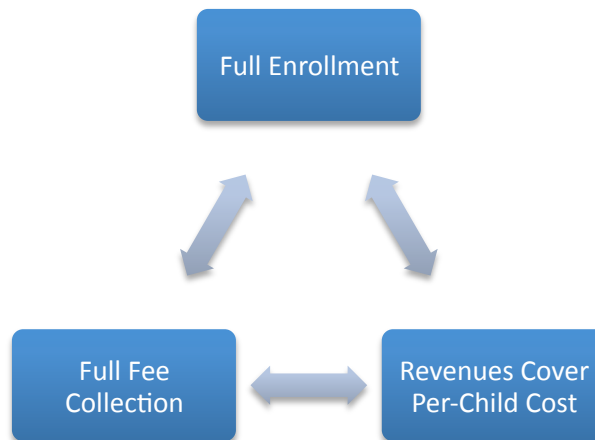


## The Iron Triangle: A Simple Formula for Financial Policy in ECE Programs

Early childhood program budgets, like all budgets, have two sides: the money coming in and the money going out. Balancing these two sides is essential, and is particularly challenging in the current recession economy. When seeking to balance their budgets, early childhood program directors typically focus on their rate—the price charged to parents or received as reimbursement from government. Rates are indeed important, however early care and education program income is also profoundly influenced by two other factors: enrollment and fee collection. These three factors form the “iron triangle” of early care and education (ECE) finance. Paying close attention to the three sides of the iron triangle is key to sound fiscal management.

### ECE IRON TRIANGLE



### Full enrollment

Almost all ECE revenue is tuition collected on behalf of an enrolled child. While government and philanthropy sometimes help finance ECE, this funding is rarely provided as general operating support; typically the dollars provided by third party funders are linked to enrollment of specific children. If the children are not enrolled, the funding does not flow. This makes full enrollment a cornerstone of ECE finance, regardless of whether the program relies mainly on public funds or relies primarily on parent fees, or a combination. Unless a program is over-enrolled (a practice that is generally prohibited in licensing regulations because it could result in attendance that exceeds ratio and/or group size limits), it is not possible to operate at 100% enrollment. While some experts suggest that a well-run center can operate at 95% enrollment;<sup>1</sup> many suggest budgeting at a

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<sup>1</sup> Morgan, Gwen G. and Bess R. Emanuel, *The Bottom Line for Children's Programs: What You Need to Know to Manage the Money*, 5<sup>th</sup> edition, Watertown MA: Steam Press, 2010. Distributed by Exchange Press and Gryphon House.

more achievable rate, such as 85% enrollment. Regardless of the target, any time enrollment drops below the budgeted target an ECE program is losing money.

Monitoring enrollment and acting quickly to address any shortfall, is key to fiscal stability. This means program administrators must carefully track attendance, in each classroom, on a regular basis, and plan in advance when children will be ‘aging out’ of the program and/or moving to a different classroom. Without careful monitoring and active outreach to fill vacant slots, it is easy for these natural transitions to cause funding gaps. Tuition, especially when reimbursed by government, may also be dependent on actual attendance, so staying on top of this is crucial. It is easy for non-attendance to turn into non-enrollment. In a small program, every day a slot remains open can make a big difference. Over time these losses add up and can lead to serious financial shortfalls.

### **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. Successful ECE administrators stay on top of fee collection; they have clear policies, are firm and consistent with families, thorough and prompt with billing, and on top of the paperwork required by third party funders. Fee collection can be very time-consuming unless systems are put in place to streamline and automate the process. Making electronic funds transfer (that is, enabling automatic transfer of funds from a bank account, debit or credit card) the norm for fee payment is one, effective way to strengthen fee collection.

### **Revenues Cover Per-Child Cost**

Setting tuition fees (prices) accurately involves many factors and decision points, some of which are beyond the control of an ECE program. What parents can afford to pay is based on what they earn and the local cost of living. What government, or other scholarship programs, will pay is typically based on available funds. That said, determining the actual cost per child, comparing this cost to the price charged, and when fees cannot cover the full cost, identifying third party funding to fill the gap, is essential to sound fiscal management. The bottom line is that parent fees + third party payments must equal per-child cost. Otherwise the program is losing money.

Both enrollment and fee collection impact actual per-child costs. If a program is not fully enrolled, the per-child cost increases. If bad debts go up (fees are not being collected), the per-child cost increases. In some cases, a budget gap can be addressed by boosting enrollment and/or lowering bad debt rather than raising fees. The three factors are interrelated. In tough fiscal times, when third party funders are cutting budgets and parents are squeezed financially, ECE programs often face a difficult choice: keep fees high and risk increased vacancy rates and higher bad debt, or lower fees to boost cash flow. Unfortunately, the right answer is not simple or obvious, and it may vary from center to center based on the services offered and the families served.

The iron triangle is a simple formula for a complex issue. It can be a helpful way to stay on track, to remember what’s important, but should not replace the many steps involved in sound fiscal management. Gwen Morgan and Bess Emmanuel have co-authored an excellent handbook, *The Bottom Line for Children’s Programs: What You Need to Know to Manage the Money*, which should be an essential text for any program director involved in the business side of early care and education.

Louise Stoney, October 2010