FIRST THINGS FIRST
Ready for School. Set for Life.

Quality First Improvement, Rating and Scholarships
Consideration of Programmatic Approaches
May 2014

Due to a 23 percent drop in tobacco tax revenue over the past five years, the First Things First statewide Board is currently considering some adjustments to future budgets to create long-term stability in the amount of funding available for programs for the next 9-15 years. The current recommendation from the Board's Finance Committee is to establish a new annual baseline program budget at $126.6 million beginning with the FY16 funding plan cycle, a decrease of about $30 million from the total regional budgets in FY15 (much of this difference is due to carry forward funds from previous fiscal years). The Board will consider additional feedback from regional councils and other stakeholders before making a final decision in June. In addition, the Board has asked the Policy and Program Committee to consider whether the program model or costs can be adjusted and any guidance that can be provided to regions to assist in their decision-making. With a substantial portion of FTF's regional budgets supporting Quality First, including Quality First Scholarships, it is important to consider possible recommendations specific to Quality First.

This document provides information on Quality First and five varied approaches to consider in determining a recommendation to the FTF Board.

Quality First Background

Quality First was launched by the First Things First (FTF) state board in 2009, as Arizona's Quality Improvement and Rating System (QIRS). Currently, almost all states have implemented or are in process of piloting or developing quality initiatives in an effort to overlay a systems approach to early learning. Although practitioners in Arizona had long recognized the importance of quality in the early childhood system and the impact on school readiness and other child outcomes, there were not enough state resources to promote and enhance quality and no political will to expand state funding for those efforts.

FTF has provided the leadership and resources to implement the statewide Quality First initiative to support quality improvement and the consistent, rigorous measure of quality for families, providers and the public. This role was established in the ballot initiative that created FTF in 2006 and reinforced in 2010 by the diverse group of stakeholders on the Early Childhood Task Force, who recommended that one of FTF's priority roles is in the area of quality, access and affordability of regulated early care and education settings. This priority was confirmed by the Board that same year. Quality First also directly impacts three School Readiness Indicators, and strongly impacts at least three others. The investment of FTF in this part of the early childhood system is critical to maintain the infrastructure and services that have improved quality in early care and education programs in Arizona.

Because there is no one strategy that alone can improve the quality of early learning programs, Quality First brings together multiple evidenced-based or research–informed strategies to create a

comprehensive, evidence-formed approach that is improving program quality in early education programs statewide. Those strategies include coaching and consultation, assessment, financial incentives and professional development. Together, these strategies create a continuous loop of quality improvement. Recognition of quality is a star rating based on a five-point scale, 1 star indicating a commitment to improving quality, and 5 stars indicating the highest quality level. There are two models of participation in Quality First:

- Full Participation: available at any star level and includes the full package of program assessment, individualized coaching, financial incentives, T.E.A.C.H. scholarships for degree attainment, and access to specialized technical assistance for child care health, early childhood mental health and inclusion of children with special needs.
- Rating Only: available for programs at the 3 to 5 star level and includes program assessment, low intensity coaching if desired, and access to the specialized technical assistance.

Quality First Ratings provide a consistent, rigorous measure of quality for all programs, regardless of the regulated setting chosen by parents, and regardless of how they are funded. All Quality First Ratings are based on three assessment measures: (1) ERS- Environmental Rating Scales (ECERS, ITERS, and FCCERS); (2) Classroom Assessment Scoring System – CLASS (Domains: Emotional Support, Instructional Support, and Classroom Organization); and (3) Quality First Point Scale that measures Staff Qualifications, Administrative Practices, and Curriculum and Child Assessment.

Increasing Access to Quality Early Learning

While it is clear that children with risk factors, particularly children living in poverty, benefit from high quality early childhood experiences, as program quality increases the cost for providing that care increases as well, making it difficult for low income families to access programs. In 2011, the First Things First (FTF) state board approved model updates to Quality First in preparation for bringing the initiative closer to scale and to increase access for children from low-income families. Included in those model updates was a required formula to fund a baseline number of scholarships for low income children. In 2013, the FTF state board agreed to Quality First updates that further aligned access and affordability with quality, incentivized high quality, combined similar FTF quality and financing strategies, and simplified strategy implementation. These latest model updates take effect on July 1, 2014. Even with FTF's higher financial commitment to scholarships, combined with all available federal funding (Head Start, the Child Care Development Fund child care subsidy and funds for preschool special education), only an estimated 20% of low-income eligible children in Arizona have access to early care and education programs.

Currently, 905 providers are enrolled in Quality First, which is about one-third of regulated providers in Arizona. Sixty-nine percent are center-based in Full Participation; eight percent are center-based in Rating Only; and 23% are home-based. There are currently 345 providers on a waitlist for Quality First. More than 54,500 children are enrolled in Quality First programs that are improving or maintaining high levels of quality, and 14,121 low-income children benefited from Quality First Scholarships in FY13 (some of those are for part-time programs).

Progress in Quality First Ratings

Data related to Quality First provider star levels has been analyzed since 2011. Results indicate that providers participating in Quality First are progressing in their quality rating and this improvement reflects the expected model outcomes. Specifically, there are an increasing number of providers moving into the 3-5 star categories each year.

The following table shows the percentage of providers at the 3 to 5 star level from FY11 to 14.

Percentage of Quality First Providers at 3 to 5 Star Levels

FY 2011	FY 2012	FY 2013	FY 2014 (May 2014)
7%	9% (58)	18% (141)	39% (349)

First Things First continuously analyzes the progress made by providers participating in Quality First. In March 2014, this analysis included 692 providers who have been enrolled in Quality First for a time ranging from 18 months to several years. This means that all of the providers analyzed have had the opportunity to receive at least two assessments, create a plan for improvement, and take advantage of the resources available through Quality First to improve the quality of their early learning programs – such as coaching, TEACH scholarships, enhancement grants, etc. The analysis included only the providers' scores between their most current and previous assessment, and showed that on average, providers are making significant movement in the right direction – on average about half a star level – in their quality ratings[1]. The analysis also showed that, despite these significant average gains in overall assessment scores, a significant number of QF providers (34%) are not reaching the 3 Star Rating level because of the challenges of meeting the desired score in the Instructional Support domain of the CLASS assessment tool.

The Quality First model is based on research showing the importance of the adult/child relationship (as measured by the CLASS assessment) and the value of instructional support strategies used by adults to strengthen this relationship. FTF and the Quality First coaching grantees continue to focus on building the knowledge and skills of QF coaches in the area of instructional support, and professional development is provided in this area for those that provide technical assistance and quality improvement supports for early childhood programs. FTF will continue to study the QF trend data to monitor progress in this area.

Quality First Scholarships

Provider Eligibility. Currently, Quality First providers at all five star levels have access to scholarships on a tiered reimbursement scale. Scholarships are provided directly to providers, who recruit eligible families to use the scholarships for that providers' program. The scholarships provide access to families who might not be able to afford a quality early learning and development program, as well as provide an

[1] 2 tailed paired t-test analysis showed an increase from a mean of **1.94 to 2.45**; $t(691) = 17.26$, $p = .000$

additional revenue source and incentive for programs to increase their quality star rating. By July 1, 2015, FTF will further the process of aligning access to quality by providing scholarships to providers only at the 3, 4 and 5 star level of quality:

- Beginning July 1, 2014 only programs at the 2, 3, 4 and 5 star levels will be eligible for scholarships.
- Beginning July 1, 2015 only programs at the 3, 4 and 5 star levels will be eligible for scholarships.

In areas of the state where there are not enough Quality First providers eligible to receive scholarships to meet the demand, waivers may be used to award scholarships to 2 or 1 star providers.

Scholarships Rates. Quality First Scholarship rates for FY15 are designed to ensure that rates are aligned with the cost of quality and to simplify the current rate structure. FTF utilizes a cost model based on actual Arizona program costs at each Quality First star level. Based on the study information, the following rate structure for scholarship reimbursement was established for FY15:

Provider Type	Age	2 Star (FY15 only)	3-5 Star
Centers	0-36 months	$7,969	$11,300
	37-72 months	$6,000	$7,300
Homes	0-36 months	$5,625	$7,600
	37-72 months	$4,875	$6,200

This rate structure reflects that:

- The reimbursement rate will be the same across the state. This acknowledges that the cost of quality is the same regardless of the geography of a program.
- There will be one rate for 3, 4 and 5 star level providers. The rate will be set at approximately 90% of the cost of quality for a four star level of quality, with the intent that other provider revenues are used in conjunction with the FTF scholarship amount to cover the cost of quality.
- Rates for 2 star providers in FY15 will continue to be based on the 2010 Department of Economic Security (DES) Market Rate Survey and be calculated at 75% of those values. Providers at the 2 star level in FY16 will not receive scholarships.
- Proposed rates are on par or exceed the 2012 Market Rate Survey for over 85% of DES districts and age bands.

Scholarship Slots. A baseline number of Quality First Scholarship slots are awarded across all providers based on size, program type and star rating. Providers with a higher rating will have more scholarships available to them. An FTF Regional Council must fund the baseline number of scholarships for every provider they fund in Quality First. The formula modeling that was developed in 2013 assumed a base amount consistent with FY14 regional funding levels for scholarships (approximately $40 million). The goal was to maintain fiscal stability for regions while maintaining continuity of scholarships for families to the extent possible. Regional Councils may elect to fund additional scholarships above the baseline number and in FY15, 69% of Regional Councils have done so.

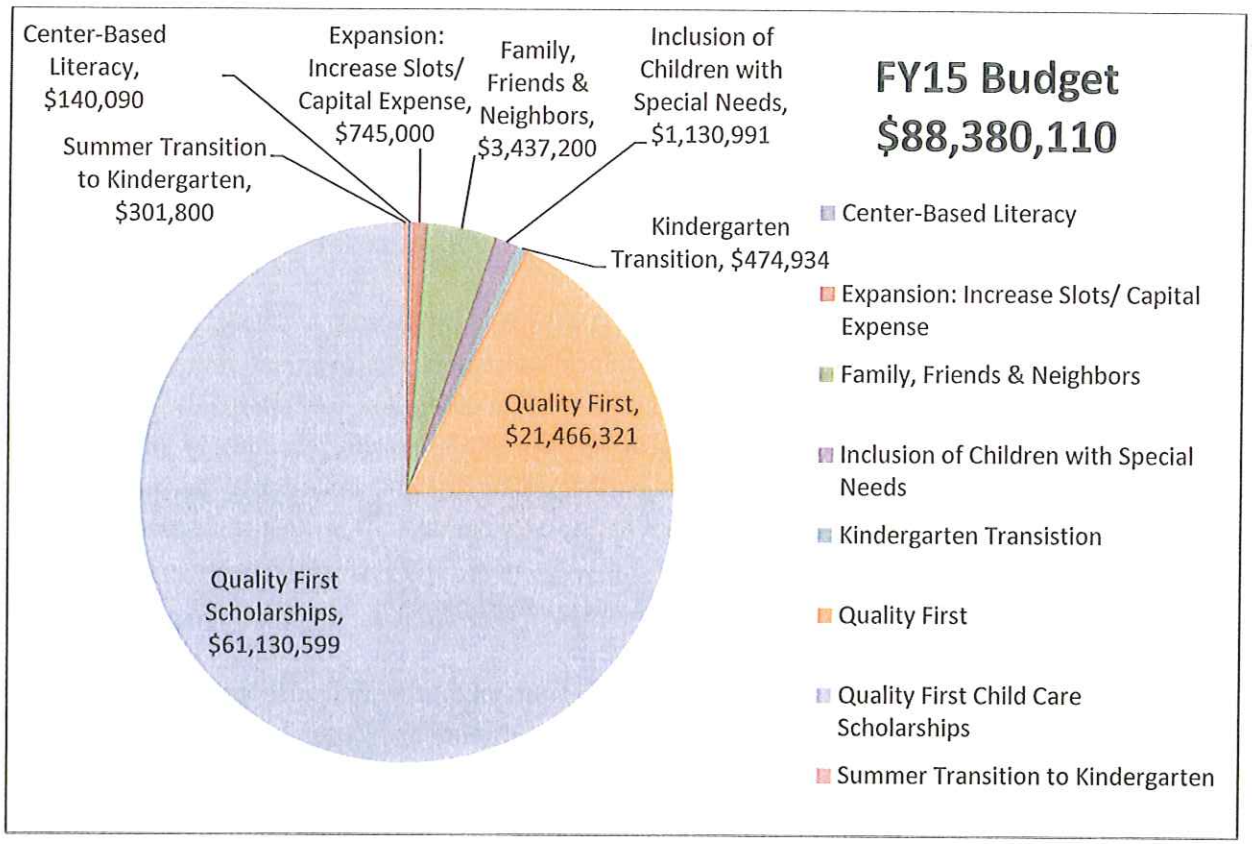
A region can fund a provider in full Quality First participation with NO scholarships if the site has declined scholarships and shows they are using other funds and resources to serve low-income children.

First Things First rates above will be paid no matter what the program charges for their services. The family co-pay guidelines will remain the same. If a program charges more tuition than the First Things First scholarship reimbursement rate and the parent is responsible for the difference, it is the intent that families, whenever possible, contribute toward that gap in the cost of child care. Although this is not a requirement, First Things First recommends this contribution, and it should not exceed 10% of the gross household income.

FTF Financial Investment in Quality First

In FY15, FTF will invest more than $88 million annually to improve the access to and quality of early learning programs in a wide variety of settings. While there are a number of different strategies funded at the regional level, two primary strategies are Quality First and Quality First Scholarships, and the total investment (including statewide funds) in these two strategies alone is over $82.5 million annually.

FTF FY15 Budget for Quality, Access and Affordability of Early Care and Education Programs



The Quality First package of supports also includes $3.5 million for T.E.A.C.H. educator scholarships and Child Care Health Consultation, which bring the total Quality First financial investment in FY15 to $86 million.

Full Participation costs to a Regional Council are based on the provider Quality First rating and size. Rating Only costs are the same for all providers. For example:

	Regional Cost	Full Cost (including statewide funds)
Full Participation		
Average size 2 Star Home	$16,033	$22,699
5 Star Small Center	$7,834	$14,460
Rating Only		
Center		$8,532
Home		$8,523

The collective FY15 regional funding commitment to Quality First services (everything besides scholarships) is $17 million and statewide funds contribute $8 million; this $25 million total is 29% of the costs associated with Quality First.

Quality First Scholarships comprise $61 million of the total (71%) of the costs associated with Quality First), compared to about $20 million in 2012. Scholarship costs vary and are based on the provider's Quality First rating, type of program, size and ages of children. Average cost of a full-day scholarship is $7,645 per year. In FY 15, 26 of 28 Regional Councils will fund providers in Quality First and 18 (69%) of those Regional Councils have elected to fund additional Quality First Scholarships above the baseline number, adding up the total $61 million investment.

Next Steps

FTF will begin a multi-year study in 2015 to validate the Quality First rating scale and collect research on the best combination and intensity of components to inform continuous improvement of the Quality First model. FTF is also working with national and local partners to determine how to effectively maintain high quality standards, while incorporating efficiencies and leveraging resources to bring Quality First provider participation to scale. One option that will be available in FY15 is a "buy-in" option that will allow providers to purchase the Quality First Rating Only package. This will include assessment and a limited amount of coaching in preparation for the assessment. The cost will be revenue neutral to FTF and its vendors and will cover the expenses related to services provided.

Regardless of recommendations that reduce the financial commitment that Regional Councils have to support Quality First, as more data and information on the quality and financing of early care and education programs becomes available, FTF must use those opportunities to continually improve and incentivize access, affordability and quality.

Possible Approaches for Quality First in FY16

It is suggested that the Policy and Program Committee begin discussion on a recommendation to the FTF Board by considering the range of approaches for Quality First shown on page 8.These approaches are based on the recent feedback from Policy and Program Committee members, the FTF Regional Council

Chairs and Vice-Chairs and stakeholders from partner organizations in the early childhood system, as well as FTF Board policy decisions and discussion over the years. All of these approaches assume that FTF will continue to work with system partners on continuous quality improvement and cost efficiencies that can allow Quality First to reach greater scale and impacting more children in quality early learning and development programs.

A. Maintain Quality First enrollment with no changes to current model	• Board provides budget guidance that does not allow for any reductions to current system-level investment in Quality First – including number of participating providers and scholarship funding levels.
B. Reduce total number of Quality First Scholarships	• Board reduces Quality First Scholarship cost-model by lowering the baseline number of scholarships by 33%. (See attached table) • Board provides guidance that does not allow for reductions to current system-level commitment to number of providers participating in Quality First.
C. Reduce total number and reimbursement amount of Quality First Scholarships	• Board reduces Quality First Scholarship cost-model by lowering the baseline number of scholarships required by 33% and by lowering overall scholarship reimbursement rates by 5%. (See attached table) • Board provides guidance that does not allow for reductions to current system-level commitment to number of providers participating in Quality First.
D. Separate Quality First improvement costs from scholarship costs.	• Board reconfigures overall Quality First cost-model by separating Quality Improvement costs from Scholarship costs. • Board also reduces Quality First Scholarship cost-model by lowering overall scholarship rates by 5%. Board does not provide further budget guidance on number of regional scholarships funded. • Board provides guidance that does not allow for reductions to current system-level commitment to number of providers participating in Quality First.
E. No guidance is provided	• Board provides no budget guidance on system-level investments in Quality First. • Regional Councils choose level of investment or disinvestment in Quality First – including number of participating providers and scholarship funding levels.

Scholarship slot numbers originally proposed for FY15-18:

Current Rates for FY15

		2 Stars	3-5 Stars
Centers	0-36 mo	$ 7,970	$ 11,300
	37-72 mo	$ 6,000	$ 7,300
Homes	0-36 mo	$ 5,625	$ 7,600
	37-72 mo	$ 4,875	$ 6,200

Current Rates FY16-18

		2 Stars	3-5 Stars
Centers	0-36 mo	$ -	$ 11,300
	37-72 mo	$ -	$ 7,300
Homes	0-36 mo	$ -	$ 7,600
	37-72 mo	$ -	$ 6,200

Current Base Model Tables

	1 Star	2 Star	3 Star	4 Star	5 Star
FY15					
Homes	0	1	2	3	4
Small Center	0	4	6	8	9
Med Center	0	6	9	11	12
Large Center	0	9	12	15	17
FY16					
Homes	0	0	3	4	5
Small Center	0	0	7	9	11
Med Center	0	0	16	18	20
Large Center	0	0	21	23	25
FY17					
Homes	0	0	2	3	4
Small Center	0	0	4	6	8
Med Center	0	0	13	15	17
Large Center	0	0	18	20	22
FY18					
Homes	0	0	1	2	3
Small Center	0	0	2	4	6
Med Center	0	0	11	13	15
Large Center	0	0	15	18	20

Current Base Model Projections
NO CHANGE

	Base Model Scholarships	Additionals	TOTALS
FY15	6,198	1,798	7,996
	Cost of Base Scholarships	Cost of Additionals	
	$ 47,200,797	$ 13,929,802	$ 61,130,599
FY16	6,703	1,798	8,501
	Cost of Base Scholarships	Cost of Additionals	
	$ 58,207,264	$ 13,929,802	$ 72,137,065
FY17	6,824	1,798	8,622
	Cost of Base Scholarships	Cost of Additionals	
	$ 59,336,341	$ 13,929,802	$ 73,266,143
FY18	6,621	1,798	8,419
	Cost of Base Scholarships	Cost of Additionals	
	$ 57,708,893	$ 13,929,802	$ 71,638,694

Scholarship slot numbers reduced by one-third for FY15-18:

Current Rates for FY15

		2 Stars	3-5 Stars
Centers	0-36 mo	$ 7,970	$ 11,300
	37-72 mo	$ 6,000	$ 7,300
Homes	0-36 mo	$ 5,625	$ 7,600
	37-72 mo	$ 4,875	$ 6,200

Current Rates FY16-18

		2 Stars	3-5 Stars
Centers	0-36 mo	$ -	$ 11,300
	37-72 mo	$ -	$ 7,300
Homes	0-36 mo	$ -	$ 7,600
	37-72 mo	$ -	$ 6,200

Base Model Tables - One-Third Reduction for FY16-18

	1 Star	2 Star	3 Star	4 Star	5 Star
FY15					
Homes	0	1	2	3	4
Small Center	0	4	6	8	9
Med Center	0	6	9	11	12
Large Center	0	9	12	15	17
FY16					
Homes	0	0	2	3	4
Small Center	0	0	5	6	7
Med Center	0	0	11	12	13
Large Center	0	0	14	15	17
FY17					
Homes	0	0	1	2	3
Small Center	0	0	3	4	5
Med Center	0	0	9	10	11
Large Center	0	0	12	13	15
FY18					
Homes	0	0	1	2	3
Small Center	0	0	2	3	4
Med Center	0	0	7	9	10
Large Center	0	0	10	12	13

Base Model Projections
One-Third Slot Reductions

	Base Model Scholarships	Additionals	TOTALS
FY15	6,198	1,798	7,996
	Cost of Base Scholarships	Cost of Additionals	
	$ 47,200,797	$ 13,929,802	$ 61,130,599
FY16	4,531	1,798	6,329
	Cost of Base Scholarships	Cost of Additionals	
	$ 39,323,665	$ 13,929,802	$ 53,253,466
FY17	4,569	1,798	6,367
	Cost of Base Scholarships	Cost of Additionals	
	$ 39,758,105	$ 13,929,802	$ 53,687,907
FY18	4,556	1,798	6,354
	Cost of Base Scholarships	Cost of Additionals	
	$ 39,559,155	$ 13,929,802	$ 53,488,957

Scholarship slot numbers reduced by one-third and reimbursement rate reduced by 5% for FY15-18:

Base Model Tables - One-Third Reduction for FY16-18						Base Model Projections One-Third Slot Reduction AND 5% Rate Reduction		
	1 Star	2 Star	3 Star	4 Star	5 Star			
				FY15				TOTALS
Homes	0	1	2	3	4	Base Model Scholarships	Additionals	
Small Center	0	4	6	8	9	**6,198**	1,798	7,996
Med Center	0	6	9	11	12	Cost of Base Scholarships	Cost of Additionals	
Large Center	0	9	12	15	17	$ **47,200,797**	$ 13,929,802	$ **61,130,599**
				FY16				
Homes	0	0	2	3	4	Base Model Scholarships	Additionals	
Small Center	0	0	5	6	7	**4,531**	1,798	6,329
Med Center	0	0	11	12	13	Cost of Base Scholarships	Cost of Additionals	
Large Center	0	0	14	15	17	$ **37,357,481**	$ 13,233,312	$ **50,590,793**
				FY17				
Homes	0	0	1	2	3	Base Model Scholarships	Additionals	
Small Center	0	0	3	4	5	**4,569**	1,798	6,367
Med Center	0	0	9	10	11	Cost of Base Scholarships	Cost of Additionals	
Large Center	0	0	12	13	15	$ **37,770,200**	$ 13,233,312	$ **51,003,511**
				FY18				
Homes	0	0	1	2	3	Base Model Scholarships	Additionals	
Small Center	0	0	2	3	4	**4,556**	1,798	6,354
Med Center	0	0	7	9	10	Cost of Base Scholarships	Cost of Additionals	
Large Center	0	0	10	12	13	$ **37,581,197**	$ 13,233,312	$ **50,814,509**