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How States Fund Pre-K

A PRIMER FOR POLICYMAKERS



**EDUCATION
COMMISSION**
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In the last five years — amid research that points to the long-lasting, positive effects that quality pre-kindergarten programs provide — states have increased funding for these opportunities by 47 percent. In 2016-17, all but six states contributed to pre-K programs, and nationally, nearly 1.5 million children now participate.

Research shows that these are smart investments. One study found that the United States will see a net benefit of at least \$83.3 billion — in reduced grade retention, students qualifying for special education and other factors — for each cohort of 4-year-olds attending preschool.

But the mechanisms through which states collect and fund pre-K programs vary greatly across the country. And as the National Institute for Early Education Research notes, strong funding does not always equate to access for all. For example, discrepancies exist in income requirements for participation, how many students can be enrolled and other factors that, in turn, limit quality preschool experiences for all students.

This policy brief, drawing from current state examples, is a primer for policymakers looking to understand the revenue streams available for funding quality pre-K programs. While funding streams are complex and varied, thoughtful or targeted funding can improve overall quality — improving opportunities and outcomes for students.

Funding Types

Many states utilize more than one source to fund pre-K.

State Funding

Funding for pre-K programs is split between federal, state and local governments.⁷ The bulk of the federal money flows directly to localities through the Head Start program, and states commonly use three funding mechanisms: general fund appropriations for programs, block grants and the state funding formula.

States have collectively increased funding to pre-K programs by 47 percent in the last five years.

Nine states fund pre-K through their K-12 funding formula.

Education Commission of the States is in its fifth year of collecting a comprehensive list of all state pre-K funding programs. Our 2016-17 report can be [accessed here](#).

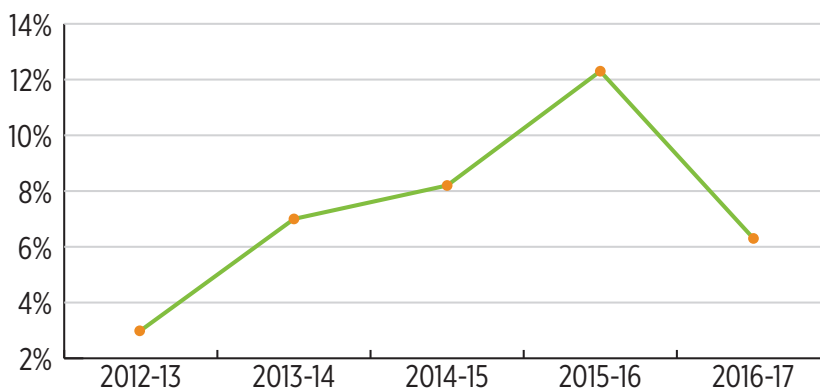
General Fund Appropriations for Programs

Most state pre-K programs receive money from general fund appropriations. From 2012-17, this share of funding has increased 47 percent.⁸ **Montana** and **Mississippi** are the most recent states (in 2017 and 2013, respectively) to partially fund new pre-K programs. However, the chart below shows that nationally, the year-over-year percentage increase drops from about 12 percent in 2015-16 to about 6 percent in 2016-17. Much of this decrease was driven by **New York**'s nearly \$375 million increase in pre-K funding in 2015-16, followed by its \$22.5 million increase in 2016-17. This demonstrates that although pre-K funding is still increasing overall, its security within each state's budget remains inconsistent; and as states deal with deficits, pre-K is not guaranteed in general fund appropriations.

When funding for a state pre-K program comes from a general fund appropriation and is subject to the legislative budgeting process, it is vulnerable to funding cuts based on the state's economic ebbs and flows. For example, during an economic downturn, funding for state pre-K programs may be cut to reduce total state spending. Additionally, total funding is set through the state budget process and not through a determination of what constitutes adequate funding for pre-K education. Total funding is typically divorced from enrollment numbers, meaning that if total enrollment rises, it results in a decrease in per-pupil funding — even if total funding levels remain consistent.

One exception to this generality is **New Jersey**'s Abbott Preschool Program, which arose from litigation and a court order. The state calculates funding based on the cost of educating a pre-K enrollee, not based on budget whims. The Abbott Preschool Program provides universal pre-K to approximately 32,000 preschoolers in 31 high-poverty districts.⁹

Growth in State Pre-K Funding (Year-Over-Year, %)



Revenue Sources

There are two sides to the pre-K funding equation: revenue and expenditures. Revenue is how the money gets to the state; expenditures are the mechanism by which the state disburses funds. Generally, states collect money through property, income and sales taxes, among others. This money flows into the state general fund to be disbursed according to state priorities. Many states have a dedicated source of funding for pre-K programs, separate from the general fund budgeting process. While alternative revenue sources do eventually flow into the state general fund, earmarking funds for certain purposes like pre-K can help to insulate funding from economic downturns, making it more consistent and reliable.

State Sin Tax: Sin taxes can be used to generate revenue while also discouraging the use of such commodities as alcohol, tobacco and gaming.¹ Funding can fluctuate from year to year, and the taxes do not require ongoing legislative approval.²

■ **Lottery:** Five states (**Georgia, Virginia, Washington, Nebraska** and **North Carolina**) use money from a state lottery program to fund pre-K.

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Block Grants

Commonly, block grants are issued as a lump sum to localities, and an education provider or service has a high level of discretion over how the funds are used. Block grants are generally used as a targeted approach to give additional funding to specific areas or to schools serving students who have high needs.

For example, the **Kansas** Early Childhood Block Grant is distributed to school districts, child care centers, child care homes, Head Start centers and community programs that serve at-risk children and underserved areas.¹⁰ Similarly, in **Nebraska**, the Early Childhood Education Grant Program supports the development of children up to kindergarten through comprehensive, center-based programs.¹¹

Funding Formula

At the K-12 education level, states fund their education system based on a funding formula. In most states, a funding formula is based on a per-student funding level, with additional money allocated to needy areas and students (for example, English-language learners, at-risk students, students with disabilities, etc.).¹² While K-12 funding formulas do not guarantee adequate levels of funding, money distributed through a formula is more insulated from the economic ebbs and flows of the state budget process.

Nine states (**Colorado, Iowa, Kentucky, Maine, Oklahoma, Texas, Vermont, West Virginia** and **Wisconsin**, plus the **District of Columbia**) fund pre-K programs through their K-12 funding formula.¹³ In three states, however, (**Maine, Oklahoma** and **West Virginia**) pre-K students receive at least the same base per-pupil amount as other K-12 students.

In **Maine**, for example, funding for students in pre-K through second grade is allocated at 1.10 times the per-pupil foundational base rate. The funding is determined by multiplying the count of students enrolled in a public preschool program by the per-pupil base amount, plus an additional 10 percent. **Maine's** funding formula includes factors to account for additional needs or supports, like funding for English-language learners and low-income districts.¹⁴

■ Tobacco settlements:

Three states (**Arizona, Connecticut** and **Kansas**) use money from tobacco settlements to fund pre-K.

■ Non-lottery gambling:

Missouri is the only state that currently funds its pre-K program through non-lottery gaming revenue.

Social Impact Bonds: Social impact bonds, also called pay for success, use private capital to support social needs.³ In Chicago, this concept is used to increase pre-K access among low-income children. Private lenders provided capital to create the program, and the government repays lenders only if the program improves educational outcomes.⁴ In **Utah**, the pay for success pre-K program is a partnership between Goldman Sachs and the state of Utah. If prescribed metrics are achieved, Goldman Sachs will be paid back, plus 5 percent interest; if they are not achieved, the investment will not be recovered.⁵

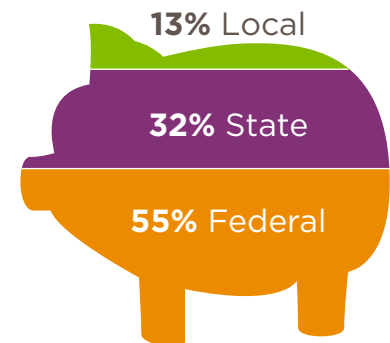
State Sales Tax: In 1984, **South Carolina** enacted the Education Improvement Act, which dedicates 1 percent of state sales taxes to education programs, including grants to its pre-K program for 4-year-olds.⁶

Local Funding

Increasingly, local governments are taking on pre-K policy and creating universal programs at the district, city or county level. City preschool measures are usually funded through a dedicated funding stream. For example, Denver and San Antonio have expanded access to pre-K through sales tax revenues. Seattle does so through a property tax, while Philadelphia uses a tax on sodas.¹⁵

Other programs, such as the **Virginia** Preschool Initiative and **Iowa**'s Statewide Voluntary Preschool Program, require local governments or providers to provide matching funding.¹⁶ This shared responsibility model increases coordination and stakeholder investment.

Pre-K Funding by Level of Government



Federal Funding

The federal government has been providing pre-K to low-income 3- and 4-year-olds through the means-tested Head Start program for over 50 years.¹⁷ However, support for pre-K from the federal government stretches beyond Head Start. For example, in 2016, 18 states received competitive federal Preschool Development Grants that contributed nearly \$210 million.¹⁸ In addition to Head Start and grants, the federal government provides funding through Title II-VI, tax subsidies and other wraparound services.¹⁹

Variation Across States: From Universal Programs to None at All

Just as funding mechanisms vary from state to state, so does the amount at which pre-K is funded. While more states are pushing for universal pre-K programs, six states still offer no state funding for pre-K.

Universal Pre-K

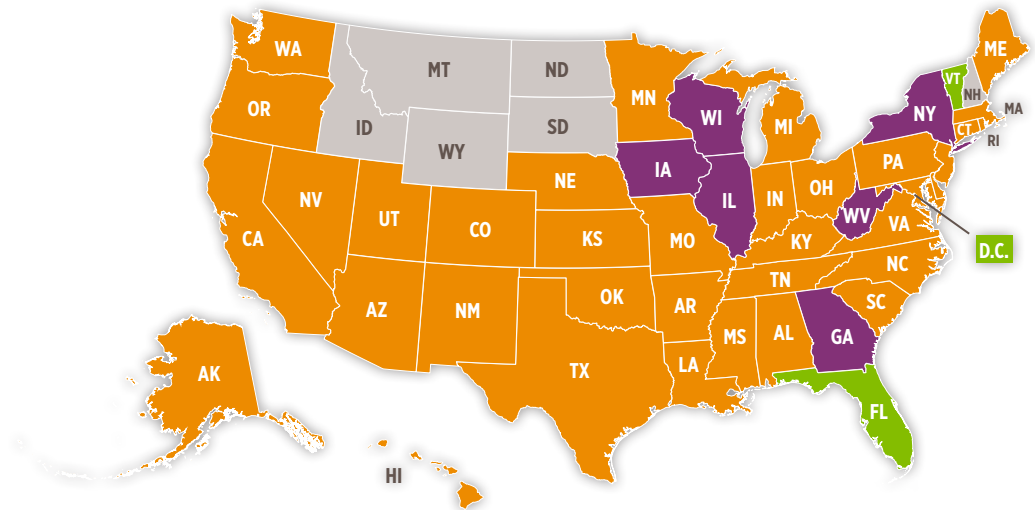
Universal pre-K is open to everyone in the state, but this does not mean that all students enroll. Three states (**Vermont**, **Washington** and **Florida**, plus the **District of Columbia**) have truly universal pre-K programs — meaning they are not capped by funding amounts, enrollment numbers or enrollment deadlines. In these states, every child can, and virtually all children do, enroll in the universal pre-K program.²⁰

Seven additional states offer pre-K with varying levels of universality. **Oklahoma** offers universal pre-K in almost all of its districts, and **West Virginia** is in the process of expanding its program. Five other states (**Georgia**, **Illinois**, **Iowa**, **New York** and **Wisconsin**) also have pre-K policies that many consider to be universal.



Pre-K Programs Across the Country

- FULLY UNIVERSAL PRE-K
- MOSTLY UNIVERSAL PRE-K
- NON-UNIVERSAL, STATE-FUNDED PRE-K
- NO STATE-FUNDED PRE-K



No State-Funded Pre-K

In 2016-17, six states (**Idaho, Montana, New Hampshire, South Dakota, North Dakota** and **Wyoming**) did not provide state funding for pre-K. While these states offer pre-K programs through other sources — federal, local and private funding — no state funding is provided. In the 2017 legislative session, **Montana** passed legislation to expand its state-funded preschool pilot program.

Final Thoughts

Through various revenue and appropriation streams, states have identified different ways to develop pre-K programs. Policymakers will benefit from considering all the funding options that exist before identifying the funding mechanism that will best increase the quantity and the quality of pre-K programs in their states. Here are some questions they can start with:

- 1 What strategies exist to insulate or protect pre-K funding from budgetary whims?
- 2 Are there existing private-public partnerships that could be bolstered to increase pre-K access and quality?
- 3 Are there untapped revenue streams (for example, gambling or sales taxes) that could be leveraged to support pre-K?

Funding pre-K programs is a tangled web comprising different levels of government, various funding sources and competing state priorities. While states have increased funding for pre-K in recent years, multiple variations still exist from state to state on access, equity and quality.

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