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# REVERSING DIRECTION ON WELFARE REFORM: President's Budget Cuts Child Care for More Than 300,000 Children

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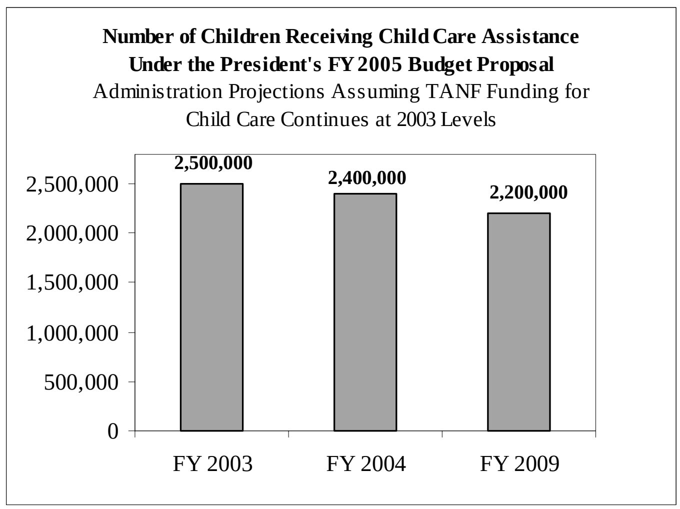
Under the Administration's proposed budget, at least 300,000 fewer children would receive child care assistance in 2009 than in 2003. The Administration estimates that the number of children receiving child care already fell by 100,000 over the last year, and will fall by another 200,000 over the next five years, resulting in a *decline* from 2.5 million children in FY 2003 to 2.2 million in FY 2009. This would occur because child care funding would be essentially frozen through FY 2009, making it impossible for states to maintain their current levels of child care assistance. As this analysis explains, the Administration's budget almost certainly underestimates the number of children that would lose child care over the next five years if the proposed budget was adopted.

**Figure 1**




The loss of child care assistance for at least 300,000 children should be cause for serious concern. Child care is an essential work support for parents and can promote healthy educational and social development for children. The expansion of child care assistance in the 1990s played an important role in the decline in welfare caseloads and in the increase in single-parent employment. Recent research evidence shows that child care programs help parents leave and stay off of welfare, get and keep jobs, and work more hours.[2] Currently, only one out of seven children who are eligible for child care assistance under federal rules receives this assistance.[3] Those who don't often are forced to settle for poor quality child care, pay a very large proportion of their incomes for child care, or both. The Administration's FY 2005 budget proposals would jeopardize an important part of the 1996 welfare reforms for many families and leave an increasing number of low-income working families without the child care help they need to remain employed and meet the developmental needs of their children.

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[2] Fremstad, S. (2004). *Recent Welfare Reform Research Findings: Implications for TANF Reauthorization and State TANF Policies*. Washington, DC: Center on Budget and Policy Priorities.

[3] Mezey, J., Schumacher, R., Greenberg, M., Lombardi, J., & Hutchins, J. (2002). *Unfinished Agenda: Child Care for Low-Income Families Since 1996—Implications for Federal and State Policy*. Washington, DC: Center for Law and Social Policy.

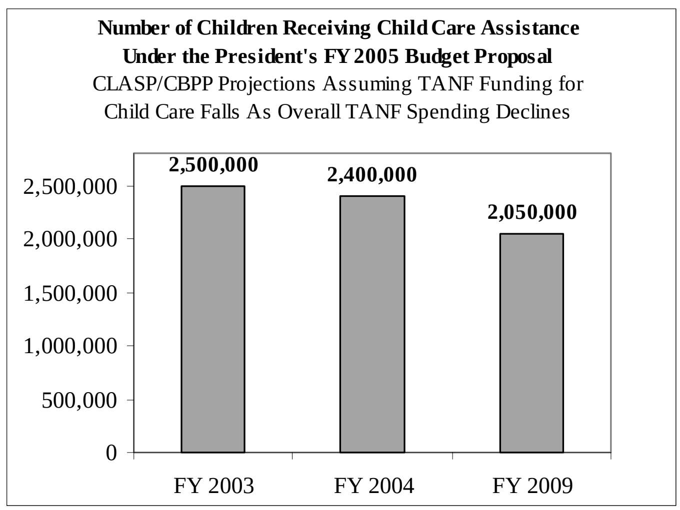
The Administration's estimate of the number of children who will lose care under its budget almost certainly substantially understates the actual number of children who would lose care. This is because the Administration fails to take into account the likely decline in the amount of federal Temporary Assistance for Needy Families (TANF) funds that states will be able to commit to child care over the next few years. The Center for Law and Social Policy and the Center for Budget and Policy Priorities estimate that when one takes into account the decline in overall TANF spending projected by the Congressional Budget Office, the number of children receiving child care assistance would decline by 447,000 between FYs 2003 and 2009.[4]

**The Administration's budget would freeze or cut each major source of federal funding for child care.** There are two major federal funding streams for child care assistance for low-income families: the Child Care and Development Block Grant (CCDBG), which consists of a "mandatory" or guaranteed portion and a "discretionary" portion; and the TANF block grant. States also use a relatively small amount of Social Services Block Grant dollars to fund child care as well.

The Administration's budget calls for freezing *all* of these funding streams at FY 2004 levels—except for the discretionary portion of CCDBG, which in FYs 2006-2009 would be *cut* below 2002, 2003, and 2004 funding levels.[5] Since the costs of child care rise over time with inflation, a frozen funding level means that the flat amount of money can assist a smaller number of children and families each year. Accordingly, the budget projects a decline in the number of children receiving assistance.

**The Administration's projections, though bleak, understate the magnitude of the problem.** The projections assume that states will not cut back their use of TANF for child care over the next five years. However, both the Administration's Office of Management and Budget and the Congressional Budget Office project that overall TANF spending by states will decrease over the next five years. Such a decline seems unavoidable. In both FY 2001 and FY 2002, states spent about $2 billion more in TANF funds than their TANF block grant amounts. (They drew on TANF reserves accumulated in prior years to do so.) At this rate, the vast majority of states will have spent down their TANF reserves within two years.[6] With reserve funds declining or exhausted, states will need to make cuts to bring their TANF budgets into balance.

**Figure 2**

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[4] See our separately-posted technical appendix for a detailed methodology discussion. These estimates assume that states will reduce their use of TANF for child care proportionally to their current use of TANF for child care compared to their overall TANF expenditures and transfers.

[5] In FY 2005, the Bush Administration proposes a CCDBG discretionary funding level of $2.1 billion; this figure represents the FY 2002 funding level for discretionary funding. In FY 2006 through FY 2009, the Administration proposes funding levels of $2.047 billion, $2.049 billion, $2.06 billion, and $2.064 billion, respectively.

[6] Greenberg, M., & Mezey, J. (2003). *House and Senate TANF Reauthorization Bills Would Not Free Up Large Sums for Child Care*. Washington, DC: Center for Law and Social Policy; Mezey, J., & Richie, B. (2003). *Welfare Dollars No Longer an Increasing Source of Child Care Funding: Use of Funds in FY 2002Unchanged from FY 2001, Down from FY 2000*. Washington, DC: Center for Law and Social Policy.

**Lack Of Access To Child Care Assistance Is Harming Low-Income Families.**

*A newspaper article from Nevada highlights the plight of two single mothers—one of whom cannot get child care assistance and the other who was scheduled to lose her assistance. These mothers are not alone. According to the Children's Defense Fund, as of June 2003, Nevada, had a wait list of almost 6,000 families.*

For Donna Young, a single mother of two who makes $8 an hour and has been trying to get child-care assistance for two years, that means warnings from her power company that her heat may be shut off soon. For 22-year-old Amy Tucker, who will lose her child-care help in January, that means getting a second job. For the new year, her 22-month-old son Tyson Owens will see less of his mom, who already works full-time. The $300 a month Tucker receives from the state toward her $500-a-month day-care bill is what stands between her and the welfare office. It is the key to her independence, she said.

**Source:** Anjeanette Damon, "State Budget Cuts Hurt Child Care Effort," *Reno Gazette-Journal* (November 29, 2003).

Recent evidence from states shows that states are cutting child care programs, in part to address the declining availability of TANF funds. Almost half of the states have made cuts to their child care programs, imposed wait lists, or are no longer accepting applications since January 2001. Additionally, states have coped with reduced resources by restricting eligibility to even lower income families, requiring low-income parents to pay more for their child care and cutting staff and programs that protect the health and safety of children in child care settings and that promote quality.[7] Some of these cuts are the result of state budget shortfalls; others are based on the declining availability of TANF for child care. It is therefore surely reasonable to anticipate that if annual TANF spending were to fall by $2 billion over the next five years, states would cut TANF investments in child care at least proportionately.

**Without sufficient child care funding, new work requirements will make the child care situation worse.** CBO has estimated that the House welfare legislation (which is modeled on the Administration's proposal) would increase child care and work costs by $3 billion to $9 billion over five years; CBO's preliminary estimate was that the more modest increase in work requirements in the Senate bill would cost between $1 billion and $1.5 billion. Both of these bills would add only $1 billion in additional federal child care funding over the next five years. It is likely that both bills would force states to cut child care funds for additional low-income, non-TANF families in order to pay for the costs of new welfare work requirements.

**Additional child care funding is needed to prevent children from losing their child care assistance.** Instead of addressing the child care funding crisis faced by states and low-income families, the Administration has proposed an FY 2005 budget that would result in hundreds of thousands of children losing child care assistance by FY 2009, even without the Administration's proposed work requirements. When TANF reauthorization is debated on the Senate floor, Senator Olympia Snowe is expected to introduce an amendment to provide an additional $6 billion in child care funding over five years. Enactment of this amendment would go a long way towards ensuring that states can meet welfare work requirements without terminating child care assistance for other low-income families. Without these resources, children and families will continue to suffer, and states will be less able to help families make the difficult transition from welfare to work.

[7] Forthcoming Children's Defense Fund report; Parrott, S., & Wu, N. (2003). *States Are Cutting TANF and Child Care Programs: Supports for Low-Income Working Families and Welfare-to-Work Programs are Particularly Hard Hit*. Washington, DC: Center on Budget and Policy Priorities; U.S. General Accounting Office. (April 2003). *Child Care: Recent State Policy Changes Affecting the Availability of Assistance for Low-Income Families.* Washington, DC: Author.