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What To Consider Before Purchasing a Child Care Center

The intent of this document is to provide a potential buyer with a list of considerations to keep in mind before purchasing an existing child care center business, facility and land. Considerations covered in this document focus on conducting an objective investigation into the existing business and site to determine if the purchase will be financially and operationally viable. While this document is intended to guide a potential buyer through a thoughtful pre-purchase evaluation, it is recommended that anyone making this type of purchase consult with a business advisor and/or attorney to make sure all legal historical documentation has been thoroughly reviewed.

Child Care Site

- What is the land use designation of the site? Is there a conditional or special use permit for the child care use? If so, what are the conditions and can the use permit be assumed by the buyer?
- What is the lot size? Is it large enough to accommodate any planned expansion of the child care center?
- What is the size of the indoor/outdoor space? *Community Care Licensing requires a minimum of 35 square feet per child indoors and 75 square feet per child outdoors. Industry standards for quality support 50-100 square feet of indoor space per child.*
- What is the condition of the facility and the site?
- Are upgrades needed? If so, how much will this cost? *Consult with a Contractor and refer to previous Community Care Licensing facility inspection reports. Repair costs can be a price negotiating tool. Making extensive repairs after purchase however can be a financial burden on the first few years of operation.*
- Is the asking price reasonable? *Commission an independent real estate and business appraisal and be sure the real property, facility, furnishings, and equipment are included in the appraisal and sale price.*

Seller's Business Information

- Does the seller have a business plan? What does it say about the center's business model, legal structure, operations, management, staffing plan, financial perspective, and any anticipated growth or changes over time?
- Do they have any operating subsidy contracts? If so, with whom and for how long? What has been their track record with the funding source? Is there an opportunity for the buyer to negotiate an assumption of the operating contract?
- Are their parent contracts and tuition receivables current?

Transition Plan

- Is the seller willing to transfer the business over to the buyer? *This is typically easier with licensing than closing the business and opening it up again.*
- Does the seller expect children to leave this center for another one when sold? If not, is the seller willing to help with transitioning the children after the sale?
- Assuming the children will stay with the center, how will parent contracts be assumed and will tuition fees be renegotiated? *Continuing services to the same families can be beneficial for children and parents and support on going cash flow for the business.*
- Is staff willing to stay during and after the purchase? If so, are there staff contracts and salary/benefits that need to be renegotiated?

Market Demand

- What is the current capacity?
- What is the current enrollment?
- Is there a waiting list and if so how is it managed (i.e. waitlist fee, frequency of updates)
- What has been the monthly vacancy rate for the last three years?
- What is the market area from which the center draws its enrollment?
- What age groups does the center serve?
- What is the market demand currently and projected at least 5 years out for the target market? *Note: market = families in target area and age of children*
- How many family child care homes and centers are within the target area serving the same age group? *This will indicate the amount of potential child care competition. Contact the local Resource and Referral agency.*
- What is the demand for child care for the age group to be served within the target area?
- How well does the buyer understand the market and the community economy, development, population, etc.?

Track Record

- How long has the center been in existence?
- Why is the child care center being sold?
- What has been the operator's licensing track record? Do they have any complaints or ones that have been substantiated? *Contact Community Care Licensing and ask to review the public information in the facility file.*
- What has been the financial track record of the center? *Ask for audit financial records or tax records for the last 3-5 years.*
- What is the center's reputation within the community? *Contact the local Resource and Referral agency and Local Planning Council to ask about the center.*

- What is staff's and parent's perception of the center's current leadership and standing in the community? *Interview current staff and parents about what's working, challenges, and their ideas for progress.*

As stated above, it is important to thoroughly assess the child care site's condition, location, track record and transition plan. This will enable the buyer to make a more informed decision. Just as the buyer assesses the existing center, it is equally important for the potential buyer to evaluate his/her own operational and fiscal capacity to run the center. The following section evaluates the buyer's operational and fiscal capacity to buy and operate the existing center. It is important for the buyer to develop a business plan to determine if this site will be a viable project.

<u>Buyer's Capacity</u>

- What will the role of the buyer be in running the child care center? If the expectation is to oversee the day-to-day operations how does their child care center management experience support this role? Is this experience relevant to the number, age, and demographic of the children and target community?
- Does the buyer plan to change the legal structure or key service delivery aspects of the center? If so, is this outlined in a modified business plan?
- How will the buyer finance the purchase of the business/facility/site? Have financial projections been developed that support the buyer's capacity to pay for the purchase, start up operations and any near term capital improvements, including buyer's equity and debt? What is the source of the assumptions in these financial statements?