Draft
Funding and Costs Issue Brief
August 2023

I. Introduction

Across the country and in Connecticut, Early Care and Education (ECE) is an underfunded system, and the strains are borne by families and ECE educators. Connecticut has made significant investments in ECE, with an increase in its investments of 30% from fiscal year 2021 to 2023 under the leadership of Governor Lamont, and an additional $70 million in approved increases through 2025. Still, the current funding of the system does not support the aspirations of families, providers, and the state of Connecticut for high-quality early care and education.

No social investment generates a higher return than early care and education, estimated at 13% ROI. Investment in early childhood supports equity as it helps all children to have a healthy start in life, and reduces educational gaps and subsequent downstream societal costs. Early childhood investment strengthens the state's economy by expanding the current workforce and increasing worker productivity. Access to stable, high-quality child care helps parents increase work hours, miss fewer workdays, and pursue further education.[1] According to a 2020 UConn report on the Economic Impact of Child Care on Connecticut's Economy, access to care is a significant driver of economic productivity, contributing $1.6 billion to the state's gross domestic product.[2] Nationally, the cost of lost earnings, productivity, and revenue due to the child care crisis totals an estimated $122 billion each year.[3]

Therefore, it is the overarching recommendation of the Funding and Costs workgroup that the Blue Ribbon Panel propose a commitment to adequately and equitably fund an accessible, affordable, high-quality early childhood system for Connecticut families.

[1] https://www.jackrabbitcare.com/blog/the-importance-of-child-care-for-working-parents/
[2] UConn ECE 2020 Economic Impact Report
[3] https://www.strongnation.org/articles/2038-122-billion-the-growing-annual-cost-of-the-infant-toddler-child-care-crisis

This brief describes the current state of Connecticut's ECE system, detailing supply, demand, utilization, and unmet need, and the system's economics. It will show the cost of a professionally compensated workforce needed to stabilize the system and how that cost exceeds available revenues for both public and private programs. This brief will provide estimates of future investments that will be necessary to build a system that works for families, providers, communities, and the state economy. These estimates should be viewed as preliminary, reflecting the limitations of the underlying data and underscoring the need for substantially improved information systems.

The brief will provide this workgroup's recommendations concerning opportunities to utilize the existing federal, state, and local funding system more effectively and efficiently as well as identify additional funding strategies and options based on examples from other geographies, including public (state, federal, and local), and private (i.e., business and philanthropy) funding sources. Related to this last objective, the workgroup will also provide recommendations around funding strategies, governance, and management for the newly formed Early Childhood Education Trust.

The analyses and recommendations included in this brief will be revised based on feedback from stakeholders and Panel members, leading to the development of a five-year financial plan that will be included in the final report submitted by the Blue Ribbon Panel.

II. Problem and Opportunity Statement

The current level of local, state, federal, and family funding for early care and education (ECE) in Connecticut poses significant challenges. With the exception of public school ECE, which is fully funded, funding levels are insufficient. Affordable, high-quality child care is out of reach for many families, and system funding fails to take into account the cost of providing care. Thus, access and quality are impacted. This funding challenge suppresses demand for child care, resulting in lower levels of workforce participation by working parents, mostly women, thereby hurting the Connecticut economy and creating future educational and health challenges by leaving many children underprepared for kindergarten and their future.

The current funding model is inadequate to compensate an experienced, professional workforce and cover the costs of providing high-quality care. This results in programs paying teachers at levels significantly below the K-12 system for comparable education and experience, leading to high turnover of teachers and an inability to attract new educators to the field. These workforce challenges also lead to classroom closures and lower-quality care for children.

Although Connecticut has increased the number of families eligible for Care 4 Kids subsidies by over 40% since fiscal year 2020, a recent GAO report shows that only 21% of Connecticut's eligible families receive subsidies based on state eligibility requirements. To support an underfunded system, most low- and middle-income families pay much more than the recommended levels of their household income for early care and education. On average, families spend more than the US Department of Health and Human Services recommendation of 7% of household income on ECE; in more than 100 of the 169 towns in Connecticut, families pay in excess of 15%.[4]

Connecticut has a significant shortage of infant and toddler slots, causing parents to either stay out of the workforce, seek lower quality alternatives like informal, unlicensed care, or weave together a patchwork of care that places undue stress on children and families. In most areas, the state has enough preschool slots, but these slots are not always affordable for families, located in convenient locations based upon where families live and work, or open during the hours that people work. Some Connecticut families also live in child care deserts, geographies with limited access to child care.

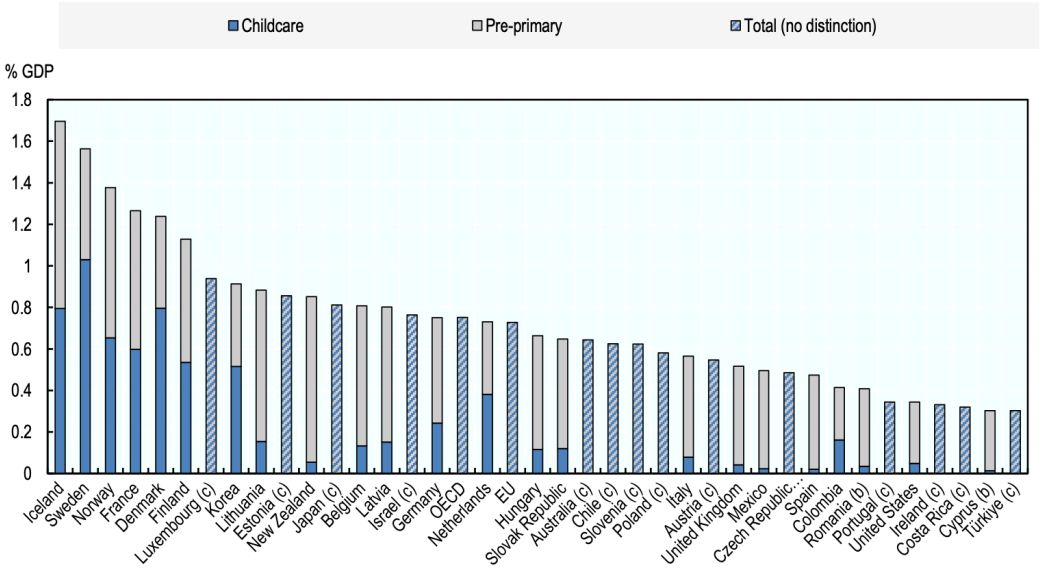
According to a recent Urban Institute Report, a high percentage of jobs in Connecticut require access to child care coverage during non-traditional hours, which is in short supply across the state. In the business listening sessions, businesses reported that parents juggle schedules with each other in order to take care of their children during late work shifts. Businesses also relayed that workers in industries like information technology and professional services manage the high cost of child care by working a hybrid schedule, thereby creating demand for more flexible, part-week child care solutions.

[4] OEC SVP Financial Model Report based on UConn Supply Data, Narrow Cost Analysis and Census Data

The Systems group has documented the complexity of administering different funding streams; this complexity reduces access to care for families, leads to funding inefficiencies, and compounds the impacts of low levels of funding. Further, system funding will decline with the end of federal ARPA stabilization dollars, which poses challenges for families and providers. In Connecticut, approximately $137 million in stabilization funding was expended in fiscal year 2023, $33 million in stabilization will be expended in this fiscal year, dropping to zero in fiscal year 2025.

Part of the funding challenge in Connecticut reflects that the United States has not prioritized ECE investment, leading to lower federal funding levels. It has one of the lowest per pupil expenditures of any developed nation.[5]

Chart PF3.1.A. Public spending on early childhood education and care
Public expenditure on childcare and pre-primary education and total public expenditure on early childhood education and care, as a % of GDP, 2019 or latest available [(a)]



Source: https://www.oecd.org/els/soc/PF3_1_Public_spending_on_childcare_and_early_education.pdf

Geographies like Canada, Washington DC, New York City, Massachusetts, Vermont, Colorado, and New Mexico have addressed similar challenges by committing to substantial funding system changes. These changes include expanding the scope of state-funded programs, increasing subsidies for parents, broadening eligibility for child

[5] Source: https://www.oecd.org/els/soc/PF3_1_Public_spending_on_childcare_and_early_education.pdf

care subsidies, and redesigning compensation levels for child care teachers. These investments have resulted in higher levels of workforce participation by families and have significantly improved educational results for children. In Washington DC, where there is a universal pre-K program, the gender gap in prime age labor force participation is only 2%, compared to 13.2% for Connecticut. Washington DC has achieved an 86.6% prime age participation by women in the workforce, and this percentage is expected to increase as they fully implement their infant and toddler subsidies. In Canada, the prime age women's labor force participation rate is 83.9%, with Quebec at 86.9%.[6] As Canada implements the Quebec strategy on a nationwide basis, they are expected to reach Quebec's level. In Connecticut, the Connecticut Business and Industry Association (CBIA) estimates that if women were to reach the same workforce participation rates as men, the roughly 100,000 job openings in the state would be more than filled.

Connecticut has a foundation on which to make a similar commitment to help it stand out as a place with family-friendly policies. State-funded programs and Care 4 Kids subsidies provide early care and education for more than 37,000 infants, toddlers, and preschoolers.[7] Federally-funded Head Start programs provide early education to another 5,500 children in Connecticut.[8] Local education agencies (LEAs) complement this funding, providing public preschool for an additional 15,300 children. Most of the LEA care is school day and half day and does not cover summer.[9] However, this LEA-funded part of the system, which represents about a third of children supported by state dollars, is generally fully funded due to local added funds, and it has a compensation model tied to the k-12 system.

It is in this context that the workgroup will advise the Panel on recommendations related to (a) investing to meet core system challenges, such as the need for increased workforce compensation and affordability and access for families, (b) maximizing the utilization of the existing system and local, state, and federal funding resources, and (c) identifying and

[6] https://www.bls.gov/opub/ted/2023/labor-force-participation-rate-for-women-highest-in-the-district-of-columbia-in-2022.htm, July 22, 2023; https://thoughtleadership.rbc.com/equal-measures-advancing-canadas-working-women-in-a-post-pandemic-economy/#:~:text=And%20today%2C%20the%20gap%20between,)%20compared%20to%2083.9%25%20nationally.

[7] https://www.ctoec.org/wp-content/uploads/2022/07/2022_At-A-Glance_with-references_formatted.pdf

[8] https://www.ctoec.org/wp-content/uploads/2022/07/2022_At-A-Glance_with-references_formatted.pdf

[9] https://www.ctoec.org/wp-content/uploads/2022/07/2022_At-A-Glance_with-references_formatted.pdf

attracting new funding sources as well as leveraging the newly formed Early Childhood Education Fund. The more precise identification of new revenue opportunities will be the product of longer-term planning.

III. Goals

To address these significant challenges, a coherent approach is needed to improve the efficiency and effectiveness of the current funding system and to identify additional funding, within the constraints of Connecticut's fiscal guardrails.

Goal:

Redesign the ECE funding system to maximize resources, address future child development and educational needs, and ensure equity and sustainability.

Sub-Goals:

Financial Model and Planning Sub-goal: assess current system and estimate future investment needs to inform the development of a five-year plan and fiscal model (section IV)

Maximizing Current Resources Sub-Goal: develop strategies to support the maximum use and efficient blending of federal, state, and local funding (section V)

Funding Strategies Sub-Goal: identify potentially significant business, philanthropic, and innovative funding strategies to contribute to ECE needs and advise on the funding and structure for the newly formed Early Childhood Education Fund (Section VI).[10]

IV. Financial Model and Planning

Current State Analysis:

Connecticut's formal ECE system (licensed and license exempt) includes 3,563 providers, which have the capacity to serve 82,942 preschoolers and 30,622 infants and toddlers. It

[10] https://www.cga.ct.gov/2023/TOB/H/PDF/2023HB-06941-R00-HB.PDF, section 355, p. 609.

is a robust mixed delivery system with child care centers of various sizes, family child care homes, and group child care homes as well as public schools.

Supply By Type of Provider and By Age of Child Served

Provider Type	Provider Count	Total Infant/Toddler Licensed Capacity	Total Preschool Licensed Capacity	Total Licensed Capacity
Small CCC	432	2,523	7,979	10,502
Medium CCC	598	11,141	23,096	34,237
Large CCC	278	13,390	23,908	37,298
FCC	1,785	3,568	7,136	10,704
Sub-Total	**3,093**	**30,622**	**62,119**	**92,741**
Public School*	470	-	20,823	20,823
Total	**3,563**	**30,622**	**82,942**	**113,564**

Source: Omnibus Data (dated 4-23-2023; Public School Data is based on Omnibus report and Edsight data.
Note: Excludes all closed, summer programs, and school-age-only providers. For licensed capacity three and over, assumes 54% is preschool student and 46% school aged for center based providers based on 2020 2-1-1 report.

This supply estimate is based on the larger metric of licensed capacity as opposed to desired enrollment. This deviates from recent estimates of child care supply because additional diligence has revealed that the OEC's measure of licensed capacity is a more reliable measure than desired enrollment and is consistent with how programs view supply.

Recent legislation changed the kindergarten entry cut-off (for turning five) from January 1 to September 1, effective starting in the fall of 2024. This change in the kindergarten cut-off has added roughly 9,300 additional children to the system without commensurate incremental funding.

Based on US Census data, Connecticut has approximately 177,603 children ages five and under. While in order to work, parents need to make child care arrangements for their young children, not all of these children will participate in formal child care. Both Connecticut-specific and national surveys show that parent preferences for formal versus

informal care vary. For example, the Bipartisan Policy Center (BPC) research suggests 43% of our nation's families use formal care and 56% use informal care. Especially for the youngest children, some parents prefer to keep their child at home or in the care of a family member. Even if formal care were free and accessible, they would not switch to formal care. Connecticut offers 12 weeks paid family leave to support this. In Canada, which has affordable care for all age groups, the usage of formal child care ranges from 14% (0-1, due to one year of family leave) to 62% (1-3), and 72% (3-5).[11]

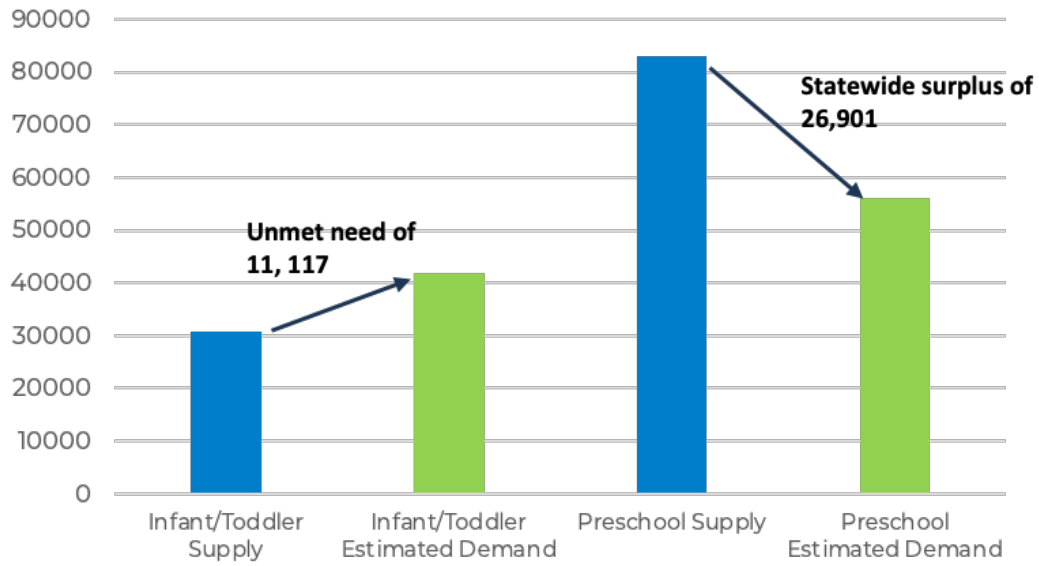
As a result, the workgroup estimated potential infant and toddler demand by starting with an assumption that 50% of families prefer formal care and then adjusting it for the 12 weeks of Connecticut's family leave, resulting in a potential infant and toddler demand level of 44.2% for Connecticut's population. For preschool demand, one can look at geographies where care is accessible and affordable to families, such as Washington DC, NYC, and Vermont. Here, preschool demand for care tends to be at 66%, so the workgroup has estimated 66% for future preschool demand for Connecticut.

These new estimates are grounded in national research and data from states and countries that have implemented more universal approaches to child care. It takes into account how families actually use child care when it is made more accessible. It is important to note that these revised demand assumptions lower the number of slots needed and imply that Connecticut has been overestimating child care shortages in the past.

Comparing supply to predicted demand shows that, in aggregate, Connecticut has sufficient preschool slots, although they are not always located where they are needed, nor are they necessarily affordable to families. In contrast, demand for infants and toddlers exceeds supply, reflecting the higher cost of care and lack of available slots for infants and toddlers.

[11] Statistics Canada: Survey on Early Learning and Child Care Arrangements, 2022

Estimated Supply vs. Demand By Age Served



Source: Omnibus Data (dated 4-23-2023). Public School data is based on Omnibus data and Edsight Data.
Note: Excludes all closed, summer programs, and school-age-only providers. For licensed capacity three and over, assumes 54% is preschool student and 46% school aged for center based providers based on 2020 2-1-1 report

There is significant variability in unmet need by town. 25% of towns (42 out of 169) in Connecticut have unmet preschool needs; whereas 72% of towns (122 out of 169) in Connecticut have unmet infant and toddler needs. Just the top 10 towns with unmet infant and toddler needs account for 6,366 slots. Excluding towns with an excess of infant and toddler supply, the actual infant and toddler need is higher, above 14,000.

Enrollment tracking is not particularly accurate in Connecticut. Given the limitations of enrollment data, it is difficult to accurately assess unmet child care need at a local level absent detailed, up-to-date community-based assessments. These community-based assessments have been recommended by the Systems Workgroup.

The best current source of enrollment data is for OEC state-funded programs (i.e., School Readiness, Child Day Care and Smart Start). These programs are currently running at about 87% of capacity. Using the state supported programs as a proxy for the overall system in Connecticut, the model assumes a target utilization rate of 85%. This assumption is similar to a number of other states like New Mexico that have recently built ECE cost and financial models.

The level of capacity utilization that a program achieves is a significant driver of their financial performance and sustainability. Utilization also has a material impact on the financial ability of programs to adequately compensate their workforce. The following analysis of the impact of utilization is based on the 2022 UConn Narrow Cost Analysis for Centers and Family Child Care programs. For more detail on how the Narrow Cost Analysis was applied, please see the appendix.

Building upon the estimated operating revenues and costs for child care centers as modeled in UConn's 2022 Narrow Cost Analysis, one can estimate the net profit margins for center and family child care programs operating at different levels of capacity utilization:

Prototypical Center & FCC Net Margins at Varying Levels of Utilization*

Utilization	Estimated FCC & CCC Revs	Margin	
75%	$1,018	-26%	~$135 million
80%	$1,086	-19%	
85%	$1,154	-13%	
90%	$1,222	-7%	
95%	$1,290	-2%	
100%	$1,358	2%	

**enrollment as a % of licensed capacity*

Source: Narrow Cost Analysis, Omnibus and Edsight data

The system-wide impact of increased enrollment from 75% to 85% capacity would represent $135 million in additional revenues to centers and family child care providers.

Therefore, the Funding and Costs workgroup is aligned with the Systems workgroup recommendations to build a more flexible and responsive enrollment system that matches supply and demand in order to maximize utilization and enable financial efficiency and stability in the ECE system.

The following Funding and Costs analyses exclude public school preschool, which is generally fully funded and its teachers on average paid at parity with the K-12 system for similar credentials.

The current full cost of the Early Childhood Education system is approximately $1.36 billion. This is estimated by multiplying the approximate per child costs based on the Narrow Cost Analysis times the licensed capacity of center, group child care home, and family child care providers. At 85% utilization, the **tuition is estimated at approximately $1.15 billion, a shortfall of $200 million.**

Estimated System Costs (Centers and FCCs only)			
	Supply	***Cost per Seat***	***Total Estimated System Costs***
100%	92,741	$14,301	$1.36 billion

Estimated System Revenues (Centers and FCCs only)			
	Supply	***Estimated Tuition Per Seat***	***Total Estimated Revenues***
85%	92,741	$14,641	$1.15 billion

Note: tuition revenues are estimated at the 50th percentile of market rates.
Source: Narrow Cost Analysis, Omnibus, Edsight data.

This complex funding system is supported by multiple sources, with federal and state funding providing more than 40% in FY2023, and parents covering most of the remainder.

Connecticut has increased its state investment in ECE in recent years. This recent budget provided a two-thirds increase from fiscal year 2021 through 2025.

OEC Funding Sources Budget for Early Care and Education

Fiscal Year:	**2021**	**2022**	**2023**	**2024**	**2025**
Head Start Services	$ 4,719,623	$ 5,038,338	$ 5,083,238	$ 5,083,238	$ 5,083,238
Care4Kids TANF/CCDF	$ 55,045,133	$ 58,088,967	$ 59,527,096	$ 73,727,096	$ 112,827,096
Child Care Quality Enhancement	$ 4,423,221	$ 6,168,525	$ 5,954,530	$ 5,954,530	$ 5,954,530
Early Head Start-Child Care Pa	$ 1,144,209	$ 1,095,243	$ 1,500,000	$ 1,500,000	$ 1,500,000
Early Care and Education	$ 122,026,863	$ 127,831,049	$ 174,645,249	$ 174,645,249	$ 190,137,329
Smart Start	$ 3,250,000	$ 3,250,000	$ 3,325,000	$ 3,325,000	$ 3,325,000
Total	$ 190,609,049	$ 201,472,122	$ 250,035,113	$ 264,235,113	$ 318,827,193

Source: OEC budget

The above budget numbers do not include stabilization funding, but COVID relief funds have been a critical lifeline, adding more than $350 million at the peak in 2021. In fiscal year 2023, $137 million of ARPA stabilization funding was expended and, this fiscal year, the remaining $33 million will be spent. Aside from some residual ARPA discretionary funds that can be spent in the first two quarters of the 2025 fiscal year, no more federal relief funds will be available.

Future Investment Needs

Additional investment will be necessary to support high-quality care for children and put the ECE workforce on a path to professional compensation, with benefits, and to make child care affordable and accessible for families. Thus far, the Panel has heard recommendations from other workgroups that would require incremental investments:

- Equity and Access related to increasing access and affordability
- Workforce and Quality related to providing professional wages and benefits
- Systems related to a host of recommended systems investments, which will be estimated in the coming weeks

Some of the most critical initial investment options related to three core challenges – workforce compensation, affordability, and access – are estimated below. Based on feedback from Panel members and stakeholders, the workgroup will revise estimates and develop new estimates for additional options, as needed. Ultimately, the Panel will need to prioritize investments related to workforce compensation, access, and affordability.

Workforce Compensation and Benefits:

The Funding and Costs workgroup has developed preliminary estimates of the incremental costs of moving to mid-career compensation levels and basic discretionary benefits aligned with the Unifying Framework's recommendations for professional compensation of the ECE workforce.

The Funding and Costs workgroup updated the Narrow Cost of Care to show the cost of care at the proposed mid-career compensation levels as well as discretionary benefits. In the following analyses, mid-career salaries are based on the 2022 Proposed Early Childhood Educator Compensation Schedule. Health, vision, and dental insurance, at an average per employee of $9,085, plus paid leave, retirement, life insurance, and

supplemental pay equal to 12% of salaries are added to this. These estimates of discretionary benefits are based on data from recent BLS reports for education businesses under 100 employees as well as the Connecticut Partnership Plan for health insurance. The insurance estimate represents a weighted average of single and single plus one employees and assumes approximately one-third of employees will elect not to participate. Raising baseline salaries and benefits to achieve mid-career compensation levels and a basic complement of benefits for family child care programs and centers would increase total costs by 57.9%. To explain how that impacts a typical teacher, the compensation and benefits of a classroom teacher working in a small center currently making $35,199 would jump to $67,600 in this model. These increases are not applied to public school preschool teachers, most of whom are already at parity with the K-12 system.

Thus, building on the Narrow Cost of Care model and the proposed Compensation schedule and basic benefits, and using updated data, suggests that the total incremental system costs would be over $750 million.

Estimates of Increased Workforce Salaries and Benefits Investments for Centers and Family Child Care Providers*

**Excluding public schools*

Salary Enhancement-Mid Level

57.9% increase from baseline system cost for FCC and CCCs

- 38.6% increase in salaries and mandatory benefits
- 19.4% increase in salaries are discretionary benefits (i.e., medical, dental, vision, retirement, paid time off, and supplemental pay)

System	Parameter	System Cost ($ in Millions)
Current cost of FCCs & CCs	***Workforce Registry***	***$1,299***
Systemwide Salary Changes According to Proposed Salary Schedules	Salary Enhancement-Mid Level	$443
Change in Non-Discretionary Benefits	Salary Enhancement-Mid Level	$59
Systemwide Changes in Proportional per FTE Benefits Only	Salary Enhancement-Mid Level (12%)	$76
System-wide Changes in per FTE Discretionary Benefits	Fixed $ Amount per FTE ($9,085)	$175
Total Changes to All CCC and FCC Compensation	Salary Enhancement-Mid Level	**$753**

Source: UCONN Omnibus Data (dated 4-23-2023). *Public School Data is based on Omnibus report and Edsight data.
Note: Excludes all closed, summer programs, and school-age-only providers. For licensed capacity three and over, assumes 54% is preschool student and 46% school aged for center based providers based on 2020 2-1-1 report. Expense assumptions are derived from Narrow Cost Analysis/PCQC.

It is important to acknowledge that not all of this incremental cost would be or should be borne by the state. Federal, local, and families are also substantial contributors to funding ECE. In addition, better enrollment management can bring additional funding to the system. Estimates of this depend on a better understanding of current enrollment.

In addition, much of the system is privately funded. The state has no direct mechanism for funding these programs, and many prefer to be independent of state funding rules and accreditation requirements. OEC state-funded programs (e.g., School Readiness, Smart Start, Child Day Care) represent about 15% of the slots and 10% of the programs.

If the state were to invest in increasing the salaries and compensation of OEC state-funded programs under its jurisdiction — excluding both programs in public schools (which generally pay teacher at K-12 parity) and state Care 4 Kids subsidies — this would represent a new incremental investment of approximately $100 million:

Estimates of Increased Workforce Salaries and Benefits Investments for OEC State-Funded Programs

Salary Enhancement-Mid Level
61.8% increase from baseline system cost for CCCs

- 40.4% increase in salary and mandatory benefits

- 21.4% increase in salaries are discretionary benefits (i.e., medical, dental vision, retirement, paid time off, and supplemental pay)

System	Parameter	System Cost ($ in Millions)
Current cost of FCCs & CCCs	***Workforce Registry***	***$157***
State-Funded Salary Changes According to Proposed Salary Schedules	Salary Enhancement-Mid Level	$57
Change in Non-Discretionary Benefits	Salary Enhancement-Mid Level	$7
State-Funded Only Changes in Proportional per FTE Benefits Only	Salary Enhancement-Mid Level (12%)	$8
State-Funded Only Changes in per FTE Discretionary Benefits	Fixed $ Amount per FTE ($9,085)	$26
Total Changes to State Funded Program Compensation	Salary Enhancement-Mid Level	$97

Source: UCONN Omnibus Data (dated 4-23-2023). *Public School Data is based on Omnibus report and Edsight data.
Note: Excludes all closed, summer programs, and school-age-only providers. For licensed capacity three and over, assumes 54% is preschool student and 46% school aged for center based providers based on 2020 2-1-1 report. Expense assumptions are derived from Narrow Cost Analysis/PCQC.

The net incremental investment that is required is likely lower than $97 million, as some state-funded programs already receive a total of $28 million in incremental funding through state and federal Care 4 Kids funding.

While this additional funding would be targeted to state-funded programs, Systems workgroup recommendations related to program operations and enrollment would benefit and be open to all programs, including private ones, to help strengthen their economics and support higher wages. Also, private programs may want support with benefit packages. The Workforce and Quality workgroup is researching models of program support in this area by other states and also low-cost insurance alternatives for providers.

Affordability:
Turning to affordability, the state funding system still does reach almost half of Connecticut's young children, even though much of the system is private. State funding supports both state-funded programs referenced above as well as Care 4 Kids subsidies

that can support non-state-funded programs. Together these sources of funding affect approximately 37,000 children, mostly low-income children. State-funded programs generally serve at least 60% of low-income families (< 75% SMI); many programs serve virtually all low-income families. The Care 4 Kids subsidy eligibility is for families earning up to 60% of the State Median Income (SMI). In addition, federal Head Start serves 5,500 children, with the vast majority of families earning below the federal poverty level. Taken together, these numbers represent roughly half of all predicted demand for child care.

To further increase affordability, the Panel could consider a range of scenarios related to Care 4 Kids subsidies. The subsidy rates are already forecasted to increase at about 11% per annum for the next three years, which will provide additional funding to support increased compensations. The following table illustrates a few additional affordability scenarios. Although these scenarios are shown as isolated, one-time investments, these investments could be considered together over time.

Affordability Scenarios Based on Care 4 Kids

Scenario	Estimated Incremental Year One Costs in Millions
Increasing eligibility to 70% of SMI	$6.9
Capping parent co-pay at 7%	$3.4
Presumptive Eligibility (allow families applying for Care 4 Kids to receive temporary approval while their application is being processed)	$11.1
Removing barriers to applications/improved navigation yielding an estimated 10% increase in successful applications	$18.9

Source: OEC analysis

In addition to these Care 4 Kids-related affordability investments, the workgroup estimated a leveraged state investment to support a public-private partnership with businesses and families, modeled after the Michigan Tri-Share model, in which families, employers and the state each share costs of child care equally. This could increase affordable access for middle-income families who are just out of reach of subsidies. Families in this program would only pay one third of child care costs. Based on the experience in Michigan, it takes time to build this type of program. Assuming a first-year program size of 75 children at an estimate of an average cost of $20,000 per child per

annum for child care costs, 10% administrative fees, the typical administrative fee allowed by the OEC, the total cost for the first year would be $1.65M, shared equally between employees, employers, and the state, at a cost to the state of $550,000. If demand for slots exceeds supply, employer enrollment could be capped. More detail on this is included in Section VI of this brief.

Access:

To further increase access, a variety of strategies to increase supply have been recommended, some of which have low to no incremental costs:

- Build the supply of **infants and toddler care** through innovation and increased funding
- Provide more support for **children with special needs**
- Incentivize care for **part-time or non-traditional** hours
- Change **group home** regulations to be more in line with family child care homes
- Increase access to **facility funding, start-up grants, and technical assistance support** (e.g., conversion, new builds, maintenance, and renovations) for all types of providers
- Explore the potential to expand the impact of **paid family leave**, e.g., market to fathers to increase usage

Of these, incentivizing infant and toddler care is a particularly pressing issue. One recommended strategy that the workgroup has considered is expanding the new state-funded contracted slot infant/toddler program. This would represent an incremental cost of $50 million to add an additional 2,600 slots. Increasing access to start-up funds for family child care homes and facility classroom conversion costs for centers could also support increased infant and toddler care.

An additional promising and efficient strategy for Panel members to consider to increase access, especially for children with disabilities, is to expand the Smart Start program. This program is relatively low cost for the state, only $5,000 per child, which is then supplemented with local school funds. Smart Start classrooms also serve a disproportionate number of children with special needs, serving an average of 28%

versus the state average 16.3%.[12] Tripling this program would only cost an additional $6.7 million and would increase access by nearly 1,900 students and expand access for approximately 530 children with special needs as well.

Systems:
In the coming weeks, the Funding and Costs workgroup will work with the Systems workgroup to estimate the one-time and ongoing costs of the recently proposed systems investments related to parent portal and navigation systems, enrollment management, provider portal, data and information systems, and community governance. These estimates will be shared with the Panel.

Related to the potential funding uses, the Funding and Costs workgroup recommends the following:

Financial Model and Planning Related to Potential Funding Uses	
Subgoal	**Draft Recommendations**
Assess current system and estimate future investment needs to inform the development of a five-year plan and associated fiscal model	• Commit to adequately and equitably fund an accessible, affordable, high-quality early childhood system that reaches more Connecticut families ○ Invest to support *professional compensation and benefits* for state-funded programs ○ Invest to increase *affordability* for low- to middle-income families ○ Invest to support increased *access,* especially for infant and toddler care and children with special needs ○ Invest in new and improved *systems* (estimates of one-time and ongoing expenses to come)

[12]https://www.cga.ct.gov/app/related/20230223_2023%20Elementary%20&%20Secondary%20Ed%20Subcommittee%20Documents/2022_OEC%20At-A-Glance.pdf

V. Maximizing Current Resources: Federal, State, and Local Funding

Federal, state and local funding of ECE encompasses a variety of funding streams, each with its own requirements. These funding sources must be maximized without introducing more complexity.

The federal funding landscape is complex. There are at least nine different federal funding streams that have the potential to directly or indirectly support ECE: CCDBG; Head Start; Early Head Start; Early Head Start-Child Care Partnerships; the Maternal, Infant, and Early Childhood Home Visiting Program; Child Care Means Parents in School; TANF; Preschool Development Grant Birth through 5; and IDEA Part B and C. Of these, CCDBG, PDG, and Head Start are the largest sources of federal funds serving children ages 0-5.

Most of these federal funding streams are utilized by Connecticut and localities, but there are likely additional opportunities to further leverage these funding sources without introducing complexity. For example, public schools can use Title I funds for preschool, and many states use TANF funds to fund additional child care. The Early Head Start-Child Care Partnership, in which state and federal funds are combined to provide early care and education and family support services for families living at or below the federal poverty guidelines, is one example of a state and federal partnership that can potentially be expanded as new grant opportunities become available. Head Start also has resources to help states strategically blend, braid, and layer streams to maximize funding. Another option is to partner with Connecticut State Department of Education and local districts on IDEA Part B, Title 1, or the Federal 21st Century afterschool (e.g., to support public school preschool before and after school care). This would expand preschool access and expand program hours to school day school year models to better support family scheduling needs. The state could also explore the feasibility of accessing additional TANF funding, as occurs in other states. Connecticut has historically used a significant portion of these funds to support state agencies rather than exclusively to support services or programs directly, and it would be difficult to re-allocate these funds without adding to the state's budget.

There are also a range of state agencies that have potential synergies with ECE programs that could be explored:

- Department of Labor (DOL), Office of Workforce Strategy (OWS) (e.g., apprenticeships) to support workforce needs
- State Department of Education (SDE) and/or Connecticut State Colleges and Universities (CSCU) for ECE workforce education
- Department of Housing (DOH) and SDE for Head Start—housing vouchers for Head Start families. SDE and DOH both have funding to support this program match
- Department of Children and Families (DCF) preventative model
- Department of Public Health (DPH) home visiting and community health workers
- Department of Economic Community Development (DECD) to support ECE businesses
- CHEFA to support facility investments

Finally, there are opportunities for local ECE funding, partnering with municipalities for donated and subsidized space. Although estimates of public school funding of ECE are not available, Local Education Agencies fund about 15,000 slots, some of which are part time and part year, and likely fund upwards of $200 million of overall system costs. There may be additional opportunities to create additional preschool slots in some municipalities that lack capacity by partnering with local school districts.

Therefore, to maximize federal, state, and local funding, the workgroup recommends that the Panel consider the following:

Maximizing Current Resources: Federal, State, and Local Funding	
Subgoal	**Draft Recommendations**
Develop strategies to maximize current funding streams	• Support Systems recommendations to develop a more flexible and responsive system, matching supply and demand, and increase utilization of the current system through incentives and enrollment management systems • Leverage the Early Childhood Cabinet to focus on children to systematically identify potential cross-agency opportunities for alignment and collaboration, similar to the recently created Workforce Cabinet

	○ Consider establishing a dedicated workgroup within the Cabinet ○ Include representation from DSS, DOH, SDE, OWS, DCF, DPH, DECD, and OEC ○ Secure high-level state representation and leadership ○ Establish baseline understanding of potential opportunities ○ Consider best practices from other successful Children's Cabinets (e.g., Nevada, NM) and Head Start Housing • Leverage Head Start best practices on braiding, blending, and layering funding streams, e.g., to expand Early Head Start-Child Care Partnership, create and blend state funds, and leverage Head Start funds to expand programming and supports for children and families • Expand partnership with SDE ○ Utilize part of the increase in ECS funding for local districts for preschool expansion ○ Evaluate public school facility footprint to identify potential for donated or subsidized space ○ Consider options to build toward universal pre-K ○ Consider options related to donated or subsidized space ○ Expand IDEA Part B, Title 1 services for young children ○ Recommend to superintendents to advise that Federal 21st Century grants are written to allow preschool before and after care (e.g., to support public school preschool before and after school care) • Support recommendation for community needs assessment and governance system to systematically

	identify local assets that can be leveraged for early care and education ○ Seek opportunities for federal, state, and local matching, e.g., Head Start ○ Expand and deepen communications and relationships with local early childhood community collaboratives ○ Emphasize the importance of communication with and representation of key stakeholders, including SDE

VI. Funding Sources

In addition to advising on potential business, philanthropic, and innovative funding strategies for ECE, the Panel has the opportunity to recommend how to structure, manage, and fund, as well as where to apply funding, related to the state's recently created Early Childhood Education Fund.[13]

Business:

Connecticut businesses are increasingly aware of the toll that the lack of affordable and accessible child care takes on them, their workforce and potential workforce, and their communities. In recent business listening sessions, employers in industries such as manufacturing, information technology, pharmaceuticals, and financial services stated that a key part of their workforce recruitment strategy is to expand the number of women in their companies. In addition, a key retention challenge is retaining entry-level workers. Business leaders conveyed that Connecticut needs to increase the access and affordability of child care, and identify solutions for workers that work non-traditional hours and are on hybrid work schedules.

Around the country, businesses are banding together in growing recognition of the importance of ECE to workforce productivity, retention, and recruitment. These coalitions fall on a continuum from like-minded companies meeting to share best

[13] https://www.cga.ct.gov/2023/TOB/H/PDF/2023HB-06941-R00-HB.PDF, section 355, p. 609.

practices on addressing ECE challenges to more established groups that invest, advocate, and offer dedicated programmatic resources to support employers' ECE needs. In Monadnock County, New Hampshire, businesses that are members of IMPACT Monadnock Business Ambassadors are meeting to help each other with their ECE challenges. In neighboring Massachusetts, Eastern Bank has funded the establishment of an active business coalition, led by a former state early childhood commissioner, Tom Weber. In Colorado, Executives Partnering to Invest in Children (EPIC) is one of the most robust business coalitions, informing, investing, advocating, and providing technical assistance, including a design lab for businesses interested in developing child care programs and return on investment analysis to help businesses understand the case for investment.

To encourage business investment in ECE, Connecticut just passed a new employer 25% tax credit that businesses can apply toward the cost of building on-site child care facilities, providing child care subsidies for their employees, or contributing to nonprofit child care centers in their communities.[14] There is also a similarly structured federal Employer-Provided Child Care Credit 45F in which employers can apply 25% of qualified child care expenditures plus 10% of qualified child care resource and referral service expenditures incurred by the business, up to the $150,000 per year limit. This federal tax credit has historically had low participation rates. A recent GAO report indicated that only a couple hundred businesses across the country took advantage of this credit based on the last year of full data. Some states, such as Colorado, are experimenting with more flexible and generous tax deductions available to businesses and individuals.

Another example of a public-private partnership targeting business that is gaining traction with some states is a cost-sharing model, such as the Michigan Tri-Share model in which the costs of child care are shared by employers, the state and employers with each paying one third of costs, hence, the name Tri-Share. The program is designed to reach employees who are not eligible for state Care 4 Kids subsidies, but who still struggle to afford child care.

CBIA recently hosted two business forums. During these forums, businesses across a range of industries, geographies, and size of employee base expressed a common set of

[14] https://www.cga.ct.gov/2023/TOB/H/PDF/2023HB-06941-R00-HB.PDF, section 366, p. 653.

challenges around issues of child care impacting their employee retention, recruitment, and productivity. All cited the problems of affordability and access, particularly for employees who worked non-traditional hours or who lived in rural areas. Affordability was a significant pain point for their employees. Low-wage employees are pinched by high-cost of living, in combination with child care costs, challenging both employee and Connecticut state retention. Employers indicated concerns about their ability to retain entry-level workers, and some employers even noted they were losing seasoned workers who were leaving the workforce early to be able to care for their grandchildren. In terms of potential solutions, employers did not think a single solution would work for all businesses but, in general, they suggested that on-site care is not an economical solution even for large employers. They also indicated that tax credits would not be a sufficient incentive to build or invest in a facility. Finally, a few larger businesses showed interest in a cost sharing, Tri-Share-like model, arguing they could make the business case for this investment.

For more detail on these discussions, please see the appendix.

Philanthropy:

Historically, some large foundations have focused on ECE, e.g., Pritzker Children's Initiative, W.K. Kellogg Foundation (which has invested more than $2 billion in early childhood), Buffett Early Childhood Fund, Balmer Group, and George Kaiser Family Foundation. There are also influential national collectives and collaboratives, e.g., Alliance for Early Success, Early Educator Investment Collaborative, and EC Funders Collaborative. Nationally, philanthropic activity in ECE has increased significantly. From 2006 to 2013, foundations gave $4.6 billion to support early childhood education, according to data from Candid. From 2014 to 2021, that sum grew to $7.1 billion.

One notable strategy is that foundations have invested in research and advocacy to generate bipartisan support for early childhood care in general and incremental government funding specifically. Foundation investments can also serve as a catalyst for government investment. For example, the Castle Foundation requested that a tuition stipend bill be passed committing to paying for the first three years of the program, until

the state had the funds to match Castle's grants two to one.[15] This past session, the legislature allocated $660,000 to boost the privately funded student recruitment project for early educators.[16]

Connecticut has a diverse and strong philanthropic network. It is home to many high net-worth philanthropists. It also has a strong funder collaborative, CT Early Childhood Funder Collaborative (ECFC), which was the first of its kind and, among its numerous successes, it was instrumental in the creation of the state's own dedicated Office of Early Childhood.

Conversations with funders suggest that it is important to consider that philanthropists are heterogeneous in terms of their interest areas, their approaches to grantmaking and risk taking, and their funding levels. As a result, any approach would need to be targeted and consider the importance of building relationships over time. In these same discussions, it was also emphasized that philanthropy cannot solve ECE funding challenges, nor will it be willing to supplant other sources of funding.

However, particular opportunities likely to be raised in Blue Ribbon's plan may be of interest to some funders, such as:

- One-time catalytic systems investments
- Innovation and pilots/establishment of proof points
- Public-private partnerships
- Research and evaluation
- Replication and scaling of successful programs and initiatives
- Stakeholder and/or community engagement and collaboratives
- Advocacy
- Investments in improving the quality of early childhood education
- Business and educational supports to strengthen early childhood providers

[15] https://earlylearning.hawaii.gov/we-support-early-childhood/we-support-our-workforce/early-childhood-educator-stipend-program/

[16] https://www.hawaii.edu/news/2023/07/06/600k-supports-ece-initiative/

Innovative Funding:

Cities, states, and other countries have employed a variety of ways to fund ECE, including special taxes and revenue streams, budget surpluses, and public-private partnerships. Some of these potential sources could be considered to fund the Early Childhood Fund.

- "Sin" taxes and revenues
- Income taxes on high earners (Portland, Oregon)
- Payroll taxes (Vermont)
- Other taxes: sales (Arkansas, Denver, San Antonio), conveyance (Washington state), commercial activity (Oregon, Washington), real estate (Palm Beach, Florida)
- General budget and surplus or rainy day funds
    - General Budget – Maryland (based on Blue Ribbon commission recommendation), New York, California, and more
    - Budget Surplus – Minnesota (May 2023)
    - Rainy Day Fund/Revenue Cap

Public-private partnerships have also been utilized by governments to support ECE:

- Facilities Funds – Rhode Island, Massachusetts, Washington
- Programs–Regional Networks (Virginia), Scholarships (Hawaii, North Carolina, Minnesota), Grant-making and Partnerships (Nebraska), Planning and Infrastructure (Boston), Tri-Share (Michigan, Tulsa)

Finally, there are other, sometimes innovative sources of revenues:

- Social Impact Bonds/Pay for Success – Utah, Chicago
- School Finance Formula Funds – Maine, Missouri, Kansas
- License Plate Revenues – Louisiana
- Local Municipal or LEA funding or donated space
- Public Credit Enhancements – Arkansas (loan guarantees)
- Tobacco Settlement – Connecticut (which generates about $100M/year) and several other states
- LOTs (Legacy Obligation Trusts) essentially collateralize government assets to raise funds. This has been used to fund underfunded municipal pensions and retiree health care benefits in Detroit

Connecticut can consider some of these examples in evaluating options for funding ECE. Many of these innovative sources of funding require an external catalyst, such as a

coalition or a philanthropist, and they are often the products of multi-year campaigns. For example, Vermont's recent successes in increasing funding for ECE was the by-product of a more than 10-year effort that was enabled by a broad coalition. Before selecting which funding vehicles would work best for its state, Vermont enlisted the Rand Corporation to conduct a detailed study of funding options. Ultimately, the selection of funding sources needs to be vetted with different stakeholders and considered in terms of its permissibility by law, ease of implementation, and potential for impact and sustainability for the state of Connecticut.

Therefore, the workgroup recommends that the Panel consider the following related to identifying potential business, philanthropic, and innovative funding strategies:

Funding Strategies: Business, Philanthropy, and Innovative Funding	
Subgoal	**Draft Recommendations**
Identify potentially significant business, philanthropic, and innovative funding strategies to contribute to ECE needs, and advise on the funding and structure for the newly formed Early Childhood Education Fund	• Convene senior state leaders and stakeholders to advise on identifying promising incremental ECE funding sources and mechanisms, building on examples from other geographies, and assessing these options for match with Connecticut ○ Consider whether to also conduct a time-bound formal study of funding options in the context of Connecticut's economy and ECE needs ○ Assess options in terms of their permissibility by law, ease of implementation, and potential for impact and sustainability ● In partnership with CBIA, continue to convene businesses to identify their

	preferred method(s) of engagement in support of ECE ○ Assess interest in and ideas for the potential structure of cost-sharing public-private models, similar to Tri-Share, particularly for larger employers, to serve employee population just out of reach of Care 4 Kids subsidies ○ Inquire about need for technical assistance to increase utilization of current tax incentives and employer tools ○ Gauge business interest in advocating on behalf of ECE investment • Develop recommendations for utilizing the Early Childhood Education Fund ○ Identify purpose and strategies to source funding ○ Define structure, governance, and resourcing. Consider need for advisory board to support governance ○ Leverage the examples of other public fund models in other geographies and social sectors • Cultivate relationship with key potential funders to expand philanthropic funding for select ECE investments, especially for one-time catalytic systems and facilities investments ○ Hold exploratory conversations with significant funders to understand

	potential interest areas, funding guidelines, and requirements ▪ Leverage the expertise of Connecticut's ECFC to strategically engage funders ○ Once the Blue Ribbon plan is set, identify investment needs potentially attractive to donors and develop pitch to funders

VII. Conclusion and Next Steps

In order to inform the development of a five-year financial plan, the estimates and analyses in this brief will be revised and added to as needed based on feedback from stakeholders and Panel members. The staged plan will align investments with the overall vision and goals and principles for the system and will prioritize supporting families and communities with the greatest needs. Ultimately, the Blue Ribbon Panel will need to approve a five-year financial plan that will build a sustainable, affordable, equitable, and high-quality early care and education system, to submit with the final Blue Ribbon report in December.