Opportunities
Exchange

THE IRON TRIANGLE:
A Simple Formula for Financial Policy in ECE Programs

Indiana Association for the Education of Young Children

Indianapolis, Indiana

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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
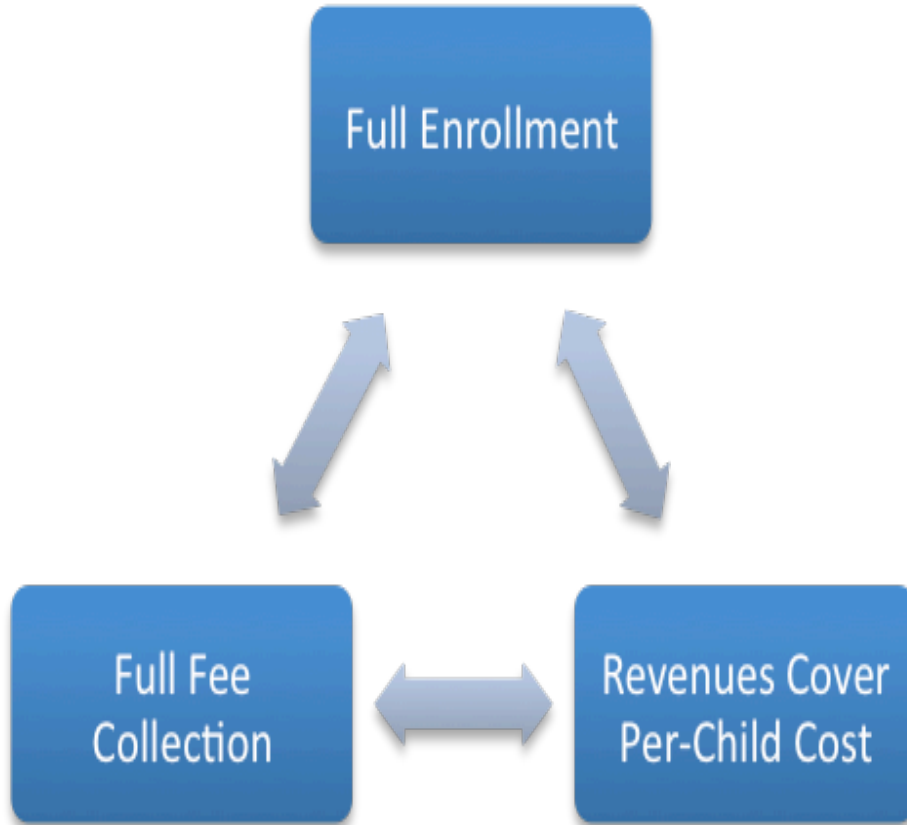
- Ensure full enrollment – every day, in every classroom

- 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)

Private Sector

Gov't

Families
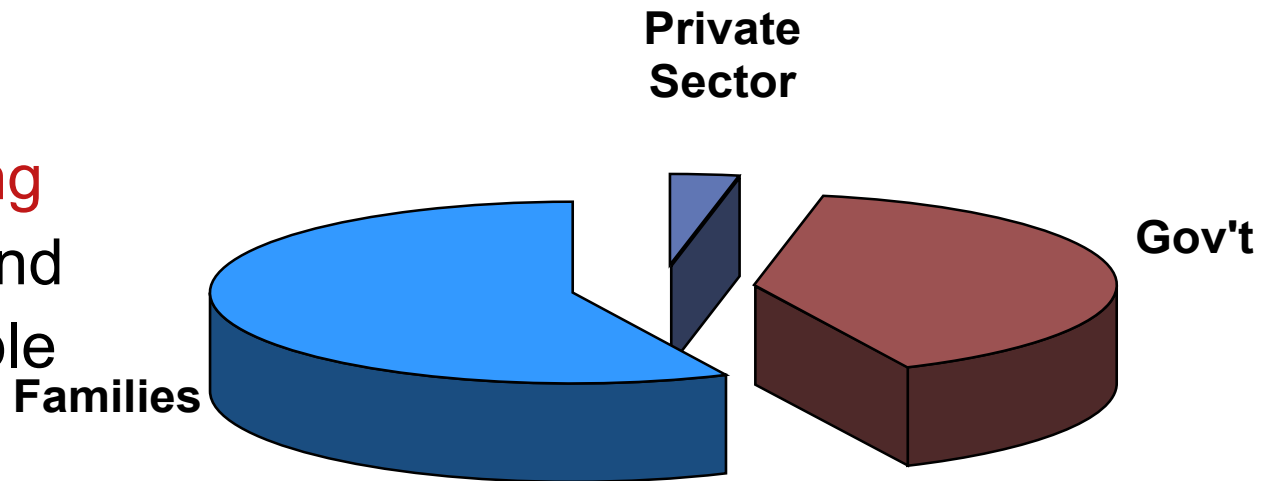
Cost Modeling: The Iron Triangle Matters

**Net Income for Center:
Intensive Focus on Iron Triangle**
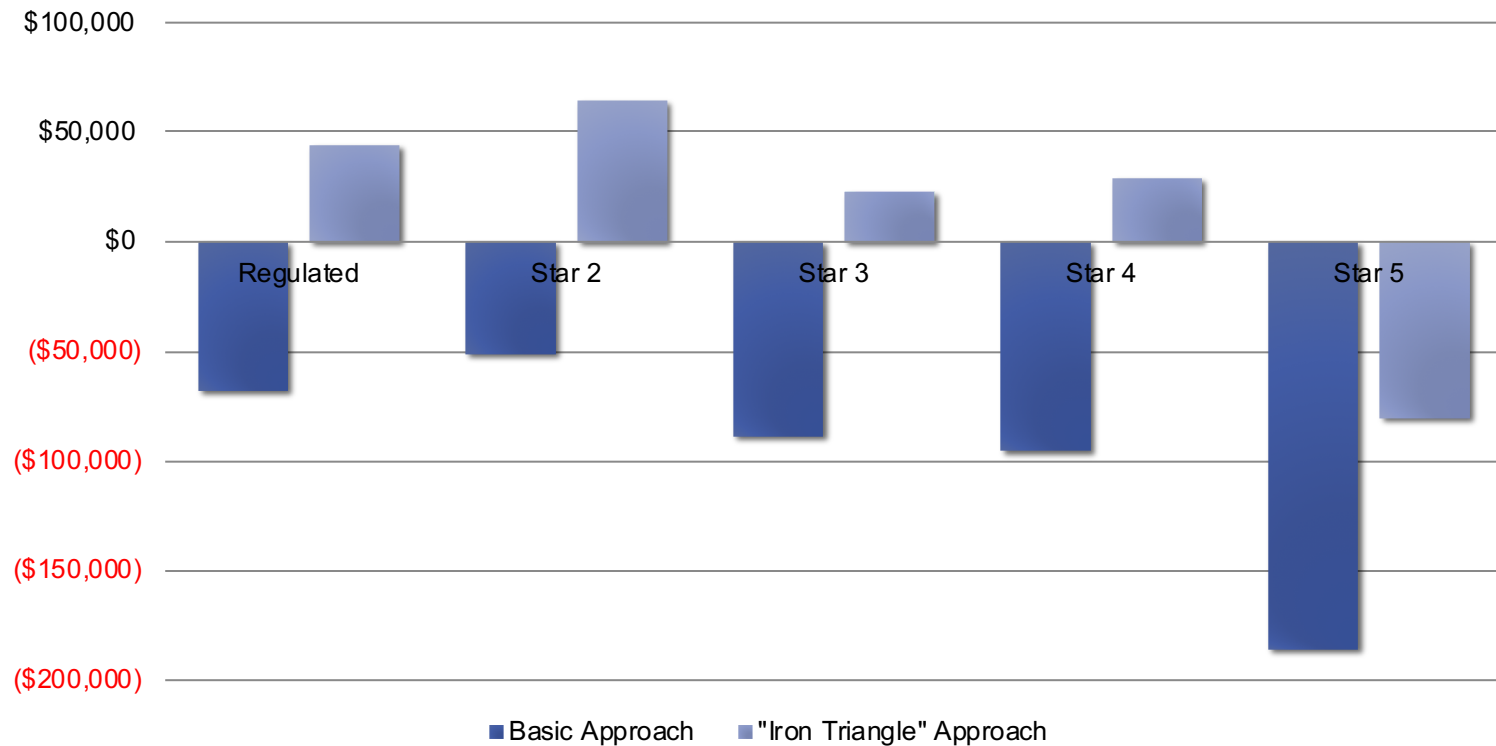
- "Iron Triangle" Approach: 95% enrollment, 2% uncollectible debts
- Very difficult to achieve with high subsidy co-pays, low absence policy & no targeting
- Very difficult to achieve in smaller centers

Point #1: Full Enrollment

Full Enrollment

Full Fee Collection

Revenues Cover Per-Child Cost
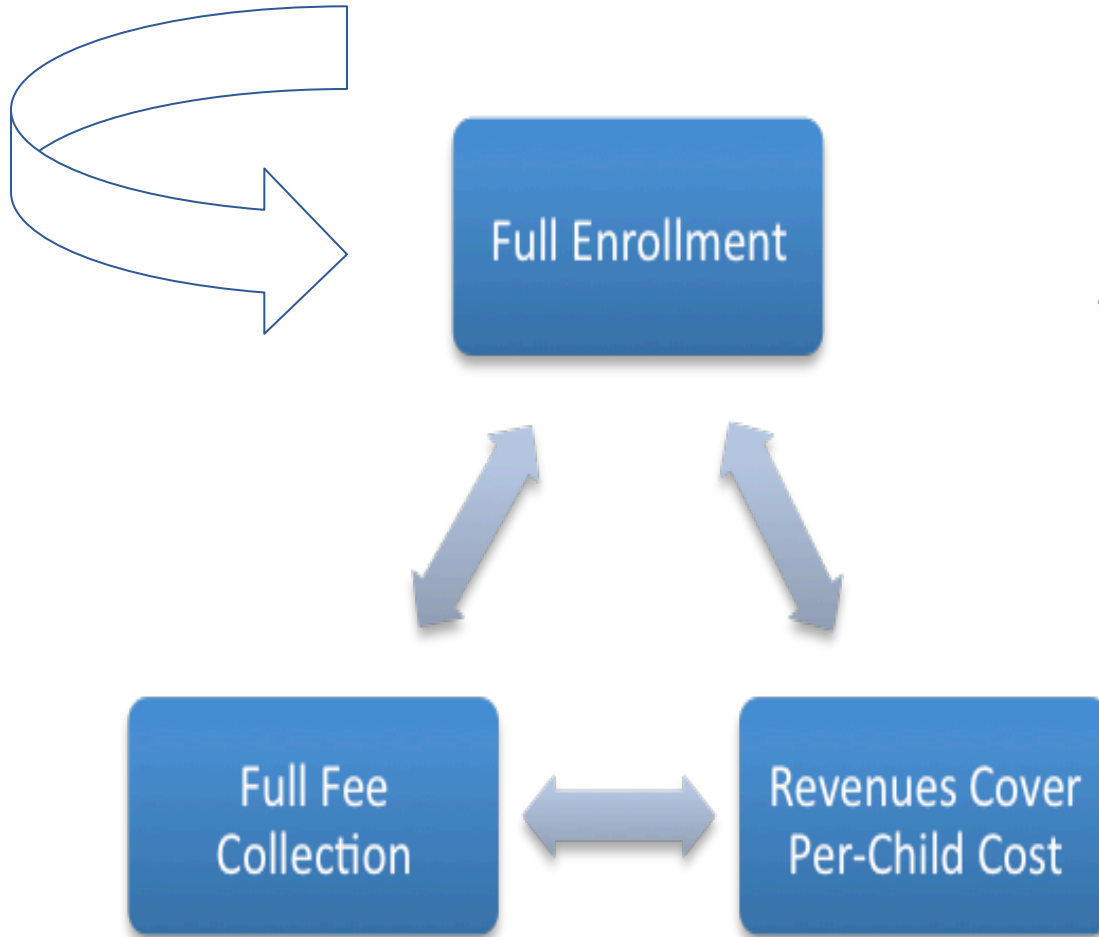
- Ensure full enrollment – every day, in every classroom

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
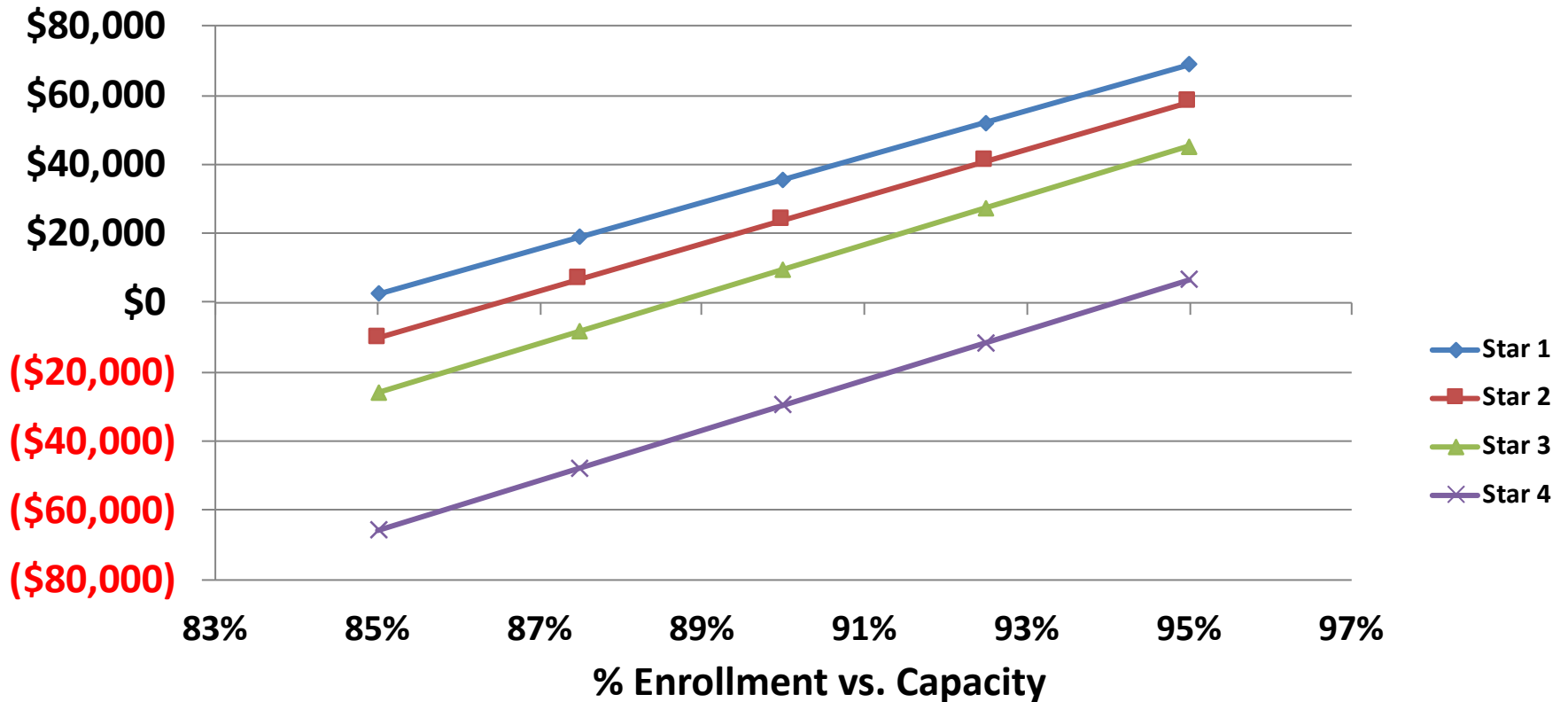
Program Strategies for Full Enrollment: Oversight

- **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 on-line 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)

Happy Acres Day Care

Green Hills Child Care Center

Annie's Nursery School

Tender Tots Pre-school

NETWORK HUB (SHARED STAFF)

The Newberry Afterschool Program

Mary's Family Child Care Home

Grandview Child Care Center

Parkers Family Child Care

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.

Policy Strategies for Full Enrollment

"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
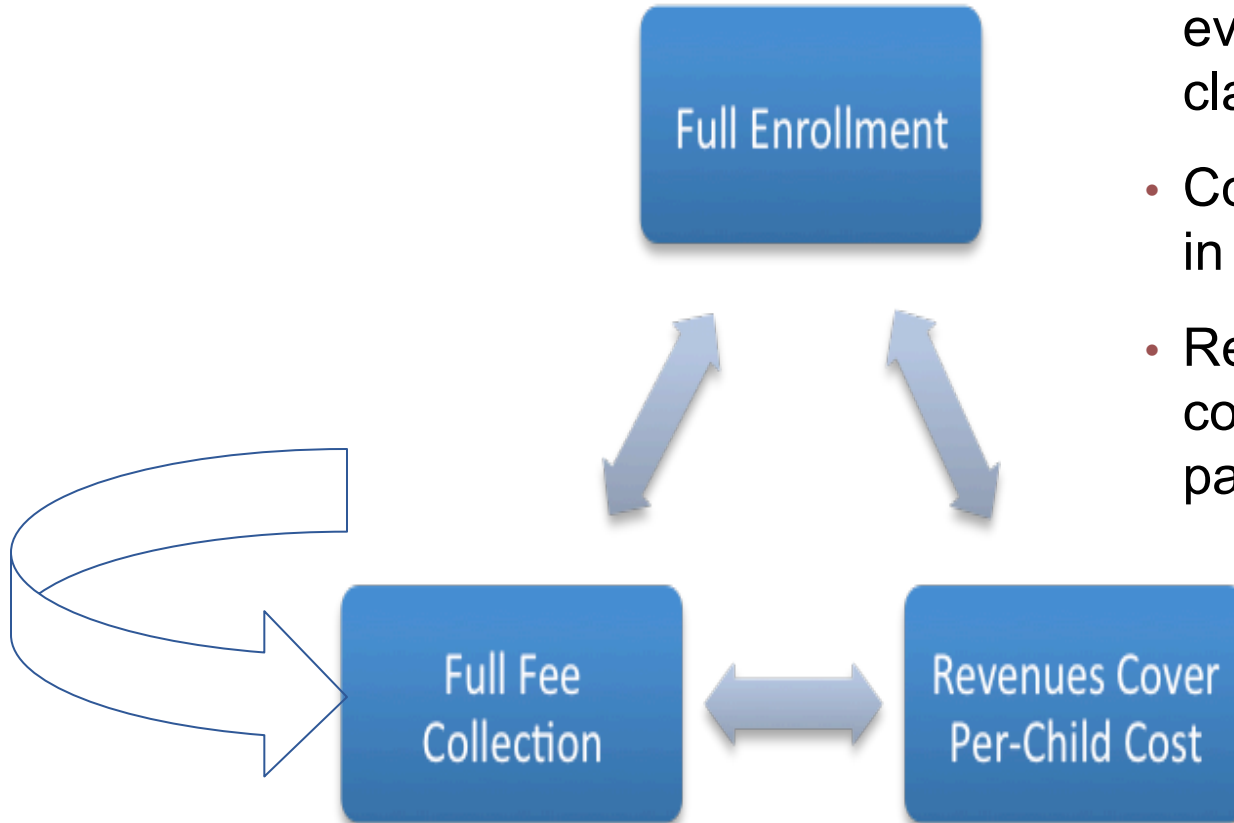
- Ensure full enrollment – every day, in every classroom

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Program Strategies for Full Fee Collection: Oversight

- **Data** – Maintain data on bad debt: % of parent fees not collected and number of unpaid days from state/local subsidy agency due to absences and/or lack of full-time subsidy authorization. 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

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

- **Full Authorization** – Authorize eligibility for full-day/full-year services for families with fluctuating work hours

- **Maximize automation**
  - On-line billing for public & private fees
  - Permit Third Party billing for subsidies

The Iron Triangle of ECE Finance
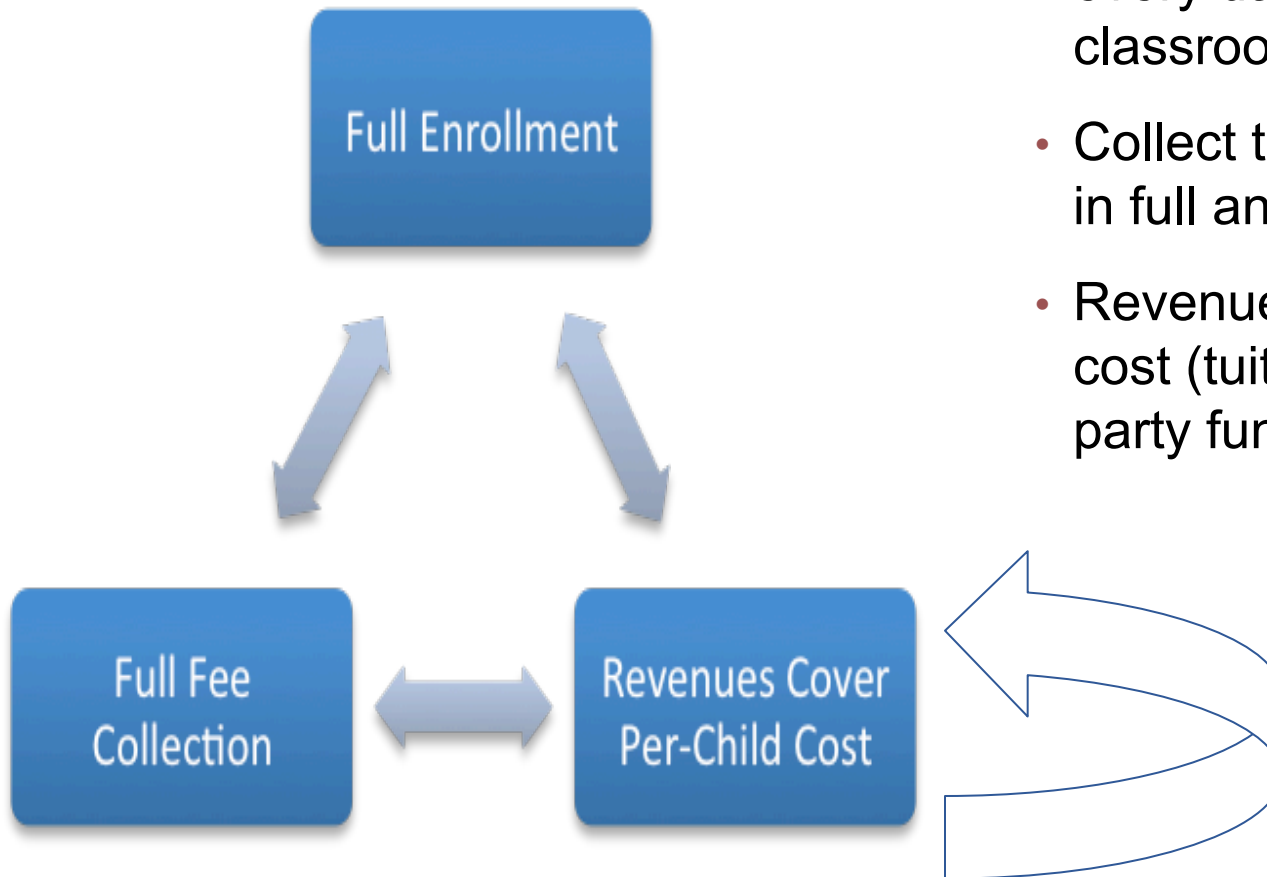
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Standards Affect Costs: Cost Modeling
Center: 106 children, infants, toddlers and preschoolers

QUALITY			Net Income as % of Expense	Annual profit or **loss** per Child	
Regulated	$828,943	**Expense**			
	$847,626	**Revenue**			
	$18,683	**Net Income**	2%	$176	
Star 2	$846,319	**Expense**			
	$847,626	**Revenue**			
	$1,307	**Net Income**	0%	$12	
Star 3	$890,845	**Expense**			
	$855,825	**Revenue**			
	($35,020)	**Net Income**	-4%	($330)	
Star 4	$946,116	**Expense**			
	$873,394	**Revenue**			
	($72,722)	**Net Income**	-8%	($686)	
Star 5	$1,014,520	**Expense**			
	$882,765	**Revenue**			
	($131,756)	**Net Income**	-13%	($1,243)	

Enrollment Affects Cost of Care

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

$11,001

$9,378

$8,688

75%

88%

95%

Enrollment as % of Capacity
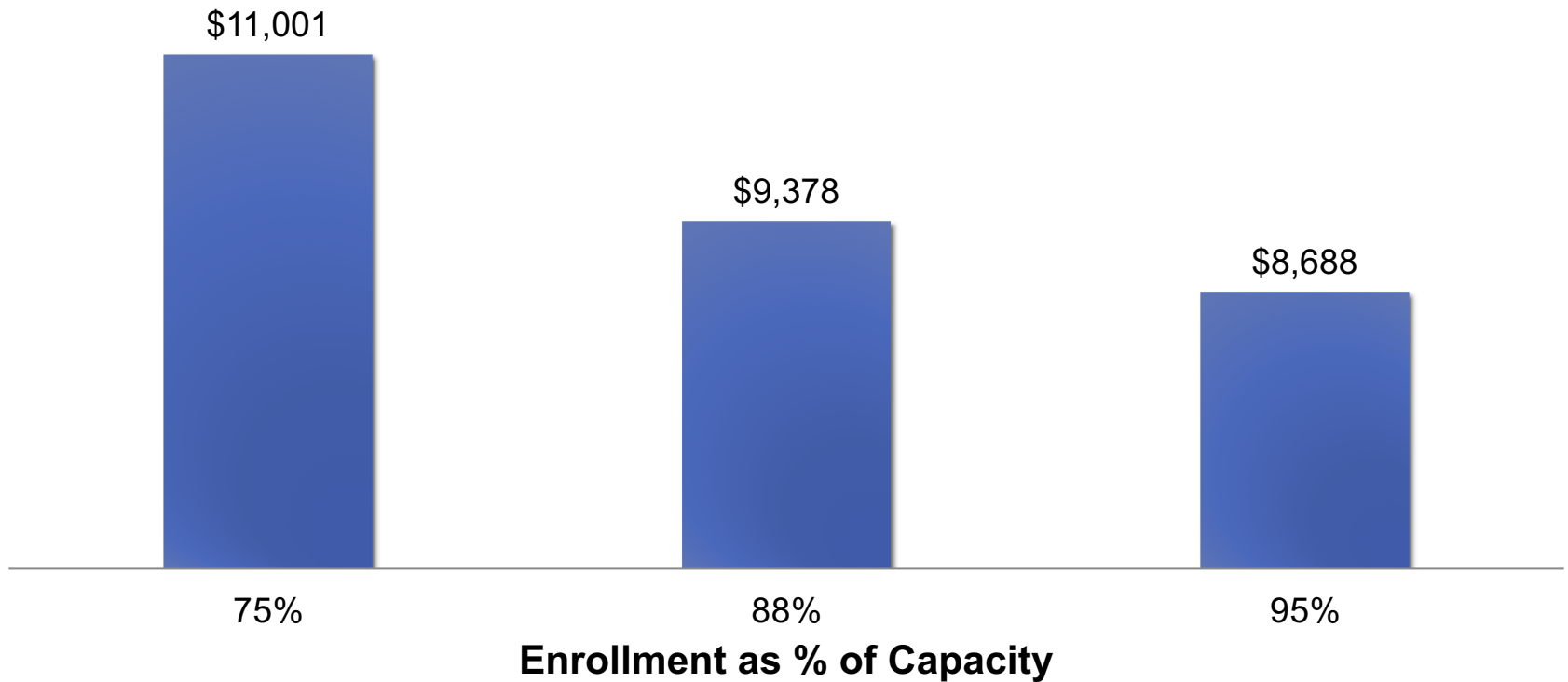
Age of Children Affects Cost of Care
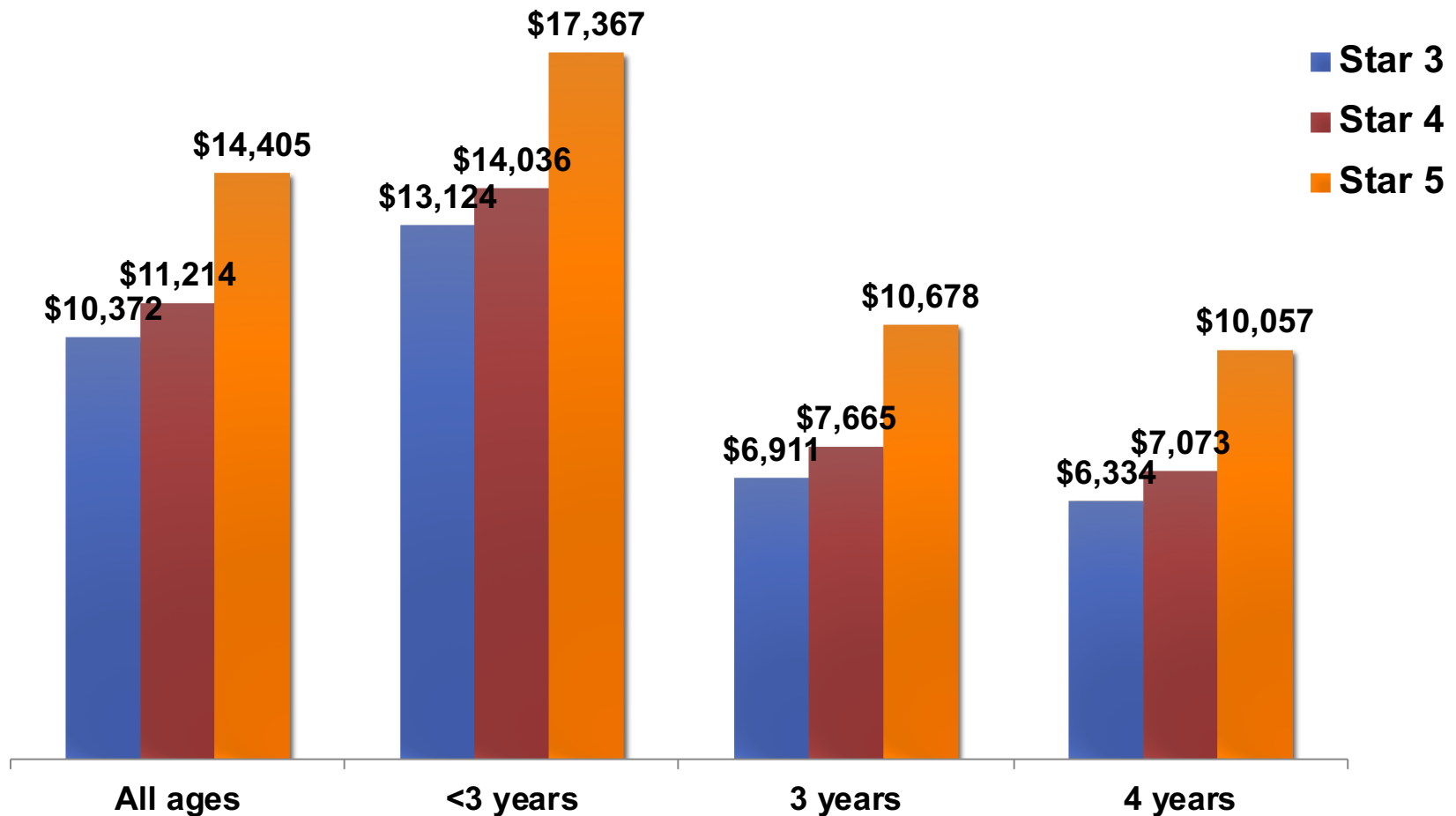
Program Options to Ensure Revenue Covers Costs: Oversight

- **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

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

Impact of Scale:
Multi-Site Centers More Likely to Attain Higher Star Rating

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

Single site
22%

Multi site
78%
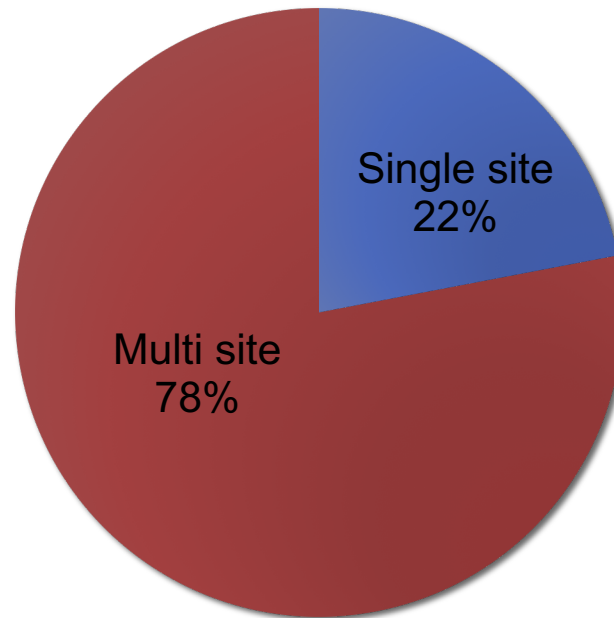
Policy Options to Ensure Revenue Covers Costs

- **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 http://opportunities-exchange.org/wp-content/uploads/Sharing-Staff.pdf

More Shared Services examples, tools, resources:

www.opportunities-exchange.org

More ECE Finance reports and resources:

www.earlychildhoodfinance.org

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