HUMAN SERVICES POLICY CENTER

Policy Brief

January 2003

Finding the Funds: Opportunities for Early Care and Education

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The United States faces a perverse equation: Early Care and Education (ECE) costs too little to provide the quality needed for our children to thrive, but too much for most households to afford to pay more. The current average cost of full time licensed care approaches 20 percent of average take home pay.[i] Breaking out of this box will require designing universal financing systems, since increasing the cost to allow high quality will make it even less affordable for middle income families. Even if designed to be cost effective, universal financing is likely to require significant increases in revenues to help families afford the cost of high quality ECE. However, on a per child basis, the US currently spends only one tenth as much on early education as on elementary and secondary education,[ii] so increased revenues may be justified as a necessary component of education policy.

In this Policy Brief, I discuss the advantages and drawbacks of five potential ways to direct additional revenues to ECE:

- Modifications to Existing ECE and K-12 Programs
- Private Contributions from Employers, Philanthropy
- General Revenue Funds
- Dedicated Taxes
- Loans and Revolving Funds

It should be noted that there are many ways to raise public revenue – taxes on income, property or sales; lotteries or public sales of liquor; fees charged for public services or natural resources. Each of these can raise small or large amounts of revenues, depending upon the revenue base in a particular jurisdiction and the tax or payment rate established. Here we are concerned with alternative strategies for seeking additional revenues from any of these sources. The best mix of revenue sources will depend upon the political circumstances – including constitutional provisions – of each local, state or federal jurisdiction.

Modifications to Existing ECE and K-12 Education Programs

Some states have multiple ECE programs with overlapping services and inconsistent eligibility standards. Fees charged to parents may vary based on income, as in vouchers provided under the CCDF block grant. Others services may be provided free, regardless of income, as in Head Start or Kindergarten programs. Funding may be redirected by instituting a standard sliding-scale co-payment schedule across programs or for a unified program. However, it is not likely that major funding to cover the costs of expanded eligibility and quality can be generated this way.

Elementary and Secondary education programs, both expansions under the No Child Left Behind Act, and the original Title I allow states and school districts considerable flexibility to use funds for early education. These funds could be used for either program expansion or quality enhancement. Similarly, federal education and child care programs make discretionary grants to fund quality enhancements. Existing funding sources could therefore be mobilized for limited expansions of ECE to more children, or for enhancing the quality of care. However, these sources are not sufficient to meet the costs of major changes toward universal access to high quality ECE.

Private Contributions from Employers, Philanthropy

Private philanthropies and employers contribute significant amounts of flexible funding for ECE. Florida, North Carolina and Colorado have all enacted state tax incentives to encourage such contributions into consolidated funds that can be spread through the community, not just to the employees of a few firms. These initiatives have generated modest amounts of revenue.[iii] For example, through a combination of United Way and corporate contributions, Allegheny County, PA raised a substantial pool of funds to improve quality and access. Employers have also developed some innovative approaches to assistance. Led by the Marriott Corporation, a consortium of Atlanta hotels provides ECE for their employees, and the Boeing Company expanded its employee benefit plan to offer stipends if the providers met quality standards. Disability payments to cover costs of care for mothers of infants, pioneered in New Jersey and several other states, draw from social insurance funds to which employers and employees make equal contributions.

However, some basic numbers suggest that employers are not likely to fund major increases in operating revenues for quality

ECE. Based on various studies, we believe that moving to high quality ECE will require cost increases in the range of $2-7 per hour, depending upon the age of child, type of care, and state labor market. However, current employer payments for health, disability and retirement benefits currently average $2.47 per hour for all civilian workers, $1.35 for services workers,[iv] and employers are cutting them back. With employers cutting back on current health and retirement benefits of less than $2.50 per hour, it is hard to see how they would take up a significant share of $2-7 hourly cost increases for quality ECE.

Nevertheless, private funds can contribute significantly to the cost of improving quality in the system – encouraging professional development of staff, supporting local governance and quality certification systems, and monitoring the quality of ECE in a community. We estimate that these enhancements will constitute a small share of the total cost of high quality care.[v]

General Revenue Funds: Multiple Sources of State and Federal Revenues

The bulk of current federal and state funding for both ECE and elementary and secondary education currently come from general revenues, which are allocated in each budget cycle by legislative action. Any type of tax or fee may be included in general revenues, as long as it is contributed to a common fund and available for most purposes. However, the broadest-based taxes, raising the greatest amounts, are usually levied as general revenues; these include income, sales, property and excise taxes. Federal CCDF and Head Start funds are supported by general revenues; it is not possible to distinguish the shares from individual or corporate income taxes or excise taxes (such as those on alcohol and tobacco) that go into the general fund support these programs. Except for lottery funds raised by some states, public K-12 education is supported mostly by state and local general revenue funds, with the mix of income, real estate and sales tax contributions varying greatly from state to state.

Maine, Wisconsin, West Virginia and Texas have increased public education funding to include early education.[vi] Rhode Island and Ohio have used state funds to increase the availability of vouchers for moderate income families and to pay for state Head Start programs. Many states and districts use general public education funds to pay for pre-K programs. Higher education is largely supported by general fund state revenues. Since appropriations to public colleges and universities accounts for a significant share of actual costs, and reduces tuition to students, these funds can support the professional development of ECE staff at colleges and universities, as well as assisting students and faculty to afford ECE.

The advantage of general revenue financing is that it is highly flexible, with total funding limited only by the overall citizen tolerance for taxation, which varies greatly from state to state. Since the public has long supported taxation for public education, linking ECE funding to education budgets has an advantage. As New Jersey has shown, many states have a constitutional requirement to fund public education, that requirement can be extended to early education through court suits. The litigation approach has been quite successful in changing K-12 finance, but little tested for early education. The recent trend away from law suits based on *equity* for low income children to court rulings requiring *adequacy* of education for all children[vii] may open new doors for ECE. The central disadvantage is the heavy annual competition among programs with compelling needs, ranging from public education, to child abuse and neglect, to environmental protection and health care. Tax and spending limitation measures have become popular in many states, limiting the ability to increase general revenues.

Taxes Dedicated Specifically to ECE, Early Childhood or Education

As with general revenues, all or a portion of any type of tax or fee can be dedicated to ECE, or to somewhat broader purposes which may include ECE. Public opinion polls have shown that the public is more inclined to support limited tax increases for specified purposes than general tax increases for a broad range of public programs. This is evidenced in the success of California's increase in tobacco taxes with funds dedicated to early childhood programs; lotteries dedicated to education in Georgia, Florida and South Carolina; increases in beer taxes for education in Arkansas; and the creation of local taxing districts for child and family services in Florida and increasing or earmarking real estate taxes in Seattle, San Francisco and Portland, Oregon.[viii]

The advantages of promoting dedicated sources are that they can generate entirely new revenues and their visibility makes it hard to divert the funds away from ECE to other purposes. The disadvantage is that it takes a major campaign to enact new revenues, and the level of funding may turn out to be insufficient, or fall behind needs, if the original amount of an excise tax cannot be increased or participation in a lottery declines. Dedicated excise taxes are often regressive, falling most heavily on low and moderate income families; however, if the funds are distributed in a progressive way, with most funds going to low and moderate income groups, the overall result can be progressive.

Earmarking has been used in several places to allocate a fixed portion of a more general revenue source to ECE; it is essentially a method for converting a general revenue source to a dedicated one. Earmarking has the advantage and disadvantage of not increasing total revenues: it may be easier to enact, but sets up competition with other programs and unless it covers the full needs of ECE programs, policy makers may be tempted to reduce other allocations in recognition of the earmark.

Loans and Revolving Funds

Lending money from a revolving fund is an interesting approach that has not been used much for ECE, though it is common in housing programs. Loan funds for ECE in several states have primarily supported capital improvements by providers. In higher education, both direct and guaranteed student loans are major sources of ongoing revenues. The size and subsidy level of loans can vary with student or family income, but making the cost of quality learning opportunities available to moderate and middle income families. We have conducted exploratory studies suggesting that guaranteed loans with subsidized interest rates could help moderate and middle income families spread out the costs of early care and education, so they wouldn't have to pay them all at once when their children are young and their earnings lowest.[ix] Subsidized education or training loans could also be a way to help ECE teachers to obtain degrees or credits to qualify for higher salaries.

The advantage of loans and revolving funds is that money could be raised once from private or public sources, rather than having to be raised anew each year. Many private philanthropists are willing to make a major one-time capital contribution, but resist ongoing obligations to support operating costs. A revolving loan fund could allow philanthropies to make a single contribution, which the fund could then spend on an annul basis to assist families or providers, with repayments replenishing the fund. Spreading the costs of high quality ECE over time through subsidized loans would have a lower annual impact on state budgets than fully subsidizing ECE. The disadvantage is that loans would add to the debt burden of moderate income families and would not be feasible for low income families. These are appropriate for limited purposes or populations, but not likely to form the core of a major universal financing initiative.

Conclusion

It is clear that making high quality Early Care and Education financially accessible to all families will require additional revenues. The amount of revenues required will vary greatly depending upon the policies selected. The discussion in this policy brief suggests that there is not a single simple answer to the question of what is the best way to raise revenues: each has advantages and drawbacks. Balancing the pros and cons will require each state to determine how much revenue must be raised to fund desired policies, and how to resolve the competing considerations of financial adequacy, income equity and garnering public and political support.

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The author gratefully acknowledges helpful comments from Louise Stoney, Anne Mitchell, Erin Maher and Louise Carter, while remaining responsible for the content and conclusions.

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