



Massachusetts  
Taxpayers Foundation

# Preparing for Child Care Reform: How to Improve the Subsidy System to Maximize Future Investment

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# Agenda

1. Research Purpose
2. Federal & State Funding
3. MA Subsidy Programs
4. Findings & Recommendations

# Research Purpose

- Seize the current momentum surrounding child care policy and contribute to policy discussions in the new legislative session to reform the subsidized child care system.
- Describe how the subsidy system works (and doesn't work) so that policy decisions are informed with knowledge of the system and the challenges and opportunities within it.
- Although the subsidy system is just one part of the early education ecosystem in Massachusetts, efforts to reform and expand affordable child care are likely to build off of it.

# Definitions

- The EEC – The Department of Early Education and Care
- CCDF – the Child Care and Development Fund
- CCDBG – The Child Care and Development Block Grant
- CCES – the Child Care Entitlement to States
- CCRRs – Child Care Resource and Referral Agencies
- Reimbursement Rates – The rates at which the state reimburses child care providers for accepting families utilizing subsidies
- A Voucher – a form of child care subsidy which families can use at any provider that accepts them
- A Contracted Slot – a slot reserved for families using subsidies at a provider that has a contract with the EEC

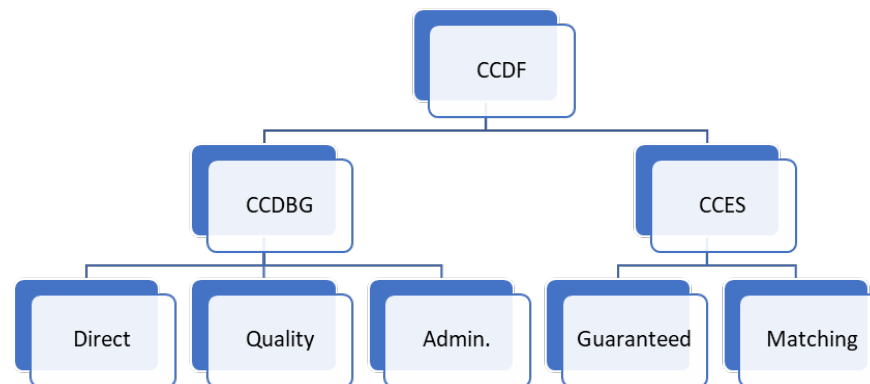




# Federal & State Funding

# The CCDF supplements state funding to provide subsidized child care to low-income families

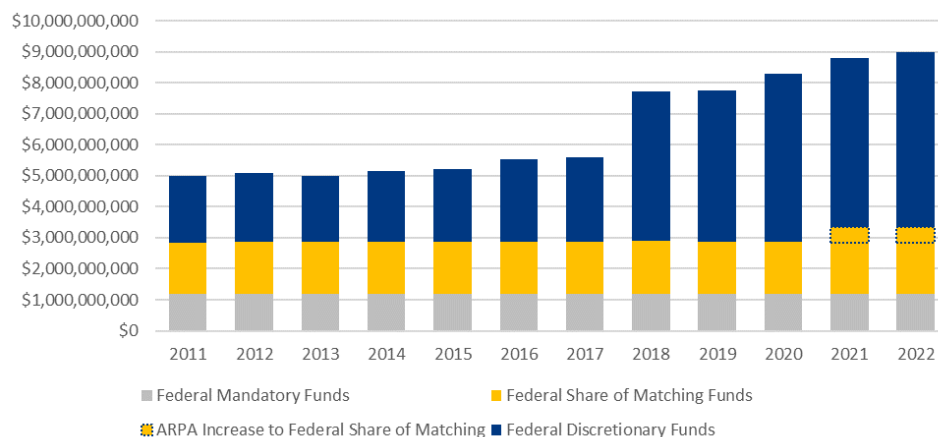
- The Child Care and Development Fund (CCDF) is the primary funding source for states to administer child care services to low-income families with children under 13 who are working or participating in education and training programs.
- The program prioritizes flexibility for states with limited guidelines.
- It consists of two funding authorizations: the Child Care and Development Block Grant and the Child Care Entitlement to States.



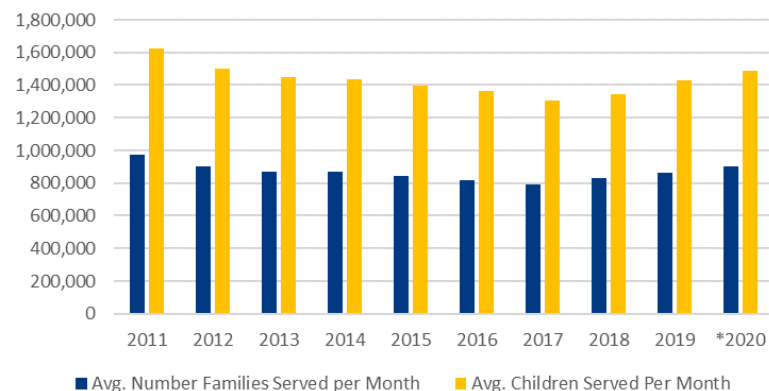
# Funding for CCDF has increased in recent years, but does not allow states to maximize eligibility

- Federal funding stayed mostly flat until 2018.
- Recent increases seem to be correlated with higher enrollment numbers, but they are still below 2011 levels.
- Despite recent funding increases, federal resources do not allow states to meet federal eligibility standards (85% SMI)

CCDF Allocations by Year

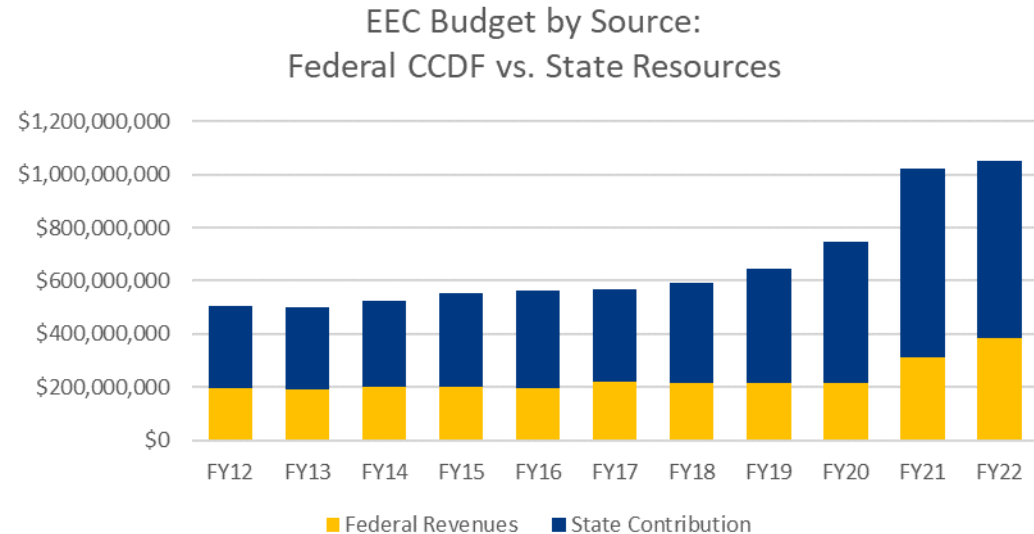


Families and Children Served by CCDF



# MA contributes significant resources to child care, but still has to set strict eligibility requirements

- Massachusetts contributes substantial amounts of their own resources to provide subsidized care.
- Roughly 63% of Massachusetts FY 2022 child care budget was from state resources.
- Even still, the EEC has to set strict income eligibility requirements and prioritize certain high-needs populations over others.



**\$1.3 billion**  
EEC FY 2023 Budget





# MA Subsidy Programs

# MA has a complex subsidy system with three different programs and two subsidy types

**Low-income families in MA can get access to care through three programs:**

## **1. Income Eligible**

- Must earn less than 50% State Median Income and be engaged in a approved service need activity (work, education or training).

## **2. Dept. of Transitional Assistance (DTA)**

- Families are referred to child care by their DTA social worker.
- Families must be receiving cash assistance, transitioning off of assistance or at risk of becoming dependent on cash assistance.

## **3. Dept. of Children and Families (DCF)**

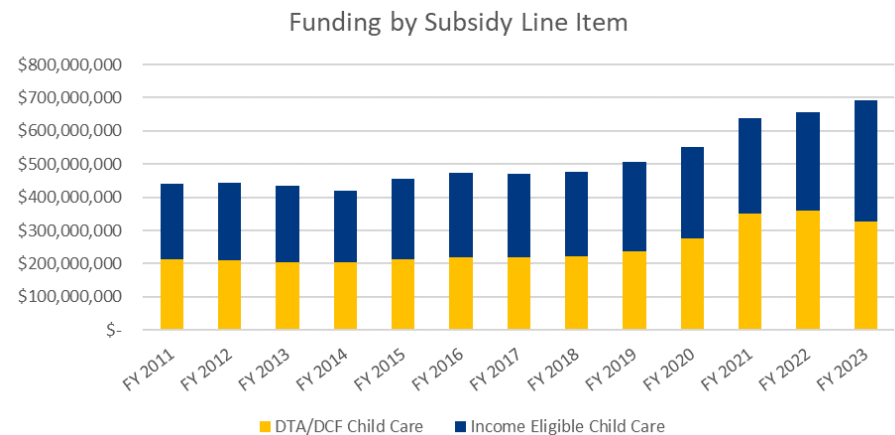
- Families are referred to child care by their DCF social worker.
- Families must have an active case with the agency to be initially eligible.

### **EEC Fast Facts**

- \$1.3 billion FY 2023 budget
  - ➔ \$694 million for subsidies
  - ➔ \$400 million for C3 grants
- 7,695 licensed programs
  - ➔ 4,854 FCCs and 2,841 centers
  - ➔ Spread across 6 EEC subsidy regions
- 4,008 (52%) programs accept subsidies
- 54,000 children a month receive subsidized care

# Average monthly enrollment in MA subsidy programs has declined since 2011

- In FY 2011 the EEC served roughly 54,000 children on average each month; in FY 2022 that number was 49,000.
- Funding for subsidies stayed relatively flat prior to the pandemic, but has increased drastically since then.
- The pandemic expedited troubling trends (supply and workforce shortages) that make it difficult for the state to maximize subsidies.
- However, other systemic issues with the subsidy system also contribute.





A photograph of a city skyline at dusk, featuring several tall skyscrapers with illuminated windows. The city is reflected in the water in the foreground. A blue rectangular overlay is positioned in the lower half of the image, containing the text "Implementation Challenges" in a large, yellow, sans-serif font.

# Implementation Challenges

# The contract for subsidized slots is inflexible and over a decade old, resulting in underutilization

## How We Distribute Supply – Contracted Slots

- Contracted slots are added to the subsidy system through a procurement process which includes the issuance of a Request for Responses (RFR) for providers.
- The current distribution of contracted slots is based on market needs from over a decade ago and are allocated based on the region and the age of the child being served in the slot.
- The outdated distribution paired with specificity of the allocation makes for an underutilized system unable to adapt to changing market needs.

Region	Center-based Providers			Family Child Care	
	Infant-Toddler	Preschool	School-age	Under Two	Over Two
Western	283	1,011	579	105	164
Central	75	382	290	228	268
Northeastern	92	920	871	281	427
Metro Boston	77	737	527	130	223
Southeastern	177	1,054	922	144	211
Boston	422	2,109	775	315	416
<b>State Total</b>	<b>1,126</b>	<b>6,213</b>	<b>3,964</b>	<b>1,203</b>	<b>1,709</b>

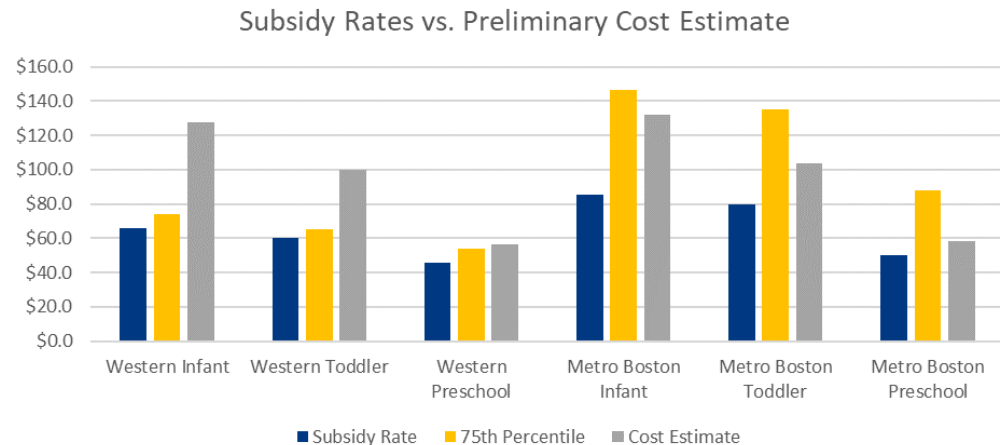
**74.7%**  
contract utilization  
rates in FY 2022



# The current method for determining rates has not led to higher wages or more accessibility for families

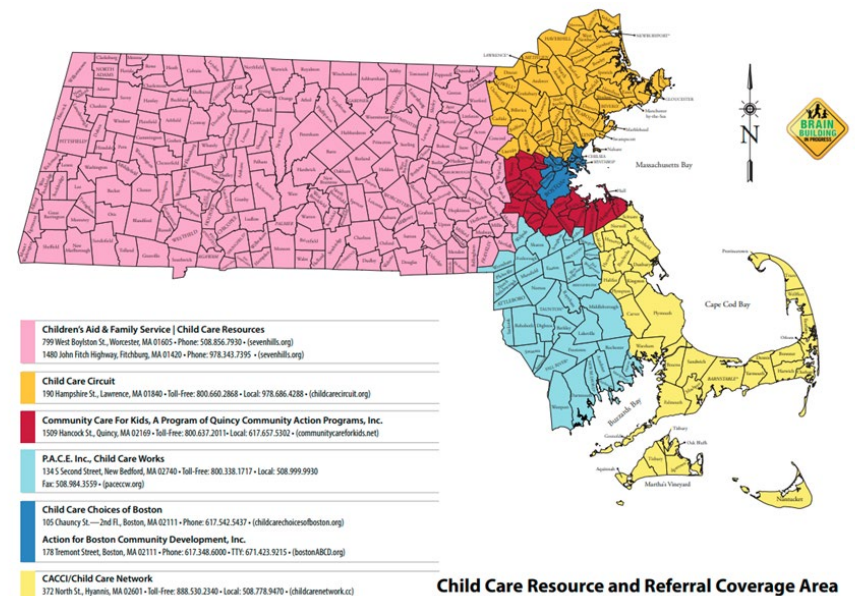
## How We Pay for Child Care Supply – Reimbursement Rates

- Reimbursement rates are determined by a market rate survey, which means rates are based on what a family can afford (prices) and not the actual services being provided (costs).
- Providers in lower-income regions are therefore trapped in a cycle of lower rates compared to more affluent regions.
- Years of increasing rates has not led to more equitable outcomes or sustainable profit for providers.



# The current CCRR model diverts time and resources away from education, outreach and engagement

- The federal government envisions an active support role for CCRRs, including collecting data, providing consumer education, engaging providers, and working with families to access care.
- CCRRs in MA are asked to do that and much more.
- CCRRs in MA are responsible for the end-to-end process of getting a family access to care.
- The administrative burden, in addition to poor data systems and a decentralized structure, prevents CCRRs from providing the level of attention families need to access care seamlessly.



# Subsidy policies prioritize enforcement over access, overburdening families and delaying access to care

- Far from family-friendly, the current administrative elements of the system often put unrealistic expectations on families that many struggle to meet.
- The subsidy system is made up of a multitude of policies, regulations, and paperwork requirements, many of which have been layered on top of each other over time without regard for how they may interact.
- Three examples that highlight this include:

## **Example 1**

The income verification process is not designed with employment arrangements common among eligible families

## **Example 2**

Process for proving family composition does not recognize the variety of family structures in MA

## **Example 3**

Reporting requirements do not align with the 12-month authorization timeline

# Conservative budgeting decisions lead to consistently underspent subsidy accounts

- Spending decisions aimed at avoiding future cost obligations delays the use of available vouchers and creates a negative feedback loop resulting in underspent subsidy accounts.
- Between FY 2012 and FY 2020, on average, roughly \$10 million dollars in subsidy funding was carried into the next year's budget, while another \$10 million was unspent and reverted back to the General Fund.
- This pattern makes future spending increases less substantial, effectively lowering the benchmark that the next year's budget is based on.

Year	Subsidy Budget	Total Available to Spend	Total Subsidy Spend	Remaining Funds
2012	\$442,804,829	\$442,804,829	\$430,870,904	\$11,933,925
2013	\$434,697,067	\$434,697,067	\$419,904,908	\$14,792,159
2014	\$419,395,686	\$442,231,107	\$428,554,827	\$13,676,280
2015	\$455,102,035	\$468,091,392	\$454,076,093	\$14,015,299
2016	\$472,852,376	\$477,923,049	\$462,858,842	\$15,064,207
2017	\$471,870,409	\$484,370,409	\$459,860,272	\$24,510,138
2018	\$477,487,882	\$506,020,878	\$481,690,460	\$24,330,418
2019	\$505,934,569	\$545,231,672	\$518,791,281	\$26,440,391
2020	\$552,467,456	\$624,342,044	\$599,127,657	\$25,214,388
2021	\$637,631,793	\$645,336,339	\$645,336,339	\$0
2022	\$657,631,793	\$607,740,928	\$607,740,928	\$0



# Policy Recommendations



# Improving How We Supply Subsidized Child Care

## Background

- Contracted slots serve a useful purpose in the system by providing child care programs with financial stability and allowing for a repository of available subsidized child care seats.
- Their current outdated allocation is inefficient and does not allow the EEC the flexibility it needs to respond to changes in demand.

## Recommendations

- Update and reissue the RFR in order to maximize agency flexibility by:
  - Allowing the EEC the ability to move contracted slots which are being underutilized.
  - Removing the strict age-based allocation structure.

# Improving How We Pay for Subsidized Child Care

## Background

- Evidence is clear, we need a new model to determine reimbursement rates.
- A cost of care analysis allows you to understand where rates fall short of covering what it costs to provide care.
- The EEC has conducted a preliminary cost of care analysis, but determined this years rate increases based on the MRS.

## Recommendations

- Further efforts to integrate the cost of care methodology into the rate setting process should be a focus in the months ahead.
- Massachusetts could also adopt the approach taken in New Mexico and the District of Columbia (D.C.) and seek federal approval to determine rates solely based on provider costs.
- Understanding what it costs to provide child care must be paired with additional investment in order to make a meaningful difference.



# Better Serving Families and Children

## Background

- The administrative requirements currently borne by CCRRs make it difficult for them to provide essential services – outreach, education, and provider and family engagement.
- CCRRs manage vouchers across the state, but the EEC doesn't have the tools, data, or systems to make that process work well.
- While the EEC is working on streamlining paperwork and procedures, it might not be enough to create a consistent CCRR system in line with their intended role.

## Recommendations

- Survey CCRRs to better understand capacity, processes, staffing models, and the differences across them.
- Engage families about their needs and preferences to best identify the current gaps and solutions to fill them.
- Update current data systems or invest in entirely new ones that better serve CCRRs and therefore families and their providers.

# Improving How Families Access Child Care

## Background

- The current process for determining eligibility overburdens families leading to delays and disruptions in access to care.
- The EEC recently proposed numerous regulation changes to shift their role from predominately focusing on enforcement to one that maintains program integrity while also promoting family-friendly policies.

## Recommendations

- Remove the need for families to report changes in the midst of their 12-month authorization, unless that change includes earning income above 85% SMI.
- Reassess program integrity policies and ensure they are designed with common work and family arrangements in mind.
- Streamline the process for determining income eligibility, especially for families with self-employment income.
- Seek opportunities for interagency agreements, such as with the Department of Revenue, which would allow for automatic eligibility checks.

# More Efficient Use of Resources

## Background

- The EEC has historically underspent subsidy accounts by \$10 to \$25 million dollars over the last decade.
- The ability for the EEC to utilize a voucher is dependent on there being an open slot for an eligible family in the area in which they live or work.
- However, conservative budgeting decisions have also added to the issue.

## Recommendation

- Provide greater clarity on the expectation for the number of children served each year with the funding appropriated.
- Avoid setting unrealistic goals or thresholds that don't allow for a level of expenditure that is at least close to the full amount of allocated funds.



# Maximizing the Power of C3 Grants

## Background

- The C3 program is designed to serve both private pay and subsidy providers, but it has also positively impacted the subsidy system.
- C3 also offers the state an opportunity to achieve policy goals beyond stabilization.

## Recommendations

- Integrate additional incentivizes into the program to improve quality, collect better data, and expand subsidy supply.
- Provide certainty to the field so they put grants towards those longer-term goals by:
  - Putting the C3 program into statute;
  - Funding the program in annual allotments, not 6-month intervals.

**65%**

providers utilizing C3 that currently accept families with subsidies

**324**

fewer licensed providers accepting subsidies now than there were in 2015

# Thank You

Questions?

