Early Care and Education
Costs, Funding Sources and Financing Options

Presented by Elizabeth E. Davis
For the National Conference of State Legislators
Early Learning Fellows
August 27, 2018
Outline of Presentation

1. Overview of the consensus study, *Transforming the Financing of Early Care and Education*

2. Key highlights related to the cost of high-quality care and current financing mechanisms and funding streams

3. Selected recommendations from the report

   • Note: The report and links to the full webinar presentation are available at this link: https://www.nap.edu/catalog/24984/transforming-the-financing-of-early-care-and-education
TRANSFORMING THE FINANCING OF EARLY CARE AND EDUCATION

Committee on Financing Early Care and Education with a Highly Qualified Workforce
LA RUE ALLEN, (Chair) New York University  
CELIA C. AYALA, Los Angeles Universal Preschool (retired)  
DAPHNA BASSOK, University of Virginia  
RICHARD N. BRANDON, University of Washington (retired)  
GERALD M. CUTTS, First Children’s Finance  
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ELIZABETH E. DAVIS, University of Minnesota  
HARRIET DICHTER, ICF, Early Education Services  
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Sheila Moats, Co-Study Director
Emily Backes, Co-Study Director
Mary Ghitelman, Senior Program Assistant
Lesley Webb, Program Assistant
Pamella Atayi, Program Coordinator, Board on Children, Youth, and Families
Natacha Blain, Director, Board on Children, Youth, and Families
Bridget B. Kelly, Consultant
Erin Hammers Forstag, Technical Writer
The committee will study how to fund early care and education for children from birth to kindergarten entry 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*. 
Vision
A care and education workforce for children birth through age 8 that is unified by a foundation of the science of child development and early learning, shared knowledge and competencies, and principles to support quality professional practice at the individual, systems, and policy levels.
Key Terminology

- **Early Care and Education**: paid, non-parental care and education provided outside the home for children, including child care and early learning settings across the 0 to 5 spectrum.

- **ECE Workforce**: practitioners working in ECE settings, e.g. educators (lead educators, assistants, and aides), administrators, and coaches and mentors, etc.
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.
• Financing for ECE is a layering of separate programs, with different funding streams, constituencies, eligibility requirements, and quality standards

• Funding is not always linked to quality standards

• Overall compensation for the ECE workforce is low

• Funding comes from the public sector and private sources, with families paying the largest share
Share of All Children 0 to 5 in Center-Based ECE by Income Category
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>Early Head Start/Head Start&lt;sup&gt;a&lt;/sup&gt;</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 vary with
  – 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 include
  – Workforce education and professional development
  – Quality assurance, monitoring and data systems
Estimating the Cost of High-Quality ECE

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
### 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>
<tr>
<td><strong>Increase above current public spending</strong></td>
<td>$4.8</td>
<td>$14.9</td>
<td>$33.5</td>
<td>$52.7</td>
</tr>
<tr>
<td><strong>Share of total by provider type</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Center-based</td>
<td>67%</td>
<td>70%</td>
<td>73%</td>
<td>75%</td>
</tr>
<tr>
<td>Home-based</td>
<td>33%</td>
<td>30%</td>
<td>27%</td>
<td>25%</td>
</tr>
</tbody>
</table>
Estimated Total Cost of High-Quality ECE System

• 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
**Recommendation 1:** Federal and state governments should establish consistent standards for high quality across all ECE programs. Receipt of funding should be linked to attaining and maintaining these quality standards. State and federal financing mechanisms should ensure that providers receive payments that are sufficient to cover the total cost of high-quality ECE.
**Recommendation 2:** Access to affordable, high-quality ECE for all children and families, that is not contingent on the characteristics of their parents.

2a. ECE programs and financing mechanisms (with the exception of employer-based programs) should not set eligibility standards that require parental employment, job training, education, or other activities.

2b. Federal and state governments should set uniform family payment standards that increase progressively across income groups and are applied if the ECE program requires a family contribution (payment).

2c. The share of total ECE system costs that are not covered by family payments should be covered by a combination of institutional support to providers who meet quality standards and assistance directly to families that is based on uniform income eligibility standards.
Recommendation 3: In states that have demonstrated a readiness to implement a financing structure that advances principles for a high-quality ECE system and includes adequate funding, state governments or other state-level entities should act as coordinators for the various federal and state financing mechanisms that support ECE (with the exception of federal and state tax preferences that flow directly to families).
Report Conclusions

• The current ECE 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, and families struggle to afford ECE.

• Reliable, accessible and affordable high-quality ECE can be achieved but will require greater harmonization and coordination among multiple financing mechanisms and revenue streams; consistent quality standards and incentives for quality; and a more equitable distribution of the share from family contributions and public investment.
http://nas.edu/Finance_ECE
#FinancingECE
APPENDIX
Information Gathering Mechanisms

- Final Report
- Peer Reviewed and Grey Literature
- External Peer Review
- Commission 2 Papers
- 4 Committee Meetings
- 2 Public Information Sessions
## Current Funding Levels Compared to 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. state)</td>
<td>$7,170</td>
</tr>
<tr>
<td>Federal CCDTC: maxallowable 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><strong>Total cost of high quality ECE: Committee estimate</strong></td>
<td><strong>$13,655</strong></td>
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# Sharing the Cost

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)

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<tr>
<td><strong>Family payments</strong></td>
<td>$40.7</td>
<td>$45.1</td>
<td>$51.9</td>
<td>$58.2</td>
</tr>
<tr>
<td><strong>Public/private assistance</strong></td>
<td>$33.8</td>
<td>$43.9</td>
<td>$62.5</td>
<td>$81.7</td>
</tr>
</tbody>
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**Needed Increase Above Current Public Spending (est.$29 billion)**

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