Smarter Reform
A National Policy Agenda for an Early Care and Education System
October 2006

Louise Stoney and Anne Mitchell, co-founders of the Alliance for Early Childhood Finance, offer a five point plan for early care and education from the federal/national perspective. The paper, *Smarter Reform: Moving Beyond Single Program Solutions to an Early Care and Education System*, offers a fuller description. To access this paper, go to:
http://www.earlychildhoodfinance.org/downloads/2006/MitchStonSmarterReform_2006.pdf

While the Alliance recognizes that an effective early care and education system is multi-faceted and includes efforts to promote early learning, health and family support[1], this policy agenda is focused primarily on the early learning system and is linked to the key principles identified in our paper. We have purposely not addressed every need, nor mentioned every existing categorical funding stream or element of infrastructure. Our agenda is meant to be thought-provoking rather than completely comprehensive. Our goal is to encourage policy makers and early education leaders to explore new ways of structuring and financing policy that promotes early learning. We describe below specific federal actions that support each of our key principles.

Build an Early Care and Education *System* for all of America's children and families.

The current fragmented, "families fend for themselves" approach does not work. A majority of families cannot afford good early care and education, especially working- and middle-class families because they are not eligible for most public help (e.g., do not qualify for Head Start or targeted pre-K, are over-income for child care subsidies and do not receive significant benefit from tax credits). The system we envision is modeled loosely on the higher education system. The public and private marketplace continues with appropriate supports to make it work better. A proposal:

- ► Federal legislation that creates financial incentives (e.g., requirements in order to get the funding) for states to develop early care and education (ECE) systems. The legislation would provide matching federal funds to states that:
  - Develop a plan for an integrated early care and education system for children birth to age five, that is state-wide and community-based;
  - Set standards for programs and for the professionals who work in them. Quality Rating and Improvement Systems (QRIS) are an excellent way to do this because they are 'market-based' and can apply to a wide range of programs, for all types of families, funded by a range of sources.
  - Make funds available to support improvements in ECE programs.
  - Make funds available to support improvements in ECE teacher quality.
  - Offer a range of financial supports to help families pay for early care and education.

In 2002, an early care and education bill was introduced by Senators Kennedy, Gregg, Murray, and Voinovich (S. 2566), that might have provided a suitable framework. New federal funds – *above the current total federal investment in early care and education* – will be needed to effectively develop and implement these plans (see point five, below, for funding details.)

Make services universally available. Ensure that *all* children and families have access to high quality, affordable, early care and education. Although state and local governments play a key role in building an effective early care and education system, federal leadership is crucial. Indeed, the bulk of ECE funding currently comes from the federal government and is then augmented by states and localities. Effective reform will require that all levels of government work together to develop a range of economic supports – for families at all income levels as well as for ECE programs and practitioners. These supports can be direct government expenditures as well as indirect expenditures through the tax system. Specific examples:

- ► Expand income-based financial aid for low-income families, and make it flexible enough to support children of all ages while their parents are working, when they are between jobs or going to school. Currently, most child care assistance is available for children of all ages but limited to those whose parents are engaged in an approved work or training activity. Head Start and PreK funds do not have work requirements, but are generally aimed at 3- and 4- year-olds. Both systems need to change. Child care rules must be flexible enough to help poor children obtain the early learning opportunities they need, regardless of their parents work status; Head Start must be flexible enough to serve children under age five so that communities can determine the right mix of services to meet family needs.

- ► Expand tax benefits for middle-income families who currently pay high prices for quality care and education. Possible proposals:
  - o Increase the amount of the federal income tax exemption for children (dependents) so that it matches the true cost of raising a child. This has significantly decreased in value since first instituted in 1948. And/or increase the value of the federal Child Tax Credit (now $1,000 and slated to drop back to $750).

  - o Reform the federal Child and Dependent Care Tax Credit (CDCTC) so that it really helps middle- and lower-income families and supports both care and education. To make it work:
    - Index expense limits to the average price of quality ECE nationally.
    - Make any expense for care and education eligible (not just work-related expense).
    - Make the credit refundable so families with little or no federal income tax liability can benefit.
    - Increase the value of the credit to 50% of total ECE expenditures for families at or below median income and phase it out to 10% for families over $200,000.
    - Link the credit to program quality. For example, the credit amount could be doubled for taxpayers who enroll their child in a high quality program (e.g., nationally accredited or at

the top level of a state's quality rating system). Or the credit could be linked to QRIS levels: 150% of the credit for programs that participate in a state QRIS and have attained at least 1 level above minimum licensing standards, up to 200% for those at the top level. States could be required to establish a statewide website that lists providers that have attained this status; parents would go to the website, find their provider's number, and include that number on the tax form.

Improve quality, with clear performance indicators to measure accountability. There is ample research on what constitutes a quality program and what early childhood professionals need to know to be effective teachers. States are using this research to develop quality rating and improvement systems. They are also investing in ECE workforce development and improvement initiatives. As noted above, this work deserves federal recognition and encouragement. QRIS and workforce development can be used to guide financial incentives for early childhood programs and practitioners, designed to simultaneously encourage them to attain higher quality while also providing the financial supports they need to do so. It is possible to create these incentives as direct government expenditures as well as tax benefits. Possible proposals include the following:

- Make it clear that states can spend federal funds to provide ongoing operating *grants* to early childhood programs that meet state quality standards. These grants can be in addition to the financial aid they receive for services provided to low- and moderate-income families. The model here is higher education. Base funding is provided to the institution, to ensure that it can meet quality standards and charge generally affordable tuition prices. Scholarships are provided for low-income families to help them pay tuition and are an addition to the base funding, not a replacement for it.

- Create a refundable tax credit to promote quality improvement in ECE, linked to the state's quality rating and improvement system. For example: an ECE program that attains a top-level star rating could apply for a refundable tax credit of $1,500 per child; an ECE program that attains a mid-level rating could apply for a refundable tax credit of $500 per child. A program that has just applied to participate in the star-rating system could receive a one-time, quality investment tax credit.[2] The same website used to help parents find their ECE program rating for purposes of attaining a higher DCTC (described above) could be used to verify eligibility for the provider credit.

- Create a refundable tax credit for qualified ECE personnel. An ECE compensation program (like those currently operating in many states, which offer a wage subsidy to practitioners who have attained higher levels of education) could be converted into a tax credit. Instead of getting the wage subsidy in a check from the agency managing the compensation program and having to pay estimated taxes on it, the practitioner would get the money in the form of a refundable tax credit.[3] States could be required to establish a statewide web-based registry of practitioner qualification levels and/or a multi-level license for an individual to practice as an early childhood educator, which could be used to verify practitioner eligibility for the credit.

Respect the *value* of children and the families who raise them. Families need *time* to be with their children to do a good job of parenting and be productive workers. They need less stress in their lives. Parenting education can't work if parents do not have the time to engage with their children in relaxed and meaningful ways--and few working families have this privilege. The concept of family support must be extended to include financial supports, and more family time, for parents. Possible proposals:

- ► Make the Family and Medical Leave Act *paid,* providing federal and state support for initiatives such as the new California law which adds a modest percent to disability insurance to cover family and medical leave. (Using the unemployment compensation system – or crafting a public/private financing strategy similar to the State Child Health Insurance Program – are other possible approaches.)

- ► Enact the 'Win-Win Flexibility legislation' proposed by the New America Foundation, which is modeled on a highly successful law in the United Kingdom that permits families with children under five to request work flexibility such as shorter hours, flex-time, etc. without loss of benefits.

- ► Support federal legislation such as the Healthy Families Act (Kennedy-DeLauro) which would require employers with at least 15 employees to provide paid sick leave for all employees to be used for their own or a family members' illness.

- ► Support the Choices in Child Care Act (H.R. 5992, S. 3797) recently introduced by Senator Clinton and Representative DeLauro that would establish demonstration projects in 5 to 7 states to allow eligible low-income parents to receive a subsidy to care for their infants in their own homes in lieu of a child care subsidy.

- ► Make family-friendly workplace policy a national priority. Require all government contractors to have (at least some) family friendly policies. This could include flextime, tele-commuting, paid family leave, high-quality part time jobs with benefits, etc.

Increase public investments and leadership focused on promoting high-quality early care and education. This is the money side of principle number one. There are many ways to do this, including:

- ► Fully fund existing programs such as CCDF and Head Start/Early Head Start. Require states to create a plan that coordinates these and other federal and state funds (as described in point one, above) and establish a single, coordinated national office of ECE to provide cross-system leadership.[4]

- ► A bolder proposal – and our preference – would increase federal investment and fold existing programs into a new, much bigger, Early Learning Block Grant (ELBG) to states that would:
  - o Pay direct financial support to programs that meet quality standards.

- Create an income-based financial aid system (using both expenditure- and tax-based mechanisms) for all families using a combination of federal, state, local and private funding. These funds would augment – not replace – direct financial support to programs.
- Include the quality standards, financial support and infrastructure necessary for programs and practitioners to deliver effective early care and education.

As noted in principle one, above, states that receive ELBG funds would be required to prepare a statewide plan for an integrated early care and education system for children, birth to age five and the amount of funding to support this Early Learning Block Grant must be greater than the sum of the programs combined to create it.

For more information on the Alliance for Early Childhood Finance, and to download copies of our publications, go to: www.earlychildhoodfinance.org.

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[1] An early childhood development system has several interrelated parts working together toward a common goal: to ensure the healthy growth and optimal development of all young children in the context of their families. The major parts of such a system are early learning, health, and family support. Early learning means early care and education opportunities in nurturing environments where children can learn what they need to succeed in school and life. Children with special health care needs, disabilities, or developmental delays need to be identified as early as possible, assessed, and receive appropriate services. Early intervention includes direct services to children, in inclusive settings, and supports to their families. Family support means the economic and parenting supports to ensure that all children have nurturing and stable relationships with caring adults. Other services, supports and infrastructure not spelled out in this agenda may be needed, especially in situations where children have special needs, are at risk of abuse or live in families with high levels of stress or economic insecurity.

[2] This idea is modeled on a proposal that was developed several years ago in Colorado but not enacted.

[3] This idea is modeled on legislation that was drafted in New York State several years ago.

[4] This is the exact opposite of the recent reorganization of child care and Head Start within HHS.