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Federal Child Care Funding for Low-Income Families: How Much Is Needed?

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OVERVIEW — *Setting a dollar amount for government spending on child care is a major issue in reauthorizing the 1996 welfare reform law. Two key components in pending Congressional proposals involve the Temporary Assistance for Needy Families block grant and the Child Care and Development Fund, which together provide the bulk of government child care funding for low income working families, whether or not these families are directly involved in the welfare system. The choices for Congress involved in setting an appropriate child care funding level are complex and fraught with questions about quality and cost tradeoffs. This issue brief provides background on current child care use, arrangements, and cost, as well as research findings on the measurement of quality in child care programs.*

Federal Child Care Funding for Low-Income Families: How Much Is Needed?

How much should the federal government spend on child care for low-income working families? As the House and Senate hammer out the details of reauthorizing the 1996 welfare reform law, due to expire on October 1, setting a dollar amount for this crucial support for working parents will be a major issue. Contained in the law are the Temporary Assistance for Needy Families (TANF) block grant and the Child Care and Development Fund (CCDF), which provide the bulk of government child care funding for low-income working families, whether or not the families are involved in the welfare system.

Getting parents to work is the premier goal of the 1996 law, which reoriented the nation's welfare system. Most agree that the law is well on its way to meeting this goal; since 1996, another one million single mothers have gone to work.¹

Sustaining and increasing these work rates depends heavily on the ability of families to find affordable and reliable child care. More than one quarter of families with young children have incomes under \$25,000 per year.² If left unsubsidized, child care costs (which can easily run \$5,000 or more annually for full-day care) become a heavy financial burden for low-earning families.

Despite a doubling of federal child care spending on low-income families since 1997 (in fiscal year (FY) 2000, combined funding for child care under TANF and the CCDF stood at \$9 billion),³ researchers estimate that only about one in seven eligible children, and only one-third of workers leaving welfare, receive any federal child care support.⁴ Higher work requirements for welfare recipients, as recommended by both House and Senate bills, would presumably create an even greater demand for child care.

As is true in many other policy arenas, the choices involved in setting an appropriate child care funding level for low-income working families are complex. They involve questions about how many families Congress is willing to help, which opens the door to discussions about whether the federal income-eligibility ceiling should be raised or lowered.

Those choices also raise questions about whether families leaving welfare should have priority over nonwelfare families for CCDF (as many states have decided), even if their incomes are identical.

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Program quality also influences cost, and it is unclear how much the public is willing to pay. Child development researchers have described the current supply of child care for families of all incomes as mediocre.⁵ Staff salaries are low, training is inadequate, and, in many cases, group size and child-to-staff ratios fall far short of professional standards.

Researchers cannot pinpoint the level at which programs are good enough to do no harm to children's development. They can measure the benefits of high-quality programs, but whether these benefits are worth the money is another values-laden question.

Some conservatives believe that when it comes to child well-being, child care is a minor influence compared with other factors, such as family environment. As long as child care is physically safe, they believe that money spent to improve child care quality would be better spent elsewhere. Others believe that child care should be of high quality, even if the benefits to children are modest, and that American policymakers should not choose between cost and quality.

The congressional reauthorization debate over the Personal Responsibility and Work Opportunities Reconciliation Act raises a number of practical and philosophical questions about the nature of the federal role in making reasonably good child care programs available and affordable to low-income families. Among the issues are:

- Should the goal of federal child care policy be to help low-income parents stay employed, or to stimulate children developmentally, or some combination of the two?
- Should states sever eligibility for child care subsidies for low-income children from welfare eligibility, as the federal government has done with the Medicaid program?
- Up to what income level should families be eligible for support?
- What percentage of eligible families should the federal government support, and what portion of their child care costs should be covered?
- To what extent should TANF and CCDF be used to improve the quality of the nation's child care supply?

FEDERAL FOCUS: CUSTODIAL VERSUS EDUCATIONAL

The debate over child care funding raises a larger, long-standing division within government over the goals of federal child care policy for low-income children. Specifically, should the federal government do more to improve the quality of the child care it subsidizes, or should it just provide vouchers and let the market regulate quality? Federal policy appears to go in both directions.

For instance, nearly one million preschool children from families at or below the federal poverty level attend the federal Head Start program.

Reauthorization raises questions about the federal role in child care programs for low-income families.

Born out of the War on Poverty, Head Start was designed as a long-range investment in ending poverty through boosting the academic and social potential of disadvantaged children. The programs are run by credentialed staff, use enrichment curricula, and follow rules for small class size and low student-to-teacher ratios. Developed in the 1960s, when most American mothers did not work outside the home, most Head Start programs today are still half-day and do not accommodate the schedules of working parents. Federal spending on Head Start in FY 2001 was almost \$6.2 billion; the program served over 905,000 children at an average cost of \$6,633 per child.⁶

In contrast, the federal government spends about \$6.5 billion on CCDF and TANF, serving more than twice as many children (2.5 million) as Head Start, at considerably lower cost per child. CCDF and TANF programs approach child care as a vehicle to help low-income parents get off and stay off welfare. The programs allow parents to purchase care provided by relatives in their homes, by licensed or unlicensed family day care providers, or by child care centers. Federal guidelines encourage states to pay providers at a rate that would meet the fees of 75 percent of all local providers, and ask that states charge parents no more than 10 percent of their income in copayments.

The dual goals of enriching children's development and helping poor mothers go to work collided in 1988, when Congress passed the first law that required welfare recipients to work and that guaranteed child care so they could do so. Discussions over the quality of child care that would be offered emerged, and the desire to keep costs low prevailed. According to Ron Haskins, a former House Republican staff member who helped create the 1996 welfare reform law, the 1988 legislation established the child care compromise between liberals and conservatives that today remains intact: "With respect to child care quality, there has been bipartisan support for Head Start, a program perceived as providing quality child care. Head Start grows every year, and that is the political answer to the call for more quality child care. By contrast, policymakers have refrained from imposing burdensome federal regulations on regular, market-based child care, leaving room for the development of a less expensive informal child care market."⁷

Congress made a greater overture to promote child care quality in 1990, when it authorized the Child Care and Development Block Grant (CCDBG) (one of four child care funding streams that in 1996 were consolidated and became CCDF), but questions about the relationship between quality and quantity remained largely untouched. CCDBG required states to spend a very modest amount of their block grants to raise the quality of child care programs, but no federal standards for quality were imposed.

CHILD CARE USE, ARRANGEMENTS, COSTS

Today most families with young children use child care. The care arrange-

The federal government spends about \$6.5 billion on CCDF and TANF, serving more than twice as many children as Head Start.

ments that they select, and the portion of income they spend on child care, often differ by family income. The following offers a more detailed picture of how American families approach child care.

Child Care Use

Nearly 80 percent of mothers with children between ages 6 and 13 are working. A majority of mothers (65 percent) with children under age six and of mothers with infants (almost 60 percent) are in the labor force.⁸ More than 40 percent of mothers with children under age six are working full time.⁹ Nearly half of all families with parents working and with children under age 13 pay for child care. The other 52 percent arrange their schedules so a parent is home with the children; get free care from a friend or relative; or, if their children are school-aged, allow them to be alone after school until a parent arrives from work.

Preschool-aged children need supervision whenever a parent is at work, and most children under age five use child care. In 1995, 75 percent of the nation's 19 million preschool-aged children were in some type of child care for at least 28 hours a week.¹⁰

Child Care Arrangements

In 1995 half of the preschool-aged children receiving child care were watched by a relative; 30 percent were in centers (either child care centers, or Head Start or other preschool programs) and 20 percent were cared for by non-family members, either in their own home or in family day care.¹¹ (See Table 1 for Census Bureau data on child care arrangements for preschool children in 1995, the most recent year for which data are available.)

Low- and middle-income families differ in the types of child care that they use, and in whether they pay for it. In 1997 about 40 percent of low-income working families paid for care, compared with 53 percent of higher-income families.¹² This is not surprising, since the high cost of child care—especially center-based care—would encourage low-income families to find free care. Families below the poverty level are also less likely than those above the poverty level (23 percent, compared with 32 percent) to use center-based care.¹³

Child Care Costs

On average, working families pay about \$286 per month for child care (\$3,432 annually), or about 9 percent of their annual income.¹⁴ Families with incomes over 200 percent of the federal poverty level (about \$25,600—the federal poverty level for a three-person family in 1997 was \$12,802¹⁵) pay more, \$317 per month, which represents 6 percent of their annual income. Meanwhile, families with incomes at or below 200 percent of the

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TABLE 1
Employed Mothers' Primary Child Care Arrangements for
Children under 5, by Mother's Poverty Status, Fall 1995 (in percent)

CHILDREN OF EMPLOYED MOTHERS	Total^a	Poor^b	Not Poor
Number under 5 years of age	10,022,000	988,000	9,034,000
	Total^a	Poor^b	Not Poor
CARE IN CHILD'S HOME	13.5	19.2	14.0
By grandparent	5.9	4.7	6.1
By sibling age 15 or older	0.7	2.4	0.5
By sibling under age 15	0.3	0.0	0.4
By other relative	1.5	0.8	1.6
By nonrelative	5.0	1.3	5.4
CARE IN ANOTHER HOME	36.5	29.4	37.2
By grandparent	10.0	11.5	9.7
By other relative	2.9	2.6	2.9
By family day care provider ^c	15.7	10.0	16.3
By nonrelative	7.9	5.3	8.2
ORGANIZED CHILD CARE FACILITY	25.8	28.2	25.6
Day/group care center	17.8	16.5	18.0
Nursery school/preschool	5.9	6.8	5.8
Kindergarten/grade school	0.7	2.1	0.5
Head Start Program	1.5	2.8	1.3
PARENTAL CARE	22.1	22.9	22.0
By father	16.6	17.9	16.5
By mother at work ^d	5.4	5.0	5.4
Child cares for self	0.1	0.0	0.1
NO REGULAR ARRANGEMENT MENTIONED	2.2	10.3	1.2

^a Includes children for which no poverty estimates were available.

^b Below the poverty threshold, which was \$15,569 annually, or \$1,297 monthly, in 1995 for a family of four.

^c Family day care providers provide care outside the child's home for more than one child.

^d Includes women working at home or away from home.

Note: Because some rounding occurs, the columns do not add up to 100.

Source: Based on data from the Survey of Income and Program Participation, U.S. Census Bureau, U.S. Department of Commerce, Washington, D.C.

poverty level—40 percent of all working families—pay \$217 per month. While low-income families' costs were lower, they accounted for a much larger share of family income—about 16 percent. Twenty-seven percent of low-income families were spending over 20 percent of their income on child care.¹⁶ (See Table 2 for data on child care expenses for low-earning families with children under age thirteen.)

These cost averages mask the substantial problems low-income families face in finding affordable child care. In actuality, child care costs can vary widely and are higher for infants and toddlers, as well as for children who spend long hours in care. For instance, full-day child care for preschool-aged children typically ranges between \$4,000 and \$10,000 annually.¹⁷ About half of families with young children earn less than \$35,000 a year; a family with both parents working full-time at minimum wage earns only \$21,400.

Child care costs can vary widely and are higher for infants, toddlers, and children who spend long hours in care.

TABLE 2
Child Care Expenses of Low-Earning^a
Working Families with Children under Age 13

	Percentage of Families Paying for Child Care	Average Monthly Expenses (\$)	Average Percentage of Earnings
All Low-Earning Families	40	217	16
By Age of Youngest Child			
Under 5	51 ^b	237 ^b	17
5-12	28 ^b	178 ^b	14
By Family Type			
Single-Parent Families	50 ^b	230 ^b	19 ^b
Two-Parent Families	29 ^b	194 ^b	11 ^b
By Welfare History			
Ever on AFDC/TANF	45 ^b	211	18 ^b
Never on AFDC/TANF	38 ^b	221	15 ^b
By Poverty Status			
Earnings<100% Poverty	34	190	23

^aLow earnings are defined as current earnings at or below 200 percent of the federal poverty level.

^bEstimate is significantly different from paired subgroup.

AFDC = Aid to Families with Dependent Children

TANF = Temporary Assistance to Needy Families

Source: Urban Institute calculations from the 1997 National Survey of America's Families.

ISSUES OF QUALITY

The debate over child care quality involves numerous questions. For starters: What is quality? Do quality programs make a difference in a child's life? How much do they cost? Is the cost worth the benefit?

Child development specialists generally agree on what makes a quality child care experience. Caregivers are the most important element—whether in centers, preschool classrooms, family day care homes, or in the child's home. A quality caregiver is one who encourages children to engage in a variety of activities; frequently smiles, touches, and holds children; promptly responds to questions or requests; and moves children to talk about their feelings, experiences, and ideas. Despite these standards, the average annual income of a child care worker is \$15,400. There are other measures as well: small group size and low child-to-staff ratios (both of which affect a caretaker's ability to give children attention), proper staff credentials, sufficient toys and other learning materials, and a setting that is clean and pleasant.

Over the past 30 years, child development specialists have learned that quality child care programs are strongly associated with good outcomes in children (whether they cause the outcomes is still unknown). Numerous large-scale studies have found that children who attend high-quality child care programs score higher on tests of language, logic, behavior, and social competencies.¹⁸ Some long-term preschool studies that have followed children into early adulthood, such as the Perry Preschool Project and the Abecedarian project, have found more program children attend college and stay out of jail than nonprogram children.¹⁹

In general, studies have found these positive effects to be small but meaningful. Quality programs appear to help disadvantaged children more than middle-income children. The converse is also true: disadvantaged children do not thrive as well in poor-quality child care, presumably because their home environments do not compensate for unstimulating or upsetting experiences in child care.

So, researchers have determined what a quality program is, and that it can have positive impacts on children. To what extent is quality care available in the United States? Studies suggest that quality in both child care centers and family child care homes around the country is generally mediocre, and especially so in settings used by low-income families.

For instance, early-childhood researchers conducted the 1995 Cost, Quality, and Child Outcomes Study of more than 400 centers in four states. They assessed only 8 percent of infant classrooms and 24 percent of preschool classrooms as being of good or excellent quality. Quality was rated as poor in 10 percent of preschool programs and 40 percent of infant programs.²⁰

The Study of Children in Family Child Care and Relative Care, conducted in 1994 by early-childhood researcher Ellen Galinsky and colleagues, offers a picture of the quality of care in family day care and relative care

Caregivers are the most important element in making a quality child care experience.

settings. Of 226 homes across three communities, 34 percent of the homes were described as “inadequate,” 58 percent were “adequate,” and 8 percent were considered “good.”²¹

More recently, the 1999 Study of Early Child Care sponsored by the National Institute of Child Health and Human Development found that most children studied across a variety of child care settings (including centers, family day care homes, and in-home care) were receiving only fair-quality care. The study tracked 1,364 children from birth to age three in nine states. Relatively little care was rated at the extremes, with 6 percent of the settings offering poor-quality care and 11 percent offering excellent care.²²

In these and other studies, the availability of quality child care in low-income neighborhoods was uneven. For instance, some studies have found that the quality of center-based care in low-income neighborhoods is higher than that found in middle-income neighborhoods, presumably because government subsidizes them more heavily and they can offer higher wages and lower child-to-staff ratios.²³ At the same time, research suggests that the quality of home-based care in low-income neighborhoods is inferior to that found in higher-income neighborhoods—and more low-income children are in family day care and other in-home care than in centers.

The costs of high-quality child care programs have led many policymakers to ask, at the very least, whether there is some threshold of quality below which programs are simply considered harmful to children’s development. Child care advocates oppose the framing of this question, arguing that child care is the de facto early education program for many children, whether or not that is its explicit goal. In education policy, determining the lowest level of quality at which a program can operate without hurting students is not typically used as a guiding standard, they note.²⁴

Researchers cannot answer the question, whether or not it is an appropriate one. They are unable to pinpoint the level of quality below which children’s development would be impaired, or above which children’s development would be enhanced.²⁵ And whether the investment is worth the money is highly subjective. The public would need to set its own threshold for what is an acceptable level of quality—whether the program operates at a level that stimulates children’s cognitive abilities, or makes them more sociable, or provides a happy environment, or just protects them from physical harm.

The costs of quality care, and the relatively modest impact of quality care on children’s long-term well-being, have also led some to suggest that public investments in low-income families would be better spent in other areas, such as job training, maternal education, or other efforts to improve the home environment.²⁶

Whether the investment in quality is worth the money is highly subjective.

THE CHILD CARE AND DEVELOPMENT FUND (CCDF)

The CCDF gives states block grants to offer care to children under age thirteen whose parents are working or in school. In FY 2000, federal CCDF funding was just over \$5 billion, \$2.4 billion of which came from money transferred from TANF into CCDF.

Under the welfare reform law, states can offer CCDF to low-income families, regardless of their welfare status. However, states must reserve a portion of their funds for families on welfare, trying to leave welfare, or at risk of entering welfare. To be eligible, a family cannot have income exceeding 85 percent of the state's median income. This figure varies by state but averages about \$38,000 for a family of four. Forty-seven states, however, set lower eligibility ceilings.²⁷ Missouri, for example, sets eligibility at 41 percent of state median income for a family of four, or \$21,168 annually.

As noted above, CCDF leaves regulation to the states. If states require child care providers (other than relatives) to meet certain regulations, CCDF providers must comply. State child care licensing standards vary widely. Eighteen states do not regulate group size for caretakers serving children ages 4 and under.²⁸ In 1998 most children served by CCDF (72 percent) were in licensed or regulated facilities; about 55 percent were in child care centers.²⁹

TANF CHILD CARE

Under TANF, states can spend money on child care in two ways. They are allowed to transfer up to 30 percent of TANF block grants to the CCDF, at which point the money is subject to all CCDF rules. This is the most popular way to spend TANF money on child care; in FY 2000, 44 states transferred an average of 20 percent of their TANF funds to CCDF—a total of \$2.4 billion. Interestingly, many state CCDF programs have come to rely heavily on TANF transfers to run their programs. In 2000, CCDF budgets in 15 states contained as many as or more federal TANF dollars as federal CCDF dollars.³⁰

In FY 2000, states directly spent an additional \$1.5 billion of TANF money on child care. According to the Center for Law and Social Policy, most of this money was spent for child care for working families.³¹

Links to Welfare

In an effort to keep welfare enrollment low, states typically allow parents leaving welfare to be first in line for CCDF subsidies. CCDF is not an entitlement program; it stops serving eligible families when funds run out. As a result, when demand for the subsidy is high (15 states have waiting lists for CCDF), a family leaving welfare may get the subsidy while a family with identical income and child care needs but with no

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ties to the welfare system may not. To remove this favoritism, some say eligibility for CCDF should be severed from welfare status and based solely on income.³² Congress has gone in a similar direction with the Medicaid program, which used to serve families based on welfare status but now uses only income level to set eligibility.

HOW MUCH IS ENOUGH?

Setting an appropriate funding level for child care for low-income families depends on how many children Congress is willing to serve, if it will change its child care payment rates or eligibility levels, and the level of quality it wishes to purchase.

According to government estimates, about 2.4 million of about 15.7 million children eligible for federal child care subsidies in FY 2000—or about 15 percent—received any support.³³ Federal funding for CCDF and TANF was at \$6.5 billion, and state funding was at \$2.6 billion.³⁴ An additional \$165 million in federal funding was available for child care that year through the Social Services Block Grant.

Not all eligible families need support. Some families are participating in Head Start or state prekindergarten programs, some of which are full-day. Others parents are working split shifts, so one parent is available to watch the children at all times. Some families are using free child care, although it is not clear how many would pay for care if a subsidy were available. It may be safe to assume that 40 percent of eligible low-income families need child care subsidies, since Urban Institute studies reveal that about 40 percent of low-income families (families at or below 200 percent of the federal poverty level) are paying for child care.³⁵

The CCDF law recommends rates high enough to pay for 75 percent of local child care slots, but about half of all states set their fees lower. If states maintained their current fee formulas and eligibility levels under CCDF remained the same, it would cost the federal government roughly \$17 billion a year to subsidize roughly 40 percent of all eligible families. Costs would rise substantially if program quality were enhanced. Care costs would also increase if welfare recipients had to work more hours per week to stay on the rolls, as the House and Senate Finance Committee bills propose.

HOUSE AND SENATE CHILD CARE PROPOSALS

The House-enacted welfare reform bill, H.R. 4737, would provide a \$1 billion increase for CCDF over five years (a \$200 million increase for each of five years). States would have to provide matching funds, at the same rate they use to access federal Medicaid funds, in order to access the money. The bill would also give Congress the option of appropriating another \$2 billion (over five years) in discretionary funds, which are subject to the annual appropriations process.

About 15% of children eligible for federal child care subsidies in FY 2000 received any support.

According to Congressional Budget Office (CBO) estimates, this child care funding increase would not meet the anticipated increase in demand for child care subsidies that is the likely result of higher work demands required by the House bill. The House proposes that welfare recipients work 40 hours per week, compared with the current law's 30-hour work week (and a minimum 20-hour work week for single parents with children under age six). CBO estimates the House bill would need to offer an additional \$5 billion over 5 years to fund the extra child care services TANF recipients would need under the higher work requirement proposed by the House. (The estimate assumes that welfare caseloads will remain the same over five years.)³⁶

Meanwhile, the TANF reauthorization bill approved by the Senate Finance Committee would provide a \$5.5 billion increase in CCDF mandatory funds over five years; most of this funding would not require a state match. According to the Center on Budget and Policy Priorities (CBPP), the Finance Committee bill uses an approach that does not require state matching because of concerns that states would have trouble raising matching funds. "In the long run, however, the fact that the new funds are primarily unmatched means that the overall level of state and federal resources devoted to child care is likely to be lower than if drawing down the new federal child care funds required a state match," according to a CBPP analysis.³⁷

The bill would maintain the current law's overall hourly work week requirements, but would alter current law by raising from 20 hours to 24 hours the amount of time that TANF recipients would have to spend in "priority" work activities, such as paid or unpaid work, community service, or vocational training. Advocates believe the child care funding level in the Senate bill would pay for the bill's higher work requirements, as well as keep pace with inflation, but that, overall, it would do little to reach a higher percentage of families eligible for CCDF subsidies.³⁸

H.R. 4737 would also raise the portion of block grant funding that states must spend on child care quality from 4 percent to 6 percent. Funding for quality includes state efforts such as raising wages and training staff. The Senate Finance Committee bill would not alter the current CCDF quality set-aside.

The House bill eliminates CCDF's family income cap of not more than 85 percent of a state's median income, and instead allows states to set their own maximum income levels, prioritizing by need. The Senate Finance Committee bill does not address this provision.

According to a House Education and the Workforce Committee staff member, the federal ceiling was eliminated because it set income eligibility too high in a number of states. Many child care advocates, however, believe that the House bill erases the income cap to make it impossible to calculate the percentage of eligible families being served by government subsidies. They argue that if the House wanted to target CCDF

The ability of states to maximize TANF funding for child care rests on how much TANF funding is available and whether welfare roles will continue their significant decline.

funds to the lowest income families, it would have lowered the income cap by some specific amount instead of leaving this decision to the states.

At the same time, removing the maximum income limit created concern in the House that states would use CCDF only to fund families on, or just leaving, welfare. To emphasize that CCDF is designed to serve other low-income families, as well, H.R. 4737 deletes the law's goal "to assist States to provide child care to parents trying to achieve independence from public assistance," and replaces it with, "to assist states to provide child care to low-income parents."³⁹

The House bill would allow states to raise the portion of TANF funds allowed to be transferred to CCDF from 30 percent to 50 percent, while the Senate bill does not address this provision.

The ability of states to maximize TANF funding for child care rests on how much TANF funding is available, which in turn rests on how much Congress will authorize for the TANF block grant (both House and Senate Finance Committee bills would freeze TANF block grant funding at its current 2002 level) and on whether or not state welfare rolls will continue their significant decline. Government child care funding was able to double in a short period in large part because of the steep declines in welfare caseloads, which allowed states to use freed-up TANF funds for child care. If the rate of decline in the welfare rolls slows (as it now shows signs of doing) or stops, less money for child care will be available.

CONCLUSION

The government's interest in funding child care for low-income families is clear. The ability of low-income parents to enter and stay in the work force—the central goal of welfare reform—relies heavily on their ability to find reliable and affordable child care. The welfare reform reauthorization debate raises critical questions about the direction and tenor of federal child care policy, not all of which will be addressed during this congressional session. Congress will settle on a funding level for CCDF and TANF, but the number of families those funds reach will depend on other decisions—made largely by the states—such as income-eligibility and program quality levels.

ENDNOTES

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