

# CED IN BRIEF

## A Policy Series From A Business Perspective

### PAYING FOR UNIVERSAL PRE-K

The Committee for Economic Development has called on the nation to provide universal access to prekindergarten education for all 3- and 4-year-old children whose parents want them to participate. CED Trustees believe that pre-K should eventually be free, as is elementary and secondary education. Preschool with no parental fees could require new public expenditures of \$25 to \$35 billion annually. Yet states are reeling from budget woes, with many suffering their worst fiscal crises since World War II, and cutting spending, rather than adding new programs.

Current budget realities will clearly affect the pace at which universal pre-K is adopted. Short-term fiscal problems, however, should not be allowed to push pre-K off the public agenda until budget conditions improve. The benefits of early education for both individuals and society are too important for that. Instead, pre-K advocates need to identify and support financing strategies to address both the short-term and the long-term financing challenges involved in extending public financing of education to preschool-age children. Pre-K financing challenges are especially pressing for states, given their current budget problems, their constitutional or legislative prohibitions against running deficits, and the fact that their tax structures may not (even in good times) be adequate to meet state governments' growing responsibilities.

Following are three ideas for making it easier for states to pay for pre-K. The first two—phasing in public financing and cost-sharing with

the federal government—were included in CED's report on universal pre-K. The third—addressing structural deficits in state finances and volatility in state revenues—highlights the importance of ensuring that states will have the fiscal capacity to meet their long-term responsibilities not only for pre-K, but for a host of important public services.

#### Phasing in Public Financing

Most states already offer some children prekindergarten opportunities that help prepare youngsters to learn and develop before entering elementary school. In many cases these publicly-supported opportunities are only available to children from low-income families or who are otherwise thought to be at educational risk. Existing programs can be gradually expanded to serve all children whose families want them to enroll, as experiences in several states and localities show. Jurisdictions that cost-share with parents, as suggested in CED's report, are in the best position to achieve universal access even before their budgets can support complete public funding.

**Georgia**, the only state that currently has implemented voluntary universal prekindergarten for 4-year-olds, began its program in 1992 with limits on eligibility. In 1995 the program was expanded to all children. Enrollments have grown so that now approximately 70 percent of Georgia's 4-year-olds participate in either Georgia pre-K or federally-funded Head Start.

CED's 2002 policy statement, *Preschool for All: Investing in a Productive and Just Society*, presents a detailed argument for universal prekindergarten education and provides recommendations on how federal and state governments can partner to make universal access to quality preschool programs a reality.

*Preschool for All*, along with other related materials, is available electronically on CED's website at <http://www.ced.org>. Printed copies can be purchased for \$18 each, plus shipping and handling, by calling CED at 202-296-5860.

**New York State** enacted a universal prekindergarten program in 1997, planning to implement it over a five-year period at an estimated cost of \$500 million annually. Budget problems have limited funding to about \$200 million annually. The state has chosen to target available funds to school districts with the neediest students but to make all children living in those jurisdictions eligible. Presumably, as more money becomes available universal access will be offered in additional districts.

**Los Angeles** has started down the path to universal preschool for 3- and 4-year-olds thanks to a decision by the county's First Five Commission to use L.A.'s share of California's cigarette tax for this purpose. In 1998 California voters passed Proposition 10, raising the cigarette tax and dedicating the new revenues to programs for young children. L.A.'s commission recognizes that universal prekindergarten in the county will require more money than the cigarette tax provides and that the current prospects of more state funding are dim. But the Commission will use available funds to get started, by taking such incremental steps as integrating new and existing preschool and child care facilities in one program, defining the universal preschool program (curriculum, staff requirements, etc.), building community support, and developing measures of success.

**Union City, California** (in Alameda County) has adopted cost-sharing with parents to make preschool available to every 3- and 4-year-old in its New Haven Unified School District, regardless of income. Families meeting state guidelines (e.g., no more than \$37,645 annual income for a family of four) can enroll their children free; others pay \$441 monthly for the most extensive of three options (5 days a week, 3 hours per day). Every elementary school in the district and several other sites offer pre-K and enroll children on a first-come, first-served basis. Children whose local school is full can enroll elsewhere. Currently there is a small waiting list because of space limitations, but the district hopes eventually to have enough places for all who apply. About 80 percent of eligible children are now enrolled, and about 90 percent pay no fees. New Haven's program marks the first known attempt by any school district in the state to offer preschool to all interested families.

## **Cost-Sharing with the Federal Government**

In *Preschool for All*, CED Trustees argued that the federal government should share responsibility with the states, on a roughly 50-50 basis, for meeting the costs of universal prekindergarten. Because expanding access and opportunity in education has long been seen in the United States as a special federal role, the Trustees called on the federal government to provide grant funds to states sufficient to ensure access to preschool for children from lower-income families.

The Trustees are mindful that the federal budget has turned from surplus to what appears to be a long-term structural deficit. They are, however, also concerned that the potential budgetary "crowding out" of productive public investments—basic scientific research, improved public schools, expanded access to quality preschool education, and other efforts that CED has consistently supported—poses a risk for long-term economic growth. These public investments are a needed complement to private investment; basic research helps to build a store of knowledge that leads to future technological advances, while workforce skills make new technologies more productive. But when budget deficits grow, there is a danger that public investments will be shut out.<sup>1</sup> These deficits should not preclude discussion of a significant federal role in expanding access to preschool programs, and long-term budget priorities should reflect the importance of this investment in young children.

It is also important to remember that the federal government can help foster the expansion of preschool opportunities in a number of ways besides supporting direct operating expenses. Washington can help states create the infrastructure that will be needed to support universal preschool. This includes

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<sup>1</sup> Committee for Economic Development, *Economic Policy in a New Environment: Five Principles*, Washington, DC: author, no date, available online at [www.ced.org](http://www.ced.org). The importance of maintaining public investments that support economic growth even in the current fiscal predicament is described in a forthcoming CED policy statement on fiscal policy and long-term economic growth (which will also be available online).

addressing the need to expand the number and qualifications of preschool teachers and the need to find acceptable space for preschool programs. Washington can provide states with assistance in developing program standards and in developing the monitoring and technical assistance capacities necessary to implement these standards.

Data collection needs to be improved; currently there is virtually no routine data collection, either at the federal level or within the states, that provides complete and unduplicated information about the participation of young children in early care and education programs and how access, affordability, and outcomes have changed over time. The federal government should foster the availability and comparability of nationwide data on early education, as it does for K-12 and postsecondary education: through national surveys, procedural handbooks, national outreach and professional communication efforts, and technical assistance. More research is also needed, and federal sponsorship is important because the results will benefit all the states. Existing research has provided important insights about the learning capabilities of young children, but more work is needed to guide the development of policies and practices that promote effective early learning.

### **Reforming State Tax Structures**

State budgets are currently in dire straits because of conditions in the broader economy, but even when the economy improves many experts question how fast (or if) state fiscal health will return. State programs may be in jeopardy long after the national economy recovers from its current slump because (1) many states appear to be suffering from “structural deficits,” meaning that public revenues are not growing as fast as incomes and as demands for public services; and (2) state tax revenues are quite volatile, resulting in “boom and bust” cycles of program expansion and contraction that can be devastating for people dependent on state-funded programs. Advocates of universal preschool programs cannot, therefore, concern themselves only with issues directly related to preschool finance, but must also be willing to address larger questions of

what they want state governments to do and whether their revenue systems are equal to the task.

Economist Alice Rivlin has recently raised this challenge in a Brookings Institution policy brief on the mismatch between state tax structures and the demands being placed on them. She points clearly to the danger of ignoring this challenge: “Politics, plus pressure to hold down tax rates for fear of losing jobs and affluent people, may result in under-funding services that most citizens favor and that would help the economy grow.”<sup>2</sup>

The evidence is growing that Americans want their states to expand preschool opportunities for young children. In addition to the universal preschool programs already implemented or underway in Georgia and New York State and various localities, Florida voters in November 2002 approved a constitutional amendment requiring the state to provide voluntary free prekindergarten for all 4-year-olds by the fall of 2005. A 2002 public opinion poll in Washington state found that three-fourths of respondents strongly or somewhat favored providing funds to make voluntary, high quality preschool available to all 3- and 4-year-olds.<sup>3</sup> Nearly 9 in 10 respondents to a 2001 poll conducted in 8 states agreed that states should provide enough funding so that all families can afford to send their 3- and 4-year-old children to preschool.<sup>4</sup>

States’ capacity to expand preschool opportunities will depend on their success in overcoming structural deficits and protecting

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<sup>2</sup> Alice M. Rivlin, *Another State Fiscal Crisis: Is There a Better Way? Welfare and Beyond* Policy Brief No. 23, Washington, DC: The Brookings Institution, December, 2002.

<sup>3</sup> Economic Opportunity Institute, *Early Learning and Care and Public Opinion*, Seattle, WA: author, March 2002.

<sup>4</sup> National Institute for Early Education Research, “Poll Shows Voters Want States to Fund Quality Preschool for All 3- and 4-Year-Olds,” August 20, 2002, available online at <http://nieer.org/mediacenter/index.php?PressID=6>. The 8 states surveyed were Georgia, Illinois, Maryland, Massachusetts, New Jersey, New York, North Carolina, and Oklahoma.

their revenues from sharp cyclical swings that lead to program cutbacks.

Many tax experts believe that states face structural deficits because their tax systems have not kept up with economic changes and with the growing responsibilities states have assumed. Many state services (education, medical care, social services) are people-intensive services whose costs tend to rise in step with real wages. Sales taxes revenues, historically the mainstay of state budgets, do not grow at the same rate. Income taxes produce revenues that rise in step with (or even a little ahead of) wages, yet only in 1998 did personal income taxes replace sales taxes as the single most important state revenue source. Nine states, however, still lack a broad-based personal income tax.

State sales and use taxes are also eroding as economic changes outstrip states' ability and willingness to adjust them. Services, as opposed to goods, now constitute the majority of personal consumption, but are exempt from taxation in most states that impose sales taxes. Remote sales (via mail, telephone, and the Internet) are a growing source of consumption, but states' ability to tax these sales has been severely restricted by actions of Congress and the U.S. Supreme Court.

Interstate tax competition has, in the view of many tax experts, reduced the progressivity of state tax systems and resulted in targeted tax incentives that have negatively affected corporate income and other state taxes in a variety of ways. Excise taxes, a smaller but still important source of state revenues, are levied on a per unit rather than a cost basis and thus do not tend to keep pace with price levels. Moreover, they are regressive and impose disproportionate burdens on poorer taxpayers.

In addition to these structural problems, states are now facing budget pressures in part because they inadequately prepared for economic downturns, the most recent of which began in 2001. In the boom times of the mid-to-late 1990s, 43 states enacted large tax cuts. Those that made the largest cuts are in the worst fiscal trouble now. Most states have neither reversed these cuts nor enacted other tax

increases to replace the lost revenue.<sup>5</sup> When states have increased taxes, they have tended to emphasize excise and sales taxes, thus exacerbating their longer-term revenue problems.

While many states set aside "rainy-day funds" during the 1990s, these reserve accounts have not proven large enough to protect states from the need to raise taxes or cut expenditures in the current downturn. Healthy reserves are increasingly important, however, as states depend more heavily on income taxes, because these tax revenues are more sensitive to economic downturns than other important state taxes like sales and excise taxes. Shortcomings in current "rainy day fund" policies highlight the need to begin thinking now about changes that can help such funds do a better job of protecting state programs in future fiscal crises.

The structural and cyclical problems with state revenues are technically and politically complicated. Addressing them forthrightly, however, is an important element in ensuring that states can provide important programs like universal prekindergarten to their citizens.

#### **Committee for Economic Development**

CED is a nonprofit, nonpartisan organization of 200 business leaders and university presidents. Since 1942, its research and policy programs have addressed the nation's most pressing economic and social issues, including education reform, workforce competitiveness, campaign finance, health care, and global trade and finance.

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<sup>5</sup> Nicholas Johnson, "The State Tax Cuts of the 1990s, the Current Revenue Crisis, and Implications for State Services," Washington, DC: Center on Budget and Policy Priorities, November 18, 2002, available online at [www.cbpp.org](http://www.cbpp.org).