

Opportunities
Exchange

THE IRON TRIANGLE:

A Simple Formula for Financial Policy in ECE
Programs

Indiana Association for the Education of
Young Children

Indianapolis, Indiana

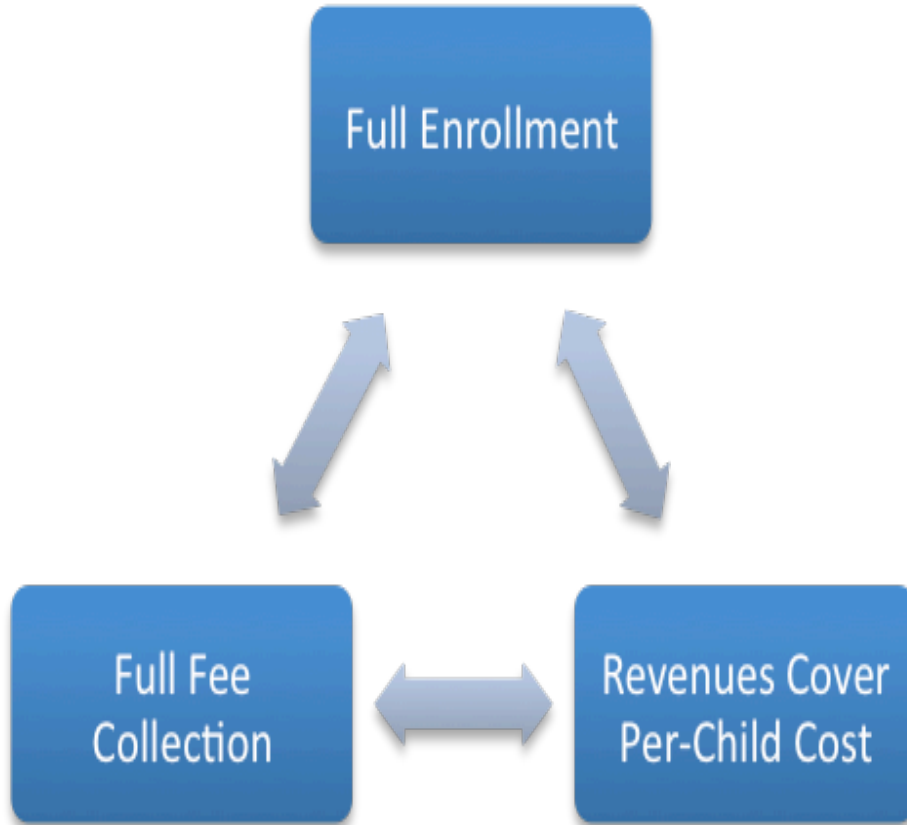
April 9, 2015

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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?

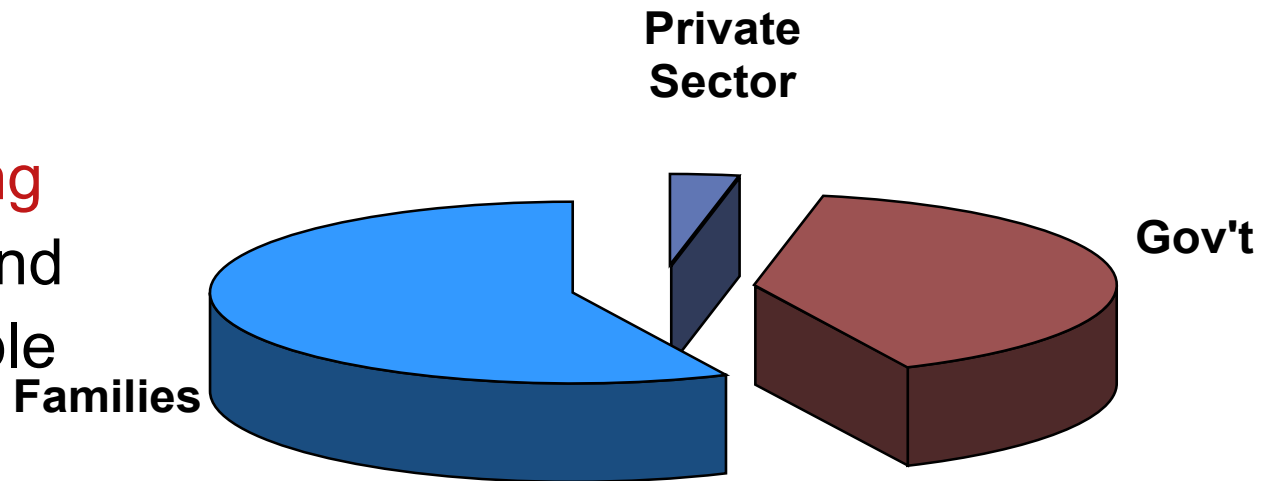
- ECE revenue is largely tuition – from parents and/or government – that must be billed (or accounted for) on a per-child basis.
- ECE budgets have no margin for error; empty slots mean less \$ for staff wage increases, benefits, etc.
- Tracking Iron Triangle data is an important way to ensure a program 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

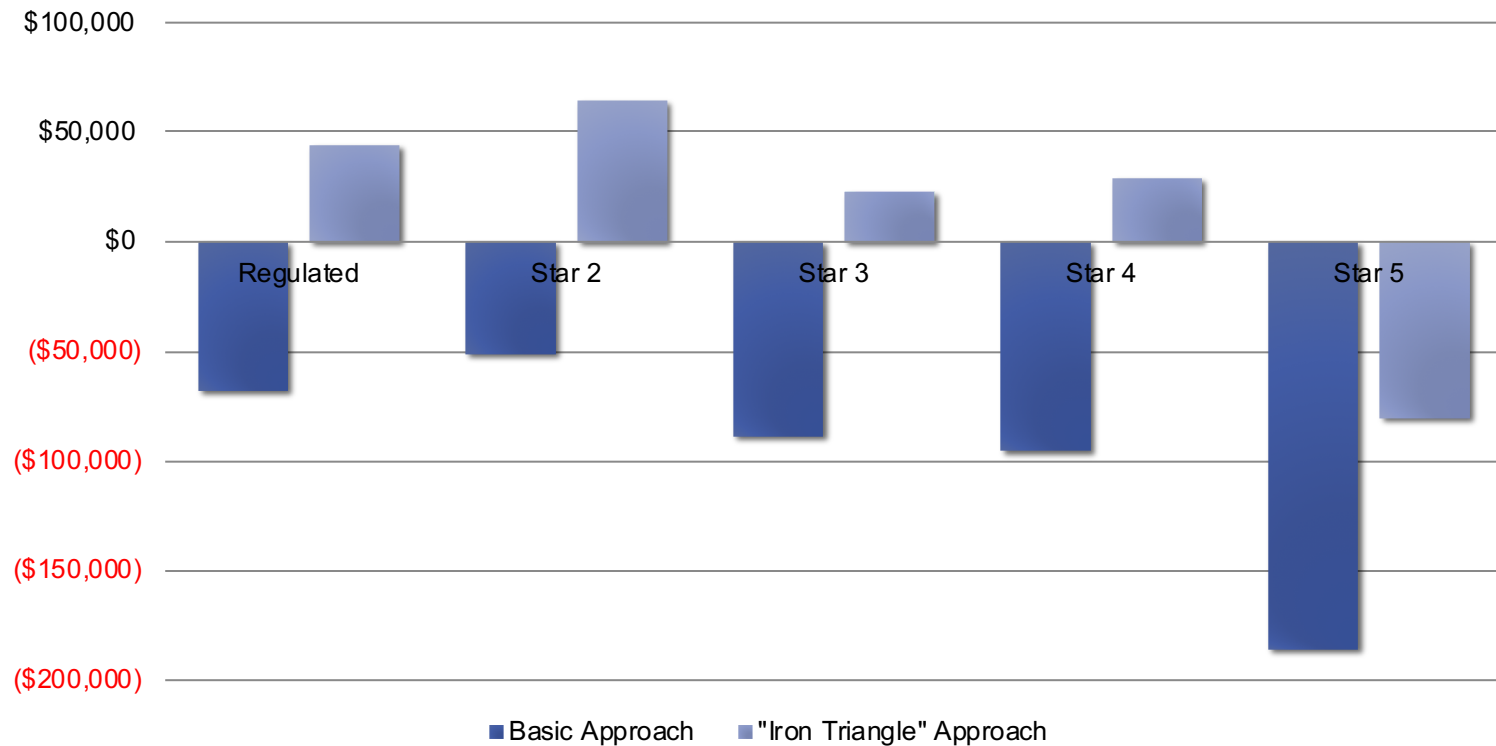
Private sector revenue has increased dramatically, but still less than 4% of total

Government funding
@ 39% of total, and is primarily portable \$ (vouchers or tax benefits)



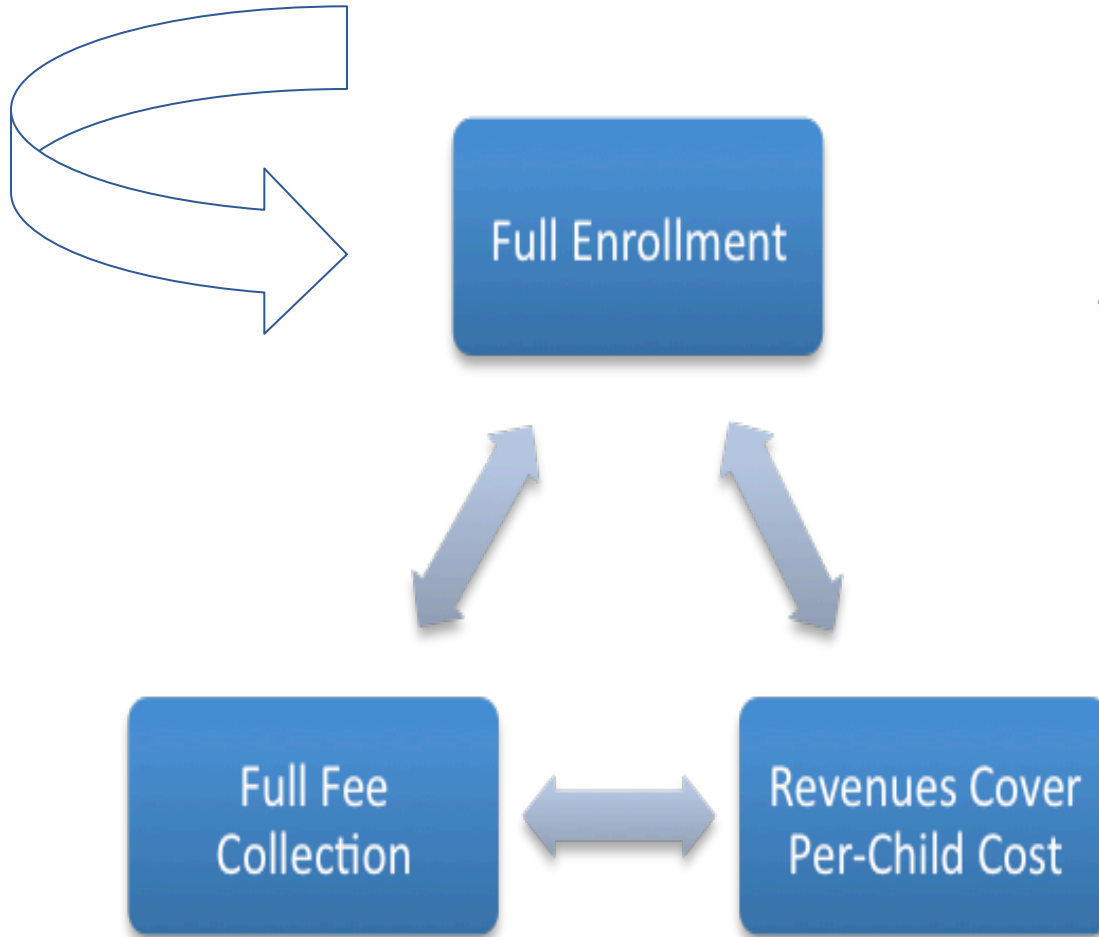
Cost Modeling: The Iron Triangle Matters

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



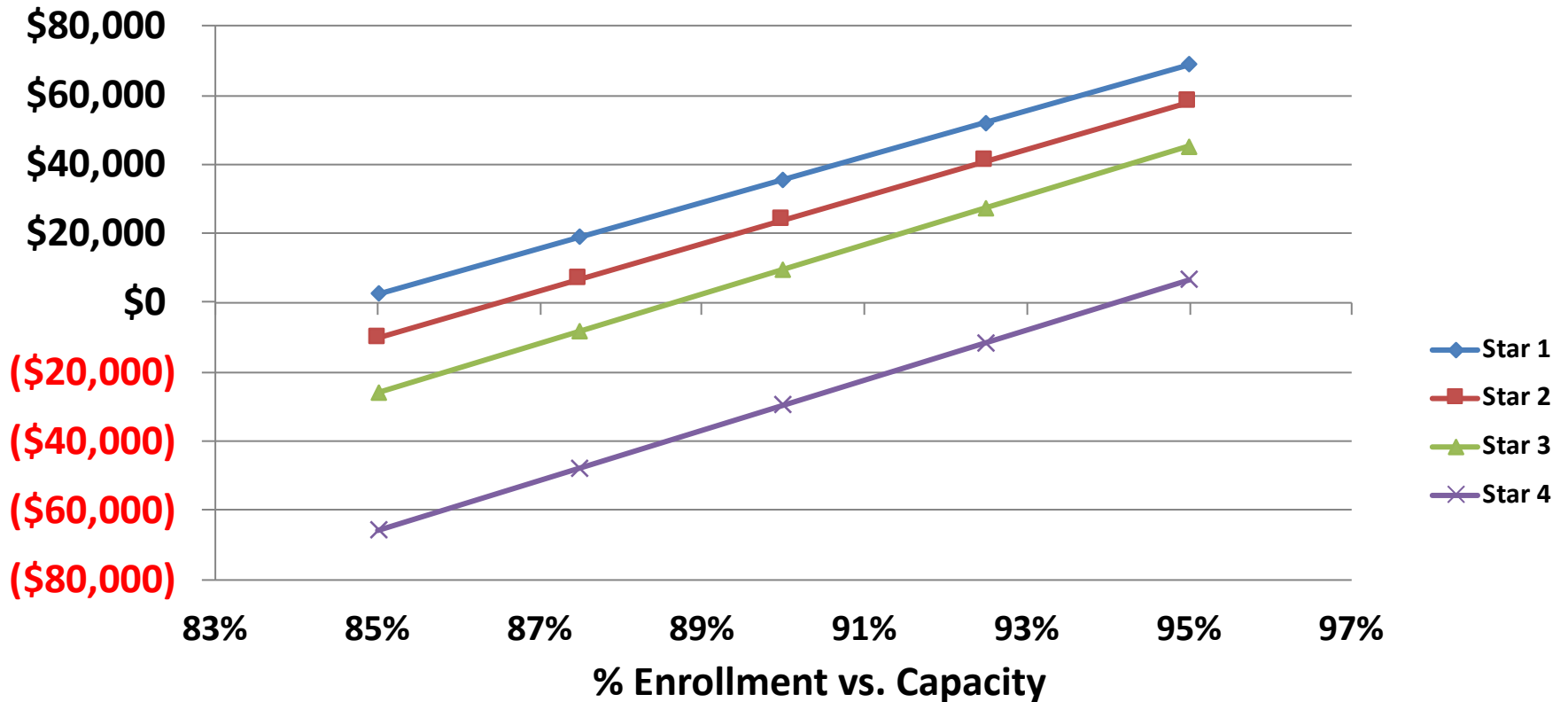
- Ensure full enrollment – every day, in every classroom

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



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

The screenshot displays the 'Childcare Manager - Accounting Center' web application. The browser address bar shows 'r.com/childcaremanager/screenshot_main_7.html'. The application window has a menu bar with 'File', 'Options', 'Lists', 'Family', 'Child', 'Accounting', 'Employee', 'Other Payor', 'Reports', and 'Help'. Below the menu is a navigation bar with icons for 'My Center', 'Family Center', 'Child Center', 'Accounting Center', 'Employee Center', 'Other Payor Center', and 'Report Center'. The 'Accounting (Center Fi...' sidebar lists various reports, with 'Accounting (Center Finances)' selected. The main content area shows a 'Report QuickView' for the 'Balance Sheet' report, including a description, filters, and sorting options. Below this is a 'Report Preview - Balance Sheet' section with a toolbar for 'Modify Report', 'Run', 'Memorize', 'Print', 'Print Preview', 'Export Report', 'Email Report', 'Zoom In', 'Zoom Out', and 'Previous Page'. The report preview shows a balance sheet for 'Demo Daycare Center' as of May 17, 2007, with a total current assets of 6,688.75.

ASSETS	
Current Assets	
Accounts Receivable	
Accounts Receivable	6,688.75
Total Accounts Receivable:	6,688.75
Total Current Assets:	6,688.75

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!

The screenshot shows the homepage of ECE Shared Resources, a website powered by CCA For Social Good. The header features a blue sky with a sun, clouds, and flowers. A navigation bar includes links for HOME, COST SAVINGS, CLASSROOM, PROGRAM ADMIN, REGULATIONS, HR, MARKETING, TRAINING, LIBRARY, and COMMUNITY. A 'Registered Users' box in the top right corner offers a 'Log in here' link and a 'Click here' link for those needing an account. A 'Pinterest' logo is also present. The main content area is divided into three sections: a 'Welcome' message with a 'Learn More' link, an 'About this Site' section explaining the website's purpose, and a row of nine buttons for 'Savings', 'Classroom', 'Program Admin', 'Regulations', 'HR', 'Marketing', 'Training', 'Library', and 'Community'. Below this are three featured articles: 'Interested in Joining?' (welcoming new sponsors), 'Save Money' (highlighting a savings calculator), and 'Kids' Health RSS' (listing recent health news items).

ECE Shared Resources
POWERED BY
CCA For Social Good

Registered Users: [Log in here](#)
Need a log in account? [Click here](#)

More Quality Childcare Resources on
[Pinterest](#)

HOME COST SAVINGS CLASSROOM PROGRAM ADMIN REGULATIONS HR MARKETING TRAINING LIBRARY COMMUNITY

Welcome
Welcome to ECE Shared Resources - a Shared Services initiative in Early Childhood Education to improve quality, share learning and reduce costs. ECE Shared Resources features a website full of practical tools for childcare program managers.
[Learn More](#)

About this Site
You are visiting a replica of ECE Shared Resources. You will be able to navigate this site to understand what is in the actual ECE Shared Resources website but you will not be able to open documents or tools.
[Learn More](#)

CLICK A BUTTON TO LEARN MORE ABOUT PROGRAMS AND TOOLS

Savings Classroom Program Admin Regulations HR Marketing Training Library Community

Interested in Joining?
ECE Shared Resources welcomes new sponsors! Associations and organizations sponsor ECE Shared Resources and in turn offer ECE Shared Resources to their membership or affiliates. Sponsoring organizations have representation on the ECE Shared Resources Advisory Council.
[Learn more](#)

Save Money
Childcare programs gain instant buying power by joining an existing nationwide pool of purchasers. Typical savings are 20% to 50%. The interactive [savings calculator](#) can help you estimate potential savings.

Kids' Health RSS
[Norovirus is now the leading cause of severe gastroenteritis in US children \[CDC Kids' Health\]](#)
Posted: Thu, 21 Mar 2013
[Rate of Traumatic Brain Injury Related Deaths Among Persons Aged 0-19 Years, by Age Group-National Vital Statistics System, United States, 1999-2010 \[CDC Kids' Health\]](#)
Posted: Thu, 21 Mar 2013
[National Women and Girls HIV/AIDS Awareness Day 2013 \[CDC Kids' Health\]](#)
Posted: Fri, 08 Mar 2013

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.

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

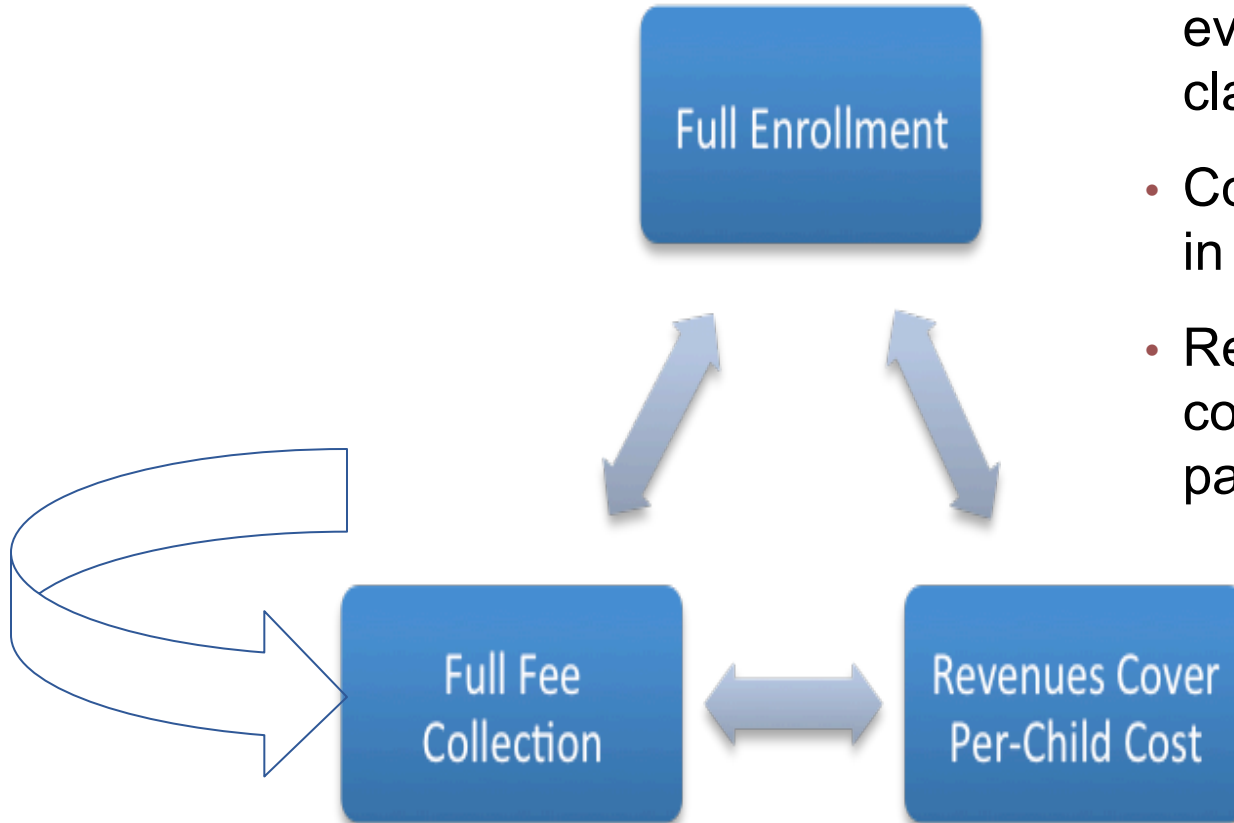
Target subsidy slots to highest quality ECE providers

- 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



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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

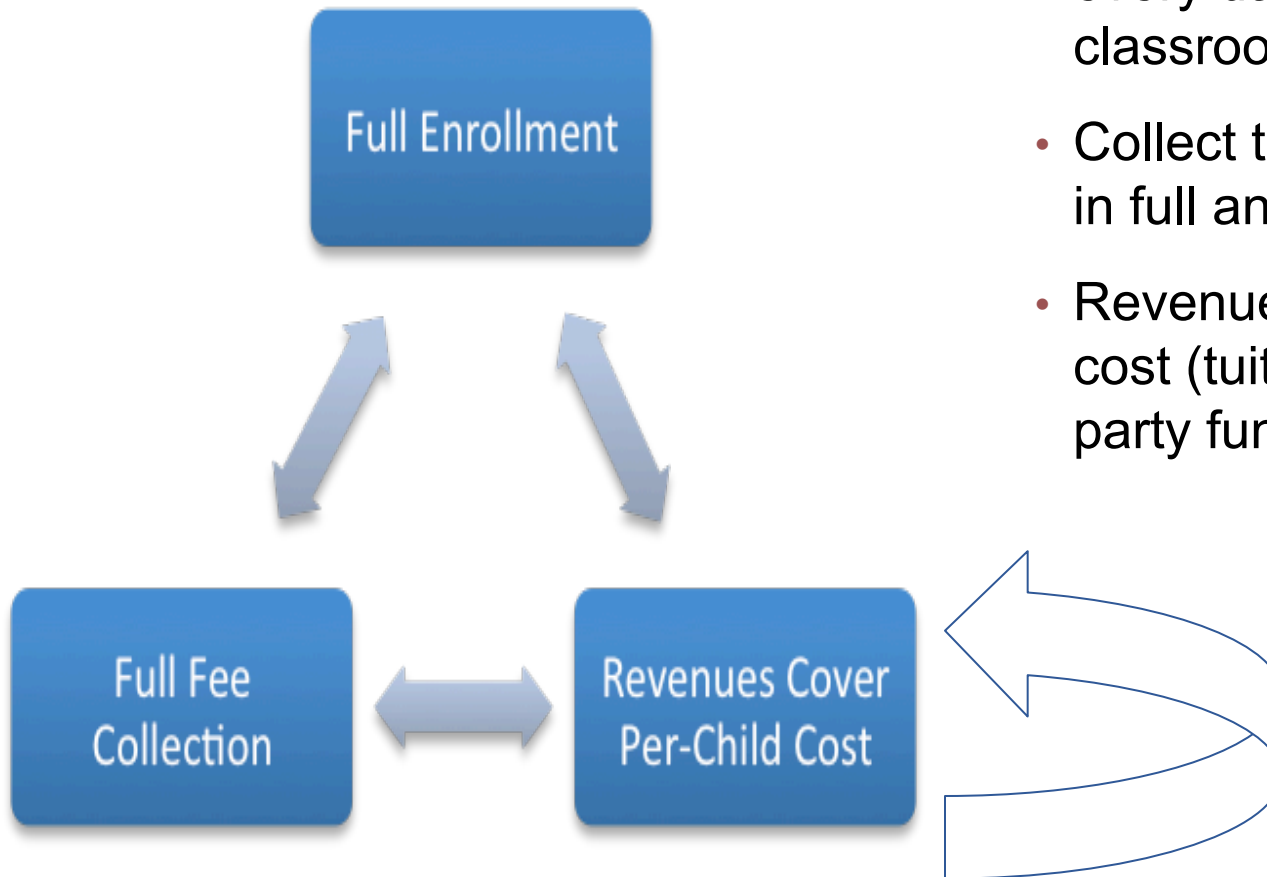
Program Strategies for Full Fee Collection: Staffing

- **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

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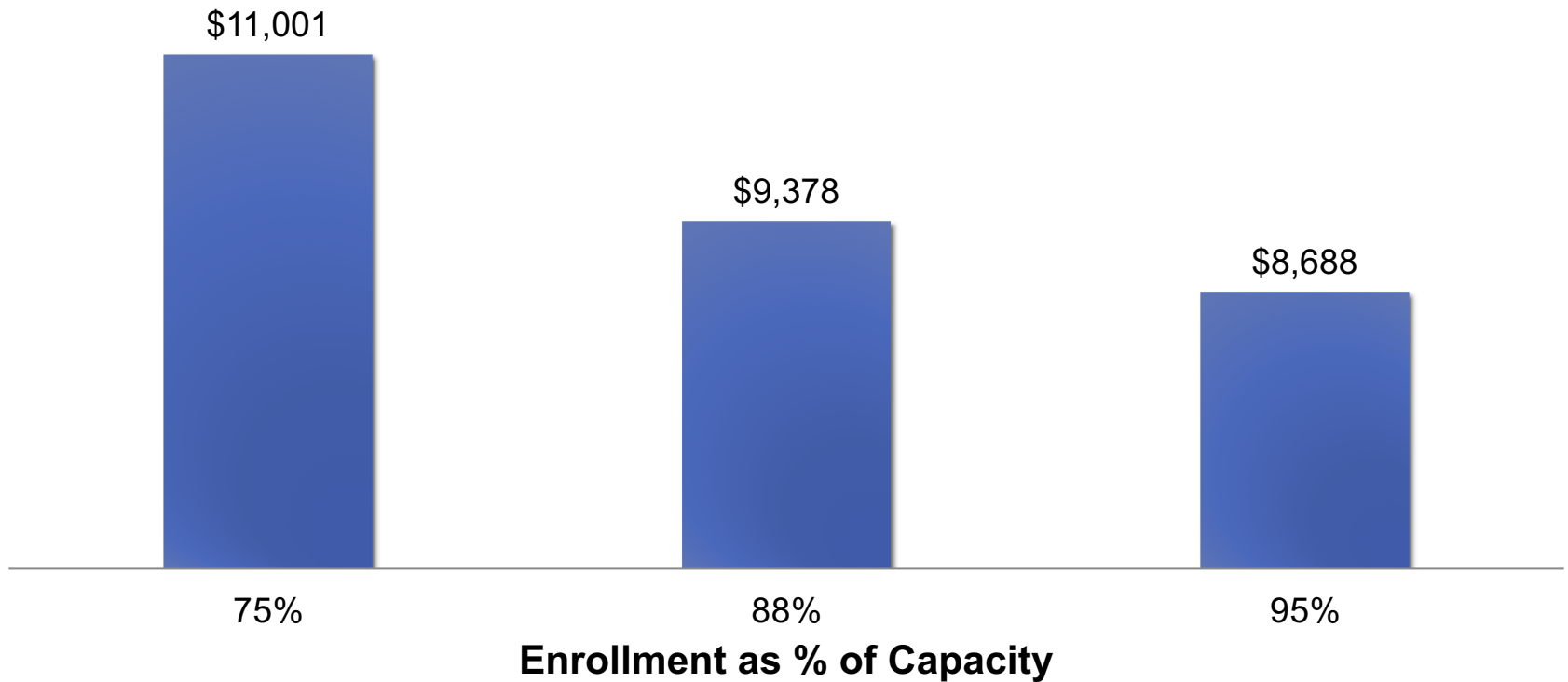
Standards Affect Costs: Cost Modeling

Center: 106 children, infants, toddlers and preschoolers

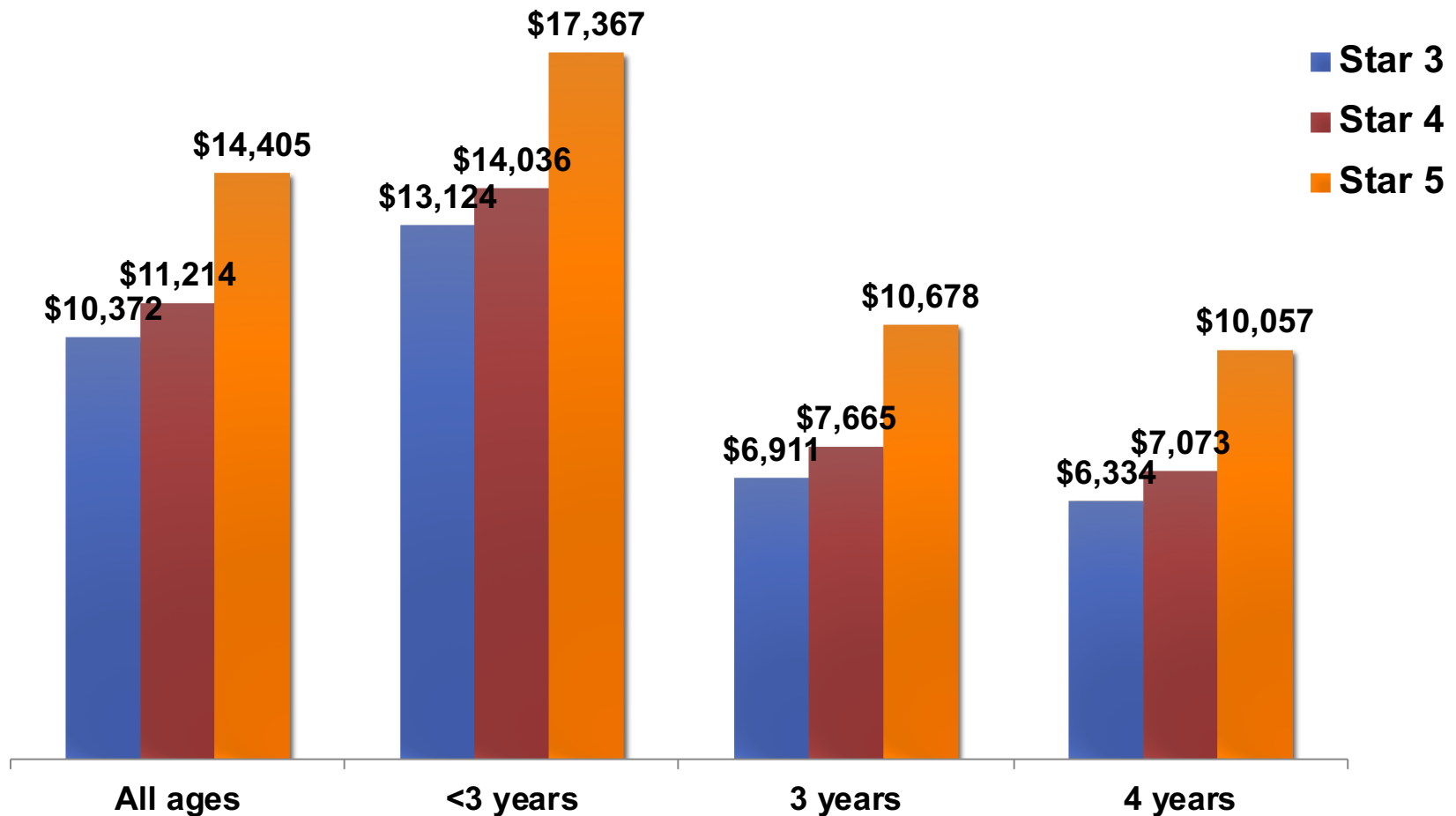
QUALITY			Net Income as % of Expense	Annual profit or loss per Child
Regulated	\$828,943	Expense		
	<u>\$847,626</u>	Revenue		
	\$18,683	Net Income	2%	\$176
Star 2	\$846,319	Expense		
	<u>\$847,626</u>	Revenue		
	\$1,307	Net Income	0%	\$12
Star 3	\$890,845	Expense		
	<u>\$855,825</u>	Revenue		
	(\$35,020)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

Enrollment Affects Cost of Care

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



Age of Children Affects Cost of Care



Program Options to Ensure Revenue Covers Costs: Oversight

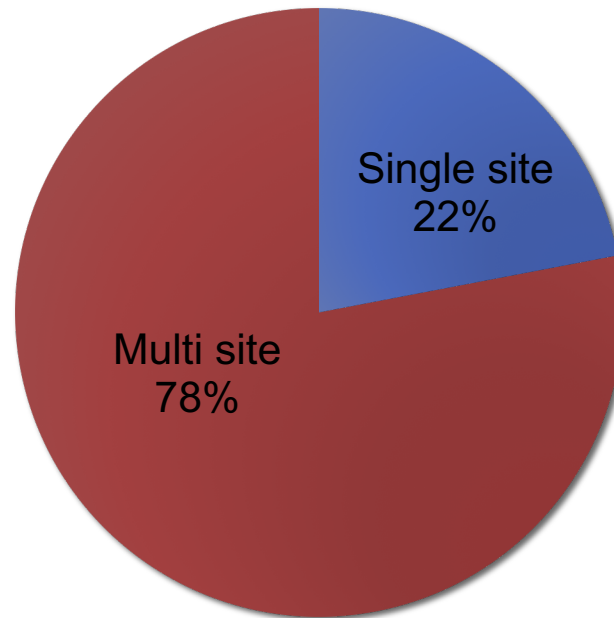
- **Data** – Know your cost per child:
 - How do costs vary by age/classroom?
 - What is the relationship between average enrollment (by classroom) and per child cost?
 - Does full enrollment generate more revenue than raising rates?
 - Should some classrooms be closed or combined?
 - What percentage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



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/PPD aimed at encouraging networked providers

Resources

*Sharing Staff Roles and Responsibilities Across Sites:
Lessons Learned from Intensive Shared Service Allianc
es* <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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