



# **Accountable Investments in Early Learning to Improve Student Performance in Washington**

**Report to the Washington Early Learning Council  
Washington Learns**

**Human Services Policy Center  
*Evans School of Public Affairs  
University of Washington***

*Prepared by:*

**Richard N. Brandon, PhD; Director**

**Erin Maher, PhD**

**Juliet Scarpa, MA**

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<sup>1</sup> Many of the individuals listed are currently in different positions; we list their positions at the time of the study to indicate the organizations as well as individuals who assisted the process.

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## Purpose of the Study

The lack of access to high quality-quality early learning for most children ages birth to 5 and not in school is the result of market failure on three dimensions. There is an *inadequate supply* of high quality services, and an insufficient number of qualified staff; there is *inadequate parental demand*, due to lack of knowledge of quality of different providers and inability to afford the price of high quality services; and *no accountability system* that tracks the quality of providers and the developmental outcomes of children. The cost of this market failure is a high percentage of Washington students entering kindergarten unprepared for the next steps of education. This is the first step in lifelong gaps in achievement for disadvantaged children, who have the least access to early learning opportunities.

This study was designed to assist the Early Learning Council (ELC) and Washington Learns to explore a variety of research-based solutions to these market failures. Our analysis considered the costs to providers, to parents of different income groups, and to public and private entities of ensuring access to high quality early learning in a variety of settings: center-based, licensed family child care homes (FCC), and family, friend, or neighbor care (FFN).

A strategy for addressing the market failures that inhibit access to high quality early learning is the development of Quality Rating and Improvement Systems (QRIS). This strategy is growing in popularity across the United States, with 14 states fully implementing, 9 states piloting and 31 states exploring or developing or QRIS systems (NCCIS 2007).

The essential components of a QRIS are:

- A clear set of standards and expectations about what constitutes high quality ECE; both providers and parents can benefit from such expectation.
- Support to providers in achieving higher standards; such support can be financial or technical assistance, including access to professional development and higher education opportunities for staff.
- Support to parents in understanding the nature of high quality ECE, information about the quality levels of alternative providers, and financial assistance to afford access to settings that meet higher quality levels.
- Data systems that track the provision of the supports and quality attainment indicated above, and the outcomes on child development.

These components encompass two aspects of a QRIS. One is to sort out providers by their current levels of quality as guidance to parents and sponsoring agencies. The other is to encourage individual providers to improve their operations, and raise the overall level of quality offered in the state. Appropriate supports and incentives are required to address each of these aspects.

The legislative mandate for the ELC included development of a Quality Rating Improvement System accompanied by “tiered reimbursement,” which links the rates paid to providers to their quality level. The ELC created a Technical Advisory Committee (QRIS-TAC) to assist in developing standards and a structure for a quality rating system. HSPC therefore worked closely with the QRIS-TAC and an Early Learning Council steering committee to develop policy specifications compatible with our cost modeling approach. The full ELC reviewed and approved the final policy specifications.

A central feature of this study is the interactive, iterative process for exploring options in partnership with the ELC, advisory groups, and outside stakeholders. HSPC developed a structured series of research-based policy choices as a starting point for the ELC to consider. As discussion of these options proceeded, ELC members developed additional policy options to include in the analysis. HSPC produced two rounds of analysis. For each round we compared the costs of access to high quality early learning experiences reflecting two categories of policy options: the standards that providers would have to meet at each QRIS Level (1, 3, and 5) and alternative policies to assist families in paying providers sufficient tuition to meet those costs. The ELC drew upon the advice and perspectives of many academic experts and practitioners to develop the policies specified, and conducted an open, public process of deliberation. Materials presented to the ELC can be accessed at the Washington Learns Web site (Washington Learns, 2008).

The results presented here are for the preferred policy option developed by ELC from the two rounds of comparing alternative policy scenarios; they are not HSPC recommendations. However, we consider the ELC preferred option a fiscally sound, potentially effective set of policy specifications, grounded in the research literature in the field and informed by the analysis we have done in Washington and in other states (Brandon, Maher, Li & Joesch, 2004).

## **The Context of Early Learning**

The early years of a child’s development are critical to establishing a foundation for success in school and life. Recent research has revealed the importance of early relationships and experiences to building the social, emotional, intellectual, and academic skills that individuals rely on throughout their lives. All babies are born learning, and their relationship with adults can encourage them to learn more effectively, or can deaden their curiosity and hamper their physical and emotional development.

*Educational Disparities.* Washington, like other states, is struggling to ensure that all of its children receive the opportunities necessary to succeed in school and life. Children who enter kindergarten behind are likely to remain behind. Multi-state studies have shown that the majority of child care settings do not provide the “good” or high quality environment and stimulation that promote learning and development (Helburn et.al., 1995; Marshall et.al. 2002, 2004a, 2004b; Mulligan & Flanagan, 2006). There is a growing societal emphasis on high educational standards and achievement for all students and increasing attention to the importance of early literacy development. Both of these considerations require us to ask whether we are meeting the diverse needs of all of our young children in ways that adequately prepare them for academic success.

Educational disparities start before kindergarten—low-income children are found disproportionately in the less formal, less enriched settings, which have been found to yield lower school readiness and lower achievement throughout the school years (Brandon, 2005). Even within center-based ECE, low-income children are twice as likely as others to be in low-quality settings (Mulligan & Flanagan, 2006). High quality ECE is made available for the limited number of low-income children who qualify for such programs as Head Start and ECEAP, and for upper-income children whose parents can afford to invest in high-priced learning opportunities. Children from moderate- and middle-income families are left out of the equation and have the fewest opportunities. Robust national research has shown that middle-income children do better than low-income children on tests of cognitive and social-emotional skills, but not as well as upper-income children (Barnett et.al., 2004). Having all children achieve our educational goals will therefore require new investments in early childhood programs and teachers, with a payback of improved performance in both early and later years of students' education.

*Return on Investment.* Research has shown the importance of a child's early years to lifelong development and well-being. Controlled studies (Karoly et.al., 1998; Barnett, 1995; NICHD Early Child Care Research Network, 2003; National Research Council, 2000) have tracked children for as long as 20 years and found that higher-quality ECE settings and interventions lead to better cognitive skills immediately and through the critical elementary school years, better social interaction, higher graduation and employment rates, and lower rates of involvement with violence and delinquency. The demonstrated savings to government from the reduction in special education services needed; reduction in Medicaid, welfare costs, and criminal justice costs; and increased tax revenues from increased employment have documented that the long-term benefits of high quality interventions for low-income children can greatly exceed the costs of these programs, with benefit:cost ratios ranging from 2.4:1 to 8.7:1 (Karoly et.al., 2005; Barnett, 1995).

The long-term returns on investment for high-quality early education have been estimated to be as high as 16% (Heckman & Masterov, 2004). A more limited but still dramatic estimate of economic return was produced by Dickens, Sawhill, & Tebbs (2006). They estimated the increased average years of education of high-quality ECE participants and modeled the long-term effect on U.S. economic growth. They found that by 2050, there would be almost a 1% increase in overall gross domestic product (GDP), or a value of \$270 billion for a national investment of \$59 billion in early education, a return of 4.6 to 1. A similar 1% increase in Washington state's 2005 GDP would yield increased economic growth of about \$2.7 billion a year in 2005 value (BEA 2007).

## **Current Early Learning Services in Washington**

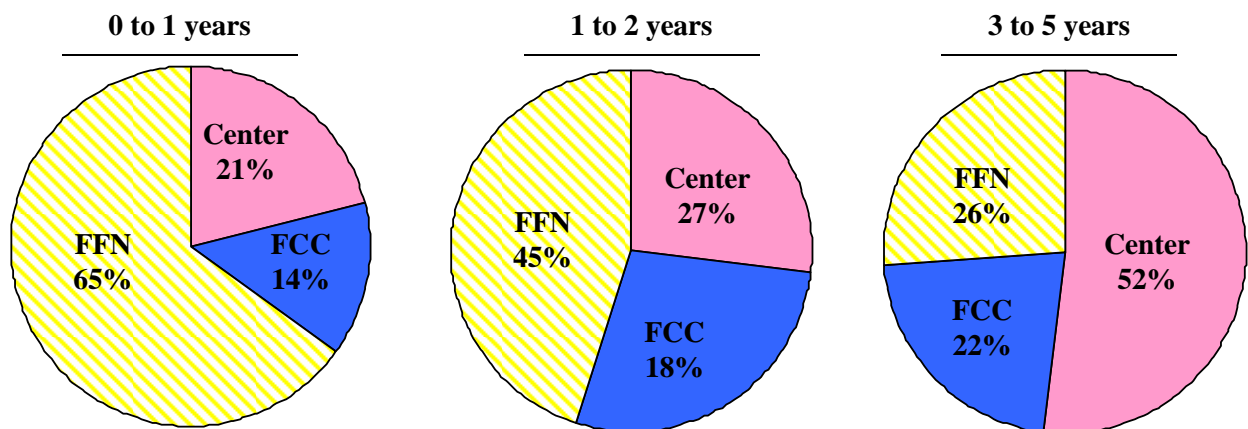
Parents currently depend on a variety of settings for early child care and education—center-based, licensed family child care homes (FCC), and family, friend, or neighbor care (FFN). Utilization patterns vary widely by the age of children and significantly by parents' income and education. The youngest children (birth to 2) are predominantly in family, friend, or neighbor ECE, often for 30–40 hours per week. The

majority of children ages 3–5 are in center-based ECE, but a substantial share are in FCC or FFN settings. About one in five young children are in more than one type of ECE, usually a combination of center-based with a less expensive home-based alternative (HSPC 2003). Children’s experiences vary greatly, with some spending very few hours per week in non-parental ECE and some spending many. The median in Washington state for children ages birth to 2 is about 20 hours/week in centers or FCC and 6 hours in FFN settings. For children ages 3–5, the median is about 10 hours/week in center or FCC and 5 hours/week in FFN settings (Brandon, Maher, Joesch & Doyle, 2002).

Figure 1 shows the percentage of all non-parental hours in each setting, which varies by the age of the child.

**Figure 1. Percent Total Non-Parental Hours by Setting, Age of Child**

Source: WA State Child Care Survey (Brandon, Maher, Joesch & Doyle, 2002)



In contrast to the rest of the educational enterprise, most of the cost of early learning is borne by parents. In Washington, there are three major public programs that provide substantial assistance to low- and moderate-income families.

- *Certificates* for purchase of child care are provided under Working Connections, with the bulk of the funds coming from the federal Child Care Development Fund (CCDF) block grant, and from transfers from TANF funds into CCDF/Working Connections. Funds are provided on a sliding scale related to parents’ income, with a maximum eligibility at twice the federal poverty line (FPL), or \$20,000 a year for a family of four in 2006. Parents must be employed or in training or education to be eligible for this assistance.
- The Washington state *Early Childhood Educational Assistance Program (ECEAP)* and the *federal Head Start program* each provide a half-day, school year preschool experience, plus comprehensive health and family support services for low-income children ages 4–5. Federal Head Start also offers such programs to a limited number of younger children (Early Head Start). Families must be below or near the federal

poverty line to be eligible, but there is not a parental employment requirement. No fee or co-payment is charged to parents.

- *Part-day, part-year Head Start or ECEAP services are often blended by provider partnerships with child care certificates to cover the remaining hours that parents require early care and education for their children while they are at work, in training, or their own education programs. In some cases these program funds are blended to achieve a consistent level of quality; in others, children are shifted between higher- and lower-quality settings across the day, week, or year.*

**Table 1. Current Public Support of Early Care and Education in Washington State—Major Programs, FY 2007 and Committed for 2008, 2009 (OFM, 2008)**

	<b>CCDF/Work First</b>	<b>ECEAP</b>	<b>Head Start/ Early Head Start</b>
<b>Number of Children Served (B-5 only)</b>	35,504	FY2008: 7,081 FY2009: 8,226	14,698
<b>Average dollars per child enrolled</b>	\$4,429	\$6,536 (plus in-kind support)	\$8,735
<b>Average funding allocation per eligible child in state</b>	\$1,105 (for working parents only)	\$316	\$1,136
<b>Total Funding, 2007</b>	\$251 million (for subsidies only)	FY07: \$29.9 million FY08: \$49.9 million FY09: \$56.4 million	\$101 million

In addition to these major programs, Washington currently invests about \$16 million in several smaller programs assisting young children: The Children’s Trust (\$4.6 million) for prevention of child abuse and neglect through parent education and support, including home visiting; the Infant/Toddler Early Intervention Program (\$8.3 million); CHILD Profiles (\$1.9 m); and Health Child Care Washington (\$1.1 million).

There are no statewide data available on the quality of ECE services in Washington state. Several well-designed multi-state and individual state studies have consistently shown the majority of ECE settings to be of mediocre quality, at a level that fails to promote children’s potential development and early learning (Helburn et.al. 1995; Raikes et.al, 2003; Marshall et.al. 2001, 2004). The kindergarten readiness data developed for WA Learns (Pavelchek, 2005), showing that only 44% of children enter kindergarten at what their teacher considers an adequate level of preparation, suggest that Washington’s quality is not likely to be higher than that observed in other states.

Just as we lack data on program quality, we lack data on individual caregiver or teacher qualifications and competence. Nationally, the best available estimate is that

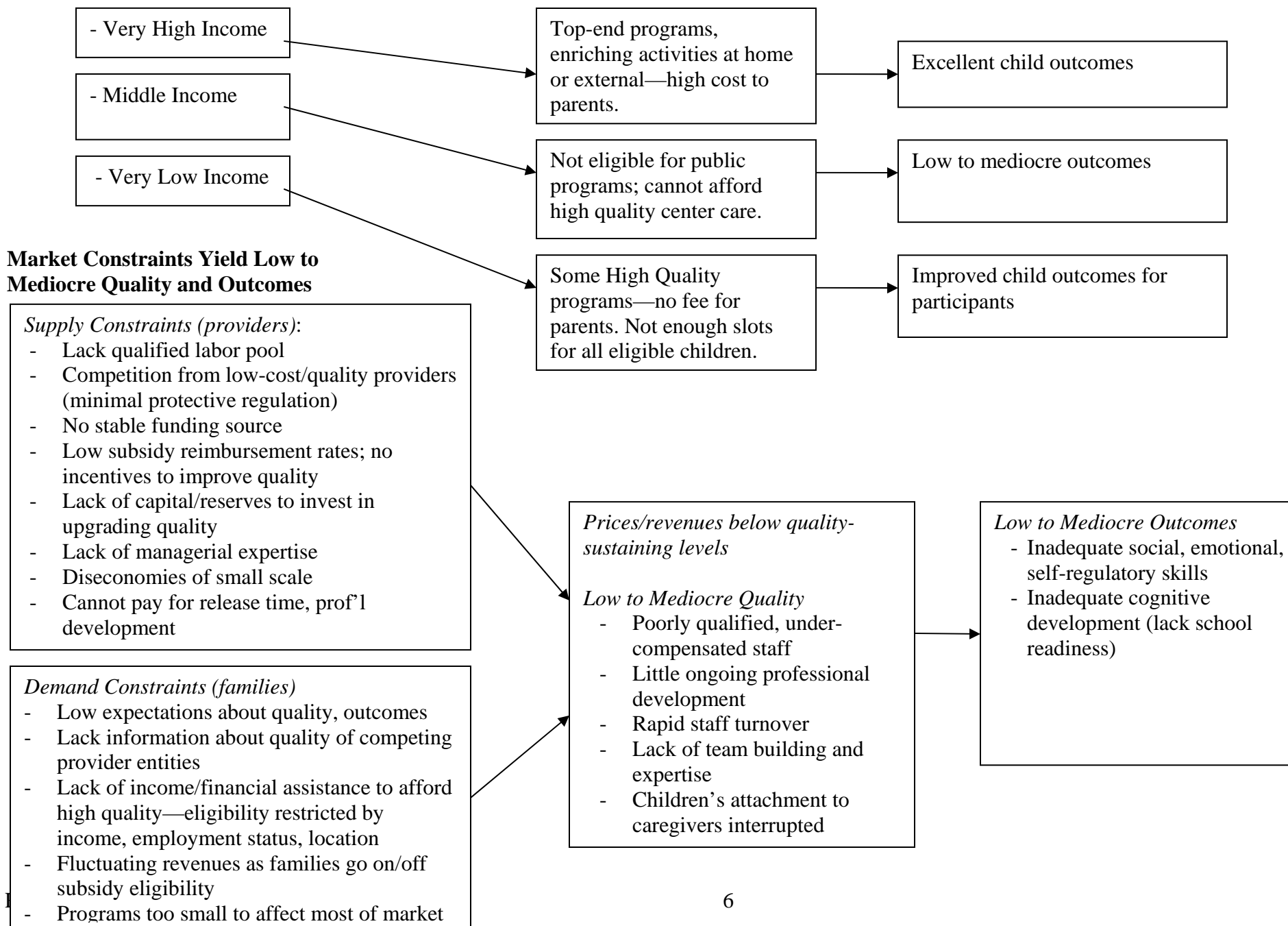
about 25–35% of teachers in center-based ECE have two-year or four-year college degrees, while less than 20% of family child care providers or FFN caregivers have a college degree (Brandon & Martinez-Beck, 2006).

There is no clear threshold for adequate educational qualifications of ECE staff (Tout et. al. 2006), and some indication that a Child Development Associate certificate may be a better predictor of high-quality teaching (Raikes et.al. 2003) than a BA-level degree. However, it is clear that some level of postsecondary education and special skills training is required for high-quality early learning (Brandon with Scarpa, 2006; Tout et. al. 2006).

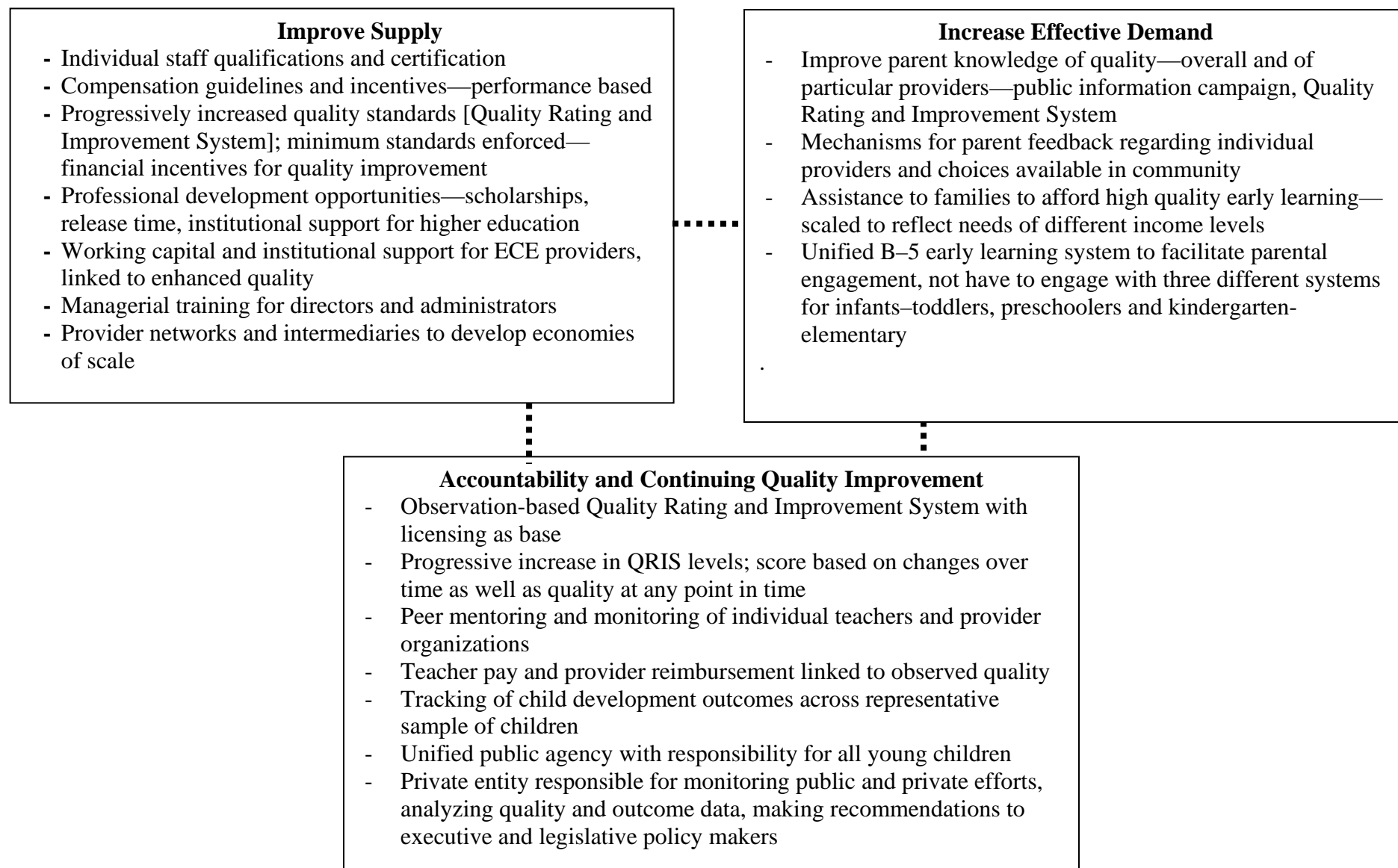
The minimal educational and training qualifications of early learning teachers are a product of a market system that lacks certification requirements, professional development supports, and compensation sufficient to recruit and retain a well-qualified workforce. Inadequate staff qualifications and compensation are compounded by low parental knowledge and expectations, and inability to pay higher costs without help.

Together, these forces constitute an array of important market failures that are summarized in Figure 2, reproduced from Brandon with Scarpa (2006), which was presented to the ELC. As noted above, the market failures inhibit the supply of high-quality early learning opportunities, restrict the effective demand for such services, and offer no mechanisms for quality assurance and accountability. To offer Washington's children a meaningful opportunity for early learning and address the disparities noted above, each of these market failures must be addressed. Some of the specific strategies may indicate public action, and others may indicate private efforts. However, the public interest in ensuring that all children have the opportunity to succeed in school and beyond requires that public efforts ensure that a complete strategy is designed and implemented. The elements of a market-oriented strategy that addresses all of these elements are outlined in Figure 3. Most of these strategic elements were considered by the Early Learning Council and are reflected in the policies presented in this report.

**Figure 2. Market Failures Limiting Access to Effective Early Learning Opportunities**



**Figure 3. Market-Oriented Solutions for Access to High-Quality Early Learning Opportunities**



## **The ELC Preferred Policy Option: Policy Specifications**

The ELC explored a series of policy options to overcome the market failures discussed above in order to make access to high quality early learning a reality for all of Washington's young children. A central element was adoption of the following set of guiding principles:

1. High quality early learning is essential to children's healthy development and school readiness. Quality is dependent upon the stability of care and attachment between caregivers and children.
2. Families choose early care and education for many reasons, with cost being one factor. A market approach offers choice while providing incentives and requirements for quality. Parents need better information to be informed consumers of high quality early learning.
3. Effective early learning professionals need specialized training and education.
4. Parenting education should be available to all caregivers, to support parents and other relatives and caregivers in their role as first teachers.
5. Recruiting and retaining qualified staff who have alternative career options requires adequate compensation.
6. High quality early learning should be affordable to families at all income levels for costs and prices to be sustained in market.
7. To improve quality, providers need a reliable revenue stream and investment capital.
8. Resources are limited: cost-effective solutions are required.

The market failures leading to poor child outcomes described above are the product of an interlocking set of roles, expectations, and financial constraints. The ELC therefore addressed the problem as one of systems change, and considered all the elements necessary to produce effective learning. These are (a) standards for individuals and programs in both center-based and family child care settings; (b) supports to help them achieve those standards; (c) compensation sufficient to recruit and retain qualified teachers; (d) scholarships for families to afford high quality settings; (e) an incentive structure to promote steady improvement over time; (f) supports to parents and to family, friend, or neighbor caregivers; (g) links to nutrition, health and mental health services; and (h) a governance and accountability structure to monitor progress of all the components. The system includes basic early learning services, supports to parents and FFN caregivers, and links to health and mental health services. The HSPC early learning finance model addressed all these components in a market-based approach. The resulting policy framework allows a high degree of parental choice, provider diversity, and innovation, as well as a cooperative role of public and private agencies as exemplified by the creation of the Thrive by Five private-public partnership.

It is important to note the time frames considered. While the standards considered by the QRIS-TAC were intended to set in place a long-term process of quality improvement, the specific policies focused on by the ELC steering committee for the Access/Financing Study were geared to what could be accomplished in a few years. Thus, the standards of quality, attainment of standards by providers, and resulting costs to providers, families, and public agencies were intended to stay within the bounds of operational and fiscal feasibility.

We now describe these policies in general terms. A detailed set of policy specifications is provided in Appendix A.

***a. Standards for Individuals and Programs Separately Appropriate to Center-based and Family Child Care Settings to Promote Early Learning***

The staffing standards for three QRIS levels were developed in a process involving the QRIS-TAC, stakeholders involved in ELC and QRIS-TAC deliberations, and outside expert consultation. These were reviewed, slightly modified, and adopted by the ELC for the purposes of specifying staffing standards for this study. The state's new Department of Early Learning is in the process of developing standards for the pilot QRIS.<sup>2</sup>

Appropriate standards were specified by children in different age groups (infants = birth–11 months; toddlers = 12–35 months; preschoolers = 36–71 months if not in school.).

The basic structure of the recommended QRIS is that Level 1 is set to current state licensing standards and Level 5 approximates National Association for the Education of Young Children (NAEYC) 2015 standards for centers and National Association for Family Child Care standards for FCC providers. Levels 2–4 represent intermediate levels of quality, reflecting either current differences among providers or a series of steps that providers can undertake to improve quality over time. To reduce analytic detail, HSPC focused on cost analysis for three quality levels—1, 3, and 5—for each age group.

The standards that vary across levels and would entail substantial costs to providers are the child-adult ratio and group size; educational qualifications of staff occupying different positions; mix of staff at different levels of responsibility; and professional development and support provided to staff, including release time. Other program features, such as curriculum, are important to quality early learning but do not by themselves entail substantial cost.

Educational qualifications of center-based staff were specified to reflect a mix of staff for a typical provider, with a range of positions including assistant teachers, lead teachers, and directors, with higher qualifications required at each level. The “richness” of the staff educational mix was varied by QRIS level, with a higher percentage of college-educated staff indicated for higher QRIS rankings.

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<sup>2</sup> HSPC is assisting DEL in this effort and leading a University of Washington team that will evaluate the pilot QRIS.

***b. Supports to Help Programs and Teachers Achieve Those Standards***

The major form of staff support in the preferred option is professional development. It is customary in education policy to distinguish between “pre-service” and “in-service” preparation and requirements. A major concern in early education has been to maintain the cultural diversity of the teaching staff, which currently roughly approximates that of the children (Brandon & Martinez-Beck, 2006). Rapidly requiring teachers to have BA-level degrees, particularly as a pre-service requirement, would likely replicate the problem of elementary and secondary education, where a predominantly white teacher corps is responsible for an increasingly non-white student population, with negative impacts (Ferguson, 1998). There currently appears to be a reasonable consistency between the cultural backgrounds of children and caregivers (Kisker et.al., 1991; Salujah et.al., 2002). The approach preferred by the ELC was to provide a balance of in-service and pre-service opportunities, including sufficient resources to allow current teachers to earn college degrees while on the job. The experience of the federal Head Start program in recently achieving a majority of college-educated teachers suggests that such an approach can maintain cultural diversity (Brandon & Martinez-Beck, 2006). The policy specifications for professional development and education therefore provide both tuition support for ECE staff and assistance to higher education institutions and community-based training entities to cover the cost of one course per year, plus up to 50 hours per year of paid release time for up to 40% of staff. Also included are such supplemental expenses as child care, books, and transportation. All teachers would contribute to their tuition cost; those with higher education levels and increased compensation would contribute a greater share of the cost.

***c. Compensation Sufficient to Recruit and Retain Qualified Teachers***

A central proposition of a market-based approach is that to recruit and retain well-qualified staff, early learning providers will have to compete in the labor market with other entities seeking to hire individuals with these qualifications. Individuals with college degrees command higher compensation than those without. It is clear that within the current ECE system, better compensation is associated with better teaching (Whitebook et. al. 2001), and that current average teacher wages of \$9–13 per hour are not sufficient. However, it is not clear exactly what level of compensation is required. Education and human services professionals with college degrees currently have a wide range of salaries. For example, a child-family social worker in Washington, requiring a BA plus certification, averaged about \$44,000 a year for 12 months of work in 2006, while an elementary school teacher averaged \$51,000 for nine months of work, about sixty percent higher on an hourly equivalent basis (see Brandon with Scarpa, 2006, for a full discussion of this issue). Table 2 shows the current average hourly wages of child care staff and compares them to selected occupations that require no college degree, an AA, or a BA (BLS, 2007). These data suggest that to compete in the relevant labor markets, early learning providers would have to pay wages in the range of \$11 to \$20 per hour for staff with AAs and between \$18 and \$30 per hour for BA-level workers. Again, we note that these are statewide averages, and rates would be higher and lower in different parts of the state.

**Table 2. Hourly Wages (WA State Average) for Selected Occupations, 2007\***

<b>Occupation</b>	<b>Hourly Wage (Median)</b>
<i>College Degree Not Required</i>	
Child Care Worker	9.45
Preschool Teacher	12.07
Funeral Attendant	12.45
Animal Trainer	13.58
<i>AA Degree Required</i>	
Social and Health Service Assistant	12.49
Dental Assistant	17.46
Occupational 1)Therapy Assistant	22.36
<i>BA Degree Required</i>	
Social Worker (child, family, school)	21.49
Dietitian, Nutritionist	26.30
Recreational Therapist	23.98
Teacher, Kindergarten (9-month)	32.18
Teacher, Elementary (12-month)	34.71

\* Source: BLS 2008. Teacher salaries converted to hourly at 185 days/year, 8 hours/day.

The ELC explored two levels of compensation. The moderate level would set the starting annual compensation (salaries plus benefits) of BA-level early learning teachers at the average 12-month equivalent starting salary of elementary school teachers, equivalent to about \$15.30 an hour plus 25% benefits. A higher compensation level was also considered, which would pay early learning teachers the hourly equivalent of elementary school teachers' 12-month salaries (\$21.50, plus 31% benefits. This would result in early childhood teacher pay about 41% higher than elementary teachers on an annual basis. The higher pay level turned out to yield very high costs to providers, making services quite unaffordable to parents. That in turn would necessitate very high costs to public or private entities offering scholarships to assist families. The final options preferred by the ELC therefore focused on the moderate salary option, which would be substantially higher than the current salaries of either child care workers or preschool teachers in Washington.

For family child care, fees were estimated to yield compensation equivalent to the annual compensation, at the same 40-hour work week. However, under re-examination of our estimation routine, we realized that in our interpretation of the equivalence of FCC to center-based compensation for staff of similar qualifications, we failed to take account of the fact the FCC's operate as a business. They are normally in operation for closer to 50 than 40 hours per week. The hourly fee charged to generate the same annual compensation would therefore be about 20% less. This adjustment has been made in all the estimates presented in this final report. In estimating FCC costs, we assumed a factor

of 30% above compensation for other business costs, such as insurance, food and facilities, based on the best available field study of the level of such costs incurred (Helburn, Morris & Modigliani, 2002).

It should be noted that the salaries specified are statewide averages; in practice, salaries would vary in different parts of the state. It would not be reasonable to set average salaries at a high enough level to be competitive in the highest wage labor markets in the state, or to have a high unitary state wage level, since that would imply paying early childhood teachers in low-wage areas a much higher wage relative to other workers.

An important consideration is how to achieve such compensation levels in a market-based system. If the basis of increasing current compensation is the need to recruit and retain staff in a competitive labor market, then setting standards for staff qualifications and letting providers bid within their own local labor markets for individuals with those qualifications seems the most appropriate approach. Regulating specific salary and benefit levels could be highly inefficient, forcing providers to pay more than is required in different labor markets around the state. However, it could be useful for the DEL to publish advisory guidelines reflecting wages paid to competing occupations in local labor markets, such as the data HSPC used in this study. This would help guide the expectations of providers and staff, as well as the expectations of students considering a career and deciding whether to invest in postsecondary education and training in early childhood education. We note that the state already recognizes the cost differences in different local labor markets in its current method of setting differential reimbursement rates for child care in different regions of the state.

#### *d. Scholarships for Families to Afford High-Quality Settings*

It is important to think of the impact of higher costs of early learning in a market context, since the majority of children receive ECE paid for by their parents. For providers to pay sufficient compensation to recruit and retain well-qualified staff, they must be able to recoup their costs from either private fees or public/private assistance to families. It is therefore critical to consider how much parents at different income levels can afford to pay for early learning. If parents cannot afford to pay the fees required to recoup the providers' costs of meeting the standards, then unless scholarships are made available, the QRIS system will not be able to produce a shift to higher quality levels for most children.

As found in our previous work with other states, even at moderate compensation levels, the costs of full-time, full-year, high quality early learning would be unaffordable for average Washington families without assistance. This is not surprising, since the \$7,900 cost per student in 2004–05 (OSPI, 2006) of 180 days of public elementary and secondary education is not affordable to parents and is financed by the community at large. By averaging costs across age groups and the anticipated range of quality levels to be attained, HSPC found that the cost of full-time, full-year, high quality early learning would be about 16% of take-home pay for the average Washington family. While there is a federal guideline of family payments not exceeding 10% of income, there is not a clear economic rationale for this standard, and many families currently pay more. The

weighted median price of center-based ECE in Washington is about 12% of average, after-tax income. The ELC adopted a family affordability criterion stipulating that low- and moderate-income families should pay small shares of their income (similar to their payments under the current certificate system) and middle- and upper-middle-income families would pay as much as they are currently paying, while upper-income families should pay the full cost of early learning.

HSPC applied these principles to develop a graduated family payment scale, ranging from about 1% of net income for families in poverty to about 8% for middle-income families and about 14% for upper-middle-income families. It worked out that the maximum income level above which families would receive no scholarship assistance was 3.2 times the federal poverty line, or about \$68,500 a year for a family of four. Two-thirds of Washington children would be eligible for some amount of income-related scholarship under this eligibility limit.

Table 3 illustrates the split between family contributions and scholarships at different income levels for a toddler enrolled full time at a center of moderate (Level 3) quality.

**Table 3. Illustration of Income-Related Scholarship**

Family Income [FPL = Federal Poverty Line]	Family Payment as Percent Income (Net of Taxes)	Family Payment (Monthly, per Child)	Scholarship Amount (Monthly, per Child)
Low = <1 FPL (\$0–20K)	1 %	\$8	\$687
Moderate =1–2 FPL (\$20–40K)	3 %	\$63	\$632
Moderate =2–3 FPL (\$40–60K)	8 %	\$272	\$423
Moderate =3–3.2 FPL (\$60–62K)	14 %	\$535	\$160

An important issue is whether the employment-training eligibility criterion for child care certificates—namely, that parents must be employed or engaged in education or job training to be eligible for assistance—should apply for early learning scholarships. This welfare-related eligibility criterion is not applied for children attending Head Start, ECEAP, or kindergarten.

The ELC decided that while it did not want to abandon the parental employment-training requirement for early learning services, it did want to address the problem of children losing early learning opportunities due to fluctuations in their parents’ status. Two features were therefore added. First, a proportion of scholarship funding was added to maintain eligibility as parents’ income level and employment status varied over several months. Second, an allocation was added for partnerships with ECEAP programs to serve otherwise eligible children ages B–5 whose parents were not employed or in education/training. This amount was based on HSPC’s analysis of the cost of providing scholarships to low- to moderate-income children not eligible due to their parents not meeting the work, education, or training requirement. The same hourly costs of early

learning were used for this estimate as for the primary analysis of scholarship costs. It was assumed that half the children affected would receive partnership funding.

***e. Rewarding Quality and Promoting Improvement Over Time***

An important feature of the accessibility approach developed by the ELC is a direct link between the quality of services and the level of funding. There are two dimensions to this relationship. First, it recognized that better-qualified staff cost more to recruit and retain in a competitive labor market, and that for early learning providers to meet standards, they must have sufficient revenues to pay competitive salaries and benefits. Thus, public and private payment levels would be linked to estimated costs to providers of meeting standards. Second, it was considered essential that the quality-based reimbursement system not only reward current high quality providers, but also offer incentives to improve. Therefore, as quality improves, reimbursement must increase commensurately—the higher the standard, the higher the cost and the higher the payment.

One of the current market failures is the lack of “venture capital” for early learning providers to make investments in any of the key elements cited to improve quality. Most non-profit and small for-profit providers lack the resources to change curriculum, hire more qualified teachers, or reduce ratios while waiting to recoup the costs in fees or public reimbursement. Moreover, providers typically endure lost revenues when parents take their children out of care in the middle of a month, or the parent loses eligibility for state assistance. We therefore included in our cost estimates a modest amount of annual reserves to cover fluctuating revenues and allow for quality improvement investments, as recommended by accounting experts (Young 1998),

***f. Supports to Parents and to Family, Friend, or Neighbor Caregivers***

The ELC recognized the critical role of parents and families as children’s first teachers and their critical ongoing role in children’s development. Many parents could use more support, information, and skills development to best meet their children’s developmental needs. The ELC preferred option therefore included a package of supports to assist parents and families. It suggested creating a state-level advisory board to support policy development, such as conducting a needs assessment for family support, with an analysis of service levels, gaps, and barriers to access. Also in the package were enhanced support for the resource and referral hotline; expansion of the Child Profiles; expansion of home visiting programs to reach very-high-risk parents; and parent education workshops for low-income families (see Appendix A for details).

The ELC recognized the importance of developing a broad communication strategy to inform both parents and the community about the importance of high quality ECE and about available supports, but further development of the plan was required before its costs could be estimated, so they were not included in our analysis.

It also recognized that many parents prefer family, friend, or neighbor (FFN) caregivers, and that this is the predominant form of non-parental care for infants and toddlers. Many FFN caregivers could benefit from a variety of voluntary supports and informational resources. In fact, an earlier HSPC study found that two-thirds of FFN

caregivers in Washington would like such supports (Brandon, Maher, Joesch, & Doyle, 2002). The ELC preferred option therefore included funding for a variety of programs to support FFN caregivers, based on those being experimented with in King County. These include Play and Learn groups, sets of learning materials and booklets, and development of an infrastructure to coordinate and monitor such services and improve public awareness.

***g. Links to Nutrition, Health, and Mental Health Services***

The ELC received compelling information about the need to coordinate nutrition, health, and mental health services with basic early learning, particularly for low-income children. It therefore recommended better linkages with such programs, which are funded from a variety of sources, but did not include additional funds. Further analysis is required to determine where there may be specific gaps in linkage or financial coverage as a guide to further policy development.

***h. Governance and Accountability Structure to Monitor Progress of All Components***

The ELC determined that the elements described above are necessary but not sufficient to ensure access to high quality early learning experiences. That assurance will require an effective governance and accountability structure. The first step was creation of the Department of Early Learning (DEL), which the ELC recommended, and the establishment of the Thrive by Five public-private partnership. The ELC preferred option includes funds for ongoing support for an advisory board to the DEL.

The critical element for an accountability structure is implementation of a QRIS system. The recommended plan operates at three levels to ensure high quality. First, there is the specified set of staffing standards for providers described above, which is often referred to as “structural quality.” Next, providers seeking intermediate quality rankings will have to conduct a structured self-assessment. Finally, those seeking the highest rankings will be given an external assessment including observation of the quality of adult-child interaction, which is often referred to as “process quality.” Maintaining this degree of accountability will require staffing to determine quality levels for each participating provider, grants for quality improvement, fees for assessing quality, and technical assistance and resources to provide external observations of provider quality.

For the purposes of financial analysis, we distinguished between the administrative costs of the scholarship program, which are embedded within the total scholarship costs, and the governance and implementation costs for creating the new structures to promote and ensure quality. These include a state-level policy advisory committee, additional staff and associated costs for the Department of Early Learning, core capacity for Child Care Resource and Referral agencies, support for providers participating in QRIS (improvement grants, accreditation fees, external assessment, mentoring, and technical assistance), management information systems, and evaluation activities.

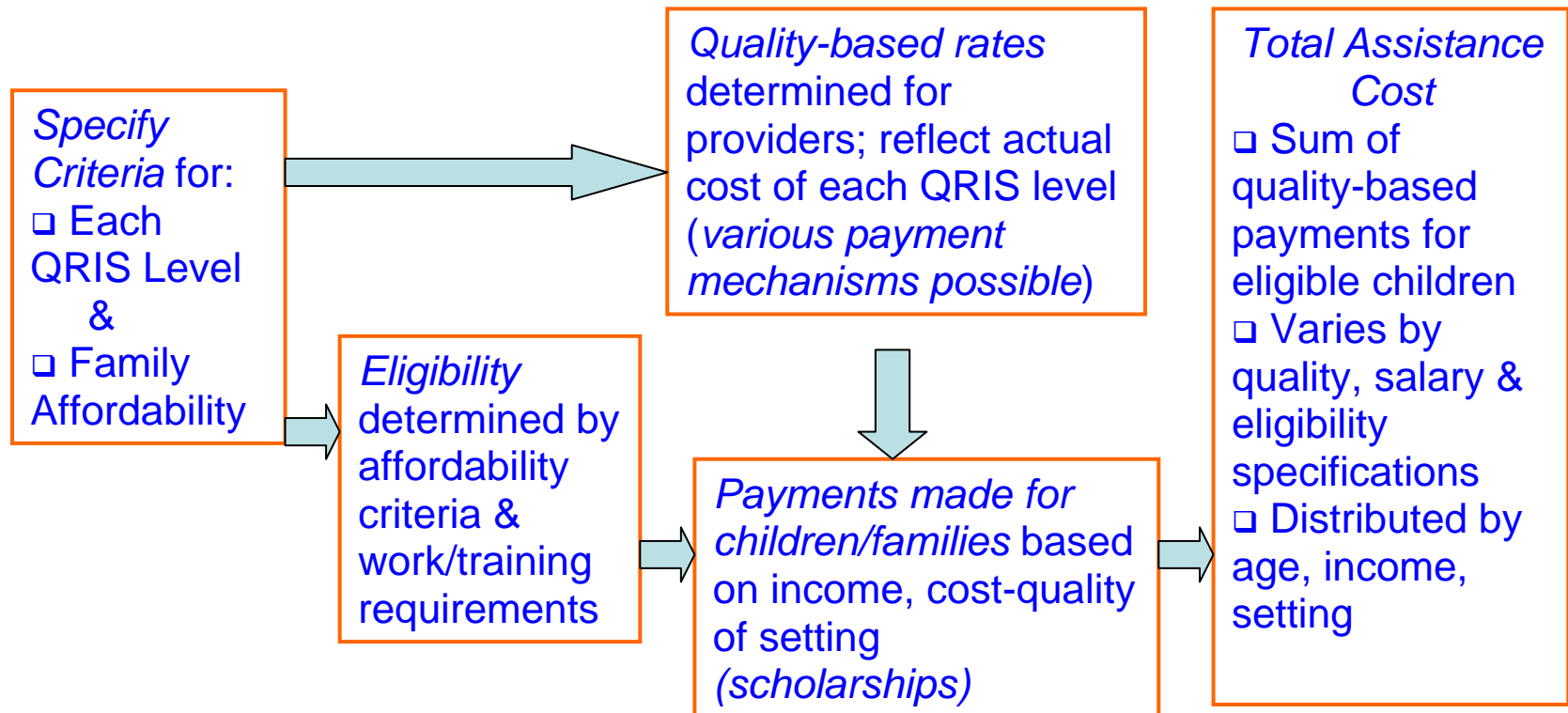
Other elements of accountability for which the ELC did not make a final recommendation include individual certification of staff and an annual observation of a representative sample of young children to see whether the level of early childhood learning and social-emotional development improves in response to greater investments, and whether any groups of children are receiving less benefit.

## **Financial Implications of the ELC Preferred Policy Option**

HSPC applied a set of computer models we have developed over the last six years and tested in four other states to estimate the costs of the various policy options to providers, parents, and assisting institutions (Brandon, Maher, Li & Joesch, 2004). As noted above, at each stage of the analysis, we compared different options, reported findings to the ELC for consideration, and received revised sets of policy specifications as the ELC worked to balance the goals of access to high quality early learning with the reality of fiscal and organizational constraints. The results reported here represent the final stage in that process: the ELC's preferred policy option.

The HSPC analytic model is relatively sophisticated, employing several unique features. The flow from QRIS specifications to final cost estimates is described in Figure 4. First, hourly costs to providers to achieve each level of quality for each age group of children and all settings were estimated, based on a large number of quality-related specifications developed through our process of working with the ELC. Second, utilization estimates (how many hours per week children of different ages and characteristics spend in each type of ECE setting) derived from a survey of representative households were incorporated (Brandon, Maher, Joesch, & Doyle, 2002). Utilization estimates were adjusted to reflect likely parental responses to having better-quality ECE available at lower prices for many families. Multiple eligibility criteria (family income, employment-training status, allowable hours/week) and family payment schedules were then applied to estimate participation and the amount of family financial contributions. The amount of scholarships needed to help families afford those costs were then estimated based on the quality-based cost of the early learning setting, the age of the child, the family's size and income, and other relevant eligibility criteria. The scholarship costs are estimated on a child-by-child basis from a representative sample of Washington children derived from the household survey and aggregated to reflect the total Washington population. We customized the computer model for the ELC/WA Learns study, building hourly costs per child from the QRIS specifications and applying several policy options developed by the ELC.

*Figure 4. The Relationship Among QRIS, Reimbursements Based on Quality, and Financial Access*



*a. Costs: Hourly Costs to Providers by Age, Quality Levels 1–3–5*

*Center-based ECE.*

Figure 5 shows our estimate of the cost to center-based providers of meeting the staffing and other standards at different levels of quality for children of different age groups. Costs are per child, per hour, and were estimated in 2007 dollars.<sup>3</sup>

The estimated costs were higher for the youngest children, due to the lower child-staff ratios required for infants. Costs increase steadily as the quality standards increase, reflecting both lower ratios and the cost of recruiting and retaining more highly qualified staff, and providing richer professional development opportunities.

**Figure 5. Estimated Hourly Costs to Centers of Meeting Quality Standards**

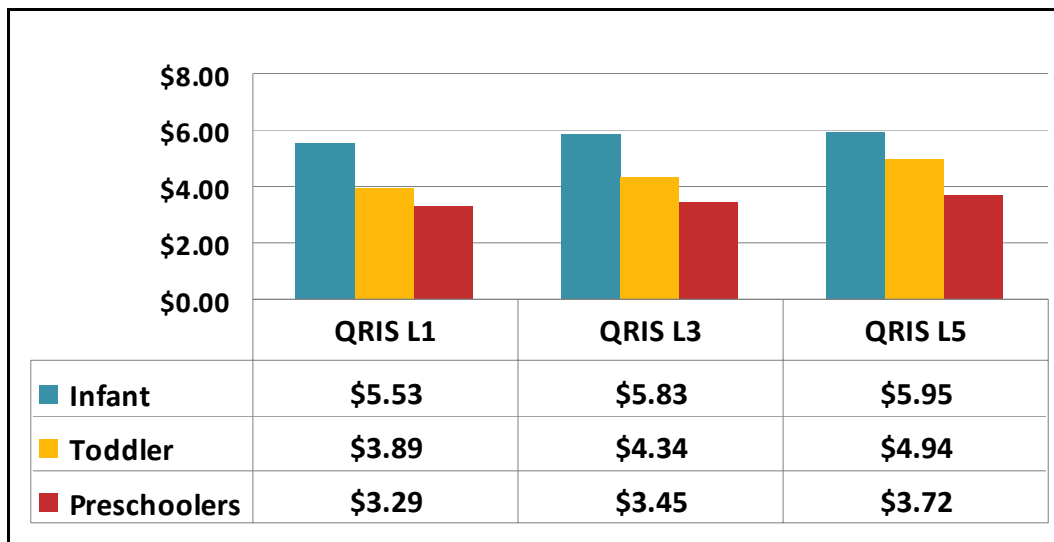


Figure 6 shows how the estimated costs of high quality center-based early learning compared to DEL reimbursement rates and to the range prices of prices charged for ECE in the private market. To simplify this comparison, we averaged hourly costs across age groups and quality ranking levels.

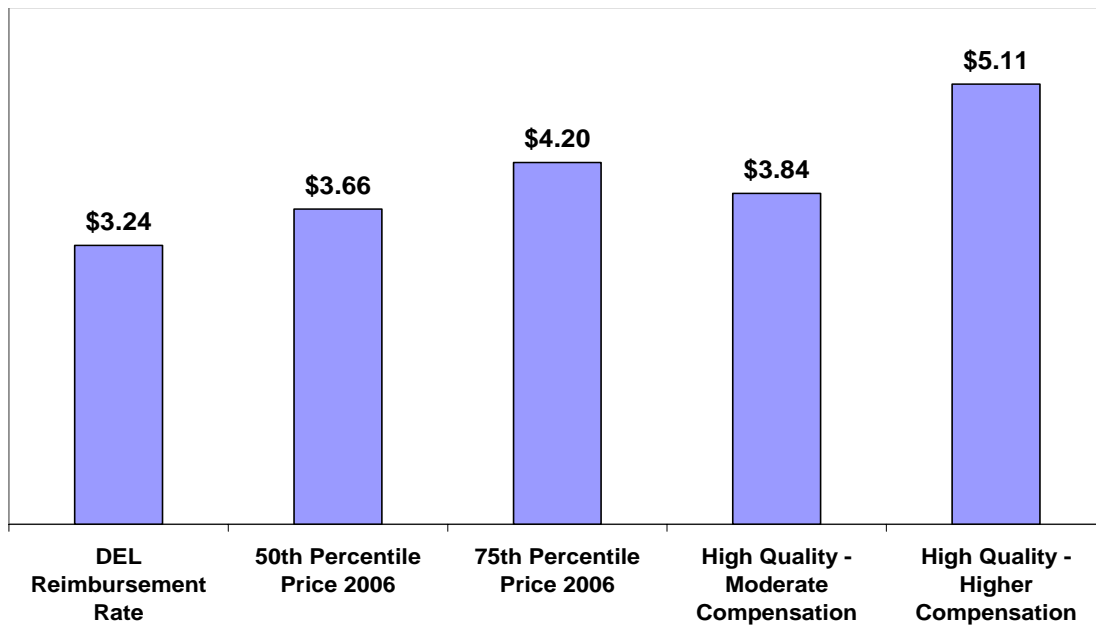
The Level 1 costs (\$3.65/hour) are close to the current average price of ECE (50th percentile = \$3.66),<sup>4</sup> which is to be expected, since Level 1 is based on current licensing

<sup>3</sup> The hourly costs reported here differ from those in the PowerPoint presentation to the Early Learning Council, because they have been updated to reflect the 7.4% increase in average child care worker salaries in Washington between 2006 and 2007. State reimbursement rates and market prices have also been updated to 2007 levels to allow appropriate comparisons.

<sup>4</sup> The federal CCDF legislation requires states to conduct market rate surveys at least every two years as an information resource when setting reimbursement rates. If providers were ranked from lowest to highest by price charged, the 50th percentile represents the middle price, at which half of providers charge more, half charge less. Washington state appropriately weights

requirements. However, the Level 1 cost is 13% greater than the current average WA state reimbursement rate of \$3.24 per hour. With the moderate compensation increase specified by the ELC, the estimated high quality cost of \$3.84 (averaged across levels 1, 3, and 5) would be about 5% higher than the median price charged to parents, and about 8% below the 75th percentile market price. That is, upper-middle-income families (those paying for the priced centers in the top quarter of the price range) are already paying more than this price for early learning opportunities for their children. If compensation were set at the higher level, approximating elementary teacher pay on an hourly basis, the cost of meeting the high quality standards, averaged across age and quality levels, would be considerably higher than the 75th percentile price. The difference would be \$0.91 per hour, or almost \$1,900 for a full-time, full-year slot. Thus, moving to that pay level would require a shift in early care and education prices to levels more than 20% above what affluent Washington families currently spend.

**Figure 6. Hourly Costs of High-Quality Center-based ECE in Perspective**



Several factors lead to higher hourly costs for achieving higher levels of quality:

- Higher staff qualifications and compensation, combined with lower child-adult ratios;

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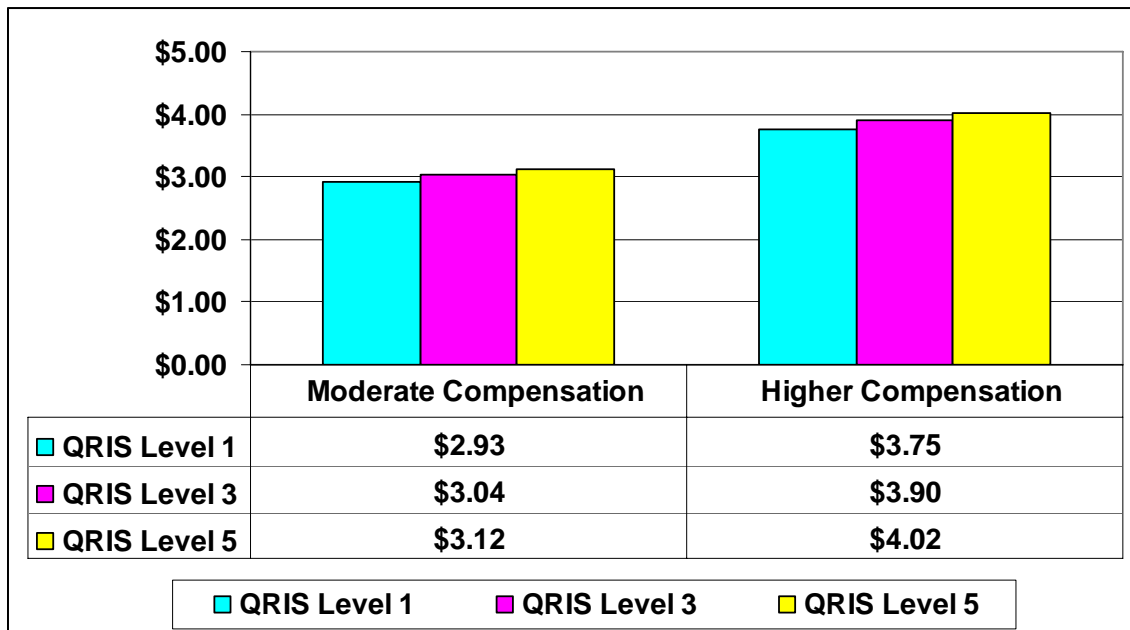
providers by number of slots, so that the 50th percentile represents the price at which parents of half of all children are charged more, and half are charged less. Similarly, the 75th percentile is the price at which parents of 75% of children are charged less and only 25% are charged more. Federal guidelines suggest the 75th percentile as an appropriate reimbursement rate, so that low-income children have access to the same price care as upper-middle-income children. However, many states, like Washington, reimburse at far less than the 75th percentile.

- Inclusion of quality promotion and assurance costs, such as staff professional development, mentoring, and monitoring;
- Provision of reserves to allow financial stability and venture capital to invest in quality improvement.

*Family Child Care (Licensed, Home-based ECE)*

Figure 7 shows the estimated cost to family child care (FCC) providers of meeting the staffing and other standards at different levels of quality. FCC normally serves children in mixed age groups, and the ELC/QRIS-TAC did not specify different standards for different age groups in such settings. Because the suggested QRIS standards emphasize provider development and improved practice rather than educational qualifications, there are much smaller estimated cost differences across quality levels for FCC than for centers.

**Figure 7. Hourly Costs to Providers, by Quality Level:  
Family Child Care (FCC)**



The original HSPC estimates of the policies specified by the ELC were considerably higher, and indicated that FCC costs would substantially exceed center-based costs for quality levels 1 and 2. This would have implied a significant shift in the market positions of FCC and center-based ECE. FCC is currently a lower-priced alternative, selected by some families because they prefer a home-based setting and by others to save on costs. However, under re-examination of our estimation routine, we realized that in our interpretation of the equivalence of FCC to center-based compensation for staff of similar qualifications, we failed to take account of the fact the FCC's operate as a business. They are normally in operation for closer to 50 than 40

hours per week. The hourly fee charged to generate the equivalent annual compensation amount would therefore be approximately 20% less. This adjustment has been made in all the estimates presented in this final report.

Figure 8 compares the estimated costs to FCC providers of meeting quality standards in relation to current market prices and state DEL reimbursement rates.

The estimated average FCC cost of \$3.73 per hour is substantially higher than the median market price, which averages \$3.17 for 50<sup>th</sup> percentile. However, it is only slightly above the \$3.64 price at the 75th percentile. The gap between the cost of quality and current state reimbursement is even greater, between \$3.73 and \$2.96 an hour, a difference of more than 25%.

*Figure 8*

**Hourly Costs of Meeting Quality Standards for Family Child Care in Perspective**

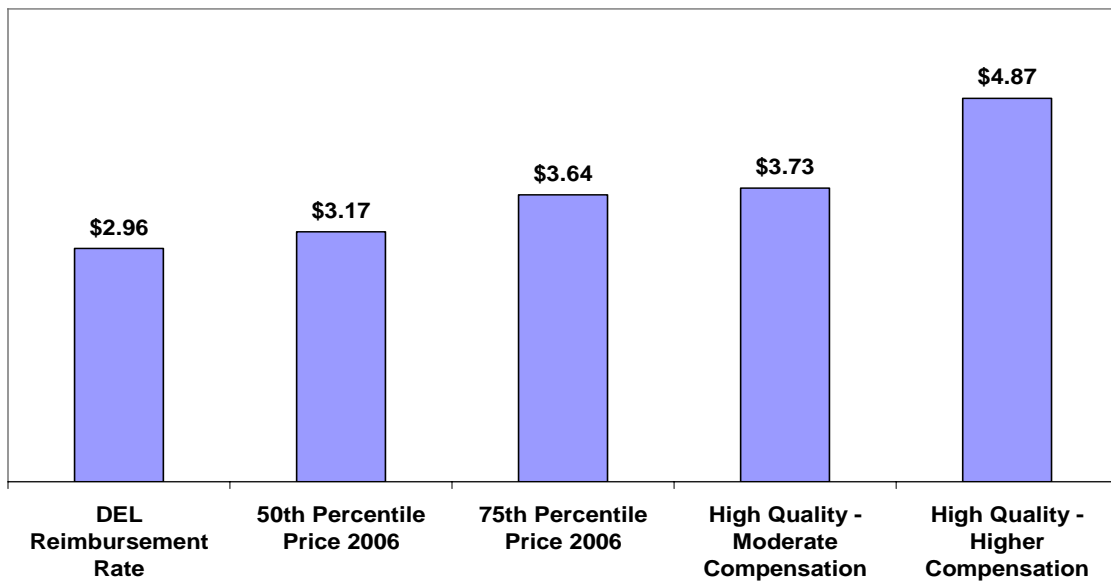
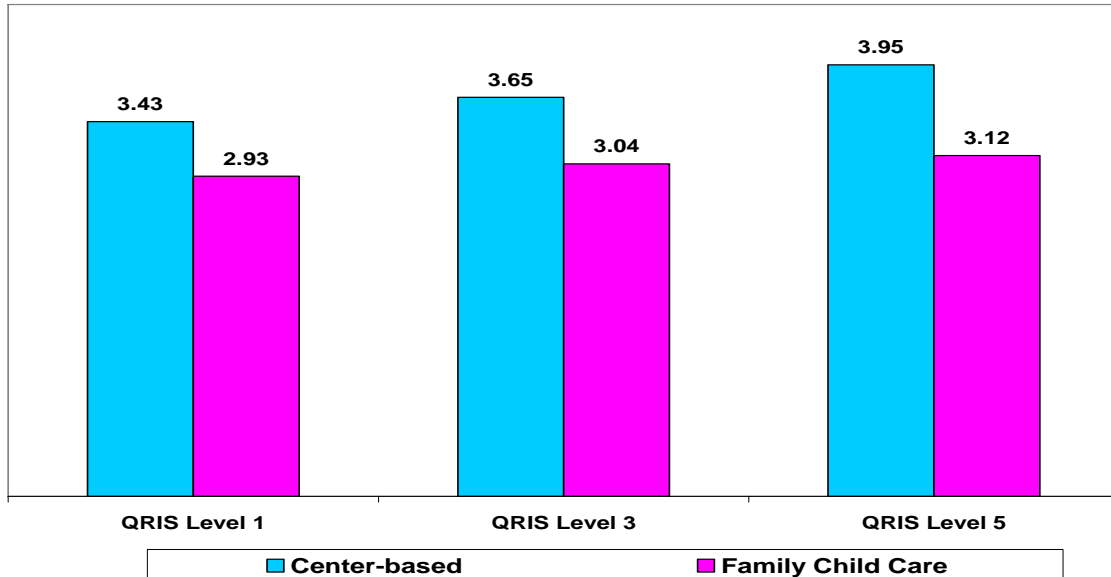


Figure 9 compares the provider costs of center-based to family child care at each quality level. FCC costs would range from about 75% to 80% of center costs; this compares to a ratio of current FCC to center prices of 87%. Family child care would thus remain a somewhat lower cost setting.

**Figure 9. Center vs. FCC Hourly Costs, by Quality Level  
(Weighted Average of Age Groups)**



**b. Percent Change Across Quality Levels**

The costs to center-based providers of meeting Level 3 standards versus Level 1, or Level 5 versus Level 3, range from 6% to 14%. The differential costs of quality are highest for toddlers, where specified reductions in child-adult ratios to qualify for higher quality levels are larger than for other age groups.

*Averaging Cost Estimates Across Age Groups.* It should be noted that while we have calculated cost differentials separately for each age group, this is not how the ECE market operates. In practice, as documented by Witte (2002), centers tend to charge parents somewhat less than cost for infants and somewhat more than actual cost for preschool-age children, to keep infant care from being totally unaffordable. Since there are many more preschool-age children than infants in center-based ECE, the price for preschoolers can be only slightly above cost and still significantly reduce infant prices. It is not recommended that rates be blended across ages for reimbursement purposes, since it could create some perverse incentives. Infants would be reimbursed at far less than actual cost and preschoolers at rates in excess of cost. This would give providers an incentive to serve more of the older children and make a profit, and eliminate or limit infant care (which many centers do now). Rather, a combination of prices and rates that reflect actual costs and scholarships making those prices affordable to parents would allow a smoothly operating market.

For FCC, the increase in costs is 3.8% from Level 1 to Level 3, then another 2.5% from Level 3 to Level 5.

*c. Affordability of High Quality Early Learning, by Family Income*

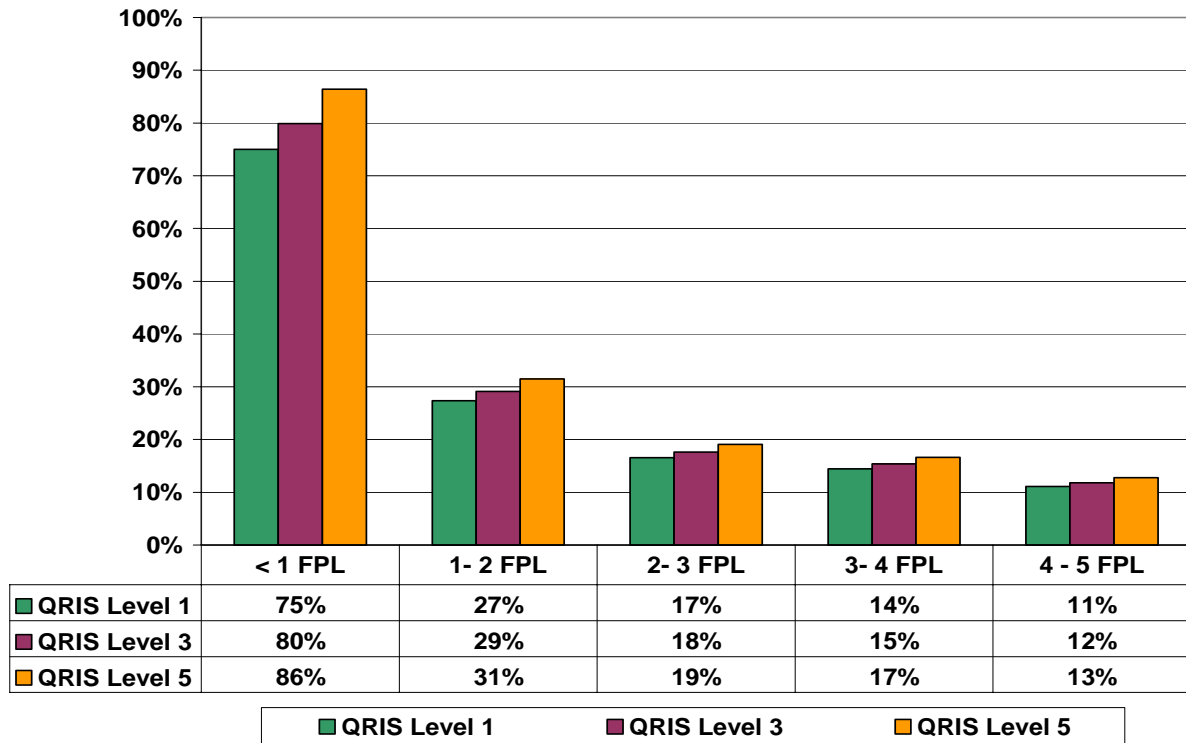
Figure 10 shows the percentage of family income that would be required to pay for one child to attend full-time, full-year early learning of different quality levels in center-based arrangements, if there were no scholarship assistance. For clarity, we have used an average cost weighted by age group. The level of affordability would be somewhat less for parents of infants, somewhat better for parents of preschoolers. It should be noted that one in three children below the age of 5 also has a sibling below age 5; for those families, the cost could require twice the share of family income shown here. For the purposes of this analysis, we use income net of federal taxes, and assume that families take full advantage of the federal child care tax credit. The 2005 median family income for families of four in Washington state was \$72,000 (U.S. Census, 2007), or 3.6 times the federal poverty level. Therefore 3–4 FPL can be considered middle income in Washington state.

We see that without assistance, high quality early learning is clearly not affordable for low-income (below 1 FPL) and moderate-income (1–2 FPL) families. Lower-middle-income families (2–3 FPL)<sup>5</sup> would have to pay almost one-fifth of their take-home pay, or twice the federal guideline of 10% of income, so they clearly need assistance. Families above 3 FPL would pay close to the 14% of income we estimate they currently pay for full-year, full-time ECE, based on current ECE prices at the 75th percentile. Therefore, based on the affordability criteria specified by the ELC, upper-middle-income families would be able afford the costs of higher quality without scholarship assistance.

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<sup>5</sup> The median family income for four-person families in Washington was \$72,103 in 2005 (U.S. Census, 2007).

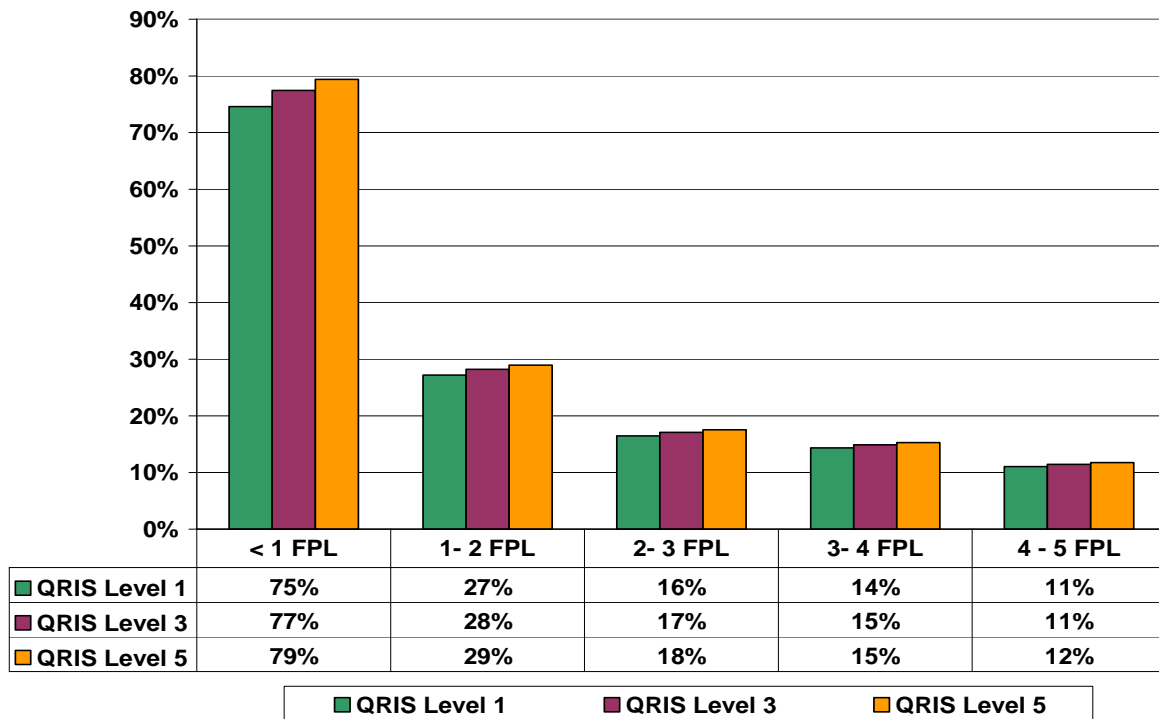
**Figure 10. Cost of High-Quality Early Learning in Center-based Settings, as Percent of Net Income (Full-Time, Full-Year; Net of Federal Tax Credit)**



\*FPL = Federal Poverty Level = \$20,000 for a family of four in 2006.

Figure 11 presents comparable affordability estimates for Family Child Care. Since the estimated Level 1 costs for FCC are very close to those of center-based early learning (\$3.66 vs. \$3.68/hour), the affordability at Level 1 is virtually the same. However, since the QRIS recommendations do not emphasize higher educational qualifications for FCC providers to achieve higher quality levels, the cost differences are not as great for the higher quality levels. Thus, the ability of families to afford higher-quality FCC does not vary as much by family income. FCC would be affordable for upper-middle-income families without assistance; low- and moderate-income families would need substantial scholarships, middle-income families would require smaller scholarships.

**Figure 11. Cost of High-Quality Early Learning in Family Child Care Settings, as Percent of Net Income (Full Time, Full-Year; Net of Federal Tax Credit)**



**d. Fiscal Impact of the ELC Preferred Option**

The ELC realized that major changes cannot occur instantly in a large system that responds to a variety of market pressures. Upgrading the qualifications and skills of tens of thousands of teachers and caregivers, and developing an objective and consistent ranking of thousands of provider organizations, cannot be done in a year or two, even if all requisite funds were available. The ELC preferred option therefore contains some elements that would immediately establish the statewide infrastructure to guide the process and ensure that it can reach maturity, and other elements (QRIS, quality-based reimbursement, scholarships) to be phased in later, in an organizationally feasible manner.

Table 4 presents our estimate of the initial costs of phasing in the policies specified by the ELC. The costs shown are increases over current public investment levels for early care and education in Washington, which we estimate to be about \$394 million. However, these costs could be shared in different ways. State and local communities could pay the bulk of costs, as is done for elementary and secondary education. Alternatively, the state could cover costs without a local governmental contribution, as it does for child care and welfare programs. Finally, there could be private contributions from employers or philanthropies to share either quality

improvement or scholarship costs. Thus, the impact on the state budget would not necessarily be as large as the total cost estimates presented here.

The first column shows what the costs would be if the preferred option were implemented fully statewide. We estimate this to be \$378 million a year, equivalent to 4.6% of current total elementary and secondary education expenditures in Washington state.<sup>6</sup> As noted above, effective systems change requires that the structure be in place to promote the desired changes, develop detailed implementation plans for the QRIS, and develop the capacity in institutions of higher education and community-based training entities to offer the opportunities for professional development of staff. However, it would not be feasible to implement quality rankings immediately statewide, nor for providers to immediately make the changes required to justify higher reimbursement. As noted above, there is great uncertainty regarding the levels of staff qualification and compensation that will be required to raise the overall quality of ECE to desired levels. It is therefore reasonable to conduct pilot efforts to ascertain these levels and adjust payment rates and fiscal projections accordingly.

The ELC therefore specified a phased-in approach, implementing QRIS and quality-based reimbursement in counties that contain 15% of the state's children ages B–5 in year 1 of the next biennium, and an additional 10% in year 2 (reaching counties comprising 25% of all young children).

The second column shows the cost of implementing the infrastructure and covering counties with up to 15% of children ages B–5 in the first year. That would be \$54 million, equivalent to less than 1% of current K–12 spending. The third column shows the cost of adding coverage to reach a total of 25% of young children in the second year. That would cost \$95 million, or 1.2% of current elementary and secondary education spending. The final column shows the costs for the first full biennium, years 1 and 2 combined, which would be \$149 million.

It should be noted that an additional \$20 million in governance and implementation costs would be recovered by providers in fees from families who are not eligible for scholarships. This could be accomplished through charging licensing fees to providers, or other mechanisms not related to subsidizing low- and moderate-income children.

In our original analysis for the ELC, we were asked to estimate the cost of raising reimbursement rates to the 50th percentile of market prices for all providers not in counties where the new approach was being phased in. We show those numbers in Table 4, but do not include them in the total cost estimates, since the actions of the legislature implementing the agreement with the child care union entailed a significant increase in reimbursement rates (7% in 2007, another 3% in 2008), substantially reducing the rationale for this policy.

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<sup>6</sup> Note that these figures have been updated since our report to the Early Learning Council to reflect (a) inflation and increases in child care worker wages from 2006 to 2007, and (b) increases in current spending levels in the 2007 legislative session, which decreased the estimated increases in cost.

**Table 4. Increased Public/Private Costs for ELC Preferred Option**  
(\$ Millions, 2007)

<b>Cost Category</b>	<b>Statewide Annual Cost: Full Implementation (Millions 2007\$)</b>	<b>Inflation-Adjusted Phase-In Cost 2007–08 (15%), (Millions \$)</b>	<b>Inflation-Adjusted Phase-In Cost 2008–09 (25%), (Millions \$)</b>	<b>Initial Biennium Costs</b>
Early Learning Including FFN Support, Governance and Implementation, Administration of Benefits	292	44	73	<b>117</b>
Parent Support and Education w/ Statewide Infrastructure	40	6	10	<b>16</b>
ECEAP/CC Partnerships	46	7	12	<b>19</b>
Raise child care subsidy reimbursement rates to 50th percentile for remainder of state—not counted in total	N/A	(13)	(11)	<b>(25)</b>
<b>TOTAL</b>	<b>378</b>	<b>54</b>	<b>95</b>	<b>149</b>

*e. Costs of the Preferred Option by Function*

The ELC approach and our modeling are designed to show the total cost of addressing all the interlocking components necessary to provide access to high quality early learning. However, it is instructive to see how these costs break down into some of the major functional components, which is shown in Table 5. This distribution takes into account the entire package of costs, so to convert the percentages to dollar amounts, they would be applied to the totals in the final row of Table 4.

The bulk of funding (64%) would be used to support improved provider operations to improve quality; a critical 2% would support professional development to improve the quality of teaching. One-eighth of the funds (12%) would be used for parent and family, friend, and neighbor support programs, plus ECEAP partnerships to serve children who would potentially lose access to early learning due to their parents' employment and training status.

**Table 5. Share of Costs by Function**

<b>Function</b>		<b>Share of Costs</b>
<b>Provider Operations</b>		<b>64%</b>
	Compensation	42
	Non-Personnel, Business Exp.	16
	Reserves, Investment Capital	5
<b>Professional Development</b>		<b>2%</b>
	Release time, tuition, supplemental expenses, institutional support	
<b>Supports/Programs</b>		<b>12%</b>
	Parent support and education	5
	Family, Friend, or Neighbor support	1
	ECEAP Partnerships	6
<b>State-Level Operations</b>		<b>19%</b>
	Governance and Implementation, Regulations, Administration of Benefits	

**f. Number of Children and Families to Be Served**

We have estimated the number of children to be served by various components of the preferred policy package specified by the ELC, and describe the estimates below.

*Scholarships for High Quality Early Learning*

- Approximately 67,000 children would receive full or partial scholarships for center-based care, family child care, or family, friend, and neighbor care in a given month. This number is a 65% increase in the number of children currently receiving child care assistance in a given month, and a 56% increase over the current number of children receiving assistance through state programs, including both vouchers and ECEAP.
- The two-year phase-in would represent a significant increase in the number of Washington children currently assisted with access to early learning—an increase of about 10,000 children, or 18% over current levels.

*Parent Education and Support*

- A variety of home-visiting programs would serve approximately 7,000 families, which is 15% of families with children under 5 and incomes below 1.85 FPL (the eligibility standard for the free and reduced-price school lunch program).
- Parenting classes would serve approximately 33,000 families, which is 25% of families with children under 5.

- The CHILD Profile immunization registry would be expanded to serve all families with children ages birth to 6.

*Family, Friend, and Neighbor (FFN) Quality Support*

- Play and Learn groups to serve 9,800 children.
- Distribution of Ready, Set, Go Bags to reach 44,250 caregivers, which is 15% of the estimated number of family, friend, and neighbor caregivers.
- Distribution of *Taking Care of Children* booklets to reach 133,000 or 45% of FFN caregivers.
- Facilitated workshops in community-based organizations to reach 15,000 or 5% of all FFN caregivers.

**g. Costs as a Percentage of Public Education Costs in Washington**

If viewed as changes to the current public child care subsidy system, the estimated costs would be a substantial increase above current expenditures. However, when considered as the first step in successful elementary and secondary education, they would represent a small increase in K–12 spending, which is about \$8.2 billion (OFM, 2008). As a percentage of K–12 spending, the initial annual costs of \$59 million and \$99 million would be less than 1% (0.7%) and about 1.2%. These are high-end estimates, since they compare 2007–09 early learning costs to 2006–07 elementary and secondary education costs.

Since 1994–95, K–12 general fund expenditures have increased about 4.3% a year. Enrollment increases in this period averaged only 0.5%, so there has been an average increase of 3.6% a year in programmatic expenditures (author’s calculations from data in OSPI, 2006). A 3.6% increase over the current \$8.2 billion spending level would be more than \$290 million, sufficient to cover almost three fourths of the projected \$394 million full-scale cost of implementation.

It should also be noted that the population of children ages B–5 in Washington is 46% as large as the school-age population (ages 6–18), but current *total* public early learning expenditures are less than 4% as large as those for elementary and secondary education. Current *state* spending for early learning is only about 1.5% as large as *state* spending for public schools. The disparity is greater for the state spending component, because state funding constitutes the bulk of elementary and secondary spending, with federal spending contributing a small 9% share, whereas federal spending provides two-thirds of current revenues for early learning.

**h. Share of Scholarships by Income Group**

Figure 12 shows the distribution of scholarship benefits by family income group, compared to the percentage of Washington families who are in each income group.

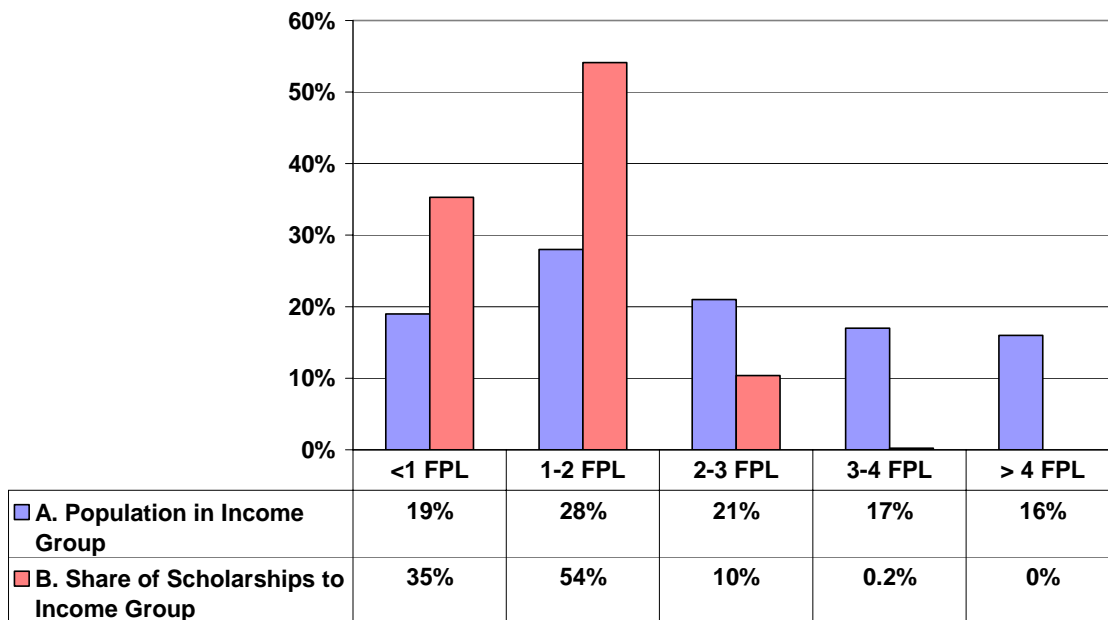
Most—86%—of the scholarship funds would go to children in the two lowest income groups, who are currently eligible for some level of child care assistance under current programs. Within this 86%, the majority of scholarships would go to children whose families are in the 100–200% FPL category. This moderate-income group is often

referred to as “working poor” or “near poor,” because they have significant income but not enough to support a family without help. For reference, federal free and reduced-price lunch eligibility goes to 185% of FPL; medical assistance for children and the federal Earned Income Tax Credit provide benefits for families up to 200% FPL.

There are several reasons that this moderate-income group would receive a greater share of total early learning scholarship funds than the lowest income group:

- They represent a larger share of the population;
- Because a higher percentage are employed, and are employed for greater hours per week, they have a greater need for non-parental early learning opportunities;
- Their children are more likely to be in formal settings, which cost more.

**Figure 12. Share of Scholarship Funds vs. Share of Population, by Family Income**



## Conclusion

As noted at the outset, young children in Washington state are not meeting their full potential to make the first step on the ladder of learning that leads to success in school and life. There is a multi-faceted situation leading to this inadequacy. There is an *inadequate supply* of high quality services, with an insufficient number of qualified staff; there is *inadequate parental demand*, due to lack of knowledge of quality of different providers and inability to afford the price of high quality services; and there is *no accountability system* to track the quality of providers and the developmental outcomes of children. Children from low-income families and disadvantaged cultural groups experience these lacks disproportionately, laying the foundation for disparities in educational achievement.

This study was designed to assist the Early Learning Council (ELC) and Washington Learns to explore a variety of research-based policy solutions to these market failures. Our analysis considered the costs to providers, to parents of different income groups, and to public and private entities of ensuring access to high-quality early learning in a variety of settings: center-based, licensed family child care homes (FCC), and family, friend, or neighbor care (FFN). In many cases, balancing these different costs and objectives required creative solutions and compromises between the desirable and the feasible. Staff and participants kept in mind that achieving large changes in the structure and quality of an early learning system that involves tens of thousands of children, parents, and staff will require a sustained effort and cannot be achieved in a year or two.

This report represents the work of many individuals conducted over 12 months in a public process. Participants drew upon the advice and perspectives of many academic experts and practitioners to develop the policies specified. We believe that as a result, the policy specifications developed by the Early Learning Council:

- incorporate a broad understanding of how the current market is failing to meet the needs of children and families;
- reflect a comprehensive, systematic approach to meeting those needs;
- represent a fiscally feasible approach that would provide the first critical steps toward creating a structure of organizations, financing, and accountability that can promote successful student outcomes.

We note that the ELC worked to keep costs to a minimum level while achieving access to high quality early learning opportunities. In the other states we have worked with, estimated cost increases have ranged from about 10% to 50% of current elementary and secondary education costs. Thus, the estimated 4.6% of elementary-secondary cost for the ELC preferred option is quite modest. As noted above, this is a total cost, which could be shared among state, local district, and private funders. It should also be noted that current state early learning expenditures by Washington are about 1.5% of those for elementary and secondary education, while the population ages birth through 5 is 46% as large as the population ages 6 to 18.

Achieving success for our children will require making initial investments and creating the structures, such as Thrive by Five, a QRIS implementation team, and an ongoing Advisory Board that will promote the ongoing development of an effective early learning enterprise while holding services and the community accountable for success.

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## **Appendices**

- A. Policy Matrix
- B. Fact Sheet
- C. Governance and Implementation

***Comparison between the Current Approach to Child Care and Early Education and the Financing Approach included in the Access to High Quality Early Learning Study (Washington State)***

	<b>Current Approach/System</b>	<b>Access to High Quality Early Learning: Financing Approach</b>	
<b>Services and System</b>	<p>Current public investments in child care and early education generally focus on:</p> <ul style="list-style-type: none"> <li>• Setting and regulating minimum licensing standards for child care centers and homes.</li> <li>• Providing child care subsidies for low-income working families.</li> <li>• Offering higher quality comprehensive early learning opportunities for very low income preschool children (Head Start and ECEAP).</li> <li>• Providing limited investments to improve child care quality through quality set-asides.</li> </ul>	<p>Cost, quality, and financial access policies are interrelated and comprise a comprehensive system of early learning.</p> <p>The early learning package contains:</p> <ul style="list-style-type: none"> <li>• Elements of QRIS including definitions of quality for centers and family child care</li> <li>• Policies to help families afford high quality care</li> <li>• Governance, implementation, and accountability</li> <li>• Family, friend, and neighbor supports</li> <li>• Parent education and support</li> <li>• Administration of benefits</li> </ul>	
<b>Spending</b>	<ul style="list-style-type: none"> <li>• Annual child care spending for children birth to six includes approximately \$46 million in state and \$144 in federal CCDF and TANF funds—plus \$30 million state and \$5 million federal for ECEAP.</li> <li>• Approximately \$133 million in federal funds is spent in Washington State on Head Start, Early Head Start, and Migrant and Indian Head Start Services.</li> </ul>	<b>Components of Early Learning Package</b>	<b>Annual Increase in State/Local/Private Costs (millions, 2007\$)</b>
		High quality early learning with QRIS with estimated attainment at each level and access for families	302
		Supports for family, friend, and neighbor caregivers	6
		Parental support and education	40
		Child care and ECEAP partnerships and expansion	46
		<b>Total</b>	<b>394</b>
<b>Family Affordability</b>	<ul style="list-style-type: none"> <li>• Parents are the primary purchasers of services. They choose from among family, friend and neighbor care, regulated child care centers</li> </ul>	<ul style="list-style-type: none"> <li>• Assistance is in the form of scholarships for families that vary by income based on what families can afford to pay.</li> <li>• As child care quality and cost increase, eligibility extends to more families</li> </ul>	

	<p>and homes, and preschools (including Head Start, ECEAP, private preschools, etc.).</p> <ul style="list-style-type: none"> <li>• Head Start and ECEAP services are provided free of charge to very low income families (to 100% Federal Poverty Level (FPL) for Head Start and 110% FPL for ECEAP).</li> <li>• Government child care subsidies are available for at-risk and low-income working families or, on a limited basis, families pursuing approved education and training. Income eligibility is to 200% of the FPL (\$32,184/year for a family of three).</li> </ul>	<p>whose parents are working or in-school or training. Some level of scholarship will be provided to families just over three times FPL (approximately \$62,000/year for a family of four) or almost 70% of all families with children birth to six.</p> <ul style="list-style-type: none"> <li>• The number of children served would be a 65% increase over the number of children currently served.</li> <li>• For low-income children whose access to stable high quality early learning is jeopardized by their parents' variable work/training patterns and periods of unemployment, provision is made to provide transitional scholarships. ECEAP and child care partnerships are also established (see below).</li> </ul>
<b>Child Care Rate Setting</b>	<ul style="list-style-type: none"> <li>• Head Start and ECEAP programs have cost-based contracts to serve a particular number of children.</li> <li>• Child care providers establish parent fees based on what the market will bear, though many parents are still priced out of the market.</li> <li>• Federal regulations require states to offer eligible families vouchers that provide access to the same types of care as other families.</li> <li>• States must demonstrate that its payment rates are adequate based on a biennial survey of child care providers (or other facts that demonstrate access).</li> <li>• Washington child care subsidy reimbursement rates are set just below the 50<sup>th</sup> percentile of the market, enough to pay what 42% of child care in the state costs (the 42<sup>nd</sup> percentile) based on its 2004 survey of providers.</li> </ul>	<p>Rates are based on actual costs to providers for achieving different levels of QRIS quality including:</p> <ul style="list-style-type: none"> <li>• Professional development</li> <li>• Educational requirements of staff</li> <li>• Compensation</li> <li>• Child-adult ratios</li> <li>• Quality Assurance and Promotion</li> </ul>
<b>Staffing, Worker Qualifications and Compensation</b>	<ul style="list-style-type: none"> <li>• Child care staff-child ratios are established by licensing and vary by age of child, e.g., centers must have at least one teacher for every four infants, seven toddlers or ten preschool-age children.</li> <li>• Center teachers earn an</li> </ul>	<ul style="list-style-type: none"> <li>• Decreasing center staff-child ratios for toddlers (from 1:7 to 1:5) and preschoolers (1:10 to 1:9) between QRIS Level 1 and Level 5 (tied to NAEYC accreditation requirements).</li> <li>• Staff Mix: The percentage of center staff with more advanced degrees increases between QRIS Level 1 and</li> </ul>

	<p>average of \$10.16 an hour or approximately \$21,000 a year.</p> <ul style="list-style-type: none"> <li>Licensed family child care providers average \$29,722 in gross receipts prior to deducting business costs. They work an average of 58 hours a week.</li> </ul>	<p>Level 5.</p> <ul style="list-style-type: none"> <li>Compensation: Annual salary schedule for BA-level early education teachers is pegged to the annual salary of elementary school teachers: ~\$14.65. Salaries vary around this by education, experience, and position title. This salary schedule represents a small increase over current salary levels.</li> </ul>
<b>Professional Development</b>	<p>Licensed centers and homes must meet basic training requirements. Limited supports are available through state-sponsored scholarships and training (typically through resource and referral agencies, STARS and community colleges/voc techs).</p> <ul style="list-style-type: none"> <li>Center directors, program supervisors, lead teachers and family child care providers must complete one of the following within the first six months of licensure or employment: 1) 20 clock hours or two college quarter credits of basic training; 2) a current child development associate certificate/equivalent, or 12 or more college credits in early childhood education/development; or 3) an associate degree or higher in early childhood education or child development.</li> <li>Annually, directors, program supervisors, lead teachers and family child care providers must complete 10 clock hours or one college credit of continuing education.</li> </ul>	<p>The following are included in the financing approach:</p> <ul style="list-style-type: none"> <li>Direct tuition and institutional subsidies for one course per year at four-year institutions, two-year institutions, or community-based training/workshops.</li> <li>Paid release time for staff: 50 hours per year.</li> <li>Supplemental Expenses (child care, books, transportation).</li> <li>ECE staff pay a small portion of direct tuition costs depending on education level.</li> <li>Increased educational levels and compensation.</li> </ul>
<b>Supports to Safety and Quality</b>	<ul style="list-style-type: none"> <li>Head Start and ECEAP programs are required to meet performance standards.</li> <li>State regulation: centers and family child care homes must meet minimum licensing standards; FFN caregivers serving state-subsidized children must undergo background checks; part-day preschools are exempt from regulation.</li> </ul>	<ul style="list-style-type: none"> <li>Quality supports are built-into the financing approach through rates paid to providers (see Provider Payments above) and through Governance and Implementation costs.</li> </ul>

	<ul style="list-style-type: none"> <li>States are required to spend a portion (at least 4%) of their federal child care dollars to promote access and quality—resource and referral, STARS, scholarships, career and wage ladder, health consultation, etc.</li> </ul>	
<b>Governance and Implementation</b>	<p>Unlike K–12 which has long-standing mechanisms for governance, infrastructure and funding, early learning has historically lacked stable governance and funding making it vulnerable to political shifts and budget shortfalls.</p>	<p>Costs for Governance and Implementation include the following statewide functions and cost:</p> <ul style="list-style-type: none"> <li>Governance: \$600,000 annually (includes state-level advisory committee and DEL implementation of QRIS).</li> <li>QRIS Support: \$20.9 million annually (includes grants, accreditation fees, external assessment, mentoring and technical assistance).</li> <li>Child Care Resource &amp; Referral: \$8.1 million annually (core functions).</li> <li>MIS: \$7 million (one-time development costs over a two-year period).</li> <li>Evaluation: \$4 million (includes evaluating QRIS program operation and child outcomes over two years).</li> </ul> <p>(See Appendix B for details on Governance and Implementation)</p>
<b>Family, Friend, &amp; Neighbor (FFN) Support</b>	<p>Privately-funded King County model of supports include facilitated play and learn groups, Ready, Set, Go Bags, Taking Care of Children booklets, etc.</p>	<p>Provides a menu of options for supporting FFN caregivers based on the established King County model and extended statewide. The supports include:</p> <ul style="list-style-type: none"> <li>Facilitated Play and Learn groups (to reach approximately 11,600 children).</li> <li>Ready, Set, Go bags (to reach 15% of caregivers).</li> <li>Taking Care of Children booklets (to reach 45% of caregivers).</li> <li>System integration with other social service agencies.</li> <li>Infrastructure for coordination, technical assistance, public awareness.</li> </ul> <p>Estimated statewide cost: \$4.6 million. The ELC recommended some of these funds go toward evaluation.</p> <p>See Appendix C for details on additional supports.</p>
<b>ECEAP and Child Care Partnerships</b>	<p>While Head Start programs serve some infants and toddlers, ECEAP services are limited to children three through five.</p>	<p>Provide funding for high quality child care-ECEAP partnerships for children birth to age six regardless of parent’s employment status. The cost allotment is based on estimates for serving just over half the children B–6 in half-day programs not</p>

		<p>otherwise eligible for child care subsidies.</p> <p>Estimated statewide cost: \$43 million (assumes serving half of children birth to six up to two times the federal poverty line not otherwise eligible for child care subsidies)</p>
<b>Parent Support and Education</b>	<p>Performance standards require Head Start and ECEAP programs to provide family support, however no such requirements exist for child care programs. In addition, linkages need to be strengthened among child care, early education and parent support programs.</p>	<p>As early learning providers move from QRIS level 1 to level 5, they will be required to provide increased levels of parent information and support.</p> <p>Provide enhanced parent education and support activities including:</p> <ul style="list-style-type: none"> <li>• Infrastructure (needs assessment and advisory board—\$500,000)</li> <li>• Enhanced resource and referral line, expansion of Child Profile, MIS (\$902,813)</li> <li>• Home-visiting models (to reach 15% of low-income families, or approximately 7,000 families with children birth to six—\$28 million)</li> <li>• Parent education workshops (to reach 20% of low-income families, or approximately 9,400 families with children birth to six—\$7.7 million)</li> </ul> <p>Costs for a public education campaign are not currently included and will need to be estimated for inclusion, if specified.</p> <p>Estimated statewide cost: \$37 million</p>

**Questions and Answers:**

**How are the costs for high quality early learning calculated?** Costs for basic early learning are calculated on a per child basis based on patterns of child care use in each type of care from household survey adjusted for increased demand. Thus, costs for QRIS are not calculated or presented on a provider or facility basis. The number of providers and facilities is dependent on the specified ratios for QRIS, thus current data, to the extent it is available, on the number of providers is not relevant for the calculations.

**What do the “scale-up” costs assume?** The ELC Access Study Steering Committee requested an estimate of the costs associated with a phase-in or scale-up approach for implementing the comprehensive package of early learning for children birth to six (B–6). They suggested the following for next biennium (2007–09):

- First year of the next biennium (2007–2008), implement comprehensive early learning package to 15% of families with children B–6.
- Second year of the next biennium (2008–2009), expand services to an additional 10% of families with children B–6, for a total of 25% of children B–6.
- Scale-up communities would have same scope of services, outreach, and eligibility as statewide recommendations, just on a smaller scale.
- Some Governance and Implementation functions would be implemented statewide during the scale-up period to build the necessary infrastructure for statewide expansion, including governance, CCR&R, MIS, and some of the parent support functions such as the needs assessments, infrastructure, and

expanded resources. Costs for the next biennium (inflation adjusted) in terms of increased state/local/private cost: 2007-08: \$91 million; 2008-09: \$134 million; total for the two year period (2007-2009) \$225 million.

- It would cost an estimated additional \$24 million for raising market rates to current 50<sup>th</sup> percentile for remainder of state and assuring appropriate access during the scale-up period of the next biennium.

## Example of Income-Related Scholarship

- QRIS Level 3 - Moderate Compensation; for higher compensation, scholarship would
- increase, family payment would not increase.
- Toddler at a Center
- Hourly cost = \$4.04; Monthly Cost (40 hrs/wk) = \$695

<i>Family Income</i>	<i>Family Payment (Monthly, Per Child)</i>	<i>Scholarship</i>
Low < 1 FPL (\$0-20K) <i>(1% Net Inc.)</i>	\$8	\$687
Moderate = 1-2 FPL (\$20-40K) <i>(3% Net Inc.)</i>	\$63	\$632
Middle = 2-3 FPL (\$40-60K) <i>(8% Net Inc.)</i>	\$272	\$423
Upper-Middle = 3-3.2 FPL (\$60-62K) <i>(14% Net Inc.)</i>	\$535	\$160

## Total Statewide Costs by Broad Category

ECE Scholarships for High Quality ECE Package w/ QRIS <sup>1</sup>	467,802,069
Administration of Benefits	99,162,828
FFN Supports	4,925,448
Parent Supports	39,967,955
ECEAP CC Partnerships	46,182,000
<b>TOTAL</b>	<b>658,040,298</b>
Increase in Current State Spending (Total Costs Less Federal and Current State Contributions)	<b>457,776,049</b>
Increase in Current State Spending (Total Costs Less Federal and Current State Contributions and Private Parent Contribution to Governance and Implementation)	<b>437,893,303</b>

## Current Spending (2007 Update)

State	51,281,191
ECEAP	50,000,000
Federal	201,000,000
<b>Total</b>	<b>302,281,191</b>

Additional G&I Costs to be Collected from Private Pay **19,882,746**

## Detailed Breakdown of Total Costs by Category, Type of Care, and Mode of Operation

	Center	FCC	FFN	Total
<b>Provider Operations</b>				
Compensation (Salaries + Benefits)	147,383,882	82,967,002	41,114,292	<b>271,465,176</b>
Non-Personnel/Business	74,260,861	32,366,110		<b>106,626,970</b>
Reserves	20,287,968	10,112,639		<b>30,399,707</b>
[Release Time—not added] <sup>2</sup>	[3,325,464]	[2,317,263]		
<b>Total</b>	<b>241,931,811</b>	<b>125,445,750</b>	<b>41,114,292</b>	<b>408,491,853</b>
<b>State-Level Operations</b>				
Governance and Implementation		39,144,488		
Regulation		3,725,741		
Administration of Benefits		99,162,828		
<b>Total</b>				<b>142,033,057</b>
<b>Professional Development</b>				
Release Time	3,571,548	2,488,955		
Tuition	1,472,404	1,058,823		
Supplemental Expenses	725,891	589,724		
Institutional Subsidies	1,728,115	1,239,762		
<b>Total</b>	<b>7,497,958</b>	<b>5,377,265</b>		<b>12,875,223</b>

### Additional Supports/Programs

FFN Support	4,716,780	
Parent Support	38,274,713	
ECEAP/CC Partnerships	44,225,500	
		<b>87,216,993</b>
<b>Total</b>		
<b>Grand Total</b>		<b>650,617,125</b>
<b>Grand Total with Current ECEAP Spending</b>		<b>700,617,125</b>
<b>Grand State Total with ECEAP Less Federal Spending</b>		<b>499,617,125</b>
<b>Increased State Cost (Less Federal and Current State Spending)</b>		<b>398,335,933</b>
<b>Increased State Cost (Less Federal, Current State Spending, and Private Pay Contributions to G&amp;I)</b>		<b>378,453,187</b>

<sup>1</sup> Contains additional governance and implementation costs to be collected from non-scholarship children

<sup>2</sup> Release time could be included under Provider Operations but is currently included in the 'Professional Development' category.