REPORT OF THE VIRGINIA
DEPARTMENT OF SOCIAL SERVICES

Report on the Study of a Tiered Reimbursement Subsidy Program, Based on a Quality Rating and Improvement System (SJR 54, 2014)

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

SENATE DOCUMENT NO. 5

COMMONWEALTH OF VIRGINIA
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COMMONWEALTH of VIRGINIA

DEPARTMENT OF SOCIAL SERVICES

Office of the Commissioner

Margaret Ross Schultze
COMMISSIONER

January 12, 2015

MEMORANDUM

TO: The Honorable Terence R. McAuliffe
Governor of Virginia

Members, Virginia General Assembly

FROM: Margaret Ross Schultze

SUBJECT: Report on Tiered Reimbursement Subsidy Program

I am pleased to submit the Department of Social Services' report on the development of a tiered reimbursement child care subsidy program, pursuant to Senate Joint Resolution 54 (2014). If you have questions or need additional information concerning this report, please contact me.

MRS:kc

Enclosure

PREFACE

Senate Joint Resolution No. 54 (2014) directs the Virginia Department of Social Services to study a tiered reimbursement subsidy program, based on a quality rating and improvement system, for child care providers. The resolution identifies four key areas of study:

- Identify and compare strategies for implementation of a tiered reimbursement system based on a quality rating and improvement system for child-care providers in the Commonwealth
- Determine the resources required to implement and sustain such strategies
- Explore the potential effects of implementing a tiered reimbursement subsidy in the Commonwealth, including the impact on the supply of quality child care services, potential financial implications for child-care services on families and providers, effects on existing programs, such as the Child Care Subsidy Program, effects on the licensure of child-care providers, and the implications of applicable federal and state laws and regulations
- Examine other states that utilize a tiered-reimbursement subsidy program, including implementation strategies and results

The Department is to complete its work by November 30, 2014, and the report is due to the Governor and the General Assembly for the 2015 session. Staff from the Department of Social Services' Divisions of Child Care and Early Childhood Development and Research and Planning prepared this report.

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EXECUTIVE SUMMARY

This report was required by Senate Joint Resolution No. 54 (2014), in which the General Assembly requested the Virginia Department of Social Services to study a tiered reimbursement subsidy system, based on a quality rating and improvement system (QRIS), for child care providers.

All states in the U.S. have a state-managed child care subsidy program and thirty-eight states have a QRIS program. Some states have linked the subsidy and QRIS programs to create a tiered subsidy reimbursement system. The governance and policy structures for these programs vary significantly across states with states implementing programs in different ways. A common principle, however, for tiered reimbursement across the states is to provide higher reimbursement rates or other unique benefits to providers that offer high quality child care services. While the development and implementation of a tiered reimbursement system is a complex process that requires coordination among multiple programs, it can be accomplished with careful and strategic planning.

If Virginia determines that the state should implement a tiered subsidy reimbursement system based on QRIS, the development and implementation of a pilot would be a prudent first step to establish and evaluate processes and procedures; analyze actual parent and provider participation; confirm the adequacy of initial reimbursement rates; increase the number of child care providers participating in QRIS to create the critical mass needed statewide; and build system infrastructure and capacity for a full-scale, statewide tiered reimbursement system. The pilot should be conducted for a minimum of two years or until all systems (data, governance, training, parent and provider education) are structured and tested.

KEY FINDINGS

- At least twenty-two states use a tiered subsidy reimbursement system that links the child care subsidy reimbursement rate to specific standards of quality.

- States interviewed for this study indicated that tiered reimbursement has been a factor in increasing the number of children enrolled in quality programs and for encouraging providers to pursue higher levels of quality care. For example, Pennsylvania and Wisconsin are both experiencing a level of success with their tiered reimbursement systems. Approximately 67% of children receiving child care subsidies in Pennsylvania are in a Keystone STARS program. In Wisconsin, 72% of the children in the Young Star program are in child care programs with a star rating of 3 or above.

- Tiered reimbursement is most effective when it is aligned with other policies and programs that are designed to improve program quality and

accessibility, such as efforts to train and retain qualified staff. For example, Maryland offers providers and administrators employed at Maryland Excels (QRIS) sites a credential bonus. This one-time or annual bonus is given to early childhood providers for reaching specific education and training benchmarks. Vermont works with private business organizations to provide discounts on books and educational materials and equipment to QRIS-participating programs. Vermont also awards a bonus payment to programs for each level achieved in the QRIS.

- An adequate pool of high quality programs that are willing to participate in the subsidy system is foundational to the successful implementation of a tiered reimbursement payment system. Oklahoma and Wisconsin stress the need to have an appropriate supply of quality programs available to meet the demand. This will help alleviate the potential of a shortage of programs that are available to serve families across the state.

- High personnel costs in child care settings drive the cost of providing care, and increasing the quality and skill level of the child care workforce increases this cost. States implementing tiered reimbursement must consider this reality, and make resource decisions that align with their early childhood development goals. Preliminary projections indicate that an additional $6.3 million per year in direct subsidy costs could likely be required upon full implementation of a tiered reimbursement subsidy system in Virginia, plus a one-time automated systems upgrade at approximately $500,000 to support the expanded program.

- Increased operating expenses, difficult to estimate at this time without concrete program parameters, would also be required. However, these costs could be accurately projected during the course of an initial two-year pilot program. The administrative cost of the pilot is estimated at $306,900 in Pilot Year One and $438,150 in Pilot Year Two. These figures do not include direct subsidy payments that would occur during the pilot.

RECOMMENDATIONS

1. A pilot project, including an evaluation of the tiered reimbursement system, should be considered to determine the actual level of required resources to manage and administer a full-scale tiered reimbursement system.

2. Targeted efforts should be undertaken to ensure that there is an adequate pool of high quality child care programs available and interested in participating in the tiered reimbursement system.

3. To support the continuous improvement of child care quality and the successful implementation of a tiered subsidy reimbursement system, efforts should continue to automate processes and link key data systems; more closely coordinate related functions including child care subsidy, the Virginia Star Quality Initiative (Virginia's QRIS) and licensing of child care facilities; and advance professional development of the child care workforce.

CHAPTER 1: INTRODUCTION

As directed by SJR No. 54 (2014), the Virginia Department of Social Services (VDSS) conducted this study of a tiered reimbursement subsidy program, based on a quality rating and improvement system (QRIS), for child care providers. Research methods employed during the study are described in Appendix II and include a literature review, a survey of Virginia child care providers, an information survey of five states with structured follow-up interviews conducted with two states, utilization of a Provider Cost of Quality Calculator developed by the National Center on Child Care Quality Improvement, and utilization of an advisory group to provide input and feedback on study processes and findings.

BACKGROUND

One of the most significant trends in the U.S. labor force in the last 50 years has been the increase in the number of women entering the workforce, including those with young children. This change is largely due to the need to supplement family income as median household income growth has stagnated since the 1970s. The percent of employed mothers in the U.S. with children under the age of six has grown from 33.2% in 1975, to 58.5% in 2012. The increase in women entering the work force has been a major contributor to the expansion of the child care services market.

Over the past 15 years, brain research and analysis has yielded a strong body of evidence that the first years of life are pivotal for establishing the foundation for future learning. Instead of considering Kindergarten or first grade as the beginning of the learning timeline, there is now broad recognition that learning begins at birth. During the first five years of life, the foundation for cognitive, social and emotional capacity is developed. This recognition of the importance of early childhood development and its ultimate and significant impact on a community's workforce and economy has elevated interest about early learning settings and experiences of young children. Research shows that the quality of early learning settings and experiences matters: children, especially those at risk, benefit most from experiences that have certain features and characteristics in order to derive the most benefit and sustained gains from participation in early learning. These important characteristics include a healthy and safe learning environment, interactions with and support from qualified and competent staff, and intentional learning experiences that are derived from age- and developmentally-appropriate curriculum.

As the use of non-parental child care has increased and recognition grows about the significant dual purposes of child care (as both a work support for parents and as a school readiness service for children), there has been growing concern about the safety and level of quality in child care settings. Discerning how to ensure that early learning experiences are both safe and of high quality has continued to be a major focus for parents; child care providers; federal, state and local agencies; policy makers; and others.

Though the cost can be considerable, many families can afford a high quality early learning experience for their children, and can select from options of private, public or faith-based child care centers and preschools providing these services. For children living in families whose characteristics are more challenged, accessing and affording high quality child care or preschool - sometimes including the need for care during non-traditional work hours - can be difficult or impossible. This is a confounding dynamic; a strong body of research demonstrates that children who experience risk such as poverty are the children who most benefit from high quality early learning experiences.

To achieve the objective of ensuring accessible, affordable and safe care options for families and young children, especially those most at-risk, states utilize child care subsidy programs. Child care subsidy programs are an important part of public efforts to help low- and median-income families support themselves by work rather than welfare. They are also designed to aid efforts to improve outcomes for children from low-income families by supporting access to high quality child care. Even with these efforts, access and affordability often drive parents receiving subsidy for child care to select low-quality care settings.

To achieve the objective of ensuring the availability of high-quality care options, states utilize quality rating and improvement systems (QRIS). In addition, to incentivize an increase in the supply of high quality care, at least twenty-two states in the nation use tiered reimbursement subsidies to reward quality performance by providers and to help offset child care costs for low-income families. Tiered reimbursement is a subsidy payment system structured primarily around a QRIS. Child care providers are reimbursed at higher subsidy rates based on their programs' rating levels within a QRIS.

Virginia operates both a child care subsidy program and a QRIS but does not at this time link the two to provide a tiered reimbursement system. Subsidy reimbursement rates for child care providers participating in the QRIS are the same as for non-participants.

VIRGINIA CHILD CARE SUBSIDY PROGRAM

Data from the U.S. Census show that there are 502,910 children under the age of five in Virginia, and that 87,659 (17.4%) of these children live in poverty (Small Area Income and Poverty Estimates 2012). The VDSS Child Care Subsidy Program serves about 44,000 children and 26,000 families per year. Around 4,000 child care providers participate with the program in any given year.

The Virginia Child Care Subsidy Program provides financial assistance to eligible families to help pay for the cost of child care so they can work or attend approved education or training programs or to support a Child Protective Services need. The Child Care Subsidy Program services are child-centered and family-focused and support the broader objective of strengthening families' goals of economic self-sufficiency and providing quality early childhood programs for their children.

Families apply for child care subsidy through the 120 local departments of social services. Case workers in the local departments determine eligibility using an automated case management system that operates in accordance with program guidance developed by VDSS. Eligible families may select any legally operating child care facility that meets requirements for program participation. The Child Care Subsidy Program is largely funded by the Child Care and Development Fund (CCDF), authorized under the Child Care and Development Block Grant Act (CCDBG), and the Temporary Assistance for Needy Families Block Grant.

Payment for child care services for eligible families is made directly by VDSS to their chosen child care providers. Payments are determined based on the amount of care required to support the family's need, the cost of care in the community where the family lives, and on the level of regulatory oversight of the provider, with licensed or licensed-equivalent providers receiving a higher payment rate than unlicensed providers.

Annual expenditures for direct child care subsidy payments (without any adjustment for tiered reimbursement) are projected to equal approximately $132 million in FY 2016. A market rate survey that is conducted every two years by VDSS is used to determine payment rates within the constraints of available funding.

The federal government recommends that states set their subsidy payments at a level that enables program participants adequate access to providers in the community, and encourages states to set their payment rates at the 75th percentile (in other words, to set rates at a level that would enable families to access 75% of the providers within their community). Virginia has traditionally had lower subsidy payment rates fluctuating from the 26th to the 48th percentile. A recent action raised the payment rate to the 50th percentile for all licensed and licensed-equivalent care.

A percentage of the CCDF, about 4%, is "earmarked" for child care quality improvement. Until recently, there have been few requirements from the federal government for states to report on the specific outcomes of quality strategies and activities. Recently, the template for each state's child care plan was revised to guide states to greater accountability and demonstration of effect from quality improvement expenditures. In many ways, this revision was a reflection of states' newer capacity to track data and document outcomes from use of CCDF dollars, particularly in the area of quality, due to the majority of states' adoption of quality rating and improvement systems (QRIS). These voluntary, market-driven systems provide a framework for states to give parents consumer information about quality and essential features of varying types of child care and education settings, as well as a non-regulatory platform for quality improvement supports and resources.

Unfortunately, the funds available in the subsidy system are insufficient to provide services to all eligible families, and historically have not been set at levels that encourage high quality services that support the school readiness of young children. Inadequacy of funding results in this dilemma: Should the limited funds be distributed at

lower subsidy rates to provide services for more families, or should the funds be distributed at a higher subsidy rate, allowing parents a wider choice of services but limiting the number of families that can be served?

The complexity of the dilemma goes deeper. If the first approach is taken, there is a prolonged effect of burden of cost either on low-income parents or on child care providers. These small businesses have labor-intensive costs that strain the business model of this already-challenged industry and market. If the subsidy system is not covering an adequate amount of reimbursement to providers, on behalf of low-income working families who cannot afford to pay the difference, the child care providers themselves must "subsidize" the cost. This dynamic makes it all the more difficult for child care programs to hire and pay qualified staff with the skills to deliver high quality services supporting school readiness.

Another consequence of the first approach is incentivizing low-income parents' use of informal, non-regulated family, friend and neighbor (FFN) care. If subsidy reimbursement rates are too low to access stable, regulated care in a family home or child care center setting, families often call on family members, friends or neighbors to watch their children. Well-organized FFN care can be an important and affordable support for working parents, yet often does not provide the additional benefit of school readiness services for children. Parents must sometimes fit together a patchwork of arrangements in order to be a reliable employee, which at times may include leaving young children on their own or in the care of older children. There are obvious disadvantages to this situation in terms of consistency and safety.

VIRGINIA QUALITY RATING AND IMPROVEMENT SYSTEM

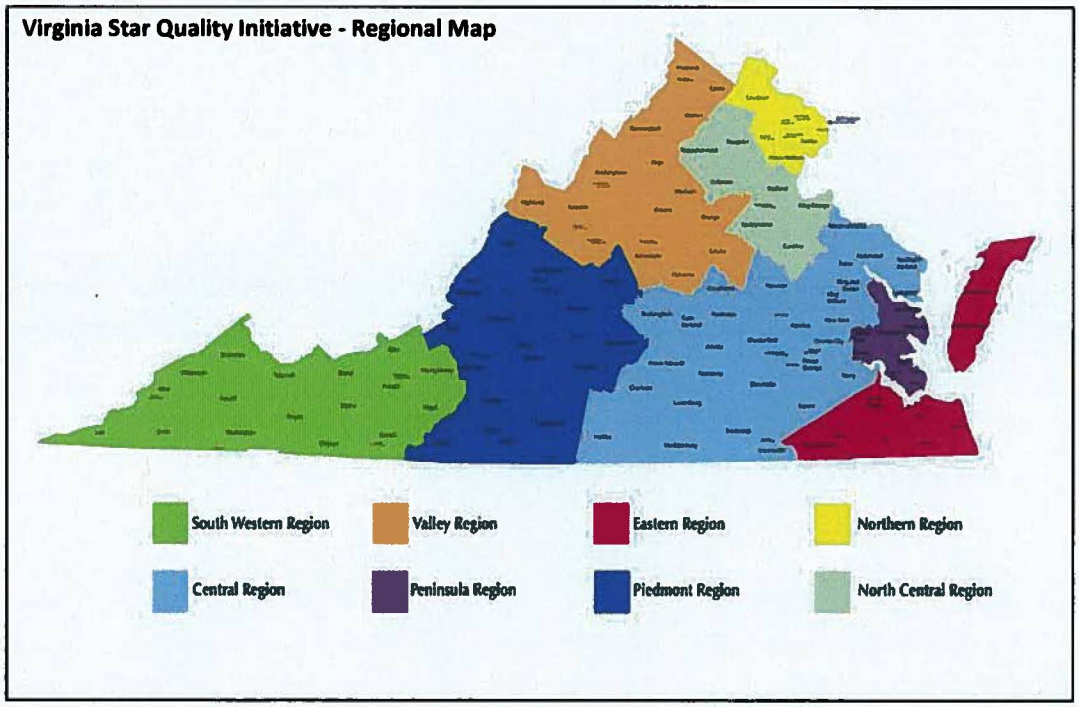
Virginia is among thirty-eight states with a QRIS. The QRIS concept was designed in response to questions about accountability, quality standards and measurements. It is a method to assess, improve and communicate to parents, providers and other stakeholders the level of quality in early care and education settings. The QRIS recognizes and supports early childhood programs that demonstrate and strive for continuous quality improvement.

The Virginia Star Quality Initiative (VSQI) is Virginia's QRIS program. Participation in VSQI is voluntary, and participating providers earn from one through five stars that demonstrate the extent to which the program meets established quality standards. Each level of the VSQI standards represents increasing quality along a continuum. VSQI focuses on improving the level of quality in early care and education settings through provider training, technical assistance services and quality improvement supports. VSQI provides parents with important consumer education information, to assist them as decision-makers for their children's care and early education. As of November 2014, there were 402 early care and education providers, approximately 10% of eligible providers, participating in the VSQI.

VSQI is administered through a public-private partnership between the VDSS and the Virginia Early Childhood Foundation (VECF). Regional and local private and public agencies across the Commonwealth contract and partner with the VSQI administration team to recruit providers, coordinate the rating process and carry out improvement activities. Four full-time staff, public and private employees, work in collaboration with eight regional coalitions to implement the VSQI. State level staff members are responsible for strategic planning; establishing and maintaining VSQI program design, standards and protocols; awarding the star ratings; quality assurance; development of resources to assist with regional and local implementation; contract administration (eight coalitions); data collection and maintenance; maintaining the QRIS websites and portals through which vendors enter their program information; training and technical assistance, marketing and public relations.

VSQI launched as a pilot in 2007 with the goals of empowering parents to make informed choices about the care of their young children, giving providers a way to demonstrate their quality characteristics, and encouraging providers to continue to improve the quality of services offered to families. Over time, effort has been made to tie incentives (such as no- or low-cost professional development opportunities, mini-grants for the purchase of classroom materials, and public recognition of programs' quality attainment) to participation in VSQI to encourage provider participation, but tiered reimbursement strategies had not been feasible until the initiative was implemented statewide.

In 2013, the VDSS extended the reach of VSQI fully statewide by establishing a regional structure of administration, which made VSQI available to qualified child care



providers regardless of where they are located throughout the state. This also made it feasible to begin to consider tiered reimbursement strategies.

In 2014, VDSS and VECF launched revised standards and processes for provider participation in VSQI, making the initiative more user-friendly for providers, more specifically targeted to quality features documented to improve children's learning gains, and more sustainable. The revised standards continue to assess basic health and safety compliance, teacher education and qualifications, the learning environment and teacher-child interactions. A new emphasis on curriculum and child outcomes has been added to the standards. An upcoming phase of VSQI will allow for streamlined participation for regulated child care programs that are already being monitored by another system, such as accreditation. In this case, accredited programs' standards will be compared to those in VSQI, giving "credit" to these programs whenever possible to reduce the need to duplicate paperwork or monitoring tasks.

CHAPTER 2: STRATEGIES FOR TIERED REIMBURSEMENT

A strong body of literature demonstrates that a child's future capacity to learn and their overall well being are linked to the quality of their early care and education experiences. Yet, many children are in low-quality care settings that do not support early development. This quandary is often due to the lack of available high-quality care in many low-income areas, parents limited access to information about high-quality child care standards, and low subsidy reimbursement rates in comparison to the actual cost of providing the quality of care that can yield positive effects. Parents are selecting care based on affordability and convenience. The care selected may not be the best match for their child's needs or promote growth and development, but it may be readily available, more affordable, accommodate a flexible work or school schedule, and/or is in proximity to public transportation and other needed resources.

States across the nation are using a number of strategies to increase the availability and affordability of quality care, particularly in low- and median-income areas. These strategies include implementing a subsidy pay differential scale and/or a tiered reimbursement system that links to quality standards. Twenty-two states use a tiered reimbursement system to make it feasible for programs to serve, and/or improve the quality of care that is available to families receiving a public subsidy for child care. As can be seen in Table 1, the specific percentages, dollar amounts and thresholds for payment utilized by the states vary. A common principle, however, for tiered reimbursement that is evident across the states that offer it, is to provide higher reimbursement to providers that offer high quality child care services.

STRATEGIES

States use different strategies to implement the tiered reimbursement subsidy system. Three prominent approaches noted in the literature are a rate add-on, a market rate percentage increase and a subsidy bonus or quality incentive award. Table 1 outlines rate structures for states with tiered reimbursement systems. The data included in the table are for illustrative purposes only and do not represent every rate type (daily, monthly, annually) or every rate for a specific age group.

Table 1 – State Tiered Reimbursement Rates by QRIS Level Percent or amount above the maximum reimbursement rate					
State	**QRIS Level #1**	**QRIS Level #2**	**QRIS Level #3**	**QRIS Level #4**	**QRIS Level #5**
AZ	$4,875-$7,970	$6,200-$11,300			
CO	Colorado is phasing in tiered reimbursement. Full implementation by July 2016.				
DE	0%	0%	80% of the 75th percentile	90% of the 75th percentile	100% of the 75th percentile
GA	3%	5%	10%		
IL	10%	$500-$1,500	15%		
IN	10%	20%	30%		
MA	0%	15%	15%	15%	15%
MD	$0	$0	**Family CC** Under Age 2: 11%, 2+: 10%, **Center** Under 2: 22%, 2+:10%	**Family CC** Under Age 2: 22%, 2+: 21%, **Center** Under 2: 37%, 2+: 19%	**Family CC** Under Age 2: 29%, 2+: 28%, **Center** Under 2: 44%, 2+: 26%
MI	.75 more/hour	.50 more/hour	.25 more/hour		
MN	20%	15%			
MT	5%	10%	15%	20%	None
NC	$276-$484	$289-$507	$386-$708	$396-$752	$427-$795
NH	5% above the subsidy payment per month for licensed-plus programs	10% above the subsidy payment per month for nationally accredited programs	None		
NM	$88	$100	$180	$250	None
NV	6%	9%	12%		
OH	5%	10%	15%	20%	25%
OK	$16 (daily)	$22 (daily)	$28.80 (daily)		
PA	$0.35 (FT) $0.15 (PT)	$0.95 (FT) $0.45 (PT)	$2.80 (FT) $1.05 (PT)	$5.00 (FT) $1.35 (PT)	
SC	Base rate	7% higher than base rate	20% higher than base rate		
TN	5%	15%	20%		
VT	5%	10%	20%	30%	40%
WI	0%	-5%	Remains the same	5%	25%
Source: QRIS Compendium 2014					

RATE ADD-ON

The add-on strategy is an approach in which a set dollar amount is applied to the daily subsidized child care rate for any participating program at a particular quality or star level. In Pennsylvania, child care providers who participate in the Child Care Works subsidy program and have a star rating through the Keystone STARS program are eligible to receive a subsidy add-on. As shown in Table 2, the incremental add-on is applied to the daily subsidy child care rate. For part-time care, the add-on ranges from $.15 for one-star rated programs to $1.35 for four-star rated programs. The full time care add-on ranges from $.35 for one-star rated programs to $5.00 per day for four-star rated programs.

Table 2 - Pennsylvania Child Care Works*
(Set dollar amount added to the daily subsidy child care rate)

Star Level 1	Star Level 2	Star Level 3	Star Level 4
$0.35	**$0.95**	**$2.80**	**$5.00**

*Reflects daily ad-on for full time care

MARKET RATE PERCENTAGE INCREASE

This strategy pays a percentage increase of the current market rate for each eligible child. The reimbursement rate to subsidy providers is based on the market rate and the star quality level. Delaware's Purchase of Care subsidy program uses this reimbursement method. Delaware has a standard reimbursement rate based on its market rate survey. All subsidy participating programs, regardless of participation in the Delaware Stars for Early Success Program - QRIS, are eligible for reimbursement at the standard rate. As shown in Table 3, programs participating in Delaware Stars for Early Success with star levels three and above are eligible to receive a percentage increase above the standard market rate. The level of increase above the market rate corresponds to the program's star level.

Table 3 - Delaware Purchase of Care
(Percent increase applied to standard subsidy rate)

Star Level 3	Star Level 4	Star Level 5
80% of the 75th percentile	**90%** of the 75th percentile	**100%** of the 75th percentile

SUBSIDY BONUS OR QUALITY INCENTIVE

The bonus strategy gives participating subsidy vendors a one-time or reoccurring bonus for their initial quality rating or for each increasing level of quality that they achieve. The Ohio Step Up to Quality (QRIS) participants receive an award based on the program's Star Rating, total enrollment, and the number of subsidized children served. Rated programs are eligible to receive an annual Quality Achievement Award as long as they maintain Star rating requirements. The annual award is disbursed in one payment. A minimum of 25% of the award must be spent on program improvements. Awards may range from $3,000 to $36,000. Examples of the rates for star levels 1 and 5 are shown in Table 4.

Table 4 - Ohio Step Up to Quality
Quality Achievement Awards

Program Size Based on Total License Capacity	1-Star Base	1-Star Publicly Funded Enrollment (per child amount)	5-Star Base	5-Star Publicly Funded Enrollment (per child amount)
Small Up to 59 children	**$1,000**	**$50**	**$3,500**	**$450**
Medium 60-99 children	**$2,000**	**$50**	**$4,500**	**$450**
Large 100-159 children	**$3,000**	**$50**	**$5,500**	**$450**
Very Large 160 or more children	**$4,000**	**$50**	**$6,500**	**$450**

Other Incentives to Participate in QRIS

Many states use incentives other than, or in addition to, tiered reimbursement to promote program quality. Additional bonuses tied to quality level, grants or merit awards, wage incentives, low interest loans, tax credits, provider scholarships and other professional development opportunities and supports are commonly used incentives. Table 5 shows a sampling of incentives by state. Virginia does not currently offer financial incentives to VSQI programs.

Table 5 - Other Incentives Offered by States

State	Participation Award	Education Grants & Awards	Quality Improvement Supports	Wage & Retention Awards	Tax Credits
AZ	X				
DE		X			
ID	X		X		
IN			X		
LA		X		X	X
MD		X	X		
RI	X		X		
VT	X		X		

Source: QRIS Compendium 2014

CHAPTER 3: IMPACTS OF TIERED REIMBURSEMENT

To assess the potential impacts of a tiered reimbursement system, staff conducted interviews with other states, assessed qualitative data collected in provider surveys and synthesized information available in the literature.

IMPACT ON FAMILIES

Tiered subsidy reimbursement is believed to aid in diminishing the gap between what low-income families can afford to pay and what it cost providers to offer high quality services. In most cases, there is an increase in the provider reimbursement rate, increasing family choice by encouraging more providers to serve subsidy children and allowing the subsidy family and children to benefit from enrollment in a high quality setting without incurring additional out-of-pocket costs.

In at least one instance, a state has structured its tiered reimbursement to reduce the subsidy payments for programs below a certain quality level. For example, in Wisconsin's tiered reimbursement structure shown in Table 6, rates for 2-star programs are lower than the base subsidy rate by 5%. This underscores the need for extensive parent education and awareness so families are positioned to make wise choices concerning their child care arrangements and the quality received for dollars expended.

Table 6 - Wisconsin Tiered Reimbursement Structure

YoungStar	Wisconsin Shares Reimbursement
5 Star Provider	Increase by 10%
4 Star Provider	Increase by 5%
3 Star Provider	Base subsidy reimbursement rate
2 Star Provider	Reimbursement reduced by 5%
1 Star Provider	Not eligible for Wisconsin Shares

Details of the Michigan Great Start to Quality tiered reimbursement structure, shown in Table 7, reflect the benefit to both parents and providers from participation in a tiered reimbursement system. As the star quality level increases so does the state reimbursement rate. The reimbursement minimizes the weekly cost of care for families and creates an opportunity for them to select from more care options. The increase in the reimbursement also secures a higher guaranteed payment for providers and less dependence on fees that may not be recouped from parents.

Table 7 - Michigan Great Start to Quality				
	Base Rate Before Tiered Reimbursement	Tiered Reimbursement 3 Star	Tiered Reimbursement 4 Star	Tiered Reimbursement 5 Star
Weekly Provider Charge	$182.00	$182.00	$182.00	$182.00
Weekly Subsidy Reimbursement	$95.00	$110.00	$120.00	$130.00
Weekly Subsidy Copayment	$5.00	$0	$0	$0
Parent Weekly Costs	$82.00	$72.00	$62.00	$52.00

Thirty-eight states have established a QRIS. As the appeal of QRIS programs has grown and states have implemented programs, the federal Administration for Children and Families (ACF) received questions from lead state agencies related to the establishment of policies that require child care providers serving children receiving subsidies to meet certain quality requirements, such as a specified rating level of a quality improvement system, and how those policies interact with CCDF parental choice requirements. ACF issued guidance in 2011 clarifying:

- Parental choice provisions included in CCDF regulations do not preclude a lead agency from establishing policies that require child care providers serving subsidized children to meet certain quality requirements, including those specified within a quality improvement system, provided that the lead agency does so in a manner consistent with CCDF parental choice requirements.

- Lead agencies have flexibility to establish requirements for child care providers that serve children receiving subsidies, which may be reflected as distinctive levels or ratings within a quality improvement system.

- In establishing such policies, the lead agency must continue to allow parents to choose from a range of child care provider categories (for example, center-based, family child care, in-home care) and types (for example, non-profit providers, for-profit providers, sectarian providers).

IMPACT ON PROVIDERS

Research conducted in 2013 and 2014 by the UMASS Donahue Institute, an independent applied research and program evaluation organization working with the Massachusetts Department of Early Education and Care, found that the most common reasons for joining the Massachusetts QRIS include a desire to remain eligible for funding and a desire to improve and/or assess quality. Most of the over 600 providers responding to the survey believe their participation in QRIS has led to an improvement in the quality of early education and care they provide, with proportions ranging from 65% of center-based programs to 75% of family child care providers indicating this. In addition, most respondents (78% of center-based programs and 68% of family child care providers) indicated they plan to work toward the next level of the QRIS.

Most child care providers have a number of revenue sources that are combined to support the costs of operating an early care and education program. Typical revenue sources may include:

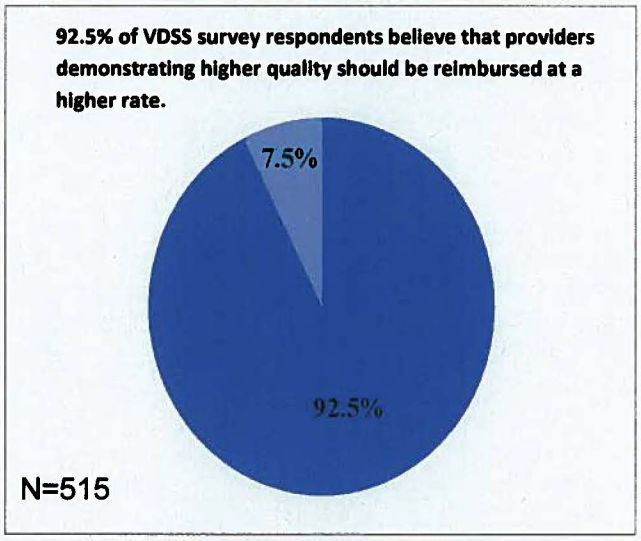
- Parent tuition and fees
- Grants
- Child Care Subsidy reimbursement
- Child Care and Adult Food Program assistance
- Rewards linked to quality rating systems

"Providing a high quality program to children and families costs money. The programs that demonstrate higher levels of quality need funds to hire, train, and maintain high quality teachers and provide high quality services to children and families."

Center-Based Provider responding to VDSS provider survey

Like any care industry, high personnel costs in child care settings drive the cost of providing care. Increasing the quality and skill level of the workforce necessarily increases the cost; child care is a fragile market with low profit margins. Full enrollment and full fee collection are most critical for providers to break-even or to realize a profit when providing high quality child care. Providers who serve high-income families are typically able to operate high quality programs with parent tuition and fees as the primary source of revenue. Providers serving low- and median-income families often need more supports to offer increased quality levels. Louise Stoney, co-founder of the Alliance for Early Childhood Finance, refers to these supplemental financing strategies as "third-party funding." Stoney makes the point that for tiered reimbursement to incentivize programs to offer high quality child care to low- and median-income families, it must be paired with other strategies to offset the costs of high quality care.

An on-line survey sent to 4,132 child care center and family day home providers in Virginia offered some insight into the providers' perspective on tiered reimbursement systems for child care subsidy. Respondents were somewhat representative of child care providers in the state, with 10% of licensed child day centers and 12% of family child care homes responding. Seven percent of religious exempt child day centers and 2% of voluntary registered family child care homes also participated in the survey.



Survey respondents show broad support for the idea of paying higher reimbursement rates to programs that have demonstrated higher levels of quality. Across categories, programs seem open to participating in the QRIS to earn higher rates of reimbursement. In fact, 92.5% of survey respondents indicated that providers demonstrating higher quality should be reimbursed at a higher rate. While not all respondents agreed with the concept of a tiered reimbursement system, the idea that programs should offer high quality curriculum, activities and environments, was evident in many of the comments.

Survey respondents also identified perceived barriers or concerns related to implementation of a tiered reimbursement subsidy system. These include:

- An extensive VSQI application process
- Duplication of effort to participate in VSQI and other accrediting systems
- Low subsidy payment rates

> *"The reimbursement was never close to my weekly rate, and the parents were not consistent in paying the difference. I lost money opening up student slots to subsidy families. We would like to be able to say that money is not a factor, but it is a business factor."*
>
> *Former Subsidy Provider responding to VDSS provider survey*

Recent actions have been taken to address these types of concerns. The VSQI application process was revised and a method to recognize standards maintained by other organizations was adopted. To address low subsidy payment rates, Virginia, in September 2014, raised the rate to the 50th percentile for all licensed and licensed-equivalent care. A tiered reimbursement structure could further increase the payment rate for some providers.

Impact on the Child Care Subsidy and QRIS Programs

Implementing a tiered reimbursement program linked to the QRIS rating would impact direct subsidy expenditures as well as the operations and operating costs of both the Subsidy and QRIS programs. A goal associated with implementation of tiered reimbursement would be to maintain the number of children participating in the subsidy program (approximately 44,000) while increasing the number of subsidy providers participating in QRIS as well as the number of children receiving care in star-rated programs.

Numerous changes to program operations would be required to accommodate rapid expansion of the QRIS program and implementation of tiered reimbursement. These include: amending business processes; developing and communicating revised Subsidy and QRIS program guidance; developing and implementing training statewide for child care workers in the 120 local departments of social services as well as QRIS contractors in the eight QRIS regions; upgrading existing fiscal and automated systems; designing and carrying out an extensive educational campaign statewide with child care providers to promote QRIS participation and highlight tiered reimbursement; designing and carrying out an educational campaign statewide for parents to raise awareness of quality; adding capacity to mentor and provide technical assistance to increasing numbers of child care providers joining QRIS; evaluating tiered reimbursement to identify both intended and unintended outcomes; and other activities. Existing staff would be involved in these this activities, but it is also likely that additional positions would be required. The magnitude of these activities and associated costs could be estimated during a two-year pilot. Further information on cost is provided in Chapter 4.

Impact on the Division of Licensing Programs

The costs of standards and regulations intended to improve quality are borne by both child care providers and the government agencies administering the standards and regulations. In Virginia, the VDSS Division of Licensing Programs is responsible for licensing child care providers. The Division conducts about 7,500 inspections of child care centers and family day homes each year and also issues approximately 3,800 new or renewal licenses for child care providers (about 2,500 new or renewal licenses for child care centers and about 1,300 for family day homes).

It is not known how many and which types of child care providers may be interested in pursuing tiered reimbursement, so it is difficult to gauge at this time the impact that adoption of tiered reimbursement might have on the Division of Licensing Programs. If existing licensed programs decide to participate in VSQI in response to tiered reimbursement, there would be no impact on Division workload. However, if a significant number of new or currently unlicensed providers seek licensure following implementation of tiered reimbursement, the workload of the Division would likely be impacted. The precise impact would depend on the number and type of providers seeking licensure, where in the state they are located, and the capacity of licensing staff in that area of the state to absorb additional workload.

Table 8 depicts the potential impact if a significant number of non-licensed programs applied to be licensed. For example, as of October 2014, there were 910 voluntary registered family day homes in Virginia. Only licensed family day homes are eligible to participate in Virginia's QRIS. If 35% of those programs decided to pursue licensure to become eligible for QRIS and tiered reimbursement, the Division's workload would increase by 319 facilities.

Table 8 - Unlicensed Child Care Providers that Could Potentially Pursue Participation in Tiered Reimbursement

Program Type	# in State	Potential New Applications for Licensure		
		10% Added	35% Added	75% Added
Religiously Exempt Child Care Providers	998	100	349	749
Voluntary Registered Family Day Homes	910	91	319	683
Total Programs	1908	191	668	1432

Because both parent and provider behavior under a tiered reimbursement system are unknown, utilization of a pilot approach for tiered reimbursement would provide accurate and valuable information to anticipate full scale impacts and costs in this area.

IMPACT ON AUTOMATED SYSTEMS

A unified data system was credited by QRIS officials in Pennsylvania as contributing to the success of their tiered reimbursement system. In Pennsylvania, data pertaining to child care licensing, child care subsidy, professional development, quality ratings and administrative support systems are all housed and managed in a centralized data system, Pennsylvania's Enterprise to Link Information for Children Across Networks (PELICAN).

Virginia's subsidy and QRIS applications and data management structures are housed in separate systems, which collect different data elements and use different data management techniques. The QRIS data base is the collection and maintenance site for provider QRIS rating information. The Virginia Case Management System (VaCMS) is the collection and maintenance site for child care subsidy participants and providers. (A linkage currently exists between the licensing data system and VaCMS.)

Sharing of data between the QRIS and Subsidy systems currently requires manual input and manipulation for accurate data comparisons and reporting. Automation and integration of data and eligibility information is critical for efficiency, effectiveness and accountability within the management of a tiered reimbursement system. If separate data systems are maintained, both systems will require revisions

and updates to reduce the probability of data inaccuracies, duplication of effort and improper payment.

To more closely link the QRIS and Subsidy systems, the more comprehensive VaCMS would undergo enhancements to accommodate additional data elements that are generated through the QRIS system. The same vendor developed Virginia's VaCMS and Pennsylvania's PELICAN systems, and has indicated that a QRIS module can be created within VaCMS to track provider with star ratings and calculate provider payments based on tiered reimbursement program parameters. An estimated cost to create this module is approximately $500,000.

IMPLICATIONS OF APPLICABLE FEDERAL AND STATE LAWS AND REGULATIONS

The President signed into law on November 19, 2014 the Child Care and Development Block Grant Act of 2014. The law makes important federal statutory changes focused on better balancing the dual purposes of CCDF – to promote families economic self-sufficiency by making child care more affordable, and fostering healthy child development and school success by improving the overall quality of early learning and afterschool programs. The law will bring about a number of changes to the CCDF program, some of which are straightforward, and others that are more complex and will take time to put in place.

The requirements of the Act address, among other things:

- Health and safety requirements for child care providers, including unannounced inspections of child care providers participating in the Subsidy Program
- Transparent consumer and provider education information
- Family-friendly subsidy eligibility policies, and
- Activities to improve the quality of child care

VDSS will respond as appropriate to applicable federal and state laws and regulations, regardless of if a tiered reimbursement subsidy program is implemented.

CHAPTER 4: ESTIMATING THE COST OF QUALITY

While participation in QRIS is voluntary and generally at no cost, child care providers typically assume additional costs when improving the quality of care. Some states use the tiered subsidy reimbursement system as a method to offset the additional expense incurred by providers and the higher cost parents must pay for higher quality programs. The goal is to enable families receiving child care subsidies to have access to higher quality care programs without increasing out-of-pocket expenses that they frequently cannot cover.

There is limited research specifically on the impact of tiered subsidy rates for providers participating in QRIS and the amount of reimbursement required to encourage programs to seek a higher quality rating. However, a study of rates for centers accredited by the National Association for the Education of Young Children found reimbursement rates had to be at least 15% higher than base rates to motivate centers to seek accreditation. Across QRIS nationally, differential rates range from 3% to 5% above the standard rate at the lowest levels of the QRIS and from 15% to 25% above the standard rate at the highest levels of the QRIS.

Child Care Subsidy Programs are an important part of public efforts to help low-income families support themselves by work rather than reliance on public assistance. They are also an important part of efforts to improve outcomes for children from low-income families. Higher quality child care and public early childhood education programs are intended to help low-income children overcome the developmental disadvantages of growing up in poverty. However, child care is expensive, often more than in-state college tuition.

Families with parents working outside the home must subtract the cost of child care from their net wages to determine whether it makes economic sense for all parents in the home to work. Child care subsidies improve the economic break-even point for many single-parent and lower-income families by reducing the cost of child care. This enables more parents to participate in the workforce. With a given budget, a state can choose to utilize their child care subsidy program to either provide subsidies to more children receiving lower quality care or to fewer children receiving higher quality care. Hence, there is a trade-off between increasing employment and improving the quality of care due to the cost of increasing quality.

SUPPLY OF QUALITY CHILD CARE SERVICES

The supply of any good or service is driven by market prices and the cost of production. In the provision of child care services, the cost to providers to offer higher quality services may be considerable as will be shown. The child care arrangements that parents make are often based on their unique family characteristics and needs. However, cost is often a deciding factor for the majority of families. Studies, such as Sandstrom and Chaudry (2012), show that many parents are either unwilling or unable

to pay more for higher quality child care. As the primary consumer in this market, parents' selection of child care affects the supply of quality and stable child care options that are available to families. Resources such as a QRIS can provide clear information about the quality of child care options and increase parental access to high quality programs.

The VSQI was established in 2007, and reimbursement rates available to providers participating in the QRIS have never been higher than rates paid to licensed providers not participating in QRIS. As a result, there has been little incentive for providers to participate in the QRIS. Less than 10% of licensed child care providers participate in the QRIS, and only 4% of them serve subsidized children.

While providers participating in the QRIS are able to distinguish their services from other providers on the basis of quality, for many parents there is still a large gap between their willingness or ability to pay for higher quality care and the prices required by providers to cover the cost of delivering a higher quality program. Providing higher subsidies for higher quality care would allow more parents needing assistance to afford to choose higher quality programs for their children. As demand for higher quality care increases, the economic incentive for providers to make the investments necessary to satisfy that demand will also increase.

Just as families must decide if net wages from work after subtracting child care expenses are enough to make employment outside the home cost-effective, child care providers must decide if revenue will be sufficient to cover the cost of investments necessary to increase the quality of their services. The fact that there have been relatively few providers participating in the QRIS program, and that very few are subsidy providers, is one indication that current reimbursement rates paid to licensed providers are not adequate to cover expenses associated with higher quality. Simply put, providers who serve high numbers of children receiving child care subsidies, unless they have other sources of revenue, may not receive sufficient reimbursement to afford significant quality improvements. Hence, the extent to which the supply of quality in child care increases will depend on the reimbursement rates of a tiered subsidy program, and the value parents place on higher quality child care.

While higher reimbursement rates will create incentives for increasing the supply of higher quality child care, predicting how much capacity will be available at each of the five quality levels recognized by QRIS is difficult. There are many factors affecting the supply of quality in child care including the ability to make the investments necessary to increase quality and the availability of qualified staff. Another factor affecting the demand for quality child care is the geographic distribution of providers. Distance to the nearest provider is a major convenience factor affecting parents' decisions. However, the supply of child care is not evenly distributed. Therefore, parents desiring a particular level of quality care may not have access to a provider offering that level of quality within a reasonable distance from their home. There is a minimum size at which most providers must operate to be profitable. If local demand is not sufficient to support a provider of that size and quality, there will be fewer choices for parents.

Calculating the Cost of Quality

To explore the cost of increasing quality in more detail, a Provider Cost of Quality Calculator developed by the National Center on Child Care Quality Improvement was used to estimate the cost of meeting the requirements of 1-star, 2-star, 3-star, 4-star and 5-star levels in the Virginia QRIS for child care centers. The tool calculates the expenses, revenue and net profitability of quality-based on site-level provider data. Input choices for each star rating include settings for age groups, child/staff ratios and group sizes, staff qualifications, staff time, cost drivers including personnel and non-personnel expenses, and revenue drivers such as tuition, subsidy rates, use of Child Care and Adult Food Program (CACFP) funding, percent of enrollment dedicated to subsidized children and percent of bad debt from parents. The tool also calculates total enrollment and teaching staff for a given input set.

Cost Model

The Provider Cost of Quality Calculator was used to estimate the cost of meeting the requirements of 1-star, 2-star, 3-star, 4-star and 5-star levels in the Virginia QRIS for child care centers.

The tool has state-specific default values which can be used or replaced with other values. Default values for Virginia were used for most non-personnel components, with the exception of cost per square foot of facility space. For urban scenarios the default value for cost per square foot was used, but for rural scenarios the cost per square foot was reduced by 30% to reflect lower rental rates in rural areas. Since data on average rental rates in rural areas was not available, cost per square foot of facility space in the rural scenario was lowered by an amount equal to the difference between salaries of Childcare Education Administrators in rural and urban areas (30%).

Employee benefits and other personnel-related expenses are calculated by the estimating tool using default values. However, because this analysis sought to explore differences between urban and rural markets, default values representing statewide average salaries were not used. Instead, the most recent data from the Bureau of Labor Statistics (BLS) National Industry-Specific Occupational Employment and Wages was used as the basis for staff salaries in both scenarios. Occupation roles from the BLS data corresponding most closely to staff positions of a child care center were selected to derive more realistic wage rates for urban and rural scenarios. The relationship between staff positions in the cost calculator and BLS occupational groups used are shown in Table 9.

Table 9 - Bureau of Labor Statistics (BLS) Roles Substituted for Default Values in the Provider Cost of Quality Calculator

Cost Calculator Staff Position	BLS Occupational Role and Code
Director	Childcare Education Administrators (11-9031)
Education Coordinator	Childcare Education Administrators (11-9031)
Classroom Teacher	Child Care Worker (39-9011)
Teacher Assistants	Child Care Worker (39-9011)
Administrate Assistant	Administrative Assistants (43-6014)

Localities in the BLS data used for urban and rural scenarios are shown in Table 10.

Table 10 – Localities Used in Scenarios

Urban Scenario Localities	Rural Scenario Localities
• Washington-Arlington-Alexandria, DC-VA-MD-WV Metropolitan Division • Lynchburg, VA • Richmond, VA • Roanoke, VA • Virginia Beach-Norfolk-Newport News, VA-NC	• Kingsport-Bristol-Bristol, TN-VA • Blacksburg-Christiansburg-Radford, VA • Charlottesville, VA • Danville, VA • Harrisonburg, VA • Winchester, VA-WV • Southwestern Virginia nonmetropolitan area • Southside Virginia nonmetropolitan area • Northeastern Virginia nonmetropolitan area • Northwestern Virginia nonmetropolitan area

The BLS data include information on the number of jobs and the 10th, 50th and 75th percentiles in wages for each occupation and location. A weighted value for the scenarios was calculated by multiplying the number of jobs in each area for each occupation by the hourly wage at the 10th percentile, 50th percentile and the 75th percentile. The data were then collapsed by occupation and area (urban or rural) and a jobs weighted average hourly wage was calculated by dividing the total number of jobs in each occupation for the urban and rural areas by the total weighted value for hourly wages at the 10th percentile, 50th percentile and the 75th percentile. Wage percentiles used at each QRIS rating are show in Table 11.

Table 11 - BLS Wage Percentile Used in Each Scenario

QRIS Rating	Method Used to Derive Urban and Rural Scenario Salaries
1-Star	weighted average hourly wage at the 10th percentile
2-Star	mean of the weighted average hourly wage at the 10th and 50th percentile
3-Star	weighted average hourly wage at the 50th percentile
4-Star	mean of the weighted average hourly wage at the 50th and 75th percentile
5-Star	weighted average hourly wage at the 75th percentile

An urban and rural Base Case scenario was developed representing a typical 1-star licensed child care center to explore the rising cost of quality at each level in the Virginia QRIS and the impact to profitability as subsidy children are added and reimbursement rates adjusted. In the Base Case for both 1-star urban and rural child care centers, tuition for infants, toddlers, pre-school and school age children is set equal to the average rates paid for urban and rural areas calculated from the most recent market rate survey conducted by VDSS. The percent of subsidized children is set at zero to establish a baseline for net profit and profitability from which changes can be compared as quality increases. Interestingly, even though average tuition rates are different, the calculated profitability for both the Base Case urban and rural 1-star provider with no subsidy children is 4.8%. To further develop the Base Case for 2-star through 5-star providers, tuition rates are adjusted until profitability is equal to 4.8 percent as in the Base Case 1-star provider.

To summarize, the urban and rural Base Case child care center includes no subsidized children and has tuition rates set equal to average rates for the 1-star provider and adjusted for 2-star through 5-star providers so that net profitability is equal to that of the 1-star provider. Results including expenses, tuition, revenues, net revenue and profitability are shown in Tables 12 and 13. Estimated enrollment and staffing levels for the modeled facility are also shown in the tables.

Results of the Base Case model indicate that total expenses increase incrementally from 1-star to 5-star by 9.4%, 18.7%, 28.0% and 37.2%, respectively for urban centers and 7.0%, 14.3%, 21.6% and 27.8% for rural centers. Expenses for the 5-star urban center are 37% higher than the 1-star urban center. Expenses rise less quickly in the modeled rural center, where total expenses for 5-star quality are 28% higher than 1-star quality.

Revenue is a function of enrollment and tuition rates for each age group. In all scenarios, total enrollment is set at the default value of 85% of capacity. Total capacity is a function of the number of classrooms, child-staff ratios, and maximum allowable group size. The results of the Base Case scenario are very close to the statewide

average capacity for licensed child care centers (average capacity=100). Again, the Base Case for both urban and rural scenarios assumes the modeled provider receives full tuition for every child enrolled.

Table 12 - Modeled Urban Child Center, Base Case (no subsidy children)

EXPENSES	1-Star	2-Star	3-Star	4-Star	5-Star
Salary Costs	$426,814	$497,557	$568,294	$639,088	$709,868
Mandatory Benefits	$50,692	$58,500	$66,167	$73,148	$80,120
Additional Benefits	$24,050	$24,050	$24,050	$24,050	$24,050
Substitutes	$8,700	$8,700	$8,700	$8,700	$8,700
Total Personnel Expenses	**$510,256**	**$588,808**	**$667,211**	**$744,986**	**$822,738**
Sum of Child-Level Costs	$141,882	$141,882	$141,882	$141,882	$141,882
Sum of Per-Classroom Costs	$179,469	$179,469	$179,469	$179,469	$179,469
Sum of Per-Provider Costs	$7,740	$7,740	$7,740	$7,740	$7,740
Total Non-Personnel Expenses	**$329,091**	**$329,091**	**$329,091**	**$329,091**	**$329,091**
TOTAL EXPENSES	**$839,347**	**$917,899**	**$996,302**	**$1,074,077**	**$1,151,828**
REVENUE					
Subsidized Children	$0	$0	$0	$0	$0
Tuition-Based Children	$1,014,104	$1,114,256	$1,213,576	$1,312,688	$1,412,424
Tuition Total	**$1,014,104**	**$1,114,256**	**$1,213,576**	**$1,312,688**	**$1,412,424**
CACFP	$53,674	$53,674	$53,674	$53,674	$53,674
Bad Debt and Enrollment Inefficiency	($186,026)	($203,603)	($221,034)	($238,428)	($255,931)
TOTAL REVENUE	**$881,752**	**$964,327**	**$1,046,216**	**$1,127,934**	**$1,210,166**
NET REVENUE					
Net Revenue	**$42,404**	**$46,428**	**$49,914**	**$53,857**	**$58,338**
Net Revenue As % of Total	**4.80%**	**4.80%**	**4.80%**	**4.80%**	**4.80%**
Total Enrollment	102	102	102	102	102
Total Teaching Staff (FTE)	14	14	14	14	14
WEEKLY TUITION					
Infant Tuition	$241	$260	$283	$306	$330
Toddler Tuition	$219	$236	$257	$278	$299
PreK Tuition	$191	$207	$226	$244	$263
School Age	$158	$187	$202	$220	$235

Table 13 - Rural Child Care Center, Base Case (no subsidy children)

EXPENSES	1-Star	2-Star	3-Star	4-Star	5-Star
Salary Costs	$397,455	$442,109	$491,974	$535,580	$575,238
Mandatory Benefits	$47,677	$52,691	$58,154	$62,873	$66,858
Additional Benefits	$24,050	$24,050	$24,050	$24,050	$24,050
Substitutes	$8,700	$8,700	$8,700	$8,700	$8,700
Total Personnel Expenses	**$477,882**	**$527,550**	**$582,877**	**$631,203**	**$674,846**
Sum of Child-Level Costs	$99,858	$99,858	$99,858	$99,858	$99,858
Sum of Per-Classroom Costs	$125,530	$125,530	$125,530	$125,530	$125,530
Sum of Per-Provider Costs	$5,216	$5,216	$5,216	$5,216	$5,216
Total Non-Personnel Expenses	**$230,604**	**$230,604**	**$230,604**	**$230,604**	**$230,604**
TOTAL EXPENSES	**$708,486**	**$758,153**	**$813,481**	**$861,807**	**$905,450**
REVENUE					
Subsidized Children	$0	$0	$0	$0	$0
Tuition-Based Children	$847,184	$911,040	$981,240	$1,042,080	$1,098,552
Tuition Total	**$847,184**	**$911,040**	**$981,240**	**$1,042,080**	**$1,098,552**
CACFP	$53,674	$53,674	$53,674	$53,674	$53,674
Bad Debt and Enrollment Inefficiency	($156,732)	($167,939)	($180,259)	($190,936)	($200,847)
TOTAL REVENUE	**$744,126**	**$796,775**	**$854,655**	**$904,818**	**$951,379**
NET REVENUE					
Net Revenue	**$35,640**	**$38,622**	**$41,174**	**$43,011**	**$45,929**
Net Revenue As % of Total	**4.80%**	**4.80%**	**4.80%**	**4.80%**	**4.80%**
Total Enrollment	102	102	102	102	102
Total Teaching Staff (FTE)	14	14	14	14	14
WEEKLY TUITION					
Infant Tuition	$195	$215	$228	$245	$257
Toddler Tuition	$178	$194	$207	$220	$235
PreK Tuition	$158	$170	$184	$195	$205
School Age Tuition	$142	$149	$160	$170	$180

Next, a Subsidy Case is developed in which the percent of subsidized children is increased to assess the impact on profits. Costs are not affected by raising or lowering the percent of subsidized children. The percent of subsidized children is increased to 14% representing the ratio of subsidized children attending day care centers and the total statewide capacity in SFY 2014. The subsidy for all five quality levels is fixed at the current maximum reimbursement rate for basic licensed care, which is consistent with current policy. The results shown in Tables 14 and 15 illustrate how much revenue

decreases as quality goes up without additional reimbursement for the 14% of children enrolled and receiving subsidies. Net profit decreases 2.9%, 3.7%, 4.4% and 5.0%, respectively, as quality increases from 1-star to 5-star in the urban scenario, and 0.7%, 1.5%, 2.2% and 2.6%, respectively, in the rural model.

Table 14 - Urban Child Care Center, 14% Subsidy Children, Fixed Reimbursement

EXPENSES	1-Star	2-Star	3-Star	4-Star	5-Star
Salary Costs	$426,814	$497,557	$568,294	$639,088	$709,868
Mandatory Benefits	$50,692	$58,500	$66,167	$73,148	$80,120
Additional Benefits	$24,050	$24,050	$24,050	$24,050	$24,050
Substitutes	$8,700	$8,700	$8,700	$8,700	$8,700
Total Personnel Expenses	**$510,256**	**$588,808**	**$667,211**	**$744,986**	**$822,738**
Sum of Child-Level Costs	$141,882	$141,882	$141,882	$141,882	$141,882
Sum of Per-Classroom Costs	$179,469	$179,469	$179,469	$179,469	$179,469
Sum of Per-Provider Costs	$7,740	$7,740	$7,740	$7,740	$7,740
Total Non-Personnel Expenses	**$329,091**	**$329,091**	**$329,091**	**$329,091**	**$329,091**
TOTAL EXPENSES	**$839,347**	**$917,899**	**$996,302**	**$1,074,077**	**$1,151,828**
REVENUE					
Subsidized Children	$125,828	$103,988	$103,988	$103,988	$103,988
Tuition-Based Children	$872,129	$958,260	$1,043,675	$1,128,912	$1,214,685
Tuition Total	**$997,957**	**$1,062,248**	**$1,147,663**	**$1,232,899**	**$1,318,672**
CACFP	$53,674	$53,674	$53,674	$53,674	$53,674
Bad Debt and Enrollment Inefficiency	($183,193)	($194,476)	($209,466)	($224,425)	($239,478)
TOTAL REVENUE	**$868,438**	**$921,446**	**$991,871**	**$1,062,148**	**$1,132,868**
NET REVENUE					
Net Revenue	**$29,091**	**$3,547**	**($4,431)**	**($11,928)**	**($18,960)**
Net Revenue As % of Total	**3.30%**	**0.40%**	**-0.40%**	**-1.10%**	**-1.70%**
Total Enrollment	102	102	102	102	102
Total Teaching Staff (FTE)	14	14	14	14	14
WEEKLY TUITION					
Infant Tuition	$241	$260	$283	$306	$330
Toddler Tuition	$219	$236	$257	$278	$299
PreK Tuition	$191	$207	$226	$244	$263
School Age	$158	$187	$202	$220	$235
WEEKLY REIMBURSEMENT					
Infant Reimbursement	$212	$212	$212	$212	$212
Toddler Reimbursement	$190	$190	$190	$190	$190
PreK Reimbursement	$167	$167	$167	$167	$167
School Age Reimbursement	$150	$150	$150	$150	$150

Table 15 - Rural Child Care Center, 14% Subsidy Children, Fixed Reimbursement

EXPENSES	1-Star	2-Star	3-Star	4-Star	5-Star
Salary Costs	$397,455	$442,109	$491,974	$535,580	$575,238
Mandatory Benefits	$47,677	$52,691	$58,154	$62,873	$66,858
Additional Benefits	$24,050	$24,050	$24,050	$24,050	$24,050
Substitutes	$8,700	$8,700	$8,700	$8,700	$8,700
Total Personnel Expenses	**$477,882**	**$527,550**	**$582,877**	**$631,203**	**$674,846**
Sum of Child-Level Costs	$99,858	$99,858	$99,858	$99,858	$99,858
Sum of Per-Classroom Costs	$125,530	$125,530	$125,530	$125,530	$125,530
Sum of Per-Provider Costs	$5,216	$5,216	$5,216	$5,216	$5,216
Total Non-Personnel Expenses	**$230,604**	**$230,604**	**$230,604**	**$230,604**	**$230,604**
TOTAL EXPENSES	**$708,486**	**$758,153**	**$813,481**	**$861,807**	**$905,450**
REVENUE					
Subsidized Children	$97,275	$97,275	$97,275	$97,275	$97,275
Tuition-Based Children	$728,578	$783,494	$843,866	$896,189	$944,755
Tuition Total	**$825,854**	**$880,770**	**$941,142**	**$993,464**	**$1,042,030**
CACFP	$53,674	$53,674	$53,674	$53,674	$53,674
Bad Debt and Enrollment Inefficiency	($152,988)	($162,626)	($173,221)	($182,404)	($190,927)
TOTAL REVENUE	**$726,539**	**$771,817**	**$821,594**	**$864,734**	**$904,777**
NET REVENUE					
Net Revenue	**$18,053**	**$13,664**	**$8,113**	**$2,927**	**($673)**
Net Revenue As % of Total	**2.50%**	**1.80%**	**1.00%**	**0.30%**	**-0.10%**
Total Enrollment	102	102	102	102	102
Total Teaching Staff (FTE)	14	14	14	14	14
WEEKLY TUITION					
Infant Tuition	$195	$215	$228	$245	$257
Toddler Tuition	$178	$194	$207	$220	$235
PreK Tuition	$158	$170	$184	$195	$205
School Age Tuition	$142	$149	$160	$170	$180
WEEKLY REIMBURSEMENT					
Infant Reimbursement	$154	$154	$154	$154	$154
Toddler Reimbursement	$143	$143	$143	$143	$143
PreK Reimbursement	$130	$130	$130	$130	$130
School Age Reimbursement	$119	$119	$119	$119	$119

Finally, a Tiered Reimbursement Case is developed by increasing rates for 2-star through 5-star levels by an amount sufficient to make their net profit equal that of the 1-star provider in the fixed reimbursement subsidy scenario. All other parameters were unchanged. Results are shown in Tables 16 and 17.

Table 16 - Urban Child Care Center, 14% Subsidy Children, Tiered Reimbursement

EXPENSES	1-Star	2-Star	3-Star	4-Star	5-Star
Salary Costs	$426,814	$497,557	$568,294	$639,088	$709,868
Mandatory Benefits	$50,692	$58,500	$66,167	$73,148	$80,120
Additional Benefits	$24,050	$24,050	$24,050	$24,050	$24,050
Substitutes	$8,700	$8,700	$8,700	$8,700	$8,700
Total Personnel Expenses	**$510,256**	**$588,808**	**$667,211**	**$744,986**	**$822,738**
Sum of Child-Level Costs	$141,882	$141,882	$141,882	$141,882	$141,882
Sum of Per-Classroom Costs	$179,469	$179,469	$179,469	$179,469	$179,469
Sum of Per-Provider Costs	$7,740	$7,740	$7,740	$7,740	$7,740
Total Non-Personnel Expenses	**$329,091**	**$329,091**	**$329,091**	**$329,091**	**$329,091**
TOTAL EXPENSES	**$839,347**	**$917,899**	**$996,302**	**$1,074,077**	**$1,151,828**
REVENUE					
Subsidized Children	$125,828	$138,072	$150,842	$162,810	$174,778
Tuition-Based Children	$872,129	$958,260	$1,043,675	$1,128,912	$1,214,685
Tuition Total	**$997,957**	**$1,096,333**	**$1,194,517**	**$1,291,722**	**$1,389,463**
CACFP	$53,674	$53,674	$53,674	$53,674	$53,674
Bad Debt and Enrollment Inefficiency	($183,193)	($200,457)	($217,689)	($234,748)	($251,902)
TOTAL REVENUE	**$868,438**	**$949,549**	**$1,030,502**	**$1,110,647**	**$1,191,235**
NET REVENUE					
Net Revenue	**$29,091**	**$31,650**	**$34,200**	**$36,571**	**$39,407**
Net Revenue As % of Total	**3.30%**	**3.30%**	**3.30%**	**3.30%**	**3.30%**
Total Enrollment	102	102	102	102	102
Total Teaching Staff (FTE)	14	14	14	14	14
WEEKLY TUITION					
Infant Tuition	$241	$260	$283	$306	$330
Toddler Tuition	$219	$236	$257	$278	$299
PreK Tuition	$191	$207	$226	$244	$263
School Age	$158	$187	$202	$220	$235
WEEKLY REIMBURSEMENT					
Infant Reimbursement	$212	$233	$255	$275	$295
Toddler Reimbursement	$190	$209	$228	$246	$264
PreK Reimbursement	$167	$183	$200	$216	$232
School Age Reimbursement	$150	$165	$180	$194	$208

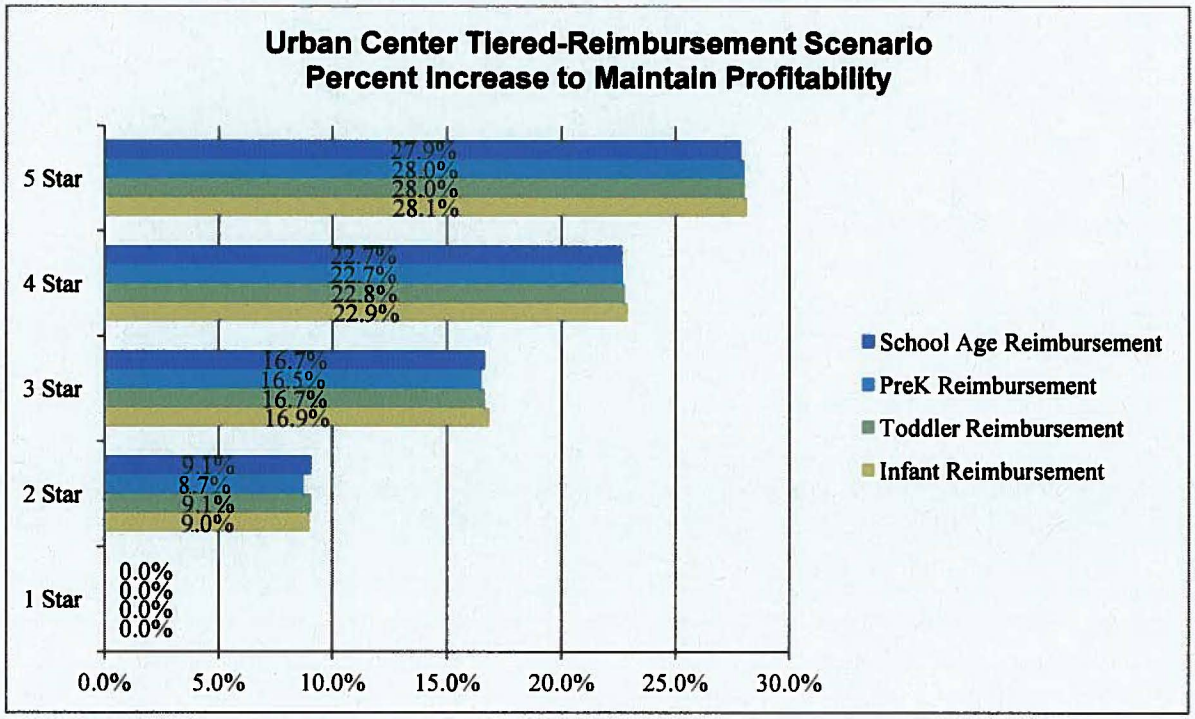
Table 17 - Rural Child Care Center, 14% Subsidy Children, Tiered Reimbursement

EXPENSES	1-Star	2-Star	3-Star	4-Star	5-Star
Salary Costs	$397,455	$442,109	$491,974	$535,580	$575,238
Mandatory Benefits	$47,677	$52,691	$58,154	$62,873	$66,858
Additional Benefits	$24,050	$24,050	$24,050	$24,050	$24,050
Substitutes	$8,700	$8,700	$8,700	$8,700	$8,700
Total Personnel Expenses	**$477,882**	**$527,550**	**$582,877**	**$631,203**	**$674,846**
Sum of Child-Level Costs	$99,858	$99,858	$99,858	$99,858	$99,858
Sum of Per-Classroom Costs	$125,530	$125,530	$125,530	$125,530	$125,530
Sum of Per-Provider Costs	$5,216	$5,216	$5,216	$5,216	$5,216
Total Non-Personnel Expenses	**$230,604**	**$230,604**	**$230,604**	**$230,604**	**$230,604**
TOTAL EXPENSES	**$708,486**	**$758,153**	**$813,481**	**$861,807**	**$905,450**
REVENUE					
Subsidized Children	$97,275	$104,614	$112,360	$120,047	$125,813
Tuition-Based Children	$728,578	$782,779	$843,866	$896,189	$944,755
Tuition Total	**$825,854**	**$887,392**	**$956,226**	**$1,016,236**	**$1,070,568**
CACFP	$53,674	$53,674	$53,674	$53,674	$53,674
Bad Debt and Enrollment Inefficiency	($152,988)	($163,788)	($175,869)	($186,400)	($195,936)
TOTAL REVENUE	**$726,539**	**$777,278**	**$834,031**	**$883,509**	**$928,306**
NET REVENUE					
Net Revenue	**$18,053**	**$19,124**	**$20,550**	**$21,702**	**$22,856**
Net Revenue As Pct. of Total	**2.50%**	**2.50%**	**2.50%**	**2.50%**	**2.50%**
Total Enrollment	102	102	102	102	102
Total Teaching Staff (FTE)	14	14	14	14	14
WEEKLY TUITION					
Infant Tuition	$206	$265	$287	$365	$440
Toddler Tuition	$185	$238	$257	$328	$396
PreK Tuition	$160	$205	$220	$280	$337
WEEKLY REIMBURSEMENT					
Infant Reimbursement	$154	$165	$178	$190	$200
Toddler Reimbursement	$143	$153	$165	$177	$185
PreK Reimbursement	$130	$140	$150	$160	$168
School Age Reimbursement	$119	$128	$138	$148	$154

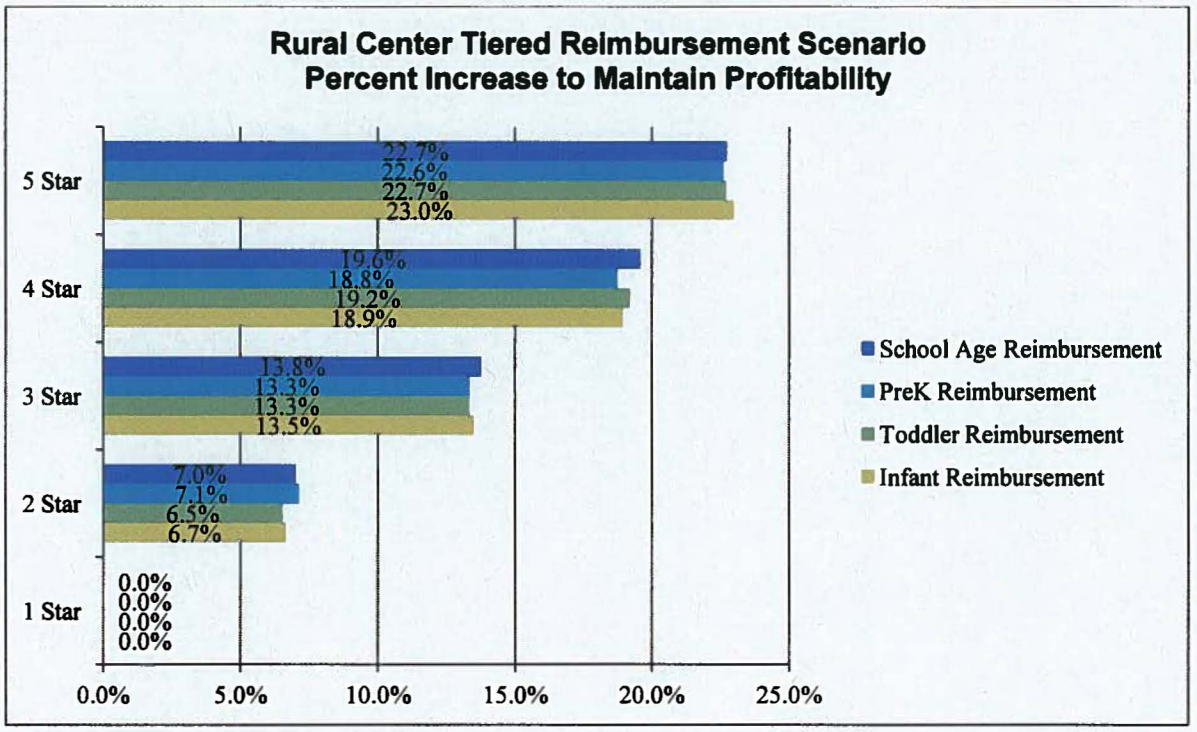
Children receiving services at subsidy rates are typically only a fraction of a provider's clientele. Each provider has to determine how many clients they can serve at lower rates and still make a profit, similar to an airline carrier seeking to maximize profit by filling each plane, even if some seats are sold at a discount. For providers of 2-star through 5-star quality care to attain the same level of profitability as basic care (1-star) in the tiered reimbursement scenario, subsidy reimbursement rates would need to be increased by between 6.5% through 28.1% as shown in the following two charts. The charts show the percent increase above current reimbursement rates that would be necessary by age group in order for 2-star through 5-star centers to maintain the same level of profitability with 14% subsidy children as the modeled 1-star provider. The first chart below shows the profitability data for urban centers. The second chart below shows the profitability data for rural child care centers.

Star levels 3 and above shown in the chart for the urban scenario reflect a 15% or higher increase in the reimbursement rate, which is similar to tiered rates set by other states, and in line with studies suggesting this level of increase has a positive impact on program participation in a differential or tiered reimbursement program.

Urban Child Care Center Tiered Reimbursement Scenario



Rural Child Care Center, Tiered Reimbursement Scenario



ESTIMATING COSTS FOR VIRGINIA

There are numerous unknowns associated with implementation of tiered reimbursement in Virginia. For example:

- To what extent will parents respond to education and awareness efforts, and demand higher quality care?
- Will tiered reimbursement rates be sufficient to entice providers that have previously not served subsidy children to implement a quality program, apply for QRIS and begin serving subsidy children? If so, what QRIS rating will providers attain and how will this affect the distribution of QRIS rated child care capacity across the state?
- How much time will it take to build a supply of programs, at varying star levels, across the state?
- How many programs will achieve and maintain the higher quality standards (Star levels 3 - 5)?

The existence of these unknowns presents challenges to estimate precisely the likely costs associated with implementation. However, using data gleaned from the literature, experiences of other states and from Virginia's Child Care Subsidy and QRIS Programs, an initial effort has been made to project additional direct subsidy costs of full scale implementation as well as costs associated with a two-year pilot.

DIRECT SUBSIDY COSTS

Preliminary projections of cost indicate that an additional $6.3 million per year in direct subsidy payments could likely be required upon full implementation of a tiered reimbursement subsidy system in Virginia, plus a one-time automated systems upgrade at approximately $500,000 to support the expanded program.

As a result of adjustments made in SFY 2015 to provider reimbursement rates and family co-payment rates for the Child Care Subsidy Program, direct subsidy payments to providers are estimated at $125 million and $132 million for SFY 2015 and SFY 2016, respectively. Since inception of QRIS, participation in the program by child care providers has been voluntary and without monetary incentives. If VDSS continues this practice, takes no action towards implementing a system of tiered reimbursement, and experiences no growth in caseload, annual subsidized child care expenditures would reach $132M and likely remain constant thereafter. CCDF and funds transferred to CCDF from TANF are the sources of funding for the projected ongoing $132M subsidy expenditures. The cost of additional direct subsidy payments as a result of tiered subsidy implementation would be in addition to these costs.

To estimate potential costs of a tiered reimbursement system, several assumptions were set out. These assumptions are best estimates that considered QRIS experiences to date, QRIS program amendments currently underway and results of the cost of quality analysis. Child care providers with either a 1-Star rating or those that do not participate in QRIS would equal 40% of the subsidy caseload. This group of providers would not receive a monetary incentive. Only child care providers participating in QRIS that achieve a rating above 1-Star would receive monetary incentives. So for the remaining 60% of the subsidy caseload, monetary incentives would be paid to participating providers that have achieved at least a 2-Star rating. Table 18 illustrates the estimated monetary incentive that would be paid for each Star level achieved by participating providers.

Table 18 – Estimated Tiered Reimbursement Statistics

Star Rating	% of Subsidy Children	Potential $ Increase
Not participating in QRIS or 1-Star	40%	0%
2-Star	25%	8%
3-Star	20%	15%
4 Star	10%	20%
5 Star	5%	25%

In total, projections indicate it would cost an additional $6,326,175 annually in direct subsidy payments to fully implement a tiered reimbursement model in Virginia.

Conversely, if tiered reimbursement is implemented and Subsidy funding remains constant at $132 million, approximately 2,100 or 5% fewer children would be served by the Subsidy Program.

Approximately 10% of eligible child care providers currently participate in Virginia's QRIS Program, and fewer than 10% of subsidy children are served in programs currently participating in QRIS. It is not known how long it would take to reach full scale implementation of tiered reimbursement. The program, however, would likely grow incrementally. If in FY 2016 the number of children receiving Subsidy who are enrolled in 2-Star or higher facilities grew by 10%, $633,000 in additional subsidy payments would be expended that year. However, there currently is not enough available data to calculate the growth rate of children and providers in SFY 2016 and beyond with great accuracy.

PILOT PROGRAM COST

If Virginia determines that the state should implement a tiered subsidy reimbursement system based on QRIS, the development and implementation of a pilot program would be a prudent first step to establish and evaluate business processes and procedures; analyze actual parent and provider participation; confirm the adequacy of initial reimbursement rates; increase the number of child care providers participating in VSQI to create the critical mass needed statewide; build system infrastructure and capacity for a full-scale, statewide tiered reimbursement system; and accurately identify operational resources needed to support the tiered reimbursement program at the state, regional and local levels. The pilot should be conducted for a minimum of two years or until all systems (data, governance, regulatory) are structured and tested.

An administrative budget for $306,900 in Year One and $438,150 in Year Two of the pilot would be required. It is estimated that an additional 2.5 full-time equivalent (FTE) positions consisting of a full-time, classified Project Director, a full-time, classified Trainer, and a part-time Data Collection Analyst will be needed for the two-year pilot to: (1) design the pilot and associated business processes, (2) collect and analyze data, (3) increase VSQI participation (4) oversee evaluation of the program, and (5) to provide a formal report of the outcome of the Pilot. This amount is in addition to any increases in direct subsidy that would occur during the pilot.

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

The results of the study indicate that tiered reimbursement systems are used by 22 states to achieve higher quality child care and to also provide access to this higher quality care to low-income, high-risk children. Initial projections also indicate that tiered reimbursement can likely be implemented at a reasonable cost. An estimated $6.3 million per year in additional direct subsidy costs would likely be required upon full implementation of a tiered reimbursement subsidy system in Virginia, plus a one-time automated systems upgrade at approximately $500,000 to support the expanded program. Increased operating expenses, difficult to estimate at this time, would best be calculated during a two-year pilot.

Based on the findings, several recommendations are made:

1. **A pilot project, including an evaluation of the tiered reimbursement system, should be considered to determine the level of required resources to manage and administer a full-scale tiered reimbursement system.**

If Virginia determines that the state should implement a tiered subsidy reimbursement system based on QRIS, the development and implementation of a pilot would be a prudent first step to establish and evaluate processes and procedures; analyze actual parent and provider participation; establish baselines and performance measures; confirm the adequacy of initial reimbursement rates; increase the number of child care providers participating in VSQI to create the critical mass needed statewide; and build system infrastructure and capacity for a full-scale, statewide tiered reimbursement system. The pilot should be conducted for a minimum of two years or until all systems (data, governance, training, parent and provider education) are structured and tested.

The pilot would focus on answering key questions:

- Is the tiered rate adequate to incentivize participation?
- Will the available funding support rates that are sufficient for sustaining high quality over time?
- What counterproductive or unintentional consequences occurred?
- How did tiered reimbursement tied to subsidy affect the availability of subsidy services?
- What infrastructure, training and public relations activities were necessary?
- What additional costs or restructuring of existing funds were necessary?
- To what extent did the tiered reimbursement increase or reduce the subsidy, licensing and QRIS caseloads?

2. **Efforts should be made to ensure that there is an adequate pool of high quality child care programs available to participate in the tiered reimbursement system.**

An adequate supply of high quality programs is foundational to a tiered subsidy reimbursement system that is linked to QRIS. Providers responding to the survey indicated some barriers to participation in the VSQI. These included a lack of awareness of the program standards, misperceptions about participation requirements and an extensive application process. However, recent VSQI revisions address these specific issues. Recently several measures have been taken to expand the awareness of QRIS and broaden access to the program. These program enhancements position VSQI to include more programs and to better serve as an accountability tool for federal and state funds:

- Revisions to VSQI have made the process more streamlined and user-friendly, able to accommodate a significant increase in participation with minimal increases to the cost of administration.

- VSQI now has a statewide footprint, and can provide information on the availability of quality child care, and mentoring and guidance, to stakeholders in every part of Virginia.

- Updates to the quality standards measured by VSQI are in alignment with federal priorities, important if programs will be required to meet certain standards to receive public funds. Federal initiatives such as the Early Learning Challenge, Early Head Start-Child Care Partnerships, and Preschool Development Grants all support the alignment and collaboration of QRIS with other state and federal early childhood programs. VSQI is comprised of five common elements: 1) standards, 2) accountability measures, 3) program and practitioner outreach and support, 4) incentives and 5) parent/consumer education efforts as recognized by the federal Office of Child Care. It serves as a mechanism to assess, improve and communicate the level of quality of state- and federally-funded early care and education programs.

- An accelerated process has been established by which regulated providers whose quality is monitored by another entity (such as an accrediting organization) may receive credit within the VSQI framework for meeting aligned quality standards, reducing burden to participants.

3. **To support the continuous improvement of child care quality and the successful implementation of a tiered subsidy reimbursement system, efforts should continue to automate processes and link key data systems; more closely coordinate related functions including child care subsidy, VSQI and licensing of child care facilities; and advance professional development of the child care workforce.**

- Aligned or linked data systems are important to the successful implementation of a tiered reimbursement system. Automation uses control systems to manage processes, limiting the need for high volume human data entry, reducing the number of errors, and supporting efficient use of time and resources.

APPENDIX I

SENATE JOINT RESOLUTION NO. 54 (2014)

Requesting the Department of Social Services to study a tiered-reimbursement subsidy program for child-care providers. Report.

Agreed to by the Senate, March 6, 2014
Agreed to by the House of Delegates, March 5, 2014

WHEREAS, the Commonwealth began piloting in 2007 a quality-rating-improvement system for child-care providers; and

WHEREAS, other states have improved the quality of their child-care services through implementation of a tiered-reimbursement subsidy program based on a quality-rating-improvement system, which offers higher subsidy payments to child-care providers that meet higher standards of care; and

WHEREAS, utilization of a tiered-reimbursement subsidy program based on a quality-rating-improvement system in the Commonwealth may improve the quality of its child-care services; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That the Department of Social Services be requested to study a tiered-reimbursement subsidy program for child-care providers.

In conducting its study, the Department of Social Services shall (i) identify and compare strategies for implementation of a tiered-reimbursement subsidy program based on a quality-rating-improvement system for child-care providers in the Commonwealth; (ii) determine the resources required to implement and sustain such strategies; (iii) explore the potential effects of implementing a tiered-reimbursement subsidy program in the Commonwealth, including any impact on the supply of quality child-care services, potential financial implications for child-care services on families, and providers, effects on existing programs, such as the Child Care Subsidy Program, effects on the licensure of child-care providers, and the implications of applicable federal and state laws and regulations; and (iv) examine other states that utilize a tiered-reimbursement subsidy program, including implementation strategies and results.

Technical assistance shall be provided to the Department of Social Services by the Virginia Early Childhood Foundation. All agencies of the Commonwealth shall provide assistance to the Department of Social Services for this study, upon request. The Department of Social Services shall complete its meetings by November 30, 2014, and shall submit to the Governor and the General Assembly an executive summary and a report of its findings and recommendations for publication as a House or Senate document. The executive summary and report shall be submitted as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents and reports no later than the first day of the 2015 Regular Session of the General Assembly and shall be posted on the General Assembly's website.

APPENDIX II

RESEARCH METHODOLOGY

LITERATURE REVIEW

A review of literature and analyses of survey findings on the characteristics of state child care subsidy and tiered reimbursement systems was conducted. The literature was used primarily to collect evidence on the use of tiered reimbursement systems and the impact on state administration infrastructures, child care providers that are reimbursed for services, and children and families who receive child care subsidies.

PROVIDER SURVEY

A provider survey was conducted to obtain feedback from providers about their level of awareness about the Virginia Child Care Subsidy Program and the Virginia Star Quality Initiative. The 15-question survey collected responses to questions in the following areas:

- Program demographics
- Impressions about payment for higher quality services
- Awareness of the subsidy and QRIS programs
- Barriers to participating in the subsidy and QRIS programs

A total of 4,132 surveys were distributed, with 515 providers responding, a response rate of 12.4%.

SURVEY OF STATES AND INTERVIEWS

A survey of information on five states' systems was conducted by Technical Assistance Specialists at the National Center on Child Care Quality Improvement. The survey of available data was followed by interviews with administrators from two states, Pennsylvania and Wisconsin. The interviews enabled researchers to gather more specific information on the two states' processes, progress and candid impressions about the implementation and effectiveness of their tiered reimbursement systems.

CALCULATING THE COST OF QUALITY CARE

Realistic estimates of the cost of quality are essential to developing the right incentives for participation in a quality based child care subsidy system. For this study, the Provider Cost of Quality Calculator developed by the National Center on Child Care Quality Improvement was used to estimate the cost of meeting the requirements of 1-star, 2-star, 3-star, 4-star and 5-star quality in the Virginia QRIS.

The tool calculates the cost of quality based on site-level provider data. Inputs for each star rating include settings for age groups, child/staff ratios, group sizes, staff qualifications, and staff time; cost drivers including wages and non-personnel costs; and

revenue drivers such as tuition, subsidy, CACFP, percent of total enrollment composed of subsidy children, and percent bad debt from parents. The tool also calculates total enrollment and teaching staff for a given input set.

Supply, demand and market prices for child care vary across Virginia particularly from urban to rural areas. To explore the differences location may have on the cost of quality child care, scenarios representing a typical urban and rural child care center were developed.

Utilization of Advisory Group

An advisory group was established to provide input on the approach and scope of the study and also participate in data collection and analysis activities. The advisory group included representatives from:

- Local Department of Social Services
- Private Child Care
- Regional Early Childhood Coalition
- VDSS Division of Child Care and Early Childhood Development
- VDSS Division of Licensing Programs
- VDSS Division of Research and Planning
- Virginia Early Childhood Foundation

APPENDIX III

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