



CWDA

**Testimony of Frank Mecca
County Welfare Directors Association Executive Director**

Women's Caucus Hearing on Child Care
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In establishing child care as its top priority, the Women's Caucus has undertaken the difficult task set forth by the Governor earlier this year – to resolve the perceived inequities within California's current system and, at the same time, make the dollars that the state spends on child care stretch as far as possible.

Thank you for the opportunity to provide the County Welfare Directors Association's perspective on both of these challenges. In my testimony, I would like to first explore whether the current child care system is inequitable or merely underfunded. Next, I will explain our concerns that changes to the child care system could jeopardize the good work that the counties have done in implementing welfare reform. I will then present some recommendations that can help save money and enable more low-income Californians to access quality, affordable child care. Although we do have several ideas, it is important to reiterate that any changes to the system should be considered in the context of preserving the gains we have made through CalWORKs.

Finally, I will provide our analysis of proposals from other organizations, some of which could cause great harm to CalWORKs participants and other working-poor parents seeking assistance with their child-care needs.

Inequitable or Underfunded?

First, and perhaps most important, we do not believe that the current system is inequitable toward low-income parents who have never received CalWORKs assistance. Rather, this debate over equity between the CalWORKs poor and the non-CalWORKs poor stems directly from the fact that the child care system is seriously underfunded. Because we cannot provide child care benefits to every low-income family that needs a subsidy, it becomes the job of the state to establish eligibility criteria. Once those criteria are set, there will always be an argument that those who are not receiving services are being treated unfairly. This leads to one of two possibilities: Either fully fund the system, or create the best criteria you can to determine who gets the scarce funding that does exist.

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Frank J. Mecca

Currently, eligibility for subsidized child care in the “broader child care system” is based on income, which means that parents with very little or no countable income are first in line for the extremely limited number of child care slots. Today, many if not most of these parents are participating in CalWORKs, and are therefore able to receive CalWORKs-funded child care. Were they not involved in CalWORKs, they would most likely be receiving a subsidy from the broader system due to their very low incomes. As the California Budget Project noted in its letter to the caucus, the expansion of CalWORKs child care has in fact helped to reduce the waiting lists for general child care, enabling significantly more non-CalWORKs parents to receive subsidized care than in the past.

If we were to change the system and base it on something other than income, there would be negative consequences for the poorest children and families. Those who are today eligible for services – and who, we could argue, are in the greatest relative need – could be shut out of the system altogether. But this wouldn’t solve the problem; you would simply be trading one inequity for another, funding services for one group by taking them from another. We know that the state’s short-run fiscal outlook is quite grim, and we know that the coming year will be extremely difficult. But we continue to believe that in order to avoid “inequity” as defined by the Administration, you must fully fund the system, or be prepared to face the consequences for whichever group of children and families are left behind.

Jeopardizing Welfare Reform

As you might imagine, we are quite concerned about the impact that any changes will have on our current and former CalWORKs recipients and those who are at risk of entering the welfare system. In our role as the provider of child care assistance to current and former recipients of public benefits, CWDA firmly believes that:

- All children are entitled to affordable child care.
- Every child in need of care should be accommodated, including special-needs children and those whose parents work non-traditional hours.
- The parents of school-age children should have before- and after-school options.
- Child care workers must be paid a livable wage with incentives for professional development.

With these basic philosophies in place, our association examined the challenge that you now face. It is daunting, to say the least. It is always appropriate to look for ways to make a system more efficient. In this case, however, we know of no way to free up enough money

within existing resources to maintain the current subsidy policies without causing harm to a significant number of people. If you can't fully fund child care for people who are coming off of CalWORKs, we know that some of those people will end up returning to aid. On the other hand, if you can't meet the needs of the many working-poor families who are struggling to make ends meet, we could easily see an increase in applications for CalWORKs. In either case, the gains we have made in welfare reform could be compromised.

How to Create New Slots

There are some things you can do to both save money within the system and enable low-income, working-poor parents to better survive on their own, without doing significant harm to the families we serve. Based on our review of the Department of Consumer Affairs report and the proposals put forth by several other groups, we have four specific recommendations:

- First, reduce the maximum rates paid to license-exempt child care providers from the current 90 percent of the licensed rate to 75 percent of the licensed rate.

This approach would create significant savings, estimated at \$70 million-plus statewide, which could be used to create an estimated 10,000 to 12,000 new child care slots. It may also persuade some license-exempt providers to seek licensure, improving the quality of care while potentially increasing the number of available child care slots.

Exemptions would be necessary for special-needs children and those whose parents work non-traditional hours, the kind of care that is in high demand whether licensed or not. Some counties, such as those in rural areas, would also merit exemptions due to a severe shortage of licensed care.

- Second, ensure that the Child Protective Services preference is used appropriately, by requiring all families who receive child care under this preference to actually be referred by the county child protection agency.
- Third, launch a statewide campaign to increase use of the federal Earned Income Tax Credit and Child Care Tax Credit. As an example, a single parent of two children earning 50 percent of the State Median Income could receive a refund of more than \$3,000 using these credits, enabling them to meet more of their day-to-day necessities, including the costs of child care.

- Finally, implement a Centralized Eligibility List for child care statewide. CWDA has strongly supported the establishment of a centralized list since the inception of CalWORKs. With the current system of multiple local waiting lists, policymakers do not have sufficient data to fully understand the magnitude of the unmet child care need. Some administrative efficiencies could also be achieved through the use of such a list.

Analysis of Other Proposals

Beyond these recommendations, we reviewed a number of changes proposed by other organizations as we prepared our testimony for this hearing. Unfortunately, many of the proposals we analyzed come dangerously close to helping some low-income families on the backs of others. These include time-limit strategies that are not linked to income, as well as proposals to eliminate the CalWORKs Stage 3 set-aside without making other needed changes to the ways that CalWORKs participants access child care. By shifting money around without increasing the overall size of the pie, these proposals would exacerbate the problems of a system that is severely underfunded to begin with.

Still, we understand that you may need to consider changes along these lines. To that end, we have some suggestions that could help mitigate, to some extent, damage to the low-income families we serve.

First, I will address time-limit strategies. These are a major area of concern for us, as many of the proposals we have seen are based solely on the length of time a family has received subsidized child care, without any relation to that family's income. Any time limit that is not in some way linked to income would harm a significant number of our state's poorest families. This is because families on CalWORKs tend to be among the lowest-income families in this state, and our state's relatively generous earned-income disregards allow these working-poor parents to remain on the welfare rolls until they are earning nearly 50 percent of the state median income. At the point that they leave aid, they could be nearing their time limits for child care, but still not earning nearly enough to afford to pay for child care, even if their children are very young. At the same time, a family with a higher income and school-age children could be at the beginning of their time limits and entitled to many more years of assistance. A system that is not focused on need would make little sense.

If limits must be placed on the care that families receive, we recommend that they be tied to income, not just to the length of time a family is in the system, to take into account the relatively greater need

that the lowest-income families face. Moreover, any time limit proposal should apply to all recipients of subsidized child care, not just current or former CalWORKs recipients.

Another, possibly more attractive, alternative is to institute an aggressive family fee schedule that is also tied to income. This approach has advantages over a time-limit approach: First, the fee schedule could be graduated by income levels, with the subsidy growing significantly smaller as the family's income rises, in order to help families prepare for the time when they no longer receive subsidies at all, rather than "dropping them off a cliff." Second, those with higher incomes will likely prefer to have a portion of their care subsidized rather than none at all, which is the situation they often face in the current system. Finally, such a fee system is likely to be easier to administer than a time-limit system, which would be difficult to implement given the fact that many recipients' incomes fluctuate widely from one month to the next.

The other proposal I would like to comment on is the idea of eliminating the CalWORKs Stage 3 set-aside. If you do this without taking steps to help welfare recipients move into the general child care arena as quickly as possible, it would create a major inequity concern. This is because CalWORKs recipients typically start at the lowest rungs on the income ladder. If they were in the general child care arena, they would be first in line for subsidies. However, we have made the decision as a state to "carve" them out of the general child care world and provide them guaranteed Stage One child care instead, progressing into Stage Two for up to two years and, finally, into the Stage Three set-aside.

Eliminating Stage Three essentially pulls the rug out from under the feet of people who are doing exactly what we've asked them to do – get a job, accept our help, move up the economic ladder – at the exact moment that they need our help the most. Once a family leaves assistance, they will be at a competitive disadvantage for general child care slots because their incomes will be higher than they were at the beginning of their time on aid. The family will go on a waiting list, perhaps indefinitely. Their chances of coming back to CalWORKs are high. This scenario is very real, and it is not what we would call successful welfare reform. Therefore, changing the Stage Three set-aside is only feasible if other steps are taken to help CalWORKs participants move into the general child care arena as quickly as possible, recognizing the need to help them get off and stay off of aid.

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This concludes my remarks today. Again, on behalf of CWDA, thank you for the opportunity to add our perspective to the discussion about California's child care system. We applaud the Caucus in stepping forward to assume a leadership role in the continuing development of quality, affordable child care throughout the state. I will be happy to answer any questions you may have.