

RESEARCH BRIEF

Gap Widens for Achieving Fully Funded Early Childhood System in Nebraska

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AUTHOR

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Introduction

With the expiration of COVID-19 relief aid looming, a new analysis of funds flowing through early childhood care and education (ECCE) in Nebraska indicates that the state is moving in the wrong direction for achieving full funding for a high-quality ECCE system. The gap between current and full funding grew from 51% to 57% between 2017 and 2021.

Full funding is defined as the combined public- and private-sector funds needed to ensure that quality experiences provided by highly qualified early childhood professionals are available and accessible to all young children in the state. The [Nebraska Early Childhood Workforce Commission](#)ⁱ called for a public commitment to close the gap between current and full funding in its seminal [report](#)ⁱⁱ released Jan. 30, 2020.

This research brief provides background information and new analysis of 2021 funding levels. The analysis is based on the methodology introduced by the National Academies of Sciences, Engineering, and Medicine (National Academies) in 2018 where finance experts calculated the cost of quality care and education as a percentage of the nation's gross domestic product. The Nebraska Early Childhood Commission adapted that methodology for Nebraska in its three-year study.

As Nebraska and the nation contend with a deepening crisis in child care supply, the ever-nearing expiration of pandemic relief funding highlights the urgency of addressing immediate fiscal challenges accompanied by investments that stabilize the system into the future.

Establishing the Total Cost of Quality ECCE

- In 2017, the Nebraska Early Childhood Workforce Commission embarked on a three-year commitment to determine how best to strengthen

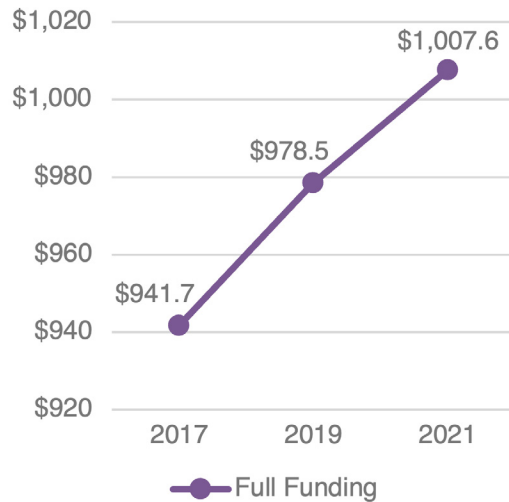
and expand Nebraska's ECCE workforce. The need to stabilize ECCE funding was among the most prominent issues addressed by the commission.

- In 2018, the National Academies released its *Consensus Study Report: Transforming the Financing of Early Care and Education*ⁱⁱⁱ, a perfectly timed resource that served as the basis for the funding work of the commission.
- The National Academies used a Quality-Oriented Cost-Based^{iv} approach to determine the total cost of quality that includes three interdependent functions of the ECCE system: direct service delivery, workforce support, and quality assurance and improvement. The value of investing in any one of these functions is dependent upon investments in the others.
- The cost of quality ECCE requires attending to the financial needs of ECCE providers and families at the same time. The provision of quality ECCE is impossible without stable revenue—providers cannot create business plans that cover the costs of quality programs without it. But stable revenue depends on stable enrollment of families, so the cost of quality includes ensuring no family is priced out of participation.
- The National Academies reported an estimate of 0.75 of 1 percent of Gross Domestic Product (GDP) was needed annually to cover the total cost of quality ECCE. **When the economy grows, what is needed to support the total cost of quality ECCE grows as well.** New economic activity such as job growth in a community translates to an expanded need for child care.
- Nebraska's GDP^v grew from \$114.1 billion in FY 2017 to \$122.1 billion in FY 2021—an increase of \$8 billion.
- Corresponding to GDP, the level of investment necessary in Nebraska to achieve a fully funded high-quality ECCE system was estimated to be \$941.7 million in FY 2017^{vi}, \$978.5 million in FY 2019, and \$1,007.6 million (or just over \$1 billion) in FY 2021. The annual total needed to fully fund

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ECCE in tandem with GDP growth increased by \$65.9 million between FY 2017 and FY 2021.

FIGURE 1. | COST OF QUALITY^a ECCE IN NEBRASKA BY FISCAL YEAR



^acost reported in millions of dollars

Estimating Current Funding

- The money used to finance ECCE comes from both public and private sectors. Public-sector contributions include federal, state, and local government funds. Private-sector contributions are primarily made up of the money families spend on child care tuition and fees but also include funds from the business and philanthropic communities.
- The total cost of quality represents the funds needed to support a high-quality ECCE system on an annual basis. To assess the most reliable streams of revenue over time, the analysis excludes isolated infusions of funds from temporary sources. Both public and private sources of grants in aid provided in response to the COVID-19 public health crisis are not accounted for in the calculations of current funding levels.

- Calculating the sum of federal and state dollars biennially, Nebraska’s public investment in ECCE was \$211.4 million in FY 2017, \$191.5 million in FY 2019, and \$201.7 million in FY 2021.^{vii}
- Proportionally, federal investments exceeded state investments for each fiscal year. It is important to note that variations within the levels of federal funding reflect differences in the rate of spending federal allocations over time. The figures reflect the federal dollars spent.

TABLE 1. | FEDERAL AND STATE INVESTMENTS IN NEBRASKA’S ECCE SYSTEM BY FISCAL YEAR

	2017	2019	2021
Dollars^a			
Federal	\$134.7	\$125.4	\$120.7
State	\$76.7	\$66.2	\$80.9
Percentages			
Federal	64%	65%	60%
State	36%	35%	40%

^acost reported in millions of dollars

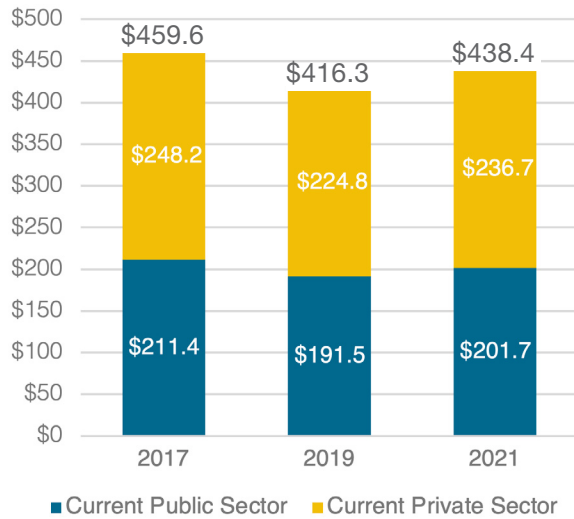
- The indicator of the private-sector contribution¹ was calculated using estimates developed by the BUILD Initiative, a widely respected organization with expertise in building equitable early childhood systems.^{viii} BUILD’s research estimates the public sector pays approximately 46% of the total cost of ECCE, families pay 52%, and business and philanthropy pay 2%—making the private-sector contribution 54%.^{ix}
- Applying the BUILD Initiative’s estimate of public-sector investments at 46%, estimates of private-sector contributions in Nebraska were derived to be \$248.2 million in FY 2017, \$224.8 million in FY 2019, and \$236.7 million in FY 2021.

¹Data reporting total contributions to the ECCE system from various sources of the private sector do not yet exist.

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- Current funding is the total dollars estimated to be in the ECCE system. It reflects the reported public funds and the estimated private funds combined. Current funding in Nebraska was \$459.6 million in FY 2017, \$416.3 million in FY 2019, and \$438.4 million in FY 2021.

FIGURE 2. | PUBLIC- AND PRIVATE-SECTOR FUNDING^a OF NEBRASKA'S ECCE SYSTEM BY FISCAL YEAR

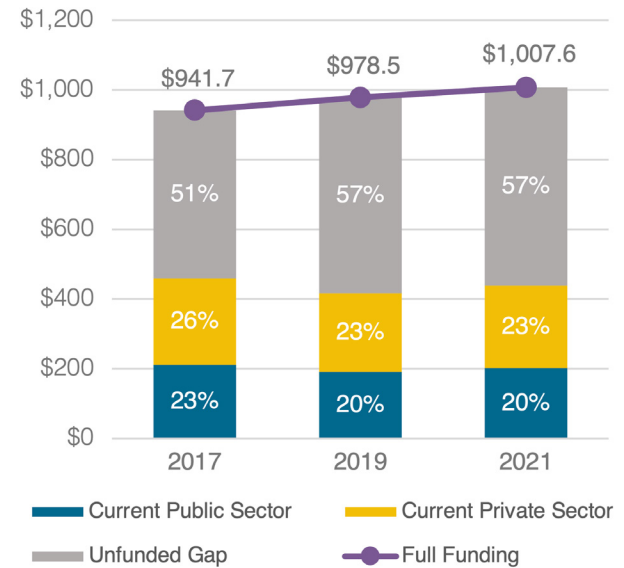


^acost reported in millions of dollars

Assessing Progress Toward Full Funding

- The funding gap represents the difference between the funding estimated to be in the ECCE system for each fiscal year and the total cost of providing quality ECCE derived from the corresponding GDP.
- The findings of this research indicate that the funding gap is growing. The gap was \$482.1 million in FY 2017, \$562.1 million in FY 2019, and \$569.2 million in FY 2021 – increasing by \$87.1 million between FY 2017 and FY 2021.
- **As a percentage of needed funding, the gap grew from 51% in FY 2017 to 57% in FY 2019.** The gap remained at 57% in FY 2021.

FIGURE 3. | GAP BETWEEN COST OF QUALITY^a ECCE AND NEBRASKA'S FUNDING BY FISCAL YEAR



^acost reported in millions of dollars

- The increase in the gap is attributable to several factors, including decreases in levels of current funding (down 3% for both private and public sectors) and increases in the total cost of quality due to Nebraska's \$8 billion growth in GDP between 2017 and 2021.

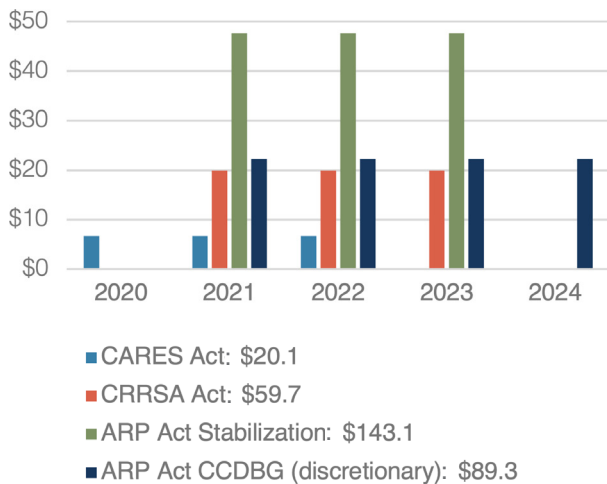
Acknowledging COVID Relief Funds

- Funds made available through successive pandemic relief packages have been critical to propping up the child care industry in Nebraska.
- An estimated \$312.1 million has been allocated to the state^x: \$20.1 million from the Coronavirus Aid, Relief, and Economic Security (CARES) Act^{xi}; \$59.7 million from the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act^{xii}; \$143.1 million from the American Rescue Plan (ARP) Act Stabilization Grants allocation; and \$89.3 million from the ARP Act Discretionary Funds allocation^{xiii}.

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- Three of the four funding pools² must be liquidated (expire) by Sept. 30, 2023, and the fourth³ expires on Sept. 30, 2024.^{xiv}
- Data are not yet available to discern the level of relief funding expended within each fiscal year. To illustrate the influx of funds to Nebraska's ECCE system, the total funds of each package have been evenly split across time from allocation to expiration. If distributed over time in this way, the additional funding for FY 2020 is \$6.7 million, for FY 2021 is \$96.6 million, for FY 2022 is \$96.6 million, for FY 2023 is \$89.9 million, and for FY 2024 is \$22.3 million.

FIGURE 4. | ALLOCATION OF FEDERAL COVID-19 RELIEF FUNDS^a TO NEBRASKA BY FISCAL YEAR



Implications: Mitigating the Widening Gap

The analysis presented in this research brief calculates that the total level of investment needed for high-quality ECCE in Nebraska is \$1,007.6 million (or just over \$1 billion) in FY 2021, representing less than 1% of Nebraska's \$122.1 billion GDP. Yet in 2021, total current funding is \$438.4 million, leaving Nebraska with a gap for a fully funded system of \$569.2 million.

As a percentage of the total funds needed, Nebraska is funded at 43%, leaving a 57% gap. For every dollar needed to provide quality early childhood care and education for all children, Nebraska falls short by 57 cents. In other words, the state is trying to do the job for 43 cents on the dollar. The temporary influx provided by the federal relief packages adds approximately 10% to Nebraska's FY 2021 funding, shrinking the funding gap from 57% to 47%.

FIGURE 5. | NEBRASKA'S ECCE FUNDING GAP, FISCAL YEAR 2021

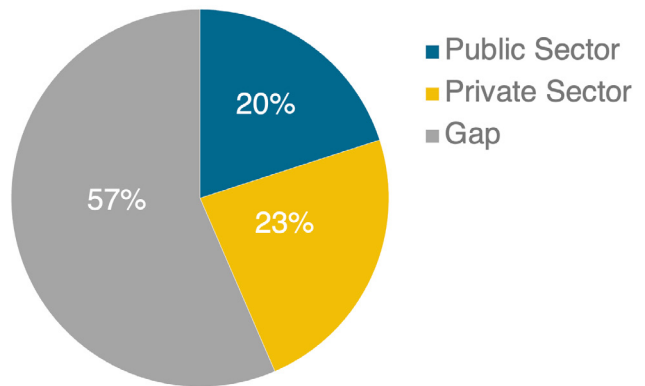
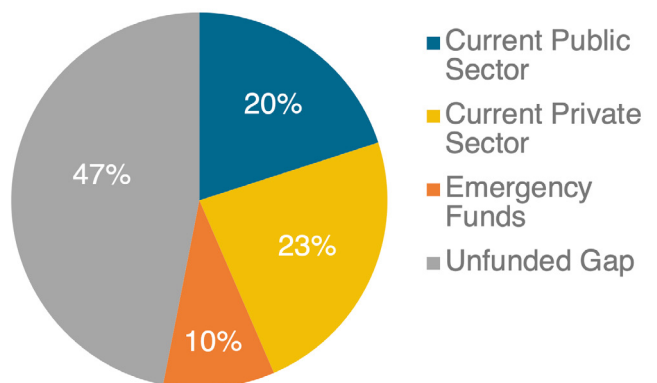


FIGURE 6. | IMPACT OF FEDERAL RELIEF FUNDING ON NEBRASKA'S ECCE FUNDING GAP, FISCAL YEAR 2021



²CARES Act, CRRSA Act, and ARP Act stabilization grants

³ARP Act discretionary funds

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Considering the widening of the gap between FY 2017 and FY 2021, converting the funding allocated to relief packages into a longer-term federal investment would mitigate ground Nebraska has lost by not keeping up with economic growth. But because the allocation, distribution, obligation, and liquidation of COVID-19 relief funds vary across packages, a deeper understanding of how the provision of emergency funding impacts sustained investments in quality ECCE systems will take time.

This leaves policymakers asking if allowing aid to expire will undermine any gains not yet realized from strategic investments addressing the persistent child care supply crisis.

ALIGN FUNDING WITH ECONOMIC GROWTH

GDP-aligned funding is essential to stabilizing child care supply. When the economy grows, funding of the ECCE system must also grow. Failure to align early childhood funding goals to the size of the economy the system is intended to serve will ensure the system continues to be underfunded. As economic infrastructure for today's labor force

and development for tomorrow's labor pool, investments in ECCE must address both access needs for working families and quality needs for thriving children.^{xv,xvi}

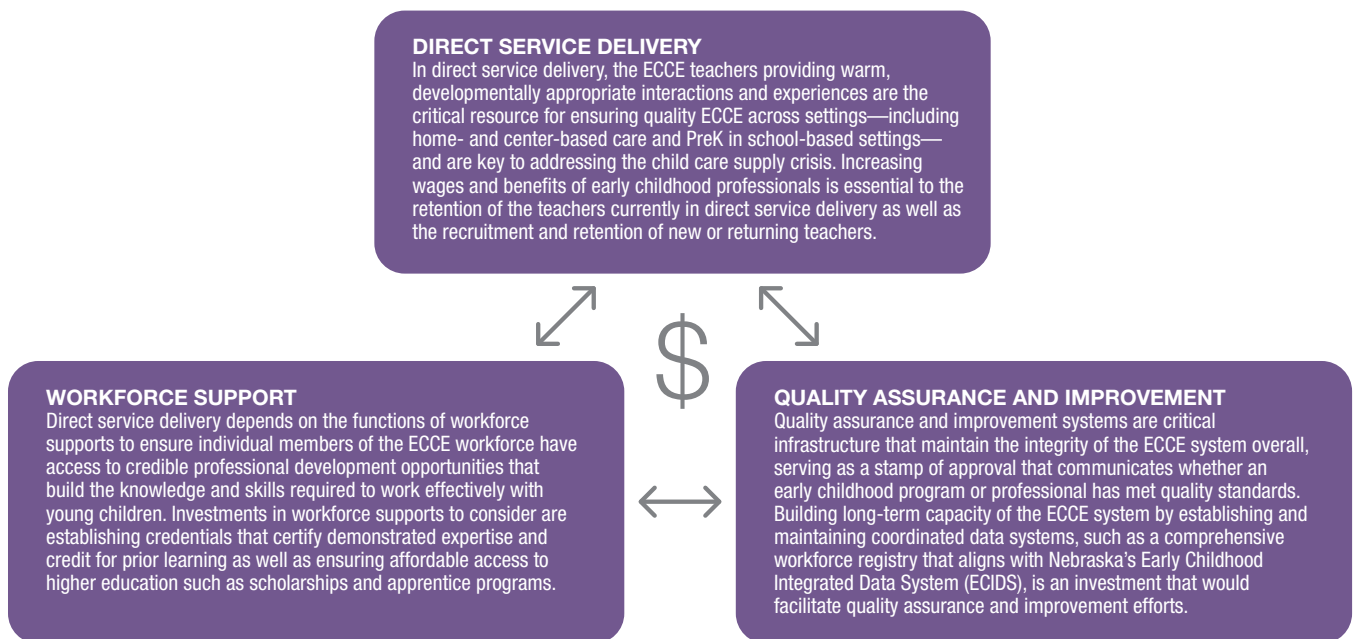
INVEST IN THE SYSTEM FUNCTIONS THAT SUPPORT DIRECT SERVICE DELIVERY

Strategic investment in ECCE is contingent on purposeful coordination of effort and resources across the interdependent functions of the system: direct service delivery, workforce support, and quality assurance and improvement.

For policymakers seeking to identify public investments that will move the system toward full funding, allocating dollars to strategies that call for coordination of effort and resources across the ECCE system are likely more effective than the alternative.

Ensuring that quality experiences provided by highly qualified educators are available and accessible to all young children in Nebraska requires a combination of public- and private-sector funds.

FIGURE 7. | INTERDEPENDENT FUNCTIONS OF NEBRASKA'S ECCE SYSTEM



Conclusion

The analysis presented demonstrates that electing to allow emergency funds to expire with no plan of replacing them with a longer-term public commitment to child care will exacerbate the gap between current funding levels and what it collectively costs to provide quality ECCE for all of Nebraska's children.

Further, shoring up an ECCE system that has been weakened by chronic under-investment in addition to the new costs of a public health crisis requires a commitment of state funds as well. Between 2017 and 2021, the funding gap grew by 6%, expanding from 51% in FY 2017 to 57% in FY 2021. Nebraska has likely not fully felt the effects of trying to provide an ECCE system on fewer resources because of COVID-19 relief funds that began flowing into the state in 2021.

Before the COVID-19 pandemic upended patterns of daily life, child care was a scarce resource for Nebraska families and communities and a precarious financial proposition for child care providers. The early care and education system had already been facing significant challenges. The pandemic exposed the imminent collapse of an underfunded system struggling to function in a broken market where families cannot afford to pay higher rates for care, but the rates charged by providers do not cover the costs of doing business. The situation was, and continues to be, unsustainable.

Allowing aid to expire will undermine Nebraska's ability to benefit from long-term returns of strategic investment of federal and state dollars in the ECCE system.

ACKNOWLEDGMENTS

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- v. [U.S. Bureau of Economic Analysis, "SAGDP1 State annual gross domestic product \(GDP\) summary" \(accessed Thursday, January 12, 2023\).](https://www.bea.gov/news-rooms/2023/01/12/sagdp1-state-annual-gross-domestic-product-gdp-summary)
- vi. These figures reflect U.S. Bureau of Economic Analysis revisions to the 2017 GDP data and are adjusted up from those provided by the 2020 commission report.
- vii. A detailed accounting of the methodology, including data sources and funding flow of these investments, are provided in each corresponding technical report: Nebraska's Public Investment in Early Childhood Care and Education, Fiscal Year 2017, Nebraska's Public Investment in Early Childhood Care and Education, Fiscal Year 2019, and Nebraska's Public Investment in Early Childhood Care and Education, Fiscal Year 2021.
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