Key Takeaways

- There are three critical steps to ensure adequate funding for high-quality pre-K.
- First, fully specify quality standards, the number of children to be served, and a timeline to achieve these; then cost it out year-by-year if these increase over time.
- Care must be taken to estimate the full cost including facilities and state and local support and administration.
- Second, develop an approach to securing revenue to fund the full cost as it rises over time.
- Some states rely on local and federal funds to share costs. This reduces state burden but can create problems if federal funds disappear or if differences in local fiscal capacity are not taken into account.
- Third, distribute funding to programs. Although states often use one flat rate per child or per classroom statewide, local costs and fiscal capacity to pay a share vary which can result in inequities in enrollment and quality.

Step 1: Design the Pre-K Program and Determine Full Costs

The cost of providing a high-quality preschool education varies across states due to cost of living differences and within states due to geographic variations in some of the major cost drivers, such as salaries, transportation and facilities. Cost also varies with the needs of specific students. Some states seek to take these variations into account when determining costs.

Designing the pre-K program. Cost varies with program design including duration (hours per day and days per year), standards related to quality such as staff-child ratios, and other features including transportation services. In addition to these direct costs, there are costs for an infrastructure of staff at the state and/or local level to support program administration, accountability, and implementation.

State pre-K programs vary greatly in their minimum number of hours and schedule (e.g. part-day/full-day; school-year/calendar-year), ratios, teacher degree requirements, provisions for professional development and coaching, and the extent of their systems to support administration, accountability, and continuous quality improvement. It should be no surprise then to find that their costs vary tremendously.

Determining the cost. It is best practice to estimate the “full” costs of implementing the pre-K program and then based on that amount determine the funds to be allocated to local entities to implement the program. Several tools, including cost calculators with state-specific default data, have been created in recent years. The Cost of Preschool Quality and Revenue (CPQR) suite of tools estimates costs based on research-based quality standards benchmarks. The tool includes assumptions for the major cost drivers (e.g. salary/wages, facilities, meals, supplies) to monitor and enhance quality of programs and fully accounts for both state and local administrative costs.

Kentucky funded school districts at a per-child rate of $7,810 (severe or multiple disabilities) and $4,100 for other eligible children, at the time. In 2017, Kentucky advocates used the CPQ to estimate the full costs of implementing the Kentucky Preschool Program at three levels of quality (minimum, intermediate, target) for a half-day preschool program for most eligible children, and a full-day preschool program for children with severe or multiple disabilities. In the chart below, the estimates provided by the CPQ suggest that to fund even a minimum level of quality, the rates should be raised to $8,798 for children with severe or multiple disabilities and $4,961 for all other eligible children.

Advocates used this data to hold steady on per-child rates which were subject to reductions due to Kentucky state government budget shortfalls. While not the outcome hoped for, the data is powerful for fact-based decision making.
Step 2: Obtain Revenue to Pay the Costs

Revenue sources to fund preschool programs can vary across the nation. In states with state-funded pre-K, the legislature determines, typically annually or biennially, the amount of funding appropriated from the general fund to be used for the pre-K program. General funds consist of individual and corporate income taxes, sales taxes, fees, property taxes, and other sources. Six states (Arizona, Georgia, Missouri, North Carolina, South Carolina, and Washington) have dedicated revenue sources for pre-K. Some of these sources include “sin” taxes such as tobacco or lottery revenues.4 State appropriations of revenue need not cover the full cost of the program, and often do not. Sometimes it is expected that federal or local revenue cover part of the cost, as discussed later. New Jersey is unique in having a court order that preschool program be designed to meet the needs of the students and then the funding level determined and paid for entirely by the state.5 Unfortunately, most states establish one flat statewide funding amount for every pre-K child, something few states would do for K-12.

There are several ways to increase the revenue sources available to fund a preschool program. The most common methods in addition to drawing on federal revenues available to states (for example, using unspent TANF funds) are:

- Requiring a local match from school districts or the private providers who are contracted to operate preschool; and, collecting parent fees for those who do not meet state eligibility requirements.

**Require a local match.** In 2017-2018, 13 states required a local match for at least one of their preschool programs.6 The percentage of the match varied as well as what counted as “in-kind” dollars for the match.

- In-kind dollars are accepted for the required local match in Alabama’s First Class Pre-K program, the Arkansas Better Chance programs, and the Montana STARS Preschool Pilot Program.
- Care must be taken to ensure that the local shares for full cost (whether or not explicitly required) do not exceed local fiscal capacity if program growth is not be stunted and unequal.7
- The Mississippi Early Learning Collaboratives are required to raise a 1-1 match for state dollars.
- In Colorado, Iowa’s Statewide Voluntary Preschool Program, and Maine, pre-K funding is part of the school funding formula. Schools are required to provide a local match to draw down the per-pupil state subsidy.
- In Virginia, the state funding formula for the VPI provides a per-pupil rate of $6,125, of which the state pays a portion and requires a local match based on the composite index of local ability to pay. The local match is capped at half the per-pupil amount.
- As per Head Start requirements, Minnesota requires a local match for its state-funded Head Start program.

**Collect parent fees.** In 2017-2018, 10 states (Alabama, Alaska, Arkansas, Connecticut, Iowa, Kentucky, Louisiana, Massachusetts, Missouri, and Nebraska) allowed preschool programs or school districts throughout the state to collect parent fees in addition to state dollars. For example, Connecticut’s School Readiness program allows programs to collect parent fees directly using a sliding fee scale.

**Step 3: Distributing Funds to Local Entities**

State policies vary in how they distribute funds to local entities. State policy also determines the entity that can receive state funding directly and in whether those entities are permitted to subcontract with other organizations.8 These policies can promote or create barriers to the efficient distribution of funding. In some states, only school districts receive funding directly from the state; and in some states, school districts receive the funding but are allowed to contract with other community based organizations to support a mixed delivery system. In some states, Pre-K funds are distributed to regional...
intermediaries, (e.g. County Collaboratives in WV or Independent School Districts in MI); and the regional collaborative then distributes the funds to a variety of organizations, depending on state policy.

Most states distribute funds using a flat statewide rate per child or per classroom. States using their school-funding formula or a preschool specific funding formula may vary the per child amount to each district based on weights for the student population or mix of providers. Other states use grant programs that allow for variations in the amount per child across providers.

- The state-funded preschool formula in Kentucky is based on the average number of eligible children served on December 1 and March 1 of the prior academic year. The final award amount is achieved by multiplying the per-child rates for each eligibility category (e.g., at-risk, speech, developmental delay, severe) by the average number of students per category.

- In New Jersey, school districts submit annual enrollment projections to the state indicating how many children will be served in district, Head Start, or private provider classrooms. The state then provides funding based on those enrollment projections using per child rates crafted specifically for each type of preschool setting.

Discretionary grants. Approximately 72% of state pre-K funding is allocated via discretionary grants.¹ As noted earlier, states that use grants to distribute funding can build into their grant process rules that act something like the formula/weight approach used in state funding formulas either explicitly or by making case by case judgments based on actual costs.

School funding formulas. K-12 education is funded through a state-established school funding formula that is intended to distribute funds while accounting for adequacy and equity. In 2017-2018, 11 states included public preschool in their school funding formula.¹⁰ The amount of pre-K funding generated by school funding formulas is dependent on each state’s specific approach, however, the use of one is associated with greater access and stability in funding.¹⁰ School funding formulas can vary the state’s contribution not only based on local costs (e.g., the number of children who are English language learners) but on local capacity to pay a share (e.g., district property values). Only Oklahoma and D.C. fund pre-K exactly the same way as K-12.¹¹

Create supplemental state funding streams. New funding streams can be created by the legislature to better reflect state priorities to increase program quality, to build necessary infrastructure, and/or to provide more equitable access to Pre-K. Using data to identify specific needs and issues, may help prioritize goals. Both Washington and Illinois have created state-funded grant programs to support preschool facility construction and renovation costs.¹²

Blending funding for pre-K. Blending funds does not put any extra money on the table and in practice it may reduce the number of children served compared to just serving each child with one funding stream. However, this strategy can make it possible to come up with an adequate funding amount to support higher quality and to better meet the needs of different children (extra services for those who qualify for Head Start; extra hours for those who need extended day child care; etc.). West Virginia’s Universal Pre-K (UPK) program provides an example of aligning policy and funding to expand access to quality in mixed delivery settings. UPK began in 2002, becoming universal over ten years in part due to Policy 2525 which established the funding and regulations to ensure universal access to Pre-K.¹³ The high-quality UPK program for all 4-year-olds and 3-year-olds with an Individual Education Plan, requires 50% of classrooms to be in collaboration with community partners (through County Collaboratives), and has a relatively stable base of funding through the state’s school funding formula. Blended funding also occurs with Head Start and CCDF dollars.¹³ The state supports collaboration with written guidance for County Collaboratives.¹⁴

Provide guidance for federal funds. The use of federal funds, such as Title 1 or IDEA, to support children enrolled in state funded pre-K is typically a local decision, but the state can provide guidance or incentives. For example, California has provided guidance to school districts to encourage the use of these dollars for preschool.¹⁵ A few states, including Hawaii, Kentucky, and Virginia, have conducted fiscal mapping studies to identify all funding sources, eligibility and other data on funding for early learning.¹⁶ Tennessee commissioned a study of the state infrastructure to support school readiness and state economic growth to identify opportunities for greater system alignment and efficiency, potentially
freeing up dollars for Pre-K and other early childhood programs.17

Conclusion
The political support for early childhood education continues to grow, but the fiscal resources allocated to many programs to implement the program are insufficient to support high quality preschool programs. The lack of resources perpetuates and potentially increases inequality in access to high quality programs. Changing this will require a hard look at the cost of quality programs that meet the needs of children and families, securing revenues adequate to pay those costs, and building local capacity to match or supplement state funding.

Resources
National Organizations:

**Bipartisan Policy Center,** Early Education Initiative, has many resources related to funding, including a history of federal funding, TANF and early childhood, and other resources. The Bipartisan Policy Center conducted an analysis of state early care and education systems and produced state profiles and rankings on the degree to which states were “integrated and efficiently organized” to serve children and families.12 States that scored higher on this ranking generally had a more coordinated approach to blending funding, typically authority for major funds were shared across no more than two state agencies and they had strong collaboration across child-serving agencies, through a functioning State Early Learning Advisory Councils (ECACs).

https://bipartisancenter.org/all-content/?tags%5B%5D=Early+Childhood&sort=date

**The Build Initiative** works with state and national leaders to build a comprehensive early childhood system. The website has resources on system financing, https://www.buildinitiative.org/The-Issues/Systems-Building/Finance, and a recent report on Funding Our Future through State and Local Tax Policy, https://www.buildinitiative.org/Resources/Funding-our-Future

**Center for American Progress, Early Childhood Initiative** has various resources on funding issues that impact early care and education. https://www.americanprogress.org/issues/early-childhood/view/

**National Institute for Early Education Research, Cost of Preschool Quality and Revenue** has various resources to calculate costs, determine revenue and communicate the costs of quality. http://nieer.org/research/research-instruments/cpq

State Resources:

**North Carolina's Local Financing Toolkit:** This toolkit has resources that explain the local, state and federal budgeting processes and available funding streams. The toolkit has case studies from across the U.S. on leveraging resources. Useful readiness tools and worksheets are included. https://financingtools.buildthefoundation.org/

**Virginia's Integrated Financing Toolkit:** To inform and support the integration of financing at the local and regional levels that is required to fully access available funding for community early childhood systems, VECF and partners have produced an Integrated Financing Toolkit. http://www.vecf.org/virginia-early-childhood-integrated-financing-toolkit/

**End Notes**
2. For information about the CPQ suite of tools: http://nieer.org/research/research-instruments/cpq
4. States that use “sin” taxes to pay for public preschool may supplement with other state dollars, local dollars, and federal dollars; tobacco dollars were used in Arizona, Kentucky, Kansas, Missouri and lottery revenues in Virginia, Georgia, Ohio, Washington in 2017-2018 (Friedman-Krauss et al. 2019).
6. The states that required a local match for state Pre-K dollars in 2017-2018 were: Alabama, Arkansas, Colorado, Iowa (Statewide Voluntary Preschool Program only), Maine, Massachusetts, Minnesota (Head Start program), Mississippi, Montana, Nebraska, North Carolina, Tennessee, and Virginia, see: Friedman-Krauss et al. (2019). The State of Preschool 2018: State Preschool Yearbook. National Institute for Early Education Research.
8. For a complete list of states that permit subcontracting see: NIEER State of Preschool Yearbook, Appendix A: State Survey

10. In 2017-2018, 11 states used their school funding formula in state pre-K: California (Transitional Kindergarten only), Colorado, District of Columbia, Iowa (Statewide Voluntary Preschool Program only), Maine, Maryland, Oklahoma, Texas, Vermont, West Virginia, and Wisconsin (Four-Year-Old Kindergarten only) (Friedman-Krauss et al. (2019)).


13. Washington state’s Early Learning Facilities Grant Program is a competitive grant that will award $17.2 million in funding for design; major construction or building purchase; or minor renovation and repairs. Eligible grantees include programs operating the state preschool program or those serving children with child care subsidies. For more information, see: Washington state’s Early Learning Facilities Grant Program at http://smartbeginnings.org/virginia-early-childhood-integrated-financing/; Hawaii’s fiscal map of early childhood services and recommendations: https://earlylearning.hawaii.gov/wp-content/uploads/2012/10/HIECFISCAL-MAP-EXSUMMARY_03.019.12.pdf; Kentucky conducted a fiscal mapping study of all funds supporting children birth through age five for their PDG-B-5 needs assessment.