

THE WHITE HOUSE
WASHINGTON

October 8, 1999

MEMORANDUM FOR HILLARY RODHAM CLINTON

FROM: NICOLE RABNER
ANN O'LEARY
RUBY SHAMIR

CC: MELANNE VERVEER
SHIRLEY SAGAWA
PATTI SOLIS DOYLE
MARSHA BERRY

SUBJECT: ISSUES UPDATE

The purpose of this memo is to provide you with brief updates on a variety of issues.

Appropriations. The Labor-HHS-ED bill passed the Senate (73-25) on Thursday, October 7th and is expected to be considered on the floor of the House on Wednesday, October 13th. The Statement of Administration Policy (SAP) sent to the Hill on September 29th highlighted the Administration's concerns that the Senate bill does not provide funding for class-size reduction. The SAP also points out that the Senate bill undermines other education priorities by not providing the requested funding level for GEAR-UP, afterschool, or the Hispanic education agenda. It also cuts funding for the Centers for Disease Control and the Mental Health Block grant. It provides no funding for the National Family Caregiver Support Program. It does, however, provide for the President's requested funding for Head Start and, through a series of aggressive efforts by Senators Dodd and Jeffords, increases funding for the Child Care Development Block Grant from \$1.18 billion to \$2 billion. The House version, as you know, contains many more drastic cuts in Labor-H. At this point, the House leadership has delayed the vote on the bill knowing that they do not have the support of the moderates.

Bankruptcy. Over this past week, there have been a number of conflicting signs on the fate of bankruptcy reform, though most in the Administration and on the Hill predict that the Senate will not take it up before recess. On Thursday, Senate Minority Leader Daschle reportedly rejected an offer to move forward with bankruptcy reform legislation by limiting the number of allowable amendments. The offer, which was made by Judiciary Administrative Oversight and the Courts Subcommittee Chairman Charles Grassley, R-Iowa, would permit the Democrats to offer a limited number of amendments, which could include a minimum wage increase, but not

proposals that have already been considered on the floor this year. "I don't think we can accept that offer," Daschle told reporters. "The time for regular order is upon us." Daschle said he would be willing to accept time limits on amendments, but not restrictions on what amendments could be offered. He said his stance was "nothing against bankruptcy" legislation, but that the legislation is "dead" unless GOP leaders change their position.

Education: Hispanic Action Plan. On September 21st, Raul Yzaguirre, President of the National Council of La Raza, sent a letter to the President stating his concerns about the Hispanic Education Action Plan (HEAP). While La Raza is pleased with the Administration's push for additional funding of \$494 million for programs that support HEAP, he is concerned about the lack of implementation and targeting of programs to the benefit of Hispanic students. This concern largely arose from the FY 1998 annual report issued by the President's Commission on Educational Excellence for Hispanic Americans claiming that most Agencies are not adequately monitoring or addressing Hispanic participation in educational and employment programs. Maria Echaveste is convening a series of meetings and action steps to address La Raza's legitimate concerns. The Department of Education is also working on finalizing the plans for more effectively implementing HEAP. The plans focus on more targeting and better services for Hispanic students under Title I, targeting GEAR-UP funds to Hispanic students (rests on the appropriations fights for more funding), and working with the Mott Foundation to better target Hispanic students under the 21st Century after-school program.

Education: House Mark-up of Title I. On Tuesday, October 5th, the House Committee on Education and the Workforce, began marking up Title I of ESEA. The Title I bill being used as a base for the mark-up was drafted by a bipartisan working group. The Administration expressed concern in a number of areas. The bill does not encourage one state-wide accountability system to hold schools accountable for improving student achievement tied to high standards; it provides no funding to help low-performing schools turn around; and it dilutes targeted funding to high-poverty areas. The Committee has not yet finished marking up the bill, but to date they have defeated a voucher amendment, passed an amendment supporting the Administration's public school choice demonstration program, and passed an amendment that would continue to hold the poverty threshold for Title I schoolwide schools at 50 percent. The Committee is expected to complete its work on Wednesday, October 13th and the bill is expected to go to the Floor shortly thereafter.

Education: Straight As. The House Committee on Education and the Work-Force is expected to take up the Majority's "Straight As" bill which would allow States to block grant their Federal ESEA dollars for five years. If, after five years, the States did not show improvement in student achievement, they would have to revert to the categorical programs. The Administration has opposed this block grant and the Secretary has sent a letter to Congress stating that he would recommend the President veto the bill if it came to his desk.

Education: Single Sex Education. As part of the Senate's consideration of the Labor-HHS-ED appropriations bill, Senator Kay Bailey-Hutchinson was expected to bring up her single sex education amendment. The amendment would permit ESEA Title VI funds to be spent on "educational reform projects that provide same gender schools or classrooms, as long as

comparable educational opportunities are offered for students of both sexes.” She was not able to bring up the amendment, but the proposed amendment led to a number of the women’s groups contacting the White House (American Association of University Women, the Women’s Legal Defense Fund, and the Women’s Law Center) to urge the Administration to take a public position on single sex education which is expected to come up next in the context of ESEA reauthorization. The women’s group have opposed the amendment in the past on two grounds: (1) concern that we do not have the research to support single-sex education in elementary and secondary education (2) concern that “comparability” will not be monitored or implemented effectively. Last year when the amendment was proposed, the Administration did not take a position. Instead, we argued on procedural grounds that it should be considered as part of the reauthorization of ESEA and that it was already permissible under Title IX. Furthermore, the Department of Education’s Office of Civil Rights was in the process of developing regulations on single sex classrooms and schools that would provide for some flexibility in allowing for such classrooms and schools. The Department of Justice has, throughout the debate, raised constitutionality concerns, but OCR is working with DOJ on the draft regulations. The regulations are expected to be shared with the White House next week.

Note: The impetus to put out regulations on single sex education stem from a complaint by the New York chapters of the National Organization for Women and the American Civil Liberties Union filed with the U.S. Department of Education’s Office of Civil Rights. The complaint asserts that the Young Women’s Leadership Academy, a public school in Harlem, violates equal-protection guarantees of the Constitution. OCR has not yet ruled on this case and plans to do so in the context of releasing the Title IX regulations.

Health Care: Medicare. Late last week, Senator Daschle introduced a significant BBA provider give-back bill which attracted over 30 cosponsors. As you know, the Administration had expressed a preference to considering such proposals in the context of the broader reforms which would explicitly dedicate a portion of the surplus to Medicare, thereby not only protecting providers in the short-term, but also preventing excessive cuts to Medicare in the future. This past Tuesday, the President met with Chairman Roth and Senator Moynihan. In the meeting, Chairman Roth and Senator Moynihan urged that administrative and legislative action be taken this fall to moderate the impact of Medicare provider payment reductions included in the Balanced Budget Act of 1997 (BBA). The President indicated his openness to such initiatives, but in the context of providing additional statutory authority to modernize the purchasing practices of the Medicare fee-for-service program, as included in the Administration’s plan and the Breaux-Thomas recommendations (this would be both a down-payment on broader reforms and a way to off-set the significant dollars needed to offer provider give-backs).

The President indicated that Administration representatives will work with the Finance Committee, as well as the House Ways and Means and House Commerce Committees, on a package of provisions that moderate the impact of the BBA and modernize the fee-for-service program. The President also agreed to provide an expeditious response regarding the administrative actions the Department of Health and Human Services can take independent of the legislative process so that the Committees can construct their legislative packages to reflect

these changes. Early next week, the Administration will release a letter outlining some of the administrative, non-legislative steps we plan to take to moderate BBA.

Health Care: Patients Bill of Rights. As you know, the House of Representatives last night passed H.R. 2723, the Norwood-Dingell Bipartisan Consensus Managed Care Improvement Act of 1999 275-151 -- which the Administration strongly supports -- with the backing of over 60 Republicans. It is more comprehensive than the Patients Bill of Rights legislation that passed the Senate in July which leaves over 100 million Americans unprotected, covers less than 10 percent of HMOs, does not provide access to specialists, and limits the ability of patients to sue managed care providers. The Senate bill passed 53-47 without one Democratic vote. As the legislation moves to conference, the House Rules Committee plans to attach an insurance "access" bill passed by the House earlier in the week which would provide \$43 million for health related tax breaks and expand Medical Savings accounts. These provisions were included in the Republican tax bill that the President vetoed. While the Administration does not oppose accelerating the self-employed tax deduction and other such provisions, we have raised concerns about proposals such as multiple employer welfare associations (MEWAs) and medical savings accounts (MSAs) that can segment the healthy from the unhealthy and further destabilize the insurance market. And while the President has not explicitly said he will veto a Patients Bill of Rights with these attached provisions, he has indicated that he will not support any legislation that is not paid for.

Health Care: Children's Health Insurance Program (CHIP). On Tuesday of next week, the President will address the American Academy of Pediatrics conference. In his address, he will announce that he is issuing an executive order to instruct the Secretaries of Education, Health and Human Services, and Agriculture to report to him within six months on steps to promote education and enrollment of uninsured children in schools. In addition, he will highlight the Administration's outreach to States and communities to promote CHIP.

Census Poverty/Health Insurance Release. As you know, the Census Bureau released 1998 poverty and income data on September 30, and health insurance data on October 4. The overall poverty data demonstrated some positive trends, including an increase in income for all five quintiles of the income distribution, income increases in all regions of the U.S., and increases in median household and family incomes. The poverty rate dropped to 12.7 percent -- its lowest level since 1979 -- and child poverty and extreme child poverty have declined as well. In August the Children's Defense Fund released a report noting an increase in extreme child poverty (50 percent of the poverty line) between 1996 and 1997 (the CDF uses an expanded definition of poverty which includes means tested benefits and tax deductions). CDF plans to release a new report with the 1998 data which will show a decline in poverty for children in female headed households under 50% of poverty, and a drop in child poverty in all families under 50 percent of poverty. Attached is a memo written for Secretary Shalala with some more detailed analysis of the data; OMB, CEA and HHS continue to examine the data.

The Census report on health insurance coverage rates in the U.S. for 1998 was less promising. Census reported that an estimated 44.3 million people in the U.S., or 16.3 percent of the population, were uninsured in 1998 -- up about one million since 1997. The poor were the least likely to be insured with 11.2 million poor people, or 32.3 percent, lacking health insurance.

People between age 18 and 24 were the least likely age group to be insured, whereas only 1.1 percent of the elderly lacked health insurance (because of Medicare). Seventy percent of those insured were covered by their employers, however, part-time workers were much more likely to be uninsured than full-time workers, and among the poor, workers were less likely to be insured than non-workers -- almost half of poor, full-time workers were uninsured.

The 1998 uninsured rate of children has remained relatively stable since 1997 with 11.1 million children, or 15.4 percent, uninsured. Among poor children, 3.4 million (25.2 percent) were uninsured in 1998 and poor children comprised of 30.6 percent of all uninsured children. Children under the age of 12 were more likely to be insured than children between the ages of 12 and 17. Hispanic children were the most likely of all ethnic and racial groups to be uninsured (30 percent). Approximately one-fifth of insured children were covered by Medicaid. Attached is Q&A on the uninsured data which, in part, explains that low CHIP enrollment rates can be attributed to the fact that in 1998, only four states had been enrolling children throughout the year.

POTUS Message Schedule

Saturday, Oct. 9	Live Radio Address, Chicago, IL Topic: Kennedy-Jeffords/Federal Plan on Hiring People w/Disabilities Address Hispanic Leadership Conference, Chicago, IL
Monday, Oct. 11	DOWN
Tuesday, Oct. 12	Address to American Academy of Pediatrics OR Press Conference
Wednesday, Oct. 13	Roadless/Environmental Event, Virginia
Thursday, Oct. 14	Possible Press Conference (if not on Thursday)
Friday, Oct. 15	Meeting with Bondevik of Norway
Saturday, Oct. 16	Radio Address, Topic TBD (<i>taped on Friday, Oct. 15</i>) Drop-by NIAF Annual Gala High School Reunion Reception, White House
Monday, Oct. 18	New Markets Event, Hartford, CT (this is VERY tentative)
Tuesday, Oct. 19	Address Voices Against Violence Conference, Capitol Hill

Wednesday, Oct. 20 AmeriCorps Anniversary Event, White House
Thursday, Oct. 21 NAPO Top Cops Event, The White House
Friday, Oct. 22 WH Conference on Philanthropy, White House
Saturday, Oct. 23 Live Radio Address, Topic TBD
Monday, Oct. 25 Medical Privacy Event (tentative)
Tuesday, Oct. 26 No Message Opportunity
Wednesday, Oct. 27 Congressional Gold Medal Ceremony for President Ford
Thursday, Oct. 28 Official Working Visit w/President of Nigeria
Friday, Oct. 29 Departure Statement, Topic TBD
Saturday, Oct. 30 Radio Address, Topic TBD (taped on Friday, Oct. 29)



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Office of the Assistant Secretary
for Planning and Evaluation
Washington, D.C. 20201

OCT - 5 1999

TO: The Secretary
Through: DS _____
COS _____
ES _____

THRU: Margaret A. Hamburg, M.D. *Ann Segal for*
Assistant Secretary for Planning and Evaluation

FROM: Patricia Ruggles *PR*
Deputy Assistant Secretary
for Human Services Policy/Chief Economist

SUBJECT: Additional Analyses of 1998 Census Data on Families with Children -
INFORMATION

On September 30, 1999, I sent you an information memo describing the official 1998 poverty statistics released that day by the Census Bureau. Previously, on August 31, 1999, I sent you an information memo on reports released by the Children's Defense Fund (CDF) and the Center on Budget and Policy Priorities (CBPP) concerning families with children at the bottom of the economic ladder based on data for 1997. I have attached copies of both memos. The Children's Defense Fund is expected to issue an update adding the 1998 data to their August report later this week, although additional analyses from CBPP are not expected immediately. This memo discusses additional analyses of the Census Bureau data by ASPE staff to determine whether the trends identified in the earlier CDF and CBPP reports continued or changed in 1998.

Summary Information

The Children's Defense Fund report was entitled "Extreme Poverty Rises Sharply in 1997," and as the title states, the major finding of this report was that the number of children living in families with income less than one-half the poverty line (i.e., "extreme poverty") increased sharply from 1996 to 1997. The report used a definition of income which includes the effects of both in-kind benefits such as food stamps (but not medical care) and taxes. Official Census Bureau calculations, which do not count in-kind benefits or the effect of tax policy, showed no change in the proportion of children living in extreme poverty from 1996 to 1997.

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This difference between the Census and CDF findings implies that an important factor in the increase in extreme poverty found by CDF was reductions in the in-kind benefits received by very low-income households. This point was further emphasized in the CBPP report, which found that means-tested cash and in-kind benefits received by poor female-headed families with children fell substantially between 1996 and 1997, resulting in an increase in poverty for this group.

In contrast to the trends seen from 1996 to 1997, the 1998 poverty data show that the number of children living in families with income less than one-half the poverty line decreased from 1997 to 1998. This was true even for children in single parent families, and under both the official poverty definition and the expanded definition used by the CDF. However, the decrease in extreme poverty under the expanded definition (including taxes and in-kind benefits) was much smaller than the decrease under the Census definition, and was not statistically significant. The 1998 decrease in extreme poverty under this definition did not eliminate all of the increase in extreme poverty CDF reported from 1996 to 1997.

The trend toward increases in poverty for female-headed households with children found by CBPP between 1996 and 1997 also came to an end in 1998. Average means-tested benefits received by this group continued to decline in 1998 as they did in the previous year, but in 1998 the earnings and other income of this group increased by enough to offset the decline in benefits. As a result, the poverty rate (again, under the expanded definition) for these families remained essentially unchanged in 1998--the small decline observed was not statistically significant.

Highlights:

- The number of children in families with incomes below one-half of the poverty line decreased by more than 550,000 children between 1997 and 1998 using the Census Bureau's official measure of poverty. This is in sharp contrast to no change between 1996 and 1997, and is due to a large decline in the number of children who were extremely poor before transfers.
- The number of children in families with incomes below one-half of the poverty line also decreased when using the CDF's expanded definition of income to measure poverty (which includes food stamps, taxes, EITC, etc.), but by a much smaller and not statistically significant amount. The total number of extremely poor children declined by just over 100,000 children, most of them in female-headed single-parent families. This is in contrast to the dramatic increase reported by the CDF of 426,000 children between 1996 and 1997, including 376,000 children in female-headed families, but of course was not large enough to bring the number of extremely poor children down to 1996 levels. (See Table 1, attached.)

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- The August CDF report pointed to the decline in the receipt of public assistance and food stamps as the major factor in explaining this increase. In 1996, income from these two programs lifted 3.6 million children out of extreme poverty. In 1997, the number lifted out of extreme poverty was reduced to about 3 million children, and this trend continued in 1998, about 2.3 million children lifted out of extreme poverty by cash welfare and food stamps.
- As found in the CBPP report for 1997, receipt of means-tested benefits by poor female-headed families with children continued to fall in 1998. In 1998, however, the decline in means-tested benefits was offset by an increase in market incomes.
 - For female-headed families in the bottom 20 percent of the income distribution for such families, for example, average means-tested benefits fell from \$5055 in 1997 to \$4889 in 1998. (See attached Table 2.) This continued the trend seen from 1996 to 1997, when they fell from \$5323 to \$5055.
 - Total income for this group, however, counting both earnings and benefits (as well as any other sources of income) rose between 1997 and 1998, from \$7311 on average in 1997 to \$7424 on average in 1998. This reversed the 1996-1997 trend, when total income fell from an average of \$7640 to \$7311 for the bottom 20 percent of female-headed families with children.
 - In fact, although average means-tested benefits for this group were at their lowest level since 1990 in 1998, total incomes were near their 1994-1996 highs. This implies that the very poorest female-headed families with children, at least, are now making up for reductions in benefits with increased incomes from other sources such as earnings. Those in higher income categories show similar patterns, as the attached Table 2 shows.

We are continuing to analyze these data and will send you additional updates as they are available.

Attachments

cc: Melissa Skolfield
Rich Tarplin
Mary Bourdette
Olivia Golden
Howard Rolston

TABLE 1

Poverty Rates and Extreme Poverty Rates for Children Under Official and Comprehensive Definitions of Poverty, 1990 - 1998

Percentage of Children in Families with Incomes Below 100 Percent of Poverty Line <i>Official Measure:</i> <i>Comprehensive:</i> <i>(Includes Taxes and In-Kind Benefits)</i>									
	20.5	21.5	21.7	22.5	21.6	20.5	20.2	19.6	18.6
	18.6	18.9	19.2	20.5	18.5	16.0	15.9	15.4	14.2
Percentage of Children in Families with Income Below 50 Percent of Poverty Line <i>Official Measures:</i> <i>Comprehensive:</i> <i>(Includes Taxes and In-Kind Benefits)</i>									
	8.7	9.6	10.0	9.9	9.6	8.2	8.7	8.7	7.9
	3.8	4.1	4.7	4.7	4.4	3.5	3.3	3.9	3.7

NOTE: These rates differ slightly from the poverty rates for all children because they exclude children not in families (e.g. foster children.)

TABLE 2

PRELIMINARY NUMBERS

Average Disposable Income (Comprehensive Definition) and Average Means-Tested Benefits by Quintile of Income,
for Female-Headed Families with Children, 1990-1998
(1998 Dollars)

Average Disposable Income										
lowest 20 percent	\$6,843	\$6,756	\$6,659	\$7,109	\$7,586	\$7,775	\$7,640	\$7,311	\$7,424	
second 20 percent	14,365	13,979	13,383	13,645	14,221	15,739	14,879	15,491	16,048	
middle 20 percent	18,272	18,046	18,205	18,220	19,365	20,681	20,097	20,535	21,969	
next-highest 20 percent	25,950	25,224	25,106	26,153	27,090	28,344	27,516	27,912	29,394	
highest 20 percent	43,876	43,559	43,201	44,895	44,363	47,081	50,011	50,025	51,570	
Average Means-Tested Benefits										
lowest 20 percent	\$5,421	\$5,474	\$5,314	\$5,711	\$6,045	\$5,680	\$5,323	\$5,055	\$4,889	
second 20 percent	8,510	8,499	8,052	8,282	7,951	7,983	7,124	6,175	5,225	
middle 20 percent	5,394	5,988	5,375	5,006	4,948	3,768	3,492	3,200	2,694	
next-highest 20 percent	1,645	1,751	1,592	2,391	2,444	2,505	1,606	1,466	1,383	
highest 20 percent	542	462	626	845	796	886	661	653	407	

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Office of the Assistant Secretary
for Planning and Evaluation
Washington, D.C. 20201

AUG 31 1999

TO: The Secretary

Through:

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COS

ES

THRU: Margaret A. Hamburg, M.D.
Assistant Secretary for Planning and EvaluationFROM: Patricia Ruggles *PR*
Deputy Assistant Secretary
for Human Services Policy/Chief EconomistSUBJECT: Highlights and Analysis of Two Reports on Families with Children -
INFORMATION

On August 22, 1999 both the Children's Defense Fund and the Center for Budget and Policy Priorities issued reports concerning families with children at the bottom of the economic ladder. The memo is in response to your request for a review of these reports.

Summary Information

The Children's Defense Fund (CDF) report focuses on the economic condition of children in families with income below one-half the poverty threshold. The report is entitled "Extreme Poverty Rises Sharply in 1997," and as the title states, the major finding of this report is that the number of children living in families with income less than one-half the poverty line (i.e., "extreme poverty") increased sharply from 1996 to 1997.

Unlike the official poverty statistics issued by the Census Bureau, which do not show such a sharp increase, the CDF figures are calculated including the effects of both in-kind benefits and taxes. Counting only cash income, as the official poverty definition still does, the rise in extreme poverty was fairly small (and not statistically significant) between 1996 and 1997, but was larger between 1995 and 1996.

According to CDF's calculations, the increase in extreme poverty under the expanded definition of income was proportionately largest for children living in single parent families. They found a 26 percent increase in the number of such children between 1996 and 1997.

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The Center for Budget and Policy Priorities (CBPP) report is concerned with the economic condition of single parent families, particularly those in the bottom 20 percent of the income distribution, in the context of a strong economy and welfare reform. The report is entitled, "~~The Initial Impact of Welfare Reform on the Economic Well-being of Single Mother Families with Children.~~"

This report focuses on a slightly longer time period than does the CDF report. It compares disposable income of single parent families in the 1993-1995 period with the incomes of similar families in 1995-1997, and finds that while the disposable income of the bottom 20 percent of single mother families increased during the 1993-1995 period it declined in the latter period. (CBPP has used the same income definition as the CDF report—cash income plus in-kind benefits and taxes.) The report notes that a small part of this decline resulted from a loss in earnings for these families in 1995-1997, but about 80 percent of the decline was due to declines in the amounts of means-tested benefits received by these families.

Because single-parent families with children are generally likely to have low incomes, however, it should be noted that the bottom 20 percent of these families have incomes that are at a maximum 75 percent of the poverty level. The second 20 percent—those with incomes between 75 percent and 112 percent of the poverty level—had no statistically significant change in average incomes during the 1995-1997 period. Unlike the families in the bottom 20 percent, these families relied on earnings for a significant proportion of their total income, although means-tested benefits also remained an important income source.

Both reports point out that this decline in the economic well-being of the poorest families with children occurred during a time of continued economic expansion, low unemployment and continued increases in the Earned Income Tax Credit. The reports blame declines in the level of participation in cash assistance programs and in food stamps for the decline in the incomes of these families.

Highlights of the CDF report include:

- The CDF report focuses on those families with income below one-half of the poverty line. The poverty line for a family of 3 (one adult and 2 children) was \$12,931 in 1997. One-half the poverty line as a measure of extreme poverty would be \$6,465. Income at that level is equivalent to a working a half time, year round job at about \$6.50 per hour. 40 percent of the children living in extreme poverty lived in a family where someone worked sometime during the year and 17 percent lived in a family where someone worked at least 1000 hours (equivalent to a half-time year round job.)

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- The number of children in families with incomes below one-half of the poverty line is unchanged from 1996 to 1997 using the Census Bureau's official measure of poverty. The trend in the number of extremely poor children, as measured by the official definition of income, had been declining since it peaked in 1993 and increased in 1996.
- The number of children in families with incomes below one-half of the poverty line is up dramatically for single parent families from 1996 to 1997 (26 percent or 372,000 children) when using an expanded definition of income to measure poverty (e.g., counting food stamps, housing assistance, taxes.) Overall, the number of extremely poor children in all families increased by 426,000 under this definition of income.
- The increase in the number of extremely poor children, as measured by an expanded definition of income, sharply reverses a downward trend which began in 1993.
- Children living in larger families (i.e., more than 2 children) made up 90 percent of the increase in children living in extreme poverty.
- The report points to the decline in the receipt of public assistance and food stamps as the major factor in explaining this increase. In 1996, income from these two programs lifted 3.6 million children out of extreme poverty. In 1997, the number lifted out of extreme poverty was reduced to about 3 million children.

Highlights of the CBPP report include:

- The CBPP report looks at the disposable income of single-mother families with children. The definition of disposable income is the same as the expanded definition of income used in the CDF report. Disposable income includes earnings and other cash income as well as food stamps, housing assistance, EITC and other non-cash benefits. The report focuses on the bottom quintile and decile of the income distribution. As defined in the CBPP report the bottom quintile has income below 75% of the poverty threshold (income less than \$9,672 for a family of 3) and the bottom decile has income below 52% of the poverty threshold (income less than \$6724 for a family of 3.)
- During the period 1995 to 1997 the disposable income of single-mother families in the bottom income quintile declined by an average of \$577 per family while the income of single mother families in the poorest 10% fell an average of \$814. The losses during the 1995 to 1997 period are in contrast to the gains in the earlier period, 1993 to 1995.

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- Participation in food stamps and cash assistance programs has declined much faster than one would expect given changes in need as measured by the number of poor. During the 1995 to 1997 period the number of people receiving benefits from AFDC/TANF declined by 22.2 percent and the number receiving food stamps declined by 16.6 percent, while the number of people living in poverty declined by only 2.9 percent.
- The proportion of poor children receiving benefits from either AFDC/TANF or food stamps has declined over the period 1993 to 1997. In 1993, 85 percent of poor children benefitted from the food stamp program and 57 percent benefitted from AFDC. In 1997, the proportion of poor children benefitting from the food stamp program had declined to 70 percent and the proportion receiving benefits from the AFDC/TANF program had declined to 40 percent.
- The CBPP report, like the CDF report, points out the failure of the safety net to perform as well as in the past in moving poor families out of poverty. In 1995, 20.6 percent of children living in poverty were lifted out of poverty by means tested transfers including food stamps, AFDC/TANF, SSI and housing assistance. In 1997, these means tested programs moved a smaller proportion of poor children out of poverty - 16 percent.
- Another indicator of the falling economic well-being of children living in these families is the poverty gap (the amount of money needed for a poor family to reach the poverty line). After falling from 1993 to 1996 (\$20 billion to \$16.5 billion) the poverty gap increased in 1997 to \$17.1 billion, although the total number of poor children declined. This indicates that the economic situation of those in poverty has deteriorated, and is consistent with the finding that a larger proportion of poor children are in families with incomes below 50 percent of the poverty line.

Issues

ASPE has reviewed both reports carefully. In general, we believe that they are both well done and their findings are consistent with other research that is examining the economic well-being of families with children and the outcomes of welfare reform, including the Department's own reports and sponsored research. In the Second Annual TANF Report to Congress we note that those at the bottom of the income ladder are not faring as well as those on the higher rungs of the ladder and that this bears monitoring. We anticipate that the Census Bureau will release the 1998 poverty and income statistics on September 30, 1999. At that time the Census Bureau will release the micro-data and we plan to analyze these data to determine if these trends are continuing.

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We do have some concern that part of what we are seeing in both these reports is an increase in the under-reporting of income, particularly welfare income, amongst the lowest income families. Both the CDF and CBPP reports recognize this problem and make attempts to account for it in their analyses. ~~Nevertheless, the proportion of total welfare and food stamp benefits reported to the Census Bureau has fallen substantially in recent years, which could have a significant effect on the perceived impacts of these safety net programs on family poverty.~~

It is well documented that welfare caseloads are down, as are food stamps and Medicaid caseloads, and employment is up. It is also clear that some families are doing better under welfare reform and the strong economy, while others are doing worse and still others are about the same. The Department and the Administration have expressed concern regarding the declines in both Food Stamps and Medicaid and action is being taken to ensure that those who are eligible for assistance are provided with the opportunity to enroll.

Both ASPE and ACF have taken steps to evaluate the outcomes of welfare reform and the well-being of our nation's families and children. We will continue to work to monitor the well-being of families with children. We will report back to you on our analysis of the 1998 Census Bureau data in early October.

If you require additional information please call me at (202) 690-7409, and I will be more than happy to assist you.

cc: Olivia Golden, ACF
Howard Rolston, ACF
Melissa Skolfield, ASPA
Richard Tarplin, ASL

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Office of the Assistant Secretary
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Washington, D.C. 20201

SEP 30 1999

TO: The Secretary
Through: DS _____
COS _____
ES _____

Through: Margaret A. Hamburg, M.D. *Asst. Sec. for*
Assistant Secretary for
Planning and Evaluation

FROM: Patricia A. Ruggles *PR*
Deputy Assistant Secretary for
Human Services Policy and Chief Economist

SUBJECT: Release of 1998 Poverty Rates and Income Estimates - INFORMATION

The Census Bureau has just released the 1998 Income and Poverty Estimates. Increases in income and declines in poverty in 1998 were larger than had been anticipated based on the experience of the past several years.

Poverty Highlights:

- The overall poverty rate fell from 13.3 percent to 12.7 percent - a surprisingly large drop. This brings the poverty rate below the 1989 level of 13.1 percent for the first time in this decade. The total size of the poverty population is now 34.5 million people, a decline from 35.6 million in 1997.
- The percentage of children under 18 in poverty also fell, from 19.9 percent to 18.9 percent. This is also a large and statistically significant change. There are now 13.5 million poor children. Children are 39 percent of the poor though they are but 26 percent of the total population. This is the first time the poverty rate for children has been significantly below 20 percent since 1980.
- The largest declines in poverty were seen in the South, where the overall poverty rate fell from 14.6 percent to 13.7 percent. This is the lowest rate seen in the South since regional figures have been calculated, and this decline accounted for a large share of the total decline in poverty. Declines in the other regions were smaller and not statistically significant.

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- Poverty did not decline for Blacks—it remained unchanged at 26.1 percent. While this is the same as last year's rate, that rate was the lowest since 1959. For Hispanics there was a decline in the rate from 27.1 percent in 1997 to 25.6 percent in 1998, bringing the Hispanic rate below the rate for Blacks for the first time (although the difference between the rates for the two groups is not statistically significant in 1998.)

Income Highlights:

- Median household income rose by 3.5 percent to \$38,885 (in 1998 dollars). This increase was also large compared to average year-to-year growth and was statistically significant. Household income adjusted for inflation is now at its highest level since Census started doing estimates in 1967. Again, this is the first year that median household income has been higher than its previous peak in 1989, when it was \$37,884 (in 1998 dollars).
- Median income rose by 3.4 percent for family households headed by a married couple, to \$54,276, while median income for female-headed family households rose even more, by 4.2 percent to \$24,393. Both increases are statistically significant, although the difference between the two rates is not. This relatively large increase in the median for families headed by women is interesting in light of the fact that poverty rates for female-headed family households did not change by a statistically significant amount. (A family household is one consisting of at least two related persons. These medians exclude single-person households.)
- Median household income increased significantly in all regions of the country. Growth in the Midwest was particularly large, at 4.4 percent. (Although differences in growth rates across the regions were not statistically significant.)
- Inequality in the distribution of income has remained statistically unchanged since 1993 under the Census Bureau's measure. Households in the lowest fifth of the income distribution received 3.6 percent of total income in both 1997 and 1998, while those in the highest fifth received almost half of all income (49.2 percent in 1998). The Census Bureau cautions that income at the top may actually have increased by more than is measured, because they do not include incomes over \$1 million in their survey.

Observations:

- It is remarkable that it has taken us 10 years to get to the 1989 level of poverty and of median income given the robust economy of the past decade. The overall distribution of income became more unequal in the 1980s and early 1990s and has not yet recovered from that increase, but today's release indicates that some of the improvement in economic circumstances seen by most families since 1993 is now reaching the lowest income households.

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- The poverty numbers released today are based on the official definition of poverty, not the alternative definition recommended by the National Academy of Sciences. Starting from the same poverty rate in 1997, the alternative definition would produce a 1998 poverty rate slightly lower than the official rate because it includes the Earned Income Tax Credit in measured income. (The official measure does not count the EITC.)

Information on health insurance coverage will be available October 4.

The entire package of income and poverty estimates released by Census is attached.

Attachments

cc: Melissa Skolfield
Rich Tarplin
Olivia Golden
Mike Hash
Gary Claxton

QUESTIONS AND ANSWERS ON THE UNINSURED STATISTICS

October 5, 1999

Q: Yesterday, in reaction to a report of an increase in the number of uninsured, the President said that "The First Lady and I and the rest of us were right in 1994." Isn't this statement an indication that the President himself thinks that the you cannot rely on incremental reforms to insure Americans?

A: The President was simply saying that had we enacted the Health Security Act all Americans would be insured. He was not saying that targeted reforms should not be pursued. With a Republican Congress that has shown little interest in the uninsured, the President has been faced with two choices: do nothing or take aggressive steps to improve the accessibility and affordability of coverage.

While the President still firmly believes that every single American should be insured, he has not passed up opportunities to expand access to quality, affordable health insurance. In 1996, he enacted a law to enable workers to change jobs without fearing the loss of health insurance, among other provisions. In 1997, he worked with Congress to create the Children's Health Insurance Program (CHIP) that provides millions of working families with an affordable insurance option. And the President continues to support policies like the Medicare buy in, small business purchasing coalitions, and the Jeffords-Kennedy Work Incentives Improvement Act that provide vulnerable options with new, affordable health insurance choices. Incremental policies not only provide immediate needed help to American families but takes steps towards reaching the goal of eliminating the lack of insurance.

Q: You claim that there are a million fewer uninsured with income below \$25,000. Isn't this because there are just fewer people below \$25,000?

A: Although there has been dramatic income gains and fewer Americans in poverty, even controlling for this trend, the rate of uninsured below \$25,000 decreased. The rate takes into account the decline in the number of people in that income category. The reported increase in the uninsured of 1 million results from there being 2 million more Americans without insurance with incomes above \$25,000 and 1.1 million fewer uninsured with income less than \$25,000. Consistent with this finding, the rate of lack of insurance for those with income above \$25,000 has increased – with a dramatic hike for those with income above \$50,000 (from 10.1 to 11.7 percent for those with income between \$50,000 to \$75,000.

These trends are not temporary. Comparing 1995 to 1998, the rate of being uninsured for those with income below \$25,000 grew one-third to one-fifth the rate increase for higher income categories.

UNINSURED BY INCOME						
	1995	1996	1997	1998	1995-1998	1997-1998
< \$25,000	18.713	18.47	18.361	17.229	-1.484	-1.132
Rate	23.9%	24.3%	25.4%	25.2%	5.4%	-0.8%
\$25-49,999	13.697	13.585	14.527	14.807	1.110	0.280
Rate	16.2%	16.6%	18.1%	18.8%	16.0%	3.9%
\$50-74,999	4.974	5.63	5.678	6.703	1.729	1.025
Rate	9.3%	10.0%	10.1%	11.7%	25.8%	15.8%
\$75,000+	3.197	4.03	4.882	5.542	2.345	0.660
Rate	6.7%	7.6%	8.1%	8.3%	23.9%	2.5%

Note: Rate changes are percent change in rates (not the subtraction of rates).

Q: The economy is doing well and the poverty rate has fallen, so why is the number of uninsured increasing?

A: The problem of the uninsured in the United States is a complicated issue. We have just received the 1998 Census data and will be analyzing the data closely in the coming days. But it appears that the increase in the proportion of uninsured between 1997-1998, which is not statistically significant, is not concentrated among the poor. Neither the number nor the rate of uninsured poor people increased significantly. In fact, the number of the uninsured who are classified as poor dropped by 87,000.

However, the rate of uninsured among the middle class did go up: the percent of people with income between \$50,000 and \$75,000 who lack insurance increased from 10.1 to 11.7 percent -- or over a million people. This appears to be happening because slightly fewer middle-class people are insured through their employers. Also, as people leave poverty, fewer are eligible for Medicaid, limiting access to affordable options.

Q: What is the Administration going to do to reduce the numbers of uninsured?

A: The President has been aggressively pushing to enroll the millions of Americans now eligible for coverage and urging the Congress to pass additional reforms that would succeed in insuring more people. We will step up efforts both to create new options and to increase participation in existing options. The Administration's efforts include:

Ensuring rapid, aggressive implementation of the new Children's Health Insurance Program (CHIP) which targets uninsured children of working families. In addition to approving all state plans, the Administration has launched an aggressive public-private outreach campaign to educate families about this new program. Last month, the Departments of Health and Human Services, Justice and Education and 10 national, nonprofit organizations, kicked off more than 45 community events to enroll children around the country in CHIP and Medicaid. These efforts focused on outreach to minority communities, including the Hispanic community to which we have distributed Spanish language television and radio PSAs and print articles and op-eds on how to enroll in CHIP and Medicaid. Earlier this year, the President, along with the National Governors' Association, launched the Insure Kids Now campaign, including a national toll free number, 1-877-KIDS-NOW and the *insurekidsnow.gov* web site, which gives families specific information on how to enroll in CHIP and Medicaid.

Improving Medicaid. This Fall, HHS will send teams to work with state officials this fall to review programs and identify and remove possible barriers to enrollment in Medicaid and CHIP. Earlier this year, we also took action to assure and encourage legal immigrants to receive health insurance through Medicaid and CHIP. Since 1993, HHS has approved several Medicaid waivers to states for comprehensive health care reform projects to control costs and expand coverage and waivers for welfare reform projects. When fully implemented, these demonstration projects will extend health coverage to 2.2 million parents and children who otherwise would be uninsured.

Creating new insurance options. The President also continues to support policies to improve the affordability and accessibility of health insurance. These proposals include the Medicare buy-in for certain people ages 55 to 65; new Medicaid options including the ability to cover legal immigrants in Medicaid or CHIP; the small business purchasing coalitions; and the Work Incentives Improvement Act that allows more people with disabilities return to work by providing Medicare and a Medicaid buy-in.

Q: Why hasn't CHIP reduced the number of uninsured children already?

A: We are encouraged that the CPS numbers show the number of uninsured children remained stable from 1997 to 1998. We expect that this number will begin to decline now that CHIP is fully implemented. CHIP was only passed by Congress and signed by President Clinton in August of 1997. To date, HHS has approved 56 plans -- all 50 states, 5 U.S. territories and the District of Columbia. So far, we estimate that 1.3 million children have been enrolled and states expect to enroll 2.6 million by October 2000. In 1998, the year that the Census data covers, 43 states had programs in operation, but only 4 states had been enrolling children throughout that year.

We will continue to work with state and local communities and forge more public-private partnerships in our efforts to enroll all eligible children in CHIP and Medicaid.

Q: Isn't welfare reform and Medicaid declines the reason why the uninsured has increased?

A: Since it appears that the increase in the uninsured is concentrated in the middle class, and there have been slight declines in the uninsured who are low-income, the data do not validate that welfare reform contributed to the increase in the number of uninsured.

This Administration has demonstrated an unprecedented commitment to reducing the numbers of uninsured and would not take any action that would reduce access to health insurance for low-income people.

Q: But isn't it true that Medicaid roles have declined due to welfare?

A: Why Medicaid rolls are declining is a complex question with no easy answer. One explanation is that the improving economy has made it possible for many low-income people once enrolled in the Medicaid program to find jobs that offer health insurance benefits. The Census data show that the decline in Medicaid coverage occurred only among poor people, where there was also an offsetting increase in private coverage. Another answer is that individuals may not realize they are still eligible for the Medicaid program even if their income increases slightly. A recent report from the General Accounting office found that Medicaid enrollment has not declined as rapidly as welfare rolls, suggesting that Federal and state efforts to provide protections and new options have had a positive effect on enrollment,

It is also important to note that the Census Bureau explicitly warns that the changes in Medicaid coverage estimates from one year to the next should be viewed with caution, since Census Bureau data under-reports Medicaid coverage. In fact, preliminary 1998 Medicaid enrollment data from the Health Care Financing Administration show that there were close to 40 million Medicaid enrollees, while the 1998 Census Bureau numbers only report 28 million Medicaid enrollees. As such, it would not be appropriate to rely on the Census Bureau data to draw conclusions about the effect of welfare reform on Medicaid.

THE WHITE HOUSE
WASHINGTON

October 1, 1999

MEMORANDUM FOR HILLARY RODHAM CLINTON

FROM: NICOLE RABNER
ANN O'LEARY
RUBY SHAMIR

CC: MELANNE VERVEER
SHIRLEY SAGAWA

SUBJECT: 1999 INCOME AND POVERTY REPORT

As you know, yesterday, the Census Bureau released its annual report on poverty in the U.S. Attached is the White House press paper on the report, Gene Sperling's speech to the National Press Club on the Administration's record on poverty, and Q&A on the Administration's record on poverty and welfare reform.

KEY FACTS ON CENSUS INCOME AND POVERTY REPORT

September 30, 1999

TODAY, THE CENSUS BUREAU RELEASED THEIR ANNUAL REPORT ON INCOME AND POVERTY IN AMERICA FOR 1998. HERE ARE SOME OF THE RESULTS:

Strong Broad-Based Income Gains:

- **All Groups Have Seen Their Incomes Rise – From Richest to Poorest.** For the second year in a row, all five quintiles of the income distribution saw their incomes, adjusted for inflation, rise. Since 1993, all five quintiles have seen their incomes rise strongly, after 12 years in which there was little if any improvement for the bottom 60 percent of Americans.
- **Household Income Up 3.5 Percent – Tied For the Largest Gain Since 1978.** Income for the median household rose \$1,304, from \$37,581 in 1997 to \$38,885 in 1998, adjusted for inflation. Real median household income is now at the highest level ever recorded.
- **Typical Family Income Up Over \$5,000 Since 1993.** Another measure of income -- family income, which excludes single individuals and counts only related members in any household -- shows a similar trend. In 1998, the median family's income, adjusted for inflation, increased 3.3 percent (or \$1,475) -- the fifth consecutive annual rise. Median family income is also at an all-time high. Since President Clinton's Economic Plan passed in 1993, median family income has increased from \$41,691 in 1993 to \$46,737 in 1998 -- that's a \$5,046 increase in income, adjusted for inflation. From 1988 to 1992, median family income *fell* \$1,864, adjusted for inflation.
- **Income Growth Up for All Regions of the Country in 1998 for the First Time on Record.** For the first time since data were reported by region (in 1975), all regions of the country saw significant increases in median household income. The incomes of households living in the Midwest rose 4.4 percent in 1998, with a rise of 3.0 percent in the West, 2.8 percent in the Northeast, and 2.6 percent in the South.
- **Income of Typical Hispanic Household Up \$3,880 in Past Three Years.** In 1998, the income of the median Hispanic household, adjusted for inflation, increased from \$27,043 in 1997 to \$28,330 in 1998 -- that's an increase of \$1,287 or 4.8 percent. Over the past three years, the income of the typical Hispanic household has risen \$3,880 -- or 15.9 percent -- the largest three-year increase in Hispanic income on record.
- **Under President Clinton, The Typical African-American Household's Income Is Up \$3,317.** While median income of African-American households was unchanged in 1998, it is up 15.1 percent (or \$3,317) since 1993, from \$22,034 in 1993 to \$25,351 in 1998, adjusted for inflation.
- **After Rising Sharply for 20 Years, Inequality Has Stabilized.** After rising for nearly 20 years, income inequality has not changed significantly over the past five years -- and fell slightly in 1998. In the 1970s and 1980s, income inequality increased, while the economy expanded. In the 1990s, all parts of the income scale are benefiting from a growing economy.

Large Reductions in Poverty:

- **Poverty Rate Fell To 12.7 Percent in 1998 -- Its Lowest Level Since 1979.** In 1998, the poverty rate dropped to 12.7 percent from 13.3 percent the year before -- that's the lowest poverty rate in two decades. Since President Clinton signed his Economic Plan into law, the poverty rate has declined from 15.1 percent in 1993 to 12.7 percent last year -- that's the largest five-year drop in poverty in nearly 30 years (1965-1970). There are now 4.8 million fewer people in poverty than in 1993. (In 1998, the poverty threshold was \$16,660 for a family of four.)
- **In 1998, The Largest One-Year Drop in Child Poverty in More than Two Decades.** While the child poverty rate remains too high, in 1998, it declined from 19.9 percent to 18.9 percent -- that's the lowest child poverty rate since 1980 and the largest one-year drop in child poverty since 1976. Under President Clinton, the child poverty rate has declined from 22.7 percent to 18.9 percent -- that's the biggest five-year drop in nearly 30 years (1965-1970).
- **Elderly Poverty Rate As Low As It's Ever Been.** In 1998, the elderly poverty rate remained at 10.5 percent -- as low as it's ever been. In 1959, the elderly poverty rate was 35.2 percent.
- **The Hispanic Poverty Rate Dropped To Its Lowest Level Since 1979.** In 1998, the Hispanic poverty rate dropped from 27.1 percent to 25.6 percent -- that's the lowest level since 1979. While there is still more work to do, since President Clinton took office, Hispanic poverty has dropped from 30.6 percent to 25.6 percent. In the past two years, the poverty rate among Hispanics has dropped from 29.4 percent to 25.6 percent -- that's the largest two-year drop in Hispanic poverty in more than 20 years (1975-1977). The Hispanic child poverty rate fell from 36.8 percent to 34.4 percent -- and is now 6.5 percentage points lower than it was in 1993.
- **The African-American Poverty Rate Down To Its Lowest Level on Record.** While the African-American poverty rate is still far above the poverty rate for whites, it declined from 26.5 percent in 1997 to 26.1 percent in 1998 -- that's its lowest level recorded since data were first collected in 1959. Since 1993, the African-American poverty rate has dropped from 33.1 percent to 26.1 percent -- that's the largest five-year drop in African-American poverty in more than a quarter century (1967-1972).
- **Child Poverty Among African-Americans Down To Lowest Level on Record.** While the African-American child poverty rate is too high, it fell from 37.2 percent to 36.7 percent in 1998 -- its lowest level on record (data collected since 1959). Since 1993, the child poverty rate among African-Americans has dropped from 46.1 percent to 36.7 percent -- that's the biggest five-year drop on record.
- **4.3 Million People Lifted Out of Poverty By EITC -- Double The Number in 1993.** In 1993, President Clinton expanded the Earned Income Tax Credit, providing a tax cut for low-income working families. In 1998, the EITC lifted 4.3 million people out of poverty -- that's double the number of people lifted out of poverty by the EITC in 1993.

Poverty and Welfare Reform
Question and Answer
September 30, 1999

Q: How is welfare reform going?

A: In 1992, President Clinton promised to end welfare as we know it, and three years after the enactment of the welfare reform law, welfare reform is working. We've seen revolutionary changes to promote work and responsibility: welfare rolls are down by nearly half to their lowest level in 30 years, nearly four times more of those on welfare are working, and the employment rate of people receiving welfare in the previous year has increased by 70 percent. All fifty states are meeting the law's overall work requirement. Numerous independent studies also confirm that record numbers of people are moving from welfare to work.

Background

Caseloads: The number of welfare recipients is at its lowest level since 1969 (30 years) and the percentage of Americans on welfare is at its lowest level since 1967 (32 years). The welfare rolls have fallen by 48 percent, or 6.8 million, since January 1993, when they stood at 14.1 million. State-by-state numbers show 31 states have had declines of 50 percent or more. A recent report by the Council of Economic Advisers finds that the implementation of welfare reform is the single most important factor contributing to the widespread and continuous caseload declines from 1996 to 1998. CEA estimates that the federal and state program and policy changes implemented as a result of welfare reform account for approximately one-third of the caseload reduction from 1996 to 1998. The strong economy has also played an important role, accounting for approximately ten percent of the decline.

Employment and earnings of current welfare recipients: Nationally, the percentage of welfare recipients who work rose from 7 percent in 1992 to 27 percent in 1998, with the remainder fulfilling their participation requirements through job search, education, and training. The earnings of those on welfare have increased about 11 percent between 1997 and 1998 (from \$506/month to \$553/month).

Employment and earnings of former welfare recipients: Results from a national survey released in August by the Urban Institute found 69 percent of recipients had left welfare for work, and 18 percent had left because they had increased income, no longer needed welfare, or had a change in family situation. The report found that women leaving welfare were working at nearly identical rates, types of jobs, and at salaries as other mothers with incomes up to 200 percent of poverty or \$32,000 a year for a family of four. This study found former welfare recipients had a median hourly wage of \$6.61, which is actually higher than other low-income mothers whose median hourly wage is \$6.06. More than two-thirds of employed former recipients are working 35 hours per week or more, which is slightly higher than other low-income mothers.

A recent General Accounting Office report based on state surveys found that between 63 and 87 percent of adults have worked since leaving the welfare rolls, results similar to state studies

funded by the Department of Health and Human Services. GAO found annual earnings ranging from \$9,512 to \$15,144 among those who had left welfare. When we factor in other supports for working families, such as EITC, food stamps, and child care, families are better off than they were on welfare.

Q: Has poverty among young children increased under the Clinton/Gore Administration?

A: No. From 1993 to 1998, the poverty rate among children under age six has declined from a high of 26 percent (6.1 million children) to 20.6 percent (4.8 million children). This recent decrease came after a 52 percent increase between 1978 and 1993. There has been a decline in poverty not only among young children, but all children. Overall, there are now 2.2 million fewer children living in poverty than in 1993 (15.7 million in 1993 compared to 13.5 million in 1998) and, under President Clinton, the child poverty rate declined from 22.7 percent to 18.9 percent – the largest five-year drop in nearly 30 years. There have also been historic declines in the African-American and Hispanic child poverty rates, though both remain too high.

Q: Do these new numbers show more children living in extreme poverty?

A: No. We're encouraged to see that the number of children living in extreme poverty (50% of the federal poverty level or \$6,400 for a family of three) dropped by nearly 600,000 between 1997 and 1998 (from 6.4 million to 5.8 million). The rate of extreme child poverty also dropped, from 9 percent to 8.1 percent. Since President Clinton and Vice President Gore took office, 1.2 million fewer children are living in extreme poverty – a drop of 18 percent, from 7 million in 1993 to 5.8 million in 1998.

Q: Why are these trends different from those reported by the Children's Defense Fund on August 22 showing an increase in the number of children living in extreme poverty?

A: The new numbers released by the Census Bureau reflect data through 1998 and use the official measure of poverty. The CDF numbers go through 1997 and use an expanded definition of income. Using that expanded definition of income, CDF found that the number of children living in extreme poverty rose by 426,000 between 1996 and 1997, from 2.3 million to 2.7 million. Under the official measure, the number of children living in extreme poverty held steady between 1996 and 1997. The actions the President announced on July 14th to ensure working families' access to food stamps (see below) will help address the loss of benefits that leads CDF to find a rise in extreme child poverty.

Q: Do these numbers show those at the bottom are worse off as a result of welfare reform?

A: No. The new Census data show record increases in income, a slight decrease in income inequality, and record decreases in the poverty rate. In 1998, every income group

experienced a real increase in their income, showing that all parts of the income scale are benefiting from the growing economy. Under Reagan and Bush, average household income for the poorest one-fifth fell 4 percent; under the Clinton/Gore Administration it has increased over 10 percent. [NEC has more detailed analysis]

Background

An analysis by the Center on Budget and Policy Priorities released in late August compared income trends for families headed by single mothers between 1993-1995 and 1995-1997. They found, again using an expanded definition of income, that incomes of single-mother families rose substantially between 1993 and 1995, especially among the bottom 60 percent of these families, but that the story between 1995 and 1997 was mixed. In the later period, while incomes continued to grow for those in the second and third quintiles, the average disposable income of the poorest fifth of single mother families fell. This decline was primarily the result of a drop in receipt of TANF and food stamp benefits. While it will take more time to do a comparable analysis of 1998 data using alternative measures of poverty, the strong positive trend in the official measure is encouraging news. While the number of poor female-headed households with children stayed constant between 1995 and 1997, there were significant improvements in 1998. This means that between 1995 and 1998, the number of poor female-headed families with children dropped by nearly 5 percent (from 3.6 million to 3.5 million). The actions the President announced on July 14th to ensure working families access to food stamps (see details below) will go a long way to address the loss of benefits which the Center finds to be a key factor contributing to the loss of income among the poorest families.

Q: What has this Administration done to help families move out of poverty?

A: President Clinton and Vice President Gore have worked for the last six and a half years to raise incomes, make work pay, help families make a successful transition from welfare to work, and extend opportunity to all. This includes raising the minimum wage, expanding the Earned Income Tax Credit, enacting the Children's Health Insurance Program, and promoting investment in underserved communities. The latest data released by the Census Bureau show we are making tremendous progress.

The President has warned Congress not to renege on the bipartisan commitment to help states and communities finish the job of welfare reform and. He vigorously opposes attempts to cut the welfare block grant and the EITC tax refund for low income workers. The EITC lifted 4.3 million people out of poverty in 1998. To finish the job, we need to reauthorize the Welfare-to-Work program, raise the minimum wage, and increase our investment in childcare, transportation and housing vouchers. (See attachment).

Q: What has the President done to help welfare reform succeed?

A: The President started reforming welfare early in his first term, granting waivers to 43 states to require work and encourage personal responsibility, expanding the Earned Income Tax Credit and the minimum wage to make work pay, and pushing the Congress

for nationwide welfare reform legislation which he signed into law in August 1996. Since 1996, he has: launched The Welfare to Work Partnership, which now includes 12,000 businesses that have hired an estimated 410,000 welfare recipients; issued an executive order to ensure the federal government hired welfare recipients (over 14,000 to date); and supported the launch of the Vice President's Coalition to Sustain Success, an array of national civic, service, and faith-based groups working to help new workers with the transition to self sufficiency. He has also fought for and won additional funds for welfare to work efforts, including a new tax credit to encourage the hiring of long term recipients, funding for Welfare-to-Work transportation (\$75 million in FY 1999), and Welfare-to-Work housing vouchers (50,000 enacted to date): And on April 10, the President put in place new welfare rules that make it easier for states to use TANF funds to provide such as child care, transportation, and job retention services for working families.

Q: What is the Administration doing to make sure families get the food stamps and Medicaid for which they are eligible?

A: In July the President took executive action that will go a long way to ensure working families access to food stamps, by: (1) allowing states to make it easier for working families to own a car and still be eligible for food stamps; (2) simplifying food stamp reporting rules to make it easier for families to get food stamps; and (3) launching a nationwide public education campaign and a toll-free hotline to help working families know whether they're eligible for food stamps. Families with earnings up to 130 percent of poverty (\$8.50 an hour for a family of three) can be eligible for food stamps to supplement their income and help buy food for their families, but only two of five working families eligible for food stamps actually apply for and receive them.

HCFA has been working hard with states to ensure that people who should be enrolled in Medicaid are, in fact, enrolled. Medicaid is a joint partnership between HCFA and the states. States have primary responsibility for operating their programs. Nevertheless, HCFA continues to provide technical assistance and intends to be aggressive in ensuring that states follow all federal rules involved with Medicaid eligibility determinations.

Since the beginning of 1997, HCFA has issued numerous letters designed to inform and educate States of their responsibilities under Medicaid. A new guidebook for states released last month is just the latest of our efforts to work with states to ensure that people moving off cash assistance programs, and working families who may not realize they are eligible for assistance, still get Medicaid benefits. The guidebook also makes clear that states' TANF-Medicaid application must furnish a Medicaid application upon request and may not impose a waiting period. States must also process Medicaid applications without delay. Extensive outreach efforts are also under way in all 50 states to enroll children in health insurance as part of the implementation of the Children's Health Insurance Program (CHIP).

In addition, both USDA and HHS are working aggressively to enforce the law requiring states to provide Medicaid and Food Stamp applications upon request and ensuring they process them without delay, regardless of the state rules governing the TANF application.

Background:

Between 1995 and 1998, the number of people receiving food stamps fell more than 3 times faster than the number of people in poverty. Recently released estimates from the Bureau of the Census show that the number of people in poverty fell from 36.4 million in 1995 to 34.5 million in 1998. Administrative data from the Food and Nutrition Service show that over the same period food stamp participation fell from an average of 26.3 million to 20.0 million. (Food stamp participation has fallen still further since then: in June, the program reached 17.8 million people).

There are a number of factors contributing to the decline in food stamp participation. One is the strength of the nation's economy, which allowed participants to find work, reducing their need for food stamps. Another is the success of welfare reform in moving participants from welfare to work. At the same time, some working families don't realize they are eligible for food stamps and have difficulty obtaining them, leading some participants to leave the program unnecessarily and discouraging others from applying for benefits. Finally, some changes in program rules under welfare reform restricted the participation of immigrants and unemployed childless adults.

GENE B. SPERLING
REMARKS ON THE CLINTON ADMINISTRATION'S
ANTI-POVERTY AGENDA
October 1, 1999

I. INTRODUCTION

I wanted to use the occasion of the release of the new Census numbers on income and poverty to do an overview of the effectiveness of the Clinton-Gore Administration's policies at addressing one of the most important missions of any Administration: reducing poverty and increasing opportunity for our most disadvantaged families.

In a nutshell, the record is one of significant progress in the right direction and a frank recognition of the significant distance still left to travel. I believe a fair analysis must make both of those points.

Sometimes in politics when there has been a significant accomplishment, the White House or a political party takes a victory lap. There is no cause for that here. But there is cause for understanding that significant progress has been made – and a reason to understand what has worked and what still needs to be done.

Recognizing that there has been progress – even stunning progress – does not and should not dull our sense of concern over the distance remaining. Take one example: poverty among African-American children was 46.1 percent in 1993. Yesterday, we learned it had fallen to 36.7 percent. That represents a 20 percent drop in African American child poverty – the lowest on record. On one hand, this is an enormous achievement. On the other hand, the fact that more than one-third of African American children are being raised in poverty stands as one of the most disturbing and disappointing facts in American society.

From the 1970s to the early 1990s, the Nation witnessed a slowdown in growth and a widening of inequality. The result was that the incomes of the bottom sixty percent of Americans fell, after adjusting for inflation, while the poverty rate rose. In the last several years, the economic performance of the Nation has improved substantially, with strong growth, low unemployment, low inflation, and low interest rates. It is important to recognize that the economic policies and excellent economic performance of the Nation over last several years has brought gains to all segments of society and stemmed the long rise of economic inequality. This can be missed when simply looking at trends over 20-25 year periods.

From 1993 to 1998, poverty has fallen across the board and incomes have risen for each and every income group. Consider the following (see Tables 1-4 at the back for more detail):

- The poverty rate has fallen from 15.1 percent in 1993 to 12.7 percent in 1998, lifting nearly 5 million people out of poverty.
- The poverty rate has fallen by 15 percent or more for all persons, African Americans, Hispanics, children, African American children, Hispanic children, single mothers, and many other groups. The poverty rate is now the lowest on record for African Americans, African American children, Hispanic children, single mothers, African American single mothers, and Hispanic single mothers.
- At the same time, incomes have grown by 9.9 –11.7 percent for every quintile of the income distribution. For the bottom three quintiles, this is the strongest growth since at least the 1970s. The 10.3 percent increase in incomes for the bottom quintile over the last 5 years represents an especially dramatic turnaround from the 4.4 percent decline between 1981 and 1993.
- Over the last 5 years typical families have seen their income rise by 12.1 percent and African American families have seen their incomes rise by 21.0 percent. That represents more than \$5,100 in income for the typical African American family.
- In 1998, the Earned Income Tax Credit (EITC) lifted 4.3 million people out of poverty – twice the number of people lifted out of poverty by the EITC in 1993.

II. CLINTON VISION

Despite this impressive progress a common critique of the Administration's record goes something like this: The President came into office with an ambitious investing-in-people agenda that might have addressed poverty, but he had to sacrifice it to take on increasing deficit projections.

Behind this critique lies two false premises. First, as I will establish, this President has fought – successfully – for significant investments in anti-poverty initiatives. The second, and the most fundamental misconception is that only significant government investments and not sound fiscal and macroeconomic policies are tools to reduce poverty. However much any of us believe in the power of wisely-crafted public policies to invest in people, no one should be blind to the fact that the last 6 years demonstrates definitively that macroeconomics and fiscal policy do matter for poverty reduction and they can matter big time.

The old paradigm assumed that fiscal discipline would hurt poverty reduction efforts for two reasons: one, public investments would have to be sacrificed or put on hold and two, deficit reduction would lead to short-term economic contractions that could freeze or hurt economic opportunities for poorer Americans even if in the long-run it led to savings, capital formation, and faster productivity growth.

The new fiscal paradigm of the last six years has told a rosier story – even and especially for the short-term. Serious debt reduction took away what Bob Rubin called the “deficit premium” leading to a virtuous cycle of lower interest rates and higher investment that increased capacity enough to allow for continuing expansion without inflation. Experts from Alan Greenspan to Paul Volcker credit the fiscal deficit reduction since 1993 as a key component of our near record expansion.

In short, strong deficit reduction helped create the conditions for an exceptionally strong, steady, and long expansion that has, in turn, led businesses to seek out more, and more often, minority and economically disadvantaged Americans who had traditionally been left behind, ignored, or at least left on the fringe of the labor market.

The significant impact of this new recruitment of workers who had previously been on the fringe of the labor market how misguided it is to discount the contribution that fiscal and macroeconomic policy has made to our efforts to reduce poverty. Consider the following:

African American unemployment has fallen from 14.3 percent at the end of 1992 to 7.8 percent last month – and this year reached the lowest level on record. Over this period, Hispanic unemployment fell from 11.5 percent to 6.5 percent, the lowest on record. At the same time, the expanding economy, and the policies I will discuss in a moment, have brought new workers into the economy. The labor force participation rate of single mothers has risen from 73.7 percent in 1992 to 84.2 percent in 1997. At the

same time, the percentage of single women with children who received welfare has fallen from 19.3 percent in 1992 to 8.3 percent in 1997.¹

Furthermore, the low unemployment rate may be creating a virtuous employment circle. The European economies saw large increases in their unemployment rates in the 1980s translate into what appears to be permanently higher levels of unemployment, a process some economists have called “hysteresis.”² One explanation for why this might happen is that high unemployment rates lead to people being unemployed for longer periods, during which time they start to lose both their productive skills and their ability to search for jobs effectively. As a result of these changes, the unemployment rate could stay permanently higher. Although the definitive evidence for the United States is not in yet, there is good reason to hope that if we keep the expansion going with so many previously disadvantaged and unemployed workers in the workforce for so long, we will create a far larger pool of ready and able American workers for years to come.

¹ Council of Economic Advisers, “Good News for Low Income Families: Expansions in the Earned Income Tax Credit and the Minimum Wage,” *A report by the Council of Economic Advisers*, December 1998.

² Olivier Blanchard and Lawrence Summers, “Hysteresis and the European Unemployment Problem.” In Stanley Fischer, ed., *NBER Macroeconomics Annual*, Vol 1, 1986, MIT Press: Cambridge.

III. WHY MACROECONOMIC POLICY IS NECESSARY, BUT NOT SUFFICIENT

However flawed the premise that fiscal discipline has no impact on poverty reduction, the notion that there should be a sole and exclusive focus on deficit reduction is equally if not more flawed. Shared and inclusive growth is not an automatically assured outcome.

Growth has not always led to higher incomes for the poorest and falling poverty rates for the Nation. After observing the poverty rate rise and incomes at the bottom fall despite the expansion of the 1980s, David Cutler and Lawrence Katz published a paper arguing that “a long-standing, positive relationship between the economic well-being of the poor and the growth of the economy has changed.”³ The experience of the 1980s shows that growth, by itself, is not sufficient.

In the 1990s, falling unemployment rates and higher growth have once again led to falling poverty rates and higher incomes for all Americans. In fact, some economic evidence suggests that the fall in poverty may be even larger than one would have predicted just from the relationships that prevailed in the past.⁴ The President’s policies have played an important part in giving people the tools, incentives and opportunities so that they can all benefit from, and contribute to, the strong economy. Macroeconomic policy is necessary, but not sufficient.

Furthermore, fiscal discipline and resulting low-interest rates can fund investment growth and give more disadvantaged Americans job opportunities, but it won’t ensure that a generation of young children won’t be lost to poor schools, poor nutrition, and crime and drug ridden opportunities. Fiscal discipline may lead businesses to help some Americans who have fallen behind to get new training opportunities, but new technological and capital investments without a skilled and motivated workforce is like a bat without a ball. Necessary but not sufficient.

The new economy has the potential to create a skills gap, between those who know how to take advantage of our new technologies and those who do not. Closing this gap, and ensuring that everyone has access to the higher returns to work, is one of the major challenges as we move forward.

In the new economy, productivity growth is being driven by the high technology sector. Workers succeed best when they have the skills to succeed. Improvements in technology and other changes continue to raise the gap between the wages of college educated workers and those with only a high school degree or less. In 1997, the average

³ David Cutler and Lawrence Katz, “Macroeconomic Performance and the Disadvantaged.” *Brookings Papers on Economic Activity* 2:1991.

⁴ Findings by Robert Haveman and Jonathan Schwabish “Macroeconomic Performance and the Poverty Rate.” Institute for Research on Poverty Working Paper DP 1187-99 imply that increasing GDP growth by 1 percentage point, and lowering the unemployment rate by 0.5 percentage points, results in a 0.4 percentage point reduction in poverty in the 1993-97 period. This compares with a 0.2 percentage point reduction in 1959-72 and no reduction in the 1980s.

college graduate made 77 percent more than the typical high school graduate, compared to only 58 percent more in 1995.⁵ In the last 7 years, the unemployment rate for high school dropouts has averaged 9.3 percent, while the unemployment rate for college graduates has only averaged 2.5 percent.

Study after study has documented that each additional year of a college can increase a worker's future earnings by 5 to 15 percent with evidence that such returns have risen in recent years.⁶ Caroline Hoxby, for instance, finds that the return to a College education was 12 percent from 1992 to 1996, compared to 5 percent from 1972 to 1978.⁷

That is why even in a period of fiscal contraction, a sound growth strategy must be able to bring down deficits and increase educational investments and work incentives. The 1993 Budget was an example of such a balanced approach. While it called for \$505 billion in deficit reduction – the total gross savings were over \$600 billion. In other words, the 1993 budget made over \$100 billion in additional tough choices so that the largest EITC increases could be passed and solid investments could be made in Head Start and the Special Supplemental Income Program for Women, Infants, and Children (WIC) – even in the midst of deficit reduction. Indeed, dropping the President's bold increase in the Earned Income Tax Credit could have allowed the President to avoid his most politically costly decision – raising the gas tax by 4.3 cents. Yet the new Census data show that there are at least 2.3 million fewer Americans in poverty, the direct result of the expanded EITC, because the President made tough decisions and chose a balanced approach over a sole focus on deficit reduction.

Contrary to any notion that poverty reduction initiatives were put on hold until the budget was balanced, the President has sought the right balance between debt reduction and creating and expanding upon programs that enhance economic opportunities for poorer Americans. Even in the midst of the dramatic deficit reduction we have seen over the past 6 years, President Clinton has successfully increased funding for several anti-poverty programs and indeed has passed several new economic opportunity initiatives.

While one can turn to Table 5 and see a number of poverty reduction programs, three examples of improvement to existing programs are Head Start, WIC and EITC. We now spend nearly \$3 billion more each year for Head Start and WIC than we did in 1993 even as discretionary spending as a percentage of our economy has been reduced from 8.4 percent in 1993 to less than 6.6 percent in 1999.

⁵ U.S. Department of Commerce, Bureau of the Census, *Educational Attainment in the U.S. Current Population Reports*. December 10, 1998.

⁶ See Thomas Kane and Cecilia Rouse, "Labor Market Returns to Two and Four-year College: Is a Credit a Credit and Do Degrees Matter?" *American Economic Review*, 85:3, 1995 and Orley Ashenfelter and Alan Krueger, "Estimates of Economic Returns to Schooling From a New Sample of Twins." *American Economic Review* December 1994.

⁷ Caroline Hoxby, "Tax Incentives for Higher Education." *Tax Policy and the Economy* 12 1998 MIT Press: Cambridge.

Likewise, the President has proposed and signed an impressive number of new initiatives that either focus on lower income Americans or which are at least targeted to disproportionately benefit more economically distressed Americans. One can see a complete list in Appendix 1. Initiatives that focus on lower-income people include:

- Empowerment Zones, Community Development Banks, Community Reinvestment Act (CRA) reform, Child Health Initiative, Welfare to Work programs, Brownfields, GEAR-UP, Youth Opportunity Grants, and Individual Development Accounts.

Other programs that disproportionately target low-income Americans include the Reading Excellence program and the Technology Literacy Challenge.

IV. BURDEN OF FISCAL UNCERTAINTY SHOULD NOT FALL ON THE POOR

In making the difficult choices between fiscal discipline and investments, any government should be guided by the principle that the burden of fiscal uncertainty should never fall first on the poor. This is not to say that low-income programs should never ever bear any burden of fiscal discipline – but it should be a last resort – not a first. This principle is based not only on equity but because any government should feel concern about imposing irreparable damage in the name of deficit reduction – only to find out that altered budgetary projections made the cuts unnecessary. Even if one believed that balancing the budget should be the sole motivation of fiscal policy, those who called for major cuts in Medicaid, Food Stamps, and the EITC in 1995 turned out to be asking a painful sacrifice from the poorest and most politically powerless population that was proven to have been unnecessary. On the other hand, freezes or even cuts to those most able to handle them are easily reversed when times improve.

V. REWARDING WORK

The Clinton-Gore focus on poverty reduction has been very much grounded in a vision of rewarding work for poorer families. This coherent and comprehensive vision is a consistent strand running from sections of Putting People First to a comprehensive set of policies to reward work.

Economists are in strong agreement that lower income Americans are quite responsive to both economic incentives to enter the workforce or to disincentives that punish work efforts. In the past a single mother who wanted work risked losing health care for her children, while facing large child care, transportation, and clothing costs for the choice to enter the workforce. At the same time, if she were on Aid to Families with Dependent Children (AFDC), she would face one-for-one reductions in welfare payments for each dollar she earned above a relatively small amount. These child care, health care, and transportation costs, together with AFDC, served as a prohibitive tax on work for too many poor Americans.

The Clinton-Gore agenda has been to launch an all-out assault on such work disincentives by seeking to reward work and by aspiring to the goal that no full-time working parent should have to raise his or her child in poverty. The assault included a successful effort to dramatically increase and defend the EITC while raising the minimum wage.

EITC and Minimum Wage

Consider what this can mean for our most hard-pressed working families. A working parent with two children earning the minimum wage in 1993, made \$10,569 with the EITC (in 1998 dollars). With increases in the EITC and minimum wage, that same family is above the poverty line – making over \$13,000 – a more than 25 percent inflation-adjusted increase in their standard of living.

Indeed, both Census data and academic studies show how powerful the impact of the EITC has been. The latest poverty statistics from the Census provide alternative measures of poverty with and without the EITC (see Tables 6 and 7). They show that in 1998, 4.3 million people were raised out of poverty by the EITC – of which more than half were children. This is an increase of 2.3 million over the number of Americans lifted out of poverty by the EITC in 1993. The result suggests that more than one-quarter of the reduction in poverty between 1993 and 1998 (7.7 million people according to the poverty measure that includes the EITC) is directly attributable to the expansion of the EITC.

In reality, the benefits of this tax credit have probably been even greater than these simple statistics suggest. There is now an increasing academic literature confirming that the EITC has been effective in bringing people, particularly single women, into the workforce:

- Liebman and Eissa find that the EITC significantly increases labor force participation among single mothers, especially less educated women. Dickert, Hauser, and Scholz present findings consistent with this, predicting that the 1993 EITC expansion would induce 516,000 families to move from welfare to work.⁸
- Partly as a result, 84.2 percent of single mothers were in the labor force in 1997, up from 73.7 percent in 1992.

The minimum wage has also played an important role in increasing the return to work, while expanding labor force participation. Previously, there was a concern that raising the minimum wage created a trade-off between higher wages and lower employment. A series of studies by David Card and Alan Krueger, however, debunked this premise, showing that higher minimum wages could enhance the income of working people while maybe even increasing employment.⁹ At the same time, they showed that low-income families receive most of the benefits of higher minimum wages. This is especially true if one takes into account recent research at the Urban Institute and Council of Economic Advisors which shows the interaction of the minimum wage with the EITC, and their effectiveness in moving people from welfare to work.

A study by Mark Turner of the Urban Institute and Johns Hopkins University indicates that increases in the minimum wage can create an important incentive to move from welfare to work.¹⁰ He found that raising the minimum wage by 50 cents would lead to a 1.3 to 2.5 percentage point decrease in the welfare rolls, as between 97,000 and 187,000 women chose to move from welfare to work. This finding is consistent with a recent study by the Council of Economic Advisors which found that the expansion of the minimum wage explained between 10 and 16 percent of the decline in welfare caseloads between 1996 and 1998.¹¹

Health Care, Child Care, and Welfare Reform: Removing the Disincentives to Work

We also took decisive action to remove the disincentives to work.

Health Care

Limited access to health insurance in entry-level jobs – as well as poor health to begin with – can discourage work. Historically, government assistance in providing affordable, accessible health insurance was limited to poor, single-parent families receiving welfare. As a result, work would end Medicaid coverage – keeping many

⁸ Nada Eissa and Jeffrey Liebman, "Labor Supply Response to the Earned Income Tax Credit." *Quarterly Journal of Economics*, 111(2) 1996, Bruce Meyer and Dan Rosenbaum, "Welfare, the Earned Income Tax Credit, and the Employment of Single Mothers." Joint Center for Poverty Research Working Paper May 1998 #2, and Stacy Dickert, Scott Houser, and John Karl Scholz, "The Earned Income Tax Credit and Transfer Programs: A Study of Labor Market and Program Participation." *Tax Policy and the Economy* 9 1995 MIT Press: Cambridge.

⁹ David Card and Alan Krueger, *Myth and Measurement*, Princeton: Princeton University Press.

¹⁰ Mark Turner, "The Effects of Minimum Wages on Welfare Reciprocity," Joint Center for Poverty Research Working Paper July 1999 #4.

¹¹ Council of Economic Advisors, "The Effects of the Economic Expansion on Welfare Caseloads: An Update." *A report by the Council of Economic Advisors* August 3, 1999.

people on the welfare rolls out of fear of losing their health coverage.¹² This can be an especially serious problem because many low-wage jobs lack employer-sponsored health insurance, many Temporary Assistance to Needy Families (TANF) parents have health problems, and uninsured children typically have more sick days at school.¹³

Clearly, passage of some variant of the President's health care plan in 1994 would have been a major pro-work, anti-poverty step. Since that didn't happen, the President has focused on targeted policies to achieve similar goals. Three major policy initiatives have provided access to affordable health insurance to low-income working families. First, the President has de-linked Medicaid from welfare program, making Medicaid accessible to working as well as poor families. This has been accomplished within the context of welfare reform in 1996, but also before that through state waiver programs and aggressive administrative action. This approach is working, as can be seen in one study which found that the proportion of Medicaid-enrolled children with an unemployed parent fell from 75 percent in 1987 to 47 percent in 1996.¹⁴

Perhaps the most important step was the Children's Health Insurance Program (CHIP) – the largest children's health care investment since the creation of Medicaid in 1965. This program is targeted at working families who lack health insurance for their children but have too much income to qualify for Medicaid. Too many of these parents skip work to care for children who are sick but lack access to doctors or needed medicines. CHIP was created in 1997 with bipartisan Congressional support at a cost of \$24 billion dollars over five years. To date, about 1.3 million children have been enrolled in state programs, all of whom come from working families – a number that is expected to double by September 2000.¹⁵

Finally, the President has taken a first step – and continues to push for legislation – that ensures that people with disabilities are not kept from productive employment by their fear of losing their health insurance. In 1997, the President created an option that would allow people with disabilities who have income below 250 percent of poverty to buy into Medicaid. However, this doesn't go far enough. The Work Incentives Improvement Act, which was funded in the President's FY 2000 budget and has

¹² See Robert Moffitt and Barbara Wolfe, "The Effect of the Medicaid Program on Welfare Participation and Labor Supply." *Review of Economic Studies*, November 1992 and Aaron Yelowitz, "The Medicaid Notch, Labor Supply, and Welfare Participation: Evidence from Eligibility Expansions." *Quarterly Journal of Economics* 110(4) November 1995 for two good studies documenting this point.

¹³ One study finds that only about 43 percent of people in near-poor families have employer-sponsored insurance (O'Brien E; Feder J. (May 1999). *Employment-Based Health Insurance Coverage and Its Decline: The Growing Plight of Low-Wage Workers*. Washington, DC: The Kaiser Commission on Medicaid and the Uninsured.). It may be worse for people leaving welfare, with one study finding that less than one in four received health insurance on the job: Loprest P. (1999). *Families Who Left Welfare: Who Are They and How Are They Doing?* Washington, DC: Discussion Paper: Assessing the New Federalism.

¹⁴ Banthin JS; Cohen JW. (August, 1999). *Changes in the Medicaid Community-Based Population: 1987-96*. Rockville, MD: Agency for Health Care Policy and Research. MEPS Research Findings No. 9 AHCPR Pub. No. 99-0042.

¹⁵ Smith V. (July 30, 1999). *Enrollment Increases in State CHIP Programs: December 1998 to June 1999*. Washington, DC: The Kaiser Commission on the Future of Medicaid and the Uninsured.

unanimously passed the Senate, would take additional steps to ensure that no person has to choose between work and health coverage.

Child Care

Research shows that women are highly responsive to the costs of child care in making decisions to work. A recent National Bureau of Economic Research working paper finds that if the costs of childcare could be lowered by 50 cents per hour, the result would be an 18 percent rise in labor force participation by unmarried women with kids and a 39 percent rise for unmarried High School dropouts with kids.¹⁶

Under the Clinton-Gore Administration, federal funding for child care has increased by 80 percent, helping parents pay for the care of about 1.25 million children out of the 10 million that are eligible. The 1996 welfare reform law increased child care funding by \$4 billion over six years to provide child care assistance to families moving from welfare to work. Last year, the President succeeded in securing \$140 million in new funds for after-school care and \$173 million for child care quality activities. Over the next five years, the President has proposed to expand child care to another 1.15 million kids.

Welfare Reform

The President's health care and child care initiatives have been an integral part of his strategy to make welfare reform work, by providing people with the opportunities to move into the workforce. The President's efforts began in the first days of the Administration, with the Secretary of Health and Human Services granting waivers to 43 states between 1993 and 1996 to try a broad range of experiments to help provide an incentive for people to move from welfare to work. These measures included "sticks" like time limits and work requirements, but also incentives like allowing welfare recipients to keep more benefits when they went to work or to exclude items like cars when calculating their assets for the purposes of program eligibility.

Welfare reform in 1996 pushed this further, abolishing AFDC and replacing it with TANF – a new program based on block grants with time limits and a wide latitude for states to design their own rules. One consequence has been the proliferation of rules that allow people to continue to receive benefits when they first work and other incentives like childcare, transportation, reimbursement of work-related expenses, and earnings supplements. The result has been a powerful incentive for people to move from welfare to work – with evidence documented in one study indicating that these measures like these increased the employment rate by 2.8 to 11.8 percentage points in different experiments across the United States and Canada.¹⁷

¹⁶ Patricia Anderson and Philip Levine, "Child Care and Mother's Employment Decisions." *NBER Working Paper No. W7058* March 1999.

¹⁷ Rebecca Blank, David Card, and Philip Robins, "Financial Incentives for Increasing Work and Income Among Low-income Families," Joint Center for Poverty Research Working Paper February 1999 #1.

Welfare reform is working. Welfare rolls are down by nearly half to their lowest level in 30 years, nearly four times more of those on welfare are working, and the employment rate of people receiving welfare in the previous year has increased by 70 percent. All fifty states are meeting the law's overall work requirement.

Recent studies by the Urban Institute, the General Accounting Office, and others have documented that the vast majority of recipients leave the rolls for jobs.¹⁸ The recent poverty statistics bear witness to the tremendous gains that have been made by single mothers as a result of the wide-range of policies I have discussed: poverty rates for single women with children have fallen from 46.1 percent in 1993 to 38.7 percent in 1998 – a 16 percent decline.

At the same time, we cannot let ourselves lose sight of the fact that the job is not done. More still needs to be done for families struggling to balance childcare needs for jobs. More needs to be done to ensure that the many people who need and are eligible for food stamps and Medicaid actually sign up for these programs. And we need to continue monitoring to ensure that people are indeed leaving welfare for good jobs.

¹⁸ Pamela Loprest, "Families Who Left Welfare: How Are They Doing?" Urban Institute Discussion Papers 99-02, 1999 and General Accounting Office, "Welfare Reform: Information on Former Recipients Status," April 1999.

VI. CLINTON ECONOMIC OPPORTUNITY AGENDA: LIFTING UP PEOPLE AND PLACES

The most frustrating and frequent debate in any policy circle on economic development is whether the focus should be on empowering people or places. The President's policies and common sense dictate a focus on both.

As I will discuss, policies that give people the skills or mobility to move to jobs, training, or houses in other neighborhoods can be quite successful in creating opportunity and a better, safer standard of living. Yet these strategies only confirm that neighborhoods and schools matter – it hardly seems right to only rely on strategies to move people out of poor neighborhoods into better neighborhoods without any effort to strengthen the distressed neighborhoods where people live.

When the President and the Vice President ran for office there was an increasingly counter-productive tug-of-war between government and laissez-fair approaches to our Nation's struggling urban and rural communities. The President and Vice President believe that there is a third way, an activist effort by government to bring capital, free enterprise and entrepreneurial activity to our nation's underserved areas.

In order to breathe life into their Third Way vision, President Clinton and Vice President Gore set out in 1993 to put in place a comprehensive empowerment agenda to tackle the problems of distressed communities. This administration created the first-ever federal Empowerment Zones and Enterprise Communities. With Vice President Gore's leadership, we have completed two rounds of Empowerment Zones, which are helping to bring growth and opportunity to some of the most economically distressed communities in our nation. We have also passed a brownfields tax incentive to help clean up nearly 11,000 environmentally contaminated sites in our inner cities and rural areas, and bring them back to life – and we have proposed to Congress that this incentive be a permanent part of our tax code. We have also established a network of Community Development Financial Institutions (CDFI's) and expanded the nation's affordable housing stock by making the Low-Income Housing Tax Credit (LIHTC) permanent, reinventing the Department of Housing and Urban Development, and increasing the number of housing vouchers.

Perhaps as significant as any economic development initiative has been the reform of the Community Reinvestment Act (CRA). The CRA today is restoring healthy markets in distressed communities, helping to build homes, create jobs, and restore hope all across the country. Community Development experts estimate that over \$1 Trillion of CRA-related lending commitments had taken place by 1997. More than 95 percent of this activity occurred since 1992. While it is very difficult to say how much of this activity would never have occurred without the CRA, the structure of accountability is a modest regulatory imposition in comparison with the dividends. The CRA and other programs that support investment in low-income communities are invaluable tools. This year, the President has challenged the private sector to join him in a New Markets initiative to

bring equity capital, jobs, and economic opportunity to America's most underserved urban and rural communities.

The New Markets Initiative is designed to spur equity investment in low and moderate-income communities through our New Markets Tax Credit and loan guarantees. This Initiative was developed in response to the need to create access to equity capital in underserved communities. Government can help provide the tools for businesses to grow through other efforts that are part of the New Markets Initiative, such as BusinessLINC which is a program launched by the Vice President and supported by the Business Roundtable that encourages mentoring and protégé relationships between small businesses and large companies. These are just examples of our efforts to encourage more private sector investment and partnerships in economically distressed areas.

VII. NEW DIRECTIONS: INVESTING IN PEOPLE

I will not even attempt to catalog all of the efforts that the Clinton-Gore agenda for investing in people has made to reduce poverty and create economic opportunity – but I do want to point to six areas that we feel are critical to future poverty reduction and are at stake in our current budget battle.

Moving to Opportunity

Research dating back to the Chicago Gautreaux case has shown that poor families who are given the opportunity to move to better neighborhoods have better education and job experiences. New research on HUD's experimental housing mobility program – moving to opportunity – in two separate studies in Boston and Cleveland are showing that increased housing mobility brings not only economic opportunity but also a significant reduction in behavioral problems for children including reduced juvenile arrest rates, injuries, victimization of crime, while having positive health and mental health impacts for parents and heads of households.¹⁹ These are some of the reasons that this President and the Vice President believe that Secretary Cuomo's efforts to add 100,000 housing vouchers is a valuable anti-poverty proposal and worth fighting hard for in the current VA-HUD appropriations bill. HUD's Economic Development Initiative (EDI) provides grants to be used in tandem with Section 108 guaranteed loans for economic revitalizations projects. EDI has helped bring development and jobs to underserved areas across the country. Notably, the EDI initiative funded the Good Hope Marketplace in Anacostia here in Washington, which includes a full-service, 55,000-square foot Safeway supermarket.

Closing the Digital Divide

As our nation seeks to close the race and income gaps that have too often divided us, it's critical that we not allow a new divide. We all know children who have become computer literate at a young age and watched their knowledge accelerate as their older relatives stagnate – still uncomfortable and awkward with the computer age. If we let a generation of middle-class children grow up whizzing from one computer to another while a generation of poorer children stays computer illiterate, we will be sitting by as a new divide helps widen the race and income gap we are seeking to close.

History shows that public policy can make a difference in determining whether or not the demand for higher-skilled workers that creates higher wages across the board or instead leads to increasing wage inequality.²⁰

¹⁹ Lawrence Katz, Jeffrey Kling, and Jeffrey Liebman "Moving to Opportunity in Boston: Early Impacts of a Housing Mobility Program." Harvard University, Princeton University, and NBER. September 1999 and Jens Ludwig, Greg Duncan and Paul Hirschfeld, "Urban Poverty and Juvenile Crime: Evidence from a Randomized Housing-Mobility Experiment," Joint Center for Poverty Research, Northwestern University and University of Chicago, working paper.

²⁰ See the discussion in Lawrence Katz, "Technological Change, Computerization, and the Wage Structure." Harvard University and NBER, September 1999.

In the first three decades of this century, the flood of newly educated workers went to the burgeoning high schools the United States, which helped us meet the recent job demands of the electrified economy. In turn, this caused wages to rise and inequality to decrease. The question we face today is whether policy can help spur a wave of technology literate workers who can meet the demands of the information economy with broadly shared gains in income. The challenge is significant. Households with incomes over \$75,000 are 20 times more likely to be connected to the Internet than the poorest families and nine time more likely to have a computer. Black and Hispanic families are less than 40 percent as likely as white families to access to the Internet at home.²¹

The President and the Vice President deserve significant credit for seizing on this issue at an early stage. Under their leadership, investment in educational technology has risen by more than 3,000 percent – from \$23 million to over \$800 million proposed for FY 2000. Today, our new Technology Literacy Challenge initiative asks each state to create a plan to close the digital divide. The E-Rate provides \$2.25 billion in discounts to community schools and libraries that want to connect to the Internet – where poorer schools are eligible for 90 percent discounts.

This year we are fighting – so far unsuccessfully – to fully fund our next steps and effort to ensure middle schools have teachers trained in technology and to expand dramatically our Community Technology Centers – to bring computer learning to the places in our poorest neighborhoods most likely to serve disadvantaged young people.

Investing in Children From Birth

Everything we know about the importance of learning and everything we know about the exceptionally high poverty rates for African-American and Hispanic children, and everything we believe about the value of a fair start in life, compels us to focus attention on the education and health of a child from the earliest possible time. That's why in even the toughest budget fights, the President has always insisted on budget increases in WIC and Head Start.

As Mrs. Clinton emphasized in her 1997 White House conference on early childhood development, pre-school that begins at age 4 may be too late for America's children.

Scientists have determined that the human brain achieves approximately 90 percent of its total growth by age 3.²² And the data demonstrates that experiences in a baby's earliest months help determine a person's physical and mental health, and ability to learn over a lifetime.

²¹ NTIA, "Falling Through the Net: Defining the Digital Divide", July 1999.

²² Rand Foundation, "Investing in Our Children, What We Know and Don't Know About the Costs and Benefits of Early Childhood Interventions." 1998.

To do this, we have not only expanded Head Start and set a goal of reaching 1 million participants by 2002 – participation is now at 833,000 – but also created Early Head Start in 1994 to provide comprehensive early childhood development services for 0-3 year olds.

And we've also proposed the creation of an Early Learning Fund that would boost community efforts to improve child care for the youngest children through home visitation (where a nurse or trained professional comes in to counsel new parents about development and health issues), parent counseling, efforts to help parents find child care, and a variety of other activities focused on early childhood. (This is based on a North Carolina program that has been successful – our proposal is \$3 billion over 5 years.)

Inspiring Disadvantaged Kids to Go to College and Finish

We are clearly proud of the efforts we have made through the Direct Student Loan programs, our income contingent loan repayment plans, national service, HOPE Scholarships, and increases in Pell Grants to open the doors of college to all young and older Americans. This is no doubt a wise public policy investment when we consider that each year a person from a disadvantaged background goes to college, they increase their projected lifetime earning by 5 to 15 percent.

Yet, if we are serious about the importance of a college education, we need to do more in two often-neglected areas – giving adolescents from disadvantaged backgrounds the hope, expectations and incentives to choose college over dropping out and secondly, to ensure that economically disadvantaged people who choose college – stay in college.

First, we have too often failed to focus on encouraging adolescents to stay in school and go to college. While excellent programs like TRIO do exist, when one considers the differential between the difficulty of getting dropouts back on track and the benefits of higher education, this is an area that deserves considerably more attention from public policy makers.

In seeking to get dropouts back on track we know that it is important to reject the congressional impulse to distribute funds geographically. Instead we have focused on providing concentrated benefits so that enough opportunities are offered in particular neighborhoods so that a dropout who says no to the streets will face some critical mass of peer support instead of ridicule and being ostracized for doing the right thing. Our new \$250 million Youth Opportunities Act – which Sec. Herman calls the “YO” program – follows that research by concentrating its benefits in 25-30 communities to help 58,000 disadvantaged youth between 14-21 years old. The fact that this has been zeroed in the House Republican budget is one more reason that this budget truly matters.

Although the YO program is smart and well-designed, there is also no question that getting young people back on track after they have dropped out has historically been one of the most difficult public policy tasks.

The best approach – confirmed by both research and common sense – is to reach disadvantaged youth at the youngest age, to give one-on-one mentors, role-models, and most of all the expectation that they will finish high school, and go to college. Eugene Lang’s “I Have A Dream” program challenges private sector individuals to play that role. This has been shown in city after city when the overwhelming majority of young people in this program graduate from high school in neighborhoods where the overwhelming majority of their peers drop out.

Last year, we took a bold step forward with the new GEAR-UP initiative. GEAR-UP asks colleges to work with non-profits to adopt classes of 6th and 7th graders from nearby disadvantaged schools and stay with these classes through all of high school, providing information about college, one-on-one mentoring with college students or local professionals, and most of all giving many young people the gift that many of us were lucky enough to have automatically: the strong and sustained expectation that whatever the temptation of adolescence, we would graduate and go to college. The Ford Foundation has highly praised this new initiative and is working with the first partnerships. This type of initiative that gives hope and high expectations to disadvantaged young people, is one of the best things we can do. While several Republicans have supported this, including Congressman Mark Souder of Indiana, it was eliminated in the House as we seek to increase its funding to help meet the overload of demand expressed in the first competition.

Secondly, while there has been great and deserved focus on getting disadvantaged and minority young people into college, too little attention has been paid to ensure that those young people who enter college – either two- or four-year institutions – stay there.

Roughly one-third of community college students drop out by the end of the first semester – and about one-half leave within the first year. Among four-year students, attrition is highest in the first two years. This problem is particularly acute in certain minority communities – only 21 percent of African-American and 18 percent of Hispanic students who begin college complete a bachelor’s degree within five years compared to 30 percent of White students.

This is a great crisis of college education that needs more attention from all of us. We need to carefully analyze the funding and support service issues as well as programs around the country that provide intensive summer programs or pre-college education boot camps, to help low-income and minority high school students enter college ready to succeed.

Ending Widow Poverty

While policy makers often celebrate the dramatic reduction in elderly poverty, particularly since the creation and expansion of Medicare, the recent policy debate on Social Security has opened the eyes of many Americans to the fact that within those low elderly poverty rates lie very different circumstances for different portions of the elderly population. While married elderly women for example have extremely low poverty rates

of less than 5 percent, the poverty rates for elderly widowed women who often live alone is at a disturbingly high rate of 18 percent.²³ One of the important reasons for addressing Social Security reform sooner rather than later is not only the opportunity to extend solvency for most of the 21st century, but also to address the flaws in the Social Security system that are certainly contributing to this unacceptable high poverty rate for elderly women living alone. There are several ideas for how best to address this including proposals to increase the percentage of Social Security benefits that a widow is eligible for after her husband passes away. On a related issue, experts who are examining whether or not the measure of the poverty rate should be altered have become increasingly concerned that the current poverty rate formula does not adequately count for the huge degree of out of pocket health cost that many elderly Americans pay for. If a new standard is devised, the adjustment for the poverty of single elderly women could be even higher, showing again further evidence that comprehensive Medicare and Social Security reform addressing both solvency and such poverty related issues should remain a top goal for Congress and this Administration.

Closing Wealth and Equality Through Universal Savings

Before closing I want to briefly move from the issue of income and wage inequality, to wealth inequality. Over the last decade, and particularly over the last several years, Americans who were fortunate enough to have savings they could invest in the stock market or through tax preferred IRAs or employer provided pensions have experienced a significant increase in their wealth and retirement security. Those without the savings to have invested in the market have certainly been left behind. The gap between the financial involvement of the poor and the rich is enormous. According to the Department of the Treasury, 73 million American workers and their spouses do not have any employer-sponsored retirement plan. According to Census data, only 10 percent of the bottom 40 percent of households have IRAs or Keoghs.

In our tax system we today give significant incentives – tax deductions – to employer provided pension, IRAs and 401ks to encourage Americans to save. Our choice to provide incentives for such savings is clearly based on the public policy determination that we benefit as a nation when our savings rate is higher and when individuals take more responsibility for their retirement security. Yet the unfortunate irony is that by designing such incentives only in the form of tax deductions, we leave out in the cold the very Americans who have the lowest income and the hardest time saving because of their very high marginal propensity to consume any disposable income on the basic necessities of life. Yet by what possible public policy rationale do we justify the fact that only 7 percent of tax incentives for savings and retirement go to families making under \$50,000? For the large number of families in the bottom 2 quintiles that pay little income tax, such incentives are an empty offer. Most can not afford to save virtually anything; many owe no income taxes because of their low income and even those who can save a little get only 15 cents to the dollar as an incentive – far below what is offered to those in the upper-income brackets. If we are serious about closing the wealth

²³ National Economic Council, Interagency Working Group on Social Security, “Women and Retirement Security”, October 1998.

inequality gap, if we are serious about encouraging more low-income Americans to save for their retirement to participate in the process of investment, wealth creation and the wonders of compound returns, then we need to find new proposals that will let all Americans participate in savings and wealth creation. The President's Universal Savings Accounts (USAs) sought to do just this. They gave an automatic tax credit to any working family regardless of income so that everyone could have an individual savings account and then it provided matching returns to encourage Americans to contribute their own savings as well. Whether or not the USA account is the only way to achieve this goal, I believe that this is the type of savings and wealth creation incentives that must be provided for all Americans--even those at the lowest income bracket-- if we are to close the wealth and equality gap in the future.

VIII. CONCLUSION

I have tried today to marshal evidence to demonstrate that public policy efforts to reduce poverty and increase economic opportunity have significant cost-benefit savings for our society and are consistent with a pro-growth economic strategy. Yet I would be being less than straight-forward if I suggested that I believe that the justification for our anti-poverty and economic opportunity efforts rest solely on efficiency or economic growth.

We are a country that not only tolerates, but truly celebrates the wealth and riches any American can fairly earn by virtue of their hard work, skill, innovation, entrepreneurship, or even dumb luck. But at the core of our strong belief in our unique American virtue of enterprise is the specific American value that any one person can rise by virtue of their individual talent and efforts.

And while there will always be the rare individual who will rise from the cruelest of situations, there are too many neighborhoods, too many streets, too many families where a child born today faces overwhelming obstacles. When the accident of birth and not the content of one's efforts and God-given talents becomes the best indicator of too many children's life opportunities, it strikes at the heart of our belief system in our strongly-held value that every American should have a fair opportunity to rise to the best of their ability.

When more than one-third of all African-American and Hispanic children are born into poverty, when a single street in a single city marks a divide between children born into a home with computerized Pokemon games and children born into homes with inferior nutrition and resources, and neighborhoods with failing schools and mean crime-filled streets, we fail to live up to the values and aspirations we hold dear. Yet every dedicated mentor, every successful pre-school program, every excellent teacher, every creative after-school program, every additional college grant can bring to make our ideals a little more real for each child touched by such an opportunity who chose to accept the responsibility to take advantage of it.

Beneath the big picture politics, the headline soundbites, and the defining issues for the next election, are a multitude of below-the-screen budgetary decisions that each

by themselves will determine whether another 10,000 or 100,000 or even million young people will get such an opportunity. Shame on all of us if we ever forget that.

TABLE 1				
POVERTY RATES FOR SELECTED GROUPS				
	1993	1998	Percent Change	1998 Is the Lowest Since
All Persons	15.1	12.7	-15.9%	1979
Black	33.1	26.1	-21.1%	Record
Hispanic	30.6	25.6	-16.3%	1979
Children	22.7	18.9	-16.7%	1980
Black children	46.1	36.7	-20.4%	Record
Hispanic children	40.9	34.4	-15.9%	Record
Single mothers	46.1	38.7	-16.1%	Record
Black single mothers	57.7	47.5	-17.7%	Record
Hispanic single mothers	60.5	52.2	-13.7%	Record
Elderly	12.2	10.5	-13.9%	Record

(Note: the poverty threshold for a family of four is \$16,660)

TABLE 2			
NUMBER OF PEOPLE IN POVERTY FOR SELECTED GROUPS (thousands)			
	1993	1998	Change
All Persons	39,265	34,476	-4,789
Black	10,877	9,091	-1,786
Hispanic	8,126	8,070	-56
Children	15,727	13,467	-2,260
Black children	5,125	4,151	-974
Hispanic children	3,873	3,837	-36
Single mothers	4,424	3,831	-593
Black single mothers	1,780	1,397	-383
Hispanic single mothers	706	707	+1*
Elderly	3,755	3,386	-369

Note: This population grew 16.1 percent between 1993 and 1998.

TABLE 3			
CHANGE IN INCOME			
	1993	1998	Increase
All families	41,691	46,737	+5,046
Black families	24,300	29,404	+5,104
Hispanic families	26,682	29,608	+2,926
Married couple	25,816	28,330	+2,514
Single female	43,256	46,637	+3,381

TABLE 4					
INCOME GROWTH FROM 1981-1998					
	1981	1993	1998	1981-93	1993-98
All families	40,502	41,691	46,737	2.9%	12.1%
Black families	24,000	24,300	29,404	1.3%	21.0%
Hispanic families	29,671	26,682	29,608	-10.1%	11.0%
Bottom quintile	8,749	8,361	9,223	-4.4%	10.3%
Second quintile	20,966	21,044	23,288	0.4%	10.7%
Third quintile	34,628	35,276	38,967	1.9%	10.5%
Fourth quintile	51,581	54,821	60,266	6.3%	9.9%
Top quintile	90,350	114,216	127,529	26.4%	11.7%

TABLE 5

Programs Created Before Clinton Administration					
Selected Programs that Reduce Poverty					
	FY93	FY99 enacted	FY00 Request	Growth 93-99	Increase 93-99
Head Start					
Total Dollars in Millions	2,776	4,660	5,267	67.9%	1,884
Total Participants	714,000	835,000	880,000	16.9%	121,000
WIC					
Total Dollars in Millions	2,928	3,924	4,105	34.0%	996
Total Participants	5,700,000	7,400,000	7,500,000	29.8%	1,700,000
EITC (calendar year estimates)					
Total Dollars in Millions	15,537	31,855	32,809	105.0%	16,318
Total Participants	15,117,000	19,771,000	19,951,000	30.8%	4,654,000
Dislocated Worker Funding					
Total Dollars in Millions	517	1,406	1,596	172.0%	889
Total Participants	279,000	689,100	858,500	147.0%	410,100
Job Corps					
Total Dollars in Millions	966	1,309	1,347	35.5%	343
Total Participants	60,419	69,700	70,432	15.4%	9,281
Pell Grants Max Award					
Total Dollars in Millions	\$2,300	\$3,125	\$3,250	35.9%	825

TABLE 6						
POVERTY WITH AND WITHOUT THE EITC						
	POVERTY RATE			PEOPLE IN POVERTY (thousands)		
	w/o EITC	w/ EITC	Lifted Out	w/o EITC	w/ EITC	Lifted Out
1992	16.2	15.2	1.0	41,561	38,995	2,565
1993	16.3	15.5	0.8	42,262	40,188	2,074
1994	15.8	14.6	1.2	41,335	38,196	3,139
1995	14.8	13.4	1.4	39,032	35,340	3,692
1996	14.9	13.3	1.6	39,666	35,407	4,259
1997	14.3	12.7	1.6	38,393	34,097	4,296
1998	13.6	12.0	1.6	36,864	32,527	4,337

Note: poverty without the EITC is Census definition 1a and with the EITC is Census definition 1b

TABLE 7						
POVERTY WITH AND WITHOUT THE EITC IN 1998						
	POVERTY RATE			PEOPLE IN POVERTY (thousands)		
	w/o EITC	w/ EITC	Lifted Out	w/o EITC	w/ EITC	Lifted Out
Americans	13.6	12.0	1.6	36,864	32,527	4,337
Black	27.6	24.5	3.1	9,626	8,545	1,081
Hispanic	27.4	23.6	3.8	8,635	7,438	1,198
Children	20.2	17.0	3.2	14,410	12,127	2,283
Black children	38.5	32.9	5.6	4,357	3,723	634
Hispanic Children	36.6	30.9	5.7	4,082	3,446	636
Single mom	43.2	36.7	6.5	12,614	10,716	1,898

Note: poverty without the EITC is Census definition 1a and with the EITC is Census definition 1b

APPENDIX 1 – Strengthening America’s Working Families

Making Work Pay

Expanded EITC to Put Money Back in Working Families’ Pockets.

- The EITC helps working families supplement their earnings through tax credits. In President Clinton’s 1993 Economic Plan, EITC was expanded to make work pay for 15 million working families.
- In 1998, the EITC lifted 4.3 million Americans out of poverty – more than twice as many as in 1993. The average family received an EITC credit of \$1,890.

Minimum Wage Hike Increased Pay By \$1,800 for Full-time Workers.

- In 1996, the President and Vice President fought for and won a minimum wage increase from \$4.25 to \$5.15 per hour for nearly 10 million workers.
- Now, the President is fighting for another minimum wage increase – \$1 over two years – to make work pay for 11.4 million workers and help ensure that parents who work hard and play by the rules can raise their children out of poverty.

Initiated \$3 Billion Welfare-to-Work Initiative

- The Clinton-Gore Administration fought for a \$3 billion Welfare-to-Work initiative as part of the Balanced Budget Agreement.
- During FY 1998 and FY 1999, nearly \$2.7 billion in grants have been awarded to states, local communities, and tribes across the nation to help long-term welfare recipients, and certain low-income fathers, work and support their families.
- Funds are targeted at individuals and communities facing the greatest challenges. To date, these resources are helping nearly 100,000 individuals to get or keep a job.

Passage of Welfare-to-Work Tax Credit and Work Opportunity Tax Credit.

- The Welfare-to-Work Tax Credit, enacted in the 1997 Balanced Budget Agreement, provides a credit equal to 35 percent of the first \$10,000 in wages in the first year of employment, and 50 percent of the first \$10,000 in wages in the second year, to encourage the hiring and retention of long-term welfare recipients.
- This credit complements the Work Opportunity Tax Credit, which expands eligible businesses to include those who hire young adults living in Empowerment Zones and Enterprise Communities.
- In FY 1999, the President requested and Congress accepted extending the credit through June 30, 1999.

Established of Individual Development Accounts (IDAs)

- In 1992, the President proposed to establish IDAs to empower low-income families to save for a first home, post-secondary education, or to start a new business. The 1996 welfare reform law authorized the use of welfare block grants to create IDAs.
- Last year, the President signed legislation creating a five-year IDA demonstration program for low-income households. The first 40 grants announced in September will match the savings of 10,000 working families.

Supporting Working Families

Introduced \$500 Per-Child Tax Credit.

- 27 million families with 45 million children are receiving the \$500 per-child tax credit included in the 1997 Balanced Budget Agreement.
- Because of the President's efforts, 13 million children from families with incomes below \$30,000 will receive the tax credit.

Improved Access to Affordable and Quality Child Care.

Under the Clinton-Gore Administration, federal funding for child care has increased by 80 percent, helping parents pay for the care of about 1.25 million children.

- The 1996 welfare reform law increased child care funding by \$4 billion over six years to provide child care assistance to families moving from welfare to work. Last year, the President succeeded in securing \$140 million in new funds for after-school care and \$173 million for child care quality activities.

Expanded Head Start By Nearly 70 Percent.

- Since 1993, President Clinton and Congressional Democrats have expanded Head Start by 57 percent, from nearly \$2.8 billion in FY93 to nearly \$4.7 billion in FY99.
- The program now serves an estimated 835,000 children, reaching more kids than at any time since its creation in 1965 and more than 200,000 additional children than in 1992.

Provided Health Care to Low-Income Working Families.

- The President has successfully fought to increase low-income families' access to health care by allowing states to expand Medicaid to cover low-income families, providing Medicaid coverage to low-income two-parent families who work, and helping states to ensure that families receive Medicaid for which they are eligible.

Enacted Single Largest Investment in Health Care for Children since 1965.

- The President, with bipartisan support from the Congress, created the Children's Health Insurance Program (CHIP). The Balanced Budget Act of 1997 allocated \$24 billion over five years to provide affordable health insurance to children in families with incomes too high to qualify for Medicaid but too low to purchase private insurance through State-designed programs.
- On September 8, 1999, President Clinton announced that all 50 states and every territory are participating in this new program, bringing us closer to our goal of providing insurance for up to 5 million children through a combination of Medicaid and CHIP.

Increased WIC by \$1 Billion.

- Under President Clinton, participation in WIC has expanded by 1.7 million – from 5.7 million in 1993 to 7.4 million women, infants, and children in 1999. Funding has risen from \$2.9 billion to \$3.9 billion.

Helping Working Families to Buy Food

- In July 1999, the President took executive actions to help ensure working families who need Food Stamps have access. These steps include:
 - ✓ new policy guidance making it easier for working families to own a car and still receive food stamps
 - ✓ new regulations simplifying rules so that families don't have to report income as often and states won't be penalized for small errors in projecting families' future earnings
 - ✓ a new public education campaign to educate working families about food stamps.

Welfare-to-Work Housing Vouchers.

- In 1999, the President proposed and Congress approved \$283 million for 50,000 new housing vouchers for current and former welfare recipients who need housing assistance to get or keep a job.
- Families will use these welfare-to-work housing vouchers to move closer to a new job, to reduce a long commute, or to secure more stable housing that will eliminate emergencies which keep them from getting to work every day on time.

Helping People Get to Work.

- With the Administration's leadership, the Transportation Equity Act for the 21st Century (TEA-21) authorized \$750 million over five years for the President's Job Access initiative and reverse commute grants.
- The Omnibus Budget Act included \$75 million for this program in FY 1999, and in May, Vice President Gore awarded grants to 179 communities in 42 states around the country to assist states and localities to develop flexible transportation alternatives for welfare recipients and other low income workers.

Eighty Percent increase in Child Support Collections.

- Tougher measures under the Clinton-Gore Administration have resulted in a record \$14.3 billion in child support collections in 1998, an increase of \$6.3 billion, or 80 percent since 1992. Not only are collections up, but the number of families that are actually receiving child support has also increased.
- In 1997, the number of child support cases with collections rose to 4.2 million, an increase of 48 percent from 2.8 million in 1992.

Investing in Our Future**Opening the Doors to Higher Education.**

- To boost families' take-home pay and increase individuals' potential to secure higher-paying jobs, the 1997 Balanced Budget agreement made the first two years of college universally available for nearly 6 million students with the \$1,500 HOPE Scholarship credits.
- It also provided a 20 percent tuition tax credit to help offset tuition costs for college or lifetime learning. More than 7 million students will benefit from the lifetime learning tax credit.

Expanding Work Study and Pell Grants.

- President Clinton and the Congressional Democrats have increased the Pell Grant maximum grant amount from \$2,300 in FY 93 to \$3,215 in 1999. In 1999, nearly 4 million students will receive a Pell Grant of up to \$3,125, the largest maximum award ever.
- This year, nearly one million students will be able to work their way through college because of the President's expansion of the Work Study Program.

Creation of the GEAR-UP Initiative.

- Under the Clinton-Gore Administration, the new mentoring initiative GEAR-UP was created to better prepare up to an estimated 260,000 low-income middle school children for entrance to and success in higher education.
- GEAR UP grants will fund partnerships involving more than 1,000 organizations, such as the YMCA, Boys and Girls Clubs, 4-H programs, Salvation Army, libraries, arts organizations, local chambers of commerce, and individual companies such as Wal-Mart, Unisys, Hewlett-Packard, Bell Atlantic, and the New York Times Newspaper in Education Program.

- In August 1999, \$120 million in grants were awarded to 164 partnerships and 21 grants to states (for statewide program).

Launched the Reading Excellence Program.

- Two years ago, President Clinton launched the America Reads Challenge, a multi-faceted effort to help states and communities ensure that all children can read well and independently by the end of the third grade.
- The program received \$260 million in FY99 and another \$286 million has been requested in FY2000 to allow the program to continue. The funds help to train reading tutors and coordinate after-school, weekend and summer reading programs linked to in-school instruction. In addition, over 1,000 colleges have pledged to use federally-financed work-study positions for tutoring programs.

Strong Investments in Educational Technology

- The Clinton-Gore Administration has made strong investments in educational technology. Funding for education technology at the Department of Education has increased from \$23 million (FY1993) to \$698 million (FY1999) to \$801 million (FY2000 request).
- States and local communities are given a great deal of flexibility in how they use the money for computers, teacher training and software -- but they are required to develop a plan for ensuring equity.
- The "E-rate" provides \$2.25 billion in discounts to connect schools and libraries to the Internet. Discounts are 90 percent for the poorest schools that need it most, and 20 percent for the wealthiest schools. E-rate was a critical part of the Telecommunications Act of 1996, which the President signed into law.

Creation of Youth Opportunity Grants

- President Clinton proposed the \$1.25 billion Youth Opportunities Grants program, a five year grants initiative that was authorized as part of the 1998 Workforce Investment Act. The Youth Opportunities program will receive \$250 million this fall and will make a significant attack on concentrated poverty and unemployment. This initiative represents a strong investment in Empowerment Zones and Communities and other urban and rural communities that are considered high-poverty areas.
- The program focuses primarily on out-of-school youths. The program provides them with job training and has a strong emphasis on mainstreaming youth into the private sector, both in terms of immediate job placement and work-based learning opportunities to increase long-term employment prospects.
- The main goal of the program is to increase employment in the private sector, increase college enrollment and decrease dropout rates.

Providing Safe After-School Opportunities.

- Under the Clinton-Gore Administration, the 21st Century Community Learning Centers program have been expanded to provide safe and academically enriching after-school opportunities for nearly 400,000 school-age children in rural and urban communities each year.
- In his FY 2000 budget, the President proposed to triple funding to \$600 million, reaching 1.1 million students.

Helping Students Most in Need.

- Title I funds provide over \$8 billion to help 11 million low-income students benefit from higher expectations and a challenging curriculum geared to higher standards.

Assisting Migrant Children and Families.

- Migrant families face difficult obstacles to gaining the education and training they may need to improve their standard of living. President Clinton improved the Migrant Education Program in the 1994 reauthorization, and won a 16 percent increase in FY 1999.

Ensuring Opportunities for All Citizens

Providing Community Resources.

- Community Development Block Grant (CDBG) funds activities such as economic and neighborhood revitalization, job creation, public services, community development and renewal of distressed communities.
- In 1999, CDBG funds assisted nearly 200,000 households in up to 900 communities around the country that are eligible for CDBG funding.

Restoring Fairness and Protecting the Most Vulnerable.

- The President made a commitment to fix several provisions in the welfare reform law that had nothing to do with moving people from welfare to work.
- The Balanced Budget Act of 1997 and the Noncitizen Technical Amendment Act of 1998 invested \$12 billion to restore disability and health benefits to 380,000 legal immigrants who were in this country before welfare reform became law.
- The Agricultural Research Act of 1998 provided Food Stamps for 225,000 legal immigrant children, senior citizens, and people with disabilities who enter the United States by August 22, 1996.

Helping People Who Want to Work but Can't Find a Job.

- The Balanced Budget Act, as amended by the Agricultural Research Act, also restores \$1.3 billion in food stamp cuts.
- The welfare reform law restricts food stamps to 3 out of every 36 months for able-bodied childless adults, unless they were working.
- Acknowledging that finding a job often takes time, the BBA provided funds for work slots and food stamp benefits to help those who are willing to work but, through no fault of their own, have not yet found employment.

Helping to Bring Private Enterprise and Capital to Distressed Areas.

The Clinton-Gore Administration has renewed the commitment of the Federal government to help bring private enterprise into underserved communities and improve access to capital for low-income households, minorities, and traditionally underserved borrowers.

Created the Community Development Financial Institutions (CDFI) Fund.

- In 1994, President Clinton proposed and signed into law the CDFI Fund. Through grants, loans, and equity investments, the Fund has created a network of approximately 270 CDFIs in distressed areas across the nation. CDFI activities leverage investments from banks, foundations, and other sources.
- Since the Fund's creation, it has made more than \$190 million in awards to community development institutions and financial institutions. This investment is expected to leverage three to four times the amount of the investments in total capital raised for CDFIs over the next few years. In FY 1999, funding for the CDFI Fund was increased 19 percent to \$95 million.

Strengthened and Simplified the Community Reinvestment Act (CRA)

- In April 1995, the Clinton-Gore Administration reformed the CRA regulations to emphasize performance.
- According to the National Community Reinvestment Coalition (NCRC), the private sector has pledged more than \$1 trillion going forward in loans to distressed communities – and more than 95 percent of these financial commitments have been made since 1992.
- Banks made \$18.6 billion in community development loans in 1997 alone. Lending to minority and low-income borrowers is also on the rise.

135 Empowerment Zones and Enterprise Communities.

- After pushing to have Empowerment Zones (EZs) and Enterprise Communities (ECs) passed into law, the Clinton-Gore Administration has designated 135 urban and rural EZs and ECs across the country. The First Round EZ/EC initiative, which included 105 EZs/ECs, was proposed by President Clinton and passed by Congress in 1993. The Second Round of 30 EZs/ECs was also proposed by the President, and in FY 1999 the President and Congress provided first-year funding for the new EZs and ECs.
- Designated communities were chosen on the basis of their strategic revitalization plans, and receive special incentives and resources to help carry out their plans. The EZ/EC initiative has already leveraged over \$10 billion in additional public and private sector investment in community revitalization efforts.

The Economic Development Initiative and Section 108 Loan Guarantee.

- EDI grants are used to infuse capital into community development projects, enhancing the debt financing provided by the Section 108 loan guarantee program. Together, the programs support critical economic development in distressed communities.
- Estimated jobs supported by EDI and the Section 108 loan guarantee have grown by 300,000 from 1994 to 1998. During this time period EDI and the Section 108 loan guarantee program have funded \$3.5 billion for more than 650 separate project commitments.

Cleaning Up the Urban Environment through Brownfields Redevelopment.

- The Clinton-Gore Administration has launched a landmark effort, including the Brownfields Tax Incentive, to clean up and redevelop Brownfields sites.
- In total, the Brownfields action agenda has marshaled funds to clean up and redevelop up to 5,000 properties, leveraging between \$5 billion and \$28 billion in private investment and creating and supporting 196,000 jobs



The Children's Budget Report: A Detailed Analysis of Spending on Low-Income Children's Programs in 13 States

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variations in the cost of providing care in different categories of care, to different age groups, and to children with special needs. While eliminating the requirement for different payment rates for different categories of care, Congress added a requirement that Lead Agencies provide "a summary of the facts relied on by the State to determine that such rates are sufficient to ensure such [equal] access."

The statute indicates that if families receiving child care subsidies under the CCDF are to have equal access to child care, the payment rates established by a Lead Agency should be comparable to those paid by families who are not eligible for subsidies. In other words, the payment rates should reflect the child care market. Although the requirement for specified rate categories has changed, the reality remains that the market reflects differences along several dimensions, and we do not believe that Congress expected Lead Agencies to establish a single payment rate for all types of child care and all children irrespective of age.

The focus of PRWORA on work further highlights the need for CCDF Lead Agencies, which now are required by statute to administer the new Mandatory and Matching Funds, to establish payment rates that support work. Child care is often the major factor which determines whether families are able to work--and access to a variety of child care arrangements is necessary both to support today's increasingly diverse workforce and workplace demands, and to ensure that the healthy development of children is not compromised.

The major variable in the charges for child care is the age of the child, especially the added expense of caring for infants and very young children. And, payments that do not realistically reflect the charges of caring for very young children will frustrate the ability of families to work. Under PRWORA, many more families with infants and pre-school-aged children will be required to participate in work activities for longer hours per week. In providing the exception to the

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Introduction

State governments play an important role in the financing and delivery of services to children. While the federal government administers and funds almost all of the country's programs for the elderly, state governments administer and fund a substantial share of programs for children. They contribute up to half of the costs of the largest programs for children, such as Medicaid, the former Aid to Families with Dependent Children (AFDC) program, and foster care, and they set many of the rules for what specific services children receive, even for those programs that are almost entirely federally funded.

Although it has been generally known that states play an important role in programs for children, until this report there had been no detailed state-by-state research on what is actually spent on children. Such information is important because it can help state and federal policymakers see the priorities that are reflected in their funding. It can help state policymakers see where children's programs fall in their total state funding priorities and where particular children's programs stack up among all children's programs. It also allows them to compare their state's funding choices against those of other states. For federal policymakers, the information can identify how federal funding incentives affect state spending patterns, and it can highlight disparities between states. Because policymakers make thousands of funding decisions each year, they are not always able to see what those individual decisions add up to. Once they see the overall picture, they can decide if their spending choices are a good or a bad reflection of their actual priorities for children.



This report fills the void of analysis. It examines state, federal, and, where possible, local spending on low-income children in 13 states. The study is unique because the information was obtained from state sources, it includes state-only spending in addition to federal and state matching monies that are normally counted in other data sources, and it is actual expenditure data, not simply appropriations. No other report gives as much detail, or as much consistency across states, on state spending on low-income children and their families. The 13 states were chosen to ensure geographic, political, and economic diversity as part of the Assessing the New Federalism project, and together they include about half the nation's population. They are Alabama, California, Colorado, Florida, Massachusetts, Michigan, Minnesota, Mississippi, New Jersey, New York, Texas, Washington, and Wisconsin. Table A-1 shows seven characteristics of the 13 states and highlights their similarities and differences.

This report is particularly important with the adoption of the Personal Responsibility and Work

individual penalties under TANF for single custodial parents with a child under age six who cannot obtain needed child care, Congress recognized the special difficulties of locating affordable care for young children.

We anticipate that market rate surveys will also show variations in rates among categories of care, and we expect any significant variations to be reflected in the Lead Agency's payments.

A system of child care payments that does not reflect the realities of the market makes it economically infeasible for many providers to serve low-income children--undermining the statutory and regulatory requirements of equal access and parental choice. Experience with the now repealed title IV-A child care programs and the CCDBG suggests that providers limited their enrollment of children with subsidies because the subsidy payments were too low. Similarly, failing to compensate providers timely or not reimbursing them for days when children are absent also causes providers to refuse care to children with subsidies. Section 98.43(c) prohibits different payment rates based on a family's eligibility status or circumstances. This provision means that the Lead Agency may not establish payments for TANF families that differ from the payments for child care for the working poor, or for families in education or training, for example. We believe that use of different payment rates, based on an eligibility status, precludes the statutorily-required equal access to child care for families receiving CCDF subsidies. Additionally, different payment rates would frustrate one of the main intents in amending the Act in 1996--to have a unified child care system with a single set of rules. This purpose would be undercut if different payment rates based on eligibility criterion were permitted.

If payments for child care are to be sufficient to provide equal access to child care services in the open market, then the payments must be established in the context of market conditions. We are convinced that a survey of market rates is essentially the only methodologically sound way for Lead Agencies to ascertain whether the

Opportunity Reconciliation Act (PRWORA) in 1996. That act created two new block grants to the states, replacing existing federal programs that serve low-income families and children. The Temporary Assistance for Needy Families (TANF) block grant replaces the AFDC, Job Opportunities and Basic Skills (JOBS), and Emergency Assistance (EA) programs, and a new Child Care and Development Fund (CCDF) replaces the Child Care and Development Block Grant, AFDC Child Care, Transitional Child Care, and At-Risk Child Care programs. By converting the old "matching grant" programs into block grants, the federal government significantly altered the financing of services for low-income children. Rather than subsidizing states by matching the dollars each state puts up for these programs, the federal government now provides a fixed amount of money to each state. The conversion of multiple programs into a few block grants has also given the states a great deal of new flexibility in how they allocate their spending for low-income children. States can now move spending out of one program to another much more easily. This change in the funding structure could significantly alter what children's programs states fund and how much they spend on each one. This report provides a baseline of state spending on programs for low-income children in the 13 states before the implementation of PRWORA. It will be followed up by a study documenting what states spend on children well after the implementation of PRWORA is under way.

This report has seven sections. The first section discusses the nature of state fiscal data and the methodology used for the study that formed the basis for this report. The second section documents the amounts the federal, state, and local governments spent on children's programs and describes the variation in spending across the states. The third section analyzes the spending from state and local governments, and the fourth section determines whether the variation in spending is related to a state's ability to raise revenue. The fifth section reviews the broad distribution of state expenditures among six categories of children's programs. The sixth section examines spending in these six categories in more depth. The final section summarizes the study's findings. Because of the study's focus on low-income children, most of the discussion is devoted to programs other than education. Education programs benefit all children in a state, and most of the rest of a state's spending on children involves programs that serve predominantly low-income children.

Description of Data and Methodology

Limitations of National Reporting Sources on State Expenditures

State fiscal data are available nationally through four main sources: federal departments that administer the programs, the United States Census Bureau, the National Association of State Budget Officers (NASBO), and the National Conference of State Legislatures (NCSL). The body of data that each of these reporting sources provides is significant, but it is not detailed enough to use to determine total state spending on children's programs.

Federal departments, such as the Department of Health and Human Services (HHS), keep a record of the amount of federal funds and the required state matching funds for specific federal programs, but they generally do not collect the total amount of state funds spent on federal programs and the amount of state funds spent on state-initiated programs. Because this study aimed to track *total* state spending on children's programs, it was important to include the additional spending missed by the federal department records.

The bodies of state spending data that the Census Bureau publishes are exhaustive and are

payment rates they establish provide equal access.

A market survey must be conducted in the context of reasonably current market conditions to ensure that the payment rates continue to provide equal access. Therefore, the regulations at Secs. 98.43(b)(2) and 98.16(1) require a biennial market rate survey conducted no earlier than two years prior to the effective date of the currently approved Plan.

Surveys should not be a burden to States, which were required to conduct market surveys in the past. States have had a number of years' experience with the survey process. States have complete flexibility to design such surveys; we have not proposed a survey methodology. We note, however, that surveys may not be appropriate for establishing payments for children with special needs due to their need for services on a highly individualized basis and the effect of the Americans with Disabilities Act on providers' charges.

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In establishing payment rates we suggest a benchmark for States to consider. Payments established at least at the 75th percentile of the market would be regarded as providing equal access. States have already recognized that rates set at the 75th percentile--the payment level formerly required in the title IV-A child care programs--provide equal access. Comparisons of past State CCDBG and IV-A child care plans revealed that the majority of States used the same payment rate--the 75th percentile IV-A rate--for both program even though there was not a requirement to pay at the 75th percentile for CCDBG-funded care, only the requirement that CCDBG rates provide equal access. This same requirement continues unchanged in these regulations for the CCDF.

Comment: We received many comments about the requirement for a market survey; more comments favored the requirement than opposed it. Most of those favoring it wanted an annual survey or additional requirements around the timing of the survey or implementation of the survey results.

widely used to make comparisons across states on total government spending. For purposes of this study, however, they were not a perfect fit, for two reasons. First, Census aggregates its data into large categories, such as education or public welfare, and does not give detailed spending on individual programs. Second, it includes all funds spent by state entities, not just funds included in the state budget. For example, states purposely establish entities or authorities outside of the state budget that administer specific programs, such as public hospitals or transportation authorities. Because this study aimed to examine where spending on children's programs ranks among state priorities, it was necessary to review data on programs funded through the state budget process.

NASBO collects information from state budget officers on spending through the state budgets and is the only entity that regularly collects state budget expenditure data for the 50 states. Like Census, NASBO provides valuable data on state spending across major categories. Unfortunately, though, the NASBO data are so grossly aggregated that it was impossible to pull out the spending on children's programs. For example, NASBO reports expenditure data on seven categories of programs, one of which is "all other expenditures," which accounts for roughly 30 percent of state spending.

NCSL surveys legislative fiscal officers to report on state appropriations for six categories of programs. Although NCSL's data are extremely useful, especially because its reports are timely in providing state appropriation information, like NASBO it groups programs other than Medicaid and AFDC into an "other" category.

This Urban Institute report breaks new ground because it presents fiscal data collected at the state level through state budget offices, state departments, and state documents. It builds on previous reports that used the federal reporting sources described above and provides a more complete picture of state spending on children's programs.¹ In particular, this report shows total spending on children's programs and is not limited to reporting information on federal programs.

The enormity of this project and the complexities of deciphering 13 different state budgets mean that some small programs may have been omitted, but with the cooperation the study team received from numerous state budget officials they have identified most of the spending. No other report gives as much detail, or as much consistency across states, on state spending on children and their families.

Rules for Selection of Low-Income Children's Programs

Many different types of programs serve low-income children. Some serve only children (e. g., child care programs), many serve both adults and children (e. g., the AFDC program), and others are focused on a specific population (e. g., programs for individuals requiring mental health services) and do not specify an age range. Therefore, to guide their data collection effort the authors established decision rules that they used to decide whether particular programs fit within the study's definition of a children's program. The three main rules were to include (1) all spending on programs that were designed explicitly to assist predominantly low-income children, (2) spending on adults in programs where adults receive services only because of the presence of a child (e. g., AFDC), and (3) spending on children's portions of programs that benefit both children and adults if there are specific components of the program designed for children (e. g., Medicaid). The appendix gives details and examples of all of the decision rules.

The study also includes the Food Stamps and General Assistance programs because they are used to augment or substitute for the AFDC program, even though they were not designed

Response: While we concur with the commenters that it would be ideal to conduct surveys more frequently, we believe that a biennial survey balances several considerations: that the rates reasonably reflect the state of the market, that Lead Agencies have flexibility in designing and implementing the survey to establish rates, and that the administrative burden and expense of conducting the survey should be minimized. The Lead Agency may conduct a complete survey more frequently; it may also conduct targeted subsamples in specific areas as frequently as it deems necessary. However, we choose not to require more than a biennial survey.

Comment: Those commenters who opposed the requirement maintained that ACF had no authority to require a survey; that the statute's only requirement is for "the facts relied on by the State to determine" that rates are sufficient to ensure equal access.

Response: An executive branch agency charged with administering a statutory program has general authority to interpret the statutory provisions as needed in its administration of the program. As discussed above, we are convinced that a survey of market rates is the only methodologically sound way for Lead Agencies to ascertain whether the rates established are realistic, thus providing the statutorily required access.

Comment: A number of those opposing the survey requirement said it stifled State initiative in setting rates. For example, one commenter said that relying on frequent reports from resource and referral agencies or the State licensing bureau of provider shortages and making quick adjustments to rates to develop more capacity in effected areas would be a better, more responsive alternative to biennial surveys. Another commenter suggested using computer modeling in lieu of a survey.

Response: A survey, in that it reflects market realities, is an essential and critical factor--but not the only factor--that must be considered when the Lead Agency establishes rates. It is because survey findings are so central to understanding and gauging what level of

solely to help children. Generally, children's programs were defined as non-education programs that served children under 18 years of age. Although education programs are the largest type of children's programs that states fund, the objective of the study was to examine the various programs that serve predominantly low-income children. For this reason, education programs are not included.

The information collected is grouped into six categories of programs that represent the six major types of children's programs funded by the federal and state governments. This grouping facilitates an understanding of the strategies states use in serving low-income children. The categories are (1) cash assistance and training, (2) food and nutrition, (3) child care and early childhood development, (4) child protection and family services, (5) juvenile justice and youth services, and (6) health.

The *cash assistance and training* category includes youth job training programs and the AFDC, JOBS, Food Stamps, child support enforcement, and Earned Income Tax Credit (EITC) programs, as well as other, similar programs. The *food and nutrition* category includes the federal food and nutrition programs as well as state-initiated food and nutrition programs. The *child care and early childhood development* category includes all child care and child development programs, regardless of income eligibility. For example, this category includes state child care tax credit programs. (The totals do not include tax expenditures on the federal child care tax credit program because the Internal Revenue Service does not make this information available on a state-by-state basis.) The *child protection and family services* category includes foster care, child welfare services, adoption services programs, and other services directed at families such as parenting education. In the *juvenile justice and youth services* category are services for delinquent and at-risk youth, including juvenile corrections programs and youth runaway programs. The *health* category includes Medicaid expenditures on children, other child health programs, children's mental health services, and other health programs specifically provided for children.² Because of the difficulty in tracking Medicaid spending, all Medicaid expenditures are included in the health category, even if they are expended in other areas such as foster care.

Spending across States in the Six Categories

States fund a wide variety of programs, many of which are unique to a particular state in the population the program serves and its service design. In order to compare spending across states, the authors collected program descriptions

that were used to classify the programs into the six categories described above. Instead of comparing spending across states on a program-by-program basis, the study compared across states by the six categories. The exceptions were the large federal programs that are distinct programs identified in each state.

The study also compared spending for state fiscal year (SFY) 1995. While fiscal years vary in the 13 states, the study used each state's own fiscal year because it is one year of spending at approximately the same point in time and because most of the states would be unable to provide spending data for a period of time other than their fiscal year. States' fiscal years run from July 1 through June 30 except for Michigan's and Alabama's, which run from October 1 through September 30; Texas's, which runs from September 1 through August 31; and New York's, which runs from April 1 through March 31. The appendix provides greater detail on the authors' methodology and on the process they used for collecting the data.

payment might provide equal access that we have made the requirement. However, we are concerned that commenters may have assumed restrictions we did not intend, and have not created, in requiring a survey. And, we caution Lead Agencies, providers, and others against narrowly interpreting our survey requirement. For example, as suggested, up-to-the-minute vacancy data from CCR&Rs or licensing bureaus could be used in conjunction with market rate survey information to make quick and frequent adjustments to the payments to providers. In setting or adjusting rates, we remind Lead Agencies of the general principle that Federal subsidy funds can not pay more for services than is charged to the general public for the same service. Computer modeling or simulation still needs to be based on some parameters reflective of market realities if it is to produce rates that provide equal access. Although many commenters who opposed the survey requirement seemed to imply that the realities of the market could be ignored in setting rates that provide equal access, no plausible alternatives to the survey were offered.

Nevertheless, we will remain open to alternative methodologies to surveys and revisit this regulation in light of advancing technologies. At this time, however, we believe that a survey is an essential part of the ``facts`` upon which payment rates are established.

Comment: A few commenters observed that surveys may not produce rates where there are few, if any, providers of certain care, such as in non-traditional hours.

Response: As discussed above, the survey is not the only determinant of rates, it is just one of the many ``facts`` to be considered. Clearly, States have the flexibility to establish rates for care that is needed.

Comment: One commenter suggested that a standard index, such as the rate of inflation, be used to adjust rates gathered two, three, or four years in the past in lieu of a biennial survey.

Response: Use of a standard index alone, such as the Consumer Price

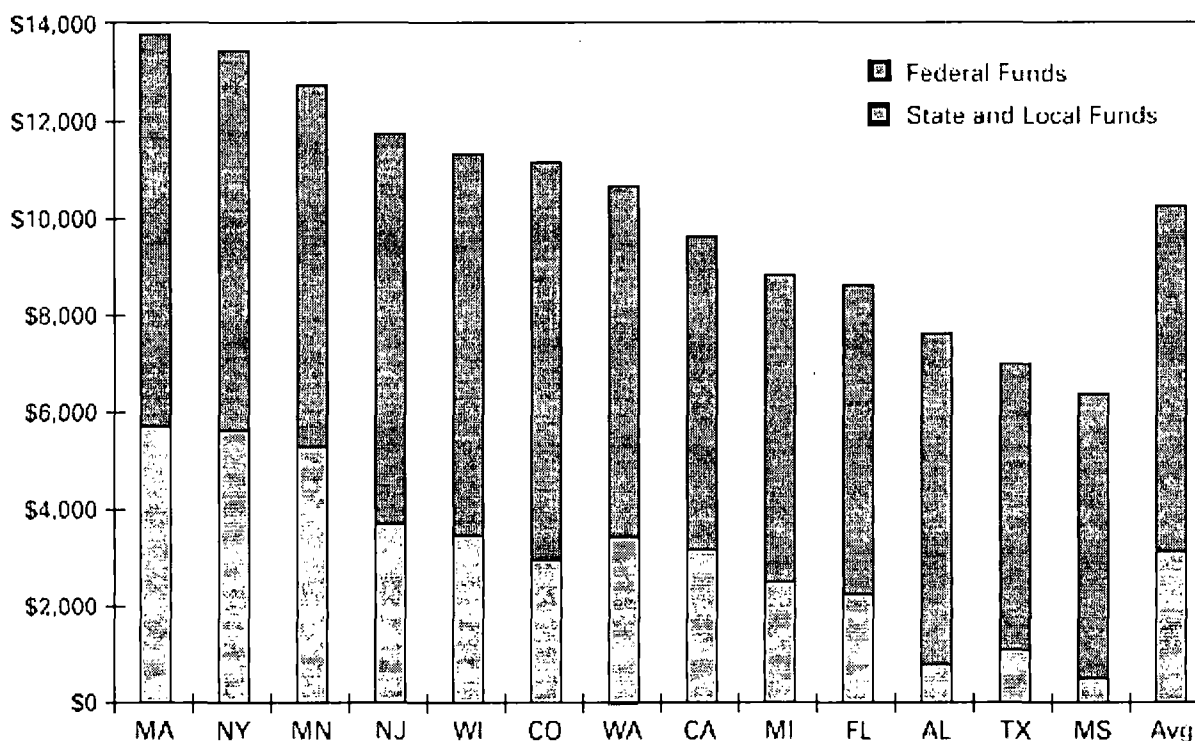
How Much Do the Federal, State, and Local Governments Spend on Low-Income Children?

This section reviews the total amount spent on low-income children from federal, state, and local sources.

Total Spending on Low-Income Children

As shown in [figure 1](#), the 13 states spent an average of \$10,111 per poor child in federal, state, and local funds on low-income children's programs in SFY 1995. This study compared spending on low-income children's programs (also called simply "children's programs" in this report) relative to the number of poor children in a state because it examined programs that serve predominantly low-income children living below the poverty level.³ Some programs, such as Medicaid and the EITC, also serve children above the federal poverty level. If the study had examined expenditures relative to the eligible populations of these programs (e. g., children below approximately 200 percent of poverty), total spending would be much lower than spending per poor child. [Figure 1](#) shows the portion of the spending per poor child from federal funds and the portion from state and local funds.

Figure 1. Low-Income Children's Program Spending—Federal and State and Local Funds per Poor Child, SFY 1995



Source: The Urban Institute.

Note: The numbers of children in poverty are 1994 estimates based on three-year averages.

See [table A-2](#) for each state's exact total, federal, and state and local expenditures.

The spending ranged from a high of \$13,654 per poor child in Massachusetts to \$6,292 in

Index (CPI) or other measures of inflation, is not an accurate indicator of actual provider charges in the child care market. The use of broad indices, such as the CPI could vastly underestimate changes in the child care market. For example, in a large urban area the demand for child care may drive up child care charges faster than the broad inflation indices would suggest. While States are free to use such adjustments in conjunction with surveys, especially in years when a survey is not conducted, they should be used with an understanding of their limitations.

Comment: One commenter observed that the 75th percentile is a term held over from days of IV-A child care (and as such was repealed by PRWORA). Another called the 75th percentile an arbitrary limit with no basis in fact or statute.

Response: We have used the 75th percentile as a reference point against which the Lead Agency can judge if its payment rates afford equal access. It must be presumed that a rate that provides access to at least three-quarters of all care does, in fact, provide equal access. We have not, however, required that payments be set at the 75th percentile, hence, it cannot be characterized as an arbitrary limit. It should be noted, for example, that Lead Agencies have greater flexibility under these regulations to recognize and compensate higher quality child care facilities and providers, including those that have obtained nationally or locally recognized accreditation or special credentials, than they had under the title IV-A regulations that limited payments to the 75th percentile.

Comment: A number of commenters wanted it clarified in the preamble that Lead Agencies can pay rates higher than the 75th percentile.

Response: Lead Agencies may pay rates higher than the 75th percentile as we have not established the 75th percentile as the payment standard or limit. Rather, rates established at the 75th percentile would be considered to ensure equal access, although such rates may be too low to purchase some child care services, for example, where there are acute shortages during non-traditional hours.

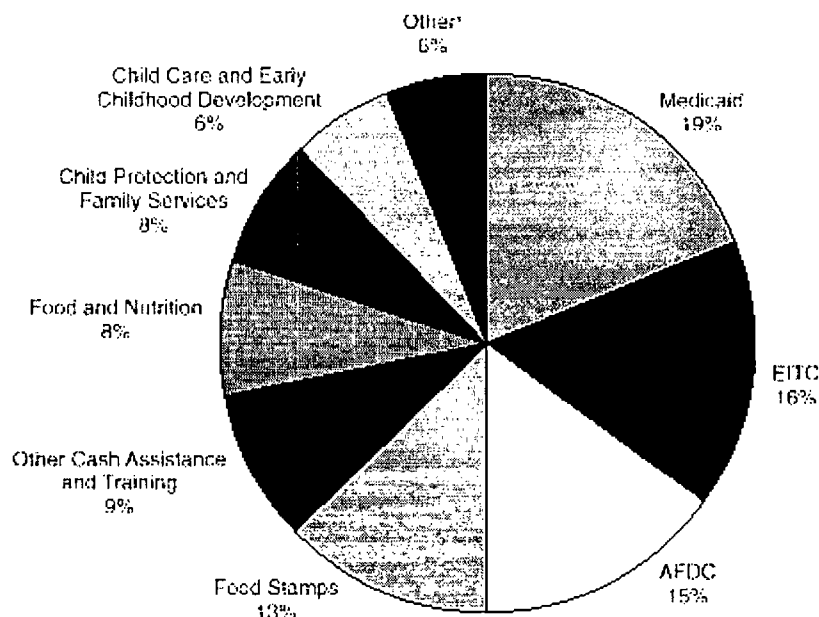
Mississippi, or from 35 percent above to 38 percent below the 13-state mean. The 13 states' spending can be divided into four distinct groups, with three states spending substantially above the mean (Massachusetts, New York, and Minnesota from 24 to 35 percent above the mean), four states spending slightly more than the mean (Washington, Colorado, Wisconsin, and New Jersey from 4 to 15 percent above the mean), three states spending slightly below the mean (California, Michigan, and Florida from 6 to 16 percent below the mean), and three states spending substantially below the mean (Alabama, Texas, and Mississippi from 25 to 38 percent below the mean).

On average, federal funds constituted 69 percent of total spending on low-income children's programs. This varied from Mississippi, where 92 percent of the children's program spending came from federal funds, to Minnesota, where 57 percent of the state's spending came from federal sources.

Almost Two-Thirds of the Total Spending on Children Was in Four Federal Programs

Figure 2 shows the total (federal, state, and local) spending by major federal program and program category. As the figure shows, almost two-thirds of the total spending was in four federal programs—Medicaid, EITC, AFDC, and Food Stamps. In addition, the figure shows that more than one-half of the total funds was spent on cash assistance and training programs—EITC, AFDC, Food Stamps, other cash assistance—and approximately one-fifth was spent on Medicaid and other health-related programs.

Figure 2. Percentage of Spending on Children by Major Program and Category, 13-State Average—Federal, State, and Local Funds, SFY 1995



Source: The Urban Institute.

a. Includes juvenile justice and youth services, and non-Medicaid-related health expenditures.

Comment: Several commenters urged ACF to require that payment rates reflect variations for different categories of care.

Response: When establishing rates, we expect that the Lead Agency will take into account survey results

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showing variations in charges for different categories of care. But, because there may be other facts that the Lead Agency considers, we believe such a prescriptive requirement would contradict the intent of the statute.

Comment: A number of commenters wanted us to clarify whether providers can charge amounts above the payment rates established by the Lead Agency; and if so, how this might deny equal access.

Similarly, a few commenters wanted a clarification of how a combination of low payment rates and high copayments can limit or deny equal access.

Response: A payment rate which provides for equal access does not necessarily provide access to every provider, irrespective of the provider's charge. There is no statutory basis for preventing a family from choosing a particular provider whose charges exceed the Lead Agency's payment rate. Nor is there an obligation on the part of the Lead Agency to pay an amount that is higher than the rate it determined is sufficient to provide equal access. In cases such as these, some States have created a contractual requirement that the provider will not charge the family the difference between its usual charge and the Lead Agency's rate. By offering the provider speedy, assured payments, the Lead Agency has been able to convince the providers to accept this stipulation.

The statute requires that the payment rate alone must 'be sufficient to provide equal access.' We separately discuss the question of copayments below.

Comment: One commenter said that market rates should reflect current market conditions on a sub-state basis, rather than on a

Of the four main federal programs, two are programs funded by both the state and federal governments (Medicaid and AFDC), and two are funded fully by the federal government (EITC and Food Stamps). States have very little control over these two fully federally funded programs. The EITC provides families with credits or refunds through the federal tax code, leaving states no direct effect on program expenditures, and although states pay for a portion of the administrative costs of the Food Stamps program, they can only indirectly affect the amount of food stamps a family receives by varying the family's AFDC grant amount.

On average, the EITC made up 16 percent of total spending on low-income children's programs and Food Stamps 13 percent of the total. However, the magnitude of these programs varied across the 13 states. In Alabama and Mississippi, combined EITC and Food Stamps spending accounted for 47 percent of total spending on children. In contrast, combined EITC and Food Stamps spending constituted 15 percent of total spending in Massachusetts and 18 percent in New York. Hence, the spending differences among the states, as shown in [figure 1](#), would be much greater if the EITC and Food Stamps programs were excluded from the total.

States Spend More on K– 12 Education Than on All Other Children's Programs Combined

Although the focus of this report is non-education spending, states spend a large amount on education programs. In fact, all 13 states spent more on K–12 education programs than on all low-income children's programs combined. [Figure 3](#) shows, for each state, the total low-income and K– 12 education spending per child, with the amount spent on education programs versus low-income children's programs broken out. [Figure 3](#) compares the total spending on children's programs by the number of children in the state instead of the number of poor children because education programs are not means-tested. In SFY 1995, the 13 states spent an average of \$5,720 per child on combined K– 12 education and low-income children's programs; spending ranged from a high of \$8,246 per child in New York to a low of \$4,487 per child in Alabama. On average for the 13 states, education programs accounted for 65 percent of total spending; the percentage going toward education programs varied from 77 percent in New Jersey to 52 percent in Mississippi.

Figure 3. Total Spending on K–12 Education and Low-Income Children's Programs—Federal, State, and Local Funds per Child, SFY 1995^a

statewide basis.

Response: We believe that surveys will reflect appreciable sub-state variations in rates, if any, which the State must then consider in establishing its rates.

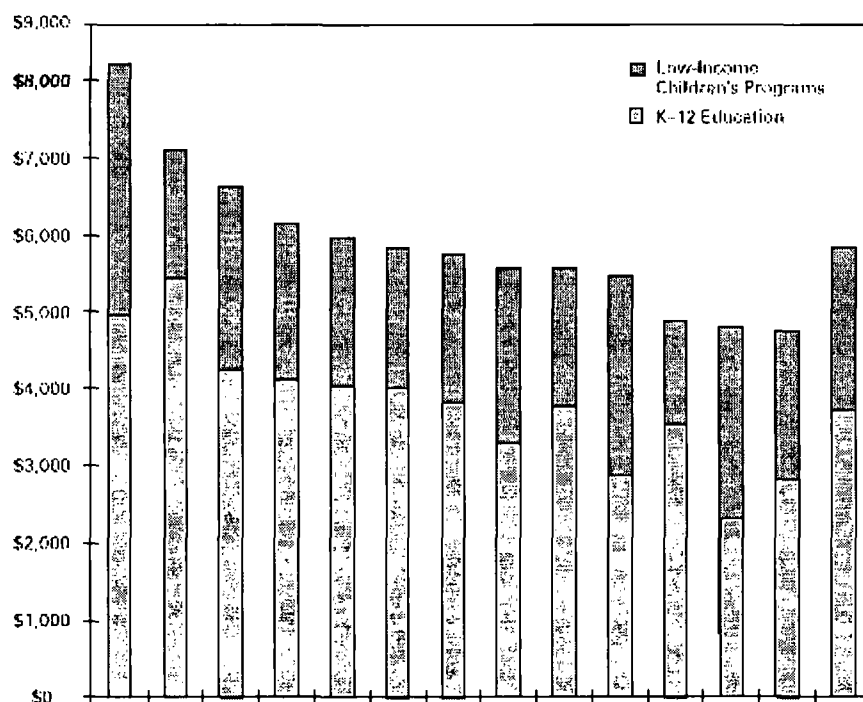
Comment: One commenter wanted it clarified that children with disabilities would not be adversely affected by a Lead Agency's payment rates.

Response: Payments for child care services for children with disabilities must also provide for equal access.

3. Affordable copayments. The third essential element of equal access is that any copayment or fee paid by the parent is affordable for the family and sliding fee scales should not be designed in a way that limits parental choice. We wish to emphasize that Lead Agencies have flexibility in establishing their sliding fee scales. However, in our view, copayment scales that require a low-income family to pay no more than ten percent of its income for child care, no matter how many children are in care, will help ensure equal access.

Recent reports by the Census Bureau indicate that families with income below the poverty level pay a disproportionate share of their income--18 percent--for child care; whereas families above the poverty level pay only seven percent of their income for child care. The size of the fee paid by a low-income working parent can be crucial in determining whether she and her family become, and remain, self-sufficient. When devising the fee scale Lead Agencies should try to ensure that small wage increases do not trigger large increases in copayments, lest continuation on the path to self-sufficiency be jeopardized for any family. The size of a fee increase is an especially important consideration because recent changes in the Food Stamp, housing assistance, Medicaid, SSI, and the Earned Income Credit programs may also affect the resources now available to a low-income working family.

Recent studies have shown that some child care providers are unwilling to accept children from families that receive subsidies for



Sources: The Urban Institute and U.S. Department of Education, Digest of Education Statistics.

a. Low-income children's programs that are not related to K-12 education but are administered by the states' departments of education (such as child care) are included in the low-income children's program spending total, and the spending has been subtracted out of the K-12 education total.

See [table A-3](#) for each state's exact total, federal, and state and local expenditures.

How Much Do State and Local Governments Spend on Low-Income Children?

The previous discussion looked at how much federal, state, and local governments together spent on low-income children's programs. This section looks only at how much state and local governments spent on children's programs. The federal government provides funding for children's programs through two types of programs: fully federally funded programs and state matching programs. In fully federally funded programs, the federal government pays the entire cost of the program and determines the funding amount. In state matching programs, states are required to spend funds in order to receive matching federal funds, and thus states determine the total amount of funding. Removing the federal funds from the discussion takes away programs that are funded 100 percent by the federal government, such as the EITC and Food Stamps benefits, and the federal funds provided to states in federal matching programs. This leaves state and local funds that are used to fund state-initiated programs and to provide the matching funds for federal matching programs.

State and Local Spending on Low-Income Children

Figure 1 shows that the 13 states spent an average of \$3,153 per poor child in state and local funds on low-income children's programs in SFY 1995. The state and local spending on children's programs varied much more between the states than did spending from a combination of federal, state, and local sources. This finding reflects the historic role the federal government has played in dampening the differences in state spending on low-income programs.⁴ The

child care because the rates are too low. Faced with such a situation, a parent must seek care from a relative or other provider who perhaps accepts the child unwillingly and is unable to provide quality child care. Fifty-five percent of low-income parents use informal care arrangements, whereas only 21% of non-poor families do. The options to low-income families in selecting child care are limited to a higher degree by financial constraints than are the options for families with higher income. If, in addition to low rates, the family must pay a high fee from an already limited income, the family can hardly be said to be on the way to total self-support. And in such a situation, a family cannot be said to have equal access to child care. The limited access to providers for these low-income families also tends to promote unevenness of care, and this is an additional hazard to the child's development.

There is a relatively low supply of child care for infants, for children with disabilities and for children of parents who work during non-traditional hours. For families in these categories, a combination of low payments and high fees can limit the choice to an even greater extent, because they encourage parents to choose less expensive and lower quality child care, or even not to accept the subsidy at all. Sliding fee scales must continue to be based on family size and income, as Sec. 98.42(b) has not changed. We note that this regulation provides Lead Agencies with the flexibility to take additional elements into consideration when designing their fee scales, such as the number of children in care. However, as was stated in the preamble to the regulations published on August 4, 1992, basing fees on the cost or category of care is not allowed (57 FR 34380). Similarly, multiple fee scales based on factors such as a family's eligibility status would be precluded.

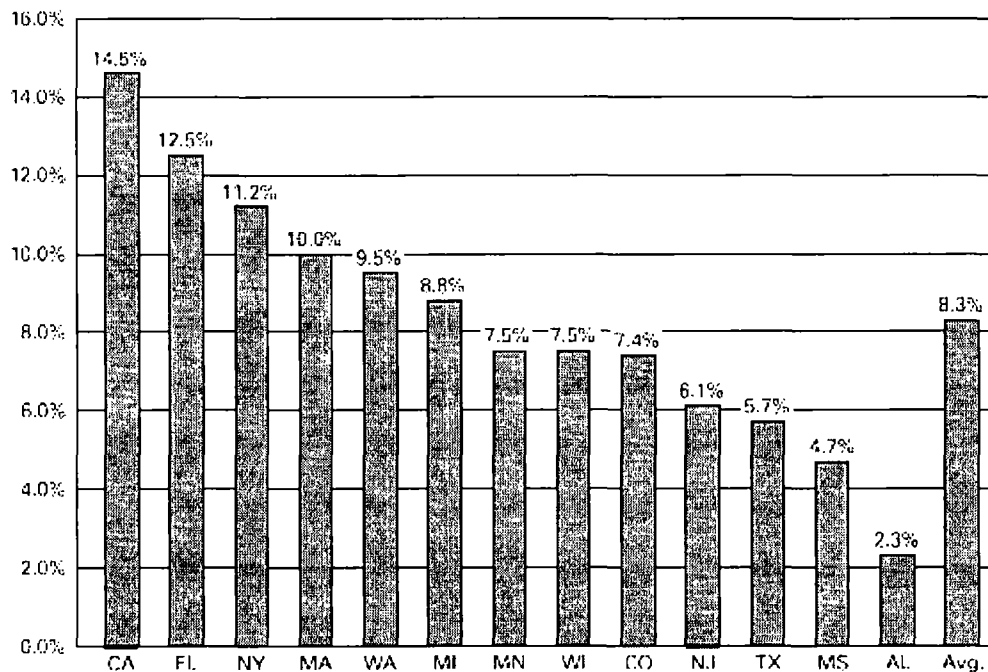
Comment: A number of States indicated that there is no statutory basis for limiting the fee to ten percent of a family's income, or that such a limit is unnecessarily prescriptive.

range of spending between the states was large, with Massachusetts spending a high of \$5,707 per poor child, or 81 percent above the 13-state mean, and Mississippi spending \$506 per poor child, or less than one-sixth of the 13-state mean. Three states spent substantially more than the mean (Minnesota, New York, and Massachusetts, from 69 to 81 percent above the mean), four states spent slightly more than the mean (California, Washington, Wisconsin, and New Jersey, from 4 to 21 percent above the mean), three states spent slightly below the mean (Colorado, Michigan, and Florida, from 4 to 28 percent below the mean), and three states spent significantly less than the mean (Texas, Alabama, and Mississippi, from 64 to 84 percent below the mean).

States Spend Less Than 10 Percent of Their Funds on Low-Income Children's Programs

One way of comparing spending across states is to look at spending per population, as was done in [figure 1](#) with spending per poor child. Another way to compare is to look at the percentage of the state budget that is spent on low-income children's programs. This percentage shows the priority that states put on low-income children's programs relative to other types of programs the states fund. [Figure 4](#) shows state general fund (GF) spending (which does not include federal funds) on low-income children's programs as a percentage of the total state GF budget. ⁵ As the figure shows, states spent an average of 8.3 percent of the state GF budget on low-income children's programs. The percentages varied from 2.3 percent in Alabama to 14.5 percent in California.

Figure 4. Percentage of State General Fund Budget Spent on Low-Income Children's Programs,^a SFY 1995



Source: The Urban Institute.

a. Total general fund spending includes general fund spending plus other state fund spending for K-12 education. Low-income children's spending in this figure includes spending from the state general fund and does not include federal, other state, or local fund sources.

The percentage of the state budget spent on low-income children's programs is an important statistic because it reflects how much of a priority states put on low-income children's programs

Response: We would agree with the comments if the regulations, in fact, established a limit on copayments. They do not.

Lead agencies have the flexibility to set the copayment. We have suggested, not required, that a family's fee be no more than ten percent of its income. This benchmark is offered as a reference point for Lead Agencies to consider when designing fee structures for affordable care.

Comment: A few commenters felt that ten percent should be the upper limit charged as a fee or observed that any fee, however low, can be a deterrent to self-sufficiency to families below the poverty level. Others thought that the reference to a ten percent copay seemed to conflict with the Lead Agency's right to waive the fee.

Response: As indicated above, the ten percent of family income is offered as a benchmark, not a limit on the Lead Agency.

A family is required by the statute at section 658E(c)(5) to share in the cost of subsidized child care, unless the Lead Agency waives the fee pursuant to Sec. 98.42(c) and Sec. 98.20(a)(3)(ii). Those sections allow copayments to be waived for those whose income is at or below the poverty level and for children in protective services on a case-by-case basis. The State has flexibility in deciding the amount of the fee charged and whether to waive the fee.

Comment: One State commented that a State should be allowed to categorically waive the fee if a family receives TANF.

Response: The fee can be waived, at a State's option, only if a TANF family's income is at or below the poverty level. If TANF families' incomes are always at or below poverty, then the State can categorically waive the fee. In contrast, fees may be waived for child care in protective services cases only on a case-by-case basis.

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Comment: One commenter thought the preamble should define ``affordable.``

Response: As in 1992, we decline to establish a regulatory standard for ``affordability.`` However, as discussed above, we feel that a fee

versus other programs, but in comparing across states it must be viewed along with other measures. For example, a state may have a high percentage of state budget spending going to low-income children, but in comparison with other states it may not spend very much in dollar terms. For example, California and Florida spent the most of the 13 states in the percentage of the state GF going toward low-income children's programs. However, California ranked seventh and Florida tenth in the amount of state and local funds spent per poor child. These rankings, of course, reflect the two states' relatively high poverty rates.

Where Do States Spend Their General Fund?

If, on average, the 13 states spent only 8.3 percent of their state GF on low-income children's programs, where did these states spend the rest of their GF? Table 1 shows state GF spending by category as collected from NASBO. The table shows that for the 13 states, spending for K–12 education was the largest category, accounting for 38.2 percent of the state's GF budgets. The second largest category was "other" programs at 27.8 percent, the third largest was higher education at 13.3 percent, and the fourth largest was Medicaid at 12.5 percent. The "other" category covers spending not included in the named categories and, depending on the state, could include spending for transportation, hospitals and other health programs, economic development, environmental projects, state police, juvenile institutions, parks and recreation, housing, and general aid to local governments.

For comparison purposes, the far right-hand column of table 1 shows the numbers collected in this study on low-income children's spending as a proportion of state GF. Although these low-income children's programs numbers are not directly comparable to the NASBO numbers, they do give a sense of where spending on low-income children's programs ranks in relation to other state spending. The low-income children's programs numbers overlap with the NASBO numbers and would include NASBO's AFDC category, a portion of the Medicaid category (spending on children is 16.8 percent of total Medicaid expenditures nationwide), and an unknown portion of the "other" category. The definitions of NASBO's categories and the Urban Institute's are not identical. For example, the Urban Institute's AFDC amount does not include state overhead, and its Medicaid number is for spending on children for federal fiscal year 1995, whereas NASBO's Medicaid number is total Medicaid spending for SFY 1995. NASBO's notes also indicate that the "other" category includes juvenile institutions.

The Percentage of the Total State Budget Spent on Low-Income Children Is Slightly Higher Than the Percentage of the General Fund Budget

Table 2 shows total spending on low-income children's programs as a proportion of the *total* state budget, which includes both state and federal revenues. The table shows that states spent on average only 11.3 percent of all their funds on programs for low-income children, with Alabama spending only 7.2 percent and California spending 16 percent.⁶ These percentages were larger and less varied than the percent of state GF spending spent on low-income children, again showing the effect of federal funding, which helps to equalize spending differences across states.⁷

The Role of Local Funding in Low-Income Children's Programs

Part of the data collection for this study involved a request to the states for the amount of local funds spent on the various programs. The researchers specifically asked for state-required local matches and any other local spending the state collected. The numbers in the study, therefore, are not exhaustive, and they understate the amount of local spending on these programs. In

that is no more than 10 percent of a family's income would generally be considered to be an affordable copayment.

We decided, again, not to prescribe a definition for ``affordable`` because we felt that any definition would unnecessarily undermine a Lead Agency's ability to establish service priorities, be administratively difficult to monitor and enforce, and preclude the variation that is inherent in the nature of block grants.

Comment: Several commenters asked that the Lead Agency have the authority to categorically waive the fee for protective services and foster care, and not just on a case-by-case basis.

Response: We do not believe that it is consistent with the intent of the statute to categorically waive the fee for protective services or foster care cases. However, we recognize that the nature of protective service cases can be different, and that in an individual case it might further the purpose of the statute to increase the availability of child care. Therefore, Sec. 98.20(a)(3)(ii) gives Lead Agencies the authority to waive income eligibility and fees for children in protective custody on a case-by-case basis, or after consultation with an appropriate protective services worker.

As discussed in the preamble to the regulations published on August 4, 1992, there is a basic distinction between protective services cases and foster care cases. However, as discussed in the preamble to Sec. 98.20 in the 1992 regulations, Lead Agencies have the flexibility to treat foster care cases as a family of one and thus effectively reduce or eliminate the fee in most foster care cases (57 FR 34369), but not categorically.

Comment: Several commenters believed there is a contradiction between the ten percent benchmark and the regulation that gives Lead Agencies the flexibility to waive copayments on a case-by-case basis for families at or below the poverty level or for children in protective services.

Response: These policies are not contradictory, nor are we implying

many states, however, the state officials responded that they felt there was not a lot of local spending beyond what they were collecting. Because of tight fiscal times, counties were cutting back on their discretionary spending. The one area in which the study is missing significant monies is juvenile justice programs. In many states, historically, juvenile justice programs have been funded and administered at the local level. In several of the 13 states, state officials told us there was local funding on juvenile justice programs, but they had no way of estimating it. The only way of getting this information would have been to survey all the counties in the 13 states.

Table 3 shows the amount of local spending on children's programs per poor child and per \$1,000 of personal income, and local spending as a proportion of total state and local spending, by state. As the table shows, five states— New Jersey, California, Colorado, Minnesota, and New York— reported significant local spending on children's programs. New York had the largest amount of local spending—\$ 2,377 per poor child, 42 percent of its total state and local spending on children's programs. Three states reported no local spending, and Alabama, Florida, Michigan, Texas, and Wisconsin reported that local spending accounted for 5 percent or less of their total state and local spending on children.

For the five states with significant local spending, almost all of the reported local spending was for state- required local matches or for spending on programs that the counties were required to provide. For example, New York required counties to pay a portion of many programs' costs. Most significant, it required counties to pay 50 percent of Medicaid, AFDC, and out- of- home care costs. California required counties to pay 60 percent of out- of- home care and 30 percent of child welfare services. In three of these five states, the largest amount of local dollars was spent in cash assistance and training programs, and in two of those states the largest amount went for child protection and family services. Two states, New York and Minnesota, spent significant local funds on health programs.

General Assistance (GA) programs have traditionally been locally funded programs. However, for the states that had GA programs, local low- income children's expenditures on these programs were small; New York had the largest percentage of its local funds, 5 percent, going for a GA program. The share of local funding going toward a GA program would be larger if one were considering the entire GA program, instead of just the portion that serves children and families. Several states reported expenditures for children's mental health programs, although when compared with cash assistance or child protection and family services programs, the expenditures on these programs were relatively small.

How Much of the Variation in Spending across the States Is a Reflection of a State's Ability to Raise Revenue?

The ability of a state to finance services for its child population depends in large part on its capacity to raise resources. This potential ability is commonly measured by per capita personal income because that is the primary state source for raising revenue. Per capita income varied considerably across the 13 states. New Jersey, Massachusetts, and New York placed far above the U. S. average of \$23,208. Mississippi, Alabama, and Texas placed far below the average.

Table 4 shows that, on average, the 13 states spent \$6.25 per \$1,000 of personal income in state and local funds on children's programs. New York's expenditure level of \$12.42 per \$1,000 of personal income was the highest, and Alabama's level of \$2.56 was the lowest. This analysis also shows that even when the different levels of personal income were taken into consideration,

that a fee of ten percent of a family's income is appropriate for every very low-income family, since such a fee might effectively prevent many low-income families from taking advantage of the child care subsidy. We view ten percent as the appropriate upper limit for co-payments; and as stipulated in the regulations, a Lead Agency can waive the co-payment for families at or below the poverty level (Sec. 98.42(c)), or for children in protective services (Sec. 98.20(a)(3)(ii)).

Priority for Child Care Services (Section 98.44)

Although we proposed no changes to this section, we received a number of comments regarding serving children with disabilities which indicated a need to provide some clarification about priority for children with ``special needs``

As we stated in the 1992 preamble, for the purpose of prioritizing services, States have the flexibility to define children with ``special needs`` in the CCDF Plan. ``Special needs`` can mean groups other than children with physical or mental disabilities. States can and do prioritize services for children of teen parents, homeless children and other groups by providing definitions in the CCDF Plan. Refer to 57 FR 34382 for a detailed discussion of the three contexts in which the term ``special needs`` is used in these regulations.

List of Providers (Section 98.45)

Any Lead Agency not having a registration process must maintain a list of the names and addresses of all unregulated providers. It is essential that Lead Agencies have some simple, standardized system to record the names and addresses of unlicensed providers in order to pay them and to provide them with pertinent information about health and safety regulations and training.

The regulations no longer specifically require Lead Agencies to have a registration process for providers not licensed or regulated under State or local law before paying them for child care services. However, Lead Agencies should note that they may continue such a system, and we strongly encourage them to do so.

Comment: A number of commenters opposed requiring States to

New York, which has one of the highest per capita incomes in the country, still spent almost five times as much on children's programs as Alabama, which has one of the lowest per capita incomes in the country. In other words, to finance programs for children, New York chose to draw on a much larger proportion of its available resources than Alabama did.

Table 4 also shows that states' rankings on total state and local spending relative to personal income differed from the rankings based on overall dollars spent shown in figure 1. When measured by spending in relation to per capita income, the relative differences in spending decreased. This change illustrates how some of the spending differences are related to states' ability to raise revenue. However, there were still significant differences in spending, and overall the rankings stayed generally the same— those states that spent the most per poor child also spent the most per \$1,000 of personal income, and those that spent the least per poor child also spent the least per \$1,000 of personal income. In addition, the states with the highest fiscal capacity (per capita income), in most cases, spent the most per \$1,000 of personal income.

Interestingly, some states' ranking did change from their position relative to poor children. Massachusetts moved from the highest level of spending per poor child (see figure 1) to the fourth highest level per \$1,000 of personal income. California moved up to the second highest level of spending per \$1,000 of personal income (\$ 9.52) from seventh in spending per poor child. New Jersey, in contrast, dropped from the fourth highest expenditure level relative to poor children to the ninth highest level of spending per \$1,000 of personal income (\$ 4.39). These changes illustrate how some states, like California, allocated a large share of their resources to children but still spent below the 13-state average per poor child (perhaps because it had a larger-than-average percentage of poor children). In contrast, other states, like New Jersey, spent a below-average amount of their available revenue on their child population but still spent more per poor child than the 13-state average (perhaps, in New Jersey's case, because it had a smaller-than-average percentage of poor children).

It is also important to note the role of federal funding. The federal funds that a state and a state's residents receive expand the ability of that state to provide services and expand the state's fiscal capacity. Table 4 illustrates that the states with the lowest per capita income received the highest level of federal dollars for spending on children's programs per \$1,000 of personal income. For example, Mississippi received \$33.37 in federal dollars per \$1,000 of personal income, which was 90 percent above the average. In contrast, New Jersey only received \$9.00. Hence, these federal dollars expanded poorer states' fiscal capacities more than they increased the capacities of affluent states. ⁸

How Do States Allocate Their Spending for Children among the Various Types of Children's Programs?

The first four sections reviewed the amounts that federal, state, and local governments spent on low-income children's programs and how expenditures on children's programs compared with spending on other types of programs. This section looks at state and local expenditures on low-income children and reviews how the states chose to spend these funds, referred to as their "children's funding."

States Spend Most of Their Funds on Health, Cash Assistance and Training, and Child Protection and Family Services Programs

maintain a list of providers and felt States should be given options.

Response: We know that States have developed various processes for registering unregulated providers and that maintaining a list of these providers is essential to effectively managing their child care program. We do not expect States to set up a separate list if their current system provides the means to identify and communicate with unregulated providers.

Comment: Other commenters wanted the regulation strengthened to require the State to make the list of providers available to all parents as a means of providing them with more possibilities for care.

Response: Many unregulated providers are providing care for friends or relatives, and may not be providing child care services to the public. Some unregulated providers who are in the child care business, but exempt from State licensing, may want their names included on a list given to families. However, others may not. These are State and local government decisions. We will not regulate further regarding the list of providers.

Subpart F--Use of Block Grant Funds

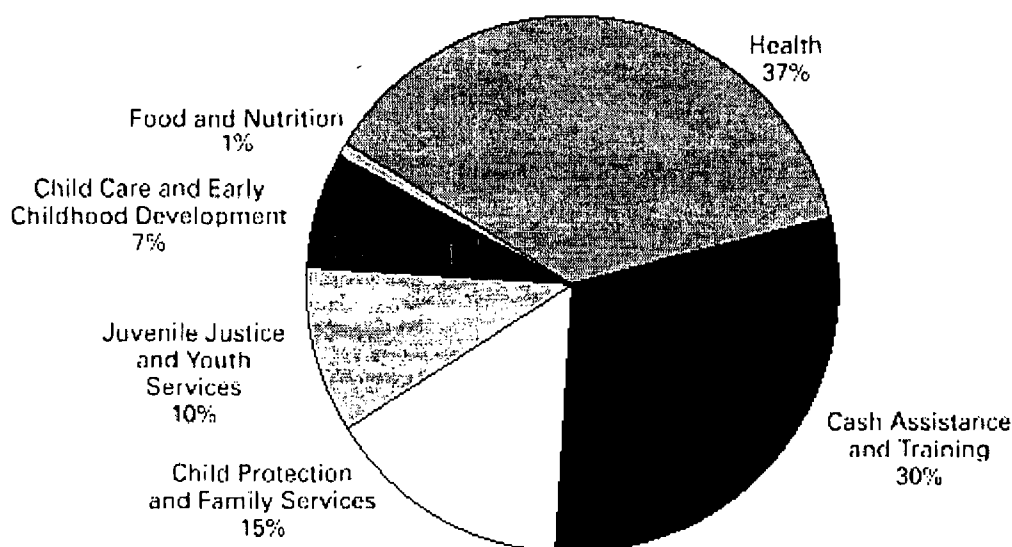
Child Care Services (Section 98.50)

The 70 percent requirement. Section 418(b)(2) of the PRWORA specifically requires the State to ensure that not less than 70 percent of the funds received by the State under this section of the statute are used to provide child care assistance to families who are receiving assistance under a State program under Part A of title IV of the Social Security Act, families who are attempting through work activities to transition off of such assistance program and families that are at risk of becoming dependent on such assistance program. By statute, the 70 percent requirement applies only to the Mandatory and Matching Funds. Further, the amended statute at 658E(c)(2)(H) requires the State to demonstrate in its CCDF Plan the manner in which the State will meet the specific child care needs of these families. These statutory provisions are found in these regulations at Sec. 98.50(e) and (f).

Figure 5 shows the average state and local spending for the 13 states by the six program categories. The pie chart shows that the largest category of expenditures was health (37 percent), followed by cash assistance and training (30 percent) and child protection and family services (15 percent). However, because such a significant part of the funding in the health category was Medicaid, and in the cash assistance category was AFDC, spending on Medicaid and AFDC alone constituted 52 percent of the state and local monies spent on children's programs.

The fact that states spent most of their funds on health, cash assistance, child protection, and juvenile justice and youth services, in that order, was probably a result of several factors, including the incentives inherent in the federal funding structure, the cost of providing the different services, the need for services, and the relative importance of the services.

Figure 5. Allocation of Low-Income Children's Program Spending—State and Local Funds, SFY 1995



Source: The Urban Institute.

The system of unlimited federal matching of state spending on certain programs undoubtedly led states to spend more on those programs (such as Medicaid and AFDC) than on federal matching programs that are capped (such as Child Welfare Title IV-B). After funding health and cash assistance and training programs, states then may have funded child protection and juvenile justice because fewer federal funds were provided in these programs and the need for state funds was greater. In addition to the federal funding structure, the cost of providing services may explain some of the differences in spending. Some services cost more to provide per unit than other services (e. g., cost of out-of-home care versus child care per child). Furthermore, some of the difference in allocating funds between programs probably came about because there is a greater need for some types of services than for others. Finally, the funding distributions also reflect the importance of the programs to the state governments. States may have believed that health care and cash assistance for housing and food costs to low-income children were the most important services to provide and thus allocated most of their funds to

Comment: Several commenters noted that in the Plan provisions we ask the Lead Agency to ``describe`` how it will meet the child care needs of the families specified at Sec. 98.50(e), whereas at Sec. 98.50(f) we require the Lead Agency to ``specify`` how they will meet those needs.

Response: We do not believe the terms are inconsistent. The statute asks that States ``demonstrate the manner in which the State will meet the specific child care needs`` of those families. We believe that a description would provide States the opportunity to present specific information which would demonstrate how they are serving this population.

Serving other low-income working families. Section 658E(c)(3)(D) directs the State to ensure that a ``substantial portion`` of the amounts available (after a State has complied with the 70 percent requirement discussed above) is used to provide assistance to low-
[[Page 39962]]

income working families other than those who are receiving assistance, transitioning off assistance or at risk of becoming dependent on assistance under Part A of title IV of the Social Security Act. The amounts in question include the remaining Mandatory and Matching Funds (provided under Section 418) as well as the Discretionary Funds. Since the income level for eligible families is increased in the statute to 85 percent of the State median income, it is clear that Congress intended for child care assistance to be available to more low-income working families than were previously eligible. We believe, however, that families whose income is less than 85 percent of the State median income may well be at risk of becoming dependent on assistance. Thus the two populations overlap.

The regulation at Sec. 98.50(e) provides the statutory description of the families who are to be served under the 70 percent provision. In addition Sec. 98.50(f) requires the State, pursuant to the statute, to describe in its Plan how the State will meet the needs of these families. We believe, based on our consultations, that the

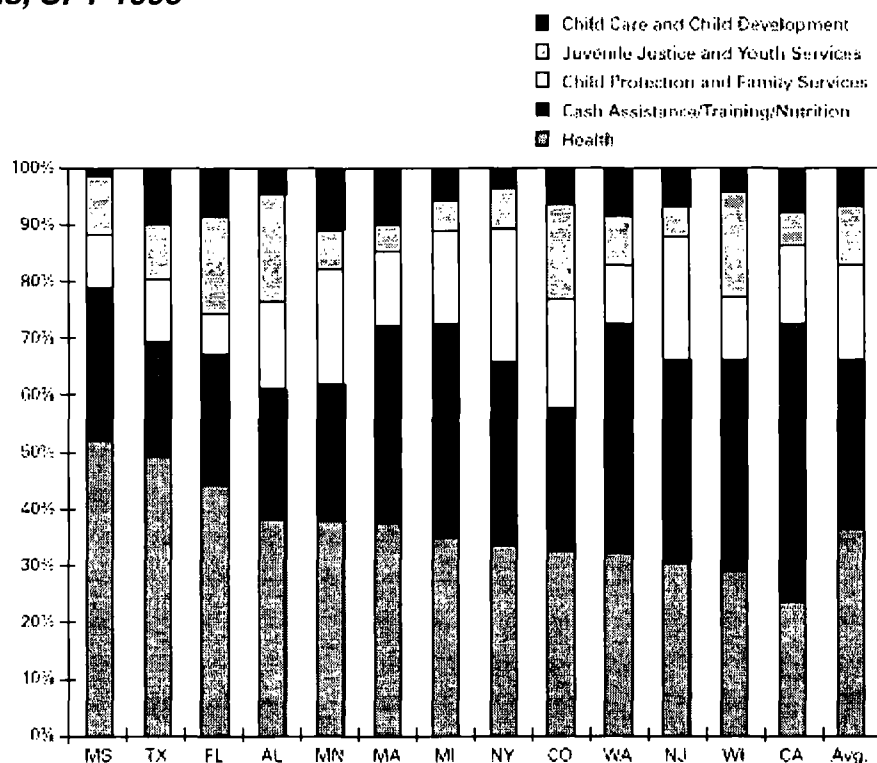
the Medicaid and AFDC programs.

States Vary in How They Spend Their Monies on Children's Programs

Although states spent most of their state and local funds on health and cash assistance and training programs, there was a wide range of spending on these two categories. Florida, Texas, and Mississippi spent approximately one-half of their children's funding on health programs and about one-fifth on cash assistance and training programs. In contrast, California spent only one-fourth of its children's funding on health programs and spent one-half on cash assistance and training programs. New York allocated similar percentages of its funds to each (34 and 32 percent).

This variance among the states in allocating their children's funds was also apparent in the other program categories. Figure 6 shows the percentage of state and local children's funding in the program categories. The third largest category of spending in the 13 states was either child protection (10 states) or juvenile justice (3 states). On average, the 13 states spent 15 percent of their funds on child protection and family services programs, but three states (Minnesota, New Jersey, and New York) spent 20 percent or more of their funds. Four states stand out in their proportion of funds spent on juvenile justice and youth programs (Florida, Colorado, Alabama, and Wisconsin), spending from 17 to 19 percent, and three states (Massachusetts, Michigan, and New Jersey) allocated 5 percent of their children's funding to these programs.

Figure 6. Proportion of Low-Income Children's Spending by Program Category—State and Local Funds, SFY 1995



Source: The Urban Institute.

Note: Nutrition spending is included with cash assistance and training. The 13 states spent an average of 1 percent of total state and local funds on nutrition, and no state spent more than 2 percent.

See [table A-6](#) for each state's exact proportion of state spending by program category.

Spending on child care and child development programs averaged 7 percent. Only two states (Texas and Minnesota) spent 10 percent or more, and two states (Mississippi and New York)

circumstances of low-income working families (whose income is below 85 percent of the State median income) are generally no different than the families specifically mentioned in these regulations and thus would expect that they would be treated similarly. If a State elects to have a specific description of at-risk families, it could, for example, be included when defining very low income or in providing additional terminology related to conditions of eligibility or priority in the CCDF Plan.

Comment: Some commenters related the ``substantial portion`` requirement to the 70% requirement and are concerned that there is very little funding for low-income working families.

Response: As noted above, the 70% requirement applies only to the Mandatory and Matching Funds. States must then use a ``substantial portion`` of any remaining Mandatory and Matching funds as well as a ``substantial portion`` of Discretionary funds to serve families whose incomes are below 85% of SMI.

Comment: Several commenters noted that Sec. 98.50(d) was inconsistent with Sec. 98.52(a) in that it addressed funds that were awarded rather than expended.

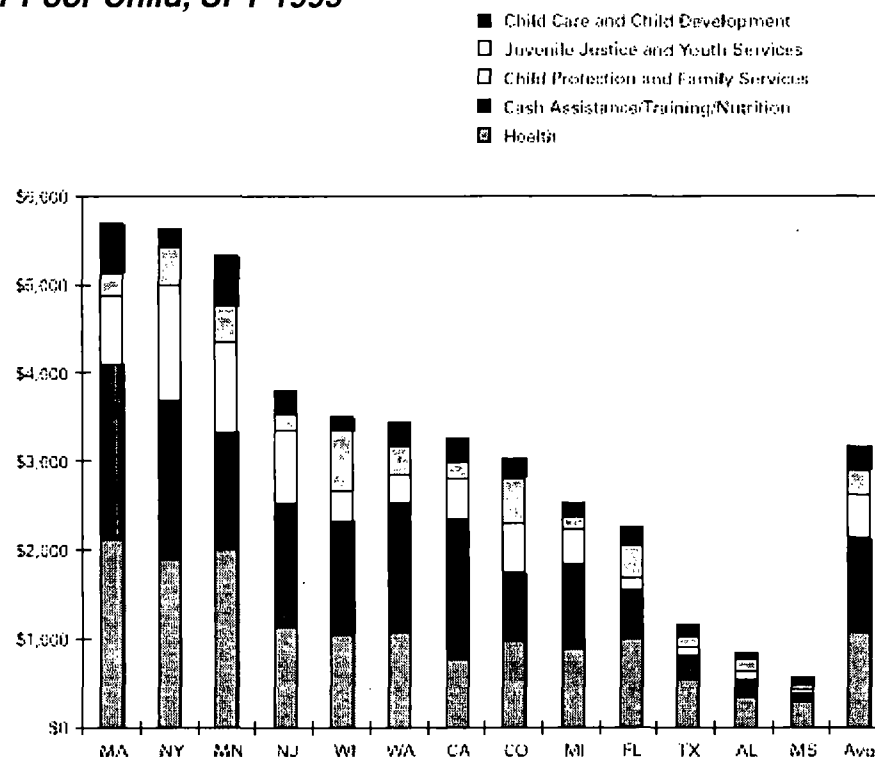
Response: We have corrected Sec. 98.50(d) to be consistent with our intent that the administrative costs be based on amounts expended. Refer to Administrative Costs (Sec. 98.52) for a more detailed discussion of this issue.

Activities to Improve the Quality of Child Care (Section 98.51)
Not less than four percent. Section 658G of the CCDBG Act directs that a State that receives CCDF funds shall use not less than four percent of the amount of such funds for activities that are designed to provide comprehensive consumer education to parents and the public, activities to increase parental choice, and activities designed to improve the quality of child care and availability of child care (such as resource and referral services). We refer to this requirement collectively as ``Activities to Improve the Quality of Child Care.``

spent 3 percent or less on these programs. The one thing the states did have in common was that none of the states spent significant funds on food and nutrition programs; no state spent more than 2 percent of its funds on these programs.

Comparing the percentage of funds spent on program categories between states illustrates the differences among states in how they set priorities among programs. But comparing between states also requires looking at the absolute amount spent in the states. [Figure 7](#) (and later [table 13](#)) shows the state and local children's funding by program category for the 13 states. For example, Texas allocated 10 percent of its funds to child care and child development programs—the second largest percentage among the 13 states—but spent substantially less per poor child (\$ 112) than New York, which allocated only 3 percent of its children's spending to child care programs but spent \$171 per poor child. Similarly, although Massachusetts spent the smallest proportion of its children's funds on juvenile justice programs, its juvenile justice spending per child still ranked seventh among the 13 states.

Figure 7. Spending on Low-Income Children's Programs by Program Category—State and Local Funds per Poor Child, SFY 1995



Source: The Urban Institute.

Note: The numbers of children in poverty are 1994 estimates based on three-year averages. Nutrition spending is included with cash assistance and training. The 13 states spent an average of 1 percent of total state and local funds on nutrition, and no state spent more than 2 percent.

See [table 13](#) for each state's exact state and local expenditures by program category.

Why states allocated such different amounts and percentages of their children's funding to program categories is probably related to differences that exist among the states, some of which are idiosyncratic. Different populations, modes of delivering services, costs of providing services (e. g., housing costs in California versus Texas), eligibility requirements, and need for services may explain some of the variations. The different preferences of states for funding certain programs, however, were probably also a reflection of the states' differing cultural and political histories that favored funding certain programs over others. The large variations in spending per \$1,000 of personal income provide some evidence of this conclusion, as noted in the last

Section 98.51(a) provides that the not less than four percent requirement for quality applies to the aggregate amount of expenditures (i.e., Discretionary, Mandatory, and both the Federal and State share of Matching funds); it need not be applied individually to each of the component funds. Section 98.51(a) also provides that the four percent requirement applies to the funds expended, rather than the total of funds that are available but not used. Lead Agencies, however, have the flexibility to spend more than four percent on quality activities. Section 98.51(c) provides that the quality expenditure requirement does not apply to the maintenance-of-effort expenditures required by Sec. 98.53(c) in order to claim from the Matching Fund.

The regulations at Sec. 98.51(a)(1) are based on the broad statutory language, while Sec. 98.51(a)(2) keeps, as examples, the options for specific activities formerly contained in the Act. Resource and referral programs, grants or loans to assist in meeting state and local standards, monitoring of compliance with licensing and regulatory requirements, training, and compensation are allowable quality activities under this minimum four percent requirement. We will continue to collect, in the Plan, descriptions of activities to improve the quality of child care services. We encourage Lead Agencies to evaluate the success of their efforts to improve quality and we will disseminate promising practices.

Comment: Some commenters wanted us to remove from Sec. 98.51(a)(2)(i) the words ``operating directly`` as they felt that resource and referral can be done most effectively at the community level rather than by state government.

Response: We agree that local resource and referral activities are important to child care services. However, by removing the words ``operating directly,`` we would be reducing the options available to the State. Therefore we have retained the wording in the regulation in order to ensure State flexibility in delivering those services.

Administrative Costs (Section 98.52)

Section 658E(c)(3)(C) of the amended Act limits the amount of funds

section.

In addition, although this study focused on total spending on children's programs, it does not necessarily mean that the states spending more provided more or better services. This observation was most apparent in the health category, where higher spending did not necessarily reflect broader coverage. For example, in California, the low health spending per poor child was related in part to California's ability to negotiate low provider rates. The following section provides more detail on the programs that states funded within the categories, to demonstrate what the funding differences mean in terms of services to low-income children.

A Closer Look: Total and State Spending within the Categories

This section reviews total and state spending on children's programs within the six categories to provide a closer look at the types of programs the 13 states are funding. The six categories are cash assistance and training, health, child protection and family services, child care and early childhood development, food and nutrition, and juvenile justice and youth services.

Cash Assistance and Training

Total Spending Levels Were Very Similar across the States

The 13 states spent the largest share of their state and federal funds on cash assistance and training programs.

Figure 8 shows total cash assistance and training spending in two groupings: federal funds and state and local funds.

This category includes spending on programs providing economic support and job training to children, youth, and families. The category includes the federally funded programs of AFDC, Food Stamps, the EITC, Supplemental Security Income (SSI), Child Support, Job Opportunities and Basic Skills

(JOBS), and Job Training Partnership Act (JTPA) IIB and IIC. In addition, it includes state-initiated programs such as General Assistance, Emergency Assistance, and youth and welfare job training.

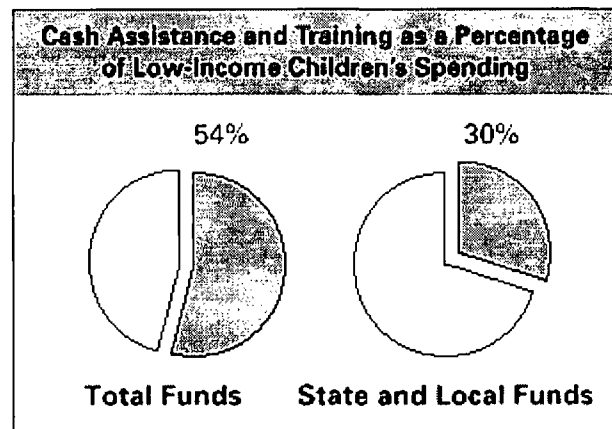


Figure 8. Cash Assistance and Training Spending—Federal and State and Local Funds per Poor Child, SFY 1995

available for the administrative costs of the CCDF program to ``not more than five percent of the aggregate amount of funds available to the State.'' Section 98.52(a) provides that the five percent limitation on administrative costs applies to the funds expended, rather than to the total of funds that are available but not granted or used. Thus, Lead Agencies may not use five percent of the total funds available to them for administrative costs unless they use all the available funds including Matching Funds.

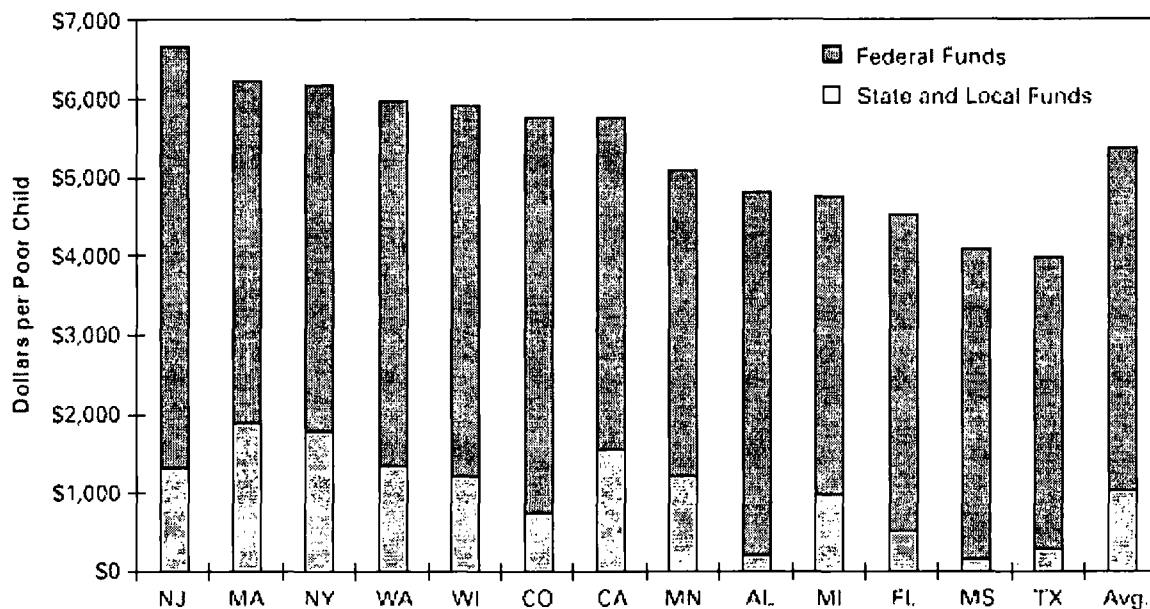
This provision also makes clear that the five percent limitation applies to the total Child Care and Development Fund. The five percent limitation need not be applied individually to each of the component funds--the Discretionary, Mandatory, and Matching (including the State share) Funds. We believe this flexibility will streamline the overall administration of the Fund. The limitation does not apply to the maintenance-of-effort expenditures required by Sec. 98.53(c) in order to claim from the Matching Fund.

Section 98.52(a) lists administrative activities and is derived from the prior regulations as modified by the PRWORA amendments and the Conference Agreement (H.R. Rep. 104-725 at 411). While the statute does not define administrative costs, it does preclude ``the costs of providing direct services'' from any definition of administrative costs.

The Conference Agreement specifies that the following activities

``should not be considered administrative costs'':

- (1) Eligibility determination and redetermination;
- (2) Preparation and participation in judicial hearings;
- (3) Child care placement;
- (4) The recruitment, licensing, inspection, reviews and supervision of child care placements;
- (5) Rate setting;
- (6) Resource and referral services;
- (7) Training [of child care staff]; and



Source: The Urban Institute.

Note: The numbers of children in poverty are 1994 estimates based on three-year averages. This category includes Aid to Families with Dependent Children (AFDC), Food Stamps, the Earned Income Tax Credit (EITC), Supplemental Security Income (SSI), Child Support, Job Opportunities and Basic Skills (JOBS), and Job Training Partnership Act (JTPA) IIB and IIC. In addition, it includes state-initiated programs such as General Assistance, Emergency Assistance, and youth and welfare job training.

See [table 5](#) for each state's exact total expenditures and [table 13](#) for each state's exact state and local expenditures.

[Table 5](#) provides more detail on total spending and shows spending by the major programs and subcategories. As the table shows, cash assistance programs made up approximately 96 percent of the total cash assistance and training categorical expenditures. EITC, AFDC, and Food Stamps accounted for the largest proportions, comprising more than 83 percent of the total. Combined local, state, and federal spending on these programs averaged \$5,330 per poor child. The spending ranged from a high of \$6,614 per poor child in New Jersey to a low of \$3,965 per poor child in Texas. Overall, cash assistance and training spending levels across states were very similar, with no state ranking more than 24 percent above or below the 13-state mean.

State and Local Spending Was One-Fifth of the Total

The 13 states spent an average of \$1,011 per poor child in state and local funds on cash assistance and training programs, one-fifth of total funds. Spending levels among states varied much more than when federal aid was included. Massachusetts, with the highest level of expenditures (\$1,888—87 percent above the average), spent more than 10 times as much as the lowest-spending state, Mississippi (\$124—88 percent below the average). The 13 states fell into four major spending clusters. California, New York, and Massachusetts all spent at levels far above the average per poor child (53 to 87 percent above); Minnesota, Wisconsin, New Jersey, and Washington spent 21 to 35 percent above the average; Colorado and Michigan fell below the average (26 and 6 percent); and Florida, Texas, Alabama, and Mississippi fell far below the average (50 to 88 percent).

(8) The establishment and maintenance of computerized child care information systems.

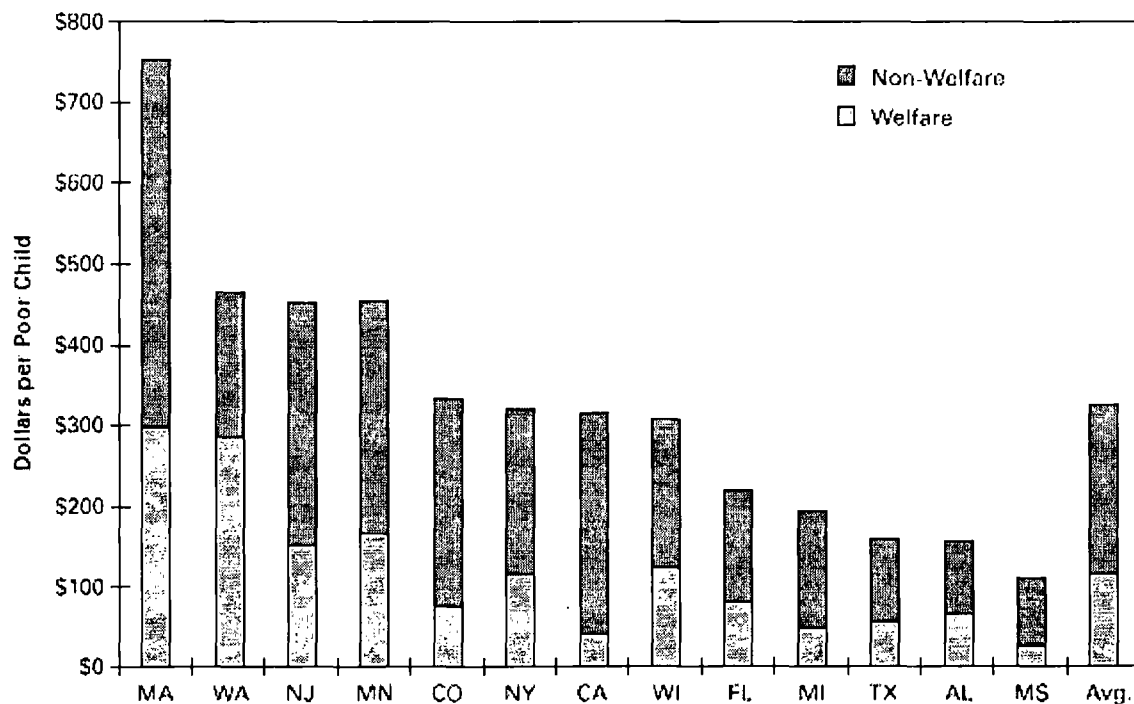
The regulation's list of administrative activities at Sec. 98.52(a) omits the following three activities that were listed as administrative costs in the 1992 CCDBG rule: determining eligibility, establishing and operating a certificate program, and developing

[[Page 39963]]

systems. ``Establishing and operating a certificate program`` was not specifically listed by Congress as a non-administrative cost. However, we omitted this activity because the components of a certificate program would not be considered to be administrative costs under the Conference Agreement exclusions. For example, certificate programs must determine and redetermine eligibility, provide the public with information about the program, develop and maintain computer systems, place children, offer resource and referral services, etc.--all items which the Conference Agreement lists as not administrative costs. All costs, then, of these three activities: determining eligibility, establishing and operating a certificate program, and developing systems, are now considered non-administrative costs.

While these regulations reflect the Conference Agreement language, we are nevertheless concerned that States will misinterpret the intent of the change and re-direct a disproportionate amount of expenditures on these redesignated activities rather than on direct services to children. We wish to emphasize that services to children is the purpose for which the CCDF was created. Therefore, we would not expect a large increase in costs to activities that are not direct services to children. We will closely monitor such expenditures to determine if States are overspending for such activities at the expense of services. As one method of monitoring, the required CCDF financial reporting form, the ACF-696, separately collects the amounts that are expended on determining eligibility, establishing and operating a certificate program, and developing systems. If we determine that there are problems, we reserve the right to re-visit the policy and regulate in

Figure 12. Welfare and Non-Welfare Child Care Spending—Federal, State, and Local Funds per Poor Child, SFY 1995



Source: The Urban Institute.

Note: The numbers of children in poverty are 1994 estimates based on three-year averages.

See table A-8 for each state's exact total expenditures on welfare and non-welfare child care.

States with High AFDC Benefit Levels Had High Cash Assistance Spending

One reason for the large differences in state spending on cash assistance and training programs is that states can set their own AFDC policies. In addition to policy control over program requirements (e. g., work requirements), states determine AFDC benefit levels. [Table 6](#) shows the wide variations in 1995 in state benefit levels and total state cash assistance and training spending per poor child. As would be expected, the states with the most generous benefit levels also had the highest state cash assistance spending per poor child, while those with the lowest benefit levels had the lowest spending levels. The states with low benefit levels also had high Food Stamp spending levels.

Eight States Had State-Initiated General Assistance Programs

Some states have created state family assistance programs to serve families that do not meet the federal eligibility requirements for AFDC. [Table 7](#) lists the states that had state-funded or state-mandated General Assistance (GA) programs in 1995. Three states— Colorado, Florida, and Texas— did not have state laws requiring counties to provide GA programs but had some counties that did provide some type of program on their own. However, these states could not provide expenditure information for these individual counties.

Many states provided GA to both single adults and families with children, and in some cases offered cash benefits to these two populations under the same program, making it difficult to aggregate expenditures on children. State documents made it possible to derive estimates on

the future.

Lastly, we clarify in Sec. 98.52(c) that the non-Federal expenditures required of the State in order to meet its maintenance-of-effort threshold for receiving matching funds are not subject to the five percent limitation on administrative costs. Nevertheless, audits of State reports of maintenance-of-effort expenditures should indicate that administrative expenditures included in those MOE amounts are reasonable, necessary for carrying out the services provided, and consistent with other provisions of law.

Comment: Many commenters objected to applying the five percent administrative limitation to the amounts expended, rather than to the amounts allocated to the State, saying that administrative costs might be incurred in one year for expenditures that occur in another.

Response: We have clarified Sec. 98.52(a) to reflect that the limit applies to the amounts expended from the total allocated, not to the amounts expended in a single fiscal year. We understand that it might be necessary to use more funds for administration during the initial start-up of an activity, or that the period when administrative costs are incurred may not coincide with when the funds are actually liquidated. And, the provision was not intended to limit Lead Agency flexibility in the short term.

The choice of the word "expend" in the regulation, rather than "available" as in the statute or "allocated" as in the comment, is meant to address only one situation. Section 98.52(a) is meant to ensure that when a State that does not expend--within the applicable timeframes provided for at Sec. 98.60--the full amounts allocated to it, the State does not receive a windfall in administrative cost allowances. For example, two States are each allocated a total of \$100 million in the CCDF. At the end of the expenditure periods, State A has spent \$50 million while State B has expended all \$100 million. It would be unfair to allow both States to receive \$5 million in administrative allowances since State B's program (in terms of dollars expended) is

actual children's spending in California, Massachusetts, Washington, and Wisconsin.

Expenditures on these programs constituted approximately 4 percent of state-only cash assistance and training expenditures (for the eight that had programs). New York had the largest proportion, spending more than 13 percent of its state-only money on non-AFDC-eligible families. (This total does not include New York's spending on other state-initiated cash assistance programs such as Rehousing Assistance and the Rent Supplement Program. These two programs, which accounted for \$13 million in state money, provided services to AFDC-and non-AFDC-eligible families and are not included in the table because they are housing programs, not cash assistance.)

All of these programs served children, pregnant women, or families who were not eligible for federal assistance in 1995. Eligibility guidelines did vary across the states. For example, New Jersey had an expansive GA program and provided benefits to employed families. Massachusetts required that its GA recipients meet certain income guidelines and not be capable of working. Michigan provided benefits only to those families that met the federal AFDC—Unemployed Parent eligibility criteria but did not fulfill the federal requirement of "recent job market contact." Minnesota offered benefits to families who did not qualify for AFDC and had a disabled child. Washington provided assistance only to pregnant women in their first two trimesters and to non-federally eligible children who lived with guardians.

Three States Spent Considerable Funds on State EITC Programs

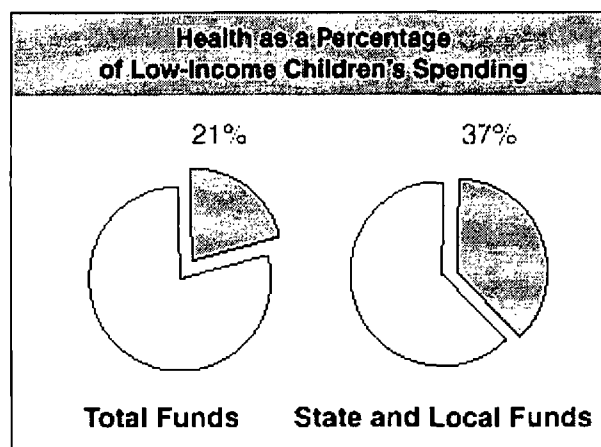
In addition to state-initiated GA programs, three states—Minnesota, New York, and Wisconsin—had state Earned Income Tax Credit (EITC) programs. These expenditures comprised a large portion of state-only cash assistance and training dollars in Wisconsin (20 percent) and Minnesota (13 percent). Minnesota based its tax credit on 15 percent of the federal credit. In contrast, Wisconsin used its own credit schedule and did not determine a resident's credit as a percentage of the federal EITC.

Health

Almost 90 Percent of States' Total Health Spending Was on Medicaid-Related Expenses

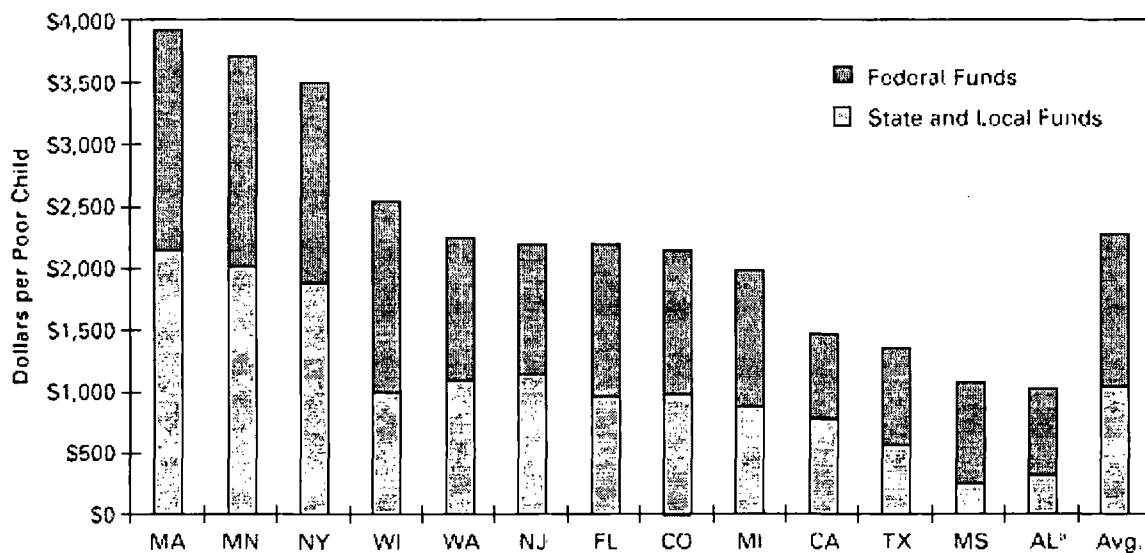
The second largest expenditure category among the 13 states was health. Figure 9 shows total health spending by federal and state and local funds. This category includes all programs providing medical services to children and pregnant women. This captures all expenditures on Medicaid and includes "other children's health services" and mental health. The "other children's health services" subcategory includes the Maternal and Child Health (MCH) Block Grant.⁹ MCH services include treatment for children with

special needs, lead poisoning prevention, immunization, adolescent pregnancy prevention, and maternal and child health. Table 8 shows the expenditure levels per poor child in each of the 13 states and spending by subcategory. As the table shows, states spent approximately 87 percent



of their total health dollars on Medicaid-related expenses, 10 percent on other children's services, and 4 percent on mental health programs. Total state and federal spending on health programs averaged \$2,246 per poor child.

Figure 9. Health Spending—Federal and State and Local Funds per Poor Child, SFY 1995



Source: The Urban Institute.

Note: The numbers of children in poverty are 1994 estimates based on three-year averages.

a. Alabama health spending does not include spending on children's mental health services because the state was not able to break out spending on children versus adults.

See [table 8](#) for each state's exact total expenditures and [table 13](#) for each state's exact state and local expenditures.

Unlike cash assistance and training totals, health expenditure levels varied tremendously across the 13 states. As [table 8](#) shows, Massachusetts had the highest expenditure level, spending \$3,919 per poor child and ranking 74 percent above the average. Alabama had the lowest expenditure level, \$1,030 per poor child, which was 46 percent below the average.

The States Share Equally with the Federal Government in Funding Health Programs

States spent an average of \$1,087 per poor child of their own money on health services. This average spending level was a little less than half the total state and federal health expenditure level, illustrating the importance of state dollars in funding children's health. Unlike most other categories, states do not receive large allocations of non-matched federally funded dollars for child health programs. They have to invest in Medicaid and MCH in order to draw down the federal money. The majority of states funded non-Medicaid "other children's health services" by using MCH funds, which requires states to match each \$4 of federal funds with \$3 in state funds.

The states fell into five major spending clusters. New York, Minnesota, and Massachusetts all placed far above the mean (74 to 96 percent above) in spending per poor child. New Jersey and Washington ranked right above the mean (7 and 3 percent above, respectively), and Wisconsin, Florida, and Colorado fell a little below the mean (6 to 9 percent below). Michigan and California were in the fourth group, placing 20 and 28 percent below the mean, and Texas, Alabama, and Mississippi ranked very far below the mean (48 to 76 percent below).

States used the Medicaid program to provide their children with a large array of acute and long-term care services. Acute care services included inpatient hospital treatment,

physician-related services, laboratory and X-ray

Table 9 illustrates how states varied in their Medicaid coverage of the low-income child population. Federal law requires states to provide Medicaid services to pregnant women and children under age six with family incomes below 133 percent of the federal poverty level. Also, states in 1995 were required to cover children up to age 12 whose family income was below 100 percent of the poverty level. Many states, including 12 of the 13 states covered in this report, made efforts to expand Medicaid coverage beyond the federal requirements for one or all of these population groups. Table 9 also shows that the states that spent the most per poor child did not necessarily provide coverage to the largest number of pregnant women and children. However, because states also vary in the breadth of coverage provided, it is difficult to conclude from this table that some states provide more cost-efficient services. Certainly, expenditures alone do not explain the amount of services provided.

Six States Had State-Initiated Child Health Programs

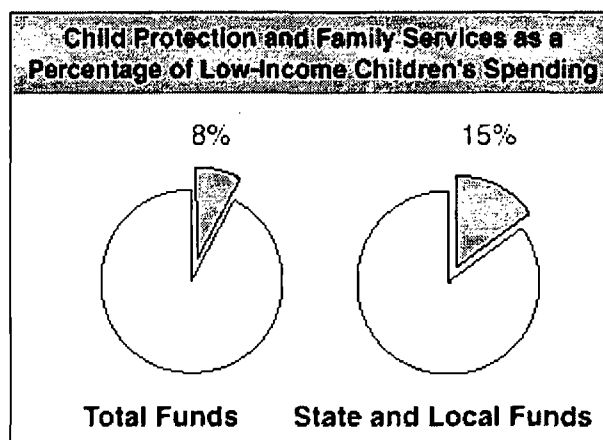
California, Colorado, Florida, Massachusetts, Minnesota, and New York all provided state health programs that serve low-income children who were not eligible for Medicaid. ¹¹ Minnesota's program accounted for 11 percent of the state's health spending. In the other five states, these state-administered programs accounted for only 1 to 3 percent of their state health dollars.

California limited its state-only program to pregnant women and children under 2; Colorado and Massachusetts provided the program to children under ¹²; New York served children under 15; and Florida and Minnesota provided services for children up to 19. All of the states required families to contribute to the costs based on a sliding fee schedule. Some of the states, such as Minnesota and New York, provided larger subsidies than others. In addition, many of these states paid for a large portion of these programs using non-general fund money. They developed trust funds from user fees (e. g., liquor and tobacco taxes) and unused funds from other health programs.

Child Protection and Family Services

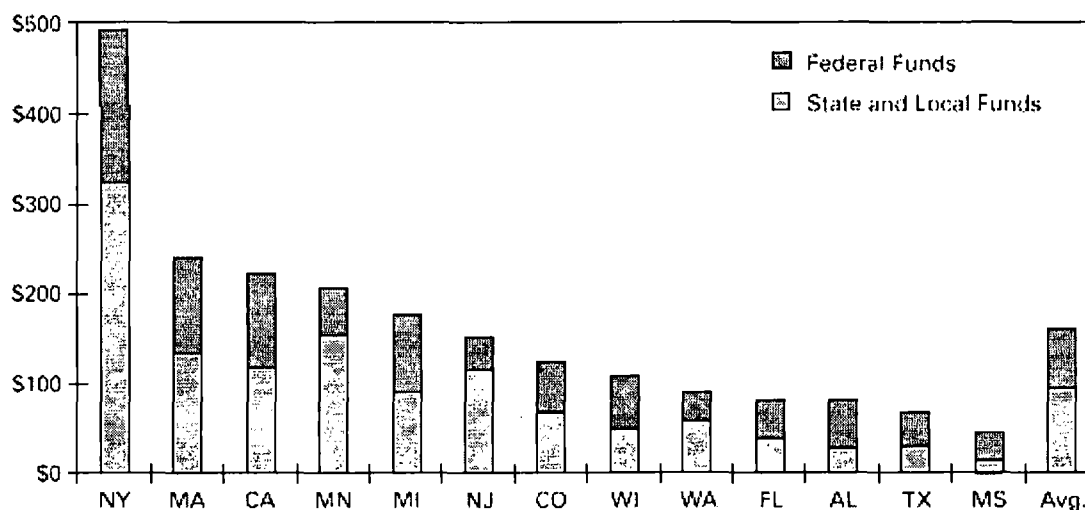
New York Spent More Than Three Times the 13-State Average

Figure 10 shows total child protection and family services spending by federal and state and local funds. Child protection and family services includes all state and federal expenditures that preserve and protect the well-being of children and their families. This section covers state spending relative to children, instead of poor children, because states are legally obligated to ensure the safety of all children, regardless of income level. This category captures spending for children who must be temporarily or permanently removed from their parents' homes, adoptions, investigations of incidence of child abuse and neglect, prevention of child victimization, and preservation and support of families



where children are at risk of abuse and neglect. As [table 10](#) shows, out-of-home placement spending, including adoption costs, accounted for nearly 56 percent, and other child-welfare-related services 44 percent, of total state and federal child protection and family services expenditures. States spent less than 1 percent of their total spending in this category on child abuse prevention programs.

Figure 10. Child Protection and Family Services Spending—Federal and State and Local Funds per Child, SFY 1995



Source: The Urban Institute.

See [table 10](#) for each state's exact total expenditures and [table A-7](#) for each state's exact state and local expenditures.

Total spending on these programs averaged \$160 per child. New York's expenditure level of \$492 per child was by far the highest spending level, at more than three times the 13-state average. Mississippi spent the least per child (\$ 46), falling 71 percent below the average.

States funded child protection and family services through two major federal funding streams: Titles IV-E and IV-B of the Social Security Act. Title IV-E is an uncapped matching program that provides states with funds to place eligible children in out-of-home placements. IV-B is a capped matching program that gives states money to pay for other child-welfare-related services. Because IV-B monies were limited, many states also tapped IV-E funds for other child-welfare-related services that were still associated with placing a child outside the home and thus eligible for federal reimbursement. States also supplemented these two federal funding streams with Title XX, Social Service Block Grant (SSBG), money. They used this funding stream to expand child-welfare-related services and in some cases to pay for out-of-home placements for children not eligible under IV-E. States also utilized Title IV-A Emergency Assistance (EA) funds to pay for short-term out-of-home placements and costs related to child protection and child-related services.

States Provide the Majority of Funding

State and local child protection and family services spending per child averaged \$97—approximately 60 percent of the average total state and federal expenditure level. New York had the highest level of spending per child (\$ 327). Minnesota, Massachusetts, California, and New Jersey each invested from 63 to 20 percent above the 13-state average. Michigan placed 6 percent below the average, and Colorado, Washington, and Wisconsin ranked 26 to 43 percent

below the average. Florida, Texas, Alabama, and Mississippi ranked from 56 to 82 percent below the 13-state average.

The large variations in state child protection and family services spending result, in part, from some states' high reliance on federally funded programs to pay for child protection and family services. For example, Mississippi spent only \$17 per child in state funds, but its total spending was \$46 per child. Alabama, Texas, and Florida spent less than \$44 per child in state funds on child protection and family services programs.

Child Care and Early Childhood Development

Most Funds Were Spent on Early Childhood Development Programs

Figure 11 shows total child care and early childhood development spending by federal and state and local funds. The child care and early childhood development program category captures state and federal spending on child care programs for welfare recipients and low-income persons, and child development for children from birth to age five. (The portion of the AFDC grant that reflects the child care disregard was included in the cash assistance category because most states could not separate it out.)

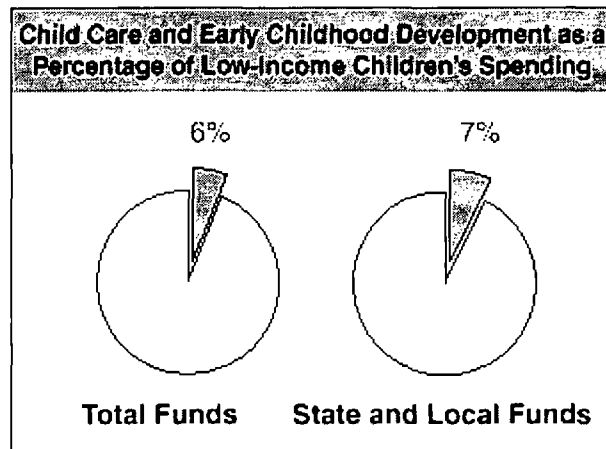
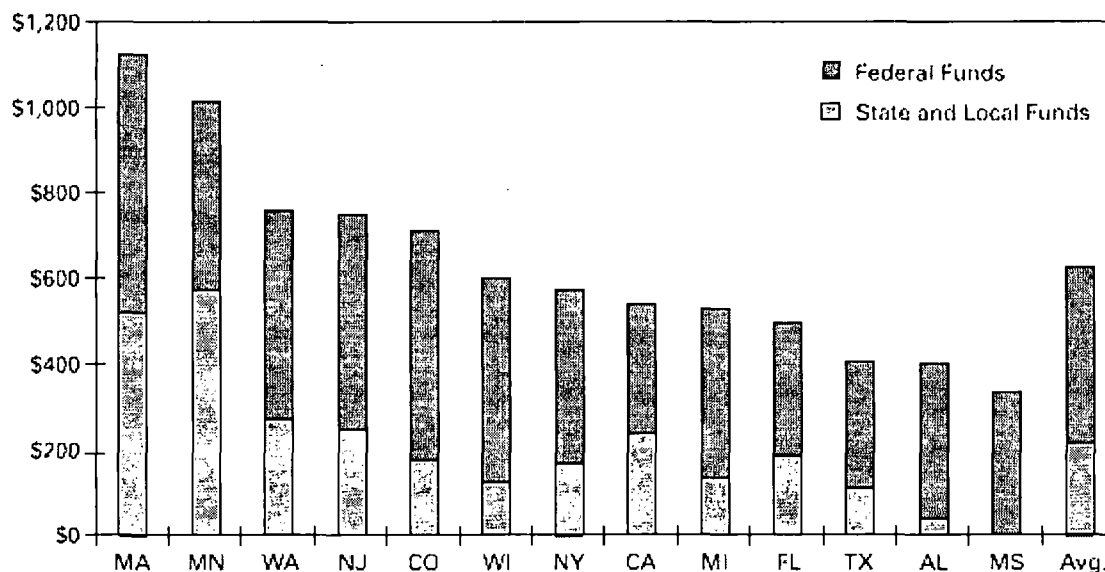


Figure 11. Child Care and Early Childhood Development Spending—Federal and State and Local Funds per Poor Child, SFY 1995



Source: The Urban Institute.

Note: The numbers of children in poverty are 1994 estimates based on three-year averages.

See [table 11](#) for each state's exact total expenditures and [table 13](#) for each state's exact state and local expenditures.

As [table 11](#) shows, states averaged \$631 per poor child on total federal and state child care and child development expenditures. Expenditures ranged from a high of \$1,121 per poor child in Massachusetts to a low of \$328 per poor child in Mississippi.

Spending on these various populations is separated into three subcategories: welfare, non-welfare, and early childhood development. Child care spending on AFDC and JOBS recipients and those transitioning off welfare assistance was placed under welfare child care. Child care for residents who are working but at risk of welfare or are low-income and working is grouped in the non-welfare subcategory. This subcategory also includes state child care tax credits to individuals, but it does not include tax credits provided to employers for establishing child care facilities. Head Start, state supplements to Head Start, and prekindergarten (pre-K) programs are categorized as early childhood development spending. As the table shows, early childhood expenditures accounted for about half of the total expenditures in this category. In contrast, non-welfare child care constituted 32 percent of the total, and welfare child care made up only 17 percent.

States received federal dollars for child care and early childhood development programs from three primary funding streams. Federal welfare-related spending came from the Title IV-A AFDC/ JOBS and the Transitional Child Care programs. Both of these programs were open-ended matching programs. Nonwelfare federal dollars primarily came from the Child Care and Development Block Grant. States also received a small portion of funds targeted for the nonwelfare population from Title IV-A At-Risk Child Care, which was a closed-ended matching program. Finally, states received Head Start federal funding earmarked for early childhood development of low-income children. In most cases, Head Start money goes directly to localities, and states do not include these expenditures in their budgets. Another important child care funding stream was Title XX SSBG funds. Some states used this money to expand the availability of their non-welfare child care programs.

States Spend More on Child Care Programs for Individuals Not on Welfare Than on Programs That Serve the Welfare Population

Figure 12 shows how much child care money states spent on their nonwelfare and welfare populations. States averaged \$120 per poor child on welfare child care and \$205 per poor child on non-welfare child care. Interestingly, states varied in their rankings and spending between the two programs. For example, California ranked 12th in welfare spending, falling 63 percent below the average, but it spent \$270 per poor child on non-welfare child care, ranking fourth. Colorado followed a similar trend, spending \$79 on welfare child care and \$252 on non-welfare. In contrast, Washington spent \$289 per poor child on its welfare population, 141 percent above the average, and only \$174 per poor child on non-welfare child care.

States Provide Only One-Third of the Funding for Child Care Programs

States spent an average of \$219 in state-only dollars per poor child—about one-third the total spending levels—on child care and early childhood development programs. State investment in child care/child development varied considerably across the 13 states. Minnesota and Massachusetts invested more than 140 percent above the 13-state average (\$ 575 and \$528, respectively). In contrast, Mississippi and Alabama spent very little in state-only dollars (\$ 7 and \$40 per poor child, respectively), falling more than 87 percent below the mean. The ranking of states on state spending levels also changed from the rankings on states' total spending levels. For example, Florida moved from tenth to sixth, and Wisconsin moved from sixth to ninth.

One reason for the change in rankings and the increase in expenditure differences is the different levels of state reliance on the Child Care and Development Block Grant and the SSBG. The states, such as Florida, that supplemented these federal funds with state dollars had spending levels that were close to or higher than the 13-state average. In contrast, Mississippi and Alabama relied primarily on federal funding, and consequently their levels relative to the average were much lower.

States Spent 40 Percent of Their Child Care Funding on Early Childhood Programs

Except for Mississippi, all of the states spent state dollars on early childhood programs. These 12 states spent an average of 38 percent of their state child care/child development expenditures on state-initiated pre-K programs or expansions to the federal Head Start program. Michigan invested more than 70 percent of its state child care and early childhood development dollars in its pre-K program, and Texas spent 67 percent of its state child care and early childhood development funds in this category.

Three States Have State Child Care Tax Credits

Massachusetts, Minnesota, and New York provided their residents with state personal income tax credits or deductions for employment-related child care expenses. New York and Massachusetts offered this tax program to all their residents, and Minnesota limited it to those with incomes under \$29,700. Minnesota and New York based their credits on a percentage of the federal Child and Dependent Care Tax Credit, and Massachusetts allowed residents a specified maximum deduction. These tax expenditures accounted for 5 percent of Massachusetts's state child care spending, 12 percent of Minnesota's, and 17 percent of New York's.

Food and Nutrition

States Varied Little in Their Total Spending

Figure 13 shows total food and nutrition spending by federal and state and local funds. This category includes spending on child nutrition programs such as the National School Lunch and Breakfast program, the Child and Adult Care Food program, the Special Milk program, and the Summer Food program. In addition, it captures spending on pregnant and postpartum women through the Women, Infants, and Children (WIC) program. Spending on the Food Stamps program, however, is included in the cash assistance and training category because of its close interaction with the AFDC program. Total local, state, and federal spending on these programs averaged \$760 per poor child.

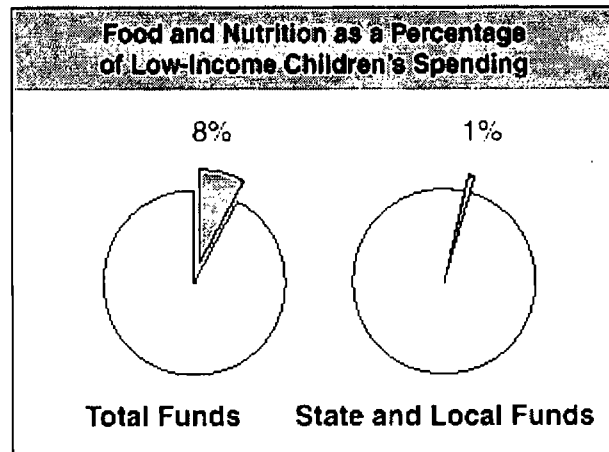
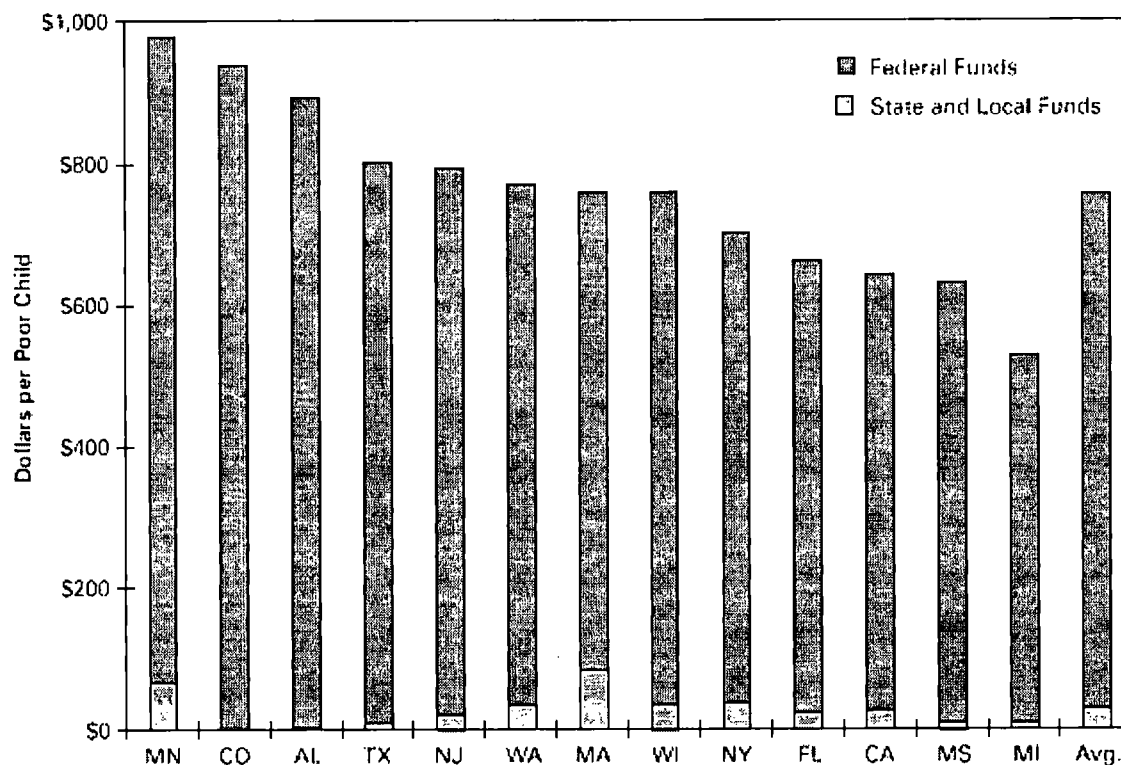


Figure 13. Food and Nutrition Spending—Federal and State and Local Funds per Poor Child, SFY 1995



Source: The Urban Institute.

Note: The numbers of children in poverty are 1994 estimates based on three-year averages.

See table 13 for each state's exact state and local expenditures.

States varied very little in their total food and nutrition spending, with no state placing more than 30 percent above or below the 13-state mean. Minnesota had the highest spending level, \$982 per poor child, and Michigan had the lowest level, \$528 per poor child. Child nutrition expenditures averaged 68 percent of the total, and WIC made up an average of 32 percent of

total food and nutrition dollars.

States Spent Little State Money on Food and Nutrition

States did not invest much of their own money in food and nutrition programs, illustrating that providing food and nutrition to children is viewed as a federal responsibility. 12 While food and nutrition spending constituted an average of 8 percent of total state and federal spending on children, it accounted for less than 1 percent of state funds. States spent an average of only \$29 per poor child in state funds for these programs. Massachusetts had the highest level per poor child, spending \$85, and Colorado had the lowest, spending nothing.

These food and nutrition state funds supplemented child nutrition programs and expanded access to the WIC program. Every state except Colorado and Mississippi invested in child nutrition. Massachusetts, Minnesota, Mississippi, New York, Texas, Washington, and Wisconsin were the only states that spent money to expand WIC services. (WIC rebates are not included in the study because these expenses are paid for by manufacturers rather than the residents of a state.)

Juvenile Justice and Youth Services

Figure 14 shows total juvenile justice and youth services spending by federal and state and local funds. This section covers state spending relative to all children, not just poor children, because states serve all youth through the juvenile justice system, regardless of income status. This category captures all programs focusing on supervision, care, and rehabilitation of youths committing delinquent acts. It also accounts for spending on prevention and community-based programs focusing on prevention of

juvenile crime. Administrative expenditures are included in the spending totals in cases where staffing or operations were directly linked to the supervision or care of the delinquent youth—for example, maintenance and staffing of institutions. States fund juvenile justice and youth services programs primarily from state revenues, and thus total and state spending levels were very similar, with total expenditures averaging \$59 per child and state spending levels averaging \$55. (Localities also spend money on juvenile justice and youth services. However, the states in this study did not collect expenditure data on local juvenile justice and youth services spending.)

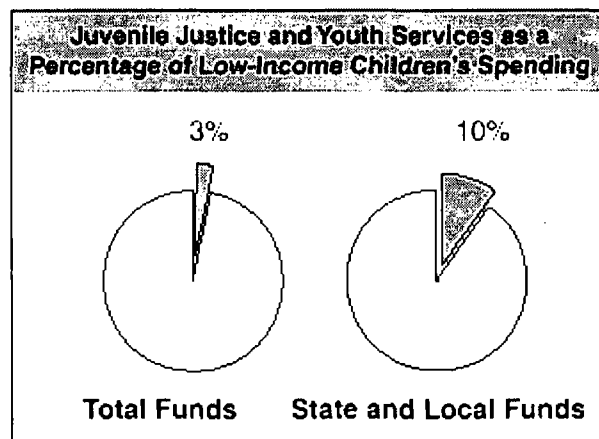
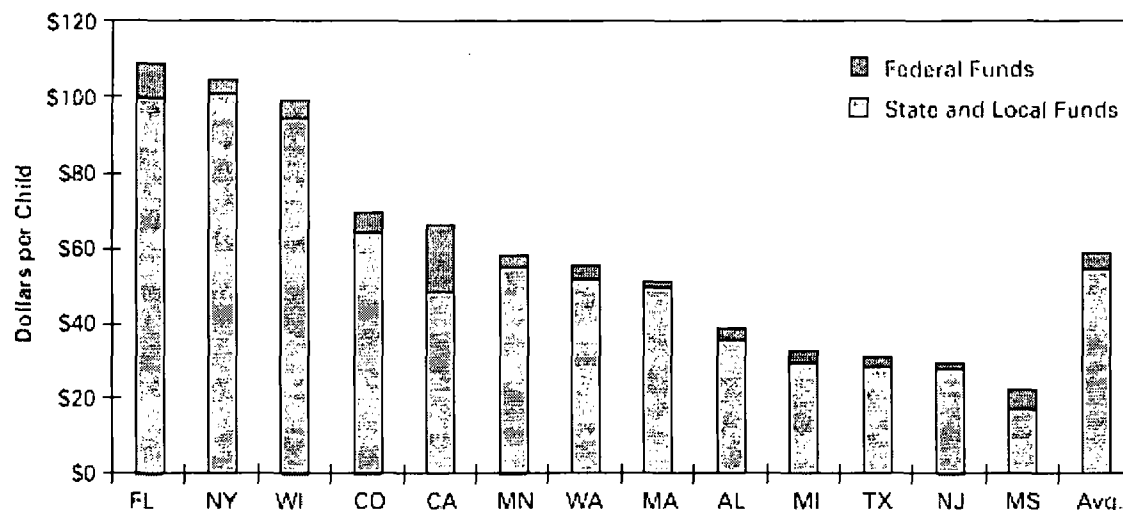


Figure 14. Juvenile Justice and Youth Services Spending—Federal and State and Local Funds per Child, SFY 1995



Source: The Urban Institute.

See [table 12](#) for each state's exact total expenditures and [table A-7](#) for each state's exact state and local expenditures.

As [table 12](#) shows, states spent an average of 49 percent of their total juvenile justice spending for juvenile institutions and boot camps. The other 51 percent went to pay for "other juvenile justice and youth services," defined as detention centers, community-based alternative placements, community services, post-incarceration services, and prevention services. These average percentages do not include Mississippi, which could not provide accurate expenditure breakdowns between spending on institutions and boot camps and other juvenile justice and youth services.

As [figure 14](#) and [table A-7](#) show, New York spent the most state dollars on this category, with an expenditure level of \$102 per child. Florida and Wisconsin were close behind, spending \$101 and \$95 per child, respectively. Mississippi and New Jersey had the lowest levels, spending \$17 and \$28 per child.

Wisconsin, by allocating 19 percent to this category, had the highest level of juvenile justice and youth services spending as a proportion of its total state children's budget expenditures. Interestingly, Massachusetts, which had the highest level of state spending, allocated the smallest proportion (5 percent) of its total state monies to juvenile justice and youth services. In contrast, Alabama, which had the second lowest total state spending level, allocated the second largest proportion (18 percent) to this category.

Summary and Conclusions

This report documents spending on low-income children in 13 states in state fiscal year 1994–95. The study is unique because the information was obtained from state sources, it includes state-only spending in addition to the federal and state matching monies that are normally counted in other data sources, and it is actual expenditure data, not simply appropriations. The study has six major conclusions:

- Most spending on low-income children in the 13 states was from federal sources.

- States spend a small proportion of their own general fund on programs for low-income children.
- Most state-level spending on low-income children falls into two areas: health, and cash assistance and training.
- The federal government provides most of the funding for three of the six program categories: cash assistance and training, child care and early childhood development, and food and nutrition. The states provide the majority of funds for child protection and family services and juvenile justice and youth services. For the category of health services, the expense is shared almost evenly.
- Some states clearly ranked among the highest or lowest in all or most of the spending areas, but for most states the story was more mixed.
- States have strong funding preferences that reflect the many differences among the states, but especially their priorities and their particular cultural and political histories.

The 13 states spent on average \$3,153 per poor child in state and local funds on low-income children's programs. When federal spending on low-income children is added to the state total, the total amount spent on children triples to \$10,111. The states with the least ability to raise revenue received the most federal funds, and these funds were provided predominantly through the Earned Income Tax Credit, Food Stamps, Medicaid, and Aid to Families with Dependent Children programs. In fact, these four programs constituted 63 percent of the total funds (local, state, and federal) spent on low-income children's programs.

Spending on low-income children's programs constitutes a small amount of a state's total budget. For the 13 states, spending on low-income children's programs accounted for only 8.3 percent of their state general fund (GF) budgets on average. Although there was some variance among the states, no state spent more than 14.5 percent of its GF on low-income children. On average for the 13 states, this budget decision placed state spending on low-income children fifth behind spending on K-12 education, other programs, higher education, and Medicaid. States do, however, spend significant amounts on education programs, and spending on education is more than equal to spending on all programs for low-income children combined.

Although states varied in the types of programs they funded, all 13 states spent most of their state and local funds on health and cash assistance and training programs. On average, two-thirds of a state's spending on low-income children was in these two categories of programs. Child protection and family services programs were the third largest category of programs funded, and juvenile justice and youth services programs the fourth. Among states there were clear differences. For three states, the third largest category of spending was juvenile justice and youth services programs.

The fact that states spent most of their funds on health, cash assistance and training, child protection and family services, and juvenile justice and youth services, in that order, was probably the result of a number of factors, including the incentives inherent in the federal funding structure, the cost of providing the different services, the need for services, and the relative importance of the services.

Among the categories of programs, the relationship between the state/local and federal governments' roles in funding programs varied. Of all the categories, states provided the

smallest proportion of funding for the food and nutrition and cash assistance and training programs. States paid for only 4 percent of the total expenditures on food and nutrition programs and one-fifth of the spending on cash assistance and training programs. In addition, state and local governments provided only one-third of the funding for child care and early childhood development programs, but the state and federal governments shared the expense of health programs almost evenly. States were much more involved in the funding of child protection and family services and juvenile justice and youth services programs. States provided 60 percent of the funding for child protection and family services programs and more than 90 percent of the funding for juvenile justice and youth services programs.

The summation table, [table 13](#), pulls together several measurements of spending on low-income children's programs for the 13 states. This table gives a fuller picture of the states' spending practices on low-income children's programs. Some states clearly ranked among the highest or lowest in all or most of the categories, but for most states the story was more mixed. For example, New York and Minnesota ranked second and third in total state spending per poor child. New York, however, ranked seventh in spending on child care and development programs ([table 11](#)), and Minnesota ranked eighth in spending on cash assistance and training programs ([table 5](#)). Both Florida and California have lower-than-average resources to spend on the poor children in their state (ranked ninth and tenth in personal income per poor child—[table A-1](#)), and California ranked seventh and Florida tenth in total state spending per poor child. Both states, however, ranked among the highest in the proportion of the general fund they allocated to children's programs.

This report's discussion of spending by categories also illustrates how states have funding preferences. California spends a significant portion of its funds on cash assistance and training programs, and New York spends the highest as a percentage and per child on child protection and family services programs. Why states have chosen to invest more heavily in one program versus another is not clear, and the states themselves may not be aware of how their spending on children's programs is distributed among the various programs. Different populations, modes of delivering services, costs of providing services, eligibility requirements, and needs for services may explain some of the variations. For many states, however, the distribution of funds may reflect a preference for funding one type of program over another, and it illustrates in dollar terms the priorities of the particular state.

With the establishment of the Temporary Assistance for Needy Families block grant and the Child Care and Development Fund, states will have new flexibility in distributing these funds. Given the distribution of state funds before the passage of the Personal Responsibility and Work Opportunity Reconciliation Act, states would be expected to differ in how they will spend these funds. What is not clear is whether states will continue to spend the funds as was previously specified in the federal programs, or whether they will use the new flexibility to increase spending in categories each state has always felt were important (such as child care spending in Massachusetts and Minnesota), or whether they will increase spending in categories that have been relatively underfunded compared to other categories (such as child protection and family services spending in Florida and child care and early childhood development spending in New York).

Notes

1. This report was conceived and designed by the late Steven Gold as a follow-up to his report: Steven D. Gold,

Elizabeth I. Davis, Deborah A. Ellwood, David S. Liebschutz, and Sarah Ritchie, *How Funding of Programs for Children Varies among the 50 States* (Albany, NY: Center for the Study of the States, The Nelson A. Rockefeller Institute of Government, State University of New York, January 1996). That report presented state and federal spending data on nine federal matching programs that serve children.

2. Family planning expenditures are not included because these services are predominantly provided to individuals over age 18. See Lisa Kaiser, *Title X and the U. S. Family Planning Effort* (The Alan Guttmacher Institute, Issues in Brief, February 1997). Kaiser estimates that 30 percent of clients at publicly subsidized family planning providers are younger than 20 years of age.

3. The difference between comparing spending to the number of poor children in the state versus the number of children is significant for several states that have particularly high or low child poverty rates. For example, among the 13 states, Mississippi ranked last in total spending relative to the number of poor children in the state, but it ranked fifth in total spending relative to the total number of children in the state. The difference is a result of Mississippi's high child poverty rate, one of the highest in the nation. California and Florida experience a similar increase in their ranking when spending is compared with the number of children in the state instead of the number of poor children. On the other hand, Colorado, New Jersey, and Wisconsin move down in the rankings because they have relatively low child poverty rates. Tables A-2 and A-3 show the states' spending relative to these two measurements.

4. For a more thorough discussion, see Toby Douglas and Kimura Flores, *Federal and State Funding of Children's Programs* (Washington, DC: The Urban Institute, January 1998).

5. This study used NASBO's state GF total and K– 12 other state funds as the total for the denominator of total state GF. Although states do not define their general fund uniformly, this is a rough approximation for spending out of tax revenue, except for transportation spending, which usually is financed by an earmarked transportation fund. See Steven D. Gold and Sarah Ritchie, *How State Spending Patterns Have Been Changing* (Albany, NY: Center for the Study of the States, State Fiscal Brief No. 31, December 1995). For the numerator, the study used total state GF spending on children's programs. One state, Alabama, uses a significant amount of other state monies to fund children's programs. It also makes disproportionate use of these other revenue sources throughout the rest of the budget, but the percentage of GF spending on children over total GF in Alabama is comparable to the percentage of other state funds spent on children over total other state funds, approximately 2.3 percent.

6. The best single reflection of state priorities is the fraction of money that states allocate annually in their budget process. For this reason, this study used NASBO as the source for the state budget totals. Alternatively, the Census-reported totals could have been used, but they include items that are funded by state entities but are not included in the state budget, such as public authorities. For comparison purposes, table A-4 shows the same table using the Census numbers for the state budget total denominator, and the percentages are very similar—states spending on average 10.9 percent on low-income children's programs, with a low of 7.8 percent and a high of 15.1 percent.

7. Because spending on low-income children does not include education spending, the rankings of the states would change if that calculation could be made. However, comparing the percentage of the state budget spent on education programs across states is misleading because states vary so much in the percentage of education costs that states versus local governments pay. Table A-4 shows total spending on children, including education, as a proportion of total state spending, using the Census numbers for education spending and the Census state and local totals for the denominator of total state spending. This ratio does not reflect spending as a proportion of the state budget, but it does reflect how the rankings might change if education spending and local general fund budgets could be included in the calculation.

8. For a more thorough discussion, see Toby Douglas and Kimura Flores, *Federal and State Funding of Non-Education Children's Programs* (Washington, DC: The Urban Institute, January 1998).

9. Substance abuse prevention and treatment and developmental disabilities (except for Part H) programs are not included in this report because most states could not disaggregate spending on children versus spending on adults, and in many states, developmental disabilities spending was done through local school districts—data that states did not collect.

10. David Liska et al., *Medicaid Expenditures and Beneficiaries, National and State Profiles and Trends, 1990– 1995* (Washington, DC: The Urban Institute and the Kaiser Commission on the Future of Medicaid, November 1997).

11. This report does not include spending on state indigent health care programs. In 1995, many states provided medical care to poor adults or families who were ineligible for federal medical assistance. These programs are

commonly referred to as General Assistance— medical programs. The 13 states could not provide expenditure information on these programs because either the data included spending on both single adults and families, or counties had primary responsibility for paying for the costs and did not have to report expenditures to the state.

12. The state spending total does not include local school district expenditures. In some states, school districts supplement federal food and nutrition dollars with local education money. For example, Minnesota local school districts spent more than \$75 million on the school lunch program. However, local nutrition spending through school districts is not included in the total, because most states could not estimate this amount; the funds are included in the education total number.

Tables

Table 1. Comparison of Spending on Low-Income Children's Programs to Spending on Other Major Expenditure Categories, SFY 1995

State	Percentage of State General Fund Budget ^a						Total	Children's Programs as Percent of State GF ^g
	K-12 ^b	Higher Education	Medicaid ^c	AFDC ^d	Corrections ^e	Other ^f		
Alabama	51.6	24.4	5.0	0.2	4.7	14.1	100	2.3
California	35.3	11.5	15.0	6.6	7.6	24.0	100	14.5
Colorado	39.9	16.6	18.2	1.1	7.5	16.8	100	7.4
Florida	40.3	11.4	13.1	2.1	9.5	23.5	100	12.5
Massachusetts	15.2	5.3	12.8	2.9	2.1	61.6	100	10.0
Michigan	52.7	10.6	9.0	2.5	7.6	17.6	100	8.8
Minnesota	31.8	16.5	15.3	1.5	2.7	32.2	100	7.5
Mississippi	46.8	16.7	5.2	0.6	7.0	23.7	100	4.7
New Jersey	29.7	7.3	15.6	1.6	4.6	41.3	100	6.1
New York	32.5	9.0	18.6	2.2	7.5	30.1	100	11.2
Texas	38.7	19.3	11.3	0.8	10.4	19.4	100	5.7
Washington	45.2	10.8	13.4	2.8	4.0	23.8	100	9.5
Wisconsin	37.4	13.0	10.6	1.8	4.2	33.0	100	7.5
13-state average	38.2	13.3	12.5	2.1	6.1	27.8	100	8.3

Sources: National Association of State Budget Officers, 1996 State Expenditure Report, and (for low-income children's programs) the Urban Institute, 1998.

a. General fund spending does not include federal funds and also includes other state fund spending for K-12 education.

b. A very small portion of K-12 education spending is also included in total low-income children's expenditures in almost all of the 13 states.

c. In federal fiscal year 1995, approximately 17 percent of total Medicaid expenditures was for children. Consequently, a similar portion of Medicaid expenditures in each state was for children and would be included in the low-income children's spending. Expenditures amounts from NASBO and Urban Institute data collections are slightly different because of the time of reporting.

d. All AFDC spending is included in the low-income children's total. Expenditure amounts from NASBO and Urban Institute data collections are slightly different because of the time of reporting.

e. In the majority of cases, these expenditures do not include juvenile justice and youth services spending.

f. This category includes other cash assistance programs and transportation. Depending on the state, this category could also include spending for hospitals and other health programs, economic development, environmental projects, state police, juvenile institutions, parks and recreation, housing, and general aid to local governments. This

category includes the majority of non-AFDC and Medicaid low-income children's spending.

g. Spending includes only general fund spending and does not include federal, other state, or local funds. In relation to the NASBO categories, on average for the 13 states, spending on low-income children's programs ranks fifth, behind spending on K–12 education, other programs, higher education, and Medicaid. The rankings, however, varied from state to state, with spending on low-income children's programs ranking as high as third and as low as last among the program categories.

Table 2. Total Spending on Low-Income Children's Programs as a Percentage of the State Budget—Federal and State Funds, SFY 1995

State	Total State Budget ^a Dollars (Millions)	Low-Income Children's Spending ^b		
		Dollars (Millions)	As a Percentage of Budget	Rank
Alabama	\$11,419	\$818	7.2%	13
California	88,497	14,194	16.0	1
Colorado	8,082	741	9.2	11
Florida	37,559	4,419	11.8	6
Massachusetts	19,014	2,682	14.1	2
Michigan	26,226	3,258	12.4	5
Minnesota	14,172	1,484	10.5	9
Mississippi	6,477	676	10.4	8
New Jersey	22,725	2,071	9.1	12
New York	66,676	8,877	13.3	3
Texas	37,005	4,701	12.7	4
Washington	16,566	1,850	11.2	7
Wisconsin	16,075	1,508	9.4	10
Average			11.3	

Sources: The Urban Institute and the National Association of State Budget Officers, *1996 State Expenditure Report*.

a. Total includes general fund, federal funds, other state funds, and bonds.

b. Children's total does not include local spending or direct federal expenditures to localities (e.g., Head Start).

Table 3. Local Government Spending on Low-Income Children's Programs

State	As Percentage of Total State and Local Low-Income Children's Spending	Dollars per Poor Child	Dollars per \$1,000 of Personal Income
Alabama	3%	\$22	\$0.07
California	13	419	1.22
Colorado	20	611	0.81
Florida ^a	0	1	0.00
Massachusetts	0	0	0.00
Michigan	2	59	0.14
Minnesota	31	1,667	2.76
Mississippi	0	0	0.00
New Jersey	10	375	0.43
New York	42	2,377	5.26
Texas ^a	0	0	0.00
Washington	0	0	0.00
Wisconsin	5	172	0.29

Source: The Urban Institute.

Note: The numbers of children in poverty are 1994 estimates based on three-year averages.

a. Florida and Texas reported local spending; however, the amounts rounded to less than 1 percent of total state and local spending on low-income children.

Table 4. State and Local Spending on Low-Income Children's Programs Relative to Fiscal Capacity, SFY 1995

State	Per Capita Personal Income			State and Local Spending per \$1,000 of Personal Income			Federal Spending per \$1,000 of Personal Income		
	Dollars	Index ^a	Rank	Dollars	Index ^a	Rank	Dollars	Index ^a	Rank
Alabama	\$19,181	81	12	\$2.56	41	13	\$21.19	121	2
California	24,073	102	4	9.52	152	2	18.16	104	4
Colorado	23,961	101	6	4.01	64	10	10.68	61	12
Florida	23,061	97	9	5.91	95	8	16.32	93	6
Massachusetts	28,021	118	2	8.18	131	4	11.39	65	11
Michigan	23,915	101	7	6.09	98	6	14.88	85	7
Minnesota	23,971	101	5	8.84	142	3	11.89	68	10
Mississippi	16,683	70	13	2.92	47	12	33.37	191	1
New Jersey	29,848	126	1	4.39	70	9	9.00	51	13
New York	27,678	117	3	12.42	199	1	17.05	97	5
Texas	21,206	90	11	3.93	63	11	19.71	113	3
Washington	23,774	100	8	6.48	104	5	13.24	76	8
Wisconsin	22,261	94	10	5.95	95	7	13.10	75	9
13-State Average	23,664	100		6.25	100		17.50	100	

Source: The Urban Institute.

a. The index is based on setting the 13-state average equal to 100. Each state's individual index is computed by dividing its total by the 13-state average.

Table 5. Cash Assistance and Training Spending—Federal, State, and Local Funds per Poor Child, SFY 1995

Spending by Subcategory^b (Percent)

State	Dollars	Index ^a	Rank	EITC	AFDC	Food Stamps	SSI	Training	Other
Alabama	\$4,792	90	9	45%	6%	30%	11%	2%	5%
California	5,731	108	7	23	50	17	3	3	3
Colorado	5,737	108	6	36	22	26	6	5	5
Florida	4,467	84	11	36	25	27	7	3	3
Massachusetts	6,164	116	2	16	46	17	5	4	11
Michigan	4,709	88	10	21	39	24	7	3	5
Minnesota	5,064	95	8	27	30	21	5	4	13
Mississippi	4,061	76	12	43	8	31	12	3	3
New Jersey	6,614	124	1	27	32	22	6	4	9
New York	6,139	115	3	20	42	20	6	4	9
Texas	3,965	74	13	42	11	36	5	4	2
Washington	5,953	112	4	21	38	23	4	4	10
Wisconsin	5,901	111	5	28	34	17	11	5	6
Average	5,330	100		30	29	24	7	4	6

Source: The Urban Institute.

Note: The numbers of children in poverty are 1994 estimates based on three-year averages.

a. The index is based on setting the 13-state average equal to 100. Each state's individual index is then computed by dividing its total by the 13-state average.

b. Percentages may not add to 100 because of rounding.

Table 6. State Benefit Levels and Spending on Cash Assistance and Training per Poor Child, SFY 1995

State	AFDC Maximum Grant for a Family of Three (in Dollars)	State and Local Cash Assistance and Training Spending per Poor Child (in Dollars)
Alabama	\$164	\$183
California	607	1,550
Colorado	421	748
Florida	303	505
Massachusetts	565	1,888
Michigan	459	953
Minnesota	532	1,226
Mississippi	120	124
New Jersey	424	1,339
New York	577	1,781
Texas	188	218
Washington	546	1,362
Wisconsin	517	1,266

Source: The Urban Institute and "Assessing the New Federalism State Database," the Urban Institute, <http://newfederalism.urban.org/nfdb/index.htm> (2/98).

Table 7. State-Funded or State-Mandated General Assistance Programs, SFY 1995

State	General Assistance Program Name (Description)	Total Expenditures on Families and Children
Alabama	No state program	N/A
California	General Relief (county-funded program that is mandated by the state)	\$21.8 million ^a
Colorado	No state-mandated program (six counties have their own programs)	N/A
Florida	No state-mandated program (a few counties have their own programs)	N/A
Massachusetts	Emergency Aid to Elderly, Disabled, and Children	\$21.1 million ^b
Michigan State	Family Assistance	\$12.8 million
Minnesota	General Assistance	\$11.0 million
Mississippi	No state program	N/A
New Jersey	Insufficient Employment of a Parent	\$16.9 million
New York	Home Relief	\$260.6 million
Texas	No state program (one county has its own program)	N/A
Washington	State program for pregnant women in first two trimesters and Children with Guardian \$0.4 million ^c	\$6.5 million
Wisconsin	State program (primarily serving single adults)	\$0.3 million ^d

Source: The Urban Institute.

a. Estimated using monthly data.

b. Estimated on children and youth up to 21.

c. Estimate based on annual data from the Washington Department of Health and Social Services.

d. Rough estimate based on Wisconsin Department of Health and Social Services data.

Table 8. Health Spending—Federal, State, and Local Funds per Poor Child, SFY 1995

Spending by Subcategory^b (Percent)

State	Dollars	Index ^a	Rank	Medicaid	Other Children's Services	Mental Health
Alabama ^c	\$1,030	46	13	85%	15%	0%
California	1,457	65	10	87	9	4
Colorado	2,127	95	8	87	10	3
Florida	2,170	97	7	88	9	3
Massachusetts	3,919	174	1	87	10	3
Michigan	1,968	88	9	91	7	3
Minnesota	3,684	164	2	75	15	10
Mississippi	1,072	48	12	88	8	3
New Jersey	2,187	97	6	84	8	8
New York	3,493	156	3	88	8	4
Texas	1,340	60	11	87	12	1
Washington	2,214	99	5	88	6	6
Wisconsin	2,539	113	4	93	6	2
Average	2,246	100		87	10	4

Source: The Urban Institute.

Note: The numbers of children in poverty are 1994 estimates based on three-year averages.

a. The index is based on setting the 13-state average equal to 100. Each state's individual index is then computed by dividing its total by the 13-state average.

b. Percentages may not add to 100 because of rounding.

c. Alabama health spending does not include spending on children's mental health services because the state was not able to break out spending on children versus adults.

Table 9. States' Medicaid Coverage of Low-Income Children, FFY 1995

State	Expenditures per Poor Child		Medicaid Coverage Relative to Federal Poverty Level (1995)		
	Dollars	Rank	Pregnant Women and Infants	Children under Six	Children Six and Older
Alabama	\$875	13	133%	133%	133% under 12
California	1,262	10	200	133	100% under 19
Colorado	1,850	7	133	133	100% under 12
Florida	1,913	6	185	133	100% under 20
Massachusetts	3,441	1	185	133	100% under 12
Michigan	1,780	9	185	150	150% under 15
Minnesota	2,772	3	275	133	100% under 12
Mississippi	948	12	185	133	100% under 12
New Jersey	1,833	8	185	133	100% under 12
New York	3,070	2	185	133	100% under 12
Texas	1,164	11	185	13	100% under 12
Washington	1,945	5	20	20	200% under 19
Wisconsin	2,348	4	185	18	100% under 12

Source: The Urban Institute.

Table 10. Child Protection and Family Services Spending—Federal, State, and Local Funds per Child, SFY 1995

State	Dollars	Index ^a	Rank	Spending by Subcategory ^b (Percent)	
				Out-of-Home Placements	Child Welfare Services
Alabama	\$80	50	11	56%	44%
California	222	139	3	60	40
Colorado	125	78	7	56	44
Florida	81	51	10	43	57
Massachusetts	239	149	2	60	40
Michigan	175	109	5	65	35
Minnesota	207	129	4	65	35
Mississippi	46	29	13	26	74
New Jersey	150	94	6	59	41
New York	492	307	1	77	23
Texas	68	42	12	56	44
Washington	90	56	9	57	43
Wisconsin	106	66	8	53	47
Average	160	100		56	44

Source: The Urban Institute.

a. The index is based on setting the 13-state average equal to 100. Each state's individual index is then computed by dividing its total by the 13-state average.

b. Percentages may not add to 100 because of rounding.

Table 11. Child Care and Early Childhood Development Spending—Federal, State, and Local Funds per Poor Child, SFY 1995

State	Dollars	Index ^a	Rank	Spending by Subcategory ^b (Percent)		
				Welfare	Non-Welfare	Early Childhood
	\$395	63	12	16%	22%	61%
California	536	85	8	8	50	41
Colorado	707	112	5	11	36	53
Florida	494	78	10	16	28	55
Massachusetts	1,121	178	1	27	40	33
Michigan	530	84	9	9	27	64
Minnesota	1,015	161	2	17	28	55
Mississippi	328	52	13	8	25	68
New Jersey	746	118	4	21	40	39
New York	572	91	7	21	35	44
Texas	396	63	11	14	26	60
Washington	759	120	3	38	23	39
Wisconsin	605	96	6	21	30	49
Average	631	100		17	32	51

Source: The Urban Institute.

Note: The numbers of children in poverty are 1994 estimates based on three-year averages.

a. The index is based on setting the 13-state average equal to 100. Each state's individual index is then computed by

dividing its total by the 13-state average.

b. Percentages may not add to 100 because of rounding.

Table 12. Juvenile Justice and Youth Services Spending—Federal, State, and Local Funds per Child, SFY 1995

State	Dollars	Index ^a	Rank	Spending by Subcategory ^b (Percent)	
				Juvenile Institutions and Camps	Juvenile Justice and Youth Services
Alabama	\$38	65	9	55%	45%
California	66	113	5	57	43
Colorado	69	118	4	25	75
Florida	108	184	1	41	59
Massachusetts	51	87	8	62	38
Michigan	32	55	10	76	24
Minnesota	58	99	6	25	75
Mississippi	21	36	13	N/A	N/A
New Jersey	29	49	12	47	53
New York	104	178	2	44	56
Texas	31	52	11	49	51
Washington	55	95	7	49	51
Wisconsin	99	170	3	56	44
Average	59	100		49	51

Source: The Urban Institute.

a. The index is based on setting the 13-state average equal to 100. Each state's individual index is then computed by dividing its total by the 13-state average.

b. Percentages may not add to 100 because of rounding.

Table 13. Spending on Low-Income Children's Programs Summation Table, SFY 1995

State Funds														
State	All Funds per Poor Child			As a Percentage of General Fund			Total			Cash Assistance and Training			Health	
	Dollars	Rank	Percent	Federal Percent	Rank	Dollars	Index ^a	Rank	Dollars	Index ^a	Rank	Dollars	Index ^a	Rank
Alabama	\$7,592	11	89%	2.3%	13	\$817	26	12	\$183	18	12	\$313	29	12
California	9,493	8	66	14.5	1	3,265	104	7	1,550	153	3	780	72	10
Colorado	11,086	6	73	7.4	8	3,024	96	8	748	74	9	992	91	8
Florida	8,526	10	73	12.5	2	2,266	72	10	505	50	10	998	92	7
Massachusetts	13,654	1	58	10	4	5,707	181	1	1,888	187	1	2,131	196	1
Michigan	8,678	9	71	8.8	6	2,521	80	9	953	94	8	870	80	9
Minnesota	12,530	3	57	7.3	9	5,343	169	3	1,226	121	7	2,028	187	4
Mississippi	6,292	13	92	4.7	12	506	16	13	124	12	13	265	24	13
New Jersey	11,608	4	67	6.1	11	3,804	121	4	1,339	132	5	1,157	107	4
New York	13,332	2	58	11.2	3	5,619	178	2	1,781	176	2	1,889	174	3
Texas	6,885	12	83	5.7	10	1,145	36	11	218	22	11	563	52	11
Washington	10,536	7	67	9.5	5	3,462	110	6	1,362	135	4	1,114	103	5
Wisconsin	11,234	5	69	7.5	7	3,507	111	5	1,266	125	6	1,026	94	6
Average	10,111		69	8.3		3,153	100		1,011	100		1,087	100	

Source: The Urban Institute. Note: The numbers of children in poverty are 1994 estimates based on three-year averages.

a. The index is based on setting the 13-state average equal to 100. Each state's individual index is then computed by dividing its total by the 13-state average.

b. For spending per child, see table A-7.

Appendix

Table A-1. Characteristics of the 13 States

State	Capacity and Need				Demographic			Economic		
	1995 Per Capita Income		1994 Child Poverty Rate		Personal Income per Poor Child		1994 Total Population (in thousands)	Children as a Percentage of Total Population	Unemploy- ment Rate, 1995	1995 Year-End Balance as a Percentage of Total Expenditures
	Dollars	Rank	Percent	Rank	Dollars	Rank				
Alabama	\$19,181	12	23.80 %	8	\$319,726	11	4,215	25.49 %	6.30 %	1.30 %
California	24,073	4	25.6	10	342,955	10	31,362	27.6	7.8	1.6
Colorado	23,961	6	12.4	1	754,981	2	3,663	26.3	4.2	12.5
Florida	23,061	9	25.9	12	383,336	9	13,965	23.5	5.5	2.9
Massachusetts	28,021	2	17.2	5	697,386	3	6,042	23.4	5.4	3.8
Michigan	23,915	7	22.0	7	413,489	8	9,486	26.5	5.3	12.8
Minnesota	23,971	5	14.8	4	604,276	4	4,572	27.0	3.7	11.9
Mississippi	16,683	13	34.4	13	173,391	13	2,668	28.3	6.1	12.2
New Jersey	29,848	1	14.1	2	866,864	1	7,906	24.5	6.4	6.4
New York	27,678	3	24.6	9	452,322	7	18,197	24.8	6.3	0.5
Texas	21,206	11	25.8	11	291,168	12	18,434	28.7	6	9.0
Washington	23,774	8	17.3	6	534,302	6	5,351	26.2	6.4	6.6
Wisconsin	22,261	10	14.4	3	589,894	5	5,084	26.4	3.7	5.1
United States	23,208		21.7		414,931		260,372	26.1	5.6	5.8

Sources: U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Census Bureau, Office of Statistics; "Assessing the New Federalism State Database," The Urban Institute, <http://newfederalism.urban.org/nfdb/index.htm> (2/98); and the National Association of State Budget Officers, The Fiscal Survey of States (April 1996).

Note: Child poverty rates are 1994 estimates based on three-year averages.

Decision Rules for Defining a Children's Program in State Budgets

1. Include all spending on programs that were explicitly designed to assist predominantly low-income children.

Examples: School lunch, juvenile detention facilities, Head Start, child care, foster care, maternal and child health programs.

2. Include spending on adults in programs where adults receive money or services only because of the presence of a child.

Examples: AFDC, WIC, EITC. Although the Food Stamps and General Assistance programs were not designed solely to help children, they are used as augmentations of or substitutions for the AFDC program. Therefore, include all Food Stamps and General Assistance spending for families with children.

3. Include spending on the children's portion of programs that benefit both children and adults. Programs should include particular components for children.

Examples: Medicaid spending on children and mental health programs for children.

4. Focus on spending through governments, financed with government-raised revenue. Do not include privately funded programs.

Examples: Exclude WIC rebates, child support collections paid directly to the custodial parent, third-party payments.

5. Do not include programs that were designed for adults but indirectly benefit children.

Examples: Do not include adult job training programs available to any low-income adult such as Job Training Partnership Act Title IIA, but include job training programs that are attached to AFDC such as JOBS.

6. Exclude spending on administration generally defined as state operations. Include spending on staff who provide services, although some states may define this as "administration."

Examples: Exclude state policy staff, but include spending on service providers such as eligibility workers, case managers, and child welfare service workers.

7. Focus on general fund and earmarked or special funds and exclude capital expenditures, including housing.

8. Do not include spending on programs that are designed to benefit the public broadly, even if those programs benefit children as part of the public—that is, do not include public goods.

Examples: Public safety, parks, public television.

9. Children are defined as under 18 years of age, but some programs have a broader definition. In such instances, and where the states are unable to break out the spending on children under 18 years of age, include all spending and note the program-specific definition.

Examples: Medicaid defines children as under 21 years of age. Job Training Partnership Act Title IIB serves youth between ages 14 and 21.

10. For Medicaid spending on children, use the Urban Institute's Health Policy Center estimates, which are derived from using the Health Care Financing Administration's forms 64 and 2082.

Children's Budget Project Methodology

Before requesting expenditure data for any of the 13 case study states, the study team reviewed the available printed material on a state's spending and programs. They reviewed the state budget, legislative budget documents, departmental reports, and any other documents they were able to collect. They then developed a list of the state's programs that fit into the study's categories. Once the list had been drawn up, they called the state budget office or department budget staff to ask for the 1995 actuals by funding source for the various programs. In some cases, these numbers were available in the state budget document and the researchers were able to collect them directly.

The study team then began an iterative process of speaking with various state officials to track down expenditure amounts. Sometimes the state budget staff were not able to provide the information broken down by the programs requested, and the researchers had to contact department or program staff. They found it was helpful to speak with a variety of state officials to

gain a full understanding of the fiscal and programmatic landscape of the particular state. They also collected program descriptions for all the programs identified in the spreadsheet to ensure the program did meet the study's decision rules. After the researchers had prepared a final spreadsheet, they sent the spreadsheet and descriptions to the state budget director for review and, in most cases, received a detailed reply with comments and corrections.

For the requested programs, they collected 1995 state fiscal year expenditures by state general fund, other state funds ("special funds"), and federal funds. Whenever possible, they requested states to provide the name of the federal funding source. They then were able to check this expenditure data against federally reported information to ensure that they were not missing any programs that received this funding source. They also asked states for local expenditures (except school district spending) and included whatever information a state collected. In particular, they asked each state for state-required local matching requirements, and these instances were noted in the spreadsheet. Although they were unable to collect all local spending because states do not collect all of this information from localities, from discussions with state officials they felt that they had collected a majority of such spending. Generally, localities do not spend a lot of funds on these types of programs, and the states that were the exceptions are footnoted. The one exception is juvenile justice programs. Juvenile justice programs have historically been funded more at the local level, and most of the 13 states were unable to provide the local funding amounts.

For many reasons, the numbers in this study are not identical to numbers collected by the federal Department of Health and Human Services (HHS) or the federal Office of Management and Budget. The federally reported numbers are collected by federal fiscal year (October 1 through September 30), and the numbers in this study reflect state fiscal years, which vary depending upon the state (most are July 1 through June 30). In addition, many of the HHS numbers are total allocations to states, but in some programs states are given more than one year in which to spend federal funds, so although HHS may report an amount for a federal fiscal year, the state may spend the monies over several fiscal years. Finally, the study team chose to collect SFY 1995 data because, at the time, that was the latest year for which actuals were available at the state level, and they did not want to collect appropriations or estimates, which could vary substantially from the reported actuals. States generally report appropriations for the current year, estimates for the previous year, and actuals for two years prior.

Education Programs

Because states vary in the degree to which the state versus local school districts fund education programs, it is very difficult to obtain accurate state and local school expenditure data across all 13 states without also going to the numerous school districts with information requests. Therefore, all federal, state, and local education spending for prekindergarten through grade 12 came from the *Digest of Education Statistics*. The study team did not collect expenditures for programs that met its decision rules but were administered by a state's department of education because these amounts are included in the *Digest's* numbers. These programs included special programs serving children, youth, or families (e. g., teen parenting, drug-free schools, comprehensive health); three-to five-year-olds with special needs (e. g., the Individuals with Disabilities Education Act, part B); and local nutrition programs. Minnesota and New York, in particular, did fund a number of children's programs through the education system that are not reflected in the study's totals. The study did make an exception to this rule for child care, early childhood development, and state nutrition programs in order to present a complete picture of child care and nutrition funding. These programs are included in the low-income children's program total and are subtracted from the *Digest's* number.

National Data Sources

Data for the following programs were gathered from national sources instead of state budget offices and are for federal fiscal year 1995 unless otherwise noted.

Medicaid: Provides health care to low-income persons. Only spending for persons under the age of 19 is included in this report. The Urban Institute calculated data using the Health Care Financing Administration forms 64 and 1082.

EITC: Enables families with modest earnings, including AFDC parents who leave welfare because of work, to receive a cash supplement from the U. S. Treasury. Data are for tax year 1994 from the Internal Revenue Service and include all payments made to persons in the state, including payments to individuals. Information on state EITC spending was obtained directly from the states.

SSI for Children: Provides benefit payments to needy blind and disabled children. Estimates are based on spending in June and December, including federal spending and also state supplements for states in which the state supplement is federally administered. The state supplement amount, however, is reflected as federal funds. For those states that administer the state supplement, the state supplement for children was zero or insignificant and thus was not included. Data are from the Office of Research, Evaluation, and Statistics of the Social Security Administration.

Food Stamps: Provides benefit payments for purchase of food items. The study includes only payments to households with children. The Urban Institute tabulated the data using Food Stamp Quality Control data and tabulations by the U. S. Department of Agriculture's Food and Consumer Service.

Head Start: Provides comprehensive child development services primarily to low-income children ages three to five. Data are from the Office of Management and Budget, *Budget Information of the United States, 1997*. These data were used only for those states that were unable to provide expenditure information.

Child Nutrition Programs: Includes expenditures for the School Lunch, School Breakfast, and Child and Adult Care Food programs. Data are from the Office of Management and Budget, *Budget Information of the United States, 1997*. These data were used only for those states that were unable to provide expenditure information.

Job Training Partnership Act, Titles IIB and IIC: Provides employment and training funds for economically disadvantaged youth ages 16 to 21. Title IIB is for summer job training and Title IIC is for year-round training. Data are from the Office of Management and Budget, *Budget Information of the United States, 1997*. These data were used only for those states that were unable to provide expenditure information.

Other Sources

Per Capita Personal Income and Total Personal Income: U. S. Department of Commerce, Bureau of Economic Analysis, 1995 calendar year estimates revised as of October 1996.

Child Poverty Rates: Current Population Survey three-year average (March 1994– March 1996,

where 1994 is the center year) edited using the Urban Institute's TRIM2 microsimulation model.

Number of Children in Poverty: U. S. Census Bureau, Office of Statistics, ST-96-10 Estimates of the Population of the U. S. for Selected Age Groups. Number of children 17 and under in a state was multiplied by the state's percentage of children in poverty (see child poverty rates for explanation of percentages).

Total Tax Revenue (Fiscal Effort): U. S. Census Bureau, Government Division, Federal, State, and Local Government Finances. Revenue raised by state and local governments from the public, excluding charges, liquor store revenue, insurance trust revenue, utility revenue, and money received from issuance of debt, liquidation of investments, and agency and private trust transactions. Data are for fiscal year 1994, the latest year available for total state and local revenue. Total revenue is divided by total state personal income for calendar year 1993.

Table A-2. Low-Income Children's Program Spending—Federal, State, and Local Funds per Poor Child, SFY 1995

State	Total			Federal			State and Local		
	Dollars	Index ^a	Rank	Dollars	Index ^a	Rank	Dollars	Index ^a	Rank
Alabama	\$7,592	75	11	\$6,775	97	8	\$817	26	12
California	9,493	94	8	6,228	90	9	3,265	104	7
Colorado	11,086	110	6	8,062	116	1	3,024	96	8
Florida	8,526	84	10	6,259	90	11	2,266	72	10
Massachusetts	13,654	135	1	7,947	114	2	5,707	181	1
Michigan	8,678	86	9	6,155	88	10	2,521	80	9
Minnesota	12,530	124	3	7,187	103	4	5,343	169	2
Mississippi	6,292	62	13	5,786	83	12	506	16	13
New Jersey	11,608	115	4	7,805	112	3	3,804	121	4
New York	13,332	132	2	7,714	111	6	5,619	178	3
Texas	6,885	68	12	5,740	82	13	1,145	36	11
Washington	10,536	104	7	7,074	102	5	3,462	110	6
Wisconsin	11,234	111	5	7,727	111	7	3,507	111	5
Average	10,111	100		6,958	100		3,153	100	

Source: The Urban Institute.

Note: The numbers of children in poverty are 1994 estimates based on three-year averages.

a. The index is based on setting the 13-state average equal to 100. Each state's individual index is then computed by dividing its total by the 13-state average.

Table A-3 Low-Income Children's Program and K-12 Education Spending—Federal, State, and Local Funds per Child, SFY 1995^a

State	Total Low-Income Children's Program			K-12 Education			Total Low-Income and K-12 Education		
	Dollars	Index ^a	Rank	Dollars	Index ^a	Rank	Dollars	Index ^a	Rank
Alabama	\$1,803	89	9	\$2,684	72	12	\$4,487	78	13
California	2,431	120	2	2,823	76	11	5,254	92	10
Colorado	1,370	68	13	3,273	88	9	4,643	81	11
Florida	2,208	109	4	3,219	87	10	5,427	95	8
Massachusetts	2,354	117	3	4,180	113	3	6,534	114	3
Michigan	1,908	95	6	4,055	110	4	5,963	104	4
Minnesota	1,858	92	7	3,601	97	7	5,459	95	7
Mississippi	2,163	107	5	2,388	65	13	4,552	80	12
New Jersey	1,638	81	11	5,479	148	1	7,117	124	2
New York	3,284	163	1	4,962	134	2	8,246	144	1
Texas	1,775	88	10	3,569	96	8	5,344	93	9
Washington	1,818	90	8	3,919	106	6	5,737	100	5
Wisconsin	1,619	80	12	3,977	107	5	5,596	98	6
Average	2,018	100		3,702	100		5,720	100	

Sources: The Urban Institute and U.S. Department of Education, Digest of Education Statistics.

a. Low-income children's spending administered by a state's department of education is included in the low-income children's program spending total and has been subtracted out of the K-12 education total.

b. The index is based on setting the 13-state average equal to 100. Each state's individual index is then computed by dividing its total by the 13-state average.

Table A-4. Low-Income Children's Program and K-12 Education Spending as a Percentage of State and Local Budgets—Census Data

State	Low-Income Children's Spending ^a			Low-Income Children's and K-12 Education Spending ^{c,d}		
	Millions of Dollars	As a Percentage of State Budget ^b	Rank	Millions of Dollars	As a Percentage of State and Local Budget ^e	Rank
Alabama	\$818	7.80%	13%	\$4,091	27.70%	13
California	14,194	15.1	1	44,679	32.3	9
Colorado	741	8.8	11	4,279	28.5	12
Florida	4,419	13.7	2	16,654	31.9	10
Massachusetts	2,682	12.3	4	8,680	30.8	11
Michigan	3,258	10.6	6	14,279	36.3	2
Minnesota	1,465	9.9	10	7,310	33.1	8
Mississippi	676	10.1	9	3,025	35.1	3
New Jersey	2,071	7.8	12	13,323	34.9	4
New York	8,877	13.0	3	37,844	33.4	7
Texas	4,701	11.6	5	24,297	38.0	1
Washington	1,850	10.5	7	8,138	33.6	6
Wisconsin	1,508	10.4	8	7,427	33.9	5
Average		10.9			33.0	

Sources: The Urban Institute and the U.S. Census Bureau, Government Finance Division.

a. Low-income children total includes federal, state, and local funds and does not include local spending or direct federal expenditures to localities (e.g., Head Start).

b. Census-reported state total includes general expenditures defined as all government expenditures (federal, state,

and local) other than the specifically enumerated kinds of expenditures classified as utility expenditures, liquor store expenditures, and employee retirement or other insurance trust expenditures.

c. K-12 spending is FY 1994 federal, state, and local expenditures as reported by Census.

d. Low-income children's spending includes all federal, state, and local funds except direct federal expenditures to localities (e.g., Head Start).

e. Total federal, state, and local expenditures are FY 1994 expenditures compiled by Census.

Table A-5. Proportion of Low-Income Children's Program Spending by Program Category—Federal, State, and Local Funds, SFY 1995

State	Medicaid	EITC	AFDC	Other ^a	Food Stamps	Food and Nutrition	Child Protection and Family Services	Child Care and Child Development
Alabama	12	29	4	16	19	12	4	5
California	13	14	30	10	10	7	9	6
Colorado	17	19	11	16	14	8	9	6
Florida	22	19	13	15	14	8	4	6
Massachusetts	25	7	21	15	8	6	10	8
Michigan	20	11	21	13	13	6	9	6
Minnesota	22	11	12	19	8	8	11	8
Mississippi	15	28	5	14	20	10	2	5
New Jersey	16	16	18	15	13	7	9	6
New York	23	9	19	15	9	5	15	4
Texas	17	24	6	12	20	12	4	6
Washington	18	12	21	17	13	7	5	7
Wisconsin	21	14	18	19	9	7	7	5
Average	18	16	15	15	13	8	8	6

Source: The Urban Institute.

a. Other includes juvenile justice and youth services, other cash assistance and training, and non-Medicaid-related health expenditures.

Table A-6. Proportion of Low-Income Children's Program Spending by Program Category—State and Local Funds, SFY 1995

State	Health	Cash Assistance and Training	Child Protection and Family Services	Juvenile Justice and Youth Services	Child Care and Development	Food and Nutrition
Alabama	38	22	16	18	5	0
California	24	47	14	6	8	1
Colorado	33	25	19	17	6	0
Florida	44	22	7	17	8	1
Massachusetts	37	33	14	5	9	1
Michigan	35	38	16	5	5	0
Minnesota	38	23	20	7	11	1
Mississippi	52	24	10	10	1	2
New Jersey	30	35	22	5	7	1
New York	34	32	24	7	3	1
Texas	49	19	11	10	10	1
Washington	32	39	11	9	8	1
Wisconsin	29	36	11	19	4	1
Average	37	30	15	10	7	1

Source: The Urban Institute.

Table A-7 Child Protection and Family Services and Juvenile Justice and Youth Services Spending—State and Local Funds per Child, SFY 1995

State	Child Protection and Family Services			Juvenile Justice and Youth Services		
	Dollars	Index ^a	Rank	Dollars	Index ^a	Rank
Alabama	\$30	31	12	\$36	65	9
California	121	125	4	48	89	8
Colorado	72	74	7	64	118	4
Florida	43	44	10	101	185	2
Massachusetts	135	139	3	51	93	7
Michigan	91	94	6	30	55	10
Minnesota	158	163	2	56	103	5
Mississippi	17	18	13	17	31	13
New Jersey	116	120	5	28	52	12
New York	327	336	1	102	187	1
Texas	33	34	11	29	53	11
Washington	63	65	8	52	96	6
Wisconsin	55	57	9	95	174	3
Average	97	100			55	100

Table A-8. Welfare and Non-Welfare Child Care Spending—Federal, State, and Local Funds per Poor Child, SFY 1995

State	Welfare			Non-Welfare		
	Dollars	Index ^a	Rank	Dollars	Index ^a	Rank
Alabama	\$65	54	9	\$89	43	12
California	44	37	12	270	131	4
Colorado	79	66	8	252	123	5
Florida	81	67	7	141	69	10
Massachusetts	300	250	1	449	219	1
Michigan	49	40	11	145	71	9
Minnesota	170	142	3	284	139	3
Mississippi	25	21	13	81	40	13
New Jersey	156	130	4	299	146	2
New York	119	99	6	200	98	6
Texas	55	46	10	101	49	11
Washington	289	241	2	174	85	8
Wisconsin	127	106	5	180	88	7
Average	120	100		205	100	

Source: The Urban Institute.

a. The index is based on setting the 13-state average equal to 100. Each state's individual index is then computed by dividing its total by the 13-state average.

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The project has received funding from the Annie E. Casey Foundation, the W. K. Kellogg Foundation, the Henry J. Kaiser Family Foundation, the Ford Foundation, the John D. and Catherine T. MacArthur Foundation, the Charles Stewart Mott Foundation, the Commonwealth Fund, the Stuart Foundation, the Robert Wood Johnson Foundation, the Weingart Foundation, the McKnight Foundation, the Fund for New Jersey, and the Rockefeller Foundation. Additional funding is provided by the Joyce Foundation and the Lynde and Harry Bradley Foundation through a subcontract with the University of Wisconsin at Madison.

The authors would like to thank the late Steven D. Gold, who initiated this project and whose presence is sorely missed. His memory and writings were invoked many times throughout the preparation of this report.

The authors also thank Larry Thompson, who provided overall guidance on this project, keeping it on track through Steve Gold's illness and through two separate maternity leaves. In addition to the authors, several Urban Institute staff contributed to the report. Rebecca Clark assisted in the initial design of the project and collected budget information from Massachusetts; Karen Tumlin gathered and analyzed budget information for Texas and New

Jersey; Alan Weil, Anna Kondratas, Frank Ullman, and Rudy Penner reviewed various drafts. The authors would also like to thank Chuck Lieberman and Todd Bland at the California Legislative Analyst's Office, Patrick Bresette at the Center for Public Policy Priorities in Texas, and David Maxwell-Jolly at the California Senate Appropriations Committee for their helpful comments and for sharing their state budget expertise; Frank Mauro and Jennifer McCormick at the Fiscal Policy Institute in New York for their assistance in analyzing the budget information for Alabama, New York, and California; and Donald J. Boyd at the Center for the Study of the States at the Rockefeller Institute of Government for his assistance with New York State budget information.

Several budget experts in the states patiently responded to our many inquiries about all aspects of their budgets. We would particularly like to thank the following people: James Connell, Alabama Department of Human Resources; Gladys Stokely, Alabama Department of Education; William Johnson, Alabama Department of Public Health; Winona Nelson, Alabama Department of Rehabilitative Services; Alisa Davis, Alabama Department of Youth Services; Craig Brown, Dennis Hordyk, Carl Rogers, Veronica Chung-Ng, Yoshi Fujiwara, Don Enderton, and Kristin Shelton, California Department of Finance; David Kupper, California Department of Social Services; Maura Donovan, California Department of Health Services; Bill Meneguzzi, California Office of Criminal Justice Planning; Janet Finley, California Department of Education; Cary Kennedy, Colorado Office of State Planning and Budgeting; Tom Weaver and Robin Taylor, Florida Office of Planning and Budgeting; Janet Whitman, Florida Department of Children and Families, Office of Planning, Budgeting, and Grants Management; Patricia Flaherty, Massachusetts Budget Bureau; Paul Reinhart, Greg Gessert, Jim Hogan, and Joanne Bump, Michigan Department of Management and Budget, Office of Health and Human Services; Tom Rice, Minnesota Department of Finance; David Mitchel, Dorothy Smith, and Tommy Brumfield, Mississippi Department of Human Services, Division of Budgets and Accounting; Steve Gregowitz and Jennifer Barron, New Jersey Department of the Treasury, Office of Management and Budget; Nancy Feldman, Ciro Scalera, and Seil Zalkind, Association for Children of New Jersey; Patricia Woodworth, New York Executive Department, Division of the Budget; Ursala Parks and Lisa Minton, Texas Legislative Budget Board; Clarissa Olson, Texas Department of Human Services; Kathy Pyka, Texas Workforce Commission; Patrick Bresette, Marcia Muehr Kinsey, and Anne Dunkelberg, Texas Center for Public Policy Priorities; Sidney Fulford and Dana McInturff, Washington Department of Social and Health Services, Office of Accounting Services; Richard Chandler, Wisconsin State Budget Director; Matilda de Boor, Wisconsin Division of Executive Budget and Finance; and Paul Minkus and Ruth Diehl, Wisconsin Department of Health and Family Services.



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CHILD POVERTY IN NEW YORK

Overview

This fact sheet summarizes state highlights from *Childhood Poverty Research Brief 2—Child Poverty in the States: Levels and Trends from 1979 to 1998*, published by the National Center for Children in Poverty (NCCP). The NCCP study analyzes child poverty trends in all 50 states from 1979-1998 and also looks at two distinct periods (1979-1993 and 1993-1998) that are defined by the national business cycle and major changes in policies affecting low-income families.

Nine states have reduced their child poverty rates by over 30 percent since 1993. The progress that many states have made in reducing their child poverty rates since 1993 demonstrates that child poverty is a solvable problem. But recent gains in some states have not yet offset the longer-term increases in child poverty in most states since 1979.

In New York, key facts about child poverty include the following:

		NEW YORK	U. S. A.
1998	Child Poverty Rate (%)	24.2	18.7
	Number of Children in Poverty	1,150,446	13,285,438
1979-1998	Change in Number of Children in Poverty	+240,660	+3,027,100
	% Change in Child Poverty Rate	+28.2	+15.1
1979-1993	Change in Number of Children in Poverty	+267,838	+5,302,049
	% Change in Child Poverty Rate	+38.5	+38.8
1993-1998	Change in Number of Children in Poverty	-27,178	-2,274,949
	% Change in Child Poverty Rate	-7.4	-17.1
	% Change in state TANF Caseload	-30.2	-47.2

Why Preventing Child Poverty Matters to New York

Fewer children in poverty will mean more children entering school ready to learn and more successful schools, better child health and less strain on hospitals and public health systems, less stress on the juvenile justice system, less child hunger and malnutrition, and other important advances.

Note: The NCCP study analyzed annual income data from the U.S. Census Bureau's Current Population Surveys. The study uses the official measure of poverty used by the Census Bureau. In 1998, the poverty threshold for a family of four was \$16,600. Changes in child poverty rates that are significant at a 90 percent confidence interval are highlighted in bold.

For more information on child poverty and other issues affecting families in New York, visit www.nccp.org.

Childhood Poverty

RESEARCH BRIEF 2

Child Poverty in the States: Levels and Trends from 1979 to 1998

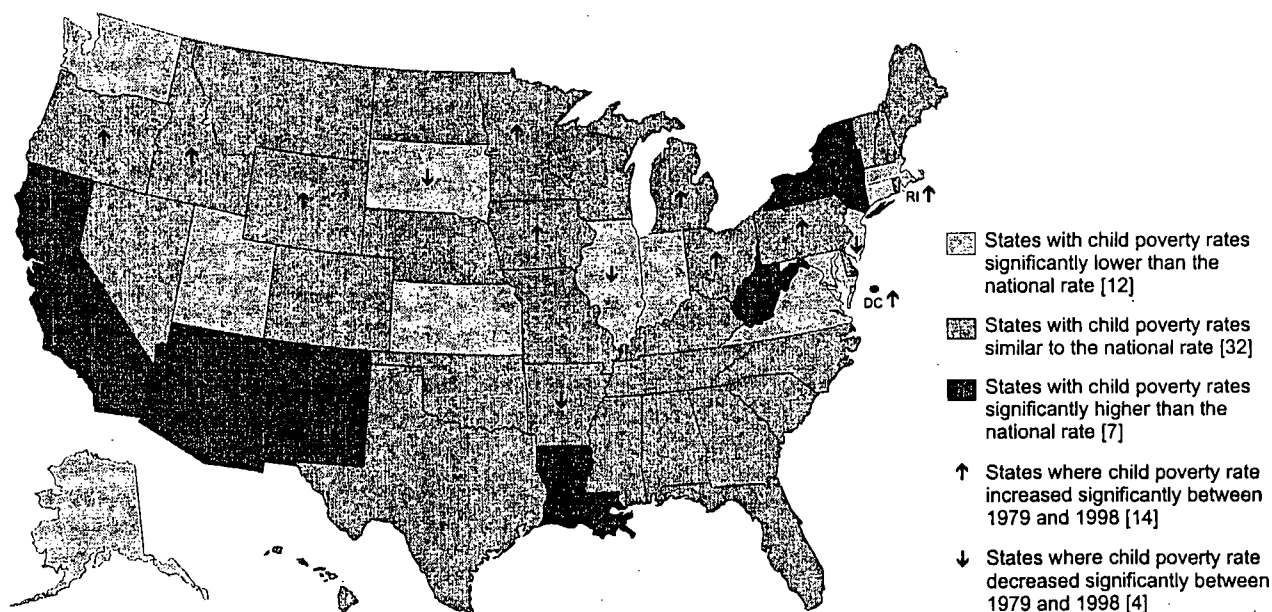
This research brief from the National Center for Children in Poverty (NCCP) uses the official measure of poverty and the most recent data available from the U.S. Census Bureau to document the levels of child poverty in all fifty states and the District of Columbia.¹ (In 1998, the official poverty threshold for a family of four was \$16,660.) It also examines long-term trends in child poverty between 1979 and 1998 in each state. Further, it looks at the components of those trends, specifically during two distinct periods (1979–1993 and 1993–1998) that are defined by the national business cycle and by major changes in policies affecting low-income families, particularly the overhaul of state and federal welfare laws.

After years of economic growth, the U.S. child poverty rate recovered from its 1993 peak of 22.5 percent to fall to 18.7

percent in 1998, still significantly higher than its 1979 level of 16.2 percent. The number of children in poverty in the U.S. increased from 10.3 million in 1979 to 13.3 million in 1998. The U.S. child poverty rate continues to be unusually high from an international perspective.² After increasing by almost 40 percent from 1979 to 1993, the child poverty rate fell by one-sixth (17 percent) from 1993 to 1998. While the improvement in the poverty rate since 1993 is encouraging and important, it continues to lag well behind the decreases in the unemployment rate and the national welfare caseload. There is also wide variation among the states in their current child poverty rates and trends in those rates over the past two decades.

In contrast to the first research brief in this series, which focused on children under age six, this research brief

Figure 1: Levels of poverty for children under age 18, by state, 1998, and trends in poverty rates from 1979 to 1998



includes poverty rates among all children under age 18.³ By casting the net wider to include all children, NCCP is able to get reliable state poverty estimates for a single year in time.⁴ (Please note that poverty rates among children under age 18 are somewhat lower than those for children below age six.)

Child Poverty Levels in 1998

According to the official measure of poverty, 18.7 percent of U.S. children—13.3 million children—were poor in 1998. The national child poverty rate, however, masks considerable variation in poverty among the 50 states and the District of Columbia. Twelve states had child poverty rates that were significantly lower than that for the nation as a whole. These states were quite literally all over the map, ranging from Alaska to Connecticut (Figure 1). Six states plus the District of Columbia had child poverty rates that were significantly higher than the national average. These states were Arizona, California, Louisiana, New Mexico, New York, and West Virginia.

States in close proximity to one another in some cases were subject to very different levels of poverty. New York State had a child poverty rate of 24 percent, in contrast to the rate of 12 percent in the adjacent states of Connecticut and New Jersey. Similarly, the child poverty rate in the District of Columbia, 45 percent, is more than five times as great as the 7 percent and 9 percent rates in the surrounding states of Maryland and Virginia, respectively.

Trends in Child Poverty, 1979–1998

To track child economic well-being over time, NCCP compares the child poverty rates and numbers of children in poverty for 1979 and 1998. Over that period, the U.S. child poverty rate grew from 16.2 percent to 18.7 percent (Table 1), an increase of 15 percent. The relatively small national increase does not reveal the much wider variation in state poverty levels that occurred from 1979 to 1998. In 14 states, the child poverty rate *increased* significantly and in 10 of those states it rose by more than half. But in a handful of states, the child poverty rate *decreased* by one-third or more.

States with Large Increases

In two states, the child poverty rate more than doubled from 1979 to 1998. Iowa's rate went from 7 percent to 15 percent

and Arizona's rate rose from 13 percent to a fraction over 26 percent. In four additional states, the child poverty rate shot up by more than 70 percent: Wyoming (95 percent), Minnesota (85 percent), Oregon (73 percent), and Rhode Island (71 percent). Several other states also experienced increases in child poverty that far exceeded the national average of 15 percent. These included large states such as California (62 percent), Ohio (50 percent), Pennsylvania (49 percent), Michigan (37 percent), and New York (28 percent), as well as the District of Columbia (53 percent) and smaller states such as Idaho (49 percent) and West Virginia (43 percent).

The number of poor children in California increased by 1.25 million from 1979 to 1998, from 899,000 to 2,149,000—which accounted for over two-fifths of the national net increase of 3 million children in poverty from 10.3 million to 13.3 million during that period. One in six poor children in the U.S. now lives in California, compared to one in 11 two decades ago. The nine additional states that had increases in their number of poor children of over 100,000 since 1979 include: Texas (from 856,000 to 1,233,000), Arizona (from 103,000 to 361,000), New York (from 910,000 to 1,150,000), Ohio (from 361,000 to 525,000), Pennsylvania (from 374,000 to 526,000), Georgia (from 319,000 to 476,000), Michigan (from 316,000 to 443,000), Minnesota (from 93,000 to 215,000), and Oregon (from 87,000 to 188,000).

Several States Reduce Child Poverty

Some states were able to go against the national trend and significantly reduce their levels of child poverty by over 30 percent, including Illinois (32 percent), New Jersey (37 percent), South Dakota (39 percent), and Arkansas (41 percent). The number of children in poverty decreased in all of these states, led by Illinois (168,000 fewer children in poverty) and New Jersey (138,000 fewer children in poverty).

In several cases, neighboring states saw their child poverty rates surge in opposite directions. For instance, New Jersey's child poverty rate fell significantly, while New York and Pennsylvania's rose sharply. South Dakota lowered its child poverty rate by nearly 40 percent as Iowa and Minnesota suffered increases of more than 80 percent. One of the important challenges for future research will be to develop a better understanding of how some states have been able to achieve significant improvements in their child poverty rates as others have lagged behind.

Table 1: Change in the percentage and number of children under age 18 in poverty, by state, 1979 to 1998

	1979		1998		% Change in rate	Change in number
	Rate (%)	Number	Rate (%)	Number		
USA	16.2	10,258,338	18.7	13,285,438	15.1	3,027,100
Iowa	7.3	57,661	15.4	112,621	111.5	54,960
Arizona	12.6	102,755	26.1	360,542	107.5	257,787
Wyoming	7.5	9,807	14.6	18,869	95.4	9,062
Minnesota	8.3	92,674	15.4	215,022	84.6	122,348
Oregon	12.5	86,867	21.6	188,134	72.9	101,267
Rhode Island	11.3	25,898	19.4	45,127	71.4	19,229
Nevada	8.1	16,407	13.7	73,365	69.2	56,958
California	14.4	899,444	23.3	2,148,779	61.7	1,249,335
Wisconsin	8.7	115,046	13.5	173,285	55.2	58,240
New Hampshire	9.3	21,333	14.3	48,615	54.1	27,282
District of Columbia	29.6	41,317	45.3	45,335	52.8	4,018
Ohio	11.9	360,787	17.9	524,984	50.4	164,196
Pennsylvania	12.0	373,904	18.0	525,804	49.4	151,900
Idaho	13.5	42,747	20.1	78,326	49.0	35,579
North Dakota	14.4	27,411	20.6	37,524	43.5	10,113
West Virginia	19.2	106,368	27.5	95,659	43.1	-10,709
Colorado	9.8	75,213	13.4	133,693	36.9	58,480
Michigan	11.3	316,316	15.4	443,059	36.6	126,743
Utah	10.2	54,304	13.8	92,330	34.6	38,026
Delaware	12.1	20,106	16.1	34,264	32.7	14,158
Kentucky	14.3	148,966	18.6	175,656	29.9	26,690
Nebraska	12.6	54,324	16.2	81,291	28.5	26,967
New York	18.9	909,786	24.2	1,150,446	28.2	240,660
Oklahoma	15.1	119,645	19.3	155,453	27.4	35,808
North Carolina	16.7	301,962	21.3	385,095	27.1	83,133
Connecticut	9.2	70,874	11.7	96,285	26.5	25,411
Kansas	10.4	63,732	12.9	91,139	23.8	27,407
Louisiana	25.0	333,565	29.2	334,851	16.9	1,286
Georgia	19.9	319,445	23.3	476,198	16.7	156,753
Montana	19.0	42,330	22.0	57,699	16.1	15,369
Missouri	13.5	176,115	15.6	215,607	15.5	39,493
New Mexico	24.0	105,752	26.0	145,503	8.3	39,751
Texas	20.3	856,465	21.8	1,232,805	7.5	376,340
Hawaii	14.2	38,621	15.1	47,368	6.5	8,747
Massachusetts	13.7	209,592	13.8	203,526	1.1	-6,066
Indiana	12.5	207,552	12.0	180,873	-4.7	-26,679
Maine	15.1	44,269	14.0	43,511	-7.3	-758
Florida	24.2	604,828	21.9	700,322	-9.5	95,494
Vermont	15.1	23,778	13.5	19,746	-10.6	-4,033
Washington	12.7	155,304	11.1	166,060	-12.8	10,756
Maryland	7.9	88,107	6.9	80,127	-13.6	-7,980
Tennessee	21.5	273,200	18.1	261,675	-16.1	-11,526
Mississippi	27.3	200,115	21.6	164,810	-21.0	-35,306
Alabama	30.5	356,126	24.1	231,140	-21.2	-124,987
South Carolina	25.9	244,824	18.1	179,966	-30.2	-64,858
Illinois	19.9	639,916	13.5	472,287	-32.4	-167,629
Virginia	13.9	191,338	9.0	148,305	-35.2	-43,033
Alaska	15.7	20,711	10.1	20,900	-35.9	188
New Jersey	18.9	378,782	12.0	240,911	-36.8	-137,871
South Dakota	19.4	42,249	11.7	22,204	-39.4	-20,045
Arkansas	27.4	189,697	16.3	108,341	-40.5	-81,356

States in bold had significant changes in their child poverty rates between 1979 and 1998. Changes in other states are not considered statistically significant at a 90 percent confidence interval. For more information on child poverty, visit NCCP's website: www.nccp.org.

Table 2: Poverty rates for children under age 18, by state, 1979, 1993, and 1998, and percentage changes, 1979–1993 and 1993–1998

	Poverty rate (%)			% Change	
	1979	1993	1998	1979–1993	1993–1998
USA	16.2	22.5	18.7	38.8	-17.1
<i>States with 1998 child poverty rates significantly lower than the national rate</i>					
Alaska	15.7	11.3	10.1	-28.0	-11.0
Connecticut	9.2	16.7	11.7	80.3	-29.8
Illinois	19.9	20.4	13.5	2.6	-34.1
Indiana	12.5	16.5	12.0	31.5	-27.5
Kansas	10.4	18.2	12.9	74.3	-29.0
Maryland	7.9	13.2	6.9	66.0	-47.9
Massachusetts	13.7	17.1	13.8	25.3	-19.4
New Jersey	18.9	17.9	12.0	-5.3	-33.3
South Dakota	19.4	16.6	11.7	-14.1	-29.4
Utah	10.2	14.9	13.8	45.1	-7.2
Virginia	13.9	12.1	9.0	-12.9	-25.7
Washington	12.7	15.0	11.1	18.5	-26.4
<i>States with 1998 child poverty rates similar to the national rate</i>					
Alabama	30.5	22.2	24.1	-27.3	8.5
Arkansas	27.4	26.4	16.3	-3.9	-38.1
Colorado	9.8	12.9	13.4	32.1	3.6
Delaware	12.1	13.9	16.1	14.6	15.8
Florida	24.2	28.3	21.9	16.8	-22.5
Georgia	19.9	18.0	23.3	-9.8	29.4
Hawaii	14.2	13.0	15.1	-8.6	16.5
Idaho	13.5	18.0	20.1	33.9	11.3
Iowa	7.3	12.5	15.4	71.6	23.2
Kentucky	14.3	28.6	18.6	99.3	-34.8
Maine	15.1	20.5	14.0	35.9	-31.8
Michigan	11.3	24.9	15.4	120.6	-38.1
Minnesota	8.3	15.9	15.4	90.4	-3.1
Mississippi	27.3	33.9	21.6	24.1	-36.4
Missouri	13.5	21.2	15.6	56.9	-26.3
Montana	19.0	16.6	22.0	-12.5	32.8
Nebraska	12.6	14.1	16.2	12.1	14.6
Nevada	8.1	14.1	13.7	73.7	-2.6
New Hampshire	9.3	15.1	14.3	62.9	-5.4
North Carolina	16.7	19.5	21.3	16.4	9.2
North Dakota	14.4	13.5	20.6	-5.7	52.2
Ohio	11.9	19.7	17.9	65.1	-8.9
Oklahoma	15.1	26.0	19.3	71.8	-25.9
Oregon	12.5	17.2	21.6	38.2	25.1
Pennsylvania	12.0	20.0	18.0	66.3	-10.2
Rhode Island	11.3	21.4	19.4	90.0	-9.7
South Carolina	25.9	28.6	18.1	10.6	-36.9
Tennessee	21.5	29.6	18.1	37.7	-39.0
Texas	20.3	25.8	21.8	27.2	-15.5
Vermont	15.1	13.1	13.5	-13.2	3.0
Wisconsin	8.7	18.8	13.5	115.6	-28.0
Wyoming	7.5	14.7	14.6	96.9	-0.8
<i>States with 1998 child poverty rates significantly higher than the national rate</i>					
Arizona	12.6	24.9	26.1	97.8	4.9
California	14.4	27.4	23.3	90.0	-14.9
District of Columbia	29.6	50.0	45.3	68.7	-9.4
Louisiana	25.0	39.7	29.2	58.8	-26.4
New Mexico	24.0	21.2	26.0	-11.6	22.5
New York	18.9	26.1	24.2	38.5	-7.4
West Virginia	19.2	32.4	27.5	68.7	-15.1

Numbers in bold highlight poverty rates that changed significantly during the time period indicated. Changes in other states are not considered statistically significant at a 90 percent confidence interval. For more information on child poverty, visit NCCP's website: www.nccp.org.

States with high levels of child poverty are no longer concentrated primarily in the South. In 1979, seven of the nine states with particularly high poverty rates were in the South. Today, only two of the six states with child poverty rates significantly higher than the national average are in the South (Louisiana and West Virginia). Southern states that no longer have child poverty rates significantly higher than the national average include Alabama, Arkansas, Florida, Mississippi, South Carolina, and Texas.

1979–1993: Child Poverty on the Rise

Next, NCCP decomposes the changes in child poverty over this two-decade period into the general increase experienced by states over the two business cycles between 1979 and 1993 and the general decrease that took place in the economic recovery since 1993. Table 2 displays the changes in state poverty rates between 1979, a time of relative prosperity, and 1993, when the child poverty rate peaked. The child poverty rate for the nation as a whole increased by 39 percent, from 16.2 percent to 22.5 percent. Only one state—Alabama—achieved a significant reduction in child poverty—a decline of 27 percent, from 31 percent to 22 percent. In contrast, the District of Columbia and 18 states saw the economic well-being of low-income children significantly deteriorate over this time period. In almost all these states, the child poverty rate rose by over 50 percent, with the rate more than doubling in Michigan and Wisconsin.

1993–1998: A Dozen States Lead the Way

Table 2 also illustrates the percentage changes in child poverty rates that took place during the period of our burgeoning economy, 1993 through 1998. Although child poverty rates in most states declined, by no means have they all shared equally in the benefits of the economic recovery. Twelve states experienced significant improvements in child poverty over this brief time period. It is interesting to note that eight of 16 southern states had significant decreases in their child poverty rates compared to only four of 34 states outside the South. Five out of the six states with the largest percentage decreases in their child poverty rates were in the South (Arkansas, Kentucky, Mississippi, South Carolina, and Tennessee). With the exception of California, the Western states were shut out of the reductions in child poverty that took place in the U.S. over the past five years. Two of the 12 states in the Midwest and only one of the

nine states in the Northeast experienced significant declines in child poverty rates between 1993 and 1998.⁵

It is also interesting to compare state trends in welfare caseloads with state child poverty rates. Nationally, welfare caseloads decreased by 47 percent from 1993 through 1998.⁶ During the same period the child poverty rate decreased by 17 percent. In some states, child poverty rates improved substantially at the same time that large numbers of families left the welfare rolls. In Illinois, New Jersey, and Tennessee, welfare caseloads declined by roughly half as child poverty rates also decreased substantially—by 33 to 39 percent. But several other states cut their welfare caseloads by more than half without any improvement in their child poverty rates. These states include North Dakota, Idaho, Georgia, Montana, Oregon, Alabama, Colorado, North Carolina, and Arizona. The relationship between families leaving welfare and families rising out of poverty is a subject that NCCP and other research organizations will need to study much more deeply to better inform the debate over reauthorization of the 1996 federal welfare legislation (The Personal Responsibility and Work Opportunity Reconciliation Act) in 2001.

Of the 18 states whose child poverty rates rose significantly between 1979 and 1993, only five subsequently experienced significant declines. California, Kentucky, Louisiana, Michigan, and Texas recovered significantly in the 1993–1998 period.

Conclusion

Childhood Poverty Research Brief 2 documents the wide ranging levels and trends of poverty among children across the 50 states and the District of Columbia. Nationwide, according to the official measure of poverty, there are still over 13 million children in poverty in the U.S., despite the current sustained period of strong economic growth and low levels of unemployment. This research brief shows that child poverty rates have declined significantly since 1993. Nonetheless, the extent to which recent trends reflect structural improvements in the economy, changes due to welfare reform, or simply the nation's current position in the business cycle is unclear.⁷ In the first research brief in this series, NCCP examined the extent to which changes in several variables, including family structure, parental education, parental employment, and immigration, affected changes in state young

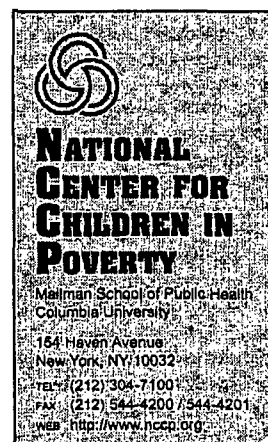
child poverty rates. NCCP found that these factors provide an important but far from exhaustive explanation of state child poverty trends. Understanding what influences child poverty trends is important for several reasons. Developmental research shows that the healthy growth and development of children is negatively affected by poverty.⁸ In addition to their direct human cost, these negative developmental effects also impose social and economic costs that ultimately affect all Americans.⁹

Finally, this research brief also demonstrates that child poverty is not an intractable problem. Several states have made remarkable progress in reducing their child poverty rates and the nation as a whole has recovered much of the ground

that was lost from 1979 to 1993. In future reports, NCCP will continue to investigate the dynamics of child poverty and will also explore promising remedies that could be used to extend and accelerate the nation's recent progress in reducing child poverty. As part of this effort, NCCP will encourage the development and use of more policy-sensitive measures of poverty that will give a more thorough picture of the economic conditions facing America's low-income families.¹⁰ In particular, NCCP will investigate in greater detail the effectiveness of state and federal policies that have the potential to help poor children, such as earned income tax credits and other initiatives to help poor families increase their incomes and reduce their work-related expenses.

Endnotes

1. The data in this research brief come from the March Current Population Surveys conducted annually by the U.S. Census Bureau. Each survey contains data collected from approximately 50,000 households across the nation. The poverty rate is defined as the proportion of individuals in families with incomes that fall below a poverty threshold for a given year. The threshold varies according to family size and is adjusted each year for increases in the cost of living.
2. Using Luxembourg Income Study data, a report by UNICEF on international child poverty rates ranks the U.S. second highest among industrialized nations using a relative poverty measure (i.e., 50 percent of the overall median income or child median income) but 12th highest using the official U.S. poverty line.
3. In *Young Child Poverty in the States—Wide Variation and Significant Change*, NCCP computed poverty rates that were based on five-year averages so as to build samples of sufficient size to analyze poverty rates for children under age six on a state-by-state basis. The five year averages included the first, third, and fifth years of the five-year period in order to avoid the problem of overlapping, and therefore correlated, samples.
4. When choosing to compute poverty rates for a single year in time, there is a tradeoff between the currency and stability of the estimates. Time trends in poverty will be less reliable among states with small populations (and therefore small sample sizes). In this report, NCCP looks at 50-state trends, but to focus on any one small state would require a pooling of data from several years. In future publications, NCCP will draw on data from several years to further analyze child poverty in the states.
5. The U.S. Census Bureau classifies the states and the District of Columbia into the following four regions: *Northeast*: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont. *Midwest*: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin. *South*: Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia. *West*: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming.
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8. Aber, J. L.; Bennett, N. G.; Conley, D. C.; & Li, J. (1997). The effects of poverty on child health and development. *Annual Review of Public Health*, 18; Aber, J. L.; Jones, S.; & Cohen, J. (1999). The impact of poverty on the mental health and development of very young children, in C.H. Zeanah, Jr. (Ed.), *Handbook of infant mental health*, 2nd ed. New York, NY: Guilford Press; and Brooks-Gunn, J. & Duncan, G. J. (1997). The effects of poverty on children. *The Future of Children*, 7(2), pp. 55–71.
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10. Many policymakers and scholars believe that an alternative measure of poverty would render a more complete picture of the impact of government policies on family income. Such a measure would incorporate, for example, all types of income that the Census Bureau does, but in addition include "near-cash" benefits such as food stamps, housing subsidies, and school lunch benefits. Further, it would include the earned income tax credit—federal and, where appropriate, state—and subtract federal, state, and payroll taxes. The Census Bureau has released a series of "experimental measures," which, to varying degrees, correct for deficiencies in the current measure. To date, however, there is no consensus on exactly which components should be incorporated in this new measure. NCCP will examine alternative measures of poverty in future publications. When we measure poverty by means of an alternative measure that incorporates the types of income and subtracts the taxes mentioned above and, in addition, uses as a poverty threshold half of median family income, the trend over time is similar to that of the official poverty rate. (See also Burtless, G. & Smeeding, T. M. (2000). The level, trend, and composition of American poverty: national and international perspectives, presented at the conference: Understanding Poverty in America: Progress and Problems, May 22–24, University of Wisconsin-Madison.) The notable exception to this similarity is that the alternative poverty rates decline at a faster pace since 1993 than the official rates, due to the significant expansion of the federal earned income tax credit.



NATIONAL CENTER FOR CHILDREN IN POVERTY (NCCP) was established in 1989 at the School of Public Health, Columbia University, with core support from the Ford Foundation and the Carnegie Corporation of New York. The Center's mission is to identify and promote strategies that reduce the number of young children living in poverty in the United States and that improve the life chances of the millions of children under age six who are growing up poor.

Childhood Poverty Research Briefs

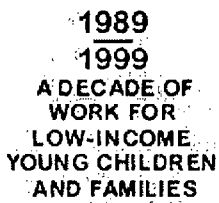
This research brief series presents timely research findings on the nature, scope, and impact of child poverty in the United States, primarily based on analyses by researchers at or affiliated with the National Center for Children in Poverty. The series explores the causes and consequences of child poverty and also identifies and critically examines promising strategies to reduce the incidence of child poverty. As with much of NCCP's work, there is a strong state and local focus.

Child Poverty in the States: Levels and Trends from 1979 to 1998

by Neil G. Bennett, Senior Advisor to NCCP for Demographic Research and Analysis and Professor of Public Affairs, School of Public Affairs, Baruch College—City University of New York, and Hsien-Hen Lu, Assistant Professor of Public Health, Mailman School of Public Health, Columbia University

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Editor: Julian Palmer Design and Production: Telly Valdellon

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CHILDHOOD POVERTY RESEARCH BRIEF 2

Child Poverty in the States: Levels and Trends from 1979 to 1998

by Neil G. Bennett and Hsien-Hen Lu

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This research brief from the National Center for Children in Poverty (NCCP) uses the official measure of poverty and the most recent data available from the U.S. Census Bureau to document the levels of child poverty in all fifty states and the District of Columbia.¹ (In 1998, the official poverty threshold for a family of four was \$16,660.) It also examines long-term trends in child poverty between 1979 and 1998 in each state. Further, it looks at the components of those trends, specifically during two distinct periods (1979-1993 and 1993-1998) that are defined by the national business cycle and by major changes in policies affecting low-income families, particularly the overhaul of state and federal welfare laws.

After years of economic growth, the U.S. child poverty rate recovered from its 1993 peak of 22.5 percent to fall to 18.7 percent in 1998, still significantly higher than its 1979 level of 16.2 percent. The number of children in poverty in the U.S. increased from 10.3 million in 1979 to 13.3 million in 1998. The U.S. child poverty rate continues to be unusually high from an international perspective.² After increasing by almost 40 percent from 1979 to 1993, the child poverty rate fell by one-sixth (17 percent) from 1993 to 1998. While the improvement in the poverty rate since 1993 is encouraging and important, it continues to lag well behind the decreases in the unemployment rate and the national welfare caseload. There is also wide variation among the states in their current child poverty rates and trends in those rates over the past two decades.

In contrast to the first research brief in this series, which focused on children under age six, this research brief includes poverty rates among all children under age 18.³ By casting the net wider to include all children, NCCP is able to get reliable state poverty estimates for a single year in time.⁴ (Please note that poverty rates among children under age 18 are somewhat lower than those for children below age six.)

Child Poverty Levels in 1998

According to the official measure of poverty, 18.7 percent of U.S. children—13.3 million children—were poor in 1998. The national child poverty rate, however, masks considerable variation in poverty among the 50 states and the District of Columbia. Twelve states had child poverty rates that were significantly lower than that for the nation as a whole. These states were quite literally all over the map, ranging from Alaska to Connecticut (Figure 1). Six states plus the District of Columbia had child poverty rates that were significantly higher than the national average. These states were Arizona, California, Louisiana, New Mexico, New York, and West Virginia.

States in close proximity to one another in some cases were subject to very different levels of poverty. New York State had a child poverty rate of 24 percent, in contrast to the rate of 12 percent in the adjacent states of Connecticut and New Jersey. Similarly, the child poverty rate in the District of Columbia, 45 percent, is more than five times as great as the 7 percent and 9 percent rates in the surrounding states of Maryland and Virginia, respectively.

Trends in Child Poverty, 1979-1998

To track child economic well-being over time, NCCP compares the child poverty rates and numbers of children in poverty for 1979 and 1998. Over that period, the U.S. child poverty rate grew from 16.2 percent to 18.7 percent (Table 1), an increase of 15 percent. The relatively small national increase does not reveal the much wider variation in state poverty levels that occurred from 1979 to 1998. In 14 states, the child poverty rate increased significantly and in 10 of those states it rose by more than half. But in a handful of states, the child poverty rate decreased by one-third or more.

States with Large Increases

In two states, the child poverty rate more than doubled from 1979 to 1998. Iowa's rate went from 7 percent to 15 percent and Arizona's rate rose from 13 percent to a fraction over 26 percent. In four additional states, the child poverty rate shot up by more than 70 percent: Wyoming (95 percent), Minnesota (85 percent), Oregon (73 percent), and Rhode Island (71 percent). Several other states also experienced increases in child poverty that far exceeded the national average of 15 percent. These included large states such as California (62 percent), Ohio (50 percent), Pennsylvania (49 percent), Michigan (37 percent), and New York (28 percent), as well as the District of Columbia (53 percent) and smaller states such as Idaho (49 percent) and West Virginia (43 percent).

The number of poor children in California increased by 1.25 million from 1979 to 1998, from 899,000 to 2,149,000—which accounted for over two-fifths of the national net increase of 3 million children in poverty from 10.3 million to 13.3 million during that period. One in six poor children in the U.S. now lives in California, compared to one in 11 two decades ago. The nine additional states that had increases in their number of poor children of over 100,000 since 1979 include: Texas (from 856,000 to 1,233,000), Arizona (from 103,000 to 361,000), New York (from 910,000 to 1,150,000), Ohio (from 361,000 to 525,000), Pennsylvania (from 374,000 to 526,000), Georgia (from 319,000 to 476,000), Michigan (from 316,000 to 443,000), Minnesota (from 93,000 to 215,000), and Oregon (from 87,000 to 188,000).

Several States Reduce Child Poverty

Some states were able to go against the national trend and significantly reduce their levels of child poverty by over 30 percent, including Illinois (32 percent), New Jersey (37 percent), South Dakota (39 percent), and Arkansas (41 percent). The number of children in poverty decreased in all of these states, led by Illinois (168,000 fewer children in poverty) and New Jersey (138,000 fewer children in poverty).

In several cases, neighboring states saw their child poverty rates surge in opposite directions. For instance, New Jersey's child poverty rate fell significantly, while New York and Pennsylvania's rose sharply. South Dakota lowered its child poverty rate by nearly 40 percent as Iowa and Minnesota suffered increases of more than 80 percent. One of the important challenges for future research will be to develop a better understanding of how some states have been able to achieve significant improvements in their child poverty rates as others have lagged behind.

States with high levels of child poverty are no longer concentrated primarily in the South. In 1979, seven of the nine states with particularly high poverty rates were in the South. Today, only two of the six states with child poverty rates significantly higher than the national average are in the South (Louisiana and West Virginia). Southern states that no longer have child poverty rates significantly higher than the national average include Alabama, Arkansas, Florida, Mississippi, South Carolina, and Texas.

1979-1993: Child Poverty on the Rise

Next, NCCP decomposes the changes in child poverty over this two-decade period into the general increase experienced by states over the two business cycles between 1979 and 1993 and the general decrease that took place in the economic recovery since 1993. Table 2 displays the changes in state poverty rates between 1979, a time of relative prosperity, and 1993, when the child poverty rate peaked. The child poverty rate for the nation as a whole increased by 39 percent, from 16.2 percent to 22.5 percent. Only one state—Alabama—achieved a significant reduction in child poverty—a decline of 27 percent, from 31 percent to 22 percent. In contrast, the District of Columbia and 18 states saw the economic well-being of low-income children significantly deteriorate over this time period. In almost all these states, the child poverty rate rose by over 50 percent, with the rate more than doubling in Michigan and Wisconsin.

1993-1998: A Dozen States Lead the Way

Table 2 also illustrates the percentage changes in child poverty rates that took place during the period of our burgeoning economy, 1993 through 1998. Although child poverty rates in most states declined, by no means have they all shared equally in the benefits of the economic recovery. Twelve states experienced significant improvements in child poverty over this brief time period. It is interesting to note that eight of 16 southern states had significant decreases in their child poverty rates compared to only four of 34 states outside the South. Five out of the six states with the largest percentage decreases in their child poverty rates were in the South (Arkansas, Kentucky, Mississippi, South Carolina, and Tennessee). With the exception of California, the Western states were shut out of the reductions in child poverty that took place in the U.S. over the past five years. Two of the 12 states in the Midwest and only one of the nine states in the Northeast experienced significant declines in child poverty rates between 1993 and 1998.⁵

It is also interesting to compare state trends in welfare caseloads with state child poverty rates. Nationally, welfare caseloads decreased by 47 percent from 1993 through 1998.⁶ During the same period the child poverty rate decreased by 17 percent. In some states, child poverty rates improved substantially at the same time that large numbers of families left the welfare rolls. In Illinois, New Jersey, and Tennessee, welfare caseloads declined by roughly half as child poverty rates also decreased substantially—by 33 to 39 percent. But several other states cut their welfare caseloads by more than half without any improvement in their child poverty rates. These states include North Dakota, Idaho, Georgia, Montana, Oregon, Alabama, Colorado, North Carolina, and Arizona. The relationship between families leaving welfare and families rising out of poverty is a subject that NCCP and other research organizations will need to study much more deeply to better inform the debate over reauthorization of the 1996 federal welfare legislation (The Personal Responsibility and Work Opportunity Reconciliation Act) in 2001.

Of the 18 states whose child poverty rates rose significantly between 1979 and 1993, only five subsequently experienced significant declines. California, Kentucky, Louisiana, Michigan, and Texas recovered significantly in the 1993-1998 period.

Conclusion

Childhood Poverty Research Brief 2 documents the wide ranging levels and trends of poverty among children across the 50 states and the District of Columbia. Nationwide, according to the official measure of poverty, there are still over 13 million children in poverty in the U.S., despite the current sustained period of strong economic growth and low levels of unemployment. This research brief shows that child poverty rates have declined significantly since 1993. Nonetheless, the extent to which recent trends reflect structural improvements in the economy, changes due to welfare reform, or simply the nation's current position in the business cycle is unclear.⁷ In the first research brief in this series, NCCP examined the extent to which changes in several variables, including family structure, parental education, parental employment, and immigration, affected changes in state young child poverty rates. NCCP found that these factors provide an important but far from exhaustive explanation of state child poverty trends. Understanding what influences child poverty trends is important for several reasons. Developmental research shows that the healthy growth and development of children is negatively

affected by poverty.⁸ In addition to their direct human cost, these negative developmental effects also impose social and economic costs that ultimately affect all Americans.⁹

Finally, this research brief also demonstrates that child poverty is not an intractable problem. Several states have made remarkable progress in reducing their child poverty rates and the nation as a whole has recovered much of the ground that was lost from 1979 to 1993. In future reports, NCCP will continue to investigate the dynamics of child poverty and will also explore promising remedies that could be used to extend and accelerate the nation's recent progress in reducing child poverty. As part of this effort, NCCP will encourage the development and use of more policy-sensitive measures of poverty that will give a more thorough picture of the economic conditions facing America's low-income families.¹⁰ In particular, NCCP will investigate in greater detail the effectiveness of state and federal policies that have the potential to help poor children, such as earned income tax credits and other initiatives to help poor families increase their incomes and reduce their work-related expenses.

Endnotes

1. The data in this research brief come from the March Current Population Surveys conducted annually by the U.S. Census Bureau. Each survey contains data collected from approximately 50,000 households across the nation. The poverty rate is defined as the proportion of individuals in families with incomes that fall below a poverty threshold for a given year. The threshold varies according to family size and is adjusted each year for increases in the cost of living.

2. Using Luxembourg Income Study data, a report by UNICEF on international child poverty rates ranks the U.S. second highest among industrialized nations using a relative poverty measure (i.e., 50 percent of the overall median income or child median income) but 12th highest using the official U.S. poverty line.

Bradbury, B. & Jantti, M. (1999). *Child poverty across industrialized nations* (Innocenti Occasional Papers, Economic and Social Policy Series No. 71). Florence, Italy: UNICEF International Child Development Centre.

3. In *Young Child Poverty in the States—Wide Variation and Significant Change*, NCCP computed poverty rates that were based on five-year averages so as to build samples of sufficient size to analyze poverty rates for children under age six on a state-by-state basis. The five year averages included the first, third, and fifth years of the five-year period in order to avoid the problem of overlapping, and therefore correlated, samples.

4. When choosing to compute poverty rates for a single year in time, there is a tradeoff between the currency and stability of the estimates. Time trends in poverty will be less reliable among states with small populations (and therefore small sample sizes). In this report, NCCP looks at 50-state trends, but to focus on any one small state would require a pooling of data from several years. In future publications, NCCP will draw on data from several years to further analyze child poverty in the states.

5. The U.S. Census Bureau classifies the states and the District of Columbia into the following four regions: Northeast: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont. Midwest: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin. South: Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia. West: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming.

6. U.S. Department of Health and Human Services, Administration for Children and Families. (1999). *Change in TANF caseloads*. Available at <http://www.acf.dhhs.gov/news/stats/caseload.htm>.

7. Ellwood, D. T. (1999). *The plight of the working poor* (Children's Roundtable No. 2). Washington,

DC: The Brookings Institution.

8. Aber, J. L.; Bennett, N. G.; Conley, D. C. ; & Li, J. (1997). The effects of poverty on child health and development. *Annual Review of Public Health*, 18; Aber, J. L.; Jones, S.; & Cohen, J. (1999). The impact of poverty on the mental health and development of very young children, in C.H. Zeanah, Jr. (Ed.), *Handbook of infant mental health*, 2nd ed. New York, NY: Guilford Press; and Brooks-Gunn, J. & Duncan, G. J. (1997). The effects of poverty on children. *The Future of Children*, 7(2), pp. 55-71.

9. Sherman, A. (1995). *Wasting America's future*. Washington, DC: Children's Defense Fund.

10. Many policymakers and scholars believe that an alternative measure of poverty would render a more complete picture of the impact of government policies on family income. Such a measure would incorporate, for example, all types of income that the Census Bureau does, but in addition include "near-cash" benefits such as food stamps, housing subsidies, and school lunch benefits. Further, it would include the earned income tax credit—federal and, where appropriate, state—and subtract federal, state, and payroll taxes. The Census Bureau has released a series of "experimental measures," which, to varying degrees, correct for deficiencies in the current measure. To date, however, there is no consensus on exactly which components should be incorporated in this new measure. NCCP will examine alternative measures of poverty in future publications. When we measure poverty by means of an alternative measure that incorporates the types of income and subtracts the taxes mentioned above and, in addition, uses as a poverty threshold half of median family income, the trend over time is similar to that of the official poverty rate. (See also Burtless, G. & Smeeding, T. M. (2000). The level, trend, and composition of American poverty: national and international perspectives, presented at the conference: Understanding Poverty in America: Progress and Problems, May 22-24, University of Wisconsin-Madison.) The notable exception to this similarity is that the alternative poverty rates decline at a faster pace since 1993 than the official rates, due to the significant expansion of the federal earned income tax credit.

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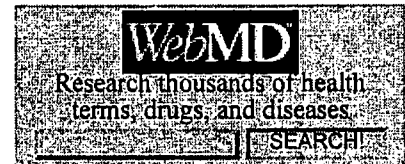
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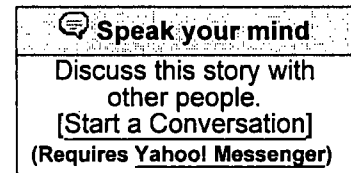
Thursday July 13 6:02 PM ET

Good News About Health of America's Children

NEW YORK (Reuters Health) - America's children are at less risk of dying during childhood, living in poverty, going to bed hungry and having a baby of their own during adolescence, according to a National Institutes of Health report released Thursday.



Using information gathered by 20 government agencies, the National Institute of Child Health and Human Development, in Bethesda, Maryland, prepared the comprehensive report, "America's Children: Key National Indicators of Well-Being 2000."



Among the findings was a "striking" decrease in the rate of death in childhood, comments Dr. Edward Sondik, who directs the National Center for Health Statistics. "Between 1980 and 1998, the death rate for children from ages 1 to 4 dropped by almost half; and the death rate for children 5 to 14 was reduced by a third," he said in a statement.

A major cause of death is attributed to unintentional injuries, particularly car crashes. Not surprisingly, in 1997 more than two-thirds of these deaths occurred in children who were not seat-belted or in car seats at the time of the accident.

Childhood poverty rates are compiled each year. Between 1997 and 1998, the rate dropped from 19% to 18%. In 1993, the rate was 22%.

Forty-four percent of children living with single mothers in 1998 had moms who worked--an 11% move upwards from the 1993 figure.

And, fewer children appear to be going hungry: 3.8% in 1999 versus 4.7 in 1998.

Though the US teenage pregnancy rate is the highest in the developed world, the rate has been in decline over roughly the past decade.

Overall, "the birth rate for teenagers reached a record low of 30 births per 1,000 girls ages 15 to 17 in 1998," according to a statement prepared by the Federal Interagency Forum on Child and Family Statistics.

Of particular note was the drop in births to black, non-Hispanic young girls (ages 15 to 17 years): between 1991 and 1998, a drop of about one third was recorded, representing "a true success story," notes Dr. Duane Alexander, director of the National Institute of Child Health and Human Development.

Other good news from the report included a drop in the rate of violent crimes perpetrated by youth, ages

12 to 17 years. At 27 crimes per 1,000 teens, this rate was less than half of that calculated in 1993.

Children under the age of 18 years currently make up a bit more than one quarter of the US population, or some 70 million kids. An estimated 65% were white, 16% Hispanic, 15% black, 4% Asian or Pacific Islander, and 1% American Indian or Alaska Native.

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for Ann O'Leary

FEEDBACK

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Child Poverty Rate Improves Significantly in Many States Since 1993

But Recent Progress Leaves Most States with Higher Child Poverty Rates Than Two Decades Ago

EMBARGOED FOR RELEASE: August 10, 2000

Contact: Julian S. Palmer (212) 304-7117 or e-mail jsp29@columbia.edu

August 10, New York, NY: The child poverty rate has improved in most states since 1993 according to a new study by the National Center for Children in Poverty (NCCP), a non-partisan research center at Columbia University's Mailman School of Public Health. Nine states have reduced their child poverty rates by one third or more since 1993 and 6 of those states are in the South. These recent gains have not yet fully offset the longer-term increases in child poverty in most states since 1979. Over the entire 1979-1998 period covered in the NCCP study, the child poverty rate increased significantly in 14 states and decreased significantly in 4 states.

The NCCP study, *Child Poverty in the States: Levels and Trends from 1979 to 1998*, separated long-term child poverty trends into two periods that are defined by the national business cycle and by major changes in state and federal policies affecting low-income families. From 1979-1993 the national child poverty rate increased from 16.2 to 22.5—an increase of almost 40 percent. During that 1979-1993 period the child poverty rate rose significantly in 18 states and in 16 of those states, it increased by more than half. From 1993 to 1998 (the most recent year for which data is available) the trend has reversed and the poverty rate has decreased by 17 percent. The number of poor children is now 3 million more than two decades ago. Nationally, the child poverty rate has increased by 15 percent since 1979, rising from 16.2 to 18.7 percent. [Note: The NCCP study analyzed annual income data from the U.S. Census Bureau's Current Population Surveys from 1979 to 1998, the most recent year for which such data is available. The study uses the official measure of poverty used by the Census Bureau. In 1998, the poverty threshold for a family of 4 was \$16,600.]

1993-1998

The states that have reduced their child poverty rates by more than 30 percent since 1993 include Tennessee, Michigan, Arkansas, South Carolina, Mississippi, Kentucky, Illinois, and New Jersey. Michigan is a prime example of a state that improved its child poverty rate in the 1993-1998 period but failed to recover much of the ground lost to child poverty from 1979-1993 when its poverty rate increased by 121 percent (see Table B: Change in the percentage and number of children under age 18 in poverty, by state, 1993 to 1998).

1979-1998

Over the longer term, the child poverty rate has increased by over 40 percent in at least a dozen states since 1979. States that have been hit hard by increases in child poverty ranged from large states such as California (up 62 percent), Ohio (up 50 percent), Pennsylvania (up 49 percent), Michigan (up 37

percent), and New York (up 28 percent), to smaller states such as Iowa, Arizona, Minnesota, and Oregon (where increases ranged from 73 to 111 percent). The handful of states that defied the long-term trend and have reduced their child poverty rates since 1979 include New Jersey, Illinois, Arkansas, and South Dakota (see Table A: Change in the percentage and number of children under age 18 in poverty, by state (in alphabetical order), 1979 to 1998).

California

The long-term increase in child poverty had a particularly harsh impact in California, where the number of children in poverty grew from just under 900,000 in 1979 to 2.15 million in 1998, accounting for over 40 percent of the national increase of 3 million children in poverty over the past two decades. One in 6 poor children in the U.S. now lives in California compared to 1 in 11 in 1979.

California was one of 13 states where the number of children in poverty changed by more than 100,000 from 1979 to 1998. The number of children in poverty increased by over 375,000 in Texas, by well over 200,000 in Arizona and New York, and by over 100,000 in Ohio, Georgia, Pennsylvania, Michigan, Minnesota, and Oregon. New Jersey, Illinois, and Alabama all reduced the number of children in poverty by more than 100,000.

Several Southern States Reduce Child Poverty

One key finding in the report is that poverty is less concentrated in a few regions of the U.S. than it was in 1979, when almost all states with high levels of child poverty were in the South. "The South is no longer the poverty zone that it was in 1979," said Neil Bennett, NCCP's senior advisor for demographic research and analysis and one of the report's co-authors with Hsien Hen Lu, an associate research scientist at NCCP. In 1979, 7 of 9 states with poverty rates significantly higher than the national average were in the South. Today only 2 of 6 states (Louisiana and West Virginia) in that category are in the South. "The progress in reducing child poverty in the South as well as in New Jersey and Illinois tells us that this is not an intractable problem," said Larry Aber, the director of NCCP. "Researchers and policymakers need to learn from those states that are making real inroads against child poverty. What we learn could be the key to dramatically reducing child poverty throughout the United States," added Dr. Aber.

Differences in Child Poverty within Regions: 1979-1998

Northeast: New Jersey's child poverty rate fell by 37 percent while New York's rate increased by 28 percent and Pennsylvania's rate went up by 49 percent.

Midwest: South Dakota's child poverty rate decreased by nearly 40 percent during the same period that Iowa's rate doubled and Minnesota's rate increased by over 80 percent. Illinois and Ohio also exhibited very different trends in their child poverty rates; Ohio's rate increased by half and Illinois' rate decreased by one-third.

South: The child poverty rate fell significantly in Arkansas but increased in West Virginia and the District of Columbia. The child poverty rate in West Virginia (27.5 percent) is three times the rate in Virginia (9 percent).

West: There have been significant increases in the child poverty rate in California, Arizona, Wyoming, Oregon, and Idaho since 1979. Arizona, California, and New Mexico all have child poverty rates that are significantly higher than the national average while Alaska and Washington are significantly below the national average.

Changes in State Welfare Caseloads and Child Poverty Rates

The improvements in child poverty rates since 1993 lag well behind reductions in welfare caseloads over the same period. The 17 percent decrease in the national child poverty rate from 1993-1998 is far less than the 47 percent decrease in state welfare caseloads over the same period. "If we can cut the welfare

caseload in half, we ought to be able to cut the child poverty rate in half also," said Dr. Aber. In some states, notably Illinois, New Jersey, and Tennessee, welfare caseloads decreased by roughly one-half as child poverty rates declined by 33 percent to 39 percent. But several other states cut their welfare caseloads by more than half without any improvement in their child poverty rate, including North Dakota, Idaho, Georgia, Montana, Oregon, Alabama, Colorado, North Carolina, and Arizona (see [Table F: Comparison of change in poverty rate for children under age 18 with change in TANF caseload, by state, 1993 to 1998](#)).

"These stubbornly high rates of child poverty should concern every American citizen as well as our federal and state governments," said Dr. Aber, "because poverty places a glass ceiling on children's readiness for school, educational achievement, and future workforce potential."

Supplemental Summary Tables

- [Table S-1: States Where Number of Children in Poverty Changed by More Than 100,000: 1979-1998](#)
- [Table S-2: States That Reduced Their Child Poverty Rates by One-Third or More: 1993-1998](#)
- [Table A: Change in the percentage and number of children under age 18 in poverty, by state \(in alphabetical order\), 1979 to 1998](#)
- [Table B: Change in the percentage and number of children under age 18 in poverty, by state, 1993 to 1998](#)
- [Table C: Change in the percentage and number of children under age 18 in poverty, by state, 1979 to 1993](#)
- [Table D: Poverty rates of children under age 18, by state, 1998](#)
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1-10 Poverty Number

PRESIDENT CLINTON & VICE-PRESIDENT GORE: RECORD GAINS FOR WORKING
FAMILIES ACROSS AMERICA
September 26, 2000

TODAY, THE CENSUS BUREAU RELEASED ITS REPORT ON INCOME AND POVERTY IN AMERICA FOR 1999. The annual report shows an unprecedented fifth year of significant income growth - with median household income breaking \$40,000 for the first time in history - and shows that the poverty rate last year dipped to its lowest level in two decades. Highlights:

Strong Broad-Based Income Gains:

-- Household Income Breaks \$40,000 for First Time in History. Income for median households rose \$1,072, or 2.7 percent, from \$39,744 in 1998 to \$40,816, marking an unprecedented fifth year of significant growth in income. In 1999, the median income of African American households increased from \$25,911 in 1998 to \$27,910 -- an increase of \$1,999, or 7.7 percent, which is the largest one-year increase ever recorded. The income of the median Hispanic household, adjusted for inflation, increased from \$28,956 in 1998 to \$30,735 in 1999 -- an increase of \$1,779, or 6.1 percent, which is the largest one-year increase ever recorded.

-- Family Income Up Over \$6,300 Since 1993. Another measure of income -- family income, which excludes single individuals and counts only related members in any household -- shows similar trends. In 1999, the median family income, adjusted for inflation, increased to \$48,950 from \$47,769, or 2.5 percent. Since President Clinton and Vice President Gore passed their Economic Plan in 1993, median family income has increased from \$42,612 in 1993 to \$48,950 in 1999 -- an increase of \$6,338, or 15 percent. From 1987 to 1992, median family income fell \$1,991 after adjusting for inflation. Since 1993, African American family income increased by \$6,941, which is a 27.9 percent increase.

-- All Groups Have Seen Their Incomes Rise -- From Richest to Poorest. For the third year in a row, all five quintiles of the income distribution saw their incomes, adjusted for inflation, rise. The average income for the lowest 20 percent increased by 5.4 percent compared to an increase of 3.9 percent for the highest 20 percent. Since 1993, all five quintiles have seen their incomes rise strongly, after 12 years in which there was little if any improvement for the bottom 60 percent of Americans. Since 1993, the lowest income quintile recorded a 16.3 percent income increase, which is the largest increase gain of all the quintiles.

Strong Reduction in Poverty:

-- Poverty Rate Fell to 11.8 Percent in 1999 -- Its Lowest Level Since 1979. In 1999, the poverty rate dropped from 12.7 percent to 11.8 percent, the lowest rate in two decades. Since President Clinton and Vice President Gore passed their Economic Plan in 1993, the poverty rate has declined from 15.1 percent in 1993 to 11.8 percent last year -- the largest six-year drop in poverty in nearly 30 years (1964-1970). There are now 7 million fewer people in poverty than in 1993, and over 2.2 million, or over 30 percent, of this decline occurred during the past year. (In 1999, the poverty threshold was \$17,029 for a family of four.)

-- 1999 Represents the Largest One-Year Drop in Child Poverty in More than Three Decades. While the child poverty rate remains too high, in 1999, it declined from 18.9 percent to 16.9 percent, which is the lowest since 1979. The full 2 percentage point decline is the largest one-year decline since 1966. Under President Clinton, the child poverty rate has declined from 22.7 percent to 16.9 percent, a reduction of 25.6 percent,

which is the biggest six-year drop in nearly 30 years (1964-1970).

-- Elderly Poverty Rate Fell Below 10 percent for the First Time. In 1999, the elderly poverty rate of 9.7 percent fell below the 10 percent mark for the first time in recorded history. In 1959, the elderly poverty rate was 35.2 percent.

-- The African American Poverty Rate Down To Its Lowest Level on Record. While the African-American poverty rate is still far above the poverty rate for whites, it declined from 26.1 percent in 1998 to 23.6 percent in 1999, which is the lowest level recorded since data were first collected in 1959. Since 1993, the African-American poverty rate dropped from 33.1 percent to 23.6 percent, a 29 percent decline, which is the largest six-year drop in African American poverty in more than 30 years.

-- Child Poverty Among African Americans Down To Lowest Level on Record. While the African-American child poverty rate is too high, it fell from 36.7 percent to 33.1 percent in 1998, which is the largest one-year drop in history and its lowest level on record (data collected since 1959). Since 1993, the child poverty rate among African Americans has fallen every single year for six straight years (1993- 99), a historical record. Poverty among African American children has declined 13 percentage points, or 28.2 percent, under President Clinton.

-- The Hispanic Poverty Rate Dropped to its Lowest Level Since 1979. In 1999, the Hispanic poverty rate dropped from 25.6 percent to 22.8 percent - that's the lowest level since 1979. Poverty for Hispanics declined by 2.8 percentage points, or 10.9 percent, from 1998, which is the largest one-year percentage point decline ever recorded. While there is still more work to do, since President Clinton took office, Hispanic poverty has declined from 30.6 percent to 22.8 percent, or 25.5 percent, from 1993. The Hispanic child poverty rate fell from 34.4 percent to 30.3 percent, or 12 percent, from 1998. Poverty for Hispanic children has declined 10.6 percentage points, or 26 percent, since 1993.

-- The Asian and Pacific Islander Americans Poverty Rate As Low As It's Ever Been. In 1999, the Asian Pacific Islander poverty rate dropped from 12.5 percent to 10.7 percent -- as low as it's ever been. Since 1993, the Asian Pacific Islander Americans poverty rate has dropped from 15.3 to 10.7, or 30.1 percent, which is the largest percentage decline of all groups.

-- 4.1 Million People Lifted Out of Poverty by the EITC. In 1993, President Clinton expanded the Earned Income Tax Credit, providing a tax cut for low-income working families. In 1999, the EITC lifted 4.1 million people out of poverty, which is nearly double the number of people lifted out of poverty by the EITC in 1993. Among children, the EITC reduced poverty by 17 percent in 1999, which represents moving 2.3 million children out of poverty.

-- Central Cities Show Large Improvement. The poverty rate in central cities fell from 18.5 percent in 1998 to 16.4 percent in 1999, which is the largest percentage point decline ever recorded and the lowest level since 1979. Since 1993, poverty in central cities has fallen by 23.7 percent.

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