



DISCUSSION GUIDE: STATE FINANCING STRATEGIES FOR EARLY CARE AND EDUCATION SYSTEMS

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Introduction: State and local investments are increasing in many states for early care and education programs. But in others, states are not investing sufficient dollars to ensure all children have access to high quality programs.¹ A deep understanding of financing strategies and a willingness to engage in finance reform is necessary to ensure all children have access to high quality early care and education.

Purpose of the document: This document is intended to help state policymakers make decisions about which financing strategies are needed to support the early care and education (ECE) programs in their state. The information contained here is not an empirical analysis; it is based on a review of key resources on financing early care and education and informed by observations from policy leaders at the state and national levels.

Overview of a Strategic Approach to Financing

What needs financing? Determining what to finance is driven by the outcomes for children and/or families that are expected. Policy makers may have any one or more of the following program priorities for financing early care and education:

- Expanding access to ECE slots for more children
- Improving the quality of existing/new ECE programs
- Improving the education and/or compensation of the workforce
- Accountability to monitor, support, and improve program effectiveness
- Allowing parents to choose the right program for their child
- Providing communities with greater flexibility to address local needs
- Supporting a specific service delivery strategy (ex. through public schools vs. existing community-based providers)

¹ U.S. Department of Education. (2014). *A matter of equity: Preschool in America*. Washington, DC: Author Retrieved from <http://www2.ed.gov/documents/early-learning/matter-equity-preschool-america.pdf> ;National Institute for Early Education Research. (2015). *The 2014 State Preschool Yearbook: Executive summary*. New Brunswick, NJ: Author. Retrieved from http://nieer.org/sites/nieer/files/yearbook2014_executivesummary_1.pdf



How much does it cost and what resources are available? Reliable data on costs and available resources are necessary for policy makers to have before identifying appropriate financing strategies. In early care and education, it is more often the case that available funding, rather than the true costs of quality programs, determine funding decisions. Additionally, policy makers often do not have a comprehensive picture of all the available resources that could be utilized for a given program because of the generally siloed nature of funding (e.g., by agency or funding stream rather than by goal or service).

How much funding is needed, when, and for what? Policy makers need to be able to answer the following questions before developing a financing strategy: what needs funding, at what level of quality, and for how many or what specific subgroups? Further, given available resources, what new resources from public or private funding are needed? Funding for early care and education is a patchwork of competitive, time-limited grants, and restricted dedicated funding for certain populations and/or programs, from national, state, and local sources, both public and private. Rarely, does a decision-maker have assurances of the full amount of funding needed to implement a program(s) with sufficient flexibility or longevity to ensure sustainability over the long term.

Types of Financing Strategies: Pros and Cons, Finance Reform Goals, and Selected Examples

Depending on the state's ECE programmatic priorities, policymakers may have different goals for finance reforms, and, therefore, may employ different strategies. In the table on page 3, three primary finance reform goals are identified, recognizing that each goal or associated funding strategy is not mutually exclusive. The pros and cons for each potential finance strategy listed in the table are not exhaustive and are meant to stimulate discussion and consideration by a state.

- **Increase efficiency** - Decision makers could employ some financing strategies to maximize current resources or leverage multiple sources of funding in order to stretch dollars further. In some cases, policy makers may consolidate one or more programs or funding streams within an agency or department. In other cases, this may result from a reorganization of state or local government agencies. These funding strategies may result in greater efficiencies, or increase flexibility of funding, so that dollars could be used to provide more comprehensive services or be redirected to increase access or quality. Decision-makers may need to remove regulatory barriers to increase the flexibility of funding (e.g., revising Child Care and Development Fund certification/recertification to 12 month periods to better allow for braiding with pre-K dollars) or to reduce burden from state/local government procurement processes for private contracts.
- **Increase revenue** - While a heavier lift, some financing strategies are needed to raise new dollars in order to increase access or quality to achieve expected outcomes and to reduce inequities. Decision-makers are best positioned to raise new revenue, and gain buy-in and



political support for the program, when they have evidence of both the effectiveness of the program and the efficient and accountable use of current funds.

- Increase stability and sustainability of funding** - Because of the funding cycles and short-term nature of some funding streams, strategies to support the stability of funding at the state level helps to ensure continuity of care for programs and providers at the local level. Decision-makers will want to address sustainability of funding, from the outset, to ensure that outcomes can be achieved and effective programs are built into the system infrastructure (e.g., budget). Additional strategies, such as compensation initiatives or scholarships to individuals that are tied to indicators of quality (e.g., increasing education or increasing access for low-income families to quality programs) help to drive market demand, incentivize quality, and build capacity of the system to achieve outcomes for children and families.

Table 1: Financing Strategies for Early Care and Childhood Systems

FINANCING STRATEGIES	PROS	CONS	FINANCE GOALS	SELECTED EXAMPLES ²
Costs Modeling, Cost-Benefit Analyses	<ul style="list-style-type: none"> ✓ 1st step in providing data to support effective financing strategies ✓ If done well, begins to identify the true cost of quality ✓ Provides data to decision makers to target funding to effective services and/or incentives 	<ul style="list-style-type: none"> ○ Requires availability of sufficient data at the program/provider level ○ Requires capacity to track costs and analyze cost models ○ Possibility for vast over- or under-estimation, based on the calculus used 	<ul style="list-style-type: none"> ✚ Efficiency ✚ Revenue ✚ Stability 	<ul style="list-style-type: none"> ▪ RI- Cost of Quality ▪ ECE Return on Investment Analysis ▪ NJ Cost of High Quality PreK ▪ CO Cost of Early Childhood System
Blending Funds	<ul style="list-style-type: none"> ✓ Creates greater flexibility in how funding can be used ✓ May support more comprehensive services ✓ If supported by regulation, could 	<ul style="list-style-type: none"> ○ Programs or services that previously accessed funds could lose funding ○ Requires fiscal (budget, audit) and organizational capacity to 	<ul style="list-style-type: none"> ✚ Efficiency ✚ Stability 	<ul style="list-style-type: none"> ▪ Blending and Braiding Toolkit with examples from IL, PA, OR, WA ▪ MN, Incentives to Support Layering of Funds to

² Note: Selected State Examples are hyperlinked when viewed online.



FINANCING STRATEGIES	PROS	CONS	FINANCE GOALS	SELECTED EXAMPLES ²
	<ul style="list-style-type: none"> ensure greater stability of funding ✓ May mitigate impact of funding cycles or shortfalls 	<ul style="list-style-type: none"> monitor multiple funds, determine cost allocations, and track outcomes ○ Requires regulatory or policy guidance, and organizational capacity 		<ul style="list-style-type: none"> Increase Access ▪ OH and NY Child Care-Head Start Partnerships ▪ CO Blending Revenues Across Interagency Departments
Shared Services	<ul style="list-style-type: none"> ✓ System-building at the service provider level ✓ Reduce administrative costs ✓ Reallocate dollars to quality ✓ Increase accountability ✓ Builds business acumen for early care and education providers 	<ul style="list-style-type: none"> ○ Need strong administrative hub with capacity for Business and Pedagogical Leadership ○ Trusted relationship needed to negotiate contracts providers ○ Up-front investments in data system and infrastructure 	<ul style="list-style-type: none"> ✚ Efficiency ✚ Stability 	<ul style="list-style-type: none"> ▪ CT All Our Kin ▪ CO Shared Services: A New Business Model ▪ CO Early Learning Ventures ▪ TN Chambliss Center for Children ▪ WA Sound Child Care Solutions
Dedicated State Funding	<ul style="list-style-type: none"> ✓ Reduces administrative requirements/burden ✓ Could increase revenue for some services/programs ✓ Increase access or quality by targeting funds to specific goals ✓ Decision-makers know the amount of funds they have to deliver program ✓ Less variability in 	<ul style="list-style-type: none"> ○ Federal/state funds may just be redirected, not expanded ○ Funds could be cut due to political/economic issues ○ Reduces governance and monitoring authority over funds ○ Requires bigger political lift, greater 	<ul style="list-style-type: none"> ✚ Efficiency ✚ Revenue ✚ Stability 	<ul style="list-style-type: none"> ▪ IL Infant-Toddler Set-Aside ▪ NE Dedicating Trust Land Revenue to Early Care and Education ▪ GA Lottery for Education ▪ AZ First Things First Tobacco Tax



FINANCING STRATEGIES	PROS	CONS	FINANCE GOALS	SELECTED EXAMPLES ²
	<p>funding cycle can plan for longer-term sustainability</p>	<p>accountability and organizational capacity to monitor funds</p>		
Public Private Partnerships (state/local)	<ul style="list-style-type: none"> ✓ Increases flexibility of different funding sources ✓ combines multiple sources of funding to increase access or provide more comprehensive services ✓ engages and builds buy-in from private sector ✓ may be more responsive to local needs ✓ Leverages new \$ from private sector and/or new funding streams 	<ul style="list-style-type: none"> ○ Requires strong relationships and interest in aligning goals ○ Requires collaborative leadership and on-going communication ○ Requires recipient of funding to have strong fiscal/audit capacity to track funding, report on outcomes 	<ul style="list-style-type: none"> ✚ Efficiency ✚ Revenue ✚ Stability 	<ul style="list-style-type: none"> ▪ CLASP funding comprehensive services through funding partnerships, includes AZ, IA, ME, NY, OR, RI, TN ▪ Financing and Sustaining County EC Services (CA) and (FL) ▪ WI 4K Community Based, Public-Private Funding Model
School Funding Formula	<ul style="list-style-type: none"> ✓ Provides local school districts with stable source of funding ✓ Can be leveraged with other local funds to expand access or quality ✓ Supports PK-Grade 3 aligned system 	<ul style="list-style-type: none"> ○ May not support full cost of quality ○ May deter schools collaborating with community partners ○ Requires ECE program capacity to manage funds 	<ul style="list-style-type: none"> ✚ Revenue ✚ Stability 	<ul style="list-style-type: none"> ▪ CA Local Control Funding Formula ▪ NCSL Database on School Funding for PK ▪ 2014 State PreK, resources, school funding or state aid, page 208
Pay for Success Models	<ul style="list-style-type: none"> ✓ Can provide sufficient funding to scale up effective programs ✓ Brings in new, often private revenue 	<ul style="list-style-type: none"> ○ Limited data on effectiveness for ECE ○ Requires robust outcome data ○ Requires up front investment of 	<ul style="list-style-type: none"> ✚ Revenue ✚ Stability 	<ul style="list-style-type: none"> ▪ Pay for Success Learning Hub ▪ SC, WA, NC Social Innovation Fund, PFS ▪ UT School



FINANCING STRATEGIES	PROS	CONS	FINANCE GOALS	SELECTED EXAMPLES ²
	<ul style="list-style-type: none"> ✓ Increases accountability for public funds at state level ✓ Could increase efficiency at local level ✓ Redirects funds to less costly interventions or reduce costs/cost avoidance 	<p>intermediary</p> <ul style="list-style-type: none"> ○ Can discourage serving most needy clients who are least likely to produce positive results ○ ECE results often accrue to other systems (e.g. lower crime) so savings don't come back to ECE system. 		<ul style="list-style-type: none"> ▪ Readiness Initiative
<p>Payments to Individuals or programs-- Subsidies, scholarships, vouchers, compensation initiatives, tiered reimbursements</p>	<ul style="list-style-type: none"> ✓ Incentives components of quality (e.g. education, compensation) ✓ Rewards programs that improve quality (e.g. tied to QRIS) ✓ Rewards programs that are accredited ✓ Promotes parental choice ✓ Increases access to quality programs for low-income families 	<ul style="list-style-type: none"> ○ Requirements of incentive/ scholarship may be too costly/ burdensome for some individuals or providers ○ May increase some admin costs for state ○ Could be time-limited or impacted by changes in economy/political environment 	<ul style="list-style-type: none"> ▪ Revenue ▪ Stability 	<ul style="list-style-type: none"> ▪ LA Compensation Strategies ▪ MN Early Learning Scholarships ▪ Denver, CO tuition credits ▪ Child Care WAGE Project ▪ Financial Incentives in QRIS
<p>Tax credits</p>	<ul style="list-style-type: none"> ✓ Funding does not need to be appropriated each year ✓ Could incentivize elements of quality ✓ More equitable tax ✓ Could provide data to demonstrate ECE impact 	<ul style="list-style-type: none"> ○ May be big political lift in some states ○ May require up-front investments in first year ○ May require significant public education on how to access tax credit 	<ul style="list-style-type: none"> ▪ Revenue ▪ Stability 	<ul style="list-style-type: none"> ▪ Tax Credits for a New Economy- CO, LA, OR, PA ▪ Extra Credit: How LA is Improving Child Care ▪ CO- Child Care Contribution Fund



NEXT STEPS: Ensuring Capacity to Effectively Implement Financing Strategies

A comprehensive strategic financing plan includes a range of strategies that address gaps in funding cycles and allowable services, leverages all available resources, aligns regulations and/or targeted funding, and blends funding from public and private resources. It is important, however, to consider the human, organizational, and other capacities needed to ensure that the financing plan will be implemented effectively. Policy makers can discuss the following to help make decisions about the specific strategies to meet the state's goals for sufficient and stable financing for early childhood programs and services.

- **Human Capacity:** What leadership, experience, knowledge, and skills are needed to move this financing strategy forward? What level of engagement and support from both public (e.g., Governor, legislature) and private sector leadership is needed?
- **Governance/Authority:** What types of governance or authority (e.g., legislative, regulatory, policy) are needed to implement this strategy? Any requirements of funding recipients? How much does it cost to implement the financing strategies(s)?
- **Organizational Capacity:** What state and local infrastructure is needed to manage and provide oversight to any financing model or set of strategies? (e.g., staff to administer, monitor, and evaluate the programs; oversee eligibility determination for children and programs, fiscal agency activities, auditing, and other forms of technical assistance to provide accountability for the funds.)
 - What processes/policies are needed among funders and decision-makers to ensure they are communicating, cooperating, coordinating, and collaborating to effectively implement this financing strategy?
 - What types of data or outcomes are required of funding recipients to justify or access funding?
 - What requirements and capacities does the recipient of funding need to have to ensure accountability?

Additional Resource:

Financing Early Care and Education lists resources on financing policy, calculating costs, and financing strategies for early care and education.



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