ECI’s plan to serve large numbers of children at an average cost of $4,000 to $5,000 per child was based on a number of assumptions about the demand for and supply of ECI services. Specifically, the plan made assumptions about

- The population of children who would be served
- The mix of services (e.g., full-day versus half-day, center versus family child care) that would be requested by parents and lead agencies
- The participation of existing ECE providers

Many of the assumptions made in the original business plan turned out to be far off the mark. As a result, ECI’s enrollment grew much more slowly than expected and costs per child were dramatically higher.

This chapter argues that the assumptions of the original business plan were mistaken largely because insufficient attention was paid to issues related to demand, supply, and incentives. ECI’s planning was complicated by its collaborative nature. ECI succeeded in bringing together a diverse group of stakeholders but did not plan for the unintended consequences that can result from collaboration. ECI’s stakeholders may all have endorsed in principle the ultimate goal of long-term educational and social benefits for children and society through the provision of high-quality ECE services, but most stakeholders had other, more immediate interests as well. Parents care not only about long-term educational benefits, but also about the
safety, convenience, familiarity, and hourly coverage of ECE programs. Neighborhood agencies care about community development in their neighborhoods and about their own welfare. Providers (both center and home based) care about the resources available to them and about the burdens of affiliating with ECI. And the state and its welfare department care about promoting additional public priorities, such as controlling the cost of service, providing incentives for low-income parents to work, and permitting parents to choose their children’s ECE providers. Table 4.1 summarizes these interests.

In practice, the interests of parents and neighborhood agencies combined to create a demand for the most expensive variety of service contemplated in the original business plan: full-day ECE services in newly established centers. Meanwhile, the supply side of the equation looked dramatically different than expected, in part because many existing providers (especially home-based providers) perceived the costs of joining ECI as greater than the benefits.

ECI’s failure to anticipate the likely desires of parents is especially striking. Although ECI’s planners were strongly committed to grassroots, community-level decisionmaking, they did not fully appreciate that decisionmaking in ECE is in fact decentralized even below the community level: The most important decisionmakers are

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<th>Stakeholder Interests with Respect to ECI</th>
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<td><strong>Stakeholder</strong></td>
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<td>All stakeholders</td>
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<td>Parents</td>
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<td>Neighborhood agencies</td>
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parents. Parental desires must be accounted for by any ECE initiative.

In this chapter, we explore how demand and supply forces diverted ECI from its original aim of providing a wide array of relatively inexpensive services with a primary emphasis on education into an umbrella for high-cost, full-day ECE programs largely delivered in new centers. We look at the potential providers of ECI services and how the business plan’s incentives drove up costs and created confusion and disappointment in the neighborhoods. (Chapter Six addresses ECI’s relationship with the state welfare department and other state actors.)

WHO WOULD ECI SERVE?

The ECI business plan targeted children in low-income neighborhoods who were not currently served in subsidized ECE programs. But ECI was unrealistic about its ability to exclude those who did not meet its eligibility criteria.

ECI’s original business plan and its early operational implementation created considerable confusion about eligibility criteria, excluding many possible participants. The initial plan suggested that, among the children in the 80 at-risk neighborhoods, ECI would target “unserved” children—i.e., those not already in existing child-care arrangements subsidized by either the government or UW. ECIM initially tried to exclude children who were already receiving some form of registered or licensed care and to forbid eligible children from enrolling with ECI providers outside of their home neighborhoods. Although these restrictions were eventually lifted, they at first limited the number of children served and caused confusion among lead agencies and providers.

ECI’s desire not to subsidize children who were not in need of its services is understandable. According to our interviewees, however, most of these “already served” children were not in high-quality programs (as defined by ECI standards) and presumably stood to benefit from ECI services. Indeed, ECI center directors and lead agency administrators heard from several parents who wanted to move their children to ECI programs because of the apparently higher-quality care offered. Politically, excluding “already served” children was
The inability to exclude ineligible children did not in itself undermine ECI’s viability. It is possible, however, that it reduced the total social benefit of the program. ECI aimed to serve children who were most in need of high-quality ECE services. The social benefit produced from serving a child who would have received high-quality services elsewhere is lower than that produced from serving an unserved child. The targeting of services exclusively to children most in need may be impossible, particularly in community-based programs.

ECI’s difficulty in targeting its services points to the fact that parental demand influences the population of children served by an ECE initiative. Demand is relevant not only to the population that will be served, but also to the kind of services demanded. The families that were actually served by ECI, whether initially “eligible” or not, were inevitably those with the greatest demand for ECE services. As we discuss next, the ECE services demanded by parents were largely full-day programs, and lead agencies sought to fulfill those demands largely in new child-care centers.

WHAT SERVICES WOULD BE REQUESTED BY PARENTS AND LEAD AGENCIES?

Service Mix and Costs

As noted in Chapter One, a key reason that ECI failed to achieve its scale and sustainability goals was that costs per child were three times as high as expected: $13,612 in 1999, compared with $4,407 expected in the original business plan. (The methods and assumptions we used for calculating these and other financial figures are described in the Appendix.) In Chapter Three, we demonstrate that an underestimation of administrative costs was partly responsible for this difference. Here we show that the specific mix of services provided under ECI also made an important (indeed, larger) contribution to the difference between expected and actual costs.

ECI’s business plan encompassed a variety of different ECE services, ranging from part-day, Head Start–like enrichment and literacy programs, to full-day, center-based care and education. These different
programs had widely varying price tags. The expected average cost was $4,407 per child per year (in year three of implementation), but this figure included services that were expected to range in cost from $1,728 at the low end to $8,560 for full-day, center-based care. In consequence, the mix of services provided was a critical cost driver for ECI.

Because ECI targeted unserved children, planners believed that most of the children would come from single-parent families that were receiving welfare benefits (originally AFDC, later TANF). They assumed that the children were presently unserved because their parents were not working and were caring for them at home. ECI planners thus believed that part-day services would be sufficient to meet the needs of these children and their parents. Specifically, the business plan assumed that 71 percent of participating children would enroll in part-day programs, with the remainder in full-day programs in either homes (18 percent of the total) or centers (11 percent of the total). In fact, most children who were ultimately served by ECI were in full-day, center-based care—the most expensive variety of service in the original ECI business plan. In 1999, virtually all ECI children were in full-day programs: 68 percent in new centers, 23 percent in existing centers, and 9 percent in family child-care homes.

We did a cost simulation to demonstrate the importance of the service mix to the average cost per child. Using the original business plan’s estimates of the cost of each variety of service, we simulated how the shift from the projected service mix to the actual service mix would have raised the average cost per child, holding other factors constant. If ECI had correctly anticipated the distribution of services across types (e.g., part-day early literacy programs, full-day service in new centers, full-day service in existing family child-care homes), then, using its own assumptions about the cost of each particular type of service, its projected cost per child in year three (1999) would have risen from $4,407 to $7,961, an increase of 81 percent. In other words, even if ECI’s only mistake had concerned the mix of services provided, its cost per child would have been 81 percent higher than the business plan anticipated. (Other mistaken assumptions raised costs still further, as is discussed in detail later in this chapter and in Chapter Five.) In short, one major reason that ECI cost more per child than expected was that ECI provided more-intensive services (on average) than expected.
The Demand for Full-Day Care

The shift from part-day programs in the business plan to full-day programs in reality caused a substantial increase in costs. Here we explore why the business plan erred about the mix of programs that would be desired by families.

ECI assumed that most of the targeted children would need only part-day services because most of the children’s mothers were not working full-time outside the home. But ECI underestimated the proportion of participating children whose mothers were in the workforce. Nationally, as the economy improved between 1992 and 1996, the proportion of single women with children ages five or younger in the labor force increased from 46 percent to just under 60 percent. Employment demands often require parents, especially single parents, to find full-day care for children. The Urban Institute (Ehrle, Adams, and Tout, 2001) found that 60 percent of children ages zero to three with single parents who work are in full-day care. Another study (Smith, 2000) estimated that in 1995, children under age five with a single parent who worked or attended school spent an average of 35 hours per week in nonparental child care (see also Hofferth et al., 1998). Interview respondents familiar with local Head Start programs pointed out that in the early and mid-1990s, program staff noticed that many eligible parents were not enrolling their children because the half-day program schedule conflicted with parents’ full-day work schedules. This problem was evident in Head Start centers across the nation (Besharov, 1996; Zigler and Muenchow, 1992).

With welfare reform, the demand for full-day care grew. Welfare reform accelerated the trend of putting mothers into the paid labor force: By 1998 (the latest year for which data are available), the proportion of single mothers with children under six who were working had climbed to 67 percent (Blau, 2001). In Pennsylvania, the number of families receiving TANF (formerly AFDC) dropped by 50 percent between 1994 and 1999 as women moved into the workforce (Committee on Ways and Means, 2000, Table 7-5). A recent study of mothers making the transition from welfare found that many mothers with part-time jobs relied on full-day care. The researchers speculate that this was due to mothers’ difficulty in matching their work schedules with child-care schedules (Fuller and Kagan, 2000).
Welfare reform should not have come as a surprise, however. Pennsylvania’s welfare-reform legislation passed in mid-1996, at the end of the ECI planning period but a month prior to the approval of the business plan by the UW board. Indeed, several ECI planners told us that during the planning phase (from late 1994 until UW approval of ECI implementation in June 1996), they knew that welfare reform was coming, although they were uncertain of what the implications would be for recipients’ child-care needs. The plan did not include any analysis of how sensitive its projections were to this uncertainty.

In summary, welfare reform contributed to the higher-than-expected demand for full-day services, but it should not have come as a complete surprise. Moreover, it was not the only or perhaps even the primary reason that the business plan’s projected service mix was so far off. There is good evidence that many parents wanted full-day care even prior to welfare reform. And parents who had the greatest need for child care were probably the ones who were most likely to seek out ECI’s services. Moreover, a parental preference for full-day care is unsurprising if parents are given a choice of full- or part-day care and both options are largely or entirely subsidized. Large numbers of parents—whether low- or high-income, employed or not—are likely to prefer more hours of child care and education if it is offered at little or no additional cost. This is essentially the choice that ECI offered.¹

**Incentives to Neighborhood Agencies**

The reaction of neighborhood leaders to the choice offered by ECI should have been as predictable as the reaction of parents. ECI’s promise to neighborhoods that they could “dream big” gave the communities every reason to ask for the best, most-expensive services on the menu. Such services were consistent with the desires of the parents who were the lead agencies’ constituents, and were also likely to promote the largest amount of development in the neighborhoods and greatest benefits for the agencies themselves, particu-

¹ECI did charge parents weekly fees that were somewhat higher for full-day care than for part-day care. But even these higher fees were minimal (ranging from $5 to $30 per week for a family of three with an annual income at or below the poverty level). For many children, ECI paid 90 percent or more of the total cost of care.
larly if they included major capital investments for new child-care centers. This point is not a criticism of the lead agencies or other neighborhood leaders. Their mission is to serve their neighborhoods, their constituents, and the interests of their agencies. It was entirely reasonable for them to attempt to bring the largest amount of resources possible into their neighborhoods and agencies. But ECI’s planners should have expected this when they gave the neighborhoods a menu of options from which to choose, especially given that ECI actively encouraged the neighborhood groups to plan ambitiously.

This effect was apparent not only in the shift from part-day to full-day programs, but also in neighborhood requests for capital funding. ECI approved an expensive, high-profile capital investment for a new child-care center in one of the early neighborhood plans. Not surprisingly, many other neighborhood planning groups also wanted major infrastructure investments. It soon became clear, however, that ECI could not afford the same level of investment in every community. Realizing that the cost of building and renovating new centers was greater than anticipated, ECIM (under pressure from UW management) began to restrict the amount of funds provided for capital projects.

More generally, ECI funds were invested in a variety of ways, and it is not obvious that investment decisions were made with a clear sense of strategic priorities. ECI was inconsistent in what it agreed to fund from one community to the next, partly as a result of disagreements between ECIM and UW, and partly as a result of growing recognition about the need for cost control. Funding decisions were typically based on individual negotiations with each lead agency, but inconsistencies across neighborhoods left some lead agencies disappointed that their “big dreams” could not be realized.

The incentives that ECI created for neighborhood agencies were problematic not only in the planning process, but also in operations. Until the last few months of ECI’s existence at UW, funding was provided to lead agencies and providers on a line item basis, rather than a per-child capitated rate. Although an initial infusion of funds was necessary to begin lead agency operations when new providers were being created, the continued use of line item funding had two unfortunate effects. First, it meant that ECIM had to closely scrutinize lead
agency budgeting, creating a substantial administrative burden for ECIM and increasing friction with the lead agencies. Second, it meant that lead agencies had little incentive to find ways to reduce costs. This was true in lead agency interactions with contracted ECE providers as well: In their relations with contracted providers, lead agencies were simply passing along funds provided by ECI, and they therefore had little reason to drive hard bargains with providers whose success they hoped to promote.

ECI might have avoided these problems, and thereby reduced costs, if it had had an investment plan that sent clear signals and appropriate incentives to lead agencies and providers. Two other directions might have been considered. One possibility would have given more real discretion to the neighborhood agencies to design their programs while placing clear limits on the amount of funding that would be provided. Alternatively, ECI might have defined the service options more narrowly and more explicitly.

Unfortunately, ECI’s original business plan did not provide a compelling explanation for offering a wide variety of service options at a wide variety of costs. The plan argued that high-quality ECE services would produce long-term cost-benefit advantages and simply assumed that the $2,000 services received by some children would be equivalent to the $9,000 services received by others. Parents and neighborhood agencies, however, recognized that the services were in fact quite different; not surprisingly, they chose the highest-intensity, most-expensive services.

WHO WOULD PROVIDE ECI SERVICES?

The surest way to enroll large numbers of children rapidly is to go where they are, making maximum use of existing ECE providers. Although the business plan expected that many existing providers would become ECI providers, in practice many were left out. Existing providers did not participate in ECI for three reasons:

- ECIM believed that many existing providers operated at so low a level of quality that they were incapable of providing high-quality services.
• Some community planning groups chose to exclude existing providers.
• Some existing providers chose not to participate because they considered the quality standards and monitoring process too intrusive.

In short, the goal of serving large numbers of children was in tension with both ECI’s quality standards and enforcement and its desire to promote community control.

Both providers and community representatives (e.g., lead agency directors and administrators) told us that ECIM discouraged them from including some existing providers in their plans. As a result of early inspections, ECIM concluded that quality in some established child-care centers was so low that it would be better to establish new, high-quality child-care centers. In some instances, initial inspections by ECIM uncovered substantial violations of state licensing requirements. Rather than work with these providers to improve, ECIM encouraged community groups to focus on creating new programs.

Meanwhile, many lead agency directors were happy to start new ECE services. Simply increasing capacity was an important goal in some neighborhoods (as in Braddock, for example, which lacked center-based care of any kind). And the creation of new centers gave a number of lead agencies the opportunity to expand the scope and reach of the services provided by their agencies. Moreover, many had doubts of their own about the quality of existing centers in their neighborhoods.

The judgment of ECIM and some community planning groups that existing providers could not provide high-quality care may have been correct.2 But even if new providers under the supervision of ECIM and lead agencies could provide higher-quality care than existing providers could, bypassing the existing providers dramatically reduced ECI’s ability to reach large numbers of children quickly. It may also have raised the capital costs of the initiative.

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2Because an assessment of service quality was not within the scope of our study, we make no judgment on this issue one way or the other.
New Providers and Capital Costs

ECI’s focus on creating new providers meant that physical facilities needed to be found. Unfortunately, many of the neighborhoods lacked adequate, code-ready space. In the first three years of implementation (the only years for which we have complete data), capital expenditures accounted for about 24 percent of the total spent, substantially above the 17 percent that had been budgeted for the first three years in the original business plan. Amortized capital costs amounted to $697 per child in 1999, compared to $155 per child in the original plan.

Nearly all of the difference between planned and actual capital costs is explained by the shift to full-day, center-based services. A simulated model, showing ECI’s estimated costs using the actual service mix and the business plan’s estimates of the cost of each kind of service, shows that capital costs would have been predicted to reach $642 per child. (Again, details can be found in the Appendix.) That is, it appears that ECI’s planners did not dramatically underestimate the capital cost associated with opening new centers. The capital cost per child was higher than expected largely because a high proportion of children were in new centers. Greater use of existing centers might have reduced the total capital cost.

New Providers, Line Item Funding, and Fixed Operating Costs

Extensive reliance on new centers also meant that ECI had to endure the high costs of the startup period, when center staff had to be employed but enrollment was relatively low. More generally, ECI’s original business plan made the mistake of assuming that children in centers that were less than fully enrolled could be served for the same cost per child as those in fully enrolled centers.

The business plan assumed that, within a particular class of service, the cost of serving the first child enrolled in a center was the same as the cost of serving the last child enrolled. In other words, the plan assumed that all operating costs of a center were variable rather than
fixed. Such an assumption might be reasonable for pre-existing centers, where, rather than providing line item funding for all operational costs, ECI intended to provide a capitated reimbursement amount for each ECI child served. It would also be reasonable for family child-care homes, which hire no employees and which were given the same amount of funding for each child.

In fact, however, the great majority of ECI children were served in newly established centers. Capitated funding would have been unworkable for new centers, which need to hire staff prior to enrolling their first children. Indeed, according to several lead agency administrators and providers whom we interviewed, ECIM required them to hire a full staff of caregivers before a single child was enrolled. Recognizing that this required up-front funding, ECI provided line item funding for salaries and other operational expenses in new centers. According to our interviewees, salaries and benefits constituted the overwhelming majority of operational expenses. But this meant that, in practice, the operating costs of the centers were largely fixed, regardless of the number of children served. In consequence, the cost per child was not the same for all children: the lower the number of children enrolled in a program, the higher the cost per child.

Indeed, fixed costs are a problem not only for newly opened centers, but for all centers that operate at less than 100 percent of capacity. Providers cannot prorate the pay of their employees based on the number of children served. If a classroom is a few children short of capacity, a center still has to pay a teacher. ECI’s staff-to-child ratio and maximum group size requirements further constrained programs’ ability to vary operating requirements according to the number of children enrolled.

Lacking direct experience in the business of ECE, ECI’s pro bono consultants who assisted in the development of the business plan did not recognize that child-care center costs are largely fixed. The business plan recognized that enrollment in new centers would grow gradually over time, but it mistakenly assumed that cost per child was independent of enrollment. The plan’s estimates of cost per

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3By contrast, the business plan recognized that capital costs were fixed for each center.
child were built on models of fully enrolled centers, but actual cost per child in centers that were less than fully enrolled was necessarily higher. In the real world, most centers do not operate at 100 percent of capacity. When ECI centers opened, enrollments grew gradually over time and in most cases never reached 100 percent of capacity. (In 1999, average enrollment at ECI centers over the course of the year was 72.6 percent of capacity; this figure was increasing over the course of the year.) As a result, operating cost per child was higher than projected in the original business plan. The fault here lies not with the lead agencies or the providers, but with the variable-cost assumption of the original business plan, which was not realistic. In Chapter Five, we estimate the magnitude of the effect of this assumption on ECI’s costs.

ECI and Family Child-Care Providers

A final reason that ECI relied largely on new providers was that some existing providers opted not to participate. According to our interviewees, some existing child-care centers perceived that the burdens of conforming to ECI quality standards, submitting to regular inspections, and adhering to requirements for staff qualifications and compensation were not worth the rewards of participating in ECI. While this was a problem for enrolling child-care centers, it was even more of an obstacle to enrolling family child-care providers.

ECI’s original business plan assumed that, among children in full-day programs, more would be enrolled in family child-care than in centers. ECI’s desire to include family child-care providers was based on an accurate understanding that they constitute a large part of the child-care market in low-income neighborhoods. Evidence suggests that a large proportion of parents with low incomes or little education prefer informal forms of care, such as relatives’ and neighbors’ family child-care homes, many of which are unregistered. Anderson and Levine (1999, p. 9) found that “children of less-skilled mothers are more than twice as likely to be cared for by a relative than children of the most-skilled mothers.” Similar conclusions were reached in a recent study by researchers at the Urban Institute (Ehrle, Adams, and Tout, 2001). Recognizing this, ECI hoped to enroll a substantial number of family child-care homes. ECI’s planners
anticipated that 132 family child-care providers would serve 528 ECI children in 1999.

Several community planning groups attempted to recruit unregulated family child-care homes. But getting these providers to attend meetings or express an interest in ECI was difficult. According to several of our interviewees, some unregulated providers initially considered becoming ECI providers but lost interest once they learned that they would be subject to regular home inspections and observations by quality assurance monitors. The first step toward becoming an ECI provider involved registration with the state, which many family providers apparently wanted to avoid. It is widely believed that many unregulated providers do not report their income to tax authorities, which they would have to do if they became registered.

To participate in ECI, family child-care providers were required to complete a 50-hour pre-service training course and to obtain 24 hours of additional training each year. As a family child-care provider, simply finding the time to complete the training requirements would be a challenge. Some family child-care providers (or residents interested in becoming family child-care providers) started ECI’s pre-service training program but dropped out before completing it. Others completed their training but dropped out during the next phase of the process, when ECI staff would have inspected their homes and developed a plan for needed improvements. Still others dropped out after ECI had purchased equipment, curriculum materials, or home improvements for them.

The result of ECI’s efforts to enroll family child-care providers is not encouraging. As of August 2000 (a month after the full initiative formally ended), 128 individuals had participated in ECI’s pre-service training for family child-care providers; 99 had completed the training; 45 had registered with the state; and only 24 were actively participating in ECI, serving just 68 children.4

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4Some who completed the family child-care pre-service training ended up being hired by ECI centers to fill direct caregiving staff positions. Nonetheless, the majority of those trained did not stay with ECI in any capacity. Many of the community representatives that we interviewed believe that most of these individuals are caring for children in their homes. It is possible that, because of their ECI training, they are providing a higher quality of care than they would have otherwise.
ECI’s inability to enroll substantial numbers of family child-care providers inevitably reduced its reach. While ECIM did not assume that high-quality services had to be delivered in centers, the great majority of its capacity was in fact center-based. Many parents, however, strongly prefer that care be provided either by someone the child and family already know and trust (e.g., a relative or neighbor) or in an environment similar to the child’s own home, as opposed to a structured, center-based environment with highly trained caregivers (Brown-Lyons, Robertson, and Layzer, 2001). Indeed, for many parents, “quality” care may be defined in terms of the familiarity and intimacy of a family child-care environment. The new centers that were offered by ECI may not have appealed to parents who were content with existing family-care arrangements.

In fairness to ECI, we know of no program that has solved the problem of getting substantial numbers of unregulated family child-care providers to join a high-quality, regulated system. Many ECE initiatives simply ignore family child care entirely. Although ECI did not solve the problem, its plan at least recognized that family child care is in fact an important component of the ECE market. Unfortunately, it did not recognize the extent to which family child-care providers would be deterred by the perceived barriers and costs of participating in ECI.

The Supply of Qualified Labor

Several lead agencies and providers had difficulty finding and retaining center and classroom staff that met ECI’s minimum qualification standards. Nearly all community stakeholders we interviewed spoke of this problem, which was a challenge with respect to both center staff and lead agency quality monitors (who were expected to have a master’s degree in early childhood or child development). Even though compensation for staff in ECI centers was higher than that of typical child-care and early-education workers, ECI centers still had difficulty competing with school districts for qualified staff. In September 1999, teaching staff at several ECI centers left for

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5Family child-care providers were exempt from ECI’s minimum staff qualification requirements. ECIM recognized that most of these providers would have little formal education beyond high school.
teaching positions at area schools. In some centers, positions went unfilled for long periods. To a certain extent, this problem was heightened by ECIM’s requirement that lead agencies and providers look first to the local community for staff. Over the course of the initiative, lead agencies and providers found it increasingly difficult to find local applicants who met ECI’s minimum education requirements. ECI’s compensation standards also created problems for some lead agencies, which found themselves in the awkward position of having to provide a benefit package to their ECI staff while not doing so for staff in non-ECI programs.

CONCLUSION

ECI was undermined by demand and supply forces that dramatically changed the course of the initiative. In particular, the children served, the services provided, and the service providers differed substantially from what the original business plan had expected. Most notably, ECI shifted from an intended focus on low-cost, part-day preschool services to an actual service menu dominated by high-cost, full-day child-care centers. The changes in the service menu and other problems related to demand, supply, and incentives were at least partly attributable to oversights and flawed assumptions in ECI’s original business plan. The following chapter explores how those oversights and flawed assumptions affected ECI’s costs.