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# Strategic Financing:
## Making the Most of the State Early Childhood Comprehensive Systems Initiative

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NATIONAL CENTER FOR INFANT AND EARLY CHILDHOOD HEALTH POLICY

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## Overview

As states build comprehensive early childhood systems, policy leaders will need to be attentive to the funding streams available to communities to achieve desired returns. Most public funding for early care and education, as well as for other health and social services for young children and their families is categorical. Categorical funding streams are narrowly defined funding streams that support highly specialized activities and specifically targeted populations. The Maternal and Child Health Bureau's (MCHB) State Early Childhood Comprehensive Systems (SECCS) Initiative gives states an opportunity to think more strategically about how early childhood services are delivered and funded. This report identifies financing strategies to support comprehensive systems-building efforts.

## Financing Challenges to Developing Comprehensive Early Childhood Systems

SECCS grants provide a vision and collaborative structure to successfully build early childhood systems to enhance service delivery. To successfully design, implement, and sustain comprehensive early childhood systems, planners need to address two major challenges: 1) a lack of funding and 2) the categorical nature of funding streams.

Communities that come together and strategically address these challenges can succeed in financing and sustaining comprehensive early childhood systems. The following strategies are useful:

- *Using scarce resources most effectively* can be accomplished by redirecting spending from less effective to more effective programs and services, from higher-cost to lower-cost approaches. It also may involve efforts to co-locate services and increase the efficiency of administrative and management processes.
- *Maximizing public funding for early learning* can be accomplished by maximizing existing sources of funds, as well as considering all opportunities to generate new revenue through special taxes, children's trust funds, and lotteries/gaming.[1]
- *Increase flexibility in categorical funding* by either aligning and coordinating separate streams or by removing contradictory requirements.
- *Develop strong partnerships* among people and organizations to bring together separate funding streams and help communities leverage both cash and other resources, such as leadership and technical expertise.

## Principles to Guide Early Childhood Investments

Effective financing strategies should:

- Drive the effort with a compelling and well-conceived policy and program agenda.
- Align financing strategies with the programs and services they are intended to support.
- Take account of changing fiscal needs over the life cycle of the initiative.
- Incorporate multiple funding sources that cut across traditionally separate services and programs.
- Maximize the use of resources already in the system.
- Use new funding to leverage other public and private sector resources.
- Contribute to a positive return-on-investment.

[1] *For a more detailed discussion of creating new dedicated revenue streams, see* Cheryl D. Hayes, *Thinking Broadly: Financing Strategies for Comprehensive Child and Family Initiatives.* Washington, DC: The Finance Project, 2002.

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- Guard against supplantation. New revenue sources can become an opportunity for state legislators and county commissioners to redirect General Fund dollars to other purposes.

## Keys to Successful Financing

The goal of the recommended financing strategies is to increase efficiency in the use of resources. The following steps can help support implementation of financing strategies.

- Develop leadership and a clear vision.
- Focus on results.
- Establish collaborative planning processes and structures.
- Understand resource options.
- Allocate resources strategically.
- Develop needed infrastructure.

## Making the Most of SECCS: Strategies for Financing Comprehensive Early Childhood Initiatives

The full report contains an index of 59 federal funding streams that are available to support early childhood programs and services. These programs are of four types: entitlement programs, formula (or block grants), discretionary grants, and direct payments. Several strategies are available for developing a stable funding base for comprehensive early childhood systems. These financing strategies fall under four categories:

***Increase efficiency of existing resources:*** Reshaping spending of existing dollars, especially funds that benefit families served by several agencies or programs, can improve efficiency. *Redeployment* shifts funding from higher-cost treatment services to lower-cost preventive programs and services. *Operating more efficiently* can occur through agencies and programs decreasing administrative costs and serving families in a more comprehensive and integrated manner. *Reinvestment* takes efficiency efforts one step further by attempting to identify funds that have been "saved" and reallocating them to support new or alternative services.

***Maximize public revenue:*** Maximizing public funds is a financing approach that encourages state and local leaders to identify relevant funding sources, identify all children and families eligible to receive funds from these sources, and take steps to ensure that state and local agencies draw the maximum amount of money that can be obtained from each source. *Leveraging* is a strategy for maximizing federal revenue by taking advantage of programs that provide funding contingent on state, local, or private spending. *Refinancing* involves using another's money to pay for services already provided, and then having money available for another use.[2] *Administrative claiming* is a form of refinancing that makes use of available Title IV-E (child welfare) and Title XIX (Medicaid) administrative funds to cover case management, outreach, eligibility determination, program planning and an array of other costs based on a match of local funding.

***Create more flexibility*** in existing categorical funding. *Pooling* is a strategy for combining a portion of funds from several agencies and programs into a single, unified funding stream. *Coordination* is a community- and program-level strategy for aligning categorical funding from a number of agencies and funding streams. *Devolution* is a policy strategy for increasing flexibility in existing funding streams by delegating the authority for the allocation of funds from higher to lower levels of authority—federal to state, or state to county. *Decategorization* is a strategy for creating more flexibility in categorical funding streams by removing narrow eligibility requirements and rules governing allocations from existing funding streams.

***Build public-private partnerships:*** Partnerships between government, community non-profit organizations, charitable foundations, corporations, and the faith community provide valuable resources for increased financial support and leadership for early childhood initiatives. Partnerships can be formed to leverage funds, foster leadership and champions, and maximize non-monetary resources.

## Conclusion

The SECCS Initiative is an opportunity to bring together funding streams for child care, health care, and social services to support the building of comprehensive early childhood systems. State and local policy leaders and service providers can benefit from integrating financing strategies with overall planning efforts to achieve sustainability.

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***The reports and briefs in this series are available at***
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[2] Mark Friedman, *Reforming Financing for Family and Children's Services.* Sacramento, CA: Foundation Consortium Policy Brief, January 2000.