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# STATE FISCAL RELIEF FUNDS DO NOT ADDRESS THE NEED FOR SUBSTANTIAL INCREASES IN CHILD CARE FUNDING

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Child care funding is a major issue in the TANF reauthorization debate. Most states have made cuts in child care programs during the past year, and substantial increases in funding are needed to prevent much larger cuts in the future. A recent report by the Center on Budget and Policy Priorities and the Center for Law and Social Policy estimated that, without increased resources, hundreds of thousands of children in working families will likely lose access to child care assistance in the next few years.[1]

Bipartisan TANF reauthorization legislation (S. 1443) sponsored by Senators Carper (D-DE), Nelson (D-NE), and Collins (R-ME) would address this need by providing $6 billion in additional mandatory child care funding over the next five years. Similarly, last year's bipartisan Senate Finance Committee TANF reauthorization bill would have provided an additional $5.5 billion in child care funding over the next five years. By contrast, the House TANF reauthorization bill (passed in February on a nearly party-line vote) would increase child care funding by only $1 billion over five years, despite Congressional Budget Office (CBO) estimates that federal mandates in the bill would cost states up to $9 billion over the same time period.

Some opponents of child care funding increases have argued that "state fiscal relief" funds provided by Congress and the existence of TANF "reserve" funds mean that states do not need additional child care funding beyond the $1 billion in the House-passed bill. As this analysis explains, fiscal relief and TANF reserve funds will do little to address the substantial need for additional child care funding over the next five years.

## State Fiscal Relief: Temporary and Modest

The tax bill enacted earlier this year included $20 billion in funds for states to help alleviate some of the effects of the current state fiscal crisis. The legislation temporarily raises the federal matching rate for Medicaid — the Federal Medical Assistance Percentage or FMAP — and thus directly lowers states' share of Medicaid expenses by about $10 billion during the period April 1, 2003 through June 30, 2004. In addition, the legislation provides grants worth $5 billion in federal fiscal year (FFY) 2003 and another $5 billion in FFY 2004 that states can use for broader budgetary relief.

[1] Sharon Parrott and Jennifer Mezey, *New Child Care Resources are Needed to Prevent the Loss of Child Care for Hundreds of Thousands of Children in Working Families*, Center on Budget and Policy Priorities and Center for Law and Social Policy, July 15, 2003.

The primary argument made for fiscal relief was that the state fiscal crisis was impeding economic growth and that providing federal aid to states would provide an immediate economic stimulus.[2] Proponents of state fiscal relief viewed it as a *temporary* measure designed to help the economy in the short term, not as a substitute for future, specific funding needs, and limited the funding to 2003 and 2004.

The fiscal relief provided to states this year will not substantially address the need for increased child care funding, for four main reasons, discussed in more detail below. First, fiscal relief funds will help states balance their budgets in 2003 and 2004, but not beyond. The funds should reduce somewhat the overall level of budget cuts, including child care cuts, states must make in those years, but will do little to address needs beyond 2004. This means the funds will not help states avoid the very large cuts in child care that likely will occur after 2004 absent a major increase in funding. Second, states' need for additional child care funds will increase substantially over time, as the costly TANF work requirements expected as part of reauthorization legislation — and the accompanying needs for child care while parents are in TANF work programs — phase in. Third, the amount of state fiscal relief funds available to states pales in comparison to the size of budget shortfalls states faced this year or are facing in 2004. And finally, while some of the funds may be used for child care, the lion's share of funding will likely be used for other competing needs, including education, health care, and public safety.

- *State fiscal relief is temporary — no funding is provided after 2004 — while the gap between current (frozen) funding levels and the cost of maintaining current child care programs will continue, and grow significantly, after 2004.* Fiscal relief funds are only provided in 2003 and 2004, but the child care funding shortfalls will last far beyond 2004 and grow larger each year. In the absence of new child care resources, an estimated 223,000 children in low-income working families will lose access to child care by 2006, rising to 361,000 by 2008, even if TANF work requirements are left unchanged. This loss in slots is the result of declining TANF funding for child care as states no longer have unspent TANF reserves to rely upon and the fact that the cost of providing child care increases over time as the wages of child care providers and the cost of materials and space rise.

  To avert this loss in child care slots, states need an additional $5.7 billion between 2004 and 2008 to prevent the loss of these child care slots. *States need more than 90 percent of these funds in 2005 to 2008, years in which no new fiscal relief funds are available.*

- *Any new costs associated with mandated increases in TANF work requirements will increase substantially over time, with the largest share of the costs coming after 2004.* For example, in CBO's estimate of the costs of meeting the work

[2] See, for example, op-eds by economists Robert Solow of MIT and William Gale of the Brookings Institution arguing that the federal government should include state fiscal relief as part of any economic stimulus package. See *Los Angeles Times*, December 20, 2002 and *Los Angeles Times*, Opinion, Part M, Page 1, December 29, 2002

requirements included in the House-passed reauthorization bill, fully *two-thirds* of the five-year costs fall in 2007 and 2008. Senator Grassley's TANF proposal, like the House-passed bill, would increase work requirements over time, with the largest increases in state costs coming in the final two years.

- *Fiscal relief funds pale in comparison to the large state budget gaps.* The amount of fiscal relief is very modest compared to the massive budget gaps states faced or are facing in their 2004 budgets. Earlier this year, the National Conference of State Legislatures reported that 41 states were facing a cumulative budget gap of nearly $80 billion in their 2004 budgets, coming on top of similar shortfalls in their 2003 budgets.[3] The fiscal relief provided by Congress was only enough to offset about one-quarter of the 2004 budget gap. Many states already have used fiscal relief funds to close budget gaps in 2003 and 2004. Moreover, the General Accounting Office recently reported that state budget reserves continue to decline and the state fiscal crisis does not show signs of abating in the near future.

  In addition, one purpose of fiscal relief was to partially compensate states for the revenue they are losing as a result of the 2001, 2002, and 2003 federal tax cuts. These tax cuts will deprive states of roughly $9 billion in state revenues between 2003 and 2005 because of the way state tax systems interact with the federal tax system. Thus, much of the relief will simply go toward offsetting state revenue losses caused by federal-level decisions.

- *Child care is only one of many areas of subject to cuts at the state level.* States spend most of their budgets on education, health care, and public safety. All of these areas have been subject to substantial cuts in spending.[4] Thus, child care programs must compete with these programs for a share of the fiscal relief funds. While a handful of states may use some of these funds for child care, the lion's share will likely be used for other competing needs, including education, health care, and public safety. In addition, some states will use the funds to avoid or limit increases in state taxes and other revenue sources to balance their budgets. Even if some states use a modest share of the fiscal relief funds to avert child care cuts, they will not be enough to address states' long-term child care budget problems.

[3] "Three Years Later State Budget Gaps Still Linger: Total Gaps Grow to $200 Billion Since FY2001," National Conference of State Legislatures, April 24, 2003.

[4] For example, health care cuts proposed in 22 states earlier this year would have eliminated public health care coverage for 1.7 million people. Melanie Nathanson and Leighton Ku, *Proposed State Medicaid Cuts Would Jeopardize Health Insurance Coverage for 1.7 Million People: An Update*, Center on Budget and Policy Priorities, March 21, 2003.

### TANF Reserve Funds Insufficient to Avoid Large Cuts in Child Care Programs Even Without Increased TANF Work Requirements

Some have argued that states can use TANF reserve funds to pay for future child care costs. It is true that over the past several years, states have used significant amounts of these TANF reserve funds to support and expand child care programs. These funds, however, are quickly being exhausted. In fact, CBO projects that TANF spending will decline each year between 2003 and 2008 as states exhaust their TANF reserves. According to CBO, TANF spending will fall from $19.3 billion in 2003 to $16.9 billion in 2008 — a 13.8 percent reduction in spending, even before the effects of inflation are taken into account. This means that each year states will have fewer and fewer resources out of which to fund child care.

The limitations of TANF reserves as a source of funding for child care are evident from recent state actions. Many states already have begun to cut child care programs as a result of declining TANF reserves.[5] This trend will only accelerate in the future without substantial increases in child care funding from the federal government.

### Conclusion

The Senate Finance Committee has yet to determine how much child care funding to provide to states in TANF reauthorization legislation. To prevent substantial losses in child care slots for children in low-income working families, substantial increases in child care funding are needed. Some have argued that such increases are not needed because states received fiscal relief funds earlier this year and also have TANF reserve funds that can be used for child care. While state fiscal relief funds will help states close overall budget shortfalls in the short term, the gap in child care funding extends well beyond 2004, the last year fiscal relief funding is available. Similarly, TANF reserve funds are not sufficient to meet states' substantial needs for child care funding. These funds are quickly being exhausted. As a result, CBO projects that TANF spending will fall by nearly 14 percent in nominal dollars between 2003 and 2008. For these reasons, state fiscal relief and TANF reserve funds are not a substitute for this needed increase in child care funding.

[5] See General Accounting Office, "CHILD CARE: Recent State Policy Changes Affecting the Availability of Assistance for Low-Income Families," GAO-03-588, May 2003; Sharon Parrott and Nina Wu, *States Are Cutting TANF and Child Care Programs*, Center on Budget and Policy Priorities, June 3, 2003; and Danielle Ewen and Katherine Hart, *State Budget Cuts Create a Growing Child Care Crisis for Low-Income Working Families,* Children's Defense Fund, March 2003.