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March 2023

CHILD CARE

Subsidy Eligibility and Use in Fiscal Year 2019 and State Program Changes during the Pandemic

GAO-23-106073

GAO Highlights

Highlights of GAO-23-106073, a report to congressional committees

Why GAO Did This Study

Many families struggle to access child care that is both high quality and affordable in the U.S., particularly those who are low-income. The COVID-19 pandemic created additional difficulties in the already-stressed child care sector. To support both families and child care providers, Congress appropriated additional funds and provided states temporary flexibilities in how they administer their CCDF programs.

GAO examined: (1) what is known about the number of children eligible for federal child care subsidies and the extent to which they receive and use them, and (2) changes selected states made to federal child care subsidy programs to support families and providers during the COVID-19 pandemic, and challenges they have experienced.

GAO summarized HHS's analysis of CCDF program data about children's eligibility and receipt of child care subsidies for fiscal year 2019, the most recent available, and calculated children's estimated eligibility and receipt rates at the state level. GAO also interviewed CCDF administrators from seven states about their experiences during the COVID-19 pandemic (selected to represent different state program attributes like using wait lists or not, and state attributes like geographic region and population size); interviewed agency officials and child care experts; and reviewed related reports.

GAO is not making recommendations in this report.

View GAO-23-106073. For more information, contact Kathryn A. Larin at (202) 512-7215 or larink@gao.gov.

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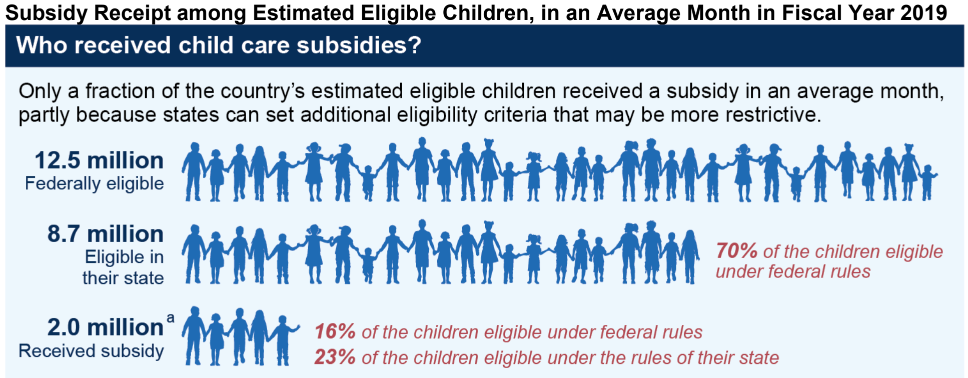
What GAO Found

The Child Care and Development Fund (CCDF) is the primary source of federal funding to states for subsidies that help low-income families afford child care so parents can work, attend school, or participate in job training. According to U.S. Department of Health and Human Services (HHS) data, 2 million of the estimated 8.7 million children eligible for subsidies in their states received them in an average month in fiscal year 2019 (see figure). States have to prioritize which eligible children receive them, and there is a long-standing gap between the number of children eligible for subsidies and those who receive them. In addition, some families do not know about or may face challenges when applying for subsidies. Experts GAO interviewed said that, even with subsidies, some low-income families find it challenging to afford high-quality care, which can lead to them making trade-offs between paying for child care and necessities like food.

Subsidy Receipt among Estimated Eligible Children, in an Average Month in Fiscal Year 2019



Source: GAO analysis of U.S. Department of Health and Human services data and stock.adobe.com. | GAO-23-106073

[a]This estimate represents the number of children who received child care subsidies funded through the Child Care and Development Fund as well as related government funding streams.

Nearly all state child care administrators and child care experts GAO interviewed said that the pandemic put unprecedented strains on working families and child care providers. State administrators described various program changes they made to support families and providers, in part using federal COVID-19 relief funding. For example, six of the seven state child care administrators GAO interviewed said family co-payments were waived in their state for some portion of the pandemic to make child care more affordable for families, and six said their states increased payment rates to child care providers.

State child care administrators GAO interviewed said that they faced both short-term and ongoing challenges as they adapted subsidy programs to meet the changing and time-sensitive needs of families and child care providers during the pandemic. Administrators expressed concerns about the time-limited and one-time nature of federal COVID-19 relief funding, and uncertainty about future funding levels. For example, three said they were concerned about expelling newly eligible children from the subsidy program once COVID-19 funds expire, and one state opted to implement one-time bonuses rather than raising wages to address long-standing workforce recruitment and retention challenges.

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U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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March 29, 2023

The Honorable Bernard Sanders
Chair
The Honorable Bill Cassidy
Ranking Member
Committee on Health, Education, Labor and Pensions
United States Senate

The Honorable Virginia Foxx
Chairwoman
The Honorable Robert C. "Bobby" Scott
Ranking Member
Committee on Education and the Workforce
House of Representatives

Many families struggle to access high-quality and affordable child care in the U.S. In 2019, nearly 3.5 million children with working parents lacked access to formal child care, according to an analysis of data from 35 states.[1] Even when high-quality child care is available, many families struggle to pay for care. Families with children under age 5 spent, on average, 13 percent of their 2017 family income on child care,[2] and for low-income families, the share of their income spent on child care can be substantially higher. As a result, some families may need to compromise on other essentials to pay for child care.

Child care subsidies help low-income families afford child care so parents can work, attend school, or participate in job training. The federal government provides funding to states through the Child Care and Development Fund (CCDF) for subsidies aimed at improving the affordability, availability, and quality of child care. The COVID-19 pandemic has dramatically affected the already-struggling child care sector as supply and demand fluctuated and many providers faced temporary or permanent closure. Congress appropriated substantial funds and temporarily provided states additional flexibilities in how they

[1]L. Smith, A. Bagley, B. Wolters, *Child Care in 35 States: What we know and don't know*, Bipartisan Policy Center (Washington, D.C.: Nov. 2021).

[2]The 13 percent refers only to families who pay for child care. U.S. Department of the Treasury, *The Economics of Child Care Supply in the United States* (Washington, D.C: Sept. 2021).

administer their CCDF program, to support both families and child care providers during the pandemic.[3]

The 2014 reauthorization of the Child Care and Development Block Grant Act includes a provision for GAO to report on eligibility for and receipt of child care subsidies as well as the status of subsidy wait lists every 2 years.[4] This report examines: (1) what is known about the number of children eligible for federal child care subsidies and the extent to which they receive and use them, and (2) changes selected states made to federal child care subsidy programs to support families and providers during the COVID-19 pandemic, and challenges they have experienced.

To address these questions, we (1) summarized U.S. Department of Health and Human Services' (HHS) analysis of overall CCDF program data about children's eligibility and receipt of child care subsidies for fiscal year 2019, the most recent available;[5] (2) calculated state-level eligibility and receipt for children by using state-level data about federal and state CCDF eligibility from the HHS analysis, and state-level data on CCDF

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[3]Congress appropriated $52.5 billion in supplemental CCDF funds through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted in 2020, the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act of 2021, and the American Rescue Plan Act (ARPA) of 2021. The CARES Act and CRRSA also provided additional flexibilities for the use of funds, including, among other purposes, to provide continued payments and assistance to child care providers in the case of decreased enrollment or closures related to coronavirus, and to assure they are able to remain open or reopen. States had until September 30, 2022 to obligate the $13.5 million in CARES Act and CRRSA funding for child care, and have until September 30, 2023 to spend 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 they have until September 30, 2023 to spend them. States have until September 30, 2023 to obligate the supplemental CCDF funds and until September 30, 2024 to spend them. In addition to COVID-19 supplemental funds for CCDF, the Small Business Administration's Paycheck Protection Program provided a large potential source of funding to child care providers who applied and met program eligibility requirements, primarily to help keep workers employed.

[4]Pub. L. No. 113-186, § 12(a), 128 Stat. 1971, 2001 (codified at 42 U.S.C. § 9858r). For GAO's previous responses to this provision see: GAO, *Child Care: Access to Subsidies and Strategies to Manage Demand Vary Across States*, GAO-17-60 (Washington, D.C.: Dec. 15, 2016); *Child Care and Development Fund: Subsidy Receipt and Plans for New Funds*, GAO-19-222R (Washington, D.C.: Feb. 15, 2019); and *Child Care: Subsidy Eligibility and Receipt, and Wait Lists*, GAO-21-245R (Washington, D.C.: Feb. 18, 2021).

[5]U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, *Factsheet: Estimates of Child Care Eligibility and Receipt for Fiscal Year 2019* (Sept. 2022).

receipt from HHS's Office of Child Care;[6] (3) interviewed agency officials and representatives from organizations with expertise in child care and child care subsidies;[7] and (4) reviewed related reports, including on the use of subsidy wait lists. In addition, we conducted semi-structured interviews with CCDF administrators in California, Colorado, Connecticut, Georgia, Michigan, New Mexico, and Texas. We selected states that represent a diversity of subsidy program and state characteristics. Specifically, we included states with wait lists and states without. For those states with wait lists, we included ones that maintain a single statewide list and ones that maintain local lists, and one with a list that grew during the pandemic and one that shrank. In addition, we selected states of varying geographic regions and population sizes.

To assess the reliability of the data sources, we reviewed relevant documentation, interviewed or received written responses from knowledgeable officials to questions about the data, and reviewed the data sources for any obvious errors. We deemed these data to be sufficiently reliable for the purposes of describing children's eligibility and receipt of child care subsidies for fiscal year 2019 and the number of states with wait lists.

We conducted this performance audit from June 2022 to March 2023 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

CCDF is the primary source of federal funding to help low-income families pay for child care. In fiscal year 2019, federal and state government expenditures totaled about $7.7 billion for CCDF subsidies, according to

[6]All references to the number of children eligible for subsidies are estimates in this report.

[7]We interviewed HHS officials in the Office of the Assistant Secretary for Planning and Evaluation and Office of Child Care, as well as representatives from organizations that have published work on child care and child care subsidies: Child Care Aware of America, National Association of State Child Care Administrators, National Women's Law Center, Parent Voices CA, and Urban Institute, and Congressional Research Service.

HHS.[8] HHS's Office of Child Care administers the 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 to establish their own eligibility criteria that determine which low-income working families will be served. For example, under federal eligibility rules, a family's income may not exceed 85 percent of state median income, but many states set their income limits below the federal maximum.

When a subsidy is used to pay for a child's care, their child care provider receives (1) a payment from the state (provider payment) and (2) a payment from the family (family co-payment).[9] The rates for provider payments and family co-payments are set by each state. States are required to conduct a market rate survey or an approved alternative methodology when setting payment rates.[10] The provider payment rates

[8]Additional sources of federal funding for child care subsidies include Temporary Assistance for Needy Families and the Social Services Block Grant. The federal government and states spent an estimated total of $11.1 billion to subsidize child care through these programs in FY 2019, according to HHS.

[9]A child care provider may charge more than the maximum provider rate in their state. If this occurs, the extra cost is referred to as an overage. If the provider wants the overage paid for, it is the responsibility of the family to pay the overage in addition to any required family co-payment. In some instances, providers do not ask families to pay the overage and receive a lower total subsidy amount for the care provided.

[10]42 U.S.C. § 9858c(c)(4)(B). A market rate survey is an examination of 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 of quality indicators, at each level of quality.

HHS recommends a benchmark of the 75th percentile of rates reported in the market rate survey for payment rates in order to ensure equal access for subsidy recipient and private-paying families, but does not set a threshold states must meet. While CCDF administrators are not required to immediately set rates based on their narrow cost analysis, they are expected to take their analysis into account when setting rates. According to HHS, some states may need to adopt a longer-term approach to closing the gap between their current payment rates and the cost of delivering care. HHS reviews states' CCDF plans to determine whether each state's rates and associated policies are sufficient to provide equal access, and can place states on corrective action if their rates are too low, according to HHS officials.

for each state vary based on the type of care and the child's age, among other factors.

Less Than One-Quarter of Eligible Children Received Child Care Subsidies in Fiscal Year 2019, and Affordability Remained a Challenge for Some Subsidized Families

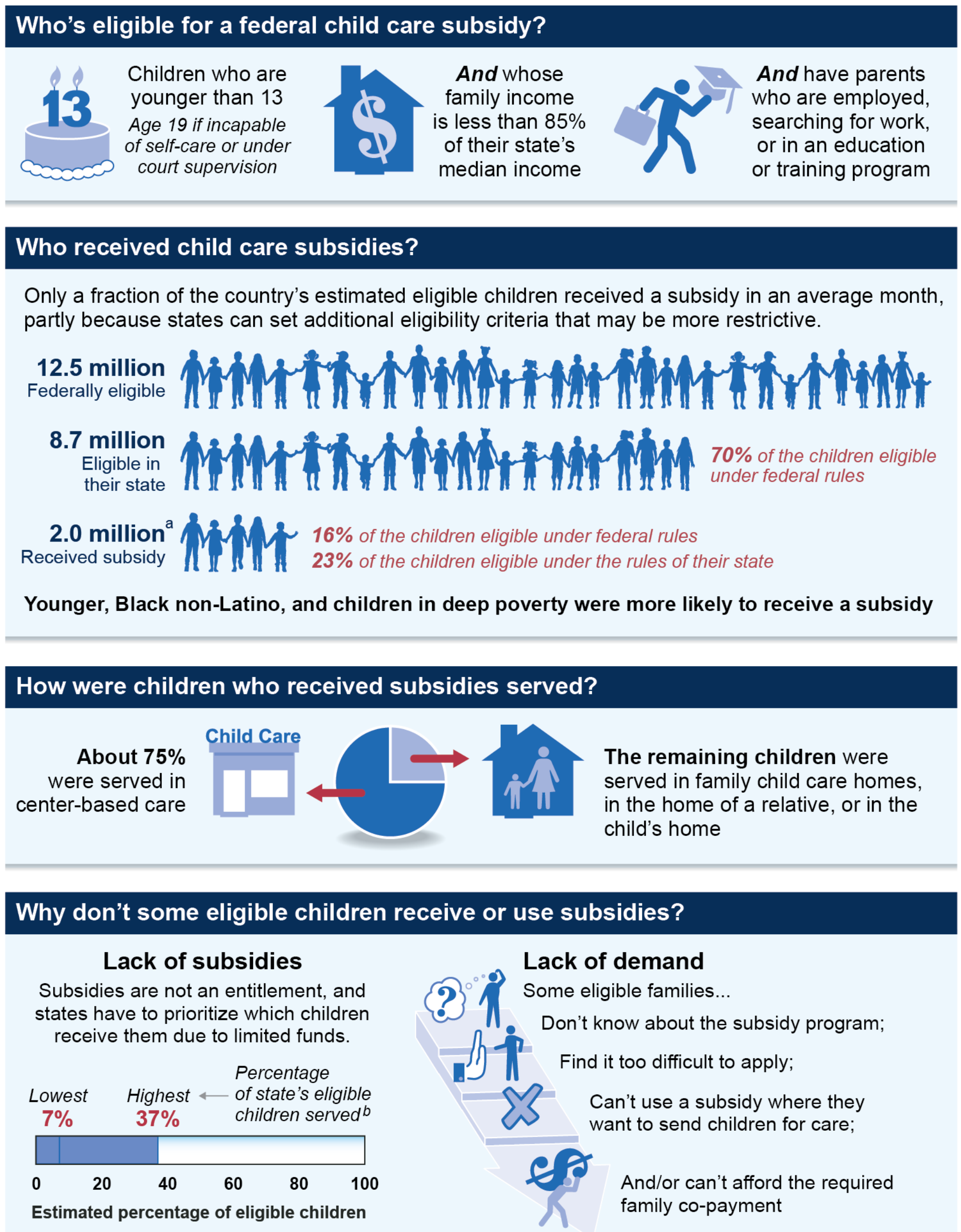
The Estimated Number of Eligible Children Exceeded the Number of Children Who Received Subsidies in Every State

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 (see fig. 1).[11] This represents 16 percent of children eligible under federal rules and 23 percent eligible under their state's rules. As we previously have reported, the gap between the number of low-income working families who could benefit from child care subsidies, and the number who actually receive them, is long-standing.[12]

[11]The most recent CCDF eligibility data are from fiscal year 2019. There generally is a 2-year time lag between the collection of Census data that HHS uses to create its eligibility estimates and when it releases these data, according to HHS officials. HHS produces the eligibility estimates using the Transfer Income Model (TRIM), a microsimulation model developed and maintained by the Urban Institute under a contract with HHS. This model is based on the Annual Social and Economic Supplement of the Current Population Survey. TRIM compares family income and work status data, among other factors, from the Current Population Survey against CCDF requirements in order to generate estimates of the number of children and families eligible for subsidies. The baseline TRIM microsimulation takes time to produce in part because it analyzes changes in subsidy eligibility requirements in each state, as well as changes in requirements for other transfer programs and income imputations, among other factors.

[12]GAO-17-60; GAO-19-222R; GAO-21-245R.

Figure 1: Federal Child Care Subsidies in Fiscal Year 2019



Source: GAO analysis of U.S. Department of Health and Human Services data; interviews with child care experts and state Child Care and Development Fund administrators; GAO-17-60; and stock.adobe.com (line of children). | GAO-23-106073

[a]This Department of Health and Human Services estimate represents the number of children who received child care subsidies funded through the Child Care and Development Fund (CCDF) as well as related government funding streams, including those funded directly through the Temporary Assistance for Needy Families (TANF) program, the Social Services Block Grant, or state

expenditures claimed as TANF maintenance of efforts funds. An estimated 1.43 million children received subsidies through CCDF alone in an average month in fiscal year 2019.

[b]This excludes four states whose estimated percentages of eligible children who received subsidies had a margin of error larger than 15: Alabama, Indiana, Missouri, and New Jersey. When these four states are included, the estimated highest percentage of state's eligible children served is 42 percent.

States decide how to prioritize which children and families can receive their limited number of subsidies. All seven of the states included in our review had at least one priority group, most commonly children from the lowest-income families and children with special needs, which are among federal priority groups for the CCDF program. Some states use wait lists when family demand for subsidies exceeds the number available (see text box).

Subsidy Wait Lists

Some states use wait lists to manage caseloads when more families want subsidies than their states can serve. According to officials from the Department of Health and Human Services, there is no national dataset that captures information about how many children are on subsidy wait lists. States also manage their lists differently and therefore data from these lists cannot be consolidated in a reliable way. For example, some states determine eligibility prior to placing a family on a wait list, while others do so once a family is number one on the wait list and next in line for services. States with local lists rather than one statewide list can have duplicate entries for the same child if a family has applied for a subsidy through more than one local agency. State child care administrators we interviewed said that wait lists are not a reliable way for them to quantify demand or unmet need for subsidies, although they can be helpful as a program management tool for distributing subsidies.

The number of states that use subsidy wait lists continues to decline. According to state surveys by the National Women's Law Center, 19 states maintained a wait list as of February 2015, 14 as of February 2019, and only 12 as of February 2021. The child care administrator for one of these states that maintained a wait list in 2021 said that there is a lot of resistance from counties to maintain a list because of the administrative burden associated with doing so.

Source: GAO analysis of interviews with Department of Health and Human Services officials, state Child Care and Development Fund administrators, and the National Women's Law Center's reports "At the Crossroads: State Child Care Assistance Policies 2021," "On the Precipice: State Child Care Assistance Policies 2020," and "Building Blocks: State Child Care Assistance Policies 2015."| GAO-23-106073

The extent to which children estimated to have met federal eligibility requirements also met their state's requirements varied by state, ranging from an estimated low of 36 percent (proportionally fewer children eligible) to a high of 95 percent (proportionally more children eligible), according to our analysis.[13] The share of these children who received CCDF subsidies also varied by state, with all states distributing subsidies

[13]This high excludes three states whose ratio of children estimated to be eligible under state rules to children estimated to be eligible under federal rules exceeds 100 percent. This can occur when stale rules exclude some sources of income that are included in federal eligibility estimates. State estimates have margins of error of plus or minus 15 percentage points or fewer. See appendix I for additional information.

to fewer than half of eligible children. See appendix I for state-level eligibility and subsidy receipt rates.

State Administrators and Experts We Interviewed Said the High Cost of Child Care Made it Difficult for Families to Use Subsidies

Child care remains expensive for some families despite receiving a subsidy. For some families, their subsidy co-payment exceeds 7 percent of their family income, the benchmark of what may be considered an affordable co-payment, according to HHS.[14] In five states, families on average paid more than 7 percent of their income on their co-payment in fiscal year 2019, according to HHS data.[15]

Experts we interviewed explained that prior to the pandemic, some families limited the amount of care they used for their children or did not accept a subsidy at all due to an inability to pay their family co-payment. In other instances, families made trade-offs between paying for child care and their other needs. For example, one expert we interviewed said some families using child care subsidies and struggling to cover co-payments used high-interest credit cards to meet their daily needs such as food expenses and utility payments, thus exposing them to long-term debt.

Several of the state child care administrators and experts we interviewed said that provider payment rates often are not sufficient to cover the high cost of providing quality care, leading to fewer providers accepting subsidies and fewer places for families to use them.[16] One state child care administrator that we interviewed recently completed their first narrow cost analysis to examine the actual cost for providers to care for subsidy-eligible families; this administrator characterized the difference between the subsidy payment rate and the true cost of care as "jaw dropping." Providers may be deterred from accepting subsidies due to the

[14]Child Care and Development Fund Program, 81 Fed. Reg. 67,438, 67,515 (Sept. 30, 2016).

[15]When excluding families with $0 co-payments, families in 14 states, on average, paid more than 7 percent of their income on their co-payment in fiscal year 2019.

[16]In fiscal year 2019, providers were paid $504 per month, on average nationally, for each child in their care who received a subsidy, according to HHS data. In recognition of the higher cost of complying with more extensive health and safety requirements, including lower child to adult ratios, providers who cared for younger children received higher subsidies. Providers for children between ages 0 and 2 received the highest subsidy of over $630 a month, on average, compared to $374 for children between 6 and 13.

According to a recent Treasury analysis, subsidy amounts being too low to support the cost of high-quality care and low funding, which has declined in real terms since 2001, is a key factor in explaining why so few eligible children are served by the subsidy program. U.S. Department of the Treasury, *The Economics of Child Care Supply in the United States,* (Washington, D.C.: Sept. 2021).

additional administrative burden of participating in the subsidy program, according to experts we interviewed. As a result, families using subsidies may be left with fewer options for care.

Low provider rates can reinforce inequities in the quality of child care received by lower- versus higher-income families. While low wages and resulting staff turnover are a sector-wide challenge, this may be a particular struggle for providers serving low-income families. State CCDF administrators and child care experts we interviewed explained that market prices reflect inequities in families' abilities to pay for child care. As a result, providers in communities with high numbers of children from families experiencing poverty or very low incomes are likely to charge lower rates than those in in communities with less poverty. However, these lower prices do not reflect true costs for providers, according to child care experts we interviewed. This may lead to subsequent effects such as lower wages for child care workers at these centers and higher staff turnover, resulting in lower overall quality of care.

States Made Changes to Their Subsidy Programs to Support Families and Providers during the Pandemic, but Described Challenges

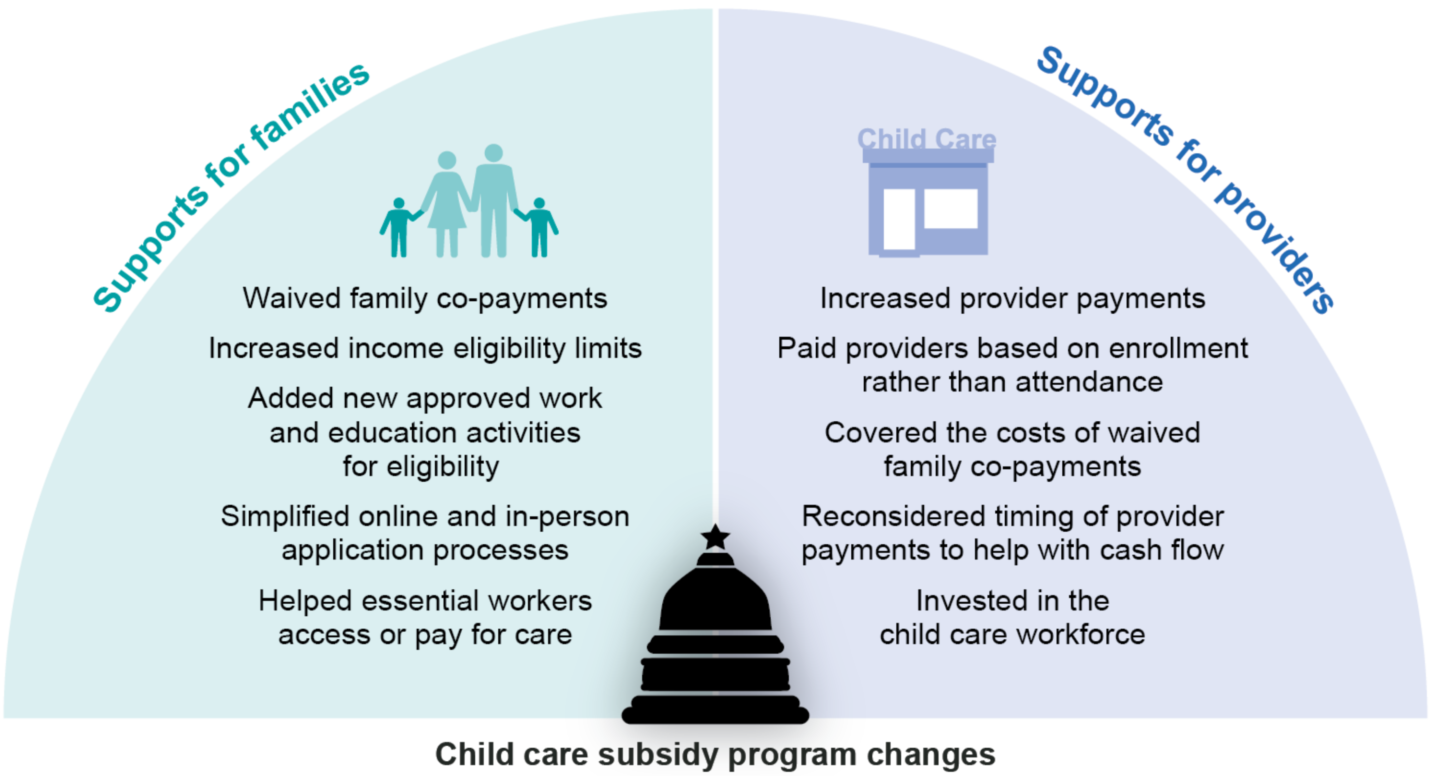
States Expanded Eligibility, Increased Provider Rates, and Made Other Changes to Their Subsidy Programs to Support Families and Providers

Nearly all state child care administrators and child care experts we interviewed said that the pandemic put unprecedented strain on working families and child care providers. Parents lost their jobs as businesses suspended their operations or closed, and parents required child care support while they searched for new jobs or sought out educational activities to enhance their employment prospects. For parents experiencing financial hardship related to job loss, paying for child care became more of a struggle. Safe and affordable child care was a necessity for essential workers such as healthcare workers, emergency responders, and grocery store employees while they carried out critical activities needed during the pandemic, as acknowledged by various stakeholders, including HHS and others we interviewed.[17] A representative from one organization we interviewed noted that temporary and permanent closures of child care facilities strained an already fragile child care market.

State child care administrators we interviewed described various program changes they made to support families and providers (see fig. 2). The changes described below were possible because of COVID-19 relief funding and the additional flexibilities provided to states, according to HHS officials.

[17]According to HHS officials, Congress recognized the importance of child care for essential workers through various pandemic relief legislation and provided states specific flexibilities to meet the needs of this group. U.S. Department of Health and Human Services, "Child Care.gov Connects COVID-19 Essential Workers and Other Parents to Open Child Care," May 5, 2020. https://www.acf.hhs.gov/media/press/2020/child-caregov-connects-covid-19-essential-workers-and-other-parents-open-child

Figure 2: Examples of Selected States' Changes to Child Care Subsidy Programs during the COVID-19 Pandemic



Source: GAO analysis of interviews with state Child Care and Development Fund administrators. | GAO-23-106073

Supports for Families

Waived family co-payments. Child care administrators in six of the seven states we interviewed said family co-payments were waived in their state for some portion of the pandemic to make child care more affordable for families.[18] California's administrator, for example, said that this change was a key investment that enabled families to access the care they needed, rather than the care they could afford based on their

[18]The one remaining state we interviewed adjusted family co-payments on a case by case basis according to each family's circumstances and needs, rather than eliminating them for all families receiving subsidies.

Waiving co-payments for all families generally is not allowable under CCDF, but was allowed temporarily for states with a CCDF waiver or using CRRSA funds, according to HHS officials. See https://www.acf.hhs.gov/sites/default/files/documents/occ/summary_of_waiver_approvals.pdf for additional information on approved waivers.

required family fees. One expert we interviewed said this change was transformative for families and improved their well-being substantially, for example, by allowing them to work full time, pursue educational programs to improve their employment options, access better housing, and pay down debts.

Expanded eligibility. All seven state child care administrators we interviewed made efforts to expand eligibility for families. These efforts included approaches such as increasing income limits, expanding allowable work and educational activities, or providing support for essential workers. Some states also simplified the application process for families (see text box below for examples).

- **Income limits**. Six of the seven state child care administrators we interviewed said income eligibility limits were increased in their state to expand the number of families eligible for a child care subsidy. For example, in October 2022, Texas increased its income eligibility limit to 85 percent of the state's median income. Texas previously allowed localities to set income eligibility limits, and some opted for lower limits.
- **Allowable work and educational activities**. Three states expanded their approved list of work and educational activities for subsidy eligibility. For example, Connecticut added higher education, workforce training, and adult education to its list.

Making Applying for Child Care Subsidies Easier for Families

According to child care experts we interviewed, parents can find the subsidy application process challenging due in part to the amount of information states often require. This can lead to families failing to provide required information and delays in processing. Additionally, the pandemic created pressures for states to quickly determine families' eligibility and process their applications, particularly for essential workers who may have been newly eligible for subsidies.

The Department of Health and Human Service's (HHS) Office of Child Care published a guide in July 2022 on creating a family-friendly child care assistance application as well as a model CCDF application for states to reference.[a] HHS notes that potential burdens when completing a child care assistance application include time spent collecting and submitting required documents and navigating confusing web interfaces, and that burdens fall disproportionately on families that most need services, furthering inequity in accessing quality child care.

Connecticut launched an online application platform, which made it easier for families to apply, increasing the number of families applying for subsidies, according to the state's child care administrator. The child care subsidy program (Care 4 Kids) website includes a screening page, where families can first determine their eligibility for a subsidy before completing an application (bottom left). Based on information in the family's application, the website creates a checklist of documents the family will need to upload. The ease of using this online application has contributed to an increase in applications to the Care 4 Kids Program, decreased processing time, and decreased the number of application errors, according to the CCDF state administrator.

California expanded their use of temporary pop-up application centers during the pandemic as part of their enrollment outreach strategy. The pop-ups took place at community events, parks, and other venues (bottom right). These application centers catered to migrant workers who otherwise would find it difficult to come in to an office and apply for a subsidy in person.

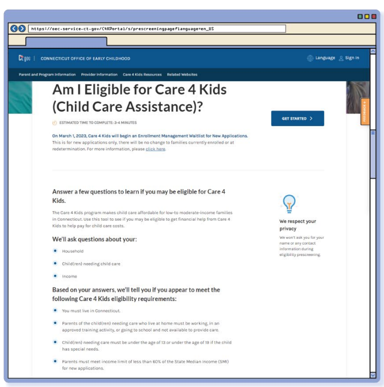


Image: State of Connecticut

Image: Child Care Resource Center

Source: GAO analysis of interviews with child care experts and state Child Care and Development Fund administrators. | GAO-23-106073.

[a]U.S. Department of Health and Human Services, "Creating a Family-Friendly Child Care Assistance Application." (Washington, D.C.: Dec. 2022), accessed Dec. 27, 2022, https://childcareta.acf.hhs.gov/creating-family-friendly-child-care-assistance-application.

Supports for essential workers. State child care administrators used their subsidy programs to assist the families of essential workers. Three states included in our review waived income eligibility requirements for essential workers, allowing them to apply for child care subsidies even if their income exceeded the state's income eligibility limit.[19] In addition, California created an income attestation process that replaced the typical application and eligibility determination process to speed up essential workers' access to subsidies at the beginning of the pandemic. Colorado created an emergency child care program for the children of essential workers in the spring of 2020.

Supports for Providers

Increased provider payments. Child care administrators in six of the seven states we interviewed said provider payments were increased in their state, either through an increase in subsidy payment rates or a one-time bonus to providers. Colorado temporarily increased provider payment rates by 5 percent for all providers, and applied an additional differential rate to account for disparities between the cost of care and the effect of the pandemic on certain providers. For example, higher payments were given to providers of infants and toddlers, since care for that population costs more than care for older children.

Changes to how states pay providers. All seven states included in our review made changes to how they pay providers to help stabilize their revenue. According to Treasury, most child care facilities operate on profit margins of less than 1 percent, and even a month without full enrollment can erase their margins.[20] According to one expert we interviewed, states' changes supported providers who were already participating in the subsidy program, and encouraged new providers to join.

- **Delinking provider payments from children's attendance**. Six of the seven states began paying providers based on enrollment rather than attendance.[21] 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. State administrators said that paying subsidy providers based on enrollment was critical in helping to stabilize the child care sector, as it kept some

[19]This was only allowable with COVID-19 relief funds and the flexibilities provided, according to HHS officials.

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

[21]The one remaining state—Texas—had made this change prior to the pandemic. During the pandemic, excessive absences in Texas did not lead to loss of eligibility for children or loss of payment for their providers. CARES money was used to support this change, but there also was an increase in the child care subsidy wait list during this time.

providers from closing during periods of fluctuating or low attendance. One state administrator said this change incentivized additional providers to join the subsidy program, as subsidies became a reliable source of income during volatile times.

- **Guaranteed payment**. The family co-payment portion of subsidies was paid to providers by all six of the states that waived them for families. This served as an incentive for providers to accept subsidies—receiving guaranteed funding from the state was cited by state child care administrators as a key benefit at a time when private-paying families were struggling to pay for care or reduced their child care hours due to health and safety concerns or more flexible work schedules.
- **Upfront payment**. One state plans to begin paying providers before they provide care, as opposed to reimbursing them, to better align with private pay practices and better address the cash flow challenges of child care businesses.

Investments in the child care workforce. The child care administrators in all seven states we interviewed said their state invested in the recruitment and retention of child care workers through scholarships, apprenticeship programs, one-time bonuses to staff, or wage supplements. See the text box below for examples of these investments.

Investments in the Child Care Workforce

State Child Care and Development Fund administrators we interviewed said they invested in efforts to improve the recruitment and retention of child care workers. For example:

- **Georgia** provided a total of three $1,000 bonuses to child care workers through its Providing Our Workforce Essential Recognition (POWER) program. Eligible workers included those working directly for a licensed child care program for a minimum of 20 hours per week in a role directly serving children and families. Through the Department of Early Care and Learning (DECAL) Scholars Program, state officials also are working with the state's technical college system to increase access to entry-level early learning credentials through their adult education programs. In addition, beginning in 2023, Georgia will use COVID-19 relief funds to provide bonuses to individuals in the early learning workforce who are enrolled in an eligible program to obtain an early learning credential.
- **Michigan's** Caring for MI Future initiative, which began in 2022, is a statewide effort to help child care entrepreneurs open 1,000 new or expanded child care programs by the end of 2024. This initiative focuses on what entrepreneurs need to open and expand child care businesses, including help finding and renovating space, startup funding, staff recruitment, and business plan development support. Additional staff recruitment and retention efforts include the state's Training Educators and Creating Hope (TEACH) Scholarships for providers to further their education in early childhood while they work to increase compensation and the retention of skilled teachers.
- **New Mexico's** Early Childhood Education and Care Department (ECECD) implemented a wage supplement program in July 2021 for those working in child care for at least 20 hours a week, making less than $16 an hour, and enrolled in higher education. ECECD also provides a grant program for child care providers, allowing them to apply for a wage increase of $3 per hour for every employee working in the child care center. This grant program brings the wage floor in child care to $15 per hour. As of January 2023, 6,206 professionals had received the additional compensation, according to the state administrator.
- **Texas** used COVID-19 relief funding to expand professional development scholarships through its Teacher Education and Compensation Helps (TEACH) program. Scholarships are available for early childhood educators taking Child Development Associate tests, obtaining associates and bachelor's degrees, or completing registered apprenticeship training. The state hopes to sustain the TEACH program when COVID-19 relief funding expires, according to the state Child Care and Development Fund administrator. Texas also partnered with Texas A&M University to provide online professional development courses, in accordance with the state's required training for early childhood educators.

Source: GAO analysis of interviews with state Child Care and Development Fund administrators. | GAO-23-106073

States Described Ongoing Challenges with Subsidy Programs, Such as Child Care Workforce Shortages

State child care administrators said that they faced both short-term and ongoing challenges as they adapted their subsidy programs to meet the time-sensitive needs of families and child care providers during different phases of the pandemic.

- **Managing influx of funding**. While child care administrators we interviewed said that they were grateful for the additional financial support for their subsidy program, all seven expressed challenges related to managing and distributing a large influx of funding during a compressed timeframe to address families' and providers' real-time needs. For example, one state discussed the challenge of quickly designing and implementing changes to their IT system to account for changes made to their payment processes.
- **Time-limited nature of funding**. Every state child care administrator we interviewed expressed concerns about the time-limited and one-time nature of the financial support they received during the

pandemic.[22] State administrators said uncertainty about future funding levels was a concern, and that they soon would face (or were facing) looming financial "cliffs" that could erase progress made in addressing long-standing challenges for families and providers who accept subsidies. In particular, several state child care administrators expressed concern about reverting to restrictive, pre-pandemic income eligibility limits for families and lower provider payment rates that do not reflect the true cost of quality care. Three state administrators said they were concerned that without additional action they may need to expel families from the program when COVID-19 relief funds expire. One administrator explained that they opted to pay one-time signing or retention bonuses rather than raising wages to address long-standing child care worker recruitment and retention challenges.

- **Child care workforce shortage**. Growing workforce shortages during the pandemic have exacerbated the existing child care shortage.[23] Six of the seven child care administrators we interviewed said child care providers faced challenges recruiting or retaining workers. One state administrator pointed out that other jobs have lower stress and higher pay, citing a gas station convenience store as an example that pays more than child care jobs and provides benefits. Another state administrator said that low child care wages attracted staff who were lower-performing than prior workers they failed to retain.

HHS officials we interviewed said they heard about each of these challenges from state child care administrators and provided guidance to states for using COVID-19 relief funding to address some of them. For example, HHS encouraged states to increase payments to child care providers so they could improve wages for their employees, which in turn could increase the quality of care for families. HHS also issued guidance that included specific strategies for how states could use supplemental discretionary CCDF funds appropriated under the American Rescue Plan Act to raise workforce compensation and to expand benefits for the child

[22]As previously noted, states have until September 30, 2023 to spend CARES Act, CRRSA funding for child care, and stabilization funds; and until September 30, 2024 to spend supplemental CCDF funds.

[23]According to the Bureau of Labor Statistics, there were 80,100 fewer child care workers in September 2022 than there were in February 2020, before the coronavirus pandemic. U.S. Bureau of Labor Statistics, "Current Employment Statistics", Series Code: CES6562440001, available at https://beta.bls.gov/dataViewer/view/timeseries/CES6562440001

care workforce.[24] HHS officials we interviewed said that they continue to talk to states about navigating challenges around the timing of obligating and spending supplemental COVID-19 relief funding and the upcoming fiscal “cliffs” when this funding expires. They acknowledged that the $1.9 billion increase in CCDF appropriations for fiscal year 2023 from the fiscal year 2022 level is helpful, but does not alleviate states’ concerns about the looming loss of significant funds.

Agency Comments

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

We are sending copies of this report to appropriate congressional committees and the Secretary of Health and Human Services. In addition, this 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

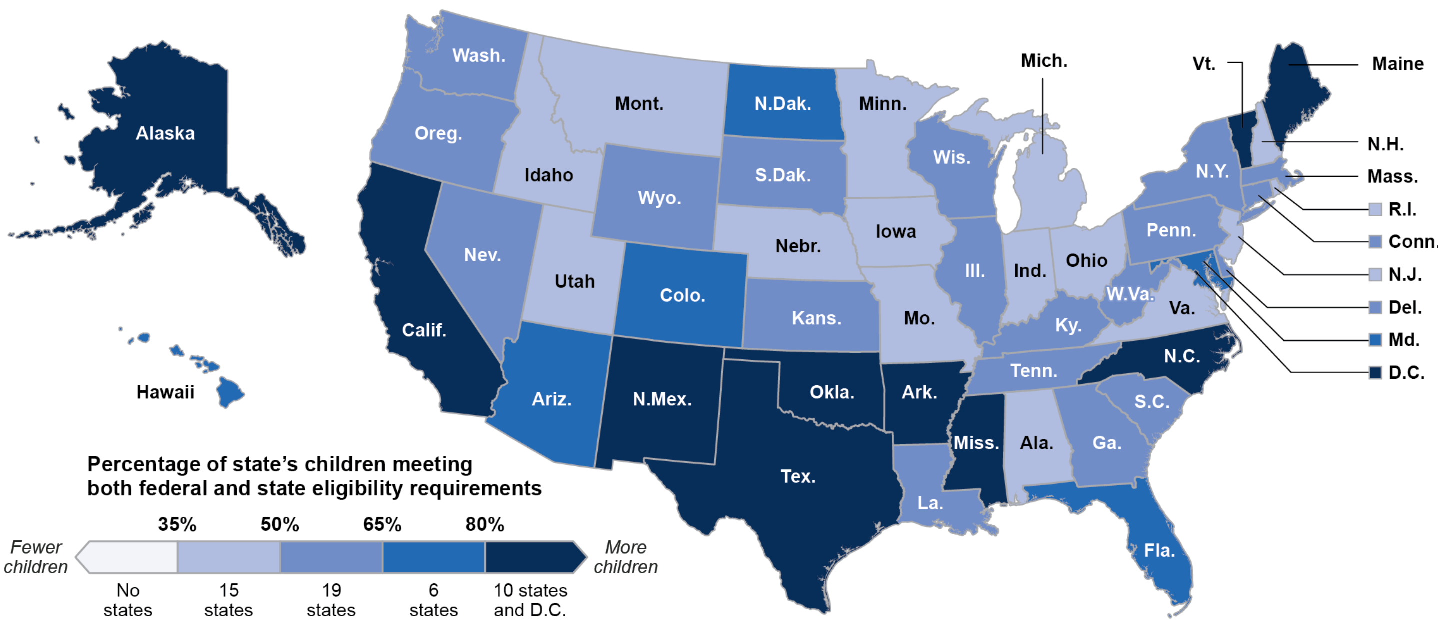
[24] U.S. Department of Health and Human Services, Office of Child Care, *Information Memorandum: ARP ACT CCDF Discretionary Supplemental Funds*, CCDF-ACF-IM-2021-03 (June 11, 2021).

U.S. Department of Health and Human Services, Office of Child Care, *Information Memorandum: Using CCDF to Improve Compensation for the Child Care Workforce*, CCDF-ACF-IM-2022-02 (Sept. 7, 2022).

Appendix I: State-Level Estimates of Child Care Subsidy Eligibility and Receipt Rates for 2019

The estimated percentage of children who were eligible for a child care subsidy based on their state's requirements and the percent of eligible children who received child care subsidies both varied substantially by state. Figure 3 shows the estimated percentages of children who met both federal and their state's subsidy eligibility requirements in 2019. States with a higher percentage of children who met both federal and their state's requirements had eligibility requirements more similar to federal requirements. States with a lower percentage of children meeting both federal and state requirements had more restrictive requirements. Table 1 shows the estimated percentages of children who received subsidies funded through the Child Care and Development Fund (CCDF) based on federal and state eligibility requirements.

Figure 3: Estimated Percentages of Children Who Met State Child Care Subsidy Eligibility Requirements, as a Percent of Those Who Met Federal Eligibility Requirements, by State, 2019



Source: GAO analysis of U.S. Department of Health and Human Services data. | GAO-23-106073

Note: Data represent an average of monthly estimates from calendar years 2018 and 2019, the most recent available. Estimates for Alabama, Louisiana, and Tennessee have margins of error (MOE) between 10 and 15 percentage points. For the remaining states, MOEs are less than 10 percentage points. For three states (California, Maine, and Vermont), the ratio of children eligible under state rules to children eligible under federal rules exceeds 100 percent; this can occur when stale rules exclude some sources of income that are included in federal eligibility estimates. These estimates are presented as 100 percent.

Table 1: Estimated Percentages of Children Who Received Child Care and Development Fund (CCDF) Funded Subsidies, by State, 2019

State	Estimated percent of children meeting federal eligibility requirements for child care assistance that received CCDF subsidies	Estimated percent of children meeting state eligibility requirements for child care assistance that received CCDF subsidies
Alaska	10%	12%
Arizona	12%	17%
Arkansas	6%	7%
California	8%	8%
Colorado	9%	12%
Connecticut	12%	21%
Delaware	16%	28%
District of Columbia	6%	7%
Florida	13%	20%
Georgia	9%	16%
Hawaii	8%	12%
Idaho	11%	28%
Illinois	10%	15%
Iowa	13%	32%
Kansas	7%	13%
Kentucky	12%	19%
Louisiana	7%	11%
Maine	10%	10%
Maryland	5%	7%
Massachusetts	11%	19%
Michigan	10%	26%
Minnesota	7%	16%
Mississippi	14%	15%
Montana	8%	21%
Nebraska	11%	27%
Nevada	7%	14%
New Hampshire	9%	18%
New Mexico	16%	20%
New York	13%	22%
North Carolina	12%	13%
North Dakota	8%	12%
Ohio	11%	23%

State	Estimated percent of children meeting federal eligibility requirements for child care assistance that received CCDF subsidies	Estimated percent of children meeting state eligibility requirements for child care assistance that received CCDF subsidies
Oklahoma	19%	21%
Oregon	11%	22%
Pennsylvania	21%	36%
Rhode Island	14%	37%
South Carolina	6%	9%
South Dakota	8%	13%
Tennessee	9%	16%
Texas	10%	12%
Utah	11%	26%
Vermont	15%	15%
Virginia	6%	12%
Washington	13%	23%
West Virginia	17%	31%
Wisconsin	6%	12%
Wyoming	13%	21%

Source: GAO analysis of data from Office of the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services, Factsheet: Estimates of Child Care Eligibility and Receipt for Fiscal Year 2019 (Washington, D.C.: Sept. 2022), and data from the Administration for Children and Families, Office of Child Care, U.S. Department of Health and Human Services. | GAO-23-106073

Note: Data are from 2-year average monthly estimates. Eligibility data are from calendar years 2018 and 2019, the most recent available. Receipt data are from fiscal years 2018 and 2019, and represent subsidies funded only through CCDF. GAO's estimates differ from those in the U.S. Department of Health and Human Services' Factsheet: Estimates of Child Care Eligibility and Receipt for Fiscal Year 2019 because those estimates include children served by other related child care funding streams, in addition to CCDF funding.

Margins of error (MOE) for estimates are 10 percentage points or less except otherwise noted. Grey highlighting indicates that estimates of subsidy receipt rates among state-eligible children have MOEs between 10 and 15 percentage points (Arizona, Kentucky, Louisiana, Massachusetts, Michigan, Mississippi, Nebraska, Ohio, Pennsylvania, Tennessee, and West Virginia). We do not report data for four states (Alabama, Indiana, Missouri, and New Jersey) because the MOEs for subsidy receipt rates among state-eligible children are 15 percentage points or higher.

Appendix II: GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the contact named above, Kristen Jones (Assistant Director), Jessica Mausner (Analyst in Charge), and Aida Woldu made significant contributions to this report. Other contributors were Jim Ashley, Justine Augeri, James Bennett, Rhiannon Patterson, James Rebbe, Monica Savoy, Amber Sinclair, and Meg Sommerfeld.

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