Center for Early Learning Funding Equity
NORTHERN ILLINOIS UNIVERSITY

CELFE DIGEST

Strategic Financing

Why is this topic important?

The growth of Early Childhood Education and Care (ECEC) funding over the past six decades has resulted in a complex landscape of multiple funding streams administered by various federal, state, and local government agencies. As the demand for ECEC services continues to grow, states and communities are seeking ways to channel these multiple funding streams into a unified system that is simpler for programs, better for children, and fairer for communities. Implementation will require strategic financing that aligns resources from the multiple funding streams to support overall growth and improvement goals.

Synopsis

Over the decades since Head Start was founded in 1965, the need for ECEC has grown, and in response, federal and state legislatures have initiated additional “programs”, each addressing an important need, and each with its own budget appropriation and administrative structure. Major programs now help working parents pay for child care, help schools and community-based organizations prepare young children for school, support children with disabilities, and offer health, nutrition, and social services to young families.

Schools, community-based organizations, and families often find that these services work best in combination. For example, child care centers help working parents by staying open long hours, and with the right staffing and curriculum, they can prepare children for school. Schools offer early childhood education, and with the right staffing and support, they can include children with disabilities. However, each of the funded initiatives or “programs” distributes funds independently through its own federal or state agency. Service providers and families struggle to patch the needed resources together. States and communities miss opportunities to align resources and address priority needs because resource allocation is so fragmented.

Strategic financing represents a paradigm shift in which states and communities view the ECEC system as a whole, including all sources of funding and all settings. They view each funding source not as a free-standing federal or state “program” but as a funding stream within a unified and coherent financing system. Leaders plan strategy by collecting data on ECEC needs and soliciting feedback from each region or community. They then consider how the funding streams might work together to address those needs. The resulting strategic financing plan can guide the allocation and distribution of funds.

Discussion – Key components of a strategic ECEC system

Many states have taken steps toward system unification and strategic financing, putting one or more of the following components in place. In order to implement a growth and improvement strategy, all four components will need to work together.

Unified governance: Twenty-five states and the District of Columbia have placed all ECEC funding streams in a single state agency. Sometimes, however, funding streams are siloed even within the same agency.[1] Joint decision-making by administrators across funding streams is needed for unified governance to result in a unified funding strategy. In some cases, states might need to modify funding streams' enabling legislation or administrative rules to support a unified allocation system.

Integrated data: A 2018 survey found that eighteen states were combining data from more than one funding stream in a formal Early Childhood Integrated Data System (ECIDS).[2] The Chicago Early Childhood Integrated Data System (CECIDS)[3] offers an example at the city level, combining administrative data from several funding streams to determine the total unduplicated number of children served, and comparing those numbers to population data for each community, allowing administrators to view relative need. Analysts can use integrated data to estimate the number and type of additional slots needed per community and the related needs for program site upgrades or expansion. They can then perform cost and revenue analyses to support planning. They map funding allocations geographically to show the relative adequacy of resources when all funding streams are considered. They use cost modeling to estimate the cost of meeting a specific set of program standards and compare that cost to existing program revenue. These and other analyses help leaders understand the costs associated with various growth strategies.

Regional or community systems: All data analysis must include community review and feedback. At least 20 states have established "state-local" governance models, defined by the BUILD Initiative as any statewide system of county or regional coalitions that are a formal part of the state's early childhood system.[4] Community representatives in these systems can use their knowledge of local assets and needs to help interpret data and recommend priorities. Ideally, the state will fund a single backbone organization to coordinate this work and engage local collaborations.

Effective funding mechanisms: A financing plan must consider not only whether funds are allocated equitably based on need, but also how the funds are distributed and administered. Grants and contracts are especially effective in supporting goals for program stability and quality, but state procurement and reporting requirements might be too burdensome for small programs. Some states have been able to simplify grant structures to address this problem. Child care vouchers are simpler to administer, making a wide selection of programs available to families, but they fail to alleviate programs' financial instability and staffing shortages caused by low pay. Some states have found a balance by issuing simple "foundational funding" grants that work together with vouchers.

Ultimately, to align ECEC financing with strategic goals, states and communities need to integrate all four of these components – governance, data, community systems, and funding mechanisms – into a unified system with strong leadership.

[1] Education Commission of the States, 2024.
[2] Abdul Latif Jameel Poverty Action Lab, 2020.
[3] CECIDS operates in conjunction with CELFE at Northern Illinois University.
[4] Karen Ponder and Gretchen Ames, Ed.D, 2021.

Resources

Unified governance and strategic financing overview

- CELFE (2025). From Mixed Delivery Patchwork to Mixed Delivery System. https://celfe.org/resources/mixed-delivery-system-series/
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- Regenstein, E. (2026). Readiness: Preparing State Early Childhood Systems for a Brighter Future, Harvard Education Press. https://hep.gse.harvard.edu/9798895570487/readiness/

Integrated data

- Abdul Latif Jameel Poverty Action Lab (2020). State Level Early Childhood Integrated Data Systems (ECIDS). https://www.povertyactionlab.org/admindatacatalog/state-level-early-childhood-integrated-data-systems-ecids
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- CELFE web page on Funding Equity Maps. https://celfe.org/our-work/mapping-funding/
- Children's Funding Project (2023). Understanding Fiscal Maps, https://childrensfundingproject.org/wp-content/uploads/Understanding-Fiscal-Maps_FINAL.pdf
- CELFE web page on Cost Modeling. https://celfe.org/our-work/designing-funding-mechanisms-and-tools/cost-modeling/
- Children's Funding Project (2023). Understanding Cost Models, https://childrensfundingproject.org/wp-content/uploads/Understanding-Cost-Models_FINAL-1.pdf

Regional or community systems

- Karen Ponder and Gretchen Ames, Ed.D. (2021). The Nuts and Bolts of Building Early Childhood Systems through State/Local Initiatives,. https://buildinitiative.org/resource-library/the-nuts-and-bolts-of-building-early-childhood-systems-through-state-local-initiatives/

Effective funding mechanisms

- Bipartisan Policy Center (2026). Child Care and Development Fund: Federal Guidelines for States. https://bipartisanpolicy.org/explainer/child-care-and-development-fund-federal-guidelines-for-states/
- CELFE (2023). Foundational Investments in Child Care. https://celfe.org/resources/foundational-investments-in-child-care/
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- Office of Child Care - National Center on Child Care Subsidy Innovation and Accountability. Using Grants and Contracts to Build and Stabilize Supply. https://childcareta.acf.hhs.gov/sites/default/files/using_grants_and_contracts_1.pdf