



CHILD CARE LAW CENTER

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Executive Summary: The federal Budget Reconciliation Act (S.1932) containing significant changes to TANF reauthorization may be passed by Congress in the coming weeks. If this occurs it will seriously impact children and families in California.

- **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 to safe, culturally and developmentally appropriate early care and education and after school programs for their children.
- **TANF reauthorization proposal will have serious impact on child care need:** The Center on Law and Social Policy (CLASP), using figures from the Congressional Research Service, estimates that California will need to have an additional 60,700 CalWORKs families in work activities to meet the proposed federal requirements. California will need to increase its work participation rates by increasing both the number of hours worked by families already in the labor force and by bringing additional families into approved activities. Many of these CalWORKs families will need access to subsidized child care in 2007.¹
- **Funding for child care for TANF families is inadequate to meet the 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.² If the average cost of care is \$7,500³ per year, this will cover 3,333 children. 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. 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.⁴ California's funding for part-day preschool and after-school programs will not meet the increased child care needs of many working families.
- **The Governor's budget fails to invest in CalWORKs families:** Despite this year's new revenues, the Governor's budget fails to restore the 2005-06 cost-of-living allowance for CalWORKs families, eliminates the COLA for 2006-07, and reduces current year CalWORKs funding to counties by \$114 million. Meanwhile, 18.6% of California's children live in poverty.⁵
- **Choices facing the Legislature and Governor if TANF reauthorization passes:** We will need significant new investment in the CalWORKs program and in child care if we are to meet potential new federal requirements and our commitment to California's lowest income children and families. We can ask these families to pay for these investments by cutting child care eligibility or increasing fees, or by cutting other work supports or cash assistance levels; we can also ask child care providers to pay by reducing reimbursements for subsidized care. Or we can reaffirm our priorities and develop a new comprehensive plan to invest in the real infrastructure and future of California - our children.

Introduction

It is possible that the federal Budget Reconciliation Act (S.1932) containing significant changes to TANF reauthorization will be passed by Congress in the coming weeks. If S.1932 passes in its current form, California will have critical choices to make regarding its commitment to the children and parents receiving CalWORKs cash assistance, those transitioning off cash aid, and the children of other working poor families. This legislation will confront California with extremely harsh work requirements for CalWORKs families and a woefully inadequate increase in child care funding.

It is crucial that we decide the future of California's children based on our policy priorities for children and families, not on federal budget actions.

Early care and education has two fundamental purposes: first, offering vital support to working families so that parents can support their children and contribute to California's economy. An equally important purpose is to contribute 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 the opportunity and support to develop to their full potential.

In originally designing CalWORKs child care and expanded child care programs funded by the Child Care and Development Fund (CCDF), California policy makers and advocates established important principles, and have reaffirmed these each year:

- Low income parents who are working or participating in welfare-to-work programs must have support to access safe, cultural 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 who 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 so long as they are working and remain income and otherwise eligible.

Impact of TANF Reauthorization Proposal on Child Care Need

Increased TANF work participation requirements will have an impact on California child care in a number of ways; the magnitude of the impact will depend on the choices our state makes in responding to these new federal work requirements. At a minimum, California will need to raise its work participation rates by increasing the number of hours worked by CalWORKs families already in the labor force, and by bringing additional CalWORKs families into approved activities. We can anticipate that:

- Families now working part time will be required to work additional hours, and will need additional hours of child care.

- Families not currently working will be under increased pressure to engage in approved welfare-to-work programs.
- Two parent families will be under increased pressure to have both parents working full time as the new federal requirements mandate a participation rate of 90% for these families.
- If the federal government changes the definition of what constitutes “work activities,” more families could be forced out of training programs, substance abuse treatment or other programs that could eventually lead to higher paying jobs. These families will likely stay on subsidies longer.
- Many CalWORKs families who are not currently accessing subsidies may need to do so. The current child care uptake for CalWORKs families is estimated to be only 25% of those eligible. With the increased work participation requirements, many more eligible families will need subsidized care. California will be forced to meet these higher work participation rates in 2007 – less than a year from now.
- 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% of parents who are currently in the work force.⁶ Child care centers are not available in all California communities, and 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.

Impact of Inadequate Increase in Child Care Funds

- With TANF reauthorization, child care funding is scheduled to increase by \$200 million per year for five years. It is projected that California will receive 13% of these funds or approximately \$25 million.⁷ If the average cost of care is \$7,500⁸ per year, this increased funding will cover only 3,333 children.
- 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. While it is not possible to know in advance the precise need or cost for subsidized child care, clearly 3,333 new subsidies is grossly inadequate⁹.
- This new pressure and the additional cuts to the subsidized child care system come at a time when the system is already underfunded to meet current priorities for children. More than 200,000 children in low income working families do not receive the child care assistance for which they are eligible.¹⁰

Other Factors Impacting Child Care Need and Funding

- New federal child care cuts have been approved and more may come. 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. If 10% is cut from California’s share, this will mean \$2 million less in federal child care funding. In addition, Congress cut Head Start funding to \$6.785 billion, over \$57 million less than FY 2005.
- The Preschool For All Initiative has qualified for the June ballot. It is projected that it will bring in \$2 billion in 2007-08¹¹ for a universal part-day/part-year program. While we welcome any increase in access to high quality program for children in low income families,

this investment will not necessarily reduce the need for subsidy funding. If passed, PFA will be a part-year program for four year old children which operates during traditional work hours. 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. Both the Legislative Analyst and Legislative leadership have raised questions about the appropriateness of implementing Prop. 49 funding this year, and we share their apprehension. CCLC also 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.
- The Governor's budget proposes to cut investment in low income families and children. Child care is part of a nexus of supports for children and families. Despite the state's increased revenues, the Governor's budget fails to restore the 2005-06 cost-of-living allowance for CalWORKs families receiving cash aid, and eliminates the COLA for 2006-07. There is pending litigation regarding the COLA.
- The Governor's budget also reduces current year CalWORKs funding to counties by \$114 million. The money was allocated to implement recent work participation changes which were expected to result in an increased need for child care. The Governor claims these funds will go unused since work participation rates actually declined. However, 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. The budget also cuts the county allocation for 2006-07 by \$40 million. This lack of long term investment in the programs needed by CalWORKs and other working poor families to support them in moving to self-sufficiency undercuts the foundation of California's economy.

Choices Facing the Legislature

- The Legislature should communicate to California's congressional delegation its strong concerns regarding the impact of budget reconciliation and TANF reauthorization, and urge that federal priorities be shifted from tax cuts and military expenditures to investment in children and families.
- If TANF reauthorization passes in its current form, the Legislature must determine the ways in which California will meet increased work participation rates.
 - One way would be to decrease the CalWORKs rolls, but that would result in even more children and families being pushed into extreme poverty.

- A second approach would be to make it increasingly difficult for recipients to access child care, but that would result in families being forced to risk leaving their children home alone, or in unsafe or poor quality care settings.
- The third option is to use this as an opportunity to develop a comprehensive plan to invest in the real infrastructure and future of California - our children. The critical investment California needs to make over the next decade is in our early care and education system, not our prison system. We call on the Legislature to engage in an inclusive public dialogue to develop this comprehensive plan and to make new investments.
- If TANF reauthorization passes in its current form, the Legislature must determine how the state will pay for increased child care costs.
 - One option is to make low income families pay. Proposals to cut current eligibility levels, raise family fees or establish time limits will force families that have recently left cash aid as well as non-CalWORKs families out of the subsidized child care system. This is short sighted in two ways. First, loss of access to child care can push families out of the work force and back onto cash assistance. More importantly, California reduces the likelihood of meeting school readiness goals if our lowest income children do not have access to high quality early care and education programs. Currently, California has over 200,000 children on waiting lists.
 - A second option is to pay for child care at the expense of other programs benefiting low income children or families. This is nonsensical as we cannot address child care in a vacuum; to flourish and be ready for school, children need caring adults, adequate family income, good nutrition, health care, and safe and nurturing environments, and culturally and developmentally appropriate education. If California removes other supports for low income families, child care alone will not be sufficient to sustain children and prepare them for school and for life.
 - A third option is to reduce reimbursement to child care providers. However our infrastructure and programs are already underfunded. Many of our high quality contracted centers are being forced to close or move to the voucher system with lower quality standards because reimbursement rates are so low. As all parents and those who care about children know, children deserve quality care which means safe, healthy, age-appropriate surroundings; enough well-trained, nurturing teachers and caregivers; stable relationships with peers and others; and culturally and developmentally appropriate learning opportunities. Experiences that enable children to develop reading readiness, critical early math skills, vocabulary expansion and other skills must be provided during their most formative years.
 - The fourth option is to restructure our priorities and invest in all children, including low income children, at the level necessary to provide for their early care and education needs. The Governor and legislature should seek additional ongoing state revenue sources, 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, not from increased taxes or fees on the lowest-income Californians.

BACKGROUND: How the Current Child Care System Works

Current System: 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.¹²
- 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 kept their promise to move toward self-sufficiency¹³. 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.

Current system: 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 standards¹⁴. 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. Less than two-thirds of the children in low income working families receive the child care assistance for which they are eligible, leaving more than 200,000 children unserved.¹⁵
- 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.¹⁶ 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.

Current System: 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).¹⁷ 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.¹⁸

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.¹⁹

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.²⁰

¹ Center on Law and Social Policy, *New TANF Requirements Could Result in New Large Costs and Risk of Federal Penalties for California*. January 13, 2006 . Available at www.clasp.org.

² Legislative Analyst Office, *Fiscal Effect on California: Pending Federal Deficit Reduction Act of 2005*. January 20, 2006, page 8.

³ 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.

⁴ California Budget Project, *California’s Child Care and Development System*, April 2005, page 5. .

⁵ Children’s Defense Fund, *Children in the States 2044, Children in California*, accessed at www.childrensdefense.org.

⁶ California Child Care Resource and Referral Network, *2005 Child Care Portfolio*, page 9.

⁷ Legislative Analyst Office, *Fiscal Effect on California: Pending Federal Deficit Reduction Act of 2005*. January 20, 2006, page 8

⁸ 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.

⁹ Center on Law and Social Policy, *New TANF Requirements Could Result in New Large Costs and Risk of Federal Penalties for California*. January 13, 2006 . Available at www.clasp.org.

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

¹¹ Legislative Analyst Office, Analysis of the Preschool For All Act, July 28, 2005.

¹² Welf. & Inst. Code § 11320.3(b)(6)(A)(iii); MPP § 42-7122.47(B).

¹³ 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.

¹⁴ 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."

¹⁵ California Budget Project, *Lasting Returns: Strengthening California's Child Care and Development System*, May 200 at 25 and Table 4.

¹⁶ California Child Care Resource and Referral Network, *2005 Child Care Portfolio*, page 9.

¹⁷ The Child Care and Development Fund is also known as the Child Care and Development Block Grant, or CCDBG.

¹⁸ 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>.

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

²⁰ U.S. Dept of Health and Human Services , Head Start Bureau *FY2004 Head Start Program State Allocation and Enrollments*.