



Child Care Assistance in 2005: State Cuts Continue

By Hannah Matthews and Danielle Ewen

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Every day, millions of parents leave their children in child care while they go to work to support their families. For many of these parents, the high costs of child care are difficult to meet. A recent study found that fees for child care for young children are equal to or greater than the average amount that families spend on either food or car payments.¹ These costs are particularly burdensome for poor and low-income families, who pay a significantly higher share of their income for care than do upper-income families.²

**For state by state pages
analyzing child care spending
and participation, go to:**
[www.clasp.org/publications/chil
dcarespendingbystate2005.htm](http://www.clasp.org/publications/chil
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To pay for the child care their families need, many low-income parents turn to state child care assistance programs. Research shows that mothers receiving child care subsidies are more likely to be employed, to stay off welfare and to have higher earnings.³ It is estimated that 15 million

U.S. families are eligible for help, yet only 14 percent of these receive any assistance in paying for child care.⁴ When families do not receive the help they need, they may be forced to spend a greater portion of their total income on child care—leading to tradeoffs in their family budgets—leave their children in poor-quality settings, or both.⁵ Some parents may lose their jobs and turn to welfare. Yet, despite the importance of child care for children and parents and the high level of unmet need, many states have reduced their investments in child care assistance. In 2004, CLASP analysis found that total spending on child care fell for the first time since welfare reform in 1996.⁶ This trend continued in 2005.

In early 2006, Congress passed the Deficit Reduction Act (DRA), which reauthorized the Temporary Assistance for Needy Families (TANF) block grant and made significant changes to the program—changes that have the potential to increase the number of families that need help paying for child care in order to work. These changes require many states to increase the number of families receiving TANF who participate in work-related activities. Many of these families will need child care assistance to do so, yet Congress provided only \$200 million a year in additional child care funding for states to meet the new requirements. Prior to this meager increase, the Child Care and Development Block Grant (CCDBG)—the largest source of federal funding for child care assistance—had not received an increase since 2002. As a result, the real value of the block grant has declined with inflation. This near freeze on funding impacts states, providers, and families. States are left with fewer available funds for child care and an

inability to keep pace with previous service levels. Providers cannot buy new supplies, such as books, crayons, and toys, or may have trouble paying rent. Families have difficulty finding the quality care they want for their children.

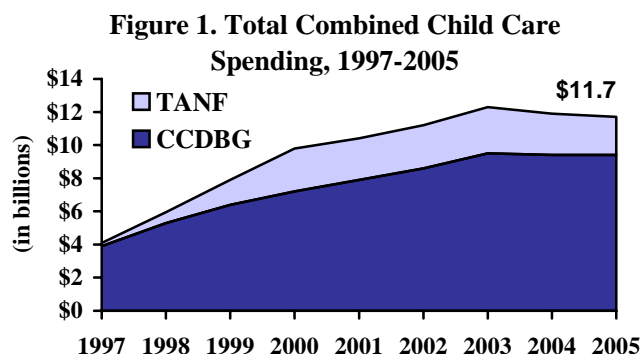
This brief discusses national trends in CCDBG and TANF funds directed to child care. Its findings are based on 2005 expenditure data reported by states to the U.S. Department of Health and Human Services (HHS). To calculate child care spending, we sum all funds a state spent during federal fiscal year 2005—including funds appropriated and spent in 2005 and those appropriated in prior years and spent in 2005.⁷ Our main findings are:

- Total child care spending (including CCDBG and TANF-related funds) fell for the second consecutive year.
- Twenty-two states made cuts in total child care spending, 16 of them for the second consecutive year.
- The decline in total child care spending was the result of a decline in TANF funds spent on child care. CCDBG spending remained flat.
- The number of children that receive child care assistance continues to decline.
- Without significant new resources, it will be difficult for states to avoid additional cuts in future years, which may have long-term effects on children and families.

Total Expenditures on Child Care Assistance Declined In 2005

Total expenditures on child care, including both CCDBG and TANF funds spent on child care, declined from \$11.9 billion in 2004 to \$11.7 billion in 2005. Spending in 2005 included:

- \$9.4 billion in CCDBG funds—including liquidated TANF transfers to CCDBG, state CCDBG maintenance of effort (MOE) funds, and CCDBG funds appropriated in prior years but spent in 2005;⁸
- \$1.3 billion in TANF spent directly on child care; and
- \$1 billion in additional state TANF MOE funds.⁹



Source: CLASP calculations based on U.S. Department of Health and Human Services data.

The 2004 and 2005 cuts in total child care expenditures followed a six-year period during which spending tripled—from \$4.1 billion in 1997 to \$12.3 billion in 2003 (see Figure 1). Fewer states made cuts in 2005 than in the previous year (22 states compared to 31 states), and the overall decline in spending was smaller (\$135 million compared to nearly \$440 million).¹⁰

Twenty-two States Cut Child Care Assistance

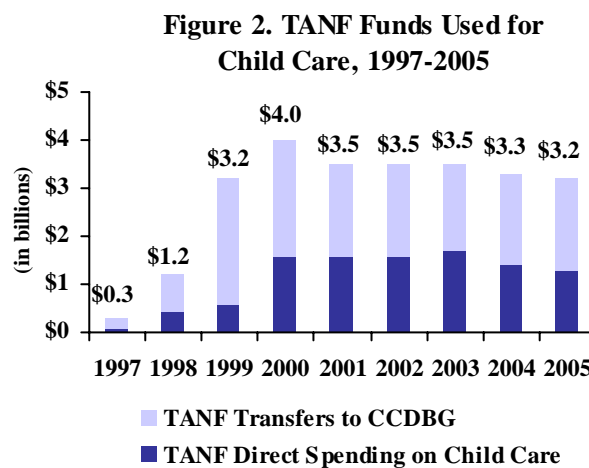
Twenty-two states made cuts in overall child care spending in 2005, compared to 31 states in 2004.¹¹ Cuts in these 22 states totaled over \$577 million, 53 percent of which was in California (\$309 million).¹²

- Nine states made cuts of 10 percent or more: Delaware*, Kentucky (26 percent), New Jersey (21 percent), Arizona (19 percent), North Dakota (19 percent), Mississippi (18 percent), Colorado (16 percent), California (13 percent), and Vermont (10 percent).
- Sixteen states—Alabama, Arizona, Delaware, the District of Columbia, Indiana, Kentucky, Maryland, Massachusetts, Michigan, New Jersey, New York, North Dakota, Oklahoma, South Carolina, Washington, and West Virginia—made cuts in both 2004 and 2005.

TANF Funds Used for Child Care Declined

Federal TANF funds used for child care (including both TANF funds transferred to CCDBG and those spent directly from TANF for child care) fell from \$3.3 billion in 2004 to \$3.2 billion in 2005, the second consecutive year of decline. TANF funds used for child care reached a high of \$4 billion in 2000 and have since steadily declined (see Figure 2).

TANF Transfers. In 2005, states transferred \$1.9 billion in TANF funds to CCDBG, a slight increase



* In previous years, Delaware reported spending above its CCDBG MOE requirement. In 2005, Delaware made downward accounting “adjustments” to CCDBG MOE expenditures reported in prior years, which resulted in Delaware reporting a net negative \$8.5 million in CCDBG expenditures in FY 2005. It is unclear the extent to which the decline in spending reflects an actual decline in expenditures or just accounting modifications.

from the previous year. States are permitted to transfer up to 30 percent of current-year TANF funds to CCDBG or to a combination of CCDBG and the Social Services Block Grant (SSBG).¹³ TANF transfers to CCDBG are subject to the latter program's rules and are not subject to the five-year time limit on TANF assistance. Seven states transferred the maximum amount of 30 percent of 2005 TANF funds—Alaska, Colorado, Florida, Idaho, Kentucky, Mississippi, and Oklahoma. Only Kentucky transferred all 30 percent of its funds to CCDBG alone. An additional eight states transferred between 25 and 29 percent of their funds to a combination of CCDBG and SSBG (see Table 1).

TANF Direct. In 2005, states spent \$1.3 billion in TANF directly on child care, a decline for the second consecutive year. TANF direct spending remained at or near \$1.6 billion from 2000 to 2003, fell to \$1.4 billion in 2004, and fell further to \$1.3 billion in 2005.

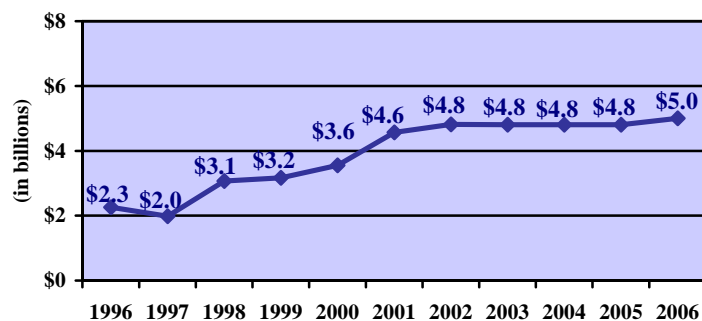
CCDBG Expenditures Remained Flat

In 2005, CCDBG expenditures remained flat at \$9.4 billion—\$7.0 billion in federal funds and \$2.4 billion in state matching and MOE funds (including expenditures of funds appropriated in prior years). Spending of state funds (match and MOE) declined slightly, and spending of federal funds (mandatory and discretionary) increased slightly.¹⁴ Spending on quality initiatives remained near flat at \$568 million, or 6 percent of CCDBG expenditures.¹⁵

CCDBG spending increased from \$3.9 billion in 1997 to a high of \$9.5 billion in 2003. Funding increases during much of that time period allowed states to carry over funds each year in order to increase expenditures and implement changes over time (see Figure 3). States continue to rely on prior-year funds to maintain expenditures, but to a lesser extent each year. States are spending more dollars in the year they are appropriated just to maintain current service levels, causing fewer prior-year funds to be available.

At the end of 2005, states left only \$1.5 billion in unobligated or unliquidated federal CCDBG funds, compared with \$1.9 billion in 2004 (see Figure 4).¹⁶

Figure 3. CCDBG Federal Funding, 1996-2006



Sources: House Committee on Ways and Means, 1998 Green Book and U.S. Department of Health and Human Services data (1996 and 1997 amounts include both CCDF appropriations and IV-A child care spending).

Figure 4. Sum of Unobligated and Unliquidated Federal Funds at End of Federal Fiscal Year



Source: CLASP calculations based on U.S. Department of Health and Human Services data.

This suggests that states may continue to lose ground on spending as fewer funds remain available to spend in future years. While states did receive a \$200 million increase in funding beginning in 2006, funding for CCDBG remains below the 2002 inflation-adjusted level. In 2007, states would require an additional \$567 million just to make up the ground lost in the previous five years. The ability of states to maintain CCDBG spending at current levels remains in doubt.

Fewer Children in Low-Income Families Are Receiving Assistance

The Bush Administration has estimated that 2.2 million children received child care assistance from all sources in 2005, compared to 2.3 million children in 2004.¹⁷ The Administration estimates that if funding remains at the current level, 1.8 million children will be receiving assistance by 2011.¹⁸ This represents a decline of 25 percent—or 650,000 children—from fiscal year 2000, when 2.45 million children in low-income working families were receiving child care assistance.¹⁹

The number of children receiving CCDBG-funded assistance (including TANF transfers) increased slightly, from 1.74 million children in 2004 to 1.78 million children in 2005.²⁰ Overall, the number of children served by CCDBG has remained relatively flat since 2000. While 30 states increased the number of children served in 2005, 21 states served fewer children than in 2004. Corresponding data for children served through TANF spent directly on child care are not available.

State Cuts May Have Long-Term Effects on Children and Families

Each year, CCDBG provides subsidies to more than 1 million families, 92 percent of whom report needing child care in order to work or attend education and training programs.²¹ The need for continued access to child care assistance for low-income working families is clear. Employment of single mothers with young children has grown dramatically since the early 1990's.²² New work participation requirements in the DRA, as discussed earlier, will mean that many more mothers will have to enter the workforce or engage in more hours of work, and many will need child care assistance while working. Research shows that reliable and stable child care helps parents retain steady employment and stay off welfare.

Yet child care assistance is critical not only for parents to keep the jobs they need to support their families but also to support children's healthy development and wellbeing. The number of children living in low-income families has risen in recent years,²³ and these children often face multiple risk factors. Positive early childhood experiences can help support children's healthy development and mitigate the impact of these risk factors. In particular, low-income children have been shown to benefit from stable, quality child care.²⁴

Unfortunately, despite the benefits of child care for children and their families, many low-income parents cannot afford the care their children need—and recent state cuts in child care spending may make it more difficult for these families to pay for the quality care they want for their children. In 2005, state spending on child care surpassed the amount of new funds available for child care assistance. Spending of prior year funds bridged the gap between new dollars and expenditures, but states left fewer federal funds unspent to bridge the gap in future years. States also decreased the amount of TANF funds used for child care, a trend that may continue as states wrestle with the implications of the DRA.

The challenge for states to maintain investments in child care assistance, both to secure access to child care subsidies and to support initiatives that promote quality, remains great. If they are not able to do so, many low-income working families will be left with few options for affordable child care, and many children will remain in poor quality environments.

Table 1. TANF Transfers, FY 2005

State	Percent of FY 2005 Grant Transferred to CCDBG	Percent of FY 2005 Grant Transferred to SSBG	Total Percent of FY 2005 Grant Transferred
Alabama	9%	10%	19%
Alaska	25%	5%	30%
Arizona	0%	10%	10%
Arkansas	11%	4%	15%
California	11%	3%	15%
Colorado	20%	10%	30%
Connecticut	0%	10%	10%
Delaware	0%	7%	7%
Dist. of Columbia	16%	3%	19%
Florida	20%	10%	30%
Georgia	8%	5%	13%
Hawaii	10%	10%	20%
Idaho	26%	4%	30%
Illinois	0%	3%	3%
Indiana	2%	1%	3%
Iowa	18%	9%	28%
Kansas	21%	4%	25%
Kentucky	30%	0%	30%
Louisiana	11%	9%	20%
Maine	11%	6%	17%
Maryland	0%	10%	10%
Massachusetts	20%	10%	29%
Michigan	17%	6%	22%
Minnesota	8%	0%	8%
Mississippi	20%	10%	30%
Missouri	12%	10%	22%
Montana	4%	5%	9%
Nebraska	16%	0%	16%
Nevada	0%	3%	3%
New Hampshire	14%	10%	23%
New Jersey	0%	4%	4%
New Mexico	27%	2%	29%
New York	15%	5%	20%
North Carolina	25%	2%	27%
North Dakota	0%	0%	0%
Ohio	0%	10%	10%
Oklahoma	20%	10%	30%

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State	Percent of FY 2005 Grant Transferred to CCDBG	Percent of FY 2005 Grant Transferred to SSBG	Total Percent of FY 2005 Grant Transferred
Oregon	0%	0%	0%
Pennsylvania	16%	4%	20%
Rhode Island	9%	1%	10%
South Carolina	0%	8%	8%
South Dakota	0%	10%	10%
Tennessee	22%	3%	26%
Texas	0%	5%	5%
Utah	0%	3%	3%
Vermont	19%	10%	29%
Virginia	2%	9%	11%
Washington	26%	2%	28%
West Virginia	0%	10%	10%
Wisconsin	20%	4%	24%
Wyoming	19%	0%	19%
Total	12%	5%	17%

Source: U.S. Department of Health and Human Services, FY 2005 TANF Financial Data, TABLE A1 FY 2005 Federal Funds Spent in FY 2005 through the FOURTH Quarter. www.acf.hhs.gov/programs/ofs/data/2005.

¹ National Association of Child Care Resource and Referral Agencies. *Breaking the Piggy Bank: Parents and the High Price of Child Care*. 2006.

² For example, 40 percent of poor, single, working mothers who paid for child care in 2001 spent at least half of their cash income on it, while an additional 25 percent spent 40 to 50 percent. See Wertheimer, Richard. *Poor Families in 2001: Parents Working Less and Children Continue to Lag Behind*. 2003.

³ See Matthews, Hannah. *Child Care Assistance Helps Families Work: A Review of the Effects of Subsidy Receipt on Employment*. 2006. www.clasp.org/publications/ccassistance_employment.pdf.

⁴ Mezey, Jennifer, Greenberg, Mark, and Schumacher, Rachel. *The Vast Majority of Federally-Eligible Children Did Not Receive Child Care Assistance in FY 2000*. 2002. www.clasp.org/publications/1in7full.pdf.

⁵ Greater Minneapolis Day Care Association. *Valuing Families: The High Cost of Waiting for Child Care Sliding Fee Assistance*. 1995; Shlick, Deborah, Daly, Mary and Bradford, Lee. *Faces on the Waiting List: Waiting for Child Care Assistance in Ramsey County*. 1999; Coonerty, Casey and Levy, Tamsin. *Waiting for Child Care: How Do Parents Adjust to Scarce Options in Santa Clara County?* 1998; Coltoff, Philip, Torres, Myrna and Lifton, Natasha. *The Human Cost of Waiting for Child Care: A Study*. 1999; Philadelphia Citizens for Children and Youth. *Use of Subsidized Child Care by Philadelphia Families*, 1997; Gulley, Jennifer and Hilbig, Ann. *Waiting List Survey: Gulf Coast Workforce Development Area*. 1999; Lyons, Jeffrey D., Russell, Susan D., Gilgor, Christina and Staples, Amy H. *Child Care Subsidy: The Costs of Waiting*, 1998.

⁶ Matthews, Hannah and Ewen, Danielle. *Child Care Assistance in 2004: States Have Fewer Funds for Child Care*. 2005.

⁷ CLASP analysis is based on U.S. Department of Health and Human Services, Administration for Children and Families, CCDF Expenditure Data, <http://www.acf.hhs.gov/programs/ccb/data/index.htm> (Spending from All Appropriation Years) and TANF Financial Data, <http://www.acf.hhs.gov/programs/ofs/data/index.html> (Tables, A, B and C).

⁸ To calculate state expenditures on child care, we sum all funds a state spent during federal fiscal year 2005, including funds appropriated in prior years. Analysis of expenditure data based on state fiscal years may differ from the analysis presented here.

⁹ This excludes \$858 million that may be “double counted” as CCDBG MOE and TANF MOE. Total TANF MOE spent on child care was \$1.9 billion in 2005.

¹⁰ For an analysis of child care spending in FY 2004, see Matthews, Hannah and Ewen, Danielle. *Child Care Assistance in 2004: States Have Fewer Funds for Child Care*. 2005. www.clasp.org/publications/childcareassistance2004.pdf.

¹¹ In our analysis, we count the District of Columbia as a state.

¹² According to the California Department of Education, the decline in spending that is shown in federal reporting reflects delays in the execution of several contracts and the timing of expenditures, rather than a decline in actual spending levels. The data do not capture outstanding expenditures and/or pending contracts, which are expected to be fully expended. The California Child Care Budget shows a slight increase in expenditures from FFY 2004 to FFY 2005. Moton, Monique (California Department of Education). Personal Communication. October 27, 2006.

¹³ Transfers to SSBG cannot exceed 10 percent of a state’s TANF grant. In FY 2005, states transferred \$2 billion in FY 2005 TANF funds to CCDBG; the net transfer amount, including transfers out of CCDBG and back to TANF, was \$1.9 billion.

¹⁴ The spending of state match and MOE funds declined by more than \$154,000, and the spending of federal mandatory and discretionary funds increased by nearly \$155,000.

¹⁵ States are required to spend a minimum of 4 percent of CCDBG funds on quality initiatives. Compliance with this requirement is assessed at the end of the liquidation period.

¹⁶ Unobligated funds are funds that have not yet been legally committed. Unliquidated funds are funds that states have committed to spend but have not yet done so.

¹⁷ Sources include CCDBG, TANF and SSBG funds used for child care.

¹⁸ Table 25–4: Beneficiary Projections for Major Benefit Programs in *Analytical Perspectives Budget of the United States Government FY 2007* (page 363). Downloaded from <http://a257.g.akamaitech.net/7/257/2422/06feb20061000/www.gpoaccess.gov/usbudget/fy07/pdf/spec.pdf>.

¹⁹ U.S. Department of Health and Human Services, Administration for Children and Families, *Child Care and Development Fund Report to Congress*, Submitted January 2003, <http://www.acf.hhs.gov/programs/ccb/ccdf/rtc/index.htm>.

²⁰ CCDBG participation data for 2005 are preliminary. U.S. Department of Health and Human Services, Administration for Children and Families, CCDF Data Tables, <http://www.acf.hhs.gov/programs/ccb/research/>. See also, Matthews, Hannah. *Child Care and Development Block Grant Participation in 2005*. 2006. www.clasp.org/publications/ccdbgpaticipation_2005.pdf.

²¹ U.S. Department of Health and Human Services, Administration for Children and Families, *FFY 2005 CCDF Data Tables (Preliminary Estimates)*. <http://www.acf.hhs.gov/programs/ccb/data/index.htm>.

²² Congressional Research Service analysis of US Census Bureau Current Population Survey data.

²³ National Center for Children in Poverty. *Most Low-Income Parents are Employed*. 2006.

²⁴ Peisner-Feinberg, E. et al. *The Children of the Cost, Quality, and Outcomes Study Go to School*. 1999.