Child Care Facility Development and Financing: Barriers and Recommendations

Executive Summary

Based upon:

Report to the Legislature
Child Care Facility Development and Financing:
Barriers and Recommendations

Prepared and Submitted by
The Building Child Care Collaborative Partners
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BUILDING CHILD CARE

A California Statewide Collaborative

Project Background

In June 2001, the Building Child Care (BCC)[1] Collaborative 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 (TA) 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.

Child Care Facility Development and Financing: Barriers and Recommendations documents current barriers to the development and financing of early care and education facilities, and recommends strategies for overcoming these barriers. The contents of the full document draw on recent experiences and efforts, including those of the Child Development Policy Advisory Committee (CDPAC) to market the Child Care Facilities Financing Program, and recent efforts of the David and Lucile Packard Foundation to form a statewide public-private intermediary to spur the creation and preservation of child care services throughout the state.

Background on Child Care Facilities Development and Financing in California

The provision of quality child care is a function of several interrelated factors. Ultimately though, both the availability and quality of licensed child care hinge on two key factors: qualified nurturing caregivers; and a healthy, safe, and developmentally stimulating physical environment. The focus of this report is on the physical environment, or facilities.

In recent years, growing attention has been paid to the facilities side of the equation. This is attributable most notably to the overwhelming mismatch between the supply of licensed child care and the demand for it from working parents, particularly now that Welfare Reform has encouraged hundreds of thousands of parents to return to the workforce.

One effect of the continually growing pressures on the child care sector is that they have prompted a strong desire for ownership or long term tenure among providers who want security so they can 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, has taken hold on national, state and local levels. This facilities movement has resulted in a marked increase in the attention to and resources for children's facilities development and finance in California. Despite such achievements, however, barriers to developing and financing facilities remain and the wide-scale impact that is needed to meet the demand for care, particularly in low income areas of the state, is staggering.

[1] The Building Child Care Collaborative is led by the National Economic Development and Law Center, with members comprised of the California Child Care Resource and Referral Network, the Child Development Policy Institute Education Fund, and the Child Care Facilities Fund of the Low Income Housing Fund.

Barriers

There are three main categories of barriers to child care facilities development in California: regulatory and systemic barriers; the limited real estate and finance capacity of the child care sector; and economic challenges.

1. Regulatory and Systemic Barriers

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 provisions, greatly impact the siting, scale, location and use of facilities. Large family child care homes (9 to 14 children) and child care centers are subject to local review and approval. The local standards, which are applied to these larger child care facilities, vary greatly from jurisdiction to jurisdiction, and in some jurisdictions undue barriers are placed on the development of child care services. There are three main child care facilities development barriers that relate to regulatory or systematic issues:

A. <u>Child care is not a required element of General Plans (which govern land use in a given jurisdiction) and is frequently left out of planning considerations in many areas of the state</u>.

B. <u>There is a very high element of risk involved in obtaining early development approvals.</u>

C. <u>Outdoor play space, which is vital for the healthy development of children, and required by licensing, poses additional challenges to both existing facilities and those in development.</u>

2. The Limited Real Estate and Finance Capacity of the Child Care Sector

Child care providers do not tend to have extensive experience in the field of finance and real estate, and as a result the child care sector faces a number of barriers related to these issues. For example:

A. <u>Providers are reluctant to explore debt as a financial possibility.</u>

B. <u>Many segments of the sector lack tangible skills for maneuvering the complex and interrelated mazes of regulation, facility development and finance.</u>

3. Economic Challenges

The pressures of competing demands for limited resources financing is a major barrier to the sector. The major economic challenges to facilities development stem from the following issues:

A. <u>Revenues generated by child care are often meager, resulting in limited cash flow to repay loans.</u>

B. <u>Child care providers often present fairly weak collateral.</u>

C. <u>Investing in child care facilities and incurring related debt may not be a priority for child care programs.</u>

D. <u>Providers often need to find multiple funding sources for any one project and combine loans with grants or equity from public and private sources, each with their own expectations or requirements</u>.

Recommendations

These recommendations flow from the barriers identified.

Recommendation One: Improve the regulatory and land use environment to spur child care development. Drawing on local successes with land use, developing a statewide approach to improve the regulatory and land use environment for child care is critical.

A. Create model child care project approval standards for local land use and zoning decisions..

B. Look into making child care a component of general plans.

Recommendation Two: Build the capacity of the sector to undertake development and finance projects. Several key, interrelated steps must be taken to build the capacity of the child care sector itself.

A. Educate the sector about when and how to use debt.

B. Continue to develop and provide sector specific TA statewide.

C. Encourage partnerships between the Early Care and Education (ECE) field and real estate developers to promote the inclusion of child care in development projects.

D. Boost the availability of one-on-one TA to providers.

Recommendation Three: Create new, vital sources of financing to close gaps and overcome barriers to development. Despite a great increase in financing sources for child care providers in recent years, key funding gaps remain.

A. Create a public vehicle for meeting the credit needs of Family Child Care homes.

B. Create early stage, high risk grant or recoverable loan dollars for child care centers to stimulate project development and avoid costly mistakes.

Recommendation Four: Chart a course for meeting the $5 to $6.5 Billion need for capital financing for child care facilities in California. The need for capital financing is somewhere between $5 and $6.5 billion. As a working goal, 50% of these needs, or $2.5 to $3.25 billion should be met directly or indirectly by the public sector while the balance should be met by private sources.

A. Continue and increase private investment.

B. Continue and increase public investment.

Recommendation Five: Coordinate facilities and finance efforts. Many efforts to address the facilities and finance needs of the child care sector have been fragmented. At a minimum, current efforts need to be more tightly coordinated.

A. Coordinate TA, marketing, and finance efforts, and make sure they are responsive to the needs of child care providers.

B. Recognize that no one resource alone can develop a large number of facility projects or create an effective system of support and financing for providers

C. Participate in and align investments with the statewide intermediary planning process being undertaken by the David and Lucile Packard Foundation

A complete discussion of the barriers facing the child care field relative to facility development and recommendations to surmount them is contained in the full *Child Care Facility Development and Financing: Barriers and Recommendations Report to the Legislature*.

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, a huge challenge 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 builds on the achievements of the last several years will enable us to successfully meet the important challenge of creating a quality child care alternative for every child in California.