

# The New Child Care Block Grant: State Funding Choices and Their Implications

Sharon K. Long and Sandra J. Clark

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) fundamentally changes federal child care assistance programs. The legislation eliminates federal child care entitlements and consolidates the major sources of federal child care subsidies for low-income children into a single block grant to states. At the same time, PRWORA transforms the Aid to Families with Dependent Children (AFDC) program into a block grant and expands its work participation requirements, thereby increasing the need for child care among families newly entering the workforce.

Under these changes, states gain increased flexibility for designing and targeting their child care assistance programs. They also assume additional responsibilities for addressing the need for child care assistance. The child care block grant preserves some shared federal and state responsibility for child care funding by making a portion of the federal block grant funds dependent on the level of state child care spending. Under this new financing mechanism, total funds available for child care could change dramatically depending on a state's own level of investment.

Below we outline the changes in federal child care programs and explore the implica-

tions of alternative scenarios for child care funding across states.

## Changes in Federal Child Care Programs

PRWORA consolidates the four key federal child care assistance programs for low-income families into a single block grant to states—the Child Care and Development Fund (CCDF).<sup>1</sup>

The legislation provides up to \$2.97 billion in federal funding for the CCDF in FY 1997, an increase of \$600 million, or 27 percent, over prior law (see table 1).

The CCDF funds are divided into three components: mandatory funds, matching funds, and discretionary funds.<sup>2</sup> Each state is entitled to receive a share of the manda-

tory funds (\$1.20 billion in FY 1997) with no matching requirements. State allocations of these funds are based on the highest of a state's FY 1994, FY 1995, or average FY 1992–1994 federal Title IV-A child care funding. The matching funds (\$0.77 billion for FY 1997) are available to states that maintain spending equal to their prior IV-A child care match.<sup>3</sup> Child care expenditures above that level will be matched by federal dollars up to the state's allocated share of these funds.<sup>4</sup> The maximum allocations across the states are based on the proportion of

*The new block grant provides the potential for substantially greater child care funding, but the extent to which these increases will be realized depends on the options adopted by states regarding this funding.*

**Table 1**  
**Federal Funding of Child Care Assistance Programs for Low-Income Families under Prior Law and under PRWORA**  
 (FY 1997 funding, in billions of dollars)

Prior Law		PRWORA	
Title IV-A Child Care		Child Care and Development Fund	
AFDC and Transitional Child Care	\$1.105	Mandatory Funds	\$1.200
At-Risk Child Care	.300	Matching Funds	.767
		Discretionary Funds	1.000
Child Care and Development Block Grant (CCDBG) <sup>a</sup>	.935		
<b>Total</b>	<b>\$2.340</b>	<b>Total</b>	<b>\$2.967</b>

Sources: For Title IV-A Child Care: Federal Budgetary Implications of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. 1996. Congressional Budget Office, December. For Child Care and Development Fund: Child Care Program Instruction. 1996. U.S. Department of Health and Human Services, Administration on Children, Youth and Families. October 30.

a. The CCDBG was authorized through FY 1995 and continued to operate under a continuing resolution in FY 1996. The estimated funding level for FY 1997 equals the amount appropriated for the CCDBG in each of FYs 1995 and 1996.

the state's children under age 13. The legislation also authorizes \$1 billion each year in discretionary funds, which are subject to annual appropriation. These funds are distributed to states according to the prior rules governing the distribution of Child Care and Development Block Grant (CCDBG) funds. Those rules based allocations on the proportion of children under 5 years old, the number of children receiving free or reduced-price school lunches, and the state's average per capita income.<sup>5</sup>

Three of the four programs consolidated into the CCDF block grant existed under Title IV-A of the Social Security Act. The AFDC Child Care Program provided child care entitlements to families who were receiving AFDC and were working or in an education or training program. The Transitional Child Care Program offered assistance to families who were making the shift from AFDC to work. Under the third program, At-Risk Child Care, states were entitled to receive funds up to a capped amount to serve working families who were "at-risk" of coming onto AFDC if they did not receive assistance with child care. Together, these three programs would have provided about

\$1.4 billion in federal funding for FY 1997 under prior law, according to projections by the Congressional Budget Office.<sup>6</sup> All three of the Title IV-A child care programs required state matching funds to draw down federal dollars, based on the Medicaid matching rate (see note 4).

The fourth child care program incorporated into the CCDF—the CCDBG—provided federal child care funds for states to assist low-income families, as well as for activities to improve the overall quality and supply of child care for all families.<sup>7</sup> We assume that CCDBG funding in FY 1997 would have been \$935 million, the amount provided in each of the previous two years.

As noted above, the consolidation of these four sources of child care funds under PRWORA eliminates all federal child care entitlements that existed under the Title IV-A programs, providing states with increased flexibility in targeting their child care dollars. However, with this expanded flexibility comes greater responsibility for operating programs within a new constraint. The legislation repeals the open-ended federal entitlement to families for Title IV-A child care, placing a cap on the level

of federal child care funds that a state may access. States no longer automatically receive increased federal funding in response to greater child care use whether due to caseload growth or to larger shares of the caseload engaged in work activities or transitioning off welfare.

In addition to direct changes to child care assistance programs under PRWORA, two other components of the legislation may affect the availability of child care funds. First, the new law allows states to transfer up to 30 percent of their AFDC-replacement block grant (the State Family Assistance Grant) from cash assistance to child care. The State Family Assistance Grant equals the sum of the state's recent federal funding for AFDC, the Job Opportunities and Basic Skills (JOBS) training program, and Emergency Assistance (a total of about \$16.4 billion for FY 1997 for all states) and funds the new Temporary Assistance to Needy Families (TANF) program.<sup>8</sup> This provision could add up to \$4.9 billion in funding for child care assistance to the roughly \$3 billion provided by the CCDF.

Second, PRWORA reduces funding for the Title XX Social Services Block Grant (SSBG)—which states may spend on a variety of social services including child care—by 15 percent per year over the 1996–2002 period. In FY 1997, this lowers total SSBG funding from \$3 billion to \$2.6 billion.<sup>9</sup> Data on the use of the SSBG for child care are limited, but evidence suggests that the SSBG funds some child care in most states.<sup>10</sup>

## Child Care Funding Scenarios

The new block grant provides the potential for substantially greater child care funding, but the extent to which these increases will be realized depends on the options adopted by states regarding this funding.<sup>11</sup> Though no longer required for participation in the federal program, a state could choose to maintain its present spending on child care.<sup>12</sup> Or, with elimination of the Title IV-A matching requirements, a state could instead choose to limit child care

**Table 2**  
**Federal and Related State Child Care Funding for Low-Income Families, under Alternative Scenarios**

State	FY 1995 Federal and State Title IV-A and CCDBG Child Care Spending (000s of 1997 dollars) <sup>a</sup>	Total Federal and State Child Care Dollars under PRWORA				Percent of Federal IV-A At-Risk Funds Drawn Down (FY 1994)
		FY 1997 Allocations (000s) <sup>b</sup>			Potential Additional TANF Funds	
		Maximize Federal Funds	Maintain State Spending	No State Spending		
Alabama	\$39,512	\$57,415	\$42,107	\$35,211	\$27,902	95%
Alaska	7,967	12,755	8,778	5,233	19,083	100
Arizona	45,951	65,644	46,932	36,867	66,726	100
Arkansas	15,688	27,117	18,395	16,508	17,020	63
California	306,962	486,303	297,822	204,876	1,120,145	66
Colorado	26,458	48,328	29,370	20,384	40,666	100
Connecticut	42,091	60,439	43,663	24,924	80,036	100
Delaware	12,528	15,903	12,179	6,999	9,687	100
District of Columbia	9,281	13,674	11,152	6,432	27,783	100
Florida	122,040	185,239	122,774	89,350	168,287	100
Georgia	87,543	119,756	88,101	65,933	99,223	36
Hawaii	8,953	20,263	13,748	8,528	29,671	100
Idaho	7,763	13,697	8,857	7,681	9,555	100
Illinois	149,066	217,762	153,032	93,422	175,517	100
Indiana	63,681	81,488	57,834	42,478	62,040	67
Iowa	22,858	34,046	22,682	17,383	39,026	100
Kansas	21,590	36,490	24,635	17,962	30,579	100
Kentucky	37,574	54,314	40,533	33,259	54,386	100
Louisiana	45,074	61,135	44,142	38,923	49,192	0
Maine	8,332	13,456	8,658	6,730	23,436	100
Maryland	61,942	85,133	58,346	35,045	68,729	97
Massachusetts	125,797	132,105	101,967	56,994	137,811	100
Michigan	59,771	128,284	83,208	58,848	232,606	78
Minnesota	52,108	78,255	55,067	35,377	79,919	100
Mississippi	22,402	33,983	24,422	22,706	26,030	5
Missouri	54,623	80,981	57,729	41,180	64,375	100
Montana	6,550	10,716	7,462	6,147	13,660	48
Nebraska	22,749	30,489	23,155	16,200	17,409	100
Nevada	9,106	17,450	9,026	6,446	13,193	88
New Hampshire	12,341	18,446	12,365	7,314	11,556	100
New Jersey	56,290	121,065	79,953	48,290	121,210	100
New Mexico	14,163	27,361	20,458	17,423	37,831	94
New York	180,928	356,015	260,785	155,891	707,993	100
North Carolina	132,183	160,383	131,855	93,877	90,672	100
North Dakota	4,999	8,109	5,674	4,657	7,767	74
Ohio	142,893	194,492	146,970	101,341	218,390	100
Oklahoma	40,486	61,668	49,187	38,537	44,404	100
Oregon	39,826	52,726	39,921	28,206	50,377	100
Pennsylvania	127,923	185,796	131,155	84,526	215,850	100
Rhode Island	14,959	18,751	14,301	8,980	28,506	93
South Carolina	29,362	44,432	30,956	26,869	29,990	100
South Dakota	4,873	7,509	4,514	3,711	6,568	34
Tennessee	74,561	95,022	75,184	56,209	56,936	27
Texas	171,246	269,141	181,336	146,654	145,877	87
Utah	23,734	34,613	25,583	21,108	22,486	100
Vermont	8,539	10,869	8,433	5,628	14,206	100
Virginia	62,483	93,713	60,292	38,963	47,486	95
Washington	112,627	122,227	94,307	55,539	119,891	100
West Virginia	17,780	24,243	18,869	15,898	33,053	100
Wisconsin	48,097	76,946	54,329	37,858	95,457	93
Wyoming	6,221	7,907	5,818	4,264	6,534	88
<b>Total</b>	<b>\$2,822,472</b>	<b>\$4,214,055</b>	<b>\$2,968,024</b>	<b>\$2,059,771</b>	<b>\$4,916,734</b>	

Sources: Total FY 1995 federal and state spending on Title IV-A and CCDBG (excluding the 25 percent set-aside for quality and accessibility improvement) is from U.S. House of Representatives, Committee on Ways and Means, 1996, 1996 *Green Book*. The PRWORA figures are based on the U.S. Department of Health and Human Services' estimated FY 1997 state allocations for the Child Care and Development Fund. These figures exclude the 4 percent quality set-aside and funds for technical assistance. Percent of federal IV-A At-Risk Funds drawn down are from Gina Adams and Nicole Oxendine Poersch, 1996, *Who Cares? State Commitment to Child Care and Early Education*. Washington, D.C.: Children's Defense Fund, December.

a. In adjusting the FY 1995 figures to FY 1997 dollars, we used the August 1996 CBO prediction that the GDP inflator would increase by 5.47 percent from 1995 to 1997.

b. These allocations may be adjusted by the U.S. Department of Health and Human Services.

funding to federal funds only and, thus, put no additional state funds into child care. Alternatively, a state could choose to maximize the federal dollars available for child care by increasing its own related child care spending to levels above those under Title IV-A. And, regardless of its decisions on child care funding, a state could choose to move funds from cash assistance under TANF to child care.

Table 2 outlines these possible scenarios regarding states' handling of child care funding. A state could (1) maximize available federal funds, (2) maintain its state child care funding at historical levels, or (3) eliminate all related state child care expenditures. The table also presents the additional funds that would be available for child care subsidies if the maximum share of TANF funds were transferred from cash assistance to child care. To assess the relative change in child care funding under these scenarios, we compare these figures to a baseline of total federal and state spending under the CCDBG and Title IV-A child care programs in FY 1995, inflated to 1997 dollars.<sup>13</sup> Focusing on the funds available for direct child care assistance to families, we limit this comparison to child care funds net the required quality enhancement and availability provisions (see note 7).

In FY 1995, combined federal and state expenditures on child care under the CCDBG and Title IV-A programs were \$2.82 billion in 1997 dollars. Under PRWORA in FY 1997, the combined federal and state funding available under the CCDF will range from \$2.06 to \$4.21 billion, with reallocations from TANF potentially providing an additional \$4.92 billion for child care.

Clearly, there is the potential for significantly higher levels of child care funding in the states, as shown in figure 1. If every state were to put up enough state dollars to draw down the maximum federal funds available, CCDF funding in FY 1997 would exceed that provided under CCDBG and Title IV-A in FY 1995 in all

states. Across states, the average increase would be about 50 percent. However, the extent to which maximizing available federal funds would increase the total level of federal and related state funds available for child care ranges widely. For example, if Massachusetts and Washington State provided state funds to maximize the total federal funds available to them, their total child care dollars would

***If every state were to put up enough state dollars to draw down the maximum federal funds available, CCDF funding in FY 1997 would exceed that provided in FY 1995 in all states. However, to draw down the increased federal funds, states would have to put up on average an additional 70 percent of state dollars over and above their FY 1995 levels.***

increase by less than 10 percent between FY 1995 and FY 1997 (\$132 million versus \$126 million, and \$122 million versus \$113 million, respectively). In other states, the potential increase is much greater. In Hawaii, Michigan, and New Jersey, for example, child care funding would increase by more than 100 percent if these states maximized federal funds.

However, to draw down the increased federal funds, states would have to put up on average an additional 70 percent of state dollars over and above their FY 1995 levels (not shown). Moreover, states with the greatest potential increase in funding—Hawaii, Michigan, and New Jersey—would have to increase state spending on child care by well over 100 percent. There is evidence to suggest that this increased level of investment is unlikely to occur in a number of states. As shown in the final column of table 2, 20 states did not provide the dollars needed to draw down their full Title IV-A allocation in FY 1994. On the other hand, some states have committed significant resources to child care services, beyond those required by the Title IV-A child care

programs. A recent study by the Children's Defense Fund found that in 1994, 21 states had child care funding levels that would have been sufficient to access their maximum federal CCDF allocation. Five states, however, expended no state money on child care beyond their IV-A state match. Wide variation in funding levels existed across the remaining states.<sup>14</sup> Clearly, there are differences in states' capacities and willingness to fund child care services, which are likely to affect their child care funding decisions under the new block grant.

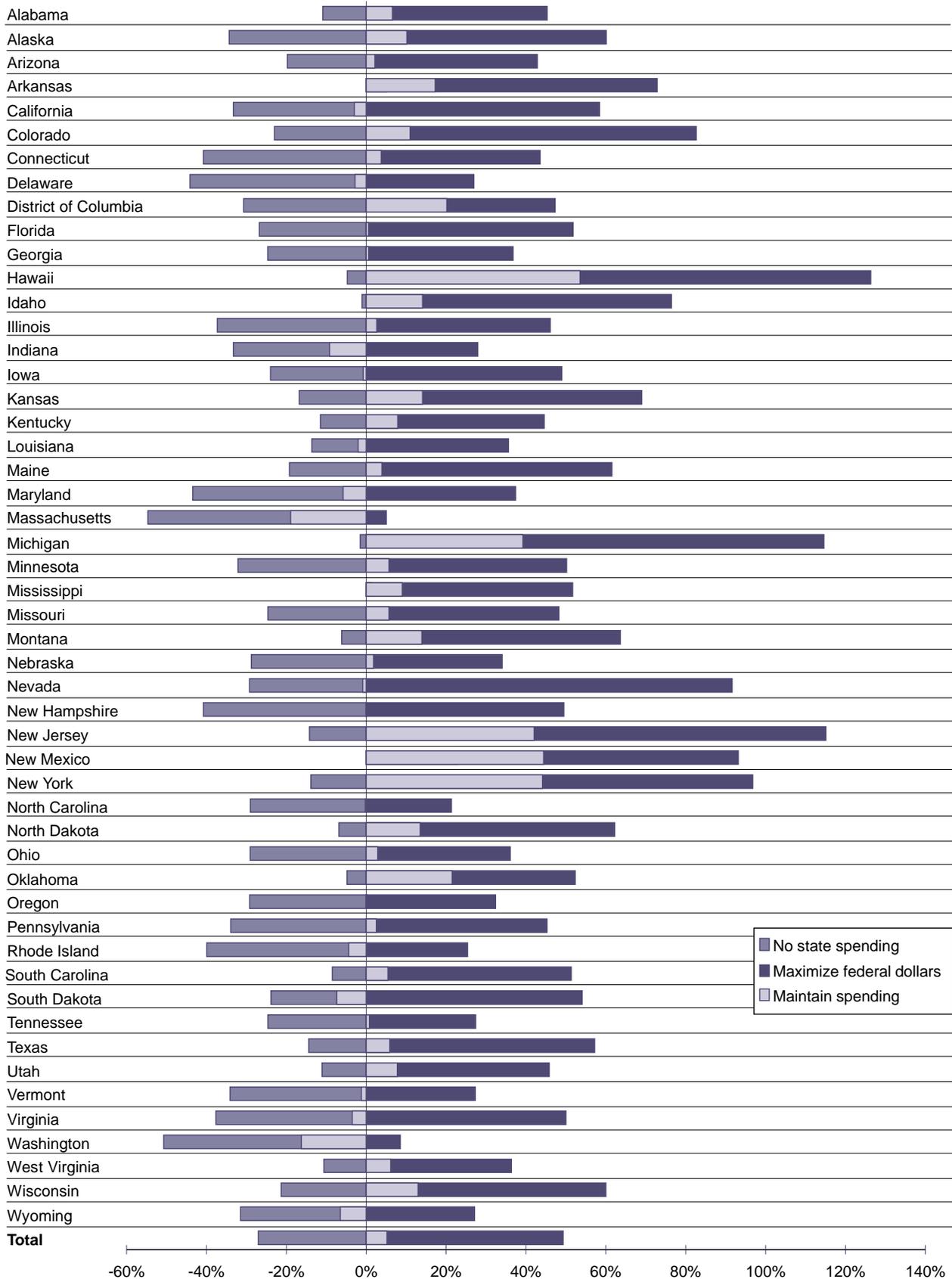
If, instead of maximizing federal funding, states simply maintain their historical levels of IV-A child care spending, federal and related state child care funding in FY 1997 relative to FY 1995 would remain largely unchanged in many states.<sup>15</sup> In 15 states, total federal and related state child care funding in FY 1997 would be more than 10 percent greater than the FY 1995 level. In two states, child care funding levels would be more than 10 percent lower in FY 1997 under this scenario. These differences across states reflect inflation, changes in state characteristics used to allocate block grant funds, prior state funding levels, and the complex new child care funding framework.

If states choose not to put any state dollars into child care and instead fund their programs entirely with federal funds, child care expenditures in FY 1997 would exceed those of FY 1995 in only three states—Arkansas, Mississippi, and New Mexico. Under this scenario, total child care funding in the average state would be 23 percent lower in FY 1997 than in FY 1995, and as much as 40 to 50 percent lower in some states.

## Potential Need for Child Care Assistance

To what extent will the child care assistance available under the new legislation meet the needs of the low-income children who require it? To answer, we need to estimate the number of children currently in need of child care assistance and the likely

**Figure 1**  
**Percentage Change in Federal and Related State Child Care Funding for Low-Income Families in FY 1997**  
**Relative to FY 1995 under Alternative Scenarios, Assuming No Transfer of TANF Funds**



Source: Per table 2.

increase in that number as a result of the new legislation.

For the most part, child care assistance is intended to help low-income families pay for child care while the child's parents are working, attending school, or in a training program. Thus, one estimate of the number of low-income children potentially in need of child care assistance might be all low-income children. However, this is an overestimate of the population in need of assistance. Not all families include parents who are working, in school, or in training, and not all working families will turn to paid

child care: parents may choose to work split shifts to care for their children, older children may care for younger siblings, children may care for themselves, or other relatives or friends may provide child care without pay.

A more conservative estimate of the number of low-income children potentially in need of child care assistance is the number of low-income children of working parents who are currently in paid child care arrangements. This is a conservative estimate because it ignores the role of the availability of child care assistance in family decisions: the prospect of help

paying for child care may induce parents who are not working to go to work, induce parents who are working part-time to work full-time, or allow families with children in self-care or unpaid child care arrangements to place their children in arrangements that they could not afford on their own. Nevertheless, we believe that the number of low-income children in paid child care arrangements provides a reasonable base for assessing the adequacy of child care funding under PRWORA, particularly in comparison to the adequacy of funding under prior law.

**Table 3**  
**Approximating the Potential Need for Child Care Assistance by Children in Paid Child Care Arrangements under Prior Law and under PRWORA**

	Children under 6 Years Old	Children 6 to 12 Years Old	All Children under 13 Years Old
Number of Children in Low-Income Families <sup>a</sup>	9,071,000	8,616,800	17,687,800
Of Those, Number with Working Parent(s) <sup>b</sup>	5,090,100	5,368,300	10,458,400
Of Those, Number Estimated to Use Paid Child Care <sup>c</sup>	2,290,500	966,300	3,256,800
Number of Children in Nonworking Welfare Families <sup>d</sup>	3,834,600	3,151,400	6,986,000
Of Those, Number Estimated to Be Affected by PRWORA Work Requirements <sup>e</sup>	443,800	364,700	808,500
Of Those, Number Estimated to Turn to Paid Child Care	199,700	65,600	265,300
Potential Child Care Assistance Need under Prior Law: Children in Low-Income Working Families Using Paid Child Care	2,290,500	966,300	3,256,800
Potential Child Care Assistance Need under PRWORA: Need under Prior Law Plus Children in Nonworking Families Receiving Welfare, Affected by PRWORA Work Requirement, and Using Paid Child Care	2,490,200	1,031,900	3,522,100

Source: Tabulations by the Urban Institute.

a. This analysis includes subfamilies living within larger families as separate families. We define low-income as having family income less than 150 percent of the federal poverty threshold but recognize that the income eligibility threshold for child care assistance varies across states. The majority of child care subsidies, however, are provided to children in families with incomes below 150 percent of poverty.

b. This includes children in all families in which one or both parents are working full or part time.

c. Tabulations of 1992/1993 Survey of Income and Program Participation data indicate that the share of low-income children of working parents using paid relative or nonrelative care is 45 percent for children under age 6 and 18 percent for children 6 to 12.

d. This estimate is based on FY 1995 AFDC Quality Control administrative data, which indicate that roughly 9.5 percent of all families receiving AFDC reported income from earnings. Therefore, 90.5 percent of all children receiving AFDC were assumed to live in families in which parent(s) are not working.

e. Under PRWORA, states are required by TANF to move 25 percent of their nonexempt caseloads into work in 1997, with an adjustment to that requirement made for caseload reduction. The caseload requirement may reach as low as 11 percent in some states, but the average across states is likely to be about 20 percent. The work participation rate increases to 50 percent by FY 2002. In order to meet TANF requirements, a single parent must work at least 20 hours a week. In two-parent families, one parent must work 35 hours per week and the other at least 20 hours per week. The number of children estimated to be affected by the new work requirements assumes that families in the current caseload who have earnings are all working the required number of hours. Because, under TANF, some of the families with earnings will likely need to increase their hours worked, this number underestimates the increased need for child care under PRWORA.

There is some uncertainty about the number of children in paid child care arrangements. Though we can estimate the share of children whose families made a payment for their care, there are no data available on the share of children whose child care arrangements are paid for by someone other than the family, say, through government-subsidized child care.

To estimate the number of children currently using paid child care (where payment is made either by parents or other sources), we focus on child care provided by relatives for which there is some type of payment and child care provided by nonrelatives, for which payment is typically required. The latter includes family daycare homes, day/group care centers, nursery and preschool programs, in-home providers, and before- and after-school care.

As shown in table 3, we estimate that there are roughly 10.5 million children under the age of 13 in low-income families (incomes below 150 percent of poverty) whose parent(s) are currently working full or part time. Of those children, nearly 3.3 million, or 31 percent, are estimated to be in paid child care, and thus represent the population potentially in need of child care assistance under the prior law.

Under PRWORA, additional children will require child care as families enter the labor force due to TANF work requirements. The TANF work requirement applies to 25 percent of a state's nonexempt welfare caseload in FY 1997 and rises to 50 percent in FY 2002. In 1996, nearly 7 million children lived in families who received AFDC and had no earnings. This represented about 90 percent of the welfare caseload nationwide (not shown). We estimate that 0.8 million of these children will have parents who move into the labor force under PRWORA in 1997, adding another 0.3 million children to the number using paid child care arrangements. When combined with the level of need under prior law, we estimate that 3.5 million children in paid child care are potentially in need of child care assistance under PRWORA in 1997. This represents an increase of about 8 percent over the potential need for child care assistance in 1997 under prior law. As

**Table 4**  
**A Comparison of Available Federal and Related State Child Care Funding for Low-Income Families and the Potential Child Care Assistance Needs of Children under Prior Law and under Various PRWORA Scenarios in 1997**

	Prior Law	PRWORA		
		Maximize Federal Dollars	Maintain Spending	No State Spending
Estimate of the Number of Children Who Could Be Served with Available Funds <sup>a</sup>	1,061,800	1,672,000	1,177,600	817,300
Estimate of the Number of Children in Paid Child Care Potentially in Need of Child Care Assistance	3,256,800 <sup>b</sup>	3,522,100	3,522,100	3,522,100
Share of Children with Potential Child Care Assistance Need Who Could Be Served with Available Funds	32.6%	47.5%	33.4%	23.2%

Source: Tabulations by the Urban Institute.

a. The estimated number of children who could be served with the available funds is derived by dividing the total level of funding available by the average annual cost of providing child care. The latter is estimated as the average child care payment for Title IV-A AFDC/JOBS child care for FY 1994. The data on child care payments were obtained from the U.S. Department of Health and Human Services Child Care Bureau.

b. Drawn from table 3.

the work participation rate under TANF increases over time, more parents will move into the workforce, expanding the number of children in need of child care assistance. If the FY 2002 work requirement of 50 percent of a state's caseload (with no adjustment for caseload reduction) were applied in 1997, we estimate that roughly one million more children would enter paid child care.

### Available Funds versus Potential Need

In table 4 we compare available funds and our estimate of the potential need for child care assistance under prior law and based on various state scenarios under PRWORA. Because our estimate of the potential need for child care assistance under PRWORA captures changes due to TANF work requirements but ignores changes in families' child care decisions in response to other aspects of PRWORA, these comparisons provide a partial assessment of the adequacy of child care funds under PRWORA. To the extent that the new legislation leads to increases in work effort beyond that of the TANF work

requirements or allows more families to turn to paid child care, our estimate of the potential need for child care assistance under PRWORA is too low.

Under this comparison, we estimate that, if states maintain their historical levels of spending, the share of children potentially in need of child care assistance who could be served with the available funds is approximately the same in 1997 as under prior law—roughly one-third.<sup>16</sup>

In contrast, if states decide to eliminate state spending on child care, the combined effect of reduced state spending and the increased need for child care due to TANF work requirements would reduce the share of children who could be served with available funds to 23 percent. At the other extreme, if states maximize the federal child care dollars available under PRWORA, the share of children served could be increased to about 48 percent of those with child care assistance needs. Finally, if states transfer the maximum allowed TANF funds from cash assistance to child care assistance, the share of children who could be served would be significantly higher. Adding the full share of TANF

funds to PRWORA funding, which maximizes federal child care dollars, would provide enough funds to serve all children potentially in need of child care (not shown).

Clearly, states face a wide range of options for funding child care assistance. The choices they make will play a key role in determining whether the share of families receiving child care assistance under PRWORA increases beyond the relatively low levels of coverage achieved under prior law.

## Other Key State Decisions

Beyond choices about funding levels for child care assistance, states will also be making decisions about eligibility, provider reimbursement rates, and family copayments. The approach that states take regarding these matters also will influence whether and how many low-income children who need child care assistance will get it.

Under the new legislation, states have increased flexibility in how they target their child care dollars. At present, many state programs serve low-income working families in addition to those receiving public assistance. In light of the likely increase in need for child care assistance among children in families receiving public assistance, states may choose to restrict eligibility for low-income working families. On the other hand, states could choose to serve a larger number of families and provide lower levels of assistance per child or operate a first-come/first-served program with a waiting list for assistance. Both options were used by states to different degrees under prior law.<sup>17</sup> However, states previously did not face the additional challenge of establishing priorities for families receiving or transitioning off welfare, because child care was an entitlement to families in both cases. The new law is likely to intensify the trade-offs states face between serving low-income working families not on welfare and those that are.

States may also modify their subsidy levels or provider reimbursement rates in order to meet their child care objectives. The new legislation grants

states greater latitude in determining reimbursement rates. PRWORA eliminates the requirement that states pay for actual child care costs up to the rates charged by the 75th percentile of child care providers, subject to statewide limits. The law also abolishes the requirement that payments take into account variations in the costs of providing child care in different settings and to children of different ages (e.g., care in a child care center is typically more expensive than that in family daycare homes, and infant care is typically more expensive than care for older children). To serve a greater number of children, states may reduce child care subsidies, thereby increasing the share of the cost paid by parents. States also could limit parent access to higher priced (and possibly higher quality) child care settings.

\* \* \* \* \*

Our comparison of child care funding and the potential population of children in need of child care assistance highlights the significant gap that is likely to exist between funding levels and the potential need of low-income working families. As states reevaluate their systems of child care assistance within the new framework, they face difficult decisions. Different approaches will undoubtedly result in different outcomes across states. The challenge in each state will be to provide enough care to meet the demands of welfare reform while continuing to serve nonwelfare families.

## Notes

1. Currently, the single largest source of federal support for child care, the Child and Dependent Care Tax Credit, does little to aid low-income families. Almost \$2.7 billion was claimed under the dependent care credit in 1995 (U.S. Internal Revenue Service, 1995. *SOI Bulletin*. Washington, D.C.: U.S. Government Printing Office). PRWORA does not affect this credit.

2. The regulations governing the allocation of the CCDF funds are quite complicated. For a detailed summary of the child care provisions of the PRWORA legislation, see Center for Law and Social Policy, 1996. "A Summary of Key Child

Care Provisions of H.R. 3734, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996." August.

3. Under PRWORA child care provisions, a state is required to maintain its historic level of Title IV-A child care spending to access its designated share of the matching funds available under the CCDF. However, under the provisions of PRWORA related to the new Temporary Assistance to Needy Families (TANF) program, there are additional incentives for the state to maintain at least a part of that child care spending. A state's TANF block grant will be reduced if the state fails to spend 80 percent of its "historic state expenditures" for "qualified state expenditures" in the prior year. State expenditures on child care—up to the state "maintenance of effort" requirement for child care matching funds—can be counted toward the state's "qualified state expenditures."

4. States receive federal funds according to the FY 1995 Medicaid matching rates. In 1996, these rates ranged from 50 to 78 percent (U.S. House of Representatives, Committee on Ways and Means, 1996. *1996 Green Book*).

5. Note that, under the new law, at the end of each fiscal year all unused federal funds are redistributed to qualifying states.

6. *Federal Budgetary Implications of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996*. 1996. Congressional Budget Office, December.

7. Prior to PRWORA, states were required to use 25 percent of their CCDBG funds for activities to improve the quality and availability of child care. PRWORA lowers that requirement to 4 percent, but applies it to all federal CCDF funds.

8. See Zedlewski, Sheila, and Gian-narelli, Linda (1997), "Diversity among State Welfare Programs: Implications for Reform," *New Federalism: Issues and Options for States*, series A, no. A-1, Urban Institute (January), for a discussion of state options under TANF.

9. *Federal Budgetary Implications of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996*. 1996. Congressional Budget Office, December.

10. U.S. House of Representatives, Committee on Ways and Means. 1996. *1996 Green Book*.

11. We use “states” to refer to the 50 states and the District of Columbia.

12. Prior to PRWORA, many states provided funding for child care assistance above the levels required for participation in the federal IV-A child care programs. This analysis focuses on state child care spending that is related to federal child care assistance programs, and thus does not reflect the total amount of spending in all states. State child care spending above the amount formerly required for the IV-A match, a significant amount in some states, may now be used to draw down additional federal funds under the new block grant.

13. The baseline FY 1995 expenditures were inflated to 1997 dollars using the August 1996 Congressional Budget Office projection for the GDP inflator, which forecasts a 5.47 percent increase between these years. This baseline assumes that child care spending in FY 1997 under prior law would have been the same as in FY 1995, except for inflationary changes. Changes between FY 1995 and 1997 in state demographic or economic characteristics or in the Title IV-A child care or AFDC programs would have resulted in different overall spending levels and/or a different allocation of funds across the states.

14. The study was based on state child care funding in 1994. Some states may have increased or decreased their funding levels since then, which would affect the amount of state matching funds currently available. See Gina Adams and Nicole Oxendine Poersch, 1996. *Who Cares? State Commitment to Child Care and Early Education*, Washington, D.C.: Children’s Defense Fund, December.

15. As previously noted, however, some states were providing state funds for child care above the required IV-A match prior to PRWORA. Under the CCDF, these funds may now be used as matching funds for federal dollars. Thus, in these cases overall child care spending in the state may increase even if the state does not increase its own level of spending.

16. These estimates assume that the states provide the same average child care subsidy amount under PRWORA as they did under Title IV-A child care. PRWORA allows states to modify many elements of program design, which could change the values of the subsidies provided under the new program.

17. U.S. General Accounting Office. 1994. *Child Care: Working Poor and Welfare Recipients Face Service Gaps*. Washington, D.C., May.

## Other Briefs in the Series

1. *Diversity among State Welfare Programs: Implications for Reform*, Sheila Zedlewski and Linda Giannarelli
2. *Devolution as Seen from the Budget*, C. Eugene Steuerle and Gordon Mermin
3. *Variations in Medicaid Spending among States*, John Holahan and David Liska
4. *General Assistance Programs: The State-Based Part of the Safety Net*, Cori E. Uccello and L. Jerome Gallagher
5. *How the New Welfare Reform Law Affects Medicaid*, Leighton Ku and Teresa A. Coughlin
6. *Reassessing the Outlook for Medicaid Spending Growth*, John Holahan and David Liska
7. *Work-Related Resources and Services: Implications for TANF*, Demetra Smith Nightingale
8. *Medicaid: Overview of a Complex Program*, David Liska
9. *Younger People with Disabilities and State Health Policy*, Joshua M. Wiener
10. *Supplemental Security Income for Children with Disabilities: Part of the Federal Safety Net*, Pamela J. Loprest
11. *Questions for States As They Turn to Medicaid Managed Care*, Stephen Zuckerman, Alison Evans, and John Holahan

## Future Topics

- **Welfare Reform and the Devolution of Immigrant Policy**
- **The Medicaid Disproportionate Share Hospital (DSH) Program: Background and Issues**
- **The Impact of Temporary Assistance to Needy Families (TANF) on State Budgets**

**Sharon K. Long** is a senior research associate in the Health Policy Center at the Urban Institute.

**Sandra J. Clark** is a research associate in the Income and Benefits Policy Center of the Urban Institute.

This series is a product of *Assessing the New Federalism*, a multi-year project to monitor and assess the devolution of social programs from the federal to the state and local levels. Project co-directors are Anna Kondratas and Alan Weil.

The project is supported by funding from the Annie E. Casey Foundation, the Henry J. Kaiser Family Foundation, the W.K. Kellogg Foundation, the John D. and Catherine T. MacArthur Foundation, the Commonwealth Fund, the Fund for New Jersey, the McKnight Foundation, and the Robert Wood Johnson Foundation. Additional support is provided by the Joyce Foundation and the Lynde and Harry Bradley Foundation through grants to the University of Wisconsin at Madison.

The series is dedicated to the memory of Steven D. Gold, who was co-director of *Assessing the New Federalism* until his death in August 1996.

**Series editor:** Stephen H. Bell

**Publisher:** The Urban Institute, 2100 M Street, N.W., Washington, D.C. 20037

Copyright © 1997

The views expressed are those of the authors and do not necessarily reflect those of the Urban Institute, its board, its sponsors, or other authors in the series.

Permission is granted for reproduction of this document, with attribution to the Urban Institute.

For extra copies call (202: 857-8687) or visit the Urban Institute's web site (<http://www.urban.org>).

Designed by Robin Martell and Barbara Willis

Telephone: (202) 833-7200 ■ Fax: (202) 429-0687 ■ E-Mail: [paffairs@ui.urban.org](mailto:paffairs@ui.urban.org) ■ Web Site: <http://www.urban.org>



**THE URBAN INSTITUTE**

2100 M Street, N.W.  
Washington, D.C. 20037

Nonprofit Org.  
U.S. Postage  
**PAID**  
Permit No. 8098  
Washington, D.C.

Address Correction Requested