Section 8: Cost Projections and Financing

Financial support for a quality rating and improvement system (QRIS) is critical during all periods of its development—from the start-up phase, to early implementation, to periodic review and revision. This section addresses several critical financing issues: (1) what needs to be financed, (2) ways to project costs, and (3) revenue sources (including identifying existing resources that can be realigned to support the QRIS and securing additional sources of funding).

QRIS designers and implementers should carefully identify the QRIS's purpose and design and ensure that the financing available is sufficient to support them. A strategic approach to the financing and sustainability of the QRIS will ensure that resources are sufficient to meet goals, and that public and private funds are maximized and leveraged effectively to support improvements in quality over time. By thinking broadly and creatively about how to effectively use available funding, including maximizing and leveraging varied funding sources, states will go a long way toward ensuring the sustainability of their QRISs and the programs that participate.

The information in this section is organized into six steps for developing or revising a strategic financing plan.

Contents

Step 1: Deciding What Needs to Be Financed

Funding QRIS Elements

Considering the phases of QRIS development and implementation is helpful in thinking through funding. Some phases are time limited while others are ongoing. The following QRIS elements should be considered for initial and sustained funding:

- **Planning and design:** Strategic planning and data collection to establish the initial system; identification of the QRIS's purpose and scope.
- **Standards:** Research and development of standards at the beginning and revision at later points in time.
- **Approaches to implementation:** Pilot or phased-in implementation approaches, and the overall management and administration of the QRIS.
- **Accountability and monitoring:** Program assessments, rating assignments, and ongoing monitoring.
- **Provider support and sustainability:** Short- and long-term program and practitioner supports, including one-time costs for attaining standards as well as ongoing support for sustaining quality levels. This may include professional development, salary enhancements, grants, and tiered reimbursement.
- **Data collection and evaluation:** Information technology system design, and data collection, analyses, and dissemination.
- **Public awareness:** Parent, provider, and stakeholder awareness, communication, and outreach.

The overall purpose and desired outcomes of the QRIS should be taken into account when modeling costs. For example, a QRIS that sets a school readiness goal for the children served is likely to have a different cost model and approach than a QRIS that sets a goal of raising the floor for quality to a step or two above basic licensing requirements. According to *Finance and Quality Rating and Improvement Systems* (BUILD Initiatve, 2017a), a well-financed QRIS dedicates its resources to accountability and ratings, quality improvement, and quality at the program level.

States are using varied approaches to help early care and education programs improve and then sustain higher levels of quality as defined by their QRIS standards. As reported in *QRIS Compendium Fact Sheet: Funding and Financial Incentives* (National Center on Early Childhood Quality Assurance [ECQA Center], 2017a), 12 of 41 QRIS (29 percent) provide programs with improvement grants through their system.[1] Twenty-five QRIS (61 percent) provide quality bonuses to programs when they achieve a certain level of quality, and 28 QRIS (68 percent) provide financial incentives for programs through the use of tiered reimbursement.

Another form of quality improvement that directly supports personnel is staff scholarships for education—provided by eight QRIS (20 percent). Dollars associated with these quality improvement strategies vary, but on average, staff scholarships are approximately $3,500, and improvement grants average $2,873.

QRIS Compendium Fact Sheet: Technical Assistance (ECQA Center, 2017c) reports that 31 of the 41 QRIS (76 percent) offer some form of technical assistance (TA) to all participating programs.[2] These TA services are targeted to providers serving children from low-income families, programs at lower levels of quality, and programs located in communities of high need.

[1] Data from this fact sheet are based on 41 QRIS that were fully operational in the United States in 2016. While most QRIS operate at the state level, there are states with multiple local systems.
[2] See note 1.

Visit the Provider Incentives and Support section of the QRIS Resource Guide for additional information.

Step 2: Projecting the Costs

Elements to Include in a Cost Projection

Projecting the cost of a QRIS is critical for both initial planning and ongoing operation. Cost assumptions and models should be updated at least annually to ensure that there is enough funding for all the elements needed to achieve the purpose of the QRIS. A helpful resource for states to use in identifying finance strategies to ensure that the QRIS can meet its goals is the BUILD Initative's *Tool for a Cross-Sector QRIS* (BUILD Initiative, 2017b).

Data systems and information resources are critical factors in successful cost projection. These can be used to project key factors, such as participation rates by level, initially and over time. Systems that may provide useful data for projecting costs and participation levels include licensing databases that capture the level of compliance with regulations and professional development registries that collect staff qualifications and annual training attendance. Information about mapping the early care and education workforce is available in the Initial Design Process section of the QRIS Resource Guide. QRIS information systems can be linked to other data systems in early care and education to support ongoing projections and analysis. The *QRIS Data Systems Fact Sheet* describes the types of data included in QRIS data systems, how the data are being used, and data system linkages (ECQA Center, 2018).

It is also necessary to project participation as part of the overall cost modeling, revenue allocation, and budgeting for the QRIS. The overall participation of eligible programs varies by state, with some states mandating participation, some states conditioning receipt of public funds (such as child care assistance or prekindergarten) on QRIS participation, and some states opting for a voluntary approach. State participation rates can be found in the Quality Compendium within each state profile, under the Participation tab.

Participation rates will also vary based on the state's inclusion of different categories of care. *QRIS Compendium Fact Sheet: Program Participation in QRIS* (ECQA Center, 2017b) includes information about which types of programs participated in the 41 QRIS that were fully operational in 2016.

- 100 percent of QRIS included licensed centers
- 93 percent included licensed family child care homes
- 71 percent included Head Start and Early Head Start
- 61 percent included school-operated early childhood programs
- 41 percent included school-age programs
- 19 percent included legally license-exempt centers
- 5 percent included legally license-exempt family child care homes

Using the Provider Cost of Quality Calculator (PCQC)

The Provider Cost of Quality Calculator (PCQC) (ECQA Center, n.d.) is a web-based tool that calculates the cost of quality—based on site-level provider data and estimates—to help state policymakers understand the costs associated with delivering high-quality early care and education. This in turn helps them understand the budget needed for a QRIS. The tool can demonstrate whether there is a gap between the cost of providing quality services and the revenue sources available to support programs. Knowing the size of the gap at different quality levels for various provider types can inform the design of financial support and incentive packages. This analysis

provides additional information to calculate needed funding for incentives such as tiered reimbursement, bonuses, quality achievement awards, and quality improvement grants.

State Experiences Using Cost Modeling for Existing QRISs

Several states have undertaken cost modeling studies for their QRISs and published the results.

- **Delaware**, *Modeling Quality Costs for Delaware Stars: Interim Report on Program Cost of Quality in Centers* (2013)
- **District of Columbia**, *Modeling the Cost of Child Care in the District of Columbia* (2016)
- **Ohio**, *The Dollars and Cents of Early Learning: Investing in Success–A Summary of Findings from groundWork's Early Childhood Financing Project* (2016)
- **Rhode Island**, *The Cost of Quality Early Learning in Rhode Island: Interim Report* (2013)
- **Washington**, *Modeling the Cost of Quality in Early Achievers: Centers and Family Child Care* (2013)

The Alliance for Early Childhood Finance has a web page with resources about cost modeling projects states have done to estimate the cost of various early care and education finance initiatives.

Across these states, "a fairly common finding is that the base subsidy rate is sufficient to operate a program at the licensed level of quality, but that subsidy tiered rates are insufficient to support programs at the highest levels" (BUILD Initiative, 2017a, p. 9). Delving deeper, there is typically a significant revenue gap for programs that are at the top level of the QRIS. These studies typically show that size and ages of children matter, with smaller programs and those serving infants and toddlers experiencing greater revenue gaps. On the other hand, programs that are sponsored by schools or Head Start, and those using other available revenue streams, are more able to make ends meet.

Examining existing QRIS funding and determining whether it is sufficient to help early care and education programs improve their quality is important during start-up and on a regular basis.

Creating a Master Budget

Once cost projections are made and decisions are reached on the elements for which funding is needed, an overall QRIS budget is needed. Certain aspects of the QRIS budget may be embedded in other budget expenditures, such as those for the child care assistance program and licensing program, professional development and technical assistance systems, child care resource and referral (CCR&R) agencies, and other services and supports. Other elements may be new expenses; for example, monitoring and rating, public and stakeholder awareness initiatives, QRIS information systems, and supports such as coaching, curriculum or assessment costs, and financial supplements. For QRIS serving programs such as prekindergarten and Head Start, it is particularly important to understand whether those programs are financially supporting participation in the QRIS, and how this is addressed in budgeting terms. In general, it can be helpful to review how other states organize their budgets, as well as how they pay specific costs.

Although a review of expenditure levels in other states' QRIS provides a good starting point, each state's QRIS has a different purpose, goals, criteria, and incentives. Comparisons may also lead to incorrect assumptions that each QRIS has similar availability of existing resources, such as licensing and access to training or technical assistance. Therefore, using the CEM to capture the state's unique QRIS structure and existing resources, along with the PCQC to estimate provider costs, provides a more accurate approach to cost projections.

Minimizing the Impact on the Cost of Care to Families

A primary goal of the QRIS is to improve the quality of child care and other early learning and school-age programs. Assuming that higher quality has higher cost, concern has been raised about how QRISs may affect families' costs. Because most child care revenues come from parent fees, child care markets are extremely price sensitive. A program's financial viability and sustainability is determined by three factors, sometimes called the iron triangle: revenue sufficient to cover expenses, enrollment as close to 100 percent as possible, and effective collection of all tuition and fees. If participation in a QRIS significantly increases costs for families who do not have tuition assistance through programs such as child care assistance, public prekindergarten, or Head Start, providers may be unable to cover their costs solely by raising prices.

States typically try to minimize the impact of a QRIS on the fees charged to consumers by subsidizing the increased cost of quality. First, they may support or offset costs of improvement tied to specific QRIS criteria. For example, states may offer scholarships to help staff obtain the education required for higher QRIS standards. A second approach is to cover the ongoing costs of maintaining quality through financial awards such as tiered reimbursement bonuses for providers that participate in a QRIS (that is, higher state reimbursement rates based on QRIS levels). Tiered reimbursement strategies are designed to help increase access to higher-quality child care for low-income families. However, unless tiered reimbursement is structured as a bonus and not linked to market price, it can have the unintended consequence of driving up the price charged to nonsubsidized families and limiting participation in the QRIS. This is especially true for providers that serve children of all income levels. This could potentially limit choices for low-income families if tiered reimbursement is the only financial incentive for a QRIS. Tiered reimbursement is likely to be more effective if it is one of several financial incentives available to providers.

Other financial incentives that states make available include annual program-level awards, which may be calibrated based on program size and the percentage of children served from low-income families. It is possible to structure financial incentives so they are available to providers that serve families at all income levels but also offer special incentives for providers that serve subsidized children. (See the Provider Incentives and Support section for additional information and examples of financial incentives that states have developed.)

To date, research data on the relationship between QRIS participation and the prices charged by participating providers are not available. Many factors make it difficult to correlate QRIS participation and price data, including external factors such as minimum wage increases, the supply of providers in a rate area, and local employment conditions. Nonetheless, it may be helpful for states to track price and rate changes over time, recognizing that the cost of care, market prices, and subsidy reimbursement rates are three related but distinct issues.

Step 3: Identifying Funding and Resources That May Already Be Available or Aligned with the QRIS

Accessing QRIS Funding or Resources

Many states that have implemented a QRIS have been able to align their existing quality improvement strategies with the QRIS and build on the professional development, technical assistance, quality improvement, and monitoring systems that were already in place. A QRIS can become an organizing framework for focusing multiple strategies toward an accountability structure that could include all early care and education services.

Using the QRIS as a tool for alignment and system reform requires careful planning. (See the Initial Design Process section for additional information.) Reaching the long-term goal of system reform is likely to occur over time as opportunities arise to restructure program administration and funding. Also, aligning resources and programs, such as licensing and CCR&R services, may require changes in regulations or contracts, which are actions that cannot be immediately implemented.

The first step is to identify all existing resources and activities that currently support functions or activities included in the QRIS, such as professional development, technical assistance, monitoring, data collection and tracking, and communication. This review should include resources for infant/toddler, school-age, and special-needs care that may indirectly support the overall system and may also help identify gaps in resources. If the QRIS includes programs beyond child care, such as Head Start or state prekindergarten, understanding how those programs' resources support the QRIS is essential. Resources may exist in several different state agencies. Many states have been intentional in making the changes needed to link these existing resources and activities to their QRIS. While this step can sometimes be implemented via memoranda of understanding or other agreements, in some cases this step may require revised job descriptions or administrative structures, legislation, new regulations, amendments to rate or contract policies, new or revised responsibilities with contractors, and other changes.

QRIS Compendium Fact Sheet: Funding and Financial Incentives (ECQA Center, 2017a) notes that funding of all elements of a QRIS is typically achieved through multiple sources, with the Child Care and Development Fund (CCDF) being the primary source. Although fewer states are using state funding, the amount of funding is similar to that from the CCDF. A QRIS may leverage local funding or private funding, but this is less typical. Currently, three states leverage local funding and five leverage private funding.

In addition, there are efficiencies that can be realized by linking with other resources. For example, creating online applications and importing data from a professional development registry and from a licensing database reduces the time it takes staff to collect information and assess providers' compliance with criteria. (See the Quality Assurance and Monitoring section for additional information.) Some states accept monitoring or other onsite assessments completed by other systems; for example, using Classroom Assessment Scoring System scores from Head Start classrooms. Under recent revisions to the Head Start Program Performance Standards, greater efficiency is expected. Section 1302.53(b)(2), addressing community partnerships, provides for Head Start participation in a QRIS with the provision that Head Start monitoring data must be accepted to document quality indicators included in the state's QRIS.

States that go through a resource analysis may find that there are existing programs and activities that can be eliminated or that may become redundant once the QRIS is in place. Funding for eliminated items can be redirected to support the QRIS, although this action may require significant involvement of key stakeholders and administrators to garner needed support and commitment to use funding in new ways.

QRISs offer states the opportunity to ensure that funding currently allocated to early and school-age care and education quality improvement is spent wisely. If used as a systematic framework for financing and measuring quality, QRISs offer many opportunities to maximize existing resources and promote accountability for results.

Step 4: Exploring Potential Sources of Funding to Fill the Gaps

States' QRIS Funding Sources

Once funding needs are identified, states should seek new or unobligated funding sources that could be tapped to support the QRIS. The most common QRIS funding source is CCDF. Other possible sources of federal funds that can support a QRIS include the following:

- Community Mental Health Services Block Grant
- Every Student Succeeds Act
- Head Start
- Part B and Part C of the Individuals with Disabilities Education Act
- Temporary Assistance for Needy Families

- Title V Maternal and Child Health Block Grant
- Workforce Innovation and Opportunity Act

States may also be able to tap federal funds designed for special populations and initiatives (for example, Native Americans and rural providers) to fund specific outreach to underserved communities or to expand the scope of programs included.

Beyond federally generated revenue, there are other state and local funds that can support a QRIS, such as the following:

- State general funds
- Dedicated state funding generated by lotteries or "sin" taxes on tobacco products, soda, and sugary beverages
- Prekindergarten or education set-aside funding
- Tax credits
- Local sales and property taxes
- New revenue sources, such as marijuana revenue

Some states have experiemented with the use of tax credits within the context of the QRIS. For example, Arkansas and Vermont reward families with a state dependent care credit for families who choose programs rated by a QRIS. Louisiana and Nebraska also have tax credit provisions that include benefits for families, teachers, and providers. Louisiana's tax credit is noteworthy because it is refundable and benefits low-income working families as well as child care teachers who don't owe taxes (BUILD Initiative, 2017a).

Finally, there are states that have leveraged private sources, including business and philanthropic contributions, particularly for start-up or one-time costs associated with the QRIS. Before exploring charitable and business support, the state may need to identify a partner that can solicit and receive private funding for this purpose. State governments often do not have mechanisms in place to receive private funding. Also, funders have their own applicant guidelines to, in part, allow them to address tax issues related to charitable giving.

Step 5: Preparing a Strategy for Securing and Sustaining the Needed Funding

Funding Strategy Planning

Key ingredients to a successful QRIS include a long-range goal, a plan for incremental steps toward reaching the goal, and a lot of flexibility. Obtaining initial and long-term funding is often about seizing opportunities and does not always follow a logical plan. It may be possible, for example, to make great strides in linking the QRIS to one particular funding stream, such as child care assistance. Or, it may be possible to secure financial incentives for a particular group of providers early on, and then work to extend these supports to all participants. (See the Approaches to Implementation section for information on the use of a phased-in approach when full funding is not available.) Regardless of the timeline, it is helpful to have a roadmap of potential resources and a strategy for securing them, so that it is easer to identify opportunities as they arise. (Also see the Initial Design Process section for information about building support among other stakeholders.)

Step 6: Analyzing Costs and Expenditures Annually

Tracking Expenditure Levels over Time

As participation in the QRIS grows and providers are able to move to higher levels, ongoing tracking and analysis of all expenditures is needed to ensure the best use of fiscal resources. Creating itemized budgets with expenditures by QRIS element and analyzing expenditures over time may yield significant information to support future budget planning.

A good place to begin fiscal analysis is with the underlying assumptions that were used to create the initial budget; for example, participation rates and use of incentives. Were those assumptions valid? Analyzing monthly expenditures over time can also offer insights, such as whether program costs increased following an expansion of outreach efforts. This analysis can assist in determining if the expense of that program element (in this example, consumer awareness), is justified. Are there other elements that yield more impact for less money? In an environment of limited resources, it is essential to steer investments to the most productive initiatives.

A thorough knowledge of the financial performance of the program will also be helpful when persuading policymakers to continue to support the initiative. At the same time, ongoing work is needed to match available financing to the needs of child care programs working to meet higher quality levels.

Sustaining Funding Levels

Sustained funding is necessary to ensure continued success of the QRIS. The CEM can again be used to project administrative costs over several years and allow time to build support for increased resources.

Leaders may also want to engage early care and education service providers in sustainability planning, including an exploration of business models and strategies to attain greater economies of scale. Many early and school-age care programs operate on weak business platforms and are led by individuals with limited skills in fiscal management and, all too often, no time to focus on the business side of their work. These difficulties are compounded by the fact that many early care and education programs rely on multiple funding streams, some of a short-term nature, as well as parent fees. Effectively managing the iron triangle, especially maintaining full enrollment, is challenging but essential to sustainability. For more information, see *The Iron Triangle: A Simple Formula for Financial Policy in ECE Programs* (Stoney, 2010).

Given the mixed delivery systems of programs that may be involved in the QRIS—including publicly funded and private (for-profit and nonprofit) organizations—there can be great value in providing guidance and support for the business practices of program leaders and helping them learn about ways they can adopt shared services. Such support is one way to optimize a “return on the investment” in QRIS. Many states and programs are using shared services to improve quality, share learning, and reduce costs among providers through the sharing of resources and practical tools. More information about shared services is available on the Opportunities Exchange website.

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National Center on Early Childhood Quality Assurance

9300 Lee Highway
Fairfax, VA 22031

Phone: 877-296-2250
Email: QualityAssuranceCenter@ecetta.info

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