Opportunities Exchange

Best Practice for Calculating an Alliance Membership Fee

Lessons from the Field

February, 2018

Louise Stoney
Karen Murrell
Opportunities Exchange

Table of Contents

Opportunities Exchange

Background

This presentation was derived from interviews with the following Shared Services Alliances:

- Chambliss Center for Children
- Early Connections Learning Center
- San Francisco Early Learning Alliance
- Sound Child Care Solutions

Start with Values

Ensure that Alliance members agree on the values that will guide financial decisions about what gets centralized in the Hub. Sample values:

- ***Prioritize Efficiency*** — To the greatest extent possible, utilize technology to streamline operations and increase efficiency.
- ***Focus on Pedagogical Leadership*** — Centralize business functions to enable center directors to focus time and attention on pedagogical leadership.
- ***Create Career Pathways*** — Develop an Alliance structure that supports career pathways where staff can grow as professionals and pursue their goals.
- ***Reduce Administrative Expenses*** — Strive to reduce administrative expenses and repurpose those resources to support the teaching and learning.
- ***Reduce Bureaucracy*** — Avoid creating jobs at the Hub without eliminating tasks at the center level.
- ***Focus on Value*** — Do not offer services unless they add value, reduce costs, or otherwise provide value to the members.
- ***Require Transparency*** **—** The Alliance Hub and its members must be transparent, openly share financial information, and use processes that are clear.
- ***Decision Making Process*** **—** Strive for consensus decisions, but accept majority rule.

Opportunities Exchange

Understand Alliance Hub Expenses

There is no standard cost for Alliance Hubs. The cost is based on what services will be provided and the cost of delivering those services. To determine costs:

- Identify the list of services that will be provided by the Hub
- Develop cost estimates for each service.
  - Staff time required to deliver each service (employee’s hourly rate + employee benefits)
  - Add any direct costs (e.g. postage, folders, etc.) + indirect costs (e.g. for equipment, rent, etc.)
- Determine whether scale is needed in order to deliver the service at a reasonable price.
  - Is it feasible to deliver the service to one or two members?
  - Or, do you need volume in order to deliver the service at a reasonable price?

Models to Calculate a Fee:
Children Enrolled in Alliance Centers

Opportunities Exchange

- Divide the Alliance budget by the total average annual enrollment in participating centers to determine a per child unit cost of the hub services.
- Establish a per-center annual fee by multiplying the per-child unit cost by the average annual enrollment in the center.
- The example below is based on FTEs; however, you need to decide whether to use FTEs or count heads. (It could take the same amount of time to bill for a half-time child as a full-time child.)

EXAMPLE

Alliance Budget	$ 50,000	
Per-child unit cost	= $50,000/300	$166.67
	Number of FTE Children	**Hub Fee Based on Number of FTE Children**
Center A	50	$ 8,333.33
Center B	50	$ 8,333.33
Center C	200	$ 33,333.33
Total	300	$ 50,000.00

Opportunities Exchange

Analysis: Basing Fees on # of Children Per Site

Pros:

- From an equity perspective, it is logical to request that centers with more children pay more for Hub services, since they likely use more Alliance services.

Cons:

- One Alliance found that the centers that served a significant number of low-income children had lower overall revenue than those with higher-income children. Thus, even though the number of children was the same in these two cases, ability to generate income was not equitable. In short, this method of calculating fees doesn’t take into account the center’s ability to pay the fee.

Opportunities Exchange

Models to Calculate a Fee: Center Revenue

- Add average annual revenue from all of the centers to determine total revenue from all participating centers.
- Divide each center's income by the total income to get the percentage they should pay to the Alliance Hub.
- Multiply the center percentage by the Alliance budget to calculate the center member fee.

EXAMPLE

	Center Income	% of Total Alliance Income	Hub Member Fee
Alliance Budget	$50,000		
Center A	$100,000	14%	$7,143
Center B	$200,000	29%	$14,286
Center C	$400,000	57%	$28,571
Total	$700,000		$50,000

Opportunities Exchange

Analysis: Basing Fees on Center Income

Pros:

- Basing the fee on center revenue has the potential to take into account both number of children as well as the economic benefit of multiple funding streams.

Cons:

- When fees are based only on revenues, the impact of disproportionate <u>expenses</u> is not taken into consideration. For example, a center with free rent could “afford” to pay a greater Alliance fee than the same size center that has to pay rent. Or a center with many high-cost (and higher-revenue) infants might be assessed a larger fee than they can “afford” given their much higher expenses for infants.

Models to Calculate a Fee: Hub Cost to Deliver Services

- Hub staff tracks "billable hours" spent on each client.
- Hub administration establishes hourly rate for each staff person, based on their wages + benefits.
- Participating centers charged a monthly fee based on Hub billable hours for all Shared Services they use, plus any relevant overhead or contracting costs.

EXAMPLE

	Service Provided	Hourly Rate	Monthly Hours Used	Total Cost
Employee A	Accounting/Payroll/Fee Collection	$28.69	48	$1,377.12
Employee B	Subsidy Certification/Billing	$23.47	32	$751.04
Employee C	Sub pool Staffing Coordinator	$31.30	16	$500.80
Subtotal Salaries				$2,628.96
Direct Costs	E.g. printing, contract services			$500.00
Overhead	10%			$312.90
Total				$3,441.86

Analysis: Basing Fee on Hub Cost to Deliver Services

Opportunities Exchange

Pros:

- This model only bills centers for the time it takes to deliver services; they pay for what they use.
- This model helps to hold center members and the Hub accountable for efficiency. (If centers are disorganized, and it takes Hub longer serve them because documents are not in order, they will pay a higher fee.)

Cons:

- This model could result in higher fees for centers that serve large numbers of low-income children, and have more complex financial and reporting requirements.
- This model could also disadvantage newer, weaker centers that require more time to resolve long-standing administrative and fiscal challenges.
- If Hub costs are high, it may not be possible to establish affordable fees. Supplemental third party funding may be needed.

Model to Calculate a Fee: Shared Services Value

- Calculate baseline revenue and expenses for a center when it first joins the Alliance.
- Develop and implement a strategy to boost center revenue and reduce expenses; calculate updated revenue and expense numbers.
- The difference between the baseline and the updated revenue and expenses is the Alliance member fee.
- See example on next slide.

Note: This is a longer-term strategy that assumes grant funding will support the cost of boosting revenue and reducing expenses during the first few years of Alliance membership.

Opportunities Exchange

Example: Shared Services Value of a Center with 20 Fulltime Children

	Before	After	Change	Rationale
Revenues	$160,000	$180,000	$20,000	Improved fiscal management, full enrollment
Expenses:				
Teaching	$92,000	$92,000	$0	No change
Admin staff	$45,000	$11,000	-$34,000	Hub takes on admin
Food/supplies	$13,500	$12,000	-$1,500	Economies of scale
Acct/Leg/Ins	$3500	$0	-$3500	Shared cost
Other Oper's	$5000	$4000	-$1000	Shared cost
PD	$2000	$0	-$2000	Shared cost
Total Expenses	$161,000	$119,000	-$42,000	
Net Revenue	**-$1000**	**$61,000**	**$62,000**	**Result: $62,000 now available to support shared admin and invest in center improvement**

Model to Calculate a Fee: Shared Services Value

Opportunities Exchange

Pros:

- The Alliance Hub is incentivized to maximize efficiency for the center.
- Administrative costs are streamlined to make way for increased dollars to reinvest into classroom teachers and program quality.
- Long-term center sustainability – fiscal and pedagogical – is most likely in this model, even when participating sites are very small.

Cons:

- Success requires a deep and comprehensive investment in shared staffing and automation, as well as Hub willingness to “think outside the box” and assume some shared risk.
- Third-party funding is essential to fill budget gaps in the early years.

Accounting for Differences

Some Alliances recognize that centers have differences that may affect their ability to pay the member fee. In some cases the member fee is adjusted. Examples:

- ***Revenue Fluctuation*** — If Alliance uses a fee model other than revenue, they may consider if a center has had a very bad or good year, and adjust the fee.
- ***Inequity*** — The fee may be adjusted for circumstances that result in inequitable costs or revenues. For example, if two centers have free rent and a third has a significant rent expense, the Alliance could adjust for that difference. Or fees could be adjusted for centers that serve large numbers of low-income children and therefore have limited ability to raise tuition.
- ***Expansion/Contraction*** — If a center is in the process of expanding to a new site or contracting the center, an adjustment may be made.

Moving Toward Sustainability

As you develop a membership fee, think about moving toward a sustainable model by considering the questions below.

- What is the likelihood of ongoing third-party funding? Do you need to limit Alliance services to offerings that can be paid for with membership fees?
- What is your timeframe to get to sustainability? When does third-party funding run out?
- How many members do you need in the Alliance so that the member fee covers expenses?
- Can you implement staff-sharing strategies, automation, and other strategies to quickly lower administrative costs and make the Alliance more sustainable?
- Can you help providers boost quality and access a higher tiered reimbursement rate to help centers afford the member fee?

Opportunities Exchange

Articulating the Value to Centers

When communicating with centers about the Alliance member fee:

- Develop a financial and organizational pro-forma for each participating center, that outlines their current financing/staffing and their projected financing/staffing after joining the Alliance.
- Based on the analysis above, coupled with estimates of Hub costs, demonstrate how centers can generate the money needed to cover Alliance membership fees.
- If a participating center is non-profit, make sure to reach out to the board early on, and ensure that they understand the value proposition.
- Provide support to help participating centers boost revenues via management of the Iron Triangle.
- Reach out to key ECE funders in the community (e.g. United Way, local foundations, the business community, etc.) to get them on board and encourage them to serve as ambassadors for Shared Services.

Opportunities Exchange

Collecting Membership Fees

Alliance Hub experience underscores that clear, enforceable policies for regular fee collection are important. Payment in smaller increments ensures that Alliance fees do not accrue and become too high for centers to pay. Suggestions:

- Centers that have a flat fee can be billed monthly.
- Centers that pay an hourly rate could be billed monthly or every two months.
- Fees based on % of revenue can be subtracted directly from tuition or grant funding as it is received.
- Up-front grant funding is helpful so cash flow will not be a problem.

Opportunities Exchange

Best Practices for Rolling out the Fee

- ***Transparency*** – Explain costs behind the fee and be prepared to address the question "Why does this cost so much?".
- ***Consider Market Sensitivity of Centers*** – Recognize that centers have very slim margins and whatever you charge has to make sense for them. See slides 20-22 for guidance in understanding the centers.
- ***Advance Notice*** – Make sure centers understand when the fee will be assessed and are informed well in advance.
- ***Written Policies*** – Clarify expectations and deadlines in writing (see San Francisco Alliance service menu).

Opportunities Exchange

Best Practices for Rolling out the Fee

- ***Phased Approach*** – Consider a phased approach where the service is free for a period of time, then offered at a discount. For example:
  - First year discount of 100%;
  - Second year discount of 75%;
  - Third year discount of 50%;
  - Fourth year and beyond discount of 15%
- ***Share Responsibility*** - Provide centers with support to manage the Iron Triangle so they have resources to pay the member fee.

Opportunities Exchange

Walk in the Shoes of Your Members: Make sure you understand center profit + loss

When launching an Alliance, develop model budgets for participating centers, to ensure that you understand the factors that have a positive or negative effect on their bottom line, including:

- Revenues
- Expenses
- Operating Model (staffing, age mix, family income mix, etc.)
- Business practices
- Policy context
- Market factors

Opportunities Exchange

Track Profit and Loss Monthly

Conduct a Monthly Review of:

- Revenues
  - Tuition: Parent fees, government per-child rate (Child Care Subsidy, Head Start, PreK)
  - Other Third Party Revenue: Philanthropy, government quality grants, CACFP, etc.
- Expenses
  - Personnel: Staffing patterns, salaries, benefits
  - Non-personnel (set up as costs per child, costs per classroom, or overall center costs)
- Factors affecting both revenues and expenses:
  - Size of the center (number of classrooms)
  - Ages of children
  - Group sizes and ratios
  - Income mix of families
  - Enrollment levels
  - Fee collectability

Once you understand each center's income and expenses, you can establish business benchmarks and develop a plan help each center focus on the Iron Triangle and devote more resources to teaching and learning.

Understand Per-Child Costs

Costs vary by classroom, and must be understood in order to make sound business decisions. Cost-per-child is rarely a simple calculation (e.g. total expenses ÷ number of children) because ratios and staffing vary by age of child and/or type of services delivered. Key points:

- Calculate expenses specific to classroom (e.g. wages + benefits for teachers)
- Calculate non-classroom expenses incurred by the center and decide on method for allocating non-classroom expenses
  - Some expenses vary by number of children, e.g. food
  - Some expenses vary by age group, e.g. share of time for Social Worker or Mentor Teacher
- Classroom-specific expenses + relevant % of non-classroom expenses ÷ number of child enrolled in classroom = per-child cost.

  (Note: OppEx can share sample spreadsheets)