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Making the Case for Increasing Federal Child Care Funding: A Fact Sheet

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Child care assistance is an essential part of any strategy to help families leave or avoid welfare, maintain employment, and become self-sufficient. Families who receive child care subsidies are more likely to work and to stay off welfare than those families who do not receive this help.[1] Without quality child care, children are less safe and families are less secure. However, only one out of seven children who are eligible for child care assistance under federal rules receives it.

Substantial additional resources are needed to provide child care assistance to eligible low-income families to help them work and know that their children are in safe places that promote healthy child development. This fact sheet explains the following points:

- Temporary Assistance for Needy Families (TANF) legislation that is not accompanied by an adequate increase in child care funding will cause low-income children to lose child care assistance.
- Many low-income families are barely making it and need child care assistance.
- Even without new welfare work requirements, states already lack adequate child care resources.
- As a result of declining TANF reserves, along with historic state fiscal crises, many states are cutting programs for low-income families, including child care.

TANF reauthorization legislation that is not accompanied by an adequate increase in child care funding will cause low-income children to lose child care assistance.

If the work requirements in the welfare bill passed by the Senate Finance Committee in September become law, states would need significant new child care resources over five years to avoid losing ground and cutting families off of assistance.[2]

- The Senate Finance bill provides only $1 billion in increased federal mandatory child care funding over five years.[3]
- Legislation passed by the House and the CCDBG reauthorization bill approved by the Senate Health, Education, Labor and Pensions Committee would increase discretionary

authorization levels by about $2.4 billion over five years. However, Congress would still have to *appropriate* these funds. It seems unlikely that these increases would be realized in the near future given the current budget climate. In fact, the FY 2004 Labor, Health and Human Services, Education Appropriations bills passed by the House and Senate *did not* increase FY 2004 CCDBG discretionary funding from FY 2002 levels.[4]

- By FY 2008, about 430,000 children would lose their child care assistance under the bill passed by the Senate Finance Committee.

  - About 360,000 children served in FY 2003 will lose child care assistance due to the fact that funding levels will not keep up with the increasing cost of providing child care services, and that states will have fewer Temporary Assistance for Needy Families (TANF) dollars to spend on child care.[5]

  - Approximately 70,000 *additional* children in working poor, non-TANF families will lose their child care because states will have to redirect child care and TANF resources in order to meet federal welfare work requirements.[6]

Many low-income families are barely making it and need child care assistance.

- A recent analysis by the National Center for Children in Poverty found that at least one in eight families of kindergarten children with incomes between 100 and 200 percent of the federal poverty level ($18,400 to $36,800 for a family of four in 2003) cannot obtain health insurance for their children, have not taken their children to a dentist in the last 12 months, and have moved three or more times in their children's lives. The study further found that a family of four needs roughly $36,800 per year to meet the basic needs for food, housing, health care, child care, transportation, and other necessities, and to pay taxes. The vast majority of children in low-income families have working parents.[7]

- Forty percent of poor, single, working mothers who paid for child care in 2001 paid at least half of their cash income for child care; an additional 25 percent of these families paid 40 to 50 percent of their cash income for child care.[8]

Even without new welfare work requirements, states already lack adequate child care resources.

- **TANF is no longer an increasing source of funding for child care assistance for low-income families.** States have relied on TANF funds to increase their child care programs and meet the needs of working families. Between FYs 1997 and 2000, the use of federal TANF funds for child care increased from $249 million to $4 billion. In recent years, the use of TANF for child care has declined from $4 billion in FY 2000 to $3.5 billion in FYs 2001 and 2002.[9]

- **States do not have large stores of unspent TANF funds that could be used for child care without disrupting current and future services.** State reserves of unspent TANF funds have fallen by over 50 percent since FY 2000, according to the General Accounting Office (GAO). This trend is likely to continue, leaving states with no TANF reserves in a few years. A recent GAO report projected that states will have approximately $5.6

billion of unspent TANF balances by the end of FY 2003.[10] However, many of these dollars are unavailable to meet unanticipated future needs because: (1) about 30 percent of these funds have been transferred to CCDBG and the Social Services Block Grant, and (2) some portion of the remaining $3.9 billion has been obligated, or legally committed, to other specific purposes. These funds could not be redirected to other TANF purposes without forcing current or future services cuts.

- **States do not have $2 billion in unspent TANF funds that would be immediately freed up for child care upon enactment of the House legislation or Senate Finance bill.** The Department of Health and Human Services (HHS) reports that states had over $2 billion in unobligated prior-year TANF funds in FY 2002; under current law, these funds can only be used for TANF assistance. Therefore, states face restrictions in using these funds for child care for employed families. The House legislation and the Senate Finance Committee bill would allow states to use these prior-year funds on non-assistance, including child care for employed families. This is a positive change that will enhance state flexibility. However, if states chose to use all of these funds for child care, they would have no reserves to meet future needs, such as caseload increases, further economic downturns, or increased work requirements.

- **States face historic fiscal crises; state fiscal relief will do little to address child care funding needs.** States are experiencing the worst fiscal crises since World War II. Since FY 2001, states have had to close budget gaps cumulatively totaling $200 billion. States faced a budget gap of almost $80 billion for FY 2004.[11] Earlier this year, states received $20 billion in fiscal relief. Half of these funds are in the form of increased federal Medicaid contributions and half are for general purposes. These funds will do little to address the current child care funding crisis for several reasons. First, fiscal relief funds are only available for FYs 2003 and 2004. The need for additional child care funding is not limited to these years, and it will grow even larger after FY 2004 when no state fiscal relief funds will be available. Second, $20 billion covers only a modest fraction of state FY 2004 budget shortfalls. Finally, child care will be one of many programs, including health care, education, and public safety, competing for the modest amount of available funds.[12] There is little evidence to date that the funds have helped restore the numerous cuts states have already made.

As a result of declining TANF reserves, along with historic state fiscal crises, many states are cutting programs for low-income families, including child care.

- **More than half of the states have cut programs funded with CCDBG and TANF dollars that serve low-income families.** [13] For example:

  - The Maryland FY 2004 budget cut child care assistance to low-income working families by 19 percent, from $134 million to $109 million. As of January 2003, only families who are or have been on welfare within the past year can receive assistance.

  - In Tennessee, only TANF families and families who are leaving TANF are eligible for child care assistance; transitioning families can only receive assistance for 18 months after leaving TANF. The state also had a child care wait list of 13,000 children as of December, 2002. Finally, as a result of a budget crisis, Tennessee will not implement new rules to protect children as they are transported by child care centers. These rules were adopted following the recent deaths of four children in a child care provider's van.

- **In almost half the states, most low-income families who apply for child care are placed on a wait list.**[14] In addition, states that do not have wait lists are not necessarily serving all eligible families who want and need help. In addition, the size of a wait list does not capture all of the need for child care. Some states maintain wait lists but stop taking additional applications for services. Also, some families will not place or keep their names on a wait list if doing so seems futile.

- **Some states that don't keep wait lists have adopted other policies to limit child care availability and conserve resources.** These policies include: (1) not accepting applications from low-income families who want child care assistance, (2) lowering income eligibility limits, resulting in fewer families being eligible for child care assistance, (3) increasing family co-payments, making subsidized care too expensive for low-income families to afford, and (4) decreasing provider payment rates, making it more difficult for families to find providers who will accept a child care subsidy.[15]

- **Low-income working families who are struggling to stay off welfare are the first ones affected by child care cutbacks.**[16] As in Maryland, states often limit child care subsidies to welfare recipients or recent welfare leavers when funding is tight.

Endnotes

[1] Loprest, P. (2003). *Use of Government Benefits Increases among Families Leaving Welfare*. Snapshots of America's Families III Series, No. 6. Washington, DC: Urban Institute; Boushey, H. (2002). *Staying Employed After Welfare: Work Supports and Job Quality Vital to Employment Tenure and Wage Growth*. Economic Policy Institute Briefing Paper. Washington, DC: Economic Policy Institute.
[2] The Congressional Budget Office (CBO) estimates that states will need $1 billion to $1.5 billion over five years in child care and TANF funding to meet the Senate Finance bill's work requirements. CBO did two different estimates using two sets of assumptions about the range of activities that could count towards meeting the Finance bill's requirements. The $1.5 billion estimate (used in this fact sheet) assumes that the Secretary of HHS would limit allowed activities and require states to directly monitor and supervise activities. Congressional Budget Office. (Sept. 9, 2003). *Potential Cost to States of Meeting Proposed Work Requirements*. Washington, DC: Author.
[3] If these dollars are in the form of matching funds, assuming a 56 percent match rate, states will need to spend an additional $785 million over five years to draw down these funds.
[4] CCDBG discretionary funding was subject to an across-the-board cut of 0.65 percent in FY 2003. This funding would be restored under the FY 2004 appropriations bills.
[5] Parrott, S., & Mezey, J. (2003). *New Child Care Resources Are Needed to Prevent the Loss of Child Care Assistance for Hundreds of Thousands of Children in Working Families*. Washington, DC: Center on Budget and Policy Priorities and CLASP.
[6] This figure accounts for the Senate Finance bill's proposed child care increase in the form of matching funds. It also assumes that states will fund work costs by redirecting TANF funds from all non-cash assistance, non-work programs, including child care, to their work programs. Parrott, S., & Fremstad, S. (2003). *The Senate Finance Committee's TANF Reauthorization Bill*. Washington, DC: Center on Budget and Policy Priorities.
[7] Gershoff, E. (2003). *Low Income and Hardship Among America's Kindergartners*. Living at the Edge Research Brief No. 3. New York: National Center for Children in Poverty.

[8] Wertheimer, R. (2003). *Poor Families in 2001: Parents Working Less and Children Continue to Lag Behind*. Washington, DC: Child Trends.
[9] Mezey, J., & Richie, B. (2003). *Welfare Dollars No Longer an Increasing Source of Child Care Funding: Use of Funds in FY 2002Unchanged from FY 2001, Down from FY 2000*. Washington, DC: CLASP.
[10] U.S. General Accounting Office. (Sept. 2003). *Welfare Reform: Information on TANF Balances, GA-03-1094*. Washington, DC: Author.
[11] National Conference of State Legislatures. (July 23, 2003). *State Budget & Tax Actions 2003. Preliminary Report: Executive Summary*. Denver, CO: Author. Available at www.ncsl.org.
[12] Fremstad, S. (2003). *State Fiscal Relief Funds Do Not Address the Need For Substantial Increases in Child Care Funding*. Washington, DC: Center on Budget and Policy Priorities.
[13] Parrott, S., & Wu, N. (2003). *States Are Cutting TANF and Child Care Programs: Supports for Low-Income Working Families and Welfare-to-Work Programs are Particularly Hard Hit*. Washington, DC: Center on Budget and Policy Priorities; U.S. General Accounting Office (April 2003). *Child Care: Recent State Policy Changes Affecting the Availability of Assistance for Low-Income Families.* Washington, DC: Author; Ewen, D., & Hart, K. (2003). *State Developments in Child Care, Early Education and School-Age Care.* Washington, DC: Children's Defense Fund.
[14] GAO (April 2003); Ewen & Hart (2003).
[15] GAO (April 2003); Ewen & Hart (2003).
[16] GAO (April 2003).