EXPIRATION OF COVID-19 FUNDING THREATENS STATE CHILD CARE INFRASTRUCTURE, FAMILY SUPPORT AND BUSINESS WORKFORCE

Between 2020 and 2021, Congress provided $52.5 billion in COVID-19 relief funding for the Child Care and Development Fund (CCDF) program. A majority of this funding must be spent by September 30, 2023.

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: pandemic-era funding is one-time and time-limited. Specifically, stabilization funding must be spent by September 2023 and pandemic-era discretionary funding must be spent by September 2024. Some states have begun to use alternative sources of funding to make specific policies permanent or extend their duration. However, without a significant expansion of dedicated annual CCDF funding, many of these initiatives will have to be scaled back or ended entirely by or before next year's deadline.

We strongly urge Congress to pass a fiscal year 2024 (FY24) appropriations package with robust funding for the Child Care and Development Block Grant (CCDBG), which will enable states to continue and build on the innovative and impactful programmatic improvements funded through pandemic-era dollars. We also encourage Congress to pass legislation to improve and expand child care tax credits such as the Child and Dependent Care Tax Credit (CDCTC) and the employer-provided child care credit (Sec. 45F), as well as legislation to support the child care workforce and build supply in underserved areas.

Further, we encourage states to consider continuing or expanding investments and policies that have increased child care access and affordability, helped recruit, support and retain the child care workforce, and maintained and improved the quality and safety of child care settings.

How exactly have states utilized the pandemic-era funding? Below are some highlights:

***Some of the policy changes and investments below were made entirely with pandemic-era funding, some were made partly with pandemic-era funding, and some were made possible with state revenues or other funding sources, particularly as pandemic-era funds helped to cover other early care and education costs.**

EXPANDING CHILD CARE ACCESS

Prior to the pandemic, and still today, child care financial assistance is insufficient 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 since then, states have taken actions to enable more families in need to access financial assistance. Multiple examples are included below:

MANY STATES HAVE RAISED THE INCOME THRESHOLD FOR FAMILIES TO QUALIFY FOR CHILD CARE ASSISTANCE:

- Georgia expanded eligibility to 85% of State Median Income (SMI). This will enable an additional 10,000 children to be served in the state until October 2024.
- Idaho raised income eligibility from 130 to 145% of the Federal Poverty Line (FPL).
- Illinois raised entrance eligibility to 225% of FPL and exit eligibility to 275% of FPL.
- Iowa raised income eligibility for those initially applying to the Child Care Assistance (CCA) program from 145% of FPL to 155% of FPL.
- Indiana raised initial family income eligibility for CCDF and On My Way Pre-K (OMWPK) from 127% of FPL to 150% of FPL in July 2023.
- Michigan raised income eligibility from 150 to 185% of FPL through September 2023. This policy will be made permanent through increased CCDBG allocations following FY23.
- Nevada expanded its child care subsidy program in July 2022 to families making between $60,000 and $70,000 per year for a household of four, nearly double the previous income threshold.

Child Care Facilities Construction and Renovation

Some states have distributed funding to child care providers to construct new sites and/or to renovate and upgrade existing facilities in order to expand the availability of high-quality early learning environments.

Michigan is distributing $50 million to new and expanding child care providers across the state to enable them to renovate and upgrade their facilities to accommodate additional child care slots, especially in geographic areas with limited providers. **New Jersey** is providing grants to providers that will cover projects between $50,000 and $200,000 for specific interior and exterior improvements to their facilities. **California** is providing $150 million in grants to providers for new construction and major renovation of child care programs. **California** is also providing $200.5 million in grants to providers for minor construction, renovations, and repairs to address health and safety concerns.

The **Texas** Workforce Commission is accepting applications until November 30, 2023 for the Child Care Expansion Initiative. Under the initiative, the Commission is providing funding to new and existing center- and home-based child care providers who are expanding their child care businesses. The funding can be used to offset operation costs incurred during startup and/or the first few months of opening or expanding.

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 (this policy has been made permanent in Illinois). Oregon eliminated copays for families below the poverty line beginning October 1, 2021.

Other states completely waived copayments for eligible families through the end of 2021 (Alabama, Louisiana), into 2022 (Georgia, Indiana, Massachusetts, Missouri, North Carolina, Oklahoma), through the end of 2022 (Virginia), into 2023 (Michigan, North Dakota), and into 2024 (New Jersey, through June 30, 2024).

California will waive co-pays ("family fees") through September 2023. After this time, families with incomes below 75% of SMI will not be charged fees. Families with incomes between 75% and 85% of SMI will pay no more than 1% of their monthly income on fees.

Oklahoma waived copayments for all families who receive subsidies from April 2020 through June 2023.

EXPANDING FINANCIAL ASSISTANCE TO MORE FAMILIES IN NEED:

While some states continue to cover child care costs for essential workers, others, including Illinois, Kansas, North Dakota and Virginia, began to allow parents seeking work to be eligible for financial assistance as well. Illinois and Virginia will continue this policy through FY24.

Meanwhile, Texas allowed anyone who works in the service industry (arts, entertainment, recreation, food service, retail, and lodging) to qualify for a period of 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 of the low reimbursement rates.

Through pandemic-era funds, states have tackled these issues head-on by:

COVERING ABSENT DAYS:

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

- Illinois lowered the threshold to receive full coverage for absences from 80% to 70%.
- Iowa is using pandemic-era funding to increase the number of monthly absent days for its Child Care Assistance (CCA) program from 4 to 6 through September 30, 2024.
- Missouri is paying for all absent days through the end of this year, while Massachusetts paid for absent days through June of 2022.
- Oklahoma paid for 5 additional absent days through the 2022 school year, while Ohio added 10 more absent days per 6-month period, bringing the total number of paid absent days to 20.

PAYING BASED ON ENROLLMENT:

Attendance-based payment systems for child care subsidy result in revenue gaps that make it difficult for providers to cover the full cost of care and serve low-income families. Paying based on enrollment helps reduce these gaps and expands high-quality options for qualifying families. States such as Nevada and Washington temporarily paid based on enrollment instead of attendance. California is considering a two-year extension of this policy, and New Jersey has extended this policy through June 30, 2024. Colorado and Michigan have made the policy permanent after initiating it during the pandemic.

INCREASING PROVIDER REIMBURSEMENT

Reimbursement rates directly influence how many subsidy-using families a provider can serve. 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 or Permanently Raising Rates:

Rates have been raised temporarily in a variety of states, from a 10% increase in **Tennessee** from August 1, 2022 through December 31, 2022, to a 20% increase in **Indiana**, which will continue until the state implements a permanent cost-based rate model in August 2023. **Mississippi** temporarily increased rates by 25% through the end of 2021, while **New Hampshire** permanently raised its rates by 10%. **Michigan** permanently increased the base rate for subsidized child care providers by 40% over several years and also provided additional temporary rate increases. In **Illinois**, rates were raised multiple times during the pandemic, and these changes have been made permanent. **Washington** increased rates by 16% for FY23, then increased rates to the 85th percentile (and in several regions and age groups, above the 85th) of the 2021 market rate survey for FY24 and FY25.

Committing to Multi-year Increases:

Announcing multi-year rate increases helps providers plan financially and serve more families using subsidy. **Colorado** and **Minnesota** increased rates by 5% in each of the last two years, with **Colorado** reaching between the 75th and 90th percentile for the highest-level providers, and between the 25th and 50th for the lowest. **Minnesota** raised base rates to the 75th percentile during the last legislative session. **New Jersey** will provide an additional per month per child subsidy payment of up to $300 to providers through June 2024. **Georgia** announced a rate increase of 15% in all categories until 2024. **California** is investing close to $1.4 billion over two years (FY23-24 through FY24-25) to supplement rates for all subsidized child care providers and to fund other provider-based supports.

Aligning with or Exceeding the Federally Recommended Rate:

The current federally recommended reimbursement rate is the 75th percentile of current market rates. At least five more states announced a recent shift to meet or exceed this rate, including **Delaware**, **Minnesota**, **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 2021, **New Mexico** became the first state in the country to tie reimbursement rates to the true cost of quality care through cost modeling, rather than using a market rate survey. **Virginia** and the **District of Columbia** are also using cost modeling to determine reimbursement rates. After **Virginia** implemented an alternative methodology using a cost estimation model beginning in October 2022, 99% of localities saw a daily rate increase for infants served in licensed centers, and 97% saw a daily rate increase for toddlers. **Indiana** will implement a permanent cost-based approach to setting reimbursements in August 2023.

INVESTING IN THE CHILD CARE WORKFORCE

Low wages for essential, demanding work has resulted in a major workforce shortage in the child care sector. For many child care providers, the biggest barrier to opening or maintaining classrooms or programs is the challenge of finding and retaining qualified staff. In many cases, existing classrooms remain closed or operate at reduced capacity 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 and/or state funding.

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

BONUS PAY:

During the pandemic and beyond, many states found ways to immediately invest in the child care workforce by providing bonus pay to child care professionals:

- Alabama is providing $3,000 quarterly bonuses for full-time employees and $1,500 quarterly bonuses for part-time employees for up to two years.
- Arizona awarded additional funding in July 2022 to recipients of its stabilization grant program, specifically to assist centers with recruitment and retention efforts. The state is also continuing to accept applications for its Education Workforce Scholarship program, which provides child care workers scholarships covering the cost of care for their own children. The program is planned to run through March 2024.
- Delaware provided one-time $700 bonuses to early childhood education and care professionals.
- Georgia provided $1,000 payments to the child care workforce. Georgia provided an additional two rounds of payments in 2022. Under a new program (POWER-ED), Georgia will use some of the remaining pandemic-era dollars to provide $1,000 wage supplements to early care and education professionals who are attaining higher education credentials.
- Illinois provided bonuses of up to $1,000 for eligible child care staff at licensed and license-exempt child care centers and homes.
- Michigan provided $30 million for bonuses, including bonuses for existing child care professionals and hiring bonuses.
- New Mexico is providing $1,500 to child care workers across the state.
- New Jersey provided $1,000 hiring and retention bonuses to help providers recruit new child care employees and to retain current child care staff.
- In it’s FY24 budget, New York earmarked $500 million in underutilized federal pandemic funds to support the state’s child care workforce. The funding will be distributed through a Workforce Retention Grant Program that will benefit an estimated 150,000 caregivers by providing $2,300 to $3,000 bonuses for existing employees and funding for recruitment strategies, including sign-on bonuses for new employees and other related expenses.
- Ohio’s Phase One Hero Pay program provided $1,200 to child care employees, divided over 4 quarters. Phase two provided payments of $3,000 or $1,500 (depending on when the individual was employed) between September 2022 and February 2023.
- Pennsylvania provided $600 pandemic relief awards to eligible child care employees throughout the state.
- Washington distributed Workforce Retention Grant funds to licensed providers to enable eligible child care employees to receive $700 payments.
- Wisconsin started a Workforce and Recognition Stipend program that offered a stipend of at least $350 for staff. There were two rounds of payments under the program.

WAGE ENHANCEMENT:

Some states put one-time funding toward ongoing wage enhancements for child care workers. Idaho provided wage enhancement grants of $300 per month per employee for eligible providers through May 2023. Other states including Iowa expanded nationally recognized wage enhancement programs such as T.E.A.C.H. and WAGE$. As part of the Iowa Worker Premium Pay Program, the state is also providing Recruitment and Retention bonuses to child care center employees and child development homes; the program offered $1,000 bonuses in its first year, before increasing bonuses to $2,000 in February 2023.

Illinois' Strengthen and Grow Grants required provider grantees to spend 50% of their funding on "enhanced personnel" (e.g. raises, bonuses, employee benefits, etc.). These grants have been transitioned into Smart Start Transition Grants, and grantees will be required to spend 75% of their funding on enhanced personnel. Missouri established a $184 million bonus payment program for child care educators and staff, which provided bonuses from $500 to $3,000, depending on the length of a worker's employment.

PROFESSIONAL DEVELOPMENT SUPPORT

A few states put one-time funding toward professional development by offering scholarships for child care educators. In November 2021, 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 Associate (CDA) Credential Scholarships, which cover training costs and assessment fees for new CDA candidates and cover assessment fees for renewal candidates. Illinois provided $200 million for training, mentorships, coaching, and scholarships to support child care workers in pursuing advanced credentials.

Categorical Child Care Eligibility

Child care workers often struggle to access child care for their own families. Multiple states are addressing this challenge through programs that provide some form of categorical child care eligibility for ECE professionals, which enable them to access the child care they need to continue serving in early childhood settings.

Massachusetts established the Early Education and Care Staff Pilot Program, which provides immediate access to child care vouchers to income-eligible staff working in programs licensed or funded by the Massachusetts Department of Early Education and Care (EEC). In 2023, Iowa announced a two-year pilot project that makes full-time child care employees categorically eligible for child care assistance, regardless of income. Washington recently updated eligibility for the state's child care subsidy program to include child care employees with a household income of up to 85% of SMI.

FACILITATING SAFE, HIGH-QUALITY CHILD CARE

The cost of maintaining safety and quality standards has always been high, but these costs skyrocketed during the pandemic. These cost burdens made 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 helped to 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 child care providers to help them maintain safe environments, including distributing or reimbursing for personal protective equipment (PPE) and sanitation supplies. Some states also used their one-time funding to support providers with COVID-19 testing and vaccination for child care employees, which could be costly for providers.

- Massachusetts set up eight no-cost, drive-through COVID-19 testing sites exclusively for child care workers and their household members throughout the state.
- Colorado and Rhode Island provided testing kits, per employee, to child care providers. This helped facilitate rapid-testing onsite or at home, thereby reducing operating disruptions from breakthrough cases or outbreaks.
- The Kansas Department of Health and Environment partnered 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 covered costs for absences due to closures as a result of exposure. Providers were also reimbursed for an additional 10 days to cover quarantine periods.

COVERING ADMINISTRATION COSTS

During the pandemic, when child care providers struggled financially due (in many cases) to lower than normal enrollment and increased cleaning, sanitation and facilities costs, operational and administrative expenses became a heavier burden. States used pandemic-era stabilization dollars to provide grants or stipends to providers that were used for a diversity of expenses, such as: rent or mortgage payments; utilities; increased costs associated with distance learning; personnel costs; benefits, stipends and other supports for staff recruitment and retention; and increased costs due to cleaning, sanitation, and other COVID-19 related expenses.

In addition, 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. Washington used General Fund dollars to waive background check fees for child care workforce applicants, including volunteers, in FY23. Beginning July 1, 2023, background check fees for child care workforce applicants will be permanently waived.