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The House Welfare Bill (H.R. 4) Does Not Provide Enough Child Care Funding to Meet Work Requirements Without Forcing States to Restrict Access to Subsidies for Other Low-Income Families

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This week, the House will vote on a welfare reauthorization bill (H.R. 4) that includes a \$1 billion increase over five years in federal mandatory child care funds (as well as an increase in discretionary authorization levels) and significant new welfare work requirements. This funding increase is not sufficient to allow states to meet these new work requirements, to maintain their current levels of services against inflation, or to make up for decreased child care resources caused by strains on Temporary Assistance for Needy Families (TANF) funds and by state fiscal crises.¹

- **Child care is an essential component of welfare reform, but most low-income families with children do not receive child care assistance.** Child care helps low-income parents obtain and keep their jobs. High-quality child care can also support the healthy social and emotional development of young children. Despite these benefits, only one out of seven children who are eligible for child care assistance under federal rules receives this assistance due to funding limitations.²
- **The House reauthorization bill does not provide enough child care funding for states to meet work requirements without terminating services for children who are currently receiving child care assistance.** Last year, the Congressional Budget Office (CBO) estimated that it would cost states an additional \$8.4-\$11 billion over five years to meet the House legislation's work requirements—with child care costs accounting for \$3.8-\$4.8 billion. CBO also estimated an *additional* five-year cost of

¹ This paper draws from Parrott, S., & Mezey, J. (February 2003). *Bush Administration Projects that the Number of Children Receiving Child Care Subsidies Will Fall By 200,000 During the Next Year—Actual Loss in Child Care Subsidies Likely Would Be Far Greater*. Washington, DC: Center on Budget and Policy Priorities and Center for Law and Social Policy. Available at:

http://www.clasp.org/DMS/Documents/1044476809.2/doc_child_care_budget.pdf

² Mezey, J., Greenberg, M., & Schumacher, R. (October 2002). *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: Center for Law and Social Policy. Available at:

<http://www.clasp.org/DMS/Documents/1024427382.81/1in7full.pdf>

\$4.5-\$5 billion above the amount needed to meet work requirements for states to maintain their current level of services against inflation.

The House legislation increases federal mandatory child care funding by \$1 billion over five years, with a required associated increase in state spending of approximately \$785 million. The legislation also would increase the *authorization* levels for discretionary child care funding. However, Congress would have to appropriate funding for this increase, which seems very unlikely in the current budget climate. In fact, the FY 2003 appropriations bill passed by the Senate would, if enacted, impose a 2.9 percent across-the-board reduction in funding for most discretionary programs, including the discretionary portion of the Child Care and Development Block Grant (CCDBG).

Thus, the House bill's child care funding increase does not come close to meeting either the cost of keeping pace with inflation or the bill's new work requirements. Furthermore, all of the new mandatory federal funding requires increased state spending to draw it down. State groups claim that current economic conditions in the states might make it difficult to increase state spending to access all of these funds, particularly in the early years of implementation. Given all of these facts, states will likely have to terminate services to low-income children who are not receiving cash assistance in order to fund the costs of the proposed work requirements.

- **The House reauthorization bill's proposed welfare work requirements will add to the pressure on states to reduce their TANF investments in child care.** Between FY 2000 and FY 2001, state TANF reserves dropped by \$2 billion dollars, as state welfare expenditures exceeded the amount of annual block grants.³ Furthermore, many states are facing increased TANF caseloads, which could cause redirections of TANF funds from child care programs to cash assistance.⁴ Finally, the House legislation does not increase funding for the TANF block grant. This means that states will likely have to redirect at least some of the TANF funds that are currently being used for child care and other supportive services towards increased work program costs.
- **The House reauthorization bill's proposed child care funding increase does not address the current state fiscal crisis, which will likely reduce current levels of state child care resources.** The current state fiscal crisis has led states to make deep cuts in a variety of state services, including child care programs. States will need to find budget cuts or increase revenues to close an aggregate budget gap that is projected to be between \$70 billion and \$85 billion in FY 2004. This comes on top of a budget gap in FY 2003 that was estimated at more than \$60 billion across all states.⁵

³ Neuberger, Z. (October 2002). *Annual TANF Expenditures Remain \$2 Billion Above Block Grant*. Washington, DC: Center on Budget and Policy Priorities.

⁴ Richer, E., Rahmanou, H., & Greenberg, M. (December 2002). *Welfare Caseloads Increased in Most States in Third Quarter, National Caseload Also Up*. Washington, DC: Center for Law and Social Policy.

⁵ Lay, I.J., & Johnson, N. (January 2003). *State Budget Deficits for FY 2004 are Huge and Growing*. Washington, DC: Center on Budget and Policy Priorities.

- **Strains on TANF funding and state revenues have already led to child care cuts.** According to data from the Center on Budget and Policy Priorities, Indiana, Kansas, Nebraska, New Mexico, and West Virginia have reduced income eligibility limits in their child care programs. Some states have reduced their payments to providers and others have increased the co-payment requirements for families receiving subsidies. As states put their FY 2004 budgets together, more cuts are being proposed. For example, Governor Taft of Ohio has proposed reducing the eligibility limit for child care subsidies in order to cut the number of children served by 17,000.⁶

⁶ For additional information on child care budget cuts and proposed cuts, see Children's Defense Fund. (September 2002). *Low-Income Families Bear the Burden of State Child Care Cutbacks*. Washington, DC: Author.