

Research Brief

Improving Child Care Quality by Rating Child Care Providers: Lessons learned from other states

In June 2010, Wisconsin's Joint Committee on Finance approved YoungStar, a new quality rating and improvement system (QRIS) for the state's nearly 8,500 child care providers. YoungStar supporters believe the new system will improve the overall quality of childcare in Wisconsin by motivating and supporting providers to make quality improvements and by providing parents with the information they need to choose high-quality child care options.

While key components of YoungStar do not take effect until July 2012, all child care centers that participate in the Wisconsin Shares child care subsidy program were mandated to participate in the system as of July 2011, and thousands of providers already have received a rating.

In this *Research Brief*, we examine several issues and challenges that have arisen in other states or jurisdictions with QRIS policies, how those entities have tackled those challenges, and the lessons their experiences might yield for Wisconsin. Among other key findings, we determine that Wisconsin's YoungStar system is unique among QRIS policies in its use of fiscal carrots *and* sticks, which may hinder the state's ability to learn from other jurisdictions, and that more fiscal planning is likely needed to ensure the system's incentives operate as intended.

Table 1: YoungStar assessment categories

Assessment category	Possible points	
	Family	Group
Family provider qualifications	0-14	N/A
Group teacher qualifications	N/A	0-9
Group director qualifications	N/A	0-6
Learning environment and curriculum	0-14	0-13
Professional practices (business practices, staff benefits, parent/family involvement)	0-7	0-7
Health and wellness	0-5	0-5
Total	0-40 points	0-40 points

Background

To date, Wisconsin is one of 25 states to implement a QRIS policy, while nearly all of the remaining states are in the process of developing such a system. The Wisconsin Department of **Children and Families (DCF) defines QRIS as “a method to observe, assess, rate, and improve the quality of child care programming, and to communicate the level of child care quality to parents and families as they choose early care and education settings.”**¹ While each state has crafted a unique system based on locally defined priorities, there are core features that characterize a complete QRIS policy, including quality standards for child care programs and practitioners; supports and an infrastructure to meet such standards; monitoring and accountability systems; ongoing financial assistance linked to meeting quality standards; and parent engagement and outreach strategies.²

Wisconsin’s YoungStar program includes all of these components. Under the new system, which is mandatory for all Wisconsin child care **providers participating in the state’s child care subsidy program**, providers are evaluated annually and given a rating from one to five stars based on the number of points earned across four categories of assessment. Many factors are considered in the annual assessments,* but an emphasis is placed on the qualifications and training of staff and on the learning environment and curriculum. Table 1 on the previous page shows the categories used to evaluate family child care providers (those who provide care in their

homes) and group child care centers, including the maximum points available for each category of assessment.³

For both family providers and group centers, there are 40 total points possible and the same scale is used to determine the star level achieved. Table 2 shows each star level and the corresponding range of total points achieved.

Once YoungStar is fully implemented, the state reimbursement that a provider can receive under the Wisconsin Shares child care subsidy program **will vary in accordance with the provider’s quality rating.** Providers that receive one star will not be eligible for reimbursement; two-star providers will receive a five percent decrease in the base reimbursement rate; three-star providers will receive the base reimbursement rate; four-star providers will receive a five percent bonus over the base rate; and five-star providers will receive a 10% bonus through 2012 and a 25% bonus starting in 2013. (See sidebar on page 10 for an explanation of how the base reimbursement rate is established.)

Despite the national movement toward child care quality rating systems, researchers have identified a need for further general research into QRIS policies to address important questions that are currently unanswered in the research literature. For example, do child care costs increase as quality increases, and if so, how is the increased cost covered? Questions such as these have only anecdotal answers thus far.

**There are some exceptions to the annual assessment requirement.*

Table 2: YoungStar rating tiers defined

Star level	Points earned	Definition
1	N/A	Does not meet health and safety standards and is not eligible for subsidy
2	0-10	Meets health and safety standards
3	11-22	Meets proficiency levels of quality standards
4	23-32	Meets elevated levels of quality standards
5	33-40	Meets highest levels of quality standards

While this report presents lessons learned from other states, it is important to keep in mind this need for more research. The lack of research on the outcomes of the various facets of QRIS policies in other states prevents Wisconsin from adopting only those facets proven effective. Despite having enacted its QRIS policy subsequent to enactments in nearly two dozen other states, Wisconsin, like those other states, will engage in trial and error as YoungStar is implemented.

QRIS Challenges

Implementing QRIS policies can entail grappling with several potential challenges. Gaining insight into how other states have reacted to those challenges could be instructive to **Wisconsin policymakers**. As Wisconsin's QRIS implementation moves forward, it is imperative that policymakers are aware of these potential issues, their implications, and their options for overcoming or avoiding them.

In the pages that follow, we identify and discuss five specific challenges experienced in other states and their relevance to Wisconsin.

Challenge 1: Bridging the disconnect between theory and policy

QRIS policies are designed to elevate the quality of child care throughout the child care market. One theoretical logic model on which the policy rests attests that when parents are educated about the quality of the various child care options available to them, they will choose the highest-quality care they can afford. As a result, low-quality facilities lose enrollment and will either close or improve their quality to achieve higher ratings and attract more parents. Eventually, only high-quality child care facilities will exist in the market and most (or all) children will receive high-quality care.

While the theory, therefore, is concerned with the demand side of the child care market, the

resulting QRIS policy operates only on the supply side of the market, as it provides a fiscal incentive to providers but not to parents. Many states have struggled with this disconnect between theory and policy.

Four states have attempted to overcome this disconnect by creating demand-side incentives, most commonly child and dependent care tax credit add-ons for parents choosing higher quality child care.⁴ Only Louisiana currently ties its tax credit program directly to its QRIS policy, however.

Tax credits are seen as having several benefits as an incentive for improving child care quality, with perhaps the most significant that they are a more stable source of funding than an appropriated expenditure. Once tax credits are enacted, they usually stay in force until actively repealed and do not have to compete with other programs for limited resources.⁵ Tax credits are also able to be administered much more efficiently than other types of incentives. No new forms of infrastructure have to be created to distribute them; they become part of the tax code and have the benefit of being administered by an already-existing bureaucracy.

Louisiana's School Readiness Tax Credit took effect in January 2008. The program provides tax credits not only to parents, but also to businesses that support child care centers, child care centers themselves, and child care center staff. The program was designed to affect both the demand and supply sides of the market by incentivizing parents to choose quality, and incentivizing providers to improve quality by participating in the state's voluntary* QRIS program.

Refundable tax credits are available in Louisiana to parents of children under age six. (The credits may be non-refundable, based on income.) Parents choosing a two-star center receive a 50% increase in their state child and dependent care tax credit. Choosing a more

**YoungStar is required for all providers participating in Wisconsin's child care subsidy program.*

highly-rated center results in a greater increase in the credit, up to a 200% increase for choosing a five-star center.⁶

State officials and researchers in Louisiana commonly see the program as a success so far, as **the state's voluntary QRIS program has seen greater participation among child care providers, who have subsequently made investments in quality improvements.** Currently, 45% of the state's providers are participating in the voluntary QRIS system, with 15% of the participating providers rated as three stars or above. This is at least partially due to the fact that more parents have accessed the tax credits each year (see Table 3).⁷

Applicability for Wisconsin: Wisconsin's QRIS program, YoungStar, may indeed experience the disconnect between theory and policy. That is because, like most state QRIS policies, it intervenes solely on the supply side of the child care market.

Researchers investigating this problem have found it to be common among states. One study found that without a financial incentive to choose **higher quality, parents "will generally choose care based on location and price."**⁸ The same study quotes child care center directors from Colorado, Pennsylvania, and Tennessee as advising states to find ways to encourage parents to make use of the quality ratings via financial incentives such as tax credits, employer vouchers, or state-funded tuition discounts.

While Wisconsin has planned for extensive outreach to parents to educate them about the rating system and its benefits, there are no financial incentives to parents to choose higher rated care. In fact, Wisconsin is one of 23 states that does not have a state child and dependent care tax credit; therefore, any tax credit tied to YoungStar would be an entirely new credit. (Wisconsin does have a child and dependent care deduction available to parents with tax liability who have child care expenses, regardless of the quality of care chosen.)

Table 3: Louisiana School Readiness Tax Credits

	2008	2009	2010
Total individual taxpayers receiving credits			
refundable	1,252	2,368	3,155
nonrefundable	3,458	4,707	6,334
Total individual tax credits			
refundable	\$680,465	\$982,765	\$1,166,296
nonrefundable	\$269,505	\$333,534	\$452,640

Source: Geoff Nagle, Tulane University

Once YoungStar has been fully implemented, the state will likely monitor the distribution of enrollment across the rating tiers. If there is not a significant movement from lower-rated providers to higher-rated providers, the state may wish to investigate whether there is a lack of demand for higher quality, or whether there is a lack of capacity among the higher-quality providers to accommodate increased demand. If demand is lacking, the state could explore ways in which demand-side incentives might be offered. In order to do so, potential revenue streams with which these incentives might be sustainably funded must be identified.

Challenge 2: Establishing meaningful differences in quality across tiers

QRIS policies are based on a presumption that the differences in quality across the rating tiers are meaningful. In other words, higher-rated providers benefit child outcomes more than lower-rated providers.

State QRIS programs base their tiers on either **"building blocks" or points.** Most states have a building block system, in which a provider must receive the maximum score in each category of assessment at a rating tier before moving on to the next tier. The advantage of such a system is that providers within a tier are uniform in quality. In a point-based system like Wisconsin's, providers can achieve different scores in each category of assessment, and yet be rated in the same tier, as long as the providers achieve a

minimum score in specific assessment categories (Table 4).⁹

Although fewer states use a point-based system, these systems are perceived to recognize **providers' differing strengths better than building block systems**. For example, under a point-based system, a provider that scores high in health and safety might be rated similarly to a provider scoring lower in that category but higher in curricular activities.

The problem arises when the tiers do not reflect real differences in quality among providers, which can occur when the points are not distributed across the tiers accurately, or when the cutoff points between tiers are arbitrary.

The problem is common among states with point-based systems. Federal researchers have found the problem occurs when there is not **“compelling evidence to support the cut-points for each level other than administrators and planners wanting to emphasize the importance of continuous quality improvement and making the steps accessible for providers to make.”**¹⁰

In Vermont, for example, the point system was revised after providers raised concerns that a provider scoring poorly in all assessment categories might earn a higher overall rating than a provider scoring high in the important **“program practices”** category but very low in other

categories. The new Vermont system allows providers to earn more points in the program practices category as a result of scoring well on the observation and/or being accredited by a national accrediting body. However, maximizing points in this category is not enough to earn the highest rating—points must be earned in other assessment categories as well.¹¹

A different problem arose in Oklahoma due to arbitrary cut points. That state initially set the highest standard to be attainable rather than aspirational, because child care quality statewide was so low. However, as programs achieved the highest level and still had not achieved the level of quality shown to positively benefit child outcomes, Oklahoma decided to raise standards. Of course, this upset providers who now had lower ratings, yet continued to provide the same standard of care as they had previously.¹²

Applicability for Wisconsin: While Wisconsin has a point-based system, it has heeded the lesson learned in states like Vermont. YoungStar requires a minimum number of points in *each* assessment category before a provider can reach three, four, or five stars.

Wisconsin may have arbitrary cut points between the rating tiers, however. As a result, it may be more difficult to improve from a four-star rating to a five-star rating, for example, than from a three-star rating to a four-star rating. In fact,

Table 4: Minimum points per YoungStar rating tier

Stars earned	In regulatory compliance	Minimum points required per assessment category				
		Education/professional development	Learning environment & curriculum	Business & professional practices	Child health & wellness	Additional points needed (in any category)
1	x					
2	✓	0	0	0	0	0 to 10
3	✓	3	2	1	1	4 or more
4	✓	6	5	2	1	9 or more
5	✓	12	6	3	1	12 or more

because each tier in Wisconsin consists of a different number of points, it is likely that this is the case. Evaluators and professionals providing technical assistance to providers should be vigilant in observing the real differences among providers in different tiers. If the cut points between tiers are indeed arbitrary, there is a risk that a high rating may not reflect a true improvement in quality.

Finally, Wisconsin appears to have learned **from Oklahoma's experience and has established quality standards for the top tier that are similar to other states' standards and mostly reflect the research on quality.** This should help ensure that the top tier reflects the highest quality care *possible*, and not just the highest quality care presently *available*. However, because YoungStar also allows for an *automatic* five-star rating for providers holding accreditation from one of six different accrediting bodies, top-rated providers could potentially differ significantly in quality. It is important that the state continually monitor the standards of these six accrediting bodies to ensure they all continue to guarantee quality deserving of a top rating.¹³

Challenge 3: Coordinating QRIS policy with existing quality improvement policies

Another common challenge encountered in other states is effectively folding existing quality incentive or regulatory policies into their new QRIS policy. Three of the most common quality improvement programs operated by states are cash grants, technical assistance, and training scholarships/stipends. The federal Administration for Children and Families has advised that while such programs can be maintained subsequent to QRIS implementation, **"Innovative approaches... are needed to help QRIS [policies] achieve the reality of serving as a central system."**¹⁴

The federal government requires a percentage of the federal monies that Wisconsin and other states use to fund their child care subsidy

programs to be spent on quality of care as well as access to care. Nearly all states with QRIS policies have merged their existing obligatory spending on quality improvements with their QRIS programs and stipulate that these funds be used for technical assistance and/or small grants for providers participating in the rating systems.

Grants typically are awarded either as an incentive to improve (particularly to make capital improvements) or as a reward for improvements, often with the award amount increasing with each higher rating tier. An evaluation of the state grant program in Washington, which has both types of grants, found most recipients used the grants to make capital investments, but that grants awarded to providers upon entering the QRIS program were less likely to be spent appropriately than grants used by providers who had received technical assistance. Tying a grant to technical assistance, therefore, is more likely to result in effective use of the funds.¹⁵

Technical assistance of some sort is provided by all 26 states with QRIS programs. A large body of research has shown that one-on-one technical assistance has proven to be more effective than the more traditional route of one-time group workshops for training purposes. In addition, a recent scholarly analysis of the county-level QRIS program in Florida found that the duration of coaching and the intensity of career advisement are related to improving child care practitioners' job skills and level of certification and/or degree in early childhood care and education.¹⁶

Other case studies have found that achieving this requisite duration and intensity of coaching in the context of statewide QRIS programs is likely to be difficult. One study of four QRIS programs **notes that "QRIS policies serve a wide variety of programs dispersed across a wide geographic region and with varied needs, values, and resources.** Especially in statewide systems, many coaches are required, so the experience and qualifications of coaches are likely to be more varied than in a smaller-scale intervention study.

The coaching supports are provided over a longer time frame, making turnover more likely and training for the coaches more difficult to coordinate. All of these factors make consistency in coaching more challenging in the QRIS context **than in other more targeted interventions.**¹⁷

Finally, Wisconsin and many other states also provide TEACH scholarships, which pay for credit-based education at local colleges and universities, and REWARD stipends, which provide additional compensation to early childhood educators who attain supplementary education and remain in the field. These programs have been shown to positively impact the child care workforce in terms of credentials earned and longevity in the field.¹⁸ Only 18 states, however, link scholarship programs to participation in the rating system,¹⁹ while just six states (and two Florida counties) offer retention bonuses and/or wage enhancements as part of their QRIS programs.²⁰

In at least two QRIS systems, budget constraints have limited the effectiveness of these scholarships and stipends. In Colorado, budget cuts “dramatically” reduced the funds available²¹ and in Washington, D.C., “the requirements for education-based stipends stipulated in the QRIS policy to achieve higher ratings can be waived due to a lack of funding,”²² calling into question whether the incentive to improve persists when the size of the reward is uncertain.

Applicability for Wisconsin: Wisconsin is likely to have some of the same challenges experienced in other states with regard to merging existing quality improvement policies with a new QRIS policy, but seems to be headed in the right direction. There are some potential areas of caution, however.

For example, because the technical assistance under YoungStar is provided under contract with several agencies, there is a potential for uneven quality to result if the agencies have different hiring criteria or utilize different models of coaching. So far, this does not appear to be occurring; a recent evaluation of the assistance

provided to child care programs from July-December 2010 found that, in the aggregate, the assistance resulted in higher scores on the **programs’ environmental assessments.**²³ Continued evaluation of the technical assistance efforts would help ensure the investments in intensive coaching are reaping quality improvements.

Another potential challenge has been brought forth by the contracting agencies themselves, which have expressed concern about their ability to serve rural areas of the state, especially in Northern Wisconsin. While the contracts require adequate coverage for all child care programs seeking assistance, if demand is great there may not be enough qualified coaches to conduct the type of intensive, on-site assistance shown to be most effective.²⁴

One bright spot is the fact that Wisconsin has tied its micro-grant program to its technical assistance program. Under the micro-grant program, child care programs receiving technical assistance are assigned a technical consultant who helps the program to develop a Quality Improvement Plan. A program is able to receive a micro-grant once this plan is in place and the grant is approved by the technical consultant. The micro-grant can then be used to purchase materials, educational resources, or professional development opportunities. Licensed group providers are eligible to receive \$1,000; licensed family providers can receive \$500; and certified family providers can receive \$250. According to the study in Washington state, this approach is likely to result in the grant monies being utilized effectively. However, the fact that the grant amount is quite small and does not vary by rating tier might potentially mean that only a fraction of providers will have an incentive to obtain the grant.

Wisconsin thus has folded into the YoungStar **program some of the state’s existing quality improvement initiatives.** One large program remains independent from the QRIS system,

however—the state scholarship and stipend programs, TEACH and REWARD. While YoungStar does not link directly to TEACH or REWARD, many award recipients will work for child care providers in the YoungStar system. Award recipients must work for a licensed or certified provider, for which YoungStar participation is mandatory if serving families participating in the state child care subsidy program. Currently about half of all licensed or certified providers in Wisconsin participate in the subsidy program. It appears only two states, Pennsylvania and Oklahoma, make participation in the QRIS a pre-requisite for receiving a scholarship by disqualifying applicants from unrated or low-rated providers.

Challenge 4: Promoting higher quality systemwide without causing higher costs systemwide

A very common incentive provided to child care providers through QRIS policies across the country is tiered reimbursement. This policy incentivizes providers to improve quality by providing greater reimbursements to higher-rated programs.

In developing tiered reimbursement programs, states have experienced a contradiction with federal regulations that require subsidy rates not to exceed the price charged to private-pay families. As a result, if states are careless about the way they structure reimbursement rates, an unintended consequence of tiered reimbursement could be an increase in the price of child care overall.

This happened in North Carolina, where market prices increased as a result of differential reimbursement rates that provided nearly all providers with a higher subsidy than they received prior to the implementation of the rating system. Eventually, the cost became too high for the state to afford and, as a result, North Carolina re-structured its reimbursement tiers such that the rate increases only at the three-, four-, and

five-star levels.²⁵

Other states have avoided this problem by structuring the additional payment for higher quality as a **“bonus on top of the subsidy payment” rather than a per-child rate increase.**²⁶ YoungStar's quality payments are also structured this way.

Table 5 illustrates the structure of tiered reimbursement in other states. The states highlighted are those with tiered reimbursement structures most similar to Wisconsin's.

Applicability for Wisconsin: Although the states highlighted in blue are the *closest* to Wisconsin in terms of their tiered reimbursement structure, it is important to note that, as a result of changes made to the original YoungStar five-year plan in the 2011-13 state budget, Wisconsin is now structuring its tiered reimbursement system differently from any other state.

The original five-year plan incentivized quality improvements by increasing subsidy rates for higher-rated providers. The plan called for **one-star facilities to be deemed “out of regulatory compliance” and therefore unable to receive subsidy payments**, while two-star facilities would receive no more than their base reimbursement rate (see sidebar on page 10). Three-star facilities were to receive a five percent increase in the base rate, four-star facilities were to receive a 10 percent increase, and five-star facilities a 25 percent increase.

The amended plan adopted in the 2011-2013 state budget is more of a **“carrot and stick” approach, with the “carrot” going only to four- and five-star providers who receive higher subsidy payments of five and 10 percent respectively.** One-star providers are treated the same as in the original plan, and receive no **reimbursement payment at all.** The **“stick”** is applied to the two- and three-star providers, who are treated much differently under the amended plan. Three-star providers are now to receive no more than the base payment while two-star providers, who would have received no change in

Table 5: Tiered Reimbursement in Wisconsin and other states

State	Type of incentive
Colorado	Counties given option to set tiered reimbursement rates if they wish
Illinois	5%, 10%, 15%, or 20% increase to standard payment rate based on star level
Indiana	10% higher reimbursement rate for accreditation
Kentucky	Annual incentive paid quarterly for centers that achieve two through four stars in four-star system
Louisiana	Bonus given for two stars and above: two stars receive 3% of total subsidy payments to center, 8% for three stars, 13.5% for four stars, 20% for five stars
Maine	When providers reach fourth level, 10% quality stipend tied to subsidy reimbursement
Maryland	If achieve second or higher level (four levels total), paid higher reimbursement rates
Mississippi	Staggered subsidy bonuses: 7% for two stars, 17% for three stars, 22% for four stars, 25% for five stars
Montana	5%, 10%, 15%, or 20% increase to standard payment rate based on star level
New Hampshire	Two-level system: first level receives cash award of 5% of total amount billed for children receiving subsidy scholarships, second level receives 10%
New Mexico	Based on star level, rate differential per month per child: \$45 for two stars, \$70 for three stars, \$104.50 for four stars, \$132 for five stars
North Carolina	Different reimbursement rates established for each level, with higher levels receiving higher rates
Ohio	Per-subsidized child quality achievement award given based on number of stars achieved
Oklahoma	Different reimbursement rates for each level, with higher levels receiving higher rates
Pennsylvania	Providers at 2 stars or above receive a subsidy add-on for every subsidy child
Tennessee	5%, 10%, 15%, or 20% increase to standard payment rate based on star level
Vermont	5%, 10%, 20%, 30%, or 40% increase to standard payment rate based on star level
Wisconsin	No reimbursement for one star; 2 stars receive 5% decrease to standard rate; 0%, 5%, 10% increase to standard rate based on star level (as of 2013, 25% increase for five star providers)

Note: Highlighted states are those with tiered reimbursement systems most similar to Wisconsin.

Setting the base reimbursement rate and implications for YoungStar

To establish the base reimbursement rate, Wisconsin follows federal regulations, which require states to base their maximum subsidies on prevailing market rates. States must establish market rates based on a survey of the prices charged to parents by providers within a specified **geographic area. Under federal rules, unless granted a waiver, the state's two-year plan cannot** rely on a market rate survey conducted more than two years prior. Federal rules suggest that states set their reimbursement rates such that the maximum subsidy amount allows low-income families to afford providers with prices up to the 75th percentile of cost (defined as the cost at which 75% of the slots can be purchased). States typically pay providers directly up to the **"ceiling" established by the maximum rate. While Wisconsin's reimbursement schedule meets** federal guidelines and is within the national norm, like many other states, Wisconsin is now relying on an out-dated market rate survey to establish the 75th percentile. Due to state budget constraints, Wisconsin has kept the maximum rates frozen at 2006 levels for the past five years.*

Because the rates are frozen at 2006 levels, they likely do not reflect the current costs of providing care and may, in fact, be well below the actual costs. This gap may prevent or inhibit low-rated **providers from making investments in quality. In addition, if YoungStar's added reimbursement** to higher-rated providers merely helps bridge the gap, but does not help fund investments in **quality, tiered reimbursement's incentive to providers to work toward a higher rating may not** prove to be effective.

*Paragraph excerpted from *Moving the Goal Posts: The Shift from Child Care Supply to Child Care Quality*, Public Policy Forum, December 2010.

their payment under the original plan, are now to receive a five percent decrease from base.

While unique among state QRIS policies, this **"carrot and stick" approach was recommended in** 2004 by the original rating system task force appointed by Governor Doyle. It was resuscitated **by Governor Walker's administration as a cost-**saving measure. The Wisconsin Department of Children and Families estimates that the increased payments to the four- and five-star providers will be offset by the decreased payments to the two-star providers.

Wisconsin's quality incentive payments are calculated as an addition to the base reimbursement rate, rather than as a new rate. **The hope is that these "bonus" payments will not** trigger the federal requirement that the subsidy rate not exceed the private-pay price. If so, YoungStar is likely to avoid having its tiered reimbursement system result in providers raising parent fees for all their customers. The reality for

many programs, however, may be that they will need to increase prices in order to afford to operate a higher-quality program. This may be particularly impactful for the two-star providers, who will see their state reimbursement reduced, but who may need to incur higher costs to work toward a three-star rating.

Table 6 illustrates the potential problem. In order to achieve three stars and thus maintain current subsidy revenues, group providers need to earn at least 11 points through the evaluation process. After earning the required minimum points in each operational area, programs are required to achieve five additional points in order to earn three stars.

As Table 1 on page one shows, the professional development category has the highest number of possible points. Thus, the most straightforward way to ensure a higher rating is to have a highly trained staff.

Providing professional development for staff, however, can be quite expensive. Not only are credit-based courses and training programs expensive, but providing staff with time during the day to earn credits also is costly, as providers may need to secure a substitute caregiver or close the program for the day. Some programs pay staff for attending training on their own time, which is costly as well. Others expect staff to obtain and/or pay for training on their own, but once the training is obtained, there are likely to be costs to retain the newly credentialed staff members in the form of higher wages and/or benefits. The financing necessary for such improvements may cause providers to raise their rates.

The dilemma faced by child care providers as they seek to meet quality standards is summarized by the U.S. Department of Health and Human Services' *QRIS Resource Guide* as follows:

"...[R]aising child care prices is difficult. To make ends meet, most programs must be fully enrolled. If a child care program loses enrolled families when it raises its rates, the financial consequences are often worse than keeping rates low and forgoing additional support. When this market pressure is added to the cost of complying with the higher QRIS standards, the result may be that programs decide that they cannot afford to pursue higher quality."

Since Wisconsin will be the first state to attempt the carrot and stick method of tiered reimbursement, state policymakers have no other

states' experiences to draw on, and no best practices to reference. Proponents of this unique approach hope that the potential loss of funding will encourage quality improvement. According to this perspective, two-star providers, who might not have been sufficiently motivated to improve under the original plan, will be motivated under the new approach because of the threat of reduced funding should their rating fall to less than three stars. As making quality improvements can be quite expensive, however, some are asking whether the revenue reductions two-star providers will experience will make higher quality cost-prohibitive for them. Careful monitoring will be required to determine if this approach has the unintended consequence of increasing costs to parents throughout the system and/or pricing two-star providers out of the market, thus impacting families who have not necessarily been dissatisfied with the quality of their children's care.

Challenge 5: Inadequate financial planning

The bottom line of any discussion about QRIS finances is that the cost of quality is high and funding is limited. States have found, therefore, that accurate fiscal modeling is imperative to program success and sustainability.

QRIS policies can be costly not only because quality improvements can be expensive, but also because of the need for a completely new evaluation and rating process. The more

Table 6: Required minimum criteria for three-star rating

	Number of points
Lead teachers with six credits in 50% of classrooms	2 points
Director needs administrator credential	1 point
Need self-assessment tool leading to written Quality Improvement Plan	1 point
Ongoing yearly budget planning and assessment of financial status	1 point
Nutritious meal served daily	1 point
Required minimum points +	6 points +
Optional points needed =	5 points =
Total points needed for 3 stars	11 points

comprehensive the process, the more costly to the state. And, while a more comprehensive evaluation provides better information to parents, providers, and policymakers, it may result in less money being available for quality improvement incentives. For example, Colorado's Qualistar, which is among the nation's oldest and most comprehensive QRIS policies, also has one of the lowest participation rates for providers because it has little money for incentives.²⁷

Higher costs also stem from the fact that the types of improvements that are widely shown to result in the best-quality programs—highly qualified teachers and low student-teacher ratios—also result in higher labor costs. Some of the pioneering QRIS states, including Minnesota, **have discovered that “improvements have been difficult to sustain because the market cannot bear the corresponding wage increases.”**²⁸

Many early childhood advocates argue that if a high-quality system is to work, these increased labor costs cannot be passed on to the parents. In fact, some states have found that parents tend to associate more stars with higher costs and, as a result, actually choose lower quality programs in order to save money.²⁹

Applicability for Wisconsin: In order to assist states in effectively responding to fiscal challenges, the U.S. Department of Health and Human Service (DHHS) offers guidance in preparing a QRIS financing plan.³⁰

According to DHHS, states should first decide what needs to be publicly financed and what costs will be borne by the providers and parents. For each element of the QRIS policy, a state should then project and estimate the associated costs, and identify the funding and resources that are already available to support those costs. Potential funding sources for any gaps should be explored as well as a strategy for securing the needed funding. Costs and expenditures should be continually analyzed to ensure the plan stays on track.

The most complicated part of the financing plan is the cost projection step. Because Wisconsin has uniquely structured its tiered reimbursement incentives and disincentives, it **will not be able to rely on other states'** experiences in projecting how many providers will fall into each star level. Modeling the expected distribution of providers across the rating tiers and the projected rate of movement up the tiers is the most important determinant of the total cost of the QRIS policy, as most of the **state's cost will be incurred under the new tiered reimbursement policy.**

Wisconsin does have an advantage over other states in cost estimation, however, because it requires all child care providers who receive subsidies to participate in YoungStar. Most other states have made their QRIS programs voluntary, and thus must first estimate how many child care facilities will participate in the QRIS. Since even the most carefully thought-out estimation will not be 100% accurate, states with voluntary participation run the risk of costs exceeding their budgets due to higher-than-anticipated participation rates.

Wisconsin also knows more about the qualifications of its child care workforce than other states did at this stage of the implementation. Wisconsin has an existing database of child care provider qualification information (The Registry), which means that policymakers already know the current level of education of many Wisconsin child care providers and, thus, have a reasonable idea of how providers will earn points in the teacher qualification category of the ratings process. Additionally, since this information is already compiled in a database, YoungStar evaluators do not have to spend the time and money to collect it.

Where Wisconsin seems lacking in comparison to other states is in identification of sustainable funding streams. Some states, such as Minnesota and Delaware, take advantage of public/private partnerships for funding.

Wisconsin also hopes to utilize some private funds—the five-year YoungStar plan calls for identifying private funding sources for the QRIS micro-grants—but to date private sources are not a significant contributor to the program.

Wisconsin’s financing plan relies mostly on federal and state child care subsidy funds. These funds are appropriated every two years in the state biennial budget and can vary substantially from budget to budget. YoungStar was enacted as part of the 2009-2011 biennial budget under Governor Jim Doyle, but substantial changes to the program were made in the subsequent budget under Governor Scott Walker. In neither case does it appear a financing plan of the type recommended by DHHS was utilized in determining the appropriations for YoungStar. In fact, it seems both the original proposal and the more recent modifications were made based on amounts necessary to keep the overall state budget in balance.

Currently, the Department of Children and Families (DCF) **does not expect YoungStar’s costs** to exceed its budget because of the reduction in the subsidy reimbursement rate for providers rated at the one- and two-star levels, and the more than \$120 million in subsidy savings anticipated from fraud reduction efforts and adjusted payment policies. The likelihood of the cost savings recouped by the elimination of fraud remaining in the departmental budget, rather **than returning to the state’s general fund, is** unknown. At any rate, those savings are anticipated to drop dramatically over time as fraud is eliminated from the program, making them an inappropriate long-term funding stream.

The YoungStar five-year plan does not estimate the potential for higher costs system-wide as quality is improved. DCF does have certain options for controlling costs, however, including the ability to change subsidy reimbursement rates based on the amount of money that is available in the state budget (as long as the rates continue to meet federal

requirements); creating a waiting list for participation in the subsidy program (though no W2 participants can be placed on the waiting list); increasing copayments; and adjusting household income limits for subsidy eligibility. However, several of these cost control measures would increase costs to parents, making higher-quality care less affordable. They may also eliminate much of the incentive to providers to work toward a higher rating.

The Wisconsin Department of Children and Families is required to report regularly to the **state legislature’s Joint Finance Committee** as YoungStar implementation moves forward. These reports will be an opportunity to monitor the costs of the program as compared to the cost estimates and the available funds. The committee may wish to see revised financial plans should systemwide cost increases materialize.

Conclusion

Despite the 26 child care quality rating and improvement systems across the country, a robust body of research has yet to develop tying specific state child care regulatory policies to better child outcomes. As a result, Wisconsin, like other states, must be prepared to closely monitor the costs and the child outcomes resulting from its QRIS policy, and make policy changes as necessary.

Because many of the other states are further along in their implementation of QRIS, however, Wisconsin can take advantage of the lessons learned in those states with more mature systems. Five common implementation challenges have confronted other states and have the potential to occur in Wisconsin, as well.

Bridging the disconnect between theory and policy: QRIS policies are partly based on a theory that greater demand for quality child care will cause quality to improve. Yet the QRIS policy provides incentives to child care suppliers, not those in demand of care. This disconnect can be

bridged via extensive outreach to parents to educate them about the rating system and its benefits, or by creating financial incentives for parents to choose higher-quality care. Wisconsin is planning an outreach effort, but may also wish to explore demand-side incentives should it become clear that demand for higher-quality is lacking even after YoungStar is fully implemented.

Establishing meaningful differences in quality across tiers: QRIS policies assume that there are real differences in quality across the ratings tiers—meaning higher-rated providers benefit child outcomes more than lower rated providers. If tiers are poorly defined, or if the cut-points between tiers are arbitrary, there may not be meaningful difference in quality between providers with different ratings. As more and more Wisconsin child care providers are evaluated or provided technical assistance, the assessors and coaches visiting the providers will have an opportunity to observe whether meaningful differences do exist. Feedback from these professionals will be essential to ensure the ratings tiers are accurate reflections of quality.

Coordinating QRIS policy with existing quality improvement policies: Wisconsin already has several policies and funding streams in place aimed at improving child care quality. Coordinating these efforts with QRIS so as to maximize the positive outcomes of these many investments could potentially be a challenge. Provisions regarding technical assistance and improvement grants appear to be reinforcing QRIS goals; however, professional development scholarship and stipend programs have yet to be tied to YoungStar.

Promoting higher quality systemwide without causing higher costs systemwide: Increasing the state reimbursement to child care providers serving low-income families as quality ratings increase, otherwise known as tiered reimbursement, is a common incentive used in many states. Wisconsin's tiered reimbursement

strategy is unique, however, as it not only increases reimbursement for highly-rated providers, but also reduces reimbursement for low-quality providers. As no other state has implemented a carrot and stick approach, **Wisconsin cannot use other states' experiences to predict the effect the tiered reimbursement will have on costs to private pay parents.** If highly-rated providers are forced to increase their parent fees in order to comply with federal regulations regarding tiered reimbursement, or if low-rated providers receiving less reimbursement increase their parent fees to make up for lost state revenue, some parents may be priced out of the market.

Inadequate financial planning: Improving the quality of the child care market is a costly endeavor. Many early childhood advocates argue that these increased costs should not be passed on to parents. Addressing this concern will require adequate and sustainable revenue sources, not only for conducting YoungStar rating and improvement processes, but also for subsidizing the higher costs that may result from the improvements. Because Wisconsin has a unique tiered reimbursement structure, the financial plans of other states are not useful in helping estimate potential costs here. However, the requirement of regular reports to the state legislature provides an opportunity to monitor the cost of the program as compared to available funds.

The success of YoungStar in providing incentives to parents to choose higher quality and to programs to provide higher quality, while keeping costs low and care accessible to working **parents, ultimately will hinge on the state's ability to monitor the implementation of the new system and make adjustments as needed.**

Endnotes

1. Wisconsin Department of Children and Families: <http://dcf.wi.gov/youngstar/pdf/faq.pdf>
2. Wisconsin Department of Children and Families: <http://dcf.wi.gov/youngstar/pdf/faq.pdf>
3. Family child care providers operate out of their homes and care for up to six or eight children of mixed ages. Family providers are either licensed by the state, certified by the county, or both. Group child care centers care for children in age-specific classroom settings and are licensed by the state.
4. U.S. Department of Health and Human Services Administration for Children and Families, Office of Planning, Evaluation, and Research, Quality Rating System Assessment Project: http://www.acf.hhs.gov/programs/opre/cc/childcare_quality/ The four states are Arkansas, Louisiana, Maine, and Vermont.
5. Anne Mitchell et al., **"Comparison of financial incentives in states' quality rating and improvement systems,"** *Early Childhood Policy Research*, July 2008.
6. Louisiana also provides supply-side credits as well. Child care centers rated two stars and above can earn tax credits based on their star rating and the number of subsidized children they serve. Staff of *all* participating centers can earn credits as the state did not want to discourage staff from working in lower-rated centers. Businesses that contribute to quality improvements in child care centers can also earn credits.
7. Phone interviews with Rhonda Cheek, Louisiana Department of Social Services and Geoff Nagle, Tulane University, Sept. 2011.
8. Dana Friedman, **"Quality rating systems: The experiences of center directors,"** *Exchange Magazine*, Jan./Feb. 2007.
9. For a list of states by type of program, see: http://nccic.acf.hhs.gov/poptopics/qris_systems.html
10. Pia Caronongan et al., **"Defining and measuring quality: An in-depth study of five child care quality rating and improvement systems,"** *OPRE Report #2011-29*, U.S. Department of Health and Human Services, August 2011.
11. Kimberly Boller and Kathryn Tout, *Vermont STep Ahead Recognition Program: QRS Profile*, ACF Office of Planning, Research, and Evaluation, U.S. Department of Health and Human Services, April 2010.
12. Gail Zellman and Michael Perlman, *Child-care Quality Rating and Improvement Systems in Five Pioneer States: Implementation Issues and Lessons Learned*, RAND Corporation, 2008.
13. The regulations permit providers accredited by the City of Madison to receive an automatic five-star rating. Automatic five-star ratings are also awarded to providers accredited by the following national agencies: National Association for the Education of Young Children (NAEYC), National Accreditation Commission (NAC), Council on Accreditation (COA), National Association for Family Child Care (NAFCC), or that meet federal Head Start standards.
14. Kathryn Tout et al., **"Issues for the next decade of quality rating and improvement systems,"** *Issue Brief #3*, ACF Office of Planning, Research, and Evaluation, U.S. Department of Health and Human Services, May 2009.
15. Patricia Del Grosso et al., *The Seeds to Success Modified Field Test: Implementation Lessons*, Mathematica Policy Research, July 2010.
16. Jianping She et al., **"Effects of quality improvement systems on early childhood practitioners,"** in John A. Sutterby (ed.), *The Early Childhood Educator Professional Development Grant: Research and Practice*, Emerald Publishing Group Ltd., 2001.
17. Tabitha Isner et al., *Coaching in Early Care and Education Programs and Quality Rating and Improvement Systems: Identifying Promising Features*, Child Trends, February 2011.
18. Wisconsin Early Childhood Association, *Child Care Professionals in 2010: The View from Wisconsin*, 2011.
19. Mitchell, *supra* note 5.
20. Zellman, *supra* note 12.
21. *Ibid.*
22. Lea J.E. Austin et al., **"Staff preparation, reward, and support: Are quality rating and improvement systems addressing all of the key ingredients necessary for change?"** *Policy Report*, Center for the Study of Child Care Employment, 2011.
23. Wisconsin Department of Children and Families, *YoungStar Immediate Training and Technical Assistance*, Report to Joint Finance Committee, March 2011.
24. *Ibid.*
25. U.S. Department of Health and Human Services, *QRIS Resource Guide*: <http://nccic.acf.hhs.gov/qrisresourceguide/index.cfm?do=resourceguide>
26. *Ibid.*
27. Zellman, Gail et al, *Assessing the Validity of the Qualistar Early Learning Quality Rating and Improvement System as a Tool for Improving Child-Care Quality*, RAND Corporation, 2008.
28. Zellman, *supra* note 12.
29. Zellman, *supra* note 27.
30. *QRIS Resource Guide*, *supra* note 25.