

To: Minimum Wage Study Committee

From: Deb Brighton

Date: September 29, 2017

Re: Questions about the Benefit Cliff and CCFAP

You asked several questions about the effects of changing the minimum wage on families receiving different types of public benefits—and about ways to address the issues. The responses below rely on comments from experts from the Agency of Human Services and the Vermont State Housing Authority. In addition, the Tax Department is writing a separate memo on the possibility of creating a tax credit.

How would the \$15/hour minimum wage change affect families who have a Section 8 voucher?

With a Section 8 voucher, the tenant's rent is basically calculated at 30% of family income. So if the tenant's annual income increased by \$6,000, the tenant's rent payment would increase by \$1,800/year.

If this means that the tenant is paying the full rent, the voucher can be recycled in Vermont and given to a family with very low income.

There are currently around 6,000 vouchers in Vermont. About 10% are returned each year and there are waiting lists for roughly twice that number of units.

Is it possible to target the CCFAP to Minimum Wage Workers?

Damien and Katie raised the issue of equal protection. DCF's Reeva Murphy was similarly concerned about "creating inequities across families who are otherwise similar." She also points out that it would be difficult to change the system for only some people as this affects eligibility determinations that would require federal approval. She suggests looking at the proposals from the Blue Ribbon Commission and adjusting the income guidelines and payment rates equitably for all families.

Our first suggestion is for the committee to consider the work and proposals from the Blue Ribbon Commission (BRC) that spent a significant effort studying the child care issues facing working families in Vermont. Adjusting income guidelines to more effectively address affordability and paying a current market rate to child care providers would solve this problem equitably across families. The sliding fee scale structure that Vermont uses actually functions to address affordability effectively as wages increase--as families make more they get less. A cliff would not occur if CC FAP paid current rates and the sliding scale provided sufficient benefit to actually allow families to afford the co-payment assigned to them. I do think the actual price tag for an incremental approach to this is significantly less than the BRC identified because its calculations on costs did not reflect market rates but rather rate constructed to support a level of

quality defined by the BRC. It would be interesting to use their methodology incorporating the Vermont livable wage and actual current market rates.

There are several challenges with this proposal. The Child Care Financial Assistance Program is complex and is funded by multiple funding streams, each of which have their own rules and income and eligibility limits. Expanding those rules for only individuals within the program may require additional system changes, including changing the program regulations, changing the data system that determines eligibility, and proposing these changes to different federal offices that oversee the federal funding.

Also parents must meet criteria beyond income to be eligible for the subsidies. The “service need” in CC FAP also impacts how much help families get. Keeping families at a constant subsidy level despite the changing circumstances of families is likely to create inequity across families who are otherwise similar allocating subsidy resources without regard to actual need. Maintaining financial assistance at a certain level may deplete appropriated funds and limit access to support for other families of lower income that apply.

Any solution will cost a significant amount to build the infrastructure around it.

Reeva Murphy, Deputy Commissioner, Child Development Division, Department for Children and Families in the Agency of Human Services

Following recommendations in the Blue Ribbon Commission’s report, I modeled a change in the proposed sliding income scale. The current scale is set up so that the subsidy amount decreases less per additional dollar of income at some income levels than it does at other income levels, and I originally used this same sliding scale. The proposal’s scale has been revised so that the decrease rate is the same at all income levels as recommended by the Blue Ribbon Commission.

The same logic was used to create a scale for each minimum wage scenario.

	\$15 in 2022	\$13.25 in 2022	\$12.50 in 2021
100% subsidy until	129% FPL	114% FPL	110% FPL
subsidy reaches 10% at	230% FPL	220% FPL	210% FPL
cost range (million\$)	\$4.8 - \$12.8	\$3.0-\$8.8	\$2.2-\$6.2

There is a wide range in the cost of each scenario not only because of uncertainty over what will entice new families to enroll, but also because the cost is based on both the income/subsidy scale and the provider rate schedule – or the amount the state will pay at 100% subsidy. At the high end I assumed the rates would increase by 75% of the rate of increase in the minimum wage (plus the CPI). Currently, our rates have not been changing to keep up with the market.

In addition, there are supply constraints. There are not enough providers who are willing and able to participate, so this limits new enrollment.

Do we have the ability to change the income disregard for SNAP?

This is the response from Sean Brown, Deputy Commissioner, Economic Services Division, Department for Children and Families in the Agency of Human Services

The short answer is we do not have any flexibility in SNAP according to the eligibility rules. We are not aware of any waiver for this area although we are double checking with our federal partner. I suspect their answer will be no as well based on our thorough understanding of the program.

Income eligibility standards, including countable income, excluded income, and income deductions, are prescribed by federal law. Currently, the state has no flexibility to either increase the earned income deduction or impose a new method for calculating the cost of child care. If CCFAP payments to providers are increased, ESD will explore any options, should they become available, to mitigate the effect of the increased CCFAP payment on 3SquaresVT benefit levels. The federal regulations governing the earned income and child care deductions are copied below for your reference.

Earned Income Deduction - 7 C.F.R. § 273.9(d)(2)

Twenty percent of gross earned income as defined in paragraph (b)(1) of this section. Earnings excluded in paragraph (c) of this section shall not be included in gross earned income for purposes of computing the earned income deduction, except that the State agency must count any earnings used to pay child support that were excluded from the household's income in accordance with the child support exclusion in paragraph (c)(17) of this section.

Child Care (Dependent Care) Deduction - 7 C.F.R. § 273.9(d)(4)

*Payments for dependent care when necessary for a household member to search for, accept or continue employment, comply with the employment and training requirements as specified under § 273.7(e), or attend training or pursue education that is preparatory to employment, except as provided in § 273.10(d)(1)(i). Costs that may be deducted are limited to the care of an individual for whom the household provides dependent care, including care of a child under the age of 18 or an incapacitated person of any age in need of care. The costs of care provided by a relative may be deducted so long as the relative providing care is not part of the same SNAP household as the child or dependent adult receiving care. **Dependent care expenses must be separately identified, necessary to participate in the care arrangement, and not already paid by another source on behalf of the household.** If a household incurs attendant care costs that could qualify under both the medical deduction of § 273.9(d)(3)(x) and dependent care deduction of § 273.9(d)(4), the costs may be deducted as a medical expense or a dependent care expense, but not both. Allowable dependent care costs include:*

(i) The costs of care given by an individual care provider or care facility;

(ii) Transportation costs to and from the care facility; and

(iii) Activity or other fees associated with the care provided to the dependent that are necessary for the household to participate in the care.