SB 2861, SD1

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MEMORANDUM

TO: The Honorable Donna Mercado Kim, Chair
Senate Committee on Ways and Means

FROM: Lillian B. Koller, Director

SUBJECT: **S.B. 2861, S.D. 1 – RELATING TO CHILD CARE**

Hearing: Wednesday, February 24, 2010; 10:10 a.m.
Conference Room 211, State Capitol

PURPOSE: The purpose of S.B. 2861, S.D. 1, is to appropriate State general funds for child care subsidies.

DEPARTMENT'S POSITION: The Department of Human Services (DHS) respectfully opposes this bill as it is unnecessary.

If the State Department of Human Services (DHS) had not restructured its child care subsidy program effective February 1, 2010, no money would have been available for payments from March through June. With the implementation of the sliding scale child care subsidy, there is enough funding for the rest of the current fiscal year.

DHS did not tighten eligibility for this program nor cut the budget. In fact, DHS hiked the budget by $8.5 million over last year, bringing the total to nearly $66 million. The challenge is, many more families are applying for assistance, child care providers are raising rates, and the $66 million is being depleted much faster than anticipated.

To solve this challenge, DHS implemented on February 1, 2010, a new and more incremental sliding scale for paying child care subsidy benefits. Under the new system, which is similar to Delaware's sliding scale, there are ten gradual income steps, not just three. **The neediest families continue receiving 100 % subsidies**, while other families receive subsidies ranging from 90% to 10% as their incomes rise.

As a result, two-thirds of families have at least half their child care costs paid by the State and nearly 40% of families would receive an 80% subsidy or higher.

While many parents receive smaller subsidies because they make more money than other families, this new approach avoids far greater hardships by ensuring that no one completely loses benefits.

Also, to ease the transition for working families impacted by lower subsidies, financial aid for housing and child care is available from federally funded programs. One source of help is a federally funded program operated by the Salvation Army. For a family of three, a payment of $3,110 is available once every 12 months. This money can be used for child and dependent care, rent, transportation and other necessities.

Assistance is also available statewide through the new Homeless Prevention and Rapid Re-Housing Program, funded by more than $6 million in federal American Recovery and Reinvestment Act funds. Families can receive six to 18 months of cash assistance.

In addition, all families receiving DHS child care subsidies are eligible for free and comprehensive Medicaid coverage for their children.

Many families receiving subsidies are also eligible for the Supplemental Nutrition Assistance Program (SNAP), formerly called the Hawaii Food Stamp Program. This amounts to $645 per month for the typical family of three receiving child care subsidies.

Also lessening the impact of the new subsidy structure is the fact that the majority of families (56%) choose the least expensive form of child care.

Aside from fiscal concerns, DHS implemented the new sliding scale because the old system had the unintended consequence of creating a very steep "cliff effect."

The "cliff effect" refers to the fact that when families exceed income eligibility by even $1, they lose their entire subsidy. As a result, parents had a powerful incentive under the old system to minimize their earnings. This is counter-productive to one reason DHS provides subsidies, which is to help parents with young children achieve self-sufficiency.

Under the old sliding scale with just three income steps, the smallest subsidy a family received was 80 percent of a child care provider's rate. That was a lot of money to lose if a family earns just a dollar more in wages.

Under the new sliding scale, with subsidies ranging from 100% to 10% as a family's income rises, the "cliff effect" is eliminated and parents are encouraged to advance in their careers.

Hawai'i's child care subsidy program is among the most generous in the nation. We are one of only eight states that pay subsidies for child care providers at 75% or more of the market rate, thus ensuring that working needy parents have access to quality child care in a competitive environment.

As part of the proposed restructuring, DHS includes a modest but noteworthy reduction in rates for unlicensed child care. This recognizes the additional requirements that licensed providers must meet. It also provides a financial incentive for unlicensed providers to meet quality-driven licensing requirements so they receive higher reimbursement rates.

The sliding scale child care subsidy restructuring implemented by the Department will enable child care subsidies to be paid until the end of the current fiscal year and the elimination of the "cliff effect" encourages parents to advance in their careers.

Thank you for the opportunity to provide comments on this bill.