**To: Secretary Peyser**

**From: Board of Early Education and Care**

**Subject: FY23 Budget Priorities**

Through extraordinary times, we are proud of how the early education and care sector has stepped forward to provide a social safety net for families facing pandemic disruption across many aspects of their lives.

In our role as the Board of Early Education and Care, and in preparation for the FY23 budget recommendations, we respectfully submit three areas of investment priority as the budget is developed for next year.

The Commonwealth’s investments have sustained critical early education and care infrastructure for families facing interruptions in employment, in-person educational services, and economic distress. As school districts employed different models of delivering educational content throughout the State of Emergency, the Commonwealth’s support of EEC-licensed programs enabled them to open to provide critical in-person service to children of essential workers and working parents.

Now, as we look towards economic recovery, it is clear that EEC supported services for families and child care infrastructure-building will be a critical enabler of the Baker-Polito Administration’s vision for the future of work. In addition, partnerships across schools and child care providers focused on community-level services designed to meet the specific needs of children and families they serve will become an essential catalyst in supporting the economy of the future.

Historic federal and state investments in FY22 yield real-time learning about how we might re-envision care infrastructure’s role, building a stronger backbone for economic recovery. Having absorbed these lessons, the Board of Early Education and Care recommends the following FY23 investments to support the overall goals of the Commonwealth:

* **Invest in child care infrastructure**
  + Use emerging data to inform enhancements to operational infrastructure grants launched in FY22 with ARPA & CRRSA funds. Early indicators of success of the *Commonwealth Cares for Children* (C3) formula suggest funds are reaching areas of greatest need and supporting stabilization goals.
  + Additional learning will be gathered from enhancements through FY22 to address the Commonwealth’s goals – including innovation or new service models; further program stabilization and growth in capacity; resources to support continuous quality improvement in accordance with the development of new business models and relevant to the communities served; and, to address longstanding educator compensation challenges and hiring barriers.
* A**ddress affordability of child care for families**
  + Undertake a substantial re-vamp of the current child care subsidy system – maintaining or expanding funding levels and focusing on removing barriers and stabilizing access for families seeking financial support for care
  + Identify strategies to ensure stable access for the most vulnerable families while empowering the department to pursue additional innovations in support of affordability for all working families throughout the year ahead
* **Invest in community-level integration of services for families with young children**
  + Learn from successful innovation to address family needs and connect parents to vital resources through creative collaboration at the community level – these have proven that effective family support is more efficiently accomplished locally.
  + Investments from the Department have resulted in alignment between community resources and incentives to build new pathways for integration towards a family oriented system of supports

**Recommendation One: Invest in Child Care Infrastructure**

The Commonwealth has led the country in one of the most innovative approaches to infrastructure financing - one that now serves as a model for the country, and is replicated by other states. Massachusetts began Stabilization Grant distributions in August, and was one of just [14 states](https://www.washingtonpost.com/business/2021/09/19/childcare-workers-quit/) to successfully launch a process before September.

As the Commonwealth continues investments throughout FY22, the Department will continue to analyze modifications to the formula to guide structure and efficacy improvements for continued investments under the Commonwealth Cares for Children formula in FY23.

Almost three quarters of child care businesses are now receiving monthly grants. Over 98% of center-based providers report plans to use funds for staff compensation and workforce investments to sustain and expand capacity. Over 70% of all Family Child Care businesses across the Commonwealth are receiving grants, indicating that the ease of access and flexibility of the funding structure will allow for more place-based solutions for matching providers to local family needs. In addition, the percentage of grants to providers serving infants and toddlers, low-income families, Gateway Cities, and other vulnerable communities indicates the C3 formula has the potential to expand equity efforts through data-driven approaches to funding distribution.

As the Commonwealth learns from this innovative approach during the remainder of FY22, the Department will build additional incentives for child care businesses to sustain compensation increases and expanded benefits for their workforce, as well as for new businesses to enter the market, and new service models to meet the changing needs of families and their employers. As this work provides real-time, iterative data about the ties between investments and the Commonwealth’s goals, the Board of Early Education and Care recommends that FY23 planning for infrastructure investments:

* Sustain effective strategies that drive **educator compensation and benefits** - without impacting family affordability. The Administration’s [Future of Work report](https://www.mass.gov/doc/future-of-work-in-massachusetts-report/download) indicated the need for educators as key to expanding child care access – yet notes that compensation is a significant barrier to workforce recruitment. With the majority of the sector’s revenue made up of parent tuition, public investment in compensation strategies can help open new classrooms and expand access *without* impacting the affordability of care in a way that sets additional limits on the return to work – particularly for women.
* Continue strategies that prove effective in incentivizing **innovative models of child care delivery** based on the evolving needs of families. Knowing these needs will continue to change, flexible investments will be critical to allow for ongoing testing and development of business models that can adapt as parents’ needs change.
* Couple investments in sustained business infrastructure with **professional development and leadership supports** with proven results on quality of programming for children. Throughout the State of Emergency, EEC balanced the need for business sustainability with supports for programs to deliver high quality education, care, and family engagement services. While the Department continues to sustain child care infrastructure through the C3 formula, it is important that these investment in the quality of services are also enhanced to result in child and family outcomes representing their fullest potential.

**Recommendation Two: Address affordability for Families**

*Subsidy Restructuring*: As outlined in the Department’s Strategic Action Plan, the complexities of the current child care subsidy system limit the impact EEC funding can make within the Commonwealth’s most vulnerable communities.

Recent analysis has shown that the subsidy system serves a fraction of the eligible low-income families who are likely eligible. A waitlist of thousands of children managed locally by subsidy administrators is demonstrative of the need for financial support to allow families to maintain employment while their children access safe, educational environments. Persistent underspending and under-enrollment in subsidy accounts indicate access gaps preventing EEC from maximizing the annual appropriation to child care subsidies for families. Low reimbursement rates offered by the state (which have not kept pace with inflation) make it hard to recruit new providers to accept state subsidies in place of more lucrative parent tuition, and those that are able to rely on this system have been limited by incremental rate increases, outdated contracts limiting enrollment flexibility, and consistent challenges supporting parents to verify and maintain tuition subsidy. Tackling these issues requires an inventive approach to subsidy reconfiguration through redesign of pathways for parents to enter and maintain access to financial assistance in a manner that aligns with the Commonwealth’s goals for family economic mobility.

In FY22 EEC will implement a pioneering shift to federally required parent subsidy co-pays that is structured to ensure families living in poverty may increase their wages without being penalized by simultaneous steep fee hikes to their child care tuition. In addition, EEC will maintain a number of important modifications in subsidy policy made during the COVID-19 crisis through at least the first half of FY22, all to provide additional stability and security to families and the programs that serve them. While these are important and necessary steps towards affordability for vulnerable families, it is clear these changes are incremental for a system that has outgrown its capabilities, and needs a deeper restructuring.

*Affordability for Working Families*: Unprecedented numbers of women leaving the workforce have been national news since the pandemic’s onset – but are especially striking for a state that is typically among the top ten in the country for labor force participation of women. Among the barriers to full economic return of the Commonwealth’s labor force is what is, nationally, a highly fragile social safety net that limits full participation in economic recovery.

Consistent themes have emerged through EEC’s engagement with business leaders over the last year – with a striking focus on affordability of child care regardless of a family’s income, particularly as families needed additional care during times where remote learning was the only option for schooling in many communities. This year’s data shows that Massachusetts continues to be one of the costliest states in the country for child care, behind Washington, D.C. Yet engagement from families and from businesses also note the importance of child care quality – articulating that in order to be productively engaged at work, families must also know their children are safe and well cared for by an adult skilled and knowledgeable in supporting their development and growth. As individual families struggle to balance the search for affordability with the need for safety and quality – and as individual employers struggle to find equitable business solutions– it is clear that a federally driven subsidy program is not adequate to fully address affordability required in this economic recovery. And while businesses can and should work to better support employees with policies and resources that support working families and their need for care, as noted in a recent report by the US Treasury, government investment will be necessary to solve issues at scale.

Massachusetts has an opportunity as a national leader in demonstrating what is possible when systems are intentionally designed to support working families across the state. The Board strongly encourages the considerations for subsidies and family affordability in the FY23 budget:

* **Focus on redesigning the subsidy system in a manner that simplifies access for families**, based on demographics and needs across the Commonwealth. The complex nature of federal regulations and the state’s subsidy eligibility system will require EEC to thoughtfully plan for structures that can achieve the multiple goals the system serves across demographics and stakeholders, balancing goals for parents seeking child care and for the programs that support them. This includes providing stable funding for programs that serve the most vulnerable families -- by leveraging new processes for agencies with subsidy contracts that underwrite participation for the most vulnerable children and, revamping the process for individual families to access child care tuition relief through the child care voucher process, ensuring easier access, reducing wait-times, and investing in sufficient supports for families in accessing this important resource as they return to work.
* **Pursue innovations that support access and affordability** for all families seeking child care – which the Future of Work report demonstrated would be constant regardless of remote or hybrid work agreements. The traditional approach to subsidized child care, largely driven through federal reforms have created gaps continuously raised in family and business feedback. For Massachusetts to support families, particularly women, to re-enter the workforce - creative solutions targeting the affordability of care must be identified, researched, and piloted for scale.

**Recommendation Three: Invest in Community-Level Service Integration**

Knowing that community-level resources have been stretched beyond capacity in trying to account for the needs of families during an unprecedented time, incentivizing local systems to break-down silos, coordinate data and align resources can truly support a more seamless integration of community assets that will impact families in meaningful ways.

EEC currently has a number of funding lines that seed alignment and collaboration across state-funded resources at the local level - and expand services with added resources tailored to the needs of families. These include the Coordinated Family and Community Engagement Grants (CFCE), the Commonwealth Preschool Partnership Program (CPPI), and the Child Care Resource and Referral agencies (CCRR), Mass211, among others. In addition, EEC partnered with the Executive Office of Education (EOE) and Department of Elementary and Secondary Education (DESE) to identify new strategies for supporting communities engaged in remote learning over the last year, such as the P-3 Remote Learning Grants and the Summer Step-Up Program.

Dozens of communities benefited from this innovation and have asked for sustained support to continue the kinds of collaborative partnerships they have built at the local level, which resulted in improved services for thousands of young children and families. Lessons from these programs include strategies to support aligned goals for families based available data across systems, use of matching grants that incentivize investments from multiple partners to achieve actionable goals across systems, and ensuring the appropriate capacity to support the work and infrastructure to create productive collaboration.

No single sector can work alone to support the complex lives and needs of families. Integrating models of services across state agencies by enhancing local capacity for coordination and community building is a necessary ingredient for sustained recovery. EEC’s role has evolved as it has invested in efforts to integrate currently siloed supports funded across multiple state agencies; this role should be elevated and expanded to reflect the role of early education and care as an entry point to an array of education and social service supports, which need to be realigned and oriented towards families. In addition, the last two years have demonstrated the critical partner that EEC-licensed providers can be to school districts who are constrained by different variables in meeting the needs of children they serve.

Much of EEC’s existing funds in this area could be re-aligned and rethought based on learning from the last year, and this should be done in partnership with DESE to truly maximize the potential impact on the local level. With additional resources, especially as the Commonwealth prepares for potential new federal investments in early learning, preschool, and child care, we recommend the following considerations:

* **Incentivize investments from multiple systems around common goals**. Many systems and municipalities have received an increased investment from federal funding that is targeted to be used to support children and families at the community level. As the COVID era investments made by EEC have demonstrated, small incentives for aligning locally-controlled funding around common goals can have a profound impact on local collaboration. EEC can play a vital role to support alignment of community-level investment made across state agencies through more substantial support and technical assistance for collaboration.
* **Create capacity for coordination and alignment while rebuilding infrastructure**. Investments in resource coordination through FY21 and FY22 has proven invaluable – but the people within the collaboration are already maxed out in meeting the needs of families – and dedicated capacity *for the coordination itself* is also vital. Dedicating funds not just to service delivery but also to service alignment will make it easier, more transparent, and seamless for parents seeking to identify services, child care, educational, social, and other resources to best meet the needs of their families.

**Additional Considerations:**

While the three priorities outlined above reflect the Board’s focus, we recognize that this also will require increased capacity within the Department and its technology. We understand that the EEC team is currently outlining its needs if it is to fulfill the outcomes envisioned in this memo.

Over the course of the pandemic, the EEC team has stepped up to support a system that has supported families every day. The new programs, approaches, funding, and technology needed to respond to the rapidly evolving needs of the field have been remarkable, and programs and stakeholders alike have commended EEC’s continuous focus on listening and acting on the needs of constituents.

The FY23 budget must ensure staffing and infrastructure investments can continue to support the Department’s thoughtful and innovative approach, thereby continuing to position Massachusetts as a national leader in the effort to address long-standing issues, and fulfilling the vision of the Strategic Action Plan to support children and families to reach their full potential both now – and in the challenging landscape ahead.