

HOUSING DEVELOPMENT + CHILD CARE FACILITIES:

STRATEGIES & FINANCING

A Joint Project of

Elizabeth Winograd
Low Income Investment Fund



Camille Maben
First 5 California



Partner Organizations



ABOUT THE PROJECT

The HOUSING DEVELOPMENT + CHILD CARE FACILITIES: STRATEGIES & FINANCING project was created in response to the 2017 wildfires in Sonoma County, which not only destroyed more than 2,800 homes, but also burned an estimated 400,000 square feet of commercial space – space that included child care centers. The devastation of the fires exacerbated an existing housing and child care crisis in Sonoma County. A 2018 housing market study estimated a need for 14,634 affordable rental units and a 2018 child care report shows licensed child care is available for only 25% of children with parents in the workforce.

The dual housing and child care crisis created a need to promote strategies to co-locate child care with affordable housing. This approach seemed natural: housing plus child care would better meet the urgent needs of working families and a community working to recover from a disaster.

Initially, the scope of work included a traditional “needs assessment” with stakeholder engagement, identifying Sonoma county assets and needs, and creating a strategic plan to inform the County’s direction. Through conversations with key stakeholders, however, community members expressed a desire for a different approach. Stakeholders wanted an action-oriented approach that could address the community-wide sense of urgency to quickly mitigate losses from the fires.

Based on this feedback, the project pivoted its focus to three key deliverables:

- ▶ Engage elected officials and the Santa Rosa Planning Department to incentivize and promote the co-location of child care facilities within affordable housing;
- ▶ Build a coalition of local leaders, affordable housing developers, and city officials to plan, review, and prioritize child care in affordable housing;
- ▶ Provide capacity building and a “how to guide” and resources for building child care in affordable housing in Sonoma County.

This report summarizes a 12-month planning process to develop a high-level master plan to re-envision child care in Sonoma County and develop a “road map” for other California counties to consider.

ACKNOWLEDGEMENTS

HOUSING DEVELOPMENT + CHILD CARE FACILITIES: STRATEGIES & FINANCING (May, 2020) is a publication of the Low Income Investment Fund. The publication is designed to be a “how-to guide” providing information and strategies to promote co-location of child care facilities development within affordable housing. It was made possible through funding by First 5 California.

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April 27, 2020

Dear Partners,

I am honored to present to you the *Housing Development + Childcare Facilities: Strategies & Financing* report. This study, a project of the Low Income Investment Fund and First 5 California, grew out of the Sonoma County wildfire disaster of 2017. This work, launched to create childcare solutions after the loss of many facilities in the fires, is even more valuable now as we look at a landscape further changed by the worldwide COVID-19 pandemic.

This effort – while focused on Sonoma County – is a road map for any municipality looking to co-locate childcare facilities within affordable housing developments. We know the need for quality Early Childhood Education (ECE) facilities is tremendous and construction is expensive. The study outlines our work to establish systems that will help ECE providers work with affordable housing developers to build facilities within housing projects.

The January state budget included \$263 million specifically for childcare facilities. If funding for childcare facilities is included in the final budget, the work of this report becomes even more relevant. This report outlines strategies to increase the quality of existing facilities and build new high-quality learning environments statewide.

The study drives home the importance of building relationships within and outside of the ECE community. By working together, we can overcome the challenges to affordable housing and ECE facilities development to build quality programs that serve California's young children and their families.

Camille Maben

Executive Director
First 5 California

HOUSING DEVELOPMENT + CHILD CARE FACILITIES: STRATEGIES & FINANCING

Recipe for Success

Stakeholder Ingredients Directions

- ★ Child Care Operators
- ★ City/County Planning Councils
- ★ Elected Officials
- ★ Public & Private Funders
- ★ Housing Developers
- ★ Local First 5
- ★ Local Resource & Referral Agency
- ★ Department of Education

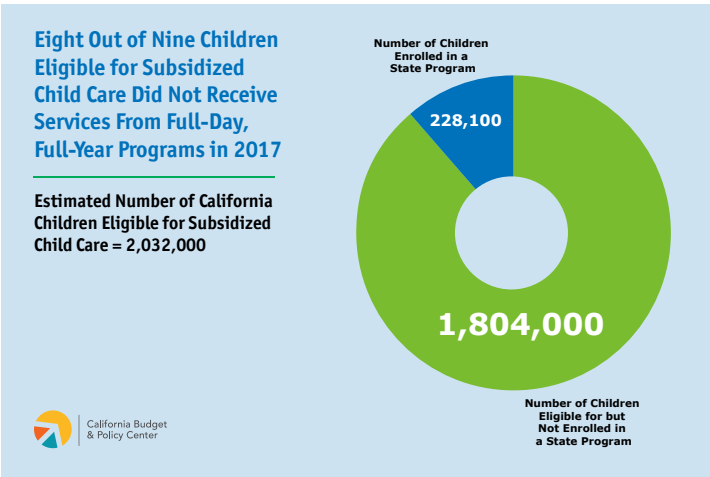
1. Assessment of Supply vs. Demand
Add Political Will
2. Planning for Design & Architect. Mix
in Child Care Operator and Licensing
3. Financing & Funding for Tenant
Improvements. Finish with
Lease Agreement



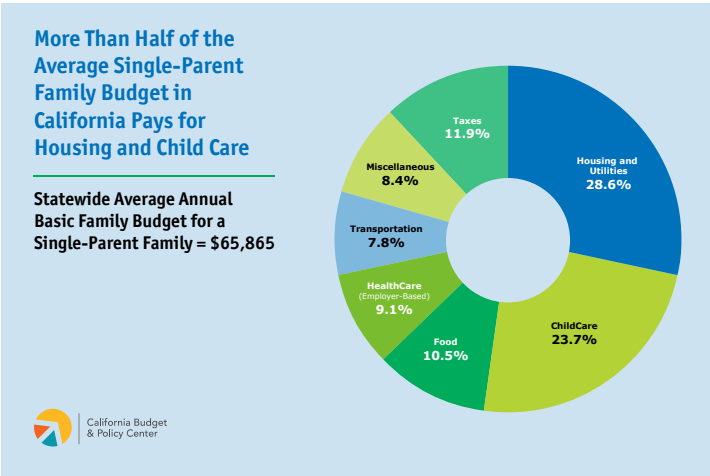
WHY CO-LOCATE CHILD CARE FACILITIES WITHIN AFFORDABLE HOUSING

Access to both child care and housing can help put families on a pathway to economic mobility and improved health outcomes. Yet for too long, these issues were approached separately. The Low Income Investment Fund and early care and education (ECE) partners have collaborated with Affordable Housing Developers to engage in conversations to identify cross-sector solutions that can better support families.

In California, 8 out of 9 children ages birth through 12 years old that are eligible for subsidized child care do not receive services from full day, full year programs. Data shows, accessible, affordable, and quality child care benefits the social and financial needs of parents and the educational and developmental needs of children.



Most working California families struggle to find adequate child care; over 50% of the average single parent family budget goes to housing and child care. Therefore, families often patch together multiple child care arrangements to cover their work day.



In Sonoma County, a growing shortage of child care was exacerbated by the devastating wildfires of 2017 which resulted in the loss of over 500 child care spaces. When combined with the escalating cost of housing, many working families are leaving Sonoma County for more affordable communities. As a result, the Sonoma County economy is vulnerable. Unfortunately, this trend is not unique to Sonoma County: across California, working families are leaving economic hubs for less expensive California or out-of-state communities because workers earnings have not kept up pace with rents in our state.

One key solution is to incentivize and support the development of new child care facilities alongside of affordable housing developments. Yet there are challenges. While the financing for the development of affordable housing is well-understood and centralized for developers, child care facilities are not. There is no centralized, industry-wide financing source for child care facility development. The design and construction of child care facilities continues to be a specialized business, and affordable housing developers have minimal knowledge of licensing requirements for building child care facilities.

While many developers recognize quality child care facilities are an important community asset, they are often put off by extensive child care licensing regulations that drive facility development. The early care and education community, with the support of elected officials, can educate affordable housing developers to ensure child care facilities are top of mind as they increase the local housing stock.

STEPS TO BUILDING CHILD CARE FACILITIES WITHIN AFFORDABLE HOUSING

ASSESSMENT

1

- **Supply vs Demand:** What is the need for child care in the community? Is there demand to develop new centers?
- **Political will and mission alignment:** Is there city and stakeholder support? Are there developers committed to building child care in their projects?

PLANNING

2

- **Design:** Can child care fit into the project/housing development? Will the design meet logistical and licensing needs?
- **Child care operator:** Is there a quality provider with strong financial capacity?
- **Licensing:** Will the plan meet licensing requirements or can exemptions be secured?
- **Zoning and permits:** Is the area zoned for child care? What is the local permitting process?

IDENTIFYING FINANCING AND FUNDING

3

- **Shell costs and buildout:** What are the financing sources?
- **Tenant improvements:** Where will secured funding come from for tenant improvements?
- **Ongoing monthly costs of child care tenant:** Does the lease outline roles, responsibilities and financial obligations?

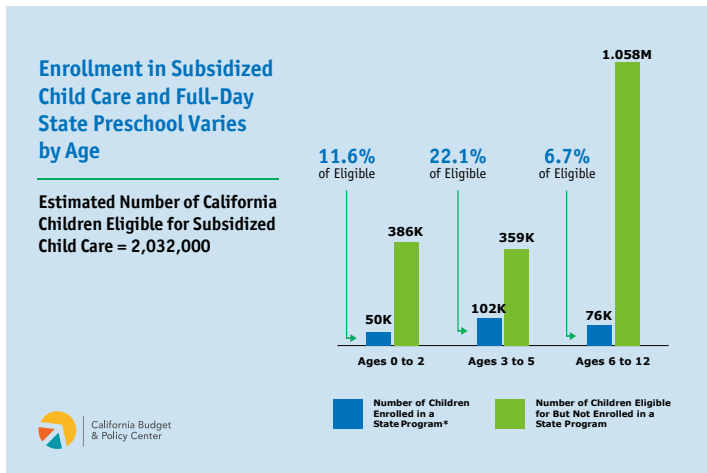
1 ASSESSMENT

STEPS TO BUILDING CHILD CARE FACILITIES WITHIN AFFORDABLE HOUSING

Supply vs Demand

It is important to know the local child care market. The success of a child care facility depends on child care supply and demand within a specific community. Developers can better understand the market by meeting with local child care intermediary and support organizations that are in most communities, including local child care planning councils, child care resource and

referral agencies, or other child-focused government (such as the county First 5 Commission) and nonprofit organizations (such as family resource centers). Often, these organizations publish needs assessments and strategic plans that provide child care demand in a regional market. They can also be excellent resources for identifying quality child care providers.



“ This is the first time in my 20 years that we had parents who received a child care voucher and could not find a provider so they turned down the voucher. ”

Melanie Dodson
Executive Director
4C’s Sonoma County

Political Will

Generating political allies to establish co-location of child care facilities in housing developments is critical.

Elected representatives at the county and local level are uniquely positioned to communicate to housing developers that child care is a priority. This message is especially important if developers are competing for opportunities to build new units. Developers often seek a competitive edge in their development proposals, and alignment with a city or county priority is a powerful non-monetary incentive.

In California every local First 5 Commission includes a county supervisor, a good starting point toward gaining support. By educating them about the demand and unmet need for childcare and how co-locating within affordable housing has worked in other California cities, they can make a compelling case to those they influence. It is helpful to equip them with talking points, data and even a story about a project that has worked in another community – all of which will help them influence other government decision makers.

It is important to learn about your city and county zoning and permitting policies for child care, and if there are financial incentives or tax credits for developing child care in specific underserved neighborhoods. County and city staff oversee planning, permitting and economic development, and often recognize child care as a critical element of economic infrastructure. Cultivating relationships can generate interest and willingness on the part of developers to include child care as part of an affordable housing project.

“ We added child care as one of the ways developers can get points and concessions as a part of their project. ”

David Guhin
Assistant City Manager/Director
City of Santa Rosa

2 PLANNING

STEPS TO BUILDING CHILD CARE FACILITIES WITHIN AFFORDABLE HOUSING

Child Care Operators

While some affordable housing developers have pre-existing relationships with quality child care operators, some need to identify and vet providers for a joint project. Here are some ways to identify a child care operator:

Referrals from Intermediary Organizations

Each community has one or more child care intermediary organization such as the Local Child Care Planning Council, Resource and Referral Agency, or County First 5 Commission. Other sources of information can include local community development financial institutions such as The Low Income Investment Fund (LIIF), or government and nonprofit agencies whose mission is to serve young children (such as grant making foundations or social service nonprofits).

Request for Qualifications or Proposals (RFQ or RFP)

If the developers do not have any connections with the Early Care and Education community, they will often develop a RFP or RFQ to solicit proposals from interested child care operators. This notice would be sent out to child care agencies operating in the community. The notice will have detailed location and center specifications, such as square footage and parking amenities. The information requested in a RFQ or RFP is used to determine if your center is a good fit for the community, and the partnership between the provider and developer is a match and if you have the skills to move from project inception to completion.

THE RFQ/RFP IS ALSO A GOOD DOCUMENT TO DISTINGUISH KEY RESPONSIBILITIES OF THE DEVELOPER AND CHILD CARE OPERATOR.

Operational Responsibilities of the Child Care Provider

- ▶ Program/ Philosophy
- ▶ How you manage your center
- ▶ Financial stability
- ▶ Licensing track record
- ▶ Facilities development experience

Site Development Responsibilities of the Child Care Provider

- ▶ Finance and manage construction
- ▶ Timeline for construction
- ▶ Finding a licensed contractor
- ▶ Business plan
- ▶ Commitment to project



2 PLANNING

STEPS TO BUILDING CHILD CARE FACILITIES WITHIN AFFORDABLE HOUSING

Design & Architect

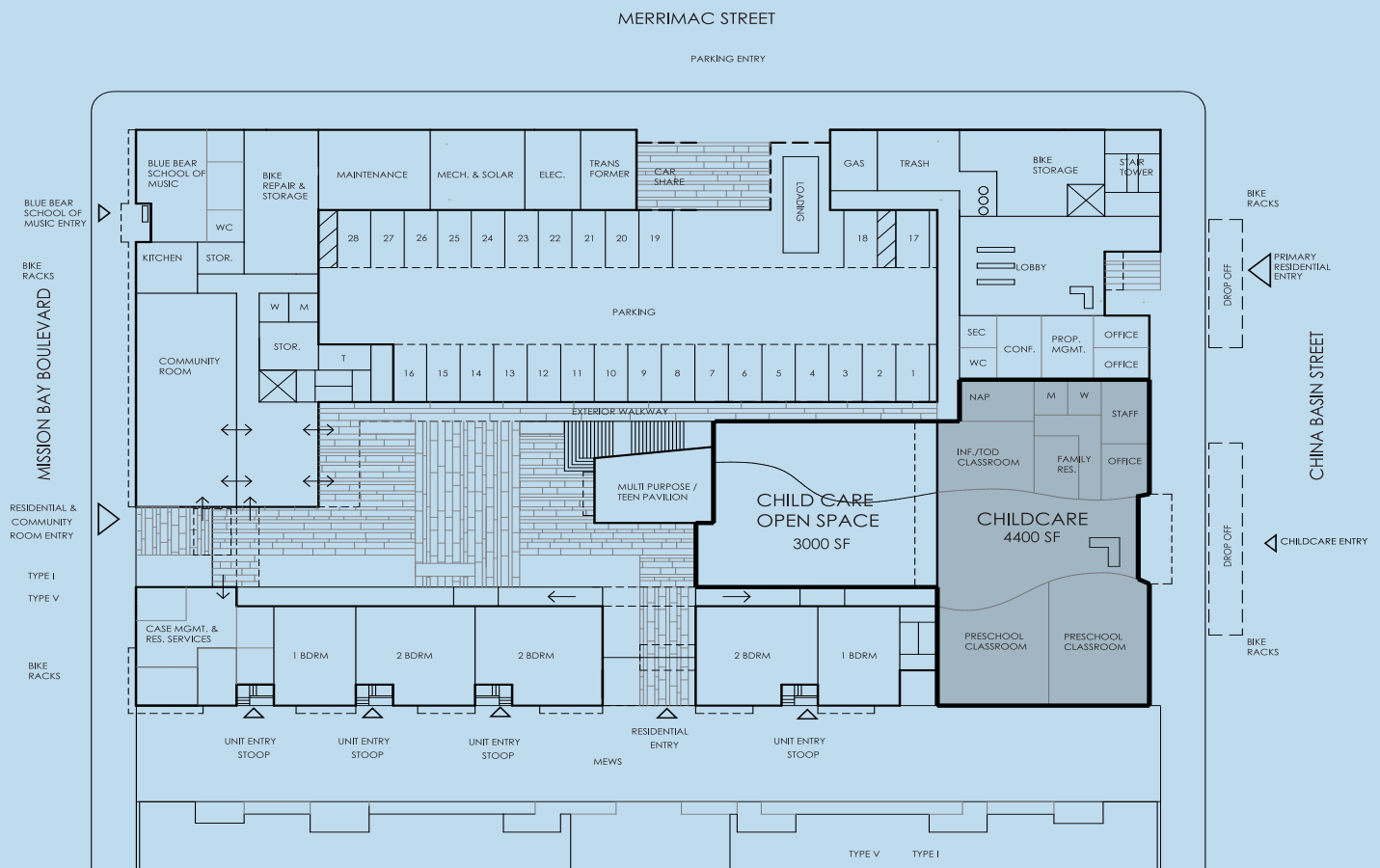
Designing a child care center is an important component to creating a high-quality program. Children's ability to learn and grow is strongly influenced by the physical space and environment in which they spend their time. There are two approaches to child care facilities within affordable housing:

- ▶ The developer provides project management services, including the design and build out of the early learning space.

- ▶ The developer provides a warm shell—the four walls and the rough out for all the utilities—and the child care agency manages the design and construction of the tenant improvements themselves.

If the child care agency is designing the space they will need to hire an architect with experience in designing early learning spaces. Not all architects know the specifications and the requirements for these spaces.

Mission Bay Project



Mission Bay Project is a mixed use 7 story building for affordable housing apartments, storefronts, and childcare. The new Child Care Center is being built at approximately 4,400 square feet of interior space and up to 3,000 square feet of contiguous outdoor space. The Center will be equipped for approximately 40 children, a mix of infants, toddlers and preschoolers will be served

2 PLANNING

STEPS TO BUILDING CHILD CARE FACILITIES WITHIN AFFORDABLE HOUSING

Licensing and Tenant Improvements

Licensed child care facilities must meet state child care licensing requirements, which dictates interior and exterior square foot per child standards. Licensing standards are minimum requirements and do not necessarily meet “best practice” or quality standards. Therefore, developers are encouraged to meet early in the process and often with child care providers to understand programmatic needs and their interior and exterior requirements for a high quality early learning facility environment.

Contracting with an architect experienced in child care facility design is highly recommended. Key considerations include:

- ▶ Interior space requirements based on the number of children served and their ages, type of program (whole or half day), and provider’s desired staff to child ratio (which could exceed licensing requirements). Licensing requires a minimum of 35 square feet per child in each classroom.
- ▶ Outdoor play space and exterior requirements based on site placement of the child care space. Licensing requires a minimum of 75 square feet per child. For facilities in dense urban environments, outdoor space requirements may be reduced by obtaining a licensing waiver or rotating outdoor time for smaller groups of children, thus reducing the total space needed.
- ▶ Depending on where the child care facility is located, drop off and pick up parking can be challenging. Developers and child care providers should walk through the schematic plan to understand how parents and children will flow in and out of the child care center; how they will travel to and from transportation; and how security and safety can be reinforced through design.

Ocean Avenue Project



After three years of community outreach, the Ocean Project in San Francisco includes 25 percent affordable housing of 193 dwelling units, a childcare facility with 6,013 square feet of classroom space and 2,613 of dedicated private open space, ground floor commercial, both private and shared open space, and below-grade parking.

3 IDENTIFYING FINANCING AND FUNDING

STEPS TO BUILDING CHILD CARE FACILITIES WITHIN AFFORDABLE HOUSING

Overview

Facility financing is one of the largest hurdles in building child care. While affordable housing has the Low Income Housing Tax Credit (LIHTC) program to underwrite a significant portion of affordable housing development, child care does not have a comparable program. Therefore, developers and child care providers can blend together an array of public and private funding to develop child care. In addition, creative lease agreements can help child care providers build up operational cash flow before assuming the full liability of monthly rent.

In California, Governor Gavin Newsom approved \$263 million in the FY20 state budget specifically for ECE facility development over the next four years. These funds will be used for infrastructure grants, which will enable ECE providers to construct and expand child care facilities, and ultimately serve additional children.

Typically, affordable housing developers can extend Low Income Housing Tax Credit (LIHTC) and other affordable housing financing to build a “warm shell” for child care operators. A warm shell denotes a space with a minimally finished interior, a heating and cooling system (HVAC), drop ceilings, plumbing and restrooms, and interior lighting. The heavy expense is the interior buildout, including architectural design to meet state child care licensing standards; completing interior wall, plumbing, and lighting; and purchasing finishes and furnishings for the space. Depending on the size and the location of the facility, space completion can cost between \$1-2 million, or more.

- MONTH 1**
 - **Market Analysis**
Developer and Operator research the need for child care in the community
 - **Size of Early Childhood Facility**
Operator estimates number of children and age groups to be served
 - **Size of the Housing**
Developer to determine number and type of units, and the target income levels
- MONTH 2**
 - **Working as a Team**
Operator and Developer identify key partners and team members as early in the process as possible
 - **Contracts**
Operator, Developer, Architect, and other partners work together to clearly define each team member's role and responsibilities for the project
- MONTH 3**
 - **Budget and Financing**
Developer to prepare a financial analysis/feasibility of the whole project
 - *Operator to determine available capital for the project, potential funding sources, and preliminary operating budget for early childhood facility*
 - *Developer and Operator must clearly identify who is responsible for various portions of the financing*



Visit https://www.liifund.org/wp-content/uploads/2011/03/LIIF-Quality_Environments_for_Children-2010.pdf to view the entire report. This timeline is located on page 14.

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IDENTIFYING FINANCING AND FUNDING

STEPS TO BUILDING CHILD CARE FACILITIES WITHIN AFFORDABLE HOUSING



The interior build out of a center is typically a responsibility of the child care operator, although the affordable housing developer can assist by securing loans or pursuing specific grants. The funding landscape for child care is dynamic and subject to local, state, and federal political and budgetary policies. Some sources of funding that can help child care operators, including:

- ▶ Community Development Block Grants: public grants or soft debt
- ▶ Local Child Care Funds (if applicable)
- ▶ Head Start Facility Development Funds
- ▶ State Child Care Funds
- ▶ Grants or loans from private foundations, corporations, or individuals
- ▶ Loans from Community Development Financial Institutions (CDFIs)

Lease Agreements & Ongoing Monthly Costs

While there are many considerations for a lease agreement, rent structure is one tool that can support the financial sustainability and cash flow of the child care provider. Possible rent structures are varied; here are examples:

- ▶ \$1/year rent for a child care agency providing services to 100% low income families
- ▶ For those agencies serving less than 100% low-income families,
 - ▷ Between 80%–100% subsidized children = 0.50 cents per square foot
 - ▷ Between 60%–80% subsidized children = 0.75 cents per square foot
 - ▷ Between 40%–60% subsidized children = \$1.00 per square foot
 - ▷ Between 20%–40% subsidized children = \$1.50 per square foot
 - ▷ Full market rent to a provider who is serving private pay families



CHILD CARE IN THE CITY OF SANTA ROSA PLANNING & POLICY

In 2019, LIIF and the partners piloted work in the City of Santa Rosa which had the most need for child care facilities. Preliminary efforts included a **public meeting** of high-level housing and child care facilities stakeholders--city planners, affordable housing developers, funders, elected officials and early care and education advocates. The intent was to discuss the critical need to rebuild the supply of child care and the steps needed to create more affordable high quality child care facilities.

The outcome was the creation of a cross sector interagency committee of city planning, early care and education advocates, chamber of commerce and affordable housing developers. Santa Rosa's City Council has formally elevated child care access as a city priority, streamlined permitting for new facilities and incentivized housing developers to include child care facilities. The City Council also dedicated the use of an existing city-owned property specifically to support the re-opening of a large preschool lost in the Tubbs fire. First 5 Sonoma County and other local funders are supporting the renovation of that property.

The nexus between the local workforce, economic development and child care has become common knowledge in the business community. First 5 Sonoma County has partnered with the Santa Rosa Metro Chamber of Commerce to engage employers in solutions. The loss of housing stock and child care in the 2017 wildfires and escalating costs of what exists have become major barriers for employers to recruit and retain a talented workforce across sectors, including services, tourism, healthcare and technology.

Most recently, a major success was announced – Keysight Technologies, one of the largest employers in the county, will build an onsite facility to provide child care to over 100 children, infants, toddlers, preschool and after-school care. Another facility, to be developed on Sonoma County Office of Education property, is being planned as an employer consortium model of supported child care.

“ We will not be able to recruit and retain employees if they do not have a way to afford to live in Sonoma County and build their families. ”

Lynda Hopkins
Supervisor District 5
Sonoma County

CONCLUSION & NEXT STEPS

This report is intended to stimulate interest and serve as a baseline resource for stakeholders seeking to build child care facilities within affordable housing development opportunities. Stakeholders include child care operators, housing developers, city and county officials, parents and **You!** We invite you to begin outlining HOUSING DEVELOPMENT + CHILD CARE FACILITIES: RECIPE FOR SUCCESS for your community as a starting point for key partnerships and considerations.

For further guidance and advice, please contact [Low Income Investment Fund- Early Care & Education Division](#).

“Child care in affordable housing is a natural partnership for low income, working families and child care providers. Having an accessible and trusted child care center where they live significantly reduces the stress of finding an affordable child care space. For providers, serving families where they live strengthens the partnership between teachers and parents.”

Susan Neufeld
Vice President
Evaluation & Resident Program Design
BRIDGE Housing

HOUSING DEVELOPMENT + CHILD CARE FACILITIES: STRATEGIES & FINANCING

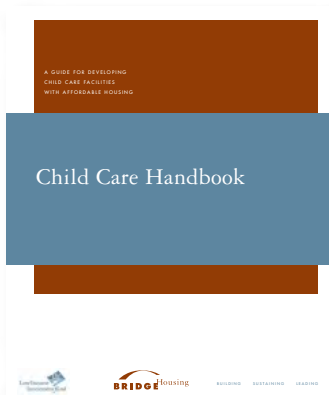
Recipe for Success

Stakeholder Ingredients	Directions
★ _____	1. _____
★ _____	2. _____
★ _____	3. _____
★ _____	
★ _____	
★ _____	
★ _____	
★ _____	
★ _____	



RESOURCES

INFORMATION & HANDBOOK



“A Guide for Developing Child Care Facilities with Affordable Housing”

A resource for affordable housing developers seeking to build new child care facilities and family-owned child care homes along with affordable housing. This handbook serves as a guide through the development process, providing best practices, key considerations, resources, tools, and recommendations for each stage of the development process.

DESIGN GUIDE



“Quality Environments for Children: A Design and Development Guide for Child Care and Early Education Facilities”

This guide is intended to serve as a reference tool for planning, designing and building early childhood spaces that are safe, healthy, nurturing, developmentally appropriate and aesthetically pleasing for the children and adults who use them.

REPORT



“Strategies for Increasing Child Care Facilities Development and Financing in California”

This publication is designed to educate policymakers and the child care field about barriers and solutions to child care facilities development and financing.

RESOURCES

VIDEO



[Housing Development + Child Care Facilities: Strategies & Financing \(Sonoma County\)](#)

WEBINARS



[Housing Development + Child Care Facilities: Strategies & Financing](#)



[Lessons from the Northern California Fires: Disaster Plans and Early Care & Education](#)

GENERAL WEBSITES

[First 5 California](#)

[Low Income Investment Fund-Child Care](#)

[BRIDGE Housing](#)

[California Department of Education – Local Planning Council Contacts](#)

[California Child Care Resource & Referral Network](#)

www.liifund.org

**To contact the child care facilities fund
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