff thank Brandon Roberts and Deborah Povich of the National Working Poor Families Project for their patience, guidance and technical assistance during the analysis and drafting stages of the report. Kerri Rivers of the Population Reference Bureau provided credible and accessible analysis of the U. S. Census Bureau's American Community Survey and the Current Population Survey.

We are also especially grateful to the members of the Alabama WFPF Advisory Board, who provided support and feedback during the initial analysis and drafting processes: Dr. Joe Adams of the Public Affairs Research Council of Alabama, Beverly Churchwell of the Alabama Medicaid Agency, Richard Dorrough of the Alabama Department of Children's Affairs, Sophia Bracy Harris of the Federation of Child Care Centers of Alabama, Doni Ingram of the Alabama Department of Economic and Community Affairs, Dr. Eddie Johnson of the Alabama State Department of Education, Dr. Robert Lockwood of the Alabama Department of Postsecondary Education, John Pickens of the Alabama Appleseed Foundation for Law & Justice, Joel Sanders of the Alabama Department of Human Resources, Joan Sulzman of the Alabama Coalition Against Domestic Violence, Linda Tilly of VOICES for Alabama's Children, Maury West of the Alabama Department of Public Health, and Shirley Worthington of the United Way of Central Alabama. In addition, staff from the following organizations took the time to answer questions and provide information to the project during the drafting process: the Alabama Department of Industrial Relations, the Alabama Commission on Higher Education, the Alabama Development Office and the Alabama Department of Revenue. This publication is the product of Arise Citizens' Policy Project, which is wholly responsible for its content. The participation by external advisers on this publication does not imply their support or endorsement of the findings and recommendations contained herein.

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Introduction

ONE OF THE CORE VALUES that have shaped America is a belief in the opportunity to better oneself through hard work. We hold it as a promise that an honest worker with a regular job should be able not only to cover basic household expenses for today but also to save for tomorrow. Yet here in Alabama, that promise has been broken. For thousands of families in our state, good-faith efforts are failing to provide economic security, much less advancement, for full-time workers. When their monthly bills come due, they find gaps in their pocketbooks. When they consider better job options, they face gaps in skills or education. A major new industrial facility launches in one region of the state, while the opportunity gap in another area only widens. These gaps are symptoms of a larger problem: the lack of a coherent and comprehensive workforce development policy for Alabama.

The state's recent economic successes make this "policy gap" even more conspicuous. Alabama has experienced unparalleled economic growth over the last decade and a half, driven primarily by our burgeoning transportation industries. For nearly 50 years, the aerospace complex at Huntsville and the engineering and manufacturing facilities clustered around it formed a high-tech "island" in the more traditional economy of the state. Today, mega-projects such as Mercedes-Benz, Boeing, Hyundai and ThyssenKrupp are transforming Alabama's economic landscape, deploying billions of state and corporate dollars and creating thousands of high-paying jobs. The state also has been successful in attracting scores of other projects; according to the Alabama Development Office, 2,079 new or expanding industries created 90,330 new jobs between 2003 and 2006.¹ Alabamians have become accustomed to headlines touting the latest "big win" in corporate recruitment and job creation. These gains signal the state's emerging role in the global economy, and a new era for Alabama workers. But too often, the well-deserved hoopla obscures another part of the story. The true measure of our success must take into account not only the giant strides at the forefront, but also the steps we are taking to ensure opportunities for advancement across the entire workforce.

In the first decade of the new century, those steps are not keeping pace. Despite our impressive gains – and the state dollars expended to secure them – a significant portion of Alabama's workers struggle each day to meet basic needs. One-third of Alabama working families – almost 200,000 households with children – earn less than the amount generally considered sufficient to meet their needs without governmental or private assistance. These families "left behind" offer a sharp contrast with the state's bold new development and an urgent challenge to policymakers charged with guiding our economic and social progress.

From the Tennessee Valley to the Gulf Coast, Alabamians share a strong work ethic and a deep commitment to individual responsibility. They go to work each day, pay their taxes, participate in the lives of their communities, and nurture their children. But for many, the promise that hard work will provide a good living for them and their families remains just that – a promise, unfulfilled. This report looks at the strengths and needs of these families who watch Alabama's economic growth from a distance. We review the state's investment and outcomes in workforce development and evaluate how effectively our much-heralded industrial expansion efforts, along with existing state supports and services, are bridging the gap in family self-sufficiency.

Executive Summary

ALABAMA HAS ENJOYED UNPRECEDENTED economic growth in recent years, with huge investments by new industry and a low unemployment rate. But despite these gains, many of our neighbors struggle each day to meet basic needs. One-third of all of Alabama's working families – almost 200,000 – earn less than the amount generally considered necessary to meet their needs without governmental or private assistance. This report examines the challenges these families face and reviews our efforts at bridging the opportunity gap in Alabama's growing economy.

These working poor families “play by the rules” – they work hard each day and contribute to Alabama's productivity and prosperity, but come up short-handed at the end of the month. With appropriate state policy changes that make equipping low-income workers with the skills for 21st-century jobs a high priority, these families can overcome this struggle, meet their needs and make vital contributions to their communities and the economy. Without such changes in state policies, one-third of Alabama's working families will never achieve these goals, and the state will lose the productivity it needs to compete in the new economy.

This report examines research findings and offers policy recommendations in three major dimensions of low-income working life: (1) basic educational competencies and skills necessary for good-paying jobs that support families; (2) the availability of job opportunities that offer the potential for higher earnings; and (3) the extent and quality of workforce supports that enhance low-income working families' chances for eventual self-sufficiency.

Major findings

- More than one-third of all working families in Alabama are low-income, earning less than 200 percent of the federal poverty threshold.
- Though employment opportunities are increasing, the majority of jobs available to working Alabamians are in low-wage sectors.
- Alabama's public policies have failed to make available to low-income workers the education, skills certification or training necessary to compete in a 21st-century economy.
- Alabama's budgeting and taxation processes have failed to provide the resources to support policies that can assist workers in meeting their families' needs and place a disproportionate tax burden on low-income workers.

Chapter 1 provides an overview of the economic well-being, income levels and educational attainment of Alabama families with incomes of less than 200 percent of the poverty threshold. The chapter points out racial/ethnic, educational and geographical disparities in these measures. The state has enjoyed an impressive rate of investment over the last 15 years, beginning with the 1993 announcement that Mercedes-Benz would build its first U.S. auto assembly facility in Alabama and capped by the May 2007 announcement that ThyssenKrupp would build a new steel and stainless steel manufacturing facility in Mobile County at a cost of \$3.7 billion. Against that backdrop of strong economic growth, the report portrays the Alabamians who remain caught in the opportunity and prosperity gap.

Chapter 2 examines the state's investment and outcomes in education and training systems, including:

- The Alabama Department of Postsecondary Education, which provides technical and two-year college programs for more than 189,000 students each year;
- Alabama's programs funded through the Workforce Investment Act (WIA);
- Alabama's Adult Basic Education programs; and
- Training and skills acquisition programs provided through Temporary Assistance for Needy Families (TANF).

Chapter 3 examines the state’s economic development efforts, with special attention to how well those efforts address the needs of low-income and underemployed Alabamians. While Alabama’s unemployment rate has consistently been lower than the national rate, Alabamians continue to have earnings below national averages. While the state has an impressive record of job creation, most of those new jobs have been in low-wage sectors. The report examines whether industrial incentives offered have clearly defined expectations geared toward improving the economic condition of low-income workers beyond the mere creation of jobs.

Chapter 4 reviews Alabama’s efforts to support workers. While neighboring states are making substantive investments in workforce support programs, Alabama provides one of the lowest per-capita investments in the nation in these programs so vital to low-income workers. The inadequacy of funding for needed worker supports can be traced primarily to the state’s long-running structural deficit, along with the fact that earmarked revenues for programs other than education have been, at best, flat during recent years. The report shows how the state’s regressive tax structure places a disproportionate tax burden on low-income families and, at the same time, denies adequate funding that would support needed services for these same families.

To bridge the opportunity and prosperity gap for Alabama’s low-income working families, the report offers 30 policy recommendations, including the following:

Major recommendations

- Alabama should increase its need-based financial assistance for postsecondary education, with a target of providing assistance to at least 50 percent of those eligible. Until the state is able to provide full funding for need-based financial assistance, at least 25 percent of such assistance should be reserved for adult learners.
- Alabama should modify its industrial tax credit statutes to require qualifying industries to target a certain percentage of newly created jobs toward low-income workers. The credits could increase according to the percentage of low-income workers hired beyond the targeted level.
- To inform its citizens of the full costs and benefits of state economic development efforts, Alabama should require an industry-specific annual report of taxpayer-provided incentives and qualifying tax credits.
- Alabama should modify its requirements for corporate tax credits to require that qualifying industries provide wages that equal the prevailing average Alabama wage and provide health insurance benefits.
- Alabama should raise the income cap for Medicaid participation by working families to 130 percent of the federal poverty level (equal to the income cap for Food Stamps).
- Alabama should raise the threshold for state income tax to the federal poverty level by modifying dependent and standard deductions. Those changes should be indexed to inflation to ensure ongoing tax fairness.



Alabama's Low-Income Working Families: Caught in the Gap

The vast majority of families in Alabama have members who go to work each day, pulling their own weight and contributing to their local economies. However, for many of these families, honest, full-time labor fails to provide even the security of a stable food supply and a decent place to live, much less the opportunity to get ahead. In 2005, nearly 36 percent

of families with children included workers who struggled to make ends meet.² As fuel prices rise, along with the costs of groceries, clothing, child care, health care and other necessities, many families simply don't earn enough to cover the basic costs of living. A number of factors contribute to the chronically high proportion of low-income working families in Alabama.

Even though Alabama has become increasingly urban in recent decades, the state continues to have tremendous gaps in population density. In 46 of 67 counties, more than half of the residents live in a rural area.³ Many of these predominantly rural counties have not fared well in recent years, seeing a significant loss of manufacturing jobs to overseas relocations. In some rural areas, the civilian population has been aging out of the workforce while younger workers move away.

These factors and others will continue to challenge policymakers in Alabama as they attempt to bridge these gaps and bring economic growth to all segments of the population.

Who are Alabama's low-income working families?

They are the moms and dads who handle our purchases at the local convenience store, who change the oil in our automobiles, who clean our office buildings and hotel rooms, who fill our orders at the fast-food restaurant. And they are the children these

parents work hard to support. They are our neighbors, friends, fellow citizens committed to their families and their communities. Faced with stagnating wages, widening income inequality and soaring basic costs, they are finding it increasingly difficult to achieve and maintain economic security.

While many of us may have a general idea of what constitutes a working family, this report uses the following definitions:

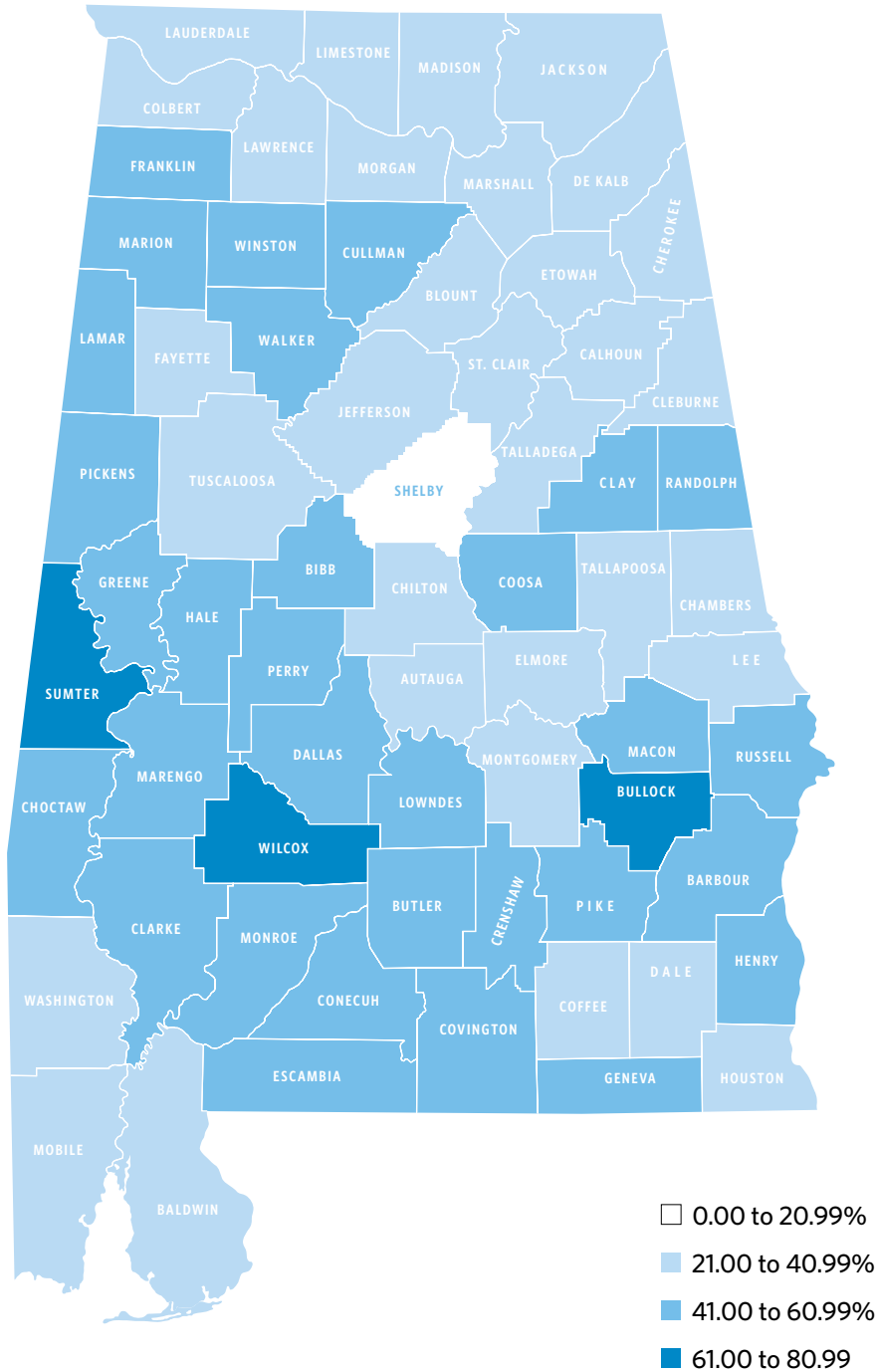
Family – a married-couple or single-parent primary household with at least one child under age 18.

Working family – a family in which all related members age 15 and over have either a combined work effort of 39 or more weeks in the last 12 months or a combined work effort of at least 26 weeks and one unemployed parent actively looking for work within the past four weeks.

Low-income working family – a family with an annual income of less than 200 percent of the federal poverty threshold. For a family of four in 2005, the low-income threshold was \$39,942.

By the definition cited above, more than one-third of all Alabama working families — almost 200,000 households with children — are considered low-income. In 37 of the state's 67 counties, individuals with incomes below 200 percent of

CONCENTRATION OF INDIVIDUALS EARNING BELOW 200 PERCENT OF FEDERAL POVERTY LEVEL



poverty make up more than 40 percent of the population; only one county in Alabama has fewer than 20 percent of its residents in this income category. Obviously, the challenges facing low-income families are affecting all geographic areas of the state.⁴

Alabama had a higher percentage of low-income working families in 2005 than the nation as a whole. Only eight states had a greater percentage of low-income working families than Alabama, and among contiguous states, only Mississippi's 41 percent exceeded Alabama's 36 percent.⁵

Racial disparities have long plagued Alabama, and this pattern continues in the distribution of low-income working families. Members of racial/ethnic minorities make up only 30.7 percent of the state's total population, but 32.5 percent of all working families. Though most low-income working families are White, minority working families stand a much greater chance of being low-income – 54 percent, in contrast to a 32 percent chance for White working families.⁶

Nearly 360,000 Alabama children – almost four out of every 10 children in the state – resided in low-income working families in 2005. Alabama's percentage of children in low-income families exceeds the national average by almost 7 percentage points and exceeds that of all contiguous states except Mississippi.⁷ Children growing up in low-income families tend to have lower educational attainment than others, and this, in turn, lowers their potential for future economic success. Record investments in economic development have failed thus far to reach these families. If Alabama is to bridge the opportunity gap for all of its citizens, as well as to ensure a sufficient supply of qualified workers for the future, state policies must be strengthened.

Eighty-six percent of Alabama's low-income working families include a parent between the ages of 25 and 54 – the prime working years.⁸ To achieve significant economic advancement, these families require access to adequate training for primary wage earners and job opportunities that allow financial growth. An assessment of these opportunities appears in Chapter 2.

Getting By: The Challenge of Measuring Poverty

Defining “poverty” – and, by extension, “low income” – is a difficult task. Mollie Orshansky, the researcher who developed the federal poverty thresholds in the 1960s, called them a measure of “income inadequacy.” That is, they represent a general agreement about how much is too little to live on, rather than how much is enough. The federal poverty measure we use today reflects outdated assumptions about basic household expenses. In the 1960s, most families at all economic levels spent about one-third of their income on food. The creators of the poverty thresholds estimated total household expenses by tripling the cost of model “food plans.”¹ Other than regular updates for inflation, the poverty thresholds ignore critical changes in the household economy, including child care; patterns of food consumption; increases in energy, health care, housing and transportation costs; and geographical differences in living expenses. The federal poverty measure hides the plight of thousands of working families who are struggling to get by.

Self-sufficiency means more than just “getting by.” By answering the question “How much is too little?,” poverty thresholds identify income levels that provide a clearly unacceptable standard of living. An alternative economic measure, the Self-Sufficiency Standard, measures what families of all types and locations need to live without public or private assistance. According to the Self-Sufficiency Standard for Alabama, released in 2003, a Jefferson County family of four can meet basic needs on its own at a minimum income of \$43,396² (adjusted to consumer price index changes for 2005). This measure of economic security is 9 percent higher than the statewide “low-income” threshold (200 percent of the federal poverty level, or \$39,942 for a family of four) used in this Working Poor Families report.

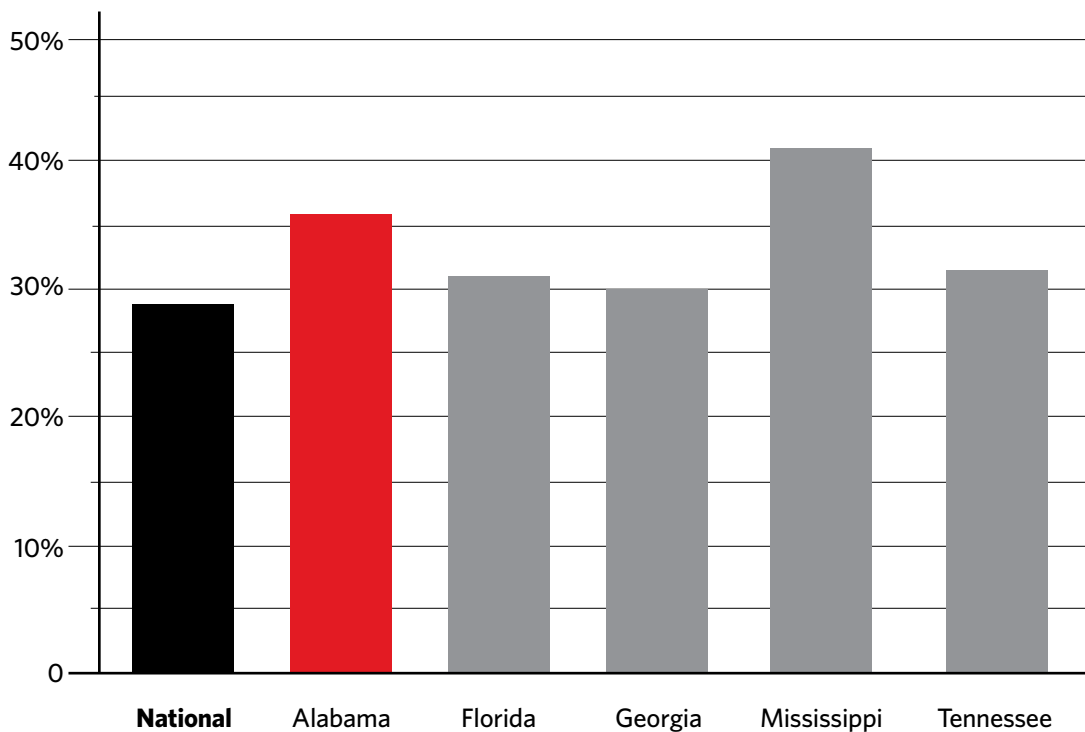
1 Gordon M. Fisher, U.S. Dept. of Health and Human Services, “The Development and History of the U.S. Poverty Thresholds — A Brief Overview,” <http://aspe.hhs.gov/poverty/papers/hptgssiv.htm>.

2 Diana Pierce, Ph.D., “The Self Sufficiency Standard for Alabama,” February 2003, <http://www.arisecitizens.org/ALpercent20FULLpercent20FINALpercent20withpercent20MAP.pdf>.

For most of this decade, Alabama's unemployment rate has been consistently below the national average.⁹ With job opportunities increasing, and an unemployment rate that approached full-employment levels, one would expect Alabamians to enjoy an increase in earnings, but that has not been the case for the average worker. The median household income for Alabama declined by 5 percent between 2000-01 and 2004-05, falling from \$39,797 to \$37,502 in inflation-adjusted dollars.¹⁰

The saying "The rich get richer while the poor get poorer" rings especially true in Alabama. The state ranks 7th worst in the nation in terms of income inequality, with the income limit for those in the bottom quintile at \$24,388 and the threshold for the top quintile at \$89,513. This income gap gives Alabama the highest range of income inequality among its neighboring states. The table to the right indicates that incomes have increased much more rapidly among higher income groups than among

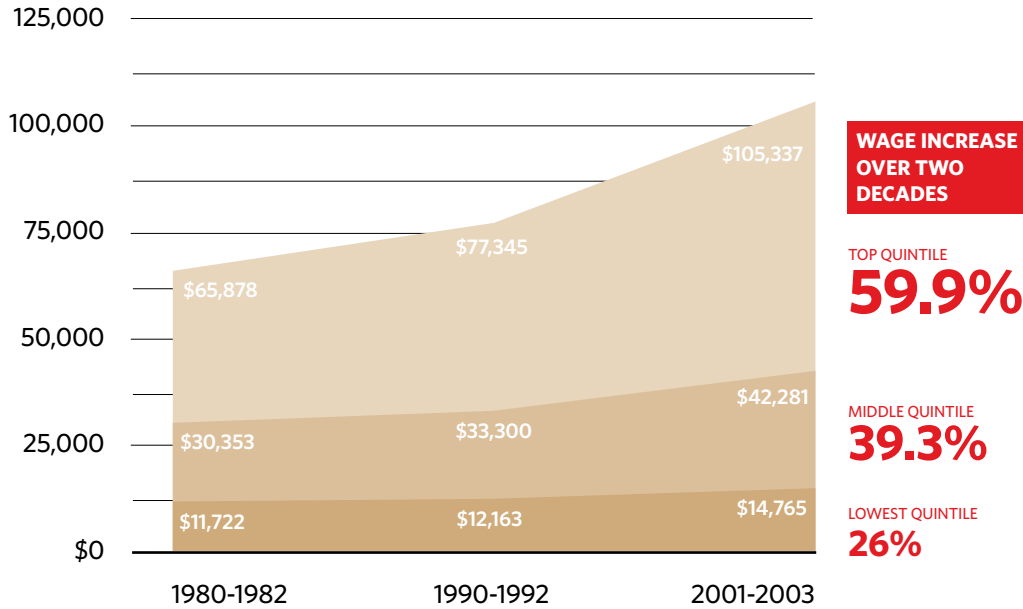
PERCENTAGE OF WORKING FAMILIES THAT ARE LOW-INCOME



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INCOME INEQUALITY IN ALABAMA

Average Income in the Early 1980s to Early 2000s



Source: Center on Budget and Policy Priorities, "Pulling Apart: A State-by-State Analysis of Income Trends," January 2006.

those at the lower income levels. This table reflects clearly that workers whose earnings remain in the lowest quintile over time will not make significant progress toward achieving self-sufficiency.¹¹

Some would argue that low-income families could improve their status by merely working more. The average low-income working family in Alabama already works 2,487 hours a year – the equivalent of 1.2 full-time jobs. The level of effort expended remains high regardless of the composition of the family, with married low-income working families working the equivalent of 1.33 full-time jobs and single-parent low-income families working the equivalent of 1.1 full-time jobs. Even though low-income working families are often engaged in work for more than 40 hours a week, they still are not earning enough to make ends meet.¹²

THE CHALLENGE

Bridging the prosperity gap

The challenge for policymakers is to broaden the scope of Alabama's booming economic development to reach all segments of the workforce and bridge the prosperity gap. The next three chapters provide a roadmap to opportunities that would achieve this goal. Chapter 2 focuses on the state's education and training system for adults, including the community college system, the workforce investment network and the state's Temporary Assistance to Needy Families programs. Chapter 3 examines the state's economic development incentives that have proved so successful in luring new industry to the state. Chapter 4 evaluates Alabama's system of workforce supports that allow people to enter the workforce and remain on the job. Each chapter concludes with a series of recommendations for policymakers to consider.



The Education and Training Gap

Education is widely acknowledged as the key to economic advancement, and Alabama's leaders frequently express their desire for a "world class" school system. But general resistance toward taxes historically has kept the state near the bottom in rankings of retention rates, outcomes and educational expenditures per student. And heavy reliance on local property

taxes for education continues to produce a broad range of investment in our schools. As with other quality-of-life and workforce support factors, the measure of our education system must reflect not only the average or high-end gains in standard indicators, but also our efforts to close the gap between high and low.

Alabama has made significant increases in its commitment to education in recent years, with its overall education budget growing by approximately 50 percent between 2000 and 2006. Most of the state's current workers, however, did not have the opportunity to benefit from these investments. More than half a million Alabamians between the ages of 18 and 64 remain caught in the education gap, lacking a high school diploma or a GED.¹³ Alabama's educational system has failed to equip these workers with the skills and certifications necessary to compete in today's global economy. And for many other Alabamians, education ended with high school graduation; less than one-third of all adults between the ages of 25 and 54 have an associate's degree or higher.¹⁴ With the workplace becoming more complex, and employers demanding higher skill levels, many of these workers will be unable to compete in the job market without additional education and training. Until Alabama renews its commitment to education and training for adults, a basic education gap likely will persist for four decades or longer, until today's 25-year-olds retire.

The state's success in recruiting major new international employers brings a new factor into play.

Higher technical and educational expectations for prospective workers in these new industries demand greater investment in workforce preparation. Though the state is riding the crest of strong economic development, concerns about the labor force's capacity to meet these demands linger. In July 2007, *Forbes.com* ranked Alabama 35th in the nation among "The Best States for Business."¹⁵ This ranking represented an improvement from 40th the previous year. But a ranking of 45th in the Labor category, which reflected educational attainment, net migration and projected population growth, held the state back in the overall assessment. A 2007 study by the National Commission on Adult Literacy projects that Alabama will face a shortage of more than 100,000 college-educated workers by 2025.¹⁶ To achieve global competitiveness, Alabama must rely on the re-entry pipeline – getting older adults back in the education system and on track to attaining degrees or credentials. Both the economic success of Alabama workers and the state's ability to continue to attract good, high-paying jobs depend upon meeting this challenge. Alabama must enact new policies to make certain that the state's workers have the opportunities for success, as well as ensuring that the workforce can meet the needs of present and future employers.

The fact remains that too few of Alabama's workers have the skills and training necessary to compete in a changing economy. A shocking 57 percent of Alabamians over age 15 lack basic literacy, earning Alabama a ranking of 48th among states.¹⁷ Almost half a million of Alabama's working-age adults lack either a

Almost half a million of Alabama's working-age adults lack either a high school degree or a general equivalency diploma.

high school degree or a general equivalency diploma.¹⁸ Almost half of all Alabamians aged 25 to 54, the prime working years, have a high school diploma or less, and only one-third of our citizens in that age range have an associate's degree or higher.¹⁹

Among young adults aged 18 to 24, only 32 percent are enrolled in postsecondary education; the continuing racial gap is evident in the fact that only 23 percent of African Americans in that age range are students in postsecondary institutions. Only 5.8 percent of adults aged 25-54 are enrolled in traditional postsecondary programs. In these indicators, and every other one related to educational attainment and access, Alabama comes in below the national average, usually among the lowest-ranked states. By any measure, there is ample room for improvement and expansion of workforce education. Substantial evidence suggests that comprehensive campaigns to engage adult learners in educational programs pay off. Kentucky's "Go Higher" campaign resulted in a doubling of participation in adult education programs in only five years, from fewer than 52,000 participants in 2000 to more than 124,000 in 2005.²⁰

The correlation between educational attainment and earnings is well documented. A 2004 analysis by the Minnesota Population Center finds that average earnings for an Alabamian without a high school degree are only half of what an Alabama resident with a bachelor's degree earns.²¹ At one time, Alabama's leading industries – agriculture, mining, steelmaking, textiles – relied more heavily on workers' brawn than on their brains. In the older economy, a host of factors – including deficient education and earning power, oppressive social structures, and the traditional values of self-reliance and independence – kept many Alabamians culturally and economically isolated from the nation at large. The changing demands of a high-tech, consumer economy are making it increasingly difficult to get by without "connecting" to the outside world through education and training. In keeping with the best legacy of their

past, Alabamians must recognize that the road to economic self-sufficiency today crosses new terrain. Until voters and policymakers support programs that bridge the knowledge and skills gap, that road will remain impassable for many of the state's low-income workers.

As more traditional industries have declined or relocated overseas, the state has focused its efforts on recruiting industries that require a more sophisticated skills set and higher general levels of education. The state has begun to realize the importance of investing in elementary and secondary educational systems so tomorrow's workers will be prepared for the jobs the future holds. If Alabama wishes to continue its successes in economic development, it must recognize that providing the necessary training and skills to those already in the workforce is equally important.

Alabama links low-income adults to training and educational opportunities through four primary systems:

- The Alabama College System, consisting of public two-year community and technical colleges and an upper-division college, under the authority of the State Board of Education.
- Adult Basic Education, offered through the Alabama College System.
- The Office of Workforce Development (OWD) of the Alabama Department of Economic and Community Affairs (ADECA).
- The Temporary Assistance to Needy Families (TANF) program, administered by the Alabama Department of Human Resources.

The Alabama College System

The Alabama College System consists of 21 comprehensive community colleges and four technical colleges, in addition to extensive workforce development initiatives. During the 2005-06 academic year, almost 129,000 students were enrolled in college credit courses, and another 64,000 students were in non-credit programs and courses. The system serves primarily Alabama students, with 95

level for the state, and ultimately compromises the state's ability to foster an adequately trained workforce. The link between educational attainment and earning capacity would indicate, further, that students leaving without acquiring some level of certification will see a corresponding decrease in their ability to provide economic security for themselves and their families.

A significant factor that likely plays a role in the state's poor retention rate among students is affordability. While tuition at Alabama's two-year college system is 59 percent of the average cost of tuition and fees at public four-year colleges in the state,²⁷ costs represent a significant barrier for low-income students and their families. Tuition and fees at the lowest-priced college in the state would require 28 percent of the income of Alabama's poorest families – those 40 percent with the least financial resources.²⁸ Alabama provides only the most minimal need-based financial assistance with tuition and fees. According to the Alabama Commission on Higher Education, in the 2005-06 academic year, more than 100,000 Alabama students met the eligibility criteria for need-based assistance. But because of financial limitations, fewer than 4,000 students received assistance, with an average grant of only \$555.²⁹ Though the Alabama Legislature more than doubled the appropriation for assistance in the

2008 fiscal year, the outlay remains woefully inadequate. The allocation of additional state resources could play a significant role in improving the state's retention and graduation rates, particularly among low-income students.

Alabama offers non-degree career classes, but state policies do not support them in ways that make them accessible to low-income working adults. Financial assistance cannot be used for such classes, and these classes are funded similarly to credit classes, thus relying on tuition and fees to cover their costs. That makes them prohibitively expensive for low-income working families. These types of training activities can provide low-income adult workers with the skills necessary to compete for higher-wage jobs while continuing their current employment.

Low-income workers with families face particular problems in seeking educational and training opportunities outside the workplace. The financial costs associated with tuition, textbooks and fees; transportation to and from education facilities; available child care at affordable rates; and academic schedules may conflict with work demands. Creation of student support services that address these and other barriers is necessary if Alabama's low-income working families are going to bridge the gap and gain economic security.

Since 2000, the Alabama College System (ACS) has employed a detailed and comprehensive performance evaluation system that uses data from a number of indicators to measure both individual college and system-wide performance in career and technical education programs. This system tracks student retention, program completion, academic performance, post-college employment and other factors. The resulting data reports, however, are prepared for internal use only and remain difficult for consumers and taxpayers to obtain – or to understand. In 2006, the ACS began to implement a new accountability initiative, the College Accountability Performance Profile (CAPP), that purports to provide each college with a similar array of data on all students and program areas. The goal of the new system is to “increase recognition of accomplishments of community colleges while providing specific areas of focus for improvement.”³⁰



Only 4.6 percent of adults without a high school diploma or GED are enrolled in adult education, which places Alabama 47th among states.

Alabama is certainly not alone in facing challenges in developing a system that not only identifies, assesses and reports student outcomes but also provides sufficient data for shaping effective state policies and strengthening institutional performance. A comprehensive accountability system should provide the state with the information necessary to help “more students access higher education, make transitions from one level of study to the next, and successfully complete their educations.”³¹ A December 2006 report by the Workforce Strategy Center found that most states “still struggle both to understand how well their current policies are serving these ends, and to use what knowledge they do have to push for constructive change.”³²

The College Accountability Performance Profile is still in its infancy, yet it holds tremendous potential for providing professionals within the system, policymakers and the general public a clear view of the relative strengths and needs of the system. CAPP measures, among other factors: overall enrollment; students transitioning to four-year colleges and their academic achievement following transfer; certifications received and continuation of educational programs for those completing career and technical programs; participation and achievement in remedial programs; and student satisfaction with administrative and supportive services. The instrument was originally envisioned as a performance evaluation tool for community college presidents and is geared primarily for use by the chancellor and the members of the State Board of Education. Though available upon request, the CAPP is not disseminated to the general public.

Alabama’s postsecondary system should modify its utilization of CAPP to allow its use in articulating system-wide and institution-specific strengths and for formulating policies that would enhance

the mission of the system. The CAPP should be available to students, the general public and policymakers to allow informed decisions on the allocation of resources and the success of the system at meeting the educational and training needs of Alabama’s citizens.

The Office of Workforce Development

In 2003, Gov. Bob Riley consolidated the responsibility for coordination of the state’s workforce development programs by creating the Office of Workforce Development (OWD) within the Alabama Department of Economic and Community Affairs (ADECA). Under the federal Workforce Investment Act (WIA), the Office of Workforce Development has developed a structure aimed at skill training, basic adult education and post-secondary education. Emphasis is placed upon the development of a stronger and more qualified workforce for employers, as well as preparing workers for higher-wage jobs.

Alabama uses a network of 43 Career Centers to provide initial assessments and linkages to needed education, job training, employment referral and other workforce development services. Even though Alabama boasts an extremely strong economy with a low unemployment rate, one would expect WIA programs to serve more of the state’s workers, particularly those without a strong educational background. In a state where the number of adults without a high school or GED is approaching half a million, only 5,733 received training services through WIA.³³ In the 2005 program year, 4,667 people exiting WIA programs received training services and gained employment – 62.2 percent of the total who exited the program. There is evidence that those completing the program see a significant increase in earning potential, with an average increase in earnings of \$4,393 over a six-month period.³⁴ WIA

programs, while responsive to employer needs, have not focused on worker acquisition of broad skills sets that would be transferrable to other settings. This limitation is reflected in the fact that only 52.9 percent of those receiving WIA training services received a credential.

Alabama fails to provide any state WIA funding, instead relying completely on available federal funding. Since program year 2003, funding for training programs has decreased almost 28 percent, with a corresponding decrease of slightly more than 28 percent in the number of participants receiving training.³⁵ WIA participants at one time received a variety of support services such as child care and transportation, but those supports are no longer provided, primarily because of the funding reductions. An investment of state funds in these programs could allow Alabama to engage more of its citizens in activities directly related to educational attainment and skill acquisition. Such an investment would increase these families' economic stability, reduce their reliance upon various state support programs, and increase revenues to the state through increased payroll and sales taxes.

One potential funding source for diminishing WIA funds might be the state's unemployment insurance "offset." Alabama, like many states, reduces employer contributions for unemployment insurance (UI) and, at the same time, imposes a tax on employers for the same amount as the UI tax reduction. In Fiscal Year 2006, this produced revenue of more than \$8 million that could then be used for purposes other than payment of direct UI benefits.³⁶ Most states use these funds to provide additional training services to meet the needs of certain industries or skill development of workers; Alabama directs all of these funds to job placement activities of the State Employment Service. Alabama's rationale has been to expend funds in this manner to minimize UI costs to employers, and to minimize the amount of time eligible recipients receive unemployment insurance benefits.

With the recent record-low unemployment rates, an evaluation should be undertaken to determine if the current spending plan is meeting the needs of low-income Alabama workers and current and future employers. The utilization of these UI "offset" funds in this manner could minimize the impact of dwindling federal financial support for WIA programs and services.

Adult basic education

Adult basic education (ABE) programs are available, without cost, throughout Alabama. Current resources enable the state to provide these education programs on demand without a waiting period, though the utilization rate is poor. Only 4.6 percent of adults without a high school diploma or GED are enrolled in adult education, which places Alabama 47th among states.³⁷ If Alabama is to improve the capacity of its workforce and meet the demands of potential employers, it must engage more participants in adult education programs.

As in other education and training programs in Alabama, the emphasis of adult education is on job acquisition rather than career credentialing. Participants in adult education programs select one of four goals for their efforts: gaining employment, retaining employment, completing requirements for a GED, or entering postsecondary education. Outcomes are most favorable for those citing employment-related goals: Of those aiming to enter the workforce, 89 percent do so, and 83 percent of those with a goal of job retention are successful by that measure.³⁸ Only 8 percent of Alabama's adult education participants select continued education as a goal.³⁹ Alabama's adult education programs should be encouraging participants to continue their education and should focus efforts on ensuring a smooth transition from adult basic education programs to the postsecondary system.

The State of Washington's Integrated Programs for Low-Income Students could be a useful model. By partnering English as a Second Language (ESL) and Adult Basic Education instructors with professional-technical instructors in the classroom, this program challenges the notion that basic educational needs must be met before workforce training begins.

Though a sizable portion of Alabama's workforce is in need of adult basic education and literacy programs, the state allocates only \$12.09 per year for individuals without a high school degree or GED. Such investments by other Southeastern states range from \$7.41 in Tennessee to \$207.49 in Florida.⁴⁰ A reasonable goal of moving Alabama to the regional average (\$46.73) would offer significant increases to serve this population.

Temporary Assistance for Needy Families

Alabama policies prioritize job acquisition over training activities in an effort to move TANF recipients off



welfare rolls as quickly as possible. Like many other states, Alabama has seen a dramatic decrease in the number of welfare recipients since the enactment of the Personal Responsibility and Work Opportunities Reconciliation Act of 1996. The current caseload of less than 18,500 includes only approximately 10,000 adults.⁴¹ In today's booming economy, the state's Temporary Assistance for Needy Families (TANF) benefit structure, among the lowest in the nation, has prompted thousands of adults to leave the benefit rolls rather than complying with program requirements.

Alabama has maximized the flexibility provided for in the federal legislation and transferred the maximum amount allowable from the TANF Block Grant to the Child Development Block Grant and to the Social Service Block Grant in most years since TANF began in 1996. Though those programs represent significant needs in the state, the ongoing shift of 30 percent of available TANF funds has deprived TANF recipients and other low-income individuals of access to job training and skills programs initially envisioned for the program. A low benefit structure, limited resources and the significant barriers facing adult TANF recipients have resulted in minimal TANF-funded training opportunities for recipients. Only 6.5 percent of Alabama's adult TANF recipients are engaged in education or skills training activities.⁴² The only training opportunity available to low-in-

come non-recipients funded through TANF is a small fatherhood initiative program that provides limited training opportunities to non-custodial parents.

Alabama counts time spent in education and training against a TANF recipient's maximum benefit award period. The state does not match individual development accounts (IDAs) for TANF recipients. Employed recipients and former recipients may receive financial assistance with work and transportation expenses as they transition to full employment. Again, perhaps as a reflection of the state's low benefit structure, TANF recipients who leave the program for employment tend to remain employed; 61 percent of Alabama's TANF recipients are employed nine months after placement, a rate above the national average.⁴³

While minimal data are available on those exiting the TANF rolls and on work participation rates, there is no source of information about former TANF recipients' ability to achieve economic self-sufficiency. Some states, such as Arkansas, measure the percentage of TANF exiters who earn above poverty level wages. The data allow the state to measure the TANF program's success in moving its participants toward self-sufficiency, which reduces the likelihood that exiters will return to the program in the future.

Bridging the education and training gap

The Alabama College System

The inadequacy of Alabama's need-based financial assistance hampers access to postsecondary education for all of the state's low-income citizens, but perhaps no group more severely than adults with families. Faced with job and family responsibilities, many workers find the cost of education and skills training simply beyond their reach. In addition, those job and family responsibilities pose unique problems for adult learners, who may encounter difficulties in balancing competing demands. Only half of Alabama's first-year community college students return for a second year. With the skill and knowledge requirements for new jobs becoming increasingly sophisticated, such attrition is a loss our economy simply can't afford. An investment in academic and personal guidance services and supplemental supports can be a cost-effective means to help these students increase their retention and completion rates.

Though the 2007 Legislature voted to double the funds available for the state's needs-based financial assistance program, that action will allow minimal assistance to only 8 percent of the eligible students. Recent strong growth in revenue for the Education Trust Fund makes the present a prime time to create new opportunities for low-income working families to pursue postsecondary education.

⇒ **Alabama should continue to allocate additional funds for need-based financial assistance.**

⇒ **Until need-based financial assistance programs are fully funded, Alabama should designate at least 25 percent of available funds to provide assistance to adult learners.**

⇒ **To provide assistance to Alabama's working families who may not meet eligibility criteria for need-based programs, matching funds should be allocated for the creation of Individual Development Accounts (IDAs) to be used for education-related expenses.**

⇒ **Alabama should increase its support of academic and personal guidance services and other supports geared toward increasing the retention and completion rates of adult learners.**

⇒ **To provide accountability for program performance, including student performance, retention and advancement, the Alabama College System should proceed with the implementation of College Accountability Performance Profile (CAPP). The focus of CAPP should change from evaluation of the performance of community college presidents to a review of the overall success of the postsecondary system in meeting the educational needs of Alabama's citizens. The CAPP should be easily accessible to citizens and policymakers.**

The Office of Workforce Development

Alabama's workforce development system serves relatively few of our residents who have limited educational levels or skill attainment. Faced with diminishing federal financial resources, Alabama needs to invest state resources to serve the needs of this population, as well as ensure an adequately trained workforce for new industries. Both the number of adults receiving training and the federal funds available for these training programs have decreased significantly in recent years. Provision of education and skill acquisition programs offers low-income families a direct route to increase prosperity and financial stability.

⇒ **Alabama should provide state funding commitments to offset the loss of diminishing federal participation in WIA programs. An examination should be undertaken to determine whether funds generated through the state's Employment Security Enhancement Act could be better utilized in such training programs.**

⇒ **Alabama should actively market training programs to those half a million citizens who lack**

a high school degree or equivalency. The training should encompass broad skill sets that are transferrable to multiple settings.

⇒ Alabama should track the earnings of WIA participants over a longer period of time to determine whether programs are successfully equipping participants with the knowledge and skills necessary for increased earning capacity.

Adult Basic Education

Only 3.8 percent of Alabama's citizens without a high school degree or equivalency are enrolled in adult education programs in the state, and only 8 percent of those who do enroll set a goal for postsecondary education. Alabama needs to launch a public education program to encourage participation in adult education programs and to identify pathways that allow citizens to progress from ABE to postsecondary education. Returning more Alabamians to an education pathway will require a significant investment of state funds.

⇒ Alabama should launch a comprehensive public education campaign to increase participation in its adult education programs.

⇒ Alabama should increase its investment of adult education programs to the Southeastern average.

⇒ Alabama should develop and implement clear and easily accessible pathways from adult education programs to postsecondary education programs.

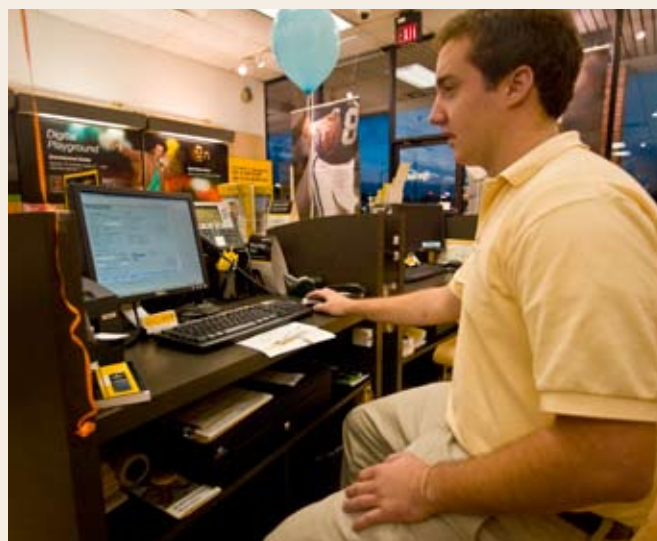
Temporary Assistance for Needy Families

Alabama's TANF benefit structure is among the lowest in the country, and the program provides training and educational programs to only 6.4 percent of adult TANF participants. One explanation for this status lies in the fact that Alabama transfers 30 percent of the TANF Block Grant to meet other human service needs. This action effectively reduces the funding available to meet the needs of

this special group and to offer them opportunities that will lead to increased self-sufficiency.

⇒ Alabama should reduce the transfer of TANF Block Grant funds to other programs and direct these resources to meet the educational and skill development needs of program participants.

⇒ Alabama should track adults leaving TANF rolls to determine whether program participation has, in fact, led to increased self-sufficiency.





The Employment Gap

Alabama's growing economy may appear at first glance to be meeting the employment needs of the state's citizens, but a closer look reveals gaps – with many Alabamians not participating in that growth. A July 2007 report by the Wachovia Economics Group referred to Alabama's "quiet economic boom," in which the state's gross domestic product grew 3.2 percent over

the previous year while the national economy grew by just 1.9 percent.⁴⁴ For most of the last decade, Alabama's unemployment rate has been significantly less than the national rate. One would expect that this strong employment record and robust economy would be reflected in the pocketbooks of Alabama's workers, but during the period 2000–01 to 2004–05, the median household income (in adjusted dollars) actually fell 5 percent, from \$39,465 to \$37,502.⁴⁵ And despite that record low unemployment rate, Alabama's labor force participation rate ranked 44th among states.⁴⁶

Even though news of successful major industrial recruitment efforts fills the airwaves, the resulting growth in jobs conceals a corresponding growth in the wage gap. Alabama's economy is increasingly reliant on service-sector employment – such as hotel and restaurant work, retail sales and clerical support – which traditionally offers lower wages than other sectors. The occupational sector that is expected to see the highest number of jobs created during the next 10 years is office and administrative support occupations.⁴⁷

In 2005, occupations that generally pay below 200 percent of the poverty level accounted for 79.4 percent of all jobs in Alabama.⁴⁸ The Alabama Department of Industrial Relations projects that employers in the state will add 299,360 new jobs between 2004 and 2014, but the greatest growth will come in low-wage sectors.⁴⁹ The table on Page 28 reflects the top five occupations in terms of projected job growth through 2014. With the exception of registered nurses, none

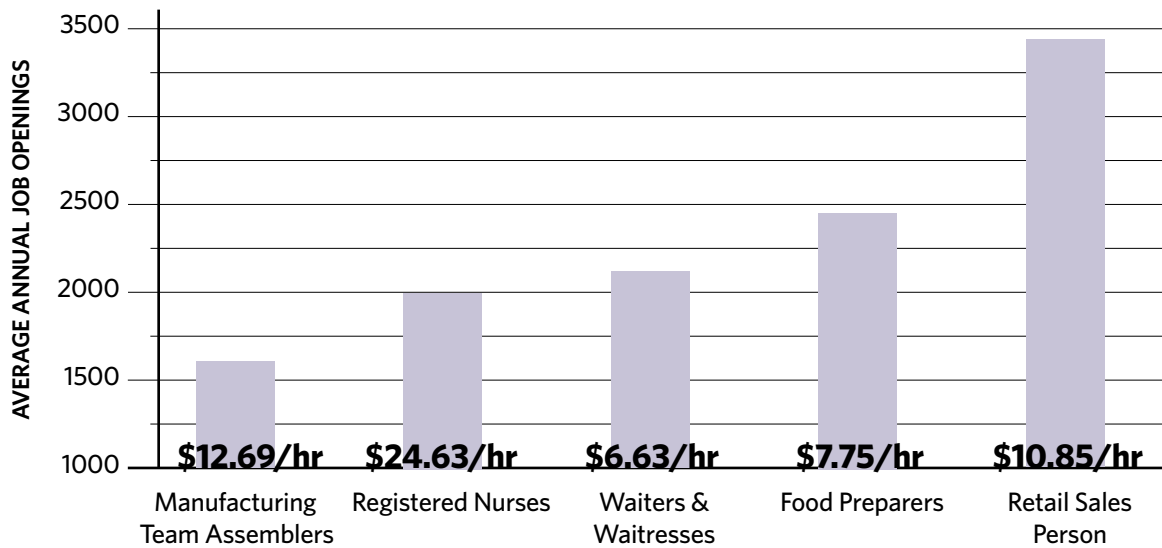
of these growth occupations comes near providing an income equal to 200 percent of the poverty level. These lower-income jobs frequently require only a high school degree or less and provide low wages and few benefits. As these jobs proliferate, working families will face challenges in achieving self-sufficiency, no matter how hard they work.

More than 2.1 million people over the age of 16 make up Alabama's workforce. The overall labor force participation rate – the percentage of the population over the age of 16 who are working or actively looking for work – was 62.5 percent, slightly below the national average of 66 percent. To make ends meet, almost 95,000 workers in Alabama hold more than one job. Alabama workers strive hard each day to provide for themselves and their families and to better their communities. But individual advancement in today's economy requires more than just individual effort. In promoting job creation, state policymakers have taken a largely quantitative approach, rather than defining goals that would offer low-income workers more opportunities to establish economic security and improve their families' well-being.

The gap in job creation

Alabama has seen striking success in the use of economic incentives and tax credits to generate large-scale employment opportunities. Beginning in 1993 with the announcement that Mercedes-Benz would construct its first U.S. assembly facility in Alabama and continuing through the 2007 announcement that German conglomerate ThyssenKrupp

Occupations with Highest Projected Job Growth



Source: ACPD analysis of Alabama Department of Industrial Relations, Occupational Statistics — 2014 projections and 2007 Statewide Employment and Wage Estimates

would construct a \$3.7 billion steel-making facility near Mobile, the state has achieved a stellar record of industrial recruitment. A number of national publications have recognized Alabama's efforts; for example, *Site Selection* designated the Alabama

Development Office as the top economic development agency in the United States for both 2004 and 2006.⁵⁰ A 2006 poll of site-selection consultants by *Expansion Management* ranked Alabama as having the nation's best workforce training incentive program, the Alabama Industrial Development Training (AIDT) Institute.⁵¹



Though it is administered under the state's post-secondary college system, AIDT functions as a training service for incoming and expanding industries. In 36 years of operation, the program has provided free skill development for thousands of Alabama's workers, but its success is measured in terms of the product it delivers free-of-charge to employers: recruitment, assessment and job-specific training of potential employees; development and production of training materials; and provision or, in some cases, construction of training facilities. AIDT does not, for example, provide educational certifications unless the employer specifically requests such certification for trainees.

AIDT represents a significant investment of state resources as part of Alabama's comprehensive industrial recruitment incentives; the value to ThyssenKrupp of training activities alone is set at \$67 million.⁵² In the absence of any required assessment of AIDT's impact on the workforce in general, it is impossible to determine whether low-income working adults receive benefit from these incentives. These

Enacted in 1995, the state's corporate tax credit provides a credit of up to 5 percent of the qualifying industry's capital investment to be applied toward the industry's state corporate income tax.

recruitment efforts have brought a number of large, national and international companies to Alabama and created thousands of well-paying jobs. Between 1996 and 2006, notices of intent to qualify for corporate income tax credits were filed by 737 corporations, representing the creation of an estimated 84,000-plus jobs and an anticipated capital investment of almost \$17 billion.⁵³ Alabama uses a mixture of “up-front” incentives (including property acquisition, site preparation, infrastructure development and job training), tax exemptions and tax credits to recruit prospective industries to the state. Recent recruitment efforts have attracted considerable attention for their lavish up-front incentives—the state and local outlay for the ThyssenKrupp deal, for example, totaled \$811 million.⁵⁴ But it's actually the capital investment tax credits that offer qualifying companies the largest advantages over the long haul, making it possible to recover their full capital outlay.

Enacted in 1995, the state's corporate tax credit provides a credit of up to 5 percent of the qualifying

industry's capital investment to be applied toward the industry's state corporate income tax.⁵⁵ The initial legislation requires an average hourly wage of only \$8 or an average total compensation of \$10 an hour, including unspecified “benefits.” Employers involved in the direct food processing of agricultural products, however, need not meet this minimal standard. Such employers are required only to provide a wage “subject to the local labor market.” The credit is available for a period of up to 20 years. In 2001, the tax credit was amended to reduce the thresholds for new employees and for capital costs for projects locating or expanding in a “favored geographic area.” The credit statute was again amended in 2007 to provide additional abatements and credits to companies investing at least \$2.5 billion in capital construction and creating at least 2,000 jobs with unspecified “benefits.” The 2007 amendments extend to 30 years the time in which the qualifying industry may recover capital costs, continuing with the cap of no more than 5 percent per year.

A Red-Carpet Welcome

Alabama beat Louisiana in the battle for a \$3.7 billion ThyssenKrupp (TK) steel plant in June 2007, but the victory was a costly one. TK will receive more than \$811 million in upfront payments and tax breaks from state and local governments in exchange for building the steel plant, scheduled to open in northern Mobile County by 2010. About \$461 million of those incentives will consist of upfront payments, including \$314 million that will go to the company in cash, while \$350 million will come in the form of tax breaks. To earn all of the incentives, the company will have to employ at least 2,000 people within three years after opening and then continue to do so for two years thereafter.¹

The enticements don't stop there. TK will benefit from a tax credit that, at an unknown cost, essentially will exempt the company from state corporate income taxes for 30 years. In addition, the State Port Authority plans to spend \$115 million on a Mobile Bay facility to make it easier to move steel from oceangoing ships to barges. And Alabama's agreement with TK contains a pledge that the state “shall use its best efforts” either to defeat any state legislation that would increase energy taxes or to seek an exemption for TK.²

1 Jeff Amy and Dan Murtaugh, “Steel Mill Incentives Accord Signed,” (Mobile) Press-Register, June 7, 2007, http://blog.al.com/pr/2007/06/steel_mill_incentives_accord_s.html.

2 Ibid.

Recap of Capital Credit Program

	NOTICES OF PROJECTS		JOBS CREATED		PROJECT COSTS	
	INTENT	PLACED IN SERVICE	ESTIMATED	ACTUAL	ESTIMATED	ACTUAL
1995-2003	529	199	62,932	23,600	\$13,657,044,288	\$6,415,081,249
2004	86	30	8,131	4,286	\$987,822,512	\$1,110,081,384
2005	50	38	4,517	4,146	\$576,335,638	\$1,186,330,744
2006	72	23	8,665	1,946	\$1,564,558,941	\$372,327,657
TOTAL	737	290	84,245	33,978	\$16,785,761,379	\$9,083,821,034

Data based on Notices of Intent and Notices of Projects in Service Received in Reporting Year

Alabama provides an educational tax credit of 20 percent to employers who provide or sponsor a program that enhances basic education skills of employees up to and including the 12th grade level. While this tax credit represents the state's recognition of the importance of basic skill acquisition, it is impossible to determine the utilization of this credit and its impact on Alabama's workers. The initial legislation creating the tax credit does not require any type of reporting mechanism for this credit, and efforts to determine utilization from both the Alabama Department of Revenue and the Alabama College System were unsuccessful.

With this array of business incentives, who benefits?

Evaluating the impact of industrial incentives

It's obvious that Alabama's incentives and credits are producing results. Between 2002 and 2005, annual earnings in the state increased from \$54.3 billion to \$62.4 billion.⁵⁶ During that same period, Alabama's unemployment rate fell from 5.1 percent to 3.6 percent.⁵⁷ The number of working Alabamians increased by more than 83,000.⁵⁸ Yet despite

	CAPITAL CREDITS CLAIMED
1995-2003	\$48,759,797
2004	\$45,025,240
2005	\$34,324,981
2006	\$41,631,715
TOTAL	\$169,741,733

Data based on Income Tax Capital Credits Claimed in Reporting Year

Source: Alabama Department of Revenue, Capital Credit Annual Report Summary, March 15, 2007

these gains, Alabama's median household income declined during this same period.

It is difficult to evaluate the impact of these incentives on low-income workers in Alabama. Citing confidentiality laws, the Alabama Department of Revenue reports only aggregate information on tax credits sought, capital investments and credits claimed (*see chart above*).

Available data do point to one trend that may be significant. We know that in 2001, twenty-three counties met the criteria as "favored geographic area," offering reduced requirements for eligibility for the capital tax credit. Favored geographic areas are determined each year on the basis of three criteria: percent change in population over the most recent five-year period; personal per capita income in the most recent calendar year; and the average percentage employed over the past 12 months.⁵⁹ In 2006, seventeen of the original 23 counties had not shown sufficient improvement and still were considered to be "favored geographic areas."⁶⁰

Enterprise Zones

Alabama provides additional tax credits and exemptions to 27 economically depressed, largely rural areas designated as Enterprise Zones. Qualifying entities can apply a tax credit of up to \$2,500 per new permanent employee against the income tax liability and/or the business privilege tax liability of the operation. Alternatively, the exemption can be applied to the operation's income, sales and use tax, as well as its business privilege tax liability.

Again, because of confidentiality rules related to income tax records, no information is available regarding the impact of Alabama Enterprise Zones or the utilization of the education tax credit.

Our neighboring state of Mississippi has taken a different approach in its primary business assistance program, Advantage Jobs, which targets the creation of full-time jobs with wage standards and health coverage. Depending upon the specific type of industry, qualifying companies must meet wage requirements ranging from the average annual wage for the state or county to 150 percent of the

average state wage.⁶¹ Requirements such as this, though not specifically aimed at low-income workers, might prove effective in improving earning capacity among Alabama's low-income workers.

While training and education are important components of a strategy to move working families toward self-sufficiency, a comprehensive economic development strategy that targets the creation of good-paying jobs with benefits for all workers is necessary to achieve this goal. Alabama's successes thus far have not reached the lower rungs of our economic ladder, and opportunities are available to help the state bridge this gap.

POLICY AGENDA

Bridging the gap with employment opportunities

Alabama's system of incentives and tax credits requires little more of companies than to create a defined number of jobs. The state can make great progress in improving the economic security of its low-income working families by requiring the qualifying companies to meet specific goals in wages, benefits and targeted recruitment. Implementing a structure, similar to that used in Mississippi, that would require qualifying industries to pay wages that meet or exceed the average annual salary would prevent the current situation of "wage stagnation," where minimum wage requirements become outdated over time.

↻ Alabama should modify its tax credit statutes to require that qualifying industries provide an average hourly wage that is equivalent to the prevailing average annual wage in the state.

↻ The exception to the minimum wage requirement in Alabama's tax credit statutes for processors of agricultural food products should be eliminated.

↻ Alabama should modify its tax credit statutes to require qualifying industries to target a certain percentage of newly created jobs toward low-income workers. The credits could increase according to the percentage of low-income workers hired beyond the targeted level.

↻ Alabama's tax credit statutes should require, at a minimum, that qualifying industries

provide health insurance benefits for their employees.

↻ Alabama's workforce development incentives consist of job-specific training for the benefit of new and expanding industries. The state should modify its policies to provide transferable skill training that is targeted toward low-income workers. Reporting systems should be developed that provide objective data on the outcomes of such targeted training efforts.

Alabama does not provide sufficient information for taxpayers and policymakers to assess whether the effects of the state's industrial incentive and tax credit programs justify their significant costs. The following steps should be implemented to enhance the ability of residents to assess economic development strategies.

↻ Alabama should adopt a measure requiring an annual tax expenditure report to provide citizens clear information on costs associated with economic development activities.

↻ Alabama should provide an annual report reflecting the total amount expended for economic development incentives and tax credits by county to allow policymakers to adjust these programs to impact communities of greatest need.

↻ Alabama should report annually the maximum credit for which each qualifying industry is eligible.



The Workforce Support Gap

A strong “bootstraps” ethic of personal responsibility accounts for many notable successes in Alabama’s political, cultural, economic – and athletic – history. Running deeper still, perhaps, is a stubborn pride that historian Wayne Flynt has identified as a defining trait among the poor, disenfranchised White Alabamians who long made up the state’s majority. Together, these independent streaks may help explain Alabama’s traditional failure to

invest in the common good. Public policy generally favors employers over employees, higher earners over lower earners, and efforts to make even modest policy changes in support of low-income working families often face fierce opposition.

A July 2007 policy brief by the Urban Institute highlights this reluctance to offer anything beyond minimal supports to working families. The brief reviews the primary federal and state work support programs – child care, food stamps, federal and state earned income tax credits, Medicaid and State Children’s Health Insurance Programs – in 44 states for which data were available. Only four states invested less per capita than Alabama. Of four neighboring states, all invested more in low-income families than Alabama did.⁶²

Wages

Almost half a million Alabama workers over the age of 18 hold low-wage jobs.⁶³ In 2005, a low-wage job was defined as one with earnings of \$9.59 an hour or less, adjusted to the state cost-of-living index. Frequently, these low-wage jobs fail to provide benefits to their employees. As a result, half a million workers between the ages of 18 and 64 lack health insurance⁶⁴ and 1.2 million lack an employer-provided pension.⁶⁵ With the prevalence of low-wage jobs, state policies should insure that adequate supports are in place to help Alabama’s workers achieve economic security.

Child care

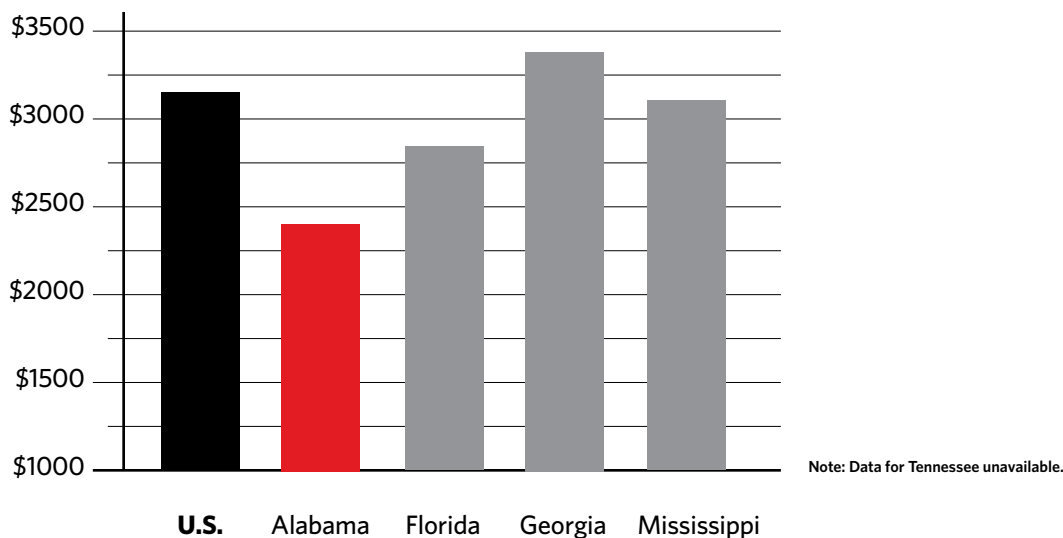
Alongside inadequate transportation, lack of access to child care is consistently identified as a leading

barrier to employment for low-income families. Working families with household incomes at or below 50 percent of the state median income are eligible for subsidized child care. In March 2007, Alabama provided subsidized child care to 32,148 children, an increase of almost 4,000 from March 2005, but well below the almost 40,000 children served in March 2003 prior to that year’s funding cutbacks.⁶⁶ Capacity for this vital service almost always exceeds demand, as indicated by a waiting list that generally exceeds 5,000 at any given time. However, waiting lists are notoriously unreliable as quantitative measures. For example, some children on the waiting list have aged out of the need category before receiving service, while the length of the list itself discourages some families from applying.

Alabama does not pay child care providers at the recommended 75 percent of fair market rate. According to Alabama’s FY 2008-09 state plan for child care services, reimbursement varies by region, ranging from a high of the 70th percentile for center-based, infant-toddler care in the Birmingham region to a low of the 30th percentile for family/group home care in rural regions. The average for all rates is at the 38th percentile.⁶⁷ This low reimbursement rate strains the system in two ways, making it difficult both to enlist and retain competent providers and to offer high-quality programs with insufficient resources.

The Alabama Department of Human Resources sets co-payment requirements for child care services on

PER CAPITA SPENDING IN WORK SUPPORT PROGRAMS 2005



Source: Urban Institute, "Trends in Work Supports for Low-Income Families with Children," July 17, 2007.

the basis of family income, and the state does not automatically exempt poverty-level families from co-pays. For example, a family of four with an annual income of \$6,192 would be required to provide a co-pay for child care services.

Health care

Alabama's Medicaid program serves approximately 900,000 individuals, or one of every five Alabamians. Faced with chronic funding shortfalls and expanding rolls, the state provides one of the most minimal programs in the country. Alabama's Medicaid for Low-Income Families (MLIF) eligibility group, for example, limits monthly income to the equivalent of 26 percent of the federal poverty level. At this extremely low income level, only 44 percent of uninsured eligible recipients utilize Medicaid.⁶⁸

Thirty-six percent of Alabama's low-income working families have at least one parent without health insurance,⁶⁹ and the state has no health care subsidy available to either employers or their employees. Lack of insurance can lead to significant loss of

income for routine medical problems, and a serious accident or long-term health problem can shatter an uninsured family's financial security.

Unemployment insurance

Probably the most direct route back to employment for many unemployed workers is education and training. Alabama, however, makes it difficult for these individuals to meet even basic needs. The maximum weekly benefit available to eligible workers is \$210, ranking Alabama 49th among states; the average maximum weekly benefit for Southeastern states is \$286.⁷⁰ Alabama does allow students involved in GED classes, college or a vocational school to receive unemployment benefits, but recipients must agree to change their class schedule or withdraw from the program upon finding employment.

Worker's compensation

Alabama provides the 12th highest worker's compensation minimum weekly benefit rate in the nation at \$173.⁷¹ Though relatively generous by

Alabama's Medicaid for Low-Income Families (MLIF) eligibility group limits monthly income to the equivalent of 26 percent of the federal poverty level.



national standards, this is far less than that required to keep a family with two children out of poverty.

Regressive tax system

The combined local and state taxes for Alabama families in the lowest quintile amount to 10.6 percent as a share of annual household income.⁷² At first glance, this rate would appear to compare favorably with other states, but a closer look reveals the unfair distribution of tax obligations across the income spectrum. Alabama is consistently ranked as having one of the lowest total tax burdens, yet one of the most regressive tax systems in the country. While the poorest 20 percent of our neighbors pay almost 11 percent of their income in taxes, those at the top of the income scale pay only 3.8 percent of their income in taxes. Alabama is also one of only two states that fully tax food purchases and one of 31 states without a state Earned Income Tax Credit.

Until 2007, working Alabama families began paying income taxes when earnings reached an annual level of \$4,600 for a family of four. Changes made to the state's code in 2006 have increased that threshold to \$12,600, still far below the federal poverty level.

Transportation

One of the most consistently identified barriers to economic advancement for low-income families is the lack of public transportation throughout our state. In 2005, Alabama was one of only four states

in the nation – the only state east of Colorado – that refused to make an investment of state revenues in public transportation programs.⁷³ The result is a public transportation program that at best is inadequate for user needs and at worst is non-existent.

To access federal funds for public transportation, local governments or private entities must provide the entire amount of the required match. Because of constitutional restrictions on county and municipal authority to generate revenue, the fixed-route systems that do operate in most urban areas offer only partial geographical coverage and limited hours of service. Seventeen counties, primarily those with high rates of poverty, have been unable to raise the required match and therefore lack any transit system that could broaden residents' access to employment, health care, commerce and entertainment.

How our income tax threshold compares

Alabama's income tax threshold remains one of the three lowest in the country, even after the Legislature increased it in 2006 from \$4,600 a year to \$12,600 a year for a family of four. But it hasn't always been that way. When Alabama's income tax rates were set in 1936, the state's tax threshold at the time — \$3,600 — meant that only about 7,000 people in the entire state, or less than one-fourth of 1 percent of the population, made enough to owe any taxes at all.

Today, though, Alabama's threshold lags behind those of its neighbors. Mississippi's income tax kicks in for families of four at \$19,600 a year, while Georgia begins to tax such families at \$15,900 a year. (Florida and Tennessee do not assess income taxes.) Other Southern states also have higher thresholds for families of four, including Louisiana (\$16,900), North Carolina (\$19,400) and South Carolina (\$27,000).

Bridging the gap with stronger workforce supports

Child care

Along with lack of transportation, lack of access to quality child care is consistently cited as a leading barrier to employment for low-income families. Alabama could improve its child care program by increasing state funding to accommodate the waiting list for services and by eliminating the required co-pay for families with incomes below the federal poverty level. The state could greatly improve the accessibility and quality of services received by children in child care programs by increasing provider reimbursements to match program costs more closely.

↻ **Alabama should increase its investment in quality child care programs by increasing the reimbursement to a minimum of 50 percent of the fair market rate.**

↻ **Alabama should eliminate the co-pay for families with incomes below the federal poverty level.**

↻ **Alabama should increase its commitment of state dollars to reduce the number of eligible children on a waiting list for available child care.**

Health care

More than 63,000 low-income working families have at least one parent without health insurance. Eligibility for Medicaid for Low-Income Families (MLIF) limits monthly income to the equivalent of 26 percent of the poverty threshold. Time lost from work because of illness hinders both the individual's ability to meet financial responsibilities and the employer's ability to meet productivity standards. Policymakers need to take action to begin to address the health insurance crisis in our state.

↻ **Alabama should implement financial incentives that encourage small employers to provide health care benefits to their employees and families.**

↻ **Alabama should raise the income cap for Medicaid participation by working families to 130 percent of the federal poverty level (equal to the income cap for Food Stamps).**

Unemployment Insurance

Alabama provides one of the nation's lowest maximum benefits to eligible workers. Loss of employment, in and of itself, can be devastating to an individual. The inability to meet even basic needs can drive a family into financial ruin from which they may never recover.

↻ **Alabama should increase the maximum weekly benefits allowed under its unemployment compensation program to the Southeastern U.S. average.**

Taxes

Alabama relies on a regressive tax system that places a disproportionate burden on low-income working families.

↻ **Alabama should remove the state sales tax from grocery purchases.**

↻ **Alabama should raise the threshold for state income tax to the federal poverty level by modifying dependent and standard deductions. Those changes should be indexed to inflation to ensure ongoing tax fairness.**

Transportation

Rising energy costs hit low-income families particularly hard, and in many areas of the state, they have no options available other than using their personal vehicle to seek work and, once employed, get to work regularly. A comprehensive state public transportation policy with state financial support to local entities would offer low-income workers both reliable transportation and a wider radius of employment opportunities. In addition, a state-supported transit system would benefit all Alabamians by reducing demands on the state's highway infrastructure and improving urban and suburban air quality.

↻ **Alabama should provide a dedicated state revenue source for public transportation programs throughout the state.**

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Acknowledgements Page: Woman weighing a cake, Montgomery Curb Market (Farm Securities Administration, ca. 1930s), Alabama Department of Archives and History, Montgomery, Ala.

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