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ABSTRACT

The Minnesota Early Care and Education Financing Partnership, seeking financing solutions for their state, sponsored a meeting in mid-1998 among prominent thinkers from the early care and education and higher education financial aid communities. The meeting produced two sets of results. The first was a set of pivotal lessons concerning the application of higher education financing methods and strategies to early care and education. The second was a framework for a system of financing early care and education services, reflected in ten major recommendations. This report details discussion and conclusions from the meeting. The report's recommendations are: (1) explore methods of adapting key features of the higher education financial aid system through research and consultation with higher education financing and financial aid experts, and use demonstration projects to test system models that integrate these interdependent financial aid strategies; (2) require that programs participating in the system adhere to quality criteria; (3) cultivate diverse revenue sources to support early care and education programs; (4) develop additional funding sources and vehicles for aid to families, while increasing the contribution levels and flexibility of current sources; (5) develop dedicated public funding sources for infrastructure support for a coordinated early care and education system; (6) improve consumer information and increase demand for high-quality early care and education; (7) promote early care and education as part of the education continuum and as the foundation for subsequent education and life success; (8) expand research and data capacities to provide information about the benefits of early care and education and to highlight unmet needs for services; (9) move toward establishing a national organization of early care and education organizations to unify public policy and lobbying efforts; and (10) build a national consensus within the early care and education community about the design and implementation of a financing system. (EV)

Higher Education as a Model for Financing Early Care and Education

LEARNING BETWEEN SYSTEMS

The Minnesota Early Care and Education Financing Partnership

Financial Aid Think Tank Report 1998

by Teresa Vast

Robert Huff, Hoover Institution at Stanford University

FOREWORD

"One can never consent to creep when one feels the impulse to soar." – *Helen Keller*

In the fall of 1997, the Alliance of Early Childhood Professionals, Child Care WORKS and KidsPlan partnered to achieve a bold and comprehensive approach to financing early care and education in Minnesota. We hoped that by combining our efforts as The Minnesota Financing Partnership, we could focus our talents and energy on our common goal. We dedicated ourselves to developing financing strategies and building the public support that would be crucial for systemic change.

We launched the process with a sense of uncertainty about its outcome but as we turned our focus to financing, solutions began to emerge. It is with great excitement that we present, in the following pages, a financing model that we believe holds great promise for high-quality, affordable, and accessible early care and education.

This exploration of higher education financing methods was suggested by Teresa Vast, early childhood consultant from Hawaii, and we saw great potential in her ideas. The Partnership joined forces with Teresa to organize and host the "Think Tank" in June, 1998. The Think Tank was punctuated with many "Ah ha!" moments in which we discovered new possibilities for a financing structure that would benefit early care and education. It became clear that, despite their differences, early care and education and higher education share fundamental values of family choice, equity, access, and quality.

This report is the result of an exciting cross-pollination of ideas from higher education and early education financing experts. It recommends strategies for a fundamental shift in the way early care and education is financed, distributing responsibility for this critical service more evenly among parents, communities, employers, and public resources.

The Think Tank and this report benefited from the contributions of numerous individuals. We are particularly grateful to Teresa Vast, whose vision, talent, and perseverance made both possible. We also want to thank our funders – The David and Lucile Packard Foundation and the Ewing Marion Kauffman Foundation – for their generous support. Special thanks go to Marie Young and Stacie Goffin for their early and enthusiastic support. We gratefully acknowledge Fredda Merzon, whose fabulous facilitation helped make the moments of enlightenment happen.

Finally, we are immensely grateful to the Think Tank advisors and participants – visionaries, scholars, and experts in their field – who lent their time and creativity to this effort and whose ability to share information and envision a new paradigm inspired learning between systems.

David Allen
KidsPlan

Margaret Boyer
Alliance of Early Childhood Professionals

Nancy Johnson
Child Care WORKS

ACKNOWLEDGEMENTS

The Financial Aid Think Tank benefited from the encouragement and assistance of many people. Margaret Boyer deserves credit as an early champion of the plan to investigate higher education financing approaches, and for enlisting the support of her colleagues in the Minnesota Early Care and Education Financing Partnership. Their sponsorship ultimately brought the think tank to fruition.

I applaud the three partners – David Allen, Margaret Boyer, and Nancy Johnson – for their cutting-edge exploration of solutions to the early care and education financing quandary. I deeply appreciate the trust they placed in me to plan the think tank from a great geographic distance, as well as the critical support they provided.

My profound gratitude to Sandy Baum, Kathleen Little, and Tom Mortenson, who have played pivotal roles in guiding my study of higher education financial aid, and who also served as advisors to this project. They were quick to grasp the potential of higher education financing approaches for use in early care and education, and encouraged further exploration. The think tank would not have been possible without their keen interest and involvement.

I am extremely grateful to Sharon Lynn Kagan, Anne Mitchell, and Gwen Morgan, who generously served as the early care and education advisors for the project. Each provided clear-sighted guidance and enthusiastic support during crucial phases of planning and implementing the think tank.

My gratitude to the think tank speakers, panelists, and other participants for their spirit of adventure in joining us, and for sharing their expertise and innovative ideas. The success of the think tank was due in no small part to the skillful and artful facilitation of Fredda Merzon, who helped us manage our time wisely, with both humor and warmth. A note of appreciation also goes to Jennifer Bendickson for her tireless assistance with myriad details.

I owe the completion of this report to the assistance and insightful comments of many colleagues, but particularly to the substantial contributions of the project advisors. Extra thanks to Anne Mitchell for help in summarizing early care and education financing information. In addition, I thank Jerry Davis, Louise Stoney, and Faith Wohl for the crucial advice each offered. Comments on early drafts from Richard Brandon, Bill Cumming, and Robert Huff also proved very helpful. I was fortunate to have the editing services of Barbara Shore, who furnished a fresh perspective and elegant prose at critical junctures. Although the report has benefited from extensive review, responsibility for any remaining errors rests solely with me.

Special thanks to Anne Mitchell, who generously lent her expertise throughout the project. Finally, I thank Michael Kieran and Angela Kieran-Vast for their enduring patience and understanding.

I hope that the recommendations forged at the think tank will inspire meaningful progress toward the design and implementation of a viable financing system that supports access to high-quality early care and education for all young children.

Teresa Vast
Kailua, Hawaii

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EXECUTIVE SUMMARY

In recent years, news about the state of the nation's children has prompted thinkers from a variety of disciplines to reexamine investments in early care and education. Among the headlines were two sets of critical findings. First, new research into early brain development confirmed what many parents and early care and education professionals already knew – that the first years of life are critical to children's brain development and their long-term well-being.[1]

Second, a 1995 study of cost, quality and child outcomes in child care programs documented the inadequacy of the nation's efforts to meet the needs of young children during the most critical years of their development. It found that 86 percent of early care and education centers provided poor to mediocre services, and that a full 40 percent of those serving infants and toddlers were of poor quality.[2]

Simply stated, early childhood programs are severely under-funded. Most parents cannot pay what it costs to provide the high-quality services young children need to thrive, and the commitment of public and private funds has not filled the gap. Without adequate revenue, programs cannot offer compensation that attracts and retains qualified staff – the key ingredient for facilitating language, cognitive, physical, and social skills in young children. Thus, at its root, the quality crisis is a financing crisis.

To address this problem, several research projects and initiatives have probed one of the thorniest questions involved in meeting the early care and education needs of our young children: how to finance high-quality services. Higher education caught the attention of some involved in early care and education financing discussions as a system with approaches that could be applicable to financing services for young children. The higher education system has successfully attracted both the public and private sector support that has made college education accessible to individuals of all income groups.

"PEOPLE FROM SUCH DIFFERENT BACKGROUNDS WERE BROUGHT TOGETHER AND STARTED TO THINK IN NEW WAYS."

Further, while college operations depend on multiple sources of revenue, early care and education programs rely heavily on parent fees. Tuition represents an average of only 30 percent of college operating revenue, compared to 72 percent of income for early childhood programs.[3]

The college tuition paid by families is further reduced through financial aid, which benefits over half of all college students and reaches a broad spectrum of American families, including many whose income would disqualify them for child care assistance.[4] Federal law limits the expected family contribution toward college costs, but allows states to set expectations of family co-payments for child care. As a result of these policies, parents of young children are expected to pay as much as four times more for child care than families in comparable circumstances are expected to pay for college.

Early care and education leaders were interested in learning how this widespread public and private support for higher education was achieved, and whether higher education financing provides a model that could be adapted to expand equity, access, choice, and quality in early childhood services. The Minnesota Early Care and

Education Financing Partnership, seeking financing solutions for their state, sponsored a unique interprofessional meeting on the topic in mid-1998. It brought together 32 prominent thinkers from the early care and education and the higher education financial aid communities.

The two-day think tank in Minneapolis was an historic gathering: It was the first time that professionals from opposite ends of the education spectrum, motivated by a mutual interest in ensuring a bright future for the nation's children, convened to explore financing issues.

The meeting produced two sets of results. The first is a set of pivotal lessons concerning the application of higher education financing methods and strategies to early care and education. The second is a framework for a system of financing early care and education services, reflected in ten major recommendations. The think tank also produced a profound sense of excitement about new possibilities, and a genuine interest in pursuing these from both higher education and early care and education participants.

The think tank was truly a beginning. The next steps begin with this report, which is intended to both present financing ideas and impart the sense of optimism that the meeting inspired. The report provides background information about early care and education and higher education financing strategies. It also summarizes the lessons learned and provides highlights from the think tank discussions on how higher education financing strategies might be applied to early care and education. It closes with recommendations which were generated by the think tank participants.

It should be noted that no attempt was made during the think tank to critically examine the feasibility of the proposed recommendations. A consensus emerged that higher education financing strategies show great promise for early care and education, but that the framework and mechanisms need further exploration and development to succeed. Analytic and strategic steps that accompany the recommendations identify where additional investigation is particularly warranted. Ideas for moving forward, where action does not depend on additional research, are also outlined. Together, the recommendations and "first steps" suggest that cooperative efforts be intensified at both the national and state levels to develop the necessary mechanisms and resources for financing a coordinated system of high-quality early care and education.

Recommendations

Recommendation 1:
Explore methods of adapting key features of the higher education financial aid system through research and consultation with higher education financing and financial aid experts. Use demonstration projects to test system models that integrate these interdependent financial aid strategies:

- Establish families' ability to pay for early care and education using a national need analysis method and standard application form. Apply the same core concepts and principles of higher education need analysis to determine an *expected contribution* from each family.
- Calculate the full tuition price of early care and education programs – including the cost of producing a high-quality program with equitably compensated staff.
- Define a family's need for aid as the difference between the price of the program a family chooses and the family's *expected contribution.*

- Combine aid from various sources to develop a *financial aid package* to meet the demonstrated need of each family for assistance to pay for early care and education.
- Develop criteria and guidelines for establishing one-stop community financial aid agencies to manage and disburse aid from numerous sources.

Recommendation 2:

Require that programs participating in the system adhere to quality criteria.

- Establish a requirement that programs receiving public funds meet standards set by approved accrediting organizations.
- Develop standards for accrediting bodies that identify organizational qualifications, areas to be addressed in accreditation standards, and components of an accreditation process. Propose these standards be adopted by an appropriate agency in the federal government, such as the Administration for Children and Families, to use in approving and monitoring accrediting organizations.
- Encourage and expand current state initiatives to pay higher reimbursement rates for subsidized children in accredited programs.

Recommendation 3:

Cultivate diverse revenue sources to support early care and education programs.

- Analyze the revenue potential of diverse financing mechanisms, such as earnings from community endowment funds and income from sales and services.
- Investigate the potential for generating income from general obligation bonds to use for capital expenses.

Recommendation 4:

Develop additional funding sources and vehicles for aid to families, while increasing the contribution levels and flexibility of current sources.

- Investigate adapting higher education financing vehicles such as subsidized and guaranteed loans, tax-free savings and investment plans, endowment funds, and employer-paid tuition plans.
- Increase current funding levels to address unmet need for high-quality services.
- Increase flexibility of public subsidies, such as allowing funds to subsidize both programs and children.

Recommendation 5:

Develop dedicated public funding sources for infrastructure support for a coordinated early care and education system.

- Identify the necessary resources and mechanisms to support the early care and education infrastructure.
- Discuss financing approaches with the National Conference of State Legislatures and National Governors' Association. Build on states' commitment to funding higher education infrastructure in advocating for infrastructure support for early care and education.

Recommendation 6:

Improve consumer information and increase demand for high-quality early care and education.

- Provide consumers with information about the importance of the early years, characteristics of high-quality early care and education, and the need for pubic and private support to ensure all young children have equal opportunities.
- Provide consumers with specific information about programs they are considering, such as accreditation status and licensing or program assessment ratings, and the availability of financial aid.

Recommendation 7:

Promote early care and education as part of the education continuum and as the foundation for subsequent education and life success.

- Develop strategies for increasing public and political awareness of early care and education as a merit good.
- Advocate that federal and state commitment to equity, access, and choice in higher education be extended to early care and education.
- Develop alliances with teachers and nurses, and build a broad coalition with unions.
- Develop a model piece of legislation to focus public discussion on the need for sustained public investment in early care and education.

Recommendation 8:

Expand research and data capacities to provide information about the benefits of early care and education and to highlight unmet need for services.

- Build on current national data sets in public and private agencies.

Recommendation 9:

Move toward establishing a national organization of early care and education organizations to unify public policy and lobbying efforts.

- Engage the Media Strategies Group and the April 19th Group in discussions toward developing a consensus on a financing system, starting an umbrella organization, and framing early care and education as a merit good in media campaigns.
- Create alliances among different provider groups.

Recommendation 10:

Build a national consensus within the early care and education community about the design and implementation of a financing system.

- Test ideas and recommendations from the think tank with colleagues using meetings, national conferences, audio conferences, position papers, and issues briefs.
- Identify the underlying questions that must be answered by the early care and education community in order to recommend the implementation of a financing system that is acceptable to all.

- Identify several leading national organizations to serve as the cooperative "home" and leadership base for supporting, unifying and furthering early care and education financing efforts. Working together, these organizations would convene researchers, advocates and organizations focused on generating financing solutions; provide leadership to examine various financing approaches and ideas that are currently being pursued; and unify resources for researching, designing, and promoting an early care and education financing system.
- Establish a *National Commission on Financing Early Care and Education* comprised of leaders from early care and education financing efforts, non-profit and philanthropic organizations, businesses, and government. The Commission would be charged with developing a financing action plan and recommending it to all sectors, from the President and Congress, to state, business, philanthropic, and non-profit leaders.
- Establish in each state a *Commission on Financing Early Care and Education* comprised of leaders from early care and education financing efforts, non-profit and philanthropic organizations, businesses, and government. The State Commissions would work with the National Commission toward a national consensus on coordinated financing strategies.

> "THERE IS POTENTIAL TO SPEAK WITH ONE VOICE...WE'VE GOT TO FIND A WAY NOT ONLY TO SPEAK WITH ONE VOICE, BUT TO THINK IN A COHERENT WAY ABOUT COLLABORATIVE STRATEGIES."
>
> *Faith Wohl, Child Care Action Campaign*

Imagine: AN EARLY CARE AND EDUCATION FINANCIAL AID SYSTEM

Imagine an early care and education system in which programs are staffed with qualified early care and education professionals. Compensation matches the level of their education, expertise, and responsibilities. Staff working conditions are excellent, turnover is low, and children are thriving.

Imagine that early care and education programs participating in the system receive subsidies that help to defray the costs of providing high-quality services and meeting accreditation standards. Operating subsidies are provided by government, philanthropy, business and individual donors, with a portion from the community early care and education endowment fund. State and local bonds provide funds for capital expenses.

Imagine that early care and education programs set tuition prices to cover the full costs of operating a quality program – including equitable staff compensation. Yet, all families pay less than the full cost of the program, thanks to subsidies received from other sources which reduce tuition prices. Some families pay the full tuition price without assistance; some families qualify for financial aid that helps pay the price of the program they choose.

Imagine that all families follow the same process to apply for aid: They complete the standard application form, and send it to the central processing service or submit it on-line from home or a public library. All families' – whether poor or non-poor – are assisted through the same one-stop financial aid office in a community-based agency. As in a college financial aid office, there is no stigma associated with obtaining assistance to pay for education.

Imagine that the amount each family is expected to contribute toward their children's early childhood program fees is a portion of their discretionary income – it is not needed to pay for basic expenses like food, shelter, health care, and taxes. Each family's ability to pay is calculated using a national method that considers family size, income and assets, and basic living expenses in their area.

Imagine that the amount of financial aid a family can receive is related to the full price set by the program they choose for their child. Their choices are not limited to lower-price programs, since the old system of providing subsidies according to a market rate has been abandoned. There is no cap on the tuition price or the amount a family needs in aid to pay it. A simple formula is used to calculate need:
price (tuition & fees) – expected family contribution = need for aid.

Imagine that parents may choose to receive financial aid as an income support to stay home with an infant instead of paying for early care and education services.

Imagine that a community financial aid office "packages" aid, combining funds from a variety of sources for which the family is eligible. Sources include earnings from the community's early care and education endowment fund, and funds from federal, state and local governments, employers, foundations and individual donors. Aid families receive might be in the form of grants, loans, tax credits, or a combination of these.

Imagine that each family takes their financial aid "package" to the program they have selected, and the provider is paid directly from the financial aid office for the months ahead.

Imagine an early care and education system in which parents can access high-quality early care and education; early childhood professionals are equitably compensated; and children are healthy, secure, and developing to their fullest potential.

INTRODUCTION

Background

Of the many challenges facing our nation, none is more daunting than ensuring that all young children receive warm, nurturing care and high-quality learning experiences – two critical aspects of healthy child development. In recent years, several research projects and initiatives have sought answers to one of the most complex issues in meeting this challenge: how to finance the provision of high-quality early care and education services.

In the aftermath of new findings from the fields of neuroscience and early childhood, this question has assumed new urgency. Recent brain research has definitively confirmed the importance of the early years, alerting parents, educators, researchers and policymakers that the most dramatic and most critical brain development occurs during the first years of life.[1] This period, when children are most vulnerable, coincides with a time that dual wage-earners are an economic necessity for a majority of American families. Parents seek stable child care arrangements that also promote development and learning, but may have trouble finding or affording a situation that meets their needs.

The big news from brain research closely followed new data detailing the poor quality of the early care and education settings in which millions of American children spend their days. Research findings about the cost, quality and child outcomes in child care programs confirmed the inadequacy of the nation's efforts to meet the needs of young children in the most critical years of their development.[2]

This quality crisis profoundly affects not only children's development and parents' ability to participate in the labor force, but also foreshadows economic and social consequences on a larger scale. Evidence from longitudinal research suggests that children who attend high-quality early childhood programs are more likely to be productive adults who contribute to the nation's economic well-being, and less likely to drain social and economic resources through criminal activity or welfare dependency.[3]

The quality problems in early childhood programs are, in essence, funding problems. Most parents seeking child care outside their own network of family and friends cannot pay what it costs to provide the high-quality services young children need to thrive, and the commitment of public and private funds has not filled the gap. Without adequate revenue, programs cannot offer compensation that attracts and retains qualified staff – the key ingredient for facilitating language, cognitive, physical, and social skills in young children.

We now know what needs to be done to secure a bright future for young children, and the risks we face as a nation if we do not invest in the early years. Yet, we still must summon the will and identify the means to ensure, as a nation, that our children have a good start in life. It is this purpose – finding the ways and means to solve the financing crisis – that has drawn together growing numbers of policy analysts, early childhood advocates, researchers, economists, philanthropists, and government and business leaders in communities across the country. Numerous meetings and summits have been held, and research has been conducted to answer basic questions about how to finance and deliver high-quality early care and education services for our nation's young children. These initiatives have spurred intensified efforts to identify and test financing strategies that have potential to solve the quality crisis.

Higher education caught the attention of some involved in early care and education financing discussions as a system that could provide clues about obtaining public and private funding, pricing programs to cover unsubsidized costs, and equitably distributing financial aid according to need. Interesting parallels between higher education and early education were noted, and the potential application of higher education financing methods was explored as early as 1992.[8] By 1998, following additional policy research,[9] the application of higher education financing strategies and methods to early care and education intrigued thinkers in both fields.

The idea of bringing policy analysts and experts from different fields together appealed to Minnesota early care and education leaders committed to seeking financing solutions for their state. Three organizations – the Alliance of Early Childhood Professionals, Child Care WORKS, and KidsPlan – joined together as the Minnesota Early Care and Education Financing Partnership to establish a financing commission of civic and business leaders that would consider innovative financing ideas.

For their first project, the Partnership teamed with policy consultant Teresa Vast on a proposal to investigate higher education financing and financial aid methods. The unique interprofessional retreat was planned to include both national and state early childhood policy leaders in a small gathering with higher education financial aid professionals. The David and Lucile Packard Foundation and the Ewing Marion Kauffman Foundation provided funding to carry out the project.

The Financial Aid Think Tank, a two-day "thinking retreat" held in mid-1998 in Minneapolis, brought together experts from the early care and education and the higher education financial aid communities. Invitations to the think tank were issued to individuals in the two fields who, together, represented a range of expertise and backgrounds that could add to the richness of the dialogue. It was the first time higher education experts were to meet with early care and education leaders on the topic of system financing.

The meeting was experimental in two other ways. First, the intention was to focus the attention of early care and education analysts and financing researchers on one system and its strategies in some depth, rather than to review methods from a variety of systems. Second, while the meeting was planned to advance national financing efforts, it was intended to simultaneously allow the Minnesota participants to focus on identifying feasible financing solutions to recommend for legislative, business, and community action in their state.

The number of participants was kept small to make it possible to build relationships and engage in creative, exploratory thinking between fields. Selection was guided by an advisory committee, but also significantly limited by both available funding and the ambitious communication goals of the think tank. In total, 32 individuals participated.

To make the most of the short time together, the participants needed a basic understanding of the history and current status of financing in both higher education and early care and education. Briefing materials were provided, and the think tank opened with overview presentations and panel discussions which provided a basis for further exploration.

Participants with financial aid expertise were asked to reflect on the history of the postsecondary financial aid system, share what it has achieved to date, and discuss the challenges that lie ahead in providing equal opportunity for higher education. They were also asked to suggest what might be done differently in creating a financial aid system today.

Those with early care and education expertise were asked to share information about the critical needs of young children and describe the programs and funding sources available to meet those needs. They were also asked to describe the challenges in developing a delivery system and infrastructure with adequate funding to ensure that families have access to high-quality early care and education services.

The higher education participants cautioned that their system has serious financing challenges of its own, and it was noted that although much has been achieved, inequities still exist in spite of concerted efforts to ensure equal educational opportunity for all. However, they were optimistic that the system's methods and strategies could be instructive for developing an early care and education financing system.

Drawing on the expertise and perspectives of thinkers from both ends of the education spectrum, participants assessed the viability of higher education approaches for effectively addressing the challenges in financing and delivery of high-quality early childhood services. Discussions were both spirited and productive, resulting in recommendations for fresh approaches to financing early care and education and for proceeding with those efforts.

This report attempts to convey both the substance of lessons learned and the enthusiasm generated for pursuing them. It must be noted, however, that no attempt was made within the retreat to critically examine the feasibility of the proposed recommendations. The group agreed that testing the ideas with others in the field is an important next step.

"I AM VERY EXCITED BY THE POTENTIAL NEXT STEPS AND AM LEAVING WITH LOTS OF FOOD FOR THOUGHT."

[illegible], The David and Lucile Packard Foundation

The "emissaries" from higher education brought vital new energy and ideas to bear on a conundrum that has been both a challenge and a source of despair to early childhood advocates for many years. Asked why they were willing to contribute expertise and time on the topic of financing services for young children, their answers were multifaceted.

As higher education experts and advocates, they were not only intrigued by the intellectual challenge, but eager to share a system they believe holds promise for extending access, equity, and choice in service delivery for young children – values they hold dear for higher education. Further, they had no trouble seeing a connection between early childhood development and learning, success in school, and readiness for college. Some posited that addressing financing problems in early care and education is an early intervention to problems that could limit college opportunities later.

The early care and education participants derived additional benefit from learning more about higher education, since a central issue in the early childhood field is the need for practitioners to secure a college education and credentials for the roles they fill. They learned ways of supporting access to higher education from another perspective.

Overview of the Report

The report begins with brief overviews of strategies used to finance early care and education and postsecondary education, followed by a comparison of key features of both systems. Next, it identifies financing lessons from the higher education system and explores how some of those approaches might be adapted for application to early care and education. The last section presents the recommendations that emerged from the think tank. It also answers the question, "Where do we go from here?" with participants' ideas for next steps toward implementing or further investigating the promising strategies and methods that were identified during the think tank.

FINANCING EARLY CARE AND EDUCATION: an overview

Today, more children participate in early care and education programs than at any other time in our nation's history. Sixty percent of the nation's children under age six – about 13 million – regularly receives care and education from someone other than their parents. Most of these children are in families for whom child care is not a luxury, but an economic necessity. Parents need child care to support their families, and their children need stable and stimulating environments in which to develop and learn. In addition, nearly one third of children whose mothers are not in the workforce also receive early care and education services.[10]

While research clearly indicates that high-quality early care and education programs provide a launching pad for success in school and life, it also shows that poor-quality programs miss potent opportunities to promote development and learning, or worse, cause harm. Several characteristics are consistently evident in high-quality programs: small group sizes, high staff-child ratios, well trained and well compensated staff, low staff turnover, and curricula that engage children as active learners. Children in these programs explore and learn through play and social interactions with peers and adults, building skills that contribute to increased cognitive abilities and long-term success.[11]

However, only a small percentage of children are in high-quality programs. A recent study found that only 14 percent of early care and education centers provides services that promote healthy development.[12] Among children in centers, 15 percent are in such poor-quality programs that their health or development is jeopardized.[13] At the same time, dramatic new scientific evidence shows that children's earliest experiences have a profound and lifelong impact not only on their development, but their well-being and chances for school success. Early cognitive and emotional experiences are so profound, in fact, that they can completely alter an individual's life trajectory.[14]

The stakes are high. Yet, we do not have a national policy to guide – much less ensure – public and private investment in early care and education services. Early childhood professionals have the knowledge base and skills to provide the high-quality services children need, but lack the means – a coordinated and fully-funded financing and delivery system.

"DON'T CONSIDER EARLY CARE AND EDUCATION AS AN ADD-ON TO WHAT WE ARE CURRENTLY SPENDING. THAT WILL GET YOU STUCK. THERE'S ALREADY A PUBLIC COMMITMENT TO EDUCATION CITIZENRY. THE PITCH IN EARLY CARE AND EDUCATION IS THAT YOU CAN GET THEM BETTER PREPARED. BE CAREFUL TO NOT CONSIDER IT AS A SEPARATE SYSTEM IF YOU WANT THE MONEY. IF YOU *ARE* THE SYSTEM, YOU HAVE THE MONEY."

Early Care and Education Services

The term "early care and education" conveys the dual purposes of programs for young children. Some programs are funded and referred to as early childhood education, and these have as their primary purposes child development and school readiness. Others are considered child care because the primary purpose of their funding source is to enable parents to work. Yet, a quality program for young children must simultaneously meet the needs of young children (and society) for healthy child development and early education, and the needs of working families for child care. For young children, care and education are inseparable.

Early care and education services occur within a diverse mix of settings, providers, and auspices. These can be categorized broadly as either "market" care and education (i.e., community-based services provided by paid professionals) or "non-market" care (i.e., care provided in a home by family and/or close friends, dubbed "kith and kin").[15] Non-market arrangements may be the first preference for parents seeking familiarity, consistent cultural values, or use of their home language. Kith and kin also provides important alternatives for families unable to afford market care, or who may have concerns about its quality.

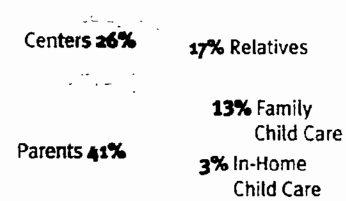
Market-Based Services

The market realm includes both the for-profit and non-profit sectors, and within these, several different program auspices and settings, including schools, homes, churches, and centers operating as independent entities. Programs may be full-day or part-day. Children close to kindergarten age are more likely to be in centers while children under age two are most often in home-based arrangements.

Most of the 500,000 family child care homes across the country are operated as sole proprietorships. The majority are small, serving from three to six children. Some are "large family child care homes" that serve up to 12 children with two adults.[16]

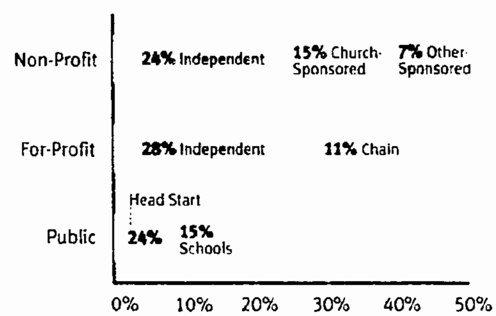
Of the nation's 120,000 early care and education centers, 45 percent are in the non-profit sector. Only 15 percent have public sector sponsors. The remainder are proprietary, either operated independently or as part of a corporate chain.[17] Enrollment varies from under twenty to several hundred children, but most sites serve an average of 50 to 90 children.[18]

PRIMARY ARRANGEMENT FOR THE CARE AND EDUCATION OF CHILDREN AGES 0-5: 1995



Source: *Characteristics of Children's Early Care and Education Programs: Data from the 1995 National Household Education Survey.* NCES 98-128, (Table A3), by S.L. Hofferth, K.A. Shaumann, R.R. Henke, & J. West. June 1998, Washington, DC: U.S. Department of Education, National Center for Education Statistics.

EARLY CARE AND EDUCATION CENTERS BY TYPE AND AUSPICE



Source: *Inside Child Care. Trend Reports 1997/98*, edited by P. Neugebauer, 1998, Redmond, WA: Child Care Information Exchange

Prices for Programs

Head Start and nearly all state prekindergarten programs are offered free to eligible families, relying for support on public funds. Most other programs rely primarily on parent fees to meet operating expenses. Prices charged to parents vary according to the age of the child, the schedule of attendance, and the type of provider. Prices also vary by geographic region. Average annual prices, based on a 1998 survey,[19] demonstrate some of the common differences between prices for infants and preschoolers and between centers and family child care homes:

AVERAGE ANNUAL PRICES FOR EARLY CARE AND EDUCATION

STATE	AGE	CHILD CARE CENTER	FAMILY CHILD CARE
Louisiana	12 months	$ 3,471	$ 2,677
	4 years	$ 3,264	$ 2,595
Massachusetts	12 months	$ 9,854	$ 7,380
	4 years	$ 7,119	$ 7,116
Minnesota	12 months	$ 8,273	$ 4,694
	4 years	$ 6,072	$ 4,481
Utah	12 months	$ 4,351	$ 3,597
	4 years	$ 3,266	$ 3,145
Washington	12 months	$ 6,708	$ 5,356
	4 years	$ 4,992	$ 4,576

Source: *Issue Brief. The High Cost of Child Care Puts Quality Care Out of Reach for Many Families*, by K. Schulman & G. Adams, December 1998. Washington, DC: Children's Defense Fund, Tables A-4 & A-7.

Quality Assurance

Four mechanisms promote quality assurance in early care and education: (1) state regulatory standards; (2) funding standards; (3) voluntary program and professional standards; and (4) consumer education.

Regulatory Standards

The regulation of early care and education facilities is a consumer protection responsibility of each state that is intended to reduce the risk of harm. State standards define a baseline level of operation below which health, safety and development may be at risk. The regulations, which vary widely by state, typically impose adult-child ratios and group size limits, address minimum staff qualifications, and require adherence to health and safety measures. Not all children are protected, since some states exempt a large number of programs from licensing, such as centers sponsored by churches and schools, and family child care homes with just a few children. Qualifications for staff working with young children are not addressed except within these facility regulations.

Funding Standards

Funders may require criteria in addition to state regulatory standards. For example, the federal government requires Head Start programs to adhere to performance standards designed to achieve a level of quality in programs nationwide that will support the child development outcomes central to the program's mission.

Some states, especially in their prekindergarten programs, may impose standards to ensure that public dollars are purchasing good-quality services. Private sector funders may also impose additional standards.

Voluntary Standards

There are several voluntary national accreditation processes that offer programs the opportunity to seek recognition for meeting higher standards than those required for licensing. In addition, a strong professionalism movement has taken hold in nearly every state, stimulating the establishment of career development systems that define voluntary levels of personnel qualifications and encourage increased training to achieve these standards.

Consumer Education

The last line of defense in ensuring quality is the consumer and the power of the purse. Consumer education provides parents with tools to understand what they see in early care and education settings and to distinguish between good and poor quality. Because regulatory standards are uneven or unevenly applied, and in some states, may be too low to protect development, exercising family consumer power is especially important. In theory, the more parents know about child development, the various options for education and care, and indicators of program quality, the better equipped they will be to make choices that support their children's development and learning, and to encourage improvements in program quality through those choices.

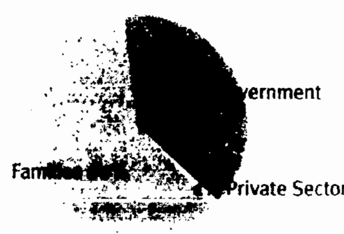
In reality, most families are not exposed to consumer education that informs their choices, state standards fail to protect the development of some children, and financial incentives in most states are insufficient to encourage quality improvement and commitment to voluntary standards. In short, quality assurance mechanisms hold promise, but cannot compensate for the lack of funding that is the root cause of poor quality.

Sources of Revenue and Methods of Support for Early Care and Education

There is no comprehensive single source of data available to tell the whole story of what early care and education costs and who pays what portion of it. A 1996 estimate suggests that $40 billion annually is spent on early care and education. Sixty percent of the total is paid by families who purchase services. Government provides 39 percent, primarily from federal sources with smaller amounts coming from state and local governments. Private sector support accounts for just one percent of the total.[20] The vast majority of this total goes to pay for direct services to children; only a small percentage supports infrastructure such as quality assurance and capital costs for facilities.

MAJOR REVENUE SOURCES FOR EARLY CARE AND EDUCATION

Estimated Total: $40 billion



Source: The Financing of Child Care: Current and Emerging Trends, by L. Stoney & M. Greenberg, 1996. *The Future of Children: Financing Child Care*, 6 (2), 62-82.

Families make direct payments for their own children to providers of early care and education services. Public and private sector payers either pay on behalf of a particular child or family (e.g., subsidies, scholarships) or pay for a program for a group of children (e.g., prekindergarten programs, Head Start). Payers may provide parents with funds to purchase services using cash, vouchers, or tax subsidies or they may purchase the service on behalf of the eligible families by paying providers through a contract or voucher. Programs are usually purchased via a contract or grant mechanism.

Paying for Programs

The Head Start program, funded at over $4 billion annually, is the largest federal source of early care and education funding. It is operated by 1,450 grantee community organizations, serving nearly 800,000 young children living in poverty.[21]

Thirty-nine states commit nearly $1.8 billion annually to fund their own prekindergarten programs, primarily for three- and four-year-olds, and/or to support Head Start.[22]

Paying for Services

The second largest federal support for early care and education – $3.7 billion dollars in 1998 – is the Child Care and Development Fund.[23] These funds go to states to help families on welfare transition to job training and work and to help low-income working families pay for child care that keeps them in the workforce. Families must have income no higher than 85 percent of the state median income, and most states set lower limits. States must establish a sliding fee scale that sets family contribution amounts, and may exempt families with income below federal poverty guidelines from a co-payment. Parents choose the provider, and may choose unregulated settings, close relatives, or regulated facilities. In order to qualify for the federal block grant of child care funds, states must spend a portion of its own funds, adding an estimated $1 billion annually.[24]

The principal public sector support for the large numbers of families who do not qualify for Head Start or child care subsidies is provided through the federal Child and Dependent Care tax credit and through tax-free benefits available within an employer-sponsored Dependent Care Assistance Plan. Most states also have child and dependent care tax provisions.[25] Taken together, these tax mechanisms represent an estimated $3.8 billion annually in foregone tax revenue for the federal and state governments.[26]

Subsidizing Program Operations

The Department of Agriculture's Child and Adult Care Food Program, funded at $1.5 billion annually, reimburses regulated programs for the cost of meals for children whose families meet income eligibility criteria.[27] This is the only widespread subsidy for operating or capital expenses that helps to lower program expenses and thus reduce prices to families. It is available to family child care homes, non-profit centers, and those for-profit centers in which 25 percent of enrolled children meet income eligibility criteria.

The federal government and 29 states partially subsidize child care programs for their employees. Child care programs are operated and partially subsidized for military personnel as an integral part of national defense. A small proportion of businesses partially subsidize child care programs for employees.

Paying for Infrastructure

The Child Care and Development Fund allots a minimum of four percent of each state's allocation to quality activities. States also fund critical infrastructure services such as facility licensing. In addition, foundations and business make contributions to organizations and programs that carry out vital infrastructure supports.

Non-Cash Subsidies

Early care and education programs cost more than the current investment in these services from all sources. Hidden non-cash subsidies are provided primarily by the foregone wages of teachers who are paid far below the market value of their education, expertise, and level of responsibilities. Early care and education staff are among the lowest paid of any occupation, although more than half hold a bachelor's or higher degree. The value of this subsidy has been projected at 19 percent of the full cost of a program. Researchers estimate that an additional seven percent in hidden subsidies is provided in the form of occupancy subsidies, such as free rent or utilities, and donated services.[28]

The Financing Challenge

Public funds for early care and education have increased piecemeal over the years in response to various national crises and political initiatives, from the Depression to World War II to the Great Society.[29] Despite these increases, the current total overall investment is still inadequate to ensure that children will thrive in out-of-home settings, or even that they will be safe from harm. Moreover, the nation's poorest children, who stand to benefit the most from high-quality early care and education, are least likely to have access to such programs.[30] The percentage of income parents devote to early care and education expenditures reveal other aspects of inequity. Low-income families pay as much as 25 percent of their income for early care and education, while families with higher income pay as little as six percent.[31]

Inequities for Families and Professionals

Most families are unable to pay what a high-quality program would charge to equitably compensate qualified staff. In recognition of this, programs attempt to "make do" and charge what they believe the local market will bear. This results in tuition prices that are too low to generate sufficient revenue to fairly compensate staff, yet too high for many low- and middle-income families to afford. In addition, some families are able to afford more than the going rate, but this potential revenue source is rarely tapped. Inadequate revenue means that programs can neither attract nor retain qualified personnel – the key to facilitating the healthy development of young children. Moreover, without sufficient revenue, staff-child ratios are rarely high enough to promote the relationships and interactions that are the hallmarks of quality.

The problem of financing in the context of limited resources can be summed up in the term "trilemma," coined by Gwen Morgan to describe the relationship between quality for children, compensation for staff, and affordability for parents – or ratios, wages, and price.[32] If the staff- to-child ratio is increased to improve quality, the costs for additional staff will drive the price up, making the service less affordable. If wages are increased to recruit and retain better qualified staff, either the price must increase, affecting affordability, or staff-child ratios must be decreased, adversely affecting quality. If the price is kept affordable for most families, either staff are underpaid or staff-child ratios are decreased, lowering quality. Solving the trilemma – for a single center or the whole system – requires that all three elements be addressed simultaneously. To do so, total resources must be increased.

Moving Toward Equity

At present, funding for early care and education is a tangle of sources, purposes, targets, and financing mechanisms; in short, a tangle of good intentions gone awry. Response to perceived gaps in services and to particular societal concerns has led to a creative array of programs. For example, 93 federal early childhood programs emanate from 11 different agencies and 20 different offices.[11] In many states, programs for early care and education follow a similar pattern of categorical funding. In spite of the merit each may have, they represent missed opportunities to weave narrowly targeted programs into a system that can truly support children and families.

Even the two largest sources of support for early care and education – Head Start and the Child Care and Development Fund, represented by bureaus in the same federal department – persist in addressing child care and education separately. In truth, the gulf that separates these two funding streams is far greater than differences between the children and families that each serves.

The good intentions that have led to a plethora of programs and funding streams need to be harnessed by a unifying vision and a commitment to bring the funding streams – and the field – together into a coordinated system. While the resolution of the financing challenge depends on dedicating adequate resources and ensuring their effective, equitable distribution in a coordinated system, it also hinges on aligning efforts within and between sectors, and in joining together with a shared commitment to equal opportunities for all young children.

"I HAVE THOUGHT ABOUT AND LEARNED HOW MUCH A CONTINUUM THESE TWO GROUPS ARE. WE DO A LOT OF THINKING OF HOW WE WANT THE STUDENTS WHO COME TO US AT COLLEGE TO LOOK, BUT WE DON'T LOOK QUITE FAR BACK ENOUGH. AS WE IN HIGHER EDUCATION TALK ABOUT POLICY AND CHANGE WE NEED TO INCORPORATE AN INCLUSIVENESS AROUND EARLY CHILDHOOD EDUCATION."

Catherine Thomas, University of Southern California

FINANCING HIGHER EDUCATION: an overview

The higher education system in the United States is regarded with respect throughout the world. Not only are the scientific achievements and research capacities of American universities renowned, but the proportion of Americans who attend college surpasses the college participation rates of most other industrialized nations.[14]

Moreover, the percentage of American high school graduates who go on to college is steadily increasing. In 1996, sixty-five percent of American high school graduates enrolled in college the fall after graduating, up 16 percent from 20 years earlier.[15] Despite this notable progress, it is troubling that Americans who aspire to attend college do not encounter equal opportunities. High school graduates from low-income families are ten times less likely to earn a bachelor's degree than their high-income peers and, consequently, do not share the prospects for success that college graduates can expect.[16] While the dimensions of lost opportunity are profoundly personal, research shows that from both economic and social perspectives, the nation as a whole is also poorer as a result.

A recent report documents the extensive and diverse array of both private and public benefits of higher education.[17] On a personal scale, college graduates earn about 73 percent more than high school graduates, have better working conditions and benefits, save more, are less likely to be unemployed, and have increased social and professional mobility. College graduates also tend to be healthier, live longer, and provide a better quality of life for their children. The private benefits are so substantial, in fact, that higher education can be considered a merit good – something to which everyone in society should have access, regardless of their ability to pay.[18] Public funding has been an essential tool in efforts to extend access and opportunity to more Americans.

The social benefits of higher education are equally significant. They include increased tax revenues, greater productivity and consumption, more workforce flexibility, less reliance on government assistance, and reduced crime rates. Society also benefits from higher levels of charitable giving and community service, improved quality of civic life, and college graduates' greater contributions to "social connectedness," as well as increased ability to adapt to and use technology. Evidence of these substantial social "returns" provides strong justification for public investment in higher education.

> "WE DO HAVE A STRONG SYSTEM WITH CONSIDERABLE COMMITMENT TO ACCESS TO COLLEGE TO EVERYONE REGARDLESS OF ABILITY TO PAY – CLEARLY SOMETHING THAT DOES NOT EXIST IN EARLY CARE AND EDUCATION."
>
> *Sandy Baum, Skidmore College*

One of the crucial roles of government funding has been to increase the affordability of and improve access to higher education. Families are considered primarily responsible for paying the college attendance expenses of their children, but many need help to do so. State and federal governments take different approaches to supporting higher education pursuits: While states are more apt to subsidize public institutions, federal aid is largely *portable* – that is, the eligible student may use the funds at the public or private institution of his or her choice.

Yet, neither public support for higher education nor family income has increased at the same rate as college prices. Moreover, as concerns about affordability for middle-income students have gained prominence, attention to accessibility for lower-income students has declined on the national agenda. As a nation, we have yet to fulfill the fundamental promise of equal opportunity for all Americans – a promise that depends to a large extent on access to a college education, as well as adequate preparation and support to succeed once enrolled.[19]

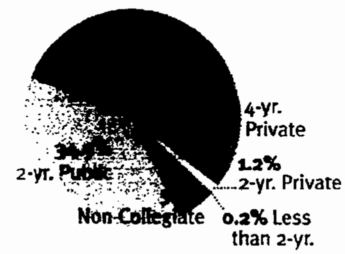
Higher Education Institutions

The term "higher education" generally refers to public and private two- and four-year colleges and universities. The broader term, postsecondary education, also includes vocational and continuing education programs, and the non-collegiate institutions that provide training to prepare students for specific careers. Throughout the think tank and in this report, the terms "higher education" and "college" have predominantly been used for ease and simplicity, but without intent to exclude other types of postsecondary education. For our purposes here, the distinctions are important principally in understanding what data tells us, as some statistics refer only to higher education rather to the broader spectrum of postsecondary institutions.

In 1995, there were 14.3 million students enrolled in a total of 3,706 higher education institutions throughout the nation.[40] An additional 850,262 students attended 6,256 non-collegiate schools. Public institutions serve the greatest share of students, but are outnumbered by private institutions, which are generally smaller in size. While the majority of private institutions serve under 1,000 students each, most public institutions enroll between 1,000 and 10,000. The large universities that enroll more than 10,000 – both public and private – serve half of all college students on just 12 percent of college campuses.[41]

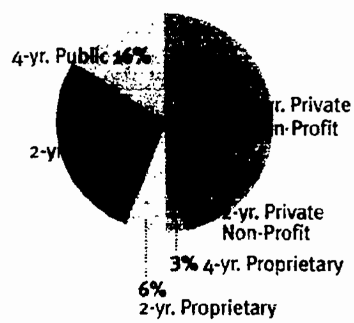
Among private higher education students, more than 90 percent are enrolled in non-profit institutions. Although proprietary (for-profit) schools comprise 60 percent of all private institutions, they enroll fewer than seven percent of the students.

ENROLLMENT IN HIGHER EDUCATION AND NON-COLLEGIATE POSTSECONDARY INSTITUTIONS, FALL 1995



Source: *Digest of Education Statistics 1997*, NCES98-105 (Table 170). 1997. Washington, DC: U.S. Department of Education. National Center for Education Statistics.

NUMBER OF HIGHER EDUCATION INSTITUTIONS BY AUSPICE, 1995

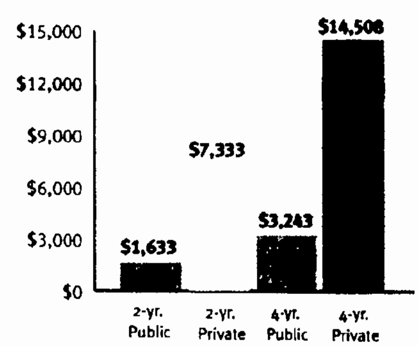


Source: *Digest of Education Statistics 1997*, NCES98-105 (Table 242). 1997. Washington, DC: U.S. Department of Education. National Center for Education Statistics.

Prices

The price of higher education depends on several factors, such as the geographic region, whether the school is public or private, or a two-year or four-year institution. Tuition and fees are only a portion of the total expenses families must consider in choosing a college. Other attendance expenses include books and supplies, room and board, transportation, and miscellaneous costs. Together, these other attendance expenses currently average from $4,800 for commuter students at two-year public colleges to $8,000 for resident students at private colleges.[42] It is the sum of all student expenses –

AVERAGE TUITION & FEE CHARGES AT POSTSECONDARY INSTITUTIONS, 1998-99



Source: *Trends in College Pricing, 1998* (Table 1). The College Board, 1998. New York: Author

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tuition, fees and other attendance expenses – that is typically associated with "what it costs to go to college." This total is the amount considered in determining how much financial aid a family needs in relation to their ability to pay.

The Federal Role in Quality Assurance

Postsecondary institutions must meet accreditation and accountability standards to obtain federal funds, whether in the form of student financial aid or as institutional grants and contracts. The accreditation requirement is intended to assure that baseline quality criteria are met in the areas of faculty, curricula, facilities, equipment and supplies, fiscal and administrative capacity, and tuition and fees in relation to the program and its objectives.[43]

The U.S. Department of Education relies on private accrediting entities to perform on-site inspections and determine compliance with the specific standards each has established. To be approved to fulfill this function, accrediting agencies or associations must also meet criteria, specified by law, that demonstrate their qualifications to establish standards and confer accreditation status.

Financing

Higher education is subsidized primarily through aid to institutions (i.e., non-tuition support) and, to a lesser extent, through student financial aid. Support of public higher education can be traced to the colonial era, when government funds helped to establish Harvard University in 1636. More than a century later, government funds also helped to launch the nation's first state-supported university in Georgia. Federal support expanded considerably in the latter half of the nineteenth century when public land was granted to states to establish colleges. These land-grant colleges were to bring instruction to area residents and services to farmers and mechanics. States did not have sufficient resources to operate these colleges, however, and annual federal grants were eventually provided.[44] Today, public universities are heavily subsidized by state governments, and enroll nearly 80 percent of all college students.

Over the past four decades, a significant system of student financial aid has evolved to supplement aid to institutions and provide access to those who would otherwise be unable to afford college. Originally, financial aid was designed to help the United States compete with the Soviets by encouraging more people to go to college and to take up particular fields of study, such as science. Prior to that, the only federal student aid was a provision of the GI Bill, which was enacted to help returning veterans attend college.

Financial aid evolved into a need-based system in the 1960s, when the goals of access and choice in higher education became more widely accepted, and aid funds authorized by the Higher Education Act provided the tools and the means to move towards equal educational opportunity. The system continued to revolve around need-based aid until the 1990s, when need-based aid began to lose its primacy in favor of merit-based aid. This is the case for both public funds and institutional dollars. At the federal level, need-based aid is now less well targeted, and tax credits, which primarily benefit the middle class, have been introduced. Institutions have also been directing an increasing proportion of their student aid funds towards non-need-based grants.[45]

Sources of Revenue for Higher Education

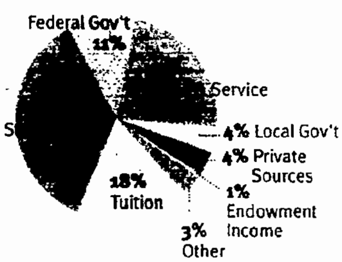
Postsecondary education institutions receive revenue from a variety of sources. This is true for both public and private sector schools, which rely on similar sources of revenue, although in different proportions. The diversity in income streams is an important feature of higher education financing that lends strength and stability to operations.

In addition to tuition and fees, revenue includes funds from federal, state and local governments; gifts from alumnae, other private donors, and foundations; endowment earnings; and income derived from sales and services. Federal funds to institutions are generally in the form of research grants and contracts. State funds are appropriated for the operation of public colleges and universities, and to a much lesser extent, provided to private institutions that fill a state's need for programs not available in its own schools. This non-tuition support that institutions receive – termed *institutional aid* or *subsidies* – is essential to providing higher education. For example, institutions rely on these subsidies to provide adequate faculty compensation and maintain the physical plant. Most significantly, subsidies allow institutions to reduce the price charged to students.[46]

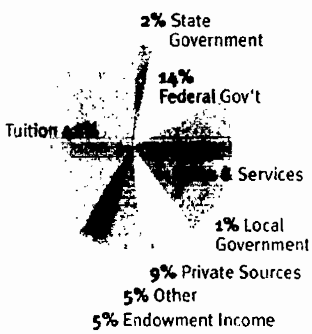
Tuition prices represent the per-student share of expenses not covered by other sources of revenue. In public institutions, tuition represents an average of just 18 percent of total revenue because state appropriations significantly offset expenses, thereby reducing reliance on tuition. In private institutions, tuition comprises an average of 42 percent of all revenue.[47] For both public and private colleges, tuition is an essential revenue source that institutions need to operate. The financial aid office at each school is instrumental in assisting students to obtain aid that helps to pay tuition, and thus plays a critical role in supporting institutions as well as students.

SOURCES OF CURRENT-FUND REVENUE FOR INSTITUTIONS OF HIGHER EDUCATION: 1994-95

PUBLIC INSTITUTIONS



PRIVATE INSTITUTIONS



Source: *Digest of Education Statistics 1997* NCES98-105 (Figure 16), 1997, Washington, DC: Department of Education, National Center for Education Statistics

Revenue from state or local tax-exempt bonds is also available, usually for capital expenses. This is paid back over time; eight to ten percent of the typical university budget is allocated for debt service to pay for buildings, technology, and other large capital outlays.[48]

Public Funding

The form and level of government support for higher education varies considerably among the 50 states. Typically, states attempt to make higher education affordable by building and funding public colleges that charge relatively low tuition to their students. Some rely on private colleges to educate more of their citizens, and attempt to make those colleges affordable by giving students need-based state grant awards. Still other states simultaneously use both of these approaches.

Public funding for private institutions is accomplished in several ways: bond issues, tuition-equalization grants, aid to institutions, state student grant programs for students in private institutions, and institutional aid provided to private institutions on a per-graduate basis.[49]

How Families Pay for Higher Education

Students and their families finance college costs with savings and current income to the extent they are able and, as needed, seek assistance from other sources. About half of all students need help to pay tuition, fees, and other expenses associated with college attendance. Students with demonstrated need qualify for need-based grants, work-study opportunities and subsidized student loans.

The need for aid is defined as the difference between the price to attend the institution of the student's choice and what a family can reasonably contribute to pay that price. It can be expressed in the following formula: price of attendance – expected family contribution = need. A higher tuition price results in higher need for aid and greater access to need-based aid. Thus, the tuition price set by the institution is pivotal in defining the gap to be addressed by student financial aid. However, the gap is rarely closed by financial aid alone.

The *unmet need* (price - expected family contribution - financial aid = unmet need) represents an additional challenge for the student and family. This averages $3,810 for low-income students at four-year public universities and $6,200 at four-year private colleges.[50]

Sources of Student Financial Aid

More than $60 billion is available in assistance through the financial aid system in the form of grants and scholarships, loans, and aid in exchange for work (work-study).[51] The greatest portion of this aid is provided by the federal government in the form of guaranteed loans from private lenders. In addition, some loans are made directly from the U.S. treasury. Students receive a reduced interest rate, which is adjusted annually. The government then pays lenders the difference between the student rate and the rate charged in the private loan market.[52]

Students with demonstrated need receive subsidized loans in which the government pays the interest while the student is in school; others qualify for unsubsidized loans. Parents may also obtain loans if additional assistance is needed to cover the price of attendance. The interest rate on all loans is capped. Loan fees, deducted from each disbursement, help to reduce the costs of the loan program.

Only ten percent of financial aid is provided in the form of federal Pell grants, the largest federal grant program. Pell grants benefit about one quarter of undergraduates. Together, states provide another six percent of aid in state grant and scholarship programs. Several smaller federal grant programs are directed to specific groups such as veterans and science teachers.

Higher education institutions themselves are the largest source of grant aid, providing nearly one fifth of all available aid in the form of private scholarships and fellowships they administer, and in grants, tuition waivers, and discounts using funds from endowment earnings, annual donor giving, and tuition revenue. Institutional grant aid can be awarded based on need or other factors, such as athletic skills. A growing proportion of institutional grant aid is based on academic merit rather than need.[53]

In addition to student financial aid, tax credits, tuition savings plans, and employer benefits provide non-need-based support to finance a postsecondary education.

The greatest source of price reductions for students is aid that goes to institutions, not that which directly targets students according to need or other criteria. A 1992 analysis[54] shows that the public sector provides an average of $12,000 in aid per student through subsidies to state colleges and universities, and an additional $600 per student in direct student financial aid. Private institutions provide $6,000 per student in subsidies from private sources and $3,000 in direct student financial aid.

The Role of the Financial Aid System

The postsecondary education financial aid system could be described as addressing the needs of both institutions and students by providing the vital link to revenue on which students and institutions both rely. It helps students overcome price barriers to higher education by defining and then narrowing the gap between what they can pay and what it costs to attend college. At the institutional level, the system simplifies the aid process for students and families by matching available funds with the student's eligibility for each type of aid and by combining aid from a variety of sources to meet each student's need.[55]

The financial aid system is also designed to support students' choices. For example, no cap is imposed on the tuition amount that financial aid will cover. In theory, this encourages students to choose an institution that will best meet their educational needs and objectives. However, the amount of aid that institutions offer falls short of many students' demonstrated need. The gap that remains – *unmet need* – represents an additional amount for families to finance beyond their *expected family contribution*. For many families and students, this added burden limits college choices to lower-price institutions.

The financial aid system helps colleges and universities in two important ways. First, it allows institutions to serve students who would not be able to attend without assistance. Institutions depend on the system, along with their own resources, to achieve institutional goals of a diverse, academically talented student body – an important component of an institution's quality. Second, by helping students to obtain portable funds to pay the tuition set by the institutions, the aid system delivers the revenue institutions need to operate.

At the heart of the system is need analysis – a method for determining a family's ability to pay and need for assistance. How much each family is expected to contribute to the cost of education depends on the family's size, income, assets, number of family members in college, and other factors. A federal method of analysis is used to uniformly assess ability to pay, based on information that families provide on a free federal application form and submit to a central processing agency. The method is authorized and revised periodically by Congress, and updated annually. Many private and some public institutions use an alternate method that relies on additional data and analysis to make finer distinctions in awarding non-federal aid.

Major features of the financial aid system, such as the application form and its processing, are largely defined by the federal government, which provides the lion's share of student aid funds. Yet, the system is highly decentralized. The financial aid office on each campus serves as the hub for students, the institution, the funding sources, and the need analysis services.

The functions of the financial aid office include outreach, counseling, packaging aid from public and private sources to meet need, and fund management. Effective operation of the financial aid system at the campus level is dependent on the expertise of a financial aid administrator to carry out the essential activities involved in moving aid smoothly from its sources to its intended recipients.

The Role of Advocacy

The extent and nature of funding for higher education are continually changing. Federal funding is affected in part by information and proposals presented when the Higher Education Act comes before Congress for reauthorization every five years. It is also affected by advocacy efforts to champion and shape the program and funding proposals. The success of these advocacy efforts often depends on achieving consensus among the many sectors and interests of postsecondary education institutions and associations.

The higher education community relies on the American Council on Education (ACE), an umbrella association of higher education organizations, to bring together key players and coordinate efforts before Congress and with other policymakers. ACE represents the higher education community in its efforts to cultivate and maintain resources that will strengthen equal educational opportunity and the higher education system.[16]

Continuing Challenges in Financing Higher Education

Because of the prominent role higher education plays in improving and sustaining Americans' quality of life, college affordability and accessibility are both issues of pressing national concern. In the past decade, Congress has authorized two national commissions to seek solutions to the financing quandary: the *National Commission on Responsibilities for Financing Postsecondary Education* in 1991 and the *National Commission on the Cost of Higher Education* in 1997. Strong values of access, equity, quality, and choice provide a foundation for higher education policy, but in terms of financing, these values have often been in competition for limited dollars. Ultimately, public and political will dictate the compromises that lead to the trade-offs among these policy goals.

"IN TERMS OF CREATING OPPORTUNITY, IT'S TOO LATE WHEN KIDS GET TO US. WE NEED TO CREATE OPPORTUNITY EARLY ON."

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HIGHER AND EARLY EDUCATION: alike and different

Before turning their attention to considering the higher education financing system as a model for early care and education, think tank participants explored the major similarities and differences between the two systems. This inquiry not only clarified key characteristics of each system, but provided a critical lens through which to study strategies and test new ideas. Some of the similarities and differences between higher education (HE) and early care and education (ECE) are highlighted below.

Similarities:

- Neither early nor higher education is an entitlement like public elementary and secondary education. Families are considered primarily responsible for paying for attendance in both HE and ECE.
- Both HE and ECE share values of educational opportunity, access, equity, quality, and choice.
- There is a diversity of auspices and sponsorship among programs for young children and college students, including public, private non-profit, proprietary, and church-sponsored.
- Financial assistance is needed by families to overcome price barriers to participation in both HE and ECE.
- Consumer education is important to both HE and ECE in ensuring awareness of benefits, choices, and aid.
- Head Start and major student aid programs both began in 1965 as doors to equal opportunity.
- Research shows that participation in early education as well as higher education can make a difference in life outcomes.
- Similar numbers of individuals participate in ECE and HE. (13 million children under age six; 15 million college students).

Differences:

- The number of ECE programs – over 620,000 centers and family child care homes – is far greater than the number of HE institutions – only 3,700.
- The enrollment size in HE institutions ranges from fewer than 200 to more than 30,000, with most in the range of 500 to 5,000. In contrast, most family child care homes have no more than six children and centers have an average enrollment of about 50.
- Public and private investment is much greater in HE than in ECE.
- Approximately 45 percent of all HE institutions are publicly sponsored; the same is true of only 15 percent of all ECE programs.
- A much greater portion of college revenue is from non-tuition sources. Tuition and fees represent an average of 30 percent of revenue for colleges and an average 72 percent of revenue for ECE programs.
- HE institutions can accept public funds for both operations and as financial aid for students; in ECE programs this is considered "double-dipping."
- Tuition prices for ECE programs exceed the prices at four-year public universities. In some regions, the price for child care is twice the price of tuition and fees at a state university.[4]

- A federal method is used to determine need for financial aid for college; no federal method is available to determine need for financial aid for child care.
- Student financial aid eligibility extends to middle- and upper-middle income families while eligibility for child care assistance is limited to low-income families.
- Eligibility for most child care subsidies hinges on the work status of the parents, while eligibility for student aid does not.
- The primary beneficiary of higher education – the student – is a potential additional payer.

PROMISING STRATEGIES

Armed with the background information and comparisons think tank participants turned their attention to the key challenge of the think tank: identifying higher education financing approaches that could be adapted to early care and education. The participants agreed that it was necessary to critically examine, not merely seek to adapt, higher education financing methods.

Three questions guided the discussion:

- How does the mechanism currently work in higher education?
- What changes would make it more effective in higher education?
- How might the mechanism be adapted to early care and education?

The first two questions were designed to draw on the expertise and perspectives of the higher education participants. The third question drew on the creative thinking of the group as a whole, and ultimately led to the development of the recommendations outlined in the Conclusion of this report.

The ensuing discussions were both spirited and substantive. After exploring the first two questions, the higher education thinkers agreed that there was little they would change in the basic structure and elements of their financing system. When the group as a whole pondered the third question, it became increasingly clear that many features of higher education financing and financial aid indeed hold promise for adaptation to early care and education.

This section explores the most promising strategies from higher education identified at the think tank, presents lessons for adapting them to early care and education, and offers highlights of the discussions on each topic.

> "HIGHER EDUCATION DOES HAVE A GREAT NEED-BASED FINANCIAL AID SYSTEM THAT COULD BE A MODEL FOR EARLY CARE AND EDUCATION. BUT IT IS THREATENED AND IT IS IMPORTANT TO FIGURE OUT WHAT FORCES HAVE MADE THIS HAPPEN AND WHETHER THERE IS A DANGER OF THESE BEING DUPLICATED AT THE EARLY CARE AND EDUCATION LEVEL."
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STRATEGY #1

Use a sound and consistent method for determining families' ability to pay.

All students and families nationwide complete the same free federal application form and submit it to a central processing agency. There is no cap on family income for those seeking assistance, and all applicants, regardless of income level, follow the same general process to apply for aid.

A federal methodology uniformly assesses each family's ability to pay for postsecondary education based on their circumstances. The amount each is expected to contribute varies, depending on the family size, income, assets, number in college, and other factors. The same basic allowances for taxes, savings, and a modest budget for living expenses are applied objectively to family income and assets to arrive at the *expected family contribution.* Many institutions also use an alternate process for distributing non-federal aid that relies on additional data and analysis to make finer distinctions among families' needs.

Lessons for Early Care and Education

- A standard application form would simplify families' access to financial aid. It would collect information essential for assessing ability to pay and for determining eligibility for all types of aid available to pay for early care and education.
- A formula-driven analysis that objectively measures how much families can pay for early care and education out of discretionary income and assets would be an essential tool for maximizing revenue from families who are able to contribute and from sources of financial aid.

Discussion Highlights

Adapting higher education methods would significantly improve current eligibility determination practices in early care and education subsidy programs. For example, the use of a need analysis method could eliminate or moderate the "cliff effect" of sliding scales now used in early care and education subsidy programs to determine a family's copayment. A daunting "cliff" of higher payment faces families when they become ineligible for assistance or are expected to pay a larger share of the cost before their income is sufficient to do so.

With a need analysis method, the amount families are expected to pay relates to their discretionary income, resulting in a sliding scale that extends to the point of affordability – the point at which families can pay the full tuition price from their own resources.

The core methodology and principles of higher education need analysis can form the basis of a methodology for early care and education. For example, two key principles of need analysis include horizontal and vertical equity. Horizontal equity requires that families in similar circumstances pay similar amounts. With vertical equity, higher contributions are expected of families with greater ability to pay from their own resources. These core principles are critical elements of fairness that would be retained. However, the formulas that relate to family ability to pay could be modified to reflect characteristics of families with young children.

Tapping the expertise of the higher education financial aid community, a national method appropriate for early care and education services could be developed for distributing public, business, and philanthropic dollars. Because early care and education is delivered in a local market place rather than a national one, the method should ensure that income allowances for basic living expenses are indexed to the regional prices of goods and services.

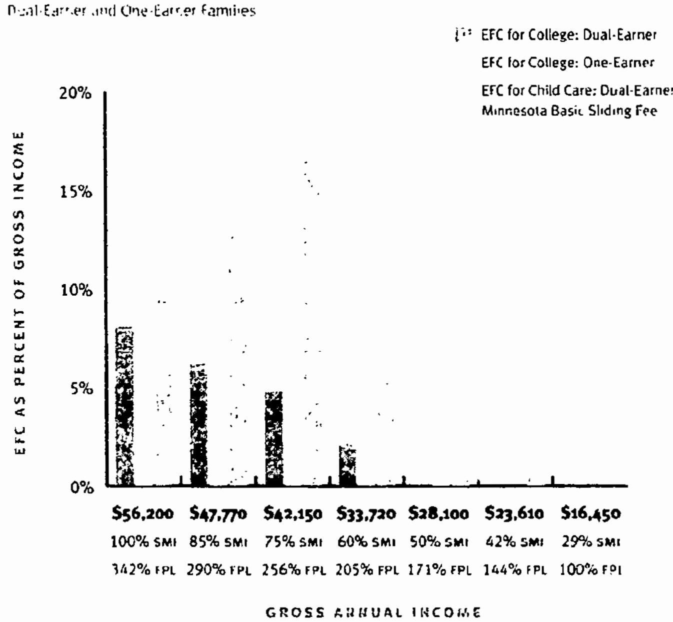
Robust data collection is needed to measure the relative financial strength of families when there is income beyond social services assistance. The challenge is to make the form simple enough for most families to complete, while also collecting adequate information. Detailed information is needed to appropriately differentiate among applicants according to need. The aggregate data also informs policymakers about unmet need in a state or community.

If the higher education method were adapted and financial aid sources were expanded, early childhood programs would be significantly more affordable for most families, and current inequities between what families of similar means are expected to pay for early and higher education would be reduced. For example, one analysis shows that in Minnesota, a family of four with income at 75 percent of the state's median is expected to contribute four times more for child care than would be expected as a contribution toward a child's college education.

EXPECTED FAMILY CONTRIBUTION (EFC) FOR COLLEGE AND EARLY CARE & EDUCATION

MINNESOTA FAMILY OF FOUR: TWO PARENTS & TWO CHILDREN

Dual-Earner and One-Earner Families



Note: The *EFC for College* is based on the 1998-99 Federal Methodology. The *EFC for Child Care* for families with income to 75% SMI is based on the Minnesota Basic Sliding Fee. for families with 85-100% SMI, the EFC is based on a survey of average weekly rates at centers. **Source:** *Different Expectations*, by T. Vast, 1998, unpublished paper available from the author.

STRATEGY #2

Set the tuition price to cover expenses.

The tuition price set by each higher education institution reflects the full cost of all operations, less subsidies provided by non-tuition revenue sources.

For example, state appropriations provided to public universities cover a large portion of expenses, thus reducing the amount of revenue that must be sought in tuition and fees from students. Private institutions also are able to reduce the per-student charges due to subsidies they receive from mostly private sources. In either case, the tuition price charged to students reflects the cost of education not covered by subsidies the institution receives from other sources.

FULL OPERATING COSTS — SUBSIDIES = FULL TUITION PRICE

Lessons for Early Care and Education:

- For early childhood programs, setting a full tuition price that includes the costs of producing a quality program would be a critical step toward obtaining sufficient resources.
- The full cost (including appropriate staff compensation), less subsidies provided by non-tuition revenue, should determine the tuition price to be paid by families – many with the help of financial aid.
- If a need analysis method and processing system were in place to determine each family's ability to pay, early childhood programs could seek the full tuition price from families unable to demonstrate financial need for assistance.
- By setting the price in this way, the program also helps to define the gap between what families can pay and what the service costs – information that is critical for funders.

Discussion Highlights:

Currently, the labor subsidy provided by the foregone wages of underpaid professional staff is a central assumption in the tuition pricing practices of early childhood programs. The task of setting a full tuition price could be quite daunting to early care and education programs that are too small, short-staffed or that lack the administrative expertise to produce a budget analysis of this nature. Assistance and support in such a process would be critical, yet must be provided at arm's length, or providers could be charged with violating antitrust laws.

Community agencies or national organizations could provide guidance for determining full cost and a full tuition price. Several communities have undertaken such projects, using the process and template published by the National Association for the Education of Young Children.[18] However, some efforts to motivate programs to participate have been hindered by the absence of a direct link between this endeavor and the ability to secure additional revenues to support quality and pay staff appropriately. Consequently, it is important that such projects be launched as a component of a larger financing initiative, such as the creation of a national early care and education financial aid system.

STRATEGY #3

Calculate the need for aid based on prices and families' ability to pay.

The need for aid is defined as the difference between the price to attend a school of the student's choice and what a family can be expected to contribute to pay that price. As a simple formula, it is calculated as: price - expected family contribution = need. The price of attendance includes tuition and fees, books and supplies, room and board, transportation and other miscellaneous expenses.

The amount of financial need is directly related to the tuition price and other expenses to attend a particular institution. Greater need is demonstrated at institutions with higher prices to the student, and less need is demonstrated at institutions with lower prices to the student.

In addition to establishing each family's need, this basic formula yields vital aggregate data about unmet need that is used to lobby for additional aid funds.

FULL PRICE — EXPECTED FAMILY CONTRIBUTION = NEED FOR AID

Lessons for Early Care and Education:

- Equitable distribution of aid according to need hinges on a fair assessment of the family's ability to pay in relation to the price of the program.
- Those able to pay the full tuition price would be expected do so from their own resources. Those who demonstrate need would pay the full tuition price by combining their expected family contribution with their aid award.
- Data on aggregate need could inform government policymaking and appropriation decisions as well as the philanthropic decisions of foundations, businesses, and individual donors.

Discussion Highlights:

A system that fairly measures relative need would help to direct scarce aid to those most in need and collect fees from those who can afford to pay the established tuition. The aid would be intended to help families purchase high-quality early care and education at prices that cover the cost of producing it, such as the cost of qualified, well-compensated staff, appropriate staff-child ratios and group sizes, and the cost of meeting other quality criteria.

Currently, programs attempt to price their services to accommodate the majority of families, but they do so based on what they believe the market will bear. As a result, regardless of need, families in most programs receive the same level of subsidy – provided largely by staff through foregone wages. Some families who can afford full tuition prices pay reduced rates. Using the higher education approach, these families would be expected to pay according to their ability, as measured by the standard need analysis method, thus maximizing a source of revenue that has been untapped.

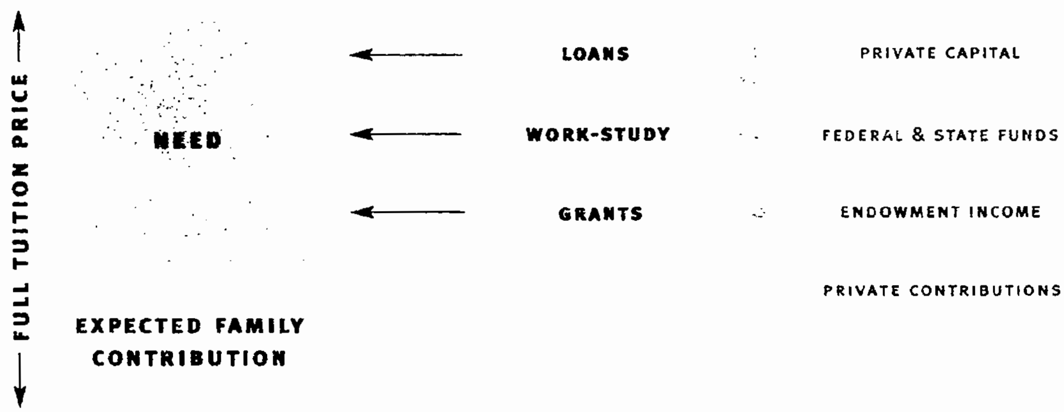
Good data is needed for effective early care and education policymaking and for adequately financing the system. The application and national need analysis method would yield important data that could help the early care and education community to establish net need.

STRATEGY #4

Utilize a variety of sources and types of financial aid to address a range of financial circumstances.
Package aid to meet demonstrated need.

Numerous sources and types of financial aid support students and families in paying college attendance expenses, including the full tuition price set by institutions. Drawing from a variety of public and private sources, the financial aid administrator combines aid funds for which the student and family qualify into a *financial aid package*, making appropriate adjustments to meet unique needs and circumstances.

Need-based student financial aid includes federal, state, and private grants, subsidized and guaranteed federal and private loans, and aid in exchange for work (work-study). Some aid is also available from outside of the financial aid system, such as tax credits, employer-paid tuition, and tuition savings plans.



Lessons for Early Care and Education

- Funds from public and private sources could be creatively combined to enable families in need of assistance to pay the full tuition price. Each family would be awarded aid according to demonstrated need and the eligibility criteria of the source and form of aid.
- Current sources of funds to help families pay for early care and education could be made more flexible. Additional funding sources and vehicles could be developed to serve a range of needs in families of all income levels who could not otherwise pay the full tuition price. These could include community or statewide endowment funds; low-interest, subsidized, and guaranteed loans; tax credits related to real costs; and tax-exempt savings vehicles.
- The availability of financial assistance tailored to middle-income families would help to build broad public and political support for public funding.

Discussion Highlights

Various types of financial aid could be adapted to assist families with early care and education costs. Options are needed to address a wide range of financial circumstances. Currently, subsidies are the prevalent form of assistance, and other types of aid, such as loans, are not available. The poorest families should continue to get the bulk of their assistance in the form of grant aid (subsidies) which does not require repayment. However, assistance also needs to be available for middle-income and upper-middle-income families to help them pay full tuition prices when these are out of reach.

Loans. Loans could be a viable option, especially for middle- and upper-middle-income families. With little cost to government, guaranteed loans for middle-income families that demonstrate credit worthiness could help them to pay the full tuition price. The key to accessing private loan capital is a government guarantee against losses. This is essential to making the loans available at affordable rates and terms. A maximum monthly payment of eight percent of income could be expected as repayment over a period of about ten years, so that repayment is complete by the time a child might need to borrow for college.

Savings Plans. Grandparents or parents could buy tax-deductible credits in tuition-prepayment plans and savings accounts for early care and education. These could be managed by states with a guaranteed rate of return, at a relatively low administrative cost. In many states, the mechanism is already in place and could easily be used for both early care and education and higher education. A minimum or maximum monthly or annual amount could be set, and payment could take the form of a payroll deduction. Education IRAs are a federal savings vehicle supported with favorable tax treatment that could be expanded to include early care and education. A federal or state "partnership" savings plan structured jointly for higher education and early care and education could promote the idea of saving for both.

Work-Study. Parents could provide needed services to their early care and education program in exchange for a full or partial subsidy. Some programs already do this by providing a tuition discount in exchange for tasks like grocery shopping, bookkeeping, and secretarial, janitorial, or repair work. Parent work could also be used to help support auxiliary sales activities designed to generate additional revenue for the program.

STRATEGY #5

Establish a financial aid office to serve as the hub for obtaining and distributing student aid.

The financial aid office provides outreach, information, and financial aid counseling to students and their families, assists with aid applications, and packages financial aid according to available resources and students' eligibility. It is also responsible for the management and disbursement of funds, as well as reporting to the U.S. Department of Education and other funders. Smaller institutions without the resources for their own financial aid offices contract for these services with a vendor that serves several institutions.

Lessons for Early Care and Education:

- Financial aid administrative functions are essential to obtaining, combining, and distributing aid to families according to need.
- All socioeconomic groups could be served in the same regional financial aid office, perhaps located within a community agency. The agency could provide cost-effective financial aid services for an entire community's families and programs.

Discussion Highlights:

Although the need analysis method would be national, distribution would be community-based. Aid would be awarded with public and private funds available from federal, state, local, and community sources. The income and asset information from the application would be used to test eligibility for funds from different sources and types of aid and to package these together to meet the family's need.

Organizational and administrative capacity needs to be developed in a centralized system that would perform the financial aid functions. To package and disburse funds, an intermediary structure would be needed in the early care and education delivery system. This financial aid community hub could become the locus for contributions to scholarship funds, savings plans, and an endowment fund, as well as government subsidies. The central office would notify families of their financial aid package and disburse funds to the qualified providers they choose.

The financial aid hub and administrator could be in an existing or new non-profit community agency, a county or state agency, or a professional or trade association. In many communities, child care resource and referral agencies could incorporate the financial aid function in their operations. Discussion will be needed to determine the criteria for appropriate entities and sites for this critical system function. An application process could be established by which community or regional organizations would demonstrate their ability to fill this role. Funds would be needed to pay for the increased training that would be necessary to have financial aid officers to counsel families, package aid, and be involved in disbursing aid.

STRATEGY #6

Require institutions to adhere to quality criteria to participate in the system.

Higher education institutions must meet minimum standards set by a federally approved accrediting entity to participate in the financial aid system and receive federal funds.

Lessons for Early Care and Education:

- The availability of public funds – both as subsidies to programs and for families – would provide an important incentive for programs to meet standards for participation in the system.
- Federal funding standards could help to ensure adequate quality in programs nationwide, and private-sector entities could ensure that standards are met. The federal standards would pertain to the accrediting body, rather than directly to the programs; programs would meet standards set by federally approved accrediting organizations.
- Early childhood program accreditation standards could serve as indicators of adequate program quality or remain a separate recognition of higher quality.

Discussion Highlights:

Since most of the nation's early care and education programs are not subsidized, federal standards for early care and education programs have not taken hold. Funding standards for Head Start are the exception: Head Start Performance Standards must be met and maintained to obtain federal funding. For school-based early care and education programs and for programs that receive federal subsidies for enrolled children, there are seldom any funding standards. In some states, however, higher rates are paid to accredited programs as an incentive for higher quality. These efforts to ensure that public dollars purchase good-quality education are similar to methods used in higher education.

To obtain federal funds through the financial aid system or as institutional aid, higher education institutions must meet standards set by accrediting organizations. This self-policing strategy could be advocated for early care and education to help raise the level of quality. Motivated by the availability of federal funds, there is little doubt that programs would strive to comply with the requirement to meet the accreditation standards of an approved early care and education accrediting organization.

Since the process of achieving accreditation is a critical aspect of quality improvement, striving to meet the standards should be rewarded. Therefore, embarking on the accreditation process could be one measure of compliance with an accreditation requirement. Benchmarks could be set for progress toward full compliance within a probationary period.

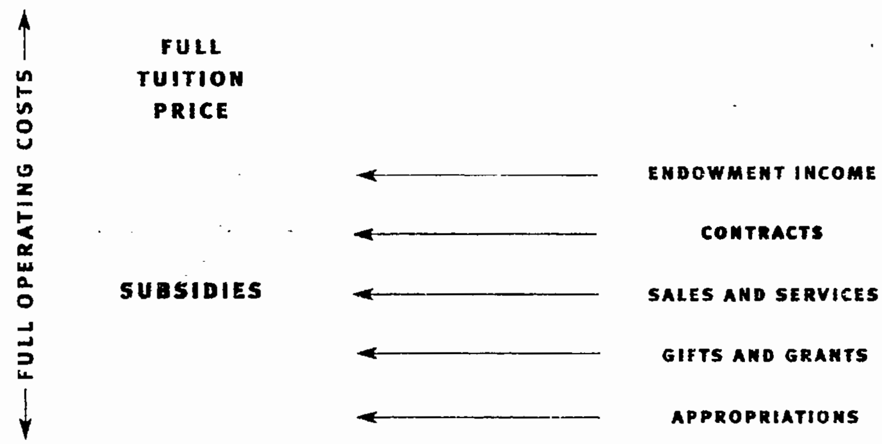
"IF WE ACCEPT THE PREMISE THAT HEALTHY DEVELOPMENT MAKES THE DIFFERENCE – WE HAVE TO BE ABLE TO POINT TO QUALITY AND SHOW THAT SOCIETY BENEFITS."

STRATEGY #7

Rely on multiple sources of revenue to meet operating expenses.

Non-tuition revenue lowers the cost of postsecondary education for all students, allowing for lower tuition prices than would otherwise be necessary to cover expenses. In addition to tuition, revenue sources for current year expenses include support from government appropriations, contracts, grants, and research centers; gifts from foundations, alumnae, and other donors; earnings from endowment investments; and revenue from sales and services.

Revenue sources for capital expenses include endowment earnings, fund drives, and funds raised from general obligation bond issues. In many states, funds generated by bonds are available to private as well as public institutions.



Lessons for Early Care and Education:

- Cultivating additional revenue sources and reducing reliance on fees paid by families would help meet the full costs of operating quality programs. Endowment funds, government funding, and auxiliary sales and services are promising revenue sources for early care and education.
- One key to financial stability would be to combine aid provided for the program with the financial aid families bring to purchase services.
- Revenue from general obligation bonds could be a viable source of funds for capital improvements and construction of early childhood facilities.
- Apart from programs, revenue is critical to pay for infrastructure in an early care and education system. Infrastructure components that need support include planning, data collection, and coordination; regulation and accreditation; financial aid administration; consumer education and outreach; resource and referral activities; and career development systems that address training and training approval, as well as recognition mechanisms such as practitioner registries and teacher licensure. Public funds would be the best source of infrastructure support.

Discussion Highlights:

Public funding. The preponderance of current public spending for early care and education is either in the form of grant or contract funding of specific programs, such as Head Start or a state prekindergarten, or in the form of subsidies to families. However, the two types of aid are not mixed in order to prevent duplicative benefits and services or "double dipping." There is good reason for early care and education programs to combine these two types of support, as is done in higher education: Aid to programs covers essential expenses that improve quality, such as faculty salaries, thereby reducing the tuition price and making the cost more affordable for all.

A small but crucial portion of public funds is now spent on infrastructure, such as training, resource and referral, and regulation. This portion needs to be significantly increased to support the development of a high-quality workforce and high-quality programs. As in higher education, public funding for the infrastructure would be critical to the system's success.

Contributions and Endowment Earnings. Increased donations from individuals, foundations, and businesses must be encouraged. In addition to providing programs with current year income, contributions can be used to build endowment funds. With sufficient capital, an endowment fund could produce significant earnings. Early care and education programs are too small on their own to attract enough in endowment funds to produce sizable earnings, and most are unequipped administratively to manage investments. A pooled community or state fund could be a solution, however. Managed by a community foundation or agency or even the state, an early care and education endowment fund could provide revenue for programs as well as financial aid to help families pay tuition.

Auxiliary Sales and Services. Sales and services could be pursued to further diversify revenue sources. For example, capitalizing on professional expertise, classes could be offered off site or during off hours for stay-at-home parents with disposable income who are seeking education programs for their children. Other possibilities are for programs to offer products and services that would appeal to the families they serve. Given a choice, parents might well choose to support their early childhood programs by purchasing children's books and learning materials, gift items or even diapers, which could be conveniently picked up at the end of the day. Small programs could band together, perhaps through an organizational affiliation, to offer this service or fill parent merchandise orders rather than stock inventory. Finally, the use of parent volunteers could help make the venture profitable. However, seeking to increase revenues through sales and services could further burden staff in an industry which is already dependent on contributions of its workforce for solvency.

STRATEGY #8

Make information about college choices and financial aid widely available.

Prospective college students have access to information about the benefits of higher education and the availability of financial aid to pursue educational goals. A variety of means, including outreach services, publications, and the Internet help consumers make informed choices and understand financial aid options.

Lessons for Early Care and Education:

- Easily accessible information about the importance of the early years, how young children learn, and the characteristics of high-quality programs would help families make wise choices about how best to promote the healthy development of their young children and provide them with appropriate early learning experiences.
- The use of specific and straightforward indicators of quality, such as accreditation status and ratings based on licensing records, would help families distinguish good programs from poor and mediocre ones when making choices.

Discussion Highlights:

Parents make early care and education choices based on incomplete information. A lack of knowledge about child development and what young children need to learn and grow hinders choices, but studies have also shown that parents are unable to distinguish lower from higher quality even when they know the characteristics that matter.

Higher education consumers, too, face a bewildering range of options and claims from competing institutions to consider in making choices. Their options are unnecessarily limited if they are not aware that financial aid can help them to attend the institution they believe would best serve their objectives, even if the price is high. College and financial aid information is widely available to aspiring college students in public libraries, high schools, free publications, and through toll-free telephone lines and the Internet. Some of these provide independent ratings of college programs and prices. Outreach programs also target elementary and secondary students who might not otherwise consider college and would have limited life opportunities.

Some of these same techniques could extend the reach of consumer information for families with young children. Families need to know the benefits of high-quality early care and education, and need tools like ratings and accreditation that provide specific information about the programs they are considering. They also need to know that financial assistance is available to help support their choices.

STRATEGY #9

Build support for public and private investment in higher education.

Research findings enhance public awareness of the individual and societal benefits of higher education and increase support for aid to institutions and students.

Lessons for Early Care and Education:

- Emphasizing early care and education as a part of the education continuum could bolster public awareness and support.
- Enhancing public awareness of the personal and social benefits of early care and education would be a major step toward gaining support for public and private investment in early care and education programs and tuition assistance to families.
- Strengthening research and data capacities would be essential for reporting on the benefits of quality early care and education.

Discussion Highlights:

A stronger association with education and the links between high-quality early education and success in elementary and secondary education would attract both public attention and support. Presenting early care and education as part of the education continuum will build public understanding that investments in early childhood programs pay off in the form of higher academic achievement in elementary and secondary school. Moreover, if early care and education were seen as a component of education, funding decisions could be based on the needs of the system as a whole.

Some early care and education advocates have shied away from the association with public education due to fears that the current diversity of the early care and education delivery system would be adversely affected. At the same time, the delivery of educational services at all levels is undergoing reexamination. A good example is the public debate over spending public dollars with private providers of education through vouchers. Diversity in the delivery of services does not have to be abandoned to obtain additional public support.

Public funds must play a central role in the overall financing of early care and education, as it does in higher education. To attract sufficient public funds, however, the case needs to be made that high-quality early care and education is a merit good – something to which all young children should have access because of the significant benefits it provides. Further, it needs to be made clear, as it is with higher education, that not only do individual children and their families benefit from high-quality early care and education, but society in general reaps benefits from its investment in young children.

Messages to the public about the importance of early childhood education must stress its value as an essential foundation of K-12 education and beyond. The benefits to society of investing resources in education from the earliest years need to be clearly articulated and disseminated. This will be the rationale for public funding to support early childhood programs and the system infrastructure. Increasingly, the public does not favor funding that is seen as a hand-out. Funding given to support programs, rather than as financial aid to families, removes that stigma to some degree, because it can reduce the amount of support individual children need to attend a quality program.

Public investment can also provide significant leverage for additional private investment from the business and philanthropic sectors, thus increasing the value of the public dollar.

STRATEGY #10

Cultivate and maintain resources through coordinated advocacy efforts.

Careful organizing and coordinated efforts have helped higher education to cultivate and maintain resources and successfully argue for needed changes. In matters of public policy, the higher education community relies on an umbrella "organization of organizations." It speaks as a unified voice for the many sectors of higher education in representing their views to policymakers, and guides decision-makers through analyses of the benefits of higher education, shortcomings in the system, and proposals for improvements.

Lessons for Early Care and Education

- Early care and education organizations, building on their ongoing coordination efforts, could establish a national organization that formally represents their mutual interests in matters of public policy and funding. The member organizations would work out differences first, and then present a united front to policy makers and the public to win support for resources for early care and education.

Discussion Highlights

The higher education community discovered that in spite of their differences on specific issues, it is in the best interest of their mutual goals to work together in matters of public policy. The American Council on Education (ACE), facilitates that effort. While the internal debate can be fierce, ACE seeks to present a united policy agenda to the public and inspire its diverse organizational members to work together toward common objectives. A singularity of purpose among the dozens of national higher education organizations keeps their public policy and funding concerns focused.

Early care and education organizations, each with a different point of view and agenda, can appear fractious and confusing to policymakers. This could be rectified by establishing an organization similar to ACE. Each member organization could have one vote in determining public policy positions, and agree to work together with other organizations in advocacy efforts. Based on the experience in higher education, the field could make greater strides together than is currently possible.

Twenty different higher education associations, with the support of a large foundation grant, started ACE eighty years ago. Launching a similar organization for early care and education could also attract significant funding. The rationale would be that with national sentiment now moving toward greater public and private investment in early care and education, the field's organizations must band together to build public and legislative credibility and to ensure that such investment is efficient.

Currently, an informal group of 43 national organizations concerned about early care and education meets as the Media Strategies Group to coordinate public information messages. This was preceded by the "April 19th Group," about 20 organizations that met periodically for several years to develop agreement and positions on national issues and be a catalyst for action on a unified vision of an early care and education system. Other coalitions have formed, guided by the Children's Defense Fund and others, to focus on specific lobbying goals.

The Media Strategies Group, led by the Child Care Action Campaign, is considering potential next steps. The April 19th Group, although now dormant, could be revived. These two efforts at coordinating communications and policy provide the early care and education community with some distinct possibilities for coalescing financing efforts. A formal alliance that represents early care and education organizations could effectively lobby for expanded public funds for young children and encourage private investment.

"THERE IS A SOCIAL IMPERATIVE THAT HAS DRIVEN PUBLIC INVESTMENT IN HIGHER EDUCATION. WE ARE JUST AT THE CUSP OF THE SOCIAL RESEARCH THAT WILL CREATE THAT IMPERATIVE TO DRIVE PUBLIC INVESTMENT IN EARLY CARE AND EDUCATION."

Sharon Lynn Kagan, The Bush Center in Child Development and Social Policy, Yale University

CONCLUSION

The two-day think tank in Minneapolis was nothing short of historic: It was the first time that experts in higher education financing and financial aid gathered with a group of early care and education leaders to explore financing issues. Critical linkages were forged during the course of the think tank as participants exchanged ideas and considered the shared missions and values of the two fields.

At the outset of the retreat, participants were asked to consider whether or not further research should look into higher education financing and financial aid approaches and test their feasibility for early care and education. By the final session, the response was an enthusiastic, resounding "Yes" – an answer that had become strikingly evident as discussions progressed. The early care and education financing leaders not only discovered a set of strategies to pursue, but a cadre of higher education professionals who are eager to support their efforts.

The think tank produced two sets of results. The first is a set of pivotal lessons concerning the application of higher education financing methods and strategies to early care and education. The second is a framework for a system of financing early care and education services, reflected in ten major recommendations. The think tank also produced a profound sense of excitement about new possibilities.

A related lesson from the think tank emerged from its design and format. The meeting planners requested that early care and education participants probe one field's financing approach as deeply as time allowed rather than survey financing mechanisms from numerous fields. In narrowing the focus, the think tank presented a unique opportunity to learn directly from the expertise and perspective of the higher education policy and financial aid experts who agreed to participate.

> "CAUSED EVERYONE TO THINK ABOUT THINGS A LITTLE DIFFERENTLY."
>
> *Rachel Connelly, Bowdoin College*

The value of the encounter was not merely in absorbing information from another field to address early care and education financing challenges, but in engaging another set of professionals to apply their expertise and creative thinking to a new challenge. As a result of this meeting, there is now a group of higher education professionals who know a great deal about early care and education. Their experience at the think tank places them in a prime position to advocate for the support of early care and education within their circles of influence.

An equally notable outcome of the interprofessional dialogue was that the early care and education leaders gained an understanding of the role of need-based financial aid in assuring access to higher education. With this came a commitment to support advocacy efforts to increase public support for improving access to higher education.

By the retreat's end, the group achieved a clear sense of camaraderie and unity in purpose. Participants discovered that the shared values of equity, access, quality, and choice indeed provide a solid foundation for working together, across disciplines, to pursue a mutual goal – ensuring that all families have access to the services they need to help their children develop to their fullest potential.

Recommendations

After two and a half days of thoughtful exploration of financing strategies, the think tank participants produced a set of ten recommendations aimed at moving the process forward. The recommendations were formulated as guidance in applying the lessons for early care and education outlined in the previous section of this report. Collectively, the recommendations suggest a potential framework for a system of financing. *A Model for an Early Care and Education Financing and Financial Aid System*, depicted on page 49, illustrates how an integrated financing system might operate.

Participants also noted analytic and strategic "first steps" that would advance implementation of the recommendations. Together, the recommendations and first steps suggest that cooperative efforts be intensified – at both the national and state levels – to develop the necessary mechanisms and resources for financing a coordinated system of high-quality early care and education.

Each of the ten recommendations is accompanied by the related first steps that emerged from the think tank. Each recommendation also includes a reference to the higher education strategy that inspired it so that readers who wish to review the discussion highlights or "lessons" can easily locate them in the Promising Strategies section (pages 29-43).

Recommendation 1:

Explore methods of adapting key features of the higher education financial aid system through research and consultation with higher education financing and financial aid experts. Use demonstration projects to test system models that integrate these interdependent financial aid strategies (Strategies #1-5):

- Establish families' ability to pay for early care and education using a national need analysis method and standard application form. Apply the same core concepts and principles of higher education need analysis to determine an expected contribution from each family.
- Calculate the full tuition price of early care and education programs – including the cost of producing a high-quality program with equitably compensated staff.
- Define a family's need for aid as the difference between the price of the program a family chooses and the family's expected contribution.
- Combine aid from a variety of sources to develop a *financial aid package* to meet the demonstrated need of each family for assistance to pay for early care and education.
- Develop criteria and guidelines for establishing one-stop community financial aid agencies to manage and disburse aid from numerous sources.

Recommendation 2:

Require that programs participating in the system adhere to quality criteria. (Strategy #6)

- Establish a requirement that programs receiving public funds meet standards set by approved accrediting organizations.
- Develop standards for accrediting bodies that identify organizational qualifications, areas to be addressed in accreditation standards, and components of an accreditation process. Propose that these standards be adopted by an appropriate agency in the federal government, such as the Administration for Children and Families, for use in approving and monitoring accrediting organizations.
- Encourage and expand current state initiatives to pay higher reimbursement rates for subsidized children in accredited programs.

Recommendation 3:

Cultivate diverse revenue sources to support early care and education programs. (Strategy #7)

- Analyze the revenue potential of diverse financing mechanisms, such as earnings from community endowment funds and income from sales and services.
- Investigate the potential for generating income from general obligation bonds to use for capital expenses.

Recommendation 4:

Develop additional funding sources and vehicles for aid to families, while increasing the contribution levels and flexibility of current sources. (Strategy #4)

- Investigate adapting higher education financing vehicles such as subsidized and guaranteed loans, tax-free savings and investment plans, endowment funds, and employer-paid tuition plans.
- Increase current funding levels to address unmet need for high-quality services.
- Increase flexibility of public subsidies, such as allowing funds to subsidize both programs and children.

Recommendation 5:

Develop dedicated public funding sources for infrastructure support for a coordinated early care and education system. (Strategy #7)

- Identify the necessary resources and mechanisms to support the early care and education infrastructure.
- Discuss financing approaches with the National Conference of State Legislatures and National Governors' Association. Build on states' commitment to funding higher education infrastructure in advocating for infrastructure support for early care and education.

Recommendation 6:

Improve consumer information and increase demand for high-quality early care and education. (Strategy #8)

- Provide consumers with information about the importance of the early years, characteristics of high-quality early care and education, and the need for pubic and private support to ensure that all young children have equal opportunities.
- Provide consumers with specific information about programs they are considering, such as accreditation status and licensing or program assessment ratings, and the availability of financial aid.

Recommendation 7:

Promote early care and education as part of the education continuum and as the foundation for subsequent education and life success. (Strategy #9)

- Develop strategies for increasing public and political awareness of early care and education as a merit good.
- Advocate that federal and state commitment to equity, access, and choice in higher education be extended to early care and education.
- Develop alliances with teachers and nurses, and build a broad coalition with unions.
- Develop a model piece of legislation to focus public discussion on the need for sustained public investment in early care and education.

Recommendation 8:

Expand research and data capacities to provide information about the benefits of early care and education and to highlight unmet need for services. (Strategy #9)

- Build on current national data sets in public and private agencies.

Recommendation 9:

Move toward establishing a national organization of early care and education organizations to unify public policy and lobbying efforts. (Strategy #10)

- Engage the Media Strategies Group and the April 19th Group in discussions toward developing a consensus on a financing system, starting an umbrella organization, and framing early care and education as a merit good in media campaigns.
- Create alliances among different provider groups.

"FROM AN OUTSIDER'S PERSPECTIVE, I THINK IT IS ABSOLUTELY IMPERATIVE THAT THE EARLY CHILDHOOD PROFESSION COME TOGETHER."

Recommendation 10:

Build a national consensus within the early care and education community about the design and implementation of a financing system. (Strategy #10)

- Test ideas and recommendations from the think tank with colleagues using meetings, national conferences, audio conferences, position papers, and issues briefs.
- Identify the underlying questions that must be answered by the early care and education community in order to recommend the implementation of a financing system that is acceptable to all.
- Identify several leading national organizations to serve as the cooperative "home" and leadership base for supporting, unifying and furthering early care and education financing efforts. Working together, these organizations would convene researchers, advocates and organizations focused on generating financing solutions; provide leadership to examine various financing approaches and ideas that are currently being pursued; and unify resources for researching, designing, and promoting an early care and education financing system.
- Establish a *National Commission on Financing Early Care and Education* comprised of leaders from early care and education financing efforts, non-profit and philanthropic organizations, businesses, and government. The Commission would be charged with developing a financing action plan and recommending it to all sectors, from the President and Congress, to state, business, philanthropic, and non-profit leaders.
- Establish in each state a *Commission on Financing Early Care and Education* comprised of leaders from early care and education financing efforts, non-profit and philanthropic organizations, businesses, and government. The State Commissions would work with the National Commission toward a national consensus on coordinated financing strategies.

"YOU HAVE AN OPPORTUNITY TO CREATE YOUR OWN HISTORY."

Robert Huff, Hoover Institution at Stanford University

A MODEL FOR AN EARLY CARE AND EDUCATION FINANCING & FINANCIAL AID SYSTEM

FAMILIES visit programs, choose services to meet needs, and apply for aid if unable to pay the full price.

FAMILIES complete financial aid applications, obtaining financial aid counseling if needed.

FAMILIES receive notices of their expected contribution and their financial aid package.

FAMILIES enroll children in programs of choice and pay their share of the full price to providers.

CENTRAL PROCESSING AGENCY

- Performs need analysis
- Determines expected family contribution

SYSTEM INFRASTRUCTURE

- Practitioner standards, training & recognition; career development system
- Program standards; licensing, accreditation
- Consumer education; resource and referral agencies
- Data collection, planning, coordination
- Financial aid system
- Quality improvement activities, etc.

COMMUNITY EARLY CARE & EDUCATION FINANCIAL AID AGENCY

- Provides financial aid counseling
- Packages aid to meet need
- Disburses financial aid

PUBLIC & PRIVATE FUNDERS

Provide funds for
- Infrastructure
- Programs
- Need-based financial aid for families

Early Care and Education **PROGRAMS** meet quality criteria to partcipate in the system.

PROGRAMS determine full cost and set full tuition price: Full Cost - Subsidies = Full Price

PROGRAMS receive full price and provide a high-quality program.

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THE MINNESOTA EARLY CARE AND EDUCATION FINANCING PARTNERSHIP

In 1997, the Alliance of Early Childhood Professionals, Child Care WORKS and KidsPlan collaborated to create the Minnesota Early Care and Education Financing Partnership. The three partners represent the full spectrum of Minnesota's child care field, and all have expertise with state and local child care policy. The Partnership's strategic plan is focused on exploring financing and building support in Minnesota for fully financing a high-quality early care and education system.

Core activities include sponsoring the Financial Aid Think Tank and establishing an Early Care and Education Finance Commission. The Finance Commission will develop recommendations and strategies focused on ensuring that every child receives early care and education that is affordable, provides a safe, nurturing, educational and culturally affirming environment, and affirms that caring for children is an integral part of building healthy communities.

The Alliance of Early Childhood Professionals

The Alliance of Early Childhood Professionals (AECP) was founded in 1979 by child care center staff and family home providers to promote improvements in wages and working conditions for child care professionals. AECP began as a Minneapolis-based association, but has since evolved into a statewide organization which engages in a variety of research, education, advocacy and empowerment activities aimed at bolstering the recognition, respect and compensation of child care professionals. Since 1986, AECP has engaged in work to move Minnesota towards a fully funded child care system that has the capacity to pay a living wage to the early childhood workforce.

Child Care WORKS

Child Care WORKS is a statewide coalition of organizations and individuals who work for quality care and education for all of Minnesota's children and families through public education, research and advocacy. Its goals are to increase resources for quality child care and education, to support families in their roles as providers and nurturers, and to improve the compensation, training and recognition of child care professionals. For 14 years, Child Care WORKS has worked to develop public policies that address the needs of children, working parents, providers, employers and the community.

KidsPlan

KidsPlan is a non-profit agency that partners with government agencies, resource and referral agencies, children's advocates and policymakers nationwide to provide policy analysis, planning services and products for child care and early education. KidsPlan's mission is to help ensure the best possible early learning experiences for all children and the most effective child care for all working families. Current projects cluster around three long-range strategies: creating a vision and models for early care and education; building information systems to guide and illuminate policy making; and bringing new partners together in coalition to move the vision to reality.

About the Author

Teresa Vast is a consultant specializing in early childhood policy research and analysis, system planning, and program development. Teresa introduced the early childhood financial aid think tank concept, and planned and coordinated the retreat in Minnesota. She has also applied her research of higher education financial aid methods to the design of innovative child care subsidy programs for Native Hawaiians. Other projects have focused on career development systems, child care regulation, affordability studies, and practitioner training. Teresa has contributed to numerous early care and education system planning efforts in Hawaii, and is a past president of the Hawaii Association for the Education of Young Children. She earned her BA and MA degrees in Human Development from Pacific Oaks College.

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Thomas Mortenson, Postsecondary Education Opportunity

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Editorial services by Barbara Shore

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