

Case Study:

Expansion of a Family Child Care Business



A California Statewide Collaborative

ACKNOWLEDGEMENTS

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The Building Child Care (BCC) Project is a centralized clearinghouse of information and services designed to improve child care providers' access to financial resources for facilities development projects in California. For more information about this project and its services, please call (888) 411-3535, or visit the website at www.buildingchildcare.org.

DECIDING TO EXPAND

Sophia began her small family child care business (licensed for up to 8 children) in 1994. Her business is located in a lower to middle-class, diverse neighborhood in San Francisco. Soon after Sophia opened her program she reached full capacity and after several months she began a waiting list. By 1997, she was averaging three calls per month for child care spaces that she didn't have available.

Sophia began to think about expanding because the demand for her child care services was clear, and because she knew that many of the low-income families were able to use state subsidies in the form of parent vouchers in order to pay for such services. Also, since Sophia already had a part-time teacher working for her she knew that by expanding she could promote that teacher to a full-time position and open up a new part-time position in her program.

Most of all, Sophia enjoyed the personal satisfaction of knowing that she helped mold the children in her care and that she helped their parents create a good life for their kids. As a professional, this is her highest reward, and she believed that through expanding her program, she would be able to succeed in helping even more children and families in the community.

ESTIMATING TOTAL COSTS

Sophia started planning her expansion by thinking about three essential areas:

1. **Construction costs**, including permits, fees, equipment, the cost of hiring a contractor, and contingency costs (a built -in percentage of the construction estimate - typically 10% - to cover unexpected costs and over-run expenses).
2. **Operating costs** to "build" her business, including new salaries, marketing expenses, and new classroom materials.
3. **Staff time** required to plan and execute the expansion project while still maintaining a high quality program.

She had to be sure that the expenses she would incur to expand her program were cost-effective. More specifically, she had to figure out if she would be able to recoup her investment; expand within a reasonable amount of time; and continue to operate her business at a profit and with the same high quality services that she had always provided.

GETTING STARTED

Sophia's first step in the process was a huge one: she and her daughter decided to co-purchase the duplex she was living in as a first move toward making her expansion dream come true. This way, Sophia was assured that all the improvements she made to her home would increase her equity, and give her a source of collateral to build her business. Buying the home also meant that she had the space needed for a large family child care home, and that she could customize the space for kids and staff.

UPDATING A BUSINESS PLAN

Sophia's next step was to update her **business plan**. This involved answering a number of specific questions:

- What is the ultimate objective of the expansion?
- Is there a clear market demand for the additional services?
- What materials and equipment are needed to make the expansion a success?
- How much will the construction process cost?
- What new costs or increased costs will the operating budget require? For example, how will staff salaries change, what additional food expenses will result, and what extra services might she offer for her new families?
- How will she market her expanded services?
- How will she finance the project in order to pay for the expansion costs?
- How long would the expansion process take?

ESTIMATING OPERATING COSTS

When revising her business plan, Sophia started out by analyzing her operating budget, and the changes that an expansion would incur. In particular, she considered the following categories:

1. **Wages:** Knowing that she was going to promote her part-time teacher and hire a new staff person, she wanted to be equitable not only with salary, but with other employee incentives as well. She decided to hire a payroll company and she purchased workman's compensation insurance. As employee incentives, she included vacation pay, sick time, bonuses and health insurance. She also looked into using substitutes when necessary, and immediately hired a Certified Public Accountant (CPA) to handle her monthly and annual bookkeeping records.¹
2. **Equipment and Materials:** Sophia knew that expanding meant she needed to double all the toys and materials that she already had, since at capacity she would have twice as many children in her care. She also had to purchase more dishes, silverware, and cups to accommodate the new children.
3. **Food:** Increasing the number of children in the program also meant that grocery shopping and cooking needs would grow as her capacity increased. Sophia was already a member of the Child Care Food Program/Nutrition Services and as such was reimbursed for feeding eligible low-income children in her care. Even though the program was slow in reimbursing her, the cost of food was not a major roadblock in her expansion planning.
4. **Transportation:** Sophia was also willing to provide drop-off and pick-up transportation for her before and after-school care children. This meant that she needed to keep her car in working order and that she would need to keep a

¹ Note: these costs are directly related to her operation, and should be reviewed on a case-by-case basis because they can be prohibitively expensive. For example, workmen's compensation alone is one of the main reasons why many small family child care providers do not expand.

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mileage record so that she could expense her gasoline and mileage on her business taxes.

5. **Space:** Re-organizing the home was also an important consideration. Sophia needed to determine what areas would be designated for napping, playing, eating, and for older kids to do homework. Also, she needed to develop space for all the extra shoes, coats, diapers, potties and toys that would have to be stored safely.
6. **Time:** As part of her operating plan Sofia needed to factor in the additional time involved in organizing all the children's files and making sure that the staff all had job descriptions, including one for herself, the Executive Director. Sophia also made sure that all employees had a schedule and were evaluated routinely on their work performance.

MARKETING PLAN

Sophia decided to ramp up slowly, believing that "too much too fast" was not good, as it would leave no time for reflection or personal growth. With respect to enrollment, she decided to be very flexible so that she could keep her options open. She found that it was in her best interest not to limit her care to a certain age group, so she tried to figure out a mix of ages and gender that would work best in her program.

Sophia marketed her program to meet her target capacity. With a large license she would be allowed to enroll up to 12 children, with 2 after-school children to meet maximum capacity of 14. To begin marketing her program Sophia used the following methods:

- She contacted her local resource and referral agencies - Children's Council of San Francisco and Wu Yee Children's Services - so they could add her new services to their family child care provider database.
- She used the tried and true "word of mouth" method, telling friends, neighbors, and parents already using her services that she was expanding her program, and would have available slots soon.
- She listed her program on the Internet with *Craig's List*, a community clearinghouse internet site.
- She marketed her new spaces through the local provider network - the Family Child Care Association of San Francisco.

OBTAINING FINANCING

Sophia was very practical when deciding whether or not to expand because she knew that all additional expenses associated with the expansion had to be covered by her increased revenues. After carefully calculating how much extra income the addition of 6 children would contribute to her program and comparing that to her estimates of operating, construction, contingency and staff expenses she could tell that the expansion would definitely be cost-effective.

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She estimated that the entire project would run about \$10,000. Sofia used the following methods to finance the project:

- Since she had bought her home, she was able to take out an equity line of credit that provided half of the money needed to meet construction costs. When she was at full capacity, she would repay the line of credit, while still keeping it available for other uses. This meant that she had \$5,000 available.
- She had \$400 available in business savings.
- She applied for a grant through the Low Income Investment Fund's Child Care Facilities Fund (CCFF)² for the remaining \$4,600. After reviewing her grant request and income tax statements, interviewing her and visiting her program, CCFF approved her request, which enabled her to move forward with her project.

CAPITAL IMPROVEMENTS

When applying for a large license the very first thing Sophia did was contact Community Care Licensing to ask for an application. After Sophia filled out and returned the application, Community Care Licensing contacted the San Francisco Fire Department to schedule an inspection of Sophia's home. The Inspector gave Sophia an exact scope of the work needed to legally expand from a small to a large license.

Sophia found out that she needed to incorporate the following changes to her home:

- 3-hour burn-through firewall along her breezeway
- A furnace and hot water heater sectioned into new room
- 3/4" sheetrock ceilings and walls
- Earthquake bolts placed into floor studs in framing wall of new room
- Fire-rated doors throughout her home
- A downstairs vent for expulsion of dangerous gases
- A hot water heater that meets City code
- 2A10BC fire extinguishers
- Exit signs
- Smoke and fire detectors and a licensing evacuation plan

These were one-time expenses that had to be funded prior to Sophia receiving her large license. Licensing gives applicants approximately 60 days to complete the expansion work before they decline an application.

Once the information from the fire department was ascertained, Sophia was ready to contact the professionals that would help her with the capital expansion phase of her project, namely, an **architect** and a **contractor**.

² Note: Grant resources are scarce for family child care facility development projects. The Child Care Facilities Fund makes grants only in San Francisco. In other California communities, applying for small business loans and micro-loans through the Small Business Administration, local community development lenders, and city or county economic development programs are good options for financing family child care expansion projects.

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Architect

Sophia hired an architect to draw up a blueprint of her home. In most instances of family child care expansion hiring an architect is unnecessary as long as the provider can provide a clear floor plan to the Building Inspector.

Once the plans were finalized, she submitted them to the Department of Building and Inspection. She received an over-the-counter permit that expired in 90 days. The permit covered all the construction work that was cited by the Fire Inspector. Sophia was given a Job Card that had to be posted in a visible spot and signed off by the Building Inspector who periodically visited the site.

Contractor

Sophia interviewed three contractors to bid on her job. Before hiring any of them she checked their licenses, references, qualifications and insurance. Each contractor provided her with a bid that included a base price, a cost overrun of 10% and a timeline of how long each phase of the construction would take and the order in which the work would be completed. The bids were all in the same range, from \$9,500 to \$10,500 for the entire scope of work. Ultimately, Sophia chose a contractor that charged \$9,600. She based her decision on his price, his professionalism and the fact he was a licensed general contractor.

Sophia was able to keep her program open during construction since the bulk of the work was being done in areas that the children did not occupy. This is an important consideration, however, if the planned construction work will impact the program space and interfere with the hours when the children are there. In that case, it may be necessary to find an alternate location for the children to occupy or have the work done on weekends, which will lengthen the timeline considerably.

TIMELINE

Timing was essential, as Sophia had 60 days until her Licensing application would expire and 90 days before the expiration of her Building Permits. Furthermore, she had to continue to run her business during the construction phase.

Sophia requested that the contractor give her a signed timeline that detailed when each step of the renovation would be completed, along with a final completion date of the entire project, **before** she gave the contractor a deposit. With her timeline in hand, she was able to give the green light to the contractor and felt assured that she would have the work completed to meet Licensing's and the Building Department's deadlines. The job began in late May 1998 and was completed by early July 1998. Sophia received her license for a large family child care home in August 1998.

Even though the scope of Sophia's construction was minimal, it still took almost six weeks to complete. It is important to be prepared for cost overruns and changes in the timeline when working with any contractor, but it is best to make sure that things are done right the first time, instead of rushing through a project. This is especially true because the Building Inspector needs to sign off on all work being completed and if it isn't acceptable he can require that you have construction re-done to pass inspection. Ultimately, patience will be your best friend when undertaking any construction work.

PROGRAM PLAN

Sophia's child care program changed with expansion in a variety of ways. Many additional tasks were required and it was essential that she manage her time as effectively as possible once she became accountable for an expanded enrollment. The following are examples of some changes that occurred after expansion:

- Sophia added field trips and after-school pick-ups, as well as daily lesson plans to accommodate the various age groups in her care.
- She also worked on her parent relations and her duties as head teacher.
- Her business responsibilities grew with the expanded payroll, although she did hire a payroll company to maintain that responsibility, as well as an accountant to keep her budget.
- Licensing updates were also necessary, such as making sure the files of all the children in her care were current and up-to-date.
- Many of her duties - the shopping, chores and cleanup, computer work, cooking, staff supervision and keeping her home in working order - all had to be done *after* the children left at night. Even with the addition of a part-time teacher, Sophia was exhausted.
- Sophia found that the most difficult part of the program expansion was with staffing. Even though she had her daughter helping her as a full-time teacher, she also wanted to hire a part-time teacher to work with the older after-school children in her program. She learned that there are many steps involved in the process of hiring a new staff person, such as advertising, interviewing, checking references, hiring, evaluating, dealing with staff complaints, keeping staff inspired, and worst of all, firing when necessary.

STARTING UP

Sophia chose to ramp up slowly, because she did not want to disturb the existing environment that she had worked so hard to establish. She considered the different age groups that she would care for, with preschoolers being the bulk of her business. She also had to consider the fact that her space was limited in terms of how many children in each age group would use different areas of her home. Infants, for instance, could be cared for in one room. On the other hand, preschoolers need more space to move around in, as well as outdoor space, while after-school kids need a quiet place where they can study or work on the computer.

Sophia found that adding one preschool child per month and one after-school child met her financial requirements and made the transition from small to large manageable for her and her staff.

THE PROGRAM TODAY

Sophia has now had her large family child care license for over four years. She continues to work at full capacity year-round and often refers parents to other family child care providers that she knows and trusts.

Sophia says the best things about having a large family child care license are:

- Having time off when she needs it (her staff covers vacations and sick days now).
- Having adult staff to bounce ideas off of everyday.
- Spending time with the children when they learn something new.
- Receiving a higher income, which means greater cash flow and less penny pinching.
- Earning greater recognition as a professional businessperson running a successful program.
- Watching children grow and helping parents create a good life for their kids.

SOPHIA'S ADVICE

- Sophia strongly suggests that a provider become fully organized **before** expanding his/her program.
- It may seem difficult at first, but eventually the uncertainty and anxiety passes and you are able to enjoy the fruits of your labor.
- If possible, start small and work your way up.
- Make use of grandparents, interns and parent participation in your program.
- Remember to take care of yourself. You are no good to anyone if you are not able to fulfill the demands of your child care business.
- With planning and patience you will have no problem expanding to a successful large family child care program.

As Sophia so nicely puts it,

“Live and learn, your wisdom grows as your business grows.”