Statement of Helen Blank, Director, Child Care and Development, Children's Defense Fund

I am Helen Blank, Director of Child Care and Development at the Children's Defense Fund. The Children's Defense Fund welcomes the opportunity to testify today on child care. CDF is a privately funded public charity dedicated to providing a strong and effective voice for America's children, especially poor and minority children.

Child care is an important issue affecting working parents and their children. Everyday, American parents go to work to support their families and must trust their children to the care of others. An estimated 13 million children younger than age six are regularly in child care and millions of school-age children are in after-school activities while their parents work. Every working parent wants to be sure that his or her children are nurtured and safe.

Quality child care is also critical to helping children enter school ready to succeed. Child care matters not just for parents but also for their children. The nation cannot proceed successfully on its track towards improving educational outcomes unless it focuses on the developmental needs of young children. Research is clear about the importance of the first three years of life to brain development. The process of learning to read begins well before a child enters elementary school. Early childhood experiences that include exposure to language-rich environments are building blocks for school success. A new report, "Preventing Reading Difficulties in Young Children," released by the National Research Council in 1998, also notes that the majority of reading problems faced by today's adolescents and adults could be avoided or resolved in the early years of childhood. Children must arrive in the first grade with a strong basis in language and cognitive skills and be motivated to learn in order to benefit from classroom instruction.

While every working parent wants the best environment and outcome for his or her children, child care costs can be a staggering burden for many low-income working parents; costs consuming over a quarter of their income.

High Cost of Child Care

The average annual cost of care for a four-year-old in an urban child care center exceeds the average annual cost of public college tuition in almost every state. But one out of three families with young children earn less than $25,000. One out of three children of working mothers either is poor despite the fact that their mothers work, or would be poor if their mothers did not work. Their parents constantly must choose between paying the rent or mortgage, buying food, and being able to afford the quality care their children need.

Unfortunately, the cost problem cannot be remedied by asking child care providers to lower their price. Most providers already operate on exceptionally tight budgets. The largest portion of a family child care home or a child care center budget is dedicated to staff salaries, which are already unacceptably low. The lowest paid level teachers earn on average $13,125 a year while teaching assistants earn an average of $10,500 annually. As a result, more than one in four child care teachers and 39 percent of assistants left their jobs over the course of a year. Child care programs across the country report that they have had great difficulty replacing staff and finding qualified staff.

Providers who want to stay in the field do it at enormous sacrifice:

> Lori, a 29-year-old mother and child care provider from Philadelphia writes of her reasons for leaving the child care field: "I will soon be leaving my job as a child care provider. I enjoy the center I work with, the children, and the intelligent, caring people I work with. I am leaving because I am making $5.15 an hour to do a job worth at least $10.00 an hour. Of course you can't put a worthy price on caring for our nation's greatest resource, its children, but at least a fair working wage would be justice. I fear for the next generation. They deserve quality care, security, and to have their young minds stimulated. But that's just not going to happen at this rate. You can't expect hard working de-

cent women to keep plugging away with endless energy, when they are insulted every week at the sight of their paychecks."

FAMILIES FACE LOCKED DOORS

Our existing child care investments fall far short of meeting the needs of parents or their children, despite increases in the Child Care and Development Block Grant (CCDBG) included in the Personal Responsibility Act. Inadequate federal and state funding prevents millions of children from low-income working families from being able to get the help they need. These families face a series of locked doors. Many hard working low-income families are not even eligible for help due to low state eligibility cutoffs for child care assistance. Many who are eligible cannot get it -either because they are put on waiting lists or are turned away due to inadequate funds or because no effort has been made to let them know they are eligible to get the help they need to succeed. Those fortunate enough to actually qualify for child care assistance face additional locked doors. In some cases, the amount the state will pay for care is so low that parents cannot find quality providers who can afford to serve their children, and in other cases parents have to pay so much in parent fees or copayments that child care expenses still are a staggering financial burden.

New federal child care funds have enabled most states, at least temporarily, to meet the increased child care needs of families on welfare generated by the initial stages of the implementation of the new welfare law. They have also allowed a number of states to help more nonwelfare, low-income working parents with their child care expenses. In addition, they have given some states the opportunity to raise the amount they reimburse providers so that more providers are willing to accept children receiving CCDBG subsidies.

LOW-INCOME WORKING FAMILIES NEED A BOOST

Yet, enormous gaps still remain in our efforts to help low-income parents work and take care of their children. Much more needs to be done to ensure that families on welfare have the child care assistance they need to get and keep jobs, without sacrificing low-income working families who are struggling to keep their jobs and stay off welfare.

If our country is serious about promoting work, than it must address the real needs of low-income working families who are often one unreliable child care arrangement away from welfare. Low-income families live precariously, balancing competing basic needs with very limited resources. Any mishap can cause these families to lose their fragile balance. For example, unstable child care arrangements that fall through can easily catapult into a lost job.

The number of poor children in working families has escalated since 1989 from 7.5 million to almost 9.6 million in 1998. As welfare reform proceeds, this trend can be expected to continue. Families leaving welfare will likely remain in low-wage jobs and need child care assistance beyond a limited transitional period of one or two years. Wage growth is very slow. For example, median wages for families who exited welfare grew by only 9 cents an hour in their first five years according to a study by Meyer and Concian concerning women's work efforts in the five years after leaving welfare.

Additional investments in child care are critical if the country is to promote both work and family—not only by helping welfare parents leave welfare but also by ensuring that low-income, working parents have the child care assistance they need to stay employed and to help their children thrive. Some states such as Rhode Island, Illinois, and Wisconsin understand that welfare reform will have a better chance of succeeding if child care assistance is readily available to both families on welfare and low-income working families. These states have focused significant new child care resources on working families. However, too many other states continue to focus a large portion of their new child care funds on TANF families, neglecting the needs of low-income working families.

State child care subsidy programs are so underfunded that they cut off eligibility at family income levels far below what is allowed by federal law and what is needed by families—with the result that families earning as little as $20,000 a year for a family of three are not eligible for help in many states. The CCDBG allows states to help families with incomes up to 85 percent of state median income ("state median income"—or SMI—is the income level in each state below which half of all families fall). However, across the country all but five states disqualify families for help before they reach this level. In some states, the income eligibility cutoffs are so low that only the poorest of the working poor can qualify. West Virginia, for example, cuts off income eligibility at $15,000 per year for a family of three (barely above the

1997 federal poverty level of $13,330), whereas South Carolina cuts off eligibility at $16,700. As of January 1998, three out of five states would not have provided any help to a family of three earning $25,000 (slightly over 185 percent of federal poverty) who applied for child care assistance.

Even those low-income working families who do meet state income guidelines frequently cannot get help they need. Low state income cutoffs keep demand for state child care subsidy help artificially low. Yet even with low income cutoffs, many states face demand they simply cannot meet. These states are turning away eligible low-income working families or putting them on waiting lists for help.

- Texas has 36,000 children on a waiting list
- California has over 200,000 children on a waiting list
- Massachusetts has 17,200 children on a waiting list
- Pennsylvania has 12,600 children on a waiting list
- Alabama has close to 19,000 children on a waiting list and
- Georgia has 44,500 children on a waiting list

In many counties in California, the wait for child care assistance is over two years for low-income working families. These waiting list numbers often underrepresent the real need because many families do not put themselves on the list because they feel that it is futile. In addition, many states do not keep lists; they simply turn families away. Parents without help in paying for child care face many hardships. A mother from Pensacola, Florida says:

> I have two children and their child care costs are $120 a week. I work a full-time job, but after I pay taxes and insurance I bring home $230 a week. That leaves me $110 a week to take care of my children. It is almost impossible for me to survive. I make too much money to receive food stamps so my children have to go hungry for us to get by. If I had some help with child care, I would have more money to buy food for my children. I have worked at my job for seven and a half years, but I almost had to go back to part-time because I could not afford care. If I went part-time, my pay would be reduced and I would lose all my benefits.

Studies of low-income working families on waiting lists for child care assistance clearly paint a picture of the difficulties these families face without the child care help they need. The Day Care Services Association of North Carolina surveyed families on the state's waiting list for child care help and found that 78 percent experienced financial problems. For those families fortunate enough to eventually receive help, it made a significant difference. Eighty-three percent of respondents who did receive a child care subsidy said that the subsidy improved either the quality or reliability of their children's care.

A similar study of parents waiting for child care assistance in Santa Clara County by the Policy Analysis for California Education found that a large number of families on the waiting list are living at or below the poverty level but paying high amounts for child care. Over one-third of parents interviewed earn less than $10,000 annually. Yet, employed parents were on average spending about $300 a month for care. While waiting for help, parents were forced to make significant adjustments in their lives. About 40 percent reported that they gave up looking for work because they could not find affordable care.

Most families never get to the waiting list or to the point of applying for child care help because they do not even know child care assistance is available. Few states have made serious efforts to reach out to these families. In 1998, 43 states told the Children's Defense Fund that if all eligible families sought services, the states were not confident they would have the resources to serve these families. Only eight states reported that they would be able to serve all eligible families if they knew they were eligible, and most of these eight states had severely restricted the number of eligible families by setting very low-income cutoffs. Many potentially eligible families never apply for help because states do not publicize the availability of child care assistance as they know they cannot meet even the existing demand.

- Texas estimated that it is only serving 4 to 5 percent of all families who are eligible under the income guidelines, which restrict eligibility to families earning only about $20,000 a year or less for a family of three.
- Vermont is currently serving 7,000 children. Their state child care administrator estimates that there are about a third to a half again as many eligible families who need child care who are not being served.
- Florida, which recently transferred more than $100 million in TANF to the CCDBG, still has an estimated 11,000 children from birth to age 5 eligible for child care assistance as well as 95,000 school-age children in working families with incomes below 150 percent of the federal poverty level who need child care help.

• In Iowa, only about 11,000 children have families who have applied for child care assistance but 90,000 children are eligible for help.

LOW RATES AND HIGH FEES LIMIT PARENT CHOICE

State child care resources are stretched so thin that even parents fortunate enough to get help do not get the relief they need. Low subsidy rates for child care may mean that good quality, affordable child care that helps children learn is beyond parents' reach even with a child care subsidy. In many states, child care subsidy rates are so low that many providers are unwilling to accept children who have subsidies or limit the number of children with subsidies they are willing to accept. Some providers may take subsidies, but only if parents pay them the difference between what the subsidy rate will cover and the provider's actual rate (in addition to the copayment the parent is already required to pay). The effect of these practices is that parents often have little choice of caregivers. They are driven to choose the lowest-cost, often lower-quality care, since that is what the state subsidy rate will pay for. Or parents have to pay providers the difference, spending extra money on child care that their very eligibility for a child care subsidy indicates they cannot afford. A February 1998 report by the Inspector General of the Department of Health and Human Services emphasized that both low provider payment rates and high copayments restrict parents' access to care and limit their ability to choose the child care they want for their children.

Providers that serve a high concentration of children with subsidies may be unable to continue if rates fall below the real cost of providing care. In Des Moines, Iowa, for example, three inner-city child care centers closed in 1997 because they could not make ends meet under the state's reimbursement rates. Keeping rates low and failing to update them directly affects what kind of care children get and whether their parents can even find care in their neighborhoods.

In 1998, only 18 states set rates that were based on a recent survey of local market costs and that would enable parents to afford the rates charged by three-quarters of local providers.

• Connecticut and Maine use market surveys that are five to seven years old and have not increased their rates to reflect that their information is outdated.

• While Arizona raised rates in 1998, it was only from the 75th percentile of the 1989 market rate to the 50th percentile of the 1996 market rate—still far below the level needed to guarantee parents adequate choice, as they won't be able to afford half the providers in their community.

Child care subsidy programs also close doors to families when they ask parents to pay such high parent fees that child care remains unaffordable. In a number of states, low-income working families who do manage to get child care help are facing such high copayment levels that their child care costs remain prohibitive. For example, although experts recommend that low-income families above poverty pay no more than 10 percent of their income as parent fees, some states require three-person families at $20,000 a year (150 percent of poverty) to pay child care fees as high as 20 to 30 percent of their income:

• In South Dakota, the parent fee would be $500 per month, or 30 percent of the family's income of $1670 per month.

• In Oregon, a family at 150 percent of poverty would be required to pay $365 in parent fees—22 percent of family income.

• Nevada charges such parents about 18 percent of income in parent fees; Utah requires parents to pay 13 percent, Iowa, Maryland, and North Dakota require parents to pay 12 percent.

PROGRAM ADMINISTRATION CAN BE A BARRIER TO GETTING CHILD CARE HELP

Fear of being overwhelmed by requests for child care help also encourages administrators to set up administrative barriers that deter both TANF and low-income working families from taking advantage of child care subsidies. For example:

• A study in Washington State found that 23 percent of former TANF families did not use a child care subsidy because they feared using up their five-year limit on assistance.

• In Utah, families are told they must seek free care before being offered a subsidy.

• In Maryland, child care eligibility workers were sent a state memo telling them to encourage use of cheaper, informal care. This policy was rescinded, but workers were never told.

• In Milwaukee, Wisconsin up to 60 percent of child care placements begun by one agency were canceled by a second agency due to bureaucratic snafus.

Caseworkers may give families confusing information. A study done of the application process by Child Care Inc in New York reports that caseworkers receive limited training on providing child care assistance, and the information they are given as guidelines are often incomplete and outdated. Caseworkers are usually a parent's first, and in many cases, only source for obtaining information about child care. Because parents receive limited information on their child care choices, they believe that they have limited options and may be forced to use informal care. Caseworkers, anxious to move parents into a work activity, advise them to continue to use the person who is caring for children at the time of the appointment as an ongoing care giver, not taking into consideration that this may be a temporary situation. The parent may prefer a different arrangement in the long-term or the provider may be unable to offer a permanent arrangement.

TANF Funds Cannot Fill the Child Care Gap

Many states are moving forward to fill their child care and early education gaps. They are taking advantage of TANF funds and transferring substantial amounts to CCDBG. Some of this activity is not yet reported in FY 1998 data from the Department of Health and Human Services concerning unspent funds. For example, a recent CDF survey found that a number of states transferred or plan to transfer significant funds from TANF to CCDBG, including $66 million in North Carolina, $56 million in Indiana, $38.2 million in Arizona, and $117 million in Florida. Yet, these states and others continue to face large unmet child care needs. For example, across Florida, families with incomes of $32,900 (200 percent of poverty for a family of four) who do not receive child care help must pay about 28 percent of their gross income for two children in care. To serve children birth to age 5 from working families earning up to 200 percent of poverty would require an additional $77 million and providing child care to the school-age population would require an additional $216 million according to the Florida Department of Children and Families.

Indiana continues to limit eligibility to families earning 150 percent of the poverty level or less while Arizona cuts off assistance at 165 percent of the poverty level. States such as California, Texas, and Maine that have obligated all of their TANF funds, also show little evidence of being able to meet the child care needs of working families. Both Texas and California have long waiting lists for child care assistance. While Maine uses a 1993 market rate survey to determine their payment rates to providers. States cannot fill all their child care gaps with TANF dollars. They also have other important uses for these funds. They may justifiably be concerned about the impact that an economic downturn will have on their TANF caseloads and be anxious to conserve funds to preserve a safety net for families. Despite declining caseloads, states are also facing a challenge as they try to help the families who remain on welfare, since it is these families who face the most significant barriers to work, such as substance abuse, domestic violence, disability, and mental health problems, to employment and self-sufficiency. Research also indicates that children in families having the most trouble entering the workforce also have more acute physical or emotional problems and need more enriched child care settings.

If we are to increase child care options that meet the needs of parents and children, we cannot continue to depend on a patchwork approach. Transferring funds from one block grant designed to help needy families to another with similar goals will not assure the stable base needed to ensure that parents have the child care choices they need to work and their children need to enter school ready to succeed.

Improved Tax Credits Must Be Paired With Expanded CCDBG Funds

How do we provide more relief to these millions of families? Expanding the Dependent Care Tax Credit would definitely provide more help to some configuration of lower-middle and middle-income families who struggle to pay for child care out of very tight budgets. However, there are large groups of low and lower-middle income families that an expanded DCTC, unless it is made refundable, simply will not benefit. For these families, it is essential that more help be made available through the Child Care and Development Block Grant. For example, a single head of household with two children earning $25,252 (185 percent of the federal poverty level) would receive no actual tax benefit from the President's proposal to expand the DCTC, after applying the per child tax credit and the Earned Income Tax Credit. In fact, families of this configuration (single head of household, two children) would realize a net tax benefit under this proposed DCTC expansion only at incomes of $27,000 and higher. Similarly, a married couple family with two children at 185 percent of the poverty level -earning just over $30,000 a year—would receive only a very small net benefit, about $55, from the proposed changes; larger net benefits would be realized only at incomes above that level. A single head of household with two children earning $27,000 (approximately 200 percent of the poverty level) would receive a net gain of only about $89 from the proposal, with larger gains at incomes above that level.

INCREASE FUNDS FOR THE CHILD CARE AND DEVELOPMENT BLOCK GRANT

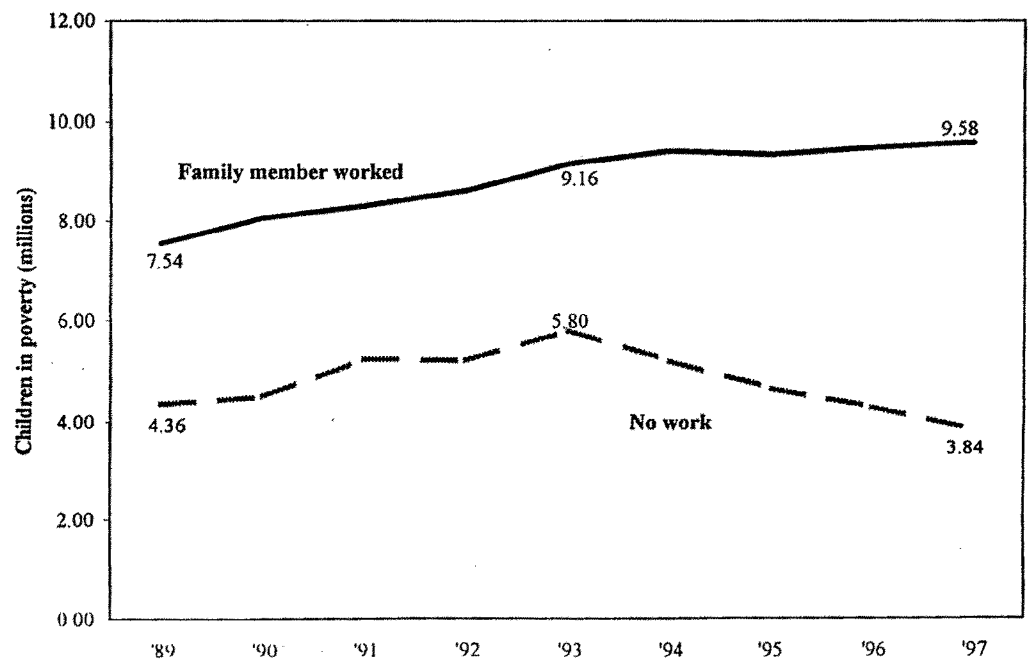
Without child care assistance, it is difficult to comprehend how low-income families manage. The Department of Labor's report on Consumer Expenditures in 1997 found that a family with one parent and at least one child under age 18 spends $21,303 on housing, food, apparel, transportation, and personal insurance and pensions alone. On average, they make $24,185 a year according to the same survey, leaving $2,882 for everything else they must buy, including health insurance and child care. Although for technical reasons these numbers should be taken as a rough guide rather than as precise figures, they do make it easier to see why so many American families are going into debt. A mother from Manchester, Connecticut earning approximately $24,000 a year talks about how difficult it is to work, raise her family, and ensure that her children are in a safe and supportive environment:

> I would like to see affordable, quality child care. I have an infant and a 3-year-old, and currently pay over $1,000/month in child care. This is 50 percent of my salary. There must be a better way for us to work and still feel safe about where our children are during the day without paying out half of our salary every month.

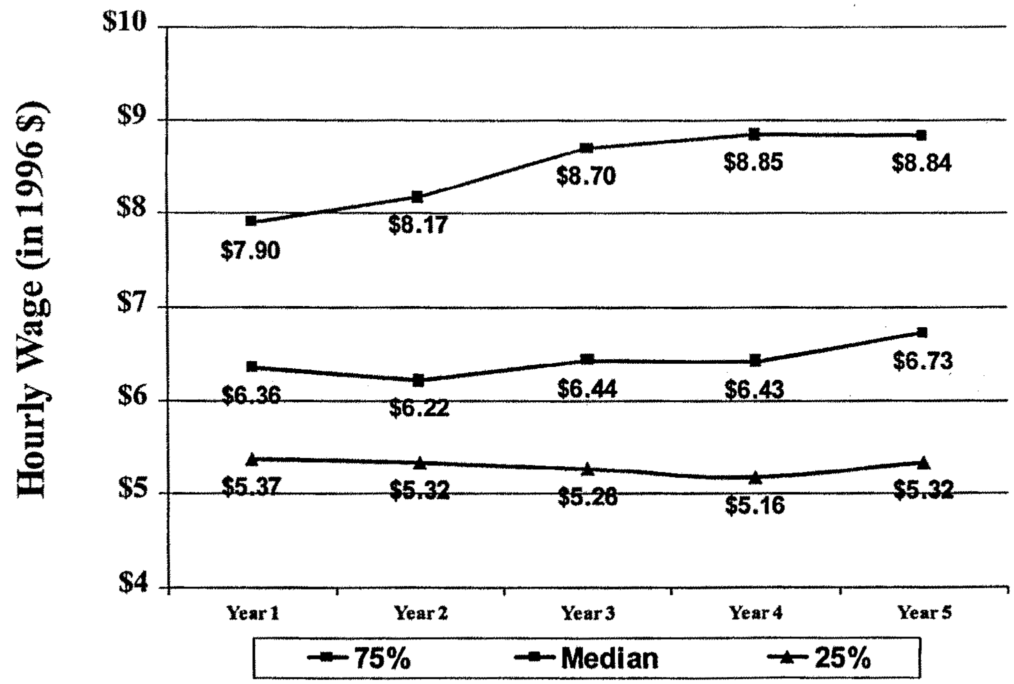
In 1996, this committee took important steps to help families move off TANF. It is equally important in 1999 to take further steps forward to ensure that low-income working families have the means to access the stable child care arrangements they need to continue working and moving towards independence. Increasing the Child Care and Development Block Grant by $7.5 billion over five years is the next step to take. This would not only provide essential help to these families, but would also provide new resources to strengthen the quality of child care. Moving on to improve the Dependent Care Tax Credit would give lower-middle and middle-income families the resources they need to expand their child care choices. However, it is essential that any DCTC expansion be paired with a substantial increase in the Child Care and Development Block Grant to help ensure the success of welfare reform, not just for this generation of workers but also for the next.

More poor children in working families

Number of children in poverty, by whether their family members had any work during the year, 1989-1997



Hourly Wages in First 5 Years after Welfare Exit



Source: Meyer and Cancian, *Work After Welfare: Women's Work Effort, Occupation, and Economic Well-Being* (July 1998)