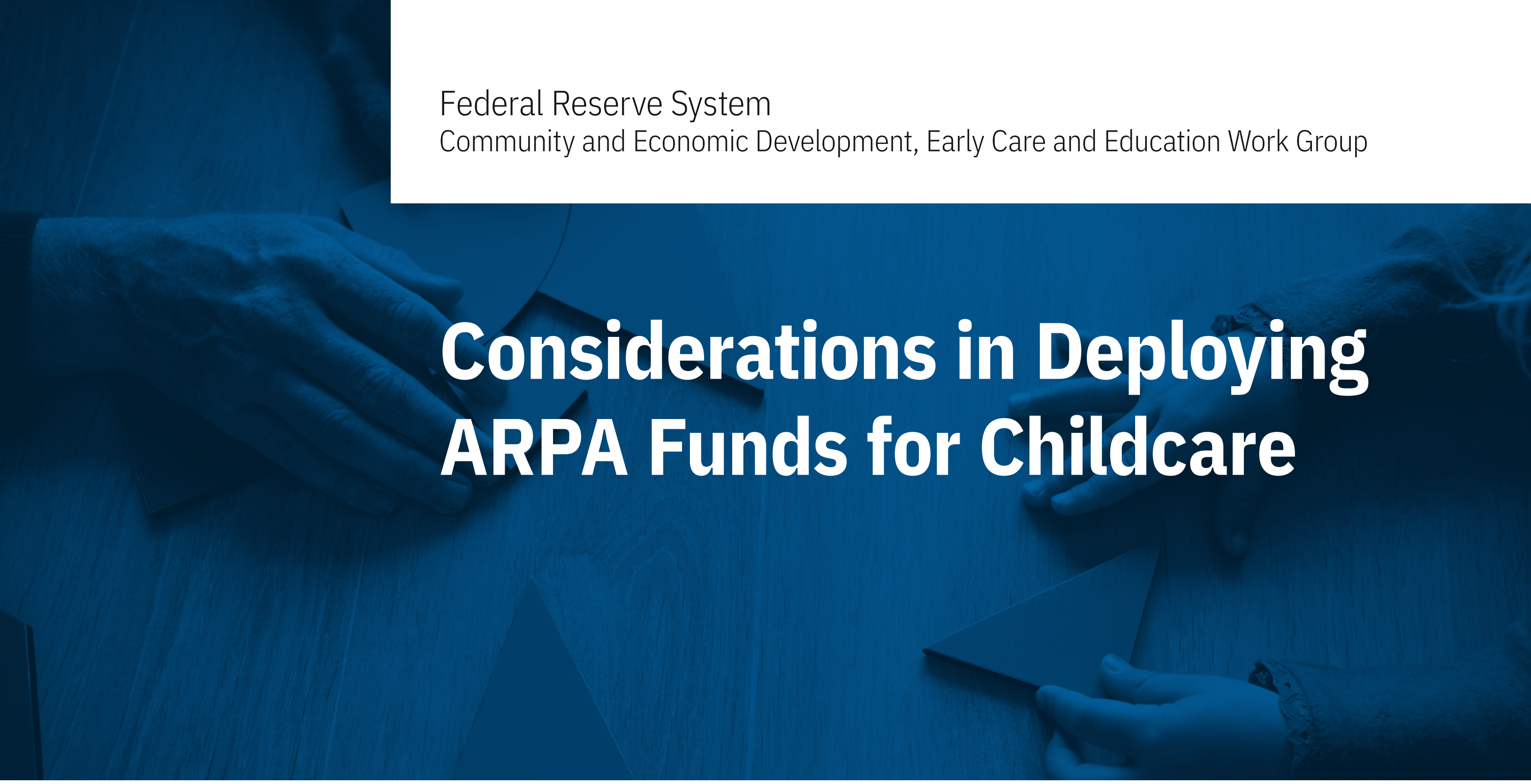
Federal Reserve System

Community and Economic Development, Early Care and Education Work Group



Considerations in Deploying ARPA Funds for Childcare

The American Rescue Plan Act (ARPA) provides $39 billion to states, territories, and Indian Tribes to offset the pandemic's impact on the childcare market. The funds include $15 billion delivered via the Child Care and Development Block Grant (CCDBG) as supplemental Child Care and Development Fund (CCDF) discretionary funds and $24 billion in childcare stabilization funds (CCSF). The funding through CCDBG is available until September 30, 2024, and CCSF is available until September 30, 2023.[1]

This brief was produced by a Federal Reserve System work group to provide context on childcare system challenges and considerations for addressing the needs of working families with young children. It builds on Briefing on Childcare Funding and Policy Considerations in Response to COVID-19, published in August 2020. That document provides background on industry structure and the pandemic's early impact on the

The views expressed in this document are those of the authors and don't necessarily reflect the position of the Federal Reserve System.

[1] Previous pandemic-related relief funding for childcare includes the Coronavirus Aid, Relief, and Economic Security Act, which provided $3.5 billion to states via CCDBG, and the Coronavirus Response and Relief Supplemental Appropriations Act, which provided $10 billion via CCDBG.

childcare system. It identifies considerations for providing financial assistance to the childcare sector based on economic research into the high returns from early care and education. This brief highlights considerations and related activities as state agencies, stakeholders, and policymakers consider how to deploy ARPA funds. These considerations were identified based on emerging needs of the industry and were informed by discussions with childcare stakeholders and subject matter experts as well as research on equity, quality, and affordability.

Considerations and Related Activities for ARPA Childcare Funding

Investments in childcare providers, their employees, and the families they serve can support the nation's economic recovery while addressing long-standing challenges in the childcare market that perpetuate inequities in access to high-quality childcare. The guidance and parameters for CCSF and CCDBG provide flexibility for states to address their unique childcare market needs through a variety of approaches. For example, an Office of Child Care (OCC) informational memorandum notes that most of the CCSF are available for state subgrants that can cover business costs related to the pandemic and other payroll and non-payroll expenses.

Subgrants can be structured to address specific childcare market needs or public policy goals.

Due to time limits set for spending ARPA childcare funds, childcare administrators will need to more immediately balance strategic shorter-term investments with their base CCDF resources to support stabilization and recovery, as well as the future sustainability of childcare capacity and affordability for low-income working families. Subgrants can be structured to address specific childcare market needs or public policy goals, while administrative dollars, which provide considerable flexibility, are well-positioned for expenditures that can allay state leaders' concerns about the temporary nature of stimulus dollars.[2]

Meanwhile, OCC guidance on CCDF Supplemental Discretionary Funds lists a variety of ways for states to address expanded access to high-quality childcare and move toward a more equitable childcare system. Both the CCSF and CCDBG components of the ARPA funds emphasize supporting childcare supply, program quality, and access to childcare, particularly for low-income and other underserved families. Research suggests that states and other government jurisdictions should consider the following principles and related actions in their plans for childcare relief dollars. States could select options from this list that work best together in a comprehensive strategy.[3]

[2] Up to 10 percent of CCSF in states and territories and up to 20 percent in tribes can be set aside to cover administrative costs, technical assistance for childcare provider grant applicants and recipients, outreach publicizing the availability of subgrants, and activities to increase the supply of childcare, such as funding facility improvements and minor renovations. States and territories cannot use the administrative set-aside for new construction or major renovation. Tribes may use the set-aside and the subgrant portion for construction or major renovation with ACF approval.

[3] Funding for some options are only available in either the CCSF or CCDBG components; refer to the OCC guidance documents for detailed information.

CCSF subgrants can be structured to put toward past or prospective expenses.

Maintain and increase the supply of high-quality childcare, particularly in underserved areas and for families with low incomes or high needs, by

- Offsetting pandemic costs for childcare providers, such as personal protective equipment, extra staff time required to meet public health guidance, and revenue lost from temporary closures due to COVID-19 exposure. CCSF subgrants can be structured to put toward past or prospective expenses.
- Facilitating a financing program with low- or no-interest loans to programs interested in start-up, expansion, or improvement in areas of need, and facility improvement grants, particularly in underserved rural and tribal communities, low-income neighborhoods, and communities of color. For many providers, especially those serving low-income families, grants or forgivable loans are a better fit than traditional loans since childcare is typically a low-margin industry.
- Including related business technical assistance for childcare providers as a wraparound or supplement in any loans, grants, or other assistance aimed at the sector.[4] States could connect childcare providers with data and business management tools, and providers could spend CCSF subgrants to purchase these tools. In addition, many providers could benefit from technical assistance in applying for CCSF and meeting requirements after receiving a subgrant.
- Developing programs in areas with low-licensed supply by establishing connections and providing licensure pathways with financial incentives for unlicensed providers.
- Differentiating support based on infant and toddler capacity, such as providing bonuses or supplemental funding to providers that serve infants and toddlers or grants and financing to increase capacity. Providing infant and toddler care is particularly costly and many childcare operators rely on the profits from preschool or school-aged care to offset losses or low margins associated with infant and toddler care.
- Supporting provider capacity through start-up grants, technical assistance with licensing, or bonus payments to offer care during nonstandard work hours as some parents, particularly essential workers, may struggle to find care during evening or early-morning work shifts.
- Making provider payments more consistent. Reimbursement levels are often contingent on factors beyond the provider's control. For example, if a child does not attend regularly, providers may receive less money, which creates revenue instability and could lead a provider to disenroll a child in favor of a private pay family that pays weekly tuition regardless of their actual usage. States could pay providers in advance to reserve capacity and serve eligible families, or base reimbursement payments on provider enrollment or capacity instead of attendance.

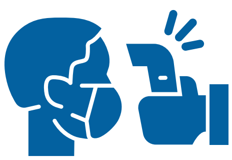
[4] Community development financial institutions (CDFIs) play a key role in helping childcare providers connect to financing for construction and renovation. CDFIs also provide business technical assistance. In certain situations, working with entities that provide care and education for young children may help banks meet their Community Reinvestment Act obligations.

Boost low-income parents' ability to work and provide continuity of care for children by

- Addressing current challenges in existing state childcare subsidy programs. For example, ARPA's CCDBG funding can be used to suspend or reduce parent co-payments that offset subsidies' ability to make childcare affordable. Increased provider reimbursement rates would also better match the actual costs of providing high-quality care and incentivize more childcare providers to accept children from families with lower incomes.
- Reducing subsidy waiting lists or increasing income eligibility thresholds to provide childcare subsidies to more low-income families.
- Smoothing "benefits cliffs," a situation where a small increase in family income results in losing subsidy eligibility before families can independently afford the cost of childcare.
- Allowing parents to receive childcare assistance through the CCDBG as they search for work or attend job training or educational programs. States can conduct outreach to families who may be unaware they are eligible for childcare assistance and emphasize the variety of opportunities they can pursue.[5]
- Allowing and enabling parents with care needs during nonstandard work hours to use subsidies for informal care options when background requirements are met.

Stabilize the childcare workforce and support program quality and child development by

- Increasing childcare worker compensation in light of persistently low wages in the sector by offering higher wages, providing benefits such as health insurance, or paying bonuses, including signing bonuses.[6] States could also consider investing in support for staff well-being and mental health as working in the childcare sector has been particularly challenging during the pandemic.
- Providing resources or tools to childcare providers to increase their programs' ability to support children's healthy development and school readiness. For example, teacher trainings, curriculum, and practice-based professional development such as coaching and apprenticeships can boost children's development and school readiness. In addition, financial incentives, such as scholarships, bonuses, or wage supplements, could support early childhood educators attaining child development-related credentials and degrees.
- Supporting providers in their ability to care for children with disabilities and special needs, including addressing the trauma-related mental and emotional needs of children exacerbated during the pandemic.



Working in the childcare sector has been particularly challenging during the pandemic.

[5] CCDBG also provides states flexibility in defining childcare subsidy eligibility among children who are receiving, or who need to receive, protective services and who reside with a parent or parents who don't meet eligibility requirements based on employment or education activities.
[6] Offering bonuses may be the best fit with the limited timeframe for spending ARPA funds. States should also consider the impact of increased wages on childcare worker eligibility for social assistance and safety net programs.

Make use of short-term financial resources for long-term assets by

- Starting or expanding shared service alliances that allow providers to share the costs and administrative burden, including the ongoing challenges of recruiting and retaining skilled early educators, when offering high-quality care or serving children with childcare subsidies. Network models that attend to inclusiveness and provider voice may be particularly valuable for home-based family child-care providers.
- Strengthening data capacity within the childcare sector by developing mapping and other analytical tools to assess childcare supply relative to demand, determine the costs of childcare provision, or implement child outcome assessments and tracking systems. Data tools could help families more easily find available childcare. A portion of the administrative funds could also be used to track and assess the outcomes of ARPA-funded projects.

Funds can be used to provide grants to eligible employers so they can offer premium pay to essential workers.

Align CCDBG and CCSF funding with other pandemic relief efforts and federal resources by

- Applying ARPA State and Local Fiscal Recovery Funds directly to childcare initiatives. These funds can also be used to provide grants to eligible employers so they can offer premium pay to essential workers, which could include childcare providers.
- Connecting small business resources to childcare providers. Most childcare operations would qualify for small business status across the varying definitions of "small businesses" that assistance programs sponsored by federal, state, or tribal governments offer. For example, the State Small Business Credit Initiative (SSBCI)—$10 billion to fund state, territory, and tribal government small business credit support and investment programs—is included in ARPA. Because many childcare service operators are small businesses or are operated by economically disadvantaged individuals, states could consider childcare providers for their SSBCI plans.
- Aligning with Department of Education-funded programs that intersect with childcare, such as the Child Care Access Means Parents in School Program that supports low-income families' access to post-secondary education and the Individuals with Disabilities Education Act for infants, toddlers, and preschoolers, which includes screening and assessment for early intervention programs.
- Building capacity for childcare providers to access the USDA's Child and Adult Care Food Program.
- Fostering public-private partnership opportunities that leverage engagement with philanthropy and the corporate sector and align resources to achieve shared childcare goals.

While these time-limited funds won't be able to address all of the priorities listed above, they provide an opportunity to underscore persistent needs in the sector, implement approaches that address equity issues, and highlight successful examples. In that regard, developing an evaluation framework to measure the effects of ARPA spending at the state level would provide valuable information in prioritizing plans to make more enduring increases in childcare funding. Policymakers also can consider the issues and potential solutions highlighted here as they address challenges that will likely persist beyond the ARPA timeframe.

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This brief was produced by a Federal Reserve System work group to provide context on childcare system challenges and considerations for addressing the needs of working families with young children. Work group members include:

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