

Ownership & Economic Opportunity for All

Child Care Scenario Planning Guide

This guide will help you think through a number of "what if" questions around enrollment and projected profit.

Before We Begin:

Why Calculate a Breakeven?

A breakeven calculation can help to answer a number of "what if" questions such as –

- If I set my price at X, how many children do I need enrolled in order to bring in more money than I spend?
- If I have Y children enrolled, how much money do I spend on each child? Which leads to the question – what is the lowest price I can charge for tuition and not lose money?
- If I set my price at X and have Y children enrolled, how much profit can I estimate that I will make that month?

Answering these "what if" questions can help you make informed decisions around the relationship between enrollment and projected profit.

Tips

- Be realistic
- Consider the difference in overhead vs. direct costs
- Be ready to estimate (make an educated guess)

Documents You Need to Get Started

- Crisis Budget Management Tool
- Enrollment data (from February 2020 and projected for the current month)
- Estimated food costs

Deep breath. Ready? Let's get started...

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Demographic Information:

To start go to the orange section labeled demographic information to choose your star rating and county from dropdown boxes.

Why is this important? Your star rating helps determine the child-teacher ratios. The star rating and county help determine your average subsidy reimbursement rate.

Estimating Age Groups Served:

Next let's go to the green chart breaking down the ages of the children you serve and how much each age group pays in tuition.

Use your pre-COVID enrollment data from February 2020. The number of children in each age group is being used to find what percentage of your enrolled children are in each age group.

The current monthly tuition price per child should be just that – current. If you are open, use the tuition price families are currently paying. If you are currently closed, use the price families would pay when you reopen.

Using Age Groups to Calculate Averages

The number of children that were enrolled for each age group in February 2020 is being used to determine what percent of children enrolled fall in to each age group. This is important when calculating things like the average teacher to child ratio because if your child care mainly serves infants, you will need more teachers per child than if your child care mainly serves older children. It's ok if your classroom numbers don't look the same as they did back in February. We're just establishing a baseline enrollment pattern to work from.



Teacher/Assistant Salaries:

And now we move to the blue section on your average teacher/assistant salary. If you don't easily know the average monthly salary, it may be helpful to think about this number pre-COVID. How many teachers did you have employed in February 2020? To calculate average teacher salary, add up your teachers' salaries and divide by the total number of teachers.

If you are a home-based child care and do not have any teachers/assistants, enter zeros for this section.

Next, input the average payroll taxes and benefits for a teacher/assistant. Don't include payroll taxes and benefits for other positions such as owner, director, or assistant director. We will account for those costs later. Right now, we're just considering the position that are directly determined by the number of children enrolled.

Direct Cost per Child:

The direct cost per child includes all expenses that regularly change based on the number of children enrolled. There are two ways to calculate the direct cost per child -

1. Based on the daily cost of food per child

- If you know the amount of money you spend each day on a child's breakfast, lunch, snack, etc. input those numbers
- If you don't know those numbers, the state's reimbursement rates for child food programs can be a good reference point. These rates are listed in gray in the column on the right.

2. Based on the direct cost section of your Crisis Management Budget

- Go to your Crisis Management Budget and add up the direct expenses (likely only food) projected for Month 1
- Enter the projected number of children enrolled for Month 1

Total Monthly Overhead Costs:

To calculate total monthly overhead costs -

- First, enter the total expenses in the overhead costs section of your Crisis Management Budget
- Then, enter the salaries and associated payroll expenses for the Director, Assistant Director, and Owner (where applicable – if you do not have some of these positions, enter a zero for the salary)

Using and Analyzing the "What If' Calculations" Section:

True Cost per Child Explanation



True Cost per Child = Direct Cost per Child + (Overhead Cost ÷ Number of Children)

True Cost per Child is the cost of expenses spent on an individual child. Overhead is included because while an expense such as rent is not directly attributed to a child, it is still an expense incurred to have the child at the child care. If you do not pay rent, you cannot stay open and serve the child.

Minimum Number of Children

The yellow section works to answer the question: Without changing tuition rates, how many children do I need enrolled in order to make at least as much money as I spend? The number of children should automatically calculate in the cell with a thick outline. This calculation assumes that you are collecting all tuition owed. If this is not the case, then go back to the green box and adjust your Current Monthly Tuition Price per Child to reflect the average tuition you are collecting for each age group.

NOTE: It is critically important that you collect the tuition that you are owed in a timely manner.

If you are interested in more information on how this answer is being calculated by a breakeven formula, you can find more detail in the Explaining the Equations section below.

Minimum Average Monthly Tuition

The red section asks the opposite question of the yellow section. The red section asks: If I have X children, what is the lowest price I can charge and still cover my monthly expenses? This section looks at your monthly expenses per child. This means your direct expenses + indirect expenses get divided by the total number of children enrolled to calculate the amount of money you are spending on each individual child that is enrolled.

Your true cost per child is calculated in the first cell with a thick border. This is the absolute lowest average tuition price you can charge and not lose money.

The next question in determining the minimum average monthly tuition has to do with your county's subsidy reimbursement rates. You likely do not want to charge lower than the subsidy rates, so the next cell gives a simple yes or no answer to the question: Is my true cost per child less than my average state subsidy reimbursement rate?

The yes or no answer leads to the final question – what is the minimum average monthly tuition I should charge if I have X children enrolled.

- "NO" If your true cost per child is greater than your average subsidy, the lowest tuition rate you should charge is the true cost per child. This means that if you set your tuition to equal how much it costs to care for each child enrolled, you would make just enough money to cover your expenses for the month, but there would be no money leftover. You would not make any profit.
- "YES" If your true cost per child is less than your average subsidy, the minimum tuition rate is the average subsidy rate. This means that you are making enough money to cover all of your expenses and you are eligible to get the full subsidy reimbursement rate. Remember, the state will only reimburse you for children enrolled in the subsidy program at your private pay tuition rate (up to and not exceeding the subsidy reimbursement rate). So if your private pay tuition rate is less than the subsidy reimbursement rate, you're leaving money on the table!

Estimating Profit

The green section asks the question: How much profit should I expect to make based on enrollment and average monthly tuition? Feel free to play around with these numbers based on what you've learned from the previous two sections. Remember, this estimated profit section assumes you are collecting full tuition every month.

Let's Work through an Example

REMINDER: All of these numbers in these calculators are estimates working off of averages and expected ratios. If you want more precise numbers reference your Crisis Management Budget.

Let's work through an example using a 3 star child care business in Durham County. First input that information in the orange "Demographic Information" section using the dropdown fields.

Next, in the green section, put in the enrollment information from February 2020 -

Age	February 2020 Number of Children
0 to 12 months	9
1 to 2 years	9
2 to 3 years	11
3 to 4 years	20
4 to 5 years	24
5 to 6 years	0
6 and older	0

And the current tuition price for each age group -

Age	Current Monthly Tuition Price per Child
0 to 12 months	\$999
1 to 2 years	\$949
2 to 3 years	\$849
3 to 4 years	\$849
4 to 5 years	\$849
5 to 6 years	\$799
6 and older	\$799

Now let's move to the blue section. Here you will input the average teacher and assistant salaries and the taxes and benefits for those teachers/assistants. Below is the salary and payroll tax and benefit information for the 8 teachers and assistants currently working for the child care.

	Manthly Calana	Monthly payroll taxes & benefits (inc.
	Monthly Salary	Refirement savings)
Teacher 1	\$2,500	\$350.00
Teacher 2	\$2,500	\$350.00
Teacher 3	\$2,600	\$355.00
Teacher 4	\$2,900	\$360.00
Teacher 5	\$2,900	\$360.00
Assistant 1	\$2,150	\$285.50
Assistant 2	\$2,150	\$285.50
Assistant 3	\$2,300	\$310.00
Total		
Average (Total/8)		

Next is the purple section. Here we have two options for how to input the direct cost per child. Let's use option 2 in this example. Looking at my crisis management budget, I see the total direct cost will only include the food expense line which is **\$1,176.48** and there are **12 students** enrolled that month.

Now we are on the last section. In the pink section, all of the overhead costs are being added up. From adding up all of the overhead costs other than payroll in the crisis management budget we know that overhead costs equal **\$6,485.68**. We also know the following about payroll (overhead costs) -

	Monthly Salary	Monthly payroll taxes & benefits (inc. retirement savings)
Director	\$2,000	\$200

Now that we have input all of the information needed, scroll over to the "What If Calculations:"

First, we will see the "Minimum Number of Children" calculation -



This estimates that at current tuition rates, this child care needs to have 20 children enrolled to cover all of their monthly expenses.

Next is the "Minimum Average Monthly Tuition" calculation -

You can play around with this calculator by entering different number of children. If you know you have 18 children enrolled then -

Minimum Average Monthly Tuition	
If I have X children, what is the lowest price I can charge and still breakeven (cover my monthly expenses)?	
Number of Children	18
Estimated Average Monthly True Cost per Child (Direct Cost + Overhead Costs) - this is the absolute lowest price you can charge and breakeven	\$908.09
Is my estimated average true cost per child less than the estimated average state subsidy?	Yes
Estimated average monthly tuition needed to breakeven and take full advantage of subsidy payments	\$1,015.12

But if you have 12 children enrolled then -

Minimum Average Monthly Tuition	
If I have X children, what is the lowest price I can charge and still breakeven	
(cover my monthly expenses)?	
Number of Children	12
Estimated Average Monthly True Cost per Child	
(Direct Cost + Overhead Costs) - this is the absolute lowest	
price you can charge and breakeven	\$1,149.36
Is my estimated average true cost per child less than the	
estimated average state subsidy?	NO
Estimated average monthly tuition needed to breakeven	
and take full advantage of subsidy	
payments	\$1,149.36

The major difference in these two examples is if the average true cost per child is greater or less than the average state subsidy reimbursement. In the first example, the true cost per child is less than the average subsidy reimbursement. The child care could set their tuition price below the subsidy amount and above the true cost per child making some profit, but they would not be taking full advantage of the subsidy reimbursement available.

On the flip side, the second example shows when true cost per child is greater than the average subsidy reimbursement. This shows that the true cost per child is the lowest average tuition rate that the child care can set without losing money (Note: they would not being making an profit if they set tuition rates at the true cost per child)



Lastly is the "Estimating Profit" calculator -

This calculator is designed for you to play around with. You can change both the number of children enrolled and the average monthly tuition per child to see the estimated profit for that month.

Estimating Profit		
So how much profit should I expect to make based on enrollment and my average tuition (assuming full collection)?		
Number of Children	22	
Average Monthly Tuition per Child	\$950.00	
Estimated Profit	\$2,852.18	

Estimating Profit	
So how much profit should I expect to make based on enrollment and	
my average tuition (assuming full collection)?	
Number of Children	36
Average Monthly Tuition per Child	\$822.00
Estimated Profit	\$5,586.45

These two examples show how you can play with enrollment and tuition price to see how it would affect your estimated monthly profit.

Answer Key

Demographic Information

Star Rating	3
County	Durham

Breakdown of Ages Served

rebruary 2020 Number of Children	Current Monthly Tuition Price per Child
9	\$999.00
9	\$949.00
11	\$849.00
20	\$849.00
24	\$849.00
0	\$799.00
0	\$799.00
	of Children 9 9 11 20 24 0 0

Teacher/Assistant Salaries

Average Teacher/Assistant Monthly	\$2,500
Salary	
Average payroll taxes & benefits	\$332
(inc. retirement savings) that is not	
encompassed in salary for	
teachers/assistants	

Answer Key

Direct Cost Per Child (Option 2)

Total Direct Costs projected for the current	\$1,176.48
month (sum of all direct costs except payroll in	
Crisis Management Budget)	
Projected enrollment for the current month	12

Total Monthly Overhead Costs

Expense Category	Expense Value
Overhead Costs (sum of all overhead costs	\$6,485.68
except payroll in Crisis Management Budget)	
Director salary	\$2,000.00
Assistant Director salary	
Administrator/Office salary	
Owner's draw (if not part of director's salary)	
Payroll taxes & benefits (inc. retirement	\$200.00
savings) for Director, Assistant Director,	
and/or Owner	

Explaining Breakeven Equations

So, this information is helpful, but what just happened in the background to make it work?



Number of Children

Minimum Number of Children



SHCU: Child Care Crisis Management Scenario Planning Guide | 14

Minimum Average Monthly Tuition



Estimating Profit



