

Pennsylvania's Child Care Subsidy: Strengthening Children, Families and the Economy

Spotlight on Southeastern Pennsylvania

Pennsylvania's child care subsidy program...

- Is an investment with proven returns for our economy and families.
- Must be supported at a level that meets the true needs of Pennsylvania's working families.
- Should be protected during an uncertain economic recovery.
- Can be maintained using the state's available surplus and raising new revenue -- if we have the political will.

Safe, effective child care is key to parents' participation in the workforce and children's school readiness. Good child care is not only hard to find; it is beyond the reach of most low-income parents, who comprise the largest share of the state's workforce. In the five county Southeastern Pennsylvania region, these working parents spend up to a quarter of their earnings on child care.¹

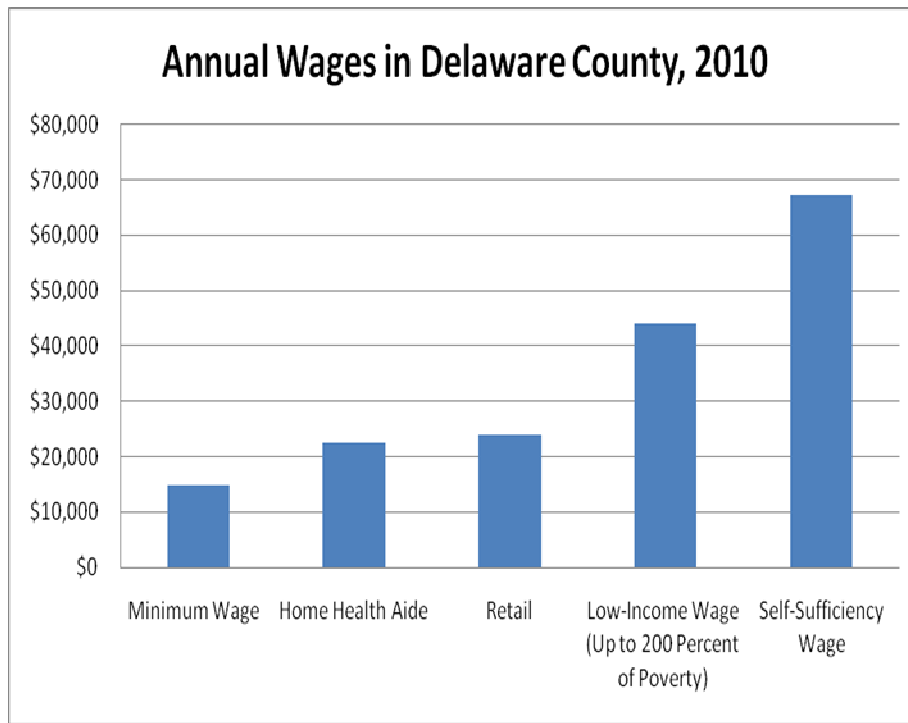
To help these families close the gap between low wages and expenses, Pennsylvania provides child care subsidy to eligible families. Subsidy is available to working families whose incomes are below 200 percent of the federal poverty level (\$44,700 for a family of four) when they apply, as well as to families participating in work, education and/or training in the state welfare program (TANF). Families can continue to receive subsidy until they reach 235 percent of poverty. The subsidy is paid directly to the child care provider and families make a weekly co-payment that varies depending on their income.²

Providing a high return on investment for parents and their children, child care subsidy is an indispensable tool for moving families into the middle class. Reducing the number of families who qualify for subsidy poses a direct threat to Pennsylvania's economic recovery and long-term competitiveness.

The Need

Families' need for child care subsidy continually exceeds the availability of this valuable support. Before the recession began 39 percent of Pennsylvania's children age birth to five were low-income, yet only 9.5 percent – *one in four* – received child care subsidy. Other qualified children languished on waiting lists, and continue to do so today. Although the size of the waiting list varies considerably across Pennsylvania, children waited an average of 4.7 months before receiving subsidy. Southeastern Pennsylvania families fared considerably worse, waiting an average of 12 months before receiving subsidy.³

In Pennsylvania the need for child care subsidy has grown as the share of low-wage jobs has increased dramatically over the past two generations. As the state has lost well-paying manufacturing jobs, these have been replaced with employment in the retail and service sectors that pay much lower wages. For example, average retail wages pay only 46 percent of Pennsylvania's median wage. Average salaries in the service sector pay 37 percent of the median wage.⁴ Southeastern Pennsylvania residents, especially those in the four suburban counties, have the highest cost of living in Pennsylvania.



<i>Occupation⁷</i>	<i>Annual Wages (2010)</i>
<i>Registered Nurse</i>	<i>\$70,706</i>
<i>Food Preparation and Service</i>	<i>\$22,419</i>
<i>Home Health Aide</i>	<i>\$23,623</i>
<i>Customer Service Representative</i>	<i>\$36,394</i>
<i>Personal and Home Health Aide</i>	<i>\$25,806</i>
<i>Retail Salesperson</i>	<i>\$26,969</i>
<i>Nurses' Aide</i>	<i>\$26,948</i>
<i>Medical Assistant</i>	<i>\$31,232</i>
<i>Waiters and Waitresses</i>	<i>\$20,747</i>

Using Delaware County as an example, the graph above compares annual minimum, service and retail wages with the cost of living. The graph

shows that retail and service jobs pay little more than a third of what it costs to meet basic expenses for a family of four in Delaware County.⁵ This example highlights home health aides and retail salespeople because these are two occupations projected to experience the highest growth in Southeastern Pennsylvania and statewide. (Others are shown on the left.) Now and in the foreseeable future a high proportion of parents who receive child care subsidy are likely to be employed in retail and service occupations, earning far less than the federal definition of low-income or self-sufficiency wages.⁶ Parents in these occupations require additional supports to move into the middle class.

The Impact of Child Care Subsidy

Pennsylvania's child care subsidy is designed to help families narrow the gap between low wages and basic expenses by assisting them with child care costs. This has immediate benefits for children, increasing the likelihood that they participate in licensed, high quality early learning experiences that prepare them for the elementary grades.

As a result of information provided to subsidy recipients, 52 percent choose to enroll their children in child care programs participating in Keystone STARS, Pennsylvania's child care quality improvement program. Nearly every pre-school child who has participated in

Keystone STAR 3 and 4 programs over the past two years has shown age-appropriate or emerging age-appropriate language, math and social skills.⁸

The subsidy program also has a significant impact on Pennsylvania's economy. Every dollar invested in child care causes \$2.17 to circulate through the state's economy in the short-term as a result of increased employment, greater productivity and more spending. Comparing this multiplier across all 50 states, Cornell University economists have determined that it is highest in Pennsylvania and other states that have a commitment to high quality child care. They have also found the multiplier for child care is higher than it is for agriculture, manufacturing or services.⁹

Research on subsidy recipients in Philadelphia shows that the program enables parents to retain jobs longer and earn higher salaries than those without it.¹⁰ Statewide, most families – 57.4 percent – use subsidy for two years or less, which enables them to establish greater financial stability and progress toward self-sufficiency.

Child care subsidy has long-term economic benefits as well. In addition to increasing the likelihood that parents will enroll their children in Keystone STARS, subsidy enables parents who work full-time to enroll their children in early learning programs that are only open during

the traditional school day, including Pre-K Counts and Head Start. Every dollar invested in programs such as these saves the public on future special education, grade retention, juvenile justice and welfare costs. Graduates perform better in school, require less special education and remediation, and have higher graduation and employment rates than their peers. Nobel laureate James Heckman and other prominent economists conclude that high quality early learning programs have a 16 percent return on investment, much higher than most conventional investments.¹¹

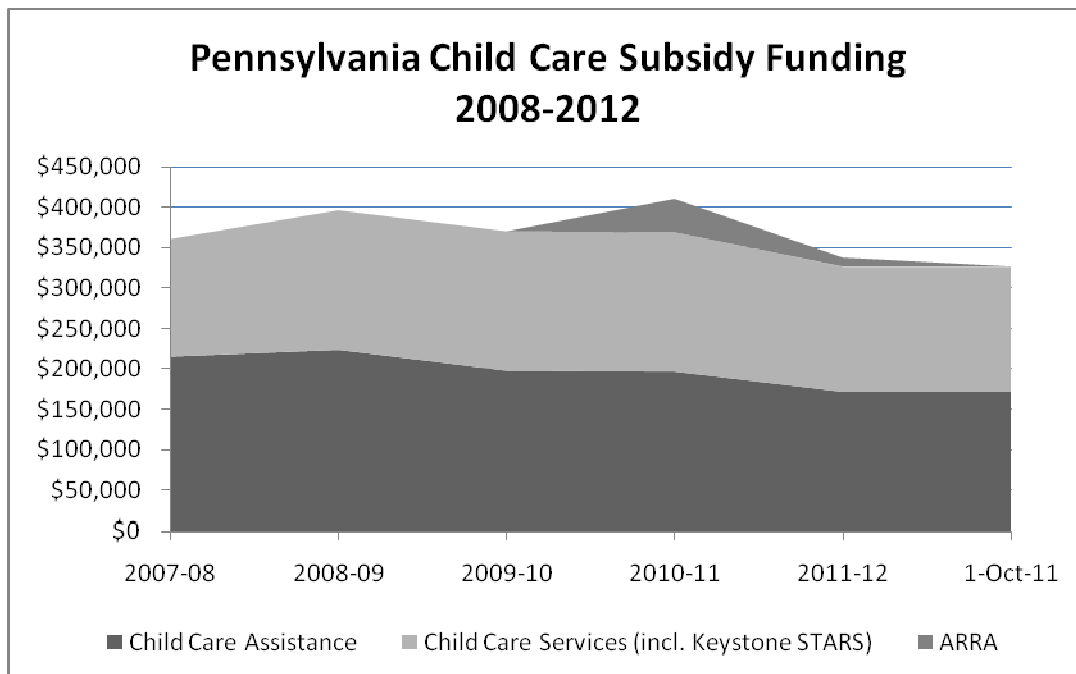
The Recession

The recent recession increased demand for child care subsidy in Pennsylvania. While growing unemployment disqualified some parents from receiving subsidy, *underemployment* nearly doubled, resulting in lower family incomes and an unprecedented number applying for subsidy, many for the first time.¹²

Federal economic stimulus funds helped Pennsylvania meet this increased demand. The American Recovery and Reinvestment Act (ARRA) met the needs of 7,150

children over the course of 19 months beginning in April, 2009, ensuring that Pennsylvania was able to continue providing support to almost one in four young children who needed it.¹³

However, state support for child care subsidy decreased by \$42.5 million during the same period, reducing Pennsylvania’s capacity to meet the needs of working parents once ARRA funds expire in September, 2011. The graph below shows the role of ARRA funds and simultaneous erosion of baseline child care funding from the state.¹⁴



Today Pennsylvania’s support for child care subsidy is at its lowest point since 2006-2007. Although the recession officially ended in 2009, job growth is still lagging: 18 percent fewer Pennsylvanians had jobs in July, 2011 than at the start of the recession. Both the duration of unem-

ployment and the length of time families use subsidy have lengthened since the recession began, as parents struggle to cobble together family-sustaining wages.¹⁵ Aside from construction, unemployment is highest in the sales and service sectors.¹⁶

When working parents cannot afford child care, they resort to one or more unsuitable options. Some delay returning to the workforce, slowing their families' progress toward financial independence. Others enroll their children in less expensive, unlicensed and often poor quality care. At best children miss out on developing school readiness skills; at worst this threatens their safety and well-being. Still other parents are forced to rely on a

patchwork of child care arrangements that may include care from an older sibling or other relative, a neighbor and child care on different days of the week. These often - patchwork arrangements not only deprive young children of the stability and secure attachments they require, but also compromise employee reliability and workforce stability when precarious child care arrangements fall through.

Now is the Time to Protect Access to Child Care Subsidy

Pennsylvania is one of many states that chose to balance its 2011-2012 budget with spending cuts. Cutting services slows economic recovery by increasing unemployment in the public, private and non-profit sectors.¹⁷ New research from the Center for American Progress reveals that state spending cuts from December 2007 through 2010 were associated with higher unemployment, greater losses in private employment and slower economic

growth than states that increased spending during the same period.¹⁸ From 2007-2010 Pennsylvania increased general fund spending minimally. However, in 2011-2012 the state reversed course, cutting overall spending by 3.4 percent and jeopardizing Pennsylvania's already-fragile recovery.¹⁹ Child care subsidy, with its proven short- and long-term economic benefits, sustained a disproportionately large cut of 11.5 percent. Further efforts to restrict working families' eligibility will be detrimental to Pennsylvania's economy and its children. Now is the time to protect access to child care subsidy.

Recommendations

Instead of allowing support for Pennsylvania's child care subsidy program to continue to erode, Public Citizens for Children and Youth (PCCY) urges elected officials to invest in children, families and the state's economy. They should:

- Increase the share of eligible children from working families who receive subsidy.
- Ensure that no eligible family waits more than three months before receiving subsidy.
- Preserve existing income eligibility thresholds for child care subsidy.
- Increase service dollars by creating administrative efficiencies.

Re-certify income eligibility on an annual, rather than semi-annual basis, while Pennsylvania's economic recovery remains fragile.

Phase in income eligibility thresholds over the long-term that are tied to the local cost of living, to reflect widespread economic disparities among counties and target service dollars more effectively.

- Maximize Pennsylvania's return on investment in early learning by ensuring that subsidy families continue to receive information about quality child care options.
- Instead of relying on a cuts-only approach to balancing Pennsylvania's budget, use available surplus funds and raise new revenue to avoid jeopardizing child care subsidy and other services that help families move into the middle class and increase the state's competitiveness.

As Pennsylvania's oldest child advocacy organization, PCCY has learned from more than 30 years' experience that targeted economic supports – including Pennsylvania's child care subsidy program -- are in the best interests of the state's children, families, and the economy

Where We Are Now	Where We Need to Be
One in four children from qualified working families receives child care subsidy	Half of all children from qualified working families should receive child care subsidy
Families wait an average of 12 months in Southeastern Pennsylvania	Families should wait no more than three months
Working families can qualify for subsidy if they earn up to 200 percent of the federal poverty level when they apply	Eligibility should be tied to the local cost of living
Elected officials balance the budget using cuts alone	Elected officials should balance the budget using a combination of cuts, revenue increases and by closing tax loopholes

Endnotes

¹ Low-income is defined in this report as 200 percent of poverty based on the Federal Poverty Income Guidelines. Child care as a percentage of family income is based on a low-income family of four that earns \$44,700 in 2011 and enrolls one infant and one pre-school child in full-time, center-based child care according to the 2011 Maximum Child Care Allowances published by the Pennsylvania Department of Public Welfare. Percentage is the average across Bucks, Chester, Delaware, Montgomery Counties and Philadelphia (the "Southeastern Pennsylvania region").

² The Pennsylvania Department of Public Welfare plans to increase copayments in fall, 2011; at this writing the new co-payment schedule is not available.

³ 2006-2008 income data based on three year averages, Current Population Survey, Annual Social and Economic Supplement, U.S. Census Bureau. Number of children who received child care subsidy from Reach and Risk Report, 2007-2008, Pennsylvania Office of Child Development and Early Learning (OCDEL). Average wait times are from March, 2009, the last month before Pennsylvania received a temporary infusion of funds through the American Recovery and Reinvestment Act (ARRA) designated by Congress to support child care subsidy. These funds expire on September 30, 2011.

⁴ Pearce, Diana, *The Self-Sufficiency Standard for Pennsylvania 2010-2011, 7th Edition*, Pathways PA, May 2010, p.3

⁵ Annual minimum wage is calculated on the basis of a 40-hour work week, 51 weeks a year. Home health and retail estimates are based on median wages, also based on a 40-hour week, 51 weeks a year. Center for Workforce Information and Analysis, Pennsylvania Bureau of Labor and Industry, May 2010. Cost of living information is based on a two parent family with two children, one preschool age and the other school age. It assumes families pay for essentials including groceries, housing, transportation, child care and taxes without third-party government support, minus value of tax credits. It does not include the cost of discretionary items such as prepared food, recreation or entertainment. Pearce, Diana, *The Self-Sufficiency Standard for Pennsylvania 2010-2011, 7th Edition*, Pathways PA, May 2010.

⁶ Cauthen, Nancy, *When Work Doesn't Pay: What Every Policymaker Should Know*, National Center for Children in Poverty, National Center for Children in Poverty, Mailman School of Public Health, Columbia University, June 2006

⁷ May 2010 Metropolitan and Nonmetropolitan Area Occupational Employment and Wage Estimates, Philadelphia, PA Metropolitan Division, U.S. Department of Labor, Bureau of Labor Statistics.

⁸ *Preschoolers in Keystone STAR 3 and 4 programs make impressive progress, ready for kindergarten*, OCDEL, June 2011

⁹ Child Care Multipliers: Analysis from Fifty States Zhilin Liu, Rosaria Ribeiro and Mildred Warner, Linking Economic Development and Child Care Research Project, Cornell University, 2004

¹⁰ Shlay, A. B., Weinraub, M., & Harmon, M., *Leaving welfare for employment: The role of child care subsidies for White, Hispanic and African American families*. Philadelphia, PA: Temple University, Family and Children's Policy Collaborative, 2007

¹¹ Grunewald, Rob and Art Rolnick, *Early Childhood Development: Economic Development with a High Public Return* FedGazette, March 1, 2003; Heckman, James J., *The Heckman Equation: Schools, Skills and Synapses*, <http://www.heckmanequation.org/content/resource/presenting-heckman-equation>

¹² Bureau of Labor Statistics, Local Area Unemployment Statistics, 2007 Average Annual Unemployment Rate for Pennsylvania – U-6 Underemployment 7.7%; March 2011 Unemployment Rate for Pennsylvania, U-6 Underemployment 14.1%..

¹³ 2008-2010 income data based on three year averages, Current Population Survey, Annual Social and Economic Supplement, U.S. Census Bureau. Percentage of children who received child care subsidy from Reach and Risk Report, 2009-2010, OCDEL.

¹⁴ Data in figure 4 based on enacted budgets from 2007-2008 through 2011-2012 and do not reflect mid-year budget revisions. Child care subsidy is funded by two line items in the state budget: Child Care Services, which includes a small amount of money for Keystone STARS, and Child Care Assistance.

¹⁵ The number of families that utilize subsidy for more than two years has increased more than 17 percent since the recession began. Source: OCDEL.

¹⁶ Pennsylvania Department of Labor and Industry, *A Profile of Pennsylvania's Unemployed People*, p. 10, Center for Workforce Information and Analysis, September, 2010.

¹⁷ Williams, Erica, Michael Leachman and Nicholas Johnson, *State Budget Cuts in the New Fiscal Year Are Unnecessarily Harmful*, Center on Budget and Policy Priorities, July 28, 2011.

¹⁸ Hersh, Adam, *Conservative Budget Cuts Bad for State Economies*, Center for American Progress, June 27, 2011.

¹⁹ Herzenberg, Stephen and Mark Price, *State Spending Cuts Kill Private Sector Jobs and Raise Unemployment*, Keystone Research Center, July 19, 2011.

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About PCCY: Founded in 1980, Public Citizens for Children and Youth (PCCY) serves as the region's leading child advocacy organization and works to improve the lives and life chances of its children. Through thoughtful and informed advocacy, community education, targeted service projects and budget analysis, PCCY seeks to watch out and speak out for children and families.



PCCY undertakes specific and focused projects in areas affecting the healthy growth and development of children, including child care, public education, child health, juvenile justice and child welfare.

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