

# **First Things First**

## **Access and Affordability to Quality Early Care and Education – 11/27/09**

First Things First is committed to working with public and private partners to determine the components of a financing system that will expand access and affordability to quality early care and education for Arizona families. In FY 2010 alone, over \$51 million has been invested in a variety of quality, access and affordability strategies, including the implementation of Quality First's quality improvement system, statewide and regional scholarships to help struggling families afford child care, child care and preschool expansion in targeted high-need areas, and support for unregulated providers to improve the quality of their care.

In order to create a comprehensive financing model, FTF can take the lead by moving ahead in several strategic directions while remaining true to our model of state and local decision making: 1) Identify lessons learned from strategies funded by FTF in FT2010; 2) Identify additional new strategies for implementation within the current funding year or for next year; 3) Complete the Arizona Children's Budget analysis; 4) Commission and complete a Cost of Quality and Financing study for Arizona; and 4) Begin planning for development of long-term comprehensive strategies.

Twelve Regional Partnership Councils that will present their FY2011 funding plans to the FTF Board of Directors in December have allocated over \$5 million to access and affordability strategies. The remaining 19 Regional Councils will present their plans in January 2010. Including both the state and regionally funded initiatives, approximately \$37 million in funding will be targeted to improve access and affordability to quality early childhood care and education in FY 2011.

Based upon the large investments by individual Regional Councils, FTF recognizes the need for a systemic, statewide approach to identifying and implementing financing strategies to ensure a stable and high quality child care system accessible for all families. Both immediate and long-term economic conditions must be taken into consideration when identifying a statewide plan and by Regional Partnership Councils in developing their funding plans. Where, in stronger economic times, regions may have been able to invest aggressively in expanding the number of quality child care slots, today we find providers experiencing severe under-enrollment, often by as much as 50%. As a result, Regional Councils are readying their proposed investments less to expand than to maintain access and affordability for families that don't otherwise qualify for public subsidy.

Given the fiscal climate in Arizona, there is both a new challenge and a new opportunity for FTF to focus its efforts on ensuring that there is a melding between quality improvement and access and affordability supports in early care and education. This combination will benefit children and provide financial relief to parents, so they can access quality, affordable early care and education. In addition, by utilizing statewide administrative homes, quality, access and affordability strategies can save administrative costs, avoid duplication of services and maintain model integrity.

FTF staff have reviewed affordability and accessibility strategies being used across the nation to analyze their benefits, challenges and feasibility for Arizona. Listed below are those strategies currently funded by Regional Partnership Councils and the state Board, followed by new potential short- and long-term strategies. Presently, no bodies of evidence proving the effectiveness of any one strategy over another exists, however, several of the strategies show promise for improving access and affordability to quality child care in Arizona, and are administratively and fiscally possible to implement. These strategies, highlighted below, are: Quality First, Child Care Scholarships, Quality Stipends, and Targeted Child Care Expansion. FTF will continue to discuss and research the remaining strategies as the System Framework is finalized.

**I. Implementation Ready Strategies – Existing**

Strategy	Description	Implementation Considerations	Benefits	Challenges
<p><b>Quality First</b></p> <p><b>FY2010</b>  <b>State: \$5,916, 800</b>  <b>Regions: \$10,447,965</b></p>	<p>Quality First, FTF’s quality improvement and rating system, is in its first year of implementation. QF is one of FTF’s signature programs and sets the foundation for improving access to quality early care and education for Arizona children.</p>	<ul style="list-style-type: none"> <li>• Over 500 providers currently enrolled in Quality First improvement activities</li> <li>• Enrolled providers are being assessed using standardized instruments</li> <li>• As providers are assessed they are partnering with coaches to develop quality improvement plans and accessing quality improvement incentives that include: academic scholarships, individualized mentoring and child care health consultation</li> <li>• Applications for Quality First rating participation will begin in February 2010.</li> </ul>	<ul style="list-style-type: none"> <li>• Providers receive a coach to help guide them in improving quality</li> <li>• Providers can participate in TEACH Arizona to improve the educational qualifications of staff</li> <li>• Providers receive access to a Child Care Health Consultant to improve the safety and health of children</li> <li>• Providers receive financial incentives to help support quality improvements</li> <li>• After an initial improvement phase,</li> </ul>	<ul style="list-style-type: none"> <li>• Unanticipated technical difficulties and implementation challenges have delayed the development of Quality Improvement Plans and incentive distribution</li> <li>• The rating system is not yet in place (2011) and many future strategies are tied to the rating system.</li> <li>• System of assessment and improvements is costly</li> </ul>

			<p>providers are rated which can be used to communicate to parents that they are a quality provider</p> <ul style="list-style-type: none"> <li>• Providers receive priority in receiving child care affordability strategies and other FTF strategies</li> </ul>	
<p><b>Child Care Scholarships</b></p> <p><b>FY2010 Emergency Regional Discretionary: \$22,568,536</b></p> <p><b>Additional Regional: \$920,472</b></p> <p><b>FY2010 Regional: \$5,211,374</b></p>	<p>Child Care Scholarships support families earning less than 200% of FPL to pay for a <i>large portion of the costs of child care.</i></p>	<ul style="list-style-type: none"> <li>• Payments are made directly to providers</li> <li>• Tie scholarships to providers who show a commitment to improve and maintain quality, i.e., enrolled in Quality First or have applied for participation, accredited, or commitment to be rated and rated at 3 stars or higher in QF.</li> <li>• Requires administrative home</li> <li>• Can fold in knowledge gained from Emergency Child Care Scholarships to improve services and effectiveness</li> <li>• Targets families ranging from no income to 200% FPL so broader continuum than transitional strategy</li> <li>• Not available to children eligible for and receiving a DES subsidy and requires eligible families to apply for DES subsidy and accept stipend if offered</li> <li>• Can be targeted to specific populations to support other strategies such as maintaining infant/toddler care</li> <li>• Contains an audit component to ensure accountability</li> <li>• Amounts to be based on the most current Market Rate Survey.</li> </ul>	<ul style="list-style-type: none"> <li>• May contribute to continuity of care for children and stability for families</li> <li>• Supports FTF mission and goals to improve access and affordability to quality early care and education</li> <li>• Administrative costs are low</li> <li>• Current model of scholarships cover a large portion of the cost of a child's care</li> <li>• Is not a system building strategy but it does help maintain the existing system</li> </ul>	<ul style="list-style-type: none"> <li>• Expensive to implement continuously</li> <li>• Can't serve all children in need due to limited resources</li> <li>• Must monitor closely to assure compliance with requirements</li> </ul>

<p><b>Quality Stipends</b></p> <p><b>FY2010</b> <b>Regional: \$304,000</b></p>	<p>Quality Stipends are available to families earning less than 200% of FPL (including those receiving a subsidy) in order to help families access a higher level of quality early care and education.</p> <p>Stipends are paid directly to providers and pay for less than half of the cost of child care. Stipends differ from scholarships in that are often tied to expansion strategies to help maintain the cost of quality following renovation, expansion or new start-up.</p>	<ul style="list-style-type: none"> <li>• Tie quality stipends to providers who show a commitment to improve and maintain quality, i.e., enrolled in Quality First, accredited, enrolled in other quality improvement, rated 3 stars or higher in QF, or making substantive progress on quality improvement plan.</li> <li>• Provides a mechanism whereby families, including those receiving a DES subsidy, can choose an early care and education setting that provides a higher level of quality than they could normally afford</li> <li>• Requires an administrative home</li> <li>• Would be capped at a certain amount (\$10.00/day in existing strategies)</li> <li>• Requires parental copayment</li> </ul>	<ul style="list-style-type: none"> <li>• Makes higher quality child care available to parents who could not otherwise afford it.</li> <li>• Maintains parental contribution for care along with the stipend and any other available funding stream.</li> </ul>	<ul style="list-style-type: none"> <li>• May be confusing for providers and parents when compared to scholarship strategy.</li> <li>• It is possible that parents earning poverty level incomes or less will not be able to pay the difference for the required copayment.</li> </ul>
<p><b>Targeted Child Care Expansion</b></p> <p><b>FY2010</b> <b>Regional:\$1,775.463</b></p>	<p>Child Care Expansion strategies expand access by increasing the number of regulated classrooms and homes</p> <p>Includes investments to form new or support existing classrooms; support for planning, renovation or expansion of existing facilities; capital support for new programs.</p>	<ul style="list-style-type: none"> <li>• Currently funded directly by regions</li> <li>• Some administered by various agencies, such as public schools or private providers</li> <li>• Others are direct grants to providers</li> <li>• Requires 50% capital match for construction related expansion</li> <li>• Targeted at specific high need areas</li> </ul>	<ul style="list-style-type: none"> <li>• Partnerships with ADE to maintain and expand Pre-K opportunities are in place.</li> <li>• Can be targeted to areas of high need (generally where no or few child care options currently exist but the demand is there)</li> <li>• The majority of child care slots created cap parental contributions at 10% of household income</li> </ul>	<ul style="list-style-type: none"> <li>• Because of low enrollments, expansion in the form of expanding capacity and capital for new programs has largely been diverted to other strategies</li> <li>• Strategies are too new in implementation process to determine their effectiveness</li> </ul>
<p><b>Family, Friend and Neighbor Care</b></p> <p><b>FY2010</b> <b>State: \$616,917</b></p>	<p>Family, Friend and Neighbor Care programs aim to improve the quality of care children receive in these often unregulated</p>	<ul style="list-style-type: none"> <li>• Requires administrative home</li> <li>• Provides informal support groups for unregulated providers, including training that includes child care, curricula and food</li> </ul>	<ul style="list-style-type: none"> <li>• Improved safety for children</li> <li>• Providers learn more about child development and are better able to</li> </ul>	<ul style="list-style-type: none"> <li>• Limited evidence base to guide quality improvements</li> <li>• Licensure fees may dissuade some</li> </ul>

<b>Regional: \$1,712,961</b>	settings.	<ul style="list-style-type: none"> <li>New model includes home visiting to providers' homes</li> </ul>	<p>meet the needs of children in their care</p> <ul style="list-style-type: none"> <li>Providers receive support and network with others in their community</li> </ul>	unregulated providers from becoming regulated through DHS
<b>Unregulated to Regulated</b> <b>FY2010</b> <b>Regional: \$645,500</b>	Unregulated providers are given coaching and other support to become certified by DES, regulated by DHS, or to assure basic safety and other measures are in place.	<ul style="list-style-type: none"> <li>Support includes 1 on 1 coaching, training, and financial incentives for costs related to requirements of regulation</li> </ul>	<ul style="list-style-type: none"> <li>More providers can participate in QF and other FTF opportunities</li> <li>Improved quality available to families</li> </ul>	<ul style="list-style-type: none"> <li>Both DES and DHS have limited capacity to conduct new inspections and issue new certificates and licenses due to budget cuts</li> <li>Budget cuts have limited available funds for DES subsidies so there are less funds to provide child care subsidies at this time.</li> </ul>

## 2. Implementation Ready Strategies - New

<b>Strategy</b>	<b>Description</b>	<b>Implementation Considerations</b>	<b>Benefits</b>	<b>Challenges</b>
<b>Quality Stimulus Bonus</b>	The purpose of the bonuses would be to provide additional funds (above and beyond any current quality improvement grants) over a multiple year period to help ECE programs improve access and affordability for families and maintain and improve quality.	<ul style="list-style-type: none"> <li>Tie Quality Stimulus Bonuses to providers who show a commitment to improve and maintain quality, i.e., enrolled in Quality First, accredited, enrolled in other quality improvement, rated 3 stars or higher in QF, or making substantive progress on quality improvement plan.</li> <li>Incentive amounts to increase with higher level of star achievement</li> <li>Increase incentive amounts to match higher levels of star achievement,</li> <li>Set amount of bonuses high enough to have impact.</li> <li>Require documentation of how</li> </ul>	<ul style="list-style-type: none"> <li>Provides additional financial support to allow child care programs to remain open and provide quality choices to families during economic instability</li> <li>Could be linked to Quality First assessment to determine quality</li> <li>Can be targeted to providers not involved in the improvement program but in rating only.</li> <li>Encourages and supports ratings of 3</li> </ul>	<ul style="list-style-type: none"> <li>Could be administratively complex and difficult to monitor</li> <li>Outcomes must be clear to provide high level of accountability and transparency: outcome measures must link to quality, access and affordability</li> <li>Expensive if done to scale so not an option for regions with a shortage of resources or regions who have already obligated resources to other</li> </ul>

		<p>funding promotes access and affordability (stipends to low-income families, eliminate registration fees, hold monthly fees steady, increase flexibility in providing part-time care, etc.)</p> <ul style="list-style-type: none"> <li>• Include extra funding for programs serving low-income families.</li> <li>• Requires an administrative home to track quality improvement and other requirements</li> </ul>	stars or more	<p>strategies</p> <ul style="list-style-type: none"> <li>• Annualizing a bonus of, for example, \$20,000 is about \$1600 per month so the impact may not be great.</li> <li>• Overlaps with many components contained in Quality First</li> <li>• Would require a competitive process to implement for selection purposes that could strain relationships between Regional Councils and providers in the region</li> <li>• Implementation prior to the rating system being in place is problematic as the rating system serves as a standard measure of quality for FTF</li> </ul>
<b>Child Care Classroom Enhancement Grant</b>	Individual child care classroom would receive significant funding to enhance quality and become model classroom.	<ul style="list-style-type: none"> <li>• Tie enhanced classrooms to providers who show a commitment to improve and maintain quality, i.e., enrolled in Quality First, accredited, enrolled in other quality improvement, rated 3 stars or higher in QF, or making substantive progress on quality improvement plan.</li> <li>• Providers would apply to receive a regionally funded grant</li> <li>• Grant amounts would be significant to support model teacher education and experience levels, ratios, group sizes and other indicators of quality</li> <li>• The grant would also require certain</li> </ul>	<ul style="list-style-type: none"> <li>• Would provide a model of high quality for other providers</li> <li>• Would provide model classrooms for ECE student teachers and other professionals</li> <li>• Would provide a consistent amount of funding to aid in provider planning and ability to identify specific quality improvements</li> <li>• There could be a quality spillover effect to other classrooms in center</li> </ul>	<ul style="list-style-type: none"> <li>• Some overlap with the focus of Quality First</li> <li>• Coordination with Quality First could be difficult and confusing for providers</li> <li>• Would require a competitive process to implement for selection purposes that could strain relationships between Regional Councils and providers in the region</li> <li>• Would apply to only one classroom in a home or</li> </ul>

		<p>access and affordability components are in place such as keeping parent fees flat, eliminating registration fees, etc.</p> <ul style="list-style-type: none"> <li>• Could be targeted to zip codes with high levels of poverty or require that a certain percentage of children meet qualifications for the CACFP</li> <li>• The model classrooms would provide mentoring and support to other providers on what a quality classroom looks like and how it functions</li> <li>• Would require an administrative home to assure quality standards are met and for maximum transparency and accountability</li> <li>• Would be limited to 3 years</li> </ul>	<ul style="list-style-type: none"> <li>• Would allow use of current space</li> </ul>	<p>center</p> <ul style="list-style-type: none"> <li>• Would be expensive to implement</li> <li>• Unclear how classroom would maintain quality after the three-year support ended</li> <li>• Lack of fairness for children particularly in a center who are not in the enhanced classroom.</li> <li>• Continuity of quality for a cohort of children is an issue (i.e. would the classroom remain the same so that children experience differing levels of quality over the three years or would the quality of classrooms change as the children age?</li> </ul>
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### 3. Long Term Strategies

Strategy	Description	Implementation Considerations	Benefits	Challenges
<p><b>Expansion loans for predevelopment, renovations, expansions, new construction (lending institution funding)</b></p>	Partnership with consortium of banks to provide support for expansion of child care facilities	<ul style="list-style-type: none"> <li>• Excellent strategy for consideration when expansion is warranted</li> <li>• Available to QF providers only</li> <li>• Mechanism for loans would need to be determined</li> <li>• Loan forgiveness if program meets rating of 3 stars or more</li> </ul>	<ul style="list-style-type: none"> <li>• Can be targeted to specific localities lacking sufficient child care resources</li> <li>• Expands child care choices available to parent</li> </ul>	<ul style="list-style-type: none"> <li>• Child care industry is under-enrolled at this time so strategy would be inefficient use of resources/relationships</li> </ul>
<p><b>Tax Credits</b></p> <ul style="list-style-type: none"> <li>• <b>Child Care Expense Tax Credit</b></li> <li>• <b>Child Care</b></li> </ul>	A variety of different tax credit strategies exist in other states that benefit targeted entities including parents, providers, staff	<ul style="list-style-type: none"> <li>• May be refundable or nonrefundable</li> <li>• Would required the introduction of legislation</li> <li>• Tax credits may be are tied to quality</li> <li>• For-profit child care providers are</li> </ul>	<ul style="list-style-type: none"> <li>• Tax credits have had success in states with similar political make-up</li> <li>• Promote quality care</li> </ul>	<ul style="list-style-type: none"> <li>• Would not be attractive to lawmakers in the current economic environment since it would reduce state</li> </ul>

<p><b>Provider Tax Credit</b></p> <ul style="list-style-type: none"> <li>• <b>School Readiness Directors and Staff Tax Credits</b></li> <li>• <b>Tax Credit for Business Sponsored Child Care</b></li> </ul>	<p>and businesses.</p>	<p>taxed at the same level as residents in their property tax rather than as businesses</p>	<p>of credits are tied to quality</p> <ul style="list-style-type: none"> <li>• There is sufficient time to work on this strategy for better economic times and build needed support</li> </ul>	<p>revenues</p> <ul style="list-style-type: none"> <li>• Some advocacy partners do not support tax credits</li> <li>• Existing education tax credits are under-utilized</li> </ul>
<p><b>Micro Lending</b></p>	<p>Micro lending could be achieved through a collaboration of several lending institutions to provide operational support in the form of loans to providers that supports quality improvements.</p>	<ul style="list-style-type: none"> <li>• Loans to be low-interest.</li> <li>• Lending institutions to maintain risk</li> <li>• Provides option for FTF to pay off loan (loan forgiveness) as long as quality indicators are achieved such as obtaining a rating of 3 or more stars</li> <li>• A model to consider is the Small Business Administration when further development of this strategy is warranted.</li> </ul>	<ul style="list-style-type: none"> <li>• Provides needed financial support to make quality improvements</li> <li>• Tied to quality rating system for system alignment</li> <li>• There is time to start to develop relationships with lending institutions and begin to frame this strategy for implementation at the optimal time</li> </ul>	<ul style="list-style-type: none"> <li>• The current economic climate is not conducive to small business-type loans that are not backed by equity</li> <li>• Requires time to set up a consortium of lending institutions that would support micro-lending for child care.</li> </ul>
<p><b>Centralized Services</b></p>	<p>A variety of centralized services can help providers realize cost savings. Centralized services include group purchasing for office supplies, food and equipment. Group purchasing can also be used to reduce the costs of various types of insurance or provide payroll or other administrative services.</p>	<ul style="list-style-type: none"> <li>• An administrative home or homes would be contracted with to provide group purchasing for providers</li> </ul>	<ul style="list-style-type: none"> <li>• Providers would realize a net cost savings that can be diverted to quality maintenance and improvement</li> </ul>	<ul style="list-style-type: none"> <li>• Mapping out what products could be offered and assuring that prices are lower than other discount options</li> </ul>