# Federal Funding for Child Care

Child care is an essential piece of the foundation for a thriving economy and for healthy families—providing developmentally appropriate care so children can learn and grow and so parents can work. Though child care is essential, the high cost of quality care can be a barrier for many families, leaving parents out of the workforce and children without the strong foundation they need for success in school and life. The Child Care and Development Fund (CCDF) is the country's largest federal funding stream dedicated to helping low-income families access and afford high-quality child care. The following is an overview of how CCDF functions.

**Funding Sources.** CCDF is comprised of two funding sources: (1) the Child Care and Development Block Grant (CCDBG) and (2) the Social Security Act's Child Care Entitlement to States (CCES). CCDBG funds are discretionary, meaning they are subject to annual appropriations by Congress and therefore fluctuate annually. Funds from CCES are mandatory, meaning funds, are automatically provided without the need for congressional action. CCES is funded at $2.9 billion annually, as it has been since fiscal year 2005.[1]

### Federal CCDF Appropriations[2]

| | FY2015 | FY2016 | FY2017 | FY2018 | FY2019 | FY2020 | FY2021 |
|---|---|---|---|---|---|---|---|
| **CCDBG** | $2.435 | $2.761 | $2.856 | $5.213 | $5.223 | $5.826 | $5.911 |
| **CCES** | $2.917 | $2.917 | $2.917 | $2.917 | $2.917 | $2.917 | $2.917 |

Each state may also transfer to CCDF up to 30% of the federal funds they receive from the Temporary Assistance for Needy Families (TANF) program—a separate federal block grant distributed to states to help low-income families achieve self-sufficiency. In FY2019, states transferred a total of $1.3 billion of their $16.5 billion in federal TANF funds to CCDF.[3] Accounting for all federal and state CCDF funds, including TANF transfers, CCDF was funded at just under $11.6 billion in FY2019 (the latest year TANF data is available).

**Allotments to States.** While the federal Office of Child Care at the Department of Health and Human Services integrates these funds and awards them to states as an annual block grant, each funding source uses a distinct state allotment formula.

CCDBG: Each state receives an amount based on its annual proportions of children under age five, children eligible for free or reduced school lunch, and per capita income, relative to other states.

CCES: Mandatory funds to states are distributed through two categories.

- Guaranteed: Each state receives a fixed amount equal to the total child-related welfare funds the state received in 1994 or 1995 (whichever is greater), or the average from 1992 to 1994.
- Match: Each state receives a portion of remaining CCES funds equal to its share of children under age 13, as long as the state satisfies two criteria: (1) continues to provide its own funds for child care at a level equal to the amount it spent on child-related welfare programs in in the mid-1990s (also known as the maintenance of effort) and (2) matches federal funds with state dollars at the Federal Medical Assistance Percentage rate. Any funds not drawn down via matching due to a state not complying with one of the above requirements are redistributed to any states that apply for them the following fiscal year.[4]

**Obligation and Liquidation.** In their annual budgets, states must commit enough state dollars to meet their CCES match requirements and a majority of states must approve the use of all CCDF funds in their budgets as well. Since most states do not approve their budgets until their state fiscal years begin, most often on July 1—eight months after the beginning of the federal fiscal year on October 1—states requiring legislative authority to draw down their federal funds usually do so near the end of the federal fiscal year they were appropriated for. Therefore, the following rules exist for each type of funding:

- Federal and state CCES funds must be obligated (committed for a certain purpose) within the federal fiscal year they were appropriated but do not all have to be liquidated (spent on that purpose) that same year.[5]
- Discretionary funds have more relaxed requirements. They must be obligated within two federal fiscal years of being appropriated and liquidated within three.[6]

**State Spending Requirements.** All CCDF funds—including TANF transfers—must be spent according to requirements set by CCDBG, which was most recently reauthorized (or renewed) in 2014. States are required to set-aside at least 12% of their federal CCDF funds for quality improvement activities (9% for general improvements and 3% for quality improvements for infant and toddler care), spend no more than 5% of their federal funds on administrative activities, and use at least 70% of their remaining funds (after quality and administrative dollars are subtracted) for direct services, which are explained below.[7]

**Direct Services.** To offer direct services to families, states may use CCDF funds to subsidize child care slots for low-income, working parents through two mechanisms: certificates and grants or contracts. States overwhelmingly offer certificates (sometimes referred to as vouchers): 92% of children served by CCDF in FY2018 received certificates, while just 7% were served via grants or contracts.[8] Families that receive a certificate may take it to any provider of their choice that meets the requirements of CCDBG and, based on a sliding fee scale, must pay a portion of the tuition fee (known as a copayment) while CCDF funds reimburse the provider for the remaining amount.

To promote parent choice, certificates are portable: if a family switches providers, payments apply to the new provider, as long as that provider meets CCDBG requirements. CCDBG also permits states to directly contract with a provider to hold a subsidized slot for an eligible family—although only six states did in FY2018.[9] Under this method, providers receive a grant or contract from the state that pays for a slot for an extended period—typically a year or longer—and will receive payments regardless of the number of days the slot is filled.

**Parent Choice and Rate Setting.** CCDBG rules recognize that the child care market is a mixed-delivery system that offers a variety of care arrangements to fit an array of family needs. For this reason, the law requires that parents who are offered a subsidy be allowed to choose their preferred provider, as long as the provider meets certain health and safety requirements and is otherwise eligible based on the law. In FY2018, 73% of children receiving CCDF funds were enrolled in centers, 20% in family child care homes, and 2% in their own home (4% had invalid data or did not report).[10]

Another fundamental facet of parent choice, beyond having the ability to choose a provider, is having the financial ability to access a variety of child care options. Thus, states must set subsidy rates that allow children who receive subsidy to have access to comparable providers serving children not eligible for subsidy. States conduct market rate surveys or conduct alternative cost modeling to set their subsidy rates. While rate setting is left to the states, the federal government recommends states set reimbursement rates high enough so that families receiving a subsidy have the financial ability to access three out of four child care programs (the 75th percentile of market rates).[11] Yet most states fall far below this recommendation: in 2016, just one state had rates set at the 75th percentile.[12] Low rates also mean that providers often do not receive the level of reimbursement they need to fully cover the costs of providing care. Therefore, low reimbursement rates have various negative effects on providers, including contributing to perpetually low wages and the lack of benefits for child care staff.[13]

**Access.** CCDF's funding levels have limited the availability of child care subsidies to families for years: only 14% of the children eligible to receive CCDF subsidies under federal rules (families with incomes below 85% of state median income, $55,127 for a family of three) received child care assistance through the program in 2015.[14] Further, the number of children served each year has decreased from 1.5 million children in FY2012 to 1.3 million in FY2018.[15,16] While fewer children are being served over time, a greater proportion of recipients are sharing the cost: 63% of families paid copayments in FY2012 compared to 75% in FY2018.[17,18]

**Quality.** To ensure a base level of quality, CCDBG requires that certificates only be taken to providers that meet minimum quality standards and other requirements of the law. States must formalize these standards through licensing programs, and to remain licensed, providers must pass periodic inspections certifying that they comply with these standards. States must also set aside at least 12% of their federal CCDF allotment to conduct activities designed to improve child care quality beyond the baseline requirements—in FY2018, states spent 16% of their funds on quality improvements.[19]

In 2016, 25 states also offered quality improvement incentives through a "tiered reimbursement system" that works within direct services mechanisms.[20] Under a tiered reimbursement system, providers are offered higher subsidy rates if they reach higher quality tiers, providing an incentive for improvements.

**The Takeaway**

The Child Care and Development Fund is the primary federal funding source dedicated to child care in the United States. Administered as an annual block grant, states have flexibility over how they spend their funds as long as they comply with CCDBG rules intended to ensure funds help low-income families access high-quality child care. To accomplish this goal, states distribute the majority of their CCDF dollars as certificates that aim to cover a portion of families' child care costs at competitive market rates while preserving parents' abilities to choose a licensed provider that fits their needs. Additionally, each state reserves a portion of its funds for activities intended to improve the quality of the child care supply. Despite funding increases for the program in recent years, CCDF's funding levels have shown to be insufficient in significantly increasing child care access and quality across the country.

# Endnotes


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