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The Senate's $6 Billion Child Care Provision: A Critical, But Modest, Investment

By Danielle Ewen
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In March, the Senate Finance Committee passed its Temporary Assistance for Needy Families (TANF) reauthorization bill—the bipartisan PRIDE bill—that includes $6 billion in new federal funds for child care assistance. The bill recognizes the important role that child care plays in helping families reach self-sufficiency. This increase is crucial as child care funding has been flat for four years, causing low-income working families to lose child care assistance they need to find and keep jobs and forcing states to limit access to assistance, increase family fees, and cut investments in quality.

The $6 billion approved by the Finance Committee is less than the $7 billion approved by the Senate on a 78-20 bipartisan vote last year. Nevertheless, since its approval, some have questioned whether the $6 billion figure is more than is needed. To the contrary, $6 billion would pay for the cost of keeping pace with inflation in child care over the next five years and would meet the cost of a limited increase in TANF work participation requirements. It would not provide the funding to expand access to child care for other working families or for the cost of expanded quality initiatives. The funding is important, but it is clearly not excessive:

- **There has been no increase in federal child care funding since 2002.** Yet, the cost of child care rises over time because the wages and salaries of child care workers, the cost of renting space, and the cost of supplies increase over time.

- **The number of children receiving child care subsidies has fallen since 2003 and is projected to fall further if funding remains flat.** According to the federal Child Care Bureau, there were approximately 2.4 million children receiving child care assistance in 2003. The President's 2006 budget estimates that that number fell to 2.3 million children in 2004 and will fall further to 2 million children by 2009 if funding remains flat. *Flat funding is projected to result in a loss of approximately 400,000 child care subsidies—a decline of 17 percent—over a six-year period.* States have also cut investments in quality, limited access, and raised parent fees.[1]

- **With flat funding, states have already made a number of cuts in their child care programs.** For example:
  - Between 2001 and 2004, about three-fifths of the states reduced their income-eligibility criteria as a percentage of the poverty level.

- In 2004, a family earning just above 150 percent of poverty ($23,500 a year for a family of three) would not qualify for child care assistance in 13 states.
- In 2004, 24 states had waiting lists or had frozen intake altogether for low-income working families not receiving welfare. This was a small increase from 2001.[2]

- **Congressional Budget Office (CBO) staff has preliminarily estimated that $4.8 billion is needed in federal and state funds over five years in order to maintain the current level of child care assistance.** This level of funding would offset increases in costs faced by providers and allow states to continue to help low-income working families. Without the increase, many families will be cut from child care assistance programs, which may impact their ability to find and keep steady employment.

- **CBO staff has also preliminarily estimated that the combined work and child care costs of meeting the new work requirements in the Senate Finance bill through increased participation would be $1.8 billion**. CBO has also estimated that the combined cost of meeting such requirements through increased participation and sustaining current service levels would be $6.3 billion. Thus, the Senate Finance $6 billion figure is near the projected costs of inflation and meeting new work requirements, but it would not be enough to expand access to child care for additional working families outside welfare or to expand quality investments.

- **TANF is no longer an increasing source of child care funding; to the contrary, TANF funding for child care seems likely to fall in the coming years.** Use of federal TANF funds for child care peaked in 2000 and has been flat or below that level for the last three years. Moreover, states will find it increasingly difficult to maintain current levels of TANF funding for child care in the coming years. In more than half the states, TANF caseloads have increased since 2001. Total state use of block grant funds has exceeded annual block grants in each of the last three years, and the reserves of TANF unobligated funds that states built up between 1996 and 2000 are now (or will be soon) diminished or depleted in many states.

- **Exhausting unobligated TANF funds is no substitute for increased child care funding.** The Administration has suggested that reauthorization will "unlock" as much as $2 billion in unobligated prior-year TANF funds, which can currently only be used for "assistance," but which could be used for any allowable TANF purpose under the pending bills. This is mistaken. The vast majority of states can *already* effectively use their unobligated funds for child care by rearranging how current and carryover funds are spent. Moreover, states are already drawing down reserves to pay for current services, and reserves for most states are likely to be depleted within a few years unless states make significant cuts in *current levels of services.* Thus, most states cannot simply use reserve funds to expand child care services without creating deeper deficits for future years.[3]

- **Some have suggested that Congress should only be focusing on child care for families receiving or leaving welfare. However, a key premise of federal and**

state child care policy is that low-income families should not have to enter the welfare system to get child care assistance. The intent of the 1996 welfare bill was not to restrict the availability of child care subsidies to welfare families and families transitioning off of welfare, but rather to help families stay out of the welfare system through successful work opportunities. If child care assistance is restricted only to welfare recipients and families transitioning off of TANF, many low-income, at-risk families may need to go on to welfare because they cannot maintain employment.

- **Yet child care is critical to helping parents find and keep the jobs they need to support their children.**
  - Compared to mothers on waiting lists for child care assistance, mothers receiving subsidies for their child's care were more likely to be employed, spent half as much of their income on child care, and were less likely to be very poor. Compared to children on waiting lists, children receiving subsidies for child care were more likely to be in a formal licensed child care center, have more stable care, and have mothers who were more satisfied with their child care arrangement.[4]
  - Data from the 1990s show that single mothers who receive child care assistance are 40 percent more likely to still be employed after two years than those who do not receive any help paying for child care.[5]
  - Former welfare recipients with young children are 82 percent more likely to be employed after two years if they receive help paying for child care.[6]

- **The bipartisan Child Care and Development Block Grant (CCDBG) reauthorization bill signals the need for expanded quality initiatives by states; states will need additional funding to accomplish such goals.** The bill increases the required child care quality set-aside; adds CCDBG goals of improving quality and promoting school readiness; requires an annual strategy for the use of quality funds; and describes a set of potential quality activities for states. Yet, if funding is not sufficient to sustain current service levels and meet new requirements, it is difficult to see how states can at the same time make significant progress in improving child care quality in the coming years.

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[1] Matthews, H. and Ewen, D. (2004). *President's Budget Projects 300,000 Low-Income Children to Lose Child Care by 2010.* Washington, DC: CLASP.

[2] Schulman, K. and Blank, H. (2004). *Child Care Assistance Policies 2001-2004: Families Struggling to Move Forward, States Going Backward.* Washington, DC: National Women's Law Center.

[3] Greenberg, M. and Rahmanou, H. (April 2005). *Administration's TANF Proposal Would Not Free Up $2 Billion for Child Care.* Washington, DC: CLASP

[4] Brooks, F., Risler, E., Hamilton, C. and Nackerud, L. (2002). "Impacts of child care subsidies on family and child well-being." *Early Childhood Research Quarterly*, *17*, 498-511. (See also Errata to "Impacts on child care subsidies on family and child-well-being." *Early Childhood Research Quarterly*, *18*(1), Spring 2003, 159.)

[5] Boushey, H. (2002). *Staying Employed After Welfare: Work Supports and Job Quality Vital to Employment Tenure and Wage Growth.* Washington, DC: Economic Policy Institute.

[6] Danziger, S.K. Oltmans Ananat, E. and Browning, K.G. (March 2004). "Childcare subsidies and the transition from welfare to work. Forthcoming in *Family Relations, 52*(2).