PUBLIC FUNDING FOR EARLY CHILDHOOD EDUCATION PROVIDERS:

Comparing Direct-to-Provider Grants to Child Care Financial Assistance Reimbursement

Introduction

Any family who has or had young children knows that the cost to put their children in child care is high – often, prohibitively high. This is especially true in the Commonwealth of Massachusetts, where a median family paying to put their infant in care would spend nearly 23% of its income on that one child's care[1] and the average annual child care tuition for two children in center-based care (infant and 4-year-old) is $43,118.[2] At the same time, the professionals who make up the early childhood education (ECE) workforce make poverty wages; the median hourly wage is just $18.30 in Massachusetts, about the same as a bellhop.[3] Providing early childhood education is resource-intensive and even with depressed wages for educators, the costs to providers to operate ECE programs add up quickly. As a consequence, the overall cost to providers to educate and care for children exceeds income from the untenably high prices facing families, as well as income from government funding, and the system remains locked in a lose-lose financial position. Solving this requires a substantially greater investment of public dollars in the early childhood education sector.[4] It also requires allocating that public investment in such a way that the system is able to achieve two core goals at the same time: enabling providers to increase financial expenditure on quality and improving affordability for families.

The purpose of this brief is to examine Massachusetts' two main vehicles for channeling public funds into the early education and care sector – Child Care Family Financial Assistance and direct-to-provider operations grants (commonly referred to as the Commonwealth Cares for Children (C3) grant program) – and to identify how each might be utilized going forward, to ensure the most equitable and efficient distribution of resources and impact on the cost of care.

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[1] https://www.epi.org/child-care-costs-in-the-united-states/#/MA
[2] https://www.americanprogress.org/data-view/early-learning-in-the-united-states/child-care-and-early-learning-explore-the-data/?stateFilter=ma&yearFilter=2022#dv-explore
[3] https://www.bls.gov/oes/current/oes_ma.htm#25-0000
[4] See Neighborhood Villages' recent report, High-Quality Early Childhood Education: Opening the Books on its True Costs, which synthesizes research undertaken by the Center for Early Learning Funding Equity (CELFE) as well as original research. The report sheds light both on the overall daily costs to providers in the Commonwealth – amounts well above both what providers are currently able to charge in tuition and what the state sets as its level of reimbursement for providers who care for children with Child Care Financial Assistance – along with all of the individual expenses that make up the high cost, and what is missing from high-quality care.

Primary Funding Vehicles for Public Investment in the ECE Sector

Further investment in ECE in the Commonwealth is imperative; however, the form of that investment – i.e., the funding vehicles through which the investment is made – is a crucial part of the equation. The lion's share of public funding currently comes in the form of subsidies from the federal government, through the federal Child Care and Development Fund (CCDF) program, to help offset the cost of care for the most at-risk and low-income families in the Commonwealth.[5] Direct-to-provider operations grants, launched in 2021, now represent the second largest source of public funding. What follows is a description of these two primary vehicles and analysis of the implications of both on provider programming and decision-making.

Child Care Financial Assistance Program

Child Care Financial Assistance (CCFA), formerly commonly known in Massachusetts as "the subsidy system," is the state mechanism by which the Commonwealth reimburses ECE providers for some of the cost associated with caring for children whose families qualify for public financial aid. Unlike public K-12 education, which is a public system accessible to all families at no cost, ECE largely exists as a private market. There are two ways for families to access and pay tuition for an ECE program: 1) paying, with personal funds, the full price of tuition established by the care provider; or 2) meeting financial or other eligibility criteria for child care financial assistance, such that all or part of a child's tuition is covered by public funds. Both access pathways are fundamentally tuition-based. A substantial amount of funding used by Massachusetts to support its CCFA program is federal and comes from the federal Child Care and Development Fund block grant program, as detailed below.

The Child Care and Development Fund (CCDF) is administered by the U.S. Department of Health and Human Services (HHS) and governed by the rules outlined in the federal Child Care and Development Block Grant (CCDBG) legislation.[6] The U.S. Department of HHS appropriates funds to states whose lead agencies then have the obligation to use them according to the rules of CCDBG.[7] The Commonwealth of Massachusetts' lead agency is the Department of Early Education and Care (EEC), which establishes rates by which providers of ECE will be reimbursed for the care of children eligible for assistance under CCDBG. To be eligible, children must:

- Be younger than age 13 (or may be older in certain, tightly defined circumstances);
- Have all custodial parents working or attending job training (unless the child requires or receives protective services);
- Have family income no greater than 85% of state median income (SMI); and
- Have no more than $1 million in family assets.[8]

States may use a lower family income eligibility threshold – which Massachusetts does – than the federal maximum of 85% SMI and they are not obligated to serve all eligible children.

[5] https://www.acf.hhs.gov/archive/occ/faq/what-child-care-and-development-fund-ccdf
[6] https://www.congress.gov/bill/113th-congress/senate-bill/1086
[7] Lead Agencies are designated by the state as the primary contact to the federal government and authority on administration of the program. For more, see: https://childcareta.acf.hhs.gov/ccdf-fundamentals/key-roles-implementation-ccdf
[8] https://crsreports.congress.gov/product/pdf/IF/IF10511

In Massachusetts, for most families, the eligibility ceiling to begin receiving CCFA is 50% of state median income (approximately $72,744 for a family of four).[9] Once funding is available, families must verify eligibility and then either accept the slot offered with a contracted provider or seek a provider who participates in the CCFA program by accepting vouchers. (Note, not all providers elect to participate in the CCFA program. In Massachusetts, roughly 58% of licensed providers participate in CCFA.[10]) Families receiving CCFA may be required to contribute to the price of provider tuition. Whether a parent is required to pay part of their child's tuition is based on household income. A CCFA-eligible family's contribution to tuition is commonly known as the "parent fee."[11]

Once a child is enrolled in a CCFA-participating program, the Department of EEC reimburses that provider for the care provided to the child. The rate of reimbursement is determined by the Department of EEC and based on program type, geography, and age of the child. The actual reimbursement that the provider receives is the established rate, less the parent fee for a given family. For example, if the Department of EEC's reimbursement rate is $50 per day for a child, but the parent has been assessed to be responsible for contributing $5 per day, then the provider will be reimbursed by the Department of EEC at the rate of $45 per day. The family will pay the difference (their fee) directly to the provider. It is the provider's responsibility to collect the parent fee from the family.

To support the cost of the Commonwealth's CCFA program, Massachusetts supplements federal funds from CCDF with state dollars, increasing revenue for the program to reach eligible populations. Despite this, federal and state appropriations to the early education and care sector, and CCFA specifically, are insufficient to cover the full cost of providing care for all children eligible for CCFA.[12] As a result, the state's CCFA reimbursement rate remains below the cost of providing early childhood education, making it difficult for providers participating in CCFA to provide high-quality care and ensure widespread access for families.[13] Unfortunately, low reimbursement rates combined with challenges embedded in the structure of the CCFA system create barriers to CCFA participation for providers; as a result, there is insufficient provider supply to serve all families eligible for financial assistance. Indeed, recent data estimates that Massachusetts' CCFA program is currently only reaching about one quarter of all children served by licensed providers in the Commonwealth.[14]

The largest contributing factor to limited child care supply for families receiving financial assistance is the low CCFA reimbursement rate. Rates for reimbursement are below the federally suggested 75th percentile in nearly all cases.[15] Given additional investment of public dollars by the state in 2022 and 2023, EEC was able to ensure that nearly every provider is now reimbursed at least at the 50th percentile of the market rate; however, reimbursement rates that are so misaligned with prices keep many providers from participating in the CCFA system.

[9] As of this writing, Massachusetts Governor Maura Healy, in her FY25 budget proposal, recommended an increase in the eligibility threshold to 85% of SMI. The change is still pending and will be determined through legislative action.
[10] Based on data shared by EEC at the January 2024 meeting of the Board of Early Education and Care: https://www.mass.gov/doc/january-board-meeting-slides/download
[11] See: https://www.mass.gov/how-to/apply-for-funds-to-help-pay-for-child-care
[12] The total devoted to CCFA is insufficient to fund existing capacity and insufficient to meet potential demand in the Commonwealth for all eligible families. See *High-Quality Early Childhood Education: Opening the Books on its True Costs* for further information.
[13] In FY2024, and effective in February of 2024, EEC made historic rate adjustments, bringing reimbursement for most providers to at least 50 percent of market rate. For current rates, see: https://www.mass.gov/news/healey-driscoll-administration-proposes-transformative-new-rates-for-child-care-providers
[14] About 58,000 of some 235,000 slots in the Commonwealth are filled with children with CCFA.
[15] The 75th percentile refers to a value at or below which 75% of prices – in this case, ECE tuition prices – fall. The federal guideline is in place so that, theoretically, the value of financial aid for child care allows families to access three-quarters of all providers, based on the tuition they charge. For more information, see: https://childcareta.acf.hhs.gov/sites/default/files/508ed-75th_percentile_exercise_1.pdf

While there is a strong argument to simply raise the reimbursement rate, if that were done in the context of the finite amount of currently available public money, it could mean that fewer children would be served. In other words (see example in Figure 1), if the reimbursement rate increases in the absence of a change in the total pot of public money available for the CCFA program, then fewer children can be served, because the funding does not stretch as far. As illustrated below, given a total budget for CCFA in Massachusetts of $826 million and a caseload of 58,500 children receiving financial assistance, the average per-child reimbursement is $14,120 (i.e., the total funds divided by the caseload). Were the average reimbursement to increase, it necessarily means that the number of children served by CCFA would decrease.

Figure 1. Impact of Increased Reimbursement Rate on Number of Children Served

TOTAL ANNUAL FUNDS AVAILABLE FOR CCFA: $826,000,000	
Average annual reimbursement per child	*Total children served*
$14,120	58,500
$15,120	54,630
	NET DECLINE OF CHILDREN RECEIVING CCFA: 3,870

Another challenge with CCFA is that financial assistance is tied to individual children. Reimbursement to providers, thus, is tied to the monthly enrollment of those children. (Providers participating in CCFA must report enrollment on a monthly basis.) When enrollment of children fluctuates (which it does frequently), so too do payments that providers receive from the state. As a result, though the majority of ECE providers' expenses are fixed annually, provider revenue may change month to month. Thus, it is extremely difficult for a program to budget for an entire year when the funds it receives through CCFA-subsidized tuition may dip from one month to the next, while costs do not. Indeed, providers carry significant operating expenses that are independent of student enrollment, such as rent, school buses, building maintenance, and much of their workforce. Providers need to pay teachers on an annual basis, whether or not a classroom is enrolled at full capacity in any given month. Without the ability to predict exactly how many children with CCFA will be enrolled – and therefore, the amount of CCFA reimbursement that will be received – it is difficult to forecast revenue and budget for fixed expenses.

Thus, even if the Commonwealth contributed a substantially greater amount to CCFA that allowed rates to be increased while preserving the ability to serve most to all eligible families, that would not address the challenge of how reimbursement being tied to individual students (and their enrollment) makes CCFA a less predictable source of revenue.

Direct-to-Provider Operations Grants

In 2021, in recognition of how the Covid-19 pandemic was threatening the viability of the ECE sector, the federal government made an emergency investment in early education and care through the American Rescue Plan Act (ARPA). Massachusetts packaged the ARPA funds it received as direct-to-provider operations grants, which were distributed through a program known as Commonwealth Cares for Children (C3).[16] The availability of C3 grants has had a significant positive impact on Massachusetts' early education and care sector and continues to serve as a lifeline to providers.[17] In Fiscal Year (FY) 2024, in anticipation of the expiration of federal ARPA funds, the Massachusetts state legislature assumed the cost of the C3 program and, for FY 2024, allocated $475 million in funds for operations grants, as part of an historic public investment in the ECE sector.

C3 operations grants are designated to support day-to-day program operations and ensure the availability of child care for families in Massachusetts. **In contrast to per-child, per-day reimbursement for serving children whose families are eligible for CCFA, operations grants are not attached to individual children; rather, they are allocated to each program based on their licensed capacity and staffing and, as such, function more like per-classroom, per-month operational funding**. The amount of per-program grant funding is based largely on the number of children that a provider is licensed to serve. If a provider has four classrooms – which each can accommodate 10 children – funding is given to serve up to 40 children, even if, in a given month, one or more of the classrooms has fewer than 10 children enrolled. Basing funding on a provider's licensed capacity means that payments are consistent and do not increase or decrease due to fluctuations in enrollment. Providers can reasonably expect to know how much public grant revenue they are receiving each month, a model that allows them to continue to pay for expenses that are fixed annually, such as educator wages.

At time of writing, all licensed providers are currently eligible for operations funding. (Described in more detail below, ECE programs serving lower-income children and communities qualify to receive additional funding, as an equity adjustment.) Extending eligibility to all programs, not just those participating in CCFA, acknowledges (a) the volatility of the child care business model, generally, and that many providers maintain a precarious financial position and (b) the public and economic necessity of stabilizing the child care sector, so that families are able to work. Additionally, inclusive eligibility for licensed programs has also provided the Commonwealth with a more comprehensive picture of its early education and care sector. Prior to the C3 operations grants program, the Commonwealth had limited information on providers that did not participate in the CCFA program. With 92% of all licensed ECE providers in Massachusetts participating in the operations grant program, the state now has a more accurate understanding of the sector and its component elements (enrollment levels, labor force, populations served, etc.). With this additional information about the field and, specifically, how providers utilize supplemental funds, the state is able to make more targeted, higher-impact investments in the sector.

As noted above, the C3 program incorporates measures into its funding formula to increase the grant amount for providers that: (a) have staffing levels that promote high-quality programming and/or (b) serve populations with greater potential social vulnerability.

[16] https://www.mass.gov/info-details/commonwealth-cares-for-children-c3-grants

[17] For example, as of January of 2024, more providers participating in C3 spent 66% of all grant funds on workforce-related expenses, including existing payroll and benefits and investments in salary increases. In addition, 35 percent of center-based providers and 28 percent of FCC providers were able to defer planned tuition increases.

While the current funding formula awards a uniform baseline amount of funds per licensed child care slot, the formula also includes the opportunity for a provider to receive additional funds if it employs more staff members than it is otherwise legally required to hire. This staffing adjustment recognizes that the presence of more educators - which lowers ratios of children to teachers in a classroom setting - improves the quality of an early learning program. Thus, to promote quality, the funding formula includes a financial adjustment incentive that rewards programs that employ additional educators.

To acknowledge the additional costs that come with serving higher-needs populations, the funding formula also includes a financial adjustment to advance equity. Programs are eligible to receive additional funds if they serve lower-income children and/or communities. The equity adjustment recognizes and addresses the fact that providers in areas with higher levels of poverty and other forms of social vulnerability are likely to require greater financial resources.[18]

Operations grant funding has worked as intended, allowing providers to keep their doors open, to give teachers wage bumps, and to minimize tuition hikes. Indeed, 81 percent of center-based providers who received operations grants and 43 percent of FCC providers allocated grant funds to increasing compensation and 35 percent of center-based providers and 28 percent of FCC providers were able to defer planned tuition increases.[19] In contrast, 1,161 providers, including 21 percent of family child care providers (FCCs), recently reported that they would have to close if operations grants ceased. These potential closures represent 20,839 licensed child care seats.

A Closer Look at Operations Grants

While the Commonwealth's operations grants program has proved incredibly impactful and demonstrates important potential for offering the early education and care sector a more stable financing approach to investing public dollars, it is, however, a young program with opportunity for refinement and optimization. With respect to ensuring good stewardship of public funds and accurate evaluation of eligibility for equity and quality adjustments, modifications for consideration could, amongst others, include (a) shifting from licensed capacity to bi-annual enrollment levels to calculate the amount of baseline funding a provider receives; (b) using more precise criteria for determination of the equity adjustment; and (c) considering provider characteristics that should preclude any upward adjustment of funding and program participation generally. Should operations grants become a permanent feature of how Massachusetts finances its ECE sector, there are also opportunities for assessing how the grants program can be used to improve equity in access to ECE, including increased provider participation in the CCFA program.

Evaluating Capacity vs. Enrollment to Determine Minimum Grant Award

Due to continued stressors on the child care sector, many programs do not continuously operate at full capacity and those with a greater gap between their licensed capacity and actual enrollment may currently receive a level of operations grant funding that does not accurately reflect their operations costs. To account for this, the operations grants program might revert to using enrollment as the main measure for funding, but on a sustainable reporting schedule, so as to preserve programs' ability to predict and rely upon a stable amount of annual revenue.

[18] Under the current formula, providers are eligible to receive an equity adjustment if (a) one third of their enrolled children receive Child Care Financial Assistance (CCFA) or (b) they have a census Social Vulnerability Index (SVI) of .55 or higher.
[19] Massachusetts Department of Early Education and Care Board Meeting, January 2024.

As described above, the reimbursement precedent at work in the CCFA program – monthly reimbursement based on monthly enrollment – is a flawed model. However, there may be alternative options for using enrollment to help ensure equity in allocation of operations grants funds.

For example, providers could be required to report enrollment every six months, with funding levels assigned/adjusted based on bi-annual enrollment levels. Bi-annual reporting would allow both for more accurate allocation of baseline funds while also protecting against financial instabilities associated with enrollment fluctuation. (Moreover, it might also help alleviate administrative burden on providers, who currently are required by the C3 program to recertify their application for each month of funding. Recertification requires updating the information reported in prior months.) Alternatively, EEC might follow the example of the Massachusetts Department of Elementary and Secondary Education (DESE), which requires reporting of enrollment three times per year.[20] Reporting on enrollment on a sustainable and informative schedule would give EEC an accurate picture of the children a program serves, thereby ensuring equitable allocation of base-level funds.

Program Eligibility for Equity and Staffing Adjustments

With respect to eligibility criteria for equity adjustments, the current operations grant funding formula uses a relatively broad measure for determining whether providers qualify for additional funding. It may be prudent for the Department of EEC to institute a more granular assessment of social vulnerability of the families served by a provider to calculate an equity adjustment. Under the current formula, providers are eligible to receive an equity adjustment if (a) one third of their enrolled children receive Child Care Financial Assistance (CCFA) or (b) they are in an area with a zip code and/or census tract Social Vulnerability Index (SVI)[21] of higher than .55. The current formula takes the higher of either zip code SVI or census tract SVI to determine a provider's SVI level. Utilizing SVI as an eligibility criteria for the equity adjustment is intended to acknowledge that there are many providers who do not participate in CCFA but serve in vulnerable communities and therefore may also require additional resources to meet child and family needs. While flexibility in assessing SVI was appropriate during Covid-19 emergency circumstances, it is timely to revisit the metric by which eligibility is evaluated for providers whose enrollment does not consist of one-third children receiving CCFA. This is to avoid circumstances in which providers that may be located in higher-SVI zip codes but in fact serve moderate to higher income populations receive funds for equity adjustments.[22]

For example, at the time of writing, there are 52 providers in Cambridge, Massachusetts (where 2021 median household income was $112,565) who do not participate in the CCFA program but receive additional funding for an equity adjustment based on their zip code's SVI being greater than .55. However, only 25 of those 52 providers are located in a census tract with an SVI greater than .55, suggesting that the other 27 may not actually be serving lower-income families, despite their location.

[20] https://www.doe.mass.edu/infoservices/data/sims/sumreports.html
[21] SVI, or Social Vulnerability Index, refers to the ranking of a census tract on 16 social factors, including poverty, lack of vehicle access, and crowded housing. The CDC uses U.S. Census data to determine the social vulnerability of every census tract. Social vulnerability is the potential negative effects on communities caused by external stresses on human health and .75 and above are considered high social vulnerability index scores.
[22] Data show that there are Massachusetts providers who operate in more affluent neighborhoods (i.e., census tract) located within higher poverty zip codes. Thus, these providers, though located in socially vulnerable zip codes, may not in actuality be serving higher needs children

Using only census tract SVI as a metric for eligibility for an equity adjustment may result in more accurate evaluation of provider profile and, thereby, more accurate allocation of resources to providers serving lower income families and communities.

Additionally, revising how the program assesses general eligibility for any funding adjustment - whether that be an equity or staffing adjustment - is also timely. Under the current funding calculus, there is a feature to compare a starting educator's salary to the compensation of the organization's highest ranking executive. This was included to serve as a check on providers with a disproportionate compensation gap between educators and program administrators/executives and to limit their eligibility for equity and staffing adjustments. Under the current program guidelines, if the ratio of the lowest paid educator : Chief Executive Officer (CEO) compensation is greater than 1 : 40, the provider is not eligible for these adjustments. Of note, however, is that current program guidelines allow providers who may, on their face, be ineligible, to appeal to the Department of EEC. Cursory review of public data on the allocation of C3 program funds suggests that some providers with compensation ratios of greater than 1 : 40 have successfully appealed and are receiving adjustment funds. To ensure proper and equitable targeting of operations grants funds, use of the CEO to educator compensation ratio as an eligibility criteria merits revisiting.

Future Considerations

To promote equitable access and quality even further, operations grants could be leveraged to incentivize provider behavior. For example, with respect to enrolling children receiving CCFA or residing in lower-income communities, it may be timely to make participation in the operations grants program contingent upon *agreement to participate* in the CCFA program (a first step for providers seeking to participate in the CCFA process[23])[24]. In such a circumstance, a provider having in place an agreement with the Department of EEC that states their willingness to enroll a child supported by CCFA would be sufficient.

Additionally, having moved from a state of emergency to address provider stabilization with, primarily, federal funds, to a state of stability to address provider sustainability and growth using state funds, it is timely to revisit operations grant program guidelines, the funding formula, how baseline funding is calculated, and eligibility for program participation and adjustments that promote equity and quality. As noted above, as the operations grants program becomes institutionalized as a core financing of Massachusetts' early education and care sector, such a revisiting of program guidelines and the funding formula should be a transparent process with promulgation of regulations and opportunity for public input, inclusive of notice and comment periods.

Lastly, should operations grants reach a funding level that accounts for the true cost of delivering high-quality child care to children, one could contemplate attaching other systems-enhancing requirements to receiving operations grant funding – such as adherence to an EEC-designated salary scale for staff. **Indeed, the operations grant funding program has the potential to be a transformative systems-building mechanism for the state. The grants program (provided it is comprehensively funded) offers the Commonwealth the opportunity to establish standards for access and quality and the ability to hold providers accountable to operating within those parameters.**

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[23] ECE providers who wish to care for children with CCFA may do so through a contract with the state or by entering into an agreement to accept vouchers. The first step is to contact the local Child Care Resource and Referral (CCRR) agency. https://eeclead.my.site.com/EEC_CCRRSearch
[24] Legislation currently pending in Massachusetts calls for this requirement (as of February, 2024).

Practical Implications of Operations Grants for Providers

Data on the cost of providing high-quality child care to children makes it plain that additional public investment in the early education and care sector is needed if the Commonwealth aims to improve access to high-quality early learning programs.[25] In addition to the need for more public revenue, how public funds are appropriated - through CCFA and operations grants - has significant implications for providers (and, therefore, educators and families). Looking at a real provider's operations and labor costs, enrollment levels, and resulting revenue allows for comparison of these primary funding mechanisms and how each impacts program budget predictability.

The Boston-based Massachusetts provider profiled below receives operations grant funding and has a capacity to serve 244 children; it enrolls a significant number of children with CCFA. While the provider's operating costs vary somewhat month-to-month, they are depicted below as stable across time, as most of what drives program cost (namely, staff and educator compensation) is fixed.[26] As is typical in the child care market, the provider's enrollment fluctuates monthly. Figure 2, below, illustrates a plausible pattern of enrollment fluctuation for the provider, as well as how the revenue from CCFA reimbursement, operations grants, and private tuition changes as enrollment changes. As a consequence of enrollment variation, revenue from CCFA-supported tuition and private tuition fluctuates month to month. As illustrated, the funding from CCFA dips by more than $20,000 from June to August and then mostly recovers from August to September, resulting in a net deficit of $42,148 over 4 months (from June baseline). In the four months depicted, CCFA revenue can vary by as much as 8%. Similarly, private tuition paid by families collected dips over the same four months by $59,850 (net of increases and decreases from June baseline). In contrast, the revenue from C3 operations grants remains stable, despite child enrollment fluctuation.

Figure 2. Changes in Revenue and Costs Relative to Changes in Enrollment for Example Provider

Month	Enrollment	Revenue from CCFA Reimburse-ment[27]	Revenue from C3 Operations Grants	Revenue from Private Tuition Paid by Families	Total Revenue	% Change in Revenue from CCFA Reimburse-ment Compared to Previous Month	Program Operations Costs[28]
JUN	**Total children:** 228 **Children with CCFA:** 151	$265,189	$80,685	$184,338	$530,212	**n/a**	$462,278
JUL	**Total children:** 205 **Children with CCFA:** 140	$245,871	$80,685	$155,610	$482,166	**-7%**	$462,278
AUG	**Total children:** 200 **Children with CCFA:** 139	$244,115	$80,685	$146,034	$470,834	**-0.7%**	$462,278
SEP	**Total children:** 230 **Children with CCFA:** 150	$263,433	$80,685	$191,520	$535,638	**+8%**	$462,278

[25] See http://www.mass.gov/doc/massachusetts-child-care-cost-estimation-study-report/download and https://www.neighborhoodvillages.org/reports-from-the-field

[26] The costs illustrated in Figure 2. are based on the provider's current reality of paying depressed wages for teachers; if they increased wages modestly, to just $24 per hour for all educators, costs would balloon to $578,239 per month, exceeding their total revenue.

[27] Calculation based on the average daily reimbursement rate – for FY23 – across age groups for this provider's region ($83.63) times business days in a month (21) times number of children with CCFA in that month

[28] Calculation based on conversation with provider regarding annual expenses, resulting in per-student average cost. For the first row, this average per-student cost was multiplied by total children enrolled. While the enrollment dips in subsequent months, the cost remains constant, based on the fact that most costs are fixed (no variation with loss of enrollment).

While the provider above receives significantly fewer funds in the form of operations grants, as compared to both CCFA and privately paid tuition, the amount of the grant is stable, making budgeting easier. The provider can reasonably expect to know how much public grant revenue it is receiving each month. This is important, as even single-digit swings in revenue pose a potentially catastrophic challenge for child care providers, most of whom operate with margins of one to two percent.

There is strong evidence demonstrating the opportunity provided by operations grants to make long-term investments in operations costs, particularly in staff wages. As a result of receiving operations grants: in the last quarter of 2023, the licensed capacity of the child care system continued to grow; almost half of providers delayed tuition increases; a quarter of providers reduced tuition costs for at least some families; and providers spent 66% of total grant program funds on workforce-related expenses, including existing payroll and benefits and investments in salary increases. As noted above, 81% of center-based providers and 43% of FCCs reported that C3 allowed them to increase salaries for staff; 64% of center-based providers and 28% of FCCs report that C3 allowed them to hire additional staff; and 44% of center-based providers and 36% of FCCs report that C3 allowed them to provide new benefits/supports for staff.[29]

Conclusion

In the absence of a reality in which early education and care is a public entitlement – universally accessible and free to all families – there is a need not only to increase funding for the sector, but also to be intentional about the vehicles used to distribute that funding. While CCFA stands as the historic and by no means unimportant mechanism for how public funds are allocated to the early education and care sector, direct-to-provider grants have proved to be an incredibly stable revenue source, particularly with respect to supporting the substantial fixed costs of operating an ECE program. While reimbursement through the CCFA program is an important source of funding for providers who serve vulnerable children, its association with individual children and its inflexibility due to federal regulations makes it an unreliable form of funding for providers. Operations grants, in contrast, provide needed stability, making for improved budgeting and the ability to make long term programmatic investments, such as increased salaries for staff. Funding that is predictable, consistent, flexible, and that accounts for the needs of the families served has proven more effective at ensuring providers are able to offer higher-quality early education.

Indeed, operations grants should be considered an essential, permanent component of future early education and care financing structures. Indeed, one can imagine a future in which the bulk of fixed operations costs (labor, facilities, information technology, etc.) could be supported through public operations grants, leaving the CCFA program to serve as a source of revenue that could be used by a provider to support enhanced resources that help meet education or wraparound needs of lower-income children. If operations grants made up a higher proportion of the true cost of providing high-quality care for children, they could be used as the lever by which recipient providers are able (and required to) raise wages, make investments in program quality, adhere to a set of common standards, and reduce tuition. **Operations grants lay a path toward systems-building that can help deliver high-quality early education to more children, support a professional workforce, and enable parents to make ECE decisions based on the needs of their children, rather than their family income**.

[29] Data extracted from slides of Massachusetts Department of Early Education and Care Board Meeting, January 2024.