

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*

Summary Version

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As Congress considers reauthorization of the Child Care and Development Block Grant (CCDBG) and Temporary Assistance for Needy Families (TANF) block grant, one key question concerns the extent of unmet need: what share of eligible low-income families and children are receiving child care assistance? Based on recently released and revised data from the U.S. Department of Health and Human Services (HHS), CLASP estimates that **states served about 14 percent of federally-eligible children (approximately 1 out of 7) in FY 2000.**²

However, this spring, HHS released an analysis stating that:

- 30 percent of children whose families meet *state* CCDBG eligibility requirements will receive child care subsidies in FY 2003; and
- 47 percent of children in families with income below the 1999 poverty threshold for a family of three and who are eligible under state rules will receive child care subsidies in FY 2003.

These projections significantly overstate the extent to which states are meeting the child care assistance needs of low-income families. As discussed below, the projections do so by focusing on children eligible under restrictive state rules rather than children eligible under federal law; by using a FY 2003 estimate based on necessarily uncertain projections of FY 2003 spending rather than current spending data; and by estimating that

¹ This analysis was released on June 4, 2002, using a count of the number of children served with CCDBG-funded subsidies in FY 2000 released by U.S. Department of Health and Human Services (HHS) in its FY 2003 Annual Performance Report and an HHS estimate of the number of children served with directly spent TANF and SSBG funds released this spring. At the end of August, HHS posted a revised FY 2000 count of the average monthly number of children served with CCDBG-funded subsidies that year. This document has been updated to reflect these adjusted figures, as well as recently released FY 2001 CCDBG expenditure data, recently analyzed TANF data and developments in the House and Senate consideration of TANF and CCDBG reauthorization.

² The following analysis confirms the 1 out of 7 figure that has been used extensively to demonstrate the gap between child care needs and enrollment.

an increasing number of children will *receive* care while assuming that the numbers *needing* care will remain flat.

A more informative measure comes from comparing the actual numbers of children currently receiving child care assistance to the number of children currently eligible for such assistance under federal law.

- According to HHS data, approximately 2.25 million children received child care funded by CCDBG, TANF, and the Social Services Block Grant (SSBG) in FY 2000. The total is based on 1.75 million children HHS reported were served with CCDBG-funded subsidies³ and 500,000 children HHS estimated were served with TANF- or SSBG-funded subsidies.
- HHS has estimated that 15.7 million children were eligible for child care assistance under federal eligibility rules in FY 2000.

Based on these totals, 2.25 million children among 15.7 million federally eligible children — that is, 14 percent or approximately 1 out of 7 — received child care assistance from CCDBG, TANF, and SSBG in FY 2000. Of all of the currently available figures, this 1 in 7 figure, which comes closest to relying on actually available FY 2000 data, best reflects the gap between the number of children eligible under federal law and those actually receiving care. In contrast, the HHS estimates for numbers of children that may be served in FY 2003 raise the following concerns:

- **The HHS FY 2003 projections are estimates of those eligible under state rules and those below poverty who are eligible under state rules. However, in determining the true extent of child care needs, the focus should be on children eligible under federal law, not state law.** Federal law allows states to set their income eligibility limits up to 85 percent of State Median Income (which varies from state to state but averaged about \$38,000 nationally for a family of three in FY 2000⁴), but only a handful of states do so. States set lower eligibility limits primarily due to lack of sufficient resources. By focusing on the smaller population, the HHS analysis does not include the child care needs of millions of federally-eligible children in low-income working families. While it may be of interest to know what share of children eligible under state rules are receiving assistance, such a figure provides no guidance about the extent of unmet need among federally-eligible children.
- **HHS projections of numbers of children who will receive care in FY 2003 are necessarily speculative.** The HHS projection of the number of children who will be served in FY 2003 appears to assume that states will continue to draw down

³ HHS' original count of the number of children served with CCDBG-funded subsidies in FY 2000 was 1.87 million children, yielding an original total of children receiving CCDBG-, TANF-, or SSBG-funded child care assistance equal to approximately 2.4 million.

⁴ Gina Adams and Monica Rohacek, "Child Care and Welfare Reform," in Isabel V. Sawhill, R. Kent Weaver, Ron Haskins, and Andrea Kane (eds.), *Welfare Reform and Beyond: The Future of the Safety Net* (Washington, DC: Brookings Institution, 2002).

available CCDBG funds at prior rates; that states will use new CCDBG discretionary funding to increase overall child care spending with no reductions in other funding previously used for child care; and that states will transfer and spend at least the same amounts of TANF funds as they did in FY 2000, and continue to use SSBG funds to the same extent. Every one of these assumptions may or may not be correct, and there is always uncertainty when making projections. However, in light of increases in TANF caseloads in many states over the past year⁵, evidence that states spent \$2 billion more in TANF funds than their annual block grants in FY 2001⁶, the fact that five states did not draw down their full FY 2001 matching funds,⁷ the severe state budget crises being faced across the country⁸, and the fact that child care reductions are being proposed or are already occurring in many states,⁹ these assumptions seem optimistic, and may be overstating the resources likely to be available in FY 2003.

- **HHS projections of numbers of children eligible under state rules are based on old data and inappropriately exclude many eligible children.** HHS bases the numbers of eligible children in FY 2003 on Census data about labor force participation and earnings from 1997 to 1999 and state eligibility rules from 1999 to 2000. Therefore, in HHS' projections, as the number of children receiving child care assistance increases between FY 1999 and FY 2003, the number of families needing assistance remains flat. Furthermore, the analysis excludes from the assessment of need over 700,000 otherwise eligible children between the ages of four and 12 whose parents work 20 hours per week or less, by assuming that such children are ineligible under state rules or that their child care needs would likely be addressed by Head Start, pre-kindergarten programs, or school. While some accounting for state rules might be necessary, this adjustment is clearly overbroad.
- **HHS overly narrows the focus to the number of poor children receiving subsidies, and the methodology used by HHS probably overstates that number, too.** The intent of federal child care law is clearly not to reach just

⁵ CLASP, *TANF Caseloads Declined in Most States in the Second Quarter, But Most States Saw Increases Over the Last Year: Families Hitting Time Limits May Play a Role in Declining Caseloads* (Washington, DC: CLASP, 2002), http://www.clasp.org/DMS/Documents/1033487945.66/caseload_2002_Q2.pdf.

⁶ Zoë Neuberger, *TANF Spending Increased in the Last Fiscal Year* (Washington, DC: Center on Budget and Policy Priorities, November, 2001), <http://www.cbpp.org/11-1-01wel.htm>.

⁷ U.S. Department of Health and Human Services, Administration for Children and Families, Child Care Bureau, *State Spending Under the Fiscal Year 2001 Appropriations for Child Care and Development Fund (CCDF) as of 9/30/2001* (August, 2002). The June 4, 2002 version of this analysis stated that seven states were not pulling down their full matching funds as of June 1, 2001, as reported by the Children's Defense Fund in Danielle Ewen, Helen Blank, Katherine Hart, and Karen Schulman, *State Developments in Child Care, Early Education and School-Age Care 2001* (Washington, DC: Children's Defense Fund, 2002). Recently released HHS data indicate that five states did not draw down their full matching funds as of September 30, 2001.

⁸ National Conference of State Legislatures, *State Budget Gap Deepens to \$58 Billion*, NCSL New Release, <http://www.ncsl.org/programs/press/2002/pr020724a.htm>.

⁹ Children's Defense Fund, *Low-Income Families Bear the Burden of State Child Care Cutbacks* (Washington, DC: Children's Defense Fund, 2002).

children in poverty. However, even if one wanted to focus on this population, data on the numbers of poor children (who are also eligible under state rules) served by CCDBG and other funds are not available from CCDBG administrative reporting. Therefore, HHS had to use a proxy to estimate this figure. HHS used a measure of whether the income used in CCDBG eligibility determination was below the 1999 poverty threshold for a family of three. (In order to be consistent, HHS also used this proxy to estimate the number of eligible families below this threshold.) Because of potential differences in income reporting from the CCDBG administrative data and the Census data, potential undercounting of income in the administrative data, and the fact that the measure does not account for family size, HHS likely overstates the number of poor children who will receive child care assistance in FY 2003.

The Administration has sought no new child care funding for the next five years, and its welfare proposal would exacerbate the current gap between need and enrollment by increasing TANF work requirements, thus further straining already tight child care resources in the states. CLASP has estimated that the Administration's proposal would result in \$8 billion in new child care costs and \$7 billion in new TANF costs over the next five years. In addition, CLASP estimated that if the Administration is accurately estimating the total amount of funding available for child care in FY 2002, then \$4.2 billion would be necessary to address the effects of inflation and maintain that level of resources over the next five years.¹⁰ The Congressional Budget Office (CBO), analyzing the House Republican leadership bill, which is similar but not identical to the Administration's proposal, estimated five-year child care costs of \$5 billion and TANF costs of \$6 billion for a 40-hour work requirement. The estimated five-year child care and TANF work costs of the Senate Finance Committee's work proposal is \$290 million.¹¹ CBO also estimated that the Senate Finance Committee would have to appropriate an additional \$4.55 billion cost over five years for states to maintain the current level of child care services they provide to low-income families.¹²

The bill that ultimately passed the House provides only \$1 billion in additional guaranteed (mandatory) child care funding for the next five years with an associated state spending increase of approximately \$800 million. The bill also *authorizes* up to \$3 billion in discretionary funding, but this is merely an authorization, not an assurance or even a commitment to provide even a dollar of additional discretionary funding.¹³ Accordingly, the House bill provides a small fraction of what would be needed to meet the new work requirements, and does not approach what would be needed to keep pace

¹⁰ See Mark Greenberg, Elise Richer, Jennifer Mezey, Steve Savner, and Rachel Schumacher, *At What Price?: A Cost Analysis of the Administration's Temporary Assistance for Needy Families (TANF) Work Participation Proposal* (Washington, DC: CLASP, Revised April 15, 2002), www.clasp.org.

¹¹ Congressional Budget Office, *Preliminary Staff Estimate, Child Care Cost Summary Table* (July 13, 2002).

¹² This figure does not include any effects of inflation on CCDBG discretionary spending.

¹³ House committee staff members have indicated that the discretionary increase included in the legislation passed by the House was intended to authorize only an additional \$1 billion increase in discretionary funding over the next five years; staff cite a requirement that discretionary authorizations build in baseline increases from year to year.

with inflation or to address the vast deficit between the number of eligible children and the numbers actually receiving child care assistance.

The Senate Finance Committee's bill provides for \$5.5 billion in additional mandatory child care funding with an associated state spending increase of approximately \$400 million.¹⁴ In addition, legislation passed by the HELP Committee on September 4, 2002, would increase CCDBG discretionary funding authorization levels and require states to invest additional dollars in efforts to increase the supply and improve the quality of child care for low-income families.

As we await further congressional action on CCDBG and TANF reauthorization legislation, it is important to appreciate that the increases in child care funding since 1996 have resulted in a significant increase in the numbers of children receiving care, but that there are still large unmet needs due at least in part to the increased labor force participation of low-income mothers over the past five years; in addition to addressing the cost of welfare-work requirements, CCDBG and TANF reauthorization provide an important opportunity to address those needs.

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To read the complete analysis upon which this summary is based, visit:
<http://www.clasp.org/DMS/Documents/1024427382.81/1in7full.pdf>.

¹⁴ For additional information comparing the Senate Finance and House legislation, see Sharon Parrott, Shawn Fremstad, Mark Greenberg, Steve Savner, Vicki Turetsky, and Jennifer Mezey, *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 CLASP, 2002).