

Child Care Stimulus Funds Depleted



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During the COVID-19 pandemic, Pennsylvania received approximately \$1.6 billion in federal child care stimulus funds from the Coronavirus Aid, Relief, and Economic Security (CARES) Act; Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA); and American Rescue Plan (ARP). In general, stimulus funds had to be used to cover facility costs (e.g., rent, mortgage and utilities) and/or to retain or attract employees, as private child care employment contracted by 8,700 in 2020 (-19.5%).¹ By 2023, private child care employment had largely recovered to pre-pandemic levels (44,400, preliminary) and the average weekly salary (\$606) increased by an estimated 35.4% (see table, final column). By comparison, the average weekly salary for all private payroll workers increased by 21.1%. It is noted that the child care sector employs a relatively large share of part-time workers and an average hourly wage is not easily computed from the average weekly salary because the number of weekly hours worked varies over time.

Pennsylvania Child Care Sector						
	2019	2020	2021	2022	2023	2019-23
Number Establishments	3,699	3,686	3,686	3,684	3,678	-21
Growth Rate	--	-0.4%	0.0%	-0.1%	-0.2%	-0.6%
Number Employees (000s)	44.7	36.0	38.7	41.7	44.4	-0.3
Growth Rate	--	-19.5%	7.5%	7.8%	6.5%	-0.7%
Average Weekly Salary	\$448	\$483	\$523	\$583	\$606	\$159
Growth Rate	--	7.8%	8.3%	11.5%	3.9%	35.4%

Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages, Private Child Care Sector. 2023 annual average is estimated by the IFO based on data through September 2023.

In Pennsylvania, the Child Care Works (CCW) program provides subsidized child care for low-income families to meet the requirements of the Child Care Development Fund (CCDF), which is a federal and state partnership implemented through the Child Care Development and Block Grant of 2014 (CCDBG).² Under the block grant, Pennsylvania must certify that its CCW base rate paid to participating child care providers is sufficient to ensure equal access compared to families paying private tuition at local child care programs through a Market Rate Survey (MRS) or pre-approved alternative methodology. An MRS must occur every third year and the next survey should be compiled by 2025.

The 2022 MRS includes 570 unique private rates throughout the Commonwealth. Based on the distribution of those private rates, a 2022 base subsidy rate was computed (also known as Maximum Child Care Allowances (MCCAs), by type, care level and care length) so that state and federal subsidies would provide funds equal to a private rate at the 60th percentile. Eligible parents/guardians also make a co-payment to the care provider that can range from \$22 to \$342 per month. In March 2023, base rates in Pennsylvania were adjusted to reestablish rates at the 60th percentile of the market rate for child care in a provider's

¹ See: [Pennsylvania ARP Child Care Stabilization Fact Sheet](#). Funds were also used so that child care providers could re-open with smaller class sizes, purchase protective equipment and assist low-income families pay child care costs.

² See: [A Closer Look at the Market Rate and Cost of Care in Pennsylvania: 2022 Child Care Market Rate Survey Final Report](#).

region. The FY 2024-25 Governor’s Executive Budget proposes to increase the child care subsidy reimbursement rate to the 75th percentile and maintain the CCW program, which the administration estimates would require an additional \$32 million in state funds for the child care services and child care assistance line items.³

Child Care Services - State and Federal Appropriations						
Appropriation	18-19	19-20	20-21	21-22	22-23	23-24
State - Child Care Services	\$162	\$156	\$156	\$156	\$181	\$272
State - Child Care Assistance	<u>\$140</u>	<u>\$105</u>	<u>\$110</u>	<u>\$110</u>	<u>\$110</u>	<u>\$123</u>
Total State	\$302	\$261	\$266	\$266	\$291	\$395
Growth Rate	--	-13.5%	2.0%	-0.1%	9.5%	35.6%
Federal - Child Care Block Grant ¹	\$285	\$323	\$288	\$238	\$512	\$555
Federal - SSBG and Other	\$30	\$32	\$26	\$121	\$31	\$31
Federal - Child Care Covid Funds	<u>\$0</u>	<u>\$108</u>	<u>\$778</u>	<u>\$729</u>	<u>\$0</u>	<u>\$0</u>
Total Federal	\$315	\$463	\$1,092	\$1,088	\$543	\$586
Growth Rate	--	47.1%	135.8%	-0.4%	-50.0%	7.9%
State and Federal	\$617	\$724	\$1,358	\$1,354	\$835	\$981
Growth Rate	--	17.4%	87.6%	-0.3%	-38.3%	17.5%

Note: Appropriations are the budgeted amounts for each FY in dollar millions. SSBG is Social Services Block Grant. Other includes School Age, COVID-SFR Child Care Stabilization and Head Start Collaboration Project.

¹ FY 2023-24 includes a recommended \$14.7 million supplemental appropriation, 2024-25 Governor's Executive Budget.

Source: Commonwealth Accounting System. Calculations by the IFO.

In FY 2022-23, federal funds declined \$545 million (-50.0%) from FY 2021-22 (see table). Only \$33.7 million of those stimulus funds remain as of March 2024, and all of those funds are committed to be spent. To partially replace the federal stimulus funds, state funds increased in FY 2022-23 (+9.5%) and FY 2023-24 (+35.6%). During the five-year period shown in the table, state funds increased \$93 million (31%), federal funds by \$271 million (86%) and total funds by \$364 million (59%).

At this juncture, it is unclear how the depletion of all stimulus funds will impact the sector, and whether firms can maintain the above-average wage increases paid to employees. In order to reduce the burden of child care costs, Act 34 of 2023 expanded the Child and Dependent Care Enhancement Credit from 30% of the federal tax credit to 100%. Eligible filers can claim a maximum credit of \$1,050 (one dependent) or \$2,100 (two or more dependents) against personal income tax. For FY 2024-25, the Pennsylvania Department of Revenue estimates that 218,800 filed tax returns will claim \$125 million of tax credits, an average of \$571 per return (the credit is refundable so that it can exceed tax due). The tax credit subsidizes the purchaser of child care services, whereas stimulus funds subsidized the supplier (i.e., employer).

Staff Acknowledgments

This research brief was produced by Frank Lill. Questions can be directed to flill@ifo.state.pa.us.

³ See: [Shapiro Administration Announces Increase to Base Payment Rates for Child Care Providers Participating in Subsidized Care](#) and the 2024-25 Governor's Executive Budget.