<u>Child Care Policy in Maryland -- An Economic Investment</u>
Alec Ross

Child care policy is economic policy. The state of Maryland doesn't treat it that way. But it is time to think differently. Of course, the decisions parents make about child care are fundamentally about the health, safety, and well-being of their children. The choices we make about child care are deeply influential in shaping outcomes later in life. For the state of Maryland, this is about more than doing the right thing by our kids. It is about growing prosperity for all of us by expanding economic opportunities for working families and delivering high quality care for all kids regardless of whether their parents are bankers or bus-drivers. We need to take an investment approach to child care. Here's why.

First -- parents. Parents with kids under the age of 6 represent a significant part of our productive workforce. If child care options are unavailable, unaffordable, or unacceptable, we effectively take productive people out of their professional lives and turn them into informal child care providers. For some parents, this is a joy and a privilege. For others, it is a crisis for the family budget and an irreversible disruption to career advancement. It is not just about wages lost to unemployment or underemployment. It is about the opportunity costs of lost professional development, skill-building, and promotion. Of course, this burden falls heaviest on women, and women in low- and middle-income households in particular.

Second -- kids. Economic opportunity -- and its nemesis, economic inequality -- start at birth. All the research shows that quality child care and early education make a big difference in terms of educational performance and economic mobility later in life. The vast majority of brain development happens before the age of 5 -- and a child's daily environment impacts those changes. We have a moral obligation as a society to do all we can to ensure that every child gets the same quality of care at a young age, regardless of the family income. That investment pays dividends for the whole economy. A variety of studies have consistently shown that for every $1 that we invest in early childhood education, we get between $7 and $16 in economic outputs over the long term.[1] Investing in high quality child care is not just the right thing to do; it's smart economics for our state.

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[1] W. Steven Barnett, *Getting the Facts Right on Pre-K and the President's Pre-K Proposal*, National Institute for Early Education Research, http://nieer.org/wp-content/uploads/2017/06/Getting-the-Facts-Right-on-Pre-K-1.pdf (2013)

The Problem

There is no big money lobby in Annapolis for kids and their working parents. But it is this human talent and its successful cultivation -- more than any industrial special interest -- that will determine the future of Maryland's economy. To turn this potential into reality, we must ensure that all children have access to comparable quality of childcare no matter where they live in the state and no matter the family income.

But we're not doing that. There is no way to look at child care policy in this state without concluding that we are failing our children. The analysis offered here speaks to the scope of the problem and the degree of the emergency.

At the center of the debate is money. The cost of child care is the quintessential kitchen table issue. Among surveyed parents that could not find appropriate care for their children, 40% cited cost as the reason.[2] No wonder. It is expensive -- exceeding other household expenses like housing and food. Consider child care costs compared to buying a college education. The average annual tuition for your 18 year old at a state university in Maryland is $9,163. The average annual cost to send your 1 year old to a decent child care center is $14,726 (bump that up to $18,597 for an accredited center).[3] But there is no system of scholarships, grants, low-interest loans, or work-study programs to defray the cost of child care for working families. All but the most affluent of Maryland families have to choose between bad options to handle these costs, particularly in households with more than one child below school age. And even if you can manage the fees, the quality of care is not guaranteed. The system is under massive financial pressure and the experience for different kids in different places is uneven at best. For the more than 300,000 kids in Maryland that go to child care everyday, cost and quality are constant concerns for most of their parents.

Consider three aspects of the problem that need urgent attention from policymakers.

Affordability and Financing for the Middle Class

Affordable child care is not just a problem for the working poor. It is a problem for the entire middle class. Annual fees for a toddler in a quality child care center in Maryland can easily cost $15,000. For most parents, that represents a hefty chunk out of the family budget. Most parents in the state will struggle to cover these costs, particularly if they have kids early in their careers. For families with more than one small child, the costs can add up to a majority of monthly income or the entirety of the income for one of two working parents.

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[2] Maryland Family Network Public Policy Handbook 2016-2017, Appendix A: Childcare in Maryland, http://www.marylandfamilynetwork.org/wp-content/uploads/2014/09/MFN-Public-Policy-Handbook-2016.pdf (2016)
[3] Maryland 2016 Child Care Fact Sheet, ChildCare Aware of America, http://childcareaware.org/wp-content/uploads/2016/08/Maryland.pdf (2016)

That puts many working mothers (also some fathers -- though the reality is that women more commonly bear this burden) in a dilemma. Should you keep working even though all (or most) of your salary goes to child care? Or should you resign, look after your kids at home, save money, and hope to re-start your career after the kids go to school? It is a difficult choice faced by many families that carries emotional, educational, and economic consequences no matter what you decide. For some parents, the opportunity to stay home is a welcome and valued choice. But for those parents that would like to keep working but don't feel they can afford child care, the economic opportunity costs are very real. If you step away from your job for several years, you will not only lose that period of professional development, promotion and skill building. You may also spend many more years scrapping to get back up to the salary level you would have achieved if you hadn't stopped working. Meanwhile, the state loses the benefit of your contribution to the economy.

It is worth pausing here to note that for families with unconventional circumstances, the cost of child care just goes up from these baselines and makes the squeeze on family budgets and career choices more acute. For example, special needs children face all kinds of extra challenges that require more money and customized care. In other cases, parents work jobs that demand non-traditional hours -- nights, weekends, and early mornings. Add in afterschool and summer programs and the juggle of delivering multiple children to their different activities every day, and nearly every family experiences some child care needs outside of basic care.

Obviously, the state cannot afford to take over the costs of child care for every family that could use support. But we can do much more than we are now. Consider the analogy of child care fees and college tuition. We take it for granted that when our children go to college, it will be expensive, but they will have financing options -- loans, grants, scholarships, and work-study -- to help pay for higher education. What are the financing options for high quality child care -- which can be 50-100% more expensive than state university? Essentially, we offer parents two choices: pay a significant share of your income for child care or drop out of the workforce and look after your children yourself. There is no system of financing options available to parents. Yet the value of high quality early education is also critically important for future prosperity. And just like higher education, it is a very expensive, multi-year investment that we make in our children's future. Despite all that is wrong with the system of student loans, it is a focal point of family financial planning with a system of public policies and markets designed to promote good outcomes. There is nothing like this for child care. This represents a paradox for middle class families, and a lack of imagination in government and financial services.

Equal Access for Children in Poverty

Regardless of how much Annapolis ignores it, the law requires what morality demands -- that the state government provide support to ensure children in poor households receive a comparable quality of child care to the rest of their communities. Here's the exact language in federal law that accompanies the federal funding that comes to the states:

> *"The State plan shall certify that payment rates for the provision of child care services for which assistance is provided in accordance with this subchapter are* ***sufficient to ensure equal access for eligible children to child care services that are comparable to child care services in the State or substate area involved that are provided to children whose parents are not eligible to receive assistance*** *under this subchapter or to receive child care assistance under any other Federal or State program...."*[4]

In other words, the law requires states to ensure that all children start on a level playing field of early education with their peers. The program for child care support that we have in Maryland doesn't begin to reach this standard. Most working families and their children get no help at all. The very poor get modest support if they are fortunate enough to get into the system. And everyone in the state suffers the consequences of restricting economic opportunity and deepening inequalities.

In a nutshell -- here's how the program works in Maryland today. We have a voucher-based system of reimbursements to defray the cost of child care for low-income households. We have had this program for years, but its viability is in steep decline. The federal government provides a big block grant to Annapolis (~$60M) and the state adds more money to the pool (~$40M). (The federal grant program was reauthorized in 2014 after a strong push from then-Senator Barbara Mikulski.) Families eligible for support receive a voucher that shows the amount of their credit (per child) and the amount of the co-pay for which they are responsible. The voucher and the cash co-pay are given to a licensed child care provider, and the provider gets reimbursed by the state for the voucher.

Last year, more than 14,000 children in Maryland got quality childcare under this program and maxed out available funding. *Disastrously, that represents only 22% of the total number of eligible children.* That means tens of thousands more are not getting the care they need to prosper; or their parents have dropped out of the workforce; or we are forcing parents to choose between quality child care and the other basic necessities of life that must come from every paycheck. Worse still, the resulting shortfall in revenue into the child care system means we have fewer child care centers, fewer spots available, teachers are paid less, and quality declines in ways that affect children across the system.

Here are some indicators of how bad things have become:

To ensure equal access regardless of family income, federal law recommends (but does not require) that states set the subsidy rates at the 75th percentile -- meaning the vouchers plus the designated level of co-pay (maximum 7% of monthly income) should cover the costs of ¾ of the available child care centers in a given locality. Today, Maryland's subsidy rate is in the 9th

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[4] Child Care and Block Grant Act of 2014, Pub. L. No. 113-186, § 5, 128 Stat. 1971 (2014), https://www.congress.gov/113/plaws/publ186/PLAW-113publ186.pdf (emphasis added).

percentile[5] -- which means that over 90% of child care centers are unaffordable for working families. These are dire straits. When the state of Maryland submitted this plan to the federal government (in order to get the block grant funding from Washington), the response was a strongly worded warning (in bureaucratese) that funding allocations were insufficient to achieve the required goal of equal access.[6]

The balance between the voucher (no matter how insufficient) and the actual cost of child care is picked up by the parents. In theory, this amount should be no more than the co-pay amount designated for a particular income bracket. The state sets the maximum co-pay at 12% of monthly income -- but that is for a married couple with one infant child. For every other case, the numbers are much higher. For a single mother with two children, the cost of a child care center over and above the state voucher represents 67.7% of monthly income.[7] Even at these absurdly small levels of support, the vouchers are only available to a very small number of families. To qualify for support, a family must earn less than 35% of the State Median Income (~$29,000 a year).[8] As a result of funding shortfalls, enrollment in the "top" income brackets for eligibility (between $23-29K for a single parent with two children) has been frozen. There are more than 4000 kids on the waiting list. Most will likely never see support from the program.

At the end of the day, the state of Maryland supports too few working families with too little money. Perversely, a program designed to reduce inequality by leveling the educational (and by extension economic) playing field for all children in Maryland is often delivering the opposite -- relegating poor kids to the lowest quality, lowest cost care or driving their parents out of the workforce and away from the chance at economic mobility.

Child Care Providers

Meanwhile, the downward pressure of underfunding is not just falling on parents and children. It is also carried by the people that work in child care. They are perhaps the worst paid, most important members of our society. This is a national problem, but we have not addressed it in

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[5] This figure comes from the State of Maryland's plan for implementing the federal block grant which was conditionally approved for 2016-2018. See, p 87. Maryland Child Care Development Fund Plan with Conditional Approval Letter for FY 2016-2018, http://earlychildhood.marylandpublicschools.org/system/files/filedepot/24/ccdf_state_plan_-_2016-2018.pdf (2016). See Also, MFN Handbook, p 12, Maryland Family Network Public Policy Handbook 2016-2017, http://www.marylandfamilynetwork.org/wp-content/uploads/2014/09/MFN-Public-Policy-Handbook-2016.pdf (2016)

[6] See, cover letter, p 2, Maryland Child Care Development Fund Plan with Conditional Approval Letter for FY 2016-2018, http://earlychildhood.marylandpublicschools.org/system/files/filedepot/24/ccdf_state_plan_-_2016-2018.pdf (2016)

[7] Maryland 2016 Child Care Fact Sheet, ChildCare Aware of America, http://childcareaware.org/wp-content/uploads/2016/08/Maryland.pdf (2016)

[8] See, p 11, Maryland Family Network Public Policy Handbook 2016-2017, http://www.marylandfamilynetwork.org/wp-content/uploads/2014/09/MFN-Public-Policy-Handbook-2016.pdf (2016)

Maryland. A 2016 study by the Center for the Study of Child Care Employment found that 40% of the families of child care workers were participants in at least one public assistance program. We pay poverty level wages to the people that work with our children during the most important phase of child development. The result is high stress, high turnover (30%), difficulty recruiting qualified staff into the profession, and ultimately, a negative impact on quality.[9]

Consider the differential between the average salary of a public school teacher and a teacher in a child care center in Maryland:

Center Senior Staff/Teacher, $26,641
Public School Teacher, $65,477

The disparity is even more acute than it appears because child care workers often do not receive benefits (health insurance, retirement benefits, paid sick leave, etc).[10] In Maryland, not much is being done to address these inequities in staff compensation. There are some limited salary bonuses for teachers that complete a credential, a few scholarships for higher education, and options for flowing through higher fees to staff among child care providers that have achieved high quality ratings. It is not nearly enough.

<u>Real Solutions for Working Families</u>

We need to invest in our children. It's the right thing to do, and it is smart policy to promote economic prosperity -- both now and in the future. To do that, we need to make immediate changes to our child care policy.

#1 -- Equity-Based Child Care Financing for Working Families

We should start planning to build a public-private Child Care Equity Fund to make dedicated financing available to working families to address the cost of childcare. A successful investment fund using the model described here could eventually reach as many as half of all Maryland families with children under 5 years old. The Equity Fund model will be based on innovative solutions to the expanding student loan crisis. The central idea is to shift away from loan-based finances to a system equity-based financing. These programs -- known as Income Sharing Agreements (ISAs) -- are getting a lot of positive attention and currently being tested at educational institutions around the country, most prominently at Purdue University.[11] Like these

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[9] Noriko Porter, *High Turnover Among Early Childhood Educators in the United States,* Child Research Net, http://www.childresearch.net/projects/ecec/2012_04.html (2012). See also, p 9, Maryland Family Network Public Policy Handbook 2016-2017, http://www.marylandfamilynetwork.org/wp-content/uploads/2014/09/MFN-Public-Policy-Handbook-2016.pdf (2016).
[10] See, p 9, Maryland Family Network Public Policy Handbook 2016-2017, http://www.marylandfamilynetwork.org/wp-content/uploads/2014/09/MFN-Public-Policy-Handbook-2016.pdf (2016).
[11] Purdue Research Foundation, Back a Boiler- ISA Fund, https://purdue.edu/backaboiler/

higher education ISAs, the Child Care Equity Fund program will not be a voucher or a subsidy or a grant or a loan. This is a new mode of public interest financial service.

The Child Care Equity Fund will *invest* capital in eligible families that apply for the program to cover a portion of child care costs. The terms of the agreement -- size of the investment, payback percentage and duration -- will vary from family to family based on the amount of financing, income, and risk profile. The payback period will start once the child has entered school and last a period of years (at maximum until the child graduates high school). Like a company repaying an investor (rather than a debtor repaying a lender), the parents will not owe a monthly debt payment but rather a fixed percentage of monthly income to the Fund.

This Income Sharing Agreement (ISA) has many advantages over a conventional loan. First, it does not impact a family's creditworthiness for other purchases (e.g. a home or a car) to the same degree. Second, it is not a fixed payment, it is a percentage of income. If income declines or rises, so do the payments -- making the payback align with the economic health of the family. This is the shared risk of the Fund and the family. If income drops below a threshold in the ISA, payments stop but interest does not accrue and the Fund loses money. If income rises quickly, the Fund gets a strong return on investment, but the total repayment amount is capped to avoid penalizing successful families beyond a pre-established amount.

In the context of college tuition, ISAs promise sustainable (and even profitable) investment funds because a college degree is correlated with higher wages. Plus, the growth in income of college graduates over the payback period can be modelled by the Fund based on data analysis. Similarly, in the case of child care, when parents stay in the workforce rather than exit to care for children, their projected labor market outcomes will also be correlated with higher wages in the future, and their probable financial path can also be modelled. Given the variables affecting careers after college graduation, working parents in their late 20s and 30s that have already achieved middle income levels have relatively less elastic earning potential. Building accurate predictive models is a function of data analysis. With the state government as the administrative partner of the Fund, access to publicly held data (including income data) will be straightforward.

The Child Care Equity Fund is an innovative application of well-established investment model -- Income Sharing Agreements -- that has a long history in commercial markets. The much discussed innovation of applying ISAs to collegiate education demonstrates the promise of using the approach to address social policy issues. In general, ISAs are data driven and operate under free market forces with largely private capital. But in the context of higher education and child care, the ISA partners with public sector institutions (e.g. universities and state government) to leverage the position of the public institution as administrator and guarantor. Not only does government involvement reduce the risk profile of the ISA and attract private investors, the state institutions also have far more knowledge about the investees and methods to support their prosperity than a conventional Fund would have. In these public-private ISAs, all parties have strong incentives to help the investees succeed. And in so doing, they also bring financing to a cash-starved sector that addresses critical social problems: the high cost of child care for working families and the downward pressure on operating quality for child care centers.

After we complete the planning and consultation process to build a Child Care Equity Fund, the first step will be a pilot project that is seeded with a blend of public and private capital. We believe a serious but not exorbitant public sector investment -- for example $20M -- can attract significantly larger sums of private capital over time to grow the Fund. As it scales up to reach more families, the Fund will require more capital of course, but it will incrementally become self-sustaining as early adopters enter the payback phase. In the pilot version of the Fund, the goal will be to offer financing for up to 50% of childcare costs and deliver support to more than 10,000 children in Maryland through ISAs with their parents. Initial eligibility requirements will limit the scope, but the program is conceived to reach a large share of middle class families. One option would be to open eligibility to all families that earn below 300% of the Federal Poverty Guidelines[12] -- which translates into these annual income figures per family size:

Family of 2 -- $48,720
Family of 3 -- $61,260
Family of 4 -- $73,800
Family of 5 -- $86,340

Once it gains a healthy base of investment and return, the Fund will enter a virtuous cycle, not only becoming sustainable from payback income but also attracting more capital investors with the promise of reliable returns with a defined risk profile. Ideally, we could scale up to accommodate eligibility for ⅓ to ½ of Maryland families over a period of years. There are many unknowns, and we cannot make precise predictions. Public-private ISAs are a nascent market for private capital in 2017, but some investors believe such models could quickly attract billions.[13]

The economic benefit for the state will be enormous, freeing up thousands of Maryland mothers and fathers to stay in the workforce, advance their careers, earn higher wages, and invest back into their communities. A robust and successful Child Care Equity Fund in Maryland would be transformative for the economic and educational opportunities for working families.

#2 -- Equal Opportunity Child Care

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[12] Poverty Guideline Resource Tool, U.S. Department of Health and Human Services, https://aspe.hhs.gov/poverty-guidelines
[13] See, e.g Frank Chaparro, *Investors Are Paying College Students' Tuition- But They Want a Share of Future Income in Return, Bussiness Insider,* http://www.businessinsider.de/income-share-agreements-help-students-pay-for-college-loan-alternative-2017-3?r=US&IR=T (2017); See also, report with a favorable outlook for the growth of ISA markets, Audrey Peek et. al., *The Income Share Agreement Landscape- 2017 and Beyond*, The American Institutes for Research, http://www.air.org/sites/default/files/downloads/report/Income-Share-Agreements-ISAs-Income-Share-Agreement-Landscape-April-2017.pdf (2017)

We will seek to restore the health and viability of the existing program that supports child care costs for children from very low-income families.

- Over a period of years, we will work to restore reimbursement rates that make 75% of local child care providers affordable for all families in a community.
- We will eliminate the freeze on enrollment and its waiting list of thousands.
- We will set a goal of raising eligibility levels to 50% of median income and work with families to keep co-payments at a manageable 7-10% of monthly income.
- To streamline implementation of this program for more families and to hold costs down, we will build and implement digital interfaces and data management systems that reduce transaction costs, save time for families and agencies alike, and track compliance among participants to cut down on errors and waste.
- We will continue efforts in the state to raise the quality of care by working with providers to achieve quality accreditation (accompanied by increased reimbursement rates to incentivize higher standards).

#3 -- Raising the Quality of Child Care

Like every other institution in our society, child care providers are only as good as the skills and motivation of the people that work in them. We cannot continue to starve these critical service providers, pay teachers poverty wages, and foreclose access to career advancement without a steep decline in the quality of care.

- We will explore ways to increase compensation and retention for child care workers by expanding benefits such as training programs and credentials that yield meaningful salary increases upon completion.
- We will explore establishing a T.E.A.C.H. Early Childhood Program in Maryland -- a successful program that has been implemented in 20+ other states. The initiative works with a blend of public-private funding to address the challenges in the child care workforce -- retention, training, and salaries. In particular, the program offers higher education scholarships for child care workers. In Pennsylvania, the program sponsored more than 1000 scholarships in 2016 alone.[14] T.E.A.C.H. boasts impressive 90%+ retention rates and increased salary for staff that have been awarded scholarships in the program.[15]
- We will work with private sector partners to explore establishing a "Teach for Maryland, Early Education" -- to bring talent, public service spirit and investment to the profession.

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[14] *Pennsylvania Restores Scholarship Funding for 1,000 Early Child Care Professionals,* Office of Governer Tom Wolf, https://www.governor.pa.gov/pennsylvania-restores-scholarship-funding-for-1000-early-child-care-professionals/ (2016)

[15] T.E.A.C.H. Early Childhood and Child Care Wage$ Annual National Program Report 2015-2016, T.E.A.C.H. Early Childhood National Center, http://teachecnationalcenter.org/t-e-a-c-h-early-childhood/results/ (2016).

➢ We will leverage digital tools to increase communications between parents and child care providers, to help educate parents of high-need children about how they can support child care providers, and to alert families about financing options that can make child care more affordable.

Conclusion

The need for affordable, quality child care in Maryland is an issue at that affects most families in our state at some point in their lives. There are more than 350,000 children in Maryland ages 0-4. Of those, almost 50,000 live in poverty. An estimated 300,000 kids in Maryland go to some form of child care everyday so that their parents can work. And there are over 200,000 working mothers in Maryland with children under the age of 6.[16]

Child care policy should be at the center of our politics because it is so essential to shaping positive outcomes for our kids in the future and for supporting working parents in the present. It is such an obvious and serious problem, it is astonishing that we have done so little as a state to address it. Perhaps we are all so accustomed to the struggle of parenthood that we have stopped thinking creatively as a society about how a self-governing people can make life better for working families. This campaign is designed to break those cycles of negligence and failures of imagination in Annapolis. This policy paper offers fresh thinking and new ideas about how we can deliver better, more affordable child care. It is a starting point that we hope will provoke discussion, dialogue, and enthusiasm for what Maryland can become.

[16] Maryland 2016 Child Care Fact Sheet, ChildCare Aware of America, http://childcareaware.org/wp-content/uploads/2016/08/Maryland.pdf (2016)