

Committee for Economic Development “Using Refundable Tax Credits to Improve Professional Development, Wages, and State QRIS

QRIS National Meeting
July 17, 2018

REASONED SOLUTIONS
IN THE NATION'S INTEREST



AGENDA

- Introduction
- Overview of Louisiana School Readiness Tax Credits
- Role of Partners to Achieve Results
- Strategies for State Consideration
- Q & A

Committee for Economic Development (CED)

The Nonpartisan Voice of Business

- Based in the Washington, D.C. area, CED is a non-profit, nonpartisan, business-led public policy organization that delivers well-researched analysis and reasoned solutions to our nation's most critical issues.
- CED's Trustees are chairs, CEOs and senior executives of major corporations; university and college presidents, and, former corporate leaders.
- CED's policy portfolio includes: fiscal health (e.g., the economy, debt), education, health care, women on corporate boards, and money in politics.
- In each policy area, our work is overseen and guided by Trustee-led subcommittees.

CED's Education Portfolio Includes:

- Early Childhood
 - ✓ Access to high-quality early childhood education and care
 - ✓ Increased investment in early learning and the industry workforce
 - ✓ Development of public and private partnerships

- K-12
 - ✓ Comprehensive and aligned education system (P-21 and beyond)
 - ✓ Implementation of rigorous standards to ensure college and career readiness
 - ✓ Teacher quality
 - ✓ Collaboration with community colleges

- Postsecondary and Workforce Development
 - ✓ Increasing college access and affordability
 - ✓ Exploring innovative methods of education delivery
 - ✓ Identifying employer practices that support employee educational attainment

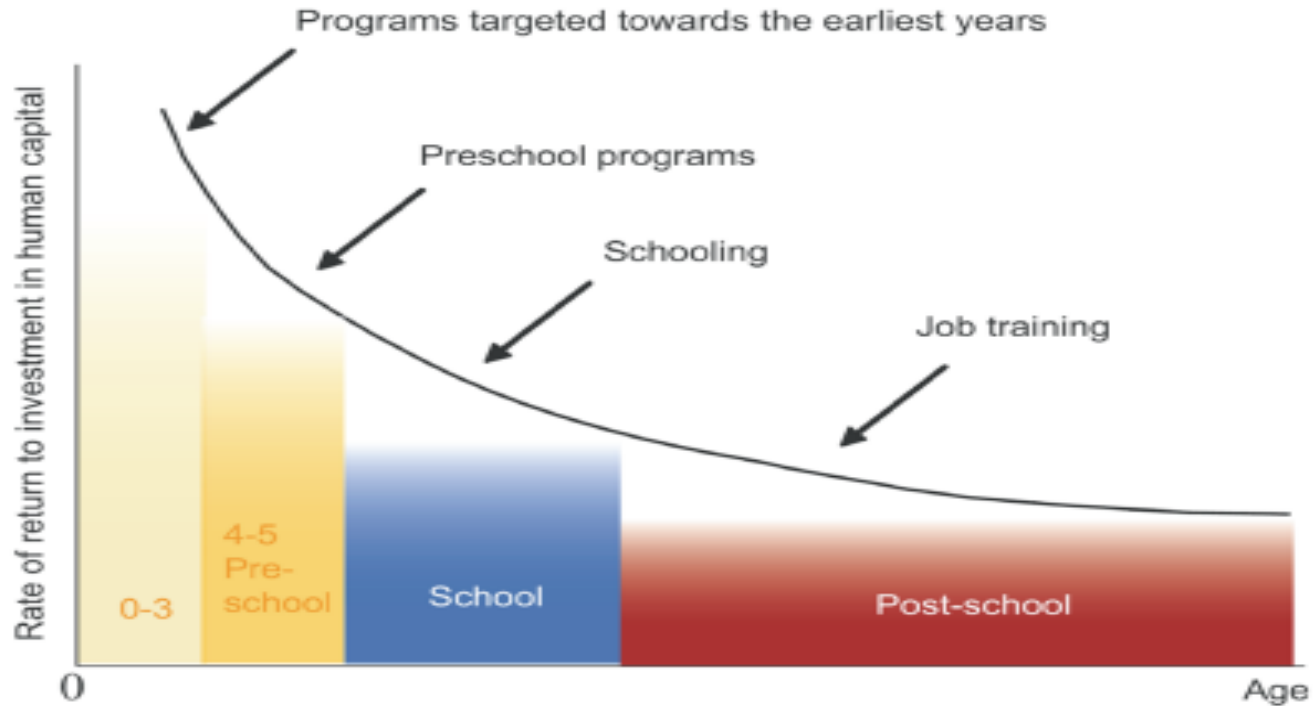
CED's Longstanding Commitment to Early Education

- CED has over a 45-year history commitment to advancing early education, spanning from 1968 to the present
- CED Trustees have always been at the forefront of the effort to promote early learning and development



The Economic Case for Investing in Early Education

Figure 2. Human capital investment: returns to a unit dollar invested



Source: The Heckman Equation, www.heckmanequation.org

The Short-Term Impact of Early Education and Care

Research shows:

- ✓ Nearly half of working parents miss an average of four days of work at least once every six months because of child care breakdowns.
- ✓ Child care breakdowns leading to absences costs U.S. companies about **\$3 billion** a year in lost productivity, and working families **\$8.3 billion** in lost wages.

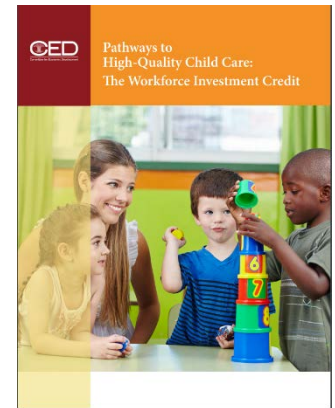
A CED report from 2015 found that:

- ✓ U.S. child care industry revenue of \$41.5 billion led to another **\$41.6 billion** in spillover impact on local economies.
- ✓ The \$21.2 billion in employee and proprietors' earnings within the child care industry generates **\$18 billion** in additional earnings across the U.S.

CED's 2017 Report, *Pathways to High-Quality Child Care: The Workforce Investment Credit*

■ Key Takeaways

- ✓ Quality Child Care Matters—building brains birth to age 5 is critical and is the period when the foundation for social, emotional, cognitive, and physical development takes place
- ✓ High-Quality Early Learning Requires 4 Key Elements--competitive wages to attract and retain high-quality staff; well-trained workforce; stimulating and supportive learning environment; and, promoting brain development in the earliest years
- ✓ High Turnover of Early Learning Staff—average is 25%, with low wages at an annual average of \$22,290 which is barely above the poverty line for a family of 3
- ✓ Workforce Investment Credit Can Help—base credit on achieving competencies and training; make it voluntary and reward-based; index it to inflation and make it enough to matter; can fill in the gap between what parents can afford and the cost of high-quality care



Louisiana School Readiness Tax Credits

- ▣ **A Package of 5 Tax Credits, enacted in 2007:**
 - ▣ 1 For Child Care Providers
 - ▣ 1 For Parents of Children under age 6
 - ▣ 1 For Directors and Teachers
 - ▣ 2 For Businesses (investing in employees' child care, grants to CCR&Rs)

- ▣ **Essential Components**
 - ▣ Refundable
 - ▣ Tied to Quality
 - ▣ NOT a substitute for direct state appropriations
 - ▣ Does not create new slots—improves quality of existing slots

- ▣ **Costs have averaged around \$17 million/year in the last few years**

- ▣ As the state has cut general revenue funding for Child Care Assistance, Louisiana has used the credits to meet **the state match & maintenance of effort requirements for the Child Care and Development Block Grant**



Louisiana School Readiness Tax Credits

▣ Tax Credit vs. Tax Deduction

- ▣ A tax credit reduces the taxes paid, dollar-for-dollar
- ▣ A tax deduction lowers taxable income
- ▣ A tax credit is generally more valuable to a taxpayer than a tax deduction of the same amount

▣ Refundable Tax Credit

- ▣ A 'refundable' tax credit is one that is available to a taxpayer even if they do not owe taxes.
- ▣ **The School Readiness Tax Credits are REFUNDABLE.**



Louisiana School Readiness Tax Credits

■ Initial Impetus

- 2007 - Implementation of a voluntary Quality Rating and Improvement System
- Need for funding to support and incentivize both:
 - Higher quality
 - Participation in the QRIS
- Concern about cuts in future general fund appropriations
 - Tax credits are not part of the annual budgeting process.
 - Once passed, tax credits are open-ended, unless they are capped, and Louisiana's are not capped.



Louisiana School Readiness Tax Credits

A Package of 5 Credits

▣ Tax Credit to Child Care Providers

- ▣ For profit and not-for-profit centers can participate
- ▣ Based on the number of children they serve in the Child Care Assistance Program (or in foster care)
- ▣ Ranges from \$750/child to \$1500/child
- ▣ Increases with the number of stars of the center

▣ Tax Credit to Parents

- ▣ Builds on the existing state child care tax credit
- ▣ Based on the quality rating of the center
- ▣ The amount of the credit decreases with the income of the family
 - ▣ Refundable for families with incomes less than \$25,000



Louisiana School Readiness Tax Credits

A Package of 5 Credits

■ 2 Tax Credits to Businesses

- Employers receive a credit for “eligible child care expenses” based on the quality rating of the center
 - Includes things like construction, renovation, expansion, or major repair of an eligible child care facility, purchase of child care slots at eligible child care facilities actually provided or reserved for children of employees, not to exceed \$50,000 in expenses per tax year.
 - However, they can only claim a % of the eligible expenses, from 5-20% based on the center’s rating.
- In addition, businesses may claim a tax credit for grants to child care resource and referral agencies
 - Dollar for dollar credit
 - Maximum is \$5,000 per business



Louisiana School Readiness Tax Credits

A Package of 5 Credits

▣ Tax Credit to Child Care Teachers and Directors (as originally passed in 2007)

- ▣ 4 levels based on the education of the teacher/director
 - ▣ Provided directly to child care teachers and directors based on their level on the Staff Career Ladder or Director Career Ladder
 - ▣ Level 1 is a CDA level
- ▣ Must be working at a center participating in the rating system
 - ▣ The star rating does not impact the credit
 - ▣ Must work at the center at least 6 months
- ▣ Amount is adjusted annually based on the Consumer Price Index
 - ▣ In 2016 the amount of this credit ranged from \$1,658 to \$3,315



Louisiana School Readiness Tax Credits

Successful Support for the Child Care Industry and Early Childhood Education

Type of Credit	Child Care Expenses (Family)	Provider	Directors & Staff	Business Support	Resource & Referral
2016 Amount	\$2.3 M	\$4.8 M	\$8.7 M	\$371 K	\$947 K
# of Recipients	13,338 Families	454 Providers	4044 Directors & Staff	49 Businesses	229 Businesses
Average Per Recipient	\$173	\$10,655	\$2154	\$7573	\$4133
How Determined	<ul style="list-style-type: none"> Families are eligible for tax credit based upon the quality rating of the center 	<ul style="list-style-type: none"> Providers receive a tax credit based on center rating and the number of children they serve in CCAP or foster care 	<ul style="list-style-type: none"> Based on education level (4 levels – CDA (national certification with a high school degree) through a Masters Degree Must work at a center in rating system (at least 6 months) Star rating does NOT impact this credit 	<ul style="list-style-type: none"> Employers receive a credit for a percentage of “eligible child care expenses” based on the quality rating of the center (e.g. construction, slots for employees) 	<ul style="list-style-type: none"> Employers may claim a tax credit for up to \$5,000 in grants to child care resource and referral agencies
Features	<ul style="list-style-type: none"> Refundable up to \$25,000 in income Builds on existing state child care tax credit, from 50 – 200% based on rating and income 	<ul style="list-style-type: none"> Refundable From \$750 – 1500 per CCAP child based on star rating For-profits and non-profits are eligible 	<ul style="list-style-type: none"> Refundable From \$1658-3315 based on education level Adjusted annually based on CPI 	<ul style="list-style-type: none"> Refundable Percentage ranges from 5 – 20% based on star rating Maximum expense is \$50,000 (w/credit as percentage) 	<ul style="list-style-type: none"> Refundable Credit is dollar for dollar Maximum is \$5,000



Strategies to Pass the Tax Credits

- ▣ **The tax credits were framed as economic development**
 - ▣ Louisiana has many tax credits to support other industries
 - ▣ **Promoted child care as an industry**
- ▣ Lead legislator was a banker
- ▣ Widespread support
 - ▣ Advocacy community
 - ▣ Meetings with key legislators
 - ▣ Work with state agencies-Department of Revenue, Legislative Fiscal Office
- ▣ Media support
- ▣ Business support
- ▣ Pressure to reduce the fiscal impact
 - ▣ Revised the fiscal note without cutting back on the bill by revising predictions of uptake





Promoting Child Care as an Industry

Child Care In State Economies by the Committee for Economic Development (2015)

Fact Sheet for each state

LOUISIANA

Child Care Usage in Louisiana:

- There are 930,829 children under age 15 (308,217 under age 5 and 622,612 between the ages of 5 and 14) in Louisiana who may require paid child care services.
- About 203,991 children under age 15 are in paid care— 102,672 (33.3%) under age 5 and 103,721 (16.7%) between the ages of 5 and 14.
- The average annual cost of care for an infant is \$5,655 in a child care center and \$4,836 in a family child care home.
- The average annual cost of care for a 4 year old is \$4,882 in a child care center and \$4,660 in a family child care home.
- The average annual cost of infant center-based care is 86.4% of the cost of tuition and fees at a 4-year college.

Child Care Industry Impact in Louisiana:

- There are 10,381 child care establishments with revenue of \$465.9 million. This includes 9,258 sole proprietors (family child care home operators) and 1,123 child care centers employing 12,559 individuals.
- \$465.9 million in direct output generated within the organized child care industry is estimated to support about \$360 million in additional indirect and induced output in other industry sectors, for an estimated combined total of

approximately \$830 million in output in Louisiana's economy.

- In terms of employment, 21,817 proprietors and wage and salary employees working in the child care sector are estimated to support about 6,500 jobs in other industry sectors through indirect and induced effects.
- The \$237 million in employee compensation and proprietors' earnings generated directly within the child care industry is estimated to support approximately \$160 million in additional indirect and induced earnings across the state.
- Total federal and state child care assistance (both direct subsidies and tax credits) represents 33.3% of child care industry revenue.

The Link Between the Paid Child Care Sector and the State Economy

- The cost of organized care is a significant challenge for many parents with children.
- Access to the organized child care market can increase labor force participation and support state and regional economic growth.
- Increased subsidy payments trigger state level responses in wage rates, the mix of low- and high-skilled labor used in the state, prices of goods and services, and trade flows.




Promoting Child Care as an Industry

For **EVERY DOLLAR** spent in the Louisiana early care and education sector,

\$1.78

is returned to the **LOCAL ECONOMY**

For **EVERY JOB** created in early care and education,

1.3 
JOBS

are created in the **LARGER ECONOMY**

Louisiana's **EARLY CARE AND EDUCATION SECTOR** generates

\$830M

in direct and indirect economic activity annually

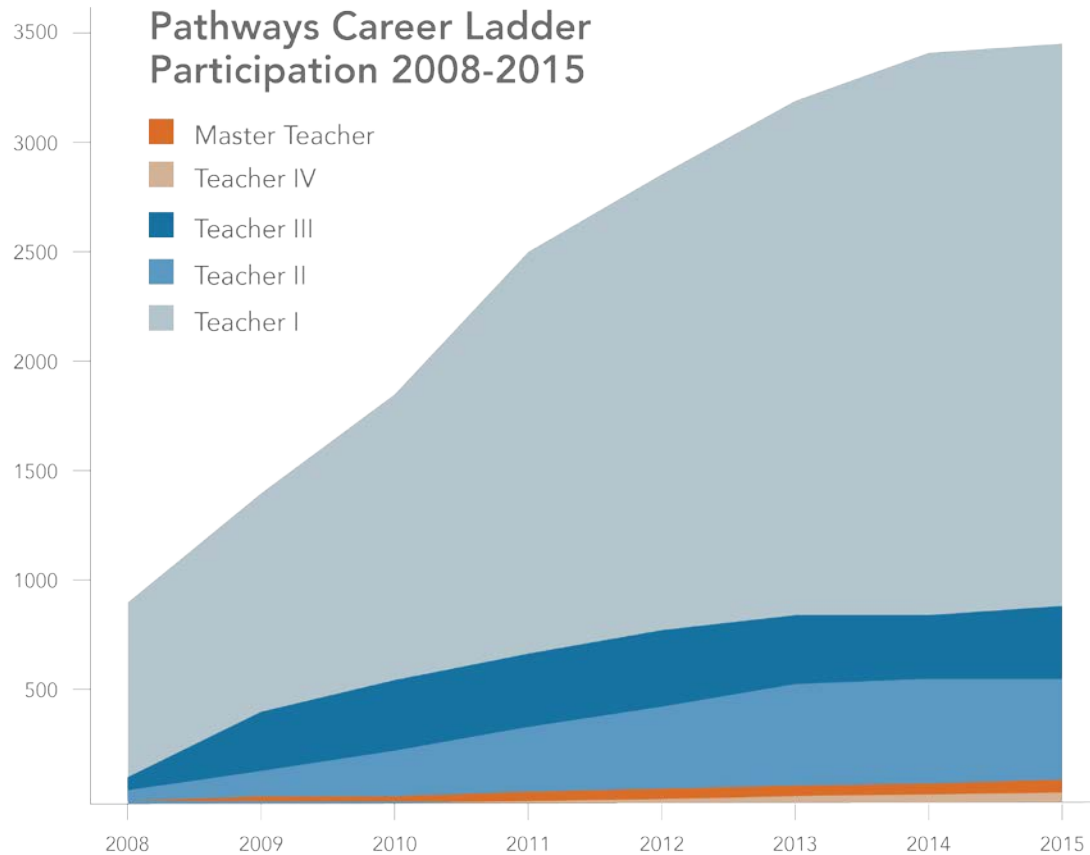


Focus: School Readiness Tax Credit for Teachers and Directors (2008-2015)

- **Successfully Incentivizing Teachers to Strengthen their Credentials**
 - The number of teachers **achieving a Teacher Level 1** credential **increased 374%** from 963 to 3,598.
 - The number of teachers that **attained higher credentials** **increased almost eight-fold** from 284 to 2,156.
 - Cost of the Teacher-Director credit in 2015: **\$8.1 million**
 - NOTE: Louisiana during this time was also providing **scholarships** for teachers to attain these credentials using CCDBG quality set-aside.



Focus: School Readiness Tax Credit for Teachers and Directors



Focus: School Readiness Tax Credit for Teachers and Directors

- Even if the teacher-director stays at a particular level the Tax Credit continues **to act as a wage subsidy EACH YEAR--** whether or not the teacher-director owes any taxes.
- **CHALLENGES** with the Teacher-Director Credit:
 - Did not impact turnover rates
 - Did not incentivize Directors to improve quality of their centers
 - Led to changes for 2018



Focus: School Readiness Tax Credit for Teachers and Directors

- **Improvements made in the Teacher-Director Credits for 2018:**
 - Louisiana has created an early childhood ancillary certificate that can be obtained after receiving a CDA (or higher credential).
 - All Lead Teachers in publicly funded centers must have this certification by 2019.
 - **Teachers with as little as an early childhood ancillary certificate**
 - Now will be able to earn a Teacher Level IV credit (~\$3,300 annually) for working at a publicly-funded center
 - **IF THEY HAVE** continuously worked in the child care sector (receiving SRTC) for more than 2 years



Focus: School Readiness Tax Credit for Teachers and Directors

- **Improvements made in the Teacher-Director Credits for 2018:**
 - Starting in 2018, directors can earn credits based on site performance, as well as their professional credentials.
 - No director will lose their current SRTC; changes only add new options for moving up the director credit levels.



Louisiana School Readiness Tax Credits

- For further information on the Louisiana School Readiness Tax Credits see:
 - www.policyinstitutela.org
(type "School Readiness Tax Credits" in the search bar)
 - *Extra Credit: How Louisiana is Improving Child Care*, National Women's Law Center (2015)
 - **One Way to Fix Early Childhood Education**, TrueChat Podcast
<https://truechat.org/makingcapitalismsustainable/5252018one-way-to-fix-early-childhood-education>
 - www.earlychildhoodfinance.org
(type "School Readiness Tax Credits" in the search bar)
 - **April 4, 2016 testimony on the credits before the Louisiana Revenue and Fiscal Affairs Committee**
http://senate.la.gov/video/videoarchive.asp?v=senate/2016/04/040416R~F_0
go to 58 minutes
 - **October 12, 2012 testimony before the Louisiana Revenue Study Commission**
<http://www.youtube.com/user/thepolicyinstitutela?feature=mhee>

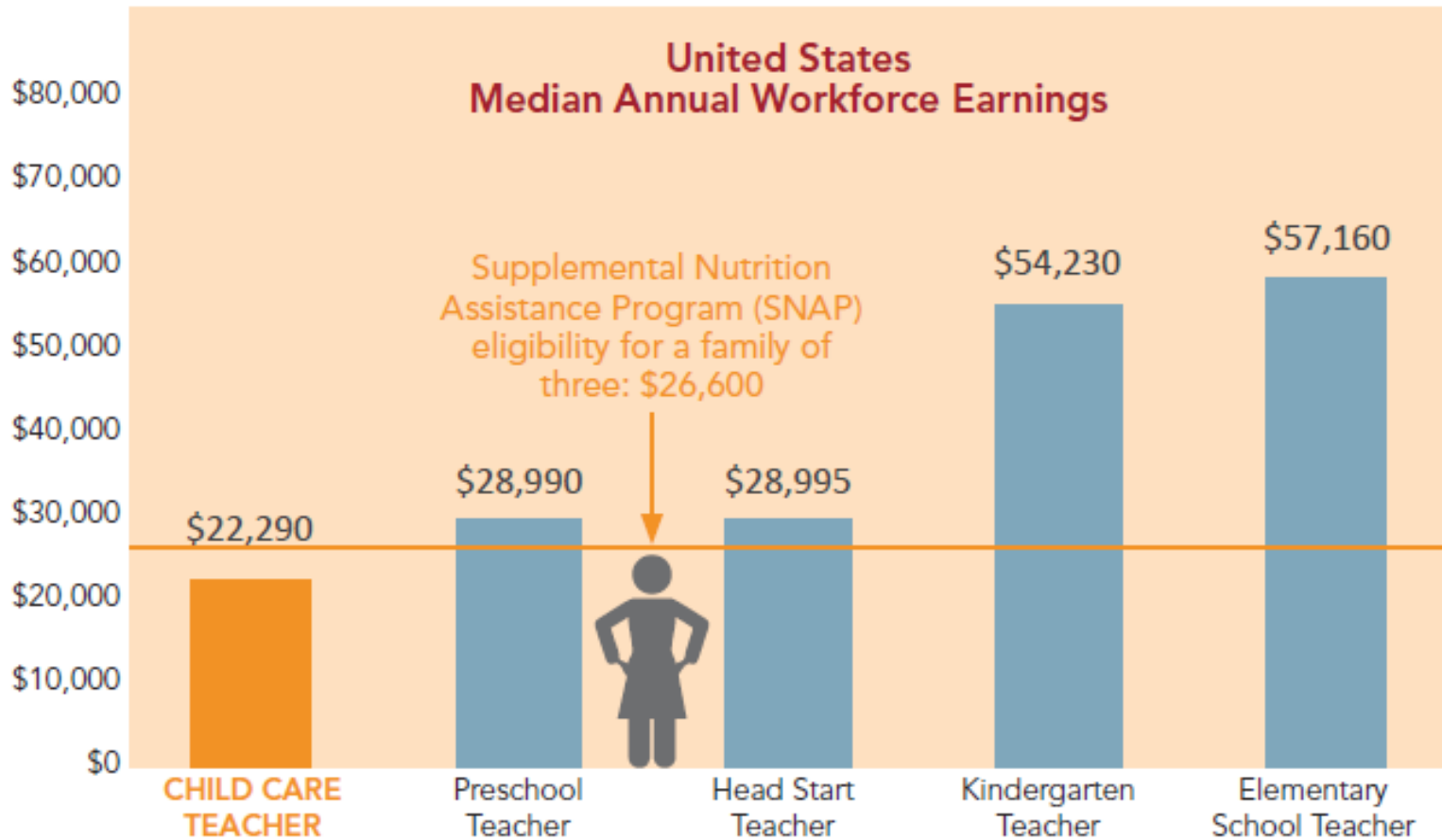


Re-thinking Compensation: Earned Tax Credits as Wage Supplements

- **What we know:** child care wages are low.
(median \$22,290/year, \$10.70 per hour)
- **Low to high:** median wages among states
Mississippi: \$17,880/ \$8.84 per hour
DC: \$29,810/ \$14.33 per hour
- **Child care is a business.** Operating revenues: private pay fees (families) & state subsidies (provider payment rates)

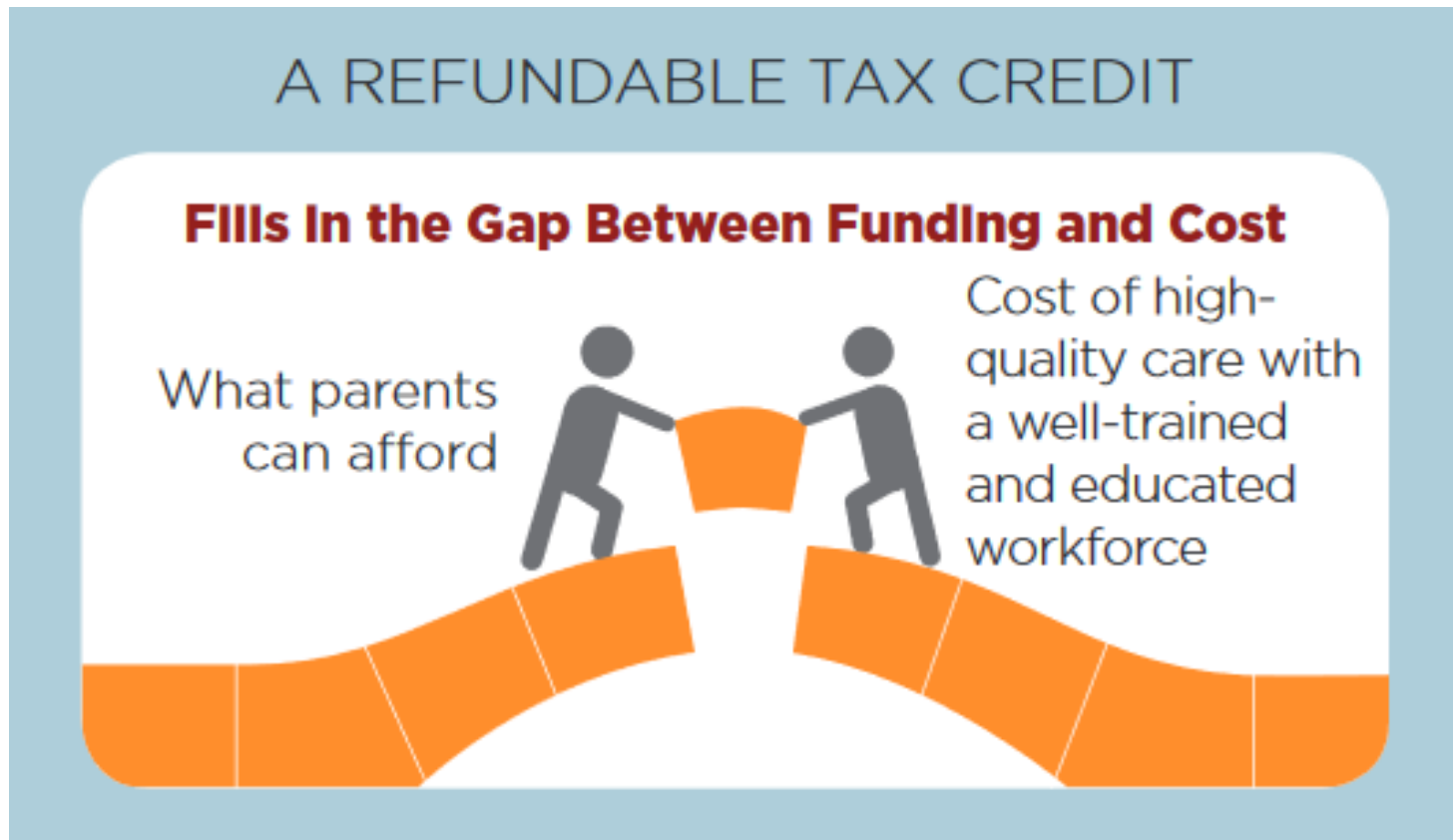


Annual Wages Across Settings



Source: U.S. Bureau of Labor Statistics, Occupational Employment Statistics (2017)

Linking Wages to Education/Higher Quality



High-quality care depends on a high-quality workforce. Both incentives for professional development/higher education and compensation are needed.

Customizing Tax Credits/Embedding in State Systems

- **ECE Registry:** Most states have a registry of some type (voluntary or mandatory).
- **Career Pathways:** Most states have some type of career pathway (certifications, higher levels of education, etc.).
- **State QRIS.** Most states have some type of QRIS (whether it's stars, levels, points, some type of hybrid – and many include increasing levels of certification or education for the workforce).
- **Scholarships:** Many states offer some type of scholarship assistance to access PD/Education.



Tax credits don't require a new program; they can link to what states have.

Refundable Tax Credit Basic Concepts

**Base the credit
on achieving
competencies
and training**

**Make It voluntary
and reward-based
(higher levels of
education)**

**Boost
wages
through a
refundable
tax credit**

**'Refundable'
means the
lowest paid
providers can
benefit too**

**Index It to
Inflation and
make It large
enough to matter
(≈10% Increase)**

Louisiana Example

Median Wage: \$18,610

Level 4 = \$3,300
refundable tax credit.

an increase of 17.7% if
earning \$18,610

Tie the credit to higher
certifications & levels of
education in a
MEANINGFUL amount

Why think about tax credit strategies?

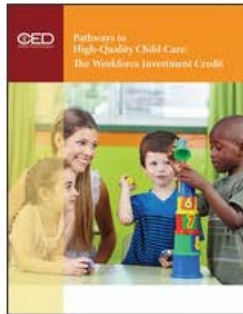


Tax Credits

- Earned, linked to PD
- Supplement wages
- Can be tied to current ECE systems
- Accountability built in
- Don't require parents to pay more

- Not a magic wand, but a strategy to link talent development with higher wages
- Can count toward TANF or CCDF MOE

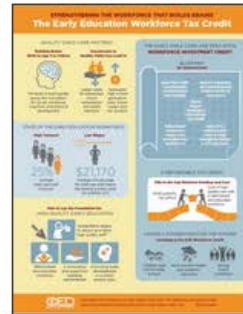
Resources States Can Use



Policy Brief



Executive Summary



Infographic

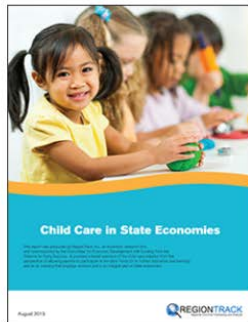


Action Steps for Business Leaders

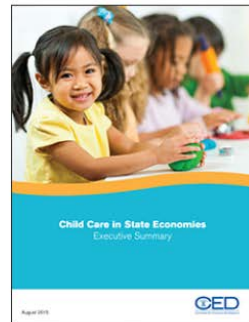


Social Media Toolkit

CED: <https://www.ced.org/reports/early-learning/pathways-to-high-quality-child-care>



Download Full Report



Download Executive Summary



Download National Overview



Download Infographic

CED: <https://www.ced.org/childcareimpact>

Questions?

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