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CHILD CARE

States' Efforts to Expand Programs Under Welfare Reform

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Child Care: States' Efforts to Expand Programs Under Welfare Reform

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me here today to discuss our work on states' efforts to expand their child care subsidy programs for low-income families. The cost of child care often creates a barrier for low-income parents attempting to support their families through work. In fact, our previous work has suggested that child care subsidies can be an important factor in poor mothers' decisions to find and keep jobs, increasing the probability that poor and near-poor mothers will work.[1]

Recognizing the important role that child care subsidy programs play in helping low-income families support themselves through work, you asked us how those programs are changing at the state level in light of the revisions the Congress made to them through the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193). My testimony today is based primarily on our recent report on state child care programs.[2] I will discuss (1) how much federal and state funds states are spending on child care subsidy programs and how they are allocating these resources, (2) how states are trying to increase the supply of child care to meet the projected demand under welfare reform, and (3) the extent to which states are changing standards for child care providers in response to the anticipated increased demand under welfare reform. Our work is based on case studies of seven states' child care subsidy programs conducted between December 1996 and October 1997;[3] information about the child care subsidy programs of all 50 states and the District of Columbia, as described in the plans states are required to submit to the Department of Health and Human Services (HHS) under the Personal Responsibility Act; and other studies.

In summary, our findings provide an early indication that the seven states are using additional federal dollars and their own funds to expand their child care programs to serve increasing numbers of welfare recipients required to work and at least some of the working poor. In addition, states are making efforts to further increase the supply of child care by funding initiatives to support and encourage the entrance of new child care providers into the market. At the same time that states are expanding their programs and attempting to increase supply, they appear to be maintaining

[1] Child Care: Child Care Subsidies Increase Likelihood That Low-Income Mothers Will Work (GAO/HEHS-95-20, Dec. 30, 1994).

[2] Welfare Reform: States' Efforts to Expand Child Care Programs (GAO/HEHS-98-27, Jan. 13, 1998).

[3] These states are California, Connecticut, Louisiana, Maryland, Oregon, Texas, and Wisconsin.

child care standards and enforcement practices. However, it is too early to know how effective these efforts will be in meeting the child care needs of low-income families.

Background

To better help low-income families meet their child care needs, the Congress combined four programs with different target populations into one program—the Child Care and Development Block Grant (CCDBG)—with a single set of eligibility criteria and requirements.[4] This program, now referred to as the Child Care and Development Fund (CCDF), provides federal funds to states for child care subsidies for families who are working or preparing for work and who have incomes of up to 85 percent of a state's median income (SMI).[5,6] Unlike the previous programs, which segmented working low-income families into different service categories on the basis of welfare status, the CCDF allows states greater flexibility to create integrated programs that serve all families in similar economic circumstances. Such programs are important to ensure that families who have never been on welfare are not penalized for their work efforts and that families can move easily from welfare to self-sufficiency.

The CCDF provided states with about $3 billion in federal funds in fiscal year 1997 —$605.7 million more than was available in 1996 under previous law.[7] This increase was in part a response to the fact that under the Personal Responsibility Act states are required to place a greater percentage of individuals receiving aid through the new Temporary Assistance for Needy Families (TANF) block grants in work or work-related

[4] Three of the four child care programs—(1) Aid to Families With Dependent Children (AFDC)/Job Opportunities and Basic Skills Training program (JOBS) child care, which provided child care assistance to welfare families involved in work or approved education or job training activities; (2) Transitional Child Care, which provided 1 year of child care assistance to families leaving AFDC because of employment; and (3) At-Risk Child Care, which assisted low-income working families who were deemed to be at risk of becoming dependent on welfare without child care assistance—were repealed. The new law modified the fourth existing child care program, the CCDBG, which previously had assisted low-income families who were working or in approved education or training.

[5] This is an increase from 75 percent under previous law.

[6] Nationwide, for fiscal year 1997, 85 percent of SMI for a family of four ranged from a low of $31,033 in Arkansas (1.93 times the federal poverty level) to a high of $52,791 in Connecticut (3.29 times the federal poverty level).

[7] In the future, the amount of federal CCDF funds available could rise from about $3.1 billion in fiscal year 1998 to about $3.7 billion in fiscal year 2002.

activities, creating a greater need for child care assistance.[8] The act requires that a significant percentage of states' CCDF funds are used to provide child care assistance to current or potential TANF recipients.[9]

States Are Expanding Child Care Subsidy Programs for Low-Income Families

In response to welfare reform, the seven states we reviewed are expanding funding for child care programs. As table 1 shows, the increase in combined federal and state CCDF funding in the seven states between state fiscal years 1996 and 1997 ranged from 2 percent in Maryland to 62 percent in Louisiana. On average, funding in these states increased from about $1.1 billion in fiscal year 1996 to about $1.4 billion in fiscal year 1997. According to child care officials, these additional funds have allowed six of the seven states to expand the number of children served under their child care subsidy programs by an average of about 17 percent between fiscal years 1996 and 1997.

[8]The Personal Responsibility Act requires that 25 percent of a state's entire adult TANF caseload participate in work and work-related activities in fiscal year 1997, and the required rate increases by 5 percentage points annually to 50 percent in fiscal year 2002. A separate and much higher minimum work participation rate is specified for two-parent families: 75 percent in fiscal year 1997, rising to 90 percent in fiscal year 1999. States' minimum work participation rates are lowered if their welfare caseloads decrease. Specifically, each state's minimum participation rates are reduced by an amount equal to the number of percentage points by which the state's welfare caseloads have declined since fiscal year 1995. States risk losing some of their TANF allocation unless they meet the participation rates.

[9]Federal TANF funds include discretionary, mandatory, and matching funds. At least 70 percent of the mandatory and matching funds must be used for current or potential TANF families. In fiscal year 1997, mandatory and matching funds together equaled almost $2 billion.

Table 1: Combined Federal and State Funds Available for Child Care Subsidies and Associated Costs, State Fiscal Years 1996 and 1997

Dollars in Millions

State	Total federal and state funding for states' fiscal years: FY 1996	Total federal and state funding for states' fiscal years: FY 1997	Percentage increase
California	$677.6	$855.5	26
Connecticut	71.3	101.2	42
Louisiana[a]	37.2	60.5	62
Maryland	54.2	55.1	2
Oregon	76.0	85.0[b]	12
Texas	166.0	180.3	9
Wisconsin	63.0	87.0[c]	38
Total	**$1,145.3**	**$1,424.6**	**24**

Note: State and federal fiscal years differ. Some of the seven states' fiscal years run from July 1 through June 30. Texas' fiscal year is September 1 through August 31. The federal fiscal year is October 1 through September 30.

[a]Louisiana data are for the federal fiscal year.

[b]Includes $17.2 million in TANF funds used for child care.

[c]Includes $13 million in TANF funds used for child care.

Source: GAO analysis of data from state child care administrators.

The CCDF allows states to operate their child care programs exclusively with federal funds, thereby reducing or eliminating the need for state funds to be used for child care.[10] Nevertheless, the seven states we reviewed intend to spend at least enough state funds to qualify for the maximum amount of federal CCDF funds available for child care. State funding in three of the states will exceed the amount required to maximize their federal CCDF allocation.

In addition, some states are using the increased flexibility provided under TANF to augment spending on child care. In addition to CCDF funds, states may use federal TANF funds to support their child care programs.[11] With caseload declines, many states have more TANF funds available per family

[10]States do not need to obligate or spend any state funds to receive about three-quarters of the federal CCDF funds. To receive the remaining amount, states must maintain expenditures at specified levels and spend additional state funds above those levels.

[11]States can transfer up to 30 percent of their TANF funds to the CCDF. Families who receive child care services paid for with the money that is transferred are not subject to TANF rules. States can also spend an unlimited amount of their TANF dollars directly on child care services, but families receiving those services are subject to the TANF rules, including the time-limit and child support requirements.

than were previously available under AFDC.[12] As a result, some states are using TANF funds to fund child care subsidies. For example, while Wisconsin expanded its child care funding by 38 percent between state fiscal years 1996 and 1997, the increase came from federal, not state, funding sources.

States Use Various Means to Allocate Limited Child Care Resources

Even though the seven states we reviewed are expanding their programs, they are still unable to provide child care subsidies to all families meeting federal eligibility criteria who might benefit from such assistance. In fact, a recent Urban Institute study estimated that only about 48 percent of the potential child care needs of low-income families would be met if states maximized federal dollars available under welfare reform.[13] Because they cannot serve all eligible families, states have devised strategies to target subsidies to subsets of the eligible population.

For example, although the CCDF allows states to extend eligibility for subsidized child care to families earning up to 85 percent of SMI, not all states had extended their eligibility to this level. Of the seven states we reviewed, only Oregon had established income eligibility limits that allow subsidies for families with incomes this high.[14] Examining only income eligibility criteria can be misleading, however, since eligibility does not guarantee access to services. States with a relatively high income ceiling may not actually provide services to many families at the high end of the eligible income range. For example, they may use family copayments for child care services to control access to child care subsidies and manage child care funds. Copayment amounts required of parents are typically based on a sliding fee scale, so that copayments increase as family income increases, and high copayment requirements may make participation in

[12]For those states that have experienced welfare caseload declines in recent years, more funds are available per family in fiscal year 1997 from TANF than were available from AFDC, Emergency Assistance, and JOBS before welfare reform because federal TANF allocations are based on previous federal expenditures in the state for these programs.

[13]Sharon Long and Sandra Clark, The New Child Care Block Grant: State Funding Choices and Their Implications (Washington, D.C.: The Urban Institute, July 1997). The researchers made the following assumptions: (1) income eligibility was based on the number of families with incomes less than 150 percent of the federal poverty level in the 1996 Current Population Survey, a criterion that most, but not all, eligible families would have met; (2) an approximation of the number of children in paid child care arrangements was based on the number of children in low-income working families using nonrelative care in the 1992-93 Survey of Income and Program Participation; and (3) it was assumed that families in the then-current AFDC caseload who had earnings were all working the number of hours required under welfare reform law. However, according to researchers, since some of the families in the AFDC caseload with earnings probably needed to increase their hours worked, the study underestimated the increased need for child care under welfare reform.

[14]Louisiana planned to increase its eligibility to this level in fiscal year 1998.

subsidized child care programs too expensive for higher-income eligible families.

Comparing the systems in Wisconsin and Oregon can help illustrate how states can use these different criteria to target child care subsidies toward specific populations. Wisconsin has established a relatively low income eligibility criterion (53 percent of SMI—$21,996 in fiscal year 1997), coupled with relatively low copayments (6 to 16 percent of gross income).[15] Thus, although it has restricted the population of eligible families to those with very low incomes, it has designed the copayment structure to make subsidized child care affordable to all eligible families who apply. In contrast, Oregon has a relatively high income eligibility criterion (85 percent of SMI—$33,012) and a relatively high family copayment level (31 percent of monthly income up to $2,042). While families with higher incomes are eligible for child care subsidies in Oregon, the copayment structure discourages them from participating and, in effect, targets aid to lower income families.

Welfare status is also an important consideration in establishing access to child care subsidies in many states. Five of the states we reviewed distinguish between welfare families (including those transitioning off of welfare) and nonwelfare families in determining who will be served. Connecticut and Louisiana consider child care as an entitlement to working families receiving TANF, and Texas guarantees child care subsidies to former TANF families who are transitioning to work. In California, child care programs are administered separately for welfare and nonwelfare clients, and in Maryland, TANF families and families transitioning off of TANF are given first priority in obtaining subsidies when all eligible families cannot be served. California, Connecticut, and Texas said they have insufficient resources to serve all nonwelfare families who meet individual state eligibility requirements. In California and Texas, this results in waiting lists for subsidies, while in Connecticut, the nonwelfare child care program was closed to new applicants at the time of our study.

States' Ability to Meet Future Child Care Needs Is Unknown

The seven states in our study reported that they could meet the immediate child care needs of welfare families and those of at least some low-income nonwelfare families, but they were uncertain of their ability to fund child care programs adequately in the long term. Although most of the states have not formally estimated how much the demand for child care is

[15] States periodically redetermine a family's eligibility for subsidies once it starts receiving those subsidies. In Wisconsin, the income eligibility criterion for families at redetermination for child care subsidies is higher than the criterion that applies at initial application.

expected to increase over the next few years, some data suggest that the increase could be significant. Connecticut has estimated that an additional 5,000 TANF-related families will need child care assistance during its next 2 fiscal years, and Maryland estimates the number of families needing child care will more than double from 1997 to 1999. In Oregon, which began in 1992 to require more welfare parents to participate in welfare-to-work activities and has emphasized child care assistance as a way to help welfare and other low-income families support themselves through work, the number of children served by the state's Employment-Related Day Care program increased by 137 percent from July 1992 to February 1997.[16] In fact, almost 61 percent of projected child care expenditures in Oregon for 1997-99 are designated for that program.

States' ability to meet the anticipated increased demand for child care will depend on future levels of state child care funding as well as on changes in demand for child care subsidies resulting from welfare reform's work participation requirements. The Personal Responsibility Act's requirement that states place increasingly higher percentages of their caseloads in work activities, combined with the capping of federal child care funds through the CCDF, could strain the states' capacity to sufficiently expand child care programs in future years. On the other hand, if states' welfare caseloads continue to decline, then demand among welfare families could decline or increase at a slower rate. Consequently, TANF funds previously devoted to cash assistance could be redirected to the states' child care subsidy programs. However, states may face pressures to spend these additional resources for other TANF-related services.

States Are Initiating Efforts to Ensure Adequate Supply of Providers

Welfare and child care program officials in six of the seven states report that with the additional funds available under the CCDF, the supply of child care appears so far to have kept pace with increases in demand. One indication of this is that these states had granted few exemptions from work requirements because of unavailability of child care, and most did not expect to grant such exemptions on a large scale in the near future.

In addition, all seven states are funding efforts to support and encourage the entrance of new child care providers into the market. Some states are working to engage the private sector in expanding or improving the provider supply. Maryland, for example, funds a grant program to help registered family child care providers comply with regulations and

[16]Oregon's Employment-Related Day Care program served both families who left AFDC for employment and nonwelfare low-income working families.

enhance or expand their services. Other states have created incentives for employers to provide child care assistance. These approaches include loan and grant programs, corporate tax incentives, policies to require or encourage developers to set aside space for child care centers in business sites, and information referral and technical assistance to increase private sector involvement. Overall, according to their CCDF plans, 38 of the 51 states plan to make grants or loans available for establishing or expanding child care facilities.

However, some kinds of child care are and will continue to be in short supply. In a previous report we estimated that, in the four sites we examined, the demand for infant care and after-school care would grow substantially over time in response to the new welfare reform legislation and would greatly exceed the supply of those types of care, if the supply did not increase.[17] The gap between projected demand and supply was estimated to be even greater in low-income areas. On the basis of our analysis, given the current supply, the four sites would also have trouble meeting increased demand for nonstandard-hour care.

Furthermore, child care centers and other formal arrangements are only part of the picture. It is expected that informal care—child care arrangements that are not subject to state licensing or regulatory requirements—will meet some of the increased demand for child care and, in some cases, may account for most of the child care used. For example, in Connecticut, state officials estimated that 80 percent of welfare families used informal child care arrangements. Similarly, Oregon officials estimated that nearly half of their welfare-to-work program clients had used informal care. We previously reported that families with annual incomes below $15,000, low-income mothers who are single and employed, and parents whose jobs require them to work nonstandard hours tend to rely heavily on informal care.[18]

[17]Welfare Reform: Implications of Increased Work Participation for Child Care (GAO/HEHS-97-75, May 29, 1997). This report examined only the supply of child care that was known to the states and, consequently, did not consider relative care, unregulated family child care, and care provided in a child's home by a nanny.

[18]GAO/HEHS-97-75, May 29, 1997.

Most States Are Maintaining or Increasing Standards for Child Care Providers

At the same time that states are expanding their programs and attempting to increase supply, they appear to be maintaining child care standards and enforcement practices. In fact, some of the seven states we reviewed are making incremental changes that tend to strengthen existing standards. For example, Texas planned to phase in a requirement that will reduce the ratio of children to staff members. Similarly, a survey done by the American Public Welfare Association of all the states reported that quality standards have generally been maintained and, in many cases, enhanced.[19] In addition, recognizing that enforcement is important to ensure that standards are maintained and children receive adequate care, none of the seven states plans to reduce the size of its staff responsible for inspecting or regulating child care providers. However, the long-term effects of welfare reform on states' efforts to regulate child care providers and ensure that children receive quality child care are as yet unknown. As we previously reported, fiscal pressures could ultimately lead states to devote fewer state resources to monitoring and regulating child care providers in the future.[20]

As noted earlier, informal care arrangements are widely used by welfare and other low-income families. Much of this care is exempt from state standards or is minimally regulated. To address concerns about the safety and quality of informal child care, some states have imposed additional requirements on informal providers who receive subsidies. California and Oregon conduct background checks on the criminal histories of subsidized providers, including those who are otherwise exempt from regulatory or licensing requirements. Nonetheless, some child care advocates and researchers continue to be concerned that efforts to expand the supply of state-subsidized child care could focus on informal care, placing more children in unregulated settings. At this point, it is too early to assess the types of child care that states and parents will rely on as more parents participate in work or work-related activities.

Conclusions

States are expanding their child care programs in response to welfare reform, but it is too early to know how effective these efforts will be in meeting the child care needs of low-income families. Although they now have more funds devoted to child care and greater flexibility in designing their child care subsidy programs, states still face difficult choices in

[19] John Sciamanna and Ellen Lahr-Vivaz, The Child Care Challenge: States Leading the Way (Washington, D.C.: Government Affairs Department, American Public Welfare Association, July 1997).

[20] Child Care Quality: States' Difficulties Enforcing Standards Confront Welfare Reform Plans (GAO/T-HEHS-94-99, Feb. 11, 1994).

deciding who will be served through the programs. Since none of the states in our study has sufficient resources to serve all families who meet the federal eligibility criteria, these states are targeting subsidies to certain groups of eligible families, while attempting to balance the needs of welfare and nonwelfare families.

In addition, although the seven states have many initiatives under way to expand their supply of child care providers, the outcomes of their efforts are not yet known. Moreover, it is too soon to know what kinds of child care states and parents will rely on as more parents are expected to support themselves through work. States' efforts to increase the number of children receiving child care services while at the same time ensuring safe care for children will deserve attention as welfare reform evolves.

Mr. Chairman, this concludes my formal remarks. I will be happy to answer any questions you or other Members of the Subcommittee may have.

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