CHILD CARE

Selected States Are Taking Steps to Sustain Program Changes Implemented with Covid-19 Funding

Accessible Version

Report to Congressional Committees

March 2024
GAO-24-106258
United States Government Accountability Office

GAO Highlights

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Highlights of GAO-24-106258, a report to congressional committees
March 2024

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Why GAO Did This Study

The COVID-19 pandemic caused significant disruptions to the country's child care sector, exacerbating preexisting challenges for families and providers. In response, in fiscal years 2020–2021 Congress appropriated more than $52 billion in supplemental funding to CCDF, which supports states' efforts to assist low-income working families with obtaining child care. The remaining funds must be expended by September 30, 2024.

House Appropriations Committee Report No. 117-96 includes a provision for GAO to study the state use of COVID-19 relief funding for long-term strategies to improve and support the child care sector. This report examines (1) how selected states used supplemental funding to implement long-term strategies that help address preexisting challenges for families and providers, and (2) how OCC supported states' efforts to address challenges for families and providers using pandemic-related funds.

GAO interviewed CCDF administrators from five states (Michigan, Nevada, New Mexico, New York, and Tennessee) about their

experiences implementing long-term program changes with COVID-19 funds and the support they received from the Office of Child Care. GAO selected states to represent diversity in child care funding amounts and geographic region. The information from the states is not generalizable, but provides perspectives. GAO also interviewed agency officials and organizations knowledgeable of child care issues; and reviewed related reports, literature, federal laws and regulations, and Office of Child Care guidance.

What GAO Found

In all five selected states, child care officials reported using supplemental funding to make investments and program changes to address preexisting challenges facing families and child care providers. Preexisting challenges included the affordability and availability of child care for families, and financial viability and staffing for child care providers. These state officials reported making one-time investments, such as updating technology systems and creating targeted grants that could have long-term positive impacts (see figure). They also changed their Child Care and Development Fund (CCDF) programs to enhance families' access to child care and improve providers' financial viability. For families, they expanded eligibility for subsidies and lowered family co-pays. For providers, they focused on payment rates, compensation, workforce development, and quality improvement. States planned to use various strategies to sustain program changes that were made using supplemental funding, such as establishing a new state trust fund or increasing state child care budgets. State officials said that their ability to secure ongoing funding would affect their ability to maintain certain program changes.

Example of New York State (NYS) Child Care Grant Opportunity Notice

Source: NYS Office of Children and Family Services. | GAO-24-106258

The Department of Health and Human Services' Office of Child Care supported states' efforts to address challenges for families and providers with supplemental funding by encouraging specific uses for funds and offering technical assistance. After COVID-19 relief laws were enacted, the agency published guidance that encouraged states to make CCDF

program changes. These included increasing provider payment rates based on new cost modelling and increasing family income eligibility limits. The Office of Child Care also provided technical assistance to help states explore options to enhance their CCDF programs and continues to support states' efforts to determine which of their recent program changes can be sustained beyond the expiration of the supplemental funding. For example, it has helped states develop strategic plans, facilitated opportunities for states to learn from their peers, and referred states to its technical assistance partners for specialized assistance.

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Abbreviations

ARPA	American Rescue Plan Act of 2021
BLS	Bureau of Labor Statistics
CCDF	Child Care and Development Fund
CPI	Consumer Price Index
CCAoA	Child Care Aware of America
CRRSA	Coronavirus Response and Relief Supplemental Appropriations Act
FPG	federal poverty guidelines
HHS	Department of Health and Human Services
OCC	Office of Child Care
NCSIA	National Center on Subsidy Innovation and Accountability
SMI	state median income

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

March 4, 2024

The Honorable Tammy Baldwin
Chair
The Honorable Shelley Moore Capito
Ranking Member
Subcommittee on Labor, Health and Human Services, Education, and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Robert B. Aderholt
Chair
The Honorable Rosa DeLauro
Ranking Member
Subcommittee on Labor, Health and Human Services, Education, and Related Agencies
Committee on Appropriations
House of Representatives

The COVID-19 pandemic caused significant disruptions to the country's child care sector. The supply of available child care fell following mandatory facility closures, and demand for care also fell when parents lost jobs and no longer sought or could afford child care. At the same time, the costs of providing child care increased due to added expenses, such as personal protective equipment. These sector-wide disruptions highlighted the critical role child care plays in supporting children, families, and the overall economy, as well as the sector's fragility. They also exacerbated preexisting challenges such as the affordability and availability of child care for families, and financial viability and staffing for providers. As the overall economy started to re-open after the pandemic, many of these challenges have persisted.

The Child Care and Development Fund (CCDF) is the largest federal child care program. It provides funding to states aimed at improving the affordability, availability, and quality of child care. In fiscal year 2019, CCDF subsidies helped about 1.4 million eligible children and their

families obtain affordable, quality child care each month, on average.[1] In 2020 and 2021, Congress appropriated more than $52 billion in supplemental funding for CCDF to help states respond to the COVID-19 pandemic.[2] This was a substantial increase from the fiscal year 2019 CCDF appropriations of $8.2 billion.[3] This influx of funds was intended to stabilize the child care sector and promote access to affordable child care for low-income families. It was also intended to allow states to invest in quality improvements that benefit all children—including those who do not receive subsidies. States had discretion in how to spend most of these funds—$28.5 billion—while states awarded the remaining $24 billion in stabilization grants directly to child care providers. Each supplemental funding source has specific spending rules and deadlines for states to obligate and expend funds.

House Appropriations Committee Report No. 117-96 includes a provision for us to study states' use of COVID-relief funding to identify long-term strategies for improving the child care sector and supporting child care businesses.[4] This report examines (1) how selected states used supplemental funding to implement long-term strategies that help address preexisting challenges for families and providers, and (2) how the Department of Health and Human Services' (HHS) Office of Child Care

[1]These data are as of fiscal year 2019, the most recent year for which final data are available from the Department of Health and Human Services (HHS). The 1.4 million eligible children served are out of the estimated 8.7 million children eligible for child care subsidies under state rules and the estimated 12.5 million children eligible for child care subsidies under federal rule. A total of 2 million children were served on average each month through all federal and state funding streams. Based on preliminary data, HHS has noted that compared to 2019, the average monthly number of children served in 2020 with CCDF funded subsidies increased modestly to an estimated 1.49 million children in an average month.

[2]A supplemental appropriation is an act appropriating funds in addition to those already provided in an annual appropriation act. Supplemental appropriations provide additional budget authority usually in cases where the need for funds is considered too urgent to be postponed until enactment of the next regular annual appropriation bill.

[3]Congress appropriated $52.5 billion in supplemental CCDF funds through the CARES Act, enacted in 2020, the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act, 2021, and the American Rescue Plan Act (ARPA) of 2021. States had until September 30, 2022, to obligate the $13.5 billion in CARES Act and CRRSA funding for child care and had until September 30, 2023, to expend them. ARPA funding included $24 billion in child care stabilization funds and $15 billion in supplemental CCDF funds. States had until September 30, 2022, to obligate the stabilization funds and had until September 30, 2023, to expend them. States had until September 30, 2023, to obligate the supplemental CCDF funds and have until September 30, 2024, to expend them.

[4]H.R. Rep. No. 117-96, at 217 (2021).

(OCC) supported states' efforts to address challenges for families and providers using pandemic-related funds.

To address these questions, we reviewed pertinent documentation and conducted interviews. Specifically, we reviewed relevant federal laws, policies, and guidance from OCC. Additionally, we reviewed selected publications from two literature searches we conducted. One literature search focused on preexisting challenges in the child care sector and the other focused on states' use of supplemental funding.[5] We also interviewed HHS officials and representatives from four organizations with in-depth knowledge of the child care sector.[6]

We further conducted semistructured interviews with CCDF administrators in a nongeneralizable selection of five states: Michigan, Nevada, New Mexico, New York, and Tennessee. In these interviews we asked questions about states' experiences implementing long-term program changes with COVID-19 funds and support they received from OCC. We selected states that represented a variety of state characteristics, including the states' diversity in child care funding amounts and geographic region. For the state selections, we further considered information we gathered from national reports and interviews with organizations with knowledge of child care issues, and searches of information on states' plans to implement long-term child care program changes. For each selected state, we interviewed one or more stakeholder organizations involved in the individual state's use of supplemental funding, as well as the OCC regional office officials that provide support to the state.

We conducted this performance audit from September 2022 to March 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe

[5]To identify existing scholarly, grey, and trade literature, we conducted searches of various databases, such as Scopus, EBSCOhost, and ProQuest. From these searches, we identified 29 relevant studies related to preexisting challenges in the child care sector and states' use of COVID-19 child care funding published between 2013 and 2023. We performed these searches from April 2023 to June 2023.

[6]We interviewed HHS officials in the Office of Child Care, including regional office officials, and the Office of the Assistant Secretary for Planning and Evaluation. We also interviewed representatives from organizations that have published work on child care: the American Public Human Services Association, the Center for American Progress, the Center for the Study of Child Care Employment, and Child Care Aware of America (CCAoA).

that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Preexisting Challenges in the Child Care Sector for Families and Providers

Families

Affordability. HHS established a recommended benchmark indicating that co-payments for families participating in CCDF, which vary based on income and family size, should not exceed an upper threshold of 7 percent of a household's income.[7] The Department of Labor's National Database of Child Care Prices show that in 2018, median child care prices for one child ranged from $4,810 to $15,417 annually depending on provider type, child's age, and county population size.[8] These price ranges are equivalent to between 8 to 19.3 percent of median family income.[9] Additionally, data from the Bureau of Labor Statistics (BLS) show that child care has generally become more expensive for families over time, outpacing inflation since 1992.[10]

[7]HHS established the 7 percent federal benchmark for affordable family co-payments in the preamble to a final rule published in September 2016. Child Care and Development Fund (CCDF) Program, 81 Fed. Reg. 67,438, 67,440 (Sept. 30, 2016). On July 13, 2023, HHS's Administration for Children and Families published a Notice of Proposed Rulemaking that proposes to cap family co-payments for subsidized child care at 7 percent of a family's income, among other changes. Improving Child Care Access, Affordability, and Stability in the Child Care and Development Fund (CCDF), 88 Fed. Reg. 45,002, 45,027 (July 13, 2023).

[8]Liana Christin Landivar, Nikki L. Graf, and Giorleny Altamirano Rayo, *Childcare Prices in Local Areas: Initial Findings from the National Database of Childcare Prices*, Women's Bureau Issue Brief (Washington, D.C.: U.S. Department of Labor, January 2023). Adjusted to 2022 dollars, the annual median child care prices for one child ranged from $5,357 to $17,171.

[9]Liana Christin Landivar, Nikki L. Graf, and Giorleny Altamirano Rayo, *Childcare Prices in Local Areas: Initial Findings from the National Database of Childcare Prices.*

[10]Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: day care and preschool, U.S. city average compared to all items in U.S. city average, seasonally adjusted, accessed October 31, 2023, https://beta.bls.gov/dataViewer/view/timeseries/CUSR0000SEEB03.

Availability. According to a 2018 analysis by the Center for American Progress, 51 percent of people in the U.S. live in an area with an insufficient supply of licensed child care, referred to as a child care desert.[11] These data show that child care availability is especially low for certain populations, including Hispanic or Latino families, rural families, and those seeking care for infants or toddlers and during nontraditional hours.[12] While limited child care availability is more common in rural areas, it also affects cities.

Providers

Financial viability. According to a 2021 Treasury Department report, most child care providers operate on narrow profit margins. The report notes that even 1 or 2 months without full enrollment can erase profits for some child care providers, making it difficult for them to withstand enrollment fluctuations.[13] Monthly enrollment fluctuations can challenge providers' ability to pay fixed costs necessary to stay in business, like rent or mortgage payments. The report also notes that a large share of the typical facility's costs goes toward paying child care workers' wages—which, as discussed below, sometimes do not reflect the labor-intensive work of caring for young children. A recent report from the National Center on Subsidy Innovation and Accountability (NCSIA) found that personnel expenses typically made up 70 to 80 percent of the overall cost of care.[14] According to OCC officials, providers are often unable to charge families for the true cost of providing quality care because many families cannot afford it.

[11]R. Malik et al., *America's Child Care Deserts in 2018*, (Washington, D.C.: Center for American Progress, December 2018). For purposes of its analysis, the Center for American Progress defined a child care desert as a census tract with more than 50 children under age 5 that contained either no child care providers or so few options that there were more than three times as many children as licensed child care slots. Officials from stakeholder organizations and state and federal child care officials we interviewed often used this term when describing challenges with child care availability.

[12]R. Malik et al., *America's Child Care Deserts in 2018*.

[13]Department of the Treasury, *The Economics of Child Care Supply in the United States* (Washington, D.C.: September 2021).

[14]The National Center on Subsidy Innovation and Accountability, *Guidance on Estimating and Reporting the Costs of Child Care* (Rockville, MD: June 2023). NCSIA provides technical assistance to Child Care and Development Fund programs in developing child care subsidy systems that are child focused, family friendly, and fair to providers.

Workforce. Child care workers tend to receive low wages. The Center for the Study of Child Care Employment found that in 2019, prior to the start of the COVID-19 pandemic, child care workers were one of the lowest-paid occupations nationwide.[15] According to its analysis, the median hourly wage for child care workers was less than $12 in 2019. According to the recent Treasury Department report, low compensation led many child care workers to rely on public benefits to meet their economic needs.[16] Low wages have also been found to contribute to high rates of turnover in the child care sector.[17] Each of the five state CCDF administrators we interviewed cited workforce issues, including recruitment and retention, as key challenges that were exacerbated by the COVID-19 pandemic.

Child Care and Development Fund

CCDF is the largest federal child care program, providing grants to states which are used to subsidize the child care expenses of low-income families with children under age 13.[18] In addition to subsidizing child care, states use CCDF grants for activities intended to improve the overall quality and supply of child care for all families. HHS's Office of Child Care administers CCDF at the federal level and provides guidance and technical assistance to states on how to operate their subsidy programs.

Under CCDF, states have substantial flexibility in the design and operation of their child care programs. Although states must abide by certain federal parameters, they have broad authority to set income eligibility limits and provider payment rates, determine whether providers are reimbursed based on child enrollment or attendance, and set family co-payment amounts, among other policies.

As we have previously reported, a long-standing gap exists between the number of low-income working families who could benefit from child care

[15]Center for the Study of Child Care Employment, University of California, Berkeley, *Early Childhood Workforce Index – 2020* (Berkeley, CA: 2021).

[16]Department of the Treasury, *The Economics of Child Care Supply in the United States*.

[17]Department of the Treasury, *The Economics of Child Care Supply in the United States*.

[18]In addition to states, CCDF provides grants, including COVID-19 supplemental funding, to territories and tribes. For purposes of this report, we focused on states.

subsidies, and the number who actually receive them.[19] Most recently, we found that in fiscal year 2019, 2 million of the estimated 12.5 million children eligible under federal rules and estimated 8.7 million eligible under their state's rules received subsidies on average each month. This represents 16 percent of children eligible under federal rules and 23 percent eligible under their state's rules.[20]

In fiscal years 2020 and 2021, Congress appropriated over $52 billion for CCDF to help states prevent, prepare for, and respond to the COVID-19 pandemic. Each new funding source—the CARES Act, the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act of 2021, and the American Rescue Plan Act (ARPA) of 2021—came with its own rules and deadlines for states to obligate and expend funds. Each law also provided states with additional programmatic flexibilities. Over half of the funding, $28.5 billion, was provided to states to use as supplemental CCDF funding, while $24 billion was provided to states to award directly to providers as stabilization grants.[21] Apart from supplemental CCDF funding, annual CCDF appropriations increased 42 percent from fiscal year 2019 to fiscal year 2023, from approximately $8.18 billion to $11.57 billion (see fig. 1).[22]

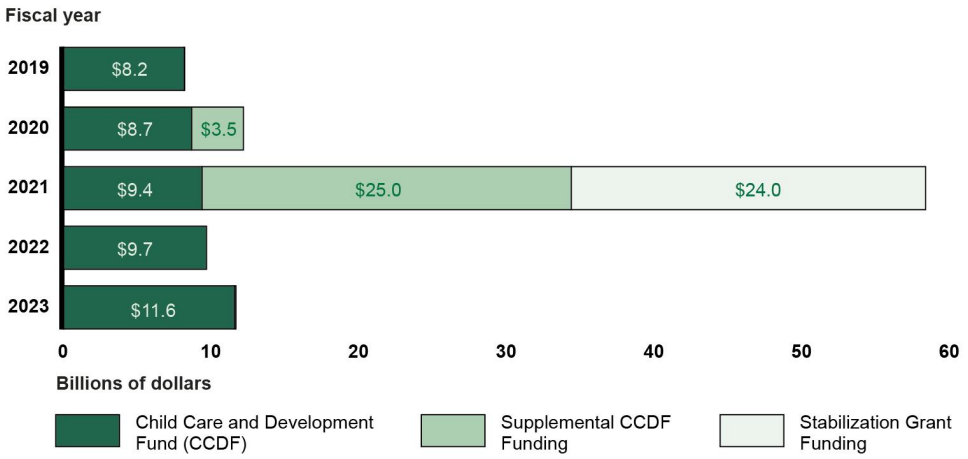
[19]GAO, *Child Care: Subsidy Eligibility and Receipt, and Wait Lists*, GAO-21-245R (Washington, D.C.: February 2021); Child Care and Development Fund: Subsidy Receipt and Plans for New Funds, GAO-19-222R (Washington, D.C.: February 2019); and *Child Care: Access to Subsidies and Strategies to Manage Demand Vary Across States,* GAO-17-60 (Washington, D.C.: December 2016).

[20]GAO, *Child Care: Subsidy Eligibility and Use in Fiscal Year 2019 and State Program Changes During the Pandemic*, GAO-23-106073 (Washington, D.C.: March 2023).

[21]States could use up to 10 percent of stabilization grant funding to: administer subgrants, provide technical assistance and support for applying for and accessing the subgrant opportunity, publicize the availability of the subgrants, carry out activities to increase the supply of child care, and provide technical assistance to help child care providers implement policies. For more information on state and provider experiences with administering these grants, see app. 1.

[22]CCDF is composed of two funding streams: discretionary funding authorized under the Child Care and Development Block Grant Act of 1990, as amended, that is allocated to states based on a statutory formula (42 U.S.C. § 9858m); and mandatory and matching funding authorized under the Social Security Act (42 U.S.C. § 618). Additional sources of federal funding for child care subsidies include Temporary Assistance for Needy Families and the Social Services Block Grant. Discretionary funds must be obligated within 2 fiscal years of being appropriated and spent within 3. Federal and state mandatory and matching funds must be obligated within the fiscal year they were appropriated but do not all have to be spent that same year.

Figure 1: Annual and Supplemental Appropriations to the Child Care and Development Fund, Including COVID-19-Related Appropriations, Fiscal Years 2019–2023



Source: Congressional Research Service. | GAO-24-106258

Accessible data table for Figure 1: Annual and Supplemental Appropriations to the Child Care and Development Fund, Including COVID-19-Related Appropriations, Fiscal Years 2019–2023 (amounts in billions of dollars)

Fiscal year	Child Care and Development Fund (CCDF)	Supplemental CCDF Funding	Stabilization Grant Funding
2019	8.2	0.03	
2020	8.7	3.5	
2021	9.4	25	24
2022	9.7		
2023	11.6	0.1	

Source: Congressional Research Service. | GAO-24-106258

Notes: Supplemental CCDF funding includes $3.5 billion through the CARES Act, enacted in 2020; $10 billion through the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act of 2021; and $15 billion through the American Rescue Plan Act (ARPA) of 2021. ARPA also included $24 billion in stabilization grant funding that was allocated to states to award directly to child care providers. This graphic shows the year that funds were appropriated to CCDF, but not the year they were spent.

The supplemental funds were intended to stabilize the sector and promote access to affordable child care for low-income families. Recent data show that the child care sector has recovered somewhat since the pandemic began. For example, BLS data showed that, as of November 2023, child care sector employment was about 3 percent below February

2020 employment levels, much higher than its low in April 2020.[23] Because states still have time to expend a portion of their funds and because of data reporting lags generally, a comprehensive accounting of states' spending and related outcomes will likely not be available until 2025 or 2026.[24]

Selected States Reported Making Investments and Program Changes to Address Child Care Challenges, and Plan to Sustain Some Changes Using Federal and State Funding

Selected States Made Investments and Program Changes to Expand Families' Access and Enhance Supports to Providers

State child care administrators in all five of our selected states reported using supplemental funding to make investments and program changes aimed at addressing challenges facing families and providers in a lasting way. They also noted that not all changes would be sustainable without additional funding.

Investments. State child care administrators reported spending supplemental funding on a range of investments to enhance supports for providers. These investments were generally directed at developing the child care workforce, improving the quality of care, improving or implementing information technology systems, and increasing the available supply of child care slots.

- *Developing the workforce.* State administrators from some states we interviewed used supplemental funding to invest in training and other workforce development strategies. For example, New Mexico officials reported providing stipends to college students studying early childhood education and funded an online professional development

[23]BLS data for November 2023 were preliminary at the time of the analysis. In April 2020, BLS data showed child care sector employment was 36 percent below February 2020 levels.

[24]The spending deadline for CARES, CRRSA, and ARPA stabilization grants was September 30, 2023. States have until September 30, 2024, to expend ARPA supplemental funds, which total $15 billion.

program for providers. Nevada established shared child care service centers to offer providers supports, such as meeting space, according to state officials. The Nevada officials, in partnership with public and private stakeholders, also used funds to develop a written framework intended to serve as a plan of action to support sustained investments in Nevada's early care and education workforce. One goal of the framework was to create a pipeline to recruit and retain child care workers by offering better pay, benefits, and career growth. Officials described the framework as a step toward improving child care in Nevada, with next steps including developing policy proposals and expanding public awareness.

- *Improving quality.* State administrators we interviewed reported using supplemental funding to improve the quality of the child care offered by providers. For example, Nevada officials described developing additional training for providers on its quality rating system, which is used to assess and improve the quality of early childhood programs. This training could improve individual child care programs and the general quality of care across the state.[25] Administrators in New York and Tennessee also reported implementing projects intended to improve the quality of care in their states. For example, in 2021, New York allocated $35 million in ARPA funds, over 3 years, to enhance QUALITYstarsNY, its rating and improvement system for early childhood programs. To support program quality throughout the state, QUALITYstarsNY informs guidance and direction provided to early childhood programs and providers, classroom materials and furnishings, and professional development opportunities.
- *Improving technology.* State administrators we interviewed reported investing in projects to modernize and improve the technology systems used by parents, providers, and state child care officials. For example, New Mexico officials reported using some of the supplemental funding for data system enhancements that allow parents to apply for child care subsidies online. Tennessee officials reported launching a project to improve providers' access to technology and technological literacy by offering training and equipment. The state's CCDF administrator said such improvements could reduce their administrative burden by more efficiently processing families' subsidy applications. In addition, OCC regional

[25]A growing number of states use CCDF quality funds to create or support quality rating and improvement systems. A quality rating and improvement system can be used to rate providers against a set of measures selected to determine program quality, and higher quality ratings can result in higher payment rates to providers.

office officials described efforts in Michigan and New York to explore or implement major data system upgrades.

- *Increasing supply.* Each of the five selected states reported taking steps to increase the number of available child care slots. New Mexico state officials said they used supplemental funds to offer child care supply building grants. The grants, which prioritized providers in rural areas and other child care deserts, helped grantees make minor facility renovations to expand the number of children they could accommodate in areas that officials said would otherwise remain underserved. Michigan used some supplemental funds to establish the Caring for MI Future initiative in 2022. This initiative is a statewide effort to help entrepreneurs interested in the child care industry open new or expand existing child care programs in the state by the end of 2024.[26] The initiative helps entrepreneurs find and upgrade space, obtain startup funding, recruit staff, and create a business plan.

Officials reported that staff in Tennessee and Nevada partnered with entities, such as state agencies or community development financial institutions, to enhance child care providers' access to financial support. They said this support helped providers pay for capital improvements to their businesses while complying with federal regulations that did not allow CCDF funding to be used for certain purposes.[27] A New York state official said some of their state's supplemental funding went toward completing smaller initiatives, such as grant projects, to increase the supply of child care slots (see fig. 2).

[26]Michigan's state child care administrator reported that activities that fall under this initiative may not continue due to lack of funding going forward. However, according to a November 2023 update on the state agency's website, Michigan opened 1,089 child care programs since May 2022, surpassing its goal of opening 1,000 programs.

[27]According to CCDF regulations, states may not expend funds for the purchase, construction, or permanent improvement of any building or facility. However, funds may be expended for minor remodeling, and for upgrading child care facilities to ensure that providers meet state and local child care standards, including applicable health and safety requirements. 45 C.F.R. § 98.56(b)(1).

Figure 2: Example of New York State (NYS) Child Care Grant Opportunity Notice

Source: NYS Office of Children and Family Services. | GAO-24-106258

Program changes for families. Child care administrators in our selected states reported using supplemental funding to support changes to their state CCDF programs' rules and requirements. According to officials,

program changes targeted at families focused on expanding eligibility for child care subsidies and limiting family co-payments. Specifically:

- Nevada officials reported increasing the maximum allowable income level from 75 percent to 85 percent of state median income (SMI)—the federal maximum.[28]
- Michigan increased families' income eligibility for child care subsidies by adjusting the maximum allowable income level from 160 percent of the federal poverty guidelines (FPG) to 185 percent, then to 200 percent, according to a state official.[29]
- New Mexico increased the maximum allowable income level from 200 percent to 400 percent of FPG.[30] The state also capped family co-pays at 5 percent of family income, reducing this expense for families receiving subsidies (see fig. 3). According to OCC officials, New Mexico uses non-CCDF state dollars to pay subsidies for families above 85 percent of state median income.

[28]Under federal law, for a child to be eligible to receive subsidies, their family income must be at or below 85 percent of the state median income (SMI) and family assets cannot exceed $1 million. State child care agencies have the flexibility to set the maximum income for eligibility as long as it does not exceed 85 percent of SMI.

[29]According to a Michigan state official, the Governor's budget proposed keeping the 200 percent FPG in place moving forward. HHS uses the official poverty thresholds to update the "federal poverty guidelines" (FPG) each year, which are the basis for determining financial eligibility or funding distribution for certain federal programs. For 2023, the FPG for a family of three was $24,860.

[30]This recent increase in income eligibility to 400 percent of the FPG covered over 80 percent of people in the state, according to New Mexico officials.

Figure 3: Example of New Mexico Child Care Eligibility Expansion Notice

Source: New Mexico Early Childhood Education and Care Department. | GAO-24-106258

- New York increased the maximum allowable income level from 200 to 300 percent of FPG, then to 85 percent SMI (up to approximately 360

percent of FPG), and capped family co-pays at 1 percent of family income above the poverty threshold.[31]

Program changes for providers. Child care administrators in all of our selected states reported making program changes to address low wages for child care workers and profitability challenges for child care providers. Specifically:

- A Michigan official said that on four separate occasions the state increased the CCDF reimbursement rate it pays providers to care for children receiving subsidies (i.e., the state's provider payment rate). The Governor's 2024 budget proposes maintaining payment rates at the highest level, according to the official.
- Nevada officials reported that the state started reimbursing providers an amount equal to or greater than the 95th percentile of the amount determined by its market rate survey.[32] The state previously reimbursed providers at the 75th percentile, according to state officials.
- New Mexico officials reported moving away from using a market rate survey toward using a cost estimation model to set its provider payment rates. According to state officials, this would increase overall payment rates, and thus help providers continue paying workers their current compensation rates, which had recently increased.[33]

[31]Stakeholders in New York reported that in the state, certain policies, such as parent co-pays, were previously set by each individual county. This system, however, was modified to establish a statewide standard. Counties still have discretion in certain eligibility areas, but recent efforts have aimed to make the system more uniform across the state.

[32]States are required to conduct a market rate survey or an approved alternative methodology when setting provider payment rates. 42 U.S.C. § 9858c(c)(4)(B). A market rate survey examines fees that child care providers typically charge and that parents typically pay. According to HHS, states conducting a market rate survey must conduct a narrow cost analysis of the estimated cost of care in two areas: the cost of child care providers' implementation of health, safety, quality, and staffing requirements and the cost of higher quality care as defined by the lead agency using a quality rating and improvement system or other system of quality indicators, at each level of quality.

[33]A cost estimation model can be used to analyze and understand the costs for providers to deliver care at different levels of quality for different ages of children. According to OCC, the market rate (i.e., what private-pay families pay) is relatively low and does not reflect the true cost of care because it is based on what providers determine families can afford.

- New York raised its provider payment rates from the 69th to the 80th percentile of current child care market rates.[34]
- Tennessee officials reported raising the state's provider payment rates by nearly 20 percent across-the-board in July 2022.[35]

Child care administrators in some of the selected states also reported supporting providers by making policies around absences of CCDF-supported children more flexible. Specifically, officials in Michigan and Nevada reported that they began paying providers based on the number of children receiving CCDF subsidies who were enrolled in the provider's care. These states previously paid providers based on each child's daily attendance, according to officials, meaning that a provider would not be paid for a child who was absent on any given day.[36] New York state regulations allow the state to pay a provider for up to 80 absences annually, which state officials said effectively pays providers based on enrollment rather than daily attendance.[37]

[34]The preamble to the final CCDF rule published in September 2016 reaffirmed the agency's longstanding position that setting payment rates at the 75th percentile of a recent market rate survey remains an important benchmark for gauging equal access to child care. (That is, HHS recommends that states set their payment rate ceiling at a level that, on average, equals or exceeds the rate charged by three out of every four providers who responded to the local market rate survey.) See Child Care and Development Fund (CCDF) Program, 81 Fed. Reg. 67,438, 67,440 (Sept. 30, 2016). States must establish provider payment rates for child care services that are sufficient to ensure equal access for eligible children to comparable child care services provided to children whose families are not eligible for subsidies. 42 U.S.C. § 9858c(c)(4)(A).

[35]Tennessee officials reported that this program change was supported by regular, annual CCDF funding.

[36]Under existing CCDF regulations, lead agencies may pay CCDF subsidies based on a child's enrollment in a program rather than attendance. 45 C.F.R. § 98.45(l)(2)(i). Lead agencies are required to support the fixed costs of providing child care services by delinking subsidy payments from an eligible child's occasional absences due to holidays or unforeseen circumstances such as illness, to the extent practicable. 42 U.S.C. § 9858c(c)(2)(S)(ii).

[37]Typically, states pay providers based on how many days children receiving subsidies attend their child care program. Conversely, private-paying families—those who do not use subsidies—typically pay for care based on their child's enrollment in a program, including for days their children do not attend. We previously reported that selected state administrators said that paying subsidy providers based on enrollment was critical in helping to stabilize the child care sector, as it kept some providers from closing during periods of fluctuating or low attendance. See GAO, *Child Care: Subsidy Eligibility and Use in Fiscal Year 2019 and State Program Changes During the Pandemic*, GAO-23-106073 (Washington, D.C.: Mar. 29, 2023).

Selected States Plan to Sustain Some of Their Changes Using State and Federal Funding

State child care administrators from the five selected states we interviewed sought to be strategic in how they used the supplemental CCDF funds to implement lasting changes. Officials generally said that they would like to sustain program changes made during the pandemic, and that sustainability was a key factor in their decision-making. However, they noted that their ability to secure ongoing funding would affect the degree to which they were able to maintain certain program changes following the September 2024 expiration of the supplemental funding.

As of May 2023, officials in the five selected states are at varying stages in securing ongoing funding for their changes. For example, Nevada officials said that they would like to sustain expanded eligibility for families and higher subsidy reimbursement rates for providers. They also said that the state's ability to sustain those approaches in the long-term remained uncertain given its reliance on federal funding to support child care. Tennessee officials, meanwhile, described focusing supplemental funding on one-time investments (such as technology and training) and on pilot programs that they could stop, if necessary, without causing disruptions in care for families or providers. Conversely, in November 2022, New Mexico residents voted in favor of a state constitutional amendment to direct a portion of money in the state's Land Grant Permanent Fund—billions of dollars the state generates from fees it makes from oil and gas development on the public land it holds in trust—to early care and education. This funding is not a one-time infusion, but rather a steady, long-term funding source for child care in the state. In New York, the governor has announced a commitment to spend over $7 billion on child care over 4 years to help maintain some program changes. A state official in Michigan, meanwhile, reported that its state budget proposed using the most recent increase in annual CCDF funding to maintain some of the state's program changes.[38]

State officials noted that the combination of supplemental funding and strong state leadership commitment enabled them to take meaningful steps toward addressing preexisting child care sector challenges. In addition, state officials and stakeholders said that pandemic-funded programs helped increase public awareness about the importance of child

[38]As mentioned above, annual CCDF appropriations increased 42 percent from fiscal year 2019 to fiscal year 2023, from approximately $8.18 billion to $11.57 billion.

care and informed what is possible with a larger public investment. While acknowledging that the expiration of supplemental funding would impact their ability to maintain program changes, officials reported increasing their dialogue with policymakers in an attempt to maintain robust public investment in child care in the future.

OCC Encouraged States to Use Supplemental Funding to Expand Eligibility and Increase Provider Pay and Is Supporting State Efforts to Sustain Some Changes

OCC Encouraged States to Make Program Changes, Such as Expanding Subsidy Eligibility and Increasing Provider Payment Rates to Address Preexisting Challenges

After each of the COVID-19 relief laws was enacted, OCC issued guidance to states on how they could use the supplemental CCDF funding to address challenges in the child care sector.[39] Through its guidance, OCC strongly encouraged states to obligate supplemental funding deliberately, but also quickly, to address immediate needs and meet statutory spending deadlines. In particular, OCC strongly encouraged states to defray child care costs for families and provide timely financial relief to child care providers.

Families. OCC encouraged states to support families by addressing the high cost of care and other barriers to access. OCC recommended that states increase families' income ceilings to expand eligibility for child care subsidies and reduce families' co-pay amounts. OCC further encouraged states to broaden their definition of "qualifying activities"—which a child's parents must engage in to receive subsidies—to include parents who are looking for work.[40] For example, Tennessee recently added job seekers to their list of those eligible for CCDF subsidies, according to state officials. OCC also strongly encouraged states to use funds to reach out to families

[39]States design and operate their CCDF programs at their discretion, within federal guidelines.

[40]Qualifying activities also include parents working or participating in an education or training program.

that had not previously participated in the child care subsidy program, focusing specifically on underserved populations. For example, New York shared information on billboards, radio, and social media about the state program's increased income ceiling that made more families eligible for child care subsidies, according to state officials.

OCC also strongly encouraged states to use supplemental funds to build the supply of child care slots for underserved populations, which can help address child care deserts by

- funding staffed family child care networks,[41]
- providing grants to cover startup costs for new child care providers, and
- offering bonuses to providers in underserved areas.

Providers. In addition to direct financial support to providers through stabilization grants, OCC encouraged states to adjust their programs to address child care providers' long-standing challenges, including low wages for workers and financial instability. For example:

- *Increasing CCDF provider payment rates and worker wages.* OCC strongly recommended that states increase provider payment rates, noting that most states are not paying rates that cover the true cost of providing quality care.[42] OCC also encouraged states to increase child care worker wages. To increase CCDF provider payment rates and worker wages, OCC officials provided information to states on calculating CCDF provider payment rates using a cost-model method instead of using the more common market-rate survey method. According to OCC, cost-models estimate providers' costs to set

[41]According to the Administration for Children and Families, family child care networks are community-based programs that offer professional development and administrative support to family child care providers and can help states maintain or augment the supply of high-quality child care. States can support these networks through CCDF funding dedicating to child care quality improvement. For more information on family child care networks, see GAO, *Family Child Care Networks: Actions Needed to Better Assess Quality Improvement Efforts,* GAO-23-105640 (Washington, D.C.: May 2023).

[42]OCC warned states that it would be difficult for most states to meet the Child Care and Development Block Grant Act's equal access requirement without significant increases to their payment rates. OCC stated that as of September 2020, the vast majority of states had provider payment rates that fell below the 75th percentile of their market rate survey.

payment rates that reflect the "true cost of care."[43] Worker wages are an important input into cost-models, given that wages are typically the largest cost for providers. Therefore, states could help increase wages for child care workers by setting a certain wage in their cost-models. For example, New Mexico officials reported incorporating a $15 per hour wage into the state child care program's cost-model and increasing its CCDF provider payment rates accordingly. However, OCC noted a number of factors and challenges states have reported weighing when considering moving to a cost-model method, including increased costs. Our prior work has shown that if available funding for CCDF remains the same, states may face challenges increasing, or even maintaining, provider payment rates without decreasing the number of children receiving subsidies.[44]

- *Using grants and contracts.* OCC strongly encouraged states to use a portion of the supplemental CCDF funds to award grants to, and contract directly with, providers for child care slots, rather than exclusively using a voucher system. In a state's voucher system, the state gives CCDF funds directly to an eligible family (i.e., a voucher) who can use the subsidy voucher at the provider of their choice. According to OCC, direct CCDF grants and contracts can give providers a more predictable funding stream, which can help maintain the stability of the child care sector. OCC also highlighted that grants and contracts could help increase the supply of child care slots for underserved populations when the state uses CCDF to fund a few slots or a whole classroom for this type of care.[45] OCC also advised states that they could increase child care worker's wages using the

[43]OCC encourages states to move away from market rate surveys as part of their overall strategy to set payment rates that reflect what they describe as the true cost of care. According to OCC, the market rate (i.e., what private-pay families pay) does not reflect the true cost of care because it is based on what providers determine families can afford. OCC offers a "Provider Cost of Quality Calculator" to help states determine their cost-model inputs.

[44]For more information, see GAO, *Child Care: Multiple Factors Could Have Contributed to the Recent Decline in the Number of Children Whose Families Receive Subsidies,* GAO-10-344 (Washington, D.C.: May 2010).

[45]According to OCC, these underserved populations include care for infants and toddlers, and for parents who need care for their child during nontraditional hours, among others.

CCDF grants and contracts by stipulating a minimum wage in the terms and conditions of their contracts.[46]

- *Paying subsidies based on enrollment.* OCC encouraged states to pay providers based on a child's enrollment in a child care program rather than their attendance. As we noted earlier, some selected states began basing their subsidy payments on enrollment during the pandemic. According to OCC, an enrollment payment policy helps ensure states' CCDF payments to providers compensate providers for fixed costs, such as staffing and facilities expenses, thus enhancing their revenue stability. Two OCC regional offices conducted a webinar for states to discuss this policy change and offered advice on program integrity considerations (see text box).

[46]OCC encouraged states to increase the wages of child care workers to at least $15 per hour and improve access to benefits such as health insurance. Additionally, OCC advised states they could use the supplemental funding to provide direct bonuses and wage supplements to providers.

Child Care and Development Fund (CCDF) Program Integrity

The substantial influx of funding for CCDF in response to the COVID-19 pandemic heightened the need to ensure funding is used for its intended purposes. The Office of Child Care (OCC) and states share responsibility for overseeing and protecting the financial integrity of the CCDF program. Prior to the pandemic, we recommended that OCC strengthen its oversight and monitoring of CCDF program integrity risks, including those resulting in fraud and improper payments (see GAO-20-227). OCC agreed with our recommendations and has addressed eight of nine recommendations to date. CCDF has been designated as a program that is susceptible to significant improper payments, as defined by the Office of Management and Budget. According to HHS officials, in fiscal year 2023, the improper payment rate for CCDF was approximately 3.5 percent.

According to OCC officials, states have primarily used existing processes to monitor program integrity risks for supplemental funding. In addition, OCC revised an existing financial reporting form for states to submit data on their use of supplemental funds, and officials stated that the annual CCDF improper payment rate would include both regular and supplemental funding. OCC also partnered with the National Center on Subsidy Innovation and Accountability (NCSIA) to conduct several webinars to help states strengthen their program integrity practices. For example, in January 2023 OCC and NCSIA conducted a webinar focused on creating a family friendly CCDF application while maintaining program integrity. OCC also conducts site visits to collaborate with states who need assistance addressing the root causes of improper payments.

The American Rescue Plan Act of 2021 allocated nearly $24 billion to support child care providers through stabilization grants. These grants were a new type of funding for providers and were available to providers that have not previously participated in the CCDF subsidy system. Administrators in states we interviewed reported developing

ways to ensure providers were eligible for stabilization grant funding, such by as comparing applicant information to their database of licensed providers. State administrators also reported working to ensure that grants were spent on allowable uses, such as rent and wages.

Selected state officials also reported plans to audit a sample of providers who received stabilization grants. For example, New Mexico officials reported plans to audit 10 percent of stabilization grant recipients throughout the state. The results of those state-led audits of providers who received stabilization grants are forthcoming.

Source: GAO. | GAO-24-106258

In addition to recommending that states take certain actions, OCC offered technical assistance and facilitated information sharing among states.[47] According to OCC officials, OCC did so in part to help states implement OCC-recommended program changes made possible by the influx of supplemental funding. OCC regional office officials we interviewed

[47]OCC funds and manages the Child Care Technical Assistance Network (CCTAN). According to the CCTAN website (https://childcareta.acf.hhs.gov/), this system brings together resources from OCC, the Office of Head Start, child care, and health partners to build early childhood program capacity and promote consistent practices.

described speaking with state officials during regular monthly calls to help them address challenges as they arose. They also described hosting quarterly meetings with all the states in their region to facilitate information sharing. OCC further supported states by offering technical assistance through various webinars.

OCC officials we interviewed said states used technical assistance resources more extensively throughout the pandemic. According to OCC officials, states most commonly sought help navigating the various requirements associated with the funding provided by each COVID-19 relief law, including differences in allowable uses. For example, according to officials, OCC informed states about the option to use CRRSA funding to waive parent co-payments because of the law's unique flexibilities. However, according to OCC, many of the program changes made by states were allowable under existing CCDF program flexibilities, which would enable them to be continued after the supplemental funding expires.

Selected states we interviewed reported that in general, OCC's guidance and technical assistance have helped them use supplemental funding to address challenges in the child care sector. For example, state officials we interviewed said OCC's regional offices helped their states improve their subsidy and stabilization grant application processes. However, officials in one state reported process delays because they needed to ask OCC for additional policy guidance and wait for a response. Officials in another state said they would like for OCC to have a greater focus on sustainability and create a list of strategies other states have used that have been successful. According to OCC officials, they provided examples of promising practices to states in response to their specific requests for technical assistance.

OCC Is Supporting State Efforts to Sustain Some Program Changes After Supplemental Funding Expires

OCC officials acknowledged that the upcoming deadline for states to expend the remaining supplemental funding would have implications for the sustainability of certain state program changes. To help states sustain some of their efforts, OCC officials told us they were supporting states with strategic planning, networking opportunities, and technical assistance.

Strategic planning. OCC reported helping some states develop strategic plans to guide their long-term efforts. This included helping states select which program changes, precipitated by the influx of supplemental funding, would be sustained. For example, OCC officials from one regional office described helping states in their region assess their various initiatives so they could determine which program changes, if any, could be sustained when supplemental funding expires. OCC also reported helping states sustain their recent program changes by advising on policy around what was allowable with regular CCDF funds, what could be supported by general state funds, and where flexibilities existed within CCDF regulations.

Networking opportunities. OCC also reported setting up networking opportunities for states to share information with each other about strategies to sustain program changes and increase the supply of child care. For example, officials from one OCC regional office reported that during their monthly call with states, OCC officials shared how Tennessee awarded a grant to a company to help build an onsite child care facility to serve its employees. OCC officials described how state officials from Tennessee held an informational fair to help the company's employees determine their eligibility for CCDF subsidies. Regional office officials said they would support other states developing similar initiatives across their region.

Technical assistance referrals. OCC officials told us they were referring states to its partners within their Technical Assistance Network to help states manage their programs and sustain recent changes. For example, NCSIA maintains a tool that states can use to determine sustainable provider payment rates given anticipated funding levels. OCC also reported working with NCSIA to assist a state with adding child care workers to its list of essential workers, allowing them easier access to child care subsidies.

Agency Comments

We provided a draft of this report to HHS for review and comment. HHS provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees, the Secretary of HHS, and other interested parties. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-7215 or larink@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix II.

Kathryn A. Larin, Director
Education, Workforce, and Income Security Issues

Appendix I: Stabilization Grants

Nearly half of the supplemental COVID-19 funding for child care (approximately $24 billion) was allocated to states by the American Rescue Plan Act of 2021 to award directly to child care providers. The purpose of these grants was to support the stability of the child care sector during and after the COVID-19 pandemic. Providers had wide discretion to determine how best to use these funds, including on personnel costs; rent or mortgage payments; insurance; facility maintenance and improvements; training and professional development related to health and safety practices; and mental health supports for children and early educators. These grants were crucial to keeping the child care sector afloat during a particularly difficult time, according to federal Office of Child Care officials. States had until September 30, 2022, to obligate the stabilization funds and had until September 30, 2023, to expend them.

State discretion in designing stabilization grant programs led to variation in stabilization grant application processes, according to officials from Child Care Aware of America (CCAoA). These officials said some states did a better job than others at issuing grants to a wide variety of child care providers. For example, some states did not initially consider that family-based child care providers may not have the same level of business acumen, language ability, and access to information as center-based providers. This led to fewer family-based child care providers in these states applying for and receiving stabilization grants. CCAoA officials also said that some states recognized that they had not done a good job of reaching family-based child care providers in earlier rounds of grants and began providing technical assistance specifically to these providers to help them apply for funding.

State officials we interviewed in selected states said creating applications, vetting providers, and distributing stabilization grants in a timely manner was difficult. Officials in all five states described working with outside organizations during the stabilization grant process. For example, two states worked with outside organizations to ensure their process for distributing stabilization grants was equitable. Officials from one of these outside organizations we interviewed described working in partnership with state officials to develop a formula to determine how much money providers would receive with an eye toward equity. These organization officials also described taking actions to increase the number of providers

applying for stabilization grants and to communicate with providers about the tax implications of receiving grants. Specifically, one of the organizations reported using an accountant who specialized in early childhood to create informational materials for providers that would help prepare them for the potential tax implications of receiving a grant.

All five selected states we interviewed described issuing grants in multiple rounds, and one state official we interviewed said their state streamlined its application after the first round. Specifically, one state official described issuing three rounds of funding, using a different application process for providers each time. State officials described the first round as a competitive grant application, in which providers submitted their business and marketing plans, and a committee reviewed and graded the applications based on a rubric. For later rounds, state officials said they streamlined the grant application process.

A representative of one provider we interviewed who received a stabilization grant described the grant amount as significant, and said the grant was the most flexible the provider had ever received. The representative said that the provider used the grant to give raises to workers, add a shade structure to the playground, purchase additional kitchen equipment, and pay for professional development conferences for staff. The provider representative said that despite the grant, the center still had fewer child care slots available than prior to the pandemic.

Appendix II: GAO Contact and Staff Acknowledgments

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In addition to the contact named above, the following staff members made key contributions to this report: Danielle Giese (Assistant Director), Lauren Mosteller (Analyst in Charge), Kelly Snow, and Colson Sutherland. Also contributing to this report were MacKenzie Cooper, Holly Dye, Kelsey Kreider, Lydie Loth, Dan Luo, James Rebbe, Ronni Schwartz, Lindsay Shapray, Amber Sinclair, Almeta Spencer, and Curtia Taylor.

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