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MTF Bulletin

February 28, 2024

Fiscal Year 2025 Budget: A Closer Look

Early Education & Care Funding in the Governor’s Budget

The Healey-Driscoll administration released its Fiscal Year (FY) 2025 budget proposal on January 24, 2024. The Governor’s budget proposes \$58.13 billion in total on-budget spending including \$1.3 billion in spending supported by income surtax revenues directed to education and transportation programs. The proposal increases funding over the FY 2024 General Appropriations Act (GAA) by \$2.1 billion (3.7 percent), when including surtax revenue allocations. Despite modest revenue expectations for the coming fiscal year, the administration’s proposal supports the continuation of critical programs.

Governor Healey recommends \$1.58 billion in total funding for early education and care programs in FY 2025, an increase of \$55.9 million (3.7 percent) over the FY 2024 budget. Early education and care spending represents approximately 2.7 percent of total spending in the Governor’s budget.

Summary of Early Education Investments in the Governor’s Budget

Program	FY 2024 GAA	FY 2025 - Governor
Non-Income Surtax Spending	\$1,451.7	\$1,267.0
EEC Department Administration	\$59.1	\$59.8
Child Care Operational Grants (C3)	\$475.0	\$325.0
Child Care Financial Assistance (CCFA)	\$753.8	\$773.8
Commonwealth Preschool Partnership Initiative (CPPI)	\$15.0	\$17.7
Other Early Education	\$148.8	\$90.7
Income Surtax Spending	\$70.5	\$311.0 *
Total Spending	\$1,522.2	\$1,578.0
% of Total Budget Spending	2.7%	2.7%

\$ in millions

* Income surtax is used to support funding for C3, CCFA, & CPPI.

With surtax – C3 is funded at \$475.0, CCFA is funded at \$913.8, and CPPI is funded at \$38.7.

This investment in early education and care is a continuation of the funding increases provided for the department as pandemic-era grant programs have been incorporated into the budgets of the past few years and as income surtax revenue has also expanded EEC programming. Between FY 2020 and FY 2025, funding for EEC has more than doubled, growing by \$891.4 million (129.8%). EEC is one of the few areas in the budget that has seen this level of spending growth in recent years.

Resources for Early Education & Care

To support early education and care investments in FY 2025, the Governor’s budget utilizes three separate sources of revenue: the state’s General Fund, income surtax revenues, and resources from the High-Quality

Early Education and Care Affordability Trust Fund. The availability of various revenue streams to support early education and care investments in recent years has enabled the administration and the Legislature to support significant program expansions and sustainably bring new programs on to the state’s operating budget. The Governor’s budget utilizes \$311 million in income surtax revenues and \$265 million from the High-Quality Early Education and Care Affordability Fund to support critical child care programs.

FY 2025 Early Education and Care Funding Sources

Funding Source	FY 2025 - Governor
General Fund	\$1,002.0
Income Surtax	\$311.0
High Quality EEC Affordability Trust Fund	\$265.0
Grand Total	\$1,578.0

\$ in millions

Income Surtax Revenues

Governor Healey’s budget relies on \$1.3 billion in revenue generated by the income surtax passed last year. The Governor allocates \$311 million in surtax resources to early education, the largest allocation in both the education and transportation categories – representing 24 percent of total surtax resources. In FY 2024, the surtax cap was set to \$1 billion and early education received \$71 million of the total allocation.

Surtax Spending on EEC

Program	FY 2024 GAA	FY 2025 - Governor
Child Care Operational Grants (C3)	\$0.0	\$150.0
Child Care Provider Capital Grants	\$15.0	\$0.0
Commonwealth Preschool Partnership Initiative	\$5.5	\$21.0
EEC Provider Rates	\$25.0	\$65.0
Childcare Affordability	\$0.0	\$75.0
Total Investment	\$70.5	\$311.0

\$ in millions

The surtax resources dedicated to early education are allocated to key priorities outlined by the administration – C3 grants, the Commonwealth Preschool Partnership Initiative, and increasing the eligibility threshold for income-eligible child care financial assistance.

High-Quality Early Education and Care Affordability Trust Fund

The High-Quality Early Education and Care Affordability Fund was created in FY 2023 with surplus tax revenue collections and was initially funded at \$490 million. The Governor proposes utilizing the remaining \$265 million in the trust fund to support the continuation of the C3 grant program in FY 2025. The FY 2024 budget allocated \$225 million from the trust fund to support the C3 program. If the Governor’s proposal is adopted by the Legislature, the fund will be depleted.

Spending Themes for Early Education and Care

A multi-prong approach is key to centering quality, equity, and access as we expand our early education system. We see the Governor focus on C3, CCFA, and CPPI as three ways to support the growth of the

Commonwealth’s early education mixed-delivery system. These programs are each viewed as key pieces in the system and support communities, providers, and families in different but important ways.

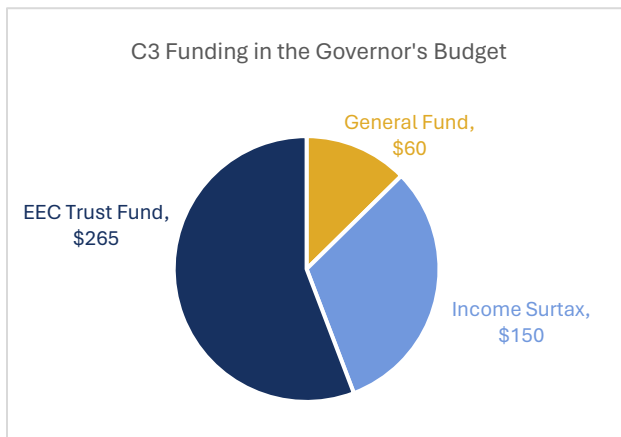
The Governor maintains funding for the C3 grant program at \$475 million – which is the anticipated full-funding level for FY 2024, increases funding for income-eligible and DTA/DCF related Child Care Financial Assistance by \$20 million for a total of \$773.8 million, and funds the Commonwealth Preschool Partnership Initiative at \$38.7 million, which includes funding for the Summer Step Up Program.

Commonwealth Cares for Children Grant Program

Commonwealth Cares for Children (C3) grants are awarded to early child care providers to help cover operational expenses and promote the stabilization of the child care sector. The program was originally created to distribute federal child care stabilization funds from the American Rescue Plan Act (ARPA) to address the financial burdens faced by providers during the pandemic and to prevent a further reduction in the supply of child care during the recovery.

According to data collected by the Department of Early Education and Care, approximately 7,500 providers (92 percent) across the state have benefitted from C3 grants. Since the program began, the licensed capacity of our system has rebounded to exceed pre-pandemic levels and average enrollment as a proportion of licensed capacity has also increased. EEC data shows that we have reached 7,100 slots over pre-pandemic levels and average enrollment as a proportion of licensed capacity system-wide is at 85 percent.

FY 2025 Governor’s Proposal



Governor Healey’s FY 2025 budget recommendation funds the C3 grant program at \$475 million, which matches FY 2024 funding levels. Governor Healey proposes funding C3 through a combination of General Fund (\$60 million), income surtax (\$150 million), and High-Quality Early Education and Care Affordability trust fund resources (\$265 million). The Governor’s proposal to use \$265 million from the EEC trust fund to support C3 in FY 2025 would deplete the remaining resources in the fund. While supporting over 50 percent of the program’s cost with one-time resources may raise questions about the resources

available to support the program long-term, the administration has referenced the use of the trust fund as a glide path toward future permanent funding. It should also be noted that the demand for the program and its costs have grown over time as more providers have applied for grant funding and grant amounts have grown due to increased capacity and staffing levels.

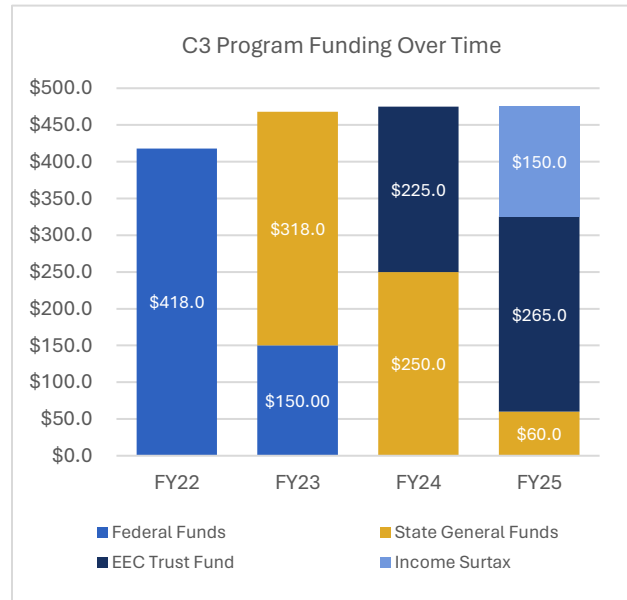
The Governor’s budget also streamlines reporting requirements for the program, though still lists specific requirements including the collection of data on the number of enrolled children, number of employed educators, and how resources are being used to support staff recruitment and retainment. The administration removes language from the final FY 2024 budget which required reporting from providers on the demographics of families served and the percentage of grant funding spent on salaries, compensation, workforce training, and facilities improvements. It is possible that the Legislature will expand the requirements put forward by the Governor.

Funding History

C3 was launched in July 2021 and in its first year was supported entirely by federal pandemic relief funds. In FY 2023, C3 was funded using a combination of state resources and federal funds.

In FY 2024, with federal funding no longer available, Governor Healey and the Legislature opted to fund C3 at \$475 million entirely with state funds, using a combination of resources from the General Fund and revenues from the High-Quality Early Education and Care Affordability trust fund.

In FY 2025, the Governor continues her commitment to funding the current C3 program with state resources. Massachusetts is one of the only states in the country that has continued its pandemic-era provider grant program.



Child Care Financial Assistance

Child Care Financial Assistance (CCFA) funding is provided by the state to help eligible families pay for the cost of child care and out-of-school time programs. CCFA is comprised of programs for children being served by the Department of Children and Families (DCF), children being served by the Department of Transitional Assistance (DTA), and assistance programs for income-eligible families. Currently, approximately 58,000 children are receiving child care financial assistance, of which 36,000 receive income-eligible assistance and 22,000 receive assistance through their involvement with DCF/DTA.

FY 2025 Governor’s Proposal

Governor Healey funds CCFA at a total of \$773.8 million for FY 2025. This is divided between income-eligible child care assistance which is funded at \$417.2 million and DCF/DTA child care which is funded at \$356.6 million. Additionally, \$140 million in income surtax funding is dedicated for CCFA programs and provider rates.

CCFA Spending in the Governor’s Budget

Child Care Financial Assistance	FY 2025 - Governor
General Fund Spending	\$773.8
<i>DCF and DTA Related Child Care</i>	\$356.6
<i>Income-Eligible Child Care</i>	\$417.2
Income Surtax Spending	\$140.0
<i>EEC Provider Rates</i>	\$65.0
<i>Childcare Affordability</i>	\$75.0
Total Spending	\$913.8

\$ in millions

Surtax Supported Income-Eligible Program Expansion

The administration proposes expanding the initial eligibility threshold for income-eligible child care financial assistance from 50 percent to 85 percent of the State Median Income (SMI). The federal government’s eligibility threshold maximum for states is 85 percent of SMI. This expansion is supported by \$75 million in surtax revenue.

The current threshold of 50 percent SMI means that families earning less than \$49,467 annually for a family of two and \$61,106 for a family of three are eligible to receive assistance based on income. Increasing the eligibility to families with incomes up to 85 percent of SMI means that families earning less than \$84,094 for a family of two and \$103,880 for a family of three would be eligible. Currently, families receiving CCFA can continue to receive support until they reach 85 percent of SMI. Under the Governor’s proposal, this cap would increase to 100 percent of SMI.

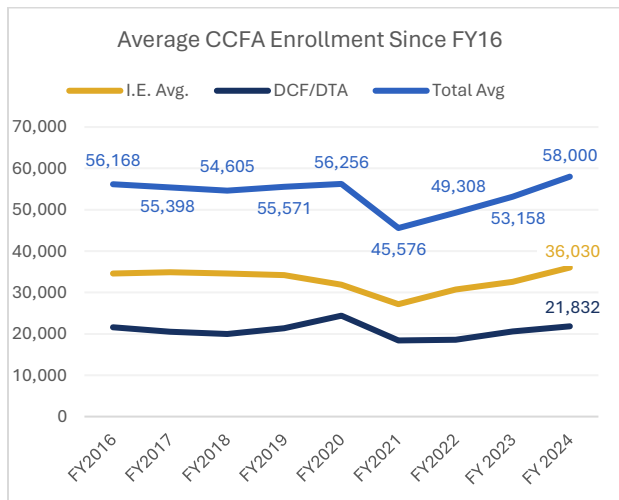
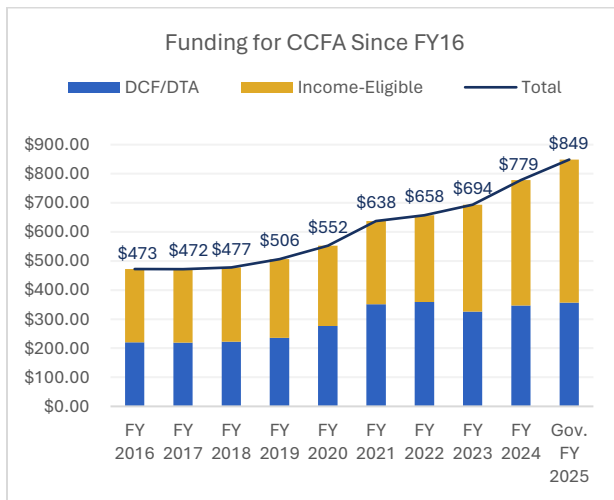
The administration estimates that the \$75 million investment will allow up to 4,000 more families to receive state support for child care costs. It is important to note that it is not yet clear what the impact of this expansion will be on the current wait list for care, which currently sits at almost 20,000 families.

Provider Rates

The state budget has historically included funding to increase the reimbursement rates for providers serving families that receive CCFA. These rate increases primarily served to increase early educator salaries and benefits. In FY 2024, with the support of funding included in the state budget, EEC voted to implement a \$65 million rate increase to reflect a 5.5 percent across the board increase for center-based and FCC providers, as well as a consolidation to three rates. This rate increase is consistent with EEC’s efforts last year to improve the rate setting process and incorporate a cost of care model into rate calculations.

In FY 2025, the Governor fully annualizes these FY 2024 rate increases through a combination of General Fund and surtax resources. The Governor’s FY 2025 CCFA line item includes \$20 million for FY 2024 annualized rate increases. The Governor also dedicates a total of \$65 million in surtax revenue towards rates, \$45 million of which will go towards the annualization of FY 2024 rates while the remaining \$20 million will be used to support new rate increases in FY 2025.

Funding & Enrollment History



Funding for CCFA has steadily increased between FY 2016 and FY 2024. Historically, these increases have been driven by the annualization of provider rate increases and initiatives to expand access to care for more families. For example, in FY 2024, funding for CCFA was increased by \$80 million to reflect the annualization of provider rate increases and a \$25 million investment from income surtax revenue to reduce the waitlist for income-eligible child care. This resulted in the highest enrollment in CCFA in recent years, which had remained relatively level before the pandemic.

It appears that the administration is not expecting major increases in DCF/DTA enrollment in the next year, instead, the increases in funding and corresponding enrollment estimates are largely driven by proposed income-eligible assistance expansion in FY 2025.

Commonwealth Preschool Partnership Initiative

The Commonwealth Preschool Partnership Initiative (CPPI) provides planning and implementation grants to communities across the state to support the development and expansion of high-quality preschool programs through public school and EEC-licensed provider collaborations. CPPI grants are awarded to districts which assemble a local leadership group to determine grant priorities and funding allocation, districts then subgrant funds to participating programs. The goal in CPPI communities is that every 4-year-old receives access to high quality preschool. To that end, CPPI funding also provides scholarships to participating families to enroll at no or low cost and enables full day/full year services through the mix of public and community classrooms. Overall, CPPI both expands capacity and affordability for participating communities. Communities have up to a year and a half to complete the planning process and early stages of implementation.

Twenty-one districts currently receive CPPI grants, twelve of which are Gateway Cities, for a total of 2,456 spaces for children across 164 classrooms. The maximum amount of CPPI funding is \$1 million per community, though to date no community has been awarded that full amount. In FY 2024, EEC has been focused on expanding services in current communities as well as providing planning grants to new communities. An additional seven to ten communities are expected to receive planning or early implementation grants in FY 2024.

FY 2025 Governor’s Proposal

The Governor proposes funding CPPI at a total of \$38.7 million in FY 2025, using \$17.7 million in General Fund resources to support the maintenance of current CPPI programs and \$21 million from the income surtax to expand the program by \$15 million and \$6 million for Summer Step Up programming.

CPPI Spending in the Governor’s Budget

Commonwealth Preschool Partnership Initiative	FY 2024 GAA	FY 2025 – Governor
General Fund Spending	\$15.0	\$17.7
Income Surtax Spending	\$5.5	\$21.0
Total Spending	\$20.5	\$38.7

\$ in millions

Surtax Supported CPPI Gateway Cities Expansion

The administration proposes using \$21 million in surtax resources, \$15 million of which will support CPPI expansion to all Gateway Cities as part of the Governor’s “Gateway to Pre-K” initiative. The new CPPI funds will be broken up between planning and implementation grants. CPPI is currently in 12 Gateway

Cities (Brockton, Fall River, Haverhill, Holyoke, Lawrence, Lowell, Lynn, Malden, New Bedford, Salem, Springfield, and Westfield). The administration’s plan is to bring the remaining 14 Gateway Cities into the program over the next two years. Under this proposal, EEC could potentially fund up to a total of six more cities outside of the prioritized Gateway Cities by FY 2026. It is important to note that the increased focus on Gateway Cities will not affect current CPPI communities who are not Gateway Cities and non-Gateway Cities who are interested in applying for CPPI funding may continue to do so. The remaining \$6 million from the surtax allocation will fund the Summer Step Up Program, which supports summer learning opportunities for young learners.

Other EEC Investments in the Governor’s Budget

Other notable early education investments included in the Governor’s budget include:

- **Early Educator Higher Education Support:** \$10 million for an early education career pathways program at the state’s community colleges, level with the FY 2024 budget.
- **Mental Health Support:** \$5 million for early childhood mental health consultation services, level with the FY 2024 budget. An additional \$5 million is dedicated from income surtax funds to develop a statewide birth through higher education framework for mental and behavioral health.
- **Head Start:** \$15 million for grants to Head Start programs to supplement federal funds. This represents a \$2.5 million decrease compared to the final FY 2024 budget but is equal to the Governor’s FY 2024 proposal which the House and Senate then increased.
- **Early Literacy:** \$30 million for the first year of Literacy Launch, a new multi-year initiative to improve early literacy rates from age three to third grade. MTF includes this investment within the K-12 category, but it is important to note here as it will involve EEC providers as well as public schools. This is a new program which was not funded in FY 2024.

Key Takeaways for the House and Senate

Funding for early education and care programs comprises 2.7 percent of Governor Healey’s FY 2025 budget. While at face value, this represents a small share of total spending in the Governor’s budget, this investment continues the trend of significant increases to the EEC budget since the pandemic, reflecting a strong commitment to early education and care.

As the budget process moves to the Legislature, House and Senate policymakers will be faced with a few key questions.

- **How will the Legislature support the C3 Operational Grants Program?**
The Governor’s proposal to fund the C3 Operational Grants Program at a total of \$475 million, using a combination of resources, ensures that an essential program will be able to continue to support child care providers, increase capacity in the system, and enhance quality of care. However, the Governor does rely on the High-Quality Early Education and Affordability Trust Fund to cover more than half of the program’s cost. MTF strongly believes that the C3 program should continue to be a key part of our early education system.

While the use of the trust fund in FY 2025, a one-time resource, will require the use of an alternative funding source in FY 2026, MTF views the use of the trust fund as an appropriate tool to provide a glide-path toward long-term funding during a challenging budget year. As the Legislature considers

options for funding the C3 program, they will mostly likely have to consider multiple revenue sources and will have to keep in mind how the choices for FY 2025 will affect future budget cycles.

- **How will the House and Senate deploy income surtax revenues in support of the education sector?**

Governor Healey's FY 2025 budget uses \$311 million of income surtax revenues to support early education program growth and provider rate increases. Early education comprises 24 percent of the surtax allocation in the administration's proposal and receives the highest allocation within the education category. In comparison, the budget allocated \$210 million to K-12 education and \$229 million to higher education from the surtax.

In contrast, the final FY 2024 budget saw a majority of surtax education funding balanced between K-12 and higher education (\$244 million and \$229 million respectively) with early education receiving roughly half of what the Governor originally proposed (\$71 million versus \$140 million from the Governor's budget). With Governor Healey proposing significant investments in Child Care Financial Assistance, the Commonwealth Preschool Partnership Initiative, and C3 – all supported by surtax revenues – the Legislature will have to consider how surtax resources will be leveraged most efficiently across the education sector.

- **Will the Legislature continue to prioritize investments in provider rate increases?**

The Governor's budget fully annualizes provider rate increases approved for FY 2024 and provides \$20 million for new rate increases. In the past, the Legislature has prioritized provider rate increases as a way to support increased salaries and benefits for early education providers in the system. In FY 2025, the House and Senate will need to balance provider rate increases with other important program investments, for example the proposed expansion to income-eligible child care in the Governor's budget. Increasing rates and increasing affordable seats in the system should both be priorities, but in a time of modest revenue growth and more limited resources compared to the past few years, the Legislature will have to carefully balance these two goals.