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A Working Floridians Tax Rebate for a Stronger and More Equitable Florida

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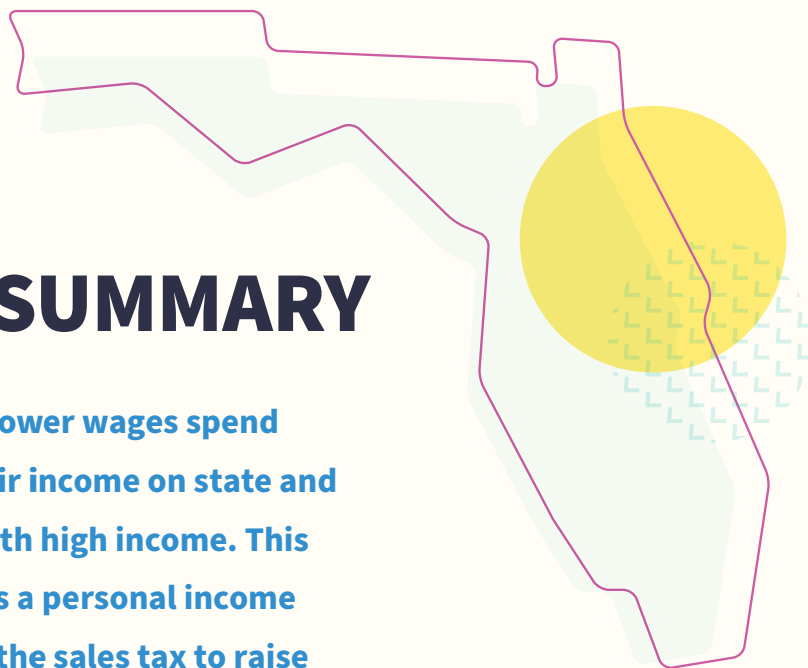


TABLE OF CONTENTS

Executive Summary	2
Why Florida Needs the Working Floridians Tax Rebate	4
Florida Can Help Workers and their Families Make Ends Meet by Building on the Success of the Federal EITC	5
The Working Floridians Tax Rebate Can Help Fix the State’s Upside-Down Tax Code and Foster Equity	6
EITCs Boost Economic Security, Health, Quality of Life, and Education	9
<i>The EITC Promotes Economic Security</i>	9
<i>The EITC Improves Health Outcomes and Quality of Life for Mothers and Children</i>	9
<i>The EITC Increases Children’s Educational Performance, Attainment, and Future Success</i>	9
Florida Voters Broadly Support a State EITC	10
Even Without a Personal Income Tax, Florida Can Enact a Working Floridians Tax Rebate	11
Key Policy Considerations and Recommendations for a Future Working Floridians Tax Rebate	13
<i>Eliminate Age Restrictions and Increase the Credit for Working Adults Without Children in the Home</i>	13
<i>End the Exclusion for Individuals Using ITINs</i>	13
<i>Support Free Tax Preparation through the Volunteer Income Tax Assistance (VITA) Program</i>	14
<i>Educate the Public</i>	14
How to Pay for the Working Floridians Tax Rebate	15
Conclusion	16
Methodological Notes and Acknowledgments	17
Endnotes	18

EXECUTIVE SUMMARY

Floridians who are paid lower wages spend significantly more of their income on state and local taxes than those with high income. This is because the state lacks a personal income tax and relies mostly on the sales tax to raise revenue. The state's upside-down tax code also exacerbates racial inequity because Floridians with low income are more likely to be people of color. While often marketed as a "low tax" state, the truth is that Florida's tax system is the second most regressive in the nation — favoring those who make the most, squeezing those who earn the least, and exacerbating income inequality among communities of color.



Policymakers can help build more prosperous communities and strengthen future generations by ensuring more workers and their families can make ends meet.

The Working Floridians Tax Rebate — Florida’s state-level Earned Income Tax Credit (EITC) — is a proven way to increase economic stability and opportunity, boost local economic activity, and improve child and community well-being. Among all likely Florida voters, 68 percent support enacting a state EITC.

By creating a Working Floridians Tax Rebate, policymakers can provide the following benefits to their communities:

› **A fairer tax code that strengthens economic and racial equity:**

Floridians with low- to moderate-income, who are disproportionately Black and Latina/o, shoulder more of the costs of roads, schools, and health care. The Working Floridians Tax Rebate would help fix Florida’s upside-down tax code by lowering their share of these costs, which currently squeeze families experiencing inadequate wages and growing living costs. All told, the rebate would improve the lives of 2.1 million Florida workers and their families.

› **An economic boost to local businesses:**

The Working Floridians Tax Rebate would increase families’ disposable income and pump about \$862 million each year into the Florida economy.



› **Firmer pathways to success for Florida’s children:**

Decades of research from other states show that children in families that receive the EITC have higher math and reading test scores and are more likely to finish high school, obtain college degrees, and have higher wages. Many of the EITC’s educational benefits are more significant for boys and Black and Latina/o children. Thus, the Working Floridians Tax Rebate will help families afford the basics now and provide a path to upward mobility for future generations.

Thirty states, the District of Columbia, Puerto Rico, and localities such as New York City and Montgomery County, Maryland, have enacted their own versions of the EITC. Florida lawmakers should follow their lead by creating a Working Floridians Tax Rebate set at 20 percent of the federal EITC. A state tax rebate of this size would put \$1.08 billion back in people’s pockets, with an estimated average rebate of nearly \$500. The rebate would also offer a multigenerational investment, increasing family income, reducing child poverty, and improving health, education, and career outcomes for years to come.

Why Florida Needs the Working Floridians Tax Rebate



By some accounts, the state of Florida showed tremendous economic improvements between 2010 and 2019 — the number of jobs increased, and the state’s unemployment rate reached historic lows.¹ However, beyond traditional markers of state financial success during this period, the day-to-day experience of many Floridians did not match the state’s economic boom. Millions of households struggled to make ends meet, and wages stagnated, making it even more challenging to keep up with the rising cost of living in the Sunshine State.^{2,3} Many workers in Florida earn just enough to remain above the

poverty threshold yet still cannot afford the basics. For example, cashiers, nursing assistants, office clerks, servers, laborers, and security guards — who are all vital to Florida’s economy — receive inadequate compensation.⁴

Throughout 2020, Floridians struggled to pay for food, health care, and housing. The hardship caused by COVID-19 hit people paid low wages the hardest. In addition to being more likely to lose jobs and income due to COVID-19, these Floridians were also at a higher risk of infection because many worked as essential frontline workers. Today, the same hardworking individuals and families continue to bear the burden of depression and stress alongside food, housing, and employment insecurity.^{5,6}

Moreover, Florida’s upside-down tax code is an additional strain on individuals and families already struggling to meet their basic needs. The Sunshine State’s lack of a personal income tax and heavy dependence on sales taxes means that lower-paid workers spend a greater share of their income on state and local sales taxes than millionaires. And because individuals and families of color are more likely to be paid low wages due to long-term racial inequalities and bias, the state’s upside-down tax code worsens racial inequity.⁷

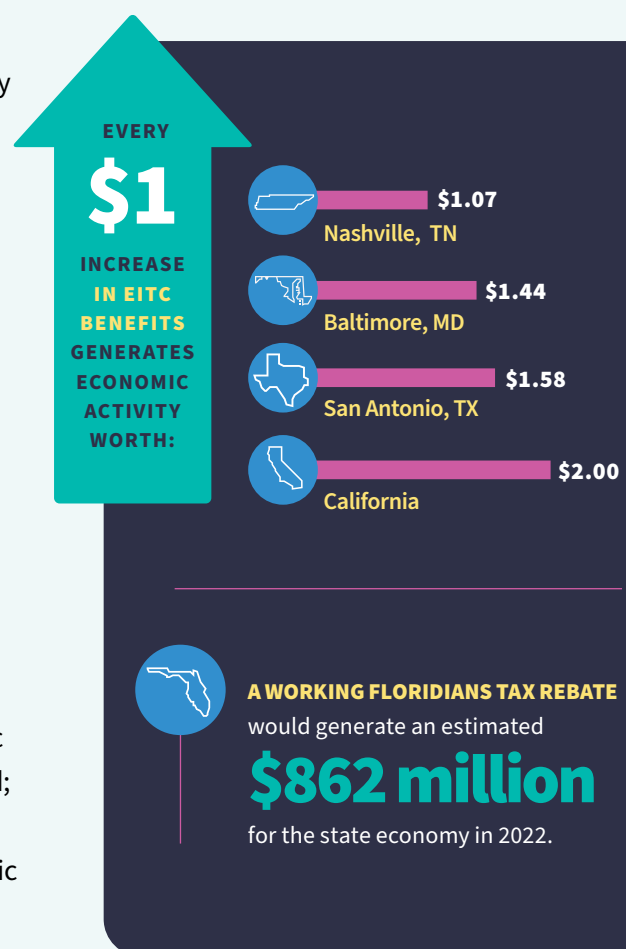
Florida Can Help Workers and their Families Make Ends Meet by Building on the Success of the Federal EITC

In 2019, more than 2.1 million Floridians received \$2.9 billion through the federal Earned Income Tax Credit (EITC), with the average credit amount totaling \$2,492.⁸ The federal EITC is a common-sense tax break that helps people with low income make ends meet, which benefits their families, communities, and local economies.⁹ Floridians who earn below specific income thresholds can receive a “refundable” credit on their income taxes. When refundable credits exceed the amount of taxes that a worker owes, the Internal Revenue Service (IRS) sends the worker a refund for the remainder of the credit.

The federal EITC is already one of the nation’s most effective tools for reducing poverty and countering income inequality. To further build on the success of the federal EITC, Florida has an opportunity to enact a Working Floridians Tax Rebate (WFTR), a state-level version. A WFTR set at 20 percent of the federal EITC would put \$1.08 billion in people’s pockets, with an average rebate of \$500. These extra dollars could help families pay for their day-to-day necessities, such as food, gas, child care, and school supplies.

The WFTR would also boost local economic activity. Studies show EITC recipients spend their refunds on durable goods,¹⁰ purchasing or repairing a vehicle for work,^{11,12} or paying off bills and debt.¹³ In other words, EITC recipients spend a significant portion of their refunds locally. This creates a multiplier effect as recipients spend the money paying for utilities, transportation, retail, health care, and personal services, and at restaurants. To date, researchers have estimated multiplier effects for a few cities and the state of California, showing that it has a positive economic impact. For instance, in Nashville, Tennessee; Baltimore, Maryland; San Antonio, Texas; and California: every \$1.00 increase in EITC benefits generates \$1.07, \$1.44, \$1.58, and \$2.00 worth of economic activity, respectively.^{14,15,16,17}

If every \$1.00 increase in EITC benefits through a WFTR generates \$1 worth of local economic activity, and recipients spend about 80 percent of their rebate locally,¹⁸ then the rebate would generate \$862 million for the state economy in 2022.



The Working Floridians Tax Rebate Can Help Fix the State's Upside-Down Tax Code and Foster Equity

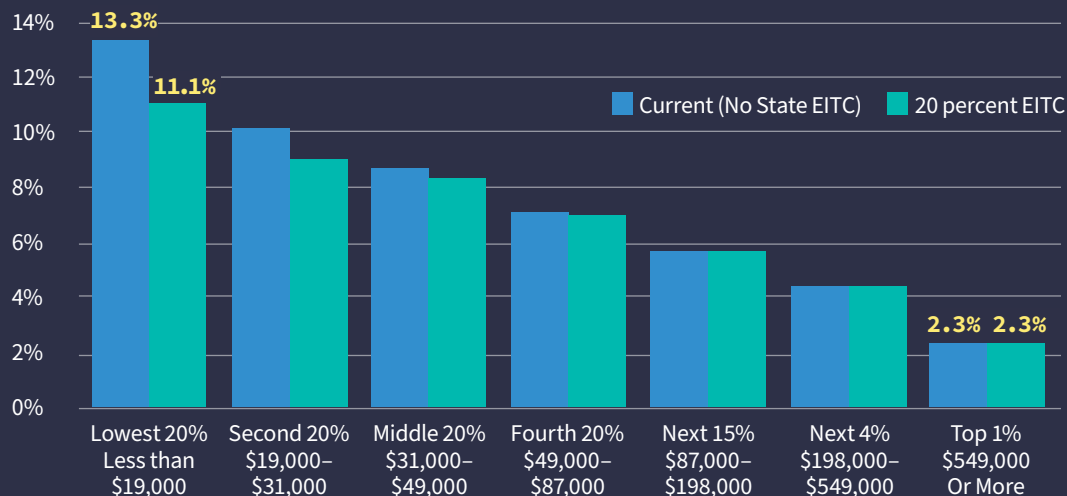
Since the state's General Revenue Fund is financed primarily through the sales tax, Floridians with low to moderate income shoulder more responsibility for funding public services such as roads, schools, and health care. One of the most significant barriers to economic opportunity in the Sunshine State is the upside-down tax code. According to the Institute on Taxation and Economic Policy (ITEP), Florida has the country's second most upside-down or regressive tax system. This means that a worker or family making less than \$19,000 spends about 13.3 percent of their money on state and local taxes. In comparison, residents making ten times as much — about \$200,000 a year — only spend about 4.5 percent of their money on state and local taxes. The growing inequity underlying Florida's tax code creates an unstable foundation for the future.

A state-level EITC would offset Florida's upside-down tax structure from the bottom up by putting money directly into people's pockets. According to ITEP, Florida's ranking as the second most regressive state in the country would improve by two spots by enacting the Working Floridians Tax Rebate at 20 percent of the federal EITC. This would be a practical and equitable step toward shared prosperity. (See Figure 1.)

According to the Institute on Taxation and Economic Policy (ITEP), Florida has the country's second most upside-down or regressive tax system.

FIGURE 1. Low- and Moderate-Income Floridians Would Benefit the Most From A Working Floridians Tax Rebate

State and Local Taxes as a Percentage of Income, 2015



Source: The Institute on Taxation and Economic Policy (ITEP), 2021

Consider three hypothetical cases of Florida workers and how the rebate can benefit them. These examples, which use 2020 numbers, assume lawmakers pass a rebate set at 20 percent of the federal EITC .



SINGLE MOM, ONE CHILD

Imagine a single mother of a child in Jacksonville. She works full-time as a cashier, making \$11 an hour, and earns about \$24,000 annually before federal taxes. Throughout the year, she spends close to \$3,200 on state and local taxes alone. A Working Floridians Tax Rebate set at 20 percent of the federal EITC would put an estimated \$567 back in her pocket each year, which could help her pay for a vehicle repair or child care.



MARRIED COUPLE, TWO CHILDREN

Take a young couple with two children in Miami. One works part-time as a home health and personal care aide; the other is a full-time waiter at a local restaurant. Together, they make \$40,000 annually before federal taxes. Throughout the year, they spend close to \$3,500 paying state and local taxes. A Working Floridians Tax Rebate set at 20 percent of the federal EITC would put an estimated \$560 back in their pockets. They could use the rebate to buy groceries for the family.



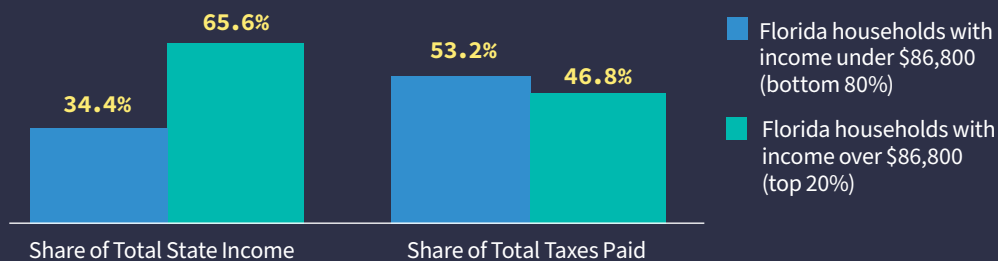
MARRIED COUPLE, THREE CHILDREN

Imagine a married couple in Tampa with three kids. One works construction almost full time, while the other works part-time as a substitute teacher, with a combined income of \$49,000 annually before federal taxes. Together, they spend close to \$4,300 paying state and local taxes. A Working Floridians Tax Rebate would put an estimated \$330 back in their pockets. They could put the money aside into a rainy-day fund.

The WFTR would also narrow racial income gaps. While families of all races and ethnicities with wages under \$86,800 receive just 34.4 percent of statewide income, they pay 53.2 percent of statewide taxes. (See *Figure 2*.) This imbalance in Florida's tax code suppresses the prosperity of a diverse group of families making low- to moderate-income while benefiting the state's

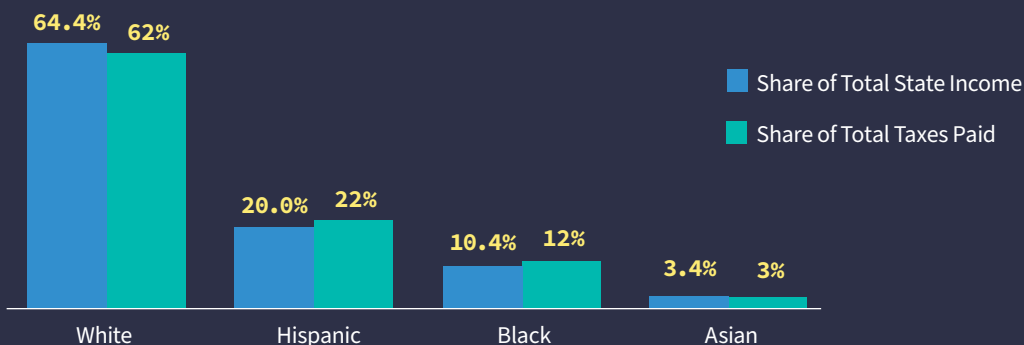
more affluent and predominantly white Floridians with high income. Addressing disparities in income by race and ethnicity in a meaningful way requires fixing Florida's upside-down tax code. In practice, a policy like the WFTR designed to uplift workers and families making low- to moderate-income also increases racial equity. (See *Figure 3*.)

FIGURE 2. Florida Households With Income Over \$86,800 Account For Two-Thirds of the State's Total Wealth but Less Than Half of the Total Taxes Collected



Source: The Institute on Taxation and Economic Policy (ITEP), 2021

FIGURE 3. Black and Latina/o Floridians Pay More in Taxes Than White Floridians When Comparing Share of Total State Income by Race and Ethnicity



Source: The Institute on Taxation and Economic Policy (ITEP), 2021

EITCs Boost Economic Security, Health, Quality of Life, and Education



The EITC Promotes Economic Security

The federal EITC is one of the most extensive refund programs in the country. In 2018, the federal EITC distributed \$63 billion to 25 million eligible workers and lifted about 5.6 million people out of poverty, including 3 million children. The credit reduced the severity of poverty for another 16.5 million people, including 6.1 million children.¹⁹ Studies on the EITC over several decades indicate that it has had a substantial impact on workers making low wages by increasing labor force participation among single mothers,^{20,21,22,23} offering longer-term earnings growth,²⁴ and lifting families out of poverty.²⁵ Recent studies have also found that the EITC reduces food insecurity and increases private insurance participation.^{26,27}

The EITC Improves Health Outcomes and Quality of Life for Mothers and Children

Beyond the EITC's positive economic impacts, researchers have also identified vital benefits to health. Among married mothers with multiple children, the EITC helps improve mental health and increases self-reported happiness and self-efficacy.²⁸ Additionally, the EITC helps improve infant health, especially for Black mothers, by reducing low birth weights.^{29,30} The EITC also helps lower high cholesterol, blood pressure, and inflammatory conditions.^{31,32,33} Research connects these health benefits to the relationship between

increased income, employment, access to medical care, and reduced stress.³⁴ As the EITC boosts income, it reduces stress, which is associated with higher blood pressure and risky behaviors like smoking while pregnant. In doing so, the EITC also increases the likelihood of self-reported happiness. Furthermore, research has shown that the EITC improves a child's home environment (including home cleanliness, safe play spaces, and how often parents read to or help them with homework) and reduces smoking rates during and after pregnancy.^{35,36,37} Overall, even marginal expansions to EITC eligibility and rebate amounts will likely improve health outcomes for women and children.³⁸

The EITC Increases Children's Educational Performance, Attainment, and Future Success

Strong evidence shows that children whose families receive the EITC have better academic achievement and attainment, with potentially significant consequences for outcomes in education and employment.³⁹ Specifically, the EITC increases children's math and reading test scores,^{40,41,42} increases the likelihood of finishing high school and obtaining a college degree,^{43,44,45} and increases future employment and earnings.⁴⁶ Moreover, many of the EITCs educational benefits are more significant for boys, Black and Latina/o children, and children whose parents are unmarried. The EITC works to lift families out of poverty and provides a path of upward mobility for future generations.

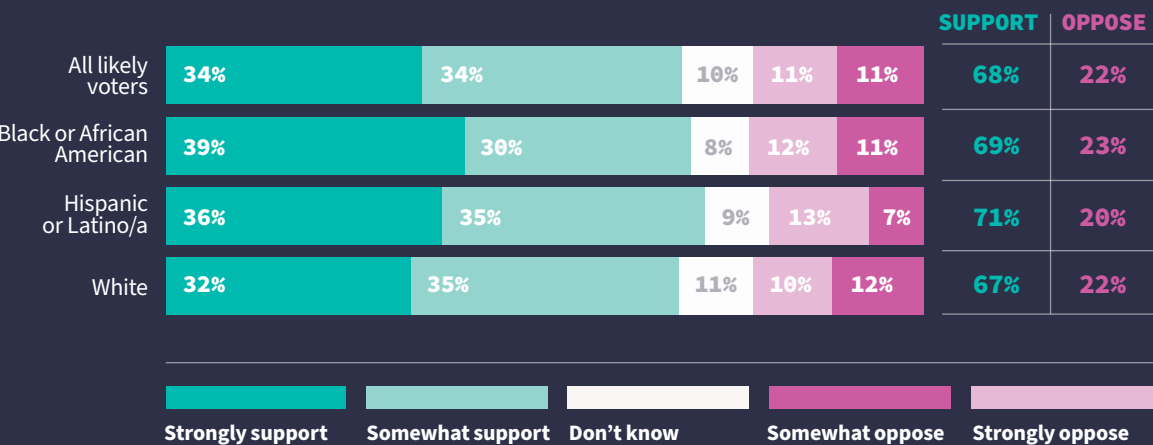
Florida Voters Broadly Support a State EITC

The State Innovation Exchange commissioned a series of polls conducted over 2019 and 2020 that found widespread support for a state-level EITC among likely Florida voters.⁴⁷ More recently, FPI commissioned a survey conducted by Data for Progress during May and June 2021. The survey found strong support for the policy across likely voters by race and population density.⁴⁸ Across Florida, 68 percent of likely voters support a state-level EITC.⁴⁹

The policy is consistently popular among Black, Latina/o, and white voters. Among likely voters who identify as Black or African American, 69 percent support a state-level EITC. Among likely voters who identify as Latina/o, 71 percent support it. And among likely voters who identify as white, 67 percent support the policy.

The federal Earned Income Tax Credit (EITC) is a credit offered to workers and working parents making low- to moderate-income. The aim of the EITC is to incentivize work and make sure families have the income to make ends meet. Several states have their own state EITC, which is sometimes called the Working Families Rebates.

Survey respondents were asked:
**WOULD YOU SUPPORT OR OPPOSE IMPLEMENTING
A STATE EARNED INCOME TAX CREDIT IN FLORIDA?**



Florida Policy Institute poll conducted by Data for Progress



Even Without a Personal Income Tax, Florida Can Enact a Working Floridians Tax Rebate

Given the vital role of the EITC in the U.S. safety net and its many benefits, it is not surprising that 30 states and several localities have enacted their own credits.^{50,51} Most states “piggyback” on the federal EITC using the same eligibility requirements and establish state-level credits at a fixed percentage of the federal EITC. Twenty-three states, D.C., and Puerto Rico offer a refundable credit. These state-level credits or rebates range from 3 to 50 percent of the federal EITC, depending on the state.⁵² The state-level EITCs are straightforward for states to administer and for working people to claim.

Most states that offer EITCs also levy personal income taxes and collect the information needed to determine eligibility. Consequently, some question whether a state without an income tax, like Florida, can provide similar assistance. Yet, the state of Washington’s Working Families Tax Credit is an example of how states without an income tax can work with the IRS to provide a state rebate.⁵³

The 2021 Washington State Legislature expanded eligibility and funding for the Working Families Tax Credit. Like Florida, Washington has a highly upside-down tax system. In fact, the state has the *most* regressive tax system in the nation, due to Washington’s overdependence on sales and excise taxes and lack of a personal income tax. Per the 2021 law, to receive the refund, a worker must meet these requirements:

- › They must have filed a federal income tax return as a Washington resident.
- › They must have been a resident of Washington State for more than 180 days of the year for which the credit is claimed.
- › They must have filed a federal income tax return with a valid Social Security Number (SSN) and received the EITC, or they would have otherwise qualified for the federal EITC except for the fact that they filed an income tax return using an Individual Tax Identification Number (ITIN).

If they meet these requirements, a taxpayer can apply to the Washington State Department of Revenue to receive their refund.

The responsibility of the department is to set the necessary rules to offer the credit. Procedures like establishing a date by which applications will be accepted and gathering pertinent data through audit and other administrative records, including working with the IRS to administer the credit on an automatic basis as soon as practicable.

In the state of Washington, the credit amount ranges from \$300 to \$1,200, depending on the number of qualifying children and income level. Like the federal program, Washington reduces the

credit amounts based on income thresholds that align with the federal EITC phase-out levels. The minimum credit amount is \$50, regardless of the number of qualifying children.

Ultimately, Washington's EITC design shows that it is possible to offer a WFTR without a state income tax. Florida could utilize similar eligibility criteria and ask workers to apply to the Florida Department of Revenue (DOR) using their federal income tax return to verify receipt of the federal EITC and the specific amount. Once DOR receives the application and confirms the information with the IRS, applicants would receive a rebate equal to 20 percent of the amount of their federal EITC.



Key Policy Considerations and Recommendations for a Future Working Floridians Tax Rebate

Although policymakers tried to pass a state-level EITC in 2001, 2019, and 2020, Florida has not yet taken the step of creating a WFTR. Given the EITC's benefits, the urgency to help workers and families struggling due to the pandemic, and the regressive nature of Florida's tax code, now is an ideal time to do so. There are several important steps listed below that must be taken to reach the end goal of enacting a WFTR.

Eliminate Age Restrictions and Increase the Credit for Working Adults Without Children in the Home

Under its permanent design, the federal EITC leaves out young adults (18–24 years old) and older adults over 65 working low-wage jobs — a population of over 15 million. Additionally, the federal EITC for people paid low wages who do not have children in the home is limited and small.

Fortunately, the American Rescue Plan Act (ARPA) temporarily expanded the EITC to include many whom the policy has left behind. The eligibility age is now 19 (down from 25) and includes workers aged 65 and older. The maximum credit amount tripled for workers without children, from \$543 to \$1,502, and the phase-out range consists of those making up to \$21,000 (up from \$16,000). These improvements, however, will expire at the end of the 2021 tax year.^{54,55}



While the EITC enhancements under ARPA constitute a significant step toward shared prosperity, the changes are temporary. Nevertheless, Florida could adopt these policies as a baseline of benefits for the WFTR over the long term, regardless of whether these enhancements are made permanent at the federal level. Indeed, a growing number of states have already begun to lead the way. For example, California, Maine, Maryland, Minnesota, New Jersey, and New Mexico have already started allowing younger working adults without children to access their state-level versions of the EITC by lowering the minimum eligibility age from 25 to 18 or 21.

End the Exclusion for Individuals Using ITINs

Florida should also consider broadening EITC eligibility to people who file their taxes with an ITIN in place of an SSN. ITINs are issued because all individuals with U.S. income must pay taxes regardless of their immigration status. Examples of taxpayers who file with ITINs are survivors of intimate partner violence, spouses and children of individuals with employment visas, and immigrants



without legal status. Although ITIN filers make significant contributions to the economy and pay taxes, they are ineligible for the federal EITC and Child Tax Credit. Recently, policymakers also excluded millions of ITIN filers from many of the national emergency pandemic supports they enacted.

By expanding EITC eligibility to ITIN filers, Florida would follow the recent lead of California, Colorado, New Mexico, and Washington state and make the rebate more inclusive for people regardless of their immigration or tax filing status. That would help expand economic opportunity for all residents and support essential workers earning low pay who are immigrants. If Florida enacted this change, it would help more than 68,500 workers.⁵⁶

Support Free Tax Preparation through the Volunteer Income Tax Assistance (VITA) Program

Florida policymakers can take steps to lower barriers to claiming both the federal EITC and WFTR by supporting the VITA program. VITA sites provide free, high-quality tax preparation services to taxpayers with limited income, people with disabilities, limited English-speaking taxpayers, current and former members of the military, and taxpayers who are 60 years of age and older. The IRS coordinates the program, and VITA tax preparers maintain high accuracy in tax preparation. In 2018, IRS-certified volunteers at VITA sites throughout Florida helped prepare over 227,000 returns, and nearly 22,000 of these returns included the EITC.⁵⁷ VITA sites are eligible for federal grant funding from the IRS, but this funding is limited and must be matched by state, local, or private dollars. Florida can help provide matched funding and assist VITA sites with community outreach. For example, in fiscal year 2016–17, policymakers appropriated \$500,000 to assist United Ways to provide VITA services across Florida.

Educate the Public

Upon passage, Florida can advertise the availability of the WFTR through newspapers and social media, on the radio, and by other means.

How to Pay for the Working Floridians Tax Rebate

In Florida, close to 81 percent of all eligible workers claim the EITC, meaning that roughly 1 in 5 workers in Florida do not claim the credit they have earned. It is unlikely that 100 percent of Floridians eligible to receive the WFTR would claim it.⁵⁸ Therefore, assuming 80 percent participation, a WFTR set at 20 percent of the federal credit would cost about \$1.08 billion in 2022, \$1.1 billion in 2023, and \$1.12 billion in 2024.

Enacting a WFTR is an ambitious investment in more than 2 million residents. There are several different ways to finance the rebate. For example, FPI has identified 21 bold investments to raise more than enough revenue to pay for the program.⁵⁹ This report provides details on four such revenue-raising possibilities.

**+\$50
million**

SKIP SALES TAX HOLIDAYS

Since the passage of Florida's first-ever holiday in 1998, lawmakers have enacted more than two dozen sales tax holidays. These holidays have cost Florida over \$900 million in lost revenue.⁶⁰ While sales tax holidays are politically popular, they: are not well targeted to families making low- to moderate-income, are burdensome for tax agencies and small businesses to administer, and significantly affect state and local revenue. The money spent on these holidays could be better used to reform our state's upside-down tax system through a WFTR.⁶¹

**+\$477
million**

PASS COMBINED REPORTING TO ENSURE LARGE MULTISTATE CORPORATIONS ARE PAYING THEIR FAIR SHARE OF TAXES

Over the past several decades, state corporate taxes have declined markedly. One of the factors contributing to this decline has been aggressive tax avoidance by large, multistate corporations, costing states billions of dollars.⁶² The most effective approach to address corporate tax avoidance is combined reporting, a method of taxation that would make it harder for multistate and multinational corporations to avoid paying taxes and generate close to \$477 million in revenue.

**+\$500
million**

LEVERAGE REVENUE FROM THE 2021 GAMING COMPACT

The newly approved 2021 Gaming Compact between Florida and the Seminole Tribe includes a guaranteed minimum term payment of \$2.5 billion over the first five years.⁶³ The agreement ends on July 31, 2051, giving policymakers enough time to finance a rebate.

**+\$1
billion**

GIVE WORKING FLORIDIANS A REBATE BY INVESTING REVENUE FROM MODERNIZING ONLINE SALES TAXES

Recently, policymakers passed a bill to modernize the collection of online sales taxes — a measure expected to generate about \$1 billion annually. Unfortunately, the bill devotes the new revenue toward replenishing the Unemployment Compensation Trust Fund and reducing the tax on commercial rentals from 5.5 percent to 2 percent. In effect, the bill cancels out any revenue gains from modernizing online sales tax collection. Instead of giving businesses a tax break, policymakers could look to provide working Floridians a break by investing \$1 billion into a WFTR.⁶⁴

CONCLUSION

State legislators can seize the opportunity to invest in Florida's prosperity by enacting the Working Floridians Tax Rebate. This measure is an important step in boosting income for individuals and families in Florida who, although they are working and contributing to the economy, still struggle to make ends meet. People could use the rebate for any number of day-to-day necessities, like purchasing groceries or helping pay rent; additionally, parents might use these much-needed dollars to buy clothing, books, and other necessities for their kids.

The rebate is a targeted, ambitious, and affordable way to fix Florida's upside-down tax code from the bottom up, foster equity, keep people working, and help local communities and children thrive. It is clear from the experience of other states who enacted similar measures that this type of rebate can help forge a better path forward.



METHODOLOGICAL NOTES AND ACKNOWLEDGMENTS

- To estimate how much the Working Floridians Tax Rebate would cost and its local economic impact, this report uses the Center on Budget and Policy Priorities' (CBPP) three-step process for estimating the cost of a state EITC alongside statistics on the value of all federal EITC claims from the Internal Revenue Service and projections of future costs of the federal EITC from the Congressional Joint Committee on Taxation's.⁶⁵
- This material is based upon work supported by the Economic Opportunity Funders' State EITC Policy Development Fund.
- Special thanks to CBPP and ITEP, who assisted with research for this project, and The Hatcher Group, who provided assistance with communications and creative design.

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