



Franchising
Building local businesses,
one **opportunity** at a time.

**Statement of Gail Johnson
President/CEO, Rainbow Station, Inc.**

Before the House Republican Health Care Solutions Group

**Forum on “*The True Cost of the Health Care Law to Families
and Employers*”**

May 27, 2010

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**United States House of Representatives
House Republican Health Care Solutions Group**

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Good afternoon Chairman Blunt and members of the committee. My name is Gail Johnson, and I am grateful to have the opportunity to speak to you today about some of the ramifications of the new health care law facing small business entrepreneurs.

Throughout my career, I have been focused on women and children's health and education issues. Before becoming an entrepreneur, I worked as a pediatric nurse for nearly 25 years. As a nurse, I held many roles, including visiting public health and home healthcare nurse; maternity, pediatric and nursery staff; Lamaze instructor; and faculty member of the Maternal Child Nursing Departments at the Medical College of Virginia (MCV)/Virginia Commonwealth University (VCU) and J. Sergeant Reynolds Community College. I continue to be engaged with the MCV/VCU School of Nursing as the Chair of the Nursing Advancement Council and serve as Vice President, Medical College of Virginia Foundation Board of Trustees.

I am the founder and CEO of Rainbow Station, Inc., a nationally accredited preschool and school-age recreation franchise that offer backup childcare for mildly ill children on site. We provide developmentally appropriate early education and school-age recreation to 325 children. There are six corporately owned Rainbow Station programs in Richmond. In 1999, I created PRISM, the franchising company for Rainbow Station, and currently operate franchises in Virginia, North Carolina and Texas. All Rainbow Station schools are accredited by the National Academy of Early Childhood Programs and/or the National Afterschool Association's Council

on Accreditation as soon as they become eligible for accreditation. Some schools are accredited by the Southern Association of Colleges & Schools.

The Rainbow Station system employs 225 employees – at least 50 per location, with annual wages for teachers ranging from \$23,000 to \$35,000. Currently, there are nine schools open, with a capacity for 3,131 children. Fully enrolled, each campus will generate \$2.5 – \$3.5 million in revenue annually, depending on geographic location. There are eight additional locations in development, along with several sales pending. Expansion, however, is stymied by the current lack of credit for small businesses. The credit crisis is a continuing problem for franchise businesses like mine.

Within Rainbow Station facilities, we have the capacity to provide backup care for mildly ill children. This care is overseen by a pediatric nurse and results in approximately 1,000 productive workdays returned to parents who have the option to leave their child with a nurse and go to work. Rainbow Station provides real flexibility and options to working parents who would normally be forced to miss work in order to stay home with a mildly ill child. Using the franchise business model, we hope to continue growth and provide these work/family support solutions and services to more communities across the United States. Unfortunately, growth of our business is being significantly challenged by the aforementioned credit crisis and, more recently, the uncertainty created by the Patient Protection and Affordable Care Act.

My franchise system is an active member of the International Franchise Association (IFA). As the largest and oldest franchising trade group, the IFA's mission is to safeguard the business environment for franchising worldwide. IFA represents more than 85 industries, including more than 12,000 franchisee, 1,100 franchisor and 500 supplier members nationwide. According to a 2008 study conducted for the IFA Educational Foundation, there are more than

900,000 franchised establishments in the U.S., creating 21 million American jobs and generating \$2.3 trillion in economic output.

According to the Small Business Administration, small businesses have created 60 to 80 percent of new jobs annually over the last decade. The findings of the recently updated study, *Small Business Lending Matrix and Analysis*, prepared for the IFA Educational Foundation, support the notion that meaningful economic recovery and meaningful job creation will start with small business lending. In fact, the study determined that for every \$1 million in new small business lending, the franchise business sector would create 40.4 jobs and generate \$4.2 million in economic output.

Franchised businesses play an important role in the economic health of the U.S. economy, and they are poised to help lead the economy on the path to recovery. IFA Educational Foundation reports show that the franchise industry consistently outperforms the non-franchised business sector, creating more jobs and economic activity in local communities across the country. Released in February, 2008, Volume 2 of the *Economic Impact of Franchised Businesses*, for example, documents that franchising grew at a faster pace than many other sectors of the economy from 2001 to 2005, expanding by more than 18 percent. During this time, franchise business output increased 40 percent compared to 26 percent for all businesses.

For over a decade, the IFA sought solutions to ensure that health insurance is more affordable for franchised businesses and their employees. We support proposals that strengthen consumer-oriented, affordable health insurance options and promote small business health plan legislation. Unfortunately, the flawed legislation signed into law earlier this spring contains a framework that will encourage further shifting of health costs onto the backs of small franchised

businesses—in the form of a mandate on employers—and impose new taxes and fees that will be passed along by health insurance providers to consumers.

As a pediatric nurse and small business owner, I understand the need for health care reform. However, increasing access to health coverage and forsaking measures to control health care costs will create negative repercussions in the small business community. Franchising encompasses businesses of all sizes, from small single unit locations to multi-unit national brands. Systems such as mine – fast-growing, midsized businesses – are the country’s strongest job creators. Small and midsized businesses that are growing are able to do so by reinvesting income from their operations to expand. These businesses have limited margins for increased labor and operating costs. Complying with the requirements of the new law will force entrepreneurs to invest less into growing their business. I am here today to inform the Health Care Solutions Group that the new health care reform law will slow or stall the growth of small and midsized businesses as we struggle to absorb its new costs.

Several aspects of the new law will add costs and regulatory burdens for small business owners. It establishes an employer mandate to provide health insurance coverage to employees. If employers do not purchase coverage, they will be subject to a penalty of \$2,000 per full-time worker. The law restricts employer flexibility by defining a full-time employee as one who works at least a four day per week schedule. Furthermore, small businesses will now be required to calculate on a monthly basis the variable schedules of hourly employees to determine requirements under the new law and penalties.

Finally, the new law empowers the federal bureaucracy to determine an “essential benefits package,” ultimately requiring employers to contribute toward a package they otherwise have not been able to afford. As crafted, I believe the new law is intended to eliminate all

flexibility for employers to design a benefits package for our employees that is affordable. This inflexible, one-size-fits-all approach betrays a bias toward mandating coverage rather than curbing costs. This represents a significant government intrusion into the benefits decisions of employers. In order to comply, small employers will be faced with decisions such as cutting back wages, forgoing new hiring and raising prices for services. These measures will further stunt any economic recovery and curtail future job growth.

While the drafters of the new law took care to provide exemptions to certain small businesses—those employing less than 50 full-time workers, this creates a disincentive to hire or expand beyond this level. As is the case of my business, it plants the cost of compliance squarely on the backs of small and midsized firms employing more than 50 people. Since the average annual wages of our employees are likely within 400% of the Federal Poverty Level (approximately \$88,000 for a family of four in 2010), our employees may be eligible for subsidies to purchase insurance in an exchange. Currently, we provide health insurance coverage to our full-time staff and we are able to pay for 75% of an employee's premium. We do not currently offer coverage to spouses or family members.

Under the new law, starting in 2014, we would be required to offer family coverage and would most likely have to increase the amount of employee cost-sharing. This will drive our health insurance costs higher than we are able to provide today. We would also have to be mindful that our employee's share of the plan does not exceed 9.5% of their household income. Otherwise, they would be eligible for subsidies and would trigger penalties of up to \$3,000 per employee who receives a subsidy. How are employers supposed to determine the household income of each employee? This is private information that employees would certainly not expect their employers to ascertain in most cases.

Because the new law emphasizes access to coverage over curbing rising health care costs, I will likely have to decide over the next year what employee benefits we can afford to offer in 2014. The federal government has now forced the hands of small and midsized businesses and made health insurance an obligation, rather than a benefit of employment that I could use to supplement salary and wages in order to attract and retain quality staff. Essentially, the decision to offer health insurance coverage will strictly be about cost—insurance premiums versus penalties. Health insurance coverage will cease being a benefit of employment or part of a competitive compensation package.

Supporters of the law point to the small business tax credit as a benefit for smaller employers, but the tax credit available starting in 2010 is entirely inadequate. For a growing company like ours, which provides an important service to the community, the thresholds are entirely too small to be of any assistance. In order to qualify for the tax credit, we would have to cut hours for our full-time staff to ensure we were under the 25 full-time equivalent employee threshold. Encouraging companies to cut back hours or eliminate staff is the wrong message our government should be sending small businesses—particularly during a recession. Furthermore, in a business like Rainbow Station, we have required ratios of faculty/staff to children that must be adhered in order to earn and maintain accreditation. The only option my business would have is to cut back on enrollment; and, therefore, services to the community.

As an entrepreneur and a nurse, when I review the new health care law I see a structure designed to discourage economic growth among small and midsized companies. At a time when our government should be doing everything in its power to encourage job growth and recovery, I see a federal requirement that creates disincentives for higher wages, new hiring and robust

employee benefits. This law will direct my business decisions in such a way that forces me to devote more of our capital investment resources toward operating costs rather than growth.

I want to thank the members of the House Republican Health Care Solutions Group for the opportunity to participate in today's important forum on the effects of the health care law on employers. It is my hope that we can work together to fix the aspects of the new law that will harm our economy. Moving forward I would encourage Congress to pass legislation that balances the need to improve access to coverage together with controlling the rising costs of care. We are hopeful that Congress can work to enact legislation that incentivizes consumer-oriented solutions to health insurance and finally enable small businesses and franchise systems to band together to purchase affordable coverage for our employees.

Thank you and I look forward to answering any questions you may have.