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CHILD CARE ASSISTANCE IN 2004: STATES HAVE FEWER FUNDS FOR CHILD CARE

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With the passage of welfare reform legislation in 1996, Congress recognized that child care is critical to helping low-income families work and succeed and invested significant federal funds to help families pay for child care. Child care assistance helps families find and retain the jobs they need to leave and to stay off of welfare. Until 2002, federal funds available for child care grew dramatically, and the number of families receiving child care help doubled. Yet only one in seven children eligible for child care help receives it.

Since 2002, federal funding for child care has been frozen, while the costs of child care continue to rise. For the first time in 2004, states had fewer funds to spend on child care than in the previous year. This included both federal Child Care and Development Block Grant (CCDBG) funds and funds from the Temporary Assistance to Needy Families (TANF) block grant. As a result, states have made cuts in their child care assistance programs, and fewer families are getting the help they need. Without new federal funds, the number of children in low-income families who receive assistance will continue to decline, forcing their families to spend their savings; go into debt; turn to welfare; choose lower-quality, less stable child care; or choose between paying for child care and paying for clothing, heat, and food.

TOTAL EXPENDITURES ON CHILD CARE ASSISTANCE DECLINED IN 2004

Overall expenditures on child care assistance, including both CCDBG and TANF funds, declined from \$12.3 billion in 2003 to \$11.9 billion in 2004². This includes:

- \$9.4 billion in CCDBG funds—including TANF transfers to CCDBG, state CCDBG maintenance of effort (MOE) funds, and CCDBG funds appropriated in prior years but liquidated in 2004);³
- \$1.4 billion in TANF direct child care assistance; and
- \$1.1 billion in additional state TANF MOE funds.⁴

Child Care and Development Block Grant Expenditures Declined

When federal funding for CCDBG was increasing, states were able to carry funds over each year to increase expenditures and implement changes—such as quality improvements—over time. Yet, since 2002, the real value of the block grant has declined with inflation each year.

Flat funding for CCDBG has resulted in states spending more dollars in the year they are appropriated and carrying fewer funds into subsequent years. This resulted in an overall decline in CCDBG expenditures from \$9.5 billion in 2003 to \$9.4 billion in 2004. This was the first decline since the program was authorized in its current form in 1996.

TANF Funds Used for Child Care Declined

Federal TANF funds used for child care (including both TANF funds transferred to CCDBG and those spent directly from TANF for child care) fell to \$3.3 billion in 2004, after staying relatively flat at \$3.5 billion since 2001.

Thirty-one States Cut Child Care Assistance

In 2004, a total of 31 states cut child care assistance, compared to only 20 states the previous year. Cuts in these 31 states totaled over \$600 million:

- Eight states made cuts of 20 percent or more, accounting for over half of the total decline in spending: Nevada (52 percent), New Hampshire (36 percent), Minnesota (25 percent), Maryland (22 percent), Alabama (20 percent), Connecticut (20 percent), New Jersey (20 percent), and Ohio (20 percent).
- The largest decline in spending was in Ohio (\$104 million) and accounted for 15 percent of the total decline.

DECREASED SPENDING RESULTED IN FEWER CHILDREN SERVED

The Child Care Bureau estimates that 2.4 million children received child care assistance from all sources in 2003.⁵ The Bush Administration estimated the number of children receiving assistance from all sources to be 2.3 million in 2004 and projected that number to fall further to 2 million by 2009—eliminating child care subsidies for at least 300,000 additional low-income children.⁶

The number of children receiving CCDBG-funded child care assistance declined from 1.75 million in 2003 to 1.74 million in 2004. In 2004, 24 states served fewer children than they did in the previous year. Corresponding state data for children served through TANF-related funds are not available.

WITHOUT A SIGNIFICANT INCREASE IN FEDERAL FUNDS, CUTS ARE LIKELY TO CONTINUE

In 2004, state spending on child care surpassed the amount of new funds available for child care assistance. Funding for CCDBG (including state match and MOE funds) and TANF funds directed to child care totaled \$11.2 billion while states spent \$11.9 billion. The liquidation of funds appropriated in prior years bridged the gap between new dollars and expenditures. However, in 2004, states had fewer unspent funds left than in the previous year—\$1.9 billion compared with \$2.3 billion at the end of 2003. With fewer prior-year funds in reserve to offset

the difference between new funds available in each fiscal year and current expenditure levels, cuts are likely to continue if there is not a significant increase in federal funding for child care.

Yet recent Congressional action suggests that states will not receive the new funds they need. In November, the House passed a budget reconciliation bill that includes provisions to reauthorize the TANF program. This bill provides only \$500 million in new child care funding over five years, despite estimates by the Congressional Budget Office staff that keeping pace with inflation will cost \$4.8 billion over five years. In addition, the bill significantly increases work requirements for families receiving public assistance, making the need for child care even greater. Without greater resources, states will be unable to meet the new requirements *and* continue to help low-income working families who are not on the welfare rolls. As a result, many low-income working parents will be left with few options for affordable child care.

¹ State spending figures were updated to reflect clarification received by CLASP from the Child Care Bureau regarding the calculation of “excess” state TANF MOE expenditures on child care. CCDBG participation numbers were updated to reflect final 2004 data released by the Child Care Bureau in May, 2006.

² CCDBG expenditure and participation data are available on the Child Care Bureau Website at <http://www.acf.hhs.gov/programs/ccb/research/>. TANF financial data are available at <http://www.acf.dhhs.gov/programs/ofs/data/index.html>. Analysis of currently available TANF data shows the decline in child care spending between 2003 and 2004 to be over \$400 million. A portion of this decline may reflect state accounting adjustments to TANF MOE expenditures in 2003.

³ To calculate state expenditures on child care, we sum all funds a state spent during federal fiscal year 2004, including funds appropriated in prior years. Analysis of expenditure data based on state fiscal years may differ from the analysis presented here.

⁴ This excludes \$876 million that may be double-counted as CCDBG MOE and TANF MOE. Total TANF MOE spent on child care was \$1.9 billion in 2004.

⁵ Tvedt, Karen (Child Care Bureau). Personal Communication. February 14, 2005.

⁶ *Analytic Perspectives, Budget of the United States Government, Fiscal Year 2006, Table 25-4. Beneficiary Projections for Major Benefit Programs* (2005). p. 405. Washington, DC: U.S. Government Printing Office.