

# Why Vermont's Child-Care Subsidy Needs Fixing

By Jack Hoffman

Expanding access to quality child care has been the hot-button issue of the 2013 legislative session, and nearly all the fuss has swirled around the source of funding. Gov. Peter Shumlin wants to pay for more child care by taking money from low-wage working families that receive the state Earned Income Tax Credit. So far, the Legislature has rejected that idea. But many Vermonters, especially those who aren't familiar with the state's Child Care Financial Assistance Program (CCFAP), may wonder why funding for child-care services needs expanding at all.

There are two problems with the current program:

- *Insufficient subsidy amount:* The state's base subsidy is so low that it covers the rates charged by only 14 percent of licensed child-care providers. That severely limits access for parents who cannot afford to pay more than the state subsidy.
- *Outdated eligibility criteria:* Vermont uses old criteria for determining who can receive a subsidy. Therefore, many low-income families don't qualify and can't afford child care.

## Raise subsidies to improve access

The biggest problem with Vermont's child-care program is that the subsidy is so small. Two-thirds of the children in the program are from families at or below the federal poverty level, so those parents qualify for the full subsidy amount, which varies based on a child's age. However, even the full subsidy is below the rate that most licensed child-care providers charge. For example, only 14 percent of licensed providers have rates at or below the base subsidy Vermont pays for a pre-school child (3-5 years old), which is \$6,739 a year (**Figure 1**).

In many cases, providers with higher rates will accept the state subsidy and not ask parents to make up the difference.

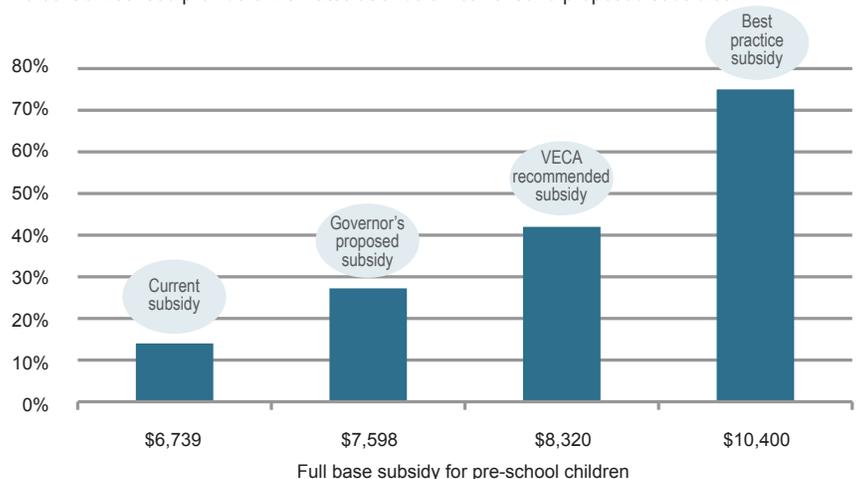
But just as some doctors don't treat Medicaid patients because the state payments are too low, some child-care providers can't afford to accept the state subsidy unless the parents make a copayment. This limits the availability of quality child care for the majority of families that rely on the state subsidy—the lowest-income families, whose children are most at risk of falling behind academically and have been shown to benefit most from quality child care and early education.<sup>1</sup>

The U.S. Department of Health and Human Services recommends state subsidies at the 75<sup>th</sup> percentile of market rate—that is, enough to cover rates charged by at least 75 percent of providers.<sup>2</sup> At 2012 market rates, that would be \$10,400 a year. The Vermont Early Childhood Alliance (VECA) wants the state to adopt the 75<sup>th</sup> percentile standard and move toward that goal in stages.<sup>3</sup> For fiscal 2014, VECA's recommended base subsidy is \$8,320 for care of pre-school children by a licensed provider, which would cover about 42 percent of providers at 2012 market rates. The Shumlin administration has recommended raising the base subsidy to \$7,598, which would cover about 27 percent of licensed providers at 2012 market rates.

FIGURE 1

## State Subsidy is Below Market Rate of Most Licensed Providers

Percent of licensed providers with rates at or below current and proposed subsidies



Data source: Department of Children and Families

Families with incomes that put them between 100 percent and 200 percent of poverty also qualify for child-care subsidies, but less than the full amount the state pays. Families are eligible for declining amounts as their incomes rise; a family at 200 percent of poverty—the maximum eligibility—can get only 10 percent of the full subsidy. The administration has proposed changes to the sliding fee scale so that families at 200 percent of poverty would qualify for half of the subsidy amount.

While there is general agreement between the administration and the Legislature about the need to increase state support for quality child care, they don't agree yet on how much more to spend or where the money should go: into increasing the base subsidy or adjusting the fee scale.

Increasing the base subsidy is the only way to improve access to quality child care for all families, especially those at or below 100 percent of poverty—two-thirds of the children in the assistance program. Changing the fee scale could correct a flaw in the system where families with incomes between 100 and 200 percent of poverty—the remaining third of children—find that as their incomes rise they lose more in child-care support than they gain in pay.

### Base eligibility on current poverty measures

Another problem with Vermont's child-care program is that it uses an outdated poverty measure, which means families that should be eligible for subsidies are excluded. Vermont uses 2009 federal poverty guidelines to determine eligibility. For 2013, the poverty line for a family of four is \$23,550 in gross income—\$1,500 higher than the level Vermont currently uses (**Table 1**). According to Census data, approximately 5,000 more children would meet the income criterion for the child-care subsidy if Vermont used the 2013 federal poverty guidelines.

TABLE 1

Federal Poverty Guidelines		
	2009	2013
First Person	\$10,830	\$11,490
Each Additional Person	\$3,740	\$4,020
Family of Four	\$22,050	\$23,550

Data source: U.S. Department of Health and Human Services

Neither the Legislature nor the administration anticipates this change alone would have much effect on the overall caseload as long as the subsidy for families at the maximum eligibility level is so low that few people take advantage of it. Nevertheless, the state should base its income criterion for the child-care subsidy on current poverty guidelines and update it each year.

To improve access to quality child care for all children living in poverty, both problems need to be addressed. The base subsidy should be higher, and the criteria for eligibility should keep up with current guidelines.

### ENDNOTES

<sup>1</sup> Arthur MacEwan, Political Economy Research Institute, "Early Childhood Education as an Essential Component of Economic Development," Jan. 2013; Daniel Berry, "High-quality Early Childcare = Later Academic Success?" Nov. 24, 2009.

<sup>2</sup> "2012 Vermont Child Care Market Rate Survey," p. 2, <http://dcf.vermont.gov/sites/dcf/files/pdf/cdd/care/Market%20Rate%20Survey%20Report%202012.pdf#page=2>

<sup>3</sup> [www.vermontearlychildhoodalliance.org](http://www.vermontearlychildhoodalliance.org)

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*This research was funded in part by the Annie E. Casey Foundation. We thank them for their support but acknowledge that the findings presented in this report are those of the Public Assets Institute and do not necessarily reflect the opinions of the Foundation.*