

North Carolina

THE INTERSECTION OF TANF AND CHILD CARE

August 2023

NATIONAL OVERVIEW

The Temporary Assistance for Needy Families block grant is one of our country's largest public funding sources for child care and early learning. In fiscal year 2021, in aggregate, **states reported \$7.8 billion (25.8% of all TANF expenditures) spent on child care and early learning.**¹

States may use TANF funding for child care and early learning services in three ways:

1. Transfers to CCDBG

States may transfer up to 30% of their federal TANF funds to the Child Care and Development Block Grant to increase child care subsidies to low-income families.² CCDBG funds must comply with minimum health and safety standards.

2. Federal Direct Spending

States may allocate any amount of their federal TANF funds directly to child care and early learning services.

3. State MOE Direct Spending

States may count spending on child care as contributions to their TANF Maintenance of Effort (MOE) requirements.^{3,4}

IN FISCAL YEAR 2021:

- 25 states transferred a total of **\$1.16 billion** of their federal TANF funds to CCDBG. No state met the CCDBG transfer limit of 30%.
- 47 states and DC spent a total of **\$1.43 billion** of their federal TANF allocation directly on child care services.
- 47 states and DC reported an aggregate of **\$5.25 billion**, or one-third of all TANF MOE funds, spent on child care services.

The only TANF child care and early learning expenditures required to meet federal health and safety standards are those transferred to CCDBG. However, the percentage of TANF funds transferred has declined over the last 20 years and states have shifted to favor direct spending.

Across all states, between 2000 and 2021:

- Annual transfer amounts from TANF to CCDBG decreased by half from \$2.4 billion to less than \$1.2 billion.
- The percentage of TANF spending on child care and early learning that was transferred to CCDBG dropped from 41% to 15%.
- The number of states transferring funds to CCDBG dropped from 46 to 25.

Safety is consistently ranked highest among factors important to parents selecting child care.^{5,6} Under current regulations, the only TANF funds spent on child care and early learning guaranteed to meet federal minimum health and safety standards are those transferred to CCDBG.

In FY2021, 85% of the TANF dollars spent on child care and early learning nationwide—\$6.7 of the total \$7.8 billion— were obligated for direct services and not necessarily subject to CCDBG health and safety standards.⁷

This leaves a subset of children who receive TANF child care assistance receiving care that may be below minimum standards.

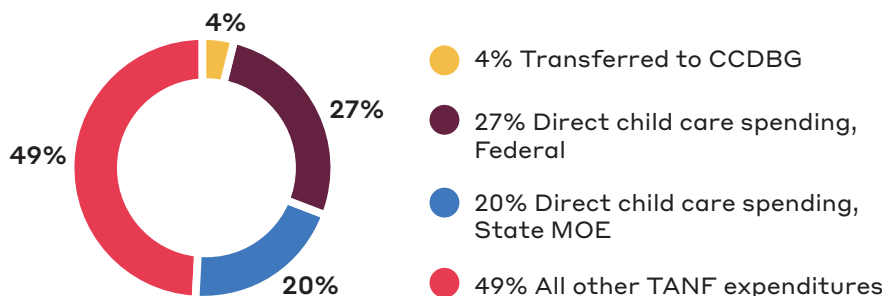
TANF CHILD CARE AND EARLY LEARNING SPENDING IN NORTH CAROLINA

In FY2021, **North Carolina** reported that \$294.6 million – or **51%** – of its total \$578.0 million in TANF expenditures was spent on child care and early learning.⁸ The chart below shows how much TANF funding in millions, from both state and federal sources, the state spent on child care services between FY2015 – FY2021.

	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Federal Transfers To CCDBG	\$72 M	\$57 M	\$72 M	\$72 M	\$9 M	\$22 M	\$22 M
Direct Spending, Federal	\$95 M	\$90 M	\$92 M	\$99 M	\$150 M	\$166 M	\$158 M
Direct Spending, State MOE	\$125 M	\$143 M	\$147 M	\$166 M	\$130 M	\$130 M	\$115 M
Total Spending on Child Care and Early Learning Services	\$291 M	\$289 M	\$311 M	\$338 M	\$289 M	\$319 M	\$295 M

Distribution of TANF expenditures in FY21, North Carolina

Total TANF expenditures: \$578.0 Million

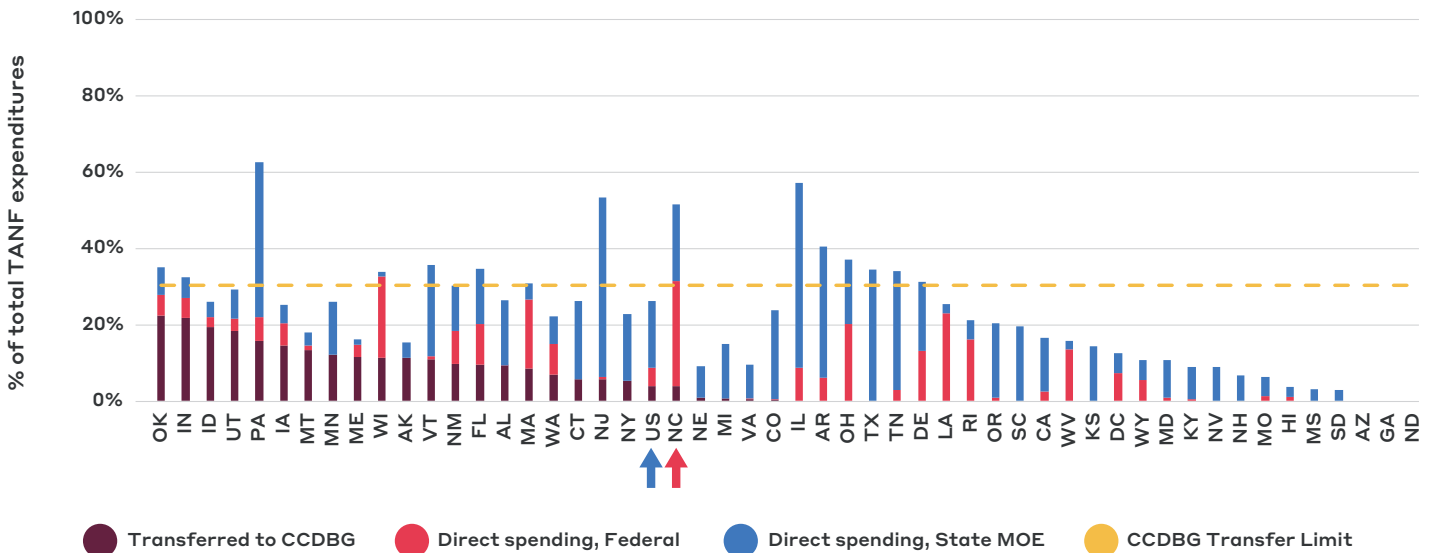


In North Carolina, the percentage of TANF funds that were transferred to CCDBG in FY21—and therefore required to be compliant with CCDBG standards—was **4%**.⁹

NORTH CAROLINA IN CONTEXT

The decision by states to transfer TANF funds to CCDBG is crucial for promoting the high-quality environments children need to build a healthy foundation for life and for helping families access stable child care arrangements they can trust to support work force participation. **In FY2021, no state met the CCDBG transfer limit of 30% and 26 states transferred zero dollars.**¹⁰

TANF Expenditures On Child Care & Early Learning By State, FY2021



RECOMMENDATIONS FOR CONGRESS

Congress must address the outdated TANF requirements to promote the health and wellbeing of children and families and maximize child care investments:

- Require all TANF direct spending (federal and state MOE) on child care to meet the same health, safety, and background check requirements applied to CCDBG spending.
- Increase mandatory federal child care funding and reduce the reliance on TANF as a contributor to the child care system.
- Direct the U.S. Department of Health and Human Services to clarify allowable expenditures and reporting requirements for state and local spending of any TANF child care dollars not transferred to CCDBG.

RECOMMENDATIONS FOR STATES

In the absence of federal updates to TANF, states have options available now to ensure TANF funds support healthy and safe child care options:

- Ensure any TANF spending on child care and early learning services are subject to the same health, safety, and background check requirements required for CCDBG spending. This could be accomplished through changes in state regulations or shifting TANF child care spending from direct spending to CCDBG transfers.

This report uses the term **child care and early learning** to refer to all services encompassed by the TANF definition of early care and education (ECE), which includes two components:

- **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 CCDBG or the Social Services Block Grant (SSBG) programs.
- **Pre-K/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.

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- 1 U.S. Dept. of Health and Human Services, Office of the Administration for Children and Families. “TANF Financial Data, FY 2021.” Accessed June 6, 2023, <https://www.acf.hhs.gov/ofa/data/tanf-financial-data-fy-2021>.
 - 2 U.S. Library of Congress, Congressional Research Service, *Child Care Entitlement to States: An Overview*, (2022), <https://crsreports.congress.gov/product/pdf/IF/IF10511>.
 - 3 Ibid.
 - 4 “EXPENDITURES OF STATE AND FEDERAL TANF FUNDS” *Code of Federal Regulations*, title 45 (2021):154-160. <https://www.govinfo.gov/app/details/CF-2021-title45-vol3/CFR-2021-title45-vol3-part263>.
 - 5 Bipartisan Policy Center. (2021, February 24). “Are Parents’ Child Care Preferences Changing? Overview of BPC’s Parent Survey” <https://bipartisanpolicy.org/blog/are-parents-child-care-preferences-changing-overview-of-bpcs-parent-survey/>.
 - 6 Bipartisan Policy Center. (2022, August 8). “Survey Results: What Keeps Employed Parents out of the Child Care System?” <https://bipartisanpolicy.org/blog/survey-results-what-keeps-employed-parents-out-the-child-care-system/>.
 - 7 U.S. Dept. of Health and Human Services, Office of the Administration for Children and Families.
 - 8 Ibid.
 - 9 Ibid.
 - 10 Ibid.

