Massachusetts Taxpayers Foundation

333 Washington Street | Suite 853 | Boston, MA 02108 | 617.720.1000
www.masstaxpayers.com

MTF Session Preview: Early Education and Care

This legislative session, early education and care is likely to build on the momentum from the last two years. The end of last session saw the Senate consider, and ultimately pass, an early education reform bill, and the legislature agree on a $1.18 billion FY 2023 early education budget. A new administration and legislature will continue conversations on child care reform while also overseeing the impacts of a historic level of funding for the EEC. With all remaining federal relief funds now appropriated, determining the future of stabilization grants beyond FY 2023 will also add to a busy start to the formal session.

This early education preview provides a brief background on the topic, summarizes key actions from last session, outlines the larger policy context, and puts forth potential questions policymakers will need to answer this legislative session.

Background

The last three years have highlighted the importance of the early education and care system to the economy and the issues that have plagued the system since well before the pandemic. Massachusetts has one of the highest costs of child care in the nation, and similar to other states in the U.S., struggles with limited supply and a low-wage workforce that continues to dwindle. As noted in a recent Foundation Report, a historically underfunded and complicated system adds to the industry's challenges. Federal COVID-19 relief provided much needed support to help stabilize the system, but few of those resources currently remain.

The Department of Early Education and Care (EEC) has overseen the child care system in Massachusetts since its inception in 2005. The agency oversees the licensing and health and safety of the over 7,600 providers in the state, but also manages the disbursement of subsidies across the almost 4,000 providers that accept them. Providers that accept subsidies serve children across three different programs: income eligible care (IE), care for families receiving cash assistance through the Department of Transitional Assistance (DTA), and families with active cases at the Department of Children and Families (DCF).

The majority of the EEC budget goes towards providing subsidies for eligible families, but in recent years pandemic-related federal funding boosted the state's child care investment through the creation of stabilization grants (C3). The C3 program provided grants to all providers in the state to help cover a portion of their operational costs and since July of 2022 has been maintained mostly through state resources. This, paired with a sharper focus on fixing the system spurred by the work of an early education legislative Commission, has brought upon the opportunity for child care reform.

Key Policy Actions, 2021-2022

Recommendations of the Early Education and Care Economic Review Commission - Established in 2020, the Commission kick started two years of increased focus on child care in the state. The goal of the commission was to review the child care system and provide recommendations for reform. After two deadline extensions, the Commission published their report in the spring of 2022. It included 15 different recommendations across four categories: program stabilization, family affordability and access, workforce compensation, pipeline, and advancement, and system infrastructure and local partnerships. Many of these recommendations are currently being implemented by the EEC, others were put forth in the early education bill.

Senate passes "An Act to Expand Access to High-Quality, Affordable Early Education and Care" - In late spring 2022, the Joint Education Committee released an early education bill which included many of the recommendations found in the Commission's report. A framework for updating and reforming the system, the bill codified C3 grants, committed to expanding income eligible child care, established a scholarship and loan forgiveness program for current and aspiring child care workers, and created multiple commissions and committees to conduct research and improve data collection and programming. The bill ultimately passed the Senate, but was not taken up by the House before the end of session. Although the foundation of the Senate bill was very similar to the Education Committee version, some important changes were implemented. This included expanding the scholarship program, providing more oversight of the C3 grant program, and establishing an Early Education and Child Care Workforce Development Trust Fund.

EEC Investment in FY 2022 – The enacted FY 2022 budget for EEC totaled $819 million, a slight decline over FY 2021. However, this figure does not include more than $200 million in unspent EEC funds carried over from FY 2021, including $131 million in federal funds used to extend the C3 program through FY 2022. Key investments in the FY 2022 budget included increases to both subsidy line items, investments to simplify and streamline parent fees, and a reimbursement rate increase for providers that accept subsidies.[1] These investments were in addition to the $314 million the EEC began to distribute for C3 grants which were allocated to Massachusetts through ARPA.

Increased EEC Investment in FY 2023 – The FY 2023 budget and the recent economic development bill both dedicate a significant amount of resources for early education and care in the current fiscal year. Both vehicles include funding for C3 grants, which are now likely to be extended through FY 2023. They also both dedicate resources to the High-Quality Early Education and Care Affordability Fund, which was established in the FY 2023 budget. The economic development bill furthers the initial budget investment by $315 million, bringing the total for the

[1] The budget includes two line items for subsidized child care: 1) Income eligible child care (3000-4060) and DTA/DCF child care (3000-3060).

fund to $490 million. The Affordability Fund is subject to appropriation, but could be used to further continue C3 grants and/or tackle other early education policy reforms.

Policy Context

Federal Relief Funds

In total the state received $641 million specifically for child care from the American Rescue Plan Act (ARPA) and prior federal COVID recovery legislation. Almost all of these funds have gone towards C3 grants to stabilize child care providers. The $314 million in stabilization funds allocated to Massachusetts through ARPA were supplemented with the $131 from CRRSA in order to maintain the grants throughout FY 2022. The remaining $196 million from ARPA went towards continuing C3 grants throughout FY 2023, which exhausted all of the child care federal relief funds allocated to Massachusetts.

The Future of C3 Grants

With no federal relief funds remaining, the C3 grant program will need to be supported beyond FY 2023 using only state resources. Policymakers will need to decide if they want to continue and/or change that program in the next fiscal year and if so, what degree of funding they will dedicate towards it in the FY 2024 budget. MTF estimates the cost of this program to be between $400 and $450 million a year.

Momentum for Legislation Continues

As noted above, major early education legislation advanced through the Senate last session and House leadership publicly indicated action is a priority for this session. Recent FY 2022 and FY 2023 investments signal early education is a top priority for the legislature, with action likely continuing into the New Year. In fact, the co-chairs of the Joint Committee on Education from last session have signaled that early education continues to be a high priority by filing separate pieces of legislation designed to reform and improve the system.

Key Questions for the Upcoming Session

What's the future of C3 grants in FY 2023 and beyond?

C3 grants are funded into the spring of FY 2023 with the additional investments from the economic development bill. Although the program is transformative in that all providers – private pay and subsidy – are eligible, its main focus has been to stabilize the system by helping to cover operational costs like payroll, rent, mortgage payments, utilities, and program maintenance. The program has performed well at doing this, but could also operate as an incentive for other policy outcomes such as increasing wages, improving quality, collecting better data, and expanding access. One barrier that could get in the way of accomplishing those goals is its uncertain future. Codifying C3 into law could provide certainty to the field and allow the grants to go towards longer-term investments. Investments in the FY 2024 budget will be just as critical to the system as standalone legislation.

How will the template for early education legislation change this session?

Major early education reform is likely for the first time since the EEC was created. The early education bill passed by the Senate last session was mainly a framework which had little detail and no implementation deadlines, but substantial changes could be on the horizon if new legislative proposals arise. The bill will have to move through committee again before potentially progressing to the Senate and the House, offering up plenty of opportunity for legislators and advocates to make their mark.

What improvements to the system are currently being made?

With funding from the legislature, the EEC has started taking steps to implement important policy changes. The FY 2023 budget included a new $25 million investment for infrastructure and policy reforms. Just under half of that investment ($10 million) is earmarked for reviewing EEC subsidy regulations and policies, which have been identified as barriers to access for both families and providers. The EEC recently put forth a host of changes that if approved by the board, will be implemented in the first half of the calendar year and could lead to increased efficiencies and improved accessibility.

What system challenges should policymakers, advocates, and stakeholders be aware of?

The current distribution of subsidized contracted slots is based on conditions and priorities from over a decade ago. The need for child care in Massachusetts is great, and yet thousands of children who qualify for subsidies are not able to receive them. Supply and demand mismatches are at least partially to blame. Updating and changing the current contract to allow for greater flexibility to meet current market needs is a crucial step to creating a more efficient system and should be an immediate priority.

In addition, the current methodology for determining reimbursement rates for subsidy providers is flawed. Years of investment has not led to financial stability for providers or increased subsidy supply. The EEC recently conducted a preliminary cost-of-care analysis to understand how far reimbursement rates are from the actual cost of providing child care services. Additional steps should be taken to further integrate a cost-of-care model into the rate-setting process. However, additional investment from the legislature is necessary to make a meaningful difference.

For more details on these challenges and recommendations for improvement, see MTF's latest early education report, "Preparing for Child Care Reform: How to Improve the Subsidy System to Maximize Investment."

What are some innovative ways to sustainably expand access?

Investments in recent years have focused on the existing subsidy system and C3 grants, but other resource challenges remain. The Early Education and Out of School Time Capital Fund (EEOST) has been used to make capital investments in child care facilities across the Commonwealth. However, the pace and level of spending to date has weakened the potential effectiveness of the program. The Fund was authorized on two separate occasions – $45 in FY 2018 and an additional $25 million in FY 2020. Since then the fund has been budgeted to spend between $4 million and $7 million a year. Roughly $21.5 million has been spent to date, leaving more than $40 million remaining. Child care providers operate on thin profit margins, especially those that accept children utilizing subsidies. One time capital costs are often not affordable for providers, preventing them from potentially expanding and in some cases forcing them to close their business. Further investment paired with more expeditious spending could help to maintain and even expand programs across the state in areas with limited supply.