About the BUILD Initiative

BUILD is a national initiative that supports state leaders across the early childhood spectrum—adults dedicated to family support and engagement, early learning, health, mental health, nutrition, and more. BUILD brings these leaders together to promote opportunities for all children from birth through age five to start school healthy and prepared for success. Since 2002, when the Early Childhood Funders Collaborative designed and launched the initiative, BUILD has partnered with state-based organizations, early childhood innovators, business leaders, government offices and others to build early childhood systems by developing infrastructure, connecting programs and services for young children that functioned in isolation, at cross-purposes, or without the sufficient resources to meet critical needs, and by advancing quality and equity.

BUILD:

• Provides tailored and timely technical assistance to leaders in partner states.

• Facilitates learning communities that share the latest research and promising practices.

• Serves as a knowledge broker by shining a light on promising early childhood systems efforts and highlighting new ideas and successful innovations.

• Supports new and emerging leaders and works to ensure diversity and equity in all aspects of early childhood systems building.

• Informs and influences state and national conversations and policy decisions by highlighting emerging issues, innovative approaches, best practices, and results from the field.

To learn more, visit The BUILD Initiative.

QRIS 3.0 Tools and Resources

Quality Rating and Improvement Systems are evolving rapidly. QRIS leaders are evaluating their systems to identify opportunities for improvement, trying new strategies and, in some cases, creating new models. To contribute to the evolution of QRIS, BUILD is creating resources to address the continuing challenges of financing, QRIS design and implementation, and the need to gain adequate public investment to support QRIS sufficiently to meet its full potential. This publication is part of the series, QRIS 3.0 Tools and Resources, available at http://buildinitiative.org/Resources/QRIS30ToolsandResources.aspx.

Child care leaders first designed QRIS in the 1990s, and there are now systems in nearly every state and many U.S. territories. QRIS emerged as a strategy largely in response to the enormous gulf between the minimum level of quality required by states to open and operate a child care program and the recognized level of quality that optimally supports child development and learning.

States implement QRIS for varying purposes (outlined in BUILD’s 2015 study, Quality Rating and Improvement Systems: Stakeholder Theories of Change and Models of Practice Study Report, Expert Panel Reflections and Recommendations). QRIS may apply to child care, Head Start, and state pre-K programs, or to only some of these programs. The QRIS may be voluntary or mandatory. Those that are mandatory can be embedded in child care licensing or connected to publicly funded programs such as child care assistance or state pre-K. QRIS can be the framework for quality improvement and quality assurance for early care and learning services for children birth to five, or QRIS can unify a state’s early care and learning, K-12, and higher education to form a comprehensive P-20 education system for children from birth through college. Similarly, QRIS can be part of a broader strategy for a comprehensive and equitable early childhood system in which all the state’s children have access to care and learning accompanied by health/mental health, social support, and family engagement, as needed. QRIS is an early learning strategy that shares responsibility for equitable child outcomes with other early learning strategies as well as with other systems such as health and education, and with communities and families.

Through the series, QRIS 3.0 Tools and Resources, BUILD explores several timely, critical issues related to QRIS.

We are grateful to the Alliance for Early Success for its support of this series and its ongoing commitment to support so many early childhood organizations.
I. Why QRIS Finance Matters

QRIS finance matters because QRIS is a potentially powerful intervention in the early childhood education market intended to improve suppliers’ ability to offer quality services and consumers’ ability to afford those services. One underlying theory of early rating systems was that early childhood education is fundamentally a flawed market: consumers lack objective information to differentiate quality of services and are highly price sensitive. Suppliers strive to provide affordable quality while keeping prices low to compete for customers. The theory suggested that given objective information about quality, consumers (families) would be able to make informed choices for their own children, the public would understand and appreciate quality, demand for quality would rise, and suppliers of ECE would produce higher-quality programs. None of this has occurred. The theory presumes that quality programs are available in every neighborhood, during the hours when parents are working at a price that families can afford. This is far from the case. And, the financial investment in QRIS, particularly in the direct services themselves, remains insufficient to shift the entire market. Including state-funded preschool and federally funded Head Start in QRIS would boost the effect of QRIS.

Figure 1. Shares of Funding in U.S. ECE Market (in billions, FY2015)

Figure 1 illustrates that families are major payers for their own children’s early care and education. Most do not have sufficient financial resources to effectively demand quality (i.e. they might recognize it and want it, but they cannot afford it). Compounding that problem, the public payers (primarily state systems of child care subsidy for low-income families, state-funded preschool programs and federal Head Start programs for very low-income families) do not constitute a strong enough force in the market to fully effect change for three major reasons:

1) Coverage: Subsidy funding is intended for only a portion of all families (roughly 8.5 million families are eligible and fewer than 1 million families are served) and with current funding of about $5 billion is reaching only 17% of the eligible families;

2) Payment levels: Subsidy payment rate upper limits (i.e. ceilings) are typically set based on the low-to middle-range of prices charged to private paying families, thus tying public funding to the inadequate purchasing power of the majority of families and severely limiting the ability of public funding to influence quality; and

3) Programs supported by other public-funding sources (state preschool, EC special education and Head Start) have not generally been included in QRIS and thus cannot influence the market.

Many QRIS, especially those designed or re-designed since 2010 with the advent of the federal Race to the Top-Early Learning Challenge (ELC), have taken a child-development- and outcomes-focus and included early care and education programs that receive support from a range of public and private funding streams, including those focused on target populations such as Head Start and Early Head Start, Part B and Part C special education and early intervention programs as well as state pre-kindergarten

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1 Private Sector in this chart means, e.g., philanthropy, United Way, employers paying for child care for their own employees. Government means federal, state and local funding for EC&E. Federal data courtesy of NIEER. For details and sources, see data table and explanations in Appendix A.

2 There are about 8.5 million working families with incomes below 200% of the federal poverty line (FPL). http://datacenter.kidscount.org/data/tables/5052-low-income-working-families-with-children?loc=1&loct=1#detailed/1/any/false/869,36,868,867,133/any/11459,11460

3 http://www.acf.hhs.gov/sites/default/files/occ/data_fact_sheet_preliminary_fy_2013.pdf About 850,000 children 0-5 are served by CCDF.

4 https://www.acf.hhs.gov/sites/default/files/opre/subsidy_literature_review.pdf See page 18. Range among states is 7%-34%, average is 17%. 
dollars. This approach recognizes the breadth of early care and education supply and potentially increases funding sources, but has not changed the basic financial calculus: the scale of funding, and the reliance on families as primary payers, is insufficient to fully impact the market. These funding sources combined serve less than 20% of all children in the United States under kindergarten age.5

- Head Start/Early Head Start is intended primarily for children and families with incomes below the federal poverty level; current funding is over $8 billion6 and reaches 927,000 children under age 5, mostly 3- and 4-year-olds.
- State funding for pre-kindergarten has increased gradually to $5.5 billion7 and currently reaches about 30% of all 4-year-olds (about 1.2 million children).8
- Approximately 736,000 children ages 3-5 receive special education services. Some of these children are likely also counted in the Head Start and pre-kindergarten enrollment.9

Although states’ QRIS goals differ, robust financial support is necessary to achieve improvements in quality throughout the entire publicly and privately funded early care and education market. To date, inadequate attention to financing QRIS, and the providers engaged in it, has hampered its effectiveness as a strategy for reforming the early care and education system. This paper addresses what needs to be financed to support QRIS, reviews current finance strategies, and suggests additional options to explore as QRIS leaders focus on financing as a critical facet of QRIS’ potential.

II. What Needs to Be Financed?

QRIS has three main parts that require financing: the rating process itself, the quality improvement supports provided to participating programs, and the early care and education services provided by programs participating in the QRIS. There are costs associated with each part. In general, the overall cost of implementing a QRIS is directly related to the participation rates of programs in the QRIS and the level of quality they achieve. In a well-funded QRIS, rating and improvement support costs are modest with the majority of the resources go toward supporting and sustaining quality services. Many QRIS have been limited in their impact precisely because not enough attention has been given to the necessary investment in the ongoing cost of higher-quality services.

Rating Process Elements, Costs and Current Financing

**Rating Process Elements and Costs**

The rating process consists of several elements that are necessary for the production and communication of the ratings that constitute the core of a QRIS:

1) Assessment and rating of early care and education programs based on QRIS standards;
2) Management and administration of the overall QRIS;
3) Evaluation and continuous improvement of the QRIS; and
4) Communication, outreach, and constituent engagement.

**Assessment and Rating:** Establishing a QRIS requires developing standards (itself a complex endeavor, as it is necessary to consider the state context of child care regulation (the floor) as well as state and federal/national standards for pre-K, Head Start/Early Head Start, and accreditation along with the body of current research on criteria that affect the quality of a program (i.e. children’s daily experience in it) and/or the child outcomes the program produces.) These QRIS

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5 There are about 20 million children under age 5. [http://datacenter.kidscount.org/data/tables/101-child-population-by-age-group?loc=1&locs=1#detailed/1/any/false/573,869,36,868,867/62,63,64,6,4693/419,420](http://datacenter.kidscount.org/data/tables/101-child-population-by-age-group?loc=1&locs=1#detailed/1/any/false/573,869,36,868,867/62,63,64,6,4693/419,420)
8 Ibid
standards define quality in detail. State policy determines what must be assessed and reviewed to assign a quality rating to a program and how that assessment will be done.

The cost of the assessment and rating process depends on several factors:

- Frequency of rating and re-rating;
- Number and content of standards and criteria that are reviewed for a rating decision;
- Number and complexity of on-site assessments conducted (all programs, programs seeking higher levels, samples of multi-site programs versus all, etc.);
- Approach to inter-rater reliability requirements;
- Use of automated systems for application, reporting professional qualifications, confirming regulatory status, and ease of data transfer among automated systems; and
- Recognition and use of other quality measurement systems (HS/EHS compliance status, national accreditation) in place of some or all criteria for a quality level.

Designing a rating approach necessarily involves trade-offs among system cost and rating accuracy and comprehensiveness. States have taken a wide range of approaches to rating to reflect the best fit for their state context and system goals. For example, some states require annual on-site assessments by highly reliable assessors for all participating programs, while other states have eliminated on-site assessments altogether in favor of desk reviews of program portfolios and/or automated verification of structural elements of quality such as staff qualifications. Several states integrate QRIS assessments into the child care regulatory system, building off existing requirements for annual inspections and, thereby, achieving greater cost efficiency.\(^\text{10}\)

As a state designs or re-designs a QRIS, it is helpful to develop cost estimates of various rating options. The QRIS Cost Estimation Model or \textit{CEM} provides a straightforward approach to developing these estimates (see Appendix B for more detail and examples).

**Management and Administration:** Management and administration relates to QRIS oversight, including state staff working on QRIS, management of contract partners for QRIS elements that are handled by other entities, and the data systems that support the QRIS. For example, this may include staff who receive and process the QRIS applications and issue the ratings, whether they are public-sector or contract-partner staff. Likewise, states have developed many different approaches to the application process, including automated online application systems that are integrated with the state’s professional development registry and licensing database. The development of these automated administrative systems can be a significant upfront expense, but may result in long-term savings, efficiencies, and accuracy, given reduced staffing needs for data entry and application verification.

**Evaluation and System-Level Continuous Quality Improvement:** While QRIS standards are based on a substantial body of research on the impact of program features on young children, the research on the reliability of QRIS ratings and their relation to child outcomes is new.\(^\text{11}\) Studies are needed to inform refinement of the standards and rating systems. Evaluations of the effectiveness of quality improvement supports are needed to support continuous improvement of the system as a whole. These studies may include a longitudinal design relating program quality to child outcomes. Many states form partnerships with universities to complete this important work. The cost of QRIS research depends upon the study purpose and design, and can range from a small investment in rigorously analyzing existing system data to a multimillion-dollar effort to collect data on program quality and child outcomes. States are also collecting and analyzing administrative and other regularly connected data between formal evaluations as a basis for ongoing system improvement.

\(^{10}\) For more information on cross systems monitoring see \url{http://www.qrisnetwork.org/resource/2016/monitoring-early-care-and-education}  
\(^{11}\) States redoing standards with a focus on child outcomes are adding elements around teacher/child interaction, curriculum and assessment that were not as common in the early iterations for more information see \url{http://www.qrisnetwork.org/resource/2015/sharpening-focus-state-policy-promote-effective-teaching-improves-learning}
improvements. Further, continuous quality improvement, through periodic review and refinement of standards and other features of the QRIS, is needed for various constituents and users, as outlined in the next section.

**Communication, Outreach and Constituent Engagement:** Communication and outreach are necessary for a QRIS to function, beginning with a strong name, clear logo, and communications goals and plan. A multi-pronged focus is needed: 1) Promote the QRIS to potential participants (e.g., providers, consumers, other funders); 2) Generally educate the public about quality and the QRIS; and 3) Ensure that policy and political constituencies in the state are well-informed about the QRIS and its impact, and that they make support for it a priority. Annual reports and regular newsletters, or other communications vehicles, are key for keeping policymakers and the field-at-large aware of the progress that is being made across the system. This work requires dedicated staffing and resources. Engagement of constituents is especially important to assure their participation in continuous quality improvement (noted above). Across all aspects of communication, noting and celebrating progress is important.

Outreach to providers is critical to ensure strong participation in the QRIS. A provider-friendly website with resources and guidance is a necessity, as is a well-thought-out campaign to reach those providers who have not previously engaged in quality improvement supports. Partnerships with existing organizations or systems that regularly communicate with providers can be helpful in minimizing the cost of this outreach. Providers appreciate materials that help them advertise and celebrate their QRIS rating, such as banners and buttons; one sustainable way to provide these is to set up a “web store” where providers can directly purchase the items at cost. This approach requires a modest start-up investment but ensures that programs have access to promotional materials that they will actually use. As noted previously, working in partnership with providers to gain their insights on the overall design and functioning of the QRIS is necessary.

Outreach to families to encourage them to use the QRIS ratings as they search for early childhood care and education is equally critical. A well-designed, user-friendly website with information about providers and their ratings is essential, and may be supplemented by a call-in number for families to contact with questions as they search for programs. Lower-cost strategies, such as social media and search engine ads, can be especially effective in reaching families. Traditional advertising on radio, television and transit may also be effective but requires a greater investment.

Forming partnerships with trusted intermediaries such as libraries, health-care systems or associations, and religious institutions can also be effective, but requires dedicated staff time to establish and maintain these partnerships.

**Financing the Rating Process**

According to the *QRIS Compendium*, most states use Child Care Development Fund (CCDF) quality funds to cover at least some of the rating, management and administration, and communication and outreach costs. 12 To the extent that the ratings are integrated with monitoring for licensing and/or for contract compliance for programs like state pre-K, these funding streams may also be indirectly funding part of the rating process. In a few states and localities, the QRIS charges a fee to the program for the rating process, and this fee partially covers the cost of the rating and other systems elements.

Several states have been successful in securing federal or philanthropic grants, especially to cover the one-time start-up costs associated with a QRIS, such as the development of the standards, data system, website, and initial branding and marketing costs. Similarly, many states have relied on grant funds, such as the Race to the Top-Early Learning Challenge, to complete validation studies and evaluations of various aspects of the QRIS.

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12 Of the 40 QRIS in compendium, 32 provided data on total funding for QRIS. Only 15 QRIS provide funding details broken down by system element. In only 10 of these did the funding information provided for each category equal the total funding number reported. For more information on QRIS features and sources of funding, see Appendix C. Selected Data from QRIS Compendium.
Quality Improvement Elements, Costs and Current Financing

Quality Improvement Elements and Costs
States and localities employ a wide variety of strategies to support programs as they seek to move up to higher levels of quality within the QRIS. These often include: 1) funds to providers to cover costs such as renovations or equipment and materials that are needed, 2) coaching and technical assistance provided to individual programs, and 3) professional development supports, including scholarships.

Funds For Renovations, Equipment and Materials:
Many QRIS provide support to programs that face significant one-time costs related to raising quality. For example, states may provide funds to complete minor renovations in classrooms and upgrading of playgrounds. States offer programs the opportunity to apply for grants to cover these costs (e.g., as Delaware does).

Ongoing expenses such as purchasing (and more frequent replacement) of classroom materials and equipment, or investing in curriculum and assessment materials can also be covered. Some states have secured private funding to supply programs with an initial set of materials geared to their documented needs based on environment rating scores (e.g., Georgia does this). Other states essentially bulk purchase items such as child assessment systems or curriculum resources and pass the savings on to those programs in the QRIS.

Coaching and Technical Assistance: Quality improvement efforts also typically include relationship-based support for programs. The approaches vary. For example, some states take a directive approach to quality improvement support, assigning a coach or mentor to every program participating in the QRIS, specifying training topics and amounts of coach time on-site, etc. Others offer coach/mentor support on demand, and allow the content and frequency of support to vary, sometimes dramatically, across participating programs. Many states intentionally work to build quality-improvement capacity within early care and education program staff, in part by including quality-improvement criteria within the QRIS standards so that a culture of continuous quality improvement (CQI) develops. States may also strategically focus training and support on program leaders to build their skills in implementing a CQI approach within a program. Finally, some states prioritize quality-improvement support to programs serving high-need children.

Costs of providing coaching/mentoring to programs to support quality improvement can vary considerably based on the model employed and the number of programs receiving these services. Graph 2 provides an illustration. Assume that the cost per program for technical assistance is $2,500. Our hypothetical QRIS has 3 levels. Model 1 assumes 50% of participating programs at Level 1 receive TA, 30% of those at Level 2 and 10% of those at Level 3. Model 2 assumes 90% of programs at all levels will receive TA. The difference in annual cost between these models varies widely. Similar cost differences would be seen between a state that takes a low-intensity approach (e.g., 2-3 visits per center plus occasional phone support) and one that takes a high-intensity approach (e.g., weekly visits for 9 months per center). The CEM can help states approximate costs of various approaches and levels of participation.

One benefit of implementing a QRIS is that it can highlight inequities in access to high-quality early learning environments. States often discover that there is a lack of high-rated programs in predominantly low-income communities and/or in communities of color. As a result, states may decide to devote extra resources to providing intensive quality improvement supports to programs in these communities to help them raise their level of quality. Mapping out the need for these supports can help inform the design and financing of the quality improvement system.
Professional Development of Early Care and Education Personnel: People are the key ingredient in quality early care and education. The teaching staff and program leaders need to be well-prepared, well-educated, and well-compensated. Many QRIS include higher staff qualifications as part of the quality standards to achieve a high rating. In many cases, existing early childhood staff need to complete further higher education in order for a program to move up in the QRIS. Therefore, the state or regional QRIS frequently provides scholarships for college coursework. The capacity of a state’s institutions of higher education to produce well-prepared early educators and the existing degree of financial support for students can make a big difference in the cost and effectiveness of this element.

The cost of professional development depends on the number of professionals who will receive it, the level of qualifications in the current workforce, and the scale of financial support for scholarships for degree attainment, as shown in Graph 3. Assuming the QRIS offered a T.E.A.C.H.-like professional development scholarship program with annual costs per staff person at $5,000 for Bachelors and $3,000 for Associates degrees (on average $4,000), the total cost would range from $27M to $15.4M. The higher figure is based on estimated cost in a state with a less-qualified workforce, and assumes specific proportion of staff (50%, 30% and 25%) are pursuing degrees. The lower figure is based on an estimated cost in a state with a more-qualified workforce, where the proportion of staff pursuing degrees might be 30%, 20% and 10%.

In addition to coursework, many ECE programs will need to provide other professional development to their staff as they work to improve quality. Most staff will need professional development on quality-assessment tools, such as the Environmental Rating Scales and/or CLASS, in order to meaningfully participate in quality-improvement efforts. More in-depth training, including intentional credit-bearing professional development that counts toward degrees and certification, is also an important part of a high-impact professional development system. Programs may need financial support not only to cover the direct cost of the training, but also to support substitutes and/or overtime pay to ensure staff can attend the training as well as paid time off-the-floor to participate in reflective supervision and peer learning.

The Professional Development System Cost Analysis Tool is designed to produce estimates of public and private shares of annual costs to advance workforce qualifications based on the actual gap between the current and desired status. The tool is easy to use once the basic data are assembled. A helpful manual with case examples explains how to use the tool.

Financing Quality Improvement Supports

States have been providing some support for quality improvement for many years, including training and other professional development supports, even if these have not been seen as part of the QRIS. Typically, these supports are funded with a combination of federal and state funds, e.g., CCDF and state match, Head Start Training and Technical Assistance funds, and state pre-kindergarten funding. Reviewing and either using or re-purposing existing resources is often significant in financing the cost of quality improvement support in a QRIS. Some states also focus the efforts of its child care resource and referral system on providing quality-improvement support aligned with the QRIS. Current professional development and training contracts funded by various state agencies (including but not limited to the one that manages the QRIS) may be tailored to better support programs seeking to improve quality and move up in the QRIS. When new content is needed, states may turn to the federally funded national technical assistance centers, which have developed a wide range of online and easy-to-use training modules.

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13 The Teacher Education and Compensation Helps (T.E.A.C.H.) Early Childhood® Project was launched in 1990 in North Carolina to address the issues of under-education, poor compensation and high turnover within the early childhood workforce. T.E.A.C.H. is now in 22 states and District of Columbia. For more information, see [http://teachecnationalcenter.org](http://teachecnationalcenter.org)

14 The tool is available free at [https://earlyeducatorcentral.acf.hhs.gov/pdtool/](https://earlyeducatorcentral.acf.hhs.gov/pdtool/)

Delivering Quality Early Care and Education Services: Elements and Costs

Providers of ECE are focused on delivering services to children and their families. Providers need to improve the quality of the services they provide, and sustain the improved quality over time. The ongoing cost of improved quality services is an essential, but often overlooked, element of QRIS finance. This section addresses the cost drivers for quality.

Low-to-moderate-cost Quality Factors

Some aspects of higher quality have little cost impact, such as developing a better daily schedule for classrooms, implementing a new lesson planning format that ensures more content-rich instruction, or re-arranging classroom environments to better support child engagement in enriching activities. Some are a matter of using time differently, such as changing the content of staff meetings from announcements and the occasional training to more collegial professional development led by staff. These types of low- or no-cost improvements are often the first focus for quality improvement coaches and mentors, and they can have strong impact. However, in order to sustain these quality gains, programs usually find they need to implement some practices that do have costs, such as providing dedicated time out of the classroom for teachers and aides to plan together, which may require additional staffing, or adding a curriculum coordinator/professional learning coach to the staff.

Equipment, furnishings and materials are also important contributors to quality and do have ongoing costs. For example, scores on the Environment Rating Scales are partly related to the presence of sufficient materials and equipment. Annual replacement costs of equipment and curriculum materials are approximately $1,500 per classroom. Assessment and screening materials and their accompanying online data systems can cost an additional $500-1,000 per classroom. These are modest amounts compared with the ongoing cost of personnel, but they often present significant barriers to quality implementation for cash-strapped programs.

How Are States Currently Funding Their QRIS?

The QRIS Compendium includes some information on QRIS funding allocation and sources. Based on the 15 QRIS that provided some funding details, the total reported expenditure is $956.5 million. Among the 10 QRIS that provided full funding data with breakdowns that matched their reported total funding, the average share of total funding spent on Quality Improvement (professional development, technical assistance, Quality grants and awards) is 63%, on Administration (rating process, management, communication), 33%, and on Evaluation, 5%. CCDF was cited most often as a main, or the sole, funding source (11 of 15). Other sources included state general funds, RTT-ELC grants, state pre-K funds, and licensing fees. Local QRIS also reported funding from local governments.

High-cost Quality Factors

Two aspects of personnel quality are the primary cost drivers in providing higher-quality early care and education:

1) Ratios and group sizes that are low enough to support children’s individualized learning; and

2) Compensation that is high enough to retain good teachers and reduce the level of adult stress that poverty/near-poverty wages can create.
Table 1 illustrates this point, showing the relationship of ratio, group size and teacher compensation.

### Table 1. Impact of Classroom Ratio and Group Size on Per-child Cost

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Group Size</th>
<th>Compensation costs per classroom</th>
<th>Other classroom &amp; center costs</th>
<th>Total classroom cost</th>
<th>Annual Cost per child</th>
</tr>
</thead>
<tbody>
<tr>
<td>1:6</td>
<td>12</td>
<td>$60,000</td>
<td>$30,000</td>
<td>$90,000</td>
<td>$7,500</td>
</tr>
<tr>
<td>1:4</td>
<td>12</td>
<td>$80,000</td>
<td>$30,000</td>
<td>$110,000</td>
<td>$9,167</td>
</tr>
<tr>
<td>1:4</td>
<td>8</td>
<td>$60,000</td>
<td>$25,000</td>
<td>$85,000</td>
<td>$10,625</td>
</tr>
</tbody>
</table>

Ratios and group size are related and both matter. The financial impact of changing ratio and/or group size can be significant. Consider a group of 12 toddlers with a teacher and an assistant. Assume the total annual cost for the classroom is $90,000, or $7,500 per child. Improving the ratio from 1:6 to 1:4 requires adding an additional assistant, thus increasing the cost for the classroom to $110,000 and the cost per child to $9,167. Reducing group size also impacts costs, even if ratios are kept the same. For example, in an infant room where the ratio is 1:4, reducing the group size from 12 to 8 increases costs because the basic classroom costs are now being divided among fewer children. When both ratio and group size are improved, the cost differences can be dramatic; in the example here, moving from a group of 12 with two teachers to a group of 8 with 2 teachers increases cost by over 40 percent. Improving the ratio and/or group size in a QRIS is good for children and teachers, but may be viewed by providers as impossible to achieve unless funding is available to support these higher costs.

The higher staff qualifications required in the higher levels of QRIS also have significant implications for program cost. Adequately compensating staff means providing wages and benefits competitive with those of similarly educated workers. Benefits minimally include health insurance, paid holidays, paid leave of at least 10 days/year (sick and personal) and contribution to a retirement fund. Health insurance and paid sick leave are especially important benefits for adults working with young children.

### Table 2. Example of Benefits and Salary Costs by Quality Level

<table>
<thead>
<tr>
<th>Quality Level</th>
<th>Benefits Cost per Staff</th>
<th>Lead Teacher Salary^16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>$3,000</td>
<td>$32,500</td>
</tr>
<tr>
<td>Mid</td>
<td>$3,000</td>
<td>$41,660</td>
</tr>
<tr>
<td>High</td>
<td>$3,000</td>
<td>$55,030</td>
</tr>
</tbody>
</table>

Recruiting and retaining more highly qualified staff requires improving both salary and benefits. Using the Provider Cost of Quality Calculator, Table 2 provides a simplified example constructed for a typical 4-classroom center serving children infants through preschoolers at typical ratios and group sizes and at 3 levels of quality. At each quality level, basic discretionary benefits include 10 paid holidays and 10 days of leave. Additional discretionary benefits are set the same for all staff at $3,000/staff to cover contributions for health insurance, retirement, etc. This reflects good practice and aligns with those QRIS that do include standards related to working conditions and benefits that require this increased investment. In this example, the only difference among levels is the salary of the lead teacher in each classroom.

^16 The salaries used are 2015 BLS National Wages for preschool teacher, kindergarten teacher nonpublic setting, and kindergarten teacher public school (for Low, Medium and High levels respectively).
Graph 4 displays the lead teacher salary at low, middle and high levels with the cost per child of the program at each level and the average U.S. price of child care, illustrating the scale of investment needed per child to support better teacher compensation. The average price of child care in the U.S. nearly covers the cost per child for a center with salaries at the first quality level, but an additional $1,700 per child is necessary to support higher compensation at the high-quality level.

**Graph 4. Better Compensation for Lead Teachers**

![Graph showing teacher salary and child care costs](image)


III. Financing Strategies and Revenue Generation for High-Quality Services

Policymakers need to carefully design their finance strategy—the means by which they will deliver funding to programs to support the costs of improving and maintaining quality. While all elements of the QRIS need to be funded, the vast majority of the cost in a well-designed and effective system will be the ongoing cost to ECE providers of delivering higher-quality services. Policy-makers need to carefully design their rates and finance strategy, or the means by which they will deliver funding to programs to support the costs of improving and maintaining quality. They must also develop strategies for revenue generation—methods of increasing the overall amount of funding available for the QRIS and its participating programs and families. This section explores current financing strategies and potential revenue generation strategies, focusing specifically on the problem of providing sufficient funding for the early care and education provider to attain, maintain and sustain high-quality services. Within the areas of both finance strategies and revenue generation, we start with methods in place and then explore the potential for new approaches.

Finance Strategies

States direct resources to programs based on their quality level in a variety of ways. These include direct funding based on QRIS level (e.g., tiered reimbursement rates for subsidies, quality awards, and contracts for high-quality programs), promotion and support of layered funding strategies, indirect supports for quality (e.g., shared services alliances and wage supplements), and indirect financing support through the tax system. In this section we review existing approaches as well as potential new approaches that move outside of typical early learning sources of financing (such as child care and Head Start) and consider non-early learning approaches.
Existing Approaches

**Tiered Reimbursement and Quality Awards:** The most common approach to supporting quality in public subsidy policy is to create tiered reimbursement rates—paying a higher rate for programs that provide higher-quality care. According to the QRIS Compendium, about two-thirds of QRIS systems currently offer tiered reimbursement, either as a percentage or set dollar amount add-on to the base subsidy reimbursement rate. Tiered reimbursement is an attractive policy because it allows the state to more directly link the amount it pays with the likely cost of delivering higher-quality services. For tiered reimbursement to be effective, the state should conduct a thorough cost-of-quality study to ensure that its reimbursement tiers adequately reflect the differences in cost among the different levels of its QRIS. States may find that the differences in costs are dramatic, and it may be difficult to set rates at such different levels for the different levels of quality. In addition, very high rate differentials may “raise the stakes” on QRIS ratings so much that it will become critical to employ a more rigorous and costly rating process in order to justify the ratings.

A tiered reimbursement strategy by itself rarely generates enough revenue to significantly raise the quality of most programs. The cost of maintaining quality in a program is spread across all classrooms and all children, and adequate funding is needed for each and every child, not just those receiving subsidy. Few programs serve 100% subsidized children; the number of children in a given program receiving child care subsidy may be small. And, non-subsidized families are frequently not able to pay the full cost of a high-quality program. Since revenue from public child care subsidy is only received for a small proportion of children, tiered rate increases only produce a modest amount of revenue for most programs.

Quality awards can be an effective approach to funding overall program quality, provided they are ongoing (not one-time), calculated on the actual cost of quality, and calibrated to the size and income mix of a program. Unlike subsidy tiered rates, quality awards do offer a means to deliver funding to a program for each and every child. To illustrate this point, we return to the example above where the center needed to finance increased compensation for staff to sustain a higher-quality level. Assume that center has 66 children, infants through preschoolers. Assume that for the high-quality program, either the family tuition rate or child-care-subsidy tiered reimbursement rate can generate $10,300 per child, which is less than the full cost of care. In this case, the quality award would need to deliver an additional $1,700 for each and every one of the 66 children, or a total of $112,200 annually, to make the program sustainable at this higher-quality level. At present, the most generous state does not approach that level of support; annual quality awards reported in the Compendium range from $50 to $6,500 per program. Nevertheless, quality awards can help programs with the bottom line and, if funded much more generously than they typically are now, could potentially cover the ongoing cost of higher-quality services.

**Contracts for Subsidized High-Quality Services:** Contracts can be an excellent vehicle for funding programs at a high level of quality and can strengthen accountability since they may also include requirements for staff qualifications, ratios/group size, comprehensive services and other quality features. Through the contract, the CCDF-administering agency may also have greater control over how funds are allocated in the program, ensuring, for example, that staff compensation is commensurate with required qualifications. Contracts may work best for ECE providers that serve very high percentages (or even exclusively) CCDF-eligible children, although states have substantial discretion and could use contracts to ensure high-quality care in mixed-income settings. Sometimes contracts are negotiated to support just one classroom or group of children in a particular site, as is often the case in pre-K or Head Start partnerships). This can result in serious inequities and tensions when one or two classrooms in an ECE setting offer high quality (e.g., have better teachers, better equipment, more support for parents, etc.) but the remaining classrooms struggle to offer comparable services without the additional resources. Sadly, it is not uncommon to visit a child care center that includes one beautiful, high-quality preschool classroom surrounded by poor- or mediocre-quality classrooms for all other children. In short, policymakers...
should carefully consider strategies that focus on raising the quality of all classrooms, for all children, in a specific site.

Oregon is a good example of a state that is using contracts to fund higher quality. The state has 10 years’ experience contracting with Head Start/Pre-K to extend the day to meet the needs of working families. The state is just completing a three-year pilot, contracting with market-based child care centers and family child care homes that participate in Oregon Programs of Quality (OPQ) and will transition OPQ to the state’s new QRIS. Contract policy includes reduced copay for families in contracted slots and “protected eligibility” of the slot for the child for the full year as long as the family initially meets the minimum hours of eligibility (24 hours work/week) and the child continues to attend regularly.19

While many states have a contract process in which providers agree to serve subsidized families and some have contracted to extend the day of part-day programs such as HS and pre-K, contracting for quality has been less common. The federal government is encouraging states to consider using contracts to support high-quality care under the newly reauthorized Child Care and Development Block Grant.

**Layered Funding**: Another way to help programs have sufficient resources to provide high-quality early education is to intentionally layer funding streams (also called blending and braiding funding20). For example, a state may choose to permit programs that are above a certain level in the QRIS to apply for pre-K funding. These pre-K funds can support the additional costs for higher level staff qualifications and more rigorous expectations for curriculum and assessment than are typically part of a state pre-K program. An advantage of this approach is that the funding can be linked to even more rigorous standards than are required at the highest level of the QRIS, and the program grants may be subject to more intensive monitoring than QRIS ratings. A disadvantage of this approach is that funding is commonly restricted to only certain classrooms (e.g., the four-year-old classes) or some children (e.g., “at-risk” children) and, therefore, may not actually provide sufficient resources for an entire program to maintain high quality. Also, depending on how the funding is administered, these layered funding approaches can subject providers to multiple (and sometimes conflicting) program standards, as well as burdensome accounting and reporting requirements.

Often the funds that might be appropriate for including in a layered-funding strategy are not actually under the control of the state or regional QRIS administrator. For example, many programs successfully layer Early Head Start/Head Start (federally controlled) or Title I (largely locally controlled) funds21 with child care subsidy to provide a full-day, full-year high-quality program. The CCDF administrator (often the same as the QRIS administrator) can encourage the use of these funding streams to support quality services by implementing child care subsidy policies that facilitate layering dollars from multiple sources to serve a single child or group of children. Many excellent resources exist for states that want to support layered funding, including the Blending and Braiding Toolkit,22 guidance on supporting Early Head Start-Child Care Partnerships,23 and new tools designed to promote shared funding in Early Head Start-Child Care Partnerships.24

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19 For policy/administrative rule establishing Oregon Program of Quality Contracted Child Care Slots (2012) http://www.dhs.state.or.us/policy/selfsufficiency/publications/ss-pt-12-020.pdf
20 Blending refers to combining funds in support of the program and using funds according to one set of program and fiscal rules; braiding refers to maintaining funds separately and reporting according to separate rules for each funding source. Layering is a simpler concept; funders agree to use one set of program and fiscal rules.
**Shared Services Alliances:** Another approach to support programs, especially smaller ones, in having sufficient resources to sustain high-quality services is to implement **Shared Services Alliances (SSAs).** According to the National Survey of Early Care and Education, two-thirds of early childhood centers serve 75 or fewer children. These small programs can benefit from a system of Shared Services that provides economies of scale for specialized services that are needed to operate a high-quality early childhood program. In addition to “back office” administrative functions such as accounting, information technology, procurement, and legal services, Shared Services Alliances can provide curriculum planning support, embedded professional development for staff, mental health consultation, and social services for families at far more reasonable costs than if provided by each program alone. States and communities have supported Shared Services Alliances with CCDF funds, through philanthropic grants, and through participation fees paid by member programs. States could use Shared Services approaches to fund quality elements of early learning programs.

While no QRIS currently requires joining a SSA, almost all SSAs have quality standards and, in most cases, one of the standards is a commitment to participate in QRIS. Several states have linked an on-line version of shared services to their QRIS, creating an automated pathway to participation. In both Pennsylvania and Georgia, the lead staff for the shared services alliance website works to ensure that the QRIS TA staff use the web platform as a mechanism for delivering services in an efficient manner.

**Wage Supplements:** Another approach to sustaining high-quality services is providing wage subsidies for highly qualified staff. States have developed programs to provide stipends (usually annually or semi-annually) to staff based on their qualifications and tenure in early childhood programs. Examples include WAGES (in many states), Pennsylvania’s Education and Retention Awards and Illinois’ Great START program, both of which are connected to the state QRIS. A key benefit of this approach is that it can support quality across entire QRIS programs, not just in specific rooms or for children who receive subsidy. The primary consideration is the amount of the supplement; ideally, it should be large enough to close the gap between the qualified staff member’s current wage and the typical wage of an equally qualified staff person in a publicly funded setting, such as a public school preschool teacher. This is not typical, however, and most of these supports provide a very small improvement in overall compensation. Some states choose to deliver the funds to the program and require that the funds be included in the staff member’s base salary, rather than as a bonus. This increases the staff member’s salary and facilitates the withholding of payroll taxes by the employer. Other states have chosen to pay the wage supplement directly to the staff member although this requires the recipient to pay estimated taxes.

Wage supplements can also be provided through the tax system, and structured as a refundable tax credit (see below). Louisiana and Nebraska have taken this approach.

**Tax Credits:** Tax credits are another key strategy for financing quality early care and education. Tax credits for parents mean parents are able to pay higher tuition and fees; tax credits for teachers and staff function like wage supplements; tax credits for ECE programs can serve as annual grants; and tax credits for businesses may result in greater investment in early childhood programs and systems. Key advantages of tax credits as a strategy are that they are broadly accepted and non-stigmatizing, and funding does not have to be continuously re-appropriated.

To date, three state dependent care tax credit provisions— Arkansas, Louisiana, and Vermont—reward families for choosing quality programs as rated by their QRIS (Arkansas and Vermont) or quality assessment system (Louisiana). Further, two states—Louisiana and Nebraska—have enacted broader tax credit provisions that go well beyond the dependent care provisions and include benefits for families, teachers and providers, tied to their QRIS.

Unless the credits are made refundable, tax-credit approaches can benefit higher-income working families more than low-income working families –

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26 For a list of the states that have shared services on the web, see [http://opportunities-exchange.org/alliances-in-action/](http://opportunities-exchange.org/alliances-in-action/)
which is the case with the federal Child and Dependent Care Tax Credit. In addition to the drawback that the federal credit is not refundable (so there is no benefit unless the family owes taxes), the benefit levels are too low. For example, the amount of child care spending that can be claimed for federal tax purposes is capped at an unrealistic amount ($3,000 for one child), only 20-35% of the capped amount can be claimed, and the child care provider quality is not a factor in the value of the credit. Most state tax provisions are linked to, or mirror, the federal credit; however, a few state tax provisions recognize quality and offer a larger tax benefit for using higher-quality providers, as noted above.

When constructed to reward quality, as the Louisiana and Nebraska School Readiness Tax Credits are, tax credits can be an important means of alternative revenue generation for QRIS and for supporting cost-of-quality for private-pay families in the broader market.

Louisiana pioneered its School Readiness Tax Credits (SRTC) in 2007 to accompany its QRIS (Quality Start) and will soon be revised to ensure linkages with the new Louisiana accountability system. The SRTC is a package of refundable income tax credits that include the following:

- A state income tax credit for parents who purchase child care for children under six years old in centers with Quality Start rating of at least two stars. The value of the credit varies from approximately $788 for Two-Star up to $1,575 for Five-Star rating. The credit is refundable for families with annual incomes below $25,000.

- A state income tax credit for child care teachers and directors, also refundable, linked to educational attainment and work experience in a star-rated center, with benefits that range from $1,500 to $3,000 annually.

- A credit for business tax payers that make a contribution to a center that participates in Quality Start (calibrated to star level) or to a Child Care Resource and Referral agency.

Nebraska recently enacted a School Readiness Tax Credit package, based on the Louisiana model, which takes effect in the 2017 tax year. One credit is for the early childhood workforce and one is for early childhood programs. Both credits are related to Nebraska's five-level QRIS, Step Up to Quality. Staff working in a program participating in Step Up to Quality at any step are eligible for a refundable tax credit ranging from $500 to $1,500, based on their level of educational qualifications. The early childhood program credit is for programs at Steps 3-5 that serve subsidized children and is not refundable. The program credit amount is based on the average monthly number of subsidized children in the program and its Step: $250/child at Step 1, $500/child at Step 2 and $750/child at Step 3.

Nationally, the Center for American Progress has proposed a comprehensive federal tax credit to expand high-quality child care. The High-Quality Child Care Tax Credit would be available on a sliding scale for families choosing providers with higher ratings in their state's QRIS, and would provide benefits for families regardless of whether they owe federal income taxes. This proposal directly addresses the gap between what parents are able to afford and what high-quality early care and education costs to provide.

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29 Arkansas and Vermont recognize quality in their state Child and Dependent Care Tax Credits.

30 For a review of the impact of the LA SRTC, see [https://nwlc.org/resources/extra-credit-how-louisiana-improving-child-care/](https://nwlc.org/resources/extra-credit-how-louisiana-improving-child-care/)


32 For more on the NE SRTC, see [http://www.childrensmovement.com/nebraska_enacts_srtc_act](http://www.childrensmovement.com/nebraska_enacts_srtc_act)

Why Not Just Raise Tuition for Private-pay Families?

Families paying tuition on their own are the major contributors to child care revenues, so it might seem reasonable to raise private tuition rates as a way to generate more revenue for higher-quality programs. One challenge is determining what the average family can afford to pay, and which families can and cannot afford to pay more. The general assumption is that families are paying as much as they can afford since price is a key factor in consumer decisions (along with location and quality).

The Self-Sufficiency Standard\(^{34}\) may be a useful method for exploring this issue. It is a measure of the amount of income required for working families to meet basic needs at a minimally adequate level, taking into account family composition, ages of children, and geographic differences in costs. Basic needs include cost of child care at typical tuition rates. As an example, according to the Self-Sufficiency Standard for an urban county in Ohio, an adult with an infant and a preschooler pays about $24,000/year for child care for both children and needs to earn $63,000\(^{35}\) annually to be self-sufficient. In this urban county, the median household income is only $45,000. Based on the income distribution in this county, only about a quarter of families can afford to pay even the current price for child care. Raising prices cannot be an effective revenue generator in this context. Instead, other sources of funding for quality need to be developed.

\(^{34}\)The Standard has been calculated for 38 states. See http://www.selfsufficiencystandard.org

\(^{35}\)That income represents 312\% of the federal poverty level for a family of 3.

Entitlement Versus Discretionary Funding Sources

Early childhood programs are chronically underfunded in part due to their reliance on public funding sources—Head Start, child care subsidy, and state pre-K—which depend on discretionary funding streams. Their reach is limited by the annual appropriations provided for these sources by federal, state and local governments. Many more children qualify for these services than can be served at current funding levels. In contrast, K-12 public education is an entitlement; every age-eligible child must be served. Similarly, Medicaid is an entitlement for children from families with incomes up to 260\% of the Federal Poverty Level. The only early-childhood-education revenue sources that are entitlements are the USDA Child and Adult Care Food Program and the IDEA Part B (preschool special education) and Part C (early intervention) programs. Entitlement funding does not necessarily guarantee sufficient funding per recipient; however, establishing the Child Care and Development Fund, Head Start/Early Head Start, and/or state pre-K as an entitlement, with ample per child investment, would substantially strengthen early childhood financing, and assist states in building comprehensive, high-quality systems for children from their birth to kindergarten entry.

New Approaches

Health Care Resources: States should also consider how they might draw upon other funding streams that are more commonly used for health care to strengthen funding for quality services or the quality improvement supports in QRIS.

Developmental screening for all children is included in many QRIS standards. How can resources from the federal Maternal and Child Health Block Grant (MCHB) assist in developing and operating a comprehensive developmental screening program that may be part of the QRIS? For example, MCHB can support the training of providers to conduct developmental screening. It can also support the development of an universal referral form and a tracking system to monitor screenings and referrals. Likewise, how can Medicaid be used in this area? Developmental screening
is a covered Medicaid service; thus, any children who are enrolled in Medicaid can be screened by a qualified Medicaid provider at no cost to their family or to the ECE program. As an example, some Head Start agencies are qualified Medicaid providers.

The state agency managing the QRIS, as well as other key stakeholders, can work with the state Medicaid agency to facilitate this support. Medicaid itself is a large and complex program that offers many benefits. It is also technical and leaves a lot of discretion up to the states, so it requires a willingness to learn and work within its framework and requirements in order to make the changes needed to promote developmental screening across all settings.

The Maternal and Child Health Block Grant, and other funding streams like the Child Care and Development Fund, Community Mental Health Services Block Grant, Comprehensive Community Health, among others, may also be tapped to provide nurse and early childhood mental health consultants who help programs improve their environments and better support children’s healthy development, an area that is often highlighted in the QRIS as part of a comprehensive approach. Medicaid’s EPSDT program may also be a valuable funding source for consultation when it is child focused. For more information, go to http://www.chapinhall.org/sites/default/files/documents/CLASP_Putting_it_Together.pdf, and https://www.hrsa.gov/ourstories/mchb75th/title_v_child_development_.pdf

Workforce Resources: Workforce Innovation and Opportunity Act (WIOA) funds could be an important component of a well-financed system to support early learning providers as they earn degrees and credentials. Under the federal law, local workforce boards must convene their education partners in support of career pathways. The federal law at Section 3(7) includes a focus on career pathways, which are defined as a combination of rigorous and high-quality education, training, and other services that:

(A) Align with the skill needs of industries in the economy of the state or regional economy involved;
(B) Prepare an individual to be successful in any of a full range of secondary or postsecondary education options, including apprenticeships;
(C) Include counseling to support an individual in achieving education and career goals;
(D) Include, as appropriate, education offered concurrently with, and in the same context as, workforce preparation activities and training for a specific occupation or occupational cluster;
(E) Organize education, training, and other services to meet the particular needs of an individual in a manner that accelerates the educational and career advancement of the individual to the extent practicable;
(F) Enable an individual to attain a secondary school diploma or its recognized equivalent, and at least 1 recognized postsecondary credential; and
(G) Help an individual enter or advance within a specific occupation or occupational cluster.

State plans are meant to ensure that local workforce boards meaningfully support career pathways and provide support, accountability, and infrastructure for their development. This includes prioritizing target populations, which could include early childhood teachers. Further information is available from the Center for Law and Social Policy series, WIOWA Game Plan for Low-Income People, which includes briefs describing requirements and potential strategies for leveraging the career pathways aspect of WIOWA. For a more specific description of a community college that used the career pathway concept in the initiative, “Early Childhood Education Vocational English as a Second Language (VESL) Career Pathway Certificate Program,” go to https://ccwd.hecc.oregon.gov/StudentSuccess/edocs/LaneCareerPathwaysCaseStudy.pdf.

For more information about WIOA, visit https://www.doleta.gov/wioa/ and http://www.clasp.org/resources-and-publications/publication-1/KeyProvisionsofWIOA-Final.pdf
Public Education Resources: The federal education law, Every Student Succeeds Act (ESSA), provides potential investment opportunities that could be used to help fund ongoing services at the program level, or could fund elements of quality improvement. ESSA funds are primarily distributed through local school districts that make local decisions about their use, but states also are required to create ESSA plans and to distribute some funds. The devolved nature of the funding makes work in this area complex. At both the state and local levels, Title II addresses professional development, and these funds could be used to support the professional development of early learning program staff, thus contributing to quality improvement supports for QRIS participants. Professional development explicitly includes educators of very young children, i.e. those teaching infants, toddlers and preschoolers, and those working in child care, district, and Head Start settings. Title I provides services to children who are disadvantaged and, like Title II, most of its resources are devolved to local school districts but some are retained at the state level. Title I funds could be used to help support QRIS. For both Title I and Title II, tapping into these sources of funds, whether at the state or local level, requires developing a good understanding of the underlying ESSA framework and educating those who make key ESSA decisions about how QRIS-related investment adds value and benefits them. ESSA resources are limited, which means that working in coalition to raise up how they could strengthen QRIS may be essential, whether through state-agency cross-sector partnerships, stakeholder groups such as the State Advisory Councils, or stakeholder coalitions.

States invest state dollars in public education. States already are helping to finance direct services in early learning through their education agencies, primarily in the form of state pre-K programs. For states that actively include services such as state pre-K in the QRIS, an area to explore is how state funds are being invested in the rating and overall accountability structure as well as on quality improvement supports. Typically, public education resources have not been used to finance these aspects of QRIS, but certainly a case can be made for investment when state pre-K programs are part of the QRIS. With QRIS as a mechanism to help create sustainable quality, perhaps state education funding could go to quality improvement supports within the QRIS.

Revenue Generation

Key to fully financing quality services and the other essential elements of a QRIS is increased public revenue. Public revenue comes primarily from taxes and fees. Essentially, government can tax what is owned (property), what is spent (sales and excise) or what is earned (income). Government can also impose fees, as is done to collect revenue from gambling enterprises or from companies harvesting natural resources such as oil or gas. Taxes and fees can go towards the overall federal, state or local government fund (“general revenues”), or they can be collected for a designated purpose (e.g., school district property tax millage or tobacco tax designated to pay for early learning services). Governments can also borrow money using various types of bonds but, ultimately, these bonds need to be paid off through revenue from taxes or fees.

The source of most current funding for all components of QRIS is general funds appropriated within states’ budgets or in the federal budget. However, some states and communities have used other sources of funding to support early care and education. A few states and localities have developed specific tax levies or fees to support the early childhood system, including various components of the QRIS. For example, there have been recent advancements in Philadelphia with the sugary beverage measure for preschool linked to QRIS and in Dayton with a local income tax for preschool.

Sin Taxes

Georgia has dedicated lottery revenues to preschool for more than two decades. Arizona’s Quality First is funded through a tax on tobacco products, as is First Five California, and Philadelphia recently passed a tax on sugary beverages that includes investment in diverse delivery pre-kindergarten. Similar measures were on the November 2016 ballot in several California local jurisdictions. These so-called “sin taxes” have the added benefit of reducing an unwanted/ unhealthy behavior, but their downside is that these revenue sources will decline as the “sin” is reduced, as California’s First Five is experiencing.

Local Sales and Property Taxes

Denver has created a dedicated funding stream for preschool through the general sales tax and some communities in Florida use a property tax levy to fund their local QRIS, both of which may prove to be more durable sources of funding.

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**Capital Investment**

Some jurisdictions support capital investment. In 2013, the Massachusetts legislature passed a housing and community development bond bill that included funding for renovating child care facilities around the state. The $1.4 billion package included $45 million in bond financing to be used for capital improvements to child care centers and after-school facilities serving children from low-income families.38

Many excellent resources exist for states and communities considering new sources of revenue for their QRIS. *Financing Child Care in the US: An Expanded Catalog of Current Strategies*39 is a useful reference for understanding the various methods of raising revenue, although the specific examples included are now dated. The North Carolina Early Childhood Foundation recently released a community toolkit on local funding for early learning40 that provides an excellent up-to-date overview of both existing revenue streams and potential local-revenue-generation options. NIEER provides resources on strengthening financing for public preschool.41

**Pay for Success**

This novel approach is emerging as a generator of investment in programs that work based on long-term cost-benefit analysis. It has been applied to preschool programs in several localities; it may be suitable to support direct services in the higher-quality programs participating in a QRIS. It is not well-suited to fund other QRIS elements, as the research evidence necessary to this approach is limited to direct services, usually for certain preschoolers, rather than the supports for the quality improvement or the rating processes of a QRIS. Communities and states interested in Pay for Success (also called Social Impact Bonds) can find resources for this new financing vehicle at the Pay for Success Learning Hub.42

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38 See https://cedac.org/cif/financing/eeost-capital-fund/
40 See http://financingtools.buildthefoundation.org/
41 See http://nieer.org/policy-issue/policy-brief-improving-public-financing-for-early-learning-programs
42 See http://www.payforsuccess.org/

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**IV. Conclusion**

Accomplishing the typically cited goal of a QRIS—to improve the quality and comprehensiveness of early childhood education and care throughout a state or region—requires committing significant resources. All current public funding sources, like child care subsidy, Head Start/Early Head Start and state pre-K, reach only 20% of children below kindergarten age, and most families cannot afford to pay the full cost of high-quality, comprehensive early childhood services. Achieving the goal of quality for all requires steadily increasing public revenue generated through a range of strategies at federal, state and local levels over time to reach the necessary level of investment. This, in turn, requires rethinking our values and beliefs about entitlement. As a society, we will need to recognize the role proximity to opportunity has on child outcomes and value children’s potential contributions enough to ensure that young children and their families have access to the opportunities necessary for their healthy development and learning. BUILD strongly advocates that we invest in our young children, support their families, and provide the resources necessary to ensure accountable systems of high-quality early learning.

QRIS, if robustly and thoughtfully funded, can be a powerful strategy for improving the quality of early care and education. However, to realize the promise of QRIS, we need to acknowledge the inherent tensions in our current public policy, namely that our investments need to increase substantially to match our expectations for impact do not match our investment. To make progress, we need to quantify the gap between the true cost of quality early care and education and what the average family can afford, and advance proposals for generating and disbursing new public revenue to fill that gap in ways that support the financial health of early care and education programs and ensure that high-quality programs are available in every community. The federal government, states, and localities can work together to increase public investment in early care and education and to provide “incentives” (through tax credits and other means) to families to make higher-quality programs affordable.
# Appendix A. Federal Funding for Early Care and Education for Children 0-5

This table captures federal spending and estimates required match (state and/or local) for those funds.

<table>
<thead>
<tr>
<th>Name of Initiative</th>
<th>Amount in USD-Billions (FFY 2015)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Head Start (HS), excluding EHS</strong> 1</td>
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<tr>
<td><strong>Early Head Start (EHS)</strong> 2</td>
<td>0.5</td>
</tr>
<tr>
<td>Individuals with Disabilities Education Act, Sec. 611 Part B (IDEA) 3</td>
<td>11.9</td>
</tr>
<tr>
<td><strong>Individuals with Disabilities Education Act, Sec. 619 Part B (IDEA) supplemental to 611</strong> 4</td>
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<tr>
<td><strong>Individuals with Disabilities Education Act, Part C (IDEA) Early Intervention</strong> 5</td>
<td>0.4</td>
</tr>
<tr>
<td>—state and local matching (Part B = 6.0 and Part C = 3.0) 6</td>
<td>9.0</td>
</tr>
<tr>
<td>Preschool Development Grants (PDG) 7</td>
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</tr>
<tr>
<td>Race to the Top - Early Learning Challenge (RTT-ELC)</td>
<td>N/A FY2015</td>
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<td>—estimated Title I spent in ECE 9</td>
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<tr>
<td>—TANF direct for child care, ages 0-5 21</td>
<td>2.2</td>
</tr>
<tr>
<td>Social Services Block Grant (SSBG) direct for child care 22</td>
<td>0.2</td>
</tr>
<tr>
<td>Child and Adult Care Food Program (CACFP) 23</td>
<td>3.2</td>
</tr>
<tr>
<td>DOD Child Care - Family Assistance Family Advocacy Program + DOD School Programs 24</td>
<td>0.7</td>
</tr>
<tr>
<td>Home Visiting 25</td>
<td>0.4</td>
</tr>
<tr>
<td>Tax Subsidies (Child &amp; Dependent Care Tax Credit) children 0-5 26</td>
<td>1.9</td>
</tr>
<tr>
<td>Sum — Estimated State &amp; Local Matching</td>
<td>10.2</td>
</tr>
<tr>
<td><strong>SUM -- Estimated Federal Expenditure and Tax Subsidies for ages 0-5 (not including K)</strong></td>
<td>22.8</td>
</tr>
</tbody>
</table>
Notes on Appendix A

2 EHS-CCP budgeted for $500m FY16 and $635m FY17. Budget data available at http://eclkc.ohs.acf.hhs.gov/hslc/data/psr
3 Budget data available at http://www2.ed.gov/about/overview/budget/budget17/17action.pdf
4 Budget data available at http://www2.ed.gov/about/overview/budget/budget17/17action.pdf
5 Budget data available at http://www2.ed.gov/about/overview/budget/budget17/17action.pdf
8 Budget data available at http://www2.ed.gov/about/overview/budget/tables.html
10 Budget data available at http://www2.ed.gov/about/overview/budget/tables.html
11 Budget data available at http://www2.ed.gov/about/overview/budget/tables.html
12 Budget data available at http://www2.ed.gov/about/overview/budget/tables.html
13 Budget data available at http://www2.ed.gov/about/overview/budget/tables.html
14 Budget data available at http://www2.ed.gov/about/overview/budget/tables.html
15 Estimate for spending on ECE based upon ratio derived from estimated Title I spent on ECE/Total Title I available
16 Budget data available at http://www2.ed.gov/about/overview/budget/tables.html
17 Spending data available at http://www.hhs.gov/about/budget/fy2017/budget-in-brief/acf/mandatory/index.html#f1
18 Budget data on CCDF formula grants available at https://www.cfda.gov/?s=program&mode=form&tab=step1&id=a055c31de8018a7cb9a19e3c25ae4cc. Adjusted by factor .6 for share going to age 0 to 5.
21 TANF transfer & Direct spend data available at http://www.cbpp.org/sites/default/files/atoms/files/tanf_spending_2014.xlsx; Adjusted by factor of .6 for share going to children age 0 to 5.
23 Budget data available at https://www.cfda.gov/?s=program&mode=form&tab=step1&id=2a12fb2d62445c49f23c0566bda65791; Assumed steady for out years
26 Child and Dep. Care Tax Credit and Credit For Employer-Provided Dependent Care; Estimate based on testimony before HOR by Kay Brown, Director at GAO. Link at Govt Budget and Programs/Early Learning And Child Care GAO Testimony.docx and http://www.gao.gov/assets/670/660685.pdf

The family contribution is more difficult to estimate. One approach is to consider the federal Child and Dependent Care Tax Credit (CDCTC) and use the amount claimed ($17.3 billion). That would be an underestimate for 2 reasons: 1) the tax credit limit is $3,000 for one child while the current average price of child care is more than $10,000; and 2) only taxpayers who owe taxes can claim the credit.

A second approach is to use data collected by the Census Bureau in the series called Who’s Minding the Kids? that began in 1985. That data is reported from the perspective of working mothers and, in some years, asks how much is paid
weekly by those who pay for child care. The most recent report is at http://www.census.gov/content/dam/Census/library/publications/2013/demo/p70-135.pdf. Combining the Census data for average payment ($9,308) and the number of mothers who pay (32%) comes to $34 billion.

A third approach is to take the number of children with working mothers reported by KidsCount (16.7 million), the average price of child care ($9,308) and the percent of mothers paying from the Census data (32%). That comes to $50 billion.

Finally, a fourth approach is to take the number of children with working mothers reported by KidsCount, the average price of child care as reported by Child Care Aware of America ($10,233) and the percent of mothers paying from the Census data (32%). That comes to $55 billion.

The average of these, not including the CDCTC estimate, is $46 billion.

**Appendix B. QRIS Cost Examples: Using the QRIS CEM to Model a Well-funded QRIS in a Hypothetical State**

The QRIS Cost Estimation Model or CEM can be used to compare the costs of QRIS processes under different conditions or assumptions.

The examples discussed in the paper are based on an average size state, with 2,000 centers and 3,000 homes (2,500 small, 500 large). Centers have, on average, 4 classrooms, 11 staff and 64 children (all ages). Homes have either 6 or 12 children; large homes have an assistant.

This hypothetical state has a mature QRIS with 3 levels, high participation (80% of centers, 60% of homes), with quality distributed roughly evenly among its Levels 1-3 (33%, 33%, 34% of programs, respectively). Thus, there are 1,800 centers and 1,600 homes participating.

**Example: Generous Funding**

<table>
<thead>
<tr>
<th>Element</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality Assessment, Monitoring and Administration</td>
<td>Uses both ERS and CLASS, annual report with rating every 3 years</td>
</tr>
<tr>
<td></td>
<td>program assessors salary = $45,000</td>
</tr>
<tr>
<td></td>
<td>application reviewer salary = $35,000</td>
</tr>
<tr>
<td></td>
<td>supervisor salary = $55,000</td>
</tr>
<tr>
<td>Professional Development</td>
<td>Scholarships for degree attainment at $5,000/BA and $3,000/AA (T.E.A.C.H.-like scholarship program) for average of $4,000</td>
</tr>
<tr>
<td></td>
<td>Percentage of programs needing PD by level 50%/30/25%</td>
</tr>
<tr>
<td></td>
<td>$250,000 for QRIS-specific state-wide training</td>
</tr>
<tr>
<td>Technical Assistance</td>
<td>CEM Default is $2,500 per program</td>
</tr>
<tr>
<td></td>
<td>Assume % using TA by level 50%/30/10%</td>
</tr>
<tr>
<td>Annual Financial Supports by Level</td>
<td><strong>Centers by level</strong></td>
</tr>
<tr>
<td></td>
<td>$5,000</td>
</tr>
<tr>
<td></td>
<td>$10,000</td>
</tr>
<tr>
<td></td>
<td>$20,000</td>
</tr>
<tr>
<td></td>
<td><strong>Homes by level</strong></td>
</tr>
<tr>
<td></td>
<td>$500</td>
</tr>
<tr>
<td></td>
<td>$1,000</td>
</tr>
<tr>
<td></td>
<td>$2,000</td>
</tr>
<tr>
<td>Element</td>
<td>Notes</td>
</tr>
<tr>
<td>------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| Compensation Supplements     | Per staff annually  
$7,500/BA, $5,000/AA $1,500/CDA or similar credential  
Avg = $3,167 per center staff (assumes even distribution among credentials)  
homes @ 75% of center = $2,375 per home                                                                                     |   |
| Evaluation                   | 3% of total QRIS cost                                                                                                                                                                                  |   |
| Data System                  | For QRIS including Professional Registry using CEM defaults                                                                                                                                              |   |

A Well-financed QRIS: The fund distribution for this model, at $114 million/year for 1,800 centers and 1,600 home serving 113,000 children is shown below:

![Well-financed QRIS](chart.png)

### Well-financed QRIS
(Percent funding by QRIS Element)

<table>
<thead>
<tr>
<th>Percent</th>
<th>Elements</th>
<th>Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2%</td>
<td>Quality Assessment, Monitoring and Administration</td>
<td>$1,802,000</td>
</tr>
<tr>
<td>0.4%</td>
<td>Communication</td>
<td>$500,000</td>
</tr>
<tr>
<td>1%</td>
<td>Evaluation</td>
<td>$904,000</td>
</tr>
<tr>
<td>0.3%</td>
<td>Data Systems</td>
<td>$337,000</td>
</tr>
<tr>
<td>2%</td>
<td>Technical Assistance</td>
<td>$2,533,000</td>
</tr>
<tr>
<td>24%</td>
<td>Professional Development</td>
<td>$27,332,000</td>
</tr>
<tr>
<td>18%</td>
<td>Annual Financial Support</td>
<td>$20,915,000</td>
</tr>
<tr>
<td>52%</td>
<td>Compensation Supplements</td>
<td>$60,014,000</td>
</tr>
<tr>
<td>100%</td>
<td></td>
<td><strong>$114,337,000</strong></td>
</tr>
</tbody>
</table>
Appendix C. Selected Data from *QRIS Compendium*, Related to Ratings and Funding – April 2016

*The QRIS Compendium* includes data on 40 QRIS: 37 are statewide systems, and 3 are local (all in Florida).

### Ratings

**Rating Structure**

- 18 of 40 QRIS (45%) use a block system for determining a rating, 7 (17.5%) use a points system, and (15) 37.5% use a hybrid system.

- Of those using a hybrid system, 46% have blocks at the early levels and points at later levels. Twenty-three percent are largely a points system, with some additional specific requirements. The remaining 31% include those with a mix of blocks and points at all levels, those that have different requirements based on program type, and those with specific quality indicators on which programs can choose to be rated.

- The most common length of time a rating is valid is 3 years, with 28% of QRIS ratings valid for this length of time. In 20% of QRIS, the rating is valid for one year, and in 15% of QRIS, the rating is valid for two years. In 38% of QRIS, the length of time the rating is valid varies, sometimes dependent on the rating level, or program type. For example, lower ratings are valid for one year, and higher ratings are valid for 3 years; or the rating does not expire as long as the program continues to meet criteria; or programs can pay to be rated sooner than the specified time frame.

---

![QRIS Rating Structure diagram](image)

**Length of Time Rating is Valid**

<table>
<thead>
<tr>
<th>Length of Time</th>
<th>Number of QRIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>One year</td>
<td>8</td>
</tr>
<tr>
<td>Two year</td>
<td>6</td>
</tr>
<tr>
<td>Three year</td>
<td>11</td>
</tr>
<tr>
<td>Four year</td>
<td>0</td>
</tr>
<tr>
<td>Other (Describe)</td>
<td>8</td>
</tr>
<tr>
<td>Multiple</td>
<td>7</td>
</tr>
</tbody>
</table>

---

![Image of children playing](image)
Rating Process

- In 90% of QRIS, programs submit an application as part of the rating process.
- In 88% of QRIS, programs submit rating documentation, and in 78% of QRIS programs are provided with assistance in preparing/submitting their documentation.
- 43% of QRIS require programs to attend an orientation.
- In 45% of QRIS, the rating process requires a self-assessment.
- In 50% of QRIS, programs apply for a particular rating as part of the rating process. However, programs will receive the rating for which they qualify.

![](Rating Process Elements)

- In 8% of QRIS, programs must progress sequentially through the rating levels, starting with the first entry.
- 18% of QRIS have a different process for re-ratings, e.g., for re-ratings, only a small random sample is verified through an on-site visit, or only updated paperwork is required to be submitted, or the re-rating process is streamlined to only provide evidence on elements that will contribute to the higher rating.

Rating Verification

- In 88% of QRIS, the rating process includes “on-site observations” to collect information for the rating (e.g., review professional development plans and other documents, conduct classroom assessments, and/or administrator and teacher interviews).
- In 80%, the rating process includes verification by “outside entities” (e.g., training registry, university transcripts).
- In 40% of QRIS, the rating process includes an “on-site visit” to verify self-reported information, while in 25%, the rating includes unverified self-reported information.
- In 40% of QRIS, verification is done off-site by a rater using a manual or rating rubric.

![](Rating Verification Process Elements)
Automated Rating/Accelerated Rating

- 50% of QRIS have no automatic/alternative pathway to a rating.
- 33% have a process for Head Start/Early Head Start programs.
- 48% have a process for accredited centers (e.g., NAEYC accreditation); 40% have a process for accredited family child care homes (e.g., NAFCC accreditation).
- 18% have a process for school-based early care and education programs.

Observational Tools

- For centers: 78% of QRIS use ERS, 48% use CLASS, 28% use another tool (e.g., Program Administration Scale, Program Quality Assessment, Business Administration Scale), 3% use a self-developed tool, and 8% use no observational tools.
- Family child care homes: 71% of QRIS use FCCERS-R, 16% use CLASS, 16% use another tool (e.g., Business Administration Scale, Arnett Caregiver Interaction Scale, Pyramid Model), 8% use a self-developed tool, and 11% use no observational tools.

Finance

Total Funding

- Of 40 QRIS in compendium, 32 provide data on total funding for QRIS.
- Total funding across 32 QRIS is $1.17 billion.
- 54,164 rated programs are operating in the 32 QRIS.

Funding by System Element

- Only 15 QRIS provide funding details broken down by system element. In only 10 of these did the funding information provided for each category equal the total funding number reported.
- Total funding across the 15 QRIS that provided funding details is $956.5 million. Total funding for QI is $78 million (8%), for Administration, $40 million (4%) and for Evaluation, $7 million (1%).
- Among the 10 QRIS that provided full funding data that matched their total funding number, the average share of total funding spent on QI is 63%, on Administration, 33%, and on Evaluation, 5%.
- Among those reporting funding breakdowns - QI varies from 2% (NC) to 92% (AR); Administration varies from 2% (NC & OK) to 87% (UT); Evaluation varies from 1% (AR) to 13% (WI).

### System Element Funding as a % of Total QRIS Funding

<table>
<thead>
<tr>
<th>System Element</th>
<th>CO</th>
<th>FL</th>
<th>ID</th>
<th>MO*</th>
<th>MI</th>
<th>MT</th>
<th>NY*</th>
<th>NC*</th>
<th>OK*</th>
<th>OR</th>
<th>UT</th>
<th>WI</th>
<th>MN</th>
<th>VA*</th>
<th>AR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality Improvement</td>
<td>6%</td>
<td>20%</td>
<td>65%</td>
<td>27%</td>
<td>21%</td>
<td>27%</td>
<td>6%</td>
<td>3%</td>
<td>3%</td>
<td>2%</td>
<td>9%</td>
<td>26%</td>
<td>13%</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>Administration</td>
<td>43%</td>
<td>80%</td>
<td>35%</td>
<td>70%</td>
<td>79%</td>
<td>53%</td>
<td>14%</td>
<td>2%</td>
<td>2%</td>
<td>67%</td>
<td>87%</td>
<td>78%</td>
<td>71%</td>
<td>20%</td>
<td>92%</td>
</tr>
<tr>
<td>Evaluation</td>
<td>51%</td>
<td>40%</td>
<td>35%</td>
<td>4%</td>
<td>22%</td>
<td>21%</td>
<td>2%</td>
<td>2%</td>
<td>5%</td>
<td>11%</td>
<td>1%</td>
<td>6%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Funding categories provided do not equal total funding numbers provided.
CCDF was cited most often as a main, or the sole, funding source (11 of 15). Other sources included state general funds, RTT-ELC grants, state pre-K funds, and licensing fees. The local QRIS also reported funding from local governments.

**Financial Supports**

- 25 (64%) QRIS reported providing some sort of financial incentives to providers:

<table>
<thead>
<tr>
<th>Type of Financial Incentive</th>
<th># of QRIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality award/bonus</td>
<td>25</td>
</tr>
<tr>
<td>Improvement grant</td>
<td>17</td>
</tr>
<tr>
<td>PD/Scholarship</td>
<td>13</td>
</tr>
<tr>
<td>Assistance with licensing/accreditation fees</td>
<td>4</td>
</tr>
<tr>
<td>Compensation Enhancement/Support</td>
<td>4</td>
</tr>
<tr>
<td>Startup award</td>
<td>1</td>
</tr>
<tr>
<td>Misc.</td>
<td>7</td>
</tr>
<tr>
<td>No financial incentives</td>
<td>4</td>
</tr>
</tbody>
</table>

- Quality award/bonus amounts range from $50-$6,500 per program.
- Improvement grants range from $500 to $11,400 per program.

**Tiered Reimbursement**

- 26 QRIS report offering TR (65%).
- Majority of QRIS only offer at higher levels (e.g. 3,4,5) – 18 only offer the rates at 2 or higher.
- 2 QRIS only offer TR at highest level (NE and FL-Strong Minds).
- WI reduces base rate for level 2 programs (level 1 programs can’t get subsidy), and pays base rate beginning at level 3.
- MD offers different % for FCC and centers and for under 2/over 2 – big difference in under 2/over 2 in centers, much smaller in homes. And homes TR % is less than centers.
- MA only offers increase for Infant/Toddler rates.
- 4 QRIS set a $ amount increase/differential, rather than a % (NM, AR, PA & MI).
Appendix D. Summary of Findings from Recent Cost of Quality Studies

Washington DC (2016)

*Modeling the Cost of Child Care in the District of Columbia*


**Summary of Findings**

- The gap between costs and revenue is largest for programs that serve infants, toddlers, and children with special needs.
- The gap between costs and revenues is greatest in Gold-level (the highest-quality level) programs due to increased requirements for credentialed staff and the need for more staff to cover planning and professional development time.
- Some child care centers and many family child care homes are not fully enrolled and, as a result, have significant revenue losses.
- Larger centers (or a network of centers linked by a shared administration) can be more financially stable depending on the age distribution of children served and the quality level.
- Subsidy rates need to align with licensing ratios. Rates for children 12 to 30 months old are lower than for children birth to 12 months old, but the adult to child ratios are the same.
- Programs that are at the highest-quality level (Gold-level) and are also able to tap pre-K funding appear to have the revenues needed to attain and maintain high-quality standards, including lower child-to-teacher ratios and higher-credentialed teachers.

**Actions Taken in Response to Study Findings**

None to date

Ohio (2015-16)

*The Dollars and Cents of Early Learning: Investing in Success [A Summary of Findings from groundWork’s Early Childhood Financing Project in Ohio.]*


**Summary of Findings**

- In urban areas, the average-size center serving 15% or more children from families receiving child care subsidy will be unable to reach healthy year-end net revenue at any quality level and will be completely unsustainable at higher-quality levels (3-, 4-, and 5-Star programs have negative net revenue).
- In urban areas, the average-size center serving 75% subsidy families or more will be unable to reach a healthy year-end net revenue at any level and will be completely unsustainable at higher-quality levels (3-, 4-, and 5-Star programs have negative net revenue).
- In rural areas, the typical center is completely unsustainable at any level (negative net revenue at all quality levels).
- Adequacy of current subsidy base rates and tiered reimbursement levels can be examined by modeling a center with 100% subsidy enrollment.
  - In urban settings, the 100% subsidy center will have net revenue in the 5% range at lower-quality levels (below 3-Star), just break even at 3-Star (0% net revenue) and become unsustainable at higher-quality levels (4-Star and 5-Star).
  - In rural areas, the 100% subsidy center is completely unsustainable at any level (consistently negative net revenue).
• Current subsidy tiered reimbursement begins with 5% additional payment for 1-Star and rises by 5% for each additional star level to 25% for 5-Star. These current tiered reimbursement rates do not reflect the actual cost of increasing quality levels in centers and, in fact, provide a disincentive to proceed beyond the 2-Star level of quality. High-quality programs are most important for at-risk children so reimbursement of actual costs is critical to ensuring subsidized children are enrolled in quality programs. Our analysis indicates that programs at the 3-, 4-, and 5-Star levels need increases above the current tiered rates in order to cover the associated costs of operating at higher levels of quality.

• Methods of payment should reflect business practices. In the private market, a family pays the community-based provider a fee to make a slot available for a child. Providers must pay all costs—facilities and personnel—associated with each slot, whether or not a child attends every day, so the purchaser must pay a fee for the slot. The state has a compelling interest in ensuring that the children it supports receive the benefits of attendance and that the provider can cover fixed costs. A reasonable policy would cover the full cost for the slot for each state-subsidized child and require a standard of attendance that benefits the child.

**Actions Taken in Response to Study Findings**

No policy changes to date. Increase of $40M in overall child care budget for the current biennium was attributed, in part, to the findings of the study.

**Delaware (2013)**

*Modeling Quality Costs for Delaware Stars*


**Summary of Findings**

• The cost-of-quality model demonstrated that public schools can financially sustain a full-working day, school-year program for preschool-age children using in-kind supports (occupancy, district office services, food service) coupled with federal Title I funds and Purchase of Care child care funding (POC) for every child with the Star-5 Tiered Bonus.

• Head Start programs can financially sustain a part-day, school-year program for preschool-age children supported by a mix of ECAP (state preschool program) and federal Head Start funding plus POC with the Star-4 Tiered Bonus.

• The model reveals that average-sized early learning centers operating full-day, full-year programs for infants through preschool-age children are not financially sustainable with current revenue sources.

• Star-1 and Star-2 centers are financially healthy when they are larger and do not enroll infants. Star-3, Star-4 and Star-5 centers are financially healthy when the proportion of POC revenue is greater (because of the Tiered-Bonus payments, which effectively exceed typical private tuition rates) and when the center does not enroll infants.

• Operating a small or large family-child care home in Delaware is financially sustainable at all quality levels, if the provider earning more than a preschool teacher is the gauge of adequacy.

Delaware’s financial supports are highly focused on incentivizing programs at Star 3-5 to enroll children receiving POC; the vast majority of investment is in Tiered-Bonus payments for programs at Star 3, 4 and 5. The major recommendations for creating a well-rounded portfolio of financial incentives are:

• Eliminate Merit Awards and replace them with more valuable ongoing financial support for maintaining quality.

• Increase the size of Quality Improvement grants.

• Re-calibrate Tiered Bonuses to better match actual cost of quality by star level.

• Establish additional financial supports for maintaining quality, especially focused on compensation of qualified personnel and incentivizing economies of operation such as Shared Services Alliances.
Actions Taken in Response to Study Findings
Delaware initiated several reforms based on the report findings, as well as other work, to improve financial resources for its programs. These reforms included a focus on infant and toddler programs as well as higher level Star programs.

Rhode Island (2013)
The Cost of Quality Early Learning in Rhode Island

Summary of Findings
Rhode Island set out to explore the cost of operating quality early learning programs in 2012. The overarching goal of the effort was to develop a set of recommended financial incentives and supports to promote quality improvement and sustain high-quality through BrightStars, the state’s Quality Rating and Improvement System.

- Primary cost-drivers of program operations are staff compensation and staff-to-child ratios.
- The cost of quality is primarily related to the level of skills and qualifications of staff and the increased staff compensation and benefits needed to attract and retain them as quality increases.
- Size matters: small centers (<60 children) are not financially sustainable at any quality level while large centers (>150 children) are sustainable at all quality levels except Star 5.
- Age mix matters: a center serving only children birth to three years old is not financially sustainable at any size or quality level.
- Current revenue sources (CCAP and/or parent tuition at 50thile market rates and CACFP) are sufficient to cover costs for programs that meet regulations, Star 1 and Star 2.
- Tuition source (CCAP or parent tuition) is less important than size:
  - A medium-size program is financially sustainable at Star 1 and 2, but not at Star 3-5, whether its tuition source is all CCAP or all parent tuition at the 50thile market rate.
  - A large program is financially sustainable at Star 1-4, but not at Star 5, whether its tuition source is all CCAP or all parent tuition at the 50thile market rate.
- Public funding (in addition to CCAP) matters.
- Head Start revenues are sufficient to support quality for a part-day, school-year program for preschoolers.
- State pre-K funds combined with CCAP (or parent tuition) are sufficient to support quality for a full-day, full-year program for preschoolers.

Definition of ‘size’ is: Small = 58 children in 4 classrooms: 1 infant, 1 toddler and 2 preschool classes -- 1 threes, 1 fours; Medium = 78 children in 5 classrooms: 1 infant, 1 toddler and 3 preschool classes -- 1 threes, 2 fours; Large = 146 children in 9 classrooms: 1 infant, 2 toddler and 6 preschool classes -- 3 threes, 3 fours)
For Rhode Island, the goals or desired results of providing financial incentives are:

- Increase the number of early learning programs that participate in the BrightStars Quality Rating and Improvement System.
- Make lasting improvements to the quality of early learning programs, especially those serving children with high need.
- Help programs, especially those serving high-need children, to meet quality standards within the BrightStars Quality Rating and Improvement System and RIDE Comprehensive Early Childhood Education Program/Classroom Approval.
- Increase the proportion of low-income children in higher-quality programs by supporting programs to improve their quality.
- Increase the number and proportion of early learning programs that achieve and maintain Star 4 or Star 5 in the BrightStars Quality Rating and Improvement System by offsetting the cost of operating higher-quality programs.
- Help programs serving low-income infants and toddlers to achieve and maintain higher-quality standards (Star 3 – Star 5).
- Maintain family contributions (private fees/tuition) as a revenue source and keep those contributions affordable for families with low and moderate incomes.

Rhode Island’s policy priorities follow from the goals outlined above. Combining the policy priorities with data from the cost-of-quality model, the Quality Improvement Core Team proposed two main options for financial incentives and supports to provide concrete support to programs. These are:

- Program Quality Improvement Fund to support the cost of improving quality; and
- Program Quality Awards to support the ongoing cost of maintaining quality.

The Program Quality Improvement Fund is intended to help all programs make progress on the pathway to higher quality. The Fund will offer grants to all early learning centers (child care, Head Start, and public schools) and family child care homes. Licensed early learning programs in centers and homes must have a BrightStars quality rating (Star 1-Star 5) and an approved Quality Improvement Plan (QIP) in order to receive a grant. Public schools serving young children must have a state-approved Quality Improvement Plan supporting RIDE Comprehensive Early Childhood Education Approval. The grants’ uses must be directly related to achieving the goals of the QIP. Improvement may take time, so progress needs to be demonstrated as soon as feasible; a program may apply for up to 2 grants over 2 years before demonstrating movement to a higher star level. The proposed levels of grants are:

- Family Child Care Home: Grants up to $5,000
- Center/School: Grants up to $30,000

Program Quality Awards are designed to address the ongoing cost of operating a quality program, based on the gaps by quality level identified in the cost-model work. Given both the adequacy of current revenue and the effects of enrollment size on financial sustainability, the proposed payments were thoughtfully calibrated.

Quality Awards have two parts. The first is a payment based on the quality level (3-5) of the program and its total enrollment of children under age 5. The second is a payment based on the quality level of the program (3-5) and the enrollment of infants and toddlers receiving CCAP funding. After careful consideration of the facts and extensive deliberation, the proposed Quality Awards are as follows:

- Eligible programs are licensed early learning centers (child care, Head Start) and family child care homes serving children participating in the Child Care Assistance Program (CCAP) who are under age 6; those children must make up at least 10% of overall enrollment of children under age 6.
- Quality Awards amounts are calculated based on the program’s BrightStars rating, the overall enrollment of children under age 6, and the number of CCAP infants and toddlers.
Summary of Findings

Early Achievers puts forth a high-level definition of quality. Level 5 is a high-functioning, educationally effective early childhood program. Reaching Level 5 is difficult; note that no programs in the Reciprocity Pilot were rated Level 5 and only one program has achieved Level 5 in the first year. This does not imply that Early Achievers standards should be lowered. Rather, it means that communication will need to be clear and consistent on why the Early Achievers standards are high (e.g., intent to affect child outcomes, improve school success, set standard for all types of early learning programs) and why few programs have yet to achieve the highest level (the status of current practice and public investment are not sufficient yet and significant improvement takes time and effort). It also means recognizing and appreciating that programs will need time and effort to reach the higher levels of Early Achievers. At this point, getting to Level 3 is a notable achievement and reaching and maintaining Level 4 is truly excellent; both should be publicly celebrated. Going public with ratings will require careful messaging and might need to wait until there are some Level 5 programs available in more than one region.

Implications: the Early Achievers Standards

The average-size center (72 children), 30% subsidy revenue, 70% private tuition revenue, with classrooms for children infants through school-age, operating at 85% enrollment efficiency breaks even at all quality levels. Yet none of the centers is in the financially healthy range of annual “profit” (7%). Levels 1 and 2 are financially sustainable. Level 4 and Level 5 are just barely in the positive range.

Family Child Care Home Providers with 8 or 12 children, infants through school-age, 30% subsidy revenue, 70% private tuition revenue, operating at 85% enrollment efficiency are profitable. At all quality levels, family-home providers with an assistant are making more than the Washington minimum wage for all hours they work, with time-and-a-half for hours worked over 40 in a week, as are homes without an assistant at the higher quality levels. Homes without an assistant at Levels 1 and 2 make slightly less than the Washington minimum wage. At all quality levels, the provider either with or without an assistant is earning much more than the average preschool teacher in Washington, and at Levels 4 and 5, the provider, both with and without an assistant, is earning about the same as the annual average wage for a center or preschool director in Washington.

Washington currently offers two financial incentives that support the ongoing costs of maintaining quality and are paid directly to a program.

Early Achievers Quality Improvement Awards are annual payments to programs at Levels 3-5. For the average-size center (72 children), the value of these awards ranges from $69 per child per year for the Level 3 center to $125 per child per year for the Level 5 center. For a home with 8 children, the value of these awards ranges from $250 to $344 per child per year.

The 2% Subsidy Bonus for programs in Early Achievers at Levels 2-5 is applied to the child care subsidy payments a program receives. The value of the Early Achievers Bonus is the same for all levels but varies by age of child and region of the state. For a Region 4 center, it is worth $235 per year per infant and $165 per year for a preschooler. For a Region 4 home, the value of the bonus is $212 per year per infant and $156 per year for a preschooler. Because the bonus is the same percentage for all levels, it functions as a modest support for maintaining a quality level, not an incentive to improve quality. It may encourage programs that serve subsidized children to participate in Early Achievers.
Implications: Base Subsidy Rates

There is much discussion about whether Washington “base subsidy rates” are sufficient. One way to see if base subsidy rates are adequate to sustain a basic regulated program is to set up the cost model for 100% subsidy revenue. This is an unlikely scenario in reality; Washington centers and homes enroll on average about 30% subsidy children; a few may reach eighty percent.

Centers at Levels 1 and 2 are in reasonable financial condition. This means the base subsidy rates are sufficient to support their operational costs. The Level 3 center is not breaking even and the highest-quality centers, Levels 4-5, are clearly financially unsustainable. This illustrates that the problem is not that the base rates should be raised: the Level 1 and 2 centers are financially sustainable at current base rates. What is needed is a set of financial supports aimed at the higher-quality centers, especially the Level 4 and Level 5 centers.

The situation for the homes is consistent with centers. To illustrate the adequacy of base subsidy rates for homes, the model is set up with 100% WCCC revenue, for homes enrolling either 8 or 12 children (with assistant) and average efficiency. At all levels, the home providers are making the minimum wage or more for all hours worked, and making more than the average Washington preschool teacher.

These results show that base subsidy rates do not need to be increased; rather, financial supports of various types for Level 4 and Level 5 centers and homes are needed. Financial incentives need to be carefully calibrated to incentivize centers and homes to progress toward higher quality, rather than over-rewarding programs for entering Early Achievers. Setting time limits on awards at lower levels is one approach. For example, the technical assistance and consultation supports offered to Level-2 programs could be limited to 2 years. Any additional subsidy bonus can be targeted to programs at Levels 3-5.

Actions Taken in Response to Study Findings

Washington is considering conducting its own cost-of-quality studies on a regular basis to inform policy.

Appendix E. Other Resources and References

Overcoming Financial Barriers to Expanding High-Quality Early Care & Education in Southeastern Pennsylvania (July 2015) by Nonprofit Finance Fund: Kristine Alvarez, Alex Epps, Sonia Montoya


The Nonprofit Finance Fund studied 147 providers to assess the financial challenges of operating high-quality Early Care and Education programs. The report highlights the key financial, business, and systemic barriers to delivering high-quality programs—with a focus on nonprofit ECE programs serving the Philadelphia Region’s most vulnerable children.

Local Funding for Early Learning: A North Carolina Toolkit is an online resource, developed for NC, that is useful in any jurisdiction. It includes overviews of all federal sources and state sources in North Carolina, and discusses the full range of potential local strategies to generate revenue. Case studies cover strategies in use in cities and counties across the country. View the NC Finance Toolkit here: http://financingtools.buildthefoundation.org/

The following are potentially useful for increasing QRIS efficiency in rating:
Coordinated Monitoring Systems for Early Care and Education provides an overview of monitoring and the major early care and education monitoring systems. It offers possible goals for a coordinated monitoring system and describes some approaches for addressing those goals. It also describes 11 dimensions that are important to consider in planning monitoring-coordination efforts and highlights the efforts of two states, Ohio and Rhode Island, that are working to coordinate their early care and education systems.

Mapping the Early Care and Education Monitoring Landscape provides tools to help state/territory leaders document ECE monitoring systems, so they can more effectively plan strategies to coordinate monitoring across the various sets of regulations. The tool provides a framework and considerations to support discussions and planning of coordinated monitoring efforts.

High-Quality Early Learning Settings Depend on a High-Quality Workforce: Low Compensation Undermines Quality provides current data on experience, education and wages of the early care and education workforce, including one-page illustrations of the wage gap in each state. The report “discusses the importance of supporting the early learning workforce – nearly a totality of whom are women – not only to improve the quality of early learning programs, but also to ensure fair pay so that they can support their own families.” It is a joint publication of the U.S. Departments of Health and Human Services and Education.

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