

ECFE and School Readiness Funding Issues

SUMMARY

Statewide, Early Childhood Family Education (ECFE) programs served 24 percent of children under age five in 1998-99 in weekly classes or home visits, and School Readiness programs served 32 percent of children ages three and four. The participation rates of individual districts varied widely, and there is no reliable statewide information on the extent of unmet needs for these programs. In 1999, two-thirds of districts had ECFE reserve fund balances that exceeded guidelines subsequently established by the Department of Children, Families, and Learning. The Legislature should consider the merits of various options for changing ECFE funding practices, including (1) restricting funding for districts with large ECFE fund balances; (2) reducing guaranteed minimum funding levels; and (3) allocating a portion of ECFE funding based on the actual number of persons served, not just the size of the eligible population. The Legislature should also consider establishing a reserve fund for School Readiness, and the department should monitor district ECFE and School Readiness finances more closely.

As discussed in Chapter 1, Early Childhood Family Education (ECFE) and School Readiness are administered by local Minnesota school districts. This chapter examines these two programs in further detail, and it addresses the following questions:

- **To what extent are ECFE and School Readiness programs 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 ECFE and School Readiness allocated?**
- **What is known about the way districts spend ECFE and School Readiness funds? To what extent do districts have reserves of unspent funds?**

To answer these questions, we reviewed data collected by the Department of Children, Families, and Learning (CFL), including annual ECFE and School Readiness reports, Uniform Financial Accounting and Reporting Standards (UFARS) data, and revenue data. We also interviewed staff at CFL and in school districts across the state, and we conducted a survey of 41 ECFE and School Readiness programs regarding their fee structures.

ECFE PROGRAM AVAILABILITY AND PARTICIPATION

ECFE has grown considerably since its start as a pilot program in six school districts in 1974. We found that:

- **All but 4 of Minnesota's 347 school districts operated ECFE programs in 1999-2000.**

ECFE services are widely available throughout Minnesota.

The only districts that did not have an ECFE program were Walnut Grove, Butterfield, Franconia, and Prinsburg.¹ Together, these districts reported only 122 children under age five living within their boundaries in 1998-99. Some school districts operate programs jointly with other districts, but officials from the Department of Children, Families, and Learning told us that each district that participates in the program has at least one site within its boundaries where ECFE services are provided.

To evaluate the level of participation in ECFE programs, we analyzed data that school districts report annually to CFL regarding the number of (1) ECFE participants, and (2) children in the district under age five. Specifically, we analyzed the reported unduplicated number of persons participating in ECFE classes or home visits during the 1998-99 year, and we excluded from our analysis persons reported as participating only in ECFE special events or activities.² We found that:

- **Statewide, about 24 percent of children under age five participated in ECFE classes or home visits during 1998-99.**
- **Individual districts varied considerably in their reported participation levels—from less than 10 percent of children under age five to more than 50 percent.**

Table 3.1 shows districts with more than 500 residents under age five that served the highest and lowest percentages of children in ECFE during 1998-99. Staff in these districts provided a variety of explanations for their participation levels. Fergus Falls ECFE staff attributed the district's high participation rate to its relatively short classes (some are only four weeks long) and its use of non-governmental grants to expand program offerings. Columbia Heights ECFE staff said that the district's high reported level of participation in 1998-99 was probably inaccurate, and more careful counts in 1999-2000 resulted in a 60 percent decline in reported participation. In the Pipestone-Jasper district, ECFE-sponsored visits to the homes of all families with newborn children may

¹ Franconia and Prinsburg are classified as "non-operating" districts – which means they do not operate public schools.

² Districts are supposed to annually report the unduplicated number of persons who participated only in ECFE special events or activities, but some district staff questioned whether these counts are as accurate as counts of persons in classes or home visits. CFL staff told us that, in training sessions, they have defined class or home visit participants as those persons who have participated in at least three visits or class sessions during the year. However, this has not been communicated to districts in written instructions for the annual report, so it is unclear whether districts have defined participants in a consistent manner.

Table 3.1: ECFE Participation Rates, 1998-99, Selected School Districts

District	Children in the District Under Age Five	Percentage of Children Under Age Five Served in ECFE Classes or Home Visits
High Participation Rates:		
Fergus Falls	1,048	57.0%
Columbia Heights	1,375	52.8 ^a
Pipestone-Jasper	519	50.9
Grand Rapids	1,599	48.8
Warroad	500	48.6
Minnetonka	2,945	47.5
Sibley East	520	45.8
Gibbon-Fairfax-Winthrop	505	43.6
Roseau	561	42.8
Rochester	7,200	39.9
Low Participation Rates:		
St. Francis	1,940	8.2
St. Cloud	5,957	9.4
Foley	680	9.4
Cass Lake	505	10.3
Braham-Mora-Ogilvie	1,091	10.4
St. Louis Park	2,270	10.5
Eveleth-Gilbert	598	11.0
Cloquet	913	11.1
Wayzata	3,930	11.6
Howard Lake-Waverly-Winsted	657	12.8
Others:		
Minneapolis	26,803	13.2
St. Paul	24,075	29.5
STATE	332,486	23.8%

NOTE: This table includes only districts with more than 500 children under age five within the district.

^aStaff in this district told us that the participation rate reported for 1998-99 appears to be inaccurate. The district's tally of 1999-2000 participation indicated a rate less than half the 1998-99 rate shown here.

SOURCE: Office of the Legislative Auditor's analysis, based on data reported by districts to the Department of Children, Families, and Learning.

ECFE participation rates vary considerably among individual districts.

partly explain high participation rates. Staff in St. Francis attributed the school district's low rate of ECFE participation in classes and home visits partly to an inability to find space for expanded course offerings. Staff in St. Cloud cited difficulties finding qualified teachers willing to work Saturdays and evenings, as well as difficulty finding culturally diverse staff to serve the community's increasing number of minority families.

In a 1996 report on the ECFE program, the Department of Children, Families, and Learning recommended expanding program funding so that a larger percentage of

the eligible population could be served. It said that “many families do not participate because they are experiencing complex and stressful family situations. Resources for more comprehensive services are of particular importance.”³ Likewise, a recent report by the Early Care and Education Finance Commission said that “ECFE is unable to reach approximately 95,000 qualifying parents due to insufficient funding.”⁴ However,

- **Neither the Department of Children, Families, and Learning nor other organizations have systematically collected information that could be used to accurately assess the extent of unmet needs for ECFE services statewide.**

Some parents may benefit from ongoing, multi-year participation in ECFE while their children are under age five; others may find that a semester of classes is adequate to meet their needs. Thus, without further evidence of unmet needs, it is not clear that a program whose classes and home visits serve one-fourth of eligible families in a given year (plus many other families through special activities) is underserving Minnesota’s population.

There is no reliable statewide information to indicate whether there are unmet needs for ECFE services.

Presently, there is no reliable statewide information on the extent to which families interested in ECFE services have been unable to access them. The department did not collect information on local ECFE waiting lists prior to the 1999-2000 school year. For 1999-2000, the department requested districts to report the “estimated number of families on waiting lists,” but it did not specify a consistent method of counting these families.⁵ Consequently, we do not think that the department’s information on local waiting lists is a reliable indicator of unmet needs.

On a statewide basis, there is no clear evidence that ECFE is underserving families with below-average incomes. Minnesota’s median household income was \$47,240 in 1999, and surveys of 1998-99 ECFE participants showed that 40 percent had incomes under \$40,000 and 43 percent had incomes over \$50,000.⁶ There may be instances where ECFE program fees have discouraged lower-income parents from enrolling, but state law requires school districts to establish “reasonable” sliding fee schedules for these programs and to “waive the

3 Marsha R. Mueller, *Immediate Outcomes of Lower-Income Participants in Minnesota’s Universal Access Early Childhood Family Education* (St. Paul: Minnesota Department of Children, Families, and Learning, April 1996), 83.

4 Early Care and Education Finance Commission, *The Action Plan for Early Care and Education in Minnesota* (Minneapolis, November 2000), 13.

5 The department requested this information in districts’ 1999-2000 annual ECFE reports. However, waiting lists likely fluctuate considerably during the school year, and the department did not specify (1) a date during the reporting period that districts should use when reporting the size of their waiting lists, or (2) a method for ensuring that families on waiting lists are still interested in ECFE services.

6 Participants are asked to report their incomes in specified ranges, so it is not possible to determine the exact number of respondents with incomes above or below the state median household income. The number of participants reporting their household income in the ECFE participant survey represented only 36 percent of the families who participated in ECFE classes or home visits statewide in 1998-99, so it is possible that the survey results do not accurately reflect the actual income distribution among participating families.

fee for a participant unable to pay.”⁷ Most of the school district fee policies we reviewed clearly emphasized the option of fee waivers or reductions.

ECFE FUNDING ISSUES

Background

Early Childhood Family Education started as a pilot program in 1974 with six districts receiving grants totaling \$230,000. In 1975, program size doubled and 12 districts received a total of \$500,000 in grants. ECFE continued to grow, both in funding and number of programs until 1981, when appropriations were scaled back for the 1982-83 biennium. In 1983, the Legislature changed the ECFE funding mechanism from allocating funds through competitive grants to allocating funds based on the number of children in each district; grants were also provided to districts to ease the transition to the new funding formula. Fiscal year 1986 was the first year ECFE funds were allocated solely through a statewide funding formula.⁸ In 1986, districts received ECFE funding at the rate of \$79.25 per child under age five. Funding has since increased to the current per-child rate of \$115.96 (\$113.50 of base funding allowance plus \$2.46 of additional state aid), but it has not kept up with inflation.⁹ Table 3.2 illustrates the per-child funding rate for ECFE since 1986.¹⁰

For 2000 and 2001, ECFE programs received about \$116 in state funds per eligible child.

In fiscal years 2000 and 2001, each school district received \$115.96 for each child under age five residing in the district on October 1 of the previous year.¹¹ The law sets a minimum level of district ECFE funding equivalent to the amount of base funding that would be allocated if a district had 150 children under age five (in fiscal year 2001, this equals 150 multiplied by \$113.50, or \$17,025). ECFE revenue is slated to increase to \$120 per child for fiscal year 2002, which would increase the minimum funding level for individual districts to \$18,000 per year.

Districts generally receive ECFE aid according to the formula outlined in statute. However, some districts receive less than the statutory minimum funding if (1) the Legislature does not appropriate sufficient funding, resulting in a prorating of each

⁷ *Minn. Stat.* (2000) §124D.13, subd. 6.

⁸ Minnesota Department of Children, Families, and Learning, *History of Minnesota Early Childhood Family Education, Program Development* (Roseville, MN, 1999) and Lois Engstrom, interview by author, Telephone conversation, Roseville, Minnesota, September 18, 2000.

⁹ In 1986, the Legislature provided funding to serve 20 percent of the eligible population in some capacity. Program participation levels have increased since 1986, while state funding (in constant dollars) has not. Programs are now serving 24 percent of the eligible population through classes or home visits and an additional 20 percent through special activities. Furthermore, in 1995 most districts shifted community education Teachers Retirement Association (TRA) and FICA expenditures from the general fund to program-specific funds such as ECFE and School Readiness. On average, TRA and FICA expenditures now comprise about 9 percent of these programs' budgets. See *Minn. Laws* (1995) ch. 3, art. 4, sec. 15, subd. 1b and *Minn. Stat.* (2000) §123B.79, subd. 3.

¹⁰ The 1997 Legislature provided a one-time appropriation of \$2 million to be used for grants to increase services to families with children under one year of age. *Minn. Laws* (1997), ch. 162, art. 1, sec. 13 and sec. 18, subd. 7.

¹¹ *Minn. Stat.* (2000) §124D.135, subd. 1; *Minn. Laws* (1999), ch. 205, art. 1, sec. 65; and *Minn. Laws* (2000), ch. 489, art. 1, sec. 26. Districts receive ECFE funding through a combination of state aid and local levy.

Table 3.2: ECFE Per-Child Funding Allowance, FY 1986-2001

<u>Fiscal Year</u>	<u>ECFE Funding Per Child</u>	<u>Inflation-Adjusted ECFE Allowance (2000 \$)</u>
1986	\$ 79.25	\$121.80
1987	79.25	119.47
1988	84.50	122.39
1989	84.50	117.02
1990	85.45	113.04
1991	87.75	110.22
1992	96.50	117.66
1993	101.25	119.82
1994	101.25	116.97
1995	101.25	113.66
1996	101.25	110.69
1997	101.25	107.67
1998	111.25	116.46
1999	113.50	116.90
2000 ^a	115.96	115.96
2001 ^a	115.96	N/A

^aIncludes additional \$2.46 per eligible child in special state ECFE aid.

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

district's allocation, or (2) they "underlevy" for ECFE. If the Legislature does not appropriate enough revenue, CFL prorates the ECFE aid across all districts – including districts that are supposed to receive the statutory minimum funding level. Due to prorating in fiscal year 1999, those districts that received the minimum level of ECFE funding actually received less than the \$17,025 required by statute.¹² Similarly, if a district does not levy the entire amount as required in statute, the ECFE aid must be reduced in proportion.¹³ In fiscal year 1999, only four districts did not levy the entire amount required by law and thus received reduced ECFE state aid.¹⁴

**School districts
may use ECFE
funds only for
ECFE programs.**

Reserve Funds

As outlined in Minnesota statutes, school districts are required to use ECFE funds only for ECFE programming. In addition, all ECFE revenues received by the school district, including state aid, levies, fees, and grants, must be maintained in

¹² In 1999, 68 districts received less than \$17,025 of ECFE funding due solely to prorating.

¹³ *Minn. Stat.* (2000) §124D.135, subds. 3-4.

¹⁴ Bird Island, Campbell, Detroit Lakes, and South Koochiching school districts did not fully levy for ECFE in fiscal year 1999.

a reserve account for ECFE.¹⁵ By placing these funds in a reserve account, they are protected from being used for any other school district program. We found that:

- **In fiscal year 1999, many school districts had large ECFE reserve fund balances.**

In fiscal year 1999, over 20 percent of districts had ECFE reserve fund balances equal to 100 percent or more of their annual state ECFE revenues. Reserve funds from these districts totaled almost \$4 million in fiscal year 1999. About 43 percent of districts had fund balances exceeding 50 percent of annual revenues, totaling over \$7 million in fiscal year 1999. ECFE program staff at CFL do not systematically monitor districts' ECFE reserve fund balances. However, in fiscal year 2000, CFL issued guidelines suggesting that districts maintain 8 to 17 percent of annual ECFE revenue in their reserve fund.¹⁶ In 1999, two-thirds of districts had reserve funds larger than 17 percent of annual revenue; reserve funds for these districts totaled over \$12 million. Table 3.3 shows total ECFE revenues and reserve fund balances for fiscal year 1999.

Almost one-fourth of districts have ECFE fund balances greater than their annual ECFE revenue.

Table 3.3: ECFE Revenues and Reserve Balances, FY 1999

Districts with Reserves Equal to:	Number	Percentage of All Districts	Total ECFE Reserve Fund Balances (in Millions)	Total ECFE Revenues (in Millions)
Over 100 percent of annual ECFE revenues	78	23%	\$ 3.9	\$ 2.3
Over 50 percent of annual ECFE revenues	146	43	7.1	7.2
Over 17 percent of annual ECFE revenues	231	67	12.1	24.8
ALL DISTRICTS	343	100%	\$12.2	\$37.7

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

To better understand districts with large ECFE fund balances (equal to 100 percent or more of annual revenues), we investigated how these districts differed from those with smaller reserve balances. Table 3.4 shows the average number of ECFE parent-child classes and participants for districts with small eligible populations (150 or fewer ECFE-eligible children). For the most part, the data in Table 3.4 indicate that there are some real differences between small districts with large fund balances and small districts with small fund balances. Specifically, the data in Table 3.4 illustrate that:

¹⁵ Minn. Stat. (2000) §124D.135, subds. 5 and 7.

¹⁶ Betty Cooke, Debbykay Peterson, and Lois Engstrom, Early Childhood Family Initiatives Team, Minnesota Department of Children, Families, and Learning, to Early Childhood Family Education, School Readiness, and Way To Grow Coordinators, *Early Childhood Family Education and School Readiness Conference Information, General Information, and Program Updates*, March 15, 2000, memorandum.

Table 3.4: ECFE Parent-Child Classes and Participants in Districts with 150 or Fewer ECFE-Eligible Children, FY 1999

Among small districts, those with large ECFE fund balances served fewer families than those with smaller balances.

	Large Fund Balance <i>N</i> = 29	Small Fund Balance <i>N</i> = 43
Average number of parent-child classes	15.8	31.9
Average number of participants under age five	70.2	144.2
Average number of parent participants	74.0	86.7

NOTE: "Large fund balances" are defined as reserve funds equal to 100 percent or more of annual ECFE revenues. "Small fund balances" are defined as reserve funds equal to less than 100 percent of annual ECFE revenues.

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

- **In fiscal year 1999, ECFE programs in districts with 150 or fewer ECFE-eligible children and large fund balances served fewer total participants and offered fewer classes than similar-sized ECFE programs with smaller fund balances.**

For instance, small districts with large fund balances offered half as many parent-child classes as comparably-sized districts with smaller fund balances. Likewise, small districts with large fund balances served less than half as many children as comparably-sized districts with smaller fund balances.¹⁷

Table 3.5 shows the median percentage of the ECFE-eligible population served by districts of varying sizes and with varying fund balances. The data in Table 3.5 illustrate the importance of district size on a district's ECFE program. As is clear from the table:

- **Regardless of fund balance size, ECFE programs in districts with 150 or fewer eligible children typically served a larger percentage of the eligible population than ECFE programs in districts with over 150 eligible children.**

Table 3.5 shows that there is little difference among districts of the same size regarding the median percentage of eligible children served. However, there is a noticeable difference when comparing districts with ECFE-eligible populations of 150 or fewer to districts with larger eligible populations. In fiscal year 1999, the median small district served about 40 percent of the eligible population through classes or home visits and 67 percent in some capacity. At the same time, the median district with more than 150 eligible children served 26 percent of the eligible population through classes or home visits and 45 percent in some

¹⁷ Our analysis indicates that districts with 150 or fewer ECFE-eligible children and small fund balances offered more parent-child classes *per capita* than did similar-sized districts with larger fund balances. Likewise, these small districts with small fund balances served more parents and children *per capita* than similar-sized districts with larger fund balances.

Table 3.5: Median Percentage of ECFE-Eligible Population Served, FY 1999

	Districts with 150 or Fewer ECFE-Eligible Children		Districts with More Than 150 ECFE-Eligible Children		All Districts
	Large Fund Balance N = 29	Small Fund Balance N = 43	Large Fund Balance N = 42	Small Fund Balance N = 193	
Median percentage of eligible children served in classes or home visits	39%	42%	25%	26%	28%
Median total percentage of eligible children served in classes, home visits, or special activities.	68	67	39	47	49

NOTE: "Large fund balances" are defined as reserve funds equal to 100 percent or more of annual ECFE revenues. "Small fund balances" are defined as reserve funds equal to less than 100 percent of annual ECFE revenues.

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

Small districts served a larger percentage of the ECFE-eligible population than did larger districts.

capacity. In sum, districts with 150 or fewer eligible children served a significantly larger portion of the eligible population than did larger districts.

In our view, the Legislature should consider possible changes in the ECFE funding formula to address the large reserve fund balances that many districts have. We recommend that the Legislature consider the following policy options:

RECOMMENDATION

The Legislature should consider (1) restricting ECFE funding for districts whose reserve fund balances exceed a certain level; (2) eliminating or reducing the minimum funding level in the ECFE law; or (3) allocating a portion of ECFE funding based on the actual number of persons served, not just the size of the eligible population.

The Legislature should consider several options for revising the ECFE funding formula.

The first option would place a cap on ECFE reserve fund balances and adjust annual allocations to reflect this limit. If limits were placed on ECFE reserve balances, funding that would otherwise go to the capped districts could be redirected to districts with smaller fund balances or higher demand for services. We think it was appropriate for the Department of Children, Families, and Learning to issue guidelines to districts on suitable reserve levels, but incorporating reserve fund policies directly into the ECFE funding formula might encourage greater compliance. This option would require the department to increase its oversight of district fund balances.

Limits on districts' reserve funds may conflict with local school district policies. For example, one district with an ECFE fund balance equal to 42 percent of annual revenues told us that district policy requires a fund balance equal to at least 30 percent of annual expenditures. Another district with a fund balance equal to 26 percent of annual revenues told us that it is building new space for the ECFE program, which will be available in 2003; the district is maintaining a large fund balance in anticipation of the transition to the new facilities.

The second option would eliminate or reduce the minimum ECFE funding level guaranteed in statute.¹⁸ This provision of law was supposed to ensure that the state's smallest districts could provide at least a basic ECFE program for their district. However, the data indicate that 29 of the 72 programs that receive the minimum ECFE funding level have accumulated at least one year's worth of

Districts that receive the minimum guaranteed level of ECFE funding typically have high participation rates and fund balances larger than recommended by CFL.



funding in reserve while also typically serving a larger portion of their eligible population than most districts in the state. The other 43 districts receiving the state's minimum funding also generally serve above-average percentages of their residents in ECFE, and only 17 of these districts had fund balances in fiscal year 1999 that were less than 17 percent of their annual revenues. In sum, the state's smallest districts have typically had high participation rates in their programs, often combined with the accumulation of large fund balances. Staff in one small district with a large ECFE reserve balance told us that the district has used ECFE-dedicated funds for non-ECFE purposes, although we did not independently confirm this. Staff in several other small districts told us they are having difficulty recruiting additional families to participate in ECFE – mainly due to lack of parent interest, not lack of funding. On the other hand, it is possible that reducing the minimum funding level could cause hardship for those small districts that do not have large ECFE reserve fund balances.

¹⁸ In fiscal year 1999, districts with less than 150 ECFE-eligible children received a total of \$607,000 in additional ECFE funds as a result of the guaranteed minimum funding level.

Funding ECFE based on population served would require increased monitoring of district-reported participation levels.

The third option would allocate a portion of ECFE funding based on the number of children and parents served, rather than allocating all funding based on the number of eligible participants. Funding programs based on population served would likely limit the amount of reserve funds districts could accrue since funding would be linked to services provided. While this would be a change from the current ECFE funding formula, it would more closely parallel Minnesota's K-12 funding system.¹⁹ In addition, funding ECFE based on population served would provide an incentive for programs to enroll families.

In 1984, the Minnesota Council on Quality Education issued a report on ECFE funding options. The council said that, over the long term, policy makers should consider allocating ECFE funds on the basis of measures other than the number of eligible children in each district. It suggested eventually changing the funding mechanism to a formula based on actual participation. Specifically, the report stated, "In the judgment of the Council, [funding based on eligible population] should be allowed for a five year maximum in the case of a new program. After that, a district's aid should be linked to actual participation."²⁰

Adoption of a participant-based funding formula would require the Legislature or CFL to determine what constitutes a program participant for funding purposes. For example, guidelines would have to be established on how, if at all, to count the participation of a family that attends only one class or special activity. Allocating funding based on population served would also require CFL to more diligently monitor district-reported participation levels. The participation data are not audited for accuracy by CFL, and some districts told us they questioned the accuracy of their reported levels of participation in ECFE special activities. Finally, the Legislature or CFL would have to determine a new per-child funding rate to fairly compensate districts for the ECFE programs provided.

SCHOOL READINESS PROGRAM AVAILABILITY AND PARTICIPATION

The Legislature started the School Readiness program in 1991, and the number of participating school districts has grown considerably since then. In fact,

- **All but six of Minnesota's school districts operated state-funded School Readiness programs in 1999-2000.**

The only districts that did not participate in School Readiness were Farmington, Lyle, Pine Point, New Richland-Hartland-Ellendale-Geneva, Franconia, and Prinsburg.²¹ Together, these districts reported 1,795 children under age five within

¹⁹ The primary component of Minnesota's K-12 funding formula, the basic education revenue, equals the per-pupil allowance multiplied by the actual pupil units in each district for the school year. For more information, see *Minnesota School Finance, A Guide for Legislators* (St. Paul: Minnesota House of Representatives Research Department, December 1998), 20.

²⁰ Council on Quality Education, *Study of Alternate Funding Formulas for Early Childhood and Family Education* (St. Paul, February 1984), 45.

²¹ Franconia and Prinsburg are classified as "non-operating" districts, which means they do not operate public schools.

their boundaries in 1998-99. Department of Children, Families, and Learning staff told us that all districts with School Readiness programs have at least one program site within their boundaries, even in cases where the district operates a joint program with another district.

Districts report overall levels of School Readiness participation to the department using the following definition: “A participant is any parent and/or 3½- or 4-year-old child who has had at least one contact with the School Readiness program beyond the mandated basic Early Childhood Screening.”²² Districts also report information on the number of children who received at least 30 hours of services during the school year. Using these data, we found that:

In 1998-99, about one-half of School Readiness participants received at least 30 hours of service during the year.

- **Statewide, 32 percent of the state’s children ages three and four participated in School Readiness in 1998-99; 17 percent received at least 30 hours of School Readiness services during the year.**

As with ECFE, district-reported School Readiness participation levels varied considerably. Table 3.6 shows large districts (with more than 500 residents under age five) that served high and low percentages of children in School Readiness during 1998-99.²³ We talked with staff in some of these districts and heard various explanations for the participation levels. For instance, staff in the Howard Lake-Waverly-Winsted district said that they counted as participants all families that received a School Readiness newsletter, resulting in the 91 percent participation rate shown in the table. Likewise, one reason for St. Francis’ high rate was that the district’s School Readiness program provided staff to briefly consult with parents while their children underwent mandatory preschool screening—and these contacts were counted as School Readiness participation. In contrast, Wayzata School Readiness staff said that their district had below-average participation in School Readiness because it focused its resources on providing full-year services for a limited number of children. Staff in Osseo said that transportation was a major barrier to family participation in School Readiness, so the district’s low participation rates partly reflect its decision to restrict the number of participants and improve the transportation services provided to them.

Some state officials think that School Readiness services have not been available to enough families statewide. In a 1999 evaluation of the School Readiness program, staff from the Department of Children, Families, and Learning recommended expansion of the program. The report said that:

Children and their families participating in [School Readiness] are typically the ‘working poor’ who do not meet Head Start guidelines, who would not otherwise be involved in a preschool experience, and who may exhibit needs identified during Early Childhood Screening. [School Readiness] is clearly meeting a previously unmet need. Consequently, more of the same is recommended.²⁴

²² Department of Children, Families, and Learning, School Readiness 1998-99 Annual Report form, ED-02117-06.

²³ We compared the number of all School Readiness participants with the number of three- and four-year-olds in the district. School Readiness is targeted to children older than 3½, but it is possible that some of the participants in 1998-99 were younger than age three.

²⁴ Marsha R. Mueller, *Minnesota’s Learning Readiness: 1997-98 Evaluation* (Roseville, MN: Minnesota Department of Children, Families, and Learning, January 1999), 16.

Table 3.6: School Readiness Participation Rates, 1998-99, Selected School Districts

		Percentage of Children Ages Three and Four Served in	
District	Children in the District Ages Three and Four	Any School Readiness Activity	30 or More Hours of School Readiness Activities
High Participation Rates:			
Howard Lake-Waverly-Winsted	304	90.8%	32.9%
Waseca	371	74.7	19.4
Burnsville	2,201	74.3	43.4
Monticello	565	73.1	15.2
St. Francis	905	72.7	24.3
Watertown-Mayer	282	70.6	6.7
Pine River-Backus	200	66.0	41.0
Warroad	192	65.6	65.6
Grand Rapids	638	65.4	22.6
Stewartville	250	65.2	65.2
Low Participation Rates:			
Farmington	701	0.7	0.7
Edina	976	4.0	*
Osseo	3,670	5.5	*
St. Cloud	2,269	5.8	1.9
Cannon Falls	218	6.4	6.4
Cloquet	399	7.0	7.0
St. Louis Park	908	7.3	6.7
Brainerd	1,107	7.5	7.1
White Bear Lake	1,350	9.0	8.6
Wayzata	1,572	9.5	2.2
Others:			
Minneapolis	10,057	15.8	7.9
St. Paul	9,679	31.7	12.6
STATE	137,930	31.6%	16.7%

NOTE: This table includes only districts with more than 500 children under age five within the district. The districts shown had the highest and lowest participation rates, based on participation in at least one activity during the year. We excluded three districts that reported overall participation rates exceeding 100 percent of the district's number of three- and four-year-olds.

*Data for Edina and Osseo are not shown because the number of children the district reported with more than 30 hours of School Readiness services exceeded the total number of children reported participating in any activity.

SOURCE: Office of the Legislative Auditor's analysis, based on data reported by districts to the Department of Children, Families, and Learning.

However, while we agree that the School Readiness program has helped to fill gaps that would otherwise exist in Minnesota's system of prekindergarten services,

- **The Department of Children, Families, and Learning has not systematically documented the extent to which families interested in School Readiness services have been unable to access them.**

The department does not collect information on School Readiness waiting lists or other measures of unmet needs. Data presented earlier indicate that school districts vary in School Readiness participation levels, but the reasons for this variation are not always apparent. In general, it is difficult to quantify the levels of School Readiness services that are being provided and objectively evaluate whether these service levels are sufficient to meet the state's needs.²⁵



In 1998-99, over one-half of families participating in School Readiness paid no fees.

It is also difficult to determine whether School Readiness services have been sufficiently available to low-income families. State law allows (but does not require) school districts to charge fees for School Readiness, using a sliding scale. The law says that the fees must be set at a level that enables “eligible children of all socioeconomic levels to participate in the program.”²⁶ The law also requires districts to waive fees for participants unable to pay. It is possible that districts' fees are prohibitive for some families, but this could not be determined without an in-depth review of the way the fee schedules have actually been applied. In 1998-99, districts reported that 26 percent of parents in School Readiness programs paid the full fees charged by districts, 15 percent paid reduced fees, and 59 percent paid no

fees.²⁷ CFL's statewide information systems do not contain reliable data on the total fee revenues collected by districts, nor does CFL have information on the rates charged by each district.

²⁵ State law requires individual School Readiness programs to develop a comprehensive plan “to anticipate and meet the needs of participating families.” There is no comparable statewide plan or needs assessment.

²⁶ *Minn. Stat.* (2000) §124D.15, subd. 12.

²⁷ In surveys of School Readiness participants by CFL, 70 percent of respondents during 1998-99 reported household incomes of \$50,000 or less, and the state median household income in 1999 was \$47,240. However, the number of participants reporting their household income in the voluntary School Readiness participant survey represented only 28 percent of the parents who participated in School Readiness in 1998-99. Thus, it is possible that the survey results do not accurately reflect the actual income distribution among participating families.

We reviewed the 1999-2000 fee schedules of 41 districts. Eleven of these districts charged no fees for their ongoing School Readiness programs. At the other extreme, the Rosemount-Apple Valley-Eagan School District charged \$130 per month to families with a child in School Readiness preschool three days per week.

SCHOOL READINESS FUNDING ISSUES

In recent years, many states have implemented (or expanded) publicly-funded prekindergarten programs other than Head Start. A recent Children's Defense Fund study examined prekindergarten programs that focus primarily on the education of children, and it found that:

- **Minnesota (with its School Readiness program) is one of 36 states plus the District of Columbia that have state-funded prekindergarten programs other than Head Start.**²⁸

Minnesota's funding for School Readiness is modest compared with some states' funding for similar programs.

Three states have "universal" preschool programs; that is, they are not specifically targeted to at-risk children or children from low-income families. Georgia's program, funded with more than \$200 million per year in lottery proceeds, is open to all four-year-olds in the state, and funding has generally been sufficient to accommodate all families wishing to participate. Two other states (New York and Oklahoma) and the District of Columbia also have universal eligibility for their preschool programs, but participation has been limited by funding levels. Minnesota is 1 of 14 states that allow children to enroll in prekindergarten programs (specifically, School Readiness) before they are four years old.²⁹

In Chapter 2, we noted that Minnesota's state spending for Head Start was larger than that of most states. In contrast, state spending for Minnesota's other "kindergarten readiness" program (School Readiness) has not been as generous, compared with similar programs in other states. We found that:

- **In 1998-99, Minnesota spent \$32 per state resident under age five on the School Readiness program, ranking 24 among the 50 states in spending for public preschool programs other than Head Start.**

Heading the list were Georgia (\$374 per resident under age five), Massachusetts (\$200), Connecticut (\$179), Oklahoma (\$157), Illinois (\$155), Kentucky (\$153), and Texas (\$143).³⁰ Minnesota's combined spending for School Readiness and Head Start (\$90 per state resident under age five) was the fourteenth highest among states.

²⁸ Karen Schulman, Helen Blank, and Danielle Ewen, *Seeds of Success: State Prekindergarten Initiatives, 1998-1999* (Washington, D.C.: Children's Defense Fund, 1999), 30-31 and 179-209. This includes states that have kindergarten programs for four-year-olds.

²⁹ *Ibid.*, xiii, 27-36, and 59-69.

³⁰ Spending data are from Schulman and others, *Seeds of Success*, 30-31; July 1999 estimates of state residents under age five are from the U.S. Census Bureau (<http://www.census.gov/population/estimates/state/st-99-09.txt>; accessed November 1, 2000). The spending data are for child-focused programs only and exclude parent-focused programs such as ECFE. In 1998-99, the ECFE state appropriation per Minnesota resident under age five (not including local levies) was \$43.85.

The Minnesota Legislature first appropriated funding for School Readiness (then called Learning Readiness) for the 1991-92 program year, and 365 of the 425 districts (86 percent) participated in School Readiness that year.³¹ The Legislature intended the initial \$8 million in state funding to be used for start-up costs of the program and did not establish ongoing funding until fiscal year 1994.³² Funding has increased slightly since 1994, although it has remained relatively flat once adjusted for inflation. Table 3.7 illustrates the funding history for School Readiness through fiscal year 2001.

Minnesota allocates School Readiness funds to school districts based 50 percent on the number of four-year-old children in the district and 50 percent on the number of pupils in the district eligible for free or reduced-price school lunch. Unlike the ECFE funding formula, there is no minimum funding level for School Readiness programs. As a result, in fiscal year 1999, 134 districts received less than \$10,000 in School Readiness funding and 56 districts received less than \$5,000 (the lowest funding for a program was \$1,200). Because local or statewide changes in the number of four-year olds or the number of children receiving free and reduced-price lunch can change School Readiness aid allocations, state and district staff told us it is difficult to predict the actual funding available for the

School Readiness funding has remained relatively flat, once adjusted for inflation.

Table 3.7: School Readiness Funding, FY 1992–2001

Fiscal Year	Total School Readiness Funding (in Millions)	Adjusted for Inflation (2000 \$) (in Millions)
1992	\$ 8.0	\$ 9.8
1993	0.0	0.0
1994	9.5	11.0
1995 ^a	11.0	12.4
1996	9.5	10.4
1997	9.5	10.1
1998 ^b	10.2	10.7
1999	10.4	10.7
2000	10.4	10.4
2001	10.4	N/A

^aIn fiscal year 1995, a \$1.5 million grant (allocated to all participating districts) was added to the School Readiness grant as part of violence prevention initiatives. This is included in the 1995 funding level reported in this table.

^bIn fiscal year 1998, \$80,000 in one-year grants was given to Greenway and Fergus Falls school districts for special purposes. This is not included in the 1998 funding level reported in this table.

SOURCE: Minnesota Department of Children, Families, and Learning, *Minnesota Public Schools Overview of Learning Readiness Program Participation, Funding, and Services January 1992-January 1999* (Roseville, MN, 1999). 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.

³¹ Minnesota Department of Children, Families, and Learning, “1995 Update: Learning Readiness in Minnesota Public Schools,” <http://www.cyfc.umn.edu/children/learnready.html>; accessed June 2, 2000.

³² The Legislature allocated \$20 million for School Readiness for 1993, but the governor vetoed this appropriation.

program. In fact, a firm budget number is generally not available to districts until after the program year has concluded.³³

Minnesota statutes require school districts to use School Readiness funds only for School Readiness programming and transportation. State law also requires districts to keep School Readiness funding in a separate account.³⁴ However, unlike ECFE, there is no statewide reserve fund for this purpose. As a result, there is no way to verify that districts are maintaining the integrity of School Readiness funds. CFL staff told us that establishing a reserve fund for School Readiness would be useful and would guarantee the preservation of School Readiness funding for the intended programs. Establishing another reserve fund might increase the administrative burden for districts and CFL. However, it would be reasonable to expect CFL to monitor districts' School Readiness fund balances on an ongoing basis, particularly in light of the large balances some districts have accumulated in their ECFE programs. Establishing a School Readiness reserve fund would provide an additional level of program oversight for School Readiness.

RECOMMENDATION

The Legislature should consider establishing a reserve fund for School Readiness – similar to that established for ECFE.

STATE MONITORING OF DISTRICT FINANCES

Several districts reported no expenditures for ECFE or School Readiness although they had received revenue earmarked for the program.

Expenditures

School districts use the Uniform Financial Accounting and Reporting Standards (UFARS) computer system to report a variety of financial data, including ECFE and School Readiness program expenditures and account balances. Although questions about the accuracy of UFARS data have been raised in the past, this remains the primary tool that state officials have to monitor school district spending.³⁵

We reviewed fiscal year 1999 UFARS expenditure data, by district, for School Readiness and ECFE. Several districts reported no expenditures, or very few expenditures, for either School Readiness or ECFE, despite receiving program revenue and providing the services. For example, 15 districts reported no School

³³ Greg Sogaard, Program Finance – Education Finance and Debbykay Peterson, Early Childhood Family Initiatives, Minnesota Department of Children, Families, and Learning, to School Readiness Coordinators and Community Education Directors, *School Readiness Aid Entitlement*, September 10, 1999, memorandum.

³⁴ *Minn. Stat.* (2000) §124D.16, subds. 3-4.

³⁵ For example, see Office of the Legislative Auditor, *School District Spending* (St. Paul, February 1990).

Readiness expenditures, even though they received School Readiness revenue ranging from \$1,800 to \$63,700. An additional 33 districts reported spending less than 50 percent of their School Readiness revenue in fiscal year 1999. One district reported only \$339 in 1999 School Readiness expenditures, even though the district received over \$1 million in School Readiness funding.

CFL staff could not explain the discrepancies between the expenditure and revenue data for ECFE or School Readiness. Staff who administer these programs do not make substantial use of UFARS data to monitor ECFE or School Readiness expenditures. In addition, CFL's early childhood program staff have not worked with the agency's finance and management staff to systematically monitor the financial status of districts' programs. As a result, CFL staff may be missing opportunities to oversee district spending practices and perhaps improve local programs. For example, if CFL finance and management staff regularly provided CFL program staff with information on districts that have spent less than 50 percent of their School Readiness funding in a given year, program staff might help these districts develop strategies to recruit more families or offer more services. In this and other ways, we found that:

- **The Department of Children, Families, and Learning provides little oversight of districts' ECFE and School Readiness expenditures.**

Staff who administer the ECFE and School Readiness programs rely largely on personal contacts and districts' annual reports to obtain information on ECFE program operations. However, districts are not required by law to submit ECFE annual reports (11 of the 346 participating districts did not submit them in 1998-99), and these reports do not include program expenditure information. Districts are required by law to submit biennial School Readiness plan updates, and CFL staff review the content of these documents. These updates include forecasted budget estimates, but they do not provide actual expenditure information.

CFL program staff should make further use of the spending data collected through UFARS.

In our view, CFL program staff should take further advantage of the data already collected by the department through the UFARS computer system. Our comparisons of district expenditure and revenue data raise questions about the consistency and reliability of UFARS expenditure data. However, additional oversight from CFL's ECFE and School Readiness staff would likely improve the quality and use of the UFARS data.

RECOMMENDATION

The Department of Children, Families, and Learning early childhood program staff should use the data collected through UFARS to monitor districts' ECFE and School Readiness expenditures and programs.

Reserve Fund Balances

In fiscal year 2000, as noted earlier, CFL staff published guidelines suggesting that districts maintain an ECFE reserve fund balance equal to between 8 and 17 percent of their annual ECFE revenues. Two-thirds of districts had an ECFE fund

balance in fiscal year 1999 that exceeded 17 percent of annual ECFE revenues. Large reserve funds have only recently come to the attention of CFL staff, and there is little oversight of these balances. CFL asked districts to report reserve fund balance data in their fiscal year 2000 ECFE annual reports – the first time the department has requested this information in the annual reports. However, CFL already collects this data through UFARS. We spoke with a number of districts regarding their ECFE reserve fund balances over the course of this evaluation. Districts consistently confirmed the accuracy of the reserve fund data contained within the UFARS system. In our view, ECFE program staff could use the existing UFARS data on an ongoing basis to identify districts with large reserve balances and work with them to better use their ECFE funding.

While many districts have large ECFE fund balances, we found that a number of other districts have *negative* ECFE fund balances. CFL's Uniform Financial Accounting and Reporting Standards manual states that the ECFE "reserve account is not allowed to go into deficit."³⁶ Despite these UFARS guidelines:

Many districts have negative ECFE fund balances.

- **About 25 percent of all districts with an ECFE program had a negative ECFE fund balance during at least one of the three years we examined (fiscal years 1997, 1998, and 1999).**

In addition, 24 districts had a negative ECFE fund balance in all three years we examined (1997 through 1999). Among the 346 districts that offered an ECFE program in 1999, 46 had a negative ECFE fund balance.³⁷ Half of these 46 districts experienced a worsening fund balance between fiscal years 1997 and 1999.

Our discussions with district staff indicated that many districts are unaware that the UFARS guidelines do not allow negative ECFE fund balances. Furthermore, ECFE program staff at CFL were not familiar with the UFARS guidelines that discourage negative ECFE fund balances. CFL program staff indicated that having a negative ECFE balance is an acceptable occurrence and that districts allocate community or general education funding to cover any negative balance. While a negative fund balance is most likely the result of faulty bookkeeping, it could be an indication of a more serious problem. As with the large fund balances, data on negative fund balances are available through the UFARS reporting system and should be used by the ECFE program staff at CFL.

To address problems with both large and negative ECFE fund balances, we recommend the following:

³⁶ Minnesota Department of Children, Families, and Learning, *UFARS Manual, Balance Sheet Accounts* (Roseville, MN, July 2000), 18-19.

³⁷ Districts are treated separately for financial purposes, regardless of whether they shared programs or administrative responsibilities with other districts.

RECOMMENDATION

The Department of Children, Families, and Learning should use the data collected through UFARS to monitor districts' ECFE fund balances and work with districts to resolve any problems.

Fee Schedules

As discussed earlier, school districts may establish a sliding fee scale for School Readiness programs and are required by law to have a sliding fee scale for ECFE programs.³⁸ For both of these programs, fees must be waived for any participant unable to pay. In general, we found that:

- **There is little oversight of districts' ECFE and School Readiness fee schedules.**

Currently, CFL program staff collect data on forecasted School Readiness fee revenues through districts' biennial plan updates; they do not have reliable information on *actual* fee revenues collected. CFL also does not collect any information on the levels of ECFE program fees paid by participants. Without additional data on fee revenues, CFL cannot get an accurate picture of how much total revenue districts have available for ECFE or School Readiness programs. In addition, without information on variation in districts' fee revenues, it is difficult to assess whether districts' fees pay for portions of total program costs that are too large or too small. We surveyed 41 districts across the state to learn about their ECFE and School Readiness fee schedules and found a large range in fees charged. However, 6 of the 41 districts reported that they charge no fees for ECFE, despite the requirement in law that every district establish an ECFE sliding fee scale. CFL program staff should work with such districts to create an appropriate fee scale.

RECOMMENDATION

The Department of Children, Families, and Learning should monitor districts' ECFE and School Readiness fee schedules to ensure compliance with state law. The department should also collect accurate information on the total fee revenues actually collected for these programs.

³⁸ Minn. Stat. (2000) §124D.15, subd. 12 and Minn. Stat. (2000) §124D.13, subd. 6.