Innovative Pre-K Funding Models

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I. Executive Summary

Client

El Centro Hispano (ECH) is a 501 (c) (3) based in Durham, NC that works to strengthen the Latino community and improving the quality of life of Latinos in Durham and surrounding areas. ECH is the largest grassroots Latino organization in North Carolina and implements programs and services in four main areas including support services, education, health, and community organizing.

Policy Question

What funding model should ECH use to establish a Pre-Kindergarten (Pre-K) Center for non-native English speaking Latinos (Latino Dual Language Learners, LDLLs) in Durham?

Problem Summary

The face of our nation is changing, quickly. Latinos are the fastest growing minority nationwide and in North Carolina. In fact, right here in Durham one out of every four babies born is Latino. Many of these babies’ parents are non-native English speakers and will face a unique set of challenges growing up in North Carolina, including learning two languages at the same time. Effective Pre-K education as well as English proficiency have been proven to help non-native English speaking Latinos (Latino Dual Language Learners, LDLLs) be better prepared for Kindergarten and beyond. Sadly, many LDLLs from birth to age five in North Carolina have difficulty accessing quality Pre-K services as private centers are costly and public programs suffer from inconsistent funding and insufficient capacity – evinced by long waiting lists. Without access to quality Pre-K, Latinos in Durham (and across the country) will almost certainly be at a disadvantage in Kindergarten and beyond compared to their peers.

ECH has a great opportunity to address an important need in the Latino community by establishing a Pre-K Center for LDLLs in Durham. However, ECH currently implements a variety of programs and activities and does not have a lot of
available resources to allocate to this project. To address the resource challenge, this report identifies and analyzes innovative Pre-K funding models and recommends a funding model for ECH that best meets its criteria.

**Innovative Funding Models**

This report highlights three Pre-K programs that are being funded through the following funding models:

- **Public-Private Partnership (PPP):** Governments across the country are teaming up with companies, foundations, NGOs and others to bring increased resources and knowledge to bear on Pre-K education. Centro Nia in Washington D.C. is an example of a PPP for Pre-K.

- **Social Impact Bond (SIB):** An SIB is the main funding mechanism for “Pay for Success” programs where government determines the outcome, timeline and payment level for a social project, and pays only if the desired outcome is achieved. A private investor (usually a company or philanthropist) provides the working capital for the project and is paid back (with interest) only if the desired outcome is achieved. The Early Education Program in Salt Lake City, UT is an example of SIB for Pre-K.

- **Parent Cooperative:** Although there are several variations of Pre-K parent cooperatives, they are usually comprised of a group of families with similar values that hire someone to teach their children. Parents are usually responsible for managing the cooperative, financing it, cleaning it and doing whatever else is necessary to keeps costs low and quality high. An example of a parent cooperative is Hilltop Nursery School in Los Angeles, CA

**Criteria to Evaluate Recommendation**

- Keep costs low for ECH
- Keep costs low for participating children
- Make financing sustainable
- Successfully prepare participating children for Kindergarten and beyond
**Recommendation**

ECH should establish a Pre-K Center using a parent cooperative funding model similar to Hilltop Nursery School. Given that the school does not receive outside funding, there is a built-in incentive to keep operation and implementation costs low. If ECH is willing to enroll higher income LDLLs or non-LDLLs, it can use a sliding payment that would allow low-income families to pay nothing (or next to nothing) – keeping costs low for ECH’s target population. The model is also entirely self-sustainable, allaying any fear that ECH has of public funding running out and resulting in a discontinuation of programming. Although it is unclear if the funding model successfully prepares children for Kindergarten and beyond, it allows families to play an important role in determining the operations, strategy and curriculum for the school. Overall, this is the best option for ECH at this time.
II. Policy Question

What funding model should El Centro Hispano (ECH) use to establish a Pre-Kindergarten (Pre-K) Center for non-native English speaking Latinos (Latino Dual Language Learners, LDLLs) in Durham?

III. Purpose Statement

ECH is concerned with the achievement gap between LDLLs and non-Latinos in Durham. Because English proficiency has been linked to school performance, educational attainment, and the future economic mobility of Latino students, it is crucial for LDLLs to learn English as early as possible. In fact, according to a recent study by UNC’s Frank Porter Graham Child Development Institute, children with lower English proficiency than their classmates benefit most from programs like Head Start and State Pre-K.1 The study’s co-author, Ellen Peisner-Feinberg, notes that LDLLs enter kindergarten with skills that differ substantially from other students.2 She also indicates that these children “lag behind their peers when they begin school and the gap only widens as they grow older."3

Historically, in part due to preferences, language barriers and cost constraints, LDLLs have been underrepresented in both public and private early learning in the U.S.4 Given the sharp rise of Latinos in North Carolina and Durham, ECH would like to explore the possibility of establishing a Pre-K center targeted at

2 ibid
3 ibid
Instead of relying primarily on government grants and programs that could end at anytime and place the future existence of the Pre-K center in jeopardy, ECH would like to explore funding models that would allow the Pre-K Center to become as “financially self-sustainable” as possible.

The purpose of my MP is to 1) provide ECH with background information on DLLs and the impact of Pre-K programs for this population, 2) identify and analyze innovative Pre-K funding models for LDLLs, 3) recommend a funding model for ECH that best meets its criteria.

IV. Methodology

The findings and analysis in this report are based on a literature review and information obtained from personal interviews, academic papers, journals, research projects, and policy briefs. A variety of online and print resources were used and accessed primarily through academic search engines and recommendations from education, government and business sector actors. Both the qualitative and quantitative information gleaned from the research was used to support the conclusions and recommendations included in this report.

The topic of Pre-K for LDLLs is quickly evolving and as such, many of the sources consulted for this report were published in the last five years. To build on the data and information gathered from the literature, interviews with Pre-K, business and education sector experts were held in person and on the phone. Interviews were split into two types with a core set of questions for each. The first type of interview was aimed at gaining a better understanding of the Pre-K sector in North Carolina and Durham. The objective of the second type of interviews was to learn more about innovative Pre-K funding models. As such, interviews were conducted with representatives from each funding model to get an insider perspective on the unique advantages and disadvantages of each model.

information gleaned from the literature and interviews was analyzed against ECH’s preferences to make the policy recommendations included in this report.

V. Background

The Client: El Centro Hispano

My client is El Centro Hispano, a 501 (c) (3) based in Durham, NC that is “dedicated to strengthening the Hispanic/Latino community and improving the quality of life of Hispanic/Latino residents in Durham, Carrboro, Chapel Hill and surrounding areas.” ECH is the largest grassroots Latino organization in North Carolina and implements programs and services in four main areas including support services, education, health, and community organizing. ECH has an active membership of more than 1,000 due-paying members and from 2010 – 2011; ECH’s programs reached 11,000 people. The intended audience for my Master's Project is ECH’s Executive Director and Director of Development.

Latinos in the U.S., North Carolina and Durham

According to census data, since 1980 the Latino population in the U.S. has skyrocketed from 14.6 million to nearly 52 million – which means that roughly one out of every six people living in the U.S. is Latino. In this period of growth, North Carolina has become a hub for Latino migration in the south. Latinos currently make up 8.4% of the state’s population accounting for approximately 800,000

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7 Ibid
8 Ibid
people.\textsuperscript{11} In Durham County alone, from 2000 – 2010 the Latino population sharply increased by 111.9%.\textsuperscript{12} The census also reports that Latinos in North Carolina are mostly young, unmarried foreign-born men who have limited English skills and education.\textsuperscript{13} This explains why North Carolina has more agricultural guest workers than any other state in the country.\textsuperscript{14}

Given the swift increase of Latinos in North Carolina, it is no surprise that a growing number of children in the state speak a foreign language at home.\textsuperscript{15} Latinos make up the fastest-growing group of North Carolina’s children, increasing by 34\% in just three years (from 2005 – 2008).\textsuperscript{16} In fact, Latino births account for approximately one in every four births in Durham\textsuperscript{17}. As more and more Latino children that do not speak English at home populate the Tar Heel state; parents, teachers, administrators and public policy makers will need to better understand the developmental needs of LDLLs to ensure that these children keep pace with their English speaking peers.

\textit{Latino Dual Language Learners}

According to the Department of Health and Human Services (HHS), a Dual Language Learner is a child who is “learning two (or more) languages at the same time, as well as those learning a second language while continuing to develop their first (or home) language.”\textsuperscript{18} HHS recognizes that the term Dual Language Learner

\textsuperscript{11}ibid
\textsuperscript{14}ibid
\textsuperscript{16}ibid
encompasses other frequently used terms for this population including Limited English Proficient, bilingual, English Language Learners, English Learners and children who speak a language other than English. For the purposes of this report, Latino Dual Language Learners (LDLL) refers to all of the aforementioned terms with the child’s first (or home) language being Spanish.

Pre-K and LDLLs

In the U.S., Pre-K programs serve children less than five years of age. Depending on where you live, there are a varying number of publicly funded Pre-K options available to you. In general, the inconsistency of public Pre-K options is due to the highly fragmented policy environment where local, state and federal Pre-K efforts vary widely. Although some three and four-year olds attend publicly funded Pre-K programs, the vast majority of Pre-K aged children actually attend a diverse array of private, for-profit and non-profit community based centers. In fact, only 28% of four-year olds and a paltry 4% of three-year olds are enrolled in public Pre-K programs in the U.S. These numbers could fall even further as states react to tighter budgets. For example, from 2010 – 2012, states cut $90 million from early education budgets and eleven states do not even have a Pre-K program. Ultimately, like other three and four-year olds in the U.S., LDLLs face the prospect of decreased public Pre-K options.

Although LDLLs have been historically underrepresented in both private and public Pre-K programs, their participation in Head Start - the nation’s premier early

\[\text{parent\%20involvement/support\%20for\%20home\%20culture\%20and\%20diversity/duallanguagelearners.htm}].\)

\text{19 ibid}


\text{21 ibid}


\text{23 ibid}
childhood education program - is starting to increase.\textsuperscript{24} In 1997, approximately 19\% of Latino children were served in the program.\textsuperscript{25} By 2007, this number increased to over 32\%.\textsuperscript{26} Also, in 2007, DLLs accounted for 30\% of Head Start’s national enrollment – with 85\% of all DLLs coming from Spanish-Speaking families (or LDLLs).\textsuperscript{27} While this progress is promising for LDLLs, these children still face significant challenges to enrolling in Head Start; particularly in states where immigrants have not traditionally resided.\textsuperscript{28} Also, a lack of resources for programs including Migrant and Seasonal Head Start, as well as Early Head Start seriously impedes the participation of thousands of eligible LDLL children.\textsuperscript{29}

\textit{The Impact of Pre-K on All Children and LDLLs}

According to University of Chicago Economics Professor James Heckman (as well as a growing body of evidence based research), early childhood development drives success in school and life.\textsuperscript{30} Heckman argues that a “critical time to shape productivity is from age 0 – 5, when the brain develops rapidly to build the foundation of cognitive and character skills necessary for success in school, health, career and life.”\textsuperscript{31} In support of Heckman’s claim, analysts of the federally funded Chicago Child-Parent Center study - that looked at the effects of early childhood programs for 1,539 at-risk children in the Chicago Public Schools - estimated that a half-day public preschool results in $48,000 in benefits to the public because at age 20, participants in the study were more likely to have finished high school and less

\textsuperscript{25} ibid
\textsuperscript{26} ibid
\textsuperscript{27} ibid
\textsuperscript{28} ibid
\textsuperscript{29} ibid
\textsuperscript{31} ibid
likely to have needed remedial service, held back a grade or even been arrested.32 Ultimately, Heckman believes that many early childhood programs can be effective and while children enrolled in Pre-K programs reap the immediate benefits, society as a whole benefits greatly as early childhood education can reduce social costs and promote economic growth.33

For LDLLs, early childhood is an especially critical period of development as many children face the daunting task of perfecting their native language, learning a new language, and gaining the skills and competencies necessary to be ready for kindergarten. As a result, when LDLLs manage to participate in Pre-K programs, the results are positive. According to a recent study by UNC’s Frank Porter Graham Child Development Institute, Head Start and other state-funded Pre-K programs may be even more beneficial for LDLLs than to non-LDLLs.34 Pre-K programs help LDLLs increase their English language skills which is important as English proficiency has been linked to school performance, educational attainment, and the future economic mobility of LDLLs.35 Ultimately, research shows that children that speak more than one language have a leg up over their monolingual peers including future social, cognitive, personal and economic advantages.36 Finally, for LDLLs and other DLLs, oral fluency in English and the home language are important precursors to literacy.37

32 ibid
33 ibid
37 ibid
The Achievement Gap between LDLLs and their Peers

Even for LDLLs that attend Pre-K programs, they are still behind their peers when they enter Kindergarten and the gap only gets bigger as they grow older. For example, on the federally administered national Assessment of Educational Progress (NAEP) test, fourth graders that do not speak English at home scored 36 points below their peers in reading and 25 points below native English speakers in math. These gaps between children who speak English or another language at home are larger than the respective gaps between white and non-white students, as well as the gaps between students who are and are not eligible for free or reduced-price lunch. Although Pre-K programs can continue to provide long-lasting benefits to LDLLs, currently, a significant achievement gap between LDLLs and their peers still exists.

Pre-K Funding Panorama in North Carolina and Durham

For children from birth to age five in Durham, NC, there are several Pre-K options. In fact, there are 360 regulated childcare facilities in Durham County and as of February 2010; there were 7,350 children in regulated early childhood centers. However, the average cost for an infant in a five-star center is $1,082 a month – making it very difficult for low-income LDLLs and others to afford unsubsidized childcare. To address this challenge, the Federal and North Carolina state governments have an array of programs that provide free or heavily subsidized early childhood education to children from birth to age five that come from low-income families or meet other eligibility requirements. However, excess

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38 ibid
40 ibid
42 ibid, The North Carolina Star Rated License System was developed in 2000 to give parents a better idea of the childcare center's quality. In the system, childcare centers can receive one to five stars, depending on an evaluation of staff education and program standards.
demand for federal programs and significant budget cuts to state funded early childhood education programs threaten low-income LDLLs’ chances of receiving state-sponsored Pre-K.

The two largest federally funded programs are Head Start and Early Head Start. These programs are designed to meet the emotional, social, health, nutritional and psychological needs of children aged birth to five in the U.S. Within 10 miles of Duke University, there are over 20 early childhood centers that receive Head Start and Early Head Start funds. To receive funding, each center has to meet strict federal requirements including but not limited to teacher experience, teacher-student ratio, and physical space. Children are eligible to receive Head Start or Early Start services if their families have incomes below the predetermined poverty guidelines, if they are from homeless families, or if their families receive public assistance such as Temporary Assistance for Needy Families (TANF) or Supplemental Security Income (SSI). In 2008-2009, there were 17,546 children enrolled in North Carolina Head Start programs and 1,417 enrolled in North Carolina Early Head Start programs.

There are three major early childhood education programs at the state level including NC Pre-K (formerly the “More at Four” program), Smart Start, and North Carolina’s Childcare Subsidy Program. NC Pre-K was launched in 2001 and provides high quality Pre-K education for at-risk four-year olds including children

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with special developmental needs, chronic illness, limited English proficiency, those that have an active-duty military parent, and children who come from families that earn less than 75% of the state’s median income level (about $39,000 for a family of three).\textsuperscript{49} According to an evaluation conducted by the well-regarded National Institute of Early Education Research based at Rutgers University, by 2011 NC Pre-K was considered one of the most effective state-funded Pre-K programs in the country.\textsuperscript{50} Researchers from both Duke and UNC-Chapel Hill also studied the program and found positive effects of the program lasting until third grade.\textsuperscript{51}

Smart Start was created in 1993 as an innovative public-private partnership model to leverage both public and private funds to improve the school preparedness of children from birth to age in areas including child care, health and family support.\textsuperscript{52} Smart Start establishes measurable and statewide goals for North Carolina’s birth to age five population and relies on local Smart Start entities to design and implement the program based on the needs and resources in the local community.\textsuperscript{53} Smart Start makes funding allocations to 76 local Smart Start Entities that serve all 100 counties based on current funding levels, available resources, and the communities’ growth and needs.\textsuperscript{54} According to a study led by the Frank Porter Graham Child Development Institute at UNC-Chapel Hill, children attending Smart Start programs were rated by teachers to be better prepared to succeed in Kindergarten, and 50% fewer language delays and behavior problems.\textsuperscript{55}

ECH actually receives funds from Start Start’s Durham entity – the Durham Partnership for Children – for two current programs, Mother Read and Circle of...
Parents. Mother Read helps parents understand the importance of reading to their toddlers and reaches approximately ten mothers.\textsuperscript{56} Circle of Parents helps approximately 10 sets of parents understand the different phases of their toddler and child’s development, and provides them with tools and strategies on how they can have a positive influence in the development of their children.\textsuperscript{57} Both programs meet two times a week for approximately two hours at a time.\textsuperscript{58} Lastly, ECH provides childcare for parents that attend both programs free of charge.\textsuperscript{59}

North Carolina’s Subsidized Childcare Program provides subsidies for child day care to eligible low-income and needy families.\textsuperscript{60} In this program, parents can choose the type of childcare provider that best fits their needs and circumstances.\textsuperscript{61} The state pays a different amount for each child depending on family income, cost of childcare, and the type of public funds from which the payment is made. Eligible families receive a childcare voucher that can be used at licensed centers, licensed homes, church-operated programs, and even the child’s personal residence.\textsuperscript{62} In addition to meeting basic eligibility requirements across several categories including income, residency, family situation and the development status of the child, to qualify for assistance, children must be between birth and age 17.\textsuperscript{63} Currently, there are more than 100,000 children in North Carolina that benefit from this program a year.\textsuperscript{64} Although there are other federal, state and municipal programs that assist low-income and needy families to enroll in a Pre-K program, the ones listed in this section make up the vast majority of public assistance in this area.

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\textsuperscript{56}Duque, Francisco. "El Centro Hispano and Pre-K" Personal interview. 28 Feb 2014.
\textsuperscript{57}ibid
\textsuperscript{58}ibid
\textsuperscript{59}ibid
\textsuperscript{61}ibid
\textsuperscript{62}ibid
\textsuperscript{63}ibid
Pre-K Coverage and Funding Shortage in North Carolina and Durham

Although these programs are helping some low-income and needy families access vital Pre-K programs and services, demand for these programs far exceeds the supply – denying thousands of eligible children every year an opportunity to receive a quality education. Despite a court order requiring the state to provide NC Pre-K to all at-risk four-year olds that apply, the state budget that the NC legislature passed in 2013 leaves the state with 2,400 less slots than last year. In fact, of the estimated 65,000 at-risk four-year-olds in North Carolina in 2012-2013, only 38% (or 24,633) participated in NC Pre-K. During the budget process, the North Carolina House of Representatives tried to limit the definition of “at-risk” for NC Pre-K by eliminating English proficiency as one of the eligibility criteria. Ultimately the measure, which would have excluded tens of thousands of the state’s most vulnerable children, did not pass in the Senate. The NC legislature’s most recent budget maintains the same level of funding as last year for North Carolina’s Childcare Subsidization program, leaving more than 34,000 eligible children to continue languishing on waiting lists. As of June 2013, in Durham county alone more than 3,678 children were on waiting lists for NC Pre-K, Head Start, and Early Head Start out of the total population of 5,048 at-risk children from birth to age five that live below the federal poverty level. The numbers suggest a woeful imbalance between the supply of and demand for publicly funded Pre-K, prompting the need for solutions that do not depend entirely on public funding.

A Harbinger of Things to Come? Pre-K and LDLLs in California

As the Latino population continues to rise across the country, we should look at states like California that have significant Latino populations to better understand

66 ibid
67 ibid
68 ibid
69 ibid
the early childhood education panorama that LDLLs may face in the future. California has more Latinos than any other state in the country (14.4 million) and they make up 37.7% of the national Latino population.\textsuperscript{71} In fact, Latinos make up more than half of children under five years old in California.\textsuperscript{72} Currently, the state’s two largest free public preschool programs – Head Start and state-funded preschool – are unable to serve all eligible children.\textsuperscript{73} In fact, California’s Head Start programs only serve about 60 percent of eligible children.\textsuperscript{74} There is no data available that measures the number of preschool spots available across various public and private Pre-K programs throughout the state, but a recent study in Los Angeles County found that there are only 38 Pre-K seats available for every 100 children aged three to five years old.\textsuperscript{75} For infants and toddlers, there are only seven seats available for every 100 children under three years old.\textsuperscript{76} While these numbers are daunting, the disparities are even more prominent in low-income areas with high numbers of Latino families.\textsuperscript{77}

In California, due to availability constraints, low-income and LDLL children face serious challenges to securing Pre-K education. Even if access were not an issue (and it clearly is), according to University of California, Berkeley Education Professor Bruce Fuller, Latino families actually prefer home-based Pre-K care.\textsuperscript{78} In his many years of studying early education issues in the Latino community, Fuller argues that many Latino parents think that preschools are “excessively formal and sometimes not inviting institutions.”\textsuperscript{79} This finding has important repercussions for LDLLs in California and across the country. Moving forward, it will be imperative for education sector actors to better understand the unique needs and preferences

\textsuperscript{73} ibid
\textsuperscript{74} ibid
\textsuperscript{75} ibid
\textsuperscript{76} ibid
\textsuperscript{77} ibid
\textsuperscript{78} ibid
\textsuperscript{79} ibid
of LDLLs to ensure that they, along with their non-LDLL peers, receive high-quality Pre-K programs.

VI. Overview of Funding Innovative Models

This section explores the history of public-private partnerships and their significance for current Pre-K funding models. One very innovative example of a PPP is a social impact bond that will be discussed in more depth. Finally, I provide information on the parent cooperative funding model for Pre-K education.

Brief History of Public-Private Partnerships (PPPs)

According to the World Economic Forum, a Public-Private Partnership (PPP) is a "voluntary alliance between various equal actors from different sectors whereby they agree to work together to reach a common goal or fulfill a specific need that involves shared risks, responsibilities, means and competencies." 80 In the late 1980s and early 1990s, PPPs were born as a response to governments’ perceived failure to effectively provide health, education and other public goods. In these early PPPs, the public entity provided the private sector partner with some combination of tax incentives, public land or other assets; and usually involved state or local governments entering into a long-term lease of a major asset (e.g., toll road, parking garage, airport, etc.), or outsourcing the provision of services that a governmental body had previously provided.81 These PPPs were generally seen as successful and as a result, many public and private sector actors started thinking about other ways they could collaborate to address social and environmental challenges – particularly given the increase in stricter environmental regulation in the U.S.82 As a result, in the last 20+ years, PPPs that address social and

82 ibid
environmental challenges have grown in number and importance, and are now firmly entrenched in the vocabulary of most government, business and NGO leaders.

**PPPs and Pre-K Education**

Given the prolonged economic recession, government budgets at the local, state and national levels continue to dwindle. This has put the sustainability of important social programs, like preschool, at risk. As mentioned above, from 2010 – 2012, states cut $90 million from early education budgets and eleven states do not even have a Pre-K program. In these dire economic times, it is difficult for government alone to address the myriad of social and economic challenges that have traditionally fallen within its purview. As a result, governments across the country are teaming up with companies, foundations, NGOs and others to bring increased resources and knowledge to bear on social and economic challenges of the day – particularly Pre-K education.

Now more than ever, states and local school districts are channeling funds to private Pre-K providers including nursery schools, religious schools, and community based non-profit organizations. In many places like Chicago, these public-private partnerships are allowing low-income children attend private Pre-K programs at a severely reduced cost or for free. In fact, according to the National Institute for Early Education Research (NIEER) at Rutgers University, approximately one-third of students enrolled in state-financed Pre-K programs attend classes conducted outside of the public school system. The proportion is substantially higher in some states like New Jersey where nearly 60% of children in publicly financed preschool are enrolled in private, nonprofit or Head Start centers. In Florida, approximately 84% of four-year olds that participate in state-funded Pre-K attend

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83 ibid
85 ibid
86 ibid
87 ibid
classes run by private, faith-based or family centers. By teaming up, the public and the private sector are implementing creative funding models that are allowing low-income and at-risk kids to attend both public and private Pre-K programs across the country.

Although the recent increase of PPPs at the Pre-K level has had some positive results, the partnership model also presents some serious challenges in terms of ensuring educational quality. Many education experts believe that states and schools need to regularly supervise private Pre-K providers to ensure that standards are being met. In fact, only four states in the country received top marks from the NIEER for quality standards set at their preschools. The fragmented Pre-K policy environment and inconsistent or non-existent quality standards make it difficult to ensure that high-quality Pre-K education is being delivered. This is particularly true for LDLLs as there has been no strategic effort to properly train Pre-K teachers on how to support LDLLs to acquire language and literacy development as well as the necessary competencies to be successful in Kindergarten and beyond. Ultimately, if PPPs in Pre-K education are to achieve their full potential, Pre-K providers will have to meet high quality standards for both LDLLs and their peers, and the public sector will need to enforce regulation and compliance.

Social Impact Bonds

One of the newest and most innovative PPP models, the social impact bond (SIB), is attempting to address vexing social challenges in our country like reducing recidivism rates for inmates and increasing academic achievement in children. The SIB allows government to pay only for programs that achieve results and falls under

\[\text{88 ibid}\]
\[\text{89 ibid}\]
\[\text{90 ibid}\]
what President Obama refers to as a “Pay for Success” financing model. In the SIB model, a government agency sets the outcome, timeline and payment level for the project, and pays only if the desired outcome is achieved (e.g., recidivism rates fall by 15% among program beneficiaries). The investor (usually a company, philanthropist or foundation) provides the working capital for the project and is paid back only if the desired outcome is achieved – as determined by an independent evaluator. In this scenario, the investor would also receive a return on the principal at a level determined by the participating government agency and investor. The amount of the project is determined by the future cost savings that the government agency thinks it will incur if the project is successful. The other partner in the SIB model is the service provider, usually an NGO or other civil society organization, that is responsible for implementing the project.

The SIB model has the potential to be a “win-win” proposition for society and all partners involved. For example, if recidivism rates fall in a locality after an SIB project, residents of the area benefit from safer neighborhoods and less crime. The service provider benefits as it receives funding to implement a project within its area of expertise. For many underfunded NGOs, securing funding and maintaining operations is a priority during these difficult economic times. The investor also benefits by earning a return on the principal investment, but only if the desired outcome is achieved. Similarly, investors can reap public relations benefits that might result from the partnership. Finally, cash strapped governments also benefit as they currently lack the capacity to fund much needed social projects and the SIB model allows governments to address these issues now. Most importantly,

93 ibid
94 ibid
government only pays for the project if it is successful. Interestingly, this approach could save taxpayers millions of dollars whether the project is successful or not.

SIB's originated in the United Kingdom and the first one was implemented there in 2010 to combat recidivism among short-term, nonviolent offenders at Peterborough Prison. In June 2013, the Ministry of Justice in England reported a 6% drop in reconvictions for released Peterborough prisoners as a result of the SIB project compared to a 14% increase nationally. Given the success of the SIB project in England, SIB projects are beginning to pop up in select areas of the country including New York, Massachusetts, California and Utah. These projects are addressing issues like chronic homelessness and early childhood education, while the SIB project in California seeks to reduce the rates of asthma-related emergencies among low-income children.

Although there is considerable momentum behind SIBs, not everyone is convinced that society should embrace them so quickly before they have demonstrated concrete results. There are important challenges that have not been fully addressed like how to assess positive social outcomes and appropriately attribute them to SIB projects. Critics are concerned that SIBs could cost government much more than if the socially oriented projects were funded with tax dollars or even interest-bearing government bonds. Some also believe that focusing on remediation and opposed to prevention is not the most effective approach to address social challenges. Ultimately, those who are weary of hopping on the SIB bandwagon argue that SIBs foster a moral hazard where the entities most likely to profit (like companies) are the ones that traditionally argue against paying

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97 ibid
100 ibid
102 ibid
higher taxes – which, if paid, would allow government to fund the same types of social projects as SIBs but without having to pay any return on top of the principal investment.103

**Parent Cooperatives**

Historically, one of the most common models for early education has been the Parent Cooperative. At its core, a cooperative is "a democratically controlled business organized to meet the mutual needs of members."104 Usually, cooperatives adhere to the following principles as determined by the International Cooperative Alliance: 1) voluntary and open membership, 2) democratic member control, 3) member economic participation, 4) autonomous and independent, 5) education and training for members, and 6) concern for the community.105 At the Pre-K level, many families are drawn to Parent Cooperatives because they are unable to get placed into a public program or cannot afford expensive private preschools.106 In the Parent Cooperative model at the Pre-K level, a group of families with similar values and philosophies hires someone to teach their children.107 Parents are also responsible for managing the cooperative, financing it, cleaning it and whatever else is necessary to keeps costs low and quality high.108 Some cooperatives hire teachers while parents themselves serve as teachers in other cooperatives.109 Ultimately, the model is effective at meeting parents’ needs since they are responsible for setting

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103 ibid  
105 ibid  
109 ibid
center policies around issues like operating hours and tuition. Further, because parents are so heavily involved and participate actively at the school with other parents, the parent cooperative model encourages family-to-family friendships and networks that can last a lifetime.111

Although parent cooperatives can be successful, they can be very difficult to maintain. Disagreements over curriculum, hours, management, or general teaching philosophy can flare up at anytime and sink fledgling cooperatives.112 Usually, Pre-K cooperatives lack a professional teacher or director with experience to work out disagreements that could arise over different interpretations of the cooperative’s bylaws etc. Also, some cooperatives impose considerable fines on parents for missing a day of work, clean-up, or a meeting.113 Depending on the cooperative, these fines could be significant enough to cause financial distress on an already cash-strapped family.

Pre-K parent cooperatives can have enormous benefits for children, parents and teachers alike. They also provide a recourse to parents who are unable to enroll their children in a public or private Pre-K center. However, parent cooperatives can also be a lot of work and it can be difficult to sustain given changing parent philosophies, preferences etc.

VII. Selection Criteria for ECH

There are four important criteria for ECH in the selection of a Pre-K funding model:

1) Keep costs low for ECH
2) Keep costs low for participating children


111 ibid


3) Make financing sustainable
4) Successfully prepare participating children for Kindergarten and beyond

*Keep costs low for ECH*

ECH’s most important criterion is cost. ECH would like to find a funding model that keeps costs low but delivers a high-quality experience for all participants. ECH is very active in the Latino community, implementing programs in several areas including health, education, support services and community organizing.\(^{114}\) However, the organization is stretched thin and the demand for services seems to outweigh ECH’s capacity to provide them. As a result, the organization currently has few economic or human resources that it can allocate to establishing a Pre-K Center targeted at LDLLs. Although establishing a Pre-K Center is important for ECH, at this point in time the organization is simultaneously pursuing other priority areas and is not in a position to reallocate significantly reallocate resources from other areas to fund the Center. Ultimately, any funding model that ECH decides to pursue will have to be “low-touch” – requiring few human or financial resources on behalf of ECH.

*Keep costs low for participating children*

ECH’s second most important criterion is keeping costs low for participating children. According to ECH, many of the LDLL families that would send their children to ECH’s Pre-K Center would be low-income. As such, in order to attract the desired families and children, ECH would most likely be unable to charge even modest fees – certainly not anywhere close to the average monthly cost of a high quality care in Durham ($1,082).\(^{115}\) If these families participated in the publicly funded programs that they are eligible for, they would most likely pay nothing (or next to nothing). As such, it is imperative for ECH to keep the costs down

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considerably for potential participants. Both the first and second criteria are mutually reinforcing because if ECH can manage to keep costs low in establishing and eventually maintaining the Pre-K Center, it could make it easier for them to charge participants less.

*Make funding sustainable*

ECH’s third most important criterion is making any Pre-K funding model as sustainable as possible. For example, ECH has successfully implemented publicly funded education and health programs in the past that have been discontinued due to budget cuts and competing budget priorities. To the extent possible, ECH would like to avoid this situation in the future and depend as little as possible on outside funding sources to eventually implement its Pre-K programs. However, because ECH’s target population are LDLLs that are low-income, it could be difficult to generate enough money on its own to cover the full program cost for participants. As such, ECH is aware that it will probably need to receive some degree of outside funding – which, by nature, could be unsustainable as the decision to continue funding rests with outside entities (not ECH).

*Successfully prepare participating children for Kindergarten and beyond*

ECH’s fourth most important criterion is for the Pre-K Center to be successful at preparing its participants for Kindergarten and beyond. Although the Center’s effectiveness is key, success in this area mainly depends on the curriculum, pedagogy, and methodology that ECH decides to implement – all of which fall outside the scope of this report. However, there are some funding models that may influence whether participating children achieve successful outcomes in Kindergarten and beyond. For example, the parent cooperative model could make an impact in this area because of the active participation of children’s families in financing and curriculum development. Similarly, the SIB model creates unique incentives for government, private sector and implementing entities that could play a role in the preparedness and success of participating children. As a result, to the
extent possible, ECH would like the funding model to contribute positively to the outcomes of children that attend ECH’s Pre-K Center.

VIII. Policy Options and Analysis

This section includes a description of three possible funding models and analyzes each model to determine how well they address ECH’s four main criteria. The three funding models are Centro Nia in Washington D.C., the Early Education Program in Salt Lake City, UT, and Hilltop Nursery School in Los Angeles, CA.

Option #1 Centro Nia, Washington D.C.

Centro Nia is one of the nation’s most recognized bilingual early education providers in the country. It is an example of a successful public-private partnership as it is a private daycare provider that receives public funds to implement its Pre-K program. Centro Nia’s Pre-K curriculum and funding structure have served as models for early childhood centers throughout the U.S. In fact, Centro Nia has expanded far beyond preschool programs and now operates a bilingual charter school, an institute that seeks to foster best practices among educators to achieve optimal learning environments, adult education etc. Centro Nia maintains offices in six locations throughout the Washington, D.C. metropolitan area and receives funding from individuals, public and private entities including the Washington, D.C. and Maryland State government, IBM, Verizon, Inter-American Development Bank, and many other organizations. Centro Nia is an interesting funding model for ECH as they both implement many similar Pre-K (and non-Pre-K) activities and have similar institutional goals and objectives.

Centro Nia’s Pre-K funding model is shaped by public policy in the community in which it operates. Since 2011, the Department of Washington D.C. Public Schools (DCPS) has implemented a universal Pre-K program that covers the

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cost of attendance for the District’s three and four year olds. As such, Centro Nia’s funding model is relatively simple – DCPS pays Centro Nia a pre-established amount to cover the cost of providing high quality childcare for a pre-determined amount of children. In addition to Centro Nia’s innovative curriculum that incorporates music, movement, gardening, technology and the visual arts, the DCPS universal Pre-K program includes hearing, visual and emotional screening to ensure that participating children are developing. In turn, Centro Nia does not charge any fee to participating children or their families. Many children that participate in Centro Nia’s Pre-K programs are considered low-income and without DCPC’s financial commitment to covering Pre-K, they would almost certainly be unable to participate in Centro Nia’s program. In fact, DCPC provides Centro Nia approximately $270,000 a year for a class of 16 children ($16,875 per child). Centro Nia’s program runs for 6.5 hours a day and if a participating child needs to enroll in extended hours, Centro Nia charges families a specific amount based on a sliding scale where families with higher incomes pay more. If a family is unable to pay the extended hours fee, they are eligible for a subsidy from DCPC. Ultimately, children pay nothing or next to nothing to attend Centro Nia’s Pre-K program.

One of Centro Nia’s most defining features is its bilingual instruction in English and Spanish. Children spend their day mastering both languages and learn to read, speak, and write in both English and Spanish. As mentioned above, Centro Nia incorporates unique pedagogical tools to teach children both languages including movement, visual arts, music etc. As such, children are exposed to songs and stories from Latin America and Spain, helping them to learn more about Latin and Hispanic culture.

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119 ibid
120 ibid
121 ibid
122 ibid
123 ibid
124 ibid
Analysis

Given the unique policy environment in Washington, D.C. where there is “universal Pre-K,” Centro Nia (and other certified Pre-K Centers) has no incentive to keep costs low for themselves or participating children. As a result, Centro Nia’s funding model is not a great fit for ECH at this point in time. If President Obama’s universal Pre-K takes off or if ECH is able to team up with other like-minded organizations to lobby the state legislature for statewide Pre-K (similar to Oklahoma), then maybe the policy environment would be conducive to implementing a funding model similar to Centro Nia. Nevertheless, given the current political makeup of the NC legislature, universal Pre-K does not seem to be a priority and therefore seems unlikely in the short-term. However, Centro Nia has a strong network of private sector partners and at the very least, it could be interesting for ECH to forge a closer relationship with them to learn more about their fundraising efforts and partnerships that fund some of their other activities. For example, the funds and in-kind support that Centro Nia receives from its private sector partners help to cover other operational and programmatic costs. Centro Nia’s experience and knowhow in this area could help ECH as they move to establish a funding model for a Pre-K center.

One of the main challenges with Centro Nia’s funding model is sustainability. Centro Nia is essentially entirely dependent on public funding for their Pre-K programming. While the arrangement works for now, if in the future the DC government decides to repeal “universal Pre-K” legislation, Centro Nia would be unable to provide Pre-K programming to participating children. Given that ECH has had a similar experience in the past, the sustainability component of Centro Nia’s Pre-K program would not be of much interest. However, Centro Nia has other programs that depend less on public funds and more on outside funding. It could be interesting for ECH to connect with Centro Nia to learn more about the funding models of said programs to see if they might be applicable to their Pre-K center.

Finally, Centro Nia’s Pre-K programs have enjoyed a lot of success in preparing children for Kindergarten and beyond. In fact, Centro Nia’s Pre-K Center in Maryland received the highest possible ranking in a recent state evaluation of the
program based on statewide standards and key areas identified nationally. Centro Nia’s Pre-K program in DC has to meet rigorous standards set by the DCPS and is evaluated every year by a team of researchers from Howard University. Because Centro Nia’s Pre-K program is funded entirely by the DCPS, and the DCPS has a strict evaluation system, the funding model has built in oversight and quality assurance mechanisms.

**Option #2 Early Education Program, Salt Lake City, UT**

The Early Education Program seeks to increase school readiness and academic performance among 600 at-risk three and four year olds in Salt Lake City, UT. The program meets its objective by employing a unique funding model that is a cutting edge variation of a public-private partnership – a social impact bond. As discussed earlier, social impact bonds are a new, market-based way to finance social services – an area that has traditionally been funded and managed by the public sector.

The Early Education Program was created in August 2013 as a partnership between Goldman Sachs (GS), the J.B. Pritzker Foundation and the United Way of Salt Lake City (UW). As part of the agreement, GS is lending $4.6 million dollars to the UW, which is responsible for working with and managing selected Pre-K providers in the city to implement the early education program. The J.B Pritzker Foundation is making a $2.4 million loan so together, the total funding for the program is $7 million. The loans carry an interest rate of 5%, which will be paid back to GS and the J.B. Pritzker Foundation by the state government if the program

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128 ibid
is successful. The program’s success will be evaluated by the cost savings to the state generated by less children using special education services.

The idea of a social impact bond for Pre-K education in Salt Lake City came about after discussions between GS and UW about how Goldman could get involved in addressing social challenges in the community. GS was interested in social impact bonds as a way of addressing some of these challenges as they were already pioneering the country’s first social impact bond in New York City to decrease recidivism in incarcerated 16 to 18 year olds. Next, the UW and GS went to the school district and state legislature to sell their idea to policymakers. They were initially unsuccessful, which left the program without a repayment source and ultimately put the GS and J.B. Pritzker loans in jeopardy. Opposition to the partnership was centered on the belief that government should not have to pay GS and the J.B. Pritzker Foundation $350,000 (5% of $7 million) of interest if the Pre-K program was ultimately successful. Some of these opponents to the partnership thought that the state government should just invest in the program like it would any other pilot social or education program without involving GS or J.B. Pritzker the Foundation. In fact, because time was running out on the loan offer and the state legislature still had not committed to repaying the loan, the UW and Salt Lake City County Government decided to repay the investors for the first cohort of 600 students. Through continued UW education and lobbying campaigns, the state legislature finally passed legislation last year that will allow the state to repay future cohorts of children.

One of the most critical components of this program and partnership is how to define success. The partners agreed to define success based on the results of the

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130 ibid
131 ibid
133 ibid
134 ibid
135 ibid
136 ibid
137 ibid
138 ibid
139 ibid
Peabody Picture Vocabulary Test (PPVT) – a test that evaluates verbal ability and scholastic aptitude.\textsuperscript{140} Of the 600 participants, at least 25% need to have scored below the 70\textsuperscript{th} percentile on the PPVT.\textsuperscript{141} In order for the program to be deemed successful, the kids that scored below the 70\textsuperscript{th} percentile upon entrance to the Pre-K program must score above the 80\textsuperscript{th} percentile after completing the program.\textsuperscript{142} These same kids are also monitored throughout Kindergarten to determine whether they access special education services or not.\textsuperscript{143} Utah Valley State University is charged with evaluating the program and if a participating child shows the necessary improvement in the PPVT score and does not access special education services during Kindergarten, then the government generates a payment (per child) after the child completes Kindergarten to repay GS and the J.B. Pritzker Foundation.\textsuperscript{144} The logic used by the partners is that early improvements on the PPVT test with at-risk populations will reduce the likelihood of the state needing to provide them special education and remedial services in the future – saving the state and school district money as well as potentially helping children to become more successful in Kindergarten and beyond. Since the early education program’s first cohort of students began in August 2013, results will not be available for at least another year and a half.

Analysis

This funding model is entirely applicable to ECH and could be a game-changer for all Pre-K education in Durham and the state. However, because SIBs are so new and ECH would need time to cement partnerships with investors and educate government and the public about SIBs, it would most likely be at least a couple of years before ECH could feasibly receive financing to implement a Pre-K program. If ECH chooses to pursue an SIB, this funding model would require a long-term commitment to the program starting as soon as possible.

\textsuperscript{140} ibid
\textsuperscript{141} ibid
\textsuperscript{142} ibid
\textsuperscript{143} ibid
\textsuperscript{144} ibid
To get started, ECH would need to determine which Pre-K program they would like to implement and determine a target population. As mentioned earlier, ECH currently implements two Smart Start-funded programs that revolve around parent education for toddlers. ECH targets low-income, LDLL families for these programs and provides free childcare for parents that participate. ECH could choose to pursue an SIB to expand the reach of their current Smart Start-funded programs, which currently reach approximately 20 families. Once the program curriculum and methodology is defined, ECH would need to shop the program around to some private sector entities in the area (and nationwide) to see if they might be willing to invest in the program. Simultaneously, ECH would need to educate and lobby local and state government officials to eventually get their approval to pay back the loan. Although this sounds daunting, given the composition of the current state legislature and nationwide momentum surrounding SIBs, the timing could be right for ECH to implement an SIB.

With respect to ECH’s criteria, the SIB would require a significant investment of human and financial resources during the initial phase of the project – which would be spent cementing partnerships and buy-in from investors, government and the public. However, once the funding arrives, ECH would receive the resources necessary to implement the program. If ECH is willing to invest resources into this process up front, if successful, it could cost ECH nothing (or next to nothing) to implement their Pre-K program. Similarly, participating families would not incur any costs to participate in ECH’s Pre-K program, as it would already be covered per the structure of the SIB model.

The SIB model does not guarantee sustainability per se. It only covers a specific amount of time. However, in the case of the early education program in Salt Lake City, the state legislature passed legislation last year that will allow the state to repay future cohorts of children that participate in the early education program. Obviously, the state legislature would have to deem the program successful to pay for future children. However, in terms of sustainability, if ECH’s program is deemed successful, there is no reason to believe that the state or local government would not consider following Utah’s lead and passing legislation to fund future cohorts.
Regarding whether the SIB model can help successfully prepare children for Kindergarten and beyond. I think it can. Obviously, the main factors that contribute to a successful SIB Pre-K program are its curriculum, methodology, pedagogy, teacher quality etc. However, SIBs are unique because all partners, including the government, have built in incentives to participate and achieve successful outcomes. For example, one of the most appealing aspects of an SIB from the government's perspective is that they only pay for successful outcomes. In other words, the government is not on the hook for covering the program fees for students that do not reach the achievement benchmarks set by the partners. On the other hand, depending on the program's success, the private sector investors could stand to actually make money – in addition to the positive PR that they may receive for their efforts. For companies, the social impact bond allows them to move away from philanthropy to recover some or most of their investment, and potentially even make a profit. In the end, the SIB model provides unique incentives that a traditional philanthropic or publicly funded program do not have - possibly contributing to improved child preparedness for Kindergarten and beyond.

Option #3 Hilltop Nursery School, Los Angeles, CA

Founded in 1951, Hilltop Nursery School is a parent-participation cooperative preschool where parents are involved in all aspects of their child’s education.\textsuperscript{145} For example, parents participate in the classroom by sharing talent or knowledge that they have with the children, teachers and staff.\textsuperscript{146} Similarly, parents also serve on Hilltop’s Board of Directors and help shape the strategic direction of the school including the hiring of staff.\textsuperscript{147} Finally, parents are heavily involved in designing and implementing fundraising activities for the school. Hilltop admits children from two to five years old and currently serves 13 families\textsuperscript{148}

\textsuperscript{146} ibid
\textsuperscript{147} ibid
\textsuperscript{148} Roa, Angela. "Hilltop Nursery School" Personal interview. 31 Mar. 2014.
Hilltop was founded as a traditional family cooperative where parents managed the cooperative, financed it, cleaned it and did anything else necessary to keep costs down.\textsuperscript{149} Parents also set the policies for the cooperative around areas like tuition, parental involvement responsibilities, operating hours etc.\textsuperscript{150} About 25 years ago, Hilltop received a federal block grant that allowed it to expand by purchasing a building, hiring teachers, and funding materials etc.\textsuperscript{151}

However, about five years ago, Hilltop lost its block grant and was forced to decrease enrollment to 43 students.\textsuperscript{152} Now, Hilltop has a socio-economically diverse mix of families who pay full tuition, part tuition and no tuition.\textsuperscript{153} All families pay a $500 registration fee per year.\textsuperscript{154} Tuition for families in the cooperative that send their children to Hilltop on a full time basis (9:00 am – 4:00 pm) is $700 a month.\textsuperscript{155} Tuition for families in the cooperative that send their children to Hilltop on a part time basis (9:00 am – noon) is $550 a month.\textsuperscript{156} Depending on whether their children are enrolled in the part time or full time program, parents in the cooperative have to spend either a full or half day at the cooperative once a week supporting the efforts of teachers or administrators.\textsuperscript{157} Similarly, each family in the cooperative has a fundraising quota of $800 per year to help cover the tuition of participating children who are unable to afford the tuition.\textsuperscript{158} In addition, Hilltop implements community fundraising events like the silent auction and community spelling bee that raise funds for low-income children attending the school.\textsuperscript{159} These events are organized and staffed by parents, as it is yet another responsibility that they have as members of the cooperative.\textsuperscript{160}
Although the money raised by individual families and the community fundraising events is helpful, it only covers the cost of 10 low-income students that participate in the cooperative. As such, Hilltop employs a sliding paying scale for families that do not receive a full scholarship and to cover the rest of the families that are on scholarship as well as other school maintenance costs (teacher and administrator salaries, physical plant maintenance etc.). Hilltop takes pride in its parent cooperative model and is one of the few daycare centers in Los Angeles with such a socio-economically diverse mix of students and parents. Hilltop believes that this diversity helps children and parents to be exposed to people they might not normally engage with, strengthening the cultural awareness and competence of all cooperative participants.

Analysis

The parent cooperative funding model is very appropriate for ECH. First, because Hilltop has to rely on family participation in fundraising events as well as the money that comes from families that pay full and partial tuition, they have an incentive to keep costs as low as possible. As it stands now, all of Hilltop’s costs are covered by tuition and money acquired from fundraising events. The sliding payment scale is an important component to keeping costs low for Hilltop and I believe that ECH could implement a similar scheme. In addition, with a sliding payment scale ECH could receive some of the same benefits as Hilltop in terms of increased cultural awareness and competence for participating families. ECH would also have no problem organizing community fundraising events as they have experience in this area.

Similarly, the Hilltop funding model would allow ECH to keep costs down for participating low-income families. However, this model would not be as attractive to ECH if they want to exclusively target low-income families. In order to keep costs down for those who are unable to afford the childcare, ECH would have to

161 ibid
162 ibid
163 ibid
164 ibid
implement a sliding scale similar to Hilltop. As mentioned earlier, if ECH is amenable to adopting a sliding payment scale structure, there is no reason to believe that the money that ECH would receive from tuition as well as other fundraising events would not be able to cover ECH’s operating costs for its Pre-K center.

The best part about Hilltop’s model is that it is self-sustainable. This means that under the current funding model, Hilltop brings in enough money to pay for its operating expenses. Currently, the school does not receive any public funding for its operations, nor is it engaged in any partnerships with private sector entities like a PPP or SIB. Given the self-sustainable nature of Hilltop, it is by definition sustainable. However, in an interview with Hilltop’s Program Director, Angela Roa, it is not easy to make ends meet year after year – but they have done it! If Hilltop is capable of making this model work, I think that ECH is as well.

Finally, it is unclear whether Hilltop’s funding model successfully prepares children for Kindergarten and beyond. It is clear, however, that the funding model requires parents to be intimately involved in the school’s operations by setting the curriculum, hiring teachers, and helping to implement the curriculum. As such, parents and families have a considerable amount of responsibility to ensure that their decisions lead to positive outcomes for their children. As a result, not only does Hilltop’s funding model influence the outcomes of children, it is in fact the determining factor.

**IX. Recommendation**

**ECH should establish a Pre-K Center using a parent cooperative funding model similar to Hilltop Nursery School in Los Angeles, CA.** It is the model that best fits ECH’s criteria. First, because the school does not receive outside funding, there is a built-in incentive to keep operation and implementation costs low. Second, if ECH is willing to enroll higher income LDLLs or non-LDLLs, it can use a sliding payment scale that would allow low-income families to pay nothing (or next to nothing) – keeping costs low for ECH’s target population. Third, the model is
entirely self-sustainable, allaying any fear that ECH has of public funding running out and resulting in a discontinuation of programming. Finally, although it is unclear if the funding model successfully prepares children for Kindergarten and beyond, it allows families to play an important role in determining the operations, strategy and curriculum for the school. Overall, this is the best option for ECH at this time.

ECH could also pursue an SIB immediately if it is interested in continuing or expanding its current Smart Start funded programs. This way, ECH would not have to rely on the NC legislature every year for Smart Start funding – which, given recent trends in state Pre-K funding, might be a smart bet. Paradoxically, Republicans have been supportive of SIBs for education and Pre-K projects in other states so the majority Republican NC legislature might have the appetite to consider an SIB with ECH. The downside for ECH is that pursuing an SIB would most likely require a heavy initial investment of economic and human resources to cobble together investors and secure buy-in from the NC Legislature. Also, because of the SIB’s structure, ECH would again be relying on outside funding sources and moving further away from financial “self-sustainability.” As a result, the SIB is not the best fit for ECH at this time and should be considered a “high risk - high reward” option.

Finally, Centro Nia’s Pre-K funding model is not appropriate for ECH at this time. However, I highly recommend that ECH connect with Centro Nia to learn more about how they expanded from a preschool to an organization that offers a wide array of community programs and activities. Given Centro Nia’s vast network of partnerships with public and private sector entities, I recommend that ECH connect with them to learn more about their fundraising strategies and efforts. Centro Nia’s experience and knowhow in this area will be helpful to ECH as it moves forward to establish a Pre-K center.

X. Conclusion

The face of our nation is changing, quickly. Latinos are the fastest growing minority nationwide and in North Carolina. In fact, right here in Durham one out of
every four babies born is Latino. Many of these babies’ parents are non-native English speakers and will face a unique set of challenges growing up in North Carolina, including learning two languages at the same time. Effective Pre-K education has been proven to help LDLLs be better prepared for Kindergarten and beyond. Sadly, many LDLLs from birth to age five in North Carolina have difficulty accessing quality Pre-K services as private centers are costly and public programs suffer from inconsistent funding and insufficient capacity – evinced by long waiting lists. Without access to quality Pre-K, Latinos in Durham (and across the country) will almost certainly be at a disadvantage in Kindergarten and beyond compared to their peers.

ECH has a great opportunity to address an important need in the Latino community by establishing a Pre-K Center for LDLLs in Durham. However, ECH currently implements a variety of programs and activities and does not have a lot of available resources to allocate to this project. To address the resource challenge, this report identified and analyzed innovative Pre-K funding models and recommended a funding model for ECH that best meets its criteria. Although there are best practices that can be gleaned from all three of the funding models that were discussed, the parent cooperative model used by Hilltop Nursery School is the most appropriate for ECH at this time. In addition to being low cost for ECH and participating children, the model is financially “self-sustainable.” This means that ECH would not have to rely on outside funding to implement the model, allaying any fear of public funding running out and having to discontinue the program.


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