



## **Child Care Programs Help Parents Find and Keep Jobs: Funding Shortfalls Leave Many Families Without Assistance**

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### **Introduction**

Child care subsidies help low-income families work and leave welfare, but funding shortfalls are forcing states to enact restrictive policies that are hurting poor families and efforts to promote their employment and earnings. The Administration's recently proposed FY 2005 budget would make this situation even worse, causing 447,000 children receiving child care assistance in FY 2003 to lose this assistance by FY 2009.<sup>2</sup>

This paper explains that:

- Federal and state child care assistance to low-income working families grew substantially between 1996 and 2001 as a result of welfare reform.
- Increased child care assistance—both for welfare recipients and for other low-income working families—was an essential part of states' strategies to help promote work and reduce the need for welfare. During these years, employment of low-income and single mothers increased significantly.
- Child care assistance has played a key role in increasing employment among mothers and helping families leave welfare for work.
- Even during this period of progress toward providing child care assistance to a larger share of families who need help, the great majority of eligible children remained unserved as demand outstripped supply.
- The growth of child care funding essentially stopped in FY 2001 with Temporary Assistance for Needy Families (TANF) and state dollars becoming rapidly depleted as funding sources.

- Limited resources have forced states across the country to cut child care assistance, creating hardship for already struggling low-income families.

This paper concludes with excerpts from recent press coverage about child care restrictions and cutbacks in 15 states.

***Federal and state child care assistance to low-income working families grew substantially between 1996 and 2001 as a result of welfare reform.***

- In 1996, Congress passed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). In recognition of the importance of child care to work, Congress accompanied increased work requirements with increased federal child care dollars and gave states the ability to use federal and state TANF funds for child care.
- Congress also specified that child care subsidies must be made available for families not receiving TANF cash assistance as well. In FY 2000, only about 20 percent of families receiving child care assistance were TANF recipients.<sup>3</sup>
- Since 1996, federal and state spending on child care from the Child Care and Development Block Grant (CCDBG) and TANF dollars grew substantially. While *state* child care spending increased between FY 1996 and FY 2001, approximately three-quarters of the overall spending growth came from increased *federal* spending, a large portion of which was from TANF funds.<sup>4</sup>
- These additional resources allowed states to increase access to and improve the quality of child care services. States served more children and invested in quality improvement initiatives. These initiatives included training and educating teachers, providing higher compensation for teachers who pursued training and education while staying in the child care field, and increasing provider payment rates, which allows providers to hire more staff and improve their quality of care.

***Increased child care assistance—both for welfare recipients and for other low-income working families—was an essential part of states’ strategies to help promote work and reduce the need for welfare. During these years, employment of low-income and single mothers increased significantly.***

- TANF caseloads experienced record declines, falling by half between FY 1996 and FY 2001, with increased access to child care arguably playing an important role. These caseload declines freed up TANF funds that had previously been used for cash assistance for states to use on child care assistance and other support services for low-income families.
- The number of employed single mothers increased from 6.4 million in 1996 to 7.3 million in 2001.<sup>5</sup>

- Employment rates among low-income single mothers with young children grew from 44 percent in 1996 to 59 percent in 2000.<sup>6</sup>
- Furthermore, the expansion of child care made it possible for more families receiving welfare to work or participate in work activities. The share of families working while receiving welfare more than doubled between FY 1996 and FY 2001, growing from 11.3 percent to 26.7 percent. By FY 2001, about 605,000 welfare recipients were working or participating in work activities.<sup>7</sup>

***Child care assistance has played a key role in increasing employment among mothers and helping families leave welfare for work.***<sup>8</sup>

- Single mothers with young children who receive child care assistance are 40 percent more likely to still be employed after two years than those who do not receive such assistance. The same analysis found that former welfare recipients who receive child care assistance are 82 percent more likely to be employed after two years than those who do not receive such assistance.<sup>9</sup>
- A recent study of current and former welfare recipients in Michigan found that receipt of a child care subsidy led to more months of work and higher earnings.<sup>10</sup>
- A study of changes in Rhode Island's child care program found that policies that expanded access to child care subsidies significantly increased the probability that parents would leave welfare for work and work more than 20 hours per week.<sup>11</sup>
- A national study found that 28 percent of welfare leavers who didn't receive child care assistance returned to welfare within three months after leaving, compared to only 19.5 percent of welfare leavers who did receive child care assistance.<sup>12</sup>

***Even during this period of progress toward providing child care assistance to a larger share of families who need help, the great majority of eligible children remained unserved as demand outstripped supply.***

- The number of children receiving child care assistance doubled between 1996 and 2001, from one million to over two million children. While this increase was dramatic, it still meant that most federally eligible children were not receiving child care assistance.

***The growth of child care funding essentially stopped in FY 2001 with TANF and state dollars becoming rapidly depleted as funding sources.***

- **TANF was a growing source of child care funding through 2001, but has declined as a funding source since then.** Between FYs 1997 and 2000, the use of federal TANF funds for child care increased from \$249 million to \$4 billion. The use of TANF for child care declined to \$3.5 billion in FYs 2001 and 2002.<sup>13</sup> Moreover, in each of the last three years, annual TANF funding by states exceeded their basic

block grants by about \$2 billion. Therefore, states will need to make cuts to current services and activities just to stay within available funding in the next five years, and they could not redirect other TANF funds to child care without cutting other services even further.

- **States do not have large stores of unspent TANF funds that could be used for child care without disrupting current and future services.** A recent U.S. General Accounting Office (GAO) report projected that states would have approximately \$5.6 billion of unspent TANF balances by the end of FY 2003.<sup>14</sup> However, many of these dollars cannot be used to expand child care services for three reasons. First, as noted, current TANF spending exceeds the amount of state block grants, and state reserves of unspent TANF funds have fallen by over 50 percent since FY 2000; if this pace continues, it will leave almost all states with few or no TANF reserves in a few years. Second, about 30 percent of these funds have been transferred to CCDBG and the Social Services Block Grant, which means that they are already committed to meeting *ongoing* child care and social service needs. Third, some portion of the remaining \$3.9 billion has been obligated, or legally committed, to other specific purposes; these funds could not be redirected to other TANF purposes without forcing current or future services cuts.
- **Enactment of the House or Senate Finance welfare legislation would not free up the portion of unspent and unobligated TANF funds that states received but did not spend in prior years.** Some people have suggested that if federal law is changed to liberalize allowable uses of prior-year funds, it would free up additional funding for child care. The Department of Health and Human Services (HHS) reports that states had over \$2 billion in unobligated prior-year TANF funds in FY 2002; under current law, these funds can only be used for TANF assistance. Therefore, states face restrictions in using these funds for child care for employed families. The House legislation and the Senate Finance Committee bill would allow states to use these prior-year funds for any allowable TANF expenditure, including child care for employed families. This is a positive change that will enhance state flexibility. However, because states are already facing structural deficits, they cannot use these funds to expand child care without deepening those deficits. And, if states chose to use all of these funds for child care, they would have no reserves to meet future needs, such as caseload increases, further economic downturns, or increased work requirements.
- **States continue to face serious budget shortfalls impacting child care spending.** States are experiencing the worst fiscal crises since World War II. Since FY 2001, states have had to close budget gaps cumulatively totaling \$200 billion. States faced a budget gap of almost \$80 billion for FY 2004.<sup>15</sup> Current estimates are that states could face a \$50 billion shortfall in FY 2005. However, this decline in budget shortfalls was achieved because of significant budget cuts (to programs like child care), use of reserve funds, and one-time budget actions, rather than through significant growth in the revenues that would be necessary to restore spending after past cuts.<sup>16</sup>

- **The additional funding Congress provided last year to help address the states' fiscal situation does not obviate the need for child care funding during TANF and child care reauthorizations.** In 2003, states received \$20 billion in fiscal relief. Half of these funds were in the form of increased federal Medicaid contributions, and half are for general purposes. While these funds have played an important role in helping states, they were only available for FYs 2003 and 2004. The need for additional child care funding is not limited to these years, and it will grow even larger after FY 2004, when no state fiscal relief funds will be available. Second, \$20 billion covers only a modest fraction of state FY 2004 budget shortfalls. Finally, child care will be one of many programs, including health care, education, and public safety, competing for the modest amount of available funds.<sup>17</sup> There is little evidence to date that the funds have helped restore the numerous child care cuts states have already made.

*Under fiscal stress, states across the country have been forced to cut child care assistance.*

- In April 2003, the GAO reported that, since January 2001, nearly half the states (23) have made policy changes that reduce the availability of child care subsidies for low-income working families, and 11 states were proposing future policy changes that will decrease current levels of child care funding.<sup>18</sup>
  - While the GAO report showed that some states are making changes that would increase the availability of subsidies, the authors concluded that the overall effect of state policy decisions since January 2001 has been to decrease the availability of child care assistance for low-income working families.
  - The GAO also determined that the brunt of these cuts was being born by low-income working families who are not receiving welfare.
- In about half the states, low-income families who are eligible for and need child care assistance are either not allowed to apply for assistance or are placed on a waiting list.<sup>19</sup>
- Recent newspaper articles show that low-income families who need child care assistance continue to face hardships as they work to support their families. Articles from the past four months show that child care budget shortfalls are forcing states to cut the number of available slots, lower eligibility, and increase co-payments:
  - **Alabama:** “Just since April, the Department of Human Resources has trimmed the number of children in the child care program from 39,000 to 32,000. This has helped swell the waiting list for child care assistance from about 6,000 to 16,000. In the Birmingham area alone, the number of children waiting has jumped from 900 to 3,500 in just the past year.” (*Birmingham News*, 10/29/03).

- **Arizona:** “Nearly 7,200 children whose parents need help paying for child care are on a waiting list that has grown steadily since lawmakers capped the program in March. The numbers are expected to double by July.” (*Tucson Citizen*, 12/31/03).
- **Florida:** “Though the new year just started, the city is already out of money for those in need of daycare help. The Children’s Commission goal is to help every child in Jacksonville have the opportunity and support they need to succeed. But those who need day care and are not already in the system may have a long wait ahead. Kelli Gunter, a single mom who works full time, has been looking for help with day care for her son, Keilan. Gunter told Channel 4’s Jim Piggot that she’s doing all she can to keep off welfare, but she keeps getting turned down for child-care assistance. ‘We just needed a little bit of help,’ said Gunter. ‘I’m working and I would like a little bit of help.’ Gunter was confused, and she wrote to the city asking why the Children’s Commission couldn’t help her.” (*WJXT-TV CBS 4 Jacksonville*, posted and updated 1/5/04 at News4Jax.com).

“Funding for day care has not increased for the city since 2001. Most of those funds come from the state, which is the middle of budget problems of its own. ‘More people are living here, more people are needing support with child care, but the dollars have remained the same,’ said Linda Lanier, the commission’s executive director. Right now the commission is helping 7,700 clients, but the waiting list has more than 1,400 kids, including Gunter’s son.” (*WJXT-TV CBS 4 Jacksonville*, posted and updated 1/5/04 at News4Jax.com).

- **Kentucky:** “Kentucky is facing a crisis in affordable child care that’s particularly hard on families getting off welfare, advocates say, because parents who take jobs often don’t make enough to pay someone to take care of their children. Kenya Clay-Arvin and her husband, Benjamin Arvin, faced a stark choice last month—pay the heat and light bill or pay for child care. Benjamin Arvin was forced to take off work—without pay—to watch their sons, ages 3 and 6, because the couple made too much money to get on the waiting list for the child care assistance. But because their work is seasonal and their income fluctuates, they’ve been told they might qualify if they reapply. ‘That is killing our pockets,’ said Clay-Arvin, 27. ‘We have no money to pay for child care.’” (*The Louisville Courier-Journal*, 1/12/04).

“People moving off welfare are putting additional pressure on the system. Kentucky’s welfare caseload has steadily declined since federal welfare-to-work reforms began in fiscal 1996, from almost 72,000 families that year to just under 32,000 in fiscal 2003. The child-care aid program didn’t have a waiting list until May. In its first six weeks, 2,700 families were put on the list. By the end of last month, 3,466 families were waiting.” (*The Louisville Courier-Journal*, 1/12/04).

“‘What we’ve mostly done is swell the ranks of the working poor,’ said Viola Miller, who oversaw the state’s welfare reform efforts as secretary of the Cabinet

for Families and Children until last month. ‘The issue is not welfare any more—the issue is poverty.’”(The *Louisville Courier-Journal*, 1/12/04).

“In May the state began putting applicants on a waiting list for child-care assistance. The list now numbers 3,466 families and 5,649 children. Meanwhile, tighter rules are making it tougher for parents, especially if they are students, to qualify for the money, and some are being cut from the program. Since Oct. 1, families’ income must be at 150 percent or less of the federal poverty level to qualify for child-care assistance—about \$27,600 a year for a family of four. The program used to cover those making up to 165 percent of the federal poverty level.” (The *Louisville Courier-Journal*, 1/12/04).

- **Louisiana:** “As of April, welfare recipients and low-income residents of Louisiana have had to meet new co-payment requirements for child care, said Judy Watts, president of Agenda for Children. People who used to have the costs covered fully, she said, now must pay \$22.50 per child each month.” (New Orleans *Times-Picayune*, 10/21/03).
- **Maryland:** “For the first time in a decade, working poor families who need help paying their child-care bills are being forced onto a long and growing waiting list, the result of cutbacks in state funding that began last year and that child-care advocates expect will only get worse. More than 2,000 children of working poor parents in Montgomery County are on a list to receive subsidies, with 1,953 children awaiting a state subsidy and 95 awaiting help from the county.” (Washington *Post*, 2/9/04).

“The state-funded ‘purchase of care’ subsidy began excluding new working poor families one year ago, automatically putting them on a waiting list and offering new subsidies only to those families on welfare. Although working poor families already in the program were allowed to continue receiving the subsidy, beginning this week they all will be required to pay more for child care, with the top rate climbing from the 36 percent of child-care costs to 50 percent.” (Washington *Post*, 2/9/04).

“‘That means some of these families are going to have to drop out [of the subsidy program],’ said Harriet Berger, the vice chair of the Montgomery County Commission on Child Care, who runs a day-care center in Germantown. ‘They’re already juggling just to make it with what they have now.’” (Washington *Post*, 2/9/04).

“What advocates such as Berger fear most is that the shrinking subsidy program will mean some parents will have to quit work and return to welfare. Or, they’ll be forced to put their children in cheaper, unlicensed day care, places where they may be parked in front of the television all day.” (Washington *Post*, 2/9/04).

- **Massachusetts:** “This year, the state cut more than \$14 million in child care funding alone, eliminating slots for 1,500 kids, despite more than 17,000 parents already waiting for financial aid to afford child care assistance.” (*Milford Daily News*, 10/28/03).
- **Minnesota:** “Since the legislature cut \$86 million out of Minnesota’s subsidized child care system, about 1,300 of the 12,000 families that received the subsidy last year no longer get it.” (*Grand Forks Herald*, 11/18/03).

“In Ramsey [County], more than 200 families who meet the financial criteria for child care programs were removed from the program because of county cutbacks. They joined about 2,000 families on that county’s waiting list for subsidized child care.” (*Grand Forks Herald*, 11/18/03).

“As of June, more than 7,300 families were on waiting lists, and that number has probably grown. Kandiyohi County didn’t have a waiting list in June. But it started one once funding was cut, and more than 100 names are already on it.” (*Grand Forks Herald*, 11/18/03).

“Eligibility changes include lowering of income eligibility from \$3,179 per month for a family of three to \$2,225 per month and increasing of co-payments.” (*Grand Forks Herald*, 11/18/03).

- **Mississippi:** “In Mississippi, only 30 percent of children who qualify for child-care assistance got it last year. There are more than 12,000 families waiting for assistance.” (*The Biloxi Sun Herald*, 10/19/03).
- **Nevada:** “More than 6,500 poverty-stricken families in Nevada are on a year-long waiting list for state money to help pay their child-care bills because of Gov. Kenny Guinn’s flat budget mandate and tax battles at the legislature. And more than 100 additional Northern Nevada families that make so little money they are in danger of seeking welfare to help have been kicked off child-care assistance because of the same budget problems. For Donna Young, a single mother of two who makes \$8 an hour and has been trying to get child-care assistance for two years, that means warnings from her power company that her heat may be shut off soon. For 22-year-old Amy Tucker, who will lose her child-care help in January, that means getting a second job. For the new year, her 22-month-old son Tyson Owens will see less of his mom, who already works full-time. The \$300 a month Tucker receives from the state toward her \$500-a-month day-care bill is what stands between her and the welfare office. It is the key to her independence, she said.” (*Reno Gazette-Journal*, 11/29/2003).

“Most of the families waiting for child-care assistance are described as working poor, making between \$7 and \$8 an hour. Minimum wage in Nevada is \$5.15. In order for a parent to keep a job—and stay of welfare—the family needs child



care. But they don't make enough money to pay the bill, which can range from \$300 to \$600 a month for one child." (*Reno Gazette-Journal*, 11/29/03).

➤ **New York:** "Karinna Fermin was barely scraping by on the \$250 she makes a week as a home health aide. Now she doesn't know how she'll pay the bills. Because of budget cuts, Fermin's 2-year-old daughter, Adryanna, lost her free slot at an E. 13<sup>th</sup> St. day care center. 'Right now I make \$250 a week, and I spend about \$125 a week on baby-sitters,' Fermin said yesterday at the Manhattan Children's Services office." (*New York Daily News*, 10/28/03).

➤ **North Carolina:** "Children of Wake County's working poor can stay in day care until the beginning of March before possibly losing the subsidies that enable them to attend. Wake Human Services is facing a \$1 million shortfall that, if not closed, could force the removal of up to 900 school-age children from day care March 1. The date was pushed back from the beginning of February after the program's directors were able to secure about \$500,000 from numerous sources." (*The Raleigh News Observer*, 1/8/03).

"Wake County was initially \$2 million short of what it needs to run the program for the fiscal year that ends June 30. The program helps poor families that have jobs. [Gloria] Cook [the Wake County program administrator] blames the deficit on a number of factors, including a slower rate of child dropouts and a spike in the cost of child care. But most prominent is that \$15 million the state legislature appropriated for fiscal 2002-03 for subsidies across the state was a one-time grant. Many counties, including Wake and Durham, used the extra money to draw children off the waiting lists. The waiting lists are back. In Wake County, 2,500 children are waiting for slots, up 1,100 since November, Cook said." (*The Raleigh News Observer*, 1/8/03).

➤ **Ohio:** "Before the cuts [in child care subsidies which took effect on October 1 and eliminated subsidies for 11,000 children], the [child care] program was open to families making up to 185 percent of the federal poverty level—\$28,236 for a family of three. The state reduced eligibility to 150 percent of the federal poverty level—\$22,896 for a family of three. Once eligible, families in the program can stay as long as their earnings don't surpass 165 percent of the poverty level, which is \$25,188 for a family of three." (*Dayton Daily News*, 11/24/03).

➤ **South Carolina:** "By August, South Carolina's 4,700 children who live in 'working poor' families will lose their vouchers. For several years, the vouchers have gone to two groups of families: working poor families such as [Vernetta] Howell's [a single working mother] and welfare-to-work families. Rising child-care costs associated with the welfare-to-work families have wiped out money for the working poor families, according to the Health and Human Services Department. So only welfare-to-work families now are eligible for the vouchers." (*Myrtle Beach Sun News*, 10/28/03).

- **West Virginia:** “In the last 18 months, West Virginians have seen child care subsidy eligibility criteria reduced from 200 percent of the federal poverty line to 150 percent, family co-pays increased as much as 50 percent for some eligible families, a 50 percent reduction in the reimbursement rate to informal relative child care providers, and child care quality initiatives dropped due to lack of funds.” (*Charleston Daily Mail*, 10/30/03).

## Endnotes

<sup>1</sup> Mark Greenberg and Sharon Parrott participated in the writing of this piece.

<sup>2</sup> Mezey, J., Parrott, S., Greenberg, M., & Fremstad, S. (2004). *Reversing Direction on Welfare Reform: President's Budget Cuts Child Care for More Than 300,000 Children*. Washington, DC: Center for Law and Social Policy and Center on Budget and Policy Priorities.

<sup>3</sup> U.S. Department of Health and Human Services, Child Care Bureau. (2003, Jan.). *Child Care Development Fund [CCDF] Report to Congress*. Washington, DC: Author.

<sup>4</sup> For child care spending figures, see U.S. Department of Health and Human Services, Child Care Bureau. (2003). *State Spending Under the FY 2002 Appropriation for the Child Care and Development Fund (CCDF) (As of 9/30/02)*. Washington, DC: Author. Available at

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<http://www.acf.dhhs.gov/programs/ccb/research/99acf696/overview.htm>; CLASP calculations based on unpublished Child Care Bureau data (FY 1996-FY1998). For TANF figures, see Mezey, J., & Richie, B. (2003). *Welfare Dollars No Longer an Increasing Source of Child Care Funding: Use of Funds in FY 2002 Unchanged from FY 2001, Down from FY 2000*. Washington, DC: CLASP.

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<sup>6</sup> U.S. Department of Health and Human Services. (2003). *TANF Fifth Annual Report to Congress*. Washington, DC: Author, Figure 1, page IV-127.

<sup>7</sup> U.S. Department of Health and Human Services. (2003). *TANF Fifth Annual Report to Congress*. Washington, DC: Author, Exhibit II, page X-193; Greenberg, M., & Rahmanou, H. (2003). *TANF Participation in 2001*. Washington, DC: CLASP. Available at:

[http://www.clasp.org/DMS/Documents/1048004065.37/2001\\_TANF\\_Participation.pdf](http://www.clasp.org/DMS/Documents/1048004065.37/2001_TANF_Participation.pdf).

<sup>8</sup> Fremstad, S. (2004). *Recent Welfare Reform Research Findings: Implications for TANF Reauthorization and State TANF Policies*. Washington, DC: Center on Budget and Policy Priorities.

<sup>9</sup> Boushey, H. (2002). *Staying Employed After Welfare: Work Supports and Job Quality Vital to Employment Tenure and Wage Growth*. Washington, DC: Economic Policy Institute, with calculations done in Children's Defense Fund. (2003). *Key Facts: Essential Information about Child Care, Early Education and School-Age Care*. Washington, DC: Author.

<sup>10</sup> Danziger, S., Oltmans Ananat, E., & Browning, K. (2003). *Childcare Subsidies and the Transition from Welfare to Work*. Ann Arbor, MI: National Poverty Center, Working Paper Series, #03-11.

<sup>11</sup> Dryden Witte, A., & Queralt, M. (2003). *Impacts of Eligibility Expansions and Provider Reimbursement Rate Increases on Child Care Subsidy Take-Up Rates, Welfare Use, and Work*. Cambridge, MA: National Bureau of Economic Research.

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<sup>14</sup> U.S. General Accounting Office. (Sept. 2003). *Welfare Reform: Information on TANF Balances, GA-03-1094*. Washington, DC: Author.

<sup>15</sup> National Conference of State Legislatures. (July 23, 2003). *State Budget & Tax Actions 2003. Preliminary Report: Executive Summary*. Denver, CO: Author. Available at [www.ncsl.org](http://www.ncsl.org).

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<sup>18</sup> U.S. General Accounting Office. (2003). *Child Care: Recent State Policy Changes Affecting the Availability of Assistance for Low-Income Families*. Washington, DC: Author.

<sup>19</sup> Forthcoming Children's Defense Fund report; U.S. General Accounting Office, 2003; Children's Defense Fund. (2003). *State Developments in Child Care, Early Education and School-Age Care 2002*. Washington, DC: Author.