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Trends in Child Care Spending from the CCDF and TANF

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Summary

The Child Care and Development Fund (CCDF) is the main source of federal funding dedicated primarily to child care subsidies for low-income working families. The term "CCDF" was coined in regulation by the U.S. Department of Health and Human Services (HHS) to encompass multiple child care funding streams, including

- federal discretionary child care funds authorized by the Child Care and Development Block Grant (CCDBG) Act,
- federal mandatory child care funds authorized by Section 418 of the Social Security Act (sometimes referred to as the "Child Care Entitlement to States"),
- state maintenance-of-effort (MOE) and matching funds associated with the Child Care Entitlement to States, and
- federal funds transferred to the CCDF from states' Temporary Assistance for Needy Families (TANF) block grants.

Mandatory and discretionary CCDF funds are appropriated separately and are allocated to states using different formulas. Although these funds are allocated to states in different ways, federal law generally directs states to spend these dollars according to the same CCDBG Act rules. TANF funds transferred to the CCDF are also subject to CCDBG Act rules. States spent roughly $8.6 billion from these combined federal and state funding streams in FY2012, the most recent year for which data are fully available.

Separate from the CCDF, states may spend federal TANF funds and state TANF MOE on child care services directly within state TANF programs. However, these "TANF-direct" child care expenditures are not subject to CCDBG Act rules. In FY2012, states spent roughly $2.8 billion in TANF-direct child care programs, when counting expenditures of federal TANF funds and certain state TANF MOE funds.

Because of this complex set of underlying funding streams, federal appropriations are not always the best measure of total spending on child care. This report reviews the legislative history behind these different funding streams, with particular emphasis on the relative importance of federal- and state-level decisions in setting spending levels and establishing basic program rules. In addition, the report presents historical data on child care spending from the CCDF and TANF over the course of FY2000-FY2012.

Highlights during this period include the following:

- Total combined CCDF and TANF spending on child care (federal and state) increased by 12% in nominal dollars, but decreased by 17% in constant dollars (i.e., dollars adjusted for inflation).
- Federal spending accounted for roughly 70% of all expenditures, with state contributions making up the remaining roughly 30%.
- Spending from the CCDF (federal and state, including TANF transfers) accounted for about three-quarters of all expenditures on child care. TANF-direct child care (federal and state) accounted for the remaining expenditures.
- When including amounts transferred from TANF programs to the CCDF, total child care spending *originating* in TANF programs represented more than one-third (between 36% and 48%) of all child care expenditures in each year.

Contents

Introduction 1
Key Trends in Child Care Spending 2
Legislative Evolution 3
Child Care Programs before Welfare Reform 3
Child Care Programs after Welfare Reform 4
TANF in the Context of Child Care 5
Sources of Child Care Expenditures 6
CCDF Expenditures 7
Federal Discretionary Funds (Typically includes TANF Transfers) 7
Federal TANF Transfers 8
Federal "Guaranteed" Mandatory Funds 9
Federal Share of Mandatory Matching Funds 9
State MOE Spending 9
State Share of Matching Funds 10
TANF Expenditures 10
TANF-Direct Federal Child Care Spending 10
TANF-Direct "Excess" State MOE Spending 11
Overall Composition of Child Care Spending 12
Trends in Child Care Spending 13
Overall Spending Trends (including TANF-Direct Child Care) 14
Federal vs. State Share 16
TANF Contributions 16
Children Served 17
Trends in CCDF Spending 18
Federal vs. State Share 22
TANF Transfers 22
Children Served 23
Concluding Observations 24
Current Authorization Status 25
One Unified Child Care Program? 26
State Flexibility 26
Implications of the CCDBG Act of 2014 27

Figures

Figure 1. Targeted Child Care Programs Before and After 1996 4
Figure 2. CCDF and TANF Child Care Funding Streams 6
Figure 3. Composition of Child Care Spending in FY2012 12
Figure 4. Child Care Spending by Funding Stream, FY2000-FY2012 13
Figure 5. Total Spending on Child Care from the CCDF and TANF, FY2000-FY2012 14
Figure 6. TANF-Direct Federal Child Care and State "Excess" MOE, FY2000-FY2012 17
Figure 7. Total CCDF Spending, FY2000-FY2012 18
Figure 8. Discretionary CCDF Spending by Funding Stream, FY2000-FY2012 22

Figure 9. CCDF Spending and Average Monthly Number of Children Served, FY2000-FY2012 24

Tables

Table 1. Overall Child Care Spending by Funding Stream, FY2000-FY2012 15
Table 2. CCDF Spending by Funding Stream, FY2000-FY2012 20

Contacts

Author Information 28

Introduction

The Child Care and Development Fund (CCDF) is the main source of federal funding dedicated primarily to child care subsidies for low-income working families. The term "CCDF" is not found in statute. Instead, it was coined by the U.S. Department of Health and Human Services (HHS) in regulations issued after the 1996 welfare reform law made major changes to federal child care programs. The term serves as a useful catch-all when discussing the complex financing structure currently underlying federal funding for child care. The CCDF encompasses several funding streams, including

- federal discretionary child care funds authorized by the Child Care and Development Block Grant (CCDBG) Act,
- federal mandatory child care funds authorized by Section 418 of the Social Security Act (sometimes referred to as the Child Care Entitlement to States (CCES)),
- state maintenance-of-effort (MOE) and matching funds associated with the Child Care Entitlement to States, and
- federal funds transferred to the CCDF from states' Temporary Assistance for Needy Families (TANF) block grants.

Mandatory and discretionary CCDF funds are appropriated separately and are allocated to states using different formulas. Although these funds are allocated to states in different ways, federal law generally directs states to spend these dollars according to the same CCDBG Act rules. TANF funds transferred to the CCDF are also subject to CCDBG Act rules. States spent roughly $8.6 billion from these combined federal and state funding streams in FY2012, the most recent year for which data are fully available.[1]

Separate from the CCDF, statute allows states to spend federal TANF funds and state TANF MOE on child care services directly within state TANF programs. However, these "TANF-direct" child care expenditures are not subject to CCDBG Act rules. In FY2012, states spent roughly $2.8 billion in TANF-direct child care programs, when counting expenditures of federal TANF funds and certain state TANF MOE funds.[2] This means that TANF-direct child care spending (federal and state) bolstered total spending on child care by 33% in FY2012.

Because of this broad universe of funding streams, federal appropriations are not necessarily the best measure of total spending on child care. Instead, appropriations to the CCDF represent the minimum level of federal investment in child care. The CCDF (through the CCES) also sets minimum expectations regarding state investments in child care. TANF statute then gives states the flexibility to augment CCDF appropriations with additional funds, either via transfers to the CCDF or with TANF-direct child care spending. As a result, CCDF appropriations tell only part of the child care story.

[1] In this report, CCDF data reflect expenditures of funds allocated or awarded in the fiscal year shown and then spent in that year or the subsequent two years. This means that "FY2012 expenditures" are funds that were allocated to states in FY2012 and expended by states over the course of FY2012-FY2014. This is why FY2012 is the most recent year for which data are fully available. (Comparable funds awarded to states in FY2013 were available for expenditure by states through the end of FY2015 and FY2015 expenditure data have not yet been released by HHS.)

[2] To avoid double-count with CCDF state MOE spending, the annual amount of TANF MOE spending on child care has been adjusted. The methodology is described in the section on "TANF-Direct "Excess" State MOE Spending."

This report attempts to provide a more complete picture by reviewing trends in total child care spending from the CCDF and TANF since FY2000. It briefly describes the legislative evolution of these funding streams, with particular emphasis on the welfare reform law of 1996. This law largely established the current federal landscape, setting up a formal infrastructure for child care programs through the CCDF, while giving states the option to provide additional child care investments with TANF funds. In doing this, the 1996 law set up an interesting dynamic: the federal government determines basic program rules and minimum spending levels for the CCDF, while state governments determine whether TANF funds will be spent on child care and, if so, what basic program rules will apply. Following this discussion, the report presents detailed historical expenditure data across funding streams, as well as data on children served (where possible). The report concludes with some brief observations about what these spending trends may mean for the current child care landscape, with particular consideration given to the substantial nature of TANF contributions to total child care spending, as well as implications of the CCDBG reauthorization law enacted in November 2014.

Readers should note that it is beyond the scope of this report to examine spending on child care from other federal programs or tax provisions (e.g., the Child and Dependent Care Tax Credit). For a broader discussion of federal funding streams that may be used to support child care and early education, see CRS Report R40212, *Early Childhood Care and Education Programs: Background and Funding*.

Key Trends in Child Care Spending

This section presents highlights of key trends in CCDF and TANF child care spending over the period of FY2000-FY2012. Note that CCDF expenditure data in this report (including estimated TANF transfers) are tracked against the year in which they were initially awarded or allocated. For instance, "FY2012 expenditures" are funds that were allocated to states in FY2012 and spent during FY2012-FY2014. By contrast, data for TANF-direct child care (federal and state) reflect total spending in a given year, regardless of the year in which the funds were first made available.

Total Spending: Over the course of this period, total combined CCDF and TANF spending on child care (federal and state) increased in *nominal dollars* from $10.2 billion in FY2000 to $11.4 billion in FY2012, an increase of $1.2 billion (+12%). However, when adjusting for inflation (i.e., using *constant* or *real dollars*), total spending declined over this same period, from $13.7 billion in FY2000 to $11.4 billion in FY2012, a decrease of $2.3 billion (-17%).

Historical Peak: Combined CCDF and TANF spending on child care (federal and state) peaked in FY2009, regardless of whether dollars are adjusted for inflation. Spending for that year totaled $14.0 billion in nominal dollars and nearly $15.0 billion in constant dollars. This historical peak was primarily driven by the influx of $2.0 billion in additional discretionary appropriations from the American Recovery and Reinvestment Act of 2009 (ARRA, P.L. 111-5).

Federal vs. State Share: Federal spending accounted for roughly 70% of all expenditures over this period, with state contributions making up the remaining roughly 30%. CCDF expenditures accounted for the majority of federal spending in all years, with TANF-direct federal child care accounting for between 10% and 15%.

CCDF vs. TANF-Direct: Spending from the CCDF (federal and state, including TANF transfers) accounted for about 75% of all expenditures on child care during this period. TANF-direct child care spending (federal and state) accounted for the remaining 25%. Notably, these TANF-direct dollars are not subject to CCDBG Act rules.

TANF Contributions: Total federal and state spending on child care *originating* in TANF programs represented more than one-third (between 36% and 48%) of all child care expenditures for each of FY2000 to FY2012. These totals include TANF transfers, which are subject to CCDBG Act rules and are generally treated as discretionary CCDF expenditures. TANF transfers peaked at the beginning of this period, representing 68% of discretionary CCDF expenditures and 30% of all CCDF expenditures for FY2000. Since then, TANF transfers have generally declined. In FY2012, TANF transfers of $1.4 billion accounted for 39% of discretionary CCDF expenditures and 16% of all CCDF expenditures for that year.

Children Served: Data are not collected on the number of children served by TANF-direct child care, so the total number of children served by these combined funding streams is not known. However, data are collected on children served by the CCDF. These data show that the number of children served in an average month by the CCDF has experienced fluctuations but has generally been on the decline since FY2006. Over the course of FY2000-FY2012, the caseload peaked at roughly 1.8 million children served in an average month in FY2001 and dropped to a low of roughly 1.5 million in FY2012, a decrease of almost 359,000 children (-20%).

Legislative Evolution

The CCDF—and its relationship to TANF—is better understood by tracing its evolution from the federal supports for child care that existed prior to 1996, when the welfare reform law (P.L. 104-193) simultaneously repealed, created, and consolidated federal child care programs (see **Figure 1**).

Child Care Programs before Welfare Reform

Before 1996, four separate federal programs supported child care for low-income families:

- Aid to Families with Dependent Children (AFDC) Child Care,
- Transitional Child Care,
- At-Risk Child Care, and
- the Child Care and Development Block Grant.

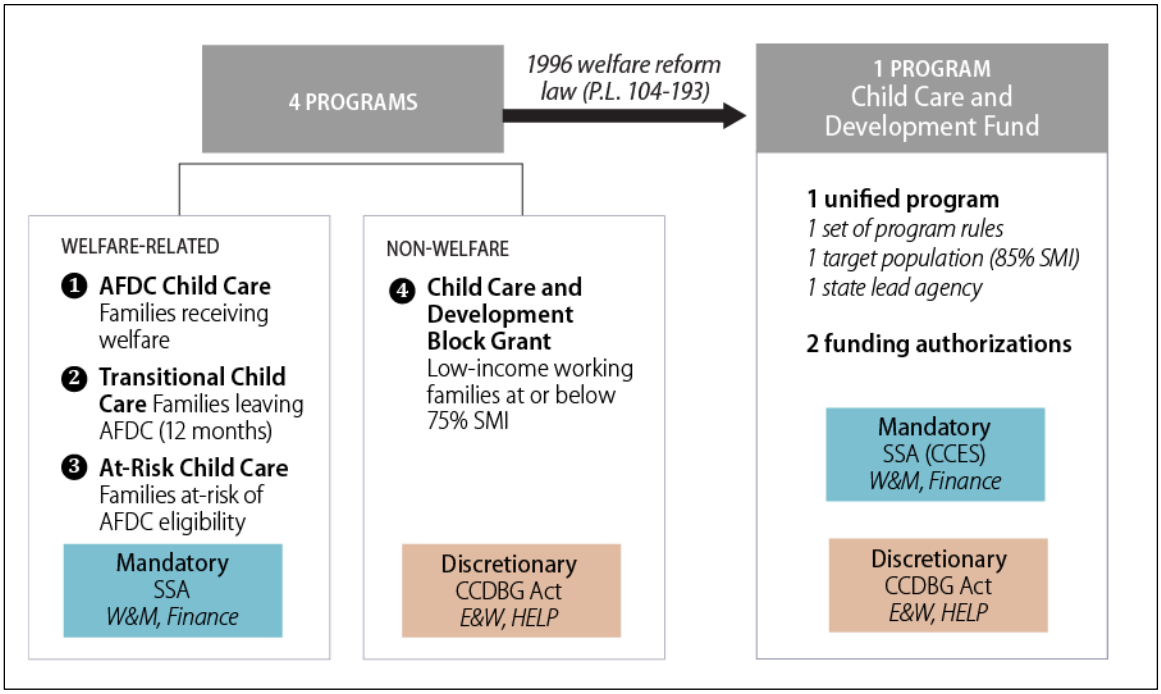
Three of these four programs—AFDC Child Care, Transitional Child Care, and At-Risk Child Care—were associated with AFDC, the cash welfare system in place at that time. Each of these three programs was funded with mandatory money and fell under the jurisdiction of the Ways and Means Committee in the House and the Finance Committee in the Senate. The AFDC Child Care and Transitional Child Care programs were both open-ended federal entitlements, while the At-Risk Child Care program was a "capped entitlement" to states. All three programs were funded jointly by the federal government and the states, with the relative share of federal and state contributions determined by the Federal Medical Assistance Percentage (FMAP) matching rate, also known as the Medicaid matching rate.[3]

The fourth pre-1996 child care program for low-income families was the CCDBG, which was established by the CCDBG Act of 1990 as a component of the Omnibus Budget Reconciliation Act (P.L. 101-508). The CCDBG was designed to support child care for low-income families who were not connected to the AFDC welfare system. Unlike the AFDC-related programs, the

[3] The FMAP is designed so that the federal government pays a larger portion of costs in states with lower per capita incomes relative to the national average (and vice versa for states with higher per capita incomes). See CRS Report R43847, *Medicaid's Federal Medical Assistance Percentage (FMAP)*, by Alison Mitchell for more information.

CCDBG was funded with annual discretionary appropriations. States were not required to match the federal funding they received from the discretionary CCDBG. Authorizing legislation for this program fell under the jurisdiction of the Education and Labor Committee in the House (later renamed the Committee on Education and the Workforce) and the Labor and Human Resources Committee in the Senate (later renamed the Committee on Health, Education, Labor, and Pensions).

Figure 1. Targeted Child Care Programs Before and After 1996



Source: Prepared by the Congressional Research Service.

Notes: AFDC = Aid to Families with Dependent Children. SSA = Social Security Act. CCDBG = Child Care and Development Block Grant. SMI = State Median Income. W&M = Committee on Ways and Means. E&W = Committee on Education and the Workforce. HELP = Health, Education, Labor, and Pensions Committee. CCES = Child Care Entitlement to States.

Child Care Programs after Welfare Reform

The 1996 welfare reform law (P.L. 104-193) repealed AFDC and its three associated child care programs. Like cash welfare, child care was no longer an individual entitlement to welfare families. Instead of the three separate welfare-related child care programs, the new law created a consolidated block grant of mandatory funding under Section 418 of the Social Security Act, the Child Care Entitlement to States. Like the three earlier programs, this new block grant was mostly targeted toward families receiving welfare, transitioning off of welfare, or at risk of receiving welfare (now TANF). However, the law called for these mandatory funds to be combined with discretionary CCDBG allotments at the state level and to be spent according to CCDBG rules.

The 1996 welfare reform law also reauthorized and amended the CCDBG Act. The law established five CCDBG Act goals, largely focused on flexibility for states in designing child care programs and flexibility for parents in selecting child care. It also modified a number of CCDBG program rules. For instance, the law increased the federal income eligibility threshold from 75% to 85% of state median income. (The law maintained existing eligibility criteria requiring a

participating child's parent or parents to be working or attending job training or educational programs, unless the child is receiving or in need of protective services.)

Ultimately, the child care provisions in the 1996 law were designed to achieve several purposes. As a component of welfare reform, the child care provisions were intended to support the overall goal of promoting self-sufficiency through work. However, separate from the context of welfare reform, the legislation attempted to address concerns about the effectiveness and efficiency of existing child care programs. The four separate child care programs existing at that time (the original CCDBG and the three AFDC programs) had different rules for eligibility, time limits on the receipt of assistance, and work requirements. The child care provisions in welfare reform were intended to create a seamless system, where child care subsidies would "follow the parent" as they moved from welfare to work.[4] This was to be achieved by streamlining the federal role, reducing the number of federal programs with conflicting rules, and increasing the flexibility provided to states. The result was to be a single consolidated block grant that would simplify the delivery and administration of child care programs at both the state and federal levels.

TANF in the Context of Child Care

The 1996 law replaced AFDC with a new welfare program, Temporary Assistance for Needy Families (TANF). The new block grant authorized states to provide a wide range of benefits and services to address economic disadvantage. While TANF is perhaps best known for supporting time-limited cash assistance for low-income families with children, state TANF programs commonly support a wide range of activities to ameliorate the causes and effects of child poverty, often including child care services.

The law gave states two options for using the newly created TANF block grant for child care (see **Figure 2**). Specifically, states were authorized to

- transfer up to 30% of their TANF block grants to the CCDF, and/or
- provide child care services directly within state TANF programs.

When TANF funds are transferred to the CCDF, they are treated as CCDF dollars and must be spent according to CCDF rules. As such, TANF transfers to the CCDF augment the single consolidated child care program that was established by the welfare reform law.

By contrast, expenditures on child care within state TANF programs (commonly called "TANF-direct" child care) are not subject to CCDF rules. This means, for instance, that TANF-direct funds may be spent on child care services that do not meet minimum health and safety standards or eligibility criteria required by the CCDF. Consequently, states providing TANF-direct child care may have multiple sets of child care program rules, rather than the seamless system ostensibly envisioned by the 1996 welfare reform law.

Of course, child care is only one of many allowable uses of TANF funds. States may use TANF funds in any manner that is "reasonably calculated" to achieve TANF's statutory purpose, which is to increase the flexibility of states in meeting four statutory goals: (1) provide assistance to needy families so that children may remain in their homes; (2) reduce dependency of needy parents on government benefits through work, job preparation, and marriage; (3) reduce out-of-wedlock pregnancies; and (4) promote the formation and maintenance of two-parent families.

[4] See related discussion on pp. 833-840 of H.Rept. 104-651, the House report on H.R. 3734, which would later become the welfare reform law, P.L. 104-193.

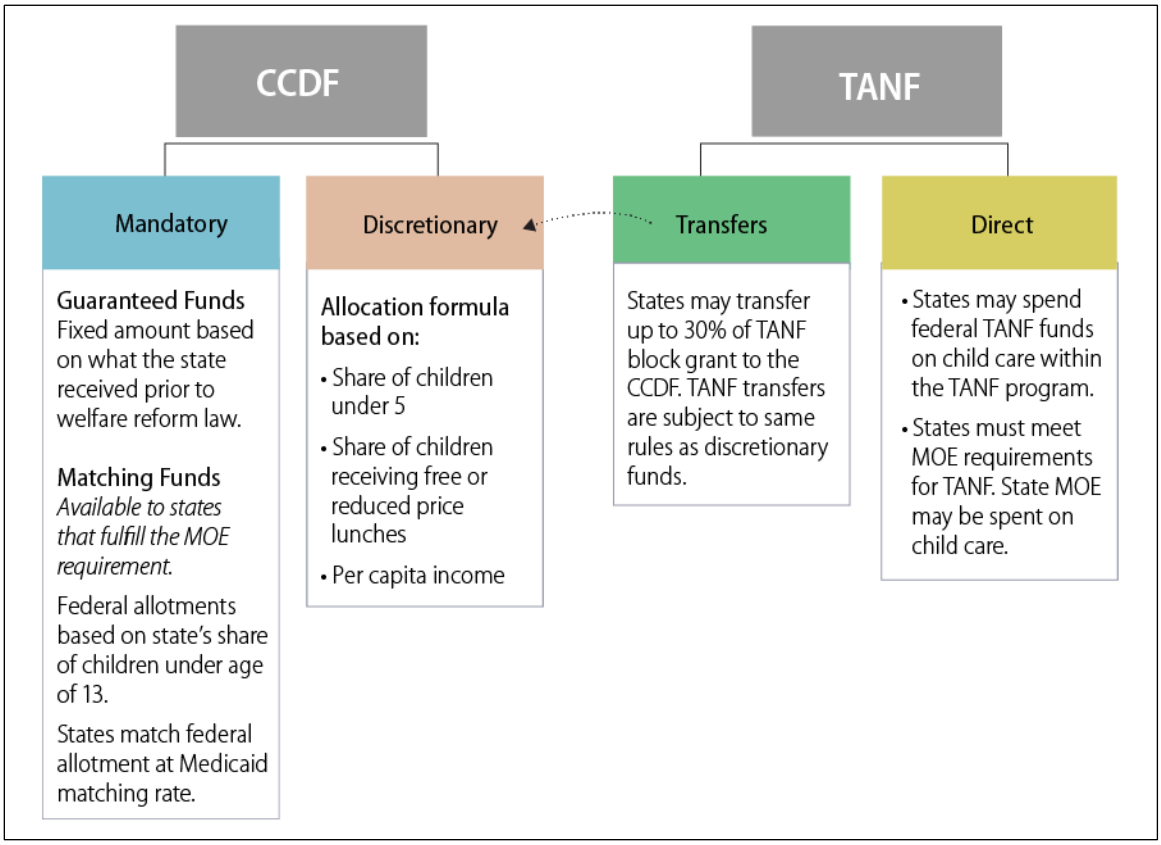
Over time, states have used TANF funds to support a wide range of benefits and services. For instance, in addition to providing cash assistance and child care services, states use TANF funds for pre-kindergarten programs, child welfare services, and various work support initiatives. Notably, the dollar amount of the basic TANF block grant—and its distribution among the states—has remained flat since the program was first established. As a result, states must carefully weigh the relative value (and effectiveness) of these various benefits and services when determining how to distribute annual grant funds.

Sources of Child Care Expenditures

This report presents expenditure data from multiple child care funding streams within the CCDF and TANF. This section briefly reviews key concepts related to these various funding streams. **Figure 2** provides a quick reference point for how they fit together.

Note that expenditure data in this report represent spending by states and the District of Columbia; spending by tribes, tribal organizations, territories, or HHS, where applicable, is excluded. For this reason, expenditure totals in this report may not match other sources, which may include expenditures by non-state entities.

Figure 2. CCDF and TANF Child Care Funding Streams



Source: Prepared by the Congressional Research Service.

Notes: CCDF = Child Care and Development Fund. TANF = Temporary Assistance for Needy Families. MOE = Maintenance-of-Effort. This figure does not display all possible uses of TANF funds; it only presents the options states have for using TANF to provide child care services.

CCDF Expenditures

In this report, CCDF expenditures (including estimated TANF transfers) are tracked against the year in which they were initially awarded or allocated. For instance, "FY2012 expenditures" are funds that were allocated to states in FY2012 and spent during FY2012-FY2014. These data were selected (rather than data on all expenditures in a given year, regardless of the year in which funds were allocated) because they are used for tracking categorical spending requirements in the CCDF. (For instance, the CCDF prohibits states from spending more than 5% of all funds awarded in a given fiscal year on administrative costs and—during the period reviewed for this report—required states to spend at least 4% of such funds on activities to improve the overall quality and availability of child care.[5]) These data are also better suited for estimating the share of CCDF expenditures coming from TANF transfers. However, readers should be aware that these data may differ from CCDF expenditure data presented elsewhere, as states also report on total amounts spent in a given fiscal year, regardless of the year in which the funds first became available.

Federal Discretionary Funds (Typically includes TANF Transfers)

Nationally, discretionary CCDF spending data include expenditures from two different sources:

- annual appropriations authorized under the **CCDBG Act**, and
- (at state option) **TANF transfers** to the CCDF.

The amounts available for expenditure from the discretionary CCDBG varied over the course of FY2000-FY2012 for two reasons. First, amounts available under the CCDBG Act are subject to the annual appropriations process. In nominal dollars, discretionary CCDBG appropriations were at their lowest in FY2000 ($1.183 billion) and, excluding ARRA, peaked in FY2012 at $2.278 billion. (These annual appropriations were then allocated among states using a formula based on each state's share of children under age five, each state's share of children receiving free or reduced-price lunches, and each state's per capita income.[6]) Second, amounts transferred from TANF vary based on state decisions in any given year (this is discussed further in the next section). TANF transfers are included in discretionary CCDF expenditure data because they are subject to CCDBG Act obligation and expenditure rules (along with other CCDBG Act rules) and are thus not tracked separately.

The CCDBG Act gives states two years to obligate discretionary appropriations awarded or allocated to them for any given fiscal year. States then have an additional year to spend the money. For instance, CCDBG funds allocated to states for FY2012 must have been spent by the end of FY2014. Any funds that a state is unable to obligate by the end of the obligation period may be reallotted to other states by HHS. (These rules are the reason that FY2012 data are the most recent available; funds awarded to states in FY2013 were available for expenditure by states through the end of FY2015—and FY2015 expenditure data have not yet been released by HHS.

[5] Section 658E(c)(3)(C) of the CCDBG Act establishes the 5% limit on administrative costs. Section 658G of the CCDBG Act establishes the minimum quality spending requirements. The CCDBG Act of 2014 amended Section 658G to incrementally increase minimum spending requirements on general child care quality from 4% under prior law up to 9% by FY2020. In addition, beginning in FY2017 the new law requires states to spend an additional 3% annually on quality activities targeted to infant and toddler care.

[6] Section 658O of the CCDBG Act establishes this allocation formula. Under this formula additional funds were also reserved each year for expenditure by tribes and territories, and for certain national activities. However, for comparability across all funding streams, the CCDBG expenditure data in this report reflects only state expenditures.

Likewise, expenditure data for funds awarded to states in FY2014 will not be made available until sometime after the expenditure window concludes at the end of FY2016.)

There are no state maintenance-of-effort or matching requirements for these discretionary funds, though annual appropriations acts typically stipulate that the funds must supplement, and not supplant, spending on child care from state general revenues.

Federal TANF Transfers

Federal statute authorizes states to transfer up to 30% of their federal TANF block grant allotments to the CCDF.[7] The federal government does not require such transfers; this is a state decision. The 30% limit on transfers applies to combined amounts transferred from a state's TANF grant to the CCDF and/or the Social Services Block Grant (SSBG).[8] This means that if states transfer any funds to the SSBG, the amount that may be transferred to the CCDF is proportionately reduced.[9]

While TANF transfers are always included in discretionary CCDF expenditure data released by HHS, this report occasionally estimates the amount and share of TANF transfers within the discretionary expenditure total. Expenditures of TANF transfers were estimated by subtracting TANF transfer amounts shown on the CCDF grant award summary for a given fiscal year (as reported by the HHS Office of Child Care in the final year of availability for expenditure within the CCDF) from the total amount of discretionary CCDF expenditures for that fiscal year. Using this methodology, it appears that TANF transfers have totaled between $1.370 billion and $2.305 billion in nominal dollars in each fiscal year examined in this report. TANF transfers have generally declined over these years, in part because the number of states transferring funds has decreased from 43 in FY2000 to 29 in FY2012.

In general, there is no expenditure deadline for funds provided to states under the basic TANF block grant. However, if a state wants to transfer TANF funds to the CCDF, this must be done within the year in which the funds first become available. For instance, states had the authority to transfer funds from their FY2012 TANF grants to the CCDF in FY2012, but did not have the authority to transfer funds from their FY2012 TANF grants to the CCDF in FY2013 or beyond.

Once funds are transferred from TANF to the CCDF, they are subject to discretionary CCDF expenditure time limits. This means TANF transfers to the CCDF must be obligated within two years and spent within three years. However, states may choose to transfer funds back to TANF before the end of the two-year obligation window. For this reason, amounts shown for TANF transfers in a given fiscal year may vary on CCDF expenditure reports over the life of these funds. In addition, TANF financial reports (which are separate from CCDF expenditure reports) may show negative amounts for TANF transfers in cases where states transferred more funds back to TANF than they transferred out to the CCDF within a given reporting period. (TANF financial data are not used for any TANF transfer estimates, but are used for other TANF-related spending data, in this report.)

[7] See Section 404(d) of the Social Security Act.

[8] It is not possible to determine from publicly available expenditure data how many states have transferred the full 30% because this transfer limit is tracked against each fiscal year's allotment, while public TANF expenditure data since FY2010 show only aggregate amounts transferred (in or out) during a given year, regardless of the year in which the funds first became available. Section 404(k)(2) of the Social Security Act also subjects federal TANF funds used to match reverse commuter grants (under Section 3037 of the Transportation Equity Act for the 21st Century) to the 30% transfer limit.

[9] States may not transfer more than 10% of TANF grants to the SSBG.

Federal "Guaranteed" Mandatory Funds

Mandatory CCDF funds are allocated to states in two components:

- **"guaranteed"** mandatory funds, and
- the federal share of mandatory **matching funds**.

First, each state receives a fixed amount based on historical child care funding received by the state prior to welfare reform in 1996. In total, states receive $1.178 billion annually from these guaranteed mandatory funds.[10] Mandatory funds remaining after the guaranteed portion are discussed in the next section.

States must obligate guaranteed mandatory funds by the end of the fiscal year in which they are awarded, but *only if* the state intends to qualify for additional mandatory amounts from the federal share of matching funds (discussed in the next section). If a state does not intend to qualify for matching funds, there is no deadline for obligating funds. Regardless of when funds are obligated, there is no expenditure deadline for guaranteed mandatory funds. Nevertheless, states typically spend these funds within a few years of the grant award.

As with the discretionary CCDF funds, states are not required to meet any match or MOE requirements in order to receive their full share of these guaranteed mandatory funds.

Federal Share of Mandatory Matching Funds

Mandatory CCDF funds remaining after the guaranteed funds have been awarded are distributed to states based on their relative share of children under age 13.[11] In nominal dollars, mandatory matching funds available to states experienced some increases in the early years of the FY2000-FY2012 window, but have generally been flat at $1.674 billion (not counting any reallotments) since FY2006.[12] In order to receive their full share of these funds, states must meet MOE and matching requirements (discussed in the next two sections). Hence, these are commonly referred to as the mandatory "matching" funds.

Federal matching funds must be obligated by the end of the fiscal year in which they are awarded to states. States then have one additional year to spend these funds. For instance, federal matching funds allocated to states for FY2012 must have been spent by the end of FY2013. Any funds that a state is unable to obligate by the end of the obligation period are redistributed by HHS to states that want additional funds and meet specified criteria.

State MOE Spending

In order to qualify for mandatory matching funds, states must spend 100% of the amount they spent of their own state funds in FY1994 or FY1995, whichever is higher, under the previous AFDC-related child care programs. (As mentioned earlier, states must also obligate their federal mandatory guaranteed funds within the year they are awarded if they intend to qualify for mandatory matching funds.)

In total, the required state MOE comes to nearly $888 million annually. However, it is common for some states to exceed the minimum MOE levels required. For instance, between eight and

[10] See Section 418(a)(1) of the Social Security Act.

[11] See Section 418(a)(2) of the Social Security Act.

[12] This total represents mandatory matching funds reserved for states from a given fiscal year's appropriation. It excludes matching funds reserved for tribes or tribal organizations, technical assistance, or other activities. This total also excludes any funds redistributed to states from the prior year's appropriation.

seventeen states have exceeded their minimum CCDF MOE requirement in each year reviewed for this report. The states reporting more MOE than required varied throughout this window, but three states consistently exceeded their required MOE levels in each of these years: Connecticut, Nebraska, and Ohio. Because states regularly report more MOE spending than necessary, total state MOE expenditures vary over the period covered by this report, always exceeding the minimum level of $888 million.

State Share of Matching Funds

States that qualify for federal matching funds must match the federal amounts they receive at the Medicaid matching rate (also called the Federal Medical Assistance Percentage, or FMAP). In some cases, states may not provide the full match necessary to receive their entire allotment of mandatory matching funds. In such cases, HHS has the authority to redistribute these funds to other states. The total amount of state matching funds required varies annually based on federal allotments (and any prior-year reallotments) and state FMAP rates. In general, total state matching funds represent about three-quarters of the total federal matching funds.

As with state MOE, it is common for some states to exceed the minimum state match level required for them to receive their full share of mandatory matching funds. For instance, HHS has reported that at least three states have contributed matching funds in excess of their required levels in every year since FY2005. The states that exceeded their required match levels have varied over the course of this window, but California, Iowa, and Wyoming always (or nearly always) spent more than required.

TANF Expenditures

CCDF expenditure data do not track TANF-direct child care expenditures; those amounts are available through separate TANF financial reports. HHS releases detailed TANF expenditure reports on an annual basis. Currently, public TANF financial reports track total spending in a given year, regardless of the year in which the funds were first made available.[13] As a result, the expenditure data shown for TANF-direct child care is not perfectly comparable to the expenditure data used for the CCDF.

TANF-Direct Federal Child Care Spending

Subsidizing the costs of child care for needy families is an allowable (but not required) use of funds within the TANF program. Such spending is commonly called “TANF-direct” child care, because the expenditures occur within state TANF programs instead of through the CCDF. (As discussed above, expenditures made from transfers from the TANF block grant to CCDF are shown under CCDF discretionary funds.)

It is common for a number of states to use federal TANF dollars to provide child care. In fact, 29 or more states provided federal TANF-direct child care services in each of FY2000-FY2012.[14] TANF-direct child care spending has totaled between $1.168 billion and $1.787 billion in nominal dollars over the course of this window.

[13] Prior to FY2010, TANF financial reports included data tracking spending to the year in which the funds were allocated or awarded, but such data have not been publicly released since FY2009.

[14] The estimated number of states includes only states for which TANF financial data show a positive amount for TANF-direct federal child care expenditures. Some states may show negative TANF-direct federal child care expenditures in public financial reports due to prior-year adjustments.

There is no expenditure deadline for funds provided to states under the basic TANF block grant. However, there are some limits on how TANF funds may be spent after the initial fiscal year in which they are awarded. For instance, states may only transfer funds to the CCDF in the year in which the funds are awarded to the state; transfers to the CCDF are not allowed in subsequent years. TANF-direct child care spending may occur in any year.[15]

TANF-Direct "Excess" State MOE Spending

Under the TANF MOE requirement, states must spend a share of the amounts they spent in their own state funds on TANF's predecessor programs in FY1994 on TANF or TANF-related programs.[16] This amount totals roughly $10.4 billion annually. For purposes of the TANF MOE, TANF's predecessor programs include the three AFDC-related child care programs. This means that the same state spending on AFDC-related child care programs is included in two separate MOE requirements: TANF and the CCDF. For this reason, TANF statute allows states to double count state spending on child care up to the historical amount states spent on the AFDC-related programs.[17] That is, states may count the same dollars toward their CCDF MOE and TANF MOE requirements—up to a limit.

Rather than using total TANF-reported MOE spending on child care (which could include double counting with CCDF MOE), this report includes an estimate of TANF "excess" MOE spending on child care. The TANF excess MOE estimate for any given state is equal to the amount that remains after the total reported CCDF MOE expenditures are subtracted from the TANF child care MOE reported amount.[18] If the subtraction yields a negative amount, or zero, then there is no excess amount to report as a state-funded TANF expenditure. If the reported TANF MOE child care spending amount is greater than the amount reported toward the CCDF MOE, then the positive difference is counted as TANF excess MOE. This method assures that any funds that may be statutorily counted toward both the TANF MOE and CCDF MOE are counted only once, under the CCDF MOE category.

[15] TANF spending is commonly categorized as "assistance" or "non-assistance." TANF-direct child care spending may occur within both categories. TANF-direct child care assistance may be provided to "families that are not employed, but need child care to participate in other work activities such as job search, community service, education, or training, or for respite purposes." By contrast, TANF-direct child care non-assistance may be provided to "employed families (related either to their work or related job retention and advancement activities)" and "as a non-recurrent, short-term benefit (e.g., during applicant job search or to a recently employed family during a temporary period of unemployment)." Most federal TANF-direct child care spending occurs as non-assistance. This distinction is meaningful because of a related policy change included in ARRA (P.L. 111-5). Prior to ARRA, federal TANF funds that were "carried over" from a prior year (i.e., funds from FY2000 that remained available in FY2001 or beyond) could only be spent on assistance; carryover funds could not be used for child care non-assistance. ARRA changed this policy such that states may now use carryover funds to provide TANF-direct child care as either assistance or non-assistance. For more information, see TANF-ACF-PI-2010-04, *Use of Federal TANF Carry-Over funds for any allowable TANF benefit, service, or activity*, April 21, 2010, http://www.acf.hhs.gov/programs/ofa/resource/policy/pi-ofa/2010/pi201004/pi201004. The HHS definitions for "child care assistance" and "child care non-assistance" are available at http://www.acf.hhs.gov/sites/default/files/ofa/categories_and_definitions_for_tanf_and_moe_funds.pdf.

[16] In general, states must spend 75% of what was spent from state funds in FY1994 in TANF's predecessor programs of cash, emergency assistance, job training, and welfare-related child care spending. However, the MOE requirement increases to 80% of FY1994 spending for states that fail to meet TANF work participation requirements.

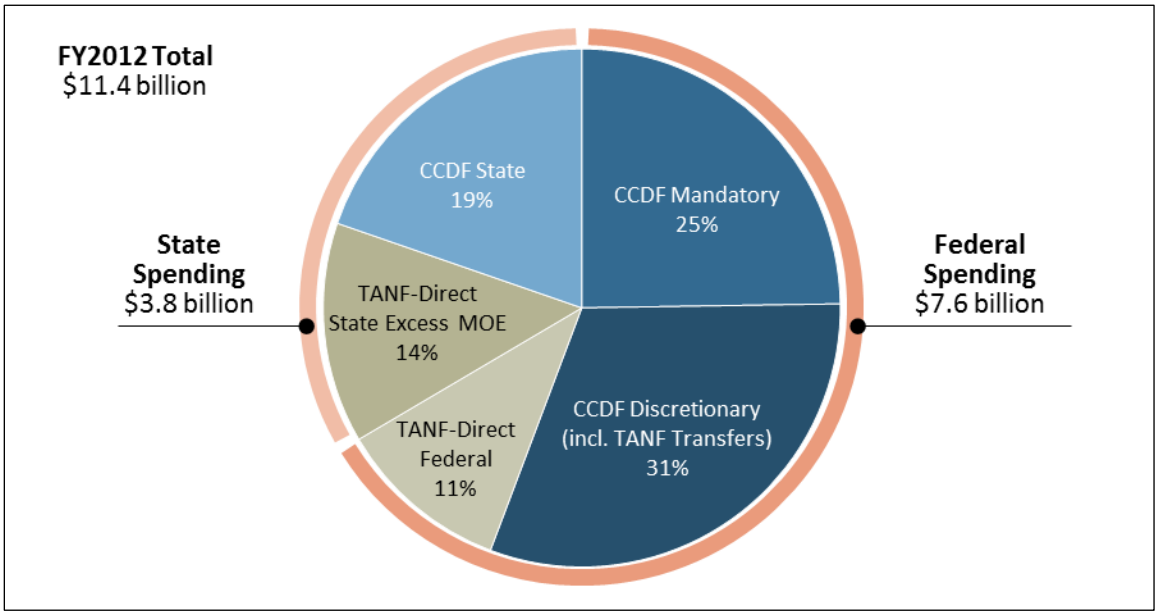
[17] See Section 409(a)(7)(B)(iv)(IV) of the Social Security Act.

[18] Because some states exceed the minimum MOE levels under the CCDF, this calculation may underestimate total TANF excess MOE spending. However, this approach ensures that no funds are double counted across programs for the spending totals presented in this report.

Overall Composition of Child Care Spending

Before looking at trend data, it is helpful to briefly review the composition of child care expenditures in FY2012, the most recent year for which full data are available (see **Figure 3**). In FY2012, child care spending (federal and state) totaled $11.4 billion. As **Figure 3** demonstrates, three-quarters of FY2012 expenditures occurred through the CCDF ($8.6 billion), with TANF-direct child care accounting for remaining expenditures ($2.8 billion). The figure shows that the discretionary portion of the CCDF accounted for the largest single share of all child care spending ($3.5 billion), but this is because discretionary CCDF expenditures include dollars transferred to the CCDF from TANF. In fact, TANF transfers of $1.4 billion accounted for roughly 39% of all discretionary CCDF expenditures in FY2012. (Notably, of the years examined for this report, TANF transfers were at their lowest in FY2010 and FY2012. At their height in FY2000, TANF transfers totaled $2.3 billion and accounted for 68% of that year's discretionary CCDF expenditures.) **Figure 3** also shows that federal dollars accounted for the majority of expenditures in FY2012. Fully two-thirds of child care spending in that year came from federal sources ($7.6 billion), with remaining expenditures coming from state funding streams ($3.8 billion).

Figure 3. Composition of Child Care Spending in FY2012



Source: Prepared by the Congressional Research Service based on analysis of CCDF and TANF expenditure data released by the Administration for Children and Families at the U.S. Department of Health and Human Services. CCDF data can be found at http://www.acf.hhs.gov/programs/occ/resource/ccdf-expenditure-data-all-years. TANF data can be found at http://www.acf.hhs.gov/programs/ofa/programs/tanf/data-reports.

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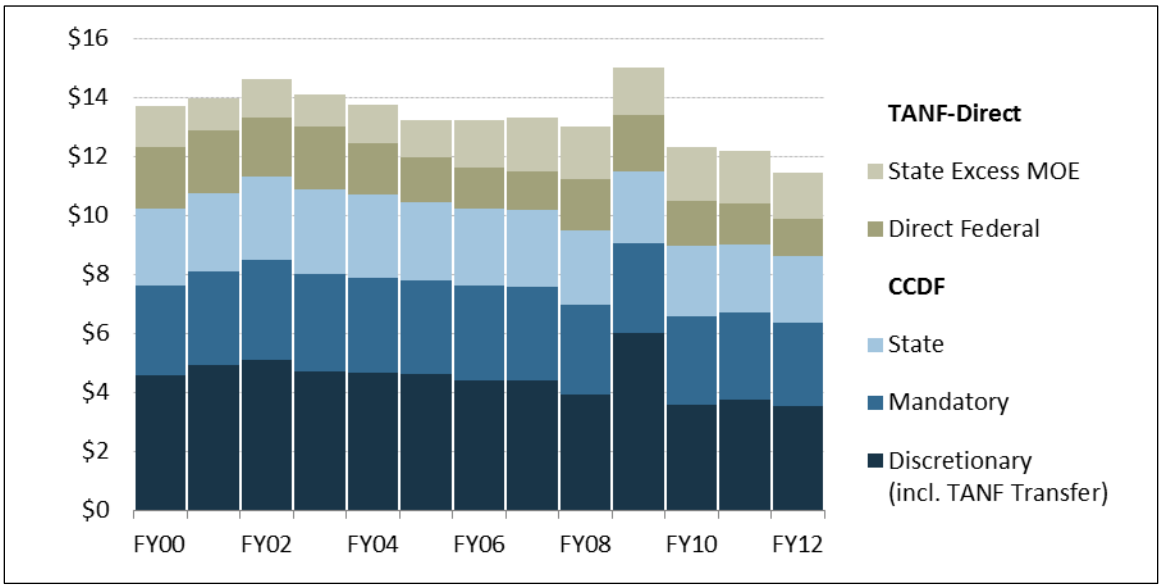
Figure 4 illustrates how the composition of child care spending in FY2012 compares with spending across the entire window examined for this report. This figure shows spending in constant dollars (i.e., adjusted for inflation), by funding stream, for each of FY2000-FY2012. In the aggregate, the figure shows that inflation has generally outpaced child care spending. In addition, it shows that the mandatory CCDF and its accompanying state contributions have generally been fairly stable funding streams, with more fluctuations evident in the discretionary CCDF (partly due to declining TANF transfers) and TANF-direct spending. These various trends are discussed in greater detail in subsequent sections of this report.

Figure 4. Child Care Spending by Funding Stream, FY2000-FY2012

(In billions of constant FY2012 dollars)



Source: Prepared by the Congressional Research Service based on analysis of CCDF and TANF expenditure data released by the Administration for Children and Families at the U.S. Department of Health and Human Services. CCDF data can be found at http://www.acf.hhs.gov/programs/occ/resource/ccdf-expenditure-data-all-years. TANF data can be found at http://www.acf.hhs.gov/programs/ofa/programs/tanf/data-reports.

Notes: Data do not include expenditures by territories, tribes, tribal organizations, or HHS. CCDF data reflect expenditures of funds allocated or awarded in the fiscal year shown and spent in that year and the subsequent two years (e.g., FY2012 data reflect funds allocated or awarded to states in FY2012 and expended by states over the course of FY2012-FY2014). TANF-direct data are based on all funds spent in a given fiscal year, regardless of the year in which the funds were first awarded or allocated (e.g., FY2012 data reflect total net expenditures in FY2012, including expenditures of funds awarded in FY2012 and prior years). TANF-direct state excess MOE was estimated by CRS by subtracting the total reported CCDF MOE from the total TANF child care MOE reported. This approach is intended to ensure that any funds that may be counted toward both the TANF MOE and CCDF MOE are counted only once, under the CCDF MOE category.

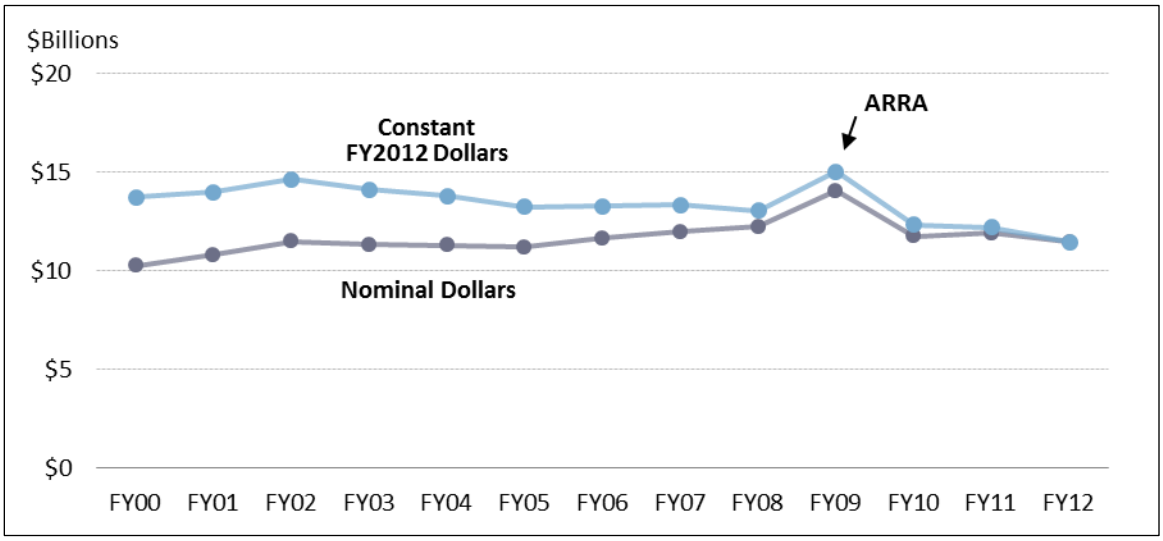
Trends in Child Care Spending

The following sections examine trends in child care spending over the course of FY2000-FY2012. The section on overall spending trends looks at expenditures from all sources, including TANF-direct child care programs. This is followed by a section looking at spending patterns within the CCDF only (i.e., it excludes TANF-direct spending).

Overall Spending Trends (including TANF-Direct Child Care)

Over the course of FY2000-FY2012, total combined CCDF and TANF spending on child care (federal and state) experienced both increases and decreases. **Figure 5** displays the overall spending trends in nominal and constant dollars. When comparing spending at the beginning and end of this window, total spending grew in *nominal dollars* from $10.2 billion in FY2000 to $11.4 billion in FY2012, an increase of $1.2 billion (+12%). However, when adjusting for inflation (i.e., using *constant or real dollars*), total spending declined over this same period from $13.7 billion in FY2000 to $11.4 billion in FY2012, a decrease of $2.3 billion (-17%). The decrease in constant dollars reflects declining purchasing power of these dollars over this timeframe.

Figure 5. Total Spending on Child Care from the CCDF and TANF, FY2000-FY2012



Source: Prepared by the Congressional Research Service based on analysis of CCDF and TANF expenditure data released by the Administration for Children and Families at the U.S. Department of Health and Human Services. CCDF data can be found at http://www.acf.hhs.gov/programs/occ/resource/ccdf-expenditure-data-all-years. TANF data can be found at http://www.acf.hhs.gov/programs/ofa/programs/tanf/data-reports.

Notes: Data do not include expenditures by territories, tribes, tribal organizations, or HHS. CCDF data reflect expenditures of funds allocated or awarded in the fiscal year shown and spent in that year and the subsequent two years (e.g., FY2012 data reflect funds allocated or awarded to states in FY2012 and expended by states over the course of FY2012-FY2014). TANF-direct data are based on all funds spent in a given fiscal year, regardless of the year in which the funds were first awarded or allocated (e.g., FY2012 data reflect total net expenditures in FY2012, including expenditures of funds awarded in FY2012 and prior years). TANF-direct state excess MOE was estimated by CRS by subtracting the total reported CCDF MOE from the total TANF child care MOE reported. This approach is intended to ensure that any funds that may be counted toward both the TANF MOE and CCDF MOE are counted only once, under the CCDF MOE category.

As **Figure 5** shows, total combined CCDF and TANF spending on child care (federal and state) peaked in FY2009, regardless of whether dollars are adjusted for inflation. FY2009 expenditures totaled $14.0 billion in nominal dollars and nearly $15.0 billion in constant dollars. This historical peak was primarily driven by the influx of $2.0 billion in additional discretionary appropriations from the American Recovery and Reinvestment Act of 2009 (ARRA, P.L. 111-5).

Prior to ARRA, the historical peak for spending on child care in constant dollars occurred early in this window: $14.6 billion in FY2002. This peak was the result of increases in most CCDF funding streams, including TANF transfers; new discretionary and mandatory CCDF appropriations; and increases in state CCDF matching contributions (see **Table 1**). In addition, state TANF excess MOE contributions increased by more than 20% over the prior year.

For nominal dollars, the pre-ARRA peak occurred at $12.2 billion in FY2008. The upward trend toward the FY2008 peak began in FY2006. The FY2006 increases were largely attributable to two factors: (1) federal legislation increasing mandatory CCDF appropriations by $200 million, and (2) state decisions to increase TANF excess state MOE spending on child care. Spending in FY2007 and FY2008 built on the earlier FY2006 peak, though these new increases were driven primarily by state-level decisions, as mandatory CCDF appropriations remained flat and discretionary CCDBG appropriations increased only marginally in those years. In particular, the FY2008 peak reflected state-level decisions to increase CCDF state contributions (well in excess of required state investments) and TANF-direct child care spending.

See **Table 1** for child care spending by funding stream, in both nominal and constant dollars.

Table 1. Overall Child Care Spending by Funding Stream, FY2000-FY2012

(In millions of nominal and constant FY2012 dollars)

Fiscal Year	CCDF Discretionary (incl. TANF transfers)	CCDF Mandatory (guaranteed & matching)	CCDF State (MOE & matching)	TANF-Direct Child Care Federal	TANF-Direct "Excess" State MOE	Total
Nominal						
2000	3,414	2,288	1,941	1,553	1,044	**10,239**
2001	3,789	2,451	2,046	1,643	840	**10,769**
2002	3,976	2,656	2,215	1,572	1,033	**11,451**
2003	3,766	2,649	2,299	1,698	881	**11,292**
2004	3,814	2,661	2,315	1,427	1,064	**11,280**
2005	3,922	2,661	2,262	1,279	1,060	**11,184**
2006	3,854	2,849	2,264	1,238	1,422	**11,628**
2007	3,957	2,854	2,333	1,164	1,649	**11,957**
2008	3,675	2,842	2,385	1,622	1,698	**12,222**
2009	5,630	2,827	2,283	1,787	1,493	**14,020**
2010	3,392	2,855	2,291	1,426	1,751	**11,714**
2011	3,674	2,854	2,264	1,352	1,742	**11,885**
2012	3,544	2,830	2,253	1,233	1,573	**11,433**
Constant						
2000	4,568	3,062	2,598	2,078	1,397	**13,703**
2001	4,913	3,178	2,653	2,130	1,089	**13,963**
2002	5,079	3,392	2,830	2,008	1,319	**14,628**
2003	4,700	3,306	2,869	2,120	1,099	**14,094**
2004	4,652	3,246	2,824	1,740	1,297	**13,759**
2005	4,631	3,142	2,672	1,511	1,252	**13,207**
2006	4,390	3,245	2,579	1,410	1,620	**13,244**
2007	4,404	3,176	2,597	1,295	1,835	**13,307**

Fiscal Year	CCDF Discretionary (incl. TANF transfers)	CCDF Mandatory (guaranteed & matching)	CCDF State (MOE & matching)	TANF-Direct Child Care Federal	TANF-Direct "Excess" State MOE	Total
2008	3,916	3,028	2,541	1,729	1,809	**13,023**
2009	6,019	3,022	2,441	1,910	1,596	**14,987**
2010	3,566	3,002	2,408	1,499	1,841	**12,316**
2011	3,763	2,923	2,319	1,385	1,784	**12,172**
2012	3,544	2,830	2,253	1,233	1,573	**11,433**

Source: Prepared by the Congressional Research Service based on analysis of CCDF and TANF expenditure data released by the Administration for Children and Families at the U.S. Department of Health and Human Services. CCDF data can be found at http://www.acf.hhs.gov/programs/occ/resource/ccdf-expenditure-data-all-years. TANF data can be found at http://www.acf.hhs.gov/programs/ofa/programs/tanf/data-reports.

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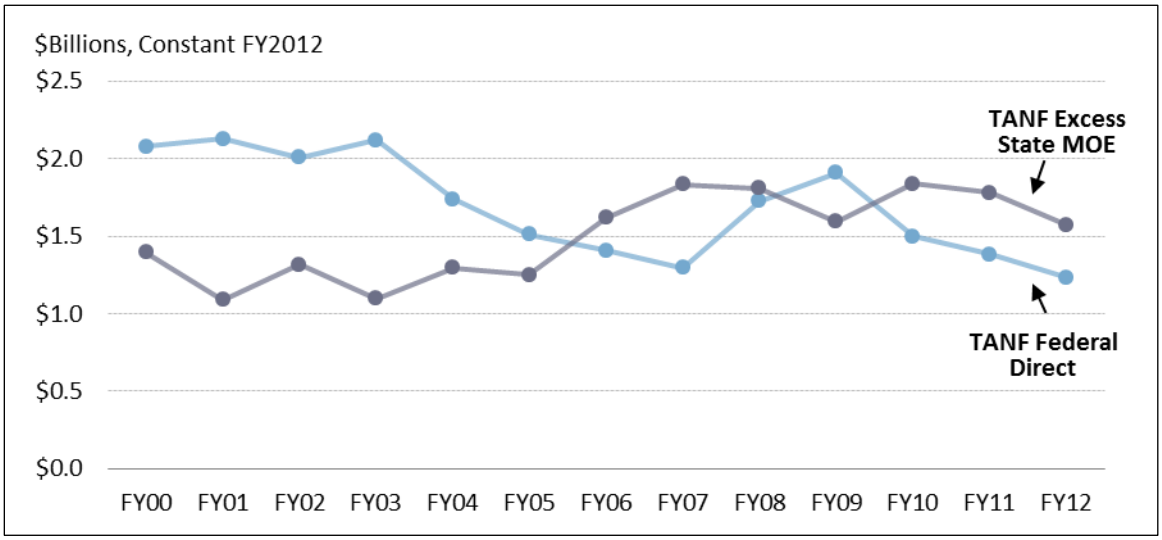
Federal vs. State Share

Federal spending accounted for roughly 70% of all spending over this period, with state contributions making up the remaining roughly 30%. CCDF expenditures accounted for the majority of federal spending in all years, with TANF-direct federal child care accounting for between 10% and 15%. Notably, only TANF and the mandatory portion of the CCDF require state contributions of any kind.

TANF Contributions

Spending on child care services directly within TANF programs (from both federal and state contributions) typically accounted for about a quarter of all spending on child care over this period. As a share of all expenditures, TANF-direct child care spending ranged from a low of 21% in FY2005 to a high of 27% in FY2008 and FY2010. Between FY2000 and FY2005, more than half of the TANF-direct child care expenditures came from federal TANF-direct funds. However, this trend then reversed, with state TANF excess MOE generally accounting for the majority of TANF-direct child care spending from FY2006 to FY2012 (see **Figure 6**).

Figure 6. TANF-Direct Federal Child Care and State "Excess" MOE, FY2000-FY2012



Source: Prepared by the Congressional Research Service based on analysis of TANF expenditure data released by the Administration for Children and Families at the U.S. Department of Health and Human Services, and available at http://www.acf.hhs.gov/programs/ofa/programs/tanf/data-reports.

Notes: TANF-direct data are based on all funds spent in a given fiscal year, regardless of the year in which the funds were first awarded or allocated (e.g., FY2012 data reflect total net expenditures in FY2012, including expenditures of funds awarded in FY2012 and prior years). TANF-direct state excess MOE was estimated by CRS by subtracting the total reported CCDF MOE from the total TANF child care MOE reported. This approach is intended to ensure that any funds that may be counted toward both the TANF MOE and CCDF MOE are counted only once, under the CCDF MOE category.

The number of states with excess TANF MOE child care spending has generally declined over this period, from 29 in FY2000 to 18 in FY2000, despite aggregate increases in TANF excess MOE spending. This means that fewer states are spending relatively more in state TANF MOE dollars than in earlier years.

More than half of all states have spent federal TANF funds on child care directly in their TANF programs in each year covered by this report. The number of states providing federal TANF-direct child care peaked in FY2003 at 38 states.[19] This is also a peak year (roughly equivalent to FY2001) for TANF-direct spending in constant dollars ($2.1 billion).

When adding in amounts transferred from TANF programs to the CCDF, total spending originating in TANF programs represented more than one-third (between 36% and 48%) of all child care expenditures for each of FY2000-FY2012. The overall share of contributions originating in TANF programs has declined during this period, primarily due to declines in TANF transfers to the CCDF (as discussed in the section on "TANF Transfers").

Children Served

While the CCDBG Act requires reporting on children and families served by the CCDF, this is not the case for children served by TANF-direct child care expenditures. TANF-direct programs, which account for roughly one-quarter of all expenditures annually, are not required to report on the number of children served, nor are they required to provide information on the child care

[19] This estimate includes only states for which TANF financial data show a positive amount for TANF-direct federal child care expenditures. Some states may show negative TANF-direct federal child care expenditures in public financial reports due to prior-year adjustments.

settings in which these children are served. As a result, the total number of children served by these combined funding streams is not known.

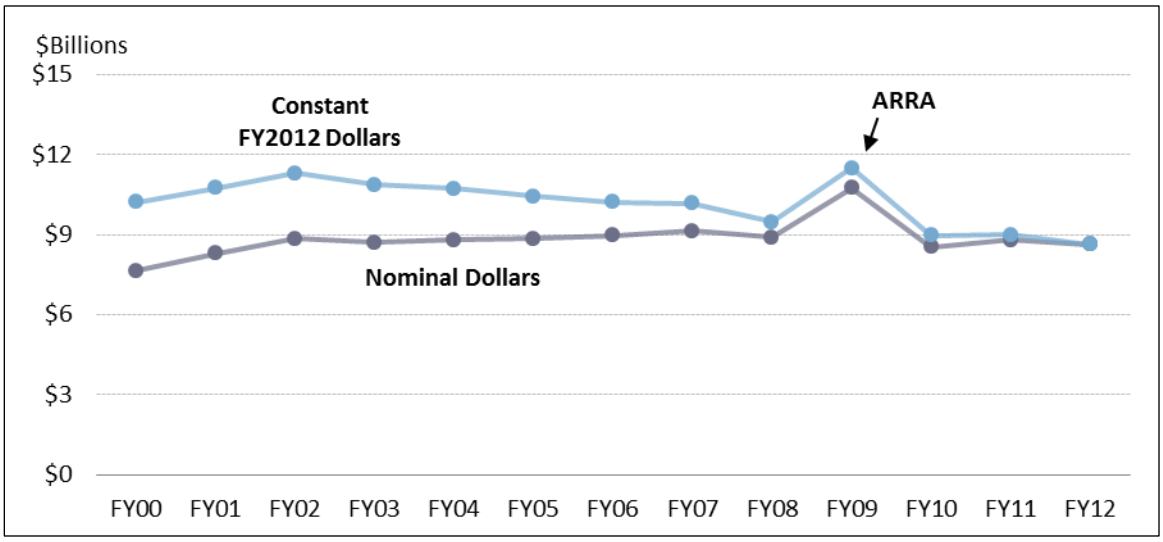
In addition, federal law does not subject TANF-direct child care to other CCDBG Act rules, such as minimum health and safety standards or categorical spending requirements. As a consequence, it is possible that a greater share of TANF-direct child care spending goes toward direct services (i.e., subsidies) for children, compared to the CCDF, which requires investments in state-level oversight, licensing, monitoring, and quality improvement activities. TANF-direct child care programs are also not subject to CCDBG Act rules related to eligibility—meaning that families receiving TANF-direct child care services may not meet CCDF income or work requirements.

Trends in CCDF Spending

Over the course of FY2000-FY2012, total spending within the CCDF (including TANF transfers and state CCDF contributions) experienced both increases and decreases. **Figure 7** displays the CCDF spending trends in nominal and constant dollars. When comparing spending at the beginning and end of this window, total spending grew in *nominal dollars* from $7.6 billion in FY2000 to $8.6 billion in FY2012, an increase of almost $1 billion (+13%). However, when adjusting for inflation (i.e., using *constant or real dollars*), total spending in the CCDF declined over this same period, from $10.2 billion in FY2000 to $8.6 billion in FY2012, a decrease of $1.6 billion (-16%).

Figure 7. Total CCDF Spending, FY2000-FY2012

(Totals include TANF transfers and state contributions, but exclude TANF-direct spending)



Source: Prepared by the Congressional Research Service based on analysis of CCDF expenditure data released by the Administration for Children and Families at the U.S. Department of Health and Human Services. CCDF data can be found at http://www.acf.hhs.gov/programs/occ/resource/ccdf-expenditure-data-all-years.

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As **Figure 7** shows, total spending within the CCDF (including TANF transfers and state CCDF contributions) peaked in FY2009, regardless of whether dollars are adjusted for inflation. CCDF expenditures for that year totaled $10.7 billion in nominal dollars and $11.5 billion in constant

dollars. This historical peak was primarily driven by the influx of $2.0 billion in additional discretionary appropriations from ARRA.

Prior to ARRA, the historical peak for this period for CCDF spending in constant dollars occurred in FY2002 at $11.3 billion (see **Table 2**). This peak was the result of increases in most CCDF funding streams, including TANF transfers, new discretionary and mandatory CCDF appropriations, and increases in state CCDF matching contributions. In constant dollars, the CCDF has generally been declining since this FY2002 peak, with only two exceptions.

For nominal dollars, the pre-ARRA peak was $9.1 billion in FY2007, due in part to increased TANF transfers and increases in state CCDF contributions. Notably, the spending increases that drove the FY2007 nominal peak were based on state-level, not federal, decisions. That is to say, this nominal peak was driven largely by increases in state CCDF spending (in excess of federal requirements) and by state-level decisions to transfer additional TANF dollars to the CCDF. However, the FY2007 nominal peak followed an upward trend that had started in FY2004. Various state and federal decisions contributed to this upward trend, but the single largest increase in the CCDF during this window occurred in FY2006, due to federal legislation increasing annual mandatory CCDF appropriations by $200 million.

Table 2. CCDF Spending by Funding Stream, FY2000-FY2012

(In millions of nominal and constant FY2012 dollars)

Fiscal Year	Estimated CCDBG Discretionary	Estimated TANF Transfers	Total CCDF Federal Discretionary	CCDF Guaranteed Mandatory	CCDF Federal Share of Match	Total CCDF Federal Mandatory	CCDF MOE	CCDF State Share of Match	Total CCDF State	Total CCDF
Nominal										
2000	1,108	2,305	3,414	1,164	1,124	2,288	1,034	907	1,941	**7,642**
2001	1,886	1,904	3,789	1,178	1,274	2,451	1,026	1,020	2,046	**8,287**
2002	1,984	1,993	3,976	1,178	1,478	2,656	1,015	1,200	2,215	**8,847**
2003	1,973	1,793	3,766	1,178	1,471	2,649	957	1,342	2,299	**8,713**
2004	1,975	1,839	3,814	1,177	1,484	2,661	934	1,381	2,315	**8,790**
2005	1,972	1,949	3,922	1,176	1,485	2,661	956	1,306	2,262	**8,844**
2006	1,956	1,898	3,854	1,177	1,672	2,849	968	1,296	2,264	**8,967**
2007	1,960	1,997	3,957	1,178	1,677	2,854	993	1,341	2,333	**9,144**
2008	1,961	1,714	3,675	1,178	1,664	2,842	1,037	1,348	2,385	**8,901**
2009	3,931	1,699	5,630	1,178	1,649	2,827	943	1,340	2,283	**10,740**
2010	2,022	1,370	3,392	1,177	1,678	2,855	959	1,332	2,291	**8,538**
2011	2,116	1,557	3,674	1,178	1,676	2,854	957	1,307	2,264	**8,791**
2012	2,156	1,388	3,544	1,167	1,663	2,830	971	1,282	2,253	**8,627**
Constant										
2000	1,483	3,085	4,568	1,557	1,504	3,062	1,384	1,214	2,598	**10,228**
2001	2,445	2,468	4,913	1,527	1,651	3,178	1,330	1,323	2,653	**10,744**
2002	2,534	2,545	5,079	1,504	1,888	3,392	1,297	1,533	2,830	**11,301**
2003	2,462	2,238	4,700	1,470	1,836	3,306	1,195	1,675	2,869	**10,875**

Fiscal Year	Estimated CCDBG Discretionary	Estimated TANF Transfers	Total CCDF Federal Discretionary	CCDF Guaranteed Mandatory	CCDF Federal Share of Match	Total CCDF Federal Mandatory	CCDF MOE	CCDF State Share of Match	Total CCDF State	Total CCDF
2004	2,409	2,243	4,652	1,436	1,810	3,246	1,140	1,684	2,824	**10,721**
2005	2,329	2,302	4,631	1,388	1,754	3,142	1,129	1,543	2,672	**10,445**
2006	2,227	2,162	4,390	1,341	1,905	3,245	1,103	1,476	2,579	**10,214**
2007	2,181	2,223	4,404	1,310	1,866	3,176	1,105	1,492	2,597	**10,177**
2008	2,090	1,826	3,916	1,255	1,773	3,028	1,105	1,436	2,541	**9,485**
2009	4,203	1,816	6,019	1,259	1,763	3,022	1,008	1,433	2,441	**11,481**
2010	2,126	1,441	3,566	1,238	1,764	3,002	1,008	1,400	2,408	**8,976**
2011	2,168	1,595	3,763	1,206	1,717	2,923	980	1,339	2,319	**9,004**
2012	2,156	1,388	3,544	1,167	1,663	2,830	971	1,282	2,253	**8,627**

Source: Prepared by the Congressional Research Service based on analysis of CCDF data released by the Administration for Children and Families at the U.S. Department of Health and Human Services, and available at http://www.acf.hhs.gov/programs/occ/resource/ccdf-expenditure-data-all-years. Expenditure data from the following tables were used for this analysis: FY2000 funds as of September 30, 2002; FY2001 funds as of September 30, 2003; FY2002 funds as of September 30, 2004; FY2003 funds as of September 30, 2005; FY2004 funds as of September 30, 2006; FY2005 funds as of September 30, 2007; FY2006 funds as of September 30, 2008; FY2007 funds as of September 30, 2009; FY2008 funds as of September 30, 2010; FY2009 funds as of September 30, 2011; FY2010 funds as of September 30, 2012; FY2011 funds as of September 30, 2013; FY2012 funds as of September 30, 2014.

Notes: Data do not include expenditures by territories, tribes, tribal organizations, or HHS. CCDF data reflect expenditures of funds allocated or awarded in the fiscal year shown and spent in that year and the subsequent two years (e.g., FY2012 data reflect funds allocated or awarded to states in FY2012 and expended by states over the course of FY2012-FY2014). TANF transfers are estimated by subtracting TANF transfer amounts shown on the CCDF grant award summary for a given fiscal year (as reported by the HHS Office of Child Care in the final year of availability for expenditure within the CCDF) from the total amount of discretionary CCDF expenditures for that fiscal year.

Federal vs. State Share

Federal spending accounted for roughly three-quarters of all CCDF spending over this period, with state MOE and matching funds making up the remaining quarter. Mandatory CCDF funds generally account for about one-third of all CCDF expenditures. Discretionary CCDF funds typically account for more than 40% of expenditures, but this includes TANF transfers to the CCDF.

Notably, it is common for total state contributions to the CCDF to exceed minimum state spending requirements. This is because some states spend more than the minimum amounts required. For instance, between eight and seventeen states have exceeded their minimum CCDF MOE requirement in each year reviewed for this report. In addition, at least three states have contributed matching funds in excess of their required levels in every year since FY2005.

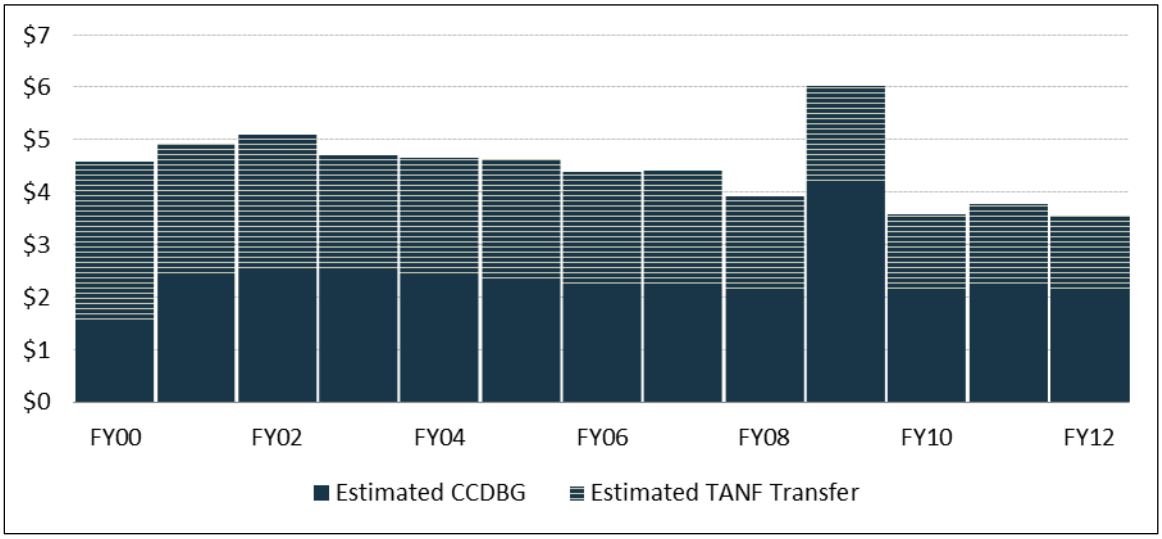
TANF Transfers

TANF transfers represent a declining but still significant share of discretionary CCDF expenditures (see **Figure 8**). TANF transfers peaked at the beginning of this window, representing 68% of discretionary CCDF expenditures and 30% of all CCDF expenditures in FY2000. Since then, TANF transfers have generally declined. TANF transfers were at their lowest (roughly $1.4 billion) in FY2010 and FY2012. In FY2012, TANF transfers represented 39% of all discretionary CCDF expenditures and 16% of all CCDF expenditures.

Part of the decline in TANF transfers during this window can be explained by the fact that fewer states are transferring any dollars at all. In FY2000, 43 states (including the District of Columbia) transferred $2.3 billion in nominal dollars from their TANF programs to the CCDF. In FY2012, 29 states transferred $1.4 billion from TANF to the CCDF. This represents a decline of roughly $918 million (-40%).

Figure 8. Discretionary CCDF Spending by Funding Stream, FY2000-FY2012

(In billions of constant FY2012 dollars)



Source: Prepared by the Congressional Research Service based on analysis of CCDF data released by the Administration for Children and Families at the U.S. Department of Health and Human Services, available at http://www.acf.hhs.gov/programs/occ/resource/ccdf-expenditure-data-all-years.

Notes: Data do not include expenditures by territories, tribes, tribal organizations, or HHS. CCDF data reflect expenditures of funds allocated or awarded in the fiscal year shown and spent in that year and the subsequent two years (e.g., FY2012 data reflect funds allocated or awarded to states in FY2012 and expended by states over the course of FY2012-FY2014). TANF transfers are estimated by subtracting TANF transfer amounts shown on the CCDF grant award summary for a given fiscal year (as reported by the HHS Office of Child Care in the final year of availability for expenditure within the CCDF) from the total amount of discretionary CCDF expenditures for that fiscal year.

Children Served

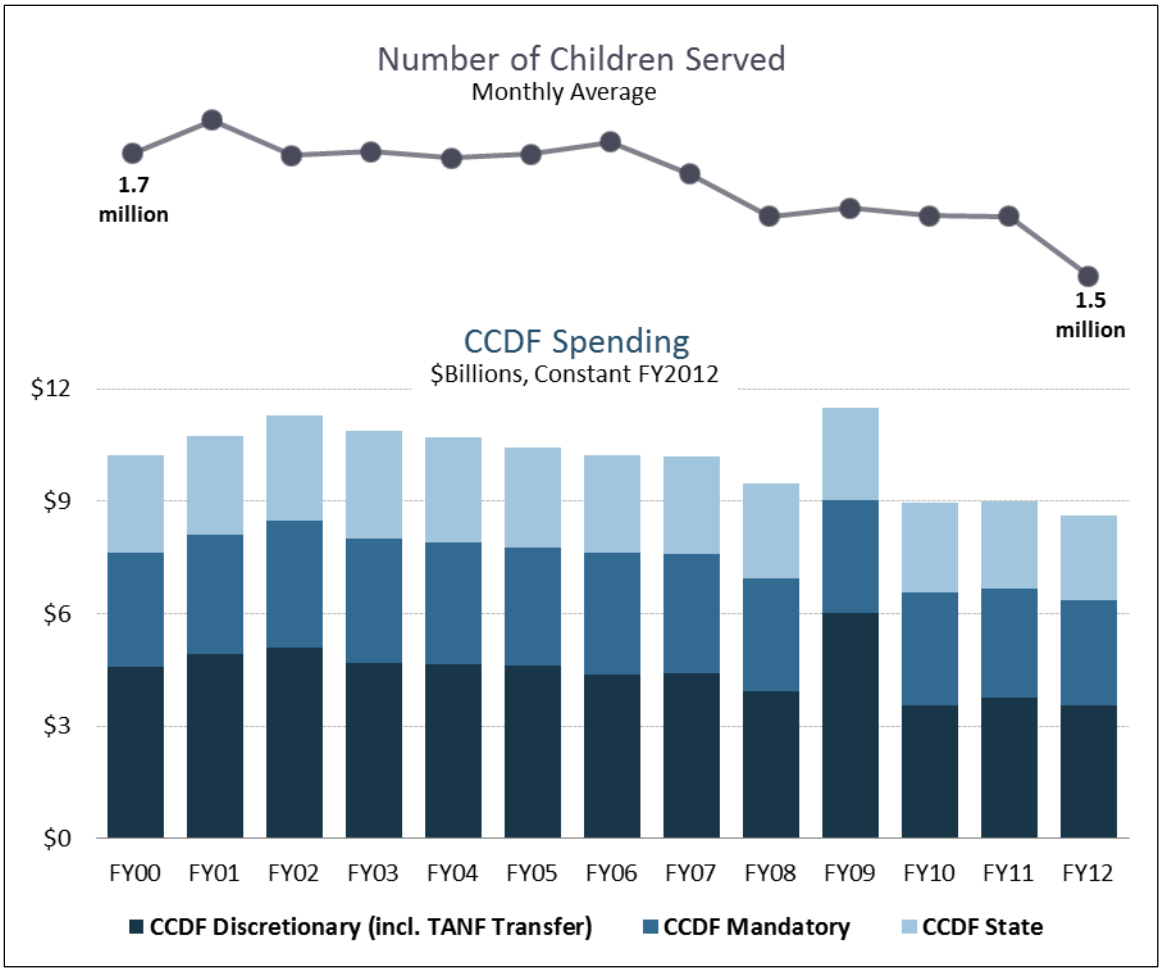
The CCDF caseload has experienced fluctuations over this window but has generally been on the decline since FY2006. The caseload peaked at roughly 1.8 million children served in an average month in FY2001 and dropped to a low of roughly 1.5 million in FY2012 (see **Figure 9**), a decrease of almost 359,000 children (-20%).

Notably, the CCDBG Act applies a number of categorical spending requirements to most CCDF dollars.[20] For instance, during the window reviewed by this report, states were required to reserve at least 4% of their expenditures for quality improvement activities. (Under the reauthorized CCDBG Act, this requirement will increase over the next several years.)

In addition to categorical spending requirements, the CCDBG Act of 2014 also made a number of changes to rules related to health and safety, licensing, inspections, and monitoring. It is possible that such requirements may lead states to spend a larger share of their CCDF dollars on quality activities, administrative costs, or other "non-direct services" than in the past. Should this occur, amounts available to support subsidies for children may decline.

[20] Regulations typically exempt state CCDF MOE spending from categorical spending requirements in the CCDBG Act.

Figure 9. CCDF Spending and Average Monthly Number of Children Served, FY2000-FY2012



Source: Prepared by the Congressional Research Service based on analysis of CCDF data released by the Administration for Children and Families at the U.S. Department of Health and Human Services, available at http://www.acf.hhs.gov/programs/occ/resource/ccdf-expenditure-data-all-years.

Notes: Data do not include expenditures by territories, tribes, tribal organizations, or HHS. CCDF data reflect expenditures of funds allocated or awarded in the fiscal year shown and spent in that year and the subsequent two years (e.g., FY2012 data reflect funds allocated or awarded to states in FY2012 and expended by states over the course of FY2012-FY2014).

Concluding Observations

While the CCDBG Act is the primary federal law governing state child care programs for low-income working families, discretionary CCDBG appropriations are by no means the primary source of child care expenditures. State child care programs are also supported by federal funds appropriated to the CCES and TANF (and accompanying state contributions, where applicable). The majority of federal dollars spent on state child care programs are subject to CCDBG Act rules, including funds appropriated to the CCDBG and the CCES, as well as TANF transfers. However, states have spent more than a billion federal dollars annually in TANF-direct child care programs, which are not subject to CCDBG Act rules (TANF-direct spending accounts for more than $2.3 billion annually when including TANF state excess MOE). This concluding section of

the report reviews the current authorization status of these various child care funding streams. It places recent spending trends in the context of the 1996 reforms, while also considering what these trends may mean for the implementation of the 2014 CCDBG reauthorization law.

Current Authorization Status

The spending trends reviewed in the previous sections demonstrate the importance of multiple funding streams in supporting state child care programs for low-income families. These funding streams rely on three separate federal funding authorizations:

- discretionary CCDF funds authorized by the CCDBG Act,
- mandatory CCDF funds authorized by Section 418 of the Social Security Act (also known as the CCES), and
- TANF block grants authorized by Section 403 of the Social Security Act.

While the CCDBG Act was recently reauthorized through FY2020 by the CCDBG Act of 2014 (P.L. 113-186), neither the CCES nor TANF has been reauthorized in many years. In fact, it has been more than 10 years since major changes were made to either program, as part of the Deficit Reduction Act of 2005 (P.L. 109-171; DRA). The DRA did not change the funding level for the basic TANF block grant, but it did increase mandatory child care funding by $1 billion over five years, directly appropriating (or "pre-appropriating") a total of $2.917 billion for each of FY2006 to FY2010. Since then, level funding for TANF and the CCES has generally been provided through a series of short- and medium-term extensions, the most recent of which (P.L. 114-113) provided funding through September 30, 2016.[21]

The temporary nature of the TANF and CCES extensions is particularly notable, given that federal and state funds associated with TANF and the CCES have combined to account for between 72% and 89% of federal and state child care spending in every year reviewed for this report.[22] Funds originating in TANF and the CCES also account for the majority of federal spending—typically more than 70% of annual federal spending (with the exception of FY2009 due to ARRA).

The CCDBG Act also went many years without being reauthorized. The CCDBG Act of 2014 (P.L. 113-186) is the first time this law has been reauthorized since 1996. The 2014 reauthorization law substantially amended the previous CCDBG Act, with particular emphasis on strengthening requirements related to health and safety, licensing, enforcement, and quality of care. For instance, under the reauthorized CCDBG Act

- states must establish and enforce minimum health and safety standards covering multiple topics, such as the prevention and control of infectious diseases, building and premises safety, first aid, and emergency preparedness;
- all providers receiving CCDF funds must complete pre-service and ongoing training on health and safety topics;
- states must set age-specific group size limits and child-to-provider ratios;
- states must conduct pre-licensure and annual unannounced licensing inspections for all licensed CCDF providers, as well as annual inspections for unlicensed (or "license-exempt") CCDF providers;

[21] For a list of these temporary extensions, see Table A-1 and Table A-2 in CRS Report RL32760, *The Temporary Assistance for Needy Families (TANF) Block Grant: Responses to Frequently Asked Questions*, by Gene Falk.

[22] This estimate includes TANF transfers to the CCDBG as "funds associated with TANF."

- states must establish qualifications and training for licensing inspectors and set inspector-to-provider ratios;
- states must conduct criminal background checks on applicable child care providers and staff members; and
- minimum state spending on general quality improvement activities will increase incrementally from 4% of CCDF spending under prior law to 9% by FY2020, plus states must spend an additional 3% on quality improvement activities for infants and toddlers.[23]

Under current law, the new requirements in the CCDBG Act generally apply to mandatory CCDF funds provided by the CCES, as well as TANF funds transferred to the CCDF. However, they do not apply to TANF funds spent on child care directly within state TANF programs.

One Unified Child Care Program?

Reforms to child care programs in 1996 were, in part, designed to create a single, unified child care program (albeit supported by multiple funding streams): the CCDF. Expenditure data show that the CCDF has, indeed, been the primary source of child care spending over the entire period reviewed for this report, accounting for roughly three-quarters of total spending in each year. However, states have spent at least $2.3 billion (federal and state) annually on TANF-direct child care. Because these TANF-direct expenditures occur outside the CCDF, they are not subject to the rules guiding how CCDF funds are spent. This means, for instance, that TANF-direct funds may be spent on child care services that do not meet minimum health and safety standards required by the CCDF.

Beyond expenditures, no data are collected on TANF-direct child care programs or the children and families they serve. As a consequence, it is not possible to say anything definitive about who is being served or the type of care they are receiving. This raises questions about whether there is a different standard of care across programs—and, if so, whether such differences are desirable under federal policy. With this in mind, the Obama Administration's FY2017 President's budget submission included a proposal to apply CCDBG Act health and safety standards to TANF-direct child care, noting that this would "ensure that all children receiving child care assistance benefit from the same protections regardless of the program providing the funding."[24] While the Administration's proposal would apply CCDF health and safety standards to TANF-direct child care programs, it does not specifically address the possibility of applying CCDF-comparable reporting or categorical spending requirements to TANF-direct child care programs.

State Flexibility

Under law, federal funds appropriated to the CCDF (as well as required state contributions) must be spent on child care or child care-related activities. This is not the case for TANF grants, which may be used for a wide array of benefits and services, ranging from cash assistance to child welfare services. It is up to states whether or not to direct any TANF funds toward child care.

[23] For more information, see CRS In Focus IF10416, *CCDBG Act of 2014: Key Provisions and Implementation Status*, by Karen E. Lynch.

[24] Department of Health and Human Services, *Administration for Children and Families: FY2017 Justification of Estimates for Appropriations Committees*, February 9, 2016, p. 348, https://www.acf.hhs.gov/sites/default/files/olab/final_cj_2017_print.pdf.

Over the years, TANF contributions to child care have been significant. Child care spending (federal and state) originating in TANF programs has accounted for more than one-third of all child care expenditures in each year examined for this report. On the one hand, this may beg the question of whether the CCDF is adequately funded. On the other hand, it may suggest that the current system is well-designed to give states the flexibility to support the programs and services they deem most important—particularly given that not all states are using federal TANF dollars to provide child care services.

A closer look at child care expenditure data shows that federal TANF-related contributions have generally been declining over the period examined for this report. For instance, the share of all federal child care expenditures originating in TANF programs dropped from more than half (52%) in FY2000 to just over one-third (34%) in FY2012. (The majority of this drop is due to reductions in TANF transfers to the CCDF.) In addition, the number of states choosing to spend none of their federal TANF funds on child care services (either via transfers or TANF-direct) has tripled from three states in FY2000 to nine states in FY2012.[25] The number of states choosing to use both TANF options (i.e., transfer funds to the CCDF and provide TANF-direct child care services with federal funds) has declined by more than 40% from 29 in FY2000 to 17 in FY2012.

This raises questions about the stability of TANF-related child care funding in the long term, and the relative value of a stable funding stream over state flexibility (or vice versa). While it is not clear what is driving state decisions with respect to TANF-related child care spending, it must be remembered that TANF grants have generally remained flat (in nominal dollars) since the block grant was first established in 1996. When adjusting for inflation, these grants have declined in value by more than 30%.[26] As a consequence, states may find it increasingly difficult to maintain funding levels for the various benefits and services initially supported by TANF programs.

Implications of the CCDBG Act of 2014

In 2014, the CCDBG Act was reauthorized for the first time since 1996. The reauthorization law made a number of changes to federal child care policies within the CCDF (keeping in mind that CCDBG Act rules generally apply to spending of all CCDF-based funding streams). In the aftermath of reauthorization, many states will need to increase CCDF spending on quality improvement activities to meet new categorical spending requirements. In addition, states may need to spend more on oversight activities, such as monitoring, inspections, and consumer education. A full review of CCDF categorical spending patterns is beyond the scope of this report. Nevertheless, it seems likely that (barring increased financial resources) states may find it difficult to maintain the number of children served by the CCDF while also devoting the necessary funds toward implementing new CCDBG Act requirements. In fact, administrative data show that the average monthly number of children served by the CCDF has been declining for years, presumably due in part to the rising costs of child care and the decreasing value of CCDF dollars, once adjusted for inflation.[27]

[25] This is measured based on whether the state transferred any TANF funds to the CCDF or spent any federal TANF funds on child care within TANF programs. In cases where TANF financial reports present negative amounts for TANF-direct, the state is counted as not spending on child care in that year. The nine states in FY2012 were Alabama, Arizona, Connecticut, Georgia, Louisiana, Michigan, South Carolina, South Dakota, and Texas.

[26] See CRS Report RL32760, *The Temporary Assistance for Needy Families (TANF) Block Grant: Responses to Frequently Asked Questions*, by Gene Falk.

[27] CCDF program statistics indicate that average subsidy costs by age and setting have generally been increasing in nominal dollars. For instance, average monthly costs for infants and toddlers increased by more than 20% between FY2002 and FY2012. (Full program statistics were not always collected, so FY2002 is the earliest comparison point.)

It is not clear what effect, if any, the CCDBG reauthorization law will have on state decisions about how or whether to support child care programs with TANF dollars. It is possible states may increase TANF transfers to the CCDF to help implement the 2014 reauthorization law. This would represent a reversal of current trends, as there has been a fairly steady decline in both the total amount transferred to the CCDF from TANF each year and the number of states making such transfers. Alternately, it is possible states may choose to focus more on TANF-direct child care programs, which are not currently subject to CCDBG Act requirements. The number of states providing federal TANF-direct child care has remained relatively stable, though total federal TANF-direct spending has generally been declining over the years reviewed for this report. It is also possible that the 2014 CCDBG reauthorization law will have no discernable effect on TANF spending patterns, as child care remains one of many possible uses for these block grants.

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