Child Care: Financial Basics

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For more information, visit the Iowa State University Extension web site for Child Care That Works at the following URL:

http://www.exnet.iastate.edu/Pages/families/life/childcare/

ISU Extension is a participant in Cooperative Extension's National Network for Child Care which maintains a web site at the following URL:

http://www.nncc.org/

Child Care Options for Employers and Child Care Action Manual for Communities are two other publication in the Child Care That Works series that may be of interest to our readers. For more information about these or other publications or videos contact your ISU county Extension office or order from the address below.

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Getting Started

How much does it cost to start a child care program? What are typical operating expenses? Where can we get additional funding? There are no simple answers to these questions because every program is different and every community is unique. However, there are guidelines that will provide a path as you explore and develop your child care program's financial direction. This booklet will help you develop a basic understanding of child care financial operations and explore important funding options.

Profit or Nonprofit?

Deciding whether to establish your center as a profit or nonprofit organization is a complex issue. Historically, most nonprofit child care organizations were created to serve low income families. In the past, nonprofits benefited greatly from government funding, greater access to volunteers, and less intense competition for charitable funds.

In today's environment, however, there have been major changes in funding streams and the way child care does business. Currently, there is a trend for nonprofit centers to serve fewer and fewer low income children. It is not uncommon to as few as 10 percent of the children from families receiving public assistance. Public policy changes allowing low income parents who receive child care subsidies to select lower cost options, such as family child care, have contributed to this trend. Government child care subsidies are set at standardized market rates that may be artificially low for many communities. As funds shrink, nonprofits have become more entrepreneurial in fund-raising and in recruiting middle- and upper-income families who can afford higher enrollment fees.

Nonprofits have certain tax advantages. They can be exempt from certain federal and state taxes and may be exempt from local property taxes. A nonprofit's eligibility to seek tax deductible contributions also is a plus. A board of directors for a nonprofit agency can be a real asset. However, with decreased volunteerism and time constraints on busy schedules, keeping a board focused and on track can be challenging.

Nonprofit centers often feel that they should just break even financially each year. Yet doing so may financially cripple their organization over the long run. Nonprofit corporations can and should make a profit. However, the profit must be used to further the goals of the organization. Profits cannot be distributed to board members.

The primary advantage of for profit programs is the ability to seek investors. In profit-making corporations, profits can be distributed to individual shareholders. For profit programs with good track records generally find it easier to access bank loans as well. Expanding geographically also is an asset, since most nonprofits are tied to a specific location.

Whatever your decision, for profit or nonprofit, it is important to realize that a child care center is a business. And meeting the needs of families can happen only if your program is built on solid financial ground. Industry averages for financially healthy profit and nonprofit child care organizations range from 5 to 7 percent profit or surplus.

Budgeting — Short and Long Term

A budget is a great planning tool. It provides direction for your organization and can be used for both for short term and long term planning. It is a good idea to review it frequently and to compare budgets over several years. If you are just getting started, it will be useful to project your expenses over three specific periods: pre-opening (or start-up), first year of operation, and full enrollment or the second year of operation (see pages 5 and 6).

Pre-opening Expenses

Generally known as start-up costs, pre-opening expenses usually will include (1) renovation or construction costs to meet licensing requirements and fire and safety codes, (2) equipment and major appliances, (3) supplies, (4) marketing costs, (5) insurance, (6) contractual services of accountants and attorneys, and (7) personnel costs to design and start the program.

First Year of Operation

The first operational year of any organization can be stressful and a bit perplexing. Until the program becomes financially stable, program income and expenses will be difficult to predict and manage.

Enrollment generally builds much more slowly than program organizers expect. Unless parents are terribly unhappy with their present child care situation, they are generally very cautious about enrolling their children in a new program until they can see that it has proven to be a safe, quality learning environment. Loyalty to a present care giver and uncertainty about enrollment fees, transportation arrangements, and available program hours are all critical factors that will influence a parents decision to enroll in your program.

In most circumstances, the first year will be a period of low enrollment. This means that for the first few months you may be bringing insufficient income to meet your expenses. Beginning enrollment rates of 50 to 60 percent are fairly typical and will build gradually over the first year.

During this period, certain expenses, such as rent or mortgage payments, will be ”fixed” expenses. This means that regardless of the number of children enrolled these expenses will have to be met. Therefore, when budgeting for the first year it is critical to build in extra funds to cover the extra cost of expenses until your income stabilizes.

Full Enrollment Year (second year)

Your long-term planning also should include budgeting for a full enrollment year. This generally will be your second year of operation. This budget will be immensely useful to you in determining whether your program can support itself over the long term. Be conservative when estimating full enrollment. Rarely is a program fully enrolled to 100 percent of licensed capacity. It is best to estimate enrollment at 85 to 95 percent of capacity for full enrollment income.

Estimating Expenses

Estimating expenses can be a real challenge. It is best to get input from staff, parents, and board members. Staff input will reflect costs for program needs, parents give a client perspective, and board members may lend accounting and financial expertise. Child Care Resource and Referral also may be of assistance. Many beginning programs wisely budget consultation dollars for an experienced child care director in a neighboring community to assist with or review initial budget drafts. The following averages reflect typical operating expenses:

- Personnel 55–70 percent
- Occupancy 15–20 percent
- Meals/snacks 3–5 percent
- Supplies 3–5 percent
- Equipment 2–3 percent
- Insurance 2–3 percent
- Other services 3–4 percent (accounting, legal, training, transportation)
- Profit/surplus 5–7 percent

Keep in mind that these figures reflect operating costs rather than start-up costs. Remember also that each situation is unique. Donated facilities, for example, can dramatically change percentage ratios.

Personnel

Pre-opening budgets will need to include a minimum of one- to two-month's salary for a director to organize the program, implement an advertising campaign, and hire and train staff.

If your program serves more than 50 children, you also may need to hire an assistant director to assist the director with start-up tasks. Costs also will be incurred for staff to prepare curriculum, gather supplies, attend training, and receive orientation prior to opening.

Operational budgets should include costs for regular staff and substitute staff including cook and custodian, salary increases, and/or bonuses. Non-teaching time for planning, meeting with parents, attending staff meetings, and training should also be included.

Benefits will include expected costs for social security, unemployment insurance and workers compensation,

Guidelines for a Shared Space Agreement

Develop guidelines that are acceptable to each party. A representative from each organization should agree on the guidelines. Policies should be flexible in order to respond to changing needs and resources of the respective programs and the shared facility. Guidelines should be reviewed periodically. Factors to include in a shared space agreement are:

1. *Days and times of operation* of each program, including accommodations needed for special programs or events, school holidays, and summer months.

2. *Primary use areas*, including classrooms, office space, bathrooms, storage, and playground.

3. *Specialized secondary space*, which may include gym, computer room, alternative outdoor space, cafeteria, meeting rooms.

4. *Responsibility* for cleaning, securing, building maintenance, playground upkeep and repair, regulation of heating and air conditioning system.

5. *Job description for shared staff* (custodial, repair person, secretary).

6. *Budget projections* for expected payments of shared costs.

7. *Procedures for communicating* concerns and resolving problems.

8. *Time line* for reviewing policies (e.g., annually, biannually).

sick leave, holiday and vacation leave, health and disability, life insurance, and retirement.

Research shows that personnel costs affect program quality more than any other factor. In a large in-depth study by S. Helburn at the University of Colorado of 401 child care centers in four states, a major finding was that higher quality centers spent more per child on staff wages and benefits and less on facilities, supplies, and programs, compared to lower quality centers.

Determining personnel costs is tricky. Children arrive and depart at different times. Required child/staff ratios and work days exceeding eight hours make this task challenging at best. The staffing worksheet on page 7 can be used as a guide to develop a workable staffing pattern.

Personnel costs generally are the greatest expense item for programs. Common cost percentages for personnel range from 55 to 70 percent of total expenses.

Occupancy

Pre-opening expenses must include renovations or improvements needed to meet licensing standards, safety and fire codes, and zoning requirements. It is important to research these costs carefully. Enlist the guidance of your local Department of Human Services child care consultant and local fire, building code, and zoning inspectors to assist you with the planning process. These agencies often have strict standards and regulations that can change from time to time.

Square footage per child, fire exits and alarms, fence requirements, parking lots, and roadway entrances are just a few of the many factors that can affect program costs greatly. Working with the appropriate agencies early on in the planning process can help you to avoid many costly mistakes.

If you will be building or doing major renovations, it is very worthwhile to invest in the services of an architect who has experience designing child care facilities.

Occupancy costs typically include facility costs and utilities. Start-up costs vary widely, depending on your decision to purchase, build, or lease. Ongoing operational costs generally range from 15 to 20 percent. Keith Stephens, a certified public accountant who has conducted several financial studies of independent child care centers, suggests that facility costs (including building rent or mortgage, repairs, maintenance, property taxes, insurance, and depreciation) should not exceed 20 percent of sales at 70 percent of enrollment capacity.

For example, a center with a licensed capacity of 100 children that charges $80 per week should have facility costs of no more than $58,240 per year:

100 spaces x 70% x $80 per week x 52 weeks x 20%

Questions to consider when determining staffing patterns

1. Are the group sizes and adult/child ratios within recommendations by the National Association for the Education of Young Children for the ages of children in the group?

2. Do staffing patterns promote continuity? Do the schedules of staff members overlap, or are there complete “shift changes” in personnel?

3. Are staff members given primary responsibility for a group of children, allowing deeper attachments to develop?

4. Do infants spend the majority of their time interacting with the same person over the course of the day?

5. Is there time for staff members to take breaks and for staff preparation and planning, while maintaining appropriate ratios and group sizes if children are present?

6. Is there a specific adult responsible for ongoing communication with the child’s family?

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B. Willer, editor, National Association, for the Education of Young Children

Staffing Worksheet

GROUP NAME: Infants

TOTAL NUMBER OF CHILDREN IN GROUP: 8

AGE OF MAJORITY OF CHILDREN IN GROUP: 11 mos.

	6:00 AM	7:00	8:00	9:00	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00 PM
NUMBER OF CHILDREN ENROLLED EACH HOUR		/2	4/5	6	8	8	8	8	8	8	6/5	4	4/2	
NUMBER OF TEACHERS PRESENT EACH HOUR		1	2	2	2	3	2	2	2/3	2	2	2	2/1	

HOURS OF EACH STAFF MEMBER:

Mary (7-3)
Angie (11-7)
Julia (8-12)
Ann (2:30-6:30)

GROUP NAME: Older Toddlers

TOTAL NUMBER OF CHILDREN IN GROUP: 12

AGE OF MAJORITY OF CHILDREN IN GROUP: 20 mos.

	6:00 AM	7:00	8:00	9:00	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00 PM
NUMBER OF CHILDREN ENROLLED EACH HOUR		/2	4/7	12	12	12	12	12	12	12	10/8	8/6	3	
NUMBER OF TEACHERS PRESENT EACH HOUR		1	2	2	2									

HOURS OF EACH STAFF MEMBER:

Sarah (7-3)
Carol (11-7)
Lou 8-12
Kay (2:30-6:30)

GROUP NAME: Preschoolers

TOTAL NUMBER OF CHILDREN IN GROUP: 18

AGE OF MAJORITY OF CHILDREN IN GROUP: 3½ yr.

	6:00 AM	7:00	8:00	9:00	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00 PM
NUMBER OF CHILDREN ENROLLED EACH HOUR		/4	7/14	18	18	18	18	18	18	18	16/15	15	14/7	
NUMBER OF TEACHERS PRESENT EACH HOUR		1	2	2	2	3	2	2	2/3	2	2	2	2/1	

HOURS OF EACH STAFF MEMBER:

Janice (7-3)
Karen (11-7)
Gina (8-12)
Claire 2:30-6:30

GROUP NAME: Older Preschoolers

TOTAL NUMBER OF CHILDREN IN GROUP: 20

AGE OF MAJORITY OF CHILDREN IN GROUP: 4½ yr.

	6:00 AM	7:00	8:00	9:00	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00 PM
NUMBER OF CHILDREN ENROLLED EACH HOUR		/4	8/16	20	20	20	20	20	20	20	20	18	16/8	
NUMBER OF TEACHERS PRESENT EACH HOUR		1	2	2	2	3	2	2	3/2	2	2	2	2/1	

HOURS OF EACH STAFF MEMBER:

Laura (7-3)
Marsha (11-7)
Hannah (8-12)
Alice (2:30-6:30)

GROUP NAME: School-agers

TOTAL NUMBER OF CHILDREN IN GROUP: 26

AGE OF MAJORITY OF CHILDREN IN GROUP: 7 yr

	6:00 AM	7:00	8:00	9:00	10:00	11:00	12:00	1:00	2:00	3:00	4:00	5:00	6:00	7:00 PM
NUMBER OF CHILDREN ENROLLED EACH HOUR		/5	8				7	7	7/15	20/26	26	26/20	20/10	
NUMBER OF TEACHERS PRESENT EACH HOUR		/1	1	—	—	—	1	2	2	2	2	2	2/1	

HOURS OF EACH STAFF MEMBER:

Eva (7-9)
Eva (12-2:30)
Judy (1-7)
Mike (2:30-6:30)

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Estimated Expenses — Personnel

	Pre-Opening				First Year of Operation				Full Enrollment Year (or Second Year)			
Job Title	Hourly Rate	Hours Week	Weeks Emplyd	Cost	Hourly Rate	Hours/ Week	Weeks Emplyd	Annual Cost	Hourly Rate	Hours/ Week	Weeks Emplyd	Annual Cost
Director(s)												
Teacher(s)												
Aides												
Assistants												
Custodial												
Cook												
Nurse												
Substitute												
			Sub-Total					Sub Total			Sub Total	
Fringe Benefits												
Social Security												
Unemployment Ins.												
Workers Comp.												
Other												
			Sub-Total			Sub-Total			Sub Total			
				Total Personnel			Total Personnel			Total Personnel		

Estimated Expenses — Non-Personnel

Facility Costs (Occupancy)		Pre-Opening	First Year of Operation	Full Enrollment Year (or Second Year)
Occupancy: Facilities	Rent/Mortgage			
	Property Taxes			
	Maintenance			
	Renovation/Repairs			
Occupancy: Utilities	Water			
	Gas			
	Electric			
	Telephone			
	Miscellaneous			
Insurance:	Liability			
	Child Accident			
	Fire/Theft			
Equipment:	Office			
	Classroom			
	Kitchen			
	Outdoor			
Supplies:	Office			
	Classroom			
	Kitchen			
	Outdoor			
	Janitorial			
Food:				
Transportation:	Lease/Payment			
	Gas			
	Maintenance			
	Insurance			
	Staff Travel			
Other:	Marketing			
	Printing/Photocopying			
	Postage			
	Staff Training			
	Consultants			
	Repayments of Start-up Costs			
	Federal/State Tax on Income			
	Legal Fees			
	Accounting Fees			

Facilities — Should you Buy or Lease?

Buying or building a facility has certain advantages. There is generally more control over design or remodeling decisions. And equity is a valuable asset for future financial security, investments, and short-term loans for special projects. Owning a building sometimes can be less expensive than renting or leasing. Organizations that take time to crunch the numbers and explore different finance options sometimes are surprised by their findings. Borrowing money to finance construction or renovation costs may result in a monthly loan payment that is less than or just slightly higher than rent. Improvements also can generate cost savings such as reduced fuel costs. Likewise, increased income also can be generated by expansion of classroom space.

Paying close attention to current loan rates and watching for opportunities to negotiate with contractors when there is a slight recession in the construction industry also can result in big savings.

The disadvantages of buying or building include a much larger monetary investment initially. Many banks are reluctant to make loans to organizations without an established track record or to smaller nonprofit organizations. Guaranteed loan programs and community development funds do exist to help with building and renovation costs, but they often have strict requirements and some limitations. A longer planning process and wait for building construction to be complete can also be a problem for some groups.

Renting also has advantages. Many churches, schools and nonprofit organizations may provide space at little or no cost. Other related costs, such as custodial service or utilities, also may be minimal.

Disadvantages may include significant complications with renovations to meet child care licensing and fire safety requirements. Landlords may ask for a long-term lease to help cover these costs. Alternatively, landlords also may ask programs to pay for renovation costs up front, thereby increasing the value of the building and raising the potential for substantially increased rental fees later on. Contracts for leasing arrangements should be carefully reviewed.

Utilities

Pre-opening budgets should include utility deposits and expected utility costs. Deposit for phone and installation costs also may be included in this category. Occasionally, utilities are paid for by the landlord and included in the cost of the rent. If a program is sharing space, utility costs may be determined by dividing total utility costs by the percentage of space and time a child care program uses the facility.

Equipment

Equipment is an item that will be used for more than one year. Generally it includes furniture for children and adults, toys, appliances, and playground equipment. This will be a major expense for pre-opening budgets. Careful decisions will need to be made on the importance of quality and durability of equipment. Operational budgets should include allocations for future purchases and replacement of equipment. Major equipment catalogs can provide you with a great deal of assistance in determining what equipment you might need for your program. Generally, you can estimate equipment costs at $300–$400 per child for start-up.

Supplies

Supplies generally are used and replenished within one year. Examples include paper, glue, paint, soap, napkins, craft materials, and cleaning supplies. All too often, this is the first area where budgets are cut. It is important to remember that adequate classroom supplies are critical for a quality program. Children need to paint, draw, read, and create.

Infant programs may require specific supplies such as diapers. School-agers often are very focused on arts and crafts activities and may need many more consumable art supplies than the preschool program. It is wise to look at the specific supply needs of each age group in your program. Ongoing costs range from 3 to 5 percent.

Insurance

A **general liability policy** is a costly but necessary expense. If you have liability insurance, the insurance company will defend you if you are sued, whether due to neglect, injury, accident, or allegation, if there is specific coverage in your policy for the particular situation. If you are found to have been negligent, and thus liable, the insurance company will pay the judgment up to the limits of the policy. Liability insurance also may include coverage to pay expenses related to claims of child abuse, but coverage is limited.

Standard general liability insurance policies cover four basic types of costs when the insurance company is reasonably convinced negligence existed.

- Bodily injury, which includes physical injury, pain and suffering, sickness, and death.

- Damage to another's property, including both destruction and loss of use.
- Immediate first aid at the time of an accident; necessary medical, surgical, x-ray, and dental services including prosthetic devices; and necessary ambulance, hospital, professional nursing and funeral services.
- The legal costs to defend your center in a lawsuit if the injured party decides to sue.

Additional Insurance Coverage

In addition to the coverage available in a general liability policy, there are many other risks you may want to investigate insuring against, depending on your needs. It may be necessary to purchase a separate policy for some. Other risks may be covered by adding a series of endorsements to your general liability policy. The endorsements also may amend policy limits, deductibles, or terms of cancellation or nonrenewal. You will pay increased premiums for endorsements that broaden your coverage.

Personal injury—Although a general liability policy covers claims relating to bodily injury and property damage, personal injury liability coverage provides protection for a libel, slander, or invasion of privacy lawsuit. In a personal injury, the injury is to a person's reputation or feelings. This may occur if a child care worker is involved in a child custody case or reports suspected child abuse.

Product liability — Suppose a child gets sick from eating the potato salad served at lunch. Product liability insurance would protect you in claims related to the food you serve, or food or toys you might sell at a fund-raising activity. The premium for coverage at a fund raiser usually is based on gross receipts, so if there are no sales or only small-scale sales, a minimum premium is charged.

Fire legal liability — A general liability policy generally will not pay for damages to property that is in your care, custody, or control. Therefore, it would not pay for any damage that occurs to the portion of the building that you rent or occupy. If you are a renter, it would be advisable to purchase some form of fire liability insurance. Although your landlord may have fire insurance, if you are the cause of a fire on the premises, your landlord's insurance company will attempt to collect the cost of repair from you. Thus, a fire liability insurance policy will cover such damage if it was the result of your negligence.

Vehicle insurance covers accidents in cars and vans. A policy separate from your center liability policy most often is needed for vehicles. If your center owns or leases any vehicles, automobile insurance is necessary. You will want bodily injury and property damage coverage and uninsured motorist protection. Coverage should include a minimum of $300,000 for bodily injury and property damage. Increasing coverage to $1 million generally costs only 25 percent more.

If employees,' parents,' or volunteers' autos are used to transport children, the center should still have insurance protection, for even if the owner/driver has insurance, in the event of a serious accident, it is likely the center would be named as a defendant along with the driver. The car owner's insurance won't cover any portion of liability that could be ascribed to the center. For example, if the driver became distracted because the van was crowded, fault may lie with the center.

Errors and omissions coverage protects against the potential cost of claims against teachers or program directors for violation of professional standards of conduct. Hiring highly trained personnel tends to minimize risks and improve program operation.

Officers' and director's liability insurance covers those individuals when they are acting in their official capacities. If you operate with a board of directors, as many nonprofit centers do, the potential for claims against the board members can significantly affect your program. Volunteers with limited personal resources can be very vulnerable to legal action. Defense costs alone can be sizable even if there is no liability award. Concern about the lack of protection can reduce the willingness of parents or community members to serve.

Medical or accident insurance is low cost and worthwhile to consider. Many accidents are not anyone's fault, so no liability is involved. An accident insurance policy generally covers medical expenses for any injury caused by a covered accident that occurs at the child care center or while on a field trip. For example, if a child stumbles on the playground and breaks an arm or needs stitches, accident/medical insurance will cover the initial doctor and emergency room bills incurred as a result of the accident. Many companies offer a discount on liability insurance premiums if an accident policy also is written.

Property insurance — If you own the building or equipment, you will want to protect your investment against the risk of fire, wind theft, and other damage. You do this through property insurance. Portable outdoor play equipment may need special property insurance coverage.

Research insurance policies carefully. Some policies will only provide coverage if a child is under supervision of a paid staff member. Injuries occurring under the supervision of a volunteer may not be covered. Most policies also exclude coverage if a child is physically or sexually abused in your program. Note that liability policies provide legal defense against a civil suit, but don't defend against a criminal charge.

For more information on insurance and guidelines for purchasing insurance see ISU Extension publication *Liability Insurance and the Child Care Center,* NCR 434.

Food

Meal costs can be calculated by developing a weekly menu and then dividing total meal expenses by the number of meals served and by the number of children served. Snack costs can be calculated in the same manner. These figures will give you a good estimate of meal or snack costs per child. Take into consideration that children of different ages may have different nutritional needs. For example, infants may need formula and baby food. School-agers may not need lunch from your program but do tend to have healthy appetites for after-school snacks.

Ongoing operational costs for food generally range from 4 to 11 percent, depending on whether food is cooked on-site or catered. Some programs find that it is more economical to have meals catered rather than cooked on-site. Individual meal charges are greater, but personnel costs for on-site food preparation are less. There also may be some limitations on food quality and availability. Food safety also should be a concern. Special care will need to be taken to keep food at the appropriate temperature. Food can be catered from public school programs, supermarket deli services, or other community programs.

Nonprofit organizations may be eligible to participate in the Child and Adult Care Food Program sponsored by USDA. This program provides useful nutritional guidelines and reimbursement for food costs for eligible participants.

Transportation

Transportation expenses include reimbursement for staff who use their own transportation to purchase supplies or attend training. Additionally, all programs must have some form of transportation available in the event of an emergency. When relying on staff to provide transportation for work related errands, it is critical to verify that they have appropriate auto insurance.

Your program also may need transportation services for field trips or to transport school-age children to and from school. Keep in mind that federal and state laws mandate that transportation of ten or more passengers to school and related activities requires a certified bus driver and the use of a school bus that meets federal construction standards. This ruling applies to all school-age programs, public or private, that transport school-age children. Large twelve- to fifteen-passenger vans that do not meet these construction standards are not acceptable for transporting school-age children.

Marketing

Marketing costs will include stationary, envelopes, brochures, business cards, flyers, building signs, vehicle signs, yellow page directory listing, and newspaper ads. Fund raising expenses generally fall into this category. Some programs even will include parent newsletter expenses under this line item. Pre-opening and first year budgets will require larger marketing costs than later years. However, recruitment is an ongoing concern for most programs, and budget dollars should be set aside each year for this area.

Other

Expenses for a variety of unrelated items also need to be budgeted. Staff training, printing and photocopying costs, postage, loan repayment of start-up costs, bad debt, and federal or state taxes are just a few of the costs that might be included in this category. Consultant costs for legal and accounting assistance should be included in the pre-enrollment budget.

Estimating Income

If you build it, will they come? This is a question that is frequently on the minds of groups that establish a new child care program. Obviously there is a need for child care, or your committee would not being trying so hard to establish a center. But is there enough need to support a new center-based child care program in your community?

Projecting Enrollment

How many young children in your community are in need of child care? Is this need for full-time care, part-time care, and evening or weekend care? How about differences in need for infant care, preschool care, or school-age child care? How many of these children are currently enrolled in another program or in family child care? How many families can you realistically expect to change their present form of care to enroll their children in your program?

Studies indicate that financial viability for a center program that operates almost exclusively off tuition fees can be best maintained with an enrollment rate above 60 to 75 children. This figure takes into consideration required staff-child ratios, volume purchasing, and maximum use of facility space. Large centers averaging 100-120 children are much more profitable. Of course, if a program receives additional funding or resource support, such as free space or significant volunteer time, the enrollment required to be profitable may be smaller.

Additionally, you should be aware that child care usage studies indicate that 65 to 75 percent of families with young children choose to use home-based family child care programs. There are many valid reasons for this decision. First, many families prefer a cozy, homelike setting with small groups of children. This is particularly true for parents of infants and toddlers. Secondly, many parents prefer to keep siblings together rather than having them placed in separate classrooms. Third, many parents recognize the importance of continuous care over several years by the same primary provider. In a good family child care home, the provider offers an extended family relationship that is of tremendous value to parents. Fourth, in many communities, the fees for family child care are less than center-based care. Fifth, many family providers offer greater flexibility of hours for evening or weekend care.

U.S. Census Bureau statistics indicate child care center usage increases with family income. Families earning more than $45,000 per year are twice as likely to enroll their child in centers as families with incomes below $20,000.

The decision to open a child care center depends heavily on just how many children you can expect to enroll. If you have not done so already, you should look carefully at projected enrollment. Gather census data to determine the community population of young children and projected trends. Visit with your local Department of Human Services child care consultant and child care resource and referral agency to get an estimate of existing child care "slots" for both center care and family child care in your area. You also may wish to conduct a community survey to determine need. Keep in mind that survey reliability is dependent on many factors. For a variety of reasons, only 20 percent of families that say they will use your service typically will actually enroll their child in your program. For more information on this topic see the ISU Extension publication, *Child Care: A Community Action Manual*, another booklet in the *Child Care That Works* series.

Determining Fees

The expenses of a program will largely determine what amount must be charged for child care fees. Grants, donated space and volunteer services, may help to reduce fees, but they should not be depended on as large sources of supplemental funding. The process of determining fees includes the following general guidelines:

— identify the annual cost of the program and divide by number of children served to get the annual cost per child.

— research the amount of money parents in the community can afford, or are currently paying.

— analyze the types of fee systems and determine which method you feel most comfortable supporting.

Fee Systems

There are basically three types of fee systems: flat fees, sliding-fee scales, and scholarships.

Flat fees — families are charged an equal amount of money for child care. This system is easy to implement and maintain.

Flat Fee Calculation

(Step 1) $\dfrac{\text{total expenses} - \text{total supplemental funding}}{\text{number of children attending program}}$ = annual cost per child

(Step 2) $\dfrac{\text{annual cost per child}}{\text{number of days program is in operation}}$ = daily cost per child

(Step 3) daily cost per child x number of days in payment period = flat fee

The flat fee system often is modified to allow for differences in care of children of different ages. For example, infants are more expensive to care for than school-age children. Therefore, a center might have a flat rate fee for infants, a second flat rate fee for preschoolers, and a third flat rate fee for school-agers.

Sliding-fee Scales — families are charged different amounts bases on their ability to pay. This practice helps make child care more affordable for low income families. Some programs choose a sliding fee scale that subsidizes families at the low end of the scale by charging families at the higher end more than the actual cost of care. This method places the actual cost of care at the midpoint of the sliding scale.

Other programs place the actual cost of care at the upper end of the scale. Consequently, no family is expected to pay more than the actual cost of care. Reduced fees must be subsidized by outside fundraising and contributions. One disadvantage is the necessity to establish some method of family income verification, such as requiring families to provide pay stubs, tax or child support statements. It is also more difficult to determine how much income you will have from year to year. Finally, this practice will most certainly yield less income from enrollment fees. Therefore, it may be necessary to raise additional funds to support your program.

Sliding Scale Fees

1. Calculate income needed to cover the program (actual cost of care).
2. Set up a trial fee scale with graduated income levels and corresponding fee charges.
3. Estimate the number of families in each income range.
4. Project the amount of money generated by parent fees according to the trial fee scale.
5. Compare this income with the cost of the program.
6. Adjust the trial fee scale, as necessary to insure income is equal to, or greater than, the cost of the program.

Scholarship — families can receive a scholarship that will reduce their fees. This practice can be especially important to a family in extreme hardship or crisis. Disadvantages include a general limitation on the amount of funds available and ongoing need to raise funds annually to maintain the program.

Maximum Potential Income

Maximum Potential Income (MPI) is the total amount of income that your program could receive from enrollment fees if you had 100 percent enrollment every day. This figure is determined by looking at the number of children you are licensed to care for on a full-time basis (full-day, full-week) and multiplying this figure by your expected enrollment fee. You also may wish to add in expected registration fees for each child.

Full enrollment at 100 percent capacity rarely, if ever happens. Children move, families on waiting lists find alternative types of care, new mothers sometimes decide to stay home with their newborns, and grandparents may offer to care for children during school holidays or summer vacations. For a variety of reasons, there always will be less than full enrollment throughout the year. Nevertheless, it is important to know your maximum potential income so that you can strive to keep enrollment as high as possible and determine a realistic expectation of your possible income.

Utilization Rate

The utilization rate is a percentage of the number of children that you can expect to be fully enrolled in your program at any given time. Most established programs maintain a utilization rate of 85 to 95 percent of children enrolled on a full time basis. Beginning programs often have an utilization rate of 50 to 60 percent and must work hard to build enrollment during the early months.

Example: Total enrollment or **maximum potential income** for ABC Child Care is projected to bring in $100,000. However, their **utilization** rate for the last year has been at 90 percent of full enrollment.

$100,000 x 90% = $90,000. Therefore, it would be realistic to project next year's enrollment income at $90,000.

Full Time Equivalent (FTE) enrollment

Keeping a child care center financially stable requires that you maintain optimum enrollment. However, if you have children enrolled both part time and full time, estimating full enrollment can be elusive. Rather than a simple count of children, you will need to determine your full time equivalent enrollment. For example, if you define full time care as 10 hours per day and your total capacity is 80 children five days a week, your total full time capacity is 4,000 hours per week. If you currently serve 70 children, your calculation to determine your FTE enrollment might look like this:

Full time, 5 days a week, 50 children:
50 x 5 days x 10 hours = 2,500 hours

Half time, 3 days a week, 10 children:
10 x 3 days x 5 hours = 150 hours

Half time, 2 days a week, 10 children:
10 x 2 days x 5 hours = 100 hours

2,750 hours per week

Capacity = 4,000 hours

Enrollment = 2,750 hours
= Operation at 69 percent of capacity.

Full time enrollment (80) x 69 percent
= 55 FTE enrollment

Tracking FTE on a weekly basis will allow you to monitor your enrollment more accurately. For example, if this program added five more children to its half time three day a week program, yet lost five children from its full day program, you would still have 70 children, yet your FTE enrollment would reduced by 250 hours to 2,575 hours per week. Over time this drop in enrollment could produce a significant loss in revenues.

Fee Policies That Reduce Income

All too often, policies are made without consideration of how they will impact the budget. Discounted rates for siblings, waived fees for absent children, age-related tuition, and assessment of bad debt are four policy areas that can dramatically reduce income. Policies such as these are difficult to change once adopted.

If your program feels that its mission is to support families with policies of this type, then you will need to develop a contingency plan for either bringing in extra funding or reducing expenses to cover loss of income.

Decreased rates for siblings

You may feel strongly that parents with several children need a break in tuition costs for a second or third child. Yet a look at projected income and the families that you serve indicates that this policy will cause a decrease in income. The profit margin for child care programs is very narrow.

Take time to do some cost projections. Most programs that adopt this policy reduce the rate for the oldest child. If one-half of your children are siblings and receive a "second sibling" discounted rate for tuition, how will this impact your income? What happens if one-third or one-fourth of your children receive a sibling discount rate?

No charge for absent children

Many programs feel hesitant to charge families for times when children are absent. Illness, visits from grandparents, vacations, school-holidays all have an impact on monthly income. Yet expenses often remain constant. Rent and utility costs do not change if three children are out with the flu. Staff are still expected to work if two children are visiting their grandparents on Friday.

Budgets need to accommodate for this situation either by projecting income based on less than full attendance (utilization rate) or by requiring that families pay for days that are missed due to absences.

Either solution is workable. The most critical factor is to be able to accurately *predict* income so that you can budget your expenses appropriately. Some programs compromise by limiting the number of "no charge days" for absences. For example, they may allow families up to five "no charge" days for sick leave or vacation but will collect fees for days when children are absent beyond the five day limit.

This policy shows consideration for families but also allows child care programs to accurately predict expected income and build stability into the budget.

Age related fees

Programs frequently struggle with how to determine fee rates for children of different ages. For example, expenses for infant care are generally much greater than for care of preschoolers. And preschool care is usually more expensive to provide than care for school-agers.

If you offer all three programs, do you charge more for infant care to meet the increased expense or do you charge all families the same fee per child and expect that a higher profit margin from school-age care will make up for loss income from infant care?

Questions like these are not easy, but they do need to be addressed and clearly resolved. Financial mismanagement usually is cited as the number one reason that child care programs fail. Often this mismanagement is not intentional or the result of illegal activity but rather a lack of clearly defined procedures and policies for handling income and expenses. Exploring financial issues will help you develop policies that will build a strong foundation of financial strength and stability.

Bad Debt

There will be many occasions when families are faced with difficult economic or personal problems that hinder their ability to pay for child care. Many programs will allow families to postpone an occasional payment.

However, this practice must be carefully monitored so that families do not fall so far behind that they cannot catch up. Your program has an obligation to remain economically stable so that it can provide the very best of care to all families.

A policy of charging a late fee and removing a child from the program for more than two late payments is often an effective way of keeping bad debt under control.

Your program also may choose to absorb a certain amount of bad debt each year. If this is your chosen policy, then you will need to include bad debt as a budget expense.

Many programs charge prior to service. For example, they will require that families must pay for June services by June 1. Programs also may choose to collect fees on a weekly, biweekly, or monthly basis. Obviously, the monthly collection of fees can save a great deal of time and paperwork. However, weekly or biweekly collection is often more accommodating to family needs.

Some programs also require a refundable deposit at time of registration.

Special note: If your program will be enrolling low income families who receive Department of Human Services child care subsidies, it will be critical to make sure that your fee rates and fee collection policies are in alignment.

Analyzing Your Budget

Once you have estimated and projected income and expenses from pre-opening to your full enrollment year, it will be helpful to break dollar amounts into percentages (see page 16). Using percentages on budget statements can give you a better picture of what your program priorities are and how your dollars are being spent.

If you find that expenditures far exceed income, you may want to look at adjusting line item budget percentages. To put things into perspective, Roger Neugebauer ina Child Care Information Exchange article, *Managing Your Money as if Your Center Depended on It,* published in 1986, suggests that the budget amount for each line item be compared with the percent of reduction that it would take to save $1,000.

In the following example, reducing personnel costs by $1,000 would only require a 2 percent reduction, where reducing the supplies line item would result in a cut of 20 percent.

A high percentage cut in any one line item generally will have a very serious impact on program quality. Areas that can be cut by a small percentage generally will have only a minimal impact.

Remember that no budget is ever perfect. Revisions are sometimes necessary and need not wait until you are in a serious financial crisis. Careful monitoring and fine tune adjustments will be necessary, particularly during the first few years of operation.

Budget Reductions

	Budget amount	**Percent of reduction to save $1000**
Personnel	$60,000	2%
Supplies	5,000	20
Equipment	3,000	33
Food	18,600	5
Rent	11,000	9
Transportation	4,000	25
Other	1,500	66

Sample Budget

Name of Program ______________________________

Annual Budget Date ________________________________

INCOME				
Parent Fees		$_______	(___%)	
Registration Fees		$_______	(___%)	
Funding Sources (e.g., USDA food program, grants etc.)		$_______	(___%)	
Fund Raising		$_______	(___%)	
Other		$_______	(___%)	
TOTAL INCOME				$_______
EXPENSES				
Personnel		$_______	(___%)	
Salaries	$_______			
Fringe Benefits	$_______			
Substitutes	$_______			
Travel		$_______	(___%)	
Field Trips	$_______			
Daily Transportation of Children	$_______			
Staff Travel	$_______			
Occupancy Costs		$_______	(___%)	
Rent/Mortgage	$_______			
Utilities	$_______			
Building repairs and maintenance	$_______			
Equipment		$_______	(___%)	
Furniture	$_______			
Program Equipment	$_______			
Supplies		$_______	(___%)	
Children's Program	$_______			
Office	$_______			
Custodial	$_______			
Contractual		$_______	(___%)	
Consultants	$_______			
Other	$_______			
Food		$_______	(___%)	
Insurance		$_______	(___%)	
Marketing		$_______	(___%)	
Training		$_______	(___%)	
Contingency		$_______	(___%)	
Other		$_______	(___%)	
TOTAL EXPENSES				$_______
BALANCE (Income – Expenses)				$_______

Maintaining Good Financial Health

The financial health of an organization is a shared responsibility. A budget is a tool that helps you to carry out your every day activities and ultimately your program's mission. Putting together a budget is a team effort and involves a lot of hard work. At a minimum, you should:

- identify who will prepare the budget and how input from staff, parents, and board members will be gathered.
- establish time lines for budget preparation, review and approval.
- identify specific information needed on budget reports.
- establish a monthly book keeping system that will efficiently support budget reports.
- develop a procedure for revision of the budget when necessary.

Document all income and non-income resources.

Child care centers often have difficulty securing long term financing. Generally, this is because child care programs pull operating income from a variety of sources: enrollment fees, individual contributions, foundation or employer contributions, vouchers, loans, government grants, and donated goods and facility space. Bankers and loan officers want to see a reliable stream of income to repay long term loan debt. Keeping detailed and accurate records of all income and non-income resources will help you build your case if you should need further financing in the future.

Do you need a computer?

A computerized accounting system is a wise investment for child care programs. The volume and complexity of income and expenses that flow through a child care business require a well-defined and efficient bookkeeping system that can be maintained with a minimum of trouble by busy staff and volunteer board members.

Fortunately, many of today's financial spreadsheet programs are easy to use and understand with minimal training. In addition to the more widely recognized spread sheet programs, there are also programs that have been developed specifically for child care accounting systems.

Standard bookkeeping programs can be found in most stores that sell computer software. Specialized software often is advertised in professional journals such as Child Care Information Exchange (See Resources to Explore section at the end of this booklet).

Increasing Income and Resources

Increasing income is a necessity for most child care programs. Non-monetary resources are just as important and many programs have been tremendously successful in tapping into the strengths and opportunities that their communities offer.

Common Approaches

There are three very common approaches to increasing income.

Registration fees. Many programs charge a one time registration fee when a child is initially enrolled. Other programs may charge an annual registration fee. Annual fees generally are expected to cover specific yearly program costs for field trips, art supplies, or special book purchases.

Special Classes. Many families want their children to have opportunities to learn special skills such as piano, swimming, gymnastics, or dance. They also may have an interest in having their child participate in scouts, campfire, or 4-H. Providing such services at the child care center for an extra fee helps the program generate extra income and saves time and energy for families.

Family Services. Coffee and doughnut sales for parents on their way to work, parenting classes, holiday gift-wrapping, and breakfasts are examples of projects that can be used to raise funds from families of participants.

Drop-in Service. When programs are under-enrolled due to openings or absences, they can accept children on a drop-in basis. The hourly fee is usually higher than the regular rate.

Other Resource Ideas

There are many other ways that child care programs can increase their income and resources. These ideas can best be divided into four categories: goods, people, services and money.

Goods

Materials or resources that are given, loaned, shared or discounted. Many items can serve as a generous tax deduction for businesses that would otherwise have to take a loss on them. New product manufacturers and businesses often are willing to give to generate publicity.

Infrequently used items, such as conference rooms or special equipment, usually can be borrowed. Cooperative purchase programs can dramatically reduce the cost of many items. Several organizations may agree to share certain equipment.

Even goods that you don't typically need can be useful as a trade for something else or to be auctioned off at a fund-raiser. Restaurant meals, flower arrangements, vacation trips, a celebrity item or department store shopping spree can be raffled off.

Other examples:

- program or office space contributed at little or no cost
- utilities at little or no cost
- appliances donated by a repair shop
- computer and office equipment donated by a local corporation that is relocating
- unused land from a public or private agency
- odd lots of paper stock from a local printer or copy center
- surplus inventory from merchandisers
- food from a local company or deli
- lumber from a building supply company or contractor

People

Individuals and groups can give their time, skills and expertise. People can be recruited as volunteers, hired at a discount, or borrowed from a friendly organization.

Examples:

- a 4-H youth leader who can lead weekly activities for school-age youth
- an intern from a university
- an accountant on loan from a nearby corporation
- a volunteer instructor from a local community college
- a vendor who can demonstrate or teach a skill
- an extension specialist who can facilitate a strategic planning session or develop a survey.

- a media specialist who can help you design a brochure
- a nurse who can teach first aid skills
- high schoolers willing to give a car wash
- civic group willing to help build a play ground

Services

Technical assistance, shared services and bartered services are all useful tools to access and share. Consider sharing your skills in providing child care for a local corporations next conference, in exchange for accounting, media, or legal assistance.

Other examples:

- legal services
- marketing services
- public service announcements
- fundraising /resource development services from a local foundation
- mailing services
- printing and duplication services
- special event and meeting planning
- telecommunications services
- transportation services
- volunteer training/ management

Money

Funds can be sought through individual donations, fundraising activities, religious organizations, foundations, corporations, and government agencies.

- **Individual donations** are the number one source of funds for many organizations. Individual donations can be large or small and usually succeed because of person-to-person contact.

  This technique works best if you can present a specific need and dollar amount to support that need, such as $20 for an art easel or $3,000 for a new playground equipment.

- **Community or religious organizations** can be an important source of funds. Sponsorships of individual child care programs are quite common. Money can be collected for scholarships, or for ongoing operations. A church donating one-fourth of its loose change in the collection plate every Sunday could generate several thousands of dollars for a child care program that it sponsors.

- **Foundations** generally are not willing to provide regular ongoing operational funds but may be willing to contribute to start-up costs or to specific projects. In general, contacting small local community or family foundations will be the most successful. The Foundation Directory located in the reference section of many public libraries is a good source for locating foundations. Contact a representative first to briefly discuss you idea or program goals. Ask if it is possible to submit a brief proposal.

- **Corporations** contribute to worthwhile community causes. Larger corporations may even have a staff person assigned to review requests. They also may have formal procedures and guidelines for you to follow in applying for funds. Smaller corporations are often less formal, but it is a good idea to approach them with a brief written proposal, too.

  Think win-win. Be prepared to show the corporation how they could gain from giving to your cause, through publicity, tax deduction, or shared services.

- **Government agencies** often have funds that can be tapped for child care. Funding availability changes on a regular basis. Agency goals that are low priority one year may suddenly become highest priority the following year. Visit with agency representatives to find out when funding decisions are made, and ask how you can give input to the process.

- **Agency Coalitions.** Innovation Grants, Family Preservation, Enterprise Zones, and Decategorization are all efforts to change the way agencies serve communities. The idea is to establish community partnerships that can redirect public funds to achieve improved outcomes for children and families.

  Communities participating in these programs can receive technical assistance in developing and implementing plans that will best serve their community. In many cases, funds can be blended or redirected to meet community goals.

- **State funds and federal funds** also are available to assist with child care. Many state agencies contribute to the development and support of child care in a variety of ways. The Child Care Development Block Grant administered through the Department of

Fundraising Measuring Tool

(Or Was It Really Worth It?)

To calculate the return on time invested in any project use the following formula:

$$\frac{\text{Total Income Earned (\$1,100) – Expenses Invested (\$100)}}{\text{Total Labor Hours (320)}} = \begin{array}{c}\text{Return}\\ \text{(\$3.13 per hour)}\end{array}$$

Obviously, this project did not have a high rate of return for the time and effort it took to carry it out.

Human Services has funds that directly support low income families in the purchase of child care. These funds also are used for training programs, resource and referral and start-up costs.

The Iowa Department of Education supports early childhood education efforts through administration of the Head Start Collaboration project and support for the Child Development Coordinating Council which administers At-Risk Early Childhood grants. The USDA Child and Adult Care Food Program also is administered by the Iowa Department of Education.

Community development of child care is supported by the Iowa Department of Economic Development and USDA Rural Development. Iowa State University Extension has made major contributions in the areas of training and community development as well.

USDA Rural Development through its Community Facilities programs is authorized to guarantee loans made by eligible lenders to borrowers that may be public bodies or nonprofit organizations in rural areas and towns up to 50,000 population. Applicants must be unable to obtain the loan at reasonable rates or terms from a private or cooperative lender without the guarantee.

Funding and programs under these various agencies change from year to year. Learning more about these programs through individual contact or participation in professional associations will help your program become more familiar with the support that is available.

Measuring the effort of fundraising.

Some fundraising efforts are more trouble than they are worth. When choosing from several fundraising ideas, ask yourself the following questions.

- Has this idea been used successfully before?
- How much staff time will we have to invest?
- How will this affect our regular day to day work responsibilities?
- How much program money will we have to invest?
- How will parents be involved? Can they afford the time and expense?
- What kind of return can we expect?

Innovative Funding Sources to Explore and Develop

The following programs summarize the types of funding assistance that communities and states can develop to assist with child care. This list is from *Investing in the Future—Child Care Financing Options for the Public and Private Sectors*, published by Child Care Action Campaign and the Center for Policy Alternatives in 1993.

Government funding sources are available to subsidize the cost of care the quality of care by providing funds for purchase of equipment, start-up costs staff training and facility construction or renovation, and food purchase. These funds are through a variety of government agencies, such as the Department of Human Services, Department of Economic Development, Department of Education, Department of Agriculture Rural Development, and Department of Agriculture Adult and Child Care Food Program. The use of funds are often quite specific. For example, grant dollars may be available for Resource and referral lending libraries to purchase equipment and toys but not available directly to providers. Or the dollars may be designated specifically for school-age child care expansion or infant care training. These funding decisions can change from year to year.

Direct Loan programs allow recipients to borrow money from the state at a lower interest rate than generally offered by private lending institutions.

Loan Guarantee programs reduce a bank's risk of loan default by providing state backing to applicants for bank loans.

Local option sales tax. Communities have the option of adding to their sales tax and redirecting the extra funds collected to special projects. Before placing a local option tax before the voters, the city council must designate and approve how the money will be spent. This is done specifically so that voters will clearly understand what the increased tax will be used for. Small communities with an established child care program that is valued highly by the community might benefit from this option. Alliances with council members will need to be nurtured. Research on projected income from such a tax will need to be conducted. Strong marketing efforts will be needed to generate broad-based community support.

Employer Tax credits. In some communities, employer tax credits are used as an incentive for companies to provide child care benefits. To be successful, credits must provide adequate financial incentive and should be applicable to operating as well as construction and start up costs. It is important to note that this option provides no benefit to nonprofit employers already exempt from paying income taxes.

Linkage ordinances. Commercial or residential developers are mandated to provide on-or near site child care facilities or pay a fee into a community child care training or recruitment fund.

Zoning Bonuses. Bonuses are used as an incentive to encourage developers to voluntarily offer child care. For example, for every square foot of child care space provided, developers could receive a bonus of 3–15 square feet of floor area for development that would not generally be permitted by zoning ordinances.

Linked deposits. State and city governments maintain budgets and many schools deposit their dollars in banks that agree to provide loan programs for child care, woman-owned businesses, and other community lending programs.

Community development corporations are nonprofit community based programs that strive to revitalize local communities through economic and social programs such as job creation, real estate development and support of loan and start up funds.

Pension funds. Local pension funds are often invested in socially desirable programs and may offer a useful source of financing for child care facilities.

The Basics of Proposal Writing

Proposals often are needed for seeking grants, loans, and other outside funding. Sometimes proposals are written in response to a specific *Request For Proposal* (also known as an RFP) that is supported by a governmental agency or foundation. At other times you will need to write a proposal to help clarify your ideas about a project and garner support from a variety of resources.

Although one or two individuals may be responsible for the bulk of proposal writing, they will need assistance from others for brainstorming ideas, researching data, developing a budget, and reviewing the finished proposal. Proposal writing is best done as a team. The first proposal is generally the hardest. Later proposals can be adapted from the first draft.

Try not to be intimidated by the proposal writing process. A good proposal is simply a statement of who you are, what you believe, what you want to do, and how you plan to do it.

Certain basic information will be needed in almost any proposal. Much of this information can be prepared ahead, and it is a good idea to do so. When foundations and government agencies send out a Request for Proposals (RFPs), they often allow very little turnaround time in which to pull a proposal together and submit it. It's not fair, but it is reality.

You can avoid a lot of stress and a poor quality proposal by being proactive. Work with your board members and staff to develop a draft of the following information so that you will be ready to respond quickly if funding becomes available.

Focus first on getting ideas down on paper. Capture main ideas with simple sentences, and whenever possible, list information in bullets. Keep language basic and easy to read. Remember that proposal reviewers may be confronted with a small mountain of proposals to read. The last thing they want to see is a proposal that is laden with complex language, full of jargon, or poorly organized.

These are the sections that usually make up a proposal.

- **A. Summary/Abstract**
- **B. Statement of Problem or Need**
- **C. History of Organization**
- **D. Goal Statement**
- **E. Work Plan**
- **F. Evaluation**
- **G. Budget**
- **H. Future Funding**
- **I. Appendix**

Summary — a short, concise description that states who you are, what you want to do, and how much money you need.

Statement of Problem or Need — explanation and documentation of existing problems or needs. Local data, survey results, or focus group summaries can be used as supportive documentation.

History of Organization — background of your organization and expertise of staff or board members that will help carry out your proposed project. Also include how long your organization has been in existence, how you are organized, previous experience managing grant or loan funds, and support from other organizations.

Goal Statement — state clearly what outcomes you hope to accomplish with the funds you are requesting. For example, "to increase the availability of weekend care for low income families" or "to include children with disabilities in a full day preschool program" or "to reduce injuries and increase safety levels by repairing and installing appropriate playground equipment."

Work Plan— a detailed description of the major tasks involved in your proposes project. Focuses on the who, what, when, where, and how of staffing, space, equipment needs, and other requirements. May also include a time line for task completion.

Evaluation — describes the results you expect from your project and shows how you will measure you effectiveness. Thinking about evaluation *before* a project starts is critical. Otherwise, as your project evolves, you may neglect to collect needed data that can document your success. After-the-fact data is difficult to gather, frequently biased, and of limited use.

Budget — detailed information on expected income and expenditures. A budget explanation describing how money in each line item will be used is also usually required. For example, a line item for supplies of $1,000 might include the following budget description: "purchases expendable supplies, such as paper, paint, crayons, markers, toothbrushes, disposable cups, estimated at a unit cost of $20 per child." Many funders will request a three-year projection.

Future Funding — explanation of how you will seek or secure continued funding after proposal dollars have been spent. Funders want to know that the good work they are supporting will continue. This is especially important for funders that are willing to fund start-up costs but not operating costs.

Appendix — the appendix can include supportive material, such as your organizational brochure, letters of support from parents, community leaders, and organizations, and any other pertinent information.

Putting this information together ahead of time will save you many hours of last-minute frenzy and will allow you to spend more time fine-tuning and polishing the proposal. Those last-minute "special touches" often are what makes the difference in whether a proposal gets funded.

Common Questions

Why weren't we funded?

Many organizations have asked this question time and time again. There are no easy answers. The competition for funding dollars is tremendous. There are many organizations seeking limited dollars. Your proposal may be very good, but there may have been one that was just a bit better. If you were not funded the first time around, you may want to polish up your proposal a bit and resubmit it at a later date or to a different funding source. Ask yourself the following questions:

- Was the proposal well written and easy to understand?
- Did the proposal carefully follow the outline requested in the RFP?
- Did the proposal meet the RFP page limit requirements?
- Did the proposal clearly respond to information requested for each section?
- Was financial and budget information well prepared and within the limits of the proposed funding?
- Was the proposal submitted on time?

How are proposals reviewed and scored?

To further understand why your organization may not have been funded, it also helps to have a good understanding of the review process.

Generally, most requests for proposals (RFPs) from foundations or government agencies ask for the same basic information. However, they may ask for it in a specific order or may ask you to follow a specific application process.

Most proposals generally are scored section by section. The scores for each section are totaled to create a base score. Reviewers also may have the discretion to give an overall quality score or bonus points for certain categories.

After each proposal is scored, it is then ranked with other proposals that have been through the same scoring process. The winning proposals are selected from the highest ranking scores.

Because donors want to be fair, this review process usually is rigidly controlled. Therefore, it is extremely important to present information in the format requested. If your proposal presents information in a format other than the one requested, reviewers will not know how to score it so that it is consistent with other grant proposals. Often the funding agency or foundation staff go through proposals before the review process to see if they meet format and length requirements. Those that don't follow specified guidelines generally are not sent through the review process. If you do not follow specific guidelines, reviewers may never even get to read your proposal.

Why are Requests for Proposals so complex?

All too often Requests for Proposals seem to be designed by people who take tremendous pleasure in making your life miserable. RFPs ask repeatedly for the same information in several different sections. Some of the information requested may not even seem relevant. The grant requirements may be so specific, they do not allow you any flexibility to shape your proposal to meet your real needs. Or worse, the guidelines may be so broad that it is hard to tell what types of programs will be funded.

Believe it or not, there are some valid explanations for this craziness. Sometimes funding agencies are bound by laws and regulations that require them to ask for specific information even though it may have little to do with funding your program. You also should be aware that at times reviewers may not even read the whole proposal, but rather have the responsibility of reviewing and scoring one particular section. Thus, repeated information is vital to include in required sections. Finally, many RFP authors are just poor, overworked staff with limited assistance and time to develop a well-written RFP. They do the best they can, and you do the best you can. It is just one of the facts of life for a proposal writer.

Exploring Other Resources

Child Care Financial Basics offers a starting point in your journey to develop a quality child care program. There are many other resources that will be helpful for you to read and study. Below are a few resources that will particularly helpful in the area of finance.

101 Ways to Build Enrollment in Your Early Childhood Program, Ellen Orton Montanari, 1992, CPG Publishing

250 Management Success Stories from Child Care Center Directors, Child Care Information Exchange, P.O. Box 2890, Redmond, Wash., 98073-2890, phone 1-800-221-2864

Building Links Developer Initiatives for Financing Child Care, Child Care Action Campaign, 17th floor, 330 Seventh Avenue, New York, N.Y., 10001, phone (212) 239-0138, 1993

Child Care Information Exchange, a bi-monthly journal for child care professionals published by Exchange Press, Inc., P.O. Box 2890, Redmond, Wash., 98073-2890, phone 1-800-221-2864

Financial Management for The Child Care Executive Officer, Karen Foster-Jorgensen, Early Childhood Directors Association, Red Leaf Press, phone: 1-800-423-8309, 1996

Filthy Rich and Other Nonprofit Fantasies, Richard Steckel, Ten Speed Press, 1989

Financing Child Care in the United States An Illustrative Catalog of Current Strategies. Ewing Marion Kauffman Foundation, the Pew Charitable Trusts, 1996

Guide to Successful Fundraising, Child Care Information Exchange, P.O. Box 2890, Redmond, Wash., 98073-2890, phone 1-800-221-2864

Investing in the Future: Child Care Financing Options for the Public and Private Sectors, Center for Policy Alternatives, Child Care Action Campaign, 17th floor, 330 Seventh Avenue, New York, N.Y., 10001, phone (212) 239-0138, 1993

Managing the Child Care Dollars, Gwen Morgan, Gryphon House, 1982

Nursery School & Day Care Center Management Guide. Clare Cherry, Fearon Teacher Aids, 1987

On Target Marketing: Promotional Strategies for Child Care Centers. Child Care Information Exchange, P.O. Box 2890, Redmond, Wash., 98073-2890, phone 1-800-221-2864

Reference materials

Materials used in the preparation of this publication include the following:

Managing Money as if Your Center Depended on It, Roger Neugebauer, Child Care Information Exchange, March 1986

How Centers Spend Money on Quality, J. Morris and S. Helburn, Child Care Information Exchange. July/ August 1996

Is Child Care a Good Business? by K. Stephens, Child Care Information Exchange, June 1990

Cost, Quality, and Child Outcomes in Child Care Centers, S. Helburn, editor, technical report, Department of Economics Center for Research in Economic and Social Policy, University of Colorado at Denver, 1995

The Demand and Supply of Child Care in 1990, Barbara Willer and others, National Association for the Education of Young Children, Washington, D.C., 1991

Reaching the Full Cost of Quality in Early Childhood Programs, B. Willer, editor, National Association for the Education of Young Children, phone 1-800-424-2460, 1990