Congressional Research Service
Informing the legislative debate since 1914

INSIGHT

What Is the Child Care Funding Cliff?

September 20, 2023

Recently, the possibility of a child care *funding cliff* has received considerable attention from Congress, stakeholder groups, and the media. At issue is whether the child care market (and the families who rely on it) will be negatively affected by expiring one-time COVID-19-related investments in child care.

Background

The main federal child care program supporting low-income working families is the Child Care and Development Fund (CCDF). The CCDF receives both discretionary appropriations via the Child Care and Development Block Grant (CCDBG) and mandatory appropriations via the Child Care Entitlement to States (CCES). Funds are allotted by formula to lead agencies for states, territories, and tribes. Lead agencies generally must spend these combined funds according to CCDBG Act rules.

Table 1 presents child care funding for FY2019-FY2023. During this period, regular CCDF appropriations increased by $3.4 billion (+42%). These increases were largely driven by the CCDBG, which saw 53% growth in regular nominal appropriations between FY2019 and FY2023.

In addition, multiple one-time appropriations were enacted during this period in response to disasters and the COVID-19 pandemic. Several substantial COVID-19-related appropriations in FY2020 and FY2021 sought to stabilize the child care market and support families through the pandemic, including

- **$3.5 billion** in FY2020 discretionary supplemental CCDBG appropriations in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act; P.L. 116-136);
- **$10.0 billion** in FY2021 discretionary supplemental CCDBG appropriations in the Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSA; P.L. 116-260, Division M);
- **$15.0 billion** in FY2021 one-time mandatory appropriations for the CCDBG in the American Rescue Plan Act (ARPA; P.L. 117-2); and
- **$24.0 billion** in FY2021 one-time mandatory appropriations for a new Child Care Stabilization grant program in ARPA.

The CARES and CRRSA supplemental appropriations were to “prevent, prepare for, and respond to coronavirus.” Funds could be used under regular CCDBG authorities (e.g., to subsidize child care or improve the quality and supply of care), though additional provisions clarified, expanded, or otherwise

Congressional Research Service
https://crsreports.congress.gov
IN12243

CRS INSIGHT
Prepared for Members and
Committees of Congress

changed allowable uses. The ARPA CCDBG appropriation effectively further supplemented CCDBG funds, with similar changes, but did not include explicit COVID-19 response language. The ARPA Child Care Stabilization funds supported a new program to stabilize child care operations amidst provider closures and pandemic uncertainties. Lead agencies made subgrants to providers to cover allowable program costs (e.g., wages/benefits, rent/mortgage, supplies).

All told, one-time COVID-19-related appropriations augmented regular CCDF appropriations for FY2020-FY2021 by $52.5 billion (+289%).

Table 1. Child Care Appropriations, FY2019-FY2023

(dollars in billions)

Funding Source	FY2019	FY2020	FY2021	FY2022	FY2023
CCES—Mandatory Regular	$2.917	$2.917	$3.550	$3.550	$3.550
CCDBG—Discretionary Regular	$5.258	$5.826	$5.878	$6.104	$8.021
CCDBG—Discretionary Supplemental	$0.030	$3.500	$10.000	—	$0.100
CCDBG—Mandatory ARPA	—	—	$14.990	—	—
Child Care Stabilization—Mandatory ARPA	—	—	$23.975	—	—
Total	**$8.205**	**$12.243**	**$58.393**	**$9.654**	**$11.671**

Source: CRS Report R47312, plus enacted FY2023 levels.

Notes: Reflects transfers, where known, but excludes $35 million (pre-rescission) in ARPA federal administrative funding.

Use of COVID-19-Related Funds

The U.S. Department of Health and Human Services (HHS) published initial national- and state-level data on ARPA Stabilization grants as of December 2022. HHS released further reporting on combined COVID-19 funds in May 2023, finding these funds had

- provided stabilization grants to 220,000 providers associated with up to 10 million children;
- lowered child care costs for more than 700,000 children;
- increased compensation for more than 650,000 child care workers; and
- created 300,000 new child care slots.

Approaching Deadlines

As the end of FY2023 approaches, lead agencies are facing obligation or liquidation deadlines for the one-time COVID-19-related child care appropriations (**Table 2**). An *obligation* legally commits funds for a particular use (e.g., entering into a grant with a child care provider), whereas a *liquidation* is the point at which the funds are expended (e.g., funds are actually paid to a provider).

Most of these appropriations must be *liquidated* by the end of FY2023 (September 30). Only the ARPA CCDBG funds may remain available for expenditure for another year—though lead agencies may have spent these funds already. Lead agencies may already have exhausted their allotments from any of these funding streams in advance of spending deadlines, meaning any potential cliff will not necessarily occur on a single day, but rather on a rolling basis.

Table 2. One-Time COVID-19-Related Child Care Appropriations
(dollars in billions)

Funding Stream	Appropriation	Obligation Deadline	Liquidation Deadline
FY2020 CARES CCDBG	$3.500	September 30, 2022	September 30, 2023
FY2021 CRRSA CCDBG	$10.000	September 30, 2022	September 30, 2023
FY2021 ARPA CCDBG	$14.990	September 30, 2023	September 30, 2024
FY2021 ARPA Child Care Stabilization	$23.975	September 30, 2022	September 30, 2023

Source: Deadlines per instructions for ACF-696 and ACF-696T forms. Some territories and tribes received deadline extensions from HHS.

Looking Ahead

The COVID-19-related child care funds were provided on a one-time basis to support families and child care providers as they dealt with unprecedented challenges and uncertainties arising from the pandemic. While the influx of funding was sparked by COVID-19, some of the underlying market challenges predated and were exacerbated by the pandemic. The infusion of a proportionally large amount of funding, available for a relatively short time, has raised questions about a possible cliff effect for families and providers.

Some have raised concerns that failing to sustain policies and activities supported by COVID-19-era funds could have negative effects on the child care market and families seeking care. For instance, some worry that prices may increase or providers may close if they struggle to retain staff. Child care worker shortages are widely reported and the Center for the Study of Child Care Employment recently noted the number of child care workers nationally still lags 4% behind pre-pandemic levels. Broad questions remain about child care affordability and access, with some suggesting child care has reached a crisis point that could potentially affect the labor force participation of parents and the health of the economy.

Amidst these concerns, the 118th Congress has demonstrated sustained interest in child care. Hearings have been scheduled by multiple committees. An array of child care bills have been introduced. There is great variation in the sponsorship and focus of these bills, which touch on everything from working families to facilities, the workforce, supply gaps, tax benefits, and more. With respect to the funding cliff, a bicameral letter led by Representatives Bonamici and Jacobs and Senators Kaine, Smith, and Warren expressed support for sustaining certain COVID-19-era funding. More recently, a Child Care Stabilization Act was introduced (H.R. 5433, S. 2777), which would appropriate $16 billion for each of FY2024-FY2028 to continue the Child Care Stabilization program first authorized by ARPA.

Author Information

Karen E. Lynch
Specialist in Social Policy

Conor F. Boyle
Analyst in Social Policy

Disclaimer