



ASSOCIATION OF ALBERTA CHILDCARE ENTREPRENEURS

YOUR CHILD, YOUR CHOICE

January 22, 2024

Honourable Nate Horner,
President of Treasury Board and Minister of Finance,
Government of Alberta

Subject: Emergency Transition Funding for Childcare – A Critical Appeal

Dear Minister Horner,

I am writing this open letter to you in my capacity as Chair of the Association of Alberta Childcare Entrepreneurs (AACE) with the goal of having an open and transparent dialogue in Alberta about the true cost of childcare and to formally request emergency funding from the Government of Alberta. It's important to point out that the financial challenges raised in this letter impact both for-profit and nonprofit childcare operators equally and that our association represents operators utilizing both business models, as well as dayhome operators. Alberta's childcare providers urgently need support to address the financial challenges created by the Canada-Wide Early Learning and Child Care Agreement (CWELCC).

While AACE and its members are in favour of the CWELCC's objective to make childcare more affordable for Alberta families, the manner in which the Agreement is being implemented has precipitated a financial crisis for the industry. Childcare centers that have served Alberta's families with high-quality care for decades now face an unprecedented situation.

The next phase of the Affordability Grant contract has a signing deadline of January 31st. As of February 1, 2024, without immediate intervention, those operators who opt in will face growing financial hardship. In some cases, this will result in insolvency, leading to reduced childcare options for parents, and the unfortunate exit of some of the most seasoned and respected operators from the industry.

The financial emergency currently facing childcare centers stems from three key issues:

Issue 1: Timing of Childcare Payments: The implementation of the initial Affordability Grant in 2022 required operators to reduce fees by 50%, with the government covering the remainder. However, while the parent portion arrives at the start of the month, the grant reimbursement payment is delayed by 40-45 days, forcing many operators to effectively finance the program's cash flow through loans and lines of credit, incurring additional debt costs without compensation.

As Alberta strives to get closer to the \$10/day childcare goal, the subsidy portion will increase to 85-100% in this new contract starting February 1st, intensifying the financial strain and pushing some operators to the brink of closure.

For over a year, AACE has alerted the government to this concern, advocating for a solution to this specific issue, without progress. An immediate update to the payment system, where the government would pay the grant upfront and reconcile the difference with operators at the end of the month, is a simple solution that has disappointingly never been implemented.

If the Government is unable to implement this straightforward solution, childcare operators will require an emergency injection of capital in order to have the cash reserves on hand each month to pay bills during the service month, while they wait the 40-45 days into the next month for their revenue reimbursement. For two years now, operators have been carrying these costs through loans, without compensation, and with the upcoming increase from 50% to 85% of costs to carry, many programs simply cannot increase their loans and will inevitably default on mortgages payments or be incapable of meeting payroll obligations, resulting in imminent program closures.

AACE is grateful and we acknowledge the positive intentions of the Ministry when it provided support to address this issue through a one-time transition grant. We illustrate however, using an example of a typical 100-child daycare, how the grant fell short of the actual need and did not reflect the true cost:

\$15.7 million in one-time transition grants in 2022 - \$212 per enrolled space

Average monthly parent fee	Revenue @ 100 children 1st of month	Reimbursement from government	2022 One-time Transitional grant @ \$212 x 100	Cash flow total carried by operators for 40-45 days
Prior to grant \$1062	\$106,200			(just subsidy)
2022 & 2023 Parent Grant @ 50% \$531	\$53,100	\$53,100	\$21,200 (40% of \$53,100)	\$31,900
2024 Parent Grant @ 85% \$159	\$15,900	\$90,300	Same \$21,200 (23% of \$90,300)	\$69,100

Due to the current funding model, operators have, on average, been responsible to cover over \$30,000 cash flow every month on behalf of the government since 2022, to cover expenses during the service month. Within the new 2024 contract, operators will now be expected to continuously carry over \$69,000 of cash flow before they receive reimbursement 40-45 days later.

Issue 2: Fee Freeze at COVID-19 Rates: Childcare centres had their fees frozen when the CWELCC agreement came into force in 2022 at artificially low, pandemic-compassionate pricing levels. The CWELCC agreement was announced and implemented without industry consultation and without warning, and operators felt forced into the program, only realizing later that they had not been provided with adequate information about future inability to raise fees. Information about a fee cap only became available after childcare centres had signed into the agreement, and many centres signed in with deflated parent fee amounts that did not reflect the actual cost of operating a childcare centre.

These operators signed onto the CWELCC agreement with a desire to support families, yet currently find themselves in financial jeopardy as they have never been able to raise fees back to reasonable pre-pandemic levels and have thus been depleting savings monthly for two years. Further to this, the Government has only provided a 3% annual increase in fees (*not* compounded), while, according to the Bank of Canada Inflation Calculator, the rate of increase has been recorded at 15.21% coinciding with the same timeframe as the CWELCC agreement, leaving operators with a 6.21% gap based on inflationary pressures alone.

AACE has surveyed its members on this specific issue and learned that, if there is no means to rectify the initial unfair “fee floor”, most childcare operators require a rate increase of between 9% - 20% in order to recoup lost revenue and continue to remain financially viable.

In contrast, new centres, privy to fully transparent details of the grant funding, set fully-informed higher and viable fees from the onset, which do reflect the actual cost of running a childcare centre. This disparity has placed legacy operators at a significantly unfair disadvantage in the sector, warranting emergency funding to “raise the floor” and level the playing field.

We illustrate, using an example of a typical 100-child daycare, how the inflation offerings fell short of true compounded inflation rates, which will result in an average total estimated loss per operator of over \$170,000 by the end of 2024.

Inflation Comparison Chart				
Year	2021	2022	2023	2024
Parent fee average (3% non-compounded)	\$1,062.00	\$1,093.86	\$1,125.72	\$1,157.58
Parent fee @ inflation index & compounded		\$1,112.98	\$1,183.32	\$1,223.55
Inflation rate as per Bank of Canada		4.80%	6.32%	3.40%
Monthly revenue should have been		\$111,298.00	\$118,332.00	\$122,355.00
Actual monthly revenue		\$109,386.00	\$112,572.00	\$115,758.00
Monthly loss		\$1,912.00	\$5,760.00	\$6,597.00
Yearly loss		\$22,944.00	\$69,120.00	\$79,164.00
Average total loss per operator since signing into CWELCC by end of 2024			\$171,228.00	

Issue 3: Uncompensated Administrative Burden: The CWELCC has effectively made childcare operators unpaid fiscal agents for the government due to the administrative burdens it created. This additional administrative responsibility has necessitated hiring extra staff and shouldering mandatory audit costs - which have cost some childcare operators as much as \$30,000 - further straining financial resources and depleting savings. This burden, combined with the other challenges, is pushing operators towards financial ruin.

In a recent Facebook post, Minister Turton indicated that financial support in the amount of \$13 million dollars was coming to help operators. While AACE and its members appreciate any support the Government is willing to provide, for context, if that \$13 million is again divided equally amongst every childcare spot in Alberta, this will result in approximately \$100 of support per childcare spot - a number that doesn't even come close to the actual cost of the government-imposed burden placed on operators by the CWELCC agreement.

Again, we are gratefully and we acknowledge the positive intentions of the Ministry to offer foresight to pending financial challenges to operators within the CWELCC roll out, by implementing a one-time grant to support for inflation and administration costs, and we look forward to the upcoming announcement specifics for the additional 2024 one-time grant. We illustrate however, using an example of a typical 100-child daycare, how the offerings have consistently fallen short of actual need:

\$27.2 million in one-time grant to assist with inflation and administrative costs - \$280/spot

	Monthly	Totals
Average \$20-30 admin per child per month (with staff admin wages & yearly audit fees included)	(@\$25/child x 100) \$2,500	24 months \$60,000
One-time grant @\$280 x 100 children		One time \$28,000 (only 47% of \$60,000)
Total administrative costs covered by operators since January 2022		<u>\$32,000</u>
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Average \$20-30 admin per child per month (with staff admin wages & yearly audit fees included)	(@\$25/child x 100) \$2,500	12 months \$30,000
2024 one-time grant *insufficient info to include at this time		
Total estimated administrative costs to be covered by operators for 2024		<u>\$30,000</u>

While the initial one-time grant was intended for support to both inflation and administrative costs, it was unable to even cover just the full administrative expenses. By the end of 2024, the average operator will incur over \$60,000 in administrative expenses not reimbursed by the government, with a pending one-time 2024 grant to support a portion of that.

Ultimately, by the end of 2024, the administration expenses and lost income from insufficient, non-compounded fee increases, combined with funding the cash flow needs, will form an average total expense to each operator exceeding \$300,000, or a per child underfunding of \$3,000. AACE feels these average expense examples form an unquestionably urgent foundation to request emergency funding from the Government of Alberta.

Average total expenses to be incurred by operators by December 2024 to provide parents access to affordability grants (January 2022 - December 2024)	
Admin fees (staff wages + audit costs)	\$62,000
Inaccurate, non-compounded fee increases, far below actual inflation index	\$171,228
Cash flow required monthly for program viability	\$69,100
TOTAL	\$302,328

Ultimately, AACE continues to believe that a childcare voucher system provided directly to families would be the most effective solution to reducing childcare costs in Alberta, eliminating the administration expenses, auditing fees and unsustainable payment delays. We however understand the constraints of the current agreement between the federal and provincial governments. While a long-term funding model may offer some relief in the future, it does not address the immediate crisis facing many of Alberta's childcare providers.

We therefore urgently request a significant one-time transition funding program to bridge the current financial gap, at least equal to each program’s average monthly claim total, to resolve cash flow problems and prevent insolvency of many operators before the Spring of 2024. This intervention will provide both the childcare industry and the government time to develop more sustainable long-term solutions.

While AACE and its members fully support the principle of affordable childcare, it is imperative that this goal is not achieved at the expense of the very providers who form the backbone of this service in Alberta as a result of the federal government’s insufficient financial support. It cannot be understated that predictions by Cardus in May 2021 appear to be coming to fruition that “national daycare will cost more than the federal government has budgeted, with provinces left on the hook to supply the bulk of the missing funding.” In fact, in its February 2022 cost estimate of CWELCC, the Parliamentary Budget Officer concluded that “there is a \$1,083 million dollar shortfall over the forecast horizon (...) to fulfill the goals of the policy.”

We trust in your leadership to recognize the gravity of this situation and act swiftly to support an industry vital to Alberta's families and economy. Thank you for your prompt attention to this matter. I look forward to your response and am available for further discussion at your earliest convenience.

Sincerely,

Krystal Churcher

A handwritten signature in cursive script that reads "Krystal Churcher".

Krystal Churcher, Chair
Association of Alberta Childcare Entrepreneurs (AACE)
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CC: Treasury Board Members
Children and Family Services Minister, Honourable Searle Turton
Open letter posted on <https://www.atwhatcost.info/>