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EXECUTIVE SUMMARY

Since passage of the 1996 welfare law, the nation's welfare system has changed dramatically, significantly affecting both the need and resources available for child care in states. In the past five years, employment increased among low-income mothers, and the number of families receiving welfare declined by 53%. Under the law, though, each state receives a block grant of Temporary Assistance for Needy Families (TANF) funds each year, with block grant levels staying essentially constant through 2002. As cash assistance spending has declined, states have been free to reallocate TANF dollars to other needs and purposes. The single biggest redirection has been to child care. The principal source of federal funding for low-income child care assistance has been the Child Care and Development Fund (CCDF, also called the Child Care and Development Block Grant, or CCDBG). Nationally, in the year 2000, the federal funds redirected from TANF exceeded those from CCDF as a source of child care funding. States have become increasingly dependent on TANF as a means to address child care needs, a factor which has important implications as reauthorization of TANF and CCDF approaches.

The National Context

Since 1996, a number of important factors have influenced need for child care and subsequent state policy decisions. More low-income and single parents are working. Child care costs remain prohibitively high for low-income families, who pay a higher percentage of their earnings toward child care than higher-income families. More children are receiving CCDF child care subsidy assistance, but many potentially eligible children remain unserved. States have used flexibility allowed under CCDF to make some improvements to child care subsidy policies, though the effects of limited resources are still evident in their choices. Some research suggests that the supply of child care and qualified teachers is not keeping up with the needs of working low-income parents and children. So, as welfare caseloads declined, the freed-up TANF funds became available to states as they also faced growing demand for child care and increased concerns about school readiness for all children.

The Law: Using TANF for Child Care

Under the 1996 welfare law, a state can commit TANF funds to child care in two ways. First, a state can transfer up to 30% of its current year TANF funds to CCDF, in which case the funds become subject to all CCDF requirements. States may also transfer up to 10% of current year TANF funds to the Social Services Block Grant (SSBG), provided that the total amount transferred out of TANF may not exceed 30%. Second, a state can directly spend TANF funds for child care without transferring the funds to CCDF. If a state does so, however, the funds are still considered TANF funds and subject to TANF rules. One of the most significant TANF rules is the definition of "TANF assistance." Generally, if TANF funds are spent for child care for nonemployed families (and are not considered a nonrecurrent short term benefit), the funds are considered "TANF assistance." When TANF funds are used for child care for employed families, the benefits are considered "nonassistance." If a benefit is considered assistance, the state must apply federal TANF time limits, child support, data collection, and other requirements. A state is free to spend current-year TANF funds on child care for low-income families whether or not the child care falls within the definition of "assistance," but prior-year, unobligated TANF funds can only be spent on assistance, so may not be used for child care for employed families.

Committing TANF to Child Care: Trends Over Time

States have committed more TANF funds to child care each year since 1996, with the total amount growing from $189 million in FFY 97 to $3.9 billion in FFY 00. In FFY 00, 49 states either transferred TANF to CCDF or directly spent TANF funds for child care. Both transfer and direct spend amounts were substantial: in FFY 00, states transferred $2.4 billion and directly spent an additional $1.5 billion of TANF funds for child care.

Table One.

Overview of State Transfers of TANF to CCDF and Direct Spending of TANF Funds for Child Care, 1997-2000

Year	Number of Transfer States	Total Amount Transferred	Number of Direct Spend States	Total Amount of Direct Spend	Total Number of Transfer/Direct Spend States	Total Transfer/Direct
1997	8	$175 million	7	$14.5 million	12	**$189 million**
1998	24	$673.5 million	12	$247 million	29	**$920.5 million**
1999	43	$2.5 billion ($1.8 of FFY 99 funds)	25*	$747 million	46	**$3.3 billion**
2000	44	$2.4 billion	35*	$1.5 billion	49	**$3.9 billion**

Source: Calculations by CLASP from U.S. Department of Health and Human Services, Administration for Children and Families, *TANF Program Federal Awards, Transfers and Expenditures through 4th Qtr. FY 00.* See also HHS Transfer and Expenditure Data through 4th Qtr FFY 99, FFY 98, and FFY 97. Available at http://www.acf.dhhs.gov/programs/ofs/data/index.htm. FFY 98 Transfer Data also based on *HHS Data, TANF Program Federal Awards, Transfers and Expenditures in FY 98 with FY 97 Federal Funds.*
* Includes Missouri, which spent TANF funds directly in FFY 99 and FFY 00 on after-school child care services.

Although the overall picture is one of growing redirection of TANF to child care, states vary considerably in the extent to which they have come to rely on TANF to fund their child care subsidy systems. State transfers to CCDF vary from zero to 30%, with the most common transfer amount as 20% (for fifteen states in FFY 00). Transfer amounts ranged from zero to $520 million in FFY 00. Direct expenditures of TANF for child care in FFY 00 range from zero to $540 million in an individual state. The full report provides state-by-state details.

In reviewing the available data, we found that:

- Nationally, the redirection of TANF to child care in FFY 00 was larger than the entire federal portion of the CCDF allocation — $3.9 billion vs. $3.5 billion. See Figure One.

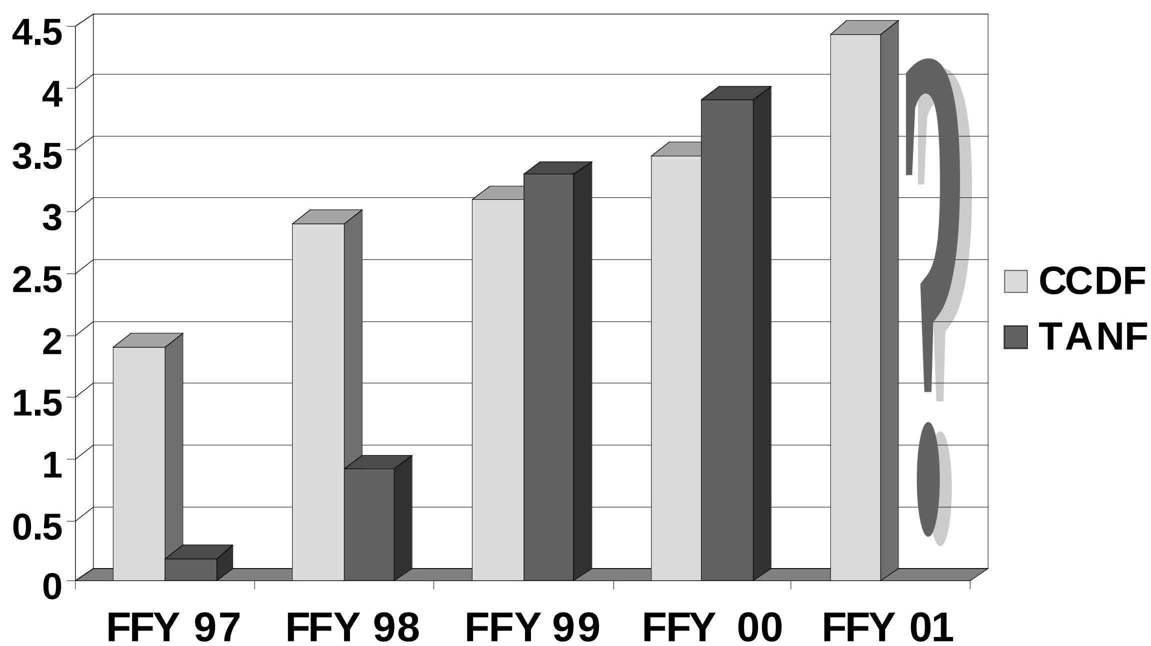
- TANF represented as much or more of the state's child care budget than did federal CCDF funds in fifteen states in FFY 00.

- While only one state transferred the maximum amount possible from TANF to CCDF in FFY 00 (Louisiana transferred 30%), 18 states transferred 20% or more.

- States committed about 25% of all TANF funds transferred or expended in FFY 00 to child care, with 16 states committing more than 25%.

Thus, TANF funds now comprise a substantial portion of state child care resources in many states, and the availability of TANF funds has been a principal reason for expansions in child care spending since 1996.

Figure One. TANF Redirection and Federal CCDF Funds Available for Child Care, FFY 1997-2001 (in billions)



Source: Calculations by CLASP from *U.S. Department of Health and Human Services, Administration for Children and Families, TANF Program Federal Awards, Transfers and Expenditures through 4th Qtr. FY 00.* See also HHS Transfer and Expenditure Data through 4th Qtr FFY 99, FFY 98, and FFY 97. All TANF figures based on HHS data, unless noted in Table Two as state-verified data that differ from HHS data. See Table Two. Also from the U.S. Department of Health and Human Services, Administration for Children and Families, Child Care Bureau, *FFY 01 Final CCDF Allocations*. See also CCDF data for FFY 00, FFY 99, FFY 98, and FFY 97.

Notes: The ? denotes that data on the amount of FFY 01 TANF committed to child care are not available.
The FFY 97 appropriation does not fully reflect the amount of discretionary funds available to states in calendar year 1997. In 1997, only $19 million of the discretionary portion of CCDF was actually released by Congress for state use in FFY 97, while the remaining $937 million was released to states on October 1, 1997 (the first day of FFY 98).

A Closer Look at State Use of Transfers and Direct Spending: The Impact of TANF Funds on States, Families, and Children

CLASP collected more detailed information from states regarding transfer and direct spending of TANF for child care through surveys of all states. We also interviewed and gathered information from CCDF administrators in 25 states that had reached the 20% transfer threshold at the time we collected data (referred to below as the "high-transfer states").

A. TANF Transfers to CCDF

We found that TANF transfers to CCDF have made many of the key child care policy expansions and improvements that have occurred in recent years possible for states. In order to maintain these ongoing commitments, state administrators are counting on continued access to TANF transfers. At the time of our interviews, the majority of "high-transfer" states planned to transfer TANF funds to CCDF at the same or higher levels in FFY 01. TANF transfer dollars have enabled the 25 "high-transfer" states to:

- Increase the number of children served and reduce or eliminate waiting lists;
- Expand income eligibility to more families;
- Lower co-payment fees for parents;
- Increase reimbursement rates for child care providers in the subsidy system;
- Expand supply of quality child care; and,
- Increase collaboration with Head Start or Pre-Kindergarten programs.

B. Spending TANF Directly for Child Care

States seem to choose to spend TANF directly for three main reasons: to access additional TANF funds for child care after maximizing the ability to transfer (most typically by transferring 20% to CCDF and 10% to SSBG); and/or to finance a specific initiative that is more easily funded with TANF than with CCDF dollars, because CCDF restrictions would not apply to TANF-funded child care; and/or to provide child care assistance to TANF recipients through local TANF offices, rather than the state's CCDF structure.

From our survey of all 50 states and DC regarding direct expenditures of TANF funds for child care, we found that:

- The most common category of families receiving child care funded by TANF direct dollars was TANF recipients.
- However, the majority of TANF funds are used to purchase nonassistance child care either to support work or as a short-term benefit; it is likely that many of these families do not receive TANF cash assistance.
- A minority of states uses the flexibility of TANF direct dollars to meet other pressing child care needs, including child care for non-TANF families in education and

training, child care for protective services, early education/pre-kindergarten initiatives, after/before school programs, or child care expenditures for activities other than direct services.

- States vary as to what data they collect on families served with TANF dollars directly, and many collect no disaggregated data for TANF child care spending considered nonassistance - which accounts for the bulk of the TANF direct spending on child care.

C. Issues and Concerns

We asked state administrators to comment on what they viewed as the key issues in using TANF funds for child care. We heard the following themes frequently:

- State commitment of TANF to child care can vary on a year-to-year basis, and along with uncertainty about future federal TANF funding levels, can make it difficult to conduct long-run state child care policy planning.
- Federal rules requiring states to meet different requirements depending on whether child care expenditures with TANF are considered assistance or nonassistance are burdensome.
- Prohibitions on using prior year TANF funds for nonassistance purposes needlessly complicate state child care budget decisions.
- Current data collection requirements for TANF-funded child care services are inconsistent and sometimes counterproductive.

Recommendations

While our recommendations are informed by information gathered from state administrators, we are solely responsible for these proposals, and they should not be construed to be the viewpoints of any entity other than CLASP.

We recommend that:

- The amount of federal resources specifically dedicated to child care through the CCDF should be increased, and current access to TANF for child care should be maintained.

- The distinction between assistance and nonassistance child care should be eliminated, and all expenditures for child care with TANF funds should be classified as nonassistance.

- The rules restricting use of prior-year TANF funds should be revised, so that a state could spend prior year unobligated TANF funds for nonassistance, and could transfer prior-year TANF funds to CCDF to the extent that the state had not reached its maximum transfer amount.

- Whenever TANF funds are being used for child care, they should be fully subject to CCDF data collection requirements.

- Congress should review CCDF data collection requirements with a focus on simplifying and improving the policy relevance of data collected. As stated above, the same data elements should then be made generally applicable to TANF-funded child care assistance, and states should be strongly encouraged to collect the same core data for state-funded child care assistance.

INTRODUCTION

Since passage of the 1996 welfare law, the nation's welfare system has changed dramatically, significantly affecting both the need and resources available for child care in states. In the past five years, the labor market improved in ways unforeseen in 1996. During this period, employment increased among low-income mothers, and the number of families receiving welfare declined by more than 50%. Under the law, though, each state receives a block grant of Temporary Assistance for Needy Families (TANF) funds each year, with block grant levels staying essentially constant through 2002. As cash assistance spending has declined, states have been free to reallocate TANF dollars to other needs and purposes. The single biggest redirection has been to child care. The principal source of funding for low-income child care assistance has been the Child Care and Development Fund (CCDF, also called the Child Care and Development Block Grant, or CCDBG). Nationally, in 2000, the funds redirected from TANF exceeded CCDF as a source of federal child care funding. In some states, the majority of child care funding now comes from TANF. Under the law, states can both transfer funds from TANF to CCDF and directly spend TANF funds for child care without transferring the funds. States are making use of both approaches, and in 2000, a total of $3.9 billion in TANF funds was redirected to child care.

The redirection of TANF funds to child care has had important implications for families and states. It has meant that, at a time when labor force participation by single parent families has rapidly grown, states have been able to significantly increase the resources available for child care. The redirection of TANF funds has made it possible for states to increase numbers of families receiving assistance, reduce waiting lists, raise child care subsidy eligibility levels, and make new investments to improve the quality of child care for all families. At the same time, significant unmet needs still exist. In addition, some differences between TANF and CCDF rules have added to administrative complexity. And, states have become increasingly dependent on TANF as a means for increasing child care-related spending, a factor which has important implications as the nation approaches the reauthorization of both TANF and the CCDF in 2002.

In this paper, after describing the experience and issues that have arisen in use of TANF for child care, we conclude with a set of recommendations. Our recommendations include specific suggestions to make it easier for states to access TANF funds for child care, and to streamline and coordinate data collection in order to clarify the full picture of how TANF dollars are reaching children, and what impact that has on state child care systems. We also raise concerns about the potential for instability of state child care systems given increased dependence on TANF funding. Although we recommend that current access to TANF funds for child care be maintained, we also interpret states' major redirection of TANF to child care as a signal that more dedicated child care funding is needed. Increases in CCDF funding levels are necessary to stabilize state child care systems and allow for long-term planning to meet growing and unmet child care needs, as evidenced by the significant redirection of TANF by states.

In this document, we:

- Set out the basic context for understanding trends in child care spending and usage since 1996;
- Provide an overview of the law concerning how and when TANF funds can be used for child care;
- Describe how the commitment of TANF funds to child care has grown, and present the most current available figures for the nation and all states;
- Draw from the recent experiences of a number of states to describe the importance of TANF funds in expansions of state child care subsidy systems; and
- Suggest a set of potential issues and recommendations for TANF and CCDF reauthorization, concerning allowable uses of TANF and CCDF funds, rules governing the transfer and direct spending of TANF funds, data collection and accountability requirements.

I. The National Context

Since 1996, the number of employed low-income parents has increased sharply, and therefore the number of families potentially needing child care subsidy assistance has grown. Child care expenditures and the numbers of families receiving subsidy assistance have increased. However, most low-income working families still do not receive child care subsidy assistance, and the effects of limited resources are still evident in state eligibility levels, copayment requirements, and provider payment rates. Moreover, at the same time, research has raised concerns about whether the supply of quality, enriching child care is sufficient to meet demand, and about the extent and impacts of high turnover among staff working with young children.

More low-income and single parents are working. Since 1996, the nation's welfare caseload has fallen by 53%.[1] Most parents who have left welfare are working, typically in low wage jobs.[2] Among families receiving welfare cash assistance, the proportion participating in paid employment or work activities grew from 11% in 1996 to 33% in 1999.[3] Among families with a child in Head Start, TANF cash assistance receipt fell from 45% to 26% from the 1996-1997 to 1999-2000 program years, while full-time participation in the labor force rose from 42% to 53% in that same period.[4] More generally, labor force participation by single mothers under 200% of the federal poverty level with children under six grew from 44% in 1996 to 55% in 1999 (the growth is even more striking when compared to the 1992 level of 35%).[5] Since 1996, roughly one million more single mothers of all incomes have become employed; in 1996, 1.8 million single mothers with children any age were working, as compared to 2.7 million employed single mothers in 1999.[6]

Child care costs remain high for working low-income families. Research based on the National Survey of American Families (NSAF) found that families earning less than 200% of the federal poverty with child care costs were paying an average of 16% of earnings for child care, compared to 6% for higher-income families with child care costs. The

1 See U.S. Department of Heath and Human Services, Administration for Children and Families website, http://www.acf.dhhs.gov/news/stats/aug-dec.htm (Last updated December 14, 2000).

2 In 1999 dollars, the median hourly wages for individuals who left TANF between 1997 and 1999 was $7.15, according to data from the National Survey of American Families. See Loprest, Pamela, *How Are Families that Left Welfare Doing? A Comparison of Early and Recent Welfare Leavers* (Washington, DC: Urban Institute, April 2001).

3 See U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research and Evaluation, *Temporary Assistance for Needy Families (TANF) Program: Third Annual Report to Congress* (Washington, DC: U.S. Department of Health and Human Services, August 2000).

4 From Head Start Program Information Report data, U.S. Department of Health and Human Services, Administration for Children and Families, Head Start Bureau (Washington, DC: U.S. Department of Health and Human Services, 2001).

5 From Current Population Survey (CPS) data - See U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research and Evaluation, *Temporary Assistance for Needy Families (TANF) Program: Third Annual Report to Congress* (Washington DC: U.S. Department of Health and Human Services, August 2000).

6 See U.S. Census Bureau, *Statistical Abstract of the United States: 2000*, 120th edition (Washington, DC: U.S. Census Bureau, 2000), Table No 653.

NSAF data showed that 27% of low-earning families paying for child care spent more than 20% of their earnings for child care, compared to 1% of higher-earning families.[7]

More children are receiving CCDF subsidies, although many potentially eligible children are not served. The number of children receiving CCDF subsidies increased from one million in 1996 to 1.8 million in 1999. At the same time, the federal government estimates that in 1999, just 15% of children eligible for child care assistance under state CCDF rules were receiving CCDF assistance, and 12% of children potentially eligible under the maximum allowable federal income guidelines were receiving such assistance.[8] A review of state studies found that in most of the states, less than a third of the families who have left welfare and were working were receiving child care subsidy assistance.[9] A number of states have waiting lists for child care subsidies, and low-income working families who have not recently received welfare are less likely to be prioritized for subsidies.[10]

States have used the significant flexibility allowed under CCDF to make key changes to their child care subsidy policies, though the effects of limited resources are still evident in state eligibility levels, copayment requirements, and provider rates. States may set income eligibility for CCDF assistance up to 85% of State Median Income (SMI). Since 1996, many states have increased income eligibility, although according to analysis by the Congressional Research Service, only eleven states currently set maximum income limits at the 85% SMI level.[11] States may also determine the amount of the copayment parents will be assessed when receiving child care subsidy assistance, and many states have worked toward the regulatory recommendation to set copayment levels at no more than 10% of family income. At least 33 states have set their co-payment rates at 10% or less of family gross income for families of three at 150% of FPL, as of June 1999.[12] However, the remainder do not, and even in states meeting the 10% standard, families reaching the income eligibility cut-off may face a large "cliff," in which an additional dollar of income results in a large increase in the amount the family must pay for child care. States may also determine the level to pay those who provide the child care services purchased with CCDF

7 Linda Giannarelli & James Barsimantov, *Child Care Expenses of America's Families* (Washington, DC: The Urban Institute, 2000). Lower income families were less likely to incur child care costs (40%, versus 53% for higher income families), but when costs were incurred, they represented a much higher share of family income.

8 U.S. Department of Health and Human Services, Administration for Children and Families, press release, *New Statistics Show Only a Small Percentage of Eligible Families Receive Child Care Help* (Washington DC: U.S. Department of Health and Human Services, December 2000). http://www.acf.dhhs.gov/new/ccstudy2.htm. The CCDF numbers do not take into account children served through other federal or state early education programs, or children served through direct TANF expenditures. For example, the federal Head Start program enrolled approximately 826,000 children in FFY 99, and state pre-kindergarten programs enrolled over 724,000 children in the 1998-1999 year.

9 Rachel Schumacher and Mark Greenberg, *Child Care after Leaving Welfare: Early Evidence from State Studies*, (Washington, DC: Center for Law and Social Policy, October 1999).

10 Ann M. Collins, et al., *National Study of Child Care for Low-Income Families: State and Community Substudy Interim Report*, (Washington, DC: Prepared for the U.S. Department of Health and Human Services by the National Center for Children in Poverty & Abt Associates, Inc.:, November 2000).

11 Melinda Gish, *Child Care: State Programs under the Child Care and Development Fund* (Washington, DC: Congressional Research Service, March 2001).

12 Helen Blank & Nicole Oxendine Poersch, *State Developments in Child Care and Early Education - 1999* (Washington, DC: Children's Defense Fund, February 2000).

dollars, although the law states that rates should be adequate to ensure that families receiving subsidies have "equal access" to care comparable to that received by families with incomes above CCDF eligibility levels. The federal government has suggested that payment rates sufficient to purchase care at the 75th percentile of the local market would meet the "equal access" requirement. However, according to the most recent state CCDF plans, which account for state policy in the period October 1999 - September 2001, only twenty-three states were paying rates reaching the 75th percentile based on a market rate survey conducted in 1998 or 1999.[13]

Research suggests that the supply of child care and qualified teachers is not keeping up with the needs of working low-income parents and children. A study of child care supply in Illinois and Maryland found that those communities with the highest concentration of low-income families were actually least likely to increase supply of regulated child care services between 1996 and 1998.[14] Another study, a review of Census Bureau data, found indications that poor communities in non-metropolitan areas are especially likely to experience inadequate supply of center child care.[15] High staff turnover rates and low wages are key barriers to maintaining or expanding child care supply; a longitudinal study of child care centers in California found that 76% of 1996 teaching staff were no longer employed at that same facility in 2000.[16] High turnover is likely to have a negative impact on child well-being, given the important role of stable, responsive caregiver-child relationships in early childhood development.[17]

Also in the past five years, there have been indications that many states have shifted from viewing child care principally as a support for welfare reform to recognizing it as an essential component of a strategy to support workforce participation by low- and middle-income parents. In addition, many states are thinking through how best to improve the quality of the child care services provided in order to better meet school readiness needs of children. So, as welfare caseloads declined, the freed-up TANF funds became available to states at the same time as states were concerned about addressing child care needs for welfare leavers and other low-income families, and as states were becoming increasingly concerned about the need for linkages between child care and efforts to advance school readiness for all children.

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13 Eight states were paying at the 75th percentile based their provider reimbursement rates on 1999 market rate surveys, fifteen were using 1998 surveys, two states paying at the 75th percentile based their rates on 1997 market rate surveys, and three paying at the 75th percentile states based their rates on 1994 market rate surveys. Melinda Gish, *Child Care: State Programs Under the Child Care and Development Fund* (Washington, DC: Congressional Research Service Report to Congress: March 2001).

14 J. Lee Kreader, Jessica Brickman Piecyk, and Ann Collins, *Scant Increases After Welfare Reform: Regulated Child Care Supply in Illinois and Maryland, 1996-1998.* (New York City: National Center for Children in Poverty, June 2000).

15 Rachel Gordon & P. Lindsay Chase-Lansdale, *Availability of Child Care in the United States: A Description and Analysis of Available Data Sources in Demography*, Volume 38-Number Two, (May 2001), 299-316.

16 Marci Whitebrook, et al., *Then & Now: Changes in Child Care Staffing*, 1994-2000, Technical Report (Joint project of the Center for the Child Care Workforce and the Institute of Industrial Relations, University of California, Berkeley, 2001).

17 Jack P. Shonkoff & Deborah A. Phillips, Editors, *From Neurons to Neighborhoods: The Science of Early Childhood Development* (Washington, DC: National Academy Press, 2000).

II. The Law: Using TANF for Child Care

The 1996 welfare law created, in effect, two block grants: TANF and CCDF. TANF is sometimes thought of as the "welfare" block grant, and was created when the former cash assistance program, Aid to Families with Dependent Children, was eliminated. TANF funds can be used to fund the state's cash assistance program for needy families but may also be used for an array of other purposes.

CCDF is sometimes thought of as a single block grant, but it actually involves a mix of federal block grant funds and federal and state matching funds. Generally, each state qualifies for a basic block grant of federal funds each year for expenditures for child care services to low-income families and for expenditures to improve the quality of child care in the state. A state can also qualify for additional federal matching funds for child care costs if the state meets a specified "maintenance of effort" requirement and contributes additional state matching funds.[18]

In general, a state wishing to commit TANF funds to child care may do so by transferring the funds to the state's CCDF program or by directly spending the funds without transferring them. A state may elect to transfer, do direct spending, or do both. Funds transferred to CCDF become subject to all CCDF rules. Directly spent funds remain subject to all TANF rules. Rules governing transfer and direct spending were modified in significant ways when the U.S. Department of Health and Human Services (HHS) issued final TANF regulations in April 1999. For most purposes now, it is only important to understand current rules; however, in analyzing spending trends, it is also helpful to understand how the changes affected state choices.

A. Transfers of TANF Funds

Key rules affecting CCDF transfer are:

- **30% transferable:** Up to 30% of the current year's TANF allocation can be transferred to CCDF. Also, up to 10% of the state's current year TANF allocation can be transferred to the state's program under the Title XX or Social Services Block Grant (SSBG), provided that the total amount transferred cannot exceed 30% of the state's allocation. So, if the state is electing to transfer 10% to SSBG, no more than 20% can be transferred to CCDF.[19]

18 For more detail, see Mark Greenberg, Joan Lombardi, and Rachel Schumacher, *The Child Care and Development Fund: An Overview* (Washington, DC: Center for Law and Social Policy, 2000).

19 In addition to transferring TANF funds to the CCDF and SSBG, states may opt to use TANF funds to provide matching funds for Job Access and Reverse Commute Program, administered by the U.S. Department of Transportation (DOT) and the Federal Transit Administration (FTA). The total amount of TANF funds that can be used for matching purposes for the Job Access and Reverse Commute Program during each fiscal year is the difference between 30% of a state's TANF award and the amount the state transfers to the CCDF and the SSBG. See *Use of TANF, WtW, and Job Access Funds for Transportation* (Washington, DC: Federal Transit Authority, 2000) for a broader discussion of Job Access and Reverse Commute Grants and the use of TANF for this purpose.

- **Transferred funds subject to CCDF rules:** Transferred funds lose their character as TANF funds, and become fully subject to all CCDF rules, e.g., CCDF eligibility rules, parental choice requirements, health and safety requirements, reporting requirements, requirement that at least 4% be used for quality expenditures, etc. Since the funds are no longer considered TANF funds, they stop being subject to TANF requirements, including TANF data collection reporting requirements.

- **Transferred funds must be spent by end of second subsequent year:** For spending purposes, transferred funds are considered CCDF discretionary funds, i.e., the funds must be "obligated" in the year of or after transfer, and must be spent by the end of the subsequent year. For example, funds transferred in Federal Fiscal Year 2000 (FFY 00) must be obligated by the end of FFY 01 and spent by the end of FFY 02. A state can choose to send transferred funds back to TANF within the obligation period. However, if the state doesn't do so, and doesn't spend the funds by the end of the expenditure period, the funds must be returned to the federal government.

- **State may only transfer current-year funds:** A state may transfer current-year funds but may not transfer prior-year funds. This requirement was announced April 12, 1999 and became effective October 1, 1999. Until that time, states were free to transfer unspent funds from a prior year. However, final regulations told states, in effect, that any further transfer of FFY 97, FFY 98 or FFY 99 funds had to be made on or before September 30, 1999. As a result, transfers in FFY 98 and FFY 99 could be from current year or prior year TANF allocations. Beginning in FFY 00, a transfer from TANF could only occur in the year that funds become available.

B. Spending TANF Directly for Child Care

When a state wishes to directly spend TANF funds for child care-related purposes, the state must consider two questions: is the expenditure allowable, and does it fall within the TANF definition of assistance. In general, expenditures for child care services for low-income families are allowable, although (as discussed below) it is sometimes unattractive to use TANF as the funding source if the child care is considered "TANF assistance."

A state can clearly spend TANF funds for child care subsidies for low-income families; there are some questions, though, about when TANF funds can be spent for quality improvement initiatives. Generally, a state may spend TANF funds in any manner reasonably calculated to accomplish TANF's purposes, or in any manner that was permitted under the programs that were repealed when TANF was enacted. The four purposes of TANF are to:

(1) provide assistance to needy families so that the children may be cared for in their homes or in the homes of relatives;[20]

20 This phraseology derives from original Aid to Families with Dependent Children language, and is not meant to address the issue of choices between informal child care arrangements provided by family members, family day care, and center-based care.

(2) end the dependency of needy parents on government benefits by promoting job preparation, work, and marriage;

(3) prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and

(4) encourage the formation and maintenance of two-parent families.

Based on this language, providing child care services to low-income families is an allowable use of TANF funds because doing so promotes job preparation and work for needy parents (Purpose Two). Many expenditures that promote quality child care for low-income families are also allowable, because they can be viewed as supporting continuity and stability of care. There are unresolved questions about expenditures intended to strengthen quality in the child care system more generally, e.g., an expansion of licensing staff, general consumer education expenditures, because they may not be reasonably calculated to accomplish a TANF purpose.

When a state wishes to directly spend TANF funds for child care subsidies, the federal rule that has the biggest practical effect is the TANF definition of assistance. TANF expenditures are either considered "assistance" or "nonassistance." When a benefit is considered assistance, then there are implications for the family and the state: any month in which federally-funded TANF assistance is received counts against the federal TANF time limit; a family receiving assistance is considered part of the state's TANF caseload for purposes of TANF work requirements; a family receiving assistance must assign its child support rights to the state; and the state must meet detailed family data collection requirements for families receiving assistance. Conversely, when a benefit is considered nonassistance, none of these requirements apply.

Initially, HHS policy treated all child care paid for with TANF funds as assistance. This meant, in practice, that it was difficult or impossible to directly spend TANF funds to provide child care to families who were not already part of the state's TANF caseload. This is because most states would not want to count months against the state's time limit or count a family as part of the TANF caseload simply because a working family was receiving a child care subsidy paid for with TANF funds.

Final TANF regulations issued in April 1999 changed the federal approach, drawing distinctions among types of child care. Generally, the regulations said that "assistance" included a) benefits designed to meet ongoing basic needs (e.g., food, shelter); and b) supportive services such as child care provided to nonemployed families. Two key types of nonassistance were child care to employed families and nonrecurrent short-term benefits, i.e., benefits designed to deal with a specific crisis situation or episode of need; not intended to meet recurrent or ongoing needs; and which will not extend beyond four months.[21] Thus, under this framework, child care for a family in which an individual is employed is considered nonassistance; child care for a family in which no individual is employed is considered assistance *unless* the child care can be treated as a nonrecurrent short-term benefit.

With this background, the key rules governing spending of TANF funds for child care are:

- **Direct spending of TANF for child care is allowable:** A state can spend an unlimited amount of TANF funds on child care subsidies for low-income families, whether or not the state is also transferring funds to CCDF. Other child care-related spending (e.g., quality initiatives) may also be allowable, though a state needs to consider whether the expenditure is reasonably calculated to accomplish a TANF purpose.

- **TANF funds directly spent are not subject to CCDF requirements:** A state is free to impose CCDF requirements (e.g., eligibility limits, fee scale requirements, health and safety requirements, parental choice/equal access requirements) on TANF child care spending, but is not required to do so, and may develop different policies for TANF funded child care.

- **Applicable requirements for families depend on whether the child care funded directly with TANF is considered assistance.** If the child care is considered assistance, then TANF time limit, work requirement, child support assignment, and related requirements apply. In addition, if the child care is considered assistance, TANF data collection requirements apply. If the child care is considered nonassistance, TANF assistance-related requirements and TANF data collection requirements do not apply, though the state is free to impose whatever eligibility conditions and data requirements the state considers appropriate.

- **Spending time frames depend on whether the child care funded directly with TANF is considered assistance.** Current year TANF funds can be spent on child care whether or not the child care is considered assistance. Unobligated TANF funds from prior years may only be spent for "assistance" and related administrative costs. As a result, if, for example, a state wishes to commit unobligated prior year TANF funds to child care, the state can do so for families that are already receiving TANF assistance, but cannot do so for working families outside the welfare system.

21 For more detail on assistance/nonassistance distinctions, see Mark Greenberg & Steve Savner, *The Final TANF Regulations: A Preliminary Analysis* (Washington, DC: Center for Law and Social Policy, 1999)

C. Summary of Rules: Using TANF for Child Care

In summary, the rules provide the following general structure for state choices:

- The simplest approach for a state wanting to commit TANF funds to child care is often to transfer TANF funds to CCDF, where the funds become subject to all CCDF rules and requirements. However, the amount transferable to CCDF is limited, there are some circumstances where a state may not wish to have spending subject to CCDF requirements, and there are circumstances (e.g. unobligated prior year funding) in which a state cannot transfer funds.

- A state might wish to directly spend TANF funds for child care. Common reasons are that the state wishes to commit more resources to child care than can be transferred, or the state wishes to use funds for initiatives that are difficult or impossible to fund under the CCDF, e.g., after-school programs for older children. Funds directly spent may, but need not, be subject to the same or similar rules that apply to CCDF funds.

III. Committing TANF to Child Care: Trends Over Time

As TANF cash assistance caseloads have fallen, the commitment of TANF funds for child care has grown each year.[22] Since states can spend TANF funds for a broad array of purposes, states were not required to direct additional resources to child care. Nevertheless, the single biggest redirection of TANF funds has been to expand child care.[23]

There was a significant increase in transfer of TANF funds to child care between 1997 and 1998, but little direct spending in the first years of TANF implementation. Transfer and direct spending of TANF funds for child care greatly accelerated in 1999, because of the continuing decline of TANF assistance caseloads, increased encouragement and pressure directed at states that were leaving substantial amounts of TANF funds unspent, and the impact of the regulatory changes made in 1999. The 1999 regulatory changes generated an acceleration in redirecting TANF funds in two ways:

22 Note that in this analysis, we often refer to "commitment" of funds for child care rather than "spending." The reason is that available data allows us to see the extent to which TANF funds were transferred or directly spent in a year, but transferred funds may not be spent until the next or the subsequent year. Transferred funds could also ultimately be returned to TANF, though this has rarely occurred. In telephone interviews, 22/24 states indicated that no FFY 99 funds would be returned; in one instance, the child care agency had been directed by legislators not to obligate transferred funds because the transfer had occurred without legislative authorization. In another instance, the telephone interviewee indicated that the return of transferred TANF funds might be possible.

23 In FFY 99, of all TANF funds that were either spent or transferred, 43% were spent on "cash and work-based assistance," and 20% were directed to child care. The next largest category, "other expenditures" represented 11% of TANF funds that were either spent or transferred.

- First, since states were told in April 1999 that they could not transfer FFY 97, 98, or 99 funds after September 30, 1999, there was a substantial transfer of TANF funds during the second half of the year.

- Second, since the regulations made clear that states could directly spend TANF funds for working families as nonassistance, it became much easier and more attractive to do so.

Thus, the total amount of redirected TANF funds increased from $189 million in FFY 97 to $921 million in FFY 98 to $3.3 billion in FFY 99. Many observers had expected that because of the large amounts of transfers in FFY 99 — when states had only six months to decide to transfer unspent funds from three years — the commitment of TANF funds to child care would flatten or decline in 2000. That did not turn out to be the case. Instead, the total commitment of TANF funds to child care grew to $3.9 billion in 2000. See Table One.

In discussing the role of TANF in support of child care, one caution needs to be kept in mind. Under current law, TANF funds must be spent for allowable TANF expenditures, but there is no prohibition against supplantation, i.e., using TANF funds to substitute for existing state funding. So, for example, when we see that a state is spending $1 million in TANF for child care, we cannot determine whether the $1 million represents an expansion, a substitution of federal for state funds, or something in between. The fact that total child care spending is increasing and that a number of states report additional state funding for child care in their MOE expenditures does suggest that much of the TANF spending is new spending, but we cannot readily state how much is new and how much might be substitution of federal funds for prior state spending.[24]

As Table One indicates, between 1997-2000, the annual transfer amount increased from $175 million to $2.4 billion, the annual direct spend amount increased from $14.5 million to $1.5 billion, and the total amount transferred or directly spent increased from $189 million in FFY 97 to $3.9 billion in FFY 00.

Figure One compares the amount of TANF states have redirected to child care to the maximum amount of federal CCDF funds states could qualify for from FFY 97 to FFY 01. Note that data on TANF redirection in FFY 01 are not yet available. Nationally, the redirection of TANF to child care in FFY 00 was larger than the entire federal portion of the CCDF allocation — $3.9 billion vs. $3.5 billion.

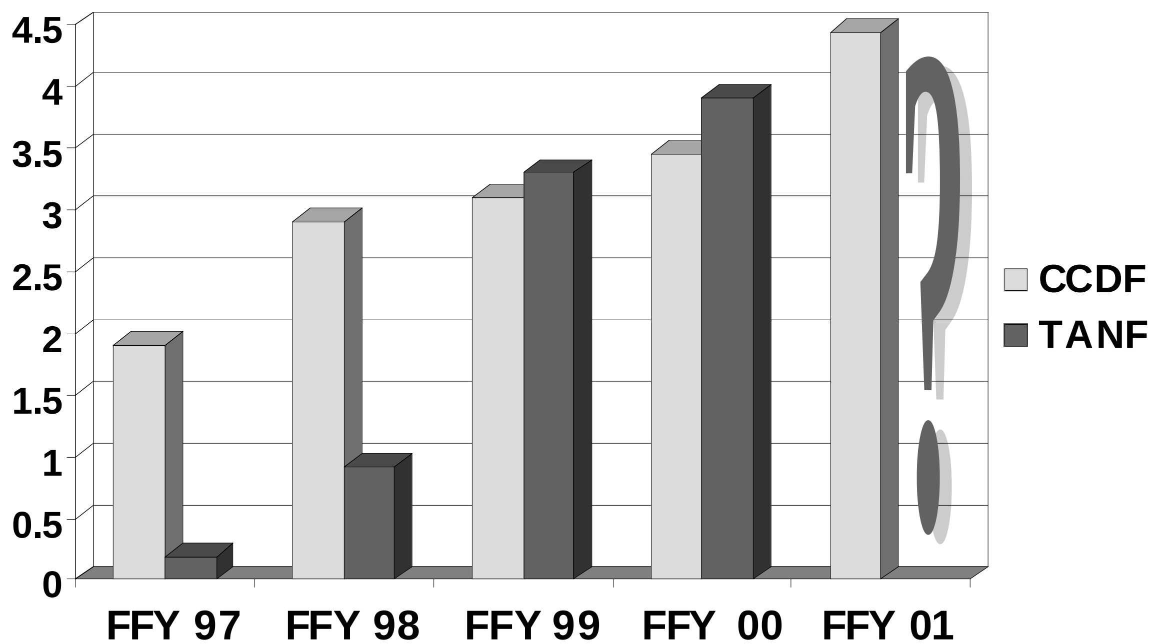
24 In addition, before 2001, there was no prohibition against using CCDF funds to supplant prior state funding. However, in FFY 2001, Congress provided states an additional $817 million in CCDF funds, and a non-supplantation provision was included with the additional funding. The Labor-HHS Appropriations Act, provided: "For carrying out sections 658A through 658R of the Omnibus Budget Reconciliation Act of 1981 (The Child Care and Development Block Grant Act of 1990), in addition to amounts already appropriated for fiscal year 2001, $817,328,000, such funds shall be used to supplement, not supplant state general revenue funds for child care assistance for low-income families..."

Table One.

Overview of State Transfers of TANF to CCDF and Direct Spending of TANF Funds for Child Care, 1997-2000						
Year	Number of Transfer States	Total Amount Transferred	Number of Direct Spend States	Total Amount of Direct Spend	Total Number of Transfer/Direct Spend States	Total Transfer/Direct
1997	8	$175 million	7	$14.5 million	12	**$189 million**
1998	24	$673.5 million	12	$247 million	29	**$920.5 million**
1999	43	$2.5 billion ($1.8 of FFY 99 funds)	25*	$747 million	46	**$3.3 billion**
2000	44	$2.4 billion	35*	$1.5 billion	49	**$3.9 billion**

Source: Calculations by CLASP from U.S. Department of Health and Human Services, Administration for Children and Families, *TANF Program Federal Awards, Transfers and Expenditures through 4th Qtr. FY 00.* See also HHS Transfer and Expenditure Data through 4th Qtr FFY 99, FFY 98, and FFY 97. Available at http://www.acf.dhhs.gov/programs/ofs/data/index.htm. FFY 98 Transfer Data also based on *HHS Data, TANF Program Federal Awards, Transfers and Expenditures in FY 98 with FY 97 Federal Funds.*
* Includes Missouri, which spent TANF funds directly in FFY 99 and FFY 00 on after-school child care services.

Figure One. TANF Redirection and Federal CCDF Funds Available for Child Care, FFY 1997-2001 (in billions)



Source: Calculations by CLASP from *U.S. Department of Health and Human Services, Administration for Children and Families, TANF Program Federal Awards, Transfers and Expenditures through 4th Qtr. FY 00.* See also HHS Transfer and Expenditure Data through 4th Qtr FFY 99, FFY 98, and FFY 97. All TANF figures based on HHS data, unless noted in Table Two as state-verified data that differ from HHS data. See Table Two. Also from the U.S. Department of Health and Human Services, Administration for Children and Families, Child Care Bureau, *FFY 01 Final CCDF Allocations*. See also CCDF data for FFY 00, FFY 99, FFY 98, and FFY 97.

Notes: The ? denotes that data on the amount of FFY 01 TANF committed to child care are not available. The FFY 97 appropriation does not fully reflect the amount of discretionary funds available to states in calendar year 1997. In 1997, only $19 million of the discretionary portion of CCDF was actually released by Congress for state use in FFY 97, while the remaining $937 million was released to states on October 1, 1997 (the first day of FFY 98).

Table Two provides details about each state's redirection of TANF for child care in FFY 99 and FFY 00. In those years, state transfer of TANF to CCDF ranges from 0% to 30%, with the most common percentage of transfer at 20% (15 states in FFY 00). Overall, the most notable shift between FFY 99 and FFY 00 was that the amount of direct spending more than doubled, increasing from $747 million to $1.5 billion.

Table Three provides an overview of state transfer patterns, showing percentage of state TANF block grants transferred to CCDF and to SSBG in FFY 99 and FFY 00. Note that most states with a 20% transfer to CCDF also have a 10% transfer to SSBG.

Table Four shows the share of each state's use of TANF in FFY 00 that was committed to child care. Note that funds redirected through transfer need not be spent by the state in that year. Overall, about 25% of the TANF funds either transferred or spent by states in FFY 00 were committed to child care. Sixteen states committed a higher share to child care than the national average.

Table Five estimates the percentage of each state's total amount of available federal child care funds which came from TANF transfer or directly spent dollars. The first column represents the total amount of funding transferred from TANF in FFY 00 plus the amount of direct TANF child care spending. The second column shows the total amount of federal CCDF dollars for which each state qualified in FFY 00, based on the FFY 00 Final CCDF Allocations. The third column calculates what percentage of available federal dollars came from by dividing the first column by the total of the first and second column. TANF represented as much or more of the state's federally available child care budget than federal CCDF funds in fifteen states.

Thus, TANF funds now comprise a substantial part of state child care resources in many states, and the availability of TANF funds has been a principal reason for the rapid growth in child care spending since 1996.

Table Two.

Use of TANF for Child Care in FFY 1999 and 2000: Transfers to CCDF and Direct Spending on Child Care

State	FFY 99 Total Transfer (97,98,99 Funds Included)		FFY 99 Transfer of FFY 99 Funds				FFY 00 Transfer of FY 00 Funds			
	Transfer (in millions)	% of TANF[1]	Transfer (in millions)	% of TANF[2]	FFY 99 Direct Spend (in millions)[3]	FFY 99 Total Transfer/Direct (in millions)	Transfer (in millions)	% of TANF	FFY 00 Direct Spend (in millions)[3]	FFY 00 Total Transfer/Direct (in millions)
Alabama	$38.5	25%	$23.7	20%	$7.5	$46.1	$20.3	17%	$1.9	$22.2
Alaska	$30.5	38%	$13.8	21%	$2.1	$32.6	$13.1	20%	$7.6	$20.7
Arizona	$40.6*	13%	$0.0	0%	$2.3	$42.9	$51.7	20%	$27.3	$79.0
Arkansas	$0.0	0%	$0.0	0%	$0.0	$0.0	$5.0	8%	$5.5	$10.5
California	$307.3	6%	$307.3	8%	$171.3	$478.6	$520.3*	14%	$539.7*	$1,060.0
Colorado	$6.0*	3%	$6.0*	4%	$0.0	$6.0	$29.2*	20%	$1.3	$30.5
Connecticut	$0.0	0%	$0.0	0%	$35.8	$35.8	$0.0	0%	$21.2	$21.2
Delaware	$1.0	3%	$0.1	0.3%	$0.0	$1.0	$4.8	14%	$0.0	$4.8
DC	$18.5	13%	$18.5	16%	$11.9*	$30.4	$18.5	16%	$12.4	$31.0
Florida	$117.6	12%	$117.6	20%	$94.3*	$211.9	$117.6	19%	$132.2	$249.8
Georgia	$15.9	4%	$15.8	5%	$0.0	$15.9	$51.7	14%	$1.0	$52.7
Hawaii	$11.9*	11%	$5.6	6%	$0.0	$11.9	$0.9	1%	$0.0	$0.9
Idaho	$6.6	10%	$6.6	20%	$0.0	$6.6	$6.6	20%	$2.7*	$9.3
Illinois	$117.0	20%	$117.0	20%	$35.2	$152.2	$125.3	20%	$23.0	$148.4
Indiana	$112.1	28%	$56.0	27%	$15.7*	$127.8	$41.4	19%	$111.1	$152.5
Iowa	$14.4*	9%	$10.6*	8%	$0.005 [4]	$14.4	$26.4	20%	$0.002 [4]	$26.4
Kansas	$6.1*	5%	$6.1	6%	$0.0	$6.1	$15.3	15%	$0.0	$15.3
Kentucky	$54.5	24%	$36.2	20%	$10.4	$64.8	$36.2	20%	$14.5*	$50.7
Louisiana	$102.1	35%	$51.7	30%	$0.0	$102.1	$54.1	30%	$0.1*	$54.2
Maine	$7.6	10%	$7.6	10%	$8.2*	$15.8	$7.3	9%	$3.4	$10.8
Maryland	$91.6	24%	$0.0	0%	$2.5	$94.1	$45.8	20%	$28.9	$74.7
Massachusetts	$91.9	19%	$91.9	19%	$45.2*	$137.1	$91.9	20%	$104.7	$196.6
Michigan	$96.1	11%	$96.1	12%	$211.2	$307.2	$9.4	1%	$151.2	$160.6
Minnesota	$58.3*	14%	$57.5*	22%	$0.0	$58.3	$17.1	6%	$0.0	$17.1

Use of TANF for Child Care in FFY 1999 and 2000: Transfers to CCDF and Direct Spending on Child Care

State	FFY 99 Total Transfer (97,98,99 Funds Included)		FFY 99 Transfer of FFY 99 Funds				FFY 00 Transfer of FY 00 Funds			
	Transfer (in millions)	% of TANF[1]	Transfer (in millions)	% of TANF[2]	FFY 99 Direct Spend (in millions)[3]	FFY 99 Total Transfer/Direct (in millions)	Transfer (in millions)	% of TANF	FFY 00 Direct Spend (in millions)[3]	FFY 00 Total Transfer/Direct (in millions)
Mississippi	$8.7	6%	$8.7	10%	$0.0	$8.7	$18.7	20%	$6.1	$24.8
Missouri	$43.4	15%	$43.4	20%	$0.0[5]	$43.4	$20.7	10%	$0.0[5]	$20.7
Montana	$18.4*	25%	$5.5	12%	$0.0	$18.4	$7.6	17%	$0.0	$7.6
Nebraska	$5.0[6]	5%	$5.0[6]	9%	$0.0	$5.0	$4.0[6]	7%	$0.0	$4.0
Nevada	$0.0	0%	$0.0	0%	$0.0	$0.0	$0.0	0%	$0.6*	$0.6
New Hampshire	$0.0	0%	$0.0	0%	$0.0	$0.0	$0.0	0%	$0.0	$0.0
New Jersey	$205.7*	33%	$80.8	20%	$27.0*	$232.7	$79.8	20%	$0.0	$79.8
New Mexico	$13.7	7%	$13.7	10%	$0.0	$13.7	$19.5	15%	$0.0	$19.5
New York	$269.6	9%	$5.0	0%	$0.0	$269.6	$437.0	18%	$0.0	$437.0
North Carolina	$80.8	20%	$80.3	25%	$1.1	$81.8	$65.9	20%	$15.4	$81.3
North Dakota	$0.0	0%	$0.0	0%	$0.0	$0.0	$0.5	2%	$1.0	$1.5
Ohio	$0.0	0%	$0.0	0%	$19.4	$19.4	$77.5	11%	$79.0	$156.5
Oklahoma	$77.9	30%	$29.5	20%	$10.5	$88.3	$30.2	20%	$21.2	$51.4
Oregon	$0.0	0%	$0.0	0%	$5.7	$5.7	$0.0	0%	$15.8	$15.8
Pennsylvania	$127.0	12%	$127.0	18%	$0.0	$127.0	$67.1	9%	$13.9	$81.1
Rhode Island	$13.6	12%	$13.6	14%	$0.0	$13.6	$4.1	4%	$0.0	$4.1
South Carolina	$3.5	3%	$3.5	3%	$0.0	$3.5	$1.0	1%	$0.0	$1.0
South Dakota	$0.0	0%	$0.0	0%	$0.0	$0.0	$4.4	20%	$0.0	$4.4
Tennessee	$51.8	18%	$51.8	26%	$4.7	$56.5	$50.4	24%	$7.8*	$58.2
Texas	$30.6	4%	$30.6	6%	$0.0	$30.6	$38.3	7%	$0.0	$38.3
Utah	$3.7	4%	$3.7	5%	$0.0	$3.7	$0.0	0%	$1.2	$1.2
Vermont	$7.6	13%	$7.7	16%	$1.0	$8.6	$7.7	16%	$2.7	$10.4
Virginia	$29.2	15%	$29.2	18%	$0.0*	$29.2	$27.7	17%	$0.0*	$27.7
Washington	$121.0	22%	$121.0	30%	$0.1[7]	$121.1	$97.5*	24%	$4.2*	$101.6
West Virginia	$5.4*	3%	$5.4*	5%	$0.0	$5.4	$0.0*	0%	$6.7	$6.7
Wisconsin	$71.3	13%	$63.5	20%	$24.2	$95.5	$63.5	20%	$90.5	$154.0

Use of TANF for Child Care in FFY 1999 and 2000: Transfers to CCDF and Direct Spending on Child Care

State	FFY 99 Total Transfer (97,98,99 Funds Included)		FFY 99 Transfer of FFY 99 Funds				FFY 00 Transfer of FY 00 Funds			
	Transfer (in millions)	% of TANF[1]	Transfer (in millions)	% of TANF[2]	FFY 99 Direct Spend (in millions)[3]	FFY 99 Total Transfer/Direct (in millions)	Transfer (in millions)	% of TANF	FFY 00 Direct Spend (in millions)[3]	FFY 00 Total Transfer/Direct (in millions)
Wyoming	$1.2[8]	2%	$1.2[8]	6%	$0.0	$1.2	$0.0[8]	0%	$0.0	$0.0
TOTAL	**$2,535.1**	**11%**	**$1,775.9**	**11%**	**$747.2**	**$3,282.2**	**$2,433.3**	**14%**	**$1,455.8**	**$3,889.1**

Source: Calculations by CLASP from U.S. Department of Health and Human Services, Administration for Children and Families, TANF Program Federal Awards, Transfers and Expenditures through 4th Qtr. FFY 99 and TANF Program Federal Awards, Transfers, and Expenditures through 4th Qtr. FFY 00. Available at http://www.acf.dhhs.gov/programs/ofs/data/index.html. All figures based on HHS data, unless noted as state-verified data that differ from HHS data. (See Notes below.)

Clarification on TANF Transfer Rules: In FFY 99, states were allowed to transfer funds still available from previous year TANF grants until the end of that fiscal year. Beginning in FFY 00 (October 1, 1999), federal regulations limited states to transferring TANF funds from the current year only. When a state transfers TANF to CCDF, the state may spend those funds over the next two fiscal years. Therefore, funds transferred in a certain year may not necessarily have been spent in that fiscal year.

Notes: *State-verified data. Differs from the HHS data available at http://www.acf.dhhs.gov/programs/ofs/data/index.html.
[1]The percentage of transferred TANF funds, including FFY 99, 98 and 97 funds, of the total amount of Federal funds available for transfer in FFY 99.
[2]The percentage of FFY 99 transferred TANF funds of the Total FFY 99 TANF award.
[3]Direct spending for this fiscal year includes direct spending with funds from prior year TANF grants expended in this year.
[4]For Iowa, FFY 99 direct spending is estimated according to State FY 00 spending, and FFY 00 direct spending is estimated with state FY 01 spending.
[5]TANF funds spent by Missouri (and potentially other states) on after-school child care programs are not always reflected as TANF spending for child care in the states' ACF-196 Federal Data Reporting. These after-school programs may fall under Purpose Three of TANF, which addresses teen pregnancy prevention, and therefore spending on after-school programs may be included in a state's TANF spending for pregnancy prevention, rather than child care.
[6]For Nebraska, $9 million in total was transferred in SFY 2000. See FFY 99 and FFY 00 transfer amounts above.
[7]Washington reported this direct spending under "Other Work Activities" on their ACF-196 reporting form. However, these were specifically child care expenses.
[8]Wyoming's FFY 99 transfer amount reflects the negative transfer amount provided by HHS regarding Wyoming's FFY 00 transfer. The state appears to have originally transferred $4.1 million to CCDF in FFY 99, but subsequently returned $2.9 million of the FFY 99 transfer from the CCDF back to TANF.

Table Three.

Transfers of TANF to CCDF and SSBG in FFY 2000

State	Transferred to CCDF (in millions)*	% of FFY 00 TANF Transferred to CCDF	Transferred to SSBG (in millions)*	% of FFY 00 TANF Transferred to SSBG	Total Transfer (in millions)	% of FFY 00 TANF Transferred in Total
Alabama	$20.3	17%	$12.2	10%	$32.5	27%
Alaska	$13.1	20%	$6.5	10%	$19.7	30%
Arizona	$51.7	20%	$25.9	10%	$77.6	30%
Arkansas	$5.0	8%	$2.1	3%	$7.1	12%
California	$520.3	14%	$0.0	0%	$520.3	14%
Colorado	$29.2	20%	$14.6	10%	$43.8	30%
Connecticut	$0.0	0%	$24.4	9%	$24.4	9%
Delaware	$4.8	14%	$0.0	0%	$4.8	14%
DC	$18.5	16%	$9.3	8%	$27.8	25%
Florida	$117.6	19%	$60.3	10%	$177.9	29%
Georgia	$51.7	14%	$35.8	10%	$87.5	24%
Hawaii	$0.9	1%	$1.0	1%	$1.9	2%
Idaho	$6.6	20%	$3.3	10%	$9.9	30%
Illinois	$125.3	20%	$62.7	10%	$188.0	30%
Indiana	$41.4	19%	$20.7	10%	$62.0	29%
Iowa	$26.4	20%	$12.7	10%	$39.1	29%
Kansas	$15.3	15%	$10.2	10%	$25.5	25%
Kentucky	$36.2	20%	$18.1	10%	$54.4	30%
Louisiana	$54.1	30%	$0.0	0%	$54.1	30%
Maine	$7.3	9%	$3.0	4%	$10.4	13%
Maryland	$45.8	20%	$22.9	10%	$68.7	30%
Massachusetts	$91.9	20%	$47.0	10%	$138.9	30%
Michigan	$9.4	1%	$79.8	10%	$89.2	11%
Minnesota	$17.1	6%	$16.2	6%	$33.3	12%
Mississippi	$18.7	20%	$9.3	10%	$28.0	30%
Missouri	$20.7	10%	$21.7	10%	$42.4	20%
Montana	$7.6	17%	$4.3	9%	$11.9	26%

Transfers of TANF to CCDF and SSBG in FFY 2000

State	Transferred to CCDF (in millions)*	% of FFY 00 TANF Transferred to CCDF	Transferred to SSBG (in millions)*	% of FFY 00 TANF Transferred to SSBG	Total Transfer (in millions)	% of FFY 00 TANF Transferred in Total
Nebraska	$4.0	7%	$0.0	0%	$4.0	7%
Nevada	$0.0	0%	$0.7	1%	$0.7	1%
New Hampshire	$0.0	0%	$0.0	0%	$0.0	0%
New Jersey	$79.8	20%	$40.4	10%	$120.2	30%
New Mexico	$19.5	15%	$0.0	0%	$19.5	15%
New York	$437.0	18%	$244.0	10%	$681.0	28%
North Carolina	$65.9	20%	$23.0	7%	$88.9	27%
North Dakota	$0.5	2%	$0.0	0%	$0.5	2%
Ohio	$77.5	11%	$72.8	10%	$150.3	21%
Oklahoma	$30.2	20%	$15.1	10%	$45.3	30%
Oregon	$0.0	0%	$0.0	0%	$0.0	0%
Pennsylvania	$67.1	9%	$54.9	7%	$122.0	16%
Rhode Island	$4.1	4%	$3.6	4%	$7.7	8%
South Carolina	$1.0	1%	$10.0	10%	$11.0	11%
South Dakota	$4.4	20%	$2.2	10%	$6.5	30%
Tennessee	$50.4	24%	$0.0	0%	$50.4	24%
Texas	$38.3	7%	$4.4	1%	$42.7	8%
Utah	$0.0	0%	$5.0	6%	$5.0	6%
Vermont	$7.7	16%	$4.7	10%	$12.5	26%
Virginia	$27.7	17%	$15.8	10%	$43.5	27%
Washington	$97.5	24%	$24.1	6%	$121.6	29%
West Virginia	$0.0	0%	$11.3	10%	$11.3	10%
Wisconsin	$63.5	20%	$31.8	10%	$95.3	30%
Wyoming	$0.0	0%	$2.2	10%	$2.2	10%
Total	**$2,433.3**	**14%**	**$1,090.0**	**6%**	**$3,523.3**	**21%**

Source: Calculations by CLASP from U.S. Department of Health and Human Services, Administration for Children and Families, TANF Program Federal Awards, Transfers and Expenditures through 4th Qtr. FFY 00. Available at http://www.acf.dhhs.gov/programs/ofs/data/index.html. All figures based on HHS data, unless noted in Table Two as state-verified data that differ from HHS data. See Table Two for footnotes.

*Funds transferred to these block grants may be spent in the year received, but they may also be spent in the subsequent year (in the case of SSBG) or the subsequent two years (in the case of CCDF).

Table Four.

TANF Redirected to Child Care as a Share of All TANF Used in FFY 2000*

State	Total TANF Transferred or Spent in FFY 00 (in millions)	CCDF Transfer in FFY 00 (in millions)	Direct Child Care Spending in FFY 00 (in millions)	Total Transfer/Direct (in millions)	Share of TANF Used in FFY 00 Committed to Child Care
DC	$35.6	$18.5	$12.4	$31.0	87%
New Jersey	$141.7	$79.8	$0.0	$79.8	56%
Indiana	$283.1	$41.4	$111.1	$152.5	54%
Massachusetts	$367.2	$91.9	$104.7	$196.6	54%
Wisconsin	$345.6	$63.5	$90.5	$154.0	45%
Louisiana	$123.6	$54.1	$0.1	$54.2	44%
Florida	$570.6	$117.6	$132.2	$249.8	44%
Oklahoma	$118.0	$30.2	$21.2	$51.4	44%
Mississippi	$66.9	$18.7	$6.1	$24.8	37%
Maryland	$224.7	$45.8	$28.9	$74.7	33%
Alaska	$62.8	$13.1	$7.6	$20.7	33%
Arizona	$249.1	$51.7	$27.3	$79.0	32%
California	$3,383.4	$520.3	$539.7	$1,060.0	31%
Kentucky	$186.7	$36.2	$14.5	$50.7	27%
Washington	$383.0	$97.5	$4.2	$101.6	27%
Alabama	$85.8	$20.3	$1.9	$22.2	26%
Tennessee	$235.2	$50.4	$7.8	$58.2	25%
Illinois	$626.6	$125.3	$23.0	$148.4	24%
Colorado	$129.0	$29.2	$1.3	$30.5	24%
Vermont	$44.1	$7.7	$2.7	$10.4	24%
North Carolina	$344.6	$65.9	$15.4	$81.3	24%
South Dakota	$19.0	$4.4	$0.0	$4.4	23%
Idaho	$40.6	$6.6	$2.7	$9.3	23%
Ohio	$744.0	$77.5	$79.0	$156.5	21%
Virginia	$137.2	$27.7	$0.0	$27.7	20%
New York	$2,202.4	$437.0	$0.0	$437.0	20%
Michigan	$818.9	$9.4	$151.2	$160.6	20%
Montana	$40.6	$7.6	$0.0	$7.6	19%
Iowa	$142.5	$26.4	$0.0	$26.4	19%

TANF Redirected to Child Care as a Share of All TANF Used in FFY 2000*

State	Total TANF Transferred or Spent in FFY 00 (in millions)	CCDF Transfer in FFY 00 (in millions)	Direct Child Care Spending in FFY 00 (in millions)	Total Transfer/Direct (in millions)	Share of TANF Used in FFY 00 Committed to Child Care
Georgia	$296.9	$51.7	$1.0	$52.7	18%
Maine	$66.1	$7.3	$3.4	$10.8	16%
New Mexico	$128.5	$19.5	$0.0	$19.5	15%
Kansas	$101.9	$15.3	$0.0	$15.3	15%
Pennsylvania	$606.2	$67.1	$13.9	$81.1	13%
Arkansas	$95.9	$5.0	$5.5	$10.5	11%
Oregon	$164.4	$0.0	$15.8	$15.8	10%
Missouri	$217.1	$20.7	$0.0	$20.7	10%
Connecticut	$269.2	$0.0	$21.2	$21.2	8%
Minnesota	$224.2	$17.1	$0.0	$17.1	8%
Nebraska	$52.6	$4.0	$0.0	$4.0	8%
Texas	$534.4	$38.3	$0.0	$38.3	7%
West Virginia	$96.7	$0.0	$6.7	$6.7	7%
North Dakota	$24.0	$0.5	$1.0	$1.5	6%
Delaware	$84.7	$4.8	$0.0	$4.8	6%
Rhode Island	$92.6	$4.1	$0.0	$4.1	4%
Nevada	$29.4	$0.0	$0.6	$0.6	2%
Utah	$70.3	$0.0	$1.2	$1.2	2%
Hawaii	$85.1	$0.9	$0.0	$0.9	1%
South Carolina	$99.4	$1.0	$0.0	$1.0	1%
New Hampshire	$40.9	$0.0	$0.0	$0.0	0%
Wyoming	$4.2	$0.0	$0.0	$0.0	0%
Total	**$15,537.4**	**$2,433.3**	**$1,455.8**	**$3,889.1**	**25%**

Source: Calculations by CLASP from U.S. Department of Health and Human Services, Administration for Children and Families, TANF Program Federal Awards, Transfers and Expenditures through 4th Qtr. FFY 00. Available at http://www.acf.dhhs.gov/programs/ofs/data/index.html. All figures based on HHS data, unless noted as state-verified data that differ from HHS data. See Table Two footnotes.

* Used means either transferred to CCDF or SSBG, or directly spent in the year FFY 00. Note that some expenditures may be with previous year TANF block grant dollars, if spent on assistance.

Table Five.

TANF As a Percentage of Combined TANF Redirection and Available Federal CCDF in FFY 2000

State	Total TANF Transfer/Direct (in millions)	Available CCDF Federal Award (in millions)	Total TANF & CCDF (in millions)	TANF as Percent of Total TANF and Available CCDF
DC	$31.0	$8.4	$39.4	79%
California	$1,060.0	$375.8	$1,435.8	74%
Wisconsin	$154.0	$62.9	$216.9	71%
Massachusetts	$196.6	$85.0	$281.6	70%
Alaska	$20.7	$9.1	$29.8	69%
Indiana	$152.5	$72.2	$224.7	68%
New York	$437.0	$242.4	$679.4	64%
Florida	$249.8	$161.7	$411.5	61%
Michigan	$160.6	$106.5	$267.1	60%
Vermont	$10.4	$8.1	$18.5	56%
Maryland	$74.7	$60.0	$134.8	55%
Arizona	$79.0	$64.9	$143.9	55%
Washington	$101.6	$84.8	$186.4	55%
Ohio	$156.5	$154.5	$311.0	50%
New Jersey	$79.8	$81.4	$161.2	50%
Illinois	$148.4	$153.2	$301.6	49%
Kentucky	$50.7	$53.5	$104.2	49%
Oklahoma	$51.4	$56.6	$108.0	48%
Maine	$10.8	$12.0	$22.8	47%
Iowa	$26.4	$30.3	$56.7	47%
Louisiana	$54.2	$62.6	$116.8	46%
Colorado	$30.5	$39.7	$70.1	43%
Montana	$7.6	$10.2	$17.8	43%
New Mexico	$19.5	$27.4	$46.9	42%
Tennessee	$58.2	$83.3	$141.5	41%
Mississippi	$24.8	$38.1	$62.9	39%
Idaho	$9.3	$14.6	$23.8	39%
North Carolina	$81.3	$134.8	$216.1	38%
Pennsylvania	$81.1	$138.3	$219.3	37%

TANF As a Percentage of Combined TANF Redirection and Available Federal CCDF in FFY 2000

State	Total TANF Transfer/Direct (in millions)	Available CCDF Federal Award (in millions)	Total TANF & CCDF (in millions)	TANF as Percent of Total TANF and Available CCDF
Connecticut	$21.2	$40.1	$61.3	35%
South Dakota	$4.4	$8.5	$12.9	34%
Kansas	$15.3	$31.3	$46.6	33%
Georgia	$52.7	$108.7	$161.4	33%
Delaware	$4.8	$10.4	$15.2	32%
Virginia	$27.7	$70.9	$98.6	28%
Alabama	$22.2	$58.0	$80.3	28%
Oregon	$15.8	$44.7	$60.5	26%
Arkansas	$10.5	$29.8	$40.3	26%
Missouri	$20.7	$68.8	$89.5	23%
Rhode Island	$4.1	$13.6	$17.7	23%
Minnesota	$17.1	$58.8	$75.9	23%
West Virginia	$6.7	$23.6	$30.3	22%
North Dakota	$1.5	$7.7	$9.2	16%
Nebraska	$4.0	$24.3	$28.3	14%
Texas	$38.3	$263.7	$302.0	13%
Hawaii	$0.9	$14.5	$15.4	6%
Nevada	$0.6	$16.2	$16.9	4%
Utah	$1.2	$35.6	$36.8	3%
South Carolina	$1.0	$46.6	$47.6	2%
New Hampshire	$0.0	$12.2	$12.2	0%
Wyoming	$0.0	$6.7	$6.7	0%
TOTAL	**$3,889.1**	**$3,426.7**	**$7,315.8**	**53%**

Source: Calculations by CLASP from U.S. Department of Health and Human Services, Administration for Children and Families, TANF Program Federal Awards, Transfers and Expenditures through 4th Qtr. FFY 00. Available at http://www.acf.dhhs.gov/programs/ofs/data/index.html. All figures based on HHS data, unless noted in Table Two as state-verified data that differ from HHS data. See Table Two for footnotes. See also the U.S. Department of Health and Human Services, Administration for Children and Families, Child Care Bureau, FFY00 Final CCDF Allocations. Available at http://www.acf.dhhs.gov/programs/ccb/policy1/current/im0101/01alloc.htm

State Child Care Spending in the TANF Structure

This document principally focuses on use of federal TANF dollars. However, in looking at the overall TANF structure, the share of state "maintenance of effort" spending attributable to child care has also increased over time. This section summarizes the law concerning child care and maintenance of effort (MOE), and then summarizes the trends in use of child care for MOE since 1997.

In order to avoid a TANF penalty, a state must meet an annual MOE requirement, generally set to reflect 75% or 80% of the amount that the state had been spending under a set of programs that were repealed when TANF was enacted (i.e., AFDC, the JOBS Program, Emergency Assistance, and the former IV-A child care programs - AFDC Child Care, Transitional Child Care and At-Risk Child Care.). Nationally, the aggregate MOE amount is about $10.4 billion (at the 75% level) to $11.2 billion (at the 80% level) each year.

A state can satisfy MOE obligations through non-federal spending meeting a TANF purpose for members of "needy" (i.e., low-income) families with children. So, for example, state and local spending for cash assistance, job training, and child care for needy families can all count toward satisfying the state's MOE requirement.

A state also faces a separate MOE requirement in the CCDF structure. Generally, under CCDF, a state qualifies for a base level of federal CCDF funding even if the state contributes no state funds. However, in order to qualify for additional CCDF "matching" funds, the state must first meet an MOE requirement, essentially set to reflect the amount of state funds that the state was spending on child care through the old IV-A match structure (i.e., for AFDC child care, transitional child care, and At-Risk Child Care) in 1995. The aggregate amount of the CCDF MOE obligation is $887.6 million annually.

Since the TANF MOE level was set to reflect prior IV-A child care spending, the same dollars that are considered countable toward CCDF MOE can also be countable toward TANF MOE. Accordingly, when looking at state child care spending under the TANF and CCDF structures, it is important to adjust for the fact that the same dollars are probably being counted in both structures up to the CCDF MOE level; one cannot simply add the two figures together.

In addition to counting state child care expenditures countable toward CCDF MOE, a state may also count other state expenditures for child care toward TANF MOE. However, a state may not count expenditures that match federal funds; so, for example, a state may not count its' CCDF state matching funds. In addition, state expenditures must satisfy a "new spending test." Under the new spending test, if the expenditures are for a program that existed in 1995 and was not part of the old IV-A structure, the state may only count current expenditures for needy families exceeding total spending for the program in 1995. (For example, if a state had a state-funded child care program in 1995 with expenditures of $3 million, and current expenditures for needy families in the program are $7 million, the state could count $4 million toward TANF MOE.)

With this background, a review of state MOE expenditures in TANF since 1997 indicates:

- In 1998, states counted $1.03 billion in child care expenditures toward TANF MOE, representing 9% of all MOE spending.
- In 1999, states counted $1.39 billion in child care expenditures toward TANF MOE, representing 12% of all MOE spending.

- In 2000, states counted $1.73 billion in child care expenditures toward TANF MOE, representing 16% of all MOE spending.

It is also informative to look at the amount by which states' TANF MOE spending for child care exceeds the amount claimable toward CCDF MOE. This "excess" amount should reflect additional unmatched state child care spending above the CCDF MOE level and level of state matching funds in CCDF. Overall, state reporting of child care expenditures for TANF MOE above the CCDF MOE requirement grew from $534.66 to $843.01 million between FFY 99 and FFY 00. This growth may represent additional state spending on child care, but may also represent changes in how states are attributing pre-existing state expenditures on child care to meet TANF MOE requirements. See Table Six.

Table Six.

Expenditures of State Dollars for Child Care Counting Toward TANF MOE: States with Child Care TANF MOE in Excess of CCDF MOE in FFY 1999 or FFY 2000

State	FFY 99 TANF MOE in Excess of CCDF MOE	FFY 00 TANF MOE in Excess of CCDF MOE
Arkansas	$3.24	$3.39
California	$154.65	$185.68
Colorado	$1.77	$0.00
Connecticut	$49.31	$79.13
Delaware	$6.76	$11.78
District of Columbia	$11.41	$11.42
Florida	$0.95	$0.43
Georgia	$13.05	$11.52
Idaho	$0.00	$2.66
Illinois	$24.91	$182.37
Iowa	$1.15	$0.00
Maine	$5.35	$4.72
Maryland	$0.30	$0.00
Massachusetts	$4.47	$18.80
Michigan	$72.92	$215.23
Minnesota	$30.69	$42.25
Missouri	$26.58	$41.85
New York	$80.00	$26.35
North Carolina	$4.83	$27.47
Ohio	$4.03	$0.00
Oklahoma	$6.30	$0.00
Oregon	$2.42	$3.94
Rhode Island	$8.98	$18.09
Tennessee	$0.00	$0.46
Utah	$0.00	$0.13
Vermont	$0.74	$1.50
Wisconsin	$19.83	$7.56
Totals	**$534.66**	**$843.01**

Source: Calculated by CLASP using state reported data at the U.S. Department of Health and Human Services, Administration for Children and Families, Office of Financial Services website, http://www.acf.dhhs.gov/programs/ofs/data/, and from the state required CCDF MOE data posted at the Child Care Bureau website, http://www.acf.dhhs.gov/programs/ccb/policy1/s_arch.htm.

IV. A Closer Look at Transfers and Direct Spending: The Impact of TANF Funds on States, Families, and Children

In an effort to get beyond the aggregate totals, CLASP surveyed all state TANF agencies to gather information about transfer and spending of TANF funds for child care. We also interviewed CCDF administrators in all states in which at least 20% of TANF funds were transferred to CCDF in either or both FFY 99 or FFY 00. All states responded to the survey, and we interviewed CCDF administrators in the 24 states that had reached the 20% transfer threshold (referred to below as the "high-transfer states.") Twenty-five high-transfer states are referred to throughout the remainder of the text due to new transfer data that became available after CLASP completed interviewing. The high-transfer states accounted for 60% of all transferred funds in FFY 99, including funds from FFY 97, FFY 98, and FFY 99 TANF awards, and 46% of transferred funds in FFY 00.[25] Also note, there are some states, such as California, that have transferred notably large amounts of TANF (in the case of CA, $520 million in FFY 00), but these states did not fall under our definition of high-transfer because their transfer amounts do not meet or exceed 20% of their TANF award for that year.

In our surveys and interviews, we sought to understand how decisions are made about spending or transferring, how the funds are being used, and what practical issues were arising for states in light of the current structure and rules. The next sections summarize our findings, presented first for transferred funds and then for direct-spent funds. Perhaps not surprisingly, one conclusion is that the presence of the TANF funds has had a major impact on state efforts to provide subsidy assistance to more families and on state efforts to raise eligibility levels and provider payment rates and to fund quality initiatives. At the same time, we identified a set of ways in which current rules seem needlessly complex, and found some significant gaps in data collection that make it difficult to quantify the national picture.

25 The "high-transfer" states were Alabama, Alaska, Arizona, Colorado, District of Columbia, Florida, Idaho, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maryland, Massachusetts, Mississippi, Missouri, Montana, New Jersey, North Carolina, Oklahoma, South Dakota, Tennessee, Washington, Wisconsin and Wyoming. Our definition of "high-transfer" state focused explicitly on the percentage of TANF transferred (20% or more in FFY 99 or FFY 00.). Two states (DC and Wyoming) are included because the data available at the time of our interviews indicated that they met our "high-transfer" definition, although subsequent information moved them out of that category. In the case of DC, $20 million FFY 99 TANF out-of-wedlock bonus was not included initially in the District's FFY 99 TANF award, but when included in our calculations this meant that technically DC transferred only 16% of FFY 99 TANF to CCDF. Wyoming's status changed when the state had to transfer some of its' FFY 99 TANF transfer back from CCDF (See table two, footnote eight). Two other states (Minnesota and Montana) did not qualify as "high-transfer" at the time of CLASP's interviews, but now do. In the case of Minnesota, final FFY 99 reporting revealed that the state transferred 22% of TANF to CCDF. Some Minnesota data are included in this report, but CLASP did not interview the state. Montana's final reporting for FFY 99 showed 25% TANF transfer to CCDF. Since the state provided comprehensive data on use of those funds, we include Montana data and count it as a "high-transfer" state.

A. Transfers of TANF Funds

How Much Do States Transfer and Why?

While a state can transfer 30% of its TANF funds to CCDF, only one state, Louisiana, elected to do so in FFY 00. Rather, the most common amount transferred in FFY 00 was 20% (fifteen states of all 50 and D.C.[26]) A principal reason is that most high-transfer states also transfer the maximum allowable 10% of TANF funds to the state's program under the Social Services Block Grant (SSBG, also known as Title XX); a common reason for doing so has been to compensate for reductions in federal SSBG funding to states in recent years. As Table Seven shows, eleven of the twelve states that transferred 20% of their TANF funds to CCDF in FFY 00 also transferred 10% to SSBG.

Do States Transfer for Specific or General Child Care Purposes?

The decision-making process concerning the transfer of TANF funds to the CCDF varies from state-to-state, at least in part because of variation in the structures of state child care systems. At the state level, the TANF and CCDF agencies may be the same agency, they may be two agencies within a larger department, or they may be in two separate state departments. For example:[27]

- In 24 states, the TANF Lead Agency and the CCDF Lead Agency are under the same department, but operate from different divisions or agencies within that department. In Iowa, for example, both lead agencies fall under the Iowa Department of Human Services, but CCDF responsibilities are handled by the Division of Adult, Children, and Family Services, and TANF is managed by the Division of Economic Assistance.

- In 24 states, the TANF Lead Agency and the CCDF Lead Agency are located within the same department and the same division of these state governments, such as in Missouri where the Division of Family Services, under the Department of Social Services, manages both the CCDF and the TANF responsibilities.

- In three states, the CCDF and TANF Lead Agencies are in different departments of state government. For example, in New Mexico, the Department of Human Services, Income Support division acts as the Lead Agency for TANF, while the CCDF Lead Agency is the Children, Youth and Families Department, Prevention and Intervention division.

26 This includes three states' FFY 00 transfer percentages that were rounded to 20%: Iowa: 19.9%; New Jersey: 19.7%; and Massachusetts: 19.6%.

27 Calculated by CLASP from the American Public Human Services Association, *Public Human Services Directory 2000-2001* (Washington, DC: Center for Law and Social Policy, 2001).

Table Seven.

FFY 2000 TANF Transfers to CCDF and SSBG by High-Transfer States*			
State	% of FFY 00 TANF Grant Transferred to CCDF	% of FFY 00 TANF Grant Transferred to SSBG	% of FFY 00 TANF Grant Transferred in Total
Louisiana	30.0%	0.0%	30.0%
Tennessee	23.6%	0.0%	23.6%
Washington	23.5%	5.8%	29.3%
Alaska	20.0%	10.0%	30.0%
Illinois	20.0%	10.0%	30.0%
Mississippi	20.0%	10.0%	30.0%
Oklahoma	20.0%	10.0%	30.0%
Wisconsin	20.0%	10.0%	30.0%
Maryland	20.0%	10.0%	30.0%
South Dakota	20.0%	10.0%	30.0%
North Carolina	20.0%	7.0%	27.0%
Arizona	20.0%	10.0%	30.0%
Colorado	20.0%	10.0%	30.0%
Kentucky	20.0%	10.0%	30.0%
Idaho	20.0%	10.0%	30.0%
Iowa	19.9%	9.6%	29.5%
New Jersey	19.7%	10.0%	29.7%
Massachusetts	19.6%	10.0%	29.6%
Indiana	19.2%	9.6%	28.8%
Florida	19.2%	9.8%	29.0%
Montana	16.9%	9.4%	26.3%
Alabama	16.7%	10.0%	26.7%
DC	16.4%	8.2%	24.7%
Missouri	9.5%	10.0%	19.5%
Wyoming	0.0%	10.0%	10.0%

Source: Calculations by CLASP from U.S. Department of Health and Human Services, Administration for Children and Families, TANF Program Federal Awards, Transfers and Expenditures through 4th Qtr. FY 00. Available at http://www.acf.dhhs.gov/programs/ofs/data/index.html. All figures based on HHS data, unless noted in Table Two as state-verified data that differ from HHS data. See Table Two for footnotes.
*Includes states that transferred 20% of their TANF block grant to the CCDF in FFY 00 or FFY 99. FL, IN, AL, MT, MO, and WY are included in this table because they transferred 20% or more of TANF to the CCDF in FFY 99. See footnotes for Table Two for explanation for inclusion of DC and WY.

The transfer of TANF funds to the CCDF may be facilitated if the two lead agencies' are in the same department of state government. In all of the 25 high-transfer states, the TANF agency and the CCDF lead agency fall under the same department.[28]

When transferring TANF funds to CCDF, states may choose to use a specific contractual or written agreement, which might identify the purpose(s) for the transferred funds. Alternatively states can transfer TANF funds for any allowable purpose under CCDF with-

28 In 12 of the 25 high-transfer states, the TANF and the CCDF agency are housed under the same state department and the same division within that department. In 13 other high-transfer states, the TANF agency and the CCDF agency are different divisions of the same department.

out such an agreement. In our survey of all 50 states and D.C., we asked which approach was taken when transferring, and only a few states indicated that they had transferred funds pursuant to a specific written agreement. South Carolina was the only state that described a specific contractual agreement that was used for the transfer, while five other states (Arizona, California, Iowa, Maine, and Minnesota) indicated that their TANF transfers occurred pursuant to legislative or budgetary written language specifying use of the funds.

In these states that used contractual or budgetary documents when transferring TANF, certain groups were identified or prioritized for child care benefits funded by TANF (except in Arizona where the transfer was made pursuant to legislative appropriation language but transferred for general CCDF purposes.) For example:

- South Carolina specified the use of transferred funds for transitional child care and child care licensing and regulatory services under the CCDF program.

- In Maine, according to the budget documents that called for a TANF transfer, the following families were named as specific beneficiaries of transferred TANF funds for child care: Ex-TANF employed participants and low-income families, TANF participants and non-TANF low-income families who are victims of domestic violence, special needs children of TANF parents, and parents who would be eligible for child care under the CCDF sliding fee scale.

- California's budget language restricted use of transferred funds to CalWorks local assistance child care costs.

- Iowa transferred TANF funds to the CCDF according to legislative budgetary language which specified that the funds be used for community-based programs designed to enhance quality child care with an emphasis on children from birth to age five.

- In Minnesota, TANF transfers to the CCDF were based on legislation because the TANF and CCDF lead agencies are not housed under the same department. In this case, the transferred TANF dollars were designated for the Basic Sliding Fee (BSF) Program and Transition Year Set-Aside, aimed at assuring that families completing their first year of employment after leaving TANF would continue to receive funding for child care (under the guidelines of the BSF program), even if their county had a waiting list for funding from the BSF program. The transferred funds were also earmarked for TANF clients who needed child care while involved in social service activities, such as parenting classes and mental health appointments, when these activities were not combined with hours of employment or education.

Such examples of transfers pursuant to a contractual or written arrangement were not common. Typically, administrators indicated that when the transfer was occurring within the same agency or department, there was simply no reason to have a written contact. Other than the above states, most of the remaining did not transfer for specific purposes. In the 25 high-transfer states TANF transfers in almost all cases became generally available for CCDF purposes.

How Have States Used Transferred Funds?

If transferred funds are not expressly earmarked for a particular initiative, they become part of the overall funding available for the state's CCDF program. As a result, it may become difficult or impossible for an administrator to identify the precise effect of transferred funds, as opposed to talking more generally about how increased funding has made a difference in the state's system. Nevertheless, we invited state administrators to talk about how the transferred funds had affected the child care systems in their states. From their comments, it is clear that among high-transfer states, transfers have been used to fund an array of initiatives, generally aimed at expanding access and improving the quality of child care. Among the most common initiatives undertaken with these funds are the following:

- **Increased Number of Children Served:** All of the high-transfer states increased the number of children they served with CCDF dollars as a result of transferred TANF funds. Of all of the initiatives described as made possible by transferred TANF dollars, the most common mentioned were expansions in the number of children served, with particular focus on addressing child care waiting lists. At least 16 of the 25 high-transfer states (Alabama, Alaska, Florida, Idaho, Indiana, Iowa, Kentucky, Massachusetts, Mississippi, Missouri, Montana, New Jersey, Oklahoma, South Dakota, Wisconsin and Wyoming) reduced, eliminated or prevented a child care waiting list in their state using TANF funds. Kentucky and Wisconsin administrators, for example, indicated that their transfers enabled them to serve all of the children on their waiting lists at the time the transfer occurred.

  As well as addressing the general needs of children on their waiting lists, some states specifically devoted a portion of their TANF transfer to help those who left TANF and are now employed or improving their education or skills. By September 2001, New Jersey anticipates extending child care subsidies to 1,700 families who are facing the end of the state's two-year transitional child care guarantee, and the state plans to continue this initiative into FY 2002. In 1999, Massachusetts was similarly able to assist families transitioning from welfare by earmarking some child care slots for those in their first year of transition, as well as for some TANF families who were participating in education or training.

- **Expanded Income Eligibility:** Eleven states expressly noted that they had expanded their income eligibility for child care subsidies with the help of transferred TANF funds (Arizona, Colorado, the District of Columbia, Florida, Kentucky, Maryland, South Dakota, Tennessee, Washington, Wyoming, and Wisconsin). This expanded income eligibility, which was raised in some states by 20-50 percentage points - bringing income eligibility up from 133% of the Federal Poverty Level (FPL) to 160 % in Kentucky; from 150% up to185% in Wyoming; from 165% to 185% in Wisconsin; from 175% to 225% of FPL in Washington; and from 212% to 250% of FPL in the District of Columbia. These expansions in income eligibility enabled a larger share of low-income families to qualify or remain eligible for child care subsidies in 1999 and 2000.

- **Lowered Co-Payment Fees:** Four states (the District of Columbia, Maryland, South Dakota, and Wisconsin) were able to lower their sliding scale co-payment fees, making child care potentially more affordable and accessible for some families.

- **Increased Reimbursement Rates for Child Care Providers:** Increases in the rates used to reimburse child care providers who serve low-income children were another popular initiative undertaken with transferred TANF funds and can be viewed as both an access and quality improvement initiative. In FFY 99 and FFY 00, at least 15 states (Arizona, Colorado, the District of Columbia, Florida, Idaho, Illinois, Iowa, Maryland, Massachusetts, Missouri, Montana, New Jersey, North Carolina, Oklahoma, and Tennessee) of the 25 high-transfer states increased provider reimbursement rates. Among these states, some tailored their rate increases to specific regions or targeted the increases to specific programs, such as infant/toddler child care, odd-hour child care, or programs that predominantly served children with special needs. At least six states (Arizona, the District of Columbia, Florida, New Jersey, Oklahoma, and Tennessee), created tiered reimbursement rates to provide child care providers with an incentive to meet accreditation or other licensing standards.[29]

- **Expanded Supply of Quality Child Care:** Under an umbrella of general quality initiatives, several states (at least 20 of the 25 high-transfer states, Alabama, Arizona, the District of Columbia, Colorado, Florida, Iowa, Idaho, Illinois, Indiana, Kentucky, Louisiana, Massachusetts, Montana, New Jersey, Oklahoma, South Dakota, Tennessee, Washington, Wisconsin, Wyoming) used transferred TANF funds to introduce new standards, initiate supply building, improve outreach efforts, provide support for resource and referral agencies, reorganize subsidy administration, and/or focus on improving infant/toddler care. Since Federal law requires that at least 4% of the CCDF be spent on quality initiatives when states transfer TANF funds to the CCDF, a larger amount of child care funds can and must be spent on quality initiatives.

  Among these 20 high-transfer states that expressly identified expenditure of transferred TANF funds for quality initiatives, at least 13 states (Arizona, Colorado, the

29 Tiered Reimbursement in Tennessee did not go into effect until August 1, 2001.

District of Columbia, Iowa, Illinois, Indiana, Louisiana, Massachusetts, Montana, New Jersey, Oklahoma, South Dakota, and Washington) funded professional development for child care providers with the aid of transferred TANF funds. This professional development included training programs, teacher recruitment, and income compensation programs, such as reproductions of North Carolina's WAGES and T.E.A.C.H. programs, and other scholarships for child care/early education providers.

- **Increased collaboration with Head Start or Pre-Kindergarten Programs:** At least six states (Alabama, the District of Columbia, Illinois, New Jersey, Oklahoma, and Wisconsin) tapped transferred TANF funds for some collaboration with early education programs, such as an expansion of Head Start slots, combining child care subsidies with Head Start spots to provide full-day services, expanding Early Head Start to zero-to-three-year-olds, and support for a pilot pre-k program.

  In addition, some states that are not high-transfer states may be using TANF funds for early education collaboration, such as in Kansas, where annually about $5 million in TANF funds are transferred to support the country's first state-federal partnership to fund Early Head Start slots and an additional $2.5 million to expand Head Start slots in the state.

Table Eight provides detailed information from the high-transfer states.

Have Transfer Amounts Changed?

Overall, the number of states transferring some TANF funds to CCDF has grown each year, from eight in 1997, to 24 in 1998, to 43 in 1999, and to 44 in 2000. (See Table One). Many observers thought that transfer amounts would fall in FFY 00, because in FFY 99, states had rushed to take the last chance to transfer previous year's funds. While the aggregate amount of transfer fell slightly in 2000 (from $2.5 billion to $2.4 billion), twenty-five states increased the percentage of TANF transferred to CCDF from FFY 99. In FFY 00, twenty states decreased the percentage of TANF that was transferred to the CCDF below the percentage transferred in FFY 99, but as noted below, some of these decreases were attributable to the fact that states could no longer transfer prior-year unobligated funds.

We specifically asked high-transfer states to discuss the factors that affected the amounts they transferred in 1999 and 2000. Seven states had made no change in their transfer levels at the time of our interview. States that had either increased or decreased transfer amounts gave the following reasons:

- **Change in Transfer Regulations Led to Some Change in Transfer:** Eight states did indicate that their transfer levels fell between 1999 and 2000, after federal regulations interpretations barred them from continuing to transfer prior-year funds.

Table Eight.

Impact and Use of Transferred TANF Funds in High-Transfer States Through FFY 2000	
Alabama	• **Expanded the number of children served** by reducing the waiting list for child care for low-income families. The number of low-income families being served has increased sharply and the waiting list has declined. (From 1996 to 1999, the average number of children served by child care subsidies in AL increased from 18,429 to 31,444.) • **Helped develop** a **pre-k** pilot in eight sites. This pilot is funded by a mix of state, federal and private funds. TANF support is for five children per site from "needy" employed families. • **Employed new child care standards**, including lower staff-child ratios, criminal background checks for child care employees, and new training standards for child care employees.
Alaska	• **Expanded the number of children served** through a reduction of the wait list and the purchase of additional services.
Arizona	• **Expanded the number of children served** in an average month from 32,000 in FFY 98 to 39,000 in FFY 00. There is no waiting list for child care in this state. • **Increased income eligibility.** • Implemented the first **provider rate increase** in nine years using TANF transfer, as well as now able to offer enhanced rates for accredited providers. • Doubled the amount of money set-aside for **quality initiatives** including: 1) general supply building, 2) collaboration between local organizations and businesses to assess, plan, and sustain the expansion of child care including an expansion of infant/toddler child care, school-age care and non-traditional hours, 3) Early Care and Education introductory training for child care providers, low-income parents who may wish to enter the field, 4) training for center and home based child care providers, and 5) coordination projects such as those that assist home providers in pursuing accreditation. • **Provided child care services** for children in domestic violence and homeless shelters.
Colorado	• **Expanded the number of children served.** • Undertook **quality initiatives**, such as help with new facility start up, and increases for providers' salaries and compensation. • **Increased reimbursement rates** in some counties**.** • **Raised eligibility** in some counties. • **Conducted outreach** in some counties**.**
DC	• **Expanded the number of children of working parents that could be served**. • **Created more non-traditional hours care.** • **Expanded income eligibility,** from 212% of FPL to 250% of FPL. • **Lowered sliding co-payment/fee scale.** • **Trained TANF recipients** to become licensed family child care providers and center-based infant/toddler providers. • **Implemented tiered reimbursement rates**. • **Provided scholarships to teachers seeking higher education.** • Created an **infant/toddler quality initiative** to measure quality in centers and help them improve by pairing them with TA specialists to work closely with centers for 12 months. • **Increased collaboration with Head Start,** by using funds to extend the Head Start day and Head Start year, as well increased collaboration with pre-k.
Florida	• **Expanded the number of children served.** Reduced the waiting list. Although there was growth in child care enrollment as a result of transferred funds, Florida estimates that there is still unmet need for child care/early education services. Florida's School Readiness Estimating Conference has performed an unduplicated count of children who are eligible for all Federal child care/early education programs (including child care subsidies and Head Start). The conference has found that there are 272,955 children birth to age five that are eligible for one or more of these programs but are not receiving services. Of these children, 60% have working parents earning less than 200% of the FPL. • **Increased eligibility for child care** by expanding the exit level for care to 200% of the FPL. • **Improved the quality of existing child care** by creating a 20% differential payment for accredited or "gold seal" programs. • **Sustained a transitional child care program, a formal diversion program, and the Child Care Executive Partnership.**

Impact and Use of Transferred TANF Funds in High-Transfer States Through FFY 2000	
Idaho	• **Expanded the number of children served.** Without transfer, the state may have had to implement a waiting list to accommodate demand. Now serving around 2,000 more children on an annual basis (out of 9,700-10,000 total) for a total of serving 26% of state eligible children. • Since 1996, the state added child care to their one stop system, and **simplified access** by developing one application for several work support programs (including CHIP, child care, TANF, and food stamps). CHIP outreach increased child care demand as a result. • **Implemented rate increases** based on a recent market rate survey in 2001.
Illinois	• **Created a guarantee to serve families under a certain income limit** as long as funding is available. • Conducted **outreach and addressed accessibility issues**. • **Expanded the number of children served**. Expanded child care budget to $664 million, with an average monthly caseload of 218,000 children up from 92,000. The block grant structure of TANF prompted Illinois to create a seamless system. It has been difficult to gauge potential uptake, but the state now believes it's serving close to 50% of potentially eligible children. The state eligibility limit is up to 50% of SMI for 1997 ($21,819), plus a 10% income disregard up to $24,000. • Dramatically **increased funding for T.E.A.C.H. (a teacher education incentive program)**. • Initiated the Great Start program to **supplement teacher wages.** • Used $**10 million to collaborate with Head Start**. • **Increased reimbursement rates for providers by $40 million overall.**
Indiana	• **Expanded the number of children served** from 25,000 to 55,000 a year (This includes some expansion made possible by direct TANF spending, as well as transferred TANF funds). Eliminated their child care waiting list in FFY 00, but it has now returned to 7,000 children. • **Started T.E.A.C.H. (a teacher education incentive program)** in June 1999; which has distributed 1,500 scholarships to child care teachers seeking higher education. It is estimated that 25,000 children will be affected by this program.
Iowa	• **Expanded the number of children served** and are now serving an estimated 15,000 children per month. In Oct of 2000, they went to a waiting list, but they would have had to do this sooner without the transfer. TANF recipients were exempt from the waiting list, which was eliminated as of July 2001. • **Raised provider reimbursement rates** (July 2000) to the 75th percentile of the 1998 market rate survey(They had been at the 75th percentile of the 1996 market rate survey.) • **Implemented Quality Initiatives** including 1) funding for child care emergency and start-up grants, 2) aid for providers of school-age care, 3) expanded education opportunities for child care home providers, 4) efforts to increase the number of registered providers, 5) revised the entry-level child care curriculum distributed through the resource and referral agencies, and 6) contracted Resource and Referral Agencies to expand the services of their child care home consultants. • **Funded the Early Childhood Empowerment Area Initiative,** in which designated areas may access funds on behalf of the low-income families with children from birth to age five in their area. Empowerment areas develop plans for the birth to five population, and Early Childhood funding is used to support that plan specifically in the area of child care.
Kentucky	• **Expanded the number of children served** and eliminated their waiting list. • **Increased income eligibility** from 133% to 160% of FPL. • **Quality Initiatives** include 1) increased licensing/monitoring enforcement and 2) hired more licensors.
Louisiana	• **Expanded the number of low-income working families served**. From FFY 97 to FFY 01, the number of children served grew from 16,000 to 48,000 children (out of 200,000 estimated need). The state is now beginning to use TANF direct spending for TANF recipient child care. Currently, there is a 1,500 person waitlist, and the state has had to increase co-payments and lower eligibility to deal with growing demand. • **Increased training requirements** for family child care providers to 12 hours a year and providing that training through contracts with state universities and cooperative extension. Without transfer dollars, the state probably would have had to focus more on subsidy only.

Impact and Use of Transferred TANF Funds in High-Transfer States Through FFY 2000	
Maryland	• **Expanded the number of children served** by **expanding income eligibility** from 40% of the SMI to 45% SMI in FFY 00. • **Capped co-pay** at third child (no co-pay beyond that for three children). • **Disregarded $2,200 of annual family income for teen parents'** relatives or adults that are caring for them. • Created a **differential payment for non-traditional hours** (7pm to 6am) and weekends.
Massachusetts	• **Expanded the number of children served**. In FFY 99, an Income Eligible Expansion was undertaken to help serve children on waiting lists. $16.4 million was allocated to support 3,500 child care slots for children on waiting list (9 month funding). The state also allocated $25 million to support 5,700 child care slots for TANF families in education/training or families in their first year of transition after leaving the TANF caseload. In FFY 00, the Income Eligible Expansion continued to serve low-income children on a waiting list for child care. $7.5 million was allocated for 2,116 slots for low-income children waiting for care. Other expansion initiatives include: 1) Supportive Child Care Expansion: $1.7 million to support children in supportive child care, for six months of service in FFY 00. 2) Trial Court Child Care: $250,000 for 6-month funding for child care programs in the two trial courts. • **Increased Provider Rates for Region One and Five.** $5.3 million allocated for rate increases to licensed providers. • **One-Time Quality Improvements**: $3.5 million allocated for improvements in infant/toddler child care, school-age child care, Resource and Referral agencies, and one-time IT costs. • In 2000, funded Resource and Referral Agencies with $3.5 million above the FFY 99 award to be used for management of TANF child care vouchers, **consumer info and public education, child care provider recruitment and training, improved coordination** with child care community, and additional resources to increase mainstreaming for children with disabilities. • In 2000, **supported growth in TANF child care caseloads** including ESP Voucher Account, the Teen Parent Account, Post-Transitionals, and In-home/Relative Account.
Mississippi	• **Expanded the number of children served**, although 15,000 children are still on a waiting list. All of the 1999 and 2000 TANF transfer to CCDF went to contracts for operation of the state's subsidy program. The state estimates that with the FFY 99 transfer, they were able to serve 3,300 more children, and the FFY 00 transfer allowed them to serve about 7,100 more children.
Missouri	• **Increased reimbursement rates** for programs serving more than 50% subsidized children, for accredited programs, special needs, evening and weekend care, and across-the-board for infant/toddler care. • Maintained their child care system without a waiting list.
Montana	• **Expanded the number of children served.** Montana was able to serve all families on its' waiting list with the help of transferred funds, and has eliminated its waiting list as of July 2001. • **Increased reimbursement rates,** in October 1998 and October 2000, to raise the state child care provider payment rates to the 75th percentile of the market rate survey. • **Quality Initiatives** include an increase in grants to providers for **start-up and expansion,** improved **career development efforts** for child care providers, **expanded scholarship funds for providers** to obtain their Child Development Associates, **increased training opportunities for providers,** and plan to add an **inclusion coordinator** in 2002.

Impact and Use of Transferred TANF Funds in High-Transfer States Through FFY 2000	
New Jersey	• **Expanded the number of children served.** Implemented a time-limited wait list reduction initiative from 1997-1999 using $100 million in transferred TANF funds. Expanded 8,000 slots through Sept 2001. First eliminated their child care waiting list (of 8,000), but then the list grew again to 7,000 due to continued need. • **Implemented a 10% rate increase** in 1999, as well as a 5% rate differential for reimbursement. The state plans to use FFY 00 dollars to extend to June 2002. • **Extended subsidy to more than 1,700 families at the end of their two-year transition guarantee.** • **Financed new criminal background check requirement** for all staff. • **Developed a statewide accreditation project.** • **Provided a scholarship program** to help teachers meet education requirements in the Abbott school districts (state early education initiative in low-income districts). • **Enhancement grants for child care providers participating in Abbot program.** • **Provided funding for Substitute Initiative** in Abbott school districts to cover the cost of hiring appropriate substitutes when teachers are attending college classes or school district training. • **Provided funding for Bright Beginnings III, to expand or create child care centers** for pre-school children in Abbott school districts. Funds were used for minor renovations and equipment.
North Carolina	• **Expanded the number of children served,** from 48,000 to 64,500 annually, while growing from $76 to $103 million budget. • **Implemented new provider rates** in September 2000, based on Star Tiered Licensing system.
Oklahoma	• **Enabled them to sustain their child care program**, given minimal investment from the state. This state has never had a waiting list for child care. • **Implemented tiered reimbursement system,** and attempted to get closer to the market rate of payment for child care providers. • **Started T.E.A.C.H.** (teacher education incentive program). Begun in May of 2000 with 1,000 scholarships. • **Created First Start**, an initiative from birth to age three that expanded Early Head Start, using centers that meet Head Start and accreditation standards. • **Started REWARD**, which is a new compensation initiative for child care providers based on the North Carolina WAGES program. • **Recruited new teachers to the field** through Scholars for Excellence in Child Care initiative, which places a coordinator in Community Colleges to recruit and mentor for CDA or the state's certification of mastery.
South Dakota	• **Expanded the number of children served**, without the use of a waiting list. • **Lowered sliding fee scale,** used for parental co-pay. • **Increased income eligibility.** • **Raised quality spending** for purposes such as 1) training and career development, 2) grants to help providers meet health and safety requirements, and 3) the Bright Start project, which is a 2-city pilot that has a visiting nurse component, provides parental education, etc. and 4) Responsible parenting classes held in child care centers. • **Funded a before and after-school initiative**
Tennessee	• **Expanded the number of children served,** served approximately 16,842 additional children. • **Increased income eligibility,** in 1998, from 55% of the 1997 SMI to 60% of the 1997 SMI. In 1999, income eligibility was raised again; from 60% of the 1997 SMI to 60% of the 1999 SMI. • **Raised reimbursement rates** from 65% to 70% of the average market rate in 1999. • **Improved standards** by increasing the number of monitoring visits per year, and increasing salaries for monitors. • **Will introduce a tiered/rated licensing system,** August 2001.

Impact and Use of Transferred TANF Funds in High-Transfer States Through FFY 2000	
Washington	• **Expanded the number of children served** by **increasing income eligibility from 175% FPL to 225% FPL.** • **Set aside some funds for infant, toddler, children with special needs, school-age and non-traditional care supply.** • **Provided scholarships to child care providers** for professional development activities. • **Implemented a micro loan program** to startup or expand child care facilities. • **Implemented employment compensation for center employees** based on education and experience.
Wisconsin	• **Expanded the number of children served**. Eliminated the state's waiting list. • **Fully funded the state's child care subsidy program**. • **Increased income eligibility from 165% to 185% of FPL in March 2000.** Also, eliminated asset test and no longer count child support toward child care eligibility. • **Reorganized and simplified co-payment scale,** with maximum co-pay lowered from 16% to 12% of family income. • **Expanded quality initiatives.** • **Created Early Childhood Excellence Centers** in low-income neighborhoods. • **Worked with Head Start** to create full day full year slots. • **Increased Resource and Referral Agency budgets**. • Contracted grants to increase supply of quality programs. • **Increased site visits** to family child care homes. • **Established automated file of regulated providers statewide.**
Wyoming	• **Expanded the number of children served;** no waiting list for child care required. • **Increased initial income eligibility** limits from 150 to 185% of FPL. • **Conducted outreach campaign.** • **Implemented quality and capacity-building grants** ($1.5 million) for various types of specialty care including school-age and infant/toddler services.
Source: CLASP interviews and communications with CCDF state administrators, 2001.	

- **Still Spending Prior-Year Funds:** Three high-transfer states indicated that their transfer levels fell because they were still spending prior-year funds in FFY 00. In Missouri, the TANF transfer was diminished in FFY 00 because of competing needs of TANF dollars and because the state was still spending some of its transferred funds from FFY 99. Similarly, in Wyoming and Montana, the FFY 00 TANF transfer was reduced because the states were still in the process of spending their FFY 99 transfers.

- **Transfers Increased To Fund New Initiatives and Help Meet Demand:** Seven high-transfer states reported an increase in the amount of TANF funds transferred to the CCDF (Arizona, Colorado, Iowa, Mississippi, South Dakota, Tennessee, and Wisconsin). The increases occurred for a range of reasons, including growing demand for child care (two states), a desire to fund new initiatives like higher reimbursement rates and eligibility levels, and because of a clearer understanding of child care spending options made possible by the final TANF Regulations.

Most high-transfer states did not foresee a return of any of the FFY 99 or FFY 00 transferred funds back to the TANF block grant. A state is permitted to return transferred TANF funds within the CCDF obligation period (i.e., funds transferred in FFY 99 could have been returned to TANF by the end of FFY 00). From our information from 24 of the high-transfer states, only one state had returned a portion of transferred funds back to TANF, and one other state indicated that funds transferred in FFY 99 or FFY 00 might be returned; the remaining high-transfer states all indicated that transferred funds would remain in CCDF for child care spending.

Do States Plan to Continue Relying on TANF Funds?

We asked high-transfer states about their plans for FFY 01, and most indicated that they planned to maintain or increase the amount of the TANF transfer to CCDF in FFY 01.

Most will maintain or increase transfer amounts: Fourteen high-transfer states believe that in FFY 01 their TANF transfer amounts will remain at their current transfer levels, while four high-transfer states (Colorado, Iowa, Tennessee and Wyoming) plan to increase their TANF transfer amounts for FFY 01. Several of the states indicated that they wanted to increase transfer amounts, but could not do so because they are already transferring 30% of TANF funds to CCDF and SSBG.

A smaller number anticipate a decrease: Three of the 25 high-transfer states intend to decrease their TANF transfers to the CCDF in FFY 01. Reasons cited for these decreases include the competing needs of TANF funds, anticipation of a smaller TANF grant (by a state concerned that Congress would not continue "supplemental grants" to the states that had qualified for such grants based on historically low welfare spending or high population growth), and use of increased CCDF discretionary money and forward funding in place of TANF dollars.

At the time of this study, four of the high-transfer states were unable to anticipate the amount of TANF funds they will transfer in FFY 01 due to changes in their administration or other factors.

B. Spending TANF Directly for Child Care

There are a number of reasons why a state might choose to directly spend TANF funds for child care. A frequent reason is that the state has reached the maximum amount transferable (or more typically, has reached 20% while transferring 10% to SSBG), but still wishes to increase child care spending. For example, most high-transfer states also increased their direct spending from FFY 99 to FFY 00.[30] Less often, a state may wish to finance a specific initiative that is more easily funded with TANF than with CCDF dollars, because CCDF restrictions (e.g., generally limiting child care to children under 13) would not apply to TANF-funded child care. Or, a state may conclude that when providing child care subsi-

30 Four high-transfer states saw decreases in their direct spending, three did not have any direct spending in either of these two years, and one state's spending remained constant over this time period.

dies to TANF assistance recipients, it is simpler to have the funds administered through the local TANF office rather than through the CCDF structure. We surveyed all 50 states and DC regarding their spending of TANF dollars directly on child care, and heard examples of each of these reasons. For example:

- In FFY 00, Alaska, transferred $13.1 million (i.e., 20%) of the TANF block grant to CCDF, made the maximum10% transfer to SSBG, and also accessed additional TANF funds by spending $7.6 million directly on child care.

- The District of Columbia, Maryland, and Missouri are using direct TANF spending for after-school child care initiatives. There are several advantages in using TANF rather than CCDF for a school-age child care initiative: the state can extend eligibility to children who reach and surpass the age of 13, and need not impose sliding fee scale obligations against participating families.[31]

- Alabama used direct TANF funds in FFY 00 to create some program design flexibility for the state's counties. Alabama counties used direct funds for special projects that included short-term child care for parents who were attending drug-abuse or counseling sessions, as well as other forms of short-term child care for individuals who had transitioned from TANF and were earning too much to qualify for CCDF services under the state's eligibility rules. Not only did this option enhance local flexibility, but it also may have added some administrative simplicity to the operation of these child care programs at the county level.

There are some other possible considerations for states. For example, unobligated TANF funds from previous fiscal years can be spent directly for child care (if the child care meets the definition of TANF assistance, e.g., for a family in which no individual is employed and the child care may not be considered a nonrecurrent short term benefit), but effective October 1, 1999, states were no longer permitted to transfer unobligated prior-year TANF funds to CCDF. In this sense, the use of direct TANF funds is sometimes an attractive option because these funds do not have a "shelf life," as one TANF administrator noted (although this option is limited because unobligated prior year funds cannot be used for nonassistance child care).

31 Not all of the states may have considered direct TANF spending on afterschool programs "child care" for reporting purposes for this study. In addition, federal reporting requirements for the ACF-196 form allow states to determine how best to report expenditures of federal dollars according to certain categories. Some expenditures for child care for after-school programs may considered an expenditure under Purpose Three, "to prevent and reduce the incidence of out-of-wedlock pregnancies," and thus be reported in a separate category from the child care category.

Which Families Do States Use TANF Direct Dollars to Help?

As noted previously, direct spending of TANF for child care can take the form of assistance and nonassistance, and states are using their TANF direct expenditures in both ways. It is important, though, to distinguish between *categories* of spending and *amounts* of spending. In responding to our survey, the most frequent category of direct spending was for child care for families already receiving TANF assistance, which is considered TANF assistance. However, most of the actual spending of TANF child care funds is for nonassistance. In FY 00, we calculate that 77% of direct spending was for child care nonassistance and 23% was for assistance. In most states that spent TANF directly for child care in FFY 00, the majority of directly-spent TANF funds was spent on nonassistance child care (24 out of 35 states). See Table Nine.

In our survey of all states, we asked whether states were spending TANF directly for: 1) families already receiving TANF assistance, 2) families needing child care for protective services, 3) families receiving nonrecurrent short-term benefits (for whom child care is nonassistance), 4) employed families in post-TANF education/training (for whom child care is nonassistance), 5) employed families not receiving TANF assistance (for whom child care is nonassistance), 6) early education/prekindergarten initiatives, and 7) other child-related expenditures for activities other than direct services. Table Ten provides an overview of how states are using TANF direct dollars for families, while Table Eleven provides state specific information on which categories of families states are serving.

- **TANF Families:** Although most TANF direct spending for child care is for nonassistance (See Table Nine), in both FFY 99 and 00, the most frequent category of spending across the states was for child care for TANF recipient families who were already receiving assistance. Seventeen states in 1999 spent TANF funds directly on child care for TANF families, and 24 states did so in 2000.

- **Employed Families Not Receiving TANF:** By 2000, the second most common category of direct TANF child care spending was for employed families that were not receiving TANF cash assistance. Between FFY 99 and FFY 00, the number of states spending direct TANF funds for child care for this group grew from 12 to 22 states.

- **Families In Need of Short-Term Benefits:** In 1999 and 2000, the third most common type of families served by the states with direct TANF funds were those who received nonrecurrent short-term child care benefits, such as short-term child care for parents engaged in job search or job training, for whom child care can be considered nonassistance. Between 1999 and 2000, five additional states began to use TANF direct funds to serve families in this way, bringing the total to sixteen states.

- **Families Participating in Post-TANF Education/Training:** The number of states serving these kinds of families grew from eight states in FFY 99 to 13 states in FFY 00.

Table Nine.

FFY 2000 TANF Direct Spending for Child Care By Assistance and Nonassistance

State	FFY 00 Direct Spending Child Care Assistance (in millions)	FFY 00 Direct Spending Child Care Nonassistance (in millions)	FFY 00 Total Direct Spending for Child Care (in millions)	% of Direct Spending for Assistance Child Care	% of Direct Spending for Nonassistance Child Care
Alabama	$0.0*	$1.9	$1.9	0%	100%
Alaska	$7.6	$0.0	$7.6	100%	0%
Arizona	$6.5	$20.8	$27.3	24%	76%
Arkansas	$0.0	$5.5	$5.5	0%	100%
California	$225.6	$279.4	$505.0**	45%	55%
Colorado	$0.0	$1.3	$1.3	0%	100%
Connecticut	$0.0	$21.2	$21.2	0%	100%
Delaware	$0.0	$0.0	$0.0	None Reported for Child Care	
DC	$0.0	$12.4	$12.4	0%	100%
Florida	$25.7	$106.5	$132.2	19%	81%
Georgia	$1.0	$0.0	$1.0	100%	0%
Hawaii	$0.0	$0.0	$0.0	None Reported for Child Care	
Idaho	$0.0	$0.0	$0.0**	None Reported for Child Care	
Illinois	$0.0	$23.0	$23.0	0%	100%
Indiana	$20.2	$90.9	$111.1	18%	82%
Iowa	$0.0	$0.0	$0.0**	None Reported for Child Care	
Kansas	$0.0	$0.0	$0.0	None Reported for Child Care	
Kentucky	$0.0*	$10.9	$10.9**	0%	100%
Louisiana	$0.0	$0.0	$0.0**	None Reported for Child Care	
Maine	$3.4	$0.0	$3.4	100%	0%
Maryland	$0.0*	$28.9	$28.9	0%	100%
Massachusetts	$8.1	$96.7	$104.7	8%	92%
Michigan	$0.0	$151.2	$151.2	0%	100%
Minnesota	$0.0	$0.0	$0.0	None Reported for Child Care	
Mississippi	$0.0	$6.1	$6.1	0%	100%
Missouri	$0.0	$0.0	$0.0	None Reported for Child Care	
Montana	$0.0	$0.0	$0.0	None Reported for Child Care	
Nebraska	$0.0	$0.0	$0.0	None Reported for Child Care	

FFY 2000 TANF Direct Spending for Child Care By Assistance and Nonassistance

State	FFY 00 Direct Spending Child Care Assistance (in millions)	FFY 00 Direct Spending Child Care Nonassistance (in millions)	FFY 00 Total Direct Spending for Child Care (in millions)	% of Direct Spending for Assistance Child Care	% of Direct Spending for Nonassistance Child Care
Nevada	$0.3	$0.2	$0.6	59%	41%
New Hampshire	$0.0	$0.0	$0.0	None Reported for Child Care	
New Jersey	$0.0	$0.0	$0.0	None Reported for Child Care	
New Mexico	$0.0	$0.0	$0.0	None Reported for Child Care	
New York	$0.0	$0.0	$0.0	None Reported for Child Care	
North Carolina	$0.0	$15.4	$15.4	0%	100%
North Dakota	$1.0	$0.0	$1.0	100%	0%
Ohio	$0.0	$79.0	$79.0	0%	100%
Oklahoma	$9.3	$11.9	$21.2	44%	56%
Oregon	$9.8	$6.0	$15.8	62%	38%
Pennsylvania	$0.0	$13.9	$13.9	0%	100%
Rhode Island	$0.0	$0.0	$0.0	None Reported for Child Care	
South Carolina	$0.0	$0.0	$0.0	None Reported for Child Care	
South Dakota	$0.0	$0.0	$0.0	None Reported for Child Care	
Tennessee	$7.1	$0.5	$7.6**	93%	7%
Texas	$0.0	$0.0	$0.0	None Reported for Child Care	
Utah	$1.2	$0.0	$1.2	99%	1%
Vermont	$0.9	$1.8	$2.7	34%	66%
Virginia	$0.0	$0.0	$0.0	0%	100%
Washington	$0.0	$0.8	$0.8**	0%	100%
West Virginia	$1.1	$5.6	$6.7	16%	84%
Wisconsin	$0.0*	$90.5	$90.5	0%	100%
Wyoming	$0.0	$0.0	$0.0	None Reported for Child Care	
Total	**$328.8**	**$1,082.4**	**$1,411.2****	**23%**	**77%**

Source: Calculations by CLASP from U.S. Department of Health and Human Services, Administration for Children and Families, TANF Program Federal Awards, Transfers and Expenditures through 4th Qtr. FFY 00. Available at http://www.acf.dhhs.gov/programs/ofs/data/q400/TableApg2.htm and http://www.acf.dhhs.gov/programs/ofs/data/q400/TableApg3.htm
*HHS data for these states indicates a negative direct spending figure for assistance spending at http://www.acf.dhhs.gov/programs/ofs/data/q400/TableApg2.htm. These negative numbers represent a shift in spending from assistance to Nonassistance, which has been accounted for in Nonassistance spending data above.
**Direct spending total here differs from figures in Table Two, which reports state-verified direct spending figures for these states.

- **Other categories:** Fewer states have spent TANF funds directly for child care for non-TANF families who need child care for protective services, early education/pre-kindergarten initiatives, after/before school programs, or child care expenditures for activities other than direct services. Between 1999 and 2000, a couple of states commenced new spending on child care for these purposes, with no more than five states spending for any of these categories in FFY 00.

What Data Are States Collecting on TANF Spent for Child Care?

We also asked states about the data they collect for recipients of TANF-funded child care. Under current law, if TANF funds are transferred to CCDF, the services provided with the funds become subject to CCDF data collection requirements. If the funds remain in TANF, the rules are more complicated: spending on assistance triggers TANF (but not CCDF) data collection requirements, but spending on nonassistance is subject to *no* federal data collection requirements. Therefore, states are not required to report information on the numbers of families receiving nonassistance child care, the characteristics of those families, or the characteristics of those child care settings. And, for families receiving assistance child care, the data reporting requirements are those applicable to TANF assistance recipients rather than to CCDF. It is doubtful that this structure reflects a policy choice by HHS; under the TANF statute, the disaggregated data collection requirements are applicable to recipients of "assistance."

Table Ten.

Categories of State Spending with Direct TANF Funds

Spending Category	Number of states spending for category in FFY 99	Number of states spending for category in FFY 00
Families already receiving TANF assistance	17	24
Employed families who are not receiving TANF assistance (For whom child care is nonassistance)	12	22
Families receiving short-term benefits (for whom child care is nonassistance)	11	16
Employed families in post-TANF education/training (for whom child care is nonassistance).	8	13
Families not receiving TANF assistance, but need child care for protective services	3	4
Families engaged in an early education/prekindergarten initiative	2	5
Child care-related expenditures for activities other than direct services	3	4
Other child care or after-school programs	2	4

Source: Data collected by CLASP through surveys of state TANF administrators, 2000-2001.

Table Eleven.

Direct Spending of TANF Child Care Funds for Specific Categories in FFY 2000									
States with TANF Direct Spending for Child Care in FFY 00	TANF Recipient Families	Employed Non-TANF Families	Non-recurrent Short-term child care	Families in Post-TANF education/ training	Early Education/ Pre-K	Non-Recipient Families in Protective Services	Child Care Services Other than Direct Services	Other	Description of Other
Alaska	✓								
Alabama	✓	✓	✓						
Arkansas		✓		✓					
Arizona		✓							
California	✓	✓	✓				✓		
Colorado	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Connecticut	✓								
DC	✓	✓	✓	✓	✓		✓	✓	After-school child care initiatives
Florida	✓	✓	✓	✓	✓				Under FFY00, "early ed/pre-k initiative," the state notes, "The Florida Children's Forum develops and retains resources to improve the availability, accessibility, and affordability of quality child care and early education/ intervention programs."
Georgia	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Iowa			✓						
Idaho		✓							
Illinois		✓							
Indiana	✓	✓	✓	✓		✓			
Kentucky	✓	✓	✓	✓					
Louisiana		✓		✓	✓				
Massachusetts	✓	✓			✓				
Maryland	✓	✓	✓	✓				✓	The state uses $10 million for an after-school program under the administration of the child care administrator. The program serves some children over age 12. This program is free with no income eligibility requirements, and prioritizes at-risk neighborhoods. Local schools receive grants to create local management boards for local planning.
Maine	✓								
Michigan	✓	✓	✓				✓		
Missouri								✓	Funding for a before/after school initiative to promote school and community partnerships in Kansas City - $4.8 million a year in 2000 and 2001. This program is open to all children, but TANF funds are used for working families.
Mississippi		✓						✓	A summer child care program targeted, but not limited, to Head Start children.

Direct Spending of TANF Child Care Funds for Specific Categories in FFY 2000

States with TANF Direct Spending for Child Care in FFY 00	TANF Recipient Families	Employed Non-TANF Families	Non-recurrent Short-term child care	Families in Post-TANF education/ training	Early Education/ Pre-K	Non-Recipient Families in Protective Services	Child Care Services Other than Direct Services	Other	Description of Other
North Carolina	✓	✓	✓						
North Dakota	✓			✓					
Nevada	✓								
Ohio	✓								
Oklahoma	✓	✓	✓	✓		✓			
Oregon	✓		✓			✓			
Pennsylvania	✓								
Tennessee	✓	✓					✓		
Utah	✓		✓	✓					
Vermont	✓	✓	✓	✓		✓			
Washington		✓							
Wisconsin	✓	✓	✓	✓	✓				
West Virginia	✓	✓	✓	✓					
Total # of States Spending for Each Category	24	22	16	13	5	4	4	4	

Source: Data collected by CLASP through surveys of state TANF administrators, 2000-2001. N/A = Data not provided by the state.

State practice on this issue varies considerably. A limited number of states have elected to extend CCDF data collection requirements to services directly funded with TANF. At least 15 states that are spending TANF directly for child care as nonassistance have extended their CCDF data reporting requirements to nonassistance families. Six states have opted to collect the same data for nonassistance families as the data that are collected for families who are receiving assistance, while 14 states have chosen not to collect any disaggregated data on nonassistance families. Since the great majority of directly spent dollars for child care are going toward nonassistance, state variation means there is no capacity to describe state use of directly spent TANF for child care in an consistent manner at the national level. Therefore, while state transferred dollars will fall under the CCDF reporting requirements, the trend toward spending TANF directly for child care will remain difficult to describe if current conditions continue.

C. Issues and Concerns

We invited state administrators to comment on what they viewed as the key issues in using TANF funds for child care. We asked this question both in our conversations with high-transfer state administrators and in our survey of the 50 states and DC regarding direct spending of TANF dollars. We also invited administrators in all states CCDF and TANF lead agencies to provide comments on our findings and recommendations in draft. Three issues emerged most clearly: 1) concerns about long-term reliance on TANF funds and about the impact if TANF funding is reduced when TANF is reauthorized in 2002; 2) difficulties arising from the assistance/nonassistance distinctions in federal rules; and 3) data collection requirements. This section summarizes the concerns we heard; CLASP's analysis and recommendations appear in the final section of this paper.

> *"TANF funding has been crucial to our state's efforts to provide child care assistance to low-income working families and to improve the quality and infrastructure of child care in our state. Significant reductions in TANF funding would be devastating to our child care program, a cornerstone of our welfare reform efforts."*
>
> *—A State CCDF Administrator*

Concerns About Stability and Future of TANF Funding

In our communications with administrators, we repeatedly heard that the TANF funds have been crucially important in child care expansions and many administrators are very aware of how reliant their child care budgets have become on TANF. At the same time, administrators sometimes expressed how difficult it was to plan for the long-run for a state's child care program when there was substantial year-to-year uncertainty about access to TANF funds. Many of the decisions administrators face have long-term fiscal implications. For example, increasing provider rates has continuing fiscal impact in subsequent years. Similarly, administrators typically do not wish to expand the number of families receiving subsidies if there is a risk of insufficient funding to sustain subsidy receipt.

While there is always some uncertainty about future budget decisions, the TANF funding source is viewed as particularly unstable, because it may be sensitive to an economic downturn and to fluctuations in TANF cash assistance caseloads, and because child care is one of many competing needs and interests weighed in state allocation decisions. Thus, while some administrators appreciated the flexibility of annual choices in the commitment of TANF funds, others emphasized the need for increased CCDF allocations to bring greater stability and predictability to child care budgeting.

A number of administrators expressed particular concern about the potential impact of reauthorization in 2002. Administrators are aware that there has been much discussion about future funding levels for the TANF block grants, and they recognize that reduced TANF funding could readily translate to a cut in child care funding in their state budgets.

Some administrators indicated that in reauthorization they would like to see an increase in the amount of funds transferable from TANF to CCDF. Others expressed a strong preference that increased funding be provided in the form of CCDF increases, and suggested that an increase in transferability would be a poor substitute for expanding CCDF, because it would add to the share of funding viewed as unpredictable, without increasing the overall resources available to states.

"Our state shares the concerns indicated regarding the growing dependence of child care services on TANF funds and the potential impact of TANF reauthorization in 2002 on both TANF and child care. We support maintaining the current funding level for TANF and the continued flexibility to use TANF for child care. However, rather than increasing the amount of TANF funds that can be transferred to child care and thereby making child care even more dependent on TANF as a primary funding source, our state supports directly increasing funding to the Child Care and Development Fund."

—A State TANF Administrator

Assistance/Nonassistance Issues

When asked about practical issues under the current structure, the concern expressed most frequently and consistently was frustration with the current rules governing assistance and nonassistance. The assistance/nonassistance rules present three types of problems.

First, when a benefit is considered assistance, it becomes tied to TANF time limits, work requirements, and to counting the family in the TANF assistance caseload. This complicates the process of using TANF for direct spending for child care, because a state typically wouldn't want to extend these TANF requirements to families that aren't already receiving TANF

"We support elimination of the distinction between assistance and nonassistance child care. We have found it difficult for county social service agencies and contracted providers to develop and provide needed family support services while assuring that the associated child care and transportation services meet the definition on nonassistance. Clearly, neither child care nor transportation provided to TANF-eligible families to assure their participation in TANF-related activities should be considered assistance."

—A State TANF Administrator

assistance. For example, if a state wishes to use TANF funds for an after-school child care program, the state would not wish to count all children of nonemployed parents in the after-school program as "TANF assistance recipients" and would not want to run TANF time limits against all nonemployed families whose children were participating in the program.

Second, when the child care meets the definition of TANF assistance, then TANF data collection requirements apply. The detailed TANF data collection requirements are different from CCDF data collection requirements, and are often seen as imposing a substantial administrative burden while adding little of programmatic utility for child care purposes, e.g. whether the family is a member of a TANF Waiver Evaluation Research group project, or whether the family has been sanctioned for a teen parent not attending school.

Finally, HHS regulations draw distinctions in spending prior-year TANF funds, and unobligated prior-year funds may only be used for "assistance." This is seen as needlessly complicating the process of making spending decisions, because it means, for example, that a state can use unobligated prior year TANF funds for child care for nonemployed TANF recipients, but not for working families. A state that wants to expand working poor child care subsidies may be able to use the funds through complex accounting approaches (i.e., use the prior year funds for nonemployed TANF recipients, therefore "freeing up" current year funds for working families), but the bottom line is that the process is administratively complicated and serves no obvious policy goal.

"The availability of TANF funds has been essential for us in building a subsidy system with a reasonable eligibility ceiling and co-payments. While we are able to serve all eligible families who apply, our reimbursement rates have not kept pace with increased costs of care. The TANF funds have also allowed us to implement innovative quality initiatives, but it is difficult to sell these programs to policy makers when the future of this funding is so uncertain."

—A State CCDF Administrator

In *Crossroads: New Directions in Social Policy*, the American Public Human Services Association recommended that all child care be considered nonassistance for TANF purposes, and that states be allowed to use prior-year TANF funds for nonassistance.[32] A number of state TANF and child care administrators clearly believe such changes could greatly simplify the use of TANF funds for child care.

> *"States have repeatedly stated their concern about long-term planning when future federal funding is so uncertain. It is very true that increased child care costs have been met with TANF funds and that future reductions in TANF funding would seriously jeopardize the families that depend on the child care services."*
>
> *—A State TANF Administrator*

Data Collection Issues

One of the clearest difficulties in the current structure relates to data collection. As described earlier, a state has to report different data depending on which funding stream it uses to finance which family in its' child care subsidy system. States expressed frustration with what some see as burdensome and counterproductive requirements. And, some expressed concerned that the current array of requirements means that it is difficult to describe the full state picture and how states are using TANF dollars spent on nonassistance - which account for the bulk of TANF dollars spent on child care.

To remedy these data collection difficulties, a couple of states suggested altering the reporting requirements so one set of data can be reported for all child care recipients, regardless of whether they are served by direct TANF or CCDF funds. Some states, however, expressed reluctance to extend CCDF data collection requirements, or indicated that they would only be amenable to such a requirement if there were an overall examination of what ought to be collected as part of CCDF data collection.

32 See American Public Human Services Association (APHSA), *Crossroads: New Directions in Social Policy*, (APHSA: Washington, DC, 2001).

V. Discussion and Recommendations

It seems clear that one of the biggest and least anticipated consequences of the TANF caseload decline has been the redirection of resources to child care. In 1996, many people were aware that states would have the option to transfer TANF funds to CCDF, but most did not expect that child care needs and spending would increase so dramatically, or that TANF would play so large a role in expanding child care resources. As we look toward reauthorization of TANF and CCDF in 2002, this unexpected experience has important implications for decisions in setting both TANF and CCDF funding levels, and suggests the need for some adjustment in the current rules governing use of TANF funds for child care.

In recent months there has been much discussion, and considerable uncertainty, about whether there will be efforts to reduce TANF funding during reauthorization. While there do not appear to be formal proposals to do so, many people fear that in light of TANF caseload decreases, some members of Congress will be assuming that it should be possible to reduce TANF funding. There are many reasons why a reduction in TANF funding would result in adverse impacts on states and families, in light of the array of ways that TANF funds are now being used for basic assistance and work and family supports.[33] While there may be general appreciation of this point, our review highlights the extent to which state child care systems have become increasingly and significantly dependent on TANF funding. Thus, it is important for Congress and others to understand that a cut in TANF funding likely would mean, in many states, a cut in child care funding. Maintenance or expansion of TANF funding should be seen as a key aspect of continued support for child care.

However, our research raises concerns about the stability of TANF funding for child care as states face economic uncertainty. We repeatedly heard accounts of how difficult long-run planning is when an administrator cannot make accurate projections about the availability of child care funding. We think this suggests the clear need to provide new CCDF child care funding, both to respond to unmet needs, and so that the extent of dependence on TANF funds could be decreased. Building more stability — and additional resources — into the federal funding structure could foster the ability of states to engage in strategic planning for improvements to their child care systems.

At the same time, we also heard evidence that states appreciate both the ability to access TANF dollars for child care to meet state specific needs, and the flexibility of the current transfer/direct spend structure. States are using both the option to transfer TANF to CCDF and to directly spend TANF for child care purposes. Although some may argue that increasing transferability of TANF funds might ultimately be simpler and clearer if child care funding from these two sources followed a single set of rules and were administered under a single administrative structure, others might counter that states need the option to spend TANF directly to

33 Courtney Smith, Susan Golonka & Frederica Kramer, *The Evolving Nature of Welfare Reform: Where We Stand on the Eve of Reauthorization*, (Washington, DC: National Governors Association, 2001).

meet needs for child care that would not be possible if those funds were always subject to CCDF rules. The key point, though, is that Congress should not view an expansion of transferability as preferable to increasing CCDF funding during reauthorization.

CLASP's review of state experiences has produced a set of recommendations. While our recommendations are informed by conversations with state administrators, we are solely responsible for these proposals, and they should not be construed to be the viewpoints of any entity other than CLASP.

We recommend that:

- **The amount of federal resources specifically dedicated to child care through the CCDF should be increased, and current access to TANF for child care should be maintained.** The state commitment of TANF funds to child care is a compelling indication of the critical need for child care assistance in states. There are strong indications that the additional funds have made a significant difference, yet have only addressed a fraction of the need for assistance. We do not recommend that child care needs be solely addressed through increasing access to TANF dollars, since this will increase state dependence on TANF for child care and perpetuate instability issues. We do recommend that the current flexibility states have in using TANF dollars for child care be maintained.

- **The distinction between assistance and nonassistance child care should be eliminated, and all expenditures for child care with TANF funds should be classified as nonassistance.** If all child care were treated as nonassistance, it would greatly simplify the ability of states to use TANF for child care without drawing complex distinctions among categories of care. Since this distinction appears in federal regulations rather than in the TANF statute, we believe HHS could address this problem now by revising TANF regulations. If HHS does not do so, we recommend that the federal statute be modified to expressly categorize child care as not falling within the definition of TANF assistance.

- **The rules restricting use of prior-year TANF funds should be revised, so that a state could spend prior year unobligated TANF funds for nonassistance, and could transfer prior-year TANF funds to CCDF to the extent that the state had not reached its maximum transfer amount.** HHS could also address this issue now; the policy was announced when the TANF regulations were issued, and only appears in HHS instructions and regulatory preamble language. As with assistance/nonassistance, the issue could also be addressed in reauthorization.

- **Whenever TANF funds are being used for child care, they should be fully subject to CCDF data collection requirements.** Given the large number of children served with TANF, common data collection provisions across TANF and CCDF are important in order to have an accurate count of the numbers of families and children receiving subsidy assistance and in order to have consistently-collected information about the characteristics of the families, children, and providers. Under current law, if HHS revised its regulations so that child care was not considered assistance, then the child care would no longer be subject to TANF assistance reporting requirements, and states could voluntarily elect to use CCDF reporting requirements (as some do now) but would not be required to do so. We note that some states described circumstances in which detailed data collection requirements could interfere with other policy goals, e.g., when a state is providing on-site child care on a walk-in basis at a local office, when a state wishes to provide short-term, flexible, one-time assistance. We agree that it is appropriate to consider whether there are instances where disaggregated data need not be collected, but however the issue is resolved, the same rules ought to apply to both TANF and CCDF.

- **Congress should review CCDF data collection requirements with a focus on simplifying and improving the policy relevance of data collected. As stated above, the same data elements should then be made generally applicable to TANF-funded child care assistance, and states should be strongly encouraged to collect the same core data for state-funded child care assistance.** The federal statute would need to be revised to implement this recommendation.

CONCLUSION

One of the least anticipated consequences of TANF implementation has been the large redirection of resources to child care. States have demonstrated through their budgeting priorities that the need for child care assistance is far in excess of current CCDF funding levels. We have therefore recommended both that the amount of federal resources specifically dedicated to child care through CCDF should be increased, and current access to TANF for child care should be maintained. As we have noted, there are a number of ways in which federal law and regulations could be simplified to reduce administrative complexity, and there is a clear need to improve data collection in order to ensure that there is a clearer picture of how funds are being used and who is - and is not - being helped with available funds. At the same time, policymakers should appreciate that states have taken this opportunity to convey the importance of child care funding, and that in reauthorization, it is essential to address both the amount and the stability of that funding.

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