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MTF Bulletin

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Federal Relief Funds for Child Care: What it Means for MA

Over the last two years, the federal government has spent trillions of dollars to combat the COVID-19 pandemic and spur an equitable economic recovery. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA Act), and the American Rescue Plan Act (ARPA) provided relief for households, businesses, and states and local governments. As a part of those packages, $51 billion was directed towards supporting the child care sector through supplementing the Child Care and Development Block Grant (CCDBG) and providing Child Care Stabilization Funds. This influx of funding was a historic and critical investment for a system in crisis.

The purpose of this brief is to provide an overview of the child care-related provisions within the federal relief packages outlined above. Organized by the source of funding, our overview includes details on allocations to Massachusetts, federal requirements and recommendations, and the state's spending of these funds to date. In addition, we focus on the Fiscal Recovery Funds (FRF) included in ARPA. Far more flexible than the other federal funding streams, and with billions remaining to be appropriated, FRF gives policymakers the ability to further support improvements to the child care sector.

Child Care and Development Block Grant

For the last 31 years, the Child Care and Development Block Grant (CCDBG) has been one of the primary sources of child care funding for states.[1] It provides subsidies to low-income families so they can obtain child care while they work or attend job training or educational programs. Funds can also be directed at the child care system, specifically for improvements to the quality and supply of care. However, supplemental discretionary CCDBG funds provided through federal relief packages have served a broader purpose of helping to stabilize the child care system through the pandemic.

MA Supplemental CCDBG Funds

As noted above, the CARES Act, CRRSA Act, and ARPA included supplemental discretionary funds for the CCDBG. To date, Massachusetts has received $373 million through these three pieces of legislation (see Figure 1). To put this into perspective, the state received $65 million in discretionary CCDBG funds in the last full fiscal year prior to the pandemic.

[1] Head Start is an additional source of federal child care funding for states. However, unlike the CCDBG, states do not have much control over implementation of Head Start funds. For this reason, money provided to Head Start through these federal stimulus packages is excluded from this report.

Figure 1. CCDBG Funding Streams by Federal Legislation

Legislation	Total in Bill	CCDBG	MA CCDBG
CARES Act	$1.7 trillion	$3.5 billion	$45.7 million
CRRSA Act	$868 billion	$10 billion	$131 million
ARPA	$1.8 trillion	$15 billion	$196 million
Total	**$4.4 trillion**	**$28.5 billion**	**$372.7 million**

Guidelines

The supplemental CCDBG awards generally follow the federal spending requirements of the regular discretionary CCDBG. However, typical standards were relaxed to allow states to make swift spending decisions that met their child care system's needs. These differences are outlined in Figure 2.

Figure 2. Differences in CCDBG Requirements by Federal Legislation

Requirement	Standard CCDBG	CARES Act & ARPA	CRRSA Act
Spending minimums	12% for quality improvement; 70% for direct child care services	None	None
Families Eligible for Assistance	Families making less than 85% of SMI[2]	85% of SMI, unless an essential worker	85% of SMI, unless an essential worker
Providers Eligible for Assistance	All providers are eligible for quality improvement funds; providers serving eligible families can receive direct child care service funds	Same as standard CCDBG rules	Same as standard CCDBG rules, as long as activities relate to preventing/responding to COVID-19

The federal Office of Child Care (OCC) has provided guidance to states on recommended uses for supplemental discretionary CCDBG funds. For the CARES Act, much of the guidance focused on relief for providers dealing with closures and enrollment declines, in addition to support for essential workers on the front lines of the public health crisis. Guidance for funds provided by the CRRSA Act and ARPA on the other hand, was much broader, focusing on topics such as relief for families, wages for child care workers, grants for providers, and increasing subsidy payment rates. This change in guidance most likely reflects the evolving nature of the pandemic and its longer-term impact on the child care sector.

Spending to Date

Supplemental CCDBG dollars are one of the few federal relief programs that have been appropriated by the state legislature. The $45.7 million in CARES Act funds were appropriated in June 2020 and directed the Department of Early Education and Care (EEC) to prioritize programs with at least one subsidized child enrolled or that served parents who were essential workers. Funds were primarily used to provide reopening grants to child care programs. During the months of July and August, eligible providers received $2,250 per month for each classroom or family child care

[2] SMI stands for State Median Income.

provider for a total maximum award of $4,500. A total of $32 million was distributed through these reopening grants. The remaining $14 million supplemented EEC funds being used to cover the cost of parent fee payments made to providers.[3]

The $131 million in supplemental CCDBG funds provided in the CRRSA Act were appropriated to the EEC in a July 2021 supplemental budget which included two earmarks to direct the funds:

- **$91 million** was allocated for stabilization grants, workforce investments, technology and infrastructure support, and technical assistance to support grant distribution;
- **$40 million** was earmarked specifically for grants to providers who serve subsidized children.

These funds have not yet been spent, but according to recent EEC Board presentations are likely to be used to augment Child Care Stabilization grants to providers (details below).[4]

The $196 million the state received in ARPA supplemental CCDBG funds have not yet been appropriated. It is possible that the state legislature is waiting on recommendations from the Early Education and Care Economic Review Committee. The committee was established in a FY 2021 budget to make recommendations on how to improve and expand access to child care in Massachusetts. These recommendations are likely to be released in 2022.

Child Care Stabilization Fund

In addition to the $15 billion for the Child Care and Development Block Grant, ARPA allocated $23 billion to a new child care program for states: the Child Care Stabilization Fund. This program was created to address the financial burdens faced by providers during the pandemic and prevent a further reduction in the supply of child care as states recover. Child Care Stabilization funds are not subject to appropriation and are instead expended directly by the EEC without legislative involvement.

MA Child Care Stabilization Funds

Massachusetts received $314 million in Child Care Stabilization funds through ARPA. State allocations were determined by using the same formula as discretionary CCDBG funds.[5] States are required to obligate at least 50% of these funds by December 2021.

Guidelines

According to the OCC, the purpose of these grants is to help cover operational expenses and promote the child care sector's recovery. In order to meet those goals, states are required to spend 90% of stabilization funds directly on grants to child care providers. In turn, providers can spend these funds on activities that support their business operations, including rent, personnel costs, facility maintenance, tuition relief, and mental health services. Unlike the regular CCDBG, eligible

[3] Financial assistance provided by the EEC typically only covers a portion of the daily cost of child care. Most families are charged the remaining cost via a fee or co-payment according to their income and household size. During the pandemic the EEC has covered the entire cost of these fees.

[4] Department of Early Education and Care Board Presentation. June 8, 2021.

[5] State discretionary CCDBG awards are calculated based on: 1) the number of children under age 5; 2) the number of children qualifying for school lunch programs; and 3) per capita income.

providers do not need to serve low-income families or subsidy children. Eligible providers must have had the appropriate state and local licensure for operation as of March 11, 2021 and include:

1. Child cares open and available to provide child care services at the time of application;
2. Child cares temporarily closed due to public health, financial hardship or other reasons related to COVID-19.

The OCC does not mandate a formula for determining grant amounts and instead leaves that to states. However, the OCC does advise that grant amounts be based on the true cost of providing high-quality care. One way the OCC suggests states can do this is to calculate grants using enrollment instead of attendance. Fluctuations in attendance during the pandemic create unpredictable flows of income for providers. Focusing on enrollment capacity to determine grant amounts gives child cares much-needed revenue stability. The OCC also recommends that grants be provided for at least 6 months.

Spending to Date

In June 2021, the EEC announced its plans for spending the $314 million in Child Care Stabilization funds. Starting in July, the EEC began distributing grants to providers to cover a portion of their operating costs over a six-month period. The EEC partnered with Third Sector Capital Partners to create the Commonwealth Care for Children (C3) Formula to distribute the grants. The formula calculates grant amounts based on capacity and staffing costs, and includes an equity adjustment for providers serving vulnerable communities and children.[6] The EEC set a target of covering a minimum of 10% of a provider's operational costs during the course of the grant. For further details, see MTF's primer on the C3 formula.

Over the first several months of the program, the EEC has disbursed stabilization grants to 4,831 providers, representing 62% of all providers in the state. According to an October EEC Board meeting, take-up rates are highest among Family Child Care's (FCC's): 75% of these providers have submitted an approved application for at least one month of funding compared to 60% of Center-based providers[7]. Although take-up rates for Center-based programs are lower, they are receiving a much greater portion of the total funding distributed thus far. Centers have received 77% of the funding disbursed compared to 22% for FCC's. This is likely due to centers having a higher number of licensed seats compared to FCC's, thereby increasing their grant award. Data from the EEC also shows how the equity adjustment is influencing grant distributions. Roughly 30% of the funds awarded to date have gone to providers in socially vulnerable communities, while 26% of licensed seats in the system are within those communities.[8]

[6] If CEO compensation is greater than 40:1, those providers will not be eligible for the staffing or equity adjustment.

[7] Family child cares typically operate in the provider's home with one or two staff members serving small groups of children (10 or fewer in MA). Centers operate in commercial buildings and serve a greater number of children with a Director and multiple supporting staff.

[8] The CDC defines social vulnerability based on an index which includes 15 factors such as poverty, housing, and transportation.

The EEC has announced it is extending stabilization grants for an additional six months.[9] As of November 1, 2021, $130 million has been spent directly on grants to child care providers and an additional $5 million went towards administrative costs. In July and August, monthly costs were $48.5 million. In September, the program expended closer to $35 million. At the September rate, Child Care Stabilization funds will be spent down by the end of February 2022. In order for these grants to be extended for a full year, other state and federal resources will need to be used. There are several potential funding sources at the EEC's disposal. The $131 million Massachusetts received through the CRRSA Act has been appropriated but not yet expended, making this immediately available for use. The EEC also has a $100 million surplus carried over from FY 2021 at its disposal – some part of these funds could be used to supplement stabilization grants as well. Discretionary CCDBG funds from ARPA have not yet been appropriated, but remain an option for the near future. Given this, policymakers and program administrators will need to decide if the child care stabilization program is a model worth continuing and how the state will pay for it beyond FY 2022.

Fiscal Recovery Fund

One of the most notable components of ARPA is the creation of the Fiscal Recovery Fund. A way to provide relief to states and localities for pandemic recovery efforts, FRF gives Massachusetts the opportunity to invest in a number of areas, which includes child care. Due to their flexible nature, FRF resources are not subject to the same restrictions as Child Care Stabilization funds or supplemental CCDBG funds and could be spent to support the child care system in a variety of ways.

MA Fiscal Recovery Funds

Massachusetts received $5.3 billion in FRF resources. Roughly $400 million was already allocated to address immediate COVID-19 needs, leaving approximately $4.9 billion available for appropriation. Governor Baker recently signed a bill that authorizes $2.55 billion to be used in five primary areas: housing, workforce, economic development, healthcare, and infrastructure. Child care appropriations are notably absent, although based on federal guidelines, opportunities to direct funds for those purposes exist.

Guidelines Relevant to Child Care

ARPA sets forth four pandemic-related categories eligible for spending:

1. To respond to the public health emergency or its negative economic impacts;
2. To provide premium pay to essential workers;
3. To support government services, to the degree in which recipients experienced a reduction in revenue due to the pandemic; and
4. To make investments in water, sewer, or broadband infrastructure.

Excluding infrastructure, the remaining three categories offer policymakers options for child care investment. Premium pay has the most limited eligible uses, serving the sole purpose of compensating essential workers, including child care workers. Perhaps most flexible, the state can

[9] Per the EEC Commissioner's update on November 24, 2021: https://us13.campaign-archive.com/?u=74ce63412efa7f6c8b38b2606&id=d377455cf1.

use up to $3.7 billion of FRF for government services, which includes child care. Lastly, spending under the public health category that is made in a disproportionately impacted community can be used to expand high-quality child care.

Spending to Date

As noted above, Governor Baker recently signed a spending bill that authorizes $2.55 billion of FRF to be used to support the state's recovery. The bill does not include direct investments in the child care system. The bill sets aside $500 million for premium pay for essential workers for which child care workers are eligible, but these one-time bonus payments are not intended to stabilize the underlying system. Roughly $2.3 billion remains in FRF resources to be spent at a future date.

During the pandemic, federal resources have been devoted to stabilizing the child care system. Looking forward, policy-makers must explore ways to make systemic improvements that respond to the changing needs of children, parents, employers, and providers in the post-pandemic recovery. Although the House recently passed Build Back Better, which includes a $400 billion investment in early education, final passage of that bill remains unclear. In the meantime, as policy makers turn their attention to how best to spend the remaining FRF amount, child care should be among the spending priorities for consideration.

Conclusion

Over the last two years, the federal government has invested billions into the child care system in order to support the industry and the nation’s economic recovery by enabling parents of young children to return to work. Supplemental discretionary CCDBG funds helped meet the immediate critical needs of providers faced with closures and steep declines in enrollment. As volatility in the industry persisted, Child Care Stabilization funds offered a new opportunity for states to support providers by covering a portion of their operational costs. These essential funds have kept the industry afloat but are likely to be spent within the next 7 months. Using FRF for child care could be a critical tool for sustaining these supports in the near term, while also improving quality and access, and potentially informing system changes for future federal investment.

As the federal landscape on child care evolves, MTF will continue to provide updates on what these changes might mean for the child care system in Massachusetts.