

***Toward High Quality Early Childhood Education:
An Imperative for the Regional Economy***

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Introduction

A gap exists between the current status of child care in the U.S. and best quality child care. This gap is unfortunate, because high quality child care is associated with many short- and long-term economic benefits for both the children and society as a whole. A growing body of research indicates that high quality early childhood care and education can be one of the best economic development investments a local or state government can make.

The general consensus among researchers is that high quality early childhood programs result in better school readiness, both academically and socially. This foundation then results in better long-term outcomes, including higher wages, lower crime, and healthier families. For impoverished and disadvantaged children, the benefits are even greater.

Research may not be wholly conclusive as to the definition of high quality care, but in the broadest terms it includes highly qualified, well trained caregivers. Such caregivers, in turn, require higher wages, but should generate lower turnover. Accreditation by an independent third-party accrediting agency can also be a good indicator of quality. These research-based measures of quality are not only easy for policymakers to understand, but are quantifiable and thus easier to measure. Policy intent on improving child care quality often takes the form of incentives aimed at improving caregivers' performance on these measures.

Highly qualified caregivers and accreditation are very costly and often raise the price of childcare beyond the means of most parents. This may be one reason parents may not be demanding higher quality care; but another may be that parents judge quality based on different, less costly, factors. The failure of the market to demand and deliver what research has shown to be the most beneficial child care services indicates that a new public policy regarding early childhood care and education may be needed.

One rationale for intervening in the market, despite the generally high level of satisfaction among parents, is the societal good that would result from the investment. Arguments of this type call for addressing child care as a societal problem and not a private family problem, such that high quality care can be seen as a merit good with benefits for society as a whole and not just the individual child in care. Most often this societal viewpoint is focused through a lens of social justice, equity, or family capacity.

An alternative lens is also appropriate, however, which may garner greater attention from state and local policymakers: early childhood care and education as an economic development tool.

High Quality Care and Economic Development

Public investments in high quality early childhood care and education can yield short-term and long-term economic returns. In many areas of the country, high quality early childhood care and education is an economic development tool.

It is, in fact, three economic development tools. First, it is a short-term tool for allowing **parents** to be productive in their workplaces. Second, it has long term implications for the education and human development of the **children** in care. Third, improving the quality of care is both a short- and long-term workforce development tool for the **child care industry**, producing high wage jobs and stimulating the regional economy.

Examples of the **long-term** outcomes associated with higher quality early childhood programming, include:

- **School-readiness:** Numerous studies find improved language development, literacy skills, cognitive skills, and fine motor development (Peisner-Feinberg, E.S. et al., The relation of preschool child-care quality to children's cognitive and social development trajectories through second grade. *Child Development*, vol. 72(5), 2001).
- **Social skills:** Social competence impacts school readiness skills. High quality early childhood education has been found to promote a positive sense of self as well as trust in others (Van Zant, S. & Camozzi, V.A., Right from the start. *American School Board Journal*, vol. 179, 1992).
- **IQ:** Time spent in high-quality child care results in higher IQs, with effects lasting through Kindergarten (La Paro, K.M. & Pianta, R.C., Predicting children's competence in the early school years: A meta-analytic review. *Review of Educational Research*, vol. 70(4), 2000).
- **Achievement tests:** Researchers find significant improvements in test scores, which continue through one or more grade levels in many studies. A smaller number of studies have found persistent gains in test scores (Barnett, W.S., Long-term effects of early childhood programs on cognitive and school outcomes. *The Future of Children*, vol. 5(3), 1995).
- **Delinquency:** The Perry Preschool study found lower rates of law-breaking and arrests among program participants even through adulthood. A state-funded Florida program found fewer behavioral problems as late as fourth grade (La Paro, K.M. & Pianta, R.C., Predicting children's competence in the early school years: A meta-analytic review. *Review of Educational Research*, vol. 70(4), 2000).
- **Health:** The Abecedarian study found that program participants reached adulthood less likely to smoke or to have become pregnant as teenagers (Masse, L.N. & Barnett, W.S., *A Benefit-Cost Analysis of the Abecedarian Early Childhood Intervention*. National Institute for Early Education Research: New Brunswick, NJ, 2002).

- **Social capital:** The Perry Preschool study found participants had higher rates of school attendance and better interpersonal relationships with friends and neighbors than non-participants. For girls, there were higher rates of marriage and lower rates of out-of-wedlock births (Schweinhart et al., *Significant Benefits: The High-Scope Perry Preschool Study through Age 27*. High Scope Press: Ypsilanti, MI, 1993).
- **Earning capacity:** Adults who were participants in the Perry Preschool study were more likely to earn higher wages than non-participants (Schweinhart, 1993). Similar outcomes have been found for Head Start participants (Garces et al., Longer-term effects of Head Start. *American Economic Review*, vol. 92(4)) and participants in the Abecedarian study (Masse, L.N. & Barnett, W.S., *A Benefit-Cost Analysis of the Abecedarian Early Childhood Intervention*. National Institute for Early Education Research: New Brunswick, NJ, 2002).

The more **immediate** benefits include:

- **Parenting skills:** The Chicago Child-Parent Center program has found that participating families have significantly lower rates of court petitions for maltreatment than non-participants (Reynolds, A.J. & Robertson, D.L., School-based intervention and later child maltreatment in the Chicago longitudinal study. *Child Development*, vol. 74(1), 2003). Other studies have found that parents who observe care-givers' interactions with their children improve their own parenting skills (Karoly et al., *Investing in Our Children: What We Know and Don't Know about the Costs and Benefits of Early Childhood Interventions*. RAND: Santa Monica, CA, 1998).
- **Parental employment and wages:** Parents of children in high quality child care programs are better able to find and keep work (Benasich et al., How do mothers benefit from early intervention programs? *Journal of Applied Developmental Psychology*, vol. 13(3)). The Abecedarian cost-benefit study found the greatest benefits accrued from the program were the increases in the earnings of the participants' mothers (Masse & Barnett, 2002). In Milwaukee County alone, child care is estimated to allow 21,000 parents to work, earning \$538.5 million annually (Levine, M.V. & Fendt, P.S., *The Economic Impact of Child Care in Milwaukee County*. UWM Center for Economic Development: Milwaukee, WI, 2002).
- **Economic activity generated:** Licensed and certified child care providers in Milwaukee County generated an estimated \$203.7 million in gross receipts in 2001. In addition, the purchasing power of the providers and their 7,200 employees generated an additional \$351 million in the county's economy in that year (Levine & Fendt, 2002).

The total impacts of these short- and long-term benefits have been calculated in several different ways. Many studies present their findings in terms of "return on investment."

The Perry Preschool project found a return of \$7.74 for every \$1 invested (Barnett, *Lives in the Balance: Age 27 Benefit-Cost Analysis of the High/Scope Perry Preschool Program*. High/Scope Press: Ypsilante, MI, 1996), a finding very similar to that of the Chicago Parent-Child Centers study, which found a return on the dollar of \$7.14 (Reynolds. *Age 21 Cost-Benefit Analysis of the Title 1 Chicago Parent-Child Centers*. Institute for Research on Poverty, 2002). The Abecedarian study estimated that between \$2 and \$3.66 was returned for every dollar invested (Masse & Barnett, 2002). The Federal Reserve Bank of Minneapolis found the rate of return for private and public investments in high quality child care is a significant 16 percent (Grunewald & Rolnick, Early childhood development: economic development with a high public return. *The Region* vol. 17(4) Supplement, Federal Reserve Bank of Minneapolis, 2003). Finally, the Economic Policy Institute found that, at a minimum, high quality preschool programs earned a 3 to 1 return on investment (Lynch, *Exceptional Returns: Economic, Fiscal, and Social Benefits of Investment in Early Childhood Development*. Economic Policy Institute, 2004).

Thus, in all its roles, child care is part of the foundation of a region's economy, its infrastructure. And, like roads and other items of infrastructure, high quality child care benefits both today's and tomorrow's workers, improving the economy through 1) more productive working parents, 2) higher wages for child care providers, and 3) better outcomes for at-risk children. Because of the failure of the child care market to supply highest quality care, intervening policy that provides incentives for quality improvements can be appropriate.

Public investments in economic development may therefore aptly include investments in early childhood education, just as they would any other infrastructure. These investments, which are often targeted at reinforcing just one of the three economic impacts, will strengthen the other two as well, resulting in a sturdy, supportive, three-legged underpinning for the regional economy.

Parents' Perspectives on Quality

To help estimate the extent to which the market's lack of higher quality care is a function of lack of parental demand, we surveyed 430 southeastern Wisconsin parents of children under age six. (See appendix for methodology.)

A survey of parents provides a unique opportunity to gauge certain unquantifiable aspects of child care quality. While researchers usually point to factors amenable to policymakers like child-caregiver ratios, staff turnover, and curricula as criteria to be used in assessing child care quality, from a parent's point of view, quality factors might be very different.

There are several reasons why examining child care quality from a parent's perspective is informative. First, parents are acting as consumers when they choose and hire child care providers, and presumably their feelings drive the market for high or low quality caregiving. Second, parents often utilize various types of child care at different points of their child's lives or with different children, allowing them to gauge quality based on

their own experiences over time. This contrasts with researchers, who are more likely to be making assessments based on either a snapshot of time or, if conducting a longitudinal study, only one type of childcare. In addition, parents measure the quality of the particular care *their child* receives, rather than the overall quality, or the care provided in general, which is what researchers measure. Finally, parents' opinions provide insight into certain important, but subjective, aspects of child care that cannot be quantified, such as how loving the caregiver is or whether the child is happy when in child care.

We utilized a set of questions developed by Arthur Emlen and colleagues at Portland State University. The 15 survey items do not use the word "quality" but are designed to measure six aspects of quality likely to be most important to parents (Emlen, A. C. et al., *A packet of scales for measuring quality of child care from a parent's point of view*. Oregon Child Care Research Partnership, Nov. 2000).

The statements are not abstract, i.e. asking parents about their state of mind. Rather, they focus on the parents' observations and perceptions of the caregiver or of certain events. The statements are applicable to all types of caregivers, from a classroom teacher to a close relative. The statements measure items that may or may not be easily monitored by parents. For example, whether a caregiver shares information is easily monitored at daily drop-offs or pick-ups, but whether a child receives a lot of individual attention may be more difficult to monitor, as it would occur when the parent is not there.

The scales are somewhat limited in that the questions are designed to be appropriate for children of all ages. An additional limitation is that because the statements are quite definite, they can only be asked of the current child care arrangement, with which a parent is presumably at least somewhat satisfied since it has not been abandoned. If the questions had asked about a past child care arrangement in comparison to the current arrangement, the distribution of scores would show more discontent. Finally, like all surveys of this type, respondents are reluctant to provide a socially undesirable answer that would reflect negatively on them as parents.

For each aspect of quality probed, there is a set of specific statements, listed below, to which parents can respond *Never, Rarely, Sometimes, Often, or Always*. The scale for each reply ranges from 5 (*Always*) to 1 (*Never*).

Emlen 15-Item Scale of Parent Satisfaction

My Child Feels Safe and Secure

My child feels safe and secure in care.

My child likes the caregiver.

Warmth of Caregiver Toward my Child

The caregiver is warm and affectionate toward my child.

My child is treated with respect.

My child gets a lot of individual attention.

My caregiver is happy to see my child.

Absence of Risk Factors*It's a healthy place for my child.**My child is safe with this caregiver.***A Skilled Caregiver***My caregiver is open to new information and learning.**My caregiver shows she (he) knows a lot about children and their needs.**The caregiver handles discipline matters easily without being harsh.***A Supportive Caregiver***My caregiver is supportive of me as a parent.**My caregiver and I share information.***A Rich Learning Environment***There are a lot of creative activities going on.**It's an interesting place for my child.*

Overall, parents indicate great satisfaction with their current child care arrangements, as indicated by the high average scores in Table 1, below. For about half of the questions (53%), 80% or more of respondents answered *Always*.

Parents are most satisfied in the categories covering safety, security, and the absence of risk factors. The next-highest scores are in the categories measuring the warmth and supportiveness of the caregiver. The categories scoring the lowest, yet still quite high in absolute terms, were those concerned with the skills of the caregiver and the richness of the learning environment.

These results indicate that parents may judge overall quality mostly by their feelings of security and their feelings about the caregiver as a person. Parents' perceptions about quality criteria that most often concern researchers, such as caregivers' skills and the learning environment, are somewhat less positive. This may indicate a gap between what parents perceive as a high quality child care provider and what research tells policymakers to perceive as a high quality provider.

Table 1: Parental Opinions of Quality

	Average
I. My child feels safe and secure	4.78
II. Warmth of caregiver toward my child	4.64
III. Absence of risk factors	4.83
IV. A skilled caregiver	4.44
V. A supportive caregiver	4.67

All parents were also asked satisfaction questions beyond the 15-item quality scale. To learn more about the caregiver's skills and the learning environment, we asked questions about what their child is learning and the resources available.

As Table 2 shows, parents are confident that there are plenty of toys, books, and music available for their children each day, but somewhat less certain that their child is read to everyday.

Table 2: Educational environment each day in care...

	Reads aloud	Plenty of toys, books, music
Often	17%	6%
Always	60%	88%
Don't know	9%	0.4%

In addition, parents give high average scores for caregiver skills with regard to helping children recognize shapes and colors, as well as ensuring children get enough physical activity, when asked to score on a scale from 1 (*Excellent*) to 4 (*Very Bad*). As Table 3 illustrates, the worst marks come from parents of infants and toddlers regarding recognizing shapes.

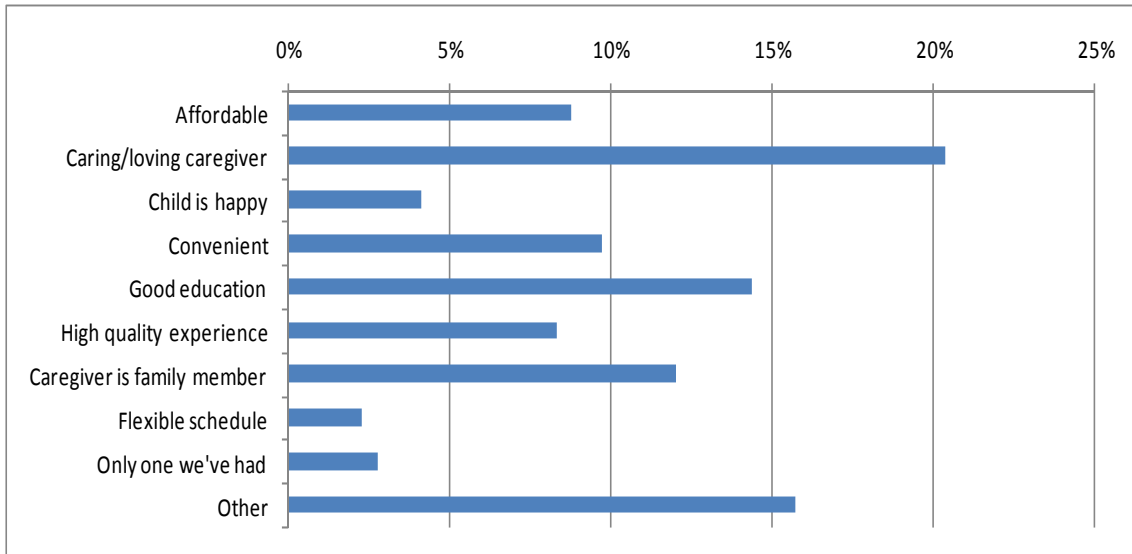
Table 3: How good is the caregiver at helping the child...

	Recognize shapes	Recognize colors	Get enough physical activity
Infant	1.5	1.3	1.3
Toddler	1.5	1.4	1.4
3 year-olds	1.4	1.3	1.3
4 & 5 year-olds	1.3	1.3	1.4

The percent of parents reporting their child's caregiver has a degree in education or early childhood development ranges from 23% for children cared for in someone else's home to 69% for children in center-based care/preschools. However, 16% of all parents were unsure.

With such high scores for quality, especially with regard to the caregiver's warmth, it is not surprising that parents are very satisfied with their current child care arrangements. When asked whether the current main arrangement was the best child care arrangement they have ever had, 71% feel that it is. When asked to name the best thing about it, the most frequent response category includes the caring and loving nature of the caregiver (Chart 1). Other categories of items mentioned frequently include a good educational experience, that the caregiver is a family member, and that the location is convenient.

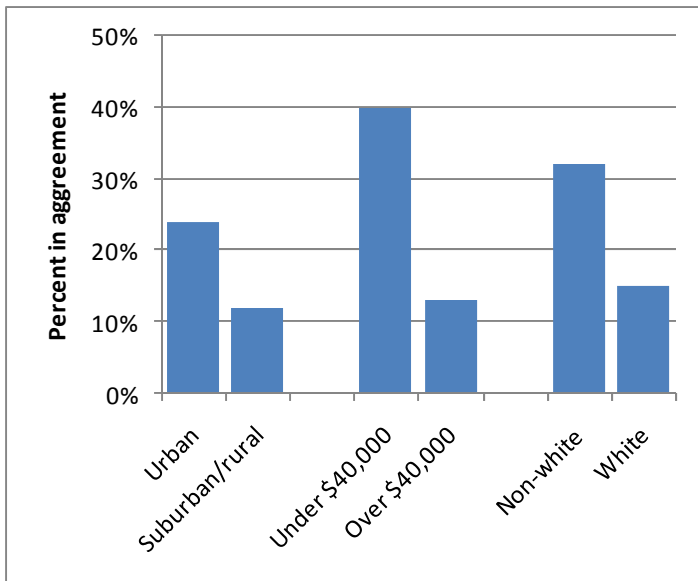
Chart 1: Why is this arrangement the best you've ever had...what's the best thing about it?



We also asked parents about how they made their child care choices. While only 25% of respondents report they had difficulty finding information about child care options, over half (56%) first found out about their main child care arrangement through a friend, neighbor or family member, indicating that personal networks are very important sources of information for parents. Only 4% of respondents first heard about their care provider through a child care resource and referral service.

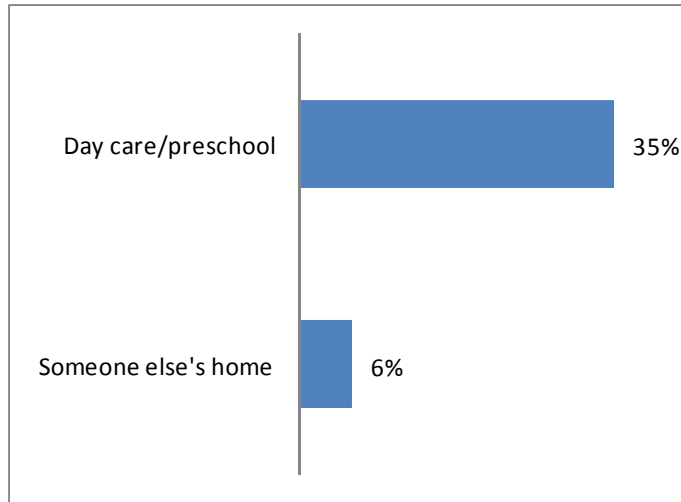
Thus, parents seem to be making choices about their child care provider based on a limited universe of information. Despite this, the vast majority of respondents disagree with the notion that they “have to take whatever they could get” in terms of child care. Of those that agree with that statement, urban, low-income, or non-white parents are at least twice as likely to feel that way as were other parents (Chart 2).

Chart 2: I've felt I had to take whatever arrangement I could get...



We also asked parents whether their child care provider is accredited. Parents using center-based care or preschools report having accredited providers at a rate nearly six times that of parents using care provided in someone else's home (Chart 3). The difference is partially attributable to those parents using informal care, such as a relative or neighbor, which is not eligible for accreditation, but also to the high cost of accreditation. Many family child care providers, being sole proprietors, cannot afford the expense of the accreditation process.

Chart 3: Rates of accreditation in southeast Wisconsin, as reported by parents



Parents in southeast Wisconsin clearly have a high level of satisfaction with their child care providers. Parental satisfaction always should be considered good news, but in this case there may be unforeseen consequences on public policy direction.

If enhancing the educational quality of early childhood care is a public policy imperative, as a means of better preparing children for school and better overcoming the impacts of poverty in the home lives of disadvantaged children, our survey results indicate that there is a mismatch between what parents find most satisfying about their child care arrangements and what policymakers may determine to be the most important indicators of quality.

The facet of quality that seems to be the most satisfying to parents is the caregiver's personal qualities and whether he or she is loving and caring. While this is a very important aspect of quality care, it is difficult to quantify and promote from a public policy point of view. Measurable aspects of quality, such as meeting certain state regulations, are much easier to promote with tax or other incentives.

This disconnect between what parents desire in a child care provider and what policymakers can measure complicates legislative efforts to improve quality. While parents in southeast Wisconsin do not appear to be clamoring for higher quality options, researchers have found evidence – from caregiver qualifications to features of instruction

and safety – that there is need for quality improvement in child care (Wisconsin Child Care Research Partnership, Quality of subsidized child care in Wisconsin. *Issue Brief* No. 6, 2002).

Policymakers should thus be aware that policies aimed at quality improvements are an interference in the child care marketplace. While parents are so satisfied with their current care that they feel it is a good value, they may at the same time be feeling a cost pinch and may not be willing to pay more for quality improvements. Also, to the extent that new quality criteria or efforts to link public funding with quality force certain providers to go out of business, there could be resistance from satisfied parents.

Finally, while all parents were highly satisfied, there were some differences among demographic groups. Parents in urban areas are less likely to feel they have enough options and are more likely to feel their provider should make some changes to improve quality. “One size fits all” policy changes may affect these populations differently.

Providers’ Perspectives on Quality

Our parent survey shows that the failure of the child care market to provide high quality care seems to be a result of lack of demand from parents. But could there also be a failure on the supply side? Do providers sense a need for quality improvements? We surveyed 414 licensed and/or certified child care providers in southeast Wisconsin to reveal, from the providers’ perspectives, the status of child care quality in the region. About half of our sample is family child care providers and the rest are center-based providers or preschools. (See appendix for methodology.)

Most of our sample (77%) indicate they are neither accredited nor working toward accreditation, which is fairly similar to the rate of accreditation reported by the parents in the prior survey. Of the family child care providers, 81% fit the category of neither being nor pursuing accreditation. When asked why accreditation has not been pursued, most indicate that it is too expensive; many also feel it is unnecessary (Table 4). Family child care providers are more likely to say they lack knowledge of the accrediting process, while center-based providers are more likely to say accreditation is too expensive. About a third of both types of providers feel accreditation is not needed in order to continue in the child care field.

Table 4: Why aren’t you accredited?

	Total	Family	Center/ Preschool
<i>No knowledge of accreditation process</i>	19%	22%	10%
<i>No money to pay for additional training, education, facility upgrades</i>	57%	42%	90%
<i>Not necessary to continue employment in field</i>	35%	31%	44%
Other	31%	30%	32%

Thus, because accreditation is costly, it is often not pursued. The rarity of accredited care causes it to be less valuable to parents, who do not currently rely on it as a proxy for quality. Policies intended to increase the percentage of accredited providers would be useful to parents, by increasing their options for accredited care, but may not be useful for providers unless funds are available to cover the costs of meeting the accreditation requirements.

The inability of many providers to pay for accreditation is further reflected in their response to the question, “*Do [parent] charges adequately fund your program’s operating expenses?*” The sample was nearly evenly split, with 49% feeling the charges are adequate and 41% feeling they are not. Among family child care providers the balance tipped, with 47% feeling the charges are too low and 43% feeling they are adequate. Furthermore, a majority (58%) of providers say they rely on funds from government (in the form of parent subsidies, usually) in their budget, with a quarter of all providers reporting these public funds supply between 90% and 100% of their budget. Among family providers these rates increase; 65% of family providers rely on government funding and over a third (36%) have budgets comprised nearly entirely of government funds.

Thus, public funds are already a substantial player in the child care market in Wisconsin. However, in this state there is not a policy link between child care subsidies and improving child care quality. The state currently spends about \$300 million per year in child care subsidies to provide access to child care, but does not use these funds to promote or guarantee high quality programs. In fact, other research in Wisconsin has shown that the subsidized child care providers with the highest enrollments of low-income children were found to be of the lowest quality, meaning that the state funds *low* quality environments for those very children who would most benefit from high quality programs (Wisconsin Child Care Research Partnership, *Are program characteristics linked to child care quality? Issue Brief No. 3*, 2001).

If Wisconsin were to support quality improvements with public financing, what should those improvements be? The message from providers is clear: caregivers are paid too little, receive little in benefits, and are unable to pursue further training.

When asked to name all the reasons staff choose to leave their child care jobs, providers gave low wages as the number one reason, with lack of health benefits ranking second (Table 5).

Table 5: Please check the common reasons past staff members have given for leaving their job.

Low wages	31%
Lack of health benefits	24%
Left for job in another field	22%
Changing careers	22%
Not a long-term career choice	21%
Other	15%
Stress of job	12%
Left to work for competitor	7%
Long hours	6%
Location of center	3%

When asked what types of benefits they provide their employees, 49% of providers did not answer the question either because they do not have employees or because they offer no benefits. Of those that did answer, over a third provide paid personal/sick days and a similar number provide reduced or free child care. Less than 20% provide any kind of health care, retirement benefits, or disability insurance (Table 6).

Table 6: Do full-time staff receive any of the following types of benefits?

Paid sick leave/personal days	37%
Child care (incl. free/reduced)	35%
Health insurance for self	19%
Tuition reimbursement	18%
Other	16%
Retirement benefits	16%
Health insurance for family	14%
Disability Insurance	14%

The providers who count tuition reimbursement as a benefit are likely those who pay for training expenses for their employees. When specifically asked whether training is paid for, 46% of all providers report they paid for training in full, while another 19% pay in part. However, when asked whether employees are paid for their time spent in training, 43% of all providers answer that it is not, while 29% pay full wages for time spent in training and 11% pay partial wages.

A caregiver's lost wages for time spent in training may explain the result to a question about problems encountered when pursuing training. Affordability ranks as the biggest issue, and the lack of funding for substitute caregivers ranks second (Table 7).

Table 7: Are any of the following problems for you or your staff when trying to obtain training?

Cannot afford	41%
Lack of funding for substitutes to replace those attending training	30%
Staff not interested in training beyond the required hours	25%
Staff not paid for time spent in training	21%
Training opportunities are not accessible	20%
Training is too elementary	16%

Providers therefore report that cost is a major factor in whether they pursue certain quality improvements such as accreditation or professional training. In addition, low wages and the lack of benefits inhibit their ability to keep qualified staff. The lesson for Wisconsin is that financial incentives or grants are needed if providers are to be of higher quality. Parents cannot be expected to pay these costs on their own; either they cannot afford to or they do not see a need for quality-related changes. Public investments look to be necessary for a quality initiative in southeastern Wisconsin.

Models for Public Financing

The models discussed here focus on financing mechanisms. The actual programs they fund vary considerably. Some fund wage initiatives for child care providers or staff; others fund quality rating systems and grants to providers to improve their rating; some are funding sources for child care subsidies or resource and referral services; a few pay for capitol improvements for center-based providers; and many fund universal or targeted pre-K programs in public school districts.

Among all these programs there is an opportunity to use the funding to improve quality. Wage initiatives, for example, can tie wage increases to continuing education and child care subsidies can provide incentives for parents to hire high quality providers. But in many cases the focus has not been quality, but access. In this way the funding attempts to strengthen the short-term economic effects by allowing working parents to be more productive at work. Only by financing efforts to improve quality will the long-term economic benefits be affected. Where certain policy examples have a focus on quality, it shall be noted.

There are four models for financing public investment in early childhood programming currently in use across the country: dedicated tax streams, tax incentives for employers, tax incentives for individuals, and various types of fees.

Model A:

Dedicated or earmarked taxes for early childhood care and education

These models are usually efforts to implement universal pre-K, either statewide or within a local jurisdiction. However, some do focus on private child care, usually by funding initiatives to improve the professionalization and wages of the child care workforce. The intent is to improve outcomes for children as a result of more highly qualified caregivers,

but the higher wages that accompany a professional workforce may also have a positive long-term impact on the overall economy. Other tax-funded programs subsidize care for low-income families; these may or may not be focused on quality.

Pros and Cons of dedicated or earmarked taxes

Dedicated tax streams generate a new funding source independent of general revenues, but may not raise much money if not structured adequately. These funding streams are highly visible and, if broadly supported, difficult to cut (although this visibility also makes them easy targets of anti-tax citizen groups). If implemented after voter referenda or initiatives, they have proven support of local taxpayers. Sales and property tax earmarks can be long-term, which improves the child care industry's reliance on them, but may require sunset provisions that would frequently bring the question back to the voters and introduce an element of uncertainty. Certain dedicated taxes, such as sin taxes, tend not to be sustainable over time, as revenues decline with changing consumer habits. In addition, sales and sin taxes are regressive and state law may restrict the use of a special tax or fee for a purpose unrelated to the taxed commodity. Earmarked taxes set aside a portion of general revenues; this may make them easier to pass than a new tax, and, in theory, remove the programs from competition with other government services for what may be limited general revenues.

Examples of dedicated taxes

Arkansas: In 2001 passed a 3% tax on all retail receipts derived from sales of beer (the tax equals about \$0.12 on a \$4 six-pack). Most revenue goes to fund the state pre-K program, but 20% of collected revenue funds child care subsidies for working low-income families (Arkansas boosts beer tax to pay for programs, *Modern Brewery Age*, 4/23/2001). The tax was renewed in 2003 and 2005, generating about \$9 million per year, but in 2007 it was replaced by a 1% beer tax to fund programs to help abused and neglected children (Moritz, R., *House OKs new beer tax; Senate approves resolution for annual session*, Arkansas News Bureau, 3/29/2007).

California: In 1998, Prop 10, the California Children and Families First Act, implemented a statewide tobacco tax for early childhood development at \$.50 per pack or \$1 per box of cigars/tobacco. Twenty percent of these funds are allocated and appropriated to First 5 California (the statewide child development coordination group) and 80% to the 58 county commissions. In FY 2006-2007, First 5 California received \$116 million, and over \$450 million went to the counties. Each county commission receives a share of the total funds available to all county commissions proportionate to their share of state births. These commissions fund local family functioning, child development, child health, and systems of care programs and services. Many of the local commissions fund wage initiatives for child care workers (California Children and Families Commission, *First 5 California 2006-2007 Annual Report*, http://www.cfcf.ca.gov/pdf/annual_report_pdfs/Annual_Report_06-07.pdf). It is estimated that the Prop 10 tax has generated a total of \$700 million since 1998, although declining tobacco sales are expected to negatively impact receipts in the future. See Wikipedia entry on Prop 19 at [http://en.wikipedia.org/wiki/California_Proposition_10_\(1998\)](http://en.wikipedia.org/wiki/California_Proposition_10_(1998)).

Aspen, CO: Aspen voters passed a .45% sales tax in 1990 to create a fund for affordable housing and child care. Initially 20% of the proceeds went into a child care trust fund and the remainder to child care resource and referral services, grants to nonprofit centers, and child care tuition assistance for low-income working families. After the tax was renewed in 1999, more was spent directly on grants to child care programs for operating and capital expenses. All child care programs in the county receive some support. See the City of Aspen website at <http://www.aspenpitkin.com/depts/50/costofchildcare.cfm> The tax will be up for renewal in 2010 (Wackerle, C., Housing ballot question coming into focus, *Aspen Daily News*, 3/23/2008).

Seattle: The failed 2003 voter initiative dubbed the “espresso tax” would have raised between \$3.5 - 6.5 million annually for early childhood education programs, including child care subsidies and pre-K, by imposing a \$0.10 per cup tax on every beverage containing at least a half-ounce of espresso. Opponents characterized it as a tax too disconnected from its purpose, using the catch phrase, “What’s a latte got to do with pre-K?” It was also criticized as a mere band-aid, as it would not have raised enough money to adequately fund early childhood programs. Finally, it is not clear where espresso fits into the notion of sin or luxury taxes. Espresso is not usually considered a sin, and while it seems to be a luxury, widespread consumption calls that characterization into doubt as well (Kershaw, S., Proposed Tax Rouses An Already Jumpy City, *The New York Times*, 9/2/2003).

Examples of earmarked taxes

San Francisco: In 1991 the city began to earmark a portion of the local property tax for children’s services, called the Children’s Fund. Overseen by the city’s Department of Children, Youth, and their Families, the fund pays for child care subsidies, quality improvement initiatives, and grants to providers, as well as for other programs for older children such as recreation, afterschool, violence prevention, and educational enrichment. The earmark, equal to \$0.03 per \$100 of assessed value, was reauthorized in 2000 and will be up for renewal in 2015. See the City of San Francisco website at <http://www.dcyf.org/Content.aspx?id=1420¬e=1526>.

Florida: Florida is the only state with a law allowing counties to establish, with voter approval, a children’s services special taxing district for the sole purpose of investing tax dollars in the well-being of children and their families. Eleven counties have done so, with eight of the special districts having independent taxing authority, meaning they can levy a tax separately from any other district. The other three districts rely on taxes levied by other jurisdictions, including the county. Currently, the rate of levy set by the statute is up to 50 cents for every \$1,000 of taxable property value. Palm Beach and Pinellas counties both received voter approval to increase their levy up to \$1 for every \$1,000 of taxable property value. The state statute prohibits these tax revenues from being used to fund school districts and expressly states the money levied is to be used to supplement, not supplant other revenue sources. Except for Miami-Dade, which must be reapproved by the voters in August 2008, the taxing districts are permanent. See Florida

children's services councils' website at
http://www.floridacsc.org/about_csc/annual_reports.php.

In Miami-Dade County in FY 2007-08 \$100 million will be collected from a \$0.42 tax per \$1000 of assessed property. For the median homeowner, this works out to a tax of \$61 per year. One of the initiatives funded in Miami-Dade is a child care quality improvement effort. As part of the initiative, the district's tax revenues fund grants to child care providers for materials and equipment, educational scholarships for staff, wage supplements for staff, technical assistance to raise quality, and financial awards for meeting quality improvement targets. *See* website for Miami-Dade children's services council at <http://www.thechildrenstrust.org/index.asp>.

Portland, OR: In 2002 voters approved a five-year property tax of 40.26 cents per \$1,000 of assessed value to create a Children's Investment Fund to finance high quality early childhood programs, after school programs, and child abuse prevention programs. The tax generates nearly \$10 million per year, \$3.7 million of which is spent on 19 early childhood education programs. The levy will be up for renewal in June 2008, although higher than expected tax returns will keep it funded through June 2009 whether or not it is renewed. *See* the Children's Investment Fund website at <http://www.childreninvestmentfund.org/>.

Model B:

Tax credits or deductions for business for providing early childhood care and education

These models are generally focused on improving the productivity of working parents by making child care more convenient and accessible; they may or may not have a focus on quality. At one point 28 states and the federal government had enacted employer tax credits for child care, although Michigan, Arizona and Wisconsin have since repealed theirs.

Pros and Cons of business tax credits

Many credits encourage site-based child care for employees; if quality standards are in place, the credits encourage employers to investment in high quality care. However, only families employed by the company will benefit from the taxpayer-supported care. In many cases businesses often do not apply for the credits if they are not well publicized, if there is too much red tape, or if the credits are too limited in applicability. (One study found in 16 of 20 states, less than 5 companies had claimed the credits, including 5 states in which no companies had made claims.) In addition, many employers may not pay enough (or any) state tax liability and thus the credits do not serve as an incentive. Encouraging employer-based child care may not encourage linkages and alignment with the K-12 school system.

Examples of business tax credits

Georgia: Tax credit for employers sponsoring child care facility for employees allows for reimbursement of up to 75% of operational expenses and provides for 100 percent reimbursement of depreciable property over 10 years (Guilford-Blake, R., Tax credit makes it easier to offer child-care, *Atlanta Business Chronicle*, 2/22/2002).

Texas: New tax law implemented in 2001 gives businesses a tax credit for the lesser of \$50,000 or 50% of expenditures for establishment and operation of a day care center and/or purchase of child care services for employees. See the state website at <http://www.window.state.tx.us/taxinfo/taxpnw/tpn2001/tpn10401.html>

Arkansas: The state gives businesses a tax credit of 3.9% of the annual salary of employees employed exclusively in providing child care services. Also provides a sales tax exemption for the purchase of construction materials and furnishings purchased for the initial construction and furnishing of a child care center. Eighty percent of the child care slots must be used by children of the business' employees. There is also a requirement that the child care center be "an appropriate early childhood program." See the Maumelle, AK website at <http://maumelle.dina.org/working/comprof/incentives.php>

California: California has two different types of tax credits for business. The Child Care Program credit allows businesses to deduct 30% of start-up costs of establishing a child care program, the costs of constructing a child care facility, and/or the costs of child care referral services, up to \$50,000 per year. A business can also obtain this tax credit if they notify their employees of childcare vacancies at local childcare centers. In 2006 this tax credit has been extended to the year of January 1, 2012. The Child Care Contribution credit benefits businesses that set up contribution plans for employees. Thirty percent of the cost that an employer pays or incurs for contributions on behalf of its employees' dependents under the age of 12. The amount of the credit cannot exceed \$360 per dependent in any taxable or income year. For the tax year 2000, only 35 corporations claimed the employer child care credit, while 120 claimed the employer child care contribution credit (Micheli, C., Actual Usage of California Tax Credits, *Cal-Tax Digest*, Spring 2003).

Oregon: The most innovative tax credit program, it allows even those businesses that do not provide or subsidize child care for their employees to benefit from tax credits. As initially designed, it was an investment tax credit modeled after federal Low-Income Housing Tax Credit. As an investment credit, it would have allowed businesses to purchase tax credits at market value (i.e. \$.80 for \$1 credit). The funds generated would then be pooled to be used to assist child care programs' operating budgets statewide. The initial 2001 legislation specified \$2.5 million in tax credits would be sold in one year. However, in 2002 the legislation was modified and the tax credits were reclassified from investment credits to contribution credits; the credits would not be available at market rates. Instead, for every dollar a business contributed to the pooled funds, the business would receive a dollar tax credit. The model, as either an investment credit or a contribution credit, is not focused specifically on child care for employees, but has greater economic development impacts by generating a pooled fund that the state

distributes to qualified providers (Magnuson, P., *The Oregon Child Care Investment Tax Credit: A New Financing Approach for Child Care*, The Enterprise Foundation, 2003 at <http://www.practitionerresources.org/cache/documents/626/62696.doc>.)

Model C:

Tax credits or deductions for individuals

These models are designed to impact on parent productivity as well as quality care for low-income children.

Pros and Cons of tax incentives for individuals

If the credits are designed to be refundable, even families with little or no tax liability can take advantage. In some cases, they can be combined with earned income tax credits to greatly increase a family's real income. They require use of regulated child care providers and in that way encourage parents to choose more qualified providers, but prevent families using informal or kinship care to participate. From a provider's point of view, these tax incentives can be more stable than a model requiring an annual appropriation, but the providers must attract enough qualified parents each year to ensure total reliability. Tax credit and deductions are easy and affordable for the state to administer as part of tax code. The design matters: if structured as a tax credit, income limits will leave out middle class families, while if structured as a deduction, families who do not itemized their tax return will not be able to participate.

Examples of tax incentives for individuals

Currently 27 states have child care income tax provisions for work-related child care expenses; five states have tax deductions, 22 states have tax credits, and Maryland has both. Nine states have refundable credits.

Maine and Arkansas have higher credits for higher quality care. In Maine the child care tax credit can double if a quality provider is used. Using a provider with a state-issued Quality Certificate doubles the allowable tax credit, which is otherwise 25% of the federal child and dependent care tax credit. The credit is refundable up to \$500. *See* the website of the Maine Office of Child and Family Services at <http://maine.gov/dhhs/ocfs/ec/occhs/taxcredits.htm>. Arkansas allows families utilizing providers participating in the state accreditation system to take a refundable tax credit of up to 20% of their child care costs. *See* the state website at <http://www.arkansas.gov/childcare/licensing/qabenefits.html>

New York also allows families getting federal dependant care assistance plan benefits a \$5,000 set-aside exempt from income or social security taxes, which can be spent on child care.

Colorado taxpayers that make a monetary contribution to promote child care in Colorado may claim an income tax credit of 50 percent of the total contribution. In-kind contributions of property (non-monetary donations) do not qualify for the credit.

Allowable contributions include donations: for the establishment or operation of a child care facility; to a grant or loan program that provides assistance for child care; to a training program for child care providers; and to a child care resource and referral service. See <http://www.revenue.state.co.us/fyi/pdf/income35.pdf>

Model D:

Fees on businesses or individuals

This model can be structured to impact all three types of economic development, but has been used mostly for workforce development.

Pros and Cons of fees

Fees generate a new, non-tax, source of revenue but may not generate much revenue. Fees can be designed to be voluntary or mandatory, but voluntary fees will likely generate less revenue. Impact fees are tied to need and are paid by users or those driving demand for care, such as employers; but certain fees can be regressive if not structured well.

Examples of fees

Income tax check-off: In the 1990s Colorado had a voluntary income tax check-off for child care that generated funds for professional development and training. The check off generated between \$100,000-200,000 per year.

Impact fees: California state law allows local governments to require new commercial or housing developments seeking to exceed density limitations to include space for child care facilities or pay a fee to fund child care. Cal. Gov't Code Sec. 65917.5. These fees are controversial when the impact being remedied is deemed too far removed (physically or logically) from the development. In addition, impact fees generate revenue only during times of economic growth and can hurt economic development during recessions. Because each local government structures each "density bonus" agreement" with a developer separately, there may or may not be a focus on quality in any particular agreement.

Service fees: Since 1998 Kentucky has collected a voluntary surcharge on motor vehicle registration or renewal to generate funds for child care subsidies for low income parents. The fund helps parents working at least 30 hours per week that do not otherwise qualify for child care assistance, but still meet income eligibility requirements. Funds collected in a particular county are disbursed in that county.

Enterprise fees: A portion of the Missouri Gaming Commission Fund is set aside for early care and education quality improvement and child care subsidies for low-income families. The amount collected in FY 2007 totaled \$27.5 million. The fund is comprised of a gaming tax levied on casinos, representing a portion of the adjusted gross receipts, and an admissions fee collected from casino patrons. See Missouri Gaming Commission, *Annual Report 2007* at http://www.mgc.dps.mo.gov/annual%20reports/ar_2007.html.

The gaming tax and admission fees provide a large, dedicated, comparatively stable source of funding. Closure of casinos can impact revenues negatively, however.

Georgia and Florida use state lottery proceeds to help fund pre-K programs. In Georgia, since 1993, over \$3 billion has been appropriate to pre-K programs throughout the state. Funding is provided on a competitive basis to school districts and private providers. See the Georgia Lottery website at <http://www.georgialottery.com/stc/home/index.jsp>. Using lottery proceeds is advantageous in many ways. Once approved, the use does not need repeated legislative or voter approval. In addition, because it is a dedicated source, programs do not compete for limited general revenues. However, lottery proceeds are controversial: the lottery may operate in fact as a regressive tax and it may encourage gambling. In addition, the annual revenues can be unpredictable.

Other Models

State funded

Tobacco Settlement funds: These funds are used to support children's services, including child care, in Kentucky, Maine, and Kansas. The major drawback to this funding is that at some point, it will no longer be renewable.

Public-private partnerships: The Florida Child Care Partnership Act created a public-private partnership, the Child Care Executive Partnership, equally funded by federal/state funds and private donations from local funder and businesses, to offer grants to businesses employing low-wage workers, allowing them to subsidize child care for those employees. The employer must match the grant or find local matching funds. For FY 2003-2004 the state appropriation was \$19 million, which was matched by over 150 employers to fund child care for more than 26,000 children from low to moderate income families. See the Florida Child Care Executive Partnership program website at <http://www.ccep.bz/index.aspx>.

Maryland and Texas have loan guarantee programs. Maryland guarantees up to 80% of a loan made to a child care program and requires lower interest rates. Loans as small as \$15,000 and as large as \$1.6 million have been guaranteed. The State of Texas Linked Deposit Program ("Linked Deposit Program") was established to encourage lending to historically underutilized businesses, child care providers, non-profit corporations, and/or small businesses located in an Enterprise Zone by providing lenders and borrowers a lower cost of capital.

Nebraska passed a constitutional amendment in 2006, subsequently approved by the voters, that directs the interest from \$40 million in the state's cash reserves fund to be put into an endowment fund called the Early Childhood Education Fund. Interest from a \$20 million private fund is also funneled into the endowment fund. The state funds are expected to generate about \$2 million in interest each year and the private funds will generate about \$1 million annually. The endowment fund will provide competitive grants to school districts to provide birth-to-3 services for at-risk children in partnership

with local community agencies. See the state website at <http://www.nde.state.ne.us/ECH/RFP%20Endowment/Overview.pdf>.

Local government funded

Beginning in 1999 Maine state Tax Increment Financing law allows child care to be included in project costs for purposes of calculating the total development costs of TIF-funded projects. For example, the costs for child care for employees working in the newly created jobs within the TIF district can be included in the total project costs (Mitchell, A. et al., *Financing Child Care in the United States: An Expanded Catalog of Current Strategies*, 2001 at <http://www.kauffman.org/pdf/childcare2001.pdf>).

Conclusion

As the editorial page editor of the *Milwaukee Journal Sentinel* wrote several years ago, if early childhood education supports economic development with a three-legged stool of benefits for children, parents, and industry, cutting short any of those legs will “dump the economy on its keister” (Pimentel, R., Early childhood education: It’s about economic necessity. *Milwaukee Journal Sentinel*, Sept. 22, 2005). Public investment in high quality child care can thusly be justified, based on its economic return on investment.

The marketplace may need intrusion, as it has failed to provide the type of care that would generate the most benefits: high quality care. However, parents in southeastern Wisconsin clearly have a high level of satisfaction with their child care providers. Parental satisfaction always should be considered good news, but in this case there are consequences on public policy direction. There is a mismatch between what parents find most satisfying about their child care arrangements and what policymakers may determine to be the most important indicators of quality.

The facet of quality that seems to be the most satisfying to parents is the caregiver’s personal qualities and whether he or she is loving and caring. While this is a very important aspect of quality care, it is difficult to quantify and promote from a public policy point of view. Measurable aspects of quality, such as meeting certain state regulations, are much easier to promote with tax or other incentives.

Policymakers should thus be aware that parents may not be the natural ally some would presume when it comes to new regulations or incentives for quality improvements. This is especially true with regard to the higher cost of higher quality care. While parents are so satisfied with their current care that they feel it is a good value, they may at the same time be feeling a cost pinch and may not be willing to pay more for quality improvements.

Cost is also the reason why providers are not supplying high quality care. From their perspective, accreditation is expensive and unnecessary, and low wages and lack of benefits harm staff recruitment and retention. Like parents, providers may not provide policymakers intent on campaigning for quality improvements with a strategic allegiance.

Because our surveys of parents and child care providers indicate that the needed funding for quality initiatives will not or cannot come from either of those sources, creative, sustainable public funding sources and financing mechanisms are needed. For several years states and local governments have been creating such mechanisms and there are now four models which can serve as object lessons for new efforts.

Appendix

Parent Survey Data and Methodology

The 106-question survey was administered by telephone between September 18 and October 3, 2007 to 430 residents of southeast Wisconsin by Lein/Spiegelhoff Inc. market research. We surveyed only parents or guardians of children age 5 and under, and asked to speak to the parent or guardian with the most knowledge of child care arrangements. For families with more than one child, we asked about the care arrangements for the child having celebrated the most recent birthday. Respondents were given the choice of answering the survey in English or Spanish, but all participants chose English.

We asked parents to indicate the child care arrangement in which their child spent the most time each week on a regular basis, defined as at least four hours a week for several weeks in a row. Care types included non-parental care in the child's own home; care in someone else's home; care in a day care center or preschool program; or child care not used regularly. For children in Kindergarten, we asked parents to indicate the main arrangement in use during the times the child is not in school. We included both formal and informal arrangements in our definition of child care; for example, a sibling or other relative that cared for the child more than four hours per week would be included.

The survey was conducted by random dial from a list of parents in the seven-county southeastern Wisconsin region. To ensure representativeness, we had quotas for Hispanic and African-American parents.

The final survey sample is largely representative of the region. However, the sample has disproportionately more Waukesha residents and Hispanic families than the region as a whole, and is moderately skewed more toward higher incomes than the region as a whole. Because we surveyed only parents, the sample has a higher rate of marriage, and because we asked for the parent most knowledgeable about child care arrangements, the sample is disproportionately female.

Table A1 illustrates a fairly equal distribution across child care types by language, gender and marital status, with some variation in the "working full-time" category. About half of the parents using day care/preschool or using care in their own home work full time, while less than half of those using no child care work full-time. Most of those using child care in someone else's home work full-time.

Table A2 indicates African-American respondents are disproportionately more likely to use in-home care or day care/preschool while Latino/Hispanic respondents have a disproportionately high rate of not using child care. Caucasian respondents, meanwhile, were disproportionately less likely to not use child care.

Table A1. Survey respondent demographics by child care type

	English speaking	Female	Married	Working full-time
In-home nonparental care	98%	76%	81%	54%
Someone else's home	99%	77%	83%	77%
Day care/preschool	97%	76%	85%	58%
No child care used	91%	72%	84%	43%
Whole Sample Average	95%	75%	84%	54%

Table A2. Survey respondent racial/ethnic demographics by child care type

	Total sample	In-home nonparental care	Care in someone else's home	Day care/preschool	No child care used
African American N=43	10%	17%	6%	13%	7%
White N=334	78%	76%	86%	80%	70%
Hispanic N=52	12%	7%	8%	6%	19%
Other N=14	2%	0%	3%	3%	3%
Total*	102%	100%	103%	102%	99%

**Participants could choose more than one ethnic or racial group.*

Provider Survey Data and Methodology

A four-page, 33-question survey was sent to 3,412 state licensed and/or certified child care providers in late January 2008. The database of child care providers was compiled from the child care resource and referral agencies serving the seven counties of southeastern Wisconsin. Of the mailed surveys, 414 were completed and returned and 99 were returned as undeliverable or otherwise invalid, for a total response rate of 12.5%.

Of the respondents, 86% are licensed or working toward licensure and 20% are certified. In Wisconsin certain family providers can be both licensed and certified.

As Table A3 shows, most respondents are family child care providers working in a private home. Over a third of respondents are group child care providers, mostly working

in independent centers. Other centers are located in church or synagogue or in public or private schools.

As for the ownership of the child care business, most respondents are for profit and are not owned by a religious organization. See Table A4.

Table A3: Survey respondent characteristics by child care type and location

Type	
Group Child Care Center	35%
Family Child Care	54%
Head Start or Early Head Start	2%
Multi-Site Family Child Care	1%
Preschool/Nursery School	15%
Location	
School-based	12%
Independent center	23%
Private home	53%
Church/synagogue	17%
Other	11%

Table A4: Survey respondent characteristics by ownership type

For profit	56%
Non-profit	35%
Religious	15%
Secular	84%