Low Income Investment Fund

Testimony of Joe Fretwell, Manager of Advisory Services
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Council of the District of Columbia
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Good afternoon, Chairman Mendelson and Members of the Committee. My name is Joe Fretwell, and I am a Ward 6 resident of the District representing the Low Income Investment Fund ("LIIF") to discuss funding and support for child care infrastructure, a critical but often overlooked determinant of the supply, quality, and affordability of child care.

LIIF is a nonprofit community development financial institution ("CDFI") that mobilizes capital and partnerships to help achieve its mission that everyone in the United States should benefit from living in a community of opportunity, equity, and wellbeing. Since 2017, LIIF has partnered with the Office of the State Superintendent of Education for the District of Columbia ("OSSE") to administer various grant programs and provide technical assistance and support to child care programs, including two rounds of funding focused on expanding child care supply through the Access to Quality Child Care ("A2Q") program and the critical DC Child Care Stabilization and Back to Work Child Care grants to stabilize and bolster the quality of programs and child care operations during and in the wake of the COVID-19 pandemic. Through A2Q alone, LIIF and OSSE have helped create more than 2,200 licensed child care slots across $18 million and two funding rounds.

In partnership with OSSE, LIIF has also worked over the last 12 months to study and evaluate child care supply and demand and infrastructure in the District, the results of which will be released in a series of reports this Spring. My specific comments for the Agency Oversight Hearing for the Office of the State Superintendent of Education are thus informed by LIIF's deep experience working with government agencies, child care programs, and other key community development, planning, and early childhood stakeholders in the District to fund and evaluate child care development and expansion projects.

Of many challenges and opportunities identified throughout LIIF's forthcoming series of reports on child care infrastructure, five overarching ones are of critical importance to my testimony:

1. **Child care supply and demand in the District is misaligned, with big deficits in infant-toddler supply and an oversupply of preschool slots in some places.** A key inhibitor of equity and economic growth, LIIF's analysis of supply of and demand for child care indicates that the District has a shortfall of more than 10,000 needed slots in child care programs, a figure entirely driven by lack of supply for the youngest children (i.e., ages 0-3). In fact, the District currently has a surplus of child care capacity in nearly every ward, signaling market challenges and need for further support for programs that serve infants and toddlers.
2. **Many child development facilities operate from physical environments that need modernization and improvement.** A survey of 160 directors of licensed child development facilities and site visits at 25 facilities across the District reveal substantial variation in physical

conditions and developmental appropriateness of indoor and outdoor environments that facilities rely on, undercutting goals of equity and child wellbeing.

3. **Child development facilities often feel disconnected from the broader neighborhoods they operate from.** As is true in many jurisdictions across the United States, there is little coordinated focus on the context child development facilities operate from – the streets they are located on, the parks they use for outdoor play, or their connectedness to transit or cultural amenities – as licensing and quality review tends to stop at the walls and exterior space of the facility. This is a challenge for both child care operations and the children and caregivers that live and attend child care in the District.
4. **Despite recent investments, resources for improvement and expansion of child development facilities remain scarce, thwarting supply-building and quality improvement.** Declining enrollment in licensed child care programs post-pandemic and typical challenges to the child care business model hold even the highest quality programs back from expanding or improving their facilities, and although facilities grants made through the A2Q program have fueled infrastructure projects for some facilities, demand for these resources far exceed public appropriations to date.
5. **Various District government agencies express a desire to support children and families but lack a clear lever for coordination across sectors.** The District lacks a coordinating entity for child- and family-focused policies and programs, particularly for agencies that influence the built environment. Minimal coordination and clarity across systems negates interest that does exist among planning, transportation, and development officials to use their resources and expertise to make neighborhoods safer and more engaging for young children.

Robust, quality supply of child care is clearly good for children and families, but it is also essential to the District's ability to achieve various economic development, growth, and planning goals of Council and the Mayor. For example, the recently released Downtown Action Plan and Downtown DC Public Realm Plan will each miss out on maximum potential if the child care needs of new downtown residents and workers are not met.

Given findings from LIIF's study and the connectedness of these issues to OSSE's mission and focus, I have six specific reflections and recommendations on the agency's performance and areas for further growth and collaboration moving forward.

1. **The District must make infrastructure funding for child care permanent to build on ongoing successes of OSSE in building and enhancing child care supply.** The District has made significant strides since 2018 in building licensed child care supply, adding more than 3,000 new slots for infants and toddlers and reducing shortfalls in supply and demand for child care. This growth in supply occurred during a time when the child care sector was enormously impacted by the COVID-19 pandemic and when the District made substantial investments in infrastructure and physical development of new and expanded facilities through A2Q, the Child Care Stabilization program, and Back to Work Child Care.

Nearly 70% of programs surveyed for LIIF's forthcoming study that said they had recently expanded or have plans to expand in the near future indicated they needed a facility grant to do so. The vast majority of these programs are targeting infant and toddler care with their projects, and the largest concentrations of those that said they needed public support to complete a renovation or expansion project were in Wards 7 and 8. For these planned projects to be a reality, programs need ongoing infrastructure funding and the technical assistance that accompanies it to be available in perpetuity.

Financial constraints for infrastructure improvements or expansion projects are one of the defining, yet often overlooked, challenges of the child care sector nationally. No dedicated federal funding exists for child care facilities, and most states mirror their own investments in child care after requirements of the federal Child Care and Development Block Grant (CCDBG), which prohibits resources from being used for major construction or acquisition of space.[i] Restrictions on allowed uses of the most common public funds, paired with low overall margins in the child care sector that make borrowing difficult, artificially constrain expansion and improvement projects many child care programs are interested in taking on. Programs often turn to a complex combination of small business loans from the Small Business Administration (SBA) or mission-oriented community development financial institutions (CDFIs), philanthropic grantmaking, and personal savings or credit, to fill financing deficiencies. However, demand for financing far exceeds what actually exists. For example, in the District of Columbia between 2016 and 2020, just 4% of all child- and family-focused grants and SBA or CDFI loans supported child care infrastructure.[ii]

The District should move to expand and fund the A2Q program in perpetuity, starting at least through the end of the decade. District government alone likely cannot cover the entirety of capital needs facing the sector, but a robust, recurring facilities fund would catalyze sector expansion that likely would not happen without public sector resources, especially among child development facilities whose margins are more affected by their willingness to serve low- and moderate-income families who participate in the DC Child Care Subsidy Program. To ensure program sustainability, the existing ordinance that created A2Q with $11 million in local appropriations in Fiscal Year 2018 should be amended with a permanent funding structure.[iii] Cities like San Francisco have funded similar facilities funds through passage of development fees for commercial or residential development projects, while other localities such as Multnomah County, Oregon, made infrastructure funding a recurring line item in administration of its Preschool for All initiative, which is funded by an increase in the personal income tax on the city's highest earners.[iv,v] Rather than one-time general fund appropriations, the District should seek out an ongoing revenue source dedicated to funding A2Q and building child care supply.

2. **OSSE should explore new partnerships and mechanisms for ensuring future child care infrastructure investments are protected from potential building sales, redevelopment projects, program closures, and other market forces.** Less than 35% of all child development facilities surveyed for LIIF's report indicated that they own the buildings they operate from. Although many programs have long-term lease agreements, this finding points toward some risk that future public investments in child

care expansion or facility improvement could be in spaces that are sold or converted to some use other than child care in the future.

With new infrastructure funding, OSSE should also explore a public-private partnership with a financial intermediary, property management company, and/or commercial real estate broker to support purchase agreements of buildings and property around the District that currently house child development facilities or that could be retrofitted to accommodate future programs. In such a partnership, OSSE might seed fund an intermediary capable of leveraging public investments with private financing to purchase commercial or residential properties around the District, convert them to child care-ready spaces, and lease them at affordable terms to licensed programs. Such an initiative would help preserve licensed child care supply and bring new private resources into the sector to grow public investments. Similar initiatives in Georgia, Nevada, and California have had success in stabilizing the sector and protecting public investments.

The structure would also help respond to a near-universal challenge of deferred maintenance in the District's existing child development facilities. In LIIF's survey, just one-third of respondents agreed that they are able to keep up with and pay for regular repairs and maintenance needs in their facilities.[vi] The intermediary and property manager could set up a maintenance and facility service request portal for facilities to find efficient, real-time support for both urgent infrastructure needs like flooding or broken appliances and longer-term projects like roof replacements. Effectively outsourcing these tasks across a portfolio of projects, rather than having individual child development facilities navigate the search and negotiation process with contractors, could produce significant efficiencies and cost savings.

3. **OSSE should tailor future infrastructure grants to account for cost differences by age of children served to incentivize more programs to build licensed supply for infants.** Beyond making funding reliable for long-term planning, future child care facility investments should more deeply incentivize the creation of seats for younger children. Most child care growth since 2017 was concentrated among seats for toddlers, even though the A2Q program prioritized child development facilities seeking to expand to serve both infants and toddlers. Toddler supply increased by about 55% or 2,884 slots between 2017 and 2023, compared to just 5% and 187 slots for infants in that time period. Center-based facilities that want to serve infants must compete with all other businesses for ground-floor, street-level spaces, some of the most desirable and expensive commercial real estate in the District. Operating an infant classroom also requires narrower child to adult ratios that fix per child operating costs for this age group at higher levels than those for toddlers.

   In future A2Q or other funding rounds for expansion projects, the District should consider adjusting application scoring criteria or increasing award caps for facilities proposing to add infant capacity. The 2022 A2Q guidelines lumped infants and toddlers together in calculating maximum grant awards, as follows[vii]:

- *“Homes: $6,000 per new infant/toddler slot created.*
- *New centers: $12,000 per new infant/toddler slot created up to a maximum of $300,000 in most cases. Sub-grants up to $500,000 may be available depending on the number of new infant/toddler slots created, priority status of the project and availability of funding.*
- *Expansion of existing centers: $8,000 per new infant/toddler slot created up to $200,000.”*

Award sizes could be recalibrated so that facilities proposing to add infant slots are eligible for larger per slot awards than those adding toddler or preschool-age capacity.

4. **OSSE should conduct facility conditions assessments during existing child care licensing visits or Capital Quality reviews to enhance data and better target future resources to programs with infrastructure needs.** Through recurring monitoring and inspection visits completed by OSSE’s Licensing and Compliance division or reviews necessary for participation in the Capital Quality program, the District could enhance available data and better assess facility needs for future funding or technical assistance rounds by also completing assessments of facility and infrastructure conditions. These assessments should not be punitive or tied to Capital Quality ratings, but they could help OSSE better tailor future grant priorities and policies to ensure the facilities with the most urgent infrastructure challenges receive swift, appropriate support.

   As a component of analysis in LIIF’s study, 25 licensed child development facilities in the District received facility conditions assessments. The tool considered the conditions and developmental appropriateness of licensed indoor space, outdoor play areas, and the individual streets facilities are located on. Aggregate trends in scores revealed common challenges for the sector, and assessments for each facility helped identify the most pressing upgrades or changes needed to physical space. These components are often left out of licensing and Capital Quality reviews, which primarily assess basic health and safety compliance within classrooms, curriculum and activities, and interactions between adults and children.[viii] Each of these components are critical for assessing compliance and quality in facilities, but more focus is needed on building suitability and the conditions of physical space.

   Implementing facility conditions assessments in tandem with existing facilities visits throughout the District could help OSSE better target future facility improvement or expansion resources through the framework outlined in the second report, which uses conditions scores to categorize facilities into one of four groups. Data from these reviews could drive technical assistance with individual facilities and give OSSE clear direction in conversations with other agencies that influence the built environment surrounding child development facilities (e.g., District Department of Transportation [DDOT], Department of Parks and Recreation [DPR], or the Office of Planning [OP]). It could also be used to set maximum award amounts or grant priorities in future A2Q or other infrastructure funding rounds.

5. **Expand funding for nature-based play and outdoor upgrades.** During the 2022-2023 A2Q funding round, some facilities received additional grants to improve the quality of outdoor spaces in partnership with LIIF and the National Wildlife Federation’s (“NWF”) Early Childhood Health Outdoors

(ECHO) program. LIIF's research uncovered deep issues facing outdoor spaces used by child development facilities, despite significant evidence of the importance of outdoor time and exposure to nature for healthy child development.[ix,x] Dedicated funding should be made available to improving outdoor play areas child development facilities use, with a particular focus on making them more climate-friendly and resilient, comfortable for educators, and developmentally appropriate for the youngest children.

This could occur through an expansion of the NWF pilot in a future A2Q funding round or through other District child care infrastructure investments, or through enhanced coordination between OSSE and the District Department of Parks and Recreation (DPR). Cities around the world are increasingly working to meet goals to cool spaces by replacing impermeable, heat-retaining surfaces with parks and naturalized schoolyards.[xi,xii,xiii] The District could further invest in naturalization and greening of existing outdoor spaces at child development facilities or heavily used public parks, improving quality of outdoor spaces and reducing risks associated with heat exposure and poor air quality that disproportionately affect very young children.[xiv]

6. **Develop a Master Facilities Plan for child development infrastructure that mirrors and is coordinated with the regularly updated facilities plan for District of Columbia Public Schools.** LIIF's research takes a first step toward assessing current needs and projecting future ones facing the physical infrastructure child development facilities in the District rely on. However, more research is needed to understand and efficiently address challenges. A starting point might be increased coordination between OSSE and the Office of the Deputy Mayor for Education (DME), which is statutorily required by District code to operate an Office of Public Education Facilities Planning (OPEFP) and regularly conduct a multiyear, citywide public education facilities plan.[xv] The planning process has important community engagement guardrails and goals directly linked to policy and budgeting processes. Findings and analysis are used to inform maintenance and capital improvement budgets, as well as where new school buildings might be needed over the next decade or more given anticipated population change or development pipelines.[xvi,xvii]

   A regular, cyclical process to assess facility conditions and project future infrastructure needs is critical for effective and coordinated policymaking and planning around child care supply in the District. Various agency staff outside of the education sector interviewed for this series cited regular use of EDScape, DME's tool for distributing facilities plan findings and other important demographic information about student populations, to inform their own planning processes. An ordinance mandating such a process would allow the Council and agency staff to regularly revisit existing line items meant to support child development infrastructure. It would also give OSSE, DME, DCPS and other relevant education agencies a clear baseline for assessing population trends and planning capital investments.

Thank you very much for your time this afternoon. Continuation of OSSE's strong infrastructure investments and technical assistance is critical for eliminating current and projected shortfalls in child care supply. LIIF is grateful for the Council's ongoing support for the child care sector, appropriating resources for infrastructure improvements and technical assistance and consistently seeking out new ways to offer important legal protections for this community through ordinances like the BABY Act of 2023. We hope to continue to be a partner to Council and all District agency staff in assessing challenges facing child care facilities and operations and helping DC continue to be a friendly, supportive place to children and caregivers. I welcome the opportunity to meet with any Members of the Council or relevant agency staff to discuss my testimony in greater depth.

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