ISSUE BRIEF

Financing Access to High-Quality Pre-K

Options for making high-quality pre-k accessible to every 3- and 4-year-old in Pennsylvania

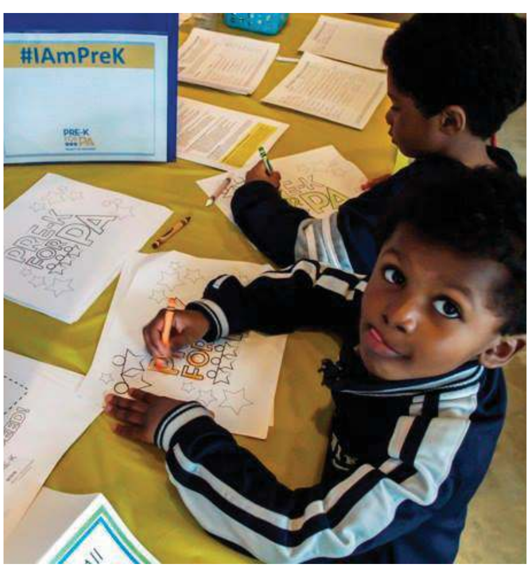
While there is broad, bi-partisan support for high-quality pre-k among policymakers and the public, a discussion is needed on how to best fund its expansion in Pennsylvania. This briefing paper estimates the costs of expansion and explores options for publicly funding the expansion of high-quality pre-k so it is accessible to every 3- and 4-year-old child in the commonwealth

The benefits of high-quality pre-k to Pennsylvania's children, schools, and economy are well documented. Beyond preparing young learners for academic success, high-quality pre-k has been shown to provide the economic benefits of:

- Reducing grade repetition and the need for special education services, trimming costs in these areas for our public schools.
- Generating $1.79 in local economic activity for every $1 invested as found by an economic impact study by ReadyNation/ America's Edge. Accordingly, if Pennsylvania increased public investments to make high-quality pre-k available to every 3- and 4-year-old, it would generate more than $900 million in additional goods and services.
- Returning $7 to $17 in long-term savings and benefits per $1 invested by reducing costs to our schools and society, generating stronger earning potential in our workforce, and increasing tax revenues from a more robust economy.

For every $1 invested, high-quality pre-k returns $7 to $17 through reduced spending on special education, grade retention, social services, and incarceration and increased earnings and tax revenues.

By any measure, high-quality pre-k has an impressive return on investment, yet Pennsylvania's investments in it are relatively small. The state's $165.4 million pre-k allocation in 2012-13 equaled just 0.6 percent of Pennsylvania's $27.7 billion general fund budget. By comparison, among states providing high-quality pre-k to at least half of 3- and 4-year-olds, pre-k spending equals between 1.7 percent and 3 percent of general fund budgets, or proportionally 3 to 5 times more than Pennsylvania's investment.



In just a single year, Pennsylvania's inadequate investments left nearly a quarter-million children without the opportunity to benefit from high-quality, publicly funded pre-k. Increased state support would extend high-quality learning opportunities to many more young children; boost the efficacy of the funds already spent; and, in turn, benefit many areas of Pennsylvania's state budget and its overall economy.

This paper presents the costs for increasing pre-kindergarten investments according to three different scenarios of family eligibility and state contributions. It includes ideas on how to fund expanded pre-k quickly but effectively – a sampling of choices that, even in difficult economic times, can be mixed and matched to build the necessary resources.

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Expanding Access

There are a number of paths Pennsylvania can take to expand pre-k access. No matter the route, adherence to three core principles should guide the commonwealth's expansion:

Access High-quality programs are available for all children.

Geography Coverage expands in all communities across Pennsylvania -- rural, suburban and urban.

Need Low- and moderate-income children are first priority for public funding.

Keeping these three principles in mind, Pre-K for PA proposes a four-year timeline to expand access to high-quality pre-k for every 3- and 4-year-old in Pennsylvania.

Reaching the goal of full coverage by 2018 requires an aggressive ramp-up of resources. It can be done by pursuing one of three options to expand eligibility, each of which assumes an overall participation rate of 60 percent. This rate is based on the experiences of other states with large-scale programs. Pennsylvania could:

- **Target expansion to all children in families under 300 percent of poverty** ($71,550 for a family of four). Ramp-up: Add 13,600 slots per year, requiring funding increases of $112.1 million a year over the prior year's funding level for four years.
- **Make quality pre-k universally available, with families paying a part of the cost** on a sliding scale based on family income. For example, families under 300 percent of poverty would be fully funded through government investments. Higher income families would receive a declining amount of government subsidy - a 75 percent subsidy at 300-399 percent of poverty (or $71,550-$95,399 annual income for a family of four), a 50 percent subsidy at 400-499 percent of poverty (or $95,400-$119,249 annual income for a family of four), and a 25 percent subsidy at 500 percent of poverty and above (or an annual income of $119,250 and higher for a family of four), capped at incomes of $200,000. Guidelines could be set to account for regional costs of living and median incomes. Ramp-up: Add 31,300 slots per year, requiring funding increases of $178.2 million a year over the prior year's funding level for four years.
- **Make quality pre-k universally available and fully subsidized for all families.** Ramp-up: Add 31,300 slots per year, requiring funding increases of $258.3 million a year over the prior year's funding level for four years.

Ramping up to 2018: Children served and costs by expansion scenario

Expansion scenario	Additional children served	Total children served	Additional annual cost	Total cost (including existing spending of $165.4M)
Targeted Access Expansion to all children under 300% of poverty	54,300	107,300	$448.35M	$613.7M
Full Access with income-based family cost share	125,200	178,200	$712.8M	$878.2M
Full Access fully subsidized	125,200	178,200	$1.03B	$1.2B

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An annual investment ranging from $613.7 million to $1.2 billion would equal between 2 and 4 percent of the $29.4 billion state budget proposed for 2014-15. This level of spending is in line with other states with high-quality programs serving at least half of all 3- and 4-year-olds.

Under this timeline and these funding scenarios, Pennsylvania would spend $8,250 per child per year - enough to ensure high quality in all publicly funded programs that serve children in the school day/school year, including funds required to build the capacity of programs to reach quality standards. This per-child cost includes 4 percent for capacity-building costs to help programs reach high-quality standards. It does not include additional funds that may be necessary to provide transportation to improve access.

When considering the cost of expanding access, it's important to keep in mind that evidence proves that targeted pre-k investments more than pay for themselves and represent one of the best uses of public funds in both the short- and long-term.

In the short-term, expanded pre-k would create jobs and the sale of goods and services. In fact, research shows that the impact of public pre-k spending exceeds the impact of investment in other sectors, such as retail or wholesale trade and manufacturing. As noted earlier, in Pennsylvania, the annual economic impact is estimated at $1.79 for every dollar spent on pre-k. In the long-term, high-quality pre-k leads to reduced public spending on special education, grade retention, social services, and incarceration. It also improves high school graduation rates, leading to increased earnings and tax revenues.

The chart below shows the short-term economic impact and long-term return on investment (ROI) of public pre-k investment in Pennsylvania. Long-term ROI is well-documented for children from low- and moderate-income families, and less so for higher-income children. With this in mind, long-term ROI has been estimated only for children in families with incomes below 300% of poverty (54,300 children) in all expansion scenarios. While long-term ROI calculations range from $7 to $17 for every $1 invested, the estimates below use the most conservative ROI estimate - $7 to $1.

Return on Public Investment on Pre-K Spending in Pennsylvania by Expansion Scenario

Expansion scenario	Total Public Cost	Short-term Economic Impact	Long-term ROI
Targeted Access Expansion to all children under 300% of poverty	$613.7M	$484.9M	$4.3B
Full Access with income-based family cost share	$878.2M	$693.8M	$4.3B
Full Access fully subsidized	$1.2B	$946.9M	$4.3B

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Funding Expanded Pre-k

As noted, Pennsylvania needs an additional $448 million to $1.03 billion annually to achieve the goal of high-quality pre-k for every 3- and 4-year-old. To help ensure success in this effort:

- Funding sources must be adequate and reliable, to continually serve 3- and 4-year-olds in each successive year.

- Funds should not come from other essential state budget line items, such as funds for Pennsylvania's public schools.

The states that have succeeded in extending high-quality pre-k to large numbers of children have chosen diverse funding paths. In Pennsylvania, those options could include:

MAXIMIZE IMPACT OF EXISTING RESOURCES

Increase the quality of existing child care programs so they are able to offer high-quality early learning opportunities for more 3- and 4-year-olds.

LEVERAGE PRIVATE DOLLARS

Public-private partnerships and business tax credits can be effective, efficient ways for government to access private capital to fund essential services. In the case of pre-k programs targeted by family income, tax credits for businesses could help offset the costs of high-quality pre-k for families not eligible for subsidy. Social Impact Bonds, also known as Pay for Success (PFS) contracts, could be applied to attract private investors willing to supplement public pre-k funding. PFS contracts reimburse investors and pay a modest return based on savings that result from the program. Pre-k offers a proven return on investment that can attract investors, as seen by the commitment of Goldman Sachs and J.B. Pritzker to quality pre-k. The firms partnered with the United Way of Salt Lake City in 2013 to create the first Social Impact Bond devoted to early childhood on the promise of repayment with interest based on avoided special education and remediation costs.

UTILIZE INCOME-BASED FAMILY COST SHARING

High-quality pre-k is a valuable service. Government has a role to play in providing it to scale because of its school-readiness and economic development benefits. It is reasonable that families with the means be asked to contribute toward the costs. An income-based family cost-sharing structure could help fund quality pre-k for children in families above a designated poverty level, with subsidies sliding in increments from 75 percent for lower income households to zero for families higher on the income ladder. This scenario would generate $317.2 million to expand access.

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REVENUE GENERATION

The charts below represent a menu of possible sources for high-quality pre-k investments and the additional revenue each could generate. Options include increasing tax rates and removing exemptions on items that are currently tax-exempt. Note that Pennsylvania's 6 percent sales tax is in the middle among states and exempts a number of consumer goods that other states tax. For example, 22 states tax candy, and Pennsylvania's malt beverage tax is the nation's fifth lowest and hasn't been raised since 1947.

Tax	Current Rate	2013 Revenue	Increase	Estimated Revenue[4]
Personal Income	3.07%	$11.37B	0.1%	$370.4M
Sales	6%	$8.89B	0.1%	$148.2M
Realty Transfer	1%	$338.7M	0.1%	$33.87M
Cigarette	$1.60/pack	$1.02B	$0.40/pack Total $2/pack	$256M[5]
Malt Beverage	$0.045/6-pack	$25.2M	$.205/6-pack Total $.25/6-pack	$114.5M[5]
Cigar and Smokeless Tabacco	-	-	25% tax	$44M[7]
Soda/Sugary Drinks	-	-	$0.01/ounce	$503.7M[8]
Candy and Gum	-	-	6%	$99.2M
Clothing and Footwear	-	-	6%	$848.5M
Non-Prescription Drugs	-	-	6%	$123.8M
Liquor/Beer by-the-drink	-	-	6%	$161.6M
Closing Internet Sales Tax Loophole	-	-	6% applied to all internet sales	$100M[8]
Coal	-	-	6%	$89.8M

OTHER TAX OPTIONS Thirty-five of the 45 states with corporate taxes have adopted combined reporting to prevent corporations from using the "Delaware loophole" to shift profits to low- or no-tax states. Retailers with no physical presence in the state don't collect or remit sales taxes from online purchases by Pennsylvanians. Pennsylvania does not cap its vendor discount, an incentive meant to reward retailers for timely submission of sales taxes. Of the 28 states with vendor discounts, 16 have capped the total vendors can receive. A severance tax on shale also could be explored as a revenue option.

Other Taxes	Estimate of Revenue Raised
Delaware loophole	$120M[10] - $410M[11]
Severance tax on shale (5%)	$360M - $612M (up to $1.26B in 2018)[12]
Vendor Discount	$82.2M[13]

IN ADDITION TO THE ABOVE EXAMPLES, the state offers more than $550 million in tax credits each year. These credits are designed to stimulate and grow the economy. A sampling includes nearly $90 million to encourage employers to hire former welfare recipients, $60 million for film production, $10 million for the development and creation of alternative energy and $3 million for historic preservation. Given that investments in pre-k will also grow and stimulate the economy, the commonwealth should consider pre-k investment an equally high priority to drive economic development.

THE BOTTOM LINE

As this brief illustrates, high-quality programs have substantial benefits as well as substantial costs. Without significant public investment, the broad access necessary to realize the short- and long-term benefits outlined above won't be possible. A wide range of states across the country, including many of Pennsylvania's neighbors, have been able do this using a variety of funding approaches. When we consider the benefits that these programs provide, the question is not "can we afford to do this", but "can we afford not to?"

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About Pre-K for PA

Pre-K for PA is an issue campaign supported by individuals and organizations across Pennsylvania who believe that investing in our children is the right choice and an urgent necessity.

Our vision is that every 3- and 4-year-old in Pennsylvania will have access to high-quality pre-k. The campaign's founding statewide leadership includes: