



## **Child Care in the American Rescue Plan Act of 2021**

By Linda Smith, Kathlyn McHenry, Frannie Einterz

March 24, 2021

The American Rescue Plan Act of 2021 was signed into law on March 11, 2021 and includes multiple provisions impacting working families and the child care sector. This is the third major piece of legislation in response to the COVID-19 crisis that addresses the [fragility](#) of the child care market and the challenges of working parents in accessing affordable child care. More information can be found in explainers on child care in the [CARES Act](#), passed in March 2020, and on the [Coronavirus Response and Relief Supplemental Appropriations Act \(CRRSA\)](#), passed in December 2020.

The child care provisions within the ARP include \$39 billion in one-time appropriations to the Child Care and Development Block Grant, split into two sections, and a separate, permanent increase to the mandatory Child Care Entitlement to States. Together, these two funding streams are commonly called the Child Care and Development Fund and typically must comply with CCDBG rules and regulations. These combined appropriations represent an increase of roughly [211%](#) above currently enacted levels. A description of each of the child care provisions included in the ARP are included below.

### **Child Care and Development Block Grant Funding - \$14.99 billion**

Separate from the annual appropriations process, the ARP includes an infusion of one-time emergency funds for fiscal year 2021 through CCDBG to support child care, including funding for essential workers, and places no income limits on families who may receive assistance through these funds.

- *Timeline for Obligation:* Available to be obligated in FY2021, FY2022, or FY2023. This adds one year to the typical obligation timeline for CCDBG funding. The funds were provided halfway through FY21 and would have effectively afforded states less time than usual.<sup>i</sup>
- *Use of Funds:* In addition to supplementing regular CCDBG activities (except as described below), funds are authorized to provide “child care assistance to health care sector employees, emergency responders, sanitation workers, and other workers deemed essential during the response to coronavirus by public officials, without regard to the income eligibility requirements of section 658P(4) of the Child Care and Development Block Grant Act (42 U.S.C. 9858n(4)).”
- *Changes in State Spending:* Two sections of underlying CCDBG law are waived for these funds. First, states do not have to comply with a rule that requires them to spend 70% of their funding on direct services to families. Second, states do not need to spend at least 12% of their funding on quality improvement activities.<sup>ii</sup>

### **Child Care Stabilization Funding - \$23.975 billion**

The ARP also creates a new, one-time grant program whereby the Secretary of Health and Human Services awards each state’s lead agency a child care stabilization grant intended to help child care providers remain financially viable through the remainder of the pandemic. These funds shall be allocated in FY2021 to states using the same formula described under CCDBG, including to territories and tribes.<sup>iii</sup> The legislation also waives, for these funds, certain underlying rules of CCDBG that (1) require specific

set-asides for quality activities and direct services, and (2) allow states to spend up to 5% for administrative costs.<sup>iv</sup>

Each lead agency may reserve up to 10% of the grant funds for the purposes of administering the subgrants; providing technical assistance and support to providers in applying for and accessing subgrants, including publicizing their availability; increasing the supply of child care; and providing technical assistance to help child care providers comply with the law's requirements.

Lead agencies must use no less than 90% of the grant funds to award subgrants to qualified child care providers. The state must make applications for the awards available on their website, including a certification that recipients will offer relief from copayments and tuition payments for families enrolled in the recipient's program to the extent possible, and prioritize such relief for families struggling to make such payments. Additional requirements of the program are as follows.

- *Timeline Available:* Available through September 30, 2021.
- *Timeline for Obligation:* Lead agencies must alert HHS if they are unable to obligate at least 50% of the funds within nine months of enactment (December 2021). In accordance with CCDBG rules, these funds must be obligated by the state within FY2021 or FY2022.<sup>v</sup> Notably, these funds did not receive the extra obligation time provided to the CCDBG funding described above.
- *Qualified Child Care Providers:* To be eligible for assistance, a child care provider must either be an "eligible child care provider" as defined under CCDBG; or be licensed, regulated, or registered in the state as of March 11, 2021.<sup>vi</sup> Additionally, on the date of submission of an application for the subgrant, a provider must be either:
  - Open and available to provide child care services; or
  - Closed due to public health, financial hardship, or other reasons relating to COVID-19.
- *Subgrant Amounts:* The law dictates the amount of funding states may offer a qualified child care provider. Specifically, states shall base payments on:
  - The provider's stated operating expenses, including costs associated with providing or preparing to provide child care services; and
  - Covering operating expenses sufficient to ensure continuous operations for the intended period of the subgrant, to the extent possible.
- *Use of Funds:* Child care providers may use the funds for the following purposes, including for reimbursing themselves for the costs of such purposes that they may have incurred prior to March 11, 2021:
  - Personnel costs, including payroll and salaries or similar compensation for an employee (including any sole proprietor or independent contractor), and benefits;
  - Premium pay, or costs for employee recruitment and retention;
  - Rent (including under a lease agreement) or payment on any mortgage obligation, utilities, or insurance;
  - Facility maintenance or improvements;
  - Personal protective equipment, cleaning and sanitization supplies and services, or training and professional development related to health and safety practices;
  - Purchases of or updates to equipment and supplies to respond to COVID-19;
  - Goods and services necessary to maintain or resume child care services; and
  - Mental health supports for children and employees.
- *Other Requirements.* Recipients of subgrants must also certify that for the duration of their subgrant, they will:

- Offer “full compensation” for all employees, meaning they will not reduce compensation or benefits that were provided to employees at the time of receipt of a subgrant; and
- Provide relief from copayments and tuition for families enrolled in the program, to the extent possible, and prioritize such relief for families struggling to make such payments (as mentioned above).

### **Federal Administrative Costs - \$35 million**

The ARP also set-aside some funds to cover the accompanying costs of administering the funding at the federal level.

- *Timeline Available:* Available through September 30, 2025.
- *Use of Funds:* These funds are made available to ensure the federal government can provide technical assistance, conduct research, and cover the administrative costs necessary to carry out the additional CCDBG funding described above.

### **Child Care Entitlement to States - \$3.55 billion**

The ARP includes a permanent, annual increase of \$633 million to the CCES, for a total annual allocation of \$3.55 billion beginning in FY2021. This represents the first increase to CCES since [FY2006](#). The law also includes enhanced set-asides for allocated to territories (\$75 million) and tribes (\$100 million).<sup>vii</sup>

During FY2021 and FY2022, states are exempt from meeting their typical state match requirements above what was required of them under previous levels. Put another way, states do not need to match new funding levels until FY2023.

- *Timeline Available:* CCES has been extended several times since FY2011 and the current extension is set to expire by September 30, 2021.<sup>viii</sup>

---

<sup>i</sup> Section 658J of the Child Care and Development Block Grant Act of 1990 (42 U.S.C. 9858) establishes payment requirements, including dictating states obligate the funding within the fiscal year they receive such funds, or in the succeeding fiscal year.

<sup>ii</sup> Specifically, the language waives sections 658E(c)(3)(E) and 658G of the CCDBG.

<sup>iii</sup> This formula is outlined in Section 658O of the CCDBG.

<sup>iv</sup> The language waives the requirements in subparagraphs (C) and (E) of section 658E(c)(3) of CCDBG, which refer to a 5% limit on administrative costs in each fiscal year and require states to spend 70% of funding on direct services, respectively. It also waives section 658G of CCDBG, which would have required states to set-aside 12% of such funds on activities to improve the quality of child care.

<sup>v</sup> Section 658J of CCDBG establishes payment requirements, including dictating states obligate the funding within the fiscal year they receive such funds, or in the succeeding fiscal year.

<sup>vi</sup> Under section 658P of the CCDBG, an eligible provider is either a center-based, a group home, a family child care, or other provider of child care services that receives compensation for providing child care services that is licensed, regulated, or registered; satisfies state and local requirements; or an individual over the age of 18 who provides child care services to a family member as described under the law.

<sup>vii</sup> Under previous law, territories were not eligible for funds and the Child Care Entitlement to States (42 U.S.C. 618) required the Secretary to reserve between 1-2% for payments to Indian tribes and tribal organizations.

<sup>viii</sup> The current extension was authorized in Division CC of P.L. 116-260.