



June 2018

Child Care and Welfare Reform – What You Need to Know

As Congress considers taking up welfare reform, the critical importance of child care for working parents of young children must be clearly understood and reflected in reform efforts. For many working families, child care is not a luxury, it is a basic necessity—and often an expensive one. In fact, in families with young children, child care costs are often one of the largest items in the household budget. Historically, America’s child care and welfare programs have had a complicated relationship. Below we provide an overview of this history and outline three key child care issues for policymakers to consider as a part of any welfare reform.

History of Child Care and Welfare Programs

The federal government provides support for child care through the Child Care and Development Fund (CCDF).¹ The Fund is distributed and managed by the Department of Health and Human Services (HHS) and includes money from both the Temporary Assistance for Needy Families (TANF) program and the Child Care and Development Block Grant (CCDBG) program.

Prior to 1996, four federal child care programs provided support to low-income families. Three of the programs provided cash assistance to *recipients of the old welfare system*. These child care programs received mandatory funds and were considered an individual entitlement. The Senate Finance Committee and the House Ways and Means Committee provided oversight.

¹ The term “Child Care and Development Fund” is not established by statute, rather the term was coined in regulation by HHS. Funds that are added to discretionary CCDBG funds include state “maintenance of effort” and matching funds, and funds authorized under sections of the Social Security and TANF programs.



The fourth program, CCDBG, was established in 1990 to support child care for low-income families *who were not connected to the welfare program*. CCDBG was funded with discretionary funds and was subject to annual appropriations. Oversight was provided by the Senate Health, Education, Labor and Pensions Committee and the House Education and Workforce Committee.

In 1996, Congress repealed the old welfare program and passed the Personal Responsibility and Work Opportunity Act (PRWORA). PRWORA consolidated the three child care assistance programs into a block grant that received mandatory funds; in addition, Congress called for these funds to be combined with CCDBG discretionary funds and spent *according to CCDBG rules*. In 2014, the CCDBG program was reauthorized and health and safety standards were strengthened.

PRWORA prescribed CCDF mandatory funds be allocated in two ways²:

- **Guaranteed mandatory funds** – This portion of mandatory funds is allocated to states based on annual state child care expenses under the Aid to Families with Dependent Children (AFDC) program prior to 1996³. The amount of these funds is set based on that specific time period and does not increase with inflation.
- **Federal matching funds** – These are the remaining mandatory funds; they are distributed to states based on each state’s share of the overall population of children under age 13. To qualify for their full share of these funds, states must spend at least the amount equal to what they spent prior to 1996. This is called a “maintenance of effort” (MOE) requirement. States must also match the federal share at a rate set by HHS.

Currently, states also have two options for using TANF funds for child care. They can:

- *Transfer up to 30 percent of their TANF funds to CCDBG* — When transferred at the state level, TANF funds are subject to all CCDBG requirements.
- *Provide child care support directly from state programs that are managing TANF funds* — Funds that are spent directly by the TANF program are not required to follow CCDBG requirements. This has resulted in a bifurcated system, where families who access child care assistance via direct TANF support can apply it to child care that is not subject to the same health and safety standards as families who access assistance through CCDBG.

Current Levels of Child Care Funding

A preliminary analysis of the use of CCDF funds in FY2016 found that approximately 1.37 million children in 823,600 families received child care assistance in an average month during that year. Of the families who received assistance, nearly half earned below the federal poverty level of \$20,090 household income for a family of three.ⁱ Even with additional state TANF spending on child care, the program only reaches a small percentage of eligible families. According to a November 2017 report by the Department of Health and Human Services, 16 percent of children who were eligible for child care assistance in FY2013 under federal rules received it.ⁱⁱ

Figure 1 shows total expenditures on child care in FY 2016, the latest year available. Federal TANF funds account for around 28 percent of total child care expenditures.

² These mandatory funds are under the jurisdiction of the Senate Finance and House Ways and Means Committees. They are appropriated under section 418(a) of the Social Security Act.

³ AFDC was the name of the welfare program prior to the 1996 welfare reform.

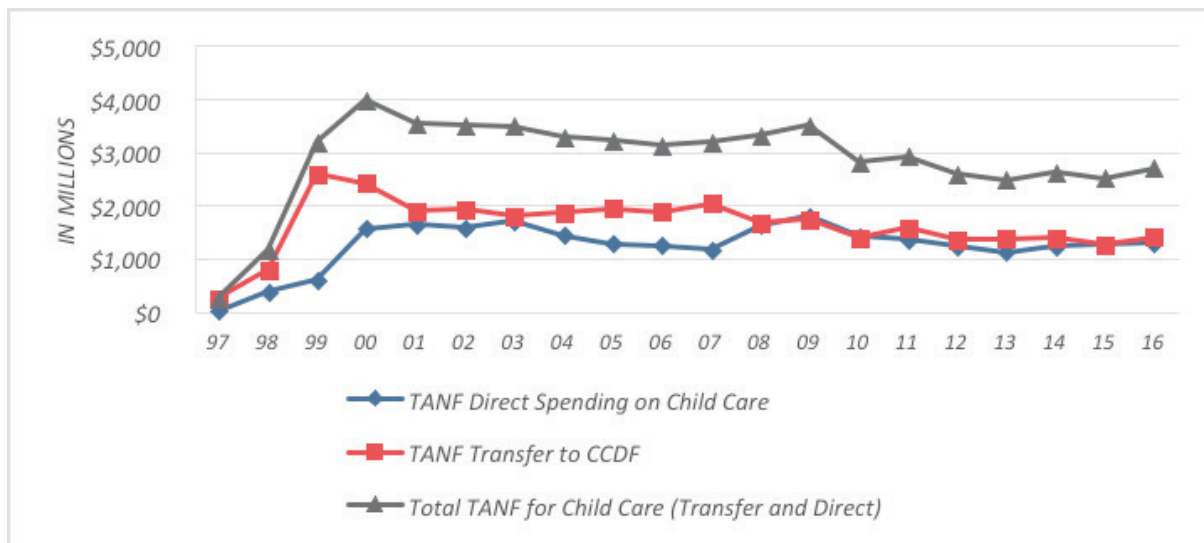
Figure 1: Expenditures for Child Care Assistance in FY 2016 by Category

Category	Federal Expenditures	State Expenditures	Total Expenditures
CCDF Funding Streamsⁱⁱⁱ			
CCDF Mandatory	\$1,115,750,626	N/A	\$1,115,750,626
CCDF Matching	\$1,424,866,139	\$1,169,048,890	\$2,593,915,029
CCDBG Discretionary	\$2,488,098,581	N/A	\$2,488,098,581
State MOE	N/A	\$899,875,880	\$899,875,880
Sub Total, CCDF	\$5,028,715,346	\$2,068,924,770	\$7,097,640,116
TANF Funds^{iv}			
TANF Transferred to CCDF	\$1,403,448,661	N/A	\$1,403,448,661
TANF spent directly on Child Care	\$1,295,892,101	N/A	\$1,295,892,101
TANF spent directly on Pre-K/Head Start	\$93,014,187	N/A	\$93,014,187
Sub Total, TANF	\$2,792,354,949	N/A	\$2,792,354,949
Total, CCDF and TANF	\$7,821,070,295	\$2,068,924,770	\$9,889,995,065

*Does not include TANF funds transferred to CCDF

According to the Congressional Research Service, total federal spending for child care over the last two decades has remained fairly flat in nominal terms. When adjusted for inflation, it has decreased nearly 17 percent. Furthermore, although TANF block grant funding has remained constant at \$16.5 billion annually, the amount of TANF funds spent on child care has declined⁴. This loss in funding has corresponded with a drop in the number of children served from 1.9 million children in 2009 to around 1.4 million today.

Figure 2: TANF Federal-Only Spending on Child Care (FY1997-2016)



⁴ It should be noted that child care is just one of several authorized uses of TANF funds—as a result, the amounts spent on child care vary from year to year and state to state.

Welfare Reform Considerations

If Congress is going to tackle welfare reform, three critical child care issues must be considered:

1. If Congress implements new or increased work participation requirements, they MUST be accompanied by increased investments in child care. With annual child care costs for an infant ranging between \$10,000 and \$18,000, the vast majority of parents of young children are struggling to make ends meet no matter what their family income. Families earning at or near minimum wage are often priced out of access to quality child care. Investing in America's children should be an essential element of any reform effort.

2. Current TANF child care investments should be maintained by establishing a new Maintenance of Effort (MOE) for TANF funds spent on child care. If TANF funding is held constant and work participation rates are increased, states could cut programs currently funded with TANF resources (including child care) to support more work participation. Congress should consider establishing a new maintenance of effort requirement to ensure that states continue to invest TANF funds in child care.

3. All federal assistance for child care should be subject to CCDBG health and safety requirements. Congress should take the opportunity to fix the current bifurcated health and safety system by requiring that all child care funding meet the bipartisan-supported CCDBG standards. Safe, quality child care is essential to ensure that all America's children have the opportunity to grow up healthy and equipped to realize their full potential and become productive, responsible adults.

¹ Office of Child Care. "Characteristics of Families Served by the Child Care and Development Fund (CCDF) Based on Preliminary FY 2016 Data." October 2015.

² US Department of Health and Human Services. "Factsheet: Estimates of Child Care Eligibility & Receipt for Fiscal Year 2013." November 2017.

³ Office of Child Care. "CCDF Expenditures for FY 2016 as of 9/30/2016." March 2018.

⁴ Office of Family Assistance. "TANF Financial Data – FY 2016." February 2018.

Note: This report uses the TANF definitions of early care and education which are as follows:

- Child Care (Assistance and Non-Assistance): child care expenditures for families that need child care to work, participate in work activities (such as job search, community service, education, or training), or for respite purposes. Includes child care provided to families who receive child care during a temporary period of unemployment. Does not include funds transferred to the CCDF (Discretionary Fund - reported on the ACF-696) or the SSBG programs.
- Pre-Kindergarten/Head Start: pre-kindergarten or kindergarten education programs (allowable if they do not meet the definition of a "general state expense"), expansion of Head Start programs, or other school readiness programs.