

To: The Back To Work Virginia Taskforce

From: Elliot Haspel

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There can be no question that the child care “system” in Virginia, and nationwide, was not working before anyone heard of COVID-19. In fact, child care was a rare sector that managed to be set up to fail everyone involved: parents, practitioners, program leaders, businesses, and children. I do not need to belabor the fundamentally broken financing of child care, so I will posit the following: **The only way for child care to equitably meet everyone’s needs is for Virginia to embark on a realistic path towards a ‘north star’ that ensures quality child care is affordable to all, and free to most.**

Getting to this vision of child care as a public good will require a very significant outlay of new, consistent funding. The scale required to create a system that meets diverse family and employer needs – while ensuring all practitioners are paid not only a living wage, but an upwardly mobile wage –will not be measured in the tens of millions but in the high hundreds of millions to low billions. For the purposes of discussion, it may be reasonable to consider that \$1 billion total will be required, year over year; as VECF’s [2020 Children’s Budget](#) showed, the state currently only spends \$186 million on child care and pre-K combined (half of which is from federal sources).

This figure is eyebrow-raising until one considers that the state and localities combine to [spend nearly \\$15 billion](#) on K-12 education every year, and that birth-to-five child care is every bit the economic and educational driver as public education. That’s before getting to the short-run benefits of increased parental (primarily maternal) employment and increased productivity, to say nothing of the medium- and long-term benefits from healthier children and families.

To that end, I submit for consideration the following four buckets that I believe the Task Force should address in its recommendations. While philanthropy can never provide enough funding to make a meaningful dent in the gap, it can provide the funding for these analyses and the marketing and advocacy that may flow from them.

Costing out a system

If one is trying to reach a goal, a map without a marked destination is of little use. Once the state declares a goal – whether a maximum of 7% of income and free for those under 200% FPL, maximum of \$10 a day while again free for those making under 200% FPL, or, my preference, universally free* – **it should commission the work of putting dollar figures to the program.** For instance, Vermont’s “Blue Ribbon Commission on Financing High-Quality, Affordable Child Care” issued [a 124-page report](#) in 2016 that found “a gap of between \$283-766 million in investments which ensure equal access to high-quality child care statewide.” Vermont advocates have used this figure to set an ambitious plan with an eye towards 2025. Virginia could similarly set a long-run goal that would become a through-line for successive gubernatorial administrations, much as British Columbia’s “\$10 a Day Plan” – again, a plan which was costed out – has been adopted as the official platform of the governing party. Costing should consider scenarios in which the federal government does or does not step up with significant increases in funding (the B.C. financing plan has a section for each fork).

*Philosophically, I would argue it is a logically untenable position to hold that the 3rd grade should be free for everyone from the richest to poorest American – even those that can easily afford the outlay – but the three-year-old year a matter of pay-to-play. Public goods have societal reverberations that go beyond their individual impact.

Identifying revenue sources:

There will necessarily need to be new revenues tapped, in a gradual phased-in manner, in order to reach the necessary level of funding. **Either JLARC or a group like VECF should be tasked with coming up with realistic revenue options and scenarios that lead to the appropriate funding level by the end of the decade.** All potential revenue sources should be on the table. Specifically, I would call out three opportunities in the short-term (i.e. 2021 or 2022 General Assembly session):

- *Implementing progressive income tax reform.* Currently, Virginia’s top marginal income tax bracket of 5.75% kicks in at \$17,000. Simply adding in a new tax bracket of 6.25% for earners between \$500,000 and \$1,000,000, and 6.75% for earners in excess of \$1 million, would provide a consistent stream of approximately \$300 million, per a [LIS analysis of a 2018 bill](#). Given that studies show increases in top income tax brackets [do not lead](#) to meaningful levels of wealthy individuals moving out of state, this is a promising opportunity.
- *Legalize cannabis and dedicate a significant portion of revenues to child care.* Colorado, a state with two-third of Virginia’s population, [realizes around \\$300 million](#) in annual revenue from their cannabis taxes and fees. Putting half or more of revenues from a Virginia legalization scheme toward child care would provide a new source of consistent revenue.
- *Raise the corporate tax rate.* Child care is unquestionably a workforce issue, and Virginia is lucky to have so many wonderful business leaders as early childhood champions. Virginia’s flat rate of 6% could be slightly increased (or an additional income-based marginal bracket instituted) without threatening the state’s reputation as among the best for business. Corporations would recoup far more than they pay through having a functional child care system, given the impact of child care on employee productivity, recruitment, and retention.

In this pandemic moment, when the child care system is crumbling before our eyes, seizing low-hanging fruit like cannabis taxation, as well as asking the wealthy to pay a bit closer to their fair share, are not only appropriate actions but critically important ones.

Selecting financing mechanisms:

There are several viable financing mechanisms for utilizing revenues to ensure affordable, access, and quality. These can be conceived of as a continuum from “demand-side” to “supply-side.” The advantages to demand-side strategies tend to be that they increase the ability of parents to select the care choice that works best for them. The advantages of supply-side strategies tend to be that they increase program stability through predictable funding, and give the government more ability to put quality controls in place. These are, of course, not mutually exclusive, and **the exact mechanism is less important than the state selecting and committing to one:**

- The most “demand-side” option is a pure voucher system, in which families receive a large sum that can be used at the licensed care of their choice. This can be conceived of as the [Denver Preschool Program](#) or [Minnesota Early Learning Scholarships](#), but increased in scale and scope.

The amount of the voucher must be high enough to meet the true cost of quality, not simply subsidize already inadequate “market rates,” or else there will be no positive impact on practitioner wages or program quality.

- The most “supply-side” option is to implement what might be considered “Head Start/Early Head Start For All,” whereby the government funds, through contracts, enough publicly-funded child care classrooms for all parents who want a slot to be able to access one. While this can be accomplished through all-public provision attached to public schools, Virginia’s promising mixed-delivery models, and the need to support family child care, suggests that a mixed-delivery system would be the best supply-side option.
- There are middle options between these poles. For instance, families could be given the option of taking a voucher for a mixed delivery system or utilizing a “public option” attached to a school.

Finally, although building political will for these changes is beyond the scope of this memo, I want to note the importance of putting on the table “forcing functions” for policymakers who may either be reluctant, or require ‘cover’, to undertake the revenue discussions necessary. Opportunities such as a constitutional amendment enshrining a right for all Virginia children to early care & education are worthy of consideration.

In sum, I hope it is clear by now that incremental steps will not work. The house is flooded; a bucket will not bail it out. If what Virginia does in response to the pandemic is boost our investments in child care by a few tens of millions, we will have simultaneously accomplished something and have failed. Virginia’s child care industry, businesses, parents – and most of all, children – demand our boldest thinking and resolve. With one foot rooted in reality and the other stretched towards an ambitious but achievable vision, we can transform Virginia’s child care system and make the Commonwealth nothing short of the best place in America to be born.