



The Preschool Research and Technical Assistance Project

First 5 Power of Preschool: Lessons from an Experiment in Tiered Reimbursement

Policy Brief

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- PoP maximum reimbursement rates for a full-quality, part-day PoP space vary considerably – from \$4,610 in San Diego to \$6,470 in Santa Clara.
- The variation in rates correlates most strongly with teacher compensation and, to a lesser degree, to regional variations in the cost of living.
- Variations in reimbursement rates also appear to reflect the local First 5 program’s approach to tiered reimbursement.
- All PoP program reimbursement rates for full-quality spaces exceed the State Reimbursement Rate for California’s State Preschool Program.
- Most PoP reimbursement rates are still lower – frequently substantially lower – than the Regional Market Rate for part-day, part-year voucher and certificate programs that are only required to meet the much less stringent requirements.

Purpose

With support from the David and Lucile Packard Foundation, the American Institutes for Research (AIR) in the summer of 2008 examined the PoP reimbursement structure in the nine counties participating in the PoP demonstration program. Researchers also interviewed providers participating in the PoP projects to obtain their insights on program reimbursement rates. The purpose of this policy brief is to:

- Describe the variations in the reimbursement rates in the nine PoP counties;
- Examine the cost basis underlying the rates to determine whether there is a sound rationale for the variations across counties;
- Compare the PoP rates to the Standard Reimbursement Rate for the State Preschool Program; the Regional Market Rate for part-day, center-based, voucher care in California; and previous cost estimates for quality preschool at the state level; and
- Recommend appropriate criteria for preschool cost reimbursements.

The First 5 California PoP Demonstration Projects amount to an embryonic quality rating and improvement system (QRIS), accompanied by a tiered reimbursement system, albeit one limited to services for preschool age children. QRIS is a method used to assess, improve, and communicate the level of quality in early care and education settings (Mitchell, 2008). It is a growing quality initiative across the national landscape that evaluates, rewards, and supports early childhood programs, with a strong emphasis on continuous quality improvement (McDonald, 2008). Hence, the lessons learned from the PoP projects may have implications for

the development of such a system in California. California state legislation enacted in 2008 requires the submission of recommendations for the development of a QRIS by January 2011.

Background

In 2003, First 5 California approved \$100 million to establish the Power of Preschool (PoP) Demonstration Program over a period of five to seven years in selected communities across the state. Designed not only to expand access but also to provide financial incentives to improve the quality of preschool, the PoP program can be viewed as a California-based pilot that offers many features of a tiered reimbursement system. First 5 California reimburses participating local First 5 commissions based on the number of spaces meeting certain quality requirements, including teacher education and program environmental quality measures (First 5 California, 2008). Following First 5 California's Request for Applications (RFA), nine counties, led by their First 5 County Commissions, were awarded PoP demonstration grants. These nine counties are: Los Angeles, Merced, San Diego, San Francisco, San Joaquin, San Mateo, Santa Clara, Ventura, and Yolo.

The First 5 PoP Projects are voluntary, high-quality, part-day preschool programs universally accessible to all preschoolers within a specified area, such as a school district, city, or county. The projects focus on three- and four-year-olds, and give priority to neighborhoods previously underserved by preschool programs and those with low-performing schools. The PoP program is designed to build on, and integrate with, existing public and private preschool programs, including Head Start, State Preschool, licensed child care centers, and family child care homes (First 5 California, 2008). First 5 California's demonstration program provides enhancement funding to raise the standards of preschool programs in California. Its funding is intended to supplement local investments in the programs, and not to support the full cost of a preschool space (First 5 California, 2008).

First 5 California provided guidelines for developing the reimbursement rates for eligible programs, but did not prescribe absolute fixed rates. Local First 5 commissions initially developed their county PoP reimbursement rates in response to a statewide application for First 5 funding.¹ First 5 California (and an AIR-developed Toolkit²) provided instructions on how to develop the reimbursement rates, and placed a ceiling on the amount First 5 California would reimburse each county for the three different levels of new and upgraded spaces. However, the localities set the overall reimbursement structure and agreed to procure the majority of the financing.

¹ First 5 California Request for Applications: First 5 Preschool Demonstration Projects. Guidelines and Tools for Completing a First 5 Preschool Demonstration project Application, November 2005

² See AIR's 2004 publication: Preschool for All: Step by Step. A Planning Guide and Toolkit available at <http://www.earlylearningsystems.org/budget-planning>.

Given the flexibility granted by First 5 California in the development of the local reimbursement rates for PoP programs, variations in rates are to be expected. With little more than a year remaining in most of these demonstration projects as of this 2009 writing, AIR's goal in this brief is to determine whether any common criteria, or cost basis, appear to have emerged to explain or support the variations. In other words, what lessons can be learned from the PoP demonstration projects to help inform the development of reimbursement rates, not only for the potential continuation of the First 5-funded programs, but also for other publicly financed efforts designed to serve preschool children?

PoP Program Structure: Three Levels or “Tiers” and Qualifications

Unlike most state-funded and federally funded early care and education programs, the First 5 California reimbursement structure is not restricted to a single annual per child amount (First 5 California, 2008). Instead, First 5 California reimburses local participating commissions based on the quality of the preschool spaces; the rate structure is designed to increase incrementally with teacher qualifications and improvements in program scores on the Early Childhood Environmental Rating Scale (ECERS). The reimbursement rate also takes into account whether the space receives other private or public subsidies, such as from Head Start or the State Preschool Program (First 5 California, 2008).

For reimbursement purposes, First 5 classifies preschool spaces into: (i) New publicly funded space – these are preschool spaces that were not previously receiving federal or state subsidies for the preschool portion of the day; and (ii) Improved publicly funded spaces – these are subsidized spaces in existing early education programs, such as State Preschool or Head Start, under contract with and financed by the state or federal government for the preschool hours (First 5 California, 2008).

The highest PoP tier, or Full Level of Quality, requires a master or lead teacher in the preschool classroom to have a Program Director Permit, or the equivalent of a bachelor's degree (BA), with specialized training in early childhood education (ECE) or child development (CD). For the Advancing Level, the master teacher is expected to hold a Site Supervisor Permit, equivalent to an associate's degree (AA). An Entry Level (Entry Level to First 5 Quality Criteria) program requires a master teacher to have a Teacher Permit (First 5 California, 2008).³

The maximum amount of funding reimbursable by First 5 California ranges from \$800 for a new—or newly publicly funded—space that meets the Entry Level or Title 5 requirement to \$1,200 for a new space that meets the Full Quality Level requirements. For an improved space,

³ In addition to teacher qualifications, First 5 California also requires PoP programs to meet other quality criteria, such as the Early Childhood Environmental Rating Scale-Revised (ECERS-R), which was designed to ensure the quality of the general preschool environment. For example, at the point of entry, a program has to achieve a score of '4' out of '7' with the eventual goal of an overall score of '5' out of '7' within a period of 24 months. Throughout the program's participation in the demonstration project, it must maintain an average score of '3' on each of the sub-scales for the applicable environmental rating scale (First 5 California, 2008).

the annual per child reimbursement from First 5 California ranges from \$250 to \$350. These amounts represent enhancement funding provided at the state level to supplement local investments in the programs. The local counties are ultimately expected to identify the full amount of reimbursement to support their demonstration programs. Exhibit 1 outlines the educational requirements expected at the three quality levels and the amount of reimbursement First 5 California provides to each type of space in reference to the quality levels.

Exhibit 1			
First 5 California Quality Criteria and Annual Reimbursement Rates			
First 5 California	First 5 Quality Criteria	New Preschool Space (Annual Per Child Reimbursement)	Improved Preschool Space (Annual Per Child Reimbursement)
Entry Level to First 5 Quality Criteria (Title 5 Requirements)	Master Teacher: Teacher Permit (24 ECE/CD units including core courses and 16 GE units) Assistant Teacher: Assistant Teacher Permit, or 6 units CD/ECE	\$800	\$250
Advancing Level to First 5 Quality Criteria	Master Teacher: Site Supervisor Permit (AA degree or 60 units with 24 ECE/CD units, including core courses and 16 GE units) Assistant Teacher : Associate Teacher Permit 12 units CD/ECE, 30 total units recommended	\$1,000	\$300
First 5 Level of Quality or Full Quality	Master Teacher: Program Director Permit (BA or higher, including 24 ECE/CD units and core course) Assistant Teacher: Site Supervisor Permit (AA or equivalent BA coursework, 24 units CD/ECE recommended)	\$1,200	\$350

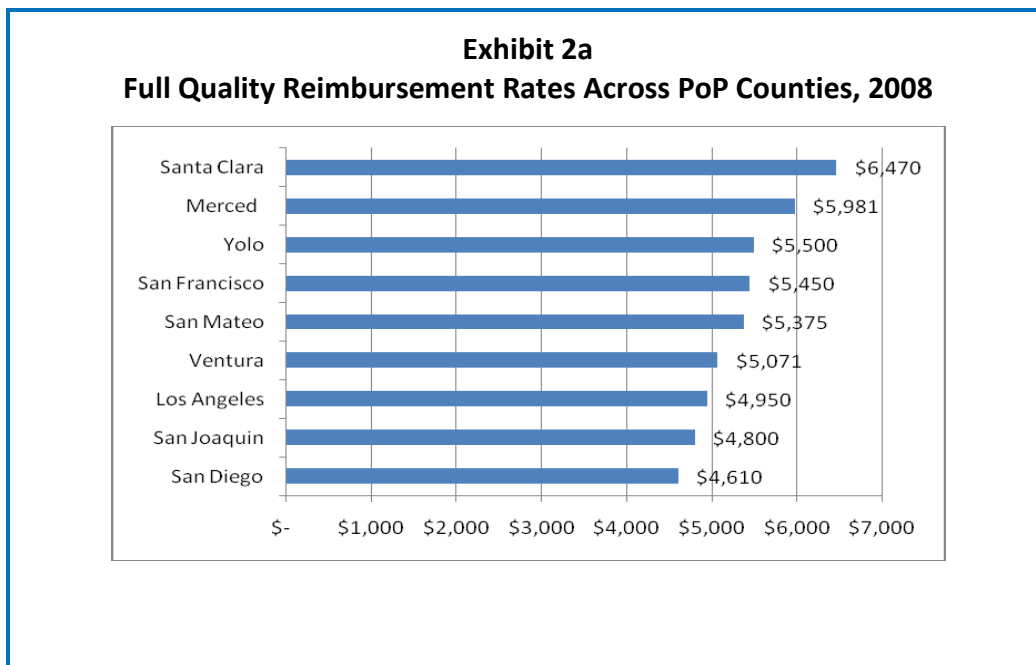
Source: First 5 California, *Power of Preschool Demonstration Program Progress Report Fiscal Years 2005-06 through 2007-08*. October 2008.

Variation in PoP County Reimbursement Rates

Based on the First 5 California application requirements in setting quality criteria and reimbursement rates, all nine PoP counties have implemented a system of tiered reimbursement rates that ties funding amounts to quality levels and new or improved spaces.

- **For a New or a Full Cost Space**

Exhibit 2a provides a summary of the 2008 annual reimbursement rates of the nine PoP counties for a new full-quality preschool space. Across the nine counties, the maximum annual reimbursement rate for a preschool space that meets the highest/full quality levels ranges from \$4,610 (San Diego) to \$6,470 (Santa Clara), with an average reimbursement rate of \$5,356 (Table 2b). Five of the PoP counties (Santa Clara, Merced, Yolo, San Francisco, and San Mateo) provide a higher-than-average reimbursement rate for a new PoP space that meets the highest quality standards.



The reimbursement rate for a preschool space that meets the Advancing Quality Level ranges from \$4,000 (San Joaquin) to \$5,564 (Santa Clara), with an average rate of about \$4,745, which is almost 90% of a full quality space (see Exhibit 2b). Again, five counties (Santa Clara, Merced, Yolo, San Francisco, and San Mateo) provide a higher-than-average reimbursement rate for a new PoP space that meets the advancing quality level.

For an entry level PoP space, the reimbursement rate ranges from \$3,200 (San Joaquin) to \$5,025 (San Francisco), with an average rate of \$4,211 per child/space. This is about 79 percent of the full quality rate. Four of the PoP counties (Santa Clara, Yolo, San Francisco, and San Mateo) provide higher-than-average reimbursement rates for a new PoP space that meets the entry quality level.

In addition to the standard PoP rates, some counties offer annual stipends paid directly to PoP teaching staff. For example, while San Diego offers lower per child reimbursement rates than the other PoP counties, the county offers an annual teacher stipend ranging from \$1,200 for an instructional assistant with an AA degree including 24 ECE units to \$3,000 for a teacher with a BA degree including 24 ECE units. An entry level teacher who completes all quarterly level data collection work receives a stipend of \$400. Site Supervisors and Directors in a PoP program may also receive a stipend ranging from \$4,000 (Entry Level) to \$6,000 (PoP Quality Level). The use of stipends provides an alternative financial incentive that does not involve a permanent salary change, and may be more feasible to sustain in times of funding uncertainty (Karoly et al., 2007).

Exhibit 2b
PoP Demonstration Projects: Tiered Reimbursement Rates at Full Quality, Advancing, and Entry levels (Annual Rates, 2008)

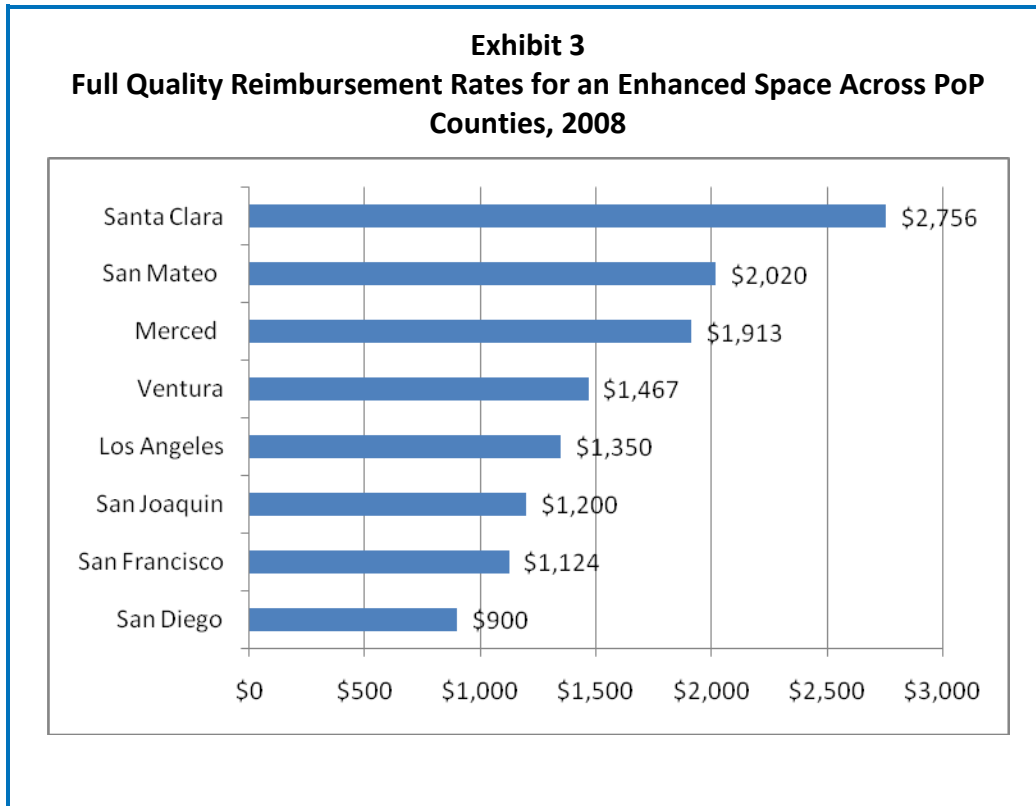
California County	Full Quality Level	Advancing Level	Entry Level	Entry Level as a Percentage of the Full Quality Level	Advancing Level as a Percentage of the Full Quality Level
Santa Clara	\$6,470	\$5,564	\$4,618	71%	86%
Merced	\$5,981	\$5,064	(a)		85%
Yolo	\$5,500	\$5,000	\$4,500	82%	91%
			\$4,500-		
San Francisco	\$5,450	\$5,230	\$5,025 (c)	92%	96%
San Mateo	\$5,375	\$4,838	\$4,569	85%	90%
Ventura	\$5,071	\$4,655	\$4,145	82%	92%
Los Angeles	\$4,950	\$4,290	\$3,960	80%	87%
San Joaquin	\$4,800	\$4,000	\$3,200	67%	83%
San Diego	\$4,610(b)	\$4,063(b)	\$3,667(b)	80%	88%
			\$4,145-		
Average	\$5,356	\$4,745	\$4,211	77%-79%	89%

- (a) Merced County provides \$800 per space for providers who enter the PoP program at the entry level. Because this entry level amount is much lower than the rate offered by the eight other PoP counties, we have not included this in the calculation of the average reimbursement rate at the entry level.
- (b) San Diego's original reimbursement rates for a full quality, advancing level, and entry level space are \$4,400, \$4,000 and \$3,650 respectively. The current adjusted rate shown in this table includes annual stipends available to all qualified staff.
- (c) First 5 San Francisco provides \$4,500 per child for a classroom staffed by a teacher with a Teacher Permit, and \$5,025 for a child staffed by a teacher with a Master Teacher Permit.

• **For an Improved or Enhanced Space**

One of the central principles of the First 5 California PoP Demonstration Program is to expand preschool programs building on the existing mixed delivery system, including both publicly contracted programs such as State Preschool and Head Start and private centers and family child care homes. In settings where contracts for other publicly funded programs are in place, the PoP reimbursement is based on the fully estimated cost, less any subsidies already received.

First 5 PoP reimbursement rates for enhanced spaces also vary widely (see Exhibits 3 and 4).⁴ For a Full Quality enhanced space, the reimbursement per child ranges from \$900 (San Diego) to more than \$2,756 (Santa Clara), with four of the counties (San Francisco, Ventura, Los Angeles, and San Joaquin) providing a per child reimbursement rate that ranges from \$1,100 to \$1,500, representing 21 percent to 29 percent of a full cost space.



The reimbursement rates for an upgraded space at the Advancing Level also show substantial variations – from \$500 (San Diego) to \$1,850 (Santa Clara), with San Francisco, San Joaquin, and Ventura, in the middle of the range.

Similarly, for an Entry Level slot, the reimbursement per child ranges from \$150 (San Diego) to more than \$1,717 (San Mateo), with San Francisco, Ventura, and San Joaquin in the middle of the range.

⁴ Yolo’s State Preschool programs do not receive enhancement funding through PoP. Instead, they receive a facility upgrade as a result of a bond measure passed by the City of Sacramento (Personal communication with Yolo First 5 County Office, August 11, 2008).

Exhibit 4
PoP Reimbursement Rates for an Enhanced Space in a State Preschool in
Select PoP Counties, 2008

County	Full Quality Level	Advancing Level	Entry Level
Santa Clara	\$2,756 (a)	\$1,850	\$904
San Mateo	\$1,971 (AB 1326 pilot program) - \$2,020 (not in pilot)	\$1,774 (AB 1326 pilot program) - \$1,818 (not in pilot)	\$1,675 (AB 1326 pilot program) - \$1,717 (not in pilot)
Merced	\$1,913	\$1,629	\$250
Ventura	\$1,467	\$1,092	\$754
Los Angeles	\$1,350	\$690	\$360
San Joaquin	\$1,200	\$1,000	\$800
San Francisco	\$1,124	\$904	\$699
San Diego	\$900	\$500	\$150

Note (a): The maximum allowable Power of Preschool reimbursement rate for a new and enhanced space at the highest level in Santa Clara County is \$6,470 per child/per year (see also Exhibits 2a and 2b). Each PoP program is reimbursed to the full amount if no other funding sources are available to support the program that meets the PoP standards. The reimbursement rates vary not only across levels, but across each program type (e.g., State Preschool, Head Start, General Child Care, Family Child Care) (Interview notes and personal communication with Santa Clara First 5 County Office, August 6, 2008). The current estimate of the amount of enhanced funding (i.e., \$2,756) listed in this table assumes a potential “subsidy” of approximately \$3,714 from CDE based on the Standard Reimbursement Rate for State Preschools in 2008. Similar calculations were made to estimate the amount of enhanced funding available at the advancing and entry level. The rates of the other counties were reported to researchers as the reimbursement funding available for an enhanced space in a State Preschool program. Researchers did not re-adjust or re-calculate these amounts.

For Head Start programs, Exhibit 5 shows that for a Head Start space meeting PoP full-quality standards, the reimbursement rates range from \$800 (San Mateo) to \$2,167 (Merced).⁵ For an enhanced space at the Advancing Level, the amount of reimbursement available varies from \$466 (San Diego) to \$1,844 (Merced). The amount of reimbursement per child for a Head Start space meeting Entry Level standards varies from \$116 (San Diego) to about \$800 (San Mateo, Ventura).

⁵ The enhancement funding for Head Start Programs of other counties was not reported here due to various reasons. For example, in San Francisco, virtually all the Head Start programs blend their funding with State Preschool and only the State Preschool portion of the day is eligible for enhancement funding (Personal Communication with San Francisco First 5 County Office, January 23, 2009). In Yolo, similar to their State Preschool programs, their Head Start programs do not receive enhancement funding. Instead, they received facility upgrade through a bond measure passed by the City of Sacramento (Personal Communication with Yolo First 5 County Office, August 11, 2008). For San Joaquin, due to various challenges, the First 5 County Commission indicated that they are not currently using PoP funds to support Head Start Programs (Personal communication with San Joaquin First 5 County Commission, January 26, 2009).

Exhibit 5
PoP Reimbursement Rates for an Enhanced Space in Head Start Programs in Selected PoP Counties, 2008

County	Full Quality Level	Advancing Level	Entry Level
Merced	\$2,167	\$1,844	\$250
Ventura	\$1,557	\$1,165	\$797
Los Angeles	\$1,350	\$690	\$250
San Diego	\$866	\$466	\$116
San Mateo	\$800 (negotiated rate)	\$800 (negotiated rate)	\$800 (negotiated rate)

Reasons for Variation in PoP Rates

As stated above, given the fact that First 5 California deliberately provided flexibility to the county commissions in setting per child PoP demonstration rates, variation is to be expected and could provide a model for other programs, provided there is a sound rationale for the variation. Based on AIR’s analysis, major factors influencing the level of the rates include the following:

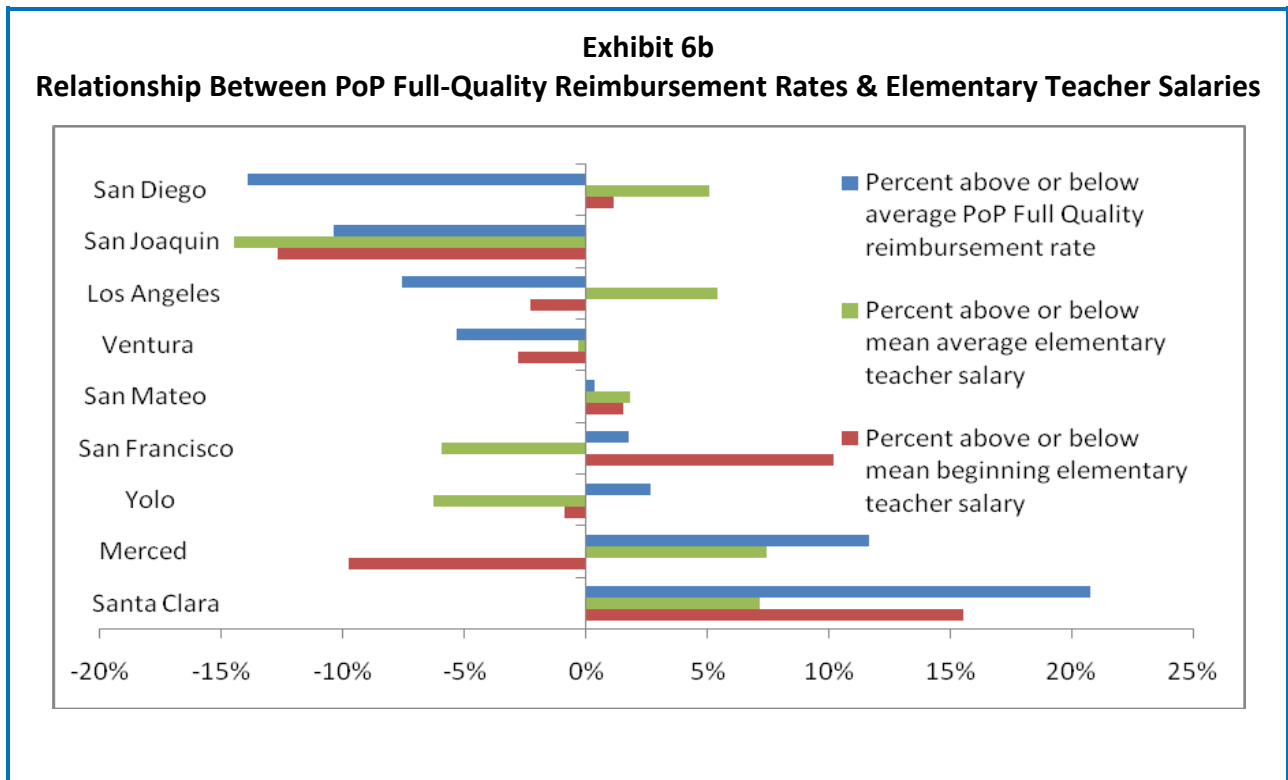
1. **The variation in rates appears to relate most strongly to teacher compensation – both the level of elementary teacher compensation in the county ($r = 0.38-0.48$) and the extent to which the county program is attempting to reach parity with elementary teacher compensation.** Exhibits 6a and 6b display the nine county reimbursement rates in relation to beginning and average elementary school teacher salaries in California.

Exhibit 6a
PoP Counties: Reimbursement Rates, Beginning and Average Teacher Salaries in California Elementary Schools

County	PoP Full Quality Reimbursement Rates	Beginning Teacher Salary*	Average Teacher Salary*
Santa Clara	\$6,470	\$40,449	\$66,259
Merced	\$5,981	\$31,614	\$66,456
Yolo	\$5,500	\$34,734	\$57,968
San Francisco	\$5,450	\$38,616	\$58,151
San Mateo	\$5,375	\$35,593	\$62,974
Ventura	\$5,071	\$34,063	\$61,634
Los Angeles	\$4,950	\$34,238	\$65,176
San Joaquin	\$4,800	\$30,592	\$52,885
San Diego	\$4,610	\$35,438	\$64,987

*Note: The California Department of Education published the beginning (“lowest schedule salary offered”) and average teacher salary for 2006-07 based on data collected through the J-90 form.

Santa Clara County reimburses the highest level of funding per child (\$6,470) for a quality preschool space, and it is interesting to note that the new or beginning elementary school teachers in Santa Clara’s public schools are also the highest paid (\$40,449) (see Exhibit 6a). Similarly, Exhibit 6b shows that Santa Clara’s reimbursement rate is 21 percent above the average PoP reimbursement rate, and teacher salaries are also between 7 to 16 percent above the average teacher salaries across the PoP counties. While teacher compensation appears to be a major factor associated with the high reimbursement rate, Santa Clara’s PoP program is also designed to provide comprehensive early care services to eligible children as part of their county’s System of Care. Services such as family support, early screening and assessment, and home visitation are offered to children and families in all PoP sites. This may further help provide a basis for the relatively high level of reimbursement in Santa Clara’s PoP programs compared to other sites.



Merced First 5 provides the second-highest reimbursement rate for a full-quality preschool space (\$5,981), and average salaries for an elementary school teacher (\$66,456) are higher in Merced than in any of the other PoP counties. The higher reimbursement rate in Merced appears to reflect its goal of attempting to reach parity with average elementary teacher compensation, instead of beginning teacher salaries as in other counties. First 5 Yolo County provides up to \$5,500 per child for a full-quality PoP space, which represents the third-highest reimbursement rate across the nine PoP counties. First 5 Yolo staff indicates that teacher salary was taken into

account in a feasibility study that was conducted to develop the PoP program implementation plan and reimbursement criteria. Their current reimbursement rate is intended to compensate qualified preschool teachers at parity with the prevailing K-12 public school teacher salaries.⁶

While enhancing teacher salary is an expressed objective of the PoP programs, there are many obstacles to achieving this goal. Because the purpose of the PoP demonstration site is to enhance the quality of the preschool program overall, PoP funds may also be needed to:

- Improve the PoP classroom
- Purchase educational supplies and materials
- Hire coaches and consultants
- Support professional training
- Hire support staff
- Provide parental involvement activities
- Provide more instructional support, such as assessment and early screening⁷

In addition, as is the case in San Diego, funds may be used to provide temporary stipends for teachers and other staff, as opposed to making permanent changes in the teacher salary structure.

Therefore, each PoP program must weigh the allowable uses for PoP funds and choose a package of investments that will best fit the program's short- and long-term goals. In order to achieve full-quality status, a program must not only improve teacher qualifications but also meet the required ECERS scores, which involve many improvements in the classroom, not just hiring more teachers with BA degrees.

Interviews with individual providers suggest that PoP funds have often been used to increase preschool teacher salaries. However, the enhanced salaries do not always reach parity with beginning teacher salaries, due to the need to use funds in other program areas (e.g., improving the preschool playground, conducting screening, or improving materials). In addition, not all programs have been able to recruit or hire teachers holding BA degrees who would qualify for the highest salaries within the PoP structure.

2. There also appears to be a relationship (though less than might be expected) between the PoP reimbursement rates and regional variations in cost of living.

Exhibits 7a and 7b below reveal some general trends in salaries, housing costs, and food costs across different areas of the state.

⁶ Personal Communication with Yolo First 5 County Office, August 11, 2008.

⁷ See expenditure guideline section from "Preschool for all Demonstration Project Provider Operating Guidelines." (First 5 Commission of San Diego County, 2008). <http://www.sdcoe.net/student/eeps/pfa/?loc=become>, retrieved January 19, 2009.

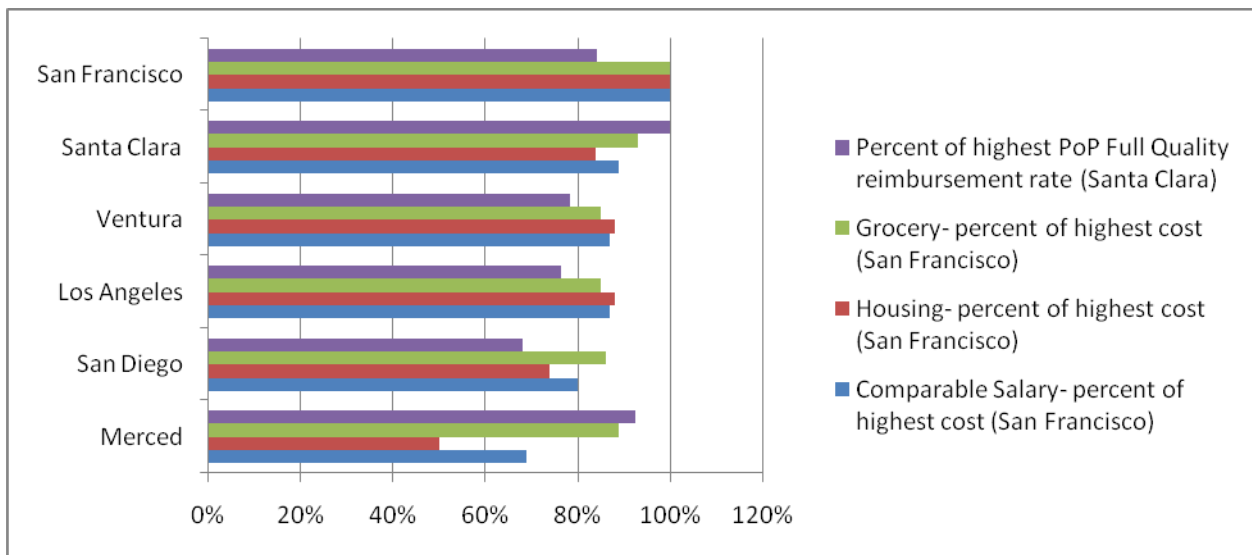
Exhibit 7a
Regional Differences in Salary, Housing, and Grocery Costs Between Cities in California PoP Counties (San Francisco = 100%)

City	Comparable			Reimbursement Rate
	Salary	Housing	Grocery	
Merced	69%	50%	89%	\$5,981
San Diego	80%	74%	86%	\$4,400
Los Angeles	87%	88%	85%	\$4,950
Ventura	87%	88%	85%	\$5,071
Santa Clara	89%	84%	93%	\$6,470
San Francisco	100%	100%	100%	\$5,450

Data sources: CNN. Money and Council for Community and Economic Research, Inc., 2008

Note: Baseline of San Francisco = 100%. For example, the housing costs in Merced are 50 percent of San Francisco's. Comparisons made of cities because county-wide data were not available.

Exhibit 7b
Full Quality Reimbursement Rates for an Enhanced Space Across PoP Counties, 2008



The nine PoP demonstration programs are geographically diverse and are located in counties covering populous regions with high costs of living, such as the San Francisco Bay Area, and less densely populated, lower cost, partly rural regions such as Merced and San Joaquin. They also include counties in both Northern and Southern California. In the Southern California counties (San Diego, Los Angeles, and Ventura), where the PoP reimbursement rates are 80 to 90 percent of the rates in San Francisco, salaries across occupations are 80 to 87 percent of San Francisco's. Similarly, the cost of living in the southern counties is relatively lower; for example,

the housing costs in San Diego and Los Angeles are 74 to 88 of San Francisco's, and grocery costs are 14 to 15 percent lower.

However, the differences in cost of living do not explain all of the variations in local reimbursement rates. Merced is a notable exception, as it provides a relatively high PoP reimbursement rate, but has a lower cost of living. While the housing costs in Merced are roughly 50 percent of those in San Francisco, its average elementary teacher salary is the highest across all nine counties. This may be, in part, an indication of the availability of an experienced and mature teaching workforce, and the need to reach parity with average teacher salaries in order to retain preschool teachers with BA degrees.

3. **Underlying differences in the prior expenditures for publicly funded programs, such as Head Start, may also explain variations in the reimbursement rates, especially for improved or enhanced spaces.** For example, Head Start programs are designed to provide comprehensive early care and education services to children living in poverty, with the goal of preparing these children to be ready for school. Therefore, while Head Start programs typically receive much higher reimbursements than State Preschool providers, nearly half of the program dollars go to health and other social services. In addition, Head Start grants vary considerably. Merced receives a much lower amount per child in Head Start funding than counties such as San Mateo. Therefore, programs in Merced require a much higher level of reimbursement from the PoP program to cover the full cost of the improved program.
4. **Differences in approaches to implementing a tiered reimbursement system may also influence PoP reimbursement rates.** First 5 San Francisco reimburses providers at two levels for an entry level space: \$4,500 per child for a classroom staffed by a teacher with a Teacher Permit and \$5,025 per child for a classroom staffed by a teacher with a Master Teacher Permit.⁸ The majority of the classrooms in San Francisco's PoP programs are staffed by a teacher with a Site Supervisor Permit, or the equivalent of an AA degree (Advancing Level). There are very few classrooms staffed by a teacher with a Master Teacher Permit. The second-largest category of lead teachers in the preschool classroom is those with a Teacher Permit, followed by Program Director. The rates were established to take into consideration the initial status of most programs, while providing enough incentive to encourage improvements in program quality.⁹

In addition to the above potential reasons for variations in reimbursement rates for new or enhanced PoP spaces, there are, of course, the realities that confront any new demonstration project. By definition, a demonstration project is intended to determine the elements necessary

⁸ A Teacher Permit requires 24 units ECE/CD including core courses and 16 GE units while a Master Teacher Permit requires 24 units ECE/CD including core courses, 16 GE units, 6 specialization units, and 2 adult supervision units.

⁹ Personal communication with San Francisco First 5 County Office, January 16, 2009.

to help contribute to a successful program. Program planners must develop budgets based on their best estimates as well as on the resources available to them and the negotiations required to recruit providers to participate in the project.

PoP Rates as Compared to State Preschool and Regional Market Rates

Having so far compared PoP rates across counties, we now turn to comparing PoP rates with reimbursement rates for other publicly funded programs serving preschool-age children in the same areas of the state. Aside from the state and local preschool expansion programs funded through PoP demonstration projects, California has a large and complicated system of publicly subsidized ECE programs (Karoly et al., 2007). These programs are principally funded through federal programs, such as Title I and Head Start, as well as state-administered ECE programs, including state Title 5 preschool and general child care and development (CCD) programs, and CalWORKS and non-CalWORKS Alternative Payment (AP) programs governed by Title 22 regulations (Karoly et al., 2007).¹⁰

For this discussion, we will focus on comparing the PoP reimbursement rates with the two basic reimbursement mechanisms used to fund California-administered ECE programs. These mechanisms are (i) the Standard Reimbursement Rate (SRR) for the Title 5 contracted State Preschool Program and (ii) the Regional Market Rate (RMR) for voucher and certificate programs, such as the CalWORKS AP and non-CalWORKS AP programs.

It is important to note the substantial variations across these subsidized early care and education programs in staff qualification requirements, often seen as one of the critical elements of program quality. In PoP demonstration programs, the lead teacher in a full-quality classroom is expected to possess a BA degree with 24 units in ECE or child development. For the Title 5/CDE-contracted programs (e.g., State Preschool, General or Migrant CCD) funded through the SRR, a fully qualified teacher is expected to hold a Master Teacher Permit, which requires a minimum of 24 units of CD/ECE and 16 General Education Units, still short of the 60 units required to obtain an AA degree. For center-based programs receiving vouchers through the Alternative Payment program, programs need only meet Title 22 licensing regulations; the latter require that a fully qualified teacher have an Associate Teacher Permit, which requires only 12 units of ECE/CD (Karoly et al., 2007). Neither Title 5 nor Title 22 regulations require fully qualified teachers to have either a BA degree or AA degree.

In addition, requirements vary across the above programs for staff-child ratios, another oft-cited criterion for measuring structural quality in preschool programs. Title 5 requires the State Preschool Program to have a staff-child ratio not exceeding 1:8. PoP requires its demonstration programs to meet Title 5 standards or a research-based alternative of 1:10 in cases where the lead

¹⁰ Aside from State Preschools, General Child Care and Development – Title 5 child development programs also include Prekindergarten and Family Literacy programs, Migrant Child Care and Development, and Cal-SAFE (California School Age Families Education) (Karoly et al., 2007).

teacher has a BA degree. However, programs funded through the RMR are only required to meet the less stringent Title 22 staff-child ratio requirement of 1 teacher for every 12 four-year-old children.

Given these differences in program quality requirements, the most striking finding shown in Exhibit 8 below is that in every county the State Reimbursement Rate for State Preschool programs meeting Title 5 requirements is lower (by from one-third to nearly one-half) than the Regional Market Rate for programs only required to meet Title 22 regulations. In 2007-08, the Standard Reimbursement Rate specified a base amount of \$21.22 per child per day for part-day State Preschool programs, or \$3,714 per child per year based on 175 days of instruction. Furthermore, the base amount of \$21.22 per child per day for State Preschool, or \$3,714 per child per year based on 175 days of instruction, does not vary in most counties, regardless of differences in program quality or cost of living. San Mateo and San Francisco are exceptions, because their pilot programs are eligible for a special rate negotiated with CDE. The Regional Market Rate, on the other hand, varies across counties, because rates are established on a county level based on a market rate survey of the fees charged to private payers (the regional Market Rate Survey of California Child Care Providers.)

Exhibit 8			
PoP Reimbursement Rates, Standard Reimbursement Rates, and Regional Market Rates			
County	PoP Full Quality (175 days/year)	SRR (21.22/day, 175 days/year)*	RMR (Part Day, 9 months/12 months)*
Santa Clara	\$6,470	\$3,714	\$6,813/\$9,084
Merced	\$5,981	\$3,714	\$4,104/\$5,472
Yolo	\$5,500	\$3,714	\$5,931/\$7,908
San Francisco	\$5,450	\$4,326	\$7,281/\$9,708
San Mateo	\$5,375	\$3,765	\$6,633/\$8,844
Ventura	\$5,071	\$3,714	\$5,463/\$7,284
Los Angeles	\$4,950	\$3,714	\$5,598/\$7,464
San Joaquin	\$4,800	\$3,714	\$4,653/\$6,204
San Diego	\$4,610	\$3,714	\$5,697/\$7,596
Average	\$5,356	\$3,788	\$5,797/\$7,729

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

Another important finding is that the PoP reimbursement ceilings (ranging from \$4,610-\$6,470 in Exhibit 8) are substantially higher than the Standard Reimbursement Rates for State Preschool (\$3,714-\$4,326). This is consistent with the intended goal of financing better-quality ECE programs, especially given that many are designed to build upon existing programs (e.g., State Preschool) initially funded through the SRR.

However, in seven of the nine PoP counties, even the full-quality PoP reimbursement rate is still lower than the RMR for part-day, 9-month programs required only to meet Title 22 licensing

requirements. For example, the maximum reimbursable ceilings for subsidized child care based on the Regional Market Rate range from \$4,104 to \$7,281 (on a 9-month/school year basis), compared to PoP full-quality reimbursement rates ranging from \$4,610-\$6,470 (for a 9-month year).

Because programs funded through the RMR have a higher reimbursement ceiling, even though their staff-child ratios and teacher qualifications are less stringent, they have little financial incentive to offer the program quality required by Title 5 programs. PoP demonstration programs, on the other hand, are designed through tiered reimbursement rates to financially reward programs that improve the quality of staff, staff-child ratios, and overall ratings on measures of program environmental quality. Moreover, the PoP rates also vary across counties, allowing for regional cost differences in teacher compensation and other program components.

PoP Rates as Compared to Other Estimates for Quality Preschool

The reimbursement mechanisms described previously are all designed to reimburse providers partially or fully for the expenses of ECE programs. Exactly how much a quality preschool space costs, and whether the current funding levels are adequate, remain as questions that many administrators face in designing a program that maximizes the benefits to children. While PoP rates in all nine counties exceed the Standard Reimbursement Rate for State Preschool in California, most of the PoP rates are lower, on average, than the projected cost estimates provided prior to the implementation of the PoP initiative in California.

The American Institutes for Research (AIR), adapting a methodology developed by the Institute for Women's Policy Research, estimated that the cost per child for a new high quality preschool space in 2004 ranged from \$4,900 to \$5,900 (or \$5,510 to \$6,634 in constant 2008 dollars).¹¹ The variation in cost per child primarily reflected the differences in teacher qualifications and compensation structure used in our cost model. Using the beginning teacher salary in California's public K-12 schools as the primary benchmark, we estimated a per child cost of \$4,900 for a new (unsubsidized), full-quality, part-day preschool space in 2008. For a preschool program staffed by an experienced and mature teaching workforce, we used the average kindergarten teacher salary in California's schools as the primary benchmark, resulting in a higher per child cost of \$5,900. Similarly, in a study examining the costs and benefits of investing in universal preschool in California, Karoly et al. (2005) concluded that \$5,700 (or \$6,200 in constant 2008 dollars) per child was needed to provide high-quality preschool services.

¹¹ For a more detailed discussion of the methodology used in our preschool cost model, readers can refer to our publication "Estimating the Cost of Preschool for All in California, A Policy Brief" and "Estimating the Cost of Providing Preschool to High-Need 4-Year-Olds in California: A Report Issued to Preschool California", available at <http://www.earlylearningsystems.org/budget-planning>

Developing Uniform Criteria

California, like most states, currently has a complex and often confusing set of early care and education reimbursement mechanisms. Unlike the State Preschool Standard Reimbursement Rate, the PoP rates allow for regional variations in the cost of services, and are designed to align higher reimbursements with improved quality. Unlike Head Start grants, PoP per child reimbursement rates have been developed recently, and are not limited by historical factors such as the per child expenditure requested by a particular applicant many years ago. And unlike the Alternative Payment Program Regional Market Rates, PoP rates appear to relate to the actual cost of teacher compensation and other program elements, rather than to the price that parents are willing to pay, independent of the cost of providing it. To that degree, the PoP demonstration reimbursement rates may be more equitable than other reimbursement designs and ultimately serve as a model for other publicly funded early care and education programs.

At the same time, our findings indicate that not all of the variation in the PoP rates can be explained by factors discussed in the preceding sections. Since the PoP program may help inform the development of the QRIS system, there is a need to develop uniform criteria to report the cost of various program elements, at various levels of quality, as would generally form the basis of a funding application. Program providers also currently face the challenge of having to “coordinate (braid) and/integrate (blend) funding streams” (Children Now, 2008) to finance such a program. While having uniform cost criteria will not eliminate cost differences across different programs, our goal is to develop a better rationale for the reimbursement policy for future efforts.

At a Preschool for All Learning Community meeting convened by the First 5 Association Preschool Learning Community on August 18, 2008, AIR led a discussion on the current reimbursement rates among PoP programs and other early care programs. During the meeting, AIR gathered opinions from participating program administrators, early care providers, and state and local early care and education organizations – including First 5 Local County Commission staff – on the current PoP reimbursement mechanism. AIR also led a discussion on potential recommendations for developing uniform criteria for cost reimbursements.

As shown in Exhibit 9, participants strongly agreed that local PoP reimbursement should relate to teacher qualifications and experience, a finding to be expected, as the PoP demonstration programs are intended to reward a high-quality preschool with well-compensated staff (Exhibit 9). And while most agreed that regional differences in the cost of living should be one of the criteria for determining reimbursement rates, they also thought the rates should take into account other factors, such as teacher recruitment/retention costs associated with rural and impoverished areas, and additional administrative costs in rural areas where economies of scale are limited.

The overwhelming majority of participants recommended that the reimbursement rate take into account increases in program costs over time.¹² Participants believed that the First 5 PoP rates

¹² As indicated in Exhibit 1, First 5 California provides an amount of up to \$1,200 per child/enhanced space as part of its effort to support the PoP Demonstration Program. However, this rate has not increased since 2004-05.

should provide for cost of living adjustments and the fact that a mature program (one with teachers with seniority and experience) would be more costly than one staffed by a new teacher just out of school. Preschool programs that do not have enough funds to keep up with K-12 salaries may risk losing preschool teachers to the public schools.

Based on this feedback, there is also a need for more exploration into the differences between the First 5 PoP rates, the Standard Reimbursement Rates, and Regional Market Rates. Because of the current complexity and inequity among program reimbursement mechanisms, participants expressed a general consensus that a common hourly rate be established for programs meeting the same standards. Ultimately, the criteria for reimbursing voucher and certificate programs should align with California’s new Early Learning Quality Improvement System, and the state should explore establishing a common hourly rate for programs meeting similar quality standards. (Participants might have expressed even stronger support for establishing a common hourly rate had they been assured that the rate would reflect the true cost of quality, and not be reduced to the lowest common denominator.)

Exhibit 9	
Recommendations on Developing Uniform Criteria for Cost Reporting	
Statement/Recommendation	Percent of Meeting Participants Agreeing or Strongly Agreeing with the Statement
Increases in program costs: Both the state First 5 reimbursement and the local First 5 PoP rates should take into account increases in program costs over the years.	93%
Teacher qualifications: Local PoP reimbursement rates should relate to teacher qualifications and experience.	87%
Teacher recruitment/retention costs: In addition to regional cost differences, PoP reimbursement rates should take into account other factors, such as teacher recruitment/retention costs associated with rural and impoverished areas, and additional administrative costs in rural areas where economies of scale are limited.	73%
Family Involvement: Given the importance of involving families in quality preschool programs, the PoP rates should include a factor for family involvement and other comprehensive services.	69%
Teacher compensation: Local PoP reimbursement rates should relate to actual teacher compensation and benefit packages in PoP programs.	60%
Regional cost of living: Regional differences in the cost of living should be one of the criteria for determining local PoP reimbursement rates.	60%
PoP and RMR rates: Given the higher standards of PoP programs, the local hourly reimbursement for part-day full-quality slots should be higher than the hourly regional market rates for Title 22 programs.	55%
Common hourly rate: Moving toward a common hourly rate for early childhood programs meeting the same standards is an important goal.	54%

Recommendations

The nine PoP counties are in various stages of implementing their preschool expansion efforts by raising the quality of their existing preschool or early education systems and creating new high-quality programs. All have developed a tiered reimbursement system that ties funding levels to three quality levels, thus encouraging programs to devote resources to enhancing staff qualifications and other quality elements. Variations in reimbursement rates across counties seem to relate to teacher qualifications and experience in PoP programs, and, to a somewhat lesser extent, to variations in the overall cost of living. When we surveyed PoP counties in summer 2008, many were concerned about sustaining the program, even in the short term, without provisions in the reimbursement rate to accommodate increases in teacher compensation. Making provisions for program reimbursement rates to compensate a more highly educated workforce as it accumulates seniority is thus an important policy consideration.

The First 5 PoP programs offer the following lessons for how to make reimbursement rates for publicly financed preschool programs more equitable and effective. Each of the five recommendations is discussed in more detail below the boxed summary.

Summary of Recommendations:

1. Develop a common reimbursement structure across programs serving preschool children, and explore establishing a common hourly rate for programs meeting similar quality standards. Raise the Standard Reimbursement Rate for programs meeting Title 5 standards above that for programs of similar duration that are only required to meet Title 22 licensing standards.
2. Allow for regional variations in the reimbursement rate based on geographical differences in the cost of teacher compensation, teacher recruitment/retention, and the cost of living.
3. Consider a factor in the reimbursement structure for family involvement and other comprehensive services.
4. Provide tools to help programs rise from entry level to a higher level.
5. Anticipate and provide for increases in teacher experience and the maturation of the preschool program.
6. Anticipate and provide for increases in teacher experience and the maturation of the preschool program.

children, and explore establishing a common hourly rate for programs meeting similar

quality standards. Raise the Standard Reimbursement Rate for programs meeting Title 5 standards above that for programs of similar duration that are only required to meet Title 22 licensing standards.

The state should establish a more uniform program reimbursement structure for the state-contracted Title 5 programs and the publicly financed Alternative Payment Program. Rates should be based on the actual cost of key program elements, such as staffing and facilities. Care should also be taken to address costs related to differences in program duration, e.g., the number of hours and days per year that a program operates.

The state should explore the possibility of offering a common hourly rate for programs operating at the same level of quality. To achieve this goal, it will also be important to address differences in administrative costs across program settings, and to take into account the possibility that programs may have to offer various levels of staffing during different hours of the day.

Programs meeting Title 5 standards should receive a higher reimbursement rate than programs of a similar duration that are only required to meet basic licensing standards.

- (2) Allow for regional variations in the reimbursement rate based on geographical differences in the cost of teacher compensation, teacher recruitment/retention, and the cost of living.**

The PoP program reimbursement rates offer a model for restructuring rates to the extent that they relate to regional differences in such cost elements as teacher compensation and the overall cost of living. At the same time, it is important to consider that while salaries generally may be lower in rural and/or low-income areas of the state, there can be teacher recruitment/retention issues that trump these other factors.

- (3) Consider a factor in the reimbursement structure for family involvement and other comprehensive services.**

With the exception of Santa Clara County, most PoP programs have not had sufficient funding to factor in a strong component for family involvement and other comprehensive services. If preschool were to be offered to all four-year-olds, such services might not be needed by all of the participating children. However, in the current budget climate, in which public resources for preschool are restricted to children with the greatest need based on family income, disability, living in a low-performing school neighborhood, or being an English language learner, reimbursement rates should factor in the cost of family involvement and other social services for children with the greatest needs.

- (4) Provide tools to help programs rise from entry level to a higher level.**

The PoP program provides rewards for preschool programs that reach higher levels of quality based on teacher qualifications and scores on the Early Childhood Environmental Rating Scale. But, in many counties, PoP programs do not have the sufficient resources to help programs at the entry level rise up to the full-quality level. In establishing a Quality Rating and Improvement System, the state should explore mechanisms, such as provisions for coaching and one-time program improvement grants, to help programs rise to the higher tiers of quality. At the same time, caution is urged not to provide this type of assistance indefinitely.

(5) Anticipate and provide for increases in teacher experience and the maturation of the preschool program.

Preschool reimbursement mechanisms should take into account the impact of increases in teacher qualifications and experience, especially when the increases in teacher education are required. In many counties, the PoP program does not have sufficient resources to raise the reimbursement from year to year. In revising existing program reimbursement rates or in establishing a new structure, care should be taken to anticipate the accumulated impact of increases in teacher education levels and years of experience.

Summary

In summary, the First 5 Power of Preschool Program provides important lessons for restructuring the reimbursement rates for all publicly financed preschool programs in California, as well as for establishing a new Early Learning Quality Improvement System accompanied by a tiered reimbursement system. California's current bifurcated system for financing publicly funded preschool programs, which offers a lower rate for programs required to meet Title 5 standards than for voucher and certificate programs only required to meet minimal licensing standards, undermines incentives to improve quality.

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