

# FINANCING PUBLIC PRESCHOOL PROGRAMS: CURRENT PRACTICES AND FUTURE POSSIBILITIES

## EXECUTIVE SUMMARY

Public investments in early education have increased significantly in recent years, with 39 states and the District of Columbia offering publicly funded preschool programs. However, few states have committed to finance programs for *all* three- and four-year-old children. Many European countries embraced broadly available, publicly financed early childhood programs long ago, but in the United States, families still pay most of the cost of preschool education. As a result, many parents do not enroll their children in *quality* early education programs because they cannot afford, or locate, such programs in their neighborhoods.

At present, federal commitments to early education focus primarily on poor children; state programs also usually limit services to under-served, at-risk children. Providing public preschool programs for all three- and four-year-olds will require significant political and financial commitments—requiring an estimated \$16 billion to \$27 billion in new money each year.

Mounting evidence suggests that high-quality early education, though expensive, is a cost-effective investment that generates broad economic and social benefits to taxpayers as well as the children who attend. Expansion of public preschool programs will certainly require streamlining existing investments and additional resources. But to ensure that access to high-quality preschool is a reality for all children, new models of revenue generation—such as parental cost-sharing, public/private partnerships, and debt financing—should also be considered.

### A Wise Investment

Children who attend high-quality preschool programs do better in school and later in life, demonstrating higher educational achievement and attainment, less involvement in crime as juveniles and adults, and better employment outcomes with higher earnings and less dependence on welfare in adulthood.

Public investment is justified because high-quality preschool increases the likelihood that students will become net economic and social contributors to society, allowing governments to dedicate more resources to productive endeavors rather than to remediation, incarceration, and welfare. Early investments in children that lead to an improved workforce will also likely boost America's long-term economic growth and standards of living.

### Current Financing Strategies

Public funding for early childhood education is provided through a mix of federal, state, and local revenue streams.

*Federal Revenue Streams.* The federal government directly funds some early childhood education programs, and also provides additional monies that communities and families can use for early education and care programs. The federal Head

Start program, which provides education and other services to poor three- and four-year-old children, is probably the most well-known preschool program. Federal monies from Part B of the Individuals with Disabilities Education Act and the Even Start program also directly support preschool programs.

It is also possible for preschool programs to receive support from several other appropriated programs, including Title I funding of the No Child Left Behind Act and the Child Care and Development Fund (CCDF) which subsidizes child-care slots and also provides vouchers.

*State and Local Revenue Streams.* Most states fund prekindergarten programs using general revenues raised from sales taxes, income taxes, or other taxes and fees. Some cities and states finance prekindergarten programs by earmarking a portion of existing taxes, or levying new taxes, specifically dedicated to children's programs. Other localities have opted to use property taxes and sin taxes to raise revenues; however, sin taxes do not provide a stable source of funding as they often change consumer preferences and lessen or eliminate use of the taxed product. Some states have turned to gaming revenues to finance preschool programs, with Georgia, North Carolina, and Tennessee using lottery proceeds and Missouri investing revenue from its casino gambling industry.

Though operating costs are usually financed using general revenues, building new facilities often requires patching together grants, loans, and newly issued municipal bonds. Some states provide grants for capital improvement, while others guarantee infrastructure loans, making it easier for providers to obtain capital improvement funding. Connecticut developed a "pooled revenue bond" program allowing preschool providers to apply for low-interest loans but requires them to repay only 15 to 25 percent of the loan value, with the state paying the balance. Illinois agreed to pay the debt on a revenue bond to build a number of new facilities.

*Distribution of State Funds.* States can distribute funds for preschool programs quite differently; nonetheless, they generally use one or more of the following methods.

*School Funding Formula*—Several states distribute preschool dollars through the same public school funding formula used to finance K-12 education, ensuring budgets reflect changes in the preschool population.

*Noncompetitive Grants*—Some states direct funding to school districts using allocation formulas or noncompetitive grants, with criteria such as district poverty rates or dropout rates used to select the districts receiving grants.

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Competitive Grants—Other states allocate preschool funds using a competitive grant process that does not rely on school-based measures, thus encouraging community-based providers to apply.

In addition, nearly one-half of states provide matching state supplements directly to established local Head Start programs to increase capacity and improve quality. Some states also give fixed-dollar amount vouchers to parents, allowing them to purchase services directly from school- or community-based providers.

### **Innovative Financing Strategies**

As policymakers struggle with ways to finance early education programs that increase access and improve quality, they may need to consider other financial models currently operating within education, in other sectors, or in other countries.

*Federal/State Cost Sharing.* A federal-to-state preschool grant program could be established in which the federal government provides states with funding for those children residing in families earning below 85 percent of state median family income, thus requiring nearly equal cost-sharing between federal and state governments. Federal, state, and local governments could also simply expand existing programs and continue to share part of the costs, expanding and improving Head Start to provide more slots for children from low-income families while expanding existing state programs to enroll all children whose parents want them to attend. Existing charter school laws and funding structures already in place could also be used to expand the charter school concept to preschool, allowing community-based providers to participate.

If public preschool programs continued to be financed using various federal, state, and local funding streams, efforts should be made to coordinate or blend these diverse funding streams together. By combining monies and developing a more integrated delivery system, states can offer more comprehensive programs that meet the diverse needs of families.

*Parent Cost-Sharing Model.* Publicly available preschool programs could also be structured such that parents share the cost. Ideally, public funds would provide a quality part-day program for all students, with additional hours or services possibly requiring parental co-payments based on need. But even if the core preschool program required parental co-payments, many families currently struggling to pay out-of-pocket (or who cannot afford high-quality programs) would likely qualify for some subsidized services if fees are assessed on a sliding-income scale.

*Public/Private Partnerships.* Public/private partnerships could leverage private funding to expand preschool programs. State and local governments could create endowments in partnership with the private sector, encouraging contributions by matching donations or offering tax credits. For example, Nebraska recently established the Nebraska Early Childhood Endowment Fund to raise \$60 million, with one-third from private donations, to serve at-risk children from birth through age three.

*Higher Education Model.* Higher education and early education share many similarities, and structuring a preschool

financing system modeled after higher education would result in shared financial responsibility among families, governments, and the private sector. As in higher education, state appropriations would subsidize the cost for all students, parents would contribute a percentage of subsidized tuition costs depending on their family's ability to pay, and federal and state financial aid, largely grant based, would be made available.

*Structured Finance.* Drawing upon existing structured finance models used in housing and higher education loan programs, public preschool programs could be financed through the issuance of debt in capital markets. By taking advantage of attractive financing available in the capital markets, more money could be raised for preschool programs than is available in the current pay-as-you-go system. Parents or other public or private institutions currently paying for preschool will have responsibility for repaying the scholarships (for instance, states or other entities would repay scholarships for families meeting needs-based criteria).

*Lessons from Other Programs and Sectors.* The public financing of non-education programs and sectors that benefit broad populations, including housing, transportation, and retirement programs, provides insight on alternate instruments and incentives that could be used to finance preschool. Programs in these areas tend to employ a diverse set of funding strategies including direct financial support, tax policies, and aid to individuals and families using these public programs or services; private sector involvement is also encouraged.

### **Looking Abroad**

In most European countries, federal and/or local governments pay a majority of early education and care costs by raising revenues through various taxes on income, sales, and business. Though European governments provide significant financial support, parents often still pay for publicly funded services on a sliding scale according to income. Despite widely available early childhood programs, public funding often does not extend over the full working day and parents pay additional fees for wrap-around care.

Countries have adopted a range of financing mechanisms to improve affordability, including fee subsidies where parents receive vouchers or cash grants based on family income and size to purchase care. They use tax relief where families can deduct early education and care expenses from their tax payments. Finally, they use employer contributions where employers pay for their employees' child care costs and are then allowed to deduct these payments from their corporate taxable earnings.

### **Conclusion**

The broad economic and social benefits that accumulate to both individuals and society from high-quality early learning experiences should make investing in preschool an easy decision. Although difficulty may arise in finding the necessary dollars, with numerous financing models already in place and a number of new ideas to consider, federal, state, and local governments should move forward and provide all children with the early education they deserve.