

A photograph of three young children on a swing set. One child is lying back on a swing, smiling, while two others are nearby. The background shows a playground with a red tricycle and other equipment.

Strategies for Increasing Child Care Facilities Development and Financing in California

EXECUTIVE SUMMARY

A photograph of a large-scale construction site for a multi-story building. Scaffolding and structural elements are visible against a clear sky.

PREPARED BY THE
BUILDING CHILD CARE
COLLABORATIVE





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This document, *Strategies for Increasing Child Care Facilities Development and Financing in California (Executive Summary)* ©2007, is a publication of the Building Child Care (BCC) Collaborative Project. This publication is designed to educate policymakers and the child care field about barriers and solutions to child care facilities development and financing. It is made possible through funding by the California Department of Education.

THE BUILDING CHILD CARE 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 and LIIF) played an active role in producing this document. The primary authors include:

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THE BUILDING CHILD CARE COLLABORATIVE PROJECT ADVISORY COMMITTEE

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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For a full copy of this report, please visit: www.buildingchildcare.org
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Background

In 2002, the Building Child Care (BCC) Project produced an initial study documenting existing barriers to the development and financing of child care facilities and made recommendations for overcoming those barriers. This report, an executive summary to *Strategies for Increasing Child Care Facilities Development and Financing in California*, is an update to the BCC's 2002 report. This study highlights that despite the overwhelming need for and benefit of child care services, there remain several key barriers to the physical development and financing of facilities that keep the industry from meeting the needs of children, families and California's overall economy:

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

This report identifies seven sets of strategies for local and statewide policymakers and the child care industry itself to address persistent barriers to child care facilities development and financing. While the child care field has made great strides to address these barriers since 2002, significant and systemic changes to statewide and local public policies are still needed to support child care facility development.

Child Care Drives California's Current and Future Economy

The 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. The child care industry plays three main economic roles.

- *First, the industry 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.ⁱ A more recent study by the Center for the 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.ⁱⁱ
- *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 at least \$13 billion in 2001.ⁱⁱⁱ
- *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.^{iv} 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.^v



ⁱ National Economic Development and Law Center. (2001). *The Economic Impact of the Child Care Industry in California*.

ⁱⁱ Center for the Study of Child Care Employment, Institute of Industrial Relations, University of California at Berkeley and the California Child Care Resource and Referral Network. (2006). *The California Early Care and Education Workforce Study*.

ⁱⁱⁱ National Economic Development and Law Center. (2001). *The Economic Impact of the Child Care Industry in California*.

^{iv} Shonkoff, J.P. et al., editors. (2000). *From Neurons to Neighborhoods: The Science of Early Childhood Development*.

^v National Institute on Out-of-School Time. (2005). *Making the Case: A Fact Sheet on Children and Youth in Out-of-School Time*.



Barriers to Child Care Facility Development and Financing Negatively Impact Children, Families and Businesses

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.^{vi} Despite the overwhelming need for child care and evidence of its positive economic and social impacts, agencies in the State have documented slow growth in the child care supply over the last several years. Moreover, while there is 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 home providers, over a quarter (26 percent) reported entering the field only within the last three years.^{vii} High turnover reduces the quality of providers and limits the industry's ability to meet the needs of children, families and the overall economy.

Due to limited purchasing power, the sector has typically rented property and often used below market rate 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 have left child care providers, who have limited purchasing power, unable to compete with more profitable uses and has limited their ability to either retain or gain new space to meet demands from working families.

BARRIER #1:

Regulatory and Systemic Barriers to Facilities Development and Finance

Local Development Standards, Procedures and Planning Processes Prohibit the Development of Larger Child Care Facilities

In the development process, local regulations including land use, zoning, building codes, and planning, greatly impact the siting, scale, location and use of child care facilities. Regulation of small family child care homes (up to 6 or 8 children) is authorized across the State without local review and approval. 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. In some jurisdictions, permission to develop larger child care facilities is granted as a *right* with little time and money invested. In others, the application process, fees, hearings, and required reports result in a cost of thousands of dollars and an investment of months of time depending on local regulations. Lastly, child care is not one of the seven required elements of General Plans; instead, it is often woven into other elements of facilities (e.g., community, education, transportation, or housing), or not addressed at all.



^{vi} 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.

^{vii} Whitebook, M., et al. (2006). *California Early Care and Education Workforce Study*.



Outdoor Play Space Requirements Pose Barriers for the Development of Child Care Facilities in Urban Areas

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, was eliminated in 2002. In addition, in 1999 the State passed new public playground safety standards with which all licensed child care providers must comply. Depending on several factors, developing a new playground to meet the new safety standards can cost between \$30,000 and \$120,000 or more.

Strategy #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).
- 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).

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 unincorporated area of the county.



Strategy #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.





Strategy #3:

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.

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 or providing waivers on a case-by-case basis.
- Establish a mechanism (e.g., low interest loan funds) where there is funding to assist child care providers in meeting playground regulations.
- Add a statewide Child Care Licensing Advocate who focuses 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).



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.

BARRIER #2:

Limited Real Estate and Finance Capacity of the Child Care Sector

Many Child Care Providers are Debt-adverse

As a sector, many child care providers (particularly nonprofit providers with State contracts) have been historically grant-funded. This 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 benefits, such as the economic efficiency of paying for capital costs over time and leveraging savings or grants with debt, when figuring out financing.



The child care sector in California is comprised of family child care homes and centers which have two very different forms of organization and styles of doing business. Therefore, training, debt, and finance tools need to be specialized to meet the needs of these two very different types of child care operators. Furthermore, child care operators have a range of needs regarding debt structure. While some loan funds are available statewide, there is a need to bring additional lenders to the child care sector through carefully structured public equity investments. These investments should be coupled with coordination of operating subsidy allocations to help private capital markets mitigate the risks of lending to the child care sector.



Child Care Operators Need More Training in Business and Finance

Many child care operators 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; and the approval of licensing and fire regulations. All of these tasks must be achieved by child care operators who are not trained in these skills, and have many other demands or projects going on at the same time.

Strategy #4:

Increase the Business Skills of Child Care Providers:

Statewide Strategies

- Designate family child care operators 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

- SBDCs 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 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 can handle the accounting needs of a number of child care providers at an economy of scale.

BARRIER #3: | Economic Challenges

A final set of barriers can be categorized as economic challenges for the sector - more specifically, the child care sector's ability to use debt financing to support the sustainability and expansion of quality child care. The challenges are many and interrelated:

- Child care tuition revenue is insufficient 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, 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. This means that providers are limited in how much they can borrow, and require loans at lower costs and on longer repayment terms.



- Child care operators either 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.
- The majority of child care operators rent rather than own their building/land allowing for limited sources of collateral to secure loans.
- Providers often need to find multiple funding sources for any one project and combine loans with grants or equity from public and private sources. The equity sources for such projects are increasingly unreliable, as Head Start capital was largely defunded, and Federal Community Development Block Grant (CDBG) funds were cut. 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 revenue. While some child care operators have skills for blending one or more funding streams to create a larger revenue base, skills that are 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.

Strategy #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.





Strategy #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.
- Increase the number of providers that are publicly funded by decreasing eligibility requirements for parents.
- Reduce paperwork for child care subsidies.

Strategy #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 school programs.

Local Policy Strategies

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

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.

Conclusion

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 remains 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 build 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.

For a full copy of this
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