Early Childhood Educator Equitable Compensation Task Force

Meeting #5

Aug. 6, 2024

Tonight's Agenda

- Welcome
- Review Task Force charge and timeline from the Council
- Review identified budget gap and formula cost drivers
- Review Task Force activities and timeline, including working session, roundtable and upcoming deadlines
- Discuss potential mechanisms to reduce total spending
- Discuss potential strategies to more equitably distribute available resources
- Next steps

Task Force Guiding Principles

- Bring our expertise to the table – including lived experience. Genuinely consider alternative perspectives and approaches.
- Build on work to date. Where possible, ground our analysis in data.
- Serve as conduits for stakeholder groups – in both directions.
- Advocate for all early educators within our diverse delivery model.
- Center those furthest from opportunity and disrupt systemic inequities.
- Share the implementation hat. Consider unintended consequences.

These principles were adopted by the Task Force in October 2021 and reaffirmed in March 2024

Update on Fiscal Year 2025 (FY25) Budget and implications for Task Force

The DC Council approved a budget that **funds the Pay Equity Fund at $70 million** annually over the four-year budget plan, **including $12 million** annually to the Health Benefits Exchange to support **HealthCare4ChildCare** (HC4CC).

- The BSA directs the Task Force to submit a report to the Mayor and the DC Council by **Sept. 30, 2024** that recommends changes to the Pay Equity Fund, including recommendations **for limiting fiscal pressures** through FY28; proposes a **new compensation scale** that takes into account the compensation and benefits of individuals employed by the District of Columbia Public Schools (DCPS) and District public charter schools who teach pre-K and kindergarten; and provides recommendations for the allocation of monies available in the Pay Equity Fund.

- The BSA also includes a **placeholder table of minimum salaries** for the period from Oct. 1, 2024 through Dec. 1, 2024 that 1) eliminates the current minimum salary for educators with less than a Child Development Associate (CDA) and 2) reduces the minimum salary for bachelor's degree (BA) teachers to the same level as associate degree (AA) teachers. **The Task Force may make alternative recommendations for achieving the necessary savings.**

A note on timing of implementation

- The FY24 quarter four payment that OSSE will distribute in September 2024, is directed at child development facility's (CDF's) costs for the *following quarter.* That means that for the period of October through December of 2024 (the first quarter of FY25), CDFs will operate under the current policy guidelines, including maintaining salary minimums.
- While the Task Force's recommendations (due Sept. 30) are directed at implementation beginning in FY25, and continuing through the four-year budget plan, practically speaking, any changes to the CDF funding formula would not go into effect until the FY25 quarter one payment distributed in December 2024, which is targeted at CDF costs for the period January through March of 2025.
- This will give CDFs a three-month runway to adjust to a revised formula and will give OSSE time to test the revised formula with updated data and apply any contingencies as necessary.

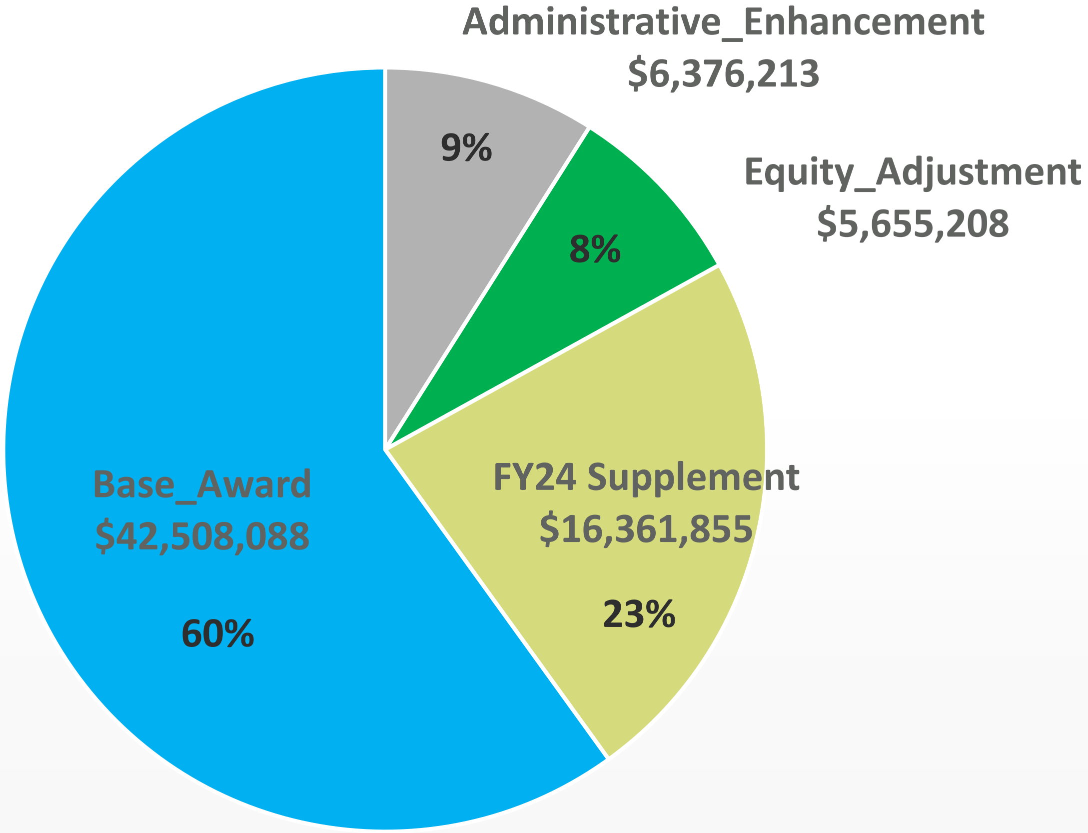
Timeline for the Task Force's Work

Task Force Meetings	March 12: Kick-off meeting	Working session July 22	Monthly TF meetings through February 2025
Public Engagement and Input	Public Round Table #1: May 11	Ongoing stakeholder engagement via TF members and written submissions	**Public Round Table #2 Aug. 17)**
Research and Analysis	Review and define the key issues, existing obstacles and opportunities	Identify and refine potential solutions	Establish priorities to guide future resource-dependent decisions
Deliverables	Define key areas of focus for the TF's work and questions it will address	**Sept. 30, 2024: Report to Mayor and Council with short-term recommendations**	February 2025: Final recommendations

Using *current* formula, here is the estimated *annual* cost breakdown by component

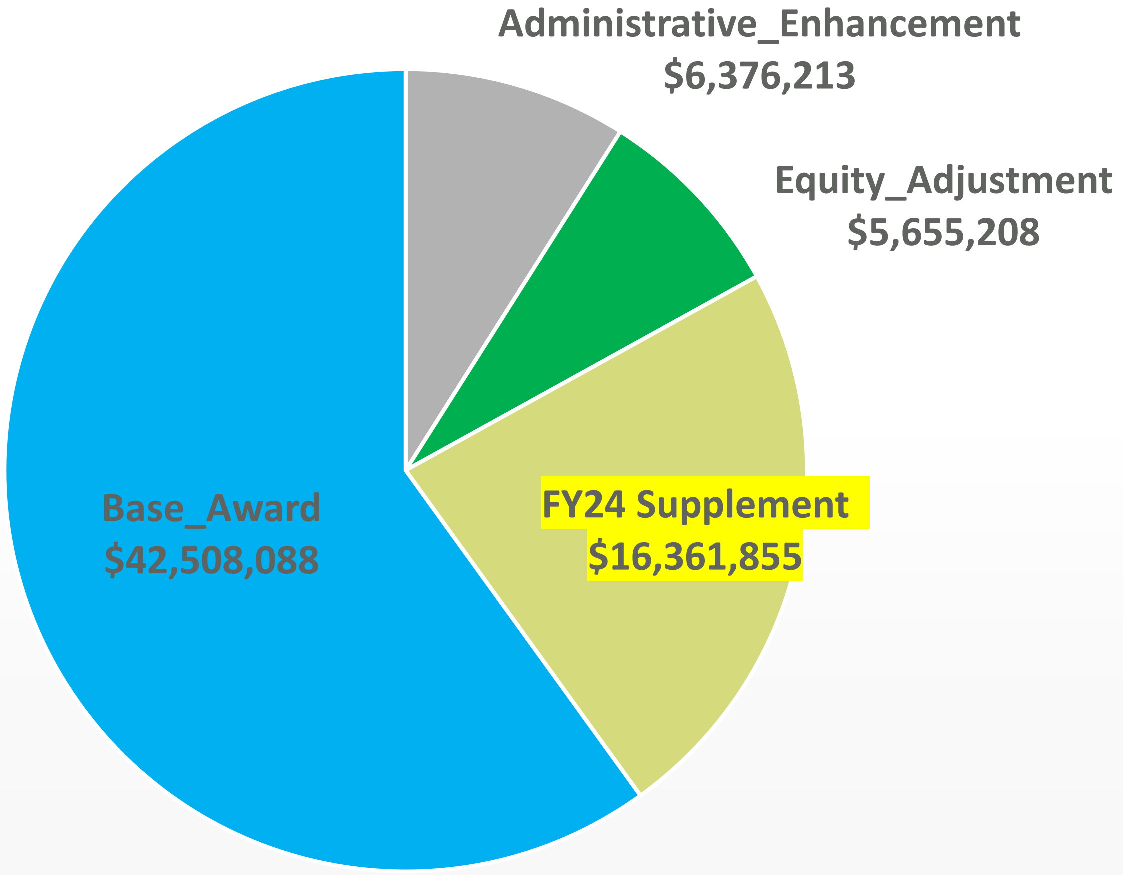
Using the *current formula, the* estimated annual cost for **FY25**: $70,901,400

(awards to facilities *only)*



Task Force recommendations must close a projected $16.5 million annual gap between costs at current assumptions and FY25 fund levels

Cost Driver	Cost
HCFCC allocation	$12 million
OSSE administrative cost	$3.5 million
Cost of current CDF payment formula	$71 million
Total Projected Cost	**$86.5 million**
Annual funding	**$70.0 million**
GAP	**$16.5 million**



Identifying opportunities for reducing total cost

Mechanisms for reducing spending and controlling spending pressure in the short and medium term

Levers to **reduce spending**/lower the total price tag:

- Eliminate some or all of FY24 supplement.
- Eliminate minimum salary requirements for educators with < CDA and cut wage supplement funds currently allocated for those educators.
- Right size payment for part-time educators and for programs that are not full day or full year.
- Reduce administrative enhancement to reflect the basic required payroll-related costs.
- Reduce OSSE's administrative portion.
- Reduce base for providers at high end of tuition range.
- Reduce some or all wage supplement amounts.

Levers to **control growth/**relieve spending pressure:

- Establish a waitlist for providers new to the Pay Equity Fund, using equity-based criteria rather than simply first-come first-served.
- Freeze salary minimums *(short and medium term).*
- For future salary scale updates (every four years), anchor BA salary at a target percentile range of public school teacher salaries *(long term).*
- Establish waiver guardrails to limit spending on CDFs not meeting minimums due to lack of financial viability of their model (e.g., chronic under-enrollment, proportion of teachers in lead role).
- Establish automatic stabilizers to accommodate shift in distribution of degrees/credentials.

Parameters for tonight's discussion

- Building on previous Task Force meetings and our July work session, we continue working to refine this list, align on most promising avenues to reduce total cost and more equitably allocate available resources, and surface questions that need to be address to further define those avenues.
- To support discussion, the following slides provide *preliminary estimates* of *potential* savings or funding shifts associated with some options.
- Many of these estimates draw from incomplete or imperfect data and/or reflect assumptions that will need to be further tested and refined, or that can be changed.
- These various mechanisms interact with each other and can each be adjusted and mixed and matched.

Mechanism to reduce spending: *Eliminate the 30 percent FY24 supplement*

PROS/RATIONALE

- CDFs were told that this supplement was only for this year, and theoretically have been budgeting with an eye towards that reality (some have explicitly said they are doing so).
- The total amount of the FY24 supplement is very close to the $16.5 million gap.
- Cutting this could be seen as fair, as it hits everyone across the board.

CHALLENGES

- Some CDFs (but not all) have said they could not have made ends meet this year without some or all of the supplement.
- An across-the-board cut does not take into account the disparate needs of CDFs, making it an inequitable and untargeted approach.

Cost reduction estimate: up to $16.3 million

Mechanism to reduce spending: *Eliminate minimum salary requirements for educators with less than a CDA and cut the corresponding wage supplements*

PROS /RATIONALE :

- There is broad support for this change among Task Force members, providers and many advocates; the BSA already excludes this category from the requirement to set salary minimums.
- Incentivizes CDA attainment, aligned to licensing requirements and quality goals.
- For most of the 215 CDFs that employ <CDAs, this also reduces *their* cost. We have heard from many providers that the wage supplement they received for these individuals fell short of the difference between prior wages/salaries and required minimum salaries.

CHALLENGES:

- For the educators in this position, this means a salary floor of minimum wage ($17.50/hr or $36,400 annually as of July 1, 2024), though **CDFs may choose to maintain higher salaries**. This could translate to a pay cut starting in January of as much as 17 percent, or $7,465 annually, for current staff.
- As more educators earn CDAs, the savings for the PEF will decrease, though licensing regulations allow new educators to continue to enter the profession with less than a CDA while working to earn one.

Cost reduction estimate: Approx $1.5M to the Base Award

Mechanism to reduce spending: *Pro-rate funding for part-time staff and programs – currently funded at full-time*

RATIONALE: There is wide agreement that this right-sizing is fair and appropriate. OSSE should have the relevant data to make these adjustments, though it may require some process adjustments.

- Under the current PEF formula, using a conservative assumption of 5 percent of educators at part-time and the average quarterly payment per educator, the Base Award would be reduced by $770K.

- Under the current PEF formula, discounting payments for the 13 PEF programs that operate only during the school year by 1/6th (assuming 10 months of operation) would reduce the Base Award by $372,000.

Combined cost reduction to Base Award: Approx $1.1 million

This estimate assumes a definition of part-time as between 10 and 30 hours/week, and a wage supplement at 62.5 percent of full-time – equivalent to 25 hours/week.

Mechanism to reduce spending: *Reduce Base Award for providers with tuition in top 10 percent of distribution*

PROS/RATIONALE

- Programs that are able to charge at the top of the tuition range likely have greater access to revenues (from tuition) and thus ability to pay higher salaries.
- Based on OSSE's last cost modeling, CDCs at or above the 75th percentile on tuition are likely to be making a profit.
- The programs with the highest tuition tend to have high proportions of BA teachers, which means they are drawing disproportionate base dollars from the PEF and may have been paying higher salaries prior to the PEF.

CHALLENGES:

- A variety of factors affect tuition rates (e.g. higher cost of rent in some areas of the city, security, access to employer sponsorships), making them an incomplete proxy for providers' access to resources, financial strength or ability to pay higher salaries.
- OSSE is currently gathering tuition info from non-subsidy programs, so it may be a few weeks before we have those data to analyze.

Cost reduction estimate: Approximately $1 million to Base Award

(assuming a 10 percent reduction—note that this can be adjusted)

2022 Child Care Provider Survey offers some insight on range of tuition charged

Age of child	CDCs	CDH/Xs
Infant (under age 1)		
• 25th percentile	$1,733	$1,625
• 50th percentile	$2,123	$1,733
• 75th percentile	$2,492	$1,842
Toddler (12-30 months)		
• 25th percentile	$1,733	$1,517
• 50th percentile	$1,953	$1,704
• 75th percentile	$2,414	$1,834
Preschooler (30-60 months)		
• 25th percentile	$1,222	$1,205
• 50th percentile	$1,701	$1,596
• 75th percentile	$2,186	$1,733

Source: OSSE Cost Modeling; drawing on data from 2022 Child Care Provider Survey. Figures are for monthly tuition.

OSSE collected data on tuition rates as part of the 2022 Child Care Provider Survey; subsequent cost modeling analysis found that child care providers charging tuition at or above the 75th percentile were likely to be making a profit. Based on publicly reported tuition rates, providers that charge tuition above the 75th percentile are receiving a substantial share of PEF funds. Reducing payments for these programs could generate savings to be applied towards cost reduction or reallocated to lower-resourced providers through the equity adjustment.

Using this publicly available information, a conservative estimate of suggests a 10 percent reduction in base awards providers charging tuition rates in the top decile (10 percent) could generate approximately $1 million in savings.

Mechanism to reduce spending: *Reduce administrative enhancement from 15 percent of the base to 12 percent*

PROS/RATIONALE:

- Providers have emphasized the importance of including this administrative cost.
- This reduced amount should still cover the increased cost of mandatory benefits and payroll taxes due to increased salaries (including increased paid leave contributions).
- Because the administrative enhancement is a percentage of the base award, impact on total costs will be a function of other changes in the base award. Taking into account previously discussed potential changes to the base award, the range of cost savings from reducing the administrative enhancement to 12 percent is $1.23-$1.72 million.

CHALLENGES

- Would exacerbate gaps experienced by CDFS for whom current formula wage supplement does not cover the increased costs of minimum salaries relative to their prior costs.
- Some providers used excess administrative funding to cover other benefits, so this change might affect their ability to continue those staff benefits.

Cost reduction estimate: $1.23 - $1.72 million

Mechanism to reduce spending: *Reduce OSSE Administrative allocation*

The BSA allows OSSE to use up to 5 percent of PEF annual funds to administer the program, amounting to $3.5 million when applied to the full $70 million appropriation.

OSSE needs funding to administer the program accurately, effectively and efficiently, including to monitor providers' compliance, respond timely to questions and provide technical assistance to providers, and address feedback about responsiveness and time burdens on providers. These funds cover:

- Staff needed to implement the Early Childhood Educator Pay Equity Fund
- Costs for maintenance/improvement of data and technology systems to support implementation of the fund.

OSSE believes with less than $2.5 million they cannot implement the program without exacerbating frustrations that providers and educators have experienced and limiting their ability to ensure compliance with requirements. Additional dollars would be necessary for more significant IT and systems improvements.

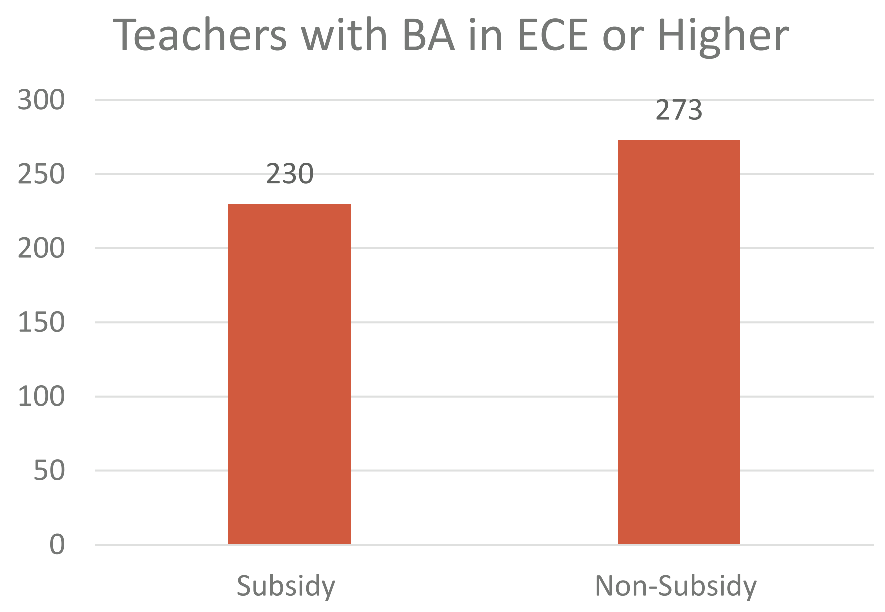
Cost reduction estimate: Up to $1 million

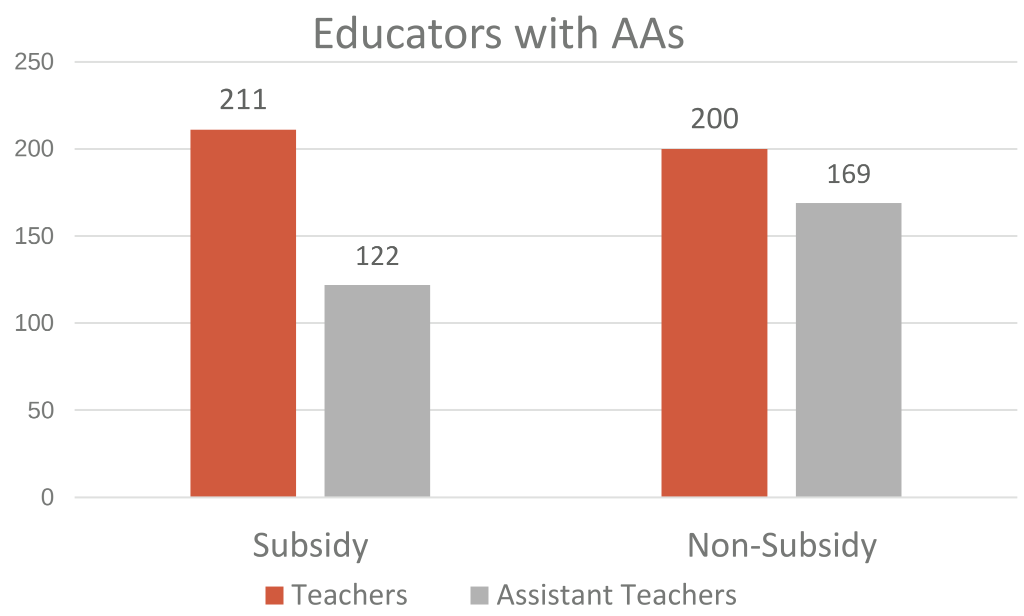
Adjusting current salary minimums and wage supplements is another potential mechanism to reduce costs

Current minimum salary requirements and wage supplement amounts

Role	Credential	Minimum Salary	Wage Supplement (base funding to CDF)	# of educators
Assistant Teacher or Associate Home Caregiver	Less than a CDA	$43,865	$2,329	625
	CDA	$51,006	$9,470	822
	AA or higher	$54,262	$12,726	369
Lead Teacher, Home Caregiver, or Expanded Home Caregiver	CDA	$54,262	$8,503	915
	AA	$63,838	$18,079	333
	BA or higher	$75,103	$29,344	503

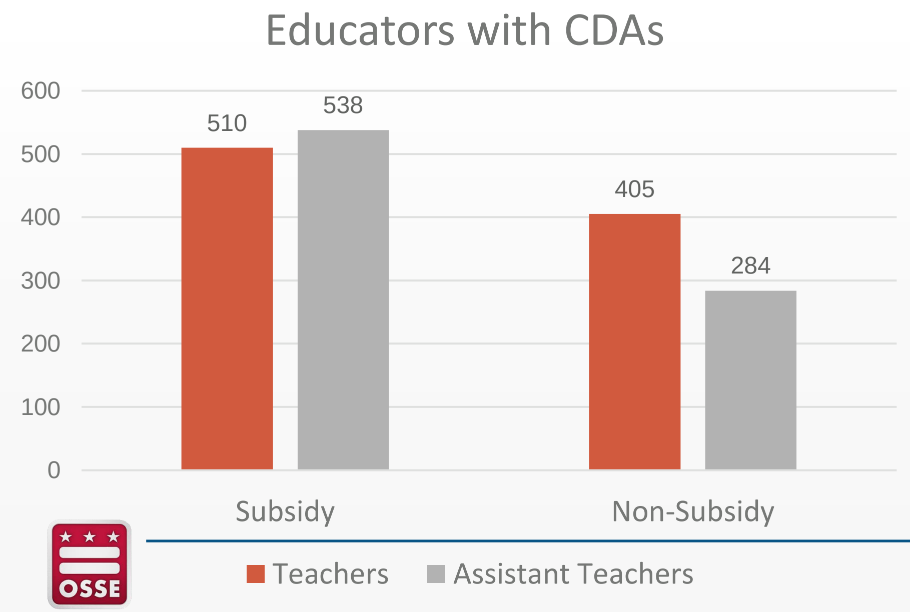
The placeholder cost reduction laid out in the BSA would reduce the BA salary to the AA level. If the BA wage supplement were reduced accordingly, that would trim **$5.7 million** off the base funding annually.

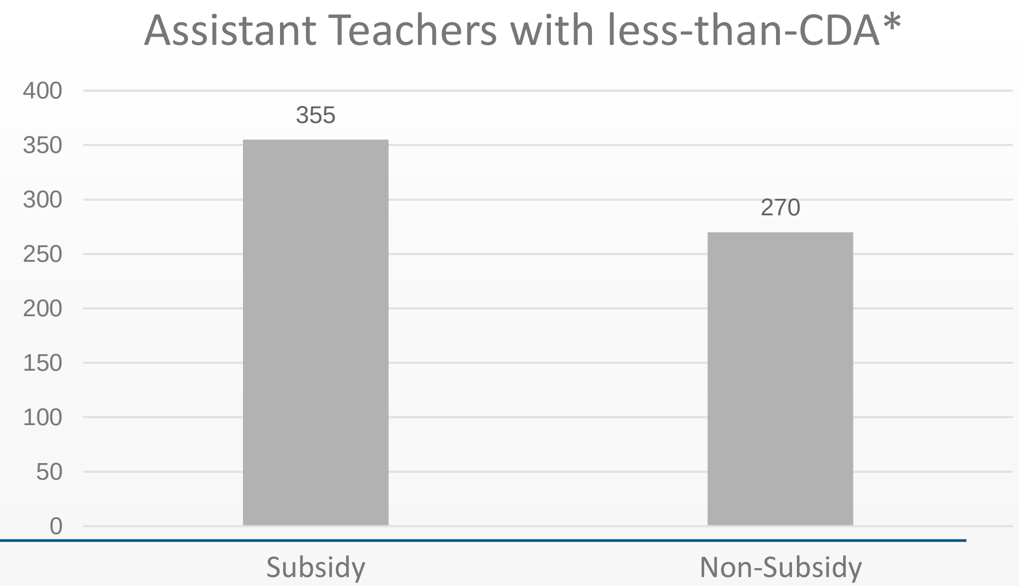




Overview:

Degree/ credential distribution by subsidy status





Mechanism to reduce spending: *Reduce some or all minimum salaries and corresponding wage supplement amounts*

The Task Force has named a shared aspiration to maintain the minimum salaries to the extent possible (except for educators with < a CDA). **If we are unable to adjust the budget adequately to meet that goal**, how would we **prioritize** adjusting minimum salaries?

Four ways to get to ***$3 million reduction to Base Award*** *(for illustration purposes).*

1) Reduce minimum salaries for BA level only. Rationale: Affects smallest number of teachers while delivering outsized savings. *Reducing BA salary minimum* ***by 8 percent*** *would yield an annual reduction to the Base Award of approximately $3 million.*	**2) Share the reduction across BA & AA teachers.** Rationale: Affects the two most highly paid categories only. *Reducing BA and AA teacher salary minimums* ***by 5 percent*** *would yield an annual reduction to the Base Award of approximately $3 million.*	**3) Reduce minimum salaries for all roles and credential levels by the same percentage.** Rationale: Distribute impact proportionally across eligible educators. *Reducing all educator salary minimums* ***by 1.75 percent*** *would yield an annual reduction to the Base Award of approximately $3 million.*	**4) Reduce minimums for CDC lead teachers with no more than CDAs.** Rationale: Minimum credential requirement for CDC teachers is an AA, so we should incentivize meeting that expectation. *Reducing CDC-based CDAs* ***by 6 percent*** *would yield an annual reduction to the Base Award of approximately $3 million.*

OSSE

Combining options offers multiple paths to reduce costs: *Illustrative example*

Potential Adjustments to CDF formula	**Reduction from FY24**
Reductions to Base Award:	
Eliminate wage supplement for educators with <CDA	$ 1,467,270
Differentiate wage supplement for part-time educators	$ 769,515
Differentiate wage supplement for school-year-only programs	$ 371,953
Reduction for top decile of tuition	$ 1,068,329
Reduce administrative enhancement to 12% (assuming above reductions in base)	$ 1,716,491
Reduce OSSE administrative allocation by 10%	$ 350,000
Eliminate FY24 Supplement	$ 16,361,855
TOTAL ESTIMATED COST REDUCTION	**$ 22.1 million**

Adopting the above strategies would allow us to **close the $16.5 million gap** and free up **approx $5.6 million** that could be reallocated to elements in the CDF formula and/or to a contingency fund to anticipate shifts in credential attainment, growth within existing providers, and other fluctuations.

Identifying opportunities for more equitable allocation of Pay Equity Fund dollars

Equitable distribution strategy: *Increase the equity adjustment (currently up to 60%, based on percentage of a provider's licensed capacity occupied by children receiving subsidies)*

PROS/RATIONALE

- Aligns with DC goals to incentivize and support CDFs to serve families receiving subsidy and prioritize resources to programs serving low-income children and families.
- Currently the formula used a factor of 0.6 to calculate the equity adjustment; bumping up that factor would send more money to CDFs serving children receiving subsidies.

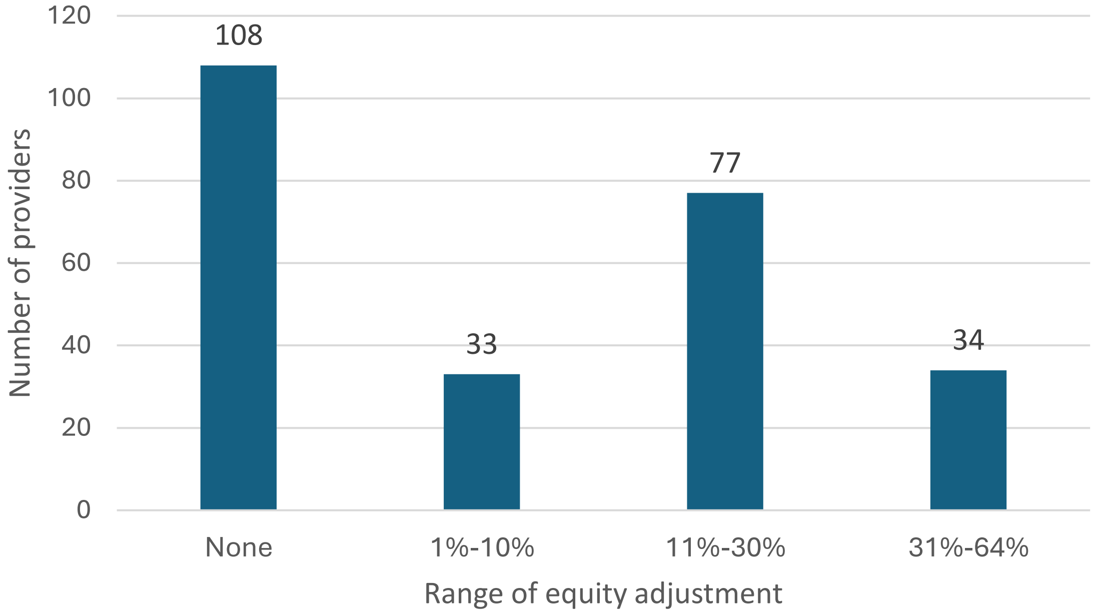
CHALLENGES:

- Increasing the equity adjustment factor for subsidy does not help those programs that do not accept subsidy or serve a very low proportion of children receiving subsidies, but whose tuition or other revenue is not enough to fill the gap left by the wage supplement.
- We have heard from programs that are in this middle space, who many serve communities where families earn too much to qualify for subsidies but cannot afford higher tuition rates.

Incremental net increase over FY24, assuming a 65 percent factor: $224,000

Distribution of PEF participating providers by subsidy enrollment as a percentage of licensed capacity

108 PEF providers do not serve subsidy. Among the 144 providers serving subsidy, there is significant variation in proportion of capacity occupied by subsidized children.



NOTE: Changing the denominator from capacity to enrollment will shift the distribution right, meaning some providers in the 11-30 percent category will move to a higher percentage.

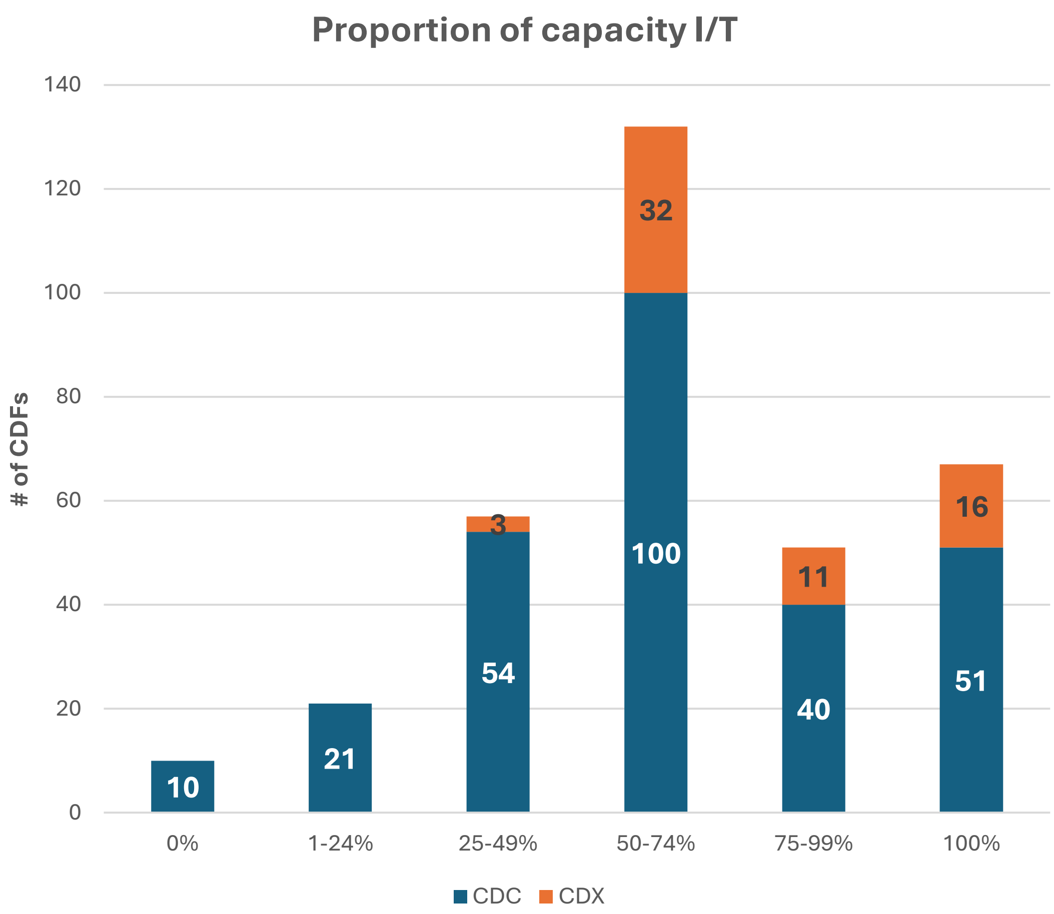
Equitable distribution strategy: *Infant/Toddler Equity Adjustment*

PROS/RATIONALE:

- Cost per child is higher for infants and to a lesser degree for toddlers than for pre-K; cost modeling analysis suggests programs are more likely to face larger gaps between tuition/subsidy revenues and costs for younger age groups, resulting in increased need for incremental funding to cover required minimum salaries for educators in this age range.
- DC has a shortage of infant and toddler slots and excess preschool capacity; directing more funds to infant/toddler programs could help align supply to need.
- Programs that are serving more infants and toddlers tend to serve higher proportions of DC residents

Incremental increase over FY24: $4.7 million *assuming a 20 percent factor (which could be adjusted) x I/T proportion of capacity*

Pay Equity Fund participating facilities by infant/toddler slots as percentage of licensed capacity



Out of 340 facilities currently participating in the PEY:

- **67** serve **<u>only</u> I/T,** including 18 CDH/X
- An **additional 51** serve **≥ 75% I/T**, including 10 CDH/X
- **An additional 134 are 50-74% I/T**, including 31 CDH/X
- **60** serve **<u>no</u> infants** (all but one are CDCs)
- **10** serve **<u>no</u> I/T** (all CDCs)

As with subsidy, a shift to calculating I/T as a proportion of *enrollment* - rather than capacity as shown here– will shift programs to the right on this distribution.

Equitable distribution strategy: *Child Development Home/Expanded Home Equity Adjustment*

- Given small size (by definition), CDH/Xs have particularly tight margins and are more acutely affected by fluctuations in enrollment, proportion subsidy, percentage of infants and toddlers and credential changes for any employees.
- A CDH/X Equity Adjustment would be relatively inexpensive for the Pay Equity Fund but have large impact on individual providers' financial health.

Incremental increase over FY24: $447,000, *assuming adjustment of 25 percent of Base Award*

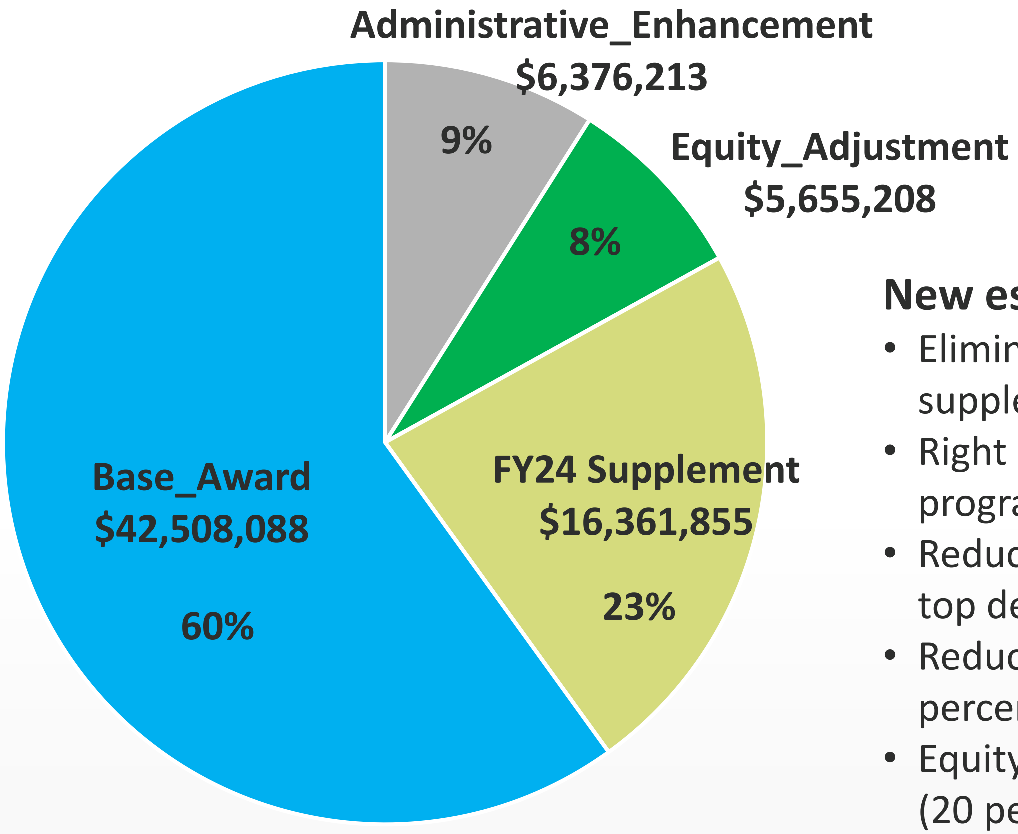
Summary of incremental costs: *Illustrative example*

Potential Adjustments to CDF formula	Net Increase over FY24
Increases to Equity Adjustment (assuming the reductions in the base noted above):	
Increase in subsidy equity adjustment factor from 0.6 to 0.65	$ 224,411
Addition of I/T equity adjustment at factor of 0.2 x base	$ 4,711,532
Addition of CDH/X equity adjustment (Base*25%)	$ 446,620
TOTAL ESTIMATED COST INCREASE	**$ (5,382,563)**

The approximately $5.6 million that was freed up through cost cutting measures (summarized on slide 22) could be reallocated to cover the approximately $5.4 million cost increase incurred by adopting the above adjustments to the CDF formula.

OSSE

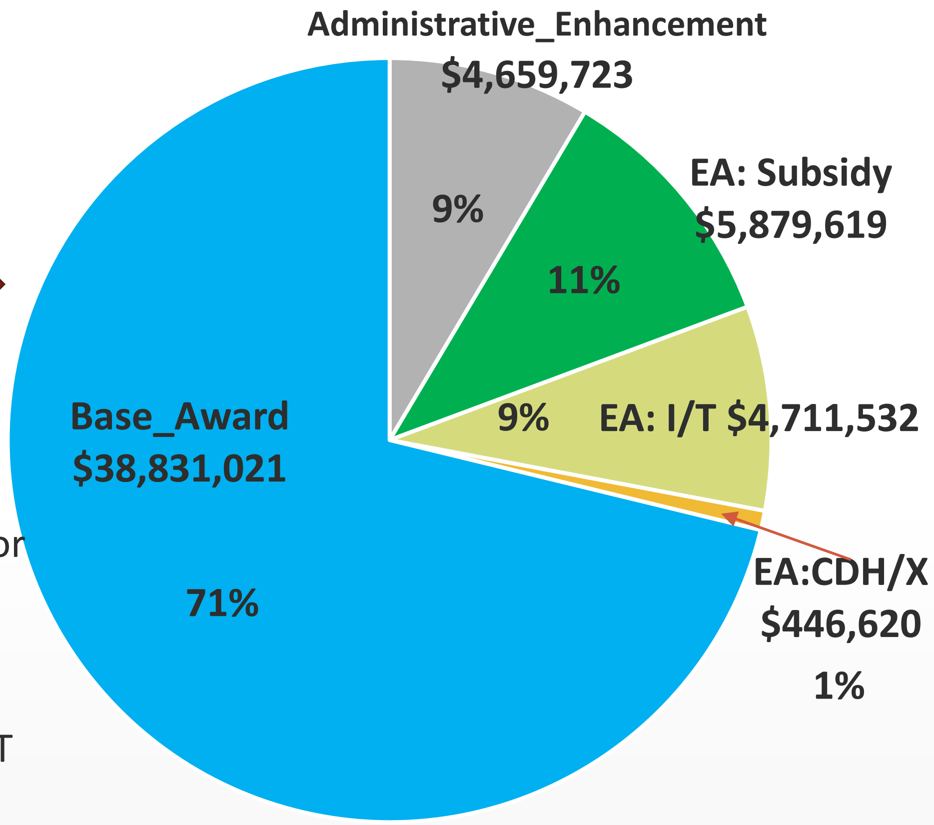
Applying this set of adjustments, here is the estimated annual cost breakdown of the facility awards by component



Current formula: $70,901,400

New estimate assumes :

- Eliminate <CDA minimum and wage supplement (reduce base)
- Right size part-time staff and programs (reduce base)
- Reduce Base Award by 10 percent for top decile tuition
- Reduce admin enhancement to 12 percent
- Equity Adjustment for proportion I/T (20 percent of Base Award)
- Increased Equity Adjustment for subsidy (65 percent of Base Award)
- Equity Adjustment for CDH/X



Potential formula *estimate:* $54,528,515

This version of a proposed formula closes the gap, but some questions remain

Cost Driver	Cost
HCFCC allocation	$12 million
OSSE administrative cost	$3.5 million
Cost of *proposed* CDF payment formula	$54.5 million
Total Projected Cost	**$70 million**
Annual funding	**$70 million**
GAP	**---**

This model is based on assumptions that will need to be tested with updated and comprehensive data.

It also leaves no cushion. To address that, we should consider:

- Identifying a target amount to set aside for a reserve fund
- Allocating a portion of the OSSE administrative cost towards the reserve
- Defining the necessary context that would activate the reductions in wage supplements minimum salaries we have prioritized

Outstanding issues

Several issues surfaced in prior Task Force/Stakeholder engagement require further discussion after Sept. 30

- Explore employer sponsored category – federal and private.
- Explore CDH/X-specific formula: Would this better serve CDH/X needs?
- Explore question on number of lead teachers. Do we need to refine the policy/definition? Is this a front-end strategy, or addressed in the waiver process?
- Challenge of staff turnover and growing programs, with relation to timing of payments.
- Flesh out strategies for controlling spending pressures
- Explore Pre-K Enhancement and Expansion Program (PKEEP) as a potential strategy for funding Assistant Teachers (longer term)
- Re-calibrating “parity” moving forward

Next Steps

- Virtual Public Round Table – Aug. 17 10 a.m. – 12 p.m.
- Scheduled Task Force meeting dates (6-8 p.m.)

2024	
Aug. 6	Nov. 5
Sept. 17 (revised)	Dec. 3
Oct. 1	

2025
Jan. 6
Feb. 3

- Public comments welcome at ececompensation@gmail.com
- Meeting materials will be posted on OSSE's website: osse.dc.gov/page/early-childhood-educator-equitable-compensation-task-force
- We will continue to update the Research and Background Materials folder