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ABSTRACT

This paper examines strategies for state and local leaders to finance supports and services for young children and their families in the wake of welfare reform. It focuses on strategies for revenue reform and for creating public/private partnerships to provide decision makers with current and relevant information on a variety of effective tools that can be used to support early childhood. The sections of the paper are as follows: (1) an introduction focusing on how increasing pressures on state and local budgets and the special challenges faced in financing early childhood supports and services can result in financial innovations; (2) "Revenue Reform Strategies," including expanding the state and local revenue base, aligning tax policies with changing economic and demographic conditions, diversifying and balancing tax systems to capture new revenue, targeting tax relief, and earmarking revenue; and (3) "Strategies to Create Public/Private Partnerships," such as employer initiatives to expand and improve services, leveraging private resources for community development, and creating comprehensive community support systems. (KB)

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FINANCING SERVICES
FOR YOUNG CHILDREN
AND THEIR FAMILIES

■
Meeting the Challenges
of Welfare Reform

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FINANCING SERVICES
FOR YOUNG CHILDREN
AND THEIR FAMILIES



**Meeting the Challenges
of Welfare Reform**

March 1997

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T H E F I N A N C E P R O J E C T

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PREFACE

Public financing for education and an array of other children's services has become a topic of significant interest and political concern. Growing skepticism among a critical mass of American voters and taxpayers has fueled doubts about the ability of government to solve social problems and provide basic supports and services that enhance the quality of life in their communities. Voters want more for their money. They want more and better services, but they also want balanced budgets and cuts in income and property taxes. In this time of big public deficits, they want government at all levels to operate more effectively and efficiently. They also want it to invest wisely and live within its means. On Capitol Hill in Washington, DC, and in statehouses nationwide, policymakers are scrambling to respond.

Across the country, there is mounting evidence of efforts to reform and restructure education and other community supports and services in order to improve the lives and future prospects of children and their families. Critical to the success of these initiatives is the way in which they are financed. How revenues are generated and how funds are channeled to schools, human service agencies, and community development initiatives influence what programs and services are available. It determines how they are provided and who benefits from them. Financing also affects how state and local officials define investment and program priorities, and it creates incentives that guide how educators, other service providers, and community volunteers do their jobs. For these reasons, financing fundamentally affects how responsive programs and institutions are to the needs of the people and communities they are in business to serve.

In recent years, several blue ribbon commissions and national task forces have presented ambitious prescriptions for reforming and restructuring the nation's education, health, and human service systems in order to improve outcomes for children. While some have argued that public financing and related structural and administrative issues are critical to efforts to foster children's healthy development and school success, none has been framed for the specific purpose of inventively reconceptualizing public financing. Indeed, many of the most thorough and thoughtful reports have called for an overlay of new funds, but have neglected to provide cogent analyses of effective financing strategies, the costs of converting to these approaches, and the potential beneficial outcomes that might accrue from addressing financing reform as an integral aspect of program reform.

In addition, the past several years have witnessed a burgeoning of experimental efforts by mayors and city managers, governors and state agency directors, legislators and council members, program managers and school officials to make government work better and more efficiently. They have been enhanced by the work of people outside of government, including foundation executives, business and labor leaders, community organizers, and academic scholars. Some are creating new ways to raise revenues, manage schools, deliver human services, and spur community economic development. Others are designing new public governance and budgeting systems. Still others are developing and testing new approaches to more directly involve citizens in setting public priorities and maintaining accountability for public expenditures. Taken together, these efforts suggest the nascent strands of new and improved public financing strategies.

Against this backdrop, a consortium of national foundations established The Finance Project to improve the effectiveness, efficiency, and equity of public financing for education and an array of other community supports and services for children and their families. The Finance Project is conducting an ambitious agenda of policy research and development activities, as well as policymaker forums and public education. The aim is to increase knowledge and strengthen the capability of governments at all levels to implement strategies for generating and investing public

resources that more closely match public priorities and more effectively support improved education and community systems.

As a part of its work, The Finance Project produces a series of working papers on salient issues related to financing for education and other children's services. Some are developed by project staff; others are the products of efforts by outside researchers and analysts. They reflect the views and interpretations of the authors. By making them available to a wider audience, our intent is to stimulate new thinking and induce a variety of public jurisdictions, private organizations, and individuals to examine the ideas and findings they present and use them to advance their own efforts to improve public financing strategies.

This paper, *Financing Services for Young Children and Their Families: Meeting the Challenges of Welfare Reform*, examines strategies for state and local leaders to finance supports and services for young children and their families in the wake of welfare reform. It responds to the critical need of policy makers to support our most vulnerable and youngest populations in a time of increasing demands for services, a shifting tax base, devolution of authority, and reductions in federal aid. The strategies for revenue reform and for creating public/private partnerships presented in this paper attempt to arm decision makers with current and relevant information on a variety of effective tools that can be used to support early childhood in the current environment.

Cheryl D. Hayes
Executive Director

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INTRODUCTION

Ensuring that children enter school ready to learn is a well-established national goal. Yet policy makers, professionals, and parents express growing concern about the well-being of very young children and their families. Dramatic changes over the past three decades in U.S. families and the economy have increased the demand for public investments in early childhood supports and services, especially child care and pre-school education. Yet policies and programs to ensure that young children's basic health care needs are met, to provide care for those whose parents are in the paid labor force, and to enhance youngsters' social and intellectual readiness for school have lacked a shared vision and sustained public and private sector commitment. As a consequence, services have been fragmented, inequitable, and too often of poor quality.

In the absence of a clear and cohesive public policy for young children and families, a large number of separate and uncoordinated federal programs have been established to meet narrowly-defined maternal and child health, family support, child care, and early education needs. States, local governments, and private community groups have in turn created their own initiatives. Their commitments have varied from intense and durable to sporadic and short-lived.¹ Perhaps as a consequence, an army of private providers has also emerged. The result has been a plethora of narrowly-defined and unconnected programs with few controls, few mechanisms for organization, and little coordination.² Those who provide supports and services for young children and their families are more likely to compete than to collaborate for limited public and private sector support.

How early childhood funds are channeled to communities significantly affects what supports and services are available, how they are provided, how well they are linked with other resources in the community, and who benefits from them.³ The bulk of public funding for early care and education, as well as for other health and social services for young children and their families, is categorical. Narrowly defined funding streams support highly specialized activities and specifically defined populations. Likewise, philanthropic and other private initiatives to improve the quality and accessibility of early childhood supports and services are often narrowly targeted, short term, and uncoordinated. As pressure mounts for states and communities to improve their investments in young children and their families and to meet the growing demand for services at a reasonable cost to taxpayers, employers, and parents, there is also a growing sense of urgency about finding better ways to finance these essential community services.

Pressures on State and Local Budgets are Expected to Increase

Although many states and communities are in the best financial shape they have been in for years, changing economic, demographic, and political conditions will create significant fiscal and budgetary pressures during the remainder of the decade and beyond.⁴ Economic growth

¹ Sharon L. Kagan, Stacie G. Goffin, Sarit A. Golub, and Eliza Pritchard, *Toward Systemic Reform: Service Integration for Young Children and Their Families*. Falls Church, VA: National Center for Service Integration, 1995.

² *Ibid.*

³ Cheryl D. Hayes, Elise Lipoff, and Anna E. Danegger, *Compendium of Comprehensive, Community-based Initiatives: A Look at Costs, Benefits, and Financing Strategies*. Washington, DC: The Finance Project, August 1995.

⁴ Martin E. Orland and Carol E. Cohen, *State Investments in Education and Other Children's Services: The Fiscal Challenges Ahead*. Washington, DC: The Finance Project,

is slowing, and a shifting tax base is capturing less of the growth in revenues. Rising school enrollments, a large number of low-income children and families with special needs, and a rapidly increasing elderly population are placing heavier demands on public systems and resources. Rapid growth in some areas of public spending—for example, Medicaid and corrections—is making it more difficult to adequately fund other areas, including early care and education and other community-based health and social services for young children and families. With the establishment of welfare block grants, federal aid to states and communities is expected to decline as a share of public spending in the years ahead.

In addition to state and local fiscal and budgetary pressures, recent changes in federal welfare policy will intensify the challenges to implement, finance, and sustain community supports and services for young children and their families. In August 1996, Congress passed and the President signed legislation to overhaul the nation's welfare system and create stronger incentives for work, personal responsibility, and economic self-sufficiency.

Under the provisions of the new law, states will have greater autonomy to design and operate programs to meet the needs of their low-income families with children. In the short run, many jurisdictions will enjoy a funding surplus because of recent decreases in the welfare population on which initial funding formulas were based. Over time, however, most states will have less federal aid to pay for supports and services to economically disadvantaged families with children. At the same time, they will be required to increase the employment and training obligations of welfare recipients, including those of mothers with very young children. As a consequence, child care funding has emerged as a critical issue that will have significant implications for state and local budgets. President Clinton and congressional leaders agreed to increase federal child care funding to enable welfare parents to participate in education, training, and employment. Nevertheless, it is unlikely that this relatively modest boost in federal spending will fully meet the increased demand for child care services nationwide. It is also unlikely that Congress or the states will legislate requirements that the care that is provided be of high quality, or that it be effectively linked to other health and social supports received by young children and their families.

Clearly, states, localities, and private community groups will face a number of issues in their efforts to meet the requirements of the new welfare reform law and to adequately fund early care and education, as well as an array of other supports and services, especially for low-income families. Among these are:

- How much money will states make available to fund income assistance, maternal and child health care, child care, and other services for young children and families? Will they increase their levels of spending over what they have been in recent years, maintain current levels, or remove funds not required to meet maintenance of effort requirements to support other areas of state spending?
- How will available funds be allocated? Will they go toward expanding health care, child care, family support, job training, and other preventive supports and services, or toward cash assistance payments? Will these limited dollars be targeted to families moving from welfare to work or will they support low-income working families on a longer-term basis? Will funds that are currently directed toward working poor families be reallocated to families in transition from welfare to work?

November 1995; Sally Wallace, *The Effects of Economic and Demographic Changes on State and Local Budgets*. Washington, DC: The Finance Project, December 1995.

- Will welfare reform spur efforts underway in a number of states and communities to reform and restructure their highly categorical and deeply entrenched service delivery systems? Will states continue to do business as usual, or will they see welfare reform as an opportunity to take steps toward creating comprehensive community support systems that effectively link schools, health care, and other social services, as well as the informal helping networks that are present in most neighborhoods?

Beyond these demographic, economic, and political factors that will create new budgetary pressures is the fact that most states now operate under balanced budget requirements. They may not run a deficit or borrow money to support public spending. This creates an added constraint that is even more severe when states and communities experience economic down turns or periods of high inflation and slow economic growth. As a consequence, many state and local elected officials will face a difficult political choice over the coming several years. As they strive to meet the growing demand for high-quality supports and services for young children and their families, especially for affordable early care and education, they will be forced to confront the issue of whether and how to fill the expected revenue gap. For many this will mean weighing strategies to increase revenue by increasing property, personal income, business, and sales taxes at a time when there is growing hostility to tax increases of any sort. It will create stronger incentives for involving private sector investors in financing. It will also add momentum to the movement to rethink traditional categorical service delivery systems and create more comprehensive, community-based systems of support for children and families. Such reforms hold the promise of achieving greater efficiency in the delivery of services and of addressing more effectively the multiple and inter-related needs of children and families.⁵ Accordingly, there is a strong rationale to consider financing for early care and education in the context of financing for a broad array of related supports and services for young children and their families, rather than as a separate domain of service delivery and a competing budgetary priority.

Special Challenges Face States and Communities in Financing Early Childhood Supports and Services

In this rapidly changing policy environment, public and private sector leaders are struggling to redefine the roles and responsibilities of government at all levels, and in many cases, to do a better job with less public funding. Improving strategies for financing early childhood supports and services has, therefore, become an important priority in a number of states and communities.⁶ And it requires support and participation from employers, service providers, educators, and parents, as well as government.

States and communities striving to align their financing strategies with their policy and program reform goals face a number of special challenges:

Ensuring adequate funding for early care and education.

Early care and education is needed by families across the income spectrum and throughout every community. Meeting the demand for these services has become a significant economic and labor force issue, as well as a child development issue. The lack of adequate funding

⁵ Sid Gardner, *Reform Options for the Intergovernmental Funding Stream: Decategorization Policy Issues*. Washington, DC: The Finance Project, December 1994. (This paper was originally prepared for the Aspen Institute Roundtable on Comprehensive Community Initiatives for Children and Families.)

⁶ See, for example, *Report of the Colorado Business Commission on Child Care Financing*. Report to Governor Roy Romer, State of Colorado, December 1995.

from public and private sources to make quality care available and affordable to all families who need and want it is already a critical problem for employers, for families, and for children. Welfare reform is expected to exacerbate this issue by requiring states to put increasing numbers of low-income mothers with young children to work in the next two years. Finding ways to generate new sources of revenue to support early care and education in an era of fiscal constraints is a major challenge.

Creating greater funding flexibility to enable communities to create comprehensive support systems.

In order to more closely match public and private sector funding to community priorities for young children and their families, many states are searching for ways to create greater funding flexibility and enable communities to build comprehensive support systems tailored to their own needs. In the process, they are creating new governance and financing arrangements that give community groups a stronger voice in design and allocation decisions. Finding the appropriate balance between flexibility and accountability for meeting the needs of special target populations and achieving high quality standards for service delivery is a significant challenge to these reforms.

Designing financing strategies to achieve desired results for children, families, and communities.

States and communities are under growing pressure to improve their education, health care, and human service systems, and to do so at reasonable costs to taxpayers. As policy makers, program managers, and service providers take steps to respond to these pressures, it is increasingly important for them to more closely align revenue generation with current priorities, focus allocation decisions on desired results, and achieve a better return on public and private sector investments in children, families, and communities. The economic rationale for investing in quality early childhood supports and services has become a familiar mantra among advocates for young children and their families. Yet, the goal of linking early childhood planning, budgeting, program management, and accountability to desired results is talked about far more than it is realized in practice.

Building state and community capacity to implement improved financing strategies.

With block grants, the federal government is taking rapid and dramatic steps to shift greater responsibility for the design, operation, and funding of supports and services for children and families to the states. States, in turn, are shifting more responsibility to counties and cities. As this realignment takes place, states and communities will need to build new fiscal, administrative, and management capacity, where, in some cases, little if any capacity exists today. It will require increasing their knowledge and technical capability to weigh options for generating new revenue, reforming planning, budgeting, and accountability systems, and creating more comprehensive community support systems for young children and their families. It will require investments in building new management and administrative capabilities to implement reforms, including new information systems, professional development, staff retraining, and streamlining agency processes and procedures. Since most early childhood professionals have not been trained in financial management and lack the knowledge and experience to think broadly or creatively about strategies to improve financing for the supports and services they provide, this will present a significant challenge. Moreover, it will require building new partnerships between state and local governments, businesses, and the philanthropic community to marshal the necessary resources to serve young children and their families more equitably and effectively.

Building public and political support for financing reforms.

Improving supports and services for young children and their families—including health care, family support, and early care and education—challenges policy makers, program managers, and early childhood professionals to rethink their usual ways of doing business. It also challenges voters and taxpayers, as well as other groups, to get behind new plans for meeting public needs and pay for them. Strong leadership is needed at the state and community level to foster change and to build the necessary base of political support to make it happen. Among the critical steps in that process are: (1) clearly defining the need and purpose of finance reform strategies, (2) promoting public understanding of the issues and engaging the public in discussions about potential solutions, (3) garnering political support, (4) developing winning political strategies, and (5) building public and political endorsement. Effectively taking these steps will require mobilizing key individuals and groups within and outside of government, in business and the professional community, and in relevant civic, religious, and other community organizations. It will also require working effectively with the media.

Fiscal and Budgetary Pressures Fuel Innovation

Among many state and local leaders there is a growing sense of urgency about finding new and better ways to finance supports and services for young children and their families. Of special concern is the issue of whether and how to generate sufficient state and local revenue to fill the gap that will inevitably emerge as the result of an increasing demand for services, a shifting tax base, and reductions in federal aid. Recent work by The Finance Project⁷ and by Stoney and Mitchell⁸ suggests that some states and communities are taking steps to increase and more effectively allocate public and private sector resources for young children and families. These include:

- Revenue reform strategies—including efforts to broaden existing tax bases, align tax policies with changing economic and demographic conditions, diversify and balance tax systems to capture new revenue, preserve the yield from existing taxes by better targeting tax relief, and earmark tax dollars for early care and education.
- Strategies to create public/private partnerships—including efforts to use public funds to leverage private investments in community development and early care and education facilities and services and to create and sustain comprehensive community support systems.

REVENUE REFORM STRATEGIES

As public and private sector leaders look for new ways to preserve and enhance public funding for early childhood supports and services, they are considering a variety of strategies to reform current state and local revenue strategies. These include a broad array of efforts to broaden existing tax bases, align tax policies with changing economic and demographic conditions, diversify and balance tax systems to capture new revenue, and preserve the yield from existing taxes by better targeting tax benefits and tax relief.

What is important to remember in reviewing these alternative strategies is that state and local governments are all different. They have unique histories, traditions, cultures, and

⁷ The Finance Project, *Money Matters: A Guide to Financing Quality Education and Other Children's Services*. Washington, DC: The Finance Project, January 1997.

⁸ With support from the Pew Charitable Trusts and the Ewing Marion Kauffman Foundation, Louise Stoney and Anne Mitchell are developing a catalogue of state and local child care financing strategies.

needs. There are no universal remedies, prescriptive recipes, or detailed instructions to guarantee success in generating new revenue. What can work well to more effectively raise new public dollars for investments in supports and services for young children and their families in one jurisdiction may be ineffective or even harmful in another.

It is also important to remember that most sources of state and local revenue that support the array of early childhood supports and services come from general funds that are raised from income, property, and sales taxes, as well as user fees. That means that there are no guarantees that more revenue for state and local governments will automatically provide more money to meet the needs of young children and their families. Children's advocates must continue to make a strong budgetary case for their share of any and all revenues. Whether they secure more resources depends on the strength of their claims relative to other competing interests.¹⁰

Expanding the State and Local Revenue Base

In recent years, demographic and economic changes have caused shifts in the tax base in many states and localities. These shifts—for example, the changing balance of economic activity from manufacturing and agriculture to services, and the aging of the population—have made it more difficult for state and local governments to generate as much tax revenue from their current sales, income, and property tax bases. As a consequence, many states have moved or are considering actions to expand their tax bases. Among these are:

- Increasing the array of goods and services (e.g., clothing, medicines, utilities, cable television, professional services) for which sales taxes are charged, and reducing the number of exemptions from these types of taxes;
- Adjusting the income tax base by reducing exemptions, deductions, exclusions, and credits to businesses and individuals; and
- Limiting exclusions to the property tax base (e.g., property for public and personal use, and property that is exempted to provide development incentives).

Aligning Tax Policies with Changing Economic and Demographic Conditions

Many state and local leaders are finding that they can generate more revenue by making administrative changes to their tax systems that keep them up-to-date with changing demographic and economic conditions and that impose taxes on inter-state, multi-state, and international business activity that was not previously taxed. Such reforms are attractive because they can yield large amounts of new revenue without actually imposing new taxes or raising tax rates. Among these are:

- Keeping property tax assessments current with market values;
- Collecting sales taxes on inter-state transactions (e.g., goods bought in one state and shipped to another and goods purchased from catalogs, telemarketing, and the Internet);
- Using "claw back" provisions to re-examine tax abatements granted to start-up businesses or to encourage commercial operations in a particular location; and
- Imposing taxes on profits generated by multi-state and multi-national businesses in other jurisdictions.

⁹ The Finance Project, *Money Matters: A Guide to Financing Quality Education and Other Children's Services*. Washington, DC: The Finance Project, January 1997.

¹⁰ *Ibid.*

Diversifying and Balancing Tax Systems to Capture New Revenue

As states review their revenue systems, many have found that the balance between the three primary tax sources—sales, income, and property taxes—is unbalanced, causing them to rely more heavily on one or another form of taxation to generate necessary revenues. Because some taxes are more sensitive to economic ups and downs (e.g., sales and income taxes), and, at times, some taxes are more or less unpopular with taxpayers (e.g., property taxes), achieving a balance between tax sources becomes important in efforts to maximize what can be raised. Although some states deliberately choose to have unbalanced systems (e.g., Florida and Texas have no state income tax), most states and localities are better off with more balanced systems.¹¹ Among the strategies they are pursuing to diversify and balance their tax systems are:

- Adding new broad-base taxes;
- Imposing selective local taxes (e.g., taxes on particular utilities);
- Charging fees for services (e.g., licensing fees, user fees); and
- Introducing lotteries and gaming fees.

Adding a new, broad-based tax sometimes is an appealing action when state and local governments are looking for new revenue sources to support essential services. Despite the current political hostility to tax increases generally, some state and local governments that have not had income or retail sales taxes of their own are looking to these sources to augment their revenues. Connecticut, for example, a state that historically has not had an income tax, recently added a broad-based income tax to make its revenue system less sensitive to changes in the economy and more attractive to business. As a part of the reform, it also reduced taxes on retail sales and broadened the sales tax base, reduced the previously high corporate tax surcharge, and reduced a narrow tax on “unearned” income, in order to create a more balanced system. Similarly, Michigan recently increased its state sales tax and reduced reliance on property taxes to pay for education. Experts argue about the wisdom of relying on the sales tax to fund education, because of its sensitivity to economic volatility. Yet, the goal of achieving a better balance in the state tax system is a good one.

Licensing and user fees have also become a popular new strategy for generating revenues in a number of states and localities, in part because these fees are easier to legislate than new taxes. Charging fees for public services is most effective when the purchaser is the primary beneficiary of the service. Thus, for example, Virginia has a child care licensing fee that is paid annually by every child care center and family day care provider. These fees, which range depending on the licensed capacity of the center or family day care home, are used to support training, technical assistance, and curricular materials for child care providers.

Targeting Tax Relief

States and localities often provide tax relief to particular groups of taxpayers to accomplish social and economic policy goals. In the process, they give up revenue by exempting individuals and businesses from taxes they would otherwise owe. To increase the yield from particular revenue sources and ensure that their tax policies match their social and economic priorities, many state and local governments are reviewing and tightening up the provisions by which they provide tax relief. Among the strategies being used are:

¹¹ Ibid.

- Limiting property tax relief (e.g., homestead exemptions, senior citizen discounts) and imposing "circuit breakers" that link the property tax burden to the property tax owner's income level;
- Limiting income tax benefits to higher income taxpayers (e.g., exemptions, child care tax credits); and
- Targeting sales tax relief on essential goods and services (e.g., food, prescriptions) to low- and moderate-income families, by taxing at the point of purchase and then providing a fully-refundable tax credit for purchases to low- and moderate- income families.

Earmarking

Some advocates have long argued in favor of dedicated revenue sources for children's services generally, as well as for particular services, such as education and child care. The idea of funding an expansion of early care and education with a federal payroll tax, for example, surfaces periodically, though it has never gained wide political support. At the state and local level, advocates have also sought and won some earmarked revenues for young children. Recently, for example, Colorado passed legislation to create an income tax checkoff, enabling state taxpayers to direct a portion of their tax payment to support child care services. In San Francisco, Proposition J sets local revenues aside for children, and in many states, funds from gaming and lotteries go directly to increase school budgets. Although in some cases earmarking results in overall increases in state and local revenues, often it is a way of dedicating a portion of funds from general revenue streams for specific children's services in the budget process.

Earmarking is attractive because it enforces the benefit principle—that is, that those who benefit from a public service should pay for it. To the extent that investments in early care and education are a public good in the same way that K-12 education is, the costs should be widely shared. In addition, earmarking assures a minimum level of support and continuity of funding for specific services, and it can be a way to induce the public to support new or increased taxes.¹²

However, earmarking also has several potentially negative downsides that children's advocates sometimes overlook. It hampers legislatures' budgetary control by removing revenues and expenditures from the normal review that occurs in the appropriations process. It also reduces the flexibility of the revenue structure and makes it difficult to adapt budgets to changing economic conditions and public priorities. Moreover, it often does not result in higher revenue levels over time. Though in the short run earmarking typically does increase the amount of public dollars that are available for a designated service, over time earmarked revenues often become a substitute for, rather than a supplement to, general appropriations. This seems to occur even when proponents succeed in attaching requirements that the earmarked funds be a supplement to the previous spending level. Moreover, earmarking may even have the perverse effect of decreasing funding for a desired purpose, especially if the earmarked fund grows at a relatively slow rate or not at all. If state legislators feel they have already 'done their bit' for children by sanctioning an earmarked fund, they may be less likely to work hard to meet the budgetary needs for early care and education or other children's services in the normal appropriations process.¹³

Among the most common types of earmarked sources for children are children's trust funds. These funds typically are financed by income or sales taxes and/or user fees. The Missouri Children's Trust Fund, for example, is supported by an income tax checkoff and a

¹² Arturo Perez and Ronald Snell, *Earmarking State Taxes*. Washington, DC: National Conference of State Legislatures, April 1995.

¹³ *Ibid.*

\$15 fee on marriage licenses. When it was established, it also received a \$3 fee on birth and death certificates. Since its establishment in 1989, the amount of revenue going to the fund from the voluntary checkoff has declined by two-thirds, and as a result, state legislators and others are now reconsidering whether to continue it at all.¹⁴

Children's Trust Fund

State of Missouri

The Missouri Children's Trust Fund was established in 1983 by the Missouri legislature as a non-profit organization to prevent child abuse and neglect. The Trust Fund provides grants to local community initiatives to help fund primary and secondary prevention services, including family support, respite care, and therapeutic child care. Grants are awarded through a competitive application process. The Trust Fund is targeted to children and families generally, with special focus on children from birth to seven years and at-risk families.

The Fund receives no general state revenue, but receives its income from four main sources: a marriage license fee surcharge, a vital records fee surcharge, an income tax checkoff, and interest earned on reserves. In 1992, however, the legislature passed a law that would decentralize birth and death records. This will curtail the fund's receipt of fees associated with these records. Within a few years, most of the certificate fees will go to county departments of health, as individual counties will collect and retain these fees in exchange for providing the certificates. In 1995, the fund received a federal grant for prevention programs for the first time.

One type of earmarked revenue source that may have the potential to increase local funding for early childhood supports and services over time is the special taxing district. Special taxing districts are independent, limited-purpose local government units that are administratively and fiscally independent from general-purpose local governments. Typically, they are established to provide specific services that are not being supplied by existing county or city governments. In the United States today, there are some 83,000 special districts. Most are involved with fire protection, housing and community development, or natural resources. However, there is growing attention to using special taxing districts to meet the special needs of children and families. Two Florida counties, Pinellas and Palm Beach, have established special taxing districts for children. Their sole purpose is to plan, coordinate, fund, and evaluate programs to address the needs of children in these jurisdictions. Funding for the districts comes from an ad valorem tax assessment of up to one-half mill (\$.50 per \$1,000 of non-exempt valuation) on the local property tax. Funds are administered by a local children's services council that sets priorities and contracts with local providers for services. In Palm Beach County, the bulk of funding currently is used for early care and education. The strength of the special taxing district, when compared to other earmarked revenue sources, is that it is highly responsive to local needs and priorities. Because it is not a state revenue source, it is not subject to the shifting political sands in most state legislatures, and it is not hostage to the annual appropriations process. Moreover, because it is not dependent on a voluntary designation and is attached to property taxes that are based on annual reassessments, it is a revenue source that continues to grow and keep pace with the local economy. And unless they are discontinued by referendums on the local

¹⁴ Martha Shirk, "Children's Fund Lacks Money for New Grants this Year", in *Daily News Briefing*. Jefferson City, MO: Department of Social Services, Office of Communications, June 10, 1996.

ballots, these special taxing districts will exist into perpetuity for the benefit of children in these counties.

Children's Service Districts

State of Florida

*"Special districts can be a revolution for children.
While they do not empower children, they empower an instrumentality
That speaks on behalf of children."*

*- James E. Mills, Executive Director
Pinellas County Juvenile Welfare Board*

The state of Florida has given local communities the ability to create special taxing districts to finance special services for children and their families. Passed in the mid-1980s and sparked in part by the demonstrated success of the Juvenile Welfare Board of Pinellas County in raising funds for quality children's services since the 1940s, the historic Juvenile Welfare Services Bill grants communities the right to create and raise revenues specifically for children's services.

Pinellas County's Juvenile Welfare Board

The Pinellas County's Juvenile Welfare Board was created in 1946 following a special act of the Florida State Legislature that allowed the residents of the county to create a special district for children and levy a tax subject to a referendum. Although the enabling legislation only made provisions for the formation of such a board in Pinellas County, the success of the district and the desire of many Florida residents to find alternative arrangements for providing and financing needed supports and services laid an important cornerstone for the passage of future legislation to permit counties throughout the state to create these districts. Now in its fifth decade, the Juvenile Welfare Board plans and contracts for the delivery of numerous services to more than 80,000 children. While not a direct service provider, the board contracts for the delivery of almost 70 programs operated through scores of agencies and serves as a planning agency, focusing and coordinating the efforts of numerous organizations providing services to county children.

Palm Beach County's Children's Service Council

The success of the Pinellas County's Juvenile Welfare Board prompted other child advocates to explore the possibilities of creating special independent districts. In the late 1980s, citizens of Palm Beach County created the Children's Services Council, an independent, special district of local government whose sole purpose is to "plan, coordinate, fund, and evaluate programs, and to address public policy issues relating to children in Palm Beach County."¹⁵ The creation of the district followed the passage of a state law empowering Florida counties to create independent special districts for children's services and the passage of a county referendum granting the district the authority to levy up to one-half mill in property taxes to support its activities. The district's initial funding priorities included substance abuse, education, recreation, child care, juvenile justice, health, developmental disabilities, and dependency programs.

¹⁵ *Healthy Children: Special Taxing Districts for Children: A Powerful Idea from Florida*, p. 13.

STRATEGIES TO CREATE PUBLIC/PRIVATE PARTNERSHIPS

The demand for improved supports and services for young children and their families, especially for early care and education services, is expected to continue to increase throughout the decade and beyond. Yet, there are ominous signs that the fiscal capacity of state and local government will be inadequate to meet the rising costs. Although parents and service providers have always borne a substantial share of the costs of these services, there are new and powerful incentives for employers and other private sector groups to become funding partners. One of the significant benefits of increased private sector involvement in developing new, creative financing strategies has been its ability to help shift from a narrow focus on annual public appropriations for services to a broader perspective that includes long-term investments in human capital and economic development in the communities where children and families live.

The concept of public/private partnerships has many dimensions and takes many forms. The private non-profit sector has traditionally played a central role in the delivery and financing of community supports and services for children and their families. Organizations such as the YMCA, Catholic Charities, Lutheran Social Services, and many others are still among the largest providers of child and family services. The United Way continues to be one of the nation's leading funders of a wide array of community-based supports and services for children and their families. As pressures to meet the growing demand for services have become more acute, however, these organizations and agencies have begun to join with others in their communities—including business leaders, lenders, and philanthropies—to develop new financing strategies that bring public and private resources together. For the most part, these public/private partnerships are local, community-based initiatives.

Employer Initiatives to Expand and Improve Services

Over the past decade, many employers have become much more involved in efforts to provide child care at the work site or to expand and improve community services, including child care, health care, family support services, and elder care, in the communities where their employees live and work. These initiatives have gained visibility and popularity as more and more employers have recognized that helping families manage their work and family responsibilities can have direct effects on employees' productivity and the corporate bottom line. In some cases, corporations provide child care services to their employees as a fringe benefit or enable employees to reduce their taxable income and receive employer contributions to meet their child care expenses through Dependent Care Assistance Plans. In others, they pay local providers directly, support resource and referral services, or invest in building the capacity of the community to provide needed services through training providers and helping to build or expand facilities.

Among the most interesting of these capacity-building efforts are collaborative initiatives in which a number of large and small companies in specific communities pool their resources to support investments in dependent care and other family support services. Working together, these companies have greater ability to launch an array of specific projects to help meet the needs of their employees. Smaller employers are able to leverage greater benefit from their limited investments; larger employers see more cost-benefit and wider use of the programs and services they support.

One interesting example of this type of collaborative initiative is the Houston Area Network for Dependent Services. Begun in 1991, the network includes 30 local companies that pool their resources to fund community-based efforts to increase the quality and supply of early care and education, after-school care, and elder care. Employees of the member companies nominate programs or organizations for special support from the network.

The Houston Area Network for Dependent Services

The Houston Area Network for Dependent Services (H.A.N.D.S.) is a collaboration of approximately thirty companies in the Houston area that pool their resources to support the development of dependent care services in the metropolitan area. The companies work together to meet the dependent care needs of their employees and develop specific projects to meet them. Annually, H.A.N.D.S. invests approximately \$750,000 in community initiatives to improve the quality of early care and education (including training for providers, program accreditation, on-site visits by outside technical assistants, peer support, and equipment grants). It also provides grants to expand and renovate child care facilities, and to provide summer programs and elder care.

Families who are employed by the corporate members nominate programs and projects for support. Two local organizations select the projects and administer the funds: Initiatives for Children, a child care resource and referral agency, and Sheltering Arms, an elder care resource and referral agency. Among the criteria used to select projects for H.A.N.D.S. support are that the initiatives are: (1) located in areas with a high population of employees of the member companies; (2) already serving member company employees and will agree to give priority to these families in providing their services; and (3) willing to work toward significant improvements in the quality of their services through training and accreditation.

Leveraging Private Resources for Community Development

Of special interest in the search for new and promising strategies for financing early childhood supports and services, however, are public/private efforts to build the capacity of communities to design, initiate, and operate services that meet their needs. The movement toward neighborhood-based community development, begun more than a generation ago, was born of a desire by residents, especially those in poor areas, to shape the economic, physical, and social life of their communities. Community development corporations, bankers, foundations, and local corporations have all lent a hand through the formation of partnerships that pool funds and expertise for local development initiatives to help neighborhoods help themselves. Many of these initiatives have not only created specialized supports and services in response to local needs, but have also begun to build comprehensive community support systems that effectively link resources throughout the community, including early care and education.

Community development partnerships.

In 1977, Congress passed the Community Reinvestment Act, which requires financial institutions to help meet the credit needs of the communities in which they operate. This law provided a strong incentive for banks and savings and loans across the country to begin to examine opportunities to realize substantial returns by investing in community development initiatives to build and renovate housing, to launch small businesses, and to provide needed health and social services. Through partnerships with government, foundations, and community organizations, financial institutions have been able to identify promising projects that meet the communities' reinvestment goals and make a profit for the lenders. The partnerships provide a way for financial institutions to gain the knowledge to weigh alternative development opportunities and to manage community investments effectively. Community development lending is not without risks. However, by diversifying the funding base, partnerships help diffuse the risk to any one lender, and, in the process, they give a wide range of participants a stake in the success of the enterprise—foundations, local corporations, professional service providers, and community residents. To the extent that the partnerships also help stabilize communities and increase property values, they also enhance the banks' returns on their investments.

Private foundations and philanthropies have a long history of funding community development projects. But with the advent of partnerships, they can be a part of a more comprehensive approach to community revitalization and increase the impact and effectiveness of their grant-making. By pooling funding from a number of public and private sources, the partnerships enable foundations to leverage their investments and multiply the benefits of their contributions. They also help community development corporations become better-managed organizations by drawing on the fiscal, administrative, and management expertise of their partner organizations. Moreover, in several communities, these public/private partnerships have been an effective vehicle for bridging the gap between public and private non-profit funding. By joining government and foundation resources, they have provided the necessary impetus to help community development corporations (CDCs) secure new and larger funding from banks and corporations.

With the help of outside organizations like the Local Initiatives Support Corporation (LISC) and the Head Start Association, public/private partnerships for community development are now becoming active in efforts to help meet the growing demand for early care and education by financing the building and renovation of facilities for these programs. Through these collaborations, CDCs are able to gain access to financing for capital investments and work directly with child development experts on the design of quality early childhood centers. In some cases, these facilities are created for the sole purpose of providing early care and education; in others, they are designed and built as comprehensive neighborhood family centers that provide an array of supports and services for young children and their families. In addition to offering a way to finance the construction or reconstruction of buildings and playgrounds, however, the partnerships can be instrumental in setting standards and providing training and technical assistance to improve the quality of the programs that are housed in these facilities.

The National Child Care Facilities Demonstration

The National Child Care Facilities Demonstration is a partnership between the Local Initiatives Support Corporation (LISC) and the National Head Start Association (NHSA) to build or renovate up to ten child care facilities in selected high-need communities across the country. Created to respond to the growing need for quality child care facilities in low income neighborhoods, the partnership combines the real estate development expertise of community development corporations (CDCs) with the program expertise of local early childhood providers.

The demonstration aims to encourage collaboration among CDCs and early childhood providers to create quality facilities while promoting greater self-sufficiency among residents in low-income communities. The project, which brings together diverse partners at the local, state, and national level from the philanthropic, corporate, and government sectors to address the needs of low-income children and families, will identify financing models that can be replicated in other sites.

Building on the expertise and national networks of both LISC and NHSA, the demonstration is facilitating local CDC/early childhood provider partnerships and will provide important technical assistance and training in areas such as site selection and development and project financing. Once selected, CDCs will employ their real estate expertise to locate and acquire sites, secure project financing, and contract with a project development team to construct or renovate local facilities. Local Head Start and day care providers will work directly with their CDC counterparts, providing information on child care demographics, funding streams and regulations, and the developmental needs of young children, to ensure that appropriate funds are secured and the facility will adequately meet the needs of young children in the community.

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The ambitious multi-year, multi-site demonstration is expected to proceed in several stages:

Preliminary work included the building and strengthening of crucial relationships at the local and national levels, a review of current issues associated with facility development, and the development of early childhood facilities in low-income communities in one local community, New York City.

Feasibility and planning activities will concentrate on initial site exploration. The demonstration leaders will assess the need, interest, and ability of local LISC field staff, CDCs, early childhood providers, state and local governments, and local funders to undertake the project. Project staff are conducting feasibility analyses across the nation including the Bay Area, Houston, Indianapolis, Little Rock, Miami, New Haven, Philadelphia, Richmond, Washington, DC, Seattle, and rural West Virginia.

Program Implementation will begin once sites are selected. The project pre-development phase will assist CDCs and early childhood programs to assess facilities sites and focus on site-specific planning, developing architectural plans and appropriate financing packages. Technical assistance will also include reviewing deal structures and financing arrangements, identifying and securing necessary financial commitments including local and national grants and loans, and finalizing any necessary zoning and regulatory approvals. During the construction phase, LISC will provide technical assistance to CDC/child care provider partnerships to resolve any outstanding issues and problems.

The demonstration will provide important results for those interested in financing early care and education. In addition to new facilities, the demonstration will gauge the ability of CDCs and early childhood providers to combine their knowledge, credibility, and local constituencies to respond more creatively to the needs of low-income children and families in an evolving fiscal and program environment in which overall resources are increasingly scarce at the same time that they are becoming less categorical. Thus, it is hoped that the demonstration will assess the ability of local organizations to introduce more comprehensive, less categorical neighborhood services through new partnerships that combine their expertise and financing.

Community Development Financial Institutions Fund.

In 1994, the Community Development Financial Institutions Fund (CDFI) was established as a special program in the U.S. Department of Treasury. It represents a new direction for community development initiatives by providing modest public resources to invest in and build the capacity of private, for-profit and non-profit financial institutions, to expand the availability of credit, investment capital, and financial and other services in distressed urban and rural communities. The program is designed to unleash large amounts of private capital for local investment, promote entrepreneurship, revitalize neighborhoods, generate new tax revenues, and empower local residents.

Local CDFIs—including community development banks, community development credit unions, community development loan funds, community development venture capital funds, and microenterprise loan funds—receive federal funding to support start-up or to assist in launching new programs, products, and services. These institutions provide a wide range of financial products and services:

- Mortgage financing for first-time home buyers;
- Commercial loans and investments to start or expand small businesses;
- Loans to rehabilitate rental housing; and
- Other consumer financial services for low-income households.

The federal program emphasizes private sector market discipline. Decisions about which specific projects and businesses to finance are left to the private sector.

Debt financing strategies.

One non-profit community development venture capital organization that recently received CDFI funds in the first round of program funding is the Illinois Facilities Fund (IFF). Established by the Chicago Community Trust, a private foundation, the IFF draws on public and private resources to provide capital to disadvantaged communities for child care and community service centers.

The IFF has been recognized for its use of debt financing to support facility financing. Debt is money loaned to a project that must be repaid, usually with interest. The debt can come from a financial institution such as a bank or pension fund, a foundation's program-related investment, or from a public sector loan such as a bond issue. If it is used to develop or expand a service facility, it is in the form of a real estate mortgage loan. If it is used to purchase equipment, it usually is in the form of a business loan.¹⁶ The debt must be secured by a down payment that can come from the provider's savings, a philanthropic grant, or from a public subsidy such as a program grant. The debt must be repaid out of income from the business. For non-profit service programs, this income is typically from the fees paid by families for health care, child care, and other services, or it is from program funding to support those services for economically disadvantaged children and families. Because many facilities serving low-income families often lack a stable and adequate income stream, their ability to repay the principal and interest on a loan is dependent on the generosity of a government or charitable or religious organizations. Threatened cutbacks in public programs that support services for low-income children and families will make it more difficult for community providers to gain access to debt financing for facilities.¹⁷

One of the most interesting uses of debt financing to support the development of community facilities for children and families is tax-exempt bonds. In partnership with banks and the State of Illinois, the IFF has pioneered this technique to support the building and renovation of seven child care centers throughout the state.

Illinois Facilities Fund

The Illinois Facilities Fund is a non-profit organization created by the Chicago Community Trust to provide loans to help non-profit social service agencies finance the development and renovation of their facilities, including child care centers. It was originally capitalized by loans and grants from the Chicago Community Trust, the local United Way, program-related investments from the McCormick, MacArthur, and Harris foundations, and a \$1 million loan from the Bank of America. In conjunction with six Chicago banks, which will provide \$10 million over a three-year period in trust notes issued by the fund and secured by bundled loans, the IFF makes 15-year loans to community providers.

On behalf of the IFF, the Illinois Development Finance Authority issued a \$12.73 million tax-exempt bond in 1992. The price of the bond was set at 7.4 percent interest, due in 2004, with interest only to be repaid in the first two years. The bonds were purchased by private investors and secured by an equity contribution from the IFF, a debt service reserve fund raised by the IFF, and a contract between the Illinois Department of Children and Family

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¹⁶ Center for Policy Alternatives, *Financing the Future: Innovations in Child Care Financing*. Roundtable Report. Washington, DC: Center for Policy Alternatives, August 1996.

¹⁷ *Ibid.*

Services to repay the debt over ten years. In addition, the providers had to raise an additional ten percent toward the cost of their building. If they wanted to house multiple services in the facility, they had to cover the build-out costs for services other than child care. The IFF owns the buildings that it develops (although ownership will revert to the child care programs when the mortgages are repaid) and leases them to child care providers for \$1 per year. Unlike general obligation bonds that are owned by the governmental body issuing them, this strategy relies on bonds that are owned by a "conduit" (i.e., the IFF). The IFF is liable for the debt if the state becomes unwilling or unable to pay. As a consequence, the IFF has also played a critical role in strengthening the fiscal management capacity of the programs it finances to ensure that cash flow is available to repay the loans.

Linked deposits.

Linked deposits are another approach states have applied to attract lenders to make loans for critical community services, including health care, job training, literacy, and child care. In a linked deposit arrangement, the state (or another investor) makes a deposit in a financial institution in return for the financial institution's commitment to invest all or some significant portion of these funds in a project or service benefiting the community.

Microlending.

Microlending is a strategy that can be especially successful in stimulating the growth of small businesses and services that meet community needs. These programs make it possible to fill the capital gap that too often limits low-income entrepreneurs and community providers from applying for and receiving traditional loans. They use a variety of approaches including technical assistance, credit enhancement, peer lending programs, and joint partnerships with training programs specific to the needs of service providers (e.g., child care providers). In particular, microlending programs offer low-income women opportunities to develop their own businesses with support from other women who have achieved the same goal. Microlending groups (often called circles) provide support, advice, empowerment, and encouragement. The groups decide which members will receive loans, including the amounts and the terms of repayment. Across the country, such microlending groups are getting started to specifically support training of family day care providers and gain access to the capital needed to set up a home child care facility. The National Cooperative Bank Development Corporation is collaborating with Save the Children to create peer lending groups for microloans in Atlanta. Ohio's Community Development Finance Fund, the Child Care Investment Fund in Boston, and NationsBank are other institutions now offering microloans.¹⁸

Riggs National Bank and The Center for Policy Alternatives

To help overcome the shortage of child care in Washington, DC, and to encourage providers to become licensed, the Riggs Bank and the Center for Policy Alternatives have launched a project to create a fund with public and private sector resources to finance child care facilities. With approval from the Metropolitan Washington Bankers Group, a consortium of local community development bankers, a loan fund has been created to support a mini-micro-loan pool for family day care providers with a maximum loan of \$1,500; a micro-loan pool for child care facilities up to \$25,000 for renovations and upgrading centers;

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¹⁸ *Ibid.*

and a pipeline for real estate projects for child care and other community services facilities. The loans will be available at below-prime interest rates, and repayment periods will vary depending on the amount of the loans.

The establishment of the loan fund offers metropolitan Washington area financial institutions a way of meeting their Community Reinvestment Act obligations. It also offers technical assistance to help providers understand licensing requirements and bank lending processes and to acquire the entrepreneurial skills required to successfully manage their businesses. Finally, by reprogramming some of its federal Child Care Development Block Grant funds to the loan fund, the DC government has an opportunity to capitalize a pool to make loan guarantees and fund the technical assistance.

Creating Comprehensive Community Support Systems

Pressures to improve supports and services for young children and their families and make the most of scarce resources have fueled the movement toward creating more comprehensive, community-based systems of support for young children and their families. In this area, however, program development and financing are a bit like the chicken and the egg. Sometimes it is difficult to know which came first. Efforts to build comprehensive systems of support that effectively link formal services and other community resources require funding that is not constrained by highly restrictive, categorical program requirements. They have spurred a number of strategies for creating flexible funding arrangements. At the same time, new and innovative financing strategies, including public/private partnerships for community building and development, have become powerful vehicles for service delivery reform. The availability of pooled funding has advanced the design and development of comprehensive community initiatives to meet the multiple and inter-related needs of children and their families.

Creating comprehensive, community-based support systems typically requires blended funds from several sources. Current funding for these initiatives comes from a number of discrete federal, state, and local categorical funding streams, from federal entitlement funding, and from private corporate, philanthropic, and individual contributions. In many cases, foundation funding provides the impetus for launching these initiatives and the "glue" money for attracting and orchestrating funding from other highly specialized categorical funding streams. In most cases, however, foundation support is time-limited, and community groups face the challenge of finding ways to draw upon public funding sources and other community contributions (e.g., United Way support) to sustain their enterprises over the long term.¹⁹ In addition to the community development partnerships that were discussed above, a number of strategies are being used to create more flexible funding.²⁰

State legislation and executive orders to decategorize state-level funding streams.

Several states have introduced legislation to help coordinate and, in some cases, consolidate separate state-level funding streams to enable communities to create service arrangements that match their own priorities.

Pooled funding arrangements.

Several states have created funding pools that draw funds from a number of narrowly-targeted categorical programs to support comprehensive community initiatives. Each state

¹⁹ Cheryl D. Hayes, Elise Lipoff, and Anna E. Danegger, *Compendium of Comprehensive, Community-based Initiatives: A Look at Costs, Benefits, and Financing Strategies*. Washington, DC: The Finance Project, 1995.

²⁰ *Ibid.*

agency contributes a portion of the total program budget to the funding pool, and all share responsibility for decision making and oversight. Communities can apply to the state for funding to support comprehensive initiatives. Missouri's Caring Communities program, for example, pools funds from four state agencies to meet the multiple needs of high-risk children and families in several local communities.

Cross-sector funding strategies.

In many communities, comprehensive initiatives have grown out of community partnerships between public agencies and private community groups, corporations, and foundations. In many cases, the foundations have provided the seed money to launch the community initiative: public program dollars support direct services; local corporations and professional firms (e.g., lawyers and accountants) provide in-kind support and technical assistance as well as financial contributions. Success by 6, a collaborative school-readiness initiative pioneered in the Minneapolis area and adapted by the Northeast Nashville Family Resource Center and several other communities across the country, has formed public/private community partnerships to fund comprehensive supports and services for young children and their families. Success by 6 was initiated by the Minneapolis area United Way, Honeywell Corporation, and the Children's Hospital. In Minneapolis and the other communities where the initiative is operating, it has attracted very broad partnerships between government, business, non-profit providers, and the voluntary community. Similarly, the Agenda for Children Tomorrow (ACT) initiative in New York City is a joint initiative of the City of New York and a coalition of private corporate and non-profit organizations working in ten communities to create comprehensive services for children and their families.

Agenda for Children Tomorrow

New York City

Agenda for Children Tomorrow (ACT) is a public/private initiative in New York City established to promote an integrated, locally-based system of health and human services for children and families. ACT is a joint project of the City of New York and a coalition of non-profit organizations working to make social services more accessible at the neighborhood level, in part by locating multiple services in a single site (co-location). The services provided through ACT include health care, housing, child welfare, job training, mental health, youth services, and economic development.

ACT does not serve the entirety of New York City, but currently serves ten community districts. Each community involved in ACT develops a "local collaborative" that includes service providers, coalition leaders, city officials, community residents, and others. The membership of these local collaboratives develop a plan for the community, highlighting ten achievable goals. The goals are determined based on a needs assessment, which is conducted for each site and which documents both strengths and weaknesses or problems in the community. Once the goals have been determined, ACT steps in to help local initiatives break through any bureaucratic red tape to achieve these goals. At each local site, a planner is jointly chosen by ACT and the community to help the collaborative to carry out its work.

One of the first sub-agencies to be engaged in working directly with ACT was New York City Human Resources Administration's (HRA) Agency for Child Development. ACT is also partnered with HRA's Family Preservation Program and collaborates with New York State's Neighborhood Based Alliance.

ACT is governed by an Oversight Committee and an Executive Committee, both of which are composed of half New York City government representatives and half other

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representatives. The Oversight Committee includes representatives from foundations and large voluntary service organizations, government, and communities. The Executive Committee, which provides leadership, has one representative each from foundations, large social service organizations, a community-based organization, and the New York City government.

History

In January 1990, the ACT Implementation Project was authorized by New York City's Mayor Dinkins. The City has provided in-kind support, including space in the Mayor's Office for Children and Families since 1990. In-kind and financial support also has been provided by state agencies, private businesses, and foundations and other non-profit organizations.

Redeployment.

In efforts to reshape the way current public funds are spent, several states and communities are experimenting with strategies to redeploy funds from highly specialized services and programs to more broad-based community supports and services. Many of these redeployment efforts also seek to devolve responsibility for the design and operation of services to neighborhood communities where leaders and residents want to do things differently. Kansas City's Local Investment Commission, for example, was established to serve as a local intermediary to facilitate more flexible and responsive uses of public resources to meet the needs and priorities of local neighborhoods. The commission, which is comprised of civic leaders, corporate and labor leaders, public agency officials, service providers, advocates, and private citizens, has no programmatic or budgetary authority. It functions as an advisory body, and its influence in redirecting budget allocations from highly formalized categorical services to more flexible responses to neighborhood needs depends on its credibility within state and local government and within the community.

Many comprehensive initiatives are financed through a combination of these strategies. North Carolina's Smart Start initiative is a comprehensive initiative designed to make early childhood education and support services available to every child under age six whose family needs and wants them. It also seeks to ensure that the state's early childhood programs and family services meet high quality standards. While Smart Start funds can be used to support a wide array of services for young children and their families, the bulk of resources are used for early care and education, immunizations and child health services, and family support services for low- and moderate-income families. Smart Start was proposed by the Governor and established by the General Assembly. In accordance with the law, the state legislature appropriates funds and the North Carolina Partnership for Children, a state-level public/private partnership established under the law, along with local partnerships, must match ten percent of the annual appropriation. No more than five percent of the match can be in-kind contributions. The funds are distributed to counties through a competitive grant application process administered by the state-level partnership. To qualify, local applicants must establish private, non-profit partnership boards to set priorities (within the state framework), allocate funds, and coordinate and monitor local programs. Because decision making about the configuration of supports and services, the determination of eligibility for program participation, and monitoring is left to local discretion, there are significant variations among the local initiatives.

Expanding comprehensive service models to community-wide support systems will ultimately require decategorizing a large portion of public funding. To date, only modest steps have been taken in this direction. Though many states are beginning to establish a statutory framework to support the creation and financing of comprehensive community support systems, they have not succeeded in rechanneling the large, categorical funding

streams that support most services for children and families. Inevitably, this process will be slow and will require significant reforms in intergovernmental financing systems to accomplish the shift.

CONCLUSION

With increasing pressure at all levels of government to control costs and improve the effectiveness and equity of supports and services for young children and their families, there will be stronger incentives for public officials and community program developers to find more creative financing strategies. These will include efforts to be more effective and efficient in raising public revenues and to create public/private partnerships to attract private investment in supports and services for young children and their families, including early care and education. They will also include efforts to focus decision making about the allocation of public and private resources on desired results for children, their families, and communities.

Despite the urgency that many state and local leaders feel, reforming financing systems will be a slow and incremental process. Changing how public resources are raised and distributed challenges everyone's special interests—community leaders, public agency officials, service providers, and taxpayers. In many cases, advocates for young children have been among the staunchest defenders of the status quo. Many early care childhood service providers, who have come to depend on narrowly-defined categorical program funding, have been reluctant to explore new financing ideas, other than earmarked revenues that can be specifically targeted to particular programs and services. Yet the future of supports and services for children and families and America's future will depend in large part on informed, collaborative efforts to create more robust and productive financing strategies that are aligned with the nation's and every community's goals for meeting the needs of its young children and their families. This is the challenge ahead.



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