Why such significant investments in child care?

One of the biggest obstacles facing low-income parents, especially single mothers, is how to ensure *quality child care for their kids while maintaining steady employment*. An additional obstacle for families that receive benefits like child care occurs when workers *succeed* in climbing the job ladder, experience an income increase, but lose the benefits that they still require to adequately cover their bills. Too often *it does not make sense for a working family member to get a better job earning more money only to lose this support for their family* – a breaking point often referred to as the benefits cliff. The most extreme example of the benefits cliff is seen in the Child Care Financial Assistance Program (CCFAP).

Furthermore, *child care providers are finding it difficult to accommodate the demand for their services*. The state subsidy to pay child care providers just hasn't kept pace with market rates – we are currently at 2008 rates – limiting the number of child care providers that will even take children whose families are receiving assistance.

Investing $17 million more into child care addresses those problems by increasing the rate paid to child care providers, helping support families as they work to get ahead and changing the benefits cliff into a benefits slope. More Vermont kids will gain access to high quality child care, and more parents will be able to return to work and to remain there.

Vermont is committed to helping low income families move out of poverty. The importance of getting all children off to a good start and making sure they arrive at school prepared to learn is clear. This reinvestment targets limited resources to where they will do the most good for low-income families with children, even as we make sure other state programs are doing what they should to help low income Vermonters – including food stamps, fuel assistance, state housing subsidies, and our health care plans.

The source of the $17 million is a portion of the VT Earned Income Tax Credit (EITC), which is $26 million. The rest of the Vermont EITC will remain place, as well as the full Federal EITC benefit. The net result of this change would be 15 percent of total EITC dollars redirected. We understand that there are winners and losers when change is made, but that this proposal will be effective in strengthening our benefit programs for the families that most need them.

Child Care Financial Assistance Program (CCFAP)

- There are approximately 5,900 families accessing child care subsidies for a total of 8,400 children.
- The total budget for CCFAP at this time is approximately $42 million, supporting 1/3 of the 30,000 child care slots in the state.
- At the 2012 Federal Poverty Level (FPL), a 2-person household (e.g. mother and one child) is earning approximately $15,500 at 100% FPL and $31,000 at 200% FPL. For a 3-person household, the comparable figures are $19,500 at 100% FPL and $37,000 at 200%.
- The current childcare subsidy goes from 100% (of 2008 rates) at 100% FPL down to 10% at 200% FPL.

Earned Income Tax Credit (EITC)

- The Federal EITC was created in 1975 and has since been expanded multiple times, most recently in 2009. The purpose of this program was to help low income families pay various taxes not covered by federal tax returns, such as sales tax and property tax. Vermont began our Earned Income Tax Credit in 1988 to supplement the Federal benefit for low-income Vermonters.
- Only 25 states have a State EITC program in addition to the Federal benefit. The range of benefit in these states is from 3.5% to 45% of the Federal benefit -- Vermont currently has the 2nd highest State Benefit, at 32%. The average across states with an EITC program is 17.7%.
- Vermont's EITC program has increased by 45% since 2004, increasing the cost from $12 million to the present day cost of almost $26 million. Since it is tied to the federal program, the expansion of the Vermont EITC has occurred with little review or revision by Vermonters.
- The total number of Vermont EITC recipients in 2011 was 44,908, with the benefit per filer averaging $2367, of which $574 was the state portion.

Proposal

- Adding $17 million to the CCFAP is an increase of approximately 40% to the program's total budget. This would allow Vermont to:
    - *Update the state Child Care Financial Assistance Program (CCFAP) rates from 2008 levels to 2010 levels, according to the Vermont Market Rate Survey*. *estimated at approximately $7.5 million*
        - Decreases net co-payments for all families participating. When CCFAP rates don't keep pace with what is charged in the child care market, families have to make up the difference between what DCF pays and what providers charge. *Co-pays currently are too high.* This rate change would drastically reduce co-pays.
        - Low rates of reimbursement in the subsidy program weaken the system and create disincentives for expanding capacity and quality. All of the regulated child care providers serving subsidized children will be paid more by DCF for the services they provide due to an increase in rates of reimbursement.
    - *Update income eligibility guidelines to 2013 Federal Poverty Levels* (FPL) (currently using 2009 FPL) *estimated at approximately $750,000*
        - Decreases the amount low income families have to pay for child care services. Working families at an income of 150 – 200% FPL (approximately $24,000 – $38,000 annually for a family of three) would pay about *half* as much as they pay now with a subsidy to access good quality child care for their children.
        - It is estimated that about 5000 of the 5900 families accessing child care subsidies now will pay less because of this change to the sliding fee scale.
        - *We estimate that approximately 928 more families (1300 more children) will access assistance once benefits are increased.*

    - *Increase the amount of assistance families receive as a Child Care Assistance benefit.* Currently the maximum benefit families receive at the top of the sliding fee scale (200% FPL) is a 10% benefit-- that means that DCF pays 10% of the state rate and families pay the rest. The Governor is proposing increasing the minimum benefit to 50% so that DCF will pay 50% of the state rate. *estimated at approximately $8.4 million*
- *We estimate that an additional 928 families, representing 1,300 children, would take advantage of CCFAP with this change in rate and subsidy benefit structure.*
    - We propose to use 2/3 of the current State EITC benefit, reinvesting $17 million from the current $26 million state supplement into the CCFAP. Considering both state and federal EITC together, the proposed reduction would be about 15% of the total EITC benefit to Vermont recipients.
    - The State EITC benefit would be reduced from 32% of the Federal EITC to 11%.
    - Current per filer average EITC benefit is $2367. With the proposed change, the average per filer benefit would be $1990. The current highest per filer benefit is $7631, which would reduce to $6417.
- One of the original purposes of the EITC was to make work possible and beneficial to low income earners. While it has worked for most eligible families, it has not worked for those with young children needing child care. The credit is the same for a family with a teenager earning money through part time jobs as it is for a family with a toddler and a child care bill in the thousands. This proposal would level the playing field.

Charts

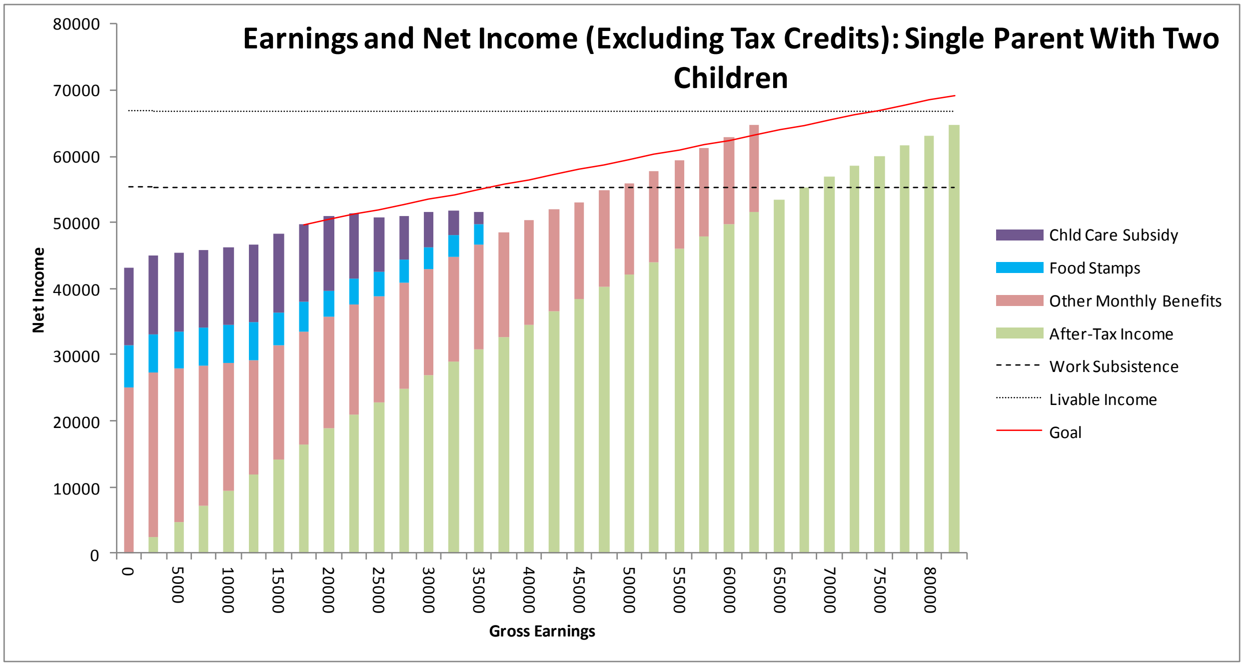
The below charts show the benefits cliff before and after implementation of the proposed investment.

The first chart, labeled "Current" shows that as gross earnings increase from $20,000 to $40,000, the total resources available ("Net Income") are level. Benefits, especially the childcare subsidy, decline almost dollar for dollar, leaving the family no better off. This has proven to be a disincentive to working and getting ahead.

The second chart ("Proposed") shows the effect of adding $17 million to the childcare subsidy. With this change, as a family earns more they will see an increase in total resources available.

The sloped line that goes up as the gross earnings go up is the goal: For each extra dollar of income, the line represents an increase of 30 cents in total resources available.

Current



Proposed