LACOE Head Start & Early Head Start Cost Study Final Report

Katie F. Kenyon & Jeanna Capito
By Katie Fallin Kenyon and Jeanna Capito
6/30/22

Background

Los Angeles County Office of Education has a long, successful history as a Head Start grantee. Part of this success is attributed to a continual improvement mindset, in all elements of operations. As all of the direct services administered by this funding are through delegate agency partnerships, these collaborations are key to ensuring the success of the grantee is demonstrated in high quality, comprehensive, whole child and family services to the community. Los Angeles County Office of Education (LACOE) continual quality improvement approach has included improvements across all systems and services, in partnership with delegates, in order to ensure that the programming meets the needs of children and families and that all staff, community members and stakeholders understand the charge of both the grantee and delegates.

In order to deliver comprehensive Early Head Start and Head Start services to 10,236 pregnant women, infants, toddlers and preschoolers annually, LACOE partners with 14 delegate agencies (see Appendix B and C). These delegates range in organizational auspice (school districts and nonprofit organizations), and size of the entity, along with organizational differences reflective of their role within the diverse communities across Los Angeles County. Through these relationships, LACOE has 'delegated' elements of the responsibility for operating the Head Start program to these agencies. Delegates allow for a grantee's reach to be increased, serving communities and populations the grantee may not otherwise access, and working with diverse communities and populations in an authentic and responsive manner born from delegates' longstanding relationships with the communities they serve. With this approach to Head Start systems and services, the grantee and delegates have the ongoing responsibility to assess and understand the duality of their relationship, clarify roles and expectations, and ensure they each are accountable to the Head Start programming and funding but even more so, are accountable to the children, families and communities. As part of this work, LACOE has refined concepts of their responsibility to the delegates supported and the children and families served and translated these in to four pillars of responsibility: Program Leadership and Accountability; Collaboration, Communication, and Outreach; Assessment and Continuous Improvement; and Workforce Development and Professional Learning.

The areas of Program Leadership and Accountability and Collaboration, Communication and Outreach in particular cover elements of the grantee-delegate relationship, including the programmatic and fiscal responsibilities and needs of each side of this partnership. The additional reality of this partnership is that LACOE and the delegates exist within the context of the early care and education market. Early care and education programs operate under a false fiscal model, public resources are not funded at a level that covers the full cost of the service, and more often than not, the actual cost of the service does not inform funding decisions. The amount of funding for programs is frequently set based on what is available, not what the services cost, and remains stagnant over years, thus not addressing the increases in operating costs that are typical (e.g., salary and benefits, occupancy costs). Additionally, many early care and education programs operate near or very near poverty level wages for staff. The low funding amounts, coupled with marginal grant increases barely hitting 1-2%, result in insufficient funds to address compensation. Even with the Head Start model of drawing in non-federal match to support operations and layering with other funding sources such as the federal food program reimbursement and public child care or preschool funding, there is a disconnect between the cost of the program, with ever increasing operational expenses, and the available revenues.

Acknowledging the increased costs for early childhood education provider operations and the historic inadequacy of current funding streams, LACOE sought to engage in the present study to understand the challenges faced by their Head Start delegates. The purpose of this study is to provide LACOE with an understanding of the projected increases in costs, their impact on program operation costs, and the implications of these challenges on Head Start and Early Head Start slot allocations and long-term planning. This report summarizes both budgetary and qualitative data and provides potential strategies to inform future decisions.

Methodology

Interviews

To understand delegate agencies' unique fiscal and programmatic strengths and challenges and to get a comprehensive view of their experience as delegates of LACOE, one-hour interviews were conducted with representatives from all but two of the delegate agencies (Norwalk La-Mirada and ABC Unified). Interviews were also conducted with all the LACOE Fiscal Liaisons to understand, from their perspective, the strengths and challenges of each of the delegate agencies with whom they work. A meeting was also conducted with the LACOE Senior Leadership Team to get an overview of the services and supports provided by LACOE to the delegate agencies.

Document review

In addition to the interviews, we reviewed delegate agency contracts and budgets (FY2020-21), delegate quarterly reports, the 2021-22 Funding Summary, Agency Status Update (July 2021), LACOE's 2020 Wage Comparison Salary Study, and LACOE's 2019-20 and 2020-21 Funding Applications.

Cost Analysis

In addition to the interviews and document review, each delegate budget was mapped to a standard format in Excel with each budget as a separate tab to enable cross delegate analyses. All line items were included in the worksheet by funding source as well as details of their funded slots, sources of cash and other resources, LACOE staff assignments, and performance status as of July 14, 2021. Review and analysis of all delegate budgets for FY2020-21 was conducted in preparation for delegate interviews and was also used to estimate potential future cost increases. Using information provided by the delegate and fiscal liaison interviews, the budget line items where greatest cost increases were anticipated were identified. The projected cost increases were then applied to average delegate costs in those line items to estimate the projected impact of these increased costs for both school district delegates and non-profit delegates.

In addition, data from the Los Angeles County Comprehensive Fiscal Analysis[1] (LA County Fiscal Analysis) was used to estimate the projected costs associated with converting Head Start (HS) spaces to Early Head Start (EHS) spaces. The LA County Fiscal Analysis tool uses actual budget data from over 100 early care and education programs across LA county to create revenue and expense models. Using this tool, we estimate the cost per HS and EHS slot as compared to the per capita to understand how many HS slots are equal to the cost of one EHS slot.

Cost Estimation Model

A cost estimation model is a flexible financial model that estimates the costs to deliver services by incorporating both data and assumptions to project the expected costs incurred by organizations under a variety of different scenarios and policy conditions. LACOE's cost estimation model was created using data from LACOE's 2020-21 delegate agency budgets as well as salary data from LACOE's 2020 Wage Comparability study. The model allows the user to estimate the costs for different scenarios, such as program model, number and ages served, salary assumptions, benefit assumptions, and the like. The model's output includes estimates of costs per pregnant woman or child served (for each age group of children) as well as estimates of total cost and unit cost for

[1] Capito Associates (November 2019). A comprehensive fiscal analysis of the Los Angeles County Early Care and Education System. Prepared for The Los Angeles County Office of Child Protection. Retrieved online https://www.first5la.org/article/a-comprehensive-fiscal-analysis-of-the-los-angeles-county-early-care-and-education-system/

personnel items and nonpersonnel expenses. For more detail on how the cost estimation model works and how to use it, refer to the LACOE Head Start Early Head Start Cost Estimation Model Technical Manual and User Guide (Appendix A)

Findings

Universal Financial Challenges

In discussions with delegate staff and LACOE staff, certain themes emerged as universal regardless of the delegate agency auspice or funding level. Through delegate interviews, we discussed the service areas and standards that are particularly challenging to run from a financial perspective. The first area that is a universal challenge is food service for children, including the administration of the federal Child and Adult Care Food Program (CACFP). In a program model with limited revenue resources, and funding amounts finalized before operations commence, it is very hard to weather increased costs for a daily expenditure such as food. The provision of family style meals to all children throughout the day is a cornerstone of the Head Start program, and these meals are often the most consistent source of food for children whose families are living in poverty. Programs balance the administration of CACFP with the tight rope work of food ordering, predicting attendance and attempting to minimize waste. All of this is under the weight of food costs that already outpace the funding they will receive. Delegates confirmed that food costs in Los Angeles County are higher than the federal reimbursement rate for breakfast, lunch or snack. This challenge has been exacerbated in the last 18 months with the COVID-19 pandemic, causing significant issues in the supply chain. These sorts of supply chain issues are expected to last long beyond the actual term of the pandemic[2] and the demand is anticipated to exceed the supply, resulting in the inflation in costs. Children's program attendance has also been more difficult to predict since the start of the COVID-19 pandemic, which has made it a challenge for programs to order the appropriate amount of food. As a result, food is wasted, and programs are not reimbursed for the unused food.

The second area of universal fiscal challenge relates to service type. When asked, the delegate agencies confirmed that the most expensive service modality to operate is center-based services. Full day programming and Early Head Start center-based programming are particularly challenging from a fiscal perspective. The challenges of staffing, recruiting, and retaining classroom staff is felt acutely in full day center-based care, since a classroom needs four to five teachers over of the course of the day. Beginning with teachers to cover the group size and ratio of Head Start and Early Head Start, full day programming requires staff for ten- or eleven-hour days, thus adding up to two additional teachers to the equation. An additional teacher may be needed to

---

[2] Dunlap, J. (September 21, 2021) *Supply chain challenges aren't going away anytime soon*. Retrieved online https://www.supplychaindive.com/news/no-returning-to-pre-pandemic-supply-chain/606438/

cover breaks, lunch, planning and meeting time for teaching staff, which are all core elements of a quality, comprehensive model. Thus, a program that is already plagued by the challenge of keeping classrooms staffed faces this problem in greater measure the more staff they need to operate a given classroom. Center-based programming is also the most expensive service modality from a facilities perspective. Centers' regulations translate to large facilities and inform facility costs (which are typically higher than those of family child care settings) in addition to the office and meeting facilities needed for the direct service and management staff. These expenses may be like what a program would incur for running home-based programming, but there are more staff involved in center-based direct services, thus higher administrative facility costs for centers, on top of the programmatic facilities costs.

While these full day center-based challenges and expenses of staffing apply to both EHS and HS, EHS center-based presents additional expense challenges. EHS center-based programming is more expensive for several reasons. One, from birth to three years, the classroom group size for center-based is capped at eight children, requiring a ratio of one adult to every four children. The classroom needs to accommodate both play space and sleeping space per child (typically cribs for a majority of the children), as well as space for feeding and caregiving (e.g., rocking children to sleep). Typically, this is square footage than a preschool classroom requires, yet the EHS room serves half the children. Infant and toddler spaces require at least two water sources, one for handwashing related to diapering and a separate water source for food preparation. These requirements mean greater utility costs and make it expensive to convert spaces to EHS. Further, the EHS program model includes additional comprehensive services such as health and mental health which require greater resources than a typical infant-toddler program.

The higher costs for infant and toddler services are not unique to EHS. The cost of care and cost of quality studies across the country, including the LA County Fiscal Analysis, have demonstrated that regulations and best practices in care and education for the birth to three population cost more than those features for preschool age children. These studies have further underscored that although public revenues for children in the birth to three population may be higher compared to preschool revenue sources, they do not keep pace with the increased expenses over time. Programs suffer greater fiscal losses in serving children ages birth to three. The LA County Fiscal Analysis found that the programs that faired the best from a financial perspective served the full age range of birth to five and thus balanced the higher costs of infants and toddlers against the revenue brought in through the preschool services. As the shift of converting HS slots to EHS continues (due in large part to Transitional Kindergarten expansion), LACOE and the delegate agencies need to be very clear on the costs associated with EHS services, particularly center-based programs, and ensure these costs are adequately covered in the slot conversion.

The third area of universal challenge for delegates is found in meeting the non-federal match requirement. A cornerstone of Head Start funding is the non-federal match, or the non-federal contribution to supporting the operations of the program. For the Office of Head Start, this match represents the local share of the program budget, or the cost of operating the program. In short, the non-federal match requirement for LACOE and the delegate agencies is 25% of the federal award amount, applying to all the federal awards received to fund EHS and HS. Delegate agencies are responsible for the non-federal share applicable to the federal funds they receive as part of their grantee-delegate relationship. The least burdensome way for agencies to meet non-federal match requirements is through public funding from state or local sources that covers staffing for part of the service delivered, such as supporting the delivery of a full day of care. Typically, these other non-federal funding sources are a set amount for a year, based on attendance or child enrollment and they represent a large dollar amount invested in the program. This means that the program has a sizable and recurrent source of funding to count on as their non-federal match. For many LACOE delegates, this source is California State Preschool Program (CSPP) or Child Care and Development (CCTR) funding; as a portion of these contracts are funded by state general revenue funds, they are eligible to serve as non-federal match for the EHS or HS grant, as appropriate. These delegates report that they are able to meet the required non-federal match threshold without too much difficulty.

Delegates who do not have these other funding streams or who do not count them toward their non-federal match typically rely on volunteer, parent and community, hours to achieve the non-federal share requirements. These delegates report a significant paperwork burden associated with tracking and reporting volunteer, parent and community hours. Delegate staff discussed the significant amount of time it takes the limited management and fiscal staff to process the required documentation. Staff related the steps, including the time parent or community members take to complete the form, review by the next level of staff, which very often includes fixing errors in the math and working with families to correct the form, then verifying the volunteer activity by program staff before sending the forms on to fiscal staff. Some delegate agencies also shared that the forms then need an additional verification and signature by staff in the management or fiscal office, before they are summarized and processed as part of monthly non-federal match tracking and submitted to LACOE. While parent participation in their child's education is of key importance to early care and education services, the time it takes to process the paperwork to count these hours for non-federal share could very likely be better spent on other tasks.

Increased Costs

Based on the interviews with delegate agencies and fiscal liaisons, costs have been increasing in a number of areas. In most cases, the cost increases had been evident for some time (even prior to the COVID-19 pandemic), whereas in other areas, the pandemic has exacerbated already increasing costs. The most cited areas of increasing costs that have a major impact on budgets relate to staffing (salaries, health insurance, retirement) and facilities (rent). Using existing projections and industry data where possible, we estimate the impact of these increased costs for both school district delegates and non-profit delegates (see table 1). We took the average cost for each type of delegate agency (school district and non-profit), applied the anticipated percent increase to calculate the projected cost increases in salary, health insurance, retirement, and rent between 2022 and 2025.

The area with the most significant cost increases experienced by delegates is staffing. All delegates mentioned they have experienced staff turnover and are having a difficult time recruiting new staff. The labor shortage puts additional pressure on delegates to increase wages, benefits, and professional development in order to recruit and retain quality staff. Delegates have, and anticipate continuing to have, increased substitute costs due to the staffing shortage. While in some cases the underspending in staffing allows for coverage of these additional substitute costs, the impact on the quality of services and the morale of existing staff is a concern. Another consequence of the labor shortage that we heard from delegates is that administrative staff and even leadership staff are having to temporarily cover teaching roles to maintain ratios and many staff are having to work overtime to cover vacancies in addition to their own regular job duties. This, in turn, affects delegate agencies' costs as well as their ability to attend to program management and administrative tasks, not to mention the impact on burnout, morale and ultimately job retention of existing staff. While the pressures of the staffing shortage are being experienced by both districts and nonprofit agencies, the nonprofit delegate agencies shared that they continue to lose staff (and likely potential job candidates) to the school districts because they can provide a more competitive salary and benefits package. However, with the expansion of the state funded Transitional Kindergarten (TK) program, district-based delegates also anticipate losing staff to transitional kindergarten positions. The competition with TK for teachers is anticipated to increase as TK expansion continues, unless something can be done to bring Head Start teachers' compensation to be equal (or close to equal) with TK teachers.

Aside from the need to consider increases in salary to recruit and retain staff, health benefits and retirement benefits have been increasing and are expected to continue to increase. Health insurance cost increases are due to a number of factors, including the anticipated increase in utilization of health services for treatments that were deferred because of the pandemic, as well as continuing costs associated with treating the coronavirus, and increased utilization of mental health and substance abuse services. According to a recent report from PricewaterhouseCoopers' Health Research Institute (HRI), employer medical costs in the private sector are expected to see a 6.5% increase in 2022, which is slightly lower than 2021 and slightly higher than it was between 2016 and 2020.[3] For public employees, members enrolled in CalPERS' Basic (non-Medicare) Health Maintenance Organization (HMO) plans will see an average premium increase of 4.69% whereas Preferred Provider Organization (PPO) Basic plan members will see an overall increase of 8.67% (in the table below we use the average of these two rates, or 6.68%). Public employee retirement benefits have seen a significant increase over the past few years and will continue to increase, but at a lower rate. CalPERS retirement benefits are anticipated to be 22.9% in 2021-22, 26.1% in 2022-23, 27.1% in 2023-24, and 27.7% in 2024-25[3]. In terms of the private nonprofit agencies and their retirement benefits, on average, delegates provide a total retirement budget of 5% of salaries (calculated as a % of salaries across all staff). However, there is significant variability across delegate agencies with a range from 0 to 7.66% of salaries. For the projected costs, we assumed that the average nonprofit retirement contribution percentages would remain constant at 5% for the next few years.

Increases in rent/lease costs are expected to continue in the coming years and the availability of space is expected to continue to decrease. According to a recent report[4], Marcus & Millichap expects the average rent on commercial property in Los Angeles to increase 4.8% to $13.40 per square foot in FY21-22 (rental rates increased 3.5% on average in in 2020). Given that we do not have additional rent increase projections, we kept the percentage increase constant at 4.8% in the coming years. However, as the impact of Transitional Kindergarten on Head Start enrollment continues and sites need to convert HS spaces to EHS spaces, the lack of available facilities is going to be a major challenge and may continue to drive up prices. While only one district delegate is currently paying rent, they anticipate a shortage of space as TK increases. Another factor mentioned by delegates is the impact of the labor shortage and supply chain issues and their impact on the cost of renovations. While we do not have a cost estimate for this, it is something LACOE should consider as delegates increase their need for facility improvements and facility conversions.

Table 1. Projected Cost Increases for Salaries, Health Insurance, Retirement and Rent, 2022-2025

Projected Increases for Nonprofits				
Year	Salaries	Health Insurance	Retirement	Rent

[3] CalPERS Finance and Administration Committee (April 29, 2021). Item 6d: Schools valuation and employee/employer contribution rates. https://www.calpers.ca.gov/docs/board-agendas/202104/financeadmin/item-6d-00_a.pdf

[4] Borland, K.M. (June 25, 2021). *L.A. Industrial Leasing Will Top Pre-Pandemic Activity This Year* https://www.globest.com/2021/06/25/l-a-industrial-leasing-will-top-pre-pandemic-activity-this-year/

	Amount	% Increase[5]	Amount	% Increase[6]	Amount	% Increase[7]	Amount	% Increase[8]
2022	$ 49,216,649	2.5%	$ 6,297,622	6.5%	$ 2,460,832	0	$ 4,920,671	4.8%
2023	$ 50,693,148	2.5%	$ 6,486,550	6.5%	$ 2,534,657	0	$ 5,156,863	4.8%
2024	$ 52,213,943	2.5%	$ 6,681,147	6.5%	$ 2,610,697	0	$ 5,404,393	4.8%
2025	$ 53,780,361	2.5%	$ 6,881,581	6.5%	$ 2,689,018	0	$ 5,663,804	4.8%

Projected Increases for Districts								
	Salaries		Health Insurance		Retirement		Rent	
Year	Amount	% Increase	Amount	% Increase[9]	Amount	% Increase[10]	Amount	% Increase
2022	$ 35,444,466	2.5%	$ 7,132,802	6.68%	$ 6,597,761	2.3%	$ 80,411	4.8%
2023	$ 36,507,800	2.5%	$ 7,346,786	6.68%	$ 6,855,480	3.2%	$ 84,271	4.8%
2024	$ 37,603,034	2.5%	$ 7,567,189	6.68%	$ 6,910,616	1%	$ 88,316	4.8%
2025	$ 38,731,125	2.5%	$ 7,794,205	6.68%	$ 7,089,745	.6%	$ 92,555	4.8%

Delegate Characteristics that Promote Success

There is no single characteristic or simple formula that determines or predicts the success of a delegate agency; this rings true in the composition of delegates under LACOE's grant, the delegate make-up reflects the diverse communities of Los Angeles County. Just like any program, the overall health of the organization in which the program is housed is likely what matters most for the long-term sustainability and program quality (e.g., strong leadership, fiscal health, low staff turnover/high retention, strong infrastructure). That said, there are some characteristics that delegate agencies identified as important to their success as a delegate. For school districts, having the support of the superintendent and having district leadership that values and understands Head Start

[5] CMS Compensation Study Report- LACOE Head Start & Early Head Start Program: October 30, 2020
[6] PricewaterhouseCoopers Health Research Institute (HRI), *Medical cost trend: Behind the numbers 2022.* Retrieved online at https://www.pwc.com/us/en/industries/health-industries/library/behind-the-numbers.html
[7] We assumed no increase in retirement benefits for nonprofit organizations given the fiscal challenges of the COVID-19 pandemic.

[9] CalPERS (July 13, 2021). *CalPERS Announces Health Care Premiums for 2022*. Retrieved online https://www.calpers.ca.gov/page/newsroom/calpers-news/2021/calpers-announces-health-plan-premiums-for-2022
[10] CalPERS Finance and Administration Committee (April 29, 2021). Item 6d: Schools valuation and employee/employer contribution rates. https://www.calpers.ca.gov/docs/board-agendas/202104/financeadmin/item-6d-00_a.pdf

and the associated regulations and requirements is an important success factor. This allows the Head Start program leadership to focus on the program itself, rather than having to work to justify the district's involvement and support. Nonprofit delegates shared a similar theme – having an agency leader who values and supports the Head Start program is important to ensuring that the program has the support of the staff and board. In some instances, this translates to operational support from district or nonprofit management, in-kind management and fiscal administration support for the HS program, which may not be tracked in the budget or show up as actual non-federal match but is critical to the overall program operations.

Access to other funding sources, particularly unrestricted funds, was identified by delegates as an important variable in their success. Larger nonprofit agencies with fund development staff and access to larger donors have an easier time filling in the funding gaps not covered by Head Start or state funding, as they are able to raise and use unrestricted funds. Similarly, school district delegates identified support from the district's infrastructure (e.g., Human Resources, facilities, purchasing) as critical to their ability to run their program effectively. Both districts and nonprofits who have been able to draw down state funding (CSPP and CCTR) are better able to meet the needs of working families in their communities by providing full day programming. Agencies who have not yet accessed those funding streams also commented that it is a goal to try to access them.

Dedicated, qualified and experienced staff who have history with the program were also mentioned by numerous delegates as a critical factor to their success and something that they are struggling with currently. From an organizational perspective, several delegate agencies also remarked that establishing a strong partnership between their program and fiscal staff is an important ingredient to their success. Having fiscal staff who understand the programs and program staff who understand the fiscal side of the equation is very helpful when operating a Head Start delegate agency.

Minimum Number of Slots

After meeting with LACOE and delegate staff and gathering a deeper understanding of the complex contextual factors of each delegate agency and the communities they serve, we determined that identifying a minimum number of slots for a delegate to be "successful" may not be what is needed to support LACOE's future planning. While it is possible to determine the association between the number of slots compared with revenue and expenses, it is likely that the contextual factors, such as needs of the community and supportive infrastructure of the delegate to deliver Head Start, outweigh the result of a purely fiscal analysis of size, revenue and operational expenses. Ultimately, the contextual factors become more important drivers of decisions around the 'right size' or minimum number of Early Head Start and Head Start slots at each delegate.

What is likely a more predictive characteristic, or requirement, for a LACOE delegate to be successful is the presence of both EHS and HS slots in their delegate budget, or delegate operations. Years of fiscal analysis of birth to five early care and education operations has pointed to the simple fact that a birth to five mixed age operation is necessary to offset the high cost, underfunded infant and toddler care. Cost modeling has demonstrated, particularly in LA County, that programs serving only infants and toddlers operate at the biggest deficit, compared to preschool only, birth to five, or birth through school-age programs. For Head Start operations, not only does preschool programming present a more solvent revenue to expense equation, but also the same management, fiscal, community engagement and comprehensive services apply to EHS and HS. With both types of programs in place at the delegate, the operations of all these Head Start regulations are shared across the services, as opposed to building the management, systems, and program design operations for only Early Head Start funding. Early Head Start funding typically covers a smaller number of children due to program regulations, thus programs have to absorb larger costs per child for the required program features of Head Start. This operational and budget burden is shared when both EHS and HS are in place. The funding for EHS and HS does not all have to come from the LACOE grant as long as the program has funding to implement a birth to five mixed age program. For instance, a delegate may have their own EHS grant and partner this in their operational budget with LACOE funded Head Start, or a delegate may operate a large preschool program and integrate these operations with an EHS grant from LACOE. In both of these examples, the ultimate requirement to be financially sustainable (a birth to five program) is met. How it is met may look different than the delegate receiving a certain size of grant for EHS and HS from LACOE. The driver for decision-making becomes not about the minimum number of EHS or HS slots from LACOE to the delegate, but the overall picture of the delegate operations, the organizational supports and infrastructure they bring to the delegate experience, and the potential to deliver quality services that meet the community need by working across many funding streams.

Conversion of Head Start Slots to Early Head Start Slots

Another critical point of analysis for LACOE at this juncture is to understand and plan for the conversion of slots from Head Start to Early Head Start. The supply of early care and education spaces for infants and toddlers is far behind that of preschool availability in Los Angeles County.[11] Couple this supply need with the movement of preschool programming to public funding from the California Department of Education under Transitional Kindergarten, or TK, and Head Start programs across California find themselves in need of adjusting the service breakdown to provide more EHS slots, thereby meeting the unmet community need. LACOE and delegates have recognized this need and responded over the last several years. As part of understanding the dynamic funding

[11] California Child Care Resource and Referral Network (2019) *California Child Care Portfolio.* https://rrnetwork.org/assets/general-files/Los-Angeles-04-20.pdf

relationship between grantee and delegates, it is important that the actual cost of operating EHS slots is informing the slot conversion process. To support this analysis, we used the Los Angeles County Fiscal Analysis cost of quality model to inform a county-wide cost per child for Early Head Start center-based services. The LA County cost of quality model was updated in spring 2021 to account for inflation on all non-personnel lines and compensation increases for cost of living and minimum wage ordinance increases, projecting forward to FY22. In this cost model, the average cost to serve an infant or toddler, under Head Start Program Performance Standards in center-based settings in LA County ranges from $30,575 to $39,108.[12]

Based on analysis of the per capita payment for Head Start Basic, it will take 2-3 HS slots per EHS slot converted (most common per capita for HS is just over $12,000). The slot range for converting HS to EHS allows for the possibility that there are EHS eligible children and families who are not able to qualify for or secure other funding to cover a portion of the cost, therefore the full expense will be covered by the HS funding, allowing for a portion of the expense to be covered by CACFP funding (approximately $2,000 in annual CACFP revenue possible for a child receiving all meals in a day). In some delegate operations, they may be able to leverage infant and toddler state child care subsidy vouchers or contract funding to cover a portion of the cost. Vouchers, which are attendance-based payments, and are at the discretion of the parent to pursue, are a less secure funding source for programs and provide a lower reimbursement. A voucher would enable the program to bring in up to $19,134 for an infant (up to 24 months of age) and up to $13,491 for a two-year-old. To earn this full amount on a voucher, programs must demonstrate attendance threshold by the child, the family must pay their portion of the total in the form of a family fee, or co-payment, and the parent must stay in good standing with their qualification for the voucher during their period of EHS services. Programs frequently lament earning less than the eligible voucher revenue for a given child in a one-year period. Delegates who have a contract with CA Department of Social Services (contracts ran by CDE until the transition on July 1, 2021) will fare better in terms of revenue, earning up to $24,830 for a child up to 18 months of age, and up to $19,192 for a toddler between 18 and 36 months of age. These are contract-based arrangements, organizations must hold the contract with the state agency and in the contract a specified number of slots are covered. There are many birth to three programs in Los Angeles County that could layer CCTR contract funding but have not been able to secure this state contract. Delegates report contracts for fewer slots than their EHS enrollment, families that are not able to qualify for coverage by the contract, and contract payments still contingent upon attendance of children, as

[12] The range in cost per child for infants and toddlers reflects the differences in salary points used in the model. The low-end cost per child is with Teacher II and Asst Teacher II salaries at step 11 of the CMS Compensation Study Report, LACOE 2020. The high end is reflective of higher salaries reported in data collection of infant toddler programs across LA County.

opposed to enrollment. Given programs build their operational budget based on enrollment, programs are expending costs related to running the services, even if children are absent.

Layering state funding that is an attendance-based payment system is an inherently unstable source of additional funding for an EHS programs, yet HS is not funded to be the only source for full day, full year services to infants and toddlers. LACOE and delegates need to work to secure contract funding for as many center-based slots as possible, in moving to convert HS to EHS slots. Additionally, family child care programs that are partnering with EHS are able to receive a contract-style payment through participation in Family Child Care Home Education Networks (FCCHEN). Seeking to build more of these Networks for EHS family child care sites will increase stability of the state source of funding. In order to make more room in the grant for direct service funding, additional analysis of needs to be conducted to see what is essential for the grantee in a model with more EHS slots.

Although most delegates made suggestions for how to strengthen LACOE's monitoring and oversight, several delegate agencies felt that the monitoring provided by the fiscal liaisons (as well as other areas) provided a level of quality control that they value and appreciate. This was especially true of the smaller programs who do not have layers of staff to provide a "second pair of eyes." Most delegates commented on how much the monitoring approach has improved over the past few years, and that there has been a very positive effort on LACOE's part to shift from a punitive or "gotcha" approach to one of partnership and support. A number of delegates commented that they feel as though LACOE staff are a part of their team and that they "have our backs" – particularly when it comes to federal reviews and audits.

Advocacy at the state and federal level was another area that was brought up as a strength and value that LACOE provides that would not otherwise be possible. Given the size and reputation of LACOE, the grantee is able to push for policy changes that a delegate would not be able to do on their own.

Strategies to Explore

LACOE Head Start and Early Learning Division's history and deep commitment to ensuring that all young children have access to high quality services is evident in its focus on continual system change and continuous quality improvement that ensures the maximum amount of funds as possible go to delegates and direct services to children. Because of the increasing costs in the field of early care and education and the pressure on the system to shift to serving more infants and toddlers, LACOE must adjust the system to continue to prioritize high quality services to children and families. The following section provides some potential strategies for LACOE to consider moving forward.

Maximize other funding sources

Continue to expand LACOE's systems-level approach to layering funds by focusing on supporting delegates to access more CSPP and CCTR funds. LACOE could provide support to delegates that do not layer these funds (direct contracts, not just expansion of LACOE CDE contracts) to ensure that where layered funding may be used, it is in place. This would strengthen the system as a whole to increase slots at delegate agencies, particularly for EHS families, where there is a significant need for all day care, but the family does not meet CCTR regulations, therefore the full cost of that slot will need to be supported by the EHS grant. LACOE should continue to communicate the Head Start/Early Head Start funding challenges to public and private funders (e.g., First 5 CA, First 5 LA, the LA Partnership for Early Childhood Investment), lead the effort to develop countywide systems across funding streams, and strengthening delegate agencies' skills in fund development and strategic partnerships.

Strengthen delegate's ability to recruit and retain qualified staff

It was clear from interviews with staff and delegate agencies that LACOE is already working hard to support recruitment and retention of delegate staff. Given the current staffing crisis and the expectation that it will continue as TK expands and HS teachers move to the districts, this will continue to be critical area of LACOE's support. LACOE will need to find ways to address both the workforce pipeline at the system level as well as the competition for staff among sites that occurs due to variance in benefits. As mentioned in the previous strategy, by establishing a set a standard for benefits (health and retirement, paid time off) across all delegates, and ensuring funding model that allows this to occur, would strengthen the system as a whole and help to alleviate the imbalance across delegate agencies.

Cost Estimation Model Scenario Results

LACOE's Head Start and Early Head Start cost estimation model tool allows users to create scenarios to understand the actual cost of full operations of EHS and HS slots in Los Angeles County. Using the full cost of programs as the starting place for advocacy and planning helps to ensure that delegates are able to provide and sustain the same level of quality programming across agencies. By using the cost model for planning and budgeting, LACOE will be better equipped to set consistent expectations, set more realistic budgets across delegates, include projections of consistent cost increases across all the delegates, and provide a clear understanding of the gap between program cost and funding levels. This approach will also support LACOE to better anticipate the level of support and oversight that is needed at the grantee level.

To illustrate the functionality of the model, the following default scenarios were run using the cost estimation model:

Program service type	Participant #'s	Classrooms by age (HS only)	Salary level	Benefits	Annual cost per participant
EHS Center-Based Not-for-Profit (NFP)	72 infants and toddlers	n/a	Step 11	NFP health insurance NFP retirement 10 sick days 10 paid vacation days	$42,940
EHS Center-Based School District (SD)	72 infants and toddlers	n/a	SD Average	SD health insurance SD retirement 10 sick days 10 paid vacation days	$43,199
EHS Home-based NFP	72 infants and toddlers	n/a	Step 11	NFP health insurance NFP retirement 10 sick days 10 paid vacation days	$16,014
EHS Home-based SD	72 infants and toddlers	n/a	SD Average	SD health insurance SD retirement 10 sick days 10 paid vacation days	$19,346
EHS FCC NFP	72 infants and toddlers	n/a	Step 11	NFP health insurance NFP retirement 10 sick days 10 paid vacation days	$17,943
EHS FCC SD	72 infants and toddlers	n/a	SD Average	SD health insurance SD retirement 10 sick days 10 paid vacation days	$35,918
EHS CCP NFP	72 infants and toddlers	n/a	Step 11	NFP health insurance NFP retirement 10 sick days 10 paid vacation days	$43,322
HS Center-based Full Day NFP	255 3- & 4-year-olds	15 combined 3- & 4-year-old classrooms	Step 11	NFP health insurance NFP retirement 10 sick days 10 paid vacation days	$20,226
HS Center-based Full Day SD	255 3- & 4-year-olds	15 combined 3- & 4-year-old classrooms	SD Average	SD health insurance SD retirement 10 sick days 10 paid vacation days	$19,379
HS Home-based NFP	48	n/a	Step 11	NFP health insurance NFP retirement 10 sick days 10 paid vacation days	$16,042
HS Home-based SD	48	n/1	SD Average	SD health insurance SD retirement 10 sick days 10 paid vacation days	$19,346

LACOE Head Start & Early Head Start Cost Estimation Model

TECHNICAL MANUAL AND USER GUIDE

Katie F. Kenyon & Jeanna Capito
KENYON CONSULTIONG PRENATAL TO 5 FISCAL STRATEGIES
JUNE 2022

Introduction

The Los Angeles County Office of Education (LACOE) Head Start, and Early Learning Division engaged Katie Fallin Kenyon and Jeanna Capito to conduct a cost study and to produce a cost estimation model to inform the Division's long-term strategic planning and to provide a tool that can continue to be updated and used as conditions change over time. A cost estimation model is a flexible financial model that estimates the costs to deliver services by incorporating both data and assumptions to project the expected costs incurred by organizations under a variety of different scenarios and policy conditions. The cost estimation model is a powerful tool that LACOE will be able to use to understand the cost of Head Start and Early Head Start, to support delegate agencies in maintaining financial sustainability and to advocate for federal funding to cover the costs experienced by Head Start and Early Head Start programs in Los Angeles County.

The results of the qualitative and quantitative data collected as a part of this study are captured in the project's final report *LACOE Cost Study Final Report*, while this document serves as a user's guide to the accompanying Excel File the ***LACOE Cost Estimation Model.*** The model's output includes estimates of costs per pregnant woman or child served (for each age group of children) as well as estimates of total cost and unit cost for personnel items and nonpersonnel. Expense data in the model is based on LACOE Head Start/EHS delegate agencies' budgets and LACOE's Wage Comparability Study salary data. As described below, the user can use the tool to model different program profiles and scenarios to support planning and advocacy.

Instructions for Use

Throughout the model, cells that can be changed by users are shaded yellow. Yellow cells relate to program characteristics, such as size, or age of children served. To model different center profiles, the user can change the data entered in these cells either by using the drop down or typing over the yellow cell. There are 6 worksheets in the workbook: VariablesINPUT, Program Profile, Ratios, Personnel Benefits, and NonPersonnel. The majority of the user selections are made on the VariablesINPUT tab and those selections pull data from the Ratios, Personnel, Benefits and NonPersonnel sheets. The output of the modeling is presented in the Program Profile sheet. The sections below go into further detail about the contents and functionality of each of the worksheets.

Variables Input Worksheet

The user selects settings for the key variables on the first worksheet [VariablesINPUT]. By choosing different settings for the variables, the model can represent a wide range of situations. Each variable is explained below.

Service Type: This variable represents the type of Early Head Start or Head Start service to be modeled. Using the drop-down menu, the user can select one of twelve service types including:

1. *EHS Center-Based Not-for-Profit (NFP)*
2. *EHS Center-Based School District SD*
3. *EHS Home-based NFP*
4. *EHS Home-based SD*
5. *EHS FCC NFP*
6. *EHS FCC SD*
7. *EHS CCP NFP*
8. *EHS CCP SD*
9. *HS Center-based Full Day NFP*
10. *HS Center-based Full Day SD*
11. *HS Home-based NFP*
12. *HS Home-based SD*

Participant Numbers: This variable represents the number of pregnant women and children being served by the program by age group. The user enters in the yellow boxes the numbers to be served and the tool will automatically calculate a total across the age groupings.

Number of HS Classrooms by Age Grouping: The user enters the number of Head Start classrooms that include all 3-year-olds, a mix of 3 and 4-year-olds, and all 4-year-olds. NOTE - This variable applies to Head Start service types only.

Salary Level: Salary level refers to the Step level from the 2023 LACOE HS EHS Master Pay Schedule (Exhibit 6 of the *2020 Wage Comparability Study*). The user can choose one of three step levels– Step 3, Step 7 and Step 11, the school district salary (average salaries from school district delegates), or user input salaries. If the user chooses to enter their own salaries (User Input), salary values must first be entered in the User Input column on the Personnel sheet.

Benefits: The benefits section includes four categories for the user to select – Health Insurance (yes - School District, yes – Not-for-profit), retirement benefits (yes -School District, yes – Not-for-profit), sick days per year per staff person, and paid days off per year per staff person (not including holidays when the program is closed).

Program Profile Worksheet

The user's program type selection from the VariablesINPUT worksheet will appear in the grey bar at the top and the information highlighted in pink will be populated based on the choices the user made in the VariablesINPUT worksheet, pulling information from the other data worksheets.

The results output for the selected program profile is presented in this worksheet and includes:

- The total staff needed to meet the required maximum group size and ratios as well as the total classrooms or caseload.
- The annual cost per pregnant woman/child by age group (in the green shaded box on the right)
- Personnel expenses by major category (total cost and FTE wage)
- Nonpersonnel expenses by major category

The following section explains the assumptions and calculations used to create the program profile output values.

Maximum group size, ratios, staff, and classroom/caseload #

The pink cells in the sheet are populated with the correct values for maximum group size, ratios, staffing, and caseload assumptions based on the program profile, participant numbers, and age groupings entered by the user in the VariablesINPUT tab and are in accordance with the Head Start Program Performance Standards. The value at the bottom of the Staff column represents the total number of classroom staff needed to meet the requirements and the number at the bottom of the Classroom/Caseload # column represents the total number of classrooms.

Personnel Expenses

The personnel section uses a standard staffing pattern typical of EHS and HS programs using the job classifications that are most typical of HS and EHS programs. The ratio of 1 FTE to either the number of children or the number of staff for each of the positions is outlined in the Ratios tab and is used to calculate the total cost for each line item.

Salary

The step level salary options in the model comes from the LACOE Job Classifications and grades table from the 2020 Wage Comparability Study 2023 LACOE HS EHS Master Pay Schedule (Exhibit 6) and in most cases the Entry level salary was set to Step 3, the Midpoint salary was set to Step 7, and the Aspirational salary was set at Step 11. For those job classifications that are grade 19 or lower and do not have a salary point at Step level 3, their Entry, Midpoint and Aspirational were set as follows:

- Grade 18: Step 4, Step 7, Step 11
- Grade 15: Step 7, Step 11, Step 14
- Grade 13: Step 7, Step 11, Step 14
- Grade 11: Step 8, Step 11, Step 14

The School District average salary option in the model comes from the average salaries across LACOE school district delegate for each job classification, using data from the delegates 2020-21 contract budgets. Those averages were then increased by 2% for 2021-22 and 2.5% for 2022-23, using the same percentages used in the 2020 Wage and Comparability Study (see LACOE Head Start 2021-23 Compensation Plan Update, Orientation Session, October 15, 2020).

Lastly, the user can choose to enter their own salaries in the Personnel worksheet column called User INPUT Salaries and once those are entered, they can choose the User Input option in the Salary level choice on the VariablesINPUT worksheet.

Benefits

All mandatory benefits are included (i.e., FICA-Social Security, Medicare, Unemployment Insurance, Workers Compensation) and are calculated based on a percentage of salary for both not-for-profit and school district.

For discretionary benefits, the user can select on the VariablesINPUT worksheets if they want to model the not-for-profit health insurance benefit or the school district benefit. Based on the option selected, the formula will either pull the not-for-profit or school district benefit percentage (for not-for-profit, health benefits are set at 12% whereas school district benefits are set at 19%). The same is true for retirement (retirement is set at 5.1% for not-for-profit and 18% for school districts). The total benefits percentage for not-for-profit is set at 33% and school district. The user can change these percentages in the Benefits Worksheet to model different benefit packages.

The user can change the number of paid sick days and paid leave/vacation days. The cost of substitutes to cover all types of leave days as well substitutes to cover annual training/professional development is included (the number of annual training hours can be changed by the user in the Variables INPUTsheet but the default is set at 96 hours per year, or 8 hours per month). Other benefits such as paid health insurance, contributions to retirement account, life insurance or other discretionary benefits are represented as a benefit pool of dollars per employee.

Nonpersonnel

Nonpersonnel costs are aggregated into the major categories that align with LACOE Head Start/EHS budget template

C. Travel
D., E. Supplies and Equipment
F. Contractual
H. Other including indirect

Annual cost per child/pregnant women

The results of the user's model selections are presented in the green highlighted box on the right side of the Program Profile worksheet. The resultant full day annual cost per child/pregnant woman is calculated by taking the total expenses and dividing by the number served and is provided as an annual cost as well as a monthly cost. The second part of the table shows the part day Head Start cost per child estimates for the three options: 3.5 hours/day (612.5 hrs. annually), Duration (1020 hrs. annually), and Transitional Kindergarten (1261 hours annually).

APPENDIX B

Table 1: Early Head Start Funding and Slots by Delegate, FY2020-21

Delegate	Early Head Start					Early Head Start CC Partnership				Early Head Start-Expansion			
	Funding	**Center**	**Home**	**FCC**	**Total**	**Funding**	**Center**	**FCC**	**Total**	**Funding**	**Center**	**Home**	**Total**
ABC USD	-				-	-	-	-	-	-	-	-	-
Bassett USD	1,109,192	56	-	-	56	-	-	-	-	-	-	-	-
Children's Institute, Inc.	2,769,074	88	66	-	154	-	-	-	-	-	-	-	-
El Monte City SD	897,936	8	40	-	48	-	-	-	-	785,000	50	-	50
Foundation for ECE, Inc.	940,368	44	-	-	44	-	-	-	-	420,000	20	-	20
Garvey SD	427,440	-	20	-	20	-	-	-	-	1,300,000	72	-	72
MAOF	3,370,774	88	94	20	202	1,570,928	112	4	116	-	-	-	-
Mt. View SD	1,030,050	-	50	-	50	-	-	-	-	-	-	-	-
Norwalk-La Mirada USD	1,615,080	-	120	-	120	-	-	-	-	-	-	-	-
PACE	5,186,276	80	262	-	342	-	-	-	-	-	-	-	-
Para los Niños	615,204	36	-	-	36	963,500	41	-	41	940,000	40	-	40
Plaza.	5,804,642	112	314	-	426	1,180,872	88	-	88	-	-	-	-
Pomona USD	4,313,376	48	240	-	288	1,456,560	72	-	72	-	-	-	-
St Anne's	3,541,440	54	184	-	238	3,698,380	215	-	-	-	-	-	-
Total					2024				317				182

Table 2: Head Start Funding and Slots by Delegate, FY2020-21

Delegate		Center-based			Home	FCC	Local	Total
	HS Funding	<1020 hours	Double session	≥1020 hours				
ABC USD	2,600,752	-	-	154	-			154
Bassett USD	2,330,700	-	-	170	-			170
Children's Institute, Inc.	2,887,459	-	-	238	-			238
El Monte City SD	6,921,004	254	-	308	-			562
Foundation for ECE, Inc.	7,133,712	45	-	486	-			531
Garvey SD	5,184,598	66	-	318	-			384
MAOF	11,563,012	419	-	498	48	34	40	1,039
Mt. View School District	5,006,445	285	-	122	10			417
Norwalk-La Mirada USD	8,404,533	346	-	433	-			779
PACE	9,232,918	285	268	285	-			838
Para los Niños	3,879,652	-	56	263	-			319
Plaza	11,383,734	-	210	690	24	30	40	994
Pomona USD	12,069,352	144	372	486	-			1,002
St Anne's	4,028,868	-	-	286	-			286
Total								7,713

APPENDIX C: Delegate Interview Questions

BUDGET

Review budget mapping and specific questions for the delegate

i. Insert questions

OPERATIONS: Qualitative Discussion

1. What about your operational structure allows you to successfully be a delegate of LACOE? (For example, probe across these areas…)
    a. *Management staffing, what resources do you draw upon to manage?*
    b. *Fiscal administration and contract reporting, accountability requirements and participation (what do you do to make this work in your operations)*
    c. *Education and program support/staffing, additional resources drawn to implement?*
    d. *Has anything changed in your operational structure that has made it more or less successful to be a delegate?*

2. Tell us about how you layer funds
    a. What funding are you able to access (directly by the delegate, through partnership with LACOE, others)?
    b. What role does this play in your operations, balancing your budget, your ability to meet delegate requirements?
    c. Other discussion on layering funds?

3. Tell us about your Nonfederal share. How do you go about meeting the NFS requirements?

4. In what areas have you experienced cost increases over the past few years? Where do you anticipate cost increases in the future?

5. Is there anything else you want to share with us about your experience as a delegate? What makes it work?

   What makes it challenging?

   How much of it is under the delegate contract/budget

   How much of it is beyond what is contracted for?