



A Primer on Connecticut's Use of Federal Child Care and Development Block Grant Funds for the State Child Care Subsidy Program

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Care4Kids, Connecticut's Child Care Subsidy Program

Care4Kids, Connecticut's child care subsidy program administered by the Department of Social Services (DSS), was established to provide monetary support for moderate- and low-income families who need care for their infants, toddlers, preschoolers and school-age children. This program is funded, in part, through the federal Child Care and Development Fund (CCDF). However, CCDF block grant funding has been frozen since FFY 2002, forcing spending cuts, when adjusted for inflation. State funding for the program also has declined over this period. The impact of this freeze and these cuts has been significant for Connecticut families. In 2004, 12,905 (46%) fewer Connecticut children received a child care subsidy than in 2002 (from 28,174 to 15,269).¹ Despite continued demand, \$28 million (31%) of total funds appropriated to the Care4Kids program were unavailable to needy families due to state-defined eligibility restrictions and a reportedly difficult application process. These funds lapsed back into the General Fund, unused despite demonstrated need for child care subsidies.

A Brief History of Federal Funding for the Child Care Subsidy Program

The 1996 welfare reform law, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PROWRA), changed the way the federal government provides funding to states for child care:

- It created the Child Care and Development Fund (CCDF) by combining child care funds under the old Aid to Families with Dependent Children (AFDC)² program with the annually-appropriated Child Care and Development Block Grant (CCDBG);
- It eliminated the nation's guarantee of cash assistance to families with very low incomes through AFDC and replaced it with a new limited program funded through a block grant called the Temporary Assistance for Needy Families (TANF) block grant, which funds Connecticut's Temporary Family Assistance (TFA) program; and
- It increased state discretion in designing and operating child care subsidy programs.

¹ P. Oliveira, *Separating Fact From Fiction: Myths About the Adequacy of Funding for Care4Kids* (CT Voices for Children, 2005), available at www.ctkidslink.org/pub_detail_238.html.

² These included the AFDC Child Care Program (providing a child care entitlement to families who were receiving AFDC and were working or in an education or training program), the Transitional Child Care Program (offering assistance to families who were making the shift from AFDC to work), the At-Risk Child Care program (providing states with funds up to a capped amount to serve working families who were "at-risk" of coming onto AFDC if they did not receive assistance with child care).

Connecticut's Use of Federal Funds for the Child Care Subsidy

Child Care and Development Fund (CCDF)

The principal source of federal funding for the child care subsidy in Connecticut is the Child Care and Development Fund (CCDF, also called the Child Care and Development Block Grant, or CCDBG).

Connecticut Defines Eligibility to Exclude Children Who Could Qualify Under Federal Law

Under federal CCDF regulations, a state may designate any family earning up to 85% of the State Median Income (SMI) as eligible for a federally-subsidized child care subsidy. Connecticut's threshold has fluctuated over the last decade (with changes in available funding) and currently is set at 50% of SMI rather than the federal recommendation of 85%. As such, the maximum annual income eligibility for child care assistance for a family of three in Connecticut in 2005 is \$36,120. If set at the federal threshold, a family of three earning less than \$61,404 would be eligible.

Years with Changes in Income Eligibility Limits in Connecticut (Federal limit allows up to 85%)	
	Income Limit (% of SMI)
1988	55%
1991	70%
1992	75%
2002	TFA Families Only
2003	55%
2004	50%

In 1997, the United States Department of Health and Human Services reported that 103,000 children (in 63,000 families) were estimated to meet Connecticut's income guidelines for child care assistance. This would be even higher – 188,000 children – if Connecticut set its income eligibility limits at 85% of SMI, as allowed under federal law. In that year, DSS reported that about 33,000 children were served on average each month by the child care subsidy program. That is, only a third (about 33%) of eligible children under Connecticut's already low income limits were served; Connecticut only served about 17% of children in families with incomes under 85% of SMA.

In 2001, the National Center for Children in Poverty found that the average income eligibility limit across states was 62% of SMI. In that year, only 10% of Connecticut children in families with working parents with incomes less than 62% SMI received the child care subsidy.

The number of Connecticut families and children served by CCDF has dropped steadily over the last few years.

Number of Families and Children Served by CCDF³		
	# Families Served	# Children Served
2002⁴	8,900	15,300
2003⁵	6,800	11,700
2004⁶	6,000	10,300

Connecticut Triages Among Connecticut Families Who Meet Its Low Income Eligibility Standards in Allocating Child Care Subsidies. The consolidation of funding from the old Aid to Families with Dependent Children (AFDC) program with the CCDBG, and the elimination of the guarantee of cash assistance to families with very low incomes, has resulted in Connecticut’s decision to prioritize families when funding is less than would be necessary to serve *all* eligible families who need assistance. Within the class of eligible families (based on family income, age of child and the other factors discussed above), Connecticut first awards subsidies to families who are currently on Temporary Family Assistance (TFA) and those who have recently moved off of TFA, placing them ahead of other low-income working families who have not been on cash assistance in granting subsidies.⁷ In fact, in 2004 Connecticut totally closed intake to the child care subsidy program for families who were not receiving TFA, thereby denying the subsidy to a significant number of needy, and otherwise eligible families.⁸ A wait list grew to over 13,000 families.

Connecticut is one of 23 states that have made changes restricting eligibility since 2001.⁹ Yet, one of the goals of PROWRA is to make child care funding available not only for families on welfare or leaving welfare, but also for families at risk of having to go on welfare. If child care assistance is insufficient to serve all families, and states restrict eligibility only to welfare recipients and families transitioning off of assistance, many low-income, at-risk families will feel forced to go onto welfare because they cannot maintain employment without assistance with child care. This result undermines the purpose of welfare reform – to reduce the number of families who must rely on cash assistance by helping low-wage families achieve economic stability.

Connecticut’s additional eligibility requirements. In addition to income eligibility, federal regulations require that children served be younger than 13, and their parents must be in work, training, or school. Children in the protective services system or in need of protective services are eligible, regardless of their

³ Administration for Children and Families, *CCDF Data Tables, 2002, 2003, 2004*, available at www.acf.hhs.gov/programs/ccb/research/index.htm.

⁴ Child Care Bureau, available at www.acf.hhs.gov/programs/ccb/research/02acf800/table1.htm.

⁵ Child Care Bureau, available at www.acf.hhs.gov/programs/ccb/research/03acf800/table1.htm.

⁶ Child Care Bureau, available at www.acf.hhs.gov/programs/ccb/research/04acf800/table1.htm.

⁷ Specifically, parents receiving TFA cash assistance who are employed or are participating in an approved employment services activity or who are completing such an activity that was started before the family’s TFA grant was discontinued have highest priority. Next in line are working parents whose TFA benefits were discontinued within six calendar months prior to the date of application for Care4Kids, then parents under the age of 20 who are not receiving TFA but who are attending high school, then working parents with gross family income under 50% of SMI, working parents with gross income between 50% and 75% of SMI who request assistance for a child adopted from DCF, and all other working families with gross family income between 50% and 75% of SMI. Regulations of CT State Agencies, §17b-749-08.

⁸ In 2004, 38% of all subsidy payments were made to non-TANF families compared to 38% for families transitioning off TFA and 24% for active TFA families. P. Oliveira, *Separating Fact from Fiction: Myths About the Adequacy of Funding for Care4Kids* (CT Voices for Children, 2005), available at www.ctkidslink.org/pub_detail_238.html.

⁹ J. Mezey, *GAO Finds State Child Care Assistance Limits Disproportionately Impact Low-Income, Working, Non-TANF Families and Children* (Center for Law and Social Policy, 2003), available at www.clasp.org/publications/GAO_cc.pdf.

parents' eligibility (work status). A child in foster care qualifies if a state indicates that the foster care system is considered part of its child protection system. In Connecticut, a foster child is considered to automatically meet income eligibility guidelines, though this does not ensure eligibility for the foster parents. While the foster parent's income is not considered in determining eligibility for the subsidy, both or the only foster parent must be working.

Overview of Funding. States receive federal funding from CCDF¹⁰ through three major funding streams.

- *Mandatory CCDF funding:* Each state is entitled to receive a share of the mandatory funds with no matching requirements. Connecticut's allocation is based on FFY 96 historic levels of spending under the old AFDC program.
- *Annually-appropriated (i.e., "discretionary") CCDF funding:* These funds require no state match and are distributed to states according to the prior rules governing the distribution of Child Care and Development Block Grant (CCDBG) funds. Those rules based allocations on the proportion of children under 5 years old, the number of children receiving free or reduced-price school lunches, and the state's average per capita income.
- *Matching funds, but only if the state maintains a level of funding equal to the "base period" and commits to additional state funds to draw down the matching funds:* The matching funds are available to states that not only maintain spending equal to their prior Title IV-A child care match but provide state funding *above* that level. State funding *over* the base will be matched by federal dollars up to the state's allocated share of these matching funds. The maximum allocations across the states are based on the proportion of the state's children under age 13. To receive matching funds a state must: (1) use its Mandatory funds by September 30 of that year, and (2) expend state funds equal to its State Maintenance of Effort (MOE) level for child care (which is set at the greater of FY 1994 or FY 1995 Title IV-A child care program expenditures). Matching funds must be fully expended in two years. States are allowed to count the same state expenditures as both CCDF and TANF matching funds.

Connecticut uses these three major funding streams under CCDF for its child care subsidy program, as well as additional state funds. Although federal law allows 30% of TANF funds to be transferred to the CCDF to provide additional funding for child care, unlike most other states, Connecticut does not do so. Connecticut does, however, transfer some TANF funds to the Social Services Block Grant (SSBG) to support child day care initiatives other than the child care subsidy program.¹¹

Importantly, Connecticut "gross" budgets these federal funds. That is, both the federal and state funds for child care are appropriated by the General Assembly, and then CCDF expenditures are identified, claimed and the federal funds drawn down and added to the General Fund as "revenue" based upon eligible

¹⁰ As a condition of receiving the federal CCDF funds, states must submit two-year plans showing how they will spend the funds in compliance with CCDF requirements. This plan is called The Child Care and Development Fund Plan for Connecticut. Connecticut's most recent plan for FFY 2006-2007 and can be found at www.dss.state.ct.us/pubs/CCDF2005ApplicationPW.pdf. In addition, states must submit disaggregated data on children and families receiving subsidized child care to the United States Department of Health and Human Services each quarter, and aggregate data twice a year.

¹¹ Connecticut's Social Services Block Grant Allocation Plan for FFY 06 transfers \$15.698 million of TANF funds to the SSBG for Child Care Centers and another \$0.667 million to the SSBG for child care licensure.

CCDF program activities. Because the state spending cap limits the growth in general budget expenditures¹² from one year to the next, this practice results in counting the expenditure of these federal funds as “state” spending.

Total CCDF Funds for all programs. About 60% of the total CCDF budget comes from federal funds while Connecticut contributes about 40% in matching funds. The State *does* draw down the maximum possible amount of funds available to it, based on formulas for the federal appropriation and the rules guiding matching. The federal cap on the maximum amount each state can draw down in matching funds is a disincentive to additional state spending and limits how much additional federal funding Connecticut can receive.¹³ Additionally, the CCDF block grant has been frozen since 2002, contributing further to the stagnation of child care spending.

Connecticut’s Federal CCDF Appropriation¹⁴			
(in millions)¹⁵			
	FFY04¹⁶	FFY05	FFY06¹⁷
Mandatory	\$18.7	\$18.7	\$18.7
Matching	\$17.7	\$17.7	\$17.7
Discretionary	\$14.8	\$14.5	\$14.5
Total Federal	\$51.2	\$51.0	\$51.0

Connecticut’s State CCDF Matching Funds			
(in millions)			
	FFY04	FFY05	FFY06
Maintenance of Effort¹⁸	\$18.7	\$18.7	\$18.7
Matching Funds	\$17.4	\$17.7	\$17.7
Total State	\$36.2	\$36.4	\$36.4

¹² “General budget expenditures” are defined as “expenditures from appropriated funds authorized by public or special act” of the General Assembly, with several exclusions (payments on debt, certain statutory grants for distressed municipalities that were in effect on July 1, 1991, and expenditures to implement federal mandates or court orders in the first year in which such expenditures are authorized). Conn. Gen. Stat. §2-33a.

¹³ Based on the state’s reporting to the United States Department of Health and Human Services, Connecticut’s total spending that can be included as Maintenance of Effort for CCDF was \$106.2 million in 2001. This, of course, includes all spending on child care programs across the state budget. Also note that the same funds can be counted as MOE for TANF. "Section 9. Child Care" in the *Green Book 2004* contains data on total Child Care and Development Fund (CCDF) expenditures by State for Fiscal 1995 through 2001, available at <http://www.gpoaccess.gov/wmprints/green/2004.html>.

¹⁴ The Federal Fiscal Year (FFY) runs from October 1 through September 30.

¹⁵ CT Department of Social Services, *The Child Care and Development Fund Plan for Connecticut: FFY 2004, 2005, 2006*.

¹⁶ CT Department of Social Services, Division of Fiscal Analysis, *Fiscal Consideration of the CCDF Program* (2004).

¹⁷ CT Department of Social Services, *The Child Care and Development Fund Plan for Connecticut: FFY 2006-2007*, available at www.dss.state.ct.us/pubs/CCDF2005ApplicationPW.pdf.

¹⁸ To receive matching funds a state must expend state funds in excess of its State Maintenance of Effort (MOE) level for child care determined based on the greater of FY 1994 or FY 1995 Title IV-A child care program expenditures.

Connecticut's Total Federal CCDF and State Matching Funds (in millions)			
	FFY04	FFY05	FFY06
Total	\$87.4	\$87.3	\$87.3

CCDF Funding to Care4Kids.¹⁹ CCDF funds are used to finance a number of Connecticut's efforts to increase the availability, affordability and quality of child care services, one of which is Care4Kids. Comparing SFY 04 expenditures on Care4Kids to estimated spending in SFY 06, spending is predicted to increase slightly, by about \$9 million. However, Connecticut's *state* investment has *dropped significantly*: from about 50% of total spending on the program (\$30 million) to about 33% (\$23 million) of total spending.

Comparing Federal CCDF and State Funding for Care4Kids (in millions)				
	SFY 04 Actual²⁰	% of Total Funding	SFY 06 Estimated²¹	% of Total Funding
CT	\$30	50%	\$23	33%
FEDERAL	\$31	50%	\$46	77%
TOTAL	\$61	100%	\$69	100%

Despite the need for child care subsidies, in SFY 03, 14% of the funds appropriated to Care4Kids went unspent. *In SFY 04, the proportion of unused funds increased to 31%.*²² In response, the General Assembly adopted legislation in an attempt to ensure that all funds appropriated to Care4Kids be used for this purpose, which states, "The department [DSS] shall open and maintain enrollment for the child care subsidy program and shall administer such program within the existing budgetary resources available."²³ However, despite this clear statement of legislative intent, DSS closed intake to the program for families not receiving temporary family assistance for the majority of 2004. By arbitrarily closing intake to certain low-wage working families, DSS' actions again resulted in a significant amount of unused funds.

Lapsed Funds in Care 4 Kids (in millions)		
	SFY03	SFY04
Appropriation	\$114	\$90.3
Expenditure	\$98.9	\$61.9
\$ Lapsed	\$15.1	\$28.4
% Lapsed	14%	31%

¹⁹ Note that CCDF funding is based on the Federal Fiscal Year (October 1 to September 30) and is different from the Child Care Subsidy allocations and expenditures that are based on the State Fiscal Year (July 1 to June 30). This adds to the complexity of budget comparisons.

²⁰ CT Department of Social Services Child Care Team, 2004

²¹ CT Department of Social Services, *CCDF Plan: 2006-2007*.

²² Low utilization of the subsidy program is suggested to be due to restrictions in eligibility and a tedious application processes.

²³ P.A. 04-258, §37(a), *An Act Concerning State Expenditures for Social Service Programs*.

Other Possible Sources of Federal Funding for Care 4 Kids

Temporary Assistance to Needy Families (TANF)

Another potential source of federal funding for state child care programs is the Temporary Assistance to Needy Families block grant (TANF). A state can commit TANF funds to the child care subsidy in two ways.

- A state can transfer up to 30% of its current year TANF funds to CCDF, in which case the funds become subject to all CCDF rules.
- A state can directly spend an unlimited amount of TANF funds for child care without transferring the funds to CCDF. If a state does so, however, the funds are still considered TANF funds and subject to TANF rules.²⁴

As welfare caseloads have declined and the amount of TANF funds needed for cash assistance payments has fallen, states have had TANF funds available to allocate to other needs and purposes. Across all states, the single biggest redirection of these funds has been to child care. Nationally, in 2000²⁵, the federal funds redirected from TANF exceeded those from CCDF as a source of child care funding. Thus, TANF funds comprise a substantial portion of state child care resources in many states, and the availability of TANF funds has been a principal reason why many key child care policy expansions and improvements have occurred in these states in recent years.

Transferred TANF dollars have enabled the 25 “high-transfer” states to:²⁶

- Increase the number of children served and reduce or eliminate waiting lists;
- Expand income eligibility to more families;
- Lower co-payment fees for parents;
- Increase reimbursement rates for child care providers in the subsidy system;
- Expand the supply of quality child care; and,
- Increase collaboration with Head Start or Pre-Kindergarten programs.

Connecticut does not transfer TANF funds to CCDF. Not only has Connecticut chosen *not* to transfer TANF funds to help more low-wage working families meet their child care needs, it has actually *reduced* its direct spending of federal TANF dollars on child care.

In 2000, Connecticut was one of only 8 states that did not transfer TANF to CCDF. In that year Connecticut reportedly spent \$21 million of TANF funds directly on child care (down from \$35.8 in 1999).²⁷ In 2002 and since, Connecticut has reportedly spent *no* TANF funds directly on child care.²⁸

²⁴ One of the most significant TANF rules is the definition of “TANF assistance.” Generally, if TANF funds are spent for child care for non-employed families, the funds are considered “TANF assistance.” When TANF funds are used for child care for employed families, the benefits are considered “non-assistance.” If a benefit is considered “assistance,” the state must apply federal TANF time limits, as well as child support, data collection, and other requirements.

²⁵ Data suggesting whether this is true in 2005 is unavailable at this time.

²⁶ *The Impact of TANF Funding on State Child Care Subsidy Programs* (Center for Law and Social Policy, 2001), available at www.clasp.org/publications/the_impact_of_tanf.pdf.

²⁷ *The Impact of TANF Funding on State Child Care Subsidy Programs* (Center for Law and Social Policy, 2001), available at, www.clasp.org/publications/the_impact_of_tanf.pdf. This report uses HHS data.

This year, \$4 million of Connecticut's High Performance TANF bonus funds (awarded to Connecticut for success in meeting work requirements) went unspent. These funds now are allocated to be spent in 2006 on the child care subsidy program.²⁹

Connecticut's use of significant amounts of TANF funds to support "back end" services, rather than investments in more cost-effective early care and education programs, undermines the purposes of TANF and the state's interests in preparing the next generation of its workforce. Rather than transfer unused TANF funds to the CCDF to help pay for child care, Connecticut is diverting a significant proportion of its TANF funds (41% in FFY 2004) to meet needs of the CT Department of Children and Families (DCF). Although TANF funds are ultimately claimed and deposited in the General Fund by the Department of Social Services, they have become an increasingly significant part of DCF's budget (19.4% of total spending in SFY 03).³⁰

In short, Connecticut is choosing to *divert funds from DSS to DCF* that should be used to support at risk, and low-income families and *avert* referrals to DCF. As a result, significant amounts of TANF funds are used not for prevention, or the provision of services that help families on welfare and in low-wage jobs achieve economic self-sufficiency, but rather become available only when families reach crisis and children are placed at significant risk of harm.

The Future of Federal Child Care Funding: 2005 Reauthorization

That Connecticut is relying increasingly on federal funds to fund its child care subsidy program places these essential services at greater risk as Congress grapples with the mounting federal deficit.

Already, Congress has not increased child care funding for four years. Moreover, as part of this year's budget reconciliation package, it is predicted that the House will include the TANF and CCDBG reauthorizations and increase the work requirements for families on TANF, but *not* increase child care funding to cover the increase in work hours. If Congress imposes costly new mandates on states, yet fails to provide for sufficient funds to help states fulfill these mandates, Connecticut will need to devote additional *state* funds for child care, or else make even deeper cuts in these programs that help families move from welfare to work, help low-wage parents remain in the labor market, and protect the safety and well-being of our state's youngest residents.

²⁸ *Use of TANF and MOE Funds* (Center for Law and Social Policy, 2005), available at www.clasp.org/publications/connecticut03.pdf.

²⁹ S. Geballe & J. Solomon, *Careening Toward Crisis: State and Federal Funding of Child Welfare Services in Connecticut* (CT Voices for Children, 2004), available at www.ctkidslink.org/pub_detail_203.html.

³⁰ For a full explanation of the use of TANF funds in DCF's budget, see S. Geballe & J. Solomon, *Careening Toward Crisis: State and Federal Funding of Child Welfare Services in Connecticut* (CT Voices for Children, 2004), available at www.ctkidslink.org/pub_detail_203.html.