

# TRANSFORMING THE FINANCING OF EARLY CARE AND EDUCATION

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

# Study Sponsors

Administration for Children and Families, U.S. DHHS

U.S. Department of Education

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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.



# Information Gathering Mechanisms



# 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.
- **Financing Mechanisms:** the methods by which funds are distributed to entities such as providers, families, the workforce, and system-level actors



# Landscape of ECE Financing

- Financing for ECE is a layering of separate programs, with different funding streams, constituencies, eligibility requirements, and quality standards
- Funding comes from the public sector and private sources



# 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.



# Principle 1: Financing a Highly Qualified Workforce

- Overall compensation for ECE practitioners is low
- Workforce-oriented financing mechanisms tend to be temporary and do not create the predictable and steady salaries necessary for recruiting and retaining a highly qualified workforce
- Financial supports for ongoing professional learning and higher education are generally provided only on a limited basis



## Principle 2: Affordability and Equitable Access

- Large burden to pay for ECE directly on families in the form of fees and tuition
- Even for those families that qualify for subsidized programs, many are not receiving assistance due to inadequate funding
- Lack of harmonization among financing mechanisms leads to gaps in ECE affordability for low-income families and under-utilization by middle-income families



# Principles 3-6: Ensuring High Quality across Settings

- Typically, receipt of funding is not directly linked to attaining or maintaining quality standards
- Levels of support to providers and to families are rarely based upon the costs of offering high-quality ECE services and thus are insufficient to drive quality improvements
- Financing supports for systemwide quality improvement are limited and often not sustained



# Estimating the Cost of High-Quality ECE

- Account for Onsite Costs
  - Staffing levels and structures
  - Staff qualifications and compensation
  - Onsite professional responsibilities and learning
  - Operating hours and days
  - Facilities and other non-personnel costs
- Account for System-level Costs
  - Workforce Development Costs
  - Quality Assurance and Improvement Costs



# Estimating the Cost of High-Quality ECE

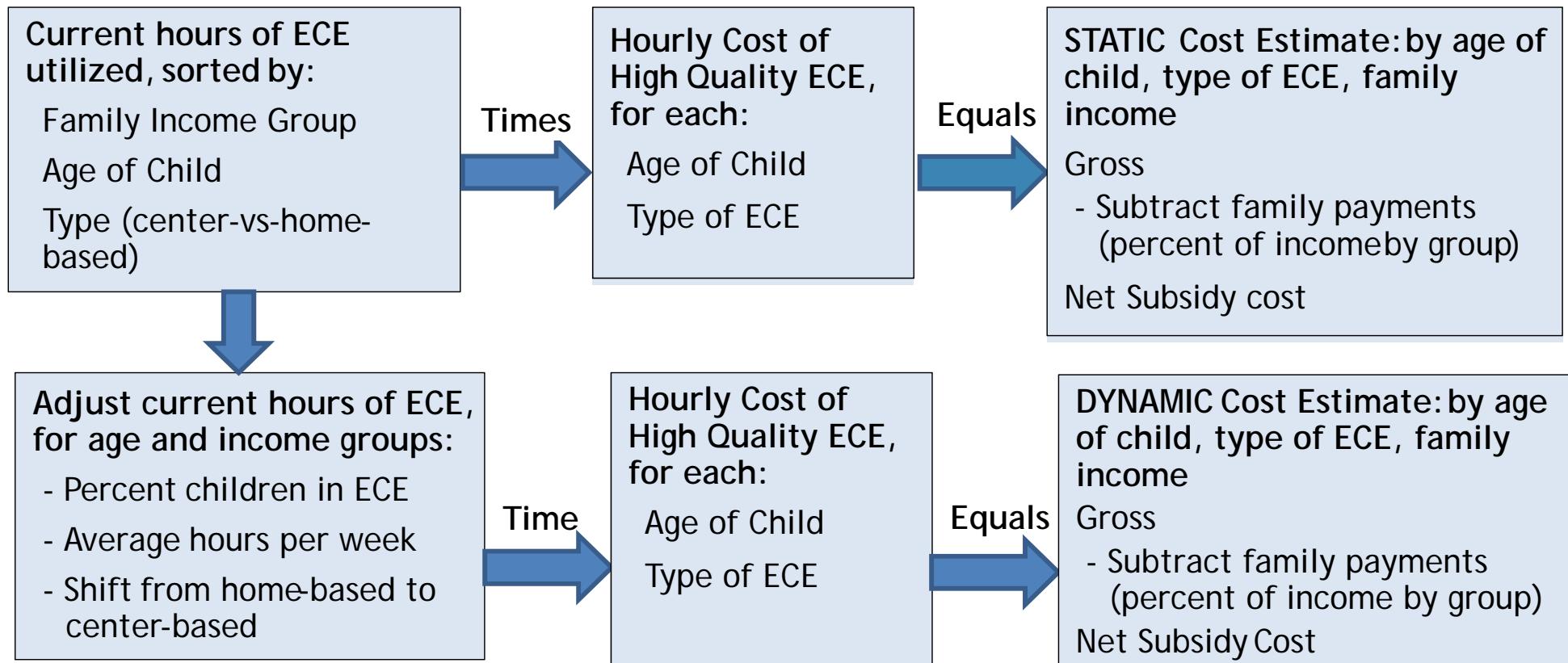
## Key Assumptions for Illustrative Cost Estimate:

- Lead educators with a BA degree
- Resources for coaching and mentoring
- Paid release time for professional development
- Specialists for children with special needs
- Paid non-child contact time



# Committee's Illustrative Cost Estimate

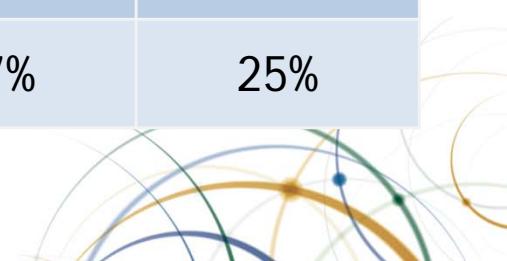
## Static and Dynamic Aggregate Cost Estimates: Simplified Calculation Flow-chart



# 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
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



# Sharing the Cost

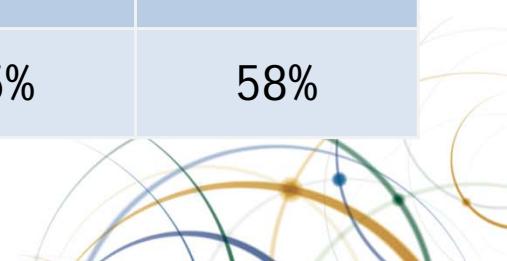
- Variety of approaches to determining a reasonable share of costs for families to pay
- If no fees are charged:
  - Family payments would be \$0 for all income levels
- If fees are charged:
  - Family payments at the lowest income level reduced to \$0
  - Family payments as a share of family income increase progressively as income rises



# Sharing the Cost

Dynamic Estimate of the Total Cost by Transformation Phase, with Estimated Shares of Public and Family Contributions (billions of 2016 constant dollars)

	Phase 1	Phase 2	Phase 3	Phase 4
Total, dynamic estimate	\$74.5	\$89.0	\$114.3	\$139.9
Family payment	\$40.7	\$45.1	\$51.9	\$58.2
Public/private assistance	\$33.8	\$43.9	\$62.5	\$81.7
Share of total costs				
Family payment	55%	51%	45%	42%
Public/private assistance	45%	49%	55%	58%



# Filling the Gap

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
Total, dynamic estimate	\$74.5	\$89.0	\$114.3	\$139.9
Family payment	\$40.7	\$45.1	\$51.9	\$58.2
Public/private assistance	\$33.8	\$43.9	\$62.5	\$81.7
Needed Increase Above Current Public Spending (\$29 billion)				
	\$4.8	\$14.9	\$33.5	\$52.7



# Report Conclusions: A Vision for Financing Early Care and Education



# An Effective Financing Structure

**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.



# An Effective Financing Structure

**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.



# An Effective Financing Structure

**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.



# Sharing the Cost for High-Quality ECE

**Recommendation 4:** To provide adequate, equitable, and sustainable funding for a unified, high-quality system of ECE for all children from birth to kindergarten entry, federal and state governments should increase funding levels and revise tax preferences to ensure adequate funding.

**Recommendation 5:** Family payments for families at the lowest income level should be reduced to zero, and if a family contribution is required by a program, that contribution, as a share of family income, should progressively increase as income rises.



# Planning for the Transition to High Quality

**Recommendation 6:** A coalition of public and private funders should support the development and implementation of a first round of local-, state-, and national-level strategic business plans to guide transitions toward a reformed financing structure for high-quality ECE.



# Financing Workforce Transformation

**Recommendation 7:** The ECE workforce should be provided with financial assistance to increase practitioners' knowledge and competencies and to achieve required qualifications through higher-education programs, credentialing programs, and other forms of professional learning. The incumbent ECE workforce should bear no cost for increasing practitioners' knowledge base, competencies, and qualifications, and the entering workforce should be assisted to limit costs to a reasonable proportion of postgraduate earnings, with a goal of maintaining and further promoting diversity in the pipeline of ECE professionals.



# Financing Workforce Transformation

7a. Existing grant-based resources should be leveraged, and states and localities, along with colleges and universities, should work together to provide additional resources and supports to the incumbent workforce as practitioners further their qualifications as professionals in the ECE field.

7b. States and the federal government should provide financial and other appropriate supports to limit to a reasonable proportion of expected postgraduate earnings any tuition and fee expenses that are incurred by prospective ECE professionals and are not covered by existing financial aid programs.



# Financing Workforce Transformation

**Recommendation 8:** States and the federal government should provide grants to institutions and systems of postsecondary education to develop faculty and ECE programs and to align ECE curricula with the science of child development and early learning and with principles of high-quality professional practice. Federal funding should be leveraged through grants that provide incentives to states, colleges, and universities to ensure higher-education programs are of high quality and aligned with workforce needs, including evaluating and monitoring student outcomes, curricula, and processes.



# Assessing Progress Toward Quality

**Recommendation 9:** The federal and state governments, as well as other funders, should provide sustained funding for research and evaluation on early childhood education, particularly during the transition period to ensure efforts to improve the ECE system are resulting in positive outcomes for children and in the recruitment and retention of a highly qualified and diverse workforce.

**Recommendation 10:** The federal government should align its data collection requirements across all federal ECE funding streams to collect comprehensive information about the entire ECE sector and sustain investments in regular, national, data collection efforts from state and nationally representative samples that track changes in the ECE landscape over time, to better understand the experiences of ECE programs, the ECE workforce, and the developmental outcomes of children who participate in ECE programs.



# Final Thoughts

Reliable, accessible high-quality ECE, can be achieved.

- Greater harmonization and coordination among multiple financing mechanisms and revenue streams
- Greater uniformity in standards to incentivize quality
- Significant mobilization of financial and other resources shared across the public and private sector
- More equitable distribution of the share from family contributions and a commitment to major increases in public investment





[http://nas.edu/Finance\\_ECE](http://nas.edu/Finance_ECE)

#FinancingECE



# APPENDIX



# Key Messages

- High-quality ECE is critical to positive child development and has the potential to generate economic returns.
- The current 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.
- The total cost of providing access to affordable, high-quality ECE for all children exceeds current funding amounts.

