capital for healthy families & communities

December 2, 2019

The Honorable Alex M. Azar II
Secretary of Health and Human Services
U.S. Department of Health and Human Services
200 Independence Avenue, SW
Washington, D.C. 20201

RE: Improving Access to Affordable, High Quality Child Care: Request for Information [Docket No.: HHS-ACF-2019-0005]

Dear Secretary Azar:

The Low Income Investment Fund (LIIF) is pleased to respond to the request for information (RFI) entitled Improving Access to Affordable, High Quality Child Care.

LIIF is a certified Community Development Financial Institution (CDFI) that invests capital to support healthy families and communities. Since 1984, LIIF has provided $2.5 billion in financing and technical assistance in 31 states, leveraging over $12.5 billion in additional private capital and serving more than 2.1 million people. LIIF's investments have created and preserved 78,000 units of affordable housing; 271,000 child care spaces; 98,000 spaces in schools; and 36 million square feet of community facilities and commercial space. LIIF estimates that our work has created or maintained 159,000 jobs, and generated $65.1 billion in family income and societal benefits.[1] LIIF is a national organization with offices in San Francisco, Los Angeles, New York City, Washington, D.C. and Atlanta.

Like other CDFIs, LIIF's mission is to raise and deploy capital to transform low-income communities. By combining loans, grants and technical assistance, we make possible high-impact projects in low-income communities that lack access to traditional bank financing because the transactions are perceived as too risky, costly or small. Over the last 25 years, LIIF has invested $153 million in child care, creating 270,000 slots and generating $21 billion in benefits to society and families. Based on LIIF's experience, we believe the CDFI sector has an important role to play in ensuring that ECE facilities are high-quality, accessible, and affordable.

LIIF greatly appreciates the Administration for Children and Families' (ACF) focus on improving access to affordable, high-quality child care. Investments in early care and education (ECE) creates both immediate and long-lasting benefits for individuals and society, in the form of children's social and intellectual development, parent's ability to participate in the workforce, and providers' ability to operate a business and create jobs. An important component of high-quality child care is the physical quality of the facility – research shows that developmentally appropriate environments improve learning and development among children.[2] LIIF strongly believes that the quality and affordability of child care facilities should be elevated as a central tenet of any conversations on child care.

[1] https://www.liifund.org/calculator-tool/ (Social Impact Calculator illustrating economic impact of project investments in form of increased household income, improved health, long term earnings, etc.)
[2] Bipartisan Policy Center, "From the Ground Up: Improving Child Care and Early Learning Facilities," https://bipartisanpolicy.org/wp-content/uploads/2019/07/From-the-Ground-Up-Improving-Child-Care-and-Early-Learning-Facilities.pdf, (May 2019).

Despite the well-known importance of the physical space in which children learn and teachers teach, there is currently no dedicated source of federal funding for ECE facilities. This is limiting in several ways, most immediately, because it creates barriers to many providers entering the market. For instance, the lack of federal resources severely limits providers' ability to access subsidized capital for acquiring property, developing new facilities, and undertaking critical renovations that may substantially improve the quality of their program. To successfully accomplish this, providers also need access to technical assistance and capacity building resources that allow them to partake in the real estate process and grow their organizational resources to a sustainable level. Providing such resources through an intermediary structure – such as through CDFIs or other entities with demonstrated financing experience in early care and learning or other community facilities – offers the best chance for success, both for children's developmental outcomes and providers' ability to build a sustainable business.

We have provided detailed comments in response to questions posed in the RFI. We have also shared a summary of LIIF's key points:

- Facilities are a critical part of the broader ECE conversation and are directly tied to the quality of a program and the health and safety of children and workers;
- Despite the clear importance of ECE facilities, there is currently no dedicated source of federal funding for ECE facilities, which creates barriers to providers entering and staying in the market;
- Federal resources for investing in child care facilities – including dedicated support for technical assistance and capacity building – will be most effectively accomplished if done through an intermediary structure; and
- All levels of government have a role to play in improving providers' ability to access capital that supports high-quality facilities and sustainable business growth.

LIIF is also the co-chair of the National Children's Facilities Network (NCFN) and shares our support for the points articulated in the Network's comment letter. We appreciate the administration's focus on this critical issue and look forward to working with you on improving the affordability and quality of child care.

A. <u>Improving Access to Affordable, High Quality Child Care</u>

1. Building Supply of Child Care

The current economics of building and maintaining high-quality ECE facilities creates significant barriers to providers entering and staying in the market. Child care providers tend to operate at exceptionally thin margins, leaving very little room to support debt on the property. This inhibits providers' ability to acquire and/or develop facilities, as well as renovate existing facilities to meet the needs of a high-quality center. And in high-cost markets, providers are often priced-out from acquiring land or existing facilities, both because of the significant up-front purchase costs, as well as the capital needed to hold the land until the center is ready to open. A further barrier is that most ECE providers – like other small businesses – should expect to see operating losses during their startup phase. Given that they are already operating at thin margins without much capacity to take on additional debt, such factors are ultimately prohibitive to many providers entering the market.

Many providers who specialize in early care and education are also constrained by a lack of capacity to fully engage in the real estate market, which hinders their ability to develop and maintain a child care center. These barriers may include things like creating an operating budget, developing and implementing information systems, working with an architect, and engaging with the regulatory bodies that oversee building codes. All of these activities require technical assistance as well as working capital that providers can use to cover the facility requirements of running their business. Technical assistance and capacity building are therefore critical components in improving child care providers' access to the market; without dedicated support for these basic business functions, providers will continue to face often insurmountable barriers to creating high-quality, sustainable ECE centers and businesses.

These challenges are prevalent in communities across the country, but rural areas face unique barriers to building high-quality child care facilities, including depressed economic markets, extreme unemployment, and dispersed populations. It is simply not economically viable to build a high-quality center in a rural area when it is unclear if enough families will be able to attend, or if they will be able to pay a rate that supports the facilities' operations. As a result of these tricky economics, family-based child care is often the only option in rural areas, but these providers are also constrained by the depressed economic markets and dispersed populations in rural areas and therefore also require access to subsidized capital, technical assistance, and capacity building to be successful.

Despite the need for subsidy and technical assistance to increase the supply of affordable child care across the country, there is currently no dedicated federal funding for ECE facilities. LIIF supports the congressional recommendations outlined in the Bipartisan Policy Center's (BPC) May 2019 report, "Improving Quality and Availability of Early Care and Learning Facilities," which includes the creation of a federal competitive grant program, administered through intermediaries like CDFIs, to support center-based and family child care construction and rehabilitation.[3] The grant program would provide competitive grants to states to support capital grants for renovation, improvement, and construction of early learning facilities. States would also be required to meet or exceed a 25 percent cash match. The program would also include a National Activities Fund, administered by HHS, that would award competitive grants to intermediary organizations like CDFIs to provide technical assistance, capacity building, and financial products to support early care and learning facility financing in all states.

Structuring this money to be administered through intermediaries like CDFIs positions the funding to be most impactful. CDFIs can offer products and services that are not otherwise available to child care providers, such as flexible financing – i.e. no-interest or forgivable loans – that allow providers to grow their business and serve more low-income families. CDFIs also have experience administering capital dollars efficiently and effectively and can leverage additional funding to amplify the impact of any federal dollars invested in child care facilities. LIIF strongly urges ACF to consider the role that intermediaries can play in making ECE more accessible and affordable across all populations.

2. Improving Child Care Regulations

ECE is a highly regulated industry because it serves a vulnerable population. LIIF firmly agrees with ACF's statement that "child care licensing, regulatory and monitoring frameworks are the basis for ensuring that child care settings are healthy and safe for children"[4] and we strongly believe that child care regulations intended to protect children's health and safety should be fully enforced and, in some cases, strengthened. In fact, given the importance of ensuring ECE facilities are appropriately regulated for health and safety concerns, LIIF encourages ACF to consider the BPC's recommendation that the Department of Health and Human Services (HHS) conduct a national needs assessment of quality early care and learning facilities. BPC's research notes that not enough data exists on the quality of early care and learning facilities

[3] Bipartisan Policy Center (BPC), "From the Ground Up: Improving Child Care and Early Learning Facilities," https://bpcaction.org/wp-content/uploads/2019/04/Improving-Quality-and-Availability-of-Early-Care-and-Learning-Facilities-Congressional-Recommendations.pdf, (May 2019).

[4] Department of Health and Human Services, Administration for Children and Families (ACF), "Improving Access to Affordable, High Quality Child Care: Request for Information," https://www.federalregister.gov/documents/2019/10/02/2019-21530/improving-access-to-affordable-high-quality-child-care-request-for-information, (October 2019).

nationwide, which is why a needs assessment is necessary to inform policymakers of the full scope of infrastructure needs as they seek to increase quality.[5]

There are also opportunities to use regulations and ordinances at the state and local level to ease the burden on providers and increase supply. A recent Early Learning Facilities Needs Assessment in Rhode Island, conducted by the Local Initiatives Support Corporation (LISC), found that regulations do not present barriers to growth, and that early learning facility operators are actually quite supportive of regulations that protect children and promote quality.[6] Importantly, LISC heard from operators that they find regulations difficult to navigate, which results from many factors, including[7]:

- the operators own lack of expertise in real estate development,
- a lack of clarity and specifics in many regulations,
- the number of entities that regulate the industry,
- inconsistencies in regulatory interpretation within and between agencies, and
- a lack of one centralized place to find all requirements and contact information in an easily navigated format.

Streamlining local regulatory requirements by making the information easier to access and understand for child care providers would help alleviate the burden on providers. At the same time, this highlights the importance of funding for organizational capacity building so that providers can access the capital necessary to meet these critical regulatory standards. For instance, installing a sprinkler system is a necessity for home-based child care providers to ensure the space meets fire code and is safe for children, but this is an expensive endeavor that many providers cannot meet without subsidized capital. In the absence of dedicated funds for capacity building and facility operations, many providers will be unable to meet health and safety standards, engage in the facilities financing process, and ultimately grow their businesses.

3. Cultivating the Child Care Workforce

The physical environment of child care centers is not only critical to the health, safety, and development of children, but also to caregivers' ability to fully engage with children in a meaningful way. Cultivating the workforce should not only include training and credentialing teachers, but also supporting a high-quality environment in which workers can most appropriately meet children's needs.

4. Developing Better Child Care Business Models

Promising and Innovative Strategies
LIIF strongly believes that the most promising strategy for improving business practices and promoting business development of child care providers is by enacting dedicated federal funding for ECE facilities, which must include funding for technical assistance and business capacity building. Some states and localities have already taken steps to enact dedicated money for ECE facilities.

A successful example of capital grants for ECE providers is LIIF's Access to Quality Child Care Expansion Grant ("A2Q Grant") in Washington, DC. Mayor Muriel Bowser's fiscal year (FY) 2019 budget invested $9 million to create the A2Q grant to "improve the supply of child care services for infants and toddlers, which may include establishing new or expanding existing child development facilities serving infants and

[5] BPC, "From the Ground Up," May 2019.
[6] LISC, "Rhode Island Early Learning Facilities Needs Assessment," (November 2019)
[7] LISC, "Rhode Island Early Learning Facilities Needs Assessment," (November 2019)

toddlers."[8] The DC Office of the State Superintendent of Education (OSSE) awarded the A2Q Grant to LIIF, and LIIF provides business capacity building and technical assistance to center and home-based child care providers throughout the city. Examples of LIIF's work with providers includes helping them build a sustainable operating budget, working with an architect to understand expansion feasibility, communicating with DC regulatory agencies throughout the facilities process, and planning for ongoing business operations.

As of November 2019, LIIF has awarded over $6.05 million to create more than 1,000 new infant and toddler slots in DC. LIIF will deploy the remaining $2 million before September 30, 2020 and projects that 1,350 slots will be created in total. Highlighting both the demand for subsidized capital and the success of the A2Q Grant program, providers requested $6 million in subsidy that LIIF was unable to meet due to lack of funds.

Examples like this are indicative not just of the pressing need for ECE facilities resources, but also the tremendous benefits that come from structuring this funding through intermediaries. It is past time for the federal government to enact dedicated money that allows successful ECE facilities models to grow to scale.

Shared Services Alliances

LIIF also appreciates ACF's focus on potential opportunities for shared services alliances but cautions that the areas in which services and other costs can be shared are not necessarily the areas in which ECE programs spend the bulk of their resources. Any consideration of shared services alliances should appropriately weigh the costs and benefits of engaging in such a model.

Economics of ECE and Public Pre-Kindergarten

LIIF is concerned about the facilities financing impacts that public pre-kindergarten can have on certain providers. As ACF notes in the RFI, preschool-aged slots offset the costs of more expensive infant and toddler care, and when public pre-kindergarten programs remove a large portion of the preschool-aged children from a center, the economics of operating the center shift dramatically.

The current model for financing ECE facilities is already inadequate and inefficient from a sustainable business model perspective, so when this model is interrupted it is critical that the industry be particularly attentive to those who are left – in this case, providers serving infants and toddlers. An adequate response to the shifting economics from pre-kindergarten programs is to ensure resources are appropriately available to support the focus on infants and toddlers. For instance, California raised its infant reimbursement rate to $30,000, a response to the need for greater subsidy without as many preschool-aged slots. DC also targeted capital investments to address the changing market, as described above in the A2Q Grant. Federal funding for ECE facilities will only become increasingly important as providers look to convert spaces from those serving preschool-aged slots to those appropriate for infants and toddlers.

B. <u>Transforming Financing of Child Care and Early Education Programs</u>

Barriers to Efficient Use of Resources

The number of federal, state, and local funding streams for ECE is indicative of the significant scope of need for investment in this population, as well as the commitment across government and other stakeholders to create a strong system to care for our nation's children. Ultimately, though, the system simply needs more resources if we are going to ensure an effective and efficient system for providers, caregivers, and children. The lack of dedicated federal funding for acquiring, developing, and renovating ECE facilities is one of the most significant barriers to greater success in the ECE industry. Operating an ECE center is

[8] Washington, DC Office of the State Superintendent of Education (OSSE), "Access to Quality Child Care Expansion Grant," https://osse.dc.gov/publication/access-to-quality-a2q.

expensive – it is a labor-intensive sector with longer hours than traditional workplaces and infrastructure needs that are unique to serving young children. CDFIs have proven that technical assistance, business capacity building, and subsidized capital for acquisition, development, and rehabilitation can fundamentally transform a provider's ability to create and sustain a high-quality ECE business. But without subsidized capital to support providers and their facility's needs, it is simply not economically feasible to build high-quality child care in many areas of the country.

Alternative Financing Models

In addition to the lack of federal resources dedicated to subsidizing the cost of capital for ECE facilities, LIIF is also concerned about the lack of a national operating costs standard for ECE facilities financing. Compare ECE to the housing industry, in which the Department of Housing and Urban Development (HUD) calculates a local "fair market rent (FMR)" for modest apartments of various sizes. This FMR standard provides developers and lenders certainty of the rent levels they can expect to receive under HUD-funded subsidy programs, enabling them to calculate the debt the project can support while maintaining housing quality.

The absence of any similar national standard in ECE magnifies the challenge even mission-driven non-profit CDFIs face in trying to lend into ECE facilities projects. We fully recognize that the major federal funding streams for ECE (e.g., CCDBG and Head Start) are not structured like HUD programs, and for good reason preserve a significant role for local decision-making around reimbursement rates. And unlike housing, the vast majority of ECE providers budgets are not related to facilities-related expenses. This said, LIIF urges that as the administration considers approaches to transforming the financing of ECE programs, ACF explore ways a standardized approach to calculating facilities operating costs -- analogous to the concept of the FMR -- could provide a useful benchmark as ECE program operators, CDFIs and local/state government work to scale financing of high-quality facilities.

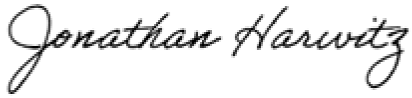
Innovative Models and Practices

LIIF is engaged in a number of innovative approaches to building the supply of high-quality ECE. Of specific note is our use of the successful New Markets Tax Credit program to create a 'Fund for San Francisco Early care and Education' in partnership with the San Francisco Office of Early Care and Education (OECE) that provides flexible, low-cost financing for the development or preservation of ECE facilities. Loan sizes range between $1 million to $4 million and are interest-only payments over a 7-year loan term. We also offer ongoing technical assistance for ECE providers.

Conclusion

LIIF is greatly appreciative for the opportunity to respond to ACF's request for information and we look forward to continued engagement on these critical questions. Please do not hesitate to reach us at jharwitz@liifund.org and agarling@liifund.org with any questions or comments.

Sincerely,



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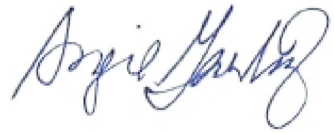

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