

# Lessons from Cost Modeling: The Link Between ECE Business Management and Program Quality

Alliance for Early Childhood Finance, 2010

The Alliance for Early Childhood Finance has been engaged in several cost modeling initiatives aimed at helping to better understand that cost of providing high-quality early care and education services. Using data from several states, we have created model center budgets that reflect the cost of operations at each level of the quality rating and improvement system as well as the national Educare standards. While these budgets vary by state, due to different standards and economic conditions, several key principles appear consistent across our analyses. These include the following:

- Small centers are very difficult to operate financially. In states with mandated ratios close to those recommended by NAEYC, a center must serve more than 100 children, maintain enrollment at 95% or higher, and collect all fees in full just to break even. Given frequent changes in family circumstances, even centers in high demand find it hard to keep every slot full and collect every tuition dollar, every day of the year. And in a recession economy, these are lofty goals.
- Infants and toddlers are very expensive to serve. The greater the proportion of preschool classes, the better the bottom line will be. Thus, programs that want to meet family needs by offering year-round, full-day services for children of all ages are the most challenged financially.
- Most early childhood program revenue is tuition paid by families or government (as certificates or vouchers that follow the child to whatever program is selected.) Thus, even if public reimbursement rates are high, programs only receive these funds for children who are enrolled and in regular attendance, and only if reimbursement forms are submitted correctly and on time. Even early childhood programs that receive more stable funding from Head Start or public school resources must pay careful attention to ensuring that enrollment, attendance, eligibility determination and billing are done well, if they want to tap funds in addition to public child care subsidy.
- The higher standards required by Quality Rating and Improvement Systems (QRIS) and Educare create insurmountable budget gaps unless all additional, third party funding is secured and combined with parent tuition. Even in states that have 'tiered' child care subsidy rates linked to the QRIS, programs at higher star levels

## The "Iron Triangle" for ECE Economic Viability

- Ensure full enrollment – every day, in every classroom
- Collect tuition and fees – in full and on-time
- Set fees and other revenues high enough to cover costs of high quality services

typically need additional funding in order to break even. And combining funds from multiple sources often requires careful accounting to avoid a challenge of “double-dipping.”

In short, there is no margin for error in an early care and education program budget; every dollar is needed, every day, for every child.

### *Quality Management for Quality Programs*

Early learning is rooted in relationships. Highly skilled classroom teachers are at the heart of a quality ECE program. But teachers do not operate in a vacuum; they rely upon an institutional infrastructure to provide decent wages and benefits, a work environment that encourages and supports reflective practice, support for mental health and behavioral issues as well as access to family support for families with challenges.

Yet most ECE programs have little or no institutional infrastructure. The average child care program in the United States serves about 75 children. In this case, a single director has multiple responsibilities. Add in all the daily demands – staff who need supervision, a child who needs developmental screening or special health care or who just won’t stop biting, an ill cook – and who has the time or energy to deal with high finances? Running a successful early care and education business is a very tough job. Sadly, the field is losing leaders who are deeply skilled in child development simply because they are tired of working alone and struggling with the business side of the equation.

The Children’s Home Alliance in Chattanooga, TN is one striking example of how shared services can raise program quality. The five community-based child care programs were struggling financially and had serious quality challenges prior to joining the Alliance. Today the centers not only offer top-quality early learning but are able to link many low-income children and families to health, mental health and social services. Staff wages have risen and teachers now have fully paid health and dental coverage, a pension plan and career opportunities that were previously unavailable to them.

#### Results of Shared Services

- Stronger Team of Professionals
- Better Cash Flow and Fiscal Stability
- Stronger Fundraising
- Better Working Conditions for Staff
- Better Quality Services

A shared services approach to management also offers opportunities for cutting-edge work in staff supervision. Seattle’s Sound Child Care Solutions (SCCS) Alliance is deeply committed to reflective practice and anti-bias curriculum. The Alliance makes it possible for each classroom to have access to a mentor teacher, and for staff to participate in role-alike training across centers and learn from one another – opportunities that were simply not possible when the participating centers operated independently. Not surprisingly, SCCS classrooms received the highest marks in Seattle on a recent city-sponsored quality assessment initiative.