Build INITIATIVE
Strong Foundations For Our Youngest Children

Sustaining Child Care Policy Gains after the Pandemic Emergency

What States Learned

MARCH 2023

Introduction

THE IMPACT OF THE PANDEMIC AND FEDERAL RELIEF FUNDS ON THE EARLY CHILDHOOD FIELD

The COVID-19 pandemic brought unforeseen challenges to child care and the country as restrictions on public activity and fear of illness kept many workers and their children home. Meanwhile, essential workers needed safe and nurturing care for their children despite the virus. The federal government responded with a major influx of federal relief funding and areas of flexibility that gave states an opportunity to implement innovative policies and programs to assist families, providers, and the individuals in the child care workforce. As a result of all this, it became apparent that:

- The health of the child care sector has an impact that goes beyond children and families to the larger community and economy.
- This increased visibility of programs within state government required an "all hands on deck" moment that brought state administrators into closer partnership with the larger human services, health and mental health, education, and workforce agencies in their states.
- **The $53 billion targeted to child care in the three COVID-19 relief packages was essential to preventing further disruption and disintegration of the child care sector in the moment, yet it is only a temporary solution.**

But it must also be acknowledged that the Child Care and Development Block Grant (CCDBG) and state lead agencies that were responsible for administering relief programs were sorely under-resourced prior to the pandemic. **Without new public funding or revenue solutions, state child care assistance and stabilization efforts will face a financial cliff by the end of federal fiscal year 2023.** At the same time, several pandemic period child care policies are allowable using CCDBG funds and can be sustained and replicated in the post-pandemic era. Is it possible to sustain the gains in child care policy?

FOCUS: CAN STATES SUSTAIN CHANGES MADE WITH RELIEF FUNDS?

This brief draws on interviews with administrators in ten diverse states (CT, IL, KS, KY, NC, ND, NM, OK, OR, SC) to identify significant changes in policy and whether they are sustainable. Since CCDBG was the main federal funding stream for child care available to states to use to help families pay for child care and to improve quality of programs prior to the pandemic and will remain in place after federal resources appropriated in 2020 and 2021 must be expended, we use that lens to determine if policy changes are allowable for other states to replicate. We found important gains in the following categories:

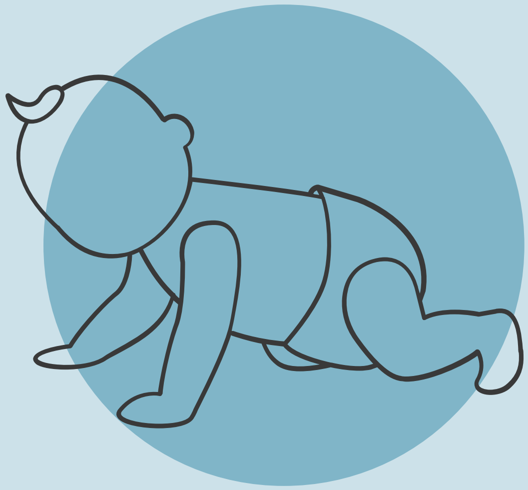
1 Increasing the number of families eligible for assistance.

2 Reducing the burden of family copayments.

3 Paying child care providers to build their stability and based on the actual cost of care.

4 Supporting higher compensation for the workforce.

For each topic, this paper discusses the relevant federal rules, which are also listed in an Appendix, and describes examples of state innovations based on public information and the administrator interviews. From these conversations, the authors present findings about what made these innovations possible and the challenges to making and keeping these gains. The majority of positive policies made by states using pandemic relief funding remain legal under federal rules. However, they cannot be sustained without continuation of federal stabilization and relief funds for child care, or major increases in state expenditures. Note that this is not an exhaustive list of examples, and the authors' conclusions are their own. No doubt there are additional models at work in other states.



THE ROLE OF PRESCHOOL DEVELOPMENT GRANTS BIRTH THROUGH FIVE

We note that many states had been awarded a Preschool Development Birth through Five Grant (PDG B-5) and were using those funds for systems improvements and local innovations during the pandemic. These funds, critical to creating a more aligned, equitable birth-to-five mixed delivery system, are time limited. A new round of states was awarded grants in December 2022/January 2023. Several of the states we interviewed noted the importance of these system dollars. **"CCDBG doesn't have funding for systems support built in, and PDG B-5 fills that gap,"** one interviewee said.

Background

The Child Care and Development Block Grant is the primary federal funding source states can use to help families with low earnings to pay for child care and invest in quality improvement strategies. Congress first authorized the CCDBG in 1990 and has updated and reauthorized the law twice since - in 1996 and 2014. The most recent reauthorization included significant changes that lengthened eligibility for child care assistance for families, increased health and safety requirements, and expanded the portion of funds focused on quality improvement. Notably, the law made promoting child development a central and equally important purpose of CCDBG, which had previously been focused on enabling parents to work or attend education/training. However, the basic framework of the program remained the same - children in families with income up to 85 percent of State Median Income (SMI) could receive assistance if parents met work or education/training requirements as defined by the state. The 2014 reauthorization did not automatically increase the amount of block grant funding to states to implement the changes, but Congress passed a $2.37 billion increase in 2018.

After COVID-19 hit, multiple federal relief packages - the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in March 2020, the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act in December 2020, and the American Rescue Plan (ARP) Act in March 2021 - added $28.5 billion in CCDBG and $24 billion to establish a new Stabilization grant program[1]. These relief dollars waived some requirements traditionally included in CCDBG (required quality set-asides and minimum usage for direct services) in recognition of the unique situation facing the country. The Office of Child Care in the Administration for Children and Families approved numerous temporary waivers submitted by states. For example, 31 states received approval to waive copayments for all families and 47 states received approval for a waiver related to background checks and fingerprints required for staff.

- **The CCDBG supplements** allowed states to pay for care for essential workers regardless of income eligibility and encouraged continued payments to child care programs even if the children eligible for assistance were not in attendance. The CRSSA allowed states to use those funds to cover the cost of copayments that families otherwise would have had to pay. Congress specified that states must spend $13.5 billion by the end of FY 2023 (September 30, 2023), and $15 billion by the end of FY 2024 (September 30, 2024).
- **The Stabilization grant program** made funds available to states that set up a grant program for all providers - regardless of whether families were eligible under CCDBG rules - to cover the operating expenses and increased costs of staying open during the pandemic. To receive funding, applicants had to certify that, to the extent possible, they would provide relief from copayments and tuition costs for families, and that they would continue to compensate early educators no less than what they received at the time of application. Congress specified that states must spend these funds by the end of FY 2023 (September 30, 2023).

[1]For a summary of the different relief provisions for child care, see Guarino, A. First Five Years Fund, CCDBG Covid-19 Relief Funding at a Glance, April 2021.

The massively increased funding for states and accompanying federal guidance helped to fuel innovation in child care. What policies states made, and how quickly they were able to implement change, in part depended on state-specific factors. For example, **19 states require legislative approval** to be able to appropriate the unexpected federal resources, which could delay states with political division or lack of familiarity with child care. CCDBG lead agencies in the 29 states with the federal Preschool Development Birth through Five planning or renewal grants awarded in 2020 may have access to resources to support systems work, strategic planning, and collection of needs assessment data. Some states' economies seemed to recover jobs faster than others, even resulting in surplus state revenue by 2022. The level of public outrage and community organizing to push state leaders to respond to the pain felt by the child care sector varied as well.

POLICY CHANGES STATES CAN CONTINUE UNDER FEDERAL CCDBG RULES

1 INCREASE ACCESS TO MORE FAMILIES

- Raise income eligibility (over 85% of SMI must be non CCDBG funds)
- Allow a wider array of activities that support family well-being to qualify for assistance
- Make student parents eligible for full time assistance without attaching minimum working hours
- Use state flexibility to define populations as needing "protective services" to make families eligible without regard to work requirements, for example all children in a family with one child in prekindergarten or child care workers
- Remove child support system requirements from subsidy eligibility

2 REDUCE THE BURDEN OF THE FAMILY COPAYMENT

- Codify rules to limit copays to no more than 7 percent of income (or less) per family
- Lower copayments to a set and very low dollar amount
- Waive copayments for populations a state defines as "protected"

3 PAY CHILD CARE PROVIDERS TO BUILD THEIR STABILITY AND BASED ON THE ACTUAL COST OF CARE

- Implement alternate methodologies to set payment rates
- Fund family child care networks
- Target higher payments to areas with high social vulnerability risks
- Use grants to stabilize child care providers serving low-income families
- Pay by enrollment or licensed capacity, not attendance

4 SUPPORT HIGHER COMPENSATION FOR THE WORKFORCE

- Expand or establish T.E.A.C.H.® and WAGE$® programs
- Make grants available to providers that address compensation

1 Making More Families Eligible for Child Care Assistance

The price of child care exceeds what most families can afford, with the average cost of licensed child care for an infant at $1300 a month, or $16,000 a year (Workman, 2021). The CCDBG provides funding to states to use to defray the amount qualifying families must pay for child care. Since its inception in 1990, the CCDBG law put limits on eligibility for CCDBG-funded child care assistance according to family income and by general activities in which eligible families should be engaged. Many of the details regarding how that framework is implemented are left to state discretion. In the reauthorization of 2014, Congress recognized that requiring families to reapply for subsidy often led to lack of continuity of care for children and could be detrimental to the program's goals to promote family economic success and child development. Many changes to the law were meant to better support those twin goals.

WHAT ARE THE CCDBG RULES?

CCDBG has a statutory limitation on use of federal funds for children (birth to age thirteen) in families with earnings not to exceed 85 percent of State Median Income (SMI) and working or attending job training or education, as defined by the state. Congress added provisions to allow families to move toward financial stability and increase income prior to losing access to child care assistance provided through the program, including a "graduated phase out." Regulations clarified that if a state sets initial eligibility lower than 85 percent, they are required to allow families to remain in the program until they reach a higher income level - 85 percent of SMI or some lower level based on specific analysis.

In the reauthorization, Congress made other changes to extend eligibility periods to promote stable access to care for children. The law explicitly extended children's eligibility for child care to a minimum of 12 months, regardless of increases in parents' earnings (not to exceed 85 percent of SMI), and temporary changes in participation in work, training, or education. The regulation clarified that subsidy agencies need not limit authorized child care services strictly based on the work, training, or educational schedule of the parent(s) or the number of hours the parent(s) spend in work, training, or educational activities. In fact, states must "take into consideration children's development and learning and promote continuity of care when authorizing child care services."

States have long had the flexibility under CCDBG rules to establish eligibility conditions in addition to those outlined in the law; however, lead agencies are not required to do so - outside of the income and activity requirements - or set priority rules in addition to those outlined in the law. The 2016 regulations made clear those additional rules may only be considered at the period of determination and redetermination. States also may make children in or in need of protective services categorically eligible without regard to the income requirements, "which may include specific populations of vulnerable children as identified by the Lead Agency" (§98.20 (a)(iii)(B)). Despite the flexibility to protect populations, states' decisions are shaped by their sense of scarcity of resources and effort to avoid having to roll back a special population decision.

STATE INNOVATIONS

Many states have raised income eligibility requirements. As submitted, CCDBG state plans for 2022-2024 show that at least 8 states set income eligibility at the federal limit of no more than 85 percent of SMI, and 21 set the second tier graduated phase-out level at 85 percent of SMI. A national point in time study in 2021 found that 41 states had raised eligibility since 2020, but three-fifths still set initial eligibility below 200 percent of the federal poverty level (Schulman, 2022).

Increasing the income eligibility ceiling and simplifying guidelines and processes

NEW MEXICO raised eligibility twice during the crisis and **announced in May 2022** that families with earnings up to 400 percent of the federal poverty level (FPL) ($111,000 for a family of four) are eligible for cost-free child care. This exceeds the federal limit for using CCDBG – 85 percent of SMI is $52,800 for a family of four. New Mexico's Early Childhood Education and Care Department (ECECD), launched in 2020, simplified eligibility guidelines and processes, including rescinding the state requirement that qualifying families had to comply with child support enforcement against the non-custodial parent. This **child support policy can have the unintended consequence of damaging children's access to and relationship with that parent**. "These policy changes have changed lives," said ECECD Secretary Elizabeth Groginsky. "Our eligibility workers have heart-wrenching stories." State and ARP supplemental funds are being used to go beyond 85 percent of SMI.

Expanding eligibility for full-time students and families working opposite shifts

In **OREGON**, the Early Learning Division simplified eligibility processes to allow full-time students to qualify for assistance without a minimum-work-hours requirement too and made it possible for families working opposite shifts to qualify during multiple work periods. The legislature determined in 2021 that activities that promote family well-being should be allowable in qualifying for child care assistance. This will permit families in challenging situations who are participating in services to stabilize and qualify for child care assistance.

Expanding eligibility for students

ILLINOIS has no minimum hours of work attached to education and training eligibility, including up to achieving a bachelor's degree. Child care services are approved for time that is reasonably related to the education or training program, including credited class research, laboratory and library time, and transportation time.

Making certain populations automatically eligible for child care

SOUTH CAROLINA developed an eligibility category for children with a sibling in the state-funded, targeted full-day four-year-old kindergarten (4K) program. The state public/private partnership - First Steps - administers the state-funded 4K program in non-public school settings, like child care centers and non-profit independent schools. They noticed declining enrollment during the pandemic, even though First Steps 4K was fully in-person. Parent focus groups showed that lack of care for other children, particularly younger siblings, in the home made it difficult for parents to enroll their child in the full day 4K program. Together, First Steps and the South Carolina Child Care Administrator agency, the Department of Social Services, created First Steps 4K Plus and defined the children in 4K as a priority vulnerable population, waiving work requirements for families and ensuring all children (birth through age 12) are eligible for child care assistance for the 4K year. Children in families that are participating in an evidence-based program through First Steps' local partnerships (independent, affiliate non-profits in every county) are also categorically eligible.

2 Reducing the Burden of Family Copayments

Parents who receive child care subsidies must contribute toward the cost of their children's child care with some exceptions. The copayment is in essence a cost-sharing between the state and the family. However, co-payment rates can be a significant amount of a family's budget, which in turn means that families may not take advantage of child care assistance if the copayment (in some states providers may charge more than the co-payment rate schedule) is too financially onerous.

States set a sliding scale and have family contribution exemptions or waivers. Sometimes the state sets a categorical eligibility for exemptions and in other states, or for other criteria, the waiver is made on a case-by-case basis. Copayments may not be raised during the 12-month period of eligibility.

WHAT ARE THE CCDBG RULES?

CCDBG regulations require the Lead Agency to include in its plan: Section § 98.16 "(k) A description of the sliding fee scale(s) (including any factors other than income and family size used in establishing the fee scale(s)) that provide(s) for cost-sharing by the families that receive child care services for which assistance is provided under the CCDBG and how co-payments are affordable for families, pursuant to § 98.45(k). This shall include a description of the criteria established by the Lead Agency, if any, for waiving contributions for families." Lead Agencies must show in their CCDBG plan that the co-payments are affordable for families. The Lead Agency also has the discretion to waive copayments for families.

As shown by the National Women's Law Center's report, copayments for families of similar incomes differ widely across the states. According to ACF's summaries of State CCDBG Plans for FYY 2022-2024, some examples are children in Early Head Start, Head Start, children in or at risk of protective services, and children experiencing homelessness.

STATE INNOVATIONS

During the height of the COVID-19 pandemic, 46 states waived or greatly reduced copayments (Schulman, 2022). Early in the pandemic, states waived the copayments for families who were "first responders" or "essential workers." CRRSA funds could be used to replace lost funds from the copayments. Some states are making these family-friendly policies permanent.

Lowering copayments

OREGON'S legislature voted to lower the state copayment rate to no more than seven percent of family income even with multiple children in care.

Waiving/reducing copayments for child care workforce

Two states are waiving or reducing co-payments for the children of child care workers. Starting October 24, 2022, **KENTUCKY**, by regulation, has established a "protected population" - an option in CCDBG regulations for states - that makes employees of certified and licensed programs eligible based on that status. **ILLINOIS** changed procedures in 2022 that reduced copayments to $1 per month for "a child care worker."[2]

[2] For the purposes of determining CCAP co-pay amount for parents or guardians determined eligible for CCAP, a child care worker is any employee at a licensed child care center, licensed child care home, licensed group child care home, license-exempt child care center, or license-exempt child care home who spends 75% or more of their regular daily scope of work in service of early childhood education and care, including, but not limited to:

1. Directors and Assistant Directors.
2. Regular teaching staff, including teachers, teacher aides, and assistants.
3. Floating or substitute teachers.
4. Family engagement and support staff.
5. Office staff.
6. Support staff, including custodial, kitchen, transportation, and other staff.

3 Paying child care providers to build their stability and based on the actual cost of care

Payment rates and practices have an impact on child care program budgets and stability over time. Clearly, the amount that programs are paid per child in care has a direct impact on salaries for early educators, resources, and materials available for the children, and facilities. Too often, programs charge what they think parents can afford rather than what it would cost to offer competitive salaries and keep higher levels of staff for groups of children.

The method by which providers receive payment matters as well. Parents who pay for child care typically pay a set amount regularly based on the hours and days they enroll their children. Head Start pays grantees based on negotiated rates prospectively through a grant from the federal government. Most state prekindergarten programs do as well. Historically, states used CCDBG to pay providers on a reimbursement basis and tied payment to the number of days and hours children were in care. This means payments for children receiving CCDBG assistance fluctuate. The more eligible children a provider accepts, the more difficult it becomes to balance the program budget and manage the fixed costs (rent, labor, utilities) of providing child care.

The ARP Stabilization Grants were explicitly designed with different rules than those long held funding distribution and rate setting practices in state policies. Their purpose was to support all licensed programs, to directly cover fixed costs and previous debt incurred during the pandemic crisis, and funds were not linked to child attendance or parent work/education status. These funds were meant to help child care programs survive the instability in the child care market. The experience of distributing funds directly to providers via grants was new and transformational in many states, although using grants to make CCDBG payments is allowable. “Paying grants to providers is what saved our child care sector,” said Beth Bye, Commissioner of the Office of Early Childhood in Connecticut.

WHAT ARE THE CCDBG RULES?

CCDBG has an “equal access” provision that requires states to certify in the state plan that the payment rates they set are sufficient to ensure equal access for eligible families to child care services comparable to those provided to families not eligible to receive CCDBG assistance or child care assistance under any other federal, state, or tribal programs. (Sec. 658 E (c) (4)(A). The 1990 CCDBG regulations defined sufficiency to be at least as high as the 75th percentile of a market rate survey (MRS) conducted in the last two years. A point-in-time analysis of 2021 state rates by the National Women’s Law Center found that just two states met that recommended level, although two-fifths raised their rates between 2020 and 2021 (Schulman, 2022). Additionally, advocates and child care providers have argued that **using an MRS deflates payment rates in communities where families have low incomes** because families cannot afford to pay the trust cost of quality care and providers set their rates accordingly. The 2014 reauthorization by Congress allowed states to use an “alternative methodology” to inform rate-setting if approved by Administration for Children and Families. This can take the form of a cost study or a cost estimation model, so that Lead Agencies are setting rates informed by the cost of care, not the prices that families are able to afford.

States may also set differential rates based on children’s ages, geographical region, and other factors as an incentive to providers to offer more expensive (care for children with special needs) or inconvenient (non-traditional hours) child care that the state population needs.

Congress added several provisions in 2014 to promote payment practices that mirror the private market "to provide stability of funding and encourage more child care providers to serve children" with child care assistance (658E (c)(2)(S). The regulations list paying by enrollment rather than attendance, paying prospectively, and paying in a timely manner as potential state policies to satisfy this expectation.

STATE INNOVATIONS

Implementing Alternative Cost of Care Rates

Three CCDBG lead agencies (in the **DISTRICT OF COLUMBIA**, **NEW MEXICO**, and **VIRGINIA**) have implemented provider rate changes based on alternative methodologies, while many more states are studying the true cost of providing child care. DC received approval from ACF prior to the pandemic. New Mexico's methodology "collected and gathered data from providers throughout and across New Mexico's diverse geographic and cultural locations. The independent process team reviewed financial records, conducted interviews, and collected revenue and expense data (including salary and non- personnel related expenses) from an intentional mix of providers-including multi-site agencies, individual nonprofit providers, for-profit providers, family child care homes, group family child care homes, small and large programs, programs serving school-aged children, in different parts of the states, and programs serving different variations of child age and family income levels" (Early Childhood Education Care Dept., n.d.).The state agency built an expectation that early educators in participating child care locations would earn no less than $12 per hour. In the interim, the pandemic and inflation have driven up the costs. With sufficient funding, the next methodology will raise the minimum wage expectation, given the staffing crisis facing programs in the state and lack of supply. In the meantime, the state is offering grants to raise the minimum to $15 an hour for 10 months. After raising the eligibility to 400 percent of FPL, state leaders have been surprised that some parents have not been able to find care even with the guarantee of state child care assistance. The state has launched a supply building strategy using $10 million in ARP funds.

Funding Family Child Care Networks

The pandemic destabilized the whole child care sector, not only those participating in CCCDBG, requiring states to build or repurpose infrastructure (for example, professional development registries) to reach a wider swath of programs than they ever had before. **CONNECTICUT** used a mix of philanthropic and state dollars to launch Connecticut CARES programs to develop an infrastructure of support for child care that was essential to distributing federal relief funding. CT CARES contracted with community-based agencies to create and maintain 12 staffed family child care networks across the state. A multi-year contract with the Women's Business Development Council supports business technical assistance for providers. "The funding of these networks is to increase the supply of infant and toddler care, reduce administrative costs of family child care providers through technical assistance, training, and back office support" (Connecticut Office of Early Childhood, n.d.).

Targeting Higher Payments to Areas with High Social Vulnerability

CONNECTICUT used the Center for Disease Control and Prevention (CDC) **Social Vulnerability Index** (SVI) to center equity in the distribution and payment levels of the ARP Stabilization Grants. The SVI uses 14 indicators of social and public health vulnerability by census tract to identify geographic regions more or less likely to need assistance during public health crises. **New America reported** that at least eight other states (DC, LA, MA, MS, NC, NM, SC, TN) used the SVI to target higher payments to certain census tracts.

Using Grants to Stabilize Programs Serving Families with Low Incomes

During the pandemic, **ILLINOIS** offered several rounds of grants to stabilize providers, and is exploring whether the state can finance continued use of this payment strategy to strengthen child care in the state. The Illinois Early Childhood Funding Commission recommended moving away from only a tuition-based approach. According to the Strengthen and Grow grant webpage: "The State can no longer make our investments in early childhood one funding stream at a time, but rather must take all sources of programs' funding into consideration. To achieve truly equitable funding, we must intentionally support those providers who have historically had the least funding stability, especially where they are serving low-income families." The state adapted the workforce registry to use a directors' portal for center directors and family child care owner operators to apply for grants.

Paying Child Care Assistance by Enrollment Rather than Attendance

NORTH DAKOTA began to pay by enrollment rather than attendance during the pandemic emergency and determined that it was "a game changer" that was more efficient and brought stability to the provider community. Removing the parent as an intermediary brings the state agency closer to the providers as well. To do this, the state adapted the Registry system. "What started as a training platform has become a useful tool for distribution and data collection," said Jessica Thomasson, Executive Director of North Dakota Human Services. The **Governor is seeking support from the legislature for increased state revenue,** including to develop financial incentives for providers to participate in the assistance program for example, paying above the 75th percentile for infant and toddler child care slots.

Paying through Contracts

OREGON is piloting a grant program - Baby Promise - using CCDBG to deliver high-quality infant/toddler slots and better-compensated care in child care settings. This grant approach actually started pre-COVID (but it is a great, replicable example) allowed the Division of Early Learning to target funds to rural communities with low supply. Programs applied for the grants, which included a condition that salaries for early educators in the program be commensurate with the public school at similar education levels. Eligibility matched that of the CCDBG- funded child care assistance program.

3 Supporting Higher Compensation for the Workforce

The pandemic heightened problems with recruiting and retaining the early childhood education workforce. As providers re-opened, the shortage continued, due in large part to the persistently low wages. The Administration for Children and Families disseminated guidance that urged states to use their ARPA funds to improve compensation. States have responded by offering grants for workforce signing bonuses, expanding programs that offer education scholarships tied to compensation bonuses, and giving retention rewards. T.E.A.C.H. Early Childhood® scholarships and Child Care WAGE$® have wage bonuses as part of the program, and ways to ensure that enhanced payment rates lead to higher wages for staff.

WHAT ARE CCDBG RULES?

CCDBG rules for the use of the quality dollars set-aside have always permitted the use of funds for training and professional development. Many states before and since the 2014 reauthorization were using these funds for scholarships and sometimes bonuses tied to progress on attaining credentials and postsecondary degrees. The 2016 rules encourage this use of funds. While the statute and rules do not speak to compensation directly other than the connection to career progressions, there are ways to build compensation into the way in which providers receive grants.

STATE INNOVATIONS

Expanding T.E.A.C.H. and WAGES Program: Many states used ARPA funds to expand T.E.A.C.H. Early Childhood® and Child Care WAGE$®, and other state programs offering financial assistance to early childhood educators to work on degrees and credentials, and other strategies. Given the difficulties in recruiting and retaining staff, many states used their ARPA funds for signing and other bonuses to improve compensation. Below are examples of states that are using an enhanced payment strategy or other types of grants that require a portion or the entirety to be directed to staff compensation.

Making Grants Available to Providers that Address Compensation

ILLINOIS Strengthen and Grow grants are focused on creating greater equity in resources to compensate staff in licensed centers or family child care, and relative care providers who operate at least nine hours a day, five days a week for a full year. For a program to be eligible, a provider must show that at least 10 percent of the children receive the child care subsidy, and as much as 75 percent of the provider's total revenue is from the state preschool program, or Head Start/Early Head Start. Family child care homes can receive up to $10,000 per program per year, group family child care homes up to $15,000 per program year and centers up to $25,000 per classroom year. A program that receives these funds must spend at minimum half (50 percent) of the award each quarter on "new" compensation and the other half (50 percent) on investments in professional development, the child care environment, or education programming as well, and needs to respond to the ongoing COVID-19 pandemic.

MINNESOTA used Stabilization funds to create Stabilization Base Grants with the requirement that the provider "must use at least 70 percent of base grant awards…to provide increased compensation, benefits, or premium pay to all paid employees, sole proprietors or independent contractors regularly caring for children…and may request a waiver from this requirement if they cannot…due to restrictions included in agreements with employee bargaining units, or if the program or if facing unusual and significant financial hardship." **https://www.revisor.mn.gov/laws/2021/1/Session+Law/Chapter/7/**

NORTH CAROLINA offered **two compensation improvement approaches**. Under Option 1 of the Compensation Support Grants, providers must use additional funds for bonuses for all the staff. Under Option 2, the eligible and approved early childhood providers must add or increase benefits or increase base pay implementing a compensation scale that "ideally is based on education, length of service, and job responsibilities." NCDHHS used the Quality Rating and Improvement System (QRIS) rating and a pay parity model with K-12 to proportion greater funding to Option 2 than Option 1.

CONNECTICUT used stabilization funds for compensation increases. Using a formula based on equity to determine the amount, the Office of Early Childhood created a simple application for centers and family child care providers. Providers must "opt in" to using 25 percent of the funding for staff compensation increases or otherwise receive just 75 percent of the total funding for which they were eligible.

Lessons Learned and Longer-Term Systems Implications

A set of themes emerged from speaking with this wide array of state administrators responsible for child care policy during the challenging COVID years.

WHAT HELPED?

- **Federal rules that explicitly allowed states flexibility** to waive copayments, pay for child care without regard to eligibility, and offer foundational grant support to all child care providers in the state gave states a chance to think outside the CCDBG box.
- States said that the **Preschool Development Birth Through Five Grants helped** them better understand the landscape of early childhood education from the perspective of families, programs, and the workforce and to build systemically as well as pilot new approaches. "Federal funds to help with system building are so valuable," said Georgia Mjartan, the Executive Director of South Carolina First Steps. States also used them to hire contractors to help them get the work done faster. These grants, however, are time-limited and small compared to CCDBG, which has limitations on use of funds for administration.
- Federal rules that allowed states **more resources for administration** were helpful in a time when the child care budget grew exponentially bigger than there were staff on hand to manage it. Some states also benefited from **partnership and aligned investment from philanthropic partners who could move faster than the government**. For example, foundations provided seed money, hired consultants to assist state leaders, or supported technical assistance to link providers to federal Paycheck Protection Program loans.
- During the pandemic, **pressure came from outside of government which made innovation and new investment more politically feasible**. The focus on child care in the media, among parents and for employers unable to hire staff, moved child care to the top of the policy agenda in many states. Although some state agencies worked at cross-purposes (see challenges next), one state noted that "Silos between agencies got softer. Covid made us come together."
- The recognition of inequities in the impact of the pandemic and the racial justice movement that gained traction in 2020 had an impact on child care policy and pandemic response. **Some states developed formulas** for distributing funds that considered inequities in resources among providers and communities.
- Several states had to find **creative ways to support in-home care for families with non-traditional hours and other special needs** due to federal limitations on using ARP for unlicensed providers. Illinois did some activities using administrative dollars. Oklahoma targeted information technology funds to build **an online program for parents to pay relatives** to take care of their children with child care assistance funds.

WHAT IS CHALLENGING?

Some states expressed overarching concerns about the uncertainty of maintaining the additional ARPA federal funds beyond the liquidation date. Other challenges required some workarounds. For example,

- **Not knowing if additional federal funding would be allocated** impeded some states from taking bold actions to fully address compensation and raise rates. Instead, states required providers accepting relief grants to provide assurances that certain percentages of the grants would prop up salaries or offered higher funds to those who agreed to do so. Other states provided bonuses directly to the workforce. Some states were hesitant to use the funding to raise wages. As one state said, "If we could show research on the impact of wage supplements [to the legislature], this might make the case for policy change."
- **State child care information technology systems** are archaic. Several leaders said their systems limit how they could change policies. For example, one state said it is not possible to fully waive copayments without at least charging a dollar a month. Another said the current system would not allow them to implement a tiered payment rate system.
- **Lack of an infrastructure to reach providers** to deliver relief funds was a major barrier at the start of the pandemic. Another was the lack of banking relationships or sound budgeting practice for many home-based or small center providers. Some states repurposed existing institutions (e.g., workforce registries) to respond to the need or had to stand up new ones.
- **State rules requiring legislative action** in some cases slowed down policy decisions and distribution of relief funds.
- **Divisions among state agencies** in how they viewed the opportunity presented by the relief funds slowed innovation.
- **State procurement rules** often slow down the distribution of the dollars. Several states chose to fund all providers or all licensed providers instead of competitive contracts to avoid cumbersome processes. Even with the ARPA funds, one state said it couldn't get to all the changes it wanted to make (new IT system for the registry) because of the slow procurement process.
- **The federal CCDBG rule that 70 percent of state block grants must go to direct services tied to child eligibility is limiting innovation and the capacity of state administrators to offer foundational stabilization grants from that funding stream.** This structure limits the ability for states to make grants to cover fixed costs and boost compensation. For example, when most of the children in care are not subsidy eligible, the amount the state can provide is not sufficient to sustain providers to keep their doors open.

Finding: Even with Flexibility, Growing Funding Is Essential

Since the pandemic hit, state child care and early learning administrators have been racing to respond to the needs in their states and to determine how best to use federal relief dollars. Some had hoped that Congress would have made additional investments in child care by now. Without federal resources, good progress may be lost. One leader said, "Yes, it makes sense to point out there are areas of flexibility in CCDBG, but there is nowhere near enough in the program to sustain the programs we stood up in the last two years, and the field still needs support." In the meantime, some political leaders have responded to growing pressure by stakeholders, ranging from providers and parents to business leaders, to raise revenue within the state.

In **CONNECTICUT**, **providers and advocates** organized a statewide **"Morning without Child Care"** to communicate how close the sector was to collapse, and the impact that would have on families and the economy. It received widespread media attention. Thousands of letters poured into the capitol. In the end, the legislature allocated $180 million new state general revenue funds and one-time ARP funds to child care.

The **NEW MEXICO** legislature voted to create an Early Childhood Trust Fund using $320 million in state revenue in 2020, just before the pandemic hit. Funds from the Trust began to generate new resources for early childhood in 2022. New Mexico voters overwhelmingly approved a ballot initiative in November 2022 that will apportion $150 million a year from an existing Land Grant Fund (paid into by oil and gas companies that operate in the state) to be used for child care and early education. Organizers and advocates have been working toward this public referendum for over a decade.

The Governor of **NORTH DAKOTA** **announced** in September 2022 that he sought to partner with the state legislature to increase investment in child care to make it less of a barrier to workforce participation, which has actually become worse in some areas of the state over the last year. The plan to raise affordability, availability, and quality emerged after a 14-month process led by the state agency in partnership with child care providers, the business community, the Workforce Development Council, state legislators, and other stakeholders. The plan cost would be between $70-80 million and will be introduced in the 2023 legislative session. Among other goals, the state agency hopes to be able to expand eligibility to 100 percent of SMI with state funds.

Conclusion

This paper set out to demonstrate that many of the changes made to child care policy during the COVID-19 crisis could be made permanent. We found that while many of the positive changes are indeed allowable under federal rules, the lack of sufficient public funding and some specific provisions in the CCDBG rules are barriers that cannot be ignored.

Regarding public funding, there is no doubt that COVID-19 pandemic relief funds were essential to keeping many child care programs from shuttering across the country. According to the Administration for Children and Families, 8 in 10 licensed child care programs – over 200,000 providers - received financial awards. However, those funds are time limited, and included separate requirements from the longstanding rules of the CCDBG. Most importantly, those dollars could be used to fund programs directly, cover the actual costs of providing care, and to boost wages and benefits if possible. Also, the ARPA Child Care Stabilization grant dwarfed previous federal funding levels for child care.

All states likely face a gap between what they have been able to do and the public funding available to sustain that progress.

On policy innovation, the state examples included here demonstrate that – with the right mission and resources - states can address some of the most challenging systemic problems that continue to plague the child care system. Expanding the reach of subsidy to better support families, reducing the burden of copayments, paying providers based on their true expenses to provide quality care, and increasing compensation are possible. Many of these innovations are currently allowable under federal CCDBG rules, but not all. The innovations shared in this paper offer frameworks for states considering how to transform their systems to better stabilize the sector. While most other sectors have recovered, the number of child care providers remains 8.4 percent below levels before the pandemic. There is no doubt that many of the improvements depend on replacement of ARPA funds with an increase in CCDBG or some other federal child care funding stream. In the meantime, states may need to find ways to use their general funds or tap new ones, like in New Mexico, to fill in part of the cliff that will occur when the last ARPA dollar is spent. Regardless, all states likely face a gap between what they have been able to do and the public funding available to sustain that progress.

Resources

States are continuing to report how they used their ARPA and other funds. Here are a few resources.

Administration for Children and Families, US Department of Health and Human Services
The Office of Child Care (OCC) maintains a **central web page** to locate resources related to use of federal ARPA funding for Stabilization. This includes **state-by-state fact sheets** on use of the funds and reach to centers and family child care homes to the county level.

BUILD Initiative
Improving Child Care Compensation Backgrounder 2021

Center for the Study of Child Care Employment
Center for the Study of Child Care Employment (2021). **Database: Strategies to Use Public Funds to Address Compensation and Financial Relief for the Early Care and Education Workforce**. Berkeley, CA: Center for the Study of Child Care Employment, University of California, Berkeley.

Child Care Aware of America
State Tracker ARPA Implementation

State leaders and advocates can point to the Regulatory Language in these sections to make the case for policies described in the paper.

State Decision Areas	Child Care and Development Fund Regulation Language 45 CFR Part 98 (unless otherwise stated)
Making More Families Eligible for Child Care Assistance	
Income Eligibility and Length of Eligibility	**§ 98.20** **(a)(2)(i)** A child is eligible at determination and redetermination who "Resides with a family whose income does not exceed 85 percent of the State's median income (SMI), which must be based on the most recent SMI data that is published by the Bureau of the Census, for a family of the same size; and (ii) Whose family assets do not exceed $1,000,000 (as certified by such family member); and (3)(i) Reside with a parent or parents who are working or attending a job training or educational program; **or** (ii) Receive, or need to receive, protective services, **which may include specific populations of vulnerable children as identified by the Lead Agency**, **§ 98.21 Eligibility determination processes.** (a) A Lead Agency shall re-determine a child's eligibility for child care services no sooner than 12 months following the initial determination or most recent redetermination, subject to the following: (1) During the period of time between determinations or redeterminations, if the child met all of the requirements in § 98.20(a) on the date of the most recent eligibility determination or redetermination, the child shall be considered eligible and will receive services at least at the same level regardless of: (i) A change in family income, if that income does not exceed 85 percent of SMI for a family of the same size; or (ii) A temporary change in the ongoing status of the child's parent as working or attending a job training or educational program.

State Decision Areas	Child Care and Development Fund Regulation Language 45 CFR Part 98 (unless otherwise stated)
Priority and Categorical Eligibility	**§ 98.20 (a)(iii)** (B) A grantee or other administering agency may establish eligibility conditions or priority rules in addition to those specified in this section and § 98.46, which shall be described in the Plan pursuant to § 98.16(i)(5), so long as they do not… (4) Impact eligibility other than at the time of eligibility determination or redetermination. **§ 98.46 Priority for child care services.** (a) Lead Agencies shall give priority for services provided under § 98.50(a) to: (1) Children of families with very low family income (considering family size); (2) Children with special needs, which may include any vulnerable populations as defined by the Lead Agency; and (3) Children experiencing homelessness. (b) Lead Agencies shall prioritize increasing access to high-quality child care and development services for children of families in areas that have significant concentrations of poverty and unemployment and that do not have a sufficient number of such programs.
Definition of working, attending, and job training or education	**§ 98.21 (g)** Lead Agencies are not required to limit authorized child care services strictly based on the work, training, or educational schedule of the parent(s) or the number of hours the parent(s) spend in work, training, or educational activities.
Take into account child development	**§ 98.21 (f)** Lead Agencies must take into consideration children's development and learning and promote continuity of care when authorizing child care services.
Pay Child Care Providers to Build Their Stability and Based on The Actual Cost of Care	
Alternative methodology to set payment rates - a cost estimation model	**§ 98.45 (c)** The State must demonstrate in the Plan that it has developed and conducted, not earlier than two years before the date of the submission of the Plan, either: (1) A statistically valid and reliable survey of the market rates for child care services; or (2) An alternative methodology, such as a cost estimation model, that has been: (i) Proposed by the Lead Agency; and (ii) Approved in advance by ACF.

State Decision Areas	Child Care and Development Fund Regulation Language 45 CFR Part 98 (unless otherwise stated)
Differential rates and methods to build supply of types of care	**§ 98.16 (x)** A description of the Lead Agency's strategies (which may include alternative payment rates to child care providers, the provision of direct grants or contracts, offering child care certificates, or other means) to increase the supply and improve the quality of child care services for children in underserved areas, infants and toddlers, children with disabilities as defined by the Lead Agency, and children who receive care during nontraditional hours, including whether the Lead Agency plans to use grants and contracts in building supply and how supply-building mechanisms will address the needs identified.
Payment Practices that match the private market, which may include paying based on enrollment, paying prospectively, **paying in a timely manner.**	**§ 98.45(l)** The Lead Agency shall demonstrate in the Plan that it has established payment practices applicable to all CCDF child care providers that: (1) Ensure timeliness of payment by either: (i) Paying prospectively prior to the delivery of services; or (ii) Paying within no more than 21 calendar days of the receipt of a complete invoice for services. (2) To the extent practicable, support the fixed costs of providing child care services by delinking provider payments from a child's occasional absences by: (i) Paying based on a child's enrollment rather than attendance; (ii) Providing full payment if a child attends at least 85 percent of the authorized time; (iii) Providing full payment if a child is absent for five or fewer days in a month; or (iv) An alternative approach for which the Lead Agency provides a justification in its Plan. (3) Reflect generally accepted payment practices of child care providers that serve children who do not receive CCDF subsidies, which must include (unless the Lead Agency provides evidence in the Plan that such practices are not generally accepted in the State or service area): (i) Paying on a part-time or full-time basis (rather than paying for hours of service or smaller increments of time); and (ii) Paying for reasonable mandatory registration fees that the provider charges to private-paying parents. (4) Ensure child care providers receive payment for any services in accordance with a written payment agreement or authorization for services that includes, at a minimum, information regarding provider payment policies, including rates, schedules, any fees charged to providers, and the dispute resolution process required by paragraph (l)(6); (5) Ensure child care providers receive prompt notice of changes to a family's eligibility status that may impact payment, and that such notice is sent to providers no later than the day the Lead Agency becomes aware that such a change will occur; (6) Include timely appeal and resolution processes for any payment inaccuracies and disputes.

State Decision Areas	Child Care and Development Fund Regulation Language 45 CFR Part 98 (unless otherwise stated)
Use of grants or contracts	**Sec. 658 E (c) 2** of the CCDBG Act states: “The State plan shall- (A) Parental choice of providers -Provide assurances that- (i) the parent or parents of each eligible child within the State who receives or is offered child care services for which financial assistance is provided under this subchapter, are given the option either- (I) to enroll such child with a child care provider that has a grant or contract for the provision of such services; or (II) to receive a child care certificate.”

State Decision Areas	Child Care and Development Fund Regulation Language 45 CFR Part 98 (unless otherwise stated)
	Reducing the Burden of Family Copayments
Copayment - **Waiving at State Option**	***Preamble*** This final rule provides more flexibility in areas that were not addressed by the reauthorized Act. For example, it allows Lead Agencies to establish their own criteria for waiving copays, gives flexibility to waive income and work requirements for vulnerable children, and provides the option for alternative monitoring strategies for in-home providers. Preamble: Parent fees. Section 658E(c)(5) requires Lead Agencies to establish and periodically revise a sliding fee scale that provides for cost-sharing for families receiving CCDF funds. The reauthorization added language that cost-sharing should not be a barrier to families receiving CCDF assistance. In this final rule, we have moved the regulatory language on sliding fee scales (previously § 98.42) under the equal access section (§ 98.45), recognizing affordable co-payments as an important aspect of equal access. The final rule amends the previous regulatory language, now § 98.45(k), by adding language that the cost-sharing should not be a barrier to families receiving assistance. Further, the final rule provides that Lead Agencies may not use the cost, price of care, or subsidy payment rate as a factor in setting co-payment amounts. In addition to allowing Lead Agencies to waive copayments for families below poverty and children that receive or need to receive protective services (as allowed under prior regulation), the final rule also allows Lead Agencies to waive contributions from families that meet other criteria established by the Lead Agency. **§ 98.16** Plan provisions. A CCDF Plan shall contain the following: (k) A description of the sliding fee scale(s) (including any factors other than income and family size used in establishing the fee scale(s)) that provide(s) for cost-sharing by the families that receive child care services for which assistance is provided under the CCDF and how co-payments are affordable for families, pursuant to § 98.45(k). This shall include a description of the criteria established by the Lead Agency, if any, for waiving contributions for families. **§ 98.45 Equal access.** (b) The Lead Agency shall provide in the Plan a summary of the data and facts relied on to determine that its payment rates ensure equal access. At a minimum, the summary shall include facts showing: {5) How co-payments based on a sliding fee scale are affordable, as stipulated at paragraph (k) of this section; if applicable, a rationale for the Lead Agency's policy on whether child care providers may charge additional amounts to families above the required family co-payment, including a demonstration that the policy promotes affordability and access; analysis of the interaction between any such additional amounts with the required family copayments, and of the ability of subsidy payment rates to provide access to care without additional fees; and data on the extent

State Decision Areas	Child Care and Development Fund Regulation Language 45 CFR Part 98 (unless otherwise stated)
Copayment - **Waiving at State Option**	to which CCDF providers charge such additional amounts to families (based on information obtained in accordance with paragraph (d)(2) of this section); and (k) Lead Agencies shall establish, and periodically revise, by rule, a sliding fee scale(s) for families that receive CCDF child care services that: (1) Help families afford child care and enable choice of a range of child care options; (2) Are based on income and the size of the family and may be based on other factors as appropriate, but may not be based on the cost of care or amount of subsidy payment; (3) Provide for affordable family copayments that are not a barrier to families receiving assistance under this part; and (4) At Lead Agency discretion, allows for co-payments to be waived for families whose incomes are at or below the poverty level for a family of the same size, that have children who receive or need to receive protective services, or that meet other criteria established by the Lead Agency.
Workforce Compensation	Preamble Comment: We received comments from a child care worker organization requesting the addition of “higher compensation” as a strategy in several subsections of § 98.16. Response: The final rule includes compensation improvements in the goals and purposes section and in the professional development and training sections. We agree that in raising standards, Lead Agencies should consider multiple strategies for raising compensation commensurate with caregivers, teachers, and directors attaining higher level credentials and education to retain highly knowledgeable and skilled educators and leaders. We also encourage Lead Agencies to consider strategies throughout the Plan that can bolster compensation, such as setting reimbursement rates, building the supply of quality child care, and using the quality set-aside dollars specifically to improve compensation in a field that remains undercompensated even when earning higher education and credentials comparable to their counterparts in the public education system. **§ 98.44** Training and professional development. (a) The Lead Agency must describe in the Plan the State or Territory framework for training, professional development, and postsecondary education for caregivers, teachers, and directors, including those working in school-age care, that: (7) Improves the quality, diversity, stability, and retention (including financial incentives and compensation improvements) of caregivers, teachers, and directors.

References

04.02.01 - Copayments. IDHS. (n.d.). Retrieved December 12, 2022, from **https://www.dhs.state.il.us/page.aspx?item=54862**

Child care and development fund (CCDF). Connecticut Office of Early Childhood. (n.d.). Retrieved December 12, 2022, from **https://www.ctoec.org/ccdf/**

The New Mexico Child Care and Development Fund (CCDF) state plan for 2022-2024. Early Childhood Education Care Department. (n.d.). Retrieved December 12, 2022, from **https://www.nmececd.org/2021/03/05/ccdfsessions/**

Schulman, K. (2022, June 8). *At the Crossroads: State Child Care Assistance Policies 2021*. National Women's Law Center. Retrieved December 12, 2022, from **https://nwlc.org/resource/at-the-crossroads-state-child-care-assistance-policies-2021/**

Workman, S. (2021, November 9). *The true cost of high-quality child care across the United States*. Center for American Progress. Retrieved December 12, 2022, from **https://www.americanprogress.org/article/true-co**

Acknowledgments

The BUILD Initiative thanks Ballmer Group for supporting the research and development of this report. BUILD also thanks the state leaders interviewed for their time and contributions to this paper. Finally, BUILD thanks Rachel Schumacher, Early Childhood Policy Consultant and Advisor, and Adele Robinson, for their work in framing this research.