Funding Early Care and Education in Vermont

Senate Finance Committee

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RAND Report Offers a Possible Roadmap

- What is high quality early care and education (ECE)?
- What does it mean to be accessible to all families who need it?
- What is the "gap" cost?
- What sources of revenues might be used?

Elements of high quality, accessible early care and education

- Environment where young children thrive and learn
  - STep Ahead Recognition System, or STARS, already in place
- Compensation for ECE providers is commensurate with their peers
  - 2019 median earnings: Child care workers $28,540; Preschool teachers $34,290; Kindergarten teachers $56,090; Public school teachers generally have benefits also
- All eligible families have access to public subsidies with more generous support
  - Child Care Financial Assistance Program (CCFAP) currently does not reach all eligible families
- Public subsidies reimburse providers at the actual cost of care
  - CCFAP currently reimburses providers based on market cost of care

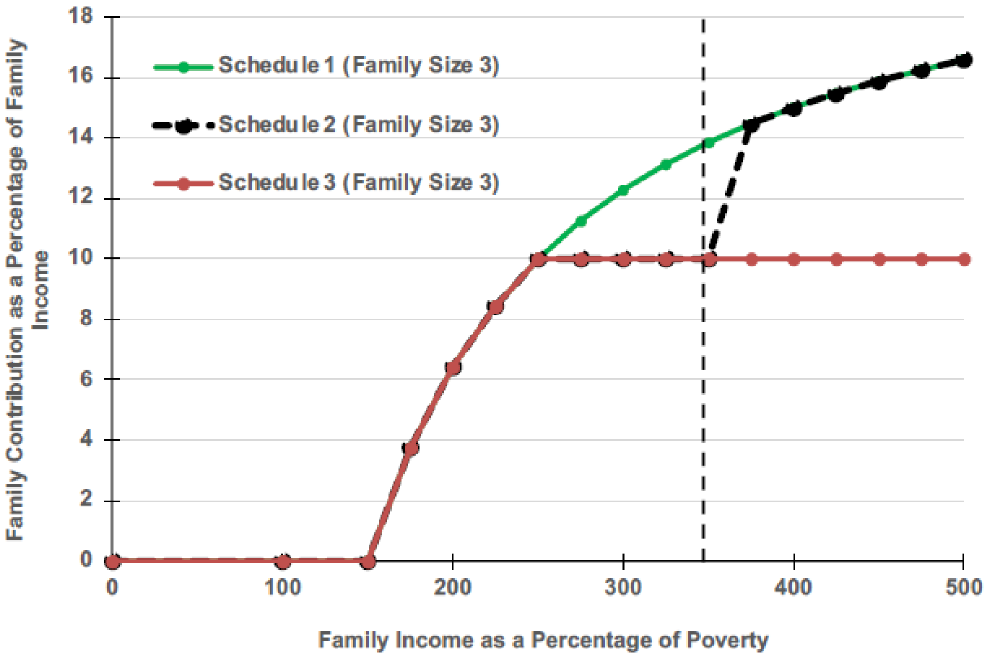
Cost of providing high-quality, accessible ECE

- Rand Report estimates the TOTAL cost of ECE system for children from birth until kindergarten entry
  - $645 million in 2022 dollars
  - Reflects the value of the resources required to provide high-quality services rather than relying on prices charged by providers
- Subtract existing sources of funding
  - Families – contributions depend on which subsidy scenario
    - Scenario 2: about $260 million
  - Existing public funding – about $125 million
    - State of Vermont: Universal pre-K, CCFAP, Childcare tax credits
    - Federal: Head Start, Early Head Start, support for CCFAP, Childcare tax credits

RAND report: Financing gap to be funded

- Look at five sliding-scale subsidy schedules
  - Smaller gap estimates $179 million to $193 million per year
    - Maintain status quo of limiting subsidies to families making 3.5 times FPG or less
  - Larger gap estimates $256 million to $279 million per year
    - Extend subsidies to higher-income families up to 5.0 times FPG or less

Subsidy schedules
1. Status quo
2. Status quo, cap costs to 10% of income for families up to 3.5x poverty
3. Extend schedule 2 up to 5x poverty



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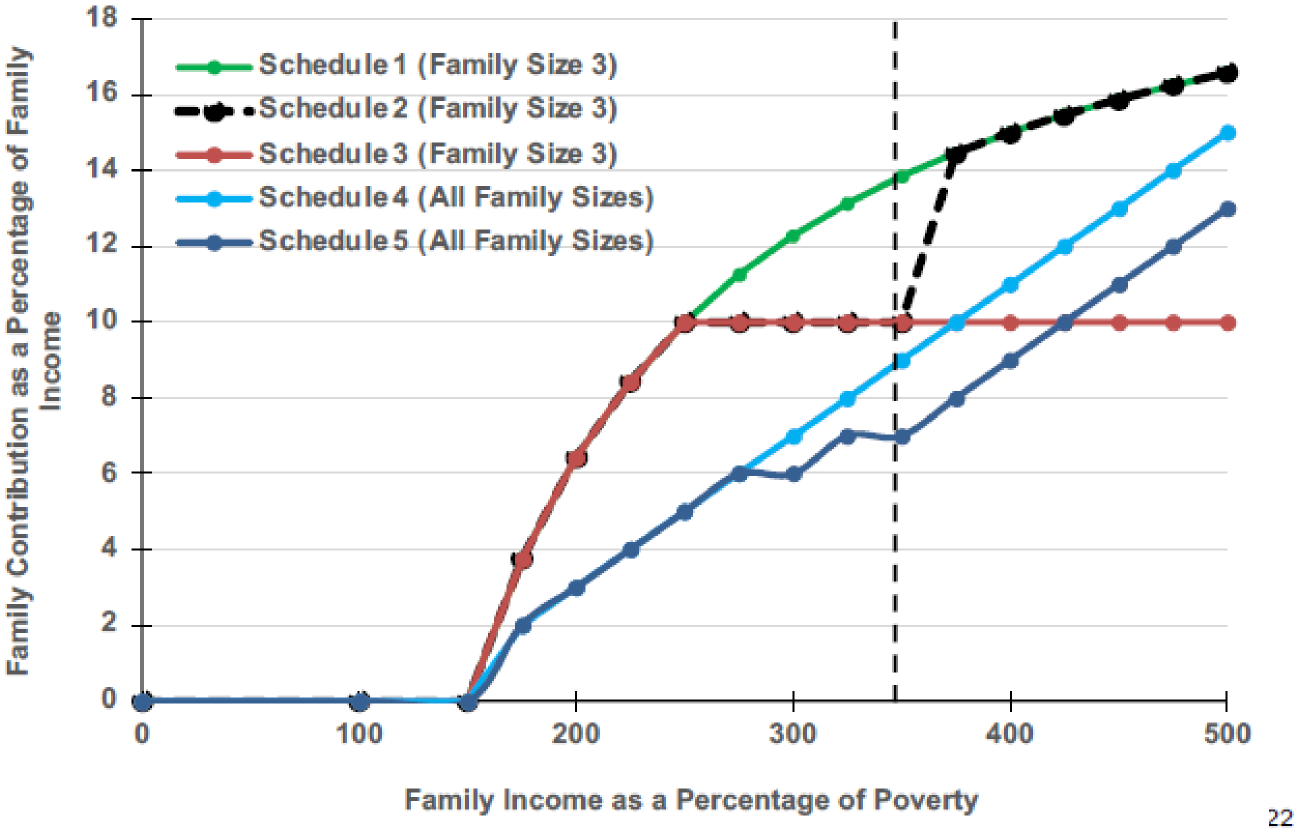
RAND report: Financing gap to be funded, continued

- The five sliding-scale subsidy schedules

Subsidy schedules
1. Status quo
2. Status quo, cap costs to 10% of income for families up to 3.5x poverty
3. Extend schedule 2 up to 5x poverty
4. Sliding scale maxes at 10% by 3.5x poverty and 15% by 5x poverty
5. Sliding scale maxes at 7% by 3.5x poverty and 13% by 5x poverty



Scenario 2: Status quo, but cap costs at 10% of income for families up to 3.5x poverty

- Total family contributions would be $260 million
  - Note no family contributions for families with income less than 1.5x poverty
  - Families with income above 3.5x poverty would pay full cost
  - Families with income above 5.0x poverty would pay $162 million in all scenarios
  - Families with income under 5.0x poverty would pay $100 million
- Maintain current state and federal funding of $125 million

  ➔ Estimated size of funding gap is $258 million

- Note in Scenario 5 (most generous), families would contribute about $20 million less than in Scenario 2
  - Public funds would increase by $20 million

Federal Poverty Guidelines, 2022, and Cost of Care

- In Scenario 2, 3-person families with income of $80,600 would pay no more than 10% of income for ECE
  - That would be $8,060 for the family of 3 at 350% of FPG
- But families of 3 with income of $81,000 would pay the actual cost of care
  - If providers were to charge the estimated $36,000 for infant care at a medium-sized center, the family would have to pay 44% of their income

2022 POVERTY GUIDELINES FOR THE 48 CONTIGUOUS STATES AND THE DISTRICT OF COLUMBIA					
Persons in family/household	Poverty guideline	350%	400%	450%	500%
3	$23,030	$80,605.0	$92,120	$103,635.0	$115,150
4	$27,750	$97,125.0	$111,000	$124,875.0	$138,750
Source: https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines					

“Feasible, stable, and sustainable” sources of public revenue

- Start with six options for raising needed revenue
  - Options 1-4 are single-source options that rely on one type of tax to produce the needed revenue
  - Options 5-6 are options composed of bundles of different taxes, meant to minimize increases in any one type of tax
- Then do macroeconomic analysis
  - Model effects on the Vermont economy over a 5-year time horizon
  - Produce estimates of state net revenues, economic output, etc.
    - Take behavioral changes into account

Options 1 – 4 for raising revenue: Single source

- Option 1 – New payroll tax
  - Note that the tax base is <u>total compensation</u>, not wages as is usual
  - 0.9% rate on all compensation translates to 1.1% - 1.2% on wages up to the Social Security taxable maximum
- Option 2 – Increase the sales and use tax
- Option 3 – New limited service tax on personal services and entertainment
  - Auto mechanics, household repairs, dry cleaning, etc.
  - Performing art, museums, fitness centers, bowling alleys, etc.
- Option 4 – New extended service tax on broadcasting and publishing as well as the limited service tax
  - Radio, cable TV, movies, telecommunication services, internet publishing, etc.
  - Newspapers, magazines, books, etc.

Options 5 and 6: Bundles of taxes

- Each bundle option contains a soda tax and a hospitality tax
  - Soda tax of 15%, as in Philadelphia
  - Example of hospitality tax: increase meals tax from 9% to 10%
- Option 5 also has a new payroll tax
- Option 6 also has an increase in the sales and use tax

Baseline estimates of potential revenue

Tax	Type of Change	Revenue Generated
Payroll tax	1%	$196 million
Sales tax	1 percentage point increase from base	$85 million
Limited services tax	6%	$105 million
Extended services tax	6%	$143 million
Hospitality tax	1 percentage point increase from base	$14 million
Soft drink tax	15%	$24 million

NOTE: 2022 dollars.

Funding estimates - key points

- Funding the smallest gap estimates that maintain the status quo of funding families up to 3.5x the poverty level could be accomplished with single sources of revenue to generate about $190 million
  - 0.9 percent payroll tax OR
  - 2.0 percentage point increase in the sales tax OR
  - A new limited services tax of 9.9 percent OR
  - A new expanded services tax of 7.1 percent

  Bundling sources can lower the increases in any one tax source
- The larger gaps generated by expanding subsidies to higher-income families cannot be funded by a single revenue source without increasing the magnitude of the tax to a rate not typically seen in other states
- Tax increases are expected to have a small impact on household economic well-being

RAND: Well-Being Impacts of Full Implementation of Subsidy Schedule 2

Income Range	Payroll Tax	Sales Tax	Limited Services	Extended Services	Option 5	Option 6
Less than $15,000	1.0003	0.9970	0.9952	0.9944	0.9987	0.9959
$15,000–30,000	0.9995	0.9972	0.9938	0.9937	0.9982	0.9964
$30,000–40,000	0.9985	0.9975	0.9943	0.9944	0.9976	0.9968
$40,000–50,000	0.9979	0.9978	0.9945	0.9946	0.9972	0.9972
$50,000–70,000	0.9969	0.9980	0.9929	0.9937	0.9965	0.9974
$70,000–100,000	0.9960	0.9983	0.9941	0.9948	0.9960	0.9980
$100,000–150,000	0.9951	0.9985	0.9942	0.9951	0.9954	0.9982
$150,000–200,00	0.9941	0.9990	0.9921	0.9936	0.9949	0.9989
Greater than $200,000	0.9927	1.0001	0.9905	0.9915	0.9939	1.0000

NOTE: The color shading in the table provides a heat map in which the most-favorable outcomes in terms of well-being are in shades of green and the least favorable outcomes are in shades of red, with yellow and orange shades falling between the two extremes, respectively.

Where to find the RAND Report and other resources

- JFO website: new subject called Early Care and Education
  - https://ljfo.vermont.gov/subjects/early-care-and-education

- Contains the RAND Report, the RAND presentation, and Act 45 of 2021

Thank you!