



January 3, 2023

Honorable Aaron Michlewitz
Chair, House Committee on Ways and Means
State House, Room 343
Boston, MA 02133

Honorable Michael Rodrigues
Chair, Senate Committee on Ways and Means
State House, Room 212
Boston, MA 02133

Dear Chair Michlewitz and Chair Rodrigues,

The following report satisfies the reporting requirements included in line item 3000-1042 in Section 2 of Chapter 126 of the Acts of 2022 regarding increases to the daily reimbursement and support services rates paid to center-based child care providers.

Center-Based Child Care Financial Assistance Rate Increase

The Commonwealth's Fiscal Year 2023 (FY23) state budget included \$60 million in line item 3000-1042 for a "rate reserve" to increase the daily reimbursement payment rates for center-based programs who provide care to children receiving financial assistance from the Commonwealth.

- \$20 million to "increase the reimbursement rate by an appropriate percentage for all such providers;"
- \$40 million to "increase the reimbursement rate through a daily quality add-on rate by the same percentage for all such providers, inclusive of administration staff in family child care systems agencies;" and
- An increase to "the daily add-on rate for comprehensive early education services for children with active cases at the department of children and families"

Child Care Financial Assistance Overview

The Department of Early Education and Care (EEC) provides financial assistance to support low-income families' ability to access high-quality, affordable early education and care programs for their children.

In addition to supporting families' access to affordable child care, the funding provided through the child care financial assistance programs contributes to the fiscal stability of the programs that participate in the state's child care financial assistance system.

Currently, approximately 50,000 children, aged birth through 13 (and up to age 16 for children with special needs), attend child care supported through EEC's child care financial assistance programs and the network of more than 4,000 providers across the Commonwealth who participate. Providers

participating in the system range in settings across the state's mixed delivery system of child care, including center-based programs, family child care providers, public preschool programs, and Head Start/Early Head Start classrooms. Currently, just under 50% of the state's early education programs serve families receiving child care financial assistance from EEC.

Market Rate Survey

Every three years, the agency is required, by federal regulations, to conduct a Market Rate Study (MRS) to identify rates that can provide strong market access for subsidized families. To strengthen the data, in this year's survey, we included a cost study component in our Market Rate Study to better understand program costs and revenue, determine if subsidized rates are sufficient to support program costs, and identify effective funding mechanisms to strengthen the early education and care system in the Commonwealth.

The 2022 Market Rate Survey and Preliminary Cost Analysis¹, which was approved by the Board of Early Education and Care at their October 2022 meeting, found that current child care financial assistance rates mostly fall below the 50th percentile of the current market rate. In many cases, rates were below the 25th percentile. The U.S. Department of Health and Human Services' Administration of Children and Family (ACF), which sets the policies and regulations for the federal Child Care Development Block Grant, has set an aspirational target that states set their subsidy rates greater than or equal to the private rate charged by 75% of providers.

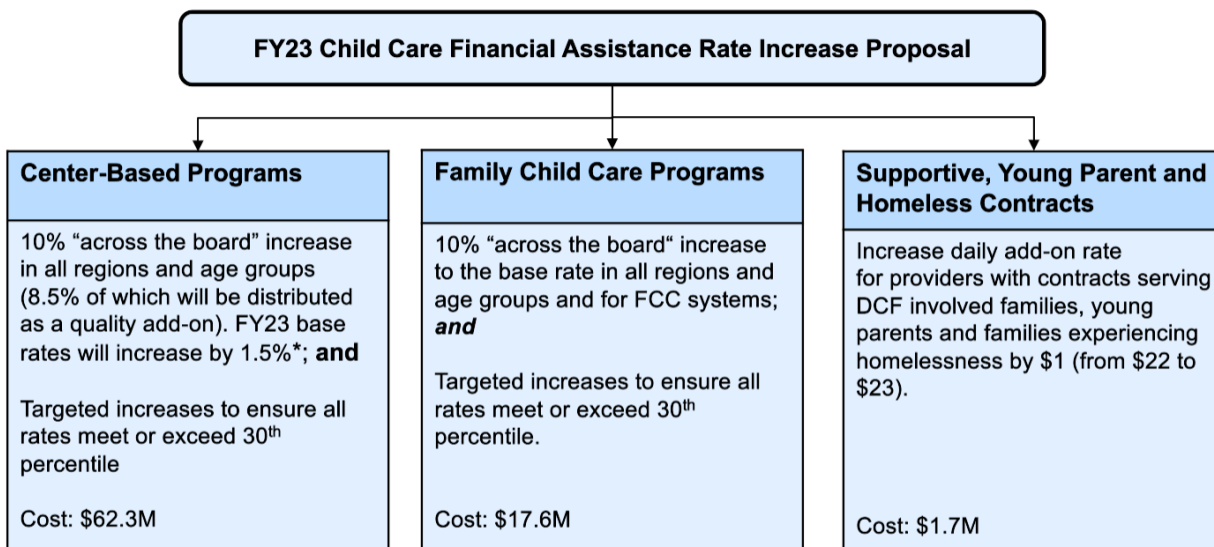
In 2018, ACF set a threshold that all rates must be at or above the 25th percentile to address the need for expanded family access. In order to ensure compliance with this threshold, Massachusetts spent \$10.7M to increase rates in regions where, at the time, the rate was below the 25th percentile. An adverse compliance finding can be associated with financial penalties. In 2019, OCC notified EEC that non-compliance would result in a financial penalty of a 4% reduction in the state's CCDF Discretionary award.

EEC Rate Investment Proposal & Board Approval

As a result of the findings in the 2022 Market Rate Survey and Preliminary Cost Analysis and in an effort to meet expectations set by the state Legislature and anticipated federal thresholds, EEC proposed a package of investments that provide rate increases for all program types and age groups, implements a daily quality add-on rate for center-based providers, ensures all rates meet or exceed the 30th percentile, and increases the daily supportive add-on rate for certain providers from \$22 to \$23 per day. **Figure 1**, on the next page, provides an overview of the Department's plan.

¹ Massachusetts 2022 Market Rate Survey and Narrow Cost Analysis Final Report: <https://www.mass.gov/doc/mrs-report-0/download>

Figure 1. EEC FY23 Child Care Financial Assistance Rate Increase Plan



The Department's plan ensures that all programs will see at least a 10% increase in their rates above the previous fiscal year. Importantly, EEC's proposal also included an additional investment of approximately \$20 million to ensure family child care programs receive a comparable increase, which is being funded through existing FY23 funds as family child care providers were excluded from the legislative language in the FY23 rate reserve line-item. All rate increases will be retroactive to July 1, 2022.

The Board of Early Education and Care voted unanimously to approve the Department's proposal at its November 2022 meeting. Inclusive of this investment, the Baker-Polito Administration, in coordination with the Legislature, has invested more than \$250 million to increase rates for early education and care providers that accept state subsidies over the past eight years.

Implementation Update

Following approval of the Board of Early Education and Care at the Board's November meeting, EEC began taking steps to implement the \$80 million rate increase package.

Increases for family child care providers were contingent on the ratification of a contract amendment by SEIU 509, and the union voted to ratify the amendment. The contract was signed by SEIU 509 and EEC in December 2022 so EEC is now taking steps to implement rate increases for family child care providers, including retroactive payment back to July 2022, as soon as possible.

Thank you for your leadership, partnership and support for the children and families served by EEC. If you or your staff have any questions regarding this report, please contact me or Addison Koelle, EEC's Legislative Director at Addison.Koelle@mass.gov.

Sincerely,

A handwritten signature in blue ink, appearing to read "Amy Kershaw".

Amy Kershaw
Acting Commissioner
Department of Early Education and Care

cc: Representative Alice Peisch, Co-Chair, Joint Committee on Education
Senator Jason Lewis, Co-Chair, Joint Committee on Education