



Budget Overview

Fiscal Year 2023

What is PFA?

Multnomah County's Preschool for All connects 3- and 4-year-olds to free, inclusive, culturally responsive preschool experiences. The [Preschool for All Plan](#) is the framework for initiative implementation and it reflects more than two years of engagement with community members including parents, educators, culturally specific organizations, policymakers, and early childhood specialists.

Preschool for All has 718 slots in its first year, surpassing its slot goal by 44%. Each year the number of slots will increase until there is a publicly funded preschool slot available for every interested family in 2030.

In the 2022-23 preschool year, providers are reimbursed \$15,000 to \$21,000 per slot, depending on their calendar (year-round or school-year) and schedule (full day or school day).

How is it funded?

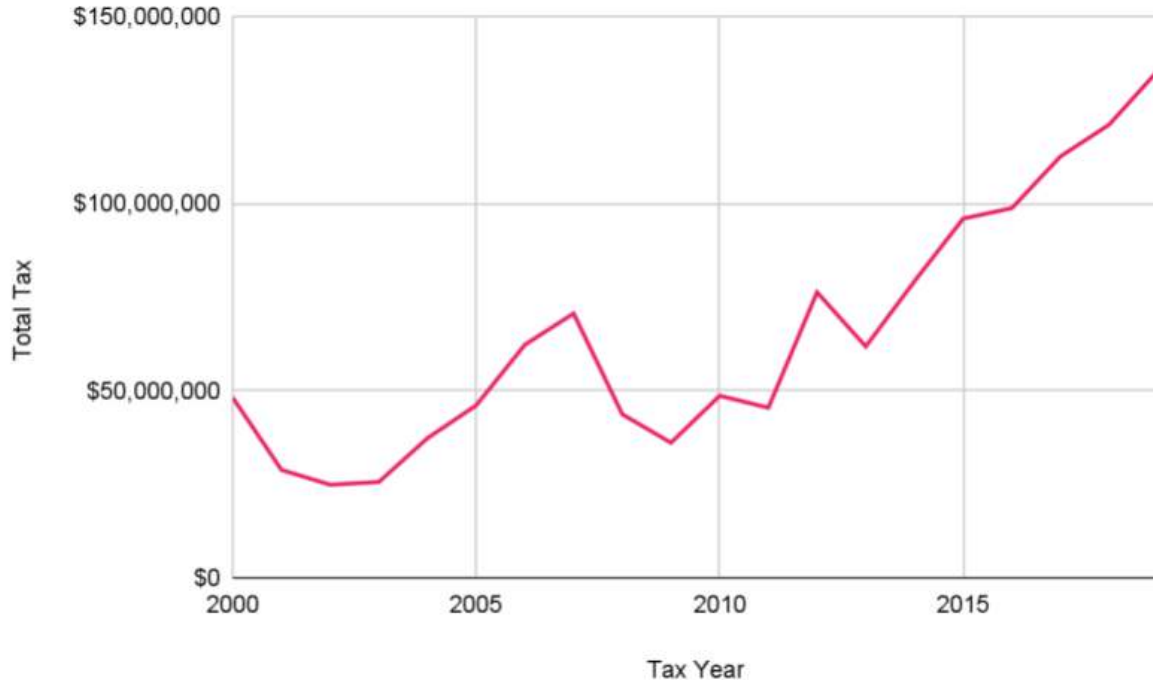
Preschool for All is funded by a personal income tax of 1.5% on taxable income over \$125,000 for individuals and \$200,000 for joint filers, and an additional 1.5% on taxable income over \$250,000 for individuals and \$400,000 for joint filers. The rate is scheduled to increase by 0.8% in 2026. The tax is estimated to apply to less than 8% of Multnomah County tax returns. Based on State Income Tax returns from 2019, it is estimated that 6.6% of return filers would have paid the tax.

The tax is collected by the City of Portland and the program is administered by Multnomah County's Department of County Human Services.

Personal income varies widely year to year for many high-income earners. Changes in the economy can result in dramatic changes in personal income, especially for income derived from capital gains. Households with higher income tend to make more of their income from capital gains and other non-wage sources – things like selling an asset, such as stocks. Based on information on State Income Tax returns, the County Economist expects capital gains to be approximately 20% of PFA revenue and that amount will vary widely year to year.

The County worked with the State of Oregon Department of Revenue to look at existing tax returns and create a simulated history of the Preschool for All tax: what would have been collected over the past twenty years if this tax had been in place.

PFA Tax Revenue Simulated History



This graph of the simulated tax collection history demonstrates the volatility of personal income taxes. If the Preschool for All tax had existed between 2000-2020, there would have been two years where the revenue dropped by 40% from one year to the next. There also would have been a year where the revenue went up by about 60% from the previous year.

A large increase in capital gains drove significantly higher than expected revenue for Fiscal Year 2022 with a total of \$187 million collected. In calendar year 2022, the stock market did significantly worse than it did in calendar year 2021. Because of this, we expect revenues to go down in Fiscal Year 2023. The Preschool for All tax is new and ongoing data collection will inform future revenue modeling.

Fiscal Stability Strategies: Reserve and Contingency Funds

Preschool for All needs to provide a consistent level of service to children and families with a revenue source that is volatile. Families want to know that if they sign up for a PFA slot, that slot will be there for their child, regardless of how much tax revenue has been collected from one year to the next. We're being strategic to meet the challenge of putting these mismatched revenues and programmatic expectations together.

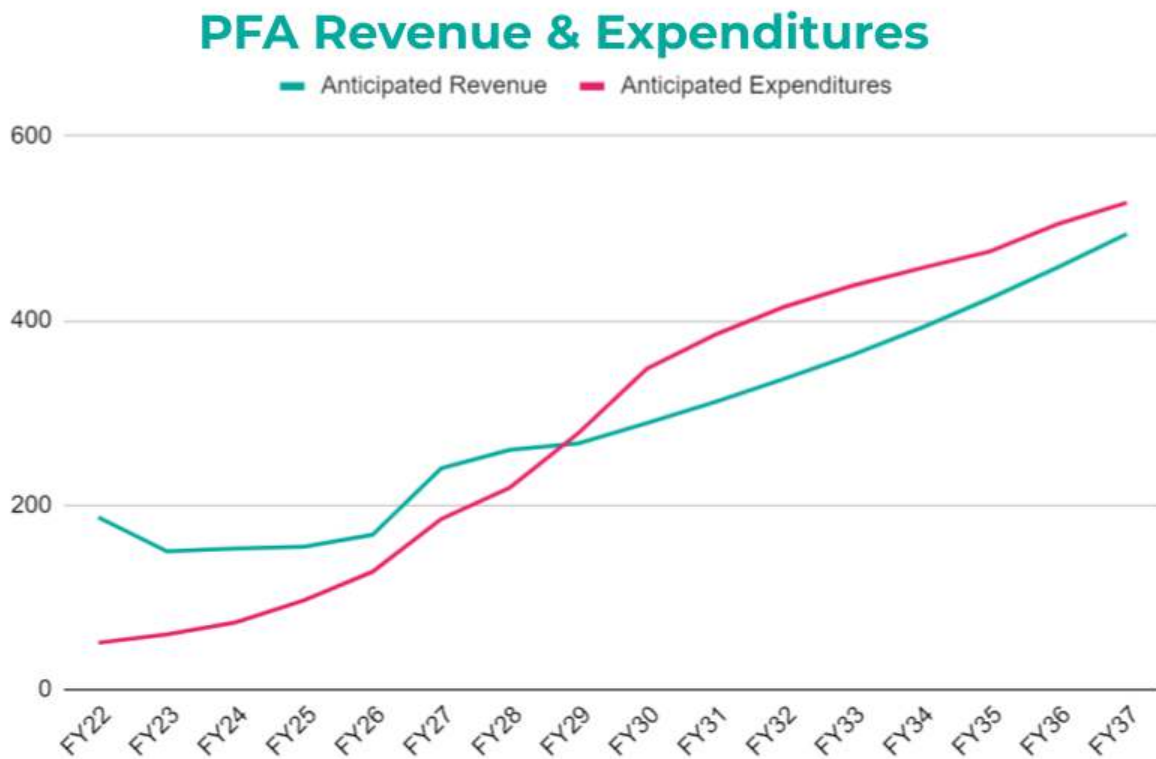
Preschool for All has three fiscal stability strategies: a reserve fund, a contingency fund, and revenue smoothing. Reserve and contingency funds create ongoing stability for Preschool for All (PFA) and protect the program from unexpected revenue declines from economic fluctuations and unexpected costs. These fiscal stability approaches are informed by government accounting best practices and by Multnomah County's Financial and Budget Policies.

The reserve and contingency funds were established in Fiscal Year 2022. Each year, funding is added to the reserve so that the total amount is 15% of anticipated PFA tax revenue for that fiscal year. The reserve fund will help to ensure the long-term financial stability of the program, in spite of the volatility of personal income tax. The Fiscal Year 2023 budget included adding \$1,050,000 to the reserve fund, bringing the fund total to \$16.8 million.

Preschool for All tax revenue is also added to the contingency fund so that the total is 10% of anticipated PFA tax revenue for that fiscal year. The contingency fund allows the Preschool & Early Learning Division to address unforeseen expenses. The Fiscal Year 2023 adopted budget included adding \$700,000 to the contingency fund, bringing the fund total to \$11.2 million.

What is revenue smoothing, and why is it important?

Revenue smoothing is the third Preschool for All fiscal stability strategy. The reserve and contingency funds are long-term financial stability strategies. Revenue smoothing is a limited-term strategy that addresses a specific challenge. As program implementation progresses, expenditures start to outpace annual revenue. Based on current revenue and cost estimates, there will be a 10-year period during Fiscal Years 2029-2038 when costs are higher than the anticipated revenue. This happens right as the program nears universal preschool access. Over time, the gap between revenues and expenses narrows as the pace of slot growth slows. In Fiscal Year 2039, projected revenue catches up with anticipated expenses.

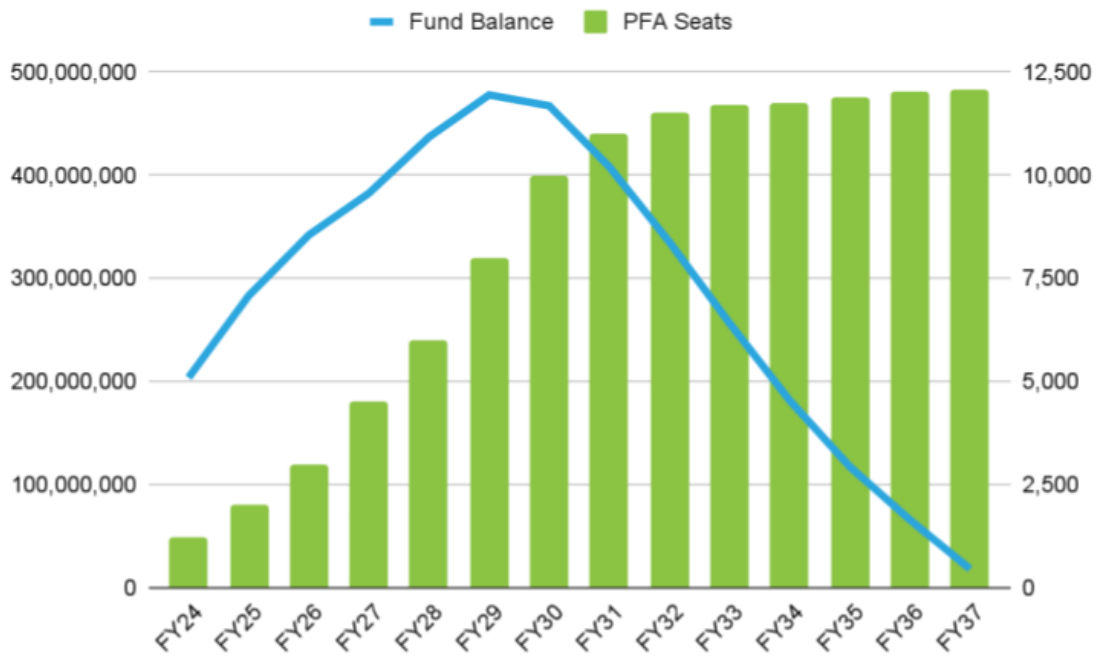


This graph shows anticipated Preschool for All revenue and expenditures. In the early years of the program, revenues are higher than expenses. The money set aside during the early years of Preschool for All implementation when slot numbers remain lower will be used as “revenue smoothing” dollars to ensure that PFA can provide consistent levels of high-quality preschool experiences for Multnomah County families.

The total gap between anticipated revenue and anticipated expenditures between Fiscal Year 2029 and Fiscal Year 2038 is over \$400 million. In the Fiscal Year 2023 adopted budget, \$68,331,162 was added to revenue smoothing, bringing the total balance to \$104,227,522. Unspent funds and additional revenue over yearly projections will be added to revenue smoothing, helping us close the gap.

To meet our commitment to voters, we need to match revenues and expenditures over time to plan for the entire implementation of the program, rather than matching revenue to expenses one year at a time.

PFA Fund Balance & Seats Funded



This graph is another way to understand revenue smoothing. The blue line is the PFA fund balance. In years where we have a surplus, the fund balance is growing. The green bars are the number of PFA seats we expect to offer each year.

As the number of seats grows and gets closer to full universal access, the fund balance starts to go down. The program switches into deficit, and surplus saved in the first few years of the program will be spent down. Over time, as slot growth slows and the program is well-established, revenue and expenses will even out. This means that the program is fully funded, and aside from contingency and reserve, the fund balance lands near zero at the end of every year.

There are still many unknowns, after only one year of tax collection and less than one year of preschool. We will continue to collect and analyze data and to constantly calibrate our strategies as we go.

Based on everything we know now, Preschool for All is on track to meet our savings goals and to fully fund the program through the full implementation.

Contingency Funds are set aside to cover unexpected expenses, should they arise.

Reserve Funds protect the program from the volatility of personal income tax and will fill the gaps if the PFA tax brings in less revenue than projected.

Revenue Smoothing dollars are a solution to a known challenge in Preschool for All implementation. As slot growth accelerates, there will be a ten-year period where expenditures outpace projected revenue. Revenue smoothing means planning ahead and saving now, to mitigate the possibility of budget shortfalls and interrupted service delivery during those years.

How is money being spent this year?

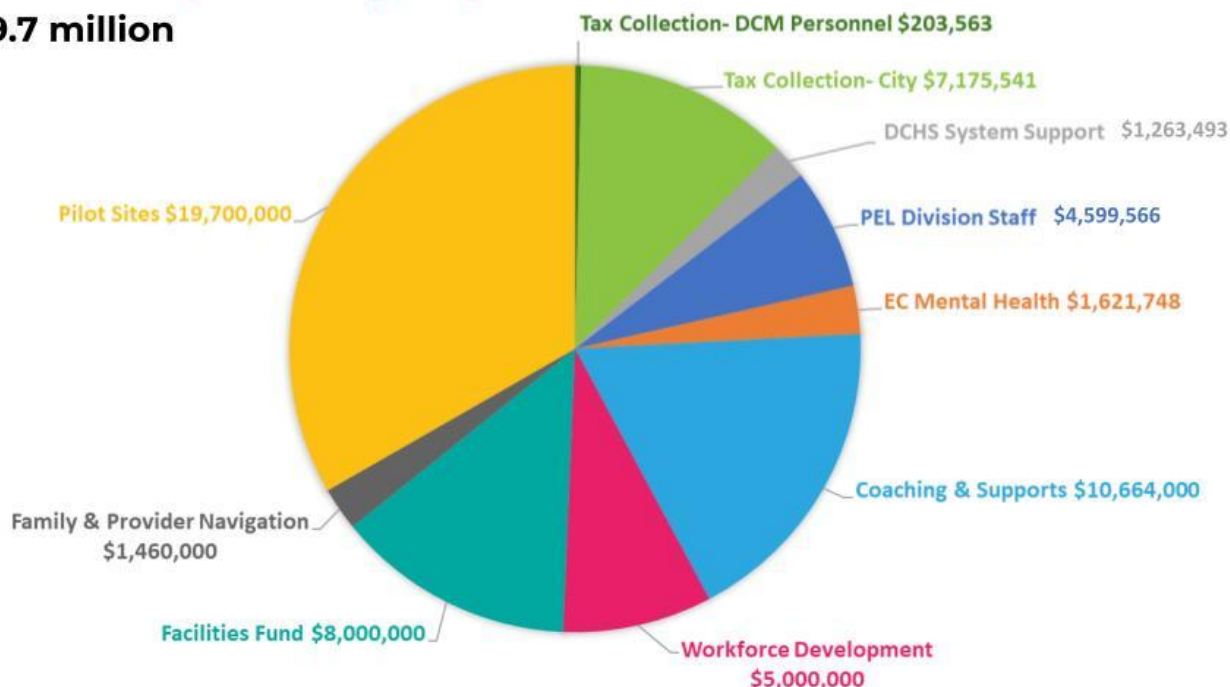
Growing the number of slots over time has always been part of the Preschool for All plan. There are not enough classrooms, teachers, or slots right now for universal preschool.

It takes time and intentional investment to build a new system that will function well into the future. Foundational investments in workforce, facilities, professional development, and other supports for educators and families are essential in order for Preschool for All to meet its long-term goals.

The total operating budget for the 2023 Fiscal Year (July 1, 2022 through June 30, 2023) is \$59.7 million. This includes \$59.2 million in the adopted budget and \$513,000 added in a February 2023 budget modification. The pie chart below outlines the operating budget categories and the boxes offer details about the categories.

FY 2023 Operating Expenditures

\$59.7 million



Pilot Sites: \$19.7 million

Pilot Sites are the first providers in Multnomah County who are interested in participating in Preschool for All and helping to refine the program model. Spending on Pilot Sites makes up over 30% of the Fiscal Year 2023 operating budget. All of this funding goes directly to preschool programs.

In addition to slots, Pilot Site expenses include start-up funding for supplies and furniture, transportation for children to and from preschool, and funding to support the inclusion of children with developmental delays and disabilities.

Infant and toddler stabilization funding is part of the investment at Pilot Sites. Many communities in the United States have lost slots for infants and toddlers when they expand preschool programs. Multnomah County is already a [child care desert for infants and toddlers](#) and stabilization funding is designed to help providers keep slots for 0-2 year olds.

Family & Provider Navigation: \$1.5 million

This budget category includes both Family Connector Organizations and the Intermediary Organization. All of these funds are contracted out to community organizations.

Four culturally specific organizations serve as Family Connector Organizations for Preschool for All. Each organization receives funding for a Family Navigator to support families through the application and enrollment process. Family Navigators also connect families to community resources.

The Intermediary Organization offers business development support and holds the PFA Pilot Site contracts with the smallest preschools in Multnomah County, including home-based family child care. Home-based family child care providers are the most diverse group of preschool providers in the community. The Intermediary Organization works closely with PFA administration to ensure that family child care providers' needs are met and that their businesses can thrive.

Facilities Fund: \$8 million

Preschool for All will not be able to reach its long-term goals without new early learning spaces in the community. Many banks are unwilling to provide loans to child care providers, because of their low profits and lack of collateral. In addition, navigating all of the steps to build a new space are complex and confusing.

The Preschool for All Facilities Fund will invest in the construction and renovation of early learning spaces. All of these funds will be contracted out to support the development and improvement of preschool facilities. The facilities fund will be administered by a third-party organization, which will also provide technical assistance to preschool programs that are ready to open new spaces or expand.

Workforce Development + Coaching & Supports: \$15.7 million

Investments in workforce development focus on ongoing support and retention of educators currently in early learning and on the recruitment of future preschool providers and educators. All of these funds are contracted out to partner organizations.

A new Preschool for All coaching team is housed at [Child Care Resource & Referral](#), part of Mt. Hood Community College. Additional investments include:

- Bilingual early education program navigators at Portland Community College and Mt. Hood Community College who help recruit and retain students interested in becoming preschool teachers
- Scholarships for educators to participate in higher education and community trainings
- Innovative strategies to recruit new educators to the field, in partnership with community-based and culturally specific organizations
- Additional capacity to strengthen the child care professional development system in Multnomah County at Oregon Center for Career Development
- A substitute pool to allow educators to participate in professional development
- The Pathways Program, designed to help programs to meet Preschool for All requirements or to support providers interested in starting their own preschool

Early Childhood Mental Health: \$1.6 million

Preschool for All funds a team of early childhood mental health specialists that include both Early Childhood Mental Health Consultants who can support coaches and providers with specialized knowledge and resources, and Early Childhood Mental Health Therapists who will work directly with children and families.

The funding for this work will go to the Multnomah County Health Department, which leads the new team. This investment will prevent more costly interventions that often result when mental health challenges are not addressed¹ and support the successful implementation of PFA's ban on preschool suspensions and expulsions.

Preschool & Early Learning Division Staff: \$4.6 million

The Department of County Human Services established the Preschool & Early Learning (PEL) Division in January 2021 in order to implement Preschool for All. The work of PEL includes developing systems, processes, and partnerships to select and support preschool providers, recruit families, and create positive preschool experiences for children.

PEL Division staff includes 25 FTE: a Division Director (1.00 FTE), an Operations Team focused on the application system for families, budgets, and contracts (7.00 FTE), a Policy & Partnerships Team focused on program quality, inclusion of children with disabilities, and workforce development (12.00 FTE), and staff focused on administrative, evaluative, and communications functions of Preschool for All (5.00 FTE).

¹ [Think Babies](#), ZERO TO THREE: National Center for Infants, Toddlers, and Families

Department of County Human Services (DCHS) System Support: \$1.3 million

Preschool for All administrative costs include funding for three positions in DCHS Finance and one position in DCHS Human Resources. These positions help the program run smoothly by providing essential administrative support, such as completing contracts quickly and paying preschool providers in a timely way.

This part of the budget also includes the preschool application and enrollment system. The application system allows parents to apply to Preschool for All and be matched with a preschool provider. It also stores key information, including enrollment and attendance.

Tax Collection: \$7.4 million

The City of Portland collects the Preschool for All personal income tax on behalf of Multnomah County. The funding for tax collection in Fiscal Year 2023 includes \$900,000 of start-up charges for establishing a new tax collection system and \$6.3 million of operational expenses at the City. An additional \$203,560 is used for internal capacity to support the Multnomah County Department of County Management, which oversees the tax collection contract with the City of Portland and manages administrative activities.

Learn More

You can read our [Spring 2023 Implementation Update](#) and learn more about the Preschool for all program at <https://www.multco.us/preschool>.

You can also watch videos of the [FY23 budget presentation to the Board](#) and our [February budget modification presentation](#) on the [MultCo Board Youtube channel](#).