Child Care Funding: The Story Since 1996, The Challenges in Reauthorization

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Presentation Overview

- What happened to child care spending as states implemented the 1996 welfare and child care laws?
- What did the additional funding accomplish?
- How has the situation changed since 2001?
- What are key pending proposals for child care and TANF? What are their implications for child care funding?
- What is the tax/budget context in which Congress will make child care funding decisions?

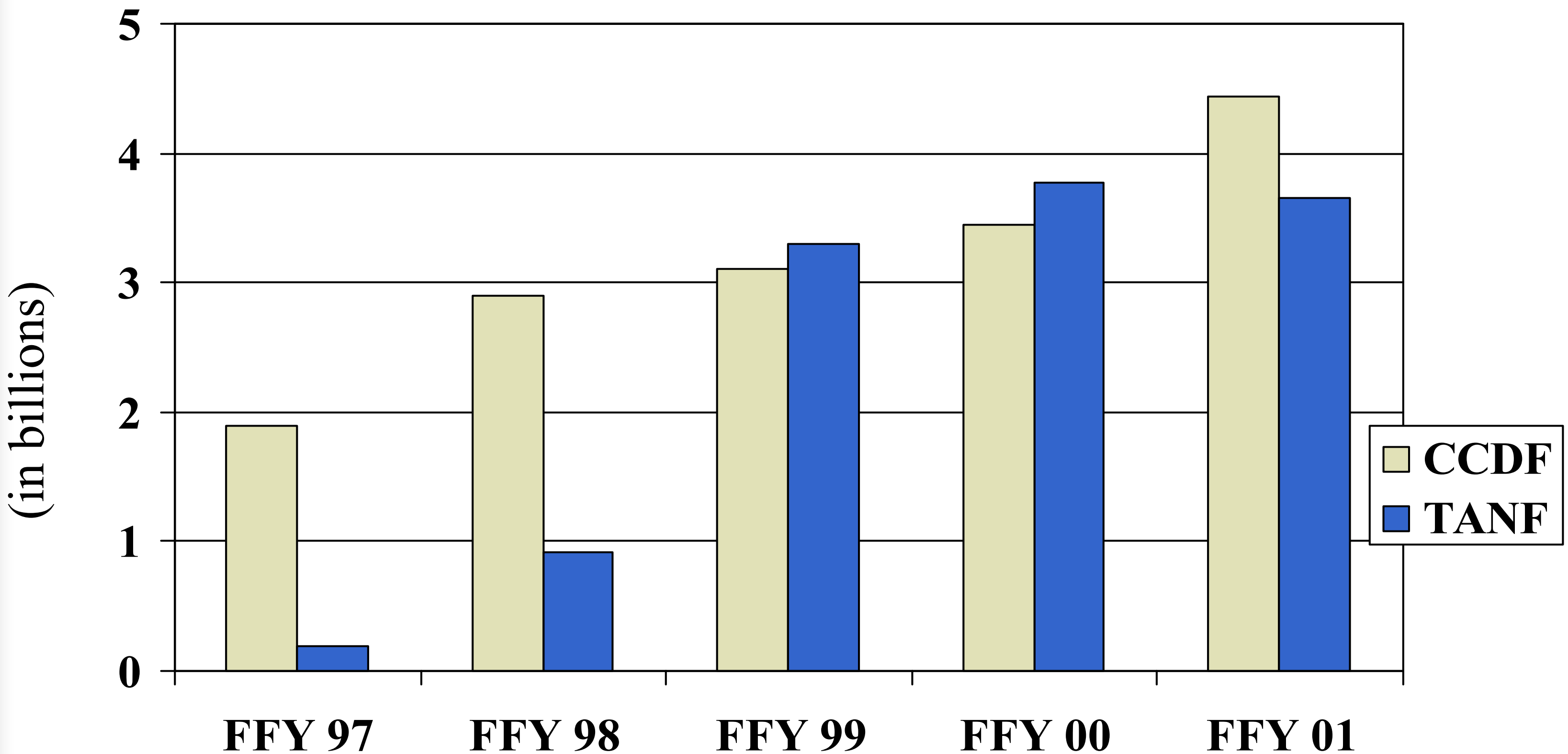
Two Main Sources of Federal Funds for Low-Income Child Care Assistance

- Child Care and Development Fund (CCDF): states get basic allotment, and additional matching funds if they meet state spending requirements.
  - Available federal CCDF (and predecessor program) funds increased from $2.3 billion in FY 1996 to $4.6 billion in FY 2001.
- Temporary Assistance for Needy Families (TANF): states can transfer TANF funds to CCDF, and can also spend directly.
  - Use of TANF for child care reached $3.7 billion in FY 2001.

Role of TANF in Child Care Spending

- As welfare caseloads fell, billions of dollars became available to states.
- Single biggest redirection was to child care.
- Amounts grew each year through FY 2000, reaching $3.8 billion that year.
- States used TANF funds for activities such as increasing families served, raising reimbursement rates, lowering copayments, funding quality initiatives, collaboration with Head Start and pre-K.

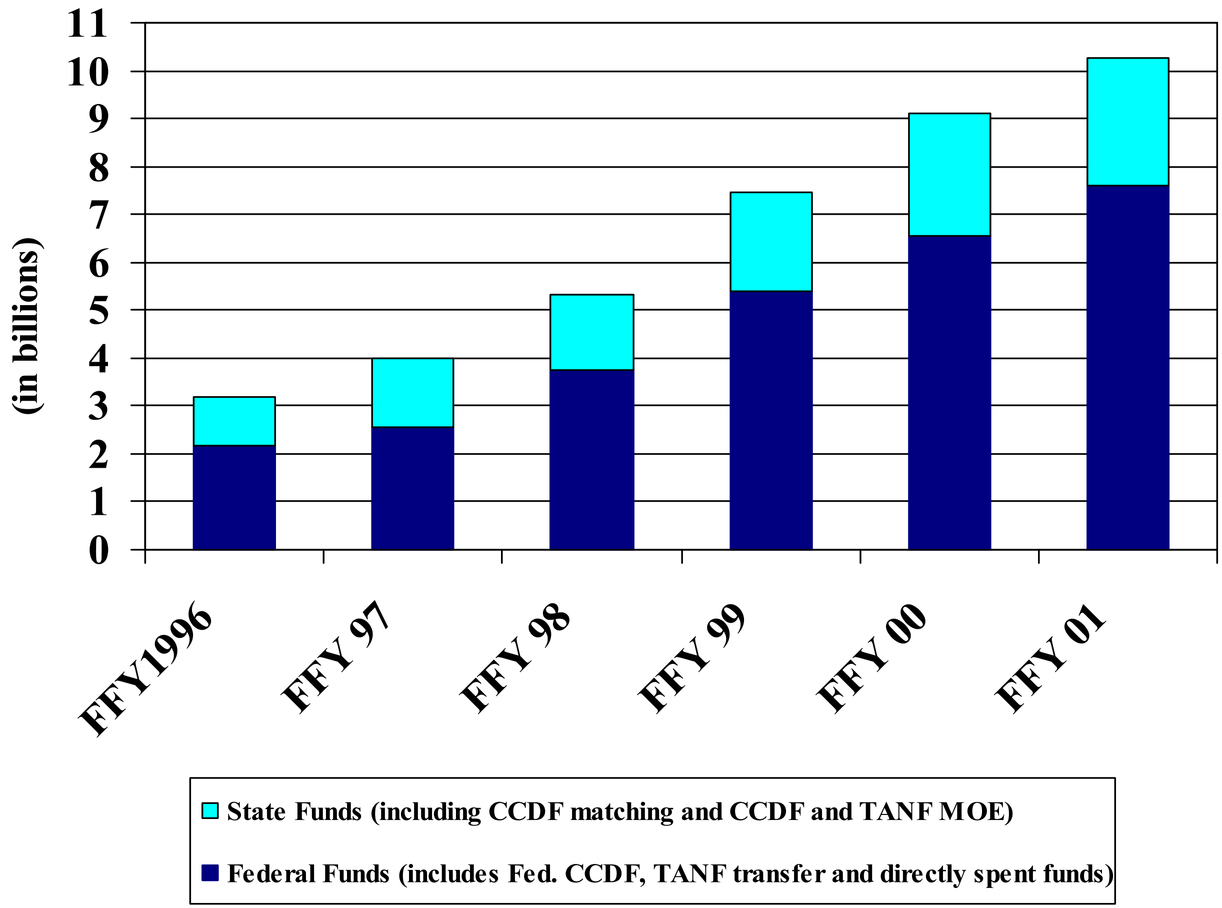
Federal CCDF Allocations and TANF Used for Child Care (1997- 2001)



Note: The FFY 1997 appropriation does not fully reflect the amount of discretionary funds available to states in calendar year 1997. In 1997, only $19 million of the discretionary portion of CCDF was actually released by Congress for state use in FFY 1997, while the remaining $937 million was released to states on October 1, 1997 (the first day of FFY 1998).

Source: U.S. Department of Health and Human Services, Administration for Children and Families, TANF Program Federal Awards, Transfers and Expenditures; CLASP data verification; and Child Care Bureau

Federal and State Child Care Spending, 1996 – 2001
CCDF and TANF (and predecessor programs)



Source: U.S. Department of Health and Human Services, Administration for Children and Families, *TANF Program Federal Awards, Transfers and Expenditures*; Child Care Bureau, *FY 2000 CCDF State Expenditures* and *FY 1999 CCDF State Expenditures;* CLASP, *The Impact of TANF Funding on State Child Care Subsidy Programs*.

Child Care Spending 1996-2001

- State spending grew, but most spending growth (about 75%) was due to federal funds.
- Most of the growth in federal spending was due to TANF.

Results of Increased Child Care Funding

- Number of children served grew from 1 million in FY 1996 (under prior programs) to 1.75 million in CCDF in FY 2000. HHS estimates 2.45 million total children served in FY 2000 with CCDF, TANF and Social Services Block Grant (SSBG).
- States also invested in initiatives designed to improve the quality of child care programs.
- Despite increases, demand outstripped supply and states faced many unmet needs for affordable, quality child care.
- In FY 2000, only one out of seven federally eligible children received child care subsidies.

What's Changed Since 2001?

- State fiscal crises.
- Little change in CCDF funding levels.
  - Increased $250 million in FY 2002;
  - Cut by about $10 million in FY 2003.
- TANF stopped being a source of additional funds in most states.
  - Caseload decline slowed or stopped in most states;
  - States spent $2 billion more than annual block grants in 2001, cannot commit more to child care without cutting spending elsewhere.

State Budget Situations February 2003

- In FY 2003, states had to close $50 billion of deficits; then $17.5 billion in <u>additional</u> deficits opened after the FY 2003 budgets were enacted.
- Balanced budget requirements in most states are forcing program cuts and/or revenue increases to close gaps.
  - 29 states have imposed across the board cuts;
  - 13 states have cut Medicaid;
  - 12 states have cut higher education funding;
  - 9 states have cut elementary and secondary education and corrections; and
  - 9 states have laid off state employees.
- State budget deficits are projected to range from $70 billion to $85 billion for FY 2004.

Source: National Conference of State Legislatures and Center on Budget and Policy Priorities

Examples of Cuts and Proposed Cuts

- More states with waitlists or not accepting applications.
  - In 2000, 17 states either had waiting lists or did not accept applications from eligible families. As of December 2002, that number was 19.
  - Examples – at least 200,000 children (California), over 48,000 children (Florida), 22,000 children (Georgia) and 29,900 children (Texas).
- Income eligibility restrictions.
  - Kansas -- starting February 1, 2003, reduction from 185% to 150% of poverty.
  - Nebraska -- as of July 1, 2002, reduction for low-income working families not transitioning off of welfare from 185% to 120% of poverty.
  - New Mexico -- as of August, 2001, reduction from 200% to 100% of poverty.
  - West Virginia – in early 2002, reduction for new applicants for subsidies from 200% to 150% of poverty; reduction for currently served families from 200% to 185%.

Source: Rob Schneider, *Child Care Funding Faces Serious Cuts* in Indianapolis Star (January 6, 2003); State of Kansas, Kansas Department of Social and Rehabilitative Services, *Summary of SRS Allotment Reductions,* http://www.srskansas.org/allotmentreduction_summary.pdf (Dec. 4, 2002); Children's Defense Fund, *Low-Income Families Bear the Burden of State Child Care Cutbacks*, (September 2002).

Examples of Cuts and Proposed Cuts

- Increased parent fees
  - West Virginia – in early 2002, increased all parent copayments by 50%.
  - Indiana -- proposal to increase parent copayments for all families above 100% of poverty.
- Reduced quality investments
  - Cuts in resource and referral funding in Iowa, North Dakota, Washington State and Wisconsin.
  - Kansas – as of February 1, 2003, $1.7 million reduction in funding for Early Head Start and grants to improve the quality of care.
  - Wisconsin -- reduced funding by more than 60% for Early Childhood Excellence Centers, an initiative designed to create high quality child care centers.

Source: Rob Schneider, *Child Care Funding Faces Serious Cuts* in Indianapolis Star (January 6, 2003); State of Kansas, Kansas Department of Social and Rehabilitative Services, *Summary of SRS Allotment Reductions,* http://www.srskansas.org/allotmentreduction_summary.pdf (Dec. 4, 2002); Children's Defense Fund, *Low-Income Families Bear the Burden of State Child Care Cutbacks*, (September 2002).

Reauthorization Context

- Both CCDF and TANF were scheduled to be reauthorized in 2002.
- Reauthorization didn’t happen, mainly because of disputes about next directions for TANF.
- Both now scheduled for reauthorization this year.
- Impact on child care will be determined by what happens in both reauthorizations.
- Other key reauthorizations include Head Start, Individuals with Disabilities Education Act.

Last Year

- Administration:
  - No new TANF or child care funding for next five years.
  - Significant expansion of TANF work requirements – increased participation rates and required hours of participation.
- House:
  - Substantially adopted Administration's TANF work proposal.
  - Congressional Budget Office estimated these provisions would cost $8 to $11 billion (in TANF and child care costs) over five years.
  - Bill provided $1 billion in matching funds ($200 million/year) in child care for five years with state match, no new TANF funding.
- Senate Finance Committee:
  - More moderate work participation increases.
  - $5.5 billion in child care funding over five years with state match in last two years.
  - No increased TANF funding.
- Bingaman-Kerry bill: $11.25 billion in child care over five years with state match.

This Year --- So Far

- Administration proposal remains unchanged.
- House readopted bill nearly identical to last year’s.
  - Work provisions costing $8-$11 billion
  - $1 billion in mandatory child care funding with state match
- Senate must now decide what to do.

Child Care:
Four Goals for Funding

- Maintain current levels of services.
- Meet new work requirements.
- Expand access for other working families.
- Improve quality, support resource and referral, strengthen early learning components.

Whether states will be able to meet all four goals depends on how much money they have.

How Much Will it Cost To Maintain Current Services?

- Congressional Budget Office (CBO) estimates cost of keeping pace with inflation is $4.5 to $5 billion over five years.
- Cost of maintaining current services is probably greater in light of pressures on state budgets and federal TANF funds.
- If work rates increase without new TANF funding, states will likely need to withdraw TANF funds from child care.

When looking at any proposal…

- Is there enough funding to:
  – Keep pace with inflation?
  – Meet the new work costs?
  – Increase access?
  – Improve quality?

Substantial Funding Increase Needed to Accomplish Child Care Goals

- Last year's Senate Finance package ($5.5 billion with state match on $500 million) was not enough to meet House's 40 hour work requirements ($8-$11 billion) and maintain current services (additional $4.5-$5 billion).
- If Congress wants to increase access for low-income working families or improve quality, funding levels must be higher.

Budget surplus has rapidly dissipated over last two years

- In January 2001, CBO projected a $5.6 trillion surplus over 2002-2011 (including social security trust funds). By January 2003, CBO projected no surplus for that period.
- Excluding social security, in January 2001, CBO projected ten year surplus of $3.1 trillion; by January 2003, CBO projected ten year deficit of $2.2 trillion.

Where did the surplus go?

- Almost half (46%) attributable to economic downturn and longer-term economic and revenue projections.
- 22% attributable to spending increases (primarily defense, homeland security)
- 31% attributable to tax cuts.

Source: Henry Aaron, Testimony to Joint Economic Committee, February 26, 2003, available at: http://www.brookings.edu/dybdocroot/views/testimony/aaron/20030226.pdf; Richard Kogan, **Are Tax Cuts a Minor or Major Factor in the Return of Deficits? What the CBO Data Show**, February 12, 2003, available at: http://www.cbpp.org/2-12-03bud.pdf.

Administration's tax proposals

- Joint Committee on Taxation (JCT) estimates Economic Growth package will cost $445 billion through 2008, $726 billion through 2013.
- Most of the eleven-year cost ($396 billion) attributable to corporate dividends provision.
- JCT estimates eleven-year cost of all tax proposals in administration's budget as $528 billion through 2008, $1.6 trillion through 2013.

When looking at any tax proposals, issues of …

- Effectiveness
- Equity (distributional impact)
- Other ways same funds could be used
- Effect of deficits and expanding debt in nation's ability to address needs of an aging population.

For child care advocates…

- Even the biggest proposed child care expansions are small in the context of proposed tax changes.
  - Difference between Bingaman-Kerry and House bill is $10.25 billion through 2008 ($11.25 vs. $1 billion); proposed tax cuts are $528 billion over that period.
- Whatever the other merits, tax cuts of this magnitude will dramatically impact the nation's ability to address child care and other issues.