



# Alliance for Early Childhood Finance

## A Framework for Public Finance of New York's Early Childhood System

Prepared for the NYS Early Childhood Advisory Council Finance Work Group  
by

Louise Stoney and Anne Mitchell  
Alliance for Early Childhood Finance  
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### Introduction

Crafting an effective financing plan for early childhood system is not a simple or straightforward task. It involves careful thinking about a broad range of services and supports, the desired quality of those services, the varying needs and resources of families and children, as well as current New York State resources and public will. Developing a financing plan is, for all intents and purposes, a balancing act. Many factors can skew results in one direction or another.

#### ***Conceptual Framework***

To help the ECAC Finance Work Group weigh the pros and cons of various financing approaches, we propose the use of a framework that rests on five key concepts.

**Services:** The question of public finance for an early childhood system has to begin with a definition of what's in the system. A generic way to address the wide scope of the ECAC would be to define these services in the context of three broad domains: early learning, strong families (family support) and healthy children.

**Workforce:** To ensure results, the services included in each domain noted above will require a skilled workforce. Effective finance requires thinking carefully about the qualifications, professional development, and compensation for this workforce, and how these align across various funding streams and service modalities. Workforce is the major cost driver of services.

**Infrastructure:** Effective services, administration and workforce support require infrastructure to implement professional development systems, program quality assurance, data collection and so forth. Shared infrastructure (within each domain) maximizes resources and supports efficient accountability.

These three components (Services + Workforce + Infrastructure) are what must be financed. Two additional components affect the costs of these and thus must be considered:

**Quality Assurance:** Research has underscored that when it comes to results for children, quality matters. And quality standards, and how they are applied, define costs. Thus, a clearly defined and consistently applied strategy to measure and improve quality (within each of the three domains) is a key component of the financing plan.

**Affordability:** Each of the three domains – early learning, strong families and health – currently includes significant revenues from consumer fees. Our assumption is that many public and private funders will support the early childhood system and that consumer fees will continue to be a vital resource. However, at present consumer contributions are inconsistent, inequitable and frequently vary by funding stream or auspice rather than family needs and resources. The financing plan we propose aims to address this concern by applying and testing a range of consistently applied affordability indices based on inputs such as age of child, family income, scope of service and so forth.

Our purpose in proposing this conceptual frame is multi-faceted. In addition to offering an approach that could be applied across early learning, strong families and health, this frame will help the sub-committee prepare to use the Augenblick Palaich & Associates (APA) cost modeling tool. The APA model is based on a system that is defined by major domains, within which are elements (desired services and infrastructure) and to which are applied levels of quality (e.g., good, better, best) and/or intensity (e.g., low, moderate, high) and degrees of access (rates of participation) which can be based on child age, family income, risk factors, and/or any other definable characteristics. Costs in the model are informed by current expenditures and hypothetical scenarios drawn from best practice. A presentation explaining the APA model is available at:

<https://apaconsulting.webex.com/apaconsulting/ldr.php?AT=pb&SP=MC&rID=32458712&rKey=d91a0623e502119f>

### **Market Forces**

Effectively financing early childhood services requires a deep understanding of both public investment and market forces. Unlike K-12 education, most early care and learning funding currently comes from consumers (see box, below). Similarly, most health care expenses are paid by third parties, typically insurance companies whose fees are partially subsidized by employers or paid by government. While some families need government-funded supports, others are able to use their own resources or find support within a network of family and friends. Keeping all of these private resources in the system, in addition to tapping expanded government support, is key to success. Thus, a financing framework isn't just about how much money and services are needed but also about exploring how to effectively structure public finance and policy to:

- promote equitable access to high-quality, affordable services
- ensure that NYS has a qualified early childhood workforce
- ensure that all services meet quality standards, whether they are fully funded by consumer fees or paid for by public or third party funds.

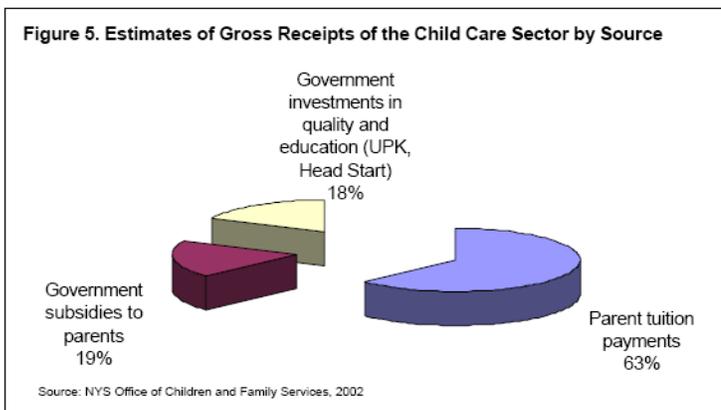
### **Applying the Framework: Early Learning**

To illustrate the model in more depth we will now apply it to one of the three ECAC domains, early learning. For purposes of this analysis, early learning services are defined as: *high-quality early care and education (ECE) for all of New York's children, ages 0-5, in a range of settings*

(schools, homes and centers.) This definition is focused on formal, regulated ECE services. Supports for family, friends, neighbors who help care for and educate young children – as well as parents who care for their own children – is clearly part of an early childhood system. However, for purposes of financing, we suggest including these services and supports in the family support (Strong Families) domain. Similarly ‘informal learning’ resources such as libraries and museums will likely be part of the desired system, and need to be placed in one of its domains, but for simplicity are not considered in this example.

**Early Learning Services: A Mixed Delivery System**

The pie chart, right, is from a 2003 report, prepared by Cornell University, entitled Investing in New York: An Economic Analysis of the Early Care and Education Sector. These data suggest that consumer fees total over 60% of all industry revenues. The chart also indicates that about half of government expenditures for early care and education are administered in the form of portable subsidies that follow the child to whatever program is selected by the parent. A second table, also from the same study, indicates that public agencies providing early care and



education services represent a small fraction (about 1,682 providers, 7.5%) of total services. These data underscore the point made earlier – presently, the New York State early care and education sector is predominantly a private sector, market-based system.

**Table 1. Establishments by Type: New York State**

Licensed and Regulated Child Care Establishments	Number of Establishments
Center Care	3,806
Family Child Care	10,983
Group Family Child Care	3,665
School Age Child Care	2,086
UPK Establishments*	1,682
<b>Total Establishments</b>	<b>22,222</b>

Source: OCFS Licensing Data, 2003; New York State Dept of Education  
 \* Not counted among centers above

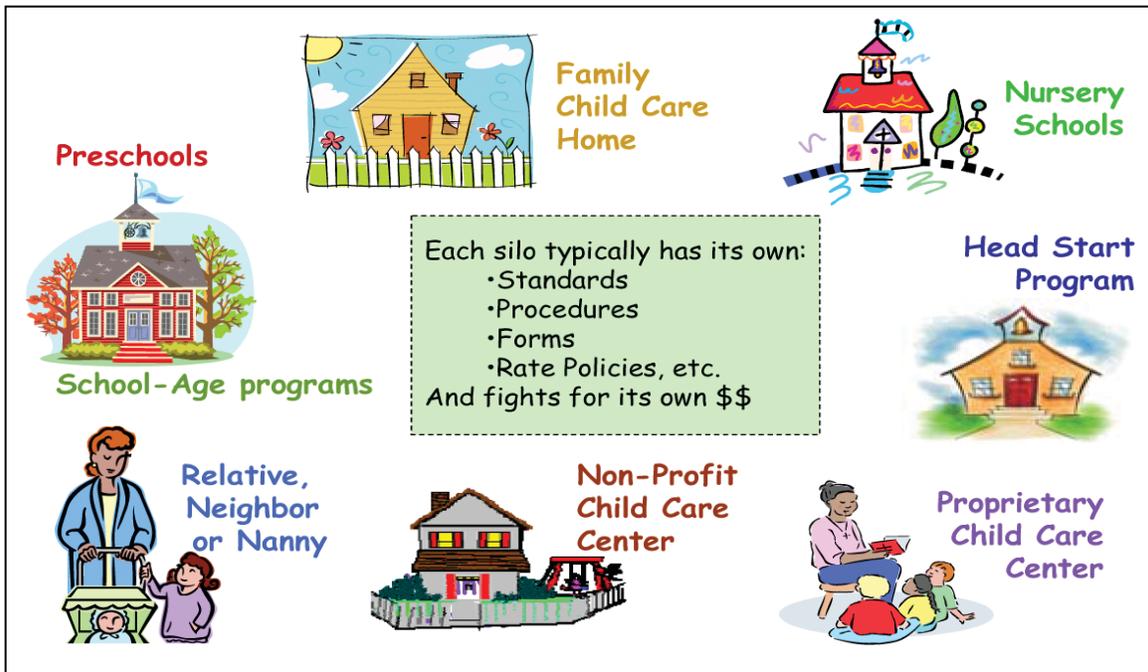
**Key Finance Questions**

Given the varied delivery and funding options within New York’s current early care and education system the key issues to be

addressed in a financing plan are not just how much it will cost, but rather:

- How much should we (the public sector) spend?
- How should we spend it? (via direct investment in specific programs or portable subsidies to children and families, or both?)
- How do we ensure quality?
- What infrastructure is needed?

Currently the answers to these questions vary by funding stream and administrative agency. Funds provided by the State Education Department or the federal Head Start Bureau are typically structured as direct expenditures for a classroom of children, with rates based on an estimate of the cost of operating the classroom and an assumption that a portion of the cost will



be covered by local tax levy (schools) or other third party funding (Head Start). Both entities have their own quality standards, monitoring and reporting, and support infrastructure. Funds provided by the NYS Office of Children and Family Services or county governments are typically structured as portable subsidies, based on market prices that follow the child to whatever program is chosen, and an assumption that a portion of the cost will be covered by parent fees. OCFS has its own quality standards (licensing), monitoring and other infrastructure as well. Private sector funders, such as United Way or community foundations, often link dollars to national accreditation or have their own standards, reporting and other infrastructure. The result is a fragmented, confusing system that, in some cases, duplicates vital infrastructure but more often results in huge gaps in services and quality. The approach has also fueled competition, with each public funding “silo” fighting to preserve its own funding; sometimes the result is robbing Peter to pay Paul.

**Early Learning Workforce: Inconsistent Standards and Supports**

The unfortunate result of this siloed approach to early learning finance is most evident when one examines the workforce data.

Research has underscored that effective early learning is rooted in qualified teachers, able administrators and – for those children and families that need special support – staff to enable links to health/mental health/social services. Yet access to qualified teachers and staff is based on the funding stream used to support the service rather than the needs of a specific family or child, the

<b>Current NYS Workforce: Early Learning</b>		
	Number	Annual Wage
Child Care Workers	63,080	\$23,800
Preschool Teachers, Except Special Education	27,890	\$31,830
Kindergarten Teachers, Except Special Education	13,600	\$65,730
Instructional Coordinator	7,970	\$65,460
Teacher Assistants	123,440	\$25,180
Education Administrators, Preschool & Child Care Center	3,030	\$60,770
Education Administrators, Elementary & Secondary	15,450	\$101,590

Source: [http://www.bls.gov/oes/current/oes\\_ny.htm](http://www.bls.gov/oes/current/oes_ny.htm) May 2008

program requirements and responsibilities, or the educational qualifications of the staff.

Recent data from the Bureau of Labor Statistics (see table, right) show the number of employees, and average annual wage, for early learning personnel in NYS. These are standard occupational categories that do not distinguish public from private settings. It is safe to assume that most *Education Administrators Elementary and Secondary* are in public schools as are most *Kindergarten Teachers* (special education teachers are separately available as PreK/K/Elementary versus Middle School or High School). Most *Child Care Workers* are in private settings; and note that family child providers are not included in these data at all since they are not employees of a firm that submits data to the BLS. Nonetheless, these data do illustrate the wide disparity of wages in the early learning sector; kindergarten teachers make nearly two and half times more than child care workers.<sup>1</sup>

What is needed – and what our definition of early learning services implies – is an early learning system where all children have access to quality teaching regardless of whether they attend a program in a home, school or center. Achieving this end requires a workforce development system that applies to all early learning professionals, regardless of where they work or who funds the program; a systemic “career lattice” that allows individuals to move among a range of settings as they improve their skills and grow into new jobs and opportunities. This system would include the following:

- *Higher Education* – statewide access to early childhood degrees and certification
- *In-Service Training* – statewide access to training needed to comply with common practitioner standards
- *Professional Development Registry* – an automated system to track practitioner qualifications, credentials, continuing education and training accessible to the whole ECE workforce
- *Financial Support* – wages high enough to cover the cost of professional preparation and continuing education or third party support for professional preparation and continuing education.

New York has begun to work on many elements of an early learning workforce system. Although this work varies, with each silo taking a somewhat different approach, these efforts could contribute to an integrated system. Progress to date includes the following:

*Higher Education* – A database of NYS colleges and universities that offer early childhood degrees is available at <http://earlychildhood.org/links/training.cfm> along with a database of credential programs at <http://earlychildhood.org/links/programs.cfm>. Efforts to develop articulation agreements, which make it possible to transfer credits among institutions are also underway in several institutions.

*In-Service Training* – A database of ECE in-service training opportunities (many of which are funded by OCFS, New York City or private sector partners) is available at <http://earlychildhood.org/trainingdatabase/> and a database of qualified ECE trainers is available at <http://earlychildhood.org/credentialdatabase/>. Early Childhood Direction

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<sup>1</sup> These workforce data could be used for cost-modeling purposes to calculate the cost of a hypothetical early childhood program. Further, if the ECAC set as a system benchmark something like ‘increasing compensation parity of the early learning workforce across sectors,’ these data would provide a way of tracking progress.

Centers also offer personnel training; other resources may be available from the State Education Department or other state agencies.

*Career Counseling* – An Early Childhood Career Development Resource Guide is available at <http://earlychildhood.org/cdrq/>

*Financial Support* – School-based UPK program funding is sufficient to cover the cost of in-service professional development for the teachers schools employ; individuals who work in community-based ECE programs have (limited) access to scholarship funding (EIP, Pell Grants, TAP). All can access new federal refundable tax credits for higher education.

Perhaps the greatest current need is a statewide early childhood *Professional Development Registry*. The New York City Professional Development Institute has written a paper exploring other states' experiences and providing options for development of such a registry in NYS, and with funding from OCFS, is beginning to develop and test a model.

## Early Learning Infrastructure

In addition to the workforce development infrastructure described above, the early learning system will need several other administrative investments in order to succeed. These include the following:

- A program quality assurance system (standards, monitoring, technical assistance)
- Data collection and reporting for supply, demand and outcomes
- Governance structure to use data for planning, evaluation, finance and service coordination
- Outreach and engagement of consumers, practitioners, programs, and public/private funders)

These will all need to be delineated further and assigned costs. This memo expands on only the first item: quality assurance.

## Quality Assurance

Chief among infrastructure needs is a program quality assurance system that includes the following components:

**Standards** – *Early Learning Guidelines* to define what young children should know and be able to do; *Practitioner Standards* to define what teachers/administrators should know and do to support children's intellectual, physical and social-emotional development; *Program Standards* to define what early learning programs should do to support positive child development.

**Monitoring** – To ensure that standards are implemented effectively

**Technical Assistance** – To help programs improve and stay focused on continuous quality improvement and to help practitioners find and pay for the training and education they need to meet quality standards.

**Financial Support** – to help programs and practitioners cover the cost of meeting quality standards.

At present, multiple state and local agencies are involved in monitoring ECE quality, including OCFS regional offices, county social service departments, the New York City Department of Health, the NYC Administration for Children's Services, the State Education Department and local education agencies, the federal regional Health and Human Service offices, and others. Similarly, multiple state and local entities currently offer technical assistance to ECE providers, guided by the varied quality measures and desired outcomes inherent in a siloed monitoring process. These entities include: child care resource and referral agencies, Head Start T/TA contractors, professional associations, unions, and private initiatives (such as Quality New York in NYC, ECE Forward in Westchester, and similar efforts in Rochester, Elmira, Binghamton and others.) The State Education Department supports additional entities that offer assistance to local schools, including Early Childhood Direction Centers and BOCES.

Financial support for early care and education services is currently available from a host of sources. Some funders – but not all—link dollars to quality standards; however the standards used vary by funding stream. While some ECE providers tap only one or two sources of funding (most typically parent fees plus child care subsidy) high-quality programs typically need multiple third-party sources of funding in order to generate enough revenue to cover their costs. Thus, most high-quality ECE programs must comply with multiple quality standards and fiscal reporting requirements, which sometimes are quite complex and which often employ completely different approaches to rate-setting, fiscal monitoring and reporting. The result is a haphazard system of accountability and finance, which wastes resources for ECE programs as well as public administrators.

### ***A New, Cross-System Approach to Early Learning Quality and Finance***

The current siloed structured of early learning systems and services is challenging. However, New York State has a unique opportunity to move toward a more coordinated approach based on a new quality assurance system called **QUALITYstarsNY** ([www.earlychildhood.org/QSNY/](http://www.earlychildhood.org/QSNY/)). This voluntary quality rating and improvement system would apply to all early learning settings—in homes, schools and centers—and includes both program and practitioner standards in four categories: Learning Environment; Family Engagement; Qualifications and Experience; and Leadership and Management. Program and practitioner standards steadily increase at each of the five quality levels. Head Start Program Performance standards, national accreditation standards and NYS UPK guidelines inform the standards. Teacher and administrator certifications are included. New York's early learning guidelines which are in process are included as well. The quality of participating programs will also be communicated to the public using easily recognizable symbols—stars; participating programs will receive one to five stars, based on points earned in a range of quality measures defined by research and best practice.

A field test of **QUALITYstarsNY** is currently underway in a dozen counties across the state. This field test will provide data to guide decisions necessary for statewide implementation of **QUALITYstarsNY** in 2010-11. As **QUALITYstarsNY** expands statewide, it can serve as a framework for a host of finance, policy and administrative tasks including coordinated monitoring, reporting, technical assistance and workforce development. More importantly, over time, **QUALITYstarsNY** can help build a rational and efficient ECE financing system by serving as a framework for estimating costs as well as aligning and coordinating the financial contributions of multiple funders

## **Estimating the Public Cost of Early Learning**

The three components discussed earlier—Services + Workforce + Infrastructure—are what must be financed. However, simply estimating the cost of these components and multiplying it by the number of children in New York is not the appropriate response. As noted, earlier, the

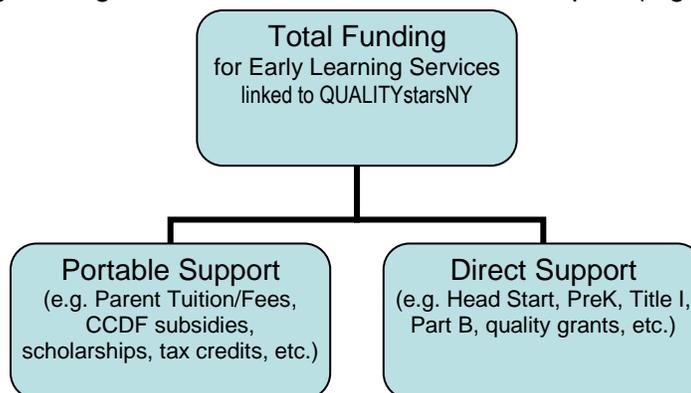
cost of early childhood services is shared among consumers, government and other private sector partners such as employers and philanthropy. And with regard to early learning, the cost will vary based on the quality level of the service. That said, there are several key questions that must be answered prior to estimating costs.

- **What is the consumer contribution?** The most appropriate way to answer this question may be to establish a benchmark that no family pays more than x% of disposable income to purchase early learning services for their child(ren).
- **What level of quality will define costs?** The most appropriate way to answer this question is to base service cost estimates on the **QUALITYstarsNY** levels of quality.
- **What Infrastructure is needed?** Some infrastructure costs are directly connected to **QUALITYstarsNY** and others are closely aligned with it. These will need to be specified and costs assigned.
- **What are the participation/access targets?** Universal access for some elements may be the goal while others are aimed at a specific target population.

These data can then be entered into the APA System Cost Model to determine gap between cost and family resources, current public investment and the public cost of closing that gap. Part of the cost modeling approach will be establishing a timeline to fill that gap with public investment.

## Layering Funding Streams from Multiple Sources

The APA System Cost Model will help New York quantify and plan for the ECE finance gap. A first step in filling that gap will be to identify existing resources that currently fund early learning services, determine which can be expanded and identify existing resources that can be redirected to this purpose. Thus, in addition to the key questions noted above, the financing plan must include an estimate of how much New York currently spends for early learning services. This task will involve updating and augmenting data that has been collected in the past (e.g., by the ECCS initiative and The Finance Project) across state agencies. Both portable and direct support can be tapped. The graphic, at right, views early learning finance from the perspective of a service provider. Program revenues can come from portable support (such as parent tuition, child care subsidy from the social services department, privately funded scholarships, tax benefits, and so forth) as well as direct sources (such as Head Start, UPK, Title I, public or private quality grants, and so forth.) Aligned policy and finance will make it possible to more readily layer these funds to serve a single child or classroom of children. All of these funding streams can be linked to **QUALITYstarsNY**, and can increase in size and scope as the quality level of the program increases. And multiple public and private funding streams could be tapped – including those noted above as well as many others.



## The Relationship Between Standards and Finance

The Alliance for Early Childhood Finance was asked to help the ECAC finance sub-committee develop a financing plan. Yet much of this paper has been focused on a discussion of quality

standards rather than finance. Why? Because quality standards define costs; they are a large part of answering the “what are we financing?” question. Right now early learning providers in New York State comply with multiple, uncoordinated standards. This makes it nearly impossible to craft a rational financing plan and/or target funds to fill gaps where they are most needed. Thus, a crucial first step in crafting a financing plan is making a commitment to a set of common, statewide standards that apply to all early learning programs regardless of auspice, modality or funding stream. **QUALITYstarsNY** meets this need.

Research has underscored that “the core concepts of neuroscience remain equally valid, whatever the program category, administrative structure, or funding mechanism.”<sup>2</sup> Although quality standards currently vary by program auspice, funding stream and location, good practice does not vary; there are core concepts that cut across fields. It is not only desirable but entirely possible to offer high-quality early learning opportunities in a range of public and private settings. And given that children and families often use multiple early learning providers, ensuring continuity of standards and expectations among settings is an important goal.

Crafting a shared framework for ECE quality that includes progressive standards (as is the case with **QUALITYstarsNY**) also makes it possible to address many of the thorny issues that divide the ECE sector and hamper rational planning and finance. For example, it is possible to craft a system where universal services are available *and* “at-risk” children are targeted and receive additional supports; where programs promote both cognitive *and* social-emotional development; where practitioners employ those with college degrees *and* provide on-the-job training; where funding is both portable (i.e. follows the child to whatever program is selected) *and* direct (i.e. directly funds a classroom of children in a home, school or center.)

In short, the current system of “dueling” standards is inequitable and inefficient. Common standards not only promote equity and efficiency but also support systemic cost modeling and rational finance.

## **Implementing the APA System Cost Model**

We strongly recommend that the ECAC Finance Sub-Committee use the Augenblick, Palaich and Associates System Cost Model to explore a range of cost and policy options and develop a long-term early childhood financing plan. Implementing this tool will require that the system domains and elements be specified and that policy parameters be developed for access, quality and intensity. To review, these parameters will require addressing ,at a minimum, the following:

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<sup>2</sup> Shonkoff, J. (2007). A Science-Based Framework for Early Childhood Policy. Center on the Developing Child. Harvard University. [http://www.developingchild.harvard.edu/content/downloads/Policy\\_Framework.pdf](http://www.developingchild.harvard.edu/content/downloads/Policy_Framework.pdf)

## Cost Estimation Model Policy Parameters

### Policy Parameters for Access

These parameters define which New York children should be able to access each of the service elements within a domain. These parameters will be variable from none to 100% (universal) and can be further adjusted by age of child, family income, geography, or other factors. These are for example only and need to be defined by the ECAC.

- **Early Learning** - access for all 3's and 4's and access related to family demand for younger children (birth to 3)?
- **Strong Families** – access to family support, paid family leave?
- **Healthy Children** -- health insurance coverage (children only, children & families), including mental health services, etc.?

### Policy Parameters for Quality

These parameters define the quality standards that will be used to determine costs per child. Quality parameters can be adjusted by age of child, family income, geography, or other factors. In some cases, intensity is a more appropriate way to specify the cost variation (low, moderate, high) among equally high quality services.

- **Early Learning** – services at good, better and best levels of quality, as defined by QUALITYstarsNY ratings.
- **Strong Families** – ECAC Quality workgroup will define and set quality/intensity parameters once the elements in this domain are specified.
- **Healthy Children** – ECAC Quality workgroup will define and set quality/intensity parameters once the elements in this domain are specified.

### Policy Parameters for Public Finance

These parameters define the percentage of costs that will be picked up by government (federal, state and county), by employers and/or philanthropy, and by consumers. These percentages can be adjusted by age of child, family income, geography, or other factors.

- **Early Learning** – % publicly funded, % consumer funded (by age, income, risk, etc.)
- **Strong Families** (family support) – % publicly funded, % consumer funded (by age, income, risk, etc.)
- **Healthy Children** – % public, % employers, % consumer funded (by age, income, risk, etc.)

## CONCLUSION

This paper offers a conceptual framework for early childhood finance that can be applied to all three ECAC domains: early learning, strong families and healthy children. The approach has been illustrated using the early learning domain, however the same methodology applies to the other two domains. In each case the process would begin with a clear definition of the desired services, followed by an analysis of desired results, and current systems, for workforce, infrastructure, quality assurance and affordability. The APA System Cost Model is flexible enough to adapt to a range of service options and therefore can be a helpful tool for determining costs of a system with multiple domains.

### ***Next Steps for the Finance Work Group***

1. Discuss the parameters of the modeling exercise, beginning with: What domains are included? What elements (services) might fall into each domain? What ages of children are included in the system? Is kindergarten included, and if so, how?
2. Determine what data has already been collected and identify who has it. Review the Inventory developed by the ECCS project, the charts drafted by the Data Work Group and the Finance Project report. For each program or type of program included, the cost model will need current expenditures, current enrollment by age and income, and cost per child by quality or intensity level.
3. Identify the New York State-based liaison for the cost model project and where s/he will be housed.
4. Think about whether the model will or will not adjust for or incorporate variation in costs by region.
5. Consider the desirable user experience with the final model. What types of data will the user have control over? For example, will they be able to adjust eligibility levels? Number of hours children are enrolled? Quality levels? For each element, these may be different.