First Children's Finance

Testimony to Vermont Senate Health & Welfare Committee

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Erin Roche, Vermont Director
January 25, 2024

For the record, my name is Erin Roche. I am the Vermont Director at First Children's Finance. Thank you so much for inviting me here today, and thank you for all your hard work to address child care in this biennium. As I said last week, FCF is a national non-profit, committed to growing the supply and business sustainability of excellent child care. We opened our office in Vermont a year ago, and expect to be here to support this mission in Vermont as long as our assistance is needed.

It might be helpful for you to know a little about me. Prior to starting this office in Vermont, I worked at Let's Grow Kids for 6 years, doing program development and evaluation, data systems and operations. And before that I was a Research Specialist and Adjunct Lecturer at the UVM Center for Rural Studies.

In the 11 months the FCF VT office has been operational, we have led 26 trainings with 273 participants and supported 303 technical assistance inquiries. Since last April, our trainings have included: Precision Pricing, Board Governance, Budgets & Cash Flow, Policies & Practices, When Tuition is Not Enough, Managing Enrollment, Separating your personal and business finances. We are adding a Business Plan training and a Discount/Scholarship training this spring. When Act 76 was enacted last summer, we pivoted from standard trainings to short "explainer" videos to answer questions about the new law.

One of the most important things we did when we started this office was to conduct a Business Health of Child Care Survey (February 2023) to inform our work and introduce us to the industry. We will be doing a follow up survey late next month. Keeping in mind that this data is from a year ago, and pre-Act 76, some of the data may help this committee in thinking about Act 76.

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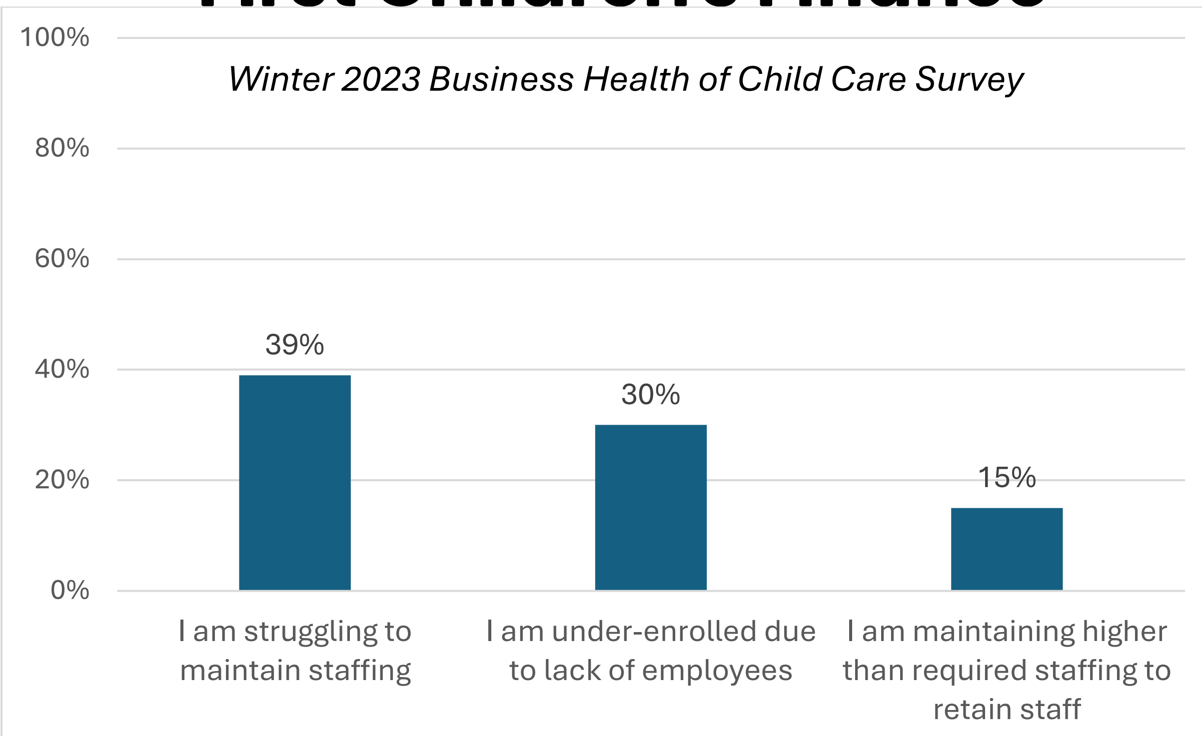

First, as you can see at this time last year, child care programs were challenged to maintain staff, and nearly one-third had to forego revenue due to lack of employees.

Another way to make this same point, is to look at how many spaces were empty. Keep in mind that tuition (whether paid by the state or by families) is the primary revenue source for a child care business, so every space that is empty is lost revenue to that business.

	Licensed for	Enrolled	Empty spaces	% of licensed that are empty
Infant	488	375	113	23%
Toddler	908	769	139	15%
Preschool	1818	1369	449	25%
School Age	1010	781	229	23%

In addition, when we asked programs that had employees about open positions and compared that to their unfilled spaces, the table below shows that for every open teacher position, there are 3.60 unfilled spaces, on average.

Open teaching positions	Unfilled spaces	Ratio of unfilled spaces/ open teacher position	Open non-teaching position	Unfilled spaces	Ratio of unfilled spaces/ open non-teaching position
115	414	3.60	29	20	0.69

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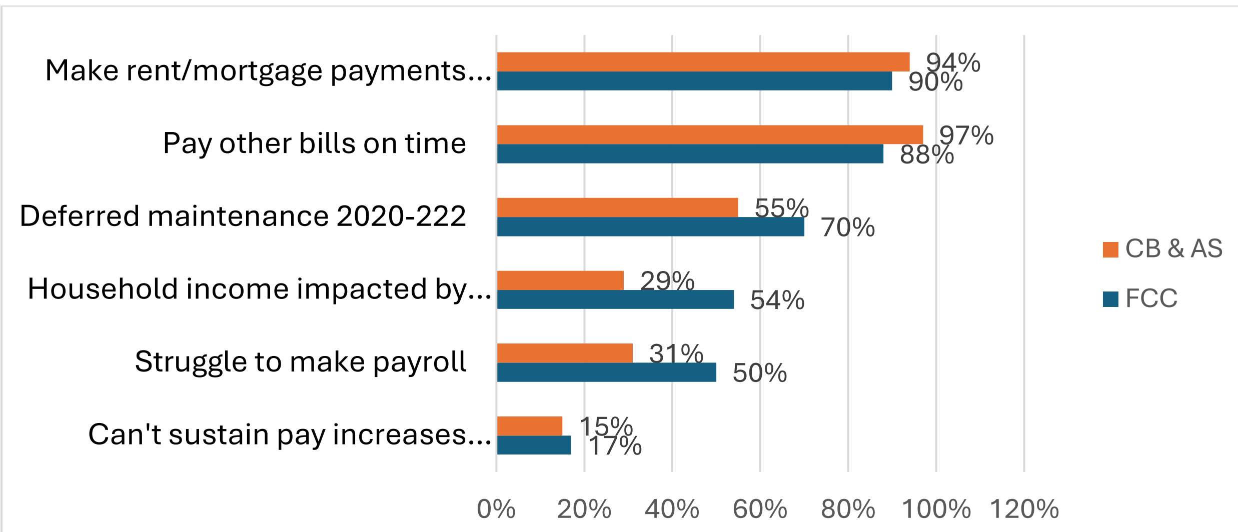
Last year's Business Health of Child Care survey also asked child care businesses about their major expenses. As you can see, nearly all (but not all) are current with their rent or mortgage and other bills. However, a majority had deferred maintenance over the past 2-3 years, some had their household income impacted by their business losses and were struggling to make payroll. Remember this was from a survey a year ago, just as the stabilization grants were ending.



In the survey, 7% of programs reported they can stay in business 6 months or fewer if current business conditions persist and 10% expected to stay in business up to 12 months in the current conditions. Looking at what actually happened this year, from the state report of regulated providers of December 2023, we estimate that 20% more programs closed in 2023 (78) than in 2022 (65), though in the most recent quarter we saw fewer programs close than in previous quarters. At the same time, slightly more new programs opened in 2023 compared to 2022. In net, for early care programs, the year over year change = 933 programs in December 2022, 891 programs December 2023, decrease of 4.5%.

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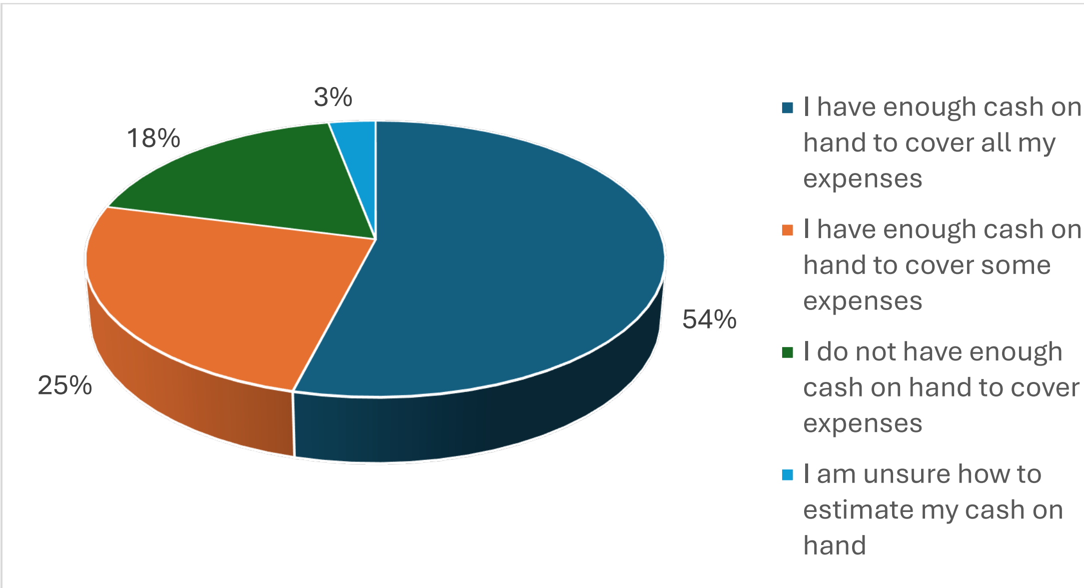
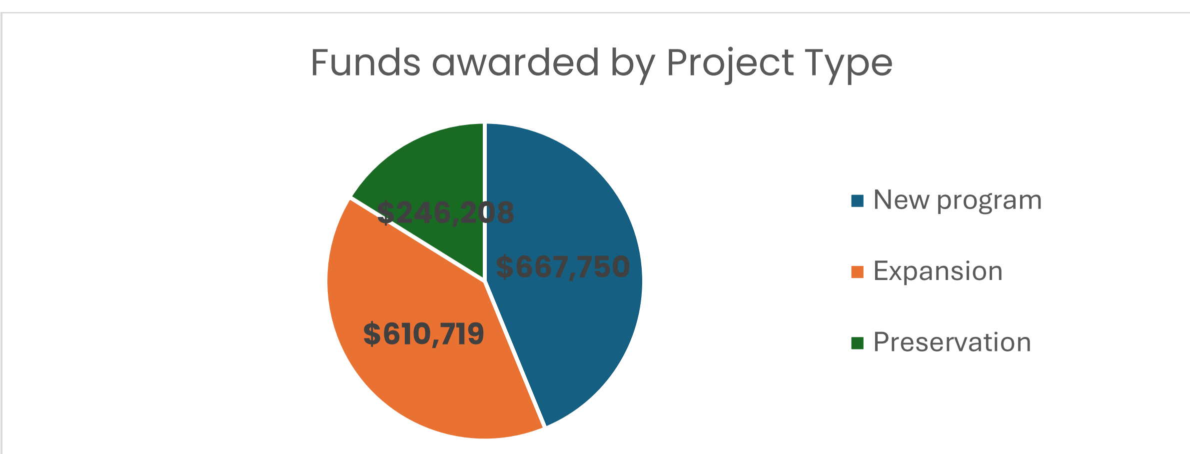


I am so optimistic about 2024 and can't wait to repeat this survey to hear how our child care leaders feel! I'm optimistic because we are only just feeling the effects of Act 76 in the industry, and because the response to our newest program, the Infant/Toddler Capacity Building Grants has been so enthusiastic. We received 49 applications for this program and funded 44. As I mentioned last week, we awarded just over $1.5 million dollars, about 40% of which hit the grantees bank accounts this week. These grants will help fund over 1000 new spaces and create 229 new jobs. In all, these grants fund 9 new family child care homes, 10 new child care centers, as well as 15 center expansions and 10 projects to preserve spaces.



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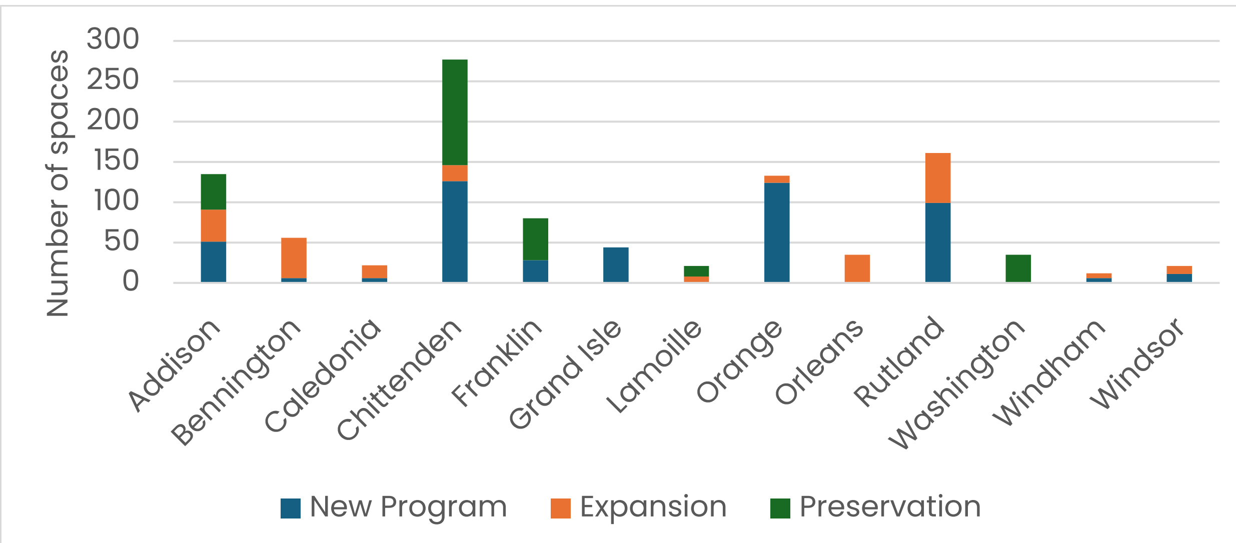
I shared this graph with you last week, to show that the grants were awarded across the state. I am really proud of my team, that pulled together this grant program, awarded $1.5 million dollars to projects that could use the funds by the end of June, and got the first installment of funds out the door in less than six months. We worked really hard to make this happen because we know that creating more capacity in the industry is important to the success of Act 76.



Act 76, which of course is still being implemented, has led to more optimism and more investments in the future of child care as well as investments in the workforce, than I have seen before. As part of a national organization, I am asked to educate other state offices on what this law is and how it is being implemented. The law is complex, but also thoughtful in the implementation phases and order. The Readiness Payments have funded everything from staff bonuses to preschool playgrounds, and we believe programs are really using these funds to ready themselves for more families. I have also heard that some programs that were not accepting CCFAP have started accepting it, as a result of the Readiness Payments and the increased reimbursement rates.

Currently, the two questions we get asked most often are 1. how can we estimate how many of their families will be eligible for CCFAP in the future – this is uncharted territory in a way, and it is hard to imagine what 575% of FPL means in real and tangible terms. And 2. what is the best way to communicate Act 76 changes to families? Over the past month, we have created tools to help programs collect information from their families to estimate future CCFAP eligibility and to communicate the Act 76 changes to families.

The single biggest challenge has been the cap on tuition rate increases. While this has not been universally a challenge, it does create a sort of arbitrary winners and losers from this law. Those 19 new programs that are starting through the capacity grant program (and all the other new programs that have started since July 1) can set their rates at whatever makes business sense for them, while a program across the street that charges significantly less can only increase by 7.2%. If a program didn't raise their tuition last year, or for several years, this might make it especially hard to pay competitive wages. For programs that currently have few families participating in CCFAP, the only meaningful increase in their revenue this year is limited to the 7.2% rate cap.

Lastly, and most importantly from a business standpoint, by changing the cap percentage every year, these businesses cannot budget for what they can raise their rates in the following year. As most families will likely be eligible for the state reimbursement rate in future, this may become a moot point, but for the next year, this is doing real harm to some businesses, at a time when their peers are thriving.

I respectfully suggest that this aspect of Act 76 be paused or repealed, in favor of taking at least a year to observe how the overall tuition rates change without any cap in place. This would provide time for the nearly universal financial assistance program to be rolled out, and time to understand how to best ensure that public money is spent effectively.

You asked me to testify to S.188, and I hope that I have made the case that it is important to do whatever is possible to ensure the best total compensation for early educators/child care workers. Without the necessary workforce in child care, the necessary capacity cannot be achieved and access to child care will remain scarce, likely keeping it unaffordable if it can be found.

I wanted to leave you with a quick preview of the work that we are doing right now in Vermont, to support both Act 76 implementation and growing the supply and business sustainability of child care in Vermont. We are picking up steam, literally meeting people where they are and bringing more business resources. FCF in Vermont is a small but mighty team – just 5 of us so far – answering hundreds of questions, training hundreds of child care leaders, awarding over a million dollars in grants, surveying the field and meeting child care businesses where they are and creating new tools and resources. I believe, and I know I speak for my whole team when I say, that child care is the backbone of our economy and

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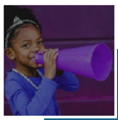
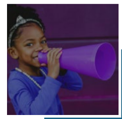
excellent child care is crucial for young families, so thank you for the investment that you have made and for considering small changes to make it even better.



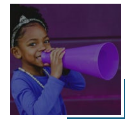
Winter

- 7 trainings
- 2024 Business Health of Child Care Survey
- Act 76 videos on eligibility changes
- Business Leadership Cohorts for new Child Care Center Directors
- Small Business Development Center workshops



Spring

- Business Leadership Cohorts for new Family Child Care owners
- Planning assistance for capital projects
- Trainings on business plan creation
- More business trainings



Summer

- Roadshow to the 4 corners of the state
- Business planning cohorts