



The Preschool Research and Technical Assistance Project

Financing a Full-Day, Full-Year Preschool Program in California: Strategies and Recommendations

Policy Brief

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- The existing General Child Care Program, by any measure, is significantly underfunded.
- The hourly reimbursement rate for General Child Care is less than that for State Preschool, and also falls below that for voucher programs held to much lower standards.
- None of the existing state reimbursement rates is sufficient to sustain a high quality full-day, full-year program at the same level of quality for every hour of the day.
- By leveraging First 5 Power of Preschool funds, and varying levels of staffing during the day, some counties have approached the level of financing needed for a full-day, full-year program.

Purpose

A previous Policy Brief by Children Now (2008) made recommendations for reducing barriers to providing full-day, full-year preschool programs. The purpose of this Policy Brief is specifically to address the financing issues involved. Specifically this Brief:

- Examines the true cost of a high-quality, full-day, full-year program serving preschool-age children;
- Compares the existing reimbursement rates and rate structures for full-day, full-year state-funded programs serving preschool children;
- Considers the impact of changes in duration and quality levels on the cost of a preschool program;
- Illustrates the benefits of leveraging First 5 Power of Preschool demonstration project funds – and potentially other finance sources – to augment the Standard Reimbursement Rate for General Child Care to finance a full-day program; and
- Provides recommendations for developing criteria for appropriate cost reimbursement of a full-day, full-year program serving preschool-age children.

Background

In California, the demand for full-day, full-year early care and education programs has grown over time due to changing family needs. Fifty-two percent of children in California live with two working parents or a single parent in the labor force, and three out of four parent requests to

child care resource and referral agencies are for full-time arrangements that accommodate the hours of family employment.¹

Research indicates that a half-day of quality preschool is of sufficient duration to have lasting effects on children's learning and helps close the achievement gap between low-income disadvantaged children and their more advantaged peers. However, disadvantaged children have been shown to benefit even more from extended day, extended year preschool programs. When four-year-olds in a low-income school district were randomly assigned to programs of different durations, the children in 8-hour, 45-week classes made greater gains in vocabulary and math skills than did their peers assigned to a 2.5 to 3 hour, 41-week program. Moreover, as the study authors explain (Robin, Frede, and Barnett, 2006), many of the children would not have been able to participate in the preschool program at all had the schedule not accommodated the family's work hours.

California has made important efforts to expand access to and improve the quality of preschool services. In 2003, the First 5 California Commission approved \$100 million over a period of five to seven years to invest in voluntary, free and high-quality preschool programs. This allocation established the Power of Preschool (PoP) Demonstration Program to expand and enhance preschool opportunities in selected communities across California, giving priority to children who reside in low-performing school neighborhoods where children are currently under-enrolled in preschool (First 5 California, 2008).² In 2006, the California legislature provided \$50 million to establish the Prekindergarten Learning and Family Literacy (PKFL) Program to expand access to early education to preschool children from low-income families.

However, funds for both of the above efforts are only limited to part-day programs of school-year duration. Although First 5 California recognizes that many children need access to full-day, full-year arrangements in order to participate in preschool, the PoP funds per se can only be used to pay for a part-day program. Similarly, while the Child Development Division (CDD) of the California Department of Education (CDE) encourages PKFL providers to implement full-day, full-year programs, the funds are primarily limited to part-day programs, which means that providers who wish to offer full-day and/or full-year services must find other sources of support to cover the remaining portion of the day or year.

¹ According to the *2007 California Child Care Portfolio*, 74 percent of the child care requests to California's Child Care Resource and Referral Network were to provide more than 30 hours of child care per week. Since 2000, the percentage of California families with children under 18 and headed by a single parent increased from 26 percent to 31 percent. *California Child Care Portfolio* <http://www.rnetwork.org/publications/2007/revised-portfolio-2007.pdf>

² For a more detailed discussion of the PoP program structure and reimbursement criteria, please see AIR's policy brief entitled, *First 5 Power of Preschool: Lessons from an Experiment in Tiered Reimbursement*.

The CDD administers a full-day General Child Care Program, of which \$375 million was allocated for three- and four-year-olds in 2008.³ Some providers have stopped operating the General Child Care Program on the grounds that the state reimbursement rate is too low (Children Now, 2008), and others have cited barriers to combining General Child Care with other funding streams. In an effort to address the above concerns, the CDD has been working for several years to find ways to increase the ability of providers to coordinate various sources of funds under CDE contracts. While state regulations had largely precluded programs from combining State Preschool and General Child Care funds in the past, the CDD posted Management Bulletin 08-01, which explains how PKFL providers can combine those funding streams under one contract (Children Now, 2008). The California State Preschool Act of 2008 (AB 2759) consolidated the state's existing part-day and full-day child development programs to form the California State Preschool Program.⁴ The bill's focus on streamlining the statutory and regulatory requirements of the programs is intended to help reduce the barriers to blending and coordinating different funding streams. Despite these important changes, however, financing full-day, high quality services for preschool children with the level of the state reimbursement available remains a formidable challenge.

Financing a Full-Day, Full-Year High Quality Preschool Program in California: How Much Is Needed?

Large numbers of preschool children in California live in dual earner families or with single parents who work, and may not be able to participate in part-day programs. The programs that serve these families must not only accommodate the parents' work hours, but also ensure sufficient quality to promote school readiness. Given these circumstances, it is therefore important to determine the costs of a high-quality, full-day, full-year program.

The First 5 PoP Program has the most stringent quality standards of any state-funded preschool program in California, and the standards most closely aligned with criteria recommended by the National Institute for Early Education Research (NIEER). While allowing time to phase in quality improvements, the PoP full Quality Level requires:

- Teachers to have a BA degree and at least 24 units in early care and education (ECE), and assistant teachers to have AA degrees including at least 24 ECE units;
- Periodic health and developmental screenings;

³ AB 2759 (Jones) Fact Sheet. Retrieved May 19, 2009 from <http://www.preschoolcalifornia.org/assets/pc-document/ab2759-jones-fact-sheet.pdf>

⁴ The new California State Preschool Program will consolidate the following programs: State Preschool, Full-Day State Preschool, Prekindergarten-Family Literacy, Prekindergarten-Family Literacy Full-Day, and General Child Care and Development programs.

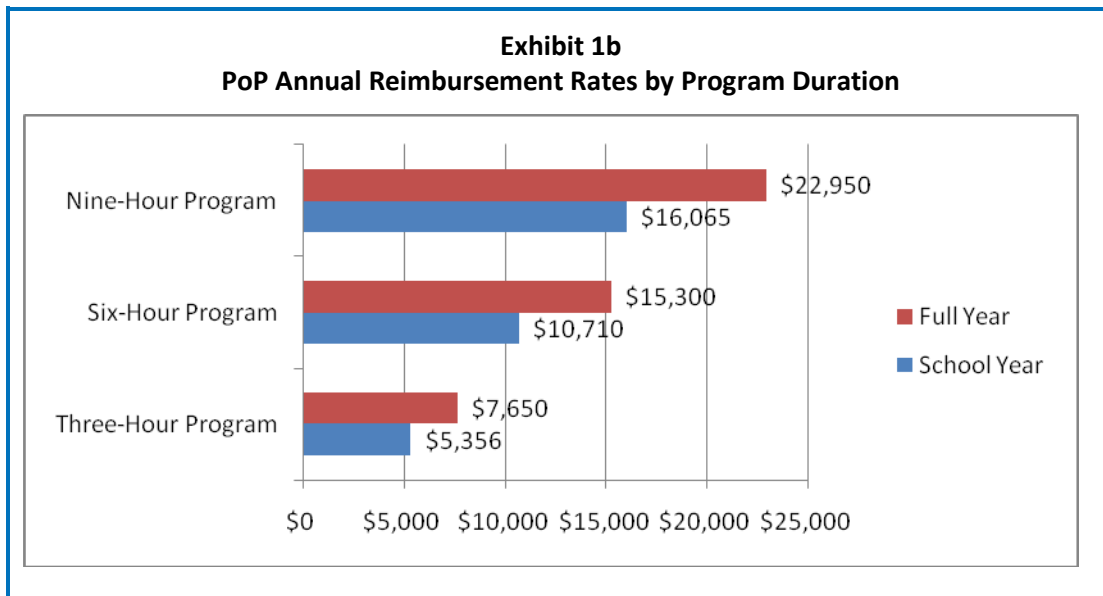
- Appropriate staff to child and teacher to child ratios (e.g., 3 staff to 24 children or 2 teachers to 20 children);
- Nutritious meals and snacks;
- Early Childhood Environment Rating Scale-Revised scores of 5 out of 7 within 24 months after the onset of the program; and
- Effective family outreach and active engagement of parents and families (First 5 California, October 2008).

Therefore, one way to estimate the amount of funding needed to finance a high-quality full-day program is to extend the PoP hourly reimbursement rates (averaged across the nine counties) over a longer program day (e.g., 6 or 9 hours versus 3 hours) and full year as opposed to school calendar year.⁵ Across the nine counties with PoP demonstration programs, the maximum reimbursable amount per child enrolled in a part-day high-quality preschool space ranges from \$4,610 to \$6,410 for 175 days, with an average yearly rate of \$5,356.⁶ To extend a part-day program to a full-day program, the maximum reimbursable amount for a six-hour and a nine-hour program would need to be increased to \$10,710 and \$16,065, respectively, for a 175-day program, and \$15,300 and \$22,950 for a full-year, or 250-day program (see Exhibit 1a and 1b). Exhibit 1b shows the cost of full-day programs as compared to part-day programs.

Exhibit 1a			
SRR and PoP Annual Reimbursement Rates by Program Duration			
Reimbursement Rates	Three-Hour Program	Six-Hour Program	Nine-Hour Program
PoP County Average (175 days) (\$5,356 or \$10.20/hr)	\$5,356 (\$10.20 X 3 X 175)	\$10,710 (\$10.20 X 6 X 175)	\$16,065 (\$10.20 X 9 X 175)
PoP County Average (250 days) (\$5,356 or \$10.20/hr)	\$7,650 (\$10.20 X 3 X 250)	\$15,300 (\$10.20 X 6 X 250)	\$22,950 (\$10.20 X 9 X 250)

⁵ For a more detailed discussion on the PoP county reimbursement rates, readers can refer to AIR’s policy brief, *First 5 Power of Preschool: Lessons from an Experiment in Tiered Reimbursement*.

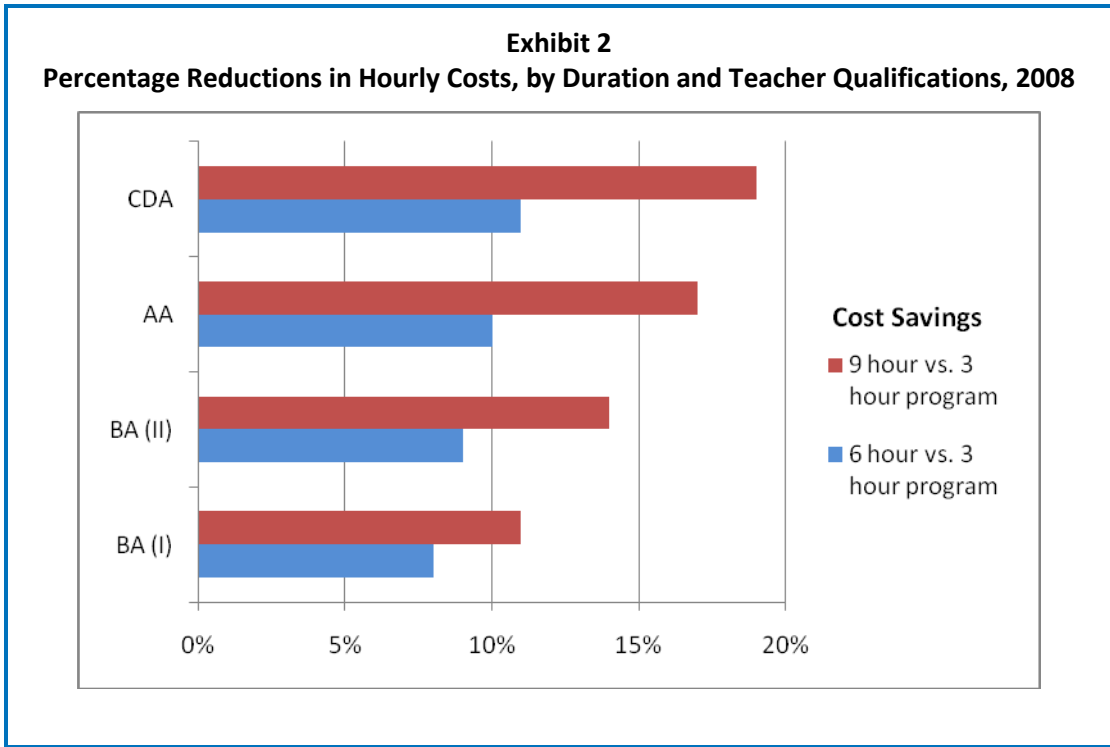
⁶ For a more detailed discussion on the PoP county reimbursement rates, readers can refer AIR’s policy brief, *First 5 Power of Preschool: Lessons from an Experiment in Tiered Reimbursement*.



The estimated cost of full-day programs can be reduced in several ways. The first method has to do with economy of scale, which is explained in layman’s terms as “a reduction in the cost of producing something (as a car or a unit of electricity) brought about especially by increased size of production facilities.”⁷ In a full-day program, the space and materials are used for more hours per day; therefore, economy of scale results in a full-day program in reality having lower costs per hour than a part-day program. For example, a recent study by the Institute of Women’s Policy Research found a slightly lower cost *per hour* for full-day programs compared to part-day programs (Gault et al., 2008): 8 percent lower for a six-hour program and 11 percent lower for a nine-hour program, based on a program staffed by a lead teacher with a BA degree for the entire day, as shown at the bottom of Exhibit 2.

Teacher compensation represents the most expensive component of a child care program; therefore, the simplest (albeit not necessarily recommended) way to reduce the cost is to lower teacher qualifications. Exhibit 2 shows that greater savings per hour are achieved if the lead teacher has a lower level of qualifications. Note that the PoP programs frequently vary staffing levels and qualifications throughout the day, requiring BA-level teachers during the core hours of the preschool program and employing less expensive staff during the wrap-around hours at the beginning and end of the day. Some providers have found that this is a difficult model to implement; potential concerns include a disruption in the continuity of care and disharmony among staff. Alternatively, some providers set the compensation of the same degreed staff at different rates during the day, arriving at a total compensation package that costs less than if the teachers were paid at the PoP rate throughout the day.

⁷ Merriam-Webster’s Online Dictionary.



Variation in Reimbursement Rates for Existing Publicly Funded Full-Day, Full-Year Programs

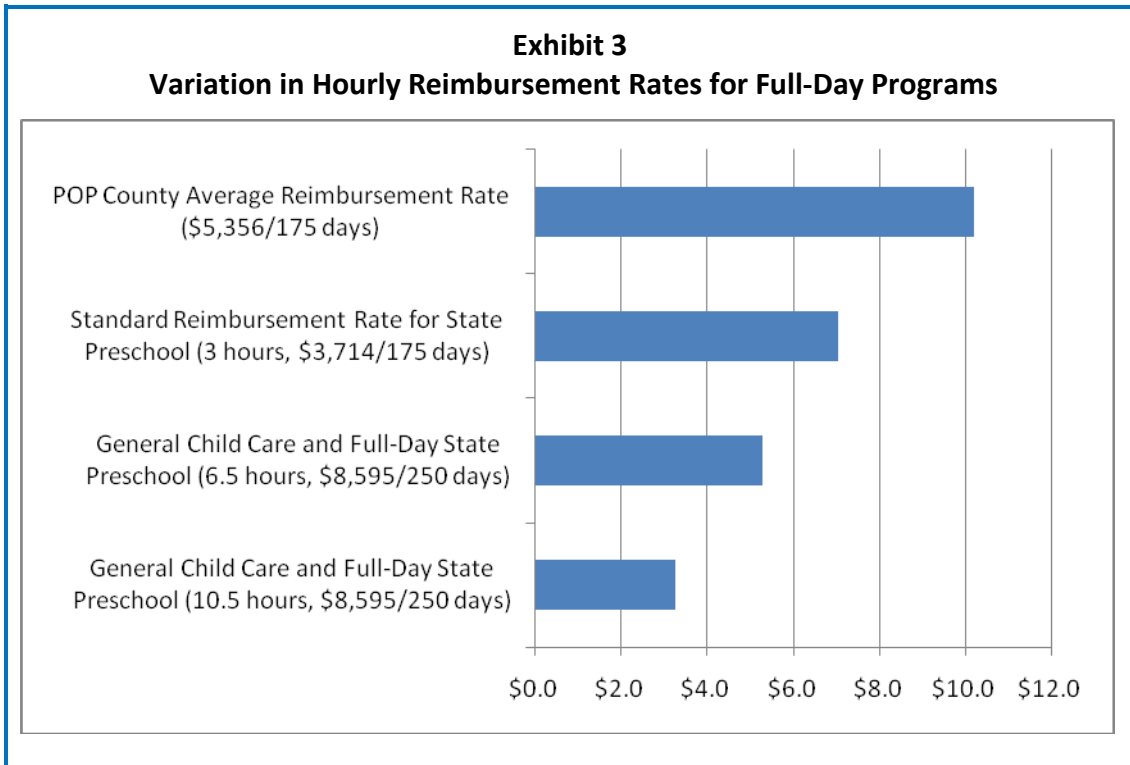
As noted in the Background section above, California has several mechanisms to make publicly funded full-day, full-year programs available for eligible preschool children. The General Child Care and Development Program is a state-funded, state-contracted full-day program serving preschool children (as well as infants and toddlers and older children) in California. This program, along with a small full-day State Preschool Program, is required to meet the same Title 5 standards as the much larger part-day State Preschool Program. Finally, the Alternative Payment Program is a voucher program that allows parents to select an early care and education program for their children. However, center-based programs participating in the AP program need only meet the basic Title 22 licensing standards, which are considerably less stringent than the Title 5 standards for contracted programs. For example, while Title 5 programs require a 1:8 staff/child ratio for children ages 3-5, the Title 22 requirements only require one staff member for every 12 preschool-age children. Title 5 standards for teacher education qualifications are also considerably higher than the basic Title 22 licensing requirements.

Unfortunately, providers who choose to operate a General Child Care or full-day State Preschool program are at a financial disadvantage compared to those who administer a part-day State

Preschool program. California's Standard Reimbursement Rate currently specifies an amount of \$21.22 per day (or \$7.07/hour) for a part-day State Preschool program, or \$3,714 per year based on a 175-day/school year program. Providers who choose to offer two half-day preschool sessions may receive a total of up to \$42.44 a day (or \$10,610 per year) for two children, each served part-day. On the other hand, the maximum daily Standard Reimbursement Rate for full-day State Preschool and General Child Care and Development Programs is only \$34.38 per child per day, or \$8,595 per year. This translates into \$8,595 per year or \$5.29 per hour for a program that operates 6.5 hours a day, and \$3.27 per hour for a program that operates 10.5 hours per day (see Exhibit 3).⁸ While not all providers have the capacity to implement two half-day preschool sessions, those who can do so enjoy the financial benefits of a higher total daily reimbursement rate for fewer hours of service.⁹ At the very least, the relatively lower daily reimbursement rate for full-day, full-year programs serves as a disincentive for providers to operate full-day programs (Children Now, 2008).

⁸ Full-day, full-year programs generally provide between 6.5 to 10.5 hours of early care and education services for at least 246 days a year (Children Now, 2008). For General Child Care and Development Programs contracted through California Department of Education, contractors must provide a minimum of 6.5 hours of service per day, and up to 12 hours per day (see CDE Management Bulletin 08-01 Child Development <http://www.cde.ca.gov/sp/cd/ci/mb0801.asp>, retrieved February 4, 2009.)

⁹ State Preschool programs that offer double sessions typically provide 6 to 7 hours of preschool services (i.e., 3 – 3.5 hours for each session) and receive \$42.44 per day per enrolled child, while Full-Day State Preschools and General Child Care and Development Programs typically offer 6.5-10.5 hours of services, and receive \$34.38 per day per enrolled child.



An even greater disparity exists between the reimbursement rates for the state-contracted programs, State Preschool and General Child Care, and the Alternative Payment Program. Both State Preschool and the General Child Care Programs receive the Standard Reimbursement Rate (SRR), which is the same across counties (with the exception of San Francisco and San Mateo, where the legislature has provided the right to a special rate). However, in the Alternative Payment Program, providers may receive up to the Regional Market Rate, which is established at the county level based on a market rate survey, which collects information on how much providers actually charge for child care services in the private market. As a result, the rates vary substantially by county (from \$7,716 in Merced to \$12,024 in San Mateo and Santa Clara), reflecting regional differences in the cost of living.

In seven out of nine counties participating in the PoP Demonstration Program, full-day providers reimbursed through the SRR receive a lower level of funding per child than providers reimbursed through the RMR. Ironically, as noted above, centers participating in the Alternative Payment program receiving the RMR are only required to meet Title 22 regulations, which are less stringent than the Title 5 regulations required of the General Child Care centers under contract

with CDE.¹⁰ The funding discrepancy further reduces the incentive for providers to participate in the General Child Care Program.

It is important to clarify that the RMR rates, while significantly higher in most cases than the SRR rates, are still not sufficient to provide a full-day, full-year high quality program, such as one meeting PoP standards for every hour of the day. However, the fact that the RMR rates are higher than the SRR rates simply underscores how far short the SRR is of financing the existing Title 5 standards, much less a program meeting PoP requirements.

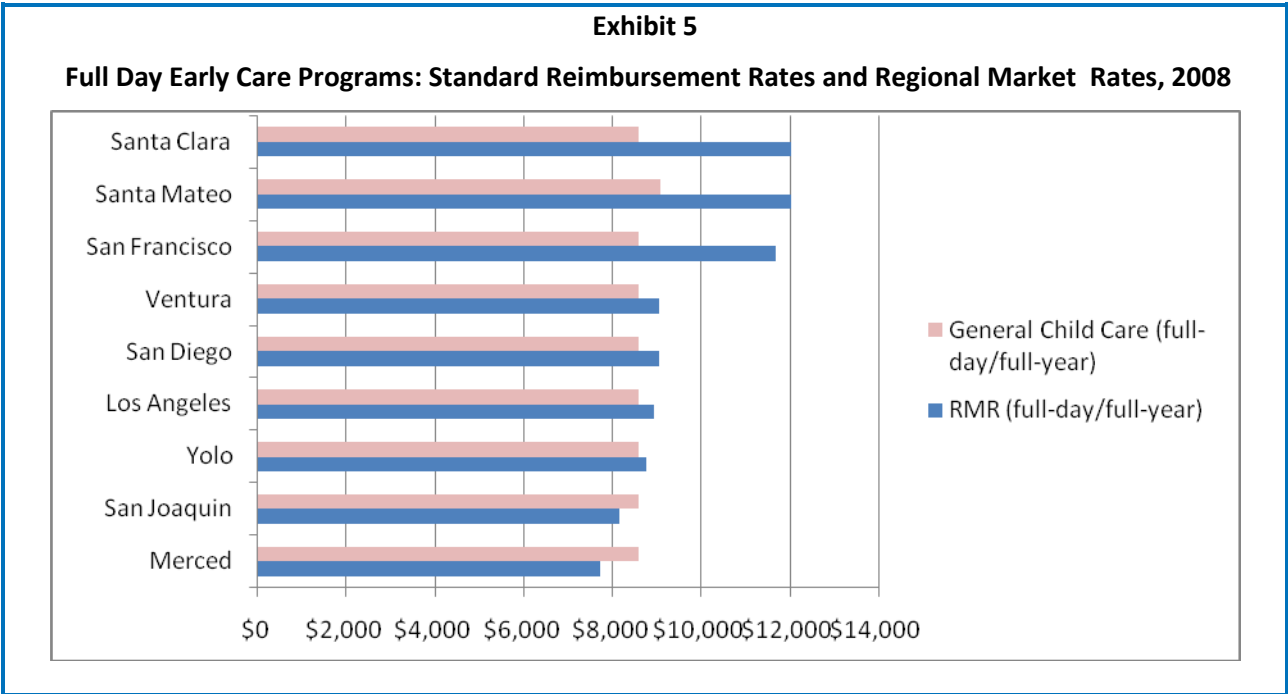
Exhibit 4		
Full Day Early Care Programs: Standard Reimbursement Rates and Regional Market Rates Across Counties with PoP Demonstration Programs, 2008		
PoP County	RMR (full day/full year)*	General Child Care (full day/full year)*
Santa Mateo	\$12,024	\$9,094 (pilot program)
Santa Clara	\$12,024	\$8,595
San Francisco	\$11,688	\$8,974-\$9,681**
San Diego	\$9,060	\$8,595
Ventura	\$9,060	\$8,595
Los Angeles	\$8,928	\$8,595
Yolo	\$8,760	\$8,595
San Joaquin	\$8,160	\$8,595
Merced	\$7,716	\$8,595
Average	\$9,713	\$8,650

*See <http://www.cde.ca.gov/sp/cd/op/factsheet07.asp> and <http://www.cde.ca.gov/fg/aa/cd/ap/index.aspx>

**The rate is \$9,681 for GCC programs in the San Francisco Unified School District, and \$8,974 for non-district, center-based programs.

PoP demonstration projects, on the other hand, with their tiered reimbursement rates, are designed to financially reward programs that upgrade teacher qualifications and compensation, facilities, and overall program structure. Moreover, First 5 California also allows the PoP rates to vary across counties, and thereby to take into account regional differences in the cost of teacher salaries and facilities.

¹⁰ See AIR's policy brief, *First 5 Power of Preschool: Lessons from an Experiment in Tiered Reimbursement* for a more detailed discussion of the differences in teacher quality required of Title 5 and Title 22 standards.



Embedding a Quality Preschool Program in a Title 5 General Child Care setting – A Case for Improving Quality and Enhancing Revenue

To make quality preschool accessible to children of working parents who need full-day, full-year services, one approach is to enhance the quality, at least for a portion of the day, of existing early care and education programs that already offer full-day, full-year services, but at a lower level of quality. This section shows how enhancements from the First 5 Power of Preschool program have succeeded in raising the total level of the per-child reimbursement in a participating General Child Care Program above the Regional Market Rate.

Another option implemented in some PoP counties is the use of different numbers of staff, and the use of staff with different qualification levels, over the course of the day. For example, during portions of the day, such as during naptimes or recreation periods, fewer numbers of highly trained staff may be needed. The determination of those periods of the day when staffing requirements can be reduced without compromising the quality of the program is, of course, a challenge. Employing staff with differing levels of training may also create logistical difficulties and pose a barrier to providing continuity of care. But by finely tailoring staffing to closely match what is required during different segments of each day, programs may increase efficiency.

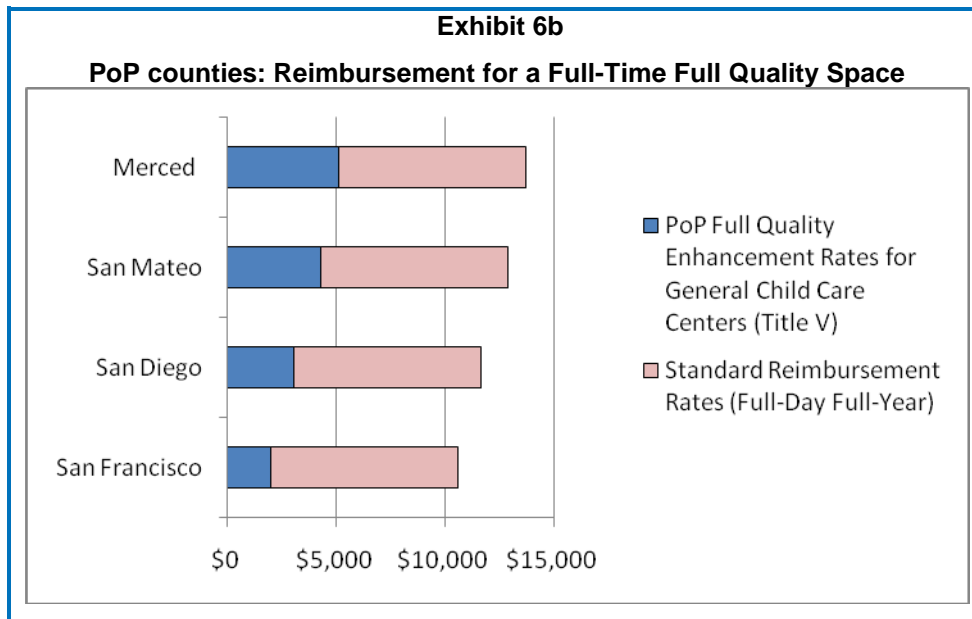
When a General Child Care center participates in the PoP Demonstration Program, we assume either (1) that the PoP program funds will be used to pay for the quality preschool portion of the day and the additional costs associated with a full-day program will be supported by other

revenue sources such as SRR, and/or (2) that the program will be configured so that lesser trained, less expensive staff will cover the additional hours. Providers who intend to embed a quality program in a General Child Care setting may potentially combine the PoP enhancement funds with the existing SRR (\$8,595) to finance a full-day program. In three out of four counties that provide PoP enhancement funding to Title 5 General Child Care programs, this blending of resources results in funding levels that either parallel or exceed the RMR (see Exhibits 6a and 6b). More importantly, this strategy of embedding a PoP-quality part-day program in a General Child Care setting results in at least three hours of improved quality of care in a full-day setting.

Nevertheless, it is important to note that even when General Child Care is enhanced with PoP funds, the total funding per child still falls short of what would be required to finance a nine-hour, full-year program at the PoP quality level all day. The funding falls short even when, using the IWPR methodology described above, we factor in estimated hourly cost savings resulting from an economy of scale in full-day programs: a nine-hour PoP quality program at the “discounted” rate is still \$20,574, \$6,000 more than even the highest enhanced rate provided by the PoP program in any participating county.

Exhibit 6a		
Reimbursement for a Full-Time Full Quality Space – Embedding a PoP Quality Preschool Program in a General Child Care Setting, 2008		
County	PoP Enhancement Funds + SRR (\$8,595/year)*	RMR (Full Time)*
Merced	\$14,626	\$7,716
San Mateo	\$12,919 - \$13,354	\$12,024
San Diego	\$11,645	\$9,060
San Francisco	\$10,593	\$11,688

*Note: see <http://www.cde.ca.gov/sp/cd/op/factsheet07.asp> and <http://www.cde.ca.gov/fg/aa/cd/ap/index.aspx>



Summary and Recommendations

As families need more full-day, full-year care for their young children, it becomes imperative for early care providers to develop innovative approaches to meet this demand. Despite increases in the Standard Reimbursement Rate for the General Child Care Program and the full-day State Preschool Program, the level of reimbursement still serves as a disincentive for providers to operate full-day programs. In addition, state reimbursements for full-day programs meeting Title 22 licensing standards are higher than those for programs meeting the more stringent Title 5 requirements, clearly undermining participation in the Title 5 General Child Care Program.

As described briefly above and in more detail in another Policy Brief (Lam and Muenchow, 2009), First 5 California structured the PoP program to provide three tiers – Entry, Advancing, and Full Quality—based on teacher qualifications and other quality factors. As program quality improves, First 5 pays a higher reimbursement rate. The PoP program therefore links the program reimbursement to the actual cost of quality components; and also allows for geographic differences in the cost of living. While, as of this writing (Spring 2009), the PoP Demonstration Projects are nearing the end of their support from First 5 California, the PoP reimbursement structure provides a model worthy of consideration by other state-funded early childhood programs, both part- and full-day. In particular, the PoP reimbursement structure design offers a home-grown model for tiered reimbursement to the CDE’s Early Learning Quality Improvement System Advisory Committee, which is charged with investigating options for a quality rating and improvement system to provide incentives for quality improvements.

In addition, although the PoP Demonstration Project funding is not intended to finance a full-day preschool program, PoP program funds may be combined with other sources of revenue to finance a full-day option. This strategy has allowed General Child Care and other full-day, full-year early care providers to use the additional resources to raise the overall quality of the program by infusing PoP funds and quality elements. Although as of this writing it is unclear how or whether the PoP projects will be continued in most of the nine participating counties, the hope is that this program will provide a model for the level of support needed to finance a full-day quality program and for how funds can be combined to create such a program.

Recommendations:

- Develop common criteria for a reimbursement structure across publicly funded full-day programs serving preschool-age children that take into account the cost of the quality components required. Raise the Standard Reimbursement Rate for full-day programs meeting Title 5 standards above that for programs of similar duration that are only required to meet Title 22 licensing standards.
- Explore establishing a common hourly rate for programs meeting similar quality standards. Too often, when rates are set for early childhood programs, the cost of quality components is not taken into account. In addition, the rate-setting process rarely takes into consideration the per-child cost per hour. As a result, there can be wide disparities in the hourly reimbursement rates for two programs – General Child Care and State Preschool – that are by law held to the same Title 5 standards. Even within the same General Child Care Program, providers receive the same rate for a 6.5 hour program as they do for a 10.5 hour program. Setting rates on the cost per hour would seem to meet a higher standard of fairness.
- Build on recent legislation (AB 2759) to address disincentives to offering full-day programs. This legislation offers an important opportunity to address some of the current barriers and disincentives to offering full-day programs. Policies allowing providers to earn more from serving two groups of children for 3 hours per day as opposed to one group for 6 hours merit re-examination. In addition, it now seems possible to allow programs to combine a portion of the General Child Care funding with the State Preschool Funding to create a better-financed full day, full-year program.
- Consider a contracted preschool program operating six hours a day with additional hours financed by parent fees or vouchers. The cost models in this Policy Brief suggest that a six-hour, school-calendar length day may be a model worth consideration as an alternative to a part-day program, especially for a program targeted at disadvantaged children. A program of this duration, while still not fully accommodating the work schedules of many families, would likely better help prepare disadvantaged children for school. In addition, it would leave fewer wrap-around hours for families to cover with their own fees or other publicly subsidized programs.
- Consider the First 5 Power of Preschool Demonstration Project reimbursement structure as a model for developing reimbursement policies for other state-funded early childhood programs and for the development of tiered reimbursement structures generally.

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