INNOVATIVE EARLY LEARNING FINANCING MECHANISMS

THURSDAY, JULY 11, 2019
2:00 PM ET / 1:00 PM CT / NOON MT / 11:00 AM PT
AGENDA

- Brief overview of NCSL and the Early Learning Fellows Program
- Financing ECE (early care and education)
  - Child care
  - State examples
- Innovative approaches to financing
  - Tax credits
  - Shared services
- Legislative respondent
- Q & A
WHO IS NCSL?

Bipartisan organization serving legislators and staff in all 50 states and territories:

- Improve the quality and effectiveness of state legislatures.
- Provide state legislatures a strong, cohesive voice at the federal level.
- Promote policy innovation and communication among state legislatures.
NCSL’S EARLY LEARNING FELLOWS PROGRAM

Current cohort:
24 legislators, two legislative staff representing 13 states

Alumni:
189 legislators
25 legislative staff

Program:
rigorous application process
two in-person meetings
two webinars
www.ncsl.org/fellows8
Louise Stoney
- Co-Founder of both Opportunities Exchange and the Alliance for Early Childhood Finance.
- 30+ years of experience.
- Works with policymakers to model program costs, craft new approaches to contracting and voucher management, etc.
- Strong focus on transforming the business of early care and education to improve outcomes for children.

Representative Stephanie Hilferty
- District 94 representing Jefferson and Orleans Parishes in Louisiana.
- Elected in 2015.
- Committees: Commerce; Education; Municipal, parochial and Cultural Affairs.
- Co-chair of Louisiana’s Early Childhood Care and Education Commission.
- Participant in NCSL’s Early Learning Fellows and Maternal Child Health Fellows Programs.
POLLING QUESTION 1 OF 2

Were you engaged in conversations around funding ECE during this legislative session?

- **A.** YES, who wasn’t?
- **B.** Somewhat.
- **C.** Not this year, but certainly during previous sessions.
- **D.** NO, not at all.
What Makes This Task Challenging:

- Early Care and Education (ECE) is the operative term – when children are very young you cannot separate care from education.

- ECE is delivered in multiple public + private settings with uneven access to resources. Most providers are small “mom + pop” businesses.

- ECE is market-driven – finance is largely based on parent choice and market prices.

- Parent Fees are a significant part of the financing strategy, so understanding markets and consumer behavior is key to effective finance.
Federal ECE Investment Fiscal Years 2008-2019

- Child Care and Development Block Grants (CCDBG) [Discretionary]
- Child Care and Development Block Grants (CCDBG) [Mandatory]
- Head Start/Early Head Start
- Preschool Development Grants (PDG B-S)
- Early Head Start – Child care Partnerships
- Maternal Infant and Early Childhood Home Visiting (MIECHV) Program [Mandatory]
- IDEA Preschool Grants [Part B (619)]
- Individuals with Disabilities Education Act (IDEA) Grants for Infants and Families [Part C]

From FY14-FY17, an additional $750,000,000 was spent on Preschool Development Grants (Legacy).

From FY11-FY13, an additional $1,000,201,182 was spent on Race to the Top – Early Learning Challenge.

ECE Finance: the State Perspective

Many Sources
Many Players
ECE in the US is Market-Based

**Consumer tuition**
the largest source of revenue, roughly 57% of total industry revenue

**Private sector**
less than 4% of total industry Revenue

**Government**
about 39% of total industry revenue
  - Mostly 4 yr olds
  - Vouchers for low-income
  - Very small tax benefit for middle class

- Non-Profit Child Care Center
- Private Preschool
- Public Pre-K in Private Preschool
- Pre-K in Public Schools
- Head Start & Early Head Start
- Family Child Care (paid, or with friend/relative)
- Child Care in Charter or Private School
- Nanny or other In-Home Caregiver
- Faith Based Child Care Program
- Independently Owned For Profit Child Care

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Key Decisions for State Policymakers

- How much public subsidy?
  - Augment/leverage private investment

- Who gets priority?
  - Target communities/families?
  - Target ages children?
  - Target providers?

- How are funds administered?
  - Rate-setting
  - Co-payments
  - Contracts vs vouchers

If we want high-need children in high-quality settings we must ensure those settings can succeed in the marketplace
A Policy Example: Louisiana

Of the estimated 211,510 “at-risk” children birth to four in Louisiana, publicly funded programs serve:

- 4.93% of infants
- 9.36% of ones
- 12.82% of twos
- 35% of threes
- 92.9% of fours

The cost to serve those who cannot currently access our system ranges from $182 M to $844M, depending on the definition of poverty and the funding level.

Source: Louisiana Department of Education and 2012 Census
The Cost of Child Care in Louisiana: Who Pays and How Much?

Cost per Child
- Infant/Toddler: $11,484.00
- 3 & 4 yr olds: $7,128.00

- Parent share (Tuition)
  - Infant/Toddler: $2,244.00
  - 3 & 4 yr olds: $1,188.00

- Parent market price co-pay
  - Infant/Toddler: $3,828.00
  - 3 & 4 yr olds: $2,640.00

- Parent subsidy co-payment
  - Infant/Toddler: $1,716.00
  - 3 & 4 yr olds: $1,188.00

- State Share
  - Infant/Toddler: $5,412.00
  - 3 & 4 yr olds: $5,148.00

Annual cost estimate for center-based care at min licensing, Center for American Progress, 2018: Where Does Your Child Care Dollar Go? Subsidy co-payment @ 135% poverty; Market price @ $29-$26/day State max CCDF reimbursement minus parent share.
Parent Choice

- Pre-K (4 yr olds)
  - Free!
- Child Care
  - Prices vary, often expensive!
- Head Start (3 + 4 yr olds)
  - Free!
- School Districts cover costs not paid by State

Portion not paid by State must be covered with parent fees or fundraising

Federal govt pays @ full cost (some philanthropy + state $)
Unlike Public Schools, Child Care is a Small Business

Bottom-Line Issues for ECE Businesses:

- Ensure Full Enrollment – every day, in every classroom
- Collect Tuition & Fees – in full and on-time
- Establish Accurate Tuition Rates -- (fees cover cost or have 3rd party revenue source)
Enrollment Levels and Age Mix Determine Per-Child Costs

(Example from LA Cost Models)

- **Only Infants/Toddlers**: $11,553, 80% Enrollment
- **Only 3's and 4's**: $8,287, 80% Enrollment
- **All Ages (0-4)**: $10,315, 95% Enrollment

Per-Child Costs
### Licensing Ratios

<table>
<thead>
<tr>
<th>AGE OF CHILDREN</th>
<th>ADULT/CHILD RATIO</th>
<th>MAXIMUM SIZE OF GROUP</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 12 months</td>
<td>1:5</td>
<td>10</td>
</tr>
<tr>
<td>12 - 24 months</td>
<td>1:5</td>
<td>10</td>
</tr>
<tr>
<td>24 – 36 months</td>
<td>1:7</td>
<td>14</td>
</tr>
<tr>
<td>3 years</td>
<td>1:10</td>
<td>20</td>
</tr>
<tr>
<td>4 years</td>
<td>1:12</td>
<td>24</td>
</tr>
<tr>
<td>5 years +</td>
<td>1:15</td>
<td>30</td>
</tr>
</tbody>
</table>

### Age Break for CCAP Rates

<table>
<thead>
<tr>
<th>AGE OF CHILDREN</th>
<th>REIMBURSEMENT RATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 6 months</td>
<td>$44.50/day</td>
</tr>
<tr>
<td>6 – 12 months</td>
<td>$44.50/day</td>
</tr>
<tr>
<td>12 – 18 months</td>
<td>$40.25/day</td>
</tr>
<tr>
<td>18 – 24 months</td>
<td>$40.25/day</td>
</tr>
<tr>
<td>24 – 30 months</td>
<td>$32.75/day</td>
</tr>
<tr>
<td>30 – 36 months</td>
<td>$32.75/day</td>
</tr>
<tr>
<td>36 months - 5 years</td>
<td>$32.75/day</td>
</tr>
</tbody>
</table>

**What’s wrong with this picture?**
POLLING QUESTION 2 OF 2

Take a look at the following picture and let us know what is wrong with it.

- **A.** Nothing – the rations and reimbursement rate age break-outs seem fine to me.
- **B.** The ratios do not align with the reimbursement rate age break-outs.
- **C.** The reimbursement rate structure encourages providers to limit their services to children 4-years of age or older.
- **D.** The reimbursement rate structure discourages providers from serving children under 3-years of age.
Cost, Price & Subsidy Rate in a Mid-Range Cost County

0-12 months

- Market price
- Cost per child
- Subsidy rate

3 - 4 Year Olds

- Market price
- Cost per child
- Subsidy rate
A Colorado Example: Addressing Rate-setting Challenges

- Market Rate Surveys measure the price of care.
- Child care prices are typically based on what families can afford or are willing to pay, and are unlikely to vary by quality level.
- Market prices do not correlate well with the cost of delivering services.
- Financing based on market prices alone can have unintended consequences.
Cost, Price & Subsidy Rate in a Rural, Low-Income Area

0-12 Months

<table>
<thead>
<tr>
<th>Level</th>
<th>Market price</th>
<th>Cost per child</th>
<th>Subsidy rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 1</td>
<td>$20.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level 2</td>
<td>$30.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level 3</td>
<td>$40.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level 4</td>
<td>$50.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level 5</td>
<td>$60.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3-4 Year Olds

<table>
<thead>
<tr>
<th>Level</th>
<th>Market price</th>
<th>Cost per child</th>
<th>Subsidy rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 1</td>
<td>$20.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level 2</td>
<td>$30.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level 3</td>
<td>$40.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level 4</td>
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<td></td>
</tr>
<tr>
<td>Level 5</td>
<td>$60.00</td>
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<td></td>
</tr>
</tbody>
</table>
Contracts vs Vouchers

Scenarios when Contracts will have stronger impact:

- When market prices never work
- When market demand is based on subsidy
- When competition from public schools is significant
“The significant problems we face cannot be solved at the same level of thinking we were at when we created them.”

Albert Einstein
A New Level of Thinking about ECE Finance:

Cost vs Price

- Prices are typically based on what families can afford or are willing to pay, NOT the cost of delivering services.

- Cost varies a lot by age of child & quality of care; but market prices can’t vary much or consumers might flee.

- Infants & toddlers are very expensive to serve; most families cannot afford to pay the full cost, so programs must price at a loss.

- Cost Modeling makes it possible to understand the cost of delivering services at various levels of quality & more effectively allocate state and family contribution.

What do you know about the gap in cost and price, (public & family share) for various age children, in your state?
A New Level of Thinking about ECE quality and supply: Enrollment Data is Key

- Full enrollment is key to financial sustainability
- Many ECE programs are currently not fully enrolled
- Maintaining Preschool enrollment (3-4 yr olds) is essential. Serving more infants + toddlers often increases financial challenges.

- Improving access doesn’t necessarily mean MORE providers.
- Increasing public dollars in fewer, higher-quality settings could increase access to quality and lower cost of quality compliance.

Data on the supply AND enrollment of all high-quality settings (regardless of funding or auspice) is essential.
Bottom Line: Building Child Care Capacity is Complex Work

**Effective Demand** The level of demand that represents a real intention to purchase by people with the means to pay.

[Oxford Dictionary of English]

- Parents vote with their feet. If they cannot afford to pay for ECE they won’t buy it. Even if they are eligible for a voucher, if the parent share is too high they won’t even apply for help.

- Customers in the ECE sector are VERY price-sensitive!

- Even when researchers estimate high demand, programs often have vacancies.
Money Matters: If you build it .... they may NOT come!
A New Level of Thinking about ECE quality, supply, finance and governance:

Size Matters

Cost modeling suggests that a stand-alone child care center needs at least 100 children to meet NAEYC standards & make ends meet financially & closer to 300 in order to pay decent wages.

✓ How big are most child care centers in your state? Are they sustainable?

◼ Shared management & collaborative staffing can enable scale but keep sites small – boosting sustainability AND quality

◼ Encouraging Shared Service networks could be part of a local governance strategy

Can you help centers and homes better understand costs and explore Shared Services?
Bold, Actionable Strategies:

Policy Options for Consideration

- Link any new $ to quality standards
- Tap funding at all levels of government + private sector
- Focus on babies & toddlers
  - Most public funding targets 4yr olds
- Base rates + finance on provider cost modeling, by age (not market prices)
- Use vacancy data to maximize supply
  - Do not open new classrooms if high-quality slots are available in the area
- Understand the power of scale and encourage efficient operations + provider networks with shared staff

If we want high-need children in high-quality settings we must ensure those settings can succeed in the marketplace
Innovative Financing Strategies

- Refundable Tax Credits for ECE Programs, Practitioners, Investors and Consumers
  - Louisiana
  - Nebraska

- Encourage Shared Services in the ECE Sector
  - Vermont – Investment in CMS technology + regional Alliances
  - Oregon – New policy options + regional Alliances
  - Multiple States (Shared Services on the Web)
    - www.ecesharedresources.net
## Louisiana School Readiness Tax Credits
### A Successful Support for the Child Care Industry and Early Childhood Education

<table>
<thead>
<tr>
<th>Type of Credit</th>
<th>Child Care Expenses (Family)</th>
<th>Provider</th>
<th>Directors &amp; Staff</th>
<th>Business Support</th>
<th>Resource &amp; Referral</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016 Amount</td>
<td>$2.3 M</td>
<td>$4.8 M</td>
<td>$8.7 M</td>
<td>$371 K</td>
<td>$947 K</td>
</tr>
<tr>
<td># of Recipients</td>
<td>13,338 Families</td>
<td>454 Providers</td>
<td>4044 Directors &amp; Staff</td>
<td>49 Businesses</td>
<td>229 Businesses</td>
</tr>
<tr>
<td>Average Per Recipient</td>
<td>$173</td>
<td>$10,655</td>
<td>$2154</td>
<td>$7573</td>
<td>$4133</td>
</tr>
</tbody>
</table>

### How Determined
- Families are eligible for tax credit based upon the quality rating of the center
- Providers receive a tax credit based on center rating and the number of children they serve in CCAP or foster care
- Based on education level (4 levels – CDA (national certification with a high school degree) through a Masters Degree)
- Must work at a center in rating system (at least 6 months)
- Star rating does NOT impact this credit
- Employers receive a credit for a percentage of “eligible child care expenses” based on the quality rating of the center (e.g. construction, slots for employees)
- Employers may claim a tax credit for up to $5,000 in grants to child care resource and referral agencies

### Features
- Refundable up to $25,000 in income
- Builds on existing state child care tax credit, from 50 – 200% based on rating and income
- Refundable
- From $750 – 1500 per CCAP child based on star rating
- For-profits and non-profits are eligible
- Refundable
- From $1658-3315 based on education level
- Adjusted annually based on CPI
- Refundable
- Percentage ranges from 5 – 20% based on star rating
- Maximum expense is $50,000 (w/credit as percentage)
- Refundable
- Credit is dollar for dollar
- Maximum is $5,000

More information: https://www.policyinstitutela.org/school-tax-credits
Source for table above: LA Department of Revenue, 2016
Let's Grow Kids
https://letsgrowkids.org/

Shared Services Vermont

Shared Services can help you work smarter, not harder. Here’s how:

Statewide Technology Solutions
Log on to SharedServicesVT.org, a one-stop web shop for program resources and discounts. The site includes easily customizable parent handbook templates, budget forms, as well as VT Early Learning Standards and other resources.
Access to Child Care Management Software designed to streamline record keeping, billing, scheduling, parent communications and more.

Regional Shared Services Networks
Join a regional network of child care programs working together with an administrative “hub” that enables programs to share services, staff, tools, information and resources.
Every network is unique, intentionally designed by member programs to meet the specific needs of their businesses, children and families.
“Hubs” can be large child care programs, local businesses or any regional entity capable of providing and coordinating administrative supports.

Family-Centered Communities
By expanding regional networks to include partnerships with local schools, health care providers, businesses and other community organizations, child care programs can create reliable pathways to connect the children in their care with a wide range of community services and supports.
By tapping into the assets of an entire community or region to create family-centered communities, we can not only improve outcomes for Vermont children and their families, but also help build strong, thriving communities and economies.
For more information
HB 676 | 2018: Creates the Early Childhood Care and Education Commission and pilot programs for community early childhood care and education networks.

Current Status: Signed by the Governor - Act 639
REPRESENTATIVE STEPHANIE HILFERTY
REPRESENTATIVE STEPHANIE HILFERTY
QUESTIONS
LEGISLATIVE SUMMIT | AUGUST 5-8, 2019

REGISTER TODAY!

Mark your calendar for our August 15 webinar How Policymakers Can Support Early Childhood Data Governance.

www.ncsl.org/fellows8.

All NCSL ECE materials on our website.

Alumni please participate in our efforts to evaluate the Fellows program: tinyurl.com/NCSLfellows (survey open through July 22nd).

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