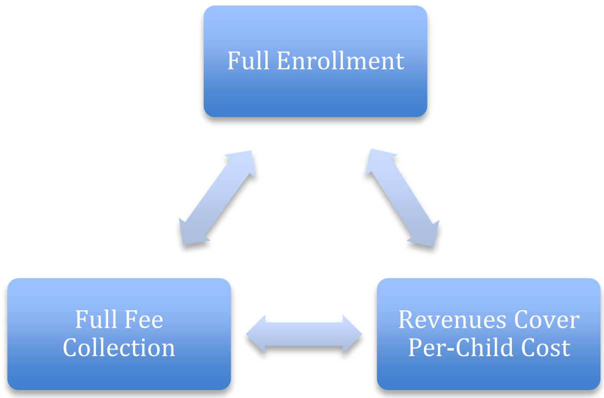
Strengthening The Iron Triangle of ECE Finance: Strategies for Alliance Implementation



The Iron Triangle of ECE Finance

An Alliance that seeks to strengthen business leadership and improve the quality of care must ensure that participating center-and home-based early care and education (ECE) programs are financially sustainable. Since most ECE revenue comes from tuition, this means making sure programs are fully enrolled, fees are fully collected and that either tuition covers the cost per child or additional third party revenue, is secured. In addition to determining a cost per child, the Alliance will need to establish a structure for gathering and tracking data on how sites are doing vis-à-vis the “Iron Triangle” of ECE finance (pictured above).

Full Enrollment

Maximizing enrollment is essential for the bottom line, and key to ensuring that center- and home-based providers are able to free up time “off the floor” for teachers to focus on planning, child assessment, and other aspects of effective teaching and learning.

Staffing and enrollment capacity are dependent on ratio requirements (based on regulations, accreditation, Head Start and Early Head Start, or public PreK) as well as each provider’s individual desires, needs and resources. Rather than measuring enrollment vs. *licensed capacity,* the objective is to measure enrollment vs. *staffed capacity*. It is important to define capacity terms:

- *Licensed capacity* is the number of children legally allowed to enroll in a center or home.
- *Desired capacity* is the number of children a program may wish to serve, which is often fewer than licensed capacity.
- *Staffed capacity* is the number of children the center/home is currently staffed to serve. It may be less than desired capacity.

A process should be created to gather and track the following data from each participating site, on a regular basis (at least quarterly):

1. **Staffed capacity**, as described above.
2. **Actual Enrollment** should be reported as the **monthly** average for each center (by classroom). Note: If a slot is vacant due to circumstances such as a child "aging up" into another classroom, or slots being held open for siblings/gender balance/age mates, or because eligibility for public subsidy is pending, *these should all be reported as vacancies for that month.* While temporary gaps in service are to be expected, they still lead to lost revenue.
3. **Enrollment vs. staffed capacity** – or how close enrollment is to the desired level – is calculated by dividing #2 by #1, expressed as a percentage.

These data should be tracked over time to be able to manage changes as they occur. In addition, it is important to identify barriers to maintaining consistent, full enrollment (e.g. gaps in eligibility for subsidy, gaps in payment due to absence or incomplete paperwork, etc.) For example, in low-income communities child care programs might have openings because subsidy dollars have run out and there is a waiting list, and without some form of assistance families in these areas cannot afford to purchase care. Or they might have openings because the subsidy eligibility paperwork is complex and requires in-person meetings or hand delivery of documents. Slots might not be full because public subsidy is only authorized for part of the day or week, even though the program is open, and must pay teachers, full-time. In these cases, having available data on vacancy rates in multiple child care settings throughout the community could make a strong case for change.

Vacancy rates can vary significantly based on the ages of children served. It is not uncommon for centers to have chronic under-enrollment in preschool classrooms even though their infant and toddler classrooms are consistently full. Documenting these trends is important, especially in states that have funded universal PreK or in communities where new Head Start classrooms may be opening.

Full Fee Collection

Collecting fees – in full and on time – is essential. Fees only become revenue when they are collected. All too often an early childhood program will have a budget that balances on paper but the cash just doesn't come in the door. To this end an Alliance that seeks to strengthen business leadership should:

- Gather data from each center or family child care home on the percentage of parent fees (subsidy co-payments and private pay families) that cannot be collected.
- Gather data from each center or family child care home on the percentage of government dollars that cannot be collected (e.g. funding from CCDF subsidy or PreK or HS/EHS for a child who is approved to receive this support). Track trends over time and identify barriers to consistent fee collection.

Fee collection can be very time-consuming unless systems are put in place to streamline and automate the process. A key way that Shared Service Alliances support participating sites is by ensuring that they are using automated child management billing and tracking tools (such as ProCare, Child Care Manager, Minute Menu Kids, or something similar). Alliances often make electronic funds transfer (automatic transfer of funds from a bank account, debit or credit card) the norm for fee payment. If third party (government or other non-parent) payments are consistently late, but assured, it may also be possible to secure a line of credit to stabilize cash flow.

To effectively craft a plan for full fee collection, a Shared Services Alliance should gather the following information from each participating site:

1. The percentage of parent fees that cannot be collected, reported quarterly. [Centers and homes will need historical data to calculate this average. To determine this percentage, divide the sum of uncollected fees by the total tuition revenue in your budget.].
2. The percentage of revenue from child care subsidy, Head Start/Early Head Start, public PreK or other source of third party tuition that cannot be collected (e.g. bills that were submitted to a third party funder, for children who actually attended the program, that were not paid) reported as annual average. [Centers and homes will need historical data to calculate this average].
3. The total gap between what each center or home should have received, and what they were actually able to collect, reported as a percentage of total annual revenues. This is the level of 'bad debt' for each site, which can also be aggregated for the Alliance as a whole, if appropriate.

Revenues Cover Per-Child Cost

Budgeting accurately forms the basis for sound fiscal management for any early childhood program, whether a center or family child care home. Determining the actual cost per child, comparing this cost to the price charged, and identifying third party funding to fill the gap when fees cannot cover the full cost, is essential to sound fiscal management. The bottom line is that parent fees plus third party payments must equal per-child cost. If it doesn't, the program is losing money.

The ECE Knowledge Hub, http://www.ECESharedResources.org, includes budget templates for child care centers and homes as well as worksheets to help calculate cost-per-classroom. These documents are located under Business Operations/Budget in the Administrative Tab, and are called Non-Profit Center Annual Budget Template, For Profit Center Annual Budget Template, and the Classroom Cost Analysis and Breakeven Worksheet. They can also be downloaded from the "Finance Tools" section of the First Children's Finance website.

A Shared Services Alliance that seeks to strengthen business leadership should work with each participating program to establish an average cost per child as well as a cost per child for each classroom (or in the case of family child care, for each age of child). The following information will be needed:

1. **Classrooms or age groups**:
   a. Centers: a list of each classroom that includes the ages of children, and the number of children **actually** enrolled most recently
   b. Family child care homes: the number and ages of children **actually** enrolled most recently and the average number of hours per week each child attends.

2. **Teaching staff costs**:
    a. Centers: the number of Full Time Equivalent (FTE) paid staff in each classroom, and their wages and fringe/benefit costs. In addition to coverage for paid leave (sick, vacation, personal, etc. and break time as required by labor laws), it is important to build in coverage so that teachers are able to leave the classroom to participate in supervision, training, visits to other classrooms, completion of lesson plans or child assessments, etc. Programs that operate for more than 8 hours a day may need to account for additional staff to cover during these hours.
    b. Family child care homes: If the home employs an assistant, the number of hours the assistant works each week and their wages and fringe/benefit costs. Note: If the home has only one owner/teacher, the cost-per-child will exclude wages, and the difference between per-child cost and revenue will be the provider/owner's profit, which is essentially their wage. However, the cost of the owner/provider's health or disability insurance, retirement plan or other benefit may be included in the per child cost.
3. **Non-teaching staff costs** – a list of all non-teaching staff included in each participating center or home, and the wages and fringe/benefit costs for those staff including applicable paid leave, training, etc. Non teaching staff might include an administrator or supervisor, bookkeeper, curriculum coordinator, family support worker, nurse, and so forth – essentially any staff that is paid for by the center or home but does not work directly in the classroom.
4. **All non-personnel costs** – all incurred costs of operating the center or home, other than personnel

Calculating the cost per child in center-based care requires 4 steps:
1. For each classroom, add up the costs of all staff working specifically in that classroom or with that group of children.
2. Then decide on a method for dividing up, or allocating, all other costs in the center, such as non-teaching staff (e.g. Director's salary) and non-personnel costs (e.g. food, utilities). Sometimes cost are allocated per child; sometimes they are allocated per classroom or per site (in a multi-site program). There are several acceptable methods for cost allocation. It is important to note that allocating costs may be subject to accounting principles.
3. For each classroom, add the staff costs (#1 above) for those children and all the portion of other costs allocated to this classroom (#2 above). This is the total cost of that classroom.
4. Divide the total cost of that classroom – the result you get in #3 above – by the average number of children enrolled in that classroom. This is the cost per child. Typically the cost per child for younger children is significantly higher than the cost per child for older children, primarily reflecting the cost of staffing ratio differences.

Note: First Children's Finance has created a Classroom Cost Analysis and Breakeven Worksheet that can be downloaded in Excel. This is a helpful tool for determining cost-per-classroom.

In Family Child Care the process is similar but needs to take into consideration the owner/providers financial goals. Budget templates, and tools from national experts like Tom Copeland, will help you determine the profit (or loss) from your home-based business. This is essentially your income. Using data from this budget, calculate the cost-per-child using the following steps:

1. Calculate the current, average per child cost by dividing total expenses by the number of children currently enrolled
2. Calculate the cost per child at full enrollment by dividing total expenses by the number of children that you could potentially enroll. This is typically licensed capacity or, in the event the home is participating in Head Start or Early Head Start, the total number of children allowed based on performance standards.
3. Calculate cost of care at different ages. To determine the cost differential between infant/toddler care and preschool-age care:
   a. Calculate the cost per child based on the maximum number of children allowed if infant/toddlers are enrolled;
   b. Calculate the cost per child based on the maximum number of children allowed if NO infant/toddlers are enrolled (this typically means the provider can serve more children);
   c. The difference between (a) and (b) is the increased cost per child of serving infants

While it is important for family child care businesses to understand the cost-per-child, factors such as full enrollment and full fee collection are likely to have a more profound impact on total revenues—primarily because the home serves so few children and therefore one less child enrolled, or one fee not collected in full, can affect revenues significantly. Thus, home-based providers are likely to find greater benefit from strategies that can help stabilize revenues and boost collections than small rate increases.

Comparing revenues with per-child costs

Once a cost per child has been determined, it is important to calculate the average revenue that is generated for each child in that classroom. When the per-child cost exceeds the per-child revenue, the funding gap must be filled. When per-child revenues exceed the per-child cost (which may be the case with older children that enable fewer staff) the positive balance can be used to offset funding gaps for other age groups. However, in many cases additional funding must be raised.