

# Ensuring a Strong Child Care Sector: Federal Investments are the Foundation for State and Local Early Learning and Child Care Programs



Our nation's economy depends on child care. In 2016, about 11.8 million, or 58.7 percent of, children under age five participated in a regular, weekly care arrangement with a non-parental provider.<sup>1</sup> For decades, even with the emergence of committed governors, local elected officials, business, and philanthropy, the Federal Government has provided the majority of public funding needed to undergird a complex and disparate child care system. The current crisis created by the Coronavirus pandemic not only brings into sharp focus the fact that our economy depends on child care, but also that federal support is critical. "Stay at home" orders issued by the Governors of Colorado, Connecticut, Idaho, and New York and the Mayor of the District of Columbia identified child care as an essential business exempt from closure requirements. State and city officials scrambled to put in place [emergency child care arrangements](#) for doctors, nurses, and other essential workers. And parents juggling

telework and caring for children at home appreciate their children's regular caregivers more than ever.

Yet the very factors that underscore the necessity of child care for U.S. workers also underscore its fragility. The National Association for the Education of Young Children (NAEYC) [found](#) that in the first two weeks of the COVID-19 pandemic, child care attendance dropped by 70 percent. The Federal Government has a crucial role to play in ensuring that, when improved public health conditions make it possible for American families to go back to work, child care is there for them. Throughout the pandemic, [surveys](#) have consistently shown the importance of supporting child care. Without intervention, providers report that they will be unable to remain open for families, and families are already reporting struggling to find care. Ultimately, research projects that nearly half of all child care, 4.5 million spots, could disappear.<sup>2</sup>

In normal times, child care providers rely on tuition payments as their main source of revenue, but federal, state, and local governments play significant and distinct roles in cultivating the market of quality child care options and helping parents, particularly those with low incomes, access and/or pay for early education and care. Over the past three decades, state and local policymakers, motivated by an increased understanding of early brain development and its importance, as well as the economic returns made by investing in early learning, have dramatically increased their investments in early care and education. However, federal funds provided through large program funding streams and tax credits to families and businesses still provide the crucial foundation upon which these state and local investments are built. And that foundation is particularly crucial in supporting states, families, and child care providers seeking to navigate the current public health crisis and its economic after-effects.

<sup>1</sup> Committee for Economic Development, Child Care and State Economies Report 2019. Retrieved from [www.ced.org](http://www.ced.org).

<sup>2</sup> Center for American Progress, Coronavirus Pandemic Could Lead to Permanent Loss of Nearly 4.5 Million Child Care Slots. Retrieved from <http://www.americanprogress.org>.

These federal investments and supports are of paramount importance and truly foundational as they provide:

- The primary source of funding for public early care and education programs;
- An early learning infrastructure that benefits children in care and their families;
- Stability in challenging economic times;
- Support for the development of innovative solutions to new challenges; and
- Opportunities through the tax code.

**FEDERAL FUNDS ARE THE PRIMARY SOURCE OF FUNDING FOR PUBLIC EARLY CARE AND EDUCATION PROGRAMS.**

The Federal Government provides most of the public funding for early childhood programs. Nearly \$22.5 billion in federal funds annually goes to programs that support the care and education of children from birth through age five<sup>3</sup>, compared to roughly \$7.1

billion in state spending on similar programs.<sup>4</sup> (There is no comprehensive data available on local government early childhood investments, but they are likely far less than state spending, and many local early childhood programs rely primarily on state and federal funds.)

The federal role in early childhood is different from K-12 public education, where federal funds account for less than 10 percent of government funding, and state and local governments each provide about 45 percent; together the K-12 system is fully funded. Because state and local funds cover most of the operating costs for K-12 schools, federal funds typically supplement them to fund specific programs or improve equity for underserved student populations. In contrast, federal funds provide foundational funding for early childhood programs, making the federal role in early childhood more akin to areas such as health and welfare, where federal funds provide a foundation on which state and local investments can

build, while allowing state policymakers flexibility to design their own programs.

Because federal funds provide this crucial foundation in normal times, they are even more essential to sustain early care and education during the current public health crisis. Federal disaster assistance to K-12 schools comes on top of existing state and local funds, which support schools' ongoing operations, to help schools cover additional incremental costs of responding to and preventing the spread of the coronavirus. Early childhood programs, in contrast, need federal funds to support ongoing operating costs, particularly for those providers that are unable to collect parent fees due to state closures or stepping up to take on additional roles in caring for children of essential workers. A recent report found child care providers are seeing a 47 percent increase in operating costs at child care centers and nearly 70 percent at family child care homes. This is due to increasing costs associated with reduced ratios and increased personal protective

<sup>3</sup> Including the Child Care and Development Fund (CCDF); Head Start; Preschool Development Grants; Maternal, Infant, and Early Childhood Home Visiting (MIECHV) program; and Temporary Assistance for Needy Families (TANF) funds that are transferred to CCDF or are spent on child care, pre-k, or Head Start. This figure reflects our best estimates given available data. Some CCDF funds are used to support children over age six. This estimate does not include federal funding in preschool special education and interventions for children with disabilities under the Individuals with Disabilities Education Act (IDEA) (approximately \$681 million) because comparable state and local funding levels are not available. It also does not include Title I funds spent on early childhood because, while these funds originate at the federal level, decisions to spend them on early childhood are local district decisions.

<sup>4</sup> Includes state CCDF matching and maintenance of effort (MOE) funds, TANF MOE funds spent on child care, and state pre-k spending.

equipment (PPE) and sanitation needs.<sup>5</sup>

### **FEDERAL FUNDS SUPPORT AN EARLY LEARNING INFRASTRUCTURE THAT BENEFITS CHILDREN IN CARE AND THEIR FAMILIES.**

Federal funds don't just finance direct early learning services for children and families; they also fund infrastructure that supports quality and delivery of local, state, and privately-funded early childhood programs. This infrastructure provides a flexible platform to sustain and foster state early care and education systems in the face of public health and economic challenges.

For example, the Child Care and Development Fund (CCDF), which provides federal funds to states and accounts for most of the public funding for child care, pays for state child care subsidies that help low-income and working families purchase care. But CCDF also supports state-level child care infrastructure that [benefits all working parents and their children](#) – not just those receiving a subsidy. States use CCDF to cover the costs of state child care licensing systems, which

monitor health and safety in child care settings so parents know their children are safe while they work, as well as state-level systems that help cultivate the supply and quality of care. This foundation allows states to target their additional investments and align specific state needs and priorities.

States also have considerable flexibility in how they use CCDF to support state early learning systems. This flexibility enables state and federal policymakers to utilize CCDF to support state early care and education systems in the current crisis. Federal coronavirus response legislation passed in March 2020 provides additional CCDF funds that states can use to pay child care providers during closures or those facing reduced attendance due to the coronavirus, provide child care for essential workers, and help licensed child care providers cover costs to clean and sanitize their facilities. States have broad discretion to decide how best to use these funds to support the unique needs of their essential workers and early childhood sectors. But additional funds are necessary to respond to the magnitude of need.

### **FEDERAL FUNDS LEVERAGE STATE AND LOCAL INVESTMENTS.**

Federal funds not only account for the lion's share of early childhood spending, but also encourage state investments. For example, most state spending for child care is required state matching and "maintenance of effort" (MOE) funds that states must spend to draw down federal funding. In FY2019, \$7.67 billion in mandatory and discretionary federal CCDF spending leveraged an additional \$2.12 billion in state investments.<sup>6</sup> In FY2018, states used \$3.11 billion of their federal Temporary Assistance for Needy Families (TANF) funds for early learning and care and provided \$4.82 billion MOE funds.<sup>7</sup> Similarly, states receiving federal funds through the Maternal, Infant, and Early Childhood Home Visiting (MIECHV) program are required to provide state MOE funds. In FY2018, \$400 million in federal MIECHV funds leveraged an additional \$82.9 million in state funds.<sup>8</sup> Some states spend more than the required match, and many would continue to invest in child care even without these

<sup>5</sup> Center for American Progress, The Cost of Child Care During the Coronavirus Pandemic. Retrieved from [www.americanprogress.org](http://www.americanprogress.org).

<sup>6</sup> Office of Child Care, FY 2019 CCDF Allocations (Based on Appropriations). Retrieved from [www.acf.hhs.gov/occ/resource/fy-2019-ccdf-allocations-based-on-appropriations](http://www.acf.hhs.gov/occ/resource/fy-2019-ccdf-allocations-based-on-appropriations).

<sup>7</sup> Office of Family Assistance, TANF Financial Data – FY 2018, Table A.2. Retrieved from [www.acf.hhs.gov/ofa/resource/tanf-financial-data-fy-2018](http://www.acf.hhs.gov/ofa/resource/tanf-financial-data-fy-2018).

<sup>8</sup> Government Accountability Office (GAO), MIECHV – HHS Determined That States Generally Met the Maintenance of Effort Requirement. Retrieved from [www.gao.gov/assets/710/701431.pdf](http://www.gao.gov/assets/710/701431.pdf).

requirements. Nevertheless, federal funding and policies play an important role in incentivizing and leveraging state investments in the face of competing fiscal priorities.

### **FEDERAL FUNDS PROVIDE STABILITY IN CHALLENGING ECONOMIC TIMES.**

Federal funds also play a crucial role in backstopping and sustaining early care and education funding during challenging economic times. When the economy is weak, states face a double whammy of decreasing revenues combined with increasing demand for public services. Since most states are required to balance their budgets, this places fiscal pressure on state budgets, leading to spending cuts. Because states do not have the same constitutional obligations to provide early care and education that they do for K-12 schooling, state early care and education funding is vulnerable to cuts when states face economic headwinds—even though families' and children's needs increase during these times. In September, [NAEYC conducted follow-up surveys](#) with providers who indicated that they may need to raise tuition. Of those programs who responded, half have had to raise tuition for at least some

families to remain open. On average, families are paying \$115 more per child per month at a child care center and \$88 more per child per month at a family child care home.<sup>9</sup> These fee increases could make already-expensive child care unaffordable for families, resulting in parents leaving the workforce.

At times like these, only the Federal Government has the fiscal capacity to provide additional funds needed to sustain early care and education services and meet increased child and family needs. Following the 2008 financial crisis, increased federal funding for CCDF and Head Start played a vital role in sustaining access to early care and education for many families in the face of state budget cuts. Even with this support, access to early care and education fell during the recession and has not yet fully rebounded in some states. Still without federal intervention, the damage would have been far worse. As the nation faces a potentially greater economic challenge, federal funds are even more crucial to ensure that children and families can access the early care and education they need.

### **FEDERAL FUNDS SUPPORT DEVELOPMENT OF INNOVATIVE SOLUTIONS TO NEW CHALLENGES.**

The coronavirus is forcing state and local governments to respond to challenges they have never faced before. States and school districts, for example, are developing new solutions to catch up students whose education has been disrupted by coronavirus closures. Federal funds have long supported innovation in early care and education to meet identified local needs.

Head Start, the federal program that supports early learning and development for nearly 1 million children in poverty and their families, has incubated numerous innovations during its 55-year history. Today, Head Start grantees are continuing to innovate, using creative approaches to get meals to children and families during social distancing and leveraging technology to connect with families and support children's learning at home. Federal coronavirus response legislation thus far has provided \$750 million for Head Start programs to continue to innovate in this way, including by offering new supplemental summer programs to help those incoming kindergarteners who missed out on early learning due to coronavirus

<sup>9</sup> National Association for the Education of Young Children, Child Care Programs Are Being Forced to Raise Tuition or Close for Good (And Families Pay the Price Either Way). Retrieved from [www.naeyc.org](http://www.naeyc.org).

closures get ready to succeed in school. These efforts, as well as innovative approaches that some states are putting in place with CCDF funds, are keeping the early learning workforce employed, while also offering models that can be expanded to improve early childhood outcomes even after the current crisis resolves. These strategies include states paying providers based on enrollment rather than attendance, providing emergency child care subsidies for children of essential workers, and providing grants to support providers' on-going operating costs. As states use these funds to meet their unique needs, the Bipartisan Policy Center continues to [track how states are using money](#) from the [CARES Act](#).

### **FEDERAL OPPORTUNITIES THROUGH THE TAX CODE.**

While most federal early childhood spending is targeted to programs and services to low-income families, one provision in the tax code – the Child and Dependent Care Tax Credit (CDCTC) – is specifically designed to help working families with the cost of work-related child care expenses. The CDCTC varies, based on family income, between 20 and 35 percent of qualified expenses up to \$3,000 for one child or \$6,000 for two or

more children. In 2016, working families claimed \$3.65 billion in federal tax credits through the CDCTC.<sup>10</sup> By increasing families' purchasing power, these tax credits help support the child care market for some families. The CDCTC is just one example of how federal early childhood education investment can be seen outside the traditional program arena.

### **THE IMPORTANCE OF ENSURING A STRONG FOUNDATION OF FEDERAL FUNDING.**

The COVID-19 pandemic poses previously unseen challenges for families, businesses, and local, state, and federal governments. It also demonstrates visibly the importance of child care for unleashing the creative potential of American workers and businesses to overcome these challenges.

Early care and education programs need support to weather current headwinds and meet the needs of children, parents, and employers. Because federal early childhood funds provide the foundation for other state and local investments, they are essential to enable state and local policymakers to support children, families, and early childhood providers during and after the current crisis.

<sup>10</sup> Internal Revenue Service, Tax Year 2016.