ECI’s goal of sustainability was predicated on securing public funding from the state of Pennsylvania. ECI was expected to cost $26 million per year when it reached full scale, and its planners knew that it could not be sustained permanently with private funding. The original business plan therefore called for a focused effort, over the course of the first three years of program implementation, to persuade the state to take over the major responsibility for funding the program after five years of operation. ECI’s planners had some reason for optimism, because many states were beginning to increase their investments in ECE as a result of growing awareness of its potential long-term benefits. Moreover, planners hoped to take advantage of personal and political connections between business leaders who supported ECI and the governor. Later, when it became clear that a direct commitment of state funding devoted specifically to ECI was not forthcoming, a revised business plan sought to make ECI sustainable by tapping existing state funding streams, primarily those consisting of child-care subsidies for low-income parents.

ECI’s planners recognized that persuading the state to commit public funds to ECI would be a challenge, but they may have underestimated how difficult it would be. Some of the obstacles to securing state funding were substantial, and ECI made the task more difficult than it might have been. The bulk of this chapter examines the problems that undermined both ECI’s initial state funding strategy and its redirected effort to achieve sustainability using the state subsidy system.
CHALLENGES FOR THE STATE STRATEGY

Diffuse Benefits and Concentrated Costs

A working assumption of the ECI plan was that ECI represented such an outstanding societal investment that the relevant stakeholders would embrace it. A strong societal benefit/cost ratio, however, is not necessarily sufficient to ensure universal support, because even programs that help society as a whole can hurt particular constituencies or, less dramatically, simply not offer them compelling advantages.

In the case of ECI, this disjunction between parochial and societal interest helps to explain why the state government did not seize the opportunity to take up the investment. Consider the breakdown of the $7 societal savings per dollar invested that was projected based on the Perry Preschool evaluation (Schweinhart, Barnes, and Weikart, 1993). First of all, benefits were expected to accrue to multiple levels of government. While ECI wanted the state to pay the bill, some of the benefits would accrue to local government (e.g., reduced costs of educational services), and some would accrue to the federal government (e.g., most of the additional tax collections expected to result). Second, the state benefits would come to various departments, but it would be difficult to spread the cost among departments because bureaucracies are stove-piped: Each department is largely independent, and funds cannot be easily transferred across departments. In practice, ECI’s lobbying effort focused on Pennsylvania’s Department of Public Welfare (DPW). But if DPW wanted to invest in ECI, it could not have “billed” the state corrections system (for which larger savings were expected) in anticipation of future savings. And who wins and loses in legislative appropriations is part of a much larger political dance. (See Schorr, 1989, for a discussion of these problems.)

Third, the largest component of societal benefits does not accrue to government at all. The majority of the projected societal savings ($4.66 per dollar invested) would come as reduced costs to people who, in the absence of high-quality ECE, would later be victimized by crime (Schweinhart, Barnes, and Weikart, 1993). Such savings are real and important, but they do not translate directly into revenue streams for state government.
In summary, a high societal benefit/cost ratio is compelling to the mythical social planner or benevolent dictator, but may or may not be similarly compelling to actual government decisionmakers.

**Short Time Horizons**

The disjunction between societal and parochial benefits can be particularly poignant for elected officials whose time horizons do not extend beyond the next election. When the majority of the benefits created by an intervention targeted at three- or four-year-olds stem from preventing crimes they would otherwise later commit, it is clear that those benefits will not be generated for at least a decade. In contrast, program costs are incurred up front. Even many of the educational benefits of such an intervention will not be seen in the first three years of its operation, when the state commitment must be made. The societal benefit-cost analysis in Schweinhart, Barnes, and Weikart, 1993, discounts costs and benefits back to the present at a rate that reflects society’s overall discount rate (in this case, 3 percent annually), but an individual political leader might apply a higher rate and hence be less convinced that the program will pay off soon enough to serve his or her private interest.

**Regional Politics in Pennsylvania**

The amount of funding that planners hoped the state would contribute to ECI—most of the $26 million annual cost when the program reached countywide scale—was large enough to inevitably raise issues of regional fairness among Pennsylvania political leaders. As a number of our interviewees pointed out, the only way that the governor and state legislature would be able to consider providing resources on that scale to Allegheny County would be if comparable resources were provided for other parts of the state. This meant not only that complicated negotiations in the legislature would be needed, but also that the total price tag to the state would be dramatically higher. Some ECI planners hoped that state policymakers would be impressed enough with ECI’s short-term results that they would want to fund similar initiatives throughout the state, using ECI as a model. On other issues, regional “logrolling” has been successful in inducing the state to provide large amounts of public funding for regional projects (most notably, for new football and baseball
stadiums for both Pittsburgh and Philadelphia). Given historic attitudes in Pennsylvania toward state involvement in child care, however, ECI was to prove a difficult sell, as we describe below.

**Doubtful Public Commitment to ECE**

Across the country, voters and policymakers show considerable ambivalence about public funding of ECE. Some feel strongly that young children should be at home with a parent. This group also tends to believe that the responsibility for preventing children from failing in school or becoming pregnant as a teenager, involved in crime, or dependent on welfare lies with parents, not with social programs. Thus, these voters and policymakers are not persuaded by arguments that link publicly subsidized ECE programs with alleviation of these social problems (Schorr, 1989).

Nevertheless, ECI’s planners had reason to believe that attitudes about public support for ECE were becoming more favorable across the country. Increasing attention to brain research demonstrating the importance of early childhood mental development was leading a number of states to increase their investment in ECE. Some states, such as California, New Jersey, and Texas, now have large-scale state-funded preschool programs that each serve over 100,000 children.

State-level interest and leadership clearly make a difference to the prospects for public funding of ECE. In Pennsylvania, ECI leaders faced a state government that has a history of conservatism when it comes to funding ECE programs (relative to other states). Although Pennsylvania has in recent years increased the resources it devotes to ECE (primarily through its child-care subsidy programs), it trails many other states in its financial commitment to ECE. For example, Pennsylvania is one of only seven states that do not fund any prekindergarten programs (National Center for Children in Poverty, 2000). Pennsylvania is also one of 29 states that do not provide supplemental funding to Head Start programs (which receive funds

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1 Pennsylvania does permit school districts to spend some state funds designated for K–12 programs on prekindergarten programs for four year olds, but few school districts choose to do so (National Center for Children in Poverty, 2000).
directly from the federal government) (Education Week, 2002). While Pennsylvania has transferred funds from its federal Temporary Assistance for Needy Families (TANF) grant to child-care subsidies, it has done so at a rate well below the national average. Moreover, the state’s DPW has generally viewed its involvement in ECE as focusing on care rather than education: Promoting quality takes a back seat to the more basic task of providing child-care subsidies that will permit low-income mothers to go to work. In the mid-1990s, Pennsylvania’s Department of Education (and the governor’s policy office, which had considerable influence in education issues) showed little interest in ECE, instead focusing on K–12 schooling. In light of these facts, any commitment to devote substantial funding to high-quality ECE programs would involve a major departure from the state’s historical attitude toward public funding of ECE.

**PROBLEMS WITH ECI’S STATE STRATEGY**

Although the inherent obstacles to securing state funding were substantial, and Pennsylvania’s policy context was especially unfriendly to public funding for ECE, ECI also made the task more difficult on its own. The first problem was one of tactics and process: ECI’s engagement with state policymakers was less effective than it might have been. The second, and deeper problem, was an unacknowledged conflict with the state’s welfare-reform priorities. As Table 4.1 indicates (see Chapter Four), the state of Pennsylvania has a number of goals that may be in some tension with ECI’s overall goal of pro-

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2 In fiscal year 2000, Pennsylvania transferred only 9 percent of its TANF grant to its Child Care and Development Fund (CCDF) budget (which funds the subsidy program for former welfare families and working-poor families), compared to a national average transfer of 14 percent and a maximum transfer permitted by the federal government of 30 percent. Moreover, Pennsylvania allocated only 1 percent ($13.9 million) of its TANF grant directly to child-care subsidies for TANF recipients in work or training programs, compared to a national average of 6 percent (Education Week, 2002).

3 As of this year (2002), state policymakers in Pennsylvania have begun giving some additional attention to issues of quality in ECE. In February, Governor Schweiker announced that he was convening an Early Care and Education Task Force to assess the health, safety, and school readiness needs of preschool-age children. His proposed 2002–2003 state budget also included $6 million to fund a three-year pilot program called “Keystone Stars.” Under the program, the state DPW would develop and implement a voluntary quality-rating system for child-care providers throughout the state. Funding for the program has yet to be approved by the state legislature.
viding high-quality ECE services to low-income children. ECI’s specific design and implementation put it in direct conflict with some of the state’s other priorities, substantially undermining any hope that the state would ultimately take over funding responsibility for the initiative.

**Inadequate Engagement of State Officials and Policymakers**

Given the challenges facing ECI’s state strategy, it was crucial that ECI’s planners not only keep state policymakers and bureaucrats well informed about ECI, but also provide them a substantial opportunity to contribute to the initiative’s design. In practice, ECI planners made some attempts to engage a few state officials, but they did not ensure that state policymakers had a full, substantive, and early role in the design process.

At the highest level of Pennsylvania politics, ECI’s supporters included prominent contributors to the campaigns of Governor Tom Ridge, and those supporters brought ECI to the governor’s attention. High-profile meetings with the governor, however, produced only general statements of support rather than a specific commitment of funding and legislative action. Some observers believe that ECI’s supporters misunderstood the signals from the governor, giving an unduly optimistic interpretation to his general statements of support.

The engagement of state officials who were likely to bear direct responsibility for supervising a state-supported ECI may have been just as important as the commitment of the governor. Two state bureaucracies were the most obvious candidates for housing ECI. As a preschool program, ECI might have come under the jurisdiction of the Department of Education; as a child-care program, it might have come under the jurisdiction of the DPW, which supervises the existing system of child-care subsidies for low-income children. As noted in Chapter Two, one DPW official was consulted very early in ECI’s process of conception, but he was not in a position to make key decisions about ECI. Neither Education nor DPW officials were prominently involved in the planning and design of ECI. The fact that neither department had previously shown interest in promoting high-quality ECE only made early engagement more important.
Among the state officials who were consulted by ECI’s planners, some felt that their concerns were ignored. Others in Harrisburg, engaged only later in the process, felt that the initiative was presented to them as a completed package that they were expected to accept without having had the opportunity to provide substantive input on its design. The engagement by ECI seemed to them to be more about selling the initiative to the state than about taking the state’s concerns seriously. In consequence, state officials often perceived the planners and business leaders who approached them about ECI as arrogant. Indeed, at least one state official felt that ECI’s strategy was to embarrass the state into a funding commitment. Whether such an attitude was intended or not, its effect on state officials did not produce an eagerness to cooperate.

More-effective engagement with state policymakers in both the design and the implementation of ECI might have led to earlier warnings about the ways in which ECI came into conflict with other state priorities—conflicts that made a funding commitment from the state even less likely.

“Education” Became “Care”

ECI came into conflict with other state priorities partly because it came to be identified as a child-care initiative even though it had originally focused primarily on education. As originally conceived, ECI intended to serve most children in part-day, Head Start–like programs that would provide educational enrichment. One reason that Head Start has remained popular and politically viable for over 30 years is that it has always been viewed as an educational program rather than a child-care program. Many policymakers and voters perceive that education is intended primarily to benefit children and that child care is intended primarily to benefit parents. Public education is offered to all children universally, while child-care subsidies are often viewed as appropriate only for “deserving” low-income parents. In consequence, eligibility for child-care subsidies depends on meeting the requirements of welfare-reform laws. Because Head Start is viewed as an educational program, it has survived without tying eligibility to parental work.

ECI did not (initially) tie eligibility to parental work. It aimed to serve all at-risk children in the targeted neighborhoods, not only those
who met welfare-reform requirements. But the shift to full-day services meant that the initiative became identified as a child-care program. Recognizing this, UW refocused ECI’s state lobbying efforts specifically to DPW, which houses the major existing child-care subsidy programs for low-income families. Identified as a child-care program for low-income families rather than as an educational enrichment program, ECI entered the political world of welfare reform. In that context, fully subsidized service to children of nonworking parents—whatever its public-policy virtues—was politically problematic.

**ECI and the State Subsidy System**

To some extent in its design and to a greater extent in its implementation, ECI was less than fully compatible with the goals and operation of Pennsylvania’s existing system of child-care subsidies for low-income families. Although the incompatibilities were not anticipated by ECI’s designers and supporters when ECI was launched, they quickly became clear to some of the state officials who were asked to support ECI.

Pennsylvania operates two child-care subsidy programs for low-income parents. One program targets former welfare recipients and working-poor families; the other serves current TANF recipients participating in workfare and training-related activities.\(^4\) Subsidies are the same for both programs, and parents are free to take their subsidies to any provider of their choice, regardless of whether the provider is a center, group child-care home, family child-care home,

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\(^4\)The program for former TANF recipients is funded primarily with federal CCDF block grant funds, which the state supplements. The program is administered at the local level by Child Care Information Service (CCIS) agencies that contract with the state DPW. In Allegheny County, the YWCA of Greater Pittsburgh serves as the CCIS agency. Parents must apply in person for CCIS subsidies at one of three offices in the county. The subsidy program for current TANF recipients participating in workfare and training-related activities is administered by county assistance offices and is funded by a combination of state and federal TANF funds. When a welfare recipient obtains a job, his/her children transfer from the TANF system to the CCIS system (even if the family is still receiving some TANF benefits). This transfer is achieved automatically because the TANF and CCIS client databases are linked. (Previously, former TANF recipients had to reapply for subsidies at the YWCA.)
ECI first came into conflict with the state subsidy system when it failed to acknowledge the state’s preference for parental choice in child care. ECI’s business plan envisioned a bureaucratically controlled system with a carefully specified group of providers in each neighborhood. Moreover, the ECI state strategy initially assumed that ECI would get a line item in the state budget to fund it directly rather than through subsidies to parents. The conflict with the existing system of parental choice was especially acute early in ECI’s operation, when the initiative sought both to require children to remain in their neighborhoods and to exclude children who were already served elsewhere. Although these restrictions were removed relatively early, ECI’s efforts to acquire state support did not fully acknowledge the importance of parental choice until fairly late in ECI’s existence.

Second, in practice if not in design, ECI came into conflict with the state’s desire, via welfare reform, to induce parents on public assistance to enter the workforce. ECI’s primary goal was to provide high-quality early education to low-income children regardless of whether their parents were working. The primary goal of the state child-care subsidy system, by contrast, is to provide incentives and means for parents receiving public assistance to move into the workforce. Encouraged by ECI planners to “dream big,” many neighborhood leaders viewed ECI as an opportunity to provide high-quality ECE services to the neediest children in their community. Many of those children, however, were ineligible for state subsidies because their parents did not meet the requirements of Pennsylvania’s welfare-reform law.

Children could be ineligible for a number of reasons, even if their families met the subsidy programs’ income requirements. For example, children of single mothers could not obtain subsidies if their mothers were not working at least 20 hours per week, nor if their mothers had not filed for child support with the court system. Work requirements meant that many children were ineligible for subsidies during time that parents spent receiving drug or alcohol rehabilitation services. To many lead agencies and providers, these children
were the most in need and therefore should receive priority for ECI programs.

But the state of Pennsylvania has not shown interest in subsidizing programs for children whose parents are not seeking work. Rather, state policymakers have made eligibility for child-care subsidies contingent on parents working in order to reward parents who work. Indeed, some state policymakers viewed ECI’s subsidizing of children of nonworking parents as undermining the state welfare-reform policy.

SUSTAINABILITY IN THE ABSENCE OF A DIRECT STATE COMMITMENT

Conflicts with other state policy objectives surely made ECI’s political objectives more difficult to achieve, but they became even more critical when ECI’s sustainability strategy began depending more explicitly on the state’s child-care subsidy system. In 1998, the first revision of the ECI business plan made two key changes that acknowledged the importance of the child-care subsidy system. First, recognizing that costs had been driven dramatically upward by the shift to full-day ECE services, the plan proposed to obtain the additional funds needed during ECI’s first five years of operation by relying much more heavily on state subsidies. Nearly all of the anticipated $45 million increase in the five-year cost of ECI would be raised through existing state child-care subsidies, according to the plan. Second, the plan acknowledged that ECI’s original political strategy, which had attempted to secure a specific commitment to new funding directed specifically to ECI, was unlikely to succeed, and that a more realistic sustainability strategy would involve the use and expansion of existing funding streams. Specifically, rather than seek a new line item in the state budget, ECI’s supporters would lobby policymakers to raise subsidy reimbursement rates to 100 percent of the market rate for care (from the current 75 percent), and preferably to raise them even higher to cover the full cost of high-quality care. These changes meant that ECI’s compatibility with the state child-care subsidy system was not only politically important for its long-term sustainability, but also operationally critical for ECI’s fiscal viability in both the short and the long term.
In its early years of operation, ECI gave little attention to state subsidies as a substantial source of income, for several reasons. First, because the initiative originally was designed to focus primarily on part-day, Head Start–like educational services for children of unemployed parents, DPW’s child-care subsidy system was not obviously relevant. Second, waiting lists for the largest state subsidy program were long. In many cases, families waited six to eight months from the time of application until children received subsidies. ECI’s ability to tap these subsidies was therefore limited. In addition, although ECI’s contracts with lead agencies nominally required that eligible parents apply for subsidies from the start, ECIM initially placed little emphasis on this source of revenue for providers. Indeed, this made some sense under the initial plan, which was committed to serving children regardless of whether their parents were working. According to our interviews, lead agencies were frequently told to get children enrolled in ECI and worry about getting their parents to apply for subsidies later. Moreover, because lead agencies (and parents) were receiving almost full reimbursements from ECI for each child’s cost of care, they had little incentive to pursue state subsidies. Through 1998, revenue from state subsidies had contributed only 5 percent of ECI’s total costs. Even into early 1999, only a small number of ECI children were receiving state subsidies.5

In February 1999, a major state policy change infused the child-care subsidy system with additional funding, and waiting lists were rapidly eliminated. Around the same time, UW management and ECIM began pressing lead agencies and providers to get parents to apply for subsidies.

But even full use of the state subsidy system would not have solved ECI’s fiscal problems. Subsidy rates are 75 percent of the average market price of care for each type of service (center based, group child-care home, family child care, unregulated provider) in each county. In 1999, subsidies ranged from $20.60 to $25.80 per day, depending on the type of provider and the age of the child. These rates were far short of ECI’s costs, which amounted to about $52 per child per day, more than double the average state subsidy rate for center-

5Underuse of state subsidies did not increase the total cost of the initiative; instead, it shifted costs from the state to ECI’s donors.
based care in the county. Thus, ECI’s high costs not only reduced its ability to serve large numbers of children, but also undermined its long-term sustainability.

In 1999 and 2000, UW made additional efforts to reduce ECI’s costs and increase the proportion of ECI children receiving state subsidies. These efforts created conflicts with both ECIM and the lead agencies, for two reasons: They might undermine the commitment to quality, and they seemed to renege on the promises that had been made to the neighborhoods. Lead agencies had been sending the message throughout their neighborhoods that ECI programs were open to all children in need of care. But when UW insisted (in early 2000) that no new children be enrolled unless their parents had applied for state subsidies, lead agencies—as well as ECIM—saw this as breaking the promise to serve children most in need of high-quality care and education. When they began turning families without subsidies away, they fell under criticism from parents who felt betrayed. The lead agencies also felt that cost-cutting measures (e.g., lower reimbursements for lead agency administrative expenses) would negatively impact their programs’ quality of care, and high-quality care was what they were selling to parents. Lead agencies were especially frustrated because they had understood that ensuring long-term sustainability was not their concern but, rather, the responsibility of the ECI leaders and lobbyists who were appealing to the state.

In short, both the lead agencies and UW were in a bind created by the mistaken assumptions and unrealistic expectations of the original business plan. The lead agencies wanted to deliver on the promises made when ECI was launched; UW recognized that ECI was not sustainable without substantial changes. At this point, conflicts and disappointment were inevitable.

CONCLUSION

When ECI was launched, the existing obstacles to its achieving sustainability through public funding from the state were substantial. Nevertheless, ECI undermined any chance it had for political success in two ways. First, it did not fully engage and acknowledge the concerns of state policymakers early enough in the design process. Second, and more fundamentally, the shift from part-day, Head Start–like educational services to full-day care and education brought ECI
into conflict with the goals of the state’s welfare-reform law. That conflict became an even more serious operational problem for ECI when it became more dependent on the state’s existing child-care subsidy system. UW’s struggles to reduce costs and make ECI compatible with the state subsidy system created major internal conflicts, undermined ECI’s support in the neighborhoods, and, ultimately, were not successful enough to make ECI sustainable using existing or foreseeable levels of state subsidies.