

# Modeling Child Care Center Costs and Revenues in Louisiana UPDATED TO REFLECT CHANGES DUE TO COVID-19 PANDEMIC April 2020



## OVERVIEW

The Louisiana Policy Institute for Children (LPIC) developed a cost model for early care and education centers in Louisiana in Winter 2018/19. To develop the model, LPIC interviewed eight quality early care and education providers in East Baton Rouge, Jefferson, Lafayette, Orleans, and Rapides parishes in summer/fall 2018 to learn more about actual costs and expenditures. Of those, five providers were also able to provide information about revenue sources. The resulting cost model showed not only the importance of enrollment rates and center size on providers’ bottom lines, but a more accurate accounting of the true cost of quality, which is often driven by lower teacher-child ratios. See the Appendix for more information about the actual costs and revenues of interviewed providers that informed the development of this initial cost model.

In light of the changing operating parameters for early care and education centers due to the COVID-19 pandemic, LPIC updated the cost model to reflect the new realities facing early care and education providers as a result of the pandemic.

## UPDATED COST MODEL FOR QUALITY CENTERS TO REFLECT CHANGES RESULTING FROM COVID-19 PANDEMIC

Two of largest changes facing early care and education providers in the time of the COVID-19 pandemic are restricted group sizes, which result in lower teacher-child ratios, and increased need for cleaning supplies and personal protective equipment. With the uncertainty around when, or if, the pandemic will end and group size restrictions will be lifted, these changes are likely to remain in place for early care and education providers for the foreseeable future, even as the economy reopens. As such, these factors will continue to impact cost efficiency for early care and education providers, and influence the financial viability of the sector as a whole.

### *Changes to Group Sizes and Ratios, Resulting in Lower Enrollment Capacity*

In response to the COVID-19 pandemic, Governor John Bel Edwards issued executive orders limiting group sizes to no more than 10 individuals, first effective on March 23, 2020. As a result, the Louisiana Department of Health (LDH) issued guidance on March 23, 2020, for early care and education providers to limit child and staff group sizes to no more than five for infants, and no more than 10 for all other ages. These group size limits are inclusive of teachers, and effectively lower the maximum teacher-child ratios for early care and education providers for most age groups.

**Table 1: Teacher-Child Ratios and Maximum Number of Children in a Classroom Before COVID-19 Pandemic**

Child Age	LA Licensing Minimum Requirements (Type II/III)		Average for Interviewed Providers (Quality Centers)		Early/Head Start		Caring For Our Children National Recommendations	
	Ratio	Max Child	Ratio	Max Child	Ratio	Max Child	Ratio	Max Child
Infants	1:5	15	1:4	8	1:4	8	1:3	6
1-Year-Olds	1:7	21	1:5	10	1:4	8	1:4	8
2-Year-Olds	1:11	22	1:7	14	1:4	8	1:4	8
3-Year-Olds	1:13	26	1:10	20	1:8	17	1:7	14
4-Year-Olds	1:15	30	1:11	22	1:10	20	1:8	16

**Table 2: Resulting Teacher-Child Ratios and Maximum Number of Children in a Classroom from LDH Guidelines Regarding Group Size in Response to COVID-19**

Child Age	Adjusted LA Licensing Minimum Requirements, Based on LDH Guidelines (Type II/III)		Adjusted Quality Provider Actual Averages, Based on LDH Guidelines		Caring For Our Children National Recommendations	
	Ratio	Max Child	Ratio	Max Child	Ratio	Max Child
<b>Infants</b>	1:4	4	1:4	4	1:3	6
<b>1-Year-Olds</b>	1:7	7	1:5	5	1:4	8
<b>2-Year-Olds</b>	1:9	9	1:7	7	1:4	8
<b>3-Year-Olds</b>	1:9	9	1:9	9	1:7	14
<b>4-Year-Olds</b>	1:9	9	1:9	9	1:8	16

Under the LDH guidelines, teacher-child ratios are effectively reduced by anywhere from one to six children. The group size restrictions also effectively reduce the maximum number of children allowed in any classroom by at least half in most cases, resulting in lower enrollment capacity across the entire center. For example, previously under Louisiana licensing minimum requirements, a provider could have one classroom for 2-year-olds with up to 22 children and two teachers. Now, under the revised group size restrictions, one classroom for 2-year-olds could have up to nine children and one teacher, or up to eight children and two teachers. The updated cost model includes two scenarios reflecting these teacher-child ratios adjusted for the LDH guidelines regarding group sizes — one for the maximum allowed ratios under Louisiana licensing regulations and another for the adjusted ratios based on actual averages from interviewed quality providers.

***Increased Needs for Cleaning Supplies and Personal Protective Equipment***

Guidance from the Louisiana Department of Health and Centers for Disease Control and Prevention recommends additional cleaning and use of personal protective equipment in early care and education centers. This includes more frequent disinfecting of common-touch surfaces, staff wearing face masks and gloves, and more frequent hand washing. These increased needs are incorporated into the cost model as 20% increases in maintenance/repair/cleaning and office supplies costs.

**Table 3: Updated Louisiana Child Care Cost Model Annual Per Child Costs (COVID-19 Related Changes)**

Child Age	Sample Center with Revised Teacher-Child Ratios, 20% Increase in Cleaning/PPE Costs, 100% Enrolled		Louisiana Child Care Tuition Rates Statewide (2017 Market Rate Survey)	Louisiana Child Care Assistance Program Reimbursement Rate (Effective Fall 2019)
	Adjusted LA Licensing Minimum Requirements, Based on LDH Guidelines (Type II/III)	Adjusted Quality Provider Actual Averages, Based on LDH Guidelines		
<b>Infants</b>	\$15,277.67	\$16,236.04	\$8,580	\$6,500
<b>1-Year-Olds</b>	\$11,919.92	\$14,669.09	\$8,060	\$6,175
<b>2-Year-Olds</b>	\$10,925.03	\$12,878.29	\$8,060	\$6,175
<b>3-Year-Olds</b>	\$10,925.03	\$11,883.40	\$7,800	\$5,720
<b>4-Year-Olds</b>	\$12,580.70	\$13,539.06	\$7,800	\$5,720

**Table 4: Difference in Per Child Costs Between Initial Cost Model and Updated Cost Model**

Child Age	Initial Cost Model, Quality Centers, 100% Enrolled	Updated Cost Model, Revised Teacher-Child Ratios, 20% Increase in Cleaning/PPE Costs, 100% Enrolled	
		Adjusted LA Licensing Minimum Requirements, Based on LDH Guidelines (Type II/III)	Adjusted Quality Provider Actual Averages, Based on LDH Guidelines
Infants	\$12,010.19	+ \$3,267.49	+ \$4,225.85
1-Year-Olds	\$10,662.56	+ \$1,257.36	+ \$4,006.52
2-Year-Olds	\$9,122.42	+ \$1,802.61	+ \$3,755.87
3-Year-Olds	\$7,967.31	+ \$2,957.72	+ \$3,916.08
4-Year-Olds	\$8,399.61	+ \$4,181.09	+ \$5,139.46

**Key Takeaways & Findings**

- **With new ratios, current reimbursement rates are substantially insufficient:** Reimbursement rates for state programs, including the Child Care Assistance Program, would cover approximately 40% to 55% of per child costs at quality providers operating under revised teacher-child ratios due to COVID-19 and related government guidelines. These gaps will further put quality, reliable early care and education out of reach for many working families, including those essential to keeping the economy moving.
- **Maximizing enrollment is even more important:** Prior to COVID-19, enrollment rates already significantly impacted cost efficiency for providers, often making the difference between breaking even or turning a small profit and financial insolvency. With teacher-child ratios and maximum group sizes further reduced and the same amount of space available to providers as before, providers are faced with spreading the same fixed, noninstructional costs across lower enrollments, driving up overall per child costs.
- **Without additional revenues, many providers will be unable to survive financially:** To operate within the revised ratios resulting from the COVID-19 pandemic, many providers will need to balance covering costs with what families can afford. Prior to COVID-19, the annual cost for quality, reliable early care and education was already almost that of college tuition. Now, early care and education tuition rates will outpace college tuition rates and likely price out many working families in need of early care and education in order to work all together. This reality may drive some providers to closure rather than run the risk of carrying large losses.

**RECOMMENDATIONS**

Based on updated cost model, the Louisiana Policy Institute for Children recommends the following actions to address issues around affordability and access for both families and providers in the era of COVID-19.

- **Revamp the early care and education funding system to be more sustainable for families and providers:** Prior to COVID-19, the funding system for early care and education already left many working families without access to child care options that were high quality, reliable, AND affordable. At the same time, the system left most early care and education providers barely breaking even, if they were making a profit at all. With the operating cost realities facing early care and education as a result of COVID-19, the sector now more than ever would benefit from a revised funding system that not only enables working families to access high-quality, reliable, and affordable early care and education, but also treats early care and education as the essential industry that it is. This would include, at minimum, a consistent dedication of state and federal funds, as well as policies to incentivize the addition of local and employer funds, to support the working families that form the backbone of the state economy.

- **Increase all reimbursement rates, especially for infants and toddlers:** With increased per child costs as a result of the COVID-19 pandemic, the gap between reimbursement rates and providers' actual costs is even greater than before. For infant and toddler care especially, costs in quality programs are nearly double the current CCAP reimbursement rate, placing quality care out of financial reach for many Louisiana families. The high costs can also be prohibitive for early care and education centers that opt to not serve our youngest children rather than run the risk of losing money, further reducing the options available to families. Increasing reimbursement rates to better align with actual tuition rates and costs will increase access for families, especially to quality slots, both financially and in availability.
- **Increase use of shared services and other supports to effectively increase center size:** Data from the actual providers and the costs model show that center size matters, especially around efficiency for non-instructional costs, and even more so with the revised group size limitations. Small centers often manage operational needs at similar costs to larger centers, which has a greater impact on their bottom lines. Spreading operational and fixed costs over larger enrollment would reduce per child costs and increase net revenues for centers. Now may be the time to bring together early care and education centers with family and in-home providers to further explore banding together to benefit from larger economies of scale.
- **Improve Louisiana's current Early Childhood Coordinated Enrollment System to accurately capture vacancies in child care programs, as is done now for publicly funded pre-k and Head Start/Early Head Start programs, to provide families with a single, comprehensive resource and facilitate full enrollment in all programs:** Families seeking early care and education for their young children may have multiple options available to them; however, it is not always easy to find available spots in child care. While availability in public programs like Head Start and LA4 are accessible to families from a single source under the current Early Childhood Coordinated Enrollment System, availability in publicly funded early care and education programs is not part of this system. Parents often must contact individual early care and education centers to determine availability. This can be a time consuming, and even daunting, task for families. In addition, the current system places private providers at a disadvantage when competing with LA4, NSCED, and Head Start/Early Head Start for enrolling children. Given that lack of 100% enrollment is a big cost driver for early care and education providers, this further compounds the high cost per child for public dollars in the Child Care Assistance Program, as well as parents paying tuition.

## APPENDIX

### DEVELOPING THE INITIAL COST MODEL (WINTER 2018/19)

#### ACTUAL COSTS & REVENUES AT QUALITY CHILD CARE CENTERS

All eight interviewed providers received a rating of Proficient or higher in 2017-18, including one rating of Excellent and five that would fall in the newly created High Proficient range. Compared to the 17% rate of all Type III centers earning a rating of High Proficient or Excellent, this sample focuses on higher performing providers.

For interviewed providers, center size ranged from 42 to 165 children, with enrollment rates between 57% and 100%. These centers serve children of all ages, with many receiving funds from at least one public program — LA4 (1 provider), NSECD (2), PEG (3), Early/Head Start (2).

Average salaries at interviewed providers were \$25,099 for lead teachers — about half of the average salary of a K-12 teacher — and \$18,406 for assistant teachers. As with many child care centers, interviewed centers provide minimal benefits to staff, typically only paid holidays and vacation days. Three of the centers are able to provide medical coverage to staff. Salaries and benefits are a reflection of centers' bottom lines. All interviewed providers want to be able to increase teacher salaries, however, most cannot afford to at this time.

**Table A1: Teacher-Child Ratios in Cost Model Centers**

Child Age	LA Licensing Minimum Requirements (Type II/III)	Average for Interviewed Providers (Quality Centers)	Early/Head Start	Caring For Our Children National Recommendations
Infants	1:5	1:4	1:4	1:3
1-Year-Olds	1:7	1:5	1:4	1:4
2-Year-Olds	1:11	1:7	1:4	1:4
3-Year-Olds	1:13	1:10	1:8	1:7
4-Year-Olds	1:15	1:11	1:10	1:8

Average per child costs ranged from over \$11,000 for infants to over \$8,000 for 4-year-olds. These costs largely reflect lower teacher-child ratios and enrollment rates. To maintain program quality, many interviewed providers operate with teacher-child ratios lower than state regulations mandate, requiring providers to hire additional teachers and operate in larger facilities. Interviewed centers with less than full enrollment must also still employ enough teachers to staff classrooms, even if those classrooms are not fully enrolled, to sustain program quality and ensure appropriate teacher-child ratios. Capital costs and space constraints also influence center costs, size, and expansion. Some providers spoke about the challenges of affording capital costs, especially with the few funding options available.

**Table A2: Per Child Amounts**

<b>Child Age</b>	<b>Average Cost for Interviewed Providers (Quality Centers)</b>	<b>Louisiana Child Care Tuition Rates Statewide (2017 Market Rate Survey)</b>	<b>Louisiana Child Care Assistance Program Reimbursement Rate (Effective Fall 2019)</b>
<b>Infants</b>	\$11,071.72	\$8,580	\$6,500
<b>1-Year-Olds</b>	\$10,609.73	\$8,060	\$6,175
<b>2-Year-Olds</b>	\$9,510.20	\$8,060	\$6,175
<b>3-Year-Olds</b>	\$8,346.22	\$7,800	\$5,720
<b>4-Year-Olds</b>	\$8,337.83	\$7,800	\$5,720

Financial data provided by centers underscores the tight margins centers operate in, with most struggling to break even or operating at a loss. For centers participating in Early Head Start and Head Start, the public programs that provide the highest funding per child, participation in these programs can make the difference in the centers’ bottom lines. Other providers may get creative or benefit from relationships with other organizations. One interviewed provider forgoes a salary three or four months out of the year to ensure all other bills can be paid, and is only able to do this with a spouse employed full time elsewhere. Three interviewed providers are affiliated with and subsidized by larger organizations, which includes facility use at no cost.

Compounding this is the fact that early care and education center tuition rates do not always cover program costs. Interviewed providers care about providing access to families of all income levels and try to keep tuition rates affordable, balancing their real costs and what families can afford. Similarly, some interviewed providers participate in public programs even though funding does not cover the full cost because they want families of all income levels to be able to access their program. In some cases, before/after care and summer programs help centers fill gaps between tuition/reimbursements and costs. One interviewed provider set tuition lower than needed when first opening to draw in families and has begun gradually increasing rates, in part due to lower than desired enrollment. This center is now considering increasing tuition rates more aggressively to better cover costs.

Regardless of costs, families need child care year round. Interviewed providers stated tuition-paying families typically utilize child care all year, and a subset of families with children in public programs participate in summer programs. Unfortunately, many public programs, including LA4, NSECD, and PEG, cover only 6 hours per day for 10 months.

**INITIAL COST MODEL FOR QUALITY CENTERS (WINTER 2018/19)**

Data from providers was used to inform the creation of a cost model that, as providers suggested, increased lead teacher salaries by \$3 an hour and assistant teacher salaries by \$2 an hour. Cost model inputs were based on actual averages from providers, including expenses and teacher-child ratios.

**Key Takeaways & Findings**

- **Enrollment rates significantly impact cost efficiency:** Centers with less than full enrollment must employ more teachers than needed to ensure appropriate teacher-child ratios. Adjusting a sample center’s enrollment rate from 80% to 100% reduced average per child costs by 18% to 20%, or anywhere from \$1,841 to over \$2,700.
- **Center size matters:** Even with full enrollment, smaller centers do not prove profitable with significantly higher per child costs, having to spread fixed costs over a smaller number of children. Larger centers

experience greater cost efficiency through the ability to distribute fixed costs across a larger number of children.

- Ensuring quality programs comes at a cost:** Research shows lower teacher-child ratios improve quality. To provide quality programming, centers operate with teacher-child ratios below minimum state licensure requirements. To meet certain pre-kindergarten requirements, centers employ teachers with bachelor’s degrees to lead classrooms for 4-year-olds and pay higher wages to compete with elementary schools for talent. Infant care is expensive, costing at least \$3,600 more than care for 3- and 4-year-olds.

**Table A3: Initial Cost Model Annual Per Child Costs (Winter 2018/19)**

Child Age	Sample Center with Increased Teacher Salaries		CCAP Reimbursement (Effective Fall 2019)
	100% Enrolled	80% Enrolled	
Infants	\$12,010.19	\$14,732.53	\$6,500
1-Year-Olds	\$10,662.56	\$13,177.58	\$6,175
2-Year-Olds	\$9,122.42	\$11,339.91	\$6,175
3-Year-Olds	\$7,967.31	\$9,808.51	\$5,720
4-Year-Olds	\$8,399.61	\$10,371.22	\$5,720

**Louisiana Policy Institute for Children**

The Louisiana Policy Institute for Children is a source of non-partisan, independent information on issues concerning children ages birth through four in Louisiana. The Institute also develops policy proposals informed by data, research, best practices and the experiences of other states for improving the outcomes of Louisiana’s young children, and then provides educational and outreach activities around these recommendations. For additional information see [www.policyinstitutela.org](http://www.policyinstitutela.org).

