TRANSFORMING THE FINANCING OF EARLY CARE AND EDUCATION

Committee on Financing Early Care and Education with a Highly Qualified Workforce

Presented by Jerry Cutts and Elizabeth Davis
Transforming Minnesota’s Early Childhood Workforce
October 29, 2018
Committee Membership

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The committee will study how to fund early care and education for children aged 0-5 that is accessible, affordable to families, and of high-quality, including a well-qualified and adequately supported workforce, consistent with the vision outlined in the report, *Transforming the Workforce for Children Birth Through Age 8: A Unifying Foundation.*
Committee’s Principles for High-Quality ECE

High-quality ECE requires:

1) A diverse, competent, effective, well-compensated, and professionally supported workforce across the various roles of ECE professionals.

2) All children and families have equitable access to affordable services across all ethnic, racial, socioeconomic, and ability statuses as well as across geographic regions.

3) Financing that is adequate, equitable, and sustainable, with incentives for quality and that is efficient, easy to navigate, easy to administer, and transparent.

4) A variety of high-quality service delivery options that are financially sustainable.

5) Adequate financing for high-quality facilities.

6) Systems for ongoing accountability, including learning from feedback, evaluation, and continuous improvement.
Current Landscape of ECE Financing

• **Financing for ECE** is a multiplicity of separate programs, with different funding streams, constituencies, eligibility requirements, and quality standards.

• Low-income families pay a much higher share of income for ECE than high-income, and inadequate funding and lack of harmonization means there are gaps for low income families and underutilization by middle income families.

• Funding is not always linked to quality standards, and there are few incentives for quality.

• Overall compensation for the ECE workforce is low, with limited funding for higher education and professional development.
Funding Streams and Financing Mechanisms

• **Funding stream:** A program or funding source that specifies the uses of the funds and who is eligible to receive them.

• **Financing mechanisms:** the methods by which funds are distributed to entities such as providers, families, the workforce, and system-level actors
  1. Provider-oriented
  2. Family-oriented
  3. Workforce-oriented
  4. System-oriented
# ECE funding streams (subsidized care)

<table>
<thead>
<tr>
<th>Subsidized care</th>
<th>Target population</th>
<th>Funding mechanism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head Start/Early Head Start</td>
<td>Families with income &lt; FPL, ages 0-5 years</td>
<td>Direct to providers</td>
</tr>
<tr>
<td>CCDF (child care subsidies)</td>
<td>Qualifying low-income families, ages 0-12 years</td>
<td>To providers via vouchers or contracts</td>
</tr>
<tr>
<td>TANF transfer to CCDF and TANF direct child care</td>
<td>Qualifying low-income families, ages 0-12 years</td>
<td>To providers via vouchers or contracts</td>
</tr>
<tr>
<td>State and locally-funded prekindergarten</td>
<td>Targeted or universal, ages 3-5 years</td>
<td>To providers via vouchers, scholarships, contracts, grants, or school-funding formulae</td>
</tr>
</tbody>
</table>

For sources, see Table 2-2
## ECE funding streams (Tax credits)

<table>
<thead>
<tr>
<th>Tax-based subsidies</th>
<th>Target population</th>
<th>Funding mechanism</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDCTC (Child and Dependent Care Tax Credit)</td>
<td>Working families with tax liability, ages 0-12 years</td>
<td>Personal income tax credit (refundable in some states)</td>
</tr>
<tr>
<td>DCAP (Dependent Care Assistance Program)</td>
<td>Working families with tax liability, ages 0-12 years (and adults)</td>
<td>Employer-administered account to pay for eligible expenses with pre-tax dollars</td>
</tr>
<tr>
<td>Employer-provided child care credit</td>
<td>Working families with qualifying employer, ages 0-12 years</td>
<td>Employer tax credit</td>
</tr>
</tbody>
</table>

For sources, see Table 2-2
Current ECE Financing Landscape

- Families pay about 52% of ECE costs
- Federal, state and local govts 46%
- Private sector 2%
- Multiple funding streams
- Gap in funding to meet cost of high-quality
Estimating the Cost of High-Quality ECE

• **Onsite Costs**
  – Staffing levels and structures
  – Staff qualifications and compensation
  – Onsite professional responsibilities and learning
  – Operating hours and days
  – Facilities and other non-personnel costs

• **System-level Costs**
  – Workforce education and professional development
  – Quality assurance, monitoring and data systems
Key Assumptions for Illustrative Cost Estimate:

– Staffing levels consistent with recognized high-quality standards
– Higher compensation and benefits
– Lead educators with a BA degree
– Resources for coaching and mentoring
– Paid time for professional responsibilities such as child assessment and planning
– Paid release time for professional development
– Specialists for children with special needs
Current **Funding** Levels Compared to Estimated **Cost** of High-Quality Center-Based ECE

<table>
<thead>
<tr>
<th>Per child, annualized</th>
<th>4-yr old</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head Start, Early Head Start</td>
<td>$8,038</td>
</tr>
<tr>
<td>Public pre-kindergarten</td>
<td>$4,976</td>
</tr>
<tr>
<td>CCDF subsidy payment rate (avg. all states)</td>
<td>$7,170</td>
</tr>
<tr>
<td>Federal CCDTC: max allowable annual expenses per child</td>
<td>$3,000</td>
</tr>
<tr>
<td>DCAP per household (married couple)</td>
<td>$5,000</td>
</tr>
<tr>
<td>On-site costs of high quality ECE: Committee estimate</td>
<td>$13,655</td>
</tr>
</tbody>
</table>
### Estimated Total Cost of High-Quality ECE System

**Dynamic Estimates** of Total Cost and Share of Total Cost by ECE Provider Type and by Scenario Phase (billions of 2016 dollars)

<table>
<thead>
<tr>
<th></th>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
<th>Phase 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total, dynamic estimate</strong></td>
<td>$74.5</td>
<td>$89.0</td>
<td>$114.3</td>
<td>$139.9</td>
</tr>
<tr>
<td><strong>Center-based</strong></td>
<td>$49.8</td>
<td>$62.5</td>
<td>$82.9</td>
<td>$105.2</td>
</tr>
<tr>
<td><strong>Home-based</strong></td>
<td>$24.8</td>
<td>$26.4</td>
<td>$31.4</td>
<td>$34.7</td>
</tr>
</tbody>
</table>

**Share of total by provider type**

<p>| | | | | |</p>
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<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>Center-based</strong></td>
<td>67%</td>
<td>70%</td>
<td>73%</td>
<td>75%</td>
</tr>
<tr>
<td><strong>Home-based</strong></td>
<td>33%</td>
<td>30%</td>
<td>27%</td>
<td>25%</td>
</tr>
</tbody>
</table>
Total Cost in Perspective

- OECD countries spend an average of 0.8% of GDP on ECE
  - Phase 1: amounts to 0.4% of current U.S. GDP
  - Phase 4: amounts to 0.75% of current U.S. GDP

- Total cost of high-quality ECE less than K-12 spending
  - Phase 1: about 12% of total K-12 expenditures
  - Phase 4: about 22% of total K-12 expenditures
Sharing the Cost

• Variety of approaches to determining a reasonable share of costs for families to pay

• Assumptions for illustrative example
  – Family payments at the lowest income level reduced to $0
  – Family payments as a share of family income increase progressively as income rises
  – Burden for families with income between 2-3 times the federal poverty set at 10 percent (the current median family payment for this group).
Dynamic Estimate of the Total Cost by Transformation Phase, with Estimated Shares of Public and Family Contributions and Needed Increase above Current Public Spending (billions of 2016 constant dollars)

<table>
<thead>
<tr>
<th></th>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
<th>Phase 4</th>
</tr>
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<tbody>
<tr>
<td>Total, dynamic estimate</td>
<td>$74.5</td>
<td>$89.0</td>
<td>$114.3</td>
<td>$139.9</td>
</tr>
<tr>
<td>Family payment</td>
<td>$40.7</td>
<td>$45.1</td>
<td>$51.9</td>
<td>$58.2</td>
</tr>
<tr>
<td>Public/private assistance</td>
<td>$33.8</td>
<td>$43.9</td>
<td>$62.5</td>
<td>$81.7</td>
</tr>
</tbody>
</table>

Needed Increase Above Current Public Spending ($29 billion)  

<p>| | | | | |</p>
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<tr>
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</thead>
<tbody>
<tr>
<td></td>
<td>$4.8</td>
<td>$14.9</td>
<td>$33.5</td>
<td>$52.7</td>
</tr>
</tbody>
</table>
Recommendation 1. Consistent Standards

• Fed. and state governments should establish **consistent standards**
• Funding should be linked to standards
• Funding should be sufficient to cover costs of high quality ECE
Rec. 2. Promote Access for All Children to High Quality Care

- Access not contingent on parental employment
- Fed. and state governments should set uniform progressive family payment standards
- Costs not covered by family payment should be covered by **direct support** to providers and assistance to families
Rec. 3. State Agencies Should Act as Coordinators

- Most applicable to states that have demonstrated a willingness to implement a high quality ECE system
- State agencies should act as coordinators for state and federal financing mechanisms (other than federal and state tax preferences directly to families)
Recs 4-5. Sharing the Cost

Rec 4: Federal and state governments should increase funding levels and revise tax preferences to ensure adequate funding.

- Ongoing significant role for the federal government
- New revenue sources should meet standard criteria for a good tax (e.g. fairness, stability, revenue-raising potential).

Rec 5: Family payments for families at the lowest income level should be reduced to zero, and if a family contribution is required by a program, that contribution, as a share of family income, should progressively increase as income rises.
A coalition of public and private funders should support the development and implementation of a first round of local-, state-, and national-level strategic business plans to guide transitions toward a reformed financing structure for high-quality ECE.
Rec 7. Assistance for current ECE workforce to increase their knowledge and competencies.

Recommendation 8: Grants to institutions and systems of postsecondary education to develop faculty and ECE programs. with incentives to states, colleges, and universities to ensure higher-education programs are of high quality and aligned with workforce needs.
Rec 9: **Sustained funding for research and evaluation** on early childhood education, particularly during the transition period -- both state and federal government.

Rec 10. **Ongoing federal data collection and research**
A Vision for Minnesota

Build on what already is happening in Minnesota (process is key)

• Public-private partnerships
• Workforce development and compensation working groups
• Widespread support of workforce and economic development arguments for ECE
• Prenatal to three focus - expand?
• Think about positive steps for each phase
• How do MN core principles line up with the report’s principles?

How can MN public and private leaders help to shape a national strategic business plan that will help to influence the federal role/share?
Final Thoughts

Reliable, accessible high-quality ECE, can be achieved.

- Greater harmonization and coordination among multiple financing mechanisms and revenue streams
- Greater uniformity in standards and funding linked to standards to support and incentivize quality
- Significant mobilization of financial and other resources shared across the public and private sector
- More equitable distribution of the share from family contributions and a commitment to major increases in public investment
Appendix
Principle 1: Financing a Highly Qualified Workforce

High quality ECE requires a diverse, competent, effective, well-compensated, and professionally supported workforce across the various roles of ECE professionals.

Current failures

• Compensation of ECE practitioners is low
• Salaries are not predictable and steady
• Limited funding for higher education programs and professional development
Principle 2: Affordability and Equitable Access

High quality ECE requires all children and families have **equitable access** to affordable services **across all ethnic, racial, socioeconomic, ability status, geographic regions.**

**Current failures**

- Low income families (who pay for care) pay 20 percent of income; highest income pay 6 percent
- Inadequate funding keeps many qualified families from getting assistance
- Programs are not harmonized => gaps for low income families and underutilization by middle income families
High quality ECE requires financing that is adequate, equitable, and sustainable, with incentives for quality. Moreover, it requires financing that is efficient, easy to navigate, easy to administer, and transparent.

**Current failures**

- Inadequate financial support to providers and families
- Few incentives for quality
Principles 4 and 5

High quality ECE requires:

4. a variety of high quality service delivery options that are financially sustainable
   – Tradeoff between provider oriented and family oriented financing mechanisms

5. adequate financing for high quality facilities
   – Loans, grants, tax credits, other financing mechanisms
Principle 6: Accountability, Evaluation, and Continuous Improvement

High quality ECE requires systems for **ongoing accountability**, including learning from feedback, evaluation, and continuous improvement.

**Current limitations**

- Quality rating and improvement systems (QRIS) exist in many states but have limited capacity to support and reward workforce supports
Study Sponsors

Administration for Children and Families, U.S. DHHS
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Foundation for Child Development
Bill and Melinda Gates Foundation
Heising-Simons Foundation
Kresge Foundation
W. K. Kellogg Foundation
National Academies’ of Sciences, Engineering, and Medicine
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Key Messages

• High-quality ECE is critical to positive child development and has the potential to generate economic returns.
• The current financing structure is inadequate to support the recruitment and retention of a highly qualified workforce and ensure and incentivize high-quality services across settings.
• Only a small share of children currently have access to high-quality programs.
• The total cost of providing access to affordable, high-quality ECE for all children exceeds current funding amounts.