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Increasing the Ability to Transfer TANF to CCDF in House Welfare Bill (H.R.4) Is Still Not the Answer to Unmet Child Care Needs

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The House is poised to vote on a welfare reauthorization bill (H.R.4) that will not provide adequate child care funding to keep pace with inflation or meet the work requirements it contains.¹ The bill includes a \$1 billion increase in federal mandatory Child Care and Development Block Grant (CCDBG) funding over five years, substantially less than what the Congressional Budget Office (CBO) estimated last year would be necessary to pay for associated child care costs and keep pace with inflation.² The bill also includes last year's provision to increase the amount of Temporary Assistance for Needy Families (TANF) funds states could transfer to CCDBG from 30 to 50 percent. This expanded transfer authority will *not* be useful in addressing the unmet need for child care assistance among many eligible working families or the potential demand for child care that would result from increased work requirements for the following reasons:

States are not currently limited in the amount of TANF funds they can redirect to child care because they can spend TANF directly on child care without any limitation. Therefore, increasing transferability does not make more child care funds available to states. Under current law, whether or not a state transfers TANF funds to CCDF, the state is free to spend an unlimited amount of TANF funds on child care. States have made use of this option, with direct expenditures of TANF funds on child care rising steadily over the past five years to \$1.7 billion in FY 2001.³

It is unlikely that states will have more TANF funds freed up for use for child care over the next five years under this plan because the funding level will be frozen, TANF caseloads are rising in most states, and a significant amount of additional funding would be necessary to pay for the non-child care costs of the proposed

¹ See Mezey, J. (2003). *The House Welfare Bill (H.R.4) Does Not Provide Enough Child Care Funding to Meet Work Requirements Without Forcing States to Restrict Access to Subsidies for Other Low-Income Families*. Washington, DC: Center for Law and Social Policy. http://www.clasp.org/DMS/Documents/1045071117.28/CC_HR_4.pdf.

² CBO calculated that \$3.5-\$4.8 billion would be needed over five years to meet the House legislation's work requirements, and \$4.5-\$5.5 billion to maintain the current level of child care services in states.

³ Schumacher, R., & Rakpraja, T. (2002). *States Have Slowed Their Use of TANF Funds for Child Care in the Last Year*. Washington, DC: Center for Law and Social Policy. http://www.clasp.org/DMS/Documents/1032806810.14/2001_TANF_CC.pdf.

welfare work provisions. In 2001, about 20 percent of TANF funds that were transferred or spent were redirected to child care.⁴ At the same time, Treasury data show that state TANF spending in FY 2002 was \$18.7 billion—for the second year over \$2 billion more than the annual state block grants of \$16.5 billion, and increasing \$166 million over FY 2001 outlays.⁵ Accordingly, it is hard to see how states could increase commitment of TANF funds to child care unless other TANF costs were falling. But, half of states (25) saw TANF caseload increases in the last year (September 2001-September 2002), and most states (39) reported an increase in the most recent quarter (July-September 2002).⁶ And, the work provisions of the House bill would involve significant additional work program costs—CBO estimates that \$4.8-\$6.1 billion more would be necessary over five years. So, even if the law allowed states to transfer 100 percent of TANF funds to child care, it would most likely not result in additional child care resources becoming available to states.

State use of TANF for child care slowed between FY 2000 and FY 2001, indicating that states may already have reached the limit for the amount of TANF that may be easily redirected to child care purposes. 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 CCDBG (resulting in the adjusted overall use figure of FY 2000 dropping from \$3.89 to \$3.77 billion).⁷ The majority of states did not transfer the maximum amount possible to CCDF; only two did so in FY 2001. Although direct expenditures of TANF for child care did rise between FY 2000 and FY 2001 (from \$1.46 to \$1.65 billion), the increase was not enough to offset the transfer decline.

Although states initially made significant use of TANF for child care, the slowed growth in recent years shows that the stress on state budgets is already making it an unreliable source for new child care funding, and a more stable dedicated child care funding would be preferable to stabilize state subsidy systems. Many states are already considering cutting their child care subsidy programs, as they seek to close an aggregate budget gap projected to be between \$70 billion and \$85 billion in FY 2004.⁸ Some states have pulled back use of TANF for child care, resulting in reduced access to subsidies for working families.⁹ In interviews conducted before this fiscal crisis hit, many state administrators told CLASP that state commitment of TANF dollars to child care can vary on a year-to-year basis, and, along with uncertainty about future federal

⁴ Schumacher, R., & Rakpraja, T. (2002).

⁵ Neuberger, Z. (2002). *Annual TANF Expenditures Remain \$2 Billion Above Block Grant*. Washington, DC: Center on Budget and Policy Priorities. <http://www.cbpp.org/10-30-02wel.htm>. Note the \$16.5 billion is the basic grant, not including Supplemental Grants or bonus funds. If including the supplemental funds for certain states, the amount of the FY 2001 awarded funds is \$16.8 billion.

⁶ Richer, E., Rahmanou, H., & Greenberg, M. (2002). *Welfare Caseloads Increased in Most States in Third Quarter*. Washington, DC: Center for Law and Social Policy. http://www.clasp.org/DMS/Documents/1041288586.43/caseload_2002_Q3.pdf.

⁷ Schumacher, R., & Rakpraja, T. (2002).

⁸ Lav, I., & Johnson, N. (January 2003). *State Budget Deficits for FY 2004 are Huge and Growing*. Washington, DC: Center on Budget and Policy Priorities.

⁹ Parrott, S., Goldberg, H., & Fremstad, S. (2003). *Recycling an Unwise Proposal: State Concerns and New State Fiscal Realities Ignored in House Republican Welfare Bill*. Washington, DC: Center on Budget and Policy Priorities. <http://www.cbpp.org/2-7-03tanf.pdf>

TANF funding levels, this can make it difficult to conduct long-run planning of state child care policy.¹⁰ That situation has clearly worsened under current conditions.

In summary, allowing increased transferability from TANF to CCDF will not increase the amount of funding available to states to use for child care assistance for low-income families, and it may actually contribute to further destabilization of state child care subsidy programs. CLASP recommends that a more appropriate means of increasing the amount of child care funding would be to increase mandatory CCDBG funding levels significantly to address the current unmet needs of many low-income working families, improve the quality of child care, and cover any potential child care costs associated with proposed changes to the welfare work requirements without reducing the amount of child care resources currently available for low-income working families and children.

¹⁰ Schumacher, R., Greenberg, M., and Duffy, J. (2001). *The Impact of TANF Funding on State Child Care Subsidy Programs*. Washington, DC: Center for Law and Social Policy.