

## **Vermont Community Loan Fund**

### **Testimony to Legislative Minimum Wage Study Committee – 10/2/17**

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The Vermont Community Loan Fund is a mission-driven, community-focused alternative lender. We make loans to local businesses, community organizations and nonprofits, child care providers, and developers of affordable housing who don't 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 to everything they need to succeed. VCLF's mission is to create opportunities that lead to healthy communities and financial stability for all Vermonters.

As part of that mission, 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. In the year 2000, we identified a critical need for financing in this industry. 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, rarely have considerable assets to leverage for expansion or working capital when times are tight. 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 state subsidy payments (CCFAP) 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.

We can assure the Committee 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. So even if though they want to pay more, they can't.

The market rate used by CCFAP to determine the benefits awarded does not reflect the true costs of care, and families that receive partial 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.

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. It's worth repeating – 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.

We know from our many years of advising child care providers on business development and financial management that the financial stability of the state's 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 strongly suggest investigation into other investments in the Vermont early care and learning infrastructure, such as public funding through increased investment in CCFAP.