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Improving Public Financing for Early Learning Programs

by W. Steven Barnett and Jason T. Hustedt

The care and education of young children in the United States is supported by nearly $40 billion yearly from a variety of sources at the federal, state, and local levels. Even so, about a quarter of 4-year-olds and half of 3-year-olds do not attend preschool, and many of those who do attend receive only poor quality services. Some programs are of such low quality that they actually harm child development. The nation's children would greatly benefit from additional public funding for preschool programs. It also matters how this funding is provided. How we fund early care and education varies greatly from program to program, across states, and across levels of government. Most funding sources exist independent of one another, in different departmental jurisdictions and local, state, and federal governments each have their own funding approaches. For these and other reasons, the various streams of public funding are not easily harmonized into a coordinated system for financing early learning programs. This brief reviews sources and models of public financing of early care and education and makes recommendations for improving upon what currently exists so as to remove barriers to increasing program access and quality.

What We Know:

- Public funding for early care and education reaches barely half of young children in poverty at age 4 and the percentage aided is much less for children 3 and under. Children from middle-income families receive even less public funding and those above the poverty line but below the median income have the lowest rates of enrollment in public or private programs.
- Different funding streams for early care and education evolved with different priorities. Some emphasize providing low-cost child care so parents may work. Others emphasize improving children's learning and development including health and nutrition.
- At the federal level and in many states, funding streams for early childhood programs reside in separate agencies, creating difficulties for cross-program coordination.
- The states' role in funding early education grew rapidly over the last decade, but some of their funding strategies are more susceptible to large cuts due to short-term political and economic fluctuations than are those for K–12 education.
- Not only is access highly limited, but public funding strategies lead to wide variability in who has access to high-quality early learning programs based on where children live and a variety of eligibility criteria. In addition to the many children who are un-served, many others are served by poor-quality programs.
- Child care subsidies and tax credits currently do little to improve the quality of early learning programs and can even encourage the use of poor quality care.

What We Know: *(continued)*

- Recently, some federal initiatives have striven to improve coordination across the patchwork of early learning policies while others that hold promise remain to be enacted.
- Increased public investment in early learning is a pro-growth strategy not inconsistent with greater fiscal restraint generally. Although the recession and long-term financial difficulties may constrain overall spending growth, providing adequate public funding for early education, which is modest relative to overall public spending, is feasible providing any new investments are obtained by cutting wasteful public spending that does not generate social benefits comparable to those from high-quality early care and education.

Policy Recommendations:

- Develop new and more reliable funding streams for early learning programs that increase the total amount of public funding available and, at the very least, produce full coverage of disadvantaged children.
- Provide Head Start, child care, and education programs with regulatory relief to facilitate coordination and collaboration across early care and education programs receiving federal and state funds. Allow states and Head Start agencies to jointly apply for waivers based on Early Learning Council plans for systems integration and improvement.
- Strengthen state Early Learning Councils by providing them with adequate staffing, authority, and longevity through state statute.
- Fund federal early learning challenge grants to states for initiatives that support coordination and increase program effectiveness.
- Conduct a public review of Head Start, state pre-K, and other policies to streamline regulations so that these programs can work in a more coordinated and effective fashion at the state and community levels. Focus more on performance and outcomes and less on monitoring compliance with detailed regulations
- Tie federal and state subsidies for child care to quality, perhaps using tiered payments linked to state Quality Rating Systems. Replace tax credits with more direct subsidies or pay them in tiers linked to program quality.
- Measure the effectiveness of preschool special education spending, subjecting it to cost-effectiveness analysis. Funding for preschool special education is substantial, but the needs are also great, and additional effort to ensure effective use could have a high return.
- Increase the use of federal Title I funds for quality preschool programs by requiring school districts to spend these funds on programs demonstrated to be effective.
- States that do not fund early education through their school funding formulas should work toward that goal or develop other dedicated funding mechanisms that are more stable than annual discretionary appropriations from general revenue.
- Early childhood finance reform should be pursued as part of a broader set of policies to increase collaboration and coordination across agencies for children birth to 8 so as to improve program effectiveness.

A Patchwork of Funding Streams and Programs

Taxpayer-funded early care and education has grown dramatically in recent years, resulting in a multiplicity of programs and funding streams at the federal, state, and local levels. Each has its own mission, regulatory requirements, and constituency. Taken together, they form what has been called a "patchwork quilt" or "non-system" of early care and education. They are seldom coordinated with each other, the result being that opportunities to broadly raise program quality and access, work collaboratively to gain efficiencies, and otherwise maximize the public's investment are invariably lost. Meanwhile, preschool providers face the increasingly daunting task of blending or "braiding" funds from various sources to create their classrooms, dealing in the process with often-conflicting regulations. In this section we provide an overview of funding streams and the programs they support as a foundation for the next section that identifies policy problems.

Total federal spending on early childhood programs in 2008 was about $17 billion and it rose to an estimated $19.5 billion in 2010 and $20 billion in 2011. This increase of about $3 billion over three years was facilitated by American Recovery and Reinvestment Act (ARRA) funds, which accounted for about half of the increase.[1] State and local spending amounted to at least another $17 billion in 2010 and 2011. Our estimates of local spending on early childhood programs are incomplete, and how much more they might add to spending is an important unknown. Conceivably, total public spending on early care and education could approach $40 billion in 2011. Greater precision is not possible, as state and local spending on early education including early intervention and special education are not carefully tracked at the national level, as we discuss below. This amount is less than 1 percent of total government spending and is far from sufficient to ensure that all children in poverty, much less all children, have access to quality early care and education (as discussed in a later section). Whether even the current level of support will be sustained is not entirely certain with proposals in Congress to roll back federal funding to pre-ARRA levels and some states and localities debating future cuts.

This brief's calls for increased funding and greater coordination of funding come against a backdrop of the economic challenges occasioned by the "Great Recession," making a review of current programs and formulation of recommendations for reform especially timely. The states collectively account for the greatest growth in early childhood education enrollment over the last decade, serving nearly 1.3 million children (as of 2010) with relatively new programs, many of which have been shown to be effective.[2] Given the financial difficulties many states face, it is reasonable to ask to what extent they can be expected to continue on their trajectory of expansion. Federal programs, on the other hand, have been around longer than many state programs. While they have not experienced the same growth curve as state initiatives, they did receive a recent boost, and there is a large body of evaluative research on which to base recommendations regarding federal programs. The federal budget faces its own difficulties, of course. Table 3 offers a comparison of key features of federal, state and local programs.

Table 1. Federal Spending for Early Learning Programs (Children under 5)

	2008	2010 est.	2011 est.
Head Start (excluding Early Head Start)	$6.2 billion	$6.7 billion*	$6.8 billion
Early Head Start	$688 million	$1.0 billion*	$1.56 billion*
Child Care Subsidies	$5.2 billion	$5.7 billion*	$5.7 billion*
Child Care Food Program	$1.3 billion	$1.4 billion	$1.4 billion
Tax Credits (CTCDC and DCAP)	$2.2 billion	$2.2 billion +	$2.2 billion +
DOD Child Care	$300 million	$750 million	$800 million +
Title I Preschool	$400 million	$500 million	$550 million
Preschool Special Education (IDEA Part B, Sect. 619)	$374 million	$574 million*	$373 million
Early Intervention for infants and toddlers with disabilities (IDEA Part C)	$436 million	$632 million*	$439 million
Home Visiting	$0	$100 million	$250 million
Total**	$17.1 billion	$19.5 billion	$20.0 billion***

* *Includes additional American Recovery and Reinvestment Act (ARRA) funds for FY2010*

** *A significant portion of the increases from 2008 is due to ARRA funding ($1.4 billion of 2010 funding and $1.6 billion of 2011 funding).*

*** *Total assumes tax credits continuing at 2010 levels.*

Table 2. State and Local Spending for Early Learning (Children under 5)

	2008	2010 est.	2011 (Proposed)
State Pre-K Initiatives (spending from all sources)	>$5.2 billion	>$6.2 billion	>$6.2 billion
State and local funding for preschool special education	$6 billion	>$6 billion	>$6 billion
State Early Intervention	$3 billion	$3 billion	$3 billion
State Child Care Subsidies	$2.4 billion	$2.2 billion	$2.2 billion
Total	>$16.6 billion	>$17.2 billion	>$17.2 billion

Note: State TANF transfers for child care subsidies are included in federal spending.

Table 3. Largest Public Early Learning Programs (Funding Streams)

Program	Administrative Agency	Source of Funds	Primary Service	Eligibility Requirements
Head Start	U.S. Department of Health and Human Services	Federal funds distributed to local grantees	Comprehensive child development program for children and their low-income families	Available to families with incomes up to 100% FPL or 130% if all in 100% level are served, children ages 3-5 (Head Start) or 0-3 (Early Head Start)
Child Care Subsidies (Includes CCDF and TANF)	U.S. Department of Health and Human Services	Federal funds with required state matches	Child care assistance for low-income working families	Available to working families with incomes up to 85% SMI (CCDF) or who are needy as defined by the state (TANF), children ages 0-13. State rules vary.
Child Care Tax Credits	Federal and 28 State Treasury Departments	Credits for child care expenditures against federal and state income taxes	Reduction of families' child care expenses	For families with expenditures up to age 13, but CDCTC credit amounts are based on income levels. Most states tie their credit to the federal credit.
Title I Preschool	U.S. Department of Education	Federal funds	Education services for disadvantaged children	All children in schools where 40% of children are in poverty, or to academically at-risk children in schools with lower percentages of children in poverty
Early Childhood Special Education	U.S. Department of Education	Federal, state, and local funds	Special education services for children	Available to all preschool-age children with identified disabilities, or, at states' discretion, developmental delays
State Pre-K	State Departments of Education for 29 states and 11 states with other agencies (may be jointly administered)	State typically with local and sometimes federal funds	Education programs for qualifying children, sometimes with health and/or social services	Most programs target at-risk children, most often based on family income. However, 13 states have only age eligibility.
Local Programs	School districts or other local agencies	Determined at the local level	Education programs for qualifying children	Determined at the local level, often targeting at-risk children.

Note: FPL is federal poverty level and SMI is state median income.

** Eligibility for early childhood programs can be defined in a variety of ways, including school/institution/community characteristics, family characteristics, and individual child characteristics.*

Head Start

The nation's oldest large scale public preschool program, Head Start, dates back to the 1960s. Administered by the U.S. Department of Health and Human Services, it serves preschoolers from low-income families with a comprehensive child development approach that includes preschool education and health, nutritional, and social services. Funding for Head Start programs goes directly from the federal government to service providers who in turn must follow federally mandated program standards. Most families must have an income below 100 percent of the federal poverty level in order to be eligible, but programs deemed to have served all those eligible at the 100 percent of FPL can enroll children from families earning up to 130 percent of FPL. In addition, up to 10 percent of the children enrolled need not meet the income guidelines.

Total Head Start enrollment, including Early Head Start, has been about 875,000 children annually.[3] ARRA funds were estimated to increase Early Head Start enrollment by more than 48,000 children in 2010. Programs vary in the number of hours of services provided per day with about half of children enrolled receiving a full day of preschool five days a week. Numerous studies find that Head Start has positive long-term impacts on child health and development, but the most rigorous study to date indicates that Head Start needs improvement if it is to produce strong long-term gains.[4] The Obama administration has proposed dramatic changes to ensure that this happens.[5]

Direct Child Care Subsidies (CCDF and TANF)

Child care subsidies are another source of funding that can be used for preschool education. However, since a primary motivation for child care subsidies is providing care for sufficient hours per day to support working parents, education is often not a top priority. The federal government administers two large child care funding streams through the Department of Health and Human Services: the Child Care and Development Fund (CCDF) and Temporary Assistance to Needy Families (TANF). CCDF focuses on working families who earn less than 85 percent of the median income in the state where they reside. TANF serves needy families as they are defined at the state level.[6]

The passage of welfare reform in 1996 spurred a period of growth for CCDF and TANF but funding has leveled off or, in the case of TANF money for child care, declined. CCDF spending has been about $5 billion a year and the amount of TANF funds spent on child care is about $3 billion per year.[7] The ARRA added $2 billion to CCDF over two years assuming it is all spent in 2010 and 2011.

There are few state reporting requirements for TANF. A little more than half of the children in CCDF attend child care centers. Quality regulation is essentially left up to the states, many of which have weak standards. About one quarter of children in CCDF are in the care of providers who are not required to be licensed or regulated. Most funds are distributed through vouchers.[8] Only six states set reimbursement rates for child care at the federally recommended levels in 2010.[9] Studies have raised concerns that subsidized care can be of such low quality that it has little or no positive effects on learning and development of children prior to kindergarten and might even have modest negative effects.[10]

Both CCDF and TANF require states to provide matching funds. Total federal spending on child care subsidies was about $13 billion in 2007 and about 2.2 million children through age 13 were served.[11] Slightly more than half of child care participants in CCDF were younger than age 5 as of 2007.[12]

Child Care Tax Credits

The Dependent Care Assistance Program (DCAP) and the Child and Dependent Care Tax Credit (CDCTC) are federal programs that enable parents to pay for child care and early education with pre-tax earnings. The DCAP permits employees to pay for child care from an account in which they can annually set aside up to $5,000 in pre-tax earnings. Neither federal income tax nor social security and Medicare payroll taxes are paid on the money set aside in this manner. The CDCTC is a tax credit that reimburses parents for a percentage of qualifying child care expenses of up to $3,000 per child for a maximum of two children under age 13. The percentage starts at 35 percent (for incomes under $15,000) and falls by 1 percent for every additional $2,000 in income until it reaches 20 percent (for incomes over $43,000). The maximum credit per child falls from $1,050 to $600 as income rises. The federal tax credit tends to be accessed more at higher income levels because it is nonrefundable, and few low-income families have federal income tax liabilities. Also, actual credits are lower than the limits would suggest because of the limited tax liabilities of low-income families.

Relative to the costs of child care, tax credits provide modest assistance for most families, and they are not linked to the quality of care purchased. In recent years, the average credit claimed was about $535 per family.[13] At best, the credits have minimal effects on the quality of child care purchased by middle-income families. This makes the federal credits an inefficient approach to raising the quality of young children's early learning experiences. A recent California study indicates that policymakers should be concerned about the poor quality of early learning programs purchased by parents with moderate to high incomes.[14] Unless Congress acts, in 2011 the credit amounts will revert to the significantly lower 2001 levels.

Twenty-seven states (of 41 with a personal income tax) and the District of Columbia have a dependent care tax credit or deduction. Most, but not all, of the state tax provisions provide less per child than the federal credit. Some cities with income taxes also offer credits. In 13 states, the credits are refundable so that even families with no income tax liability can claim the credit. Maine and Vermont have provisions that provide higher credits for higher quality child care. One related policy that has been suggested to increase the impact of tax credits on quality is to link tax credit amounts to the quality levels in state Quality Rating Systems. Most states have these systems in place and those that don't are in the process of developing them.[15]

Title I

Title 1 of the Elementary and Secondary Education Act (ESEA, also known as No Child Left Behind) provides funds that can be used to provide early childhood education so that disadvantaged children have a greater opportunity to obtain a high-quality education. Administered by the U.S. Department of Education, Title I funds through ESEA can be used to offer an extensive range of educational services to children not only in grades K–12, but also from birth to age 5.[16] Since these funds are available to most school districts,[17] they are a potentially important source of funds for districts interested in offering preschool education. Districts have two potential options available.[18] If at least 40 percent of district children are in poverty, pre-K can be made available to all students regardless of their family income level. Where fewer than 40 percent of children are in poverty, pre-K can be provided to students identified as academically at-risk. Of course, there is nothing to prohibit such districts from funding services for additional children not meeting the income eligibility requirement from other sources, including parent fees.

Title I funds can be used to supplement existing programs such as state-funded pre-K and Head Start. An additional $10 billion in Title I funding was made available through the ARRA.[19]

Early Childhood Special Education

The Individuals with Disabilities Act (IDEA) provides federal funding for services to young children with disabilities. IDEA, Part B provides states with funds for children with disabilities ages 3 to 5. Thus, the program includes kindergarteners as well as preschoolers. Consistent with IDEA, every state guarantees a free appropriate education to all children with disabilities ages 3 to 5. In fall 2009, 6 percent of 4-year-olds and 4 percent of 3-year-olds were served nationwide.[20] Many of these children also are served by "regular" state-funded pre-K and Head Start. States vary considerably in the percentage of preschool children receiving special education (from 3 percent to 14 percent of those ages 3 and 4), in part because they have the discretion to serve children with developmental delays that fall short of constituting a disability. However, federal financial support for preschool special education has not kept pace with enrollment or inflation, and state and local governments have assumed a greater proportion of the total cost over time. It is not known how much is spent on preschool special education by state and local governments, as this has not been estimated in detail since 1999, but it could easily be $6 billion annually today.[21]

IDEA, Part C provides states with funds to serve infants and toddlers (up to age 3) with developmental delays or conditions that have a high risk of developmental delay. States also may choose to serve infants and toddlers they judge to be "at risk" of a developmental delay if early intervention is not provided. All states participate, but, as with Part B, definitions of the eligible population and the percentage of children served differ among the states. In fall 2008, the percentage of children under age 3 served ranged from less than 1.5 percent in the District of Columbia and Georgia to about 6.5 percent in Massachusetts and Hawaii.[22] For the nation as a whole, a little more than 2.5 percent of infants and toddlers received publicly funded early intervention services. The services funded also vary by state, but they typically are quite modest, delivering on average 1.5 hours per week of services in a home visit.[23] Total spending on early intervention likely exceeds $5 billion annually (the figures we rely on are over a decade old).[24] The federal government pays only about 10 percent of the cost through IDEA. However, the federal government also pays through Medicaid and other programs and private insurance and parents also pay for some costs. Therefore, it is unlikely that the state share is $5 billion. Our estimate of $3 billion for state expenditures should be considered a "ballpark" figure, at best.

State-Funded Prekindergarten

In recent years, the states have been active in providing publicly funded preschool education. As of the 2009-2010 school year, all but 10 states provided some sort of program. Taken together, they are the largest public investment in young children not connected to a federal program even though some state programs are quite small. These initiatives take a variety of approaches and are funded, controlled, and directed by state government.[25] Providers of pre-K services follow state-specified standards and operate in a variety of settings in addition to public schools. These include private child care providers, Head Start centers, faith-based settings, and family child care providers. Most state programs target children who are at risk of starting school behind and failing later. Family income is the most common criterion for eligibility but many other criteria are used as well. All state pre-K programs are voluntary.

Across the nation, 27 percent of 4-year-olds (more than 1.1 million children) were enrolled by state pre-K as of the 2009-2010 school year. Only 4 percent of 3-year-olds (about 170,000 children) were enrolled.[26] In the vast majority of states, pre-K is primarily or entirely a program for children one year before kindergarten. State spending on pre-K initiatives totaled over $5 billion for the country in fiscal year 2009. Local school funding added at least another $500 million, possibly much more.[27]

The coverage of state pre-K programs varies greatly from state to state. A number of states have committed to serving all children at age 4. Florida, Georgia, Illinois, Iowa, New York, Oklahoma, and West Virginia have programs designed to serve all 4-year-olds now or at some time in the future.[28] Not all of these states currently enroll a high percentage of children at age 4. Some states that have not committed to serve all children at age 4 nevertheless serve larger percentages of the population than some states that have made universal access a policy goal. Illinois is the only state committed to serving all children at ages 3 and 4. A few other states serve significant percentages of their populations at age 3. On the other end of the spectrum are 10 predominantly rural states that did not fund any pre-K programs as of 2010.[29]

State pre-K programs also vary widely in their funding per child and standards.[30] As a result, effectiveness is likely to be very different from one state to another. Several studies indicate that many state pre-K programs have positive effects on learning and development, sometimes quite large.[31] A number of state programs appear to produce larger learning gains than Head Start and much larger gains than subsidized child care.[32]

Local Pre-K Initiatives

Local districts often provide pre-K in the public schools or fund private providers to serve preschoolers. They may partner with Head Start and/or use federal Title I funds to fund their programs (most often in the schools). A well-known example of local use of Title 1 funds for preschool education is for the Chicago Child-Parent Centers. Another example is provided by Montgomery County, Maryland, which has used Title I money to extend Head Start programs to a full day.[33] Some communities also choose to serve typically developing children in their pre-K special education programs where they can be added to small special education classes at little marginal cost.

Even when states fund pre-K, local schools often provide funds as well. (In this respect, state pre-K resembles the way the K–12 finance system works—but since pre-K is, historically speaking, a more recent development, it is not included in the school funding formula in most states.) State-funded pre-K in 11 states requires local districts to also contribute funds. Many other state pre-K programs implicitly rely on matching funds even though local matches are not statutorily required.[34] Disparities between public school and privately operated programs can be created when local schools supplement state funding (either explicitly or by absorbing facilities, administration, and other costs not directly charged to the preschool budget) in ways that private providers receiving state funds cannot. In 2009, 14 states reported local spending for state-funded pre-K of about $450 million. Maryland and Oklahoma reported over $100 million in local school spending annually. As the other 26 states with programs did not collect this information, the total could be much higher across all states. In some states, a local match is required by the state's school funding formula, but funding of pre-K through the school funding system is likely to lead to substantial local spending even if there is no required local share.

Some local pre-K initiatives across the nation use public funds and do not depend on state or federal initiatives. They range in size from single classrooms to citywide initiatives. Local spending decisions should not be underestimated as an important component of the financing picture for pre-K programs. Local public school programs, including those in states that fund little or nothing in the way of pre-K, are perhaps the most important in the aggregate. Counties and municipalities also sometimes contribute to pre-K. Many First 5 California county commissions provide substantial funding for preschool programs that may or may not receive funding from other public sources.[35] First 5 funds derive from a dedicated sales tax on cigarettes that generates over $500 million annually, most of which is devoted to programs

that support the healthy development of children under age 5. More than $100 million from these funds was spent on pre-K programs in the 2008-2009 year.[36] Another example is provided by the Children's Trust in Miami-Dade County, Florida, which provides over $100 million annually primarily for early childhood programs financed by a small property tax (0.50 mills). The Children's Trust financing was authorized by referendum and was renewed with a remarkable 86 percent favorable vote in 2008.[37]

Problems with the Status Quo

America now spends some $40 billion annually across 10 major programs, but still about 25 percent of 4-year-olds and 50 percent of 3-year-olds attended no early learning program, public or private, in the 2008-2009 school year.[38] Even fewer children receive public support for learning and development prior to age 3. Some receive child care or preschool of such low quality that it actually harms their development, and others attend programs that do little to improve their long-term educational and economic success.[39] Although it is difficult to estimate how many receive high-quality services, we can say without risk of error that most young children, including most young children in poverty, do not attend high-quality programs even at age 4 where public support is greatest.

This is unfortunate because rigorous research has demonstrated that high-quality programs produce substantial gains in child development that generate long-term benefits to society far in excess of their costs.[40] Effective policies put parents to work and make the next generation more productive and less costly (requiring less remediation, less medical treatment, less welfare, and fewer prisons).[41] Although more money alone is not the solution to this problem, we will not have an adequate investment without more money. As a ballpark figure, increasing our current investment by $20 billion (in constant dollars) over the next decade would provide an additional $5,000 per child for 4 million of the roughly 12 million children under age 6 in low-income families. As we discuss below, increased funding is only part of the solution. Governments must take steps to ensure that public funds are invested in highly effective early learning programs and that coordination across levels of government and different types of programs results in efficient uses of funds.

Preschool and other services for young children more often than not operate in separate policy "silos."[42] Because federal, state, and local funding streams have different or even conflicting regulations, coordination across them can be a challenge. Head Start and Title I are federal-to-local grants, bypassing state government, making it difficult for states to coordinate efforts. This places much of the burden for coordination at the local level, where providers must often combine different funding streams to come up with sufficient money to offer a single preschool program. Providers often find themselves casting a wide net, blending funding streams in order to meet the need for child care and early education. A state pre-K program might, for example, use a combination of state and TANF funds while operating in a Head Start building. This program could very well be required to comply with multiple sets of eligibility criteria when enrolling children and expend considerable resources complying with multiple sets of administrative requirements.

Work has begun to improve coordination across the patchwork of pre-K policies and regulations that currently exists. One logical place to begin is at the state level. An interesting model is provided by Pennsylvania's Office of Child Development and Early Learning, which became a statewide Early Head Start grantee. More broadly, the Head Start Reauthorization Act of 2007 required that each state establish

an advisory council on early childhood education and care. Among the duties of each state early learning advisory council is the identification of opportunities to coordinate and collaborate across programs receiving federal and state funds. Thirty-one states have applied for funds to develop the councils. It remains to be seen how effective these councils will be, but they present an important opportunity.

Regardless of funding stream, research shows that when it comes to effectiveness, publicly funded early care and education varies greatly. Research on the economics of early care and education demonstrates that there are returns to both (1) providing care so that parents can work and (2) providing early education that enhances learning and development.[43] If either aspect of early education is neglected, returns are less than optimal. The lost potential returns from failure to invest in child development can be quite large, and public policy is particularly weak in its support for child development.[44] Federal child care subsidy policies that promote parental choice of informal family care with little attention to quality have led to subsidized child care that has now been found to be detrimental to child development. Given the tremendous potential for high-quality care to improve child development, this is an exceptionally harmful and wasteful policy. Resolving the problem will require policy making across agencies and possibly creating an authority over multiple agencies. Shifting responsibility for both to a single agency can be difficult given the strength of longstanding agency cultures. For example, Pennsylvania created an early childhood agency that spanned both welfare and education agencies to deal with such a problem.

The federal Head Start program provides more support for learning and development than typical child care, but it is not nearly as strong as it could be when it comes to educating children. The Head Start Impact Study, mandated by Congress in 1998 and conducted on a large sample of children beginning in 2002, found modest positive impacts on some measures of cognitive ability and parent behavior. However, by first grade, children who had attended Head Start demonstrated virtually no overall cognitive, social, or emotional impacts from having attended the program over children who had not attended.[45] Other non-experimental studies have found some modest positive impacts from the program, but there is no question that Head Start can do better. However, this will require changes in policy. The Obama administration has proposed some of the most sweeping changes in Head Start in 40 years. The administration can make most of these changes without requesting additional authority from Congress. Others have suggested more changes including greater state involvement and more integration with state pre-K.[46]

A number of state-funded pre-K programs have demonstrated considerably larger effects on children's learning and development than Head Start or child care, including effects that last well into elementary school.[47] Of course, there is considerable variation in program quality and effectiveness from one state to another, and some state pre-K programs—poorly funded and with weak standards—may be less effective than the federal Head Start program. Nevertheless, over the past two decades, the states have developed programs that, taken together, serve nearly one and one-quarter million children through a variety of funding models (See Appendix A) that often utilize funds from federal and local sources. Their success in doing so suggests that, if the federal government provided incentives for state-funded pre-K to expand and collaborate with other programs, they could serve as the leading edge of more effective early learning policy. The tremendous impact on state and local services of relatively modest federal funding for young children with special needs suggests that a new federal initiative could leverage substantial improvements in early learning policy. Even a $2 billion annual federal investment in an Early Learning Challenge Fund, perhaps through the Elementary and Secondary Education Act, could significantly increase the level and effectiveness of state and local early childhood funding.

In general, returns on public investments in early learning programs could be increased if the amounts paid were linked to program quality and performance. The introduction of more competition to Head Start and pay for performance (using multiple measures of learning and teaching) at the center or school level in state programs could lead to improvements in program effectiveness. States with tiered tax credits linked to state quality rating systems or accreditation offer one example. This model could be extended to federal and state expenditures of CCDF and TANF, and any new federal initiative to support state-funded pre-K or early care and education programs more generally. Although this approach may be less well-suited to preschool special education and early intervention, some policy change is needed to ensure that these programs are highly effective as well.

State and local spending on programs for children with disabilities under age 5 is one of the nation's largest investments in early learning programs; it may exceed state and local funding of programs for all young children without disabilities, despite the relatively small number of children with disabilities. Therefore, the lack of evidence that programs for young children with disabilities are highly effective is disconcerting. Recently, the federal government introduced new requirements for accountability under the IDEA.[48] As a result, data are now collected on the learning and development of young children in early intervention and special education. However, it is as yet unclear how this information will be used for real program improvement. Greater attention is needed for the development of evaluation strategies that will permit valid inferences derived from this data about program effectiveness. In addition, it would be useful to have better information on how much is actually spent on preschool special education and early intervention by each level of government. These are tasks that might usefully be addressed by state advisory councils as they work on the development of integrated data and evaluation systems for state early learning programs. However, unless states provide early learning councils with sufficient staff, authority, and longevity through statute, they are unlikely to be strong enough to make the necessary improvements.

Financing and Regulations

The policies that finance programs vary considerably in the extent to which they also regulate or influence the nature and quality of those programs and the extent to which decisions about operations and quality are made at the federal, state, and local levels. Head Start programs are subject to extensive regulations established at the federal level. Details such as procedures used to determine eligibility, types of educational and family support activities and teacher education are federally determined[49] and Head Start funding flows directly from the federal government to local grantees. If states choose to supplement the federal Head Start program with additional funds to enable more children to participate or to improve services, federal regulations must still be followed.[50]

That is not the case with CCDF and TANF. These programs allow for state-level decision making by providing annual funding that states may use for a variety of activities that are approved by the federal government. These include paying for child care, improving the quality of child care services, and providing preschool education.[51] This flexibility enables states to use federal money more broadly than Head Start funds (which must be used for a specific program rather than a range of activities). Unfortunately, the CCDF and TANF experience also indicates that flexibility has done little to boost quality, as state standards and reimbursement rates tend to be quite low. Of course, it should be acknowledged that federal policy emphasizes maximizing parental choice through vouchers given to relatives. This policy also places a high priority on moving parents from welfare to work. These emphases are not consistent

with state efforts to raise quality, which would limit choice and raise cost per child. This is not to say that parental choice or moving parents to work are not important priorities, but policy makers need to ensure that these do not override the need for public funds to support quality. Some states have used their QRIS to limit the use of subsidies to higher levels of quality, including New Mexico, North Carolina, and Oklahoma.

The federal government asserts some limited authority over state-funded preschool education, including preschool special education, but there are wide variations among states and within states at the local level. Preschool special education receives some federal funds, but they are a small fraction of the costs of programs. State pre-K initiatives are essentially unsupported by the federal government (aside from what districts choose to spend from Title I). State pre-K relies on state revenues even more heavily than does K–12, though it is often supported by local contributions, too, as part of the public education system.[52] Decision-making authority rests primarily at the state level but can, to varying degrees, be delegated to the local level. This enables states to assert control over early childhood education in key areas such as standards and accountability, yet leave other policy decisions to local discretion.[53] While states do sometimes rely in part on federal funds that come with restrictions (e.g., TANF and special education dollars), each state has broad latitude to develop its own pre-K policies.[54] State pre-K policies vary greatly with respect to standards and the adequacy of funding per child, but in all states standards for pre-K are higher than those for subsidized child care.

Funding Models for State Prekindergarten Initiatives

States use a number of approaches to financing early education. Some are more successful than others in providing adequate and consistent funding streams. Among the most notable alternatives are: including pre-K with K–12 in the state's funding formula for public schools; designating funds from a particular revenue source such as a state lottery or sales tax on a particular product or service; appropriating funds from general revenue; and, reallocating unspent TANF funds.

The School Funding Formula

Including pre-K initiatives in the statewide school funding formula for public schooling is a particularly effective way of providing consistently adequate funding. This approach places no limits on enrollment of the eligible population, and is particularly useful for preschool programs that are open to all children regardless of income. In a number of states this means that school districts are not required to offer pre-K, but if they do offer pre-K they receive a set amount for each child enrolled based on the school funding formula. As enrollment increases, so does total funding. This is not the case with most other funding approaches for pre-K. However, the state funding formula can have other significant advantages or disadvantages that depend on the specifics of each state's formula. In many cases, funding pre-K through the school funding formula means funding would flow to school districts, which in turn would need to subcontract with community-based pre-K providers. Districts not used to managing and monitoring external providers would need to develop this capability. This has been done successfully in New Jersey.[55] Thus, it is essential to know how a particular state's formula works when deciding whether or not it is the best approach to funding pre-K.

A state's school funding formula determines the state's contribution to per-pupil spending in each district. States vary widely in the amount of the state's contribution, average statewide contribution, and in how

much and in what ways those contributions vary by district. States also differ in their requirements for district contributions to per-pupil spending. A substantial local contribution can provide a strong base on which states can build with a relatively modest (if appropriately distributed) share. As a national average, states provide 48 percent of per-pupil funding with local districts providing 44 percent and 8 percent coming from the federal government.[56] However, few states are average and many depart considerably from the average. Differences in state policies lead to wide variations in state average per-pupil funding and local share and to wide variations within states in allocations to districts. Some state formulas are highly progressive, resulting in much higher spending in high-poverty, low-wealth districts. Some are basically neutral or flat (though this may equalize total spending across districts). Others are more regressive with high-poverty, low-wealth districts having less to spend over all.[57] Nevertheless, financing early learning programs—pre-K programs in particular—through the school funding formula would in many states provide more adequate and equitable financing than existing alternatives, assuming that preschoolers were included in the base enrollment rather than in a categorical program with capped funding or enrollment.

Despite concerns about state school funding formulas they tend to have one clear advantage over most alternatives. When legislatures set total funding rather than a formula for funding per child, an increase in enrollment can result in a decrease in dollars per child. Cuts in funding or even flat-funding in the face of inflation can lead to cuts in the number of children served. Even though school funding formulas primarily rely on general revenues rather than dedicated sources such as lotteries,[58] they are less likely to suffer from draconian cuts and there is an incentive for each district to maintain or increase enrollments. In this framework, cutting enrollment is not usually considered an option. Also, any cuts tend to affect pre-K through grade 12 so there is a larger constituency to prevent cuts and maintain adequate funding. By contrast, when funding is separate it often appears to those seeking cuts or funds for some other purpose as well-defined, discrete, and weakly defended targets. All of the major financing models used by the states for early childhood programs are discussed in Appendix A.

School Funding Formula

Three states that have sought to have experienced success toward reaching their goals of providing pre-K to all their children by using their school funding formulas:

Oklahoma. The statewide school funding formula played a critical role in expanding state pre-K to the point where 71 percent of 4-year-olds are enrolled in the state-funded Early Childhood Four-Year-Old Program. When Head Start enrollments are considered, 85 percent of 4-year-olds in Oklahoma are enrolled in a public early education initiative.[59] Oklahoma's pre-K initiative first began in 1980 as a pilot program. In 1990, pre-K for 4-year-olds was added to the state school funding formula as a statewide targeted initiative for children from low-income families.[60] In 1998, a bipartisan bill authorized districts to provide pre-K to all 4-year-olds, regardless of family income. At the same time, Oklahoma experienced declining K–12 enrollments, creating a more favorable environment for pre-K expansion in public schools as this tends to produce excess capacity in administration and facilities.[61] After the state made the commitment to universal pre-K, enrollment grew quickly to 56 percent of 4-year-olds in the 2001-2002 school year and 71 percent in the 2009-2010 school year.[62] All but two percent of the state's districts offer pre-K.

West Virginia. West Virginia took an approach similar to Oklahoma's by setting universal pre-K for all 4-year-olds as a statutory goal. The state started a public school pre-K program in 1983[63] and in 2002 began a 10-year phase-in process toward universal pre-K.[64] Like Oklahoma, West Virginia was also

experiencing declines in K–12 enrollment—a circumstance that again made the school funding formula a particularly attractive means of expanding toward universal pre-K. Schools were able to draw down funds for 4-year-olds to offset funding losses due to declines in enrollment by older children. Since the state began its phase-in process, enrollment in state pre-K has grown from 24 percent of 4-year-olds to 55 percent.[65] Another 23 percent of 4-year-olds are in Head Start. The state defines universal access as a participation rate of 80 percent of all 4-year-olds, and is working to reach this goal by the 2012-2013 school year.[66] All districts offer the program, and during the phase-in process districts may limit entry to children at elevated risk of school failure based on locally developed criteria. Half of all children must be served in private centers through collaboration agreements.

Wisconsin. Wisconsin first offered public pre-K in 1873 but pre-K provision declined after the 1890s and was suspended entirely from 1957 to 1984. Nevertheless, the financing mechanism by which funds for pre-K were distributed directly to the public schools remained in place.[67] Use of these funds has grown in recent years, as evidenced by the fact that the percentage of 4-year-olds enrolled in the state's Four-Year-Old Kindergarten (4K) grew from 18 percent in the 2001-2002 school year to 51 percent in the 2009-2010 school year.[68] State government encourages districts to offer 4K, but it is up to districts to decide, and 77 percent of districts offered 4K in 2009-2010. If a district offers 4K, all age-eligible children who apply must be served. All state funding models are discussed in Appendix A.

Conclusions and Recommendations

It should go without saying that developing more reliable, well-considered revenue streams for early learning programs is a good thing. They not only maintain enrollment and program quality, they also provide the predictability that is essential to ensuring continuous improvement and a high level of program effectiveness. The lack of cohesive system-building that has typified the expansion of early childhood education in the United States has perpetuated the patchwork of preschool policies and finance mechanisms at all levels. This likely resulted in fewer children served than had a more systemic approach been used. And, it has delayed the collaboration and adaptation of successful approaches across programs that can lead to enhanced program effectiveness.

Develop New Revenues and Reallocate from Waste to Early Investments

Far more improvement is necessary than can be accomplished with current revenues. As Tables 1 and 2 show, recent growth in funding for early learning programs has been primarily at the federal level, and most state funding is to serve children with special needs. And, despite these increases, only about 40 percent of 4-year-olds and 14 percent of 3-year-olds attends publicly funded pre-K or Head Start. About a quarter of 4-year-olds and half of 3-year-olds attended no public or private program in 2008-2009. Access to quality programs is even more limited for infants and toddlers. Participation rates are particularly low for children from low- to moderate-income families. Although this does not take into account tax credits, it is unlikely that they do much to increase access to quality programs. Underlying the national averages is great unevenness in public support for early learning programs, and program standards and effectiveness vary dramatically across and within funding silos.

In both the short term and long term, difficult choices regarding public spending will be required at the local, state, and federal levels. Some experts argue that austerity budgets and tax cuts are required. Others argue that this is exactly the wrong time for austerity budgets, as they will only exacerbate the recession,

and that new public investments are needed to spur economic growth. On balance, we conclude that in the long term both spending restraint and revenue increases will be required. Whatever view one takes, we believe that increased public investments in early learning programs have a place because their benefits far exceed their costs in the long run. Investment in high-quality early care and education is an effective pro-growth strategy that can reduce future government costs and increase future revenues. Government costs are reduced when fewer children repeat grades or need special education, delinquency and crime are reduced, teen pregnancy and smoking decline, and fewer people need welfare or unemployment payments. Revenues are increased when more parents work and when a better educated workforce generates more income.

Even large increased investments in early care and education are quite small in the context of current government budgets. In 2009, federal government spending topped $3.7 trillion and state and local governments added another $1.6 trillion from their own sources.[69] An additional $10 billion annually for early learning programs would amount to just one penny out of every $500 dollars spent by government. While this would be a significant improvement, more is needed. As mentioned previously, increasing our current investment by $20 billion over the next decade would provide an additional $5,000 per child for 4 million of the 12 million children under age 6 in low-income families. Increased funding is only part of the solution. Governments must take steps to ensure that public funds are invested in highly effective early learning programs and that coordination across levels of government and different types of programs results in efficient uses of funds.

The fiscal situation of states and the federal government are not projected to improve in the foreseeable future without major policy changes. A recent report from the National Governors Association and National Association of State Budget Officers concluded that "Fiscal 2010 presented the most difficult challenge for states' financial management since the Great Depression."[70] The next several years also are expected to be difficult as state revenues tend to lag a recovery that is itself relatively slow.[71] Even after the recovery, long-term demands on state budgets from rising costs of health care, pensions, and other obligations are projected to produce a persistent structural imbalance between state revenues and expenditures. The long-term federal budget outlook is difficult for similar reasons. However, this does not mean that additional investments in early care and education are not feasible or politically practical. States vary greatly in their current tax efforts, and it could be argued that some should do more. At both the federal and state levels there is considerable potential for increased funding for early childhood programs by reducing unproductive current expenditures.

Where might the money for additional investments come from? Unlike early care and education, few other government programs (including special tax rules that cost billions) are backed by rigorous evidence that they contribute to human development and economic growth.[72] Although the value of many government programs can be debated, some are ineffective and inefficient while others are of no value except to narrow special interests. A wide range of business incentives and tax loopholes provide few benefits and misallocate private resources.[73] Farm subsidies alone amounted to over $20 billion in 2010, and the vast majority went to wealthy agribusinesses.[74] These giveaways to millionaires do not serve the public good, and have negative social and environmental impacts. Cost savings also are to be gained by choosing more effective approaches in education, corrections, social welfare, and, no doubt, even defense. For example, states spend over $50 billion a year on corrections, a rapidly rising cost that could be reined in by criminal justice reform, making room for investments in preventative programs like pre-K.[75] Even the cost of filing income taxes now amounts to as much as 10 percent of the tax so that tax simplification itself could make it possible to raise more revenue while leaving the taxpayer better off.[76]

Revisit State Funding Mechanisms

A comprehensive approach to increasing state and local funds for early learning programs could begin by including pre-K and other programs in the school funding formula. This would be a good start to solving the early care and education financing problem, though it is not a complete solution, and other funding streams for federal and state child care subsidies will remain vitally important. Keep in mind that most early learning services are not provided in the public schools. Early childhood public education increasingly takes place outside the public schools, but with their support. The revenues for a more adequate early learning system could be raised by reducing other spending that does not generate long-term economic benefits or from new revenue sources. Given the relatively small cost of expanded early learning programs, neither revenue enhancements nor expenditure reallocations would require major changes.

What is best for each state will likely vary somewhat. We do not expect that "one size fits all" when it comes to financing early childhood education. Models that work well in one locale may be less successful in others—or less successful over time as political climates shift. Education lotteries responsible for the early growth of public pre-K in some states may not support sustained growth over time. (See Appendix A) States that do not fund pre-K through their school funding formulas should work toward that goal or develop other dedicated funding mechanisms that are less susceptible to the shifting tides of the economy than current arrangements. This approach should lead to more widespread availability of high-quality pre-K programs.

Foster Collaboration, Coordination Through Policy

Collaboration and coordination can improve access to early learning programs and raise quality. New initiatives for large scale coordination are taking shape through federally funded state advisory councils for early learning programs. These councils represent a critical step toward a better-coordinated system. They are charged with developing recommendations to increase participation in early childhood programs from birth to age 5; developing recommendations for professional development plans and unified statewide data systems; and identifying opportunities for improved coordination and collaboration.[77] A key part of their mission should be to develop plans for adequate financing of expanded state early learning systems.

The deep recession of 2008 has highlighted the extent to which current programs and their funding streams exist in separate silos. When funds are limited, difficult tradeoffs must be made when deciding whether to serve more children or to provide higher quality preschool programs. This makes it a challenge to blend funds from separate streams that serve similar objectives. When one early learning program is cut, the consequences ripple through the rest of the early care and education system and impact other early learning programs. The broad perspective permitted by having council members across early childhood constituencies should enable the state advisory councils to reduce overlap, identify gaps, and craft policies that improve educational initiatives for young children.[78] As they do so, they should identify needs for federal regulatory relief that would facilitate more effective coordination and collaboration to increase access and improve effectiveness. The federal government can then support these state efforts by granting regulatory relief.

A federal early learning challenge fund should be established that awards substantial federal-to-state grants for innovative initiatives that support coordination and collaboration to improve access and quality. This additional financing would leverage the ability of state early learning councils to achieve their mission and act as a catalyst for policy reform. In general, the federal government could play a much more important role in promoting equal access and high quality across the states. The early learning challenge fund is one

means to this end, but it should not be the only one. The federal government should also act more directly by linking federal child care subsidy and tax credit amounts to quality standards or rating systems and raising the bar for Head Start performance.

Review Head Start, State Pre-K Policies

A public review of Head Start and state pre-K policies should be conducted in anticipation of fulfilling the mandate that Head Start and state pre-K work in a more coordinated fashion at the state, community, and provider level. This could take place in the context of an even broader program review supported by state advisory councils and, at the federal level, by the Early Learning Interagency Policy Board (ELIPB).[79] Announced in August 2010, the federal ELIPB is to be composed of senior staff from the Departments of Education and Health and Human Services. Early intervention and preschool special education should be included in the policy reviews and planning, keeping in mind that these children also are served in child care, Head Start, and pre-K "regular" education. As data systems are developed that cross systems, programs serving children with special needs should be included. This public review provides a unique opportunity to streamline regulations in ways that facilitate coordination and collaboration while shifting emphasis toward evaluation and continuous improvement processes rather than monitoring and auditing.

Tie Child Care Subsidies to Program Quality

Tying federal and state subsidies for child care to quality by linking them in some way to state Quality Rating Systems (QRIS) holds promise for increasing the quality of child care over time. More than half the states have a fully operational QRIS, and those that don't are in the process of designing them. QRIS have the potential to provide a common standard for public funding. Initially, QRIS were designed for child care only, taking state regulations as the floor and building up additional levels of program standards, creating a path to national accreditation. QRIS in some states are designed for all sectors of early care and education, incorporating standards for pre-K as well as national standards such as the Head Start Program Performance Standards. Using QRIS as a funding standard would require ensuring that all QRIS not only incorporate the highest standards, but also that states move toward consistency in their systems and that they apply to settings in which early care and education are provided. A tiered payment system that recognizes the various levels of quality in QRIS reporting may be feasible.

Focus Early Childhood Finance Reform on Birth to Age 8

High-quality early care and education prepares children to enter K–12 education ready to learn. There are, however, compelling reasons for pursuing early childhood finance reform as part of a broader set of policies aimed at increasing collaboration and coordination across agencies for children from birth to age 8. Doing so would enable children as well as the schools and policymakers who serve them to avoid the transition problems that so often occur when kids leave pre-K and enter the K–12 system. Such a policy focus would facilitate coordination of curricula, teacher communication across the pre-K/K–12 divide, and professional development.

Appendix A
Funding Models Used to Provide State Pre-K

School Funding Formula

Three states that have sought to have experienced success toward reaching their goals of providing pre-K to all their children by using their school funding formulas:

Oklahoma. The statewide school funding formula played a critical role in expanding state pre-K to the point where 71 percent of 4-year-olds are enrolled in the state-funded Early Childhood Four-Year-Old Program. When Head Start enrollments are considered, 85 percent of 4-year-olds in Oklahoma are enrolled in a *public* early education initiative.[80] Oklahoma's pre-K initiative first began in 1980 as a pilot program. In 1990, pre-K for 4-year-olds was added to the state school funding formula as a statewide targeted initiative for children from low-income families.[81] In 1998, a bipartisan bill authorized districts to provide pre-K to all 4-year-olds, regardless of family income. At the same time, Oklahoma experienced declining K–12 enrollments, creating a more favorable environment for pre-K expansion in public schools as this tends to produce excess capacity in administration and facilities.[82] After the state made the commitment to universal pre-K, enrollment grew quickly to 56 percent of 4-year-olds in the 2001-2002 school year and 71 percent in the 2009-2010 school year.[83] All but two percent of the state's districts offer pre-K.

West Virginia. West Virginia took an approach similar to Oklahoma's by setting universal pre-K for all 4-year-olds as a statutory goal. The state started a public school pre-K program in 1983[84] and in 2002 began a 10-year phase-in process toward universal pre-K.[85] Like Oklahoma, West Virginia was also experiencing declines in K–12 enrollment—a circumstance that again made the school funding formula a particularly attractive means of expanding toward universal pre-K. Schools were able to draw down funds for 4-year-olds to offset funding losses due to declines in enrollment by older children. Since the state began its phase-in process, enrollment in state pre-K has grown from 24 percent of 4-year-olds to 55 percent.[86] Another 23 percent of 4-year-olds are in Head Start. The state defines universal access as a participation rate of 80 percent of all 4-year-olds, and is working to reach this goal by the 2012-2013 school year.[87] All districts offer the program, and during the phase-in process districts may limit entry to children at elevated risk of school failure based on locally developed criteria. Half of all children must be served in private centers through collaboration agreements.

Wisconsin. Wisconsin first offered public pre-K in 1873 but pre-K provision declined after the 1890s and was suspended entirely from 1957 to 1984. Nevertheless, the financing mechanism by which funds for pre-K were distributed directly to the public schools remained in place.[88] Use of these funds has grown in recent years, as evidenced by the fact that the percentage of 4-year-olds enrolled in the state's Four-Year-Old Kindergarten (4K) grew from 18 percent in the 2001-2002 school year to 51 percent in the 2009-2010 school year.[89] State government encourages districts to offer 4K, but it is up to districts to decide, and 77 percent of districts offered 4K in 2009-2010. If a district offers 4K, all age-eligible children who apply must be served.

Lotteries

Lotteries have been used to create dedicated funding streams for pre-K. Until recently, lotteries were believed to be relatively recession proof and protected from state budget shortfalls in difficult times. However, many state lotteries saw declines in revenue beginning in 2008 due to the "Great Recession." This has threatened both current funding and future growth of programs. Another concern with the lotteries as a funding source for pre-K is that they are often viewed as regressive taxes on low-income populations. In addition, lottery revenues typically are devoted to more than one education program. This creates a larger constituency, but it also can lead to competition among the various education programs that are the beneficiaries.[90] State lotteries have been a prominent source of revenue for pre-K programs in southern states.

Georgia. In 1993, Georgia became the first state to offer a pre-K initiative supported by lottery funds. Two years later, the state expanded its targeted pre-K initiative, becoming the first state to offer a voluntary pre-K program to all its 4-year-olds. Georgia's Pre-K Program grew quickly and had a lottery-supported enrollment of more than 60,000 children by 1998. Even though revenues from the state lottery kept increasing, growth in pre-K funding slowed considerably starting in 2000, and enrollment increases since then have not quite managed to keep pace with Georgia's growing 4-year-old population.

Demand for Georgia's Pre-K Program has outstripped supply, and children's participation is now determined by methods such as waiting lists and enrollment lotteries.[91] In the 2009-2010 school year, 55 percent of the state's 4-year-olds were enrolled with the total reaching 63 percent when special education and Head Start are included.[92] Since then, Georgia's governor has proposed diverting lottery funds to help balance the state budget and experts have predicted that the costs of the lottery-funded programs (including a popular college scholarship initiative) would exceed lottery revenues in 2010.[93] Georgia's experience illustrates how lottery-based financing can limit the growth of pre-K and hinder a state from reaching its goal of serving all children who seek to enter the program.

North Carolina. In 2006, North Carolina began using lottery funds to finance state pre-K. The state's More at Four (MAF) initiative started on a small scale in January 2002, serving about 1 percent of the state's 4-year-olds. By 2006, when the state's lottery was approved, 12 percent of North Carolina's 4-year-olds were enrolled. About half of the proceeds from the lottery are committed to MAF and class size reduction in grades K–3. By 2009, MAF was serving 25 percent of the state's 4-year-olds and had some of the highest program standards in the nation. Lottery proceeds, however, proved to be lower than anticipated, and the state has struggled to find solutions to the revenue shortfall.[94]

Other States. Several other states have used lotteries to fund pre-K programs.[95] Tennessee began its pre-K program as a pilot project in 1998. The program grew slowly until funds from the new state lottery became available in 2005, after which it expanded rapidly, serving 21 percent of the state's 4-year-olds in the 2009-2010 school year. Virginia also has moved toward using lottery funds to support pre-K in recent years.[96] Oklahoma began a lottery in 2005 to supplement general revenues, with proceeds supporting public education from pre-K through college.[97]

Financing Universal Prekindergarten in New York and Florida

The experiences of New York and Florida inform any discussion of funding large scale state pre-K initiatives. New York was one of the earliest states to make universal pre-K a statutory goal. Yet the state has had considerable difficulty making consistent headway toward achieving that goal. Florida, on the other hand, rolled out a universal program in a very short time span that enrolled a relatively high proportion of 4-year-olds but had low program standards.

New York. New York's Universal Prekindergarten (UPK) initiative began in 1998, the same year Oklahoma adopted a universal approach. Unlike Oklahoma and Georgia, New York did not include pre-K in the school funding formula or have a dedicated funding stream for pre-K such as a lottery. This left the program subject to shifting political priorities in each year's budget allocations process.[98] After an initial period of growth in districts with the most economically disadvantaged families, UPK was flat-funded from 2002 until 2005. Expansion into more affluent districts was limited. The 2007-2008 budget committed additional funds to UPK, and a goal was set for universal access by 2011.[99] That year, UPK served 39 percent of the state's 4-year-olds.[100] Since then, UPK has battled for funding.[101]

Florida. Florida launched its Voluntary Prekindergarten (VPK) program in 2005 in response to a constitutional amendment requiring the state to make pre-K available to all children at age 4. Five years later, more than 155,000 children had enrolled, representing 68 percent of Florida's 4-year-olds. Although Florida offers a large pre-K program, it is not well funded. Per-child spending ranks among the lowest in the country and standards for teacher qualifications are low.[102] The state provides a minimal allocation for every child projected to enroll and that has been reduced while staff-child ratios have been increased.[103] Florida chose a low base student allocation that allowed for a rapid roll-out of VPK but did so at a price. This rapid expansion was possible because children were served in existing child care programs with little or no increase in program quality—making the educational effectiveness questionable.

Other State Finance Models

A number of other funding mechanisms have been used over the years for state-financed pre-K. Arkansas implemented a "sin tax" on beer. Missouri levied fees on gambling. Several states have taxed tobacco or used funds from the national tobacco settlement to help fund pre-K. These approaches have limitations as supports for long-term pre-K expansion because such taxes tend to decrease expenditures on the specific products that are taxed, and tobacco settlement money is finite. South Carolina and Arkansas have used more general sales taxes. Ohio and Louisiana have made extensive use of unspent TANF funds by allocating them to pre-K, a strategy that can create problems when unspent TANF funds are no longer available.[104]

As mentioned previously, many states rely on local revenue as well as state revenue to fund preschool programs, most often as part of a more general approach to funding public education. However, some communities have levied local taxes dedicated to children's programs including early care and education, as for example, the Children's Trust in Miami-Dade, Florida, mentioned earlier.[105] Such local funding can be a useful supplement to state and local education funding and can provide a buffer from economic downturns that can more adversely affect state income and sales taxes, though local property taxes have been by no means immune to downturns in the housing market.

Endnotes

[1] As we write it is still unclear exactly how ARRA funds will have been spent. The federal government appropriated $2.1 billion for Head Start and Early Head Start and $2 billion for child care in 2009 and 2010. However, some of these funds will have been spent in FY 2011. For FY 2011 we estimate ARRA spending at $415 million for Head Start and $768 for Early Head Start. The federal allocation for Head Start and Early Head Start in FY 2011 without ARRA funds was $7.575 billion.

[2] Barnett, W.S., Epstein, D.J, Carolan, M.E., Fitzgerald, J., Ackerman, D.J., & Friedman, A.H. (2010). *The state of preschool 2010: State preschool yearbook.* New Brunswick: Rutgers, State University of New Jersey, National Institute for Early Education Research.

[3] This number includes children funded by state additions to federal funding as well as children who are federally funded. The number reflects actual slots rather than "total enrollment" which Head Start computes including children who dropout and are replaced. CLASP (2010). *Head Start by the Numbers 2009 PIR Profile: United States.* Washington, DC: Author. U.S. Department of Health and Human Services, Administration for Children and Families, Office of Head Start. (2008). Head Start program fact sheet. Retrieved January 29, 2010, from http://www.acf.hhs.gov/programs/ohs/about/fy2008.html.

[4] Haskins, R. & Barnett, W.S. (2010).

[5] http://www.federalregister.gov/articles/2010/09/22/2010-23583/head-start-program

[6] Greenberg, M., & Schumacher, R. (2003). *Financing universal pre-kindergarten: Possibilities and technical issues for states in using funds under the Child Care and Development Fund and Temporary Assistance for Needy Families Block Grant.* Washington, DC: Center for Law and Social Policy.

[7] Besharov, D. J., Higney, C. A., & Myers, J. A. (2007). *Federal and state child care and early education expenditures (1997-2005): Child care spending falls as pre-K spending rises.* College Park, MD and Washington, DC: Welfare Reform Academy, University of Maryland and American Enterprise Institute.

[8] U.S. Department of Health and Human Services, Administration for Children and Families, Office of Head Start, Early Childhood Learning and Knowledge Center. (2009). *State advisory councils: Responses to frequently asked questions on ECLKC.* Retrieved February 15, 2010, from http://eclkc.ohs.acf.hhs.gov/hslc/Program%20Design%20and%20Management/sac/sac_response_to_faqs.html.

[9] Schulman, K., & Blank, H. (2010). *State child care assistance policies 2010: New federal funds help states weather the storm.* Washington, DC: National Women's Law Center.

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