

# 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  
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# 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>

Board on Children, Youth, and Families

# TRANSFORMING THE FINANCING OF EARLY CARE AND EDUCATION

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

# Committee Membership

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# Study Sponsors

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# Abbreviated Statement of Task

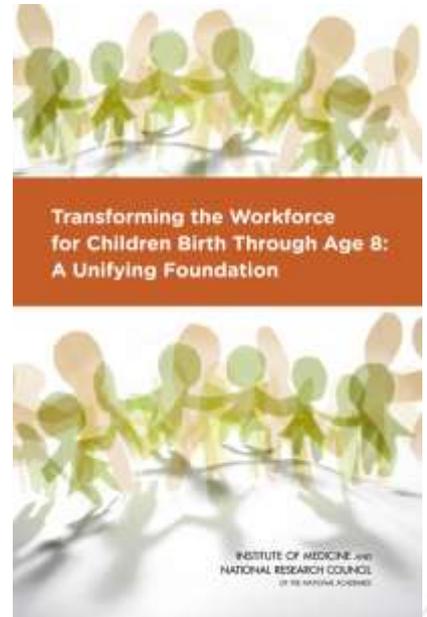
The committee will study how to fund early care and education for children from birth to kindergarten entry that is accessible, affordable to families, and of high-quality, including a well-qualified and adequately supported workforce, consistent with the vision outlined in the report, *Transforming the Workforce for Children Birth Through Age 8: A Unifying Foundation*.



# Transforming the Workforce

## 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.



# 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.

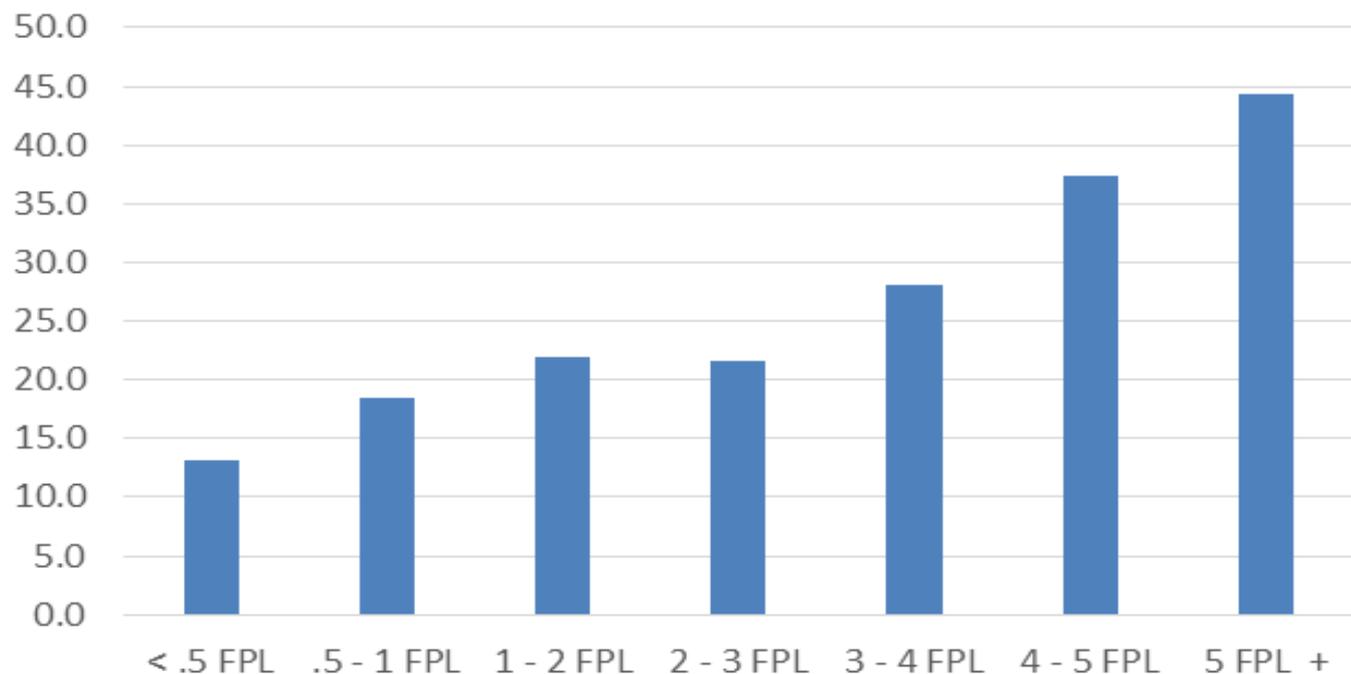


# Current Landscape of ECE Financing

- **Financing for ECE** is a 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)

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

**For sources, see Table 2-2**



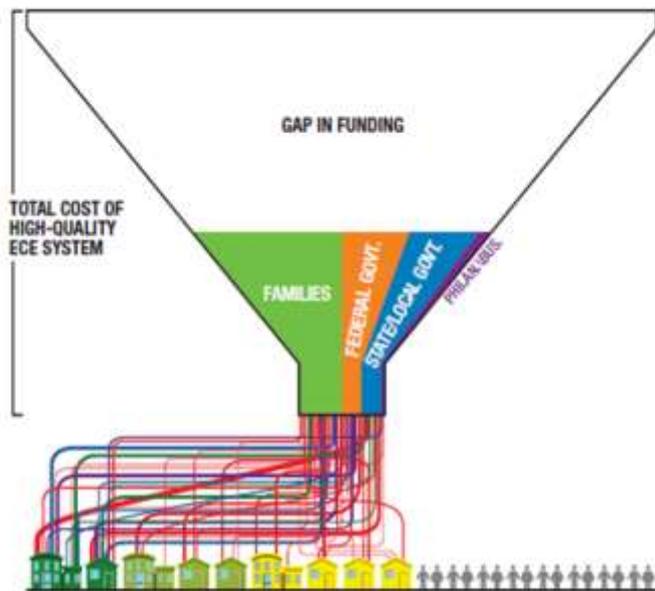
# ECE funding streams (Tax credits)

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

**For sources, see Table 2-2**



## ECE FINANCING LANDSCAPE: CURRENT



### LEGEND



## 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)

	Phase 1	Phase 2	Phase 3	Phase 4
Total, dynamic estimate	\$74.5	\$89.0	\$114.3	\$139.9
Center-based	\$49.8	\$62.5	\$82.9	\$105.2
Home-based	\$24.8	\$26.4	\$31.4	\$34.7
Increase above current public spending	\$4.8	\$14.9	\$33.5	\$52.7
Share of total by provider type				
Center-based	67%	70%	73%	75%
Home-based	33%	30%	27%	25%

# 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



# Key recommendations to consider

**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.



# Key recommendations to consider

**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.



# Key recommendations to consider

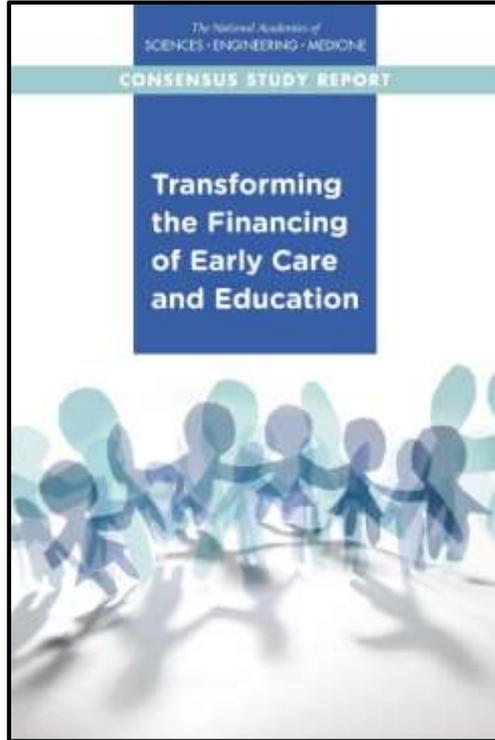
**Recommendation 3:** In states that have demonstrated a readiness to implement a financing structure that advances principles for a high-quality ECE system and includes adequate funding, state governments or other state-level entities should act as **coordinators** for the various federal and state 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](http://nas.edu/Finance_ECE)  
[#FinancingECE](https://twitter.com/FinancingECE)

# APPENDIX



# Information Gathering Mechanisms



# Current Funding Levels Compared to Cost of High-Quality Center-Based ECE

Per child, annualized	4-yr old
Head Start, Early Head Start	\$8,038
Public pre-kindergarten	\$4,976
CCDF subsidy payment rate (avg. state)	\$7,170
Federal CCDF: maxallowable annual expenses per child	\$3,000
DCAP per household (married couple)	\$5,000
Total cost of high quality ECE: Committee estimate	\$13,655



# 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)**

	Phase 1	Phase 2	Phase 3	Phase 4
<b>Total, dynamic estimate</b>	\$74.5	\$89.0	\$114.3	\$139.9
Family payments	\$40.7	\$45.1	\$51.9	\$58.2
Public/private assistance	\$33.8	\$43.9	\$62.5	\$81.7
<b>Needed Increase Above Current Public Spending (est.\$29 billion)</b>				
	\$4.8	\$14.9	\$33.5	\$52.7

