Visioning A New Child Care Financing Structure

Summary of Remarks Made by Louise Stoney
September 27, 2002

This paper is a brief summary of a speech given by Louise Stoney at the Maine Head Start Directors Retreat on September 27, 2002. These remarks were part of a half-day session, facilitated by Jaqui Clark, in which participants listened to remarks from Louise and worked in both small and large groups to discuss their reactions as well as to brainstorm new approaches for early childhood finance in the State of Maine.

Background

Louise began her remarks by clarifying that the focus of the discussion would be on the financing system or structure -- not on *what* is being financed or *how much* it will cost. (She noted that we could spend an entire day on each of those topics alone.) However, in order to ensure that the group was on "the same basic page" with regard to these issues, Louise suggested that participants agree that the discussion would be based on the following basic assumptions:

1) That we are talking about financing a system of high-quality early care and education services that:
   - offer children opportunities for early learning;
   - support families with a range of year-round, full and part-day services, and
   - provide comprehensive services to children and families who need them.

2) That we are talking about services with per child costs in the $6,000 - $7,000 range for full-day early learning and $10,000 - $12,000 range for early learning plus comprehensive services.

Conflicts and Needs

Prior to describing the various ways that child care financing systems can be structured, Louise suggested that the group spend some time thinking about the needs and interests of various stakeholders. "If a system can't meet these needs, it won't work" she stressed. "So let's just get self-interest right out there right now. Let's be clear about what these needs are."

Participants broke into six groups and brainstormed the needs of the following stakeholders: early childhood programs, the Department of Human Services, the federal regional office (ACF/HS/CCB), schools, children, and parents. Each group then reported out it's top three ideas, followed by a facilitated discussion.

Louise noted that many of the needs identified by the groups appear to conflict. For example: early childhood programs and schools need stable, predictable funding -- which typically means a contract system that guarantees funding, makes dollars available in advance, and purchases a whole classroom of slots based on enrollment rather than attendance. But the Department of Human Services needs to target TANF families, who

have varying needs and often move and change jobs. This means portable, flexible funding (typically vouchers) that can follow the child to whatever program the parent selects. School districts need to be accountable to voters and taxpayers, who approve their budget. This means making funds available to *all* families, without regard to income. Funding levels are also in conflict. Early childhood programs need enough money to provide high quality services. Social service and education departments, on the other hand, need to stretch the dollars to serve as many families as they can. Parents are often stuck in the middle; they need all of these things -- stable funding, affordable rates (for families at all income levels), high quality services but also the flexibility to hang on to their subsidy if/when they move or their child grows older and "ages out" of a particular program.

How can we create financing systems that meet all of these needs? Louise believes that we can, and began to describe a new way of thinking about early childhood finance that incorporates these seemingly conflicting principles.

Key Principles

Louise began the discussion of "new visions" for financing by stressing two key principles:
1) assume layered funding, and 2) combine portable and direct financing.

Assume Layered Funding. This key principle is designed to stress that policy makers, program directors and funders should base decisions on the assumption that the cost of operating an early childhood program will be shared. (See the attached "early childhood layer cake" graphic in the power point presentation.) A financing system that successfully meets the needs of funders and families "will have to be based on multiple funding streams that are layered on top of each other, sometimes for a single child." Louse stressed that this concept is often misunderstood.

Historically, ECE initiatives were developed as separate programs, each with it's own funding stream, rules and identity: child care (often further divided into contracts, vouchers and other targeted, separately-administered initiatives) Head Start, prek and so forth. But in reality these lines have blurred, and rather than having discreet and separate programs, we now have comprehensive child development programs that rely on funds from multiple sources. The funders and practitioners need to recognize this fact and begin to acknowledge in a clear way that they are all sharing the cost of funding a single program rather than running separate, parallel programs.

All too often, funders and policy makers base their decisions on an (erroneous) assumption that *their* dollars are funding 100% of the services for *their* program. Fearing that early childhood programs using multiple funding sources are "double dipping", funders often expect program operators to allocate funds by blocks of time (e.g. Head Start is funding this portion of the day and CCDF is funding that portion of the day) or separate children (e.g. Head Start is funding this child and CCDF is funding that child.) But ideally we want children together in the same classroom, not divided into blocks of time or by socioeconomic status; we want comprehensive programs that serve children of all ages and needs. To this end, we need to explicitly recognize that funds will be layered *into a single program and sometimes for the same child.*

What does this mean in reality? Ideally, Louise said, it means that program operators have *one budget* and that funders share the cost of supporting that budget. (Right now, most programs create one budget for Head Start, another for DHS, another for United Way, and so forth…) It also means that programs comply with one set of coordinated standards and monitoring visits, one audit, and so forth. When Louise speaks to policy makers, she encourages them to:

- Establish common funding standards and monitoring practices across all ECE funding streams;
- Coordinate or consolidate Requests for Proposals and reporting requirements;
- Assume that a program will have a single budget to which multiple funders will contribute, a single/coordinated audit, etc.

Combine Portable and Direct Financing
Effectively implementing layered funding isn't just about coordinating funding streams, Louise noted, it is also about creating ways to layer portable and direct financing. What does this mean?

In her book *Looking Into New Mirrors…*which reviews financing strategies in other fields, Louise divides funding into two broad categories which she calls direct and portable. Direct subsidy is funding that directly supports an institution or industry. Examples:

- in higher education, direct subsidy might include: government appropriations to public & private colleges; grants for research & special projects; endowment/investment income; revenues from auxiliary services (food, housing, bookstore, sports, etc.)

- in housing, direct subsidy might include: equity from the Low Income Housing Tax Credit, federal Community Development Financial Institution grants and subsidized Loans, HUD grants, foundation and other private sector grants.

The term *portable* subsidy refers to funding that is tied to a specific child or family and follows them to the programs or services they select. Examples:

- in higher education, portable subsidy might include: government grants to students (Pell, BEOG) scholarships, subsidized loans, tuition tax credits, and so forth.

- In housing, portable subsidy might include: Section 8 vouchers, home mortgage tax deduction, housing subsidies from government or an employer.

In other fields, Louise stressed, direct and portable subsidies are designed to work in tandem. In other words, institutions of higher education receive direct, institutional subsidy (to ensure that a high quality college education is available and affordable for all citizens) *and* portable subsidy (to ensure that students and their families can afford to pay the *already subsidized* tuition.) Similarly, developers who build low-income housing receive direct, institutional subsidy, in the form of equity from the Low Income Housing

Tax Credit or other subsidized grants and loans (to ensure that developers can build housing to rent at below-market prices) *and* the families that rent their units are eligible to receive portable, Section 8 subsidies (to ensure that they can afford to pay the *already subsidized* rents.) In each of these fields it is assumed that portable and direct subsidies are layered over each other. "Can you imagine what would happen," Louise asked "if government told colleges that their students couldn't get subsidized loans or grants because the college already receives direct subsidy…and therefor they are double dipping? The college would be appalled! And yet that is precisely what we do in early childhood education."

In ECE, direct and portable subsidies do NOT work in tandem--unless a skilled program director forces them to. For example, we assume that if a program gets Head Start funds (a direct subsidy) they cannot use CCDF certificates (a portable subsidy) for the same child in the same program unless they somehow prove that they are not double-dipping. ECE policy takes an either/or stand with regard to subsidy -- either you get direct subsidy or your families get portable subsidy. Louise believes that this is a major reason why we struggle so much with quality: because a single funding source alone does not allocate enough money per child to support full-day, year-round, high-quality services and we have not developed clear and simple ways to layer portable and direct subsidy.

New Financing Strategies

Louise described a range of alternative ECE financing strategies that combine portable and direct financing. She grouped these strategies into five general categories: 1) Quality Improvement Grants, 2) "Base Funding" Contracts, 3) Funding for Specific Costs (wages, benefits, facilities), 4) Industry Supports (to promote fiscal stability and economies of scale), and 5) Tax Benefits for Families and Programs. Each of these approaches was discussed in detail.

Quality Improvement Grants

At least four states have, at some point in the past, developed some form of quality improvement grant initiative. Basically, these initiatives are designed to provide direct, institutional subsidy to a program or classroom of children. This subsidy is provided in the form of a grant to a specific program, rather than tied to a specific child. Accountability is based on the program meeting a set of performance standards, and the funds may be used to support the program as a whole; they are not tied to specific children or limited to those who are income-eligible. These quality improvement grants are awarded *in addition to* portable subsidies for low-income children, parent fees, United Way dollars or other funding sources. Examples include:

1. Texas Comprehensive Child Development Centers (this program no longer exists; it was developed in the early '90's and lasted only a few years)
2. Wisconsin Quality Improvement Grants (this program is being phased out)
3. Mississippi Child Care Enhancement Grants (this program lasted only one year)
4. Colorado Educare Differential Reimbursement grants

Louise briefly described each initiative and discussed the overall concept. A financing strategy like quality improvement grants, she believes, has the potential to make funds available to early childhood programs that serve families at all income levels, and to tie funding to compliance with quality standards, without limiting parental choice or driving up the price of care. The primary drawback to this approach is that it can be politically vulnerable. Of the four examples provided by Louise, only one -- the Colorado Educare approach -- still exists. The other three died over time because they could not garner broad support from providers and/or the legislature. (More detailed information on the Wisconsin Quality Improvement Grants program and Colorado Educare Differential Reimbursement is included in appendix A.)

Base Funding Contracts

A second way to blend portable and direct subsidy is by establishing what Louise referred to as "base funding" contracts. These are essentially contracts where the primary funder understands clearly that their dollars will use used as base funding, upon with other funds will be layered. These grants are not linked to -- or defined as -- quality improvement per se, although they may include or be linked to program standards. Very few government entities have intentionally established these sort of grants, but Louise described a few initiatives that currently operate as "base funding," including:

- Connecticut child care and school readiness contracts;
- The military child care system (which picks up, on average, 50% of the cost of providing child care services)

A "base funding" approach clearly embraces the notion of layered funding, suggested Louise. The architects of these initiatives knew at the outset that they would be one of several funders supporting a single program, and they designed the initiative with that in mind.

Funding for Specific Costs

Initiatives that cover specific costs in an early childhood program are another way to blend portable and direct subsidy. This approach basically takes certain expenses "off budget" so that they do not increase the price of care for fee-paying families or impact reimbursement rates for subsidized families. Quite a few states and/or cities have taken this approach.

Since personnel costs represent the bulk of most child care budgets, strategies that help offset wages and benefits are an excellent way to provide direct assistance. More than a dozen states and cities have established some form of ECE wage supplement. Sometimes funds are awarded directly to providers as bonuses or stipends (North Carolina, Wisconsin, Oklahoma, Illinois and New York have taken this approach). However, this is not the only way to administer a wage initiative. The Washington Wage Ladder and the Kansas City early childhood initiative award funding for salary supplements to early childhood programs, and California C.A.R.E.S. includes both program grants and practitioner stipends. (See http://www.naeyc.org/childrens_champions/workforce.htm for a summary of current ECE wage initiatives.)

Two states -- Rhode Island and North Carolina -- offer subsidize health care plans to child care providers. Rhode Island funds these initiatives with health care dollars; North Carolina links eligibility to participation in the T.E.A.C.H. early childhood initiative and relies on CCDF funds to support health care costs in ECE programs. (For more information on both these efforts, see *Financing Child Care in the United States* at www.emkf.org)

Facility costs are typically the second highest expense in a child care budget (at least among those programs that pay for space). To this end, initiatives that help early childhood programs to purchase facilities and/or carry debt are another way to provide direct assistance. Quite a few states (including Connecticut, Illinois, Rhode Island, North Carolina and Massachusetts) have established child care facilities initiatives. (Information on these efforts is also available in *Financing Child Care in the United States* at www.emkf.org)

Industry Supports

A major barrier to financing early care and education programs is the fragile nature of the industry and the absence of economies of scale. Early childhood programs--unlike their counterparts in other industries--tend to be very small. The average child care center serves approximately 70 children. Providing direct support to many small practitioners can be a challenge. Additionally, very small businesses often do not have the financial stability and fiscal expertise necessary to take advantage of new, innovative financing strategies.

Colleges and universities, on the other hand, have campuses that serve up to 50,000 students. They can afford to support a financial aid office with professional staff that focus exclusively on helping students access assistance and a development office that helps to raise additional funds to support the institution. Housing projects are built for hundreds of families, and the organizations that help to finance these projects typically "package" multiple projects into a single financing strategy to help reach economies of scale. "Even farmers -- who symbolize the American notion of 'rugged individualism' -- have developed cooperatives that allow them to share equipment, storage facilities and develop common marketing strategies" noted Louise. In some cases, farm cooperatives actually own the companies that produce food products (like Land o' Lakes butter or Ocean Spray juice.)

In the private sector, companies are increasingly coming to realize that success may lie in plotting common approaches to customers through shared technology and new strategic alliances rather than plotting new strategies to compete. Banks, for example, share ATM networks. Hotels have developed jointly owned hotel reservation systems. Louise believes that these approaches offer some important lessons to the early childhood field.

There are, potentially, a number of ways that early childhood programs can join forces and obtain economies of scale. Louise challenged participants to imagine that a group of child care programs in a particular region created, or employed, a single entity to market their services, enroll families, and manage billing and fee collection. Couldn't this kind of an approach help expand access to new markets and streamline administrative costs? Shared

billing might also help to reduce accounts receivable (which can be very high in some programs) and improve cash flow. Similarly, a group of early childhood programs could come together to develop common systems for training and recruiting staff, securing substitutes, or providing a range of family support services. Perhaps some staff positions could be shared. The possibilities are numerous.

Louise noted that viewing child care as an industry -- and establishing new kinds of strategic alliances among providers -- is a very new idea, still in the planning/visioning stage. One possible approach draws on lessons from both farm cooperatives and managed care. (See Appendix B for a graphic of this vision.) In this vision, a group of child care providers would agree to share certain functions and create -- or contract with -- a local or regional entity to carry out these functions on their behalf. The types of services provided by the network would vary, based on the needs and resources of its members, but could include tasks such as fiscal management (including all billing and fee collection, USDA food program management, etc.), administering wage supplements, negotiating group purchasing discounts, providing programs support such as staff to conduct classroom observations and child assessments, and so forth.

The goals of establishing this type of provider network are many, including:

1) to strengthen the management capacity of the programs as a collective whole (so that they can hire experts to focus on issues such as fiscal management, fundraising, computer support, marketing, negotiating with funders, and so forth);

2) to create an entity that has the capacity to collect and manage "direct subsidies" on behalf of a group of providers (e.g. funds could be raised collectively for shared expenses and/or to support wage enhancement and other quality improvements in participating centers; an endowment fund could be established for the network; and so forth);

3) to lower administrative costs (because it would no longer be necessary to have separate administrative staff in each program);

4) to reach economies of scale while still keeping programs small (by streamlining management, opening up the possibility of negotiating reduced price contracts for goods and services provided to all network members, collectively raising funds for a host of shared direct services, etc.);

5) to improve the quality of child care (by establishing strong standards and allowing programs to focus on what they do best -- care for and educate young children);

This approach is not intended to limit parental choice. Parents could also choose to use providers who are not in the network. But, similar to some managed care approaches, the market would be structured to include incentives for parents to use network providers (e.g it would be easier, more affordable and they would know these providers were meeting specified quality standards). Likewise, providers would have a host of economic incentives to participate in the network.

"I'm not suggesting that this is the only way -- or even the right way -- to reform the financing system," Louise concluded. "But I firmly believe that one of the obstacles to successful early childhood finance is that we have too many tiny child care programs that are way too financially vulnerable. If we are going to succeed in inventing new ways to finance ECE services, we need strong, stable, accountable organizations that can raise and administer those funds."

Tax Benefits

Louise began this section of her talk by noting that the child care community has historically been reluctant to propose tax policy as a method of financing child care -- for good reason. The existing child care tax credits and deductions are so small, and cover such a miniscule portion of the actual price of child care, that they have had almost no impact on the child care industry, employers or consumer behavior. "But," she stressed, "this does not mean that tax policy *can't* be an effective way of funding early childhood programs. It just means we haven't done it right -- yet."

Louise believes that if we use tax policy in bold, new ways, it is entirely possible to generate significant new sums for early care and education. To this end, she cited several concrete examples of innovative ECE tax policies, including:

- A recently proposed Colorado School Readiness Tax Credit, which would provide refundable tax credits -- linked to the Colorado Educare 5 star quality rating system -- for both families and early childhood programs. By making the credit refundable, families and early childhood programs who do not owe income taxes (including non profits) could benefit.[1]

- Maine's new law that doubles the state Dependent Care Credit for families that enroll their child in a "high quality" program (i.e. one that is accredited or has met Head Start Performance Standards). Louise noted that while the dollar value of this credit is still quite low, it has had a significant impact on consumer and provider behavior. Raising the credit levels might be an excellent way to generate new funds for the ECE system.

- Oregon's new pilot Child Care Investment Tax Credit, a new initiative that was modeled on the Low-Income Housing Tax Credit (LIHTC). Like the LIHTC, this pilot program allows businesses to receive significant financial return by purchasing tax credits that have a value greater than the initial investment. Funds raised from the sale of tax credits will be used to invest in the child care industry.

- A new occupational tax credit for early care and education practitioners, linked to professional development, that is being proposed by advocates in New York State. The proposal would function like the current ECE wage initiative but would be administered

[1] This credit was proposed, and received broad support, prior to the recent economic downturn. At present the proposal is "on hold".

by the tax system (as a refundable tax credit) rather than by the Office of Children and Family Services (as a bonus).

Louise noted that one of the strengths of a tax credit initiative is that "you don't have to go back and fight for the money in the budget every year." Tax credits typically remain unless they are repealed, and in most states it takes a 2/3 majority to repeal a law. This was a key rationale for the New York proposal. Advocates hope that by shifting to a tax-based initiative they will be able to garner support from the Pataki administration (which has made tax cuts a top priority) and also avoid the annual budget battles that make the current wage initiative perennially vulnerable.

"There are many ways that tax policy can be used to help finance the industry," she concluded, " and the early childhood field has only just begun to understand this issue in any depth." She challenged the group to work on "getting their arms around" tax policy, looking outside the field at how other industries have benefited from this approach.

Linking Child Care and Economic Development

Using tax policy as a segue, Louise began to talk about the link between child care and economic development. "Child care is largely a private, fee-for-service industry," she noted. "And it is an industry that not only supports families so that they can work but also contributes to the economy by creating jobs, generating tax dollars, and pumping money into local economies through the purchase of goods and services." She then shared several graphics and one-page fact sheets that had been developed by Professor Mildred Warner at Cornell University and a private sector group led by the local Chamber of Commerce. The handouts quantify and graphically display the economic contributions made by the child care industry in Ithaca, a small city in upstate New York. Economic estimates include: the number of jobs created by the child care industry; the gross receipts of the industry as well as the "ripple effect" it has (via the purchasing power of it's employees and vendors); and, the "parent impact" of the industry (i.e. the fact that child care not only creates jobs itself, as a private industry, but also enables families to work for other industries.) See http://www.daycarecouncil.org/EEP/index.htm for more information on this work.

Louise went on to show that publicly-funded child care is a unique support for the services industry. "Studies from five states indicate that families who receive child care assistance are disproportionately represented in the services and retail trade industries -- and these are the fastest growing industries in our country." (To that end, she noted, child care subsidies could be considered employer-supported child care for these industries!) "The bottom line is that child care is a key part of the engine that keeps our economy running." Business and government need to understand that point -- in clear, economic terms. The research that is being done to frame child care as economic development is an important step in that direction.

Some of the Best Ideas Haven't Been Tried Yet

Louise concluded her talk by sharing a laundry list of ways that states and cities have financed child care (see the final four slides in her presentation). She stressed, however,

that "some of the best ideas haven't been tried yet" and encouraged the group to think creatively and be willing to take on bold, new challenges.

Appendix A

The Wisconsin Quality Improvement Grants Program supports child care programs that seek to improve quality by undergoing accreditation, promoting teacher training, and raising compensation. Programs may receive an initial quality improvement grant for up to four years so long as they comply with the State's "high quality" standards within that time period. If programs fail to meet the standards within four years they may be required to return the funds. A complete copy of the quality standards for both centers and homes is attached. In general, however, to meet the high quality standards programs must:

- Be accredited by a national organization;
- Ensure that all Lead Teachers have obtained, at minimum, a Child Development Associate (CDA) credential;
- Ensure that the program director has obtained at least a bachelor's degree in early childhood education;
- Have an annual turnover rate of no more than 20% or a have a plan for how they will lower turnover to 20%;
- Have an annual program evaluation; and,
- Make funds available for employee benefits and have a plan for improving staff compensation.

First year quality improvement grants are $9,000 for a large child care center, $4,500 for a small child care center, $30,000 for a multi-site organization, and $1,400 for a family child care home. Slightly smaller grants are available in years two, three, and four.

Once programs have met the high quality standards they are eligible to apply for a continuing quality improvement grant for staff retention. These grants, which are based on the number of publicly subsidized children served in the program, may be used for wages, benefits, training and other staff costs but not for supplies, facility costs, or lowering fees. Large child care centers receive $3,000 per subsidized child, small child care centers receive $1,500 per subsidized child, and family child care homes receive $400 per subsidized child. All programs–whether or not they serve subsidized children–are eligible for a minimum staff retention grant of $3,000, $1,500, or $400, depending upon their size.

The program is a administered by the Wisconsin Department of Workforce Development using state and federal child care funds.

For further information, contact: Laura Satterfield, Wisconsin Department of Workforce Development, 1 W. Wilson Street, Room 465, P.O. Box 7851, Madison, Wisconsin 53707 (608) 266-3443

WISCONSIN HIGH QUALITY CHILD CARE STANDARDS FOR GROUP DAY CARE CENTERS

Accreditation Standard
Accredited by the National Academy of Early Childhood Programs (NAEYC accredited) or the National School Age Care Alliance (NSACA)

Licensing Standards
a. The center has been licensed or, if operated by a public school district or serving only school-age children, certified as meeting licensing rules for at least one year. [Note: a longer period of licensing is required to receive a Quality Improvement Grant.]

b. There have been no licensing enforcement actions for three years.

Personnel Policy Standards
a. The program has written personnel policies including job descriptions, compensation with increments based on performance and additional professional development, resignation and termination, benefits, and grievance procedures. (NAEYC Accreditation Criteria E-3a is fully met.)

b. Benefits packages are negotiated to meet the needs of staff members and include (for teachers, program directors, and administrators) paid leave (annual, sick, and/or personal) and medical insurance; other options, such as retirement, subsidized child care, or educational benefits may be substituted or combined with medical insurance;

OR
c. In lieu of a. and b., the program has a collective bargaining agreement.

Staff Qualifications Standards
a. Child care teachers have at least a CDA credential, Infant Toddler Credential, or one-year degree in Early childhood Education/Child Development, or equivalent, OR there is a training plan to meet this standard within one year of the date of accreditation and, upon review at that time, the standard is met. School-age child care teachers have at least a Wisconsin School-Age Credential or a one-year degree in Elementary Education or equivalent OR there is a training plan to meet this standard within one year of the date of accreditation and, upon review at that time, the standard is met

b. The program director(s) has at least a B.A. degree in Early Childhood Education/Child Development and at least three years of full-time teaching experience with young children or equivalent, OR has at least a two-year degree in Early Childhood Education/Child Development and has a Wisconsin Administrator's Credential, OR there is a training plan to meet this standard within one year of the date of initial accreditation and, upon review at that time, the standard is met.

Staffing Improvement Standards
a. An annual program evaluation is performed to examine the adequacy of staff compensation and benefits and the rates of staff turnover; and a plan is developed to increase salaries and benefits so as to ensure recruitment and retention of qualified staff and continuity of relationships.

b. Staff turnover is 20 percent or less OR there is a plan to meet this standard by annual reductions and, upon annual review, reductions occur.

The following is the criteria for family child care providers who received quality improvement grants:

WISCONSIN'S HIGH QUALITY STANDARDS FOR FAMILY CHILD CARE CENTERS

Accreditation Standards
a. Accredited by the National Association for Family Child Care (NAFCC Accreditation)
OR
b. Accredited by the Wisconsin Early Childhood Association (WECA Accreditation)
OR
a. A Child Development Associate through the National Credentialing Program for Family Child care Providers (CDA Credential for Family Child care)

Licensing Standards
a. The family child care center has been licensed for at least one year.

b. There have been no licensing enforcement actions during the past three years.

Personnel Policy Standards
a. When assistants and substitutes are employed, there is a written personnel agreement including job description, compensation, benefits, resignation, termination, and grievance procedures. Hiring practices are non-discriminatory.

b. The provider has a written contract with parents which provides for paid leave (annual, sick and/or personal) for the provider. The provider has medical insurance; other options, such as retirement, subsidized child care, or educational benefits may be substituted or combined with medical insurance.

Provider Qualifications Standard
The provider has at least a CDA credential, Infant Toddler credential or one-year degree in Early Childhood Education/Child Development or equivalent OR there is a training plan to meet this standard within one
year of the date of accreditation and, upon review at that time, the standard is met.

Staff Improvement Standard
An annual program evaluation with parents examines the adequacy of provider compensation and benefits and a plan is developed to increase salaries and benefits if indicated.

Differential Reimbursement:

Differential Reimbursement is funding that the Counties make available to Educare Providers to improve quality, primarily in the form of increased staff compensation. Eligibility requires that the provider be receiving Colorado Childcare Assistance Program funding (subsidies for low-income families) for some of their attending children. Participating providers must compensate staff at minimum established wage levels once they begin receiving Differential Reimbursement.

Eligible Educare Providers supply financial data used to both calculate the differential reimbursement and for Educare's own research. Some of the data gathered includes: financial statements (balance sheet, income statement, statement of functional expenses (if applicable)), fee schedules, enrollment and population information, and staff wage and benefit details. Provider's must also allow access to some financial records that may be used to audit revenues, payroll, enrollment, etc.

Differential Reimbursement payments to date have been built upon the research from the Cost, Quality and Child Outcomes in Child Centers Study, June 1995. With the assistance of some of the principle researchers from that study, Educare has adjusted the numbers for inflation and assigned costs of care at each of Educare's Quality Star Levels. Next, since the cost of quality has been developed independently of the minimum wage levels that each provider must pay, these numbers are then further adjusted to assure that sufficient funding is included in the cost of quality to meet these required salaries.

Base Annual Cost of Quality	1 star	2 star	3 star	4 star
Infant	$ 9,975	$ 10,920	$ 12,915	$ 13,860
Toddler	$ 8,610	$ 9,555	$ 11,550	$ 12,495
Preschool	$ 5,250	$ 6,195	$ 8,190	$ 9,135

The revenues available to each program are then netted against the adjusted cost of quality—this difference is the differential reimbursement. We expect the calculation will vary from county to county depending on priorities and available funding.

Under this calculation, the initial annual Differential Reimbursement payments to Educare providers have ranged from $10,000 to $350,000.

Appendix B: One Vision of a New Financing System