First Children's Finance

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Thank you to this committee for inviting my testimony in regards to H.248. For the record, my name is Erin Roche and I am the Vermont Director of First Children's Finance. I have submitted this brief written testimony accompanied by data, in case you would like more information. I am happy to answer your questions about any of the data provided.

First Children's Finance is a national non-profit that seeks to grow the supply and business sustainability of excellent child care. We provide research and advice to states and tribes and we provide business support and access to capital to child care businesses. The Vermont office opened in early 2023 and provides business training and consulting at no charge to child care businesses through funding from the State of Vermont. Since Fall 2023, we have administered the state Infant/Toddler Capacity Building Grant Program (Make Way for Kids). In 2024, we began several pilot projects, including a planning grant project and a business planning project, through federal funds made possible by Let's Grow Kids.

In addition, our national team has recently begun child care cost modeling work with the State of Vermont and our Community Development Financial Institution (CDFI) recently made its first loan in Vermont and looks forward to continued lending to child care businesses in the state.

I'm grateful for this opportunity to share a little about the state of child care in Vermont, especially as it pertains to extraordinary relief fund.

- Since Act 76, there are more child care programs and more capacity for children (including a 5% increase in infant capacity) in the state, and we see continued interest in starting new programs/locations and expanding existing ones.
- Through the first quarter of CY 2025, Vermont continues to experience more child care programs opening than closing (this is the fifth quarter in a row).
- The percent of child care businesses reporting stable enrollment continues to increase, with very few openings reported per program.
- At the same time, expenses are increasing, especially for family child care homes. Payroll is the most frequently mentioned "significantly increased" expense of 2024.
- Hiring continues to be difficult, but seems to be easing, in part due to increased compensation (which is likely why payroll costs have increased significantly).
- With payroll three-quarters of child care center expense budget, and 40% of centers reporting significant increases in payroll, it seems unlikely that cutting back on other expenses will be enough to balance their budgets.
- Most centers and afterschool programs expect to raise tuition rates this year, with most forecasting an increase of less than 10%. Based on the increased payroll costs at

centers, and the relatively low inflation rate overall, we expect that programs will not be able to raise their rates more than 5% in 2025.

- From Fall 2023 through Winter 2025, the Infant/Toddler Grant Program that FCF VT administers has awarded just over $3 million to 112 child care projects in Vermont. This grant program can award up to $15,000 to family child care homes and up to $50,000 to child care centers to increase the number of infants and toddlers they serve, including starting new programs, expanding existing programs and preserving spaces in programs that might otherwise close.
- In 2023-2024, we awarded grants to 61 projects. So far in 2024-2025, we have awarded grants to 51 projects and expect to award 15-20 more next month. Last year this program supporting opening/preserving over 1,000 spaces, with 6 more projects and nearly 200 more spaces expected to be complete this year. This year, 225 new spaces are already open, with the remainder to come online throughout 2025.
- The slim and sometimes negative profit margins that are modeled, and the relatively high percent of their budget spent on expenses directly related to the number of children served, illustrates the importance of an extraordinary relief fund and the importance of flexibility in awarding these funds.
- A grant program like the Infant/Toddler Capacity Building program requires at least three months for an applicant to write the application, submit it for review process and the funds to be awarded. This time period is necessary to carefully steward public dollars.
- Lending decisions at CDFIs or at banks also take time to conduct due diligence.
- Extraordinary relief can provide just that and increasing the flexibility of who can receive these funds will help ensure programs can continue to meet the community's needs, even when unexpected capital outlays are needed.