United States Government Accountability Office

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Report to the Ranking Minority Member, Subcommittee on Education and Early Childhood Development, Committee on Health, Education, Labor, and Pensions, U.S. Senate

June 2005

CHILD CARE

Additional Information Is Needed on Working Families Receiving Subsidies

GAO-05-667

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Abbreviations

CCDF	Child Care and Development Fund
HHS	Department of Health and Human Services
MOE	maintenance-of-effort
SMI	state median income
TANF	Temporary Assistance for Needy Families

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United States Government Accountability Office
Washington, DC 20548

June 29, 2005

The Honorable Christopher J. Dodd
Ranking Minority Member
Subcommittee on Education and Early Childhood Development
Committee on Health, Education, Labor, and Pensions
United States Senate

Dear Senator Dodd:

Since the Congress enacted welfare reform legislation in 1996, child care assistance has served as a key support for work efforts among low-income families.[1] Researchers have found that reliable, high-quality child care is critical to sustaining parents' ability to work, while safeguarding their children's health and intellectual development. States have flexibility in determining which low-income families are provided child care subsidies funded by the Child Care and Development Fund (CCDF), Temporary Assistance for Needy Families (TANF), and related state resources. States must balance the funds available for subsidies with the number of families who want subsidized child care. In doing so, states may find it necessary to change child care policies that affect program access or the amount of subsidy that eligible families receive.

As Congress considers reauthorizing CCDF and TANF, we updated our previous report *"Child Care: Recent State Policy Changes Affecting the Availability of Assistance for Low-Income Families"*[2] by providing current information on

- the choices states have made for providing child care assistance to (1) TANF families, (2) families transitioning off TANF, and (3) other low-income families;

[1]We use the terms "assistance" and "subsidies" interchangeably, although HHS in the context of child care subsidies limits the term "assistance" to TANF benefits provided to nonworking families.

[2]GAO, *Child Care: Recent State Policy Changes Affecting the Availability of Assistance for Low-Income Families*, GAO-03-588 (Washington: D.C.: May 5, 2003).

- the extent to which states have changed policies since 2001 that could affect access to child care assistance programs and the amounts of subsidies provided to families; and

- the number of children and families receiving child care assistance from CCDF and TANF funds.

To address our first and second objectives, we surveyed child care administrators in 50 states and the District of Columbia on their respective state's child care assistance policies. The survey asked them whether their states had made changes to key policies that could affect access to child care assistance programs and subsidy amounts since March 2003. All 50 states and the District of Columbia responded to our survey between March 11 and March 31, 2005. We compared these responses with responses to a previous survey we conducted in March and April 2003 covering policies and practices from 2001 through 2003. We combined the results from the two surveys to provide a 4-year assessment of changes between January 2001 and March 2005. Our analyses of state policy changes are limited to the information that states reported in our surveys about the direction of change (e.g., increasing or decreasing income eligibility and co-payments), if any. To gather information on the number of children and families receiving child care assistance from CCDF and TANF funds, we reviewed the Department of Health and Human Services' (HHS) data on number of children served through CCDF and held discussions with HHS officials about the availability of data on the number of children and families served through TANF. In addition, we held discussions with HHS officials on the collection and maintenance of available data and determined they were sufficiently reliable for the purposes of this report. Furthermore, we interviewed officials in five states—Kentucky, Maryland, Massachusetts, Oregon and Wyoming—to gain a more in-depth perspective on child care policy changes in their states. We conducted this review from February 2005 through May 2005 in accordance with generally accepted government auditing standards.

On May 25, 2005, we briefed your staff on the results of our review. This report formally conveys the information provided during that briefing. (See app. I for the briefing slides.) In summary, we found the following:

All states make TANF, transitioning families, and other low-income families eligible for assistance. However, some states set additional criteria that may limit the extent of service to transitional and, especially, to other low-income families. Thirty-one states—an increase of six states since our previous report—reported that, using their state's eligibility

criteria, they were able to provide child care assistance to all the families who apply and are deemed eligible for such assistance. Most states reported that they give higher priority to TANF families than transitional and other low-income working families when program resources are insufficient to serve all who apply.

Since 2001, many states have made changes in eligibility and enrollment policies that could decrease program access while at the same time may provide larger subsidies to families receiving assistance. Thirty-five states made the following eligibility and enrollment changes that affect program access since 2001:

- 19 made changes tending to decrease access to assistance.
- 8 made changes tending to increase access to assistance.
- 8 made a mix of changes.

In addition, many states have made co-payment and provider reimbursement rate changes, but of those that made changes, more states increased provider rates than increased co-payments, which could result in families receiving larger subsidies. States may be providing larger subsidies in an effort to keep pace with increasing child care fees or to provide families with a broader array of options among providers.

According to HHS data, the number of children and families receiving child care assistance under CCDF has remained relatively constant since 2001, but little is known about those subsidized with TANF direct funds. According to HHS, approximately 1.75 million children and over 1 million families have been served through CCDF (including TANF dollars transferred to CCDF) on an average monthly basis since fiscal year 2001. However, HHS officials did not have information on working families receiving child care assistance directly through TANF funds, although most ($1.4 billion of $1.7 billion) of the federal TANF funds directly spent on child care is directed to these families.

Because we believe that additional information on working families assisted directly through TANF would be valuable to policy makers and program managers in ensuring the efficiency, effective and accountability of federal supports for child care, in our May 25, 2005, briefing, we recommended that the Assistant Secretary for Children and Families find cost-effective ways to collect this information. We provided a draft copy of this report, including the briefing slides, to officials in the U.S. Department of Health and Human Services' Administration for Children and Families, which oversees state CCDF and TANF programs. In its

comments on the draft, ACF disagreed with our recommendation (see app. II). ACF mentioned that states are required to report such disaggregated case record information only for families receiving "assistance" under the TANF program. ACF explained that during its rule-making process, a wide range of organizations providing comments raised concerns about the relationship between certain services, such as child care, and "assistance" under the TANF program. Consequently, ACF does not plan to collect this information on working families without new legislation. Therefore, we are suggesting that Congress may wish to require that, for child care subsidies directly funded by TANF, ACF find cost-effective ways to collect data on the numbers of children and families receiving these subsidies and the types of care they obtain, without regard to whether the subsidies are defined as "assistance" under TANF regulations. We have changed the briefing slides to reflect this matter for congressional consideration.

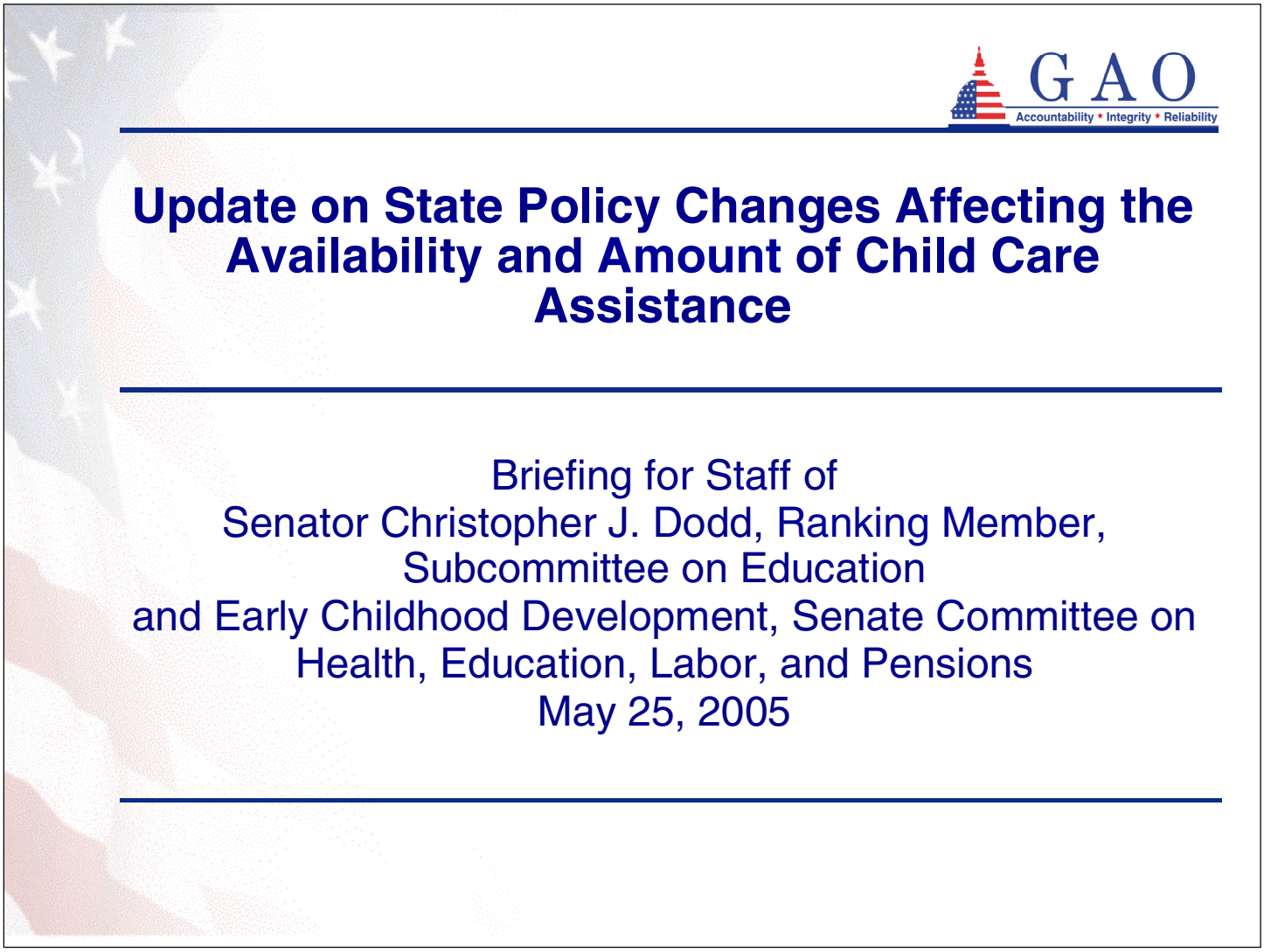
As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its issue date. At that time, we will send copies this report to relevant congressional committees and other interested parties and will make copies available to others upon request. The report will also be available on GAO's Web site at http://www.gao.gov. If you or your staff have any questions about this report, please contact me at (202) 512-7215. Betty Ward-Zukerman—Assistant Director, Danielle Giese—Analyst-In-Charge, Sonya Harmeyer, Luann Moy, Cathy Hurley and James Rebbe also made key contributions to this report.

Sincerely yours,

Marnie S. Shaul
Director, Education, Workforce, and
Income Security Issues

Enclosure

Appendix I: Briefing Slides



Introduction

Since the passage of welfare reform in 1996, child care assistance has become a principal tool for supporting work efforts among Temporary Assistance for Needy Families (TANF) recipients and other low-income families.

Under programs funded by the Child Care and Development Fund (CCDF), TANF, and state resources, states have the flexibility to serve three groups of families: (1) TANF families participating in work-activities, (2) families that recently transitioned off TANF (transitioning families), and (3) other low-income families.

States balance the limited funds available for such assistance against the demand. In doing so, states may make changes to child care policies that affect program access or the amount of assistance (i.e., subsidies) provided to families who can enter the program.[1]

[1] We use the terms "assistance" and "subsidies" interchangeably, although HHS in the context of child care subsidies limits the term "assistance" to TANF benefits provided to nonworking families.

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Key Questions

As Congress considers reauthorizing CCDF and TANF, we are providing updated[1] information on

- the choices states have made for providing child care assistance to (1) TANF families, (2) families transitioning off TANF, and (3) other low-income families;
- the extent to which states have changed policies since 2001 that could affect access to child care assistance programs and the amounts of subsidies provided to families; and
- the number of children and families who receive child care assistance from CCDF and TANF funds.

[1] This briefing is an update of our prior work, for more details see GAO, *Child Care: Recent State Policy Changes Affecting the Availability of Assistance for Low-Income Families*, GAO-03-588 (Washington: D.C.: May 5, 2003).

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Scope and Methodology

- Surveyed child care administrators in 50 states and the District of Columbia (D.C.).
  - All states and DC responded.[1]
  - Some states did not answer all survey questions.
  - States responded between March 11 and 31, 2005.
- Analyzed responses to our current survey and a similar survey completed 2 years earlier, combining these results to provide a 4-year assessment of changes between January 2001 and March 2005.[2]
- Reviewed the Department of Health and Human Services' (HHS) data on child care expenditures, number of children served through CCDF and CCDF state plans. We held discussions with HHS officials on the collection and maintenance of these data and determined they were sufficiently reliable for the purposes of this report.
- Conducted interviews with officials in five states (Kentucky, Maryland, Massachusetts, Oregon and Wyoming) that reported policy changes in our last survey to obtain additional information about the changes they have faced. These states reported that making changes could have increased and/or decreased the availability of child care assistance.
- We conducted this review from February 2005 through May 2005 in accordance with generally accepted government auditing standards.

[1] In this briefing, we will refer to D.C. as a state when we present response totals.
[2] Our last survey was conducted in March and April 2003 covering policies and practices from 2001-2003. Our updated survey covered 2003-2005.

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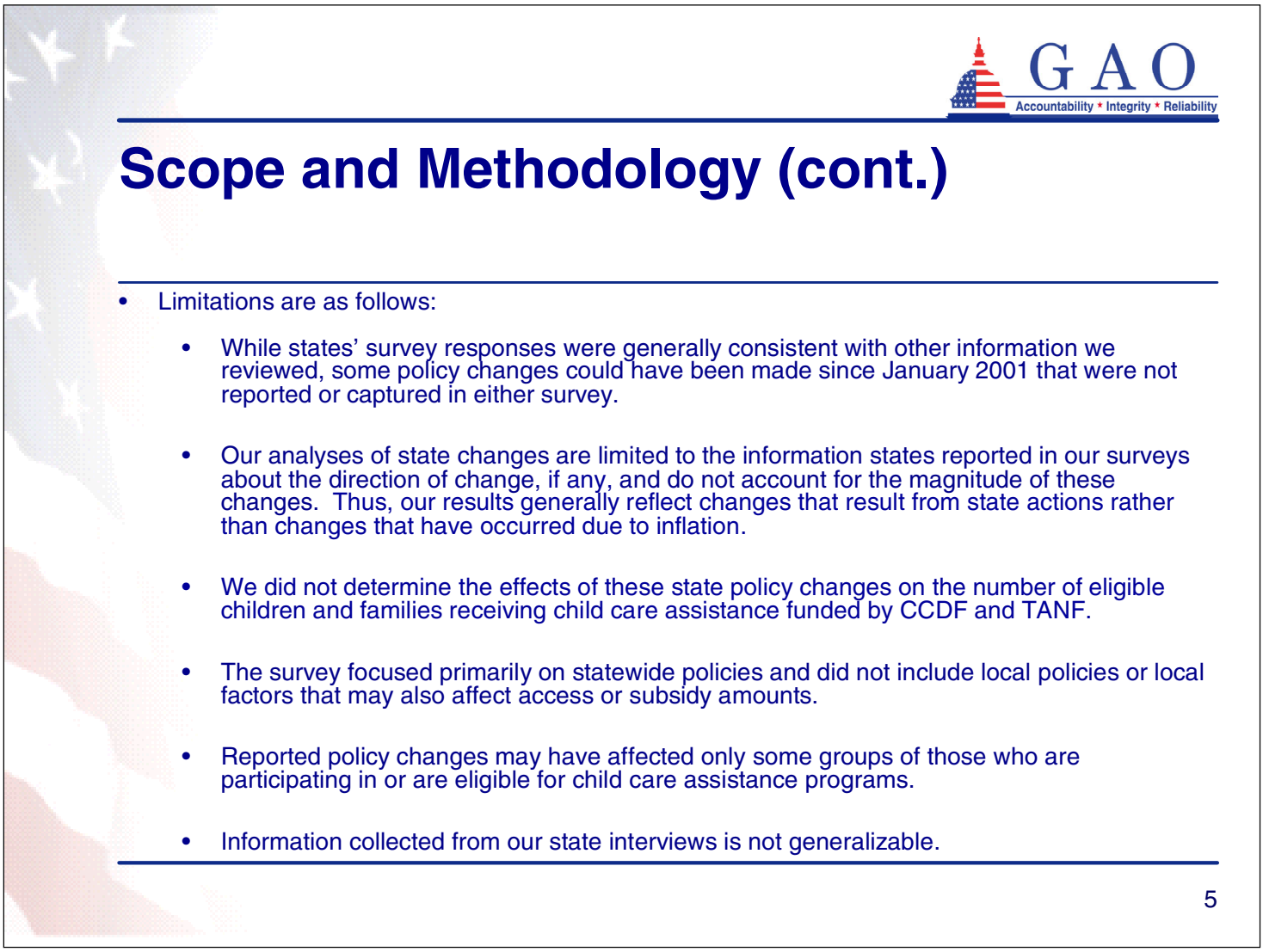
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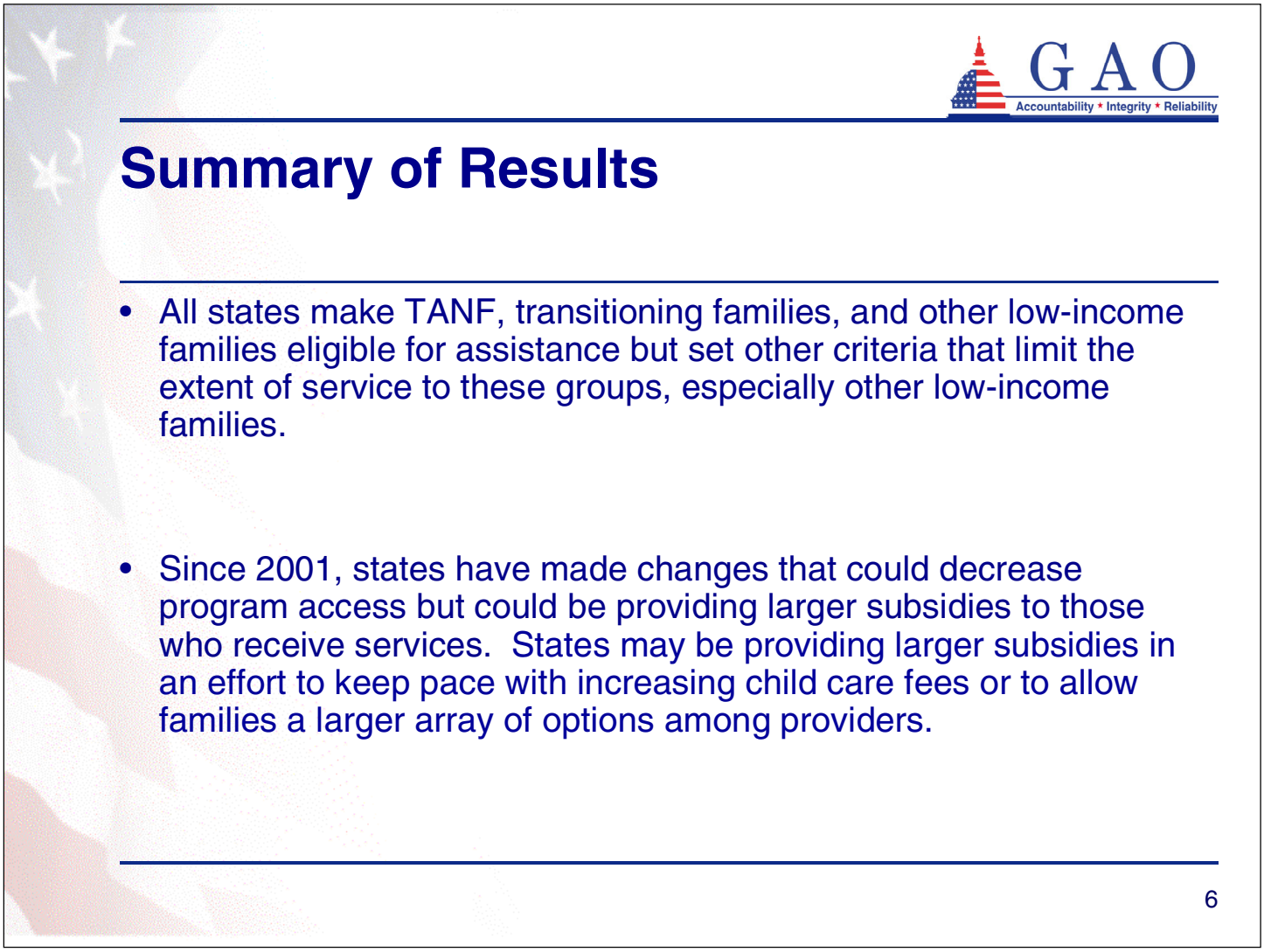
Scope and Methodology (cont.)
• Limitations are as follows:
• While states' survey responses were generally consistent with other information we reviewed, some policy changes could have been made since January 2001 that were not reported or captured in either survey.
• Our analyses of state changes are limited to the information states reported in our surveys about the direction of change, if any, and do not account for the magnitude of these changes. Thus, our results generally reflect changes that result from state actions rather than changes that have occurred due to inflation.
• We did not determine the effects of these state policy changes on the number of eligible children and families receiving child care assistance funded by CCDF and TANF.
• The survey focused primarily on statewide policies and did not include local policies or local factors that may also affect access or subsidy amounts.
• Reported policy changes may have affected only some groups of those who are participating in or are eligible for child care assistance programs.
• Information collected from our state interviews is not generalizable.
5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Summary of Results
• All states make TANF, transitioning families, and other low-income families eligible for assistance but set other criteria that limit the extent of service to these groups, especially other low-income families.
• Since 2001, states have made changes that could decrease program access but could be providing larger subsidies to those who receive services. States may be providing larger subsidies in an effort to keep pace with increasing child care fees or to allow families a larger array of options among providers.
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Summary of Results (cont.)

- HHS reported that the number of children and families provided with child care assistance under CCDF (including TANF dollars transferred to CCDF) has remained relatively constant since 2001, but little is known about those served with TANF-direct funds. HHS does not collect data on working families who receive child care assistance directly funded by TANF, although about 80% of federal TANF dollars directly spent on child care in FY 2003 were directed to these families.

- Congress may wish to require that, for child care subsidies directly funded by TANF, ACF find cost-effective ways to collect data on the numbers of children and families receiving these subsidies and the types of care they obtain, without regard to whether the subsidies are defined as “assistance” under TANF regulations.

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Background

CCDF and TANF Are Key Federal Sources of Child Care Assistance

To support work among low-income families, the 1996 welfare reform legislation

- gives states, through CCDF, flexibility to provide child care subsidies to families earning up to 85 percent of state median income, if they are working or involved in education and training;[1]
- gives states flexibility to transfer up to 30 percent of TANF funds to CCDF or spend TANF funds directly for child care assistance; and
- encourages states to spend their own funds for child care by setting matching and maintenance-of-effort (MOE) requirements.

[1] While states are allowed to set income eligibility thresholds up to 85 percent of state median income (SMI), most states set thresholds at lower levels. In this report, we use the term "low-income" to refer to all families who are eligible for child care assistance. However, depending on the SMI, some families who are eligible could be considered moderate-income.

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Background

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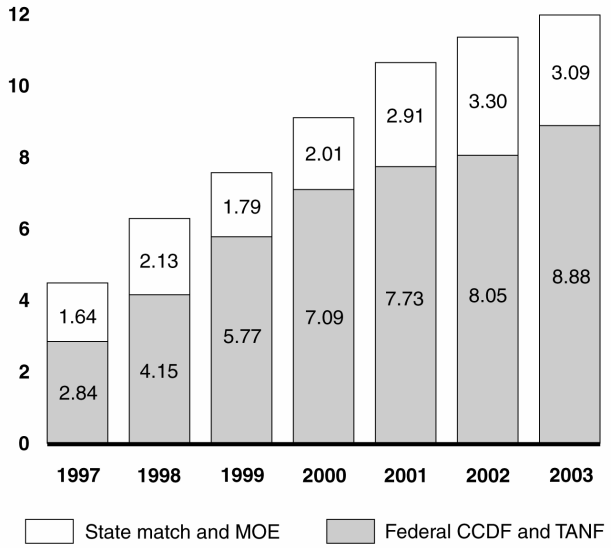
CCDF, TANF, and Related State Child Care Spending Grew from Fiscal Years 1997 through 2003

Child care expenditures from CCDF, TANF, and related state funds
(dollars in billions) adjusted for inflation



Source: GAO analysis of data from the Congressional Research Service for fiscal year 1997-1998 and HHS for fiscal year 1999-2003.

Note: Fiscal year 2003 expenditures were the most recent data available.

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Background

States Have Flexibility In Designing Child Care Assistance Programs

- States have flexibility in determining the type of care and amount of subsidies families receive through the child care assistance programs funded by CCDF and TANF transfers to CCDF.[1]
  - Under CCDF regulations, states must provide parents the option of using a voucher to purchase child care but may also contract with providers for slots in a facility.
  - States can allow families to purchase care from regulated providers and informal, unregulated providers, such as relatives and friends.
  - States generally require families to pay a portion of the provider fee, known as a co-payment. Some states exempt families who receive TANF cash assistance or are below the poverty level from making co-payments.

[1] According to HHS officials, states may make child care assistance funded directly with TANF dollars subject to CCDF requirements.

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Background

States Have Flexibility in Designing Child Care Assistance Programs (cont.)

- States have broad discretion in setting provider reimbursement rates—i.e., the maximum amount a child care provider receives based on the combination of the state subsidy and required family co-payments.
  - States' rate-setting decisions can be informed by a required survey of child care providers.
  - For state officials to understand which providers the reimbursement rates allow families to afford, the fees for care are gathered from these surveys and then ranked from highest to lowest.
  - The provider reimbursement rate often is expressed as being at a percentile of this ranking of provider fees.

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Background

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States Use Several Policies to Manage Demand for Assistance within Budget Constraints

- States commonly use several policies to provide child care assistance to low-income families within budget constraints.
  - Policies we examined that control access to the program include
    - income eligibility criteria,
    - other criteria (e.g., work and educational activity requirements),
    - prioritization of certain family groups based on their characteristics (e.g., families receiving TANF cash assistance), and
    - restrictions on the number of total or new enrollees.
  - Policies we examined that affect the amount of the subsidies provided to families include the setting of
    - required family co-payments and
    - provider reimbursement rates.
      - Since co-payments are a portion of the providers' reimbursement rates, larger co-payments can result in smaller subsidies and vice versa.

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Background

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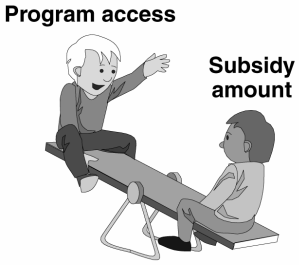
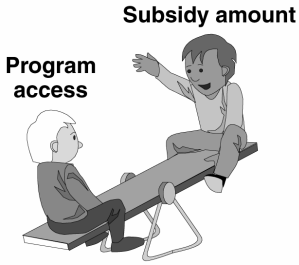
States Can Face Trade-offs in Providing Program Access or Larger Subsidies



States with limited resources to pay for child care assistance may choose to limit reimbursement rates or increase co-pays to serve more families, thereby reducing the amount of the subsidy to a family.



If states decide to increase the amount of the subsidies by increasing reimbursement rates or decreasing co-pays, they may choose to limit the number of families receiving assistance.

Source: GAO analysis; Art Explosion (images).

Note: Reimbursement rates that are too low may affect a family's access to child care providers and use of the subsidy program.

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Background

States Made Child Care Policy Choices Amidst Changing Economic and Fiscal Conditions

- During the 1990s, most states accumulated surpluses in their general fund budgets that were used to expand programs—including child care assistance—cut taxes, and maintain healthy reserves. However, when the recession ended in 2003, states were experiencing large fiscal deficits.
- In our prior report (GAO-03-588), we found that from January 2001 to March 2003
  - **26 states** made eligibility and enrollment changes that may have affected access to child care assistance programs and
  - **38 states** made co-payment and provider reimbursement rate changes that may have affected the amount of the subsidies to families.
- Since 2003, state revenues have improved somewhat but are still below long-term national averages.

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Question #1

All Groups Are Eligible for Assistance, but Other Criteria Limit Who Gets Served

- All states reported that TANF families, transitional families, and other low-income families are eligible for child care assistance.
- A majority of states reported being able to serve all eligible applicants. However, other criteria set by states, including income eligibility limits and the extent to which TANF families are given priority, limit who is served.

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Question #1

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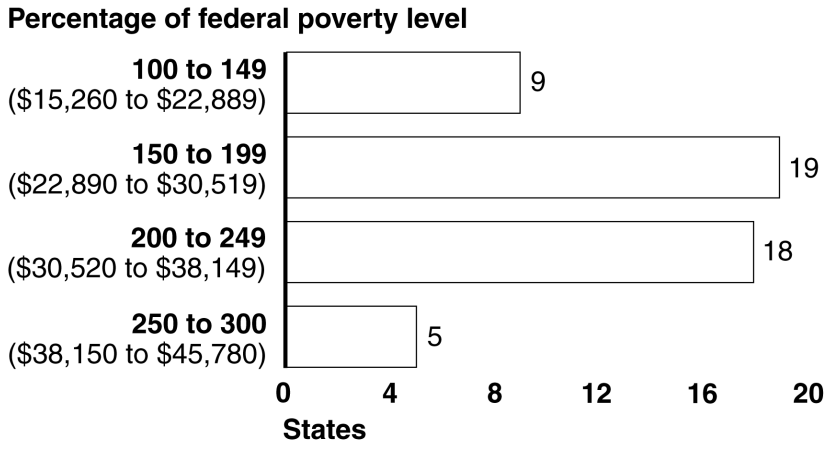
States Set Income Eligibility Limits between 100% and 300% of the Federal Poverty Level



Source: GAO analysis of HHS data.

Note: Dollar amounts are based on the federal poverty guidelines for 2003, which was $15,260 for a family of three in the 48 contiguous states. The analysis of state income eligibility limits factored in the different poverty levels for Alaska ($19,070) and Hawaii ($17,550).

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Question #1

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Majority of States Serve All Eligible Applicants Who Meet State Criteria

- 31 states reported that they serve all eligible applicants
- 20 states reported that they do not

Serves all eligible families who apply

Does not serve all eligible families who apply

Source: GAO analysis.

Note: The maximum income eligibility criteria in states that reported they serve all eligible applicants ranged from 100 percent to 251 percent of FPL and 127 percent to 273 percent of FPL in states that do not serve all.

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Question #1

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Since Our 2003 Survey, Several States Have Begun Serving All Applicants They Deem Eligible

We surveyed states in March 2003 and March 2005 and found that the number of states who serve all applicants they deem eligible increased from 25 to 31.

6 states could not serve all applicants they deem eligible in 2003 but can now:
Arizona, Arkansas, Connecticut, Kentucky, Montana, and Nevada

25 states reported being able to serve all families within their eligibility criteria in both surveys:
Alaska, Delaware, Hawaii, Idaho, Illinois, Iowa, Kansas, Louisiana, Michigan, Missouri, Nebraska, New Hampshire, New Mexico, North Dakota, Ohio, Oklahoma, Oregon, Rhode Island, South Dakota, Utah, Vermont, Washington, West Virginia, Wisconsin, and Wyoming

20 states reported not being able to serve all:
Alabama, California, Colorado, District of Columbia, Florida, Georgia, Indiana, Maine, Maryland, Massachusetts, Minnesota, Mississippi, New Jersey, New York, North Carolina, Pennsylvania, South Carolina, Tennessee, Texas, and Virginia

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Question #1

Cost Containment Measures Have Enabled Selected States to Serve All Eligible Applicants

- Officials we interviewed in three states told us that they were able to serve all applicants who met their eligibility criteria for the following reasons:
  - Kentucky has reduced its income eligibility limit and increased co-payments since 2003.
  - Oregon has relatively higher co-payments than other states—up to 23% of a family's monthly income—and provider reimbursement rates have stayed the same since 2002.
  - Wyoming has not made large increases in its provider reimbursement rates because the price of child care has not increased greatly over the past few years.[1]

[1] A state official also reported that most Wyoming families use informal care.

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Question #1

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TANF Families Have Priority in States Not Serving All Eligible Applicants, Making Other Low-Income Families More Likely to Be Placed on Waiting Lists

- **17** of the **20** states not serving all eligible applicants give TANF families the highest priority, while the remaining 3 states give all family types, including transitional and other low-income families, the same priority.
  - In 2 of the 3 states (California and Minnesota) that reported giving all family types the same priority, TANF and transitional families are provided child care assistance through a guaranteed funding stream; funding for other low-income families is capped.
  - In the other state (Colorado) that reported giving the same priority, an official told us that counties have the flexibility to determine who receives priority, and she was not aware of any TANF families not receiving child care assistance.
- **14** of the **20** states that cannot serve all eligible applicants have established waiting lists and give other low-income families the lowest priority.
  - Officials we interviewed from 2 states (Maryland and Massachusetts) told us that they had waiting lists that contained more than 13,000 low-income families each.

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Question #2

Since 2001, Many States Have Made Changes That Could Decrease Program Access, but Could Be Providing Larger Subsidies

- Thirty-five states have made eligibility and enrollment changes that affect program access since 2001; most of these states made changes that could decrease access.
- Many states have made co-payment and provider reimbursement rate changes, but more have increased provider rates than have increased co-payments, which could result in families having larger subsidies.
- States may be providing these larger subsidies in an effort to keep pace with increasing child care fees or to allow families to have a larger array of options among providers.

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Question #2: Access

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Since 2001, Many States Have Made Policy Changes That Could Affect Access

- Since 2001, 35 states have made a combination of changes to income eligibility criteria, other eligibility criteria (e.g. work requirements), or enrollment changes that could be affecting program access.
- 16 states have made no changes to these policies.

Source: GAO analysis.

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Question #2: Access

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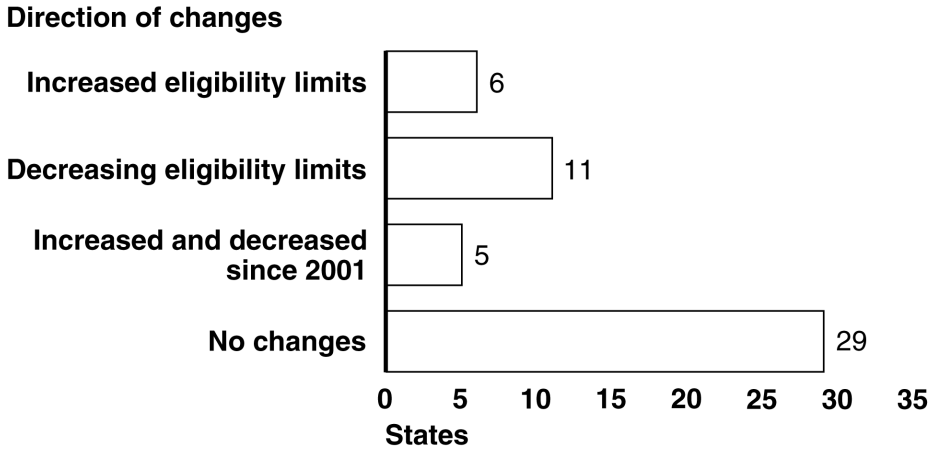
Eleven States Decreased Maximum Income Eligibility Limits



Source: GAO analysis.

Note: Among states that reported decreasing their income eligibility limits, we found that income eligibility limits reported in their fiscal year 1999-2001 CCDF state plans ranged from 275 percent to 150 percent of FPL. In addition, officials in 2 states (Massachusetts and Maryland) reported that they did not change their income eligibility limits. However, these eligibility criteria may have changed as a percent of FPL and state median income since they were set based on data from 2000.

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Question #2: Access

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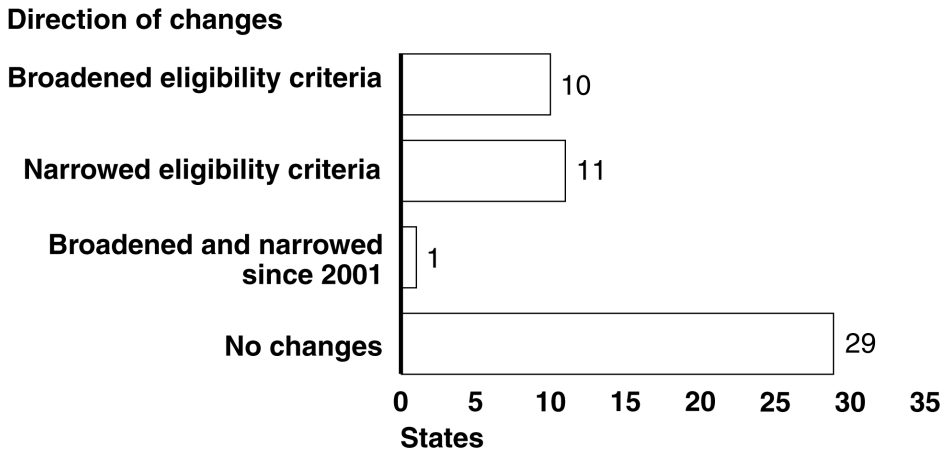
About the Same Number of States Had Narrowed Other Eligibility Criteria As Had Broadened Them



Source: GAO analysis.

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Question #2: Access

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About One-Fourth of States Have Changed Their Enrollment Policies Since 2001

- Since 2001, 12 states changed their policies for enrolling new families. Not all eligible families were affected by the enrollment stops and starts. Some states reported that when enrollment was stopped, TANF families continued to be served. Non-TANF and nontransitional, low-income families often were affected by these changes.
    - 3 states stopped enrolling new families (Alabama, Maryland, and New Jersey) and did not indicate that enrollment has started again.
    - 1 state started enrolling new families (Mississippi).
    - 8 states stopped and started enrollment (Arizona, Connecticut, Kentucky, the District of Columbia, Montana, Nevada, South Carolina, and Tennessee).
- Thirty-nine states made no changes.

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Question #2: Subsidy Amount

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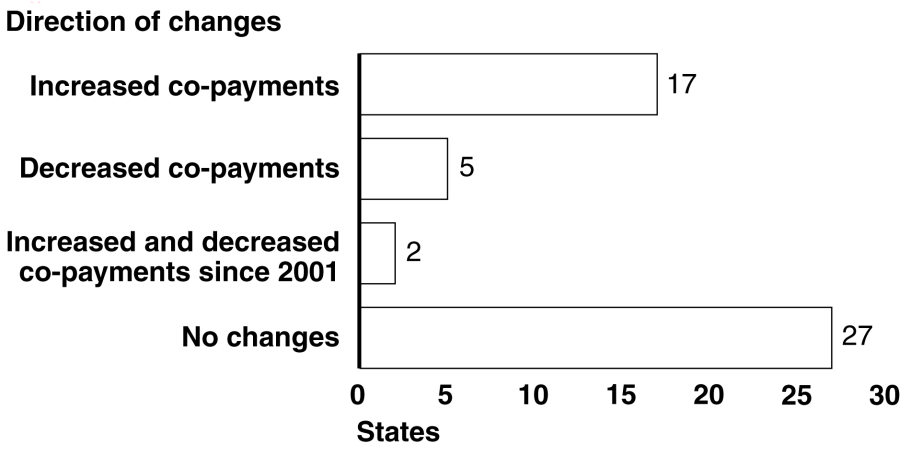
Since 2001, 17 States Increased the Co-payments Required of Families



Source: GAO analysis.

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Question #2: Subsidy Amount

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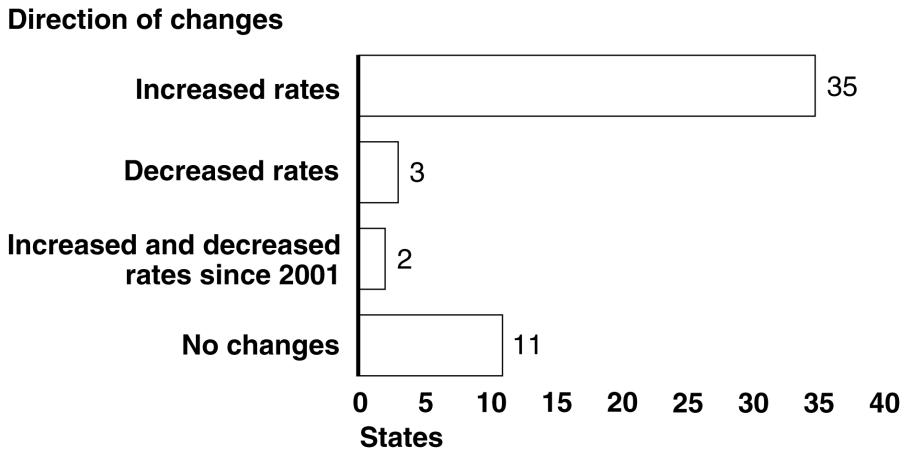
Thirty-five States Reported Increases in Provider Reimbursement Rates Since 2001



Source: GAO analysis.

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Question #2: Subsidy Amount

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Eleven States Have Maintained the Same Provider Rates Since 2001

- 11 states reported that they have kept the same provider reimbursement rates since 2001.
- Maintaining provider rates at the same level for several years could reduce the number of child care options available to families if child care prices increased as rates remained the same.
- For example, Maryland officials told us that maintaining steady provider rates has resulted in payments that allowed families to afford providers who charged at the 75th percentile of state child care prices in 2002 but the 45th percentile currently.
- Also, an Oregon official said the state's provider rates which had not changed since 2001 were at the 38th percentile of state child care prices in that year and are now at the 21st percentile.

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Question #2: Subsidy Amount

Comparison of Provider Rate and Co-payment Changes Indicates that Subsidies May Be Increasing

- Since provider reimbursement rates consist of states' subsidies and the family co-payment, rate increases without increases to family co-payments would indicate higher subsidies.
- Thirty-five states reported that they increased provider reimbursement rates since 2001, but only 17 of these states have made co-payment changes. Of these 17 states,
  - 12 increased their co-payments,
  - 4 decreased their co-payments, and
  - 1 made changes that may increase or decrease co-payments.

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Question #3

The Number of Children and Families Served with CCDF Has Remained Relatively Constant Since 2001, but Little Is Known about Those Served with TANF

- According to HHS, approximately 1,750,000 children and more than 1 million families were served through CCDF (including TANF transfers) on an average monthly basis since fiscal year 2001.
- HHS officials do not have information on working families receiving child care assistance directly through TANF, although most ($1.4 billion of $1.7 billion) of the federal TANF funds directly spent on child care is directed to these families.

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Question #3

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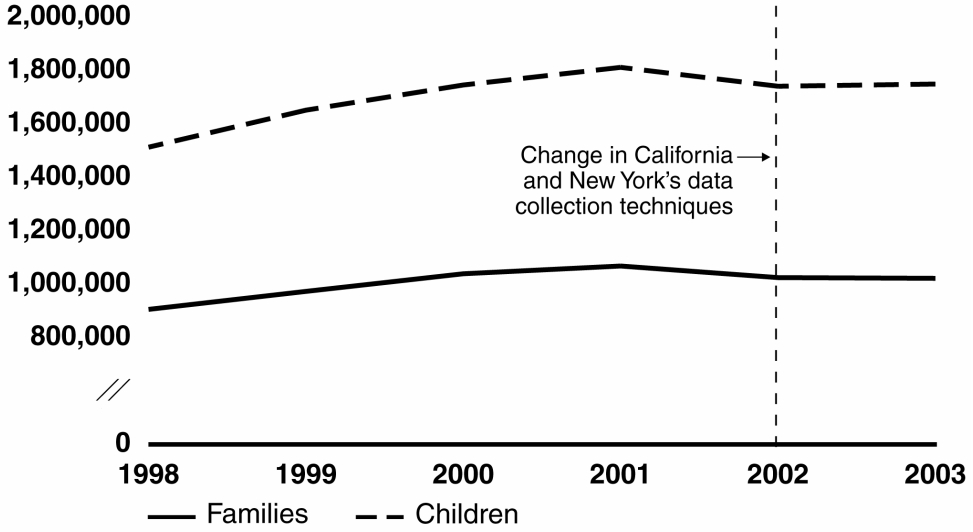
The Number of Children and Families Served By CCDF Has Remained Generally Constant Since 2001

Average monthly numbers of children and families served in fiscal years 1998-2003



Source: GAO analysis of HHS data.

Note: According to HHS, the decrease in 2002 can be largely explained by the change New York and California made in their data collection techniques in FY 2002.

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Question #3

HHS Does Not Collect Data on Working Families Receiving Child Care Assistance Directly Funded by TANF

- HHS officials reported that they do not have data on the number of working families who receive child care assistance directly funded with TANF and the type of services they receive because current TANF regulations do not require states to report this information.

- HHS reported that, in fiscal year 2003, approximately $1.4 billion in federal TANF funds were spent directly on child care to working families. This represents about 80% of the $1.7 billion in federal TANF-direct dollars spent on child care.
  - 27 states reported using TANF-direct funds in combination with CCDF to fund child care assistance programs.

  - 7 states reported using TANF-direct to fund other child care assistance programs that are like CCDF, in that they provide child care vouchers and slots.

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Conclusions

- Many states have made child care policy changes that may affect program access or the amount of subsidies available to low-income families. However, many states also have not made changes.
- Across three policy areas that affect program access, states generally appear to be reducing or maintaining the access that many low-income families had prior to 2001. On the other hand, recent changes to co-payment and provider rates may result in larger subsidies while potentially serving fewer families.
- Our analyses of these changes and the effect they have had on access and the amount of subsidies were limited by the lack of data on the number of children and families served and the services provided with TANF-direct dollars.
- Additional information on this group would be valuable to policy makers and program managers in ensuring the efficiency, effectiveness, and accountability of federal supports for child care.

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Matter for Congressional Consideration

Congress may wish to require that, for child care subsidies directly funded by TANF, ACF find cost-effective ways to collect data on the numbers of children and families receiving these subsidies and the types of care they obtain, without regard to whether the subsidies are defined as “assistance” under TANF regulations.

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Related GAO Products

Means-Tested Programs: Information on Program Access Can Be an Important Tool. GAO-05-221. Washington: D.C.: March 11, 2005.

Child Care: Recent State Policy Changes Affecting the Availability of Assistance for Low-Income Families. GAO-03-588. Washington, D.C.: May 5, 2003.

Child Care: States Exercise Flexibility in Setting Reimbursement Rates and Providing Access for Low-Income Children. GAO-02-894. Washington, D.C.: September 18, 2002.

Welfare Reform: States Provide TANF-Funded Work Support Services to Many Low-Income Families Who Do Not Receive Cash Assistance. GAO-02-615T. Washington, D.C.: April 10, 2002.

Child Care: States Increased Spending on Low-Income Families. GAO-01-293. Washington, D.C.: February 2, 2001.

Welfare Reform: States' Efforts to Expand Child Care Programs. GAO/HEHS-98-27. Washington, D.C.: January 13, 1998.

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Appendix II: Comments from the Department of Health and Human Services

DEPARTMENT OF HEALTH & HUMAN SERVICES

ADMINISTRATION FOR CHILDREN AND FAMILIES
Office of the Assistant Secretary, Suite 600
370 L'Enfant Promenade, S.W.
Washington, D.C. 20447

JUN 16 2005

Ms. Marnie S. Shaul
Director, Education, Workforce,
and Income Security Issues
U. S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Ms. Shaul:

The Administration for Children and Families appreciates the opportunity to provide comments on recommendations in the U.S. General Accountability Office's draft report entitled, "Child Care: Additional Information Is Needed on Working Families Receiving Subsidies" (GAO-05-667).

If you have any questions regarding our comments, please contact Shannon Christian, Associate Commissioner, Child Care Bureau, at (202) 690-6782.

Sincerely,

Wade F. Horn, Ph.D.
Assistant Secretary
for Children and Families

Attachment

COMMENTS OF THE ADMINISTRATION FOR CHILDREN AND FAMILIES ON THE DRAFT REPORT ENTITLED, "CHILD CARE: ADDITIONAL INFORMATION IS NEEDED ON WORKING FAMILIES RECEIVING SUBSIDIES" (GAO-05-667)

The Administration for Children and Families (ACF) appreciates the opportunity to comment on the Government Accountability Office's (GAO) draft report (slides).

GAO Recommendations

We are recommending that, for child care assistance directly funded by TANF (the Temporary Assistance for Needy Families program), the Assistant Secretary for Children and Families find cost-effective ways to collect data on the numbers of children and families receiving assistance and the types of care they obtain and make efforts to ensure the quality of these data.

ACF Comments

ACF does not agree with this recommendation. The current policy was developed during a formal rulemaking process and after weighing the advantages and disadvantages of various options based on extensive public comment. As we explained during the entrance and exit conferences, under Section 411 of the Social Security Act, the collection of disaggregated case-record information is limited to "families receiving assistance" under the TANF program.

In addition to authorizing data collection, the terms "assistance" or "families receiving assistance" are used in many places in the statute. Critically, most of the prohibitions and requirements of Section 408 of the Social Security Act apply to the provision of "assistance" including the five-year lifetime limit. The numerator and denominator of the work participation requirements of Section 407 are also limited to "families receiving assistance." There are also penalties attached to a state's failure to comply with or meet these requirements. Therefore, how the term is defined affects not only data collection, state behavior and penalties, but also, most critically, the requirements imposed on the lives of families.

Initially, ACF wanted the child care information recommended by GAO, so in our proposed rule of November 20, 1997 (Federal Register 62, No. 224, 62124 et. seq.), we clarified that child care, work subsidies, and allowances, which cover living expenses for individuals in education or training, were included in the definition of "assistance." A wide range of commenters—including states, advocates and union groups—wanted changes to the proposed rule. A significant number of them indicated that this was one of the most important issues in the Notice of Proposed Rulemaking (NPRM). All of these commenters wanted to narrow the scope of benefits included in the definition and a significant number sought to exclude child care, transportation, and other work supports from the definition of "assistance." Recognizing that we would lose some valuable child care information, we found substantial merit in the arguments of commenters and adopted their recommendation. Without new legislation, we do not intend to change this position.

With respect to proposed legislation reauthorizing TANF and child care, we do agree with the changes to the term "assistance" and child care data collection reflected in Senate bill S. 667, the

Personal Responsibility and Individual Development for Everyone (PRIDE) Act, passed by the Senate Finance Committee. Under the bill, the current definition of "assistance" is also modified to exclude child care and transportation aid for families without a worker (making all child care aid "non-assistance"). The bill also extends the Child Care Development Block Grant case-level reporting to TANF-funded child care.

Slide #1: We recommend that the term "assistance" not be used because it is a term with special meaning in TANF and is not used interchangeably with the term "subsidy." If GAO decides to use the term "assistance" anyway, it will require more explanation than the footnote (in Slide #2) currently provides.

Slide #2, footnote and throughout the slides: To avoid any unnecessary confusion, GAO should consider restricting its use to the term "subsidies" when referring to child care aid. Under TANF, child care can be "assistance" or "non-assistance." For example, on Slide #7 and Slide #30, GAO writes, "HHS does not collect data [or have information] on working families who receive child care assistance directly funded by TANF…" What GAO refers to as "assistance," however, is considered "non-assistance" under the TANF final rules.

Slide #5,

- Second bullet: We recommend the following wording, with our edits in bold: "Thus, our results generally reflect changes that result **from** state actions, rather than changes **that** have occurred due to inflation."

- Third bullet: We recommend the following rewording, edits in bold: "We did not determine the effect **of these state policy changes** on the number of **eligible** children and families **receiving** child care assistance funded by the Child Care Development Fund (CCDF) and TANF."

Slide #7,

- First bullet: We recommend rephrasing the first sentence to make clear that the CCDF-funded children (including those served with dollars transferred to CCDF from TANF) are mutually exclusive of the TANF-funded children with regard to the number of children and families served (data collected).

- Also, we recommend adding, "**the number of**" after "HHS does not collect data on." In addition, we recommend adding a footnote explaining that HHS does not have the regulatory authority to collect caseload data on children in working families receiving child care subsidies funded directly through TANF.

- GAO writes that 80 percent of "federal" TANF dollars spent on child care were directed at working families. It is unclear why GAO would limit its analysis to federal dollars, because the more relevant count of how many families and children are assisted is the total funding. For TANF caseload counts, for example, caseloads are based on combined federal and state funds.

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Slide #8, first bullet: We recommend the following rewording: "…**families earning up to 85 percent of the state median income**..."

Slide #13: While the graphics are useful in demonstrating the trade-offs between program access and subsidy amount, it would be helpful to provide a footnote that says, **"Reimbursement rates that are too low may affect family access to care and their ability to use the subsidy program."**

Slide #15, second bullet: The second sentence would be clearer if it read, **"However, other criteria set by these states, including income eligibility limits and the extent to which TANF families are given priority, may limit who is eligible for services."**

Slide #33, second bullet: This refers to "poor" families. Is this what was intended, or should the reference be broader—to low-income families, e.g., to include families with incomes just above poverty as well?

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