

## **Reaching the Cost of Quality in Early Childhood Education Programs in Pennsylvania Spring 2007**

### **The Problem**

High quality early childhood education is proven strategy for supporting education and economic success. Recognizing this, Pennsylvania has taken ambitious steps over the past few years to improve the quality of child care programs in the Commonwealth. Keystone STARS, which sets voluntary, research based standards for program quality, and financial incentives to support higher standards, is the primary vehicle for addressing these issues.

Keystone STARS was launched as a pilot project in 2002, and recognized as statewide initiative in 2005 – with participation from well over 60% of the child care programs in the state. In 2006, the Department of Public Welfare's Office of Child Development revised the standards to reflect a more stringent level of quality, particularly with respect to teacher credentials. At the same time, the financial incentives for reaching these standards were significantly reduced for a significant sector of the population – giving rise to great concern from providers/practitioners about whether the higher standards could indeed be supported with the current level of resources.

Seeking to answer this question, several members of QUEST developed the attached financial worksheets, representing sample budgets for child care programs. The budgets reflect higher costs associated with higher standards – as well as the revenue from Keystone STARS.

### **Assumptions**

The budgets were built on the following assumptions:

- Staff and benefits costs for the program represent 75% of the total budget for the center; research demonstrates this to be an appropriate surrogate for calculating total operating costs
- The single largest increase in cost is staff salaries – as the standards require individuals to move from unskilled (high school diploma/GED) to highly skilled workers (Bachelor degree with teacher certification for lead teachers; associate degrees for assistant teachers)
- The benefit costs also increase as the standards require both higher levels of professional development (6 hours at STAR 1 – to 24 hours annually at STAR 4) as well as increased benefits packages at higher STAR levels
- Substitute costs are higher than normal because staff are completing degrees while they working full time in their programs
- All children in the sample programs qualify for and receive a child care subsidy. While most programs have a mix of public and private funded families, using the subsidy is good benchmark for programs serving both very poor families and moderate income families (as the private market rate for low and moderate income families just above income levels for subsidy are likely to pay less than the maximum reimbursement rate.) In addition, there are programs with 100% subsidized families that are participating in STARS and find they are not able to meet higher standards with current resources.

## Findings

### Current Levels of Funding available through CC Subsidy and Keystone Stars

	<u>STAR 1</u>	<u>STAR 2</u>	<u>STAR 3</u>	<u>STAR 4</u>	<u>PRE-K</u>
Total Expenses	\$545,947	\$601,867	\$709,973	\$755,733	\$880,880
Total Revenue including Merit Awards and ERA	\$611,790	\$630,090	\$648,340	\$662,590	\$822,590
Difference	\$65,881	\$28,224	-\$61,633	-\$121,006	-\$58,290

### Recommended Levels of Funding through CC Subsidy and Keystone Stars

	<u>STAR 1</u>	<u>STAR 2</u>	<u>STAR 3</u>	<u>STAR 4</u>	<u>PRE-K</u>
Total Expenses	\$545,947	\$601,867	\$709,973	\$755,733	\$917,107
Total Revenue including Merit Awards and ERA	\$611,790	\$645,144	\$710,484	\$738,469	\$890,469
Difference	\$65,843	\$43,277	\$511	-\$17,264	-\$26,638

## Conclusion

While the standards for Keystone STARS are appropriate and effective, revenue to support higher levels of quality are inadequate. While a STAR 1 provider may be able to operate a program with a slight surplus, a STAR 2 provider will most likely be at a "break-even" point. STAR levels 3 and 4 represent the most meaningful, and the most expensive levels of quality. The funding gap for STAR 3 and 4 programs grows proportionately to the size of the program – with larger programs incurring even greater losses than small to mid-size programs.

## Recommendations

For the Commonwealth to continue to see an increase in the number of STAR 3 and 4 programs, it must address the fundamental lack of resources to support these programs. By adopting the following strategies as soon as possible, DPW could begin to address this issue:

- A meaningful increase in the subsidy rate that is tied to STAR level. The state should consider adding at least 10% to the maximum reimbursement rate for STAR 4 providers,

and at least 7-8% for STAR 3 providers. Increases should recognize that the largest cost and quality increase occurs between STAR 2 and STAR 3 – and increases should be weighted appropriately.

- Increased Merit Awards for programs. The current level of Merit Awards is inadequate for meeting the higher costs of quality – and serve primarily as an incentive to attract participation in the program. Keystone STARS should recognize that higher levels of quality cost significantly more than mediocre to poor child care, and should index the merit awards to more appropriately reflect these costs.

Proposed Merit Award Calculations:

Small Center:

STAR 2- 40 children x \$100/child -- \$4,000  
STAR 3 – 40 children x \$400/child -- \$16,000  
STAR 4 – 40 children x \$500/child -- \$20,000

Medium Center:

STAR 2- 75 children x \$100/child -- \$7,500  
STAR 3 – 75 children x \$400/child -- \$30,000  
STAR 4 – 75 children x \$500/child -- \$37,500

Large Center:

STAR 2- 120children x \$100/child -- \$12,000  
STAR 3 – 120 children x \$400/child -- \$48,000  
STAR 4 – 120 children x \$500/child -- \$60,000

Very Large Center

STAR 2- 180 children x \$100/child -- \$18,000  
STAR 3 – 180 children x \$400/child -- \$72,000  
STAR 4 – 180 children x \$500/child -- \$90,000