

Federal Welfare Reform and the Impact on Subsidized Child Care

by Eve Hershcopf

*This article describes recent federal changes to welfare programs, the impact of those changes on states, the interplay with subsidized child care, and suggests these changes are likely to lead to 550,000 **fewer** children in subsidized child care nationwide in 2011 than were receiving child care assistance in 2000. To set the context, it is important to describe the original “welfare reform” undertaken by Congress more than a decade ago.*

Brief history of welfare reform

In 1996, Congress initiated the process of “welfare reform” and completely restructured what had been the nation’s cash assistance program for poor families. The goal of the Temporary Assistance for Needy Families (TANF) program¹ was to reduce the welfare rolls by getting recipients into jobs that could bring their families above the poverty level. The TANF program used a “work first” approach designed to help families quickly engage in whatever work-related activities and employment was available and become self-sufficient by replacing cash assistance (formerly AFDC) with wages.

The TANF program gave states great flexibility to design their own rules for

their cash assistance programs. The federal program placed only a few basic requirements on states: welfare recipients are restricted to a 60-month lifetime limit on cash assistance, and states are required to have sufficient numbers of recipients working or in work-related activities to meet federal work participation rates. States could use TANF funding to pay for supportive services, such as child care, to enable poor families to transition from welfare to work.

In the ten years since welfare reform, the number of families receiving welfare has fallen dramatically across the country. In some states, TANF enrollment has decreased by up to 75 percent.² Supporters of the TANF program praise these caseload declines as indicative of the success of the reforms, and it is true that, especially in the early years, many families were assisted in making the transition from welfare to work. There is a great deal of debate, however, about whether the income of those former recipient families actually rose above the poverty level, even a year after their transition to work.

More importantly, in recent years much of the caseload decline has **not** been the

result of recipients finding employment. Instead, in many states an increasing number of families have been terminated from cash assistance for failure to comply with TANF program rules. Families are initially “sanctioned” for these missteps, resulting in grant reductions. Families that fail to come into compliance in a timely fashion are terminated from the program altogether in many states. Research has consistently shown that the parents in sanctioned families face multiple barriers to employment and to compliance with program rules, including lack of transportation, borderline disabilities, physical and mental health problems, chemical dependency issues, and problems in accessing appropriate child

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care.³ Once these families are terminated from the TANF program and lose cash assistance, they slip deeper into poverty and experience very significant hardships.

Child Care and Development Block Grant

When Congress created the TANF program in 1996, it also increased federal funding for child care and consolidated all the federal funding streams into the Child Care and Development Block Grant, also known as the Child Care and Development Fund (CCDF). States can choose to use CCDF funds for all low income families whether or not they have ever received TANF cash assistance. CCDF rules obligated states to also increase **state** funding for child care through a maintenance of effort requirement and a state match requirement. From 1996 to 2002, funding for CCDF more than doubled. At the same time, many states used large portions of their TANF block grants to pay for child care for families receiving TANF assistance and for other low income working families. With these increased state and federal resources, states increased child care subsidy eligibility and more than doubled the number of children receiving subsidized care. States were also able to raise reimbursement rates, lower family fees, and invest in initiatives to improve the quality of child care for all families.⁴

Child care funding has changed dramatically since 2002. Federal funds for child care assistance have barely increased despite the huge unmet need for subsidized care. After the tremendous increases in the early years of welfare reform, total public spending on child care fell for the first time in 2004.⁵ TANF funds used for child care went from a high of \$4 billion in 2000 to \$3.2 billion in 2005. Reduced federal investment in child care led many states to make

policy changes to restrict access to publicly-funded child care for low income working families. Between 2001 and 2005, 19 states reduced eligibility levels or made other changes that limited low income families' access to subsidized child care.⁶ The impact of these policy changes was substantial, as the number of children served by state child care subsidy programs dropped by 150,000, from a high of 2.45 million children in 2000 to 2.3 million children in 2006.⁷ Without sufficient new funds, states may be forced to make additional cuts to their child care assistance programs, particularly for low income families with no connection to TANF.

Deficit Reduction Act and recent changes to the TANF program

Recent changes to the TANF program are likely to make the child care subsidy situation even more dismal. In early 2006, Congress used the Deficit Reduction Act (DRA)⁸ to make some small but quite significant changes to the TANF block grant. To the surprise of many, Congress structured the new law to substantially increase TANF work participation rate requirements (the proportion of parent recipients who must work a minimum number of hours per week). At the same time, the legislation included only a minimal increase in funding for child care, \$200 million per year for five years.

In June 2006, new federal TANF regulations were adopted which will make it even harder for states to design effective welfare-to-work programs, particularly for recipients with the greatest barriers to employment. These TANF rules impose significant financial penalties on states that fail to meet the more stringent work participation rate requirements.⁹ The new TANF rules could lead states to make it more difficult for needy families to get on cash assistance and to sanction families who

face barriers. It clearly will be more expensive for states to undertake efforts to increase work participation rates in ways that improve families' employment outcomes.

To put this in perspective, it's important to note that states now spend significantly less on TANF-related programs than they did in 1994. Even taking into account the additional funds that states spend on child care in order to receive matching federal funds, state spending in this area is more than one-third below what states spent in 1994.¹⁰ And there have been dramatic changes in the ways the funds are used.

Over the past decade, the proportion of TANF funds used for traditional cash assistance and welfare-to-work programs dramatically declined. In 2005, only slightly more than one-third (38 percent) of TANF and state maintenance of efforts (MOE) funds were used for cash assistance, and just under 8 percent were used for "work-related activities" such as employment and training and work subsidies.¹¹ At the same time, an increasing proportion of TANF funds have been used to pay for work supports, particularly child care. In 2005, 18 percent of TANF and state MOE funds were spent on child care assistance for welfare recipients and other low income working families.¹² It should not be surprising that such a significant percentage of these funds are spent on child care assistance because care is so costly. On average, annual child care costs for just one child are higher than families' clothing and health care costs combined,¹³ and low income families may spend as much as a quarter of their income on child care costs.¹⁴

The increased TANF work requirements in the DRA will require states to reexamine their approach to funding child care assistance for all low income working families — those receiving

TANF, those leaving TANF, and those that have had no connection to TANF. In addition to devoting a greater proportion of their TANF block grant to child care for participants in welfare-to-work programs, states need to maintain subsidized child care for non-TANF families since child care assistance is critical for helping working families remain employed.

The problem is that most states no longer have significant unspent TANF funds from prior years or any other ready sources of funds to use for child care and other supportive services. The lack of significant new federal resources for child care, together with the large increase in the number of TANF families that will need child care, is certain to create tensions and difficult choices for states that are interested in supporting both TANF families and other low income working families.

Some states have already struggled with those choices. For example, in May 2006, state officials in Virginia determined that they needed to use more child care funds to serve TANF families, and instituted significant cuts which resulted in thousands of working families losing child care assistance.¹⁵ Whether this decision turns out to be a successful or misguided strategy remains to be seen, but the negative impact on those families who lost subsidies is certain. Research demonstrates that child care assistance helps low income families keep their jobs. All families who need child care assistance but cannot get it are faced with untenable choices: choose lower-quality, less stable child care; go into debt; return to welfare; or forego paying for other necessities in order to pay for child care.¹⁶

In addition to cutting subsidies for non-TANF families, states have turned to other strategies to try to stretch their

funding. These include paying child care providers at levels far below the amount it costs to care for children, raising family fees and co-payments, maintaining waiting lists, and lowering family eligibility levels.¹⁷ All of these policies are counter-productive to the goal of helping working families. Thus, states likely will need to increase their overall investment in child care assistance and consider policy changes to ensure that low income working families have access to child care. But where will the money for this essential child care assistance come from?

Sources of funding for subsidized child care

The federal government is the major source of funding for child care assistance through TANF and CCDF funds. The DRA slightly increased CCDF funding by \$200 million in 2006, and then provided level funding each year through 2010 (\$200 million per year for five years, for a total of \$1 billion).¹⁸ This increase in mandatory CCDF funding was partially offset by a decrease in the discretionary portion of CCDF funding — the portion of funding that Congress must appropriate each year — from \$2.083 billion in 2005 to \$2.062 billion in 2006. As the costs of providing child care rise, CCDF's funding will result in fewer children being served each year. According to the federal government's own projections, approximately 400,000 fewer children will receive child care assistance by 2011. This is on top of the estimated 150,000 children who have already lost assistance since 2000¹⁹ and doesn't take into account proposed cuts to Head Start and the Social Services Block Grant.²⁰ In 2004, 41 states spent more than a quarter million dollars to supplement their child care systems through SSBG. So the current federal funding picture looks fairly bleak.

Given the uncertainty of increases in federal funding, states will be required to make major new financial commitments to child care funding. Initially states will need to calculate the most effective way to obtain the child care funding provided by the DRA. Since states must provide matching funds to access the additional CCDF funding, most states will be required to increase their child care spending in order to obtain their share. States will be required to spend about \$150 million in additional state funds to draw down the extra \$200 million of federal funds.²¹

In many states, administrators have been working hard to identify current funding that can be used to match CCDF funds, and advocates have been working to encourage their legislatures to provide additional state funds. Several types of state and private expenditures can be used as the state match for these federal funds. In addition to state spending on the basic child care subsidy program, they include public expenditures on pre-kindergarten programs and privately donated funds. States are permitted to count funds spent on public pre-kindergarten programs for up to 20 percent of CCDF's state match or MOE requirements, but the state must ensure that pre-k programs meet the needs of working parents, and will not result in reduced expenditures on full-day, full-year child care services. States may also meet their CCDF match requirement with funds that private non-governmental agencies donate to the state. These donated funds count only if they are not directed to a particular individual, organization, or facility.²²

Some states have been successful in creating public-private partnerships to generate new funds for child care subsidies and other initiatives. Other states and local communities have used targeted tax approaches to raise new funds to support a particular initiative

or make child care more affordable for individual families,²³ including special property taxes, sales taxes, tobacco and other “sin” taxes, and the use of refundable dependent care tax credits to offset families’ child care expenses.

Low income families, local communities, and states will all benefit from increased funding for child care assistance. With the help of their child care advocacy communities, each state will need to evaluate various funding approaches and determine the best way to make new investments in child care and other early education initiatives.

End Notes

1 The TANF program was authorized under the Personal Responsibility and Work Opportunity Reconciliation Act, (PRWORA), Pub. L. 104-193, 110 Stat. 2105, enacted August 22, 1996.

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12 Ibid.

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20 Ewen, D., & Matthews, H. (2007).

21 Center on Budget and Policy Priorities and Center for Law and Social Policy (2007).

22 Ibid.

23 For more information on each of these types of investments and other financing strategies, see Louise Stoney and Karen Edwards, *Child Care Financing Matrix*, <http://nccic.org/pubs/ccfinancingmatrix.pdf>; Anne Mitchell, *Innovative Strategies for Financing Quality Child Care*, 2002, www.earlychildhoodfinance.org/handouts/InnovativeStrategiesForFinancingQualChildCare.ppt.