LOOKING INTO NEW MIRRORS:

Lessons for Early Childhood Finance and System-Building

by
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PREFACE

This report was supported with funding from the James C. Penney Foundation and sponsored by the Horizons Initiative, a Boston-based non-profit organization that provides services for children who are homeless. The Horizons Initiative was founded in 1988 by Bright Horizons Family Solutions, the country's largest work-site child care organization with more than 260 child care centers located nationwide. Bright Horizons Family Solutions recently received the Ron Brown Award for Corporate Leadership for its creation of The Horizons Initiative.

The Horizons Initiative serves several hundred homeless children each week in Boston, thorough a network of area family shelters. Its largest and most comprehensive program, the Community Children's Center, is a licensed and NAEYC accredited child care center serving 71 infants, toddlers, and preschoolers each day, as well as providing services to their parents, usually single mothers. The Community Children's Center was built and initially supported through private funds, and now receives support from a variety of public sources as well.

The James C. Penney Foundation was interested in evaluating public policy approaches at the state and federal level that would encourage the entrepreneurial growth and development of high quality child care serving low-income families. Roger Brown, president of Bright Horizons Family Solutions and a member of the Horizons Initiative's Board of Directors, and Sue Heilman, Executive Director of The Horizon's Initiative, accepted this challenge, and retained Louise Stoney to research and write a policy paper exploring these issues.

Many of the ideas presented in this report are not new, but were spawned by the work and insight of leaders, writers, scholars, and policy makers in a variety of disciplines. The following individuals were instrumental in shaping this work: Bart Harvey, Vicky Vaughn, John Ducy, Noni Ramos, and Laura Benedict offered ideas and background information from the housing field. Bonnie Cohen, Lorrie Lee Lutz, Anne Drissel, Charlotte McCullough, and Patrick McCarthy assisted in developing the section on managed care. Hilary Ring, Jean Banker, Marion Pulsifer and Pat Lees offered suggestions and guidance from the transportation field. Teresa Vast, David Allen, Margaret Boyer, Nancy Johnson, Sandy Baum, William Cumming, Kathleen Little, Beth Rougeaux, Maureen Curtain–and all of the individuals who attended the Minneapolis "think tank"--contributed to the higher education section. Carol Guyer and Anne Romasco gave valuable feedback on the overall structure and content. Additionally, many experts from the early care and education field helped to brainstorm ideas and also read and commented on drafts of the paper, including: Anne Mitchell, Gina Adams, Lynne Kagan, Barbara Willer, Andi Genser, Faith Wohl, Gail Richardson, Teresa Vast, Nicole Poersch, Ron Soloway, Jerlean Daniel, Marie Young, Stephanie Fanjul, Harriet Dichter, and Richard Brandon.

INTRODUCTION

As we look toward the next century it is becoming increasingly clear that the United States faces some critical choices. In many ways our nation is extremely fortunate. We are one of the most technologically advanced and affluent nations in the world. Our economy is healthy, and many of our basic institutions remain strong. Our nation has developed some important supports for families and communities; supports we often take for granted, such as assistance in purchasing homes, sending children to college, ensuring that we have the extensive highway and transportation systems necessary for economic growth, providing for the elderly, and many others.

Despite these strengths, one of our most important needs has not been met. We have failed to ensure that all children have the nurturing and early education they need to succeed. In recent years we have learned a tremendous amount about the consequences of this failure. While early childhood experts have always stressed the importance of the early years, brain research has now underscored the paramount importance of the first years of life. We now know that an infant's brain contains 100 billion cells, the most brain cells a person will ever have. These cells connect with one another at a staggering pace; by age three a child's brain has made over 1,000 trillion connections–about twice as many as the average adult. These connections essentially form the brain's "hard wiring," shaping children's ability to learn as well as their capacity to regulate emotions. In short, how we function as adults depends, in large measure, on how our brains developed when we were babies (Shore, 1997).

Parents know, almost intuitively, what research is demonstrating and are increasingly seeking early care and education for their young children. In 1995, 13 million children–60% of all children age five and under who are not in school--attended an early care and education program. Thirty years ago only 22% of young children were in structured early care and education programs. (Hofferth, 1996). Georgia, which recently established universal prekindergarten education, has found that 85% of all families with four year old children take advantage of the program.

As women's participation in the labor force has increased, more and more families are seeking full-time, year-round programs. Most people agree that successful welfare reform depends upon available, affordable child care. But many fail to recognize that even stay-at-home parents frequently enroll their preschoolers in early care and education programs.

Early care and education is also a growing industry that generates significant income in the form of increased tax revenues and the purchase of goods and services. In many cities regulated early childhood programs draw millions of dollars into the local economy and directly employ many people. In San Mateo County, California direct child care employment is comparable in size to the motion picture and air transportation industries (National Economic Development and Law Center, 1998). Ramsey County, Minnesota found that the dominant industries and occupations supported by child care subsidies are the ones forecast to lead State job growth in the next five years (Schlick and Zaffiro, 1996). Research conducted in North Carolina demonstrated that child care subsidies paid for themselves almost immediately, and in real dollars returned to the government through taxes on family earnings and employment and taxation of the child care industry (Rohacek and Russell, 1996.) The economic expansion that is currently occurring in the United States has, in large part, been possible because of dual income families. And it is the child care industry that has made it possible for many of these families to work (Brown, 1998.)

Given all of the findings cited above, it is not surprising that many states and communities are seeking new ways to invest in early learning and nurturing. The challenges are great. How should effective systems be structured? Should we support families, early childhood programs, or both? Where will we find the new funds that are needed to develop a strong system of high-quality early care and education services? The question of where to secure financing is perhaps the most perplexing. In an era of budget cuts and growing distrust of government, how can we succeed in financing a host of new supports for children and families?

Success hinges on creative thinking. Wholesale allocation of new public funds is out of the question. Most experts agree that funding will need to come from many arenas: all levels of government, employers, private philanthropy, as well as families. But how should a financing system be structured? Some have suggested that we build on the public education system. Others have focused on Head Start, and stressed the importance of expanding this national program. The higher education model of financing and financial aid has been explored by some experts (Vast, 1997). A number of policy analysts believe that spurring private markets is the answer, and suggest that increased child care vouchers or cash payments to parents is the best approach. All of these approaches have merit. Indeed, most experts agree that there are many ways to deliver high quality early care and education services; the key is to halt our tendency to allow programs to emerge haphazardly from different systems and agencies and to instead create a comprehensive, coordinated structure into which the various pieces can fit (Kagan and Cohen, 1997).

Many early care and education leaders have given careful thought to how existing financing mechanisms might be expanded or linked. Kagan and Cohen (1997) stress the importance of creating local entities responsible for governance, planning and accountability of the overall early care and education system, and explore several options for generating revenues to support the system. These include establishing new individual and business taxes, establishing new dedicated taxes or earmarking funds, expanding the populations eligible to receive the school aid formula, and redeploying existing government expenditures. Mitchell, Stoney and Dichter (1997) catalog various innovative financing strategies that have successfully funded child care in the United State. Zigler and Finn-Stevenson (1996) suggest that financing early care and education should be grounded in an existing institution already present in every community–the public school. Stoney and Greenberg (1996) identify multiple sources of revenue for child care subsidies and suggest that welfare reform poses a significant opportunity for increased financing. Walker (1996) proposes funding a child allowance and voluntary parental leave. Barnett (1993) recommends a unified federal subsidy that uses several payment methods to support early care and education services chosen by parents. Stoney (1996) suggests that states create maps to help them identify and navigate the various financial resources that may be used to support training and career development systems for early care and education practitioners.

Examining the many ways that existing financing mechanisms might be expanded or linked is essential to developing an early care and education financing system. However, leaders in the early care and education field also need to explore possibilities beyond the traditional approaches to education and child development. Generating new funds will require new strategies, strategies that may not fit our traditional ways of thinking. Are there lessons to be learned from other fields? How have other industries and/or systems generated new funds and built effective systems? This paper seeks to spur that exploration by examining public policy in four fields: housing, health care, higher education, and transportation.

The Approach

This paper is designed to help the early care and education field question some basic assumptions and explore policy from another perspective; to basically think "outside the box". Many advocates have, for instance, been reluctant to propose tax policy as a method of financing early care and education because the existing child care tax credits have had little or no impact. Lessons from the housing industry indicate, however, that appropriately crafted tax policy can have a profound impact on consumer and investor behavior and generate billions of dollars of investment in the industry. Similarly, the higher education system offers some interesting approaches to financial aid. And managed care poses some helpful strategies for those interested in offering structure and leadership to what is predominantly a "cottage industry" of small, independent child care and early education programs.

Lessons Learned

This paper takes a brief look at public policy in fields other than early care and education. A broader and more comprehensive exploration would no doubt reveal additional lessons. There are, however, some key concepts that have emerged throughout this analysis. Common threads that run through the four fields, and which offer lessons for early care and education, include the following:

- *Government subsidies are made available to families at all income levels.* Key examples include the home mortgage tax deduction, which benefits all taxpayers who purchase homes, regardless of income, and can reduce monthly mortgage payments by as much as 30%. Government support for higher education is not limited to low-income families. Transportation subsidies are designed to keep fares low for all users, not just those with limited incomes.

- *Programs or projects may receive direct financial assistance in addition to the portable aid that is offered to individuals and families.* Low-income housing policy, for example, has developed methods to generate the equity needed to build housing that can be rented at below market costs *as well as* portable (section 8) subsidies for low-income families. Federal and state governments have made higher education aid directly available to colleges and universities *and* provided portable student aid (grants and loans) to families. Transportation subsidies for capital costs and operating assistance are provided *in addition to* user fees and any portable transportation subsidies that are made available to low-income families.

- *Public support is viewed as economic development, not charity.* Housing and transportation subsidies are the best examples. Both are clearly seen as investments in the construction trades as well as supports for families. Higher education takes a similar approach. There is no stigma associated with applying for higher education financial aid; it is seen as an appropriate public investment in young minds and in ensuring an educated citizenry.

- *Economic incentives, as well as regulation and contract monitoring, are used to ensure compliance with quality standards and to encourage providers to "do the right thing".* Housing policy rewards investors who maintain housing in good repair and keep it rented to low-income families. Transportation policy includes measures that allow contractors to make more money if they perform repairs at night or during off-peak hours. Managed care has encouraged a host of new cost-saving and quality assurance alliances among health care practitioners.

- *Tax benefits are large enough to affect consumer behavior and the policies are strategically crafted to promote quality.* The Low-Income Housing Tax Credit has generated over $12 billion in private investment, and the home mortgage deduction is a key incentive for home purchases as well as an important financial support for many families. The new higher education tuition tax credits offer substantial benefits to middle income families and are indexed for inflation.

- *The private sector (individuals as well as proprietary and non-profit institutions) is encouraged to invest in the industry, and therefore becomes an active partner in financing and maintaining a high quality service delivery system.* Housing policy has leveraged tremendous private sector investment in the industry, even when the housing itself cannot generate enough income to repay debt. Managed care has spawned new private sector partnerships in the health care industry. Federal transportation funds are routinely used to leverage private investment in transit systems and highways. Lending institutions are heavily invested in financing student loans. All of these private sector partners provide more than dollars; they help to build the support necessary to leverage increased public investment in the industry. Banks, for example, work together with non-profit housing organizations to advocate for increased investments in low-income housing.

- *Public/private partnerships have been developed to promote accountability and quality assurance.* In higher education, government relies on private accrediting bodies with expertise in evaluating colleges and universities to ensure that programs meet standards of quality. The health care industry also relies on accreditation by private entities, coupled with practitioner licensing, to assure a baseline of quality.

In addition to the common threads that run through all of the fields explored in the paper, several key lessons emerge from specific fields. These include the following:

- *Historically, higher education, government and the private sector worked together to develop common financial aid forms and similar means for assessing families' financial need.* These coordinated financial aid strategies allow families to more easily apply for aid from a number of different sources.

- *Higher education scholarships, grants and loans are designed to cover the difference* *between the tuition charged by the college or university the student chooses and the student family's ability to pay.* The guiding principle is that the choice of school should be based on educational, rather than financial, considerations.

- *Health care systems are often structured around a "primary physician" who is responsible for coordinating all of the patient's care, including providing preventive care and making referrals where more specialized care is needed.* This individual can play an important role in overall case management when multiple practitioners are involved, and could serve as a potential model for coordinating the care and education provided by multiple early childhood programs and practitioners.

- *Managed care organizations have played an important role in "structuring" health care markets and balancing quality and choice.* Managed care organizations have the flexibility and autonomy to create networks of health care practitioners that meet quality standards. Consumers are allowed to choose among these practitioners. In some cases, consumers are allowed to select a practitioner who is "out of plan" but they are typically required to pay for these services and then request reimbursement. Reimbursement is often at a rate lower than that received by practitioners who are part of the network.

- *Health care reform has spawned new alliances and joint ventures among practitioners.* These include new organizations that help to consolidate and coordinate administrative functions and allow practitioners to market themselves to potential clients as a coordinated entity.

- *Transportation policy takes a broad view and provides support for a number of public services that are affected by, or have an effect on, transportation systems.* These include strategies to reduce traffic congestion (such as bicycle and pedestrian projects, High Occupancy Vehicle lanes, and off-peak toll strategies).

Early Care and Education Systems and Policies

Unlike many of the fields explored in this paper, early care and education is a hodge podge of small, independent enterprises interspersed with programs connected to larger institutions such as schools, community action agencies, and proprietary chains. By and large, these programs operate independently of one another.

Government subsidies for early care and education are typically limited to low-income families, and this support is commonly viewed as charity. Direct financial assistance is typically awarded *in lieu of* portable aid. Programs that attempt to combine the two forms of aid must maintain careful records to demonstrate that they are not “double dipping”. Public subsidies for child care are capped. In some states, rates and co-payment policies are structured to encourage families to select the least expensive form of care. Child care tax credits have almost no impact on consumer behavior and are almost never crafted to promote quality. Private sector investment represents less than 1% of all revenue sources for child care and early education (Mitchell, Stoney and Dichter, 1997) and government efforts to encourage additional private investment have had very limited impact.

The early care and education field relies on regulation and contract monitoring to ensure compliance with quality standards. Practitioners are not licensed. Economic sanctions are rarely used, and accreditation is a voluntary process.

While a few communities and states have worked to develop common intake procedures, early care and education funding is extremely fragmented. It is difficult to combine multiple funding sources to serve a single child or family. Nor has the early care and education field developed a strategy to help families coordinate the multiple providers they use to care for and educate their children.

Policy Implications

In exploring public policy in other fields the intention is not to suggest that these policies are completely efficient and effective. Indeed, experts in each of the fields would quickly point out many flaws. Examining these policies can, however, offer early care and education leaders a new perspective and suggest some interesting policy directions. To this end, each of the lessons noted above is discussed in more detail in the profiles that follow. Specific policies from each field–housing, health care, higher education, and transportation–are explored and contrasted with similar policy in early care and education. The paper concludes with a series of questions, challenges, and next steps for advocates, policy makers and practitioners.

HOUSING

There are some interesting similarities between housing and early care and education. First, they are both essential supports for families. Second, they both consume a significant percentage of the household budget; finding good, affordable child care and good, affordable housing is a real struggle for many low and moderate income families. Third, both industries contribute to the economic development of a community by providing jobs and generating tax income as well as increasing the purchase of goods and services. There is much the early childhood care and education field can learn from housing policy. These lessons include the following:

- In housing policy public support is rarely viewed as charity but rather as an investment in the economic development of the housing industry, the community, and the family. Housing policies are often designed to encourage sound financial investments while simultaneously making housing more affordable.

- Housing policies have been developed to help families at all income levels.

- Housing policy has relied heavily on tax strategies and economic incentives and has effectively used these approaches, in addition to direct subsidies, to achieve results.

- Housing policy has effectively made the private sector a partner in financing the industry and maintaining quality standards.

- Housing policy offers direct assistance (in the form of equity) for the development of low and moderate income housing *in addition to* making portable housing subsidies available to low-income tenants.

Housing policy includes many initiatives designed to encourage home ownership, make housing more affordable, and support the housing industry in general. While a number of these initiatives may offer helpful lessons to the child care field, two stand out as particularly interesting–the Low Income Housing Tax Credit and the home mortgage tax deduction.

The Low Income Housing Tax Credit

The Low Income Housing Tax Credit (LIHTC) is one of the federal government's most effective methods of generating the capital needed to build low-income housing. First established in 1986 as part of the Omnibus Budget Reconciliation Act, the LIHTC allows businesses and individuals who invest in low-income housing to receive a dollar for dollar federal tax credit against federal tax owed for over a ten year period. The LIHTC acts as a capital subsidy, allowing investors to obtain a competitive return on their investments while allowing rents to be set below the cost of developing or maintaining the property.

The LIHTC is administered at the state level. Each state is permitted to allocate a certain amount of tax credits each year, based on its population. States develop plans for allocating tax credit funds to specific projects, based on federal guidelines. Once the state has decided that a project should receive tax credits, the project sponsor (a non-profit or for-profit developer) seeks investors to buy the tax credits. National syndicators–or intermediary organizations–including nonprofit groups such as the Enterprise Social Investment Corporation and the National Equity Fund as well as financial institutions such as Boston Financial and Related Capital have become involved in "selling" the credits to investors. The intermediaries act as a bridge between investors and projects, most typically by establishing equity funds that allow many investors to pool their contributions and spread their risk over tens or hundreds of projects. Project developers also use funds generated through the LIHTC to leverage additional financing from banks and other commercial investors, and often combine them with grants and/or loans from public agencies.

LIHTC investments are not loans; nor are they investments in the typical sense. While LIHTC investors receive a competitive rate of return, these benefits come from the tax credit and tax losses they can claim as owners of property that is rented at below market costs–not from any income earned as a result of their investments.

--- INSERT LIHTC GRAPHIC HERE --

What makes the LIHTC Work?
The LIHTC has been tremendously successful. Since it was established, the program has generated $12 billion in private investment. Funds generated as a result of the tax credit result in about 75,000 housing units each year, which represents about 90% of all low-income rental apartments in the country.

A primary reason for this success is that the LIHTC structure *allows investors to simultaneously make a social contribution to their community and a sound financial investment*. Rather than expecting businesses to make a charitable contribution to community development efforts (which has limited tax benefits), the tax benefits associated with the LIHTC allow investors to receive a competitive rate of return on their investment. Additionally, banks that make LIHTC investments are permitted to use these investments as evidence that they are complying with the Community Reinvestment Act (CRA).

The LIHTC also *provides economic incentives for developers and syndicators to carefully manage the property to ensure that it is well maintained and occupied by income eligible tenants*. If the property falls into disrepair and cannot be rented, or if the property is not rented to low-income families for the entire fifteen year period, the tax credit benefits will be reclaimed and additional penalties may be charged.

Another reason for the LIHTC's success is that it *focuses on specific outcomes but allows states the flexibility to determine how they will achieve these outcomes*. Each state is allowed to select appropriate projects and develop a plan for how tax credits will be apportioned, so long as they comply with federal guidelines intended to ensure that tax credit funds are used appropriately. Many of the guidelines are structured as economic incentives. For example, projects that serve a larger percentage of low-income families can qualify for more tax credits (by applying the credit to a larger percentage of the overall costs.) Projects that are located in a "difficult development area" (that is, an area where land, labor and material costs are high in relation to area median income) can qualify for a 130% boost. And because the LIHTC creates equity, and allows flexibility in how these funds are used, project developers can use LIHTC funds to leverage additional investment from commercial lenders and other public and private sources.

Success of the LIHTC further stems from the fact that it *includes provisions to ensure that the housing remains affordable*. Federal guidelines require that maximum rents (including utilities) cannot exceed thirty percent of the annual income for the project's targeted low-income group. Owners of the property must also continue to set aside a consistent percentage of the housing units for very low-income families. Additionally, they must operate the project for at least fifteen years or they will be subject to recapture penalties for non-compliance.

Several states have created state tax benefits that make the LIHTC even more attractive to investors. Missouri, Hawaii, and California have state LIHTC credits that "piggy back" on the federal credit. Oregon has established a lender's credit that allows banks and other lenders to use the state tax credit benefits to recover the cost of no-or-low-interest loans to these projects.

Section 8 Housing Subsidies

Equity generated by the LIHTC can work in tandem with portable, tenant-based subsidies available under the federal Housing and Urban Development (HUD) Section 8 certificate and voucher programs. These programs assist very low-income families (those with incomes at or below 50% of the county median income), the elderly, and the disabled to rent decent housing in the private market. Participants who receive Section 8 certificates or vouchers are free to choose any housing that meets program requirements, including housing that was built with equity from the LIHTC. Section 8 vouchers and certificates, which are administered locally by public housing agencies, make up the difference between the participant's contribution and the rent charged by the landlord. Rental units must meet minimum standards of health and safety and must charge rents that are comparable to those of similar, unsubsidized housing units in the area.

Home Mortgage Tax Deduction
The home mortgage interest tax deduction has proven to be an effective way of providing financial assistance to families who wish to purchase a home. Any taxpayer who elects to submit an itemized tax return is permitted to deduct the full amount of interest paid on mortgages of less than $1 million ($500,000 if married and filing separate returns) for a primary or secondary home. The home mortgage deduction also includes first and second mortgages, home equity loans, and refinanced mortgages. Depending upon the family's tax bracket, the home mortgage deduction can effectively reduce monthly mortgage payments by as much as 30%.

The home mortgage tax deduction directly effects consumer decision making. When making a decision on how much they can afford to spend on a home, families typically estimate how much the deduction will lower their monthly payments. Real estate agents often remind families of the financial benefits of the home mortgage tax deduction when selling homes. Banks and other commercial lenders also consider the financial benefits of the tax deduction when evaluating how much debt a family can carry.

Lessons for Early Care and Education
Both the LIHTC and the home mortgage tax deduction were designed to simultaneously spur the construction industry and make housing more affordable for families by ensuring that funds spent on housing are sound financial investments. But they achieve these ends in different ways. Let's look at each policy separately.

Lessons from The Low-Income Housing Tax Credit (LIHTC)
Perhaps the most important element of the LIHTC is that it is designed to ensure that investors receive a competitive rate of return on investments in low-income housing. Without the credit, businesses or individuals would have no reason to invest in an industry that is building housing for families that cannot afford to pay rents high enough to make the property valuable and ensure a competitive rate of return on the investment. The credit makes investments in low-income housing attractive, and as a result has generated billions of dollars of equity for this vital industry.

The LIHTC uses these economic incentives to help ensure that the housing remains available to low-income families, affordable, and in good repair. In other words, there is a quid pro quo. Investors *can* make money on the credit, but only if they do the right thing. They must make sure that the housing continues to be available to low-income families. They must make sure that families are not charged rents that exceed 30% of their household income. And they must make sure that the housing stays in good repair. If investors do not comply with these requirements the tax benefits will be reclaimed.

The business tax benefits that have been developed to support child care, on the other hand, have been limited to state initiatives (the federal government has yet to establish policy in this area) and have had minimal results. Why? First of all, business-related child care tax benefits are not structured to encourage participation from banks or a broad group of private investors; they are limited to employer-supported child care (that is, investments that an employer makes in the child care needs of his or her own employees.) Second, they are not designed to ensure a competitive rate of return on the investment. Not surprisingly, few employers claim the benefits. Nineteen states currently offer some form of tax credit to employers who establish a child care benefit for their employees. But it is estimated that less than 1% of eligible employers actually use these credits and participation does not appear to have grown significantly over time (National Conference of State Legislatures, 1998). The President and several members of Congress have proposed establishing a federal credit similar to these state credits. While a federal credit for employer-supported child care might make investments a bit more attractive for some employers, it is unlikely that this policy will generate the equity needed to encourage significant private investment in the child care industry.

Lessons From the Home Mortgage Tax Deduction

Federal and state governments have also established tax policies that simultaneously spur the housing industry and make home purchases more affordable for families. These tax benefits are available to all families, regardless of income, and they may be claimed on the full amount of interest paid on most mortgages. The home mortgage tax deduction has had a profound impact on consumer behavior. Families, real estate agents, and banks all consider these tax benefits when making decisions about home ownership.

The federal Child and Dependent Care Tax Credit (DCTC), on the other hand, has had almost no impact on consumer behavior. The primary reason for this failure is twofold: 1) CDCTC benefits are limited to only a fraction of the cost of child care; and, 2) the amount that must be spent on child care in order to claim the maximum benefit is far more than any low- or moderate-income family could afford to spend.

Child care costs, on average, $4,108 for one preschool age child (U.S. Census, 1995). Families with incomes below $10,000 are permitted to deduct only 30% of the amount they spend on child care, and the credit percentage declines to 20% as income rises. (Remember that there is no limit on the home mortgage deduction unless the taxpayer is purchasing a home worth more than $1 million.) The maximum Child and Dependent Care Tax Credit for families with incomes over $28,000 is only $480 for one child and $960 for two children. These benefits are simply not large enough to have a significant impact on consumer behavior among families that are able to claim the full credit.

The maximum credit–$1,440 for families with two or more children–is really only available in theory. This maximum is limited to families with incomes below $10,000. But the credit is not refundable, and families with incomes this low typically have little or no tax liability. And in order to claim this maximum credit the family would have to spend $4,800 per year on child care–nearly half of their gross income! Even a family with an annual income of $28,000 per year is unlikely to spend $4,800 per year on child care, which is the amount they would be required to spend in order to receive the maximum credit in this tax bracket (which is $960).

Larger tax benefits are possible when an employer establishes a Dependent Care Assistance Plan (DCAP). In this case up to $5,000 in federal pre-tax earnings may be shielded from income and social security taxes. The employee's pay is reduced by the amount designated by the employee and these funds are set aside in a special account to pay dependent care expenses. While DCAPS provide a much larger benefit to higher-income employees (who are in higher tax brackets) than low- and moderate-income employees (who often owe little or no taxes), average benefits are still quite small. The DCAP established by New York State for its employees has found, for example, that in 1996 the average participant saved approximately $1,500 in combined federal and state personal income taxes (Mitchell, Stoney and Dichter, 1997). Additionally, most families are unable to benefit from DCAPs because these tax benefits are only available in situations where an employer has developed an approved DCAP and is able to effectively market it to both high- and low-wage employees.

Crafting New Child Care Tax Initiatives

Some child care advocates have been reluctant to propose tax policy as a method of financing child care, noting that existing child care tax policy has little impact on consumer behavior. Lessons from the housing industry indicate, however, that appropriately crafted tax policy can profoundly impact the behavior of both consumers and investors. To this end, the development of several new child care tax policies should be explored, including initiatives (like the LIHTC) that can generate the equity needed to build or renovate child care facilities as well as individual tax benefits that can substantially reduce the price of child care.

There are many ways that tax policy could be used to finance early childhood services. Tax credits for building early childhood facilities could, for example, be made available to developers, who would then be required to rent the facility to an early childhood program at little or no cost for a specified number of years. Or a tax credit strategy similar to that used to finance the LIHTC could be used to generate investment in an endowment fund, which might provide long-term operating assistance to early childhood programs. The Dependent Care Tax Credit could be revised to allow families to claim the full cost (or a significant percentage of the cost) of early childhood care and education services. Low-income families who owe no taxes could be helped by making the DCTC refundable (that is, families who incur child care costs could get a tax refund even if they pay no taxes). And special incentives could be included to encourage the use of higher quality care, such as allowing families who use an accredited early childhood program to claim a higher tax credit. Employer tax credits for child care could be restructured as tax initiatives that could be used by any business, rather than narrowly targeting employers who offer a benefit to their own employees. A less targeted business tax credit could encourage broader investment in the child care industry as a whole.

Additionally, it is essential that the early childhood care and education community begin to think about ways to market tax benefits to consumers and investors. Real estate agents and banks routinely remind families about the financial benefits of the home mortgage deduction. Similarly, early childhood programs could begin to market the dependent care tax credit to families, perhaps by distributing information about the tax credit when they inform parents about fee increases or changes in child care prices. Resource and referral agencies could remind parents about the potential benefits of the child and dependent care tax credit when providing information about fees and rate policies. Similarly, efforts to develop a tax initiative to generate equity for early childhood facilities, or a broader business tax credit for child care, should include a strategy that uses syndicators to sell credits to potential investors, as is currently the case in the LIHTC.

HIGHER EDUCATION

There are many parallels between higher education and early care and education. Both are investments that pay off over a lifetime, and are key to ensuring that the United States has the skilled workforce it needs to succeed in the 21st century. Both rely on services provided by a mix of state-run and independent institutions. In both systems, tuition and fees comprise an important portion of the revenues. A significant percentage of state and federal funds for both higher education and early care and education are made available in the form of portable aid to students. And both higher education and early education are expensive; high quality programs are often beyond the reach of even middle class families.

There are also many differences between the systems. While most Americans would agree that higher education is a lifetime investment, and therefore should be supported through lifetime savings as well as long-term loans, the connection between early education and future success is not as well known. Most Americans also agree that college education is desirable–even necessary–for most young people, while many Americans still feel ambivalent about the benefits of early care and education. Unlike higher educational institutions, government-supported early education programs (e.g. prekindergarten and Head Start) do not necessarily view themselves as part of a broad based early care and education system that includes a range of privately run programs. Not all early education programs charge tuition and fees (prekindergarten and Head Start are typically free). And while government support for early care and education is, by and large, offered as portable aid (in the form of child care vouchers or flexible purchase-of-service contracts) the largest source of federal support for early education–a nearly $4 billion investment in Head Start–is provided as direct support to the program. Finally, everyone agrees that college education is expensive. In fact, when asked about the cost of college most families quote prices that are higher that those typically charged (Ikenberry, S. and Hartle, T., 1998). The exact opposite occurs in early care and education. The high cost of this service has been hidden from families, in part because of the low wages paid to child care staff. If asked what early care and education costs it is likely that most families would quote prices far below the actual cost.

Early Care and Education Costs More Than College

Tuition for a four-year old in a child care center exceeds public, four-year college tuition in cities across the country. Below are a few examples:

Location	*Child Care Tuition*	*Public College Tuition*
Wake County, NC	$5,068	$1,841

Kansas City, KS	$5,200	$2,223
Boston, MA	$7,904	$4,266
New York City	$7,696	$3,797

Source: Children's Defense Fund, 1998

The extent to which higher education and early care and education programs rely on tuition and fees to meet operating costs is another major difference between the systems. Average tuition in a child care center typically exceeds tuition in a public, four-year college (see box, right). In public higher education institutions tuition represents about 18% of revenue; in private higher education institutions it represents about 41% of revenue. Additional revenues come from a mix of direct funding from government (largely available to public institutions), research grants, endowment funds, and ancillary businesses (such as the college bookstore, sporting events, etc.) Early childhood programs are much more dependent on tuition and fees to cover operating costs. Parent fees represent, on average, 72% of revenues in center-based child care (Helburn et al, 1995). While some publically funded programs, such as Head Start, are fully funded and charge no fees, many early childhood programs rely almost exclusively on parent fees. In the average proprietary child care center parent fees comprise about 88% of operating revenues (Helburn et al, 1995).

Despite the differences noted above, parallels between the two systems are strong. There is much that the early care and education field can learn from higher education. These lessons include the following:

- Federal, state and local funding for higher education is not limited to low-income families but is available, in some form, to families at all income levels.

- Institutions of higher education receive direct public support *in addition to* the portable aid (e.g. grants and loans) that is made available to students.

- Higher education scholarships, grants and loans are designed to cover the difference between the tuition charged by the college or university the students chooses and the student family's ability to pay.

- Private–and some public--institutions of higher education have built endowment funds that not only help to support capital costs but also provide on-going operating assistance to the institution.

- The new tax benefits for higher education offer substantial benefits for middle income families and are indexed for inflation.

- Historically, standard application forms and a similar means for assessing need and ability to pay have been developed in the higher education system, which simplifies the process for families and encourages them to “package” assistance from a number of sources.

- Government relies on private accrediting bodies, with expertise in evaluating colleges and universities, to ensure that programs meet standards of quality.

Financial assistance for higher education is made available in a variety of ways, including direct support for colleges and universities as well as scholarships, loans, and tax benefits for students and their families. Rooted in the 1944 G.I. bill and the 1958 national defense student loan programs, student aid has had a long history in the United States. Federal support increased significantly in 1965 when Congress passed the Higher Education Act, which included needs-based grants and work-study programs as well as guaranteed loans for middle income students. The federal government continues to invest in higher education, but has chosen to focus most of this support on making portable aid available to students and their families rather than awarding funds directly to institutions. At present, about 90% of federal higher education funding is channeled into portable student aid (Vast, 1997).

Although federal support is significant, the largest source of public support for higher education is state and local government (McPherson & Schaprio,1991). All states have allocated funds to help students and their families pay for college, and much of this aid is available to families at all income levels. Less than 6% of state support for higher education is targeted to low-income students (Mortenson, 1990). Low tuition in state colleges and universities, made possible by state budget appropriations, is the most common form of state higher education subsidy. But most states also have at least one form of aid for students who attend private colleges and universities. A more detailed discussion of the various forms of higher education financial assistance is included below.

Student Aid

Portable student aid is available to families at all income levels. This assistance can be grouped into three general categories, which include the following:

- Subsidized and unsubsidized loans from the U.S. Treasury, states and/or private lenders. Low-interest loans are available to students who demonstrate financial need or who are in targeted professions (e.g. health care); unsubsidized loans are available to students regardless of income. Some of these loans are administered by the public or private lender; others are administered directly by colleges and universities.

- Student grant and scholarship programs. These programs typically base eligibility and grant level on factors such as: financial need, the cost of tuition and other college expenses, academic performance, or special employment needs (such as teachers and nurses). The federal Pell Grant program, which is targeted to low-income undergraduate students, is the largest federal student grant program..

- Work-study programs, where financial aid is awarded in exchange for work and student salaries are subsidized by federal funds.

Tax Benefits
Several new federal tax benefits are also available to help families pay for higher education. These include:

- The federal Hope Scholarship Credit. Parents of dependent students may claim a tax credit equal to 100% of the first $1,000 of tuition and fees and half of the next $1,000 of tuition and fees for the first two years of postsecondary education. The maximum credit of $1,500 will be adjusted for inflation after 2001. The credit is gradually phased out if the taxpayer's modified adjusted gross income is between $40,000 and $50,000 ($80,000 and $100,000 in the case of a joint return).

- Lifetime Learning Credit. A family may claim a tax credit equal to 20% of $5,000 of tuition and fees (in other words, a maximum of $1,000 per tax year for five years) for undergraduate, graduate, or continuing education course work. After 2003, the maximum will increase to $10,000 (or $2,000 per tax year). The credit is gradually phased out if the taxpayer's modified adjusted gross income is between $40,000 and $50,000 ($80,000 and $100,000 in the case of a joint return).

- Education IRA. This allows taxpayers to invest up to $500 per year per child until the child reaches the age of 18. Contributions are not taxed, earnings accumulate tax free, and money withdrawn to pay for qualified education expenses is tax free. The maximum contribution is gradually phased out if the taxpayer's modified adjusted gross income is between $95,000 and $110,000 (or between $150,000 and $160,000 in the case of a joint return.)

- Roth IRA. This after-tax savings option allows annual maximum contributions to the cost of higher education of up to $2,000 per year for single taxpayers and $4,000 for couples filing jointly. (These limits are phased out as adjusted gross income increases from $95,000 to $110,000 or $150,000 to $160,000 for joint returns.) Earnings accumulate tax free and distributions are tax free under certain conditions.

- Tax benefits that apply to traditional IRAs and student loans. Beginning in 1998 taxpayers can take distributions from a traditional IRA to pay qualified higher education expenses without having to pay the 10% additional tax on early withdrawls. Additionally, taxpayers can deduct interest paid on student loans, even if the loan was taken out before 1998. The maximum interest deduction is $1,000 in 1998, $1,500 in 1999, $2,000 in 2000, and $2,500 for 2001 and later years.

Institutional Support
Public funding is also awarded directly to institutions of higher education and state governments are the primary source of this support. While most state funds are targeted to public colleges, support for a wider group of public and private institutions is also available. This support includes:

- Tuition equalization programs. These initiatives, which exist in approximately 14 states (Ascroft and Kerr, 1990), are designed to increase students' access to a variety of institutions by narrowing the gap between state-subsidized tuition rates in public institutions and the cost of private institutions under certain circumstances.

- General purpose institutional aid. At least six states (Illinois, Maryland, Michigan, New Jersey, New York, and Pennsylvania) provide general purpose direct funding to private nonprofit colleges and universities (Hines, 1998). These programs are typically designed to acknowledge that independent schools provide an important public service by educating large numbers of students, offering choices of study that are not available in the public system, and generally contributing to the economic viability of the state and community. Additionally, it is often less expensive to support services provided by an independent college rather than create a new course of study at a state school. Most states distribute general purpose aid to independent colleges using a formula that is based on a percentage of state appropriations to public institutions, or a dollar amount per resident undergraduate student, or the number of degrees awarded.

- Special purpose grants or contracts. These include support for: health science and health professions (medicine, dentistry, nursing) or for areas where there is a shortage of qualified staff (such as education or engineering); research and technology; endowed chairs; and, initiatives that reach out to disadvantaged and minority students.

- Construction aid. States occasionally make direct appropriations for capital funding at private colleges and universities. At least 30 states allow private non-profit colleges to benefit from the issuance of tax-exempt bonds for construction through state-chartered funding authorities. (Ashcroft & Kerr, 1990)

Lessons for Early Care and Education

Experts in higher education finance are quick to point out the many flaws in public funding for colleges and universities. The intention here is not to suggest that these systems are completely effective and efficient. A careful look at higher education finance can, however, suggest some interesting policy directions for early care and education. Several key concepts are explored below.

Institutions of higher education receive direct public support in addition to student aid.

Many states provide general purpose financial assistance to colleges and universities. In most cases these funds are limited to public institutions, although at least six states provide general purpose direct funding to private institutions. These initiatives are designed to lower overall tuition and fees for state residents, and are based on the assumption that *all* families–not just low-income families--need help paying for college. (As noted earlier, support for private colleges is often justified as more cost-effective than establishing or expanding public colleges and universities.) Institutions of higher education receive this "base funding" in addition to the federal and state student aid funds they administer.

Many public and private colleges and universities receive additional direct aid in the form of special purpose grants or contracts and construction aid. Special purpose grants are typically designed to provide support for areas where there may be a shortage of qualified staff (such as teachers or engineers), for targeted professions (such as health sciences), for outreach to disadvantaged or minority students, or for research and technology.

Unlike higher education, direct aid in early childhood is seldom seen as "base funding" which may be used to lower the fees charged to all families. Some early childhood care and education programs do receive financing directly from government, but this assistance is typically targeted to low-income families and awarded *in lieu of* the individual child care subsidies that are provided to eligible families. Head Start and prekindergarten programs that have worked to meet the needs of families and communities by blending funding streams and offering a range of full-and part-day child development services must maintain complex financial records to demonstrate that they are not "double dipping". Prohibitions against mixing direct funding and portable child care vouchers are widespread. Yet most high quality early childhood program can demonstrate that the actual costs of their services often exceed the reimbursement rate ceilings established by government for subsidized child care.

Making it difficult for early childhood programs to blend direct aid and portable aid has disturbing policy implications. Most early childhood programs that receive direct aid (such as Head Start and most public school prekindergarten programs) serve low-income families exclusively or predominantly, because it is simply too complicated to generate the revenues and maintain the financial records necessary to serve families from all socioeconomic levels. Many private early childhood programs serve only middle-class families because government reimbursement rates are so low or they have limited access to child care vouchers. While public schools struggle to create effective methods to ensure diversity, early childhood care and education finance seems to almost encourage economic segregation.

Restructuring the early childhood care and education financing system so that programs may receive direct aid *and* portable student aid would not only encourage diversity, but could also help to improve the quality of all early childhood programs and make it easier for moderate income families to afford the services. Direct aid could be made available as "base funding" and used to help keep parent fees affordable, or as "special purpose funding" and used to support specific initiatives such as: staff development, facility improvement, special equipment and supplies, on-site social services, and so forth. Student aid could be made available in the form of child care vouchers, purchase-of-service contracts, or scholarship programs designed to assist families who cannot afford to pay full fees.

Higher education scholarships, grants and loans are designed to cover the difference between the tuition charged by the college or university the students chooses and the student family's ability to pay. Both higher education and early childhood education systems make funds available to help families pay tuition and fees. In higher education these funds are typically awarded as scholarships, grants or loans. In early childhood education these funds are typically awarded as child care vouchers, which are essentially the same as higher education student grants.

A primary difference between the two systems is, however, that scholarships, grants, and loans for higher education are designed to cover the difference between the cost of attendance at the college or university the student chooses and the student or family's ability to pay. No cap is placed on the college costs, and it is assumed that even middle-income families may need assistance in paying tuition. A financial aid counselor is involved in "packaging" assistance from a number of public and private sources.

Child care vouchers, on the other hand, are limited to low-income families. The amount of the voucher is capped, based on the state's analysis of the market price of child care and available funds. Moreover, it is extremely difficult to "package" funding from Head Start, the largest source of federal funds, or most state prekindergarten programs. It is also difficult to "package" private funds, such as those from United Way, employers, or foundations.

A majority of the federal funds made available for higher education student aid are awarded in the form of loans to students and/or their families. In many cases, capital for these loans is provided by private sector financial institutions; federal funds are used to guarantee the loans and buy down the interest rate. Some loan programs are, however, administered by the government.

Loans to help families pay tuition have not been used as a financing strategy in early care and education. The lack of a strong connection–in the minds of the general public--between early education and future success may be one reason this strategy has not been employed. The notion that education is an investment that lasts a lifetime is key to a financing strategy that relies on loans (Baum, 1996). Families routinely borrow money to finance long-term investments: homes, cars, small business ventures. Because they see the connection between higher education and higher earnings, many families and individuals are also willing to incur debt to pay for college. It is unlikely however that the average United States citizen sees a strong enough connection between the quality of a child care or early education program and child's lifetime success to take out a loan. In other words, families might agree with the long-term benefits of early education in the abstract, but these views might not be concrete enough to warrant incurring debt to enroll their child in an early childhood program. Another reason that loans have not been a financing strategy in early care and education is that many families who use child care simply cannot take on more debt. Almost half of all families with young children earn less than $35,000 a year.

For some families, however, low-interest loans may be a helpful way to pay for early care and education services, especially if repayment is spread over many years and the interest on these loans is tax-deductible. And as the links between early care and education and future success become more widely known, families may be more willing to consider debt as a way to finance these important services. Brandon and Wilson (1998) suggest that an early childhood care and education loan mechanism could be a feasible approach for middle and higher income families. Guerry (1998) is exploring the possibility of using Individual Development Accounts (IDAs) as a mechanism for repaying loans for tuition in early care and education programs.

An early childhood loan program could take many forms. Government subsidized low-interest loans, similar to those available for higher education, could be made available and repayment could either be delayed until the family income is higher and more stable or spread out over a fifteen year period so that monthly payments are small and manageable. Or the loan program could be financed privately, and administered by a private sector entity.

The private sector has already developed some loan products that could serve as models for the early childhood field. Academic Management Services (AMS) is a Massachusetts based company that partners with over 2,000 colleges, universities and independent schools across the county. AMS offers several different education loans as well as an interest-free monthly payment plan to help families pay for college as well as private, K-12 education. An Academic Prep Loan is available to cover the cost of one to four years of study at an independent school. These loans typically charge 2% above the prime interest rate, and allow families up to 10 years to repay the loan. Several other private lenders, including Key Bank and First Marblehead, offer similar loan products.

In addition to loans, AMS and other private lenders offer an interest-free monthly payment plan that allows families to pay private school tuition on a monthly basis throughout the year. Payment plans of this type are not loans. The families make monthly payments to AMS, which then pays the school. Independent schools use these privately managed monthly payment services because they save significantly on the administrative cost of managing and collecting monthly payments from families and ease cash flow problems for the school. This strategy is similar, in many ways, to the kinds of strategic alliances that have been forged by some health care practitioners to help them work more efficiently in a managed care environment. Like health care providers and independent schools, early childhood programs might benefit from the increased efficiency of contracting with a single entity to manage fee collection.

Private institutions of higher education have built endowment funds that not only help to support capital costs but also provide on-going operating assistance to the institution. As noted earlier, tuition and fees comprise, on average, 41% of revenues in private institutions of higher education. Other revenue sources include direct support from government; revenue from sales and services; gifts from foundations, alumnae, and other donors; and earnings from endowment funds.

Contributions to endowment funds typically come from wealthy individuals who attended the institution, or private foundations interested in supporting the institution. Colleges and universities are able to attract donations from these individuals because they have a large alumni from which to draw (many of whom have been financially successful), and have the history, stature, and professional development staff necessary to built and maintain these funds.

An independent early childhood program would no doubt find it difficult to establish an endowment fund. The families served by these programs often have low or moderate incomes and cannot afford to make substantial contributions to such a fund. It may be many years before the family is successful enough to consider a sizeable financial contribution. While donors often see the link between their financial success and the college they attended, most individuals would not tie their success (or their child's success) to an early care and education program. Thus, it could be quite difficult to "sell" contributions to an endowment fund. Additionally, early childhood organizations are not large enough to build a fund of substantial size, nor do they have the resources to hire professional staff to develop and manage the fund.

Despite the drawbacks noted above, the possibility of using endowment funds to help finance early care and education is worth exploring (Vast, 1997). It might be possible, for example, to establish a community-wide endowment fund that is built and managed by a local community foundation. This approach would lend scale (a larger pool of alumni and friends from multiple early childhood programs) and development professionals (from the community foundation) to the endeavor. Although many families might not immediately see the link between early care and education and later success, it is entirely possible that successful young professionals–for whom child care was a vital support as they built their careers--could be tapped. Some communities, such as Marin County, have been successful in establishing community-wide endowment funds to support child care.

Tax benefits for higher education offer substantial benefits and are indexed for inflation.
As noted earlier, the federal government recently established several new tax benefits to help families pay for higher education. Unlike the child care tax credit, where benefits are capped at very low levels (only $480 for one child in a family with an annual income of $28,000 or less) and have not increased over time, higher education tax credits and deductions offer substantial benefits and are indexed for inflation. A discussion of how child care tax credits could be improved is included in the housing sections of this paper.

Standard forms and a similar means for assessing need and ability to pay have been developed in *the higher education system, which simplifies the process for families and makes it easier to "package" assistance from a number of sources.* Colleges and universities have since their inception been offering financial aid to needy students. In the early years this assistance was supported by endowments and fundraising on the part of colleges themselves, and institutions of higher education used a variety of methods to determine need. By the 1950's, however, many colleges and universities began to express concern about the different criteria used by various institutions to award need-based scholarships. These concerns led to the establishment of a common methodology for determining need as well as an entity–the College Scholarship Service (CSS)–to develop common forms and oversee administration of the methodology. CSS continues to play an important role in higher education financial aid by: simplifying and unifying the financial aid application process for families; sharing information among participating institutions; sponsoring research (using centralized data available from the common form) on the financing of higher education; serving as a membership organization to help unify and guide financial aid activities; and training financial aid administrators (College Board,1998). CSS currently administers the CSS/Financial Aid PROFILE, a single application for institutional and private financial aid, which is based on a consensus need analysis methodology called the Institutional Methodology (IM).

As government funds for higher education financial aid were made available, a variety of forms and methodologies for determining need were introduced. (In many cases, government entities used CSS forms and need analysis methodology.) The Higher Education Amendments of 1992 consolidated the need analysis approaches used for federal assistance into a single methodology, which is now called the "Federal Methodology" (FM). Additionally, the act established a common application form for all federally supported financial aid, which is called the "Free Application for Federal Student Aid (FAFSA.)

In sum, two applications and need analysis methodologies are currently used for determining eligibility for postsecondary financial aid. The FAFSA is submitted directly to the U.S. Department of Education's central processing system, which is administered by a private corporation under contract with the U.S. Department of Education. Help in completing the form is available via a toll-free number and on the internet. The PROFILE, which is used by many colleges to determine eligibility for non-federal aid, is submitted to CSS, and is also available via phone and the internet. CSS provides institutions with the result of the needs analysis as well as an estimate of the student's eligibility for federal financial aid. CSS charges a $5 registration fee plus a $15.00 processing fee for each institution chosen by the student (Vast, 1997).

A standard application form or eligibility determination process for early care and education funding has not been developed. While some state and local governments have created “seamless” child care subsidy systems that combine funds from a variety of public sources, these systems typically combine only a few of the funding streams available to support early care and education. Not surprisingly, navigating the various sources of funding that can potentially be used to support early care and education can be a complex task for parents, programs, and subsidy administrators. Some early childhood programs have developed methods to coordinate early childhood funding streams so that multiple sources can be used for a single program and/or child. But coordinating these funds is extremely difficult, and requires a large amount of skill, patience and persistence as well as a willingness to break or challenge a few rules.

States and communities that have focused on developing common forms and procedures, and simplifying the intake process, have demonstrated that it can be done. Florida is an excellent example. But state and local initiatives can have only limited impact on Head Start, which is directly accountable to the federal government, and often have trouble integrating state education funds as well as those administered by local school boards. Leadership from the federal government could have a profound impact on efforts to simplify and better coordinate early care and education financing. The early childhood care and education community itself could also serve as a key catalyst by building on the work of organizations like CSS and working together to help coordinate and simplify the process of applying for assistance in paying for early care and education (Vast, 1997).

Creating uniform application and eligibility determination methods for early childhood funding could also provide vital research data. At present, it is extremely difficult–if not impossible–to accurately measure the use of and need for assistance in paying for child care since so many systems are involved in eligibility determination and multiple methods are used to determine need.

Government relies on private accrediting bodies, with expertise in evaluating colleges and universities, to ensure that programs meet standards of quality. The U.S. Department of Education requires all postsecondary schools that receive and manage federal financial aid funds to be accredited. Accreditation must be awarded by an agency or association that has been approved by the Department, must include on-site inspections as well as standards that assess curricula, faculty, facilities, equipment and supplies, fiscal and administrative functions and capacity. (Vast, 1997). In addition to accreditation, the Department requires all of the institutions to submit annual financial and compliance audits. Proprietary or postsecondary vocational schools are also required to verify completion and placement rates.

Concerns have been raised about the role that accreditation plays in assuring the comparative value of various institutions of higher education. Unlike early childhood, where accreditation represents a standard above minimum licensing, higher education accreditation is used to ensure that programs meet minimum standards. Many believe that the standards used to measure the quality of higher education institutions are too low. Others suggest that higher education accreditation standards focus too much on inputs, and could be greatly strengthened by a focus on outcomes (Kolb, 1995). Even critics of the system do not suggest, however, that accreditation be eliminated or diminished.

The early childhood care and education system uses a patchwork of different systems and standards to ensure quality. State licensing laws are typically used to ensure minimum standards in child care programs, although these requirements vary widely from state to state. Funders often require that programs meet standards higher than the state's licensing standards. The federal government, for example, has established performance standards for Head Start programs. Additionally, the military now requires all of the programs it supports to become accredited, and the General Services Administration requires that all child care programs housed in federal facilities pursue accreditation. Some states that contract directly with child care programs require that they meet special funding standards. Many state prekindergarten and early intervention programs have developed their own performance standards as well. Private funders use a variety of methods to ensure that the programs they fund are providing quality services. Early childhood programs that receive funds from multiple sources are often required to comply with multiple sets of regulations and may be monitored by staff from several different public or private agencies.

Early childhood program accreditation is currently a voluntary process, used by child care and early education programs to demonstrate their commitment to quality and provide a structure for continuous improvement. Although the federal government has begun to use accreditation as a method of promoting quality among some of the child care programs they support, and a few states require prekindergarten programs to be accredited, other than these efforts accreditation is not commonly used as a funding standard or to ensure accountability.

Early childhood program accreditation could, however, be adopted by all funding sources (including federal, state, and local governments, school districts and private sector funders) as a common standard for high-quality programs. To ensure that families have access to a wide range of child care options, including informal, home-based child care, state and local regulatory requirements could continue to be used as a minimum floor. But these minimum regulatory requirements would not be the benchmark used to measure or reward quality. Program accreditation would be the measure of quality, and all funders would work together to ensure that early childhood programs received the assistance and support they need to achieve this goal. By using early childhood program accreditation as a common standard, the practice becomes a strategy for demonstrating and encouraging quality improvement throughout the early childhood care and education system as well as a unifying force to help bring the fragmented system together.

HEALTH CARE

At first blush it might appear that health care and early care and education have little in common. But there are some interesting similarities. Both fields are providing an essential service, and one that all children and families need. Both fields are committed to providing a range of services from which consumers can choose. Quality of services in both fields is critical to outcomes, and both struggle with balancing quality and choice in an environment where consumers have limited information and/or time to evaluate the quality of services. Both health care and early care and education also rely largely on services offered by the private sector.

There are clearly many differences between health care and early care and education. Perhaps the most significant difference is that health care has a source of third party support–health insurance–to assist many families, regardless of income, in paying for these essential services. A similar structure does not exist in early care and education. It is also interesting to note that employer-supported health care plans are fully exempt from taxation, while child and dependent care plans are tax-exempt only if the employer establishes a Dependent Care Assistance Plan (DCAP). DCAP contributions are also capped, although no such cap exists for contributions to health care plans.

As the health care industry moves closer to managed care as a way to administer health insurance, similarities with how states typically administer child care funds begin to emerge. Many states have chosen to contract with private sector entities to administer child care subsidies, and these entities have much in common with managed care organizations. Even states that administer child care subsidies directly struggle with establishing policies to ensure access, quality, and choice–all issues that are paramount in managed care. To this end, there are some interesting lessons that can be learned from managed care, as well as from the health care industry as a whole. These include the following:

- Health care systems are often structured around a "primary physician" who is responsible for coordinating all of the patient's care, including providing preventive care and making referrals where more specialized care is needed.

- Managed care has developed methods to provide a structure for health care markets so that families can receive comprehensive services from a range of providers who may be operating as independent businesses or who may be part of larger health care systems. These methods attempt to balance quality, accountability, and choice.

- Health care reform has spawned new alliances and joint ventures that allow practitioners to achieve administrative efficiencies and contract with potential clients as a coordinated entity.

- Health care systems rely on accreditation by private entities as well as practitioner licensing to help measure quality.

Health care reform has received a large amount of attention both nationally and in the states. Consumers have raised many concerns about managed care, and often question whether this strategy is the most appropriate way to ensure that all Americans receive high quality health care. Effectively implementing managed care is a complex process, and there are many issues with which government and the private sector must continue to struggle. Nevertheless, the concept of managed care can offer some important lessons to the field of early care and education.

What is Meant by the Term Managed Care?
The term managed care can mean many things, but typically refers to a method of providing health care services within a defined network of practitioners who are given responsibility to provide quality, cost-effective health care services to a specific group of individuals. There are many types of managed care organizations (MCO's). A *Health Maintenance Organization (HMO)* incorporates financial risk, administrative functions, and treatment responsibility within a single organization. HMO's can be "one-stop shops" that incorporate all services in a single location or may have a variety of health care professionals from which consumers may choose. A *Preferred Provider Organization (PPO)* is a network of preselected physicians and health care practitioners who have agreed to provide services on a reimbursable (usually discounted) fee-for-service basis and agree to adhere to various types of utilization control and quality monitoring. Consumers who participate in PPOs are permitted to select any provider on the approved listing, and in some cases may choose to seek *out-of-network* care from a provider who is not on the list but typically incur some additional cost for using providers who are not affiliated with the PPO (Drissel, 1997).

The influence of managed care on the health care system has been profound. Our health care system is shifting from a cottage industry made of individual physicians in private practice to a large corporate structure in which health care practitioners must work together in new ways. One of the ways that health care providers have chosen to respond to managed care is by establishing new alliances and creating joint ventures so that they can provide a wide array of services and contract with an MCO as a coordinated entity. In some cases the practitioners form a *Management Services Organization*, where a group of physicians and/or health care providers consolidate administrative costs and operations. Management Services Organizations function as purchasing alliances and perform other functions such as scheduling, billing, facility management, and often represent providers in contract negotiations. In other cases, practitioners work with an *Administrative Services Organization,* which is an entity that serves as a bridge between insurers (including self-insured employers) and health care practitioners. These entities may perform a variety of functions, including enrollment, eligibility determination, provider identification and credentialing, utilization control, performance monitoring, data analysis, claims, payment, and adjudication (Drissel, 1997).

Managed care organizations use a variety of methods to assess the quality of the practitioners in their organization or network. State licensing of practitioners is a minimum qualification. Physicians and nurses are required to be licensed by the state, and in some states this practice is expanding to include other health care practitioners. Some managed care organizations have also developed their own "certification" criteria. Hospitals (and, more recently, managed care organizations themselves) are accredited by several national accrediting organizations. Over the past ten years accreditation has become an important way to review and monitor health care organizations. The federal government, for example, relies on information gathered and judgements made by the Joint Commission on Accreditation of Healthcare Organizations when establishing rules for Medicare reimbursement (Edmonds et al, 1997.)

Lessons for Early Care and Education

The description of managed care included in this paper is very basic and intended to provide a general understanding of managed care concepts. The intention is not to suggest that managed care is a panacea or the most appropriate health care policy, but rather to suggest that there are several aspects of managed care policy that offer lessons for early care and education. Each of these lessons will be discussed in more detail below.

The role of the primary physician as case manager. Health care systems are often structured around a primary physician who is responsible for coordinating the patient's care, which includes providing preventive care and making referrals when more specialized care is needed. MCOs often use primary physicians as gatekeepers to help ensure that patients receive the most appropriate care and to promote coordination of care at the most appropriate level. (A single family, for example, can go to the same primary physician. This allows the physician to learn about the needs of the entire family and use this information to facilitate coordination of services.)

The concept of a primary physician offers an interesting model for early care and education.

Many families use multiple caregivers and/or need an array of support services that may be linked to or provided in an early care and education setting. Families who enroll their preschooler in a part-day Head Start or prekindergarten program, for example, often supplement the program with some form of home-based care while they work or attend school. If these families also have an infant, toddler, or school-age child they are likely to be using another caregiver (or two) for these children. Under the current system there is no assurance that these teachers and caregivers communicate with one another or coordinate service delivery. If, however, each family were assigned a "primary practitioner" with responsibility for coordinating the family's child care and early education needs, it would be possible to encourage continuity and communication among the various caregivers, coordinate financing and service delivery, and facilitate transitions to school. In Head Start, the family worker might be assigned this role. A similar individual could take responsibility in a prekindergarten or early intervention program or a child care center. Or a staff person from the entity that administers public subsidies for child care and early education, such as a CCR&R, could assume this role.

The role that an MCO can play in helping to "structure" the market. Many states currently contract with non-profit agencies to administer child care subsidies. These agencies have some of the characteristics of managed care agencies in that they oversee the administration of subsidy funds, contract with (and sometimes monitor) early childhood care and education practitioners that agree to serve children who receive child care subsidies, and often offer child care resource and referral services.

There are, however, some important differences between child care management agencies and managed care organizations. First, MCOs have the authority to select a limited pool of providers from whom they will purchase services. Consumers must select a health care practitioner who participates in the MCO network. Some MCOs offer plans that allow consumers to select a provider who is not in the network, and typically require that the consumer pay for the care and bill the MCO for reimbursement (which is often capped.) Second, MCOs have the flexibility to negotiate rates with the practitioners in their network, and they typically use a variety of payment methods and rate-setting methodologies. It is not uncommon for rates to vary widely among types of practitioners and locations. In this way, MCOs play an important role in "structuring" health care markets: identifying key providers and setting rates and payment methods.

Child care management agencies are not, on the other hand, given this level of responsibility. When a state contracts with an outside agency to administer subsidies, it typically determines exactly how the funds will be administered, what rates will be paid, which providers are eligible to participate, how providers are to be monitored, and so forth. The child care management agency simply operates as an arm of the state, with little or no independent authority. To simplify administration, child care reimbursement rates are often averaged over very wide areas and disparate practitioners grouped together under single rate categories. To this end, it is rarely possible for a child care management agency to structure a child care market in ways that might improve quality, access, or choice.

If, however, child care management agencies were allowed some independence and perhaps given the flexibility to select providers and establish rates, they could potentially become important forces in improving quality and offering some structure to a highly unstructured industry. They might, for instance, contract directly with–and pay higher rates to--early childhood programs that meet higher standards or become nationally accredited. Parents could still be permitted to select an "out of network" program or practitioner (that is, one who is not accredited) but these providers might be paid lower rates and would not have direct contracts with the agency. In short, giving child care management agencies more authority to select and negotiate with the providers in their network might allow them to balance cost, quality, accountability, and choice in ways similar to those currently used by managed care organizations.

Establishing new provider alliances and joint ventures. As noted earlier, many health care providers have chosen to respond to managed care by establishing new alliances and management structures that allow them to contract with potential clients as a coordinated entity. The early childhood care and education field might also find this strategy helpful. For example, a group of child care centers, family child care homes, and in-home child care providers could come together in a structure similar to the Management Services Organization or Administrative Services Organization described above. Providers could consolidate–or jointly contract for--such administrative costs and operations as billing and fee collection; management of the USDA Child and Adult Care Food Program; accounting; purchase of equipment and supplies; staff development; janitorial services; transportation; social services; marketing; and so forth. Additionally, forming this type of alliance might allow a select group of providers to negotiate together to provide services for the public sector, an employer, or a group of employers.

Managed care organizations are beginning to take on broader child development issues. For example, twenty four major health care providers have recently announced they are incorporating child development assessments and parenting aid into care plans for families. Part of the rationale for this approach is applying the new research that links brain development and the nurturing children receive in the early years (Russakoff, 1998). Additionally, many states have begun to use managed care strategies to administer child welfare services. Early childhood providers have a key role to play in these efforts, as well as a host of new partner with whom to collaborate. Successful negotiations with managed care organizations are likely to require, however, that providers work together and negotiate as a group.

The role of practitioner licensing and program accreditation in assessing quality. In all states individual licensure is a minimum requirement to practice as a registered nurse or physician. States also require individuals who teach in public schools to be licensed. Only two states (Massachusetts and Florida) and one city (New York) require any form of license or certification for preschool teachers who work in settings other than public schools (Mitchell, 1994). Efforts to ensure quality in early care and education are typically focused on the program (which must be licensed or, in some cases, accredited) rather than the teacher or caregiver. Research has demonstrated, however, that it the most crucial element of quality is the relationship between the caregiver and the child, a relationship that is strongly effected by the caregiver's understanding of child development. To this end, it makes sense for the early childhood field to consider licensing child care practitioners.

The important role that accreditation can play in promoting quality has been discussed previously. Many fields, including health care, rely on the information and analysis provided by accrediting organizations to assist in assessing quality as well as to structure reimbursement rates and policies. Indeed, there are significant differences between accreditation in health care and early education. Health care accreditation is considered a minimum standard, a floor below which no program should fall. Early childhood accreditation is generally a higher standard than state licensing, and therefore can be used to encourage quality improvement. Despite these differences, it is helpful to note that the health care industry has used private sector accreditation–coupled with individual licensure–as a cornerstone in quality assurance. The role of accreditation in helping to ensure quality early care and education services was discussed in the higher education section of this paper.

TRANSPORTATION

It might appear odd to make comparisons between transportation and early care and education. It would seem that the two industries have little in common. But there are some interesting parallels. First, both fields are providing an essential service, and one that benefits all citizens. Second, both fields rely, in part, on user fees, and in some cases these fees comprise a substantial portion of the budget. Third, in both fields the cost of providing the service exceeds the amount that can reasonably be charged to consumers. Fourth, both fields offer services provided by both the public and the private sector.

There are, of course, many differences between the fields. But transportation policy can offer some interesting lessons for early care and education. These lessons include the following:

- Public transit systems receive government subsidies *in addition* to the user fees (fares) they charge and any portable transportation subsidies that are made available to low-income families.

- Public subsidies for transportation systems are designed to help families at all income levels. Government support is provided for capital costs as well as operating assistance so that the fees for all users, regardless of income, remain low.

- The government support that is made available for public transportation systems is not viewed as charity but rather as an investment in the economic development of a community.

- Transportation policy is designed to encourage private sector investments and partnerships.

- Transportation policy has effectively used economic incentives to ensure that contractors meet performance standards rather than relying solely on regulation and/or contract monitoring.

- Transportation policy takes a broad view and provides support for a number of public services that are affected by, or have an effect on, transportation systems.

Each of these lessons will be discussed in more detail. Before embarking on this discussion, however, it is helpful to take a brief look at transportation policy.

The primary federal transportation program is the Intermodal Surface Transportation Efficiency Act (ISTEA), which is financed largely by gas taxes, is essentially a block grant that makes federal funds available to states to support highways and mass transportation. The legislation also includes funds for new technologies, such as prototype magnetic levitation systems or other high-speed ground transportation projects; activities that enhance the environment, such as wetland banking, mitigation of damage to wildlife habitat, protection of historic sites, activities that contribute to meeting air quality standards, a wide range of bicycle and pedestrian projects, and highway beautification; highway safety, including programs to encourage the use of safety belts and motorcycle helmets; congestion mitigation and air quality improvement (U.S. Department of Transportation, 1992). Federal funds for mass transit are primarily limited to capital costs, although operating assistance is available in some cases.

States also provide funding for highways and mass transportation, often with dedicated taxes on gas, real estate, interstate commerce, toll revenues, and state general funds. State support for mass transit is typically available for both capital and operating costs. Most states require public transportation systems to make reduced fees available to senior citizens and individuals with disabilities as a "quid pro quo" for receiving public subsidies.

Both federal and state transportation legislation also includes initiatives designed to encourage private sector involvement in transportation projects. ISTEA, for example, taps private lenders as a source for funding transportation improvements and allows private entities to own toll roads. New York State makes matching funds available for public transit systems. While municipal systems typically use local tax levy funds as the match, privately-own systems are permitted to apply for state funds and use revenues from fares as the match.

Lessons for Early Care and Education

Perhaps the most important lesson transportation policy offers for early care and education is the notion that transportation systems should not be expected to pay for themselves through user fees alone. All transportation systems–buses and subways as well as roads and bridges–receive public support.

Like housing, health care, and higher education, *public subsidies for transportation systems are designed to help families at all income levels*. There are several ways in which this occurs. Most of the federal funds that are made available for public transit systems are to help pay for building and maintaining the infrastructure. This helps transit systems keep user fees affordable since they do not have to pass these additional costs on to the consumer. Government support is also available, in some cases, for operating assistance. Again, the notion here is that government support is necessary to keep user fees affordable. On average, transit agencies recover about 30% of their revenues from fares (Younger, 1998).

Like many of the other sectors discussed in this paper, public transportation systems are allowed to combine direct and indirect subsidies. In other words, they can request direct operating assistance from government *in addition to the user fees they charge and any special transportation subsidies that are made available to low-income families.* Again, the notion is that direct government support is designed to keep fares at an affordable level for all users, regardless of income. Low-income individuals who participate in welfare reform activities or other support systems may, in some cases, receive an additional transportation subsidy to help them pay bus or subway fare, but this subsidy is in addition to the public support awarded to the transportation system.

As noted earlier in this paper, early childhood programs are rarely permitted to blend subsidies in this way. Direct subsidy is almost always *in lieu of* user fees or portable, child-based subsidies, and operating assistance is almost never available to help keep costs affordable for moderate and middle income families. And unlike transportation, federal child care funds cannot be used for capital construction. Early childhood programs that need to build or renovate a facility have no choice but to pass these additional costs on to the consumer or spend an inordinate amount of time piecing together small grants from private foundations and other contributors.

Another important concept in transportation policy is that, like the housing industry, *government support is not viewed as charity but rather as an investment in the economic development of a community.* This concept shapes policy development. Transportation legislation is often designed to encourage private sector investments and partnerships. ISTEA, for example, taps private lenders as a source for funding transportation improvements and allows federal funds to be used to leverage these investments. The legislation also allows private entities to own toll roads. New York State allows private entities that operate a transit system to apply for state matching funds and use fare revenues as the match.

Early childhood care and education policy, however, has failed to recognize that child care and early education programs are part of a growing industry, one that generates significant income for local communities in the form of increased tax revenues and the purchase of goods and services. In New York City licensed child care providers represent a more than $650 million industry and directly employ more than 26,000 people (Expanding Child Care Opportunities, 1997). In San Mateo County, California direct child care employment is comparable in size to the motion picture and air transportation industries. Indirect employment is significant as well. For every $1 million consumers spend on licensed child care operations in San Mateo County over a one-year period, more than 52 jobs are created. In contrast to other industries that are more global, virtually all jobs created by the child care industry remain in the community (National Economic Development and Law Center, 1998) Research conducted in North Carolina has demonstrated that child care subsidies pay for themselves almost immediately, and in real dollars returned to the government through taxes on family earnings and employment and taxation of the child care industry (Rohacek and Russell, 1996.)

Building on the concept of public support as a tool for economic development, *transportation policy has effectively used economic incentives to ensure that contractors meet performance standards rather than relying solely on regulation and/or contract monitoring.* For example, a developer who receives a contract to repair roads may be required to rent the lanes of the roads on which they are working, and may be charged higher rents during peak hours. In this way, developers are encouraged to complete the job quickly and, when possible, to work in the evenings or during off-peak hours. The early care and education field could use similar strategies. An excellent example is a new loan program that was developed as part of Florida's *Caring for Kids* initiative. Child care programs may borrow up to $10,000 at 2% interest. However, 100% of the loan principle will be refunded if the program complies with all terms of the loan, remains in business for at least two years, and becomes accredited within six months of loan repayment (Cross, 1998).

Finally, transportation policy takes an unusually broad view of the field, and *provides support for a number of public services that are affected by, or have an effect on, transportation systems*. For example, ISTEA makes federal funds available for bicycle and pedestrian projects as well as for the development of High Occupancy Vehicle lanes (that encourage car pooling) and new off-peak toll strategies (to help reduce highway congestion at peak travel times). These efforts are designed to reduce stress on transportation systems by making alternative modes of transportation more attractive. Federal ISTEA funds can also be used for efforts that mitigate damage to wildlife and historic sites, promote safety, and reduce the air pollution caused by automobile emissions.

The early care and education field could benefit tremendously from this sort of broad thinking. All too often early childhood leaders focus exclusively on structured, center-based approaches to early learning, and fail to acknowledge the many and varied ways that early care and education can be provided. For example, creating methods to reduce the need for infant care, which is very expensive and often difficult to provide, could help reduce stress on the child care industry. One approach might be to think carefully about how informal child care provided by relatives, friends and neighbors can be included as part of a high-quality early childhood care and education system. While these settings are often viewed as inferior to more structured center-based or licensed family child care, they can potentially offer the one-on-one attention that nourishes babies as well as the flexibility that many families need. Similarly, the field needs to develop and promote strategies that encourage paid parental leave. Minnesota has begun experimenting with several approaches. These include allowing families who stay at home with their newborn child to claim a dependent care tax credit of up to $2,400, and creating a new At Home Infant Care program that will provide up to one year of monthly stipends to enable low-income parents to stay home and care for a new baby. New Jersey has also considered expanding the Temporary Disability Insurance program to provide short-term financial support for individuals who must remain at home for care for a newborn child or ill family member.

The need to go beyond structured child care and education programs is also an essential strategy for school-aged children. The National Institute for Out-of-School Time at Wellesley College has recognized this need and begun to focus on ways of supporting a wide range of community activities for children during what they refer to as “out of school time”.

CONCLUSION

Many states and communities have begun to think critically about early childhood care and education policy and to develop new systems and approaches. This paper is designed to support that exploration, to offer new ways of thinking, to pose thoughtful questions, to suggest ways to build on what works and restructure policy that has not been effective. Throughout this process several overarching themes have emerged; themes that have broader implications for the early childhood community and which warrant further discussion. These include questions such as: What are the most effective ways to promote universal access to early care and education? How can economies of scale (and the political clout that often accompanies large-scale industries) be obtained in a field that is not only fragmented but based largely on a diverse array of small, independent businesses? It is possible to move away from the notion that child care is charity and begin to view the field as an industry that contributes significantly to the economy? These questions frame many of the next steps, and are explored briefly below.

Universal Coverage

Housing, higher education, health care and transportation are viewed as services that should be available to all families, regardless of income. To this end, public policy in these areas has focused on ensuring universal access. Public subsidy for early childhood care and education, on the other hand, has focused primarily on low-income families. Building the public support and infrastructure necessary to effectively finance a system of early care and education will require a more universal approach.

There are many ways that universal access to early care and education services might be achieved, including additional direct subsidies to programs and/or families, improved tax policies, new private sector investment incentives, and so forth. Each of the four fields examined in this paper uses a combination of strategies. Government makes subsidies directly available to institutions of higher education as well as entities that build and support transportation systems and housing projects. These subsidies are designed to support the basic infrastructure, so that services are available to families in many locations. In addition to direct support, each of the fields has developed a system of portable subsidies that are made available to help families purchase the services they need. These portable subsidies are often, but not always, targeted to low and moderate income families. Portable subsidies may be offered in the form of tax credits, vouchers, scholarships, subsidized loans, and so forth. Many approaches can be effective.

Combining institutional or program support with subsidies to families makes it possible to include family fees in the financing system. Base funding to programs ensures that high quality services are available and that user fees are reasonable. Portable subsidies to families ensure that low and moderate income families can afford to purchase the service. Combining the two ensures that families are able to select the most appropriate services from a range of options and that the services are responsive to the needs of consumers.

Economies of Scale

A key difference between early care and education and the four fields examined in this paper is that early childhood programs–unlike their counterparts in other industries–tend to be very small. The average child care center, for example, serves approximately 70 children (Neugebauer, 1998). Providing direct support to many small practitioners can be a challenge. Additionally, very small businesses often do not have the financial stability and fiscal expertise necessary to take advantage of many financing strategies.

Colleges and universities, on the other hand, have campuses that serve up to 50,000 students. They can afford to support a financial aid office with professional staff that focus exclusively on helping students access assistance and a development office that helps to raise additional funds to support the institution. Housing projects are built for hundreds of families, and the organizations that help to finance these projects typically "package" multiple projects into a single financing strategy to help reach economies of scale. These organizations employ a host of professionals that focus exclusively on financing. Transportation systems are equally large and also employ experts in development and fiscal management. While health care began as a cottage industry made up of individual physicians in private practice, managed care is rapidly changing the face of the industry. A number of new alliances and joint ventures have been developed to help practitioners reach economies of scale, merge costly administrative functions, and negotiate with potential clients as a group. These approaches offer some important lessons to the early childhood field.

There are a number of ways that early childhood programs can join forces and obtain economies of scale without merging. In the private sector, more and more companies are coming to realize that the future may lie in plotting common approaches to customers through relational databases and new alliances rather than plotting new strategies to compete (Konsynski and McFarlan, 1990). This is precisely what is happening to the health care industry as managed care becomes the norm. And as more and more states begin to explore managed care models for the administration of child welfare funds, human service agencies have begun to explore new alliances as well. An interesting model for these alliances is one that was developed by American Airlines many years ago–the SABRE electronic reservation system which is now used by thousands of travel agencies as well as many other airline carriers. Banks have now built on this concept with ATM networks. Hotels have developed jointly owned hotel reservation systems. Other large and small businesses have used similar strategies to develop new kinds of information, management, and marketing partnerships. Through these kinds of partnerships diverse companies can participate in joint marketing programs and gain access to new customers, sell excess capacity to other companies, take advantage of new purchasing opportunities, and develop products or services that are simply too expensive for one company alone. In short, these kinds of partnerships can make small businesses look, act, and feel big.

Imagine, for instance, if all child care programs in a region employed a single entity to market their services, enroll families, and manage billing and fee collection. This would not only expand access to new markets and streamline administrative costs, but could also help to reduce accounts receivable (which can be very high in some centers) and improve cash flow. Similarly, a group of early childhood programs could come together to develop common systems for training and recruiting staff, securing substitutes, or providing a range of family support services. Perhaps certain staff positions could be shared. Or maybe programs join forces to develop a community-wide strategy for financing early childhood services. The possibilities are numerous.

Economic Development

Another key difference between early care and education and the four fields examined in this paper is that public support is not viewed as charity but as economic development. Housing and transportation subsidies are clearly seen as investments in the construction trades as well as supports for families. There is no stigma associated with applying for higher education financial aid; it is seen as an appropriate public investment in young minds and in ensuring an educated citizenry.

Economic incentives are also used to help promote compliance with quality standards and to encourage providers to "do the right thing". Housing policy rewards investors who maintain housing in good repair and keep it rented to low-income families. Transportation policy includes measures that allow contractors to make more money if they perform repairs at night or during off-peak hours. Managed care has encouraged a host of new cost-saving and quality assurance alliances among health care practitioners. While these incentives do not replace regulation and contract monitoring, they recognize that economic development is a cornerstone of the industry and an approach that can be used strategically to achieve policy goals.

Along the same lines, each of the four fields examined in this paper has developed strategies that effectively encourage private sector investment in the industry. Housing policy has leveraged tremendous private sector investment in low-income communities, even when the housing in which they invest cannot generate enough income to repay debt. Managed care has created a host of new private sector partnerships in the health care industry. Federal transportation funds are routinely used to leverage private investment in transit systems and highways. Institutions of higher education are able to attract billions of dollars in investments and research grants each year; investments that are used to build endowments, help pay operating costs, and provide financial stability for colleges and universities. In each example the private sector has become an active partner in both building and maintaining a high quality service delivery system.

Future Research

This paper represents a first step in pulling together lessons that can be learned from a variety of fields. Indeed, further exploration into housing, health care, higher education, and transportation would no doubt reveal additional lessons. Others fields could be examined as well. Public utilities--such as water, waste disposal, and environmental conservation systems–might offer some interesting lessons in how to finance an infrastructure. A closer examination of public authorities and other governmental economic development agencies might add to our understanding of bonding and managing debt. State and local departments of taxation and finance might offer helpful insight into how to structure effective tax policies. The Small Business Administration might suggest ways to more effectively support the many small businesses that provide early care and education. While a number of individuals have explored various ways to use funds from the K-12 education system to support early care and education, additional work in this area could deepen our understanding and broaden the agenda. The emerging charter school movement, for example, might offer important lessons. Independent schools may have developed some interesting strategies as well. The public and private entities that manage disability insurance and unemployment compensation have learned a great deal about collecting and managing funds to support individuals during temporary breaks from employment. These systems can help early care and education leaders think about ways to support parental leave. Other social insurance programs, such as social security and private retirement systems, might also offer strategies for spreading costs across a large number of contributors.

In short, it is time for early care and education leaders to broaden their scope and begin to engage in dialogue with leaders from other fields. This summer experts from early childhood care and education and higher education financial aid spent two days together in Minneapolis, reflecting on their histories and exploring ways that the early care and education system might build on lessons from higher education. The meeting not only revealed some promising policy directions but was also an important step in building a body of leaders who want to think and work together. Additional dialogues of this sort could prove to be equally fruitful.

Early childhood care and education practitioners need to come together as well. There is much that the field can do on its own to pave the way for change. As managed care has grown, health care practitioners have come to realize the importance of working together in new ways. These practitioners are becoming actively involved in the change process, developing new alliances and strategies that allow them to develop more effective service delivery systems and negotiate with policy makers and managed care companies from a position of strength. Early care and education practitioners could employ similar strategies.

Leaders in the private sector also have much to offer the field. States and communities that have begun to engage the private sector in the policy process have found that new ideas and new leadership abound.

In short, reaching out to leaders and creative thinkers in other fields is an important step in helping the early childhood field develop effective public policy. This paper expands upon recent efforts and encourages this process. Several next steps for further exploration are summarized in the following pages.

SUMMARY OF NEXT STEPS

The purpose of this paper is to spur inventive thought and action and move the field closer to strategies that can generate the widespread support and financing needed to establish a strong, high-quality early care and education system. Many of the ideas that have been raised require additional exploration. In many cases it may be premature to make specific policy recommendations. There are, however, a number of next steps that can be taken. These have been summarized below.

Explore methods of restructuring the early childhood care and education financing system so that programs may receive direct aid <u>and</u> portable aid. Direct aid could be made available as "base funding" and used to help keep parent fees affordable, or as "special purpose funding" and used to support specific initiatives such as: staff development, facility improvement, special equipment and supplies, on-site social services, and so forth. Portable aid could be made available in the form of child care vouchers, purchase-of-service contracts, tax credits or scholarship programs designed to assist families who cannot afford to pay full fees.

Who should be involved: Exploring new methods of financing early care and education will require that leaders in many sectors of the system–community-based child care, public prekindergarten programs, Head Start, home-based programs, early intervention, and so forth–begin to work and plan together. It is time for all sectors of the field to acknowledge that there are many ways to structure, support, and finance high quality early care and education services. The key, As Kagan and Cohen have stressed, is to halt our tendency to allow initiatives to emerge and haphazardly from different systems and agencies and to instead create a comprehensive, coordinated structure into which the various pieces can fit.

Develop a host of new (or revised) tax strategies to finance early care and education services. This includes initiatives that: generate the equity needed to build or renovate child care facilities, encourage business investment (capital or operating) in early care and education, help families pay for early care and education, and encourage the use of high quality early care and education programs. Methods to effectively market these new tax benefits to consumers and investors should be developed as well.

Who should be involved: Individuals with experience in creating and administering effective tax policies in other fields, such as housing and economic development, can be key partners in this effort. Representatives from state and federal budget offices also have a lot to offer. Individuals involved in building and/or purchasing child care businesses can be helpful informants as well. Early childhood organizations with national networks, such as the National Association of Child Care Resource and Referral Agencies (NACCRRA), the National Association for the Education of Young Children, the National Child Care Association, and others, will be important partners in developing strategies to market the new policies.

Bring together individuals from the public and private sector to explore the feasibility of creating an early childhood loan program for families. Government subsidized low-interest loans, similar to those available for higher education, could be made available and repayment could either be delayed until the family income is higher and more stable or spread out over a fifteen year period so that monthly payments are small and manageable. The loan program could also be financed privately, and administered by a private sector entity, similar to the kinds of loans that are currently available through lenders such as Academic Management Services.

Who should be involved: Leaders from higher education financial aid as well as the financial aid offices in independent schools could provide helpful guidance in further exploring the development of a loan program. Representatives from private entities that currently administer independent school loan programs (such as Academic Management Services, Key Bank, and First Marblehead) could be important resources as well.

Bring together experts in development to explore the feasibility of building endowment funds to help finance early care and education. It might be possible to establish a community-wide endowment fund that is built and managed by a local community foundation. This approach would lend scale (a larger pool of alumni and friends from multiple early childhood programs) and development professionals (from the community foundation) to the endeavor.

Another approach might be to work with an established institution--such as a college or independent K-12 school--to use a portion of their current endowment proceeds to help provide long-term operating support to an early childhood program. Effectively implementing the latter approach would require building support for the notion that supporting an early care and education program is just as much a part of the school's mission as supporting a science lab, a swim team, a student activity center, a special arts program, and so forth. Many schools still believe that the early care and education programs they house can–and should be–self supporting, and oppose efforts to provide the program with ongoing operating assistance or in-kind support. Creating a body of knowledge (and effective written materials) to help counter this notion could be an important step in convincing more educational institutions to house and support early care and education programs.

Who should be involved: Development experts from private foundations, colleges and universities, and independent schools could provide helpful guidance in structuring and marketing an endowment fund. Experts from public sector finance (especially those who work with financing strategies for public utilities such as water and sewer systems, public housing, and public transportation) might offer ideas for developing public/private partnerships to help finance the fund.

Representatives from colleges and independent schools that have provided strong, ongoing support for the early care and education programs they house would be key partners in exploring methods to expand this sort of sponsorship. The National Coalition for Campus Children's Centers would also be an important resource.

Bring together a group of child care providers to explore the feasibility of establishing new strategic alliances that can create economies of scale and help early childhood programs become more efficient and more financially stable. Modeled on the Management Services Organizations or Administrative Services Organizations established within managed care, these kinds of alliances might allow providers to consolidate–or jointly contract for--such administrative costs and operations as billing and fee collection, management of the USDA Child and Adult Care Food Program, accounting, purchase of equipment and supplies, staff development (or possibly some shared staff), janitorial services, transportation, social services, marketing, and so forth. Additionally, forming this type of alliance might allow a select group of providers to negotiate together to provide services for the public sector, an employer, or a group of employers.

Who should be involved: Many organizations could provide leadership for building these sorts of alliances at the local level, including the United Way, community foundations, provider organizations, Child Care Resource and Referral Agencies, small business support centers, and so forth. The players will vary from community to community, based on strengths, resources, and history. Some communities might decide to build alliances among like providers, such as a group of child care centers that serve a specific region. Others might choose a cross-sector approach, and build a network of providers with complementary services (such as a provider group that includes child care centers, family child care homes, in-home providers, part-day programs, and so forth, and comes together to market their services to specific employers or to government.) Others may choose to join forces around a specific task–such as staff development, enrollment, bookkeeping or billing. The possibilities are endless.

At the community level, conducting a survey of the needs around which strategic alliances could be built, and the providers who might be interested in becoming involved, could be helpful first steps. Exploring the strategic alliances that have been formed among other community organizations would be another useful step.

Explore the feasibility of establishing a standard application form or eligibility determination process for early care and education funding. States and communities that have focused on developing common forms and procedures, and simplifying the intake process, have demonstrated that it can be done. Florida is an excellent example. But state and local initiatives can have only limited impact on Head Start, which is directly accountable to the federal government, and often have trouble integrating funds administered by local school boards.

Who should be involved: Child care leaders from the public and private sector in many states and communities are already coming together to address this need. What is missing is leadership from the federal government on how Head Start can be more effectively drawn into this process, and leadership from state education departments on how to involve school districts that sponsor prekindergarten programs. Entities such as the College Scholarship Service (CSS) and the School Scholarship Service (SSS) could also be helpful partners, especially in exploring ways to better coordinate funding from the private sector and in reevaluating methods of assessing need.

Explore the feasibility of using early childhood program accreditation as a common funding standard for high-quality programs that receive institution-based funding. To ensure that families have access to a wide range of child care options, including informal, home-based child care, state and local regulatory requirements could continue to be used as a minimum floor for licensing. But these minimum regulatory requirements would not be the benchmark used to measure or reward quality. Program accreditation would be the measure of quality, and all funders would work together to ensure that early childhood programs received the assistance and support they need to achieve this goal. By using early childhood program accreditation as a common standard, the practice becomes a strategy for demonstrating and encouraging quality improvement throughout the early childhood care and education system as well as a unifying force to help bring the fragmented system together.

Who should be involved: The National Association for the Education of Young Children has sponsored several conferences, commissioned papers and issued publications on various aspects of accreditation and public policy. This leadership has been vital, and should be continued. Additionally, the public and private sector funders in specific communities and states (such as public sector social service, education, and health departments; regional Head Start representatives; local school districts; private foundations; United Way; faith-based funders, and so forth) could be brought together to explore how they could work together to promote and support accreditation as a common funding standard as well as a benchmark for high quality early childhood programs.

Explore the feasibility of assigning a "primary practitioner" to each family that receives an early care and education subsidy. This individual would be responsible for coordinating the family's child care and early education needs and ensuring that all children in the family receive consistent, high-quality nurturing and early education opportunities. As the various sectors within the early care and education system come closer together and begin to develop common strategies for financing and administering services, the need for a "primary practitioner" may become even more important. This practitioner could not only develop strategies to encourage continuity and communication among the various caregivers used by the family but also help to coordinate financing and service delivery.

Who should be involved: Intake and family support staff from all parts of the early care and education system could work together to explore how this practice might occur. Many methods for referring and/or enrolling children and their families could be developed. These strategies are most likely to be effective if they are developed at the local level, with support and flexibility from policy makers and funders at all levels of government and in the private sector.

Explore the feasibility of allowing child care management agencies (e.g. private sector entities that manage child care subsidy funds) the independence and flexibility they

need to improve quality and offer some structure to a highly unstructured industry. Giving child care management agencies more authority to select and negotiate with the providers in their network might allow them to balance cost, quality, accountability, and choice in ways similar to those currently used by managed care organizations. A more careful and detailed analysis of how managed care organizations build and monitor provider networks, and how the public and private entities that contract with managed care agencies are assured that this network meets consumer needs, is an important next step.

Who should be involved: Key informants for this effort might include: individuals involved in building and managing managed care provider networks, individuals involved in monitoring the performance of managed care companies, representatives from states that currently contract with child care management agencies to administer child care subsidy funds, Child Care Resource and Referral agencies and/or other child care fund management agencies, and child care providers.

Consider licensing early care and education practitioners. Efforts to ensure quality in early care and education are typically focused on the program or facility rather than the teacher or caregiver. Research has demonstrated, however, that it the most crucial element of quality is the relationship between the caregiver and the child, a relationship that is strongly affected by the caregiver's understanding of child development. In all states individual licensure is a minimum requirement to practice in many fields, including those who teach in public schools. The Quality 2000 Initiative, sponsored by the Bush Center in Child Development and Social Policy at Yale University, recommended that states require early care and education practitioners to be licensed. The report issued as part of this initiative, *Not By Chance: Creating an Early Care and Education System for America's Children*, identifies a number of steps states should take to begin implementing this recommendation.

Who should be involved: State policy makers, as well as individuals involved in early care and education career development initiatives in the states, could provide vital leadership for this effort. Representation from the private sector (business and philanthropy) could be helpful as well. Additionally, early care and education practitioners need to be involved in all aspects of the process.

Think carefully about how early childhood care and education funds and initiatives can be used to support a wide range of strategies that promote early learning and

nurturing. Transportation policy wisely recognizes the importance of supporting a wide range of strategies that reduce congestion on public transportation, roads and bridges. These include bicycle and pedestrian projects, High Occupancy Vehicle lanes (that encourage car pooling) and new off-peak toll strategies (to help reduce highway congestion at peak travel times). Similarly, early care and education policy makers could explore methods to reduce the need for infant care (which is very expensive and often difficult to provide) by supporting paid parental leave or new strategies that draw relatives, friends and neighbors who provide early care and nurturing into the broader early childhood care and education system.

Who should be involved: Individuals who are familiar with social insurance initiatives such as Temporary Disability Insurance could be key informants in developing strategies for supporting paid parental leave. Representatives from businesses that provide paid parental leave–and have found the initiative to be beneficial to the company–would be vital partners. Union representatives could also be helpful partners in this exploration. If tax strategies are used to support paid parental leave, all of the individuals noted under the tax strategies step should be involved.

Many players could be involved in exploring strategies for drawing relatives, friends and neighbors who provide early care and nurturing into the broader early childhood care and education system. Child care resource and referral agencies that have worked with “informal”, unregulated child care providers can be an important resource. So can representatives from family support centers and programs. Head Start agencies have done an excellent job of reaching and supporting parents and family members. Many of these individuals may also be informal caregivers to children who are not old enough to be in Head Start, or to Head Start children before and after the program.

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