



UPDATING CALIFORNIA'S INCOME LIMIT FOR SUBSIDIZED CHILD CARE

Child care provides critical support for working families that helps parents retain employment, remain off welfare, and move toward self-sufficiency. California has not updated the child care income eligibility limit – the highest income at which a family qualifies for assistance with child care expenses – since 2000. In fact, as recently as 2003, California used the oldest income data of any state as a basis for establishing eligibility for subsidized child care. In 2000, the income limit was set at 75.0 percent of the state median income (SMI), adjusted for family size. However, because the state has frozen the income limit while the SMI has increased, the limit is now significantly lower than the actual SMI based on recent income data. The California Budget Project (CBP) estimates that the income limit would drop to 60.5 percent of the SMI if the state continues to freeze the limit in 2006-07. In contrast, if the income limit were updated, the CBP estimates that a family of three could have an income of up to \$43,536 per year – \$8,436 per year (24.0 percent) more than currently allowed – and remain eligible for child care assistance in 2006-07. Updating the limit would allow California's working families whose incomes rise to retain child care assistance for a longer period and to postpone paying fees until their incomes reach a higher level.

California offers assistance with child care expenses for families with children under age 13 through an array of programs that are projected to serve approximately 448,500 children in 2006-07.¹ Parents may apply for subsidized child care if they work, are seeking employment, or are engaged in vocational training.² Eligibility is limited to families with incomes at or below 75.0 percent of the state median income (SMI), adjusted for family size.³

California Has Not Adjusted the Income Limit for Subsidized Child Care Since 2000

California law requires the state to annually adjust the income eligibility limit for subsidized child care to reflect changes in the SMI.⁴ The state, however, has not adjusted this limit since September 2000, when it was set at \$2,925 per month (\$35,100 per year) for a family of three in 2000-01 based on 1998 California income data.⁵ As recently as 2003, California used the oldest income data of any state as a basis for establishing eligibility for subsidized child care (Table 1).⁶

Table 1: California Uses Oldest Income Data to Establish Eligibility for Subsidized Child Care, 10 Most Populous States, 2003

State	Income Data Year
Illinois	2004
Pennsylvania	2004
Florida	2003
Georgia	2003
Michigan	2003
New Jersey	2003
New York	2003
Ohio	2003
Texas	2003
California	1998

Note: Reflects state Child Care and Development Fund plans submitted in 2003 for federal fiscal years 2004 and 2005.
Source: Child Care Bureau, US Department of Health and Human Services

The SMI Has Increased by 24.0 Percent Since 1998

The SMI increased by 24.0 percent between 1998 and 2004, the most recent year for which California income data are available.⁷ Consequently, the income eligibility limit for subsidized child care would be 24.0 percent higher if it were adjusted to reflect this increase in 2006-07. The CBP estimates that a family of three could have an income of up to \$43,536 per year – \$8,436 more per year than currently allowed – and remain eligible for subsidized child care in 2006-07 if the income limit were updated (Table 2). A family of three could have an income of up to \$3,628 per month – \$703 more per month than currently allowed – and remain eligible in 2006-07 if the income limit were brought up-to-date.⁸

Table 2: Current Income Eligibility Limit for Subsidized Child Care Compared to Estimated Income Limit for 2006-07 for a Family of Three

Current Income Limit (Implemented in 2000-01)		Estimated Income Limit in 2006-07 if Adjusted to Reflect Increase in State Median Income*		Dollar Difference		Percent Difference	
Monthly	Annual	Monthly	Annual	Monthly	Annual	Monthly	Annual
\$2,925	\$35,100	\$3,628	\$43,536	\$703	\$8,436	24.0%	24.0%

* The estimated income eligibility limit is a CBP calculation that is equal to 75.0 percent of the state median income for a four-person family in 2004, adjusted to reflect a three-person family. The adjustment for a three-person family applies a methodology that the California Department of Education used in 2000 to establish the current income eligibility limit.

Source: California Department of Education and CBP analysis of Current Population Survey data

Income Limit Would Drop to 60.5 Percent of the SMI if State Continues to Freeze the Limit in 2006-07

The 2000-01 income eligibility limit was set at 75.0 percent of the SMI adjusted for family size, as required by state law, based on 1998 income data.⁹ However, the state has frozen the income limit for five consecutive fiscal years, while the SMI has increased. As a result, the income limit is now significantly lower than 75.0 percent of the actual SMI. The CBP estimates that the income limit would drop to 60.5 percent of the SMI if the state freezes the limit in 2006-07 (Table 3).¹⁰

About 312,000 Additional Families Would Meet the Income Requirement if State Updated Income Limit

Approximately 1.6 million California families with children under age 13 have incomes at or below the current income eligibility limit for child care assistance. Approximately 312,000 additional families with children under age 13 would meet the income requirement if the state increased the limit to reflect

Table 3: California's Income Eligibility Limit for Subsidized Child Care Compared to State Median Income (SMI) for a Family of Three

2000-01		2006-07	
Income Limit for Subsidized Child Care	Income Limit as a Percentage of SMI (\$46,800)	Income Limit for Subsidized Child Care*	Income Limit as a Percentage of SMI (\$58,056)
\$35,100	75.0%	\$35,100	60.5%

* Assumes the state continues to freeze the income eligibility limit for subsidized child care.

Note: The SMI for 2000-01 reflects the state median income for a four-person family in 1998, as determined by the Department of Finance, adjusted by the California Department of Education (CDE) to reflect a three-person family. The SMI for 2006-07 is a CBP calculation that reflects the state median income for a four-person family in 2004, adjusted to reflect a three-person family. The adjustment for a three-person family applies a methodology that the CDE used in 2000 to establish the current income eligibility limit.

Source: CBP analysis of California Department of Education and Current Population Survey data

increases in the SMI since 1998.¹¹ However, extending eligibility to working families with higher incomes would not necessarily increase the number of children receiving subsidized child care absent additional funding.¹² This is because the state prioritizes child care for families with the lowest incomes, and many currently eligible families are unable to receive assistance due to insufficient funding.¹³ Nonetheless, increasing the income limit would better reflect working families' need for child care, as well as underscore the current funding gap, which precludes many eligible families from receiving assistance.

Governor Proposes Workgroup to Update Income Limit Without Increasing the State's Costs

The Governor's Proposed 2006-07 Budget includes a proposal to convene a workgroup to update the current income eligibility limit.¹⁴ The Governor's proposal would maintain the current limit until a new income eligibility threshold is implemented. However, the Governor proposes to update the income limit in a manner that would not increase the state's costs or decrease the number of child care slots. In order to update the current limit within these constraints, fees likely would need to be increased and/or expanded to more families to offset additional expenditures, since some families would receive child care subsidies for a longer period than if the current limit were maintained.

Failure to Increase the Income Limit Has Consequences for Working Families

The state's failure to increase the income limit for subsidized child care has consequences for California's working families. Specifically:

- **Families receiving subsidized child care lose eligibility at a lower income than they would if the income eligibility limit were increased.** Currently, a family of three loses eligibility for subsidized child care when its income exceeds \$2,925 per month (\$35,100 per year). If the income limit were updated to reflect more recent income data, a family of three could earn up to \$3,628 per month (\$43,536 per year) and remain eligible for child care assistance. Working families' loss of child care assistance above the current threshold means that more families must pay the full cost of their child care or seek less costly and potentially less stable arrangements, and that families who have left public assistance risk returning to aid due to the high cost of child care.¹⁵

Child care makes up a significant portion of many working families' expenses. The average annual cost of full-time, licensed care for a preschool-aged child in California was \$7,485 in 2004-05, the most recent year for which data are available.¹⁶ A family of three with an annual income of \$35,101 in 2004-05 – \$1 above the income limit for subsidized child care – would have spent more than one-fifth (21.3 percent) of its income to purchase full-time, licensed care for one preschool-aged child. In contrast, a family with an annual income of \$35,100 receiving child care assistance currently pays \$2,730 per year (7.8 percent of the family's annual income) for full-time care.¹⁷

- **Families receiving subsidized child care pay fees starting at a lower income than they would if the income eligibility limit were increased.** Families begin to pay graduated fees for subsidized child care when their incomes reach 50 percent

of the SMI for their family size. Fees range from a minimum of \$2.00 per day to a maximum of \$10.50 per day for full-time care. Currently, a family of three begins to pay fees when its income reaches \$1,950 per month (\$23,400 per year) – 141.0 percent of the federal poverty level (FPL) in 2006. In contrast, a family of three would not begin to pay fees until its income reached \$2,419 per month (\$29,028 per year) – 174.9 percent of the FPL in 2006 – if the income limit were adjusted in 2006-07 to reflect the increase in the SMI.

Conclusion

California's system of subsidized child care provides critical support for working families by allowing families to retain employment and remain off welfare. The state, however, has not updated the income eligibility limit since 2000, causing many families to lose access to child care assistance at a lower income than if the limit were adjusted, as required by state law. The Governor's proposal to update the current income limit in a cost-neutral manner implies that fees would be increased and/or expanded to more families to offset additional expenditures, since some families would receive child care subsidies for a longer period. At the same time, the Governor proposes substantial funding increases in 2006-07 for a range of other programs and services. Policymakers should consider increasing the state's investment in its subsidized child care system to update the income eligibility limit, maintain reasonable family fees, and reduce the number of eligible children who are waiting for subsidized child care due to limited state and federal funding.

Scott Graves and Alissa Anderson Garcia prepared this Budget Brief. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's website at www.cbp.org.

ENDNOTES

- ¹ Children with disabilities may receive subsidized child care through age 21 (if state funds are used) and through age 18 (if federal funds are used). See California Budget Project, *California's Child Care and Development System* (April 2005) for an overview of the state's subsidized child care system.
- ² In addition, families currently or formerly enrolled in the California Work Opportunity and Responsibility to Kids (CalWORKs) Program – the state's welfare-to-work program – are eligible to receive subsidized child care if they are working or participating in work-related activities. Families also may qualify for subsidized child care if the parents are “seeking permanent housing for family stability” or are incapacitated, or if the child is a recipient of protective services or is at risk of abuse or neglect (Education Code, Section 8263(a)(2)). First priority for subsidized child care is given to children receiving child protective services or who are at risk of abuse or neglect; second priority is given to all income-eligible families. Within the second priority, families with the lowest gross monthly income in relation to family size receive services first (Education Code, Section 8263(b)).
- ³ Certain income is excluded in determining eligibility for subsidized child care, including child support paid by a parent and the earnings of a child under 18 years old. In addition, California children who are in families receiving CalWORKs cash assistance (who generally have very low incomes), in homeless families, or who have been abused or neglected or are at risk of abuse or neglect, qualify for several programs without respect to income (Education Code, Section 8263(a)(1)).
- ⁴ State law requires the Department of Finance to update the SMI for a four-person family based on the “best available data” by March 1 of each year. State law requires the California Department of Education to use this four-person SMI to adjust the Family Fee Schedule – which includes the income eligibility limit for subsidized child

care – for families of various sizes (California Education Code, Section 8447(e)). In 2000, the last time the Family Fee Schedule was updated, the SMI for a four-person family was derived from California income data collected by the US Census Bureau.

⁵ The income limit varies according to family size. For example, the income limit for a four-person family was set at \$3,250 per month (\$39,000 per year) in 2000-01. The income limit was frozen administratively in 2001-02 and 2002-03 and in the state budget between 2003-04 and 2005-06.

⁶ Child Care Bureau, US Department of Health and Human Services, *Child Care and Development Fund Report of State Plans FY 2004-2005* (October 2004).

⁷ This reflects growth in the state median income for a four-person family from \$52,000 in 1998 to \$64,500 in 2004.

⁸ CBP analysis of Current Population Survey data.

⁹ Eligibility for assistance funded with federal Child Care and Development Fund dollars is limited to families with incomes at or below 85 percent of each state's SMI. Most states, including California, set their income eligibility threshold below this federal limit.

¹⁰ CBP analysis of California Department of Education and Current Population Survey data.

¹¹ CBP analysis of Current Population Survey data. This estimate reflects the number of families with at least one child under age 13 who had annual incomes in 2004 that were higher than the current child care income limit by family size, but less than or equal to the income limit for that family size adjusted to reflect 2004 California income data. This estimate does not reflect the number of families who would qualify for subsidized child care or would use such services if they were eligible. For example, some of the estimated 312,000 families may not have an adult who is working or in work-related activities, or may have one adult working but an able-bodied adult at home, and therefore would not qualify for child care assistance. In addition, some families may be eligible for subsidized child care, but forego such assistance. Research on child care used by CalWORKs families indicates that many families do not use the child care to which they are entitled. These families appear to use the help of friends and family members, or have work schedules that permit parent care.

¹² On the other hand, increasing the income eligibility limit would allow families currently receiving child care assistance whose incomes rise to receive assistance for a longer period, as noted above.

¹³ The state does not track the number of eligible children waiting for subsidized child care. However, studies indicate that more than 200,000 California children are eligible for and need subsidized child care beyond the number that can be served with state and federal funding. See California Budget Project, *California's Child Care and Development System* (April 2005) and *How Many Children Need Subsidized Child Care in California?* (March 28, 2001).

¹⁴ The workgroup would consist of representatives from the Administration, the Legislature, and the California Department of Education.

¹⁵ Hannah Matthews, *Child Care Assistance Helps Families Work: A Review of the Effects of Subsidy Receipt on Employment* (Center for Law and Social Policy: April 3, 2006). See also *Breaking the Piggy Bank: Parents and the High Price of Child Care* (National Association of Child Care Resource and Referral Agencies: February 2006).

¹⁶ California Child Care Resource & Referral Network, *2005 California Child Care Portfolio* (January 2006). Preschool-aged children are defined as those between the ages of 2 and 5.

¹⁷ Assumes full-time care, five days per week, 52 weeks per year. Families with annual incomes between \$34,633 and \$35,100 pay a fee of \$10.50 per day for full-time care.