



CHILD CARE LAW CENTER

221 PINE STREET | 3RD FLOOR | SAN FRANCISCO, CA 94104 | V 415.394.7144 | F 415.394.7140
WWW.CHILDCARELAW.ORG | INFO@CHILDCARELAW.ORG

2006 Federal Budget: Impact on Child Care for California's Children and Families

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- *California and the Senate Budget Sub-Committee have reaffirmed the child care budget and policy priorities each year to ensure that children are in a safe nurturing environment while their parents work.*
- *TANF Reauthorization will mean an estimated 40,000 to 50,000 families (with an estimated 72,000- 90,000 children) will need to participate in approved work activities – many will need child care.*
- *Many CalWORKs families not currently meeting work requirements face multiple barriers to full-time employment, including disability of a parent or a child, domestic violence, health and mental health issues, low education levels, lack of appropriate child care, or an infant needing child care. These parents need real choices including waivers from full-time work. These children, when in out-of-home care need high quality early care and education programs.*
- *Funding for child care for TANF families is inadequate to meet the projected need. The inadequate increase will be eroded by the other federal discretionary budget cuts and will cover only 3,333 children if every penny was used for subsidies.*
- *The Governor's budget is inadequate to meet the current and increased child care need.*
- *Other state initiatives such as universal part-day preschool or after-school programs will not meet the new child care need.*
- *Low income families and their children will also be impacted by numerous other budget cuts. We must ensure we do not increase child poverty.*
- *We can use the federal changes as an opportunity for California Legislators to work with parents, providers and advocates and the Governor to review what is working about our child care system and what is not and then to develop a comprehensive plan to strengthen the system, keep our promises to families and children and invest in the real infrastructure and future of California and our nation – our families and children.*

Despite disinvestment in social services at the federal level, our state must develop a comprehensive plan for moving towards high quality child care and after school services for all our children. The critical investment California needs to make over the next decade is in our children and families including our early care and education system, not our prison system. We call on the Legislature and the Governor to engage in an inclusive public dialogue to develop this comprehensive plan and to make new investments.

▪ **California has reaffirmed its budget and policy priorities each year:**

Low-income parents who are working or participating in Welfare-to-Work programs must have support to access safe, high quality, culturally and developmentally appropriate early care and education and after school programs for their children.

▪ **TANF Reauthorization will have a serious impact on child care need:**

California will need to increase its work participation rates by bringing additional families into approved activities and increasing the number of hours worked by some families already in the labor force. The Center on Law and Social Policy (CLASP), using figures from the Congressional Research Service, estimated that California will need to increase work participation by 60,700 families. The California Department of Social Services, in testimony presented to the Assembly Human Services Committee this year, stated that California's current work participation rate is 23 percent, or 44,000 families. They project that an additional 39,000 families will need to increase their hours and 18,000 new families will be required to participate in order to meet the new federal rate.¹ A significant number of these CalWORKs families will need increased access to subsidized child care beginning in October of 2006. We can anticipate that:

- Families now working part time will be required to work additional hours and will need more hours of care for their children. Some families who work part time may already have child care, but the current uptake by eligible families is only 25 percent, so many may need additional care as they increase the number of hours they work.
- Families not currently working will be under greater pressure to engage in approved Welfare-to-Work programs and many of those families will need subsidized child care.
- Two-parent families will be under greater pressure to have both parents working in order to meet the 55 hour per week requirement. The new federal proposals mandate a participation rate of 90 percent for these families, and this will increase the need for out of home care for their children.
- If the federal government changes the definition of what constitutes “work activities” when it issues regulations in June, more families could be forced out of training programs, substance abuse treatment, domestic violence counseling or other programs that could eventually lead to greater family stability and higher paying jobs. If these families are not able to increase their incomes through better employment opportunities, they will likely need child care subsidies for a much longer time.
- If the state cuts child care subsidies to working families who have managed to support themselves on low-wage jobs, many of those families may be forced to quit their jobs and seek cash aid and child care subsidies under the CalWORKs program.

- **Many families not currently meeting work requirements face multiple barriers:**

We need to assess the barriers that have kept single parents from working 32 hours per week or two parent families from working 55 hours per week. Anecdotal evidence indicates that a portion of these families may face special barriers to full-time employment, including disability of a parent or a child, domestic violence, health and mental health issues, low education levels, lack of appropriate child care, or an infant needing child care. We also understand that two parent families are disproportionately large, and often are refugee families where English is not their first language. These barriers mean that there will be many children with a variety of special needs who will require child care.

 - To provide real choice, California will need to increase overall child care capacity in low-income communities since licensed child care is available for only 26 percent of parents who are currently in the work force.² Child care centers are not available in all California communities. Moreover, capacity is being lost as some of the highest quality centers close because low reimbursement rates are inadequate for them to continue caring for children.
 - California will also have to increase its supply of child care for infants, for children with disabilities, and for English language learner families. It must ensure that appropriate waivers are provided.
- **Funding for child care for TANF families is inadequate to meet the projected need:**

In the TANF reauthorization proposal, child care funding is increased by \$200 million per year for five years. It is projected that California will receive 13% of these funds or approximately \$25 million.³ If the average cost of care is \$7,500⁴ per year, this would cover 3,333 children if every penny was used for subsidies. While it is not possible to know in advance the precise amount of increased need and cost for subsidized child care, clearly 3,333 new subsidies is grossly inadequate.
- **Federal discretionary budget cuts decrease child care funds available to California:**

Congress completed action on the Labor, Health, and Human Services and Education Appropriations Bill for 2006 and enacted a 1 percent across-the-board cut, including a cut to the Child Care and Development Block Grant bringing it to \$2.062 billion, almost \$21 million less than FY 2005. The President's 2007 budget plan also proposes cuts in discretionary child care funding for children from low- and moderate-income families, with the cuts totaling \$1 billion over the next five years as compared to the fiscal year 2006 funding levels adjusted for inflation.⁵ If California absorbs 13% of the cuts this will be a total of approximately \$5 million annually reducing the additional children served to 2,666 annually.
- **The Governor's budget is inadequate to meet current and increased need:**

While the Governor's proposed budget includes a 5.18% cost of living adjustment (totaling \$70.2 million) and a child development growth adjustment of 1.12% (\$13.8 million) current state and federal funding is insufficient to even maintain current child care choice and access for low-income families.

 - No new funds are proposed to serve the over 200,000 working families eligible for subsidized child care who are on waiting lists.

- No funds are proposed to raise the Standard Reimbursement Rate (SRR) for Title 5 center-based care, even though we are losing some of our highest quality programs due to the stagnant SRR.
 - No funds are proposed to implement family child care and child care center reimbursement rates which are based on the new market rate survey. Reimbursement rates remain at the 2002 level.
 - Eligibility levels for families have slipped each year as the state has failed to update the five year old State Median Income (SMI) level used to determine eligibility for families.
 - The Governor's budget proposal introduced in January 2006 proposes to cut state investment for low-income families and children. The Governor's budget reduces current year CalWORKs funding to counties by \$114 million. The decision to cut these funds was made on the basis of only one quarter's worth of data, and as counties gear up, it's very likely they will incur increased child care costs for CalWORKs families. In the meantime, the funds could be used to provide child care for some of the 200,000 eligible low-income non-CalWORKs families who desperately need subsidies. Or it could be used for job training, transportation, and other services that help welfare recipients find jobs, increase their job skills or get to work.
- **Other state initiatives will not meet the new child care need:**
- The Preschool for All Initiative has qualified for the June ballot. It is projected that it will bring in \$2 billion in 2007-08⁶ for a universal part-day/part-year program. While we welcome any increase in access to high quality programs for children in low-income families, this investment will not necessarily reduce the need for subsidy funding. If passed, PFA will be a part-day/part-year program for four-year-old children which operates during traditional work hours. While providing valuable school readiness experiences, it will not meet the full child care needs of many low-income working families.
 - Similarly, the implementation of Proposition 49 after-school programs in 2006 will meet only a fraction of the new needs for child care created by TANF reauthorization. The Governor provided \$428 million (over the current funding level of \$128 million) for the state After School Education and Safety (ASES) program. CCLC has concerns that under-resourced school districts in low-income communities will be unable to take full advantage of the program since it requires districts to provide matching funds. There will continue to be many children who cannot be served by these after-school programs because their parents work odd hours, their neighborhood does not have sufficient capacity in programs, there is no transportation available, or they have special needs which cannot be met by existing programs.
- **Low-income families and their children will be impacted in numerous ways:**
Reductions in resources for the state and for counties serving low-income families are always troubling, since many families still struggle to find work and child care, and need a variety of supportive services to move out of poverty. We must look at the needs of families and children holistically and with the goal of assisting families to move out of poverty and for children to be

safe, nurtured and develop to their full potential. *We must ensure that none of our policy or budget choices increase child poverty.*

▪ **California's Child Care System needs thorough review and further investment:**

The child care system in California requires significant new investment from both the state and federal government to meet our welfare-to-work and school readiness goals. Our subsidized child care system, under-funded and with a fragile infrastructure, already has an estimated 200,000 children not receiving the care for which they are eligible.⁷ California's funding for part-day preschool and after-school programs will not meet the increased child care needs of many working families.

▪ **Choices facing the Legislature and Governor:**

- We can ask low-income families connected to CalWORKs to pay for increased child care and CalWORKs investments by cutting child care eligibility or increasing fees, or by cutting other work supports or cash assistance levels.
- We can ask other low-income families to pay by cutting general child care eligibility or increasing fees or by allowing our highest quality centers to close due to inadequate funding.
- We can ask child care providers to pay by reducing reimbursements for subsidized care.
- The California Legislators can work with parents, providers, advocates and the Governor to use Reauthorization as an opportunity to review what is working about our child care system and what is not and then to develop a comprehensive plan to strengthen the system and invest in the real infrastructure and future of California and our nation – our families and children.
- The California legislature and Governor should seek sufficient revenue to make these necessary investments, including reversing recent tax cuts and/or increasing taxes. New revenues should come from those at upper income levels who can afford to pay and who have reaped the benefits of previous tax cuts.
- The State can call on our federal delegation to support a balanced approach to deficit reduction that would include revenue increases and spending cuts, especially since a main reason we have deficits is recent tax cuts. One of the biggest threats to meeting the child care and other needs of California's children and families is the potential of more tax cuts being signed into law. Congress is expected to consider a number of tax-cut proposals during this session. The higher deficits stemming from these tax cuts will likely be used in the future to press for more spending cuts just as they were in 2005.

BACKGROUND

▪ **Early care and education has two fundamental purposes:**

First, it offers vital support to working families so that parents can support their children and contribute to California's economy. Single mothers who receive help paying for child care are 40 percent more likely to remain employed after two years than those who receive no help, according to a study by the Economic Policy Institute. Former welfare recipients with young children are 82 percent more likely to be employed after two years if they receive help with child care expenses.⁸

Second, an equally important purpose is that early care and education contributes to the well-being, development and school readiness of California's children. Every child, full of promise, has a fundamental right to a childhood in which their basic needs are met and which provides them with opportunities and support to develop to their full potential.

▪ **California's bipartisan child care budget and policy priorities:**

In designing our Welfare-to-Work and child care systems and in passing the California budget each year, the following priorities have guided spending and policy:

- Low-income parents who are working or participating in Welfare-to-Work programs must have support to access safe, culturally and developmentally appropriate early care and education and after school programs for their children.
- Children deserve equality of opportunity; there should be one child care system for all subsidized families regardless of their relation to the welfare system.
- Families receiving cash assistance, transitioning off aid, and other low-income recipients of child care subsidies should have choices and access to the same child care programs as parents who are able to pay the full cost of child care.
- Families that comply with the welfare program rules, seek and find employment and leave cash aid should continue to receive assistance for the cost of child care for their children as long as they are working and remain income and otherwise eligible.

▪ **Current child care program:**

- The State of California spends approximately \$3 billion per year on subsidized child care for low-income families. In 2004-05 the state served approximately 684,000 children in these programs. 65 percent of these children were not in families connected to the California Welfare-to-Work Program, CalWORKs, and 51 percent of the funding was spent on families not connected to CalWORKs.
- California's Child Care Block Grant (CCDBG) was \$516.8 million in 2005-06, and another \$397 million in TANF funds was transferred to CCDBG.⁹
- Our subsidized child care system, under-funded and with a fragile infrastructure, already has an estimated 200,000 children not receiving the care for which they are eligible.¹⁰

How the Current Child Care System Works

- **Assisting CalWORKs families to transition from Welfare-to-Work:**
 - With the passage of federal welfare reform in 1996, Congress ended the federal entitlement to child care. In California, eligible families retain a right to child care subsidies while on cash aid and for two years after they stop receiving CalWORKs cash assistance.
 - Most families receiving CalWORKs cash assistance must participate in Welfare-to-Work activities. A parent who has primary responsibility for the care of an infant is exempt from participation in work activities, but counties have the discretion to set the length of the exemption from age 3 months to 12 months.¹¹
 - Families who successfully transition off cash aid continue to be eligible for child care assistance until their income reaches 75 percent of State Median Income (SMI). Families pay gradually increasing fees until their income is sufficient to move them out of the subsidy system entirely.
 - California can be very proud that we have kept the promise to CalWORKs families to provide support for child care as those families have shown that they are moving toward self-sufficiency.¹² Current state policy recognizes that loss of child care subsidies for these low-income former CalWORKs recipients could force them back onto cash assistance. Or, it could force them to risk leaving their young children alone, in the care of siblings or in child care of such low quality that it is actually harmful to children.
- **Assisting other low-income families with child care:**

California also invests in various other early care and education programs for low-income families, including state preschool, the network of state contracted child care centers, and the general subsidized child care system. Eligibility for subsidized vouchers is based on income; eligible families cannot earn more than 75 percent of the State Median Income (SMI). Families who have a child protective services referral for child care due to risk of abuse or neglect are also eligible for subsidized care.

 - The non-CalWORKs system works well for the thousands of eligible families who are fortunate enough to obtain subsidized care; however, many eligible families never actually receive a subsidy due to under-funding of the subsidy system.
 - An effective segment of the subsidized care system is the network of high quality contracted child care centers. CDE's Desired Results programs, including these centers, are respected throughout the country for their high quality educational standards.¹³ Nevertheless, many of these centers are at risk of closing due to low reimbursement rates for subsidized care.
 - California's child care system is woefully under-funded. Over 200,000 children in low-income working families who are eligible to receive the child care assistance are unserved.¹⁴

- While a growing number of families are working, often full-time, and earning above the federal poverty line, they make far less than what it takes for a family to meet basic needs, especially when the cost of care for one infant in a full-time licensed family child care home is over half the annual income of a full-time minimum wage worker.¹⁵ Without help, even the limited child care spaces available are beyond the reach of low-income families. Clearly, paying for child care on the private market is not an option for a large number of California families.

- **State and Federal Funding:**

The two primary federal sources of funding to the states for child care are the Child Care and Development Fund (CCDF) and Temporary Assistance to Needy Families (TANF).¹⁶ Congress set up both block grants in their current form in 1996 when it passed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), often referred to as “welfare reform,” and authorized federal funding for both.

- CCDF is the largest dedicated source of federal funding for child care subsidies for low-income families; it is also the main source of federal funding for initiatives to improve the quality of child care. The other significant source of federal child care funding, TANF, is best known as the block grant that provides federal dollars for cash assistance, or welfare, to low-income families with children. However, TANF funds may also be used for a variety of other purposes including child care subsidies. States use both CCDF and TANF funding to pay for child care subsidies for current and former TANF recipients, and for those who may at some point become recipients of TANF cash assistance. They may also transfer TANF funds to CCDF to pay for child care subsidies.¹⁷
- CCDF is a federally funded, state-administered program in which states are allocated funding based on a legislatively-mandated formula. States automatically qualify to receive a certain amount of federal funds (called “Mandatory Funds”) each year and can receive additional federal funds by spending state money for child care subsidies and quality initiatives.
- Within the federal limits, states have great latitude to design their own child care policies for low-income families; they may establish eligibility criteria, subsidy payment levels, family co-payments and fee schedules, minimum health and safety requirements, and consumer education programs.¹⁸
- The other major program is the federal Head Start program. This funding does not go through the states but is a critical piece of the subsidized child care system. In 2004, Federal Head Start funds totaled \$824 million and served 98,933 children.¹⁹

¹ CharLee Metsker California Department of Social Services Testimony January 24, 2006.

² California Child Care Resource and Referral Network, 2005 Child Care Portfolio, page 9.

³ Legislative Analyst Office, *Fiscal Effect on California: Pending Federal Deficit Reduction Act of 2005*. January 20, 2006, page 8.

⁴ California Child Care Resource and Referral Network, 2005 *Child Care Portfolio*, page 9. Estimate is based on the cost for one preschooler in a licensed center.

⁵ Center on Budget and Policy Priorities *The President's Budget* February 6, 2006

⁶ Legislative Analyst Office, Analysis of the Preschool For All Act, July 28, 2005.

⁷ California Budget Project, *California's Child Care and Development System*, April 2005, page 5. .

⁸ National Women's Law Center, A second Chance January 25, 2005.

⁹ Assembly Human Services Committee, Background Paper January 24, 2006.

¹⁰ California Budget Project, *California's Child Care and Development System*, April 2005, page 5.

¹¹ Welf. & Inst. Code § 11320.3(b)(6)(A)(iii); MPP § 42-7122.47(B).

¹² The program's power in helping to support working families who have left cash assistance is demonstrated by the number of children served by the CalWORKs child care program. In state FY2003-04, the monthly average for children served was 81,045 in CalWORKs Stage 2 and 45,674 in CalWORKs Stage 3.

¹³ A recent study of child care centers by Policy Analysis for California Education (PACE) found that "[t]he average level of quality — gauged by several indicators — for the 170 participating centers is quite high. Thus, despite the fact that sampled centers were in low-income communities, quality levels are on par with, or higher than, centers included in earlier national studies in middle class neighborhoods."

¹⁴ California Budget Project, *California's Child Care and Development System*, April 2005, Page 5.

¹⁵ California Child Care Resource and Referral Network, *2005 Child Care Portfolio*, page 9.

¹⁶ The Child Care and Development Fund is also known as the Child Care and Development Block Grant, or CCDBG.

¹⁷ 42 U.S.C. §404(b)(1)(B). For an overview of allowable spending under TANF, see U.S. Department of Health and Human Services, *Helping Families Achieve Self-Sufficiency: A Guide to Funding Services for Children and Families Through the TANF Program (1999)*, available at <http://www.acf.dhhs.gov/programs/ofa/funds2.htm>.

¹⁸ 42 U.S.C. §§ 9858(c), (g), 45 CFR §§98.42, 98.41, 98.33.

¹⁹ U.S. Dept of Health and Human Services, Head Start Bureau *FY2004 Head Start Program State Allocation and Enrollments*.