

## Analysis

### Oregon Department of Education - Early Learning Division

#### Preschool Promise Program Co-Pay Report

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**Analyst:** Doug Wilson

**Request:** Accept a report and recommendations on implementing a co-pay system for the Preschool Promise Program.

**Analysis:** The budget report for HB 5047, the budget bill for the Student Success Act, included the following budget note for the Early Learning Division (ELD):

*The Early Learning Division is instructed to examine the potential and provide recommendations for implementing a co-pay system for the Preschool Promise program. The report and recommendations must consider the income levels of families participating in the program, the level of the copay, whether it should be sliding fee or not, and the impact on the families, providers and the agency. The Division shall submit the report including recommendations to the Legislature by January 15, 2020 for consideration during the 2020 legislative session.*

The Preschool Promise program provides funding for preschool services for families above 100% of the federal poverty level (FPL). The program was started in 2015 with funding for 1,300 slots. The program was expanded with \$30.8 million in proceeds from the corporate activities tax authorized under the Student Success Act, an amount estimated to serve another 2,565 slots. As part of the discussion in a subcommittee of the Joint Student Success Committee, there was interest in looking at the feasibility of a co-pay for the program, in part to make the program funding available to more households.

The study found the following:

- No state preschool or prekindergarten programs were found to have co-payments for families at or below 200% of FPL. Some public programs charge a co-pay but at higher levels of FPL. For example, Seattle's program begins paying a co-pay at 325% of FPL.
- The federal Office of Child Care recommends that all families pay no more than 7% of their income for child care.
- Even with an aggressive co-pay assumption (all families above 100% of FPL paying 5.25% of their income), ELD estimated co-payment related revenues would generate between \$2.0 million and \$2.5 million per year. ELD also provided an estimate of the costs administering a co-pay system at about the same amount of the revenue generated.
- ELD recommends that a co-pay should not be implemented for the Preschool Promise program at its current funding level. If funding was increased and families with higher income levels could be served, the concept of co-pay could be revisited.

**Legislative Fiscal Office Recommendation:** The Legislative Fiscal Office (LFO) recommends acknowledging receipt of the report.



# Oregon

Kate Brown, Governor



OREGON  
DEPARTMENT OF  
EDUCATION

*Oregon achieves . . . together!*

Colt Gill

Director of the Oregon Department of Education

January 15, 2020

The Honorable Senator Betsy Johnson  
The Honorable Senator Elizabeth Steiner Hayward  
The Honorable Representative Dan Rayfield  
Joint Committee on Ways and Means  
900 Court Street NE  
H-178 State Capitol  
Salem OR 97301-4048

Dear Co-Chairpersons:

### **Nature of Request**

The Oregon Department of Education (ODE) and Early Learning Division (ELD) respectfully requests acceptance of a report required through House Bill 5047 on implementing a co-pay system for the Preschool Promise Program.

### **Agency Action**

The 2015 Legislature established the Preschool Promise (PSP) program to serve children in families who earn 200% of the Federal Poverty Line (i.e., approximately \$51K annually for a family of four) or below. The authorizing statute made a substantial commitment to Oregon's children and families who lack access to preschool. The initial investment made through the 2015-17 biennium created 1,300 preschool slots. Through investments made as part of the Student Success Act, the Preschool Promise Program will reach approximately 2,500 additional children across Oregon. Overall, this Act is expected to invest \$1.0 billion in early learning and K-12 education each fiscal year. This funding will be deposited to the Fund for Student Success where 20% overall will be deposited into the Early Learning Account.

The Legislature, through HB 5047, authorized \$30.8 million of the SSA funding deposited in the Early Learning Account to be used to expand Preschool Promise in the 2019-21 biennium. As part of this authorization, the Legislature provided additional direction through a budget note within the bill to evaluate the use of co-payments for families within the current eligibility threshold for Preschool Promise (i.e., at 200% of FPL or below). The ELD was asked to report back to the Legislative Assembly by January 15, 2020. Specifically, the directive was as follows:

*The Early Learning Division is instructed to examine the potential and provide recommendations for implementing a co-pay system for the Preschool Promise program. The report and recommendations must consider the income levels of families participating in the program, the level of the copay, whether it should be sliding fee or not, and the*

*impact on the families, providers and the agency. The Division shall submit the report including recommendations to the Legislature by January 15, 2020 for consideration during the 2020 legislative session*

The ELD has examined, per the budget note, the potential for a co-pay system in the Preschool Promise Program. This letter serves as the report for this budget note. To make its recommendation, the ELD investigated the practices of other states, as well as city-based preschool programs; collected feedback and information from state agencies and other entities administering programs with co-payments systems; conducted an analysis of possible revenue generated via a co-pay system versus the cost of implementing such a system, including implementing at various levels of co-payments. This letter and the analysis overviewed herein serves to satisfy the requirements under this budget note.

### **Report**

***Practices in Other States, Cities, and Early Learning Programs.*** No state preschool/pre-kindergarten program collects co-payments for families at or below the 200% FPL income threshold or operates a sliding fee scale statewide. There are city-based programs that collect a co-payment, such as programs in Seattle, Washington<sup>1</sup> or Durham, North Carolina<sup>2</sup>. However, these programs do not collect a co-payment for families at or below 200% FPL. Seattle begins collecting co-payments at approximately 325% of FPL – approximately \$70,000 for a family of two. Under Seattle’s sliding-fee scale, the co-payment or tuition at this level is about 1% of a family’s income. These city-based programs are also growing toward universal, making the sliding scale structure more desirable as part of this program infrastructure.

In similar early learning programs, such as Head Start, no co-payment is collected. Head Start serves families at or below the poverty line. Oregon Prekindergarten (OPK) is modeled on the Head Start program. This program was also funded as part of the Student Success Act.

***Possible Revenue Generated and Implementation Costs.*** For its analysis, ELD assumed that no co-payment or fee would be charged to families at or below FPL. The rationale for this decision is that ELD operates the OPK program, which does not charge fees or co-payments toward families at or below the poverty line. These programs often operate side-by-side the PSP program and charging tuition for one would create inconsistent policy within the Division. Currently, approximately 35% of families and children enrolled in Preschool Promise are at or below the poverty level. ELD’s analysis assumed the same proportion of families at or below FPL would enroll in the expanded program.

The Federal Office of Child Care recommends that all families pay no more than 7% for annual child care costs<sup>3</sup>. As Preschool Promise only operates for 9 months of the year (i.e., 75% of the total year) and an average of 6 hours a day, a family’s annual child care/early learning budget of 7% of total income would need to

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<sup>1</sup> Seattle Public Schools. Accessed at [https://www.seattleschools.org/departments/early\\_learning/preschool/seattle\\_preschool\\_program/enrollment\\_and\\_tuition](https://www.seattleschools.org/departments/early_learning/preschool/seattle_preschool_program/enrollment_and_tuition)

<sup>2</sup> Durham Universal Pre-K Task Force. Accessed at <https://durhamprek.org/wp-content/uploads/2019/09/Universal-PreK-Task-Force-Durham-Report.pdf>

<sup>3</sup> National Conference of State Legislatures. Accessed at <https://www.ncsl.org/blog/2017/01/03/how-much-does-child-care-cost.aspx>



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account for wrap-around and summer care for children. Thus, the maximum modeled in ELD's analysis was 5.25% -- or 75% of the total recommended child care budget.

At the upper bound of revenue modeled (all families above 100% FPL paying 5.25% of their income), co-pays may generate approximately \$2.0-2.5 million annually. This assumes that ELD would be successful in collecting co-payments for at least 85% of families and that all preschool slots will be at full enrollment year-round. At the lower bound of revenue modeled (a sliding fee scale of 1.5% for every additional 50% of income above FPL), the ELD would estimate to collect approximately \$1.0-1.2 million annually.

Given the operating costs of implementing a co-payment system, this revenue is unlikely to pay for the infrastructure needed to collect payments. For example, at a staffing structure of four additional FTE at the PA1 level at ELD (i.e., a caseload of 950 programs each), one administrative specialist, and one manager, funding to adapt and operate technology to administer the program, and auditing of financial records, the cost of administering the program is at least \$2,500,000 annually. This estimate does not include any additional work to conduct outreach and communication to families regarding the co-payment, and start-up costs to develop this new unit at ELD or work with another state agency to partner in administration.

**Recommendations:** A co-payment or fee structure for the 3,800 low-income families and children served in Preschool Promise is unlikely to provide a benefit to the state, to programs, to families, or to children. A policy change is unlikely to generate revenue for the state that is sufficient to support administrative costs of administering such a system. Furthermore, there are likely unintended consequences that would occur as a result of policy implementation, such as additional administrative burden on providers or decreased participation of families. As such, the ELD recommends continuing to administer the Preschool Program as it is currently authorized under Oregon Regulated Statute 329.195. The state may want to revisit sliding scale or co-payments should it extend eligibility for preschool to a more universal group of families and children (i.e., at a higher income level).

**Agency Request**

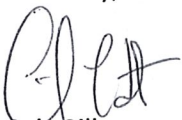
Accept this report and recommendations as required through a budget note in House Bill 5047 on implementing a co-pay system for the Preschool Promise Program.

**Legislation Affected**

None

Thank you for considering the approval of this request.

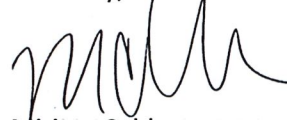
Sincerely,



Colt Gill

ODE Agency Director

Sincerely,



Miriam Calderon

Early Learning System Director