THE IRON TRIANGLE: A SIMPLE FORMULA FOR ECE FINANCE

A Webinar Co-sponsored by Opportunities Exchange and BUILD Early Childhood
June 13, 2014

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Co-Founder, Opportunities Exchange
Agenda

• What is the Iron Triangle and why does it matter?
• Discuss and explain each point of the triangle – Full Enrollment, Full Fee Collection, Per-Child Cost
• Identify strategies – both practical applications and policy revisions -- to help address each point
• Suggest tools and resources
The Iron Triangle of ECE Finance

- Ensure full enrollment – every day, in every classroom
- Collect tuition and fees – in full and on-time
- Revenue covers per-child cost (tuition, fees + 3rd party funding)
Why is the Iron Triangle so Important?

- ECE revenue is largely tuition – from parents and/or government – that must be billed (or accounted for) on a per-child basis.
- ECE budgets have no margin for error; empty slots mean less $ for staff wage increases, benefits, etc.
- Tracking Iron Triangle data is an important way to ensure a program remains financially viable – ECE programs should maintain these data and funders should ask for it
Early Care & Education Revenue

**Consumer tuition** is the largest source of revenue, roughly 57% of total industry receipts.

**Private sector** revenue has increased dramatically, but still less than 4% of total.

**Government funding** @ 39% of total, and is primarily portable $ (vouchers or tax benefits).
Cost Modeling: The Iron Triangle Matters

Net Income for Center: Intensive Focus on Iron Triangle

- "Iron Triangle" Approach: 95% enrollment, 2% uncollectible debts
- Very difficult to achieve with high subsidy co-pays, low absence policy & no targeting
- Very difficult to achieve in smaller centers
Point #1: Full Enrollment

- Ensure full enrollment – every day, in every classroom
Full Enrollment = Every Staffed Seat Full

- Budgets are based on STAFFED capacity (not licensed capacity)
- If you are paying for staff in a classroom, and the room is not fully enrolled, you are losing money
- Factors such as: unpaid absence days, part-time slots, gaps in filling slots, keeping spaces open for children who “age up”, holding slot open for siblings, and so forth…ALL contribute to less-than-full enrollment

*It is important to view your Program Philosophy with a financial lens*
Impact of Increasing Enrollment on Net Income

- $80,000
- $60,000
- $40,000
- $20,000
- $0
- ($20,000)
- ($40,000)
- ($60,000)
- ($80,000)

% Enrollment vs. Capacity

- Star 1
- Star 2
- Star 3
- Star 4

83% 85% 87% 89% 91% 93% 95% 97%
Program Strategies for Full Enrollment: Oversight

- **Data** – Track your vacancy rate, by classroom, each week and use these data to drive decision-making.

- **Technology** – Use a child management system that includes vacancy reports, staff assignment tools, supports online enrollment for families, & other relevant functions.

- **Trends** – Use data to understand when enrollment waxes and wanes, and plan classroom staffing accordingly.

*We should be gathering and reporting industry-wide data on vacancy rates to keep slots full!*
Child Management System

Off-the-shelf tools can be used. These include:

- Child Care Manager (screen shot, right)
- ProCare
- OnCare
- EZCare
- ...and many others

Some States have customized software:

- AllianceCORE
- ChildWare in PA
Shared Services on the Web

- **Enrollment agreement, application form, & resources to download and customize**

- **Discounts on purchase of child management software**

- **Access to marketing data and supports**

- **Lots more!**
Program Strategies for Full Enrollment: Staffing

• **Administrative Staff** – Staying full requires focused attention. Consider establishing an Enrollment Department, perhaps shared by a group of centers or homes.

• **Classroom Staff** – If under-enrollment is chronic consider closing some classrooms or forming mixed-age classrooms

*These tasks are expensive if you are a small, stand-alone site but may be possible if you share costs with others*
Shared Service Alliances
(local or regional)

Services provided by Hub that relate to full enrollment:

- Administrative services – managing enrollment paperwork, tracking vacancies, generating trend reports, offering suggestions for alternative staffing, etc.
- Keeping slots full -- recruiting new children, liaison with state/local agency for enrollment of children with subsidy, staff assignments & helping plan for children who ‘age up’ to a new room, etc.
“Shrink” ECE markets using QRIS or other Quality Measure
- NM raised licensing floor when 70% of providers attained star level
- Several states (e.g. NC & OK) require minimum star level for subsidy
- Require supply-side analysis before opening new PreK classrooms, so that new slots are not opened in a community if vacancies exist in market-based ECE that meets standards

Target subsidy slots to highest quality ECE providers
- Contract with providers – or with an Alliance (network) of providers -- for a specific # of slots
- Create a pool of vouchers that can only be used in higher quality programs
- Establish lower co-pays, and payment based on enrollment (vs attendance) for higher quality settings
- Collaborative ventures with other public & private funders
Policy Strategies for Full Enrollment

- **Simplify & align subsidy enrollment policies** for continuity
  - Ensure that eligibility determination/re-determination can happen more quickly; consider time-limited presumptive eligibility
  - Enable attendance for a full-day and year with 12 month eligibility
  - Align co-payments with other subsidies (like Head Start and Prek)
  - To the extent possible, uncouple eligibility from work hours; Consider authorization of child care assistance for child development purposes.
The Iron Triangle of ECE Finance

- Ensure full enrollment – every day, in every classroom
- Collect tuition and fees – in full and on-time
- Revenue covers per-child cost (tuition, fees + 3rd party funding)
Program Strategies for Full Fee Collection: Oversight

- **Data** – Maintain data on bad debt: % of fees not collected by parents (on subsidy and not) and number of unpaid days from state/local subsidy agency due to absences. Track trends.

- **Reconciliation** – Make sure you have a process to reconcile what is owed with what you received, including subsidy reimbursement from the State.

*These tasks are expensive if you are a small, stand-alone site but may be possible if you share costs with others.*
Program Strategies for Full Fee Collection: Staffing

- **Collections Staff** – Create a separate staff responsible for fee collection (which could be shared) so Directors/Teachers who have relationships with families do not collect fees.

- **Technology** – Require or incentivize ACH payment, from bank account, credit or debit cards (with waiver for special circumstances)

- **Third Party Billing** – explore a shared billing service, ideally with easy links to the State payment system
Shared Services on the Web

- Budget templates, cost analysis, break-even worksheets, cash flow projection
- Tools/templates to better communicate with families (family handbook, enrollment agreement, tax expense form, etc.)
- Discounts on credit card transactions
- Lots more!
Shared Service Alliances  
(local or regional)

Services provided by Hub that relate to full fee collection:

• Administrative services – sending out bills/collecting fees (from families & third party payers), tracking past due accounts and responding quickly, managing internal scholarship program, etc.

• Automation – enabling ACH debits, on-line payment and direct deposit to participating centers

• Reconciliation – making sure that what you receive from the State correctly reflects what you billed
Policy Strategies for Full Fee Collection

• **Co-payments** - Base subsidy co-payments on % of income, for all children, vs. price of care for each child
  - Consider waiving/lowering co-pays for higher quality programs

• **Absence Policy** - Consider subsidy reimbursement based on enrollment vs. attendance
  - Or a fair & balanced policy that takes extended illness and the instability of the family into consideration

• **Maximize automation**
  - On-line billing for public & private fees
  - Permit Third Party billing for subsidies
Co-Payments Based on Cost of Care

Family of 4, parents earn minimum wage, annual income $30,160 (New Orleans, LA)

<table>
<thead>
<tr>
<th>Weekly Rates</th>
<th>Infant</th>
<th>3-year-old</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Tuition</td>
<td>$150</td>
<td>$135</td>
<td>$285</td>
</tr>
<tr>
<td>Child care subsidy rate ceiling</td>
<td>$92.50</td>
<td>$87.50</td>
<td>$180.00</td>
</tr>
<tr>
<td>CCAP reimbursement after co-pay</td>
<td>$37.00</td>
<td>$35.00</td>
<td>$72.00</td>
</tr>
</tbody>
</table>

*co-pay for this family = 60% of “cost” of care (e.g. of the state rate ceiling)*

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<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Total cost to parent</td>
<td>$113.00</td>
<td>$100.</td>
<td>$213.00</td>
</tr>
<tr>
<td>Parent cost as % of weekly income</td>
<td>19.5%</td>
<td>17.2%</td>
<td>36.7%</td>
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</tbody>
</table>
### Co-Payments Based on Family Income

#### Family of 4, parents earn minimum wage, annual income $30,160

(Charlotte, NC)

<table>
<thead>
<tr>
<th>Weekly Rates</th>
<th>Infant</th>
<th>3-year-old</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Tuition</td>
<td>$200</td>
<td>$175</td>
<td>$375</td>
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<tr>
<td>Child care subsidy rate ceiling</td>
<td>$185</td>
<td>$168</td>
<td>$353</td>
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<tr>
<td>CCAP reimbursement after co-pay</td>
<td>$153</td>
<td>$136</td>
<td>$289</td>
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*co-pay = 11% of income; $32 wk per child*

<table>
<thead>
<tr>
<th></th>
<th>Infant</th>
<th>3-year-old</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost to parent*</td>
<td>$32</td>
<td>$32</td>
<td>$64</td>
</tr>
<tr>
<td>Parent cost as % of weekly income</td>
<td>5.5%</td>
<td>5.5%</td>
<td>11%</td>
</tr>
<tr>
<td>Parent cost if provider charges differential</td>
<td>$47 (8%)</td>
<td>$39 (6.7%)</td>
<td>$86 (14.8%)</td>
</tr>
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</table>

*Note: 24% of NC centers elect to collect additional fee to cover difference between subsidy ceiling & private rate; in this case parent fee would be higher
The Iron Triangle of ECE Finance

• Ensure full enrollment – every day, in every classroom
• Collect tuition and fees – in full and on-time
• Revenue covers per-child cost (tuition, fees + 3rd party funding)
## Standards Affect Costs: Cost Modeling

**Center:** 106 children, infants, toddlers and preschoolers

<table>
<thead>
<tr>
<th>QUALITY</th>
<th>Net Income as % of Expense</th>
<th>Annual profit or loss per Child</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Regulated</strong></td>
<td></td>
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<tr>
<td>Expense</td>
<td>$828,943</td>
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<tr>
<td>Revenue</td>
<td>$847,626</td>
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<tr>
<td>Net Income</td>
<td>$18,683</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$176</td>
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<tr>
<td><strong>Star 2</strong></td>
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<tr>
<td>Expense</td>
<td>$846,319</td>
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<tr>
<td>Revenue</td>
<td>$847,626</td>
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<tr>
<td>Net Income</td>
<td>$1,307</td>
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<td>$12</td>
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<td><strong>Star 3</strong></td>
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<tr>
<td>Expense</td>
<td>$890,845</td>
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<td>Revenue</td>
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<tr>
<td>Net Income</td>
<td>($35,020)</td>
<td>-4%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>($330)</td>
</tr>
<tr>
<td><strong>Star 4</strong></td>
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<tr>
<td>Expense</td>
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<tr>
<td>Revenue</td>
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<td>Net Income</td>
<td>($72,722)</td>
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<tr>
<td></td>
<td></td>
<td>($686)</td>
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<td><strong>Star 5</strong></td>
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<tr>
<td>Expense</td>
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<tr>
<td>Revenue</td>
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<tr>
<td>Net Income</td>
<td>($131,756)</td>
<td>-13%</td>
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<tr>
<td></td>
<td></td>
<td>($1,243)</td>
</tr>
</tbody>
</table>
Enrollment Affects Cost of Care

Annual Cost Per Child
All ages, Star 4 Center in LA
Capacity = 76

- 75%: $11,001
- 88%: $9,378
- 95%: $8,688

Enrollment as % of Capacity
Age of Children Affects Cost of Care

- All ages: $10,372, $11,214, $14,405
- <3 years: $13,124, $14,036, $17,367
- 3 years: $6,911, $7,665, $10,678
- 4 years: $6,334, $7,073, $10,057

Colors:
- Star 3
- Star 4
- Star 5
Program Options to Ensure Revenue Covers Costs: Oversight

• **Data** – Know your cost per child:
  - How do costs vary by age/classroom?
  - What is the relationship between average enrollment (by classroom) and per child cost?
    - Does full enrollment generate more revenue than raising rates?
    - Should some classrooms be closed or combined?
  - What percentage of cost is administrative/supervisory? Can this be lowered via shared services?

• **Technology** – Automate your fiscal management so that you can monitor revenue closely, and collect/manage revenue more reliably
Shared Services on the Web

- Budget templates, cost analysis, break-even worksheets, cash flow projection
- Ideas/supports for fundraising
- Discounts on purchase of child management software, credit card transactions
- Lots more!
Program Options to Ensure Revenue Covers Costs: Staffing

- **Fiscal Management & Fund Development** – Strengthen capacity to tap and blend funding from multiple sources.

- **Shared Staffing** – Explore staff-sharing Alliances with other sites to attain scale and maximize economies of specialization.
Shared Service Alliances
(local or regional)

Services provided by Hub that relate to revenues = cost:

- Administrative services – data on cost per child, strong fiscal management/oversight
- Fund development – collaborative fundraising for shared costs
- Staffing – shared staff across sites (admin back office, floaters, curriculum/PD support, shared director in small sites, etc.)
Impact of Scale:
Multi-Site Centers More Likely to Attain Higher Star Rating

Centers with Star 3 or Star 4 Rating
(Philadelphia, PA)

- Multi site: 78%
- Single site: 22%
Policy Options to Ensure Revenue Covers Costs

• **Cost Modeling** – Encourage a statewide entity to model the cost of your QRIS; identify gaps; explore a range of blended funding strategies.

• **Alternative Rate-Setting Strategies** – Encourage state policy makers to use cost modeling rather than market prices to guide rate policy.

• **Blended & Targeted Funding** – Align policies across funding streams & enable contracting/targeting (HS, PreK, child care, early intervention) to facilitate blended funding.

• **Promote Shared Services** – explore revisions in regs, QRIS, rate-setting, TA/PD aimed at encouraging networked providers.
Resources

Sharing Staff Roles and Responsibilities Across Sites: Lessons Learned from Intensive Shared Service Alliances

More Shared Services examples, tools, resources:
www.opportunities-exchange.org

More ECE Finance reports and resources:
www.earlychildhoodfinance.org