



Modeling Quality Costs for Washington Early Achievers: Report on Program Cost of Quality

**Washington State 5595 Task Force Meeting
Walla Walla
October 2013**

Anne Mitchell





Project Purpose

To assist the Washington Department of Early Learning:

- Develop a dynamic model for estimating the cost of operating various types of early learning programs at the quality levels of Early Achievers
- Review the sufficiency of Washington's current financial incentives for quality



Project Approach

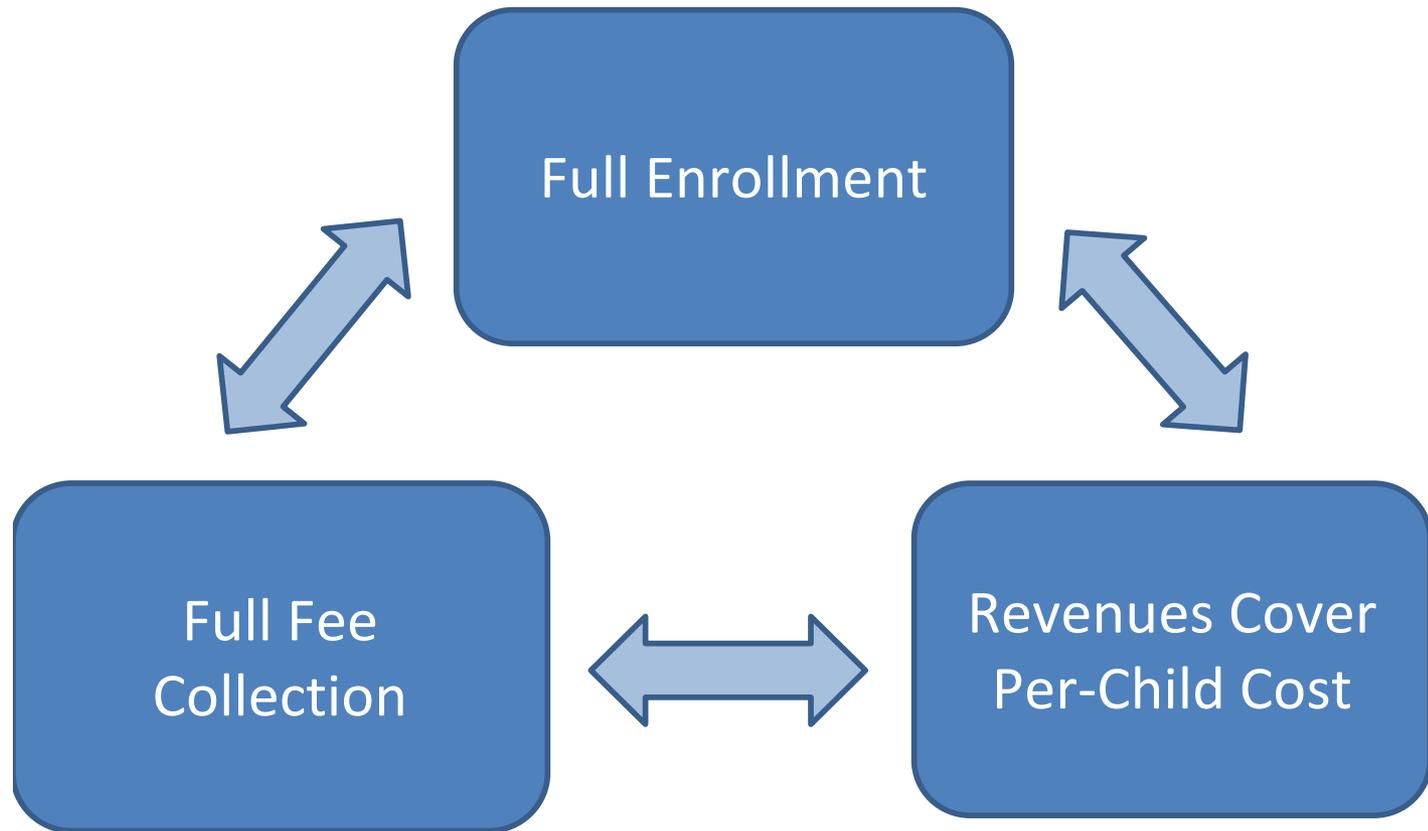
- Gather perspectives of DEL and EA Management Team, SEIU925 and CCA of WA
- Assemble available data from federal and state sources
- Collect information and professional judgment of Washington providers
 - 16 centers and homes (both for-profit and non-profit)
 - 5 counties (King, Pierce, Snohomish, Spokane and Whatcom)
 - Staff from SEIU and CCA of WA



Considerations for Estimating Costs

- Expense drivers:
 - Ratios
 - Group (class) size
 - Staff compensation (salary and benefits)
- Revenue drivers:
 - Parent tuition fees/other revenue
 - Revenue collection
 - Enrollment efficiency

Provider Perspective: Iron Triangle





Provider Perspective: Financial Sustainability

- Financial sustainability for centers can be defined as modest net annual revenue of about 5-7% of total revenue
- This allows for a modest reserve fund to be established/replenished
- This definition of sustainability applies to both not-for-profit and proprietary/for-profit centers

Considerations for Estimating Cost: EA Quality Standard Areas & Cost-Drivers

- Child Outcomes: (10 points possible, 3 feasible without added cost)
- Learning Environment and Interactions: (55 points possible, significant cost for Level 4 & 5)
- Curriculum and Staff Support: (15 points possible, 5-6 feasible, modest cost for additional time)
- Professional Development & Training: (10 points possible, 5 feasible without added cost)
- Family Engagement and Partnership: (10 points possible, 5 feasible as most are typical good practice, not additional time or cost)

Considerations for Estimating Cost: EA Levels and Cost-Drivers

- **Level 1** = meeting regulations
- **Level 2** = complete training series, work with TA consultant getting ready for EA rating
- **Level 3** = meet ERS & CLASS score threshold plus 5 points (no significant cost-drivers)
- **Levels 4 and 5** = possible to achieve with significant cost drivers for staff time and compensation

Considerations for Estimating Cost: EA Levels and Cost Drivers

- Requirements in licensing rules (EA Level 1 and EA Level 2)
- Early Achievers expectations begin to increase for Level 3 and are significant for Levels 4 & 5
- Primarily ***better qualified staff and higher compensation*** as quality increases (Levels 4 & 5)
- ***More staff time*** for staff planning, child assessment, family activities and conferences, curriculum planning, staff meetings (Levels 3-5)
- ***One-time*** costs for materials and equipment (Levels 3-5)

Cost Model Structure

- Annual revenue and expense budgets by quality levels (Levels 1-5)
 - Centers
 - Homes
- Expenses
 - *Personnel* (WA data from federal BLS & homes)
 - *Non-personnel* industry averages for WA vetted with centers and home providers
- Revenue
 - WCCC (child care subsidy)
 - Parent tuition
 - Child and Adult Care Food Program (CACFP)
- Two Regions of WA: Seattle and Yakima

Variables in the Cost Model

- Quality levels
 - Regulated/Level 1 through Level 5
- Size
 - Number of classrooms and children
- Ages of children
 - infant through school-age
- Income mix of families
 - % revenue from private tuition vs. WCCC
- Efficiency
 - Actual vs. 'desired' enrollment (set at 85%)
 - Level of uncollected revenue or 'bad debt' (set at 3%)

Details of the Variables

○ **Size**

- Washington Average Size Center = 72 children, 4 classrooms at the regulated group sizes: 1 infant room (8 children), 1 toddler room (14 children), 1 preschool room (20 children) and 1 school-age room (30 children)

○ **Efficiency** (typical)

- Enrollment set at 85% (actual enrollment compared to capacity)
- Bad debts set at 2.5% of potential revenue

Details of the Variables, continued

○ **Family Income**

- under 100% of federal poverty level (FPL)
- 100-185% FPL
- above 185% FPL

○ **Tuition**

- WCCC at current rates with 2% increase for EA levels 2-5 and Tiered Bonus at EA Levels 3-5
- Private tuition rates increasing by EA Levels 3-5



Key Assumptions in the Cost Model

- *Level 1 and Level 2 programs are essentially similar in terms of operations and costs.*
- *Compensation increases with higher Early Achievers Level.*
- *Teaching staff time increases with Early Achievers Levels.*
- *The primary cost driver of Early Achievers for homes is time.*

Key Assumptions, continued

- *For both centers and homes, scores on the ERS are related to the presence of specific items such as books, science materials, gross motor equipment, etc. and in sufficient number relative to the number of children.*
- *For both centers and homes, maintaining Levels 3, 4 or 5 requires using a child assessment system.*

Key Assumptions, continued

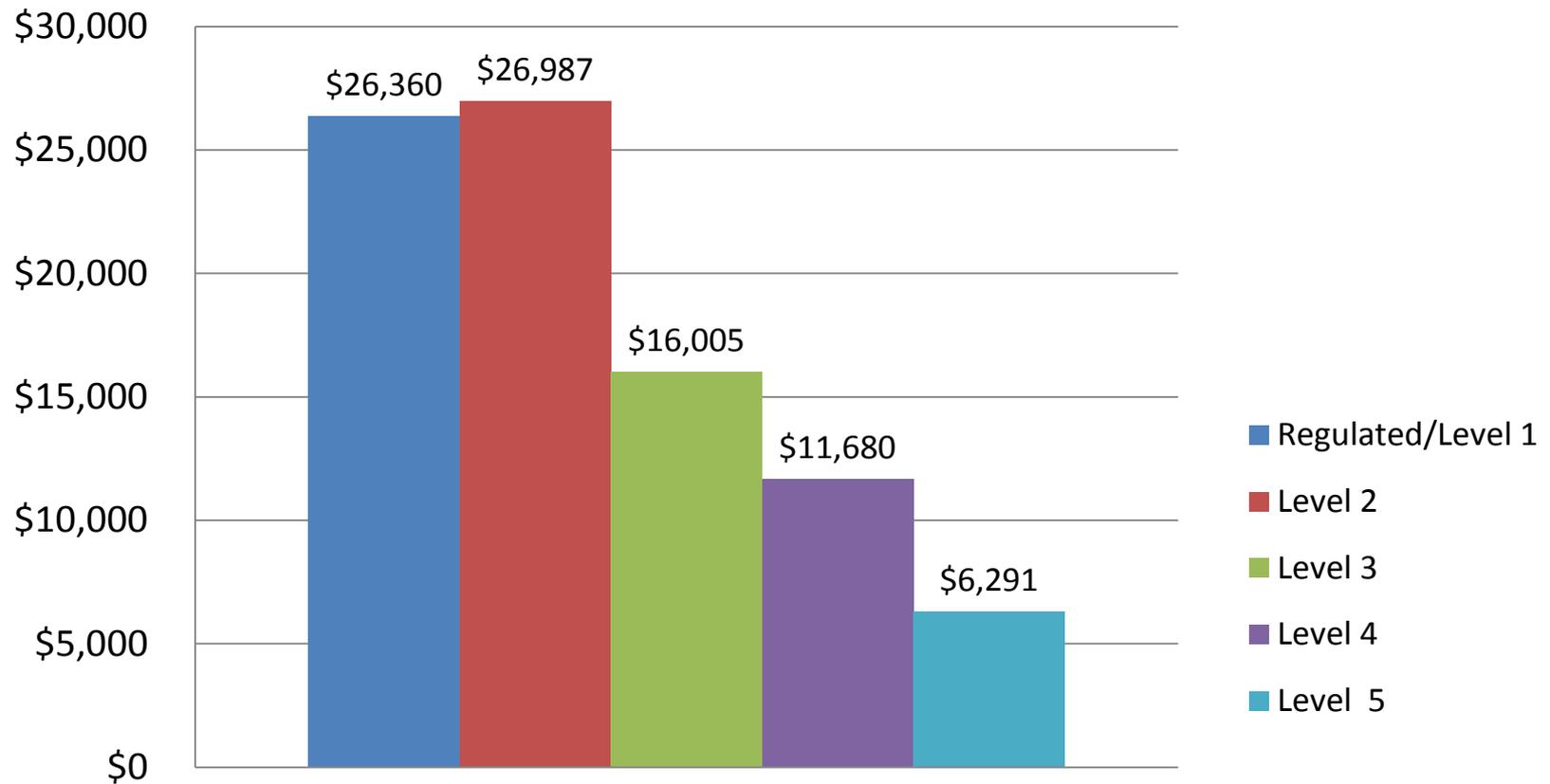
- *Private tuition rates increase with Early Achievers levels.*
- *Child care subsidy (WCCC) and the 2% EA bonus are revenue sources.*
- *The CACFP is a valuable revenue source for centers and homes.*
- *The Early Achievers Annual Quality Improvement Award amounts are an ongoing revenue source for centers and homes.*
- *Full enrollment and timely collection of all revenue are essential to a program's financial sustainability.*



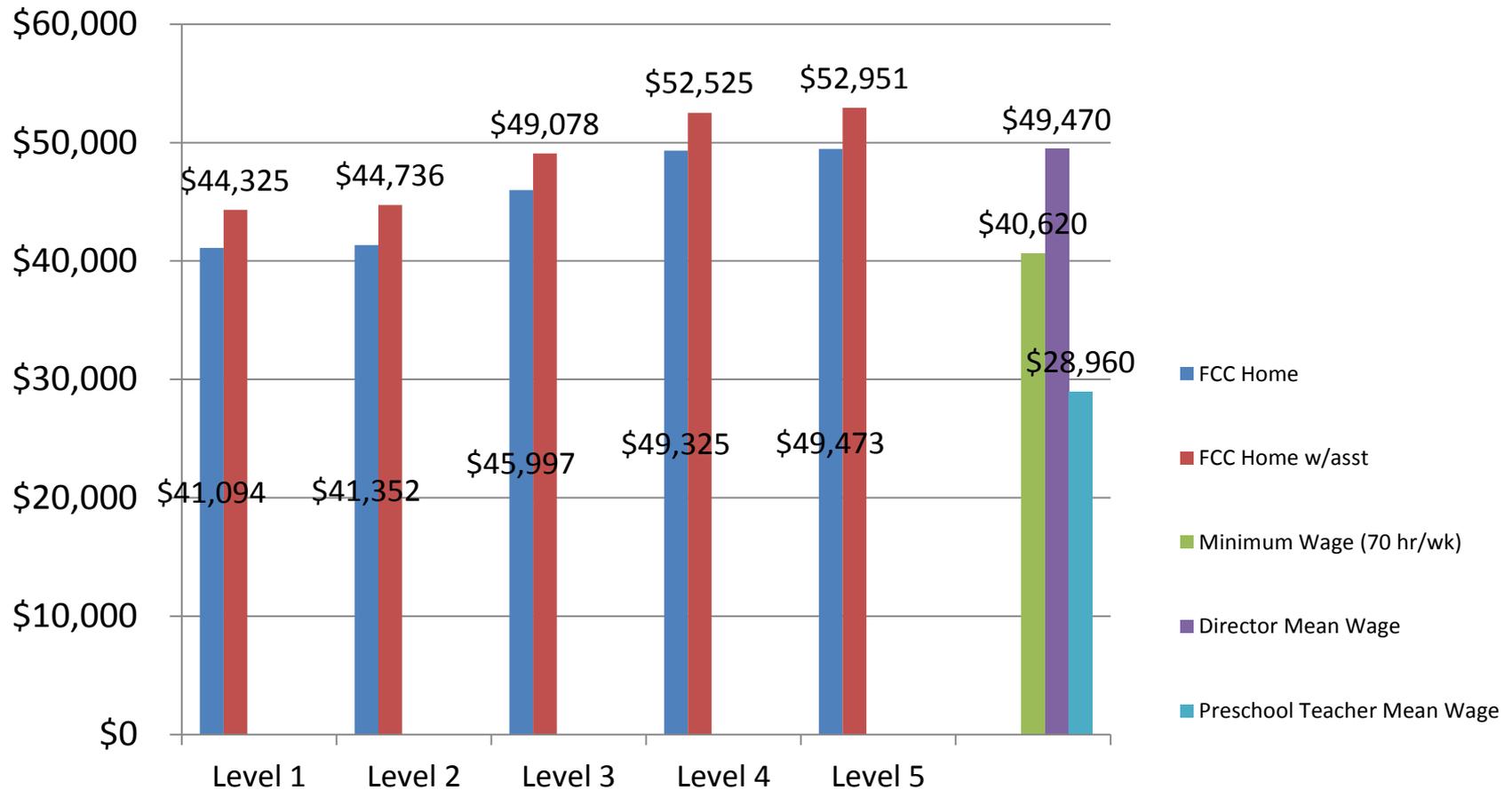
Results of Cost of Quality Model for Centers and Homes

- Model Output = Net annual revenue by EA Level (displayed as bar charts on following slides)
- Centers with 72 children, infants through school-age
- Homes either 8 or 12 children (with assistant)
- Revenue Conditions: 30% WCCC (the statewide average for Washington centers) and 70% private tuition

Average Center Net annual revenue by EA Level



Family Child Care Home Net Annual Revenue by EA Level



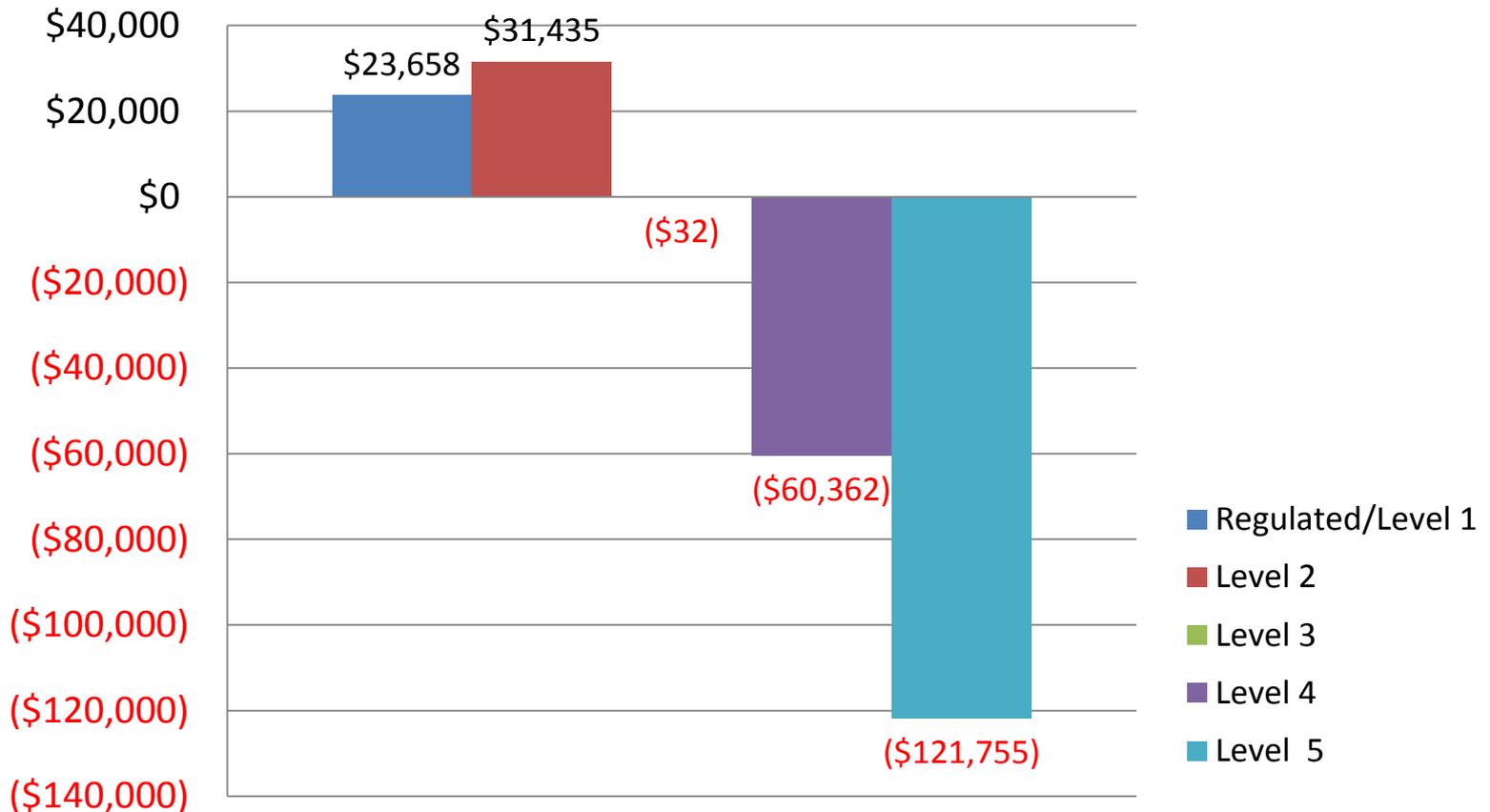
Using the Model:

Are the WCCC base subsidy rates sufficient to support a regulated program (Level 1)?

- Set the model for 100% revenue from WCCC (with 2% EA bonus for 2-5)
- Plus CACFP and any EA Quality Award (Levels 3-5)
- 100% WCCC enrollment is unlikely in reality, but good way to answer the question

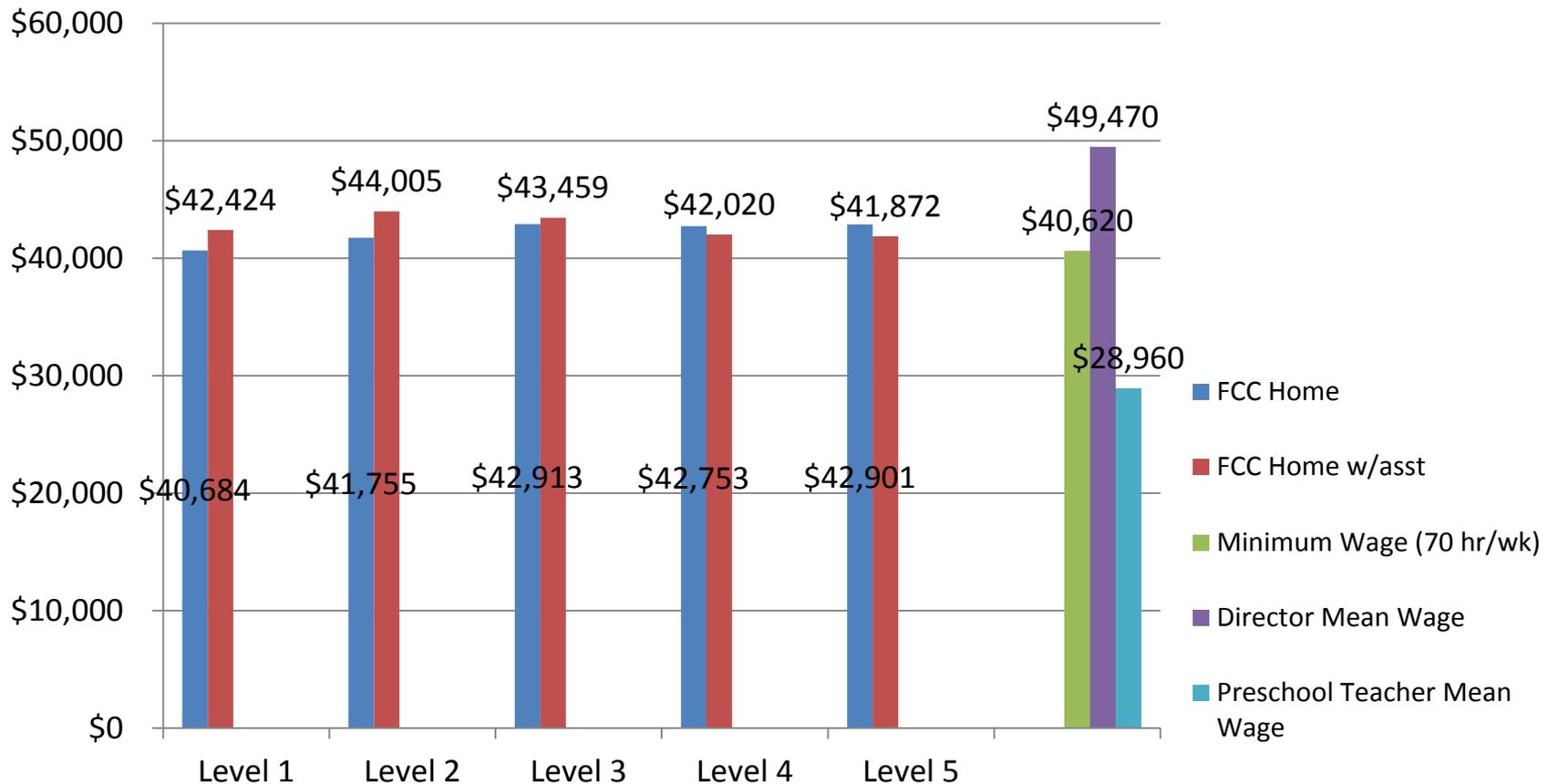
Average Size Center 100% WCCC revenue, no private tuition revenue

Total net annual revenue by EA Level



Average Home 100% WCCC revenue, no private tuition revenue

Total net annual revenue by EA Level





Using the Findings

- Review other state's financial incentives for quality in QRIS
- Washington's current financial incentives for quality in Early Achievers
- Sufficiency in addressing the cost-quality gaps identified by cost model
- Scope compared to other states

Financial Incentive Policy in QRIS in Other States

Support Quality Improvement (time-limited)

- Quality improvement grants
- Scholarships or other professional development support
- Loans linked to QRIS participation

Support Quality Maintenance (ongoing)

- Subsidy policy supports quality
- State subsidizes cost of selected materials
- Quality achievement grants or merit awards
- Practitioner wage initiatives
- Tax credits linked to quality rating



Financial Incentive Policy

- **Direct** funding offered to a program to offset the costs of operation
- **Indirect** funding paid on its behalf (i.e., cover the cost of selected materials, professional development, technical assistance, coaching)

Financial Incentive Policy Washington: Quality Improvement

Other States: Quality Improvement (one-time or time-limited)	WA has?
Quality improvement grants (for materials, equipment, other facility improvements)	No (WA has annual quality awards)
Scholarships or other professional development support	Yes
TA consultants Coaching	Yes
Loans linked to EA participation	No

Financial Incentive Policy Washington: Quality Maintenance

Other States: Quality Maintenance (Ongoing)	WA has?
Quality achievement grants or merit awards	Yes, Quality Bonus Awards
Pay for select materials	No
Practitioner wage initiatives	No
Tax credits for families linked to quality rating	No

Financial Incentive Policy Washington: Subsidy

Other states: Subsidy Policy Supports Quality	WA has?
Higher subsidy payments for higher quality	Yes, TR Bonuses (EA 2-5) worth approx \$200 per WCCC child per year
Subsidy only to programs in EA	No
Subsidy only to higher quality programs	No
Contract for slots in higher quality programs	No/maybe
Reduce family co-pay for higher quality programs	No

Cost Model and Financial Incentives: Implications and Next Steps

- Early Achievers quality standards are appropriately high
- Celebrate Level 3!
- Focus on sustaining quality Levels 3-5
- Use all the tools and resources available
- Align all with quality improvement and quality sustainability
- Determine feasibility (cost, ease, etc.) of revising and expanding incentives
- Establish timeline for implementation