



MEMORANDUM

TO: CITY COUNCIL
FROM: TARA SUNDIN, COMMUNITY & ECONOMIC DEVELOPMENT MGR
CC: MAYOR KELLI LINVILLE
FORREST LONGMAN, BUDGET MANAGER
SUBJECT: CHILDCARE CRISIS & ASSOCIATED BUDGET AMENDMENT
DATE: DECEMBER 16, 2019

The City recently learned that the childcare provider Kids' World plans to close all four of its locations on December 31, 2019. This would eliminate 532, or 15% of Whatcom County's licensed childcare slots, 60% of which are low-income supported by state subsidy. Bellingham and Whatcom County already face a significant shortfall in childcare slots. The unmitigated closure of Kids' World constitutes an emergency for the welfare of children and as such would have serious social and economic impacts on the community.

The Boys & Girls Club of Whatcom County (BGC) board of directors has directed staff to pursue an agreement with Kids' World to take over operation of all Kids' World locations. This is a significant undertaking on very short notice. BGC has requested support from the community for start-up costs. City staff recommend a \$100,000 grant to BGC to ensure these licensed, subsidized childcare slots remain in our community. If approved, the attached ordinance would provide \$100,000 of additional General Fund budget authority in the Planning and Community Development Department for that grant.

Background

The Mayor directed staff to reach out to potential operators, funders and potential partners as soon as she learned Kids' World planned to close the business on December 31, 2019. Unfortunately, the administration learned of this closure just a couple of months ago. There are 13,308 children five years or younger in Whatcom County and 8,070 have two full-time working parents. Today, there is capacity of only 3,608 licensed childcare slots throughout the county.

The closure of Kids' World, if not mitigated, would impact 532 enrolled children, their families and 110 employees would be affected. Over 60% of enrolled children are paid for in full or in part with state subsidy. Kids' World is the largest single provider in Whatcom County, with four facilities – three in Bellingham and one in Ferndale. A closure represents a significant loss at a time when our businesses and families are calling for more licensed childcare slots, not fewer.

According to the Washington State Childcare Collaborative Task Force recommendations to the legislature in November 2019, insufficient access to affordable, high-quality childcare means

fewer parents in the workforce, more missed work, less productivity and lower economic gains. It also means fewer children will be able to take advantage of developmental supports, social-emotional skill-building opportunities and learning environments for school readiness and success offered by high quality childcare programs. The 2019 “Mounting Costs” analysis estimated that 27% of Washington parents with young children reduced to part-time work hours and 18% quit due to childcare issues. Each year, employee turnover and missed work due to issues accessing childcare costs Washington employers an estimated \$2.08 billion. Including missed opportunities for businesses and consumer spending, Washington’s economy loses an estimated \$6.5 billion annually.

Problem: High costs and low availability. Infant care is the most expensive and difficult to find. Childcare is the greatest expense many families face – even more than housing! Overall, the yearly cost of childcare – which is more expensive than tuition at Western Washington University – is unaffordable, even for middle-class families.

For a variety of reasons, the business model no longer works for Kids’ World. The state minimum wage increases, and other regulations have become too much to overcome. Next year, the business estimates labor costs to increase by approximately 12.5%. Further, the state’s 55% of median reimbursement rate is lower than it costs to provide the service.

The City and community partners created a team to develop a plan with the goal to develop a transition strategy to ensure: 1) no loss to the approximately 500 enrollees and their families; and 2) minimal impact to the 110 staff members currently employed at Kids World. The team is also focused on addressing the broader childcare deficit issue.

The City of Bellingham, the City of Ferndale, the Whatcom County Health Department, the Bellingham Public School District, the Port of Bellingham, the Whatcom Community Foundation, the Mount Baker Foundation, the Opportunity Council, the YMCA (current operator), Skookum Kids, Hillcrest Chapel (current operator) and others are committed to working toward the stated goal above. Fortunately, BGC is interested in preserving the 532 licensed childcare slots that Kids’ World is currently operating. BGC had already identified this need in our community that additional licensed and affordable childcare spots were needed to keep our community thriving.

The City immediately supported BGC’s efforts in studying the business and operations of Kids’ World to the best of their ability in the time they have been provided, which was just over a few weeks. BGC believes that with changes to the operations this business can not only sustain the number of licensed slots, but over time can grow to serve more children in our community.

After examining the books of Kids’ World, BGC determined that the current owners heavily subsidize the operation and that the increase in minimum wage from \$12.00 to \$13.50 will bankrupt the business under its current operational model. Of its current 110 employees, 43% earn \$12.00/ hour and 26% earn between \$12.25 and \$12.50/ hour.

BGC has calculated that if no operational changes are made (including increases to rates and/or a change in the number of state subsidized children served), minimum wage changes alone will increase payroll by \$628,000. Licensing application fees, legal fees and other costs add another \$70,000 in expenses. They calculate a total deficit of \$699,000 in 2020. In an independent analysis, the YMCA came to a similar conclusion.

BGC will work as quickly as possible to make changes to the operations of the four centers to lessen that deficit in 2020. However, they anticipate a \$300,000 shortfall within the first 90 days of after obtaining a license and taking over operation of the centers and another \$150,000 shortfall within the second 90 days of operation. They are asking that community partners help them to preserve these 532 licensed spots with grants to cover the shortfall of the business while they work to make it a revenue neutral operation by 2021.

Staff is recommending the City Council approve a budget amendment in the amount of \$100,000 to help fill the \$700,000 deficit and the \$300,000 they are requesting of the community by the third week in December. The provision of these grant funds supports low-income families, a recognized governmental function regarding child welfare and economic development and is made for consideration of the provision of services to these families. City staff has been working very closely with BGC Executive Director Heather Powell and have shared several questions that need to be answered prior to entering into a grant agreement with BGC. In addition, City staff has been in discussions with Whatcom County as well as other non-profits and foundations which are interested in partnering to provide funding for this critical need.

While we are not certain today that BGC will be able to reach a deal with the owners of Kids' World, a budget amendment will provide certainty to BGC that the City of Bellingham is willing to partner with the BGC to help solve this emergency.