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Improving Public Financing for Early Learning Programs

by W. Steven Barnett and Jason T. Hustedt

The early care and education (ECE) of young children in the United States is supported by nearly $40 billion yearly from a multiplicity of government programs 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 ECE participation rates are even lower for infants and toddlers. Many other children receive only poor quality services. Some programs are of such low quality that they actually harm child development. The nation's young children could greatly benefit from improvements in the amount and administration of public funding for ECE. How we fund early care and education varies greatly across programs, states, and 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. We review sources and models of public ECE financing and recommend improvements in policy that would remove barriers to increasing program access and quality.

Preschool Policy Facts

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What We Know:

- Public funding for ECE 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; 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 ECE 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 ECE 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 of other programs including 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 ECE.

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 that can reduce overall government expenditures. Although the recession and long-term financial difficulties may constrain growth in government generally, adequate public funding for ECE, which is modest relative to overall public spending, is feasible and can be financed by cutting wasteful public spending that does not generate comparable social benefits.

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 ECE 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 ECE by requiring school districts to spend Title I 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 ECE has grown dramatically in recent years, resulting in a multiplicity of programs and funding streams at the federal, state, and local levels, each with its own mission, regulatory requirements, and constituency. (See Table 1 for a comparison of key features of federal, state, and local programs.) Taken together, they form what has been called a "patchwork quilt" or "non-system" of ECE as they are seldom coordinated with each other. 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. Preschool providers face the daunting task of blending or "braiding" funds from various sources to create their classrooms, dealing in the process with often-conflicting regulations.

Table 1. 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.*

Funding Models for State Prekindergarten Initiatives

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

Including pre-K initiatives in the statewide school funding formula is a particularly effective way of providing consistently adequate funding. Unlike a fixed dollar appropriation, this approach places no implicit or explicit cap on enrollment of the eligible population, and is particularly useful for preschool programs that are open to all children regardless of income. As enrollment increases, so does total funding. This is not the case with most other funding approaches to 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 average amount of the state's contribution and in how much and in what ways those contributions vary by district. 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. 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 levels rather than using a formula for funding per child, an increase in enrollment can result in a decrease in available 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, 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. When early learning programs are included in a larger funding formula that includes K–12 as well, there is a larger constituency to prevent cuts and maintain adequate funding.

Problems with the Status Quo

The United States now spends some $40 billion annually in public funds 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. 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. In general, returns on public investments in early learning programs could be increased if the amounts paid were linked to program quality and performance.

Developing more reliable, well-considered revenue streams for early learning programs will not only help to maintain enrollment and program quality, but will 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 a 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.

Including pre-K initiatives in the statewide school funding formula is a particularly effective way of providing consistently adequate funding. It places no implicit cap on enrollment and is particularly useful for preschool programs that are open to all children. As enrollment increases, so does total funding.

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