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Threatened Progress: U.S. in Danger of Losing Ground on Child Care for Low-Income Working Families

By Jennifer Mezey[1]

SUMMARY

Between 1996 and 2001, states used increased child care funding to address three goals: (1) meet new welfare work requirements, (2) increase the number of non-welfare families receiving care, and (3) improve the quality of care. States are now in danger of losing ground on all three—due principally to dwindling welfare reserves and the continuing fiscal crises in the states. The extent to which states can even maintain current services will depend in large part on the willingness of Congress to provide increased federal child care funding.

Federal and state child care assistance to low-income working families grew substantially between 1996 and 2001. During these years, federal and state spending on child care tripled, the number of children served more than doubled, and states invested in quality improvement initiatives. Increased child care assistance—both for welfare recipients and for other low-income working families—was an essential part of state strategies to help promote work and reduce the need for welfare. However, even during this period of growth and progress, the great majority of eligible children remained unserved.

The period of growth essentially stopped by 2001. Since 2001, the child care gains that were made have been jeopardized by dwindling Temporary Assistance for Needy Families (TANF) reserves, the end of rapidly declining welfare cash assistance caseloads (which helped finance the growth in child care spending), and unprecedented state fiscal crises. Thus, increased federal child care funding is now needed both to counteract the effects of state budget cutbacks and to make progress in reducing the unmet need for child care assistance among low-income families.

Some people have argued that there is sufficient funding for child care for low-income families, largely due to welfare caseload declines freeing up TANF funds for child care. To the contrary, TANF is likely to be a declining, not a growing, source of child care funding in the coming years.

This brief describes the increase in child care funding from 1996 through 2001; documents the gains families experienced during this period; shows the unmet need for assistance that remained even when use of TANF for child care reached its peak; explains the threats to child care funding since 2001 and their implications for low-income families; and discusses the need for greater federal child care funding to allow states to avoid further cutbacks in child care assistance.

About the Author

Jennifer Mezey is a Senior Staff Attorney at the Center for Law and Social Policy.

The Growth in Child Care Funding, 1996–2001

In 1996, Congress passed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), which dramatically changed the U.S. welfare system and child care programs. PRWORA made three major changes relating to child care funding, which together had the effect of making more federal dollars available for child care.[2] The 1996 law:

- Consolidated four programs providing child care assistance to low-income welfare and non-welfare working families into one funding stream composed of both mandatory (entitlement) and discretionary funding, called the Child Care and Development Block Grant (CCDBG);
- Increased the amount of funding available to states through CCDBG; and
- Allowed states to use TANF welfare funds for child care in two ways—through transfers to CCDBG and by directly spending TANF funds on child care.

Between 1996 and 2001, the annual federal funding available through CCDBG and its predecessor programs more than doubled, growing from approximately $2.2 billion[3] to $4.6 billion.[4] States also increased their use of federal TANF funds for child care from $190 million in 1997 to $3.8 billion in 2000, before decreasing it slightly in FY 2001.[5] Overall, federal and state CCDBG and TANF child care expenditures more than tripled during these years. While state child care spending increased between 1996 and 2001, approximately three-quarters of the overall spending growth came from increased federal spending, a large portion of which was from TANF funds.[6]

Gains for Many Families, But Many Children Left Unserved

States took advantage of increased funding to serve more low-income children and to expand investments in initiatives designed to improve the supply of quality child care. Between 1996 and 2000, the number of children ages 0 to 13 in low-income families served by states with CCDBG, TANF, and Social Services Block Grant (SSBG) funds doubled from one million to more than two million.[7] States generally targeted child care assistance to lower income families, the majority of whom were not TANF recipients. In FY 2000, the median monthly income for families receiving CCDBG-funded subsidies was $1,057 (less than 100 percent of the federal poverty guidelines for a family of three that year); less than 10 percent of CCDBG-funded families had monthly incomes greater than $2,000. Only 21 percent of families receiving CCDBG-funded assistance reported TANF as a source of income.[8]

States also invested growing amounts of CCDBG funds in initiatives designed to improve the health and safety of children in child care settings, as well as the quality of care provided to them.[9] States invested in resource and referral services to help parents find quality child care and to support child care providers; education, training, and compensation initiatives to support providers and promote retention; and monitoring compliance with health and safety standards, as well as assistance to help providers comply with these requirements.[10] While these initiatives often provided significant help to those they reached, many of these efforts were small in scale, unable to reach sufficient numbers of providers to effect systemic change.[11]

Despite substantial growth in the number of children receiving child care assistance, many eligible children and families remained unserved because the need for assistance outstripped supply. As welfare caseloads declined, millions of families left welfare for work. Between 1995 and 2001, the number of employed single mothers rose from 1.8 million to 2.6 million.[12] Between 1996 and 2000, employment among low-income single mothers with children under six years old rose from 44 percent to 59 percent.[13] Furthermore, low-income families who remained on welfare continued to need child care. In FY 2001, about 605,000 welfare recipients were working or participating in work activities.[14]

Even during this period, when CCDBG and TANF expenditures for child care were growing, there were several clear indicators of the continuing unmet need for child care assistance:

As of March 2000, 15 states had waiting lists for child care assistance for eligible low-income working families.[15] The fact that 15 states had waiting lists does not mean that the remaining states were able to fully meet the child care needs of families, however. First, not all states and localities keep waiting lists. For instance, two states that year were simply not accepting new applications for child care assistance. Second, states or localities that cannot serve additional families may do little or no outreach to let families know about the potential availability of care. Third, states often address the inability to serve all families by imposing restrictive eligibility rules rather than by creating waiting lists. Moreover, even in states with waiting lists, the list may not be a good indicator of unmet need because of lack of outreach and because some families won't put their names on waiting lists if doing so seems futile.

Only one in seven federally eligible children were receiving child care assistance. The most recent numbers released by the U.S. Department of Health and Human Services showed that there were 15.7 million children whose families met the federal CCDBG eligibility criteria in FY 2000.[16] An estimated 2.25 million of these children received child care assistance funded through CCDBG and federal TANF and SSBG funds in FY 2000.[17] This means that only about 14 percent of federally eligible children received child care assistance—one out of seven children.

Not every federally eligible family would need or want child care assistance, but evidence suggests that far more than 14 percent of families would use subsidies if they were made available. According to data from the Urban Institute, 42 percent of families with income below 200 percent of poverty paid something for child care in 1999, compared to 51 percent of families with incomes above 200 percent of poverty. When these low-income families paid for care, child care expenses represented 14 percent of their earnings ($232/month), double the burden on families above 200 percent of poverty who paid for care ($331/month or 7 percent of earnings). The burden on families below 100 percent of poverty is even greater.[18] Therefore, expanded access to child care assistance could certainly improve the economic well-being of many low-income working families.

Threats to Progress: The Story Since 2001

FY 2001 is the last year for which federal CCDBG data on expenditures and program participation are available. However, there are strong indications that child care funding and participation are currently threatened.

TANF Availability

In FY 2002, states used approximately $3.5 billion in TANF funds for their child care programs—essentially the same as FY 2001 and at or below the FY 2000 level.[19] Although child care still represents the largest category of TANF funding use after cash assistance, it is no longer the growing source of funding that it once represented for at least two reasons: dwindling reserves and caseload increases.

Unspent TANF funds from prior years are dwindling or are exhausted in many states. In FYs 2001 and 2002, states used substantial unspent TANF funds from prior years to augment funding for TANF-related programs. In both FY 2001 and FY 2002, states spent nearly $2 billion *more* than they received from their annual TANF block grant allocations.[20] Many states used these funds from prior years to increase funding for child care. Now that these reserves have declined, this source of child care funding is drying up.

Most states are no longer experiencing the cash assistance caseload decreases that freed up TANF funds for increased spending on child care. In fact, between September and December 2002, 38 states experienced TANF caseload increases.[21] TANF caseload increases mean states are forced to choose between funding cash assistance and other vital support programs, such as child care.

State Fiscal Crises

States are experiencing the worst fiscal crises since World War II. Between January 2001 and January 2002, the number of states with revenues below forecasted levels increased from six to 46 (including the District of Columbia), according to the National Conference of State Legislatures.[22] Now, states face a collective $100 billion in deficits that they need to close for state FYs 2003 and 2004 in order to comply with the balanced budget requirements that almost all states have.[23]

One way states are addressing these shortfalls is by cutting child care assistance. A new report from the U.S. General Accounting Office (GAO) shows that, since January 2001, nearly half the states (23) have made policy changes that reduce the availability of child care subsidies for low-income working families, and 11 states are proposing future policy changes that will decrease current levels of child care funding. The GAO authors conclude that, even though some states made changes to increase the availability of subsidies, the overall effect of state policy decisions since January 2001 has been to decrease the availability of child care assistance for low-income working families.[24]

According to the GAO report and a recent report from the Children's Defense Fund, states are employing the following policies to reduce state child care spending:

Maintaining waiting lists or freezing intake. Over one-third of the states have waiting lists or are no longer accepting applications. The size of state waiting lists range from more than 200,000 children in California to over 48,000 children and growing in Florida and 29,900 children in Texas.[25] Since January 2001, 12 states have started waiting lists and/or have stopped enrolling at least some new families. At the same time, only three states either ended their waiting lists by serving the families on it or started enrolling eligible families (Louisiana started and then stopped a waiting list in 2001).[26]

Lowering income eligibility levels for families to qualify for child care assistance. Fourteen states reduced income eligibility thresholds, and only four states raised thresholds since January 2001.[27] Lowered income eligibility limits cause low-income families to lose eligibility at income levels where it is extremely difficult to support a family and pay the full cost of quality child care. Largely due to limited resources, in the last two years, a number of states have provided assistance to only families at or near the poverty level. In 2002, 11 states limited eligibility to families at or below 150 percent of poverty. And these reductions are continuing. Beginning in June 2003, Ohio will decrease its eligibility limit from 185 percent to 150 percent of poverty, impacting 15,000 children, according to state estimates.[28]

Increasing the copayments charged to low-income parents with child care subsidies. Since January 2001, 10 states increased copayments on at least some low-income working families, while only five states reduced copayments.[29] When copayments become too high, parents can be forced out of the child care subsidy system and into cheaper and potentially inadequate child care arrangements. In Ohio, for example, parent fees increased on April 1, 2003, by an average of $50 per family; most families will have copayments equal to almost 10 percent of their income.[30]

Reducing investments in protecting the health and safety of children in child care settings and in promoting quality. States still recognize the importance of quality initiatives; between January 2001 and April 2003, 22 states increased spending on these initiatives, while 10 states reported decreased spending.[31] This year, Tennessee and Arizona will not be able to hire the licensors needed to effectively monitor child care providers' compliance with state health and safety requirements. In addition, Kansas has cut funding for initiatives used to recruit and train providers and help improve their quality. Maryland has proposed a 70 percent cut in funding for resource and referral services, which help parents find and evaluate quality child care and support providers' training and technical assistance needs.[32]

Implications for CCDBG and TANF Reauthorization

The dramatic expansion of child care funding has been a critical part of state efforts to promote work and child well-being since 1996. While welfare caseloads fell by half, child care caseloads doubled. The ability of states to provide child care outside of the welfare system was essential to helping families enter and sustain employment. If states can no longer maintain even current levels of child care assistance, families will suffer and states will be less able to promote employment.

Moreover, policymakers have become increasingly concerned about the need to improve child care quality and ensure that child care settings for young children do more to promote school readiness. Child care reauthorization bills passed by both the House and the Senate Health, Education, Labor and Pensions Committee would increase the share of CCDBG funds that must be spent on quality initiatives, and they expect that states will do significantly more to strengthen school readiness efforts in state child care programs. It will be extraordinarily difficult for states to make the envisioned progress in increasing quality without enough funding.

In fact, expanding access and promoting quality and school readiness will be impossible in the context of frozen or near-frozen funding levels. The Bush Administration proposed flat funding for CCDBG, TANF, and SSBG in its FY 2004 budget, which the Administration estimates would result in a loss of subsidies for 200,000 children by FY 2007 due to inflationary increases alone.[33] Last year, the Congressional Budget Office (CBO) estimated that states would need $4.5 to $5 billion between FY 2003 and FY 2007 just to maintain their child care programs against inflation.[34] And these figures likely underestimate the problem because they do not take into account either erosions in the availability of TANF funds or state budget cutbacks, which are *already* resulting in the child care program cuts discussed above. Furthermore, these estimates do not include increased costs associated with the restrictive work requirements included in the House TANF reauthorization bill (H.R. 4). The CBO recently estimated that H.R. 4 would result in additional five-year TANF and child care costs of $6.1 billion.[35] However, H.R. 4 would provide only a small increase in CCDBG funds ($1 billion in increased federal matching funds over five years[36]) and no TANF funding increase.

Conclusion

Between 1996 and 2001, states used increased child care funding to address three goals: (1) meet new welfare work requirements, (2) increase the number of non-welfare families receiving care, and (3) improve the quality of care. States are now in danger of losing ground on all three. The extent to which states can continue to meet these goals and maintain current services will depend in large part on the willingness of Congress to provide increased federal child care funding.

Endnotes

1 This brief pulls together the results of the ongoing collaborative research, as well as fiscal and policy analysis, by CLASP's child care and early education team—Mark Greenberg, Rachel Schumacher, and Kate Irish. It also draws upon analyses of TANF caseload figures, participation rates, and expenditures by Elise Richer and Hedieh Rahmanou. The author would also like to thank Helen Blank, Shelley Waters Boots, Danielle Ewen, John Hutchins, Joan Lombardi, and Sharon Parrott for their contributions to this brief.

2 Congress subjected the consolidated funding streams to the rules of the Child Care and Development Block Grant (CCDBG). PRWORA also contained CCDBG policy changes.

3 This figure was derived by adding together the $300 million available from the At-Risk Child Care program, the $900 million available from the Child Care and Development Block Grant, and the $981 million that states spent on child care for AFDC recipients and families transitioning off of AFDC in 1996.

4 U.S. Department of Health and Human Services, Child Care Bureau, *FY 2001 CCDF Final Allocations and Earmarks for States and Territories*. Available at http://www.acf.dhhs.gov/programs/ccb/policy/current/im0101/01alloc.htm; CLASP calculations based on unpublished Child Care Bureau data (FY 1996).

5 Schumacher, R., & Rakpraja, T. (2002). *States Have Slowed Their Use of TANF Funds for Child Care*. Washington, DC: CLASP; Schumacher, R., Greenberg, M., & Duffy, J. (2001). *The Impact of TANF on State Child Care Subsidy Programs*. Washington, DC: CLASP.

6 For child care spending figures for FY 1999-FY 2001, see U.S. Department of Health and Human Services, Child Care Bureau website: http://www.acf.dhhs.gov/programs/ccb/research. CLASP calculations based on unpublished Child Care Bureau data (FY 1996-FY 1998). For TANF figures, see Schumacher & Rakpraja, 2002; Schumacher, Greenberg, & Duffy, 2001.

7 Mezey, J., Greenberg, M., & Schumacher, R. (2002, October). *The Vast Majority of Federally-Eligible Children Did Not Receive Child Care Assistance in FY 2000: Increased Child Care Funding Needed to Help More Families*. Washington, DC: CLASP.

8 U.S. Department of Health and Human Services, Child Care Bureau. (2003, January) *Child Care Development Fund Report to Congress*. Washington, DC: Author.

9 In FY 1999, states spent $233 million on initiatives designed to improve child care quality and provide consumer education, growing to $307 million in FY 2000 and $434 million in FY 2001. For FY 1999-FY 2001 expenditure data, see U.S. Department of Health and Human Services, Child Care Bureau website: http://www.acf.dhhs.gov/programs/ccb/research.

10 National Child Care Information Center. (2002, December). *Child Care and Development Fund: Report on State Plans, FY 2002-2003*. Washington, DC: Author.

11 Mezey, J., Schumacher, R., Greenberg, M., Lombardi, J., & Hutchins, J. (2002). *Unfinished Agenda: Child Care for Low-Income Families Since 1996—Implications for Federal and State Policy*. Washington, DC: CLASP.

12 U.S. Census Bureau. (2003). *Statistical Abstract of the United States, 2002*. Washington, DC: Author, No. 570.

13 U.S. Department of Health and Human Services. (2002). *Temporary Assistance for Needy Families (TANF) Program: Fifth Annual Report to Congress*. Washington, DC: Author, IV-127, Figure 1.

14 Greenberg, M., & Rahmanou, H. (2003). *TANF Participation in 2001*. Washington, DC: CLASP. Available at: http://www.clasp.org/DMS/Documents/1048004065.37/2001_TANF_Participation.pdf.

15 Schulman, K., Blank, H., & Ewen, D. (2001, November). *A Fragile Foundation: State Child Care Assistance Policies*. Washington, DC: Children's Defense Fund.

16 To be eligible under federal CCDBG rules, a child must be younger than age 13 (or 19 in some states if the child has a disability and can't care for him or herself or is under court supervision), be in a family with income below 85 percent of State Median Income (SMI) (which averaged $38,000 for a family of three in FY 2000), and have parents working or in education

and training. Child Care and Development Block Grant Act, Section 658P; Adams, G., & Rohacek, M. (2002, February). *Child Care and Welfare Reform*, Welfare Reform and Beyond, Policy Brief No. 14. Available at: http://www.brookings.edu/dybdocroot/wrb/publications/pb/pb14.htm.

17 Mezey, Greenberg, & Shumacher, 2002.

18 Giannarelli, L., Adelman, S., & Schmidt, S. (2003). *Getting Help with Child Care Expenses*. Washington, DC: The Urban Institute.

19 FY 2002 data were collected and released by HHS. FY 2000 and FY 2001 data were collected by the Center on Budget and Policy Priorities from states directly and updated by CLASP. CLASP calculations of FY 2002 TANF financial data from Administration for Children and Families, U.S. Department of Health and Human Services; Schumacher & Rakpraja, 2002; Schumacher, Greenberg, & Duffy, 2001.

20 Neuberger, Z. (2002). *Annual TANF Expenditures Remain $2 Billion Above Block Grant*. Washington, DC: Center on Budget and Policy Priorities. Available at: http://www.cbpp.org/10-30-02wel.htm.

21 Richer, E., Rahmanou, H., & Greenberg, M. (2003). *Welfare Caseloads Increased in Most States in the Fourth Quarter.* Washington, DC: CLASP. Available at http://www.clasp.org/DMS/Documents/1049386524.1/doc_caseload_2002_Q4.pdf.

22 National Conference of State Legislatures. (2002, February 6). *State Fiscal Outlook for FY 2002—January Update*. Denver, CO: Author; National Conference of State Legislatures. (2001, January 4). *State Fiscal Outlook for FY 2001*. Denver, CO: Author. Available at www.ncsl.org.

23 Johnson, N., Lav, I., & Ribeiro, R. (2003, March 20). *States Are Making Deep Budget Cuts in Response to the Fiscal Crisis*. Washington, DC: Center on Budget and Policy Priorities. Available at: http://www.cbpp.org/3-19-03sfp.htm.

24 U.S. General Accounting Office. (2003, May). *Child Care: Recent State Policy Changes Affecting the Availability of Assistance for Low-Income Families*. Washington, DC: Author.

25 Children's Defense Fund. (2003, March). *State Budget Cuts Create a Growing Child Care Crisis for Low-Income Working Families*. Washington, DC: Author.

26 U.S. General Accounting Office, 2003.

27 U.S. General Accounting Office, 2003.

28 Andrews, C. (2003, May 7). Ohio to cut child care aid. Thousands of poor affected. *The Cincinnati Enquirer*; Children's Defense Fund, 2003.

29 U.S. General Accounting Office, 2003.

30 Andrews, 2003; Children's Defense Fund, 2003.

31 U.S. General Accounting Office, 2003. The report does not indicate the magnitude of quality spending increases or decreases.

32 Children's Defense Fund, 2003.

33 Parrott, S., & Mezey, J. (2003). *Bush Administration Projects that the Number of Children Receiving Child Care Subsidies Will Fall by 200,000 During the Next Five Years; Actual Loss in Child Care Subsidies Would be Far Greater*. Washington, DC: Center on Budget and Policy Priorities & CLASP.

34 Congressional Budget Office. (2002, September 3). *Preliminary Staff Estimate: Child Care Cost Summary Table*. Washington, DC: Author.

35 Congressional Budget Office. (2002, May 8). *Memorandum to Interested Parties: Estimate of the Potential Costs to States of Meeting the Work Participation Requirements of H.R. 4, as Passed by the House of Representatives, February 2003*. Washington, DC: Author. In this estimate, CBO assumes that states would have broad discretion in defining the activities for hours in excess of 24 for a 40-hour requirement and that states would also have broad discretion in defining all activities for three months out of every 24 months. Therefore, CBO assumes that anyone who currently meets a 24-hour work requirement could meet a 40-hour requirement at no additional cost, and that for a three-month period, anyone participating in a state-reported activity for at least one hour could meet a 40-hour requirement at no additional cost. CBO also provides two alternative estimates. First, CBO estimates that it would cost states $9.1 billion over five years in increased work and child care costs if states provide education, substance abuse treatment, additional work, or other supervised activities or services in the final 16 hours and the three-month period. Second, CBO estimates that it would cost states $3 billion in increased TANF and child care costs over five years if states adopted very broad work requirement definitions such that every recipient, regardless of their current level of participation in work activities, would be considered to satisfy H.R. 4's work requirements for three months out of every 24 months of benefit receipt. The $3 billion estimate also assumes that any recipient currently meeting a 24-hour work requirement could meet a 40-hour work requirement at no additional cost.

36 States would need to spend approximately $800 million in state funds over five years to draw down the full $1 billion.

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The Center for Law and Social Policy (CLASP), a national nonprofit organization founded in 1968, conducts research, legal and policy analysis, technical assistance, and advocacy on issues related to economic security for low-income families with children. CLASP's child care and early education work focuses on promoting policies that support both child development and the needs of low-income working parents and on expanding the availability of resources for child care and early education initiatives. CLASP examines the impact of welfare reform on child care needs; studies the relationships between child care subsidy systems, the Head Start Program, pre-kindergarten efforts, and other early education initiatives; and explores how these systems can be responsive to the developmental needs of all children, including children with disabilities.

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1015 15th Street, NW, Suite 400
Washington, DC 20005

202.906.8000 main
202.842.2885 fax

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