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A Step Up, But Not Out

Tracking the Poverty and Income Impacts of Child Care Subsidies

Research Brief — Summer 2007

By Peter Huffaker and April Brownlow

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Table of Contents

Executive Summary

The welfare system was transformed during the past decade starting with the Clinton-era reforms. Across the country and within Los Angeles County, welfare caseloads have declined. But the broader goal of helping families escape poverty remains elusive. Providing access to subsidized child care was a critical component of the broader reform strategy of helping families enter the workforce and escape poverty.

Crystal Stairs, Inc. plays a central role in helping eligible families access child care in the South Los Angeles area and requested this analysis to better understand the impacts of these subsidies on family income. Between 2000 and 2005, Crystal Stairs processed more than 1.1 million claims totaling $500 million paid to over 15,600 child care providers caring for over 42,600 children. For the first time, data from all of these records was analyzed to better understand how child care subsidies impact the poverty levels and incomes of recipient families.

"Child Care Subsidies Directly Decreased Poverty Rates by 10% to 30%"

From an income perspective (as opposed to a child development perspective) the potential benefits of child care subsidies for low-income families can be grouped into two broad categories:

1. Child care subsidies act as a direct supplement to a family's total income.
2. Child care subsidies make it possible for parents to begin work, increase their work hours, or attend training, thus enabling parents to increase their earning potential.

Crystal Stairs' data was analyzed to measure the extent to which these potential benefits are made real. The data tells two stories. First, for families entering the workforce there were significant jumps in income and corresponding reductions in poverty. Further, child care subsidies directly decreased poverty rates by 10% to 30%. The second story, however, was not so positive. The data showed that once parents entered the workforce there was no evidence of continued income growth and even some evidence of declining incomes. Typically, parents were employed with near poverty level incomes and for many; the child care subsidy was the difference that allowed families to remain in the workforce and survive above the poverty level.

These findings, though disappointing, are not surprising given the broader labor market conditions for low-skilled workers. Wages for low-skilled workers in Los Angeles County have been stagnant over the last decade.[1] Under such conditions, it would be surprising to see significant increases in the incomes of parents transitioning off of welfare. The current mix of welfare-to-work supports, including child care subsidies, appears insufficient to help parents overcome the challenges presented by these economic conditions.

Recommendation

For those responsible for the implementation of child care support programs, this analysis indicates a need to pay closer attention to the broader anti-poverty efforts of which child care subsidies are a component. For the most part, the data is already being collected that would allow Alternative Payment agencies and the State of California to track poverty levels and income changes for families participating in the program.

"Policy Makers and implementers alike must focus on the broader goal of helping families escape poverty — not just leave welfare."

We recommend that this operational data be transformed into periodic "Poverty and Income Impact Reports" (a one-page sample report appears after the conclusion). The report would highlight the trends identified in this analysis and prompt additional efforts to find ways of increasing the earning potential of parents. Making such data more widely available will help keep policy makers and implementers alike focused on the broader goal of helping families escape poverty – not just leave welfare.

Background

The welfare reform efforts of the mid to late 90's established significant child care supports. California's welfare reform program (CalWORKs) provides child care in three different stages. Stage 1 funding is intended for families beginning to transition off of CalWORKs or Temporary Assistance to Needy Families (TANF), as it is called at the federal level. Once families become more stable, they are transitioned to Stage 2 and can remain on Stage 2 until two years after they have left CalWORKs. Families then move to Stage 3 where they can continue to receive child care subsidies as long as they meet the income and other program requirements (and the state continues to fund the program). Ideally, the movement between the three stages is seamless, but Stage 1 regulations are set by the California Department of Social Services and Stage 2 and 3 regulations are set by the California Department of Education.

All three stages are managed as voucher programs, called the CalWORKs Alternative Payment Programs. Eighty-seven different organizations across California administer the CalWORKs Alternative Payment Programs on the local level including county welfare agencies, local school districts, and non-profit agencies. Under this system, eligible families apply directly to the administering organization for certification and can pick nearly any child care provider that meets their needs including licensed child care centers, licensed family child care homes, and even a friend or family member who is exempt from the requirement of licensure (license-exempt). Typically, child care providers are paid for their services directly from the administering organization. In addition, some families are required to pay fees on a sliding scale depending on their income or make co-payments to the provider if the provider charges more than the administering organization can pay. To qualify, parents must have incomes less than 75% of the state median income, have children under

13, have a need for child care (e.g. working, training, seeking work), and meet a host of other requirements.

There is another Alternative Payment Program which pre-dates welfare reform and is open to all low-income families regardless of whether the family received CalWORKs. Funding for this program is significantly limited compared to Stage 1, 2, and 3. As a result, there is a sizable waiting list for this program.

Crystal Stairs, Inc. administers the Alternative Payment Programs for the South Los Angeles area, as well as the surrounding cities of Inglewood, Lawndale, Hawthorne, and Gardena. Founded in 1980, Crystal Stairs is one of the largest nonprofit child care and development corporations in California. Funded primarily through government contracts, Crystal Stairs provides a variety of child care-related services including: helping parents find child care, supporting child care providers in improving quality, and managing the only accredited school-age child care program located in a public housing development in California. The Alternative Payment Programs are by far the largest programs administered by Crystal Stairs.

In the Spring of 2007, Crystal Stairs contracted with Child Care Results to analyze its operational data for the purpose of developing a better understanding of the Programs' impact on poverty and incomes. Child Care Results specializes in data analysis for the child care sector and has experience with the transactional data collected by Alternative Payment Programs. Family income data from Crystal Stairs was not available for Stage 1. The analysis in this report is based on all of the claims paid to child care providers for care provided between January 2000 and December 2005 for Stage 2, Stage 3, and the Alternative Payment Program. (Please see the methodology section for more information)

Findings

Child Care Subsidies As a Family Income Supplement

Child care subsidies are an effective income supplement because:

- they are an indirect financial enhancement to a family's income and thus its standard of living,
- they add to the incentive to work by effectively making work pay, and
- the subsidy is proportionate to the amount a parent works.

The child care subsidy for the median family in the Crystal Stairs program amounted to 42% of their gross monthly income. Viewing this as an income supplement, the typical family would see their take home pay increase by 42% -- a substantial jump.

Of course, child care subsidies are not a pure income supplement. For parents who are not working, the child care subsidy does not have as dramatic an effect. For example, a parent in a training program with high child care needs and low income might find that their child care subsidy is twice their income. However, that does not translate into a tripling of the family's standard of living. The family may have an abundance of child care, but insufficient

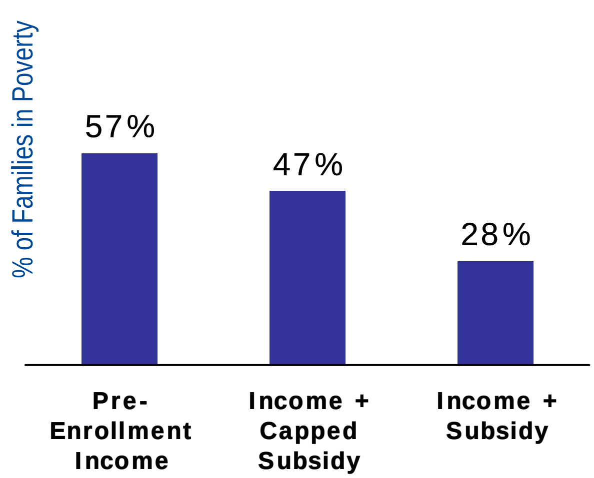
money to pay for rent, utilities, and other basic needs. In order to moderate the impact of these situations, this analysis creates a maximum level at which we estimate a family's standard of living will increase as a result of the child care subsidy. On average, families below the poverty level spend 25.1% of their income on child care[2]. This suggests that low-income families who do not receive a subsidy spend less on child care. In order to conservatively estimate the impact of these child care subsidies, we use 25.1% as the maximum increase in a family's standard of living.

families above the City of Los Angeles Living Wage. Using the less stringent standard of applying the entire value of the child care subsidy, Crystal Stairs' child care subsidies brought an additional 29% of families above the poverty level and an additional 34% of families above the City of Los Angeles Living Wage.

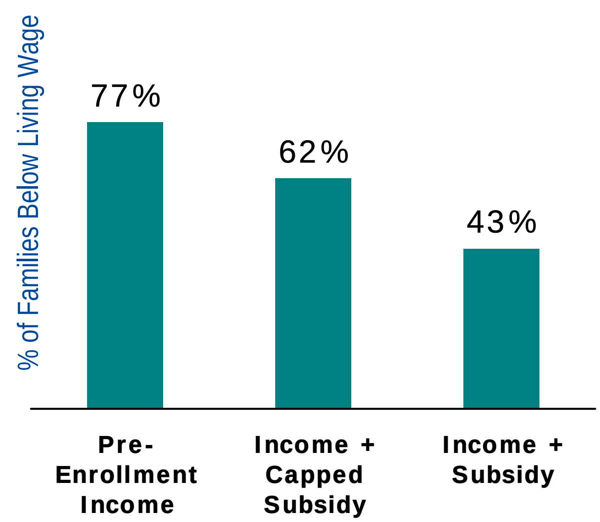
Child Care As a Career Support

Ultimately, the success of moving families out of poverty depends not only on parents entering the workforce, but also on parents being successful in the workforce. The

Impact of Child Care Subsidies on Family Poverty Rates



Impact of Child Care Subsidies on Family Living Wage* Rates

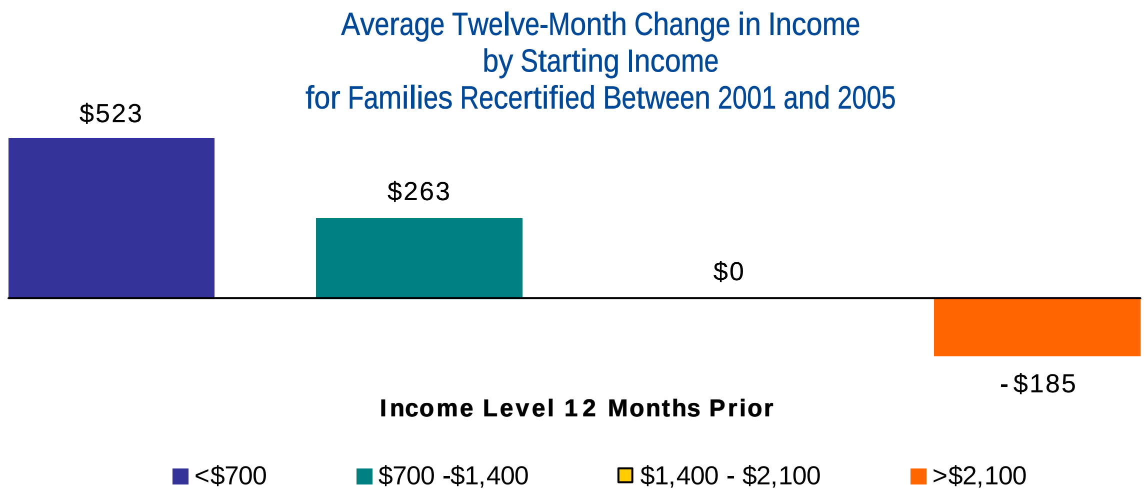


*City of Los Angeles Living Wage as approved by the Los Angeles City Council.
Source: Child Care Results analysis of Crystal Stairs internal databases. Includes all families that started the Stage 2, Stage 3, or the AP Program between 2000 and 2005.

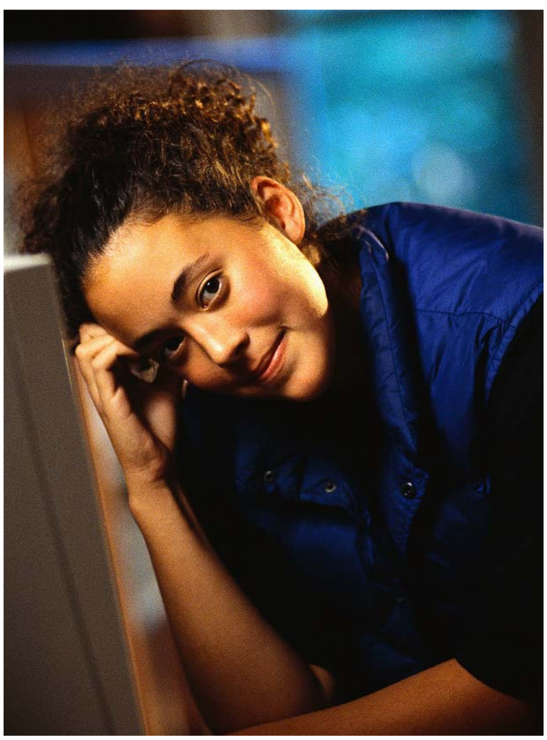
As the two graphs above show, this conservative approach means that Crystal Stairs' child care subsidies brought an additional 10% of families above the federal poverty level and an additional 15% of

data collected by Crystal Stairs offers a unique view on how families are progressing because Crystal Stairs continues to collect data well after families leave CalWORKs. Measuring success in the workplace as continued income growth paints a mixed picture of how families are faring. Families with very low incomes receiving child care subsidies tend to see the largest increases in their incomes. However, families with slightly higher incomes typically see no change or a slight decline in incomes.

Families receiving subsidized child care



Source: Child Care Results analysis of Crystal Stairs internal databases. All dollar values are in shown in 2006 dollars. Includes all families recertified for the Stage 2, Stage 3, or the AP Program between 2001 and 2005.



must be "recertified" at least once a year to show that they are still eligible. The graph on this page looks at families at the point when they are recertified (when the latest income data would be available) and compares their current income to their income 12 months ago. The average change in income is broken out according to the income level 12 months prior to the recertification. Families with the lowest income at the beginning of the 12-month period had the highest increases in income; however, on average, families who started with high incomes lost income over this period.

One likely explanation for this pattern is that the large income increases are associated with parents increasing the number of hours they work, but that once they are working full-time their incomes typically do not keep up with inflation or worse. Unfortunately, data was not available on the number of hours worked, so this theory cannot be confirmed with this data set.

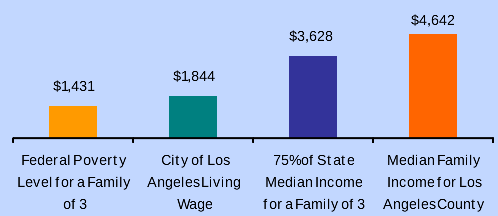
Trends Over Time

Between 2000 and 2005, Crystal Stairs' working families have become slightly poorer and have seen their incomes grow at slower rates. We do not know if this is because poorer families were entering the program or because of deteriorating labor market conditions in the Crystal Stairs service area. We do know that the increase in poverty for working families on the program is not the result of successful families "incoming out" of the program. Only 3% of the families who left the program from 2000 to 2005 did so because their incomes exceeded 75% of the state median income – the maximum allowed in the program. The impact of those families leaving the program was negligible.

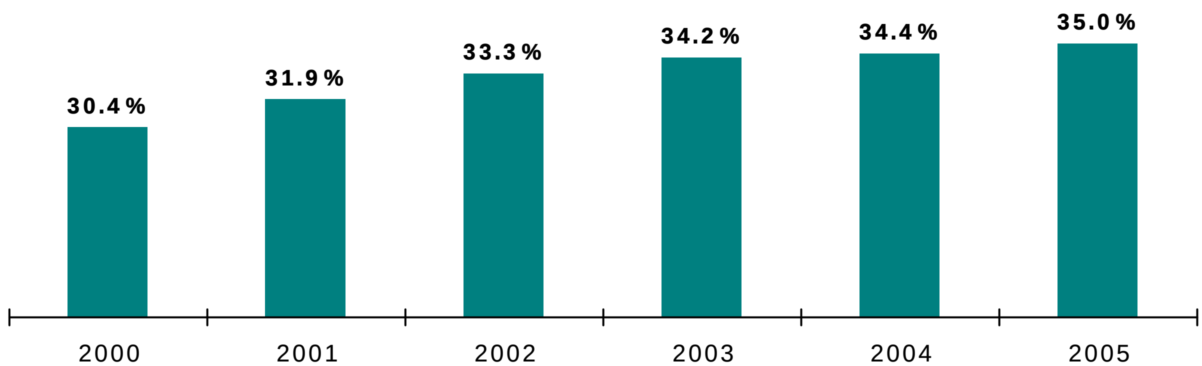
Putting Poverty in Perspective

A family of 3 at the Poverty Level has less than a third of the income of a typical family in Los Angeles and spends more than 50% of that income on housing. At enrollment, 57% of Crystal Stairs families are in poverty; 35% of Crystal Stairs working families continue to live in poverty.

Monthly Income Figures



Percentage of Working Families In Poverty at Time of Recertification



Source: Child Care Results analysis of Crystal Stairs internal databases. Includes all families recertified for the Stage 2, Stage 3, or the AP Program between 2000 and 2005.

Conclusion

While child care subsidies are an effective family income supplement and do substantially increase the standard of living for families, they are not sufficient to help parents advance in the workforce.

The issue of stagnating or declining wages for workers near the poverty level is beyond the capacity of the child care subsidy system to address alone. However, the child care subsidy system is a key component to the broader anti-poverty efforts in our communities and has a unique set of data that could be shared with other anti-poverty organizations.

Recommendations for Alternative Payment Agencies

Alternative Payment agencies should pay more attention to the poverty and income changes families in their programs experience. This may prompt them to link more closely with other welfare-to-work supports and work creatively to find new solutions. On the following page is a sample "Poverty and Income Impact Report" that could be replicated by most Alternative Payment agencies. Detailed specifications for the report are also included. Routine generation and sharing of this report with anti-poverty organizations and elected officials would create a useful community benchmark.

Recommendations for the California Department of Education (CDE) and the Department of Social Services (DSS)

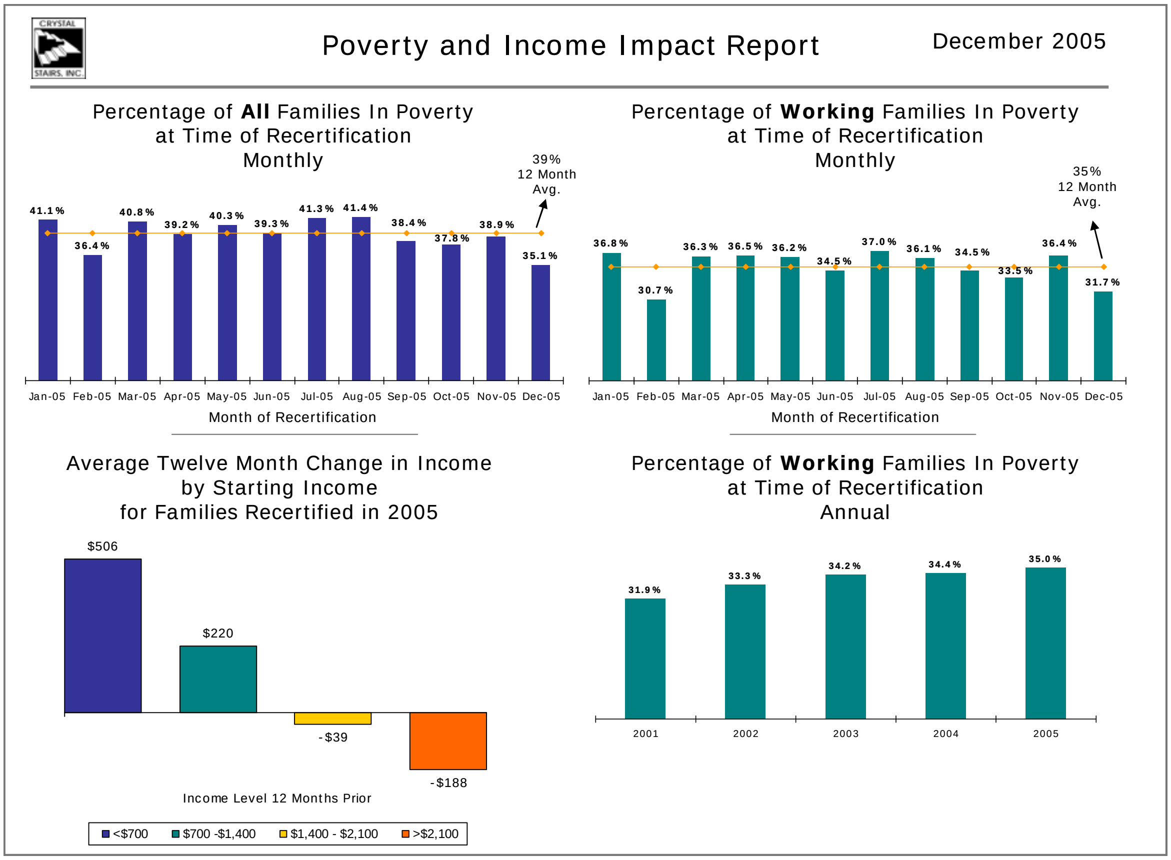
The California Department of Education could use the data it collects statewide from the 801 reports to generate similar "Poverty and Income Impact Reports" for the state as a whole. Together CDE and DSS could identify programs achieving higher levels of success for more in-depth case studies. Perhaps community level partnerships between different aspects of the welfare sector are already making a difference.

Recommendations for the State Legislature

Past welfare reform efforts, while reducing caseloads, are insufficient for raising families out of poverty. Although federal efforts may continue to push an anti-caseload rather than an anti-poverty approach to welfare, the state can set its own objectives. State legislators should focus on the workforce investment activities and employment subsidies that best move families out of poverty. The key indicator of success should be the number of families leaving poverty, not the number of families leaving the CalWORKs program.

Finding an adequate response to near poverty level wages for families leaving welfare will first require policy makers and implementers to focus on the appropriate benchmarks for success and not be content to watch caseloads decline while families languish.

"Poverty and Income Impact Report" Sample and Specifications



Percentage of All Families in Poverty at Time of Recertification Monthly.
Select all families who were recertified in a given month. Compare their family size and monthly income with the poverty guidelines to determine if each family is above or below the poverty level. Calculate the percentage of families in that month who are below the poverty level.

Percentage of Working Families in Poverty at Time of Recertification Monthly.
Select working families who were recertified in a given month. Proceed with the same criteria as above.

Percentage of Working Families In Poverty at Time of Recertification Annual.
Select working families who were recertified in a given year. Proceed with the same criteria as above.

Average Twelve-Month Change in Income by Starting Income.
Select all families recertified in a given year. Pull the incomes for these families at the time of the recertification and 12 months prior to the recertification. Adjusting for inflation, calculate the difference in income. Group the families according to their incomes 12 months prior to the recertification and calculate the average change in income for each group.

Methodology

Crystal Stairs' APP 2000 database is organized in such a way that a separate record exists for each month that a family is on the program. The core data file contains information such as the family size, income, certification date, recertification date, funding source, and need status (e.g. working, training, seeking work). These records can be linked to payment and provider records to add information such as the amount of money paid for child care in any given month. 1,105,407 linked records were extracted from the database; each record reflected a separate payment processed by Crystal Stairs between January 2000 and December 2005. This data represented the experiences of 21,888 unique families. No confidential information such as parent names, children's names, addresses, or telephone numbers were extracted.

During the course of this analysis the data was evaluated many ways. We began by following individual families through their experiences on the program at 12-month intervals. This perspective allowed us to see the experiences of families in their first year on the program versus their second year, etc. We also evaluated how experiences varied by funding source, work status, family size, and a number of other variables. Ultimately we began to evaluate the data from the perspective of a family's income status when they enter the program and then when they are recertified. This approach made sense for two reasons. First, these are the points in time where income information is verified and updated in the database. Second, these point-in-time snapshots lend themselves to operational reporting. In order to be dynamic in responding to family needs, Alternative Payment agencies cannot wait for the occasional and time-lagging academic type study; these organizations need real time data. Thus, we present the results of our analysis in a format that can be fairly easily adapted by most Alternative Payment agencies.

Ultimately, the graphs and data presented are, we believe, representative of the whole of our analysis. We tried to strike the difficult balance between presenting the information in a simple manner that is reflective of the hundreds of individual analyses that informed our presentation of the facts.

When adjusting for inflation, we converted dollars to their 2006 value using the Los Angeles County Consumer Price Index (CPI). We felt that a local CPI would best reflect local experiences.

Poverty rates were determined using the US Department of Health and Human Services federal poverty guidelines for the year in which the income was reported.

The Los Angeles Living Wage is a city (not a county) level indicator that is set by the Los Angeles City Council and is adjusted annually. The Los Angeles Living Wage does not take family size into consideration, but we felt it was a useful benchmark for understanding the living standards of program participants.

Limitations of the Data

Data Quality. Although the staff of Crystal Stairs work diligently to maintain the quality of their work, this analysis is based on a transactional database which inevitably contains data entry or other errors. We attempted to limit our exposure to potential errors by focusing on the core data elements which are unlikely to be erroneous. For example, it would be exceedingly rare that the database would indicate a payment had been made to a provider if none was made. In fact, such a mistake has never been found. Occasionally, incorrect dates are entered into the database (such as a recertification in 2015) or family size is entered incorrectly. However, given the large size of the data set, it is our belief that such errors would not meaningfully alter the analysis presented.

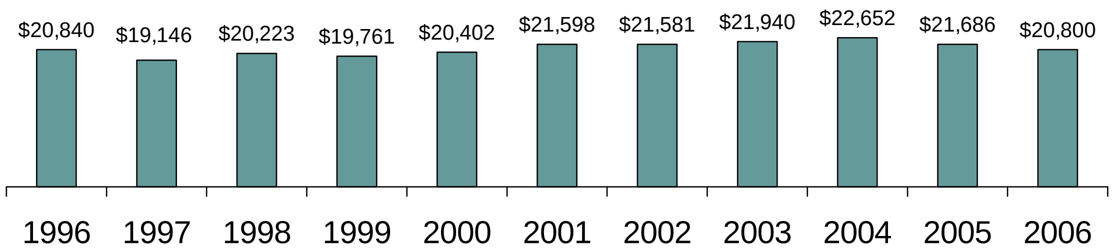
Income Limitations. Only the aggregate gross monthly income is entered into APP 2000. This makes it impossible to distinguish between income that results from employment, CalWORKs, or other sources. More nuanced data could lead to far more insight. Crystal Stairs recently moved to a database which captures more income detail and other Alternative Payment agencies routinely capture such data. Hopefully, such analysis will be performed by others in the future to add to the perspectives offered here.

No Control Group. Ultimately, the analysis of such operational data is limited in its academic use because it lacks a control group. Thus it is impossible to measure the employment effect of child care subsidies based on this data set. We cannot say that parents are more or less likely to work or stay in their jobs for longer periods of time based on this data. However, managers must make decisions based on the best information available to them and it makes sense to begin using the data already collected to track the income and poverty experiences of recipient families. This will give them the best information available in real time.

End Notes

[1] Child Care Results analysis of Current Population Surveys, 1996 to 2006 March through June, weekly wage data annualized for those with an educational attainment of High School graduation or less aged 20 to 65.

Los Angeles County
Annual Median Wages for Low-Skilled Workers



Note: Adjusted for Inflation. All dollars are expressed in 2006 values.

[2] Overturf Johnson, Julia. *Who's Minding the Kids? Child Care Arrangements: Winter 2002.* Current Population Reports, P70-101. U.S. Census Bureau, Washington, DC, 2005.

NOTES

NOTES

Crystal Stairs

Founded in 1980, Crystal Stairs® is one of the largest nonprofit child care and development corporations in California. Guided by our mission -- improving the lives of families through child care services, research and advocacy -- thousands of families and children benefit from our services every day.

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For additional information about Crystal Stairs programs and services, please go to www.crystalstairs.org

Child Care Results

Child Care Results specializes in helping child care organizations get the most value from their data. Through careful analysis, we give decision makers the critical insights they need to make informed decisions.

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