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Funding the Future: States' Approaches to Pre-K Finance 2008 Update

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Between FY05 and FY08, state funding for high-quality, voluntary pre-kindergarten increased by nearly $2 billion nationally. While most state pre-k dollars come from general revenues, rising demand is driving policymakers to seek reliable, supplemental funding streams such as lottery and gaming revenues, excise taxes, and public-private partnerships.

One important funding trend is to include pre-k programs in states' school funding formulas. This approach ties pre-k to the K-12 system, ensures secure, enrollment-based funding, and is an effective strategy for expanding programs to serve all children.

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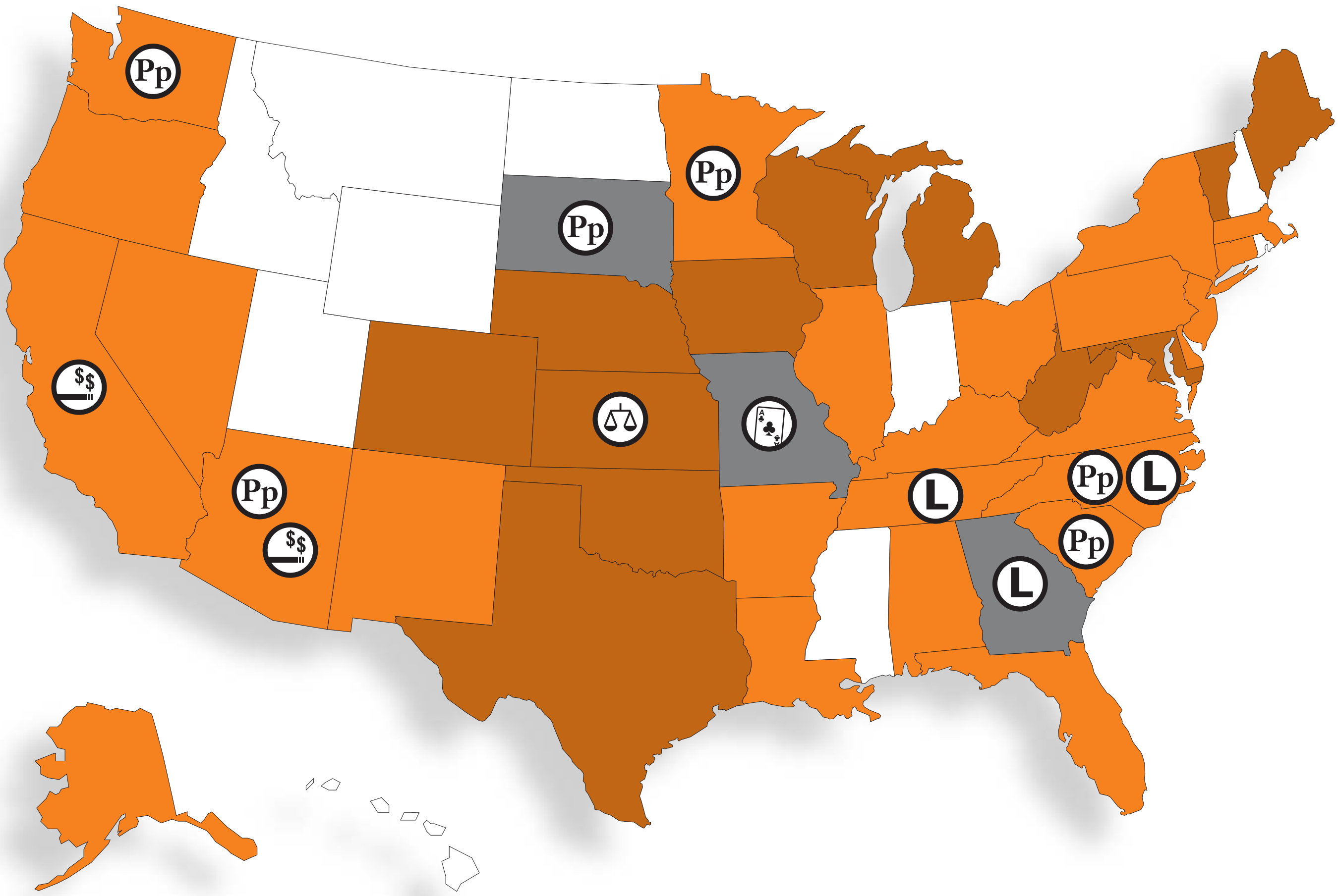
Sources of Funding of State Pre-K Programs



General Revenues

General Revenues through School Funding Formula

No General Revenues

No State-Funded Pre-K Program

Iowa will fund pre-k through the school funding formula beginning in FY09.

L Lottery Revenues

Pp Public-private Partnership

Gaming Revenues

Tobacco Tax

Tobacco Settlement Funds

Introduction

With the benefits of pre-kindergarten acknowledged by policymakers, educators, and business and community leaders, the national momentum for state pre-k expansion has accelerated. To improve and sustain the quality of pre-k programs, states must make them a priority and ensure they receive sufficient funding. States have typically funded their pre-k programs with a combination of general state revenues and an assortment of federal funds.

High-quality public pre-k programs, however, cannot be created solely through better use and coordination of federal funds. As state-funded pre-k programs have grown, policymakers have come to understand the pressing need for more substantial and sustainable pre-k funding that can increase over time to keep pace with demand. To provide these funds, some states have turned to alternative sources such as lottery money, gaming revenues, and dedicated taxes to finance the educational needs of young children. In the two years since this report's original publication, state pre-k funding has increased by $1 billion.[1] The increasing numbers of children attending pre-k, however, have meant that overall, average state per-child spending has decreased each year since 2002.[2] Continued creative thinking about how to fund high-quality pre-k is clearly necessary. For example, one emerging trend is the use of state school funding formulas to distribute monies for pre-k, placing it within the confines of the politically stable K-12 budget and ensuring that funding grows with enrollment.

This report examines the range of different financial approaches states employ, how effective they have been in identifying funds, how sustainable those funding sources are, and how investments can be increased to improve pre-k quality and expand program access. The analysis encourages policymakers to think creatively about ways to supplement and sustain current funding streams for pre-k programs in their own states.

Underlying Motivations

Increasing access to high-quality pre-k education has become a top policy priority of governors, legislators, and business leaders throughout the nation. Decades of research have crystallized the urgency for early education; study after study demonstrates that the early years of a child's life present a critical window for brain development and learning. Policymakers have realized that early learning programs merit a substantial commitment of public dollars. The business community has likewise become a vocal supporter of pre-k in an effort to ensure an educated and productive workforce. With recognition of the importance of pre-k has come growing debate over how best to finance increased availability and quality of pre-k programs.

South Dakota State Senator Ed Olson (R)

High quality early childhood programs with strong standards and teachers benefit students and the nation as a whole.

Spectrum of Services

The types of pre-k programs paid for by states vary widely. For example, states may:

- Supplement the federal Head Start program, restrict eligibility to low-income children, or offer access for every three and/or four year old on a voluntary basis;
- Permit private organizations, faith-based institutions, and/or child care providers to offer state pre-k, in addition to public schools;
- Run half-day, school-day, or work-day schedules;
- Restrict availability to four year olds or include three year olds; and/or
- Provide comprehensive family support services (including healthcare and parenting classes) or provide only educational services.

Program standards, often a part of state law or regulation, dictate the quality of a pre-k program. Without adherence to high standards of quality, states cannot fully realize the educational, economic, and social benefits of pre-k. The National Institute for Early Education Research (NIEER) tracks 10 quality benchmarks, including highly trained teachers with bachelor's degrees, small class sizes, low teacher-child ratios, and comprehensive early learning standards.[3] For example, Oklahoma's high teacher-qualification standards have resulted in a quantifiable payoff. Oklahoma Assistant State Superintendent of Schools Ramona Paul notes that her state's requirement for certified teachers has led to "[r]esults that are just astounding. The results legislators see in children have convinced them that they've never before made such a good investment in education." In a recent study, Oklahoma's program was shown to be one of the most effective in the nation, producing statistically significant impacts on children's early literacy, vocabulary, and mathematical development.[4] States that do not require high standards in their programs are unlikely to find the same level of return on their investments.

Structures and Strategies

As of FY08, 40 states and the District of Columbia fund some type of state pre-k program or provide additional state funding for Head Start. By far, most states use general revenues to fund their pre-k programs. Each year, state legislatures appropriate a specific amount from their budgets to fund their states' pre-k programs. As access to high-quality pre-k has become a priority, however, policymakers are looking for other efficient, stable, and growing sources of revenue to support improved quality and access for more children. The following sections explore in depth both traditional and innovative strategies states are using to support high-quality pre-k.

General Revenue Funding

General state revenues are usually derived from a combination of sales, income, property, and other taxes and from fees levied by the government. Every state with a pre-k program, except Georgia, Missouri, and South Dakota, uses some general revenue for pre-k funding. In most cases, between FY06 and FY08, general revenues provided steady but modest increases in pre-k allocations. In some states, increases in general funds for pre-k have been dramatic. In Iowa, legislation was passed in 2007 to phase in a new pre-k program for all four year olds using general funds, allocating $15 million the first year and steadily increasing to $63.75 million for FY11. In New York, strong gubernatorial and legislative support for pre-k resulted in allocations from general funds of $450 million for FY08, an increase of about $150 million over the previous the year. The main advantage of using general state funds is that they are highly flexible and in economically sound times are often plentiful. Even in economic downturns, legislatures may be reluctant to cut funding for popular and important education programs.[5]

Funding pre-k with general revenue, however, requires annual (or bi-annual) legislative approval and is susceptible to cuts. In allocating the state budget, legislators are constantly asked to choose between competing policy priorities. When funds are not dedicated, pre-k programs are always at risk of decreased, flat, or minimally increased funding, which can compromise quality and access. Since general revenue is subject to the demands of multiple public programs, without a dedicated revenue source for pre-k there is also the danger that other critical programs may be denied funding in order to accommodate an increase in pre-k. Moreover, fiscal changes can affect annual spending levels. Michigan, for example, has suffered a severe economic downturn in recent years, and, as a result, from FY01 to FY06, the *Michigan School Readiness Program* did not receive any funding increases. While the program received a modest 7 percent increase in FY07, it received just a 3 percent increase for FY08.

Despite the potential pitfalls of using general-revenue funds, these dollars remain the central source of pre-k support for states nationwide. The challenge for policymakers is how best to supplement and distribute these funds to provide pre-k allocations that are secure, growing, and diverse enough to withstand both political and economic ebbs and flows.

Funding Pre-K through State School Funding Formulas

One significant development in the pre-k financing puzzle is the use and expansion of school funding formulas. It is an effective way to protect and advance state pre-k by tying funding to the popular support for K-12 education. Although the use of public education dollars for pre-k has long been an option in several states, only the recent upswing in support for pre-k has prompted policymakers to exercise it. As Manuela Fonseca, early education coordinator for the Vermont Department of Education explains, "Policies allowing the use of public school funding for pre-kindergarten have been in place for nearly 20 years, but the practice of doing so is relatively recent."

Additionally, this funding strategy has also been used effectively by states such as Oklahoma as they expanded their pre-k programs to serve all four year olds, not just those deemed "at risk." In 1990, when pre-k was added to Oklahoma's funding formula, the state only served low-income children, but the move to a more stable funding source eased the transition to a pre-k-for-all system. In the 2007-08 school year, with 93 percent of school districts participating, the state served the highest proportion of four year olds of any state in the nation, 70 percent.[6]

Moreover, the school funding formula mechanism need not compromise diverse delivery of pre-k programs. To date, all states that use this strategy allow community-based providers to offer state pre-k through grants from the state or contracts with local school districts that receive the money.

In FY08, 11 states, plus the District of Columbia allocated pre-k funds through their school funding formulas.[7] Although state formulas differ, they generally provide funding to school districts based on the number of children who attend, with per-child amounts adjusted for various other factors (i.e., low-income, English language learner, or special education status). By including pre-k in the school funding formula, states can guarantee that pre-k will keep pace with demand. States vary, however, in how they fold pre-k into their formulas. In Maine, Oklahoma, Vermont, West Virginia, Wisconsin, and the District of Columbia, all four year olds are eligible for pre-k through the school funding formula, but Vermont and the District of Columbia cap the total amount of funds available for pre-k enrollment. Colorado, Kansas, Maryland, Michigan, Nebraska, and Texas all support pre-k for targeted populations through their school funding formulas. Yet, only Maryland and Texas provide sufficient funding to serve all eligible children; the other four states cap enrollment.

For states without a cap on enrollment, the primary advantage in using the school funding formula for pre-k is that funding rises with increasing enrollment and will only decrease if general education expenditures diminish. Voters tend to oppose cuts in public education; so, including pre-k in the school funding formula provides stable, politically secure funding. Pre-k enrollment has risen in recent years, and as a result, funding in states that include pre-k in their school funding formulas has increased accordingly.

General Revenue Funding

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Wisconsin provides a compelling and unique story of early commitment to pre-k. The state's first public *Four-Year-Old Kindergarten* (*4K*) programs opened in 1873 – with funding through what is now the school funding formula – under a constitutional mandate for school districts to provide free education to all children ages four to 20 years. Pre-k in Wisconsin peaked in the 1890s, but, although the funding mechanism remained intact, it declined during the 20th century when school districts narrowed or eliminated programs. Only recently have school districts renewed their interest in tapping the school funding formula. Between 2001 and 2007, the number of Wisconsin school districts offering the *4K* program increased 70 percent.[8]

Despite this rapid growth, *4K* is still not available in all Wisconsin school districts.[9] The state's application of the school funding formula places some limitations on program implementation. Though state *4K* funding is not capped, local communities must raise one-third of their district's pre-k funding through property taxes.[10] Further, funding is not fully available to districts until the third operating year of the district's program.[11] While the local match can encourage buy-in and help sustain the program, the requirement, in combination with the delayed state funding, could pose a challenge to some districts seeking to offer *4K*. In response to this concern, the state budget included $3 million in start-up grants for the 2008-09 school year to support expanding access for *4K* with priority for districts that collaborate with community-based providers.

States that Use School Funding Formula to Finance Pre-K

State	Unrestricted Eligibility	Targeted Pre-K	Capped Funding
Colorado		•	•
District of Columbia	•		•
Iowa*†	•		
Kansas		•	•
Maine	•		
Maryland		•	
Michigan		•	•
Nebraska		•	•
Oklahoma	•		
Texas		•	
Vermont	•		•
West Virginia†	•		
Wisconsin	•		

* Iowa will fund pre-k through the school funding formula beginning in FY09.

† Iowa and West Virginia have laws in place that will fully fund pre-k for all four year olds through the school funding formula by 2011 and 2012, respectively.

In Maryland, funding for the state pre-k program had been available for low-income and homeless children under a grant system. As a result of an education reform act, beginning in FY04, school funding formula support for the *Maryland Prekindergarten Program* was phased in and as of FY08 became available for all four year olds from economically disadvantaged backgrounds. Funding for the program depends on enrollment and does not cap the number of spaces available.[12] Consequently, by the end of the five-year phase-in period, enrollment had increased by 25 percent and funding has grown to support this expansion.[13] In December 2007, the Maryland Task Force on Universal Preschool Education recommended the creation of a high-quality, voluntary, free pre-k program, which would be available to all four year olds by 2014. The task force also recommended establishing a "sustainable funding mechanism."[14]

Using Federal Funds

While greater federal appropriations for pre-k would represent significant progress, the major portion of pre-k funding will continue to come from state and local governments. Nevertheless, states can use a variety of federal funds to enhance and expand pre-k.

Head Start is the only national funding source specifically aimed at school readiness programs and is restricted to children from low-income families with a set aside for children with disabilities. In FY07, more than six billion federal dollars supported almost one million children in nearly 50,000 Head Start classrooms.[a] Some states such as Illinois, New Jersey, and Wisconsin have developed significant collaborations between Head Start and state-funded pre-k programs.[b]

Temporary Assistance to Needy Families (TANF) funds are allocated to states in a block grant to support low-income families with children. TANF funds can be used for state pre-k programs targeted for low-income, at-risk children.[c] Use of these funds is also subject to requirements regarding parents' employment status.[d]

The Elementary and Secondary Education Act (ESEA), also known as No Child Left Behind is the largest source of federal K-12 education funds for low-income and at-risk children. Funds can be used to establish, supplement, or expand specific components of early childhood programs. In 2005-06, ESEA Title I funding was used to support pre-k in only 11 states and, in each of those states, comprised a small portion of the overall public investment.[e] In addition, within ESEA, the Even Start Family Literacy Program targets illiteracy among low-income families. Early Reading First supports the development of early childhood centers that help low-income pre-k children develop early language, cognitive, and pre-reading skills. Under current law, states may use ESEA Title II funds to support professional development for pre-k teachers in high-poverty school districts. The reauthorization of ESEA offers an opportunity to broaden the availability of this funding for recruitment and training of high-quality pre-k teachers in both community-based and public school settings.

The Individuals with Disabilities Education Act (IDEA) guarantees a free, appropriate public education to children with disabilities. Over $380 million in funding from IDEA allowed 700,000 three and four year olds to attend pre-k in a variety of settings in FY05.[f]

The Child Care and Development Block Grant (CCDBG) is the primary federal program subsidizing child care for low-income families and, in FY07, provided $2 billion in block grants to states. Some states such as Georgia and Massachusetts direct these funds to support pre-k.[g] Use of CCDBG, however, is subject to income and work requirements.[h]

The McKinney-Vento Homeless Assistance Act provides federal funds to states for the education of homeless children and youth. School districts that receive funding under McKinney-Vento are required to provide services to homeless children and youth comparable to those available to other children, including pre-k programs.

Federal Impact Aid provides funds to school districts that serve military-dependent children and children residing on Indian lands, military bases, or low-rent housing properties, including children in pre-k programs.

[a] Administration for Children & Families, "Head Start Program Fact Sheet Fiscal Year 2007," U.S. Department of Health and Human Services, http://www.acf.hhs.gov/programs/hsb/about/fy2007.html.
[b] Helene Stebbins and L. Carol Scott, "Better Outcomes for All: Promoting Partnerships between Head Start and State Pre-K," (Washington, DC: Center for Law and Social Policy and Pre-K Now, 2007).
[c] Administration for Children & Families, "Temporary Assistance for Needy Families Program Instruction," U.S. Department of Health and Human Services (Washington, DC: 2005).
[d] Mark Greenberg and Rachel Schumacher, "Financing Universal Pre-Kindergarten: Possibilities and Technical Issues for States in Using Funds under the Child Care and Development Fund and Temporary Assistance for Needy Families Block Grant." Revised March 2003. (Washington, DC: Center for Law and Social Policy, 2001).
[e] Analysis of data in W. Steven Barnett, Hustedt, Jason T., Robin, Kenneth B., and Schulman, Karen L., "The State of Preschool: 2006 State Preschool Yearbook," (New Brunswick: National Institute for Early Education Research, Rutgers, The State University of New Jersey, 2007).
[f] Luzanne Pierce, "Preschool Services under IDEA," Parent Advocacy Brief, http://www.ncld.org/images/stories/downloads/parent_center/preschool_brief.pdf.
[g] Barnett, "The State of Preschool: 2006 State Preschool Yearbook."
[h] Greenberg and Schumacher, "Financing Universal Pre-Kindergarten: Possibilities and Technical Issues for States in Using Funds under the Child Care and Development Fund and Temporary Assistance for Needy Families Block Grant."

Public-Private Partnerships

Another method of steering funds toward early education has been the leveraging of substantial commitments from the private sector in public-private partnerships. As the economic and scientific research on pre-k has become widely understood, business leaders and philanthropies have stepped forward to form these partnerships in several states, including Minnesota, Nebraska, North Carolina, South Carolina, and Washington. These partnerships are often designed to jumpstart a state investment in pre-k, fund an early childhood endowment, support a model early care and education program, or help the state design a quality improvement system. Though private funds alone are certainly not sufficient to fund a sustainable, high-quality, statewide pre-k system over the long term, they can be an important supplement to public assets in the pre-k effort. Washington's Thrive by Five partnership puts it this way: "The public sector offers experience, considerable public resources and infrastructure, and political legitimacy. Private organizations, such as foundations and businesses, bring expertise, credibility, nimbleness, rigor, and flexible funding to an issue."[15]

Such partnerships are at work in several states using a variety of collaborative models. In some instances, they are devised as long-term solutions, where the state and the private sector collaborate in ensuring that funds are available for pre-k. In other states, partnerships are merely a catalyst to underscore the importance and value of pre-k and will phase out as states take over providing the necessary funding. The Arizona Early Education Fund (AEEF) mixes these two models, using funds partially for immediate program development and partially for the creation of an endowment to sustain the partnership in the future. The AEEF has raised $3 million from private sources and funded regional partnerships in all 15 Arizona counties. Of course, as flexible as these public-private partnerships are, they have obvious limitations. Most notably, not all states are home to philanthropies or large corporate interests with the incentive or resources to invest significantly in pre-k.

North Carolina's partnership is intended as a long-term collaboration where the private sector is committed to raising funds for pre-k and other early childhood services on an annual basis. North Carolina's Smart Start program, which provides an array of services for children birth to age five, including pre-k, was created in 1993 with an initial appropriation of $20 million.[16] The state contribution to the program has risen to about $200 million annually, and private contributions have totaled roughly $257 million to date. Private donors include the W.K. Kellogg Foundation, the Wachovia Foundation, the Atlantic Philanthropies,

**South Dakota:
Emerging from the Pre-K Wilderness**

Prior to 2007, South Dakota was one of only 11 states without a state-funded pre-k program. Governor Mike Rounds, recognizing the importance of pre-k as a cornerstone of economic improvement, committed $700,000 from his economic development fund for a new pre-k program in Sioux Falls. These funds supplement $935,000 raised by the United Way and the business community to fund a three-year pilot pre-k program, designed to reach about 200 three and four year olds from low-income families, many of whom would otherwise be on Head Start waiting lists.* This public-private initiative is intended as a catalyst and model to prompt legislative action on a statewide, publicly funded program. The governor's choice of economic development funds reflects the growing acknowledgement that pre-k is necessary to address business needs and workforce development issues for the nation's economy.

* Sue Randall, email, Dec. 31, 2007.

Bank of America, and the David and Lucile Packard Foundation, all of which have contributed at least $2 million to the program. The North Carolina Partnership for Children Board, a nonprofit entity created by the initiative, is responsible for devising a long-term development plan for the money and for overseeing distribution of the funds through Smart Start's 79 local partnerships throughout the state.

Smart Start is a model of sustainability for public-private partnerships because of its consistently large annual contributions, its recognized legal status as a creation of the state legislature, its national reputation for quality services, and the breadth of operational experience its organizers have acquired over time. In 2004, a poll found that 81 percent of North Carolinians favor expanding Smart Start to serve all young children.[17] Fourteen other states have adopted the Smart Start model.[18]

Washington Governor Christine Gregoire (D)

The business community really does see the best investment they can make in the economic future is early childhood education. They do see they'll get more high school graduates, college graduates if they invest more there.

Even given the strength of Smart Start in the state, Governor Mike Easley recognized the need to also offer a discrete pre-k program, *More at Four*, with dedicated and increasing funds, rather than supporting pre-k entirely through a broad-based early childhood initiative. With funding through the state's lottery, the *More at Four* program has grown substantially over the last five years and in FY08 served more than 28,000 children.[19]

In a different, more recent model, public and private partners in the state of Washington created the non-profit corporation, Thrive by Five, designed primarily as a catalyst for the innovation and expansion of effective programs in early learning from birth to age five. Starting in 2006, the Bill and Melinda Gates Foundation, the Boeing Company, Talaris Research Institute, Microsoft, and the Bezos Family Foundation, among other corporate and philanthropic sponsors, provided about $8 million in funding, in addition to a $1 million contribution from the state.[20] Thrive by Five works with the state's Department of Early Learning and, with its relatively modest funding level, is intended to supplement not supplant state funding. It is not a long-term solution to funding of pre-k programs but was created to make strategic investments in promising models of affordable, high-quality early learning. Thrive by Five is working intensely with two Washington communities, White Center and Yakima, to pilot an extensive array of innovative early learning and parent education programs. These pilots will field test approaches such as the state's proposed quality improvement and rating system. Their outcomes will inform the state legislature as it considers future funding strategies for a variety of early learning initiatives.

City Models:
The Wave of the Future?

While states have made great strides in making pre-k available to ever more children, a large gap exists between the number of spaces funded by state pre-k programs and the number of children needing access to early education. Cities have begun to fill this gap by financing their own local pre-k programs. Leveraging both state and local funds by two different methods, Denver, Colorado and San Francisco, California have assumed responsibility for providing voluntary access to pre-k for every four year old in their cities.

Denver Pre-K

Early in his first term as mayor in 2004, John Hickenlooper convened business, education, and community leaders to study the benefits of early education and how Denver might fund a quality pre-k program. Based on the research and advice of this group, the city proposed an initiative to fund voluntary pre-k for all four year olds through a $0.0012 sales tax (12 cents on a $100 purchase) increase that would generate roughly $10 million per year.[a] The dual goals of the *Denver Preschool Program* are to maximize access to pre-k and to promote quality improvement in available programs.

Voters passed the initiative in November 2006, and the city collected over $5 million in the first half of 2007.[b] The money will go primarily to families as tuition credits distributed on a sliding scale but will also provide funds for outreach, a quality improvement system, accountability and evaluation, and administration (the latter limited to 5 percent of tax revenue). The program expects to generate enough revenue to serve 2,000 four year olds in full-day pre-k starting in 2008. Since the funding is dependent on sales tax revenues, funding for the program may fluctuate, but it is expected to be fairly consistent until the sunset of the sales tax at the end of 2016, at which time voters will decide whether to continue the tax. Despite initial concerns that the initiative might result in decreased pre-k funding from the state, Denver actually received increased funding from the *Colorado Preschool and Kindergarten Program* for the 2007-08 school year.[c]

San Francisco Pre-K

San Francisco combines state and local funding to provide free, voluntary pre-k for all four year olds through its *Preschool for All* program. Beginning in 2000, First 5 San Francisco received funds from the state Children and Families Commission of approximately $6.5 million.[d] To achieve the goal of a free pre-k program for all, however, city leaders realized that a more substantial, dedicated funding stream was needed. In March 2004, San Francisco voters passed Proposition H, the Public Education Enrichment Fund, with 71 percent of the electorate voting in favor. The proposition requires that the fund receive regular, annual increases from San Francisco's general revenues. It raised $10 million in FY05 and will grow to $60 million from FY09 through FY15, when it sunsets.[e] Under the city charter, one-third of the fund is dedicated to pre-k programs. Two-thirds of the fund goes to the San Francisco Unified School District for other programs.[f] Therefore, $3.3 million was available for pre-k in 2005, and $20 million will be available by 2009.

There is also a "sustainability fund" with an initial balance of $13.1 million to support increasing program costs over the course of five years and a "reserve fund" of $11 million, which is not to be touched, though the interest can be used to meet emerging needs.[g]

In 2005, the program served 683 children in four targeted zip codes. Those areas were selected based on need for and availability of quality services, income, and provider diversity. *Preschool for All* is projected to reach all neighborhoods in the city by September 2008.[h]

[a] Susan Gallo, email, Jan. 2, 2008.
[b] Jeremy P. Meyer, "Denver Raises $5 Million for Fall Preschool," *denverpost.com* (Aug. 7, 2007), http://www.denverpost.com/airlines/ci_6559625.
[c] Lori Bowers, email, Aug. 13, 2007.
[d] Information about First 5 San Francisco can be found at www.first5sf.org.
[e] *The Arts, Music, Sports, and Pre-School for Every Child Amendment of 2003 - Sunset*, SEC. 16.123-10, (Mar. 2004).
[f] *The Arts, Music, Sports, and Pre-School for Every Child Amendment of 2003*, SEC. 16.123-3 through SEC. 16.123-5, (Mar. 2004).
[g] First 5 San Francisco, "Funding: 2007-2012 Sustainability Plan," http://www.first5sf.org/funding_sustainability.htm.
[h] ——, "Preschool for All," http://www.first5sf.org/pfa.htm.

Dedicated Dollars

An inability to secure sufficient general revenue funds has led a few states to create dedicated funding streams for pre-k. These sources range from lottery and gaming revenues to tobacco settlement money and tobacco taxes and have provided substantial funding in a number of states. Earmarking special revenue sources for pre-k often enjoys more public support than a general tax increase, and funding can be structured to prohibit diversion of dedicated monies to other public programs.[21] On the other hand, limitations on income from earmarked sources, particularly specialized taxes, can result in insufficient funding if general revenues are no longer available.[22] For example, Missouri, which funds its state pre-k program using only gaming revenues, did not see an increase in FY07 or FY08. Even within some dedicated structures, pre-k must compete for dollars with other important educational needs. In Georgia and Tennessee, lottery revenues fund college scholarships as well as pre-k, an arrangement which risks pitting higher education against early education in lean times. Whether through new or expanded taxes, lotteries, or legal settlements, states seeking to meet growing demand are working to identify and dedicate pre-k funding sources that are stable and can increase to support early learning opportunities for more children.

Lottery Funds

Three states use dedicated lottery funds for pre-k funding: Georgia, North Carolina, and Tennessee. The use of lottery money to fund pre-k (and other education) programs has been controversial. The advantages of lottery funding for pre-k are obvious and considerable: lotteries provide significant funds that boost investment in education. In North Carolina, this strategy provided substantial funds for *More at Four* and has enabled the state to vastly expand enrollment. Further, funding is usually secure because it does not require legislative approval or tax increases. Lotteries generally receive strong public support, especially when the funds are designated for educational programs. Of the 42 states and the District of Columbia that run lotteries, 23 dedicate at least a portion of the proceeds to education programs.[23]

Conversely, lotteries often amount to regressive taxes because low-income citizens tend to play more while the well off may benefit disproportionately from the educational scholarships and improvements that lottery proceeds support. In addition, lotteries are inefficient as public-finance devices. They may divert retail dollars, reducing sales tax revenue, and some funds must be spent on costly administration. Lottery revenues fluctuate with the market; so they cannot, by themselves, ensure reliable, secure, and growing funding for any program. Moreover, because these funds tend to support multiple educational programs, they may foster a competitive environment within the education community and among advocates and policymakers. Others argue that lotteries set a bad example for children and encourage gambling.

Dedicated Dollars

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One important issue surrounding the use of lottery revenues for education is whether these funds are intended to supplement other state education expenditures or provide the only funding source for pre-k programs. If states use them to replace other resources in funding education, then lottery proceeds may not lead to greater state investment in education. On the other hand, if lottery funds are allocated in addition to other state revenue sources, then the result can be a significant increase in overall pre-k funding. Among the three states that dedicate lottery proceeds to pre-k, the strategies, and therefore the results, vary greatly.

The Georgia Lottery for Education was created in 1992. Profits from the lottery are designated for the *Georgia Prekindergarten Program* and the Helping Outstanding Pupils Educationally (HOPE) higher education scholarships. The first lottery funds were used in 1993-94 to provide pre-k for more than 8,700 at-risk four year olds.[24] In 1995, Georgia became the first state to make pre-k available to all four year olds, serving 44,000 children. The state relies solely on its lottery money to fund pre-k and does not appropriate any general funds. Unlike some others, Georgia's lottery sales have steadily increased.[25] The lottery has generated over $3 billion for the *Georgia Prekindergarten Program*, supporting more than 869,000 four year olds over the years. In 2007, the lottery provided $309 million for pre-k in Georgia, which serves 51 percent of the state's four year olds, or more than 75,000 children, while meeting eight of 10 NIEER quality benchmarks.[26] This represents a 70 percent increase in enrollment since the program was expanded to serve all four year olds. Although interest in the program is strong and funding and enrollment have increased every year since the program began, providers continue to have wait lists and at least one school district – Cobb County – has closed its pre-k classrooms entirely.[27]

One factor constraining pre-k availability in Georgia is a lack of classroom space. Also, when drafting the lottery referendum, lawmakers recommended but did not mandate a minimum percentage of lottery revenues that must go to education. While the lottery proceeds directed to education programs have increased since the lottery's inception, in recent years, the proportion of those proceeds going to education programs has decreased from a peak of 36 percent to about 27 percent.[28]

The Tennessee Education Lottery began in 2004 and by 2007 had raised more than $919 million for education, primarily for higher education scholarships and grants.[29] When the lottery was created, the law identified pre-k as a possible recipient of funds but only as a secondary priority after college scholarships. In the first year, no lottery dollars were allocated to pre-k. Through determined efforts by advocates, lawmakers came to understand the impact of high-quality pre-k on rates of high school graduation and higher education participation, and in 2005, the legislature approved Governor Bredesen's plan to allocate $25 million of lottery proceeds annually for Tennessee's voluntary pre-k program. This amount is earmarked as recurring funding for pre-k and does not fluctuate with annual sales figures.

Unlike Georgia, however, Tennessee does not rely solely on its lottery revenues to fund pre-k. Rather, lottery money supplements substantial investments of general revenue to support rapidly growing enrollment at a very high level of quality.

Gaming Revenue

Missouri is the only state that currently invests revenue from its non-lottery gambling industry to pay for pre-k. State-sanctioned gambling is controversial, but Missouri voters have twice approved it in statewide referenda. Since 1999, gambling proceeds have supported the Early Childhood Development Education and Care Fund, which finances pre-k. In FY08, gaming revenues provided $14.8 million for the *Missouri Preschool Project*, the third consecutive year of virtual flat funding for the program.[30] This stagnant funding has prevented Missouri from serving more children or improving the quality of the program. The consistent, stable, annual allocations from gaming revenues ensure the continuation of state pre-k in Missouri, but general funds could be appropriated to provide the major increase in pre-k funding needed to expand and improve the state's program.

A Successful Jumpstart

From 2001-07, Arkansas levied a 3 percent tax on the sale of beer (about 18 cents per six-pack), 80 percent of which was dedicated to funding the *Arkansas Better Chance* (*ABC*) pre-k program. With support from both early education advocates and the beer lobby, a sunset provision was included in the initial legislation.* This small, time-limited tax proved an effective catalyst for pre-k in Arkansas. It expired on July 1, 2007, but by then, the state's modest program had blossomed into high-quality pre-k for every low-income three and four year old with strong political support. In 2007, the legislature replaced the $6.9 million in lost beer tax funds with other public funds and raised total general-revenue funding for pre-k to $111 million.†

* The initial sunset date was 2005 but was extended until 2007.
† Paul Kelly, email, Jul. 27, 2007.

"Sin" Taxes

Excise taxes can also be an important source of revenue for pre-k programs, translating public health and other challenges into positive social programs while discouraging citizens' self-destructive behavior. Of course, the fact that the taxes are designed as a disincentive means that, in the long term, the revenue stream steadily dwindles. Another drawback of this funding approach is that most "sin" taxes are considered regressive, meaning they consume a greater share of the resources of low-income citizens and thus place a disproportionate burden on these individuals. Nonetheless, these taxes can help states jumpstart a pre-k program while working toward a long-term funding strategy.

California is a leader in the use of dedicated sin taxes to increase funding for pre-k. In 1998, with the California Children and Families First Act, voters added a 50-cent tax to every pack of cigarettes sold. In FY05 alone, the tax collected approximately $596 million, more than $41 million of which was spent on pre-k.[31] This money is in addition to state Department of Education funding for pre-k, which totaled more than $440 million in FY08. Under the law, each county sets up a First 5 Commission to create a spending plan and distribute funds. Several of these commissions are working to implement pre-k for all, including Los Angeles County's, which launched the *Los Angeles Universal Preschool* (*LAUP*) program in 2004 and had served more than 13,000 children as of the 2007-08 school year.

Funding from the state First 5 Commission is steadily decreasing as tobacco tax revenues decline. With the failure of a 2006 California ballot initiative intended to provide a steady source of revenue for pre-k programs, county commissions (as well as other First 5 grantees) are working to find additional long-term funding streams. In San Francisco, for example, the city uses local general education revenues to supplement the tobacco tax funds.

Dedicated Dollars

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In Arizona, a broad-based coalition of community members, educators, and business leaders launched the First Things First campaign to provide dedicated funding to improve the quality, accessibility, and affordability of early childhood opportunities, including pre-k.[32] Voters approved Proposition 203, conceived and led by local business leaders Nadine and Eddie Basha, on November 7, 2006, and it became effective on December 7, 2006. The initiative created the Early Childhood Development and Health Fund (ECDHF) through an 80-cents-per-pack increase in the cigarette tax, which is expected to generate over $150 million per year.[33] The ECDHF will distribute money to regional programs that address community-specific early childhood needs, with an emphasis on lower-income areas and a 10 percent cap on administration expenditures. Funding distribution is scheduled to begin in July 2009.

The initiative specifically states that these dedicated funds "shall supplement, not supplant, other state expenditures"[34] on early education. Arizona also has a strong public-private partnership model, the Arizona Early Education Fund (AEEF). First Things First funds can also be allocated to support the state's contributions to AEEF, creating a collaborative relationship between the state's two most significant early childhood initiatives. Given the lack of a sunset provision in the Arizona tobacco tax law and the size and sustainability of the measure, pre-k programs in Arizona are likely to receive a substantial commitment of resources for the foreseeable future.

Tobacco Settlement Money

As of FY08, only Kansas uses money from tobacco settlements to provide funding for early education programs. In late 2006, Kansas initiated a pilot program, administered by the Kansas Children's Cabinet and Trust Fund, to increase access to high-quality pre-k. Using $2 million of tobacco settlement funds in FY07, the pilot program served 526 children.[35] For FY08, Kansas expanded its pilot pre-k program to serve 990 children with $5 million in tobacco money. The program is restricted to children meeting certain criteria, including those from low-income and military families. (This program is in addition to the *At-Risk Four-Year-Old Preschool Program* which was established in 1998 using general revenues to fund programs through school districts.) Tobacco settlement money is expected to be available to fund pre-k programs in Kansas for the next two decades.[36]

Sales Tax

South Carolina draws on several sources to fund its pre-k program, but one unique element is the use of sales tax revenues. In 1984, the state enacted the Education Improvement Act (EIA), which dedicates one percent of state sales taxes to education programs, including grants to its pre-k program for four year olds. In FY07, the EIA contributed $22.3 million to pre-k. As a result of a court decision requiring the state to provide pre-k in several low-income communities, the legislature also approved a $23.8 million general-revenue appropriation for a pilot full-day pre-k program for FY07.[37]

Pre-K Funding Strategies:
The Pros and Cons

Source of Funding	Pros	Cons
General Revenues	• Potentially stable • Can increase with need • Flexible • Thrives in economically sound times • Substantial amounts available • Politically popular if tied to K-12 funding	• Subject to political whims • Vulnerable to swings in states' economic health • Competes with other critical children's programs • Must be regularly reauthorized by legislatures
Distribution through the School Funding Formula	• Assured funding source • Receives equal priority with K-12 • May promote quality with teacher-certification requirements • Allows growth commensurate with enrollment	• May result in restrictions on how pre-k is delivered or by whom • Local match usually required • Swings with K-12 budget
Lottery Funds or Gaming Revenues	• Large amount of revenue raised • Does not require new taxes • When proceeds are dedicated, doesn't compete with other priority children's programs • Doesn't require repeated legislative approval	• Annual revenues are unpredictable • Regressive "tax" • Promotes gambling
Tobacco Settlement	• Does not require new taxes • Provides substantial, easily quantified, dedicated funds	• Non-renewable at some point in the future
"Sin" Taxes	• Dedicated amount doesn't compete with other priority children's programs • Doesn't require repeated legislative approval	• Unpredictable level of funding • Targets individual industries • Likely to dry up as discouraged behavior decreases • Regressive tax
Dedicated Percentage of Sales or Income Tax	• Potentially large source of funds • Dedicated amount doesn't compete with other priority children's programs • Doesn't require annual legislative approval	• Requires voter/legislature-approved tax increase or allocation • Subject to economic health of state or local residents
Public-Private Partnerships	• Engages private sector in making pre-k a priority • Potential catalyst for innovative pilots • Flexibility in distribution of funds	• May not be sustainable • Requires continual fundraising efforts • Hard to raise substantial amounts

Choosing Wisely

Far and away, the most substantial and consistent funding for state pre-k programs comes from general revenues collected by the states through taxes. A dozen years ago, general funds were the only funding source for state pre-k programs. In the past few years, however, a handful of states have dedicated specific sources of revenue to jumpstart, expand, or improve pre-k with an infusion of additional funds.

Policymakers must determine what funding method is most likely to garner political support in their state. The first question is whether that funding source can raise sufficient funds to support a high-quality, voluntary, accessible pre-k program. The second question is whether that funding source can be protected from political wrangling and from swings in the state's economic health. The third question is whether that funding source will support increases in spending as the pre-k program improves in quality and grows to serve all children.

For high-quality pre-k to be available for all, its funding must be secure and substantial. Alternative sources such as lotteries, private dollars, or excise taxes can be helpful supplements, but general revenue provides the backbone of funding in almost every state. Furthermore, allocations of general tax revenues reflect that state's commitments and priorities, and a significant investment of these funds in pre-k sends a strong message of support. One way to ensure that pre-k funding keeps pace with rising enrollment is to fold it into the state school funding formulas that support K-12 education.

Conclusion

Pre-k is not a luxury. High-quality pre-k significantly improves children's ability to thrive in school and later in life. The persistent achievement gap will not be closed until all children have the opportunity to come to kindergarten prepared to succeed. The numerous social, economic, and educational benefits from pre-k are well documented, and the public overwhelmingly supports expansion of these critical educational services.

Policymakers, too, now understand that quality early education pays significant returns to children and society and that to achieve the level of quality necessary to realize those returns, sizeable state investments are required. Where general revenue cannot keep pace with the need for significant increases, policymakers and advocates have turned to alternative funding sources, such as lotteries, tobacco settlement money, excise taxes, and gaming revenues. These options can provide significant, dedicated, supplemental funding to improve quality and expand availability of state pre-k programs. They cannot, however, effectively meet those fiscal demands if they supplant general revenue funding entirely. Identifying and securing reliable funding streams for high-quality pre-k programs requires creativity and perseverance, and in states across the country, leaders are recognizing the urgency and finding the funds to make this important commitment to our children.

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pre[k]now

Pre-K Now at a Glance

Mission
Pre-K Now collaborates with advocates and policymakers to lead a movement for high-quality, voluntary pre-kindergarten for all three and four year olds.

Vision
Pre-K Now's vision is a nation in which every child enters kindergarten prepared to succeed.

Location
Washington, DC

Leadership
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Funders
The Pew Charitable Trusts
The David and Lucile Packard Foundation
The McCormick Tribune Foundation
The Foundation for Child Development
RGK Foundation
CityBridge Foundation
PNC Financial Services Group
The Schumann Fund for New Jersey

Pre-K Now Key Differentiators
- Focuses exclusively on pre-k
- Provides the most up-to-date gauge of the pre-k pulse in any state
- Offers nationwide access to pre-k advocates
- Monitors and distributes daily pre-k newsclips
- Provides a national perspective on local pre-k issues
- Provides outreach, policy, and Spanish-language information targeted to the Latino community
- Leads a national movement which has gained significant momentum in the last five years

The Case for Pre-K
- Pre-k benefits all children academically, socially, and emotionally.
- High-quality pre-k for all nets a high return on investment in children and the community.
- The most important brain development occurs by age five.
- Pre-k is the first step to improving K-12 education.

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