Budgeting for Quality *and* Survival in the 21st Century

Guidelines for child care directors

by R. Ann Whitehead

A great deal has changed since I began my first child care center over 25 years ago, ranging from the dramatic increase in the cost of doing business to the level of intense competition many of us now experience. Running a child care program has always been a delicate balance between what we would ideally like to do and what we can actually afford based upon our financial resources. But, now more than ever before, it isn't enough to be committed to quality programs for children, we must be able to harness and utilize our financial resources wisely so that our programs can continue to survive even during difficult and uncertain times.

It is essential for directors and/or owners to create realistic goals that reflect the actual tuition income and the financial resources available. In order to maintain control of our finances, we must develop a well thought-out budget every year, and continuously monitor and revise it as we go. It is the only way to ensure we have the resources to not only maintain our priorities but to guarantee stability in our organizations. It can no longer be something we hope to get around to, budgeting must be one of our top priorities.

According to the experts, the three most important components of running a successful business or organization are the finances (our budgets and financial decisions), the operations (our programs), and sales or income (our enrollment). These three components are like a three legged-stool; any one of the legs breaks down and the entire thing topples over. Unfortunately, the financial component is the one we are most likely to put off, because we are the least familiar with this area. Many of us are in this field because we care about children and not necessarily because we are astute business people.

Establishing Your Priorities

I routinely meet with our directors and other administrative staff each month to define our priorities and then to plan how to pay for and implement them. Once a clear set of priorities are agreed upon, it's easier to recognize what options we have and what kinds of compromises we can make.

The quality of our programs is tied to the following variable expenses, which typically fluxuate with our gross tuition:

- Offering competitive wages and benefits to attract and keep good teachers.
- Providing healthy food (not just convenient snack foods) for children.
- Having well-equipped classrooms and playgrounds for a wide range of developmental activities which meet our curriculum goals.
- Maintaining our facilities so they are aesthetically pleasing as well as safe for children and staff.
- Providing training programs for our staff, including both in-house and outside workshops.

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Ms. Whitehead opened her first child care center in 1976 in Lafayette and opened a second facility in San Ramon in 1983. Her most recent project has been to establish the Hidden Canyon Elementary in San Ramon, which utilizes a modified integrated curriculum approach. In order to expand into neighboring communities, Ms. Whitehead has had to carefully budget her programs and create financial strategies to maintain an expanding educational organization.

Establishing Your Tuition Rate

Establishing your tuition rate is the beginning of that special balancing act.

It is essential to plan your tuition rates based on what it actually costs to run your program. This may sound obvious, but *many child care providers feel guilty about charging enough to pay for their true costs!*

If we don't share those costs with parents, we must cut other expenses which directly affect the children and the quality of our programs. If you offer quality programs that clearly demonstrate how they benefit children, you can usually charge enough to meet the cost of the program and still remain competitive.

The Budget Process

Establishing Your Projected Monthly Enrollment and Gross Income

Your own school's history is the best indicator for anticipating the following year's enrollment. If you are beginning a new program, check with other child care center owners and/or directors in your area about their experiences. Do not use arbitrary numbers that may not reflect the reality of your particular community.

Whatever criteria you use, it is always wise to be conservative. If you've had two great years and one marginal year, you might average the three to come up with your projected monthly tuition income. Personally, I never project a *great* year by assuming each of my schools will have peak enrollment. Instead, I prefer to be pleasantly surprised at the end of the year.

Using the Concept of Equivalent Children

We use the concept of *equivalent children* (EC) to project our tuition each month. Equivalent children is your average tuition rate divided by your actual or projected monthly gross tuition. For instance, if our tuition rate is $600 per month and I expect about $27,000 in monthly tuition, I divide the tuition income ($27,000) by the monthly tuition rate ($600), indicating approximately 45 *equivalent children*.

Budgeting Your Variable and Fixed Expenses

As I'm sure you are aware, your variable expenses are those that fluctuate, usually reflecting the changes in your gross income, such as staff wages and benefits, and materials/supplies. Fixed expenses such as lease or debt payments, utilities, and property taxes are those that remain more or less constant whether or not your enrollment goes up or down.

Variable Expenses

The variable expenses are the most important aspect of our budget, and they therefore require the most monitoring. Since many of these expenses should fluctuate with the number of children enrolled, they can be directly tied to a percentage of your gross income. Good examples are your payroll, materials/supplies, and food which ideally reflect the number of children in your program.

Since these percentages are somewhat discretionary, they should reflect your program priorities and your personal goals. If you find that you spend everything your center has earned by the end of each month, you may never create financial stability for your organization. On the other hand, to ensure quality it is necessary to spend enough to meet the needs of the children and your curriculum goals.

Tracking Actual Costs

So, after all the discussion, how do you decide what percentages to use for these various expenses? It's always important to be realistic about your current costs and your organization's goals.

Payroll costs in any program can vary widely depending upon the age groups a center serves. Infant programs have significantly higher teacher-child ratios which result in higher payroll costs, while a school-age program may have a lower payroll than a class of three- and four-year olds. Since our programs include broad age ranges, I prefer to use the average payroll of the entire program to determine my projected payroll costs.

Budgeting Your Fixed Expenses

After you have negotiated your loans, leases, and janitorial contracts, etc., it's easy to forget about your fixed expenses. However, these and other fixed expenses have a significant impact on your bottom line and should be monitored periodically along with the variable expenses.

Creating the Budget

Each new year I create projections for each month for each of my schools. I use the final year-end financial statement my bookkeeper gives me as the basis for my projections. Keeping in mind all the expected changes for both our variable and fixed expenses, such as any increases in our employee benefits and, of course, workmen's compensation, I try to anticipate the income and the expenses for each month. Our tuition usually steadily increases from January through May and begins to drop in June and continues somewhat downward during the summer, so my budgets reflect these fluctuations.

Your budget should also have columns for your projected expenses versus the actual amounts that were spent. Once the worksheet has been created with the proper formulas, it takes a relatively short time to put numbers into the computer at the end of each month. Of course, anytime you make significant changes in your expenses, you need to revise your projections.

Monitoring Your Actual Financial Statements

Accurate and Timely Financial Statements

In a labor-intensive field such as ours, where the income margins can be relatively low, it is essential to know what your income and expenses are each month (once a quarter is definitely not enough!). Around the tenth of the month, you should have a financial statement showing both your actual variable and fixed expenses for the prior month (have your accountant or office clerk do it or do it yourself). In addition, the statement should show the percentage of the gross income for each of the expenses.

Comparing and Tracking Your Variable Expenses

The variable expenses are the most important aspect of your budget and require the most attention. These are the expenses that can make or break a child care center. All your key people must understand the necessity of your budget and be aware when spending is way beyond your projected percentages.

By comparing your actual expenses with your budget, you can decide whether you need to take steps to change a troubling trend. If your payroll was significantly higher than expected, was it due to a temporary cause, such as having the flu run through your staff, or does it reflect lower enrollment than you anticipated? If this indicates a problem with low enrollment, you may have to find creative ways to lower your payroll or create a new marketing plan. It is important to recognize that any significant deviation from your budget requires your attention. Analyzing this information is absolutely essential to controlling your costs and maintaining the stability of your organization.

Tracking Your Fixed Expenses

We often have more control over our fixed expenses than we realize. It is important to consider whether loans could be refinanced for better terms or whether to pay down extra principal if you have extra cash available. One of our schools is in a leased space, and when its enrollment plummeted, I renegotiated for lower lease payments to ensure we could continue at that site.

Many of us have experienced higher insurance rates because of September 11, along with an increase in workman's compensation. It is wise to consider getting alternate bids for these items from time to time.

Monthly Income After Expenses

You should also know precisely what you have in the bank at the end of each month. Do you have enough left over to pay your quarterly income taxes and to set aside something for future expenditures? For my peace of mind, I budget both for the future as well as the present. Whenever possible, I set aside a percentage of our income after expenses for future capital improvements, such as vans, new furnaces, and unexpected contingencies. Typically, I set aside money for contingencies beginning in the fall through spring knowing that our cash flow decreases in summer months. Keeping an eye on your cash flow can also help you to create your future plans.

Comparing This Month's Actual Income and Expense With Your Budget Projections

Each month, as I plug the actual expense amounts into my projections, I can clearly see whether my budget is working. If my projections are off significantly, I will change my projections for the month or even the rest of the year. This is particularly true with the monthly gross tuition which seems to be the most difficult for me to predict, so I expect to adjust it throughout the year.

Evaluating the Item Categories

Also, if you find that certain categories in your financial statements are confusing or don't meet your purposes, it's a good idea to change the category names or add new ones.

I found that our category called "materials/supplies" was often much higher than my budgeted percentage. I discovered that my financial person was also including materials/supplies purchased with fundraiser money into this line item. This significantly distorted the percentages for which our directors were accountable. We created a new category called "special materials/supplies" which includes only items purchased with fundraiser money. Now I have a much more accurate picture of the directors' spending for their routine materials/supplies.

Conclusion

In spite of the fact that you will spend several hours each January creating new income and expense projections, in the long run it will save you valuable time and energy throughout the year. When financial challenges arise, you will have the information to make appropriate decisions quickly. By tracking and monitoring your expenses each month, it will be possible for you to ward off small problems before they become large, out-of-control problems.

You do not have to have an MBA to run a financially viable child care center, but it is necessary to have the tools to monitor your finances and to be able to make appropriate business decisions. Each time I visit a classroom and observe our teachers supporting happy children in a wide range of meaningful and fun activities, I am reminded how important our organization is to these children, their families, the teachers, and our communities. I come away with a renewed commitment to keeping our organization on a sound financial basis for today and for the future.

References

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