Vermont Community Loan Fund
Testimony on Potential Minimum Wage Impacts for Child Care
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Good morning, and thank you for the opportunity to address the committee. My name is Becca Schrader, and I am the Business Resource Manager at the Vermont Community Loan Fund, or VCLF. The Vermont Community Loan Fund is a mission-driven, community-focused alternative lender. We make loans to small businesses, community organizations and nonprofits, child care providers, and developers of affordable housing who may not qualify for a loan from a traditional lender. We combine our loans with financial capability consulting and business advisory services to make sure our borrowers have access not only to capital, but also training in the knowledge and skills that are critical to running a successful business. VCLF's mission is to create opportunities that lead to healthy communities and financial stability for all Vermonters.

Vermont's early care and learning system aligns with that mission in several ways that address issues of economic development and social and economic justice. To highlight three of those, early care and learning businesses provide jobs, facilitate labor market participation, and invest in Vermont's future workforce. In the year 2000, we identified a critical need for financing in this industry. VCLF has a dedicated lending program to finance start up and existing early care and learning businesses in Vermont for real estate purchase, construction, equipment, and working capital. Banks are hesitant to lend to early care and learning businesses, especially start-ups. The profit margins are razor thin, owners rarely have much experience in business management, and collateral is tight. Many early care and learning providers mortgage their personal residences to finance their businesses and even after many years, don't have considerable assets to leverage for expansion or working capital when they look to serve more children, increase quality, or increase wages and benefits. For over 15 years, we have financed child care businesses ranging from registered homes with 6 children to licensed centers with over 150 children. In addition to providing access to capital for early care and learning programs, we offer business advisory services, primarily around business and financial management, to help early care and learning programs increase quality and access, as well as working to make early care and learning a viable professional choice.

In advising early care and learning providers, we've learned a lot about the funding streams into these businesses and the careful and precarious balance many of them operate in. Juggling Child Care Financial Assistance Program (CCFAP) subsidy payments and private pay tuition is just the beginning. Many also participate in the federal food program and receive preschool tuition payments through Act 166 private/public partnerships to provide universal Pre-K. They apply for both government and private grants, and hold fundraisers.

We can assure that no one is in the early care and learning business for the money, and these business owners would be the first to tell you that their employees should be compensated much more for the service they provide to children in their most critical years of development. However, they will also be the first to tell you that the families they serve are already stretched thin to pay tuition at current rates. The 100% subsidy rate is outdated and even if brought up to current market rates, would likely still fall short of the true cost of providing high-quality care as calculated by Vermont's Blue Ribbon Commission on Financing High-Quality Affordable Child Care. Families that receive partial or even full subsidy can rarely afford to pay the co-pay to make up the difference between their subsidy and the provider's full rate. Many providers elect to simply not charge for the difference, absorbing additional costs into their programs. The more children a provider cares for that receive subsidy, the larger the impact of this deficit, so that programs serving predominantly low and moderate income families are hit the hardest. One of our borrowers, a 4 STAR rated program in Lyndonville, recently made the difficult decision to close her infant and toddler rooms – the very age group where Vermont has the most critical need – as of the end of this month because she simply cannot make the numbers work. This will mean a loss of 12 child care spaces and 5 jobs. She has always started her entry level workers at above minimum wage, and for the last two years had raised entry level pay in step with the rising minimum wage without raising tuition rates. This year she was unable to absorb the additional cost without raising rates.

Early care and learning business owners are caught in a tug of war between two groups of people they care about the most – the children and families they serve, and their employees. Oftentimes, people fall into both categories, as one of the most valuable benefits early care and learning employers provide is discounted care for employees' children. They would love to pay their employees more, but they simply cannot. And while families that access early care and learning programs would presumably benefit from an increased minimum wage, the subsidy structure and benefit cliff means that making more income does not necessarily mean that minimum wage earners would have more funds to pay higher tuition rates. While this bill partially addresses that issue, stronger language, while still non-binding, would communicate this legislature's acknowledgement of its importance.

The financial stability of the early care and learning system depends upon a complex structure of several inputs. Pressing one lever without adjusting others could easily cause collapse. In tandem with consideration of raising the minimum wage, we would suggest investigation into other investments in the early care and learning infrastructure, such as public funding through increased subsidies, financial supports for early care and learning professionals to prepare for and grow professionally in the field, incentivizing employer funding and facilitation of child care, support for acquiring and renovating facilities (including permitting costs), as well as bond issues or other measures. Thank you.