Two Steps Forward and Three Steps Back
The "Cliff Effect"—Colorado's Curious Penalty for Increased Earnings

A quantitative analysis of work supports in seven Colorado counties

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By

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One-third of Colorado's children—382,000—live in low-income families who struggle to make ends meet.[1] The vast majority of these children have working parents: nearly two-thirds have parents who work full-time; another 25 percent have parents who work part-time.[2] But in Colorado, as in other states across the country, full-time work at low wages often is not enough to provide for a family.

"Work support" benefits—such as earned income tax credits and child care assistance—can help families close the gap between low earnings and the cost of basic expenses. But these benefits often terminate abruptly when a family's income exceeds eligibility limits. Thus a small increase in earnings can lead to a sharp reduction in benefits—often referred to as a "cliff"—leaving the worker no better off, or even worse off, than before. Low-wage workers encounter this "cliff effect" as they strive to increase their earnings through advancement in the workforce.

This report documents the cliff effect in seven Colorado counties. The counties were selected to provide insight into how the cliff effect impacts families across the state. Analyses were conducted for four urban counties (Denver, El Paso, Pueblo, and Mesa); two rural counties (Alamosa and Morgan); and one resort county (Eagle). These counties vary significantly in terms of geographic location, cost of living, poverty rates, and other demographic indicators.[3] They also reflect the wide variation in child care assistance policy that exists across counties in Colorado.

Low-Wage Work and the Importance of Work Supports

In Denver County, a single parent with two children needs about $44,000 a year to cover the cost of basic family expenses: housing, food, transportation, child care, health insurance, and other necessities (see Figure 1; for "basic needs budgets" for seven Colorado counties, see Appendix A, Figure 1). That's the equivalent of a full-time, year-round job earning roughly $21 an hour—more than three times the state's minimum wage of $6.85. Moreover, this basic budget includes only the most essential daily living expenses. It does not include out-of-pocket health expenses. It does not provide any financial cushion to withstand a crisis or allow for investments in a family's future financial success, such as savings to buy a home or for a child's education. And it does not cover enrichment activities, entertainment, or other expenses that improve a family's quality of life.

Figure 1. Basic Needs Budget for a Single Parent with Two Children in Denver County[4]

Rent and Utilities	$10,908
Food	$5,266
Child Care	$12,493
Health Insurance	$2,768
Transportation	$3,367
Other Necessities*	$4,367
Payroll and Income Taxes	$4,844
TOTAL ANNUAL BUDGET	**$44,012**
Hourly wage (40 hours/week, 52 weeks/year):	$21/hour

*Examples of "other necessities" include clothing, school supplies, household items, and personal care expenses.

Source: Derived from NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org). Budget is based on the following assumptions: family has one preschool-aged child and one school-aged child; children are in center-based care settings while their parent works (the older child is in after-school care); family members have access to employer-based health insurance.

For low-income families who struggle to achieve economic security, there are a number of work support programs that can help. The Colorado Child Care Assistance Program subsidizes the cost of child care for parents working for low wages.[5] Child Health Plus provides health insurance to children with family income of up to twice the official federal poverty level—$34,340 for a family of three in 2007—though only very poor families have access to public health insurance for parents. Other benefits include food stamps, the Low-Income Energy Assistance Program (LEAP), the federal Earned Income Tax Credit (EITC), and—for families with little or no earnings—Colorado Works, the state's Temporary Assistance for Needy Families (TANF) program. Colorado also has a state EITC on the books, but it has been suspended for the past several years. And there is a state child care tax credit, but low-income families are generally unable to benefit from it.[6]

Colorado's work supports can provide valuable assistance to low-wage workers and their families. Figure 2 shows the impact of these benefits on the budget of a single parent with two children in Denver County, assuming that the parent is employed full-time, year-round at $8 an hour. Without work supports, the family faces a staggering deficit of $23,000 between annual resources and expenses. With a full-time job plus multiple benefits—including the federal EITC, food stamps, LEAP, child care assistance, and public health insurance—the gap between the family's resources and expenses is reduced to less than $2,500 a year.

Figure 2. Impact of Work Supports on Family Resources and Expenses, Single Parent with Two Children in Denver County[7]

	Full-time job at $8/hour (No work supports)	Full-time job at $8/hour *plus* work supports
Annual Resources		
Earnings	$16,640	$16,640
Federal EITC	$0	$4,158
State Child Care Tax Credit	$0	$0
TANF Cash Assistance	$0	$0
Food Stamps	$0	$3,439
LEAP	$0	$260
Total Resources	**$16,640**	**$24,497**
Annual Expenses		
Rent and Utilities	$10,908	$10,908
Food	$5,266	$5,266
Child Care	$12,493	$1,844
Health Insurance	$2,768	$677
Transportation	$3,367	$3,367
Other Necessities	$4,367	$4,367
Payroll and Income Taxes	$472	$472
Total Expenses	**$39,640**	**$26,900**
Annual Net Resources *(Resources minus Expenses)*	**-$23,000**	**-$2,403**

Work Supports (in the second column): Federal EITC, food stamps, LEAP, child care subsidy, and public health insurance for children. At this earnings level, the parent is ineligible for public health insurance for herself and the family is ineligible for TANF cash assistance and the state child care tax credit.

Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

The "Cliff Effect"

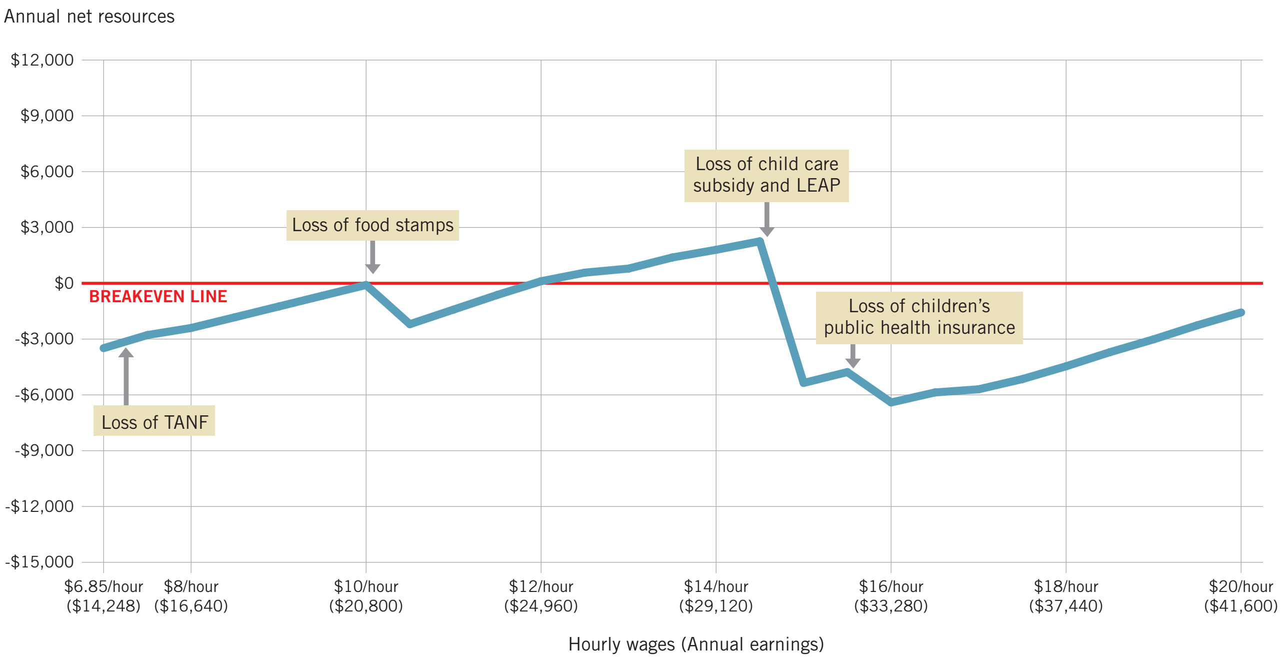
Eligibility for work support benefits is typically based on income, so as their earnings increase, families lose eligibility for supports. A benefit cliff occurs when just a small increase in income leads to the complete termination of a benefit. The result is that parents can work and earn more, while their families end up worse off than they were before.[8]

Returning to the example of a single parent living in Denver County with two children (one preschool-aged and one school-aged), Figure 3 illustrates the impact of benefit losses on the family's efforts to get ahead. It shows how the family's net resources—that is, resources after subtracting the cost of basic expenses—change as wages gradually increase from $6.85 to $20 an hour. In practice, workers may only experience a subset of this wage range.

In this example, when eligible, the family receives all of the benefits discussed above: the federal EITC, the state child care tax credit, TANF cash assistance, food stamps, LEAP, child care assistance, and public health insurance for children. (Even at $6.85 an hour, the parent is ineligible for public health insurance if she works full-time.) With these benefits and a full-time job at the state's minimum wage of $6.85 an hour, the family is unable to make ends meet. In fact, the family's "net resources" are about $3,500 *below* the "breakeven line"—the point at which total resources equal basic expenses. In other words, the family faces an annual shortfall of about $3,500.

As the parent works and earns more, a series of benefit cliffs keeps her family struggling. The first benefit the family loses is TANF cash assistance,[9] but there's no cliff at this point because TANF benefits phase out gradually. The family experiences its first cliff when wages increase from $10 to $10.50 an hour, resulting in a loss of more than $2,500 in food stamps. This occurs just as the family's net resources are approaching the breakeven line. Then, when wages rise to $15 an hour, the family simultaneously loses child care assistance and LEAP.[10] The loss of subsidized child care, in particular, is a huge financial hit.[11] With this loss, the family receives

Figure 3. Change in Net Resources as Earnings Increase, Single Parent with Two Children in Denver County[12]



Annual net resources: Annual resources minus annual expenses.

Annual earnings: Assuming full-time work (40 hours/week, 52 weeks/year).

Breakeven line: Where family resources equal the cost of basic expenses.

Work supports (when eligible): Federal EITC, state child care tax credit, TANF cash assistance, food stamps, LEAP, child care subsidy, and public health insurance for children. Throughout this earnings range, the parent is ineligible for public health insurance for herself.

Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

Figure 4. Resources and Expenses as Earnings Increase, Single Parent with Two Children in Denver County[13]

	Full-time job at $6.85 an hour *plus* work supports	Full-time job at $8 an hour *plus* work supports	Full-time job at $12 an hour *plus* work supports	Full-time job at $16 an hour *plus* work supports	Full-time job at $20 an hour *plus* work supports
Annual Resources					
Earnings	$14,248	$16,640	$24,960	$33,280	$41,600
Federal EITC	$4,536	$4,158	$2,403	$647	$0
State Child Care Tax Credit	$0	$0	$376	$450	$126
TANF Cash Assistance	$256	$0	$0	$0	$0
Food Stamps	$3,786	$3,439	$0	$0	$0
LEAP	$260	$260	$260	$0	$0
Total Resources	**$23,086**	**$24,497**	**$27,998**	**$34,377**	**$41,726**
Annual Expenses					
Rent and Utilities	$10,908	$10,908	$10,908	$10,908	$10,908
Food	$5,266	$5,266	$5,266	$5,266	$5,266
Child Care	$1,342	$1,844	$3,046	$12,493	$12,493
Health Insurance	$677	$677	$677	$2,768	$2,768
Transportation	$3,367	$3,367	$3,367	$3,367	$3,367
Other Necessities	$4,367	$4,367	$4,367	$4,367	$4,367
Payroll and Income Taxes	$648	$472	$257	$1,616	$4,126
Total Expenses	**$26,574**	**$26,900**	**$27,887**	**$40,784**	**$43,294**
Annual Net Resources *(Resources minus Expenses)*	**-$3,488**	**-$2,403**	**$111**	**-$6,407**	**-$1,568**

Work Supports (when eligible): Federal EITC, state child care tax credit, TANF cash assistance, food stamps, LEAP, child care subsidy, and public health insurance for children. Throughout this earnings range, the parent is ineligible for public health insurance for herself.

Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

a somewhat larger state child care tax credit, but this only makes up a fraction of the increase in the family's child care expenses. Another raise to $16 an hour puts the family over the income limit for Child Health Plus. Now the family must pay a premium for family health coverage. As a result of these losses, the family is *worse off* at $16 an hour than it was when the parent was making the minimum wage.

Figure 4 offers another view of the cliff effect by providing detailed information about the changes in family resources and expenses as earnings increase. Again, the analysis is based on a single parent with two children living in Denver County, receiving the following benefits when eligible: the federal EITC, the state child care tax credit, TANF cash assistance, food stamps, LEAP, child care assistance, and public health insurance.

With work supports and full-time minimum-wage employment at $6.85 an hour (the first column in Figure 4), the family has just over $23,000 in annual earnings and other resources. However, the family's basic expenses total $26,564—leading to an annual shortfall of close to $3,500. In addition, at this income level, the parent is ineligible for public health insurance, though the children are eligible for coverage. This analysis assumes that the family has access to employer-based health insurance, so premiums are relatively low. In practice, few low-wage workers receive such benefits.

At $8 an hour, the gap between the family's resources and expenses is somewhat smaller, and at $12 an hour, the family is able to afford the cost of basic necessities.[14] But a raise to $16 an hour pushes the family back into the red. Increased earnings are outweighed by a reduced federal EITC benefit and the loss of subsidized child care and children's public health insurance (adding children to the parent's employer-based plan increases premiums). As a result, at $16 an hour, the family is more than $6,000 short of being able to cover annual expenses. With a further increase to $20 an hour, the family is doing somewhat better, but continues to face an annual deficit of about $1,600.

Figure 5 highlights the benefit losses that occur as the parent's wages double from $8 to $16 an hour. This raise means an increase of $16,640 in the parent's annual earnings, but the family loses food stamps, LEAP, child care assistance, public health insurance, and most of its EITC benefit. In addition, the family's payroll and income tax liability grows substantially, while the increase in the state child care tax credit is comparatively small.

Figure 5. Change in Net Resources as Earnings Increase from $8 to $16 an hour, Single Parent with Two Children in Denver County[15]

	$8/hour	$16/hour	Change
Annual Resources			
Earnings	$16,640	$33,280	$16,640
Federal EITC	$4,158	$647	-$3,511
State Child Care Tax Credit	$0	$450	$450
TANF Cash Assistance	$0	$0	$0
Food Stamps	$3,439	$0	-$3,439
LEAP	$260	$0	-$260
Total Resources	**$24,497**	**$34,377**	**$9,880**
Annual Expenses			
Rent and Utilities	$10,908	$10,908	$0
Food	$5,266	$5,266	$0
Child Care	$1,844	$12,493	$10,649
Health Insurance	$677	$2,768	$2,091
Transportation	$3,367	$3,367	$0
Other Necessities	$4,367	$4,367	$0
Payroll and Income Taxes	$472	$1,616	$1,144
Total Expenses	**$26,900**	**$40,784**	**$13,884**
Annual Net Resources *(Resources minus Expenses)*	**-$2,403**	**-$6,407**	**-$4,004**

Work Supports (when eligible): Federal EITC, state child care tax credit, TANF cash assistance, food stamps, LEAP, child care subsidy, and public health insurance.

Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

Different Family, Similar Patterns

The interaction among earnings, expenses, and benefits varies depending on family size and other characteristics, but overall patterns remain the same. A single parent with one child, for example, can get by on slightly less than a parent with two children. Nonetheless, making ends meet without work supports still requires far more than a minimum wage job. In Denver County, a single parent with one preschool-aged child needs a full-time job paying at least $18 an hour to cover basic expenses (see Figure 6; see Appendix A, Figure 2 for similar budgets across seven counties).

Again, work supports can help narrow the gap between low wages and a basic needs budget. Figure 7 shows what happens to this family's net resources as the parent's earnings increase. In this example, the parent works full-time and receives multiple benefits when eligible: the federal EITC, the state child care tax credit, food stamps, LEAP, child care assistance, and public health insurance for children. (Even with a minimum-wage job, the parent is ineligible for public health insurance, and the family is ineligible for TANF cash assistance.)

Comparing a single-parent family with one child to a single-parent family with two children (i.e., comparing Figure 7 to Figure 3) reveals that when wages are under $15 an hour, a single parent with one child has a harder time providing for her family than a parent with two children. While the smaller family's expenses are somewhat lower, benefit levels and eligibility limits are lower too, and the family's federal and state income tax liability is higher. Thus when earning $8 an hour, for example, the parent with one child is *$3,300* short of meeting her annual expenses, while the parent with two children faces an annual shortfall of about $2,400.

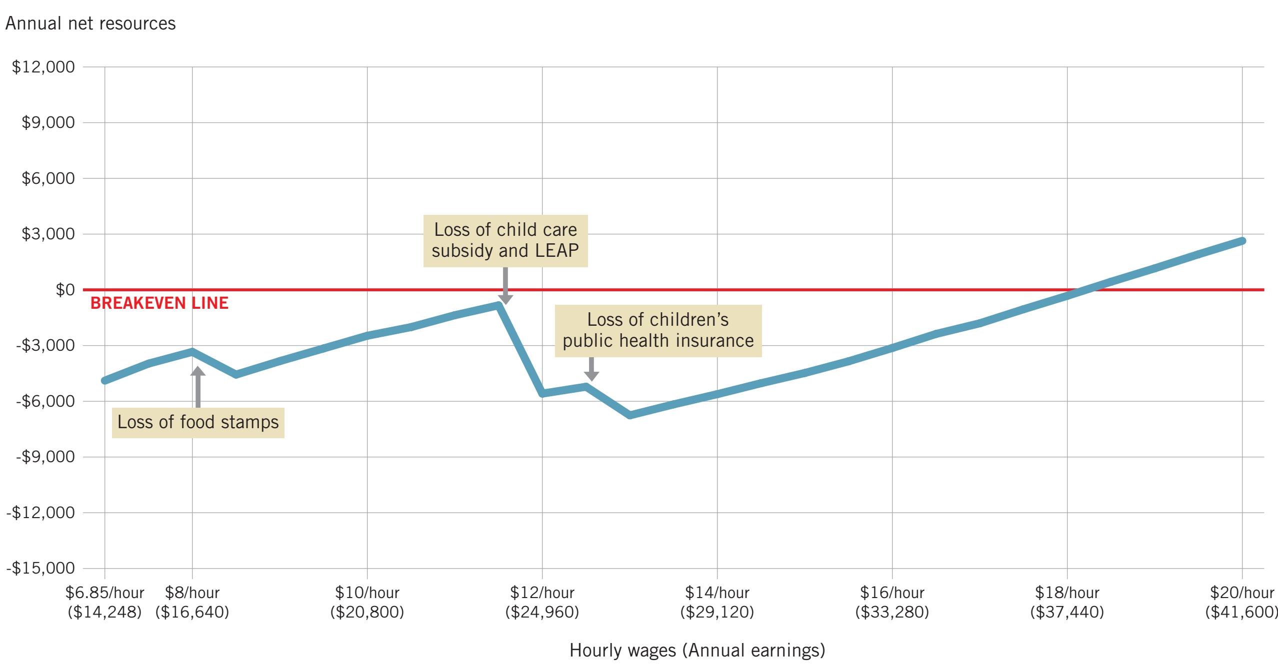
Figure 6. Basic Needs Budget for a Single Parent with One Child in Denver County[16]

Rent and Utilities	$10,908
Food	$3,601
Child Care	$8,060
Health Insurance	$2,768
Transportation	$3,367
Other Necessities*	$3,917
Payroll and Income Taxes	$5,355
TOTAL ANNUAL BUDGET	**$37,976**
Hourly wage (40 hours/week, 52 weeks/year):	$18/hour

*Examples of "other necessities" include clothing, school supplies, household items, and personal care expenses.

Source: Derived from NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org). Budget is based on the following assumptions: family has one preschool-aged child; child is in center-based care settings while parent works; family members have access to employer-based health insurance.

Figure 7. Change in Net Resources as Earnings Increase, Single Parent with One Child in Denver County[17]



Annual net resources: Annual resources minus annual expenses.

Annual earnings: Assuming full-time work (40 hours/week, 52 weeks/year).

Breakeven line: Where family resources equal the cost of basic expenses.

Work supports (when eligible): Federal EITC, state child care tax credit, food stamps, LEAP, child care subsidy, and public health insurance for children. Throughout this earnings range, the parent is ineligible for public health insurance for herself and the family is ineligible for TANF cash assistance.

Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

Moreover, as in the example above, benefit cliffs make it difficult for the parent to get ahead by earning more. With $11 in hourly wages, the family is close to making ends meet. But just a $2-an-hour raise leads to the loss of child care assistance, LEAP, and children's public health insurance coverage.[18] As a result, when the parent is earning $13 an hour, her family faces a gap of about $6,800 between annual resources and expenses.

The Cliff Effect in Seven Colorado Counties

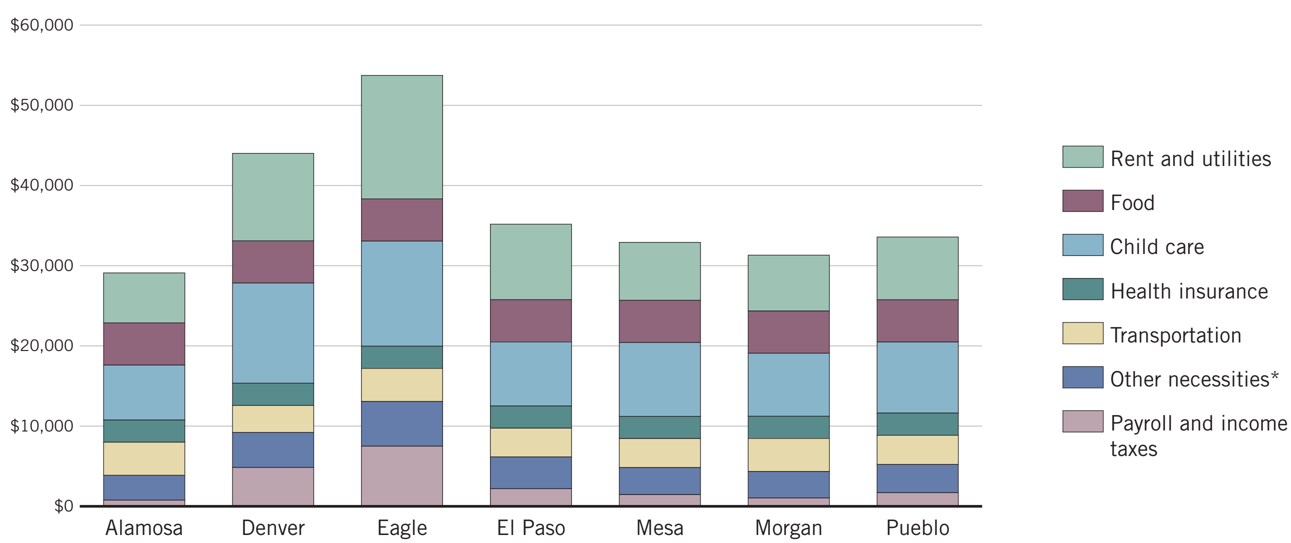
In all seven of the counties analyzed for this report—Alamosa, Denver, Eagle, El Paso, Mesa, Morgan, and Pueblo—full-time employment at low wages is not enough to provide for a family. Across the counties, a basic budget for a single parent with two children ranges from $29,000 to $54,000—the equivalent of working full-time, year-round for $14 to $26 an hour (see Figure 8; see Appendix A, Figure 1 for details). For a single parent with one child, a basic budget ranges from $26,000 to $48,000 (see Appendix A, Figure 2).

Analysis across these seven counties indicates that costs are lowest in rural areas, higher in urban areas, and highest in resort counties. In rural Alamosa County, for example, a single parent with two children must earn roughly $29,000 a year—the equivalent of a full-time, year-round job at $14 per hour—to make ends meet without the help of work supports. In rural Morgan County, the basic needs budget is slightly higher at about $31,000 a year.

In three of the four urban counties analyzed—El Paso, Mesa, and Pueblo—costs are very similar: a single parent with two children needs between $33,000 and $35,000 a year, or $16 to $17 an hour, to afford basic expenses. This is less than the $21 an hour needed in (urban) Denver County, but still more than twice the state's minimum wage of $6.85. Finally, in the resort county of Eagle, where the cost of housing is particularly high, a single parent with two children needs to work full-time, year round at $26 per hour just to cover her family's minimum daily needs.

Despite variation in the cost of living, however, benefit cliffs affect families statewide. In all counties, for example, families face a similar cliff when they exceed the income limit for food stamps. But while eligibility rules for most work support programs are consistent across

Figure 8. Basic Needs Budget for a Single Parent with Two Children Across Localities[19]



*Examples of "other necessities" include clothing, school supplies, household items, and personal care items.

Source: Derived from NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org). Budgets are based on the following assumptions: family has one preschool-aged child and one school-aged child; children are in center-based care settings while their parent works (the older child is in after-school care); family members have access to employer-based health insurance.

the counties, child care subsidies are a significant exception. In the Colorado Child Care Assistance Program (CCCAP), counties have the discretion to set income limits anywhere between 130 to 225 percent of the federal poverty level. In the seven counties analyzed for this report, the income limit for a single parent with two children ranges from $23,240 to $37,350 a year (see box).

Colorado Child Care Assistance Program: Income Limits by County (as of December 2006*)

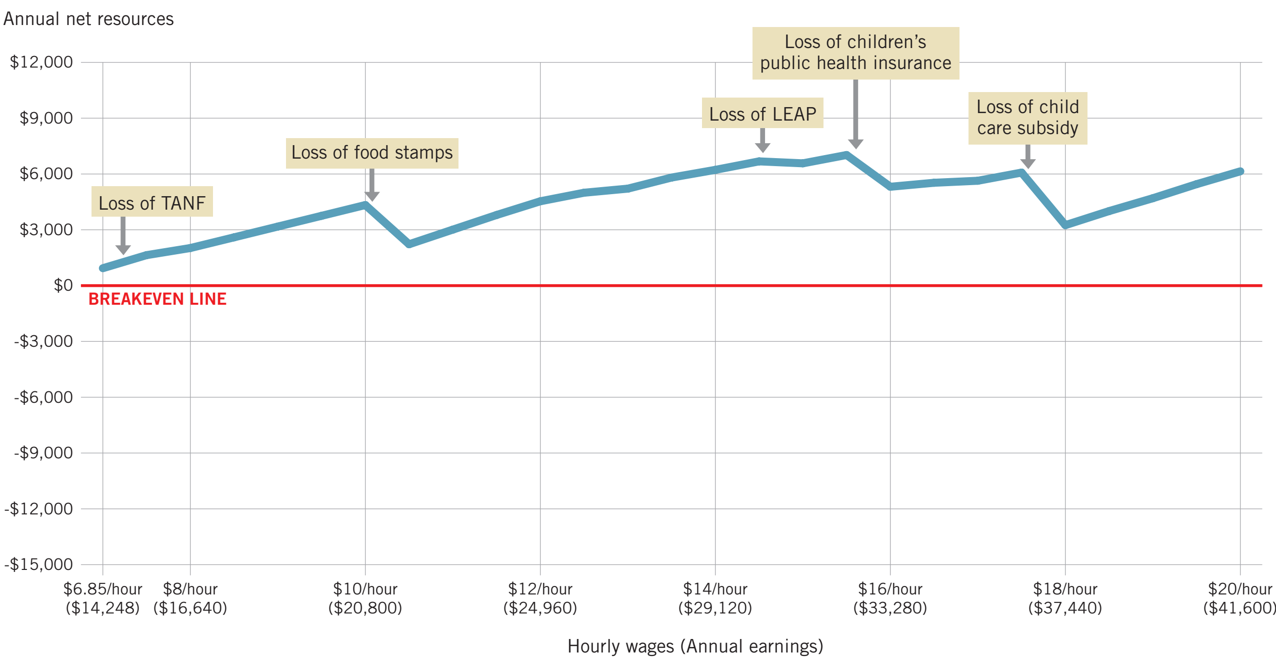
County	Income limit as % of the federal poverty level	Income limit for a single parent with two children
Alamosa	150%	$24,900/year
Denver	185%	$30,710/year
Eagle	185%	$30,710/year
El Paso	140%	$23,240/year
Mesa	225%	$37,350/year
Morgan	175%	$29,050/year
Pueblo	170%	$28,220/year

*Since December 2006, the income limit has changed in some counties. As of June 2007, the income limit in Denver and Eagle counties was 225% of the federal poverty level, and the limit in Pueblo was 185% of the poverty level.

Figure 9 illustrates the impact of benefit cliffs in Mesa County, where the eligibility limit for child care subsidies is set at the state maximum of 225 percent of poverty. This figure shows how net resources change as earnings increase for a single parent with two children, one preschool-aged and one school-aged. Again, the analysis assumes that the family receives multiple benefits when eligible: the federal EITC, the state child care tax credit, TANF cash assistance, food stamps, LEAP, child care assistance, and public health insurance. (See Appendix B for similar figures for each of seven Colorado counties, and for two family types: a single parent with two children and a single parent with one child; see Appendix C, Figures 1 and 2 for these results in table form.)

As in Denver County, the family in Mesa faces the first cliff when wages reach $10.50 an hour and food stamps are lost. The family then faces a second, smaller setback when wages rise to $15 an hour, and the family loses LEAP. And a raise to $16 an hour leads to another cliff, as the children lose public health insurance coverage

Figure 9. Change in Net Resources as Earnings Increase, Single Parent with Two Children in Mesa County[20]



Annual net resources: Annual resources minus annual expenses.

Annual earnings: Assuming full-time work (40 hours/week, 52 weeks/year).

Breakeven line: Where family resources equal the cost of basic expenses.

Work supports (when eligible): Federal EITC, state child care tax credit, TANF cash assistance, food stamps, LEAP, child care subsidy, and public health insurance for children. Throughout this earnings range, the parent is ineligible for public health insurance for herself.

Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

(the parent is ineligible for public coverage even when earning the minimum wage).

The final benefit cliff occurs when wages reach $18 an hour, and the family loses its child care subsidy. Although still significant, the child care cliff in Mesa is notably smaller than in Denver (compare results in Figure 9 to Figure 3 above). With a child care subsidy, the family contributes to the cost of the children's care with a copayment that increases as earnings rise. Thus with a higher eligibility limit, the family is already paying a greater proportion of the cost before losing the subsidy and having to pay the full amount.

In Mesa County, unlike in Denver, doubling the parent's wages from $8 to $16 an hour results in a financial gain for the family. Figure 10 calculates the change in net resources for a single parent with two children, as the parent's wages increase from $8 to $16 an hour—an annual earnings increase of $16,640. In Mesa, the family's net resources increase by $3,294. (See Appendix C, Figures 3 and 4 for more detailed results for two family types.)

Figure 10. Change in Net Resources as Earnings Double, Single Parent with Two Children in Seven Colorado Counties[21]

County	Full-time job at $8/hr *plus* work supports ($16,640/yr)	Full-time job at $16/hr *plus* work supports ($33,280/yr)	Change in net resources (Earnings increase: $16,640/yr)
Alamosa	$2,785	$4,423	$1,638
Denver	-$2,403	-$6,407	-$4,004
Eagle	-$8,858	-$13,473	-$4,615
El Paso	-$728	-$223	$505
Mesa	$2,020	$5,314	$3,294
Morgan	$1,856	$2,486	$630
Pueblo	$1,258	$881	-$377

Work Supports (when eligible): Federal EITC, state child care tax credit, TANF cash assistance, food stamps, LEAP, child care subsidy, and public health insurance.

Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

A net gain of $3,294 represents only *20 percent* of the parent's $16,640 in increased annual earnings. The rest of the earnings increase is offset by reduced benefits and increased tax liability. Nonetheless, it is a larger gain than in any of the other counties analyzed. A raise from $8 to $16 an hour yields only $505 to $1,638 a year in additional net resources in Alamosa, El Paso, and Morgan counties. And in Denver, Eagle, and Pueblo counties, the family loses ground.

The bottom line is that more needs to be done to ensure that Colorado's policies support low-wage workers and their families. Employment at low wages is not enough to support a family, and while work supports help, the cliff effect makes it difficult for Colorado's families to get ahead by working and earning more.

Endnotes

1. Families and children are defined as low-income if family income is less than twice the official federal poverty threshold, or about $34,000 a year for a family of three in 2007. Source: NCCP analysis based on the U.S. Current Population Survey, Annual Social and Economic Supplements, March 2004, 2005, and 2006, representing information from 2003, 2004, and 2005.

2. These statistics refer to the employment level of the parent in the household who maintained the highest level of employment in the previous year, with "full-time" defined as working at least 50 weeks and for at least 35 hours during a majority of those weeks. "Part-time" is defined as working less than that. Source: NCCP analysis based on the U.S. Current Population Survey, Annual Social and Economic Supplements, March 2004, 2005, and 2006, representing information from 2003, 2004, and 2005.

3. See The Annie E. Casey Foundation. County-Level Information on Kids (CLIKS) <www.kidscount.org/cgi-bin/cliks.cgi>. Accessed May 1, 2007.

4. The findings presented in this report are based on analysis of data from NCCP's Family Resource Simulator (www.nccp.org/tools/frs) and reflect policy rules in effect in Colorado as of December 2006. "Payroll and income taxes" take into account the federal Child Tax Credit and federal Child and Dependent Care Tax Credit, but not the federal Earned Income Tax Credit (EITC) or the state child care tax credit. These credits are considered work supports, and when the family receives such benefits (as indicated in the text), they are included in family resources. For more information about how the Family Resources Simulator estimates the cost of family expenses, see Appendix D.

5. As of March 2007, all eligible applicants were being served, though there have been waiting lists in some counties during the past few years. When waiting lists are in effect, they are managed at the county level. Source: Personal e-mail communication with Leslie Bulicz, Colorado Department of Human Services, Division of Child Care, March 27, 2007.

6. In addition, federal housing vouchers provide considerable assistance in offsetting the cost of housing—one of families' largest expenses. However, only a small fraction of eligible applicants are served. Of the seven counties analyzed for this report, four are accepting applications (Eagle, Mesa, Morgan, and Pueblo) but have waiting list of 1 to 5 years. In Alamosa and El Paso counties, the waiting lists are closed. In Denver County, applications are accepted during a two-day "lottery" each January; in 2006, about 10 percent of applicants received a voucher by the end of the year. Source: Personal email and telephone communication with staff at the housing authorities of Alamosa, Brush (Morgan County), Denver, Garfield (Eagle County), Colorado Springs (El Paso County), Fountain (El Paso County), Grand Junction (Mesa County), and Pueblo. April 5-13, 2007.

7. See endnote 4.

8. For more on these issues, see Cauthen, N. K. (2006). *When work doesn't pay: What every policymaker should know*. New York, NY: National Center for Children in Poverty, Columbia University Mailman School of Public Health <www.nccp.org/publications/pub_666.html>.

9. Eligibility for TANF cash assistance is calculated assuming the family is eligible for the two-thirds earnings disregard that is available to recipients during their first year in the TANF program.

10. Results reflect policy rules in effect in December 2006 when the income eligibility limit for child care subsidies in Denver County was 185 percent of the federal poverty level. In April 2007, Denver County increased the limit to 225 percent of the poverty level.

11. These analyses assume that both children are cared for in a center-based setting, like the majority of children in Colorado's Child Care Assistance Program. Preliminary data for fiscal year 2005 indicate that among children with child care subsidies in Colorado, 60 percent were cared for in licensed center-based settings. Another 19 percent of children were in licensed family care. The remaining children were cared for in license-exempt, home-based settings. Source: U.S. Child Care Bureau. (2006). Table 6-Child Care and Development Fund Preliminary Estimates: Average Monthly Percentages of Children Served in All Types of Care (FFY 2005) <www.acf.hhs.gov/programs/ccb/data/ccdf_data/05acf800/table6.htm>. Accessed April 4, 2007.

12. See endnote 4.

13. See endnote 4.

14. Note, however, that the family would still face a shortfall on a monthly basis. While a portion of a family's estimated federal EITC benefit can be claimed in advance on a monthly basis, in practice, over 99 percent of claimants receive their benefits in a lump sum after filing their taxes at the end of the year. See Smeeding, T. M.; Phillips, K. R.; & O'Connor, M. (2000). The EITC: Expectation, knowledge, use, and economic and social mobility. *National Tax Journal, 53*(4), part 2, pp. 1187–1209.

15. See endnote 4.

16. See endnote 4.

17. See endnote 4.

18. See endnote 10.

19. See endnote 4.

20. See endnote 4.

21. See endnote 4.

Appendix A: Basic Needs Budgets

Figure 1. Basic Needs Budget for a Single Parent with Two Children

	Alamosa	Denver	Eagle	El Paso	Mesa	Morgan	Pueblo
Rent and Utilities	$6,228	$10,908	$15,396	$9,420	$7,224	$6,960	$7,824
Food	$5,266	$5,266	$5,266	$5,266	$5,266	$5,266	$5,266
Child Care	$6,851	$12,493	$13,104	$7,983	$9,205	$7,859	$8,866
Health Insurance	$2,768	$2,768	$2,768	$2,768	$2,768	$2,768	$2,768
Transportation	$4,122	$3,367	$4,122	$3,582	$3,623	$4,122	$3,623
Other Necessities*	$3,103	$4,367	$5,579	$3,965	$3,372	$3,301	$3,534
Payroll and Income Taxes	$766	$4,844	$7,494	$2,194	$1,456	$1,037	$1,697
TOTAL ANNUAL BUDGET	**$29,104**	**$44,012**	**$53,729**	**$35,178**	**$32,913**	**$31,312**	**$33,578**
Hourly wage (40 hours/week, 52 weeks/year)	$14/hour	$21/hour	$26/hour	$17/hour	$16/hour	$15/hour	$16/hour

Figure 2. Basic Needs Budget for a Single Parent with One Child

	Alamosa	Denver	Eagle	El Paso	Mesa	Morgan	Pueblo
Rent and Utilities	$6,228	$10,908	$15,396	$9,420	$7,224	$6,960	$7,824
Food	$3,601	$3,601	$3,601	$3,601	$3,601	$3,601	$3,601
Child Care	$4,420	$8,060	$9,100	$5,151	$5,938	$5,070	$5,720
Health Insurance	$2,768	$2,768	$2,768	$2,768	$2,768	$2,768	$2,768
Transportation	$4,122	$3,367	$4,122	$3,582	$3,623	$4,122	$3,623
Other Necessities*	$2,654	$3,917	$5,129	$3,516	$2,923	$2,851	$3,085
Payroll and Income Taxes	$1,795	$5,355	$8,290	$3,511	$2,694	$2,429	$2,939
TOTAL ANNUAL BUDGET	**$25,588**	**$37,976**	**$48,407**	**$31,549**	**$28,771**	**$27,802**	**$29,559**
Hourly wage (40 hours/week, 52 weeks/year)	$12/hour	$18/hour	$23/hour	$15/hour	$14/hour	$13/hour	$14/hour

* Examples of "other necessities" include clothing, school supplies, household items, and personal care expenses.

Source: Derived from NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org). Budgets are based on the following assumptions: family with one child has a preschool-aged child and family with two has one preschool-aged child and one school-aged child; children are in center-based care settings while their parent works (the older child is in after-school care); family members have access to employer-based health insurance.

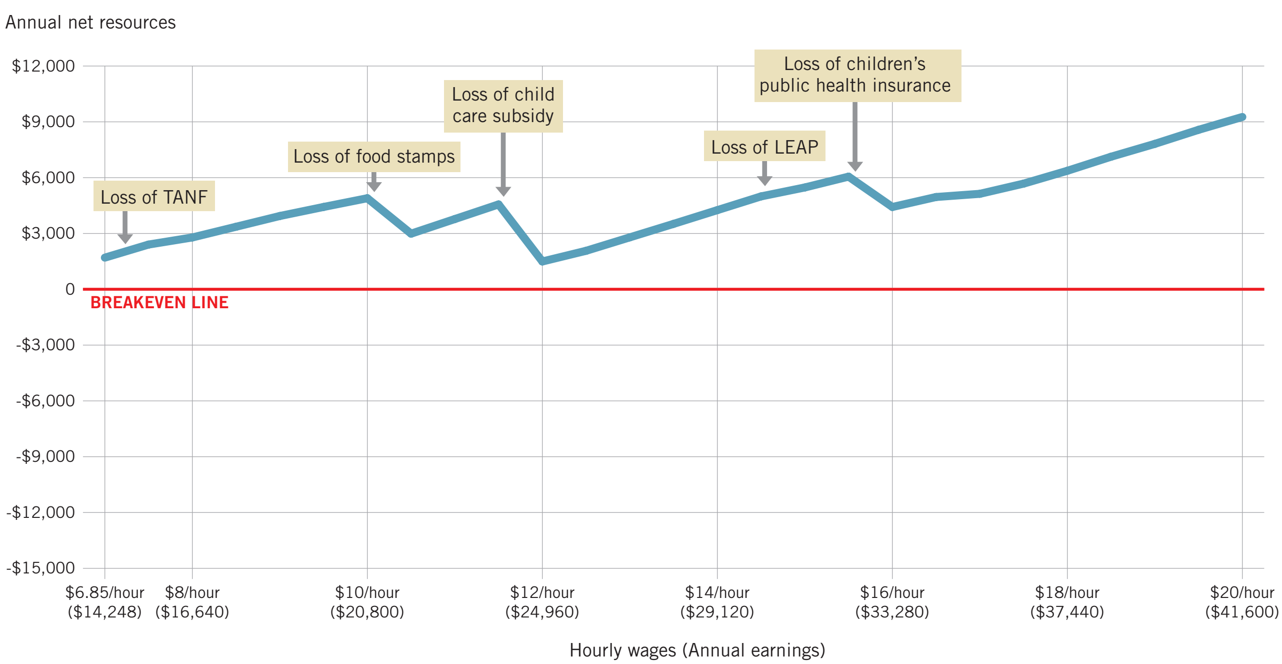
Appendix B: Charting the Cliff Effect in Seven Colorado Counties

I. The "Cliff Effect" in Alamosa County

Figure 1 highlights the impact of work supports on the budget of a low- to moderate-income family living in Alamosa County.[1] It shows how the family's net resources—that is, resources after subtracting basic expenses—change as the parent's earnings gradually increase from the state minimum wage of $6.85 an hour to $20 an hour. Basic expenses include rent and utilities, food, child care, health insurance, transportation, other necessities, and payroll and income taxes.[2] The results are based on a single parent with two children—one preschool-aged and one school-aged—that receives the following benefits when eligible: Temporary Assistance for Needy Families (TANF) cash assistance, food stamps, low-income energy assistance (LEAP), child care subsidies, public health insurance, and federal and state tax credits.

With multiple benefits and a full-time minimum wage job, the parent is just able to make ends meet, with a small annual surplus of about $1,700 after minimum basic expenses have been paid. But as the parent's earnings increase, a series of "cliffs"—where a small increase in earnings leads to a significant loss in benefits—keep the family struggling to get ahead. The

Figure 1. Change in Net Resources as Earnings Increase, Single Parent with Two Children in Alamosa County



Annual net resources: Annual resources minus annual expenses.

Annual earnings: Assuming full-time work (40 hours/week, 52 weeks/year).

Breakeven line: Where family resources equal the cost of basic expenses.

Work supports (when eligible): Federal EITC, state child care tax credit, TANF cash assistance, food stamps, LEAP, child care subsidy, and public health insurance for children. Throughout this earnings range, the parent is ineligible for public health insurance for herself.

Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

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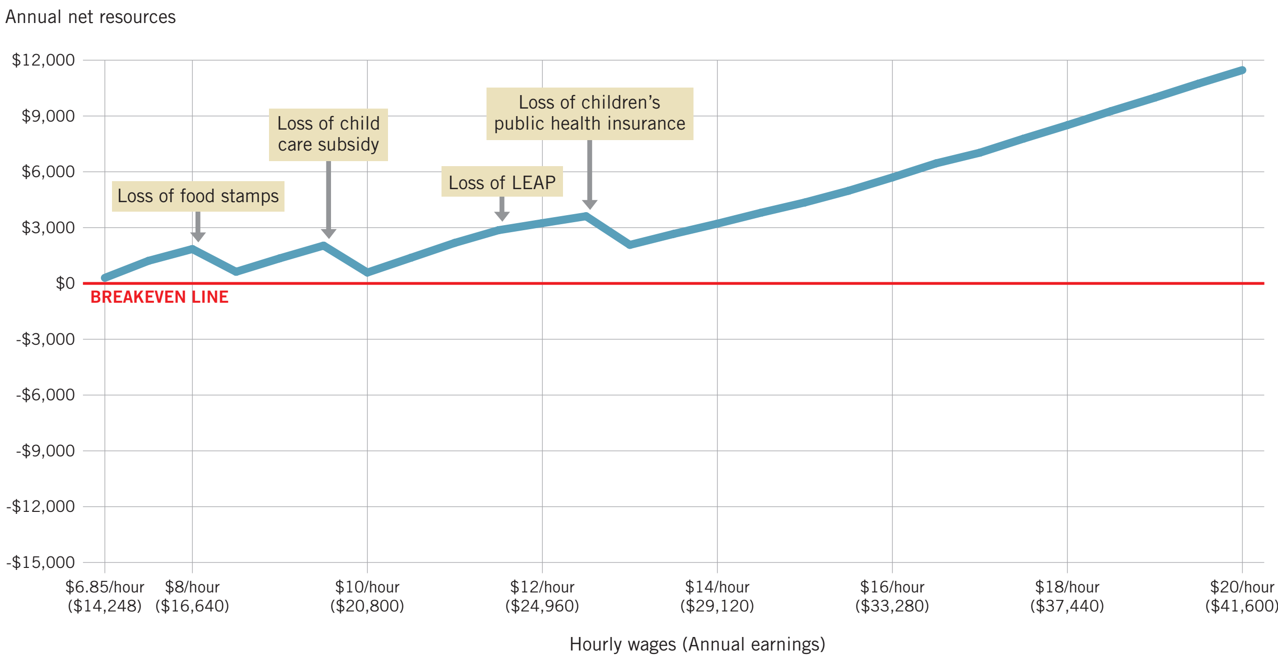
[1] Results are based on analysis of data from NCCP's Family Resource Simulator (www.nccp.org/tools/frs) and reflect policy rules in effect in Colorado as of December 2006.

[2] See Appendix A, Figure 1 for specific budget information; see Appendix D for details about how this budget is estimated.

family experiences its first cliff as wages increase from $10 to $10.50 an hour, and food stamps are lost. A small additional raise to $12 an hour puts the family over the income limit for child care assistance, leading to the second significant cliff. When wages rise to $15 an hour, the family faces a smaller setback due to the loss of LEAP. Then another cliff occurs when wages increase to $16 an hour, and the children lose public health insurance coverage (the parent is ineligible for public coverage even when earning the minimum wage). As a result of these losses, the family is only slightly better off at $16 and hour than when the parent was earning the minimum wage.

Figure 2 presents results for a single parent with one preschool-aged child in Alamosa County. The interaction between earnings, expenses, and benefits varies, but overall patterns are similar.

Figure 2. Change in Net Resources as Earnings Increase, Single Parent with One Child in Alamosa County



Annual net resources: Annual resources minus annual expenses.

Annual earnings: Assuming full-time work (40 hours/week, 52 weeks/year).

Breakeven line: Where family resources equal the cost of basic expenses.

Work supports (when eligible): Federal EITC, state child care tax credit, food stamps, LEAP, child care subsidy, and public health insurance for children. Throughout this earnings range, the parent is ineligible for public health insurance for herself and the family is ineligible for TANF cash assistance.

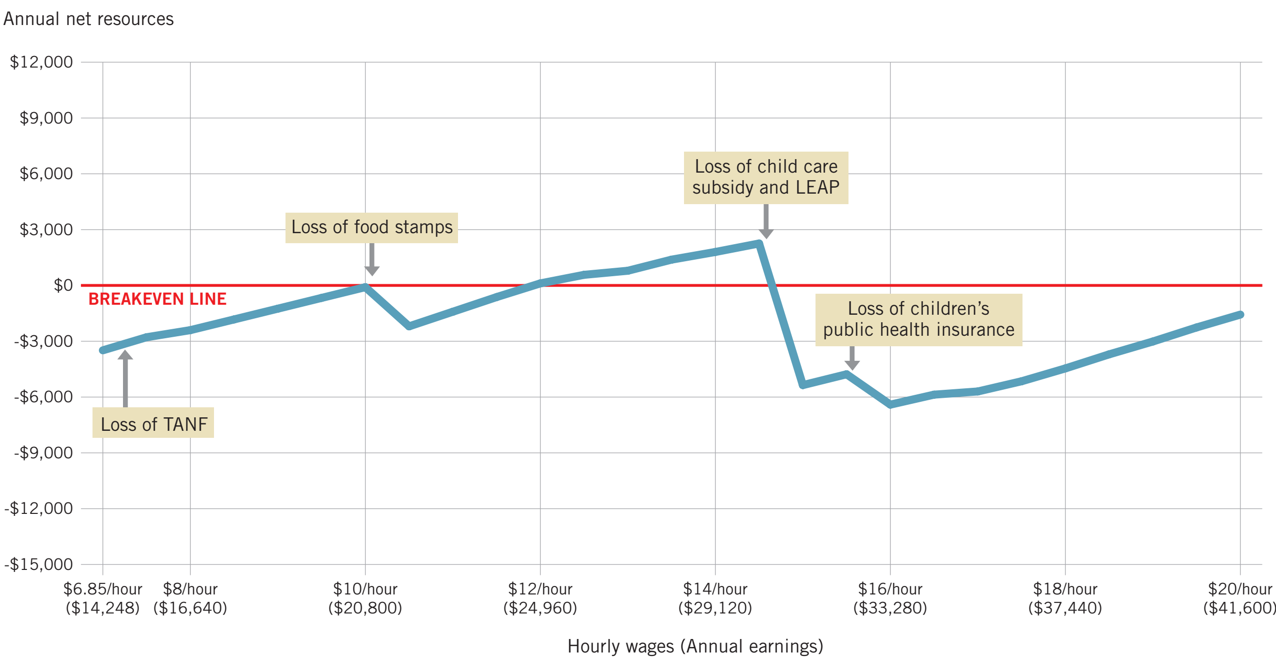
Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

II. The "Cliff Effect" in Denver County

Figure 1 highlights the impact of work supports on the budget of a low- to moderate-income family living in Denver County.[1] It shows how the family's net resources —that is, resources after subtracting basic expenses— change as the parent's earnings gradually increase from the state minimum wage of $6.85 an hour to $20 an hour. Basic expenses include rent and utilities, food, child care, health insurance, transportation, other necessities, and payroll and income taxes.[2] The results are based on a single parent with two children—one preschool-aged and one school-aged—that receives the following benefits when eligible: Temporary Assistance for Needy Families (TANF) cash assistance, food stamps, low-income energy assistance (LEAP), child care subsidies, public health insurance, and federal and state tax credits.

With multiple benefits and a full-time minimum wage job, the parent is unable to make ends meet. And as the parent's earnings increase, a series of "cliffs"—where a small increase in earnings leads to a significant loss in benefits—keep the family struggling to get ahead. The family experiences its first cliff as wages increase from $10 to $10.50 an hour, and food stamps are lost. The next cliff occurs when wages rise to $15 an hour, and the family simultaneously loses child care assistance and LEAP. The loss of subsidized child care, in particular, is a huge financial hit. Another raise to $16 an hour

Figure 1. Change in Net Resources as Earnings Increase, Single Parent with Two Children in Denver County



Annual net resources: Annual resources minus annual expenses.

Annual earnings: Assuming full-time work (40 hours/week, 52 weeks/year).

Breakeven line: Where family resources equal the cost of basic expenses.

Work supports (when eligible): Federal EITC, state child care tax credit, TANF cash assistance, food stamps, LEAP, child care subsidy, and public health insurance for children. Throughout this earnings range, the parent is ineligible for public health insurance for herself.

Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

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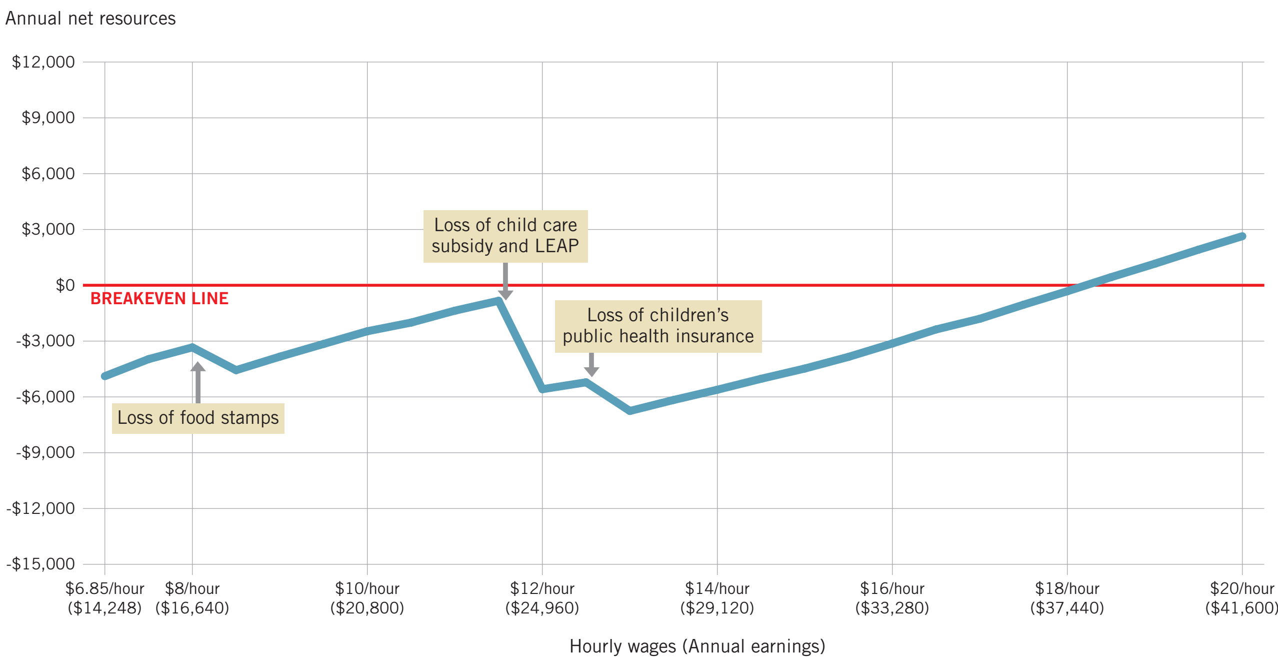
[1] Results are based on analysis of data from NCCP's Family Resource Simulator (www.nccp.org/tools/frs) and reflect policy rules in effect in Colorado as of December 2006. Note that in April 2007, Denver County increased the income eligibility limit for child care subsidies from 185 percent of the federal poverty level to 225 percent.

[2] See Appendix A, Figure 1 for specific budget information; see Appendix D for details about how this budget is estimated.

puts the family over the income limit for children's public health insurance coverage (the parent is ineligible for public coverage even when earning the minimum wage), leading to a third benefit cliff. As a result of these losses, the family is worse off at $16 an hour than it was when the parent was making the minimum wage.

Figure 2 presents results for a single parent with one preschool-aged child in Denver County. The interaction between earnings, expenses, and benefits varies, but overall patterns are similar.

Figure 2. Change in Net Resources as Earnings Increase, Single Parent with One Child in Denver County



Annual net resources: Annual resources minus annual expenses.

Annual earnings: Assuming full-time work (40 hours/week, 52 weeks/year).

Breakeven line: Where family resources equal the cost of basic expenses.

Work supports (when eligible): Federal EITC, state child care tax credit, food stamps, LEAP, child care subsidy, and public health insurance for children. Throughout this earnings range, the parent is ineligible for public health insurance for herself and the family is ineligible for TANF cash assistance.

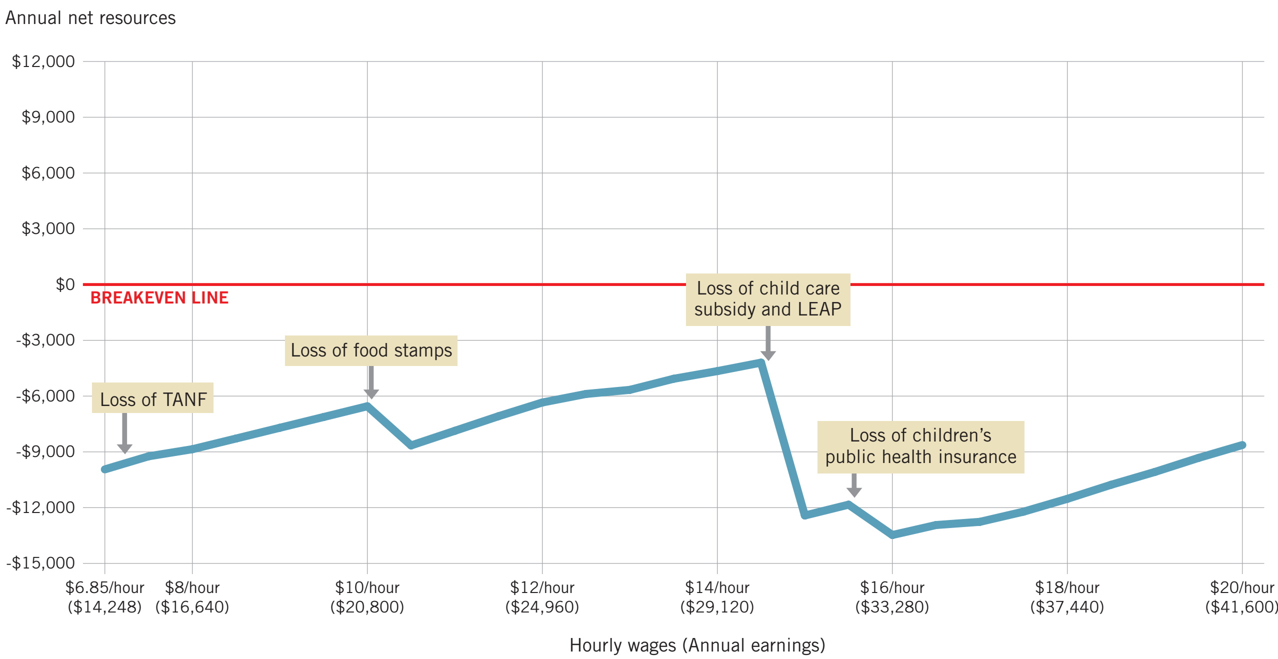
Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

III. The "Cliff Effect" in Eagle County

Figure 1 highlights the impact of work supports on the budget of a low- to moderate-income family living in Eagle County.[1] It shows how the family's net resources —that is, resources after subtracting basic expenses— change as the parent's earnings gradually increase from the state minimum wage of $6.85 an hour to $20 an hour. Basic expenses include rent and utilities, food, child care, health insurance, transportation, other necessities, and payroll and income taxes.[2] The results are based on a single parent with two children—one preschool-aged and one school-aged—that receives the following benefits when eligible: Temporary Assistance for Needy Families (TANF) cash assistance, food stamps, low-income energy assistance (LEAP), child care subsidies, public health insurance, and federal and state tax credits.

With multiple benefits and a full-time minimum wage job, the parent is unable to make ends meet. And as the parent's earnings increase, a series of "cliffs"—where a small increase in earnings leads to a significant loss in benefits—keep the family struggling to get ahead. In fact, throughout the entire earnings range shown in Figure 1, the family faces a significant shortfall between annual resources and the cost of basic expenses. The family experiences its first cliff as wages increase from $10 to $10.50 an hour, and food stamps are lost. The next cliff occurs when wages rise to $15 an hour, and

Figure 1. Change in Net Resources as Earnings Increase, Single Parent with Two Children in Eagle County



Annual net resources: Annual resources minus annual expenses.

Annual earnings: Assuming full-time work (40 hours/week, 52 weeks/year).

Breakeven line: Where family resources equal the cost of basic expenses.

Work supports (when eligible): Federal EITC, state child care tax credit, TANF cash assistance, food stamps, LEAP, child care subsidy, and public health insurance for children. Throughout this earnings range, the parent is ineligible for public health insurance for herself.

Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

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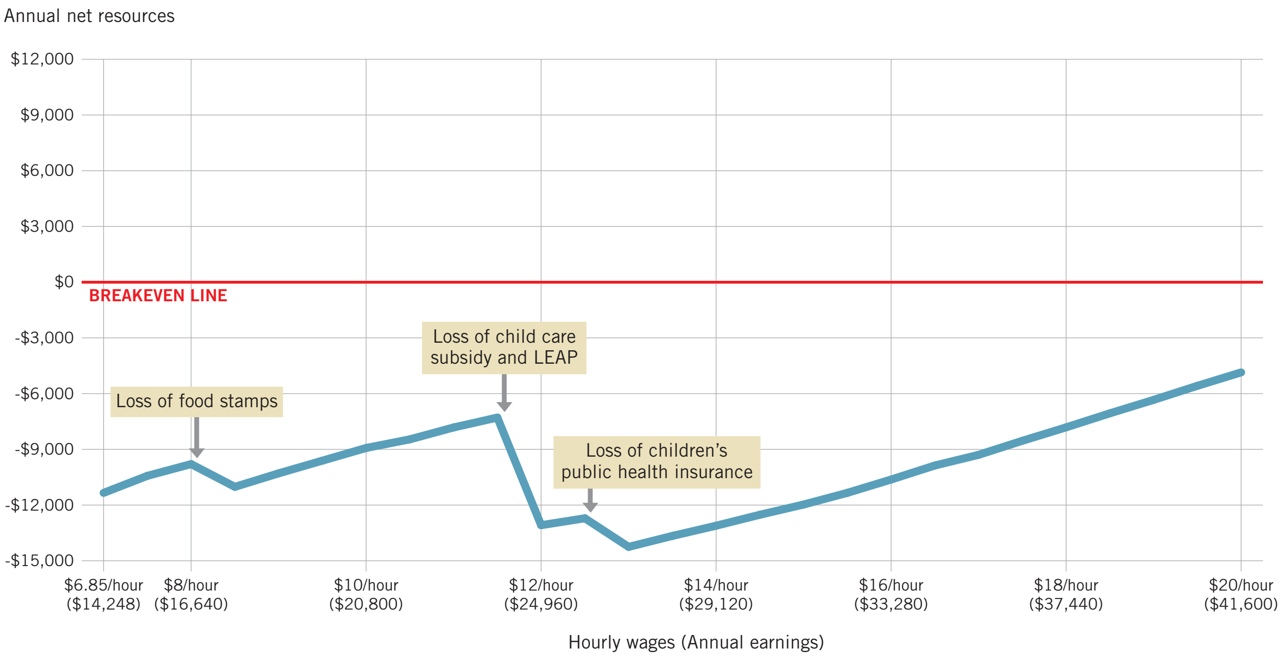
[1] Results are based on analysis of data from NCCP's Family Resource Simulator (www.nccp.org/tools/frs) and reflect policy rules in effect in Colorado as of December 2006. Note that in May 2007, Eagle County increased the income eligibility limit for child care subsidies from 185 percent of the federal poverty level to 225 percent.

[2] See Appendix A, Figure 1 for specific budget information; see Appendix D for details about how this budget is estimated.

the family simultaneously loses child care assistance and LEAP. The loss of subsidized child care, in particular, is a huge financial hit. Another raise to $16 an hour puts the family over the income limit for children's public health insurance coverage (the parent is ineligible for public coverage even when earning the minimum wage), leading to a third benefit cliff. As a result of these losses, the family is worse off at $16 an hour than it was when the parent was making the minimum wage.

Figure 2 presents results for a single parent with one preschool-aged child in Eagle County. The interaction between earnings, expenses, and benefits varies, but overall patterns are similar.

Figure 2. Change in Net Resources as Earnings Increase, Single Parent with One Child in Eagle County



Annual net resources: Annual resources minus annual expenses.

Annual earnings: Assuming full-time work (40 hours/week, 52 weeks/year).

Breakeven line: Where family resources equal the cost of basic expenses.

Work supports (when eligible): Federal EITC, state child care tax credit, food stamps, LEAP, child care subsidy, and public health insurance for children. Throughout this earnings range, the parent is ineligible for public health insurance for herself and the family is ineligible for TANF cash assistance.

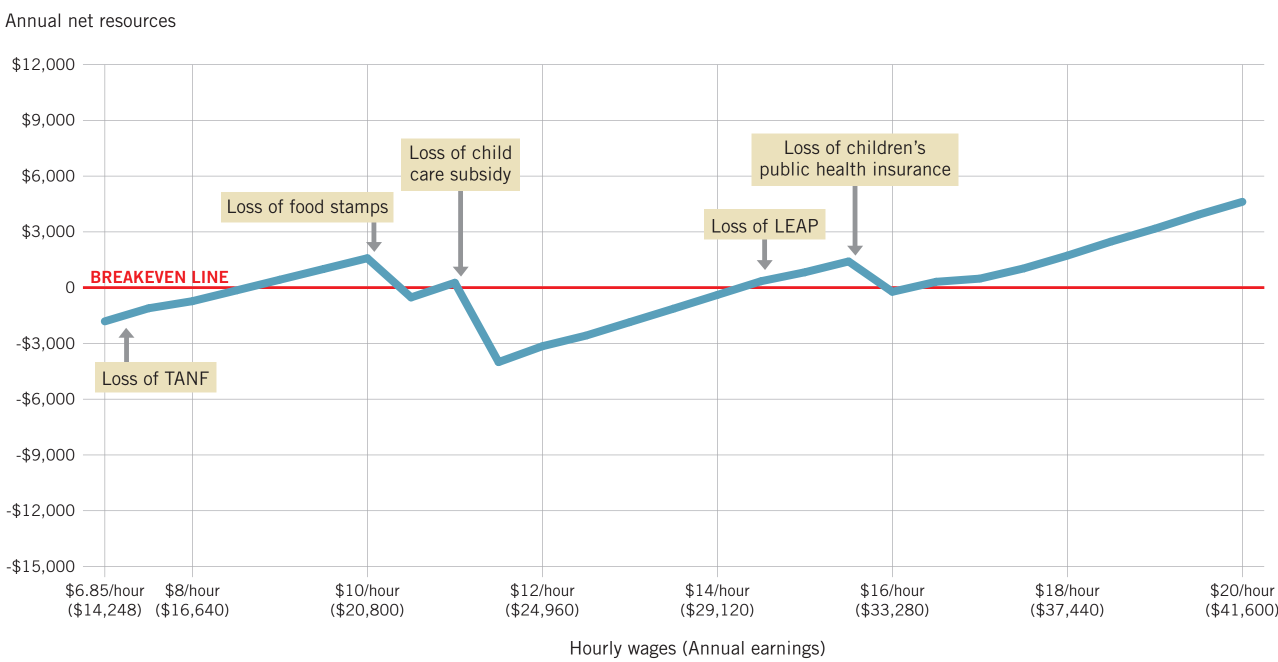
Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

IV. The "Cliff Effect" in El Paso County

Figure 1 highlights the impact of work supports on the budget of a low- to moderate-income family living in El Paso County.[1] It shows how the family's net resources —that is, resources after subtracting basic expenses— change as the parent's earnings gradually increase from the state minimum wage of $6.85 an hour to $20 an hour. Basic expenses include rent and utilities, food, child care, health insurance, transportation, other necessities, and payroll and income taxes.[2] The results are based on a single parent with two children—one preschool-aged and one school-aged—that receives the following benefits when eligible: Temporary Assistance for Needy Families (TANF) cash assistance, food stamps, low-income energy assistance (LEAP), child care subsidies, public health insurance, and federal and state tax credits.

With multiple benefits and a full-time minimum wage job, the parent is unable to make ends meet. And as the parent's earnings increase, a series of "cliffs"—where a small increase in earnings leads to a significant loss in benefits—keep the family struggling to get ahead. The family experiences its first cliff as wages increase from $10 to $10.50 an hour, and food stamps are lost. A small additional raise to $11.50 an hour puts the family over the income limit for child care assistance, causing a significant financial hit. When wages rise to $15 an hour, the family faces a smaller setback due to the loss

Figure 1. Change in Net Resources as Earnings Increase, Single Parent with Two Children in El Paso County



Annual net resources: Annual resources minus annual expenses.

Annual earnings: Assuming full-time work (40 hours/week, 52 weeks/year).

Breakeven line: Where family resources equal the cost of basic expenses.

Work supports (when eligible): Federal EITC, state child care tax credit, TANF cash assistance, food stamps, LEAP, child care subsidy, and public health insurance for children. Throughout this earnings range, the parent is ineligible for public health insurance for herself.

Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

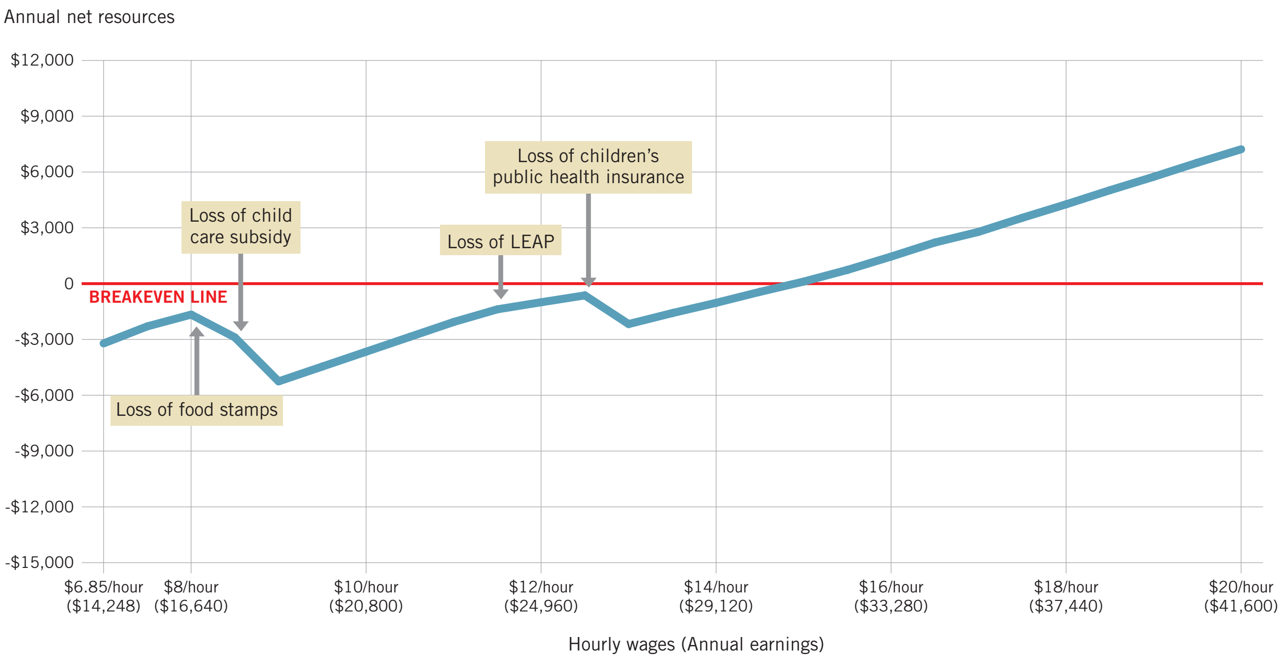
[1] Results are based on analysis of data from NCCP's Family Resource Simulator (www.nccp.org/tools/frs) and reflect policy rules in effect in Colorado as of December 2006.

[2] See Appendix A, Figure 1 for specific budget information; see Appendix D for details about how this budget is estimated.

of LEAP. Then another cliff occurs when wages increase to $16 an hour, and the children lose public health insurance coverage (the parent is ineligible for public coverage even when earning the minimum wage). As a result of these losses, the family is only slightly better off at $16 an hour than it was when the parent was making the minimum wage but still facing a deficit of annual net resources.

Figure 2 presents results for a single parent with one preschool-aged child in El Paso County. The interaction between earnings, expenses, and benefits varies, but overall patterns are similar.

Figure 2. Change in Net Resources as Earnings Increase, Single Parent with One Child in El Paso County



Annual net resources: Annual resources minus annual expenses.

Annual earnings: Assuming full-time work (40 hours/week, 52 weeks/year).

Breakeven line: Where family resources equal the cost of basic expenses.

Work supports (when eligible): Federal EITC, state child care tax credit, food stamps, LEAP, child care subsidy, and public health insurance for children. Throughout this earnings range, the parent is ineligible for public health insurance for herself and the family is ineligible for TANF cash assistance.

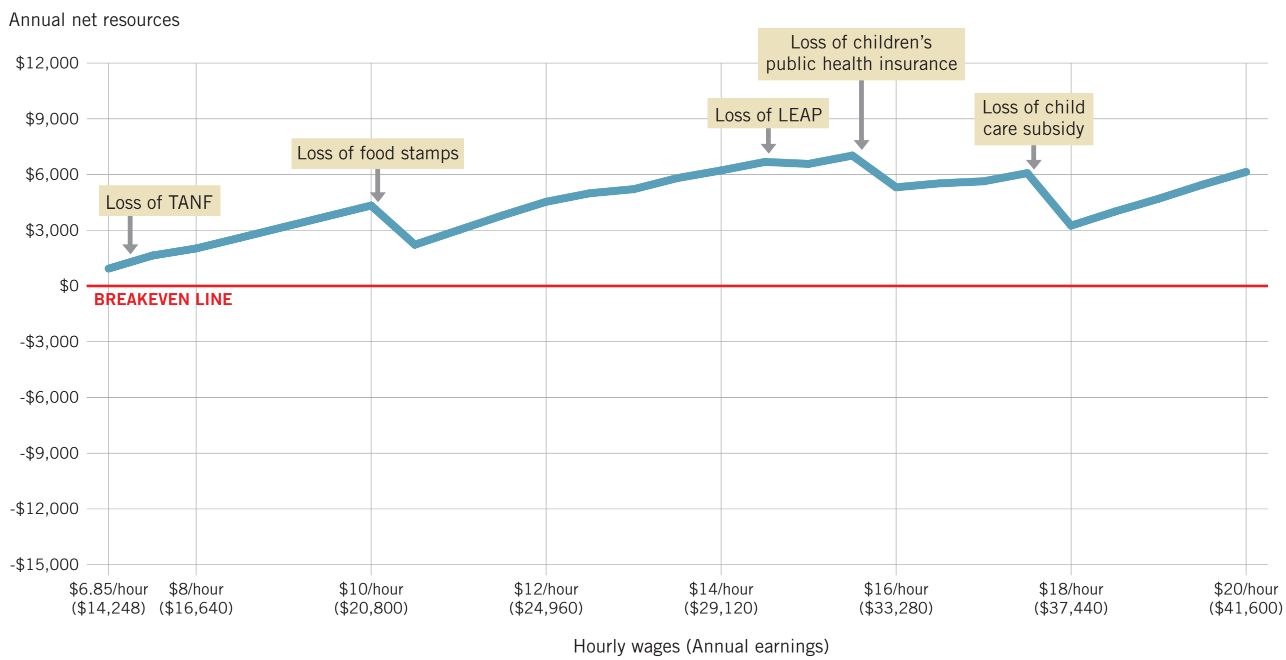
Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

V. The "Cliff Effect" in Mesa County

Figure 1 highlights the impact of work supports on the budget of a low- to moderate-income family living in Mesa County.[1] It shows how the family's net resources —that is, resources after subtracting basic expenses— change as the parent's earnings gradually increase from the state minimum wage of $6.85 an hour to $20 an hour. Basic expenses include rent and utilities, food, child care, health insurance, transportation, other necessities, and payroll and income taxes.[2] The results are based on a single parent with two children—one preschool-aged and one school-aged—that receives the following benefits when eligible: Temporary Assistance for Needy Families (TANF) cash assistance, food stamps, low-income energy assistance (LEAP), child care subsidies, public health insurance, and federal and state tax credits.

With multiple benefits and a full-time minimum wage job, the parent is just able to make ends meet, with a small annual surplus of about $900 after minimum basic expenses have been paid. But as the parent's earnings increase, a series of benefit "cliffs"—where a small increase in earnings leads to a significant loss in benefits—keep the family struggling to get ahead. The family experiences its first cliff as wages increase from $10 to $10.50 an hour, and food stamps are lost. When wages rise to $15 an hour, the family faces a smaller setback due to the loss of LEAP. Then another cliff occurs

Figure 1. Single Parent with Two Children in Mesa County: Change in Net Resources as Earnings Increase



Annual net resources: Annual resources minus annual expenses.

Annual earnings: Assuming full-time work (40 hours/week, 52 weeks/year).

Breakeven line: Where family resources equal the cost of basic expenses.

Work supports (when eligible): Federal EITC, state child care tax credit, TANF cash assistance, food stamps, LEAP, child care subsidy, and public health insurance for children. Throughout this earnings range, the parent is ineligible for public health insurance for herself.

Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

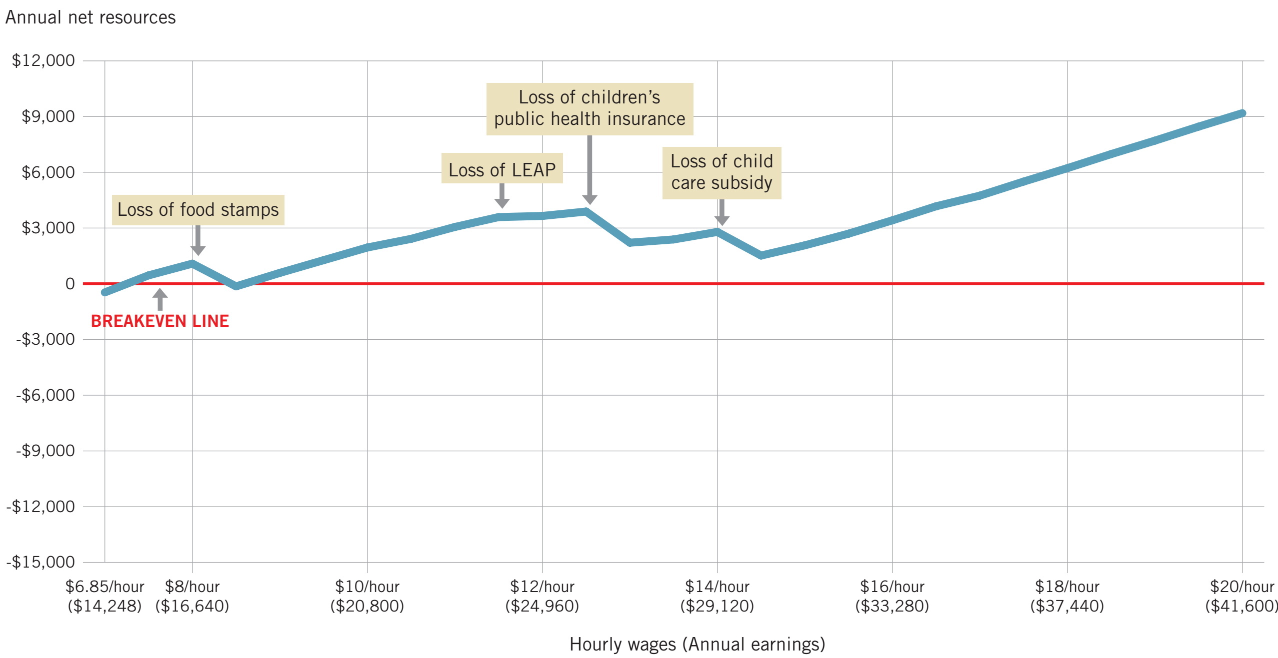
[1] Results are based on analysis of data from NCCP's Family Resource Simulator (www.nccp.org/tools/frs) and reflect policy rules in effect in Colorado as of December 2006.

[2] See Appendix A, Figure 1 for specific budget information; see Appendix D for details about how this budget is estimated.

when wages increase to $16 an hour, putting the family over the income limit for children's public health insurance coverage (the parent is ineligible for public coverage even when earning the minimum wage). Finally, when wages reach $18 an hour, the family loses its child care subsidy. As a result of these losses, the family is only slightly better off at $18 an hour than it was when the parent was making the minimum wage.

Figure 2 presents results for a single parent with one preschool-aged child in Mesa County. The interaction between earnings, expenses, and benefits varies, but overall patterns are similar.

Figure 2. Change in Net Resources as Earnings Increase, Single Parent with One Child in Mesa County



Annual net resources: Annual resources minus annual expenses.

Annual earnings: Assuming full-time work (40 hours/week, 52 weeks/year).

Breakeven line: Where family resources equal the cost of basic expenses.

Work supports (when eligible): Federal EITC, state child care tax credit, food stamps, LEAP, child care subsidy, and public health insurance for children. Throughout this earnings range, the parent is ineligible for public health insurance for herself and the family is ineligible for TANF cash assistance.

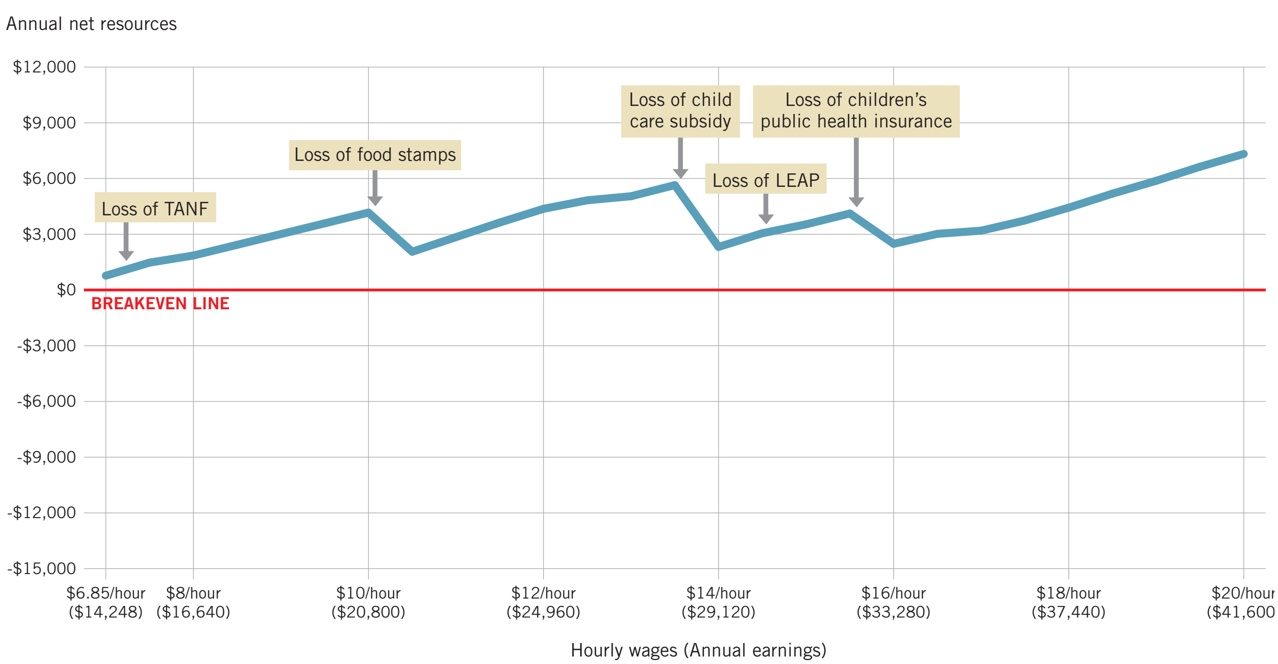
Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

VI. The "Cliff Effect" in Morgan County

Figure 1 below highlights the impact of work supports on the budget of a low- to moderate-income family living in Morgan County.[1] It shows how the family's net resources—that is, resources after subtracting basic expenses—change as the parent's earnings gradually increase from the state minimum wage of $6.85 an hour to $20 an hour. Basic expenses include rent and utilities, food, child care, health insurance, transportation, other necessities, and payroll and income taxes.[2] The results are based on a single parent with two children—one preschool-aged and one school-aged—that receives the following benefits when eligible: Temporary Assistance for Needy Families (TANF) cash assistance, food stamps, low-income energy assistance (LEAP), child care subsidies, public health insurance, and federal and state tax credits.

With multiple benefits and a full-time minimum wage job, the parent is just able to make ends meet, with a small annual surplus of about $800 after minimum basic expenses have been paid. But as the parent's earnings increase, a series of benefit "cliffs"—where a small increase in earnings leads to a significant loss in benefits—keep the family struggling to get ahead. The family experiences its first cliff as wages increase from $10 to $10.50 an hour, and food stamps are lost. The next cliff occurs when wages reach $13 an hour, and the family loses child care assistance. A further raise to

Figure 1. Change in Net Resources as Earnings Increase, Single Parent with Two Children in Morgan County



Annual net resources: Annual resources minus annual expenses.

Annual earnings: Assuming full-time work (40 hours/week, 52 weeks/year).

Breakeven line: Where family resources equal the cost of basic expenses.

Work supports (when eligible): Federal EITC, state child care tax credit, TANF cash assistance, food stamps, LEAP, child care subsidy, and public health insurance for children.Throughout this earnings range, the parent is ineligible for public health insurance for herself.

Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

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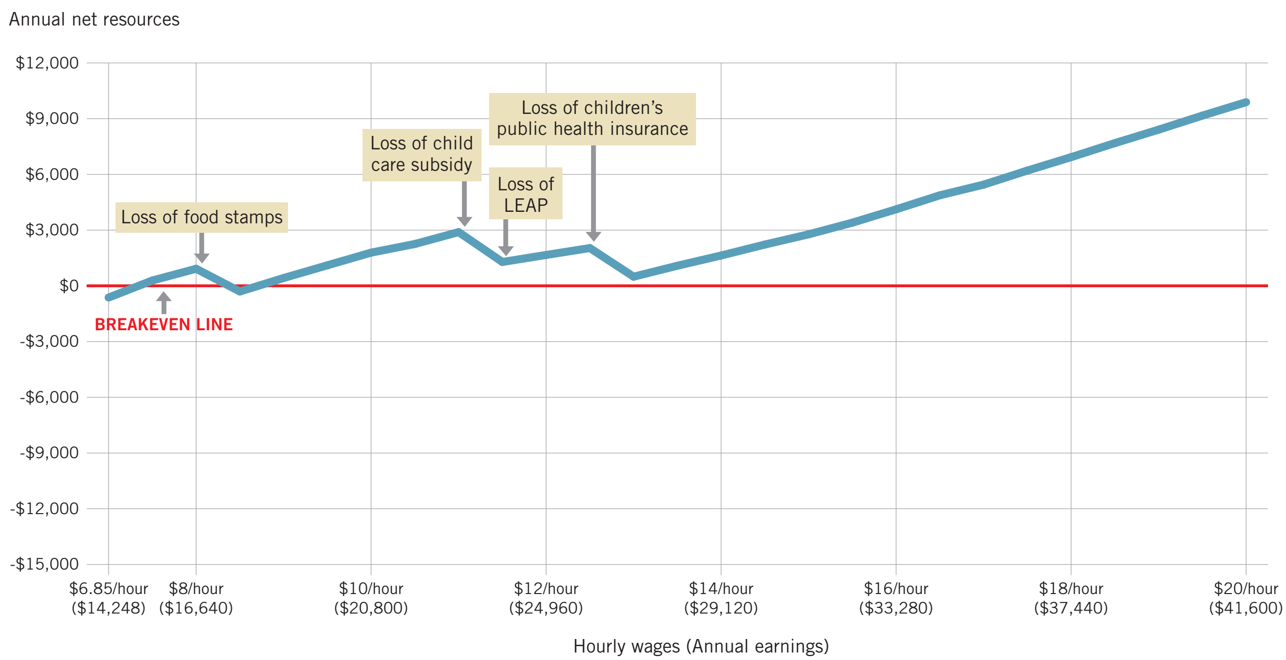
[1] Results are based on analysis of data from NCCP's Family Resource Simulator (www.nccp.org/tools/frs) and reflect policy rules in effect in Colorado as of December 2006.

[2] See Appendix A, Figure 1 for specific budget information; see Appendix D for details about how this budget is estimated.

$15 an hour leads to a smaller setback due to the loss of LEAP. Then another cliff occurs when wages reach $16 an hour, putting the family over the income limit for children's public health insurance coverage (the parent is ineligible for public coverage even when earning the minimum wage). As a result of these losses, the family is only slightly better off at $16 an hour than it was when the parent was making the minimum wage.

Figure 2 presents the results for a single parent family with a pre-school aged child in Morgan County. The interaction between earnings, expenses, and benefits varies, but overall patterns are similar.

Figure 2. Change in Net Resources as Earnings Increase, Single Parent with One Child in Morgan County



Annual net resources: Annual resources minus annual expenses.

Annual earnings: Assuming full-time work (40 hours/week, 52 weeks/year).

Breakeven line: Where family resources equal the cost of basic expenses.

Work supports (when eligible): Federal EITC, state child care tax credit, food stamps, LEAP, child care subsidy, and public health insurance for children. Throughout this earnings range, the parent is ineligible for public health insurance for herself and the family is ineligible for TANF cash assistance.

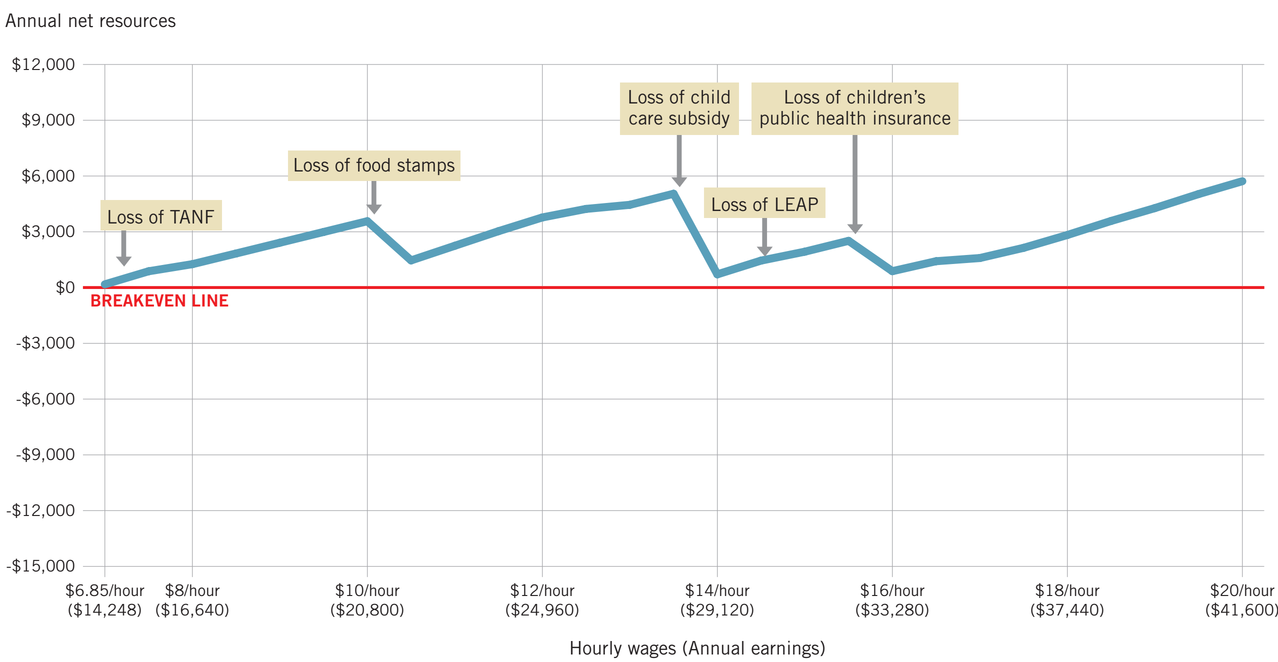
Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

VII. The "Cliff Effect" in Pueblo County

Figure 1 highlights the impact of work supports on the budget of a low- to moderate-income family living in Pueblo County.[1] It shows how the family's net resources —that is, resources after subtracting basic expenses— change as the parent's earnings gradually increase from the state minimum wage of $6.85 an hour to $20 an hour. Basic expenses include rent and utilities, food, child care, health insurance, transportation, other necessities, and payroll and income taxes.[2] The results are based on a single parent with two children—one preschool-aged and one school-aged—that receives the following benefits when eligible: Temporary Assistance for Needy Families (TANF) cash assistance, food stamps, low-income energy assistance (LEAP), child care subsidies, public health insurance, and federal and state tax credits.

With multiple benefits and a full-time minimum wage job, the parent is just able to make ends meet, with a small annual surplus of about $200 after minimum basic expenses have been paid. But as the parent's earnings increase, a series of benefit "cliffs"—where a small increase in earnings leads to a significant loss in benefits—keep the family struggling to get ahead. The family experiences its first cliff as wages increase from $10 to $10.50 an hour, and food stamps are lost. The next cliff occurs when wages reach $14 an hour, and the family loses child care assistance. When wages

Figure 1. Change in Net Resources as Earnings Increase, Single Parent with Two Children in Pueblo County



Annual net resources: Annual resources minus annual expenses.

Annual earnings: Assuming full-time work (40 hours/week, 52 weeks/year).

Breakeven line: Where family resources equal the cost of basic expenses.

Work supports (when eligible): Federal EITC, state child care tax credit, TANF cash assistance, food stamps, LEAP, child care subsidy, and public health insurance for children. Throughout this earnings range, the parent is ineligible for public health insurance for herself.

Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

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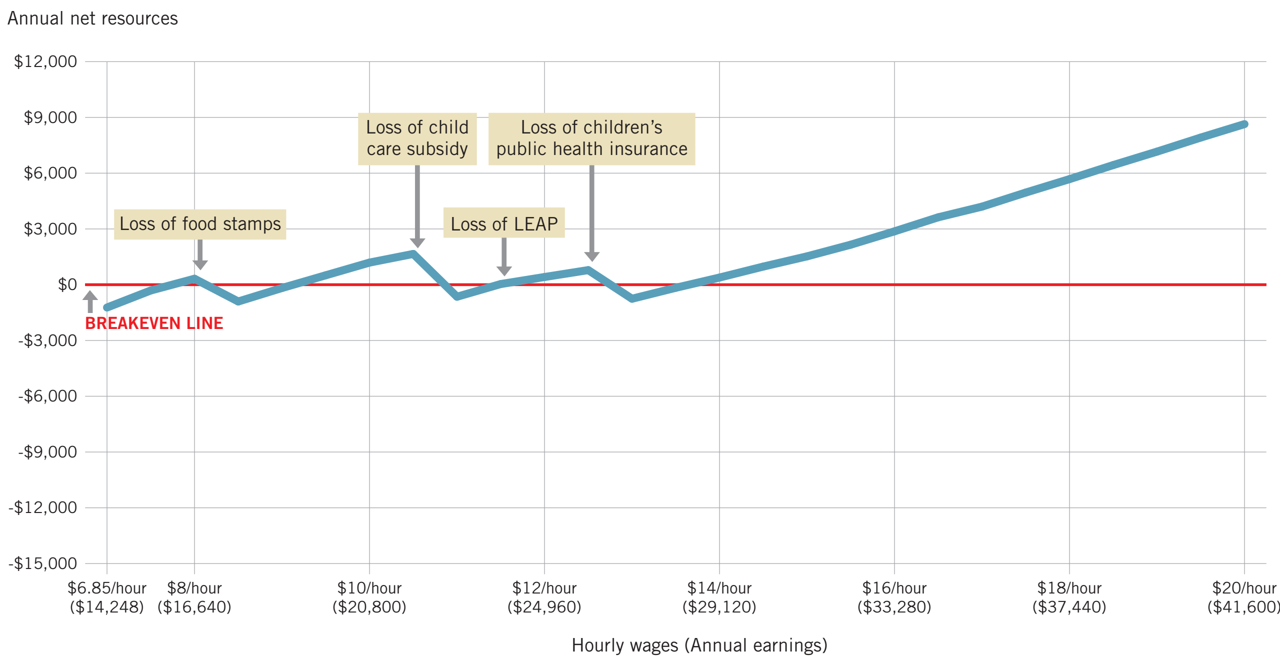
[1] Results are based on analysis of data from NCCP's Family Resource Simulator (www.nccp.org/tools/frs) and reflect policy rules in effect in Colorado as of December 2006. Note that in April 2007, Pueblo County increased the income eligibility limit for child care subsidies from 170 percent of the federal poverty level to 185 percent.

[2] See Appendix A, Figure 1 for specific budget information; see Appendix D for details about how this budget is estimated.

rise to $15 an hour, the family faces a smaller setback due to the loss LEAP. Then another cliff occurs when wages increase to $16 an hour, putting the family over the income limit for children's public health insurance coverage (the parent is ineligible for public coverage even when earning the minimum wage). As a result of these losses, the family is only slightly better off at $16 an hour than it was when the parent was making the minimum wage.

Figure 2 presents the results for a single parent family with a pre-school aged child in Pueblo County. The interaction between earnings, expenses, and benefits varies, but overall patterns are similar.

Figure 2. Change in Net Resources as Earnings Increase, Single Parent with One Child in Pueblo County



Annual net resources: Annual resources minus annual expenses.

Annual earnings: Assuming full-time work (40 hours/week, 52 weeks/year).

Breakeven line: Where family resources equal the cost of basic expenses.

Work supports (when eligible): Federal EITC, state child care tax credit, food stamps, LEAP, child care subsidy, and public health insurance for children. Throughout this earnings range, the parent is ineligible for public health insurance for herself and the family is ineligible for TANF cash assistance.

Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

Appendix C: Cross-County Tables

Figure 1. Family Resources and Expenses as Earnings Increase, Single Parent with Two Children

		Full-time job at $6.85/hour *plus* work supports	Full-time job at $8/hour *plus* work supports	Full-time job at $12/hour *plus* work supports	Full-time job at $16/hour *plus* work supports	Full-time job at $20/hour *plus* work supports
Alamosa						
	Resources	$23,086	$24,497	$27,998	$34,377	$41,726
	Expenses	$21,386	$21,712	$26,504	$29,954	$32,464
	Net Resources	**$1,700**	**$2,785**	**$1,494**	**$4,423**	**$9,262**
Denver						
	Resources	$23,086	$24,497	$27,998	$34,377	$41,726
	Expenses	$26,574	$26,900	$27,887	$40,784	$43,294
	Net Resources	**-$3,488**	**-$2,403**	**$111**	**-$6,407**	**-$1,568**
Eagle						
	Resources	$23,086	$24,497	$27,998	$34,377	$41,726
	Expenses	$33,029	$33,355	$34,342	$47,850	$50,360
	Net Resources	**-$9,943**	**-$8,858**	**-$6,344**	**-$13,473**	**-$8,634**
El Paso						
	Resources	$23,086	$24,497	$27,998	$34,377	$41,726
	Expenses	$24,900	$25,226	$31,150	$34,600	$37,110
	Net Resources	**-$1,813**	**-$728**	**-$3,152**	**-$223**	**$4,616**
Mesa						
	Resources	$23,086	$24,497	$27,998	$34,288	$41,726
	Expenses	$22,152	$22,478	$23,464	$28,973	$35,583
	Net Resources	**$935**	**$2,020**	**$4,534**	**$5,314**	**$6,143**
Morgan						
	Resources	$23,086	$24,497	$27,998	$34,377	$41,726
	Expenses	$22,316	$22,642	$23,628	$31,891	$34,401
	Net Resources	**$771**	**$1,856**	**$4,370**	**$2,486**	**$7,325**
Pueblo						
	Resources	$23,086	$24,497	$27,998	$34,377	$41,726
	Expenses	$22,914	$23,240	$24,226	$33,497	$36,006
	Net Resources	**$173**	**$1,258**	**$3,772**	**$881**	**$5,720**

Work Supports (when eligible): Federal EITC, state child care tax credit, TANF cash assistance, food stamps, LEAP, child care subsidy, and public health insurance.

Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

Figure 2. Family Resources and Expenses as Earnings Increase, Single Parent with One Child

		Full-time job at $6.85/hour *plus* work supports	Full-time job at $8/hour *plus* work supports	Full-time job at $12/hour *plus* work supports	Full-time job at $16/hour *plus* work supports	Full-time job at $20/hour *plus* work supports
Alamosa						
	Resources	$19,659	$21,382	$26,538	$33,505	$41,663
	Expenses	$19,359	$19,533	$23,296	$27,807	$30,196
	Net Resources	**$300**	**$1,849**	**$3,242**	**$5,698**	**$11,467**
Denver						
	Resources	$19,659	$21,382	$26,538	$33,505	$41,663
	Expenses	$24,547	$24,721	$32,124	$36,635	$39,025
	Net Resources	**-$4,888**	**-$3,339**	**-$5,586**	**-$3,130**	**$2,638**
Eagle						
	Resources	$19,659	$21,382	$26,538	$33,505	$41,663
	Expenses	$31,002	$31,177	$39,619	$44,130	$46,520
	Net Resources	**-$11,343**	**-$9,794**	**-$13,082**	**-$10,625**	**-$4,857**
El Paso						
	Resources	$19,659	$21,382	$26,538	$33,505	$41,663
	Expenses	$22,873	$23,047	$27,540	$32,051	$34,441
	Net Resources	**-$3,213**	**-$1,665**	**-$1,002**	**$1,454**	**$7,222**
Mesa						
	Resources	$19,659	$21,382	$26,538	$33,505	$41,663
	Expenses	$20,125	$20,299	$22,886	$30,091	$32,480
	Net Resources	**-$465**	**$1,083**	**$3,651**	**$3,414**	**$9,183**
Morgan						
	Resources	$19,659	$21,382	$26,538	$33,505	$41,663
	Expenses	$20,289	$20,463	$24,876	$29,386	$31,776
	Net Resources	**-$629**	**$919**	**$1,662**	**$4,119**	**$9,887**
Pueblo						
	Resources	$19,659	$21,382	$26,538	$33,505	$41,663
	Expenses	$20,887	$21,061	$26,124	$30,634	$33,024
	Net Resources	**-$1,227**	**$321**	**$414**	**$2,871**	**$8,639**

Work Supports (when eligible): Federal EITC, state child care tax credit, TANF cash assistance, food stamps, LEAP, child care subsidy, and public health insurance.

Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

Figure 3. Change in Net Resources as Earnings Double, Single Parent with Two Children

		Full-time job at $8/hour *plus* work supports ($16,640/year)	Full-time job at $16/hour *plus* work supports ($33,280/year)	Change in net resources (Earnings increase: ($16,640/year)
Alamosa				
	Resources	$24,497	$34,377	
	Expenses	$21,712	$29,954	
	Net Resources	**$2,785**	**$4,423**	**$1,638**
Denver				
	Resources	$24,497	$34,377	
	Expenses	$26,900	$40,784	
	Net Resources	**-$2,403**	**-$6,407**	**-$4,004**
Eagle				
	Resources	$24,497	$34,377	
	Expenses	$33,355	$47,850	
	Net Resources	**-$8,858**	**-$13,473**	**-$4,615**
El Paso				
	Resources	$24,497	$34,377	
	Expenses	$25,226	$34,600	
	Net Resources	**-$728**	**-$223**	**$505**
Mesa				
	Resources	$24,497	$34,288	
	Expenses	$22,478	$28,973	
	Net Resources	**$2,020**	**$5,314**	**$3,294**
Morgan				
	Resources	$24,497	$34,377	
	Expenses	$22,642	$31,891	
	Net Resources	**$1,856**	**$2,486**	**$630**
Pueblo				
	Resources	$24,497	$34,377	
	Expenses	$23,240	$33,497	
	Net Resources	**$1,258**	**$881**	**-$377**

Work Supports (when eligible): Federal EITC, state child care tax credit, TANF cash assistance, food stamps, LEAP, child care subsidy, and public health insurance.

Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

Figure 4. Change in Net Resources as Earnings Double, Single Parent with One Child

		Full-time job at $8/hour *plus* work supports ($16,640/year)	Full-time job at $16/hour *plus* work supports ($33,280/year)	Change in net resources (Earnings increase: ($16,640/year)
Alamosa				
	Resources	$21,382	$33,505	
	Expenses	$19,533	$27,807	
	Net Resources	**$1,849**	**$5,698**	**$3,849**
Denver				
	Resources	$21,382	$33,505	
	Expenses	$24,721	$36,635	
	Net Resources	**-$3,339**	**-$3,130**	**$209**
Eagle				
	Resources	$21,382	$33,505	
	Expenses	$31,177	$44,130	
	Net Resources	**-$9,794**	**-$10,625**	**-$831**
El Paso				
	Resources	$21,382	$33,505	
	Expenses	$23,047	$32,051	
	Net Resources	**-$1,665**	**$1,454**	**$3,119**
Mesa				
	Resources	$21,382	$33,505	
	Expenses	$20,299	$30,091	
	Net Resources	**$1,083**	**$3,414**	**$2,331**
Morgan				
	Resources	$21,382	$33,505	
	Expenses	$20,463	$29,386	
	Net Resources	**$919**	**$4,119**	**$3,200**
Pueblo				
	Resources	$21,382	$33,505	
	Expenses	$21,061	$30,634	
	Net Resources	**$321**	**$2,871**	**$2,550**

Work Supports (when eligible): Federal EITC, state child care tax credit, TANF cash assistance, food stamps, LEAP, child care subsidy, and public health insurance.

Source: Analysis based on NCCP's Family Resource Simulator, Colorado 2006 (www.nccp.org).

Appendix D: Methodology for Calculating Expense Estimates

NCCP's Family Resource Simulator is a web-based tool that allows users flexibility in determining the cost of basic family expenses. The Simulator provides cost estimates for housing, food, child care, transportation, health insurance, and other necessities. These estimates are calculated based on a methodology that draws on the Self-Sufficiency Standards developed by Diana Pearce for Wider Opportunities for Women and on the Economic Policy Institute's Basic Family Budgets. Users of the web-based tool may also enter their own cost estimates.

For the analyses in this report, the Simulator's default estimates were used. These estimates were calculated following the methodology described below, except where costs were offset by in-kind benefits—i.e., child care subsidies or public health insurance. In those cases, expenses were calculated based on program rules. For example, the cost of child care for a family with a subsidy reflects the copayment the family would pay in Colorado's child care assistance program.

Rent and Utilities	The cost of rent and utilities is estimated based on the Fair Market Rent (for a two-bedroom unit) determined by the U.S. Department of Housing & Urban Development.
Food	The cost of food is estimated based on the Low-Cost Food Plan developed by the U.S. Department of Agriculture.
Child Care	The cost of child care is estimated based on the provider payment rates for center-based care in Colorado's child care assistance program. The Family Resource Simulator assumes that a 3-year-old needs full-time care while the parent(s) work and a 6-year-old needs part-time (e.g., after-school) care.
Transportation	In all Colorado counties, the Simulator assumes that the family uses private transportation. Cost estimates are calculated based on the Economic Policy Institute's Basic Family Budget methodology, which relies on data from the 2001 National Travel Household Survey, the 1990 Nationwide Personal Transportation Survey, and the IRS cost-per-mile rate (for more information, see: www.epinet.org/datazone/fambud/fam_bud_calc_tech_doc.pdf).
Health Insurance	The cost of health insurance is estimated based on the average employee contribution for employer-based coverage in Colorado's private sector, according to the Medical Expenditure Panel Survey (MEPS) conducted by the federal Agency for Healthcare Research and Quality (for more information, see www.meps.ahrq.gov/mepsweb/data_stats/quick_tables.jsp). Estimates reflect state averages for "family coverage" for a family plan, "single coverage" for a single parent (when children are , and "employee-plus-one coverage" for two parents.
Other Necessities	The cost of other necessities is estimated based on the Economic Policy Institute's Basic Family Budget methodology, which relies on data from the Consumer Expenditure Survey (for more information, see www.epinet.org/datazone/fambud/fam_bud_calc_tech_doc.pdf). It equals 27 percent of the sum of the family's (unsubsidized) housing and food costs.
Payroll and Income Taxes	The cost of payroll and income taxes is calculated following federal and state tax regulations. Income tax calculations take into account the Child Tax Credit and the Child and Dependent Care Tax Credit but not the federal Earned Income Tax Credit or the refundable state child care tax credit. These credits are considered work supports and when the family receives such benefits (as indicated in the text), they are included in family resources.