

Evaluating Early Care and Education (ECE) Finance for California's Future

Erin Heys PhD, Sarah Swanbeck MPP, and James Hawkins MPP

This issue brief series is part of the California 100 initiative. The purpose of this brief is to foster conversations about the future of education in California. You may [read the full report here](#).

Overview

California has ambitious goals for its Early Care and Education (ECE) system. Most notably, state leaders recently released a [Master Plan for Early Learning and Care](#), which establishes statewide goals such as providing universal access to high-quality preschool for the state's three- and four-year-olds and enhancing educator competencies to support children's learning and development. Achieving these goals across the ECE system is no easy task and requires that ECE providers have the resources necessary to meet the challenge. In this brief we address the following questions: How does California currently fund its ECE system and how does it compare to other states? Are current funding levels sufficient to provide the resources necessary for all students, regardless of socioeconomic background or ability, to meet statewide goals?

To answer the first question, we draw on existing research from California's leading ECE researchers and data from the National Institute for Early Education Research at Rutgers University. To address the second question, we review existing research and use the concepts of *adequacy* and *equity* to evaluate whether current funding levels are sufficient for all students to meet the goals established by state leaders.¹ In its simplest definition, *adequacy* addresses how much funding students need to achieve at least a minimum outcome standard, such as average performance on standardized tests. *Equity* is the concept that some students, such as English Language Learners, low-income students, disabled students, or other students with special learning needs—require more funding than the average student to achieve desired educational outcomes. Therefore, funding levels must account for additional programs, services, and other resources that disadvantaged students require to ensure that each student has the support they need to achieve desired learning goals.²

Summary of findings

ECE financing

- California has a fragmented and complicated revenue system for ECE, with numerous programs for children from birth through age 5 funded by a blend of state, federal, and local funding streams.

¹ Equally important in our evaluation is the issue of *stability* in funding the ECE system; see the 'stability of education funding' issue brief for more information.

² It is important to note that modern legal definitions of adequacy often recognize that the amount needed for all students to achieve certain goals or outcomes may vary across students, schools, and districts. This means that *equitable* funding is often associated with an adequacy definition to ensure that the finance system compensates for the cost of educating students from different socioeconomic backgrounds or with special learning needs. We discuss equity as a standalone concept from adequacy; however, we acknowledge that equity often goes hand-in-hand with adequacy, and point out the relationship where appropriate.

Most ECE programs rely on a combination of state and federal funding, with the majority of federal funds coming from the US Department of Health and Human Services and state funding typically allocated from the state's General Fund.

- California ranks 8th overall in national comparisons of state spending on major ECE programs, at about \$8,000 per child in FY 2020.

Adequacy findings

- In our evaluation, we found that California lacks a clear adequacy definition for ECE programs that identifies the *inputs* necessary for children from different backgrounds to achieve equal childcare and educational opportunities.
- The state has made progress to define the *outputs* or learning goals for preschool, but has not established output-oriented goals for infant and toddler care or transitional kindergarten. Establishing clear goals for the entire ECE system can make it much clearer to determine how much funding such programs will need to provide equal opportunities to all children.
- Without an adequacy formula, there are serious consequences for current ECE programs, including very low wages for ECE educators, growing cost pressures that prohibit new and existing providers from growing, and varied quality of ECE programs across the state.
- Some researchers estimate that it would require an investment in the range of about \$30,000-\$37,000 per child to provide adequate ECE funding for every eligible child in California; currently, the state invests anywhere between \$5,000 and \$25,000 per child depending on the program. This may present initial sticker shock, but is actually close to what some other countries spend for ECE.

Equity findings

- We found that student equity is commonly addressed in ECE programs with eligibility requirements that subsidize ECE for low-income children. Yet several equity concerns remain. Income-eligibility requirements exclude families who make above the income threshold, but the high cost of ECE programs may put childcare or early learning out of reach for many families, especially for those with more than one child requiring care.
- Another major issue is that many more children are eligible for state-subsidized programs than the number of seats actually funded by the state, which means that many low-income children are not able to enroll in ECE at all despite their eligibility. Of those children currently enrolled in state-subsidized care, not all are enrolled in high-quality programs or programs with schedules that meet the demands of working parents.
- There are also concerns that California is not identifying all children with special learning needs that are eligible for state- and federal-subsidized programs, and that existing programs do not meet the needs of dual language learners.
- Recently the state made great strides to make Transitional Kindergarten universal to all 4-year-olds in the coming years, but relatively little progress has been made to expand the number of ECE seats to infants and toddlers.

The bottom line: While California ranks nationally as one of the highest spenders on ECE, state leaders still have work to do to establish a clearly defined adequacy formula that can fund high-quality, equitable learning and childcare environments for young children. To do so, California lawmakers and ECE leaders must first establish clear outcomes and goals across all ECE programs. State leaders must also establish a connection to a funding formula that costs out the inputs required to fund programs for all children—regardless of socioeconomic background or ability—to meet statewide goals. The good news is that the state's Master Plan for Early Learning and Care already provides a blueprint for lawmakers to work toward adequately (and equitably) funding high quality programs.

How does California fund its ECE programs?

California provides several state and federally subsidized early care and education (ECE) options for children, especially those from low-income backgrounds. In general, the purpose of such programs is to facilitate the growth and development of young children from disadvantaged backgrounds while also enabling low-income parents to work (Chu & Kuhn, 2014). Table 1 below describes the major ECE programs in California, their funding source, and the number of seats funded.³

Table 1. Number of Seats Funded in Major ECE programs in California (2019-20)

Program	State or federal funding	Number of seats funded	Description
Head Start	Federally-funded	69,782	Head Start is a federally funded program that promotes school readiness for children 0-5 from low-income families. California's Head Start program is the largest in the nation. Head Start programs are often mixed quality—for a review of the evidence, see Bassok & Loeb (2015).
California State Preschool Program (CSPP)	State-funded program (General Funds; both Prop 98 and non-Prop 98)	141,919	CSPP is California's primary state-funded preschool program that provides part- and full-day preschool to 3- and 4-year-olds from low-income families, typically with parents who are working or seeking employment. The CSPP received 6 of 10 points on national quality ratings.
Transitional Kindergarten (TK)	State-funded (Prop 98 funds)	100,852	TK is a school-based program administered by a school district or charter school, and is intended to serve as a 'bridge' between preschool and kindergarten for those who reach the age of 5 between September 2nd and December 2nd. ⁴ TK programs were first established in 2012-13 and received 3 of 10 points on the most recent national quality ratings.

Source: The [2020 State Preschool Yearbook](#), the National Institute for Early Education Research at Rutgers University.

California has a fragmented and complicated revenue system for ECE, with numerous programs for children from birth through age 5 funded by a blend of state, federal, and local funding streams. Most ECE programs rely on a combination of state and federal funding, with the majority of federal funds coming from the US Department of Health and Human Services and state funding typically allocated from the state's General Fund (Melnick et al., 2017). Local revenue for ECE can play a significant role in ECE funding, but programs vary by region since

³ For a full list of available programs and funding sources, see Melnick, Ali, Gardner, Maier, & Wechsler, 2017.

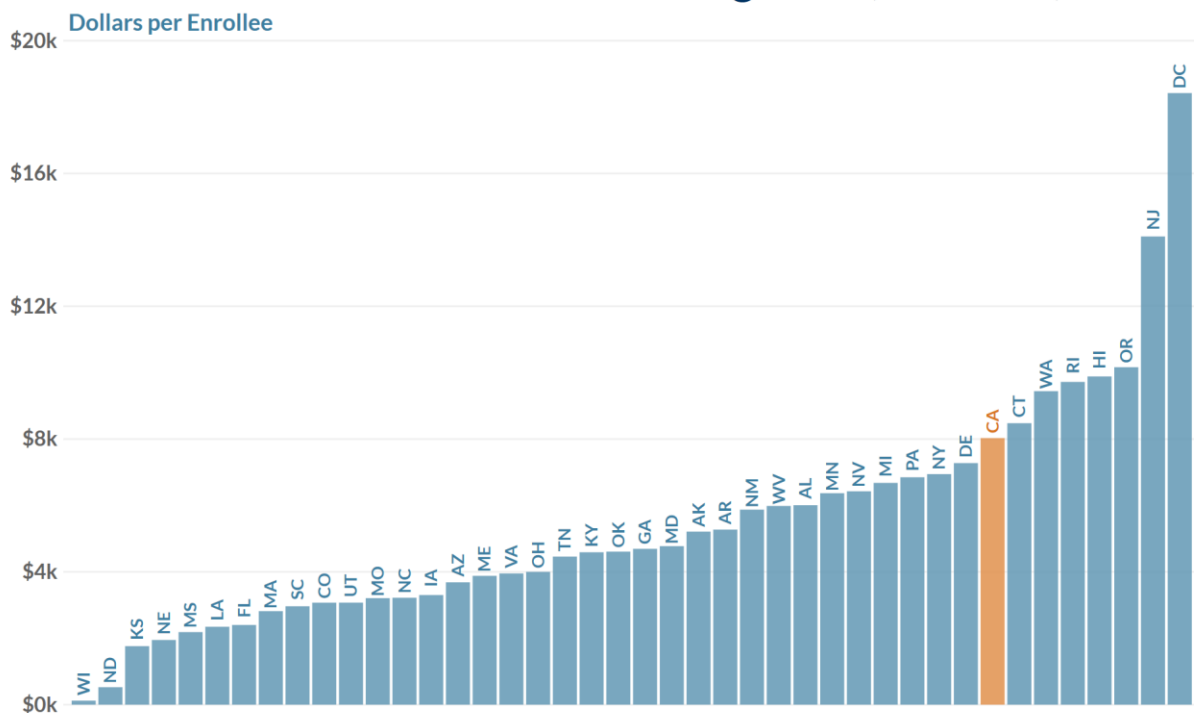
⁴ Beginning in 2015-16, through "Expanded TK," LEAs were allowed to admit children who turn five after December 2nd to a transitional kindergarten program; as of 2021, TK will incrementally be accessible to all of the state's 4-year-olds in the rollout of universal TK by 2025-26, while also reducing class sizes and cutting adult-to-child ratios.

some cities and counties choose to invest in local ECE programs while others do not (Melnick et al., 2017; Shelton, Hajela, & Fuller, 2019).

As shown in Figure 1 below, California ranks 8th overall in its state spending on ECE programs, at about [\\$8,000 per child](#) in FY 2020.⁵ Washington, DC spends by far the most per child at roughly \$18,400 per child, and New Jersey follows at about \$14,100 per child. In California, state funding provides subsidized preschool to about 12 percent of the state’s 3-year-old population, and provides subsidized preschool and transitional kindergarten to about 37 percent of the 4-year-old population. Despite spending more than other states, California’s State Preschool Program and Transitional Kindergarten program still receive [low rankings for quality](#) using nationally benchmarked standards due to a lack of teacher credentialing requirements for staff and teachers, a deficit of professional development opportunities, and no limits on class size.

Figure 1

State Revenue for State ECE Programs (FY 2020)



Source: National Institute for Early Education Research (NIEER), The State of Preschool 2020.
 Sample: ECE expenditures not reported for the WI 4K program, VT, TX, and IL.
 Notes: ID, IN, NH, SD, and WY have no state ECE programs. State ECE per enrollee revenue calculated using all state ECE enrollees.

⁵ These figures do not include total enrollment from all ECE programs, such as the federal Head Start program or special education. California state ECE revenues primarily go to the California State Preschool Program (CSPP) and California Transitional Kindergarten (TK).

Is ECE funding adequate?

Historically, California has drastically underfunded ECE programs with stark under-investments of ECE teachers, high-quality ECE programs, and an inadequate number of seats available to serve all eligible children (Gould, Whitebook, Mokhiber, & Austin, 2019; Stipek, 2018). One root cause of the overall underinvestment of ECE is that state lawmakers in California do not use an adequacy definition (or formula) to determine ECE funding allocations. In other words, the state does not calculate the inputs that are necessary for children to access high-quality ECE programs so that they enter the K-12 system ready to meet California's learning standards and educational goals. Instead, to determine funding each year, appropriations for pre-K are largely discretionary and the result of a political process.⁶

While the allocation of dollars for *inputs* to ECE programs is the result of an opaque and discretionary legislative process, the state has made some progress in defining the *outputs*, or the learning goals for early childhood education. Competencies for preschool were established by the California Department of Education in 2008 in the [Preschool Learning Foundations](#), which outline the knowledge and skills young children are expected to learn before entering Kindergarten, including social-emotional development, language and literacy, English-language development, and mathematics, and are aligned with the state's kindergarten academic content standards. However, some researchers argue that similar standards should be developed for infant and toddler care as well as transitional kindergarten, and that standards and curriculum for early learning should be synchronized with learning standards, curricula, instructional practices, assessments, and teacher professional development in early elementary grades (Koppich & Stipek, 2020). Establishing clear learning objectives and goals for the entire ECE system can make it easier to determine how much funding such programs will need to provide equal educational opportunities to all students.

Benefits of adequately funding ECE programs

Adequate investment in high-quality ECE programs--often in the form of full-day, full-year programs that enroll 0-to-5-year-olds until they are ready for kindergarten--can improve children's academic preparedness for K-12, which has the added benefit of creating greater cost-savings later on in the K-12 system (Schweinhart & Fulcher-Dawson, 2012). Research also shows that early childhood interventions via ECE programs may provide the biggest 'bang for buck' for improvements in long-term life outcomes and overall returns to society (Carneiro & Heckman, 2003). Yet a recent study part of the statewide Getting Down to the Facts initiative found a significant skills gap in California's children at kindergarten entry, suggesting socioeconomic disparities in educational success emerge early on in students' lives that can follow students throughout the K-12 system and beyond (Reardon et al., 2018).

California is typical among other states in that it does not have an adequacy definition or formula to calculate funding for ECE. The majority of states fund ECE programs through

⁶ The exception is that a portion of funding for the California State Preschool Program is tied to Proposition 98 funding from the state General Fund.

[discretionary grants](#) funded by state General Funds; some states such as Georgia fund their pre-K programs through a dedicated funding stream from the state lottery. Just 11 states use their K-12 funding formula to extend funding to ECE (Barnett & Kasmin, 2018). Using K-12 formulas to fund ECE programs does not guarantee adequate funding, but it does help to increase overall funding over time. A study by researchers at Rutgers University found that for the 11 states that financed their ECE programs with state finance formulas, they saw a 3.6 percent growth in funding over a ten-year period compared to a growth rate of 1.1 percent for other states that fund ECE through discretionary grants (Barnett & Kasmin, 2018).

Effects of not having an adequacy definition or formula

California's lack of an adequacy definition or formula to guide state fiscal appropriations to ECE programs has led to several consequences for ECE budgets. Below, we briefly review existing research on low pay for ECE educators, growing cost pressures, and the prevalence of low-quality ECE programs.

ECE educators - There is growing concern that overall spending on ECE programs in California (and [nationally](#)) has been lower than it should be since many programs underpay ECE educators and underinvest in their professional development.⁷ ECE jobs in California are held primarily by Black and Latina women (Gould et al., 2019), and in 2017, their median wage was only \$12.29 an hour compared to a median wage of \$45.17 for Elementary school teachers and a median wage of \$19.70 for all workers in the state (Stipek, 2018). Wages for ECE workers are so low that about 60 percent rely on public assistance, and many do not have access to benefits such as health insurance or paid vacation, holiday, and sick days (Gould et al., 2019). Poor working [conditions](#) result in high turnover rates and make it difficult to attract and retain high quality teachers into the profession. The [COVID-19 pandemic](#) has further complicated matters, since ECE providers have been losing teachers and employees at an alarming rate. Moreover, there is a significant lack of investment in professional development and adult learning to promote job satisfaction and ultimately enhance overall quality of ECE programs for children (Whitebook et al., 2018).

Cost pressures - There are growing cost pressures in ECE budgets that are often overlooked by lawmakers in state appropriation decisions. Over the last few decades, an increasing share of state financing for ECE has come from the General Fund,⁸ which are discretionary, and have made the ECE system particularly vulnerable to cuts during recessions. In the 2008 Great Recession, state and federal funding cuts resulted in the loss of 11,000 child care slots, or roughly 25 percent of all seats available, between 2009-09 and 2012-13 (Melnick et al., 2017), and many ECE providers receiving state contracts shut their doors, reduced staff, and experienced high employee turnover rates (Stipek, 2018). Now that state funding has recovered (Shelton et al., 2019), many ECE programs are attempting to rebuild their practices, but some providers have been limited in their options to expand their programs due to the high cost of constructing new facilities or rising rent in areas of the state where costs of living are skyrocketing (Lee & Fuller, 2019; Stipek, 2018). ECE providers also face ongoing pressures to

⁷ For empirical evidence making the link between California's lack of an adequacy formula for ECE and low teacher pay, see Barnett & Kasmin (2016).

⁸ Specifically, funds from the state General Fund not related to Proposition 98.

pay ECE teachers and employees more to reduce turnover rates and improve overall program quality (Stipek, 2018).

Quality of ECE programs - The overall quality of an ECE program is extremely important, since high-quality programs improve kindergarten preparedness and later academic achievement (Heckman, 2011). Among the characteristics of high quality programs—as defined by researchers at Rutgers University—include whether early childhood programs have standards, curriculum supports, and appropriate class sizes and staff-to-child ratios, and whether teachers and staff have appropriate degrees and training. Several reports from the RAND Corporation in the early 2000’s found that California children with lower levels of school readiness and later school achievement were least likely to participate in high-quality ECE programs (see [California Preschool Study reports](#) online). California does have a [Quality Rating and Improvement System](#) to help programs assess and improve quality, but very few programs participate (Stipek, 2018). What is known about existing programs is that standards of quality in California varies greatly. For example, some programs do not require staff-to-child ratios at all, while others set limits on the number of children enrolled per instructor (see Melnick, Meloy, Gardner, Wechsler, & Maier, 2018). Teacher training requirements for ECE programs vary, with some programs requiring bachelor’s degrees and teaching credentials, while others have no requirements at all (Melnick et al., 2018). The lack of clear criteria for these organizational features (and others) is one reason why California’s State Preschool and Transitional Kindergarten programs did not receive several [‘quality’ benchmarks](#) from the annual State of Preschool Report from Rutgers University.

Is ECE funding equitable?

Student equity is commonly addressed in California’s early childhood programs with *eligibility* requirements. Some programs such as Head Start--the largest federally funded ECE program--make financial need an explicit component of [eligibility](#), and typically enroll children from low-income families, children in foster care, homeless children, and children from families receiving public assistance. Likewise, the California State Preschool Program is free for children of families with limited incomes (California Department of Education, 2019), and other state-funded Alternative Payment Programs serve children from low-income families with working parents (Melnick et al., 2017). However, the state still has a long way to go to equitably fund ECE programs for all children and families in the state. Below, we review some major issues that remain.

Access to childcare slots - A major equity issue with the funding of ECE programs is that many more children are eligible for state-subsidized programs than the actual number of seats funded, posing an important access problem. For context: in 2015-16, just under 1 million children under the age of 5 were eligible for California’s state-funded programs, but only about one third of those children actually enrolled in any state programs that year (Melnick et al., 2017).⁹ This issue is even more concerning for children who live in poverty or near the poverty line. Researchers from the Learning Policy Institute found that nearly 650,000 children at or

⁹ Researchers from the Learning Policy Institute also indicate that there may be there may be a lack of uptake among existing slots because of administrative barriers (Melnick et al., 2017).

near the poverty line did not have access to ECE programs in 2015-16, despite being eligible (Melnick et al., 2017). Moreover, large discrepancies between eligibility and enrollment [exist by race](#), and by [region](#) (see also Manship et al., 2018). Researchers from the National Institute for Early Childhood Education Research estimate that the state is short about 300,000 seats for the state's *low-income* 3 and 4-year-olds to attend high-quality, full-day preschool, amounting to a funding shortage of about \$4.5 billion (Friedman-Krauss et al., 2021). In total (not taking into account the income level of children), they estimate that the state is short about 575,000 seats to provide universal high-quality, full-day preschool for all of the state's 3- and 4-year-olds (Friedman-Krauss et al., 2021). Of additional concern is the fact that many low-income children are enrolled in unlicensed care such as CalWORKS, a state-funded program for low-income families, and not all children will enroll in programs that meet the schedules of working parents (Stipek, 2018).

Children with disabilities - California has an [Early Start](#) program that helps to identify infants and toddlers with special needs in order to receive federal funding. There are growing equity concerns that the state's efforts are not actually identifying all children with needs. An analysis by Stanford professor Deborah Stipek found that California is below the national average for identifying special education children for every ethnic group; moreover, there are concerns that children with special needs do not have access to qualified teachers and ECE programs to meet their needs (Stipek, 2018). Two major issues contributing to this problem are that the state does not have a centralized, systematic screening program to identify children early on, and different agencies administer the special education program.

Dual language learners - There are also equity concerns for dual language learners in ECE programs, who may not have access to teachers or instruction offered in their native language. Up to 60 percent of California's children (0-8-years-old) are dual language learners, meaning that English is not necessarily their first language (Stipek, 2018). Given the proportion of children who are likely to need exposure to multiple-language early learning settings, [researchers](#) have emphasized that the state should fund ECE providers with capacity to hire dual language instructors and incorporate dual language strategies into their instruction and curriculum. This includes expanding the use of culturally and linguistically responsive materials, encouraging culturally responsive pedagogical practices, and training teachers to recognize implicit bias, the adverse consequences of discipline, and practices that support the social and emotional development of children.

Differences in the age of children who enroll in ECE - Among eligible children who do enroll in California's state-funded ECE programs, about 70 percent of 4-year-olds receive subsidized care, but only about 38 percent of 3-year-olds and just 14 percent of 0-3-years-old (Melnick et al., 2017). It is encouraging that the majority of 4-year olds are enrolling in state-funded ECE programs, but concerns remain that infants and toddlers do not enroll at higher rates. The duration of time children spend in ECE has been found to be associated with improved student outcomes--children who spend at least two years in ECE have been found to have more positive outcomes (i.e. Arteaga, Humpage, Reynolds & Temple, 2014). On a bright note, California enrolls a far higher percentage of 3- and 4-year-olds in ECE programs than the national average, and ranked 15th nationally among 4-year-old access to ECE programs (Friedman-Krauss et al., 2021). State lawmakers also recently invested \$2.7 billion in [universal](#)

[transitional kindergarten](#) (TK) to expand the program to all 4-year-olds in the state over the next five years, while also providing access to more basic needs services and extending after school programs for those enrolled in TK programs.¹⁰ That state action also provided funding to improve the quality of TK by reducing class sizes and cutting adult-to-child ratios in half.¹¹

ECE affordability - For families that are not eligible for subsidized care because their incomes are too high (or just above the threshold), they must pay out of pocket; however, the cost of programs in California may put ECE out of reach for many families. In 2014, the average cost of full-time licensed care for 3- and 4-year-olds was \$7,850 and just over \$9,000 for enrollment in a childcare center; costs of infant care were even higher, with average annual cost of \$8,462 for family childcare and \$13,327 for enrollment in a childcare center (Stipek, 2018). For infant care alone, this means that families with median incomes would need to spend about 20 percent of their income on childcare (Stipek, 2018). Costs also vary greatly by region of California; for example, the average cost of daycare for an infant in the [Bay Area](#) during 2018 was over \$1,800 per month. Childcare may be even more prohibitive for families with more than one child, or single-parent families making incomes just above the state-subsidized eligibility threshold.

Funding estimates to achieve adequate and equitable funding levels for ECE

Many experts in the field acknowledge that California still has a long way to go to provide both adequate and equitable funding for the state's ECE programs. On the high end, some researchers estimate that it would require an investment in the range of about \$30,000-\$37,000 per child to provide adequate ECE funding for every eligible child in California (Gould et al., 2019); currently, the state invests anywhere between \$5,000 and \$25,000 per child depending on the program (Legislative Analyst's Office, 2019). In a more modest estimate, researchers from the National Institute for Early Education Research estimated that there is about a \$7,000 gap in per pupil spending between what California currently spends on preschool alone and what the state should spend.¹²

While these estimates may present initial sticker shock, they align with what [other countries spend](#) on early education and childcare, and are clear indication that California still has much work to do fund ECE. On a bright note, in December 2020, the state took a first step

¹⁰ The bill also provides parents the option to pursue an alternative ECE program if they prefer not to enroll their child in TK. In part, this decision was in response to concerns that the new TK program would put many private providers out of business.

¹¹ This is an important step, but ensuring that students have equal access to *high quality* TK programs will be an essential student equity issue to watch in the coming years. Researchers of New York City's universal pre-kindergarten program have found large disparities in the average quality of providers experienced by black and white students (Latham, Corcoran, Sattin-Bajaj, & Jennings, 2020). There are also concerns for additional [teacher recruitment and training](#) that will be required among ECE teacher shortages--especially during the [COVID-19 pandemic](#)--and concerns for the cost of expanding TK facilities to meet new demand. These concerns are somewhat addressed by [additional funding](#) included in the latest budget package for teacher recruitment, training, and facilities.

¹² In FY 2020, California spent an average of about \$8,000 per student enrolled in preschool either part-day or full-day, and the researchers estimate the state would need to spend \$15,130 per student to fund high quality, full-day preschool programs for the states 3- and 4-year-olds.

to design an overall strategy for improving the organization and function of programs, state financing, administration, and workforce development for ECE programs in the [Master Plan for Early Learning and Care](#). The report establishes clear goals and strategies to build a comprehensive and equitable whole-child early learning and care system by 2030, and includes an appendix detailing how the state could fund higher-quality programs for children from birth to five years old in different types of provider settings over time.