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MTF Bulletin

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FY 2025 Early Education and Care Conference Committee Preview

Early Education and Care will again be an important topic for discussion as the Legislature enters the latest stage of the FY 2025 budget process. As the new fiscal year approaches, members of the Conference Committee are actively negotiating differences between the House and Senate FY 2025 budgets from revenue proposals and spending to technical corrections and detailed policy language.

This brief breaks down the major differences in early education and care investments that must be reconciled before a compromise budget can be sent to the Governor. Though at first glance the House and Senate investments for early education appear very similar, there are meaningful ways the two budget diverge. Conference Committee members will have to consider many factors, including the current revenue picture and the future sustainability of programs, as they determine how to craft the final budget.

Some key areas to watch are:

- **Resources** – Both the House and the Senate use multiple funding streams to support early education spending, but they approach resources differently. The House would leave \$65 million in the High-Quality Early Education & Care Affordability Trust Fund for future use and would create an online lottery to support EEC investments while the Senate would use all the remaining funds in the trust fund in FY 2025.
- **Income Surtax Allocation** – Compared to the House, the Senate budget dedicates \$40 million more of income surtax resources towards early education.
- **Commonwealth Cares for Children (C3)** – The C3 grant program is funded in both budgets at \$475 million, matching FY 2024 levels. However, the House and Senate differ in the funding sources utilized for the program, the provisions included to direct grant funds for FY 2025, and in substantial long-term policy language proposed.
- **Child Care Financial Assistance (CCFA)** – CCFA is also funded across the board at the same level, \$773.8 million, but the Senate has included funding and policy language that would expand income-eligible CCFA eligibility requirements to assist additional lower and moderate-income families who are not currently eligible for financial assistance.

Early Education and Care Resources

The Governor, House, and Senate budgets each rely on multiple funding sources to support early education and care. The chart below shows the resource breakdown for each budget proposal.

Resources for Early Education and Care in the FY 2025 Budget Proposals

Funding Source	FY 2025 Governor	FY 2025 House	FY 2025 Senate
Non-General Fund Resources	\$576	\$570	\$575
Income Surtax Revenue	\$311	\$270	\$310
High-Quality EEC Trust Fund	\$265	\$200	\$265
Online Lottery Revenue	-	\$100	-
General Fund Resources	\$1,002	\$971	\$1,005
Total	\$1,578	\$1,541	\$1,580

in millions

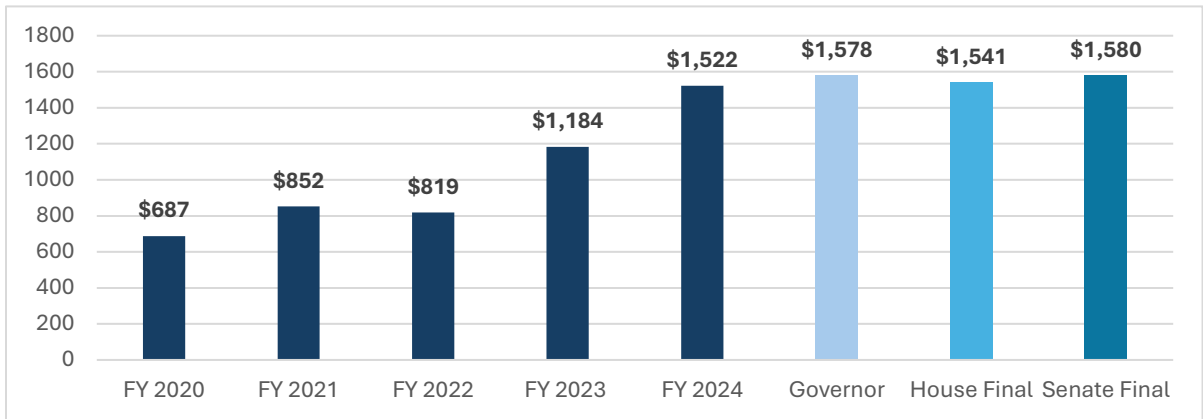
Of note here is that the Governor and the Senate budgets appropriate the remaining balance (\$265 million) in the High-Quality Early Education and Care Affordability Trust Fund to support the full funding of C3, while the House would leave \$65 million remaining in the trust fund for future use. This fund was originally funded at \$490 million using surplus tax revenues collected during FY 2023, which were set aside for early education investments. The use of the remainder of the trust fund will raise questions for upcoming budget cycles, especially concerning C3, as all three budgets rely heavily on the fund to support ongoing programs in FY 2025.

Early Education and Care Spending

FY 2025 EEC Spending Overview

Since the pandemic, spending for the Department of EEC has increased exponentially, more than doubling since FY 2020. Housing is the only other area of the budget that has seen this level of growth in recent years. The chart below shows the Governor, House, and Senate spending proposals for EEC compared to final appropriations for the department since FY 2020. The continued investment in early education, especially in a year with fewer resources available, is incredibly significant. Between FY 2021 and FY 2023, state revenues grew above pre-pandemic projections. Though this revenue growth has since slowed, investments in EEC continue to grow, signifying the importance of early education as vital infrastructure.

FY 2025 Early Education and Care Spending in Historic Context



in millions

For FY 2025, spending for the department is roughly the same across the Governor, House, and Senate budgets. However, there are significant differences when you look at line item and earmark appropriations. The chart below breaks down the EEC spending in the three budgets.

FY 2025 Early Education Spending Across Line Items

Line Item/Program	FY 2024 GAA	FY 2025 Governor	FY 2025 House	FY 2025 Senate
Total Non-Surtax	\$1,451.7	\$1,267.0	\$1,270.7	\$1,269.6
Department Administration	\$59.1	\$59.8	\$87.8	\$66.2
<i>Early Educator Scholarship Program</i>	-	-	\$10.0	-
<i>Early Educator Loan Forgiveness Program</i>	-	-	\$10.0	-
<i>Educator Personal Child Care</i>	-	-	\$8.0	-
Commonwealth Cares for Children (C3)	\$475.0	\$325.0	\$300.0	\$325.0
Child Care Financial Assistance (CCFA)	\$753.8	\$733.8	\$733.8	\$733.8
Commonwealth Preschool Partnership (CPPI)	\$15.0	\$17.7	\$15.0	\$17.5
Employer Supported Child Care Pilot	-	-	-	\$2.5
Career Pathways Program	\$10.0	\$10.0	\$10.0	-
Grants to Head Start	\$17.5	\$15.0	\$17.5	\$18.5
Total Surtax	\$70.5	\$311.0	\$270.0	\$310.0
C3	-	\$150.0	\$175.0	\$150.0
CPPI Expansion	-	\$21.0	-	\$15.0
Reducing Income-Eligible CCFA Waitlist	\$25.0	-	\$30.0	-
EEC Provider Rates (Annualization & New Rates)	\$25.0	\$65.0	\$65.0	\$65.0
Expansion of Income-Eligible CCFA	-	\$75.0	-	\$80.0
Literacy Launch	-	\$30.0	\$30.0	\$10.0
Total EEC Spending	\$1,522.2	\$1,578.0	\$1,540.7	\$1,579.6

in millions

Notably, the House includes several earmarks in the Department’s administration line item directed to early education workforce support.

The House includes earmarks for:

- Early educator scholarship program - \$10 million
- Early educator loan forgiveness program - \$10 million
- Early educator personal child care assistance - \$8 million

The Senate does not include these earmarks, but they do include a \$5 million earmark for early educators in the scholarship reserve account line item (7070-0065) and one of their main priorities in the budget is a free community college program, which would also support early educators in gaining higher education degrees. The Senate also includes early educators as a priority population in their language surrounding an expansion of income-eligible CCFA, which is described later in this brief.

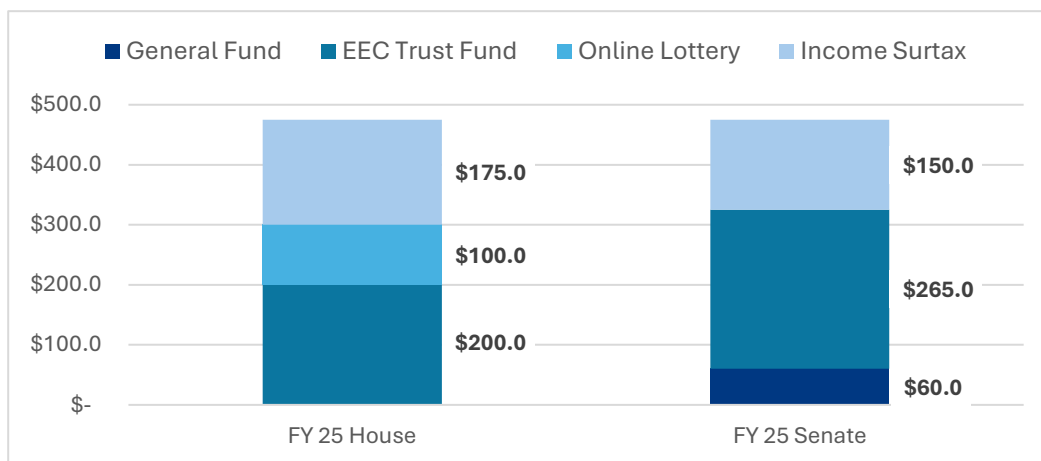
The following sections break down the investments related to C3, CCFA, and other key spending areas. Overall, all three budgets prioritize affordability, access, and quality when it comes to early education and care, but they approach some programs and those goals differently.

Commonwealth Cares for Children (C3)

There are many moving parts when it comes to analyzing the proposals to fund the Commonwealth Cares for Children (C3) operational grants program. Though total funding levels for the program are consistent at \$475 million, the House and Senate differ on the funding sources for C3, what provisions they include for directing grants in FY 2025, and in their long-term policy proposals for the program going forward.

Resources for C3

FY 2025 C3 Funding Sources



in millions

The Senate took the Governor’s approach and funded C3 with \$60 million in General Fund Resources, \$150 million in Income Surtax resources, and \$265 million from the EEC Trust Fund, which would deplete that fund.

The House did not use General Fund resources for C3, and instead uses \$175 million in Income Surtax, \$200 million from the EEC Trust Fund, and \$100 million from revenue generated through a new online lottery system they are also proposing in their budget. The House also proposed instituting an online lottery in FY 2024 and dedicating the revenue to C3 but ultimately that proposal was not adopted in the final budget. It is likely that this proposal will again be a major point of discussion for the Conference Committee this cycle. Relying on online lottery funds to support C3 raises some concerns as the lottery has not been set up, creating uncertainty around both the timeline for implementation and actual revenue generation.

C3 Funding Provisions

Not only do the House and Senate choose to fund C3 in different ways, they also include unique provisions attached to each funding stream as a way to direct grants to certain groups of providers. These provisions are summarized in the chart below.

FY 2025 C3 Funding Provisions

	Funding Source	Amount	Attached Funding Provision
House	EEC Trust Fund	\$200.0	Dedicated for providers whose enrollment is at least 25% CCFA.
	Online Lottery	\$100.0	Dedicated for providers who do not serve CCFA children.
	Income Surtax	\$175.0	\$40M for providers whose enrollment is at least 25% CCFA \$135M for providers with at least 1 subsidized child, but whose enrollment is less than 25% CCFA.
Senate	EEC Trust Fund	\$265.0	Programs with higher percentages of CCFA should be prioritized.
	General Fund	\$60.0	Programs with higher percentages of CCFA should be prioritized.
	Income Surtax	\$150.0	Dedicated for programs whose enrollment is at least 50% CCFA.

Overall, the House language is more prescriptive than the Senate, with resources from the EEC Trust Fund and Income Surtax being directed towards certain providers based on the percentage of children receiving CCFA that they serve. The Senate’s language is more general, except when it comes to the surtax. They go further than the House to dedicate those resources to programs whose enrollment meets a 50 percent CCFA threshold.

A high level of detail included in the program’s provisions could potentially create challenges for EEC as they administer the program. Though they are expected to continue with a tiered grant structure for FY 2025, EEC has expressed interest in having flexibility when it comes to allowing multiple measures to be used for defining tiers, and when it comes to allowing for movement of providers between tiers. Language specifying a total amount of funding per tier could create issues in implementation, for example if a provider moves from 20 to 25 percent CCFA enrollment.

Finally, the House and Senate also differ when it comes to outside policy section language related to C3. Outside policy sections are a way for policymakers to pass longer-term policy decisions through the budget, rather than through separate pieces of legislation.

C3 Outside Policy Sections

Both the House and Senate included outside sections that would codify C3 into state law and define allowable uses for the grant funds but again certain details differ between budgets. The key differences between the two sections are outlined below.

The House C3 outside sections would:

- Create three weighted tiers of grants which would be permanent for five years, through FY 2029, at which point EEC is directed to submit a new formula and grant structure to be used for FY 2030 and beyond. The tiers would allocate grants in the following way:
 - Tier 1: At least 50 percent of grant funding each year would be dedicated to providers serving 25 percent or more children receiving CCFA.
 - Tier 2: No more than 28.4 percent of funding would go to providers serving between 1 and 25 percent children receiving CCFA.
 - Tier 3: No more than 21.1 percent of the total grant allocation would go to providers who do not serve children receiving CCFA.
- Establish a new Early Education and Care Operational Grant Fund to be credited with reserves from iLottery to be used specifically for C3.
- Limit the grant funding available for-profit organizations operating programs in multiple states. These organizations could receive no more than 1/3 of 1 percent of total grant funding, unless a center's enrollment is at least 25 percent children receiving CCFA

The Senate C3 outside sections would:

- Direct EEC to maintain a formula that shall give preference to providers that serve high numbers of children receiving CFFA, high numbers of high needs children, and other unique populations.
- Direct EEC to consider multiple factors when creating their formula, including licensed capacity and enrollment, ages of children served, costs associated with employee compensation, the number of children receiving financial assistance, geographic equity, the demographics of families, and a cost of quality care methodology.
- Require that providers receiving grants certify their willingness to serve children receiving CCFA and comply with the department's career ladder and salary guidelines for educators.
- Limit the grant funding for organizations that operate more than 10 center-based programs in the state to no more than 1 percent of total grant funding unless the provider receives a waiver from the commissioner.

The Senate's outside section language, which prioritizes access, quality, and serving vulnerable communities, also matches language included in their early education bill, S. 2707, that was passed by the Senate in March and is currently awaiting action by the House.

For any program, a high degree of detail in statutory language limits the flexibility of agencies to evolve the program over time, which can present unintended challenges. Since the start of C3, EEC has been able to adapt to changing conditions in the early education system in a way that has been beneficial for providers and for the long-term health of the program. The decisions made during Conference Committee on the codification of C3 will have tangible implications for the program's continued implementation.

Child Care Financial Assistance

In FY 2025, the Governor, House, and Senate fund CCFA at a total of \$773.8 million which is divided between an income-eligible assistance program (\$417.2 million) and a program serving families engaged with the Department of Transitional Assistance (DTA) and the Department of Children and Families (DCF) (\$356.6 million). This represents a \$20 million increase over FY 2024 levels for CCFA. EEC believes that these funding levels are consistent with maintaining services for their current caseload, which currently sits at 58K-60K children.

Provider rate proposals are also the same across the three budgets, each of which allocates \$45 million to annualize rate increases for FY 2024 and an additional \$25 million for new rate increases in FY 2025. The budgets differ for CCFA when you look beyond base funding for the program.

Increasing CCFA Capacity

The Governor and Senate proposed additional funding through the income surtax to support an expansion of the income-eligible CCFA program. The Governor directs \$75 million in surtax resources, and the Senate \$80 million, to expand the initial eligibility threshold for income-eligible CCFA. The proposal would:

- Expand the initial eligibility threshold for income-eligible CCFA from 50 percent to 85 percent of the State Median Income (SMI).
- Allow families earning less than \$84,094 for a family of two and \$103,880 for a family of three to be eligible for financial assistance for child care.
- Translate to roughly 4,000 more children being served by CCFA according to the administration's estimate.

The Senate also includes an outside policy section that would codify the CCFA system, including the expansion of income-eligible assistance. The language in the outside section outlines further steps for expansion, all the way up to 125 percent of SMI, if additional funds are made available.

The House does not include funding for the expansion of income-eligible CCFA, but they do include \$30 million from the income surtax to reduce the current income-eligible waitlist which currently sits at about 20K kids.

Other Notable Early Education Investments

- **Employer-Supported Child Care** (Senate: \$2.5 million) – The Senate includes funding for a new Employer-Supported Child Care pilot program which would provide matching grants to employers who commit to creating new, quality, affordable child care slots for their employees.
 - Participating employers would be required to invest at least 50% of the cost associated with creating these programs, commit to paying child care employees pursuant with department guidelines, and ensure that providers commit to enrolling children receiving CCFA.
 - The language in the Senate budget matches language included in S. 2707 as well.
- **Head Start** (House: \$17.5 million; Senate: \$18.5 million) – The House and Senate both increase the appropriation for grants to Head Start compared to the Governor’s budget.
- **Commonwealth Preschool Partnership Initiative** (House: \$15 million; Senate \$32.5 million) – For CPPI, the House funding level matches FY 2024 appropriations for the program while the Senate invests \$17.5 million from the General Fund as well as \$15 million from income surtax for CPPI expansion. The administration is hoping to expand CPPI to all 26 Gateway Cities by 2026 as part of the Governor’s “Gateway to Pre-K” initiative.
- **Literacy Launch** (House: \$30 million; Senate: \$10 million) – The House matches the Governor’s funding proposal for a new early literacy initiative, while the Senate funds the program at \$20 million less than the House and Governor. All budgets use income surtax for this program’s funding.

What’s Next?

Throughout the budget process, investing in early education and care has remained a major priority for the Healey administration and the Legislature. Nevertheless, the members of the Conference Committee will have to reconcile significant differences between the budget proposals. The more details the Conference Committee includes in the final budget they send to the Governor, the less flexibility EEC will have to implement the FY 2025 budget, particularly the C3 program.

Decisions around funding sources, policy language, and agency flexibility regarding C3; as well as tracking which pieces of the Senate early education bill are included in the final budget are two key factors we will be watching as we analyze the Conference Committee budget. Both the House and Senate budgets incorporate language and priorities from S. 2707, so their inclusion or exclusion in the final budget will send a strong message to the early education field about where the Legislature is focused when it comes to making the system stronger for the future.