Comparing Policy Options to Finance

Access to High Quality Early Care and Education

For Mississippi's Children – Round 1

Preliminary Report to

The Mississippi Early Care and Education (ECE) Financing Team

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With Financial Support from
the Mississippi Dept of Human Services and
The Barksdale Reading Institute

October 14, 2003

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A. Background and Purpose

The purpose of this memorandum is to summarize the findings from HSPC's analysis of the initial set of ECE financing policy options specified for consideration by the Mississippi ECE Financing Project Team pursuant to our agreements with the Mississippi Department of Human Services and the Barksdale Reading Institute. The intent of this effort is to explore a variety of options regarding the policies that would be required to develop a system of high quality Early Care and Education that is financially accessible to all of Mississippi's children age birth to five. A basic premise of the effort is that policies and costs must be considered together. We have therefore produced a set of analyses that take all the different policy options specified by the MS team and used our simulation models to analyze the cost and impacts of various policy scenarios combining the potential hourly costs of high quality ECE with alternative financing mechanisms to assist families to afford those costs.

These are options under consideration, not recommendations. After reviewing this analysis, the Mississippi Team may well change many of the policy specifications and has the opportunity to ask HSPC to produce a second round analysis of modified or refined options. The data should be considered preliminary, since they have not been reviewed by the MS Team and may be modified if additional information is obtained.

There was an extensive process for developing these policy options. A large group representing diverse ECE constituencies and public agencies met to hear presentations about the expectations for the Mississippi ECE financing project, and preliminary findings from by the *Universal Financing of ECE for America's Children Project* conducted in other states under the direction of Richard N. Brandon and Sharon Lynn Kagan. The Task Force immediately began to work through a protocol that specified a variety of options for the Task Force to consider. The MS Team then broke into several working groups to consider the policy options in detail. The entire Task Force then considered the options presented by the various working groups, and reached consensus on the initial set of options to be considered. The HSPC team modified its computer programming to reflect the set of options specified by the MS Team.

Some ground rules agreed to by the members of the MS Team were that the group would attempt to think outside the box of current policies and constraints to design a long-term plan to improve the quality and affordability of ECE for all MS children, and that they would maintain confidentiality regarding all analysis and information generated by HSPC and by the MS Team until a final report is issued.

We appreciate the effort that the Mississippi Team has invested in working through these specifications, and in providing administrative data on budgets and subsidies that have allowed us to calibrate our models. Dr. Cathy Grace of the University of Mississippi coordinated the MS Team and served as liaison, facilitating communication between the HSPC team and the state team and agencies. We gratefully acknowledge her gracious and effective performance. State officials have also helpfully provided us with state administrative data regarding the current child care subsidy system.

We have applied our models to MS by using a telephone survey of 876 randomly selected, representative Mississippi households with children under age 5. Of these, we use the 809 households with children age birth to five and not in school for our modeling efforts. The survey was designed by HSPC, adapted for MS in consultation with the project liaison (Cathy Grace), and was sponsored by the MS Department of Human Services and the Barksdale Reading Institute. Descriptive data from the survey are included in companion documents (*Highlights of Mississippi Childcare Survey*. Human Services Policy Center, July 27, 2003).

The consultation and analysis on which this memorandum are based was supported solely by funding from MS Department of Human Services and the Barksdale Reading Institute.

B. Hourly Costs of high quality ECE

1. Moving the Market Toward High Quality

A central proposition in our analysis is that high quality ECE requires sufficient compensation to recruit and retain qualified staff. Also central to our approach is a recognition that parents will choose among different sectors of ECE (centers and preschools, kindergarten programs, Head Start, Family Child Care (FCC) and Family, Friend and Neighbor (FFN) care) for many reasons, and that achieving quality means making appropriate investments in each sector. It also implies taking into account the potential impacts of a mixture of guidelines, regulatory requirements and financial incentives on the ability and willingness of providers to implement the changes required to achieve high quality ECE. The MS Team's specifications regarding the policies affecting the hourly cost of ECE – staff qualifications and compensation, child:adult ratios, professional development, regulation, governance and administration -- are summarized here. The project asked the MS team to consider two different scenarios for high quality – a "minimum adequate" level of quality achievable in about five years, and an "ideal" level achievable in about 15 years. In this section we report findings about both of those scenarios.

The MS team specified various policies to best meet the needs of children in the following three age groups:

Infants	0-11	months
Toddlers	12-35	months
Pre-schoolers	36-60	months

Staff qualifications

Both nationally recognized experts and the Mississippi Team believe that the starting point for high quality ECE is well qualified staff, and that recruiting and retaining such staff requires better compensation than is currently found in the world of child care. It was determined that effective staffing could be provided by a mixture of staff with BA/BS, AA and high school degrees that varies by age of child.

- *Centers*. Under both the Minimum Adequate and scenario, about 15% of center staff (including directors) would be at the BA/BS level for infants, 26% for toddlers and 58% for preschoolers. In the ideal scenario, the percent at BA/BS level or above would be 40% for infants, 50% for toddlers and 53% for preschoolers. This would be a substantial change from current situation, where national data indicate that less than one in three center teachers has a BA or BS degree or higher.

- *FCC*. At the Minimum Adequate level, about one in seven (15%) FCC providers would have BA/BS level degrees, 15% would have an AA and 60% a high school diploma. At the Ideal level, this would increase to 20% with a BA or BS, 40% with an AA and 40% with a high school degree.

On-going professional development would be facilitated by providing an annual allotment for professional development activities that would be available to allow staff to reach higher qualifications and compensation over time. It is intended to give staff great flexibility concerning how they spend their allotment, including selecting one or more courses at more or less expensive institutions, or to select alternative forms of professional training. The allotment for tuition or alternatives would be $900 in the Minimum Adequate, $1,500 in the Ideal scenario, plus $500 for supplemental expenses. These expenses would be paid for in full on behalf of all ECE staff, regardless of position, salary or income level. The total allotments thus add up to $1,400 and $2,000 per staff member in the two scenarios. In addition, the MS team specified that institutional subsidies should be included to support the institutions providing the training and cover the full costs of such services. They expect that on average, staff will take about two courses per year, and the total institutional subsidy allotment should be $1,200 (Minimum Adequate) or $1,800 (Ideal) to provide the courses. Release time is factored into the cost analysis to facilitate on-going professional development, at the rate of 45 hours per staff per year in the Minimum Adequate scenario, 90 hours in the Ideal.

Staff Compensation

The MS Team reviewed recommendations by nationally recognized experts and recommended a mix of staff at different levels of qualification in each setting and for children of each age group. The team also recommended a level of compensation for starting ECE teachers with a BA/BS degree equal to that currently paid to starting elementary school teachers in Mississippi. Teachers with lower qualifications would be paid commensurately less.

- *Starting* ECE teachers with a BA/BS level degree would receive about $15.44 per hour. An assistant teacher with an AA degree would start at $11.52 an hour. In the Minimum Adequate scenario, the *average* salary across all staff would be about $12.80 – 16.48 per hour, depending on the age of the child. In the Ideal scenario, salaries would average $14.80 – 16.42 per hour. The average salary estimates reflect an adjustment for the expected experience for staff at different levels of education and responsibility, since salaries are specified to increase by 2-3 percent (above inflation) for each year of experience.

- *Benefits* (health insurance, retirement, paid leave, FICA) would be at 20% of salaries for all staff, consistent with current practice for MS public school teachers.

- *For FCC providers*, the average salary levels upon which payment rates would be based are $11.78-13.63 per hour, depending on the scenario. This average compensation rate reflects a policy of paying FCC providers at the same rate as center teachers with the same qualifications and experience, but not requiring as many FCC as center staff to have BA/BS level degrees. The average salary figures reflect an adjustment for estimated average years of experience.

The MS Team recommended an equivalence in compensation between center staff and FCC providers of comparable qualifications. However, it must be recognized that while center staff are paid a set salary, FCC providers are entrepreneurs whose total compensation is affected by the number of children they care for. The rate paid to FCC providers is therefore quite sensitive to the assumed child:adult ratio necessary to obtain compensation commensurate with that of a center teacher of similar qualifications. In our survey, parents reported that licensed FCC providers in MS currently serve an average of about 4.3 children age B-5 per adult at any one time. After examining data on current parent-reported FCC ratios and considering the data we presented on the potential relationship between center and FCC costs, the MS Team decided to set licensed FCC rates based upon an assumption of 5 children per adult in the Minimum Adequate, 4 children per adult in the Ideal scenario. These ratios recognize that with greater qualifications, providers may be able to nurture more children. Lower assumed ratios could result in FCC rates that are higher than Center rates, which would be a significant change in policy. License exempt care includes family, friends and neighbors, who tend to have much lower child:adult ratios. However, the MS Team policy specifications exclude payments to license-exempt providers.

Child:adult ratios

Our approach to specifying staff mix and child:adult ratios, as operationalized in the Protocol, is to design staffing patterns per 100 children of each age group, in each type of care setting. The MS Team therefore specified how many staff in different positions would be caring for 100 children of various ages in center type care and licensed family child care. From these suggested staffing patterns, we have derived the average child-to-adult ratios reported in Table 1 below, and compared them to the average ratios reported by parents in the household survey. It should be noted that the newly specified ratios are average ratios to be achieved across many children and providers. Both Minimum Adequate and Ideal specifications would represent a significant reduction in current center ratios as reported by MS parents. Average ratios for family child care would be the same (Ideal scenario) or slightly higher (Minimum Adequate), reflecting a judgment that FCC providers with improved skills and qualifications would be able to provide higher quality care to more children.

The maximum allowable ratios to be used for licensing purposes would be somewhat higher than these averages, since they would have to encompass all acceptable providers, some of whose ratios would be lower or higher than the average. At a later stage, the MS team should consider what would be maximum allowable ratios under minimum adequate and ideal scenarios that would be feasible to obtain and consistent with achieving the desired average ratios.

There are two ways to look at center ratios. For costing purposes, we must include all staff including directors and others who are not normally in the room caring for the child. However, in order to get a sense of the child's experience, we want to focus on just the adults who in a room with the child at any given time, excluding directors from the child:adult ratios. We present these two pictures in tables 1a and 1b below.

Table 1a: Average Child:Adult Ratios in Mississippi Centers
(*Includes* directors)

	Current Average per Parent Survey*	Minimum Adequate	Ideal
Center Type Care			
Infants (0-11 months)	NA	3.9	2.8
Toddlers (12 – 35 months)	NA	6.5	4.6
PreSchoolers (36- 60 mos.)	NA	8.3	5.4
FCC	NA	5	4

* Adjusted to reflect parent tendency to under-report ratios for center care; parent reports of family child care ratios tend to be consistent with provider reports.

Table 1b: Average Child:Adult Ratios in Mississippi Centers
(*Excludes* directors)

	Current Average per Parent Survey*	Minimum Adequate	Ideal
Center Type Care			
Infants (0-11 months)	5.0	4.2	3.0
Toddlers (12 – 35 months)	7.7	7.5	5.0
PreSchoolers (36- 60 mos.)	8.8	9.9	6.0
FCC	4.3	5	4

* Adjusted to reflect parent tendency to under-report ratios for center care; parent reports of family child care ratios tend to be consistent with provider reports

Hourly Cost Estimates

Based on the specific staff mix, ratios, compensation and other policies specified by the Mississippi Team, we estimated the hourly costs of high quality ECE for center-type and FCC care, for children of each age group. These are shown below in Table 2. The MS team decided to not include payments to licensed exempt providers, such as family, friends or neighbors, in the potential financing approach.

Table 2:
Estimated Hourly Costs of High Quality ECE for Mississippi
Minimum Adequate and Ideal Scenarios

Minimum Adequate

	Center	FCC
Infants (0-11 months)	5.30	3.74
Toddlers (12 – 35 months)	3.57	3.74
PreSchoolers (36- 60 months, if not in school)	3.49	3.74

Ideal

	Center	FCC
Infants (0-11 months)	8.16	5.38
Toddlers (12 – 35 months)	5.77	5.38
PreSchoolers (36- 60 months, if not in school)	5.16	5.38

These estimated hourly costs of high quality ECE can be compared to current Mississippi subsidy reimbursement rates for low income children. We show these for each age group and for center care vs. family child care, in Table 3 below.

Table 3
Current (2002) Mississippi Maximum Allowable Reimbursement Rates for Subsidies

	Licensed Centers/Group Child Care Homes	Family Child Care Homes/ In-Home Care
Infants (0-12 months)*	1.90	1.10
Toddlers (13 – 36 months)*	1.83	1.05
PreSchoolers (37- 60 months)*	1.75	1.00

* Note that the age groups for current reimbursement rates are slightly different from the age groups specified by the MS team for the policy scenarios.

Another useful metric to gauge the level of the estimated hourly costs of high quality ECE is to compare them to the hourly rates charged to upper middle income parents. Rates at the 75th percentile level should reflect the rates charged to middle and upper-middle income parents who are not currently eligible for subsidies. MS reimbursement rates are very close to 75th percentile, as determined by MS market rate survey. Comparing High Quality costs to the 75th percentile rates therefore indicates the scope of increases for both state payments and upper-middle income families.

- In the Minimum Adequate scenario, center costs would be 2-3 times as high as current rates; in the Ideal scenario, center costs would be about 3-4 times as high as current rates.

- For FCC, costs would be 3-4 times as high as current rates at the Minimum Adequate level, and about 5 times as high at the Ideal level.

Since the high quality costs we estimate exceed the rates charged to middle and upper middle income families by a substantial amount, it is likely that to make a high quality system of ECE feasible, it will be necessary to provide at least partial assistance to help most families afford the higher costs. We will examine the affordability of high quality ECE for families of different income groups in a later section of this memo.

It should be noted that current reimbursement *rates* or parent fees may be lower than the actual *cost* of care, due to hidden subsidies, such as free rent or other contributions, volunteer time, or to the implicit subsidy resulting from low compensation of staff. Our estimated *costs* of high quality ECE reflect all estimated costs and assume that any subsidies will be made explicit.

2. Components of the Cost of High Quality ECE

Our model builds up the total cost of high quality ECE from the bottom up, including both personnel and non-personnel costs to the direct provider. We also include systems level costs for promoting and assuring quality -- these include professional development, regulation, governance and administration. The non-personnel costs include such items as insurance, supplies, equipment and ongoing rent.

In Tables 5A and 5B we show these components for center care, as a percent of total hourly costs for the relevant age group (the dollar-and-cents amounts are shown in Appendix A). Table 5A reflects the Minimum Adequate scenario, 5B the Ideal. The overall pattern does not vary substantially between the two scenarios.

Table 5A. Cost Components of High Quality Center Care for Mississippi
Minimum Adequate Scenario

	Compensation	Non-personnel*	Regulation	Professional Development	Governance, administration
Infants	75%	15%	<1%	8%	2%
Toddlers	68%	22%	<1%	7%	2%
Pre-schoolers	69%	23%	<1%	6%	2%

Table 5B. Cost Components of High Quality Center Care for Mississippi
Ideal Scenario

	Compensation	Non-personnel*	Regulation	Professional Development	Governance, administration
Infants	77%	10%	<1%	11%	2%
Toddlers	73%	14%	<1%	10%	3%
Pre-schoolers	72%	15%	<1%	10%	3%

** Non-personnel costs include rent/mortgage, insurance, equipment, supplies and materials, telephone, maintenance.*

- These figures show that the bulk of the cost (68-77%) is for compensation; these shares are slightly higher for the Ideal scenario, which has lower ratios and thus more staff. About 57-65 percent of center costs are for salaries; about 11-12% is for benefits.

- The quality promotion and assurance components (professional development, regulation, governance and administration) account for about 11 percent of the total hourly center costs in the Minimum Adequate scenario, about 14 percent in the Ideal.

- Non-personnel costs are about 20 percent of the total in the Minimum Adequate scenario, 10-15% in the Ideal. These costs do not vary, but as the staffing and professional development allotments are increased in the Ideal scenario, the relative share for non-personnel decreases. It should be noted that non-personnel costs

include ongoing costs of rent or mortgage payments, but do not include upgrading of facilities.

Our modeling assumes that professional development, regulation and governance and administration costs will be built into per-child fees, and recaptured if necessary to support certain functions. For example, all providers could be charged a licensing fee, which would pay for the estimated costs of regulation, governance and administration. Funds for professional development could either be spent by the provider on behalf of their staff, or contributed to a pooled professional development fund that would pay the cost of both teacher charges and institutional costs. Funding pools for regulation and governance, and for professional development, could be combined for ease of administration. Deciding whether to include these costs and if so, how to recapture them, is a design issue remaining for the Mississippi Team.

These costs do not include the potential administrative cost increases required to operate a more extensive subsidy system, since the system must be fully designed before such costs can be estimated.

- In the budget estimates presented later in this memo, it is assumed that the current ratio of benefits to administrative costs is maintained as benefits are expanded.

3. The Relationship Between FCC and Center Rates

Since we know that parents' choice of type of care is sensitive to prices, it is important to examine what these recommended hourly costs imply for the ratio of center to FCC prices. Table 6 compares this relationship at current and estimated high quality levels.

Table 6 shows that in the overall Mississippi market, and current state reimbursement rates, Family Child Care is less expensive than center care, costing about 58 percent as much Center care. We estimate that the high quality center and FCC costs under the policies specified would change this relationship substantially. For infants, FCC costs would increase to 66-71% of center costs. For toddlers and preschoolers, FCC would equal or slightly exceed center costs. That is, compared to the current situation of center costs substantially exceeding FCC, family child care would cost about the same as centers for all children but infants. If parents who are not eligible to have most of their costs subsidized continue to choose Family Child Care, they would have to pay greatly increased costs. Reducing the cost differential between FCC and Centers might also induce some parents to shift from FCC to center care. Such shifts as a function of relative price changes are accounted for in our modeling.

The Mississippi Team may wish to consider these relative rates and the incentives they imply when it considers whether to adjust these policy specifications in the second round of analysis. For example, lowering FCC rates to keep them close to 60 percent of center

rates would yield higher percentages of children in FCC care at lower prices, and somewhat reduce the total cost of the various policy options. However, the Mississippi Team may prefer an incentive to use more center-type care and thus prefer to keep the relationship between FCC and center rates currently specified in the two high quality scenarios.

Table 6. The Ratio of FCC to Center Rates, Estimated Costs of Mississippi Current and High Quality ECE

	Hourly Costs of High Quality ECE		***Current* Mississippi Market and Reimbursement Rates**
	Minimum Adequate	**Ideal**	
Infant	71%	66%	58%
Toddler	105%	93%	57%
Preschooler	107%	104%	57%

C. State Budget Costs of Assisting Parents to Afford High Quality ECE

The estimated hourly costs of high quality ECE presented in the previous section are sufficiently high that they would make it unaffordable for families up through middle and upper-middle income ranges unless they received assistance. For example, under the 5-year Minimum Adequate scenario, if a toddler were in center care all year for 35 hours a week, the total cost would be about $6,500 per year; the ideal scenario would cost $10,500. These amounts, for a single child, would constitute about one quarter or one half of take-home pay for a Mississippi middle income family earning $30,000 a year. A large share of families with children under age 6 have more than one young child, so the actual costs of ECE as a percent of income could be two or three times as much. Achieving access to high quality ECE for middle income children will therefore require providing assistance to a broad range of families. We discuss the cost and impact of options for such assistance specified by the MS team in this section.

1 . Moving from hourly to system-wide costs of high quality ECE

While hourly costs are a critical building block, they do not fully reflect the cost to the state of a high quality system of ECE. The key elements we have followed to develop a system-wide cost estimate include:

a. Estimating current utilization (in hours per week) of different types of care by children in households representative of the state population on key characteristics.

b. Applying the relevant hourly costs of high quality ECE for each type of care and age of child to current utilization patterns;

c. Specifying alternative policy options that will assist parents to afford care, and estimating the reduction in price experienced by parents under each policy scenario. Key parameters of policy scenarios include the maximum income level at which families will be eligible for assistance, financing mechanisms applicable for families in each income group, the income-related co-payment schedule and whether there will be a direct subsidy to providers.

d. Estimating the changes in the types and amounts of care parents are likely to use as a result of increased financial access (reduced price due to subsidies and tax credits), and adjusting the cost estimates to reflect these changes in demand.

e. Estimating the likely increases in paid work as a result of the greater financial access to high quality ECE, and the amount of federal and state taxes likely to be generated by the increase in paid work.

We have developed these estimates for Mississippi, and compared the results to the current state budget for ECE. The data on current patterns of utilization were derived from a survey of Mississippi residents designed by HSPC and sponsored by MDHS and

BRI. The other calculations were made using the simulation model developed by HSPC and applying the policy specifications supplied by the Mississippi Team.

2. Financing Policy Options Considered

The following financing policy options were specified by the Mississippi Team for the first round of analysis and discussion.

The MS team asked us to examine several different forms of financial assistance, and to analyze the costs and impacts of each at two maximum income eligibility levels. The team specified a family co-payment schedule that we applied to determine the amount of assistance and remaining family costs for each family (see Round 1 co-payment curve, Appendix A). We also compared the costs and impacts of each option using the Minimum Adequate and Ideal hourly costs of high quality ECE.

The alternative maximum eligibility limits were:

a. cover 75% of MS families. Eligibility limit would be 3.2 times the federal poverty level (FPL) or $57,920 income for a family of four;
b. cover all MS children and families, with no income limit.

Note that 'covering' does not necessarily mean that a family has all of its benefits paid for, only that it is eligible for some amount of financial assistance. Currently, to receive vouchers for ECE assistance in Mississippi, mothers must be employed or in training for children to be eligible for benefits. In the options specified by the MS team, this requirement has been removed.

The financing options which are analyzed in this memorandum are as follows:

A. Baseline: as Option 1, we replicated the costs to the state for services under the current CCDF subsidy system, which in Mississippi has an income-related benefit with a maximum eligibility of 2.05 times the Federal Poverty Level ($37,105 per year for a family of 4). The current Mississippi subsidy system has a 'kinked' co-payment curve. At the lowest income levels, up to about half the federal poverty level, there is a zero parent co-payment. Above that low income level, government subsidies decline on a straight line, down to about 45% at the maximum eligible income level of $30,000 (which is the state median income). The current co-payment schedule is shown graphically in Appendix A. Costs for other policy options were then estimated as a cost increase from current policy, with the assumption that the ratio of subsidy to administrative costs would remain constant as benefits were expanded. We also compare the distribution of benefits by family income, age of child and type of care generated in our modeling of each policy option to the current distributions estimated in the baseline run.

B. Financing options designed by the MS Team

Co-payments.

The Mississippi team did not specify alternative co-payment curves. Rather, they specified that the co-payment curve should be a gradual slope, slightly above a straight line benefit reduction curve. Such an approach gives moderate income families slightly higher subsidies than a straight line reduction, but does not introduce significant inequities or work dis-incentives, as could result from steep or irregular curves. However, the MS team did specify a comparison of two alternative maximum income levels, one to cover 75 percent of families (maximum income of $57,920) vs. covering all families. These two possible co-pay curves are also shown in Appendix A. It can be seen that the curve that covers all families provides much higher benefits to middle income families. For example, a family with $40,000 income would pay more than half the cost of care if 75% of families were covered, to a maximum of about $58,000. However, if the same shape co-pay curve were applied with all families covered, the family at $40,000 income would have nearly all of its ECE costs covered by the subsidy.

Options 2,3,4 & 5: income related vouchers

- Options 2 and 3 offer only an income related voucher, and hourly rates are at the Minimum Adequate level. Option 2 provides coverage for all children; option 3 covers 75% of MS children (up to 3.2 times the Federal Poverty Line/FPL or $57,920 for a family of four).
- Options 4 and 5 also offer just an income related voucher, but hourly rates are set at the Ideal levels. Option 4 provides coverage for all children; option 5 covers 75% of MS children (up to 3.2 FPL or $57,920).

Options 6 & 7: free standing child care tax credits, with no other assistance.

The state child care tax credit is specified to equal 50% of the current federal credit. There is no upper income limit for eligibility. Under current federal tax law, eligible expenses are restricted to a maximum of $2,400 for one child and to $4,800 for two or more children. A taxpayer whose AGI (Adjusted Gross Income) is $10,000 or less is allowed a credit equal to thirty percent of qualified expenses. This percentage is reduced by one point for each additional $2,000 in AGI above $10,000. For taxpayers whose AGI is greater than $28,000, the credit is equal to twenty percent of qualified expenses. Thus, the maximum federal tax credit amount is $720 if there is one qualifying dependent and $1,440 in the case of two or more qualifying dependents. The tax credits being considered by the MS team would be for 50% of the rates, but would not change the maximum allowable expenditures, which would require a change in federal tax law. However, increasing the costs to Minimum Adequate or Ideal levels would significantly increase the average amount spent on child care by MS families, and therefore increase the amount they could claim as federal tax credits within the current limits. In addition to the credit against their federal tax liability, MS families would receive an additional 50%

of the federal credit as a credit to their state tax liability.

- Option 6 examines such a tax credit with Minimum Adequate hourly costs;
- Option 7 examines the credit with Ideal hourly costs.

Options 8 & 9 combine a 55% of cost provider subsidy with an income-related voucher for the remaining costs of high quality ECE. In both cases, the maximum eligibility is set to cover 75% of MS children.

- Option 8 consists of the combination provider subsidy and voucher, with Minimum Adequate hourly costs;
- Option 9 consists of the combination provider subsidy and voucher, with Ideal hourly costs;

Options 10 and 11 add a childcare tax credit to the combination of 55% provider subsidy and an income-related voucher. For both options 10 and 11, maximum eligibility is set to cover 75% of families (up to 3.2 FPL) for both the voucher and the provider subsidy, but there is no income limit for the child care tax credit.

- Option 10 consists of the combination provider subsidy, voucher and tax credit, with Minimum Adequate hourly costs;
- Option 11 consists of the combination provider subsidy, voucher and tax credit, with Ideal hourly costs;

C. Illustrative Option Specified by HSPC:

Option 12 is a hypothetical *Free ECE for All* option, which illustrates the cost and impacts would be if all hours of Center and FCC care were provided free to all children. Option 12 is somewhat like a public kindergarten approach to financing, with a 100 percent of cost provider subsidy allowing all children to attend with no charge or co-payment, regardless of income. As opposed to public kindergarten, however, parents would be able to select their preferred type of ECE setting – center, FCC or a combination. Hours in license-exempt, family-fiend-and-neighbor care are excluded from this option, consistent with the MS team's specifications for other options.

3. Budget Costs of Options for Assisting Families to Afford High Quality ECE

In this section we report our estimates of the budgetary costs of assisting families to afford high quality ECE, and compare them to current MS spending levels. It has been a challenge to establish an appropriate baseline for current Mississippi spending levels, since they have been quite volatile in recent years. As best we have been able to determine by consulting with state budget officials, who have graciously shared state budget documents with us, total federal and state child care expenditures through the office of children and youth were about $64 million in FY 2000, then increased to $85 million in FY 2001 and FY2002. During these two years, higher spending levels appear to have been supported by spending down unused balances from prior year block grants, and transferring significant amounts of TANF funds to child care. In FY 2003, total spending was reduced to about $50 million, including a $16 million smaller TANF transfer. The FY 2001 and 2002 spending levels do not seem to be sustainable under current revenue sources, since less is available in unspent prior year funds, and higher caseloads for cash assistance leave less TANF funds available to transfer to child care. For FY2004, the Office for Children and Youth has requested a total spending level of about $63 million, close to the FY2001 level. This seems a reasonable base level of spending from currently available federal and state funds, and we have calibrated our models accordingly.

The Department of Human Services estimates that 70 percent of child care subsidy spending is for children age birth through 5. We have therefore estimated the baseline level of spending for children B-5 as $44 million. Increases in spending for various options will be treated as increases to the $44 million level. If different budgetary information becomes available, we may modify this baseline in our second round of analysis.

An important consideration is the role of federal funding in a universal system. It should be noted that the vast majority of current MS child care spending is federal funds: state funding amounts to about $3-4 million a year. For the purposes of this analysis, we have assumed that the federal contribution remains at its current level, and that all additional costs would borne by the state. If CCDF funding grows, or if states are able to convince federal policy makers to contribute to the costs of a high quality, universal system, then state costs could be reduced accordingly. The increase in federal tax revenues due to additional employment could be the basis for seeking an additional federal allocation.

We have left federal Head Start funding out of the financial analysis, assuming that this will continue as a separate program from the state options that we are analyzing. Hours currently spent in Head Start by MS children are set aside in our modeling and not double-counted for state subsidy estimates. Head Start spending in Mississippi was about $81 million in 2002.

This analysis assumes that subsidies are paid entirely by the public sector. If employers, foundations or other sources of private funds were to contribute a portion of the subsidies, the level of public funding could be reduced.

It should also be noted that these are costs projected to be reached after a phase-in of at least 5 years. It would not be possible to immediately change the level of qualifications and compensation of ECE teachers, nor the public and private rate structures that would support them. The components for quality promotion and assurance would also take time to develop and become effective. Costs are expressed in 2002 dollars; appropriate inflation adjustments would have to be made once it is determined how to phase in the cost components, and in what year various changes in staff compensation and subsidies for families and providers would be implemented.

Table 7 below shows the wide range of impacts on budgetary costs entailed by the various options considered by the Mississippi Team.

The HSPC illustrative option of moving to a Free ECE for All notion of universal pre-K (no eligibility limit, 100% public subsidy regardless of income) would be quite expensive, even maintaining the cost differences among various types of care. We estimate the net annual state cost increase of such an option to be about $3.1 billion. For context, this would be equal to about 20 percent higher than current public K-12 education spending of about $2.7 billion. Since the public education budget is for 9 months of the year, and ECE must cover 12 months, it is appropriate to examine this relationship on a monthly basis. On a monthly basis, the Free ECE for All option would increase state ECE spending to about 90% of K-12 education.

The ECE policy options specified by the Mississippi Team would all cost substantially less than the Free ECE For All illustration, as shown in Table 7 below.

- The annual net increases in costs to the state would range from $158 to $552 million, equivalent to increases in the K-12 public education budget of 6-21 percent, when the approach is fully phased in.

- The cost of the various Mississippi options would range between 5 and 18 percent of the Free ECE for All option.

An income-related approach could thus improve access to high quality ECE at between one fifth and one twentieth the cost of a no-parent-payment approach. In later sections of this report we will consider whether the lowest cost options effectively provide access for all children.

The ranges above do not include the very low cost options of a tax credit without any direct subsidy spending. These would only add about $1 million to current costs, but the costs would appear as tax losses rather than as direct spending.

Table 7. Total costs of alternative Mississippi financing options ($ Millions, $2002; 1,000 million = 1 billion)

Policy Options	Total State and Fed'l cost: Gross)	State cost Net of Revenue Inc., Fed'l. Share	Increased state cost	Increased State Cost as % of Free ECE for All cost	Total Fed+State ECE Cost % of K-12. Spending
1) Baseline: Current Income-related Voucher. Maximum eligibility at 2.05 FPL.	44.2	2.6	-0-	-0-	0.1%
2) Voucher, Min.Adequate; cover 100% kids	400.0	357.1	354.5	11%	14%
3) Voucher, Min.Adequate; cover 75% kids	203.2	161.0	158.5	5%	6%
4) Voucher, Ideal; cover 100% kids	598.3	555.4	552.8	18%	21%
5) Voucher, Ideal; cover 75% kids	287.9	246.1	243.5	8%	9%
6) CC Tax Credit = 50% federal; all incomes; Min. Adequate	60.4*	18.8*	16.2*	1%	0.7%
7) CC Tax Credit = 50% federal; all incomes; Ideal	61.0.*	19.4*	16.8*	1%	0.7%
8) Combination, voucher plus 55% provider subsidy; cover 75%; Min. Adequate.	256.5	214.0	211.5	7%	8%
9) Combination, voucher plus 55% provider subsidy; cover 75%; Ideal.	375.4	333.1	330.5	11%	13%
10) Combination, tax credit plus voucher plus 55% provider subsidy; Min. Adequate	288.3	220.6	218.0	7%	8%
11) Combination, tax credit plus voucher plus 55% provider subsidy; Ideal	410.5	342.1	339.5	11%	13%
12) Free ECE for All; 100% provider subsidy for all types of care, no income limit; Ideal rates	3,161.4	3,113.5	3,109.9	100%	118%

** For purposes of this chart, the state tax credit costs are added to the current federal voucher costs. We have not included an additional amount of estimated federal child care tax credits that could accrue to MS taxpayers if they paid the higher ECE rates without any assistance beside the tax credit.*

Income related vouchers only:

Options 2-5 include only an income-related voucher, but vary considerably according to whether 75% or 100% of the population is eligible, and whether costs are set at the Minimum Adequate or Ideal levels.

Options 2 and 3 provide assistance to 100% and 75% of families, with costs set at the *Minimum Adequate* level.

Option 3, covering 75% of children, would require additional costs of $159 million, or a 6% increase in current K-12 education spending.

Option 2 which extends the eligibility limit to cover all families, provides a very substantial subsidy for low and middle income families. It would increase budgetary costs by $355 million a year, or 14% of education spending.

Options 4 and 5 provide assistance to 100% and 75% of families, with costs set at the *Ideal* level; the higher hourly costs of the Ideal specification generate higher budgetary costs.

Option 5, covering 75% of children, would add $244 million in annual costs, $85 million more than the same benefits at the Minimum Adequate level.

Option 4 provides income-related assistance to all families at the Ideal level. It would cost $553 million a year, $309 million more than covering 75% of children at the Ideal level, and $394 million more than covering 75% of children at the Minimum Adequate level.

Combination Provider Subsidy and Voucher Options:

Options 8 and 9 provide assistance to 75% of families, but add a 55% non-income-related provider subsidy, with an income-related voucher offered for the remainder.

Option 8, which offers the combination PS-voucher at the Minimum Adequate level would increase budget costs by about $211 million a year. This is $53 million higher than the cost of covering the same 75 percent of children with only an income-related voucher.

Option 9 would offer the PS-voucher combination but at the Ideal levels. This would raise the annual budget increment to $331 million, $119 million more than the same benefits at a minimum adequate level.

Improving middle class affordability through a non-income-related provider subsidy would not cost as much as providing voucher coverage for all children/families. Thus, a voucher covering 100% of children at the minimum adequate level (Option 2)

would cost $355 million; offering the PS-voucher combination to 75% of children at the Minimum Adequate level (Option 8) would cost $212 million.

Tax Credit Options:

The options (6 and 7) that provide only a state tax credit equal to 50% of the current federal tax credit, with no other form of assistance. The total costs would be about $19 million a year. An additional amount of increased federal tax credit could accrue to Mississippi taxpayers if they paid the higher amounts for ECE implied by the Minimum Adequate and Ideal policy scenarios, with no additional assistance other than the tax credit. If, however, middle income taxpayers were to consider the cost of high quality ECE net of the tax credits too high to afford, they would not pay these amounts and would not receive as much from either the federal or state tax credits. We will explore whether high quality ECE rates are affordable with only the tax credit for of assistance in the next section of this report.

If tax credits were added to the package of provider subsidy and income-related voucher, as shown in options 10 and 11, they would increase the state budget costs by about $6 million at the Minimum Adequate level, and about $9 million under the Ideal scenario. The cost increases would not be as high as the total value of the tax credits due to the interaction among the provider subsidy, vouchers and tax credits – families would not be able to claim the same costs under more than one financing mechanism. Adding tax credits to the provider-subsidy + voucher combination would therefore not substantially change the cost of those combinations.

Revenue Impacts

Increased financial accessibility of high quality ECE would lead to increases in paid employment of mothers. This will in turn generate additional revenues for the state and federal governments. The results are shown in Table 8 below. The potential for generating significant additional tax revenues is shown by the $7.3 million state and $22 million federal revenue increases under the Free Care for All option (12): when the price of care is reduced, parents work additional hours and pay additional state and federal taxes. The state and federal income tax offsets are relatively modest for the Mississippi options, since a large portion of the population eligible for the greatest benefits has little or no income tax liability. However, the federal FICA (social security, unemployment compensation) tax receipts, which are a fixed rate regardless of income, could be considerable. A challenge is that while FICA receipts reduce the unified federal budget deficit, they are allocated to trust funds and cannot easily be used to offset increased expenditures for federal ECE subsidies. They could be part of a justification for an increased federal contribution to subsidies if the state adopts a significant increase.

Table 8. Revenue Impacts: State, Federal, FICA
(in $ Millions, $2002)

	Total Revenue Increases	State Income Tax Increases	Federal Income Tax Increases	FICA Tax Increases
1) Baseline: Current Income-related Voucher. Maximum eligibility at 2.05 FPL.	-0-	-0-	-0-	-0-
2) Voucher, Min.Adequate; cover 100% kids	16.8	1.3	3.9	11.2
3) Voucher, Min.Adequate; cover 75% kids	6.7	0.5	1.6	4.6
4) Voucher, Ideal; cover 100% kids	16.0	1.3	3.8	10.9
5) Voucher, Ideal; cover 75% kids	2.4	0.2	0.6	1.6
6) CC Tax Credit = 50% federal; all incomes; Min. Adequate	-18.8	- 18.8	---	---
7) CC Tax Credit = 50% federal; all incomes; Ideal	-19.4	- 19.4	---	---
8) Combination, voucher plus 55% provider subsidy; cover 75%; Min. Adequate.	11.1	0.9	2.7	7.5
9) Combination, voucher plus 55% provider subsidy; cover 75%; Ideal.	9.2	0.7	2.2	6.3
10) Combination, tax credit plus voucher plus 55% provider subsidy; Min. Adequate	11.2	0.9	2.7	7.6
11) Combination, tax credit plus voucher plus 55% provider subsidy; Ideal	9.6	0.8	2.3	6.5
12) Free ECE for All; 100% provider subsidy for all types of care, no income limit; Ideal rates	90.4	7.3	21.7	61.4

4. Meeting the needs of different families: impact of policy options on affordability

Since the purpose of these financing options is to make high quality ECE accessible to both low and middle income families, we have examined their relative impact on affordability. If the Mississippi Team considers high quality ECE to be unaffordable under various specifications, it can address this in the next round by considering options entailing some combination of reducing the cost of high quality ECE (which would reduce total budget cost) or increasing assistance to affected families (which would increase the total budget cost).

For this analysis, we measure affordability by the average parent payment for ECE after subtracting all benefits for which they are eligible (provider subsidy and/or voucher and/or tax credits), for each of five income groups. We consider both the change in actual hourly payments, and hourly payments as a percent of family income. Tables 9-A and 9-B below show the average household price after subsidy (the co-payment amount) for eligible and participating families in each income group under each policy option considered. Table 9-A shows the dollar-and-cent co-payment amount for families; Table 9-B shows that amount as a percent of average income for families in that group. Income ranges are defined by the federal poverty guidelines, which consider both family size and income. We describe these groups by the income ranges for families of four individuals, since that is average for Mississippi families with children under age six. We focus only on the weighted average of Center and FCC costs since the MS team specified not subsidizing Family, Friend and Neighbor care.

It should be noted that we report average impacts for families in each of these income groups. Thus, for example, the average price paid by families in the lowest income group includes both those near zero income, who would pay nearly nothing for care under any of the policy options, and the families near the poverty line of $18,001, who would receive a substantial subsidy but still have some co-payment responsibility (the co-payment schedules are shown in Appendix C These are fairly wide income groupings. For families at the lower end of the income range in each group, the average hourly cost would be lower; but since their income is lower, the cost of ECE as a percent of income would be about the same. Similarly, families at the higher end of the income range in each group would be paying a higher amount, but since their incomes are higher, their payment as a percent of income would be about the same.

Family costs of ECE as a percent of income are estimated based on *one child in full time ECE*. If children are in less than full time ECE, but the parents are working full time, then the percent of income could be lower. On the other hand, for the 33 percent of Mississippi families with more than one child under the age of 6 and not in school, ECE for two children would require a much higher percent of income – up to double the percents in table 9-B if both children were in full time ECE.

Table 9-B shows that the various policies being considered by the MS team would have widely varying impacts on the affordability of high quality ECE.

Income related vouchers only:

Options 2-5 include only an income-related voucher, but vary considerably according to whether 75% or 100% of the population is eligible, and whether costs are set at the Minimum Adequate or Ideal levels.

Options 2 and 3 provide assistance to 100% and 75% of families, with costs set at the *Minimum Adequate* level.

Option 3, covering 75% of children, leaves cost at the barely affordable level – between 10 and 11 percent of income per child – for the 76% of families with less than $72,400 income. For the close to one third of these families with more than one young child, ECE would not be affordable.

Option 2 makes ECE more affordable: by extending the eligibility limit to cover all families, it provides a very substantial subsidy for low and middle income families. It would therefore reduce the post-assistance cost of care to about 1 percent of income for most families. However, this comes at a high budgetary price – the cost to the state of option 2 is $196 million greater than option 3.

Options 4 and 5 provide assistance to 100% and 75% of families, with costs set at the *Ideal* level.

Option 5, covering 75% of children, does not make care affordable. Families in most income categories would pay between 12% and 17% of income for each child.

Option 4 provides income-related assistance to all families. Even with the higher Ideal level of costs, the assistance is sufficient to hold costs to about 1.5% of income across all but the highest income levels, where it would be 2.6%.

Both options 2 and 4 provide access to the high quality ECE at minimal levels of family payment by assisting all families. However, they do this at a considerable budgetary costs of $355 (Min Adequate) to $553 million (Ideal).

Combination Provider Subsidy and Voucher Options:

Options 8 and 9 provide assistance to 75% of families, but improve affordability compared to options 3 and 5 by adding a 55% non-income-related provider subsidy, with an income-related voucher offered for the remainder.

Option 8, which offers the combination PS-voucher at the Minimum Adequate cost level would yield costs to families in the range of 4% to 5% of income for most income groups, and at 7.4% of income for the non-covered most affluent group of families. These would barely meet affordability criteria for families with more than one young child. It should also be noted that net family costs would be substantially

higher than the current levels for all income groups – almost twice as much as the baseline.

Option 9 would offer the PS-voucher combination but at the Ideal cost levels. This would make affordability marginal for the covered families, with ECE costing parents 6% o 8% of income per child after assistance. For the one third of families with more than one young child, ECE would not be affordable. This option would also make ECE much less affordable for the to income group, increasing its cost to 11% of income per child. Families at all income levels would pay much more than their current payments.

The combination Provider subsidy and voucher options can be seen as an alternative approach to improving affordability between covering all children on a strictly income-related basis. The combination achieves a moderate level of affordability, and has a moderate level of cost.

Tax Credit Options:

The options (6 and 7) that provide only a tax credit, with no other form of assistance, would leave high quality ECE unaffordable for all but the most affluent families in Mississippi. The cost for the one third of lowest income families would average close to their total income. For the 25% who are not officially poor, but are below 2FPL, ECE for one child would cost 24% of income under the Minimum Adequate scenario, 37% under Ideal.

If tax credits were added to the package of provider subsidy and income-related voucher, as shown in options 10 and 11, they would reduce the cost of care by an additional 4-5 cents per hour, reducing the cost of high quality ECE by an additional 1% of income for low and middle income families.

Affordability Analysis: Summary and Conclusions

- The Voucher-only option does not achieve affordability for families at either the Minimum Adequate or Ideal levels of cost, unless the entire population is made eligible for assistance, with attending high budgetary costs. If 100% of families were covered, benefit levels for all families would be increased, and the remaining costs to families would be a very low 1-2% of income. If the budgetary costs of this approach are acceptable to state policy makers, then this approach would achieve its objectives.

- The Provider Subsidy-Voucher combination can achieve affordability at the 4-5% of income level while only covering 75% of the population, if costs are set at the Minimum Adequate level. At the Ideal level of costs, affordability would be at the marginal rate of 6-8% of income for one child, and would exceed the 10% of income affordability criterion for families with more than one young child. Costs for all income levels would be substantially higher than at present for all incomes levels at

either Minimum Adequate or Ideal cost levels. The PS-Voucher combination has the advantage of improving affordability at substantially lower budgetary costs than covering all children under the voucher. Further improvements in affordability, and reduced budgetary costs, could be achieved by lowering the hourly costs of high quality ECE. This would require changing one or more of the features that significantly drive costs: staff compensation, qualifications or ratios. Compared to options recommended by experts and considered by other states, the greatest room for change would appear to be in phasing up toward setting BA level teacher salaries equal for ECE and elementary schools.

- Tax Credits do not achieve affordability of high quality ECE if they are the only form of assistance offered. If they are combined with the Provider Subsidy-Voucher option, they make a small improvement in affordability, reducing family costs by about 1% of income.

The more affluent one third of families (over $54,300) would experience significant cost increases above the 1.51-1.68 per hour they are currently paying under most of the options. Their costs would increase to $2.30 to $5.60 per hour, depending upon whether costs were at the Minimum Adequate or ideal level, and whether 75% or 100% of families were to receive some form of assistance. Such hourly increases would translate to $4,700 – 11,500 per year for one child in full time ECE. As a percent of income, ECE expenditures for more affluent families could increase from the current 3.5% to a range of 6.6% to 11.6%, depending upon the option selected.

Since families would be receiving higher quality ECE, they might be willing to support these higher rates. However, it would be desirable to examine the high end of the market to see whether such rates are sustainable. For example, looking at 95th percentile rates in the state market rate survey would suggest what rates the most affluent families are willing to pay. If more affluent families are not willing to pay the higher costs, then providers will not be able to sustain those prices in the market, and the intended improvements in ratios, qualifications and compensation could not be sustained.

Table 9-A. MS Round 1 Affordability Analysis: Dollars per Hour

Average hourly household cost of high quality ECE in centers and FCC, after subsidy (co-pay amount). By income group (eligible households only).

	Income level **Percent** and (*cumulative pe*rcent) of Mississippi children in each group					
	<1 FPL **30%(**30%)	1-2 FPL **25%**(55%)	2-3 FPL **12%(**67%)	3-4 FPL **9%(**76%)	> 4 FPL **22%(**100%)	Total, All Elig. Families
Income range. Federal Poverty level for Family of 4 (2002)	*<= 18,001*	*$18,001-36,201-*	*$36,201-54,301*	*$54,301-72,401*	*> $72,401*	
Policy Option	**Average Hourly Family Cost Net of Subsidy (=co-payment)**					
1) Baseline: Current Income-related Voucher. Maximum eligibility at 2.05 FPL.	.11	.50	Not elig. 1.60	Not elig. 1.51	Not Elig. 1.68	.29
2) Voucher, Min.Adequate; cover 100% kids	.06	.14	.26	.39	.82	.31
3) Voucher, Min.Adequate; cover 75% kids	.44	1.18	2.45	3.48	Not Elig. 3.70	1.15
4) Voucher, Ideal; cover 100%	.09	.22	.39	.59	1.24	.48
5) Voucher, Ideal; cover 75%	.66	1.78	3.73	5.25	Not Elig. 5.64	1.74
6) CC Tax Credit = 50% federal; all incomes; Min. Adequate	3.57	3.17	3.14	3.29	3.20	3.21
7) CC Tax Credit = 50% federal; all incomes; Ideal	5.49	4.95	4.97	5.11	5.11	5.05
8) Combination, voucher plus 55% provider subsidy; cover 75%; Min. Adequate.	.20	.53	1.10	1.57	Not Elig. 3.59	.52
9) Combination, voucher plus 55% provider subsidy; cover 75%; Ideal.	.30	.80	1.68	2.36	Not Elig. 5.41	.78
10) Combination, tax credit plus voucher plus 55% provider subsidy; Min. Adequate	.16	.49	1.06	1.53	3.55	.48
11) Combination, tax credit plus voucher plus 55% provider subsidy; Ideal	.25	.75	1.63	2.31	5.36	.73
12) Free ECE for All; 100% provider subsidy for all types of care, no income limit; Ideal rates	-0-	-0-	-0-	-0-	-0-	-0-

Table 9-B. MS Round 1 Affordability Analysis: Percent of Income

Average hourly household cost of high quality ECE in Centers and FCC after subsidy (co-pay amount). By income group (eligible households only).

	Income level **Percent** and (*cumulative pe*rcent) of Mississippi children in each group					
	<1 FPL **30%(**30%)	1-2 FPL **25%**(55%)	2-3 FPL **12%(**67%)	3-4 FPL **9%(**76%)	> 4 FPL **22%(**100%)	Total, All Elig. Families
Income range. Federal Poverty level for Family of 4 (2002)	*<= 18,001*	*$18,001-36,201-*	*$36,201-54,301*	*$54,301-72,401*	*> $72,401*	
Policy Option	**Average Hourly Family Cost Net of Subsidy (=co-payment)**					
1) Baseline: Current Income-related Voucher. Maximum eligibility at 2.05 FPL.	2.5	3.8	7.2	4.9	3.5	4.0
2) Voucher, Min.Adequate; cover 100% kids	1.3	1.1	1.2	1.3	1.7	2.2
3) Voucher, Min.Adequate; cover 75% kids	10.0	9.0	11.1	11.3	7.6	15.8
4) Voucher, Ideal; cover 100%	2.0	1.6	1.8	1.9	2.6	3.3
5) Voucher, Ideal; cover 75%	15.0	13.5	16.9	17.0	11.6	23.8
6) CC Tax Credit = 50% federal; all incomes; Min. Adequate	81.2	24.0	14.2	10.7	6.6	22.0
7) CC Tax Credit = 50% federal; all incomes; Ideal	125.1	37.4	22.5	16.5	10.5	34.5
8) Combination, voucher plus 55% provider subsidy; cover 75%; Min. Adequate.	4.5	4.0	5.0	5.1	7.4	7.1
9) Combination, voucher plus 55% provider subsidy; cover 75%; Ideal.	6.8	6.1	7.6	7.7	11.1	10.7
10) Combination, tax credit plus voucher plus 55% provider subsidy; Min. Adequate	3.6	3.7	4.8	4.9	7.3	6.5
11) Combination, tax credit plus voucher plus 55% provider subsidy; Ideal	5.6	5.7	7.4	7.5	11.0	10.0
12) Free ECE for All; 100% provider subsidy for all types of care, no income limit; Ideal rates	-0-	-0-	-0-	-0-	-0-	-0-

The Mississippi Team may therefore want to consider whether co-payments should be on a per-child or per-family basis. There are many pros and cons to each approach. For example, setting co-payments based on a fixed percent of income per family, regardless of number of children in care, helps deal with affordability for families with more than one child, and make employment more feasible for them. However, it can have the effect that a family with more income but two children receives more total benefits than a household with less income but only one child.

5. Targeting of funds to children at greatest risk of poor outcomes.

There is an inherent tension between improving affordability for both low and middle income families, and targeting limited public funds to the low income families whose children are at greatest risk of poor outcomes. For each policy option, we therefore examine what percent of subsidy funds would go toward assisting each income group. The results are shown in Table 10. The set of policies specified by the Mississippi team for initial consideration have widely varying impact on the distribution of benefits to different income groups. These impacts should therefore be an important feature of the discussion of the different options.

Baseline

- The current Mississippi subsidy system distributes 62 percent of the benefits of vouchers to the 30 percent of children in the lowest income group and 38 percent to the 25% of children in second lowest group, providing little or no assistance to middle income families. This is a highly progressive system, with strong targeting but not giving middle income families any assistance.

Voucher Options

- The two options (3 and 5) that would offer only an income related voucher, and would set a maximum income eligibility of $58,000 (covering 75% of families) would come closes to the current distribution, giving 60% of total benefits to the lowest income, 33% to the moderate income group and 7% to the middle income group.

- The options (2 and 4) that offer only an income related voucher, but extend eligibility to all families, greatly reduce the share of benefits to low and moderate income families, and would shift almost one third (30-31%) of total benefits to the one third of families with the highest incomes. The lowest income 30% of families would receive 33% of benefits. This would be a relative reduction from their current 60% of benefits, but their actual amount of benefits would be greater than at present, since the total amount of benefits would be greatly increased. The

25% of families at moderate income levels (18,000-36,000) would go from receiving 38% of current benefits, to receiving 25% of the new, higher benefits.

Provider Subsidy and Voucher Options

- The two options (8 and 9) that would offer the combination of a 55% of cost provider subsidy with an income related voucher for the remainder, with a maximum income eligibility of $58,000 (cover 75%) would entail shifting some benefits from low and moderate income groups to the middle class, but far less so than covering 100% of families with an income-related voucher. The lowest income group would receive 51% of benefits, less than the current 68%, but higher than the 33% under options 2 or 4. The 25% of families at the moderate income level would receive 22% of the higher benefit amounts. These options would only allocate 2% of benefits to the most affluent one third families, as opposed to 30-31% under options 2 or 4.

- The Free ECE for All option 12 (which the Task Force did not specify, but which we provide as a basis for comparison) would eliminate the current progressivity, giving each group a share of benefits close to its share of the population. Thus, the 55% of children in the two lower income groups would receive 56% of total benefits. The 31 percent of families in the two most affluent groups would receive 34 percent of benefits. Even though benefits are distributed without regard to income in this option, higher income families tend to use more expensive center-type care, even if price is taken into account, so they would receive a disproportionate share of the total benefits under such an approach.

Tax Credit Options

- The various tax credit options would not provide a significant share of benefits to low income families, who do not have a significant federal income tax burden. Low income families would only receive about 2% of benefit if tax credits were the only benefits offered. The upper one third of families would benefit most greatly from tax credit options, receiving 48% of total benefits under the two purely tax credit options 6 and 7. It is interesting to see how the addition of tax credits in options 10 and 11 affect the distribution of benefits in the otherwise identical options 8 and 9. For example, combination options 8 and 9 give 51% of benefits to the lowest income group; addition of the tax credit reduces this to 46-47%. Similarly, the upper two income groups would get 2% of total benefits under options 8-9, but increase to 7-8% if tax credits were added (options 10 and 11).

Table 10. Percent Of Total Benefits, By Income Group
Percent and (Cumulative Percent) of Illinois Children in Each Income Group

	Income level **Percent** and (*cumulative pe*rcent) of Mississippi children in each group					
	<1 FPL **30%(**30%)	1-2 FPL **25%**(55%)	2-3 FPL **12%(**67%)	3-4 FPL **9%(**76%)	> 4 FPL **22%(**100%)	Total
Income range. Federal Poverty level for Family of 4 (2002)	*<= 18,001*	*$18,001-36,201-*	*$36,201-54,301*	*$54,301-72,401*	*> $72,401*	
Policy Option	**Percent of Total Benefits, By Option**					
1) Baseline: Current Income-related Voucher. Maximum eligibility at 2.05 FPL.	62	38	-0-	-0-	-0-	100
2) Voucher, Min.Adequate; cover 100% kids	33	25	11	12	18	100
3) Voucher, Min.Adequate; cover 75% kids	60	33	7	-0-	-0-	100
4) Voucher, Ideal; cover 100%	33	25	11	12	19	100
5) Voucher, Ideal; cover 75%	60	33	7	-0-	-0-	100
6) CC Tax Credit = 50% federal; all incomes; Min. Adequate	2	33	17	18	30	100
7) CC Tax Credit = 50% federal; all incomes; Ideal	2	33	17	18	30	100
8) Combination, voucher plus 55% provider subsidy; cover 75%; Min. Adequate.	51	22	13	2	-0-	100
9) Combination, voucher plus 55% provider subsidy; cover 75%; Ideal.	51	22	13	2	-0-	100
10) Combination, tax credit plus voucher plus 55% provider subsidy; Min. Adequate	46	33	13	4	4	100
11) Combination, tax credit plus voucher plus 55% provider subsidy; Ideal	47	33	13	4	3	100
12) Free ECE for All; 100% provider subsidy for all types of care, no income limit; Ideal rates	31	25	11	14	20	100

6. *Serving Children of Different Age Groups*

In this section, we examine the percent of benefits that are invested in children of different age groups under the alternative policy options. It should be noted that children of different ages tend to be in different types of care, and to be in care for different numbers of hours per week. Family incomes are also lower when children are younger, so the rate of subsidy in an income-related benefit is somewhat greater for younger children. Finally, the policies specified by the Mississippi Team produce higher costs of ECE for younger children, primarily due to lower child:adult ratios. All these factors affect the distribution of benefits by age group that emerge from different policy options.

The various Mississippi options do not produce dramatically different results in distributing benefits by age of child. The options (2 and 4) that provide benefits to 100% of the population would result in a smaller share of benefits being allocated to toddlers) and a greater proportion being allocated to preschoolers than at present, shifting about 8-10% of funds. The options that restrict benefits to 75% of families, either just as a voucher (3 and 5) or in combination with a provider subsidy (8-11) would result in the share of funds going to infants falling from 10 percent to 7-8%, the share going to toddlers falling from 36% to 24-26%, and the share going to preschoolers increasing to 66-69% from the current 54%. Again, it is important to remember that these are changes in the shares of a much larger pool of benefits, so all ages of children would be getting much greater total benefits.

Table 11: Percent of Total Benefits to Children in Various Age Groups

Policy Option	Infants	Toddlers	Preschoolers
1) Baseline: Current Income-related Voucher. Maximum eligibility at 2.05 FPL.	10	36	54
2) Voucher, Min.Adequate; cover 100% kids	10	26	64
3) Voucher, Min.Adequate; cover 75% kids	7	34	69
4) Voucher, Ideal; cover 100% kids	10	38	62
5) Voucher, Ideal; cover 75% kids	7	25	68
6) CC Tax Credit = 50% federal; all incomes; Min. Adequate	10	41	59
7) CC Tax Credit = 50% federal; all incomes; Ideal	10	41	58
8) Combination, voucher plus 55% provider subsidy; cover 75%; Min. Adequate.	8	24	68
9) Combination, voucher plus 55% provider subsidy; cover 75%; Ideal.	8	26	67
10) Combination, tax credit plus voucher plus 55% provider subsidy; Min. Adequate	8	25	67
11) Combination, tax credit plus voucher plus 55% provider subsidy; Ideal	8	26	66
12) Free ECE for All; 100% provider subsidy for all types of care, no income limit; Ideal rates	11	29	60

7. Types of ECE Used Under Different Policy Scenarios

We know that families of different characteristics vary in their choice among centers or preschools, FCC and relative care. We have also found that these choices are influenced differentially by price; in general, center care is more price sensitive than FCC care. The different policy options have different effects on the overall price reduction experienced

by parents, and therefore yield somewhat different shifts in parent demand for center, FCC or paid relative care.

Table 12 shows that none of the options specified by the Mississippi Team is likely to make a substantial shift in the distribution of funding to different care settings. The current predominance of center care use would be reinforced by the MS Team's specification that none of the benefits would be used to pay for ECE by non-licensed/registered Family, Friends or Neighbors.

Table 12:
Percent of Total Benefits to Children in Various Types of ECE
By Policy Scenario

	Centers, preschools	**FCC**	**FFN**
Policy Option			
1) Baseline: Current Income-related Voucher. Maximum eligibility at 2.05 FPL.	87	9	4
2) Voucher, Min.Adequate; cover 100% kids	91	9	NA
3) Voucher, Min.Adequate; cover 75% kids	91	9	NA
4) Voucher, Ideal; cover 100% kids	91	9	NA
5) Voucher, Ideal; cover 75% kids	91	9	NA
6) CC Tax Credit = 50% federal; all incomes; Min. Adequate	NA	NA	NA
7) CC Tax Credit = 50% federal; all incomes; Ideal	NA	NA	NA
8) Combination, voucher plus 55% provider subsidy; cover 75%; Min. Adequate.	91	9	NA
9) Combination, voucher plus 55% provider subsidy; cover 75%; Ideal.	92	8	NA
10) Combination, tax credit plus voucher plus 55% provider subsidy; Min. Adequate	91	9	NA
11) Combination, tax credit plus voucher plus 55% provider subsidy; Ideal	92	8	NA
12) Free ECE for All; 100% provider subsidy for all types of care, no income limit; Ideal rates	75	25	NA

Summary:
Comparing MS Round 1 Options on Major Criteria –
Budgetary Cost, Affordability for Families, Targeting to Children at Greatest Risk

Table 13 on the following page compares the various options specified by the Mississippi Team across the several options where they have substantial differences. Each of these three criteria may have minimum or maximum absolute levels that are acceptable from different perspectives. For example, if the remaining cost of ECE after assistance is not affordable to middle income families, then they are not likely to support enactment of the initiative. If it were to be enacted, their inability to pay higher costs would make it impossible for providers to charge the anticipated higher fees and they would then be unable to implement the desired levels of staff qualifications and compensation. Conversely, if achieving affordability requires budget increases that are not acceptable to the public or policy makers, then the approach would also collapse.

The options (2-5) that provide only an income-related voucher, and cover 75% of children, produce un-affordable costs of ECE for families at either the Minimum Adequate or Ideal levels. Modifying these options to cover all children, regardless of income, achieves affordability at all income levels. However, it does so at the cost of the highest budgetary impact, and of reducing the percent of funds targeted to vulnerable children from 93% to 58%. If the MS Team considers the affordability and targeting criteria important, it could potentially achieve these by reducing the hourly costs of high quality ECE.

The options (8-9) that offer 75% of children a 55% of cost provider subsidy, then use an income-related voucher for the rest, achieve a moderate level of affordability at the Minimum Adequate level, but are not affordable at the Ideal level of hourly costs. If a higher level of budgetary impact were acceptable, then these affordability problems could be address by either reducing co-payments or increasing the maximum eligibility limit. If higher budget costs were not acceptable, then affordability could be improved at lower cost by reducing the hourly costs.

Adding a tax credit to the Provider Subsidy - Voucher combination (options 10-11) does not have a substantial effect on cost, affordability or targeting, though it would divert about 5-6% more of total benefits toward the more affluent families.

The options of providing a state child care tax credit instead of a direct subsidy do not achieve affordability for families at any income level, at either Minimum Adequate or Ideal levels of hourly cost and quality. While the budget impact of these tax cuts is relatively small, only about a third of the total benefits would be addressed to the children at greatest risk.

Table 13: Comparing Round 1 MS Options on Several Criteria

	State Budget Increase: $ Millions	Budget Impact: % K-12 Spending	Affordability: Percent Family Income	Targeting: Percent to Low-moderate
Baseline				
1) Current Income-related Voucher. Maximum eligibility at 2.05 FPL.	-0- (Base =2.6)	0.1	3 - 7	100
Voucher Only Options				
2) Voucher, Min.Adequate; cover 100% kids	355	14	1 - 2	58
3) Voucher, Min.Adequate; cover 75% kids	159	6	7 - 11	93
4) Voucher, Ideal; cover 100% kids	553	21	1 – 3	58
5) Voucher, Ideal; cover 75% kids	244	9	13 – 17	93
Tax Credit Only Options				
6) CC Tax Credit = 50% federal; all incomes; Min. Adequate	16	0.7	10 – 24*	35
7) CC Tax Credit = 50% federal; all incomes; Ideal	17	0.7	10 – 37*	35
Combination PS + Voucher Options				
8) Combination, voucher plus 55% provider subsidy; cover 75%; Min. Adequate.	212	8	4 – 7	73
9) Combination, voucher plus 55% provider subsidy; cover 75%; Ideal.	331	13	6 – 11	73
Combination: PS, Voucher, Tax Credit Options				
10) Combination, tax credit plus voucher plus 55% provider subsidy; Min. Adequate	221	8	3 – 7	79
11) Combination, tax credit plus voucher plus 55% provider subsidy; Ideal	342	13	5 – 11	80
HSPC Illustrative Option: Free ECE for All				
12) 100% provider subsidy for all types of care, no income limit; Ideal rates	3,114	118	-0-	56

* Families in the lowest income group would be left with hypothetical ECE costs in excess of their income, so we have excluded them from this summary. A tax credit would clearly not meet their needs.

D. Options for Phasing In Costs of Universal ECE for Mississippi's Children

The estimated increases in costs shown in this memo are quite considerable, given current economic and budgetary circumstances. The Mississippi Team therefore faces two potential ways of dealing with the high level of costs:

- *Modify some of the key policy specifications affecting costs*. Those with the greatest impact on total costs are staff compensation, ratios and mix of qualifications; the 55% provider subsidy provision; and providing assistance to 100 percent of families. This analysis has shown that any such modifications must be considered as a package, or there can be unintended consequences for such important objectives as affordability for low, moderate and middle income families, or for the distribution of benefits by income group.

- *Maintain the current policy specifications without major modification and phase in the costs as funds become available.*

Our second round of analysis can include either of these strategies.

A key challenge for moving toward universal ECE financing is how to phase in the considerable costs, without having the early phases become a permanent non-universal program. An important lesson from K-12 education reform is that "pilot programs" are rarely converted to universal policies, because they take a long time to evaluate, the evaluations are rarely clear as to the exact impacts, and the degree to which the impacts are caused by the design of the program or by the location or individuals responsible for implementation. *It is therefore important to phase in broad policies that apply to the entire system, rather than adopting limited programs*.

Our analyses have shown that the major factors affecting cost of universal ECE are: compensation and ratios; coverage of age and income groups; rates of participation. We will therefore consider phasing options relative to each of these factors.

1. Compensation and ratios.

An important feature of the high quality system of ECE being considered here is that it requires moving the entire ECE market, not just public reimbursement rates. That is, it is intended that a mixture of regulations and financial incentives will lead to more highly qualified and adequately compensated staff for all providers that parents of all incomes groups are using. Given the current low levels of education and pay for ECE staff, it will take a long time to change the mix of professional qualifications. It will also take time to establish the support and tracking mechanisms to assure that providers and teachers make the necessary changes. One aspect of phasing that is automatically required is therefore to phase up reimbursement rates gradually, and tie the changes in rates to specified improvements in staff qualifications and competency.

Tiered reimbursement mechanisms may not achieve this objective, since there is a strong possibility that they will simply reward the providers who are currently hiring the best staff and paying the highest salaries and benefits. While rewarding the currently best providers may seem fair, it does not accomplish the system-wide improvement goal. Rather, a policy must be set that gradually requires all providers to upgrade qualifications and compensation. *It is the level, not the breadth of change that should be phased in.*

The Mississippi Team may want to consider whether it can achieve the principle of equivalent pay for early childhood and public school teachers in the short term future. Given the labor market, it may be possible to recruit teachers with BA/BS level preparation at somewhat lower salaries, and phase up to elementary school level salaries over time. Average Mississippi salaries for some other occupations requiring BA/BS degrees plus certification are shown in Appendix B as a basis for possible discussion.

2. Coverage of age and income groups.

It should be noted that the dynamics of phasing in staff qualifications and compensation on a system-wide basis interact with the implementation of policies to cover middle income families. If the financial incentives are only available for those providers serving low income families, then quality in the overall system cannot be increased, because without help, middle income families would be hard pressed to pay the increases in cost required to achieve high quality ECE, and providers would therefore not be able to enact rate increases or compensate their staff as projected.

Phasing in by income also presents a challenge to shifting public perception of ECE from a welfare program for low income children to an education program for all children. If, as in New York, the early phases of implementation reach only low income children, then it is likely to still be perceived as welfare-oriented. This perception could limit both its acceptability and later ability to encompass more groups. A potential middle ground is to cover some but not all middle income children in early phases. Thus, the Mississippi options could be modified in the early years to cover less than the 75-100 percent of children initially specified. If hourly cost increases were also phased in as staff qualifications and compensation were gradually increased, middle income affordability could be protected.

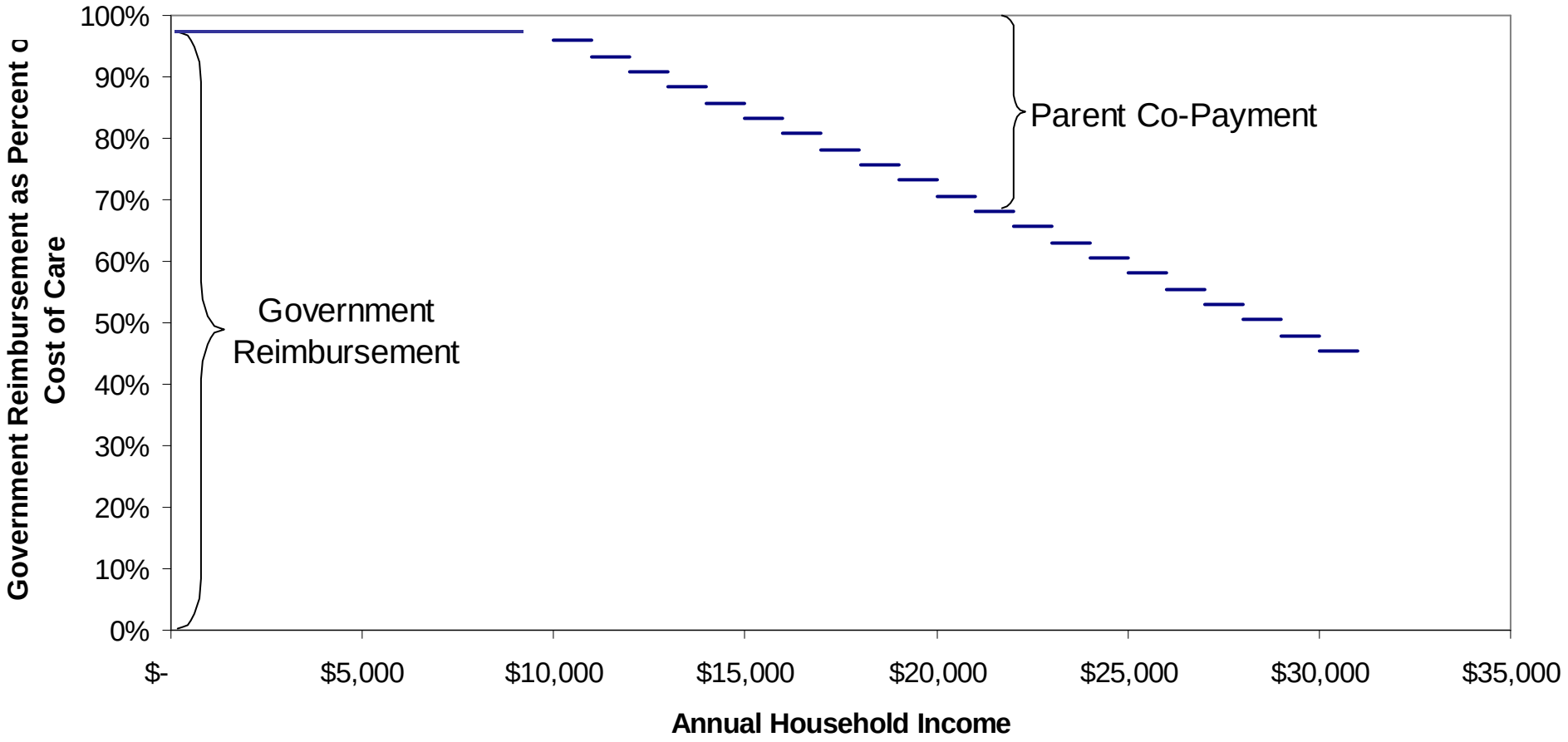
Phasing in by age of child has positive and negative aspects. Serving in the first phase only older or younger children of a broad income range, preserves the perception of universality regarding benefits to all income groups. However, it may foster the bifurcation of services to children B-3 and 4-5, ignoring the benefits to families and siblings of keeping these services integrated, and that affordability of high quality ECE is more difficult for younger families with younger children, who tend to have lower incomes yet be faced with higher prices.

3. Subsidy Participation rate.

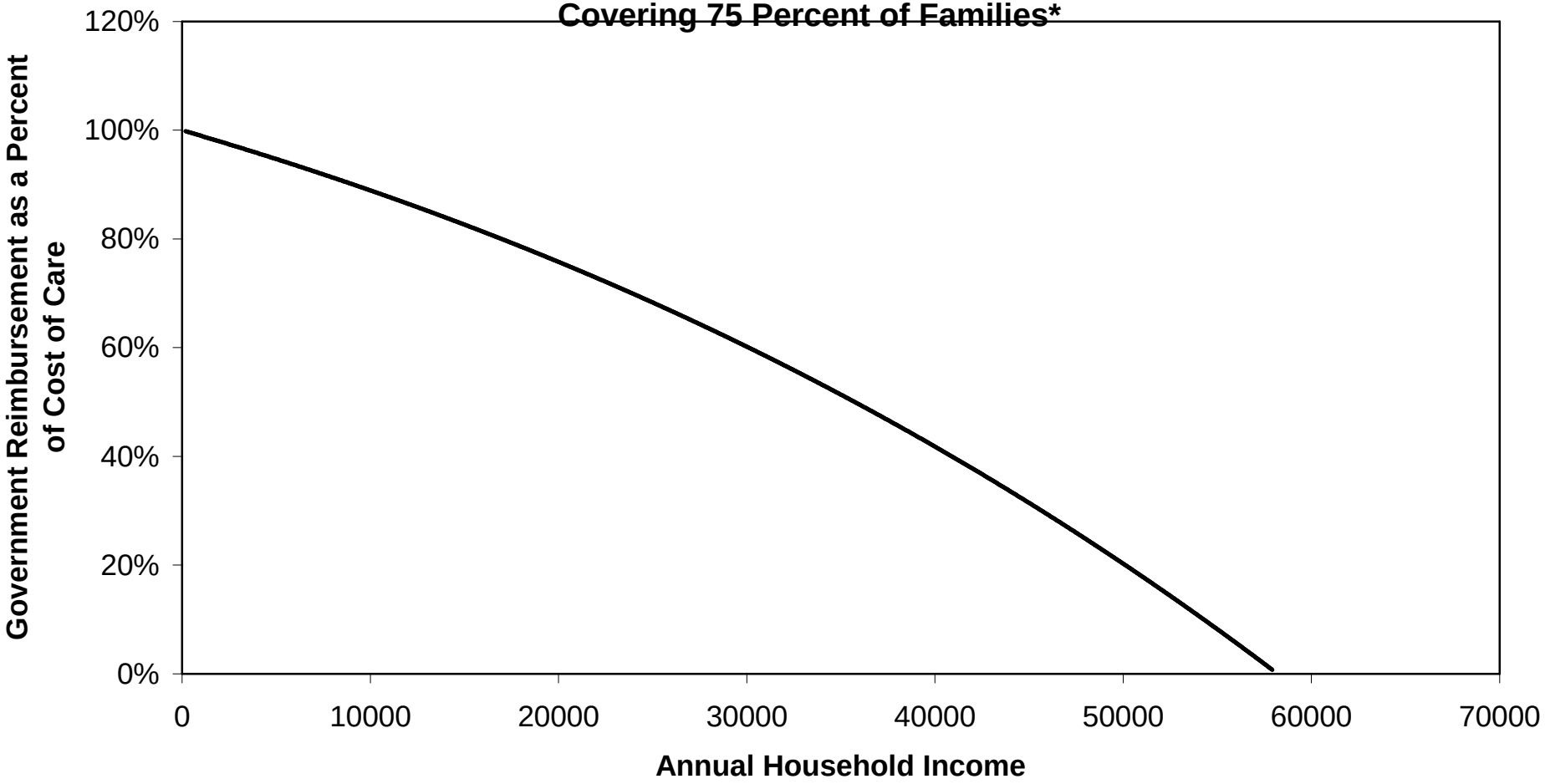
The cost estimates are quite sensitive to the rate of participation by potentially eligible families. We have estimated a 22-33 percent participation rate for licensed care, based upon our analysis of current benefit participation rates by income and judgments about the accessibility of the options considered. There is not much analytic literature on participation rates in ECE subsidy systems. What we have gleaned from studies that HSPC and others have done of participation in other social benefit programs is that participation is largely a function of policy choices, rather than completely inherent in the benefit structure. That is, if a public agency desires a high rate of participation in a program, it can be achieved through investments in outreach and the attitudes and behavior of case workers. Note the high participation rates in programs like Medicaid, where medical providers assist families to obtain coverage, and the Earned Income Tax Credit, where a concerted effort at outreach greatly expanded public awareness and acceptance of the benefits over a period of years.

One way that Mississippi could phase in costs, therefore, would be to modulate its investments in outreach, keeping them minimal in early years as policies and procedures are developed, then expanding them in future years as additional funding becomes available. It would of course be necessary to do this in a way that does not undercut general public acceptance of making the investment in universally financed ECE.

Current ECE Subsidy Copayment Schedule for Mississippi for a Family of Three, One Child in Care

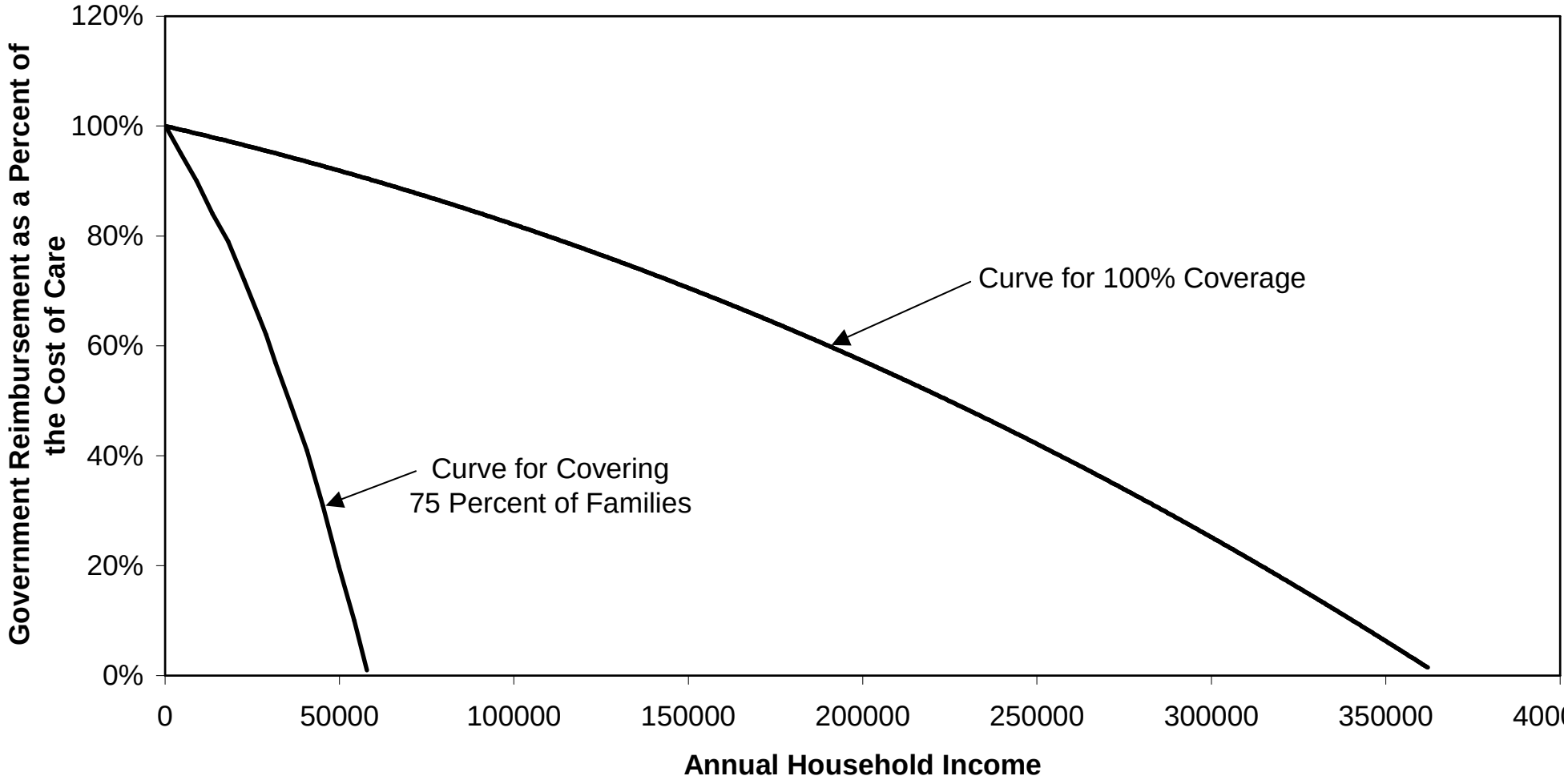


Round 1: Proposed ECE Subsidy Co-Payment Schedule for Mississippi Covering 75 Percent of Families*



* Covering 75% of families involves extending benefits to families with 3.2 times the federal poverty level. For this chart, we use the federal poverty level for a family of four to determine the relationship between the government reimbursement rate and the household income.

Round 1: Proposed ECE Subsidy Co-Payment Schedules for Mississippi



SALARIES AND CHARACTERISTICS OF SELECTED OCCUPATIONS REQUIRING A BACHELOR'S DEGREE, 2001 - Mississippi

Prepared by Human Services Policy Center, University of Washington. October 2003

Occupation	Minimum qualifications (BLS**)	Ave. Annual Earnings	Ave. Hourly Earnings	Job Description/ Characteristics (BLS**)	Related Occupations (BLS**)
Social workers	BSW minimum;MSW for clinical practice; many health/mental health settings require MSW (Child-Family-School vs. Med'l-Public Health Social Workers)	28,130 - 33,070	**13.19 - 15.18**	Help people function the best way in their env't; deal w/ relationshipp & solve family & personal problems.School social workers diagnose students problems and arrange needed services	Human service workers and assistants
Dieticians and nutritionists	BA	$ 36,420	**$ 16.73**	Plan food and nutrition programs/supervise the preparation/serving of meals	Nurses
Recreational therapists	BA;certification	$ 26,140	**$ 12.62**	Provide treatment services and recreation activities to individuals w/disabilities,illnesses.	Occupational therapist,physical therapist
Medical and clinical technologists	BA med.tech or life sciences	$ 36,620	**$ 17.03**	Perform complex chemical,biological,microspcopic,etc tests.	Science technicians,food testers
Teachers. Kindergarten	public schools require BA, approved teacher education program, and licensed	$ 30,110	**$ 20.57**	Introduce children to numbers,language, science and social studies	Pre-school teachers and childcare workers, social workers
Teachers,Elementary	public schools require BA, approved teacher education program, and licensed	$ 31,110	**$ 21.25**	Introduce children to numbers,language, science and social studies	Pre-school teachers and childcare workers, social workers

* Hourly equivalents computed at 183 dyas per year, 8 hours per day. 1464 hours

Sources: U.S. Dept. of Labor, Bureau of Labor Statistics, Occupational Outlook Handbook 1998; Occupational Employment Survey 2001