

**Financing Access to High Quality Early Care and
Education for All of Mississippi's Children**

**Public Report of The Mississippi Early Care and Education
(ECE) Financing Team**

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Acknowledgements

This report contains analyses of early care and education (ECE) utilization in Mississippi, and comparison of alternative policies to improve quality and financial access, that have been derived from several analyses and documents prepared by Dr. Richard N. Brandon, Dr. Jutta M. Joesch, Dr. Erin J. Maher and Dr. Guanghui Li of the Human Services Policy Center, University of Washington, as part of the Financing Universal Early care and Education for America's Children project. These include a summary of survey data, a memorandum analyzing alternative policy options, and presentations to the Mississippi ECE Financing Team.

The Mississippi ECE Financing Team was comprised of over 30 representatives from state and city government agencies, school districts, higher education institutions, early care and education agencies, including resource and referral, and advocacy and civic organizations. Dr. Cathy Grace of Mississippi State University coordinated the MS Team and served as liaison, facilitating communication between the HSPC team and the state team and agencies. We gratefully acknowledge her gracious and effective performance. We appreciate the effort that the Mississippi Team has invested in working through these specifications. State officials have provided administrative data on current child care budgets and subsidies that have allowed us to calibrate our models.

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“Forging a Brighter Future for Children and Families”

**Financing Access to High Quality Early Learning for All of Mississippi's Children
Report by the Human Services Policy Center, University of Washington
To the Mississippi Early Care and Education Financing Team**

Executive Summary

This project allowed a statewide group of policy makers and stakeholders in Mississippi to explore many different policy options for making high quality early care and education financially accessible to all children in Mississippi on a voluntary basis. The effort yielded a set of policies that can achieve that goal at moderate budgetary costs while targeting a majority of funds to the most vulnerable children and families in the state. Further policy refinements are possible within this overall framework.

The HSPC analysis showed that achieving high quality early care and education (ECE) for Mississippi children would require significant increases in hourly costs to assure well qualified and adequately compensated teachers, plus investing about 10 percent of total costs in quality promotion and accountability. It is clear that achieving high quality ECE would drive costs beyond what middle income parents can afford if they are not given some form of financial assistance.

The analysis also showed that it is possible to design a voluntary, partially subsidized, early care and education system that provides high quality at prices parents can afford, with a moderate impact on state and local budgets.

The “Mississippi Package” consists of a provider subsidy covering 55 percent of costs without a parent payment, plus an income related voucher with co-payment, to help parents afford the remaining 45 percent of high quality costs. To assure affordability for both low and middle income families, more than eight in ten MS children would be eligible for partial assistance. This approach meets several objectives: it maintains parent choice, meets the needs of low and middle income families, targets most of the funds to the most vulnerable children. The approach includes quality assurance through technical assistance and monitoring activities, statewide resource and referral and support for state governance and local planning structures.

Access to high quality early learning for all children age birth to five whose parents wish to participate could be achieved with additional public (state-local) and private spending equivalent to about an 8-10 percent increase in total public education spending, phased in over a number of years. This would cost only one-sixth as much as a kindergarten-style, everyone-attends-for-free approach.

There are many different ways that such an approach could be phased in: gradually increasing the requirements for staff qualifications and compensation, focusing on particular age or income groups, gradually expanding outreach efforts to achieve full participation, or serving certain geographic areas of the state.

A. The Context of Early Learning

The early years of a child's development are critical to establishing a foundation for success in school and life. Recent research has revealed the importance of early relationships and experiences to building the social, emotional, intellectual and academic skills that individuals rely on throughout their lives. All babies are born learning, and their relationship with adults can encourage them to learn more effectively, or can deaden their curiosity and hamper their physical and emotional development.

Educational Disparities. Mississippi, as other states, is struggling to assure that all of its children receive the opportunities necessary to succeed in school and life. Children who enter kindergarten behind are likely to remain behind. Multi-state studies have shown that the majority of child care settings do not provide the high quality environment and stimulation that promote learning and development (Helburn et.al., 1995). The growing emphasis on high educational standards and achievement for all students and the increasing attention to the importance of early literacy development, both lead to questions of whether we are meeting the diverse needs of all of our young children in ways that adequately prepare them for academic success. Educational disparities start before kindergarten – low income children are found disproportionately in the less formal, less enriched settings, which have been found to yield lower school readiness and lower achievement throughout the school years. High quality ECE is made available for the limited number of low income children who qualify for Head Start, and for upper income children whose parents can afford high priced learning opportunities. Children from moderate and middle income families have the least opportunities. Recent research has shown that expanding early learning opportunities has the greatest positive impact on minority, low and moderate income children (Gormley and Phillips, no date). Having all children achieve our educational goals will therefore require new investments in early childhood programs and teachers, with an expected payback in the latter years of students' education.

Supporting Work. Early Care and Education (ECE) has a dual function -- promoting children's learning and development, and making it feasible for parents to work. The nature of family life for those with very young children has changed dramatically over the last 30 years. Sixty-nine percent of Mississippi children under age 6 live in either two-parent families where both parents are employed, or in employed single-parent families (US Census, American Community Survey, 2002). These shifts have profoundly changed how young children are cared for as well as the nature of the workforce. Three fourths of Mississippi parents with children age birth through five (B-5) are choosing to use at least some non-parental care; 57 percent for more than five hours a week. The issue for the public is the quality of that care and how it affects children now and the community later. About 74,000 Mississippi children age birth to five and not in kindergarten are currently enrolled in licensed child care, Head Start or preK programs (www.mskids.org, 2004). An additional 136,000 MS children of that age receive non-parental care from family, friends or neighbors (HSPC, 2003). It is likely that more parents would like their children enrolled in licensed programs if they were affordable, and that a recovering economy will increase demand as more parents return to work.

Return on Investment. Research has shown the importance of a child's early years to lifelong development and well-being. Controlled studies (Karoly et.al., 1998; Barnett, 1995; NICHD Early Child Care Research Network, 2003; National Research Council, 2000) have tracked children for as long as 20 years and found that higher quality ECE settings and interventions lead to better cognitive skills immediately and through the critical elementary school years, better social interaction, higher graduation and employment rates and lower rates of involvement with violence and delinquency. The demonstrated savings to government from the reduction in special education services needed, reduction in Medicaid, welfare costs and criminal justice costs, and increased tax revenues from increased employment, have documented that the long-term benefits of high quality interventions for low income children exceeding can greatly exceed the costs of these programs (Karoly et.al., 1998; Barnett, 1995).

Current Funding for the First Step in Education. The State of Mississippi has mostly depended on the federal government to support early education of its children. Federal Head Start spending in Mississippi was about \$155 million in 2002, serving approximately 26,700 children. Of the \$61 million spent for child care subsidies for children birth through 5, only \$4 million is state money, the rest is federal. In addition, some school districts use a portion of their federal Title 1 education funding for early education. In contrast, of the \$2.9 billion of funding for public elementary and secondary education in Mississippi, \$401 million (14%) is federal, \$1.6 billion (55%) is state funding and \$895 million (31%) is local.

B. The Mississippi Early Care and Education Finance Project

The Mississippi Department of Human Services, the Barksdale Reading Institute, and a broadly representative group of stakeholders joined with teams led by Richard N. Brandon and Sharon Lynn Kagan, two nationally recognized experts on social policy and child care, to specify the policies that would yield high quality early learning experiences and estimate what it would cost to offer voluntary access to high quality early care and education, for all children age birth to five in Mississippi. The Mississippi ECE Finance Team was comprised of over 30 individuals representing state and city agencies, school districts, ECE providers, child advocacy and civic organizations and private, non-profit human service agencies. The project explored a variety of options for improving the quality of ECE and for assisting low and middle income parents to afford the cost of higher quality ECE. The team considered such options as improving the qualifications and compensation of teachers, reducing the number of children each adult is responsible for, and offering parents tax credits or vouchers. The goal of this project is to help state policy makers understand alternative costs, potential cost savings and the impacts of financing a system of high quality early care and education under various sets of potential policies regarding quality and financial access. Mississippi's participation in this effort allows policy makers and stakeholders to consider difficult tradeoffs and arrive at the most cost-effective approaches to assuring access to high quality early learning for all Mississippi children. While the project has explored many potential ways to provide

access to high quality early education, the one approach that seemed to best meet the MS ECE Financing Team’s objectives of maximizing quality and affordability while minimizing the state budget impact is discussed in this report.

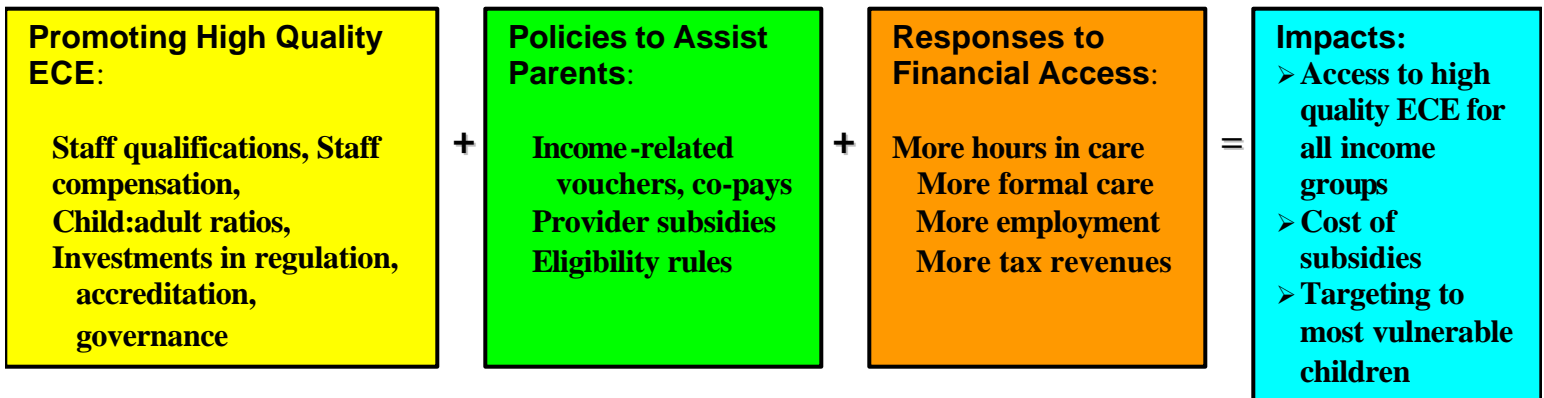
ECE Financing Project Objectives

- The overall goal is to provide financial access for all of Mississippi’s children to high quality early learning experiences that will help them reach their fullest potential. This requires balancing the objectives of promoting high quality, maintaining parent choice and flexibility, assuring the high quality early learning is affordable for parents at all income levels, and recognizing the limits of public budgets.

Specific objectives are:

- To specify in detail the key policies necessary to promote high quality early learning: staff qualifications and compensation, child/adult ratios, investments in professional development, and monitoring, regulatory and governance structures.
- To estimate the hourly costs per child of a high quality system of early care and education based on alternative policy specifications.
- To compare alternative financing approaches to assist families, applying lessons from other U.S. social benefits (K-12 and higher education, health, retirement, transportation, housing). We do this in a way that starts with what ECE arrangements MS parents are already selecting, and reflects likely parental responses, including changes in type and amount of ECE used and levels of maternal employment that yield additional tax revenues.
- To consider the impact of these different approaches on budgetary costs, equity of funding for different population groups and affordability of high quality early learning opportunities for both lower and middle income families.

Chart 1: Flow from Policies to Impacts



C. High Quality ECE for Mississippi's Children: Policy Specifications and Analysis

1. Key Features of the ECE Market in Mississippi

The early care and education market, nationwide and in Mississippi, is characterized by a high degree of parent choice among a variety of caregiving options and settings. Parents choose many different types of care for many different reasons. Infants and toddlers are more likely to be in less formal care arrangements, with Family, Friends or Neighbors (FFN), or licensed Family Child Care (FCC). Children age 3-5 are more likely to be in center type care, including Head Start and pre-Kindergarten programs (Brandon et.al, 2002; Maher et.al, 2003, Brandon, 2003). The Human Services Policy Center (HSPC), with sponsorship from the Mississippi Department of Human Services Office for Children and the Barksdale Reading Institute, conducted a survey of ECE utilization patterns in Mississippi (HSPC, Survey Highlights, 2003). It is important for both policy planning and cost estimation to take account of the range of full and part time ECE arrangements currently selected by MS parents.

Chart 2 shows the percent of non-parental hours that Mississippi children of each age group attend each type of ECE.

Chart 3 shows the percent of Mississippi children of each age that spend various numbers of hour per week in center-type and formal family child care settings.

These charts show that MS children attend many types of ECE, and only about half attend full time or in formal settings. Center-type ECE (including preK, nursery schools and Head Start) and licensed family child care (FCC) accounts for less than half the time very young (B-3) children spend away from their parents. However, for children age 4-5, preK and center-type care becomes dominant. Parents use a wide range of full and part time ECE arrangements:

- Children average over 30 hours a week in preK, center or Family Child Care.
- About half of MS children attend center or Family Child Care full time -- 40 or more hours a week. From 12 to 15 percent are in ECE for long hours, more than 40 hours.
- About one third attend ECE no more than half time, 1 to 20 hours per week.
- About one in five attends 20-30 hours, between full and part time.
- Children average about 10 hours per week in Family, Friend and Neighbor care (not shown in chart).

Chart 2: Percent of All Non-Parental Care Hours in Each Type of ECE (HSPC, 2003)

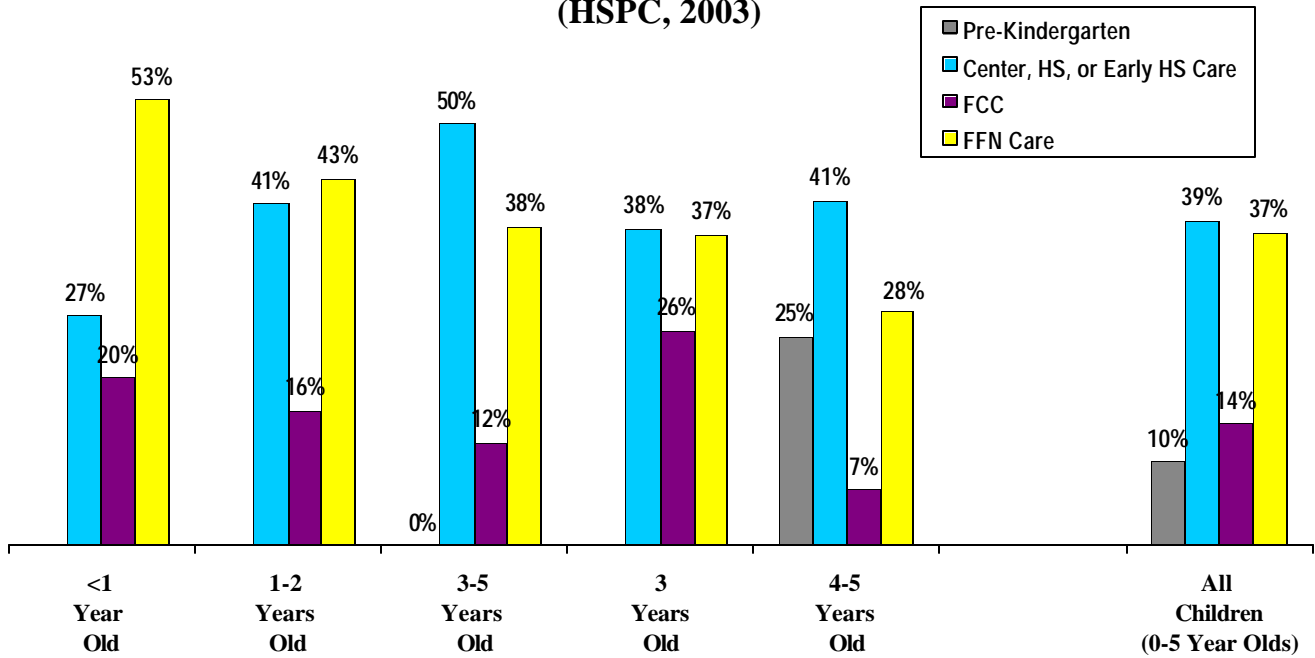


Chart 3: Hours per Week in Non-Parental ECE: Age B-5 Mississippi Child Care Survey (HSPC, 2003)

Chart 3a: Children in Center Care, Head Start or Early Head Start

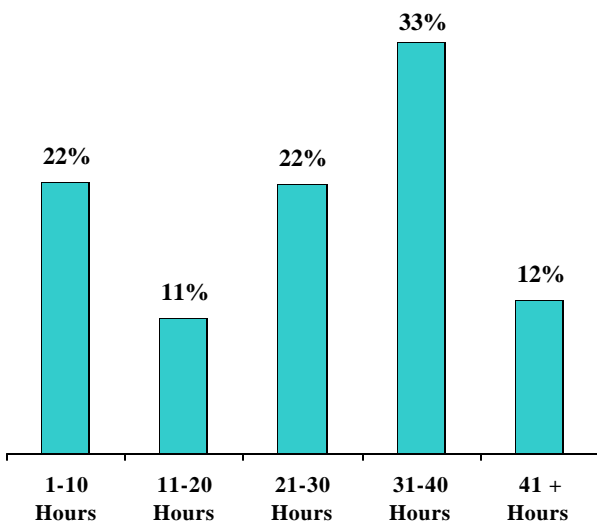
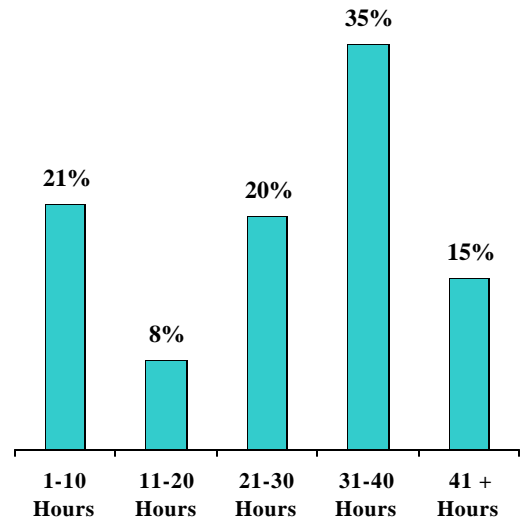


Chart 3b: Children in Family Child Care



Key to Types of ECE:

Centers = Center-type Care including Head Start, nursery schools and PreK.

FCC = Formal Family Child Care, usually licensed or registered.

FFN = Family, Friend and Neighbor care, license-exempt.

2. Hourly Costs of High Quality ECE

a. *Moving the Market Toward High Quality*

A proposition central to our analysis is that high quality ECE requires sufficient compensation to recruit and retain qualified staff. We also recognize that parents choose among different sectors of ECE (centers and preschools, FCC and relative care) for many reasons, and that achieving quality means making appropriate investments in each sector. The Mississippi ECE Finance Team agreed with the recommendations of a nationally recognized expert panel (Kagan, Brandon et.al, 2002) that it would be desirable to move toward eventually setting ECE teacher compensation equivalent to that for elementary school teachers of comparable qualifications on an hourly basis, recognizing that ECE teachers work 12 months, while elementary school teachers are paid for 9 months. However, for the initial step, it is recommended that BA level ECE teacher salaries be set lower on an hourly basis, yielding the same annual compensation. The recommended staffing patterns also include staff with lower formal credentials than a BA/BS degree, and commensurately lower pay. Staff qualifications and compensation would be lower particularly for infants and toddlers.

Some key policy specifications for high quality ECE agreed to by the Mississippi team and considered achievable in 5-7 years are:

Clearly defined roles, qualifications and career pathways for all early care and education staff, including teachers, directors and family child care providers; Average child-to-adult ratios in center-type ECE would be 8.3-to-1 for children age 3 to 5, 6.5-to-1 for toddlers (age 12-35 months), and 3.9-to-1 for infants (birth-12 months). These ratios would include directors and assistant directors/lead teachers.

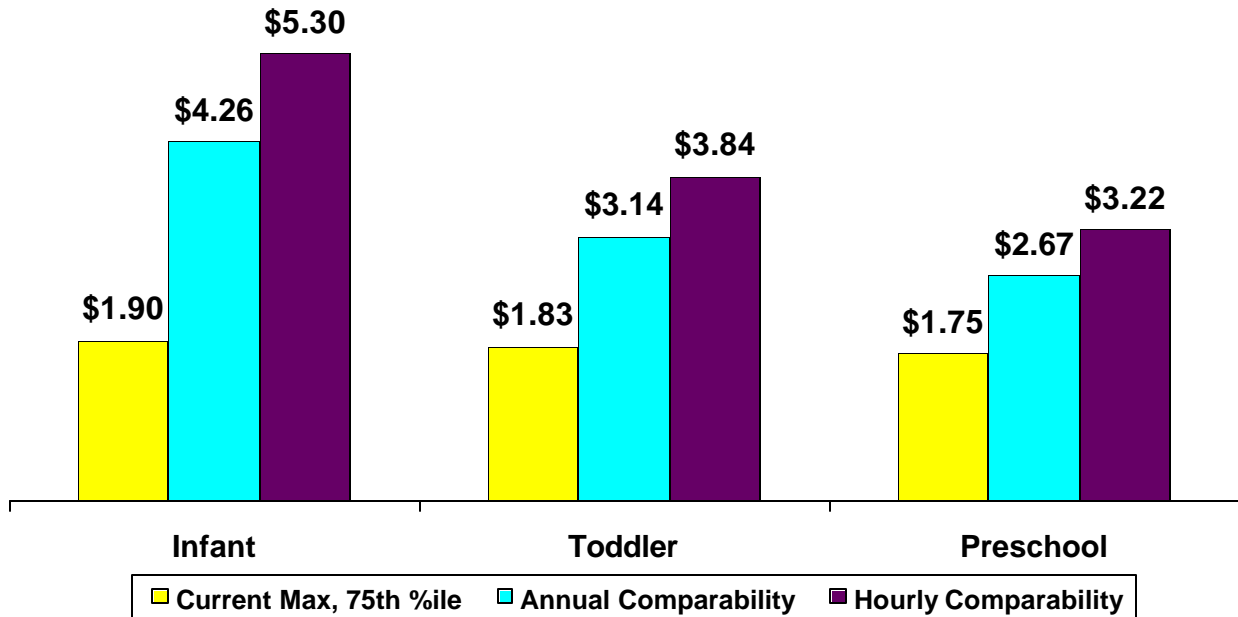
For preschoolers, 33 percent of center teachers would have bachelor's degrees; for toddlers, 13 percent would have bachelor's degrees; for infants, 8 percent would have bachelor's degrees.

Teachers with a BA/BS would receive \$11.50 per hour to start. An assistant teacher with an AA degree would start at \$8.62 per hour. While lower than the ultimately desired salaries, they would be considerably higher than the \$8.60 paid to pre-school teachers and \$6.63 currently paid to child care workers in MS (US BLS/OES, 2002). Salaries for all levels of staff would increase with years of experience and additional educational credits. All staff would receive health and retirement benefits at the rate of 20% currently used for public school teachers in Mississippi.

A professional development allotment of \$1,400 including tuition (\$900) and expenses (\$500) per staff member would be provided, with an additional \$1,200 per staff in institutional funding to develop and offer courses. Release time for professional development is factored into the costs at 45 hours per year (the amount of time necessary to complete a 3 credit course) for center staff, 24 hours per year for FCC providers.

About \$1,600 a year per full-time child would be provided for non-personnel costs, such as food, supplies, equipment and insurance.

**Chart 4: Hourly Cost Per Child of High Quality Centers vs. Current MS Rates
(State Max. Reimbursement and 75th Percentile)**



To understand the impact of the increased costs of high quality ECE in the MS market, we need to compare these costs to the current prices paid for the same type of ECE arrangement by MS families, and also see how they would change the maximum reimbursement rate paid by public agencies on behalf of eligible children. Since MS sets the maximum reimbursement rate at the 75th percentile rate,¹ paid by upper-middle income families, we can use the same ‘current’ number to consider each of these effects. Chart 4 shows what the hourly costs for high quality center-type care resulting from these policies would be under the shorter-term (annual) and longer-term (hourly) teacher salary comparability standards. It should be noted that these are the hourly costs per child incurred by the providing agency, that would be the basis for establishing the rates charged to parents, and charged to public agencies on behalf of eligible children. These are not the hourly salaries paid to staff, which would be considerably higher (see page 8).

Under the shorter-term scenario, the cost of infant care would be more than twice the 75th percentile price currently paid by upper middle income families and the maximum allowable public reimbursement in MS. This highlights the need to craft a range of policies appropriate for assisting parents of infants. The increase for toddlers would be

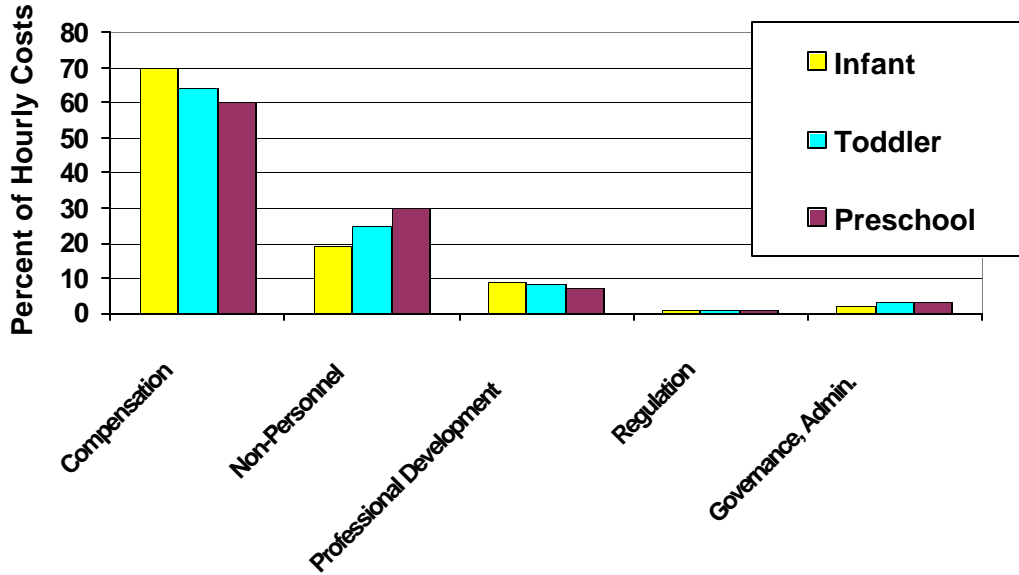
¹ The 75th percentile market rate is determined by a Mississippi state survey that asks a representative sample of all providers what they charge for ECE. All providers are ranked from lowest to highest price in each area, and weighted for the number of slots. The 75th percentile rate is found by counting up from the bottom and reflects the price at which a family would have access to 75 percent of providers, or all but the one quarter most expensive providers in their area.

72 percent above current rates. For preschool age children, the apparent increase would be 53 percent. However, since rates for preschool age children are often set somewhat higher than actual costs in order to cross-subsidize more expensive infant and toddler care (see Witte, 2002), the actual increases are probably somewhat higher than they appear for preschoolers, and somewhat less for infants and toddlers. It should be noted that our estimates are for actual costs, without any ‘hidden subsidies,’ such as free rent, donated supplies or volunteer staff time. Obtaining such assistance could somewhat reduce the cost to parents and public agencies. If teacher salaries were to move to hourly (as opposed to annual) salary comparability with elementary school teachers, the hourly costs would be significantly higher, as reflected by the red bars on the right for each age group.

b. Components of the Cost of High Quality ECE

The HSPC model builds the total cost of high quality ECE from the bottom up, including both personnel and non-personnel costs to the direct provider. We also include systems level costs for promoting and assuring quality, including professional development, regulation, governance and administration. Compensation accounts for 60-70 percent of total costs with annual comparability for teacher salaries; it would be a somewhat higher share if salaries were at the higher, hourly comparability standard. The chart below also shows that while investments in professional development, regulation and governance are essential to effective use of funds, they represent only about 11 percent of the hourly costs. An important lesson from such other social benefits as K-12 education and health care is that it is important to embed quality promotion in hourly costs. Setting aside a portion of every benefit dollar for quality promotion investments can assure that they grow at the same pace as benefit payments, so that quality can be improved and maintained as the financing structure increases in size and cost. Embedding quality promotion in hourly costs also sends a message that they are integral to an effective ECE financing system, not an ‘extra’ that can be eliminated when budgets are tight.

Chart 5: Components of High Quality MS Center Costs
(Annual Teacher Salary Comparability)



c. Parent Education and Family Support Services

In addition to basic ECE costs, the Mississippi ECE Financing Team specified that parent education and family support services for vulnerable, low income children should be included in the overall cost estimates. However, since these would only be required for a small percentage of families, we did not build them into the basic ECE costs that would be offered to all families in the market. Rather, we estimated the annual cost of an additional program of parent education and family support. Based on experience with high quality programs in Mississippi, the team specified that 19 hours a year of parent education should be made available to the families of the 10 percent most at-risk children age birth through three (about 12,000 children), at a cost of \$15 an hour. This would cost about \$3.4 million a year.

d. Relationship of Family Child Care (FCC) and Center Care Rates

In the current MS market and reimbursement rates FCC is priced at about 57 percent the price of center-type ECE. Since we know that parents' choice of type of care is sensitive to prices, it is important to examine what these recommended hourly costs imply for the ratio of center to FCC prices. The Mississippi ECE Financing Team recommended equivalent salaries based on qualifications, but a lower set of qualifications for FCC providers than for center teachers. The MS Team specifications would result in FCC prices close to those of center-type care for all but the youngest children, where FCC

would cost about 71 percent as much. Setting FCC costs close to those of center care, but making both financially affordable through expanded assistance, would therefore eliminate price as a factor and allow parents to choose family or center arrangements based on such other factors as training of staff, enhanced programs, a known or trusted caregiver, lower ratios, homelike setting, religious or cultural values, location or flexible hours, all factors that Mississippi parents have said are important to them.

Under the MS approach, about 90 percent of all public payments would be made for ECE in center-type settings, similar to the current voucher system.

3. Assisting Families to Afford High Quality ECE

a. The Need to Assist Middle Income Families to Afford High Quality ECE

The hourly costs of high quality ECE are beyond the ability of average working families in Mississippi to afford without help. For example, if a toddler were in full time center care at a cost of \$3.14 per hour (the high quality cost under the lower, annual teacher salary comparability approach), the annual cost for one child would be \$6,500, equivalent to more than a quarter of the average after-tax income of Mississippi families with children.

b. Policy Options for Assisting Families to Afford High Quality ECE

HSPC's exploration of other major U.S. social benefits revealed that they are all composed of combinations of certain financing mechanisms. These include strictly income related benefits, assistance offered on a non-income related basis through the provider of service, tax preferences to families or employers, and combinations of the above (see Brandon et.al, 2000). The Mississippi Team explored several approaches to assisting families and decided that the approach described below best fulfills the objectives of improving access to high quality ECE and minimizing budgetary costs. HSPC has provided two additional scenarios for context.

For the purposes of estimating total costs, the MS Team asked us to assume that the federal Head Start program will remain as a separate program, serving approximately as many children as it currently does. Under the program described below, increased funding could allow Head Start contractors to serve currently enrolled children for additional hours, or serve additional children. Our estimates of additional state/local costs therefore reflect the assumption that federal funding for both Head Start and CCDF will continue at close to current levels. If federal contributions were to increase, state/local funding could be reduced accordingly.

1. *Baseline*: in our computer model, HSPC replicated the benefits to families and costs to the state for services under the current Child Care Development Fund (CCDF) subsidy system, which in Mississippi has an income-related benefit with

a maximum eligibility of 2.05 times the Federal Poverty Level (\$37,105 per year for a family of 4). Costs for other policy options were then estimated as a cost increase from current policy. For this purpose, we distinguished the new local governance and accountability costs, which are incorporated into the hourly costs of ECE, from the costs to state agencies of administering benefits to families. We assumed that the ratio of subsidy to agency administrative costs would remain constant as benefits were expanded to more children in each option, though it might be possible to gain some efficiencies. We also compare the distribution of benefits by family income, age of child and type of care generated in our modeling of each policy option to the current distributions estimated in the baseline run.

2. *Mississippi Approach:* After considering several alternatives, the MS team decided that the *approach best meeting its objectives would be to combine a 55% of cost provider subsidy with an income-related voucher for the remaining costs of high quality ECE.* This program would cover approximately 84 percent of MS children. Neither providing all assistance on an income-related basis, nor providing only a tax credit, met the objectives of broad financial access to high quality ECE for Mississippi's children. Thus, the state would pay a provider 55% of the cost of high quality ECE, with the specific rate tied to the provider demonstrating that it was following the staffing and other specifications described in the previous section of this report. The amount to be paid would not vary by the income of the child's family, but would only be paid on behalf of children meeting the income eligibility limit. The regular cash flow available to providers under this arrangement would help them meet the costs of assuring higher quality. From the state's perspective, it would have a direct financial relationship with the provider, and an enhanced ability to assure that higher quality standards were being met in return for increased funding. Many families would not be able to afford the remaining 45% of costs of high quality ECE. The same 84 percent of MS families would therefore be eligible for an income-related voucher, similar to the current voucher system. The amount of remaining costs covered by the voucher would decrease as family income increased. This is similar to the financing of public higher education, where all students at public colleges and universities benefit from a major share (about 70 percent in MS) of the cost being covered by public funding. Tuition payments are charged for the remaining 30 percent of costs, and grants, loans and scholarships are available on an income-related basis to assist with that tuition.
3. *Free ECE For All:* is an illustrative option provided by HSPC for context (and not recommended by the Mississippi ECE Finance Team. It is patterned on the free kindergarten system, but with parents able to select among various types of ECE. A 100-percent-of-cost subsidy would be paid to providers, resulting in free ECE for all children in all types of care, regardless of income. Higher hourly cost rates, based on an hourly equivalence between elementary school teachers salaries and ECE teachers with BA degrees are used for this option.

While this analysis has focused on providing access to high quality ECE on a child-by-child basis, many people are used to thinking about how ECE is provided by programs. Charts 6 and 7 therefore graphically portray the Mississippi financing approach from the separate perspectives of children and families, and of programs.

Chart 6: Financing High Quality ECE in Mississippi: Child/Family Perspective

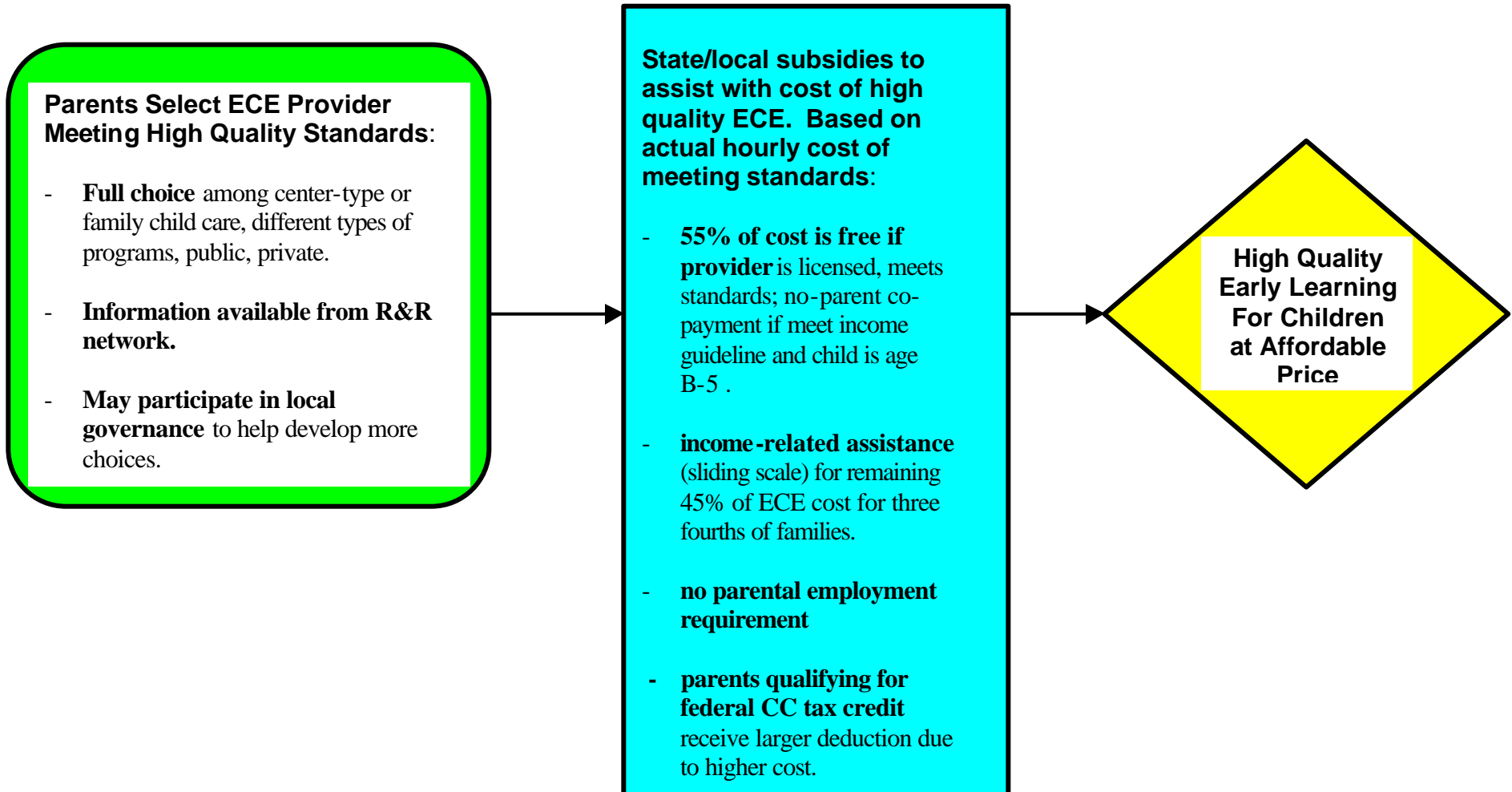
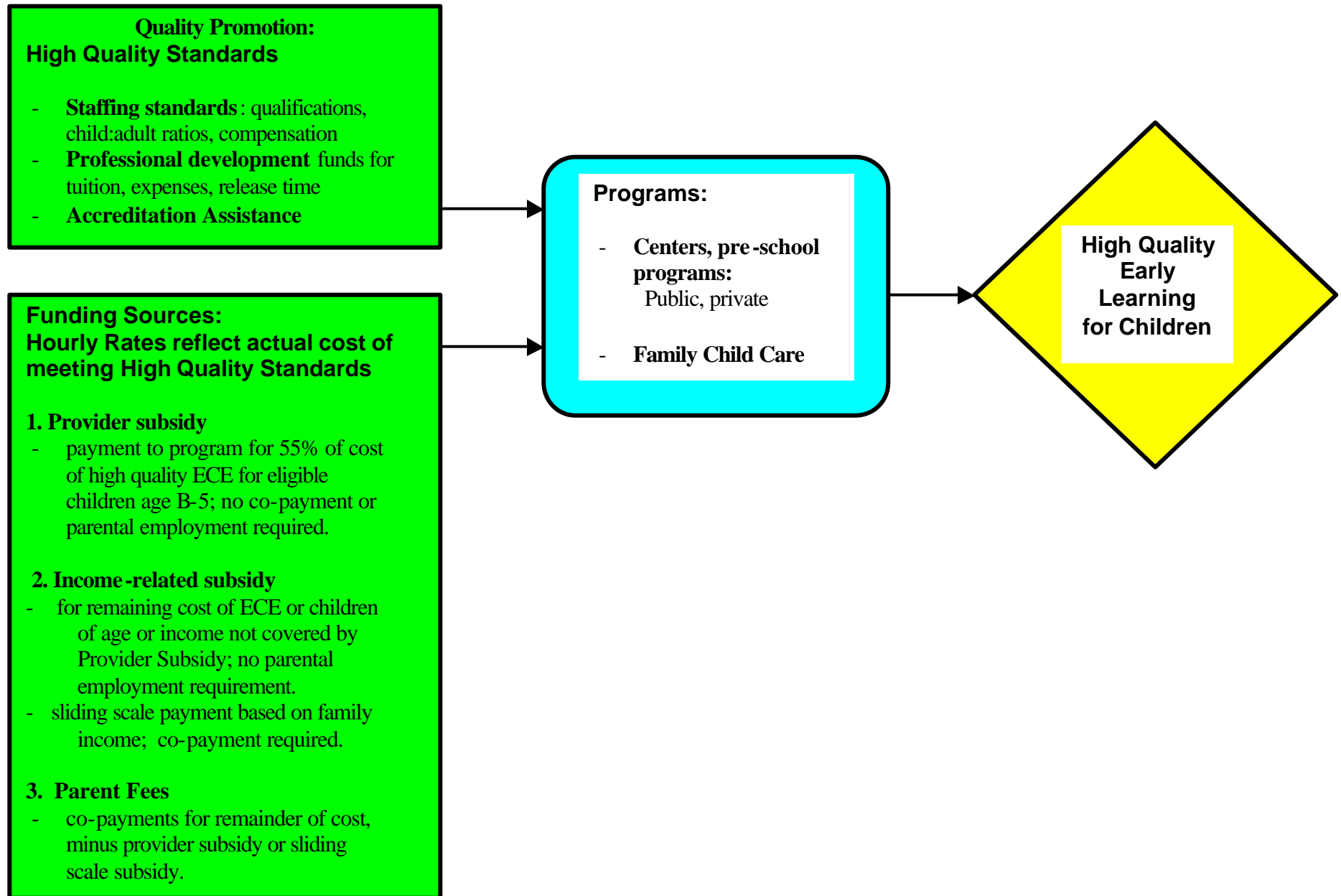


Chart 7: Financing High Quality ECE In Mississippi: Program Perspective



c. Moving From Hourly to Budgetary Costs of High Quality ECE

While hourly costs of ECE are a critical building block, they do not reflect the full cost to state and local entities of a high quality system of care. The key elements HSPC used to estimate the system-wide cost impact include:

- Estimating current utilization (in hours per week) of different types of care by children in households representative of the state population on key characteristics.
- Applying the relevant hourly costs of high quality ECE for the relevant type of care and age of child to current utilization patterns;
- Specifying alternative policy options that will assist parents to afford care, and estimating the reduction in price experienced by parents under each policy scenario. Key policies considered and specified by the Mississippi ECE Financing Team include:
 - setting the maximum income level at which families will be eligible for partial assistance at \$73,600 for a family of four; determining a co-payment schedule that avoids work disincentives;
 - deciding that there will be no parental employment requirements for children to receive assistance, as there are none in the public education system;
 - that there will be a direct subsidy to providers equal to 55% of total cost for eligible children;
 - that payments will not be made for stipends to parents to stay home and care for their own children, nor will there be payments for license-exempt care by relatives;
 - there will not be state income tax credits offered to families in addition to direct payments for care.
- Estimating the changes in the types and amounts of care parents are likely to use as a result of increased financial access (reduced price), and adjusting cost estimates to reflect these changes in demand, including the potential need for additional or upgraded facilities.
- Estimating the likely increases in paid work as a result of the greater financial access to high quality ECE and the amount of federal and state taxes likely to be generated by the increase in paid work.

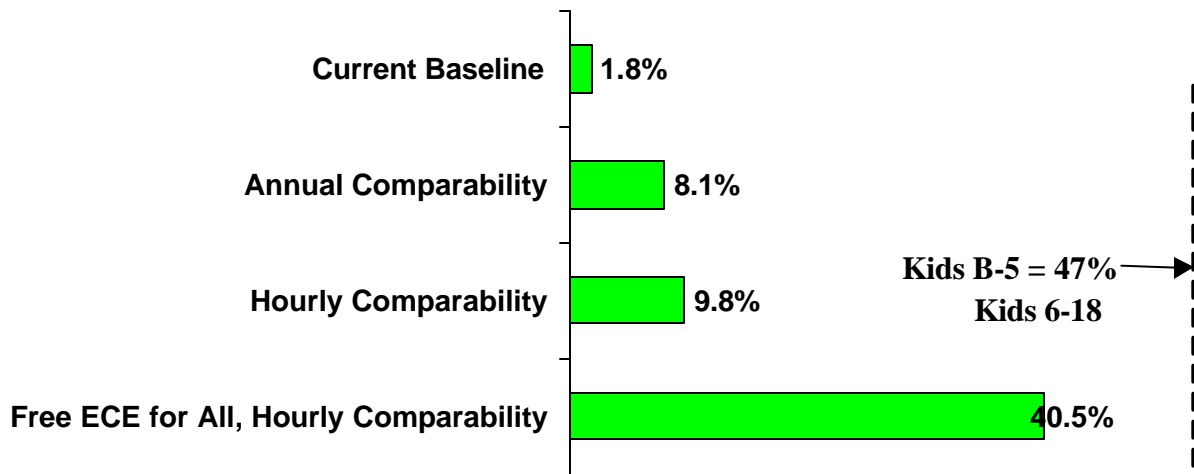
Total Costs of High Quality ECE

Chart 8 shows the total costs of the various options specified by the Mississippi ECE Financing Team, expressed as a percent of total K-12 public education spending. These are the annual cost levels to be reached after the financing policies were phased in over at least a five-year period. For this comparison, both ECE and K-12 costs include federal, state and local contributions.

The illustrative Free-ECE for All option – provided by HSPC to set the policy recommendations in context -- would result in total ECE spending equivalent to 41 percent of total federal and state/local education spending, a 39 percentage point increase over the current level. The option specified by the Mississippi team is much more moderate. Its total cost would be equivalent to about 8.1 percent of total K-12 spending in Mississippi for the initial phase, and 9.8 percent in the later phase. As with elementary, secondary and higher education, this could be a shared responsibility of state, local, federal and private contributions. Some of the costs could potentially be met by offsetting other expenditures. It should be noted that the initial phase would take about five years to phase in. First, teacher standards for early learning would have to be raised, then a large number of current and new teachers trained to meet the new standards, then compensation and hourly rates could be increased. As hourly rates were increased, assistance to families to afford those new rates would be expanded. Policy specifications could be refined during the phase-in period in response to changing conditions and experience.

As noted above, the difference between these phases is linking ECE teachers salaries to elementary school teacher salaries on an annual basis in the first phase, and an hourly basis later on.

Chart 8: Total ECE Spending as Share of Total K-12 Spending in MS, Alternative Financing Approaches



The costs presented here are annual amounts, and reflect both the increases in demand from greater affordability of high quality ECE and the revenue offsets due to greater employment and earnings of mothers.

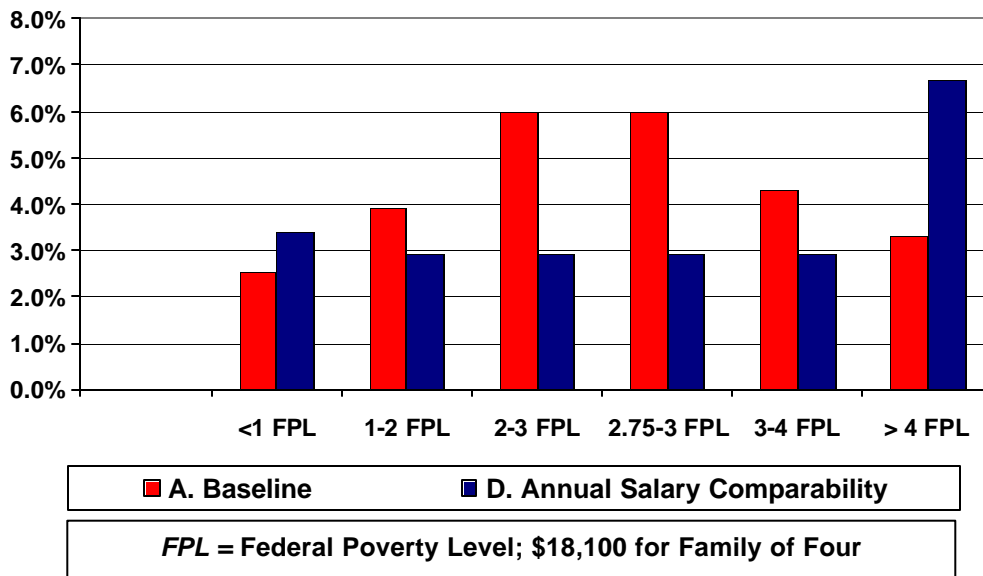
It should be noted that the birth-5 population is 47 percent as large as the population age 6-18 in Mississippi, and that the ECE costs are year-round, not just nine months.

Spending an amount less than 41 percent of K-12 spending on ECE would therefore be a proportionately modest investment. The amounts proposed by the MS ECE Finance Team are only one fourth to one fifth that amount.

Affordability of High Quality ECE for All Mississippi Families

Chart 9 below shows that the Mississippi combination of non-income-related provider subsidy and an income-related voucher successfully addresses the issue of moderate and middle income affordability. This financing approach would dramatically increase Mississippi families’ access to high quality Early Care and Education. Low income families would continue to pay 2-3 percent of income for ECE. Under the current system, moderate and middle income families do not receive any assistance, and many cannot afford the cost of ECE at the 75th percentile market rate. Under this new approach, moderate income families with income between \$18,000 and \$36,000 would see their ECE payments reduced from 4 to 3 percent of income. Middle income families between \$36,000 and \$54,000 would have payments reduced from 6 to 3 percent of income. Quality would go up, family payments would go down.

Chart 9: Family Cost of ECE as Percent of Income, Current Baseline vs. MS Approach



Summary: Mississippi Approach Balances Multiple Objectives

Chart 10 below compares the Mississippi approach to the current program and the illustrative Free ECE for All option with regard to the three major criteria: budgetary impact, affordability for all families, and targeting funds to the most at-risk children. Note again that the costs of high quality ECE as a percent of income are based upon one child in full time care. For the one third of Mississippi families with two children under age five, the percentages of family income paid for ECE could be double the amounts shown.

The approach recommended by the Mississippi ECE Financing Team seems to successfully balance the major objectives considered. It provides voluntary access to high quality ECE for all MS families, but does so at modest budgetary cost by building on the existing delivery system, being realistic about the major cost factors, and continuing to have parents contribute at a level they can afford. The approach is feasible in the private market, since it makes the price of high quality ECE affordable for families at lower, middle and upper income levels. It continues to target almost three quarters of public investment toward meeting the needs of the most vulnerable children, while making sufficient assistance available to moderate and middle income families that they can also afford high quality early learning experiences. The MS approach includes strong accountability features to assure that increased investment produces better early learning and greater school success for Mississippi's children.

Chart 10: Mississippi ECE Financing Policy Approach in Context

	Budget Impact: Increase in State/Local Spending		Affordability: Cost as % Middle, Upper-Middle Family Income	Targeting: Percent Total ECE Spending to Low-Moderate Income (< \$36,000)
	Annual \$ Millions	Federal/State ECE Spending as Percent K-12 Spending		
Current Programs	-0- (Base = 4)	1.8%	3 - 6 %	100%
<i>Mississippi Approach A: 55% of Cost provider subsidy, plus income-related voucher 84% of Children Eligible for Assistance. Annual Teacher Salary Comparability</i>	+ 165	8.1%	3 - 7%	73%
<i>Mississippi Approach B: 55% of Cost provider subsidy, plus income-related voucher. 84% of Children Eligible for Assistance. Annual Teacher Salary Comparability</i>	+210	9.8%	3 – 8 %	73%
<i>Free ECE for All Children; no family co-payment. Higher salaries.</i>	+1,016	+ 41%	-0-	53%

D. Conclusions

This project, entailing two rounds of HSPC analysis, allowed a statewide group of policy makers and stakeholders in Mississippi to explore many different policy options for making high quality early care and education financially accessible to all children in Mississippi. The effort yielded a set of policies that will achieve that goal at moderate budgetary costs while targeting a majority of funds to the most vulnerable children and families in the state. Further policy refinements are possible within this overall framework.

The HSPC analysis showed that achieving high quality ECE for Mississippi children would require significant increases in hourly costs, which include investing about 10 percent of total costs in quality promotion and accountability. The estimated cost increases makes it clear that achieving high quality ECE would drive costs beyond what middle income parents can afford if they are not given some form of financial assistance.

The analysis also showed that it is possible to design a partially subsidized early care and education system that provides high quality at prices parents can afford, with moderate impact on the state budget.

The “Mississippi Package” consists of a provider subsidy covering 55 percent of costs without a parent payment, plus an income-related voucher with parent co-payment, to help parents afford the remaining 45 percent of high quality costs. This approach meets several objectives: it maintains parent choice, meets the needs of low and middle income families, targets most of the funds to the most vulnerable children. The approach includes quality assurance through technical assistance and monitoring activities, statewide resource and referral, and support for state governance and local planning structures.

Universal access to high quality early learning for children age birth to five could be achieved with additional public (state-local) and private spending equivalent to about an 8-10 percent increase to total public education spending, phased in over a number of years and with shared state, local, federal and private contributions. This would cost only one-fifth as much as a kindergarten-style, everyone-attends-for-free approach.

There are many different ways that such an approach could be phased in: gradually increasing the requirements for staff qualifications and compensation, focusing on particular age or income groups, gradually expanding outreach efforts to achieve full participation, or serving certain geographic areas of the state.

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