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## *MTF Bulletin*

*June 22, 2023*

### **MTF Conference Committee Preview: C3 Operational Grants**

Both the House and Senate have put forth meaningful budget proposals to increase investment in early education and care. Building off of the FY 2023 budget, the House and Senate propose investing \$1.3 billion and \$1.5 billion respectively, representing an increase of at least \$109 million over the previous fiscal year.<sup>1</sup> A large portion of these investments come in the form of C3 operational grants. Originally intended as a way to prevent program closures during the pandemic, C3 grants have become a foundational funding element of the system by preventing tuition increases, raising educator wages, and allowing providers to hire additional staff.

C3 grants were initially funded with federal relief funds provided through the American Rescue Plan Act (ARPA), but the program was continued in FY 2023 with a mix of both federal and state resources. In order for the program to continue, it will have to be supported using solely state funds. While both branches have proposed fully funding the program in FY 2024, their approaches differ in term of the funding amount and the mix of resources used.

This brief summarizes the House and Senate proposals as it pertains to C3 grants and provides considerations for moving forward.

#### **FY 2024 House Proposal**

The House appropriates \$290 million for C3 operational grants in FY 2024. The House reaches this investment by using a mix of surtax revenues (\$40 million) and general fund revenues (\$250 million). However, the House budget also establishes online lottery and dedicates those revenues to an Early Education and Care Operational Grant Fund, which is meant to supplement the cost of C3 grants but is subject to appropriation. Budget leaders estimate iLottery revenues to be about \$200 million a year when fully implemented, although the House did not appropriate these dollars in their FY 2024 budget. The combination of these resources could bring the potential House investment for C3 to \$490 million.

The House budget also includes a policy section that requires the Department of Early Education and Care to draft a report on the impact of C3 stabilization grants on educational equity and kindergarten readiness. The section stipulates that the report must include data on participating

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<sup>1</sup> The House figure does not include \$200 million in anticipated iLottery revenues that are meant to support C3 grants but were not appropriated in their budget.



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programs and families as well as recommendations to potentially amend the grant formula to ensure it optimizes results for communities most in need.

### **FY 2024 Senate Proposal**

The Senate appropriates \$475 million for C3 operational grants in FY 2024. Differing from the House, the Senate does not use surtax revenues to support C3 grants and does not legalize online lottery. Instead, the Senate uses \$230 million in general fund resources and \$245 million from an early education trust fund (the High-Quality Early Education and Care Affordability Fund). The trust fund was established in the FY 2023 budget and currently has a balance of \$490 million.

The Senate does not include the House section requiring a study of C3 outcomes and performance but does include significant data collection requirements for the program in line-item reporting language. Some of those requirements include collecting data from participating programs on the children and families they serve, the educators they employ, and overall grant expenditures. The line-item language also requires that the EEC put together quarterly reports on the grant formula and its ability to equitably disburse funds, as well as an analysis of the families being served by participating programs.

*Comparison of House and Senate C3 Grants Approach*

<b>Branch</b>	<b>Assumed FY 2024 Budget</b>	<b>FY 2024 Appropriation</b>	<b>Assumed iLottery Contribution</b>	<b>Trust Fund Resources Used</b>
House	\$490 million	\$290 million	\$200 million	\$0
Senate	\$475 million	\$475 million	\$0	\$245 million

### **MTF Considerations**

While dedicating iLottery revenues for C3 operational grants could help supplement the annual cost of the program, there are two things to consider with this approach: implementation timelines and revenue volatility. Online Lottery does not currently exist in Massachusetts and establishing one will take time to implement. As a result, in at least FY 2024, iLottery revenues will likely come in below the estimated \$200 million. This could leave the C3 program without the intended level of resources needed to fully support the providers currently receiving grants. To address these concerns, budget makers could use resources in the early education trust fund to supplement the program in FY 2024 and then dedicate iLottery revenues for C3 grants in future years. As is noted above, the fund has \$490 million in flexible dollars that could be used to support early education and care programs.



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In addition, iLottery revenues are unknown at this time and could be volatile, with strong returns in good economic times and weaker returns during economic downturns. To help guard against this volatility, a portion of iLottery revenues could be dedicated to the early education trust fund on an annual basis. This would prevent the program's financial future from being dependent on the unpredictable nature of these revenues.

While collecting new data on the C3 program and evaluating the formula's effectiveness are worthwhile, simplifying reporting language and setting realistic goals is equally as important. The House and Senate budgets include reporting requirements in two different places. Moving forward, including reporting language in the C3 line-item is the most transparent option and allows budget makers to continuously review and improve data collection efforts on an annual basis. In addition, consideration should be given to the feasibility of collecting these new data. Many of the EEC's data systems are outdated and difficult to navigate. Ensuring that the EEC has the right tools at its disposal to easily collect and analyze data without overburdening the providers that have to report it to them is critical.