The Economics of Early Childhood Care and Education in Minnesota

Report of the Itasca Project Task Force on Early Childhood Development

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CONTENTS

I. EXECUTIVE SUMMARY

Early childhood is a critical time for determining life success for individuals. It is increasingly clear that a high quality early childhood care and education system is a key competitive advantage for regions, states, and countries. High quality care can fundamentally change the life trajectories of at-risk children, help all children reach their full potential as workers and citizens, and, in turn, influence public expenditures and long-term economic growth. More than 80% of Minnesota children are in non-parental care for an average of 27 hours per week.

The current system of early child care and education in Minnesota is not getting the job done. Only half of Minnesota children are entering school fully prepared to learn. At-risk children arrive at the school house door already exhibiting performance gaps that will, in a majority of cases, undermine their future academic and life success.

Early intervention has proved so effective with at-risk children, Art Rolnick and Rob Grunewald of the Federal Reserve Bank of Minneapolis estimate that a public investment in providing quality early care for at-risk children can yield a real internal rate of return of 12-16%.[3] As such, they suggest investing in early childhood development as the best regional economic development strategy available.

The early childhood care and education in Minnesota is largely a private market. Eighty-percent of the $1.5 billion spent annually on early childhood care and education in Minnesota is private. Of the 20% that is public spending, at least half is in the form of subsidies applied in the private market. Therefore, in this report, we examine the failures of the current early childhood system as market failures and recommend interventions to improve the efficiency and productivity of the market.

We believe there are 4 factors in the ECD market that combine to limit the overall quality of the system: (1) weak buyers, (2) weak suppliers, (3) lack of good information, and (4) minimal standards and accountability.

Weak buyers

Purchasing power is highly fragmented, dispersed among the parents of the roughly 270,000 children in early childhood programs. Compounding this fragmentation is the fact that the $51,000 average cost of 5 years of center-based care (which is 2.5 times the cost of four years of state college tuition and fees) is unaffordable for most parents. The cost of care strains most working Minnesota families, but the weakest buyers, unfortunately, are those buyers most in need of high quality services.

RECOMMENDED ACTIONS:

➔ **Increase purchasing power of the highest need families in a way that boosts overall market quality.** We support the efforts of the Minnesota Early Learning Fund to test the impact of a scholarship and mentorship model.

➔ **Improve coordination of existing public programs to better serve the needs of the most at-risk families.** In particular, we believe the state must blend its child care assistance programs and early education programming to provide full-service solutions for the children and families they serve.

Weak suppliers

The early childhood market is highly fragmented. Minnesota has 946 child care centers, 12,778 licensed family child care homes, and an estimated 140,000-150,000 individuals providing informal family, friends and neighbors (FFN) care. Providers have no real collective ability to set standard rates, make joint purchases, or capture other benefits of scale and cohesion.

The average care provider in Minnesota is operating on the edge and is not in a strong position to move the market.

RECOMMENDED ACTIONS:

➔ **Help providers improve quality.** As we work to make the market more efficient and competitive, we believe many providers need assistance in improving quality to be prepared to compete. We urge the state and private philanthropies to focus resources on helping providers meet these new challenges.

Lack of good information

Both of the primary investors in ECD services – parents and the government – lack good market information.

There is no outcomes-based performance data available on early childhood providers. Therefore, parents have no basis for making sound choices to assure a high return on their investment.

Legislators also lack good data to guide their investment decisions. Investments are made with no consideration given to expected rate of return because the government has no system of collecting performance data on any programs.

RECOMMENDED ACTIONS:

➔ **Implement a quality rating system.** We support partnership between the Minnesota Early Learning Foundation, the state, and the University of Minnesota to develop and implement an outcomes-based provider quality rating system.

Minimal standards and accountability

Closely tied to the lack of market information is the lack of accountability for providers. Because buyers in the market do not have the means to measure performance, buyers cannot hold providers accountable for their results.

Government oversight varies by type of provider and is limited to operational standards. There is no oversight of whether the programs are meeting the government's objectives.

RECOMMENDED ACTIONS:

➔ **Educate parents to be more effective teachers/care providers themselves and to hold outsourced care providers accountable for results.** We support the Greater Twin Cities United Way's leadership on this front working in concert with the University of Minnesota Center for Early Education and Development, the state, the media, and healthcare providers

We believe it is time to shift from talking about the importance of early childhood development to fixing the fundamental problems. We believe Minnesota should act to expand access and improve quality of early environments, especially for at-risk children, employing strategies that improve the quality of the overall market.

II. INTRODUCTION

The current system of early child care and education in Minnesota is not getting the job done. Only half of Minnesota children are entering school fully prepared to learn. At-risk children arrive at the school house door already exhibiting performance gaps that will, in a majority of cases, undermine their future academic and life success.

Eighty-percent of the $1.5 billion spent annually on early childhood care and education in Minnesota is private. Of the 20% that is public spending, at least half is in the form of subsidies applied in the private market. Therefore, in this report, we examine the failures of the current early childhood system as market failures. This is a different approach than other assessments of early childhood care in Minnesota and provides a new and valuable framework for understanding what needs to happen to improve system outcomes.

There are a number of forces at work that result in a market equilibrium that does not meet Minnesota's needs. Without reform and support, none of the players in the market have the power, incentives and/or resources to improve quality and results.

Why does Minnesota have a compelling interest in early childhood care and education?

Early childhood is a critical time for determining life success for individuals. It is increasingly clear that quality early childhood care and education is a key competitive advantage for regions, states, and countries. High quality care can fundamentally change the life trajectories of at-risk children, help all children reach their full potential as workers and citizens, and, in turn, influence public expenditures and long-term economic growth.

Historically, quality child care has meant a safe place for children while parents work. The ever-mounting body of research that links high quality early care to children's developmental outcomes has changed this standard (see inset box on following page). We now know that the quality of our future workforce is directly tied to the quality of life experiences in early childhood.

As the labor force participation rate of Minnesota women has doubled between 1960 and 2000, child care has been increasingly outsourced. Today, more than 80% of Minnesota children are in non-parental care for an average of 27 hours per week.[1] If this care is not developmentally positive, we are undermining our future workforce quality and competitiveness.

Beyond workforce development, quality early childhood experiences affect nearly every indicator of social and economic life success – from reducing the odds of juvenile delinquency to increasing the odds of home ownership. Fig. 1 (on the following page) shows some of the positive impacts of high-quality early care and education of at-risk children. Early intervention is critical for breaking cycles of generational poverty and addressing the socio-economic disparities outlined in "Mind the Gap," the Brookings Institution's report commissioned by the Itasca Project.[2]

Because early intervention has proved so effective with at-risk children, Art Rolnick and Rob Grunewald of the Federal Reserve Bank of Minneapolis estimate that a public investment in providing quality early care for at-risk children can yield a real internal rate of return of 12-16%.[3] As such, they suggest investing in early childhood development as the best regional economic development strategy available.

What do we know about the science of early childhood development?

Scientific research has made it clear that the starting line for positive life outcomes starts before birth and the years before kindergarten are critical ones. This developmental period from birth to age five is marked by a variety of traits, including:

- Development (physical, cognitive, social) occurs at a pace more rapid than any other time across the lifespan
- This development is strongly influenced by environmental variables. Children at this age are more responsive to interventions than at any other time
- Skills acquired – or not acquired – during these years are likely to set the stage for future development

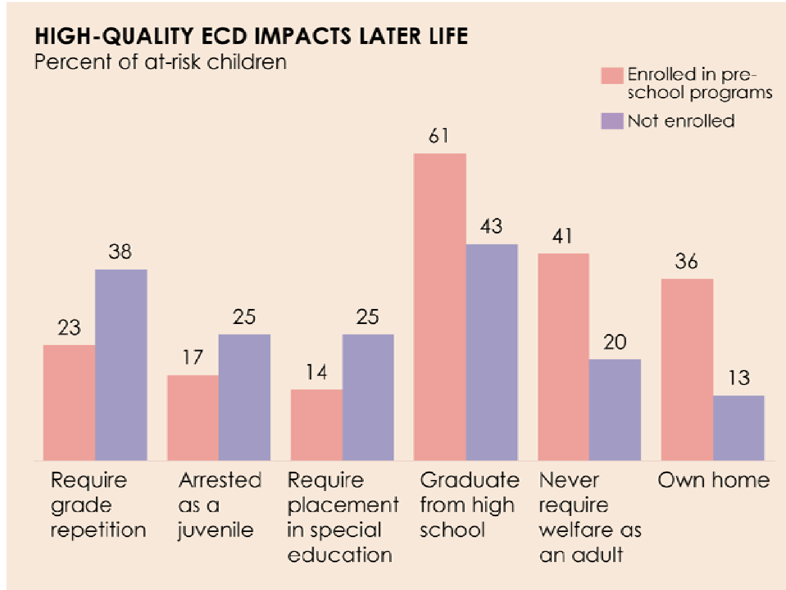
Just as a balanced diet of quality nutrition is important for children's physical development, a balanced diet of quality environmental inputs is essential for children's thinking and social skills. Strong, persistent doses of high quality early childhood experiences can improve children's life outcomes while low quality early experiences, even in low doses, can have a negative effect on children's outcomes.

This is especially important for at-risk children living in poverty who may develop skill and cognitive deficits before starting school that persist over time. For example, children from low-income families have 56% smaller vocabularies at age 3 than children of professionals.[4]

Source: University of Minnesota Center for Early Education and Development

[1] *Child Care Use in Minnesota*, MN Department of Human Services (November 2005)
[2] *Mind the Gap: Reducing Disparities to Improve Regional Competitiveness in the Twin Cities*, Brookings Institution's Metropolitan Policy Program (October 2005)
[3] "Early Childhood Development: Economic Development with a High Public Return," *Fedgazette*. Federal Reserve Bank of Minneapolis (March 2003)
[4] Children of professionals have a vocabulary of 1,100 vs. 480 words for welfare families (B. Hart and T. Risley)

Figure 1



Source: National Institute for Early Education Research; based on results from the Chicago-Child Parent Centers program and the Perry Preschool Program,

Child care is also necessary, of course, for our current workforce to be productive. Minnesota has the highest labor force participation rate overall and the highest female labor force participation rate in the US. In Minnesota, 72.4% of women with children under six work outside the home.[1]

Reliable child care is essential to keep parents in the workforce and allow them to be as productive as possible in the workplace. Twenty percent of Minnesota mothers report that child care problems have interfered with getting or keeping a job in the past year. These challenges are even greater for mothers with low incomes, with 36% reporting problems securing child care support.[2]

Business leaders and citizens in Minnesota and around the country are increasingly attuned to these issues and vocal about the need for change.[3] A number of states have moved aggressively to invest major new public resources into early childhood programs and support is broad. A recent Gallup poll found that two-thirds of American households indicated a willingness to pay more in taxes to fund preschool programs for children from low-income or poverty level households.[4]

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1 *Labor Force Participation of Women: Minnesota and United States,* Legislative Commission of the Status of Women (June 2004)

2 *Child Care Use in Minnesota*, MN Department of Human Services (November 2005)

3 For example, in a recent poll, 85% of Minnesotans indicated it is a top policy concern, (conducted in 2006 by Peter Hart Research/Decision Resource for Pre-K Now). 83% of Fortune 1000 business leaders said public funding of voluntary pre-K programs for all children would improve the workforce (conducted in 2006 by Zogby for the Committee for Economic Development).

4 Phi Delta Kappa/Gallup Poll of the *Public's Attitudes Toward the Public Schools* (September 2006)

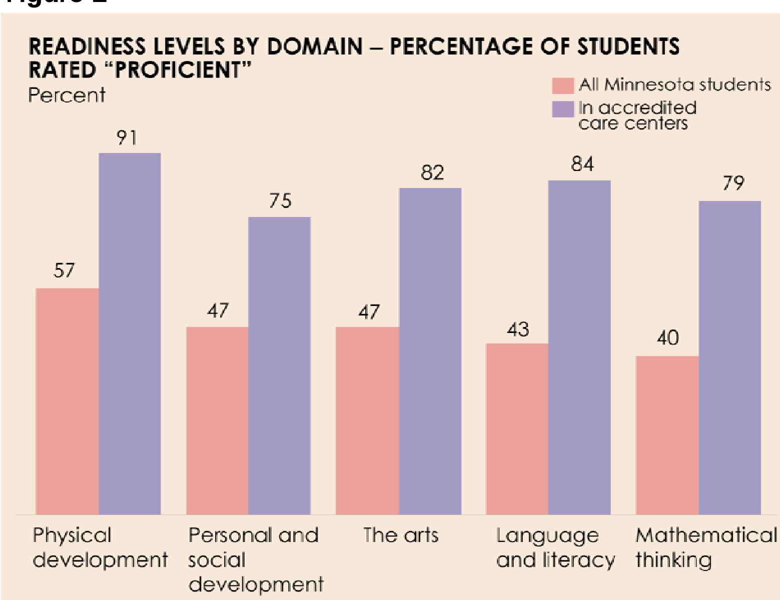
III. THE URGENT PROBLEM

In Minnesota, fewer than half of our children show up fully prepared for school.[1] According to the Minnesota Department of Education's "Developmental Assessment at Kindergarten Entrance," only 43% of incoming kindergarteners are proficient in the language and literacy skills and 40% are proficient in the mathematical thinking skills required for a successful start.

The picture is even more bleak for at-risk children. Children in the lowest income category (<$35,000) were 2 to 3 times as likely to be rated "not yet" ready on these domains as children in the highest income category. Children of parents with the lowest level of education were more than 5 times as likely to be "not yet" ready than the children of parents with the highest education level.

This is in spite of the fact that we know that quality care can dramatically improve these outcomes. *Research shows a dramatic performance differential for Minnesota children in accredited center-based care – our best proxy for high-quality care.*[2] Across all 5 domains tested, children in accredited child care centers are much more likely to be school-ready (see Fig. 2). Even more significantly, *children in accredited centers show almost no performance gap for income, race, or level of parent education.*[3]

Figure 2



Source: "School Readiness in Child Care Settings," Minnesota Department of Human Services (February 2005)

In spite of these results, only about 4% of all Minnesota children in non-parental care are in accredited centers. Why? Why isn't the market rewarding these outcomes? And, more fundamentally, why isn't the market driving the results we want?

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1 The Minnesota Department of Education assesses school readiness in terms of indicators that "represent what children should be able to do at the end of the year before they enter kindergarten based on widely held developmental expectations." Their definition is consistent with that of other states. Sample indicators include: "begins to recognize and describe the attributes of shapes" and "follows 2- or 3-step directions." (Source: *Minnesota School Readiness Year Two Study,* Minnesota Department of Education)

2 An "accredited" center is once which has been certified by the National Association for the Education of Young Children (NAEYC). NAEYC accredited centers must meet 10 standards, including having qualified staff, using a strong developmental curriculum, and conducting regular child assessments

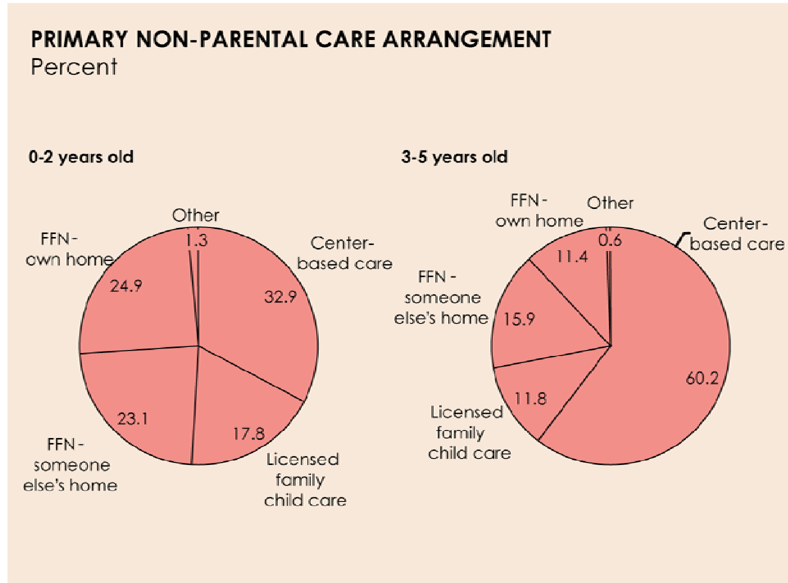
3 *School Readiness in Child Care Settings: A Developmental Assessment of Children in 22 Accredited Child Care Centers*, Minnesota Department of Human Services (February 2005)

IV. MARKET ANALYSIS

The Minnesota early childhood system is a large, private-sector dominated market. As demand for child care has increased in the past 50 years, tens of thousands of providers of all types have emerged to meet this demand, creating a $1.5 billion industry.

As the Readiness Assessment results suggest, not all caregivers are providing quality care. In fact, a statewide observational study by the Minnesota Child Care Policy Research Partnership found that only 25% of licensed child care centers (which includes accredited and non-accredited centers) are of "Good" quality.[1] We have no reason to believe that licensed family child care providers or informal family, friend and neighbor caregivers (FFN) are doing better.

Figure 3



Note: Includes regular arrangements used at least once per week in each of the last 2 weeks for one randomly selected child per household.
Source: Child Care Use in Minnesota, MN Department of Human Services (November 2005)

Based on their study of successful early childhood programs, Art Rolnick and Rob Grunewald of the Federal Reserve estimate that a high quality ECD program costs at least $9,500 per year and as much as $15,000 per year for children with multiple risk factors. In Minnesota, however, a family earning $100,000 per year spends, on average, $6,600 for child care.[2] And Minnesota's (non-sliding fee) public subsidies average $5,915.[3]

While cost does not necessarily equal quality, there is a strong correlation between outcomes and certain factors, e.g. teacher ratios, that are tied to cost. We feel safe in assuming that a high-quality program costs at least $10,500 on average. This is the average cost for center-based care (both accredited and

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1 A *Snapshot of Quality in Minnesota's Child Care Centers*, Minnesota Child Care Policy Research Partnership (September 2005). Note: 71% were rated "Minimal" quality, 4% were rated "Inadequate"

2 Extrapolation from 1997 Urban Institute Study

3 $6,030 for MFIP and $5,915 for Head Start. **Note:** It is very difficult to compare Minnesota's spending to other states due to differing program structures. The best available data indicates that in 2001, Minnesota was 16th among states for its spending per eligible child for child care assistance (Source: U.S. Representative of Health and Human Services, Child Care Bureau); and in 2003 was 19th among states in funding to prekindergarten early education programs per child under four (Source: Children Defense Fund). A number of states have recently launched ambitious new early childhood programs including North Carolina, Oklahoma, New Jersey, and Florida

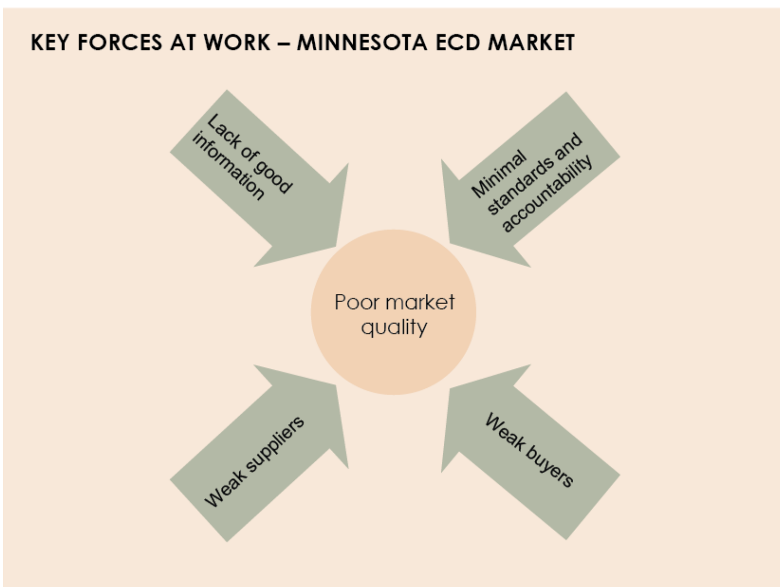
non-accredited) in Minnesota so we believe this is a conservative assumption. Some children have greater developmental needs and require a higher does of services, while others have less developmental need and require a lower dose.[1]

If all of the 69% of Minnesota children who are not cared for by a relative were in quality care at $10,500 a year, we would be spending approximately $2.5 billion annually on early child education and care. We actually spend $1.5 billion. In other words, we spend $1 billion less each year than is required to have all the children who are in care in high quality care.[2]

The market price seems to be set at a level that achieves one outcome we want from our early childhood system (safe care while parents work) but not the other (quality early childhood development). Why is this so?

We believe there are 4 factors in the ECD market that combine to limit the overall quality of the system: (1) weak buyers, (2) weak suppliers, (3) lack of good information, and (4) minimal standards and accountability (see Fig. 4) .

Figure 4



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1 A number of the partners we have worked with in this process object to this assumption and believe the number is more like $12,000-14,000 for a high quality center. We recognize the $10,500 figure is conservative but believe it is fair given the variety of types of care parents choose for their children

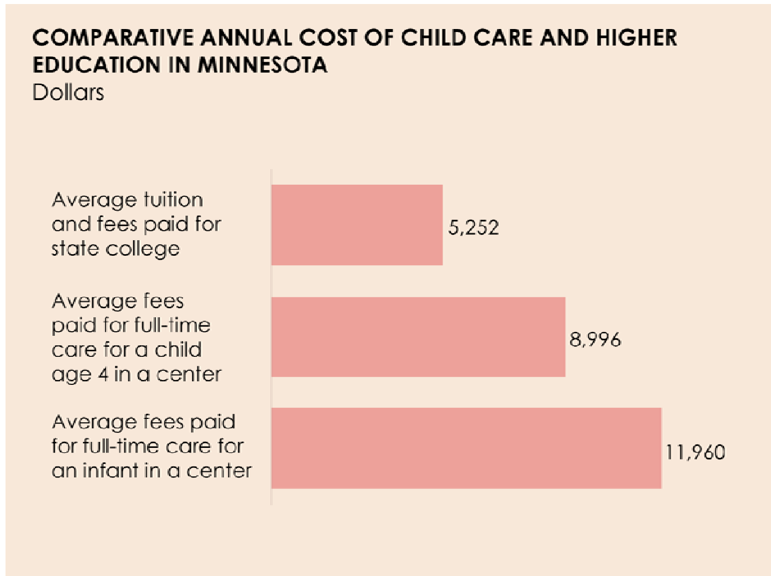
2 Quality care is important for all children – regardless of background. In a recent study, economists found that for every year children are in full-time day care that is not high quality, the child's cognitive ability test scores are reduced by 2.7%. These negative effects are larger for better educated mothers and for children with larger skill endowments. (Raquel Bernal and Michael P. Keane, *Quasi-Structural Estimation of a Model of Child Care Choices and Child Cognitive Ability Production,* March 2006)

Weak buyers

Purchasing power in the early childhood market is highly dispersed. There are roughly 270,000 children in the system and their parents make the decision how to spend their money or apply their public subsidy. (While public money accounts for 20% of spending, the state is mostly a passive investor, providing subsidies to support choices of parents with minimal restriction.) This fragmentation puts buyers in a weak bargaining position.

Compounding this fragmentation is the fact that buyers are also resource constrained, further weakening their ability to move the market. High quality care is expensive. In Minnesota, the average cost of full time care for an infant in a center is $11,960 and for a child age four in a center is $8,996. Compare this with the average cost of higher education (see Fig. 5). Five years of quality care for a child costs roughly $51,000, about 2.5 times the cost of four years of tuition and fees at a state college.

Figure 5



Source: "2006 Child Care in the State of Minnesota," NACCRRA

Public subsidies for child care and education are available to families at or below 175% of the poverty level on a sliding scale basis. The affordability problem, however, affects far more than just the low-income population. This is a significant financial burden for any family and there is not a system of loans and scholarships comparable to that which helps families afford higher education.

In the state of Minnesota, for a family of 4 to meet its basic needs with one adult worker, that worker must earn at least $34,800 per year ($16.73 an hour).[1] If this worker is one of the more than 50% of Minnesota workers who earns less than $34,800 a year (median: $29,645), or if the family has other expenses or wants to save, the family may rationally choose to have a second worker.

[1] Expenses are taken from *The Cost of Living in Minnesota,* published by the Jobs Now Coalition. While the group has a policy objective in preparing the report, the expense estimates are conservative and reliable. For example, the cost of housing is taken from HUD's Fair Market Rent Survey. [Monthly costs: food = $555; housing = $1,037; healthcare = $424; transportation = $398; clothing/other = $290; net taxes = $196.]

If this family decides to send their two children – one infant and one preschooler – to an average-priced child care center, they would now need to have a total family income of $60,024 per year to cover child care plus basic needs.[1] This is more than 3 times greater than the poverty level. Nearly half of the families in Minnesota earn less (median is $56,874[2]). Even at this income level, child care would consume 33% of the family's total earnings. Economically rational families are unlikely to choose to incur this level of expense.

The U.S. Department of Health and Human Services sets the child care affordability threshold at 10% of family income. By this standard, a Minnesota family would have to earn $193,500 per year for center-based care for two children to be affordable.[3] Only about 3% of Minnesota families earn this much. In other words, the average cost of center-based child care for two children is "unaffordable" for 97% of Minnesota families.

As a result, parents' market choices may not reflect their preferences. Thirty-one percent of Minnesota parents report that in choosing child care, "they had to take whatever they could get."[4]

The weakest buyers, unfortunately, are those buyers most in need of high quality services. Parents purchasing care and education with subsidies have limited bargaining power and limited ability to supplement the subsidy to access higher quality care. (For example, the average cost of infant care in a center represents 42% of the median income for single parent families in Minnesota.[5])

In terms of spending levels, in 2004, the maximum child care subsidy rate covered the cost of 59% of family child care providers and 52% of childcare centers.[6] The average Head Start subsidy is a bit higher. Therefore, public subsidies are not out of line with the market rate, or the amount parents pay for unsubsidized care. However, this level is far below what experts believe is needed to provide the quality of care required to overcome the developmental disadvantages of poverty.

As a result, when the parents of at-risk children apply their subsidies, the transaction results in a significant, negative market externality. In other words, by not spending at a level high enough to get quality care, those of us outside the transaction are suffering. We are all harmed when at-risk children are in substandard care because they are, for example, more likely to need special education, more likely to require public assistance as an adult, and more likely to be incarcerated – all of which create much greater public costs than is accounted for in the actual transaction.

Further weakening the most at-risk buyers is the difficulty in accessing the available public support. To access the early childhood programs currently

1 Assumes family accesses $1,200 in child care tax credit
2 Median from 2000 Census. (Source: MN Department of Administration)
3 Assumes family has and fully utilizes a flexible spending account (employer-sponsored FSAs let employees set aside up to $5,000 of pretax income to pay for qualifying child care expenses)
4 *Child Care Use in Minnesota*, MN Department of Human Services (November 2005)
5 *2006 Child Care in the State of Minnesota,* NACCRRA
6 *Cost of Child Care,* Minnesota Department of Human Services (January 2005)

available to low-income Minnesota children, parents have to deal with multiple government agencies. For example, ECFE is administered by school districts, CCAP assistance is administered by counties, Head Start is administered through community organizations. Each program has its own set of forms and requirements. The challenge is formidable.

B Weak suppliers

The early childhood market is highly fragmented. Minnesota has 946 child care centers, 12,778 licensed family child care homes,[1] and an estimated 140,000-150,000 individuals providing informal family, friends and neighbors (FFN) care.[2] Providers have no real collective ability to set standard rates, make joint purchases, or capture other benefits of scale and cohesion.

Like buyers, sellers are also resource constrained. Child care providers have razor thin margins and do not produce much, if any, capital for reinvestment. For centers, the statewide average cost per child hour is $3.32 and revenue per child hour is $3.35 for a profit of three cents per child per hour – or less than one percent.[3] For family child care providers, their income translates into a median annual wage of $8,502 ($2.83 per hour) in rural areas and $14,875 ($4.95 per hour) in the metro – well below minimum wage.[4]

This is a tough business. Consider this: the minimum required provider-to-infant ratio is 4 to 1 (with good reason). If you have 100% utilization and get the full $6,030 MN Family Investment Program child care subsidy from the state for each of the four infants, you have a total revenue of $24,120 from which to pay your labor[5], rent, utilities, and supplies.[6]

The average care provider in Minnesota is operating on the edge and is not in a strong position to move the market.

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1 Minnesota Child Care Resource and Referral Network (MCCRRN), January 2005

2 Department of Human Services

3 *Cost of Child Care*, Minnesota Department of Human Services (January 2005)

4 *Cost of Child Care*, Minnesota Department of Human Services (January 2005) – average IRS taxable income divided by 3,000 work hours per year (average provider works 11 hour days, 5 days per week, 50 weeks per year – plus 11 hours per week after children leave for shopping, cleaning, laundry, etc.)

5 For both centers and family care, labor is the largest expense (59% in centers, 67% in family child care) and the best predictor of quality. We know that higher educated, better trained care providers produce better results. However, the average annual wage for a full time, year-round child care provider in Minnesota is $17,400 – less than poverty level

6 State freezes on reimbursement rates since 2001 have put some providers out of business and forced some parents – faced with higher copays – to seek even lower cost care options

Lack of good market information

Both of the primary investors in ECD services – parents and the government – lack good market information.

There is no outcomes-based performance data available on early childhood providers. Therefore, for those parents in a position to make choices among competing child care options, deciding how and how much to invest in child care can be difficult.[1] Parents have no basis for making sound choices to assure a high return on their investment. They may be able to discern quality by certain inputs, e.g., level of teacher education or quality of classroom materials, but there are no more objective, comparative standards available to them.

Consider the higher education analogy. When parents choose where to send their children to college, they are willing to pay more (and even take out loans) because they are confident that a particular school will better prepare their child for life success. It may not be terribly scientific, but they at least have some mental algorithm for assessing the trade off between tuition cost and estimated quality/outcomes. They may understand quality in terms of published rankings, the SAT scores of entering freshmen, the success of alumni, or any of the other publicly available information about the school. If nothing else, they know that paying their neighbor to teach their child physics will not position the child in the job market as well as a physics degree from a highly regarded college or University.

Parents of young children lack similar data. If parents could know that choosing Provider A over Provider B would measurably increase their child's likelihood of success in school and beyond, they might make different decisions. In a survey of Minnesota parents, the most common reason given for choosing their current child care arrangement was location.[2]

Lacking a true measure of performance, parents are not able to make optimal market choices.

Like parents, legislators lack good data to guide their investment decisions. Investments are made with no consideration given to expected rate of return because the government has no system of collecting performance data on any programs. For example, the state invests $16.4M of fungible state dollars in Head Start without knowing whether Head Start providers get better results than other providers.[3]

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1 Minnesota does have Child Care Resource and Referral network, funded by the state, to help parents identify and select child care based on available information. Thirteen percent of families used this resource to learn about their current child care arrangement (Source: *Child Care Use in Minnesota*, MN Department of Human Services (November 2005))

2 *Child Care Use in Minnesota*, MN Department of Human Services (November 2005)

3 Head Start providers are required to regularly assess children's progress but the data is not gathered by the state

We are pleased that the legislature approved Governor Pawlenty's recommendation to reinstate the Kindergarten Readiness Assessment. This is a critical tool for assessing the state's overall progress. But there still remains a need to develop the tools required to understand quality standards and student progress at a program level.

D Minimal standards and accountability

Parents tend to report high levels of satisfaction with their child care even when trained observers visiting the same provider have determined that quality was marginal.[1] If parents are not able to judge quality and demand quality, providers have little incentive to make quality improvements. We believe that parents, armed with good information about child development needs, can be the best regulators in such a highly fragmented market and will hold providers accountable, further giving children the care and education they need.

The legislative reestablished tiered reimbursement in the 2007 session, reimbursing accredited centers – which tend to demonstrate better results – at a higher level. This is an excellent step in the right direction. The state should continue to seek opportunities to reward results and expand these incentives.

Government regulation varies by type of provider. Centers, for example, have to meet stringent health and safety requirements while informal providers have to meet only very basic safety requirements (e.g., have a smoke detector). In all cases, the oversight is focused on operational standards. There is no oversight of whether the programs are achieving the government's objectives.

The government has two objectives with its programming: (1) provide care so parents can work and (2) ensure quality early childhood development. Half the state programming seeks to do the first and not necessarily the second; the other half seeks to do the second and not necessarily the first.

Half of early childhood public spending goes to child care assistance programs (CCAP) through the Department of Human Services and has no educational requirements. The money that goes to educational programming is concentrated in Head Start. There are very few requirements placed on Head Start providers in terms of coverage (e.g., full versus half day).[2] Thus, many parents have to make secondary care arrangements to cover care during the work day. There is a significant missed opportunity to require programs to meet both objectives – what we call "blended" solutions. We should insist that the money we invest in children meet both our objectives – providing safe care and positive developmental experiences.

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[1] *Child Care Use in Minnesota*, MN Department of Human Services (November 2005)

[2] Head Start providers have significant autonomy in designing their services and most are partial day programs. When Head Start was created, most of the children it served had mothers at home. Now, with changes in welfare policy, most of those mothers are required to work. The Federal Government has not adjusted its Head Start funding or its requirements to make programming meet the child care needs of the families it serves

V. RECOMMENDED ACTIONS

We believe it is time to shift from talking about the importance of Early Childhood Development to fixing the fundamental.

We support and will provide leadership for dialogue and action among key stakeholders. We are currently working with a group of key stakeholders to develop a joint goal and coordinated strategy. We hope to collectively push the agenda to the top of the state's agenda. (See Appendix A for Joint Statement of Purpose.)

We believe Minnesota should expand access and improve quality of early environments, especially for at-risk children.

Half of the public money spent on early childhood programs in Minnesota is federal and a portion of state and local spending helps to secure these federal dollars. Only a limited amount of public money is truly fungible (about $67 million) and should be used to maximum effect to broaden access, improve quality, encourage reform, and leverage private resources.

We should also get maximum possible impact from the restricted public funds by using private dollars and any new public investments to stretch existing dollars further and provide strategic supplements and incentives to drive results.

With this in mind, we should reallocate existing public money and strategically invest new public and private resources to:

Figure 6

1) *Increase purchasing power of highest-need families in a way that boosts overall market quality*

   Resources are limited and public and private philanthropic investments should be targeted toward the highest-need children who will produce the greatest return. Investments in the early development of these children are our best shot at addressing the region's stark and growing socio-economic disparities.

   Currently, neither public nor private spending is driving quality improvement. Art Rolnick and Rob Grunewald argue convincingly that the market will respond if scholarships are provided at a level that allows for excellent care and encourages parents to seek excellent care.

Their plan calls for a privately operated, publicly- and privately-funded scholarship program. High-need children would receive scholarships of $10,500 (or the difference between a child's existing public subsidy and $10,500) which could be used only at providers which meet outcomes-based performance requirements. Any type of provider with any pedagogical approach would be eligible if it can meet the standards. The scholarship would be combined with mentoring provided by a home health nurse, which has been proven to be an effective strategy for helping high-need families make better decisions about child care and development.

This is a consumer-driven approach that addresses the shortcomings in the current EC market while harnessing the market's power for responsive change.

We support the testing of the Rolnick/Grunewald consumer-driven plan by the Minnesota Early Learning Foundation (MELF) as a strategy for investing in high-need children while stimulating the quality improvements and innovation that are needed for all children.

We recognize that if the test is successful, taking it to scale would require significant new public and/or private funding. Even incorporating existing public resources, a statewide rollout could cost approximately $200 million additionally each year. (See Appendix for detail.)

2) *Improve coordination of public programs to better serve the needs of the most at-risk families*

We invest $350 million per year in public dollars in EC programming in Minnesota – most of this is targeted toward our most vulnerable children and families. Accessing these benefits requires dealing with multiple government entities, multiple forms, and varying requirements. These programs must be reformed to provide easier access and more coordinated service delivery for the consumer – the families we are trying to help. Resources should also be "blended" to provide both quality child education and the child care coverage working parents need to build economic self-sufficiency.[1]

3) *Help providers improve quality*

The typical provider has few, if any, resources to invest in improvements and little, if any, reason to believe the current market would reward them for doing

[1] Governor Pawlenty recently convened a Summit on School Readiness to identify opportunities to improve the state's current programming. Improved coordination to better enable at-risk families to navigate the system and get maximum benefit from these public programs should be the first order of business. These families have similar issues accessing other existing public programs such as health care support and housing subsidies. We would recommend incorporating these other programs into the effort to design more customer-friendly delivery processes

so. In the consumer-based model we support, providers will be rewarded for quality improvement. As we test the consumer-driven model, we should simultaneously invest in providers to equip them to deliver the outcomes required to compete for the new resources.

4) *Implement a Quality Rating System*

Public and private consumers are hamstrung by a lack of performance data. The first step in a strategy to improve the early childhood system must be to improve information quality and availability. The creation of an outcomes-based Quality Rating System (QRS) would allow parents and the government to make better choices. Eighty-seven percent of parents surveyed say QRS would be "very helpful" or "somewhat helpful" – including 100% of those whose primary language at home is not English.[1]

Publicly reported performance measures would increase the pressure on providers to improve quality. A robust QRS would also allow researchers to better understand what actually drives performance and provide operational guidance to providers.[2]

We support the Minnesota Early Learning Foundation's efforts to develop a QRS in partnership with the University of Minnesota and the state.

5) *Educate parents to be more effective teachers/care providers themselves and to hold outsourced care providers accountable for results*

Parents are children's first and most important teachers. We need to do more to support and educate parents so they are informed about child development and school readiness. Well-informed parents can assess and encourage their child's development at home. They can also make good decisions about care options for their child and better hold non-parental care providers accountable for quality of care.

Studies suggest that more than 90% of parents believe that their child is fully prepared for school. Child performance assessments suggest otherwise. We believe that if parents understood that their children were ill-prepared most of them would act on that knowledge.

Minnesota's Early Childhood and Family Education program (ECFE) is a national model of parent education. There is a need to go beyond ECFE and

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1 *Child Care Use in Minnesota*, MN Department of Human Services (November 2005)

2 Funding to test a particular quality rating system, the Northstar Quality Rating System was approved by the legislative in 2006 ($1 million). Governor Pawlenty vetoed the appropriation out of concern that the Northstar system was not sufficiently outcomes-based. We believe this veto should not slow private efforts to test a QRS through the Minnesota Early Learning Foundation. We hope the legislature will revisit the issue early in the 2007 session and commit to supporting the testing of this critical reform measure

develop educational channels to all Minnesota parents – particularly those with at-risk kids. For example, we believe every new parent should leave the hospital with an understanding of early development basics and aware of the resources available to support them and their child. We support the efforts of the state and the Greater Twin Cities United Way to make this a reality.[1]

[1] The legislature approved some funding for a new parent education partnership in the 2007 session. The United Way board has made a major commitment to raising funds to improve parent education and plans to partner with the state, the media, the University of Minnesota, the MN Hospital Association members, and other key stakeholders on this front

VI. APPENDIX

A. Early Childhood Leaders Group Joint Statement of Purpose

Itasca has been participating in an effort to align the energies of some of the leading institutional change agents in early childhood development in Minnesota. The participants (see list below) have agreed to the following joint statement of purpose:

¶ It is time to shift from talking about the importance of Early Child Development to fixing the fundamental problem. The prenatal to age 5 developmental period is critical for determining the life success of Minnesota children and, in turn, determining the success of Minnesota.

¶ It is unacceptable that half of Minnesota children are not fully prepared for school when they start kindergarten. It is unacceptable that low-income children are 2-3 times less likely to be prepared for school than higher-income children – a disparity that persists throughout the educational system. These outcomes are unacceptable because we know that quality care and education can improve school readiness of all children and can change the trajectories of at-risk kids, increasing their chances for success in school and life.

¶ We believe that all Minnesota children should enter school ready and eager to learn and prepared for school success. Toward that end, by 2012, we should have 80% of Minnesota kids fully ready for school by moving 75% of kids who are "in process" to fully ready and helping 50% of kids who are not yet even "in process" get on track for school readiness.

¶ We know there are many effective Early Childhood programs in Minnesota, but the variation in quality and access are extreme and the overall results are unacceptable. We need to support the effective programs now but also identify the best long-term solutions that are: cost-effective, scaleable, and sustainable.

¶ EC care and education in Minnesota is largely a consumer-driven market and we believe we should take a consumer-driven approach to improving it. We should make sure all parents have the tools and resources to make the best possible choices for their child's care and education.

¶ To accomplish these goals, we must test these two key strategies:

- Providing high-need families with resources to access very high quality early care and education programs – combined with parent mentoring – will dramatically improve the school readiness of our most at-risk kids and improve the overall quality of the market.
- Developing and promoting an outcomes-based quality rating system tied to school readiness will enable and encourage all parents to make good decisions about their child's care and education.

¶ While we are testing these 2 strategies, we should be laying the foundation for the transition to this consumer-driven model by doing the following:

• Educating parents on the importance of early childhood development and ways they can help their child develop cognitively, physically, socially and emotionally. We should be supporting parents to be the best-possible first teacher for their kids.

• Helping providers improve quality to meet the expectations of the new quality rating system and compete for performance-based investments.

• Reforming our current public programs to focus on better meeting the needs of the high-risk families they serve – redesigning program elements, access and coordination to make it easier for families to get the assistance they need and incenting parents to choose high quality care.

¶ While we're moving toward a long-term solution, we can not ignore the children who are currently in need of quality early care and education. Therefore, we must also continue to help more children access programs that have demonstrated results.

We believe that if we take these actions, we can ensure that all children who enter school are ready and eager to learn and prepared for school success. We are working actively with a number of key stakeholders to advance this vision for early childhood.

Early Childhood Leaders Group participants:

Minnesota Early Learning Foundation
Greater Twin Cities United Way
Ready4K
Minnesota Business for Early Learning (MnBEL)
McKnight Foundation
St. Paul Foundation
Bush Foundation
Federal Reserve Bank of Minneapolis
Minnesota Business Partnership
MN Department of Education
Department of Human Services
University of Minnesota

B. Analysis of Resources Required to Take Scholarship/Mentoring Program to Scale

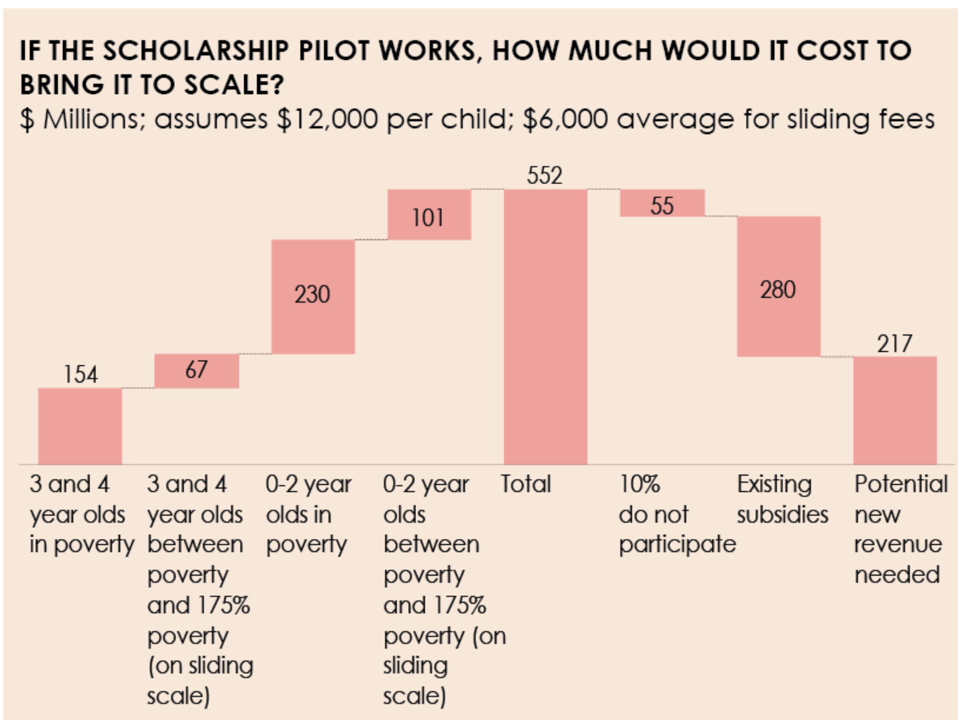
Art Rolnick and Rob Grunewald of the Federal Reserve have proposed that a scholarship program, combined with family mentoring, is the best approach to improving early childhood development for at-risk kids. We support the Minnesota Early Learning Foundation's efforts to test this idea.

If the pilots are successful, the estimated cost of scaling the program varies dramatically, depending on the size of the scholarship and how eligibility is defined.

If you assume $12,000 per child, include all children (0-4) in poverty, and provide sliding scale assistance to 0-4 year olds up to 175% of poverty, the program would cost $552 million per year.

Assuming 10% do not participate, if the program is constructed to layer upon current program funding, roughly $217 million per year in new revenue would be required.

Figure 7



C. What Does Quality Care Look Like?

This morning Bobby arrives at child care a little out of sorts; he has a cold and isn't interested in breakfast. Miss Katie is responsive to his mood and able to take the time for some extra one-on-one with him. She gives Bobby several choices for breakfast, describing each one and waiting for his response. Once Bobby settles on his choice, Miss Katie points out that Maria is also having applesauce and coaxes Bobby to the table to sit next to Maria.

Bobby has been attending Miss Katie's childcare since he was 6 weeks old when his mom had to return to work. He's three years old now. When he was a baby, Miss Katie held him and played with him when he was awake. She responded quickly when he cried, sang songs to him, and noticed when he was tugging on his ear, alerting Bobby's mom that his ear infection was back.

Bobby knows what to expect when he gets to Katie's. The room is not large, but it is always tidy, with toys arranged so he and the other children can play independently. Lately Bobby prefers the dress up area, which includes props for a firefighter, a chef, and a veterinarian. Each of the play areas includes environmental print – books, menus, message pads, cereal boxes. Bobby likes to pretend he has a pizza parlor, "reading" what is on the menu and "writing" his customers orders with his pencil and paper.

Miss Katie talks a lot. She talks about activities and things in the room, and also about things not in the room. She asks Bobby, "I wonder where we could get more pepperoni?" and when he answers "At the store" she expands on his answer, "That's right, at the grocery store. Where do you and your mom shop for groceries?"

There is a small shelf in one corner with a variety of books that face out, so Bobby can see them and pick his favorite. Miss Katie changes the books regularly. She reads several times day, sometimes with all the children, sometimes in pairs. While reading, she stops often to ask Bobby a question about the story or to add to the story.

Because of his ear infections perhaps, Bobby was a late talker. Miss Katie noticed this and talked with his mom, giving her resources for Bobby to get speech therapy through the schools.

Miss Katie has an AA degree in child development and in addition to her required 6 hours of training each year, she uses the Child Care Resource and Referral Network to get ideas for activities and affordable materials that will continue to keep her and the children in her care engaged throughout the day.