



Blue Ribbon Commission on Financing High Quality, Affordable Child Care

FINAL REPORT

2016

Final Report:
Blue Ribbon Commission on Financing High Quality Affordable, Child Care

Prepared in accordance to an Act Relating to Making Appropriations for the Support of Government No. 58 § C.101 (2015)

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Prepared by the Vermont Blue Ribbon Commission on Financing High Quality, Affordable Child Care
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TRANSMITTAL LETTER

Governor Shumlin; Governor Elect Phil Scott; the General Assembly; Senate Committees on Education, on Finance, and on Health and Welfare; and to the House Committees on Education, on Human Services, and on Ways and Means:

This final report is a presentation of Vermont's Blue Ribbon Commission on Financing High Quality Affordable, Child Care ("the Commission" or "the BRC") and was prepared in accordance with an Act Relating to Making Appropriations for the Support of Government No. 58 § C.101 (2015).

The Commission gathered research and feedback from public forums, surveys and presentations from state early childhood subject matter experts and consultation services from a research consulting team. Thoughtful deliberations occurred between September 2015 through November 2016. The Commission's recommendations were guided by a mutually agreed upon definition of high quality early care and learning and the guiding principle of providing equal access to care for all Vermont children, ages birth to five. Estimated costs of providing the high-quality care in addition to measures of affordability are provided to demonstrate the gap in investment in the state. The report presents Vermont's policymakers with a clear set of recommendations and financing options for consideration.

Though the Commission focused on three key areas prescribed the act—the cost of high quality care, affordability and financing—the Commission strongly recommends the full examination of the early childhood system and related programs. The BRC believes efficiencies and cost savings can be found at the systematic level of funding, administration and coordination of high quality early care and learning services to Vermont's children and families.

Thank you for this opportunity to serve Vermont.

Sincerely,

VT Blue Ribbon Commission on Financing High Quality Affordable, Child Care

STATUTORY CHARGE

Act Relating to Making Appropriations for the Support of Government No. 58 § C.101 (2015)

*** Vermont's Blue Ribbon Commission on Financing High Quality Affordable, Child Care***

Sec. C.101 BLUE RIBBON COMMISSION ON FINANCING HIGH QUALITY, AFFORDABLE CHILD CARE (a) Creation.

The Secretary of Administration shall establish a Blue Ribbon Commission on Financing High Quality, Affordable Child Care.

(b) Purpose. The purposes of the Commission are as follows:

- (1) to inventory and review reports and recommendations issued over the past 10 years relating to high quality, affordable child care;
- (2) to determine the elements inherent in all quality child care programs; and
- (3) to make recommendations to the General Assembly and the Governor on the most effective use of existing public funding and additional opportunities.

(c) The Blue Ribbon Commission will collaborate and work to support goals and strategies within the Vermont Early Childhood Framework and the accompanying Vermont Early Childhood Action Plan. (d) The goals of the Commission are as follows:

- (1) To determine the total costs of providing equal access to voluntary, high quality, early care and education for all Vermont children, ages birth through five. The Commission shall consider the needs and preferences of families, which may range along a continuum from partial day or partial year services to full day or full year services and include nontraditional work hours as well as usual business hours or a combination of these. The Commission shall also consider various family compositions and income levels, and recommend the amount that families should pay toward the costs of high quality, early care and education based on a sliding scale.
- (2) To work in coordination with the ongoing efforts of Vermont's Early Learning Challenge – Race to the Top grant, Vermont's PreK Expansion Grant, and Vermont's implementation of 2014 Acts and Resolves No. 166 – Universal PreK.
- (3) To examine current policies in Vermont's Child Care Financial Assistance Program (CCFAP) in relation to national trends and innovation in subsidy practice, as well as the relationship between CCFAP and other public benefits, taking into consideration the overall impact on families, and recommend changes to maximize the use of CCFAP to support affordable access to high quality, early care and education for eligible families.
- (4) To review and identify all potentially available funding for high quality, affordable early care and education.
- (5) To explore possible funding sources for equal access to voluntary, high quality, early care and education for all of Vermont children, ages birth through five, including investigating child care tax credits, identifying possible revenue from health care reform, from changes in the education system, from possible funding generating systems such as fees, and possible reallocation or expansion of tax and fee revenues

- (e) Membership. The Commission shall consist of members to be selected as follows:
- (1) the Secretary of Education or designee;
 - (2) the Secretary of Administration or designee;
 - (3) the Secretary of Human Services or designee;
 - (4) the following members appointed by the Governor:
 - (A) a representative from the Department for Children and Families, Child Development Division;
 - (B) a representative from higher education;
 - (C) three representatives of the Vermont business community;
 - (D) a representative of the financial services industry in the State;
 - (E) a representative of licensed and registered home-based early learning and development programs in the State;
 - (F) a representative of licensed center-based early learning and development programs in the State;
 - (G) a representative of Head Start;
 - (H) a representative of the Parent Child Centers;
 - (I) two parents of children enrolled in an early care and education program in the State, one of whom is serving in the military;
 - (J) a representative of a child advocacy group; and
 - (K) a representative from the Building Bright Futures State Council.
- (f) The Chair shall be the Secretary of Administration or designee and the first meeting of the Commission shall be held on or before July 15, 2015.
- (g) The Commission shall have the administrative, technical, and legal assistance of the Secretary of Administration.
- (h) The Commission shall report on its findings to the Governor and to the Senate Committees on Education, on Finance, and on Health and Welfare and to the House Committees on Education, on Human Services, and on Ways and Means on or before November 1, 2016.

The following table provides a list of all gubernatorial appointees and statutory members:

Table 1. Blue Ribbon Commission on Financing High Quality, Affordable Child Care Members

Gubernatorial Appointees	Statutory Position
Charlotte Ancel	Vice President, Power Supply & General Counsel at Green Mountain Power. Business Representative.
Donna Bailey	Co-Director of the Addison County Parent/Child Center. Parent/Child Center Representative
Paul Behrman	Director at Champlain Valley Head Start. Head Start Representative.
Laurel Bongiorno	Dean of Champlain College Division of Education and Human Studies. Higher Education Representative.
Frank Cioffi	President of the Greater Burlington Industrial Corporation. Business Representative.
Michelle Fay	Associate Director. Voices for Vermont's Children. Child Advocacy Representative.
Rachel Hunter	Child Care Provider/Pre-K Teacher and Mentor at an in-home child care. Licensed and Registered Home-Based Child Care Program Representative.

Gubernatorial Appointees	Statutory Position
Steven Lambrecht	Lieutenant Colonel, Vermont Air National Guard. Military Parent Representative.
Chloe Learey	Executive Director of Winston Prouty Center for Child Development. Licensed Center-Based Child Care Program Representative.
Lauren Norford	Coordinator of Early Childhood Services at Rutland Mental Health. Business Representative.
David Rubel	Commercial Lending Portfolio Manager at the Community National Bank. Financial Services Representative.
Sarah Squirrell	Executive Director, Building Bright Futures. Building Bright Futures Representative.
Statutory Members	Agency
Paul Dragon	Director of Policy & Program Integration at the Agency of Human Services. Secretary of Human Services Appointee.
Jessica Gingras	Director of Appointments to Boards and Commissions for the Governor's Office. Secretary of Administration Appointee.
Rebecca Holcombe	Secretary of Education, Agency of Education Representative.
Reeva Murphy	Deputy Commissioner for the Vermont Department for Children and Families. Child Development Division Representative.
Jessica Blackman	Administrator of the Commission.

INTRODUCTION

In recent years, Vermont has focused on investing in young children through strategic investment in resources and time toward early care and learning. Key accomplishments include, but are not limited to, the development of Vermont's Early Childhood Framework and Action Plan,¹ the implementation of the STARS quality rating and improvement system,² the passage of Act 166, universal prekindergarten,³ and receipt and implementation of initiatives through the \$36.9 million Federal Race to the Top Early Learning Challenge Grant.⁴ Vermont made great strides towards investing in early care and learning, the Commission believes the state can do more. The Commission's work aligns with the Early Childhood Framework and Action plan and efforts to provide equal access to high quality care for all children birth to five in Vermont.

Vermont's policymakers and citizens have a clear course for shaping the future of the state's economy and the health and well-being of families through strategic investments in high quality affordable early care and learning. Investment in early care and learning is good for Vermont. Businesses benefit by employing parents who can focus on work because they are assured their children are in a safe, nurturing setting. Moreover, young children, the future workforce, are developing a critical foundation for success.

Child care is not just babysitting; it is critical learning and development for future generations. The science is clear, high quality early care and learning matters:

- In the first few years of life, 700-1,000 new neural connections are formed every second- this is the foundation upon which all learning, behavior and health depend;⁵
- At 18 months of age, disparities in vocabulary begin to appear for children not exposed to high quality care;
- 90-100 percent chance of development delays when children experience multiple risk factors of maltreatment;⁶
- Children who face significant adverse experiences (more than 7-8) have 3:1 odds of adult heart disease after adverse childhood experiences;⁷ and
- \$4-9 in returns for every dollar invested in early childhood programs.⁸

The Commission's report seeks to provide a clear definition of high quality child care, the estimated cost of providing that care to all Vermont children birth through the age 5, and a clear picture on the major gap in investment to support equal access to high quality care. The Commission provides a set of short-term and longer-term financing options to fill the current investment gap. Section one of the report outlines the Commission's process. Section two includes the Commission's key findings on the importance of high quality care, the definition of high quality, estimated cost of care, and recommended changes to maximize the use of the state's Child Care Financial Assistance Program (CCFAP) to support affordable access to high quality, early care and learning for eligible families. Finally, section three identifies potential available funding to support equal access to voluntary, high quality early care and learning for all Vermont children ages birth to five. The appendices provide detail on research and findings and the Commission's methodologies for cost and affordability calculations. Full meeting minutes are archived at <http://buildingbrightfutures.org/blue-ribbon-commission>.

Note that the Commission focused on early care and learning for children birth to five years old; however, the Commission recognizes that early care and learning needs for families do not end at five years old.

Before, after-school, and summer-time care is critical for supporting working parents and for providing safe, nurturing and educational environments for young children.

To provide a sustainable investment in access to high quality care for all children, the Commission recognizes the need to conduct a systemic review of all child care and early childhood programs and services for children birth to five. The Commission believes efficiencies and cost savings could be gained through a comprehensive review of services, infrastructure and modes of delivery. Although this was not specifically in the scope of the Commission's charge, the Commission strongly recommends supporting new and existing efforts in the state, including but not limited to the work of the Building Bright Futures State Advisory Council, to address issues of overlap and fragmentation.⁹

Throughout this report, the term "early care and learning" is used to refer to programs that provide educational and behavioral learning environments for children birth to age 5; "early care and learning system" or "early childhood system" refers to the mixed-delivery system of direct service programs, related comprehensive service providers, and myriad of public and private administrators; the term "early childhood professional" is used to refer to individuals providing early care and learning.¹⁰

EXECUTIVE SUMMARY

The Vermont Blue Ribbon Commission on Financing High Quality Affordable, Child Care, established by No. 58 § C.101 (2015), met from September 2015-November 2016 to determine the elements inherent in high-quality early care and learning programs in Vermont, and make recommendations to the General Assembly and the Governor on possible funding sources that will provide equal access to voluntary early care and learning programs for all of Vermont's children, ages birth through five. Through national best practices research, review of Vermont's current early care landscape, and public input from across the state, the Commission defined the components of early care and learning programs essential to high quality, estimated the cost of operating a high-quality care program, analyzed and defined affordability, and determined recommendations for immediate and long-term next steps.

The Commission learned that early care and learning is critical to the economic and community wellbeing of Vermont. Every dollar spent on high-quality early care and learning programs yields a return on investment that ranges from \$4 - \$9.¹¹ Currently there are over 36,000 children birth to age 5 in Vermont: 6,023 infants, 12,224 toddlers, and 18,360 preschoolers.¹² These children and families have access to approximately 1,500 licensed and registered programs (46% center-based, 54% home-based).¹³ As of July 2016, 31.9% of all early care and learning programs have a 4 or 5 STAR high quality designation.¹⁴ Nearly half (47%) of all infants and toddlers likely-to-need-care do not have access to any regulated early care program.¹⁵ Currently Vermont spends \$130 million through state and federal investments.¹⁶ Families, who pay both taxes and tuition, are the primary source of funding for the system. The Child Care Financial Assistance Program (CCFAP) subsidizes 23% of families seeking regulated care. The remaining roughly 75% of families pay full tuition.¹⁷ On the provider side, a March 2013 survey showed that 14.2% of providers do not charge a co-payment to any family receiving financial assistance. An additional 27.6% only charge under certain circumstances. Moreover, 65.2% of providers provide additional financial support (like scholarships or lowered co-payments) or work with families to determine payments that are affordable.¹⁸ These financial supports reduce the income of the business, limiting providers' ability to pay staff, buy

supplies, or support quality improvements. Compared nationally, Vermont ranked 13th least affordable for center-based infant care and 3rd least affordable for center-based four-year-old care.¹⁹ Furthermore, parents across the state report difficulty accessing early care and learning programs, let alone high quality programs.

Equitable early care and learning for all Vermont children ages birth to five is the most significant opportunity for the state for making systemic and dynamic improvements that will foster economic development, advance social and community well-being, and provide the greatest positive impact for future generations. Vermont could be a national leader in early care and learning by demonstrating that investing in children and families is the pathway to economic and community wellbeing. The Commission recommends taking immediate steps that both encourage the growth of high quality programs and increase families' access to such programs. The BRC also recommends continuing this work by developing a birth to five systems strategy that considers delivery, funding, governance, and economies of scale to create a seamless continuum of high quality early care and learning opportunities.

Commission Findings

Vermont currently spends roughly \$130 million through state and federal investments in early care and learning.²⁰ The Child Care Financial Assistance Program (CCFAP) helps 23% of families seeking access to regulated care, leaving the remaining roughly 75% of families to cover the full cost of tuition. Additionally, to make care more affordable for families, providers offer financial support, including not collecting CCFAP co-payments. Doing so reduces the income of the business, limiting their ability to pay staff, buy supplies, and support quality improvements. To understand the investment gap between current spending and the investment necessary to achieve high quality, the Commission estimated the cost of providing high quality care at the point of service delivery,²¹ as well as an early care subsidy program that supports affordable care for Vermont families.

The Commission defined the components of high quality care and estimated the cost of providing such care to children ages birth to 5 at both a center-based and a home-based program.²² This exercise yielded a center-based cost of roughly \$35,000 per child to care for infants and toddlers (0-2) and \$15,000 per child to care for preschoolers (3-5). For home-based care, it costs roughly \$41,000 per infant, \$21,000 per toddler, and \$14,000 per preschooler.²³

These per-child costs were multiplied by varying demand levels to determine the program-level costs associated with serving Vermont's population of children birth to 5. The Commission requested to see three different demand levels: a) 24.7%, a 2007 federal estimate of non-relative care²⁴ b) 70.4%, the percent of Vermont children under 6 who have all available parents in the workforce²⁵ and c) 100%, all children in Vermont age birth to 5. Assuming half of the demand is met by center-based care and half of the demand is met by home-based care, the operational costs associated with serving 25% to 100% of the birth to 5 population range from roughly \$360 million to \$850 million. Please see Figure 1 for more detail on how this total cost is distributed across funding sources.

Tied to these cost models, the Commission also modeled a more robust early care subsidy system, based on CCFAP, that would increase the access to affordable care through adjustments in eligibility, the sliding fee scale, benefit levels and subsidy rates. Based on study of best practice and variations to fit Vermont demographics, the Commission concluded that providing 100% benefit to families earning up to roughly \$60,000 and slowly tapering off that support until families earn \$180,000²⁶ would make accessing high-quality early care and learning affordable. Vermont currently prioritizes the most needy

families to receive full subsidy. As families begin to earn, however, the state reduces their subsidy, which often creates a cliff effect. Decreases in the percent of subsidy covered quickly begin to outpace a family’s increasing wages, ultimately leading the family to dedicate a larger, often unsustainable, proportion of their income to early care. The goal of the aspirational sliding fee scale is to decrease the cliff effect and expand access to families working full time. Currently, the estimated cost of high quality early care and learning is unaffordable for almost 90% of Vermont families.

Figure 1: The Cost of Providing High Quality Care to Vermont Children Birth to Five Using the Commission’s Model of High Quality, Affordable Early Care and Learning

Demand	Number of Children	Cost of High Quality	Current State Investments	Estimated Family Contribution*	Estimated Additional Investment Needed
24.7%	15,133	\$366,406,397	\$129,979,869	\$91,845,731	\$144,580,797
70.4%	25,771	\$597,875,076	\$129,979,869	\$261,778,925	\$206,116,282
100%	36,607	\$849,254,369	\$129,979,869	\$371,845,064	\$347,429,436

* Please see the Cost of Care section and **Appendix G. Analysis of Parental Contribution** for more details.

The Commission emphasizes that these calculations serve only as initial models that reflect the cost of providing early care and learning at the highest quality level if no changes to the system were made. The BRC also realizes that, under the current system, expanding the number of early care and learning providers would drive increased administrative and regulatory costs at the state level. The BRC recognizes that the current early care and learning system in Vermont is a complex arena with many stakeholders, spanning health, mental health, education, child nutrition, special needs services, and social services. The Commission’s findings underscore both the need for immediate investments to increase quality and access, as well as the need to design and implement the future of Vermont’s early care and learning system.

Recommendations

The Commission supports a long-term goal that progresses toward universal early care and learning for all children and families in Vermont. This long-term goal requires significant shifts in the current funding, governance, and delivery model of early care and learning in the state today. The Commission’s charge did not include providing recommendations for systemic changes; however, the Commission’s research revealed that investments in the current delivery system are not enough to move the needle on early care and learning for Vermont children and families. The Commission submits the following recommendations to the General Assembly and the Governor: a) make immediate incremental investments in high quality, affordable early care and learning, b) design and implement Vermont’s future early care and learning system, and c) review and act on the potential financing mechanisms outlined in our Recommendations section.

Please see the Recommendations section of this report for our full recommendations.

SECTION ONE: THE COMMISSION'S PROCESS

In 2015, Legislative Act 58 established the Commission which outlined five primary goals to support equal access to high quality affordable child care for all Vermont children birth to age five. The Commission began meeting in September 2015 and met monthly in an open public hearing to conduct transparent processes and deliberation.

Five community forums were held across the state in Burlington, Barre, St. Johnsbury, Rutland, and Brattleboro to gather feedback from stakeholders on child care access, affordability and quality. A follow-up survey was provided to those who could not attend the forums. Additionally, the Commission examined and discussed feedback received from the public through public members who attended monthly Commission meetings, the state email for the Commission, and over 1,000 post cards collected statewide by Let's Grow Kids. For additional information on findings from the Commission's public outreach efforts please see ***Appendix A. VT Early Care and Education Key Stakeholders & Findings.***

Research presentations and discussions included an examination of current ongoing efforts of Vermont's early care and learning system including but not limited to Early Learning Challenge - Race to the Top grant, Vermont's Pre-K Expansion Grants, implementation of 2014 Acts and Resolves No. 166 – Universal Pre-K, and Vermont's Child Care Financial Assistance Program (CCFAP). International, national and other states' best practices in child care system delivery and financing were also explored (statute goals #2 and #3).

A Commission Administrator was added in May 2016 and a research consulting team from Public Consulting Group, Inc. (PCG) was contracted in June 2016, respectively, to provide additional support to the Commission. Under the direction of the Commission Chair and Administrator, the Commission divided the remaining work into four parts.

First, after presentations to the Commission from subject matter experts in the field, a sub-Committee developed, and the Commission approved, a working definition of high quality child care (in support of meeting statute goal #1).

Second, the Commission focused on costing out this high quality framework. A line item budget was created using Vermont-based and national best practices data to estimate the total annual cost of care at both a center-based program and a home-based program. The annual costs were extrapolated to determine the cost of access to high quality care statewide for all children in Vermont birth to age 5 (statue goal #1).

Third, the Commission addressed the issue of affordability and created a methodology to assess affordable child care for Vermont families. The methodology was then translated into a sliding fee scale comparable to the sliding fee scale used by the state's Child Care subsidy program (statue goal #3).

Both the cost and affordability estimates were used to illustrate the current gaps in investment that should be filled for the state to truly offer equal access for all children birth to age 5.

Fourth, the Commission explored possible funding sources to fill the gap in investment in high quality child care. Given the size of the gap, the Commission offers policymakers a series of short and long-term financing options. Funding mechanisms from other states, regions and countries were explored as well as current tax credits, public funding sources, and possible reallocation or expansion of tax and fee revenues. Financing options the Commission agreed were acceptable at this time are set forth in the recommendations section of this report.

SECTION TWO: THE COMMISSION'S FINDINGS

A. Why it Matters

Too many Vermonters lack access to high-quality, affordable child care. Currently, over 36,000 children birth to age five live in Vermont, and nearly half (47 percent) of all infants and toddlers likely to need care do not have access to any regulated child care program.²⁷ The Commission believes Vermont should be a national leader in early care and learning by ensuring equal access to high quality care for all Vermonters. The investment is a benefit to the economy, to parents, and most importantly, to young children.

The Benefits to the Economy

Vermont's population is stagnant while the U.S. population is growing. The working population is aging and the labor force is not growing as fast as the number of jobs.²⁸ In fact, 1 in 6 Vermonters are older than 65.²⁹ The U.S. Census Bureau estimates more than 29 percent of Vermont's population will be 60 and older by the year 2030, an increase of 40 percent from 2012.³⁰ There is a need to boost investments in areas that will bring new jobs to Vermont, and keep talented young Vermonters in the state while also investing in the future. An investment in early care and learning can create a more favorable work environment for working families with children while also investing in the future workforce.

Early care and learning or "child care" is commonly cited as one of the major barriers to work. Access to high-quality care for young children can enable parents to work, and to work more hours. Investment in making child care more affordable is an investment in workforce support. Traditionally, public funding for child care subsidy is focused on low-income single mothers. In today's world, one must consider the evolving needs of families. In Vermont, 26.6 percent of children are living in families headed by a single parent, meaning these parents, as the sole income providers, are much more likely to work.³¹ Many families have both parents in the workforce. Seventy percent of two-parent families have both parents in the workforce.³² Research shows in the U.S. at least once in a six-month period, 45 percent of parents are absent from work because of child care issues, averaging 4.3 days. During the same six-month period, 65 percent of parents' work schedules are affected by child care issues an average of 7.5 times.³³ This costs U.S. employers more than \$3 billion annually.³⁴

There are an estimated 36,607 children under the age of six in Vermont; 70 percent of those children are estimated to have all available parents in the workforce.³⁵ The parents of approximately 24,892 children under six must rely on some form of regular child care to maintain stable employment in the Vermont workforce (see Appendix D).

Using U.S. Census Bureau data from the American Community Survey (ACS), approximately 7.4 percent of participants in the labor force have a child under six years old using child care. Together, these working parents earn just over \$1 billion annually, or 8.4 percent of total wages in Vermont. Parents also pay approximately \$114 million in state, local, and federal taxes in Vermont (see Appendix D).

Additionally, investments in early care and learning yield high returns. Through three of the most rigorous long-term studies, economists have shown the range of return for every dollar spent on high-quality early care and learning programs yields a return of \$4-9;³⁶ "Program participants followed into adulthood benefited from increased earnings while the public saw returns in the form of reduced special education, welfare, and crime costs, and increased tax revenues from program participants later in life."³⁷

The results of one study include a warning that it would be incorrect and short-sighted to assume investments in “early childhood programs” benefit only the participants and not the public who pays for them.³⁸ “Whether one thinks it is the moral thing to do or whether it is the role of government, it makes economic sense to invest in increasing productivity; to spend less early on to prevent much greater costs later.”³⁹

In 2014, the Executive Office of the President of the United States released a report on economics of early childhood investments. The report notes:

“...investments made when children are very young will generate returns that accrue over a child’s entire life. Since the benefits are realized over a longer time horizon the earlier in life they are made, early childhood interventions are likely to generate substantial benefits – both to the affected child and to his or her community... it is important for children to have access to high-quality (care and) education at all ages in order to maximize the benefits of early education.”⁴⁰

Further, Nobel-prize winning economist James Heckman demonstrated investments in early childhood yield a higher rate of return than investments later in life. Heckman’s work quantified and demonstrated investments in early childhood, on average, yield a 10% annual rate of return.⁴¹

Investment in quality early care and learning can also mitigate future costs in the public education, health care and corrections systems because children with a strong foundation during the early years:

- Score higher on school-readiness tests;
- Are 40 percent less likely to need special education or be held back a grade; and
- Are 70 percent less likely to commit a violent crime by age 18.⁴²

In Vermont, even a small cost savings in special education, for example, could have a significant impact on a sector of educational spending that has nearly doubled since 2001, while student population has declined.

Not all benefits can be translated into dollar values; these cost-benefit estimates for effective programs are likely to be conservative. Additionally, it is important to consider these studies do not reflect other potential benefits not analyzed in the studies. These benefits can include: “improved labor market performance for the parents of participating children, as well as stronger national economic competitiveness as a result of improvements in educational attainment of the future workforce.”⁴³ Increased economic competitiveness on a local level is also a factor as are reduced unemployment expenses and a potential reduction in health care costs.

Investments are also needed on the supply side. The Commission’s community forums, surveys, and post card responses from the public echoed this need across Vermont. Parents expressed their difficulty in finding options for child care, putting financial stress on their family since they are unable to work. In many parts of the state, access to any option, let alone high-quality or affordable programs, is an issue. Even in Chittenden county, the most urban part of the state, many families and providers reported long waiting lists for enrollment in child care programs. Some even require parents to reserve enrollment spaces before their child is born.

For more information on the economic impacts of child care, please see the 2016 economic impact of child care report, an update to the 2002 report in **Appendix D. Economic Impacts of Child Care, 2016**

Update. For additional information on findings from the Commission’s public outreach efforts please see **Appendix A. VT Early Care and Education Key Stakeholders & Findings.**

Investments in Early Childhood Yield a Significant Return

The Benefits to Fighting Poverty

High-quality early care and learning programs are also a poverty fighting intervention. A 2003 study by University of Kansas researchers demonstrated that by age three, children who live in low-income families have a significant gap in the number of words they know and have been exposed compared to children who live in middle- or upper-income families. According to the study, “In four years, an average child in a professional family would accumulate experience with almost 45 million words, an average child in a working-class family 26 million words, and an average child in a welfare family 13 million words.”⁴⁴ The same study also demonstrated a child’s vocabulary at age 3 is a good predictor of a child’s ability and success in school at ages 9 and 10 in the arenas of vocabulary, language development, and reading comprehension. However, research has shown quality early care and learning programs can help to address this “word gap.” While they support the healthy development of young children from low-income or high-needs families, many high-quality early care and learning providers can also offer broader support such as parent education, developmental screening, and referral services to families. According to the American Academy of Pediatrics, “Research of high-quality, intensive early childhood education programs for low-income children confirm lasting positive effects such as greater school success, higher graduation rates, lower juvenile crime, decreased need for special education services later, and lower adolescent pregnancy rates.”⁴⁵

The Benefits to Parents

Access to affordable high-quality child care allows parents to be better workers, while also enhancing their parenting focus and ability to attend to and provide for their families. In a new poll of parents in the U.S. with children in child care conducted by National Public Radio (NPR), the Robert Wood Johnson Foundation, and Harvard T.H. Chan School of Public Health researchers found, of parents in the U.S. with children in child care, nearly a third of parents (31 percent) who pay fees for child care say the cost has caused a financial problem for their household. Approximately three-quarters of those parents (71 percent) say it has caused a “very” or “somewhat” serious problem.⁴⁶ Alleviating financial stress and confidence in care selection potentially improves the overall well-being of the family by extension.⁴⁷ In addition, the poll indicated “a majority of parents say that having their child in child care has had a ‘very positive’ impact on their own overall well-being (62 percent) and their relationship with the child (58 percent);”⁴⁸ additionally, “programs with parent support components, such as home visiting, have a number of other benefits for parents, including increased confidence and reduced stress.”⁴⁹

The Benefits to Children

Today, in Vermont nearly half (47 percent) of infants and toddlers likely to need care lack access to any regulated child care program⁵⁰. Additionally, about “79 percent of infants and toddlers in Vermont who are likely to need care also lack access to high-quality programs.”⁵¹

An investment in high quality child care as a work support is an investment in the future of Vermont. High quality child care is a national focus due to the clear positive outcomes for children as well as for

communities. Child care provides critical learning and development for the future generation of Vermont. Brain science tells us that in the first few years of life, 700 new neural connections are formed every second, laying the foundation upon which all learning, behavior and health depends, with 90 percent of brain development occurring before age 5.⁵²

Studies show that benefits of high-quality child care for children include:

- A narrowed the achievement gap: cognitive and achievement scores are increased by 0.35 standards deviation on average;
- Increased earnings later in life by 1.3-3.5 percent
- Reduced involvement with the criminal justice system through improved cognitive and socio-emotional development
- Fewer remedial educational services.⁵³

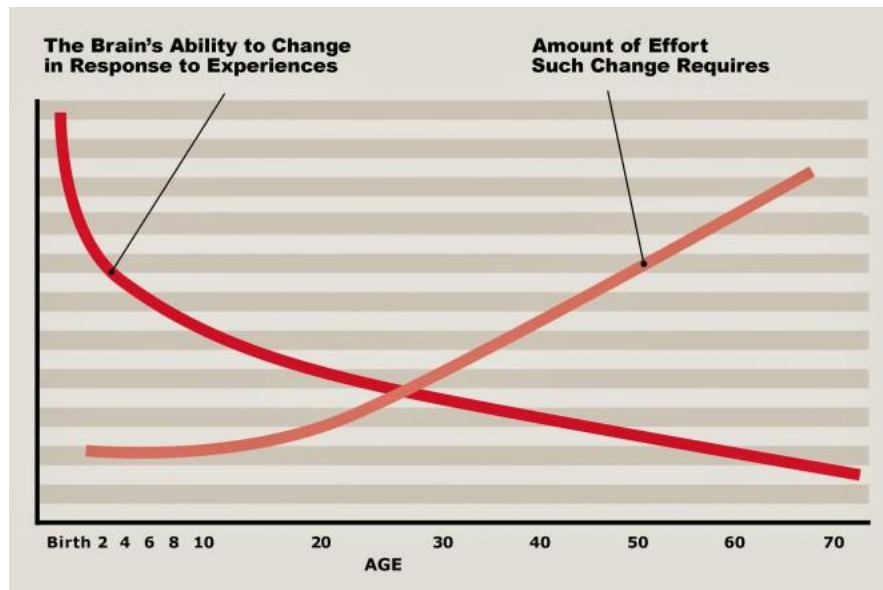
The development of a young child's brain is not only influenced by a child's genetics, which serve as the "blueprints" for a child's development, but also by a child's relationships, experiences, and environment.⁵⁴ These non-genetic factors can either play a positive, supporting role in a child's early brain development or, if a child had adverse early childhood experiences, a negative impact on early brain development which can lead to the brain developing not as expected.

An example of how these factors can contribute to healthy brain development is through a process called "serve and return." Serve and return refers to interactions between a caregiver and a young child; he caregiver gives a cue and the young child responds. For example, if a caregiver plays peekaboo with a young child, the caregiver will often hold up his or her hands to hide and then move them away to reveal her or his face while saying, "peekaboo," (the serve) and the young child will react to being able to see the caregiver's face again (the return). Through this serve and return interaction, the young child's neural connections are strengthened; strong neural connections lead to a strong foundation for healthy development.

However, not all children are exposed to positive environments, relationships, or experiences early in life. The absence of positive relationships, experiences, and a nurturing environment can result in a young child experiencing prolonged, negative stress. Although some stress is a part of healthy development, prolonged and consistent stress such as neglect or abuse, often referred to as "toxic stress," can have an adverse effect on a child's healthy development. According to the Center on the Developing Child at Harvard University, "just as a weak foundation compromises the quality and strength of a house, adverse experiences early in life can impair brain architecture, with negative effects lasting into adulthood."⁵⁵ Additionally, the Adverse Childhood Experiences (ACE) study, a national study of the impact of negative (adverse) early childhood experiences, cites adverse childhood experiences have long-term associations with adult risk behaviors, health status, and diseases.⁵⁶

While children with limited quality early experiences or who experience prolonged toxic stress are often able to overcome developmental or health challenges later in life given the right supports, it is often more expensive and difficult to overcome these barriers later in life than ensure access to positive early environments, experiences, and relationships. The graph below, developed by Pat Levitt (2009), demonstrates the incredible opportunity present in the earliest years of a child's life to overcome adverse experiences.⁵⁷ As noted by the graph's author, "it is easier and less costly to form strong brain circuits during the early years than it is to intervene or "fix" them later."⁵⁸

Graph 1. Interaction Between Age and Brain Responses



Research has also shown when young children have access to at least one responsive and supportive relationship with a trusted, caring adult early in life, whether it be a parent, grandparent, child care provider, or other caregiver, the supportive relationship can help to mitigate some of the negative developmental impacts of other adverse experiences. Therefore, it is critical young children have access to supportive, nurturing relationships, experiences, and environments to support healthy development.

The focus on high-quality is essential when discussing investments in early care and learning. Over the past two decades, there has been a growing focus on the importance of quality in early care and learning programs. An important step forward in this process has been the development and implementation of quality recognition and improvement systems (QRIS) for early care and learning programs. QRIS are considered to be a national best practice and are designed to support providers in increasing the quality of their programs. They provide a framework for developing quality early care and learning opportunities for young children, and allow states to provide families and policy makers with information behind a state's early care and learning programs (such as the number of programs with a given quality designation, the metrics used to assess quality, etc.). Vermont is one of 42 states plus the District of Columbia that utilize a statewide or county/regional QRIS for early care and learning programs. In Vermont, the state's QRIS is known as STARS, which stands for STep Ahead Recognition System⁵⁹. STARS is a voluntary program in which providers can receive a quality designation ranging from 1-Star to 5-Stars, with 5-Stars being the highest quality designation. In addition to participating in STARS, early care and learning programs may also choose to seek accreditation from national organizations such as the National Association for the Education of Young Children (NAEYC) or the National Association for Family Child Care (NAFCC). Accreditation from these national organizations is widely viewed as being an indicator of high level of quality, and the assessments used for the national accreditation process for the two aforementioned organizations go above and beyond the assessments used for most states' QRIS. The following section details the Commission's definition of high-quality care, which is a guiding principle for this report. The Commission's definition is based on the expertise of Commissioners on this topic, research, and consultation with national experts.

B. Defining High Quality Early Care and Learning

The Commission prepared a definition of high quality early care and learning programs synthesized from the Vermont STARS system, a national best practices framework and the state's Quality Rating and Improvement System (QRIS), the national standards set by the National Association for the Education of Young Children (NAEYC), the National Association for Family Child Care (NAFCC), and Federal Head Start Monitoring Protocol. The definition includes the elements inherent in all high-quality child care programs.

Definition of High Quality Early Care and Learning Program

High-quality early childhood programs in Vermont strive to realize the promise of each child. These programs focus on: Child Health and Safety; Early Care, Education and Child Development; Family and Community Engagement; and Leadership and Management Systems. These programs seek to move up the quality continuum in STARS and to achieve high quality standards as indicated by 5 STARS, Accreditation and/or Federal Head Start Monitoring.

1. Child Health & Safety

- a. Screening and referrals: health, sensory, developmental and behavioral
- b. Environmental health & safety
- c. Food & nutrition
- d. Assuring child and family access to health and dental care
- e. Healthy practices and routines
- f. Appropriate group sizes, ratios and supervision
- g. Safe transportation

2. Early Care, Education and Child Development

- a. Relationships and teaching practices
- b. Curriculum and assessment
- c. Individualization
- d. Services for children with special needs
- e. Cultural and linguistic responsiveness
- f. Transitions and school readiness

3. Family and Community Engagement

- a. Family stability and well-being
- b. Partnerships with families
- c. Parent-Child relationships
- d. Parents as their child's educators
- e. Community partnerships

4. Leadership and management systems

- a. Governance, mission and vision
- b. Fiscal stability and integrity
- c. Human resources
 - i. Credentials, training, professional development
 - ii. Compensation and benefits

- iii. Supervision, evaluation and leadership development
- iv. Practice-based coaching
- d. Facilities, materials and equipment
- e. Equity, access and inclusionary practices
- f. Enrollment systems and practices

C. The Cost of High Quality Child Care

The Commission approximated the “true cost of care” by estimating the costs associated with running a high quality child care program⁶⁰ National research and Vermont provider feedback submitted to the Commission suggests that child care providers often operate at a loss or, for smaller centers and home-based programs, directors and owners operate without a pay check. The cause is largely due to providers’ focus on the reimbursement rate from the government. The “iron triangle” of early care and learning program financing highlights the importance of all three factors: full enrollment, revenues cover per-child cost, and full fee collection.⁶¹

Recognizing the importance of the “true cost of care,” the Commission estimated the budgetary line item expenses associated with operating a program that met the standards of the high-quality child care framework established by the Commission. The true cost of care assists in demonstrating the current investment gap for high quality care for the state. For the purposes of the Commission’s exercise, the models outlined cost for an average sized center and home-based child care program in the state (34 and 9 children enrolled, respectively). Stakeholder feedback indicated that Vermonters, especially in rural communities, prefer smaller child care options to large center-based or school-based programs. Though in some of the most rural communities, school-based programs are the only form of regulated care available.

Commission’s Cost of High Quality Care Calculations

The Commission modeled the cost of operating their high-quality early care and learning framework to estimate the total cost of providing equal access to voluntary, high-quality, early care and learning for all Vermont children, ages birth to five. Line item expenses for the operation of a high-quality program are included below for both center-based and home-based programs. To increase the number of high-quality programs, many early care and learning system supports would also need to be brought to scale. The transitional, systematic changes and the estimated costs and benefits to supporting high-quality care are also detailed below.

The following chart summarizes estimated annual operating costs by operating expense type for a center-based and home-based program, each serving the average number of children by program type (34 and 9 respectively). Note that the programs modeled are for full-time care which is typically from 8:00am-4:00pm. The Vermont Child Development Division defines full time daily hours as 6-10 hours.⁶²

For a detailed description of the cost of quality methodology and line-item assumptions, please see **Appendix B. Cost of Quality Methodology.**

Table 2. Line Item Budget for the True Cost of High Quality Child Care

EXPENSES	CENTER-BASED	HOME-BASED
Gross Salaries		
Infant Staff (2.5 FTE Center, 0 Home)	\$97,760.00	n/a
Toddler Staff (2.5 FTE center, 0 Home)	\$97,760.00	n/a
Preschool Staff (2.5 FTE Center, Pre-K Consulting Teacher 4hrs/wk home)	\$116,480.00	\$4,795.20
Center Staff (4 FTE center, Provider's Salary home)	\$112,736.00	\$56,160.00
Center Staff (regular sub home)		\$3,328.00
Staff: Comprehensive Services Early Care Advocate (1 FTE center, .25 FTE Home)	\$42,203.20	\$10,550.80
Taxes, Fees, and Employee Benefits		
Federal Tax Liability	\$32,492.30	n/a
Healthcare	\$87,281.86	\$8,400.00
Workers Comp	\$6,770.62	\$256.05
Retirement Contribution	\$28,360.80	\$1,684.80
Reduced tuition for employee children	\$21,320.00	n/a
Staff wellness activities	\$1,800.00	n/a
Training & Professional Development	\$13,121.50	\$2,282.00
Travel	\$2,520.00	\$1,992.00
Rent	\$43,350.00	n/a
Telephone + Internet	\$1,847.87	\$1,380.00
Utilities & Services	\$12,600.00	\$3,600.00
Cleaning and Maintenance Fees	\$9,996.00	\$300.00
Repairs to program-owned equipment	\$3,600.00	\$600.00
Contribution to Capital Expense Fund	\$6,557.73	\$3,250.08
Advertising + Hiring Ads	\$2,520.00	n/a
Accounting & legal	\$3,000.00	\$250.00
Liability Insurance	\$6,996.00	\$864.00
Debt Service	\$6,000.00	\$5,400.00
Food and Supplies	\$54,330.00	\$12,228.00
Office Supplies & Equipment	\$3,000.00	\$300.00
Educational supplies & equipment	\$10,200.00	\$1,800.00
Allowance for bad debt and vacancy	\$19,016.88	\$3,250.08
Comprehensive Services	\$6,224.53	\$1,098.45
Miscellaneous expenses	\$3,000.00	\$600.00
TOTAL EXPENSES	\$852,845.28	\$124,369.46

Cost of High Quality Care Statewide

The Commission model produced the total cost of care for both a center-based and home-based Commission-defined high-quality program. To determine a cost per child, the total cost was proportionally divided into the age groups and number of children served by program type. The Commission's cost per

child to provide high quality care to infants, toddlers, and preschoolers ranges from \$13,879 to \$41,639 per year.

Table 3. Total BRC-Estimated Cost per Child

Age Groups	Center-Based Cost Per Child	Home-Based Cost Per Child
Infant	\$ 35,535.22	\$ 41,639.56
Toddler	\$ 35,535.22	\$ 20,819.78
Preschool	\$ 15,793.43	\$ 13,879.85

The cost per child by age group was then multiplied by perceived demand by each age group and type of care, resulting in the total cost of providing high-quality care to all children from birth to five in Vermont. The Commission provides three models of demand for child care, which summarize total costs to serve all children from birth to five in Vermont.

Cost of care for all Vermont children ages birth to five⁶³

Cost Demand #1 All Children (100%, 36,607 children) = **\$849,254,369**

Cost Demand #2 Children with both Parents in the workforce (70.4%⁶⁴, 25,771) = **\$597,875,076**

Cost Demand #3 Perceived demand of non-relative care (roughly 24.7%⁶⁵, 15,133) = **\$ 366,406,397**

Given current state and federal contributions and estimated family contributions (based on the Commission’s sliding fee scale), the above costs are distributed between families and the state in the following way:

Figure 1: The Cost of Providing High Quality Care to Vermont Children Birth to Five Using the Commission’s Model of High Quality, Affordable Early Care and Learning

Demand	Number of Children	Cost of High Quality	Current State Investments	Estimated Family Contribution*	Estimated Additional Investment Needed
24.7%	15,133	\$366,406,397	\$129,979,869	\$91,845,731	\$144,580,797
70.4%	25,771	\$597,875,076	\$129,979,869	\$261,778,925	\$206,116,282
100%	36,607	\$849,254,369	\$129,979,869	\$371,845,064	\$347,429,436

* Please see the Cost of Care section and **Appendix G. Analysis of Parental Contribution** for more details.

For a detailed description of the cost of quality methodology including the cost per child for each provider type in each demand model please see **Appendix B. Cost of Quality Methodology**.

Other Transitional Systematic Investment

The Commission recommends additional analysis to more effectively administer existing publicly funded programs that provide wrap-around services for children from birth to age five. Many services today are not fully provided by the existing system and thus costs of wrap-around services are passed to child care providers. Maximizing current programs outside of the early care and learning system can help to relieve

the financial stress of providing services in child care programs. Maximizing current programs could result in cost savings or cost shifting, both allow programs to focus resources towards early learning and care. These wrap-around services include:

- Provision of high quality child health related services including dental health, health screenings, mental health services
- Supportive services for families with special needs including early intervention and home visiting⁶⁶
- Supportive services for low-income families including but not limited to referrals, support with applications for child health insurance, temporary assistance for needy families (TANF), supplemental nutritional assistance program (SNAP), and the child care financial assistance program (CCFAP)

Below are a few programs and initiatives currently supporting child care providers in Vermont. Increased investments to scale-up the programs could significantly move the needle on increasing the supply of high-quality early care and learning programs.

- Higher-education degree programs
- Higher-education professional development and training programs
- Vermont Department of Children and Families-supported technical assistance and training services to providers
- Support for the increased use of the Child Care Financial Assistance Program (CCFAP) and Child and Adult Care Food Program (CACFP)
- Agency of Education (AOE) support related to licensure

The Commission recognizes the important role of existing organizations that support Vermont's early care and learning system and supports continuous quality system improvement toward a more coordinated and efficient system of delivery. The Commission also notes that increased investments in existing programs also creates increased demand on the administrators of the programs. Administrative costs should be assessed as part of any increased investment in direct services programs.

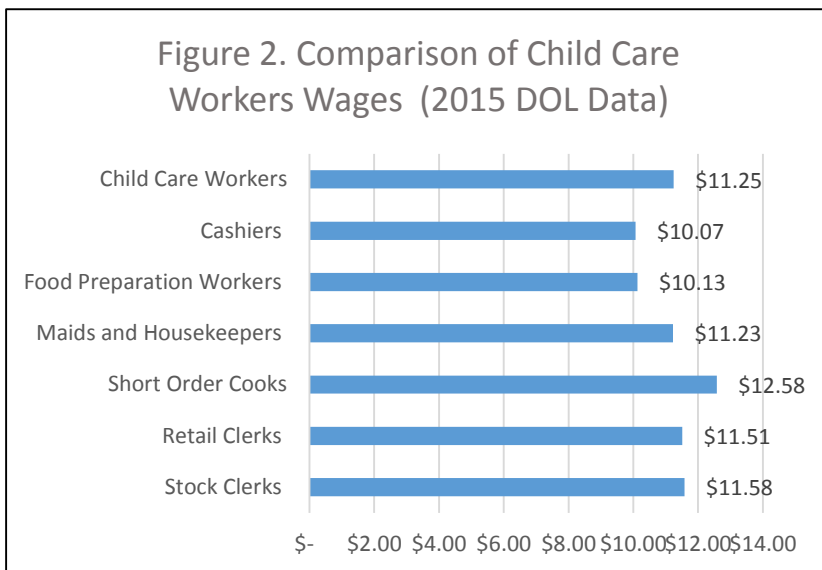
Early Care and Learning Workforce

As evidenced in Table 2, the number one cost driver for high-quality programs identified by the Commission are wages and benefits for the early care and learning workforce (program staff). The Commission's costs raise program director and lead licensed teacher salaries to Vermont's State Fiscal Year (SFY) 2015 Public School average teacher and teacher aide salaries (see full comparison of pay charts in **Appendix B. Cost of Quality Methodology**).

Studies show the number one reason child care educators leave are low wages. A recent workforce study conducted in the state found wages in home-based and center based programs along with afterschool licensed centers are lower than wages in public school settings. Some of the disparity is due to the level of education and qualifications, but even for similarly qualified teachers, the pay is significantly lower for early childhood professional as compared to kindergarten teachers in the K-12 system. Achieving high quality means increasing education and training for the entire early care and learning workforce. Additionally, "low wages and few benefits are the top reasons why individuals might leave the field of early care and education and afterschool care."⁶⁷ In Vermont, the median hourly wage for child care providers at licensed centers is \$11.25. Hourly wages typically start at \$9.37 and can range up to \$16.01.⁶⁸ With child care workers' wages very low, many educators are unable to afford child care themselves. Note

that wages for early childhood assistance and home-based care professionals are often similar or lower than center-based programs. Figure 2 below represents comparative compensation data across similarly paid fields.⁶⁹

Furthermore, sub-standard wages contribute to the issue that the child care industry has not yet become “professionalized.” In some cases, child care providers themselves, who are paid similarly to retail clerks and maids and housekeepers, do not recognize their role as a professional. This perception, along with lack of available resources, training, and professional development can also lead to inefficient business practices, further frustrating the field and creating challenges in elevating the work as a profession.



In addition, many working families require non-traditional hours of care i.e. before and after work and options for programs serving children with special needs. These child care services represent some of the unmet needs across the state of Vermont and are issues which compound the challenge of both access and affordability.

Shared Services

Much like other service industries and the public school system, the child care industry has employed a number of best practices to increase efficiency through shared resources by achieving economies of scale. Shared Services is a community or statewide partnership model which can be comprised of center and home-based providers working together to share costs and deliver services. The model requires directors of programs (small businesses) to pay into a “hub,” either the state, community organization or another large child care provider or provider network⁷⁰. The model looks different across the country and even within states. Some models show shared services cost savings are between 20-26 percent.⁷¹ Shared service models enable program funds to be reinvested in teaching and learning.

The Commission recommends an investment in the infrastructure and administration of shared services for child care providers starting with administrative services including cleaning and maintenance fees, advertising and hiring ads, accounting and legal, office supplies and equipment. For the average center-based program, the modeled shared services approach by the Commission offers 20 percent savings, equaling \$3,700 per provider (from a total cost of \$18,516). Administrative services are likely components of child care operations that garner provider buy-in. Food services and substitute pools are also popular areas of shared services nationally.

Currently, Vermont Birth to Five (VB5) has taken on the task of exploring the shared services model and is working toward launching the development effort at a broader scale (<http://www.sharedservicesvt.org/default.aspx>). VB5 piloted a shared services model in the state with

an investment from the Permanent Fund, however, initial pilot results did not yield significant results. Further investments in building the infrastructure/ “hub” is needed to execute the model effectively to provides cost savings to early learning programs and ultimately the state.

Comprehensive Services

Comprehensive services are services to children and families that serve the whole child. These services include comprehensive health and developmental screenings, health care referrals, and follow-up; special services for children with disabilities; nutritious meals; vision and hearing tests; and immunizations.⁷² In addition, comprehensive services provide a two-generation approach by engaging families with onsite family caseworker supports and the inclusion of home visits, as needed.

An Early Care Advocate provides direct services for children and families via home visits and social service contacts. Services include: coordination of child health, sensory, developmental and behavioral services; family engagement and social service support; support for children with special needs and their families; and support around post-partum, infant/toddler, preschool and kindergarten transitions. The Commission’s high quality child care budget includes an Early Care Advocate, or components of the role, as needed for the population served. The following job description of a Head Start Early Care Advocate, modified for the purposes of this project, provides a description of the role:

Service provision / data management

- Plan, schedule and provide home visits or social service contacts that address the individual needs of children and families.
- Maintain child and family records (electronic and paper-based data) with documentation for each enrolled child/family.

Health, developmental and behavioral services

- Conduct health, sensory, behavioral and developmental screenings for children, and make referrals for needed services as appropriate, including coordination with mental health and nutrition service providers.
- Assist children and families in connecting to health services and establishing and maintaining a medical home and dental home for each child.
- Ensure that children are up-to-date on physical and dental exams, and receive any follow-up treatment needed for identified or suspected health issues. Document and maintain child health plans.
- Assist families when necessary in the arrangement and transportation for children’s medical or dental appointments, including designated follow-up appointments.

Family Engagement and Social Service Support

- Provide family engagement opportunities for parents to become directly involved in the development of their children, and in the services provided to their children.
- Assist families in identifying family resources and needs, provide resources and referrals to families in response to social service needs, and assist parents in accessing and utilizing community resources.
- Assist families in a collaborative process of setting and achieving goals based on identified strengths and needs.
- Attend meetings with collaborating agencies to assure coordination of social service supports, and participate in case management / family support meetings as needed.

Special Needs and Transition Service Support

- Assist in identifying special needs and attend meetings with collaborating agencies to support children with special needs and their families.

- Maintain contacts with special education service providers for support and follow up for children with special needs and those on IEPs / IFSPs.
- Collaborate with school and child care organizations to support transitions for children and families.

Transportation

Another major barrier identified by parents for accessing high quality child care is the lack of transportation. The Commission estimated the cost of transportation using data from a collaborative transportation model for children birth to five under development by Champlain Valley Head Start and Addison County Parent Child Center. Due to the difficulty of estimating the demand or actual “take up” rate for transportation services, and the cost of an efficient system of transportation across a region, the Commission did not include the cost in the line-item budget. The Commission recognizes the need for comprehensive study of transportation services for child care in Vermont.

Table 3. Line Item Costs Estimates of Child Care Transportation

Line Item	Cost
Start-Up Costs	
Amortized cost of (1) 21-passenger Multi-Function School Activity Buses (MFSAB)(over 7 year lifespan) (total cost \$61,000)	\$8,714
Bus Driver CDL Training & Test (2 drivers)	\$6,050
Head Start Bus Monitor and Bus Driver Transportation Training (2 drivers, 4 monitors) \$30 per trainee	\$180
On-Going Operational Costs	
<u>Bus Drivers: Salary & Fringe</u>	
(2) .5 FTE – 20 hours/week at 52 weeks	\$59,122
<u>Bus Monitors: Salary & Fringe</u>	
(4) .5 FTE – 20 hours/week at 52 weeks	\$88,478
<u>Administration Costs: Calculated at \$32/hour</u>	
15 hours/week at 52 weeks	\$24,960
<u>Projected MFSAB Operational Costs:</u>	
Fuel, registrations, insurance, maintenance, inspections	\$31,143
Total Annual On-Going Cost	\$ 203,703
Total On-Going cost per child for a 34 child center-based program	\$ 5,991

Act 166 Preschool

As referenced earlier in this report, the supply of early care and learning programs within the state is low. Prior to Act 166, some preschool was offered through Title 1, Head Start, and Act 62. Act 166 expanded this by offering universal tuition payments, essentially expanding public, part-time, high-quality preschool offerings for all children 3-5 in the state (10 hours per week for 35 weeks annually). Act 166 translates to a public investment of \$3,092⁷³ per child for the current fiscal year, plus costs to districts for administration and costs to the state agencies for support and oversight. The Commission both acknowledges and emphasizes that investment and focus only on early learning for three to five year olds

has the potential to overshadow the equally critical needs of children birth to three and expanding their access to early learning programs.

The mixed delivery system for early care and learning programs (public and private programs) is one of the primary vehicles states use to increase access and maintain parent choice in early care and learning (birth to five).⁷⁴ Future conversations around this issue need to carefully consider the trade-off between parental choice and affordability.

D. Affordability

After establishing the cost of high quality early care and learning programs, the Commission sought to determine what is affordable for Vermont families. Measuring the affordability of high quality early care and learning programs allowed the Commission to further identify the gap in Vermont's investments. The Commission found the national common metric for affordability a family should spend is no more than 10 percent of its income on child care.⁷⁵

Affordability in Vermont

The Commission was charged with analyzing affordability, examining current policies in Vermont's Child Care Financial Assistance Program (CCFAP). The CCFAP is the state's child care subsidy program that is guided by the Federal Child Care Development Block Grant (CCDBG) the primary source of funding nationally to support low-income working families fund and improve the quality of child care. Funding for CCFAP includes the Child Care Development Fund (from the CCDBG), the state CCDBG match, the Temporary Assistance for Needy Families (TANF Block Grant), and additional general fund appropriations determined by the state. The Commission conducted analysis of affordability to recommend changes to maximize the use of CCFAP to support affordable access to high quality, early care and learning for eligible families.

The current child care subsidy program in Vermont provides eligible families with a percent of the subsidy rate, established as a percentage of the current market rate and adjusted based on level of quality of the program, to families based on a sliding fee scale. Federal guidance from the U.S. Department of Health and Human Services recommends states establish rates that allow assisted families access to at least the 75th percentile of the child care market. Vermont's rates fell short of this guidance; rates ranged between 24.9 and 48.6 percentile of the center-based market rates and between 27.8 and 54.7 percentile of home-based market rates for 4 and 5 STAR rated programs.⁷⁶ Base rates (for non-rated programs) fall even shorter of the 75th percentile benchmark and are as low as meeting only the 1.08 percentile for infant care in full-time licensed centers in the most populous geographic region.⁷⁷

Regardless of the CCFAP subsidy program, in Vermont, families pay 25 to 53 percent of their median income to access early care and learning programs, based on child care cost from the 2014 market rate survey. The "Parents and The High Cost of Child Care 2015 Report" from Child Care Aware⁷⁸ ranked all 50 states on affordability. **Vermont ranked 13th on the list for having the least affordable center-based infant care. Vermont ranked 3rd on the list for having the least affordable center-based four-year-old care.**⁷⁹ The same Child Care Aware report found that in Vermont, single parents pay 86 percent of their income to send two children to full-time center-based care and married families at the poverty line with two children pay 88 percent of their income for child care. The annual cost of child care for an infant and a four-year-old in a center is \$21,240.⁸⁰

Current Vermont Investments

Today, public investments in early care and learning in Vermont and nationally come from a mix of federal and state funding sources. The following table provides a breakdown of major national programs administered in Vermont. The data summarized is from an October 2016 state/territory profile of Vermont’s early care and learning program, aggregated by the U.S. Department of Health and Human Services, Administration for Children and Families, Office of Child Care. The data indicate **approximately \$130 million are spent annually in Vermont on early care and learning, leaving a gap of between \$283-766 million in investments which ensure equal access to high-quality child care statewide.**

Table 4. Major Public Funding Sources for Vermont’s Current Early Care and Learning System (Combination of Federal and State Funding)

Funding	Description	Amount
Child Care and Development Fund (CCDF) Discretionary (includes TANF transfer)	Child Care Subsidy Program, in Vermont the Child Care Financial Assistance Program (CCFAP), Administered by the Agency of Human Services (AHS)	\$16,097,815
Child Care and Development Fund (CCDF) Mandatory Match		8,639,924
Title IV-E (Child Welfare)		\$4,200,000
Title IV-B (Child Welfare)		\$783,847
Social Services Block Grant Program		\$398,428
General Funds		\$17,220,750
Temporary Assistance for Needy Families (TANF) for Child Care*	TANF – Direct Expenditure on Child Care, Current Spent on Transportation, Administered by the Agency of Human Services (AHS)	\$1,201,008
Child and Adult Care Food Program (CACFP)	For participating Center, Home-Based and Pre-K school-based programs	\$5,560,000
Head Start	Vermont Head Start Grantees. Includes both Head Start and Early Head Start programs	\$17,229,159
IDEA Part C*	Ages Birth to age 3, Administered by the Agency of Human Services	\$2,148,938
Prekindergarten Special Education ⁸¹	Administered by the Agency of Education (AOE)	\$24,100,000
Prekindergarten General Education	Co-administered by AOE and AHS	\$32,400,000
Parent Tuition Payments	Family Fees	Undefined
TOTAL		\$129,979,869

*All data presented is from Fiscal Year 2016 with the exception of TANF and IDEA Part C which are from Fiscal Year 2014 and CACFP from February 2015

Please see **Appendix E. State/Territory Profile: Vermont Early Care and Education** for a copy of the full report and sources.

The Commission recognizes the estimate is not a comprehensive picture of all investments and programs in the state. In addition to public investments, the primary source of funding for the system comes from

families, who not only pay taxes but also pay tuition for early care and learning programs. Even in the case of families receiving child care subsidy through CCFAP, programs often charge the difference between the subsidy and full tuition rates, a practice called “balanced billing. Early care and learning programs also contribute financial resources to the system, by not charging subsidy copayment (or by lowering it), through scholarships, or by working with families to determine affordable payments. While the Commission was unable to capture the total investments from families through tuition, and of providers through absorbing costs and discount practices, there is some available information about the cost burden shared by families and providers. According to the 2015 report, “How Are Vermont’s Young Children and Families?” families with young children who earn between 200 percent of the 2014 FPL and the state’s 2014 median family income spend 28-40 percent of their income on child care and early learning.⁸² Some information has been collected regarding the cost burden shared by providers too.

Due to the scope and timeframe of the work, the Commission was unable to complete a full review of all funding sources for the state’s early care and learning system. The total spending estimate does not include critical programs and grants that also support health related services (SCHIP), mental health services, other wrap around social services supporting support whole families, home-visiting and others. It also does not include Vermont’s federal Race to the Top Early Learning Challenge Grant for \$36.9 million, awarded in 2013 to help build a high-quality and accessible early childhood system in the state.⁸³ **The Commission recommends a comprehensive examination of the early childhood system and related programs which includes a review of all public funding dedicated to families and children birth to 5. A detailed study of total spending coupled with the provision of services should result in the identification of opportunities for system-wide efficiencies and cost savings.**

[Analysis of Affordability of High Quality Child Care](#)

The Commission created a model for a new sliding fee scale for the state’s Child Care Financial Assistance Program (CCFAP), raising the bar for the standard for accessible affordable high quality care. In keeping with the methodology used to determine cost, the Commission determined affordability assuming no changes to the current system of delivery. The new recommendation sliding fee scale would:

- i. Set a 100 percent subsidy “floor” at the Vermont Basic Needs Budget without including the child care line item (floor defined as the basic income threshold where a family would qualify for 100 percent subsidy).**
- ii. Raise income eligibility and percent of subsidy gradually so a “cliff effect” does not occur—where a family’s incremental increase in income would cause an unaffordable decrease in subsidy.**
- iii. Scale the cap or “ceiling” of eligibility at three times the floor (the basic needs budget without childcare).**

The Commission’s recommended model reflects high-quality early care and learning is not affordable for about 89 percent of Vermont families.⁸⁴

[Affordability Calculations](#)

The following section summarizes the Commission’s calculations and rationale for the recommended revisions to the sliding fee scale. For a detailed description of the affordability methodology, please see ***Appendix C. Affordability Methodology.***

The Commission assumes that the new sliding fee scale at 100 percent benefit rate would cover the full cost of child care. Today, the CCFAP rates, which vary depending on the quality level of the program families choose, do not cover the full cost of care even at 100 percent benefit rates. The rates fall below the 75th percentile (the national benchmark for child care subsidy rates) for the high quality (4 and 5 STAR) programs and below the 5th percentile for the base rate (programs not participating or low STAR rating in the QRIS).⁸⁵

i. Set a 100% subsidy “floor” at the Vermont Basic Needs Budget without including the child care line item (\$59,661)

To calculate the parameters for a sliding fee scale for CCFAP that would be affordable for Vermont families, the Commission analyzed the Vermont basic needs budget.⁸⁶ Considering the line items costs that were part of the Basic Needs Budget, the Commission decided to set a subsidy “floor” at the current Basic Needs Budget without the child care cost line item. The eligibility scale “floor” for 100% subsidy-covering 100% of the actual cost of child care (not today’s CCFAP rates)- would be provided for families with an annual income of \$59,661 or less (Basic Needs Budget without Child Care for an urban family of three).⁸⁷ In other words, setting the “floor” at the basic needs budget without child care means that a family of three making \$59,661 or less, could cover all of the family’s basic needs with the assistance of the CCFAP child care subsidy.

Table 5. A. Vermont 2014 Basic Needs Budget without Child Care⁸⁸

Line Item		Annual Cost
Annual Basic Needs Budget	\$	74,757
Annual Child Care Cost	\$	15,096
Annual Basic Needs budget without child care	\$	59,661

Table 5. B. Vermont 2014 Basic Needs Budget without Child Care – Monthly and Annual Line Items

Line Item	Monthly Cost	Annual Cost ⁸⁹
Housing	\$1,328	\$15,936
Food	\$739	\$8,868
Transportation	\$499	\$5,998
Health Care	\$555	\$6,660
Personal & Household Expenses	\$534	\$6,408
Insurance & Savings	\$305	\$3,660
Taxes	\$1,012	\$12,144

Recall that in the Commission’s modeling exercise, the cost for full time high quality early care and learning programs were estimated to be as follows. The Vermont Basic Needs Budget estimates that monthly child care costs total \$1,258, and \$15,396 annually, significantly below the cost per child calculated in the Commission’s cost of high quality affordable early care and learning programs.

Table 6. Commission’s Cost of High Quality Child Care by Age Group

Age groups	Center Cost Per Child	Home-Based Cost Per Child
Infant	\$ 35,535.22	\$ 41,639.56
Toddler	\$ 35,535.22	\$ 20,819.78
Preschool	\$ 15,793.43	\$ 13,879.85

ii. Raise income eligibility and percent of subsidy gradually so that a “cliff effect” does not occur.

The design of the current CCFAP eligibility scale, creates a “cliff effect” in two ways:

1. Cliff effect due to percent of benefit scale: Currently, at the 95 percent of benefit (subsidy) level in which CCFAP pays 95 percent of the subsidy rate, the percent of benefit drops from an incremental decrease of 1 percent to more than 5 percent when family income is \$24,168.

% of Benefit	Incremental Decrease in Benefit	Income	Incremental Increase in Income
100%	n/a	\$ 20,160.00	3.9%
99%	-1.0%	\$ 20,940.00	2.5%
98%	-1.0%	\$ 21,456.00	2.5%
97%	-1.0%	\$ 21,996.00	2.3%
96%	-1.0%	\$ 22,512.00	3.1%
95%	-1.0%	\$ 23,208.00	4.1%
90%	-5.3%	\$ 24,168.00	4.0%
85%	-5.6%	\$ 25,140.00	4.1%
80%	-5.9%	\$ 26,172.00	4.1%

The inconsistent incremental decrease in benefit is also seen in the current scale’s increase in income. The 5.3 percent decrease in subsidy makes it difficult for families making between \$23,208 and \$24,168 because the difference creates a “cliff” where a 4.1 percent increase in income means a much lower benefit amount. The “cliff effect” is known as the drop off of assistance to families. The drop off creates a disincentive for those families making \$23,207 to increase income up to \$24,168 because the small increase in income create a large loss in subsidy payment. CDD indicated that parents often report that the decrease in subsidy is equal to or more than the increase in income.

2. The CDD also reported another “cliff” occurs around the 45% of subsidy mark in which the incremental increase in income reduces the percent of subsidy received to the point where it is not beneficial to increase income (i.e., earning more money would cause a family’s child care costs to increase).

Table 8. Current CCFAP “Cliff Effect” Part 2

% of Benefit	Incremental Decrease in Benefit	Income	Incremental Increase in Income
50%	-9.1%	\$ 32,472.00	3.3%
45%	-10.0%	\$ 33,516.00	3.2%
40%	-11.1%	\$ 34,572.00	3.2%
35%	-12.5%	\$ 35,640.00	3.1%
30%	-14.3%	\$ 36,660.00	2.9%
25%	-16.7%	\$ 37,704.00	2.8%

The Commission recommends a sliding fee scale that endeavors to avoid the “cliff effect” by more closely aligning the rates at which subsidy decreases and income eligibility increases. The recommended sliding fee scale incrementally scales down the percent of benefit at a steady rate as the income level increases at a steady rate; in the Commission’s model, the subsidy payment percentage decreases by 2% while income eligibility increases incrementally by 1.8%. In other words, for every 1.8% increase in income, a family’s subsidy payment only decreases by 2%.

Table 9. Recommended Fee Scale (to avoid "Cliff Effect")

% of Benefit	Incremental Decrease in Benefit	Income	Incremental Increase in Income
100%	n/a	\$ 59,661.00	2.0%
98%	-1.8%	\$ 60,854.22	2.0%
96%	-1.8%	\$ 62,071.30	2.0%
95%	-1.8%	\$ 63,312.73	2.0%
93%	-1.8%	\$ 64,578.99	2.0%
91%	-1.8%	\$ 65,870.56	2.0%
89%	-1.8%	\$ 67,187.98	2.0%
87%	-1.8%	\$ 68,531.74	2.0%
86%	-1.8%	\$ 69,902.37	2.0%
84%	-1.8%	\$ 71,300.42	2.0%
82%	-1.8%	\$ 72,726.43	2.0%
80%	-1.8%	\$ 74,180.95	2.0%

iii. Scale the cap or “ceiling” of eligibility at three times the floor (\$178,983)

The Commission recommends a ceiling at three times the floor (the basic needs budget without childcare), \$178,983. This income accounts for approximately 89% of Vermont families. **The Commission’s recommended model reflects that high quality child care is not affordable for about 89% of Vermont families.**⁹⁰

Table 10. Calculating the Sliding Fee Scale “Ceiling”

Basic Needs Budget without Child Care	\$ 59,661
Three Times Basic Needs Budget without Child Care (“ceiling”)	\$ 178,983
% of Families eligible for subsidy (based on income)	89%

The Vermont Child Development Division finds that under the current sliding fee scale, fewer families participate in CCFAP once their income falls below the 50% benefit (where families receive 50% of the rate). Additionally, families have stated that the benefit at 20% or lower is not substantial enough to participate in CCFAP. The goal of the Commission’s incremental increases in income on the sliding fee scale, coupled with the “ceiling” will help to mitigate the “drop-off.” The Commission notes that with the recommended scale, families at the upper incomes levels may still choose to “drop-off” of subsidy. For the full sliding fee scale model please see **Appendix C. Affordability Methodology.**

SECTION THREE: THE COMMISSION'S RECOMMENDATIONS

High quality early care and learning experiences have a significant positive impact on brain development and help lay the foundation for a child's future health, learning and development. Equitable access to high quality affordable early care and learning serves to promote economic development, improve workforce attachment, and combat poverty. Moreover, investments in early childhood have been shown to earn a higher rate of return than investments later in life. **Equitable early care and learning for all Vermont children ages birth to five is the most significant opportunity for the state for making systemic and dynamic improvements that will foster economic development, advance social and community well-being, and provide the greatest positive impact for future generations.**

As outlined by the statute, the Commission's work included three key focus areas: the cost of high quality care, affordability and financing. The Commission defined elements of high quality and determined the provider-level costs associated with achieving high quality. Unfortunately, in the current delivery system, this level of quality would be unaffordable for 90% of Vermont families. Vermont's current system does not have sufficient capacity or resources to meet the needs of young children and their families.

As such, developing and funding an early care and learning system must be a top state priority of the next Gubernatorial Administration and State Legislature. Given the enormous complexities of this area, as well as immediate needs of children and families, this Commission recommends both short term investments and a long-term transformational design of the future of the early childhood system.

I. Recommendation 1: Make Immediate Incremental Investments in High-Quality, Affordable Early Care and Learning

It is the recommendation of the Commission that the state immediately begin to make annual incremental investments to support high-quality, affordable early care and learning. To support the further development of quality and access in the state's early care and learning system, the Commission recommends the following strategies:

- a. To improve financial access and stability, adjust Vermont's Child Care Financial Assistance Program (CCFAP) in the following way:
 - i. Set the 4-STAR Rate at the 75th percentile of 2015 market rates and adjust accordingly the current tiered system methodology which incentivizes quality⁹¹
 - ii. Provide 100% benefit at the 200% Federal Poverty Level (FPL)
 - iii. Provide 50% benefit at the 300% FPL
 - iv. Provide 0% benefit at the 350% FPL

The Vermont Department of Children and Families Child Development Division modeled what these changes would mean. Using U.S. Census data, they estimated that all the families currently eligible for CCFAP would now qualify for 100% of the benefit. An additional 1,000 families with infants, toddlers, and preschoolers would qualify for 100% benefit. An additional 3,920 families with infants, toddlers, and preschoolers and 1,344 families with school-aged children would qualify for between the 99% and 10% benefit level. CCFAP rates would increase from the rates published on Aug 21, 2016 by 27% on average for licensed centers and 16% on average for registered providers. The estimated cost per year for this benefit level is \$90.8 million. The current

budget for CCFAP in State Fiscal Year 2017 is \$47.3 million. An additional \$43.5 million would be needed to fund these changes.

- b. To increase capacity and quality environments, establish a facilities fund to be maintained by the Vermont Community Loan Fund that includes, but is not solely funded by, the Building Bright Futures license plate revenue. Minimal annual allocation should be at least \$3 million to include both grants and loans.
- c. Vermont's early care and learning professionals face a unique set of challenges, including significant disparity between their wages and benefits and those of other education professionals with similar qualifications. To make early care and learning a sustainable profession, providers need compensation that is aligned with their education, skills, and expertise. To support early childhood professionals and strengthen the early childhood workforce:
 - i. Establish a range of "Outstanding Early Childhood Professional" recognitions that are substantial enough to incentivize providers to enter and stay in the workforce;
 - ii. Establish and fund a W.A.G.E.\$[®] program that assures private sector programs can recruit and retain highly qualified staff⁹²;
 - iii. Permanently establish a leadership institute or program to strong, ongoing, committed leaders in the early childhood system;
 - iv. Establish pathways to credentials and licensure:
 - Locally enhanced higher education coursework and accredited opportunities
 - Portfolio development and assessment of prior learning
 - Provider support through mentoring, coaching, teaching and assisting;
 - v. Establish a scholarship fund robust enough to incentivize pursuing a degree in Early Childhood Education. Link this to the T.E.A.C.H.[®] support already in place.⁹³
 - Scholarships for educational advancement toward degree attainment
 - Incentives that promote social and emotional competence and literacy
 - Supports for "relief time" for schooling and coursework.
- d. Educate employers about ways to support employees in affording quality early care and learning programs, such as offering a matching contribution fund that allows employees to dedicate pre-tax dollars to early care and learning programs. Consider developing an "Early Care and Learning for Businesses" handout.

II. Recommendation 2: Design and Implement Vermont's Future Early Care and Learning System for Children Birth – Five

The Commission recommends engaging Vermont's early care and learning stakeholders, including members of Vermont's gubernatorial administration and state legislature, in a design process to develop a comprehensive, inclusive, voluntary, high-quality, affordable early childhood system for all children birth – five. Early care and learning is a complex arena with many stakeholders. It is a cross agency and community issue that involves multiple disciplines including health, mental health, education, child nutrition, special needs services, and social services. Developing a high quality integrated system of early care and learning requires a joint birth to five systems strategy that creates a seamless continuum of high quality early care and learning opportunities across Vermont's early childhood system. While this

Commission addressed pieces of the work, state- and district-level costs related to administration, monitoring, distribution of resources, and staffing were not explored. To meet the needs of all Vermont's children and their families, further conversation and research are needed to fully explore and design a system that considers delivery, funding, governance, and achieving economies of scale. The goal is to determine the totality of available resources and how to better drive them into direct service.

- a. **The Commission recommends that the state's early childhood public/private partnership facilitates a statewide effort to explore and develop recommendations for a comprehensive integrated early care and learning system.** Building Bright Futures (BBF), the State's Early Childhood Advisory Council to the Governor, Administration, and Legislature in Vermont, is well positioned to lead this initiative. Through Act 104, Building Bright Futures has the authority and duty to convene members of the early care and learning community, medical community, education community, and other organizations, as well as state agencies serving young children, to ensure that families receive quality services in the most efficient and cost-effective manner.⁹⁴ Stakeholders in the process should include representation from across the early childhood system. Moreover, to capitalize on substantial shared learning, the process should also include representation from this Blue-Ribbon Commission. The process should begin early in 2017, take place in a timeline that recognizes the urgency of this issue, and conclude in time to deliver proposed legislation to the state legislature no later than January 2019. The Commission recommends appropriating funding for the project, though not in place of the immediate direct service investment needs outlined in Recommendation 1.
- b. **The Commission recommends a comprehensive examination of the early care and learning system and related programs.** The project should aim to develop a future system of integrated early care and learning that maximizes existing resources and provides high quality efficiently and effectively. The Commission recommends that the project focus on the following topics:
 - i. Achieving affordability for families *and for the state*. Consider state- and district-level costs associated with administration, monitoring, distribution of resources and staffing. Also, consider the relationship between delivery costs and economies of scale;
 - ii. Maximizing current wrap-around comprehensive services including healthcare, mental health, services for children with special needs, and families with social service needs;
 - iii. Maximizing available services and professional development to support and retain high quality early childhood professionals;
 - iv. Exploring a shared services model that leverages economies of scale to decrease the cost to providers of providing high quality early care and learning;
 - v. Leveraging transportation services to reduce the barriers for families in need;
 - vi. Exploring the infrastructure and capacity of the K-12 system and other community facilities to increase the supply of high quality preschools.
- c. **Learn from Others:** While this Commission reviewed a substantial amount of information about early care and learning systems around the world, a growing number of states and municipalities offer a range of voluntary, high-quality, affordable early care or early learning systems. The stakeholder group should review analyses of programs and best practices from

across the United States and other applicable areas. There are important lessons to be learned from the successes and failures of others that can inform Vermont's efforts. Please refer to the appendices of this report for an index of resources and references that can serve as a starting point for this work.

- d. **Ensure equity:** The Commission had rich discussions about the need to ensure equity in access and affordability to early care and learning programs. The BRC feels it is important to specifically recommend that any policy or policies that result from the work of the design group are equitable and that they do not create barriers for families to access or afford high-quality early care and learning programs.
- e. **Family and Community Member Engagement in the Design Process:** Based on the experience of this Commission, broad family and community engagement should be incorporated into the design process. It is critical for the thoughts and opinions of all Vermonters to inform this important work.

III. Recommendation 3: Financing Mechanisms

The Commission discussed a range of financing options. Though Commissioners all strongly agree that investments in early care and learning represent the most significant opportunity to greatly impact long-term dynamic and systemic improvements in Vermont's economic development and social and community wellbeing, the BRC fully acknowledges the tension between the need to support Vermont's children and families and the broader economic and budgetary realities of the state. This report includes recommendations for immediate changes that will have a significant and positive impact on the system as it is currently designed. These changes, however, do not achieve equitable access to true high-quality, affordable early care and learning in Vermont. It is the Commission's hope that recommending a comprehensive examination of system improvements, delivery methods, and efficiencies will continue the exploration of how to achieve that very important goal, and pave the way for the implementation of more publicly supported impactful investments down the road.

It is the recommendation of this Commission that the Vermont Legislature review and act on the following list of potential financing mechanisms to support Vermont's early care and learning system.

- a. Reallocation of savings across all state agencies through operational efficiencies
- b. Business and philanthropic community partnerships and incentives
 - i. Public-Private Partnerships
 - ii. Pay for Success
 - iii. Philanthropic Investments
- c. Early care and learning license plates
- d. Endowment funds
- e. Leveraging additional funding from Medicaid through the global commitment waiver
- f. Exploring options for other revenue sources

A more thorough description of the above financing options follows:

- a. *Reallocation of savings across all state agencies through operational efficiencies:* Reallocate saving from operational efficiencies implemented in all state agencies towards early care and learning. Note that operational efficiencies from the Agency of Education and Agency of Human Services would be reallocated to the respective agencies.

- b. *Business and philanthropic community partnerships and incentives:* Forming business partnerships to direct funding into the early childhood system is not an uncommon strategy employed by states in the U.S. Viable strategies take different forms. The key factor in developing strong business community partnerships is to have clear messaging about the return on investing in high quality early care and learning, starting with the direct economic impact on individual businesses. Businesses benefit from the investment through incentives, increased employee productivity (by reducing the child care barrier to work), employee retention and morale, to the macro economic impact of investing in the future workforce and leadership in the state. Seeking major philanthropic funding also can serve as an effective function. Some of the most common examples of successful business community partnerships and incentives in early childhood include:
 - i. Public-Private partnerships have been utilized by multiple states to pull in funding from the private sector by matching state allocations to early care and learning with private funding. Through active engagement of the business community, state leaders can work with business leaders to establish agreements to contribute to the early childhood system with state matched or percentage-matched funding models.
 - ii. The pay for success model, also called “social impact bonds” or “social benefit bonds” are an emerging model for public-private partnerships in the country as an alternative innovation funding mechanism for outcomes-based programs solving social issues facing state or local communities. In the partnership model, a government agency “works with a financing organization where private investors provide up-front funding to help achieve a specific result for a target population—the government only pays if the agreed-upon goal is achieved.⁹⁵” Over 36 states have engaged in pay for success activities, including Vermont;⁹⁶ Common Good Vermont and the Agency of Human Services have received technical assistance from the Harvard University Government Performance Lab to explore the feasibility of projects addressing early childhood to family self-sufficiency.⁹⁷ The legislature’s investment in the start-up, infrastructure and administration costs of an early childhood-based pay for success model could yield significant private investments, government cost savings and improved outcomes for young children.
 - iii. Philanthropic investments: Vermont has the opportunity to support large in-state and national philanthropic interests to invest in the state’s early care and learning system. The most effective philanthropic efforts in early care and learning are supported by multiple sectors including the state, public, private and non-profit. Vermont’s leaders can put pressure on philanthropic organizations through public displays of commitment to early care and learning.

- c. *Early Childhood Education license plates:* Vermont, like many other states,⁹⁸ has a special license plate that raises funds for early care and learning programs. In Vermont’s case, these additional dollars go to the Building Bright Spaces for Bright Future fund, which awards grants for the development, expansion, and renovation of early care and learning facilities in the state.

Currently, the annual additional revenue generated for each license plate holder is \$24.⁹⁹ For additional fundraising out of this mechanism, the state could raise the annual registration fee for the plate or engage in more awareness activities to spread notice and take-up of the license plate.

- d. *Endowment funds*: Through legislative action and subsequent voter referendum, Nebraska passed in 2006 a state constitutional amendment that allowed dedicated education funding to be used for early care and learning programming, which set up an endowment fund as the primary vehicle for administration of relevant funding. This fund constitutionally required an initial \$20 million of private funding to be contributed (which was met in 2011); and saw \$40 million of perpetual school funds from the state also dedicated. Keeping with the nature of an endowment fund, only interest or income from the fund can be spent towards early care and learning programming for at-risk children birth to age five.¹⁰⁰
- e. *Leveraging additional funding from Medicaid through the global commitment waiver*: Vermont has participated in the Medicaid Global Commitment (GC) Waiver since 2006. The waiver allows states flexibility in Federal Medicaid dollars expenditures toward health-related services. The Federal Centers for Medicare & Medicaid Services' (CMS) most recent approval for the 2016 calendar year extension for the global commitment waiver is available online.¹⁰¹

Early care and learning services, especially those with intervention and wraparound services, can potentially fall under this funding stream. Through the waiver, the state must use those Federal funds to decrease the amount that would have otherwise been spent on normal Medicaid expenditures. The GC Waiver must be demonstrably budget neutral ("does not increase federal funding over what would have been spend without the waiver"). The total program savings (documented in the state's 2015 evaluation report) in Federal Fiscal Year (FFY) 2013 were \$131 million, with an aggregate budget neutrality limit of \$1.337 million (the cap) and actual expenditures of \$1.206 million.¹⁰² Therefore there is the potential for a proportion of the \$131 million (in FFY 13) that could be applied to early care and learning programming.

- f. *Exploring options for other revenue sources*. The Commission encourages the Gubernatorial Administration and State Legislature to continue to explore other sources of revenue to support the vital investment in Vermont's early care and learning system.

SECTION FOUR: ENDNOTES

¹ Building Bright Futures, Vermont's Early Childhood Advisory Council. *The Early Childhood Action Plan*
<http://buildingbrightfutures.org/the-early-childhood-action-plan/>

² Agency of Human Services, Department for Children and Families. *STARS Step Ahead Recognition System*
<http://dcf.vermont.gov/childcare/parents/stars>

³ Act 166 Publicly Funded Prekindergarten Education in Vermont (10 hours of prekindergarten for all 3 to 5 year olds)
<http://www.vtpublicprek.info/act-166>

⁴ Building Bright Futures, Vermont's Early Childhood Advisory Council. *VT's Race to the Top- Early Learning Challenge Grant*.
<http://buildingbrightfutures.org/learn-about-vts-race-to-the-top-early-learning-challenge-grant/>

⁵ Center on the Developing Child (2009). *Five Numbers to Remember About Early Childhood Development* (Brief). Retrieved from: www.developingchild.harvard.edu "Neural connections are formed through the interaction of genes and a baby's environment and experiences, especially "serve and return" interaction with adults, or what developmental researchers call contingent reciprocity."

⁶ Ibid. "90-100% chance of development delays when children experience 6-7 risk factors of maltreatment. Significant adversity impairs development in the first three years of life—and the more adversity a child faces, the greater the odds of a developmental delay. Indeed, risk factors such as poverty, caregiver mental illness, child maltreatment, single parent, and low maternal education have a cumulative impact."

⁷ Ibid. "A growing body of evidence now links significant adversity in childhood to increased risk of a range of adult health problems, including diabetes, hypertension, stroke, obesity, and some forms of cancer."

⁸ Ibid. "Three of the most rigorous long-term studies found a range of returns between \$4 and \$9 for every dollar invested in early learning programs for low-income children. Program participants followed into adulthood benefited from increased earnings while the public saw returns in the form of reduced special education, welfare, and crime costs, and increased tax revenues from program participants later in life."

⁹ An act relating to the building bright futures council. No. 104 § C.268 (2010). Building Bright Futures, the Vermont State Early Childhood Advisory Council, is charged with addressing "issues of overlap and fragmentation, program accountability, and equitable access to services across the state, engaged community members, policy-makers, early childhood service providers, and advocates agree that there is a need for a comprehensive and integrated system for all children below the age of six and their families in Vermont who are in need of and desiring such services."

¹⁰ Let's Grow Kids (LGK), Vermont's public awareness and engagement campaign organization focusing on the importance of high quality affordable child care, conducted in-state market research on the most effective term for "child care." Among a number of terms based on national research and state-based focus groups, LGK found that the general public responded most favorably to the terms "early care and learning" as well as "child care" in reference to programs serving children birth to five years old.

¹¹ Center on the Developing Child (2009). *Five Numbers to Remember About Early Childhood Development* (Brief). Retrieved from: www.developingchild.harvard.edu "Three of the most rigorous long-term studies found a range of returns between \$4 and \$9 for every dollar invested in early learning programs for low-income children. Program participants followed into adulthood benefited from increased earnings while the public saw returns in the form of reduced special education, welfare, and crime costs, and increased tax revenues from program participants later in life." It should be noted that this level of return can only be obtained by adhering to highest standards of quality.

¹² Vermont Insights *Communities Connected by Data* <http://vermontinsights.org/>

¹³ Vermont Child Development Division. 2014 Child Care Market Rate Study. Note, that this does not include the 607 licensed-exempt providers, or the estimated number of children and families that use unlicensed care or children cared for full time by immediate family members.

¹⁴ Almost 80% of regulated early care and learning programs participated in STARS. Source: Analysis of Vermont child care provider data from data.vermont.gov, dataset updated July 18, 2016. Dataset limited to programs' reported desired capacity for infants, toddlers and/or preschoolers.

¹⁵ Let's Grow Kids (2016). *Stalled at the Start- Vermont's Child Care Challenge. An Analysis of the Supply of and Demand for Regulated Infant and Toddler Care in Vermont*.

¹⁶This number largely reflects direct service costs and does not consider state- and district-level costs associated with administration, monitoring, resource distribution, and staffing.

¹⁷ Vermont Department of Children and Families, Child Development Division.

¹⁸ Vermont Department of Children and Families, Child Development Division, "Vermont Child Care Financial Assistance Co-Payment Survey," March 2013. <http://dcf.vermont.gov/sites/dcf/files/CDD/Reports/Co-payment%20Survey.pdf>

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- ¹⁹ Child Care Aware. *Parents and the High Cost of Child Care: 2015* <<http://usa.childcareaware.org/advocacy-public-policy/resources/reports-and-research/costofcare/>>
- ²⁰ Includes Federal State Funding from the Child Care Development Block Grant, Temporary Assistance for Needy Families, Child Adult Care Food Program, Head Start, Early Head Start, Early Intervention, and Preschool Funding
- ²¹ The calculation approximates the operational costs associated with running a high quality early care and learning program and does not consider state level administration costs including regulation, licensing, monitoring and oversight.
- ²² Note that the Commission focused on early care and learning for children birth to five years old; however, the Commission recognizes that early care and learning needs for families do not end at five years old. Before and after-school and summer-time care is critical for supporting working parents and for providing safe, nurturing and educational environments for young children.
- ²³ These estimates do not include state level costs associated with regulation, licensing, monitoring and oversight, as well as support for nutrition services. It also does not include special education costs and business costs related to contracting with School Districts.
- ²⁴ Administration for Children and Families. Office of Planning, Research & Evaluation. "National Study of Child Care of Low-Income Families 1997-2007." <http://www.acf.hhs.gov/opre/research/project/national-study-of-child-care-of-low-income-families-1997-2007>
- ²⁵ Vermont Insights *Communities Connected by Data* <http://vermontinsights.org/>
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⁸⁶ The Vermont Legislative Joint Fiscal Office prepares the Basic Needs Budgets and Livable Wage Report annually. The basic needs budget includes the components of food, housing, transportation, child care, clothing and household expenses, telecommunications, health and dental care insurance and savings, as well as taxes. The current methodology was established in 1999. The purpose of the calculation is to provide to the public information on what it cost to live in Vermont.

⁸⁷ 2014 Vermont Basic Needs Budget. Single Parent, Two Children with Employer-Sponsored Health Care, Page 10

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⁹¹ Federal guidance from the U.S. Department of Health and Human Services recommends that states establish rates that allow assisted families access to at least 75% of the child care market. States are required to conduct a market rate survey every two years and reference state rates to an amount equal to or greater than the rate charged by 75% of all child care providers (the 75th percentile). In Vermont, the Department for Children and Families, Child Development Division created a tiered rate system to pay child care programs based on their participation in the Vermont Step Ahead Recognition System (STARS). The more STARS the program has achieved the higher the CCFAP. The 4-STAR rate is based on the 75th percentile of the Child Care Market Rate Survey. CDD first establishes the 4-STAR Rate and then extrapolates to the tiered system accordingly. The tiered system includes **1 Star** – 5% above the base rate; **2 Stars** – 10% above the base rate; **3 Stars** – 20% above the base rate; **4 Stars** – 30% above the base rate; **5 Stars** – 40% above the base rate. This system provides an incentive to early care and learning programs to increase their quality ratings.

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