CHILD CARE SUBSIDY STUDY

Prepared for
Washington Department of Early Learning

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EXECUTIVE SUMMARY

The Washington Department of Early Learning (DEL) engaged **Public Works** to identify best practices and innovative approaches for how child care subsidies are being used to fund quality early learning programs for low-income children. The questions considered are:

1. How are states leveraging Child Care Development Fund (CCDF) resources to improve quality?

2. How are states addressing the subsidized child care dilemma to balance the issues of access, affordability, quality and continuity?

3. What are the best practice ideas that Washington leaders might consider for adaptation to Washington's program?

An initial review of all states led to the selection of ten states for more in-depth investigation: Colorado, Connecticut, Massachusetts, Minnesota, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania and Virginia. States were chosen based on: 1) identification as a Global Challenge State; 2) states that were part of an initial child care subsidy study on which this current investigation builds; 3) states identified with high investments in quality initiatives; 4) recommendations from DEL administrators, and; 5) states identified with strong alignments between child care and K-3 initiatives.

The in-depth research on states consisted of a review of federal sources of information that regulate subsidized child care programs, national think-tanks and associations that have produced significant research, state web-sites, published reports, CCDF plans and interviews with key administrators in the target states.

Overall, it is quickly evident that all states are struggling with the complex, categorical funding issues that require administrators to put together a patchwork of funding to achieve goals. We explored, not only what programs are being designed and implemented in target states, we also focused on the *how* each state was able to accomplish its goals – especially how each target state used every opportunity to creatively use subsidy funding and where additional resources can be combined with subsidies to achieve the best result.

Washington State leaders have already taken major steps to consolidate early childhood program planning and management – in fact, it is the first state to establish a cabinet-level department for this purpose. DEL is working on many fronts to develop initiatives to move current practices in a positive direction, and when compared to initiatives considered important and successful in target states, is actively pursuing many of the initiatives identified. Washington leaders have developed an impressive array of initiatives to help bring together a wide variety of ideas and funding sources aimed at improving quality and coordinating the planning and delivery of early childhood programs. These initiatives actively involve state agencies, community partners, key stakeholders and parents in a variety of coordinating groups and public-private partnerships.

This investigation did reveal several ideas being pursued in target states that ought to be considered in Washington. These include:

- Developing an Early Childhood Learning Budget and Investment Plan.

- Consolidating and centralizing all early learning planning efforts around the state into *one* strategic plan.

- Providing resources to support communities to develop a local early childhood learning planning council.

- Allocating some portion of new funds for various incentives to help providers improve quality – such as merit awards and bonuses for staff who increase skills or competencies or demonstrate positive changes.

- Involving information technology staff during the planning for all phases of design and implementation of quality initiatives to ensure effective collection and utilization of data.

- Using contracts to provide a stable source of funding to help providers improve quality.

- Allowing braided funding (i.e. subsidies paid in addition to contract amount) as an incentive to providers to improve quality and access for children receiving subsidies.

- Establishing plans to phase in initiatives until sufficient access is assured.

- Fostering continuity of care for children by:
    - Setting eligibility for entrance and exit from programs at different levels.
    - Aligning eligibility periods for all programs to be as uniform as possible, preferably for at least 12 months.
    - Adopting a flexible, child-centered policy in managing changes in income and hours.
    - Using non-categorical funds (state funds, private, etc.) to support children in care during periods of parent ineligibility.

- Using a constant percentage methodology to calculate co-pays; set co-pays at a maximum of ten percent of family income.

How target states are using these ideas, the rationale for implementing them and how they might be applied in Washington are discussed in detail in the report.

INTRODUCTION

The Washington Department of Early Learning (DEL) is taking a forward-thinking approach to the challenges it faces in the design and implementation of early learning policies and programs. DEL continues to look for every opportunity to explore innovative ways that Child Care Development Fund (CCDF) subsidies can be used to further their primary focus of: ***access, affordability, quality and continuity***.

In an initial investigation – Child Care Subsidy Policy Phase I – **Public Works** researched best practices in several specific areas of subsidy policy: how states conduct Market Rate Surveys, what states are doing to improve quality of care of exempt providers, how states calculate, authorize and process subsidy payments and policies concerning seasonal care. Some of these topics are relevant to this current investigation and will, therefore, be included as appropriate to provide a complete picture of the challenges and best practices identified in key states.

This investigation is designed to take the next step in identifying innovative policies and initiatives aimed at establishing a comprehensive early childhood learning system – using every opportunity to creatively use subsidy funding and understanding where additional resources can be combined with subsidies to achieve the best result. A comprehensive system, as defined by DEL, would creatively use all available funding sources, built around CCDF subsidies, that provides high-quality early learning options for low-income children and families that is affordable and stability.

Our approach to this investigation was to gather information from four sources: 1) federal sources that regulate subsidized child care programs; 2) national think-tanks and associations that have produced significant research on early learning; 3) state web-sites, published state reports, and review of Child Care Development Fund plans (CCDF) and; 4) interviews of key people in targeted states. Several variables were reviewed to identify target states that would be subject to a more in-depth analysis. These included states:

- Identified as Global Challenge states[1];
- Reviewed as part of an initial study to investigate best practices related to several specific subsidy policies;
- Recommended by DEL;
- With high investments in quality initiatives as identified in CCDF plans; and
- With strong alignment between child care and K-3 initiatives.

Ten states met several of these benchmarks and were therefore targeted for detailed investigation. The ten targeted states include:

[1] Global Challenge States are the top eight states on the Progressive Policy Institute's New Economy Index which Washington uses for comparison purposes in a variety of areas.

- Colorado
- Connecticut
- Massachusetts
- Minnesota
- North Carolina

- Ohio
- Oklahoma
- Oregon
- Pennsylvania
- Virginia

Public Works gathered information not only about current state practices and policies, but also solicited information and opinions about *how* each state was able to accomplish what was done to date. We wish to thank the administrators in target states for their time and interest in talking with us, not only about their own state programs, but also to share opinions about what they believe to be good public policy related to subsidized child care and early learning.

No state had all the answers, however some states stood out as models for what actions were taken to resolve certain issues, while some yielded insight and perspectives on the process of attempting to solve these problems. For example, Pennsylvania, North Carolina and Oklahoma have developed comprehensive and effective quality rating systems, which appear to have improved the quality of care, particularly for children receiving subsidies. Minnesota stands out for its efforts to improve quality through a series of pilot programs, and Connecticut for its creation of a comprehensive strategic and investment plan for its early childhood system. The wide range of examples of best practice are presented in order to provide DEL with sufficient information for continued discussion on options and to explore how innovative solutions from other states might apply to Washington.

The remainder of this report addresses several key areas of interest:

Section 1: Brief Summary of Washington State's Early Childhood Programs. This section provides a short overview of major early childhood initiatives in Washington so that readers can put the discussion of findings in context for Washington. Washington has undertaken several initiatives that are moving current practices in a positive direction, and when compared to initiatives considered important and successful in target states, is actively pursuing many similar initiatives.

Section 2: How a Coordinated Infrastructure Supports Quality. This section highlights how and what states have done to bring different departments and coordinating advisory groups together to work cooperatively to develop and implement a common vision for early childhood learning. It focuses on the *how* of state policy and program planning.

Section 3: How Target States Are Using Subsidies and/or CCDF Funds to Improve Quality. This section describes target states' efforts to increase quality, innovative approaches to early child care and how they were able to support these efforts through more flexible funding mechanisms.

Section 4: Increasing Access and Improving Quality by Promoting Continuity of Care. This section discusses two key issues: 1) attempts of target states to maintain access to affordable care for families as they become ineligible for subsidies (especially in light of the increased costs of care that inevitably accompany investments in improving quality), and 2) what target states are doing to maintain continuity of care for children when parent eligibility fluctuates. Examples show how states are modifying policies to define co-pays and eligibility in such a way as to help increase the affordability of care for families and to promote stability of care for children.

Section 5: Conclusion – Summary of Key Consideration for Washington State. This final section brings all of the considerations together in order to clearly see the interrelationship of access, affordability, quality and continuity policy and programs.

1. BRIEF SUMMARY OF WASHINGTON STATE'S EARLY CHILDHOOD PROGRAMS

With the consolidation of Washington's early learning programs into a single agency, state leaders took a major step in efforts to improve policy, planning and implementation of early learning programs. Following is a brief description of recent and current initiatives.

1.1. Organization

In 2005, Washington State began renewed and concerted efforts to improve the organization and development of early learning policy and programs with the creation of the Washington Early Learning Council (ELC) – part of Governor Gregoire's Washington Learns Initiative. The ELC was charged with the task of determining the proper placement of child care licensing and subsidy coordination within state government.[2] As a result, the Department of Early Learning (DEL) was formed as a merger of the Division of Child Care and Early Learning, the Early Childhood Education and Assistance Program, and the Early Reading Initiative.[3] Formed in July 2006, the department's mission is to promote policies and programs for early learning, and to increase partnerships with the private sector for developing "improved early learning opportunities for children and their parents."[4] The need to address the state's fragmented delivery of early childhood services provided impetus for developing DEL.[5]

While most of the early learning programs are consolidated in DEL, two other departments continue to play a significant role. The Department of Social & Health Services also offers early childhood services, serving as facilitator for Working Connections Child Care (WCCC). WCCC provides child care subsidy payments for low-income working parents. Families apply for the program through their local Community Services Office or online.[6] The Office of the Superintendent of Public Instruction, an elected position, is responsible for the oversight of K-12 education. In addition, while not directly responsible for operating early childhood programs, the Department of Health and Department of Community, Trade and Economic Development have funding sources that support some aspects of early learning and subsidized child care programs.

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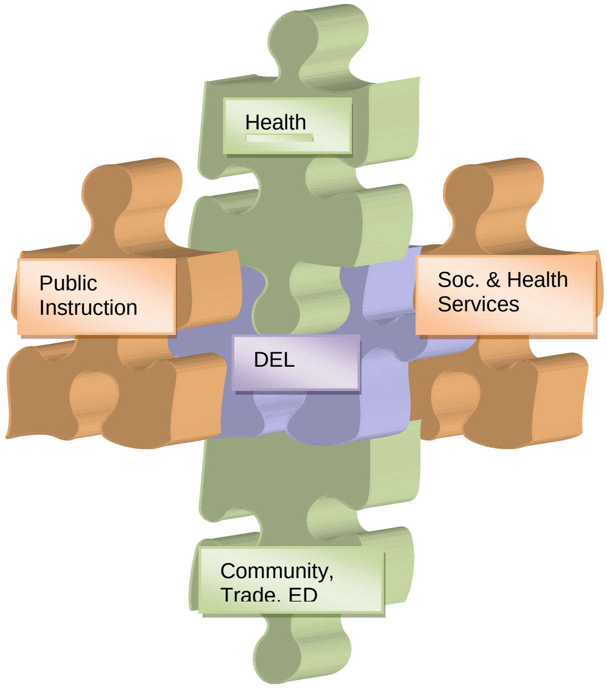
[2] http://www.childcarenet.org/providers/tools-for-quality/articles
[3] http://www.del.wa.gov/About/About.shtml
[4] http://www.del.wa.gov/About/About.shtml#wedo
[5] http://www.del.wa.gov/pdf/RCW43-215.pdf
[6] https://fortress.wa.gov/dshs/f2ws03esaapps/onlinecso/WCCC.asp



Together these departments are responsible for all early childhood programs, policy, planning and funding and hold a piece of the puzzle needed to coordinate resources to ensure Washington's children are growing and learning.

1.2. Various Coordinating Initiatives and Groups

Washington leaders have developed an impressive array of initiatives to help bring together a wide variety of ideas and funding sources aimed at improving quality and coordinating the planning and delivery of early childhood programs. These initiatives bring together state agencies, community partners, key stakeholders and parents in a variety of coordinating groups and public-private partnerships. Some of the major initiatives include:

- **DEL's Early Learning Advisory Council.** The newest group, formed in 2007 as a result of legislative action, provides opportunities for "representatives from the state's early learning stakeholders' communities to provide input and recommendations to the Department of Early Learning." The council's intended result includes "well-informed" child care policies that garner support from parents, providers, health and safety professionals, and the public[7].

- **Washington Learns.** Formed in 2005, this group was charged with reviewing all education and related programs from Kindergarten through high school and post-

[7] http://www.del.wa.gov/index.shtml

secondary education. One of the committee's recommendations was the formation of the Department of Early Learning.

- **Thrive By Five.** This public-private partnership organization was designed to help coordinate "improvements to parenting education and support, child care, preschool, and other early learning environments throughout Washington."[8] DEL and Thrive By Five work to coordinate various projects to continuously improve the delivery of early learning programs and to investigate ways to improve quality.

- **Early Care and Education Coalition.** EC2 is a public-private advisory group focusing on public awareness and parent services, and promotes support for early learning initiatives and investments.

- **Head Start State Collaboration.** The Head Start Collaboration Office works to identify ways to improve services between Head Start and other early learning programs, especially the Early Childhood Education and Assistance Program (ECEAP). Linking resources helps to promote full-day services, improve quality and foster stability for children.

- **Child Care Resource and Referral Network (CCR&R).** This statewide network, with offices in communities around the state, works with DEL to provide consumer education, especially assisting parents with access to appropriate care, provider training, technical assistance and building capacity at the local level.

- **Foundation for Early Learning.** The Foundation for Early Learning helps coordinate early child education in the state; its mission is "to find, fund, foster, and promote best practices that support early learning and school readiness for all children birth through age five." The foundation also provides online networking opportunities for the Washington early learning community.[9]

- **P-20 Council.** The P-20 Council, proposed in the Washington Learns report and formed by Executive Order in August 2007, is charged with addressing "early learning, K-12, higher education, and workforce preparation" to ensure progress toward the state's goal of increased accountability in education. The council is tasked with tracking "progress on the Washington Learns long-term goals and on the specific investments that have been made."[10]

[8] http://www.thrivebyfivewa.org/aboutus.aspx
[9] http://www.washingtonearlylearning.com/page/About+-+Foundation+for+Early+Learning

[10] http://www.p20council.wa.gov/

Besides these coordinating groups, there are numerous initiatives underway that bring together key stakeholders in the design and support of plans to improve early learning programming. These initiatives are adding to the body of knowledge for Washington leaders by helping to develop a framework for planning and delivery of early learning programs, defining what quality means for the state, piloting innovative approaches to improve quality and coordinating public and private resources to reach early learning goals for the state. In addition, several initiatives have been recently planned through a Request for Proposal process: Child Care Consultation, Quality Rating and Improvement System Initiative, Administrative Code Training and Parent Needs Assessment.

DEL Parent Advisory Group
Kids Matter
Ready to Learn Benchmarks
Success By Six
Build Initiative
Building Bridges with Higher Education
Infant Toddler Initiative
Strengthening Families in Early Care and Education Washington
WA Born Learning
Early Reading Initiative
Working Connections
State Training and Registry System (STARS)

One significant effort that will provide a substantial base of information for DEL going forward is the Community Based Data Collection Feasibility Study. At the state level, in community pilots and through the CCR&R network, DEL is conducting a detailed study to identify all sources of child care data, including where it resides, who is responsible for it, what systems are used to capture and store it and some indication of the quality of the data available. This information will be gathered, first to understand the realistic challenges in developing a single child care information system, and secondly to begin to develop short- and long-term plans for addressing future data requirements.

2. HOW A COORDINATED INFRASTRUCTURE SUPPORTS QUALITY

A few states have moved in the direction of Washington leaders and actually consolidated several early childhood programs into one agency. In this regard, Washington has a unique advantage in that it is, not only the first state to consolidate programs into one agency, but also is the first state to establish such an agency as a Cabinet-level entity.

Some states, regardless of whether programs are consolidated into one department or not, have established multiple advisory groups designed to provide a forum for key stakeholder input into early childhood learning policy, planning and program implementation. Advisory groups were formed by Governor's Executive Order or by legislation and contained specific language on the group's purpose and membership. Some groups emphasize larger goals, such as P-20 Councils, which bring together participants in education, the business community and workforce development programs; in some states these groups established P-3 subcommittees to focus efforts on early education.

Connecticut:

- *Governor's Early Childhood Research and Policy Council*
- *Early Childhood Education Cabinet*
- *Commission on Children*
- *Early Childhood Partners Program*
- *School Readiness Councils*

Virginia:

- *Governor's Working Group on Early Childhood Initiatives*
- *Start Strong Council*
- *Early Childhood Alignment Project*
- *Early Childhood Foundation*

Oregon:

- *Commission of Children and Families*
- *Childhood Care and Education Coordinating Council*
- *Partners for Children and Families*

Washington also has the advantage of an active public/private partnership – Thrive By Five – that was formalized in legislation in 2006. Thrive By Five provides a mechanism for business partners to invest in initiatives that support parenting education and early childhood learning innovations. This type of non-profit is able to develop partnerships that combine the assets of each key stakeholder member group to support the overarching goal of quality early learning experiences for all children, especially low-income children. Most states also have a non-profit foundation established as the vehicle for raising funds for innovative programs to enhance quality as defined by state policymakers. Finally, targeted states have individual advisory groups for special programs or initiatives that are designed to ensure the implementation and evaluation of those initiatives.

Key administrators in target states identified several common elements that they believe account for their success in establishing a common vision for early childhood learning, involving stakeholders to work cooperatively toward common goals and focusing on how subsidies factor in to a comprehensive system.

> ***First,*** a group established by formal declaration, such as a Governor's Executive Order or legislation, had the broadest and most substantive mandate,

including the most important element – establishing one group as the umbrella for bringing together all disparate funding streams, coordinating bodies and programs into one cohesive system. Washington has this in place.

***Second*,** groups with a Governor's active involvement, as well as key decision-makers and stakeholders, were most effective in establishing a comprehensive agenda and moving that agenda forward. Most importantly, these groups included a substantial role not only for the early learning agency (or human services if programs were not consolidated into one agency) but also for education. Again, this is a component already established in the Washington system.

***Third*,** states are most effective when they have successfully established one group as a common point of accountability to plan and control resources. Besides establishing one umbrella group, some enabling legislation clearly defined the role of the advisory group to establish a single strategic plan and to recommend budget and spending priorities to meet the plan objectives. At the same time, these groups, as best shown in Connecticut, are able to develop resource maps – identifying the amount and source of all funds spent on early childhood education – in order to provide a common basis of understanding about how resources are currently being used and where new investments should be made. These ideas are in development in Washington and discussed later in this paper.

Connecticut is one of the best examples of how an umbrella advisory group controls resources. Legislation was enacted that charged the Governor's Early Childhood Research and Policy Council with developing the Early Childhood Investment Plan Recommendations. This plan identifies all resources being spent on early childhood learning, identifies priorities for investment when new funding is available and produces the fiscal analysis for policy and program recommendations.

Fourth**,** most target states mandated coordinating structures at the local level. Eight of the ten target states mandated local planning and decision-making for the distribution of funds. Colorado does not mandate coordination; however, they encourage local planning by allowing jurisdictions who elect to develop local planning councils to request waivers of state policy to improve program operations. These local councils must conduct periodic needs assessments, allocate funds within the framework of state policy goals, provide support to local providers to take advantage of all funding sources available, evaluate the effectiveness of local providers and initiatives and report to the state on a regular basis on spending and progress toward achieving goals. Washington has launched several community-based initiatives with similar goals that are discussed later in this paper.

The ***Massachusetts Community Partnership for Children*** *is the local entity established in each community that acts as the administrative and fiduciary agent for all early childhood funding. They are responsible for conducting a community needs assessment and allocating funds according to local priorities. Parents can access all programs from one intake point.*

Pennsylvania Community Engagement Groups *are 62 local councils grouped into six clusters or "Keys." Each Key has at a minimum a half time coordinator. The coordinator mobilizes local resources and involves businesses, facilities, schools and parents in early learning programs with the goal of ensuring that children effectively transition from one program to another, especially at critical developmental stages like infancy to early learning and pre-K to kindergarten.*

2.1. Considerations for Washington State

Washington has many of the key structural elements thought to be important in establishing a comprehensive system of early childhood learning. The target states have mostly mirrored Washington's organization, however, there are three approaches that were identified as key factors in target states that could provide the opportunity for Washington to strengthen its current efforts. The following best practice initiatives identified in target states are designed to clearly establish a single point of accountability for policy, planning and budgeting and to ensure that a structure exists to implement initiatives at the local level – the most critical elements in the experience and opinion of target states. These are:

1. **Develop an Early Childhood Learning Budget and Investment Plan.** This type of planning and document can, not only establish DEL as the point of responsibility for budget planning and recommendations for how new funds will be spent, but also it can provide a central point of information for all budget decisions on early learning going forward. The Budget and Investment Plan becomes the vehicle for future planning and budget decisions to advance the

overall statewide agenda. As a first step, DEL could develop an early learning resource map (a comprehensive list of all child care programs and funding) to identify all initiatives in early learning, funds available, sources of funds and restrictions on use. Washington is working toward this in the Community Based Data Collection Feasibility Study, however, that study is focused on systems requirements that may eventually lead to a consolidated information system; this resource map is intended to be a more strategic and immediate planning tool that becomes the basis for a common understanding of the current programs as well as the foundation for recommendations for new funds that are targeted to meet the strategic plan objectives.

2. **Consolidate and centralize all early learning planning efforts around the state into *one* strategic plan.** Develop a statewide early learning plan that crosses systems and sectors to align initiatives and resources of the private and public sectors to achieve identified goals. This strategic plan, in conjunction with the Budget and Investment Plan, can be a formidable tool for moving an entire system in the direction leaders intend.

3. **Provide resources to support communities to develop a local early childhood learning planning council.** When established, these local councils could be required to conduct needs assessments on a regular basis, plan for the delivery of services in the community, assist parents in the application process for both subsidized child care programs and ECEAP, evaluate the effectiveness of providers and programs and report regularly to the state on its efforts. Washington already has an active grassroots network, which has received some support from Thrive by Five and recent RFPs issued by DEL. These grassroots efforts could be strengthened with additional guidance and resources from the state.

3. HOW TARGET STATES ARE USING SUBSIDIES AND/OR CCDF FUNDS TO IMPROVE QUALITY

No state is exempt from the child care subsidy dilemma – how to balance access for families, compensation to providers and quality care for children. As long as federal programs and funding streams have different goals and requirements, the system will be complex and a challenge to manage. The target states have, however, developed some innovative solutions to improve quality, often by combining CCDF funding streams with other sources of revenue.

All of the target states are concerned with improving the quality of care offered and supporting working parents, especially for children receiving subsidies. Though states' methods and emphasis varied, they also shared strong commonalities. Most of the states either have established quality ratings systems (QRS) or, like Washington, are actively developing one. All states recognize the need for incentives and supports to achieve improved quality. A number of states use contracts to improve quality, and some are exploring innovative approaches that involve other creative and collaborative funding.

All the target states are grappling with improving quality without negatively affecting access. As in Washington, states face the need to put together a patchwork of funding to achieve the goals of quality care and full-day/full-year programs for children. The array of funding can include: categorical federal funds such as CCDF and TANF (Temporary Assistance to Needy Families), Head Start, state general funds, lottery, grants, private foundation and corporate donations and local match funds. In a world of limited resources, states recognize that funds deployed to achieve one valuable goal, such as improving quality, may negatively affect other worthy goals such as compensation for providers or access for families. ***Table 1: Quality, Access and Compensation*** summarizes key indicators in target states related to these three goals: CCDF investment in quality, compensation to providers as measured by market rate percentile, and access for families as measured by eligibility limits and the existence of a waitlist.

Table 1: Quality, Access and Compensation

Target State	Percent CCDF Spent on Quality[11]	Eligibility Limits		Reimbursement Percentile	Waiting List
		State Median Income (SMI)	FPL		
Colorado	4.0%	65-67	210.8	Varies by county	Yes.
Connecticut	4.0%	50	210.3	60th (2001 rates)	No.
Massachusetts	5.1%	50	168.7	20th-65th (2006 rates)	Yes.
Minnesota	4.4%	43-45	164	53rd-68th (2006 rates)[12]	Yes.
North Carolina	4.0%	75	207.3	75 (2005 rates)	Yes.
Ohio	4.0%	56-58	173.4	65th (2006 rates)	No
Oklahoma	6.7%	71-82	204.4	32nd to 80th (2007 rates)	No.
Oregon	4.75%	61-63[13]	185	75th (2006)[14]	No.
Pennsylvania	16.2%	54-57[15]	187.4	Varies[16]	Yes.
Virginia	4.0%	48.2[17]	169[18]	Varies	Yes
Washington	4.0%	46-74	200	Varies	No

This table, however, does not tell the whole story. A number of states, like Pennsylvania and Ohio, have put substantial financial resources toward both quality and expansion of access by adding a significant infusion of state funds. Other states have had to choose. Virginia has made a conscious decision to use most new funding in the system for quality improvements and expanding access to pre-k services, rather than expanding

[11] From Summary of CCDF Plans 2006-07, Table 5.1.2. "Estimated CCDF Set-Aside for Quality Activities," p.193.
[12] From NWLC Report
[13] Varies based on family size.
[14] Per CCDF Plan 2008-09.
[15] CCDF Plan 05-07.
[16] CCDF Plan 05-07.
[17] From Summary of CCDF Plans 2006-07.
[18] Id. CCDF Draft Plan 2008-09 indicates eligibility limits vary by location from 150-185% FPL.

access to the subsidy program. Other states, such as Minnesota, rely on private funding to support quality improvements. These efforts range from substantial funding through non-profit foundations to public-private partnerships in support of particular programs. In addition, some states have looked for other ways to generate state revenue. For example, Massachusetts receives about $1 million per year from citizens purchasing *Invest in Children* specialty license plates.

With this context in mind, in the sections that follow, we highlight noteworthy and innovative approaches to improve quality of care, particularly for children receiving subsidies.

3.1. How States are Supporting Providers to Improve Quality

Target states identified a number of initiatives to promote quality in subsidized programs. Some of the most often cited include:

Use of Incentives

Incentives play a key role in encouraging providers to improve the quality of care offered. In most of the target states, these incentives were tied to the state's QRS, often with a particular effort to enhance quality of care for children receiving subsidies. Several states (North Carolina, Oklahoma, Pennsylvania) tie subsidy reimbursement rates to quality ratings. In North Carolina subsidy providers must be licensed at least as a One-Star to receive subsidies. Providers licensed at a higher star level receive larger reimbursements, and 75 percent of providers are now Three-Star or higher. [19] Oklahoma likewise pays different rates for star levels, and only centers that have achieved a rating of One-Star Plus or higher are eligible for subsidies at all, unless compelling circumstances justify payment. Before adopting this rule, Oklahoma made sure that a sufficient number of centers had met this standard, so families using subsidies would continue to have access to care. Currently, 95 percent of children receiving subsidies in center care are in facilities rated Two- or Three-Star (with Three-Star being the highest rating).[20] The higher rates for Oklahoma's Star system account for approximately 30 percent of the $135 million spent on subsidies. In Colorado, the counties set rates, and some use tiered reimbursement to promote higher quality. Pennsylvania has recently approved an add-on to the daily reimbursement rate tied to star level, and Virginia expects that its multi-star system, currently under development, will eventually tie to subsidy reimbursement rates. A study done in 2000 suggests that a

[19] Telephone interview with Nancy Guy, Section Chief, Subsidy Services Section, North Carolina Department of Health and Human Services, Child Development Division..
[20] Statistics from September 2007 provided by Mark Lewis, Director of Child Care Services, Oklahoma Department of Human Services.

rate differential of at least 15 percent would have a significant impact on quality of care.[21]

Even states without a QRS make efforts to use subsidy reimbursement rates to encourage improved quality. For example:

- **Connecticut** pays a 5 percent bonus per child for licensed child care providers serving subsidized children that meet national accreditation standards.

- **Minnesota** pays a 15 percent differential above the maximum subsidy rate to providers with a current early childhood development credential or accreditation by designated organizations.

- **Massachusetts** has a tiered reimbursement linked to the achievement of certain quality standards. These may ultimately be linked to the QRS which is currently in development.

In addition, as identified in the Phase I report, **Oregon** has a two-tier payment structure for license-exempt family home and center providers. Exempt providers who qualify for the enhanced rate earn 7 percent more than those billing at the standard rate. The enhanced rate also allows eligible providers to use more flexible billing practices; they can bill for part-time care and count fewer hours as full time care. For a non-licensed provider to qualify, the provider must:

- Complete two hours of abuse/neglect training and first aid/CPR training;
- Have a food handlers' permit; and
- Agree to complete 8 additional hours of training within two years.

Beyond establishing a payment system tied to enhanced quality of care, states provide a wide variety of incentives/supports to providers to improve quality. Some examples include:

- **Scholarships.** Like Washington, a number of the target states offer scholarship assistance to providers seeking relevant education and training, often supported by CCDF funds.

    - Target states **Colorado, North Carolina, Ohio** and **Pennsylvania** participate in the T.E.A.C.H. (Teacher Education and Compensation Helps) program, which provides scholarships for early childhood educators.

    - **Oklahoma** places significant emphasis on training and education of providers and invests resources to support increased efforts in this area.

[21] "Tiered Quality Strategies and the Impact on Quality Child Care," National Child Care Information Center, discussing Gormley, Jr., William T. and Lucas, Jessica K., "Money, Accreditation, and Child Care Center Quality," Foundation for Child Development (August 2000).

The Scholars for Excellence program awards scholarships to providers and staff to complete an Associate's Degree; through this program the state currently supports approximately 1,000 child care center teachers enrolled in two-year colleges.

- **Pennsylvania** provides professional development refund vouchers to cover the cost of tuition for eligible child care courses.

- The **Oregon** Child Care Resource and Referral Network (OCCRN) sponsors free trainings, and in some cases, assists with fees for providers seeking registration or enhanced rates. During FY 2005-06, nearly 10,000 providers participated in trainings to get the enhanced rate, supported by approximately $50,000 in DHS funding.

- **Merit Awards.** Several states provide targeted bonuses to eligible child care facilities based on achievement of certain star levels or other participation in the state's QRS; some states explicitly reward providers who serve subsidized children when distributing the awards.

  - **Colorado**'s School Readiness Improvement Project provides $2.2 million of CCDF funds annually to local Early Care and Education Councils to assist child care facilities who serve children who will attend low-performing elementary schools. Participating providers receive a quality rating and approximately $1,000 per classroom per year, along with a quality improvement plan, to enhance quality in star-rated centers.

  - **Pennsylvania**'s Merit Award provides funds to centers with a Two-Star or higher rating and that have at least 26 percent of children eligible for subsidy. Higher percentages of subsidy children can yield higher Merit Awards. Providers can use Merit Awards for a wide range of purposes, including professional development, equipment purchases, staff bonuses and increased salaries.

  - **Ohio** similarly ties its Quality Achievement Awards to star level and percentage of subsidy children served. Recipients must spend twenty-five percent of the award on designated quality improvement activities such as classroom materials, curriculum development, assessment resources or accreditation costs.

- **Bonus Programs.** Some states provide bonuses directly to staff based on educational attainment or retention, again tying the awards to providers serving subsidized children.

  - **Oklahoma**'s R.E.W.A.R.D. (Rewarding Education with Wages and Respect for Dedication) program provides salary supplements of up to $2,000 annually to staff based on education levels. To be eligible, staff must make a six-month commitment to the child care facility, the facility must rate One-Star plus or higher and at least 10 percent of licensed capacity must be children receiving subsidies.

- **Pennsylvania** disburses Education and Retention Awards to staff in programs rated Two-Star or above. These awards are tied to the percentage of subsidized children served.

- **North Carolina** uses CCDF funding to support the administrative costs of the WAGE$ salary supplement program; the program itself is funded by local Smart Start partnerships. Child care providers who obtain early childhood education credits and remain in their jobs for a certain period of time are eligible for bonus payments.

Technical Assistance

Target states use CCDF quality set-aside funds and earmarks to provide direct technical assistance to providers to improve quality. Technical assistance can be critical to securing “buy in” from providers and ultimate success of its QRS. For example, Ohio reports that a key finding from the QRS pilot was the tremendous gap between basic licensing standards and the benchmark indicators in Step One of the QRS. Most Ohio programs need technical assistance to achieve licensing compliance before they could implement systems to support quality. Consequently Ohio directs the bulk of its technical assistance to lower-rated star providers in order to help those providers achieve an increased star rating or to assist “emerging” stars – those providers not yet rated and who are working toward a rating. Emerging stars can receive two technical assistance visits per month for up to one year to become rated, then quarterly visits are made until the provider successfully renews its rating.

- **North Carolina** provides state staff to help providers prepare for environmental assessments and employs up to 25 Infant/Toddler specialists who offer technical assistance, educational materials and consultation regarding the infant environmental rating scale.

- For providers participating in its School Readiness Improvement Program, **Colorado** develops a Quality Improvement Plan in conjunction with providers after completing a classroom assessment. The state assigns a coach to providers to help implement the plan.

- **Ohio**, primarily through the Child Care Resource and Referral Agencies (CCR&R), recently doubled its Infant/Toddler Specialist staff to provide assistance to providers, while the Department of Education offers language and literacy specialists.

Loan and Other Programs

North Carolina uses CCDF funds to support the Child Care Revolving Loan Fund which provides low-interest loans to providers for improving access to and quality of child care. North Carolina also turned a special loan initiative designed to assist child care providers after two natural disasters into a permanent loan program linked to quality improvement. Providers who increase star levels as a result of the loan program have some portion of the loan forgiven depending on the level of quality improvement.

North Carolina uses CCDF earmark funds to support its Infant/Toddler expansion grant program, which has resulted in 245 additional Infant/Toddler spaces, all in Four- and Five-Star centers.

3.2. Funding, Public Awareness and Data Management

Because Washington is working on various initiatives to design a QRS system, this report does not focus on the QRS per se. Since many states link quality initiatives to the QRS rating for that state, however, the two cannot be entirely separated. It is informative, therefore, to note that most of the target states fund the administration of the QRS largely from CCDF quality dollars, while at the same time recognizing that CCDF funds are not sufficient to be the sole source of funds for all aspects of the system[22]. A few tap TANF or state funds. For example, Ohio allocated $15 million in state funds over three years for statewide implementation of its QRS. Other states rely on public-private partnerships to support various pieces of the system. Colorado's Qualistar is funded largely by the private sector, while North Carolina's Smart Start uses local funds to help providers meet standards, provide staff to help prepare for environmental assessments and fund various supports.

Target states generally recognize consumer education as a component of improving quality. Several target states reported that they have used the Quality Rating System as an important consumer tool. States most commonly publicize information through web-based systems, through outreach conducted by CCR&Rs or through public displays of licensing or Star ratings. While states typically use CCDF funds to support these activities, some states devote substantial additional funds to conduct consumer outreach effectively. For example,[23] Colorado designed and implemented an extensive public awareness campaign, devoting approximately $3 million to the effort in order to fully inform parents about important qualities to look for in choosing child care. Moreover, some states view consumer education as a particularly good fit for funding from private sources[24]. In North Carolina, various private entities have partnered with the Partnership for Children and Division of Child Development to produce a poster campaign related to quality child care and the North Carolina star-rated license system.

Finally, a QRS has the potential to generate a substantial amount of useful data regarding child care in the state. Washington will need a system to store, analyze and report the data gathered to assign ratings. Colorado and Pennsylvania built a new

[22] Stoney, p.15.
[23] Stoney p. 27.
[24] Id.

system, while others adapted existing systems, with costs ranging from 0 to $400,000 for data related to the QRS.[25] Regardless of the approach taken, inclusion of information/technology staff in the planning process is critical. Indeed, Oklahoma involved IT staff in all STARS planning meetings, and STARS status is now linked to the licensing, subsidy payment and CCR&R databases.

3.3. Use of Contracts to Improve Quality

States not only are identifying innovative programs to improve quality, they are organizing efforts into a strategic plan that provides a cohesive blueprint for implementation and are finding ways to fund the innovations despite complex categorical funding issues. Contracts are used most widely as the funding mechanism to combine various sources of funds. Contracts have the advantage of giving providers funding stability and a predictable source of income by combining funds to extend the day or year, by providing wrap-around services for Head Start-eligible children, by increasing slots for underserved groups (e.g. infants/toddlers) or by implementing some initiatives to improve quality of care like reducing student/teacher ratios. Moreover, by permitting the braiding of funds (payment of subsidies *in addition to* payment through contracted state or Federal funds), while conditioning the contract on offering enhanced services or quality, states are able to encourage providers who do offer higher quality programs to serve subsidized children. This section thus describes some of the ways in which target states have used contracting in conjunction with subsidies to further the goals of quality and access.

The **Connecticut** Child Day Care Center Program is part of Connecticut's strategic plan and is described as a "conscious effort to improve quality." The program is a contract-based system focused on serving working parents who need child care. All centers participating in the program must be accredited by the National Association for the Education of Young Children (NAEYC) and licensed. Participating centers include schools, nonprofits and for-profit enterprises. Centers have the option of serving infants and toddlers, pre-k children or school age children. Families enrolled must meet income eligibility requirements, and 80 percent of the slots are targeted for working parents; the other 20 percent can be used by at-risk children. The center contracts for slots from the state; subsidies for eligible children are layered on top of the contracted funds, so providers have an incentive to recruit children receiving subsidies, though they are not required to do so. The Department reports a 97-98 percent utilization rate for the contracted slots. Centers have the option to fill additional capacity with private pay children. As of January 2008, Day Care Center Program contracted slots are paid at the same rate as Connecticut's pre-k contract program – the School Readiness program, so centers receive the same reimbursement rate for the year for pre-k children, whether the children attend a Day Care Center program or a School Readiness program. The Department hopes at some point to achieve similar parity for infant/toddler providers in order to avoid the possibility that the increase in rates for pre-k providers could lead to a decrease in the number of providers seeking to serve infants and toddlers. Because child care centers often have more expenses than school-based pre-k programs (for example, they must pay for their own health insurance or retirement), it is important to

[25] Id. at 17

achieve at least parity in funding between child care centers and school-based pre-k programs, to ensure coverage of the core expenses of administering pre-k in a child care setting.[26]

Minnesota currently has three pilot programs using a contract model.

- **The Minnesota School Readiness Connections (SRC) Program** is a $1 million two-year pilot program designed to improve the quality of care – combining SRC funds and CCDF subsidy funds. The program allows providers to have the full costs of services covered up to 25 percent additional reimbursement, as long as the provider offers additional services and charges private paying consumers an increased rate as well. Providers are still eligible to receive the 15 percent rate differential offered through the subsidy program for accredited providers. To be eligible, a provider must have at least one child of preschool age receiving a subsidy, though providers serving at least 25 percent subsidized children are preferred. Providers must also agree to participate in an evaluation using a designated child assessment tool. The program will fund 15 providers and serve 200 children over 19 months. A child must stay with the provider for a year and be initially approved for a minimum of 35 hours; the program uses flexible policies to encourage continuity of care. A child can continue to participate as long as he/she needs care for at least 25 hours. Providers who collaborate with other services targeted to low income families receive additional points during the RFP process.

- **The Minnesota Early Childhood Allowance Program** provides allowances of up to $4,000 for three- and four-year olds in families earning up to 185 percent of FPL to access high quality early childhood experiences in any approved setting. The allowances are being piloted in the same location as the pilot QRS, and parents must use either an accredited provider or one participating in the QRS. These funds will be layered on top of the subsidy and other available funding to assist families with co-pays or other expenses. Six million dollars has been allocated for the two-year pilot. Children have eighteen months of eligibility.

- **The St. Paul's Scholarship Initiative** operates similarly to the allowances but provides funds up to $13,000 annually for two low-income neighborhoods in St. Paul. Up to 1,200 children will receive the scholarships. Here too, the money is combined with subsidy funds and Head Start. Eligibility is determined based only on parent income (not activities), and the child can continue in the program for three years, even if a parent loses eligibility.

States have also combined subsidies and other funding to support pre-k programs and to provide full day/full year care for children eligible for Head Start.

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[26] Karen Schulman, Helen Blank. National Women's Law Center. A Center Piece of the Pre-K Puzzle: Providing State Pre-Kindergarten in Child Care Centers. (November 2007). http://www.nwlc.org/pdf/NWLCPre-KReport2007.pdf

- **Oklahoma** allows state-funded pre-kindergarten teachers to work in child care centers or directly funds providers to hire pre-k teachers. These options provide funds to enhance programs and to increase the number of hours children are in a learning environment. Oklahoma notes other advantages: districts can expand classroom space without any capital investment and can improve teacher/student ratios; providers are helped with resources to provide higher-quality, pre-kindergarten-level services, and; the state can establish full day/full year programs for eligible children. Providers receive subsidy payments for eligible children in these programs, though they must subtract the hours the students are in pre-k. Since the provider is not incurring labor costs during the pre-k hours, however, the revenue to the provider stays fairly constant.

- **Oregon** allows CCDF funds to be used as wrap-around funding to develop full day/full year Head Start slots for children eligible for subsidies and allows providers to average hours for children in care. Using a 136 hours per month average, providers can count a child in full time care even if not present for that many hours if other children are in care for more than 136 hours, as long as the average is 136. In addition, providers' bill on an hourly basis for subsidized children, without subtracting the hours spent in the Head Start part of the day.

3.4. Considerations for Washington State

As noted in these examples of best practice, target states use a variety of means to improve quality. DEL should consider the following as it continues its work to identify innovative quality programs and funding mechanisms.

1. **Allocate some portion of new funds for various** incentives to help providers improve quality – such as merit awards and bonuses for staff who increase skills or competencies or demonstrate positive changes. Allowing providers to combine funds to augment each other will also help support investments in higher-quality child care for centers receiving those funds and serving subsidized children.[27]

2. **Require involvement of information technology staff** during the planning for all phases of design and implementation of quality initiatives to ensure effective collection and utilization of data.

3. **Consider using contracts to provide a stable source of funding to help providers improve quality**. Allow braided funding (i.e. subsidies paid in addition to contract amount) as an incentive to providers to improve quality and access for children receiving subsidies. The terms of the contract should require providers to offer enhanced quality, e.g. by reaching a designated level of quality determination or accreditation. In addition, the contract should require providers

[27] Karen Schulman, Helen Blank. National Women's Law Center. A Center Piece of the Pre-K Puzzle: Providing State Pre-Kindergarten in Child Care Centers. (November 2007). http://www.nwlc.org/pdf/NWLCPre-KReport2007.pdf

to participate in an evaluation, serve a certain percentage of subsidized children and take advantage of training or technical assistance offerings on a regular basis.

4. As part of the strategic plan discussed in Section 2, develop a plan to **phase in** these initiatives until sufficient access is assured.

4. INCREASING ACCESS AND IMPROVING QUALITY BY PROMOTING CONTINUITY OF CARE

States face several competing goals when designing a subsidy system. They must juggle policies establishing co-pays and eligibility criteria for low-income families without making care unaffordable for families who do not receive subsidies, while remaining within federal requirements for each program and serving needy families. At the same time, states continue to seek ways to improve the quality of care available, particularly for children receiving subsidies, as the previous section details. The goals of access and quality intersect at policies fostering continuity of care. To thrive, children need access to *stable*, nurturing care from providers skilled in meeting their developmental needs.

Under the subsidy formula currently used in Washington, families may experience significant increases in co-pays based on changes in income, so parents may have a disincentive to increase income, if that additional income results in a significantly higher co-pay. In addition, when families exceed eligibility income limits, they may experience the "cliff effect" – without the subsidy, these families often can no longer afford care, making employment difficult. Finally, if the system is tied so closely to relatively minor changes in income, it may negatively affect children's eligibility and result in a "churning" of children in and out care.

Target states identified some examples of how states are developing ways to resolve, or at least minimize, these dilemmas by adjusting both co-pay and eligibility criteria to support continuity of care for children. Following are some examples of how this is done.

4.1. Co-Pays

A considerable amount of information is available from Census data about what families pay for child care. Census data from 2002 indicates that families above the poverty level pay between six and seven percent of income on child care. Families below poverty can pay as much as 25 percent of income.[28] Most of the target states view a co-pay less than 10 percent of family income as "affordable," though the actual amount of the co-pay may exceed this target for some families, depending on how the state calculates its co-pays.

States approach the calculation of co-pays in one of three ways: formula basis, constant percentage basis or varying percentage basis. Examples of these methods include:

- Formula basis (as used in Washington). This type of formula results in families paying varying percentages of income. For example:

[28] U.S. Census Bureau, Table 6. Weekly Child Care Payments of Families With Mothers Present and Children Under 15 Years by Selected Characteristics: 1984-2002.

- **Oregon** has co-pays that can be as much as 23 percent of income.
- **Minnesota's** co-pays can range from 2.6 percent to 14 percent.
- **Oklahoma's** co-pays range from zero to 17.28 percent.
- **Massachusetts'** co-pays vary from one percent to 16 percent.
- **Ohio's** co-pays range from zero to 10 percent.

- Constant percentage basis (as used in **Virginia**). Co-pays are set to ten percent of income across the board, although counties may apply to use alternate income eligibility scales and payment schedules.

- Varying percent of income methodology.

  - **North Carolina** sets the percent of income between ten percent and eight percent, decreasing the percentage as family size increases.
  - **Connecticut's** scale ranges from two percent to ten percent depending on family income.

4.2. Mitigating the Cliff Effect

Any program governed by income eligibility requirements carries the risk of families who lose benefits becoming unable to afford care. It is impossible to completely eliminate this risk. However, half of the target states mitigate the problem by establishing tiered entrance and exit eligibility limits. Under this system, families become eligible to receive subsidies if income is below a specified limit (the entrance eligibility level); the exit eligibility limit is set at a higher income, so families remain eligible for subsidies when income exceeds the entrance eligibility limit, as long as income does not surpass the exit eligibility level. For example, a family in Connecticut is eligible to receive a subsidy if income does not exceed 50 percent of the State's Median Income (SMI). The family remains eligible for a subsidy even if income exceeded that amount, as long as it did not surpass the exit level, which is set at 75 percent of the SMI. This policy fosters continuity of care by ensuring that families receive subsidies even as income increases, while at the same time minimizing the "cliff effect" when the family does finally exceed the exit eligibility level. ***Table 2: Target States with Tiered Entrance and Exit*** identifies the target states that have adopted this tiered entrance and exit policy.

Table 2: Target States with Tiered Entrance and Exit

State	Percent of FPL	Percent of SMI	Tiered Entrance/Exit
Colorado	210	60	County Option
Connecticut	210	50	Yes: Exit Level 75%
Massachusetts	168	50	Yes: Exit Level 85%
Minnesota	164	44	Yes: Entrance Level 175% FPL; Exit Level 250%
North Carolina	207	58	No
Ohio	173	54	No
Oklahoma	204	81	No
Oregon	140	47	No
Pennsylvania	187	56	Yes: Entrance Level 200%; Exit Level 235%[29]
Virginia	169	48	No
Washington	200	56	No

4.3. Fostering Continuity

To establish an early learning system that is child-focused, states strive to adapt policy and regulations wherever possible in order to support a child remaining in a program without regard to the status of the parent. A number of these efforts were detailed in **Public Works** first report "Child Care Subsidy Report – Phase I" for DEL (June 2007) and are highlighted here in order to provide a more complete list of alternatives.

[29] As reported in CCDF Plan 2005-07.

A. Aligning and Extending Eligibility Periods

In all states, families must recertify eligibility for subsidies at regular intervals. As noted in Phase I, "The reporting and redetermination requirements are designed to ensure proper disbursement of funds to eligible participants and to avoid overpayments. While fiscal integrity is a laudable goal, it can come at the expense of other important policy goals. Frequent changes can interrupt or disrupt continuity of care for the child; burdensome requirements can deter families from utilizing subsidies, while increasing the administrative burdens on workers and the risk to providers. Agency policies reflect an effort to balance these competing goals in an acceptable manner."[30]

Finally, a significant finding from Phase I that has relevance to this current study was reported from Oregon. In a 2006 study, Oregon found that families using subsidies had high levels of employment and stability and were not exiting the program because of ineligibility. Rather, families were leaving at the time of recertification. [31] An earlier study of five states also observed that families had shorter uses of subsidized care when frequent recertification is required, possibly affecting the stability of child care arrangements.[32]

The CCDF rules do not specify the length of the eligibility period for children receiving CCDF-funded subsidies, and several target states, Massachusetts, North Carolina and Ohio, have adopted a 12-month eligibility period. Moreover, CCDF policy clearly allows states to align subsidy eligibility period policies with Head Start and state-funded pre-k programs. Oregon, for example, has taken advantage of this flexibility and extended the subsidy eligibility period for Head-Start eligible children to 12 months to match Head Start. These children enjoy "protected eligibility;" even if they lose eligibility for the subsidy during the 12 month period, the child can remain in a contracted full day/full year program and continue to receive the subsidy. A state wishing to avail itself of the extended eligibility need only to articulate a rationale for the change in its CCDF plan.[33]

B. Changes in Income and Eligibility Policies

Other ways in which states work to achieve continuity for children include flexible responses to changes in income and eligibility and allowing for extended program eligibility under certain circumstances.

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[30] Child Care Subsidy Study – Phase I, p. 25.
[31] Grobe, Weber & Davis, "Why Do They Leave?" Child Care Subsidy Use in Oregon," Child Care Policy Research Issue Brief (March 2006), at p. 4.
[32] Marcia Meyers, et. al., "The Dynamics of Child Care Subsidy Use: A Collaborative Study of Five States," (July 2002).
[33] U.S. Department of Health & Human Services, Administration for Children & Families, Child Care Bureau Policy Interpretation Question (ACYF-PIQ-CC-99-02).
http://www.acf.hhs.gov/programs/ccb/law/guidance/archives/pq9902/pq9902.htm

As we explained in Phase I, some states do not take action on minor changes in income, and others grant workers considerable discretion in deciding whether to act on reported changes. In Washington, workers do not increase copays during the certification period. Other states go even further. For example, in Connecticut, a temporary increase in income that exceeds eligibility limits during a one-month period does not render a family ineligible. Changes in a family's favor, however, are implemented immediately.

Most states also provide for some period of extended eligibility during which a family may continue to receive subsidies even though the parent is no longer employed. In Washington, families who become ineligible due to a change in parental activity may continue to receive subsidies for an additional 28 days, up to twice annually. In other states, these periods range from a few weeks in Oregon, to as long as four months in Connecticut if the unemployment is due to pregnancy. In some cases, the program allows for extended eligibility, even though the subsidy is discontinued. This policy saves the family the trouble of reapplying and protects the family from being wait-listed, however since the state does not pay the subsidy during that period, there is no guarantee that the child will have a slot with the same provider. Massachusetts, like Washington, provides assistance during temporary periods of ineligibility, however for a longer period of time – eight weeks for job search with a possible four week extension in extraordinary circumstances, so that a child can remain in the program.

Minnesota's School Readiness Connections program likewise builds in flexibility to ensure continuity by allowing children to remain in the program full time as long as care is needed for an average of 25 hours per week. Initial approval to participate in the program requires the parent to work at least 35 hours per week.

C. Simplifying the Process

Finally, as reported in the Phase I study, states report simplifying the way in which levels of service are calculated. This simplification of the calculation not only helps parents more clearly understand what they are eligible for, it also helps providers in calculating levels of service for reimbursement. For example, as we detailed in Phase I, states often calculate payment in commonly understood blocks of time. For example, in Connecticut, payment is based on blocks of time, ranging from one-quarter time to Full Time Plus, based on the number of hours of care authorized per week. The provider merely has to report the charges in monthly form. If the provider's uses a different method of billing, such as a weekly basis, the worker will assist the provider in making the appropriate conversion, if necessary. By contrast, while Washington uses half-day and full day rates, the terminology used – "units" – can be confusing. Moreover, Washington requires providers to perform a rather complex calculation to account for absences. Other states have more flexible and easily managed and understood policies for dealing with absences. We repeat two of the examples from the Phase I report here to illustrate:

- **Connecticut's** billing process and absence policy are the most flexible and least burdensome for provider and caseworker. The program essentially pays based on enrollment, not attendance. The provider is paid for occasional absences, as long as the provider charges private paying clients for absences as well. However, if a child misses 25 percent or more of scheduled days, the parent may be required to document the reasons for the absences. Continued absences for two or more months or exceeding 25 percent may cause recalculation of approval. Providers report the number of days attended on the invoice, however, they are not required to submit attendance records.

In practice, providers are expected to identify if a child did not attend, but it is an honor system. Workers "eyeball" reports to note any extended absences; absences at the level described in the regulations will trigger the caseworker to investigate, however the Department still pays the provider. Connecticut officials realize that they may have slightly higher costs of care, however, ease of operation, and perhaps lower administrative costs, justifies the procedure. In addition, this policy can promote continuity of care for children. It is also one of the reasons for a six month certification period. We should note, as well, that Connecticut operates by far the smallest program in terms of number of children served compared to our other target states and Washington. Thus Connecticut's relatively relaxed policies may involve other policy trade-offs that may be unacceptable to other states.

- In **Oregon**, the billing form generated by the automated information system lists the time period, co-pay that will be deducted, names of children and ages, and maximum authorized hours. Providers fill in total actual charges, on either a monthly or hourly basis, and send the form for processing. Payment is based on actual attendance, though DHS will pay for up to five absent days for scheduled care per month, as long as the provider's policy requires private clients to pay for absent days. The billing form does not require the provider to identify these days, however, the provider must log the absence and retain attendance records for a year.

4.4. Considerations for Washington State

There are several policy changes Washington can consider to increase access to and continuity of care for families receiving child care subsidies.

- **Foster continuity** of care for children by:
    - Setting eligibility for entrance and exit from programs at different levels.
    - Aligning eligibility periods for all programs to be as uniform as possible, preferably for at least 12 months.
    - Adopting a flexible, child-centered policy in managing changes in income and hours.
    - Using non-categorical funds (state funds, private, etc.) to support children in care during periods of parent ineligibility.

- **Use a constant percentage methodology** to calculate co-pays; set co-pays at a maximum of ten percent of family income. This approach has the benefit of simplicity and does not penalize families for earning additional income.

5. CONCLUSION: GUIDING PRINCIPLES AND SUMMARY OF CONSIDERATIONS FOR WASHINGTON STATE

Washington State has taken major steps towards creating a coordinated, high-quality, and affordable early learning system, especially for low-income children and families. This report identifies best practice ideas from target states that could be considered by Washington leaders to move the state even farther along in its efforts. As noted throughout the report, Washington already has in place several of the key factors identified by administrators in target states. The considerations suggested throughout this report are summarized below along with the Guiding Principles that underpin each consideration.

5.1. How a Coordinated Infrastructure Supports Quality

Coordination of multiple early childhood programs and policies is an essential first step in the development of an integrated, efficient high-quality, and affordable early childhood system. Several states have moved in the direction of Washington leaders and consolidated early childhood programs into one agency and established multiple advisory groups designed to provide a forum for key stakeholder input into early childhood learning policy, planning and program implementation.

Below are guiding principles and considerations for building a more coordinated infrastructure – the *how* of policy and program planning for an early childhood system.

Guiding Principles	*Considerations for Washington*
• Create a single point of accountability; • Consolidate and align strategic planning, budgeting, and data systems; • Engage local communities.	• Develop an Early Childhood Learning Budget and Investment Plan; • Consolidate and centralize all early learning planning efforts around the state into *one* strategic plan; • Provide resources to support communities to develop a local early childhood learning planning council.

5.2. How Target States Are Using Subsidies and/or CCDF Funds to Improve Quality

States recognize the need for incentives and supports to achieve improved quality, and Washington has already made investments in this arena, particularly through its commitment to develop a quality rating system. Key target states that have advanced a quality agenda have done so because they have not only developed a Quality Rating System (QRS), but also have targeted resources to support an array of quality initiatives. The following are guiding principles identified by target states and a summary of considerations for Washington that stem from those principles.

Guiding Principles	***Considerations for Washington***
• Resources in the form of incentives and supports to achieve improved quality are a fundamental aspect of a quality system. • Creative funding mechanisms are needed to facilitate investments in quality.	• Allocate some portion of new funds for various incentives to help providers improve quality. • Require involvement of information technology staff during the design and implementation of all quality initiatives to ensure effective collection and utilization of data. • Use contracts to help providers improve quality by providing a stable funding source. • Phase in these initiatives until sufficient access is assured.

5.3. Increasing Access and Improving Quality by Promoting Continuity of Care

While access to care has multiple components, one of the most critical elements is ensuring that high-quality care remains affordable and stable for low-income families who receive subsidies to pay for care. This section explored guiding principles and best practices in ensuring access and continuity of care for children, regardless of family income.

Guiding Principles	*Recommendations for Washington*
• Balance co-pays and eligibility criteria for low-income families with affordability for families not receiving subsidies, while remaining within federal requirements for each program. • Set eligibility and co-pay levels to avoid the "cliff effect", disincentives for families to increase income, and "churning" of children in and out of care. • Maintain co-pays at an "affordable" level of family. • Establish a child-focused early learning system by adapting policy and regulations that support a child remaining in a program without regard to the status of the parent.	• Foster continuity of care for children by aligning eligibility periods for all programs to be as uniform as possible, preferably for at least 12 months; setting eligibility for entrance and exit from programs at different levels; and using non-categorical funds (state funds, private, etc.) to support children in care during periods of parent ineligibility. • Use a constant percentage methodology to calculate co-pays; set co-pays at a maximum of ten percent of family income.

Washington is taking important steps towards a more coordinated, integrated, high-quality and affordable early learning system for the state's children and families. By incorporating the guiding principles and considering the best practices identified in this report from target states, Washington will continue to be an example of how a state can create an early learning system that truly provides the basis for a high-quality education for all children.

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