Financial Resources

Progress on policies to prepare, support, and reward the workforce requires sufficient dedicated funding in order to ensure that the well-being of the early childhood workforce does not come at the expense of the equally urgent economic needs of families, already overburdened by the high cost of early care and education. This effort has historically been a challenge, despite a wide variety of federal, state, and local funding mechanisms, since per-child funding amounts have not been as high or as sustained for ECE as for K-12. Furthermore, the priority has tended to be expanding access to care, sometimes at the expense of quality.

Federal Funding Streams

Federal funds constitute a high proportion of expenditures in ECE compared to K-12 and are a key resource for states seeking to invest in early childhood, though states may be constrained by federal rules or lack of guidance about how to use the funds. The main source of federal funding is the Child Care and Development Fund[140] (CCDF), commonly referred to as the Child Care and Development Block Grant (CCDBG), administered via the Office of Child Care. Recently, the federal Department of Education has spurred progress in early learning through a series of competitive grants: Race to the Top–Early Learning Challenge (RTT-ELC)[141] and Preschool Development or Expansion Grants.[142] The other main source of federal funding for early care and education is the Head Start program,[143] including Early Head Start–Child Care Partnerships,[144] but these funds are primarily disbursed to Head Start agencies and programs or local-level grantees, rather than states.

> Overall, nearly three-quarters (73 percent) of center-based programs received some form of public funds[138] in 2012, as did 61 percent of listed home-based providers, compared to 14 percent of unlisted home-based providers.[139]

Child Care and Development Block Grant (CCDBG): The largest single federal funding stream for early care and education is the Child Care and Development Block Grant. Since its establishment in 1990, CCDBG primarily has devoted resources to increasing access to early care and education services for children in low-income working families; states are provided with a block grant of dollars for that purpose. From its inception, one component of CCDBG has been a set-aside for quality improvement to be spent on licensing enforcement, referral services for parents, and workforce development activities. To draw down funds, states must agree to provide some matching funds and report on how their service and quality dollars are spent related to essential elements of early childhood workforce systems for delivering high-quality programs, which may include compensation, benefits, and workforce conditions (see Compensation Strategies, p. 45). In practice, CCDBG allows states considerable leeway to make decisions about teaching staff qualifications, per-child reimbursement rates, and the use of quality dollars, and states are not required to allocate funds or identify any specific goals related to compensation.

Race to the Top–Early Learning Challenge Grants: RTT-ELC grants were awarded to 20 states between 2011 and 2013, with the intention of supporting the development of statewide systems to improve the quality of early education and care services and to increase access to high-quality programs for children. States had discretion in how they used the grants, but were required to address certain aspects of quality, such as workforce development. Some states, such as Colorado and Oregon, focused on establishing a statewide progression of credentials and alignment of post-secondary coursework, while others have used funds for scholarship and wage supplement programs (see Qualifications, p. 30).[145] For example, Minnesota used an RTT-ELC grant to fund a wide range of initiatives supporting workforce development, including scholarships and bonuses related to staff education and training as well as the development of a workforce registry.[146]

Preschool Development/Expansion Grants: Intended to help states build or widen access to state-funded pre-K, these grants were awarded to 18 states in 2014.[147] As grants, the funds are not ongoing. Part of the awards may be used to develop state-level infrastructure and quality improvements (35 percent allowable for Development Grants, but only five percent allowable for Expansion Grants). In addition, the initial round of these grants encouraged states to address teacher compensation. Specifically, to qualify for these grants, states were required to specify how they included — or planned to build the capacity to include — 12 elements of high-quality pre-K in their state plan for establishing or expanding their public pre-K programs. However, there was no requirement that this quality development be a state-wide effort, applicable to all pre-K settings. One element addressed compensation specifically, requiring states to propose how they would provide "instructional staff salaries that are comparable to the salaries of local K-12 instructional staff."[148] Yet the reauthorization of these grants in 2015, under the Every Student Succeeds Act (ESSA), explicitly forbid any federal requirements for states to address quality elements, including compensation, effectively gutting the previously established guidelines .[149] This new mandate comes despite the fact that salary parity is not yet a core element of many states' pre-K programs: only Hawaii, Missouri, Tennessee, and Oklahoma require full salary parity for lead teachers across all settings. For further details, see Compensation Strategies, p. 45.

QUALITY RATING & IMPROVEMENT SYSTEMS (QRIS): FINANCIAL INCENTIVES

One way states have been developing innovative means of financing early childhood programs is through the use of financial incentives in their Quality Rating and Improvement Systems (QRIS).[155] Financial incentives are intended to help providers improve quality and attain higher ratings. All statewide QRIS provide financial incentives, which may include increased child care subsidy reimbursement rates and other program-level bonuses, grants, awards, or refundable tax credits.[156]

These program-level financial incentives can be especially beneficial for raising the earnings of home-based providers, as the funds go directly to the provider. However, financial incentives are not necessarily directed toward improving the professional development and compensation of center-based staff or staff in home-based programs, unless specifically required.

Additionally, in order for financial incentives to contribute to higher compensation for staff, amounts provided must be in line with the higher cost of quality services more generally. If states fail to adequately assess the cost of reaching higher levels of quality and do not provide sufficient tiers of funding to meet higher costs, then programs may find it financially necessary to remain at lower rating levels rather than attempt to move up.[157]

Role of State Funding

State-funded pre-K has been the predominant focus of dedicated state ECE spending over the last several decades. The number of states offering public pre-K for children age three to four has grown from 13 in 1990 to 43 (including the District of Columbia) in 2015.[150] As state-funded pre-K programs are typically implemented and administered at the local or district level, school districts and state Departments of Education have become significant players in the early childhood landscape, influencing spending priorities and program standards.

States also contribute resources in other ways, such as additional spending on child care subsidies or dedicating funding for workforce development, beyond their required federal match or set asides. For example, Kentucky uses tobacco revenue to invest in its KIDS NOW Early Childhood Initiative, which is used partially to provide scholarships and monetary awards for educational attainment for the ECE workforce.[151] Other states also have developed initiatives with designated funds for ECE, such as First Five in California, Smart Start in North Carolina, and First Things First in Arizona.

> **Of states with pre-K programs, no state spends the same or more per child on pre-K compared with K-12.[165]**

Although federal and local governments both play a role in funding ECE, our focus is on assessing the commitment of state-level governments to adequately fund early childhood programs within the state. States can actively support adequate funding for early care and education services and the early childhood workforce by:

1. Maximizing their use of available federal funding. This aspect includes, for example, meeting Maintenance of Effort (MOE) provisions and allocating at least the required matching funds for CCDBG, as well as applying for competitive federal grants, such as RTT-ELC funds.
2. Devoting additional state funding above and beyond what is required to receive federal funding in order to reach a level that approaches quality. This could include spending beyond the requirements for CCDBG and/or devoting additional resources to state-funded pre-K. Some states report spending state dollars on Head Start in addition to other state investments in pre-K.[152] However, states do not provide details about the source of these funds, so they could be repurposed federal TANF dollars, for example.
3. Innovating and generating new ways of financing, both to bring additional resources into the system and to make more effective use of existing resources. For example, the Every Student Succeeds Act (ESSA) is an opportunity to bring more funds into the ECE system, such as ensuring that early educators are included in Title II professional development allocations.[153] States also can initiate partnerships with other public-sector agencies, like the Department of Labor, in order to make use of resources intended for workforce development more broadly, including funds available through the Workforce Innovation and Opportunity Act.[154]

This inaugural edition of the *Index* focuses primarily on the first two aspects as an indication of states' commitment to realizing the goal of quality early care and education services. One of the core challenges in this area is tracking how much is spent in a state and by whom. The difficulties in tracking are partly due to the complexity of the various funding streams at each level of government — administrative data is siloed in multiple agencies (e.g., for education or for child care). Furthermore, states vary in how and what they report, making it difficult to get comparable estimates of overall expenditure on ECE. For this reason, we focus on three simplified indicators of spending: whether a state reports additional CCDBG spending; whether a state has actively sought out federal funds by applying for recent competitive grants, such as the Preschool Development/Expansion Grants or Race to the Top–Early Learning Challenge (RTT-ELC) Grants; and finally, whether states are approaching comparable spending between their pre-K and K-12 systems. Future editions of the *Index* will examine innovations in funding sources and financing mechanisms, such as the use of financial incentives in Quality Rating and Improvement Systems (QRIS).

Assessing the States: Financial Resources

Indicator 1: Did the state report extra CCDBG spending?

In order to receive all federal CCDBG funds, states must spend a set match amount and meet Maintenance of Effort (MOE) requirements. We focus on whether states spent over and above the minimum requirement for matching or MOE funds for at least one of the preceding three fiscal years for which information is available (2012-2014), using CCDBG expenditure data from CLASP.[158] In total, only 15 states met this criterion.[159] Of these, only five states (Alaska, Connecticut, New Hampshire, Ohio, and Vermont) reported spending above the MOE for all three years, and only one state (Wyoming) reported spending above the matching requirement for all three years.[160] Reported state expenditure may include local as well as state-level contributions.

Indicator 2: Did the state apply for an RTT-ELC or Preschool Development/Expansion Grant?

As a signal of states' intentions to make use of all available resources for improving access to and quality of early childhood services, we focus on whether states *applied* for at least one of two recent major federal grants: Race to the Top–Early Learning Challenge (RTT-ELC) and Preschool Development or Expansion Grants. In all, 35 states and the District of Columbia applied for RTT-ELC funds in the initial 2011 round,[161] and many reapplied in 2013.[162] In addition, 35 states applied for Preschool Development or Expansion Grants in 2014.[163]

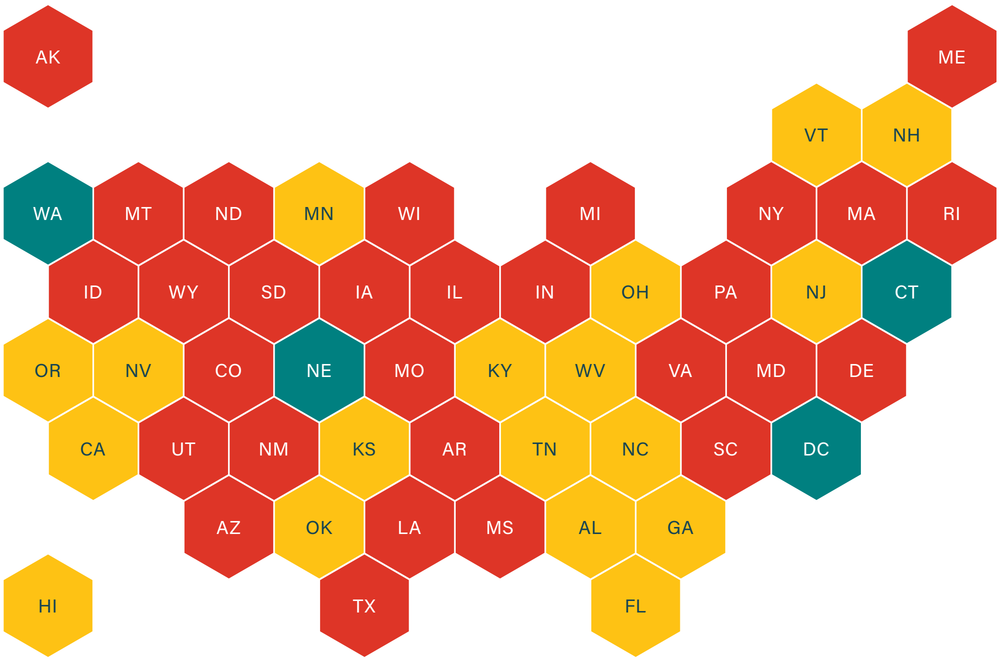
Indicator 3: Is the ratio of pre-K to K-12 per-child spending more than 50 percent?

We focus this indicator on whether the ratio of pre-K to K-12 per-child spending exceeds 50 percent in the state. Seven states (Idaho, Montana, New Hampshire, North Dakota, South Dakota, Utah, and Wyoming) do not have state pre-K programs, so no data is available.[164] Of states with pre-K programs, no state spends the same or more per child on pre-K compared with K-12.[165] The District of Columbia is the closest, with per-child pre-K spending at 90 percent of K-12 spending. Two additional states (North Carolina and Oklahoma) spend just under 80 percent. A further 10 states spend between 50 and 75 percent.

State Assessment

In total, 29 **stalled** states met at most one of these indicators; 18 states are **edging forward**, having met two of the indicators; and four states are **making headway**, having met all three indicators. See Table 4.4 for a state-by state overview of each indicator and the overall assessment.

Figure 4.4 State Map of Financial Resources Assessment



STALLED: the state has made limited or no progress

EDGING FORWARD: the state has made partial progress

MAKING HEADWAY: the state is taking action and advancing promising policies

SPOTLIGHT

INVESTING IN PRE-K AT THE LOCAL LEVEL: SALARY PARITY IN BOSTON, SAN ANTONIO & NEW YORK CITY

Cities across the nation, including Boston, Denver, Chicago, Philadelphia, San Antonio, Seattle, and New York City, have made pre-kindergarten a priority in recent years. Some of these cities, such as Boston, San Antonio, and New York City, have been increasing their spending on pre-K and devoting resources to teacher salaries in an effort to close the gap in compensation between pre-K teachers and K-12 teachers, but challenges remain. Achieving parity for pre-K teachers in community-based settings compared to school-based settings is more difficult due to differences in the cost of providing services and economies of scale, which exist for school districts but not across the smaller and lower-resourced community-based settings. Similarly, differences in period of employment (e.g., year-round versus part-year contracts) must also be taken into account in order to achieve full salary parity. Moreover, raising pay for one section of the early childhood workforce but not others raises questions of equity.

For example: How can compensation be improved for teachers of infants and toddlers as well as of three- and four-year-old children? Nonetheless, these local efforts present an opportunity to experiment with different approaches and to document what works in achieving salary parity for pre-K teachers.

Policy Recommendations: Financial Resources

- Estimate the cost of advancing preparation, workplace supports, and compensation of the workforce in line with the above recommendations.
- Determine the extent of the cost gap between existing resources and what is required to meet recommendations.
- Commit to securing dedicated, sustainable funds to bridge the gap between the status quo and much-needed improvements.

For additional policy recommendations, see the Early Childhood Workforce Index Executive Summary.

Table 4.4	Financial Resources Indicators & Assessment by State			
State	State Reported Extra CCDBG Spending	State Applied for Federal Grant	Ratio of Pre-K to K-12 Spending More Than 50%	Overall Assessment
Alabama		X	X	Edging forward
Alaska	X			Stalled
Arizona		X		Stalled
Arkansas		X		Stalled
California	X	X		Edging forward
Colorado		X		Stalled
Connecticut	X	X	X	Making headway
Delaware		X		Stalled
District of Columbia	X	X	X	Making headway
Florida	X	X		Edging forward
Georgia	X	X		Edging forward
Hawaii		X	X	Edging forward
Idaho			N/A	Stalled
Illinois		X		Stalled
Indiana		X		Stalled
Iowa		X		Stalled
Kansas	X	X		Edging forward
Kentucky		X	X	Edging forward
Louisiana		X		Stalled
Maine		X		Stalled
Maryland		X		Stalled
Massachusetts		X		Stalled
Michigan		X		Stalled
Minnesota		X	X	Edging forward
Mississippi		X		Stalled
Missouri		X		Stalled

Table 4.4	Financial Resources Indicators & Assessment by State			
State	State Reported Extra CCDBG Spending	State Applied for Federal Grant	Ratio of Pre-K to K-12 Spending More Than 50%	Overall Assessment
Montana		X	N/A	Stalled
Nebraska	X	X	X	Making headway
Nevada	X	X		Edging forward
New Hampshire	X	X	N/A	Edging forward
New Jersey		X	X	Edging forward
New Mexico		X		Stalled
New York		X		Stalled
North Carolina		X	X	Edging forward
North Dakota			N/A	Stalled
Ohio	X	X		Edging forward
Oklahoma		X	X	Edging forward
Oregon		X	X	Edging forward
Pennsylvania		X		Stalled
Rhode Island		X		Stalled
South Carolina		X		Stalled
South Dakota			N/A	Stalled
Tennessee		X	X	Edging forward
Texas		X		Stalled
Utah			N/A	Stalled
Vermont	X	X		Edging forward
Virginia		X		Stalled
Washington	X	X	X	Making headway
West Virginia	X	X		Edging forward
Wisconsin		X		Stalled
Wyoming	X		N/A	Stalled
TOTAL	15	45	13	

Endnotes

138 (i) Tuitions paid by state government (vouchers/certificates, state contracts, transportation, pre-K funds, grants from state agencies); (ii) revenues from local government (e.g., pre-K paid by local school board or other local agency, grants from county government); and (iii) revenues from the federal government (e.g., Head Start, Title I, Child and Adult Care Food Program).

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159 Iowa reported state expenditure above the amount required to draw down federal funds in 2012 but was excluded from the *Index* because reported expenditure for the following year was negative as a result.

160 States are not required under federal reporting requirements to report excess amounts of MOE and matching funds. Some states may spend above the required amounts, but if this expenditure was not reported, it could not be included in this *Index*.

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