



FIRST  
CHILDREN'S  
FINANCE

# State of MN Child Care Businesses

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LEGISLATIVE TASK FORCE ON ACCESS TO AFFORDABLE CHILD CARE

NOVEMBER 14, 2016



# At a Glance – First Children's Finance

***Celebrating Over 26 years supporting the  
business needs of child care providers***

Founded in 1991 as a Community Development Financial Institution (CDFI) and neighborhood-based developer of child care centers in Minneapolis



Became a national nonprofit organization in 2006, with new branch offices in Michigan and Iowa in 2008



Launched **Greater Than MN** in 2013 with focused support to rural center-based and family child care providers



Loan Fund Exceeds \$11 Million in loans granted – exceeding over 8,500 slots created or preserved



# Greater Than MN



Changing the landscape of early care  
and education in Greater Minnesota.

Because nothing is **Greater Than** Minnesota's future.

## What's Greater Than Minnesota?

Greater Minnesota is **greater than** its challenges.  
Together, we are **greater than** our size in numbers. We  
have dreams for our children that are **greater than** the  
status quo.

Visit [www.greaterthanMN.org](http://www.greaterthanMN.org) for more information!



Community Solution Action Plan

Business Leadership Cohort

Child Care Work Group



# The Business Case for Child Care

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IT'S MORE THAN PROVIDING CARE FOR CHILDREN



# Why It Matters...

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Access to quality child care and early education is vital to individual productivity and regional economic growth.



# Women in the Workforce

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In 2014, 84% of Minnesotans ages 25-64 participated in the labor force, **including 77% of Minnesota women with a child(ren) under age 6.**

(Source: 2014 American Community Survey)



# Child Care's Economic Contribution in MN

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The Minnesota child care industry revenue of \$883.2 million led to another \$900 million in spillover impact on local economies.

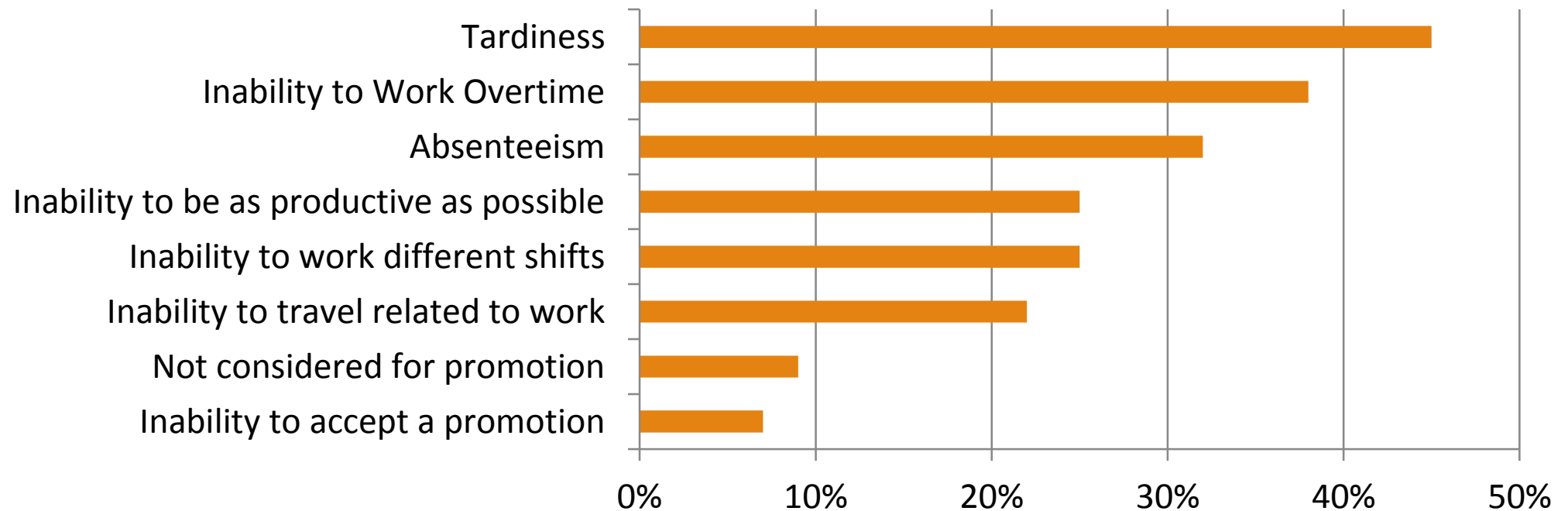
(Source: "Child Care in State Economies"  
[ced.org/childcareimpact](http://ced.org/childcareimpact))





# Effects of Child Care on Business

## Greatest Difficulties Parents Experience as a Result of Child Care Responsibilities



(Source: F I R S T 5 Santa Barbara County – Employee Child Care Study)





# Effects of Child Care on Business

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## **When child care is unstable for employees, businesses lose out...**

- ❖ 45% of parents are absent from work at least once due to child care issues, missing an average of 4.3 days
- ❖ 65% of parents' work schedules are affected by child care challenges an average of 7.5 times

*(Source: "Economic Impact of Child Care" Lets Grow Kids)*



# Unstable Child Care and Business

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**\$3,000,000,000**



# Understanding the Child Care Models

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# Center Child Care Organization Overview

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## Child Care Centers

- Organized under Rule 3
- Regulates areas such as square footage, outdoor play space, toilets and sinks.
- Multiple regulating agencies



Minnesota Department of **Human Services**



# 99 Seat Center - Performance Model

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Assumes a Child Care Center in Fillmore County using the 2014 Market Rate Survey Rates

Start-up range from \$400k - \$600k plus property acquisition

Wages range from \$9 - \$13 / hour with \$200 monthly health insurance stipend

Age Group	Capacity	85% Capacity
Infant	16	13.6
Toddler	28	23.8
Preschool	40	34.0
School Age	15	12.7

**Loses \$74,000 a year**  
*Needs 94% occupancy to break-even*



# 52 Seat Center – Performance Model

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Assumes a Child Care Center in Fillmore County using the 2014 Market Rate Survey Rates

Start-up range from \$200k - \$450k plus property acquisition

Wages range from \$9 - \$13 / hour with \$200 monthly health insurance stipend

Age Group	Capacity	85% Capacity
Infant	8	6.8
Toddler	14	11.9
Preschool	20	17.0
School Age	10	8.5

**Loses \$62,000 a year**  
*Needs 101% occupancy to break-even*



# Center Expenses Summary

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Staffing 70%

Facilities 20%

Food 5%

Everything Else....Including Profit



# Family Child Care Organization Overview

## Family Child Care

- Organized under Rule 2
- Licensing of homes for family child care and group family child care

Minnesota Rules, part 9502.0367 CHILD/ADULT RATIOS; AGE DISTRIBUTION RESTRICTIONS.

A. Family Day Care:			
Child/Adult Ratio		Age Restrictions	
Licensed Capacity	Adults	Total children under school age	Total infants and toddlers
10	1	6	Of the total children under school age, a combined total of no more than 3 shall be infants and toddlers. Of this total, no more than 2 shall be infants.
B. (1) Specialized Infant and Toddler Family Day Care:			
Child/Adult Ratio		Age Restrictions	
Licensed Capacity	Adults	Total children under school age	Total infants and toddlers
5	1	3	No more than 3 shall be infants.
B. (2) Specialized Infant and Toddler Family Day Care:			
Child/Adult Ratio		Age Restrictions	
Licensed Capacity	Adults	Total children under school age	Total infants and toddlers
6	1	4	No more than 2 shall be infants
C. (1) Group Family Day Care:			
Child/Adult Ratio		Age Restrictions	
Licensed Capacity	Adults	Total children under school age	Total infants and toddlers
10	1	8	Of the total children under school age, no more than 3 shall be infants and toddlers. Of this total, no more than 2 shall be infants.
C. (2) Group Family Day Care:			
Child/Adult Ratio		Age Restrictions	
Licensed Capacity	Adults	Total children under school age	Total infants and toddlers
12	1	10	Of the total children under school age, no more than 2 shall be infants and toddlers. Of this total, no more than 1 shall be an infant.
C. (3) Group Family Day Care:			
Child/Adult Ratio		Age Restrictions	
Licensed Capacity	Adults	Total children under school age	Total infants and toddlers
14	2 A helper may be used in place of a second adult caregiver when there is no more than 1 infant or toddler present.	10	Of the total children under school age, a combine total of no more than 4 shall be infants and toddlers. Of this total, no more than 3 shall be infants.
D. Specialized Infant and Toddler Group Family Day Care:			
Child/Adult Ratio		Age Restrictions	
Licensed Capacity	Adults	Total children under school age	Total infants and toddlers
9	2 Both caregivers shall	7	Of the total children, no more than 4 shall be infants.





# FCC Providers in Sample

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- 28% of providers were located in Twin Cities Metro Area, remaining were located in 15 counties in Greater Minnesota
- On average, providers have been in business 12 years
- Most FCC providers worked alone; only 9% employed an assistant or substitute
- On average, they served 10 children



# FCC Revenue

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- On average, providers reported annual revenue of \$50,938 (median of \$47,775)
- 90% of income is from tuition
- 93% of providers in sample received income from the Child and Adult Care Food Program; CACFP makes up, on average, 10% of program income
- 30% of providers received CCAP; of those receiving CCAP, the payments accounted for 23% of tuition received
- 5% of providers received income from a Early Learning Scholarship



# FCC Preschool Revenue

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Every provider in the sample served preschool children.

**Preschool tuition made up, on average, 54% of tuition income.**

The importance of preschool tuition for the financial viability of family child care needs to be recognized, especially as Minnesota considers Universal Preschool. Mixed delivery systems for preschool that include – *or perhaps target*– family child care partnerships is critical to maintaining the supply of child care across the state.



# FCC Expenses

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Expenditure	Amount	Percent
Occupancy Expenses	\$ 10,833.71	41%
Food Expenses	\$ 6,857.71	26%
Transportation	\$ 1,568.77	6%
Activities/Supplies	\$ 1,355.85	5%
Phone/Internet	\$ 1,014.09	4%
Cleaning/Supplies	\$ 768.00	3%
Other	\$ 3,973.83	15%

On average, providers reported annual expenses of \$26,372.

Two-thirds of program expenses are associated with occupancy.

The “other” category includes many things (none of which make up more than 2% of program expenses).



# FCC Profit and Pay

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Annual revenue      \$50,938

Annual expenses      -\$26,372

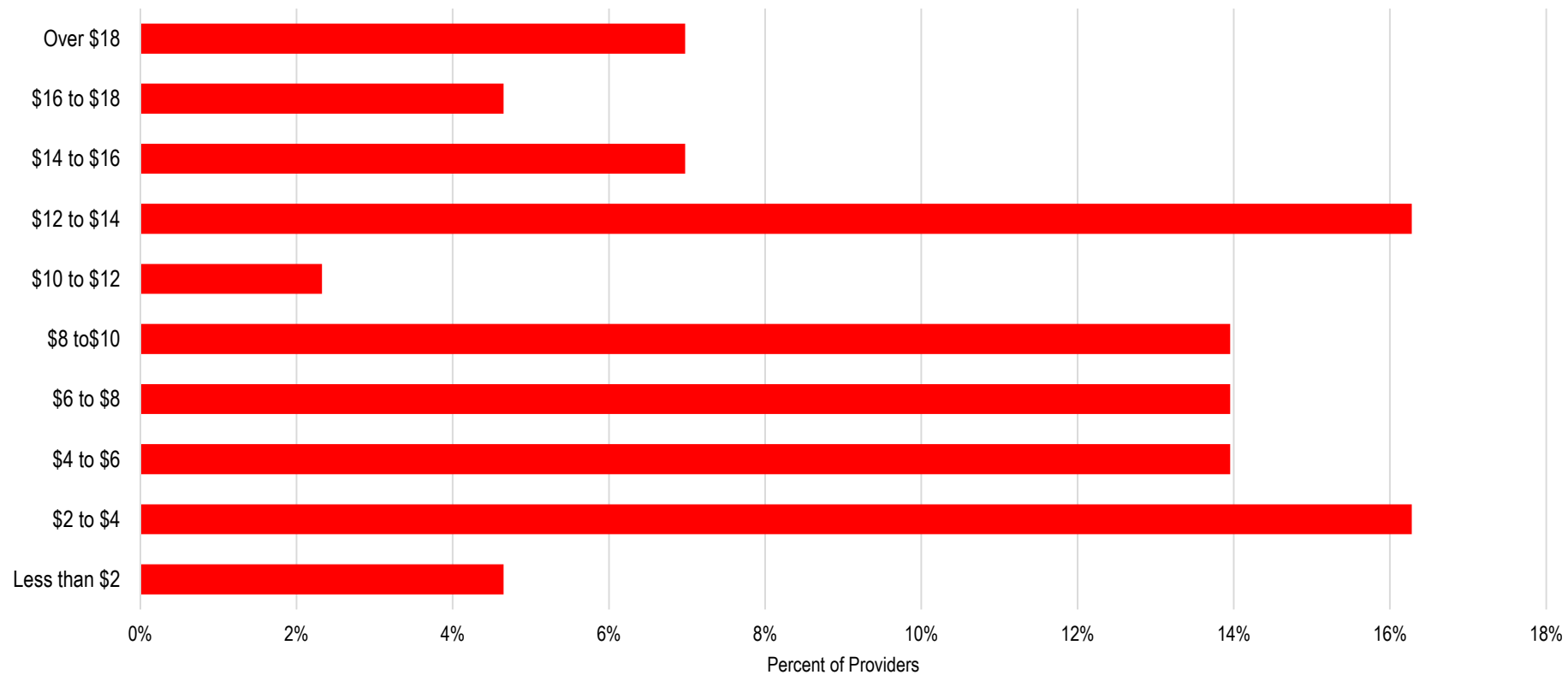
**\$24,566 Average annual profit (salary)**

- Providers report operating an average of 53 hours/week
- Operating 53 hours/week + 12 hours/week to clean, manage and prepare
- When converted to an hourly wage, 49% of providers are making less than \$8/hour before taxes



# FCC Profit and Pay

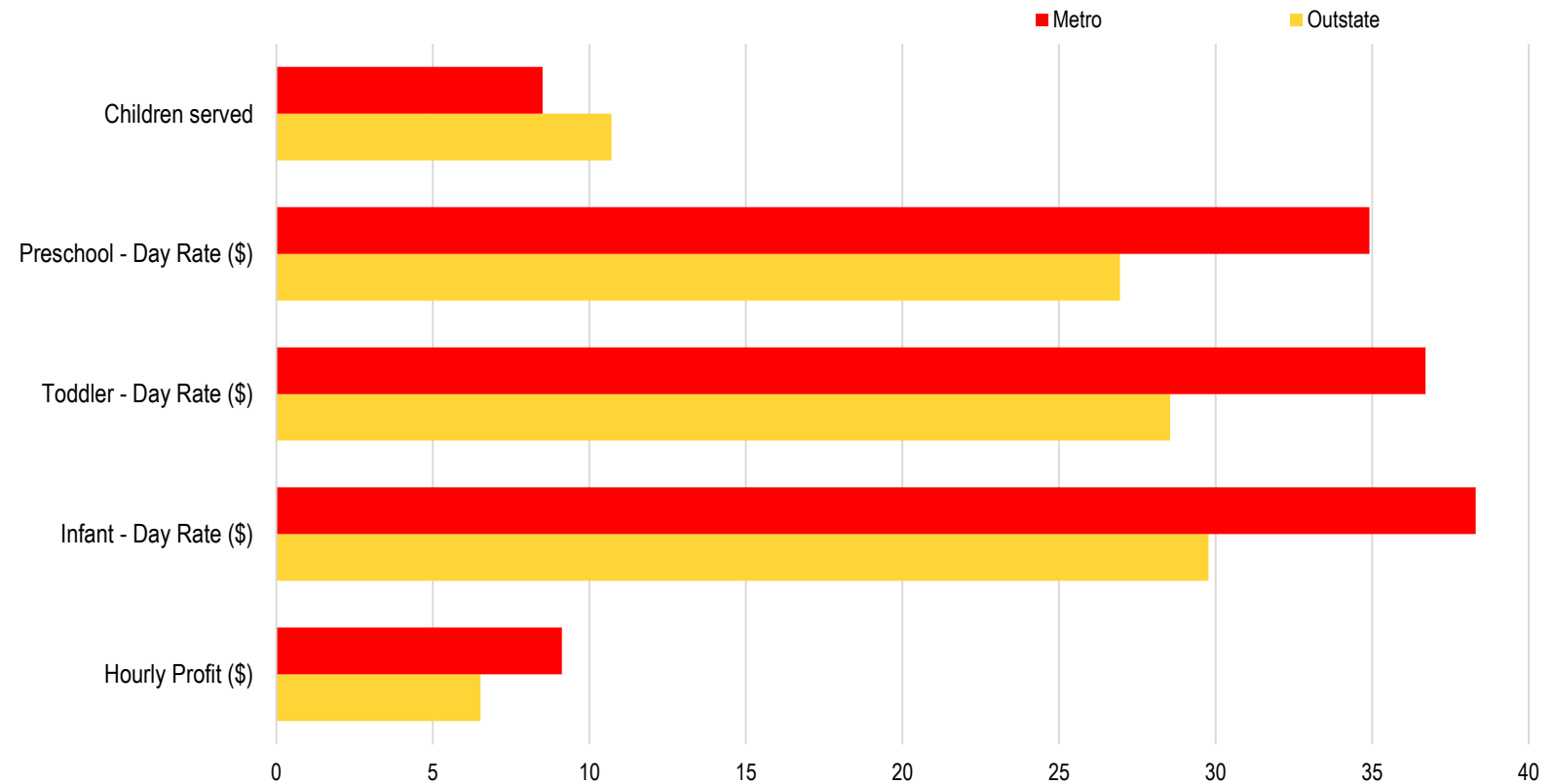
Hourly Profit/Pay





# Comparing Metro to Greater MN

Metro vs Greater MN





# Comparing Metro to Greater MN

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- Metro programs make over \$9,000 more annually than programs in Greater MN; the difference in program expenses is just \$1,200 (nonsignificant)
- Differences in profit are driven almost entirely by differences in tuition rates
- Greater MN providers reporting serving more children, on average, than providers in the Metro

*This finding lends viability to the idea that **CCAP rates should be based on operating expenses** rather than on the tuition rates charged by other providers in the region.*





# Regulation Costs

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- Program administration
- FCC licensing fees vary, but are minimal; are not a significant factor



# Impact of Quality

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- Providers with a Parent Aware rating are spending more than 4 times as much as non-participating providers on quality practices
- A 450% difference seems dramatic, but quality practices make up just 2% of program expenses
- Preliminary results indicate that implementing quality practices cost providers an additional \$1.32 per child per week (\$688 per year)



# Impact of Quality – Sample Limitations

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- All the Metro providers in the sample were participating in Parent Aware
- In Greater MN, Parent Aware participation was associated with \$3,344 more income for programs annually, attributable to higher tuition rates
- The overall sample of programs is small, so it is too early to say with certainty whether differences in tuition rates will be seen in the larger population
- It is not yet known whether higher tuition rates make a program more likely to join Parent Aware or whether programs can charge higher rates because of their Parent Aware ratings



# FCF Recommendations to Communities

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1. Communities need a right sized solution – don't get fixated on a particular property or building.
2. The private sector cannot be 100% of solution – there needs to be good policy and incentives.
3. Do involve existing providers in your community – they are part of the solution.
4. Always run financials first before committing to a project – look for a broad base of support.



*No one has yet realized the wealth of sympathy, the kindness and generosity hidden in the soul of a child. The effort of every true education should be to unlock that treasure.*

*– Emma Goldman*