State and Local Innovations to Finance Child Care Facility Development: Four Community Examples

September 27, 2017
4:15PM – 5:30PM

Roger Herzog
Executive Director
Community Economic Development Assistance Corporation (CEDAC) and Children’s Investment Fund (CIF)
Four State/Local Examples

Overview

Four Themes:

1. Challenges of Lending to the Early Childhood Education (ECE) Sector
2. Need for Technical Assistance and Capacity Building
3. Models of Financing Sources
4. Lessons Learned
Challenges of Lending to the ECE Sector

Throughout the field, providers need funds for:

- Facility repairs and maintenance
- Capital improvements and facilities renovation
- New facility construction and expansion

Barriers to debt financing include:

- Low operating margins or deficits (often due to inadequate reimbursement rates)
- Low or no reserves
- Limited fundraising capacity, especially in low-income communities
- Financial management capacity, aversion to debt

Many ECE facilities financing programs rely on grants and other subsidies

Theresa Jordan
Director of Children’s Facilities Finance
Children’s Investment Fund
Children’s Investment Fund

We are a non-profit technical assistance and financing organization with a focus on facilities for early childhood and out-of-school time programs in Massachusetts.

Since its founding in 1991, the Fund has
- Supported 558 capital projects
- Provided $51 million in loans/grants
- Leveraged additional $90 million in public/private investments
- Served 29,000 children through improved learning environments

Children’s Investment Fund Provides:

Training
- Annual Building Stronger Centers Training Institute
- Deeper look at issues pertaining to design, financing, and other topics
- Let’s Take It Outside training on outdoor playspaces

Technical Assistance
- Connecting providers to architects, consultants
- Assisting with site selection, design, financing, team building
- Reviewing feasible capital and operating budgets
- Creating critical path and project milestones

Loans
- Planning, Predevelopment, Acquisition, and Term Loans

Grants
- Planning Grants
- Early Education and Out of School Time Capital Fund (EEOST)
Why Space Matters

Accessibility

Access to Physical Activity

Educator Effectiveness

Health

Air Quality

Acoustics

Morale

Teacher-Child Interaction

Facilities Inventory Report - 2011

Challenges
- No comprehensive facility standards
- Limited number of standards that address facility and functionality for both early childhood education (ECE) and out-of-school time (OST)

Goals of Report
- To document the conditions of facilities housing ECE and OST programs
- To use the data to obtain public capital financing
Facilities Inventory Report - Findings

- 22% of programs statewide had insufficient ventilation and poor indoor air quality, which can trigger asthma and is linked to higher rates of absenteeism and illness.
- 54% of early childhood programs lacked indoor physical activity space, which impacts the amount of exercise children engage in.
- Nearly 70% of programs lacked classroom sinks, making frequent handwashing difficult and increasing the risk of infections.
- 18% of ECE and 30% of OST programs lacked adult work space.
- 65% of sites lacked appropriate technology for teachers.
- Only one site in the study was fully accessible to children with special needs.

Source: Children's Investment Fund, Building an Infrastructure for Quality, 2011. 182 programs across Massachusetts were in the random sample.

Facilities Inventory Report - Recommendations

- Develop a Public Funding Mechanism
- Leverage Focus on High Quality
- Address Hazardous Conditions
- Build Partnerships with Utility Companies
- Leverage Community Development Resources
Innovation - Public Funding Mechanism

- Mechanism
  - Child care bond bill legislation attached to larger housing bond bill
- Partners
  - United Way
  - Child Care Advocacy Organizations
  - Provider Agencies
  - Legislators
  - CHAPA – Housing Advocacy Organization
- Massachusetts first to establish a state general obligation bond for ECE/OST facilities as part of housing bond program – “EEOST”

EEOST

- The Early Education and Out of School Time Capital Fund (EEOST) was created by An Act Financing the Production and Preservation of Housing for Low and Moderate Income Residents in November, 2013
- $45M authorized over five years
- A competitive grant program for licensed non-profit ECE/OST facilities that serve minimum of 25% low-income families
- Funds used for planning, acquisition, renovation and construction of facilities
EEOST Rounds

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Funding Allocated</th>
<th>Programs Funded</th>
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</thead>
<tbody>
<tr>
<td>FY14/FY15</td>
<td>$7,450,000</td>
<td>10</td>
</tr>
<tr>
<td>FY16</td>
<td>$3,600,000</td>
<td>6</td>
</tr>
<tr>
<td>FY17</td>
<td>$4,100,000</td>
<td>5</td>
</tr>
<tr>
<td>FY18</td>
<td>$3,600,000</td>
<td>To Be Determined</td>
</tr>
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EEOST Successes

21 projects funded,

- Creating 448 new slots and impacting over 2,000 children, 86% of them from families with low income
- Creating over 34 educator jobs and 360 construction jobs
- Leveraging over $36M in additional private investment
An Ongoing Need

- From FY14 to FY17, EEOST requests from applicants totaled $37.8M but only $15M was available for funding.

- Over 50 providers across Massachusetts are currently planning major facility improvement projects. They collectively serve over 3,000 kids.

- Over 30 providers are currently in need of smaller-scale, emergency facility needs (boiler replacement, leaking roof, broken ventilation system).

Sources:
Children’s Investment Fund, EEOST application data, FY14/15 – FY17.
Children’s Investment Fund, Facility Needs Survey 2016 sent to licensed center-based programs in Massachusetts.

Children’s Investment Fund’s Future Work

- 2017-2019 Evaluation study measuring impact of facility improvements on quality of programming, child well-being, and organizational stability

- Replication of our model in other states/communities

- Working to stabilize early education and care organizations that have the challenging business model of providing early education and care to children with public subsidies
Rachel Bluestein  
Vice President of Strategic Initiatives and Programs  
Low Income Investment Fund

Impact Pathways

33 years of investing in low income communities and families

- $2.0 billion invested
- $9.5 billion leveraged
- 1.9 million people served
- $52.2 billion in social benefits
LIIF’s Early Childhood Education (ECE) Work – Summary

LIIF provides loans, grants, and technical assistance to ECE centers nationwide, with targeted programs in CA and NY.

- **Capital Investments**
  - $130 MM invested in support of 264,000 child care slots

- **Capacity Building**
  - Business Operations TA in CA and NYC

- **Policy & Advocacy**
  - Long history of successful advocacy in CA

California Program

- **Public Sector in CA highly supportive of ECE**
  - Public agencies coordinated, with provider and public input
  - ECE integrated into public planning process
  - Dedicated funding sources: impact fees, property taxes, tobacco taxes, City General Fund, Federal CalWorks

- **LIIF’s San Francisco Child Care Facilities Fund (CCFF) provides:**
  - Grants and loans for center- and family-based providers
  - Workshops and individual TA on business operations, finance, and facilities
  - Emergency bridge loan financing
  - Currently developing a NMTC fund for low-cost debt

- **LA Emergency Bridge Loan Fund**
  - Supported by both philanthropy (PRIs) and First Five LA (quasi-governmental, tobacco taxes)
California Program Activity

<table>
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<tr>
<th>FY 2016 Snapshot</th>
<th>Program History</th>
</tr>
</thead>
<tbody>
<tr>
<td>119 centers provided grants and TA</td>
<td>670 centers provided grants and TA</td>
</tr>
<tr>
<td>8,277 child care slots supported</td>
<td>264,000 child care slots supported</td>
</tr>
<tr>
<td>$4.6 million grants deployed</td>
<td>$6.25 million grants deployed</td>
</tr>
<tr>
<td>$1 million in loans</td>
<td>$67 million in loans</td>
</tr>
</tbody>
</table>

- 98% of centers serve low-income families
- More than 90% of centers served are minority- and/or women-owned businesses

SF NMTC Fund (In development)

- Goal: Leverage public capital funding to benefit more childcare providers
  - Important to preserve childcare spaces in rapidly gentrifying areas
- Issue: Thin operating margins and scarce reserves make childcare facilities hard to finance
- Proposal: Create a fund providing flexible, low-cost capital for centers
  - Would support acquisition, construction, renovation
- Tool: New Markets Tax Credits (NMTC) bring Federal subsidy to projects, making them more affordable
  - LIIF team would underwrite projects and offer technical assistance to borrowers on facilities issues
  - Sources include city contribution and LIIF’s NMTC allocation

NOTE: Program is currently undergoing public approval process
New York City Program

LIIF partners with the NYC Dept. of Education to support the implementation and expansion of Pre-K for All

- **Pre-K Capacity Fund**
  - Bridge loans to centers preparing to launch under new Pre-K for All contracts. The zero-interest loans helped the providers update, improve, and expand early care facilities

- **Pre-K Capacity Program**
  - Capacity building program offers ECE centers workshops and individualized TA on business operations, budget planning, and financial management
  - Program will expand in its second year, LIIF has applied to the DOE for public funding

NYC is now rolling out 3-K for All, planning 62,000 slots for 3-year olds

New York City Program Activity

Capacity Fund Snapshot

- 8 centers supported with $250K in total bridge loans
- 282 slots created

Capacity Program Snapshot

- 31 centers participated in Year 1 pilot, program will be expanded in Year 2
- 90% women and/or minority-owned businesses
- At least 40% of children served live in low-income communities
- All participants offered training in business operations, financial planning, and financial monitoring
- 20 agencies received general TA on business management topics and goal planning
- 12 agencies received in-depth business interventions and supports to build capacity and improve financial stability
Kirby Burkholder
Vice President and Executive Director– Eastern Region
IFF

Leading comprehensive community development

Public Policy
Real Estate Development and Consulting
Community Strategies
Lending and Finance
Research
Michigan vulnerable children have faced worsening conditions over the past decade

Key Statistics

- In the latest kids count, 57.6% of children ages 0 to 17 in the City of Detroit are in poverty.
- In 2014, nearly half a million children under 17 in Michigan lived in poverty, over a 23% increase since 2006. Children of color fare even worse with nearly 1 in every 2 African-American children and 1 in every 3 Hispanic children living in poverty.
- Of those children living in poverty, 32% live in families where no parent has secure employment and the cost of child care exceeds 38% of 2015 full-time minimum wage earning.
- Michigan ranked 31st in overall child well-being according to 2016 Kids Count Data Book. This is up from 33rd in 2015, but poor education performance and poverty remain significant challenges.

Data-Informed Approach

Map 1: Overall Service Gap, Licensed and Registered Providers
Hope Starts Here Framework

1. Core Values
   - Equity
   - Community Leadership
   - Strength and Evidence-Based Approach
   - Multi-Generation Approach

2. Vision
   - By 2027, Detroit will be a city that puts the young children and families first. Our city will be a place where:
     - The children are healthy and have high-quality early childhood experiences.
     - Families are empowered and supported in raising their children.
     - Children are well prepared and connected.
     - Children's environments are safe and welcoming.

3. Priorities
   - Healthy and Thriving Children and Families
   - Family Leadership and Community Engagement
   - Accessible High-Quality Early Childhood Experiences
   - Safe and Healthy Learning Environments
   - Coordinate Early Childhood Systems
   - Align and Increase Resources for Early Childhood
   - Advocate for Child and Family-Centered Policies

4. Outcomes
   - Click for outcomes

5. Activation Partners
   - Parents and community members
   - Providers working with children and families
   - Community and policy organizations

Hope Starts Here Process Timeline

- **September**: Community Engagement Planning Team Formed
- **October**: Engagement plan developed. Activities begin.
- **November**: Kick-off Celebration
- **December**: Identified 6 family leaders and strategy teams and 34 stewardship board members
- **June-July**: Finalize plan
- **Fall '17**: Plan Release

Community engagement partnership targets

Stewardship Board

Community engagement planning team expands; update with Wack IT table; develop plan for community-wide listening sessions.

January-May:

Strategy Teams

Stewardship Board Feedback

2017 Council Priorities

Hope Starts Here Process Timeline

October: Finalize plan

Stewardship Board

Finalize plan

Strategy Teams

Stewardship Board Feedback

2017 Council Priorities

Hope Starts Here Process Timeline

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Finalize plan

Strategy Teams

Stewardship Board Feedback

2017 Council Priorities
Resources/Reference

http://www.hopestartsheredetroit.org/
http://kresge.org/kresge-early-years-success-detroit
https://cfsem.org/focus/early-childhood/

Wayne Ysaguirre
President and CEO
Nurtury

#OFNCONF #CDFIsINVEST
WAYNE YSAGUIRRE  
President & CEO, Nurtury, Inc.

Nurtury gives Greater Boston’s youngest children in need, from birth to age five, the opportunity to reach their full potential by investing in school readiness, promoting healthy development and strengthening families.

Five centers and 120 family child care sites

144 Employees (109 are teachers)

All children enrolled receive 85% of their daily nutrition

1,200 children enrolled center-based and family child care programs
The Problem to Solve

Early Childhood Education site located basement since 1960s

- Decaying since mid 1990’s
- Lack of natural light, poor indoor air quality, crowded classrooms, insufficient heating and cooling
- Only partially accessible
- Limited outdoor play space
- Boston Housing Authority property, surrounded by high rise apartment buildings
Former Basement Site

Basement Classrooms
Crammed Space

Inadequate Adult Space
The Dream...

- Better, high quality space
- Bring together child, family, community → Nurtury
- The Plan sparked the Vision
  - Advisor encouraged us to think **BIGGER**
  - The research process opened possibilities
  - Bold concrete plans spurred audacious thinking: what SHOULD be here?
  - Understanding of role the center could play in neighborhood family’s lives and in changing systems

Challenges

- **The Great Recession**
  - Convincing our Board to abandon existing plans and feasibility study and to buy into the new vision
  - Communicating a compelling vision and launching a capital campaign with little knowledge of fund development.
- **Risk**
Technical Assistance

2007
Pre-Development
$300,000 in loans from Children’s Investment Fund funded consultants’ help to shape the project

Site constraints
- 99 yr ground lease/need to demolish building and cap site, etc.
- Moving Central Office & underground parking
- Rent space to others, 0-8 Charter/Pilot school
- Community approach due to site

Capital Funding and Financing
Program Funding
Coordinating Funding & Development
Hired external expertise

Sources of Financing

- Board of Directors $1,500,000
- HUD $5,000,000
- Foundations $3,600,000
- NMTC $4,630,000
- Bank Financing $1,980,000
- Equity $59,000

Total $16,769,000
Innovation

- Specially designed age-oriented classrooms and special spaces (art studio, green house, STEM lab, etc.)
- Lighting and choice of materials
- LEED certification/sustainability
- Emphasis on outdoor space
- Designed to serve a broader purpose
  - Foster child development
  - Partner with families
  - Contribute to the community
  - Demonstrate excellence
  - Support innovation

What We Learned

- Lenders were investing in the vision, goals, and the building
- The project vision strengthened board and staff leadership and created an opportunity to build our fundraising knowledge base
- Our thinking evolved: What if we created an exceptional program, and then created the building to support that mission?
The New Building

Outdoor Space
Play spaces for each age group

Modest footprint required careful planning
Family Space – Reception and Café

Separate but Unified Wings
Color, Light, Wood in a multi-use Space

Shared Spaces for Infants/Toddlers
Movie night in the gross motor room: the “Community Room”

Questions and Discussion
Presenters

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