

December 15, 2003

ADMINISTRATION IS MISSTATING AMOUNT OF CHILD CARE FUNDING IN PENDING TANF REAUTHORIZATION BILLS

Bills Provide Far Less Funding Than Has Been Claimed and Would Cause Large Reductions in the Number of Children Assisted

By Sharon Parrott, Jennifer Mezey, Mark Greenberg, and Shawn Fremstad¹

When Congress attempts to complete TANF reauthorization legislation next year, a key issue will be what level of child care funding to include. This debate has been confused by Administration misstatements concerning the amount of child care funding that pending reauthorization bills would provide and the amount of funding that states "need." In fact, neither of the reauthorization bills passed by the House of Representatives or the Senate Finance Committee would give states the child care funding they need to meet two of the main purposes of child care funding —providing child care subsidies to families receiving cash welfare while they work or participate in programs designed to help them find jobs and providing child care assistance to low-income working families not receiving welfare benefits but who need help paying for child care.

Overview

In a recent series of letters to newspaper editors, Administration officials have asserted that pending reauthorization legislation provides \$3.3 billion in new funding for child care and that the Congressional Budget Office (CBO) has determined that "at most" \$1.5 billion in additional child care funding is "needed."² To the contrary, the bills commit the federal government to only \$1 billion in additional child care funding over the next five years. And, as various estimates have shown, this level of additional funding falls well short of what is needed to ensure that states can meet the costs associated with new work requirements for welfare recipients *and* maintain current child care slots for low-income *working* families not receiving welfare.

¹ Sharon Parrott and Shawn Fremstad are from the Center on Budget and Policy Priorities. Jennifer Mezey and Mark Greenberg are from the Center for Law and Social Policy.

² See the letter to the editor written by Wade F. Horn, Assistant Secretary for Children and Families, Department of Health and Human Services, in the *St. Louis Post-Dispatch* (11/10/03). The text of this letter is included in the Appendix to this paper. The following papers also have published letters to the editor from Dr. Horn in which he asserts that the bills include \$3.3 billion in additional child care funding: *Lexington Herald-Leader* (11/12/03), *Minneapolis-St. Paul Star Tribune* (11/06/03), *Wichita Eagle* (11/02/03), *Detroit Free Press* (9/26/03), and the *Portland Oregonian* (9/25/03).

- *The TANF reauthorization bills that the House and the Senate Finance Committee have passed would commit the federal government to providing \$1 billion in new child care funding over the next five years, not \$3.3 billion.* The House and Senate Finance bills increase total child care funding by \$1 billion over five years. The \$3.3 billion figure cited by the Administration does not represent the actual amount of child care funding in the bills. Instead of using the actual funding amount, the Administration claims that the amount of new child care funding in the bills is the \$1 billion increase in actual funds *plus* an increase in what is known as the “discretionary authorization ceiling” for child care. An increase in the discretionary authorization ceiling for child care funding provides absolutely no new funding for child care. Thus, it is inaccurate to say that the bills provide more than \$1 billion in child care.

Instead of increasing the actual amount of child care funding, an increase in the discretionary authorization ceiling for child care means merely that Congress can elect each year — but is under no obligation — to increase funding for child care up to the newly-increased authorized amount as part of the annual appropriations process. By contrast, the \$1 billion in new child care funding that the bill actually provides is guaranteed to states over a five-year period and is not contingent on Congress taking action each year to provide additional child care funding.

- *CBO has not estimated that only \$1.5 billion in additional child care funding is “needed.”* Child care funds are primarily used to assist two groups of families: families receiving welfare and low-income working families not receiving welfare. The \$1.5 billion CBO figure that Administration officials have cited does *not* include any estimate of states’ overall need for additional child care funds to serve — or even maintain child care services at current levels for — those low-income working families not on welfare. It is simply a preliminary estimate of the cost to states of complying with the new work requirements for low-income families receiving welfare that are contained in the Senate Finance Committee version of the TANF reauthorization legislation.³ (The CBO estimate of the cost of meeting the work requirements in the House bill is far higher — \$3 billion to \$9 billion.)

The Administration’s claim implies that the CBO estimate of the cost of meeting increased TANF work requirements represents the overall need for child care subsidies for both low-income working families not on welfare and families receiving welfare. This is not the case. In fact, CBO has estimated that it would cost *\$4.5 billion* in child care funding over five years simply to compensate for the effects of inflation on child care funding and thereby avert a *reduction* in child care services or child care slots, *even if there were no increase in TANF work requirements.* (This CBO estimate takes into account that the cost of child care

³ This CBO analysis was conducted on an earlier version of the Senate Finance bill that was modified before final passage in the Senate Finance Committee. CBO has not released an analysis of the cost of meeting the work requirements in the final Senate Finance bill. Estimates of the cost of meeting the work requirements in the final version of the bill would be somewhat lower than the earlier estimates.

risers over time as the salaries of child care workers, the cost of benefits for workers, rent for child care centers and other costs increase.)

In short, the level of child care assistance in the pending TANF reauthorization bills is well *below* the levels needed simply to keep child care services for low-income working families from shrinking in coming years.

The Administration may wish to argue that Congress should not provide sufficient funding to meet the combined cost of complying with the new TANF work requirements and maintaining current levels of child care assistance. That surely is its right. But the Administration should not misstate the level of child care funding that would be provided under the pending bills or the findings of CBO analyses to make its case.⁴

Conversely, the Administration may now actually support a \$3.3 billion increase in child care funding, despite including no new funding for child care in its TANF reauthorization plan and only a very modest increase in child care funding in its 2004 budget. If the Administration is committed to this level of funding, responsible budgeting practice would dictate including that \$3.3 billion in new funding in its 2005 budget proposal.

How Much Child Care Funding Do the House and Senate Finance Bills Provide?

In six separate published letters to newspaper editors, the Administration has claimed that the TANF reauthorization legislation that the House has passed and the legislation the Senate Finance Committee has approved include \$3.3 billion in additional child care funding over five years. In fact, both bills commit only \$1 billion in new federal funding for child care. The remaining funding is simply an increase in the “authorization ceiling,” or the maximum amount, that Congress is authorized to appropriate for the program through the annual appropriations process.⁵ Increasing this ceiling does not commit the federal government to providing any new child care funding.

- *The \$1 billion in new funding is an increase in “mandatory” funding and represents a true commitment of new federal resources to child care.*⁶ If the

⁴ It should be noted that administration officials also have asserted that the House and Senate Finance bills would free up \$2 billion for states to use for child care, seemingly referring to provisions in these bills that would make it administratively simpler to use TANF funds from prior years for child care and other purposes. Currently, certain types of benefits — including child care for employed families — can generally be funded with current-year TANF funds only. While allowing states to use carryover funds for any allowable TANF expenditure would provide needed administrative simplification, it would not result in \$2 billion becoming newly available for child care or other purposes. As a practical matter, the vast majority of states can already effectively use reserve funds for child care by rearranging how current and carryover funds are spent. See, “House and Senate TANF Reauthorization Bills Would Not Free Up Large Sums for Child Care,” by Mark Greenberg and Jennifer Mezey, Center for Law and Social Policy, November 2003.

⁵ The increased authorization level is included both in the House TANF reauthorization bill and in a bill the Senate Health, Education, Labor and Pensions Committee approved to reauthorize discretionary funding for the child care block grant.

⁶ The federal child care funding stream includes both mandatory funding and discretionary funding. Mandatory funding is guaranteed, without further Congressional action, for each year a program is authorized. Discretionary

legislation is enacted, these funds — \$200 million per year for the next five years — will be made available to states.

- *By contrast, the increase in the discretionary authorization ceiling does not represent a commitment of additional federal resources.* For an additional \$2.3 billion to materialize, Congress must vote to include this added funding in future annual appropriations bills. It is unlikely that would occur, since Congress likely would have to cut other programs to be able to provide these added funds while keeping overall appropriations within the appropriations limits.
- *Furthermore, the President's 2004 budget calls for just \$441 million over five years in discretionary child care funding above the 2002 appropriations levels; this is less than one-fifth of the \$2.3 billion that the Administration letters-to-the-editor cite, and also is well below the amount needed simply to ensure that discretionary child care appropriations keep pace with inflation and the loss of child care slots is thereby averted.⁷* And, the proposed Consolidated Appropriations Bill — the bill that will set discretionary funding levels for programs whose 2004 funding levels have not already been set by one of the enacted appropriations bills — would set discretionary child care funding at just slightly below 2002 levels, without even an adjustment for inflation. The bill does not include any of the increases in discretionary child care funding the Administration and others have said they support.⁸
- *There are scores, if not hundreds, of instances in which Congress has raised the authorization ceiling for a program but never provided the additional funds.* For example, the No Child Left Behind Act, which set new requirements for state K-12 education systems, increased the authorization ceilings in a number of areas. In many of these areas, appropriations levels have never reached the ceilings.

In summary, the House and Senate Finance Committee bills commit the federal government to increasing child care funding by \$1 billion, not by \$3.3 billion. If Congress

funding is not guaranteed, but rather is contingent on Congress allocating it each year as part of the appropriations process.

⁷ In 2002, the child care block grant received \$2.1 billion in discretionary funding. For 2003, the appropriations bills that passed both the House and Senate set funding at \$2.1 billion, but this amount was subsequently reduced to \$2.086 billion as a result of across-the-board cuts in discretionary programs. The proposed 2004 Consolidated Appropriations Bill (H.R. 2673) initially sets child care funding at \$2.1 billion — its 2002 nominal level — and then reduces it by .59 percent as a result of an across-the-board reduction in most non-defense, discretionary programs. Even without this .59 percent reduction, the amount of funding in the bill would purchase less child care in 2004 than in 2002 because of the effects of inflation.

⁸ While the increased authorization levels called for in the House TANF reauthorization bill and the Senate Health, Education, Labor and Pensions Committee bill have not passed, the House and Senate could have provided increased discretionary child care funding for 2004. Technically, the authorization for the discretionary funding for the child care block grant expired in 2002. Between 1997 and 2002, the authorization level was \$1 billion, but the appropriations committee appropriated funding above this level in every year since 1999. Once an authorization level for a program has expired, Congress can appropriate funding for the program at any level. A technical, procedural objection can be raised when funds are appropriated to a program whose authorization has expired, but this seldom occurs.

wishes to commit resources to child care beyond the \$1 billion level, there is a straightforward way that it can do so: it can increase mandatory child care funding to a greater degree. By contrast, raising the authorization level for discretionary child care appropriations does not itself increase child care funding levels. Citing the increase in the authorization level as though it were an increase in actual funding creates the mistaken impression that child care funding is being increased substantially more than is likely to be the case.

How Much Child Care Funding Is Needed?

In a recent letter to the *St. Louis Post-Dispatch* (November 10, 2003), Wade Horn, the Assistant Secretary for Children and Families at HHS and a frequent spokesman for the Administration on TANF reauthorization, stated that “the nonpartisan Congressional Budget Office estimated a need of, at most, \$1.5 billion in additional child care spending.” (The full text of the letter can be found in the Appendix.) This assertion is not correct. CBO has made no overall estimate of “the need” for child care funding. Rather, CBO has made separate estimates of the cost of the work requirements under the Senate bill and the House bills and the cost of maintaining current levels of child care services by keeping child care funding even with inflation.

- The \$1.5 billion figure that Assistant Secretary Horn cited is CBO’s preliminary estimate of the cost to the states of meeting the new TANF work requirements in the Senate Finance Committee bill.⁹
- CBO also has estimated the cost to states of meeting the new TANF work requirements in the House bill and found that cost to be between \$3 billion and \$9 billion over five years, figures Dr. Horn does not mention in his letter.
- In addition, CBO has estimated that states would need an additional \$4.5 billion in child care funds to compensate for the effects of inflation on the major child care funding streams, even if the TANF work requirements were not changed at all.¹⁰ Dr. Horn does not cite this CBO estimate either.

It also should be noted that while CBO has estimated the cost of keeping pace with inflation at \$4.5 billion over five years, it seems clear that additional child care funding beyond that level will be needed to prevent the loss of child care services because the level of TANF funds devoted to child care is expected to decline. The Center on Budget and Policy Priorities and the Center for Law and Social Policy estimate that states will need an additional \$5.7 billion

⁹ CBO actually issued more than one estimate of the cost to states of meeting the work requirements in the Senate Finance bill. The CBO estimates ranged from \$1.1 billion to \$1.55 billion. These estimates were done prior to the completion of the final version of the Senate Finance bill.

¹⁰ CBO’s estimates of the cost of meeting the new work requirements in the Senate Finance bill did account for the rising cost of child care for families receiving TANF cash assistance (but not for the effects of inflation on the cost of child care for low-income working families not receiving TANF). Thus, there is a very modest amount of overlap between CBO’s estimates of the cost to states of meeting the new work requirements and the additional resources needed to ensure that federal child care funding keeps pace with inflation. An unofficial CBO estimate places this overlap at just \$200 million over five years.

in child care funding over the next five years — about \$1.2 billion more than CBO’s estimate of the funding needed so that federal child care funding keeps pace with inflation — to maintain the number of child care slots for low-income working families at the same levels as in 2003.¹¹ (This is before considering the additional funds that will be needed to comply with expanded TANF work requirements.)

The principal reason for the difference between this \$5.7 billion estimate and the CBO estimate of \$4.5 billion is that the CBPP/CLASP estimate takes into account a factor that CBO was not asked to consider: the anticipated decline in the amount of TANF funds likely to be used for child care in the coming years. States have been using unspent federal TANF funds from the early years of TANF to help support their child care programs and pay for other TANF-funded services and benefits, but those funds are running out. There is little question but that states will have less TANF money available to spend on child care in the years ahead.¹²

The CBPP/CLASP analysis shows that if the additional \$5.7 billion is not provided (in addition to whatever funds are needed for states to meet new work requirements), increasing numbers of child care slots will be lost over the next five years. CBPP/CLASP estimate that if there was no change in TANF work requirements and no increase in child care funding, some 360,000 fewer children would be able to receive child care assistance in 2008, because of the combined effects of inflation and declining available TANF funding.¹³

An even larger number of children would lose child care assistance under the TANF reauthorization bills that the Senate Finance Committee and the House have approved, because neither bill provides sufficient funding even to cover the cost of meeting the new work requirements these bills would impose, as estimated by CBO. States would be forced to spend more TANF resources on meeting the work requirements, leaving even less funding for child care for working families not receiving cash welfare.

¹¹ Sharon Parrott and Jennifer Mezey, “New Child Care Resources Are Needed to Prevent the Loss of Child Care Assistance for Hundreds of Thousands of Children in Working Families,” Center on Budget and Policy Priorities and Center for Law and Social Policy, July 2003.

¹² In 2003, states spent \$19.4 billion in federal TANF funds; CBO projects this will fall to \$16.9 billion by 2008. As overall TANF spending falls, TANF funding for child care almost surely will fall as well. In 2002, the more recent year for which these data are available, states directed \$3.5 billion in federal TANF funds to child care programs. Our calculation of the level of child care funding necessary for states to maintain their current child care programs assumes that as overall TANF expenditures are reduced, the amount of TANF resources devoted to child care will fall proportionately. This may be a conservative assumption: evidence from the last two years, during which many states have begun cutting TANF and child care (partly in response to the exhaustion of unspent TANF funds from earlier years), suggests that child care programs may be cut more deeply than other services such as TANF cash assistance.

¹³ As noted in the paper, this analysis assumes that states will respond to a funding shortfall by reducing the number of families assisted rather than cutting the size of the child care subsidy.

Conclusion

Child care funding remains among the most contentious issues in the TANF reauthorization debate. It is an important issue in which many policymakers, state officials, and child care providers are keenly interested. Debate over this matter should not be distorted by inaccurate presentations of data.

It is a fact that the House and Senate Finance Committee bills increase federal mandatory funding for child care by \$1 billion over five years and also increase the authorization ceiling for discretionary child care funding. As noted, increasing the authorization ceiling does not commit Congress to providing additional resources, and there is a substantial possibility that such additional resources would not be appropriated.

Similarly, it is a fact that the \$1.5 billion Congressional Budget Office estimate that Administration officials have cited is not — and was never meant to be — an estimate of states' overall need for additional child care funds. It is merely an estimate of the cost of meeting the new TANF work requirements in the Senate Finance Committee bill. The cost of meeting the work requirements is substantially higher under the House bill, and additional funds beyond those needed to meet the work requirements are needed just to avoid losing child care slots due to the effects of inflation and declining TANF funding for child care.

In reauthorizing TANF and the child care block grants, Congress ought to endeavor to improve access to child care, strengthen the quality of the child care services provided, and help states promote school readiness, rather than merely to provide the level of child care resources needed to comply with the TANF work requirements and to avert the loss of an already-inadequate number of child care slots for low-income working families. At a minimum, Congress should ensure that the TANF reauthorization bill meets the cost of the work requirements it imposes and provides sufficient funding to prevent the loss of child care slots. Unfortunately, the pending legislation falls some billions of dollars short of meeting even this minimum requirement.

Appendix¹⁴

Dr. Horn's Letter to the St. Louis Post-Dispatch, printed November 10, 2003

Your Nov. 3 editorial on welfare reform, "The child care catch," relied on data from, in your words, "a liberal public policy group." Allow me to offer more nonpartisan information.

As part of President George W. Bush's plan to strengthen welfare reform, support services such as child care are included in his proposal to encourage full-time work as the surest way out of poverty.

To that end, welfare reform legislation passed by the U.S. House of Representatives and pending in the Senate includes \$3.3 billion in additional child care spending over the next five years. That's on top of the nearly \$9 billion the federal government already spends annually on child care.

But contrary to the assertions made by the Center on Budget and Policy Priorities that "at least \$5.5 billion" more will be needed in child care spending, the nonpartisan Congressional Budget Office estimated a need of, at most, \$1.5 billion in additional child care spending. Hence, the pending legislation provides \$1.8 billion more than what the experts in the federal government have determined will be necessary.

Of course, this additional money will only become available if Congress passes welfare reform re-authorization. That's something the president and Secretary Tommy Thompson are working hard to make happen.

Wade F. Horn
Assistant Secretary,
Administration for Children and Families,
U.S. Department of Health and Human Services
Washington, D.C.

¹⁴ In this letter, Dr. Horn states that he is offering "more nonpartisan" information on child care funding thereby implying that the Center on Budget and Policy Priorities (CBPP) is a partisan organization. This implication is incorrect. CBPP works with federal and state policymakers from both political parties and receives no funding from federal, state, or local governments or political parties.