Commonwealth Cares for Children (C3) Quarterly Report to the Legislature: Fiscal Year 2023 Quarter 4

Report Overview

Pursuant to the requirements of line item 3000-1045 of section 2 of Chapter 126 of the Acts of 2022, the Department of Early Education and Care (EEC) submits the following quarterly report on the Commonwealth Cares for Children (C3) operational grant program. While much of the content of this report remains the same as the Fiscal Year 2023 (FY23) Q3 report, the fiscal data and application data have been updated to reflect all applications approved as of June 30, 2023. Additionally, this report includes data from the Spring 2023 C3 Provider Survey.

In July 2021, as early education and care providers continued to face financial challenges due to the COVID-19 pandemic, and as system-wide early education and care capacity was slow to return to its pre-pandemic levels, EEC launched the Commonwealth Cares for Children (C3) operational grant program. This non-competitive grant was designed and continues to provide a foundational payment to child care providers to help support day-to-day operations and keep programs open and accessible to Massachusetts families with children. C3 grants are used to support a variety of existing operational costs, including labor expenses, along with new investments in compensation and other quality supports.

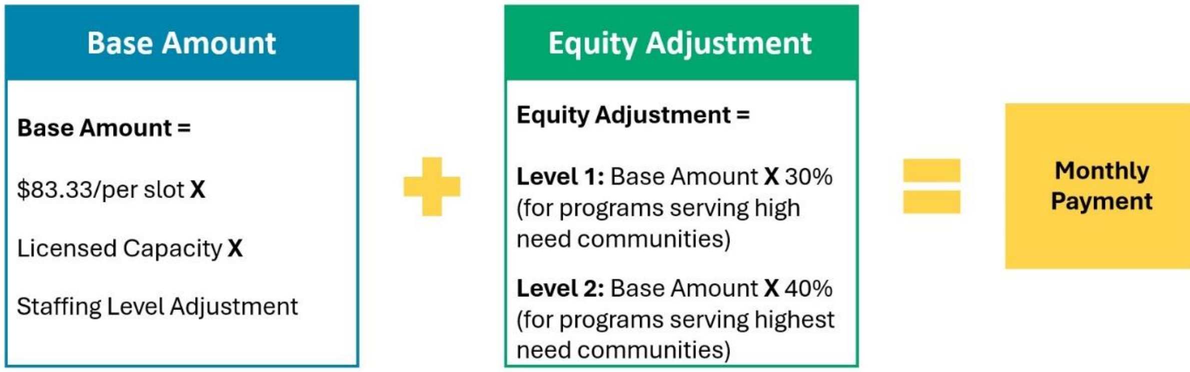
In Fiscal Year 2022 (FY22), the C3 program disbursed approximately $418 million to over 6,800 early care and education providers through a combination of federal American Rescue Plan Act (ARPA) and Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) funds. For FY23, through June 30, 2023, $504.1M has been approved for payment to more than 7,365 programs, employing over 36,000 educators through a combination of federal ARPA and state general fund dollars.

Overview of the C3 Formula

In the summer of 2021, the Department worked with Third Sector Capital Partners to develop a formula for distributing monthly C3 funding that incorporated several key principles:

- <u>Stability</u>: The Department aims to support providers in meeting key operational and workforce needs during the pandemic to ensure that programs could remain open and accessible to families despite COVID 19 financial and operational challenges.
- <u>Equity</u>: C3 funds are available to all providers, and the formula intentionally directs additional funds to providers in historically marginalized communities and to those serving families receiving child care financial assistance.
- <u>Adequacy</u>: The formula is designed to be sufficient to support basic operations and allow providers to invest meaningfully in recruiting and retaining the early education workforce.
- <u>Simplicity</u>: The formula is simple to administer and for providers to understand, so that both the Department and providers can anticipate the grant amount each month.

With these key principles in mind, the Department developed the following C3 funding formula:



1) **Base Amount**: This element of the formula ensures that grants are scaled appropriately based on program size. Each eligible provider receives a base amount of $83.33 per month for each licensed seat in their program. This $83.33 amount was designed to cover approximately 10% of providers' operational costs. All family child care providers (FCC) are currently funded at a license capacity of 10 children, which is the maximum size for which FCCs can be licensed.

2) **Staffing Level Adjustment:** Recognizing that staffing is the single largest cost driver in most program budets, the staffing level adjustment was designed to direct additional funding to programs with larger per child staffing costs. This includes providers that serve infants and toddlers, which requires a lower child to educator ratio, as well as programs that employ additional educators to provide services such as longer hours for families or lower educator to child ratios. FCC providers receive an additional 1.5 times their base amount if they employ a part-time assistant and an additional 2 times their base amount if they employ a full-time assistant. Group and school age (GSA) providers receive a staffing level adjustment based on the ratio between the number of FTEs that they employ and a minimum required by regulations to serve their license capacity.

3) **Equity Adjustment:** Each provider's base amount and staffing level adjustment is multiplied by an equity adjustment to direct additional funding to providers in historically marginalized communities and those serving children receiving child care subsidies. The equity adjustment leverages the Center for Disease Control's Social Vulnerability Index (SVI) as well as the proportion of a provider's license capacity that is filled with children receiving subsidies. If a provider is located in a census tract or zip code with a high SVI or if a provider serves between 1/3 to 2/3 of its license capacity with children receiving subsidies, their base amount per slot and staffing adjustment is multiplied by 1.3. If a provider is located in a census tract or zip code with a high SVI or if a provider serves more than 2/3 of its license capacity with children receiving subsidies, their base amount per slot and staffing adjustment is multiplied by 1.4.

Incorporation of Equity into Formula

EEC uses a number of metrics to track the extent to which the formula is successful at prioritizing equity by directing additional funds to providers in historically marginalized communities and those serving families receiving child care subsidies, as well as by providing additional funding to providers that offer more expensive services requiring higher staffing levels, such as serving infants and toddlers. For example, EEC monitors the total grant funds allocated to providers that serve children receiving child care subsidies and providers in more socially vulnerable communities to ensure that the equity bonus is successfully allocating additional funding to these providers. Through June 30, 2023, 64% of grant funds have been awarded to providers that serve children with subsidies. **Table 1** summarizes the proportion of funds allocated to providers that do and do not serve children with subsidies, by provider type.

Table 1. Proportion of C3 Funds Distributed based on Subsidy Participation

	Total Grant Funds	Not Serving Children with Subsidies		Serving Children with Subsidies	
		Grant Funds	Percent of Funds	Grant Funds	Percent of Funds
Family Child Care	$ 147,905,644	$ 51,277,908	35%	$ 96,627,736	65%
Group & School Age	$ 704,509,257	$ 253,107,498	36%	$ 451,401,759	64%
All Providers	**$ 852,414,912**	**$ 304,385,405**	**36%**	**$ 548,029,495**	**64%**

Note: This table includes all C3 applications from July 1, 2021 through June 30, 2023 and does not include the one-time C3 Workforce Bonus distributed in May 2022 or the Subsidized Provider Workforce Bonus distributed in March 2023. For purpose of this analysis, "serve children with subsidies" is defined as a program that served a child with a subsidy in February 2020, May 2021, November 2021, March 2022, June 2022, September 2022, December 2022, or March 2023 as these are the points in time incorporated into the C3 formula.

Additionally, EEC monitors the percent of all funds awarded that are the result of the equity adjustment, to ensure that this component of the formula is successfully directing additional funds to programs that serve children with subsidies and are located in more socially vulnerable communities. **Table 2** below indicates the percent of all funds awarded that are generated by the equity bonus, with breakdowns by provider type, subsidy participation, and SVI.

Table 2. Proportion of C3 Funding Generated by Equity Bonus, By Provider Type, Subsidy Participation, and SVI

	Total Grant Funds	Grant Funds Generated by Equity Bonus	% of Funds Generated by Equity Bonus
Family Child Care	$ 147,905,644	$ 37,231,806	25%
Group and School Age	$ 704,509,257	$ 144,268,528	20%
Serving Children with Subsidies	$ 548,029,495	$ 130,242,492	24%
Not Serving Children with Subsidies	$ 304,385,405	$ 51,257,842	17%
Providers in Highest SVI Communities (SVI ≥0.75)	$ 458,627,712	$ 130,178,889	28%
Providers NOT in Highest SVI Communities (SVI <0.75)	$ 393,787,188	$ 51,321,445	13%
All Providers	**$ 852,414,900**	**$ 181,500,333**	**21%**

Note: This table includes all approved C3 applications from July 1, 2021, through June 30, 2023. These totals do not include the one-time C3 Workforce Bonus distributed in May 2022 or the Subsidized Provider Workforce Bonus distributed in March 2023.

The analyses above indicate that the equity adjustment is effectively allocating additional funding to programs serving children with subsidies and those located in higher SVI communities. The Department will continue to collect and monitor data to ensure that the C3 grants are reaching the highest need communities and families across the Commonwealth.

Other Data Collected Through the C3 Grant Process

The C3 grant—both through the monthly application process, as well as a series of semi-annual surveys of C3 recipients—has provided EEC with an unprecedented level of data and insight into the status of the early education and care field. Each month, when providers apply for their C3 grant, they are asked to confirm a number of key data points including: their current license capacity; the number of children currently enrolled; the total number of FTEs they employ by role; the hourly wage of their highest and lowest paid employees by role; benefits provided to employees; and—in the case of family child care providers—whether they employ an assistant and the number of hours per week worked by these assistants.

In addition to the rich data provided through the monthly C3 applications, the Department also requires C3 grant recipients to respond to a survey each fall and spring. These surveys provide more thorough data on how providers are spending grant funds; how providers have invested in their workforce across the life of the grant; educator turnover, recruitment, and retention; supports that programs provide to families; and the demographics of the children that providers serve—if they collect this information and choose to report it. The survey also asks providers targeted questions about the impact of grant funding on their program operations, as well as changes that providers would have to make without grant funding. This data has provided the Department with increased insight into the health of the early education and care field, as well as the status of the workforce, and the Department has used to this data monitor the extent of the pandemic recovery from the beginning of the C3 program through the present.

One of the key metrics that the Department tracks over time is the systemwide application take-up rate—the percentage of all eligible providers that have applied for at least one month of grant funding. Currently, 91% of all FCC providers and 90% of all GSA programs have applied for at least one month of funding. Grant take-up rates are particularly high among providers serving children receiving subsidies, as 99% of subsidized FCC programs and 97% of subsidized GSA programs have applied for grant funding to date. **Table 3** displays take-up rates as of June 30, 2023.

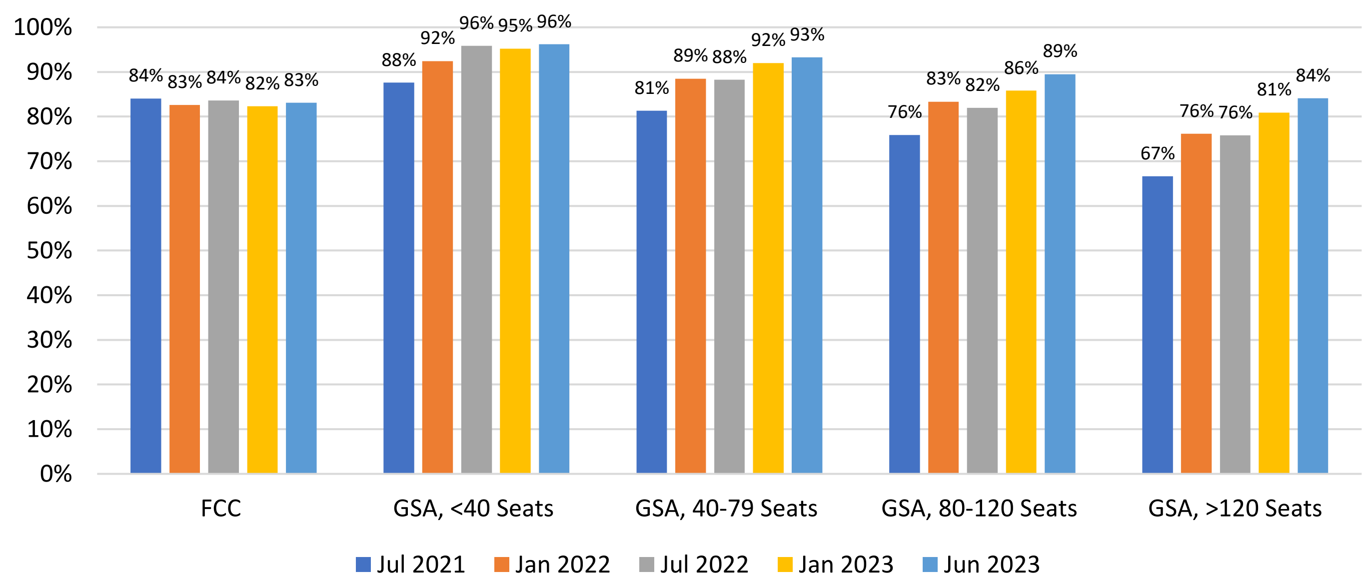
Table 3. Systemwide Application Take-up Rates, as of June 30, 2023

	Overall Take-Up Rates	Majority BIPOC Census Tract	Gateway Cities	Low SVI (0-.25)	Highest SVI (.75-1)	Serving Children Receiving Subsidies	Serving No Children Receiving Subsidies
Family Child Care Providers	91%	97%	94%	85%	95%	99%	80%
Group and School Age	90%	96%	96%	88%	96%	97%	82%

Note: Due to mismatch of provider addresses and census data, 670 out of 7,783 providers are excluded from the BIPOC Census Tract analysis

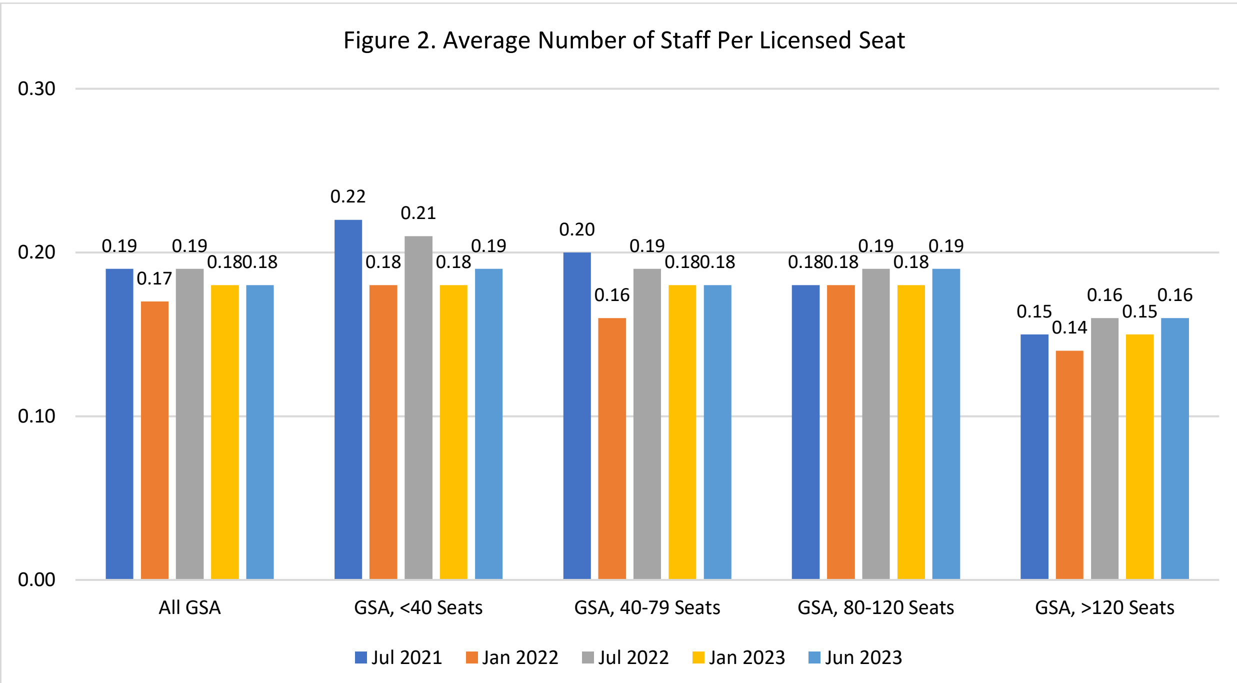
Another key metric that the Department uses to monitor the stability of the field is the percent of program's license capacity filled with enrolled children. As indicated in **Figure 1** below, enrollment in family child care programs has remained relatively consistent over time, and enrollment in group and school age programs has continually increased between fall 2021 and summer 2023 across all program sizes, indicating the increased ability of these programs to serve a larger proportion of their license capacity—although on average programs continue to remain below full capacity.

Figure 1. Enrollment as a Percent of License Capacity



Note: Figure 1 does not include the license exempt Boys and Girls Clubs, due to the drop-in nature of their programming. These data differ from earlier data on FCC percent of license capacity enrolled, as the Q1 FY23 legislative report reported only on FCCs that applied for grants in all of the months included here, while this analysis includes all providers that applied in a given month, regardless of whether they applied in other months.

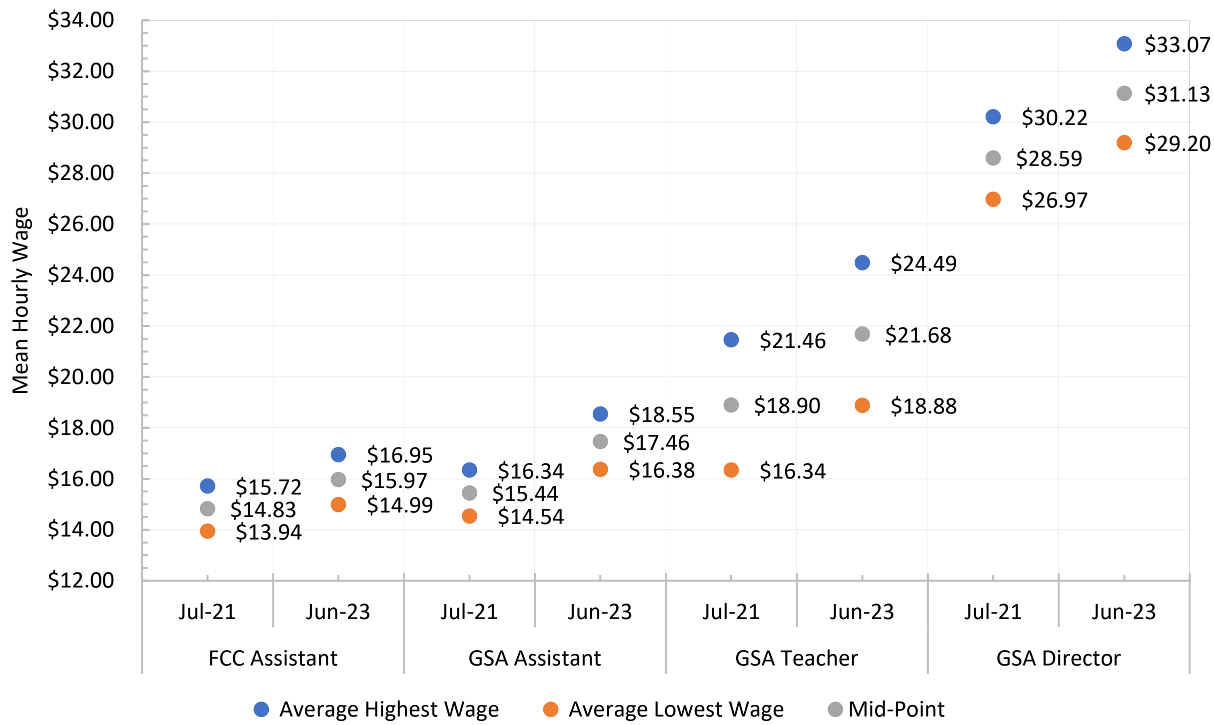
While GSA program enrollment continues to rise, staffing levels remain relatively flat. An analysis of monthly grant data indicates that seasonality plays a large role in systemwide staffing—with the number of staff per licensed seat typically higher during the summer months. Data in **Figure 2** from summer 2021 to summer 2023 show the number of staff per licensed seat over the course of the grant period, including the current ratio of 0.18 staff per licensed seat (approximately one staff member for every 5 to 6 seats) across all program sizes. Academic year staffing numbers have increased slightly overall and across most program sizes. Yet widespread staffing shortages continue to impact early care and education providers. In a recent survey from spring 2023, for example, 26% of all GSA programs reported that unfilled staff openings prevented them from serving their full license capacity.



Note: This graph does not include the license exempt Boys and Girls Clubs, due to the drop-in nature of their programming. "Staff" here includes GSA program directors, teachers, and assistant teachers only.

Finally, through the salary data that providers submit as part of the grant application process, the Department can examine changes in educator hourly pay over time. On average, the highest hourly wage paid to teachers across GSA programs over the course of the grant has increased by $3.03 per hour and the lowest wage paid to teachers across GSA programs has increased by $2.54 (Figure 3). Despite this growth, educator salaries in the early education and care sector remain low compared to other sectors.

Figure 3. Average Educator Highest and Lowest Hourly Pay Over Time



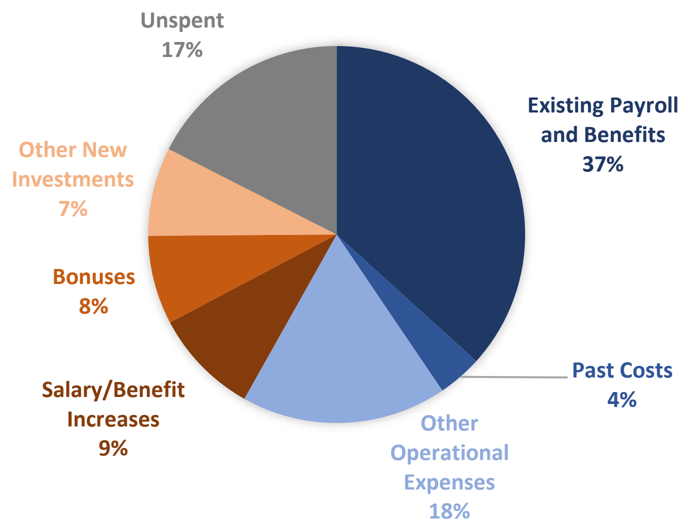
Note: This wage data does not include data for Family Child Care licensees, as EEC does not currently collect this data through the grant process.

As discussed above, the Department also uses data from semiannual C3 provider surveys to gather additional information beyond the data collected through the monthly application process. This survey asks providers in more detail about how they are spending grant funds. The most recent survey was launched in April 2023. As evident in Figure 4, providers have spent 58% of all grant funds on operational expenses—from paying existing staff salaries and benefits, to covering past costs incurred during the pandemic, to other operational expenses, including rent, mortgage, utilities, insurance, and PPE. The proportion of funds that providers are spending on operational expenses was 58% in Spring 2023 compared to 65% reported in Spring 2022.

As of Spring 2023, providers have dedicated almost one quarter of all grant funds to new investments, including salary and benefit increases, bonuses or other forms of one-time pay to educators, and other new quality investments—including investments in new supplies or materials, curricula, supports for educators, and mental health supports for staff and children. The proportion of funds allocated to new investments (24%) has increased during the grant period—up from 20% of all funds at the same time last year—indicating that providers are increasingly investing funds in staffing and program quality.

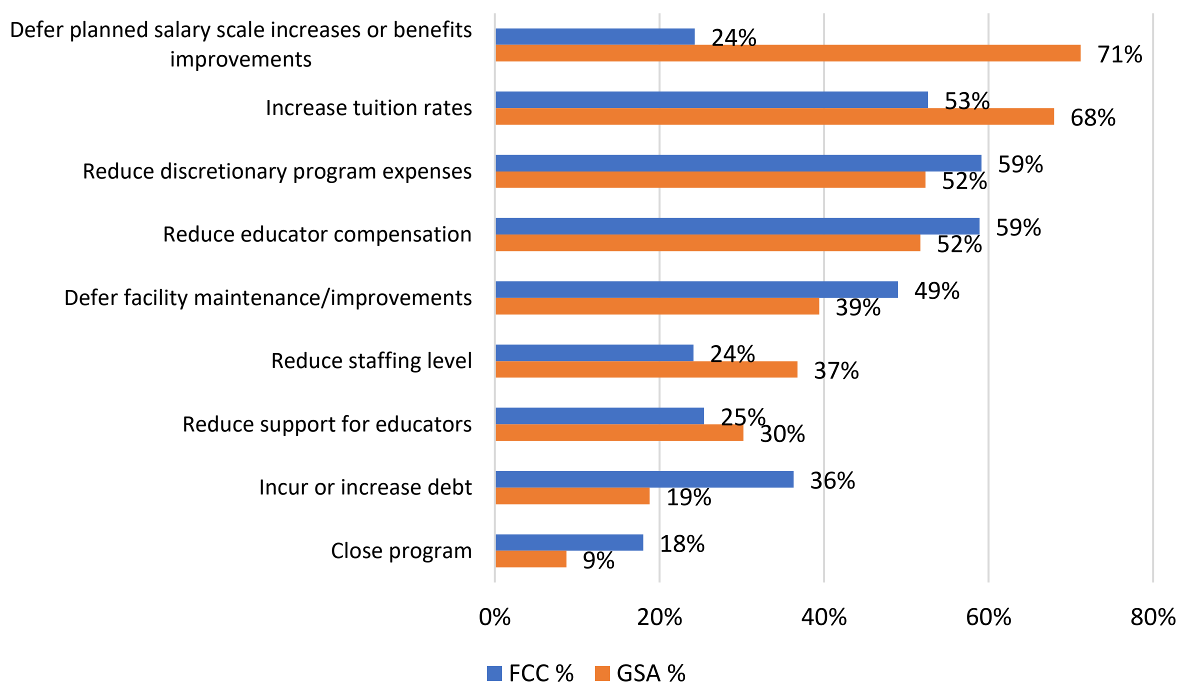
More than half (53%) of C3 funds to date have been spent on workforce compensation and supports. This includes 37% of all grant funds spent on existing payroll and benefits, and 15% spent on increased compensation through both salary increases and one-time payments to educators.

Figure 4. Grant Spending By Category, July 2021 To June 2023



The semi-annual surveys also allow the Department to better understand the impact of C3 funding, including the potential impact on programs if C3 funding were no longer available. In the spring 2023 survey, providers were asked to report what changes they would have to make if C3 funding were no longer available, and the results are indicated in **Figure 5**.

Figure 5. Changes Providers Report that They Would Have to Make if C3 Were No Longer Available



Both families and educators would be significantly impacted if C3 funds were no longer available, as 71% of GSA providers reported that they would have to defer planned salary increases or benefit improvements without grant funds, and more than half of GSA and FCC providers reported that they would have to reduce educator compensation with the funding. Additionally, more than two thirds of GSA providers and half of FCC providers reported that they would need to increase tuition rates without grant funding, demonstrating that the grant has also enabled programs to address family affordability. Finally, 18% of FCC providers and 9% of GSA providers reported that they would have to close without continued C3 funding—which would mean the potential loss of over 18,000 licensed seats statewide.

These data indicate that while program enrollment has risen throughout the grant period, programs continue to experience significant challenges in financing their operations. Providers continue to utilize grant funds to support core operational expenses and maintain capacity for working families, while also using a portion of these funds to invest in the workforce through increased compensation, benefits, and professional development.

The Department will continue to use these and other metrics to monitor the health of the early education and care field and propose program investments, grant program adjustments and innovations, as needed. The Department will update the legislature quarterly on grant disbursement and key data points collected as part of the grant program.