REPORT

Early Care and Education in the Golden State

Publicly Funded Programs Serving California's Preschool-Age Children

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RAND LABOR AND POPULATION

The research described in this report was conducted by RAND Labor and Population. Funding was provided by The David and Lucile Packard Foundation, W. K. Kellogg Foundation, The Pew Charitable Trusts through the National Institute for Early Education Research (NIEER), The W. Clement and Jessie V. Stone Foundation, and Los Angeles Universal Preschool (LAUP).

Published 2007 by the RAND Corporation
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Summary

California has a long-standing commitment to use public funds to subsidize early care and education (ECE) programs partially or fully for preschool-age children, with the dual goals of promoting child development and covering the costs of child care for low-income working parents. With more than 65 percent of three-year-olds and 80 percent of four-year-olds nationally in some form of regular nonparental care, policymakers and the public are interested in understanding the system of publicly funded ECE programs to determine who is being served and whether the system is making the best use of the resources deployed.

Like other states, California currently employs a mix of federal, state, and local funding to provide ECE programs to preschool-aged children, primarily targeting low-income families or those with young children with special needs. The system of publicly funded ECE programs that has evolved represents a complex set of programs that vary in terms of their objectives, eligibility requirements, the range of services provided and requirements for program features, and funding levels. Given the complexities of the current system, it is often difficult to understand the set of programs in effect, the numbers of children served, and the levels of funding involved. As the menu of programs has evolved over time, there is no guarantee that the system is using resources effectively to deliver high-quality programs that benefit participating children and families.

In support of our larger study investigating the adequacy and efficiency of preschool education in California, the objective of this analysis is to fully document the current system of publicly funded ECE programs in California. This study focuses on programs that provide child care or early education services to children one or two years before kindergarten entry. Thus, we do not focus exclusively on public funding for preschool programs, but more broadly on programs that also subsidize child care. These programs can be funded by federal, state, or local sources. The study addresses the following questions:

- What federal, state, and local funding streams currently fund ECE programs for California children one or two years before kindergarten entry?

- What are the eligibility requirements for these programs, and how are children enrolled? How many children are eligible, how many children participate, and what fraction of eligible children is served?
- What requirements for service delivery are maintained for these programs (e.g., requirements for provider or teacher training, group sizes, and program services), and how do those requirements relate to benchmarks for high-quality programs?
- How are programs funded and providers reimbursed? How much funding is available, and do the reimbursement mechanisms provide an incentive to deliver high-quality programs?
- Are there inefficiencies within or across programs in terms of funding streams, program eligibility, service delivery, and program administration?

This summary highlights key findings that emerge from our comprehensive assessment of ECE programs for California as a whole, as well as four case study counties—Los Angeles, Merced, San Diego, and San Mateo—that provide a deeper understanding of the system at the local level.

A Complex System with Mixed Motivations

California's system of publicly subsidized ECE programs for preschool-age children has evolved over time into a complex array of programs, supported through multiple funding streams, that primarily serve targeted populations of children. In our analysis, we catalogue the 11 distinct publicly funded ECE programs in California shown in Table S.1, some of which have variants such as part- and full-day versions (for additional detail on these programs, see Table 2.1).[1] These programs serve children one or two years before kindergarten entry (cohorts we refer to as "four-year-olds" and "three-year-olds"), but in many cases the same programs also serve younger and older children. Beyond the common element of serving our age group of interest, the programs differ on key

[1] In our analysis, we do not cover programs that exclusively serve children with disabilities such as federal funding for ECE services for children with disabilities available through Part B of the Individuals with Disabilities Education Act and the Severely Handicapped program administered by the California Department of Education. Other programs at the local level, such as the School Readiness Language Development Program operated by the Los Angeles Unified School District, are only covered in the context of our four case study counties.

dimensions such as their objectives, target population, funding streams and reimbursement mechanisms, degree of subsidization, intensity of program services, regulatory oversight, and service delivery settings.[2]

Within this complicated array of programs, there are two sometimes conflicting motivations for providing subsidized care to preschool-age children: to promote healthy child development and school readiness, particularly for disadvantaged children, and to provide affordable child care for low-income working families. Some programs are motivated primarily by the first objective, others by the second. Still other programs share both motivations. This divergence in motivations means some programs have more extensive requirements for delivering developmentally appropriate care but often on a part-day basis that does not meet the needs of employed parents, while other programs focus on parental choice and flexibility in arrangements at the expense of imposing requirements on the services providers offer. Among the programs listed in Table S.1, we group together Title I, Head Start and the state Title 5 programs as having the strongest child development orientation based on their motivation and program requirements.

Table S.1—Publicly Funded ECE Programs in California Covered in Study

Program
Federal Programs
Title I
Head Start
CalWORKs and non-CalWORKs Alternative Payment Programs
CalWORKs Stages (Stages 1, 2, and 3)
CalLearn
Alternative Payment (AP) (non-CalWORKs)
State Title 5 Child Development Programs
State Preschool (part-day and full-day)
General Child Care and Development (CCD)
Prekindergarten and Family Literacy (PKFL) (part-day and full-day)
Migrant Child Care and Development (CCD)
Cal-SAFE (California School Age Families Education)
State and Local Preschool Expansion Programs
Power of Preschool (POP) Demonstration Projects

[2] In addition to the programs providing subsidized care listed in Table S.1, the body of the report also covers support programs related to ECE service delivery, including funds supporting resource and referral functions and investments in facilities and the ECE workforce.

These sometimes competing policy objectives mean that the quality of services children receive and the implications for child development are not always central to program design and delivery. This issue is relevant for preschool-age children, for whom there is an opportunity to use the publicly subsidized care system to promote child development and school readiness. The collection of multiple funding streams and varied programs also makes it challenging for policymakers to understand the system as a whole in terms of the resources involved and who is being served. It can be difficult for providers to operate multiple programs given the variation in program delivery requirements, obligations for programmatic and financial reporting, and other mandates. Finally, the complexities of the system can make it challenging for parents to comprehend their options and navigate their way to the programs for which they qualify.

Most Programs Are Targeted, but Not All Eligible Children Are Served

For the most part, the programs listed in Table S.1 serve a targeted population. Families with preschool-age children may be eligible for care because of low family income (adjusted for family size), or low family income and a demonstrated need for care. Income eligibility for some programs, like Head Start, is limited to families below the federal poverty guidelines, while state-administered child development programs employ higher income thresholds that extend closer to 240 percent of the poverty guidelines (or 75 percent of benchmark state median income (SMI)). None of the income thresholds account for the substantial differences in the cost of living or cost of care in different areas of the state. Because of overlapping eligibility requirements, children may qualify for multiple programs at a time. Changes in family circumstances may also affect whether children remain eligible for continued services in a given program.

We estimate that in 2006, 23 percent of California preschool-age children would have income below poverty and would therefore be eligible for Head Start. The higher income thresholds for state-administered programs means an estimated 53 percent of preschool-age children qualify on the basis of income alone for the State Preschool program and may also qualify for other state-administered programs such as General Child Care and Development (CCD) if they have demonstrated need.

Despite serving targeted populations, not all the programs listed in Table S.1 are fully funded to serve all eligible children, particularly those programs with a child development focus. Key findings with respect to enrollment, participation rates, and the numbers of eligible children not served include the following:

- As of fall 2005, the federal- and state-funded ECE programs listed in Table S.1 served nearly 500,000 California children from birth through age 12. Focusing on participation for preschool-age children, we find the programs served approximately 92,000 three-year-olds and 167,000 four-year-olds, or a total of 259,000 preschool-age children.
- Applying our estimates of eligibility and program participation to 2006, about 53 percent of eligible four-year-olds and 25 percent of eligible three-year-olds were served by child development-oriented programs (e.g., all programs listed in Table S.1 with the exception of California Work Opportunity and Responsibility to Kids (CalWORKs) and the non-CalWORKs Alternative Payment (AP) programs).
- If we assume 80 percent rather than 100 percent of eligible children would be enrolled in such programs, current enrollments reach an estimated 66 percent of eligible four-year-olds and 32 percent of three-year-olds.
- If we include all other subsidized ECE programs such as CalWORKs and non-CalWORKs AP programs, the proportion of eligible children currently being served by any subsidized ECE program, again assuming 80 percent participation, rises to 73 percent for four-year-olds and 39 percent for three-year-olds.
- These participation rates translate into sizeable gaps between the number of children eligible and the number of children served. Assuming an 80 percent participation rate to be conservative, there is a gap between eligibility and enrollment in child development-focused programs of approximately 77,000 four-year-olds and 156,000 three-year-olds.

Preschool-Age Children Are Largely in Regulated Settings, but Quality Is Uncertain

The programs listed in Table S.1 serve children in a range of settings, with variation in the range of requirements for program delivery and the extent to which minimum standards are consistent with benchmarks associated with quality programs. With the exception of some home-based Head Start programs, all the child development-oriented programs—Title I, Head Start, and state Title 5 programs—serve children exclusively in licensed settings, either centers or family child care homes. By comparison, the CalWORKs and non-CalWORKs AP programs also reimburse care from license-exempt providers, who may be relatives or nonrelatives providing care in a home setting. In the CalWORKs stages across children of all ages, 50 to 60 percent of care is by license-exempt providers. The percentage in license-exempt care is closer to 30 percent in non-CalWORKs AP programs.

While license-exempt providers are essentially unregulated, federal Head Start Performance Standards or state Title 5 regulations govern the program features of subsidized child development programs. The program requirements specified in these regulations are more extensive than the Title 22 licensing requirements that generally apply to providers who provide care through AP programs (except those who are license-exempt). These additional requirements include regular child assessments, parent involvement activities, staff development opportunities, and periodic program compliance reviews. Where requirements overlap, such as for staff-child ratios and teacher qualifications, the Head Start and Title 5 regulations achieve or are closer to established benchmarks, whereas Title 22 regulations are less stringent. However, the staff education requirements under Head Start, Title 5, and Title 22 all fall short of benchmarks that call for the lead classroom teacher to have a post-secondary degree, whether an associate or bachelor's degree.

We estimate that 81 percent of preschool-age children in subsidized care in California are in settings with a child development focus (i.e., Title I, Head Start, or a state-administered Title 5 program)—the settings with the most extensive and stringent program requirements among California's subsidized ECE programs. Among children in these settings, nearly all are in centers rather than family child care home networks. Another 9 percent of those in subsidized care are served by providers who, at a minimum, must meet the less stringent Title 22 regulations, while the remaining 11 percent are served in license-exempt care, which is essentially unregulated.

Nonetheless, for the 81 percent of preschool-age children in subsidized care that are in developmentally focused settings, the extensive regulatory requirements do not guarantee that the programs provide the quality of care associated with effective preschool programs. Moreover, with fewer and less stringent requirements in programs governed by Title 22 regulations, and minimal, if any, requirements for license-exempt care, there is little oversight to ensure that resources in these programs will produce the maximum benefits in terms of child development (e.g., the cognitive and noncognitive benefits demonstrated in the research on high quality preschool programs).

Funding Mechanisms Provide Little Incentive for Raising Quality

The sometimes low standards are compounded by a reimbursement structure for subsidized care in California that gives little incentive for providing higher-quality care. Our calculations indicate that California invests substantial federal and state dollars—an estimated $1.9 billion in state fiscal year (SFY) 2005–06—in subsidized ECE programs for preschool-age children. Consistent with participation patterns, most of this funding (80 percent) is for child development-oriented programs through Title I, Head Start, or state-administered Title 5 programs. For the Title 5 programs in particular, the reimbursement mechanism, the standard reimbursement rate (SRR), is not higher for providers who operate programs that exceed the Title 5 requirements, and the reimbursement does not vary to reflect differential costs of providing care across regions of the state. In contrast, providers who deliver subsidized care through the AP programs with vouchers/certificates are reimbursed up to the regional market rate (RMR) ceilings, which vary across the 58 counties.

As a result of differential evolution over time of the SRR versus the RMR, the SRR was below the RMR in 22 of California's 58 counties as of October 2006. These counties contain close to 80 percent of the preschool-age population. This shortfall between the SRR and market rates results in a disincentive for providers to participate in the Title 5 contract programs and makes the voucher/certificate AP program, governed by the less rigorous Title 22 regulations, more attractive.

In light of these issues, a number of California counties, under funding from First 5 California and their local First 5 Commission, are expanding preschool programs using a tiered reimbursement system in their Power of Preschool (POP) Demonstration Projects. The tiers explicitly reward programs that are move beyond the Title 5 requirements for teacher qualifications and other program features with a higher rate of reimbursement, recognizing that these improvements in program features add to program costs.

Potential Inefficiencies May Limit the Benefits from the Dollars Spent

Our analysis of fiscal data for the set of subsidized ECE programs serving preschool-age children did not identify any major sources of inefficiencies that could generate substantial savings to redirect toward program services. Several analyses, including our own, show that a range of 5 to 10 percent of contract funds for ECE programs are not spent in a given year. These unspent contract funds are a potential source of dollars that could allow more children to be served, although the gains from more effective resource allocation are likely to be modest. Experience in San Mateo County with a pilot project to allow a higher SRR and more flexibility to move funds across providers suggests that the potential percentage increase in child days of enrollment would be in the single digits. These are not inconsequential gains, so it appears that strategies to improve contract allocations would be worthwhile. Likewise, there may be room to reduce administrative costs, particularly in a more streamlined system. However, the magnitude of the potential savings is difficult to judge, savings that might accrue to state- and county-level bureaucracies and to the providers themselves, who now must contend with a multiplicity of program regulations and requirements.

Beyond these potential fiscal inefficiencies, our study has documented a system in California for preschool-age children that devotes substantial resources each year to subsidize the care of preschool age children, but those dollars are not closely tied to the quality or stability of the care children receive. This can be viewed as an inefficiency from the perspective of child development, as the dollars spent do not have the greatest possible impact on children's developmental trajectories during the important preschool years. On the other hand, some of the features of the system that make it inefficient from the perspective of child development are in place to provide care for the preschool-age children of working parents.

To fully understand the potential inefficiencies with respect to child development, we must fill some important data gaps. For example, we know relatively little about the characteristics of the preschool-age children served in subsidized programs. As a result, it is difficult to assess how well programs are reaching the populations they intend to target, the extent of program overlaps, and the stability of children in programs and care arrangements. Information to address these questions could be obtained if the statewide student identifier system being implemented for the K–12 system were extended to include preschool-age children who participate in publicly subsidized programs. Another important gap is that there is no systematic collection and reporting of data on the quality of programs or providers that deliver subsidized care across the full range of settings, so policymakers and the public don't know what quality of services the resources are buying.

Ultimately, public subsidies that support the care and education of preschool-age children provide a tremendous opportunity to enhance child development and promote school readiness, to have the kind of impact on children's development evidenced by the high-quality preschool programs reviewed in a companion report to this study. In considering reforms to the system, it is relevant to identify strategies that would allow greater efficiency with respect to the goal of improving child development, without necessarily detracting from the goal of supporting working parents. In other cases, policymakers may need to make choices about system reform that involve tradeoffs between these two policy objectives. Identifying the menu of policy options and their implications for these dual goals will be the focus of another companion report to this study.