



Early Childhood Education Fiscal Hub

Pilot project summary, key observations, and recommendations
to improve financial stability of child care providers

February 2019



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Early Childhood Education Fiscal Hub Project

The Early Childhood Education (ECE) Fiscal Hub is a partnership of Public Health Management Corporation, Reinvestment Fund, and CoMetrics to develop financial tools and industry standards to support and guide decision-making for the early learning sector. Generous grants from the Vanguard Strong Start for Kids Program and William Penn Foundation supported this project. The opinions expressed in this report are those of the authors and do not necessarily reflect the views of the Vanguard Strong Start for Kids Program or William Penn Foundation.

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Kristine Alvarez, Nonprofit Finance Fund
Amanda Atkinson, Public Health Management Corporation
Christie Balka, City of Philadelphia, Mayor's Office of Education
Julie Beamon, City of Philadelphia, Mayor's Office of Education
Melanie Brennan, Kencrest
Angela Coaxum, Your Part-Time Controller
Harriet Dichter, Early Childhood Education Policy and Strategy Consultant
Amy Friedlander, Early Childhood Education Consultant
Eva Gladstein, City of Philadelphia, Department of Health and Human Services
Mary Graham, Children's Village
Karen Grimm-Thomas, Pennsylvania Office of Child Development and Early Learning
Teresa Hayes, Public Health Management Corporation
Aliya Johnson Roberts, Pratt Street Learning Center
Lynn Karoly, RAND Corporation
Dainette Mintz, Urban Affairs Coalition
Rashanda Perryman, The Vanguard Group, Inc.
Libbie Poppick, Opportunities Exchange
Carl Reese, Kencrest
Latoshia Sanders, Public Health Management Corporation
Tyrone Scott, First Up
Louise Stoney, Opportunities Exchange
Tom Sulpizio, Montgomery Early Learning Center

Fiscal Hub Partners

Public Health Management Corporation

Public Health Management Corporation (PHMC) is a nonprofit public health institute with a mission to create and sustain healthier communities. PHMC has served the Greater Philadelphia region since 1972. PHMC and its 11 affiliates have over 2,300 employees across 42 program locations serving approximately 350,000 clients annually through hundreds of programs. Service areas include behavioral health/recovery, primary care, chronic disease management and prevention, early intervention, education, workforce development, family services, and much more, plus the research and evaluation necessary to assess and target service needs effectively.

Reinvestment Fund

Reinvestment Fund is a national mission-driven financial institution that creates opportunity for underserved people and places through partnerships. It marshals the capital, analytics, and expertise necessary to build strong, healthy, and more equitable communities. Since 1985, Reinvestment Fund has made \$2 billion in cumulative investments and loans. It is supported by over 850 investors that include individuals, foundations, religious institutions, financial institutions, civic organizations and government.

CoMetrics

CoMetrics enables independent businesses, cooperatives and nonprofit organizations to harness the power of data to transform their performance and impact. Founded in 1995 and incorporated as a Minnesota cooperative in 2003, CoMetrics currently serves over 300 organizations in eight sectors ranging from retail grocery to nonprofit affordable housing developers to impact investors. Its proven model can deliver value across a broad range of sectors, industries, and business types. CoMetrics builds the capacity of its partners to be data-driven. Its tools create timely, accurate and actionable analytics that improve financial management, drive innovation, and better measure social impact.

For more information about this report or the Fiscal Hub please contact FiscalHub@phmc.org.

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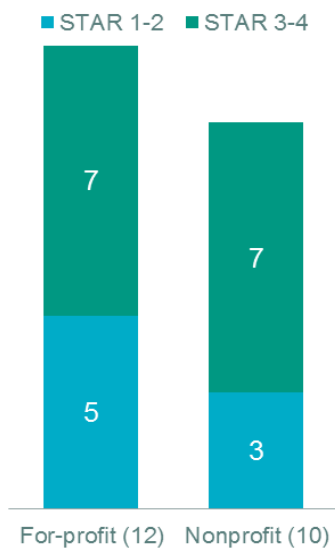
Executive summary

The increase in early learning funding across Pennsylvania and in Philadelphia will only yield successful outcomes for young children if there is an ample supply of high-quality providers. While financial management and sustainability is a critical piece to operating any child care center, even high-quality providers' struggle and experience financial hardship. Stringent regulation, diverse operators, diffuse accountability systems, and numerous funding streams make success in the industry challenging and understanding the conditions of success confounding.

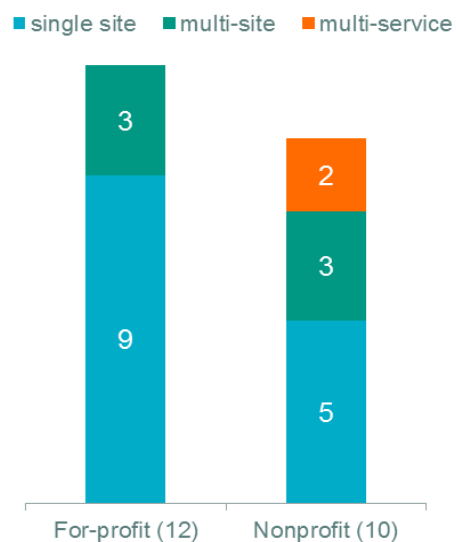
Public Health Management Corporation (PHMC), Reinvestment Fund, and CoMetrics partnered to develop the Fiscal Hub in 2017 with the goal of understanding providers' operating conditions, developing tools and resources to improve the financial stability of providers, and informing how the sector can advance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

- **Collecting and analyzing detailed financial and programmatic data** from a diverse set of 22 providers in Philadelphia, which included 12 for-profit and 10 nonprofit providers.

STAR level by business type



Sites by business type



- **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

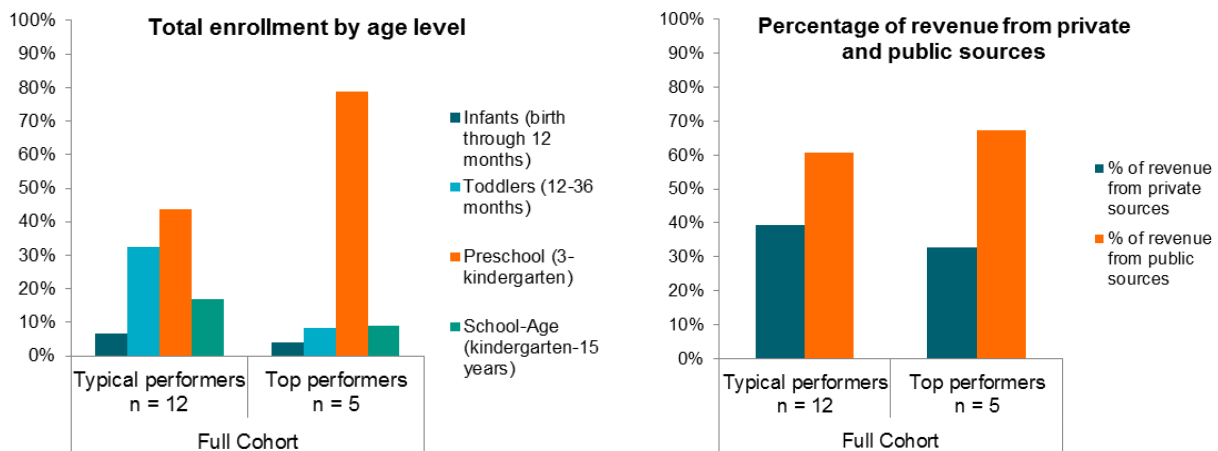
¹ Based on key metrics, top performers were identified as having scores in the upper quartile (75-100%) of the total cohort and typical performers had scores in the middle two quartiles (25-75%) of the total cohort. These key metrics were developed through feedback from Fiscal Hub advisory committees,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

Key Observations

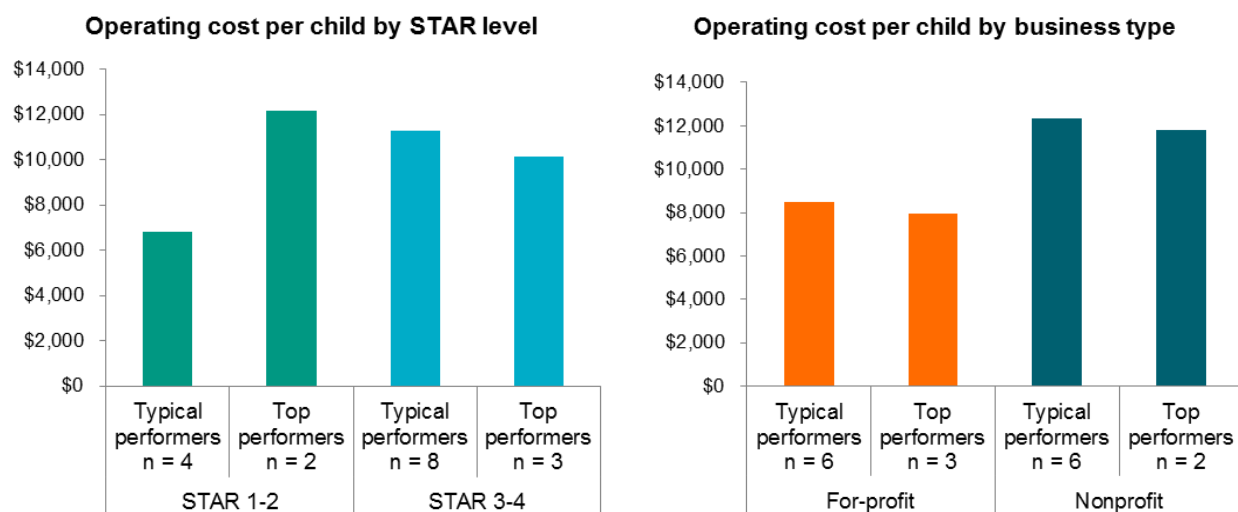
Based on analysis of aggregate data from providers in the Fiscal Hub pilot, several trends emerged. Due to the small sample size of providers, findings should not be generalized as representative of city-wide provider trends. While the total cohort graphs reflect data from the 22 providers that participated, the side-by-side comparisons by structure (for-profit and nonprofit) and quality levels (STAR 1-2 and STAR 3-4) reflect reduced sample sizes in order to show findings by the top and typical performers in these segments. Following are the key observations.

- Most providers do not use standard budgeting practices. Many financial reports were inadequate and lacked details in tracking revenue and expenses broken out by line items, such as revenue sources. Inaccuracies were also identified in financial reporting as some providers were reporting lower than typical reimbursement rates for public contracts.
- Across the total cohort, top and typical performers served primarily preschool children through public funding streams. Top performers, however, served a significantly higher number of children—nearly 290 preschoolers—while typical performers served approximately 40 preschoolers.

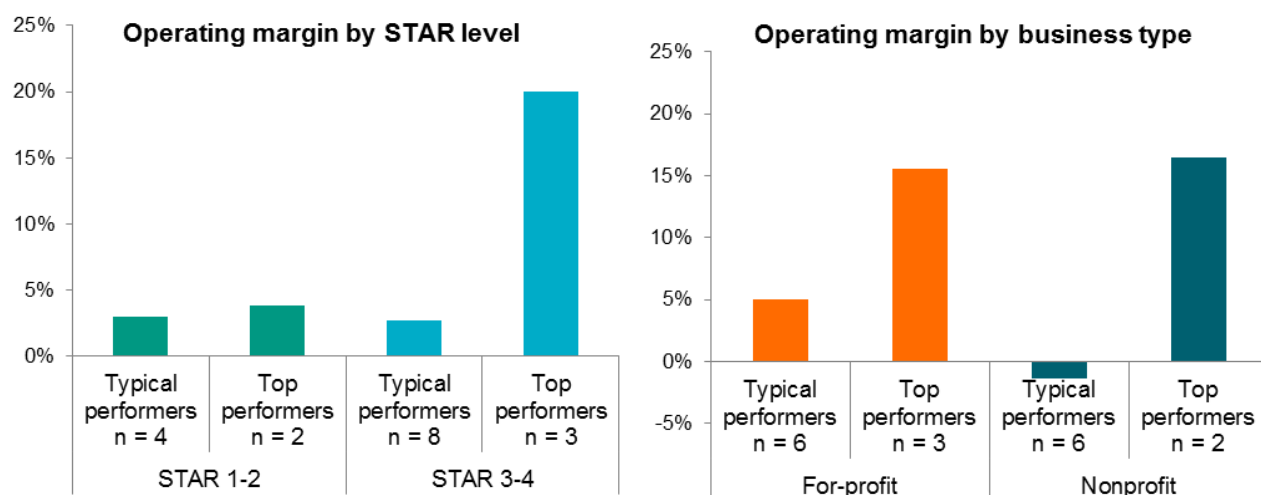


- Depending on the population served, public sources that contract a specified number of slots generally provide more stable, ongoing funding than private sources, which can lead to better fiscal performance if providers have consistent revenue streams.
- Nonprofit top performers earned the highest amount of revenue per child at approximately \$13,750 per child, while low-quality typical performers earned the least amount at approximately \$7,115 per child.

- STAR 3-4 providers utilized more revenue sources than STAR 1-2 providers. The majority (70%) of children served by STAR 3-4 top performers were preschoolers, which likely allowed for these providers to diversify funding streams as there are more public funding programs (Head Start, Pre-K Counts) available for this age group.
- STAR 1-2 typical performers had the lowest operating cost at \$6,830 per child while nonprofits typical performers had the highest operating cost at \$12,335 per child.

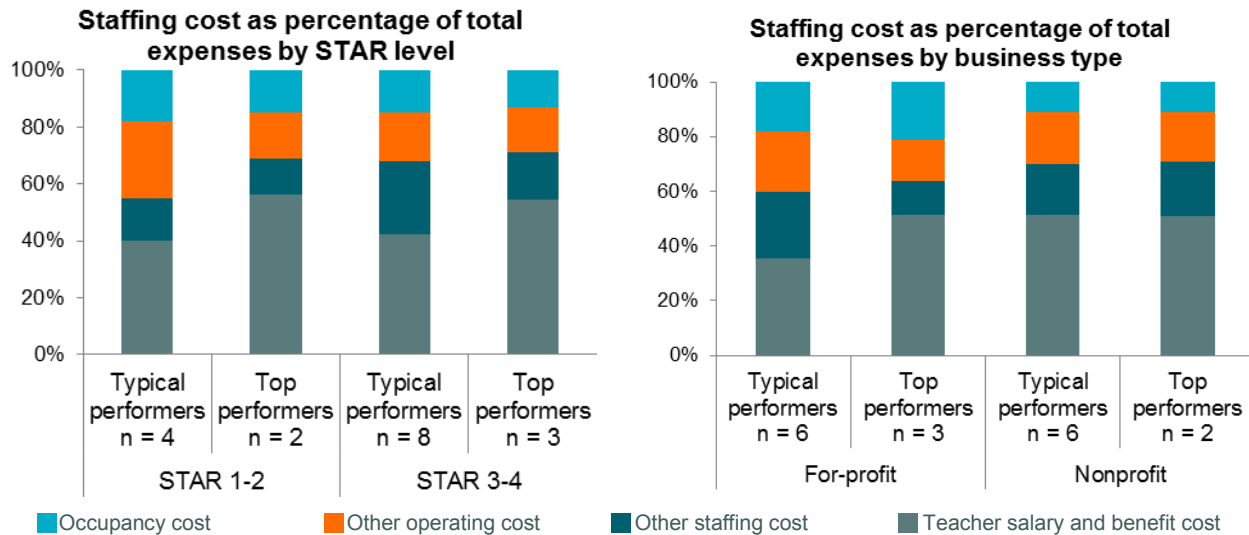


- Top performers across the cohort increased revenue per child from 2015 to 2016 at a significantly higher rate than typical performers. Top performers averaged 23% growth rate across quality levels and business type, while typical performers averaged 1% growth rate.
- While the majority of typical performers across the cohort operate close to break-even, top performers (STAR 3-4, for-profit, and nonprofit) showed an average of 18% operating margins.²



² Grant/restricted funds were not removed from revenue, which may be inflating operating margins.

- High- and low-quality providers across the cohort had around 50% or less of their total non-support staff (directors, assistant directors, lead, and assistant teachers) with Associate’s degrees or higher.
- Half of providers in the cohort self-reported nearly full enrollment rates.
- Total staffing costs were the largest expense for all providers, ranging from 55%-71% of total expenses, with the majority of providers spending approximately half (40%-56%) of their budgets on teacher salaries and benefits.



- The majority of providers offered four priority benefits with paid time off and paid training time as the most common.³
- While STAR 3-4 and nonprofit typical performers showed days of cash on hand over the standard 60 day minimum, the majority of providers across the cohort fell below this threshold with only 24-49 days cash on hand.

Recommendations

Since fiscal management is critical to operating and sustaining a high-quality child care program, more emphasis needs to be placed on business management. The following recommendations aim to address key challenges faced in the sector and are based on data findings and feedback from the Fiscal Hub advisory committees, focus groups, and interviews conducted during this pilot.

Implications for quality improvement systems

- Improve owners’/directors’ understanding of and ability to make better financial decisions and improve business management practices, specifically around basic budgeting and aligning to ECE industry standards.

³ Priority benefits are defined as having the greatest impact on workplace and job quality. Priority benefits are detailed on the Co-Metrics chart on p. 16.

- Explore opportunities for shared services, such as financial back-office support, to address the needs of providers that lack the capacity to engage in business management.

Implications for capacity building

- Standardize fiscal data collection across providers by developing a standard chart of accounts that streamlines what is accounted for in financial statements, providing a template for both owners and directors and their financial staff. Providers with public contracts as a primary revenue source should also consider aligning financial reporting and tax return fiscal years with contract end dates, which often run on a school year basis.
- Increase supply of qualified vendors with ECE expertise to support providers in standardizing budgeting practices and meeting their needs.

Implications for policy

- Increase access to city-wide financial data on providers by collecting data annually and maintaining a live tool that can be used to analyze the fiscal health of the sector.
- Embrace technology by actively encouraging providers to use automated child management systems that includes a standard chart of accounts.
- Embed additional fiscal requirements within accountability systems that make it easier for providers to standardize and share financial data. State and local public and private funders could incentivize providers to share an increased level of financial data by requiring additional fiscal reporting to be eligible for grants or other funding opportunities.
- Strengthen opportunities to elevate fiscal management as a key component of high-quality operations through Keystone STARS.
- Assess how recent state and local public policy changes affect provider finances based on year-to-year comparison of providers' financial data.

Background

“Poor fiscal management is the primary reason that ECE programs fail.”ⁱ

Louise Stoney and Susan Blank, Opportunities Exchange

The increase in early learning funding across Pennsylvania and in Philadelphia will only yield successful outcomes for young children if there is an ample supply of high-quality providers. Financial management and sustainability are critical to operating any child-care center, but this is particularly difficult for providers to manage. Studies have highlighted the challenges of the ECE business model, complicated revenue sources, and inadequate public reimbursement rates.^{ii, iii} Stringent regulation, diverse operators, diffuse accountability systems, and numerous funding streams make success in the industry challenging and understanding the conditions of success confounding.

High-quality providers are designated by Pennsylvania’s Keystone STARS quality rating and improvement system on a 1-4 STAR scale, with STAR 3-4 being considered high-quality. Even these high-quality providers struggle and experience financial hardship. The Nonprofit Finance Fund’s (NFF) 2015 “Overcoming Financial Barriers to Expanding High-Quality Early Care & Education in Southeastern Pennsylvania” report highlighted that providers operate very close to break-even with limited reserves to sustain themselves.^{iv} NFF indicated that high-quality providers serving primarily children from low-income families showed greater financial challenges than providers serving private pay families. If providers have difficulty making ends meet and are focused on sustaining day-to-day operations, their capacity to plan for long-term sustainability and take advantage of new funding opportunities is greatly reduced. Not being able to stabilize financial operations also limits a provider’s ability to invest in quality operations.

Despite these significant barriers, there are top-performing, high-quality providers across Philadelphia that can sustain themselves from year to year. How are these providers achieving fiscal stability? Additionally, how do these providers diversify revenue streams and manage operating costs so they can invest in essential elements of quality, such as recruiting and retaining qualified staff? The Fiscal Hub pilot project sought to understand these providers’ conditions for success, develop tools and resources to improve the financial stability of providers, and inform how the sector can improve the fiscal health of providers across the city.

Project overview

Introduction

PHMC, Reinvestment Fund, and CoMetrics partnered to develop the ECE Fiscal Hub in 2017. This pilot project focused on creating financial tools and resources for providers to improve their financial stability and increase access to providers' financial data so the sector could better understand their fiscal conditions. This is intended to guide decision-making:

- by providers about their business and operations,
- by system actors about what support is needed for owners and directors, and
- by ECE policymakers.

While several entities were collecting various financial documents from child care providers as part of funding initiatives across the city, few were able to share granular fiscal data on providers in meaningful ways. However, PHMC and Reinvestment Fund—jointly and separately—administer public and private funding initiatives and so were uniquely positioned to aggregate financial data from a diverse set of providers that had been collected through the application processes of those initiatives.⁴

Fiscal Hub partners sought to create a repository of this fiscal data from providers and an online platform to display this information so that providers could better understand their financial data, compare performance to their peers, and track annual changes. Analysis of data across providers in the Fiscal Hub would help to establish industry norms, elevate best practices, and inform policy recommendations.

The Fiscal Hub aimed to answer the following questions:

1. Is it possible to see trends and norms across the data and to then set best practice industry standards?
2. If so, how can these industry standards be used by providers and policymakers?
3. Is there value for providers in understanding the fiscal performance of their peer agencies and to benchmark their activities against peers and best practice performance data?

Two advisory committees were developed to strategically guide the Fiscal Hub's work. The Key Advisory Committee provided oversight on project components and consisted of leading national and local ECE finance and ECE content experts, with representation from state and local public agencies, researchers, funders, and other stakeholders. The Metrics Committee guided strategies around data collection and the development of the online tool to ensure its relevance to the sector. This committee consisted of local child care directors, their fiscal staff, and other ECE stakeholders.

After Fiscal Hub partners audited financial documents submitted by 77 providers that participated in the application processes for the Fund for Quality and PHLpreK, it was determined that only a limited set of financial

⁴ Reinvestment Fund and PHMC jointly administer the Fund for Quality, which provides capital and technical assistance to expand the availability of quality ECE opportunities for low-income families Philadelphia. PHMC currently serves as the intermediary for the City of Philadelphia's PHLpreK program and the Child Care Facilities Fund.

metrics could be compared across providers, because standard budgeting practices are not consistently used by all providers. The Metrics Committee subsequently recommended gathering significantly more fiscal and programmatic data from providers in order to develop a more meaningful analysis, even though this strategy would result in fewer participating providers than initially projected.

Our approach

Following this recommendation, the Fiscal Hub partners updated the approach to collect detailed fiscal and supporting programmatic data from a smaller set of providers. This approach included:

- Collecting and analyzing granular financial and programmatic data from a diverse set of child care providers. Each participating organization consented to submit financial documents, which included tax returns and audited financial statements (as available), complete an interview to gather detailed supplemental information, and provide Fiscal Hub partners with access to information submitted through various application processes for PHMC or Reinvestment Fund funding initiatives.
- Analyzing data across the cohort to identify best practices, industry standards, and trends.
- Conducting focus groups and interviews to obtain qualitative feedback on the online tool, data findings, and recommendations.

Data collection

The Fiscal Hub targeted child care centers in Philadelphia, collecting data from 22 providers of varying structures and sizes.

Financial data was collected through multi-year (2014-2016) tax returns, audited financial statements (as available), and financial operating reports. The majority of providers submitted tax returns, which reflected both calendar and June 30th fiscal year ends. Providers submitted financial documents that aligned with their fiscal calendar as this was necessary to collect readily available data and did not require additional analysis or audit. Providers with multiple locations, often referred to as multi-site providers, were asked to consolidate information across sites. Organizations that

offered programs beyond ECE, often referred to as multi-service centers, were also asked to provide additional profit and loss statements to isolate revenue and costs associated with their ECE operations only.

Interviews were also conducted with each provider to gather supplemental financial and programmatic information. Fiscal Hub partners developed a robust interview tool,⁵ which took providers between one and three hours to complete depending on the provider's financial record keeping and reporting systems. A data validation process was then completed on each provider using

⁵ The Fiscal Hub's interview tool was modeled on that used by the RAND Corporation for the 2011 Cost Study of the Saint Paul Early Childhood Scholarship Program.

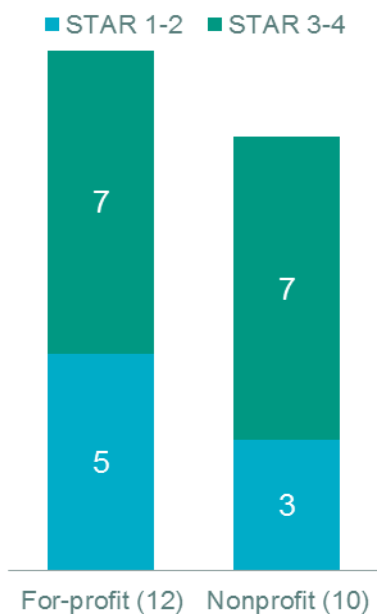
tax returns and audited financial statements to validate the interview responses. When interviews did not align with tax returns or audited financial statements, profit and loss detail was applied to tax returns to generate proportional splits of revenue and expenses. Multiple rounds of follow up were required to

receive the responses and financial documents necessary to validate financial data. Aside from tax returns, all programmatic data was self-reported by providers and data sources (i.e., enrollment records) were not validated.

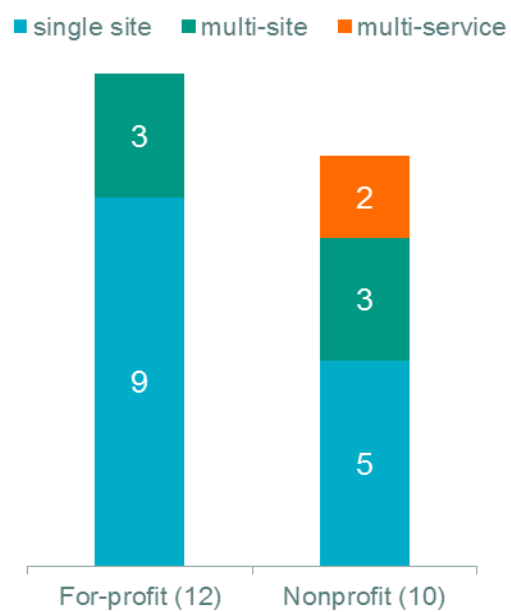
Overview of Provider Cohort

A diverse set of 22 providers of various types, structures, and sizes participated in the Fiscal Hub pilot. Centers were split between operating as for-profit (12) and nonprofit (10) providers (figure 1). Of the for-profit providers, nine were independent single-site centers and three were multi-site centers. Of the nonprofit providers, five were independent single-site centers, three were multi-site centers, and two were housed within multi-service nonprofit organizations (figure 2). The majority (64%) of providers were high-quality. If providers had multiple sites, the average STAR rating across sites was used.

STAR level by business type



Sites by business type



	Max	Min	Median
Total Revenue	\$6,154,002	\$83,183	\$769,746
Number of years operating	52	2	13
Number of children enrolled	777	12	98

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. The Fiscal Hub created resources, including an online tool and industry standards, to help address these gaps.

“This tool will help many directors, who are not as financially knowledgeable, be able to see the numbers more clearly and adjust as needed. Many directors need this support in business strategies.”

Fiscal Hub participant

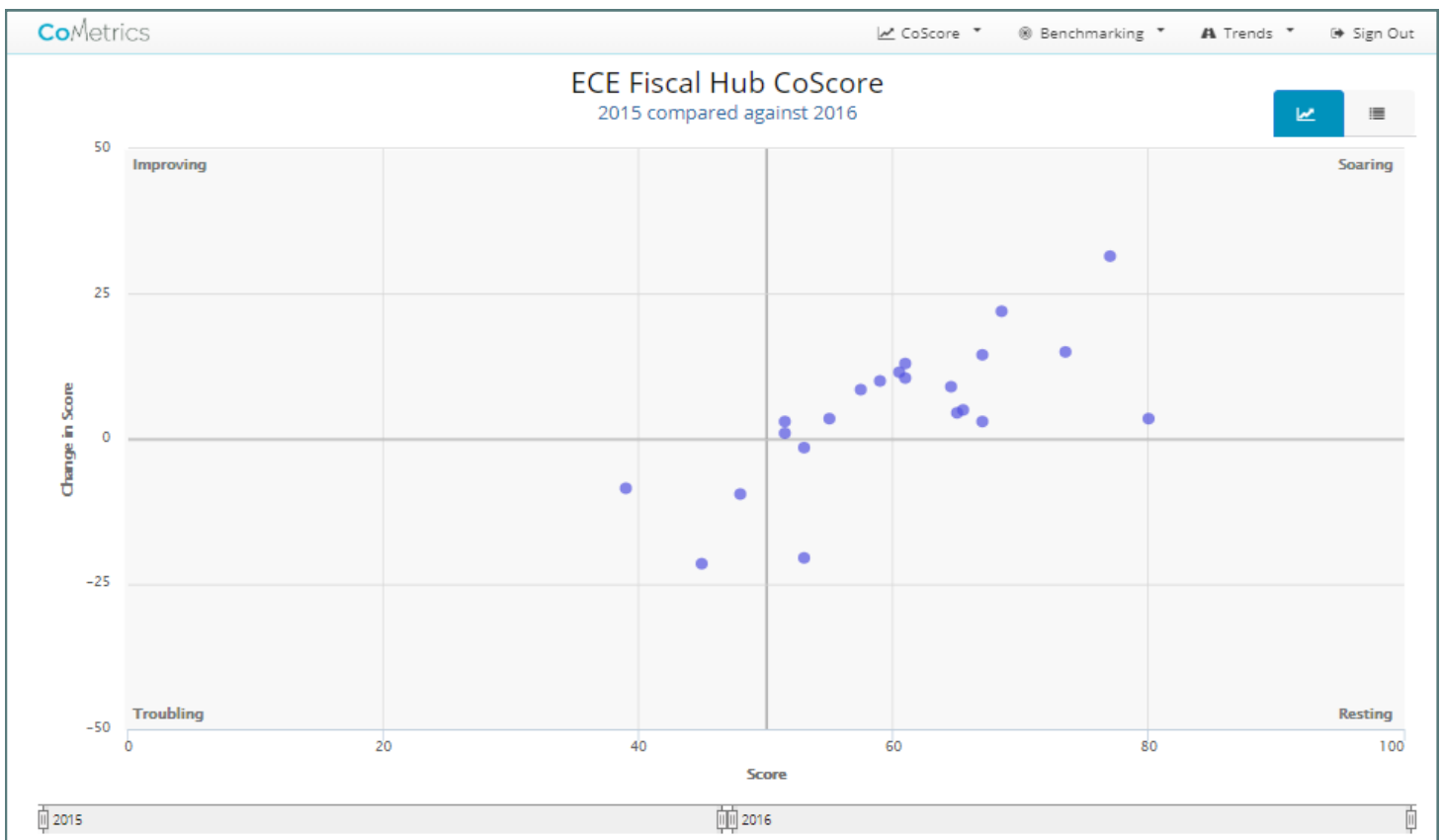
Fiscal Hub online tool

Utilizing CoMetrics' unique platform, Fiscal Hub partners created the online tool so that providers could clearly see their financial data, identify areas of risk, and understand how they were performing compared to their peers. The features of the tool are described below.

Features

CoScore: Each provider is given a “CoScore”—akin to a credit score—that is used to indicate performance. The CoScore methodology, unique to each business sector, determines which performance measures will be used in the scoring, what the performance ranges will be, and how the measures will be weighted in the calculation. Based on the CoScore, each provider is plotted on a scatter diagram with four quadrants that indicate its current state:

- **Improving:** Moving in the right direction. This quadrant represents participants whose scores are getting better year over year, but are generally lower than the group.
- **Soaring:** The sweet spot. Participants in this quadrant are both improving year over year and score generally better than the group.
- **Resting:** Temporarily okay. Participants in this quadrant are doing generally better than the group, but their performance is getting weaker year over year.
- **Troubling:** Critical situation. Participants in this quadrant are doing worse than the group and their performance is getting weaker year over year.



In developing the Fiscal Hub CoScore, a set of critical metrics were defined for fiscally sustainable and high-quality child care operations. These metrics were based on feedback from Fiscal Hub advisory committees, focus groups with ECE providers, and interviews with key stakeholders. The CoScore metrics are detailed below.

Please note that “per child” metrics are calculated by the total number of children enrolled (based on a typical week) regardless of their age level. Infants, toddlers, and preschoolers were considered full-time in

calculations; however, these children could have attended for a full day (more than 6 hours) or part-time (less than 6 hours). All school-age children were counted as part-time (0.5). A more accurate assessment of the cost of care by age level requires more complex data collection and analysis beyond the initial scope of the Fiscal Hub online tool. In future data collection, Fiscal Hub partners hope to clarify instructions to more accurately capture full-time equivalent enrollment and to build out the tool’s capacity to break out these per child age level costs, which are critical for providers to understand.

CoScore metrics				
Category	Metric	CoScore weight %	Definition	Calculation
1. Income	1.1. Revenue per child	5%	The amount of revenue earned per child from various private and public funding sources. The higher revenue the better for the CoScore.	Total revenue divided by the total number of children enrolled.
	1.2. Revenue per indoor square foot	5%	The amount of revenue earned per indoor square foot. ⁶ The higher the revenue the better for the CoScore.	Total revenue divided by indoor square footage.
	1.3. Enrollment as percentage of seats available	7.5%	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 for the CoScore.	The total number of children enrolled divided by total program capacity.
2. Expenses	2.1. Operating cost per child	10%	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 for the CoScore.	Adding salary, occupancy, and all other expenses related to operations and dividing it by the total number of children enrolled.
	2.2. Occupancy expense per indoor square foot	7.5%	The amount spent on rent/mortgage per indoor square foot. 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 for the CoScore.	Total occupancy expense divided by total indoor square footage.

⁶ Indoor square foot was used because it is an overall better representation and accurate estimate than total square footage, which would also include outdoor space. Additionally, rent expense and licensing occupancy are also typically based on the indoor square footage.

CoScore metrics (continued)

Category	Metric	CoScore weight %	Definition	Calculation
3. Growth and earnings	3.1. Revenue per child growth	7.5%	The change in revenue that a provider is earning or losing per child from year to year. The higher the revenue growth the better for the CoScore.	Current year's total revenue per child divided by the previous year's revenue per child minus one.
	3.2. Operating margin	17.5%	The percentage of each dollar of revenue that remains after operating expenses is considered. The higher the operating margin the better for the CoScore.	Total revenue minus operating cost, divided by total revenue.
4. Quality	4.1. Percentage of non-support staff with associate degree or higher	5%	The percentage of non-support staff (directors, assistant directors, lead teachers, and assistant teachers) with Associate's, Bachelor's, and Master's degrees or higher. The higher the percentage the better for the CoScore.	The number of non-support staff with associate degrees or higher divided by total non-support staff.
	4.2. Staff cost as percentage of total expenses	7.5%	The proportion of operating expenditures spent on staffing, which includes staff wages, benefits, and payroll taxes. The higher the percentage the better for the CoScore.	Staff wages, benefits, and payroll taxes divided by total staff cost, occupancy, and other expenses.
	4.3. Teacher salary and benefits as percentage of total staffing cost	7.5%	The percentage of staff wages and benefits spent on lead and assistant teachers. Payroll tax information was not collected at a granular enough level to breakout payroll tax for teachers only. The higher the percentage the better for the CoScore.	Lead and assistant teacher salaries and benefits divided by total staff wages, benefits and payroll taxes.
	4.4. Number of priority benefits offered to full time staff	5%	<p>Priority benefits are defined as having the greatest impact on workplace and job quality:^v</p> <ol style="list-style-type: none"> 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.). <p>The higher the number the better for the CoScore.</p>	Providers earn one point per benefit with the possibility of earning five points total. In some cases, two individual benefits were grouped together under the same category (i.e., paid vacations and paid sick or personal leave make up the paid leave category).
5. Financial Health	5.1 Days cash on hand	15%	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 for the CoScore.	Total cash on hand at a point in time divided by operating costs over 365 days.

“I would definitely continue using this tool to evaluate my business annually. It would help me to plan the next year ahead.”

Fiscal Hub participant

Benchmarking: The benchmarking report shows an individual provider’s performance relative to other participating providers. The report benchmarks against CoScore metrics, income statement accounts, balance sheet accounts, and operating and financial metrics.

Through the data collection process, the Fiscal Hub gathered financial and programmatic information from providers related to general services and operations (enrollment), staffing (qualifications and compensation), revenue, and expenses (occupancy, other operating costs). The report can be viewed in “Quick View” or “Detailed View”.

Features of “Quick” view

Quick View presents data in three columns:

- **My Performance:** The individual provider’s performance for the selected year is displayed in the first column.
- **Top Performers:** The top performers of the provider cohort are represented as a single entity, created by combining the financial activity of the providers who had CoScores in the upper quartile (75%-100%) of the total cohort.
- **The Gap:** The gap is the dollars needed for the individual provider to operate at the top performers’ level.

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

Features of “Detailed” view

Detailed View presents the data found in Quick View, with the addition of two more columns of data:

- **Typical Performers:** The typical performers of the provider cohort are represented as a single entity, created by combining the financial activity of the providers who had CoScores in the middle two quartiles (25% - 75%) of the total cohort.
- **My Potential:** The My Potential calculation relies on benchmarks set by the top performers and applies those benchmarks to the individual provider’s performance. For example, if top performers’ revenue per child is \$10,000 (the top performer benchmark) and the individual provider reports 100 children, then its potential revenue is \$1 million (\$10,000 multiplied by 100).

	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%

“The tool gives lots of comparative information that I don't have access to. The information provided through the tool provides a vehicle for conversations with my board.”

Fiscal Hub participant

Trends: The trends report displays detailed financial and operating data over time, highlighting changes in the organization. If four years is provided, data is highlighted in blue for improving over four years and light pink for declining over four years.

Yearly	2015	2016
CoScore Metrics		
Income		
Revenue per Child	\$10,836	\$11,214
Revenue per Indoor Square Foot	\$82	\$84
Enrollment as % of Seats Available	80.0%	80.0%
Expenses		
Operating Cost per Child	\$10,703	\$11,340
Occupancy Expense per Indoor Square Foot	\$11	\$11
Growth and Earnings		
Revenue per Child Growth		3.5%
Operating Profit Margin	1.2%	-1.1%
Quality		
% of Non-Support Staff With Associate Degree or Higher	10.0%	12.5%
Staff Cost as % of Expenses	58.5%	65.3%
Teacher Salary and Benefits as % of Staffing Cost	72.0%	61.3%
# of Priority Benefits Offered to Full Time Staff		3
Financial Health		
Days Cash on Hand	19	13

“The online tool is fabulous! The data analysis would help me to assess my area of improvement compared to my group of colleagues.”

Fiscal Hub participant

Case study

How the online tool has helped other sectors improve operations

CoMetrics has developed comparable online tools for clients in other sectors. For example, Independent Natural Food Retailers Association (INFRA), a purchasing cooperative that represents over 300 grocery stores, is one of CoMetrics' largest and longest standing clients. The CoMetrics platform has been used by the cooperative and its members since 2004. Below is a case study that demonstrates the impact of the online tool on an individual grocery store's operations.

All Naturals Grocery is a second generation group of health food stores located in the Louisville, Kentucky area. All Naturals Grocery was founded in 1977 by a husband and wife team who has since passed the torch on to their daughter to continue to grow the company and move it into the future.

With this in mind, their daughter hired the company's first official Chief Financial Officer (CFO) who came to the company with many impressive degrees, including an MBA and a JD; however, he had no previous experience in grocery retail. Fortunately, the CoMetrics platform helped him understand exactly where the stores were underperforming.

The platform showed flat to declining sales. They were losing money and running out of cash. According to CoMetrics comparative data, All Naturals Grocery's performance was falling behind the majority of its peers.

The new CFO analyzed the data and found:

- Sales were flat to declining while expenses were increasing; this was not an industry-wide problem, but specific to All Naturals Grocery.
- Gross margin was inconsistent—high in some areas and low in others.
- It appeared they were spending more than average on wages.
- They were paying more on fixed expenses, such as rent and utilities, than the majority of their peers.

The data was showing that gross margin was well over other cooperative members' average for the last six out of eight quarters. This motivated him to go product by product and see where they may have overpriced products and eliminated products were not selling well. He was also able to see where All Naturals Grocery was overpaying for items compared to the rest of the group. He took the data to suppliers and was able to negotiate costs down to reflect the industry's average.

Over a period of about three years, the team at All Naturals Grocery, using data on the CoMetrics platform, completely turned around the small chain of grocery stores. Today, it is growing and more profitable than the typical INFRA member.

Proposed ECE Industry Standards and Application

Fiscal Hub partners drafted a preliminary set of ECE industry standard metrics and practices that support provider financial stability and demonstrate the importance of fiscal best practices upon ECE authorizing and regulatory agencies. They also provide a starting point for discussion about a standardized financial performance framework. The provider metrics and suggested targets enable providers to track financial performance and make more informed business decisions. In addition, they offer funders, regulators, and policy-makers a way to assess historic financial impact and performance, current financial standing, and ongoing financial sustainability of ECE providers.

A series of meaningful financial and programmatic metrics were identified based on data collection from providers and feedback from the Key Advisory and Metrics Committees, focus groups conducted with ECE providers and stakeholders, research on financial assessments of educational settings, and collective experience. This led Fiscal Hub partners to both identify CoScore metrics and propose a set of ECE industry standards, with metrics and targets informed by the group of providers identified as high performing.

Please note, there is no single data source that currently collects the information displayed below and metrics should be viewed comprehensively to understand the complete picture of financial health and sustainability. Some metrics are not overtly financial in nature but have financial implications. Furthermore, not all of the CoScore metrics are listed as industry standards; some were identified as primarily financial indicators and act as revenue or expense drivers.

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.

Proposed ECE Industry Standards (continued)

Category	Metric	Target	Co-Score Metric	Definition	Rationale
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. ⁷ 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).
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.

⁷ 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
Quality (continued)	Number of priority benefits offered to full-time staff	4	yes	<p>Priority benefits are defined as having the greatest impact on workplace and job quality:^{vii}</p> <ol style="list-style-type: none"> 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.). <p>The higher the number the better.</p>	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.
	Multi-year operating profit	>\$0 and increasing over time	no	<p>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.</p>	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.
Financial health	Days cash on hand	At least 60 days	yes	<p>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.</p>	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.*	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	<ul style="list-style-type: none"> Enrollment as percentage of seats available 	<ul style="list-style-type: none"> Enrollment rates should be at 90% or greater 	<ul style="list-style-type: none"> Increase marketing strategies via improvements to website, social media, and referral incentives Assess enrollment policies
Collect full fees	<ul style="list-style-type: none"> Percentage of tuition fees uncollected Tuition Operating margin 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Revenue per child Operating cost per child Occupancy expense per indoor square foot Days cash on hand 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Staffing costs as percentage of total expenses Number of priority benefits offered to full-time staff 	<ul style="list-style-type: none"> Staffing costs (wages, benefits, and taxes) should be approximately 70-80% of total expenses Four priority benefits should be offered to full time staff 	<ul style="list-style-type: none"> 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

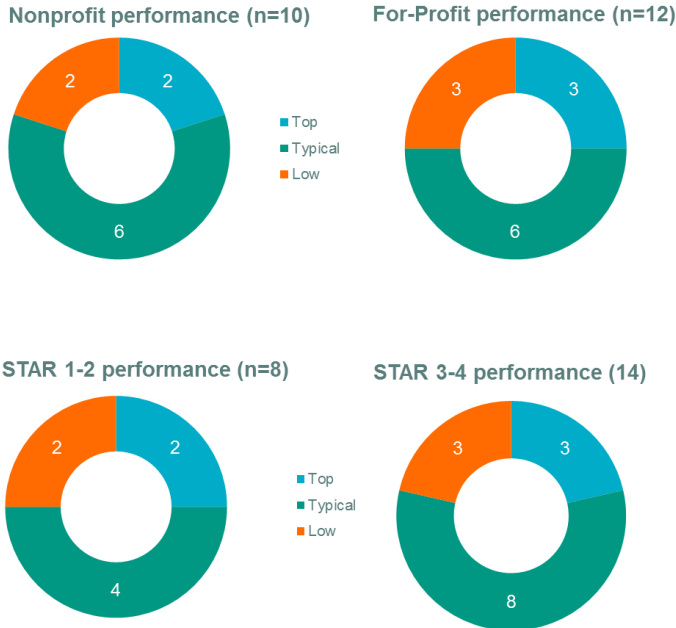
*Financial management practices are based on the Iron Triangle elements developed by the Alliance for Early Childhood Finance. http://www.earlychildhoodfinance.org/downloads/2010/IronTriangle_10.2010.pdf

Key observations

Based on analysis of aggregate data from providers in the Fiscal Hub pilot, several trends emerged and are shown below.

Data was analyzed through multiple lenses to reflect the diverse structures and levels of quality represented across the provider cohort. While some graphs show findings across the total provider cohort, the majority of graphs show side-by-side comparisons between for-profit and nonprofit providers, as well as by low-quality (STAR 1-2) and high-quality (STAR 3-4) providers. Top (upper quartile or 75% – 100% of the total cohort) and Typical (middle quartiles or 25% – 75% of the total cohort) performers are based on CoScore metrics and are also shown within comparisons. To align with the goals of this pilot, analysis was limited to top and typical performers to understand their conditions of success. Analysis on the conditions of low performers may be explored in future phases. The following graphs reflect data collected from 2016, with the exception of growth charts that indicate change from 2015 to 2016.

Due to the small sample size of providers, findings should not be generalized as representative of city-wide provider trends. While the total cohort graphs reflect data from the 22 providers that participated, the side-by-side comparisons by structure and quality levels reflect reduced samples sizes in order to show findings by the top and typical performers in these segments.



General

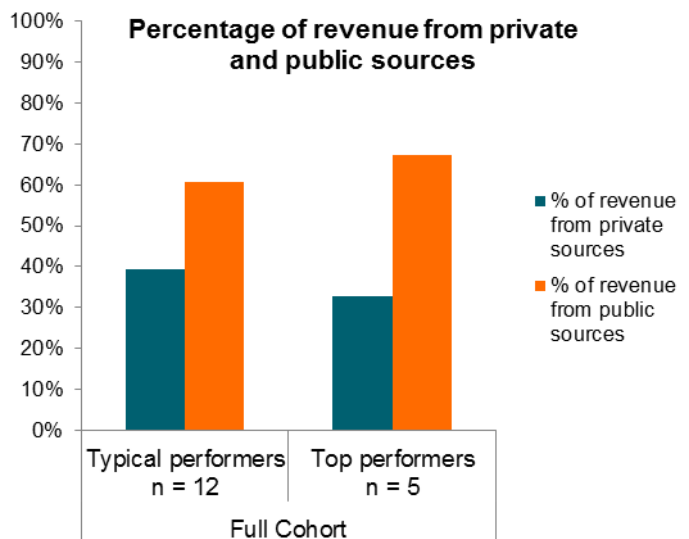
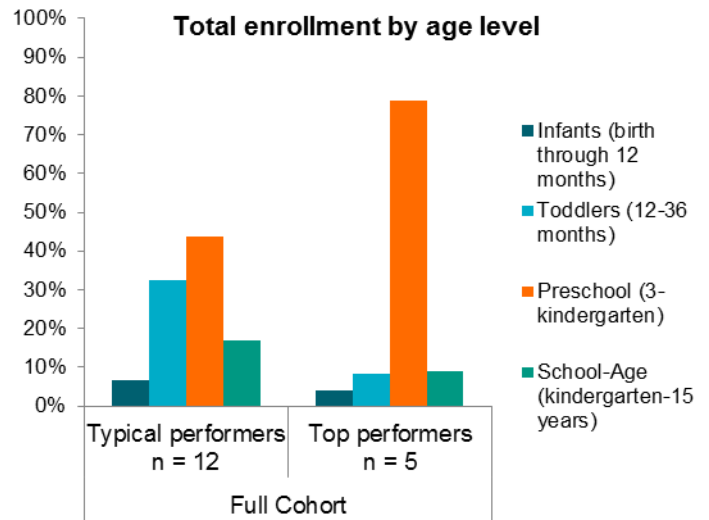
- Most providers do not use standard budgeting practices.** Many financial reports were inadequate and lacked details in tracking revenue and expenses broken out by line item, such as revenue sources.
- Inaccuracies were identified in financial reporting as some providers were reporting lower than typical reimbursement rates for public contracts.** This was a result of providers having conflicting end dates between their financial reporting and tax returns, which often run on a calendar year that ends on December 31st, and public contracts, which often operate on a school year that ends on June 30th. For example, a calendar year end financial report means that providers report partial data from two Head Start contracts through one-year of tax returns (i.e., revenue from a 2015 Head Start contract from January through June and revenue from a 2016 Head

Start contract from September through December). Not being able to accurately budget puts providers at financial risk, as they are not able to regularly assess their fiscal health, identify signs of trouble, or plan for sustainability. This also means they may not be prepared to manage the fiscal and expenditure reporting requirements of public programs (Head Start, Pre-K Counts, PHLpreK), thus potentially limiting their ability to take up slots through increased public funding.

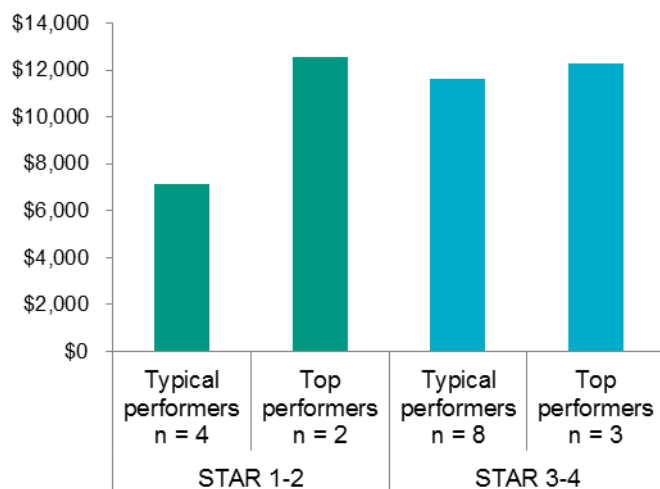
Income: Enrollment

Across the total cohort, top and typical performers served primarily preschool children through public funding streams.

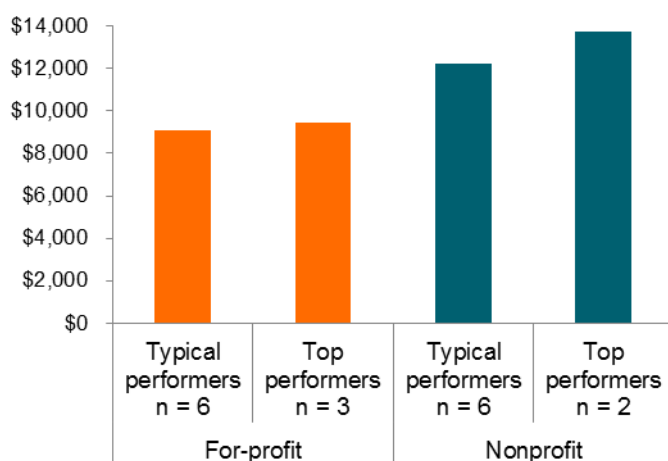
- Top performers, however, served a significantly higher number of children—nearly 290 preschoolers—while typical performers served approximately 40 preschoolers. Top performers’ enrollment for infants and toddlers was 16%, which was much less than typical performers whose enrollment was 40% infants and toddlers.
- Top and typical performers earned the majority of revenue from public sources. Depending on the population served, public sources that contract a specified number of slots generally provide more stable, ongoing funding than private sources, which can lead to better fiscal performance if providers have consistent revenue streams.



Revenue per child by STAR level



Revenue per child by business type



Income: Revenue per child

Nonprofit top performers earned the highest amount of revenue per child at \$13,750 per child, while low-quality typical performers earned the least amount at \$7,115 per child.

- Nonprofit providers earned approximately \$3,000 more per child than for-profit providers. Nonprofit providers earned \$12,230-\$13,750 per child, while for-profit providers earned \$9,060-\$9,435 per child. Nonprofit top performers' revenue came from 75% public sources (59% child care subsidy, 17% Pre-K Counts) and 25% private sources. For-profit top performers' revenue came from 58% public sources (30% Pre-K Counts, 27% Head Start) and 42% private sources (private pay and parent co-pays). It is likely that for-profit providers earned revenue from child care subsidy as well, since they indicated receiving parent co-pays. However, not all providers had tracking systems in place to be able to accurately report every source of revenue.
- STAR 3-4 providers utilized more revenue sources than STAR 1-2 providers. The majority (70%) of children served by STAR 3-4 top performers were preschoolers, which likely allowed for these providers to diversify funding streams as there are more public funding programs (Head Start, Pre-K Counts) available for this age group. STAR 3-4 top performers' funding came from: 65% public sources (24% Head Start, 27% child care subsidy, and 14% Pre-K Counts) and 35% private sources (25% private pay and parent co-pays and 10% grants and other miscellaneous sources). Low-quality providers are generally

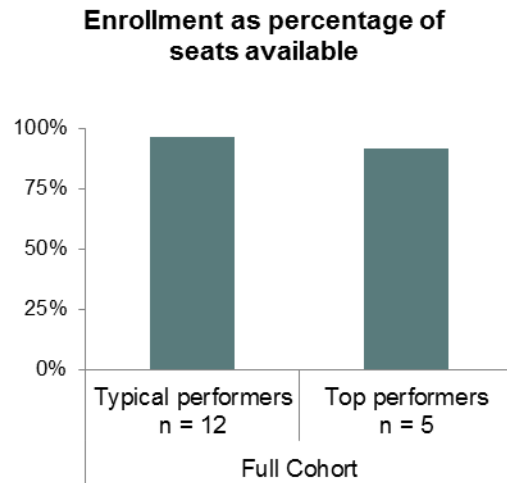
restricted to private pay and subsidized populations based on program eligibility of the funding sources. STAR 1-2 typical performers' funding came from: 82% child care subsidy and 18% private pay.

- While actual reimbursements rates may vary by contract, Head Start and Pre-K Counts typically offer a higher reimbursement rate per child. The per child annual rate for Head Start is \$9,200 and Pre-K Counts is \$8,500.^{viii} In 2016, STAR 3-4 top performers in the cohort typically earned \$6,310 for Head Start and \$6,752 for Pre-K Counts. Two factors may contribute to this depressed rate. First, providers' fiscal years may operate on a calendar year while their Head Start and Pre-K Counts operate on a school year calendar, which is a June 30th year end. This means that their annual fiscal year data would overlap public contract years. The lower reimbursement rate may also indicate that these providers contract slots through the School District of Philadelphia, which is the direct grantee for both federal Head Start and state Pre-K Counts funding. The School District contracts some slots out to community provider partners and takes a percentage off the per child reimbursement rate to account for administrative fees, program services, monitoring, and quality supports.

It is important to note that these graph shows the revenue earned per child by total number of children served regardless of their care level. Research shows the cost of care is highest for infants and toddlers, and decreases as children get older.^{ix} Determining an accurate assessment of the cost of care by age level requires more complex data collection and analysis, beyond the initial scope of the Fiscal Hub tool; however, Fiscal Hub partners hope to build

out the Fiscal Hub tool's capacity to break out these care level costs in the future, as it is critical for providers to understand.

Income: Enrollment as percentage of seats available



Half of providers in the cohort self-reported nearly full enrollment rates.

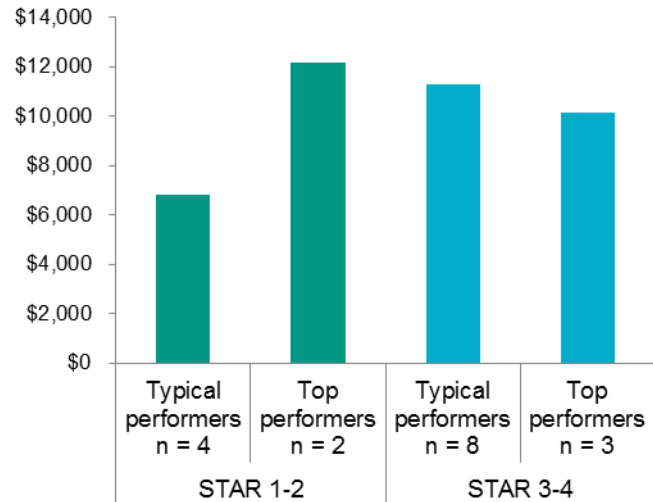
- Across the cohort, typical performers self-reported having nearly full enrollment rates (96%) compared to top performers who self-reported having 92% enrollment. This finding seems counterintuitive, since one would assume operating close to maximum enrollment would ensure higher revenues and therefore maximum profitability. Top performers are based upon CoScores, which indicate a series of both financial and quality metrics. While providers should strive to minimize vacancy, they may be able to achieve higher revenues through alternative methods such as increasing tuition rates or accessing multiple funding streams for each child. If a provider is achieving higher revenue per seat than its counterpart, it may not need to have the seat filled every day in order to cover operating costs.

Expenses: Operating cost per child

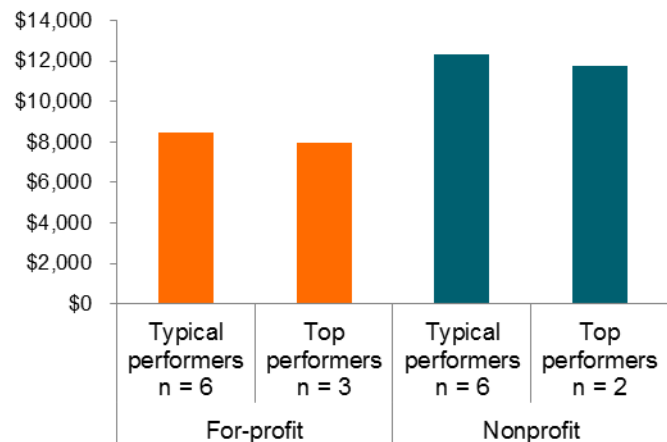
STAR 1-2 typical performers had the lowest operating cost at \$6,830 per child while nonprofits typical performers had the highest operating cost at \$12,335 per child.

- For-profit providers spent approximately \$3,800 less per child than nonprofit providers.
- While it is important for providers to manage operating expenses appropriately, staffing costs should represent the largest percentage of total operating budgets. Quality ECE programs need to compensate higher credentialed teachers that have the necessary skills and training to work with young children. In 2016, Keystone STARS required STAR 3-4 providers to have 100% of their lead teachers hold an Associate's degree (in ECE, a related field with 18 ECE credits, or a unrelated field with 30 ECE credits) or higher.^x

Operating cost per child by STAR level



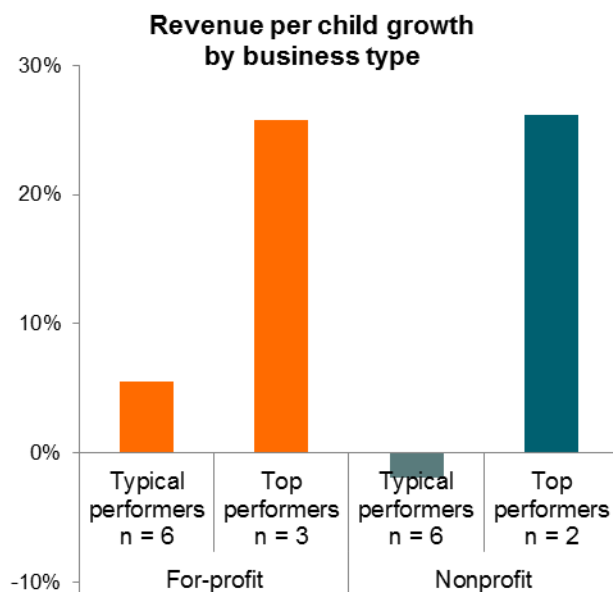
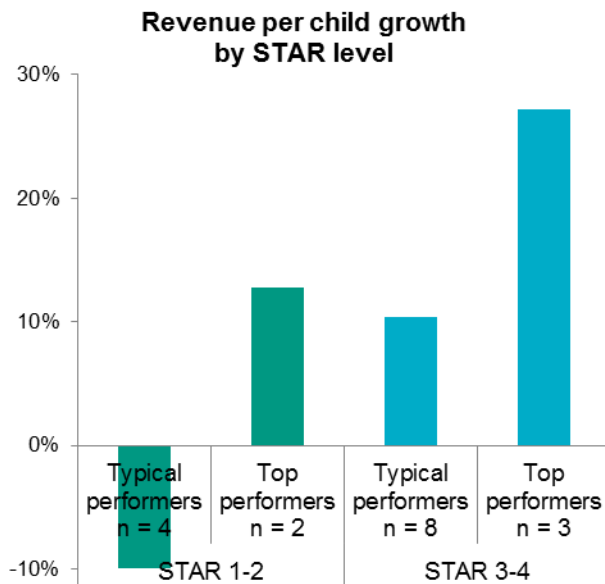
Operating cost per child by business type



Growth and earnings: Revenue per child growth

Top performers across the cohort increased revenue per child from 2015 to 2016 at a significantly higher rate than typical performers. Top performers averaged 23% growth rate across quality levels and business type, while typical performers averaged 1% growth rate.

- STAR 1-2 typical and nonprofit typical performers showed the lowest growth rates.

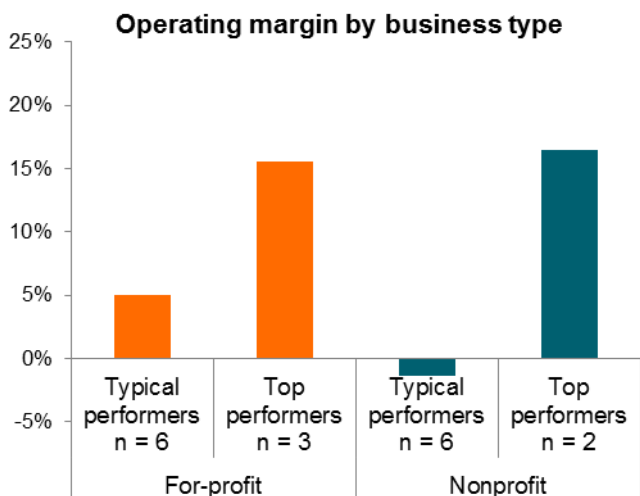
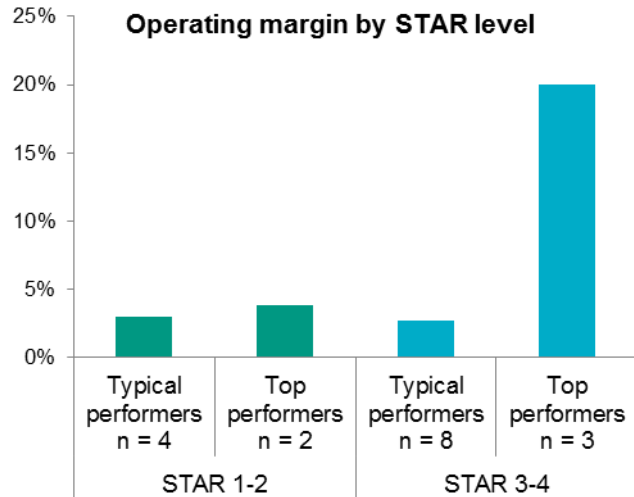


- STAR 3-4, for-profit, and nonprofit top performers showed the highest growth rates at an average of 26%. The majority (80%) of for-profit and nonprofit top performers are also high-quality, so the similar growth rate may reflect that these providers are accessing more public funding opportunities available to STAR 3-4 providers. Only STAR 3-4 providers are eligible to compete for slots through Head Start and Pre-K Counts programs, which provide higher reimbursement rates than child care subsidy. There was also additional child care subsidy funding available for high-quality programs during this time. In 2012, Pennsylvania’s Office of Child Development and Early Learning (OCDEL) introduced the Rising STARS Initiative, a state initiative to increase enrollment of at-risk children in STAR 3-4 providers. The initiative takes into consideration the most effective use of public funding to provide at-risk children greater access to higher quality care, while encouraging providers to continue to move up STARS levels. To achieve this goal, OCDEL redesigned the Keystone STARS Awards and Child Care Works (CCW) Tiered Reimbursement add-on rate to invest the most funding in higher quality programs. In this new model, the Maximum Child Care Allowance (MCCA), or rate ceiling, was slightly lowered and STAR 2, 3, and 4 providers received a tiered reimbursement rate at or above the previous levels, with an additional add-on for STAR 3-4 providers. The STAR 4 CCW add-on rate per full time child doubled from 2012 to 2016.^{xi}

Growth and earnings: Operating margin

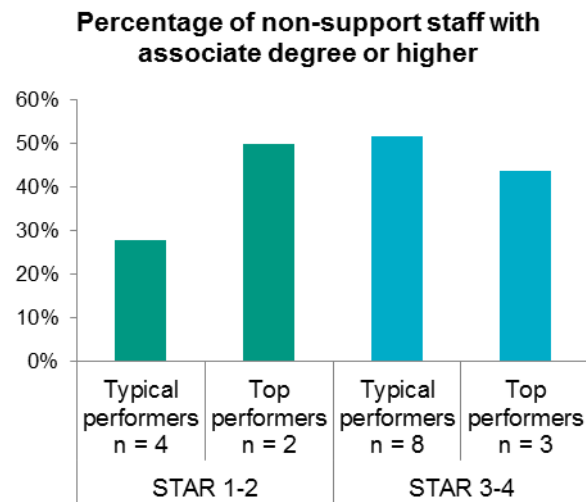
While the majority of typical performers across the cohort operate close to break-even, top performers (STAR 3-4, for-profit, and nonprofit) showed an average of 18% operating margins.

- Nonprofit providers' operating margins ranged from -1% – 17% for typical and top performers respectively, while for-profit providers showed 5% and 16% operating margins for typical and top performers respectively. Keep in mind, top performers reflect providers that have stronger financial performance and meet some important quality metrics. As such, those providers will most likely be the ones to achieve higher operating margins. The correlation of nonprofit top performers and high operating margins may be a result of restricted or temporarily restricted grants showing as revenue on tax returns. This funding was not removed during analysis and could be inflating results.



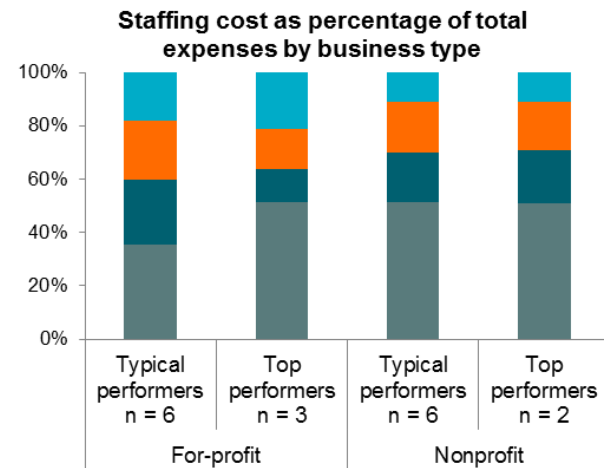
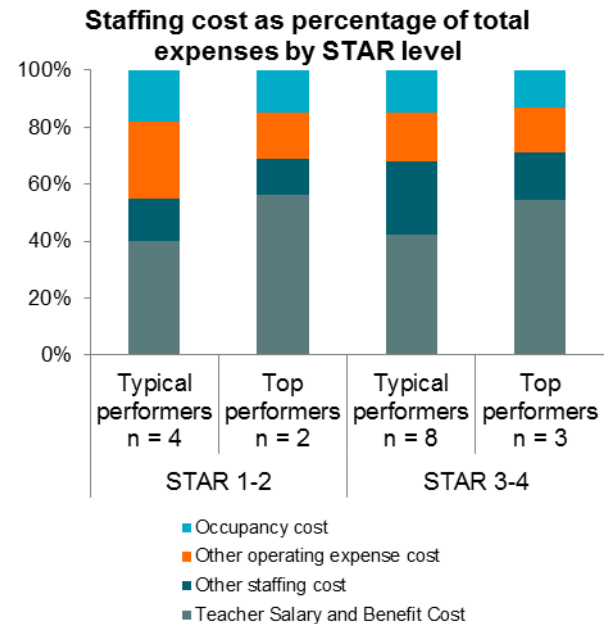
Quality: Percentage of non-support staff with associate degree or higher

High- and low-quality providers across the cohort had around 50% or less of their total non-support staff (directors, assistant directors, lead, and assistant teachers) with associate degrees or higher.



- To achieve at least a STAR 3, the 2016 Keystone STARS standard for staff qualifications (the time period reported here) required directors and all lead teachers to have at least an Associate's degree in ECE, in a related field (including 18 ECE credits), or in an unrelated field (including 30 ECE credits).^{xiii} However, the majority (75%) of assistant teachers only needed a high school diploma or GED and some additional training, including a Child Development Associate (CDA) credential or at least 6 ECE credits. In 2018, OCDEL introduced a new Career Pathway that will require higher levels of education for lead and assistant teachers in the coming years.

Quality: Staffing cost as percentage of total expenses



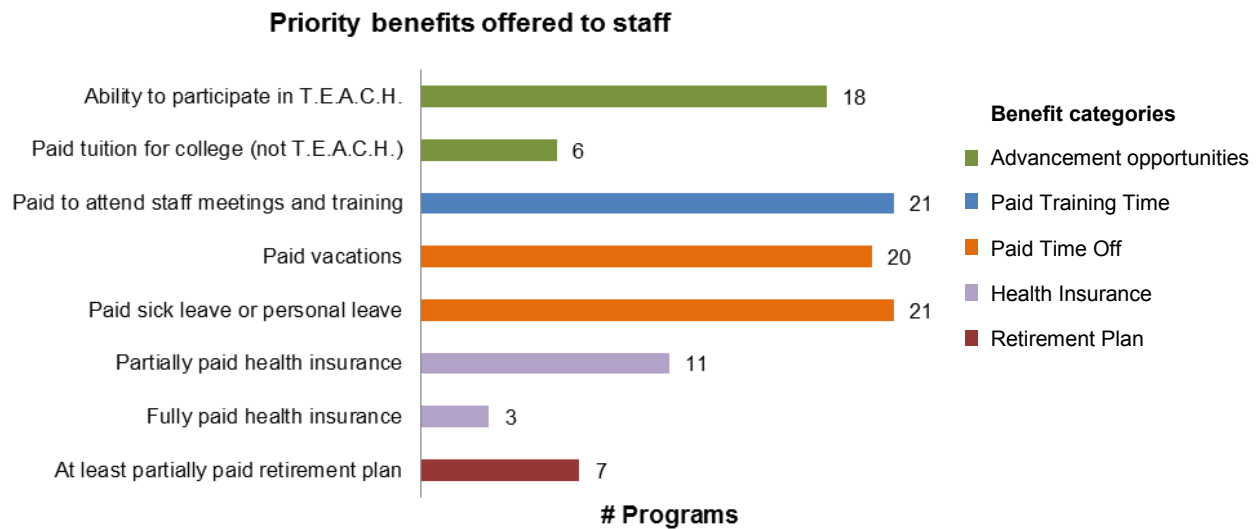
Total staffing costs were the largest expense for all providers, ranging from 55%-71% of total expenses, with the majority of providers spending approximately half (40%-56%) of their budgets on teacher salaries and benefits.

- STAR 1-2 top performers spent the largest percentage (56%) on teacher salary and benefits while for-profit typical providers spent the least (35%).

- STAR 3-4 typical providers spent the largest percentage (27%) on other staffing costs, which included administrative staff (directors, assistant directors, and bookkeepers) and support staff (programmatic support (i.e.,

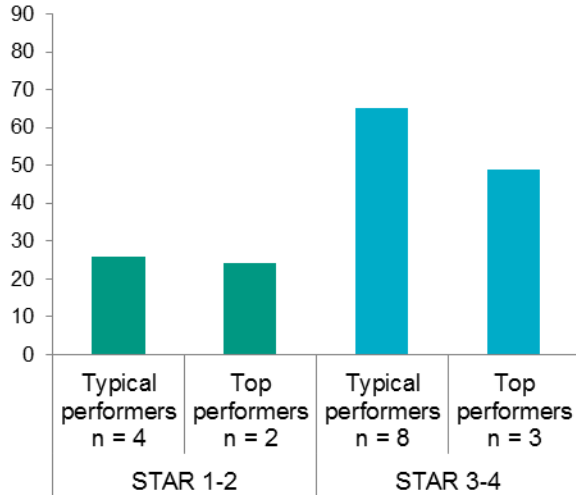
education coordinator, infant/toddler coach), kitchen, and other staff). For-profit top performers and STAR 1-2 providers spent the least, averaging 14% on other staffing costs.

Quality: Priority staff benefits

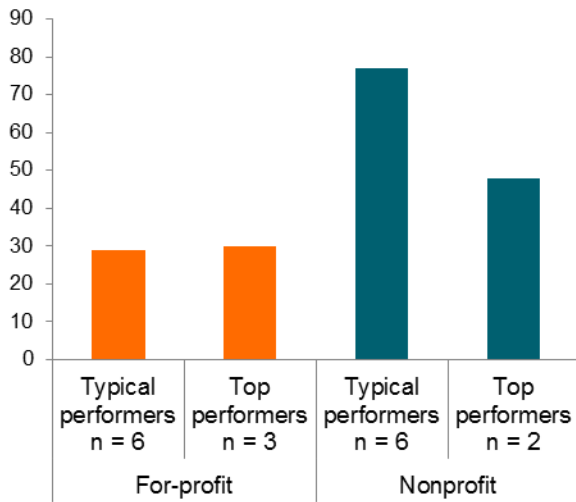


The majority of providers offered four priority benefits with paid time off and paid training time as the most common.

Days cash on hand by STAR level



Days cash on hand by business type



Financial health: Days cash on hand

While STAR 3-4 and nonprofit typical performers showed days of cash on hand over the standard 60 day minimum, the majority of providers across the cohort fell below this threshold with only 24-49 days cash on hand.

- Nonprofit typical providers had the highest amount of cash on hand—77 days—while STAR 1-2 typical performers showed the lowest—24 days.
- STAR 3-4 top and typical performers ranged from 49-65 days of cash on hand, while STAR 1-2 top and typical providers averaged 25 days of cash on hand. While higher quality providers are closer to the standard 60 day minimum, STAR 3-4 providers still have challenges covering the cost of quality while attempting to generate a financial surplus. STAR 3-4 top providers may be tapping into cash balances to cover their higher operating costs per child (recall top performers try to measure both financial sustainability and achievement of quality settings).
- It is important to note that measuring cash on hand only represents a point in time. Many providers could experience different measures depending on the time of year and timing of when reimbursements hit their bank accounts.

Recommendations

Since fiscal management is critical to operating and sustaining a high-quality child care program, more emphasis needs to be placed on business management. The following recommendations aim to address key challenges faced in the sector and are based on data findings and feedback from the Fiscal Hub advisory committees, focus groups, and interviews conducted during this pilot.

Implications for quality improvement systems

- **Improve owners'/directors' understanding of and ability to make better financial decisions and improve business management practices, specifically around basic budgeting and aligning to ECE industry standards.** Our findings show that there is a clear need to help providers understand their operating costs and improve business management practices. While training is often the answer to improving the skills of providers, research by leading ECE finance experts suggests that “generic broad-brush business management training, delivered in a classroom, appears to have little impact.”^{xiii} This research further suggests that technical assistance should be hands-on and in-depth, specific to a provider’s immediate challenges, and structured around manageable, concrete tasks. Technical assistance should also work within owners’ and directors’ existing comfort levels. Our findings further indicate that there is a subset of financially literate top performers that are better at managing expenses and are able to invest more in quality programming. Tactical strategies and technical assistance should be developed to replicate their practices around the most critical benchmarks. Our findings also highlight the need for basic budgeting support for providers.
- **Explore opportunities for shared services, such as financial back-office support, to address the needs of providers that lack the capacity to engage in business management.** Many providers are small businesses that lack the staff capacity to participate in intensive business management technical assistance. Of the 561 Philadelphia child care centers participating in Keystone STARS in 2017, nearly half (48%) reported enrollment of 45 children or less.⁸ Shared Services Alliances have been implemented across the country in an effort to help child care centers pool resources and reduce costs. Several models have focused efforts around taking administrative tasks off a directors’ plate, which allows them to focus on the needs of the children and families they serve. For example, Early Connections Learning Centers (ECLC), which leads a multi-site nonprofit network in Colorado, includes centralized billing and fee collection as one of the many services it offers to its members. ECLC found this to have a positive impact on its fiscal management practices, citing reductions in bad debt write-off to about 1% (from as much as 10%).^{xiv}

⁸ Of the 561 centers, enrollment was unknown for 16% (104). Data was pulled from Pennsylvania’s Enterprise to Link Information for Children Across Networks (PELICAN), June 2017.

Implications for capacity building

- **Standardize fiscal data collection across providers.** Our findings from assessing financial documents under the Fiscal Hub highlight the need to standardize fiscal data collection across providers. Other sectors have been able to accomplish this by developing a chart of accounts, a “listing of each account a company owns, along with the account type and account balance, shown in the order the accounts appear in the company’s financial statements.”^{xv} This standard chart of accounts is used by all businesses operating in the field to streamline what is accounted for in financial statements, providing a template for both owners and directors and their financial staff including bookkeepers, accountants, and auditors. Providers with public contracts as a primary revenue source should also consider aligning financial reporting and tax return fiscal years with contract end dates, which often run on a school year basis. Reporting on a calendar year end when the majority of funding and expenses operate on a June 30th year end can cause inaccuracies in financial reporting.
- **Increase supply of qualified vendors with ECE expertise.** Anecdotal evidence from our study indicates that providers often rely heavily on external accountants or bookkeepers to generate their financial statements. These vendors often possess a minimal understanding of the ECE field, which may account for the various inconsistencies across provider’s budgets and the lack of tracking essential line items through regular reports. Training is needed to build the supply of vendors with ECE expertise to be able to support usage of the standard chart of accounts and meeting the needs of providers.

Implications for policy

- **Increase access to city-wide financial data on providers by collecting data annually and maintaining a live tool that can be used to analyze the fiscal health of the sector.** While this small pilot project provides insight on the financial conditions for success of top performing providers of various types and quality levels, data needs to be collected regularly from a larger sample to be able to assess the financial health of providers across Philadelphia. This data can also be used to guide decision-making on strategies to provide targeted business management technical assistance to improve providers’ financial conditions and adjust to their evolving needs.
- **Embrace technology.** Providers should be actively encouraged to use automated child management systems that includes a standard chart of accounts. Building linkages between these systems and state-level data collection should be explored so that providers do not have to enter data in multiple systems.
- **Embed additional fiscal requirements within accountability systems that make it easier for providers to standardize and share financial data.** There are no accountability systems requiring providers to share consistent, detailed financial documents that can be used to evaluate their financial health. While there are many public and private funding opportunities across the city that require providers to submit financial or personnel

documents, requirements are often program-specific or allow for varying levels of detail to be submitted. State and local public and private funders could incentivize providers to share an increased level of financial data by requiring additional fiscal reporting to be eligible for grants or other funding opportunities. However, efforts should be made to align these requirements and share data across systems to lessen the burden on providers.

- **Strengthen opportunities to elevate fiscal management as a key component of high-quality operations through Keystone STARS.** While there are various standards that relate to leadership and management across the STARS performance standards implemented in 2017, there are minimal standards related to fiscal management. Below are the Keystone STARS Performance Standards related to business practices. There is an opportunity to elevate the importance of fiscal management to high-quality operations by allowing providers to earn bonus points for showing they exemplify financial best practices by meeting targets proposed in the ECE industry standards.

Keystone STARS standards related to business practices for ECE centers^{xvi}	
Keystone STARS Level	Program Performance Standards related to business management
STAR 1: Certification compliance ECE Providers must hold a full certificate from Pennsylvania's Department of Human Services.	<ul style="list-style-type: none"> • No specific business management requirements beyond having a certificate in good standing.
STAR 2: Programs at this level must address a group of required quality standards.	<ul style="list-style-type: none"> • <u>LM.2.1</u>: Programs create an annual operating budget and have plans to address operational or organizational stability. This can be met by showing evidence of a financial record keeping system. • <u>LM.2.2</u>: Current personnel and program operation policies are utilized to support understanding of program policies, procedures, roles, and responsibilities. This can be met by showing a copy of manual and evidence that it is shared with staff.
STAR 3 and STAR 4: Programs earn points by choosing from a set of recommended quality standards.	<ul style="list-style-type: none"> • Must meet all STAR 1 and STAR 2 requirements. • <u>LM.3.4.1</u>: A member of the program's on-site leadership team is enrolled in or holds a current PA Director's Credential. • <u>LM.3.4.5</u>: Employee benefits (i.e., health insurance, paid time off, child care, education compensation) are available to full-time staff (pro-rated for part-time staff) and are explained in the program's Policy and Procedure Manual. Points are awarded per benefit (1 benefit = 1 pt.) by showing benefits offered in a staff handbook. • <u>LM.3.4.9</u>: Programs utilize Program Administration Scale (PAS) to self-assess and reflect on business and administrative practices. • <u>LM.3.4.11</u>: Program participates in shared service opportunities which support cost savings, greater efficiencies related to operations, and/or program quality enhancements.

- **Assess how public policies affect provider finances based on providers' financial data.** State and local public agencies have recently made significant policy changes that influence provider budgets; however, it is difficult to evaluate the impact of these investments on providers due to the lack of access to data. Consistent year-to-year comparison of ECE budgets could enable impact assessment of the following policy changes on providers' bottom lines:
 - The Pennsylvania Supreme Court upheld the sweetened beverage tax enabling the PHLpreK program to increase enrollment.
 - In 2017, OCDEL changed its Keystone STARS Awards structure so that STAR 3 and 4 providers no longer receive Merit Awards but receive a substantial increase in their Child Care Works subsidy add-on.
 - In 2018, OCDEL lifted the base rate freeze for STAR 1 and 2 providers and applied a general Maximum Child Care Allowance (MCCA) base rate increase of 2.5% across all counties, provider types, STAR levels, and care levels.
 - In 2018, OCDEL began to pilot contracting with STAR 3 and 4 providers for slots for infants and toddlers participating in Child Care Works (CCW).

The Next Phase

The Fiscal Hub offers the opportunity to inform system- and provider-level fiscal management challenges faced in the child care sector. The next phase of the Fiscal Hub's work will focus on:

- **Expanding usage across Philadelphia** by recruiting and collecting data from additional providers. The online tool will be refined to meet the needs of providers with varying levels of business skill. A key adjustment to the tool will be creating the ability to understand cost by age level, since this is critical for every provider to understand. Data collection will also be streamlined to minimize the burden on providers.
- **Developing and providing business management technical assistance** to improve the financial skills of providers. This work will build on existing financial services provided by partners that have successful track records of success and will incorporate usage of the Fiscal Hub resources. Technical assistance will focus on the areas of greatest need, including basic budgeting and aligning practices to ECE industry standards. Provider data will be captured in the online tool to measure organizational change in defined areas and inform adjustments to technical assistance strategies.
- **Impacting state and local policies** by sharing providers' fiscal data with key stakeholders. Standardized fiscal requirements will be embedded within the application or reporting requirements of various local public and private funding programs. The Fiscal Hub will act as a centralized data repository and regularly share data, trends, and recommendations with local and state stakeholders.
- **Replicating the Fiscal Hub model** across Pennsylvania and with national partners.

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