School Readiness Tax Credit Revisions

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DEPARTMENT of EDUCATION
Louisiana Believes

School Readiness Tax Credits
Overview

- Vision for Kindergarten Readiness in Louisiana
- Background on School Readiness Tax Credits
- Approach for Aligning School Readiness Tax Credits
  - *Overall Theory of Action*
  - *Specific Revisions for Each Credit*
- Key Messages
- Timeline and Next Steps

School Readiness Tax Credits
Achieving Statewide Kindergarten Readiness

Only half of children in Louisiana enter kindergarten ready. Since the passage of Act 3, 2012, Louisiana has made great progress in unifying the system to prepare all children for success.

- Louisiana requires early childhood programs that take public funding to meet **universal standards** – regardless of program type – with a **focus on learning outcomes** rather than inputs. Louisiana also seeks to **increase access** and **informed choice** so families can choose the best option for their children.

- Historically Louisiana's School Readiness Tax Credits (SRTC) have helped the child care sector improve quality and access for at-risk children. Now Louisiana needs to align these innovative tax credits with the universal rating system and new child care teacher credential in order to increase kindergarten readiness.

These tax credits play a vital role in supporting the child care industry which has an $830 million impact on the Louisiana economy.

School Readiness Tax Credits
How Tax Credits Work

School Readiness Tax Credits are a $16 million investment annually in quality child care.

This package of five tax credits, which were made law in 2007, have served as an important incentive for:

1. Families to choose quality rated centers;
2. Providers to serve vulnerable, at-risk children whose parents could not otherwise afford quality care;
3. Directors and staff to pursue additional education or credentials;
4. Businesses to donate to child care centers to help improve quality; and
5. Businesses or individuals to donate to resource and referral centers in order to help improve child care quality within a region.

Tax credit funding helps secure more than $80 million in federal funds (CCDF).

School Readiness Tax Credits
Why Tax Credits Matter

School Readiness Tax Credits are essential to the early childhood sector.

1. They help maximize funding.
- *They help Louisiana bring in $80 million in federal funds and encourage local investment.*

2. They ensure centers choose to serve CCAP children.
- *Centers have become or have stayed Type III and are serving low-income Louisiana children enrolled in higher-quality-rated settings.*

3. They help drive improvement.
- *Centers joined the star rating system and improved quality while thousands of child care directors and staff earned credentials.*

4. Child care directors and teachers depend on these tax credits.
- *Child care directors and teachers indicate that they rely on the credits to make essential purchases, retain teachers and invest in quality improvement, which is especially important with the 2019 requirement that lead teachers have an ancillary certificate.*

5. They increase local support and investment in child care.
- *Businesses and resource and referral agencies use credits to support child care quality.*

School Readiness Tax Credits
Approach on Aligning Tax Credits

Louisiana has built a unified system to prepare all children for kindergarten. Now tax credits need to be aligned to reward performance and preparation under unified system.

If Louisiana:

- Redefines star ratings to recognize sites that provide quality interactions and instruction to Louisiana children under unified rating system;
- Rewards performance and improvement via tax credits and bonus payments;
- Offers new option for directors to reward site performance instead of credentials;
- Offers new option to help attract and retain certified child care teachers by increasing compensation based on ancillary teaching certificate and years of service; and
- Maintains incentives for families, private individuals and businesses to support child care improvement;

Then more Louisiana children, especially those under age 4, will have access to quality programs that help prepare them for kindergarten.

The challenge is to achieve these goals with no immediate fiscal impact to state.

School Readiness Tax Credits
Approach for Director and Teacher Credits

State should offer new options to reward directors based on performance and encourage teachers to earn new child care teaching certificates and serve in child care sector.

Staff Tax Credits benefit 4,000 professionals with an average of $2,150 per filer ($8.1 million total).*

How It Works Now

- Credits are based on education level (4 levels are defined in Bulletin 139 – e.g., CDA through Masters Degree for teachers)
- Teachers or directors must work at a center in rating system for at least 6 months
- Credit is available to all staff at rated centers, regardless of rating
- Credits are refundable
- Credits range from $1,630- $3,260 based on level and are adjusted annually based on CPI

2013-2015 Average

Proposed Alignment

For Directors:

- Offer option to earn levels for proficient performance

Level	Director's Site Performance
Level II	Rating = 4.5 – 5.24
Level III	Rating = 5.25 – 5.99
Level IV	Rating = 6 – 7

For Teachers:

- Offer option to earn levels for Anc. Certificate and service

Level	Teacher Credential
Level II	Early Childhood Ancillary Certificate
Level III	Certificate and 1+ years
Level IV	Certificate and 2+ years

Potential Impact

- No staff will lose their current credit; changes only add options
- More staff may be eligible as all Type III centers are in the unified rating system
- Directors can be rewarded for performance and impact on children, fully aligning incentives for site leaders
- Teachers will be rewarded for obtaining Ancillary Teaching Certificate in advance of 2019 requirement
- Turnover costs may decrease as teachers will be incented to stay in child care sector

School Readiness Tax Credits
More Information on Staff Credit

Changes will likely have impact on all publicly-funded centers, regardless of star rating, as all teachers will be eligible for credits based on ancillary certificate and years of service.

- There are no changes for 2017 credits. New options for Directors and Staff will not be available until 2018.
- By 2020, teachers with an ancillary certificate will be able to earn up to ~$3,300 annually if they work at a publicly-funded center and receive tax credits for more than 2 years.
- Including all centers, including those that receive an Unsatisfactory rating, and removing the professional organization requirement will ensure that all teachers with an ancillary certificate who work full time in a Type III center can receive the credit, thus making it easier to hire and retain qualified teachers.
- Enabling teachers to earn more with an ancillary certificate may help reduce turnover costs and increase stability and quality of care and education for children.
- Only the Director can receive the Director credit with a limit on the number of Directors per site based on capacity.

School Readiness Tax Credits

Approach for Provider Credit

State should reward performance and improvement via tax credits <u>and</u> bonus payments.

The Provider Credit benefits ~500 "providers" for ~$4.5 million with an average of ~$9,400 per filer.*

How It Works Now

- Providers receive a tax credit based on rating <u>and</u> number of CCAP or foster care children

1 Star	$0 per child
2 Star	$750 per child
3 Star	$1,000 per child
4 Star	$1,250 per child
5 Star	$1,500 per child

- Star rated centers with no CCAP children do not receive this tax credit (i.e., 40% of current 4 star centers)
- Refundable and for-profits and non-profits are eligible

Proposed Alignment

- Redefine stars to based on unified rating system. Rating would be based on rating from the prior year using the following chart:

Star Level	Definition Using Unified Rating System Results
1 Star	Rating = 3 – 3.74
2 Star	Rating = 3.75 – 4.49
3 Star	Rating = 4.5 – 5.24
4 Star	Rating = 5.25 – 5.99
5 Star	Rating = 6 – 7

Potential Impact

- More centers are eligible as all Type III centers are in the unified rating system yet not all centers pursue credits
- Fiscal impact will only increase when children receive higher quality care and education
- Centers that serve CCAP children in quality settings will receive sufficient funding to maintain quality based on cost model
- CCAP bonus payments can minimize disruption during transition and provide additional time for improvement

**2013-2014 Average*

School Readiness Tax Credits
More Information on Provider Credit

Impact on centers will depend on current rating, expected future performance and number of CCAP children served. There are several ways to minimize disruption and support these centers to be successful under the unified rating system.

- Centers will receive 2017 credits based on Quality-Start defined stars, thus providing an additional year of transition. Tax credits will not based on *CLASS™* ratings until 2018.
- Approximately 16 percent of centers serve more than 30 CCAP children and may be significantly impacted, depending on their 2016-2017 *CLASS™* ratings. In contrast, a third of centers serve 10 or fewer CCAP children and 50 percent serve 11-30 CCAP children. It should also be noted that not all providers pursue Provider Tax Credit.
- CCAP bonus payments will be increased to provide additional funding to centers to support improvements. However, these bonus payments for two-star level providers would go down over time in order to incent providers to meet quality threshold.
- Providers who receive LA4, NSECD or the PreK grant will not lose these slots in 2017-2018 or 2018-2019 based on change in star ratings.
- To be eligible, providers must remain in compliance with Licensing requirements.

School Readiness Tax Credits

Proposal for Revising CCAP Bonus Structure

CCAP bonus payments will be increased to provide funding to support improvements. However, these bonus payments for two-star level providers will be reduced over time in order to incent providers to meet quality threshold.

- Providers receive quarterly bonus payments equal to a percentage, as defined below, of all child care subsidy payments received in the prior quarter based on the center's star rating.
- For 2018 through 2021, the Department proposes the following bonus payment structure:

Star Rating	Current / 2017 Bonus %	2018 Bonus %	2019 Bonus %	2020 Bonus %	2021 Bonus %
2 Star	3%	6%	4%	2%	0%
3 Star	8%	11%	11%	11%	11%
4 Star	13.5%	16.5%	16.5%	16.5%	16.5%
5 Star	20%	23%	23%	23%	23%

- There would be no change in bonus payment structure in 2017, including enhanced pilot bonuses. The enhanced pilot bonus program would end on December 31, 2017.
- Bonus payments are federal funds (CCDF) used to meet federal "quality" requirements.

School Readiness Tax Credits
Approach for Family Credit

State should reward families for choosing centers whose performance indicates they are preparing more children for kindergarten.

The Family Credit benefits ~14,500 families for a total of $3.2 million with an average of $223 per family.*

How It Works Now	Proposed Alignment	Potential Impact
• Families receive tax credit based on five factors: 1. Child Care Expenses 2. Income 3. Federal Child Care Tax Credit 4. State Child Care Tax Credit 5. Star Rating of Center • For families that make above $60,000, the state child care tax credit is $25 or less, thus the maximum SRTC is $50 • Refundable	• Redefine stars based on unified rating system same as provider credit	• More families may be eligible as all Type III centers are participating in the unified rating system • Not all families whose children are in Type III centers are eligible depending on income status • Spending on credit will likely go up with more families involved but at the same or a lower amount per family

**2013-2015 Average*

School Readiness Tax Credits

Approach for Business and R and R Credit

State should maintain incentives for business and resource and referral (R and R) agencies to support performance and quality improvement.

The Business Credit goes to ~60 businesses for a total of $400,000 with an average of $7,000 per filer. The R and R Credit was received by 190 individuals or businesses for a total of $830,000 towards child care improvement with an average amount of $4,400 per filer.*

How It Works Now	Proposed Alignment	Potential Impact
For Businesses: • Employers receive a credit for a percentage of "eligible child care expenses" based on rating • Refundable • Percentage ranges from 5 – 20% Maximum expense is $50,000 (w/credit as percentage)	*For Businesses:* • Redefine stars based on unified rating system same as provider credit	• Credit usage has gone up and down over past few years; there will likely be slight increase in investment
For R and Rs: • Dollar for dollar tax credit for grants to child care resource and referral (R and R) agencies • Maximum is $5,000 • Refundable	*For R and Rs:* • No changes needed • Consider strengthening policy to support kindergarten readiness	• R and Rs are required to provide match as part of contract with state; there will likely be slight increase in investment

**2014 Numbers*

School Readiness Tax Credits
Key Messages

Clear and compelling messaging can help preserve these essential tax credits.

- Tax credits are essential to prepare all Louisiana children for kindergarten. These credits assist thousands of Louisiana families to access to quality child care, enabling them to be able to work or attend job training or college.
- As before, there is accountability for the funding. The cost to Louisiana will *only* increase if children receive higher quality care and education from prepared teachers.
- Centers that are quality (proficient or 3 star or above) will be eligible to receive funding per CCAP child at least at the level called for by the Louisiana cost model (H.C.R. 61, 2014).
- Increases to CCAP bonus payments will provide additional time for improvement.
- No individual staff person will lose her credit.
  - *Directors will have additional option that rewards site performance.*
  - *Teachers will have additional option that rewards certification and commitment to the child care sector.*

School Readiness Tax Credits
Timeline and Next Steps

Next steps are to engage Early Childhood Advisory Council and State Board.

- **December 2016**: Department updates Advisory Council and establishes small work group in coordination with Department of Revenue
- **January 2017**: Department engages work group on draft policy revisions and fiscal note in coordination with Department of Revenue
- **February 2017**: Advisory Council reviews proposed revisions to Bulletin 139
- **March 2017**: State Board reviews proposed changes to Bulletin 139
- **April 2017**: Revised policy goes to legislative committees as required
- **Fall 2017**: Changes to Bulletin 139 become effective no later than December 1

In addition to policy revisions, the Department will produce a calculator to help sites understand individual impact of proposed changes.