

CELFE DIGEST

Funding Mechanisms:

Child Care Assistance Vouchers and Grants



Why is this topic important?

Every state administers a Child Care Assistance Program (also called Child Care Subsidy) using federal Child Care and Development Fund (CCDF) dollars to help low- and moderate-income families purchase care in the child care market. States have broad authority to decide which families are eligible to participate, what program types may receive payment, and how much the payments are. Ideally, states will make those decisions informed by an overall financing plan that draws from multiple funding streams to strengthen the market.

Synopsis

The federal Child Care and Development Fund combines appropriations from the Child Care and Development Block Grant (CDBG) and the Social Security Act's Child Care Entitlement to States into a single funding stream. Funds are allocated to states on a formula basis according to population, and a calculated state match is required. Two funding mechanisms are permitted. States must use vouchers (also called certificates), and they may also distribute some funding as grants¹ to programs to serve eligible families. Vouchers are the most common vehicle for distributing funds. They can be structured to allow broad parent choice among available programs. Grants entail program responsibility for enrolling a target number of eligible children, and many programs benefit by maintaining a predictable number of families using Child Care Assistance.

States are responsible for administering the program and they have broad flexibility in determining its scope and operations. Federal funds may be used to serve children under age 13 whose families earn less than 85% of the State Median Income (SMI), and children in protective services or with similar needs. Parents must be working, in training, or in school.² Each state decides what sorts of training or school it will recognize. States also decide what documentation they will require to verify family makeup, family income, work hours, etc. These policy and administrative decisions have significant impact in determining who is served and who is left out. For example, restrictive rules about work-hour and wage documentation might exclude families working low-wage jobs with variable and unpredictable hours.

¹ The term "grants" in this Digest includes contracts. Grants and contracts are similar vehicles.

² States may narrow those eligibility limits, but if they choose to broaden them they must use only state funds for the added eligibility group.

States decide which providers are eligible to participate. Some states include all programs, including licensed, registered, license-exempt, etc., while others might include only licensed programs or those meeting additional criteria.

States also set per-child payment rates for providers based on attendance or enrollment days, and they set family co-pay requirements. Many states establish different rates based on geographic region, and states may also establish rate add-ons based on program characteristics such as service during non-traditional hours, service to priority populations (including children with special needs), or overall program quality.

Rate setting may be informed by data from either (a) market surveys, or (b) cost estimation modeling, or (c) both methodologies.³ States use the collected data to establish a coherent rate structure in view of resources available for the subsidy system. To collect data using the market survey method, states total the number of slots in a geographic area per age group (infant slots, toddler slots, etc.) and record the prices being charged per slot to private pay families. Analysts sort the slots from lowest to highest price and the state determines a maximum payment rate high enough that families have choice among providers, but not generally high enough for them to access any slot. Federal rules have suggested (not require) that rates be sufficient for access to 75% of the slots in the geographic area. This rate ceiling is called the 75th percentile of market.

Cost estimation modeling is a relatively new option for informing rate setting, designed to address shortcomings of the market survey approach. Instead of focusing on market prices, cost modelers analyze operating costs in relation to desired program standards. The actual cost of a program that meets standards might be higher than the price, which reflects only what parents can afford. For example, programs may be struggling to attract teachers who meet minimum licensing qualifications. A cost modeler could analyze the wages of comparably qualified workers in the larger employment market and determine the needed level of compensation. A cost model for overall program expenses will estimate all necessary program expenses in relation to market conditions, and then calculate an estimated cost per child. In setting rates, states can consider this estimate in addition to market prices and available resources.

Discussion

Helping families buy into the child care market through per-child payments (whether voucher based or grant based) is an elegant – and incomplete – solution to building an accessible Early Childhood Education and Care system. A per-child payment system is easy for the state and for local programs to administer. States or their contracted intermediary organizations must verify family eligibility, but no procurement process or analysis of a programs' line item expenditures is required. Likewise, programs must bill based on enrollment or attendance times a fixed per-diem rate, but no funding proposal or line-item financial reporting is required. With no procurement process and simple administration, the system can include small programs without administrative staffing, and as a result, can offer a wider range of family choice than a competitive grants-based system would provide.

The primary flaw with a per-child payment system is that it operates in a market that fails to meet children's needs for consistent, reliable care and age-appropriate learning. Market prices are based on what parents can afford, and most parents cannot afford the cost of a program that meets generally accepted standards for fostering children's development and preparing them for school. Most programs in low- and moderate-income communities survive only as marginal businesses with minimal reserve funds or profits. Many lack the

³ For technical reasons not covered in this Digest, the most responsive system will be based on both methodologies.

stable and well-qualified staffing children need to form trusting relationships and engage in active exploration and learning.

Setting Child Care Assistance payment rates informed by market surveys expands access, but only to an unstable market. Setting rates informed by cost modeling begins to address the problem but doesn't solve it, because Child Care Assistance provides only a relatively small portion of total market revenue. Only 10% of child care centers fill more than half of their slots with eligible children.⁴ Parent fees remain the primary source of income. If programs were to raise private-pay fees to match a higher Child Care Assistance rate, it could drive many families out of the market and create an enrollment problem for programs.

States are developing a new tool to address this issue. Rather than trying to solve the problem by rate setting alone, they have created “foundational funding” grants that work together with per-child payments to stabilize staffing and support quality.⁵

Well-designed Child Care Assistance payments are powerful tools for expanding families' access to the child care market. They work best as part of an overall strategic financing system that deploys them in conjunction with grants to meet children's needs for consistent, reliable care and age-appropriate learning.

Resources

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⁴ Office of Planning, Research, and Evaluation (2022)

⁵ See CELFE (2024). *Foundational Funding for Child Care: The National Picture*.