$40 BILLION IN ARPA FUNDING RESULTS IN MAJOR IMPROVEMENTS TO STATE CHILD CARE INFRASTRUCTURE

On March 11, President Joe Biden signed the American Rescue Plan Act (ARPA, P.L. 117-2) into law. It provided more than $40 billion in funding for the Child Care and Development Fund (CCDF) program. From expanding child care access for families to providing support for child care providers, states have channeled this temporary funding into innovative and well-needed investments in their early care and education systems. While many states have thought creatively and strategically about these funds, there is one problem they cannot get around: ARPA funding is one-time and time-limited. **Without a significant expansion of dedicated CCDF funding, these initiatives must be scaled back or ended entirely by or before 2024.**

The current Democratic budget reconciliation package, the Build Back Better Act, includes $400 billion in funding for two new entitlement programs—one for child care that is available to children ages birth through five, and another for pre-k that is available to children ages three through five. In order to receive the funding, **states must opt in** to one or both of these entitlement programs—the funds do not flow to states automatically. Without state action, children and families will lose the benefit of changes made by ARPA. The success of ARPA was dependent on strong state participation and use of the funds in ways that helped both families and providers.

We strongly urge Congress to pass the Build Back Better Act, with robust resources for child care. We also urge states to opt into the child care entitlement and implement a system that will improve access to high-quality, affordable early education.

How exactly have states utilized the ARPA funding? Below are some highlights:

EXPANDING CHILD CARE ACCESS

Prior to the pandemic, child care financial assistance was not sufficient to meet the needs of most hard-working families. Early on, states used child care funding provided by the Coronavirus Aid, Relief, and Economic Security (CARES) Act to expand eligibility to essential workers, but now states are taking action to allow more families in need to access financial assistance. Such measures include:

Increasing Income eligibility:

Many states have raised the income threshold for families to qualify for child care assistance:

- **Idaho** raised income eligibility from 130 to 145% of the Federal Poverty Line (FPL).
  Michigan raised eligibility from 150 to 185% of FPL through September 2023. **Illinois** expanded eligibility from 225 to 250% of FPL.
- **Virginia** and **Georgia** expanded eligibility to 85% of State Median Income (SMI). For Georgia in particular, this will enable an additional 10,000 children to be served until October 2024.
- **New Jersey** made tuition assistance available to families with incomes up to $150,000.

Reducing or Waiving Family Copays:

Copays can be a barrier for low-income families trying to access high-quality care. Some states lowered copays drastically, from $1 per day in **Arizona** to $1 per month in **Illinois** for families at or below the poverty line. **Oregon** eliminated copays for families below the poverty line beginning October 1, 2021. Other states have completely waived copayments for eligible families through the end of 2021 (**Louisiana, Alabama, Virginia, Massachusetts**), into 2022 (**North Carolina, Georgia, Indiana, Michigan, Oklahoma, California, Missouri**), and even into 2023 (**New Jersey, North Dakota**).

Expanding Financial Assistance to More Families in Need:

While many states continue to cover child care costs for essential workers, others such as **Kansas, Virginia, North Dakota** and **Illinois** now allow parents seeking work to be eligible for financial assistance as well. Meanwhile, **Texas** is allowing anyone who works in the service industry (arts, entertainment, recreation, food service, retail, and lodging) to qualify for 12 months of free child care.

IMPROVING SUBSIDY INFRASTRUCTURE

For years, low reimbursement rates and unreliable funding streams have made it difficult for providers to serve families requiring subsidy assistance, ultimately limiting child care options for families in need. Before the pandemic, fewer than 1 in 6 families eligible for child care financial assistance utilized it, in part due to a lack of participating high-quality providers. Providers that do participate are often forced to raise fees disproportionately for non-subsidized families as a result.

Through ARPA, states have tackled these issues head-on by:

Covering Absent Days:

Unlike public schools, child care subsidies are often paid based on a child's attendance. This means when a child is absent, the provider may not get paid even though costs of caring for that child (facility, staffing, etc.) remain. As a result, some states began to cover days a child is absent:

- **Oklahoma** will pay for 5 additional absent days through the 2022 school year, while **Ohio** added ten more absent days per 6-month period.
- **Missouri** is paying for all absent days through the end of this year, while **Massachusetts** will pay absent days through June of 2022.
- **Illinois** lowered the threshold to receive a full coverage for absences from 80% down to 70%.

Paying Based on Enrollment:

Attendance-based payment systems for child care subsidy result in revenue gaps that make it difficult for providers to serve low-income families. Paying based on enrollment reduces these gaps and expands high-quality options for qualifying families. States such as **California, Colorado, Michigan, New Jersey** and **Nevada** are all temporarily paying on enrollment instead of attendance.

Increasing Provider Reimbursement

Reimbursement rates directly influence how many subsidy-using families a provider can accommodate. In addition, increasing rates plays a significant role in boosting child care wages. States have improved reimbursement policies in a number of ways, including:

- **Temporarily Raising Rates:** Rates have been raised temporarily in a variety of states, from a 10% increase in **New Hampshire** and **Tennessee** to a 20% increase in **Indiana** through March 2022. **Mississippi** increased rates by 25%. In **Michigan**, rates will increase an additional 50% for 6 months, 40% for the following 6 months, and 30% until the funds are used up.
- **Committing to Multi-year Increases:** Announcing multi-year rate increases helps providers plan financially so they are prepared to take on more families utilizing subsidy. **Colorado** and **Minnesota** will be increasing rates by 5% for the next two years, and **New Jersey** will pay an additional $300 per month per child until the end of 2023. **Georgia** announced a rate increase of 15% in all categories until 2024.
- **Aligning with or Exceeding the Federally Recommended Rate**: The current federally recommended reimbursement rate is the 75th percentile of current market rates. At least four states have recently announced a shift to meet or exceed this rate, including **Delaware, Montana, Utah** and **Washington**.
- **Reimbursing for the Cost of Quality Care:** Nearly all states still use market rate surveys to set their reimbursement rates. Unfortunately, these surveys focus more on what parents pay rather than the true cost of providing quality care, which is often significantly higher. In July, **New Mexico** became the first state in the country to tie reimbursement rates to the true cost of quality care, rather than using a market rate survey.
- **Expanding Contracted Slots:** States are recognizing the importance of dedicated, reliable funding for the child care system. One way to do this is by providing grants or contracts to providers that allow them to be paid regardless of a child's attendance. **Michigan** recently allocated $36.5 million to contract with providers who care for infants and toddlers. Through contracts — as opposed to biweekly reimbursements — the state can provide more stable funding.

INVESTING IN THE CHILD CARE WORKFORCE

Low wages and demanding work have resulted in a major workforce shortage in the child care sector. For many child care providers, the biggest barrier to reopening or using available space is the challenge of finding qualified staff. In many cases, existing classrooms remain closed due to a lack of qualified staff, limiting child care options for families. While providers are eager to raise wages to recruit and retain qualified staff, this would require increased fees for families who are already struggling to find affordable care, absent dedicated federal or state funding.

Fortunately, some states have stepped up their investments into the child care workforce through:

Bonus Pay:

Many states found ways to immediately invest in the child care workforce by providing bonus pay to the child care workforce:

- **Wisconsin** started a Workforce and Recognition Stipend program that offered a stipend of at least $350 for staff.
- **Pennsylvania** provided $600 in pandemic relief awards to eligible child care employees throughout the state.
- **Illinois, Michigan**, and **Georgia** have all announced $1,000 payments to the child care workforce, with Georgia providing an additional two rounds of payments in 2022.
- **Ohio**'s Hero Pay program will provide $1,200 to child care employees, divided over 4 quarters.
- **New Jersey** announced $1,000 payments alongside $1,000 recruitment bonuses for newly hired staff.
- **New Mexico** is providing $1,500 to child care workers across the state.

Wage Enhancement:

Some states have put one-time funding toward ongoing wage enhancements for child care workers. **Idaho** has been providing wage enhancement grants of $300 per month per employee for eligible providers. Other states such as **Iowa** are expanding nationally recognized wage enhancement programs such as T.E.A.C.H. and WAGE$.

Professional Development Support

A few states have put one-time funding toward professional development by offering scholarships for child care educators. **New Mexico** provided scholarships for credentials including AAs, BAs and MAs for the child care workforce alongside its wage supplement program, and **Colorado** announced Child Development Association (CDA) Credential Scholarships, which will cover training costs and assessment fees for new CDA candidates and cover assessment fees for renewal candidates. **Illinois** announced a $200 million investment of federal funds in additional training, mentorships, and scholarships to pursue advanced credentials for the childcare workforce over the next two years.

FACILITATING SAFE, HIGH-QUALITY CHILD CARE

The cost of maintaining safety and quality standards has always been high, but these costs have skyrocketed during the pandemic. These cost burdens make it difficult to maintain operations in a time of low enrollment, forcing providers to choose between closure, scaling back on quality, or raising family fees. States have helped alleviate this burden in the following ways:

Providing Ongoing Testing and Vaccination Support

In the beginning of the pandemic, most states utilized funding from the CARES Act to provide direct support to help child care providers maintain safe environments, including distributing or reimbursing for personal protective equipment (PPE) and sanitation supplies. As the pandemic continues, some states have used their one-time funding to support providers with Covid-19 testing and vaccination for child care employees, which can be costly for providers:

- **Massachusetts** set up 8 no-cost, drive-through Covid-19 testing sites exclusively for child care workers and their household members throughout the state.
- **Colorado** and **Rhode Island** are providing testing kits, per employee, to child care providers. This will help facilitate rapid-testing onsite or at home, thereby reducing operating disruptions from breakthrough cases or outbreaks.
- The **Kansas** Department of Health and Environment (KDHE) is partnering with Battelle – a leader in the field of science and tech – to provide rapid, self-delivered Covid-19 tests to all licensed child care providers in the state.
- **Florida** is covering costs for absences due to closures as a result of exposure. Providers can now be reimbursed an additional 10 days to cover quarantine periods.

Covering Administration Costs

During the pandemic, as child care providers have struggled financially, regular administrative expenses have also become a heavier burden. States like **Connecticut** used one-time funding to pay NAEYC and NAFCC accreditation fees to help providers maintain quality, while other states like **Montana** began paying for all background checks for the child care workforce.