CUPE Canadian Union of Public Employees

The pursuit of profit in Ontario child care: Risky business for parents and government

A CUPE backgrounder

February 2012

The pursuit of profit in Ontario child care: Risky business for parents and government

Ontario child care at risk

In December 2011, child care in Ontario entered a new era with the announcement that Edleun (**ED**ucation **LE**arning **UN**iverse) Group, Canada's first publicly-traded child care corporation,[1] had bought seven Ontario centres. While Ontario has had smaller-scale for-profit child care for many years, the advent of this publicly traded profit corporation creates a new and risky environment for Ontario child care. Having raised substantial funds from big investors and begun its operations in Alberta and BC, Edleun now has the capacity to garner a significant share of the child care "market" across Ontario to help meet its goal of owning 10% of Canadian child care.[2]

Ontario child care is particularly vulnerable to for-profit expansion at this time, especially to large-scale operations with cash. Ontario is experiencing a profound child care crisis as the historically shaky viability of many centres due to a history of weak policy formation and inadequate public investment has been tipped into crisis as full-day kindergarten has been introduced. This has created a situation that to entrepreneurs like Edleun's officials represents what they view as an opportunity—to buy out centres and smaller chains whose owners fear that the funding and policy uncertainty may drive them out. According to the Globe and Mail: "Owners are finding themselves increasingly squeezed as costs rise. In Ontario, all-day kindergarten has reduced demand and cash-strapped cities have considered scrapping subsidies. That makes selling an attractive option, and Edleun said it`s had no trouble finding sellers.[3]

Ironically, the corporatization of Ontario child care has moved to the front burner just as the Ontario government has moved child care under the mandate of the Ministry of Education as the first stage of "Learning in Ontario."[4]

History and context

Historically, most for-profit child care in Ontario has been small-scale, made up of free standing owner-operated centres or small, mostly local chains. In the 1970s and 1980s, then-Canadian-owned Mini-Skool Ltd. and then Alabama-based KinderCare (which bought out Mini-Skool) attempted to establish their corporate big-box child care operation in several provinces including Ontario. This corporate attempt generated an effort to reduce provincial standards in Ontario.[5] This effort failed following the child care community's concerted action. Ultimately, the US corporation failed to establish a

[1] globeandmail.com Mon Dec 19 2011
[2] Edmonton Journal Thu May 12 2011 Page: B3 and Calgary Herald, Page: B2, Edition: Final Calgary Herald - Mon May 9 2011
[3] globeandmail.com Mon Dec 19 2011
[4] The Ministry of Education website at http://www.edu.gov.on.ca/eng/.
[5] Early childhood care and education in **Canada** Constance_Nina Howe, Laurence Wayne Prochner, UBC press, (2000)

foothold in Canada in part through concerns raised by child care advocates and the Canadian Union of Public Employees (CUPE).[6]

The late 1980s saw substantial, mostly non-profit child care expansion in Ontario under the Liberal government headed by David Peterson. His government initiated Ontario's first base funding (the Direct Operating Grant), intended to raise wages and primarily available only to public and non-profit child care.[7] As well, major and minor capital funding from the Ontario government became available to develop non-profit and public child care, stimulating the growth of not-for-profit care which by 1992 came to account for 76% of regulated centre-based spaces.[8]

An NDP government was elected in Ontario in 1990, promising to bring in a universal child care program. They increased base funding to public and non-profit child care to reflect new improvements to the pay equity process. The NDP as well contemplated transformative changes to early childhood education and care, including full base funding, and were the first to table concrete proposals[9] for integrating kindergarten and child care for four and five year olds under the Ministry of Education (The Early Years Project). But a Conservative government, whose slogan was "Common Sense Revolution", won a majority in 1995 and the previous government's ECEC initiatives, some of which were already underway, were cancelled.

With the election of the Conservative Harris government in 1995, there were substantial cuts to provincial child care[10] funding including the end of capital grants. However, the Harris government let the non-profit advantage in child care base funding stand, although this government tried (unsuccessfully) to eliminate pay equity for the child care sector.[11] In 2003, the provision of wage grant funding was fully extended to the for-profit sector.[12]

The McGunity Liberals were elected in 2003 committing to a "first step, to be taken during our first term in government…to improve the quality and affordability of childcare available for our families" and to "commit $300 million in new provincial money…" but this did not occur. Thus, when the Premier made a commitment to Full-day Early Learning in the 2007 election campaign, followed by the 2009 report by the appointed comprehensive ECEC policy framework for children aged 0-12,[13] there was considerable optimism and enthusiasm on the part of groups and experts with an interest in ECEC.

---

[6] Alberta's Day Care Controversy: From 1908 to 2009 and Beyond Langford, T. (2011) Athabasca University Press
[7] Existing for-profits were eligible for a smaller amount (half) and new for-profits were not eligible for any base funding
[8] Childcare Resource and Research Unit (1993).
[9] Ministry of Community and Social Services. (1989).
[10] Childcare Resource and Research Unit, 2002. Online at http://childcarecanada.org/publications/briefing-notes/02/05/ontario%E2%80%99s-spending-regulated-child-care-1942-2001
[11] Friendly, M. (1997)
[12] Friendly, M. and Beach, J. (2005).
[13] With Our BBest Future in Mind Pascal, C. (2009). http://www.ontario.ca/ontprodconsume/groups/content/@onca/@initiatives/documents/document/ont06_018899.pdf

Child care was moved to the Ministry of Education in 2010 and featured as the first stage of "Learning in Ontario". Phasing-in full-day kindergarten for 4 and 5 year olds (FDK) began in 2010 but the remaining elements of modernizing ECEC policy to include children aged 0-3 and 6-12 as recommended in the 2009 Special Advisor's report did not materialize

Today multiple long-standing funding problems, together with the introduction of full-day kindergarten contribute to destabilizing child care in Ontario. These long-standing problems include: flat-lined (not indexed to inflation) provincial child care funding to municipalities, depletion of municipal "reserve" child care funds and general fiscal pressures on municipalities. Overall, these issues are encompassed in a state of affairs that includes, first, the absence of a provincial policy framework setting out development, funding and management of a child care system and, second, general under funding of child care services.

At the same time, expansion in the for-profit sector has been increasing so that—from a low of 17% of total centre spaces in 2001, it has risen to 25% in 2010 while chain operations—small and larger—are growing.

These historical funding, policy and service characteristics, together with the transitional issues arising from introducing full-day kindergarten—have combined to create a 'perfect storm' for child care in Ontario. This environment makes Ontario child care ripe for exploitation by well-financed child care entrepreneurs seeking to maximize profit-making opportunities for investors in a variety of ways. As a result, the for-profit child care sector is taking hold in Ontario in a new way.

How and why corporate child care moved into Ontario

The Edleun Group began trading on the TSX Venture exchange in May 2010. As of January 2012 it has grown to operate more than 4,500 licensed spaces in 44 centres. This represents more child care spaces than in Prince Edward Island or any of the territories, and almost as many as in Newfoundland.

The history of large corporations seeking profit from the child care market reaches back some years before Edleun's public appearance on the Canadian scene.

In 1988, the first ABC Learning Centre (in Brisbane, Australia) was founded by Eddy Groves. ABC Learning Centres became a publicly-traded, Australian corporation in 2001 and ultimately—by first buying out for-profit and non-profit centres and local chains and then national chains, came to dominate Australian child care. ABC then moved abroad, first operating in New Zealand. It then went global, buying out US child care giant Learning Care Group in 2005 and Busy Bees in the UK in 2006, becoming the 2nd biggest operator in the US and the biggest in the UK.[14]

[14] Code Blue for Child Care. (2007).

In 2007, ABC—by this time linked with many associated real estate, facility leasing, management and construction, child care supply and ECE training and other kinds of related companies[15]—set up Australian registration for seven new 123 Global corporations.

123 Busy Beavers was established in Canada in 2007. The child care corporation had links to ABC Learning Centres and 123 Global. Letters seeking to buy out centres for 123 Busy Beavers, were sent to child care operators in BC, Alberta and Ontario, and 123 Busy Beavers was registered as a private company in Alberta, BC and Ontario.[16] Leslie Wulf, who ultimately became Edleun's CEO in 2010, signed the letters on the letterhead of US-based Adroit Investments LLC, together with Mark Davis.[17] Ultimately, eleven Alberta centres were bought out and rebranded as 123 Busy Beavers. Its management personnel included Marnie Testa, who had been an employee of ABC Learning.[18]

In 2008, the ABC/123 conglomerate experienced financial collapse. At its height, ABC Learning Centres owned 25 per cent of the child care spaces in Australia - more than 1,000 centres. When it folded in 2008, it had $1.6 billion of debt. The companies were taken into receivership and to maintain access for thousands of Australian families to child care, the national government spent $22 million to bail out ABC Learning and the following year the firm was sold to a not-for-profit.

In 2008, EduCare led by Leslie Wulf and Ted Rea emerged in Canada. EduCare Development LLC claimed a combination of child care expertise, construction knowledge and financial means to provide a complete turnkey solution to building child care centers. EduCare was a joint venture between Triland International and Adroit Investments LLC.

Leslie Wulf and Ted Rea contacted some provincial governments across Canada seeking funding for "turn-key" child care development contracts, described as 'triple net sale leaseback real estate to Child care center operations under long term leases' with the objective of developing, operating and leasing child care facilities.[19] While there were a numbers of meetings between EduCare and some provincial governments, no deals were reached.

In May 2010, Edleun became the first Canadian publicly traded childcare corporation when it began trading on the TSX Venture Exchange. Its initial Board of Directors included the President/CEO of Reichmann International Development Corporation, Jeffrey Olin, President and CEO of Vision Capital, John Snobelen, Minister of Education under the Harris government in Ontario, Mark Davis, Wulf's partner in Adroit Investments and also involved with EduCare. Leslie Wulf was CEO and Ted Rea (his

[15] Brennan, D. , Newberry, S., and van der Laan, S. (2008)
[16] http://cupe.ca/updir/buildchildcare/Multi_National_Corporate_Child_Care_FINAL.pdf
[17] Ibid
[18] Ibid
[19] EduCare documents

partner in EduCare and Triland's International manager) was Edleun's Director of Real Estate.[20]

Edleun and San Anton Capital, a capital pool company listed on the TSX (Toronto Stock Exchange), were involved in a reverse takeover transaction in order for Edleun to become publicly traded. Edleun is now linked to other firms with considerable investment capital that will allow it to grow rapidly.

The Edleun Group is growing rapidly. When the firm began trading in May 2010 it had already acquired 123 Busy Beavers (the eleven child care centres in Calgary and Edmonton), and 123 Realco (0813594 BC Ltd.), a wholly-owned subsidiary, and the Alberta real estate interests of Learning Care Group Trust. Learning Care Group Trust owned and leased facilities and/or property to some of the 123 Busy Beavers Centres.

An active recruiting campaign to buy centres for large well-financed child care is well underway. An April 2011 letter[21] to child care centre owners from the President of Texas-based Trivestments was circulated widely. Trivestments is identified online as "created to seek real estate opportunities by constantly tracking investment and demographic trends in an effort to maximize value. Trivestments Capital LLC shared an office address with the Rea group's Triland International firm and EduCare in Plano, Texas.[22] The April 2011 Trivestments letter shares many features such as format and specific phrasing with the August 2007 Adroit Investments 123 Busy Beavers acquisitions letter.[23]

In Ontario, an email was sent to centre operators December 12, 2011, by Sean Collins, at one time an ABC Learning employee[24] in Australia. Collins Acquisitions has offices in Port Melbourne, Australia and Toronto and advertises that it "was established in Australia in 2006 to assist one of the nation's fastest growing public companies acquire childcare businesses"[25] and that it "negotiated the acquisitions of more than 200 daycare centres in Australia, US and Canada". The Collins letter[26] to Ontario child care centres states that "Edleun have asked me to follow up on any other potential centres and are prepared to pay **above market value** to secure any interested sellers we can secure over the next few months".

[20] http://www.edleungroup.com/EDU-edleun-management-officers.asp
[21] Martini, 2011 (letter)
[22] Trivestments website www.trivestments.com retrieved May 4, 2011
[23] Wulf, 2007. (letter)
[24] Walsh, L. Courier-Mail April 19, 2010 http://www.couriermail.com.au/business/pricing-questions-as-abc-learning-centres-probe-continues/story-e6freqmx-1225855165812
[25] Collins Acquisitions website at http://collinsacquisitions.com/childcare/acquisitions/ Retrieved January 28, 2012
[26] Collins, S., (2011). (email)

By the time Edleun made the December 12, 2011[27] announcement of its move into Ontario, it was operating 26 centres in Alberta, with three centres "coming soon", and eight in British Columbia, with an additional one "coming soon". With the seven recently acquired Ontario (Windsor and Mississauga) centres, Edleun says it owns 44 centres in three provinces with 4,641 licensed spaces in February 2012.

In October 2011, Edleun announced the appointment of a new CEO and president. Ty Durekas was founder and CEO of Sunnyvale, California-based Children's Creative Learning Centres, operating in 20 US states. According to Edleun's information "in 2007, he sold the company to Knowledge Universe (KU), the largest for-profit early childhood education company in the world. Mr. Durekas was subsequently appointed to the role of Chief Executive Officer for the Knowledge Universe employer-sponsored child care business unit".[28] According to company information, he has also headed or been associated with a variety of Knowledge Universe corporations including Nextstepcare, Inc. of Sunnyvale, California, OnCare Online Child Care Services and The Grove Schools.

Knowledge Universe, headed by Michael Milken,[29] owns more than 3,000 early childhood centres world-wide under a variety of brands that include KinderCare and the United Kingdom's Busy Bees (previously owned by ABC) as well as elementary, secondary, higher education and technology schools.[30] Knowledge Universe is the world's largest profit-making education operation. The corporation advertises that they operate "3,700 education locations globally employing over 40,000 teachers and professional staff, as well as large online schools, colleges and school management systems which touch over five million students daily."[31]

In 2012, having raised substantial funds from big investors, begun its operations in Alberta, BC and Ontario, and established connections and networks with global child care, real estate and investment interests, Edleun now has the capacity to garner a significant share of the child care 'market' Desjardins Securities Inc. analyst Jeff Roberts is quoted in the Globe and Mail as "seeing this as a "a rare opportunity for investors to acquire a unique and highly accretive consolidation play in the Canadian child care market."[32]

[27] http://www.newswire.ca/en/story/893623/edleun-expands-its-growth-through-initial-acquisitions-in-ontario

[28] Edleun Group website at http://www.edleungroup.com/EDU-edleun-management-officers.asp Retrieved January 28, 2012

[29] Michael Milken, known as the "Junk Bond King" was involved with KinderCare in the early 1990s, prior to his conviction and 10 year sentence for insider trading and other offenses. KinderCare founder Perry Mendel's conviction for tax evasion at that time was described as a "spinoff from the prosecution of Michael Milken" (LA Times, online). Following a reduced prison term, Milken reemerged to establish Knowledge Universe, now the world's largest for-profit education business (see Saltman, 2002).

[30] KU website at http://www.kueducation.com. Retrieved January 27, 2012

[31] Ibid

[32] Keith, D. (February 11, 2011). *RBC: Time for investors to warm up to Canadian Tire*. Report on Business, Globe and Mail.

Additionally, Edleun's links to the largest global education and child care businesses now position the firm in a good position to be taken over by even bigger interests in the future. According to the Globe and Mail, analyst Jeff Roberts, now a VP at one of Edleun's biggest investors, Vision Capital, "believes Edleun may become a takeover target, perhaps by a large U.S. operator, once it bulks up in size".[33]

What are the implications of this?

As noted earlier, for-profit child care has long been an issue in Ontario, and indeed, across Canada. Today, however, for-profit child care is taking hold in a new, bigger way. As expansion of non-profit child care has generally been quite slow, and publicly-delivered child care has shrunk (from about 11% about a decade ago, to 6% in 2010), the for-profit sector in Ontario has grown steadily, increasing from 17% in 2004 to 25% of centre-based spaces in 2010.[34] This is alarming in light of the entry of well-financed operations such as Edleun that are well-positioned for rapid acquisition and expansion by acquiring struggling small for-profit operators and non-profit organizations. Today as for-profit chains of five, ten or even more centres have become commonplace in Ontario,[35] Edleun (like ABC's in Australia and Busy Bees in the UK) has found it easy to concentrate acquiring existing chains. And, as noted earlier, the child care environment in Ontario is such that owners of smaller for-profits as well as community-based boards are tempted to take advantage of Edleun's offer to pay "above market value" for their centres.

There are four main reasons that this is a matter of significant concern for educators and policy makers:

First, a substantial body of Canadian research literature shows that for-profit childcare is more likely to be poorer in quality and to provide poorer access than public and non-profit childcare.[36] The research shows that quality tends to suffer primarily because in child care, the staffing determines the quality; staffs are the "backbone" of any child care program. Thus, cutting costs in a child care program so as to earn profits for owners or share holders primarily comes from cutting staffing costs—wages, benefits and/or ratios. These kinds of cost savings, as the research suggests,[37] are shown to come mostly by cutting into staffing in various ways that have an impact on quality.

Second, international comparisons, especially from Australia,[38] show how quickly and irreversibly child care provision can shift to become a highly corporately-dominated model when well-financed companies set out to take over. Canadians' experiences with small scale for-profit operators have not prepared them for the rapid growth and size of international big-time corporate child care operations like Knowledge Universe, KinderCare, ABC Learning or Bain Capital's Bright Horizons. The international

[33] Ibid
[34] Beach, J. et al, 2008. (see references)
[35] CUPE, 2009. (see references)
[36] Childcare Resource and Research Unit, 2011 (see references)
[37] Cleveland, 2007 (see references)
[38] Brennan et al, 2008 (see references)

research further suggests that large child care corporations, once they are well established, begin to influence government on regulations, as well as on other family policies like parental leave. As they dominate the sector, it is easy to see why parent fees have been shown to increase substantially even as government funding increases.[39]

Third, the experience in Australia in particular documents the hard lessons learned about how costly profitable child care operations can be for government revenues. The 'Australia model' shows is that there are multiple ways child care corporations make profits at the expense of families and governments. In the Australian example, ABC calculated that more than 40% of revenue came from government funds.[40] Profits can be derived from direct provision of child care or "government subsidies to parents that comprise 30-50% of total fees" advertised to Edleun investors.[41]

Profit can also be made through ancillary companies, especially those dealing in real estate[42] and facility leases. Many of Edleun's investors are from the real estate and property sector.[43] However, in a February 9, 2012 Globe and Mail column, David Milstead reports that "…our question is whether investors can profit from owning Edleun shares. In this as well, reasonable people can see both sides — but, in my opinion, a deep amount of skepticism is warranted." Further in the article he writes:"It seems strange that in a country that supposedly has such a shortage of day-care options that there would be so many underperforming centres for Edleun to acquire and spruce up, or that it has a clear path to, in its words, "'Cherry pick' prime sites with [the] best demographics and location enabling premium price." (Edleun's answer to this, Mr. Olin says, is that a modern centre takes more capital than today's mom-and-pop operators can muster.)"[44]

Using the profit motive for child care can also be risky for families and governments. At the end of ABC/123, in addition to hefty revenues derived in various ways from government funds over the years, the bail-out following the conglomerate's collapse initially cost the national government more than $22 million. It has been estimated that the government spent $100 million keeping the centres open until new owners were determined.[45] Parents were left in a very insecure situation until the dust settled on which centres were to continue and which would close.

The final key reason that the entry of corporate child care in Ontario is a matter of substantial concern has to do with Ontarians' ideas and values about education. Child care has shifted conceptually and administratively to become part of education in Ontario and education in Ontario is almost entirely publicly delivered and publicly funded (including "separate" schools, which are also public in the governance and funding

---

[39] Brennan et al and Penn (see references)
[40] http://www.crikey.com.au/2008/11/07/abc-learning-collapse-is-a-policy-failure/
[41] http://www.edleungroup.com/upload/edleun-group-presentation.pdf
[42] Property trust turns a profit Feb 8 2012 http://news.ninemsn.com.au/article.aspx?id=8416138
[43] http://www.montrealgazette.com/business/fp/money/Real+estate+encore/6053333/story.html
[44] http://www.theglobeandmail.com/globe-investor/the-real-daycare-challenge-making-money/article2331548/
[45] http://www.nurseryworld.co.uk/news/978257/Analysis-Australia---Childcare-reformed-wake-ABC-collapse/

sense). Public support for public education is very high in Ontario; indeed, there is no funding at all for independent schools and most children—even from wealthy families—go to public school. When the idea of beginning to pay public funds for private schools through demand-side funding to parents was put forward in 2007 by then-Conservative leader John Tory, the Conservatives were soundly defeated in the election.

Canadians believe that education is a public good and do not support the idea that early childhood education along with all levels of education should be a big business. Child care should be a public investment for social good not profits. The history of corporate child care in the US, Australia and the other countries that have permitted child care to become a big business shows that early childhood education child care can be a very profitable, yet risky business.

In summary

The research and policy analysis shows that overall, for-profit child care—especially when it becomes a big business—is a bad bargain for the public purse and for governments. Ultimately, it has all the earmarks of a very risky, expensive and possible irreversible public experiment which Ontario should reject.

sl/cope491
February 13, 2012

REFERENCES

Beach, J., Friendly, M., Ferns, C., Prabhu, N., Forer, B. (2009). *Early childhood education and care in Canada 2008*. Toronto: Childcare Resource and Research Unit.

Brennan, D., Newberry, S., and van der Laan, S. (2008). *Economic and social policy tensions: Early childhood education and care in a marketised environment*. University of Sydney. Submission to the Inquiry on the Provision of Childcare, Senate of Australia. Retrieved from *https://senate.aph.gov.au/submissions*

Canadian Union of Public Employees (CUPE) 2011.

Canadian Union of Public Employees, 2009. *Ontario profile.A great place to grow: Public childcare*. Available online at http://cupe.ca/updir/Factsheet_-_Ontario_Profile.pdf. Retriieved January 27 2012.

Childcare Resource and Research Unit (1994). *Child care in Canada: Provinces and territories 1993*. Toronto, ON: Childcare Resource and Research Unit

Childcare Resource and Research Unit, 2011. BRIEFING NOTE. *What research says about quality in for-profit, non-profit and public child care*. Toronto: Author

Cleveland, G., Forer, B., Hyatt, D., Japel, C. & Krashinsky, M. (2007). *An economic perspective on the current and future role of non-profit provision of early learning and child care services in Canada*. University of Toronto, University of British Columbia & Université du Québec à Montréal.

Code Blue for Child Care. (2007). *Multi-national corporate child care is coming to Canada*. Retrieved from http://privatization.crru.ca/index.php?option=com_mtree&task= viewlink& link_id=150&Itemid=54

Collins, S. (Dec. 12 2011). Email letter Today's announcement of our client's expansion and closing of our first Child Care group in Ontario gives owners a chance at selling their business for a premium``

Friendly, M. (1997). *Raiding wages in regulated child care: The Ontario experience with pay equity*. Paper prepared for an OECD conference on care work. Toronto: Author.

Friendly. M. (2009). *Landlord at the centre*. Concept paper prepared for the Canadian Union of Public Employees.

Friendly, M and Beach, J. (2005). *Early childhood education and care in Canada 2004*. Toronto: Childcare Resource and Research Unit.

Ladurantaye, S. (December 19 2011). Daycare firm Edleun to make quick Ontario expansion. *The Globe and Mail*.

LA Times (Nov 13 1991). *Mendel Gets 1 Year in Prison*. Available online at http://articles.latimes.com/keyword/perry-mendel. Retrieved January 27 2012

Langford, T. (2011). *Alberta's day care controversy: From 1908 to 2009 and beyon*d. Edmonton, AB: Athabasca University Press.

Martini, J. (2011). Letter April 26, 2011. Purchase of Child Care Centre

Ministry of Community and Social Services (1989). *New Directions for Child Care*. Toronto: Author.

Ministry of Community and Social Services (1992). *Child care reform in Ontario: Setting the stage - A public consultation paper*. Toronto: Author.

Pascal, C. (2009). *With our best future in mind: Implementing early learning in Ontario*. Toronto, ON: Queen's Printer

Penn, H. (In press, 2012). Childcare markets: Do they work? In Lloyd, E. and Penn, H. *Childcare Markets: Global and Local* (working title).Bristol: Policy Press.

San Anton Capital (2010). *Filing statement: In connection with the qualifying transaction involving the amalgamation of Edleun, Inc. and 7533608 Canada Inc., a wholly-owned subsidiary of San Anton Capital Inc*. Retrieved from http://ca.hotstocked.com/docs/show/edleun_group_inc/other/filingstatement21.pdf

Walsh, L. (April 19, 2010). *Pricing questions as ABC Learning Centres probe continues*. Brisbane: Courier Mail.

Wulf, L. (2007). Letter August 30, 2007. Purchase of Your Child Care Centre