Statement of Sharon K. Long, Senior Research Associate, Urban Institute

The views expressed are the authors and do not necessarily reflect those of the Urban Institute, its trustees, or its funders.

My name is Sharon Long. I am a senior research associate at the Urban Institute, a nonpartisan public policy research institution in Washington, D.C. I would like to address two issues related to the recent changes in child care assistance programs: (1) state responses to the increased opportunity for innovation under welfare reform and (2) the adequacy of child care funding to meet the needs of low-income working families.

My comments are drawn from a multi-year Urban Institute project analyzing the shift of responsibility for social programs from the federal government to the states. That project—Assessing the New Federalism—aims to inform public debate and to help state and local decision makers carry out their responsibilities more effectively.[1] The project focuses on 13 states, home to half of the nation's population. The states are Alabama, California, Colorado, Florida, Massachusetts, Michigan, Minnesota, Mississippi, New Jersey, New York, Texas, Washington, and Wisconsin.

The 1996 welfare reform legislation made significant changes in the federal child care assistance programs for low-income families. It eliminated federal child care entitlements to families and consolidated the major sources of federal child care subsidies for low-income children into a single block grant to states. At the same time, welfare reform transformed the Aid to Families with Dependent Children (AFDC) program into a block grant and expanded its work participation requirements, thereby increasing the need for child care among families newly entering the workforce.

In this new world, 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. Child care administrators in many states reported that they do intend to make changes in their child care systems but, thus far, their first priority has been to get the Temporary Assistance for Needy Families (TANF) program up and running. The changes that I'm reporting on today are early responses by the states. We should expect to see further changes in state child care programs over time.

States Are Developing Seamless Child Care Assistance Systems

Already a number of states have taken advantage of the opportunities under welfare reform to improve the administration of child care assistance, making significant progress toward establishing seamless systems of care. Before welfare reform, federal child care programs were frequently criticized for the plethora of laws, rules, regulations, and accounting practices across the different funding streams. These resulted in a complex system that was difficult to administer and difficult for families to access. All too often, families needed to apply for assistance with multiple agen-

[1] Funding for the Assessing the New Federalism project is provided by the Annie E. Casey Foundation, the Henry J. Kaiser Family Foundation, the W. K. Kellogg Foundation, the Robert Wood Johnson Foundation, the Ford Foundation, the John D. and Catherine T. MacArthur Foundation, the Charles Stewart Mott Foundation, the David and Lucile Packard Foundation, the Commonwealth Fund, the Stuart Foundation, the Weingart Foundation, the McKnight Foundation, the Fund for New Jersey, the Rockefeller Foundation, and the Joyce Foundation and the Lynde and Harry Bradley Foundation.

cies or providers, perhaps completing multiple applications and placing their names on multiple waiting lists. Many states sought to develop a system of child care that integrated the different funding streams to minimize these problems. Despite these efforts, state administrators reported that the complexity of the pre-welfare reform child care system interfered with their ability to meet the needs of children and their families.

A key first step in developing a seamless child care system is to consolidate the administration of child care funding streams within a single state agency. Other elements of seamlessness that often follow include a single point of entry for families seeking assistance; standardized applications, policies, and procedures across different programs; and a single waiting list for low-income families needing assistance. These characteristics all serve to make the child care system more efficient and more accessible for families.

With the increased flexibility in program design under welfare reform, several states that had not achieved a seamless child care system before welfare reform are making significant strides in that direction. For example, California, Massachusetts, New Jersey, and Washington have all moved to consolidate child care assistance within a single state agency. In California, the administration of child care funding was split between the Department of Education and the Department of Social Services before welfare reform. Under welfare reform, the state has combined all child care funds in a single state agency—the Department of Education. In Massachusetts, where interactions between multiple child care agencies were often contentious before welfare reform, consolidation within a single state agency has simplified child care assistance in the state.

For states that had already established substantially seamless child care systems, the greater flexibility in design under welfare reform provides the opportunity to address gaps that remain in the system. For example, Florida's goal is to establish a single point of entry for all child care and early childhood education programs and to unify the waiting lists for all child care assistance.

STATES HAVE MADE FEW CHANGES IN THE DESIGN OF THEIR CHILD CARE PROGRAMS

Although welfare reform has given states much more flexibility in program design, it has also created strong incentives for states to focus on serving the welfare population. As a result, most states have made relatively narrow changes in their child care programs (e.g., limited changes in eligibility rules, benefit levels, and priority groups). The entitlement for child care assistance that existed before welfare reform has been replaced by a de facto guarantee of assistance for welfare families.

By eliminating the entitlement to child care assistance to families, welfare reform gave states greater flexibility in allocating child care funds across both the welfare and non-welfare populations. However, many of our study states have been reluctant to take advantage of that flexibility. Program administrators reported that they expect that, over time, welfare reform will increase the demand for child care assistance among current and former welfare families, particularly among families with very young children (for whom child care is quite expensive). Concerns about the potential costs of that increased level of demand, along with concerns about the implications of future economic downturns, have made some states hesitant to expand their child care programs much beyond the welfare population.

One state in our study that has undertaken a more radical change in its child care system is Wisconsin. Wisconsin has established a child care program that assists all eligible families. To accomplish its goal of supporting families without regard to their welfare status, Wisconsin made two key changes in its child care program. First, it increased state funding for child care significantly and has transferred TANF funds to child care. Second, it reduced the pool of eligible families by lowering the maximum income level for eligibility.

FUNDING FOR CHILD CARE ASSISTANCE ELUDES LOW-INCOME WORKING FAMILIES

In many working families, child care ranks as the single largest expense after housing and food. The increased funds for child care assistance under welfare reform, combined with many states' investment of their own funds, have increased the number of families who are receiving help with child care. However, there are still large gaps in coverage among the low-income working families.

The federal government provides substantial support for child care through a variety of avenues. Middle-and upper-income families receive support through the nonrefundable Dependent Care Tax Credit. Of more relevance to low-income families is the funding available under TANF and the child care block grant. However, as noted earlier, the vast majority of that funding appears to be targeted to welfare families and former welfare families, raising concerns about the equity of the child care system for non-welfare families and the perverse incentives of the welfare system.

In Minnesota, for example, state officials report that working poor families who would have been served before welfare reform are now losing out to welfare families, despite an increase in state funding for child care. Both Florida and Washington have provided additional child care funding targeted specifically to the non-welfare low-income population to reduce such crowding out. Massachusetts provided both additional state funds and transferred TANF funds to child care, yet still has a waiting list for low-income families. New York also transferred TANF funds to child care, yet still has long waiting lists for low-income families.

In an early analysis of the adequacy of funding for child care under welfare reform, we estimated that, if states drew down all the federal dollars available under the block grant, the share of low-income children with working parents who could be served would increase significantly. We also estimated that those increased funds would serve at a maximum less than half of the low-income children in need of child care assistance in 1997.

It is important to recognize that this estimate represents an upper bound on the share of children who could be served since the estimate does not incorporate family responses to the availability of child care assistance. In particular, the availability of assistance will induce some parents who are not working to go to work, induce some parents to go from part-time to full-time work, and allow some families with children who are home alone or in unpaid child care arrangements to place their children in arrangements that they could not afford on their own. While there is little research to support estimates of the size of those family responses, we do know that they will lead to higher levels of demand for child care assistance and, therefore, to a smaller share of low-income children being served with the available funds.

The share of children who could be served would also be lower if the definition of low-income children was expanded from the measure that we used—children in families with income below 150 percent of the poverty level. Eleven of the 13 states in our study have established income eligibility levels for child care assistance under the child care block grant that are above 150 percent of poverty. Our estimates do not capture the child care needs of those children.

We know that the working poor are less likely than the nonworking poor to receive child care subsidies and less likely than higher income families to receive a tax credit for child care expenses. Basic equity would suggest that low-income working families should not be penalized because they have not relied on the welfare system. Basic equity would also suggest that we should not subsidize child care for higher income working families, when we do not provide that same support for low-income working families.

With falling caseloads and increased funds available under welfare reform, the states have more than adequate funds to provide child care assistance to their welfare populations. However, the funds are not adequate to serve the non-welfare low-income working families seeking help paying for child care. The challenge remains to provide enough child care assistance to meet the demands of welfare reform without abandoning non-welfare working poor families.

Thank you for the opportunity to appear before this subcommittee. I would be happy to answer any questions.