

# NATIONAL CHILDREN'S FACILITIES NETWORK

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December 2, 2019

The Honorable Alex M. Azar II  
Secretary of Health and Human Services  
U.S. Department of Health and Human Services  
200 Independence Avenue, SW  
Washington, D.C. 20201

RE: Improving Access to Affordable, High Quality Child Care: Request for Information [Docket No.: HHS-ACF-2019-0005]

Dear Secretary Azar:

The National Children's Facilities Network (NCFN) is pleased to respond to the request for information (RFI) entitled Improving Access to Affordable, High Quality Child Care.

NCFN is a coalition of nonprofit financial and technical assistance intermediaries involved in planning, developing, and financing facilities for low-income child care and Head Start programs. The Network's purpose is to share information on child care facilities issues; initiate legislation and regulations affecting low-income child care and Head Start facilities; and develop and support various financing strategies, initiatives and programs. The members of the Network increase supply and help improve the quality of child care by providing technical assistance and financing to address capital needs.

NCFN greatly appreciates the Administration for Children and Families' (ACF) focus on improving access to affordable, high-quality child care. Investments in early care and education (ECE) creates both immediate and long-lasting benefits for individuals and society, in the form of children's social and intellectual development, parent's ability to participate in the workforce, and providers' ability to operate a business and create jobs. An important component of high-quality child care is the physical quality of the facility – research shows that developmentally appropriate environments improve learning and development among children.<sup>1</sup> The Network strongly believes that the quality and affordability of child care facilities should be elevated as a central tenet of any conversations on child care.

Despite the well-known importance of the physical space in which children learn and teachers teach, there is currently no dedicated source of federal funding for ECE facilities. This is limiting in several ways, most immediately, because it creates barriers to many providers entering the market. For instance, the lack of federal resources severely limits providers' ability to access subsidized capital for acquiring property, developing new facilities, and undertaking critical renovations that may substantially improve the quality of their program. To successfully accomplish this, providers also need access to technical assistance and capacity building resources that allow them to partake in the real estate process and grow their organizational resources to a sustainable level. Providing such resources through an intermediary structure – such as through community development financial institutions (CDFIs) or other entities with demonstrated financing experience in early care and learning or other community facilities – offers the best chance for success, both for children's developmental outcomes and providers' ability to build a sustainable business.

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<sup>1</sup> Bipartisan Policy Center, "From the Ground Up: Improving Child Care and Early Learning Facilities," <https://bipartisanpolicy.org/wp-content/uploads/2019/07/From-the-Ground-Up-Improving-Child-Care-and-Early-Learning-Facilities.pdf>, (May 2019).

NCFN has provided comments in direct response to those posed in the RFI. We have also provided a summary of the key points that are emphasized throughout our comments:

- Facilities are a critical part of the broader ECE conversation and are directly tied to the quality of a program and the health and safety of children and workers;
- Despite the clear importance of ECE facilities, there is currently no dedicated source of federal funding for ECE facilities, which creates barriers to providers entering and staying in the market;
- Federal resources for investing in child care facilities – including dedicated support for technical assistance and capacity building – will be most effectively accomplished if done through an intermediary structure; and
- All levels of government have a role to play in improving providers’ ability to access capital that supports high-quality facilities and sustainable business growth.

NCFN appreciates the administration’s focus on this critical issue and looks forward to working with you on improving the affordability and quality of child care.

## **A. Improving Access to Affordable, High Quality Child Care**

### **1. Building Supply of Child Care**

The current economics of building and maintaining high-quality ECE facilities creates significant barriers to providers entering and staying in the market. Child care providers tend to operate at exceptionally thin margins, leaving very little room to support debt on the property. This inhibits providers’ ability to acquire and/or develop facilities, as well as renovate existing facilities to meet the needs of a high-quality center. And in high-cost markets, providers are often priced-out from acquiring land or existing facilities, both because of the significant up-front purchase costs, as well as the capital needed to hold the land until the center is ready to open. A further barrier is that most ECE providers – like other small businesses – should expect to see operating losses during their startup phase. Given that they are already operating at thin margins without much capacity to take on additional debt, such factors are ultimately prohibitive to many providers entering the market.

Many providers who specialize in early care and education are also constrained by a lack of capacity to fully engage in the real estate market, which hinders their ability to develop and maintain a child care center. These barriers may include things like creating an operating budget, developing and implementing information systems, working with an architect, and engaging with the regulatory bodies that oversee building codes. All of these activities require technical assistance as well as working capital that providers can use to cover the facility requirements of running their business. Technical assistance and capacity building are therefore critical components in improving child care providers’ access to the market; without dedicated support for these basic business functions, providers will continue to face often insurmountable barriers to creating high-quality, sustainable ECE centers and businesses.

These challenges are prevalent in communities across the country, but rural areas face unique barriers to building high-quality child care facilities, including depressed economic markets, extreme unemployment, and dispersed populations. It is simply not economically viable to build a high-quality center in a rural area when it is unclear if enough families will be able to attend, or if they will be able to pay a rate that supports the facilities’ operations. As a result of these tricky economics, family-based child care is often the only option in rural areas, but these providers are also constrained by the depressed economic markets and dispersed populations in rural areas and therefore require tailored approaches to support their success.

Examples of successful strategies to build the supply of high-quality, affordable child care in underserved areas include:

- The Fund for Quality in Philadelphia uses child care mapping data to target investments to the most needed areas and provides business and organizational planning and facility predevelopment support coupled with grant and loan funds to finance high quality expansions.<sup>2</sup> To date, the Fund for Quality has created over 2,200 high-quality child care seats predominately serving low-income children and families. The Fund for Quality planning process includes individualized technical assistance on business and financial management for child care providers. Through this critical technical assistance, a provider is able to receive consultation including cost modeling, understanding QRIS requirements upfront in regard to staff credentials, training, furnishing and materials, etc. The Fund for Quality is made possible by private foundation grants and loan capital made available through Reinvestment Fund in its capacity as a CDFI.
- New Hampshire Community Loan Fund serves as a lender and technical assistance provider working with a child care program in a very rural community in the most northern county in New Hampshire.<sup>3</sup> NH Community Loan Fund was instrumental in helping this provider identify solutions to keep this vital, accredited program open in their community by guiding them through a process to transition from a for-profit to non-profit operation, and then to provide timely financing for the purchase of the property when needed. NH Community Loan Fund is continuing to provide targeted technical assistance to this program to help strengthen business skills and financial stability – typical supports that a CDFI is able to provide. In this instance, financing alone would not have been sufficient to maintain the program as critical technical assistance support was needed to create long term viability for the program. New Hampshire has an estimated need for 6,000 - 8,000 child care slots, with the need particularly urgent in rural communities where quality, affordability, and accessibility of child care options are limited.<sup>4</sup>
- First Children’s Finance (FCF) works in 12 states throughout the Midwest and includes an emphasis on increasing the supply and sustainability of child care businesses in rural areas. FCF developed a unique model to create family child care pods in which several family child care providers are housed in one facility, ensuring a high-quality physical space that can be used by several providers.

Despite the need for subsidy and technical assistance to increase the supply of affordable child care across the country, there is currently no dedicated federal funding for ECE facilities. NCFN supports the congressional recommendations outlined in the Bipartisan Policy Center’s (BPC) May 2019 report, “Improving Quality and Availability of Early Care and Learning Facilities,” which includes the creation of a federal competitive grant program, administered through intermediaries like CDFIs, to support center-based and family child care construction and rehabilitation.<sup>5</sup> The grant program would provide competitive grants to states to support capital grants for renovation, improvement, and construction of early learning facilities. States would also be required to meet or exceed a 25 percent cash match. The program would also include a National Activities Fund, administered by HHS, that would award

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<sup>3</sup> New Hampshire Community Loan Fund, “Impact Stories,” <https://communityloanfund.org/projects/impact-stories-colebrook-school/>.

<sup>4</sup> Child Care Aware, “NH Child Care Desert Map,” <http://nh.childcareaware.org/data-report/data-reports/>.

<sup>5</sup> Bipartisan Policy Center (BPC), “From the Ground Up: Improving Child Care and Early Learning Facilities,” <https://bpcaction.org/wp-content/uploads/2019/04/Improving-Quality-and-Availability-of-Early-Care-and-Learning-Facilities-Congressional-Recommendations.pdf>, (May 2019).

competitive grants to intermediary organizations like CDFIs to provide technical assistance, capacity building, and financial products to support early care and learning facility financing in all states.

Structuring this money to be administered through intermediaries like CDFIs positions the funding to be most impactful. CDFIs can offer products and services that are not otherwise available to child care providers, such as flexible financing – i.e. no-interest or forgivable loans – that allow providers to grow their business and serve more low-income families. CDFIs also have experience administering capital dollars efficiently and effectively and can leverage additional funding to amplify the impact of any federal dollars invested in child care facilities. NCFN strongly urges ACF to consider the role that intermediaries can play in making ECE more accessible and affordable across all populations.

## 2. Improving Child Care Regulations

ECE is a highly regulated industry because it serves a vulnerable population. NCFN firmly agrees with ACF’s statement that “child care licensing, regulatory and monitoring frameworks are the basis for ensuring that child care settings are healthy and safe for children”<sup>6</sup> and we strongly believe that child care regulations intended to protect children’s health and safety should be fully enforced and, in some cases, strengthened. In fact, given the importance of ensuring ECE facilities are appropriately regulated for health and safety concerns, NCFN encourages ACF to consider the BPC’s recommendation that the Department of Health and Human Services (HHS) conduct a national needs assessment of quality early care and learning facilities. BPC’s research notes that not enough data exists on the quality of early care and learning facilities nationwide, which is why a needs assessment is necessary to inform policymakers of the full scope of infrastructure needs as they seek to increase quality.<sup>7</sup>

There are also opportunities to use regulations and ordinances at the state and local level to ease the burden on providers and increase supply. A recent Early Learning Facilities Needs Assessment in Rhode Island, conducted by the Local Initiatives Support Corporation (LISC), found that regulations do not present barriers to growth, and that early learning facility operators are actually quite supportive of regulations that protect children and promote quality.<sup>8</sup> Importantly, LISC heard from operators that they find regulations difficult to navigate, which results from many factors, including<sup>9</sup>:

- the operators own lack of expertise in real estate development,
- a lack of clarity and specifics in many regulations,
- the number of entities that regulate the industry,
- inconsistencies in regulatory interpretation within and between agencies, and
- a lack of one centralized place to find all requirements and contact information in an easily navigated format.

Streamlining local regulatory requirements by making the information easier to access and understand for child care providers would help alleviate the burden on providers. At the same time, this highlights the importance of funding for organizational capacity building so that providers can access the capital necessary to meet these critical regulatory standards. For instance, installing a sprinkler system is a

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<sup>6</sup> Department of Health and Human Services, Administration for Children and Families (ACF), “Improving Access to Affordable, High Quality Child Care: Request for Information,” <https://www.federalregister.gov/documents/2019/10/02/2019-21530/improving-access-to-affordable-high-quality-child-care-request-for-information>, (October 2019).

<sup>7</sup> BPC, “From the Ground Up,” May 2019.

<sup>8</sup> LISC, “Rhode Island Early Learning Facilities Needs Assessment,” (November 2019)

<sup>9</sup> LISC, “Rhode Island Early Learning Facilities Needs Assessment,” (November 2019)

necessity for home-based child care providers to ensure the space meets fire code and is safe for children, but this is an expensive endeavor that many providers cannot meet without subsidized capital. In the absence of dedicated funds for capacity building and facility operations, many providers will be unable to meet health and safety standards, engage in the facilities financing process, and ultimately grow their businesses.

It is also important for states to include measures of facility quality in their QRIS systems to ensure consistent standards for the physical environment of high-quality facilities. Existing inconsistencies make it difficult to support providers in making much-needed facility improvements, such as mold remediation, when the program has already been credentialed as high-quality. NCFN strongly believes that facilities need to be a component of a program's quality rating.

### **3. Cultivating the Child Care Workforce**

The physical environment of child care centers is not only critical to the health, safety, and development of children, but also to caregivers' ability to fully engage with children in a meaningful way. Cultivating the workforce should not only include training and credentialing teachers, but also supporting a high-quality environment in which workers can most appropriately meet children's needs.

### **4. Developing Better Child Care Business Models**

#### *Promising and Innovative Strategies*

NCFN strongly believes that the most promising strategy for improving business practices and promoting business development of child care providers is by enacting dedicated federal funding for ECE facilities, which must include funding for technical assistance and business capacity building. Some states and localities have already taken steps to provide capital grants for ECE providers:

- The Low Income Investment Fund (LIIF) administers the Access to Quality Child Care Expansion Grant ("A2Q Grant") in Washington, DC. Mayor Muriel Bowser's fiscal year (FY) 2019 budget invested \$9 million to create the A2Q grant to "improve the supply of child care services for infants and toddlers, which may include establishing new or expanding existing child development facilities serving infants and toddlers."<sup>10</sup> The DC Office of the State Superintendent of Education (OSSE) awarded the A2Q Grant to LIIF, and LIIF provides business capacity building and technical assistance to center and home-based child care providers throughout the city. Examples of LIIF's work with providers includes helping them build a sustainable operating budget, working with an architect to understand expansion feasibility, communicating with DC regulatory agencies throughout the facilities process, and planning for ongoing business operations.

As of November 2019, LIIF has awarded over \$6.05 million to create more than 1,000 new infant and toddler slots in DC. LIIF will deploy the remaining \$2 million before September 30, 2020 and projects that 1,350 slots will be created in total. Highlighting both the demand for subsidized capital and the success of the A2Q Grant program, providers requested \$6 million in subsidy that LIIF was unable to meet due to lack of funds.

- Reinvestment Fund in Philadelphia administers the Philadelphia ECE Loan Fund, dedicated exclusively to improving access to financing for child care providers. Providers may apply for low interest financing of \$5,000-\$50,000 for working capital needs. Many of the barriers to

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<sup>10</sup> Washington, DC Office of the State Superintendent of Education (OSSE), "Access to Quality Child Care Expansion Grant," <https://osse.dc.gov/publication/access-to-quality-a2q>.

accessing debt (fees, credit checks, collateral requirements) have been removed and the underwriting process streamlined in order to be able to deploy funds quickly (under a month from initial inquiry). By having access to these funds, providers are able to support operating costs, tackle deferred maintenance projects or emergency repairs or bridge funds to contract receivables such as public funding sources for income-based subsidy payments. Limited funds are available to support general operating costs, so the Philadelphia ECE Loan Fund acts as an important and complementary funding source to pair with expansion grants.

- In Detroit, IFF partnered with the Kresge Foundation to launch IFF Learning Spaces.<sup>11</sup> Recognizing that tackling facility repairs and improvements may be overwhelming and burdensome for many child care providers, especially of programs with small budgets and few staff, IFF Learning Spaces is a grant program that supports quality improvements to home- and center-based child care facilities in Detroit through facility assessments, repairs, and upgrades. The program also helps providers prioritize facility improvements, so the most pressing improvements can be made to improve quality and children's early learning experiences. Since 2016, IFF has made 26 Learnings Spaces grants totaling \$1,096,049 in capital to ECE providers serving a total of 1,525 children. A total of 106 new slots have been created through the program.

Examples like this are indicative not just of the pressing need for ECE facilities resources, but also the tremendous benefits that come from structuring this funding through intermediaries. It is past time for the federal government to enact dedicated money that allows successful ECE facilities models to grow to scale.

#### *Shared Services Alliances*

NCFN also appreciates ACF's focus on potential opportunities for shared services alliances but cautions that the areas in which services and other costs can be shared are not necessarily the areas in which ECE programs spend the bulk of their resources. Any consideration of shared services alliances should appropriately weigh the costs and benefits of engaging in such a model.

#### *Economics of ECE and Public Pre-Kindergarten*

NCFN is concerned about the facilities financing impacts that public pre-kindergarten can have on certain providers. As ACF notes in the RFI, preschool-aged slots offset the costs of more expensive infant and toddler care, and when public pre-kindergarten programs remove a large portion of the preschool-aged children from a center, the economics of operating the center shift dramatically.

The current model for financing ECE facilities is already inadequate and inefficient from a sustainable business model perspective, so when this model is interrupted it is critical that the industry be particularly attentive to those who are left – in this case, providers serving infants and toddlers. An adequate response to the shifting economics from pre-kindergarten programs is to ensure resources are appropriately available to support the focus on infants and toddlers. For instance, California raised its infant reimbursement rate to \$30,000, a response to the need for greater subsidy without as many preschool-aged slots. DC also targeted capital investments to address the changing market, as described above in the A2Q Grant. Federal funding for ECE facilities will only become increasingly important as providers look to convert spaces from those serving preschool-aged slots to those appropriate for infants and toddlers.

Understanding the true operating conditions of a network of providers of varying profile is critical to build out appropriate supports for the industry. In 2017, Public Health Management Corporation, Reinvestment Fund, and CoMetrics (ECE Fiscal Hub partners) developed the ECE Fiscal Hub with the goal of understanding providers' operating conditions, developing tools and supports to improve the

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<sup>11</sup> IFF, "Learning Spaces," <https://iff.org/opportunities/learningspaces/>.

financial stability of providers, and informing how the sector can advance the fiscal health of providers across the city. The program aims to help child care owners and directors improve their business management practices and financial operations through resources, technical assistance, and policy advancement. The addition of a true cost of care assessment will enable operators to understand the actual cost associated with offering infant and toddler care and support providers in strategies to offset costs (i.e. braided funding, exploration of contracted slots, program offering mix, etc.).

## **B. Transforming Financing of Child Care and Early Education Programs**

### *Barriers to Efficient Use of Resources*

The number of federal, state, and local funding streams for ECE is indicative of the significant scope of need for investment in this population, as well as the commitment across government and other stakeholders to create a strong system to care for our nation’s children. Ultimately, though, the system simply needs more resources if we are going to ensure an effective and efficient system for providers, caregivers, and children. The lack of dedicated federal funding for acquiring, developing, and renovating ECE facilities is one of the most significant barriers to greater success in the ECE industry. Operating an ECE center is expensive – it is a labor-intensive sector with longer hours than traditional workplaces and infrastructure needs that are unique to serving young children. Intermediaries like CDFIs – many of which are NCFN members – have proven that technical assistance, business capacity building, and subsidized capital for acquisition, development, and rehabilitation can fundamentally transform a provider’s ability to create and sustain a high-quality ECE business. But without subsidized capital to support providers and their facilities needs, it is simply not economically feasible to build high-quality child care in many areas of the country.

### *Alternative Financing Models*

In addition to the lack of federal resources dedicated to subsidizing the cost of capital for ECE facilities, NCFN is also concerned about the lack of a national operating costs standard for ECE facilities financing. Compare ECE to the housing industry, in which the Department of Housing and Urban Development (HUD) calculates a local “fair market rent (FMR)” for modest apartments of various sizes. This FMR standard provides developers and lenders certainty of the rent levels they can expect to receive under HUD-funded subsidy programs, enabling them to calculate the debt the project can support while maintaining housing quality.

The absence of any similar national standard in ECE magnifies the challenge even mission-driven non-profit CDFIs face in trying to lend into ECE facilities projects. We fully recognize that the major federal funding streams for ECE (e.g., CCDBG and Head Start) are not structured like HUD programs, and for good reason preserve a significant role for local decision-making around reimbursement rates. And unlike housing, the vast majority of ECE providers budgets are not related to facilities-related expenses. This said, NCFN urges that as the administration considers approaches to transforming the financing of ECE programs, ACF explore ways a standardized approach to calculating facilities operating costs – analogous to the concept of the FMR – could provide a useful benchmark as ECE program operators, CDFIs and local/state government work to scale financing of high-quality facilities.

### *Innovative Models and Practices*

NCFN is aware of several innovative models to building the supply of high-quality child care, including:

- In San Francisco, LIIF is using the successful New Markets Tax Credit program to create a ‘Fund for San Francisco Early care and Education’ in partnership with the San Francisco Office of Early Care and Education (OECE) that provides flexible, low-cost financing for the development or preservation of ECE facilities. Loan sizes range between \$1 million to \$4 million and are interest-

only payments over a 7-year loan term. LIIF also offers ongoing technical assistance for ECE providers.

- In Rhode Island, the Local Initiatives Support Corporation is working with two partners; a non-profit Community Development Corporation and a non-profit child welfare organization that manages the state’s largest Head Start program along with providing quality child care and robust pre-k programming to develop co-located affordable housing and early education services. The *King Street Commons* initiative uses housing-related resources (LIHTCs, state bond funds, and HOME) to construct a set of new residential buildings with Early Learning Facility space reserved on the first floor of one of those buildings. Creative uses of housing-related resources can enable the construction of building envelopes and systems, but, cannot support all of the needed build-out / finish work of the Early Learning Facility space itself. That’s where private investment, in this case through LISC, a CDFI, comes into play.

LISC provided a planning grant, predevelopment financing and a permanent loan to help support all of the steps and build out needed for a high-quality space that will offer five classrooms for children ages birth-five. Housing and child care constitute the most significant pull on family’s incomes. They are also currently two of the most unmet community needs. Co-location has allowed for more creative use of resources, while also jointly bringing online more of what families need to succeed, particularly in marginalized neighborhoods.

**Conclusion**

NCFN is greatly appreciative of the thought and energy that went into the formulation of ACF’s request for information. The Network looks forward to continued engagement on these critical questions. Please do not hesitate to reach out to NCFN co-chairs Angie Garling ([agarling@liifund.org](mailto:agarling@liifund.org)), National ECE Director, Low Income Investment Fund, and Nicole Barcliff ([nbarcliff@lisc.org](mailto:nbarcliff@lisc.org)), Policy Director, Local Initiatives Support Corporation, with any questions or comments.

Sincerely,

National Children’s Facilities Network

**Executive Committee:**

- Angie Garling, Low Income Investment Fund (Co-chair)
- Nicole Barcliff, Local Initiatives Support Corporation (Co-chair)
- Kirby Burkholder, Illinois Facilities Fund
- Jessie Maxwell, Self-Help
- Bevin Parker-Cerkez, Reinvestment Fund