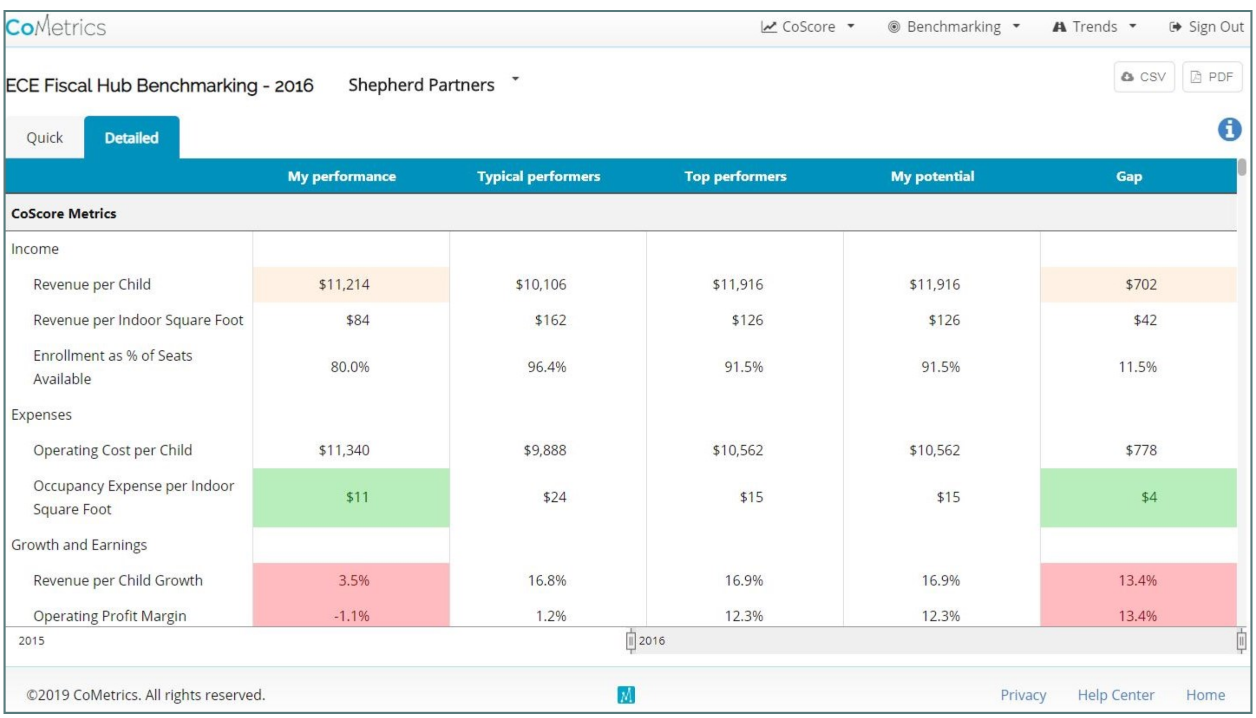
Overview of ECE Fiscal Hub resources

The ECE industry is composed of several types of providers—nonprofit, for-profit, multi-site, multi-service—and center-based, family, and group child care providers. Regardless of the structure of these entities, the overwhelming priority of the owners, directors, and staff is to create a safe environment where children can learn and grow. Anecdotally, many in the sector say that they come to this work with a background in education and not in business management. The general lack of financial literacy often causes the business aspects of an organization's operations to be overlooked. Owners and directors need a mechanism to regularly assess their financial condition, understand how to use their data to impact decision-making, and assess how they perform compared to peers and industry standards.

Public Health Management Corporation (PHMC), Reinvestment Fund, and CoMetrics partnered to develop the Fiscal Hub in 2017 with the goal of understanding providers' operating conditions, developing tools and resources to improve the financial stability of providers, and informing how the sector can advance the fiscal health of providers across the city. In this pilot phase, the Fiscal Hub focused on **developing a set of resources** to support providers in improving fiscal stability, including:

- **An online tool** that helps providers better understand their financial data, how their performance compares to peers, and track annual changes. This tool further identifies top and typical performers across the participating provider cohort based on a set of key metrics defined as critical to child care fiscal sustainability and high-quality operations.[1]



	My performance	Typical performers	Top performers	My potential	Gap
CoScore Metrics					
Income					
Revenue per Child	$11,214	$10,106	$11,916	$11,916	$702
Revenue per Indoor Square Foot	$84	$162	$126	$126	$42
Enrollment as % of Seats Available	80.0%	96.4%	91.5%	91.5%	11.5%
Expenses					
Operating Cost per Child	$11,340	$9,888	$10,562	$10,562	$778
Occupancy Expense per Indoor Square Foot	$11	$24	$15	$15	$4
Growth and Earnings					
Revenue per Child Growth	3.5%	16.8%	16.9%	16.9%	13.4%
Operating Profit Margin	-1.1%	1.2%	12.3%	12.3%	13.4%

[1] Based on key metrics, top performers were identified as having scores in the upper quartile (75-100%) of the total cohort and typical performers had scores in the middle two quartiles (25-75%) of the total cohort. These key metrics were developed through feedback from Fiscal Hub advisory committees, focus groups with providers, and interviews with key stakeholders.

- **A proposed set of ECE industry standards** which includes metrics and suggested targets that enable providers to track financial performance and make more informed business decisions. They also offer funders, regulators, and policy-makers ways to assess historic financial impact and performance, current financial standing, and ongoing financial sustainability of ECE providers.

Proposed ECE Industry Standards

Category	Metric	Target	Co-Score Metric	Definition	Rationale
Income	Revenue per child	Review alongside operating cost per child	yes	The amount of revenue earned per child from various private and public funding sources. The higher revenue the better.	Alongside operating cost per slot, this measure helps determine whether program revenue fully covers the cost of operating a seat/slot.
	Enrollment as percentage of seats available	>90%	yes	This percentage shows how the number of enrolled children (based on a typical week) relates to the total program capacity (the number of children that could fit in the room according to program standards). The higher the percentage the better.	Programs maximizing space (enrollment meets program capacity targets) will generate greater revenue.
	Percentage of tuition fees uncollected	<2%	no	An estimate of the annual tuition fees that is uncollected from families. This was self-reported by providers. The lower percentage the better.	Providers should minimize, to the best of their ability, the amount of uncollected fees and time for which they remain uncollected. Top performers were able to keep uncollected fees to 2% or less. Providers should also understand that the cost of chasing after fees (a staff person (s) wage) and consider streamlining systems to minimize the amount of administration necessary for this process.
Expenses	Operating cost per child	Review alongside revenue per child	yes	The expenses associated with the maintenance and administration of a business on a day-to-day basis relative to the number of children enrolled. The lower the operating cost the better.	Review this alongside revenue per child to help determine whether program revenue fully covers the cost of operating a seat/slot.
	Occupancy expense per total square foot	<15% of total expense (or $15/ square foot))	yes	The amount spent on rent/ mortgage per indoor square foot.[2] Occupancy expenses are costs related to occupying a space, including but not limited to: rent or mortgage, property taxes, insurance, facility improvements, ongoing maintenance, utilities, trash collection, security, cleaning, telephone, and internet. The lower the occupancy expenses the better.	Occupancy costs are generally controllable expenses and can often be negotiated. The ability to keep these types of overhead costs low frees revenue to support staffing and/or generate an operating surplus. Occupancy expenses should be at 15% or less of total expenses (or $15/square foot or less).

[2] Square footage was limited to indoor space as not all providers could give estimates of outdoor space available.

Proposed ECE Industry Standards (continued)

Category	Metric	Target	Co-Score Metric	Definition	Rationale
Growth and earnings	Revenue per child growth	Adjusts annually	yes	The change in revenue that a provider is earning or losing per child from year to year. The higher the revenue growth the better.	The cost of goods and services generally increases year-over-year (i.e. utilities, rent, and materials). In order to at least break even, revenue needs to increase by the same rate or more. A cost of living adjustment (COLA) based upon the consumer price index (CPI), currently at 2.3%,[vi] is a helpful measure of the average change over time for consumer goods and services and can be used as a benchmark for revenue growth.
	Operating margin	> 0%	yes	The percentage of each dollar of revenue that remains after operating expenses is considered. The higher the operating margin the better.	This is the percentage of funding available after collecting all revenues and paying all expenses. Programs should aim to break even or better.
Quality	Staff cost as percentage of total expenses	70-80% of total expenses	yes	The proportion of operating expenditures spent on staffing, which includes staff wages, benefits, and payroll taxes. The higher the percentage the better.	Staffing costs should account for the majority of a program's expenses, and it is important to track against a budget on a consistent basis. Program quality is dependent on staff credentials and higher -credentialed staff demand higher wages. A competitive wage also reduces teacher turnover, creates a stable program environment, and often improves enrollment and client retention. Other costs to operate a child care program, including materials, food, and occupancy, need to be considered as part of total expenses. Additionally, if expenses are in excess of revenues, no matter how much a program spends on one component or another, it will always result in an operating loss. It is recommended that staffing costs account for approximately 70% – 80% of total expenses.
	Number of priority benefits offered to full-time staff	4	yes	Priority benefits are defined as having the greatest impact on workplace and job quality: 1. Health insurance (full or partially paid) 2. Paid leave (sick, personal, and/or vacation) 3. Retirement plan (at least partially paid) 4. Paid time to attend meetings/ trainings 5. Advancement opportunities, including the ability to participate in T.E.A.C.H. scholarship program or paid tuition for college (not T.E.A.C.H.). The higher the number the better.	Better benefits and compensation packages improve teacher retention. Minimizing teacher turnover works to improve the quality of programming and support enrollment growth and stability. At least four benefits should be offered to full-time staff to create a comprehensive salary and benefits package.

Proposed ECE Industry Standards (continued)

Category	Metric	Target	Co-Score Metric	Definition	Rationale
Financial health	Multi-year operating profit	>$0 and increasing over time	no	The amount of revenue that is left over after operating expenses are considered year to year, which is calculated by taking the current year's operating earnings divided by total revenue over last year's operating earnings divided by total revenue. The higher the number the better.	This is a helpful indicator of long-term financial sustainability by showing a program's ability to build a surplus or fund balance. A healthy surplus means funding may be made available to support operations during times of financial difficulty, decreased cash flow, or to support one-time costs.
	Days cash on hand	At least 60 days	yes	The number of days that an organization can continue to pay its operating expenses, given the amount of cash available. The higher the number the better.	An organization should be able to continually generate enough revenue to stay viable and cover operating expenses. As a point in time measure, days cash on hand should be reviewed at least monthly, as cash flows are highly variable. It is important to have at least 60 days, but this should be customized in order to meet an organization's particular program needs (i.e., cover costs during summer months with lower enrollment).

Application

Using the Fiscal Hub online tool in coordination with a set of industry standards, providers can view their organization's current financial health and understand whether they are under- or over-performing compared to peers and industry norms. Performance can be assessed based on key benchmarks that indicate whether they are trending toward financial viability or financial risk. Providers can make more informed business decisions and adjust operations as necessary based on the information provided. The chart below demonstrates how a provider might apply the data from the online tool and industry standards to improve operations.

How to Apply the ECE Fiscal Hub Resources to Your Operations

Financial management & staffing practices.[3]	Step 1: Assess your performance on key benchmarks and compare yourself to peers in the online tool.	Step 2: Compare your performance to industry standards.	Step 3: Apply strategies to align to industry standards (individually or via technical assistance). Examples below.
Attain full enrollment	• Enrollment as percentage of seats available	• Enrollment rates should be at 90% or greater	• Increase marketing strategies via improvements to website, social media, and referral incentives • Assess enrollment policies
Collect full fees	• Percentage of tuition fees uncollected • Tuition • Operating margin	• Percentage of uncollected fees should be at 2% or less • Tuition rates should be reviewed annually • Operating margin should be at break-even (0%) or greater	• Implement child care management system with automatic billing • Ensure systems are in place to invoice, collect, and track all tuition, parent co-pays, and fees • Increase tuition rates, even if minimal
Ensure revenue covers per child cost	• Revenue per child • Operating cost per child • Occupancy expense per indoor square foot • Days cash on hand	• Review revenue per child alongside of operating cost per child • Occupancy expense should be 15% or less than total expenses • Days Cash on hand should be at 60 days or greater	• Understand cost by age levels to see if revenue is covering costs • Explore accessing other sources of funding (i.e., eligibility for PHLpreK, Pre-K Counts, Head Start) • Assess management of expenses with focus on lowering controllable expenses (occupancy costs, other expenses)
Recruit and retain qualified staff	• Staffing costs as percentage of total expenses • Number of priority benefits offered to full -time staff	• Staffing costs (wages, benefits, and taxes) should be approximately 70-80% of total expenses • Four priority benefits should be offered to full time staff	• Explore automating processes to lower administrative staff costs and paperwork data entry burden • Contact the Pennsylvania Child Care Association to make T.E.A.C.H. scholarships available to your staff

[3]Financial management practices are based on the Iron Triangle elements developed by the Alliance for Early Childhood Finance.http://www.earlychildhoodfinance.org/downloads/2010/IronTriangle_10.2010.pdf

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