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Myths About the Adequacy of Current Child Care Funding

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March 29, 2004

Myth 1: The Senate welfare bill provides $3.3 billion in child care funding, which is more than enough to cover the estimated $1 billion to $1.5 billion in increased work and child care costs.

Fact: The Congressional Budget Office has estimated that increasing work participation to meet the requirements of the Senate Finance Committee bill would cost $1 billion to $1.5 billion over five years. However, increasing work participation to meet the requirements of the House bill is estimated to cost between $3 billion and $9 billion over five years. Furthermore, the Senate bill only contains $1 billion of mandatory—or *guaranteed*—funds. The remaining $2.3 billion represents an increase in the discretionary authorization levels under the child care reauthorization bill approved by the Senate Health, Education, Labor, and Pensions Committee. Congress would still have to appropriate any additional funding; in this current budgetary environment, it seems unlikely that a full $2.3 billion increase would be approved.

Myth 2: States do not need significant additional child care funding because they can use Temporary Assistance for Needy Families (TANF) funds for child care. After all, welfare caseloads fell by 50 percent between 1996 and 2000, but states still receive the same TANF block grant amount.

Fact: In the 1996 welfare bill, Congress allowed states to use TANF funds for child care. Because TANF cash assistance caseloads fell, states had freed-up TANF funds that could be used for child care. States also used these funds for work activities and work supports for low-income families. However, in more than half the states, TANF caseloads have increased since 2001. Furthermore, the reserves of TANF funds that states built up between 1996 and 2000 are now (or will be soon) diminished or depleted in many states. State use of TANF for child care in 2001 and 2002 was below the level at which TANF was used for child care in 2000. More than 30 states have cut low-income programs supported with TANF and child care funds. In short, TANF is no longer an increasing source of revenue for child care or other programs that support work by low-income families.

Myth 3: The welfare bills passed by the House and approved by the Senate Finance Committee would free up $2 billion in TANF funding that states could use for child care assistance.

Fact: The U.S. Department of Health and Human Services reports that states have $2 billion in unobligated TANF balances. Current rules restrict the ability of states to use these "prior year" funds for child care for employed families. Both the House and the Senate Finance bill would remove these restrictions. While this is a positive step, it would not free up additional funds for child care. TANF reserves in most states are diminishing or depleted. Any reserves that exist will be needed for unanticipated emergencies or to allow states to avoid further service cuts. Even with this new rule, there are not sufficient unobligated funds to allow states to expand services.

Myth 4: In 2003, states got fiscal relief from the federal government, which should have helped them take care of their child care needs.

Fact: In 2003, states received $20 billion in fiscal relief to make up for their budget shortfalls. Half of these funds were in the form of increased federal Medicaid contributions, and half were for general purposes. While these funds have played an important role in helping states, they were only available for fiscal years (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. Third, child care is one of many programs, including health care, education, and public safety, competing for the modest amount of available funds.

Myth 5: Only half the states have waiting lists for child care. Therefore, the need for child care is not that great, and we don't need significantly more funding.

Fact: According to data from the Children's Defense Fund and the National Women's Law Center, more than 20 states have waiting lists for child care. However, just because a state does not have a waiting list does not mean that all families who are eligible and want child care services can get them. Limited resources have forced states to restrict the availability of child care subsidies in ways other than instituting waiting lists. For instance, some states are not accepting applications for child care assistance from eligible families. Other states have lowered income eligibility levels so that only the lowest income families can receive subsidies. States have also increased co-payments, which makes it too expensive for some families to accept child care subsidies. Additionally, states have also frozen or reduced provider payment rates so that, even if a family can get a subsidy, they can't find a provider who will accept it.

Myth 6: We have enough funding to meet the needs of TANF families and families transitioning off of TANF.

Fact: When Congress passed the 1996 welfare bill, the intent was not to restrict the availability of child care subsidies to welfare families and families transitioning off of welfare. One of the big successes of the 1996 welfare bill was making child care funding available to serve families on welfare, leaving welfare, or at risk of having to go on welfare because of their low income. 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. Surely, this would fly in the face of the intent of Congress in 1996.