



**Moving Toward a Comprehensive Early Childhood System in Hawaii:
*An Analysis of the Fiscal Resources Supporting Young Children, Prenatal
to Age Five and Their Families, in Fiscal 2011***

**Executive Summary
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A strong early childhood development system that is well funded, fully coordinated, and highly accountable is essential to Hawaii's long-term economic health. Hawaii's Early Learning Council (ELC) has established a framework for a comprehensive early childhood system, including goals and strategies for ensuring all children are healthy and ready to succeed in school. The ELC commissioned this study of fiscal resources to provide a detailed account of fiscal 2011 federal and state expenditures on programs supporting children, prenatal to age five, and their families in Hawaii.

The report analyzes how funding sources and financing strategies are used to support Hawaii's goals for young children. It also highlights the key role private dollars and parent fees play in the funding mix for early childhood services and supports. The report summarizes how funds align with Hawaii's framework for an early childhood system; which agencies control key funding sources; and to what extent funding comes from federal, state, or private sources.

With very limited resources due, in part, to the recent economic recession, the state has worked hard to provide critical services to vulnerable children. Hawaii is pursuing several effective financing strategies, including significant coordination of key services and training, collaboration among programs, and investment of private dollars to build quality and infrastructure. Yet funding for the system of services that will effectively prepare young children to be successful in school and life is not adequate given the magnitude of need in the State for early childhood services. Therefore, leaders will want to use the study findings to help guide decisions on the system elements and financing strategies that are needed to develop and sustain a high-quality early childhood system, including the possibility of new state investments.

OVERVIEW OF FUNDING

Researchers from The Finance Project (TFP) identified **47 programs** administered by the state across **4 agencies**, **14 community-based programs**, and **10 foundations** that support children, prenatal to age five, and their families. As parents often bear a significant portion of child care costs, a preliminary study to estimate the per-child contribution of parents for licensed care was conducted. The study found the following:

- **Total Public and Private Funding** for Early Childhood in the State of Hawai'i in fiscal 2011 was approximately \$639 million. The sources for those funds are:
 - Federal (\$298 million or 47%)
 - State (\$142 million or 22%)
 - Private Foundations (\$48 million or 8%)
 - Private Parent Pay (\$151 million or 23%)

Findings on Public Funding

Looking only at public sources, **Table 1** summarizes key findings on the approximately \$440 million in federal and state funding; highlighting the role of federal entitlement funding in Hawaii. Federal entitlement programs require the state to serve all individuals that meet the eligibility requirements, and some federal programs also require state match or maintenance of effort funding to access the federal funds.

Table 1. Public Funding in Fiscal 2011 for Children, Prenatal to Age Five, and Their Families in Hawaii

Number of Programs	61
Number of State Agencies	4
Total Fiscal 2011 Public Funding	\$440 million
Total Federal Funding	\$298 million (68%) <ul style="list-style-type: none"> ▪ \$154 million - entitlement funding
Total State Funding	\$142 million (32%) <ul style="list-style-type: none"> ▪ \$59 million - state match to draw down Medicaid entitlement funds

Additionally, note the following findings which are discussed in greater detail in the report.

- **State funding (\$142 million) accounts for 32 percent of public investment in children prenatal to age five.** Almost three quarters (72%) of the total state funding (approximately \$102 million) is directed to two programs, including 42% as state match to draw down Medicaid federal entitlement dollars and 30 percent of funding to support special education services for preschool children.¹ The state has very little discretion over these state funds, and this means that the state has not invested in other services, such as quality early care and education for all children to get them ready for school, to date.
- **Federal funding (\$298 million) accounts for 68 percent of all public funding supporting children, from birth to age five.** More than half of all federal funding comes from two entitlement programs, Medicaid and the Supplemental Nutrition Assistance Program. This funding, while critical to supporting the health and nutrition needs of young children in the state, cannot be used to support the early care and education needs of children, which remain significant.

¹ Pre School Special Education FY 2010 funding (latest available data) is estimated based on the percentage of children who receive special education services who are ages three to five, as a percentage of all children who receive special education services in the state. The amount of funding that specifically was used to support this target population was not available.

Average annual expenditures per child, considering only public funding (federal and state) was approximately \$4,941.² Not all children and families access all services because many funding sources are restricted to children or families that meet specific eligibility criteria (e.g. Medicaid) or for those that qualify for certain services (e.g. special education). However, this estimate of per-child expenditures for young children represents significantly less funding than is invested in other populations; for example, the annual expenditure per prisoner is approximately \$37,500 and the annual expenditure per public school pupil is approximately \$9,800.⁷

Public funding is targeted to services and supports in the following goal areas.

- Health and Nutrition (\$264.45 million)– 60%
- Early Care and Education (\$119.7 million) – 27%
 - Special Education and Child Care Subsidy (\$86.9 million) – 20%
 - Other Programs– 7%
- Parent and Family Support (\$53.2 million)– 12%
- System Requirements (\$0.4 million) - < 1%
- Workforce Development (\$2.0 million) - <1%

Most funds support health and special education programs for young children and their families. It is important to note that less than 1 percent of public funding supports Workforce Development in early childhood or Systems Requirements, which include efforts to improve the quality of early childhood programs and services.

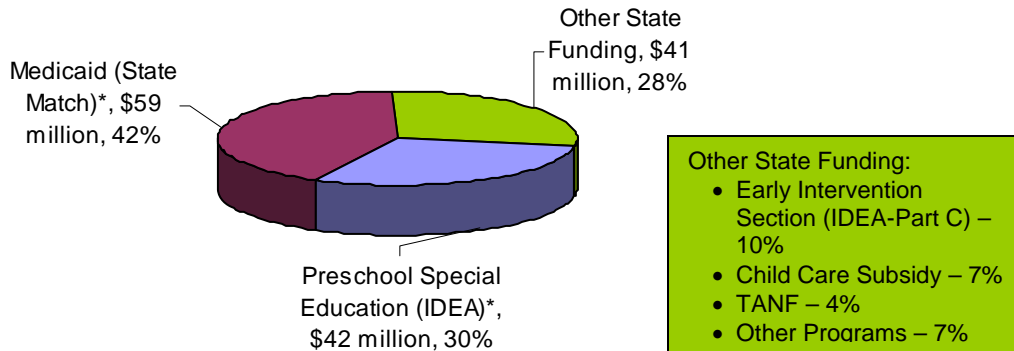
State Funding

Hawaii spent a total of **\$142 million in state funds** on services for children, prenatal to age five, and their families in fiscal 2011. Of the 61 programs serving the target population, 28 programs received state funds; 11 programs, with funding totaling \$3.2 million (less than 1% of state funds), were funded solely with state funds. **Figure 1** illustrates the following:

- Nearly three-fourths of state funding (\$101 million) was directed to two programs: Medicaid (state matching funds) and Preschool Special Education (Individuals with Disabilities Education Act)
- A significant proportion of state funding, \$59 million (42 percent) was spent to draw down federal Medicaid funds.
- Compared with total funding, the proportion of funding for which the state has discretion to support building a comprehensive early childhood system is relatively small. Other state funds are directed towards IDEA – Part C for children birth to age two with disabilities, child care subsidy maintenance of effort and other federal funding that requires state match or maintenance of effort funding.

² Average expenditure is based on total funding of \$439,711,802 and 88,987 children from birth to age five. The child population estimate is derived from Good Beginnings Alliance, fact sheet (Honolulu, HI: Good Beginnings Alliance, July 2011).

**Figure 1. State Investments in Fiscal 2011 for Children, Prenatal to Age 5, and Their Families in Hawaii
Total Funding = \$142 million**



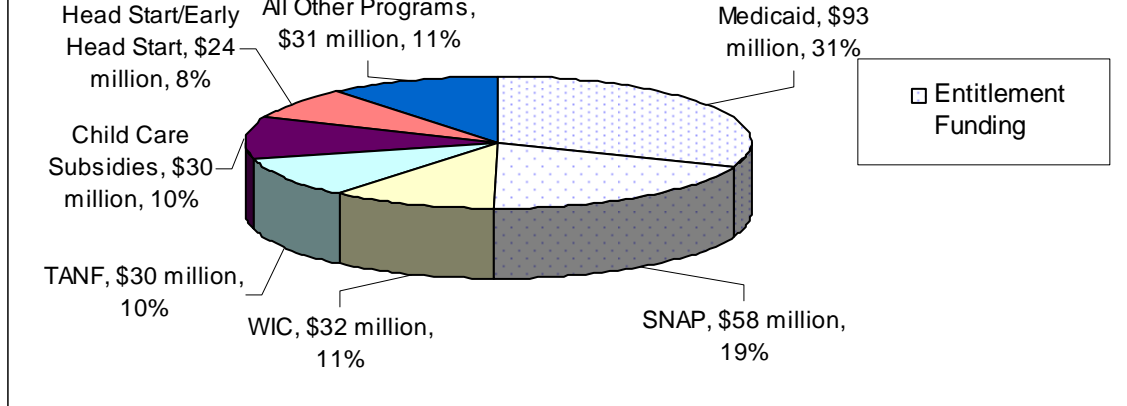
Note: * The state has less discretion over these programs.

Federal Funding

In fiscal 2011, Hawaii received approximately \$298 million in total federal funds. Note that 48 programs, 36 of which are administered by the state, receive federal funding. Programs not administered by the state are administered by community-based organizations that receive funding directly from the federal government. **Figure 2** illustrates the following:

- Federal funding accounts for approximately sixty-eight percent of all state-administered funding for the target population. Sources include Medicaid, the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), the Special Supplemental Nutrition Program for Women, Infants and Children (WIC), Head Start/Early Head Start, and child care subsidies
- Most of this funding is restricted in terms of what services can be provided and/or who can be served.
- Nearly half of federal funding received goes to two programs: Medicaid and SNAP, which support health and nutrition for the target population.

**Figure 2. Key Federal Funding Sources in Fiscal 2011 for Children, Prenatal to Age 5, and Their Families in Hawaii
Total Funding = \$298 million**

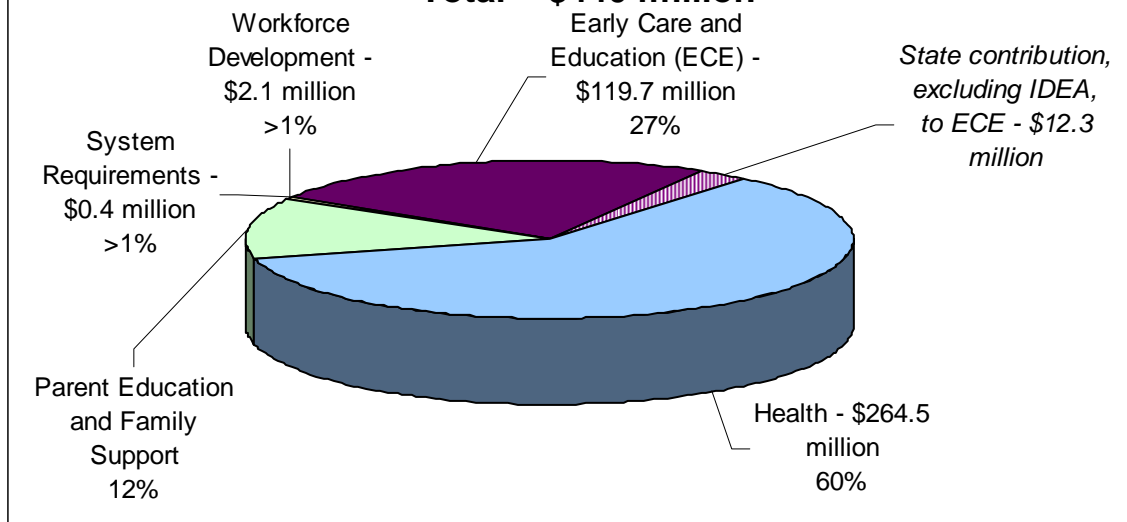


Public Funding by Goal Area

TFP researchers analyzed public funding data according to certain goal areas identified in the Early Learning Council’s framework for a comprehensive early childhood system: **Health, Early Care and Education, Parent and Family Support, Workforce Development, and Systems Requirements.** Figure 3 illustrates the following:

- **Early Care and Education:** Funding amounts within Early Care and Education were driven largely by Preschool Special Education (IDEA) and child care support for low-income working families (Child Care and Development Block Grant). State funding for Early Care and Education was \$54 million (12 %) of total public investment. However, when funding for Special Education (\$42 million) is excluded, the total state investment in Early Care and Education is \$12 million (3%).
- **Health:** Funding for Health programs comprises more than half of all funding, or 60%, with Medicaid, SNAP, WIC, and Early Intervention (IDEA Part C) driving spending in this goal area.
- **Workforce Development:** Less than 1 percent of funding, or approximately \$2 million, was dedicated to Workforce Development initiatives, such as the Honolulu Community College (training and instruction), Training and Scholarships for Child Care Providers, and Infant and Toddler Training for Child Care Providers.

Figure 3. Total Public Funding in Fiscal 2011 for Children, Prenatal to Age 5, and Their Families in Hawaii, by Goal Area
Total = \$440 million



Public Funding by Age

- Approximately 75 percent of public funding goes to programs that serve children from birth to age five (or, in some cases, older than age five).
- Approximately 18 percent of public funding goes to programs that serve children ages three to five.
- Approximately 7 percent of public funding goes to programs targeting children from birth to age three.
 - 61% of children from birth to age three in Hawaii have at least one risk factor known to increase the chance of poor developmental outcomes. Although infants and toddlers are served through all programs geared to children from birth to age five, closer examination may be needed to determine whether funding and programming targeted to infants and toddlers are sufficient to meet their needs.

Local Government Funding

Local county governments spent approximately \$910,000 on young children and their families in fiscal 2011. **Table 2** shows a breakdown of local government funding spent on the target population. Most local government spending supported **Head Start** and **Early Head Start** programs; \$677,000 of Maui's \$845,000 in local funds served to extend the service day for Maui County Head Start and Early Head Start programs.

Table 2. Local Government Spending in Fiscal 2011 on Children, Prenatal to Age 5, and Their Families in Hawaii

County	Fiscal 2011 Expenditure
Hawaii	\$20,000
Honolulu	\$20,000
Kauai	\$25,000
Maui	\$845,000
Total	\$910,000

Private Funding

TFP researchers identified approximately \$48 million in private funds from 10 foundations supporting children, prenatal to age five, and their families in fiscal 2011. This figure captures approximately 95% of current private foundation investments across all five goal areas Hawaii has identified for young children and families: Early Care and Education, Health, Workforce Development, Parent and Family Support, and Systems Requirements. While other private funders (e.g. corporate donors) exist, they tend to target other investments that are largely capital in nature.

Much of this funding supports certain goal areas.

- By far, the two goal areas with the largest private investment are **Early Care and Education** (\$26.2 million) and **Parent and Family Support** (\$18 million).
- Most **Early Care and Education** funding (\$22 million) is provided by Kamehameha Schools to operate their prenatal to three and preschools throughout the state.
- Similarly, \$13.5 of the total \$18 million in private investment to **Parent and Family Support** supports Kamehameha Schools' Pauahi Keiki Scholars program, which provides scholarships to students who attend other preschools.
- Private funders are providing significant resources to support **Workforce Development** activities.

Parent Fees

TFP researchers calculated the estimated dollar amounts that parents pay out of pocket for licensed center-based and home-based care to estimate how much of the cost of child care in Hawaii is borne by parents. In fiscal 2011, parent fees accounted for **23 percent** (\$151.2 million) of all funding dedicated to young children and their families statewide (see **Table 3**).

Table 3. Key Findings on Parent Fees for Licensed Child Care in Fiscal 2011 in Hawaii

Total Enrollment, Birth to Age 5, in Licensed Settings	20,464
Total Parent Fees Collected in Fiscal 2011	\$164.9 million
Private Foundation Contribution to Parent Fees (through tuition subsidies)	\$ 13.7 million
Total Amount of Parent Fees Collected (after tuition offsets)	\$151.2 million
Estimated Annual Per-Child Contribution of Parents for Licensed Child Care	\$8,059

Parent fees constitute a significant burden for families across the state. The annual cost of a center-based infant slot in Hawaii nearly equals one year of median annualized rent payments. Subsidies have significantly offset the costs of child care for some low-income families, but recent changes in the state’s copayment structure have put child care in licensed settings out of reach for many low-income families. Going forward, improving access to affordable high-quality care, particularly for low-income families, will be an important challenge in addressing Hawaii’s goals for young children and their families.

ANALYSIS OF THE EFFECTIVENESS OF FUNDING

In the current economic climate, examining the effectiveness of existing resources to serve the target population is important. Data collected by researchers from The Finance Project (TFP) helps illustrate areas where Hawaii is doing well in using current resources and identifies others where programs are being challenged to stretch limited dollars to meet significant needs of young children and their families. The report presents detailed findings on the analysis of current funding, guided by four questions.

- Is funding **adequate** to support goals for children?
- Is Hawaii **maximizing** available resources?
- Is Hawaii effectively **coordinating** resources?
- How is Hawaii using **flexible** funding sources?

Even with new policies and practices to use current resources more efficiently, Hawaii will likely need to invest additional dollars to ensure all children succeed in school and life. TFP researchers identified several areas to address in closing gaps in services, especially for vulnerable children and families.

- **No state-funded preschool.** Hawaii is one of 10 states that do not have a universal preschool. Just 14.5 percent of four-year-olds are in programs funded with federal dollars, including preschool special education and Head Start; this compares with a national average of 40 percent of four-year-olds served in publicly funded preschools.
- **High copayments for subsidized child care.** In 2008, the state substantially increased the subsidized child care rates—the rate paid to providers serving low-income families—to 75 percent of the market rate, as required by federal Child Care and Development Fund policy. However, the state also changed the copayment structure to ensure that no eligible family is on a waiting list and to minimize the impact of changes in income eligibility causing big spikes in

families' copayments (known as a "cliff effect"). The new copayment structure increased significantly the amount of copayment required of parents receiving subsidies. This has created considerable burdens for many families, especially those with more than one child below age five.

- **Limited ability to implement a quality improvement rating system.** Hawaii has recently begun a pilot of a quality improvement rating system and is planning to scale up the initiative statewide as funding allows. The state was not successful in securing a Race to the Top–Early Learning Challenge (RTT-ELC) grant, which was intended to fund the scale-up, so it will be tough to find sufficient funds to ensure all children, particularly low-income children, have access to quality care settings.
- **Health care coverage for pregnant women is limited.** Access to prenatal care for low-income women is limited to those with incomes at 185 percent of the federal poverty level who are enrolled in Medicaid, though about 18 states provide access to pregnant women with incomes at or above 200 percent of the federal poverty level who are Medicaid-eligible. Hawaii is using data collected through the Pregnancy Risk Assessment Monitoring System (PRAMS) to monitor access to prenatal care for women receiving Medicare and Medicaid in order to address concerns about the high number of low-birth weight babies. Yet, to its credit, Hawaii is one of the highest-performing states in the nation with respect to insuring children. Just 5 percent of children in the state are uninsured, compared with the national average of 10 percent of children uninsured.¹⁵
- **Significant decline in access to home visiting.** The statewide Healthy Families home visiting program, previously funded at \$14 million, was cut significantly when state funding ended in 2009. The program declined from serving 4,130 families in 2009 to just 246 families in 2011. Hawaii and Missouri were the two states nationally to have the largest decline in home visiting services in 2011.¹⁶ The state is slowly rebuilding capacity with federal MIECHV formula funds and the recent win of additional federal home visiting competitive funds. However, the total of the new federal funds is just over \$4 million, so meeting the needs of families will likely remain an issue for the future.

In addition, program leaders cited these issues as particularly challenging for the neighbor islands.

- **A shortage of physicians**, particularly acute for obstetricians and pediatricians in the neighbor islands, results in less access to (early) prenatal care and timely immunizations, developmental screenings, and health services for pregnant women and young children.
- **Transportation and access to services** on some neighbor islands results in large caseloads or long drives to serve geographically disperse populations. Head Start does not provide transportation, so some eligible families cannot access this preschool program. This is a problem particularly for three-year-olds in Early Head Start who are not able to transition to a program for four-year-olds; they are forced to stay home and miss out on the opportunity of further exposure to school readiness activities. Some families, especially homeless families, have difficulty accessing services due to a lack of transportation.
- **Elimination of preschool developmental screenings** to identify potential learning disabilities in young children means that fewer young children are accessing needed services to ameliorate developmental delays before they enter school.

Hawaii has taken significant steps to improve the coordination of resources and services for young children, including the appointment of a cabinet-level early childhood coordinator and the introduction of legislation to establish an executive office on early learning. However, challenges to coordinating resources among several departments persist, including restrictions on funding, limited administrative capacity of community-based organizations, and increased competition for limited funding.

RECOMMENDATIONS

Hawaii has implemented many efforts to meet the diverse needs of young children so they are healthy, are ready for school, and are prepared to contribute to their community and the state economy. However, more funding is needed to scale up high-quality programs and to increase access to comprehensive services in neighbor islands so investments in young children can be sustained.

Several financing strategies have proven effective for states and localities seeking to maximize available resources, coordinate services and funding, and leverage additional resources to build a comprehensive early childhood system. The recommendations presented in the report are meant to stimulate discussion and thinking as the ELC determines its priorities and next steps.

- ✓ **Focus on Sustainability.** Developing a sustainable revenue source to fund early childhood programming is critical. Options include building prekindergarten support into the state school funding formula and using tax-based incentives.
- ✓ **Increase Enrollment in Federal Entitlement Programs.** State leaders can take full advantage of federal funding through concentrated outreach efforts and streamlined enrollment and eligibility determination processes to increase and retain enrollment in programs such as Medicaid, the Special Supplemental Nutrition Program for Women, Infants and Children, the Children's Health Insurance Program, the National School Lunch Program, and the Supplemental Nutrition Assistance Program.
- ✓ **Create Greater Flexibility of Funding.** Strategies to increase the flexibility of funding include *braiding* to coordinate separate funding streams to support seamless services and *pooling* or *blending* funds from several agencies or programs to give local programs increased flexibility over the combined funding.
- ✓ **Operate More Efficiently.** To operate more efficiently, Hawaii can support community-based organizations in reducing their administrative costs by investing in shared administrative services efforts and reinvesting savings back into quality programs and services.
- ✓ **Use Private Funds Strategically.** Leaders in Hawaii can work with private foundations to support strategic investments that will spur innovation and better results for young children. The state may want to explore social impact bonds, a new financing strategy to encourage private investors to provide seed capital for proven strategies that address key goals for children in cost-effective ways.

The five financing strategies provide state leaders with good ideas and promising practices that have worked in other states and communities across the nation. It is up to the Early Learning Council and others in state government to determine what is right for Hawaii and how best to move forward in building a comprehensive early childhood system. The proposed executive office on early learning, if approved and funded by the legislature, will go a long way toward creating the infrastructure and the authority to implement the broad sweeping changes, including new funding, that will be necessary to realize stakeholders' goals for young children and their families.

NEXT STEPS

Hawaii is using current resources effectively in many areas. Yet more state funding is needed to scale up high-quality programs and increase access to comprehensive services on all neighbor islands so investments in young children can be sustained.

An important next step for Hawaii is to clearly define “**what it wants to finance**” and “**how much it costs**,” so the state can target resources effectively. The most fundamental questions for Hawaii are these.

- What does the state want to finance?
- What supports and services does the state want to provide for children from birth to age five and their families?
- How many children and families will be targeted?
- What kind, intensity, and duration of interventions are required?
- What level of management and administrative investment is necessary to reach, serve, and track the target population?

Once the system requirements are determined and the scope of early childhood services are defined, costs can be calculated. Then the gap between what is needed and what is available will be clearer.

This study provides leaders with a better understanding of the ways that current funds are being used across agencies and goal areas related to young children. It also identifies the financing strategies being used in other states and in localities to support diverse services for young children and their families. The findings indicate decision points and actions that policymakers can take to increase the efficiency and effectiveness of current funding and to generate new revenue to ensure the funding is sufficient to meet goals identified for young children. As the ELC moves forward in building a comprehensive early childhood system in Hawaii that is well funded, fully coordinated, and highly accountable they can use the study findings to consider how best to build a long term strategic plan that achieves goals for young children and their families.

**Appendix A: Publicly Funded Programs Supporting Children, Prenatal to Age 5, and Their Families
in Hawaii, by State Agency**

Total State and Federal Funding = \$409.3 million[‡]

<p>Department of Education 8 programs Total Funding = \$52.5million</p>	<p>Department of Human Services 19 programs Total Funding = \$299.2 million</p>	<p>University of Hawaii 8 programs Total Funding = \$3 million</p>	<p>Department of Health 12 programs Total Funding = \$54.6 million</p>
<ul style="list-style-type: none"> • Child and Adult Care Food Program (Office of Hawaii Child Nutrition Programs) • Even Start Family Literacy Program (NCLB Title 1) • Families for R.E.A.L. • Linapuni Early Childhood Center • McKinney Vento Services for Homeless Children • Migrant Even Start • National School Lunch Program, School Breakfast Program, School Breakfast Program (Office of Hawaii Child Nutrition Programs) • Preschool Special Education (IDEA) 	<ul style="list-style-type: none"> • Child Care Advocacy and Statewide Facilitation • Child Care Connections Hawaii – Subsidies (HMS 305) • Child Care Connections Hawaii – Quality Initiatives (HMS 302) • Child Care Provider Registry • Child Welfare Branch • First-to-Work Onsite Child Care • Healthy Child Care Hawaii • Health Care Payments (Medicaid) • Infant and Toddler Care for Teen Parents • Infant and Toddler Training for Child Care Providers • Learning to Grow Project • Malama Mobile Outreach Project – Tutu and Me Traveling Preschool and National Center for Family Literacy Training Programs • Nutrition Evaluation and Consultation • Preschool Open Doors • Quality Care Project • Resource and Referral Services • SNAP • TANF – Cash Assistance • Trainings and Scholarships for Child Care Providers 	<ul style="list-style-type: none"> • Hawaii Preschool Positive Engagement Project and First Steps • Hawaii P-20 Partnerships for Education • Honolulu Community College Child Care Center • Honolulu Community College • Hui Ao Mua – The Cooperative for Early Learning • Supporting Parents in Responsive Interaction in Teaching (SPIRIT) • University of Hawaii-Maui College • University of Hawaii West Oahu Division of Education 	<ul style="list-style-type: none"> • Alcohol and Drug Abuse Division • Community Based Child Abuse Prevention (CBCAP) (HCF) • Early Childhood Comprehensive Systems Grant • Early Intervention (EIS) IDEA Part C • Hawaii Pregnancy Risk Assessment Monitoring System (PRAMS) • Healthy Start • Newborn Hearing Screening Program • Newborn Metabolic Screening Program • Public Health Nursing Branch • Strengthening Communities and Families • Supporting Evidence Based Home Visiting Programs to Prevent Child Maltreatment • WIC

[‡] Appendix A shows programs administered by state agencies. It does not include Head Start and FCIL, which receive funds directly from the federal government and are not administered through a state agency. Therefore, the total funding amount (\$409.3 million) for publicly funded programs administered by state agencies is lower than the total public funding (\$440 million) for all programs.