

# Funding Landscape for Preschool with a Highly Qualified Workforce

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**W. STEVEN BARNETT & RICHARD KASMIN**  
**NIEER, GRADUATE SCHOOL OF EDUCATION, RUTGERS UNIVERSITY**  
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direct federal to local program that bypasses state government. Public funds also support participation in private programs through child care subsidies that are expenditure based (e.g., Child Care and Development Funds, Child and Adult Care Food Program) and tax based (e.g., tax credits and deductions including the federal Child and Dependent Care Tax Credit). By our estimates (see Table 1) just over half of the \$23.9 billion in public funds for early care and education come from the federal government, with most of the rest coming from states, and as little as 13 percent from local government. The estimated local percentage is the most uncertain of all these figures as local school spending is not systematically reported by grade level, and most state pre-K programs do not require a local financial contribution. The biggest unknown in our estimates is how much is spent on preschool special education, as this could be much higher than we have estimated here, and we do not know how much is paid by local school districts for preschool special education. In addition to the unknown costs of preschool special education, the local contribution to preschool programs more generally is largely unreported to states and difficult to estimate. Local public school support for preschool education includes not only funding for children served entirely at local discretion and not reported as part of state pre-K, but also the value of administration and support services and facilities that serve children in state funded pre-K, which are not reported as part of pre-K funding.

Government roles in operating and funding K-12 differ dramatically from the preschool patchwork, as public schools enroll 90 percent of students at the K-12 level. The public schools receive less than 10 percent of their funding from the federal government. State and local governments contribute about 45 percent each. Local revenue comes overwhelmingly from property taxes (80%). State funding primarily comes from general revenue consisting of individual and corporate income taxes, sales taxes, fees, property taxes, and other sources. Sources of state revenue vary substantially by state. An exploration of how pre-K reliance on a school funding formula might alter the revenue sources for pre-K beyond expanding access to local revenue is beyond the scope of this paper. Differences in revenue sources can have impacts on the equity (fairness) of funding. However, identifying the incidence of various taxes supporting education at the state and local levels is more complex than simply identifying the intended payer (e.g., Fullerton & Metcalf, 2002; Oates & Fischel, 2016).

Funding shares by level of government vary substantially among the states. The federal share ranges from less than five percent in Connecticut and New Jersey to more than 15 percent in Louisiana, Mississippi, and South Dakota, reflecting the federal government's emphasis on equalizing spending for children in poverty (U.S. Department of Education, 2016). In a few states the local share is less than 20 percent, and it rises to as much as 60 percent (D.C. and Hawaii are exceptions as each has just one district). We provide state-by-state information on the percentage of public K-12 revenue from each level of government later in the report (Table 3) when we discuss K-12 funding in more detail.

### **III. Pre-K Funding for State Programs – the Current Landscape**

Turning our focus to state pre-k programs, we summarize the basic information about how programs are funded and the associated revenue sources in Table 2. Most state pre-K programs are funded through discretionary grants with expenditures primarily determined by annual/biennial appropriations from general revenue (82.5%). That is to say, total state level funding and state funding per child for pre-K typically are set annually or biennially through the state legislature's regular budgetary process. State pre-K funding levels have rarely been set based on formal technical analyses that determine the cost of providing a well-defined high

quality program to the eligible population (adjusted for a realistic take-up rate). In most states funding per child is “set” implicitly through the state’s determination of a total appropriation together with annual enrollment rather than based on an explicit analysis of the cost per child to provide a specific program or to meet the needs of specific children. If enrollments rise or fall, this can lead to changes in funding per child even with stable total funding. To prevent this, states may cap enrollment explicitly or a fixed level of funding per student can be set so that enrollment goes up or down depending on funding for the program (e.g., this has occurred in New York’s Universal Pre-K Program). When there is no explicit, technical approach to determining the amount needed to adequately pay for pre-K for each child or to determine the eligible population, it is difficult to see how elected officials can make informed decisions about the funding required to adequately serve the intended population.

There are exceptions to the implicit, primarily political, process for determining state (and local) funding levels for pre-K, in lieu of an explicit process for determining a per child funding level adequate to meet specific goals for preschool education of specific children. One example is provided by New Jersey’s “Abbott” pre-K program, which arose from litigation and court order. In this program, funding per child initially was based on the actual costs of providing a program defined by court order and state regulation in each of 31 communities and which the state was required to fund for all children in the communities who sought enrollment (the only eligibility requirement is age). After nearly a decade, the state calculated system-wide average funding amounts for three types of programs based on historical cost data (as explained later in the paper). The Abbott program is entirely state funded with no local share. Another example is shown by several other states that tie their state funded pre-K programs’ standards to federal Head Start standards (e.g., Delaware, Minnesota, Oregon, Pennsylvania, Washington, Wisconsin); either implicitly or explicitly, federal Head Start spending per child in those states seems to influence the determination of state funding per child for these programs. Although none of these states fund “state Head Start” at a level equal to federal funding per child, the funding per child is above the national average for all of these states.

State pre-K programs are heavily reliant on state general revenues (exclusive of federal transfers for public programs including Medicaid) that primarily are generated by sales taxes, individual income taxes, corporate income taxes, other taxes, and charges and fees (these last often support the revenue generating university, hospital, or toll road). The revenue mix varies by state as, for example, some states do not have an individual income tax. Fluctuations in these revenues and in the demands of other programs for revenue (including growing entitlements for health care state and pension costs) can be expected to affect state funding for pre-K. Six states (Arizona, Georgia, Missouri, North Carolina, South Carolina, and Washington) have dedicated revenue sources; funds from these sources are specifically reserved for use in pre-K. Typically, dedicated revenue for pre-K has been from state lotteries or so-called sin taxes (e.g., beer tax), but some states have used other sources including an addition to the state sales tax (e.g., South Carolina) and tobacco settlement funds (e.g., Connecticut and Kansas). The advantage of a dedicated revenue stream is that it is less likely to be “raided” to meet competing needs and the program need not rely on an annual appropriation. Therefore, having a dedicated revenue source can provide a more stable funding base to the extent that this reduces competition from other programs and, particularly, if these dedicated sources of revenue are more resistant to fluctuations in the economy than are the sources of general revenue. During the “great recession” of 2008-2009, funding for state pre-K programs declined in total and per child as state revenues declined, and this seems to have been equally true where revenues had been thought to be more recession proof because they were dedicated lottery funds (e.g., Georgia).

State pre-K has virtually no required financial support from the local level and relatively little voluntary support, though the latter is difficult to estimate from existing data (Barnett et al., 2016; Barnett & Hustedt, 2011). For the 2014-15 school year states reported spending \$6.2 billion on state pre-K and could document just \$366 million in required local funds and \$96 million in non-required local funds. There are states that have specific requirements for local revenue. These exceptions include Maine, Oklahoma, and West Virginia, whose pre-k programs are financed within the K-12 formula and where state grants for each local provider are determined in part by the availability of locally controlled funds including federal Title I funds (e.g., Alabama). Some states require a substantial local match for pre-K (e.g., Arkansas), but do not specify that this is to be provided by local government. A number of state approaches can be viewed as essentially offering local public schools an incentive to provide preschool programs (including through partnerships with private providers) but without setting a specific amount to be paid by local government (e.g., Maine).

As for the distribution of state funds to the local or individual center level, approximately 72 percent of state funding is allocated via discretionary grants. Whenever funding is discretionary rather than mandatory, either the amount per child or the number of children that can be enrolled (or both) can vary based on upturns or downturns in the economy as well as changes in a legislature's priorities. These discretionary grants have no mechanisms that automatically ensure growth in funding to keep pace inflation or the number of children seeking enrollment or actually enrolled. As already noted, funding levels are rarely based on any realistic, technical assessment of adequacy. Rather, grants are based on available revenue and what lawmakers decide they are willing to allocate in the current year. Some grants are allocated differentially within a state, based on a formula that takes into account student and district needs. Others provide a single fixed amount per child or classroom regardless of any differences in the needs of the population served or geographic variations in the costs of providing a program.

#### **IV. The K-12 Funding Formula as an Alternative Approach to Funding Pre-K**

In contrast to the way the majority of states fund pre-K, a very different approach to federal-state-local funding has evolved for K-12 public education. The most obvious differences from state pre-K funding is that K-12 funding tends to be less reliant on state revenue, which in some states is the only source of funding for their pre-K programs. On average, the federal government contributed 8.6 percent, state government 46.7 percent, and local government 44.7 percent in 2013-14 (see Table 3). The percentages have varied over time but have been similar over the last decade except for a modest bump in the federal share during the Great Recession. There is substantial variation behind this national average. Although most states assign substantial responsibility for public education K-12 to local government, the local share of responsibility for funding varies greatly from state to state.

States have developed school funding systems that operate primarily based on formulas that provide local districts with state funds based on the number of children enrolled as a means of meeting their obligations to support the education of every child in the context of this joint state and local decision-making. Although this approach has been employed for about 100 years, it has evolved over time, with trends toward setting the formula amount based on an assessment of what is adequate to comply with state standards and policies and the use of per student weights to recognize differences in the needs of students (Verstegen, 2014). K-12 funding also is commonly provided outside the formula for such specific purposes as transportation and facilities, and some states address differences in student needs outside the formula through

Table 2. State pre-K state and local funding mechanism and revenue sources, 2015.

<b>Funding Mechanisms</b>			
	<b># States Represented</b>	<b>Amount, millions</b>	<b>Share of Total</b>
<b>Discretionary Grants</b>	31	\$3,161	46.6%
<b>School Funding Formula</b>	10	\$1,798	26.5%
<b>Discretionary Formula Grants</b>	14	\$1,736	25.6%
<b>Scholarships</b>	1	\$41	0.6%
<b>Tax Credits</b>	2	\$34	0.5%
<b>SIBs</b>	2	\$20	0.3%
<b>sum</b>		\$6,783	

  

<b>Revenue Sources</b>			
	<b># States Represented</b>	<b>Amount, millions</b>	<b>Share of Total</b>
<b>State General Appropriations</b>	42	\$5,595	82.5%
<b>Property Taxes</b>	18	\$579	8.5%
<b>State Lottery</b>	3	\$405	6.0%
<b>Other Local Taxes</b>	16	\$91	1.3%
<b>State Tobacco Settlements</b>	3	\$51	0.8%
<b>State Sin Tax</b>	1	\$33	0.5%
<b>SIBs</b>	2	\$18	0.3%
<b>State Sales Tax</b>	1	\$7	0.1%
<b>State Gambling Funds</b>	1	\$4	0.1%
<b>sum</b>		\$6,783	

All data from Barnett et al. (2016).

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