

# THE HIGH COST OF BEING POOR

## Statement of Principle

*The cost of child care contributes to the high cost of being poor for many low-income working families. Child care subsidies give families more purchasing power for child care, increasing the likelihood they can pay for higher quality early care and education. They also support parents' employment or education leading to more economically secure families. The right of all parents to choose the kind of care they want for their children is a fundamental value guiding policy at the federal and state level. Research shows that most parents would opt for higher quality programs if they could afford it. The cost of quality care and the lack of adequate funds to assist low-income families in accessing such care, however, mean that many of the children most in need of a quality early childhood program are denied access to those programs.*

This brief is one of a series of seven prepared for "The High Cost of Being Poor" forums, presenting strategies for advocating for low-income families. These forums and briefs are sponsored with generous funding from the Annie E. Casey Foundation by

- **Office of Justice and Peace, Catholic Diocese**
- **Virginia Interfaith Center for Public Policy**
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## Issue Brief #7

## Child Care Subsidies

### Overview

Child care subsidies can help low-income parents who are either working or in school afford child care. Subsidies are funded by the Virginia Department of Social Services through federal Temporary Assistance to Needy Families (TANF) and Child Care and Development Funds (CCDF) and state and local match funds.

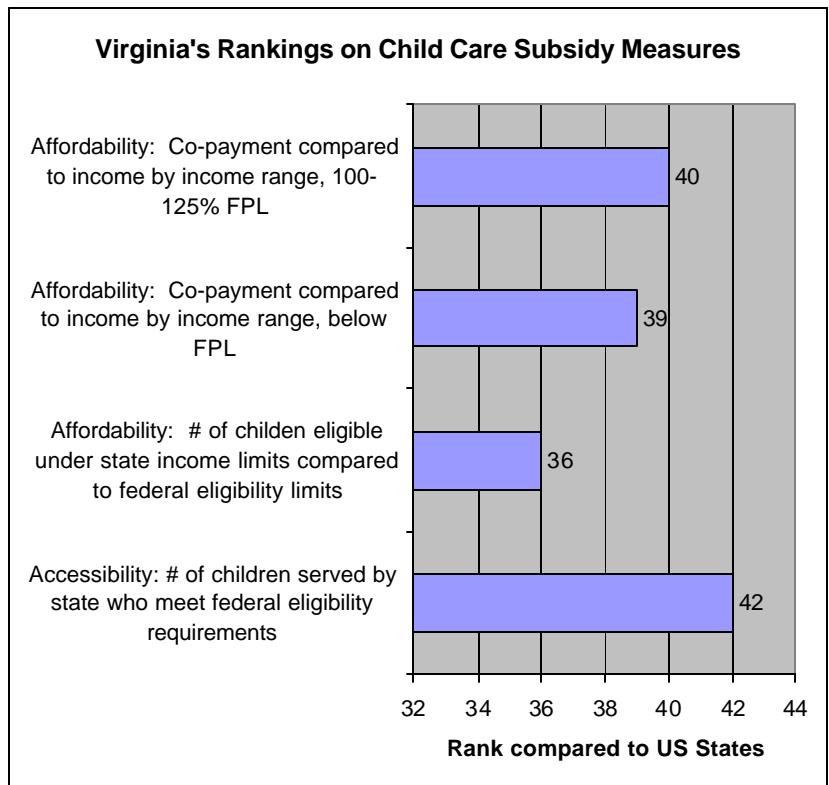
Less than 14% of those families eligible by Virginia standards actually receive assistance. This year Virginia will fail by \$10 million to appropriate enough general funds to fully provide matching funds from the state. Since Virginia, unlike most states, also requires localities to supply 10% of the match (the state provides 40%), many localities also fail to appropriate their full match. Some localities, notably Fairfax, provide funding above the minimum match.

**Income eligibility:** Federal guidelines allow subsidies for families whose income is up to 85% of the State Median Income (SMI). Virginia bases its eligibility levels, instead, on the federal poverty level (ranging from 150%-185% FPL depending on cost of living indices for different parts of the state). These levels equate to 37%-49% SMI depending on locality and family size. Virginia serves less than 7% of families eligible by federal guidelines. Because priority is given to families receiving TANF or those transitioning off TANF, most localities have little funding to meet the needs of equally low-income families. Ironically, lack of child care subsidies often precipitates working families losing their jobs and turning to welfare.

**Reimbursement rates:** The importance of parental choice is a core value of child care policy. To allow low-income parents the same ability to choose from as wide an array of child care choices as more affluent parents, federal guidelines recommend that the reimbursement rate to providers be set at the 75th percentile of the local market rate based on a survey conducted within the last two years. That is intended to allow low-income families to access three-fourths of the providers in their localities. Virginia does not meet this standard, with serious consequences of limiting parental choice and reducing the quality of child care available to all children in a community. With lower reimbursement rates, low income parents are not able to afford the higher quality care they desire, if it is more expensive. If providers accept rates lower than their customary charges and serve significant numbers of subsidized children, they may not be able to maintain the overall quality of their program because of reduced income.

## Data / Research

- In FY 2003 Virginia failed by over \$10 million to appropriate enough general fund dollars to fully meet the state match for federal Child Care Development Funds.
- Virginia ranks 42nd among the states in percent of children served by the state (6.96%) who meet maximum federal eligibility requirements.
- Virginia's income eligibility levels for child care subsidies are lower than 35 other states; less than half those eligible by federal income standards are eligible in Virginia.
- The co-pay required of families receiving subsidies is among the highest in the country (higher than 31-39 states depending on % of Federal Poverty Level (FPL)).
- Virginia has not required localities to maintain waiting lists with consistent criteria of families needing child care subsidies; therefore, there is no accurate measure of the unmet need for subsidies in the state.
- Child care subsidies more than pay for themselves. Research shows that every \$1 invested in child care subsidies generates about \$1.50 in economic activity.
- The quality and reliability of child care have significant impact on the employment outcomes of parents. The higher the quality, the more reliable, the longer periods of continuous employment for parents of children in those programs.
- As part of the current reauthorization process for TANF and the CCDF at the federal level, Congress is expected to decide in early 2004 whether or not to cut federal appropriations of child care subsidies. The most generous proposals still on the table would reduce federal funding for subsidies over the next five years.



## Recommendations

- Appropriate enough general fund dollars to fully draw down all the federal funds available through the CCDF.
- Transfer the full 30% of TANF funds allowable to the CCDF.
- Raise reimbursement rates to meet the cost of care for the 75th percentile of care in a locality according to a market rate survey conducted within the last two years.
- Institute a tiered reimbursement system to further support programs of higher quality that serve subsidized children.
- Learn the scope of the unmet need in Virginia. Implement a consistent method of tracking waiting lists in all localities. Publicize the subsidy program so parents will sign up.
- Develop public-private partnerships to engage the business community in expanding funding available in the subsidy system.
- At the federal level, increase CCDF funding in the current TANF reauthorization without requiring additional state matching funds.

Data Sources: The Early Education Partnership [www.daycarecouncil.org](http://www.daycarecouncil.org); The National Academies Press, [www.nap.edu/readingroom/books/findings/dochild.html](http://www.nap.edu/readingroom/books/findings/dochild.html); U.S. Department of Health and Human Services, ACF Child Care Bureau; Virginia Child Care and Development Fund Plan for FFY 2004-2005; Virginia Department of Social Services.