

Executive Summary

This report, undertaken as one component of a legislatively mandated assessment of the Massachusetts subsidized child care system, summarizes the findings from a review of budgetary policies and practices in the Department of Early Education and Care (EEC) as of spring 2014. This review's goal is to help EEC more efficiently use annual appropriations from the caseload accounts that fund child care services.

This report synthesizes information from interviews with EEC staff, external stakeholders, and experts in other states; it also combines this information with an analysis of recent spending and a review of current forecasting models. It focuses on the three largest EEC caseload accounts: Supportive Child Care (3000-3050), which provides child care services for children referred by the Department of Children and Families; DTA Related Child Care (3000-4050), which provides child care services for children referred by the Department of Transitional Assistance; and Income Eligible (IE) Child Care (3000-4060), which provides child care subsidies for children from eligible low-income and at-risk families.

For each of these accounts, there are several forecasting tasks. First, budget staff must project costs and caseloads for the future year as part of the governor's budget request; this projection also supports the appropriations process in the House and Senate. Also, monthly, EEC budget staff develop updated spending forecasts for the current year based on expenditures to date. Both sets of forecasting tasks are supported by spreadsheet models that project monthly caseloads and costs, drawing on recent caseload and cost data for four age groups (infants, toddlers, preschool children, and school-age children).

The report identifies factors that increase the complexity of forecasting child care caseloads. Many of these are common to other budget forecasts in government agencies:

- Forecasting is inherently uncertain because the future is unknown.
- Estimates are prepared in an environment where underestimating costs (and risking deficits) carries a heavier penalty than overestimating costs (and risking surpluses). Yet errors in either direction are problematic.
- Funds for income-eligible child care are not sufficient to fund all families seeking care.
- The underlying data informing the models are imperfect.

In addition, the particular structures and policies in Massachusetts add further complexity:

- Two of the accounts provide immediate access to families who apply; the third account (IE) provides services to the extent funds are available.
- Rules allowing for limited transfers between the different caseload accounts reduce the need to ask for supplemental funding, yet increase the complexity of forecasting and managing budget spending.

The report also analyzes five years of funding history provided by EEC staff and presents figures summarizing patterns in initial appropriations, midyear adjustments, final expenditures, and final balances. Though there were many transfers between accounts, actual supplemental appropriations and surpluses were smaller than we expected, given the amount of attention paid to them in stakeholder conversations.

The concluding section offers six suggestions for EEC to consider as it continues to improve its management of spending on subsidized child care. Four of these address the forecasting model and could be implemented by the EEC budget staff, the fifth involves the EEC agency as a whole, and the sixth would require action by the legislature.

1. **Keep the models simple.** Adding external factors, such as unemployment rates or demographic trends, is unlikely to be beneficial. Forecasting one caseload per program, rather than four age-specific caseloads per program, may improve the forecasts.
2. **Redesign the forecasting models to put less reliance on most recent month** and more reliance on data over several months.
3. **Put greater relative emphasis on estimating policy shifts** rather than maintenance costs, and consider explicitly modeling time delays when estimating the effects of new policies.
4. **Continue to improve the quality of data used for modeling.**
5. **Consider the benefit of viewing some forecasting issues from the broader perspective of caseload management and service delivery.** Differences between forecasts and actual practice (e.g., underutilization of contracted slots and time lags for caseloads to increase after access to vouchers is opened) can focus attention on the need to improve the forecast model, but they also can flag areas for improvement in caseload management and service delivery.
6. **Consider changing the structure of budgetary accounts** to find a way of dealing with the inevitable differences between projected and actual spending without requiring the IE account to be as large of a buffer for the other two accounts. It may be useful to consider the pros and cons of (1) managing the two entitlement accounts as one funding stream and reducing transfers between the IE account and the other two accounts, except in unusual circumstances

or (2) authorizing the IE account to routinely carry up to 3 percent of funds from one year to the next through a Prior Appropriations Continued (PAC) account.