POLICY BRIEF

Three Policy Reforms to Help Low-Income Children in Colorado

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The National Center for Children in Poverty (NCCP) is a non-partisan public policy research center at Columbia University's Mailman School of Public Health. Founded in 1989 with endowments from the Carnegie Corporation of New York and the Ford Foundation, NCCP is dedicated to promoting the economic security, healthy development, and well-being of America's low-income children and families. Using research to inform policy and practice, the center seeks to advance family-oriented solutions and the strategic use of public resources at the state and national levels to produce positive outcomes for the next generation.

THREE POLICY REFORMS TO HELP LOW-INCOME CHILDREN IN COLORADO

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Colorado advocates and policymakers have launched important recent initiatives—both legislated and proposed—to help the state's struggling working families. This policy brief presents the results of three state policy reforms that promise to significantly improve the economic security of low-income Colorado families with children:

1. Implementing two state income tax credits for families with children that have been signed into law, the Child Tax Credit for children under six years old and the Earned Income Tax Credit
2. Introducing a free and universal prekindergarten program for four-year-olds
3. Initiating universal, full-day kindergarten for five-year-olds.

The impact of each of these reforms on the economic security of representative low-income families in the state is estimated with the National Center for Children in Poverty's 2015 Colorado Family Resource Simulator (FRS) policy modeling tool, updated with the assistance of the Colorado Center on Law and Policy.

Colorado's Economic Recovery Is Good News, But Hasn't Reached Many Families in Need

In many respects, Colorado has fared better than the nation as a whole in the course of the slow and uneven recovery after the 2007-2009 Great Recession. At 4.2 percent, the state's unemployment rate has steadily fallen and is currently almost one percentage point lower than the national rate.[1] Colorado's real, gross economic output rose five percent from 2013 to 2014, the fifth highest growth rate in the nation.[2] State median family income in 2014 was $75,405, almost $10,000 above the national median.[3] Colorado's overall poverty rate of 12 percent and child poverty rate of 15.4 percent in 2014 are also well below the corresponding rates for the United States as a whole, and state poverty rates have been declining.[4] However, these averages and aggregate statistics obscure continuing and significant problems of economic hardship in Colorado. The unemployment rate for African Americans in the state is about triple that of white non-Hispanics, and almost one in four employed Latinos works part time involuntarily and would prefer to work full time.[5] About 27 percent of African Americans, 24 percent of American Indian/Alaska Natives, and 24 percent of Latinos live at or below the federal poverty threshold in Colorado, compared to 9 percent of white non-Hispanics.[6] Almost 32 percent of families with children that are headed by a woman with no husband present are poor.[7] Furthermore, more than one-third of Colorado children live in low-income families, with incomes less than twice the federal poverty threshold, or $23,624 for a family of four with two children in 2013.[8] There is also much regional variation in the incidence of poverty. For example, the overall poverty rate in Douglas County is 3.9 percent and that of Jefferson County is 8.6 percent, compared to rates of 26.5 percent in Alamosa County, 25.2 percent in Otero County, and 19.1 percent in Pueblo County.

Findings are based on results from NCCP's Family Resource Simulator

The Family Resource Simulator is an innovative web-based analysis tool that shows the impact of federal and state work supports on the budgets of low- to moderate-income families. Simulators are currently available for 26 states, including more than 100 localities. The Colorado Simulator includes seven counties—Alamosa, Denver, Eagle, El Paso, Mesa, Morgan, and Pueblo—and reflects policy rules in effect as of summer 2015.

See www.nccp.org/tools/frs.

Investing in Early Education Yields Long-Term Benefits for Children in Low-Income Families

A large body of research demonstrates that high-quality prekindergarten programs for four-year-olds substantially improve children's social skills and early learning in language, reading, and math skills and help them arrive better prepared for kindergarten. While all children benefit, children from low-income backgrounds benefit more.[9] Science increasingly recognizes the importance of nurturing cognitive and social skills in early childhood, when children's brains are rapidly developing and are very sensitive to environmental influences. These early skills provide a critical foundation for later learning, and the benefits of investing in high-quality preschool has been shown to exceed the costs many times over when outcomes are tracked into adulthood.[10] This evidence has captured the attention of policymakers, and state funding for prekindergarten has grown substantially in recent years.[11]

As of 2014, 22 percent of all four-year-olds and 8 percent of all three-year-olds were enrolled in preschool in Colorado, about 21,000 combined children. Colorado ranked 35th in the nation in state preschool spending per child enrolled.[12] Eligibility for state-funded prekindergarten for four-year-olds is presently limited to children who have one or more of 10 defined risk factors, including a family income of less than 185 percent of the Federal Poverty Guideline (FPG) or less than 225 percent of FPG in areas with very high cost of living.[13] Legislation introduced in early 2015 (HB 15-1024) would fund a small number of additional preschool slots for children meeting these risk criteria, but the number of eligible children would continue to exceed available seats.

Free, Universal Prekindergarten Helps Children Succeed—and Helps Parents Stay Employed

Besides promoting healthy child development, a high-quality prekindergarten program that is free and universal can save low-income, working families with small children thousands of dollars per year in out-of-pocket child care expenses. In Colorado, about 86 percent of children living in low-income families have parents who are employed, and the majority of these children—51 percent—have parents who work full time, year round.[14] For these families, having access to reliable child care is critical for sustaining parental employment.[15] But high-quality child care is expensive, often a family's single greatest expense after housing, and sometimes exceeding the cost of housing. Indeed, Colorado has been rated as one of the most expensive states in the nation for center-based care, although this cost varies substantially by county. In Denver County, the average annual price for providing center-based care for a preschooler was $11,477 in early 2014, more than 14 percent of the county median income for married couples with children and *more than 48 percent* of the county median income for single-mother families. The average cost of care was about 40 percent lower in Pueblo County, but still represented a significant share of the county median income, about 10 percent for married couples and 33 percent for single mothers.[16]

Child care subsidies can significantly reduce child care costs for low-income families. However, barriers to subsidy receipt, such as income eligibility limits and waiting lists, preclude many families from accessing the program, despite their inability to afford high-quality care on their earnings alone. In 2013, 207,000 children lived in poverty in Colorado[17] but only 9,400 families (with 15,900 children) in the state received child care subsidies that year.[18] It is clear that only a small fraction of low-income, working Colorado families that might benefit from child care subsidies receive them, and given federal and state spending plans and priorities, this will not change.

How Universal Pre-K Would Benefit a Representative Colorado Family

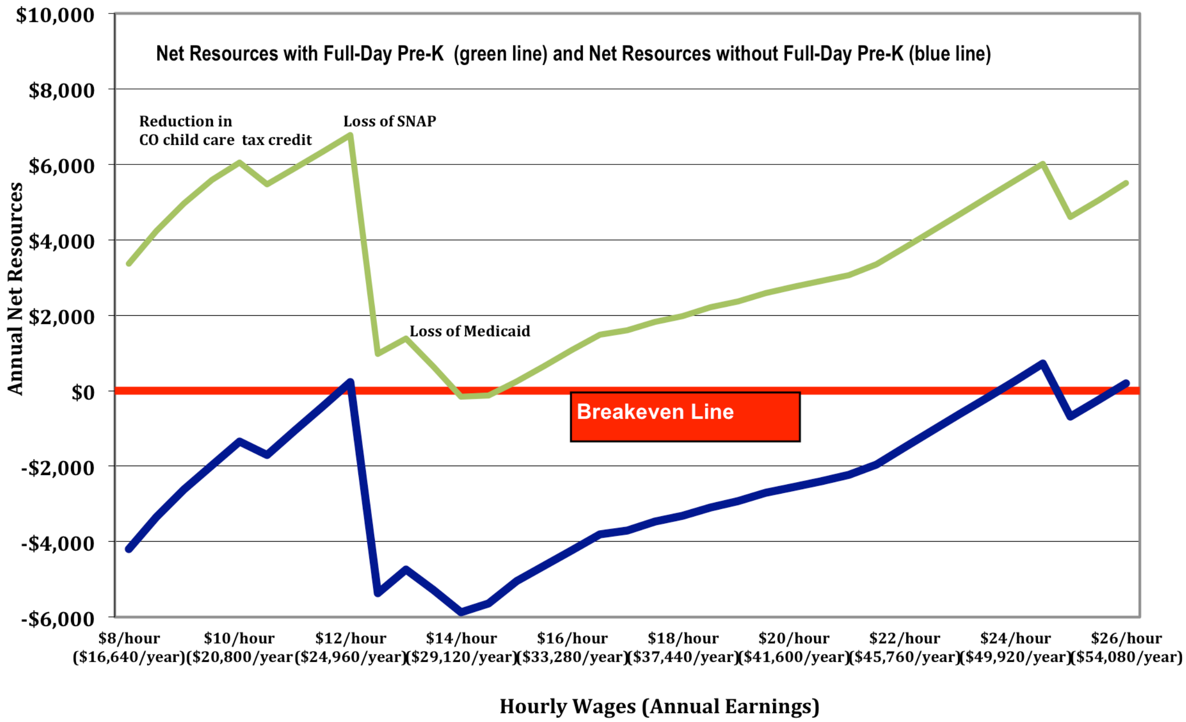
A free and universal state pre-kindergarten program (along with a universal full-day kindergarten program, discussed below) would go a long way toward reducing the burden of paying for high-quality child care for Colorado families with small children who do not receive a child care subsidy. The Colorado Family Resource Simulator can quantify this impact for families of different sizes and compositions in different parts of the state. Figure 1 shows the evolution of *net resources* as earnings change for a representative, single-parent family of three, with children aged 4 and 8 years old in Denver County under two scenarios: when the 4-year-old is enrolled in full-day pre-k and when the child does not attend pre-k. In each scenario, the parent works full time and the family receives important work supports — including federal tax credits, the Colorado child care tax credit, a housing subsidy, public health insurance, and Supplemental Nutrition Assistance Program benefits (SNAP), formerly known as food stamps — when eligible for these resources. The value of these work supports is added to earnings to estimate the family's *total resources*. Family *expenses* that are required to meet basic needs (child care, housing, utilities, food, transportation, taxes, out-of-pocket medical expenses, and other necessities, such as clothing and school supplies) are then subtracted from total resources to estimate the family's *net resources* shown in the line graph.

In the first scenario, shown by the green net resource line, the family's 4-year-old is enrolled in a free, full-day pre-kindergarten program, and the family pays for after-school care for both children at a Denver child care center. The second scenario, shown by the blue line, shows the family's net resources without pre-k for the 4-year-old: in this case, the family pays for full-day, center-based care for the 4-year-old and after-school care for the 8-year-old.

As is evident from the graph, full-day pre-k saves the family thousands of dollars in out-of-pocket child care expenses and substantially improves the family's net resource position at every level of earnings. With pre-k, the family is substantially above the breakeven line — where family resources just equal expenses — at almost every level of earnings. In contrast, without pre-k, the family rises above the breakeven line only briefly with full-time earnings at $12/hour, and then plunges back into the red, where it remains until earnings rise to around $49,000.

In both scenarios, as earnings increase, income eligibility limits cause the family to lose different benefits. This is shown as various "cliffs" in the line graph of Figure 1, notably the cliff at around $28,000 in earnings, when the family loses its SNAP benefit. With full-day pre-k, the family stays above the breakeven line even after losing this important benefit, and only falls briefly into the red after losing Medicaid. When the parent works full time at $16/hour ($33,280 in annual earnings), the family has more than $1,000 in net resources with a child in pre-k; without pre-k, it is more than $4,000 in the hole.

Figure 1: Effect of Universal, Full-Day Prekindergarten on Net Family Resources
Single-parent family with one 4-year-old and one 8-year-old child in Denver County



Source: NCCP's Family Resource Simulator, Colorado 2015 <www.nccp.org/tools/frs>. When eligible, the family receives the following work supports: federal tax credits, the Colorado child care tax credit, SNAP/food stamps, a housing voucher, public health insurance, LEAP energy assistance, and Lifeline telephone cost assistance.

An alternative scenario of half-day pre-k also benefits the family's bottom line very substantially, though not as much as a full-day program, of course. The half-day scenario is shown in Figure 2 with all other assumptions the same as those for the full-day model. Although the family stays well above the breakeven line when working full time at a wage between $8 and $12 per hour, the loss of SNAP and Medicaid benefits drops the family into the red when the wage rises between $12 and $16 per hour. Still, at every level of earnings, the family is much better off with pre-k. When the parent works full time at $16/hour ($33,280 in annual earnings), the family has a small deficit of $177 with a child in pre-k, compared to a $4,200 deficit without pre-k.

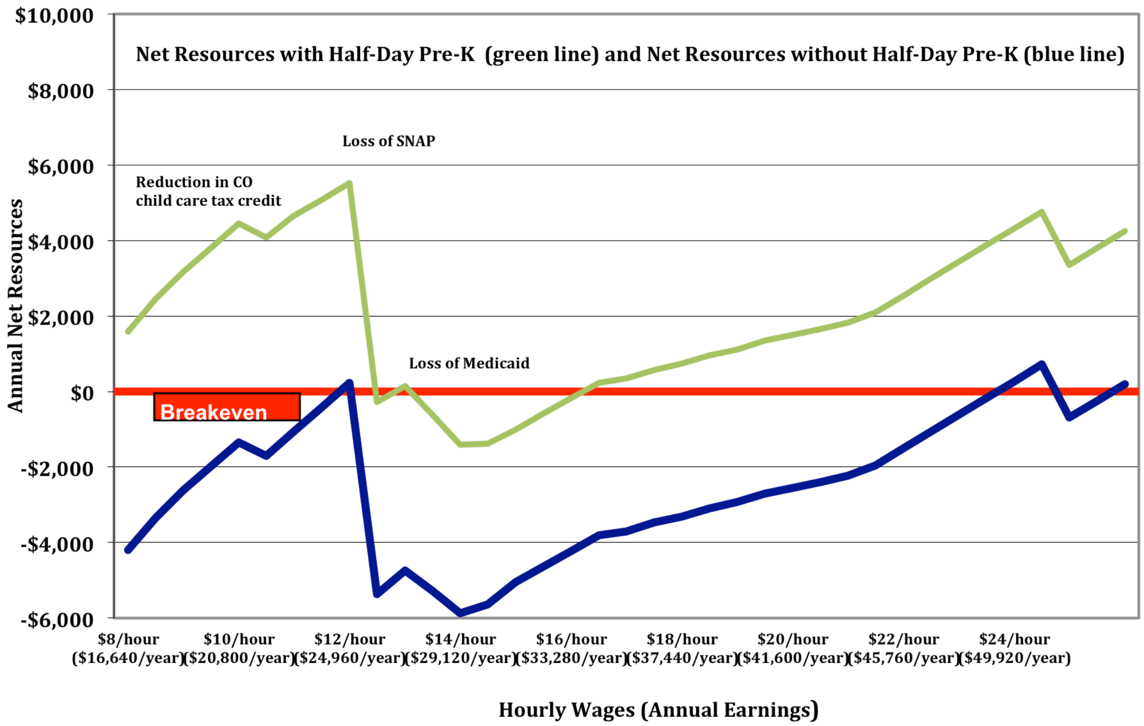
Of course, center-based child care is the most expensive form of care, and the pre-kindergarten effect will be smaller when another form of care, such as licensed family care, is modeled as the alternative to pre-k. Even comparing these alternatives, however, low-income families in Denver still stand to save thousands of dollars in child care expenses per year if given the option of free, universal pre-k, whether full-day or half-day.

Most Colorado School Districts Offer Full-Day Kindergarten Even Though the State Does Not Pay the Full Cost

Nationally, the percentage of children enrolled in full-day kindergarten as opposed to half-day programs has grown dramatically in the past twenty years, from 48 percent of all kindergarteners in 1994 to 77 percent in 2013.[19] Full-day enrollment is broadly similar across income groups, but there is substantial variation by region, ranging from 58 percent in the West to 82 percent in the South, according to an analysis by Child Trends.[20]

Colorado school districts are required to provide at least half-day kindergarten, defined as 450 hours over the course of the school year. While almost all districts also offer full-day kindergarten (defined as 900 hours over the course of the school year), the locality must defray much of the expense for running full-day programs, as the state fully funds only half-day programs. At present, 74 percent of Colorado kindergarteners are enrolled in full-day programs, higher than the average for western states.[21]

Figure 2: Effect of Universal, Half-Day Prekindergarten on Net Family Resources
Single-parent family with one 4-year-old and one 8-year-old child in Denver County



Source: NCCP's Family Resource Simulator, Colorado 2015 <www.nccp.org/tools/frs>. When eligible, the family receives the following work supports: federal tax credits, the Colorado child care tax credit, SNAP/food stamps, a housing voucher, public health insurance, LEAP energy assistance, and Lifeline telephone cost assistance.

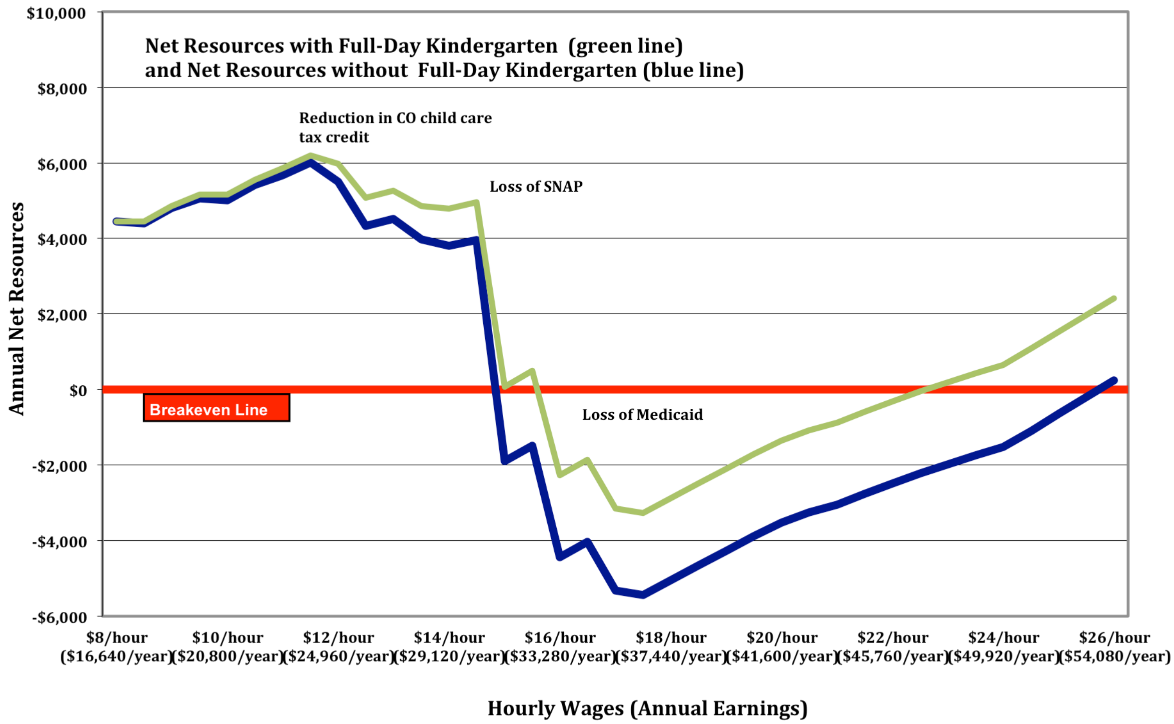
Legislation introduced in early 2015 (HB 15-1020) would provide state-paid, full-day kindergarten for all Colorado children.

A body of research compares child development outcomes for children attending full-day kindergarten programs with those for children attending half-day programs.[22] The preponderance of the evidence shows that children attending full-day programs develop stronger academic skills and are better prepared to start first grade. The evidence is more mixed with respect to longer-term academic gains.

How Universal, Full-Day Kindergarten Would Benefit a Representative Colorado Family

As in the case with universal pre-kindergarten, discussed above, a free and universal full-day kindergarten program would save Colorado working families a significant amount of out-of-pocket child care expenses. Figure 3 shows the impact of moving from half-day to full-day kindergarten on the net resources of a two-parent family with two children ages 5 and 7 in Eagle County. When eligible, in this scenario, the family receives federal tax credits, the Colorado child care tax credit, SNAP/food stamps, a housing voucher, public health insurance, LEAP energy assistance, and Lifeline telephone cost assistance. Modeling with the Family Resource Simulator shows that transitioning from half-day to full-day kindergarten for the five-year-old saves the family $2,173 in child care costs when both parents are working full time at the Colorado minimum wage of $8.23 per hour and earning a combined annual income of $34,237. While substantial, the savings are smaller than those estimated for universal prekindergarten (see above) because pre-reform child care expenses are very different under the two scenarios. In the pre-k scenario, the family pays out of pocket for full-day child care before the reform. In the kindergarten scenario, the family already saves substantially on child care expenses with half-day kindergarten before moving to a full-day program.[23]

Figure 3: Effect of Universal, Full-Day Kindergarten on Net Family Resources
Two-parent family with one 5-year-old and one 7-year-old child in Eagle County



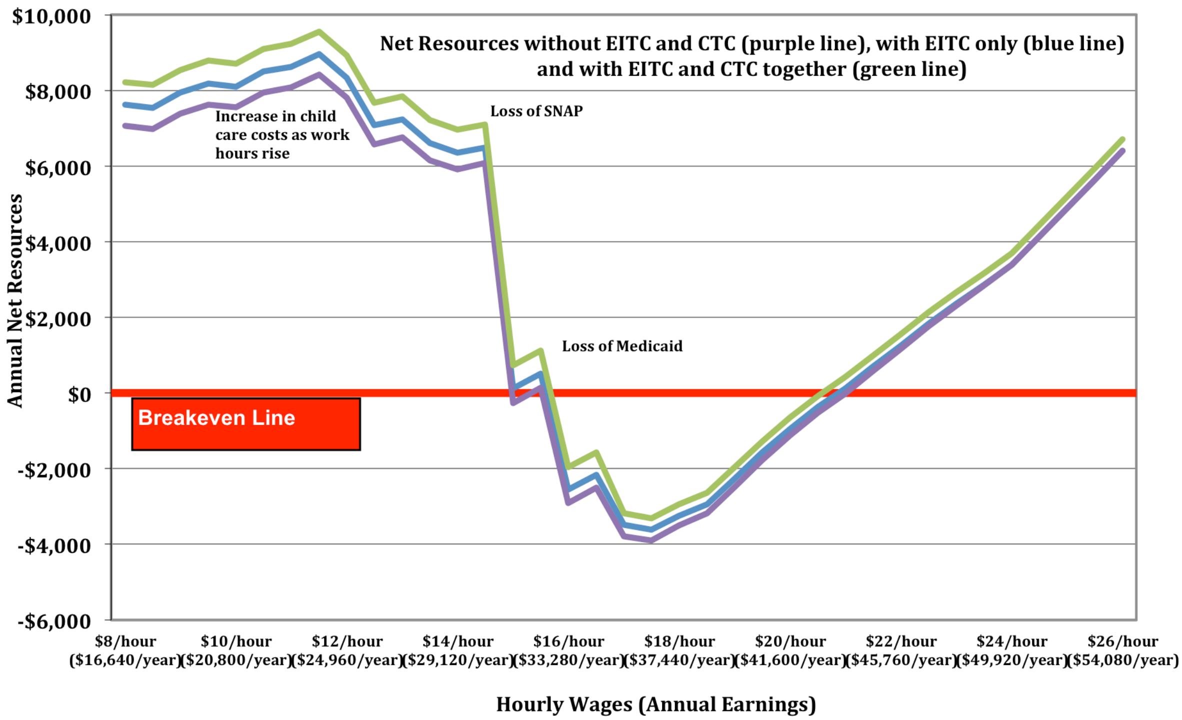
Source: NCCP's Family Resource Simulator, Colorado 2015 <www.nccp.org/tools/frs>. When eligible, the family receives the following work supports: federal tax credits, the Colorado child care tax credit, SNAP/food stamps, a housing voucher, public health insurance, LEAP energy assistance, and Lifeline telephone cost assistance.

When Implemented, Colorado's Child Tax Credit and Earned Income Tax Credit Will Help Working Families

While universal pre-k and all-day kindergarten would reduce expenses for low-income families, implementing two state income tax credits will add modestly but significantly to family resources. Both credits are refundable, meaning that families with work earnings can receive the value of the credit even if they owe no taxes. Colorado's Earned Income Tax Credit (EITC) was formerly funded only in budget surplus years, but legislation passed in 2014 that will make the EITC permanent at a refundable rate of 10 percent of the federal credit once revenues exceed the surplus set by the state's Taxpayer Bill of Rights (TABOR). This is expected for the 2015 tax year, allowing families to receive the credit in 2016. In 2013, the Colorado Legislative Council estimated that 392,500 households might claim the state EITC in tax year 2015, with an average benefit of $218.[24] Families are expected to qualify for a maximum credit of more than $600 for tax year 2015.

The Colorado Child Tax Credit was signed into law in June 2013.[25] It provides families with a refundable credit of up to 30 percent of the federal CTC—or $300 for each child under 6 years old. The credit is progressive—larger for families with lower incomes—and is restricted to single tax filers with federal adjusted gross incomes of $75,000 or less and joint filers with incomes of $85,000 or less. The CTC is to take effect only if a federal bill is passed that permits Colorado and other states to levy tax on sales to state residents by retailers who are located out of state (notably, Amazon and other online retailers). Although prospects for such legislation are dim, the state CTC represents a potentially valuable source of support for Colorado's working families that can be quantified with the Family Resource Simulator. The Colorado Legislative Council expected that more than 185,000 households would have qualified had the CTC triggered in fiscal year 2014.[26]

Figure 4: Effect of Colorado EITC and CTC Tax Credits on Net Family Resources
Two-parent family with one 2-year-old and one 5-year-old child in Alamosa County



Source: NCCP's Family Resource Simulator, Colorado 2015 <www.nccp.org/tools/frs>. When eligible, the family receives the following work supports: federal tax credits, the Colorado child care tax credit, SNAP/food stamps, a housing voucher, public health insurance, LEAP energy assistance, and Lifeline telephone cost assistance.

How Colorado's Child Tax Credit and EITC Would Benefit a Representative Family

Figure 4 shows the effect of the EITC alone and the EITC and the CTC on the net resources of a two-parent family with two children ages two and five in Alamosa County. The family is modeled as receiving, when eligible, federal tax credits, the Colorado child care tax credit, a housing subsidy, SNAP/food stamps, public health insurance, LEAP energy assistance, and Lifeline telephone cost assistance. The family does not receive child care subsidies.

At lower levels of earnings, one parent is assumed not to be working full time and available to provide some child care for the preschool children. This reduces family child care expenses, helping the family stay above the breakeven line for net resources.

As the figure shows, the family benefits significantly from both tax credits, especially at lower levels of income. With both parents working full time at the minimum wage of $8.23 and combined annual income of $34,237, the family has a deficit of $2,497, having lost both SNAP and Medicaid benefits. With the EITC alone, the family deficit is reduced by $330; with both the EITC and CTC, the family is better off by $930.

Conclusion

This policy brief presents the results of modeling three proposed state policy reforms on the economic security of Colorado working families. These reforms are: (1) Implementing two state income tax credits for families with children that have been signed into law, the Child Tax Credit for children under 6 years old and the Earned Income Tax Credit; (2) introducing a free and universal prekindergarten program for four-year-olds; and (3) initiating universal, full-day kindergarten for five-year-olds. Using the National Center for Children in Poverty's online policy modeling tool, the Family Resource Simulator, the authors conclude that all three reforms would help Colorado's low- and moderate-income families significantly. Of the three, full-day prekindergarten would benefit families the most in monetary terms. Although this brief does not estimate the cost to the state of the proposed reforms, full-day pre-k would undoubtedly be much the costliest of the three. To fully assess benefits, researchers would need to sum the immediate savings for family budgets, the economic impact of new family spending stimulated by this addition to net family resources, and the long-term gains to children, families, and society from high-quality pre-k programs. The value of these comprehensive benefits will almost certainly exceed costs, according to the research evidence.

End Notes

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2 U.S. Bureau of Economic Analysis. (2015). Real GDP By State.

3 U.S. Census Bureau. (2015.) 2014 American Community Survey 1-Year Estimates. American Fact Finder: Table CP03, Comparative Economic Characteristics.

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5 Webster, M. & O'Donnell, S. C. (Forthcoming.) State of Working Colorado 2015. Denver, CO: Colorado Center on Law and Policy.

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10 Executive Office of the President of the United States. (2015.) The Economics of Early Childhood Investments. Washington, DC: Author. Retrieved Oct. 2015 from https://www.whitehouse.gov/sites/default/files/docs/early_childhood_report1.pdf

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14 Low income is defined as twice the federal poverty guideline or $39,060 for a family of three in 2013. Full-time work is defined as working at least 50 weeks in the previous year and for at least 35 hours during the majority of those weeks. Source: NCCP Fifty-State Demographic Wizard. (2015). Retrieved Oct. 2015 from http://nccp.org/tools/demographics/. Estimated from 2011-2013 American Community Survey Public Use Microdata file.

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16 Qualistar Colorado. (2014.) Child Care Prices and Affordability: A Struggle for Colorado Families and Providers. County median income estimates are from American Community Survey 2012 five-year data and estimates of the cost of child care are from a Qualistar Colorado survey of providers as of January 2014.

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19 Child Trends Data Bank. (2015.) Full-day Kindergarten. Retrieved 2015 from http://www.childtrends.org/?indicators=full-day-kindergarten

20 Ibid.

21 KIDS COUNT Data Center. (2015.) Retrieved Oct. 2015 from http://datacenter.kidscount.org/data/tables/6030-kindergartners-in-full-day-program?loc=7&loct=2#detailed/2/any/false/869,36,868,867,133/any/12686. About 66,000 Colorado children were enrolled in kindergarten as of October 2014, according to the Colorado Department of Education.

22 See Child Trends Data Bank, op. cit., for a brief summary.

23 The more moderate savings to families from kindergarten compared to pre-k may also reflect methodological decisions in modeling. Since the Colorado child care market survey does not have cost data specific to care for 4- and 5-year-olds, we use the "2 years to school age" rate to model the cost of care for 4-year-olds not in pre-k and the "school age" rate to model the cost of care for 4- and 5-year-olds in pre-k or kindergarten.

24 Colorado Legislative Council Staff Fiscal Note. (2013.) Final Fiscal Note, SB13-001.

25 Ibid. This source notes that Colorado had a child tax credit triggered by TABOR surpluses in earlier years, but the credit was last provided in 2000-2001 and was repealed in 2010.

26 The Colorado Interim Legislative Commission on Early Childhood and School Readiness is reported to be discussing legislation that would remove the requirement that the federal bill be passed in order to implement the CTC. Personal communication from S. Casey O'Donnell, Colorado Center on Law and Policy, October 23, 2015.