

MEMORANDUM

TO: Members, Virginia Commission on Early Childhood Care and Education

FROM: Madeline Daniel, UVA School of Law, State and Local Government Policy Clinic

CC: Katie Ryan

DATE: August 25, 2023

RE: Overview of State Financing Strategies for Early Childhood Care and Education

This research memo provides an overview of financing strategies that five states (Minnesota, New Mexico, Vermont, Tennessee, and Kentucky) have used to expand funding for early childhood care and education. These states have employed a variety of funding mechanisms, including the creation of a non-reverting fund, new payroll taxes, budget packages, public/private partnerships, and a Constitutional amendment, to generate the funds necessary to achieve their goals for early childhood. As a result, they are able to support significant investments that address access and affordability, choice, quality, the early childhood care and education workforce, and data and accountability.

MINNESOTA

Financing Strategy Overview: The Minnesota Legislature [recently passed a large early education bill](#) that included a rebranding of key ECCE programming under the label “Great Start” and a budget package allocating \$300 million in state general fund spending.¹ It is based on the state’s [Great Start Task Force’s final report](#) and recommendations.

Key Components:

- **Access & Affordability:** The legislation extends funding for Minnesota’s existing [early learning scholarship program](#).² It also creates a plan to transition to a “Great Start Scholarships Program” by July 2028 in order to ensure affordable access to high-quality early care and learning for children from birth to kindergarten entry.³ One stated goal of the Great Start Program is that “no participating family pays more than seven percent of annual income for early care and learning services for children from birth to kindergarten entry,” offering an alternative to the federal poverty line calculation that many states use to determine eligibility for programs.⁴
- **Choice:** Parents can use their [early learning scholarship](#) at any program that participates in Minnesota’s early childhood rating and accountability system. Great Start Scholarships similarly will be redeemable

¹ [HF2292, Sec. 19 – Sec. 20 \(2023\)](#).

² [Minn. Stat. § 124D.165, HF 2292, Sec. 20 \(Subd. 5\) \(2023\)](#).

³ [Minn. Stat. 119C.01\(Subd. 3\)\(3\) \(2023\)](#).

⁴ [Minn. Stat. 119C.01\(Subd. 3\)\(6\) \(2023\)](#).

at any program licensed in Minnesota that participates in the state’s rating and accountability system, or any school-based program or Head Start program.⁵

- **Quality:** Only providers who participate in [Parent Aware](#), Minnesota’s early childhood rating and accountability system⁶, can receive and award early learning scholarships. The same requirement will extend to Great Start Scholarships.
- **Workforce:** The legislation continued Minnesota’s pandemic child care stabilization grant program by creating a new [Great Start Compensation Support Payment Program](#).⁷ It allocated \$190.6 million in state funding to support efforts to recruit and retain qualified early educators. The statute requires funds be spent on efforts, for example, to increase compensation and benefits for employees. It also increases the amount of compensation support payments by 10% for high need areas and programs receiving early learning scholarships and childcare assistance payments.
- **Data/Accountability:** The Great Start Compensation Support Payment Program requires programs that receive funds to report data on child enrollment and attendance.⁸ It also requires program recipients to maintain records for 6 years on the use of the funds as well compensation and benefits.⁹

NEW MEXICO

Overview of Financing Strategy: New Mexico created new, permanent funding sources for early childhood programs, first through a 2020 statutory measure and then through a 2022 constitutional amendment. In [the state’s most recent budget](#), the Early Childhood Education and Care Department (ECECD) received \$327.6 million.

- **Statutory Funding Source:** In 2020, the NM Legislature created the Early Childhood Education and Care Fund out of the state treasury to provide at least \$150 million annually to the early childhood education and care program.¹⁰ Starting July 1, 2024, excess money received by the state pursuant to the federal Mineral Leasing Act will also go to the early childhood education and care fund.¹¹
- **Permanent Constitutional Funding Source:** In 2022, New Mexico voters passed a constitutional amendment providing for [permanent funding of early childhood programs](#). This amendment would distribute 1.25% of the five-year average year-end market value of the Land Grant Permanent Fund, 40% of which would go towards at-risk public school students and 60% of which would go towards early childhood education.¹²

Key Components:

- **Access & Affordability:** Recently, the state’s [ECECD passed regulations](#) that will allow families at or under 400% of the federal poverty line to receive free childcare assistance. At the same time, the Department increased provider reimbursement rates so that quality and provider wages are maintained. ECECD also used additional resources to create [extended day options](#) for three- and four-year-olds in publicly funded PreK and Head Start.

⁵ [Minn Stat. 124D.142 \(2022\)](#).

⁶ [Minn Stat. 124D.142 \(2022\)](#).

⁷ [Minn. Stat. sec 119B.27 \(2023\)](#).

⁸ [Minn. Stat. § 119B.27\(Subd. 3\)\(a\)\(2\) \(2023\)](#).

⁹ [Minn. Stat. § 119B.27\(Subd. 4\) \(2023\)](#).

¹⁰ [N.M.S.A. § 9-29A-1 \(2023\)](#)

¹¹ [N.M.S.A. § 9-29A-3 \(2023\)](#).

¹² [N.M. Const., art. XII, § 7.](#)

- **Choice:** [\\$100 million from the Land Grant Permanent Fund](#) went towards 279 PreK grants to 84 school district programs and 195 community-based programs, family child care providers, Tribal governments, and Head Start grantees. The appropriation will also create more than 3,000 additional slots in such programs for three- and four-year-olds.
- **Quality:** As part of its 2022-2027 strategic plan, New Mexico is redesigning its quality measurement and improvement system to ensure outcome-based measures of quality ECCE.
- **Workforce:** The 2023 appropriations will also support [increasing the starting wage](#) for PreK teachers to \$50,000 through an enhanced per-child reimbursement rate and a [new grant program](#) for community-based child care providers to increase the wage floor for assistant and lead teachers to \$15 and \$20 per hour, respectively.
- **Data/Accountability:** ECECD is responsible for administering programs funded by the constitutional amendment and resulting appropriations. The state legislature charges the department with clear accountability requirements, including an annual report on early childhood program outcomes.¹³

VERMONT

Overview of Financing Strategy: In 2023, Vermont’s legislature [passed a large early childhood bill](#), Act No. 76/H.217.¹⁴ This bill created the Child Care Contribution Fund and Payroll Tax, the Child Care Financial Assistance Program, and allocated \$76.1 million to early care and education.

Key Components:

- **Access & Affordability:** The legislation expands eligibility for state child care subsidies for families earning up to 575 percent of the federal poverty level (or \$172,000 for a family of four) and completely covers costs for families earning up to 175 percent of the poverty line (or \$52,000 for a family of four).¹⁵ The legislation also establishes a \$20 million grant program to help child care providers prepare to expand services by increasing capacities, improving facilities, expanding operating hours, and recruiting educators.¹⁶
- **Choice:** The legislation establishes the Prekindergarten Education Implementation Committee to develop a plan to expand access to prekindergarten services for four-year-old children in school- and community-based settings, to be implemented by July 1, 2026.¹⁷
- **Quality:** The legislature also intends to appropriate at least \$10 million annually for the child care quality and capacity incentive program.¹⁸ This initiative pays providers for certain achievements regarding program quality, like achieving the highest levels of the state’s quality rating system or increasing capacity to serve families during nontraditional hours.¹⁹
- **Workforce:** The legislation set Vermont on a path to establishing a minimum wage for childcare workers and also charged the Department of Labor with determining what the minimum wage should be for early care and education providers.²⁰

¹³ [N.M.S.A. §9-29-11\(B\) \(2023\)](#).

¹⁴ [No. 76 \(H.217\) \(2023\)](#), see pages 1 – 38, §§ 1 – 25.

¹⁵ [Vt. Stat. tit. 33 § 3512\(a\)\(2\) \(2023\)](#).

¹⁶ [No. 76 \(H. 217\)\(§2\)\(a\) \(2023\)](#), see page 19.

¹⁷ [No. 76 \(H. 217\)\(§2\)\(a\) \(2023\)](#), see page 2.

¹⁸ [No. 76 \(H. 217\)\(§10a\) \(2023\)](#), see page 25.

¹⁹ [Vt. Stat. tit. 33 § 3515 \(2023\)](#).

²⁰ [Act No. 76 \(H.217\)\(§23a\) \(2023\)](#).

- **Data & Accountability:** The legislation places data and reporting requirements on public school districts. It also charges [Building Bright Futures](#), Vermont’s early childhood public-private partnership organization, with a set of reports to monitor the implementation of the legislation and identifying ongoing areas for improvement.²¹

TENNESSEE

Overview of Financing Strategy: [HB0785/SB0750](#) is on the docket for the Tennessee legislature’s 2024 session. It would create a “promising futures scholarship program” to provide scholarships to pre-school age children to attend a high-quality early care and learning program. This \$4,500 per year scholarship would be funded by [redirecting funds from the privilege tax](#) collected from sports wagering licensees. The scholarship could be used at a [variety of early learning programs](#), including faith-based and community-based providers, home-based care, Head Start, and public and private preschools. The bill [successfully passed](#) through the Senate Education and House K-12 Subcommittee during the 2023 legislative session and will head to the House Education Administration Committee during the 2024 legislative session.

KENTUCKY

Overview of Financing Strategy: [HB499](#) created the [Employee Childcare Assistance Partnership Program](#) in 2022. Through a [one-time appropriation of \\$15 million in state matching funds](#), the state legislature hopes to incentivize employers to contribute towards childcare costs of their employees. If an employer chooses to subsidize the childcare costs of their employees, the state will then match some of that contribution. The legislation reserves 25% of the matching funds for small businesses.

KEY CONSIDERATIONS AND OPPORTUNITIES FOR VIRGINIA

- States are recognizing the need for strategic, stable investments in ECCE as they grow their economies and workforce and are using many different approaches to finance expanded access to ECCE. Strategies that Virginia may leverage in the immediate term include:
 - Designating new revenue sources for ECCE services;
 - Redirecting existing revenue to ECCE;
 - Increasing state general fund appropriations;
 - Establishing a non-reverting ECCE fund;
 - Capitalizing on public-private partnerships; and
 - Establishing ECCE programs in legislation.
- Developing an approach that is responsive to family needs and demands and supports a qualified and stable workforce is important.
- Virginia may consider a multi-phased approach to address family demand, prioritizing the most at-risk families first.
- Use of cost-of-quality methodology and workforce incentives support a comprehensive approach to addressing access, choice, quality and workforce.
- Leadership from and engagement with businesses, families, and the ECCE sector is crucial.

²¹ Vermont [Act No. 76 \(H. 217\) \(§ 19\), 33 V.S.A. § 4605\(2\) \(2023\)](#).