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Representative Ann Pugh
Chair, House Committee on Human Services
Vermont State House
115 State Street
Montpelier, VT 05633-5301

February 25, 2021

Chair Pugh,

Thank you for this opportunity to provide written testimony on an issue of significant importance to the long-term stability of Vermont. We have divided our written testimony on H.171 into four distinct categories:

- The absolute need for childcare
- The proposed commitment to 10 percent
- The charge of the proposed Early Childhood Financing Study Committee
- Workforce assistance

We support advancements in early childhood education and strongly believe that greater access to high-quality childcare will help grow our economy.

The Absolute Need for Affordable Childcare

The Lake Champlain Chamber is grateful for the work of all parties involved in this legislation on such a crucial issue. Seldom a day goes by in workforce or economic development discussions that the need for affordable childcare isn't a substantial component. Our team encounters this on a daily basis and we've all experienced this in our own personal lives.

Childcare is one of many affordability challenges in Vermont which create an opportunity chasm we must bridge for successful workforce recruitment and retention. We know that there are people who are not working but would like to be as well as people who are working reduced hours, all due to childcare-related issues. Additionally, we know that the cost burden of childcare is limiting income for Vermont's families that might otherwise be multiplied through the economy.

The Proposed Commitment to Ten Percent

The Lake Champlain Chamber seeks clarity around the intent language in Section 7 as it relates to compelling action at a later date. Does the language in Section 7 set as a goal limiting household spending on childcare to no more than ten percent of income *or* does the

language commit the Legislature to this action by 2026? We ask because cost estimates for such a goal range \$100 million up to \$600 million dollars presently. We would advocate for caution, or at least more time and testimony if you seek such a commitment.

The challenge of providing affordable childcare is too important to get wrong and we are concerned that “sticker shock” that might follow the proposed Childhood Financing Study report could hamper action if the legislature had already made the commitment. Such a scenario is reminiscent of Vermont’s ambitions around single-payer healthcare, in which we made commitments before fully knowing the cost of those commitments; and the “sticker shock” that ensued created a great deal of turmoil and prevented further action or discussion. We suggest removing the language in subsection 2 from Section 7 as it is included in instructions for the Early Childhood Financing Study in Section 13.

There is value in setting a goal in this legislation. The Lake Champlain Chamber believes that just as natural ecosystems have a finite capacity for harvesting, so too do economies, and particularly the Vermont economy. As stewards of the Vermont economy, we believe that there is a finite tax capacity for the next decade that must be carefully allocated across conflicting needs. We see affordable childcare as one of the most important needs and as potentially worthy of the use of the majority of the State’s tax capacity in the next decade. Setting this goal would be making clear to those considering other large spending items that the Legislature plans to devote the majority of all new tax capacity for this and the next biennium to childcare.

The Charge of the Early Childhood Financing Study

The Lake Champlain Chamber would suggest the following changes to the charge of the Early Childhood Financing Study Committee.

- **Make the study generally less prescriptive and change the charge.** First, charge the study committee to first develop a reliable estimate of the total cost. To do this, you might need to elaborate further on the goals, as we describe in the next bullet. We’d also suggest, you be less prescriptive with the tools and methodologies that the study committee must employ.
- **Be more specific around your goals for limiting the cost of childcare based on income.** It is unclear what parameters might be put on the 10 percent goal to prevent cost overrun. Would there be a cap on the benefit? Would there be a cap on the cost of childcare to prevent price inflation? Is it the intent of this committee that the only upward limit on participation in this program and receiving the envisioned benefit would be when it is phased out as the necessary subsidies hit zero dollars? Or is the

intent of the committee to see another factor, such as a minimum benefit or cap based on a percent above the federal poverty level adjusted for the size of the family as the subsidies are distributed now. The study committee might need to create such parameters for the purposes of cost containment, so it might be a useful discussion to have now to provide them with guidance.

- **Make the language less restrictive to allow for a tax mix or multiple revenue sources to be presented to the Legislature.** The language as currently written in Section 13 repeatedly asks the study committee to identify a singular “source” and we would recommend that that be changed to “sources.” A mix of long-term revenue sources may provide for greater equity, sustainability, and resiliency of the envisioned Early Childhood and Education Fund.
- **Study diminishing marginal returns and impact of the 10% target.** A cursory review of the benefit and tax structure widely discussed in association with the campaign associated with this bill shows the marginal impact and returns on tax rates decreasing rapidly among middle-income families. A back of the napkin calculation shows that a family of four at 350% above the federal poverty level adjusted for the size of the family would see their contribution and subsidy be almost equal, making the marginal impact of the program close to zero. It would be negated as widely envisioned when a family is about 400% above the federal poverty level adjusted for the size of the family (using an average cost of childcare of about \$10,498 in our region as derived in a 2018 report from the Carsey School of Public Policy at the University of New Hampshire). This new methodology does not at first glance represent a significant improvement over the current upper-income limit of the program for FY 22 this legislation seeks to set in Section 3.
- **Learn from our current crisis to build resilience.** We would recommend that the committee take time to discuss, or refer conversations to other committees to discuss, what lessons learned from the current pandemic and recession might make the proposed Early Childhood and Education Fund countercyclical rather than procyclical. That is, how might this fund negatively correlate with the fluctuations in the Vermont economy such that we pay more for these services in the good times, and pay less for them in times of economic distress.

Workforce Assistance

As you well know, the Lake Champlain Chamber has been actively trying to address student debt in our state. While like many policy discussions we have pursued have been pushed to the backburner to address the most pressing challenges of this current pandemic, we were elated to see proposals we brought to the Legislature last biennium included in the



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CARES Act. We certainly support this component of the bill and would hope that it could be written in such a way that it can be expanded to other sectors. One such way would be to explore making such payments tax-exempt for the employee to provide maximum benefit and avoid unseen financial pitfalls that may leave a recipient in a worse financial position than if they did not receive this aid. We engaged with the House Ways and Means Committee in the last biennium around how this might be achieved within current federal law.

Conclusion

Thank you again for your time and consideration of these recommendations, as well as your dedication to advancing early childhood education in this state. We believe that advancing legislation that improves childcare access and quality in Vermont is important both to our state's economy and our quality of life.

Sincerely,

A handwritten signature in black ink, appearing to read 'Austin Robert Davis'.

Austin Robert Davis
Government Affairs Manager