



## States Have Slowed Their Use of TANF Funds for Child Care in the Last Year

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Between 1997 and 2000, states relied on increasing amounts of freed-up funds from their Temporary Assistance for Needy Families (TANF) block grant to respond to demands for child care assistance and to the need for child care quality investments. By the end of fiscal year (FY) 2000, states redirected more TANF funds to their child care subsidy programs than was available through the federal Child Care and Development Fund (CCDF) that year—\$3.89 billion vs. \$3.5 billion. The situation began to change in 2001, however. Since then, a few states have pulled back TANF funds that had previously been committed to child care in FY 2000, and overall states used slightly less TANF for child care in FY 2001 than they did in FY 2000. Although TANF fiscal data for 2002 are not yet available, many states are reporting that they have or are considering making changes in their child care budgets or programs in FY 2002 or FY 2003 as the economy has worsened.

### **Background: Use of TANF for Child Care Up Until September 2001**

In the 1996 welfare law, Congress allowed states to transfer TANF funds to the CCDF and to spend TANF directly on child care.<sup>1</sup> TANF became a key funding source for child care when the unexpected TANF cash assistance caseload declines provided states with substantial amounts of uncommitted TANF funds. States received a level base amount of funding per year under the TANF block grant, while the national economic boom, changes in state welfare programs, and other factors led to a 50 percent decline in TANF cash assistance caseloads between 1996 and 2000.<sup>2</sup> As the proportion of low-income, single mothers with children under six who were

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<sup>1</sup> States have the option to transfer up to 30 percent of their TANF block grant to CCDF and up to 10 percent to their Social Services Block Grant (SSBG), as long as total transfers do not exceed 30 percent in any fiscal year. States may also directly spend TANF on child care services. For more information on TANF funds and child care, see Schumacher, R., Greenberg, M., & Duffy, J. (2001). *The Impact of TANF Funding on State Child Care Subsidy Programs*. Washington, DC: Center for Law and Social Policy [hereinafter CLASP, *The Impact of TANF Funding*].

<sup>2</sup> U.S. Department of Health and Human Services, Administration for Children and Families. (2002). *Change in TANF Caseload Since Enactment of New Welfare Law*. Available at: <http://www.acf.dhhs.gov/news/stats/aug-dec.htm>.

working grew from 44 to 59 percent between 1996 and 2000,<sup>3</sup> many states saw a need to redirect TANF funds to provide child care assistance to these and other low-income working families.

TANF started to become a major source of funding for state child care budgets by FY 1999, after federal regulations governing TANF were released and made clear the extent of state flexibility to spend TANF on critical work supports like child care. While only 12 states transferred funds to CCDF or directly spent TANF on child care in FY 1997, 46 states did so in FY 1999, and 49 did so in FY 2000. As of last September, 44 states told CLASP that in FY 2000 they transferred a total of \$2.43 billion in TANF funds to CCDF. In addition, 35 states reported directly spending \$1.46 billion in TANF funds in FY 2000—double the amount of TANF spent directly on child care in the previous year.<sup>4</sup>

In interviews CLASP conducted last year with state child care subsidy program administrators, however, many pointed out the inherent instability in relying on TANF to support child care needs. At least 15 states were using more TANF funds than federal CCDF funds for child care in FY 2000, but those we interviewed pointed out that TANF funds could easily be reduced at any time due to changes in state policy priorities, TANF caseloads, federal funding, welfare requirements, or economic conditions. As a result of this funding instability, some state administrators found it difficult to conduct long-term planning for child care subsidy programs.<sup>5</sup>

### **How Has Use of TANF for Child Care Changed Since Last Year?**

The steady growth in use of TANF funds for child care ended in 2001. Use of TANF funds for child care in FY 2001 was \$3.65 billion, and some states actually pulled back TANF funds that they had previously transferred to CCDF (resulting in the adjusted overall use figure of FY 2000 dropping from \$3.89 to \$3.77 billion). There are great variations in spending patterns by state (see attached Table 1).<sup>6</sup> Nationally, 42 states transferred \$1.99 billion, and 32 states directly spent \$1.66 billion in FY 2001. Of all TANF funds spent or transferred by states in FY 2001, 20 percent went to child care, down from 24 percent in FY 2000 (see attached Table 2).

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<sup>3</sup> U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research and Evaluation. (2002). *TANF Fourth Annual Report to Congress*. Washington, DC: Author, Table 4:1, p. IV-121.

<sup>4</sup> CLASP, *The Impact of TANF Funding*, p. 22.

<sup>5</sup> CLASP, *The Impact of TANF Funding*, pp. 55-58.

<sup>6</sup> FY 2001 data calculated by CLASP from TANF fiscal data reported by states and collected and analyzed by Zoë Neuberger at the Center on Budget and Policy Priorities, except where updated according to verifications by state administrators as of September 2002.

| <b>Overview of State Transfers of TANF to CCDF and Direct Spending of TANF Funds for Child Care, Federal Fiscal Years 1997-2001</b> |                                  |                                 |                                      |                                     |   |                              |
|---|----------------------------------|---------------------------------|--------------------------------------|-------------------------------------|---|------------------------------|
| <b>Year</b>   | <b>Number of Transfer States</b> | <b>Total Amount Transferred</b> | <b>Number of Direct Spend States</b> | <b>Total Amount of Direct Spend</b> | <b>Total Number of Transfer/Direct Spend States</b> | <b>Total Transfer/Direct</b> |
| 1997  | 8                                | \$175 million                   | 7                                    | \$14.5 million                      | 12  | <b>\$189 million</b>         |
| 1998  | 24                               | \$673.5 million                 | 12                                   | \$247 million                       | 29  | <b>\$920.5 million</b>       |
| 1999  | 43                               | \$2.54 billion                  | 25                                   | \$747 million                       | 46  | <b>\$3.28 billion</b>        |
| 2000<br>(Sept. 2001)  | 44                               | \$2.43 billion                  | 35                                   | \$1.46 billion                      | 49  | <b>\$3.89 billion</b>        |
| (Revised Sept. 2002)  | 43                               | \$2.31 billion                  | 33                                   | \$1.46 billion                      | 49  | <b>\$3.77 billion</b>        |
| 2001  | 42                               | \$1.99 billion                  | 32                                   | \$1.66 billion                      | 47  | <b>\$3.65 billion</b>        |

Source: Schumacher, R., Greenberg, M., & Duffy, J. (2001). *The Impact of TANF Funding on State Child Care Subsidy Programs*. Washington, DC: Center for Law and Social Policy; FY 2001 data calculated by CLASP from TANF fiscal data reported by states and collected and analyzed by Zoë Neuberger at the Center on Budget and Policy Priorities, except where updated according to state verifications.

Other insights may be drawn from the updated FY 2001 data. Fewer states are now using TANF for child care, down to 47 from 49 in FY 2000. Three states discontinued use of TANF for child care altogether, while one began to do so. Although transfer remains a popular choice for states seeking to use TANF for child care, 45 percent of redirected TANF dollars are now directly spent, up from about 23 percent in FY 1999. In FY 2000, states doubled from the previous year the amount of TANF directly spent, and, in FY 2001, states continued to make use of that option at a much higher rate than before 2000. Unfortunately, because states are not required to collect child care data on those directly spent dollars, we know very little about the number of children served or what services are provided with directly spent TANF funds. Under current TANF law, states must report whether directly spent funds are for assistance or nonassistance purposes, however.<sup>7</sup> The vast majority (82 percent in FY 2001, up from 76 percent in FY 2000) of child care purchased directly with TANF funds continues to be for working families, as opposed to those without employment.

Overall, redirection of TANF to child care fell very slightly in FY 2001, and, although we do not have enough information to draw conclusions about exactly why individual states made their particular fiscal decisions, several factors may have come into play. At the national level, states received additional federal CCDF funds in FY 2001 and total child care spending grew, but at a

<sup>7</sup> DHHS regulations make a distinction between TANF spending for child care that is for working families, which is considered nonassistance, and child care for unemployed families, which is considered assistance. Receiving assistance has implications for both the families and the state, causing TANF work requirements, time limits, data reporting, and child support enforcement rules to apply.

lesser rate than seen in the last few years, and states relied heavily on federal funds.<sup>8</sup> States may also have been faced with increased competition for limited TANF funds. Due to the flexibility states have with TANF funds, they can easily decide to reduce their commitment of TANF funds to child care from year to year to meet other state priorities. Reductions in use of TANF for child care may signal cuts to child care programs, but they may also represent changes in how states choose to account for spending among TANF, CCDF, and other funding streams.

## The Outlook for 2002

Although FY 2002 data on state use of TANF for child care are not yet available (the fiscal year closes on September 30, 2002), the likelihood of an increase seems low in light of various factors all pointing to increased fiscal stress in states in the last year, such as:

- **Overall decline in revenues and increase in budget gaps:** FY 2001 was the last year in which the aggregate state budget balance was positive at \$38 billion, although that was 24 percent lower than the previous year.<sup>9</sup> In FY 2002, 26 states collected less budget revenue than in FY 2001. As a result, the National Conference of State Legislatures estimated that, by the end of FY 2002, state budget gaps totaled \$36 billion,<sup>10</sup> and there is a projected \$46 billion gap for state FY 2003.<sup>11</sup> Most states have balanced budget amendments that will force governors and legislators to make difficult decisions about cutting spending or raising taxes in order to close these budget gaps.
- **TANF assistance caseload increases and declining reserve funds:** Twenty-nine states reported TANF caseload increases between June 2001 and June 2002.<sup>12</sup> Moreover, in FY 2001, states spent \$2 billion more out of their TANF accounts than they received in federal funding that year, a rate that cannot be sustained indefinitely as TANF reserves decline.<sup>13</sup> At this rate of TANF spending, 17 states will have insufficient reserves to maintain their TANF-funded programs at FY 2001 levels in FY 2002, and six more will

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<sup>8</sup> U.S. Department of Health and Human Services, Administration for Children and Families, Child Care Bureau. (2002). *FY2001 CCDF State Expenditures*. Available at:

<http://www.acf.dhhs.gov/programs/ccb/research/01acf696/overview.htm>

<sup>9</sup> National Conference of State Legislatures. (2002, June). *State Budget Actions 2001*. Washington, DC: Author. Available at: <http://www.ncsl.org/programs/fiscal/sba01sum.htm>.

<sup>10</sup> National Conference of State Legislatures. (2002, July). *State Budget Gap Deepens to \$58 Billion* (NCSL News Release). Washington, DC: Author. Available at: <http://www.ncsl.org/programs/press/2002/pr020724a.htm>.

<sup>11</sup> This state budget deficit figure is less than NCSL's estimate in *State Budget and Tax Actions 2002: Preliminary Report*. The Center on Budget and Policy Priorities adjusted that figure to allocate 50 percent of the \$23.7 billion FY 2002-2003 biennial budget deficit in California to FY 2002 and to include the \$1.9 billion FY 2002 budget deficit in New York. See Lav, I.J. (2002, August). *A New Stimulus Package? States Stand to Lose Substantial Additional Revenue*. Washington, DC: Center on Budget and Policy Priorities. Available at: [http://www.cbpp.org/8-22-02sfp.htm#\\_edn1](http://www.cbpp.org/8-22-02sfp.htm#_edn1).

<sup>12</sup> Center for Law and Social Policy. (in press). *TANF Caseloads Declined in Most States in Second Quarter, But Most States Saw Increases Over the Last Year*. Washington, DC: Author.

<sup>13</sup> Neuberger, Z. (2001). *TANF Expenditures Increased in the Last Fiscal Year*. Washington, DC: Center on Budget and Policy Priorities. Available at: <http://www.cbpp.org/11-1-01wel.htm>.

face difficulties by FY 2003.<sup>14</sup> Meanwhile, the inflation-adjusted value of the TANF block grant has fallen by more than 11 percent since 1997.<sup>15</sup>

- **Reductions in child care eligibility, assistance, and quality investments:** Recent studies find that programs aimed at supporting low-income working families, including child care and early education initiatives, have sustained cuts in the past year.<sup>16</sup> A number of states have reduced the level of income families may earn and still qualify for child care assistance, as low as the federal poverty level in one state (\$15,020 for a family of three in 2002). Still other states have increased the amount of parent copayments, frozen payment rates for child care providers so that the rates do not account for inflationary increases in the costs of providing care, or cut back on efforts to make the quality of early learning environments more conducive to child development.<sup>17</sup>

### Implications for Reauthorization

Given that TANF funds are not likely to provide an expanding, or even constant, source of funds for states, additional federal CCDF funds are necessary to maintain the stability of child care programs, especially in light of any changes in TANF legislation that lead to increased work requirements and child care needs. However, the funding levels proposed in neither the Senate Finance bill nor the House bill would provide enough to allow states to do much more than address the effects of inflation over the next five years. The Senate would provide \$5.5 billion in new mandatory federal funds (with \$400 million in associated state matching funds), and the House bill would provide \$1 billion in mandatory federal funds (with \$785 million in state match). The Congressional Budget Office (CBO) has estimated that it would take an additional \$4.55 billion just to allow states to keep up with inflationary effects on their current expenditures and, therefore, maintain current levels of child care services to low-income children.<sup>18</sup>

Although the Senate Finance package would allow states to meet the work requirements without having to cut services for children who are currently receiving them, this would require that states maintain TANF spending at CBO's assumed FY 2000 levels. Since states may choose to use their TANF funds differently, and are already using slightly less for child care as of FY 2001, this assumption may be jeopardized. The situation would be exacerbated if TANF work requirements were to increase the demand for child care assistance as well. Ultimately, even with stable TANF funding, the proposed House and Senate Finance funding levels would do

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<sup>14</sup> Neuberger, Z. (2002, May). *States Are Already Cutting Child Care and TANF-funded Programs*. Washington, DC: Center on Budget and Policy Priorities. Available at: <http://www.cbpp.org/5-16-02wel.htm>, [hereinafter, Neuberger, *States are Already Cutting Child Care and TANF-funded Programs*]

<sup>15</sup> Neuberger, Z., Parrott, S., & Primus, W. (2002). *Funding Issues in TANF Reauthorization*. Washington, DC: Center on Budget and Policy Priorities. Available at: <http://www.cbpp.org/1-22-02tanf5.htm>.

<sup>16</sup> Neuberger, *States Are Already Cutting Child Care and TANF-funded Programs*.

<sup>17</sup> Children's Defense Fund. (2002, September). *Low-Income Families Bear the Burden of State Child Care Cuts*. Washington, DC: Author.

<sup>18</sup> For more information about the Senate and House TANF reauthorization legislation, see Fremstad, S., Parrott, S., Greenberg, M., Savner, S., Turetsky, V., & Mezey, J. (2002). *One Step Forward or Two Steps Back? Why the Bipartisan Senate Finance Bill Reflects a Better Approach to TANF Reauthorization than the House Bill*. Washington, DC: Center on Budget and Policy Priorities and Center for Law and Social Policy.

little to address the unmet needs of children currently not served; only one in seven or 14 percent of children federally eligible for CCDF-funded child care assistance were served in FY 2000.<sup>19</sup>

## **Conclusion**

Since 1996, states have made use of their options to redirect TANF funds to provide child care assistance to a growing population of low-income working families, as well as to work to improve the quality of child care for disadvantaged children. A year ago, states reported the highpoint of that redirection at \$3.89 billion. Since then, economic conditions and a host of other factors may have changed the potential of TANF to help states meet these child care needs. Use of TANF for child care has flattened, and some states have begun to make difficult choices that will have the effect of reducing access to child care assistance or delaying key investments in improving the quality of children's child care experiences. When they become available, FY 2002 data on state use of TANF for child care, as well as on CCDF expenditures, are more likely to tell a difficult story about the challenges states are facing.

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<sup>19</sup> Mezey, J., Greenberg, M., & Schumacher, R. (2002). *The Vast Majority of Federally-Eligible Children Did Not Receive Child Care Assistance in FY 2000: Increased Child Care Funding Needed to Help More Families*. Washington, DC: Center for Law and Social Policy.