

APPENDIX C

OPTIONS FOR FINANCING EARLY CARE AND EDUCATION¹

Who currently finances early care and education?

National studies show that in the aggregate, parents provide the single largest source of payment for child care services. Parents pay about 60% of the total costs of child care in America, with government picking up about 39% of the costs. By contrast, in higher education parents contribute about 35% of its actual cost, with the government contributing 49% of the remainder.²

In Connecticut, even very low income families who qualify for state subsidies pay for a portion of their children's care. In the 2006 fiscal year, parent fees generated about \$6 million dollars as part of the state's School Readiness Initiative. For many parents, the substantial expense of early care comes at the very point in their "earning career" when family income is the lowest. For families living at or below Connecticut's self-sufficiency level, child care is second only to housing in terms of family expenses.

Both federal and state financial supports for early care focus on the lowest income families. Because these financial supports are means-tested and limited to families living at or near the Federal Poverty Level,³ families earning just above that level may actually face the greatest challenge in affording quality early care and education. And while families below a state's median income level are sometimes deemed eligible for support "on paper," such programs are often insufficiently funded to allow these populations to actually benefit.⁴

Recent Trends in Early Care and Education Funding

Three recent national reports have documented a dramatic trend of increasing state fiscal support for early education:

- *Quality Counts 2002: Building Blocks for Success*, published by Education Week
- *The State of Preschool: 2005 State Preschool Yearbook*, published by the National Institute for Early Education Research⁵
- PreK Now's 2006 *Votes Count* report tracking state fiscal commitments to early education⁶

The past decade has seen a dramatic increase in public policy attention to early care and education financing. In fiscal year 2007, not a single state legislature decreased its investment in pre-kindergarten.

¹ This Appendix is an updated version of Section V of *Meeting the Need, Accepting the Challenge: The Connecticut Early Care and Education Cost Model*. The Early Care and Education Finance Project of the Connecticut Early Childhood Alliance, October 2005. The Education Finance Project, a working group of the Connecticut Early Childhood Alliance. More than thirty public and private agencies and organizations contributed to this work, with the goal of calculating the costs of a comprehensive, integrated system of services that support the growth, development and learning of young children.

² *Learning Between Systems: Adapting Higher Education Financing Methods to Early Care and Education*. (July 2001). Lumina Foundation for Education. Online at www.luminafoundation.org/publications/researchreports/mainLBS.pdf.

³ The Federal Poverty Level is currently about \$19,500 for a family of four, in all states regardless of cost of living differences in those states.

⁴ Oliveira, P. (June 2005). *Separating Fact from Fiction: Myths About the Adequacy of Funding for Care4Kids*. Online at www.ctkidslink.org/publications/ece05factfiction05.pdf.

⁵ Online at www.nieer.org/yearbook.

⁶ Online at www.preknow.org/documents/LeadershipReport.pdf.

At the same time, more states than ever before – 31 and the District of Columbia – increased their financial commitments to early education. Over the past two years state pre-kindergarten investments have grown by more than \$1 billion. Also of note are the trends toward access for all three and four year olds and toward improved quality. By 2006, 40 states were providing some level of state funding for pre-kindergarten programs with a total contribution of \$4.2 billion, a 33% increase over state funding in FY05.⁷

Key Principles in Developing Funding Packages

A review of the rapidly accumulating literature on financing strategies (summarized below) reveals a single key principle essential to building a solid, outcomes-based early childhood investment system. First, while programs may be built or expanded with demonstration funds from a wide variety of sources, stability in funding over time is the key to ensuring strong, positive early childhood health, safety and learning outcomes and, ultimately, to improving K-12 education.⁸ Second, because of current federal budget circumstances and changes in federal policy priorities over time, state leaders have learned that they cannot rely on federal funds as the basis for establishing or expanding a high-quality, public preschool program. Third, state policymakers have found that they need to allocate substantial, sustainable state funds that can be increased over time.⁹

Leveraging Federal Funds

In an attempt to accommodate publicly-supported preschool programs within the confines of limited state budgets, policymakers leverage states' general revenue dollars through a variety of federal and local contributions to fund pre-kindergarten. These include federal childcare grants, Title I education grants, Individuals with Disabilities Education Act (IDEA), Even Start federal funding, Temporary Assistance for Needy Families (TANF), and Head Start funds to help build their pre-kindergarten systems.

Tax- and Fee-Based Revenue Strategies

Property and sales taxes. Seattle, San Francisco, Portland, Oregon and counties in Florida collect and allocate a percentage of their local property taxes specifically to support children's services, including early care and education. Aspen, Colorado allocates a specific percentage of its local sales tax to provide affordable child care and housing.¹⁰ In Austin, Texas child care is part of the city's economic development program. This program provides substantial property tax abatement and sets aside part of local corporate property taxes to support job training and the cost of child care. Three California cities – San Francisco, Concord, and Santa Cruz – enacted a statutory requirement that new real estate development make space available for a child care center or “pay an extraction tax to help fund child care facilities.”¹¹

⁷ *Votes Count: Legislative Action on Pre-K Fiscal Year 2007.* www.preknow.org/documents/LeadershipReport.pdf. Also see Stoney, L. & Edwards, K. (2001). *Child Care Financing Matrix*. Online at <http://nccic.org/pubs/ccfinancingmatrix.html>.

⁸ *Funding the Future: States' Approaches to Pre-K Finance.* Pre-K Now Research Series. Diana Stone, J.D., Washington Appleseed, Seattle, Washington

⁹ Online at http://www.clasp.org/publications/universal_prek.pdf.

¹⁰ Online at <http://nccic.org/pubs/ccfinancingmatrix.html>.

¹¹ *Finding the Funds: Opportunities for Early Care and Education.* Human Services Policy Service Center. (January 2003). Online at www.ncsmartstart.org/national/financing/findingthefunds.pdf.

Sin taxes. California and Arkansas have levied excise taxes on cigarettes and beer and allocated a portion of the revenue to support and expand early care and education. California's sin tax revenue is managed by the Children and Families Trust Fund.

Gaming and lottery revenues. Georgia, North Carolina, and Tennessee earmark funds from their state lotteries to support each state's pre-kindergarten program. Missouri is the only state to invest non-lottery gambling revenue for pre-kindergarten.

Child care and earned income tax credits. By 2004, 27 states had enacted child care tax credits, often linked to the federal tax code. Thirteen of these states provide refundable tax credits to families, even if the family has no current tax liability.¹² By 2004, 16 states had enacted state earned income tax credits, with 12 offering refundable credits.¹³ Connecticut is one of 20 states that offer neither an earned income tax credit nor a child and dependent care tax credit.

Corporate tax credits. Over the past decade, 28 states have experimented with some form of corporate tax credit for onsite child care, investments in the early care industry or contributions to child care.¹⁴ A 2002 study of corporate child care credits revealed that in 16 of these states, five or fewer corporations claimed the credit. In five states, no corporation made a claim. It is not clear from this study why the credit was not well utilized; however, the authors hypothesize that credits provided too low a rate of return, many large corporations already pay little or no taxes, and that lack of corporate knowledge of the credits plays a role in under-utilization.¹⁵

Fees. Kentucky has enacted a voluntary motor vehicle surcharge to raise child care funds. Tennessee and Massachusetts added a special fee to license renewals to do the same.

Government Program Funding Strategies

Education funding. Several states including Maine, Wisconsin, Texas and West Virginia have increased their K-12 education budgets to support the enrollment of four-year-olds in district pre-kindergarten programs. Other states, such as Connecticut, include preschool programs in their state general fund education budgets, but not as a specific school readiness or pre-kindergarten line item. Georgia funds a universal pre-kindergarten program through its education department, but revenue is derived from the Georgia Lottery for Education.

Additional support for pre-kindergarten programs comes from both federal and local governmental funds. In a recent NIEER (National Institute for Early Education Research) report, 24 state programs of the 44 surveyed utilized IDEA¹⁶ funding and others utilized Elementary and Secondary Education Act Title I funds earmarked for children in low-income communities. Some used both sources of federal funding. Most of the states' pre-kindergarten programs utilize local funds, and a specific match to state funds is

¹² States with refundable child care tax credits are: Arkansas, California, Colorado, Hawaii, Iowa, Louisiana, Maine, Minnesota, Nebraska, New Mexico, New York, Pennsylvania, and Vermont. Data from the National Center for Children in Poverty. Online at www.nccp.org/media/state_tax_credits_trend.xls.

¹³ States with credits, indicating "yes" if also offering refundability: DC (yes), Illinois (yes), Indiana (yes), Iowa, Kansas (yes), Maine, Massachusetts (yes), Minnesota (yes), New Jersey (yes), New York (yes), Oklahoma (yes), Oregon, Vermont (yes), and Wisconsin (yes). Online at www.nccp.org/media/state_tax_credits_trend.xls.

¹⁴ Connecticut was one of these states, but the program has since been discontinued.

¹⁵ *The Little Engine that Hasn't: The Poor Performance of Employer Tax Credits for Child Care*. National Women's Law Center. (November 2002). Online at www.nwlc.org/pdf/TheLittleEngine2002.pdf.

¹⁶ IDEA is the Individuals with Disabilities Education Act. Online at www.ed.gov/policy/speced/guid/idea/idea2004.html.

required by only eight state programs. The contribution of local funds to pre-kindergarten programs varies from 11% in New York to 40% in Arkansas.

Human service funding. The predominant source of human service funding for early care and early education at the state and local levels is a combination of federal Head Start, TANF (Temporary Assistance for Needy Families) welfare funds, and the federal Child Care Development Fund (CCDF). Most states in the NIEER survey indicated utilizing these funds but few could specify the amount by source. Additional resources are provided by states in the form of maintenance-of-effort allocations. States and communities also allocate funds to a variety of welfare programs for very low income families, some of which subsidize child care. Also, the federal Early Learning Opportunities Act (ELOA) authorizes multi-year discretionary grant funding for programs with an emphasis on child literacy.¹⁷

Health funding. Three states – Kentucky, Maine and Kansas – allocated **tobacco settlement funds** for early care and education. In 2005, Kansas added \$804,000 in tobacco money to its \$12.8 million pre-kindergarten budget, and the state expects to retain that funding structure for the next few years.¹⁸ Louisiana used \$1.5 million in tobacco settlement money to supplement its \$58 million pre-kindergarten program, LA4, in 2004. Rhode Island ensures health care coverage for certain child care providers through its public ly-funded health insurance program.

Higher education and crime prevention funding. At least seven states allocate higher education funds to support early care and early education programs on or near college campuses. Similarly, states like Colorado and New York utilize federal and state crime prevention and justice funds to support facility development, subsidize early care, and provide a range of out-of-school time programs and prevention services.

Non-Government Program Funding Strategies

Philanthropic initiatives. Philanthropic organizations across the nation have, for the past decade, allocated substantial fiscal support for early care and education at the local, state and national level. Nationally, much of the financial support is provided for systems development, quality improvement, public education and public will-building campaigns, research and evaluation – that is, efforts to improve quality and encourage federal, state and local investment.¹⁹ Within states, community, family and corporate foundations along with the United Ways provide similar support. In addition, they assist local providers to deal with such immediate crises as making payroll when state funds are late.

In Connecticut, these types of initiatives include the William Caspar Graustein Memorial Fund's Discovery Community initiative; the Hartford Foundation for Public Giving's Brighter Futures program; the Community Foundation for Greater New Haven's First Years First effort; the Children's Fund of Connecticut; the Connecticut Health Foundation's Promoting Health and Learning Initiative; and a number of United Way community-based Success by Six initiatives.

¹⁷ Several Connecticut municipalities have received time-limited competitive ELOA awards of \$550,000 to \$1,000,000.

¹⁸ *Funding the Future: States' Approaches to Pre-K Finance*. (February 2006). Pre-K Now. Online at www.preknow.org.

¹⁹ As examples, see online at www.preknow.org, www.buildinitiative.org, www.wkkf.org/SPARK.

Employer initiatives. While employers contribute only about 1% of aggregate funds for early care and education, they contribute in other ways. A recent survey of business and employer engagement in early care and education²⁰ found six categories of activity:

- Establishing corporate collaborations to advance dependent care
- Building business-to-business mentoring relationships
- Designing and implementing large-scale media campaigns
- Providing leadership in mobilizing community efforts
- Serving as public policy analysts
- Engaging in funding partnerships, such as participation on United Way Boards of Directors across the nation and contributing to annual United Way fundraising

As one example of a funding partnership, in Alabama, the Employers' Child Care Alliance raises money and contributes to funding services such as resource and referral networks, after-school and summer programs, and child care at non-standard hours. More than three-quarters of the funding is contributed by employers, with additional support provided by AmeriCorps and the National Association of Child Care Resource and Referral Agencies. The initiative is credited with improving the quality of child care for employee children and children in surrounding communities. Other examples of public-private partnerships to improve and expand child care have been chronicled by the Child Care Partnership Project.²¹ Employer involvement in early care policy issues often comes within the context of family-work initiatives.²²

²⁰ Gruendel, J., Orlick, H. and Kantor, A. (June 2003). *Business and Early Care and Education*. CT Voices for Children. Online at www.ctkidslink.org/publications/ece03Business06.pdf.

²¹ Sponsored by the U.S. Department of Health and Human Services, the Administration for Children and Families, and the Child Care Bureau Online at <http://nccic.org/ccpartnerships/home.htm>.

²² Online at www.cvworkingfamilies.org. One example of a national corporate collaboration established for that purpose is Corporate Voices for Working Families, a nonprofit "corporate partnership organization created to bring the private sector voice into the public dialogue on issues affecting working families." Its 47 corporate members include Bank of America, Deloitte & Touche, and IBM. Corporate Voices for Working Families has issued national reports on early care and education, held forums, testified in Congress and authored an annual EITC Toolkit.