TRANSFORMING THE FINANCING OF MN’s EARLY CARE AND EDUCATION

Prenatal to Three Policy Forum

Presented by Christa Anders, Elizabeth Davis and Jonathan May

October 21st, 2019
Report Trilogy from the National Academies
• Team began working in June of 2016

• Supported by the McKnight Foundation, West Central Initiative

• Technical Assistance provided by the National Academy of Sciences

• Outreach to over 900 stakeholders

• Minnesota’s Plan to transform the early childhood workforce is available on-line at: www.ecworkforcemn.org
Our Committee

Transforming the Financing of Early Care and Education in Minnesota – Subcommittee

● Jerry Cutts, President and CEO, First Children’s Finance
● Liz Davis, Professor, University of Minnesota
● Rob Grunewald, Federal Reserve of Minnesota
● Debbie Hewitt, Early Learning Supervisor, Minnesota Department of Education
● Jonathan May, Director of Innovation, Think Small
● Aaron Sojourner, Associate Professor, University of Minnesota
Outline for This Morning

Part One: Current Context in Minnesota

Part Two: Transforming the Financing of Early Care and Education Report

Part Three: Next Steps for Minnesota
PART ONE:
Current Context in Minnesota
Minnesota Children Under Age 6
Living with Two Parents, Mother, or Father

Total: 410,000

- 73% Two Parents
- 20% Mother
- 7% Father

Minnesota Children Under Age 6

Percent of Parents in Labor Force by Living Arrangement

Median family income, by presence of young children

Family income, children under age 6, 2012-2016*

*Standard error estimates indicated at the top of each bar.
How Many Kids in Care?

- 233,162 licensed slots in Minnesota
- 2,057 Pre-Kindergarten & School Readiness Teachers
- 1,782 licensed Child Care Centers
- 7,582 licensed Family Child Care Providers

Current Status of Early Care and Education

- Crises in young families’ budgets
  - Hard for parents to work or afford to stay home
  - Parent choosing not to have children

- Crises in child care market
  - **Shortages**: not enough slots
  - **Unaffordable**: Prices too high & slots too far for families
  - **Staff turnover or exits**: child care workforce instability
  - **Closings**: weak incentives for suppliers to operate
Minnesota median market child care rates, 2018

- **Child care center** (58% of child care capacity)
  - Infant
  - Toddler
  - Preschool

- **Family child care** (42% of child care capacity)
  - Infant
  - Toddler
  - Preschool

Results of the 2018 Child Care Market Rate Survey, Minnesota Department of Human Resources
How much does care cost?

**ANNUAL COST OF CHILD CARE**

<table>
<thead>
<tr>
<th></th>
<th>INFANTS</th>
<th>4 YEAR-OLDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>CENTER-BASED CARE</td>
<td>$15,704</td>
<td>$11,960</td>
</tr>
<tr>
<td>24.8% of household income</td>
<td>$11,960</td>
<td>$11,960</td>
</tr>
<tr>
<td>17.5% of household income</td>
<td>$11,960</td>
<td>$11,960</td>
</tr>
<tr>
<td>FAMILY CHILD CARE HOMES</td>
<td>$8,424</td>
<td>$7,644</td>
</tr>
<tr>
<td>12.3% of household income</td>
<td>$7,644</td>
<td>$7,644</td>
</tr>
<tr>
<td>11.2% of household income</td>
<td>$7,644</td>
<td>$7,644</td>
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</tbody>
</table>

**SIZE OF THE MARKET-BASED CHILD CARE INDUSTRY IN MINNESOTA**

- **Total ECONOMIC impact (2016)**: $2.25 billion
  - $1.05 billion child care revenue
  - $1.2 billion spillover in other industries
- **Total EARNINGS impact (2016)**: $1.06 billion
  - $631 million employee compensation and sole proprietors’ earnings
  - $431.4 million spillover earnings in other industries
- **Total JOBS impact (2016)**: 44,308 jobs
  - 32,408 sole proprietors and wage and salaried employees
  - 11,900 spillover jobs in other industries

Productivity and Performance at Work:
As a result of child care (age 0-2) problems have you ever:

<table>
<thead>
<tr>
<th>Problem</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Had problems participating in work-related education/training</td>
<td>25%</td>
</tr>
<tr>
<td>Been reprimanded by a supervisor</td>
<td>20%</td>
</tr>
<tr>
<td>Had your pay or hours reduced</td>
<td>13%</td>
</tr>
<tr>
<td>Been let go or fired</td>
<td>8%</td>
</tr>
<tr>
<td>Been demoted or transferred to a less desirable position</td>
<td>7%</td>
</tr>
</tbody>
</table>

Career Pathways:
As a result of child care (age 0-2) problems have you ever:

- Reduced your regular work hours: 25%
- Turned down further education/training: 25%
- Turned down a new job offer: 25%
- Turned down a promotion/reassignment: 16%
- Changed from full-time to part-time work: 15%
- Quit a job: 13%

Annual Average Cost Estimates

- Working parents lose $37 billion (lost earnings and extra costs of job search)
- Businesses lose $13 billion (lost revenues and extra costs to rehire)
- Taxpayers lose $7 billion (lower income tax and sales tax)

Shortages in Minnesota:
Large decline in licensed family child care programs

- Overall capacity has declined 5%.
- Declines and shortages vary locally.

"Licensed Child Care Trends in Minnesota Fact Sheet." Minnesota Dept. of Human Services, Licensing Division
Early Educators in Minnesota: Undervalued and Underpaid

Approximately 1/3 of the early childhood workforce in Minnesota receives public support (EITC, Medicaid, SNAP, TANF) at a cost of $43 Million per year.

Center for the Study of Child Care Employment, Early Childhood Workforce Index, 2016, University of California, Berkeley
What Would You Choose?

Starting pay: $27,000 per year

PLUS paid vacation, health insurance and sick time and pretty low stress environment

No degree or ongoing training required

Average pay: $23,795 per year

No benefits, no paid planning time, hard work

Employers prefer degrees in early childhood

Ongoing training required
Staff Turnover

Quarterly Workforce Indicators, U.S. Census Bureau, data for Minnesota

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Staff Turnover Rates

- All Jobs
- Child Day Care Services
- Nursing Homes
- Manufacturing
Exits of Family Child Care Not Just in MN

People think child care is expensive, but if you figure the hourly rate a provider makes, it is terribly low. A provider works 12 hours a day with children and spends another two hours on bookwork and cleaning.”
PART TWO:
The National Academies of Sciences, Engineering and Medicine, Consensus Study Report: *Transforming the Financing of Early Care and Education, 2018*
TRANSFORMING THE FINANCING OF EARLY CARE AND EDUCATION

Committee on Financing Early Care and Education with a Highly Qualified Workforce
Study Sponsors and Committee Members

- Administration for Children and Families, U.S. DHHS
- U.S. Department of Education
- Alliance for Early Success
- Buffett Early Childhood Fund
- Caplan Foundation for Early Childhood
- Foundation for Child Development
- Bill and Melinda Gates Foundation
- Heising-Simons Foundation
- Kresge Foundation
- W. K. Kellogg Foundation
- National Academies Presidents’ Funds

LA RUE ALLEN, (Chair) New York University
CELIA C. AYALA, Los Angeles Universal Preschool (retired)
DAPHNA BASSOK, University of Virginia
RICHARD N. BRANDON, University of Washington (retired)
GERALD M. CUTTS, First Children’s Finance
KIM DANCY, New America
ELIZABETH E. DAVIS, University of Minnesota
HARRIET DICTER, ICF, Early Education Services
KATHY GLAZER, Virginia Early Childhood Foundation
LYNN A. KAROLY, RAND Corporation
HELEN F. LADD, Duke University (emeritus)
SHAYNE SPAULDING, Urban Institute
MARCY WHITEBOOK, University of California, Berkeley
The committee will study how to fund early care and education for children aged 0-5 that is accessible, affordable to families, and of high-quality, including a well-qualified and adequately supported workforce, consistent with the vision outlined in the report, *Transforming the Workforce for Children Birth Through Age 8: A Unifying Foundation*. 
The Committee’s report:
• Identifies core principles for ECE financing
• Reviews current ECE financing landscape
• Describes different financing mechanisms
• Provides an illustrative cost estimate for the full cost of high-quality ECE
• Outlines vision for the transition to a transformed financing system
• Recommends actions by local, state and federal governments and private sector
• Underwent external peer review
Principles for Financing High-Quality ECE

1) A diverse, competent, effective, well-compensated, and professionally supported workforce across the various roles of ECE professionals.

2) All children and families have equitable access to affordable services across all ethnic, racial, socioeconomic, and ability statuses as well as across geographic regions.

3) Financing that is adequate, equitable, and sustainable, with incentives for quality and that is efficient, easy to navigate, easy to administer, and transparent.

4) A variety of high-quality service delivery options that are financially sustainable.

5) Adequate financing for high-quality facilities.

6) Systems for ongoing accountability, including learning from feedback, evaluation, and continuous improvement.
Current ECE Financing Landscape

- Families pay about 52% of ECE costs
- Federal, state and local govts 46%
- Private sector 2%
- Multiple funding streams
- Gap in funding to meet cost of high-quality
Current Landscape of ECE Funding

• **Financing for ECE** is a layering of separate programs, with different funding streams, constituencies, eligibility requirements, and quality standards

• Funding is not always linked to quality standards

• Overall compensation for the ECE workforce is low

• Burden on many families to pay for ECE
Share of families using ECE and share using center-based ECE by income level

**FIGURE 4-1** Patterns of ECE utilization by income category, all children age 0 to 5 years (not in kindergarten)

**SOURCE:** Committee-generated based on Latham (2017), using data from the 2012 National Survey of Early Care and Education Public Data Set.

Source: Transforming the Financing of Early Care and Education (2018), National Academies Press.
Funding Streams and Financing Mechanisms

- **Funding stream**: A program or funding source that specifies the uses of the funds and who is eligible to receive them.

- **Financing mechanisms**: the methods by which funds are distributed to entities such as providers, families, the workforce, and system-level actors
  1. Provider-oriented
  2. Family-oriented
  3. Workforce-oriented
  4. System-oriented
# ECE funding streams (subsidized care)

<table>
<thead>
<tr>
<th>Subsidized care</th>
<th>Target population</th>
<th>Funding mechanism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early Head Start/Head Start&lt;sup&gt;a&lt;/sup&gt;</td>
<td>Families with income &lt; FPL, ages 0–5 years</td>
<td>Direct to providers</td>
</tr>
<tr>
<td>CCDF (child care subsidies)</td>
<td>Qualifying low-income families, ages 0–12 years</td>
<td>To providers via vouchers or contracts</td>
</tr>
<tr>
<td>TANF transfer to CCDF and TANF direct child care</td>
<td>Qualifying low-income families, ages 0–12 years</td>
<td>To providers via vouchers or contracts</td>
</tr>
<tr>
<td>State and locally-funded prekindergarten</td>
<td>Targeted or universal, ages 3–5 years</td>
<td>To providers via vouchers, scholarships, contracts, grants, or school-funding formulae</td>
</tr>
</tbody>
</table>

For sources, see Table 2-2
## ECE funding streams (tax credits)

<table>
<thead>
<tr>
<th>Funding Stream</th>
<th>Target Population</th>
<th>Funding Mechanism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax-based subsidies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CDCTC (Child and Dependent Care Tax Credit)</td>
<td>Working families with tax liability, ages 0–12 years</td>
<td>Personal income tax credit (refundable in some states)</td>
</tr>
<tr>
<td>DCAP (Dependent Care Assistance Program)</td>
<td>Working families with tax liability, ages 0–12 years (and adults)</td>
<td>Employer-administered account to pay for eligible expenses with pre-tax dollars</td>
</tr>
<tr>
<td>Employer-provided child care credit</td>
<td>Working families with qualifying employer, ages 0–12 years</td>
<td>Employer tax credit</td>
</tr>
</tbody>
</table>

For sources, see Table 2-2
Assessing Financing Mechanisms Using the Committee’s Principles for High-Quality ECE

Examples of Criteria

● Does the financing cover the full cost of providing high quality ECE and provide incentives to attain and maintain high quality?
● Does the financing support an ECE workforce that is adequately compensated and professionally supported?
● Does the financing support equitable access to affordable ECE for all families?
● Does the financing support a variety of service delivery options?
● Is there adequate and sustainable financing for high-quality facilities and ongoing accountability?
Estimating the Cost of High-Quality ECE

Key Assumptions for Illustrative Cost Estimate:

- Staffing levels consistent with recognized high-quality standards
- Higher compensation and benefits
- Lead educators with a BA degree
- Resources for coaching and mentoring
- Paid time for professional responsibilities such as child assessment and planning and professional development
- Specialists for children with special needs
- Facilities and other non-personnel costs
- **System-level costs**: Workforce education and quality assurance, monitoring and data systems
# Current Funding Levels Compared to Cost of High-Quality Center-Based ECE

<table>
<thead>
<tr>
<th>Per child, annualized</th>
<th>4-yr old</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head Start, Early Head Start</td>
<td>$8,038</td>
</tr>
<tr>
<td>Public pre-kindergarten</td>
<td>$4,976</td>
</tr>
<tr>
<td>CCDF subsidy payment rate (avg. state)</td>
<td>$7,170</td>
</tr>
<tr>
<td>Federal CCDTC: max allowable annual expenses per child</td>
<td>$3,000</td>
</tr>
<tr>
<td>DCAP per household (married couple)</td>
<td>$5,000</td>
</tr>
<tr>
<td><strong>Total cost of high quality ECE: Committee estimate</strong></td>
<td><strong>$13,655</strong></td>
</tr>
</tbody>
</table>
## Estimated Total Cost of High-Quality ECE System

Dynamic Estimates of Total Cost and Share of Total Cost by ECE Provider Type and by Scenario Phase (billions of 2016 dollars)

<table>
<thead>
<tr>
<th></th>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
<th>Phase 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total, dynamic estimate</strong></td>
<td>$74.5</td>
<td>$89.0</td>
<td>$114.3</td>
<td>$139.9</td>
</tr>
<tr>
<td><strong>Center-based</strong></td>
<td>$49.8</td>
<td>$62.5</td>
<td>$82.9</td>
<td>$105.2</td>
</tr>
<tr>
<td><strong>Home-based</strong></td>
<td>$24.8</td>
<td>$26.4</td>
<td>$31.4</td>
<td>$34.7</td>
</tr>
<tr>
<td><strong>Increase above current public spending</strong></td>
<td>$4.8</td>
<td>$14.9</td>
<td>$33.5</td>
<td>$52.7</td>
</tr>
<tr>
<td><strong>Share of total by provider type</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Center-based</td>
<td>67%</td>
<td>70%</td>
<td>73%</td>
<td>75%</td>
</tr>
<tr>
<td>Home-based</td>
<td>33%</td>
<td>30%</td>
<td>27%</td>
<td>25%</td>
</tr>
</tbody>
</table>
Estimate Total Cost for High-Quality ECE System

- OECD countries spend an average of 0.8% of GDP on ECE
  - Phase 1: amounts to 0.4% of current U.S. GDP
  - Phase 4: amounts to 0.75% of current U.S. GDP

- Total cost of high-quality ECE less than K-12 spending
  - Phase 1: about 12% of total K-12 expenditures
  - Phase 4: about 22% of total K-12 expenditures
Sharing the Cost

● Variety of approaches to determining a reasonable share of costs for families to pay

● If no fees are charged:
  ○ Family payments would be $0 for all income levels

● If fees are charged:
  ○ Family payments at the lowest income level reduced to $0
  ○ Family payments as a share of family income increase progressively as income rises
# Sharing the Cost

Dynamic Estimate of the Total Cost by Transformation Phase, with Estimated Shares of Public and Family Contributions (billions of 2016 constant dollars)

<table>
<thead>
<tr>
<th></th>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
<th>Phase 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total, dynamic estimate</strong></td>
<td>$74.5</td>
<td>$89.0</td>
<td>$114.3</td>
<td>$139.9</td>
</tr>
<tr>
<td><strong>Family payment</strong></td>
<td>$40.7</td>
<td>$45.1</td>
<td>$51.9</td>
<td>$58.2</td>
</tr>
<tr>
<td><strong>Public/private assistance</strong></td>
<td>$33.8</td>
<td>$43.9</td>
<td>$62.5</td>
<td>$81.7</td>
</tr>
<tr>
<td><strong>Share of total costs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Family payment</strong></td>
<td>55%</td>
<td>51%</td>
<td>45%</td>
<td>42%</td>
</tr>
<tr>
<td><strong>Public/private assistance</strong></td>
<td>45%</td>
<td>49%</td>
<td>55%</td>
<td>58%</td>
</tr>
</tbody>
</table>
Key Recommendations of the Financing Report

● Consistent standards for high quality across all ECE programs.
● Link funding to quality standards.
● Ensure funding is sufficient to cover the total cost of high-quality ECE.
Key Recommendations of the Financing Report

Ensure access to affordable, high-quality ECE for all children and families that is not contingent on the characteristics of their parents.

● Access to high-quality ECE that is not dependent on parents’ employment
● Affordable for all families
● Institutional support to providers who meet quality standards
Key Recommendations of the Financing Report

Create a State-level entity to act as coordinator for the various federal and state financing mechanisms that support ECE (with the exception of federal and state tax preferences that flow directly to families).
Summary Conclusions of the Financing Report

- The current ECE financing structure is inadequate to support the recruitment and retention of a highly qualified workforce and ensure and incentivize high-quality services across settings. Only a small share of children currently have access to high-quality programs, and families struggle to afford ECE.

- Reliable, accessible and affordable high-quality ECE can be achieved but will require greater harmonization and coordination among multiple financing mechanisms and revenue streams; consistent quality standards and incentives for quality; and a more equitable distribution of the share from family contributions and public investment.
http://nas.edu/Finance_ECE

#FinancingECE
Part Three: Next Steps
Goal

To create, in coalition with public and private funders, and in coordination with other key stakeholders, the first round of a Minnesota-specific strategic business plan to guide transition toward a reformed financing structure for high-quality care and education, consistent with the recommendations from the National Academies of Sciences reports and Minnesota’s plans for transforming the early childhood workforce (available at www.ecworkforcemn.org).
First Steps

Produce cost estimates based on financial modeling:

- Looking at covering early childhood costs up to 185% of poverty
- Capping parental contributions at 7% and 10% or other policy options
- Include adequate support for a qualified, diverse, supported and fairly compensated workforce
- Account for other system level costs like quality assurance and improvement
- Determining what we are spending now and identifying the new funds needed
Figure 2: Per Child Public Expenditure by Child Age

Per Capita Expenditure, 2015

Parents’ Youngest Child Age

- 0–2
- 3–5
- 6–11
- 12–18
What does MN Spend on Early Care and Education?

[Bar chart showing the spending on different programs from 2013 to 2021. The chart indicates the increase in spending in millions of dollars over the years for Early Learning Scholarships, School District, Head Start, and Child Care Assistance Program.]
Closing the Gap on Recognizing Quality

Percentage of MN's Family Care and Child Care Center Slots that are Rated

- Parent Aware Rated Slots: 33%
- Unrated Slots: 67%
Future Steps

• Recommendations based on cost estimates
• Timelines for implementation
• Consider mechanisms for distribution
• Consider mechanisms for revenue generation
• Obviously will need to do this work in collaboration with lots of other stakeholders
• Coordination with federal partners
• Will need a set of principles that can be clearly communicated and understood

  • **What Would You Recommend?**
  
  [https://tinyurl.com/FinanceECE](https://tinyurl.com/FinanceECE)
For More Information:

www.ecworkforcemn.org