Financing an Equitable and High-Quality Education System:

Investing in Early Learning

NGA Center for Best Practices: Education Division
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Welcome!

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WestEd’s Mission

WestEd is a nonprofit, nonpartisan research, development, and service agency that works with education and other communities to promote excellence, achieve equity, and improve learning for children, youth, and adults.
Today’s Objectives

• Build a common understanding of key issues in education school finance and trends that signal possible future directions.
• Engage in discussion about the most pressing early learning issues nationally and in your states.
• Share upcoming engagement opportunities.
Agenda

- Welcome and Introductions
- National Context
- Why Early Learning?
- Trends in Early Learning
- Financing Early Learning
- Emerging Ideas from the Field: Policy Levers in Action
- Closing
Discussion Norms

• Please use the chat box to pose a question to the presenters or to the group at any time.
• NGA will mute your line if you are not speaking.
• At the end of each section, we will ask you to participate in a quick poll.
Warm-Up Poll

What issues related to financing early education are you most interested in learning more about?
National Context
Social and demographic trends impact school finance

Baby Boomer generation is now a few years into retirement

Younger generations (e.g., Millennials) have very different workplace expectations

Approaching a tipping point of the proportion of contributing taxpayers to those drawing on social services and programs

• Places greater and larger burden on fewer individuals to support public programs
## State revenues more vulnerable to volatility

### Revenue Sources

<table>
<thead>
<tr>
<th>Revenue Type</th>
<th>FY 1971</th>
<th>FY 1990</th>
<th>FY 1998</th>
<th>FY 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Taxes as a Percentage of Total Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property taxes</td>
<td>26.1</td>
<td>18.3</td>
<td>16.8</td>
<td>16.6</td>
</tr>
<tr>
<td>Individual income tax</td>
<td>8.2</td>
<td>12.6</td>
<td>12.9</td>
<td>11.9</td>
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<tr>
<td>Corporate income tax</td>
<td>2.4</td>
<td>2.6</td>
<td>2.5</td>
<td>2.1</td>
</tr>
<tr>
<td>General sales tax</td>
<td>12.3</td>
<td>14.3</td>
<td>13.8</td>
<td>13.0</td>
</tr>
<tr>
<td>Excise taxes</td>
<td>10.6</td>
<td>6.7</td>
<td>7.4</td>
<td>6.0</td>
</tr>
<tr>
<td>Other taxes</td>
<td>5.9</td>
<td>4.6</td>
<td>3.2</td>
<td>3.6</td>
</tr>
<tr>
<td><strong>Nontax Revenues as a Percentage of Total Revenue</strong></td>
<td>34.4%</td>
<td>40.9%</td>
<td>43.4%</td>
<td>46.6%</td>
</tr>
<tr>
<td>Charges and miscellaneous</td>
<td>14.1</td>
<td>17.9</td>
<td>19.9</td>
<td>21.2</td>
</tr>
<tr>
<td>Interest</td>
<td>2.3</td>
<td>6.9</td>
<td>4.8</td>
<td>3.7</td>
</tr>
<tr>
<td>Federal aid</td>
<td>18.0</td>
<td>16.1</td>
<td>18.7</td>
<td>21.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

**Source:** US Department of Commerce, Bureau of the Census (http://www.census.gov/govs)
“When it comes to the outlook for economic growth, U.S. state and local governments can expect the now long but shallow expansion to persist, according to S&P Global Ratings' updated forecast. Considering GDP, the broadest measure, the pace of the expansion is likely to remain subdued, with growth of 2.2% in 2017 and 2.3% in 2018.”
Unfunded ratio loom large for states and districts

In 2015, Only **One** State Had a Funded Ratio Over 100%, **Twenty-One** States Were Below 75%, and **Four** States Were Below 50%
Impacts beyond the bottom line

Impact to Students
• Flat revenues combined with internal expenditure pressures force choices by leaders between employees and programs for students
• Investments in key student supports wane in lean budget times, e.g., routine maintenance on buildings, transportation, etc.

Impact to Employees
• Most revenue increases to school districts are likely to go to pension and health/welfare contributions rather than salaries
• Risks ensuring the salaries keep pace with comparable wages

National Context
State policy can encourage effective resource use

**FLEXIBILITY**
Districts may not have meaningful *flexibility* over certain resources

**SUPPORT**
Most districts don’t have access to proactive *supports* to inform resource investments

**ACCOUNTABILITY**
Where flexibility exists, *accountability* often measures the wrong things in the wrong way

**TRANSPARENCY**
State structures to improve *transparency* are focused on compliance rather than strategic decision-making
Why Early Learning?
Participation in early learning has a lasting impact on academic achievement

When children are better prepared to enter school...

...they perform better academically in the long term and have increased levels of educational attainment.
The benefits of early education extend beyond academics

- Better overall health
- Less likely to be incarcerated
- Higher rates of employment
High returns on investments in Early Learning

Rate of return on public investment

13% per year for every $1 invested in early learning

Source: (Heckman, 2016)

What is Early Learning?

- Defined by age: Birth to 5
- Different settings and types of support:
  - Infant-Toddler Providers
  - Family Child Care
  - Preschool
  - Transitional Kindergarten
  - Transitional Kindergarten-Grade 3
  - Early Intervention
- Nearly 1.5 million children attended state-funded preschool in 2016

Trends in Early Learning
Steady Increase in Percent of Students Enrolled in Pre-K

Access to Pre-K Varies Considerably by State

- 14 states with preschool programs served less than 10 percent of 4-year-olds.
- Six states continue to have no program.

Only two states met *all* of NIEER’s New State Preschool Quality Standards

- 55% of states met 8-10 of the New Quality Standards in at least one program
- 34% of states met 5-7 of the New Quality Standards in at least one program
- 11% of states met less than 5 of New Quality Standards in at least one program

Alabama

- Preschool enrollment increased 56% from 2014-2015 to 2015-2016.
- All classrooms are supported by a coach and monitored for continuous improvement.
- Each classroom is required to have a lead teacher with a BA and an early learning credential.
Improving Early Education: A focus on Equity

Access
• Children from low-income families are less likely to be enrolled in preschool than their more affluent peers (41% compared to 61%).
• Subsidized programs often have limited placement available—resulting in lower access overall.

Quality
• Students from low-income, minority or at risk backgrounds are significantly less likely to be enrolled in high quality early learning programs.
• 13 state programs meet half or less of the quality standards benchmarks, including states serving large numbers of children in poverty.

Affordability
Many privately available programs are prohibitively expensive for low income families.

Why Early Learning: It’s about Equity

Despite having clear positive outcomes for students, access to high quality preschool continues to be an equity issue.
Quick Poll

What is the biggest priority to address as related to high-quality early education in your state?
Financing Early Learning
Average State Spending per Enrolled Child (2016 dollars) Lower than 2002 Levels

State Resources for Early Learning vary considerably by state

The District of Columbia and New Jersey both contribute over $10,000 per child enrolled in preschool.

Major Federal Sources of Early Learning Funding

- The Child Care and Development Fund (CCDF)
- Temporary Assistance to Needy Families (TANF)
- The Social Services Block Grant (SSBG)
- Head Start and Early Head Start
- Medicaid and Child Health Insurance Program (CHIP)
- PDG Funding
- Child and Adult Food Program
- Titles I, II, III, IX of ESSA
ESSA and Title I Funding

State Level:
State plans must address Early childhood and State report cards must address preschool

Must coordinate with early childhood education programs

Plans must describe early childhood programs supported using Title I resources

Title I resources for early learning must meet Head Start standards

Title I schools operating as “targeted” programs must describe how eligible students will be serviced, which may include kindergarten transition strategies

Source: https://ffyf.org/resources/eceinessa2015/
State Funding Strategies: Pre-K

• **School Funding Formulas:** Link Pre-K to K-12 funding
• **Dedicated Funding Streams and Taxes:** Lotteries, Beer, Tobacco, Gambling
• **Legislated Budget Process:** Negotiated in state budget (Ex: New York and Florida)
• **Local Tax Initiatives:** Approved by voters (Ex: Denver)

Focus on Quality, Access, and Affordability: Additional Considerations for State Funding Policies

• Teacher compensation
• Professional development/support
• Setting Standards: Quality indicators for teacher/student interaction, classroom environment, student outcomes
• Examine enrollment in the state by demographics: Who is currently accessing high-quality early learning opportunities?
• Funding for facilities
Quick Poll

What aspects of funding would you be most interested in learning more about?
Emerging Ideas from the Field: Major Policy Levers
State policy can encourage effective resource use

- **FLEXIBILITY**: Districts may not have meaningful **flexibility** over certain resources.
- **SUPPORT**: Most districts don’t have access to proactive **supports** to inform resource investments.
- **ACCOUNTABILITY**: Where flexibility exists, **accountability** often measures the wrong things in the wrong way.
- **TRANSPARENCY**: State structures to improve **transparency** are focused on compliance rather than strategic decision-making.
Emerging Ideas from the Field: Major Policy Levers

Lever 1: Use funding to incentivize improvements in quality

*For example, create a basis for ratings by defining state quality standards that incorporate assessments of adult-child interactions, as well as structural factors, such as adult-child ratios and facility requirements.*
Lever 1: Use funding to incentivize improvements in quality

Develop quality rating and improvement systems to support continuous improvement, reinforce quality standards, and provide a basis for program accountability.

Develop a strong local infrastructure to meet the needs of diverse communities.
Policy Lever In Action
STATE EXAMPLE: North Carolina

1. Integrates its child care licensing, quality rating and improvement systems
2. Scoring and finances are linked
3. Incentives to expand the ECE workforce (T.E.A.C.H and WAGE$)

FLEXIBILITY  SUPPORT  ACCOUNTABILITY  TRANSPARENCY

Lever 2: Strategically Combine Multiple Funding Sources to Increase Access and Improve Quality

What does “strategically combine” mean?

Matching

Blending

MOE

Braiding

Early Learning Financing Strategies
Policy Lever In Action
STATE EXAMPLE: Michigan

1. State funds are the main source of revenue for preschool, but some local programs combine state, federal, local, and private funding to cover the cost.

2. Programs may blend federal Head Start funds and GSRP funds to create a full-day program.

3. This also has the result of increasing available full day program access. Slots for these positions are based on eligibility factors.
Policy Lever In Action

STATE EXAMPLE: Oklahoma

- Oklahoma Established a Public-Private partnership to run their Early Education foundation.
- In 2003, HB 1094 creating the Oklahoma Partnership for School Readiness Act (OPSR)
- A foundation was established to solicit and receive public and philanthropic dollars to support early childhood initiatives.
- The Oklahoma Partnership for School Readiness Foundation, Inc. (OPSRF), serves in this capacity as a 501(c)3 organization to serve this purpose.

FLEXIBILITY SUPPORT ACCOUNTABILITY TRANSPARENCY
Recap: Major Policy Levers

Lever 1: Use funding to incentivize improvements in quality
- Create a basis for ratings by defining state quality standards that incorporate assessments of adult-child interactions, as well as structural factors, such as adult-child ratios and facility requirements.

Lever 2: Strategically combine multiple funding sources to increase access and improve quality:
- Matching state to local grant programs
- Simplifying financing system for local providers
- Linkages to K12 funding system
- Leverage short-term funds and public-private partnerships. (Ex: Social Impact Bonds)
Next Steps
Where can you go for more information?

Reach out to your team at NGA and WestED for support.

We will be happy to respond to questions specific to your state.
Exploring next steps

- Developing a narrative for your state’s investment
- Identify existing type of funding model
- Opportunities to repurposing funds from other state budget items to early learning
- Costing out expansion relative to state policy goal
Center on Enhancing Early Learning Outcomes (ceelo.org)

Our mission is to build the capacity of SEAs to improve outcomes for children, birth to 3rd grade.

Priority focus areas:

- Costs and Financing ~ Cost of Preschool Quality and Revenue
- Leadership and Organizational Capacity ~ Leadership Academy
- Improving Quality of Teaching and Learning ~ Every Student Succeeds Act and many other resources

Contact: Lori Connors-Tadros, Senior Project Director, CEELO, a project of the National Institute for Early Education Research (NIEER) at ltadros@nieer.org
Open Discussion

What are the biggest areas of opportunity in your state for optimizing education resource allocations to expand early learning opportunities?
Follow-up School Finance Webinar and Chronic Absenteeism

- Date TBD
Thank You!

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Stay Connected with WestEd
RESERVE SLIDES
Over time, state effort has increased shifting proportion
Steady rise in spending...until the Great Recession
Figure 2. State revenues for public elementary and secondary schools as a percentage of total public school revenues, by state: School year 2013-14

NOTE: All 50 states and the District of Columbia are included in the U.S. average, even though the District of Columbia does not receive any state revenue. The District of Columbia and Hawaii have only one school district each; therefore, neither is comparable to the other states. Categorizations are based on unrounded percentages. Excludes revenues for state education agencies.

Sales tax revenue growing far less than income tax

<table>
<thead>
<tr>
<th>Year</th>
<th>Individual Income</th>
<th>General Sales and Gross Receipts</th>
<th>Motor Fuel Sales</th>
<th>Tobacco Product Sales</th>
<th>Alcoholic Beverage Sales</th>
<th>Motor Vehicle and Operator's Licenses</th>
<th>All Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>272,368</td>
<td>279,419</td>
<td>278,362</td>
<td>268,685</td>
<td></td>
<td></td>
<td></td>
<td>2,595,829</td>
</tr>
<tr>
<td>2006</td>
<td>301,903</td>
<td>314,998</td>
<td>314,248</td>
<td>311,552</td>
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<tr>
<td>2007</td>
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<td>314,998</td>
<td>311,552</td>
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<td>2008</td>
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<td>247,389</td>
<td>268,685</td>
<td>252,703</td>
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<tr>
<td>2009</td>
<td>267,915</td>
<td>256,313</td>
<td>267,915</td>
<td>256,854</td>
<td></td>
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<tr>
<td>2010</td>
<td>289,665</td>
<td>256,854</td>
<td>289,665</td>
<td>267,863</td>
<td></td>
<td></td>
<td></td>
<td>2,595,829</td>
</tr>
<tr>
<td>2011</td>
<td>299,068</td>
<td>282,551</td>
<td>299,068</td>
<td>278,362</td>
<td></td>
<td></td>
<td></td>
<td>2,595,829</td>
</tr>
<tr>
<td>2012</td>
<td>327,044</td>
<td>282,551</td>
<td>327,044</td>
<td>296,132</td>
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<td>2,595,829</td>
</tr>
<tr>
<td>2013</td>
<td>327,044</td>
<td>282,551</td>
<td>327,044</td>
<td>296,132</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>2014</td>
<td>314,998</td>
<td>278,362</td>
<td>314,998</td>
<td>292,382</td>
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<tr>
<td>2015</td>
<td>314,998</td>
<td>278,362</td>
<td>314,998</td>
<td>292,382</td>
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<td>2016</td>
<td>272,368</td>
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<td>268,685</td>
<td></td>
<td></td>
<td></td>
<td>2,595,829</td>
</tr>
</tbody>
</table>
Total state K-12 spending below 2008 levels

Percent change in total state funding per student, inflation-adjusted, fiscal years 2008-2014

Note: California, Hawaii, Indiana, Maryland, Rhode Island, and West Virginia are excluded because the data necessary to make a valid comparison are not available.

Source: CBPP budget analysis and National Center for Education Statistics enrollment estimates.
## Case Study: San Jose Unified SD

### Demographics

- **Enrollment:** 32,454
- **Low income:** 44%
- **English learners:** 22%
- **Special education:** 14%
- **Tchr per pupil ratio:** 20.8
- **Avg. tchr. salary:** $72,731

<table>
<thead>
<tr>
<th></th>
<th>FY14</th>
<th>FY15</th>
<th>Chg. % (FY14-15)</th>
<th>FY20</th>
<th>Chg. % (FY15-20)</th>
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</thead>
<tbody>
<tr>
<td><strong>Certificated Salaries</strong></td>
<td>$139.7</td>
<td>$144.5</td>
<td>+3.4%</td>
<td>$154.9</td>
<td>+7.2%</td>
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<tr>
<td><strong>Classified Salaries</strong></td>
<td>$40.9</td>
<td>$40.4</td>
<td>-1.2%</td>
<td>$46.4</td>
<td>+14.9%</td>
</tr>
<tr>
<td><strong>Employee Benefits</strong></td>
<td>$58.6</td>
<td>$69.9</td>
<td>+19.3%</td>
<td>$104.1</td>
<td>+49.9%</td>
</tr>
<tr>
<td><strong>Total Spending</strong></td>
<td>$298.6</td>
<td>$313.2</td>
<td>+4.9%</td>
<td>$362.8</td>
<td>+15.8%</td>
</tr>
<tr>
<td><strong>Ending Balance</strong></td>
<td>$42.4</td>
<td>$30.3</td>
<td>-28.5%</td>
<td>$9.1</td>
<td>-69.9%</td>
</tr>
</tbody>
</table>

Little relief in sight for states on pensions

Figure 1
Tracking State Pension Assets and Liabilities, FY 1997-2015
Gap increased in 2015, the second year of new reporting standards

Sources: Comprehensive annual financial reports, actuarial reports and valuations, or other public documents, or as provided by plan officials.
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K12 governance structures are simply: complicated

School Finance and The National Context

Fiscal equity is an ongoing, pervasive, and multifaceted challenge for state education funding systems.

- To better understand and tackle this issue requires:
- A closer look at how states allocate aid to local districts,
- The identification of education investments that are producing the greatest returns; and
- Strategies for data-use to identify funding and educational inequities.