



New York Seed Fund Policy Brief

NEW YORK SEED FUND POLICY BRIEF

PREPARED BY THE LOW INCOME INVESTMENT FUND

Vision and Mission: The Low Income Investment Fund (LIIF) is dedicated to creating pathways of opportunity for low income people and communities. Serving the poorest of the poor, LIIF is a steward for capital invested in housing, child care, education and other community-building initiatives. In so doing, LIIF provides a bridge between private capital markets and low income neighborhoods.

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I. BACKGROUND: EARLY CHILDHOOD CARE AND EDUCATION IN NEW YORK CITY

New York City has long recognized the value of early care and education (ECE) services. Quality ECE programs offer proven social and educational benefits to young children. They also play a key role in economic development, enabling adult family members to participate in the workforce or further their own education. Across New York’s five boroughs, families have access to a robust variety of ECE programs, including in-home care, part- or full-day center care, and school-based pre-kindergarten. Despite the prevalence of and support for ECE programs in New York City, there are significant barriers to developing quality ECE facilities in the city.

High occupancy costs present a common challenge across all of New York’s center-based programs. This is a function of the city’s expensive real estate market, combined with the thin margins on which programs operate. Early childhood facilities must meet specialized design criteria, as well as comply with health, zoning, building and fire codes that limit the pool of licensable properties. All of these factors constrain siting options and raise the cost of facility production. Even private payment programs in high-income neighborhoods can rarely meet the cost of developing or leasing new facilities. Many centers have some type of “hidden” subsidy lowering the cost of occupancy. Common examples are below-market space owned by nonprofit community groups or faith-based institutions, low rent space in New York City Housing Authority developments, or long term leases signed when property values were lower. While effective in the short run, these arrangements may leave programs vulnerable to periodic steep rent increases or unbudgeted relocation costs, if the centers are displaced for any reason.

To address these cost and development barriers for ECE facilities, the Low Income Investment Fund (LIIF), has developed strategies built on deep experience in other community development sectors, such as affordable housing and charter schools,. LIIF’s New York ECE initiative, the New York Seed Fund, works to create a sustainable early childhood infrastructure that is matched to New York City’s policy environment and resources. This paper details some of LIIF’s recent efforts to advance public-private facilities solutions in New York City, and makes recommendations for future directions based on our successes and challenges.

II. FRAMEWORK FOR CHANGE: A STRATEGIC APPROACH TO ECE FACILITIES

CDFIs are uniquely suited to be the fulcrum of public-private ECE facilities financing and development efforts. CDFIs have the ability to manage public capital, as well as attract social-purpose private investments. They typically have experience working with unsophisticated borrowers, mitigating risk by understanding the sector’s business models and providing deep technical assistance. Additionally, CDFIs have relationships with community developers, allowing them to bridge the ECE and nonprofit real estate sectors. Finally, CDFIs can offer essential design and development technical knowledge to the ECE service and advocacy community.

LIIF’s overarching goal in New York City is to develop a system – an integrated set of dedicated resources – to support the development and long-term preservation of quality ECE facilities for all children.

While LIIF's target demographic is low income families, its ECE programs aim to build flexible systems that increase resources and remove barriers in all neighborhoods. Partners include city and state government, intermediary organizations, financial and philanthropic institutions, community real estate developers, facilities, finance and program experts, and ECE providers. LIIF's New York Seed Fund uses five core strategies to achieve its goals.

New York Seed Fund Core Strategies

Strategy 1: Securing Financing

Secure dedicated public financing and private investment for capital grants and low-cost loans

Strategy 2: Providing Technical Assistance

Provide support on facility financing, planning, design and development to public agencies, intermediaries, community development professionals and early childhood professionals

Strategy 3: Developing Educational Tools

Produce materials and tools to further education and conversation among ECE facilities stakeholders.

Strategy 4: Establishing a Network of Support

Cultivate and formalize relationships among participants to build a network of support for ECE facilities

Strategy 5: Advancing Policy Objectives

Engage in policy and advocacy work to educate policymakers, streamline municipal policy and regulations, and ensure resources for ECE facility development

By using these five strategies in combination, LIIF aims to create a sustainable system that supports the financing and development of a quality ECE facilities infrastructure.

III. PROFILES OF SUCCESS: HPD DEMONSTRATION PROJECTS

LIIF's New York Seed Fund began working with the Administration for Children's Services (ACS) in 2007 to develop pilot projects that would demonstrate the feasibility of public-private financing and development. In 2008, LIIF and ACS launched the first demonstration projects through interagency coordination with the city's Department of Housing, Preservation and Development (HPD). Combining community services with affordable housing is a time-tested community development strategy, but one which had previously proven difficult to implement for New York City's ECE sector.

After reaching an agreement to work together to co-locate child care and affordable housing, the two agencies formed a planning and oversight group with LIIF providing intensive guidance. The joint ACS-HPD team established a process to identify possible sites for the demonstration projects by matching HPD pipeline projects with ACS priority neighborhoods. LIIF, ACS and HPD met over the next six months to evaluate the intersection of HPD's development plans and

ACS's community needs analysis. Opportunities for co-development were identified based on neighborhood need, projected income levels of housing residents, and the suitability of each site for inclusion of a sizable ECE facility.

After the initial planning process, LIIF and HPD identified five potential candidates for demonstration projects. After further analysis, two of these sites were deemed optimal for co-location. The two demonstration projects selected are 1951 Park Avenue, located in East Harlem in Manhattan, a neighborhood in transition from a predominantly low-income to a more mixed-income population; and Melrose Commons, located in the Melrose neighborhood in the Bronx, which remains one of the lowest income neighborhoods in New York City. Both of these communities have a high unmet need for ECE spaces. Each of the projects is described in more detail below.

For the two demonstration projects, LIIF implemented its core five strategies as follows:

Strategy 1: Securing Financing

- Helped secure ACS capital to offset partial development costs, closing the gap between construction cost and the debt service that could be covered through rent

Strategy 2: Providing Technical Assistance

- Provided in-depth technical assistance on budgeting, planning, design and development to HPD, ACS, the project developers and architects; LIIF will also provide technical assistance to the ECE providers selected to operate the centers

Strategy 3: Developing Educational Tools

- Produced procedural documentation and tools for use in these projects as well as future developments

Strategy 4: Establishing a Network of Support

- Cultivated and formalized relationships among all project participants; and

Strategy 5: Advancing Policy Objectives

- Conducted policy and advocacy work to educate city agencies and other stakeholders about the challenges and solutions addressed by the developments.

For both demonstration projects, LIIF drafted language regarding the child care facility for HPD's Request for Proposals (RFPs), reviewed developer proposals, and offered selection recommendations. LIIF also helped ACS staff coordinate with HPD on timelines, procedures and Agency-specific. LIIF's resident architect, who has expertise in both ECE and multifamily housing design and development, served as consultant to the projects' architects as well as ACS and HPD review teams. Each project is summarized below, with fuller community and site data in the Appendix.

1951 Park Avenue (East Harlem, Manhattan)

The first demonstration project is a housing development on a city-owned site with a requirement for a 10,000-square-foot child care facility. HPD issued the RFP for the site in the fall of 2008, development proposals were received in the winter, and the preliminary design review was

completed by the end of the year. L & M Development and Artemis, Inc., experienced affordable housing developers, were awarded the project. LIIF is currently working with ACS, HPD and the developers to design and finance the project. Construction is expected to begin by summer 2010. LIIF, ACS and HPD crafted a split financing approach for 1951 Park Avenue that complied with regulations governing both HPD and ACS capital. The interior of the facility will be constructed with project financing from Artemis and L & M, while the shell and core of the facility will be funded with ACS capital. The developer may include the cost of build out in the Low Income Housing Tax Credit basis. The ECE program that will operate the new facility will be selected through an ACS RFP issued before construction is complete. The licensed center will accommodate 80 infants, toddlers and pre-school aged children from families with income levels reflecting the East Harlem population at the time of enrollment.

Melrose Commons (Melrose, Bronx)

Melrose Commons is the second demonstration project. As with the first demonstration project, this project is an affordable housing development with a mandatory 10,000-square-foot child care facility. The project was placed on hiatus for much of 2009 as credit shortfalls slowed HPD's construction pipeline. The project was green-lit again in November 2009 with the selection of Phipps Housing as the developer. ACS, HPD and LIIF have begun the collaborative planning, design and financing approach established in the 1951 Park Avenue development. As the team embarks on the second project, LIIF continues to focus on increasing the capacity of ACS architects and facilities staff to independently manage future interagency projects. This knowledge transfer is a cornerstone of system-building, so that new tools and strategies are institutionalized.

IV. DEMONSTRATION PROJECT LESSONS

While the demonstration projects have achieved concrete successes, they have also revealed challenges to bringing this model to scale. This section discusses the barriers and some future options for implementing for each of LIIF's core strategies.

Strategy 1: Securing Financing

The demonstration projects faced two significant financing challenges: 1) creating an ACS capital subsidy that was sufficient to offset diminished rent revenue compared with other potential space uses; and 2) creating a mechanism to transfer ACS capital to the projects, while remaining compliant with both ACS and HPD Capital regulations.

The first challenge was met by committing ACS capital funds to cover up to 50% of the total development costs for the centers. This formula was based on best estimates of development costs and a program's rent capacity. The second challenge was more complex, as HPD regulations precluded using capital funds for non-housing construction. The solution was to transfer ACS capital to HPD's project budget, then apply them to the center's proportional shares of the building's core and shell costs. To safeguard the city's investment, a regulatory agreement will secure the space for ECE services for the term of the capital grant, projected at 30 years.

Although this solution worked for the demonstration projects, it is not universally scalable. First, ACS' limited capital budget is insufficient to subsidize every worthy project. The

agency's capital budget would need to significantly increase to accommodate multiple development projects. Second, programs without ACS operating contracts also need grant financing, but are not eligible for ACS capital. Last, OMB regulations make it difficult to apply ACS or other city capital grants to non-HPD development projects. Chief among these is a regulatory requirement that city capital not be subordinated to debt financing. This makes it extremely challenging to attract lenders, who typically require a position ahead of public financing. The demonstration projects are able to take advantage of HPD's financing capabilities to circumvent this constraint, but comparable co-location projects sponsored by other agencies will need alternative solutions to leverage public and private financing.

Strategy 2: Providing Technical Assistance

As described above, LIIF invested a great deal of time working with ACS, HPD and the development teams to build their capacity to plan and execute the demonstration projects. Quality ECE facility design requires technical knowledge that is uncommon among architects and developers. The co-location of ECE centers and housing creates many beneficial synergies, but either use may disrupt the other if the design elements are not carefully coordinated.

The demonstration projects have offered an educational opportunity to the participants, but these technical resources reached a limited audience. LIIF is frequently approached basis by community developers and ECE practitioners seeking guidance on facility issues, but lacks the staffing to support many worthy projects. The ECE sector is increasingly focused on supporting proven pathways to program quality. Concurrently, the city is looking for comprehensive strategies to create livable neighborhoods. The intersection of these trends should highlight the importance of making ECE design and development expertise more broadly available.

Strategy 3: Developing Educational Tools

As an outgrowth of the demonstration projects, LIIF identified the need for practical tools to guide collaborative ECE facilities projects. LIIF has now authored a publication entitled *Quality Environments for Children: A Design and Development Guide for Child Care and Early Education Facilities*. The guide addresses the needs of multiple parties likely to collaborate on a facilities project, from community development and ECE professionals to funders and government agencies. It can serve as both a comprehensive reference resource and a platform for industry-specific trainings. The guide offers a step-by-step approach to best practices in ECE facilities design and development, with an emphasis on sustainability and the use of "green" materials.

Strategy 4: Establishing a Network of Support

LIIF and ACS have demonstrated the feasibility and benefits of one type of co-location in the HPD demonstration projects. Beyond affordable housing, New York City has tremendous untapped potential to co-locate ECE facilities with public and private developments, such as senior centers, health clinics and community centers. Achieving this goal requires that the city systemically coordinate the planning and financing of projects across agencies. This inter-agency strategy would require unified data collection and analysis, dedicated financing,

and a high level mandate to integrate ECE facilities into other publically sponsored development.

Strategy 5: Advancing Policy Objectives

Over the last several years, LIIF has worked extensively with city agencies, ECE advocates and intermediaries, and the New York City Council Speaker's staff to keep facilities on the city's ECE policy agenda. In response to this advocacy, LIIF has received funding from both the City Council Speaker and from ACS to work on policy solutions, including the ACS-HPD Demonstration Projects.

The successful launch of these projects has shown the power of interagency collaboration. They have also highlighted the need to look for financing beyond ACS capital, that could be accessed by programs serving mixed-income enrollments. While ACS has historically assumed responsibility for planning and finding space for its contracted programs, no city entity is responsible for addressing the affordability and availability of child care spaces in all neighborhoods.

V. FUTURE DIRECTIONS

To explore broader solutions to this systemic challenge, LIIF, ACS and the City Council recently invited a wider group of public agencies to the table. In May 2009, LIIF convened a meeting with staff from Department of City Planning (DCP), the City Council Land Use Committee, the City Council Policy Committee, the City Council Finance Committee, ACS, the Mayor's Office, and the Department of Health and Mental Hygiene to discuss the feasibility of a comprehensive child care infrastructure study.

The proposed goals of the study were:

- Assess current and projected child care need and capacity by neighborhood;
- Examine sustainability of existing child care centers, specifically whether occupancy cost escalations will make existing properties unaffordable;
- Determine physical condition of current ECE facilities and the need for and estimated cost of capital improvements to these spaces;
- Investigate capital funding, land use, zoning and other public policy measures as strategies stimulate the development of child care centers; and
- Explore opportunities for co-location of programs, including ACS-funded services, Department of Education Universal Pre-Kindergarten programs, and other social services to create neighborhood hubs serving children and families.

Such a comprehensive New York ECE infrastructure study was deemed both worthwhile and ambitious. As an outgrowth of the meeting, LIIF, ACS and the City Council decided to collaborate on a more limited field investigation into these issues in five neighborhoods, one per borough. The neighborhoods have been selected to represent a range of income levels and service to need ratios. Existing data will be augmented through surveys, focus groups and interviews, with the aim of clarifying the condition and sustainability of existing facilities, as well as opportunities for and barriers to new development. In Spring 2010, LIIF, ACS and the

City Council plan to publish the results of the investigation and conduct briefings for policymakers and other stakeholders. It is our hope that this effort will highlight the need for improved resources and strategies to sustain and improve New York’s physical ECE infrastructure.