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The “Cliff Effect” and 2011 State Legislation

When a small increase in income brings sudden financial losses and a net loss that is called the “Cliff Effect”. For parents, the cliff effect occurs most prominently when they begin to earn too much money to get food stamps (SNAP), Child Care, Low Income Energy Assistance and the Child Health Plan. These work supports allow a parent to get and keep a job even when their earnings are less than their basic expenses. What are the policy changes that can smooth the path to self-sufficiency and mitigate the “Cliff Effect”?

- ▶ Raise the caps on income eligibility for work supports
- ▶ Lessen “cliffs” by having benefits taper off, rather than be all or nothing. Tax credits like the Earned Income Tax Credit often do this.
- ▶ Coordinate/simplify programs- for example extend a grace period for coverage for people moving from one county to another.
- ▶ Exclude certain income sources from determination of eligibility. Child support- for example- often is paid sporadically changing a parent’s eligibility for services continually.
- ▶ Provide information and transparency about programs. If people knew more clearly when they would lose certain benefits, they could expect and plan for this.
- ▶ Increase income- through additional education and training, by reducing discrimination, by restoring the State Earned Income Tax Credit, etc.

*Adapted from Women & Family Action Network, September 2007
Public Policies Suggestions*

Some of the most pronounced cliffs occur between 100% of Federal Poverty Level (\$22,050 for a family of four) and 250% of FPL –short of the earnings level required for self-sufficiency in most Colorado counties. What actions did the 2011 Legislature take that could affect families at risk of experiencing “cliffs?”

Child Care is the work support most at risk. Mothers of young children, particularly single parents, need child care to work. Nationally, the percentage of single mothers employed in an average month fell from 76% in 2000 to 73% in 2007, and to 68% in 2009. According to data compiled by the Colorado Children’s Campaign, funding for the Colorado Division of Child Care decreased an average of 2.3% per year over the last 10 years. Federal funding, the largest source of funding, decreased 3% and State General Funding decreased 1%. Since more preschool children are now enrolled in CCCAP, the ANNUAL per capita investment in Child Care has fallen from \$24.94 in 2000-01 to \$16.79 in 2010-1. The American Recovery and Reinvestment Act added about \$2 million per year for two years to Colorado’s child care pot, but that funding has now expired.

Many counties have recently LOWERED, not raised, eligibility ceilings. Previously, some counties covered families on a sliding scale up to 225% of FPL under Colorado Child Care Assistance Program. Now more have lowered income ceilings closer to the federal minimum of 130% of FPL. Many counties, including Denver, have long waiting lists for those eligible. Nationally, the Child Care Assistance Program currently serves fewer than one in 7 who qualify.

One bill which touched the child care issue was HB 1014. The Colorado Child Care Contribution Credit has provided a 50% tax credit to tax filers donating to organizations serving children under 12. These donations help create slots for child

care and after school care. In 2009, donors have donated \$23 million to organizations providing child care, claiming \$11.4 million in state tax credits. Currently, though, the law requires that the State General Fund grow by at least 6% for tax filers to collect the credit. Colorado is unlikely to reach this growth rate for the next few years. Uncollected credits can be carried forward to subsequent tax years. HB 1014 removes the 6% trigger beginning in tax year 2014. HB 1014 would allow only half of the carried forward tax credits to be claimed for tax year 2014 and 75% of 2015 credits must be carried forward to 2016. Another bill- SB 109 - would add an income tax check off to allow tax filers to donate to K-12 and preschools. But none of the current tax check offs raise even \$200,000 .

Child Health Plan provides health care coverage for children whose families who earn between 133% of FPL and 250% of FPL. With the passage of SB 8, all children in families below 133% of FPL will be covered by Medicaid, regardless of age. With SB 250, all pregnant women under 133% of FPL will also be covered by Medicaid, rather than CHP. Legislative action focused on CHP enrolled children in families earning between 205% of FPL and 250% of FPL- an annual income between \$44,700 and \$55,875 for a family of four. An estimated 9731 Colorado children fall in this group. HB 1025, among other things, would have eliminated CHP coverage for these families. The bill failed. SB 213, on the Governor's desk, would dramatically increase premiums for these families. Current premiums are \$25 per YEAR for one child, maximum of \$35. per YEAR per family. Proposed premiums would be \$20 per MONTH per child, \$10 for each additional child, with a maximum of \$50 per MONTH per family. The fiscal note estimates that 20% of children would leave the program. When we see how families earning at this level are generally earning less than what it takes to meet basic needs, it is easier to understand why parents might drop coverage.

Subsidies for reduced price **School Breakfasts** gained the political spotlight when they were originally slated for elimination. 56,000 Colorado children in families earning between 135% and 185% of the FPL qualify for reduced price school breakfasts and lunches. Families earning less qualify for free school breakfasts and lunches. Schools preferred the streamlining of this program to allow all families under 185% to not pay co-pays. Denying breakfast to a child who lacks or forgets their 30 cents seems cruel and affects school achievement. (A similar argument was made for HB 1019 which allows school based health centers to waive copayments and deductibles.) In the end, the funding was reinstated, so there was no change.

Other legislation which could affect low income families included SB 2 which authorized the continuation of the \$6.50 per month subsidy of **telephone** land lines for those on public assistance including TANF – Temporary Assistance for Needy Families and the Low Income Energy Assistance program. This bill prevailed, while the bill to abolish the telephone subsidy-- HB 1224-- died.

The average income of a woman receiving a **Pay Day Loan** in Colorado was \$27,192 according to the Attorney General's report. Women with children earning this amount fall below the self sufficiency standard needed to meet basic needs. But they likely have too much income to qualify for food stamps or some other work supports. So it is not surprising that they can find themselves short. HB 1290 would have changed one of the charges on pay day loans- the finance fee of 20% of the first \$300, or \$75 on a \$500 loan into a nonrefundable origination fee. This change, on top of the existing 45% interest rate and monthly maintenance fee could have change the APR on loans repaid within a month from 86% APR to 289% APR. This bill was killed.

Among many other things, HB 1238 would have address the cliff effect by requiring any company receiving a state tax benefit of over \$10,000 to pay all employees wages 25% above the average, thereby eliminating the need and eligibility for public assistance by requiring payment of **self sufficiency level wages**. This bill was killed. SB 72 would have addressed women's lower wages by increasing the penalties on employers in cases of proven discrimination. This bill also failed.

Harder to track is the impact of budget cuts that result in higher **fees** in K-12 and higher education. Worth watching is whether higher fees build in exceptions for some families based on income, which is good. If such exceptions top out at or below 185% of FPL, they worsen the cliff effect for those working families who earn slightly more, but less than what it takes to meet basic needs. Such families often feel they struggle alone, losing ground.