

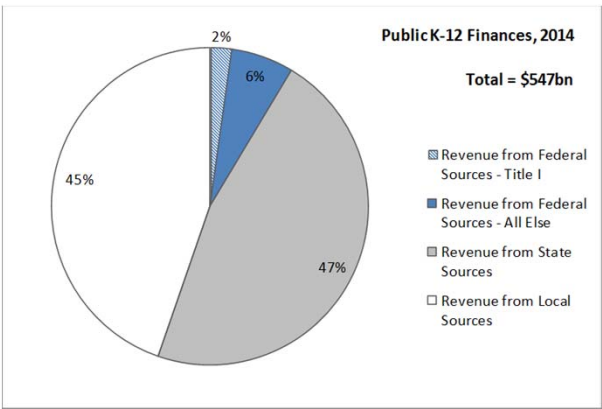


PUBLIC PRE-K FINANCIAL LANDSCAPE

Richard Kasmin
National Institute for Early Education Research



K-12 Revenue

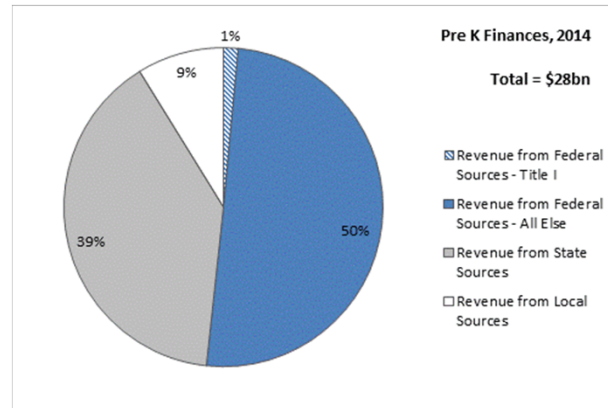


- K-12 dominated by state and local



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Pre-K Revenue

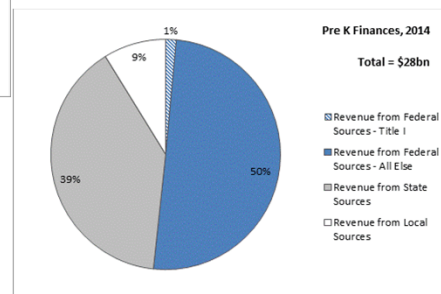
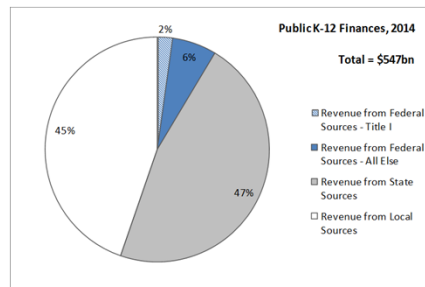


- Pre-K more federal, with limited local revenue



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K-12 Compared to Pre-K Revenue



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Sources of State Pre-K Funding

(How state and local governments collect funds)

Portion of State Financing by Funding Source						
	Total	AZ	CO	NJ	OK	TN
State General Appropriations	81.5%		79%	100%	56%	80%
Property Taxes	9.4%		21%		32%	15%
State Lottery	6.0%					
Other Local Taxes	1.5%				12%	5%
State Tobacco Settlements	0.8%					
State Sin Tax	0.5%	100%				
SIBs	0.3%					
State Sales Tax	0.1%					
State Gambling Funds	0.1%					



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How State Pre-K Programs are Funded

(How money goes from government to program)

Portion of State Financing by Funding Instrument						
	Total	AZ	CO	NJ	OK	TN
Discretionary Grants	35.4%	100.0%				
Formula Grants	28.6%			100.0%		100.0%
School Funding Formula	18.6%		77.5%		100.0%	
Foundation Aid	10.8%					
Voucher	5.2%					
Scholarships	0.6%					
Tax Credits	0.5%		22.5%			
SIBs	0.3%					



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School Funding Formula

- Cost-based formula. Generally takes into account student and district variables.
- Generally a significant reliance on residential taxes, which provides a steady funding stream.
- It would yield more funding per pupil and more pupils covered.
 - K-12 p.p. average = \$11k; Pre-K p.p. average is ½ that.
 - Assume covering 50% of 3- and 4-year old population
 - Would increase state and local bill by around \$30bn (currently around \$14bn).



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Pre-K School Funding Formula Facts

Portion of State Financing by Funding Source	
School Funding Formula States	
State General Appropriations	61%
Property Taxes	29%
Other Local Taxes	6%
State Tobacco Settlements	4%

State	Total spending from all known sources per child /RPP	Enrolled/Pop	Rank (spend * (E/P))
CO	\$3,745	16%	26
IA	\$3,981	33%	13
KS	\$2,491	10%	33
KY	\$8,619	17%	10
ME	\$6,106	18%	15
MD	\$7,437	20%	8
OK	\$8,656	37%	4
WV	\$11,197	39%	2
WI	\$6,478	32%	6
US Avg.	\$5,238	17%	

- School funding formula does not mean well funded
- Can still be targeted, capped



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Pay For Success/Social Impact Bond

- In vogue
 - Obama Administration: "An innovative way of partnering with philanthropic and private sector investors to create incentives for service providers to deliver better outcomes at a lower cost -- producing the highest return on taxpayer investments."
 - The Social Impact Partnership to Pay for Results Act -- HOR passed in May -- establish two agencies to assess the value of proposed schemes; funding for feasibility studies
 - Harvard's Pay for Success -- very active developing projects in multiple states

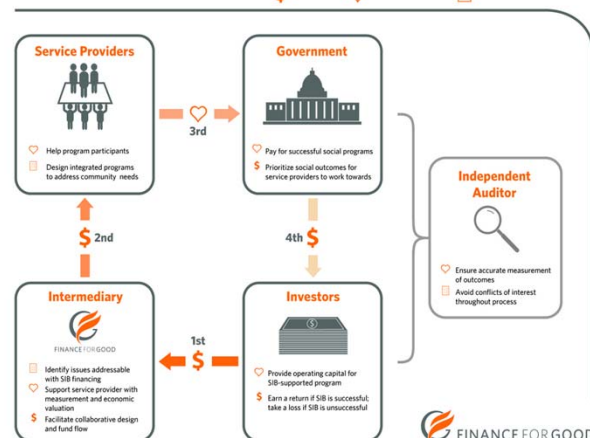


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Pay For Success/Social Impact Bond

SIB Process Flow

💰 Fund Flow ❤️ Social outcomes 📄 Research



- Government - ultimate payer
- Investor - provides capital
- Intermediary - recruiter and manager
- Auditor - reviews whether targets met
- Service Provider - receives funds and conducts intervention



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Pay For Success/Social Impact Bond

■ Criteria

- Meaningful and measurable outcomes
 - E.g.: +50% kindergarten readiness for intervention based on state assessment
- Government support
 - They ultimately pay the bill assuming success; must have clear cost/benefit
- Reasonable time horizon for outcomes
 - E.g.: Intervention % in special education at 3rd grade.
- Evaluation design is critical -- experimental, translatable
 - Based upon an experiment with solid scientific bona fides



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Pay For Success/Social Impact Bond

■ Benefits

- Shift risk to private sector
- Do what the public sector won't
- *Contracting regime* -- private-public partnerships
- Create *portfolio effect*

■ Challenges

- Must be sure the rewards are known
- Expensive in terms of structure and payout
- Not best suited for an ongoing concern
- *Creaming* the population



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Pay For Success/Social Impact Bond

- Two pre-K education SIBs currently in operation in the US:

Program	Utah High Quality Preschool Program	Child-Parent Center Pay for Success Initiative
Location	Salt Lake City, UT	Chicago, IL
Investment Capital	\$7m	\$16.9m
Target Population	Up to 3,500 low income 3- and 4-year olds; up to five cohorts.	2,600 low income 4-year olds over multiple cohorts. The first cohort for the 2014-2015 school year included 374 slots.
Target	Assessment of special education reduction.	Assessments of kindergarten readiness, special education reductions, and third-grade literacy tests
Intervention	The Utah High Quality Preschool Program	Child-Parent Center program

- CPC

- \$500k "success payment" triggered as 59% of children in 1st cohort deemed K-ready (over 50% floor).

- Utah HQPP

- \$260k success payment triggered as 99% of children in intervention avoided special education designation.
- Quite a result given just \$1,700 pp. Well-funded programs found to reduce special education by, at most, 50%.



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Tax Credits

- Tax Credit -- Dollar-for-dollar reduction in tax liabilities. Two examples are:
 - LA School Readiness Tax Credit
 - Fully refundable for adjusted gross income <\$25,000
 - Scaled based on quality rating of facility
 - Raises approximately \$15 million/year
 - CO Child Care Contribution Credit
 - 50% of donation value to offset income taxes
 - cannot exceed \$100,000/year
 - Raised estimated \$25 million in 2013



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Follow-up Questions

- Why is pre-K financing so different than K-12 financing?
- How do the sources and allocation of funding impact program development?
- Are PFS/SIBs and Tax Credits effective financing strategies?
- What are the major factors for increasing public financing of pre-K programs?



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Funding Instruments

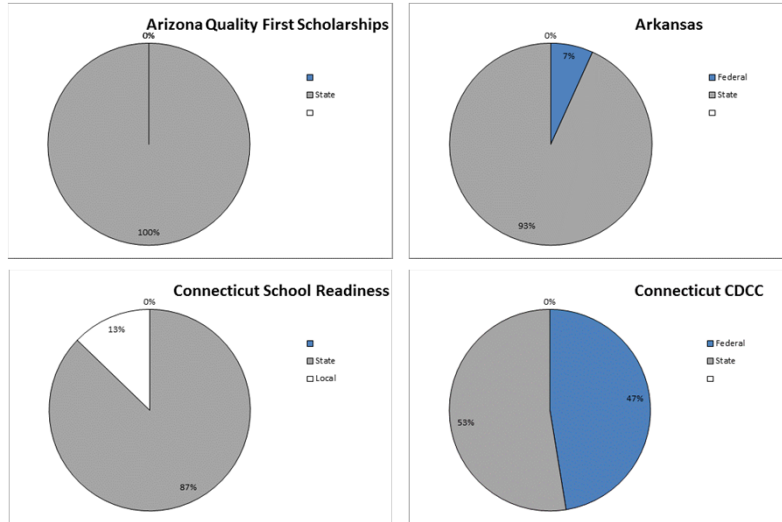
Funding Instruments										
Instrument	Allocation	Capped	Focus	Decision to Allocate	Control of Funds	Matching	Target	Availability	Volatility	Duration
Formula Grants	Formula	Y	varies	Legislative	Federal, State	No	Disadvantaged	Automatic if eligible	Fiat	ST
Discretionary Grants	Lump Sum	Y	general	Legislative	Federal, State	Often	Disadvantaged	Competitive	Fiat	ST
Endowment Funds	Dedicated Stream	N	varies	Endowment	Endowment	No	Disadvantaged	Automatic	Financial	LT
Equalization Aid	Formula	N	general	Constitutional or Legislative	State	No	Per Pupil Need	Automatic	Fiat	LT
Foundation Aid	Formula	N	general	Constitutional or Legislative	State	Local	Per Pupil Level	Automatic	Fiat	LT
Income Tax Credits	Tax Reduction	Y	general	Legislative	Household	No	Equity	Automatic if eligible	Fiat	ST
Loan Guarantee	Insurance	Y	specified	Legislative, Corporate	Lender	No	Varies	By Request	Financial	LT
Scholarships	Lump Sum	Y	general	Legislative	State	No	Disadvantaged	By Request	Fiat	ST
School Funding Formula	Formula	N	general	Legislative	State, Local	Yes	Per Pupil Need	Automatic	Fiat	LT
Social Impact Investing	Formula	Y	general	Private Sector	Private Sector	No	Disadvantaged	By Request	Fiat	LT
Vouchers	Subsidy	Y	general	Legislative	Household	No	Universal	Automatic if eligible	Fiat	ST

Definitions	
Formula Grants	sum of money granted; provisions as to how it is spent and who controls spending
Discretionary Grants	competitive; close-ended; sum of money granted; general provisions as to how it is spent
Endowment Funds	fund that manages gifted funds; uses income earned for specific purpose
Equalization Aid	formula-based distribution of funds meant to equalize distribution based on need
Foundation Aid	formula-based distribution of funds meant to equalize distribution based on need; usually with local matching
Income Tax Credits	spending that yields dollar-for-dollar reductions of tax liabilities
Loan Guarantee	government guarantees loan
Scholarships	grant or payment made in support of spending
School Funding Formula	formula-based automatic distribution of funds based on per-student need
Social Impact Investing	private investment made with organizations providing measurable social impacts
Vouchers	government credit to be used for a specific purpose



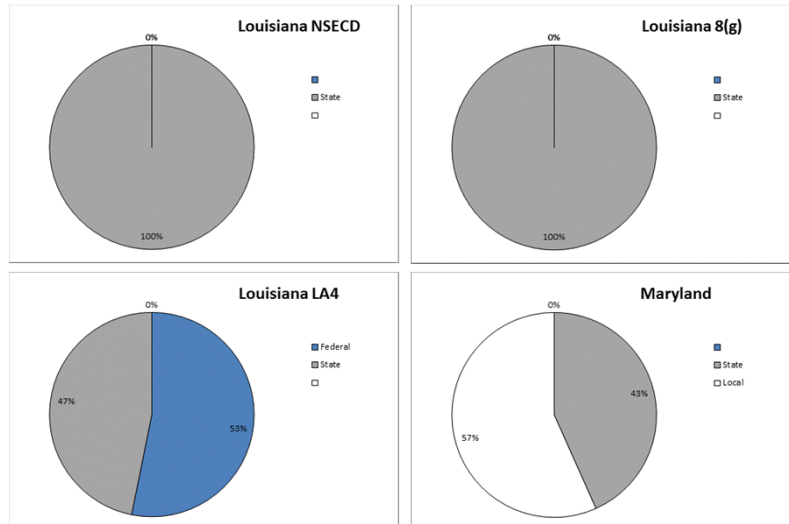
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Funding by Program



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