THE NATIONAL CENTER ON
Program Management
and Fiscal Operations

PMFO Tip Sheet

The Balancing Act: Reducing Costs While Maintaining Quality

Background and Purpose

The Budget Control Act of 2011, a series of spending cuts commonly referred to as sequestration, will cancel approximately $85 billion in budgetary resources across the federal government for the remainder of federal fiscal year 2013.[1] As a result, all Head Start, Early Head Start, American Indian and Alaska Native Head Start, and Migrant and Seasonal Head Start grants will be reduced by approximately 5 percent.

This PMFO Tip Sheet highlights a number of strategies and actions that Head Start programs can consider in meeting their required budget-reduction target, while maintaining high-quality services for the children and families they serve. The strategies range from short term to long term and include potential actions to reduce specific areas of cost, generate or leverage additional resources, and form partnerships that can help supplement the services that programs are providing—all with a focus on reducing overall costs."

Before making these important decisions about their budgets, grantees must first develop a careful process for thinking through the issues and then make only informed decisions about budget reductions.

Starting the Process

Effective decision-making requires a clear understanding of the issues involved. Grantees must consider their program's mission and vision, partners and stakeholders, and any decision's implications for the future, as well as legal and policy issues. When faced with the financial challenges caused by sequestration, grantees may be tempted to respond quickly before they know all of the facts. Taking time to understand the entire issue, to explore all feasible options, and to communicate the ultimate decisions effectively will help organizations avoid unnecessary pitfalls.

Process for Making Budget Reductions

1. **Understand the issues.**
2. **Share the issues with decision makers.**
3. **Explore options and consequences.**
4. **Make and communicate decisions.**
5. **Implement decisions and evaluate impacts.**

When OHS sends notifications for final FY 2013 budget totals, it will be important to determine what the budget translates into in terms of actual reductions for the program by looking at expenditures to date. Head Start leaders should carefully review their line-item budget to determine where they are likely to exceed budgeted amounts and where they may find cost savings. This is especially important for grantees that are in the middle of the FY 2013 budget year. Because Head Start and Early Head Start grantees have different program budget cycles, programs vary in how much time they have to implement this cost reduction. Grantees currently operating with FY 2013 funding will have their annual funding level reduced in this current

[1] Office of Head Start Program Instruction, ACF-PI-HS-13-01

budget year. Those grantees currently operating with FY 2012 funds will receive a reduced funding level at the time of their FY 2013 refunding. Some grantees will face deeper reductions across a shorter time frame, and others will have the ability to spread out the cuts over a wider span of the months remaining in their FY2013 budget year; all will need to act quickly to implement a thoughtful decision-making process.

Head Start and Early Head Start leaders should develop criteria that take into consideration the intended and unintended consequences of their budget-reduction decisions, including the impact on delivering high-quality services. Additionally, Head Start leaders need to be aware of relevant state and federal regulations, as well as state and local licensing agreements that may be impacted by budget reductions. Any strategies considered must have the support and input of the grantee's governing body and Policy Council. It is important for all leaders to remember that the federal Program Specialist must approve budget revisions and should therefore be informed and involved throughout the decision-making process.

Decreasing the length of the program year or daily hours of service may be a necessary step for grantees already well into their FY 2013 budget year, but these responses should not be seen as ongoing solutions if funding does not return to prior levels for FY 2014. Similarly, reducing t needed comprehensive services to maintain enrollment levels is not an appropriate solution. The Office of Head Start expects that, after making all possible improvements in efficiency, most grantees will need to reduce funded enrollment in order to accommodate their new funding level.

Strategies and Potential Actions to Reduce the Budget

After identifying immediate areas where budget efficiencies are possible, additional budget reductions may be needed. When considering any potential reductions, Head Start leaders should make maintaining the quality of the comprehensive services their programs provide their first priority. **The table below** provides an overview of the action steps and strategies discussed in this Tip Sheet. Short-term strategies are most relevant to grantees funded in Q1, Q2, and Q3 of Federal Fiscal Year 2013. Medium-term strategies are relevant primarily to grantees funded in Q4 of FY 2013. All programs should consider long-term strategies.

Strategies and Potential Actions for Budget Reduction

Strategy	Action	Short Term	Medium Term	Long Term
		Q1, Q2, Q3	Q4	All
AGGRESSIVELY MANAGE COSTS				
	Reduce Funded Enrollment	X	X	X
	Restructure Services			
	- Reorganize agency/centralize operations	X		
	- Reduce length of program year	X		
	Delay Purchases			
	-Leave positions vacant	X		
	-Identify nonessential purchases	X		
	Examine Contracts and Staffing Costs			
	- Consider outsourcing in-house services		X	

Strategy	Action	Short Term	Medium Term	Long Term
		Q1, Q2, Q3	Q4	All
	- Renegotiate contracts		X	
	Examine Service Usage			
	- Review transportation costs		X	
	- Examine facilities usage			X
CREATIVELY GENERATE NEW RESOURCES				
	-Meet with sponsor organization to identify resources	X		
	-Examine processes for identifying and valuing nonfederal share	X		
	-Identify foundations and/or local businesses that may contribute to the program		X	
	-Use data to communicate program impact		X	
	-Consider other funding sources that can support Head Start services			X
FORM PARTNERSHIPS				
	-Access volunteers and in-kind support	X		
	-Identify nontraditional partners		X	
	-Form partnerships to share services			X
	-Form partnerships to share administrative costs			X

Aggressively Manage Costs

Head Start and Early Head Start programs can consider a range of strategies to aggressively manage their costs. Reducing enrollment, delaying purchasing goods and services, restructuring their service delivery model, and examining the usage of transportation and facilities may be considered if these changes would not negatively affect quality, meeting community need and the enrollment and attendance of the target population.

<u>Reduce Funded Enrollment</u>

Continuity of quality services should be the focus of every Head Start/Early Head Start grantee. However, after several years of flat funding and implementing strategies to offset rising program cost, some programs' only option may be to reduce funded enrollment. Grantees should use well-developed criteria for reducing their funded enrollment, which should at a minimum take into consideration the legal, financial, and cultural implications of the decision. OHS is granting programs flexibility within this option that would include a disproportionate reduction across programs when grantees are operating both Head Start and Early Head Start. This option should be approached carefully, and any changes in service delivery should be communicated thoughtfully and in a timely manner.

Grantees should also note that the proposed reduction in enrollment slots should be commensurate with the reduction in funding. Elimination of slots from the program should be implemented through attrition and/or at a logical break in services, such as when a program option closes for the summer. No child should be suddenly displaced from the program. Through community partnerships, Head Start programs should strengthen their referral sources so that families are able to secure alternate services when Head Start/Early Head Start services are not available.

Restructure Services

- **Reorganize agency/centralize operations.** When feasible, programs have the option of reorganizing some of their operations. For example, a grantee may have several administrative staff for each of its sites. A program may consider centralizing those operations using new technology as a platform to maximize efficiency. Having one office for administrative duties may operate as effectively as having administrative staff at every site.
- **Reduce length of program year.** Programs that operate more than the minimum number of required days or weeks per year (128 days for Head Start programs operating 4 days/week and 160 days for programs operating 5 days/week; 46 weeks for Early Head Start programs) could consider shortening the number of days or weeks they operate. This would impact a number of variable operating costs, including utilities, materials, and food. Salary and benefit costs may also be reduced for part-time and hourly staff, while cost savings for exempt staff will likely depend on the employment arrangements, unemployment benefits, and staffing structure of each program.

***Use caution:** Grantees that decide to implement this reduction will want to carefully consider the potential negative impact on program quality, such as children's summer learning loss and the reduction in time available for supporting children in working toward school readiness goals. In the interest of quality in Early Head Start in particular, grantees seeking to reduce the length of the program year must consider how to spread breaks in service throughout the year rather than proposing an extended break in service. While programs needing to absorb the cut in a relatively short period of time may need to reduce days or weeks of service in the current program year, it is unlikely this option would meet community need and quality service requirements as a permanent solution.*

Delay Purchases

- **Leave positions vacant (**Q1, Q2, Q3**).** Head Start programs may be able to delay hiring new staff until the end of the budget year. Savings would include monthly salary and benefits costs as well as associated material and equipment that would have been spent to support the position.
- **Identify nonessential purchases.** Programs may consider delaying or eliminating purchases, including equipment and materials that are not essential to effectively operating the program. For example, a program that budgeted to purchase a new computer could consider whether their current computer can serve their needs for the remainder of the program year.

Examine Contracts and Staffing Costs

Reducing Costs While Complying with Head Start Regulations

While Head Start programs are given significant flexibility in how they implement their cost reduction of approximately 5 percent, programs need to be aware of the following:

- Grantees cannot redirect T/TA funding to services.
- Grantees must continue to comply with all Cost Principles and all Head Start Performance Standards.
- Grantees should be wary not to implement cuts that negatively impact their ability to provide strong financial management or compromise quality service delivery.

- **Consider outsourcing in-house services.** The cost of providing certain goods or services can vary significantly depending on whether a Head Start program hires full or part-time staff, consultants provide the services, or the program contracts with other firms to provide the services. Examples of services that programs typically contract out include building maintenance, food services, and transportation. Programs may want to re-examine these costs to determine whether to contract out or provide these services in-house by hiring full or part-time staff.

Use Caution: *When contracting for services, grantees must ensure that the services that are provided meet all provisions of the Head Start Act and requirements set forth in the Head Start Performance Standards.*

- **Renegotiate contracts** (Q4 and beyond)**.** Head Start programs will likely have contracts that are renegotiated on an annual basis. This is an opportunity to put the power of the free market to best use. Programs should ensure that, where possible, they are using procurement processes, such as issuing requests for proposal (RFP), and, at a minimum, seek quotes from multiple vendors to ensure they are getting the best value for their money.

Examine Service Usage

- **Review transportation costs.** Grantees may rethink purchasing or leasing new buses as well as staffing and usage. When considering this option, grantees should approach the decision thoughtfully by considering the families' proximity to the Head Start/Early Head Start site and how issues of proximity will impact enrollment and attendance.

Use caution: *When considering eliminating or reducing bus routes or transportation agreements, grantees should carefully weigh the impact of these changes to their Head Start/Early Head Start families. Children and families who live in rural areas or children who receive IEP services off-site may be impacted by this kind of service change, which would ultimately affect quality and enrollment.*

- **Examine facilities usage.** Facilities decisions should be based on criteria similar to those involving transportation, as well as on a review of purchasing/leasing agreements. Because of the legal implications, grantees should consult their attorney and governing body before altering the terms of those relationships.

Creatively Generate New Resources

Grantees should consider both traditional and nontraditional strategies to generate new resources to offset the budget reductions but also to support the program's goals and mission. These strategies can include securing private and public funding sources as well as boosting partnerships and services provided to the program.

Developing a Contingency Plan

Budgetary decisions that affect services will have intended as well as unintended consequences. Despite a grantee's best effort to minimize the impact on the community when reducing the budget, there will sometimes be an adverse impact for one or more of the stakeholders. Grantees should develop a back-up plan when developing a set of solutions for addressing the budget cut.

- **Examine processes for identifying and valuing nonfederal share**. Programs may be able to identify new ways to engage volunteers or in-kind donations as a way to offset the impact of the budget reduction.
- **Identify foundations and/or local businesses that may contribute to the program.** Even though most donors/funders have funding cycles with guidelines on the application process, foundation or business contributions may still be a viable option for grantees. When considering these sources, grantees will be able to leverage their Head Start/Early Head Start grant as well as other funding streams to enhance their applications. There are resources available to grantees on the Internet that identify funders in their state or community that support early childhood programs and initiatives. The link for one resource, The Foundation Center, is http://foundationcenter.org.
  Frequently asked questions about funders can be found at http://www.grantspace.org/Tools/Knowledge-Base.

Form Partnerships

Head Start leaders should look at opportunities to form or increase existing partnerships that will allow their programs to leverage additional supports and services. These partnerships may not only reduce the financial liability on the Head Start/Early Head Start grant but can potentially enhance the quality of service delivery to children and families.

- **Form partnerships to share services and administrative costs.** Sharing services with a community partner or other institution within the same organization can mitigate the impact of budget reductions. These partnerships can also strengthen a grantee's bond and visibility in a community. For example, in 2007, five human services organizations serving the greater Minneapolis area merged their administrative staff—including finance, human resources, and information technology staff—to form MACC Commonwealth, a management services organization (MSO). Leaders estimate the MSO saved the partnering organizations roughly $200,000 in the first year alone while affording them greatly improved financial and administrative services. Head Start programs across the country have started exploring options for pooling resources and sharing administrative operations.

Summary

Programs should involve stakeholders as they respond thoughtfully to the sequestration budget reductions. While they need to make many of these decisions quickly, program leaders should look beyond FY 2013 to include strategies for long-term efficiencies—and consequences—as they strive to maintain program quality. Reducing the funded enrollment numbers seems inevitable as grantees move forward, but that decision needs to be both well planned and defensible.

No matter the grantee's position in the funding cycle or the strategies proposed, ongoing communication between the grantee and assigned Regional Program Specialist is imperative.