Transforming the Financing of Early Care and Education in Minnesota

Presentation to the Prenatal to Three Policy Forum
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Transforming the Financing of Minnesota’s Early Care and Education Team

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With staffing and research support from Zina Noel, Lisa Rau and Christa Anders
The Financing Model for Early Care and Education in Minnesota is Broken

Just a reminder...

● 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

● Crises in young families’ budgets
  ○ Hard for parents to work or afford to stay home
  ○ High cost of childcare a reason people are choosing not to have children
Thinking about the Various Elements of Early Care and Education Financing

Revenue Generation/Funding Streams

- Federal Funding: Child Care Development Block Grant and other federal funds
- State Funding: General revenue fund, payroll tax or other dedicated revenue sources
- Family Contributions: co-pays for lower income families and tuition/fees from middle and higher income families

Distribution Mechanisms

- Family-Oriented Distribution Mechanisms: Assistance directly to families through things like CCAP and Early Learning Scholarships, tax credits to families
- Provider-Oriented Distribution Mechanisms: Head Start and public PreK programs and institutional support for providers and facilities
- Workforce-Oriented Distribution Mechanisms: Scholarships, wage supplementation, tax preferences, reduced rate loans etc.
- System-Oriented Distribution Mechanism: Research and evaluation, technology and data systems (Including QRIS systems), quality improvements, workforce development including professional development and training, funding to support institutes of higher education

Note: This is how you raise the money

Note: This is how you spend the money
TRANSFORMING THE FINANCING OF EARLY CARE AND EDUCATION

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

Published in 2018
Families pay about 52% of ECE costs (national avg.)

- Federal, state and local govts 46%
- Private sector 2%
- Multiple funding streams
- Gap in funding to meet cost of high-quality ECE system
High-Quality Early Care and Education Requires:
• A diverse, competent, effective, supported workforce

• Equitable access to affordable services

• Financing that is adequate, equitable, and sustainable with incentives for quality

• Financing that is efficient, easy to navigate and administer and transparent

• A variety of high quality service delivery options

• Financing for high-quality facilities

• Systems for ongoing accountability

Principles of High-Quality Early Care and Education Financing
Key Recommendations of the Financing Report

1. Consistent standards for high quality across all ECE programs.
2. Link funding to quality standards.
3. Ensure funding is sufficient to cover the total cost of high-quality ECE.
4. Affordable for all families
5. Access to high-quality ECE that is not dependent on parents’ employment
6. Harmonized funding and institutional support to providers who meet quality standards
FIGURE 7-4 ECE financing structure with harmonized financing mechanisms.
To estimate the gap between current funding and the full cost of affordable, high-quality early care and education (ECE) system in Minnesota, we need to know (or make assumptions about):

- Full cost of high-quality ECE in Minnesota

- How to share the costs – what is affordable for families

- How demand for ECE will shift as quality and costs to families change

- How to cover the costs of supporting workforce development

- Impacts of COVID-19 on supply and demand
Minnesota
Specific Numbers

Artwork by Adam Turman
Statewide cost model

• Cover all costs for low-income families
• Cover a portion of costs for moderate- and higher-income families
• Consider share of expenses paid by families and government
• Consider increased per child payment to support quality
What do we know?

Reliable estimates:

• Number of children and families by family income
• Federal and state funding allocated to ECE
• Market prices for child care
What do we know?

Incomplete information:

- True cost of providing high-quality ECE
- Local government spending on ECE
- Number of children who use multiple federal and state funding streams
- How families respond to availability of government funding or an increase in ECE quality
- Federal government’s eventual share of total costs
### Number of Minnesota young children by age and family income group

<table>
<thead>
<tr>
<th>Family income relative to poverty line</th>
<th>By child age</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-income: up to 185%</td>
<td>0-2 years</td>
<td>3-4 years</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td></td>
<td>64,996</td>
<td>43,330</td>
<td>108,326</td>
<td></td>
</tr>
<tr>
<td>Moderate-income: 185-300%</td>
<td>40,893</td>
<td>27,262</td>
<td>68,155</td>
<td></td>
</tr>
<tr>
<td>Higher-income: above 300%</td>
<td>100,979</td>
<td>67,319</td>
<td>168,298</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>206,868</td>
<td>137,911</td>
<td>344,779</td>
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</tbody>
</table>
### Annual baseline costs per participating child

<table>
<thead>
<tr>
<th>Cost per child</th>
<th>Age 0-2</th>
<th>Age 3-4</th>
<th>Age 0-5</th>
</tr>
</thead>
<tbody>
<tr>
<td>$11,223</td>
<td>$9,704</td>
<td>$10,615</td>
<td></td>
</tr>
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</table>
Baseline cost by child age and family income group ($ millions/year)

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<td></td>
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<td>Total</td>
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<tr>
<td>Low-income: up to 185%</td>
<td>$438</td>
<td>$336</td>
<td>$774</td>
<td></td>
</tr>
<tr>
<td>Moderate-income: 185-300%</td>
<td>$275</td>
<td>$212</td>
<td>$487</td>
<td></td>
</tr>
<tr>
<td>Higher-income: above 300%</td>
<td>$680</td>
<td>$523</td>
<td>$1,203</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$1,393</td>
<td>$1,071</td>
<td>$2,464</td>
<td></td>
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Assume 60% uptake for ages 0 to 2 and 80% uptake for ages 3 to 4
## Current federal and state investments (expenditures and tax credits)

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<td></td>
<td>0-2 years</td>
<td>3-4 years</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>Low-income: up to 185%</td>
<td>$141</td>
<td>$278</td>
<td>$419</td>
<td></td>
</tr>
<tr>
<td>Moderate-income: 185-300%</td>
<td>$5</td>
<td>$23</td>
<td>$28</td>
<td></td>
</tr>
<tr>
<td>Higher-income: above 300%</td>
<td>$20</td>
<td>$33</td>
<td>$53</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$167</td>
<td>$333</td>
<td>$500</td>
<td></td>
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60% uptake for ages 0 to 2 and 80% uptake for ages 3 to 4
Public investment share of baseline costs

- **Low-income**: 80%
- **Moderate-income**: 10%
- **Higher-income**: 5%
Low-income families have no co-payment; other families pay 7% of income

Public investment share
Low-income families have no co-payment; other families pay 7% of income

**New public investment**

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<tbody>
<tr>
<td><strong>Low-income:</strong> up to 185%</td>
<td>$296</td>
<td>$59</td>
<td>$355</td>
</tr>
<tr>
<td><strong>Moderate-income:</strong> 185-300%</td>
<td>$187</td>
<td>$114</td>
<td>$301</td>
</tr>
<tr>
<td><strong>Higher-income:</strong> above 300%</td>
<td>$220</td>
<td>$115</td>
<td>$335</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$703</td>
<td>$289</td>
<td>$991</td>
</tr>
</tbody>
</table>

Assume 60% uptake for ages 0 to 2 and 80% uptake for ages 3 to 4
Low-income families have no co-payment; other families pay 7% of income.

Increase payment to providers by 50%.

Public investment share.
Low-income families have no co-payment; other families pay 7% of income

Increase payment to providers by 50%  

New public investment

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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$577</td>
<td>$264</td>
<td>$841</td>
<td></td>
</tr>
<tr>
<td>Moderate-income: 185-300%</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>$357</td>
<td>$239</td>
<td>$596</td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$587</td>
<td>$373</td>
<td>$960</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$1,521</td>
<td>$875</td>
<td>$2,396</td>
<td></td>
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</tbody>
</table>

Assume 65% uptake for ages 0 to 2 and 85% uptake for ages 3 to 4
Costing out other policy choices

• Change the overall family contribution rate for moderate- and higher-income families

• Implement higher contribution rates as family income increases (progressive)

• Change quality contribution
<table>
<thead>
<tr>
<th>Phase</th>
<th>Coverage Goals</th>
<th>Family Share</th>
<th>Quality Levels</th>
<th>Focus Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase One</td>
<td>Some coverage for low-income families</td>
<td>Increase coverage for low-income families</td>
<td>28% are in Parent Aware rated programs</td>
<td>Stop the bleeding, COVID response, Power to the Prof.</td>
</tr>
<tr>
<td>Phase Two</td>
<td>All low-income families &amp; priority children</td>
<td>0% family 100% public</td>
<td>50% are in high quality programs</td>
<td>Support workforce, higher ed &amp; increase TOC</td>
</tr>
<tr>
<td>Phase Three</td>
<td>Moderate-income families</td>
<td>0% low-income Capped for middle income</td>
<td>75% are in high quality programs</td>
<td>Continued quality improvements and support</td>
</tr>
<tr>
<td>Phase Four</td>
<td>Higher-income families</td>
<td>0% low-income Capped for middle and higher income</td>
<td>100% are in high quality programs</td>
<td>Continued quality improvements and support</td>
</tr>
</tbody>
</table>

**Phasing the Costs of Transforming the Financing of ECE**

<table>
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<th>Phase Two</th>
<th>Phase Three</th>
<th>Phase Four</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years One to Three</td>
<td>Years Four to Six</td>
<td>Years Seven to Nine</td>
<td>Years Ten to Twelve</td>
</tr>
</tbody>
</table>

**Coverage Goals**
- Phase One: Some coverage for low-income families
- Phase Two: All low-income families & priority children
- Phase Three: Moderate-income families
- Phase Four: Higher-income families

**Family Share**
- Phase One: Increase coverage for low-income families
- Phase Two: 0% family 100% public
- Phase Three: 0% low-income Capped for middle income
- Phase Four: 0% low-income Capped for middle and higher income

**Quality Levels**
- Phase One: 28% are in Parent Aware rated programs
- Phase Two: 50% are in high quality programs
- Phase Three: 75% are in high quality programs
- Phase Four: 100% are in high quality programs

**Focus Areas**
- Phase One: Stop the bleeding, COVID response, Power to the Prof.
- Phase Two: Support workforce, higher ed & increase TOC
- Phase Three: Continued quality improvements and support
- Phase Four: Continued quality improvements and support
Next Steps

• Costing out the other policy choices
• Getting more granular on some of the details
• Coordinating with others working on the revenue generation and distribution mechanisms
• Getting feedback, refining and revising as we learn more

Questions, Feedback and More Information

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