



# Child Care Facilities Development and Finance

Presented by:

*THE BUILDING CHILD CARE  
COLLABORATIVE PARTNERS*

*Wednesday, September 4, 2002*



# Agenda

1. Facilities Development Process
  - Quick Overview
  - The Planning Stage – Preparing a Business Plan
2. Financial Resources
  - Types of Funding
  - Resources Available
3. Family Child Care Homeownership
4. Questions & Answers



# Building Child Care

- **Purpose:** To provide a centralized clearinghouse of information and services designed to improve and increase child care providers' access to financial resources for facilities development projects in California
- **Who:** National Economic Development and Law Center, Child Care Facilities Fund of the Low Income Housing Fund, Child Development Policy Institute Education Fund, and the California Child Care Resource and Referral Network



# The Facilities Development Process

*The process can be broken into three major stages...*

1. Planning
2. Predevelopment
3. Development



# 1. The Planning Stage

Addresses three key questions:

- 1) Is there **market demand** for the proposed facility and services?
- 2) Is the proposed facility project **financially feasible?**
- 3) Is the sponsor **organization ready** to take on this project?

*Writing a Business Plan can help providers answer these questions*



## 2. The Predevelopment Stage

- **Everything an agency needs to do to begin construction on a new facility:**
  - Selecting a site
  - Obtaining site control & approval
  - Designing the project
  - Securing a Contractor
  - **Obtaining Financing**

*Refer to: Child Care Financial Planning and Facilities Development Manual Chapter 4: The Facilities Development Process.*



# 3. The Development Stage

- Construction or renovation
- Building sign off
- Equipping the classroom(s)
- Licensing approval (inc. fire clearance)
- Ramp-up
  - Phasing staff & children from day 1 to target enrollment



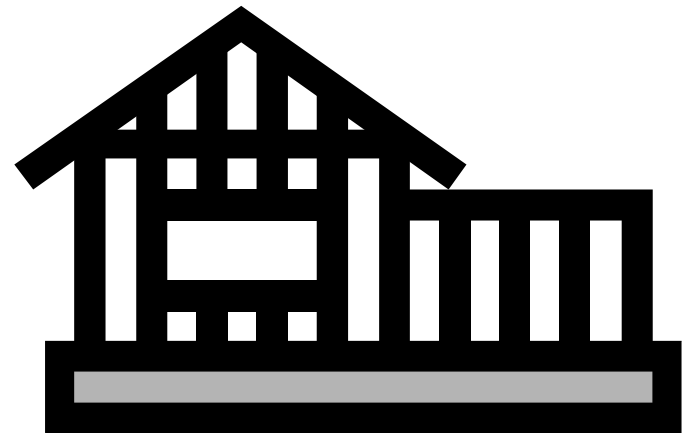
# The Planning Stage in Detail

- Purchasing or Renovating a Facility
- How Providers Ready Themselves for a Facilities Project
- What is a Business Plan?



# Purchasing or Renovating a Building...

- Is not like grocery shopping or deciding to paint a room.
- It requires time, thought, and planning.



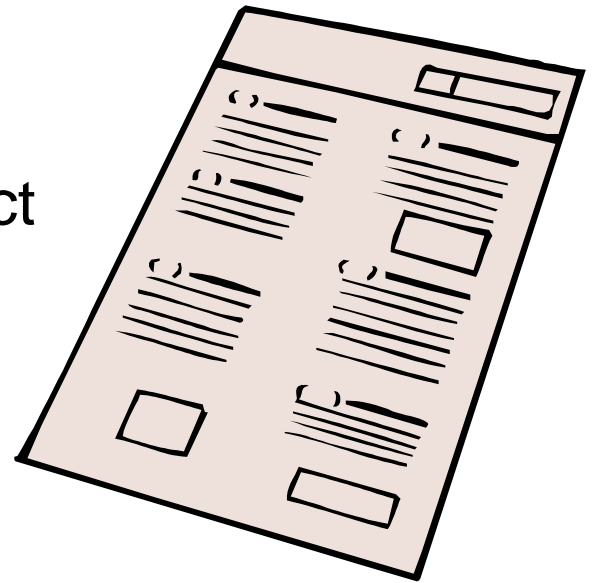


# How Providers Can Ready Themselves for a Facilities Project

- One important tool to consider is a business plan.
- A business plan is a written document that will help guide the business side of a child care program.
- It can also be used to assist a provider to prepare to undertake a facility development project by helping him/her to u

# What is in a business plan?

- Cover sheet
- Executive Summary
- Organizational History
- Description of Proposed Project
- Market Analysis
- Marketing Plan
- Operations Plan
- Financial Analysis
- Supporting Documents



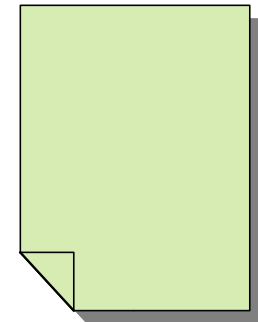


# Part One: The Cover Sheet

- First part of the business plan seen
- Should be neat, professional and include,
  - name of child care business
  - address and phone number
  - logo (if the provider has one)
  - names, titles, addresses and phone numbers of the key contacts
  - month and year prepared
  - name of preparer

# Part Two: The Executive Summary

- one to two page summary of the entire plan
- although it appears first, it should be written last
- include description of the business and proposed project, skills and experience of senior staff, why loan is needed, how much money is required, and how the loan will be repaid.



# Part Three: Organizational Capacity



- presents a brief overview of the business and should convey the following points:
  - a proven track record of success
  - demonstrated fiscal soundness and has met financial obligations in the past
  - the philosophy of ECE
  - staff has experience, competence and credentials
  - accreditation or state contract status
  - a strong, experienced Board of Directors (if appropriate)



# Part Four: The Proposed Expansion or New Venture

- Three components of this section include:
  - mission statement and goals of the project
  - description of the project
  - plan for managing the development process



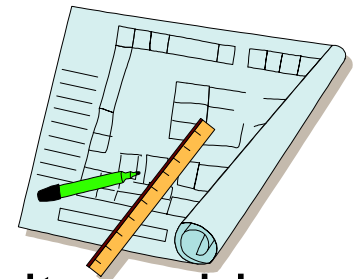
# Mission Statement

- Should state overall mission of the organization (i.e., “The mission of the ABC Child Care Program is to provide quality, affordable child care to families in its community”).
- Goal(s) should state how the mission will be supported by the proposed project (i.e., “The proposed expansion will allow the program to serve additional children in the community with high quality child care”).



# Description of proposed expansion or new venture

- Describe what the child care program plans to do with the money it is requesting including;
  - Is it purchasing a new site, renovating an existing one, etc.?
  - What are the attributes of the location?
  - Describe the community or market area served
  - What will the facility be like?
  - How many children will be served?
  - What hours will it be open?
  - How will the expansion/venture help it provide quality care?



# Plan for managing the development process

- For family child care businesses...
  - Describe the plan for managing the construction/renovation process
  - Have you selected a contractor or architect?
  - How long will the work take?
  - Will the home be open during this time?



# Plan for managing the development process

- For child care centers...
  - Who will perform the seven key roles: managing agent, developer, financial planner, architect, accountant, lawyer and general contractor
  - Has the program hired consultants?
  - What is the role of its Board?
  - What percentage of the lead staff person's time is devoted to the project?

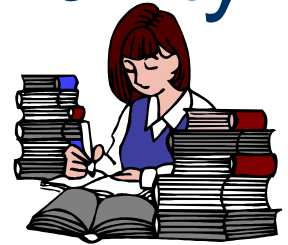


# Part Five: Market Feasibility Analysis



- Understanding the difference between “need” and “demand.”
- Demand indicates a population with sufficient moneys to pay for both operating costs and debt service on the loans incurred to develop the facility.
- Demand can also be measured by the availability of government contracts to provide subsidized care or the ability of parents to obtain child care vouchers.

# Elements of a Market Feasibility Analysis



- Define the geographic area from which the program will draw families.
- Identify the segment of the market it will be targeting.
- Research the existing supply of child care.
- Analyze how land use will affect the success of the child care program.
- How will current and projected economic and political conditions affect the programs plans?
- Is the facility accessible to commuting parents?

# Part Six: Developing a Marketing Plan

- What is the plan for attracting families to the business?
- What is its unique message?
- What is its promotional plan (i.e., word of mouth, networking, advertising, maintaining an attractive facility, a memorable logo, business cards, fliers, brochure, signs)?





# Part Seven: Operations

- Describe the day-to-day operations of the child care business including:
  - How is it managed?
  - What is the adult to child ratio?
  - How are people hired?
  - How is the billing done?
  - What are the safety procedures?
  - What kind of insurance does it have?
  - Is there parent involvement?
  - For centers, do it have a Board of Directors?

# Part Eight: Financial Analysis

- The components of the financial analysis include,



- summary of financial needs
- a development budget
- pro forma statements
- financial statements





# Part Nine: Supporting Documents

- A provider may also want to attach,
  - evidence of government contracts
  - legal documents (i.e., IRS letter of determination)
  - location studies
  - letters of support from the local R&R, parents or other community groups

# With a Business Plan...



- a child care provider is better prepared to
  - undertake a facilities development project,
  - obtain the financing to make it happen,
  - and then successfully operate the program.



# Financial Resources

- Types of Funding
- Loan Resources Available

# Types of Funding



■ Grants

■ Loans



# Basic Finance Considerations

- Each phase of development requires funding
  - Planning and Predevelopment are best funded via internal resources, grants or soft loans
  - Development costs (construction and permanent) are better suited to loans
- There is no “standard” way to finance a project
- It’s common to combine a variety of financial resources



# Grants

- Primarily for nonprofits
- Change from year to year
- Not typically available for Family Child Care



# Grants

- Resources for Identifying Grants:
  - Foundation Center [www.fdncenter.org](http://www.fdncenter.org)
  - Enterprise Foundation (MoneyNet) [www.enterprisefoundation.org](http://www.enterprisefoundation.org).
  - Children and Families Commission [www.cafc.ca.gov](http://www.cafc.ca.gov)
  - California Council of Churches, *Child Care Capacity Project* [www.calchurches.org](http://www.calchurches.org)
  
- BCC List of Potential Grantmakers



# Loans

## 1. Why Consider Financing?





# Why Consider Financing?

## 1. It's Capital Efficient

- *Allows the agency to leverage savings (equity) and grants*
- *Allows the organization to pay for costs over time instead of all at once*

## 2. Combined Funding Sources

- *It is quite common to combine multiple funding streams in order to realize a facilities development project*



# Why Consider Financing (cont.)?

## 3. Meet Higher Costs and Serve Families Faster

- *Supply of loan capital is far greater than supply of grants*
- *Loans have a faster turn around time/It takes a long time to raise grants*
- *Financing often provides large amounts of money than grant funding*
- *Capital campaigns may compete with operating fundraising*



# Why Consider Financing (cont.)?

## 4. Business Acumen

- *Lenders often offer special TA services to insure better success rates of their borrowers*
- *These services can foster the development of a provider's business and financial planning skills*
- *Financing may bring ownership within reach which allows an agency to:*
  - *Gain long-term tenure*
  - *Customize the space for kids and staff*
  - *Build its financial position and stability*



# Why Consider Financing (cont.)?

## 5. Expand ECE Stakeholders

- *Leverages interest in the ECE field from financial institutions and other economic entities*
- *More financial resources will become available*



# Resources Available

1. The Financial Institution Landscape
2. Where to turn for further information



# The Financial Institution Landscape

- Conventional Institutions
- Alternative Lenders
- Government-Certified Small Business Lenders
- Government Resources
  - Federal
  - State
  - Regional/Local



# The Financial Institution Landscape

## Conventional Institutions:

1. Commercial Banks
  2. Thrift Institutions
- Offer large sized loans
  - Not typically designed for child care
  - Available to both nonprofit and for profit agencies
  - Community Reinvestment Act incentives
  - Federal Home Loan Bank of San Francisco incentives (Advancement for Community Enterprise)



# The Financial Institution Landscape

## Alternative Lenders:

### 1. Community Development Financial Institutions:

#### Types:

- A. Community Development Banks
- B. Community Development Loan Funds
- C. Microenterprise Lenders
- D. Credit Unions

### 2. Foundations – PRI's

### 3. National Financial Intermediaries

### 4. Community Development Corporations





# The Financial Institution Landscape

## Alternative Lenders (cont.):

- Designed to help meet the financial needs of particular communities, usually in distressed areas
- Sometimes they have special programs for child care
- Offer more flexible and smaller sized loans than conventional institutions
- Sometimes loans are paired with TA for the borrower
- Available to both nonprofit and for-profit agencies, depending on the type of loan program and the lending institution's requirements



# The Financial Institution Landscape

## Government Certified Small Business Lenders:

1. California Small Business Financial Development Corporations
2. Certified Development Companies (SBA)
  - Cover the middle ground between conventional institutions and alternative lenders because of less risk and fewer restrictions



# The Financial Institution Landscape

Government Resources:

## ***Local Programs***

- Community and Economic Development Programs
- Housing Loans
- Redevelopment Agencies

Available to both nonprofits and for profits depending on the program



# The Financial Institution Landscape

## Government Resources (cont.):

### ***State Programs***

- California Children and Families Commission
- California Department of Education Child Care Facilities Revolving Fund Program
- Housing and Community Development Child Care Facilities Financing Program (no funds available)

Available to both nonprofits and for profits depending on the program



# The Financial Institution Landscape

## Government Resources (cont.):

### ***Federal Programs***

- Department of Agriculture Rural Development Division
  - Community Facilities Program
  - Business and Industry Program
  - Single-Family Housing Program
  
- Housing and Urban Development
  - Community Development Block Grant
  
- Federal Housing Administration:
  - Title 1 Home Improvement Loans (for FCCH's)



# The Financial Institution Landscape

## Government Resources (cont.):

### ***Federal Programs***

- Small Business Administration: [www.sba.gov/financing](http://www.sba.gov/financing)
  - Certified Development Company 504 Loan Program
  - Microloan Program
  - Prequalification Pilot Loan Program
  - SBA LowDoc Program
  - 7(A) Loan Guaranty Program

*Designed to serve for-profit businesses*



# Where to turn for further information on financing

- Child Care Facilities Development Financial Resources and Technical Assistance in California (matrix form)
- A Resource Guide: Financing Child Care Facilities Development in California
- BCC Website Financial Resources page



Family Child Care

Home Ownership Issues





# How to Find Out About Local Home-buying Programs

- Read about buying a home on the HUD home page
- Call a HUD-Funded housing counseling agency in your area
- Contact your local government (Mayor's Office, Office of Economic Development, Housing Office, or Redevelopment Agency) for info. on local programs



# Basic Types of Home Ownership Assistance in California

- Mortgage Credit Certificates
- Down Payment Assistance
- Silent Second Loan
- CHFA No-Down Payment Loan
- Low-Down Payment Loan



# Basic Types of Home Ownership Assistance in California (cont'd)

- Affordable Housing Partnership Program
- Section 8 Homeownership Program



# Mortgage Credit Certificate (MCC) Program

- A Federal Income Tax credit program which allows first-time homebuyers to take a federal income tax credit of up to 20% of the annual interest paid on a home mortgage
- Provides “double bonus”: reduces federal income taxes *and* increases net earnings
- Helps in qualifying for first home mortgage
- Within targeted “low-income” census tracts, non-first time homebuyers are also eligible



# Mortgage Credit Certificate Program (cont'd)

- Continues to decrease federal income taxes as long as house is occupied by purchaser
- MCC funds are awarded by county early each year. Availability may be time-sensitive
- Household income and purchase price must fall within program limits



# Mortgage Credit Certificate Program – How to Apply

- Choose a lender enrolled in the MCC program for loan and MCC pre-qualification
- Have seller accept offer on property
- Complete MCC application/approval during escrow period
- Mortgage financing may include FHA, VA or conventional loans
- May be combined with down payment assistance programs



# Down Payment Assistance

- Assists homebuyers with down payment and/or closing costs
- May be structured as “gifts”, recoverable grants, no- or low-interest loans
- May be dollar amount or percentage of sales price
- May be subject to sales price and/or income requirements
- May require buyer contribution and/or education/counseling



# Down Payment Assistance (cont'd)

- May be offered through State, County and City backed programs (see below)
- May be offered through 501©3 Non-Profits, including:
  - **Nehemiah** - Grants up to 3% towards down payment
  - **HART**- Grants up to \$15,000 towards down payment and closing costs
  - **Neighborhood Gold** - Grants up to 20%, includes Mortgage Payment Protection





# Silent Second Loan

- A homeownership program providing a second mortgage
- No monthly interest payments
- May require shared equity: if homeowner sells home w/i XX years, any equity is shared with municipality; after XX years, equity is forgiven and the homeowner only pays amount of principal borrowed
- For first time homebuyers
- Maximum income – 80% AMI



## Silent Second Loan (cont'd)

- Maximum purchase price based on area
- To get more information, contact local housing, redevelopment, or economic development office



# CHFA No-Down Payment Loan

- A state program that provides both low-interest mortgage and an additional “silent second” mortgage to cover the 3% down payment necessary to supplement the 97% first mortgage
- Maximum household income = 80% AMI
- Maximum purchase price based on area
- Only certain CA counties are eligible



# CHFA No-Down Payment Loan

(cont'd)

- For more information, contact a CHFA lender
- See CHFA website at [www.chfa.ca.gov](http://www.chfa.ca.gov) for more information



# Low-Down Payment Loan

- Mortgages that are insured through the Government:
  - Federal Housing Authority, or guaranteed by the Department of Veterans Affairs (VA) for qualified veterans or reservists, or the Farmers Home Administrations (FmHA), for rural areas
- Or through private insurers:
  - Homeowners must pay at least 5% down, but under some special programs, the down payment requirement allows the buyer to use a gift or grant to cover 2% of the 5% down payment



# Low-Down Payment Loan (cont'd)

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  - Federal Housing Authority, or guaranteed by the Department of Veterans Affairs (VA) for qualified veterans or reservists, or the Farmers Home Administrations (FmHA), for rural areas
- Or through private insurers
  - Homeowners must pay at least 5% down, but under some special programs, the down payment requirement allows the buyer to use a gift or grant to cover 2% of the 5% down payment



# Low-Down Payment Loan (cont'd)

- Lenders usually recommend which type is better for a borrower
- Minimum down payment required by FHA is less than 5%
- For single family homes, the standard limit for FHA mortgages ranges from \$132,000 to \$239,250 (in certain high cost areas)



# Low-Down Payment Loan (cont'd)

- Available through private lenders
- Borrower generally needs to have:
  - sufficient income to support monthly mtg. and cash for down payment
  - good credit background
  - sufficient appraisal value
  - in some instances, a cash reserve





# Low-Down Payment Loan

(cont'd)

- Many programs have financial counseling available



# Affordable Housing Partnership Program

- A joint effort by CHFA and cities, counties, redevelopment agencies, and housing authorities
- A deferred payment subordinate loan from a locality is used to assist homebuyer with down payment and/or closing costs
- Homebuyers receiving such assistance may obtain CHFA home loan w/ an interest rate below CHFA standard rate



# Affordable Housing Partnership Program (cont'd)

- Subject to income, sales price, and property requirements, loans require low down payment
- For more information, contact a CHFA lender
- See CHFA website at [www.chfa.ca.gov](http://www.chfa.ca.gov) for more information



# Section 8 Homeownership Program

- HUD now permits California housing agencies to use HUD's rental assistance to help move low-income families into homeownership.
- The housing agencies may either provide mortgage assistance in lieu of a rental subsidy or offer families a one-time downpayment grant equaling up to one-year's worth of their rental assistance.



# Section 8 Homeownership Program (cont'd)

- 30 percent of the homebuyers' income will go to pay the mortgage, with **Section 8** covering the remainder
- Program is implemented by local jurisdictions
- Contact local Housing Authority or Municipal Housing Agency for information



# Helpful Websites

- [www.chfa.ca.gov](http://www.chfa.ca.gov)
- [www.hud.gov](http://www.hud.gov)
- [www.fanniemaefoundation.org](http://www.fanniemaefoundation.org)