



Insight

# Build Back Better: Child Care Subsidies and Universal Pre-K

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## Executive Summary

- The Build Back Better Act (BBBA) includes \$120 billion in funding for child care and more than \$60 billion for universal preschool programs.
- There are an estimated 6 million more infants and toddlers in need of child care than licensed child care spots currently available, and an additional 5 million 3- and 4-year-olds in need of preschool to achieve universal access.
- The BBBA's funding falls far short of what would be needed to finance its planned subsidies and provider payments.

## Introduction

The latest iteration of the [Build Back Better Act](#) includes significant subsidies for child care and funding to provide universal pre-K for 3- and 4-year-olds. Both programs are intended to help get more children into supervised care earlier to allow parents to get back to work and to help children be more prepared for school. While the provisions included in this legislation will likely increase access to child care and pre-K and reduce costs for some families, taxpayers will shoulder a significant burden and overall costs are likely to increase.

Previous American Action Forum [research](#) found that as many as 14.8 million young children need some form of child care or preschool because their parents are working, including 8.9 million 0- to 2-year-olds and 5.9 million 3- to 5-year-olds. That research estimates that the current child care workforce is only large enough to serve 2.8 million children. Further, while 86 percent of 5-year-olds are enrolled in preschool, just under half (5 million) of 3- and 4-year-olds are.<sup>[1]</sup> This includes 852,000 children enrolled in Head Start programs.<sup>[2]</sup> Thus, an additional 6 million infants and toddlers need child care and roughly 1 million more 3- and 4-year-olds need preschool (if they are not already in child care), based on their parents' working status. If the desire is to have all 3- and 4-year-olds enrolled in preschool, then more than 5 million more preschool spaces are needed.

This legislation would provide \$120 billion for child care, or \$15,384 per child under 3 in need of care, and \$60.8 billion for universal preschool, or \$12,160 per 3- or 4-year-old child. If not for the need to significantly expand capacity and the tremendous infrastructure costs associated with doing so, these funding levels may suffice. Based on expected [costs](#) of \$170 billion per year to expand child care, however, it is likely that the BBBA's funding levels fall far short of what would be needed to finance its planned subsidies and provider payments.

## Child Care

The provisions regarding child care are largely similar to earlier iterations (details of which can be found [here](#)) but there are some notable changes. Child care subsidies will be available beginning October 1, 2021<sup>[3]</sup>,

through 2027, for children under six years of age and not yet in kindergarten, given that their household income is not above the limit for a given year, with some exceptions.

*When and for whom assistance is available.* In the first fiscal year (2022), assistance will be available for children of families earning up to 100 percent of state median income (SMI) for a household of the same size. This threshold will gradually increase each year until reaching 250 percent of the SMI by 2025. (SMI for a family of four ranges from a low of \$65,176 in New Mexico to \$125,335 in Massachusetts.[4]) Exceptions may be made in the first three years to expand eligibility to higher income groups more quickly (without exceeding the 250 percent threshold) if states have “appropriately prioritized” services to families of lower income groups. States are also allowed to consider variations in cost of living across the state and expand eligibility to additional families in certain high-cost areas.

Certain vulnerable children will be eligible without having to meet income requirements, including children in foster or kinship care, children with disabilities, and children who are homeless, receiving child protective services, or living with a parent over age 65. The parent must be working, attending school or job training, looking for work, receiving treatment for a health condition that inhibits their ability to care for their child, taking leave under the Family and Medical Leave Act, or engaging in activities to prevent child abuse and neglect or family violence.

*What families will pay.* Families will pay based on income and a sliding-fee scale. Families earning 75 percent of SMI will pay nothing, while families earning between 150 percent and 250 percent of SMI will pay 7 percent of their income, with payment rates gradually increasing for those in between.

*Federal funding.* Funding for child care assistance will total \$120 billion, including: \$95.5 billion in funding provided over the span of 3 years (2022-2024), which will be available until the end of fiscal year 2027; \$4 billion for Indian tribes and tribal organizations; \$500 million for territories; \$4.75 billion to localities in non-participating states; and \$14.25 billion (\$2.85 billion each year beginning in 2023 through 2027) for Head Start expansion in non-participating states with priority for areas of underserved populations. An additional \$520 million is provided for compliance, enforcement, and technical assistance. Any additional funding that is necessary for states to meet the requirements of this program will also be made available. Beginning in fiscal year 2025, any eligible child must be offered the assistance for which they are eligible, essentially making this an entitlement program despite a lack of dedicated mandatory funding. States receiving funds must maintain a funding level equal to average expenditures for the past three years.

Between 2022-2024, funding will be allocated to states based on the same allotment formula used for the Child Care and Development Block Grant, which considers the number of young children in poverty in a state.[5] From 2025-2027, the federal share for direct child care costs will be 95.44 percent of a state’s expenditures. The federal share of support for improving the quality and supply of child care services will be equal to 6 percent above a state’s Medicaid federal matching assistance percentage (FMAP), which now averages 56 percent; states must use between 5 and 10 percent of the funds received for quality improvement.[6] Administrative costs will be reimbursed at a rate of 53.022 percent.

*Payment rates.* The subsidies must be generous enough to cover the cost of care, and payment to providers must correspond to differences in quality, as well as variations based on geographic cost differences, the age of the children, the type of provider, and any additional costs for providing inclusive care for children of differing abilities. The legislation calls for top-quality care providers to be rewarded, but for providers of lesser-quality care to receive payments high enough to enable them to improve their performance. Wages should be commensurate with similarly qualified elementary school teachers and should provide a living wage, adjusting

for any cost of living increases each year. To measure quality, states are instructed to use a standard for the highest-quality tier that is at least equivalent to the standards of the Head Start program.

### **Universal Pre-K for 3- and 4-year-olds**

The legislation also aims to provide universal preschool services for all 3- and 4-year-olds.

*Funding.* The legislation has funding for universal pre-K that totals \$60.8 billion, including: \$4 billion in 2022, \$6 billion in 2023, \$8 billion in 2024; \$2.5 billion for Indian tribes and \$1 billion for territories; \$300 million for localities serving children of families engaged in migrant or seasonal agricultural labor; \$1.2 billion for technical and administrative costs; \$2.5 billion each year (2022-2027) to increase compensation for staff; \$3.8 billion in each year (2022-2027) to provide grants to localities and Head Start agencies in non-participating states.

Funding to states will be apportioned based on each state's share of children under age 6 whose family earns less than 200 percent of the federal poverty level. Federal funds in 2025 will cover 95.44 percent of a state's expenditures for preschool services; that percentage will drop to 79.534 percent in 2026 and to 63.627 percent in 2027. Federal funds will also cover 53.022 percent of a states' cost for administering the preschool program, supporting a continuous quality improvement program, providing outreach and enrollment support, staff credentialing, data systems building, activities to ensure inclusiveness, providing age-appropriate transportation, and conducting a statewide needs assessment of access to high-quality preschool services.

*State requirements.* States must ensure the state preschool program will not disrupt the stability of the state's infant and toddler child care system. States should prioritize high-need communities and ensure a majority of children in those areas have access to a preschool program before expanding services in other areas. Funds can be used to pay personnel and benefits; to implement standards and curriculum supports; for professional development and training; to implement health and safety standards; for materials, equipment and supplies; and for rent, utilities, maintenance, and insurance.

### **Conclusion**

The BBBA's funding to provide child care services and preschool to all young children in need of such services is likely woefully inadequate, given the generosity of its subsidies and payment rate requirements.

[1] <https://www.census.gov/content/dam/Census/newsroom/press-kits/2021/paa/paa-2021-presentation-preschool-enrollment-in-the-united-states.pdf>, <https://nces.ed.gov/programs/coe/indicator/cfa>

[2] <https://eclkc.ohs.acf.hhs.gov/about-us/article/head-start-program-facts>

[3] It is not clear if the payments will be retroactively available upon passage.

[4] [https://www.acf.hhs.gov/sites/default/files/documents/ocs/comm\\_liheap\\_im2002smiattachment\\_fy2021.pdf](https://www.acf.hhs.gov/sites/default/files/documents/ocs/comm_liheap_im2002smiattachment_fy2021.pdf)

[5] <https://www.acf.hhs.gov/occ/policy-guidance/ccdf-funding-allocations-and-periods-availability>

[6] <https://www.kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier/?currentTimeframe=0&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D>