

Head Start Funding Issues

SUMMARY

Minnesota serves a larger portion of poor families with its Head Start program than most states, but there is wide variation in the availability of Head Start services throughout the state. The Legislature should consider increasing the proportion of Minnesota’s state Head Start funding that is distributed based on a measure of unmet needs. Presently, half of state funds are allocated on the basis of federal Head Start allocations, and the federal allocations do not adequately reflect the costs of services provided or the location of families in poverty. In addition, the Legislature should consider giving Head Start grantees more flexibility to determine which families to serve with their state funds—including families just above the federal Head Start income guidelines and families with children under age three.

As discussed in Chapter 1, Head Start is an early childhood education program targeted to children and families in poverty. This chapter further examines the Head Start program and discusses program availability, state funding, and recent expenditure trends. Specifically, it addresses the following questions:

- **To what extent are Head Start services available throughout Minnesota, and is there evidence of unmet needs for services? To what extent does program enrollment vary around the state?**
- **How are state funds for Head Start allocated? What is known about the way grantees spend these funds?**
- **Did the recent increase in state Head Start funding result in a corresponding change in the amount of services provided?**

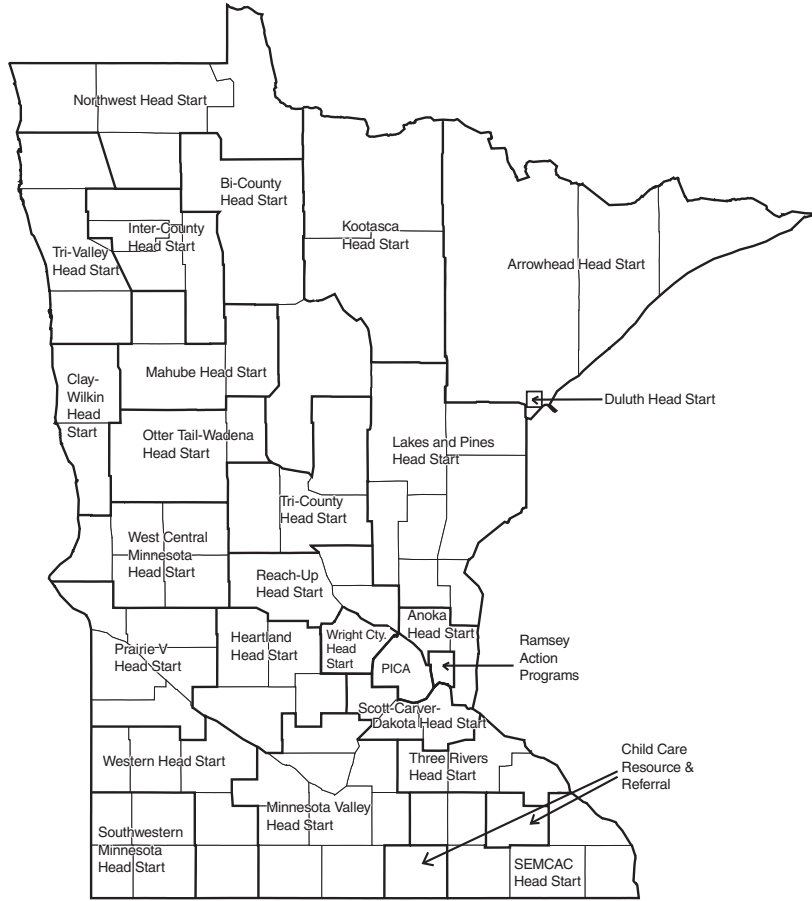
To answer these questions, we used data from the federal Head Start Program Information Report and from the Department of Children, Families, and Learning (CFL). We also spoke with CFL staff and a number of Head Start service providers (commonly called “grantees”) across the state.

PROGRAM AVAILABILITY AND PARTICIPATION

Minnesota has 34 Head Start grantees that receive federal and state funds to serve children ages three to five. As shown in Figure 2.1, 27 of these grantees have

Figure 2.1: Service Areas of Minnesota’s Regular Head Start Grantees

There are federally-designated Head Start agencies in all parts of Minnesota.



NOTE: PICA (Parents in Community Action) is the Head Start provider in Hennepin County and SEMCAC (Southeastern Minnesota Community Action Council) is the Head Start provider in southeast Minnesota.

SOURCE: Department of Children, Families, and Learning.

federally-assigned, non-overlapping service areas, and together they provide services that cover Minnesota’s entire geographic area. In addition, seven American Indian tribal grantees and a grantee that serves migrant families provide Head Start services to children ages three to five in selected parts of the state.¹

Head Start grantees can serve children younger than three if they apply for and obtain federal or state funds specifically for children in that age category. In 1998-99, seven Minnesota Head Start grantees served children under age three with state funds, and four agencies enrolled children under three with federal funds. Statewide,

¹ The grantee that provides services to migrant families (Tri-Valley Opportunity Council) is also 1 of the 27 grantees with a federally-designated service area.

- **About 6.8 percent of Minnesota’s population of three- to five-year-olds were served in Head Start in 1998-99, compared with 0.5 percent of Minnesota’s population of children under age three.**

To assess the availability of Head Start services for children ages three to five in Minnesota, we considered several sources of information. First, we used the Minnesota Head Start program’s definition of “unmet needs.”² Second, we looked at county-specific information on Head Start service locations, comparing each county’s number of Head Start “slots” with various measures of its population in poverty.³ Third, we used data that grantees reported to the federal government to analyze the time it took to fill open Head Start slots in 1998-99. We also examined waiting list data for each grantee, although some state and grantee staff we spoke with questioned the reliability and consistency of this information as a measure of unmet need. Consequently, we do not report waiting list information here.

We found that:

- **In program year 1999-2000, the total number of Head Start slots for three- to five-year-olds was equal to about 45 percent of Minnesota children ages three to five in poverty, as estimated by the 1990 census.**

Minnesota’s Head Start program serves about half of the eligible children in the state.

The Department of Children, Families, and Learning plans to use the 1990 census until 2002 or 2003 to determine Head Start fund allocations among grantees. However, there are reasons to be cautious about using data on the number of children in poverty in 1990 to compute unmet need. Head Start is a voluntary program, and program staff told us that some eligible families would choose not to participate even if the program was funded to serve all children in poverty.⁴ Also, although 2000 census estimates are not yet available, other data from the U.S. Census Bureau suggest that, over the past ten years, there have been declines in Minnesota’s number of children under age five and overall poverty levels.⁵ If so, relying on the 1990 estimates of child poverty may overstate the actual service needs. Using data on the actual number of children served by Head Start in 1998-99 and 1996 census estimates of Minnesota’s number of children in poverty, we estimated that Minnesota’s Head Start program now serves about 55 percent of children ages three to five in poverty.⁶

² For state funding purposes, unmet needs are determined by a comparison of each grantee’s number of funded slots with the number of children in poverty ages three to five in the grantee’s service area. The number of children in poverty is based on data from the most recent decennial census.

³ Slots are the number of children a Head Start grantee can serve at any one time. We obtained information from the Department of Children, Families, and Learning about the location of Head Start service sites (and the number of slots at each) throughout Minnesota—including centers where Head Start classes are held and socialization sites where families enrolled in home-based services meet periodically.

⁴ Staff noted that some families choose not to participate because of cultural concerns about out-of-home care or because they prefer to participate in other early childhood programs.

⁵ For example, www.census.gov/hhes/poverty/povanin/pvmaptxt.html (trends in state and national poverty rates) and www.census.gov/population/estimates/state/st-99-09.txt (trends in state and national population, by age group).

⁶ Most children in Head Start are ages three and four at the start of the school year, and we estimated that Minnesota’s Head Start program served about three-fourths of three- and four-year-olds in poverty in 1998-99.

We found that:

- **Minnesota's Head Start program serves a larger portion of children in poverty than most other states' programs do.**

Using data from several sources, we compared each state's number of 1998 Head Start slots (funded by federal, state, and other sources) with its estimated number of children in poverty under age five. Only three states served larger percentages of children in poverty than Minnesota: Ohio and Delaware, which pay for Head Start slots with both federal and state funds, and Mississippi, which does not supplement its federal Head Start funds with state funds.⁷

However, we found that:

- **Within Minnesota, the ratio of Head Start slots to poor children varies considerably.**

For example, a grantee that serves a relatively low percentage of its estimated needs is the Anoka County Community Action Program, which serves Anoka and Washington counties. In 2000, it had 485 Head Start slots for three- to five-year-olds, which represented 31 percent of the service area's estimated number of three- to five-year-olds in poverty in 1990. In fact, Minnesota's four Head Start grantees that served the lowest proportion of estimated need were all in the Twin Cities metropolitan area, and all served less than 33 percent of the estimated number of three- to five-year-olds in poverty in 1990.⁸ In contrast, Northwest Community Action Agency, which provides Head Start services in four counties in northwestern Minnesota, had slots that represented 116 percent of the service area's estimated number of three- to five-year-olds in poverty. Six Head Start grantees had slots equaling more than 60 percent of their estimated need, and five of these grantees served counties on Minnesota's western border.⁹

We estimated local needs using two alternatives to the 1990 census: (1) census bureau estimates of the number of children under age 18 in poverty in 1995, and (2) the number of children receiving free and reduced-price lunch in Fall 1999. These alternatives have more recent measures of child poverty than the 1990 census, but they are reported only for broad age groups and not just for prekindergarten children. We compared these measures of need in each county with the county's number of Head Start slots in fiscal year 2000; Table 2.1 shows the measures for selected counties, and Figure 2.2 shows the percentage of needs

Head Start agencies in the Twin Cities area serve a relatively small portion of the region's children in poverty.

⁷ We obtained data on federally-funded Head Start slots from the federal Head Start Bureau. For states that supplement federal Head Start funds with state funds, we used the total number of funded slots reported by Kathy Novak, *Review of State Funding for Head Start* (St. Paul: Minnesota House of Representatives Research Department, December 1999), 4. For the number of children in poverty, we used 1996 data (revised in November 2000) from the U.S. Census Bureau—http://www.census.gov/hhes/www/saipe/stcty/e96_00.htm; accessed December 7, 2000.

⁸ Besides Anoka County Community Action Program, the others were Parents in Community Action (serving Hennepin County), Ramsey Action Programs, and Scott-Carver-Dakota Community Action Programs.

⁹ Besides Northwest, the grantees over 60 percent included Prairie Five Community Action Council, Clay-Wilkin Opportunity Council, Wright County Community Action Council, Tri-Valley Opportunity Council, and West-Central Minnesota Communities Action Council.

Table 2.1: Head Start Slots By County, as a Percentage of Children in Poverty (Selected Counties)

County	Total Head Start Slots, 1999-2000 ^a	1999-2000 Head Start Slots, as a Percentage of:		
		Total Free/Reduced-Price Lunches Provided per Day, Fall 1999 ^b	Estimated Persons under Age 18 in Poverty, 1995	Estimated Persons under Age 5 in Poverty, 1990
Benton	16	1.4%	1.6%	5.9%
Wabasha	18	1.8	3.5	11.7
Red Lake	9	2.2	5.0	13.6
Rock	16	3.4	5.2	15.2
Dakota	295	3.6	5.3	17.1
Martin	48	3.6	6.1	14.3
Scott	63	3.7	6.2	26.6
Anoka	378	3.8	6.3	22.7
Meeker	64	4.0	9.3	25.5
Washington	133	4.1	5.0	17.0
Ramsey	1,538	4.2	7.4	19.0
Hennepin	2,109	4.4	5.9	18.0
Becker	196	11.4	11.7	34.0
Cook	19	13.0	17.4	39.6
Polk	287	13.1	17.6	53.2
Koochiching	96	13.9	15.2	50.8
Grant	56	14.1	23.7	83.6
Marshall	98	14.2	23.3	72.1
Norman	86	15.5	22.0	90.5
Wilkin	80	19.3	26.8	73.4
Renville	151	20.4	19.5	58.1
Mahnomen	211	21.7	51.2	150.7
STATE	13,067	5.9%	8.8%	26.6%

^aSlots were attributed to the county where the service center was located, although some of these centers provide service to two or more counties.

^bThe analysis attributed lunches to the county in which the district office was located. There are a small number of instances in which the schools children attended were in a county different from the county where the district office was.

SOURCES: Office of the Legislative Auditor's analysis of data from the Department of Children, Families, and Learning (number and location of Head Start slots, number and location of free and reduced-price lunches served) and U.S. Census Bureau (estimates of children in poverty).

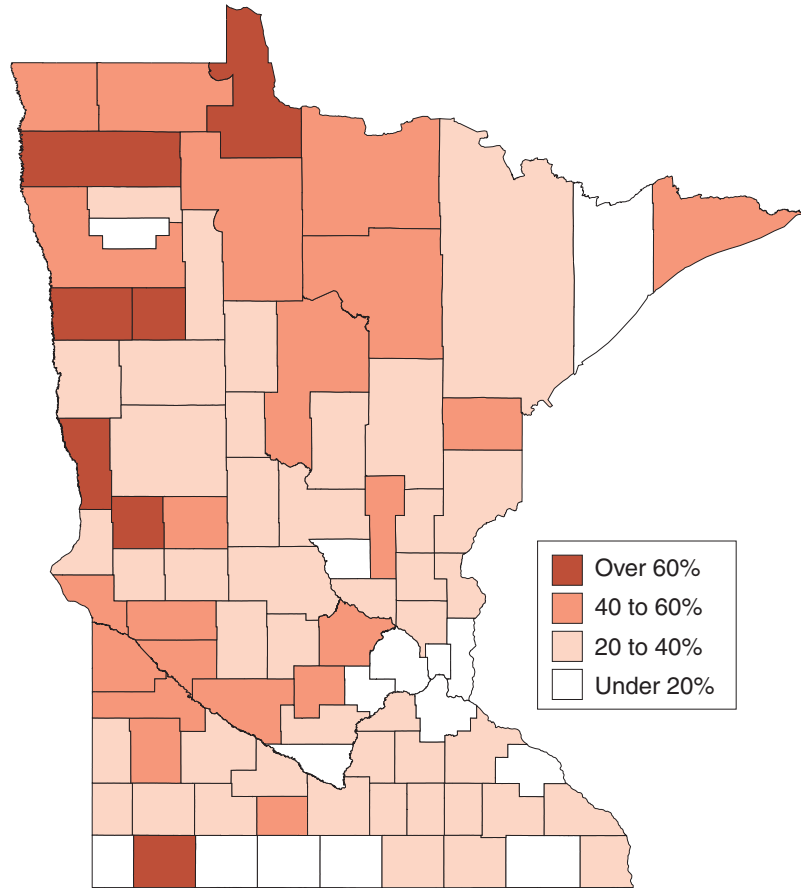
met by Head Start in each county (based on the 1990 census).¹⁰ On both of the alternative measures, Head Start served lower percentages of needy children in each of the seven Twin Cities counties than in the state as a whole.¹¹ Statewide, the percentage of needy children served varied widely among individual counties, but the three measures in Table 2.1 showed similar patterns in the relative rankings

¹⁰ To determine the number of Head Start slots in each county, we used information collected by the Department of Children, Families, and Learning that indicated the number of slots at each of the state's Head Start service delivery sites.

¹¹ Some of the 1995 county-specific census estimates have a sizable margin of error and should be considered tentative. In general, the census estimates are more reliable for larger counties than smaller ones, and the 1990 census estimates are more reliable than the 1995 estimates.

Figure 2.2: Head Start Slots as a Percentage of Children Under Five in Poverty

The availability of Head Start services varies widely among Minnesota counties.



SOURCE: Office of the Legislative Auditor's analysis of 1990 census data and Department of Children, Families, and Learning data on 1999-2000 Head Start slots.

of individual counties.¹² For instance, counties such as Benton and Wabasha had a small number of Head Start slots by any of the measures shown, while counties such as Renville and Wilkin had a large number of slots by any of the measures shown.

About half of Minnesota's cities with population over 1,000 had a Head Start service site in 1999-2000, and there were also many cities and townships with populations under 1,000 that had service sites. As shown in Table 2.2, the largest city in outstate Minnesota without a Head Start site is Marshall, with an estimated 1999 population of 12,825. In contrast, 16 cities in the Twin Cities area with populations over 25,000 do not have Head Start sites. Not all cities need Head Start sites; some of the cities listed in Table 2.2 are relatively affluent, and

¹² We correlated the alternative measures of Head Start needs with the measure based on 1990 census data. For the measure based on free and reduced-price lunch, $r=0.83$. For the measure based on 1995 census estimates, $r=0.95$.

Table 2.2: Largest Cities Without Head Start Service Sites, 1999-2000

Outside the Twin Cities area, most cities with more than 3,000 residents have Head Start service sites.

In the Seven-County Twin Cities Area		Outside the Seven-County Twin Cities Area	
City	1999 Estimated Population	City	1999 Estimated Population
Bloomington	87,476	Marshall	12,825
Plymouth	64,313	St. Michael	8,291
Eagan	61,113	North Branch	6,772
Minnetonka	53,444	Waite Park	6,599
Eden Prairie	51,913	Baxter	5,475
Maple Grove	49,479	Stewartville	5,319
Edina	47,274	St. Joseph	4,934
St. Louis Park	44,236	La Crescent	4,778
Woodbury	42,342	Lake City	4,744
Maplewood	35,780	Kasson	4,370
Cottage Grove	31,137	Wadena	4,274
Fridley	28,623	Le Sueur	3,865
Brooklyn Center	28,597	Sleepy Eye	3,720
White Bear Lake	26,643	Goodview	3,415
Shoreview	26,545	Albertville	3,226
Oakdale	26,331	Byron	3,225

NOTE: Based on an analysis of service sites for children of all ages, including home-based socialization, center-based, and combination sites.

SOURCES: Office of the Legislative Auditor's analysis of Head Start site data from the Department of Children, Families, and Learning and local population estimates from the State Demographer's Office.

low-income residents of some others may be able to obtain transportation to Head Start sites in nearby cities. For instance, although Brooklyn Center does not have a Head Start site within its boundaries, there is a Head Start center just outside the city limits (in Brooklyn Park). On the other hand, several cities listed in Table 2.2 had between 150 and 300 residents under age five in poverty in 1990, so there may be justification for additional Head Start locations.¹³

Recently, Minnesota has had somewhat increased difficulty filling its funded Head Start slots in a timely manner, although openings tend to be filled more quickly in the Twin Cities region. Federal standards require grantees to fill vacant slots within 30 days. In the three most recent years for which data were available (1996-97 to 1998-99), 79 to 82 percent of vacant Head Start slots statewide were filled by grantees within 30 days, compared with 84 percent in the two previous years. The Head Start programs in Hennepin and Ramsey counties were two of the four programs in the state that filled all of their open slots within 30 days in 1998-99; the other grantees serving the seven-county metropolitan area also had

¹³ Grantees have considerable latitude to plan the location and types of services they will provide within their service areas, although federal Head Start standards require grantees to conduct community assessments of their service areas every three years.

above-average rates of filling vacant slots.¹⁴ In contrast, most of the tribal grantees reported below-average rates of filling vacancies, as did five of the six grantees that were funded to serve more than 60 percent of their estimated needs.

PROGRAM FUNDING

Background

Federal Head Start funding goes directly to grantees and cannot be altered by state legislatures.

In all states, including Minnesota, federal Head Start funding goes directly to the grantees, bypassing state government. As a result, state legislatures have no authority to determine how a state's federal Head Start allocation will be divided among individual grantees.¹⁵ Each year, Head Start grantees receive an allocation from the federal government and are told how many slots they must provide for eligible children. The number of slots is determined by dividing each grantee's total federal allocation by its current "cost-per-child" rate. When Head Start began in the 1960s, agencies submitted proposals to the federal government indicating how much it would cost them, per child, to provide Head Start services. These cost-per-child rates, adjusted over time for inflation and other factors, are still used to allocate funds today.¹⁶ These rates vary by grantee, are largely based on historical factors, and do not reflect the actual costs of services presently provided.

The Minnesota Legislature first appropriated state funding for Head Start in 1988. Today,

- **Minnesota is 1 of 17 states (plus the District of Columbia) that supplement the federal Head Start program with state funding.**¹⁷

In fiscal year 2000, state funds accounted for 24 percent of Minnesota's total Head Start revenues, and they paid for nearly 3,000 slots. A recent report showed that four states funded a larger percentage of Head Start with state funds: Alaska

¹⁴ The other grantees with 100 percent "replacement rates" were Arrowhead Economic Opportunity Agency, which serves Cook, Lake, and St. Louis counties (excluding Duluth), and Otter Tail-Wadena Community Action Council. The Hennepin and Ramsey grantees had 100 percent rates in both 1997-98 and 1998-99.

¹⁵ As outlined in the federal Head Start Act, each state receives federal Head Start funding at least equal to the amount received in 1998. Funding beyond that level is distributed proportionately based on the number of children less than five years of age in poverty. At least 87 percent of the federal Head Start appropriation must be allocated according to this formula. *Head Start Act*, 42 U.S. Code, sec. 9801 (1998).

¹⁶ Individual grantees can request changes in their cost-per-child rates, but changes are relatively infrequent and there has been no system-wide review of these rates since the Head Start program was implemented.

¹⁷ Karen Schulman, Helen Blank, and Danielle Ewen, *Seeds of Success: State Prekindergarten Initiatives, 1998-1999* (Washington, D.C.: Children's Defense Fund, 1999) and Novak, *Review of State Head Start Funding*. In addition to Minnesota, the following states appropriate state funds for Head Start services: Alaska, Connecticut, Delaware, Hawaii, Kansas, Maine, Massachusetts, New Hampshire, New Jersey, New Mexico, Ohio, Oklahoma, Oregon, Rhode Island, Washington, and Wisconsin.

Compared with most states, Minnesota funds Head Start generously.

(40 percent), Ohio (35 percent), Delaware (30 percent), and Oregon (30 percent).¹⁸ Nine states (including Minnesota) use state funding to increase the number of children served, while the other states use their funds to meet federal requirements for local matching funds.¹⁹

In fiscal year 1988, Minnesota provided \$1.9 million for Head Start; in fiscal year 1990, state funding increased to \$5.5 million.²⁰ Total state Head Start funding slowly increased until fiscal year 1998, when it jumped from \$11.5 million to its current level of \$18.75 million.²¹ State Head Start funding has remained static at \$18.75 million since fiscal year 1998. Table 2.3 shows the state and federal funding levels for Head Start since fiscal year 1988.

For the most part, Minnesota’s state Head Start funding is used to increase the number of Head Start slots each grantee provides; the only exceptions are state Head Start innovative grants. Minnesota statutes allow CFL to allocate up to 11 percent of state Head Start funds annually for innovative grants.²² These grants are awarded on a competitive basis to (1) target Head Start resources to particular at-risk groups, or (2) provide services beyond those currently allowed under

Table 2.3: Minnesota Head Start Funding, FY 1988-2001

Fiscal Year	State Funding (in Millions)	Federal Funding (in Millions)	Total Funding (in Millions)
1988	\$ 1.90	\$12.60	\$14.50
1989	2.40	14.80	17.20
1990	5.50	14.80	20.30
1991	5.50	17.60	23.10
1992	6.50	21.90	28.40
1993	8.50	25.00	33.50
1994	11.50	33.50	45.00
1995	11.50	40.50	52.00
1996	11.50	43.20	54.70
1997	11.50	43.70	55.20
1998	18.75	46.90	65.65
1999	18.75	53.65	72.40
2000	18.75	58.80	77.55
2001	18.75	64.16	82.91

NOTE: State funding includes all state Head Start funding (regular Head Start and Birth to Three programs, innovative grants, and state administration) and federal funding includes all federal Head Start funding (base funding, Early Head Start, expansion, etc.). State funding includes \$1.5 million in 1988 and \$1.4 million in 1989 of transfer funds from the Low Income Home Energy Assistance Block Grant.

SOURCE: Minnesota Department of Children, Families, and Learning, *Head Start in Minnesota* (Roseville, MN, January 2000), 2.

¹⁸ Novak, *Review of State Head Start Funding*, 4.

¹⁹ *Ibid.*, 3. As per federal Head Start guidelines, grantees must provide a “local match” equal to 20 percent of the total cost of their program. Minnesota grantees generally use private or local funds or in-kind contributions to satisfy this requirement.

²⁰ In fiscal year 1988, the Legislature directly allocated \$400,000 to Head Start. An additional \$1.5 million was transferred to Head Start from the Low Income Home Energy Assistance Block Grant.

²¹ Funding for Birth to Three, innovative grants, and state administration is included in the total state Head Start allocation.

²² *Minn. Stat.* (2000) §119A.52 (b).

federal Head Start regulations. Since fiscal year 1991, innovative grants have comprised from 8 to 10 percent of total state Head Start funding. The percentage of innovative grant requests that were funded declined from 73 percent in fiscal year 1998 to 45 percent in fiscal year 2001, largely reflecting an increase in the amount of grant requests.²³ Table 2.4 lists the funding levels for innovative grants since 1991.

Innovative grants comprise 8 to 10 percent of total state Head Start funding.

Table 2.4: Head Start Innovative Grant Funding in Minnesota, FY 1991-2001

<u>Fiscal Year</u>	<u>Total Innovative Grant Funding (in Millions)</u>	<u>Innovative Grants as a Percentage of Total State Head Start Funding</u>
1991	\$0.52	9.5%
1992	0.54	8.3
1993	0.71	8.3
1994	1.03	9.0
1995	1.10	9.6
1996	1.11	9.6
1997	1.07	9.3
1998	1.88	10.0
1999	1.71	9.1
2000	1.58	8.4
2001	1.61	8.6

SOURCE: Office of the Legislative Auditor's analysis of Department of Children, Families, and Learning data.

Most Minnesota Head Start grantees have received at least one innovative grant over the past five years. We found that:

- **Between fiscal years 1997 and 2001, all but three Head Start grantees received at least one innovative grant.**

Since 1997, grantees have received innovative grants for a wide variety of projects. Some grantees have used them for one-time purchases such as children's books, playground equipment, or to facilitate collaboration with other organizations. On the other hand, five Head Start grantees have used the innovative grants to fund the same program every year between 1997 and 2001.²⁴ These programs include a mobile family service center to serve families in rural areas and a program that serves homeless children and their families.

Aside from innovative grants, Minnesota's state Head Start appropriation is allocated to grantees based on a statutory formula. Minnesota allocates state Head Start funds among grantees based 50 percent on their share of the state's federal funds and 50 percent on their portion of the state's unmet needs.²⁵ These state

²³ In fiscal year 1998, innovative grant requests totaled approximately \$2.5 million; in fiscal year 2001, requests increased to over \$3.5 million.

²⁴ Anoka County Community Action Program, Arrowhead Economic Opportunity Agency, Parents in Community Action, Ramsey Action Programs, and Scott-Carver-Dakota Community Action Programs have all had ongoing programs funded through innovative grants since 1997.

²⁵ *Minn. Stat.* (2000) §119A.52 (a). Each grantee is guaranteed at least as much funding as it received in 1993, although this provision has not affected allocations since the 1998 funding increase.

funds are used to serve additional families in the Head Start program (beyond those served by federal funding). In our view, it is noteworthy that:

- **The Legislature has authority to determine which organizations can receive state Head Start funds and how these funds should be allocated, but Minnesota’s approach is based largely on the federal Head Start funding allocation process.**

Minnesota’s Head Start funding allocation process is closely tied to the federal process in the following ways: (1) only federal Head Start grantees are eligible to receive state Head Start funds; (2) each grantee’s number of state-funded slots depends on its federal per-child funding rate, which is used for federal allocation purposes; and (3) half of the state Head Start funds are allocated based on grantees’ shares of federal funding. In the following sections, we discuss each of these aspects of Minnesota’s Head Start funding formula, as well as policy alternatives that the Legislature could consider.

Minnesota law permits only federal Head Start grantees to receive state Head Start funding.

Eligible Head Start Grantees

According to Minnesota law, only grantees that existed in 1989 are eligible to receive state Head Start funding.²⁶ As a result, all Minnesota state Head Start grantees are also federal Head Start grantees. Four states have taken a different approach by allocating state Head Start funds to federal grantees as well as other organizations.²⁷ Through competitive grants, Delaware allocates some of its state Head Start funds to public and private preschool programs in priority regions of the state. This is part of the state’s initiative to provide children in families with below-poverty incomes one year of preschool and reduce the waiting lists at Head Start centers. New Jersey provides funds to community child care programs to help them meet some of the Head Start standards. Ohio and Oregon provide funding to non-federal Head Start grantees that agree to follow the Head Start standards.

The Legislature may wish to consider allowing agencies other than federal Head Start grantees to be eligible for state-funded innovative grants. Historically, innovative grants have not been awarded to provide additional Head Start sites. However, as discussed earlier in this chapter, there are many large cities in Minnesota that do not have a Head Start program, and there are some areas of the state where Head Start programs serve a relatively small portion of the eligible children. If existing grantees do not provide services in these areas, there might be an opportunity for other early childhood educators or care providers to offer a Head Start program.

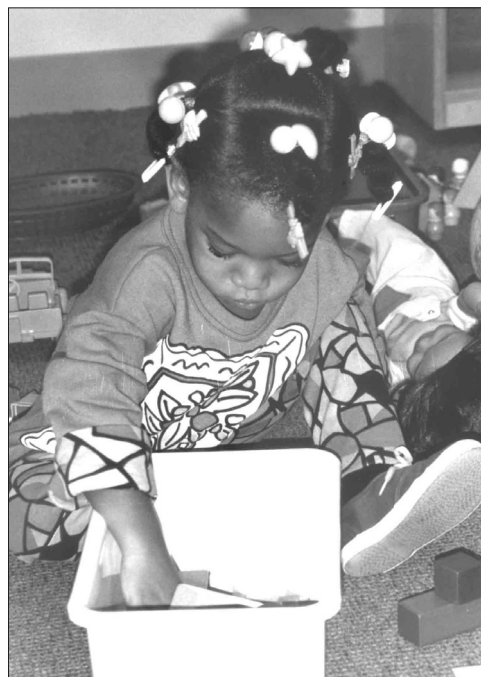
RECOMMENDATION

The Legislature should consider amending Minn. Stat. §119A.52 to authorize agencies other than those that received Head Start funding in 1989 to be eligible for innovative grants.

²⁶ Minn. Stat. (2000) §119A.52 (a).

²⁷ Schulman and others, *Seeds of Success*, 49, 184, 200, and 202.

If the Legislature does this, it should also consider whether the non-federal grantees should be required to meet all federal Head Start standards in the programs they offer. Some officials from Minnesota Head Start programs told us that they could provide high-quality services to more eligible recipients at lower costs if their state-funded services were not required to meet all federal requirements. Such flexibility might be consistent with the law's stated purpose for state Head Start innovative grants, which includes providing "services in addition to those currently allowable under federal Head Start regulations."²⁸ On the other hand, the comprehensive federal requirements have traditionally defined "true" Head Start services, so the state should be cautious before it allows a diluted version of an established program.



Minnesota allocates state Head Start funds based on federal per-child funding rates.

Per-Child Funding Rates

Every biennium, Minnesota Head Start grantees receive a funding allocation from the Department of Children, Families, and Learning. Based on state law, the department divides each grantee's state allocation by its federal per-child funding rate to determine the number of slots each grantee must provide. In fiscal year 2000, Minnesota's per-child rates varied from about \$4,500 to \$7,000 among grantees.²⁹ As discussed earlier, these cost-per-child figures are largely a vestige of the original federal Head Start funding applications from the 1960s and do not necessarily reflect present differences in grantees' actual costs or services provided. In fact, we found that:

- **In Minnesota, a grantee's state funding level and number of slots are not related to the type of program a grantee offers.**

For example, if a grantee receives \$50,000 in state Head Start funding and has a federal cost per child of \$5,000, the grantee will be expected to provide ten state-funded slots, regardless of the type of programming offered. Under the current funding structure, the grantee could provide ten full-day, full-week slots or ten half-day, part-week slots and receive the same level of state Head Start revenue.

²⁸ *Minn. Stat.* (2000) §119A.52 (b).

²⁹ One tribal grantee has a per-child rate of over \$10,000 but it had only 19 state and federal slots in 2000.

Variation in the actual cost of providing services is not considered in the allocation of Minnesota's state Head Start funds.

Not surprisingly, the cost differences among programs can be significant. Based on our review of detailed expenditure data from six Head Start grantees, it is clear that costs per child vary both by provider and type of service provided.³⁰ Among these six grantees, actual average costs per child ranged from \$5,900 to over \$7,710 in fiscal year 1999. When comparing costs among types of service provided, center-based services were more costly than home-based or combination programs. For one grantee, center-based services cost \$8,075 per child, while services combining a center-based and home-based approach cost only \$3,700 per child.

Three states (Connecticut, Ohio, and Wisconsin) use a distribution method other than the federal per-child amount to allocate state Head Start funds. Connecticut allocates funding to provide additional classrooms, rather than funding programs on a per-slot basis. Ohio provides a per-child amount that is less than the federal amount, based on a legislative formula. Wisconsin provides a per-child amount based on the statewide average of its grantees' federal per-child rates.³¹ We think the Legislature should consider an alternative approach to Minnesota's present method of allocating state Head Start funds.

RECOMMENDATION

The Legislature should consider amending Minn. Stat. §119A.52 to authorize the Department of Children, Families, and Learning to determine a grantee's number of state-funded slots based on its proposed services and the cost per child of those services, rather than based on the federally-set rates per child.

If such a change were made, state funding would be more reflective of the services and programs offered by each grantee. This might encourage grantees to provide longer hours of service or, in some cases, serve more families. However, such a change would require CFL to monitor programs more closely. Specifically, CFL staff would have to ensure that the programs grantees proposed are the programs ultimately offered.³²

State Head Start Funding Formula

State Head Start funds are distributed among grantees based 50 percent on their share of the state's federal funds and 50 percent on their portion of the state's unmet needs. State officials told us that half of the allocation was based on each grantee's share of federal funding to give grantees an incentive to maximize their federal funds. However, federal funding has been fairly inflexible over time, largely reflecting historically-negotiated rates rather than present costs and service needs. Grantees can apply to the federal government for changes in funding rates

³⁰ We obtained detailed cost data for Clay-Wilkin Opportunity Council, Heartland Community Action Agency, Lakes and Pines Community Action Council, Mahube Community Council, Northwest Community Action, and Three Rivers Community Action.

³¹ Novak, *Review of State Funding for Head Start*, 3.

³² In addition, programs may have less flexibility in changing the type of services they offer once a budget has been approved.

Minnesota could more effectively target Head Start funds, based on measures of unmet needs.

or number of slots, but people we spoke with said that these changes have had fairly limited effects in recent years on grantee funding levels.³³

The other portion of state Head Start funding, which is based on the unmet need in each grantee's service area, helps target state funds to areas most in need of Head Start services. To calculate the unmet need for Head Start funding, the Department of Children, Families, and Learning uses the most recent census data to determine the number of children ages three to five in poverty in each service area. CFL computes unmet need by comparing this number with the number of children being served with federal Head Start dollars. As discussed earlier, there is wide variation in the extent to which these needs are funded throughout the state. In 2000, the percentage of eligible children served with both federal and state Head Start funds ranged from 31 to 116 percent of the estimated need in grantee service areas.

RECOMMENDATION

The Legislature should consider increasing the percentage of state Head Start funds allocated on the basis of unmet needs.

Such a change would help to improve the equity of Head Start allocations across the state by targeting funds to areas with higher levels of need. However, it is worth considering that this change would likely increase the percentage of state funding going to grantees in the Twin Cities area. Some Head Start officials told us that there are many services and programs targeted toward low-income families in the metropolitan area, whereas outstate Head Start agencies may provide the only services for low-income families in their communities.

If the Legislature adopts a more need-based Head Start allocation formula, it may wish to consider more up-to-date measures of need than the decennial census. The department expects to use the 1990 census as a basis for state Head Start allocations through 2002 or 2003. However, it is not unusual for the state to experience significant population shifts and changes in regional economic conditions between censuses.³⁴ The Legislature could consider an alternative measure of child poverty, such as the number of free and reduced-price lunches (a measure which is calculated annually and currently used in the allocation formula for the School Readiness program).

³³ Some Minnesota grantees were successful in obtaining additional funding from the federal government in the early 1990s. However, there has been little new Head Start money available from the federal government since that time.

³⁴ Between the 1980 and 1990 censuses, the number of three- to five-year-olds in poverty in Minnesota increased 33 percent. In individual Head Start grantees' service areas, however, the 1980-90 change ranged from a 33 percent decline to a 94 percent increase.

IMPACT OF RECENT FUNDING INCREASES

State Head Start funding increased significantly in 1998.

In fiscal year 1997, the state appropriated \$11.5 million in Head Start funding; in 1998, the state allocated \$18.75 million for Head Start, a 61 percent increase once adjusted for inflation.³⁵ Since 1998, the state has allocated \$18.75 million each year for Head Start. Head Start grantees report expenditures of state funds to the Department of Children, Families, and Learning using 11 cost categories including personnel, fringe benefits, travel, supplies, and construction. We examined these data and found that:

- **In general, Head Start grantees spent their state funding in roughly the same proportions over the past four years.**

Specifically, expenditures on personnel and fringe benefits represented approximately 76 percent of the budget in both fiscal years 1997 and 2000. Similarly, travel expenditures comprised over 2 percent of the budget and supplies accounted for about 5 percent in both 1997 and 2000. Some cost categories, particularly equipment and construction, did fluctuate during this four-year time period. However, these categories are more likely than others to contain varying or one-time expenses. For example, equipment costs include expenditures on buses and computer networking.

Because spending across expense categories increased in proportion to previous spending levels, it appears that grantees used the state funding increase to provide more services to Head Start children and families. To examine this further, we reviewed changes in slots and “contact hours” between program years 1997 and 1999. Contact hours measure the hours of Head Start service provided to children. We based our estimates on federal requirements for minimum hours of service. These requirements vary among different types of Head Start program options. For example, center-based, full-week, full-day programs are required to provide 963 service hours per year while home-based programs are required to provide



³⁵ The \$18.75 million in state appropriations includes funding for regular and Birth to Three Head Start programs, innovative grants, and state administration. Adjusted for inflation using the CPI-W. Bureau of Labor Statistics, *Consumer Price Index – Urban Wage Earners and Clerical Workers* (2000); <http://stats.bls.gov/top20.html>; accessed September 4, 2000.

only 72 service hours per year.³⁶ When all funding is considered (from federal, state, private, and local sources), we found that:

- **Between 1997 and 1999, the total number of slots and contact hours provided by Minnesota Head Start grantees increased.**

As shown in Table 2.5, the total number of funded slots increased by 8 percent and the total number of contact hours increased by 17 percent.³⁷ This means that Minnesota grantees served more families and provided more intensive services in 1999 than in 1997. However, as we discuss in the remainder of this section, between 1997 and 1999, state-funded slots and contact hours increased considerably more than those funded by the federal government. In addition, funding from local and private sources decreased during this same time period.

Minnesota's Head Start services expanded in recent years—mainly due to the increase in state funding.

Table 2.5: Changes in Minnesota Head Start Funded Slots and Contact Hours, FY 1997-99

Funding Source	Percentage Change in Funded:	
	Slots	Contact Hours
Federal	4%	13%
State	38	51
Local and Private	-45	-43
TOTAL	8%	17%

NOTE: Excludes migrant and Early Head Start data.

SOURCE: Office of the Legislative Auditor's analysis of federal Head Start Program Information Report data.

We found that:

- **State Head Start funding in fiscal years 1998 and 1999 was used both to increase the number of families served and to increase the hours of service provided.**

Between fiscal years 1997 and 1999, regular state-funded Head Start contact hours increased by 51 percent and state-funded slots increased by 38 percent. Because contact hours increased more than slots, it suggests that Head Start grantees, on average, are providing more intensive services to Head Start families than they had previously. According to our analysis, the largest percentage increase in funded contact hours between 1997 and 1999 came through an increase in full-week, part-day programs.³⁸

³⁶ U.S. Department of Health and Human Services, Head Start Bureau, *Head Start Program Performance Standards and Other Regulations* (Washington, D.C., 1996), 249-254 (45 CFR 1306.32 – 1306.34).

³⁷ These data exclude migrant and Early Head Start slots and contact hours.

³⁸ Using our estimates of funded contact hours based on the federal minimum requirements, between 1997 and 1999 center-based, full-week, part-day contact hours increased by almost 200 percent and center-based, full-week, full-day contact hours increased by almost 150 percent. Contact hours for all other program options increased by less than 50 percent during this same time period.

We also found that:

- **Between fiscal years 1997 and 1999, state-funded Head Start contact hours increased at a rate comparable to the increase in state Head Start funding.**

Between fiscal years 1997 and 1999, state Head Start revenues for regular Head Start programs (excluding funding for innovative grants, Birth to Three programs, and state administration) increased by 49 percent, once adjusted for inflation, while contact hours increased by 51 percent during the same time period. The Minnesota Legislature increased state Head Start funding significantly in fiscal year 1998 to increase services provided. In our view, the Legislature should be reassured that the funding increase led to a comparable increase in estimated state-funded Head Start contact hours.

Similarly, the increase in federal-funded contact hours between 1997 and 1999 was comparable to the increase in federal funding for the same time period. Regular federal Head Start funding increased by about 11 percent between 1997 and 1999, once adjusted for inflation, while federal-funded contact hours increased 13 percent. Although both federal- and state-funded Head Start slots and contact hours increased over the past few years, we found that:

- **Slots and contact hours funded by private and local sources decreased significantly between 1997 and 1999.**

During this time period, the number of slots funded by private and local sources (such as local governments, foundations, and grants) decreased 45 percent and contact hours decreased 43 percent.³⁹ As a result, some of the recent increase in state-funded Head Start slots was offset by a decrease in slots paid for with funds other than state and federal revenues. Grantees told us that they try to maximize their funding from all sources, and we have no evidence that the decrease in private and local funding resulted from the increase in state Head Start funds.

Finally, we found that:

- **Between 1997 and 1999, federal and state *funded* Head Start slots and contact hours increased more than *filled* slots and contact hours.**

Allocating Head Start funds by age group limits grantees' flexibility.

This is noteworthy and may imply that grantees are having difficulty filling all of their existing slots. Throughout our evaluation, CFL staff and grantees commented on problems with fully enrolling Head Start programs. Some Head Start grantees indicated that although they are unable to fill all of their Head Start slots for three- to five-year-olds, they have large waiting lists for programs serving children under age three. Federal and state funding is currently given to grantees in two separate allocations – one for “regular” Head Start services provided by all grantees for children ages three to five, and one for services that selected grantees

³⁹ One grantee accounted for almost 40 percent of the total decrease in slots funded by private and local sources.

Increasingly, families interested in Head Start are just over the federal Head Start income guidelines.

provide for children under age three.⁴⁰ If state Head Start funding could be used for all eligible children under age six, it would give grantees increased flexibility to assist those families most needing services.

Many grantees also told us that there are an increasing number of families interested in Head Start who earn between 100 and 125 percent of the federal poverty level and are therefore not eligible for the program.⁴¹ Grantees and CFL staff attribute this recent phenomenon to welfare reform and the increased number of families earning income. The Minnesota Legislature could broaden the income-eligibility guidelines for state Head Start funds so that more families just above the poverty level could be served. This would provide access to more families who could benefit from Head Start services and help grantees to achieve full enrollment. Currently, Ohio is the only state that allows state Head Start funds to be used to serve families with incomes up to 125 percent of poverty.⁴²

RECOMMENDATION

The Legislature should consider: (1) allocating state Head Start funding to be used for all eligible children under age six, allowing grantees to determine how to allocate their funding among children of various ages, and (2) broadening the income eligibility guidelines for state-funded Head Start slots.

MONITORING OF HEAD START FINANCES

At the outset of our study, some legislators questioned whether there is sufficient financial oversight of individual Head Start programs. In our judgment,

- **Federal and state officials generally provide adequate oversight of local Head Start programs' finances.**

Federal and state officials, in accordance with Head Start regulations and statutes, regularly collect and monitor information on Head Start grantees' programs. Head Start grantees are required to report their state expenditures at least quarterly to CFL and are not allowed to carry over unspent state funds into the next biennium. Grantees must itemize and report their state expenditures by cost categories including salaries, benefits, travel, equipment, and construction. Head Start expenditures are reviewed as part of the regular federal and state program review process and must meet federal Head Start standards. In addition, Head Start programs are audited annually by an independent auditor to determine if the agency's financial statements are accurate, if the agency is complying with the

⁴⁰ Early Head Start is the federal program for children ages birth to three; Birth to Three is the state program for serving children in this age group. Grantees are required to apply for these funds separately from their regular Head Start allocations. State Birth to Three funds are competitive two-year grants; Early Head Start funds were initially awarded as five-year projects, but have since become part of grantees' annual base allocation.

⁴¹ In the 1999 Head Start Questionnaire collected by CFL, grantees indicated that they received an average of 69 over-income applicants, most of whom were within 150 percent of the income limits.

⁴² Schulman and others, *Seeds of Success*, 201.

terms and conditions of the grant, and if the agency's financial and administrative procedures are effective.⁴³

State officials could do more comparisons of individual Head Start grantees' program costs. For example, CFL could examine the cost differences among grantees for similar services. However, overall we think the department has an adequate foundation of financial information on Head Start programs.

⁴³ *Head Start Program Performance Standards*, 6 (45 CFR 1301.12).

