Strategies for Increasing Child Care Facilities Development and Financing in California

PREPARED BY THE BUILDING CHILD CARE COLLABORATIVE
Acknowledgements

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**THE BUILDING CHILD CARE (BCC) COLLABORATIVE PROJECT**

The Building Child Care (BCC) Project, funded by the California Department of Education, is a collaboration of organizations designed to help child care providers bridge the gap between available public and private sector financing for child care facilities. Since the BCC’s inception in 2001, four organizations, the National Economic Development and Law Center (NEDLC), the California Child Care Resource and Referral Network (CCCR&RN), The Children’s Collabrium (formerly Child Development Policy Institute Education Fund), and the Low Income Investment Fund (LIIF), have combined their experience, resources, and expertise to build a clearinghouse of information and assistance for developing and financing child care facilities.

Each of the BCC Collaborative organizations (NEDLC, CCCR&RN, The Children’s Collabrium [formerly Child Development Policy Institute Education Fund], and LIIF), played an active role in producing this document. The primary authors include:

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The BCC also relied on contributions from its Advisory Committee. Their feedback on the draft, development of policy solutions and identification of local efforts to address barriers in child care facilities development and financing was invaluable. The BCC Advisory Committee includes the following representatives from across the State who are leaders in addressing issues related to child care facilities development and financing:

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Section One
Introduction

The Building Child Care (BCC) Collaborative Project

The Building Child Care (BCC) Collaborative Project, funded by the California Department of Education, is a collaboration of four organizations designed to help child care providers bridge the gap between available public and private sector financing for child care facilities. Since the BCC’s inception in 2001, these four organizations, the National Economic Development and Law Center (NEDLC), the California Child Care Resource and Referral Network (CCCR&RN), The Children’s Collabrium (formerly the Child Development Policy Institute Education Fund), and the Low Income Investment Fund (LIIF), have combined their experience, resources, and expertise to build a clearinghouse of information and assistance for developing and financing child care facilities.

All too often, child care business start-ups or existing child care businesses need help expanding their services as they are forced to find their way through a confusing maze of codes, regulations, financing requirements, building requirements, and construction challenges. The BCC Project exists to provide a centralized clearinghouse of information and one-on-one technical assistance that can guide these operators through the maze, directing them to the resources needed to successfully navigate through the facilities development and financing process.

Specifically, the BCC provides technical assistance and information to the child care community, gathering key information on the challenges and successes of child care facilities development projects. The BCC houses a web site containing comprehensive information on facilities and financing strategies, and a toll-free line that operators can call to learn about existing resources. More recently, the BCC has begun to offer enhanced one-on-one capital financing technical assistance. The BCC also provides facilities development and financial trainings for local child care intermediaries, such as Resource and Referral program staff, who provide the first level of contact to existing and potential providers looking for help in purchasing, expanding, building or renovating a center or home-based facility.

The BCC recognizes that, although its work is an important piece of the larger facilities development work needed in California, it is only a first step. The lack of available funding to purchase, expand or improve child care facilities remains a major obstacle to creating sufficient child care capacity. In addition, child care facilities development requires in-depth technical assistance and regulatory coordination at the local level. In the six years since the BCC was founded, there has been significant progress on the local level toward removing regulatory barriers and coordination of support for facilities development. There has also been movement in the provision of financing, particularly through child care facilities loan funds (e.g., child care loan funds developed by the Low Income Investment Fund).

As the statewide contractor for the California Department of Education, the BCC continues to work to address the need for expanded financing options by identifying the barriers to current financing and recommending concrete actions that will improve access to public and
private funding for facilities development projects. The BCC partners continue to collaborate with other key leaders in California, such as the foundation community, lending institutions, local technical assistance providers (e.g., Small Business Development Centers and Local Child Care Planning Councils), the private sector and appropriate government agencies to build a long-term, sustainable strategy that leverages public and private financing for child care facilities across the State.

**Strategies for Increasing Child Care Facilities Development and Financing in California**

In June 2001, the BCC entered into an agreement with the Child Development Division of the California Department of Education for the express purpose of developing an intermediary to support child care providers in accessing technical assistance and financing to create, expand or improve child care facilities. This project was created through AB2778 (Jackson), which was signed by the Governor and became Section 8290.1 of the Education Code.

As mandated by the Legislation, in 2002, the BCC produced an initial study *Report to the Legislature: Child Care Facility Development and Financing Barriers and Recommendations* that documented existing barriers to the development and financing of child care facilities and made recommendations for overcoming those barriers. This report, *Strategies for Increasing Child Care Facilities Development and Financing in California*, updates the findings from the 2002 study. It documents significant growth in the field of child care facilities financing and development, presents a more mature analysis of persisting barriers, outlines the contributions of the BCC and its partners in addressing these barriers, and presents recommendations for future strategies to strengthen the child care facilities development system in California.

Despite the overwhelming need for and benefit of child care services, there remain several barriers to the physical development and financing of facilities. Though the magnitude of these barriers varies, they can be identified in three main categories:

1. Regulatory and Systemic Barriers
2. Limited Real Estate and Finance Capacity of the Child Care Sector
3. Economic Challenges

These barriers were described in detail in the BCC’s 2002 *Report to the Legislature: Child Care Facility Development and Financing Barriers and Recommendations*. While they remain categorically unchanged, the BCC now has a more extensive catalogue of their impacts in individual counties. This report also contains a more extensive inventory of local strategies effective in minimizing these barriers.

**OUTLINE OF THE REPORT**

Following this introduction, Section Two provides a background on changes to the child care facilities development and financing landscape since the BCC’s inception in 2001. It also highlights innovative public and private efforts to increase the number of high-quality child care facilities in California. Sections Three through Five highlight three major barriers to child care facilities development and financing in California and provide recommendations and best practices for reducing these barriers. Section Six provides an overview of the findings in the report.
Section Two
Overview of Child Care Facilities Development and Financing in California

Definition of the Licensed Child Care Industry
The licensed child care industry in California encompasses a range of programs designed to nurture, support, enrich and educate children from birth through age 12, outside of traditional K-12 education. This report uses the term “child care” throughout to reflect the variety of education and care programs which parents typically access. These programs are also referred to as “early care and education,” “early childhood programs,” “preschool,” and “out-of-school time programs.” California’s licensed child care programs can be broken down into two main categories: licensed family child care homes and licensed child care centers. Licensed child care centers include infant/toddler, preschool and school-age programs in private for-profit, public non-profit and private non-profit licensed child care centers. They also include programs that are entirely publicly-funded, including Head Start programs and programs funded by the California Department of Education—Child Development Division. These programs vary widely in content, organization, sponsorship, source of funding, and relationship to public school and government regulations. For a diagram depicting these programs, please see Appendix A.

Child Care’s Economic Role in California
The child care industry plays three main economic roles. First, it provides a significant number of jobs and generates considerable revenue in its own right. According to a 2001 study, the licensed child care industry generates between $4.7 and $5.4 billion dollars in revenue each year, and directly employs over 123,000 people in the State. This puts it on par with other important industries in the State, including: advertising, lumber, and accounting and legal services. A more recent study by the Center for Study of Child Care Employment and the California Child Care Resource and Referral Network estimates that there are 132,000 child care workers in licensed facilities in California.

Second, the child care industry is an economic driver in the current economy because it enables parents to work and/or update their skills. Collectively, working parents of children in licensed child care facilities were able to earn $13 billion in 2001. Furthermore, child care enables employers to attract and retain employees and increase their productivity. Similar to transportation and housing, without accessible and affordable early care and

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education, employees may experience barriers to working, which negatively impacts their employers and the economy as a whole.\(^4\)

Third, child care supports a strong future economy by preparing children to enter K-12 education ready to learn the skills necessary to succeed in school and become productive workers. Recent research on early brain development supports the conclusion that high-quality child care for children from birth through age five is a vital service, improving children’s health, school readiness and eventual economic contribution to society.\(^5\) For children ages 5 through 12, before- and after-school programs ensure children’s safety while providing enriching educational activities that support the traditional school curriculum.\(^6\)

Three separate longitudinal studies of targeted, intensive intervention programs for low-income children indicate significant and positive long-term outcomes in areas such as grade repetition and special education needs, higher educational attainment and home ownership in adulthood. Many of the outcomes reduce future public spending in such areas as K-12 education, criminal justice and welfare assistance, which result in a 12 percent rate of public return on investment.\(^7\) Economists who analyzed the overall costs and benefits of these three high-quality child care programs, saw significant returns on investment in each program (see Table 1 for summary).\(^8\)

<table>
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A Shortage of Child Care in California

In 2004, there were an estimated 3.8 million children with parents in the labor force for which there were only 1.0 million licensed child care slots, which means that the licensed child care industry can care for just 26 percent of children whose parents are working.\(^9\) Despite the overwhelming need for child care and evidence of its positive economic and social impacts, agencies in the State have documented a slow growth in the child care supply over the last several years. Moreover, while there may be an increase in the number of facilities, family child care providers in particular experience a significant amount of turnover. According to a statewide study of family child care providers, over a quarter (26 percent) reported entering the field only within the last three years.\(^10\) High turnover limits the quality of child care programs, and strain's the industry's ability to meet the needs of families, children and the overall economy.

The growth trends on a state level bury some of the complex dynamics impacting the supply of child care in communities. For example, in recent years, the supply of child care is particularly vulnerable to real estate pressures. While data collected on the percentage of family child care providers who own their own home find that providers are more likely to be home owners than the adult population, it is also documented that a nearly a quarter (21 percent) of the home providers in the State are over 55 years old and approaching retirement.\(^11\) The combination of an aging workforce and increased costs in the rental market make it necessary to facilitate the recruitment of new providers into the field and identify barriers that prevent younger home-based providers from entering the field.

Due to limited purchasing power, the sector has typically rented property and often used below market spaces. Child care providers often rely on surplus space in classrooms or portables on school campuses, as well as church basements or recreation halls, and other sub-prime commercial or residential real estate. Class size reduction in California has decreased the availability of space in schools resulting in the relocation, or in some cases, permanent closure of child care programs. This loss of space for the sector and the recent appreciation in the real estate market leaves child care providers, who have limited purchasing power, unable to compete with more profitable uses and limits their ability to either retain or gain new space to meet demands from working families. However, this represents only a subset of the child care center supply. Due to the fragmentation of the delivery system and some of the limits of licensing data, the magnitude of class-size reduction and real estate pressures remains difficult to measure.

The Quality of the Child Care Facility Affects the Quality of the Child Care

The provision of quality child care is a function of several interrelated factors including caregiver qualifications and experience, market demand, wages, leadership, business

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\(^9\) California Child Care Resource and Referral Network (2006). *The 2005 Child Care Portfolio*. Some families choose license-exempt providers (friends and relative care) and programs for school age children are often not licensed by the state.


management, parent relations, and the physical plant in which care is provided. Ultimately though, both the availability and quality of licensed child care hinge on two key factors: qualified nurturing caregivers and teachers and a healthy, safe, and developmentally stimulating physical environment. Simply put, you need the people and the place. The focus of this report is the place—the physical environment or facility, which is necessary to provide child care services.

In addition to the overwhelming need for a greater supply of child care facilities, there is a growing recognition about the importance of the physical environment to the quality of child care. A 1995 four state comparative study: Cost, Quality and Child Outcomes in Child Care Centers determined that there is a high correlation between the physical environment and the outcomes of children. Participants in programs that scored higher on the Early Childhood Environment Ratings Scale, a child care quality instrument that includes age appropriate furnishings and display and safe indoor and outdoor play space, were more likely to have positive outcomes than children in facilities that did not meet these standards.12

The adequacy of the physical plant for care giving and child development, whether home or center-based, is both immediately apparent and subtler in its impacts. Immediately apparent is how much space is provided per child, the presence of outdoor space for gross motor skill development, the physical condition of the facility in terms of maintenance and upkeep, and the presence or absence of any hazards for children, staff and families. Based on recommendations from the California Department of Education, Head Start, the American Public Health Association, the American Academy of Pediatrics, and the National Association for the Education of Young Children (NAEYC), the BCC recommends that there is at a minimum 75 square feet of indoor space per child. This includes 50 square feet of “usable” space and an additional 25 square feet for bathrooms, corridors, laundry, etc. The BCC also recommends 75 square feet of outdoor space per child.13,14,15,16

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13 American Academy Of Pediatrics, American Public Health Association, and National Resource Center for Health and Safety in Child Care and Early Education. (2002). Caring for Our Children: National Health and Safety Performance Standards: Guidelines for Out-of-Home Child Care Programs, 2nd edition. Elk Grove Village, IL: American Academy of Pediatrics and Washington, DC: American Public Health Association. Also available at http://nrc.uchsc.edu. The authors call for 35 square feet per child as a minimum, but indicate that this has been found to translate to 50 square feet of usable indoor space per child, wall to wall, including equipment and furnishings. And the 50 square feet still does not include space for kitchens, bathrooms, corridors, staff offices, and laundry. The authors also call for 75 square feet per child on a playground for a group for children using the playground at the same time.

14 A draft of new National Association for the Education of Young Children (NAEYC) standards for accreditation call for a minimum of 35 square feet of “usable” space per child in each of the primary indoor activity areas. The primary activity area does not include toilets, sick-child area, staff rooms, corridors, stairways, closets, locker/cubbies, laundry rooms, storage areas and built-in shelving. The draft also recommends that accredited programs provide a minimum of 75 square feet times one third the total enrollment of the center for outdoor space.

15 US Department of Health and Human Services Administration for Children and Families Administration on Children, Youth and Families Head Start Bureau. (2005). The Head Start Center Design Guide. Retrieved on May 24, 2007 from: http://www.headstartinfo.org/publications/hs_design_guide/pdf/HS_design_guide.pdf. The Head Start Center Design Guide requires a minimum of 35 square feet of usable space per child, excluding bathrooms, halls, kitchen, staff rooms and storage places. However, the sample designs provide for 75 square feet of occupiable floor area for a classroom with 20 preschool children. This guide also recommends 75 square feet of usable outdoor play space per child.

These baseline requirements for space can be enhanced greatly in terms of quality if there is an ability to develop the space specifically for the task of providing child care, especially for the age group of children to be served and the staff who will educate them. The following design features have also proven to support program quality:

- Bathrooms and food prep areas off the classroom with clear sight lines
- Windows and other features designed specifically for children at their height
- Outdoor play spaces immediately (off) adjacent to the classroom
- Teacher break and preparation areas
- Space for the provision of one-on-one and group services to children and families, including health, mental health and family support service
- Natural lighting coming from at least two directions
- Not located near noise sources, such as major highways, street intersections, railroad lines, or airport flight paths without mitigation
- Desirable natural features, such as trees, south-facing slopes, and views of natural and pleasant man-made features of interesting urban vistas
- The facility meets Americans with Disabilities Act accessibility requirements. Accessibility includes access to buildings, toilets, sinks, drinking fountains, outdoor play space, and all classroom and therapy areas.
- The work environment includes a place for adults to take a break or work away from children.
- At least 50 percent of the play yard area should be exposed to sunlight. There is also a need for shade in the play yard, provided by plantings and other shading devices.

These design features can enhance the experiences of children and their development greatly, as well as the day to day experiences and success of staff in their work. A more recent study, *Constructing Early Childhood Facilities: What States Can Do to Build Supply and Promote Quality*, highlights other reasons for how the quality of the facility may affect the quality of the program. The authors suggest that a quality facility promotes parental involvement in their child’s early education experience, which is a key component of quality child care programs. Additionally, the child care industry faces significant levels of staff turnover, which also negatively affects the quality of programs. The aforementioned

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18 New draft of the National Association for the Education of Young Children’s (NAEYC) standards for accreditation.
study recommends that quality facilities might promote staff retention by “creating physically and psychologically comfortable workplaces, and facilitating professionally rewarding interactions with young children, parents and coworkers.”

Publicly Funded Efforts to Increase the Quantity and Quality of Child Care Facilities

California is a leader in recognizing the importance of children’s facilities and finance. This work began with the efforts of the National Economic Development and Law Center (NEDLC) in the 1990’s. Recognizing the challenges facing the child care sector and opportunities for collaboration between the sector, community development initiatives, and financial institutions, NEDLC formed the Statewide Task Force for Financing Early Childhood Facilities (“Task Force”), which brought a variety of key stakeholders together on this issue. The Task Force’s resulting report, Financing Early Childhood Facilities, Investment Strategies for California’s Low-Income Communities, created a plan of action for the State. Many recommendations made in the plan, implemented in full or in part, resulted in increased attention to and resources for child care and the development of facilities. For example, the taskforce called for an information clearinghouse. As a result of the report, the Building Child Care Project was created, and California established the California Department of Housing and Community Development Child Care Facilities Financing Program and the Department of Education’s (CDE) Child Care Facilities Revolving Fund. The following highlights X publicly funded efforts to increase the quantity and quality of child care facilities:

1) The Building Child Care (BCC) Project provides a centralized clearinghouse of information and services to increase the California child care sector’s understanding of the facilities development process and access to facility development resources (for more information on the BCC Project see pages 1-2).

2) California Department of Housing and Community Development’s Child Care Facilities Financing Program (CCFFP) made a significant impact in the two plus years of operation, the. Ultimately the program funded 16 direct loans totaling $7.2 million and 5 loan guarantees totaling $2 million. CCFFP funding created 1,145 new child care spaces while preserving an existing 330. The program had significant geographic reach, with 60 percent of direct loans reaching rural areas. CCFFP was de-funded and discontinued in 2001. This program has not been revived, despite recommendations made for its revamping and reinstatement by the Child Development Policy Advisory Committee, an HCD consultant, and the BCC Collaborative in its 2002 Barriers report. Due to increased targeted marketing efforts through a partnership with the Child Development Policy Advisory Committee (CDPAC), an estimated $14 million in financing was in the pipeline at the time the program was closed.

The CCFFP was a vital resource for child care providers, which has been lost. The challenges faced by the program and the lessons learned through its implementation are important to carry forward. These challenges and lessons were numerous.

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First, the program got off to a slow start. While passed in 1997, the direct loan and guarantee components weren’t effectively available to the child care field until 1999, and, the MicroEnterprise Assistance Program never got off the ground.

Second, marketing of the program was slow to get launched and was not initially targeted effectively. The program staff quickly learned that child care is very local and that information about the program and how to access it was not immediately apparent at the local level. The program was delivered through interagency relationships between the Department of Housing and Community Development and the Technology, Trade and Commercial Agency. Small Business Development Financial Corporations (SBDFCs) were the service and contact point for providers. SBDFCs worked with providers to prepare loan applications including business plans. The number of parties involved made the program slow and cumbersome to work with at times.

In addition, the lack of familiarity with child care, particularly on the part of the SBDFCs, who were the face of the program, made the program difficult to access for many child care providers.

Finally, the product as originally designed did not address what applicants needed. According to HCD in its annual report to the legislature on the program dated March 2001, “The program’s experience has been that some prospective borrowers have difficulty funding 50 percent of the project costs from other funding sources due to the unavailability of equity funds and thin profit margins that limit their debt capacity. CCFFP believes these projects would move forward if the loan terms were more flexible, e.g., financing larger share of the project’s costs, longer loan terms, payment deferrals, lower interest rate loans, allowing a higher percentage of loan participation when used with a loan guarantee.” Further, CDPAC recommended that the loan be assumable by other operators. Ironically, at the same time that the program was defunded, changes were approved to address these concerns, including reducing the interest rate to 3 percent, extending loan terms to 30 years, reducing the match requirement, and providing for the loan to be assumed by another child care provider.

These changes lay important groundwork for the program to be re-instituted successfully. The BCC continues to support the reinstatement of this restructured fund as an important public financing resource. These public financing resources are particularly important because the child care industry still struggles to attract investment from commercial banks.

3) The California Department of Education’s (CDE) Child Care Facilities Revolving Fund (CCFRF), a major part of the Governor Schwarzenegger’s new preschool initiative, provides funding for a) the lease-purchase of new relocatable or modular buildings for CDE contracted centers on public school property; and/or b) the renovation and expansion of non-modular buildings that house CDE contracted centers on public school property. This program continues to be an important resource for child care facility financing in California. Until recently, however, the CCFRF received uneven support despite its status as the sole source of public funds for child care facility development statewide. The 1997 Budget Act appropriated an initial $25 million to the CCFRF. Since then, funding for the CCFRF was
appropriated through the annual Budget Acts through FY 2001-02. However, in FY 2002-03, FY 2004-05, and FY 2005-06, a total of $93.2 million in CCFRF funding was redirected to other state programs through the annual legislative and budget processes. As a result, the CCFRF received an adjusted total appropriation of $85.5 million as of the end of FY 2005-06. Due to the revolving nature of the CCFRF, the program is continuously replenished by loan repayments received from participating agencies in addition to the annual Budget Act appropriations. Since CCFRF’s inception, the CDE committed, in aggregate, approximately $90.4 million in facilities funding to child care agencies through an application process to the CCFRF. In the FY06, the CDE committed $2.8 million in CCFRF funding to support new child care facilities projects.

The program has had a major impact on the CDE contracted child care sector. As of June 30, 2006, the program received a total of 1,034 applications for funding requests of child care facilities projects. Of this number, 448 applications were determined to be ineligible or the applicants voluntarily withdrew from program participation. Also as of June 30, 2006, the program had a total of 586 executed contracts with applicant agencies to fund new relocatable buildings.

In FY07, the funding for CCFRF increased by $50 million, which will offer tremendous benefits to CDE contracted centers. From 1997 until 2006 the limit per facility for a loan from CCFRF was $150,000. In 2007, CDE approved an expansion of the loan limit to $210,000.

4) California Department of Housing and Community Development’s Nonresidential Supportive Services Space (NSSS) fund was introduced as part of the Multifamily Housing Program in 2002, and continued until the $12 million allocated to the program was fully invested in 2005. This program offered up to $500,000 per Multifamily Housing Program (MHP) funded project for permanent financing for resident services space, including child care centers. This funding was highly beneficial to affordable housing developers who sought to co-locate child care centers with new housing developments, but lacked financing mechanisms to cover the cost of development. The NSSS financing was structured as soft debt, and was typically used to leverage private debt to assemble full child care center financing. These NSSS funds stimulated the community development sector’s capacity to include child care centers within affordable housing developments, offering an important amenity to residents and the surrounding communities.

23 Soft debt is capital that typically has the following features: A) It is a loan that is expected to be repaid far into the future and has no mandatory payments. Payments are usually in the form of residual receipts. It is distinguished from equity in that it is not ownership participation. It is differentiated from a grant in that the capital provided has expectation of economic repayment/recovery. B) Unlike a normal loan (with hard payments), repayment is deferred so that the borrower’s payments required are usually less than interest accrued. In most cases payment is deferred indefinitely and a certain percentage of the debt is forgiven at specified periods. C) These funds carry compliance or recapture covenants that are enforced through the financing instrument/security. If the covenant is broken, then the soft debt is recaptured (loan is called and must be repaid in full). D) In exchange for a soft loan, borrower or recipient pledges to provide affordability in one of several ways: price, reduced rent, eligibility, etc. E) This type of debt has favorable interest rates. The interest is not mandatory and is a further element in affordability. In most cases, the debt carries below-market interest rates. Most of the time, soft debt is public discretionary funding (funded mostly by CDBG funds). Also, financial institutions provide soft debt. These debts read as a grant that may be recovered if covenants are not met which are done for CRA (community reinvestment act) purposes. This soft debt (loan) gets paid back after all other debt (private loans) gets paid first.
The NSSS program was financed through the 2002 California bond measure that resulted in $2.1 billion of funding for the California Department of Housing and Community Development’s affordable, supportive, and farm worker housing programs. Almost $1 billion of the $2.1 billion was allocated to MHP. The MHP’s Notices of Funding Availability (NOFAs) averaged about $70 million per round. Of this funding, the California Department of Housing and Community Development made about $12 million available for Nonresidential Supportive Services Space; approximately 80 percent of this allocation was used for child care centers. The BCC Project strongly recommends that similar funding be made available through any future HCD affordable housing bond programs.

5) The California Child Care Initiative Project (CCIP) is designed to increase the supply of licensed, quality child care. Developed by the BankAmerica Foundation in 1985, and expanded in 2002 with federal dollars from the Child Care and Development Block Grant, the program recruits and trains family child care providers to help meet the great demand for child care services. The Initiative is implemented through existing nonprofit community-based child care resource and referral agencies (R&Rs) in every county. CCIP works through a successful five-stage model of supply-building, training and retention. The five stages are: 1) assessing child care supply and demand; 2) recruiting individuals to become providers; 3) training to improve quality of care and business practices; 4) providing technical assistance; and 5) providing on-going support. Many of the CCIP sites recruit and train providers who speak Spanish, Vietnamese, Chinese, Russian, Hmong, Farsi, and other languages. While the primary focus of this project is not on facilities, its focus on building the business skills of emerging family child care providers, indirectly supports child care facilities development and financing in California.

Private Efforts to Improve the Quantity and Quality of Child Care Facilities in California

Together, the factors mentioned earlier in this section have resulted in focused attention and resources dedicated specifically to meeting the physical plant and related technical assistance and finance needs of the child care sector. The recent pressure on the sector and the loss of leases within it have also prompted a strong desire for ownership or long term tenure for providers so that they can have security, invest in their facilities to make them high quality and developmentally appropriate environments for children and staff, and optimally, build their financial bottom line. To work toward these goals a movement comprised of child care leaders, parents and community development organizations, is taking hold on the national, state and local levels.

First, nationally, community development financial institutions and child care leadership organizations joined ranks in the late 1980’s, and formed a network to address a specific facility challenge: the prohibition of the Federal Head Start Program to allow the use of contract funding for mortgage payments instead of lease payments, irrespective of the cost. This prohibited Head Start providers from purchasing buildings and from accessing the numerous programmatic and financial benefits of ownership. The collaborative, now named the National Children’s Facilities Network (NCFN), was successful in gaining a regulatory change that allowed the purchase of facilities by Head Start Programs. In addition to creating a peer-based network to share information and best practices, NCFN continues to
work on public policy strategies to increase federal investments in facilities and technical assistance.

There are a number of existing private efforts in California to increase child care facilities development and financing. One such example is the Local Investment in Child Care project (LINCC). LINCC was established in California in 1997 to conduct leading-edge work in the fields of child care and economic development. LINCC helps key innovative nonprofits and government agencies in seven counties address the child care needs of their communities by ensuring that appropriate economic resources, policies and expertise are generated to support the growth of a sustainable and vibrant child care sector. LINCC is currently active in Alameda, Kern, Monterey, San Mateo, Santa Clara, Santa Cruz, and Ventura counties. LINCC was incubated at the NEDLC, with support from the Ford Foundation, and has received many years of financial support from the David and Lucile Packard Foundation.

LINCC has experience with diverse populations, economies and political structures, including predominantly rural and highly urbanized areas. A SRI International Evaluation found that LINCC has played an instrumental impact in increasing child care facilities development and financing. LINCC has:

- Brought child care considerations squarely into an area from which they traditionally have been excluded: city and county economic planning and decision making.
- Leveraged the $1.93 in local dollars for child care facilities for every $1 the Packard Foundation provided;
- Educated substantial numbers of child care providers in the business aspects of operating child care centers and homes; and

In 2006, LINCC created LINCC Consulting Group which has worked in a number of counties to support child care facilities development and financing.

Another example is the California Economic Development Lending Initiative (CEDLI), which is a multibank community development corporation which invests capital in small businesses and nonprofit community organizations throughout California in both urban and rural communities. CEDLI created its Child Care Facility Financing Program to enhance the child care infrastructure within California by providing permanent financing through mortgages for the acquisition, expansion, rehabilitation or refinancing of new or existing child care facilities.

A third example is the Low Income Investment Fund (LIIF), Affordable Buildings for Children’s Development (ABCD). Launched in 2003 with support from the David and Lucile Packard Foundation and First 5 California, LIIF’s ABCD Initiative is a California-wide collaborative of organizations dedicated to building a comprehensive and sustainable financing and support system for child care facility development. The ABCD Initiative employs four key strategies to build this support system for quality child care facility development in California. These are:

1) **ABCD Fund**: As the capital financing component of the ABCD Initiative, the Fund offers California child care center projects grants, short and long term loans for child
care facility development. The ABCD Fund also provides intensive technical assistance during each phase of the capital financing process, especially the early stages, helping borrowers navigate the financing market and providing referrals to facilities development resources.

2) **ABCD Development Assistance:** This strategy increases quality child care spaces by building partnerships with community developers to support the inclusion of child care facilities within health, faith-based, education and housing developments. Development Assistance offers individualized child care project consultation, training, a structured peer support network, tools and guides to support quality child care facility development. LIIF works closely with different types of real estate developers and development associations throughout California.

3) **ABCD Constructing Connections:** Launched in 2004 with the support of First 5 California, Constructing Connections, a part of the ABCD Initiative, is an innovative program that actively encourages the child care and community development sectors to work together to support and streamline the process of financing, constructing and managing child care facilities in California. Constructing Connections provided funds to 10 agencies in 11 California counties to form effective collaboratives of child care providers, community developers, local government planners, small business development corporations and advocates. These groups work to identify and eliminate regional barriers to child care facility construction, create processes to better facilitate construction projects and provide essential resources for understanding the nuts and bolts of these types of projects.

As of 2005, Constructing Connections has funded 10 lead agencies to organize the local collaboratives. Lead agencies include the Children and Families Commission of Santa Barbara, First 5 Riverside, Crystal Stairs, Inc. in Los Angeles County, Child Development Resources of Ventura County, Inc., The Children’s Network of Solano County, Kern County Superintendent of Schools, Merced County Office of Education, Human Resources Council, Inc. (Amador/Calaveras Counties), Child Action, Inc. (Sacramento), and Orange County United Way.

4) **Children’s Facilities Policy Committee:** LIIF brings together experts in financing, community development, local planning, affordable housing and child care to track policies and inform policy makers on effective strategies that support child care facility financing and development.

The ABCD Initiative works in close collaboration with the other BCC partners, including the National Economic Development and Law Center, the California Child Care Resource and Referral Network, and the Child Development Policy Institute Education Fund, as well as intermediaries such as the Local Initiatives in Child Care (LINCC) and the Child Care Law Center. Overall, this facilities movement has resulted in a dramatic and marked increase in the attention to and resources for children’s facilities development and finance in California. The availability of resources is best documented by: *The Matrix of Financial Resources for Child Care Facility Development in California* (Updated 2006), which is published on the BCC website and update on an ongoing basis: [http://www.buildingchildcare.org/financial.htm](http://www.buildingchildcare.org/financial.htm)
SECTION SUMMARY

This section highlights the need and economic importance of child care facilities development and financing. It also demonstrates the significant role that quality facilities play in improving outcomes for children who attend child care programs. In addition, it documents public and private efforts to support the development or renovation of child care facilities. Despite a marked increase in attention to and resources for facilities development and finance, significant barriers remain to developing and financing facilities, particularly in low income communities. The balance of this report is devoted to documenting the barriers that remain, strategies that have succeeded, and to making recommendations to overcome these barriers.
Section Three
Regulatory and Systemic Barriers to Facilities Development & Finance

Once built, the state government regulates the provision of licensed child care. However, in the development process, local regulations including land use, zoning, building codes, and planning, greatly impact the siting, scale, location and use of facilities as follows:

- Family child care – permitting, cost
- Centers – zoning and land use
- Centers – planning and permitting – costly, uncoordinated
- Centers – licensing and code compliance
- Agency/Public – lack of information regarding the economic impact of sector, challenges of development

Regulation of small family child care homes (up to 6 or 8 children) is standard across the state due to a statute which describes family child care as a residential use of property which permits these businesses and services to be established in neighborhoods as of right (e.g., without special or conditional use permits).\(^\text{24}\)

However, development of large family child care homes (9 to 14 children) as well as child care centers, is subject to local review and approval. The local standards, which are applied to these larger child care facilities, vary greatly from jurisdiction to jurisdiction. Some may require fees (ranging from nothing to several thousand dollars); and some may require conditional or special use permits to allow the provision of child care in certain zoning classifications – such permits and project review may be based on public hearings and/or require traffic or noise impact studies, which could incur additional costs. Permission to develop larger child care facilities may be granted as a right with little time and money invested. Conversely, the application process, fees, hearings, and required reports may result in a cost of thousands of dollars and an investment of months of time depending on local regulations.

Local land use decisions need to account for potentially competing uses in a given area and balance multiple uses. For instance, the traffic and noise impacts of child care must be considered. Yet, undue barriers are placed on the development of child care services in some jurisdictions. For example, the Ventura County LINCC project conducted a survey that found huge variations in the process, fees and time required to obtain approval of large family child care homes and centers within the county. Specifically, a large family child care home in Thousand Oaks must obtain a special or conditional use permit, attend a hearing, and pay fees of $960—a process which typically takes several months. Due to more supportive land use planning, a similar sized venture in a different part of Ventura County

may obtain a permit over the counter in half an hour with no hearing requirements and a fee of $40. “Child care providers and advocates blame such disparities on a lack of appreciation about day care’s role in society and on not-in-my-back yard attitudes.”

However, “City officials say they must retain some control over home-based centers, which can cause traffic, parking and noise problems in neighborhoods.” Orange County is another county that experiences significant barriers for the development of larger child care facilities. To address these barriers, Orange County United Way developed a zoning planning guide for child care operators that identified city permits and processes for 30 of the 34 cities in the county. This report indicated that every city required larger facilities to go through an in-depth Conditional Use Permit (CUP) process and pay expensive CUP fees even if the potential child care facility was being developed in a commercial area that had been zoned for child care. In response to the report, the City of Huntington Beach passed an ordinance to reduce the CUP process to a departmental review and eliminated the conditional use permit ($3,502) for large family child care homes. However, child care centers still must go through the full CUP process and pay the prohibitively expensive CUP fee of $6,815 (R. Andrus, personal communication, April 27, 2007).

These early development requirements and approvals, particularly in areas that have more stringent requirements, can be a significant barrier to the development of child care. Providers may not have the technical expertise, wherewithal and financial resources to risk up front in order to navigate the project approval process. In addition, in hot real estate markets, providers might not be able to tie up property pending the approval process. The investment of time and money is high risk as project approval is not guaranteed and dollars invested may be lost.

It is also worth noting that while the economic and social benefits of child care are apparent to parents and providers, they are often unnoticed by communities. As a whole, the benefits of the sector are relatively hidden, contributing to its project approval challenges. In fact, child care is not an explicit consideration in the land use planning and approval process for most jurisdictions. Child care is not one of the seven required elements of General Plans, which are vital road maps for physical development in communities. Therefore many City and County General Plans do not address child care at all. In City and County General Plans where child care is addressed, it is often woven into other required elements (e.g., community facilities, education, transportation and housing).

Outdoor play space, which is vital for the healthy development of children, can pose additional challenges for child care centers, both those in development as well as currently operating facilities. First, the practice of Community Care Licensing granting waivers for the outdoor play space requirement in dense urban areas, which enabled providers to utilize public parks, has been eliminated. Therefore, new facilities must develop strategies for meeting the requirement of 75 square feet per child of outdoor play space, or, in cases where that is not possible, dedicate a similar portion of space for indoor gross motor activity areas. In dense urban areas, this poses a significant challenge in terms of locating space

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26 Ventura County Star. (2004).
and developing it appropriately for children. Outdoor activity area requirements can create additional cost burdens to projects.

In addition, in 1999 the State passed new public playground safety standards with which all licensed child care providers must comply. AB 1055 amended the Health and Safety Code that governs safety standards for playground facilities and equipment that are open to the public, including those in licensed child care centers. Under the law, all operators of child care centers needed to have completed a playground safety inspection by October 1, 2001 for the purpose of identification of issues to come into compliance with the new safety standards. Generally, with some exceptions, playgrounds must have been upgraded to come into compliance with the new safety standards by January 1, 2003. Playgrounds operated by public agencies were required to be upgraded only to the extent that state funds are made available for the purpose. This was not true of privately operated child care centers. Many private child care operators were unable to come into full compliance due to the prohibitive cost of upgrading playgrounds. Depending on several factors, developing a new playground to meet the new safety standards can cost between $30,000 and $120,000 or more. This typifies the difficult decisions operators face regarding the allocation of scarce resources.

**RECOMMENDATIONS**

**Overarching Recommendation #1: Standardize fees and codes for child care providers so that they are reasonable:**

**Statewide Strategies**

- Clarify and enforce existing laws in the statewide Health and Safety Code including Section 1597.43 which standardizes fees applied to large family child care homes.
- Strengthen statewide land use legislation to achieve consistency.
- Standardize fire codes and work to educate fire marshals statewide about child care.
- Create a state fund to pay local permit fees with private or public matching funds.
- Modify the Education Code so that school districts are not penalized for using school facilities for infant, preschool or school age children (i.e. these uses should never be classified as a non-school use).29
- Modify licensing requirements to more easily permit sharing of playgrounds and other facilities between preschool and K-3 classrooms (would make preschool space at school sites more available).30

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Local Policy Strategies

- Simplify permit process, lower fees and explain the justification for fees, and standardize permit processes and fees across jurisdictions
- Work with local and statewide officials to incentivize the development/renovation of child care facilities.

Strategies for Child Care Leaders

- Develop child care land use guides that identify all child care land use fees, codes (fire and building) and processes for every city and the incorporated area of the county.

Current Local Efforts to Address Overarching Recommendation #1

- The following counties have developed child care land use planning guides or similar tools that outline the various statewide and city land use guidelines for child care operators (e.g., permit fees/process, fire codes, building codes, etc.): Alameda, Kern, Merced, Orange, San Mateo and Santa Cruz. Orange County United Way is using their zoning and planning guide to reduce the Conditional Use Permit (CUP) fee and process in four targeted and strategic cities. This strategy also includes an effort to build a group of local constituents (providers and families) who can advocate for eliminating the fees and simplifying the CUP process (R. Andrus, personal communication, April 27, 2007).

- Los Angeles County: In California, CUP fees can generally only be challenged within 60 days of adoption. In Los Angeles County, Public Counsel, a public interest law firm, has been tracking cities in the County with high CUP fees for large family child care homes so that when these fees come up for reauthorization or a city is changing the whole regulatory process, it can advocate for the fee’s reduction or removal. As a result, Public Counsel has convinced eight cities in the County to voluntarily reduce or remove their fees for large family child care homes. Public Counsel and Constructing Connections (Crystal Stairs) were also able to convince the City of Los Angeles to increase the size of a child care center that can avoid a full CUP review process from centers that serve just 20 children at any one time to centers that serve 50 or fewer children at any one time. They also identified a point person at the City Planning Office to help expedite any land use or building department review process that may be needed for child care centers. Public Counsel is also working with several cities to adopt more child care friendly land use policies (in the General Plan and zoning). Within the City of LA, they are working on trying to get some property rezoned to permit child care or to remove need for a CUP (P. Schmidt, personal communication, May 2, 2007).
Overarching Recommendation #2: Include child care in City/County General Plans:

Statewide Strategies

- Create statewide legislation that requires all city/county General Plans to have an element that addresses human services, including child care and other similar programs (e.g., residential and elder care).

Local Policy Strategies

- Make child care a priority for development by including it in city/county General Plans.

Strategies for Child Care Leaders

- Partner with other human service providers (e.g., residential/elder care providers) to advocate for legislation that requires all General Plans to have an element to address "human services", which includes child care and other similar programs.
- Participate in meetings regarding updating city/county General Plans and advocate for the inclusion of child care language.

Current Local Efforts to Address Overarching Recommendation #2

Merced County: Constructing Connections, Local Child Care Planning Council (LPC) members and other child care advocates have been attending community input meetings with cities that are updating their General Plans to advocate for the inclusion of child care language. Dr. Lee Andersen, Superintendent of Merced County Schools, continues to advocate for the inclusion of child care when updating the proposed School Facility Planning Guide for Merced County’s school districts. In addition, Constructing Connections is working with the San Joaquin Valley Housing Trust which will assist local jurisdictions to achieve their goals in housing their local workforce and develop model projects that include child care as they develop affordable housing throughout the valley (C. Hendricks, personal communication, May 1, 2007).
Overarching Recommendation #3: Adjust play space requirements to allow exceptions for urban areas:

Statewide Strategies

- Identify alternative ways to build the supply of child care facilities in dense, urban areas by addressing outdoor play space requirements and/or providing waivers.
- Establish a mechanism (e.g., low interest loan funds) where there is funding to assist child care providers in meeting playground regulations.
- Restore the Child Care Licensing Advocate Program to its 2002 funding level and consider designating one advocate to focus specifically on facilities.
- Modify licensing requirements to more easily permit sharing of playgrounds between preschool and K-3 classrooms (would make preschool space at school sites more available).\(^{31}\)

**Strategies for Child Care Leaders**

- Encourage greater involvement of the philanthropic and business community to provide funding for child care providers to meet upgrades in playground regulations.
- Advocate with Community Care Licensing for play space requirement waivers for child care facilities in dense urban areas.

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**Current Local Efforts to Address Overarching Recommendation #3**

*San Diego County:* Like those in other areas, parents who work in the centers of cities require child care. Yet, finding a location for a child care center that has outdoor playground space can present serious challenges. Such was the case with Kiddie Hall, a center serving primarily parents who are City of San Diego employees.

After assessing other locations, a site was identified on the third floor of a multi-story office building in downtown San Diego. Adequate playground space for the three-year-olds through Kindergarteners was available in a park-like setting next to the high rise. They would access the space by descending a set of stairs. However, the same option was not feasible for the infants, toddlers and two-year-olds to be served by the program. So center developers became creative.

A rooftop area was converted to a playground for the younger aged children. With a detailed plan for the layout of that area and a plan for emergency evacuations, the Community Care Licensing Division gave approval for the concept, as did the State Fire Marshall. A City Fire Inspector reviewed the site and also provided the necessary clearances.

Today, Kiddie Hall is licensed to serve 150 children ranging in age from infants through Kindergarten. The center is open year-round and provides full-day care for the children and families of City employees. It remains a stunning example of how the challenges of downtown settings can be mastered in order to meet the needs of children and families (D. Ferrin, personal communication, February, 2007).

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Section Four
Limited Real Estate and Finance Capacity of the Child Care Sector

There are some barriers to child care facility development and finance which the child care sector itself brings into the equation. These barriers stem from the funding culture and skill base of the typical provider.

As a sector, many child care providers (particularly nonprofits with state contracts) have been historically grant-funded in a manner that creates no net profit at the end of a given period. The typically tight margins and history of being grant funded creates reluctance to take on debt. Many providers see multiple risks in utilizing financing, including burdening future leadership with loan payments. At the same time, providers fail to see some typical benefits such as the economic efficiency of paying for capital costs over time and leveraging savings or grants with debt. Yet, smart utilization of debt will be a key tool for the sector to ramp up its capacity to meet the needs of working families throughout the state.

Marketing debt to child care providers is a challenge. The child care sector in California is comprised of family child care homes and centers; two very different forms of organization and styles of business. In addition, providers and programs are diverse in terms of language, culture, geography and their approach to working with children. In order to have maximum impact, training, debt, and finance tools need to be made available to child care providers in sector specific terms so that they can relate. Furthermore, child care operators have a range of needs regarding debt structure. A family child care provider may need a $10,000 loan to install child sized plumbing fixtures or make her home compliant with the Americans with Disabilities Act (ADA). A child care center operator may undertake new construction that requires predevelopment loans, construction loans or permanent financing from $100,000 to several million dollars with below-market interest rates and long repayment periods. It is challenging to bring private lenders and investors to the table to capitalize loan funds that meet the financing structures and debt capacity of the sector. Examples of child care facilities-specific loan funds that have been successful are discussed at the end of this section. There is a need, however, to bring additional lenders to the child care sector through carefully structured and increased public equity investments, as well as coordination of operating subsidy allocations with these investments to help private capital markets mitigate the risks of lending to the child care sector.

In addition to being debt adverse, many segments of the sector lack tangible skills for maneuvering the complex and interrelated mazes of regulation, facility development and finance. Any one development project can require land use permits, the development of a business plan including capital budgets and operating projections, the management of architects and contractors through construction, the assembly and management of several different funding streams (each of which may have their own unique requirements), and the approval of licensing and fire regulations (among others). All of these tasks must typically be achieved by child care operators who are not trained in these skills, and have many other...
responsibilities, demands or projects. A few counties have begun training child care providers to increase their business skills and understanding of the child care facilities development and financing process, and curriculum has been developed to deliver such trainings. For example, the National Economic Development and Law Center (NEDLC) with The Children’s Collabrium (formerly the CDPI Education Fund) developed the Financial Planning and Facilities Development Manuals for child care center and family child care providers. These manuals have been translated into Spanish and Chinese (only the family child care manual was translated into Chinese). The Children’s Collabrium and NEDLC have been using these manuals to deliver trainings called Maneuvering the Maze to child care providers throughout the State.

In addition, ABCD Constructing Connections counties have developed local clearinghouses of information for operators interested in obtaining resources and technical assistance on facility development and financing. Also, Constructing Connections lead agencies have partnered with local agencies like Small Business Development Centers to provide technical assistance and training to operators on how to develop a business plan, budgeting, marketing, and other business planning related topics. Constructing Connections Lead Agencies include: First 5 Santa Barbara County, First 5 Riverside, Crystal Stairs, Inc. (Los Angeles), The Children’s Network of Solano County, Kern County Superintendent of Schools, Child Development Resources of Ventura County, Inc., Merced County Office of Education, Child Action, Inc. (Sacramento), Orange County United Way, Human Resources Council, Inc. (Amador/Calaveras Counties)

The ABCD Initiative also develops and makes available through their website (www.liifund.org) tools to help developers of child care facilities throughout the California navigate the land use regulatory, facility planning and design, cost estimating, construction or renovation, and financing process. These tools are used by LIIF’s Constructing Connections partners, LIIF’s developer and financing partners, and as part of one-on-one technical assistance and training LIIF provides.

Currently only the most sophisticated providers have the requisite skills and support necessary to successfully develop facilities and access financing.

**Note:** While no definitive data on this point is available, a relatively small segment of family child care homes and centers have been successful at developing facilities and accessing financing in California over the past few years. Picturing the child care sector as a pyramid, only the very top of the triangle is currently undergoing capital expansion and/or using debt (other than high cost credit cards) to meet their capital needs. Some of the characteristics, which this relatively small segment of the delivery system may share, include the following:

- Being part of a broad spectrum agency and/or a multi-site child care agency operating at scale with related economic efficiencies and fiscal/business systems
- Organizational leadership with some experience and comfort with capital projects and/or debt
- An ability to access and manage a range of traditional and nontraditional funding sources
- Creating projects which have an economic edge (e.g., land donations, partnerships with other nonprofits such as affordable housing developers, or mixed use projects which generate income to subsidize the child care operation)
■ External factors, such as losing a lease or site, which require them to overcome hurdles in order to survive
■ The ability to draw on a supportive local environment and/or system of support

RECOMMENDATIONS

Overarching Recommendation #4: Increase the businesses skills of child care providers:

Statewide Strategies
■ Designate family child care as a targeted community for first-time home buying programs.
■ Encourage and provide the necessary resources for Small Business Development Centers (SBDCs) and other existing entities that do business development training to increase business skills of child care providers.
■ Enhance/expand curriculum for non-credit bearing and credit-bearing programs for ECE to build business skills of providers.
■ Prioritize business skill development in the child care mentorship program.

Local Policy Strategies
■ SBDC’s should prioritize training child care providers and partner with local child care intermediaries (e.g., resource and referral agencies) to help deliver trainings.

Strategies for Child Care Leaders
■ Ensure that provider outreach about resources for business development is linguistically and culturally appropriate.
■ Educate providers about the benefits of owning versus renting.
■ Share best practices statewide from local preschool/child care initiatives that are building the business acumen of child care providers.
■ Create a child care accounting clearinghouse, a co-op of child care back office services that could take care of the accounting needs of a number of child care providers at an economy of scale.

Current Local Efforts to Address Overarching Recommendation #4

Merced County: A collaboration was formed between the Merced Office of Education (the local R&R), Alliance Small Business Development Center (SBDC), Merced Community College, Constructing Connections and the local Workforce Investment Board (WIB) to offer 6 week “business side of child care” classes in English and Spanish (1 unit). Alliance SBDC taught the classes. As part of their final project, providers develop business plans (M. Souza, personal communication, February 8, 2007).
Section Five
Economic Challenges

A final set of barriers can be grouped as economic challenges for the sector - more specifically, the child care sector’s ability to use debt financing to support sustainability and expansion of quality child care. The nature and types of funding for child care and competing demands for limited resources create significant challenges to the financing of the sector. The challenges are many and interrelated.

Tuition revenue rarely is sufficient to cover all expenses, especially for programs serving low- to –moderate income families. It is common for child care operators to fill expense gaps with fundraising and donations. Even after filling the expense gap, child care operators are left with thin margins on which to operate leaving them with limited income to devote to monthly debt service.

Financial constraints are particularly characteristic of California Department of Education contracted centers serving low income families. The “standard reimbursement rate” for these contractors falls far short of the true cost of child care services. Limited net operating income in turn equates to limited funds to devote to loan payments. The lower the net operating income the smaller the total loan a child care operator can afford and the more likely affordable and flexible loan terms will be necessary. This means that providers are limited in how much they can borrow (particularly relative to project cost), and will require loans at lower costs and on longer repayment terms.

Many child care operators rely on public operating revenues which are renewed on a year-to-year basis (contracts), or on parents to meet minimum program requirements (vouchers). These revenue sources are perceived as risky by lenders unfamiliar with child care for two reasons. First, if the primary source of repayment for a loan is a year-to-year contract and the loan term is 10 years, the source of revenue to cover the debt payment can be perceived as not guaranteed for the 10-year loan term. Second, if a child care operator depends on vouchers for operating revenue, they must rely on parents to comply with voucher program requirements leaving the child care operator with little control over ensuring the voucher payment will come through. However, most child care operators who rely on contracts and vouchers have had many years of experience managing these programs, such that a year-to-year contract that has been renewed for several years can truly be perceived as a long-term contract. And successful voucher management experience over the years is a good sign that anticipated revenue from vouchers will be achieved. Therefore, the perception of short-term public operating revenue can actually be more of an education issue for lending institutions than a true impediment to accessing financing for the child care sector.

Another economic challenge stems from the fact that the majority of child care operators rent rather than own their building/land allowing for limited sources of collateral to secure
loans. Lenders require collateral as a guarantee (or secondary source) for repayment of a loan if for some reason the child care business doesn’t perform as planned and sufficient cash flow to repay debt is not generated. However, the more lenders become familiar with the business of child care the more likely they will understand that unsecured loans can be supported in creative ways such as personal guarantees from board members and others related to a particular child care business. Loan guarantees from the Small Business Administration or the California Capital Access Program are also ways to supplement a child care borrower’s lack of collateral.

Child care operators can also experience internal tension regarding where to invest limited funding. Facility needs may compete with other priorities. For example, child care operators may struggle to balance a need or desire for a new/expanded facility with a desire to devote resources to recruitment and retention of qualified staff. Given limited resources, and competing demands, investing in child care facilities and incurring related debt may not be a priority.

In light of the economic challenges outlined (limited net income, collateral, and competing uses for funds), providers often need to find multiple funding sources for any one project and must combine loans with grants or equity from public and private sources. The equity sources for such projects are also increasingly unreliable, as Head Start capital funding was largely defunded in FY 2006, and Federal Community Development Block Grant (CDBG) funds were cut, becoming ever more competitive to access. Private philanthropic funding is subject to market forces, shifting foundation priorities and often is available only after a program has raised significant other sources of funding. Therefore, projects typically require multiple funding sources, with multiple expectations or requirements. While child care operators have developed skills for blending one or more funding streams to create a larger revenue base, a skill that is needed for weaving capital sources to make a child care facility development project feasible, these savvy operators are few and exist mainly in communities rich in resources.

As outlined above, economic challenges are affecting the access to much needed capital for child care. However, current capacity building efforts have increased statewide for both child care operators and financial institutions. Local preschool/child care initiatives are working on increasing the business acumen of operators, while educating local financial institutions on the need/demand for child care and sharing strategies to mitigate the risks of underwriting a child care loan. Lessons and successes from these local initiatives should be delivered more broadly to support policies that provide for more affordable capital to the child care sector. This will help to ensure that quality child care spaces exist for children throughout the State.

**RECOMMENDATIONS**

**Overarching Recommendation #5:** Incentivize private investment in child care facilities and enhance existing public investment in child care facilities so that more providers can access capital:

**Statewide Strategies**

- Ensure that there are a range of public financing options for child care operators.
- Expand and enhance the Child Care Facilities Revolving Fund (CCFRF). There is great need for financing that extends beyond the purchase of relocatables on public property. Furthermore, the additional $50 million in the 2007 State budget for CCFRF is limited to preschool facilities. Programs that serve different age groups, and those that are housed in non-modular facilities on private property are in dire need of capital to support quality environments for young children.

- Develop a loan guarantee program for private developers to invest in child care facilities.

- Develop tax incentives for financial institutions that provide low-interest loans to emerging or existing child care providers who are going through the facility development process.

**Local Policy Strategies**

- Develop forums for financial institutions to learn more about investing in child care facility projects.

**Strategies for Child Care Leaders**

- Demonstrate that child care is an economic development issue (e.g., update *The Economic Impact of the Child Care Industry in California*).  

- Research how other sectors receive more private investment and how these strategies might be replicable for the child care industry

- Utilize loan guarantees from the Small Business Administration or the California Capital Access Program to supplement a child care borrower’s lack of collateral.

- Lessons and successes from local preschool/child care initiatives that are educating financial institutions about the need for child care capital facilities financing and how to mitigate risks for lending to child care operators should be shared broadly to support policies that will provide for more affordable capital to the child care sector.

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Overarching Recommendation #6: Adjust child care reimbursement rates to reflect the true cost of high-quality child care:

Statewide Strategies

- Review and adjust reimbursement rates annually to reflect the true cost of high-quality child care and tie them to inflation.
- Streamline administrative and reporting requirements for child care providers receiving subsidies.
Overarching Recommendation #7: Create long-term publicly funded child care contracts to help attract and secure private financing:

**Statewide Strategies**
- Include funding for facilities when providing operational funding for State-funded child care programs including public preschool.

**Local Policy Strategies**
- Develop forums for financial institutions to learn more about investing in child care facility projects.

Current Local Efforts to Address Overarching Recommendation #6

In the winter of 2006/07, the Labor Project for Working Families and the Alameda County Child Care Planning Council worked with stakeholders to organize a “Child Care and Preschool 101” for new legislative staff. Child care advocacy organizations, unions and parent groups met face to face and on the phone to plan the event and materials in December and January and held the event in February. A diverse group of organizations participated including the Child Care Law Center, CAPPA, Crystal Stairs, BANANAS, Children Now, SEIU, AFSCME, California Federation of Teachers, and the California Teachers Association, the California Corps, Parent Voices, the California Resource and Referral Network, and preschool advocacy organizations including Preschool California.

For the briefing, the organizations came together around a five-point platform:

- Improve Facilities and Reduce Land Use Barriers – allocate more funding for child care space
- Improve and adequately fund community care licensing
- Increase the reimbursement rate for state subsidized programs
- Raise Staff Compensation, Benefits and improve access to professional development
- Reduce the number of children and families on the waiting list for state subsidized care

The legislative briefing was successful: 14 new legislative staff attended along with established staffers and child care advocates. After the briefing, organizers fanned out in the Capitol to visit additional new legislative staff and gave them the briefing materials. In an evaluation, one organizer commented that they accomplished their goal of establishing themselves as the experts in child care legislation and should continue to collaborate whenever possible (J. Cassidy, personal communication, May 3, 2007).
Strategies for Child Care Leaders

- Prioritize business skills trainings for for-profit providers since they cannot access public financing for facilities and must rely entirely on private financing.
- Conduct outreach to landlords (e.g., churches, housing developers, schools, etc.) regarding the importance of affordable and accessible child care for economically and socially vibrant communities.

Current Local Efforts to Address Overarching Recommendation #7

Child, Family & Community Services, Inc. (CFCS) is a Head Start Grantee in Alameda County that serves children at 11 locations throughout the county. Pending the sale of one of their existing centers that housed 80 of its Head Start slots, CFCS had been looking for a site for three years. The San Leandro Unified School District (SLUSD) invited CFCS to partner with them and purchase a double portable building and place it adjacent to the SLUSD Adult Education Program.

The development was partially financed with a joint-use grant SLUSD received from the California Department of Education. As part of the agreement, CFCS had to contribute matching funds to go towards the costs of the facility. In exchange, CFCS will have a 30-year rent free lease. To meet the terms of the agreement and obtain the necessary financing, CFCS leveraged the joint-use grant with private financing from the Low Income Investment Fund’s (LIIF) ABCD Fund (planning grant for $20,000, construction and permanent financing in the amount of $200,000) and obtained a $50,000 grant from LIIF’s, Child Care Facilities Fund.

This example illustrates how child care capital projects must weave together a myriad of funding sources to achieve a successful development. Affordable projects, typically serving low income families, require a combination of credit enhancements, equity and the most affordable debt financing. A few successful local models where public sources of equity/grants are leveraged with private debt to achieve affordable capital projects include Los Angeles Universal Preschool, Community Development Block Grant funds, and two Child Care Facilities Fund programs administered by the LIIF for Alameda County (funded by First 5 Alameda) and San Francisco (funded in part by the Mayor’s Offices of Community Development and Child, Youth and Families). By combining grants from these public sources of capital with private debt, the overall long term cost of the development is more affordable.
Section Six  
Conclusion  

The purpose of this report is to identify strategies that reduce persisting barriers to child care facilities and development. An extensive literature review and scan of field leaders demonstrates the industry still faces three main barriers to child care facilities development in California:  

1. Regulatory or Systemic Barriers  
2. Limited Real Estate and Finance Capacity of the Child Care Sector; and  
3. Economic Challenges  

Working with leaders in the field of child care facilities development and financing in California, the BCC Project identified seven overarching recommendations to address these barriers mentioned above:  

1. Standardize fees and codes for child care providers so that they are reasonable:  
2. Include child care in county/city General Plans:  
3. Adjust play space requirements to allow exceptions for urban areas:  
4. Increase the business skills of child care providers:  
5. Incentivize private investment in child care facilities and enhance existing public investment in child care facilities so that more providers can access capital:  
6. Adjust child care reimbursement rates to reflect the true cost of high-quality child care  
7. Create long-term publicly funded child care contracts to help attract and secure private financing  

Under each of these overarching recommendations, the BCC Project identified strategies for State agencies and policymakers, and child care advocates. Statewide strategies focus on the development of legislation, health and safety codes, land use regulations, and eligibility requirements which will alleviate the barriers to facility development for child care providers and promote the expansion and/or upgrade of child care facilities. Local strategies involve the implementation and standardization of requirements for child care facility development. Local agencies can also address current barriers by prioritizing child care development in General Plans and providing training to providers and intermediaries on facilities development. Strategies for child care leaders include advocating for outreach to linguistic and cultural communities and ensuring policies do not have an adverse impact to the child care field. Child care leaders input is vital for local and state agencies from the field to hear. Supporting legislation, attending planning meetings, and partnering with public and private organizations are recommended at the state and local level. This report also identifies existing replicable models for local child care field leaders and policy leaders to implement that can help address the barriers highlighted in this report.  

The child care field and its many partners in the public and private sectors have made great progress in meeting the increasing child care demands of families over the past several
years. Despite this progress, huge challenges remain to close the gap between the demand for care from working families and the supply of available, quality facilities. Creative thinking, hard work, and collaboration that builds on the successes of the last several years will enable the child care field and key stakeholders to successfully meet the important challenge of creating a quality child care alternative for every child in California.


