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Testimony of Mark Greenberg

Subcommittee on 21st Century Competitiveness

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Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me to testify. I am the Director of Policy for the Center for Law and Social Policy (CLASP). CLASP is a nonprofit organization engaged in research, analysis, technical assistance, and advocacy on a range of issues affecting low-income families. Since 1996, we have closely followed implementation of the work and child care provisions of the Personal Responsibility and Work Opportunity Reconciliation Act. This testimony will discuss background for reauthorization of the work and child care provisions of the 1996 law, pending reauthorization proposals, and our recommendations. This testimony reflects ongoing work with CLASP colleagues, including Nisha Patel, Hedieh Rahmanou, Danielle Ewen, and Hannah Matthews.

The Role for this Subcommittee

The jurisdiction of the Subcommittee on 21st Century Competitiveness includes the work provisions of the Temporary Assistance for Needy Families (TANF) Program and the Child Care and Development Block Grant (CCDBG), along with workforce and education programs, including the Workforce Investment Act (WIA) and the Higher Education Act (HEA). Thus, it is appropriate and important that this Subcommittee consider reauthorization within the broader context of workforce development, training, early education, and higher education policies. As discussed below, this focus is needed because the reauthorization bill previously adopted by the House and under consideration this year is, in important respects, inconsistent with key provisions of WIA and with efforts to expand access to training and higher education. Moreover, the child care funding level under the House bill would not be sufficient to sustain current levels of child care assistance for working families, meet the bill's new TANF mandates, or adequately address the goals this Subcommittee has established for CCDBG reauthorization.

The Background for Reauthorization

In 1996, Congress enacted TANF and restructured federal child care funding. Generally, the legislation gave each state annual TANF block grants with broad discretion in use of funds; sought to place a strong emphasis on linking families receiving public assistance with work; established time limits for providing federally funded assistance; and significantly expanded federal child care funding while giving states broader discretion in use of child care funds.

In the years after enactment of the 1996 law, there were dramatic changes in employment, child poverty, welfare and child care participation. While there were some troubling aspects, much of the experience was strikingly favorable in the initial years of implementation. However, in the last several years, several of the most positive indicators have slowed or reversed. Thus, reauthorization should be a time to build on the successful aspects of the 1996 law, while addressing problems that have become apparent over time.

Starting in the mid-1990s, there was a historically unprecedented increase in employment among single parents. The growth began before enactment of the 1996 welfare law, but continued after that time. The employment rate for single mothers grew from 57.3 percent in 1993 to 63.5 percent in 1996, and then rose to 73 percent by 2001.[1] Many factors likely contributed to this

employment growth, including the strong economy, state and federal welfare reforms, the large expansion of the Earned Income Tax Credit in 1993, increased child care spending, increases in the minimum wage in 1996 and 1997, broadening of access to health care outside of welfare, and a stronger child support enforcement system.

During this period, both the TANF assistance caseload and the nation's child poverty rate fell. Welfare caseloads fell from 5 million in 1994 to 4.4 million by the time the 1996 law was enacted, and then to 2 million by 2001. Child poverty fell from 22.7 percent in 1993 to 16.2 percent in 2000. Welfare participation fell much more than did child poverty, with the share of poor children receiving assistance falling from 62 percent in 1994 to 35 percent in 2001.[2]

Numerous studies found that most families leaving welfare (in the range of 50 to 60 percent) were working, but typically in low-wage jobs without access to benefits, such as employer-sponsored health insurance and paid vacation/sick leave.[3] The families still receiving assistance were a heterogeneous group, but generally had more serious barriers to employment (e.g., health and mental health issues, domestic violence, substance abuse, limited English proficiency, severe basic skills deficits) than those who had left assistance. And, some of the families that left welfare without finding employment were among those with the most severe barriers to employment, with weaker work histories, less education, and higher rates of disabilities.

During this early period, declining welfare caseloads freed up resources for states. States were able to use TANF funds to broaden services for working families outside the traditional welfare system. Initially, the single biggest redirection of TANF funds was to increase child care for working families. In 2000, states committed $4 billion of TANF funds to child care.[4]

Between 1996 and 2000, combined federal and state funding for child care tripled. Most of the growth was attributable to federal funds, and the single biggest factor was the ability of states to redirect TANF funds. As a result of this increased funding, the number of children receiving subsidies grew from an estimated 1 million in 1996 to 2.4 million in 2001, and states were able to improve child care payment rates to providers, reduce required family copayments to make child care more affordable, and expand quality initiatives.

Thus, there was much that was positive in the early experience after 1996, but also areas of concern. There had been dramatic growth in employment and a decline in child poverty, but many families who left welfare for work were still poor, and many families with significant barriers had left welfare without finding work. While the child care experience had been strikingly positive, there was still much to do: only an estimated one in seven children eligible for federal child care subsidies were receiving them; payment rates to providers in half or more of the states were below local market rates; and quality initiatives were often limited and uneven.

During the last three years, several key indicators have become less positive. The economy entered into a recession, after which initial job growth was slow. States entered into a period of large budget deficits, placing strains on TANF funds and other state resources, and forcing cutbacks in child care and other services. The pressures resulting from the economy and state budget crises are apparent in indicators of employment, child poverty, child care, and welfare participation. Specifically:

- **Since 2001, employment has declined among both single and married mothers.** Employment among single mothers fell from 73 percent in 2001 to 69.7 percent in 2004. Employment among married mothers showed a similar decline, from 68 percent to 65.3 percent, during the same period. Single mothers are still more likely to be employed than married mothers and much more likely to be employed than before the 1996 law.[5] Since the recession, the industries most likely to employ welfare recipients and large proportions of single mothers have either lost jobs or are experiencing slower job growth.[6] Thus, there is little reason to attribute the decline in employment to state TANF performance. Reflecting the decline in employment, the Urban Institute has reported that employment among welfare leavers fell from 50 percent in 1999 to 42 percent in 2002.[7] Similarly, the share of families engaged in employment for enough hours to meet TANF work rates dropped from 22 percent in 2001 to 18 percent in 2003 (while the share of families participating in other activities remained relatively unchanged).

- **The decline in employment has generally not resulted in increased welfare caseloads, but child poverty has risen.** Between 2001 and the 2003, the number of families receiving assistance (including those in separate state programs) rose at least somewhat in 31 states, while the national caseload fell by 0.5 percent.[8] The continued national caseload decline occurred despite the fact that child poverty increased from 16.2 percent in 2000 to 17.6 percent in 2003.[9] The fact that employment fell and child poverty increased while TANF caseloads remained flat or declined raises significant concerns that the program has not been sufficiently responsive to increased needs. The share of poor children receiving TANF assistance dropped to 33 percent in 2002.[10]

- **The share of families without welfare or work has grown.** Urban Institute research indicates that the share of all families that have left welfare, but are not employed, do not have an employed partner, and are not receiving income from Supplemental Security Income (SSI) rose from 10 percent in 1999 to 14 percent in 2002.[11]

- **For the last three years, state TANF spending levels have exceeded annual block grants, and state reserves have fallen sharply.** As long as welfare caseloads were falling rapidly, TANF was, in effect, a source for "new" funds each year. Once caseload decline slowed or stopped, states have increasingly faced the pressures resulting from a block grant set at mid-1990s funding levels and not adjusted for inflation. In each of the last three years, states' use of TANF funds has exceeded their basic block grants, and states have increasingly resorted to drawing down carryover (reserve) funds to pay for current services. In fiscal year 2003, states used $1.8 billion more than they received. Between the end of 2002 and the end of 2003, the amount of carryover TANF funds dropped by one-third, to $3.9 billion. This represented the lowest level for carryover funds since 1997, the first year of TANF implementation.[12] Some states now have no carryover funds, and for most states, the amount of carryover funds represents less than one-quarter of the state's annual block grant funding level.

- **Federal child care funding under CCDBG has been flat since 2002, and the number of families receiving child care assistance has fallen, with the greatest impact on low-income working families not receiving welfare.** The Administration estimates that the

number of children receiving subsidy assistance remained in the range of 2.4 million from 2001-2003, declined in 2004, and will fall to 2.2 million 2005. CCDBG funding has been flat since 2002, and the use of TANF for child care peaked in 2000 and has now stayed at or near $3.5 billion for the last three years.[13] Child care curtailments have particularly hurt working families not receiving welfare: In April 2003, the Government Accountability Office (GAO) reported that, since January 2001, nearly half the states (23) had made policy changes that reduce the availability of child care subsidies for low-income working families.[14] Between 2002 and 2003, eighteen states and the District of Columbia cut total spending on child care (TANF and CCDBG).[15]

Implications for Reauthorization

As the above discussion outlines, there has been dramatic growth in single-parent employment since 1996, but often in low-wage jobs without employer-provided benefits. Many families still receiving assistance have serious employment barriers, and a group of families with serious barriers is now not in work and not receiving welfare. A well-functioning TANF program would assist needy families while connecting those who are able to work with sustainable employment; however, there are clear indications that the current program makes it difficult for needy families to receive assistance and serves a steadily declining share of poor children. The expansion of supports for working families outside welfare has been a critical contributor to the employment growth, but those supports are increasingly at risk because TANF and child care funding have remained flat. The sharp decline in reserve funds underscores that at current funding levels, states will find it difficult or impossible to sustain current service levels over the coming years.

Based on this experience, CLASP has urged that the work-related provisions of reauthorization focus on efforts to improve job quality and encourage a stronger focus on employment retention and advancement, expand child care and other supports for working families outside welfare, and ensure that states have incentives to work with, rather than terminate assistance to, families with the most serious employment barriers.

We have also urged that reauthorization promote TANF-WIA coordination. While H.R. 27, the WIA reauthorization bill passed by this Subcommittee and by the House, and H.R. 240 both contain provisions intended to promote coordination,[16] Congress could do more. We do not advocate broad cross-program waiver authority, such as is provided for under H.R. 240; nor would we support a proposal like the Administration's WIA Plus Consolidation proposal, which would give governors the option for broad authority to consolidate funds intended for targeted populations. Rather, we believe Congress and relevant federal agencies should work together to identify the principal areas of statutory and regulatory differences between TANF and WIA; examine whether there are strong policy justifications for maintaining those differences; and either harmonize or allow states to harmonize each area for which there is not a strong underlying federal policy basis for a different approach across programs. And, at the same time, Congress should ensure that new TANF provisions do not impose detailed and prescriptive requirements that make it more difficult to coordinate TANF strategies with those under WIA. Over the least three years, much of the reauthorization debate has centered around the mechanics of the participation rate calculation for families receiving TANF assistance: the required rates; how those rates should be adjusted based on caseload reduction, employment, or other factors;

the number of hours to fully count as a participant; and which activities should be allowed to count, for how many hours and how many months. While there are better and worse ways to resolve each of these issues, this Subcommittee should appreciate the striking contrast between the approach in TANF and the approach in the rest of the workforce system. In WIA legislation, this Subcommittee has not sought to dictate which activities should count for how many hours or months; rather, it has kept its focus on state and local accountability through the performance indicators of importance to the system: employment entries, earnings gains, employment retention, acquisition of credentials. Moreover, historically, this Subcommittee has sought to promote access to education and training. The same philosophy ought to apply to TANF.

The remainder of this testimony will discuss TANF work participation rates and child care funding. On a number of key provisions, the approach taken by the Senate Finance Committee represents a more reasonable, balanced approach than that reflected in H.R. 240.[17] While we continue to urge improvements in the Senate bill, we think the Senate provisions reflect efforts to be responsive to the principal goals of the Administration's proposal, while still allowing states significant flexibility in designing effective work programs. We also urge the Subcommittee to give serious consideration to the provisions of H.R. 751, the Work, Family and Opportunity Act, introduced by Congressman McDermott.

Reauthorization should encourage states to focus on employment and job quality and should not reward caseload reduction in itself. H.R. 240's caseload reduction credit creates incentives to terminate assistance rather than help families find jobs. We recommend replacing it with an employment-based credit.

The ultimate goal of the work provisions of any TANF bill should be to improve employment outcomes. Participation rates measure the share of families involved in activities while receiving assistance, but they do not capture the outcome of greatest concern: the number of families getting jobs and earning enough that they no longer need assistance.

CLASP has urged that states be given the option to be held accountable for employment outcomes in lieu of participation rates. Last year, a bipartisan group of Senators (Alexander, Voinovich, Carper, and Nelson [of Nebraska]) proposed an amendment to allow up to ten states to be accountable for outcomes relating to employment; success in activities designed to improve employment and related outcomes; job retention; entry earnings and earnings gains; and child well-being. H.R. 751 would allow states to be accountable for improvements in job entries and jobs with higher earnings. We recommend that the Subcommittee consider approaches such as these. Ultimately, we recommend that all states should have the option to be accountable for common performance measures across TANF and WIA.

So long as there is a participation rate structure, it is important that a state not be disadvantaged in the participation rate calculation when a family gets a job and leaves welfare. This can happen under current rules, because as long as the parent is receiving assistance and participating in an activity, the family counts toward the rates, but if the parent gets a job and leaves assistance, the family stops counting.

Under current law, rates are adjusted downward by a caseload reduction credit, calculated as the number of percentage points by which the state's caseload has fallen since 1995 for reasons other

than changes in eligibility rules. The current structure has been criticized for lowering effective participation rates to zero for many states.

The other problem with a caseload reduction credit is that it rewards a state if its caseload falls, whether or not families are working, and even if the decline occurred simply because the state has made it harder to receive assistance. H.R. 240 would make this problem worse by maintaining a caseload reduction credit, adjusted so that states only get "credit" for recent caseload declines. Moreover, under H.R. 240's "superachiever" credit, a group of states would be rewarded for having had large caseload declines between 1995 and 2001, without regard to employment or other outcomes. It is difficult to see any conceivable policy justification in 2005 for arbitrarily rewarding states simply based on caseload decline that occurred years ago.

In 2002, the Administration recommended eliminating the caseload reduction credit, and providing instead that families leaving assistance due to employment could count as participants for 90 days. The Senate Finance bill uses an "employment credit" instead of a caseload reduction credit, providing adjustments based on the numbers of families leaving assistance due to employment, the number leaving with higher earnings, the number of families working after receiving diversion assistance, and the number of families receiving TANF-funded child care and transportation benefits. H.R. 751 also provides for an employment credit.

A credit or adjustor for employment would communicate the importance of focusing on whether families leaving assistance are working and communicate to states that the goal is the promotion of employment, not simply cutting caseloads.

Raising the number of hours needed to count as a participant to 40 will make it harder for states to run effective programs to connect families with employment. It would be better to maintain current law hourly requirements.

Under current law, single parents with children under age 6 can count toward TANF participation rates through 20 hours a week of countable activities; all other families must meet a 30-hour requirement. H.R. 240 would raise the requirement to 40 hours for all families. The Senate Finance bill would raise the requirements to 24 hours for single parents with children under six, 34 for other single-parent families, and 39 hours for two-parent families. H.R. 751 would maintain the hourly requirements of current law.

In our view, it is unfortunate that much time over the last three years has been devoted to arguments about the "right" number of hours to require for participation, because there is no evidence that increasing hours of participation beyond current law requirements would lead to more effective programs. The welfare-to-work research consistently finds that the most effective programs provide a mixed menu of activities, combining job search, training, and other work-related activities, but these programs do not typically combine multiple activities for the same individual at the same time.[18] None of the highest-impact programs routinely imposed 40-hour requirements. Nothing in the research suggests that restructuring programs to make them require 40 hours instead of 30 hours would make them more effective.

Moreover, raising the hourly requirement to 40 runs the risk of resulting in *less* effective programs, for three reasons. First, it creates the danger that program administrators will need to

shift their focus from efforts to promote employment to efforts to "manage" 40 hours of participation. Second, the need to generate activities, even low-cost ones, and pay attendant child care costs, will force a misallocation of scarce resources at a time when states are struggling to sustain current services. Third, many observers have recognized the need to do more to engage families with the most serious employment barriers. These families are likely to have the greatest difficulties in meeting 40-hour requirements. If any individual who has difficulty consistently participating at a 40-hour level will become a "drag" on the state's ability to meet participation rates, there will be an increased risk that such families are sanctioned and terminated from assistance rather than provided needed assistance to move toward employment.

While the Senate's approach to hours is more moderate, the best resolution here would be to maintain current law. Every state would be free to increase hourly requirements if it wished to do so. But, there is no reason to compel all states to adopt an approach that has no basis in research, and that is contrary to the best judgment of many program administrators.

The list of countable activities should give states flexibility to make their own judgments about effective ways to promote employment. States should be free to use education and training and barrier removal activities, and not be compelled to use unpaid work experience.

H.R. 240 sharply limits the activities that can count toward the first 24 hours of participation each week. After a three- to four-month period, the only activities that could count for adults would be unsubsidized or subsidized work, or unpaid work experience or community service. Thus, the bill would make it impossible to count full-time education or training for more than four months and would impose similar restrictions on participation in barrier removal and rehabilitative services. Given the costs of subsidized employment, the bill would, in effect, create strong pressure on states to use unpaid work experience or community service for those individuals unable to get unsubsidized jobs within four months.

The H.R. 240 approach is not consistent with relevant research. There is encouraging non-experimental evidence from transitional jobs programs that provide highly structured, paid subsidized employment experiences for individuals with multiple employment barriers,[19] and other research suggests favorable impacts for on-the-job training programs.[20] However, the available research has not suggested strong effects on employment and earnings for unpaid work experience programs. There is only limited recent research on the employment impacts of unpaid work experience; however, in a review of research conducted in the 1980s, the Manpower Demonstration Research Corporation (MDRC) concluded, "there is little evidence that unpaid work experience leads to consistent employment or earnings effects."[21]

From the welfare-to-work research, the clearest guidance is that states should avoid the extremes of focusing exclusively on job search or on adult basic education unconnected to employment. Instead, the most effective welfare-to-work programs use a "mixed strategy"—focusing on employment; including job search, education, job skills training among program activities; and structuring activities on an individualized basis.[22] There is clear evidence that a strong skills training component can lead to improved employment outcomes, and that postsecondary education is increasingly crucial in efforts to improve earnings.[23]

In fact, as of June 2002, at least 40 states allowed more access to postsecondary training or education services than would be countable under H.R. 240.[24] If H.R. 240 were to become law, a large number of states would feel pressure to reduce access to these services for TANF recipients in order to avoid penalties. And, the restrictions on education and training in H.R. 240 would pose increased barriers to TANF-WIA coordination because full-time participation in WIA-funded training for more than three or four months would not be able to count toward TANF work participation requirements.

The approach taken by the Senate Finance Committee is more balanced than that in H.R. 240, though still restrictive in certain ways. The Finance bill maintains the current law 12-month restriction on counting vocational educational training toward core participation hours, while creating a new option for states to count participants in postsecondary education under certain circumstances. The Finance bill also allows participation in certain rehabilitative services to count for up to six months, and allows continuation of individualized activities beyond six months for individuals with disabilities under limited circumstances.

H.R. 751 would also broaden the countability of a set of activities, counting up to 24 months of participation in education and training, and counting up to 18 months of participation in rehabilitative services, if the last 12 months are combined with work.

Our principal recommendation here is that federal law should not seek to narrowly restrict which activities can count toward participation rates. In the TANF fiscal structure, a state has no incentive to place individuals in activities unless the state believes the activities are likely to be effective, and state perspectives on effective activities will continue to evolve over time based on research and experience. Thus, we recommend that participation rate rules not compel states to use unpaid work experience, not restrict the ability of states to use education and training, and allow for individualized determinations about participation in rehabilitative and barrier removal activities.

Reauthorization should ensure that states have incentives to work with families with serious employment barriers, rather than incentives to cut off assistance to these families. Accordingly, the bill should build safeguards into the sanction process, and not mandate full-family sanctions.

Under federal law, states must reduce or terminate assistance when a family does not comply with program rules without good cause. There are essentially no safeguards in current federal law beyond a provision saying that states may not terminate assistance to a single parent of a child under six who fails to participate due to lack of needed child care. Sanctions have not been the principal reason for caseload decline, but it is clear that they are used extensively in some states. Research confirms that families with the most barriers to employment and the most difficulty succeeding in the labor market are the most likely to be sanctioned. Moreover, families who leave assistance due to sanctions are less likely to be employed and more likely to return to welfare than families who leave for other reasons.[25] Testimony submitted to the Human Resources Subcommittee of the House Ways and Means Committee by Dr. Deborah Frank of the C-SNAP project describes the harm that can occur to children in sanctioned families.[26]

H.R. 240 would require all states to use full-family sanctions (i.e., terminate all TANF assistance for failing to meet program requirements). We urge that this provision be dropped. There is no research evidence that programs that cut off all assistance are more effective in moving families to employment or economic independence, and, as noted, there is clear evidence of potential harm. Moreover, in the context of high participation rates and scarce resources, there is considerable risk that when a parent with employment barriers is unable to meet program requirements, states will perceive a much stronger incentive to terminate assistance than to actively work with the family to resolve barriers to participation.

The Senate Finance bill does not mandate full-family sanctions. Instead, it contains a provision requiring that, prior to imposing sanctions, states must, to the extent determined appropriate, review the family's plan and make a good faith effort to consult with the family. A provision such as this, and additional safeguards, could help communicate that the goal of federal policy is to work with families to promote employment, not simply terminate assistance. H.R. 751 would not require full-family sanctions, and would provide for new safeguards in the sanction process.

Reauthorization should provide states with enough child care funding to sustain current service levels, meet new work requirements, and make progress in addressing access for all low-income working families and quality in the next five years. The current House bill would accomplish none of these goals. We recommend increasing child care funding.

In the initial years after enactment of the 1996 welfare law, states made dramatic progress in expanding child care assistance for low-income families. Child care is critical to helping parents find and keep jobs. Compared with 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.[27] Data from the 1990s show that single mothers who receive child care assistance were 40 percent more likely to still be employed after two years than those who did not receive any help paying for child care and that former welfare recipients with young children were 82 percent more likely to be employed after two years if they received help paying for child care.[28]

States were able to increase child care funding for two principal reasons. First, the 1996 law provided for steadily increasing amounts of dedicated child care funding through 2002. Second, when TANF caseloads declined, states were able to redirect TANF funding to child care. In 2000, states redirected $4 billion in TANF funds to child care, an amount larger than the entire child care block grant. However, child care funding through TANF has fallen to about $3.5 billion in each of the last three years, and it is doubtful that states will be able to sustain this funding level, in light of the fact that states are currently spending TANF funds at a level above their block grants and drawing down reserve funds to pay for current service levels.

It has been suggested that reauthorization could "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 bill. We support the proposal to broaden allowable uses of reserve funds, but enacting this proposal will not free up significant new resources for child care, for two reasons:

- First, the vast majority of states can *already* effectively use their unobligated funds for child care by rearranging how current and carryover funds are spent (i.e., spend prior year funds for assistance to free up current year funds to spend for child care). Based on 2003 spending data, forty-seven states could already, in effect, spend every penny of their unobligated funds on child care this year, but if they did so, they would have no reserve funds for the future. The remaining four states could, in effect, spend all of their carryover funds for child care within two or three years, if they wished to exhaust their reserve funds.

- Second, as noted above, for the last three years, states have spent more for TANF-funded benefits and services than they have received in their annual block grants, and have drawn down prior year funds to help pay for current service levels. This strategy cannot be sustained indefinitely; 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.

When child care funding was expanding, it resulted in dramatic improvements in the availability of child care assistance for low-income families. For many states, a key part of the strategy to promote work and reduce the numbers of families receiving TANF assistance was expansion of child care outside welfare. In recent years, as child care funding has been flat or declining, it has become increasingly difficult or impossible to provide continued access for working families that are not receiving or leaving TANF assistance. The Administration now estimates that flat funding levels will cause the number of children receiving child care to fall from 2.4 million in 2003 to 2 million by 2009.

Although funding levels have not changed since 2002, the cost of child care has continued to rise because the wages and salaries of child care workers, the cost of renting space, and the cost of supplies increase over time. A September 2004 report from the National Women's Law Center (NWLC) documented the specific impacts for families as states struggle to meet increasing costs with flat funding levels. NWLC found that between 2001 and 2004, the income eligibility cutoff for a family to qualify for child care assistance declined as a percentage of the poverty level in about three-fifths of the states. NWLC also found that the number of states that had waiting lists or had frozen intake altogether for low-income working families not receiving welfare rose to 24 states by 2004. The NWLC study also found that increases in copayments are further limiting access to child care help for many families. In about half the states, the copayment for a family with an income at 150 percent of poverty increased as a percent of income between 2001 and 2004 or the family became ineligible for help at this income level due to a decrease in the income cutoff. Copayments also increased in about half the states for families at 100 percent of poverty, those least able to make adjustments in their budgets to pay for higher child care costs.[29]

The Administration has proposed no increase in mandatory child care funding for the next five years; H.R. 240 provides for $1 billion; last year, the Senate voted, 78-20, to provide for $7 billion in child care funding over five years, and the Senate Finance Committee bill would

provide for $6 billion. H.R. 751 would increase mandatory funding by $11 billion over five years. How do these amounts compare to need?

In essence, the Senate Finance Committee's bill would address inflation and the projected costs of the Senate work requirements; under the House bill, there would be about an $11 billion shortfall. Congressional Budget Office (CBO) staff has preliminarily estimated that $4.8 billion in total funding (federal and state) would be needed to sustain 2005 service levels over the next five years.

- CBO estimates that the combined work and child care costs of meeting the House work requirements through increased participation would be $8.3 billion. After allowing for overlap, the resulting preliminary staff estimate is that the additional cost of sustaining current service levels and paying for the work and child care costs would be $12.5 billion.
- CBO staff has preliminarily estimated that the cost of meeting the Senate Finance work requirements through increased participation would be $1.8 billion, and that the combined cost of meeting such requirements through increased participation and sustaining current service levels would be $6.3 billion.

While the Senate Finance figure is near the projected costs of inflation and meeting new work requirements, even this figure would not provide for access to child care for additional working families outside welfare or for expanding quality investments. At the same time, the CCDBG reauthorization bill approved by this Subcommittee in 2002 and 2003 (and contained in H.R. 240) clearly signals the need for expanded quality initiatives by states. 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.

We understand the difficulties in urging additional child care funding at a time when there is a need to address the federal deficit. However, child care funding is an essential support for work and a crucial way of addressing the well-being and developmental needs of children in working families. Providing for increased funding will be crucial to sustain progress in the coming years.

Conclusion

While we urge a number of changes in the House's approach, we share the view that it is important for Congress to resolve outstanding issues and complete TANF reauthorization. During the last three years, there has been a significant cost to the uncertainty and instability resulting from lack of reauthorization and repeated short-term extensions. We urge the Subcommittee to work for enactment of a final bill that is responsive to the need for state flexibility and that addresses issues of better jobs, employment retention and advancement, helping families with the most serious barriers, and providing adequate funding for child care and other supports to help working families both on and outside welfare.

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