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Declines in Spending on Early Education and Care in Massachusetts

by Jeff Bernstein

Early education and care is an essential resource for both children and parents.

For children: Early education plays a critical role in preparing young children for success in school and in life. In particular, low-income children who participate in high quality care do better in school, graduate more regularly, work more, earn more, and access other public benefits at a lower rate than low-income children who do not.¹

For Parents: Early education and care makes it easier for parents to work, giving them the support they need to seek and keep jobs, to improve their economic circumstances, and to provide for their families. This kind of support has become even more important since welfare reforms of the mid-1990s, which encouraged welfare recipients to join the workforce.

Looking at trends in state and federal funding for early education and care programs in Massachusetts, we find that:

- Since 2001, **spending on early education and care has fallen by 25 percent** (adjusted for inflation). As was the case for so many essential programs, funding for education and care was constrained by a series of tax cuts between 1998 and 2002 that significantly reduced state revenue.
- More broadly, when we combine spending for early education and care with cash assistance – the other major source of support for lower-income parents – we find that **total spending is \$1 billion less today than in 1995** (adjusted for economic growth).

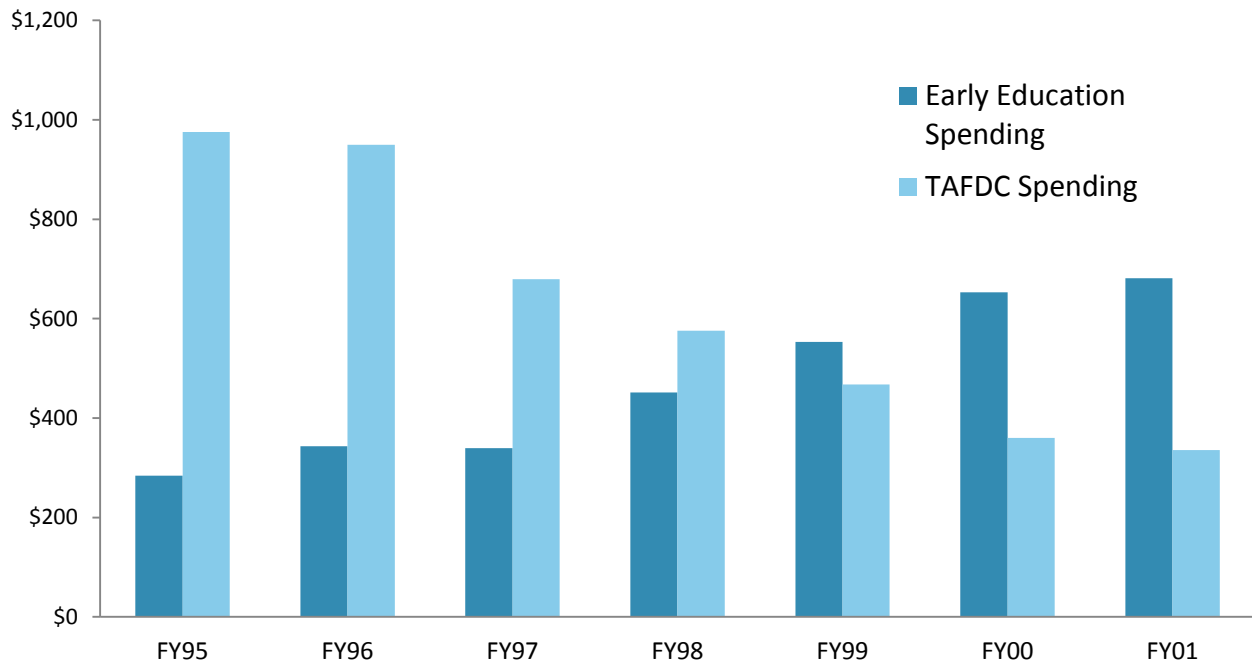
Welfare Reform Leads to Drop in Funding for Low Income Families

Prior to welfare reforms in the mid-1990s, early education and care was a relatively small piece of the safety net with cash assistance being the primary support for families receiving Aid to Families with Dependent Children (AFDC). As figure one shows, in FY 1995, after adjusting for inflation, the state provided \$975 million for cash assistance while early education and care

¹ In his accompanying paper, Arthur MacEwan summarizes some of this research and documents the large economic benefits of early education and care. See "Economic Gains from Early Care and Education" at http://massbudget.org/report_window.php?loc=gains_early_ed.html.

received \$284 million.² The introduction of Transitional Aid to Families with Dependent Children (TAFDC) in 1995 marked a change in policy away from providing parents money to stay home and care for their children and towards encouraging – and requiring – work. Time limits and work requirements forced parents to work, elevating the importance of early education and care and other supports which would allow parents to enter or stay in the workforce.

Figure 1. TAFDC Budget Decreases While Early Education Budget Increases, FY95-FY01
(Real 2012 Millions of Dollars)



In the years immediately following reform, funding for low income families declined by almost \$250 million and shifted from cash assistance to early education and care. By FY 2001 cash assistance spending dropped \$639 million (65.6 percent). At the same time, spending for early education and care increased \$397 million, more than doubling.

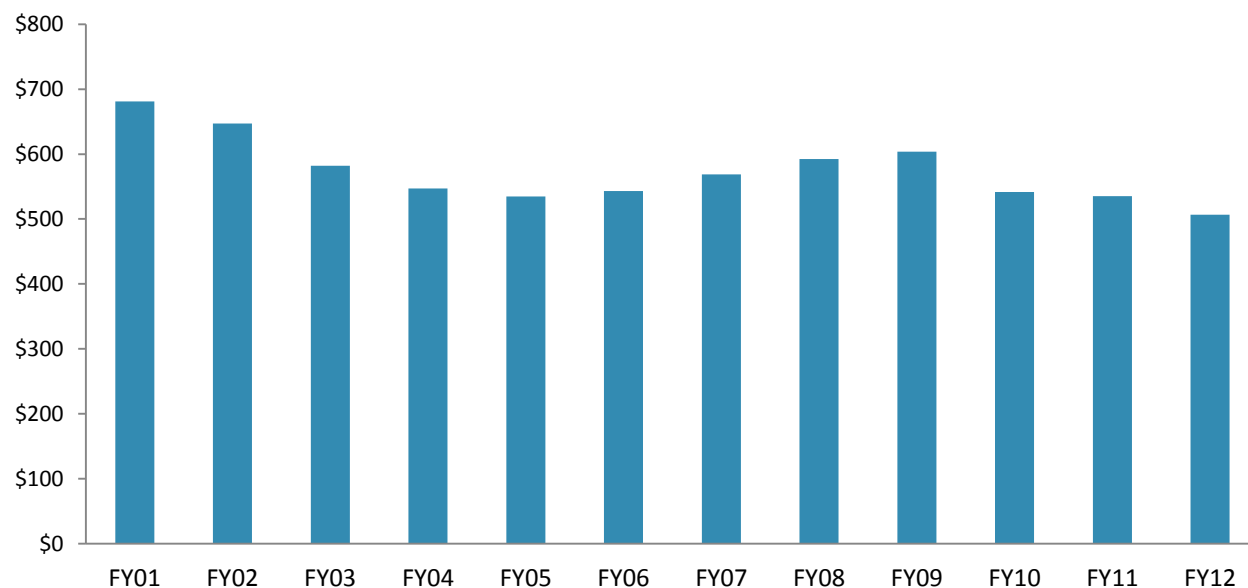
² Throughout most of the paper funding amounts are adjusted for inflation to 2012 dollars unless otherwise noted. The spending comparison between 1995 and 2012 of early education and care, and cash assistance combined (Figure 4) is measured as a share of the economy.

Income Tax cuts Lead to Lower State Spending on Early Education and Care

Between 1998 and 2002 Massachusetts implanted a number of cuts to the income tax, costing approximately \$2.5 billion in revenue each year. Massachusetts cut the personal income tax rate from 5.95 percent to 5.3 percent resulting in a \$1.3 billion annual loss, cut the dividends and interest tax rate from 12 percent to 5.3 percent for a \$750 million annual loss and expanded the personal exemption costing about \$480 million annually.³

In the decade following these tax cuts, state spending on early education and care declined by over \$174 million, more than 25 percent (figure 2).

Figure 2. State Budget for Early Education Decreases, FY01-FY12
(Real 2012 Millions of Dollars)



Poverty Rates Remain Unchanged While Access to Child Care Tightens

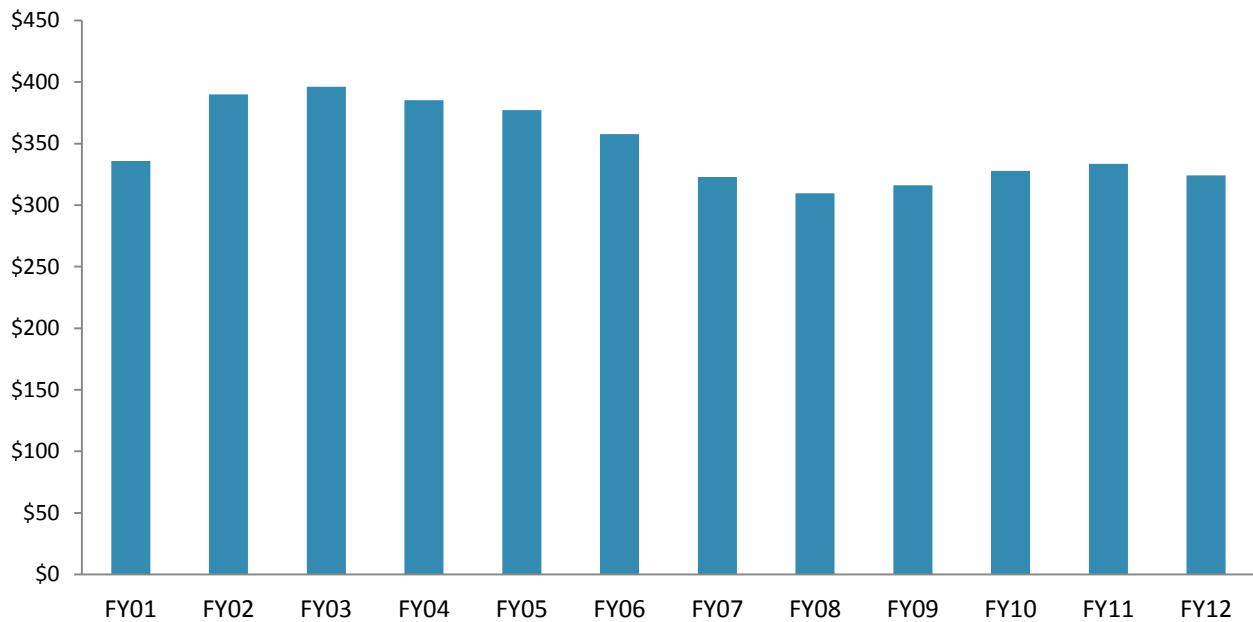
Cash assistance, which experienced huge spending cuts during the previous period as the number of recipients was cut in half, remained largely unchanged from FY 2001 to FY 2012 (Figure 3). It should be noted that although the number of families receiving assistance was cut by more than half from 103,558 in 1994-95 to 49,774 in 2009-10, the number of families with children in Massachusetts in poverty remained nearly unchanged (113,150 to 111,377).⁴ The decrease in cash assistance has not come from more families climbing out of poverty.

³ For more information on the tax cuts, see http://www.massbudget.org/report_window.php?loc=tax_cuts_factsheet.html

⁴ A main goal of welfare reform was to help families with children join the workforce and thus climb out of poverty. As can be seen, although the number of cases decreased – the ultimate goal for many families has not been realized as poverty rates in Massachusetts have stayed level.

Accessing child care is extremely important for families trying to climb out of poverty, but cuts to early education and care over the last decade have made it more difficult for families to get that support. Today well over 40,000 children in Massachusetts are on a waiting list for child care. While state policies aim to support and encourage work, all too often parents who need affordable care to be able to work do not have access to such care. In fact, since January 2011 the state's income eligible child care voucher program has been closed to new families.⁵

Figure 3. FY 2012 State Budget for TAFDC Level with FY 2001
(Real 2012 Millions of Dollars)

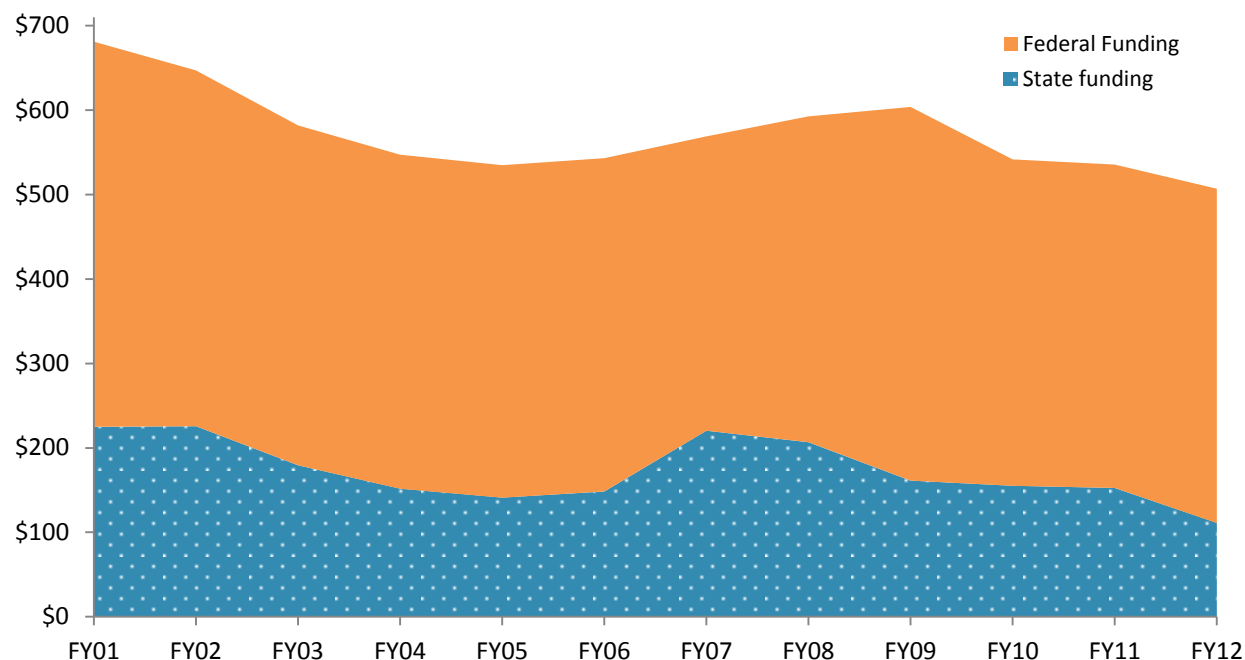


Federal and State Funding for Early Education and Care

In Massachusetts early education and care funding is a shared responsibility of the federal and state governments. In this section we examine the role of federal and state spending decisions on the availability of care in Massachusetts. After reaching its high point in FY 2001 at \$681 million, spending on early education and care in Massachusetts fell by almost \$175 million over the next decade to around \$500 million.

⁵ Although the voucher system is closed – children on the waiting list may still have the opportunity to receive child care through a contracted slot. Slots are contracted with specific providers who have a set number of spots available for children receiving a subsidy. When a spot opens up the state can fill that spot with a child on the waiting list.

Figure 4. Total Early Education and Care Spending Decreases, FY01-FY12
(Real 2012 Millions of Dollars)



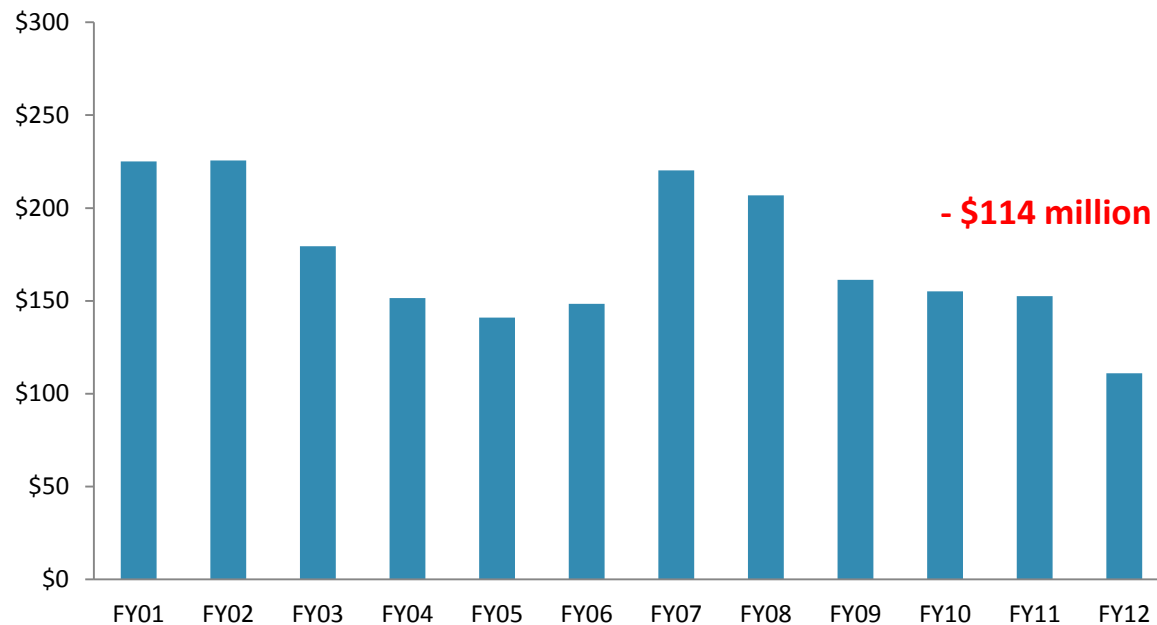
Federal Funding Loses Value Each Year:

Although funded through both state and federal sources, the vast majority of early education and care funding, currently around 80 percent, comes from federal sources. As Figure 4 indicates, between FY 2001 and FY 2012 federal funding decreased approximately \$60 million (13 percent) from \$456 million to \$396 million. The federal reduction can be traced to the lack of an inflationary adjustment in TANF, the largest source of federal funding.

State Funding Cut Over 50 Percent:

The decline in state funding has been significantly steeper than the federal decline largely due to state income tax cuts which decreased revenue significantly. Whereas in FY 2001, the state contributed over 33 percent of the total early education and care budget, by FY 2012 that percentage had dropped to under 22 percent. In fact state funding decreased over 50 percent during this time from \$225 million in FY 2001 to \$111 million in FY 2012 (See Figure 5). Even though state funding makes up much less than half of budgeted spending, the \$114 million state decrease accounts for almost two-thirds of the total decrease in spending since FY 2001.

Figure 5. State Early Education and Care Funding Decreases More than Half, FY01-FY12
(Real 2012 Millions of Dollars)



Early Education and Care, and Cash Assistance Spending Decrease Sharply as a Share of Personal Income

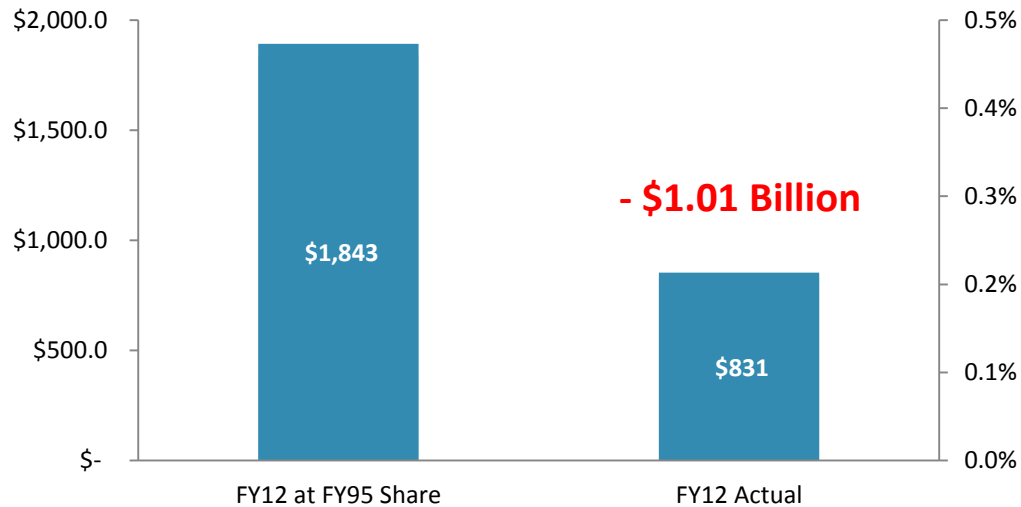
When examining spending over time it is often valuable to consider what we dedicate to particular objectives – such as providing quality early education and care to working families – in the context of our overall resources. Over time, our economy grows. In that context we make choices, as a state, about whether to dedicate the same share of our resources to the things we do through government, or to increase or decrease that share.⁶ Therefore, it is useful to ask, if we were dedicating the same share of our overall resources (personal income) to early education and care and to cash assistance that we were dedicating to those supports for low income families before welfare reform, what would we be spending today? As Figure 6 shows, in FY 1995 spending on these two program areas together accounted for 0.47 percent of the state economy. By FY 2012 the share had dropped to 0.21 percent.

- The state spent \$1.01 billion less on early education and care, and cash assistance in FY 2012 than if it had maintained the FY 1995 level of commitment.

⁶ For more information about using personal income to compare spending levels, see http://www.massbudget.org/report_window.php?loc=personal_income_adjustment.html

Figure 6. Early Education and Care and Cash Assistance Spending Decreases Sharply as Share of Personal Income, FY95-FY12

(Millions of Dollars)



Decrease in Spending Negatively Effects Early Education and Care Access and Quality

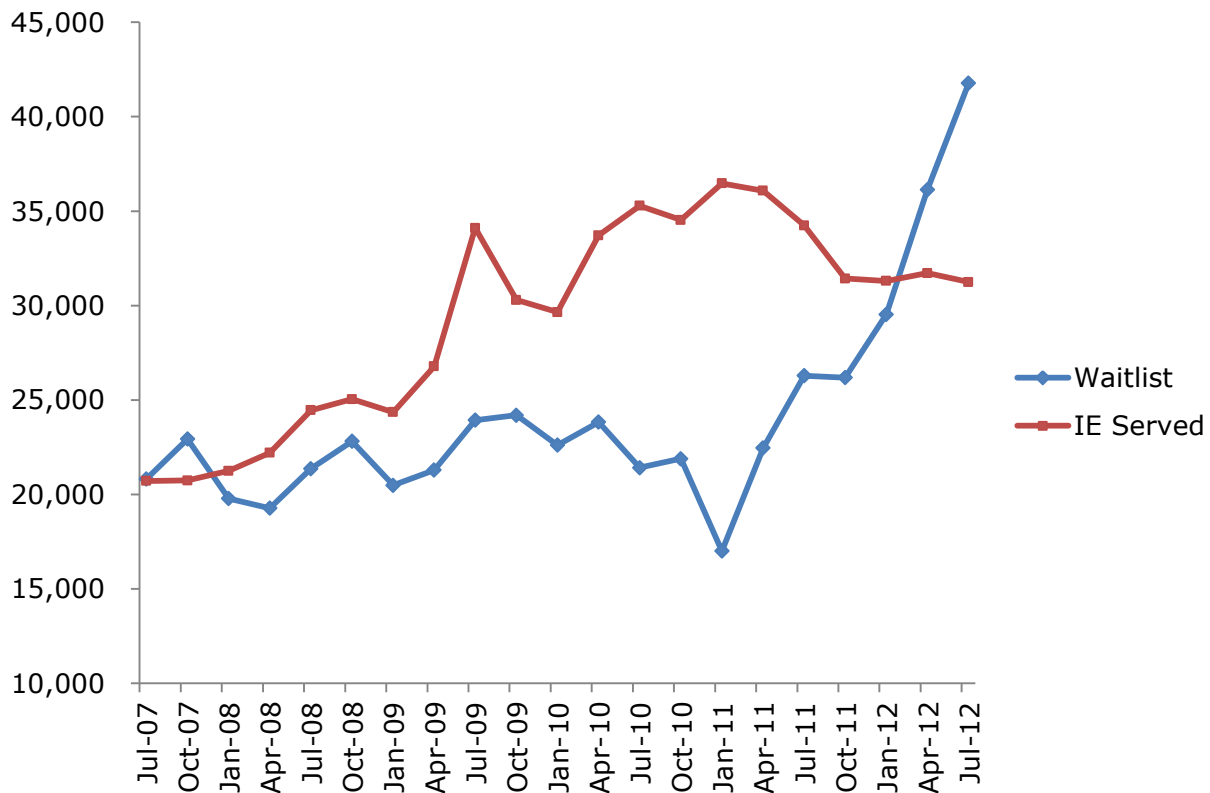
Most discussions of early education and care funding eventually center on two main areas affecting the service received by children and families access and quality.

Access Tightens – Waitlist Grows:

There are three distinct child care subsidies available for children and families in Massachusetts; 1) **TANF-Related Child Care** for children of families served by or transitioning from TAFDC, 2) **Supportive Child Care** for children in the care of the Department of Children and Families (DCF), and 3) **Income Eligible Child Care** for children of other low-income working families.⁷ Families involved in either of the first two programs receive a subsidy if one is needed. But, families who qualify for the Income Eligible program do not automatically receive support. Instead, these families are most often placed on a growing waiting list.

⁷ Families served by TAFDC are also low income working families – although many families are exempt from work requirements. For a list of exemptions, see <http://www.masslegalhelp.org/income-benefits/tafdc-cant-meet-work-requirement>

Figure 7⁸. Access and Waitlist for Income Eligible Care



Over the last fifteen years, access to early education and care has remained vital for working families even as the TAFDC caseload has been cut in half.⁹ Those working families who do not qualify for TAFDC can seek support through the Income Eligible program. Unfortunately budget cuts in FY 2011, FY 2012 and FY 2013 increased pressure on the program increasing the number of children on the waiting list. In FY 2011 alone, the Income Eligible budget was cut 11.9 percent. Because of the cut, access to vouchers for all new children on the waiting list was closed causing the number of children on the waiting list to skyrocket.¹⁰ As Figure 6 shows, in 2012, for the first time in four years the number of children on the wait list exceeded the number of children receiving a subsidy, and between March and April alone there was an 11.8 percent increase in the number of children on the wait list. This closure effectively denies families a resource which would allow parents to work and support their families. Because access to care is also closed to siblings of children already receiving a subsidy, even some families receiving a subsidy still cannot easily access the workforce.

⁸ Department of Early Education and Care Board Presentation October 2012

⁹ Many factors contributed to the decrease in caseload during this period. The improving economy of the late 1990s and EITC expansions in 1990 and 1993 are two external factors which impacted TAFDC caseload levels. A few of the internal TAFDC policies which impacted caseload levels include: time limits, work requirements, and the decreasing value of TAFDC assistance – which is not adjusted for inflation. For more information about caseload changes, see http://www.acf.hhs.gov/sites/default/files/opre/change_time_1.pdf; <http://www.princeton.edu/jpia/past-issues-1/2002/1.pdf> - p3; <http://clinton4.nara.gov/WH/EOP/CEA/html/welfare/>.

¹⁰ Families seeking support can utilize a voucher or a slot. A voucher allows families to choose any provider that will accept a state subsidized placement. A slot is an opening at a specific provider. Slots cannot be transferred to other providers.

Quality – Massachusetts Pays Rates Well Below Federal Recommendations:

Access to care is extremely important for families. However, the quality of care that families can access is even more important for the long term development of children receiving care. Many studies note the link between high quality early education and later child success in school and life.¹¹ Although the exact elements that define high quality are still debated, one quality widely recognized as a key element is the training and professional development of early education teachers.¹²

The new Quality Rating Information System (QRIS) used by the Department of Early Education and Care standardizes quality measures making it easier and more efficient to evaluate program quality for licensed providers of care.¹³ Five key indicators along with other standards are used to evaluate programs and determine each program's quality rating.¹⁴ The amount of formalized early childhood education of teachers is one of the key indicators.

This main driver of quality also serves as the primary cost driver for early education and care providers making high quality care expensive. The single largest expense for providers is teacher salaries and teachers with more training in early childhood education receive the highest salaries. On the flip side, providers receive almost all of their revenue from rates charged to families or subsidized payments by the state. In Massachusetts, receiving state subsidized payments at below market rates makes it difficult for providers to attract and pay teachers with higher degrees of training – potentially impacting the quality of care available for children using a subsidy to access care.

The federal Administration for Children and Families suggests states reimburse providers at a rate which would provide families access to 75 percent of the available facilities in their local area.¹⁵ In Massachusetts, for center based care, there are 6 regions and 3 age groups for children under school age which means there are 18 different rates paid to center based providers in the state. Of those 18 rates – none meet the 75 percent threshold.¹⁶ In fact, none of the 18 reaches the

¹¹ Camilli, et al., 2010 - http://spot.colorado.edu/~camillig/Papers/38_15440.pdf; Vandell, et al., 2010 -

<http://www.ncbi.nlm.nih.gov/pmc/articles/PMC2938040/>; Garces, et al., 2000 -

<http://escholarship.org/uc/item/0952c2t7#page-1>; Deming, 2009 -

http://www.people.fas.harvard.edu/~deming/papers/Deming_HeadStart.pdf; Ludwig & Miller, 2007, Does Head Start Improve Children's Life Chances? Evidence from a Regression Discontinuity Design ; Heckman, et al., 2010 -

<http://www.ncbi.nlm.nih.gov/pmc/articles/PMC3145373/>; MacEwan, 2013 -

http://www.peri.umass.edu/fileadmin/pdf/published_study/ECE_MacEwan_PERI_Dec24.pdf.

¹² Barnett, 2003, Better teachers, better preschools: Student achievement linked with teacher qualifications; Burchinal, et al., 2002, Caregiver training and classroom quality in child care centers; Weaver, 2002, Predictors of Quality and Commitment in Family Child Care: Provider Education, Personal Resources and Support; St.Clair-Christman, Buell & Gamel-McCormick, 2011 - <http://ecrp.uiuc.edu/v13n2/christman.html>; Kelley & Camilli, 2007, The Impact of Teacher Education on Outcomes in Center-based Early Childhood Education Programs: A meta-analysis.

¹³ The effectiveness of QRIS is still to be determined as it has only recently been implemented over the entire state. However, a QRIS system has been implemented in over twenty states and comes from research highlighting key practices linked to high quality education.

¹⁴ The five indicators are: 1) Curriculum and Learning, 2) Safe, healthy indoor and outdoor environments, 3) Workforce development and professional qualifications, 4) Family and community engagement, and 5) Leadership, administration and management. There are currently four levels of quality and programs must meet all criteria of one before qualifying for a higher rating.

¹⁵ <http://machildcareresourcesonline.org/wp-content/uploads/2011/06/Massachusetts-Market-Price-Survey-Final-for-Release.pdf>

¹⁶ <http://machildcareresourcesonline.org/wp-content/uploads/2011/06/Massachusetts-Market-Price-Survey-Final-for-Release.pdf>

50th percentile. Only one rate paid by the state exceeds the 30th percentile. Another 8 give access to between 10 and 20 percent of the facilities in the local market, and half of the 18 (9 price points) are set so that families have access to less than 10 percent of the available care facilities in their local market for their child. Reimbursement rates for family based providers are slightly higher, but none reaches the 75 percent threshold.¹⁷

Conclusion

Having consistent care for children before they reach school age has always been important for working parents. In 1995, access to early education and care became even more important due to changes in public assistance introducing work requirements for families receiving assistance.

In the years immediately following reform, between FY 1995 and FY 2001, funding for early education and care increased at the same time funding for cash assistance decreased. As a result, total spending for cash assistance and early education together decreased by almost \$250 million. The significant loss of total funding notwithstanding, the shift of funds to early education and care during this initial period aligned with new TAFDC work goals. However, in the late 1990s and early 2000s, state income tax cuts severely limited Massachusetts' ability to continue its support. Between FY 2001 and FY 2012, total spending for early education and care dropped by almost \$175 million and the state cut its contribution by over 50 percent.

The decrease in spending is having a detrimental impact on families. In the last decade more children have been added to a waitlist for care. In fact more children are currently on the waitlist than receive a subsidy through the Income Eligible program. Quality is also affected as rates paid by the state to providers are well under market rates making it difficult for providers to hire, train and provide ongoing professional development opportunities to early education teachers.¹⁸ What does all this mean for children and their families? For those who receive support – their children may still not receive the high quality early education and care that is most likely to lead to long term success in school and life. And for families who are put on the waiting list – parents will have difficulty finding and keeping work and children will not receive educational opportunities that can help prepare them for kindergarten and beyond.

¹⁷ <http://mchildcareresourcesonline.org/wp-content/uploads/2011/06/Massachusetts-Market-Price-Survey-Final-for-Release.pdf>

¹⁸ St.Clair-Christman, Buell & Gamel-McCormick, 2011 - <http://ecrp.uiuc.edu/v13n2/christman.html>; Huggins, et al., 2010 - <http://www.btwic.org/wp-content/uploads/2010/01/Blueprint-for-Early-Ed-Compensation-Reform1.pdf>.