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Child Care Entitlement to States

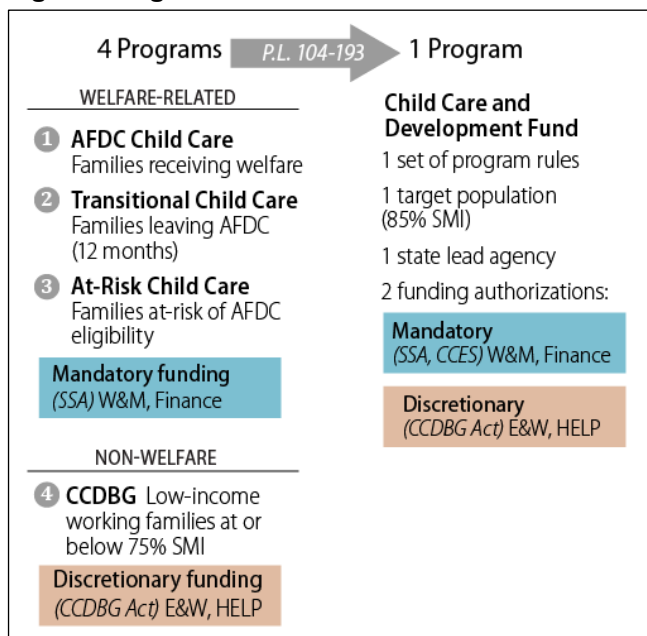
Overview

The Child Care Entitlement to States (CCES) was created by the 1996 welfare reform law (P.L. 104-193). This law authorized the CCES in Section 418 of the Social Security Act, which directly appropriates annual mandatory child care funding for states and tribes. The law calls for CCES funds to be integrated, at the state level, with discretionary allotments from the Child Care and Development Block Grant (CCDBG). The law also 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 federal child care funding streams is linked to the system that existed prior to 1996, when the welfare reform law simultaneously repealed, created, and consolidated federal child care programs. Before this, four separate federal programs supported child care for low-income families. Each program had its own eligibility criteria and program rules. Three of these programs were linked to the old welfare system, Aid to Families with Dependent Children (AFDC), while one of these programs (CCDBG) was targeted to low-income working families not connected to the welfare system (see **Figure 1**). Jurisdiction for these four child care programs was split across multiple congressional committees.

Figure 1. Legislative Evolution of the CCDF



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

Notes: SSA = Social Security Act. SMI = State Median Income.

The 1996 law repealed the three welfare-related funding streams, created a new mandatory child care funding stream (CCES), and amended the CCDBG Act. In an effort to streamline and simplify administration of these funding streams, the law generally applied CCDBG Act rules to CCES funds. Since enactment, the Senate Finance and House Ways and Means (W&M) committees have generally exercised jurisdiction over the CCES, while the Senate Health, Education, Labor, and Pensions (HELP) and House Education and the Workforce (E&W) committees have generally exercised jurisdiction over the CCDBG.

Authorization Status

The 1996 welfare reform law authorized and directly appropriated CCES funding for each of FY1997-FY2002. Temporary extensions provided CCES funding into FY2006, when the Deficit Reduction Act of 2005 (P.L. 109-171) reauthorized the CCES and directly appropriated \$2.917 billion annually through FY2010. Since then, the CCES has been funded at the same level (\$2.917 billion) by a series of short- or medium-term extensions. The current extension is scheduled to expire on December 7, 2018.

The CCDBG Act—which establishes the program rules by which CCES funds are administered at the state level—was reauthorized through FY2020 by P.L. 113-186.

Allocation Formula

The law requires HHS to reserve between 1% and 2% of CCES funds for tribes and tribal organizations. In addition, FY2019 CCDBG appropriations provisions allow HHS to reserve up to 0.5% for technical assistance and 0.5% for research. Remaining CCES funds are allocated in two parts.

- First, each state receives a fixed amount each year, equal to the federal funds the state received for welfare-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 (\$1.7 billion annually) are allotted to states based on each state’s share of children under age 13. To receive these funds, a state must meet a MOE requirement set at 100% of the amount the state spent on welfare-related child care programs in the mid-1990s. This amount totals \$888 million annually. In addition, states must match these federal funds with state dollars (totaling about \$1.3 billion annually) at the Medicaid matching rate.

Discretionary CCDBG funds are allocated using a separate formula, which is based on each state’s share of children under age five, children receiving free- and reduced-price lunches, and state per capita income.

TANF Transfers

States may transfer up to 30% of their basic grants from Temporary Assistance for Needy Families (TANF) to the CCDF. Transferred funds must be spent according to CCDBG Act rules. In FY2017, states transferred nearly \$1.3 billion in federal TANF funds to the CCDF.

Funding History

Table 1 provides a CCDF funding history for FY2010-FY2018. This table shows that federal CCES funding of \$2.9 billion was typically the largest single source of annual CCDF funding until FY2018, when CCDBG funding increased by 83% to a high of \$5.2 billion. Federal appropriations to the CCDF are augmented each year by state match and MOE funds associated with the CCES (about \$2.2 billion annually) and by state transfers of federal TANF funds to the CCDF (more than \$1.2 billion annually).

Table 1. CCDF Funding History, FY2010-FY2018
(nominal dollars in billions)

Fiscal Year	Federal CCES	State CCES	CCDBG	TANF Transfer	Total
2010	2.917	2.185	2.127	1.373	8.602
2011	2.917	2.172	2.223	1.565	8.876
2012	2.917	2.175	2.278	1.358	8.729
2013	2.917	2.168	2.206	1.367	8.658
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	1.288	9.235
2018	2.917	2.179	5.213	NA	NA

Source: Prepared by CRS based on CCES appropriations, CCDF allocation data, and TANF financial data from HHS.

Notes: State CCES estimates include MOE and matching funds, and reflect re-allotment of prior-year funds.

Supporting TANF-Related Families

Section 418 of the Social Security Act requires that states spend at least 70% of their CCES funds on families receiving TANF, families transitioning off of TANF, or families at risk of becoming dependent on TANF. Beyond this, the Social Security Act largely defers to the CCDBG Act with respect to CCDF program rules. As a result, the eligibility, participation, and other program rules discussed below apply to the CCES and other CCDF funding streams.

Eligibility

The CCDBG Act stipulates that eligible children must

- be under age 13 (or older in certain circumstances);
- have a parent who is working or attending job training (unless the child is receiving 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 commonly adopt initial income eligibility levels below the federal maximum. At the start of FY2017, state income thresholds for initial eligibility ranged from an estimated 33% to 85% of SMI for a family of three. Because the CCDF is not an entitlement to individuals, states are not required to serve all eligible children.

Payment Methods

States may contract with child care providers to reserve slots for CCDF children, but it is more common for families to receive a voucher (or certificate) for child care services, allowing them to select the provider of their choice. In FY2016, 89% of children were served by vouchers.

Provider Reimbursement Rates

States set the payment rates for child care providers serving participating children. Payment rates must take into account market rate costs. HHS recommends that states set payment rates at the 75th percentile of the market rate. It is common for states to use a tiered system, issuing higher payments to providers meeting certain criteria, such as those meeting high quality standards or serving special populations.

Parental Cost-Sharing

The CCDBG Act generally requires parents to share in the cost of child care, though states may waive co-payments in special circumstances. States set sliding fee scales, based on income, family size, and other factors. HHS suggests that states set such fees at no more than 7% of family income.

Enhanced Health and Safety Rules

The CCDBG Act of 2014 (P.L. 113-186) strengthened federal requirements related to health and safety, licensing, and enforcement. Under the reauthorized CCDBG Act,

- states must establish and enforce minimum health and safety standards covering several broad areas, such as first aid, building safety, and emergency preparedness;
- all providers receiving CCDF funds must complete pre-service and ongoing training on health and safety topics;
- states must set age-specific standards for group size limits and child-to-provider ratios;
- states must conduct pre-licensure and annual unannounced inspections for all licensed CCDF providers, and annual inspections for license-exempt CCDF providers;
- states must ensure licensing inspectors are trained and qualified, and must set inspector-to-provider ratios; and
- states must conduct criminal background checks on applicable child care providers and staff members.

Children Served

Preliminary data indicate that 1.37 million children were served by the CCDF in an average month in FY2016. Nearly two-thirds of the children served in an average month were under the age of six.

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