Testimony to the Vermont House Committee on Human Services
Financing Strategies for Child Care

Submitted by
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Good morning Chair Wood, Vice Chair Brumsted, and Representatives of the Committee,

Thank you for the opportunity to speak with you today about child care and financing strategies. My name is Kate Ritter, and I am the cost modeling manager at Children's Funding Project. I am also a proud resident of Vermont; my family and I live in Cornwall in Addison County. Children's Funding Project is a Washington, DC-based nonprofit social impact organization that helps communities and states expand equitable opportunities for children and youth through strategic public financing. Through our hands-on technical assistance and collection of resources, we guide communities and states in comprehensive strategic financing strategies and help them gain a deeper understanding of their current funding landscape, collaborate to maximize use of existing funding streams, generate new funding, and make effective investments in programs for improved outcomes. In my role as cost modeling manager, I focus on supporting states and communities in analyzing and understanding the true cost of early care and education through cost modeling, which has allowed me to do extensive research on the complexities of financing a child care system that is high quality, equitable, and affordable.

I am grateful and excited to live in a state that has shown such commitment to elevating and solving the child care crisis over the past several years. I thank all the current and past legislators who have worked to make Vermont a more equitable state for children and families. I commend you for crafting House Bill 171, now Act 45, which has laid the groundwork for improving Vermont's child care system, and for considering equally groundbreaking legislation this session that stands to make Vermont's early childhood system one of the strongest in the nation. As you well know, driving new resources to finance improved and expanded services for our youngest children is a challenge. For any proposed investments to have maximum impact, it is critical that funds are distributed in a way that promotes a more equitable system. The current funding landscape leaves too many families behind, disproportionately affecting families with infants and toddlers, families living in rural communities, children with disabilities, and families of color.

Across the state, families of all financial backgrounds struggle to pay for child care since it represents one of the largest items in the household budget. Current child care costs already take up an average of 25% of income for Vermont families. Those costs are even more for low-income families, making the true cost of high-quality child care unaffordable to most working families. The recent early care and education financing study for Vermont conducted by The Rand Corporation estimates the true cost of high-quality center-based infant care at more than $35,000 per year on average. (That figure includes the cost of compensating educators using the standards proposed by Vermont's Advancing as a Profession Task Force.) This is almost half of the median income for a family of three in Vermont (100% SMI/400% FPL). Even for families earning double the state median income this represents over 20% of their annual income. As a result, the way child care is currently financed disincentivizes quality. Neither child care subsidies nor private tuition fees cover the true cost of quality. In fact, the average per child rate for care doesn't even cover the cost of adequate pay for early childhood teachers. The system is balanced on the backs of the workforce through extremely low wages and lack of benefits.

Achieving an affordable and equitable child care system requires public funding that covers most of the cost of high-quality care, with families paying a percentage of their income unrelated to the cost of operating the program. This requires public investment that fills the gap between family fees and the true cost of quality care as determined by a cost model study, such as the study conducted by Rand for the state of Vermont. To date, only Washington, DC, and New Mexico use this approach. But other states across the country are working on financing strategies to implement a true cost of care structure in their states.

It is important to note that financing the true cost of high-quality care includes increased compensation for early childhood educators. We know that high-quality early learning depends on a high-quality workforce, yet low compensation consistently undermines the ability of child care programs to recruit and retain qualified staff. Early childhood educators earn wages so low that many cannot afford to remain in the field, but child care programs cannot raise wages without raising tuition, which is already unaffordable for many families. As a result, the lack of access to consistent, high-quality child care costs states billions of dollars each year through lost tax revenue and missed work days.

For decades, this seemed like a vicious cycle that plagued the early childhood field. However, the infusion of federal relief dollars to support early care and education during the COVID pandemic allowed states to see how adequate public investment and state policies that appropriately support and compensate the early education workforce are essential strategies to remedy this crisis. Now that relief dollars will be expiring, we've seen some states spearhead the work of maintaining public funding to support early educators.

> **Washington state** created a funding stream to support early educator wages and health benefits. Specifically, the state has identified $36 million dollars to implement a minimum compensation scale and another $30 million to provide health care coverage. This is possible because of a new, sustainable financing strategy—a portion of revenue raised by a new capital gains excise tax will provide ongoing funding for early educator wages and health care.
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> **Washington, DC,** implemented the Early Childhood Educator Pay Equity Fund, which provides compensation parity between public school teachers and early childhood educators with similar levels of education and credentials. This fund also will pay for publicly financed health insurance plans for all eligible employees of licensed early learning facilities in the District of Columbia. The funds come from a modest income tax increase on the District of Columbia's highest-income residents.

Implementing a minimum compensation scale for early educators would be a tremendous step toward growing and strengthening Vermont's early childhood education system. A compensation scale that is comparable to compensation received by Vermont's public school educators is an excellent step toward strengthening the field, but I encourage the state to push further. Some states, such as Rhode Island, are requiring their compensation scales to reflect **true parity** with K-12 public school salaries. "True parity" is defined as parity for salary and benefits for equivalent levels of education and experience, adjusted to reflect differences in hours of work, and including payment for non-child contact hours (such as paid time for planning). This means that child care educators, who usually work 10+ hours per day and year round, receive a salary that reflects the additional time spent in the classroom beyond a school day, school year.

Without true parity that values and compensates early educators for the critical role they play in both nurturing young children and in supporting their families, the state will continue to lose staff in community-based child care programs. Many teachers will choose to work in public schools over community child care programs. This is a particular concern if universal preschool for 4-year-olds is only offered in public schools. Since these teaching positions offer more competitive wages and benefits than community-based programs can afford, they will draw more qualified educators away from their current roles. This is an overwhelmingly destabilizing consequence for the child care system. States with the most successful universal preschool programs, such as Georgia and Illinois, attribute much of their success to a mixed-delivery system, meaning families can access universal preschool in the setting that meets their needs, including community child care centers, family child care homes, and public schools.

Lastly, I applaud Vermont for increasing access to the Child Care Financial Assistance Program (CCFAP) in last year's legislation. Across the state, families of all financial backgrounds struggle to pay for child care given it is one of the largest items in the household budget. In light of this struggle, taking another step by increasing eligibility to 800% FPL helps ensure that child care is more affordable to Vermont families. The current reality is that families are struggling with inflation and the rising prices of necessities. Moreover, moving the state's child care system to reflect the true cost of quality with new compensation standards for educators will increase the cost of care tremendously. While reimbursement rates for the CCFAP are proposed to increase to cover the true cost of care, the impact of these reimbursement rates is diluted because it is only a small part of a child care program's budget. CCFAP funds are critical, but their ability to shift the larger child care market is constrained unless they are available to significantly more families. A major increase to income eligibility allows CCFAP to act as an effective policy lever for the quality of care and a compensation scale while also nearly eliminating the cliff effect that occurs when a family's income exceeds the program's parameters.

In summary, Children's Funding Project encourages Vermont to move away from a scarcity mindset where providers are barely scraping by, families are struggling to access care, early educators are leaving the field, and the system is cracking. This requires a reimaging of how child care is funded as well as a better understanding of how public dollars should be invested for an equitable and an efficient impact. Children's Funding Project recommends the following supports for Vermont's child care system:

- Utilize a cost estimation study to invest public dollars to cover the gap between family fees and the true cost of quality child care.
- Implement a compensation scale for early educators that reflects true parity with K-12 public school salaries and benefits.
- Increase income eligibility for CCFAP to 800% federal poverty level to ensure Vermont families are able to afford the full cost of care and providers are able to meet minimum compensation scale.
- Identify and secure a dedicated source of revenue to fund and sustain transformative change for Vermont's early childhood care and education system.

Children's Funding Project has a team with expertise on generating public revenue to support state and local goals for children and youth. If you would like examples of how states are finding revenue options, maximizing the impact of their funds, and/or distributing the resources equitably, please reach out to us.

Thank you for being a national leader and considering this important piece of legislation to support the success of Vermont's children and families. Children's Funding Project would be happy to be of assistance and answer any questions about early care and education policy and finance. For more information about Children's Funding Project, visit: https://www.childrensfundingproject.org/.