Quality - Based Rates :

Concepts, Challenges, Opportunities

SAMI/CCPRC Meeting

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Richard N. Brandon, Ph.D.
Human Services Policy Center
University of Washington

Context and Issues:

- QRS as increasingly popular mechanism to set standards, 12+ states underway, 30 devel. – link to Tiered Reimbursement introduces cost of quality into rate setting

- Growing recognition that more qualified staff will cost more money – how much, who will pay, how assure quality in return?

- Early learning being considered within P-12 or P-16 contexts – pressures for alignment with elementary-secondary teacher standards

Conceptual Shift:
Access to Price => Access to Quality

- Market Rates: intent was to assure subsidized children access to same price level of ECE as middle income children.
- Implicit assumption that price is linked to quality
- QRS introduces more direct and accurate way to measure quality
- When QRS standards entail higher provider costs, issue shifts to access to quality for different income groups.

Quality Based Rates

Several Objectives of Rate Setting:

- Reflect provider costs of meeting standards
- Provide two levels of incentives:
  A. Individual providers have incentives to increase their quality rating
  B. There are incentives for the distribution of quality to shift upward.
- Assure that all children have access to upper levels of quality
- Signals to parents as informed consumers.

Opportunities

- Accountability and public/policy-maker support: directly link quality, actual costs and payment rates.
- Way to get from ‘here’ to ‘there.’
- Promote, monitor and examine process of quality improvement.
- Synchronize parent and professional views of quality.

Challenges

- Measuring Quality:
  - Structural vs. Observational Measures
  - Scales
  - Costs in time and money

- Improving an ECE system vs. rewarding better providers => dynamic ratings – two approaches (change-score; shift standards).

- Reimbursement reflect actual cost – transitional vs. ongoing.

- Market feasibility: assistance to providers, families to afford higher QRS levels.

Balancing Access, Quality – Two Approaches

1. Build rates from estimated costs of quality; cross-checks for other objectives:
   - Base quality >= 50th percentile MR
   - Increases across levels sufficient incentives
   - Prices, rates affordable for families – link to assistance
   - Tradeoff: precise cost estimates vs. simplicity

2. Establish base rates from market prices to assure financial access; adjust for quality levels based on estimated cost differentials.

Quality-based Cost Examples

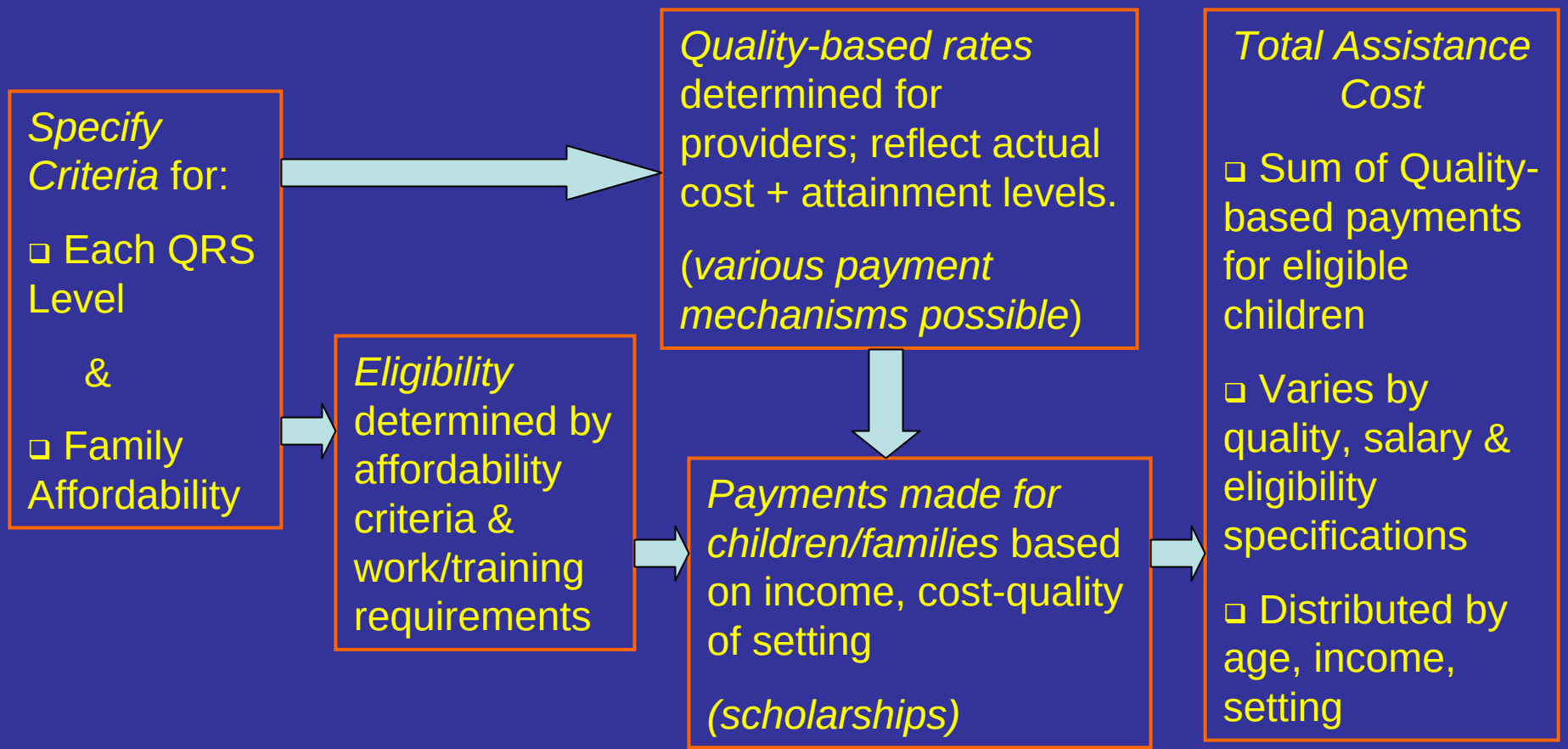
HSPC analysis estimating cost of high quality ECE in 6 states, 2 counties.

QRS application in 4 states, 1 county.

Feasibility: consider costs to

- providers
- families
- public

The Relationship Among QRS, Reimbursements Based on Quality, & Financial Access

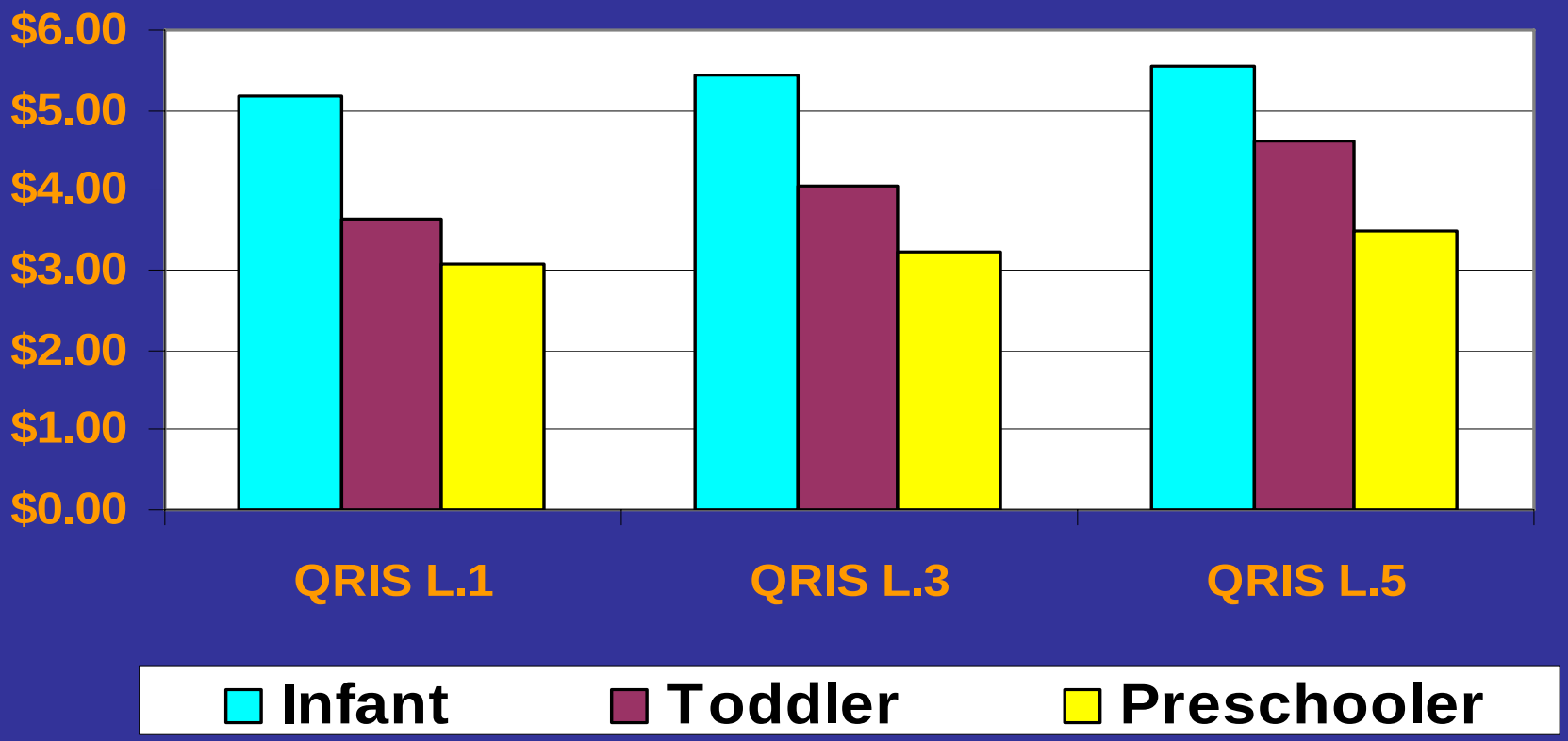


Major Provider Cost Drivers

- Ratios – great variation in age 3-5
- Professional Qualifications: CDA, AA, BA
- Compensation Guidelines: $14 ~ $28/hr
- Pace of Quality Attainment
- Accountability Structures

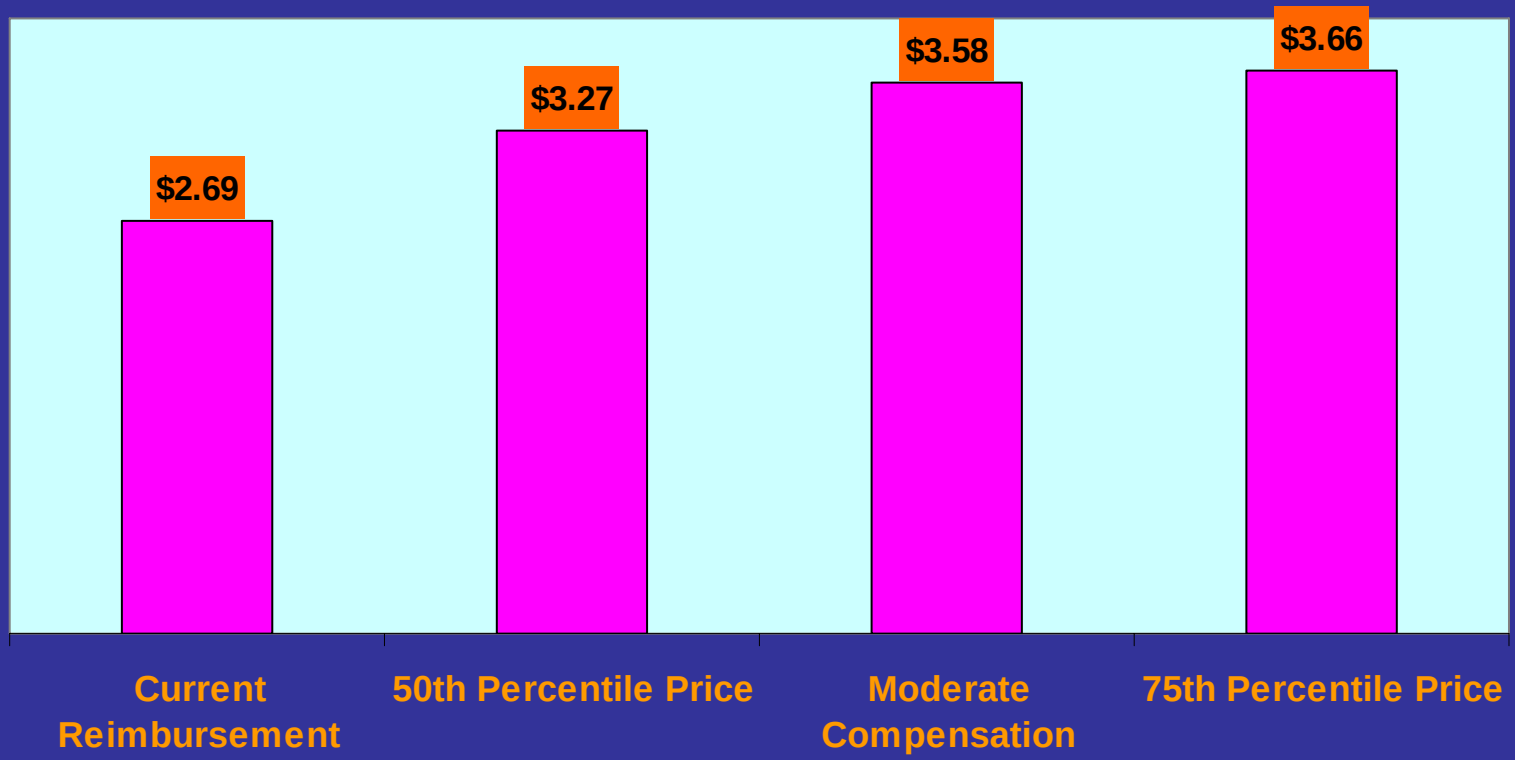
Findings For
WA Early Learning Council

Hourly Cost of High Quality Early Learning, Centers - Moderate Compensation Range



- Level 1 costs near 50-th Percentile: basic financial access
- Infant = $5-5:50/hr; toddlers = $3.50-4.50; preschoolers = $3-3.50
- Increases between Levels 1-3, 3-5 of 6-14%; greatest for Toddlers
- Cost per middle income without assistance = 17-20% per child.

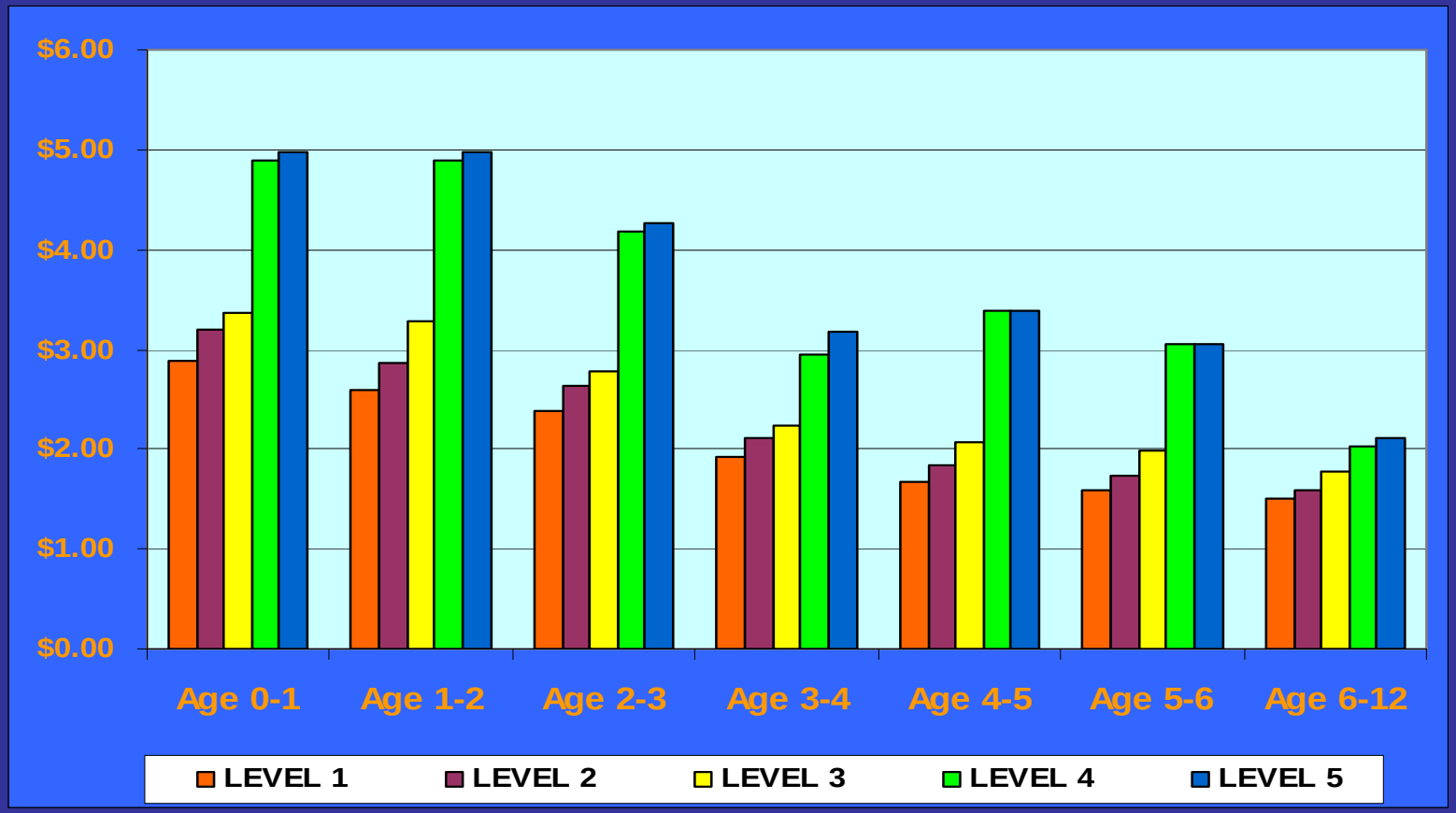
High Quality Center Costs vs. Current Prices and Reimbursement Rates, Average Across Age Groups, QRIS Levels



- Moderate salary option yields costs close to 75th percentile prices; Higher compensation exceed 75th percentile.
- 33% higher than current state reimbursement rate.

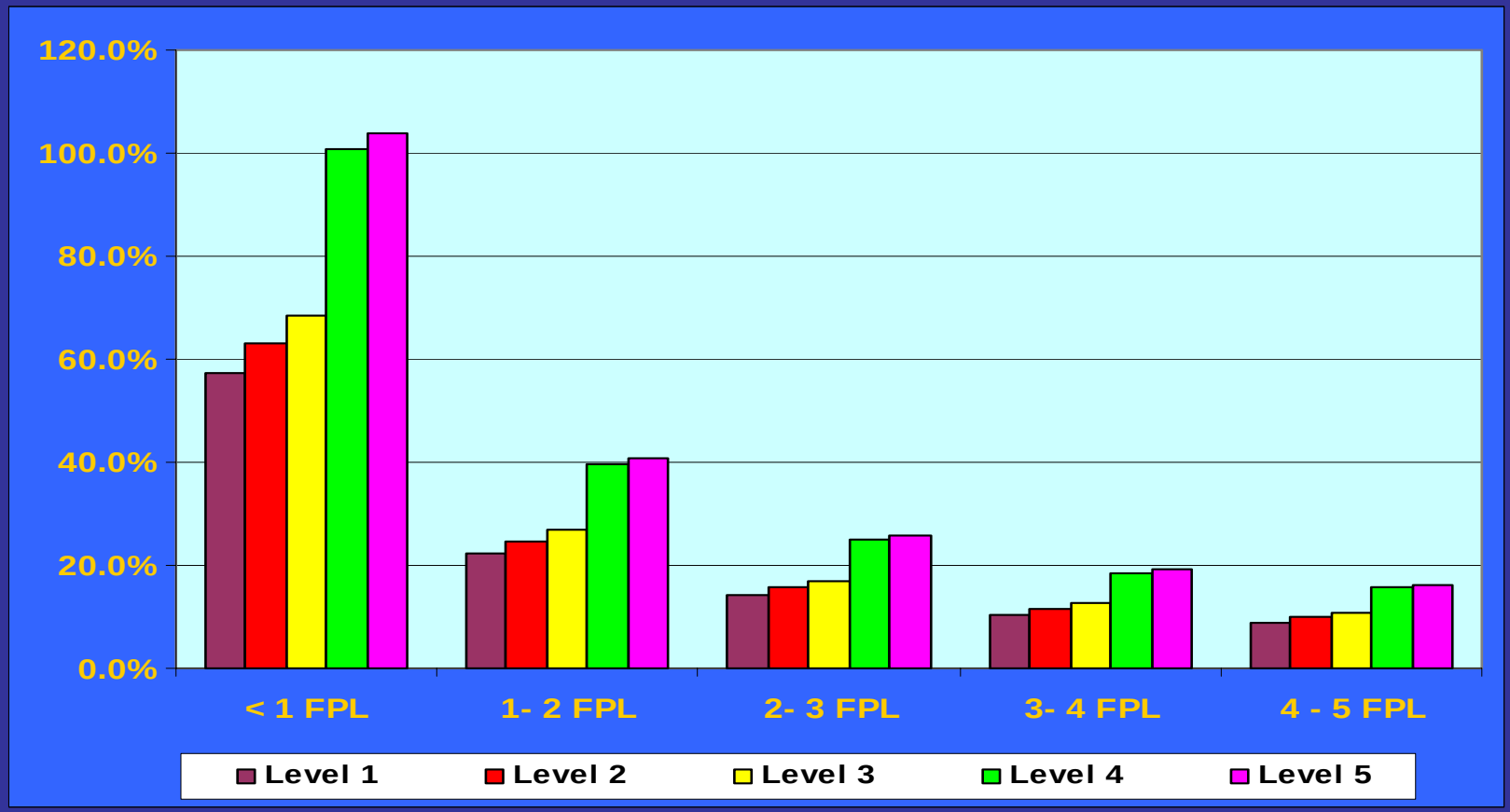
Preliminary Findings, State # 2

Costs to Providers by Quality Level, Age of Child, Centers



- 10-11% increase from level 1-2; 5-15% from L 2-3;
- 30-60% increase from L3-4 = majority of staff w/ college degree

Cost of ECE as Percent of Net Family Income, by Quality Level
[B-5; Per child, Full-Time, Full-Year]



L1-3 not affordable for low, moderate income

L4-5 " " for mid-upper income

Conclusions

- A quality-based rate system can assure financial access if costs/rates are checked against market prices and family affordability criteria.

- Moderate-middle income families may not have access to upper levels of quality without financial assistance – can undercut market feasibility of QRS.

For More Information

www.hspc.org

Look for:

http://www.hspc.org/publications/pdf/SupplyDemandAccountability.pdf

Report on Analysis for the Washington State Early Learning Council = Forthcoming

Extra Slides

Context: Market Failure and Solutions

Market Constraints Yield Low - Mediocre Quality and Outcomes

Supply Constraints (providers):
-Lack qualified labor pool
-Competition from low-cost/quality providers (minimal protective regulation)
-No stable funding source
-Low subsidy reimbursement rates; no incentives to improve quality
-Lack of capital/reserves to invest in upgrading quality
-Lack of managerial expertise
-Diseconomies of small scale
-Cannot pay for release time, prof'l development

Demand Constraints (families)
-Low expectations about quality, outcomes
-Lack information about quality of competing provider entities
-Lack of income/financial assistance to afford high quality – eligibility restricted by income, employment status, location
-Fluctuating revenues as families go on/off subsidy eligibility
-Programs too small to affect most of market

Prices below quality-sustaining levels

Low-Mediocre Quality:
- Poorly qualified, under-compensated staff
- Little ongoing professional development
- Rapid staff turnover
- Lack of team building and expertise
- Children's attachment to caregivers interrupted

Low-Mediocre Outcomes

-Inadequate social, emotional, self-regulatory skills

-Inadequate cognitive development (lack school readiness)

Market-Oriented Solutions, Access to High Quality

Improve Supply

- Staff qualifications, certification
- Compensation guidelines
- Progressive QRIS
- Professional development
- Working capital, cash flow
- Provider networks, intermediaries

Increase Effective Demand

- Improve parent knowledge of quality; info campaigns, QRIS
- Parent feedback
- Assistance to families to afford high quality
- Unified B-5 service system

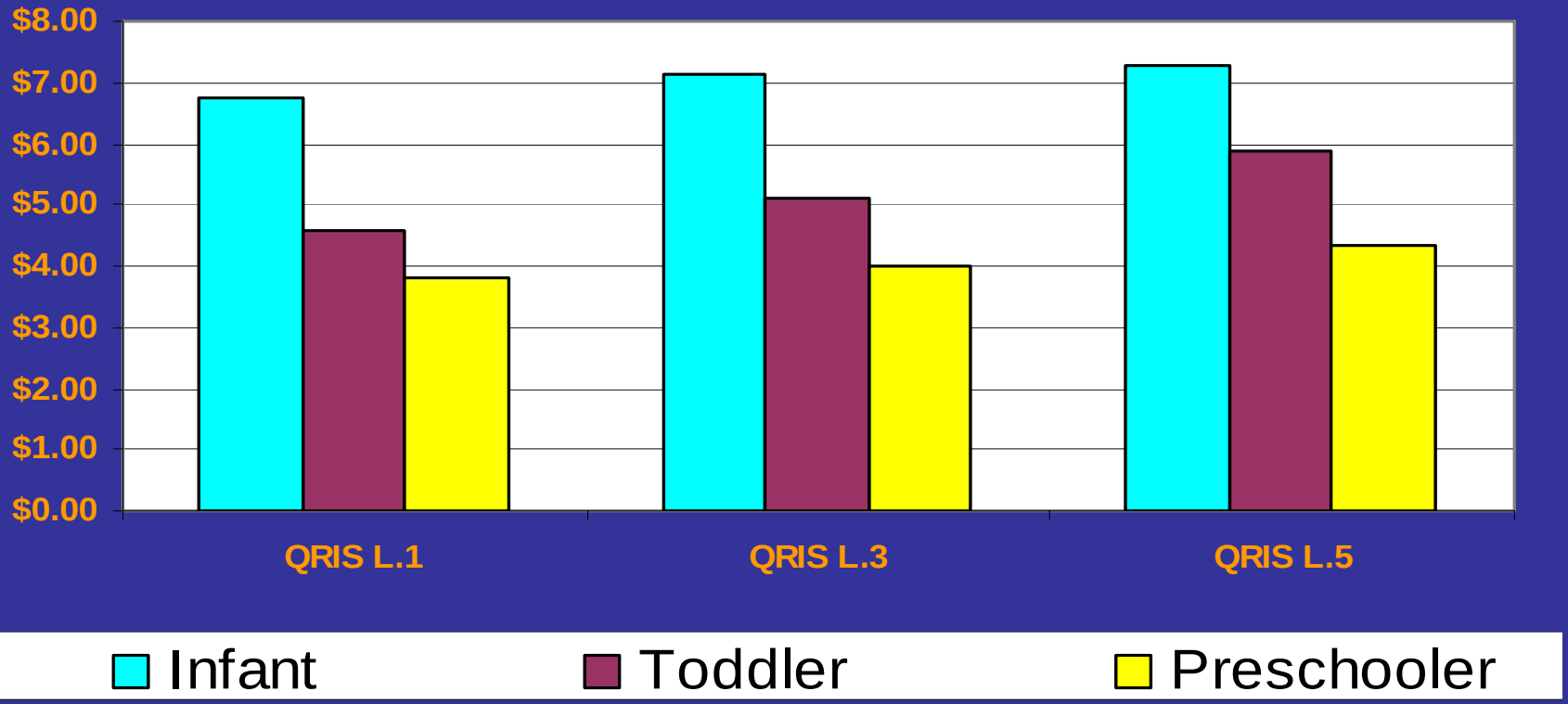
Accountability, Quality Improvement

- Observation-based QRIS
- Peer mentoring, monitoring of teachers, providers
- Teacher pay, provider reimbursement linked to observed quality
- Track child outcomes across statewide sample
- Private entity to monitor, recommend improvements

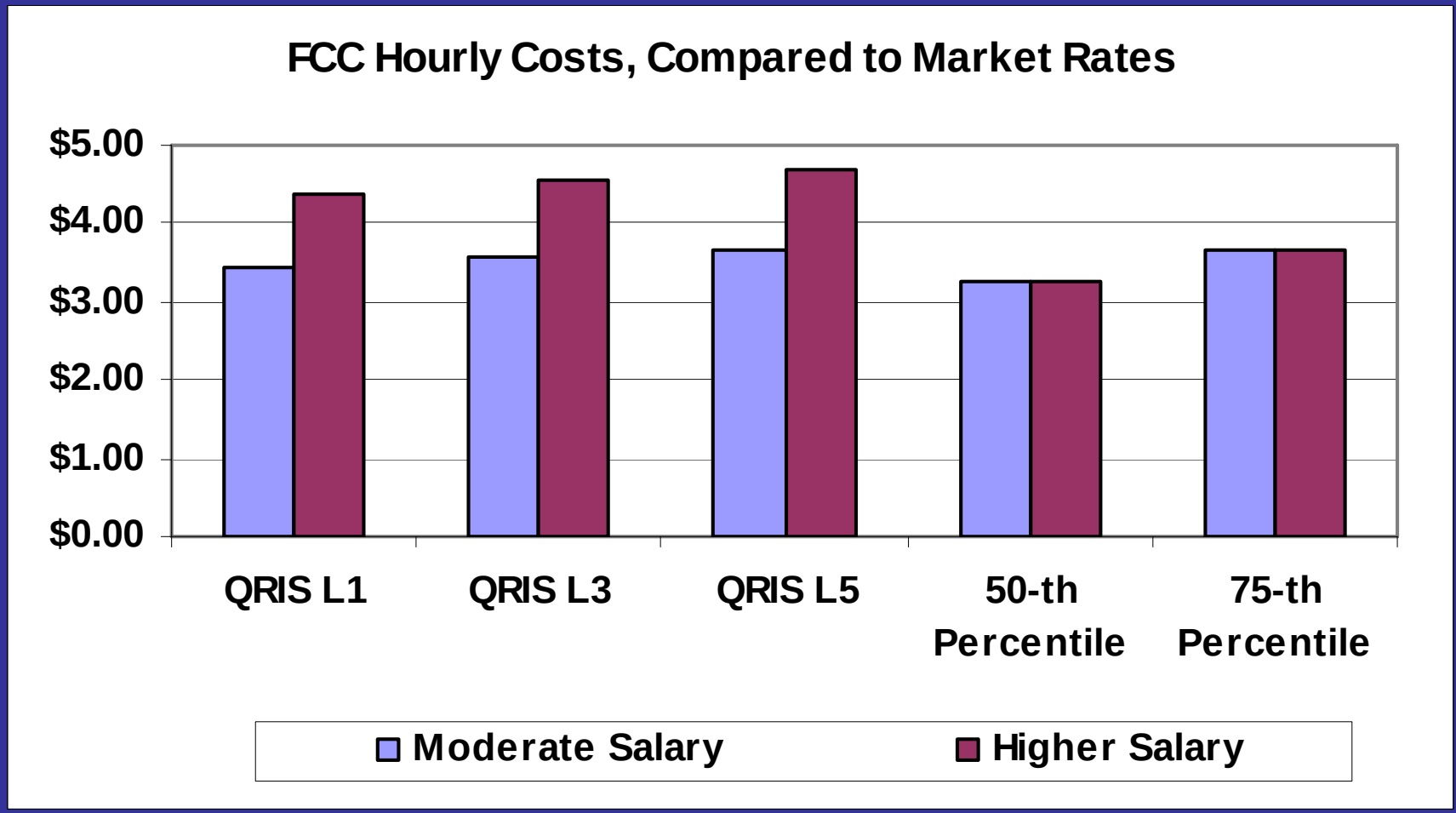
Professional Qualifications in QRS

- Complex matrices vary staffing by: age of child, responsibility (director; lead/assistant teacher) and QRS level. Less ed focus for FCC.
- NAEYC accreditation guideline of moving toward BA's in each class often top level; work out more like Head Start = majority with college degree (AA, BA, MA)
- Current licensing – no degree requirement – sometimes bottom level, sometimes exceed licensing for level 1
- Example, WA: lead teachers, average across ages:
  - L1 = 65% <AA, 10%AA, 25%BA
  - L3 = 50% <AA, 23%AA, 27%BA
  - L5 = 20% <AA, 51%AA, 29%BA;

Hourly Cost of High Quality Early Leaning - Centers, Higher Compensation Range



- Level 1 costs near 75-th Percentile
- Infants = $6-7/hr; toddlers = $4.50-6/hr; preschoolers = ~$4/hour
- Increases between Levels 1-3, 3-5 of 6-15%; greatest for Toddlers
- Cost per middle income without assistance = 22-25%



- Moderate salary option yields costs close to 50-75th percentile
- Higher salary produces costs about $1/hour higher than 75th percentile

Percent Change in Estimated Cost, Level to Level, By Age of Child