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Child Care Entitlement to States: An Overview

Overview

The Child Care Entitlement to States (CCES) was created by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA, P.L. 104-193). PRWORA authorized the CCES in Section 418 of the Social Security Act. Section 418 appropriates mandatory child care funding for states, territories, and tribes. The law calls for states to integrate CCES funds with discretionary allotments from the Child Care and Development Block Grant (CCDBG) and generally requires CCES funds to be spent under CCDBG Act rules. In combination, the CCES and CCDBG are commonly called the Child Care and Development Fund (CCDF). The CCDF is administered by the U.S. Department of Health and Human Services (HHS).

Legislative Evolution

The current structure of child care funding streams is linked to programs that existed prior to 1996, when PRWORA simultaneously repealed, created, and consolidated federal child care programs (**Figure 1**). Before this, four separate federal programs supported child care for low-income families. Each program had its own eligibility criteria and program rules. Three programs were linked to a need-based cash assistance program, Aid to Families with Dependent Children (AFDC), while one (CCDBG) targeted low-income working families not connected to AFDC. Jurisdiction was split across multiple committees.

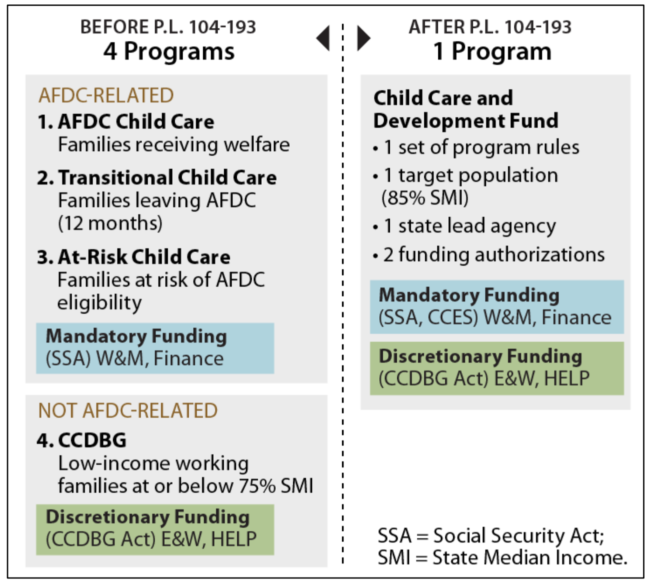
The 1996 law repealed the three AFDC-related child care funding streams, created a new mandatory funding stream (CCES), and amended the CCDBG Act. To streamline and simplify administration, the law generally applied CCDBG Act rules to CCES funds. The Senate Finance Committee and House Ways and Means (W&M) Committee typically exercise CCES jurisdiction. The Senate Health, Education, Labor, and Pensions (HELP) Committee and House Education and the Workforce (E&W) Committee typically exercise CCDBG jurisdiction.

Authorization and Appropriations

The 1996 law authorized and appropriated CCES funding for each of FY1997-FY2002. Temporary extensions provided funding into FY2006, when the Deficit Reduction Act of 2005 (P.L. 109-171) reauthorized the CCES and appropriated $2.917 billion annually through FY2010. A series of extensions maintained funding at the same level over the next decade. In 2021, the American Rescue Plan Act (ARPA, P.L. 117-2) amended Section 418 to provide permanent annual appropriations of $3.550 billion for FY2021 and beyond. ARPA also made other changes to the CCES (e.g., made territories eligible for the first time).

The CCDBG Act—which establishes most of the program rules by which CCES funds are administered at the state level—was reauthorized through FY2020 by P.L. 113-186. While this authorization has expired, annual appropriations acts have continued to provide funding for the CCDBG.

Figure 1. CCDF Legislative Evolution



Source: Prepared by the Congressional Research Service (CRS).

Allocation of Funds

As amended by ARPA, Section 418 specifies that, from the total amounts appropriated to the CCES, $75 million is to go to the territories (American Samoa, Guam, Northern Mariana Islands, Puerto Rico, and U.S. Virgin Islands) and $100 million is to go to Indian tribes and tribal organizations. In addition, since FY2016, annual CCDBG appropriations effectively apply two CCDBG set-asides to CCES appropriations: up to 0.5% for technical assistance and 0.5% for research.

Remaining CCES funds are allocated to the 50 states and the District of Columbia in two parts.

- First, each state receives a fixed amount each year, equal to the federal funds the state received for AFDC-related child care programs in the mid-1990s. This amount totals $1.2 billion annually and is sometimes called "guaranteed" mandatory funding, as there are no state maintenance-of-effort (MOE) or matching requirements.
- Second, remaining CCES funds are allotted to states based on their share of children under age 13. To receive these funds, each state must meet a MOE requirement set at 100% of the amount the state spent on AFDC-related child care programs in the mid-1990s. This totals $888 million annually. States must also match these funds with state dollars at the Medicaid matching rate (the Federal Medical Assistance Percentage, or FMAP).

Discretionary CCDBG funds (appropriated separately from the CCES) are allotted to states by a formula based on their share of children under age five, share of children receiving free- or reduced-price lunches, and state per capita income.

Funding History

Table 1 provides a 10-year CCDF funding history. Federal CCES funding of $2.9 billion was the largest single source of annual CCDF funding until FY2018, when CCDBG funding was increased by 83% to $5.2 billion. CCDBG funding has since increased, though in smaller increments.

Federal CCDF appropriations are augmented each year by CCES state match and MOE. Typically, state funds total about $2 billion annually. (P.L. 116-127 temporarily reduced state match by 6.2 percentage points during the COVID-19 public health emergency. In addition, ARPA effectively exempted a portion of the increased CCES funds from match requirements in FY2021-FY2022.) States may also transfer up to 30% of their Temporary Assistance for Needy Families (TANF) block grants to the CCDF. Such transfers typically account for about $1 billion annually. Transfers must be spent under CCDBG Act rules.

Supplemental and one-time mandatory appropriations provided by ARPA are not shown in **Table 1**. The CCDBG received several supplemental appropriations during this period, including $30 million in FY2019, $3.5 billion in FY2020, $10.0 billion in FY2021, and $100 million in FY2023. In addition, ARPA provided one-time mandatory funding of $15.0 billion for the CCDBG, $24.0 billion for child care stabilization grants, and $35 million for child care administrative costs.

Table 1. 10-Year CCDF Funding History

(nominal dollars in billions; excludes supplemental funds)

Fiscal Year	Federal CCES	State CCES	CCDBG	TANF Transfer	Total
2014	2.917	2.170	2.358	1.382	8.828
2015	2.917	2.186	2.435	1.320	8.859
2016	2.917	2.178	2.761	1.403	9.260
2017	2.917	2.174	2.856	1.275	9.222
2018	2.917	2.179	5.213	1.498	11,807
2019	2.917	2.124	5.258	1.302	11.634
2020	2.917	1.863	5.826	1.437	12.072
2021	3.550	1.813	5.878	1.158	12.400
2022	3.550	1.812	6.104	0.976	12.442
2023	3.550	2.159	7.941	TBD	TBD

Source: CRS, based on CCES appropriations, CCDF allocation data (including transfers, as appropriate), and TANF financial data.

Notes: State CCES estimates include MOE and matching funds, and reflect reallotment of prior-year funds except in FY2022-FY2023, due to data limitations. (Federal funds do not reflect reallotments.)

Supporting TANF-Related Families

Section 418 requires states to spend at least 70% of their CCES funds on families receiving TANF, transitioning out of TANF, or at risk of becoming dependent on TANF. Beyond this, Section 418 largely defers to the CCDBG Act with respect to program rules—meaning that the discussion following generally applies to the CCDF as a whole.

Eligibility

To be eligible for the CCDF, children must

- be under age 13 (or older in certain circumstances);
- reside with a parent or parents who are working or attending school or job training (unless the child needs or receives protective services);
- have family income no greater than 85% of state median income (SMI), or lower depending on state policy; and
- have no more than $1 million in family assets.

States often adopt initial income limits below the federal maximum. States need not serve all eligible children.

Payment Methods

States may contract with child care providers to serve CCDF children, but it is more common for families to receive a certificate (or voucher) to use at the provider of their choice. In FY2020, 94% of children used certificates.

Provider Reimbursement Rates

States set the payment rates for child care providers based on a market rate survey or an alternative methodology (e.g., cost estimation). HHS recommends that states set payment rates at the 75th percentile of the market. In April 2023, HHS announced states would be required to set payment rates at the 50th percentile or above. States often use a tiered system, issuing higher payments to providers meeting certain criteria (e.g., high quality or nontraditional hours).

Parental Cost-Sharing

Parents are generally expected to share in the cost of child care, though states may waive co-payments in some cases. States set sliding fee scales based on income, family size, and other factors. Currently, HHS suggests that states set parental fees at no more than 7% of family income; a July 2023 proposed rule would make this a requirement.

Health and Safety Rules

The CCDF requires states and child care providers to carry out or meet certain health and safety rules. For instance,

- states must establish and enforce minimum health and safety standards covering broad areas, such as first aid;
- states must conduct pre-licensure and unannounced annual inspections for licensed CCDF providers, and annual inspections for license-exempt CCDF providers;
- states must set age-specific standards for group size limits and child-to-provider ratios; and
- states must conduct criminal background checks on applicable child care providers and staff members.

Children Served

About 1.5 million children were served by the CCDF in an average month in FY2020. Nearly two-thirds of the children were under the age of six and the majority (87%) were served in licensed or regulated settings.

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