for children's agenda

FIRST LADY HILLARY RODHAM CLINTON
REMARKS VIA SATELLITE TO CHILDREN'S DEFENSE FUND CONFERENCE
MARCH 3, 1994

DRAFT

[Acknowledgments]

It's a privilege for me to speak to all of you gathered in Cincinnati today for the annual convention of the Children's Defense Fund. The fact that more than 2,400 advocates have traveled from all over the country to share ideas about the state of America's children is a testament to the power of CDF's mission. I'm just sorry that I'm not able to join you in person.

Today, we live in an age of great promise -- and great peril -- for our nation's children.

While we've made considerable strides in improving health, education, and job opportunities for America's young, our children continue to shoulder burdens never encountered by children in any other civilized society.

Today, too many American children grow up in broken homes. Too many American children go to schools hungry. Too many American children never visit a doctor. And too many American children are surrounded by a culture of violence that threatens to alienate an entire generation.

When the President spoke to you at your convention a year ago, he pledged his continuing support for the important work that CDF has done on behalf of children. It may sound self-serving for a former CDF board president to say this, but I really believe it's true: For more than two decades, this organization has made sure that the cries of desperate children never fall on deaf ears.

This week, your theme, "Leave No Child Behind," is a clarion call to all Americans to strengthen our commitment to children across this country.

In the past year, the President has placed children squarely on the national agenda. Virtually all of his legislative initiatives thus far are related to improving the lives of families and children -- and to restoring the American dream of opportunity and upward mobility.

Health care reform, welfare reform, deficit reduction, crime prevention, gun control, and even trade -- all these issues stem

from the President's belief that America cannot afford to waste a single person, particularly not a child.

In an age when children too often are pried loose from their moorings -- when the values taught by families, schools, and churches are being assaulted by a plague of violence and hopelessness -- we must be even more determined to provide anchors for America's young.

If a child arrives at school hungry, it's no wonder he or she can't pay attention in class. If a child lives in a deficient home environment -- and 1 out of every 10 children between the ages of 3 and 5 do -- it's no wonder he or she grows up with poor self-esteem and little confidence about the future. If a child becomes accustomed to hearing gunfire outside his home all day and night -- it's no wonder he learns to settle disputes with violence.

How can children become healthy, productive citizens if their nutritional, health, and emotional needs are ignored?

This is the crisis we're in, and this is the crisis we must resolve.

The good news is that we're making strides to improve the lives of children across this country. For the first time, our nation now has a Family and Medical Leave law that helps parents be good parents by giving them time off for family emergencies. We have a Family Preservation and Support program that will provide nearly $1 billion over the next five years for family counseling, parenting training and other services designed to help parents and families cope with stress.

The President also has established a seven-point agenda for lifetime learning that will help restore opportunity and hope for children from the time they are born.

As part of that agenda, this year's budget contains major new investments in Head Start -- with a new emphasis on quality, an expansion of the program to a full day and a full year where it's appropriate, and a new initiative geared to children from earliest infancy to age 3.

Because the President believes so strongly that children need a healthy start in life, his budget also includes a 15 percent increase in funding for WIC, despite extraordinary pressures in Congress to cut programs across the board.

Because the President believes that every child deserves to grow up in a safe environment -- and because he knows that metal detectors and security guards alone can't stem violence -- he has introduced safe schools legislation that emphasizes getting

weapons out of schools and also provides for programs that will teach youngsters to resolve differences without violence. That bill now awaits final action in a House-Senate conference.

Because the President believes that education is the foundation for success in careers as well as a training ground for good citizenship, he has introduced Goals 2000 legislation, which creates national education standards and gives local communities more flexibility in running their schools. And he has introduced a School-to-Work bill to help students integrate on-the-job training with classroom learning. We hope to see these measures signed into law within the next few months [both are in conference].

Perhaps most important of all, though, is that Congress now has an historic opportunity to pass health care reform legislation. Nothing could be more important to our children.

Today, nearly 10 million children under 18 have no health insurance -- and the rate is increasing. About 30 percent never receive childhood immunizations. Nearly half of today's private health plans don't pay for preventive services for children.

Today, children too often are the victims of a health care system that is broken.

The President's approach attempts to fix the system and give children the right start in life. And, despite what some opponents would have you believe, his approach is not that complicated. In fact, it's pretty simple.

It begins with the firm belief that every American deserves health security. That means guaranteed private insurance that offers comprehensive health benefits -- benefits that can never be taken away.

As the new CDF report shows, the number of children with health insurance declined from 64 percent to about 60 percent between 1987 and 1992. That's nearly 1 percent a year. In Ohio alone, where you are meeting, 224,000 children are uninsured.

That's why universal coverage is a must.

And so are comprehensive benefits. Benefits that do not run out ever in your lifetime. Benefits that include a full range of services, including prenatal care, well-baby exams, preventive and diagnostic tests, and childhood immunizations. And benefits that don't exclude people with pre-existing conditions or chronic illnesses -- a particularly important component of reform for parents whose children have serious health problems.

Under the President's approach, the comprehensive benefits

package is not an idle dream. It's spelled out in statute. It means that -- by law -- kids will get the care they need and their health will not be sacrificed whenever there's a budget crunch.

While most people agree that every citizen deserves access to quality, affordable health care, there has been considerable discussion about how such a system should be structured.

Well, there are only three options. First, we can have a government-sponsored program. Second, we can require individuals to purchase their own insurance. Or third, we can use what's called an employer-mandate, where employees and employers share the cost of premiums.

Today, nine out of 10 Americans with insurance get it through their employers. It's a system that works for most Americans. It doesn't require a major tax increase, as would a government-sponsored system. And it doesn't place the entire burden of paying for premiums on the individual, which could result with an individual mandate.

The President's approach is built around the employer-based system we use today, but it will be expanded so that all employers and employees participate and pay their fair share.

An employer mandate not only makes sense economically and administratively, it also makes sense when it comes to children. It guarantees hard-working parents that their employers can not ever drop coverage for them or their families.

While the President's approach makes employers responsible for paying for a portion of their health care premiums, it doesn't let employers decide which health plan employees should use. That choice is left to each individual, who can decide which doctor or health plan best suits their family's needs.

As child advocates know better than most, health problems are often rooted in social problems. So the President's proposal also targets specific services to high-risk communities and expands health education and counseling in the schools.

This is particularly important at a time when too many of our children are turning to drugs, alcohol and violence to escape the grim circumstances of their lives.

As CDF has so often reminded our government leaders, children are now besieged on three fronts: by gun violence, poverty, and neglect.

Your State of America's Children Yearbook for 1994 painted a tragic picture:

* 50,000 children have been killed by firearms between 1979 and 1991 -- nearly the same number of casualties our nation endured in the Vietnam War.

* The equivalent of a classroom full of children dies by gun violence every two days.

* And a child growing up in America today is 15 times more likely to be killed by gunfire than a child growing up in Northern Ireland.

Marian Edelman has described this tragedy by saying, "Our worst nightmares are coming true." Indeed, the crisis of children killing children is perhaps the most serious health crisis facing our nation today.

The President's proposal is not a panacea. It will not cure violence or eradicate hunger. But it is a huge first step. A step toward protecting and nurturing our nation's most precious resource -- our children.

Let's give America's children hope. Let's make them feel secure. Let's do the hard work now so that our children's futures will be bright.

As Thomas Paine said in 1776, "If there must be trouble, let it be in my day -- that my child may have peace."

Thank you very much.

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December 31, 1992

Ms Helen Blank, Senior Childcare Associate
Children's Defense Fund
25 E Street, NW
Washington, DC 20001

Dear Helen:

As promised in our meeting last month, I am enclosing a short paper detailing LISC's ideas on the development and financing of new Head Start facilities in low income communities.

As LISC has seen with our Child Care Facilities Demonstration Program in New York City, community development corporations (CDCs) are an excellent vehicle to meet the growing need for quality child care facilities in their neighborhoods. The relationships that CDCs have established with private lenders, local government, foundations and human service providers, uniquely position these organizations to address a range of human resource and economic development needs in low income neighborhoods. Moreover, CDCs have developed impressive sophistication in the finance and development of housing and commercial real estate; and child care facilities are a logical and appropriate expansion of this real estate activity.

We are excited about the proposed expansion of the Head Start program and the opportunity it provides for linkages between child care and the revitalization of distressed inner-city communities. We would welcome the opportunity to work with the Children's Defense Fund--through the provision of technical assistance, financing or policy and program development--in making those critical linkages. I'll call you in the next few weeks to follow up; in the meantime, if you'd like to discuss our ideas further, please feel free to call me.

Sincerely,

Carol Glazer

Carol Glazer
Vice President

HEAD START EXPANSION:
AN OPPORTUNITY FOR COMMUNITY DEVELOPMENT PARTNERSHIPS

by Local Initiatives Support Corporation
December, 1992

Introduction

This discussion paper outlines the recommendations of the Local Initiatives Support Corporation (LISC), a national, non-profit community development intermediary, on the creation of new Head Start and day care facilities in low income communities. The paper suggests that neighborhood based community development corporations (CDCs) are an excellent vehicle for the financing and construction of these facilities; we also discuss several financing approaches that officials responsible for implementing Head Start expansion may wish to consider as they investigate prospective regulatory and/or policy changes to encourage facilities development.

As development catalysts created by residents of low income communities, CDCs are in a unique position to make critical linkages between the Head Start and child care delivery systems and the economic and social revitalization of their neighborhoods. A proactive and flexible financing approach that encourages Head Start grantees to forge new partnerships in their communities will ensure that public funds are spent in the most cost-effective manner possible.

LISC's recommendations are based on our experience with the "Child Care Facilities Development Program," a demonstration now underway by LISC, a number CDCs in New York City, and the City's Human Resources Administration. This initiative will create up to eleven new child care facilities that will serve up to 900 children in buildings owned or controlled by neighborhood based, non-profit community development corporations. It is anticipated that the centers will provide full day care, and program operations will be funded by the City of New York's Agency for Child Development from a combination, or "wrap-around," of group day care subsidies and Head Start expansion funds. LISC will assemble project financing including debt from private lending institutions and public grants, including start up grants available through New York State and federal Head Start funds. *While this initiative is still unfolding, it is yielding promising strategies for facilities financing that we believe are applicable to the looming national facilities challenge facing the early childhood field.*

Strategies for Facility Financing

The current and anticipated expansion of Head Start challenges both federal officials and program grantees to translate programmatic funding increases into new resources for facility renovation and creation. Head Start grantees will have to look beyond traditional sources of space -- churches, public schools, community organizations (e.g. Boy's Club, YMCA), government buildings, and facilities owned by private landlords -- to absorb expanded program funding that could require as many as 20,000 additional classrooms. A more systematic and structured approach to facilities financing will be required. We believe that such an approach should have the following goals:

Goals

- Tap the real estate expertise, financing relationships and strong commitment of CDCs and other non-profit institutions as development partners for the Head Start grantees.

- Enhance the resource base for facilities development through the leveraging of debt and equity from a range of public and private sources:

  - Engage private financial institutions to lend in neighborhoods and for purposes where private investment opportunities have traditionally been limited, providing lenders with new ways to meet Community Reinvestment Act goals.

  - Engage foundations, community development intermediaries, churches, socially-motivated individuals and other private "social investors" in Head Start/day care lending.

- Encourage the creation of high quality child care facilities which can be operated efficiently and sustained over time.

- Foster new relationships among CDCs, Head Start grantees, banks, corporations and philanthropy, and local government to help rebuild the institutional infrastruc-

ture of low-income communities, and ensure the coordination of Head Start with other family- and community-based programs.

- Encourage collocation of Head Start with other human service programs so that combined rent streams from these programs can be used to support facility financing. In particular, seek opportunities to combine Head Start with facilities offering quality full-day child care for low-income working people.

About LISC

LISC was begun over 13 years ago with funding from the Ford Foundation and several other national foundations and corporations to provide financial and technical assistance to non-profit community development corporations. Since its inception, LISC (together with its affiliates, the National Equity Fund and the Local Initiatives Managed Assets Corporation) has been responsible for providing over 850 CDCs with nearly $650 million in financing for their projects, and assisted them in creating over 39,000 units of housing and 7.3 million feet of commercial space. LISC pools corporate and philanthropic resources to provide grants, loans, guarantees and equity investments to these CDCs. LISC also helps to broker additional resources from banks and other private and public sources. LISC presently operates in 30 local "Areas of Concentration" in cities ranging in size from New York to Kalamazoo, Michigan.

Traditionally, LISC's most prominent role has been as a "social investment banker", philanthropist and technical assistance provider to mature and emerging community development corporations. Just as importantly, LISC has served as a bridge between the public and private sectors -- both corporate and philanthropic -- and these neighborhood based community organizations. And that role as a "bridge" has slowly expanded, as the capacities of CDCs have expanded, to facilitate more than just the residential and commercial redevelopment of low income communities, but also the revitalization of their social infrastructure. *Among the most pressing issues on that agenda, consistently voiced by CDCs, is the need for expanded, quality child care and early education programs.*

About CDCs

Community Development Corporations (CDCs) emerged nearly three decades ago as vehicles through which communities organized themselves to reverse both visible and more subtle elements of decay. Typically formed in response to an immediate crisis, these groups developed highly sophisticated strategies to build and enhance physical, economic and social stability in their communities. These non-profit, community-based organizations have sprung up in scores of cities as a genuine grassroots movement which calls upon the strengths of community residents to find ways to rebuild their neighborhoods in the face of the flight of capital and the withdrawal of public services. It is estimated that there are now 2,000 community development corporations nationwide, which collectively have produced over 320,000 low income homes to house close to a million people and have developed hundreds of commercial properties in distressed neighborhoods. CDCs have also undertaken a broad range of human service enterprises because they recognize that the success of housing and economic development efforts depends on an adequate investment in human capital.

The CDC mission is rooted in the holistic development of communities by and for the residents of those communities. Locally directed, the CDC is best positioned for building successful partnerships among elected officials, government agencies, other non-profits, business concerns, and philanthropy. Its role is that of an intermediary whose alliances enhance residents' effectiveness in combatting the range of forces -- crumbling infrastructure, inadequate housing and commercial facilities, unemployment, crime and increasing drugs -- which have eroded its neighborhood. As producers of low-income housing and commercial structures, CDCs have also become full scale real estate developers, acquiring, constructing, rehabilitating, managing, and marketing thousands of properties for homeless, low, moderate, and middle income people.

CDCs -- Agents for Head Start Facilities Expansion

As important as housing is as a symbol of community renewal, CDCs know that it takes much more to create healthy communities. The need for neighborhood based services of all sorts -- from recreation programs for youth, preschool and after-school services, to social services -- is pressing, and development of facilities to house these services has lagged far behind housing development in many communities. For CDCs

this facilities and service gap is of immediate concern: they realize that the long term viability of the housing they manage and their neighborhoods requires the availability of these services. Many CDCs are incorporating planning for early childhood and Head Start programs into their neighborhood revitalization strategies.

Moreover, the missions of CDCs and Head Start can be mutually reinforcing. Philosophically and organizationally, both are committed to empowering low-income people. Because CDCs operate in distressed or low-income communities, their target areas are typically the same neighborhoods with high concentrations of working poor and AFDC families where the need for expanded day care and Head Start services is great.

As community based developers and property owners, CDCs can bring their skills to the task of facilities development by:

- Acting as a catalyst for assembling the public/private partnerships needed to meet the facilities challenge by building on their credibility with banks, foundations, financing intermediaries, private investors, local government and human service providers.

- Identifying and making available day care sites in properties under their ownership or control, undertaking site assembly by acquiring publicly or privately held property, and/or assembling properties owned by friendly institutions such as local churches, major employers, or other housing developers.

- Acting as developer of these sites, selecting and supervising architects and contractors, working with public and private sources of financing to secure and close construction financing, monitoring construction progress and insuring construction quality, delivering completed sites to a Head Start provider.

- Acting as responsible landlord, performing ongoing repairs and maintenance and assuring that the facility meets code and safety requirements.

In short, community development corporations offer sympathetic expertise to local Head Start programs looking to create new facilities to meet program expansion. Yet despite the growth in the number of CDCs throughout the country, not all communities

with a need for expanded Head Start services are served by effective CDCs. Thus, while the financing suggestions that follow can be employed by CDCs in partnership with private financial institutions, government and philanthropy, they also can be used by other community institutions with development expertise, such as those Head Start grantees with experience and interest in assuming a direct development role, settlement houses, churches, hospitals and social service agencies, and even perhaps for-profit developers, to fund the creation of new Head Start facilities.

Financing Structure

Historically, Head Start grantees have relied on donated or below market spaces for their programs, often using imputed rent as a major portion of the non-federal share. While this patchwork of donated church, public school, government and leased private space has accommodated Head Start in the past, this system cannot alone handle the anticipated major demand for new space. Therefore, several programmatic and funding elements need to be considered by Head Start program officials in order to effectively structure a system that promotes the efficient development and financing of facilities.

• ***Permit Higher Rents.***

As noted, a key goal of Head Start expansion should be to maximize the use of limited Head Start program funds, by attracting outside funding from other public and private sources. As with housing and real estate projects, developers of child care facilities will want to *leverage* Head Start resources by borrowing funds for capital costs. Thus for example, to construct a $100,000 facility a developer need not use $100,000 of Head Start funds; a facility's capital costs may be borrowed and the annual cost in Head Start program funds is merely the annual cost to service this debt. (Thus, for illustration purposes on a ten-year loan, the annual cost to Head Start would only be $10,000 plus interest costs).

If funds are borrowed to finance facility construction and/or major renovations to existing facilities, program operators will need to add to their current operating costs the annual debt service payments on borrowed funds. Therefore, rents higher than the current rent structure may be needed; and regional staff and others responsible for

funding Head Start will need to better understand facility costs in order to adjust allowable rents levels.

According to a recent survey of grantees, rent and occupancy costs currently average 6.8% of total Head Start program budgets, with rents ranging from 2 to 18%. (Head Start Facilities by Raymond C. Collins, NHSA, 1992, page 15). A four classroom program that serves 75 children at the national average cost of $3,400 per child/per year in each of two sessions, would currently thus pay less than $35,000 in annual rent expenses. If a newly renovated or constructed facility, which incorporated high quality design elements, were created and 75% of the costs of construction were financed with borrowed funds, then estimated rent costs would be $105,000 or approximately 21% of the program budget. (See Attachment I for an analysis of increased rent requirements.) The costs shown in this example will of course vary widely over regions. Costs also depend on whether a facility is newly constructed or a renovated structure and whether acquisition expenses are involved in development.

In summary, while it will be desirable to leverage debt from banks and other sources to create new facilities (Attachment I assumes that up to 75% of development costs can be obtained from a bank), the Head Start program budget would need to increase (in Attachment I, by nearly 14%) to support this debt. However, while rent costs will go up in the short term, this increased cost reflects a long term investment in the creation of quality facilities.

- ***Permit Multi-Year Appropriations.***

Not only would multi-year appropriations permit grantees to engage in more effective long term planning for program and facilities expansion, it would create opportunities for conventional borrowing.

Given the unique nature of Head Start facilities, and the difficulties that could be encountered finding another tenant for the space, conventional lenders may not view these facilities as they do conventional real estate loans --ie, they will look to another source of security, or "collateral", beyond the property. In order to secure a loan then, it may be necessary for Head Start grantees to provide evidence such as a contract for multi-year funding, at least sufficient to service debt. Moreover, if multi-year

appropriations cannot match the term of a project's financing, then lenders may require additional credit enhancements to secure repayment. For example, a three year program appropriation, paired with a four year loan guarantee, would secure seven year financing of a new Head Start facility by a conventional lender. Foundations, financing intermediaries such as LISC, and local governments could all be sources for such credit enhancement.

- ***Permit Head Start Appropriations to be used as Capital Grant Write-downs or Start-Up Costs.***

While Head Start funds are currently used to fund alterations and renovations, there appear to be broad regional differences in how much funding grantees are permitted to expend on capital costs, as well as statutory prohibitions against direct use of Head Start funds for new construction. Flexible policies that permit the use of program funds for a share of capital improvements will provide a predictable source of grants/equity for facility financing. If Head Start funding can provide significant cost write-downs, then debt expenses, and on-going rent payments to service debt, can be reduced and contained.

Head Start appropriations may also be needed during the start-up phase of a project before a facility has achieved 100% occupancy. Setting a portion of operating funds aside in a reserve account for operating deficits may, in fact, be a requirement of project lenders. Flexibility to use program funds for these necessary reserves would greatly enhance a project's ability to attract debt to finance construction.

- ***Encourage Full Day, Full Year Funding for Head Start Programs to Achieve Maximum Benefit from Capital Investment in New Facilities.***

The major new investment in facilities development that program expansion will require will be most cost effective if occupancy costs are spread over programs that use space efficiently. Thus, full day, full year Head Start programs would not only meet the important social policy goal of promoting parent self-sufficiency, they also would maximize the benefits of investment in new facilities. Facilities developed to be used all day, all year also provide opportunities to promote blending Head Start and day care funding streams.

Potential Sources of Financing

The above suggested changes to the current Head Start program would all facilitate the financing of classroom space. The following are brief descriptions of where such financing might be obtained:

- ***Conventional Bank Loans***

As noted earlier, the federal Community Reinvestment Act (CRA) requires that private financial institutions make loans to communities from which they draw deposits. A precedent-setting ruling by the Federal Reserve Bank of New York determined that lending for child care facilities is an appropriate, in fact desirable, activity through which local banks can meet their CRA obligations. Banks will likely respond to this by seeking out lending opportunities to child care facilities in low income communities.

Conventional lenders would undoubtedly underwrite the construction or rehabilitation of child care facilities much as they do business lending--i.e., they will make relatively short-term (five-to-seven-year) loans, secured by leases with program grantees. As indicated in Attachment I, we believe that it may be possible to secure up to 75% of a project's total development cost through a short-term loan from conventional financial institutions. The other 25% would be provided from grants from Head Start, Community Development Block Grant (see below) or other public funds. In some instances, foundations, corporations or religious institutions might also commit capital grants to projects.

A loan from a conventional bank would require a lease with a program grantee. Such leases can usually be financed without credit enhancement or third-party guarantees, but only if the term of the lease corresponds with the term of the loan and if there is evidence that program funding matches the lease term. Such a lease, would require multi-year appropriations of Head Start funds.

In order to induce a lender to provide a loan which extends beyond the term of a lease, credit enhancement will become necessary. (If, for example, a lease extends for a three-year term, and a seven-year loan is sought to finance construction, a lender will

look to a guarantee from a third party for the last four years of the loan). Sources of this kind of credit enhancement include foundations, community loan funds, and LISC.If credit enhancement became necessary, we believe that through our network of foundations, or perhaps LISC itself, a source for such an enhancement could be identified.

- *CDBG Section 108*

Another possible source of debt financing for the creation of Head Start facilities, particularly Head Start centers collocated with other compatible human service and child care services, is the Section 108 loan guarantee provision of the Community Development Block Grant (CDBG) program.

Section 108 provides CDBG entitlement jurisdictions with an efficient source of financing for housing rehabilitation, economic development, and large scale physical development projects. Under Section 108, jurisdictions can use up to five times their annual CDBG appropriation to guarantee federally issued public offerings. The proceeds from these U.S. Government Guaranteed notes are used by CDBG entitlement jurisdictions as loan funds for activities including the acquisition of real property the rehabilitation of publicly owned real property, housing rehabilitation, economic development activities, relocation, clearance, and site improvements, and the payment of interest on the guaranteed loan and issuance costs of public offerings. Because the "guarantee" is based on future years' CDBG appropriations and is only a guarantee, not a cash expenditure, Section 108 loans do not interfere with or supplant the jurisdictions' other programmatic uses of CDBG.

Section 108 requires an economic development purpose ("expanding economic opportunities principally for persons of low and moderate income"). For Head Start facilities, a persuasive argument could be made that Head Start grantees and child care providers are themselves employers of many people in low-income neighborhoods. In addition, the provision of Head Start and child care facilities in lower income neighborhoods enables many parents, particularly single heads of households, to obtain employment.

Section 108 loans would function exactly the same way as conventional bank loans--i.e., they would provide a portion of the financing for the facility development, with repayment from program income and a lease with a program grantee.

- *Social Services Block Grant (Title XX) Guarantee*

Comparable to the Section 108 provisions of the Community Development Block Grant, it would be worthwhile exploring using SSBG funds, nationally $2.9 billion distributed through state governments supporting a variety of human services activities, as guarantees for Head Start and other human service facility acquisition, site preparation, and construction. Conceptually, a state (or the federal government) could pledge future years SSBG funds as security for a federal or state guaranteed note, the proceeds from which could be used as loans for the development costs of Head Start facilities. The loans would be repaid from Head Start lease payments and the rent streams from other human services providers co-located with Head Start. Because Title XX covers more than Head Start or day care, it could accommodate supporting the creation of facilities with multiple human service users in addition to Head Start grantees.

- *Dedicated Loan Fund*

Over the last ten years, various special-purpose loan funds have been created to finance certain activities. Enterprise funds, minority entrepreneurs, women's business loans, and community loan funds to name a few have all succeeded at attracting social investment funding for lending to targeted constituencies. We believe such a loan fund could be raised to provide slightly below-market-rate loans to construct or renovate Head Start and child care facilities. Public pension funds and religious denominations are potential lenders to such a pool. A large scale pool might well require credit enhancement and again, we believe certain national foundations might be willing to provide all or part of the enhancement needed to attract substantial funding.

All of the above financing scenarios would require some amount of equity, ranging from 20-50% of the total development costs. This equity could come from grant funds, accelerated payment from Head Start contracts or from syndication proceeds if such facilities were eligible under the Low Income Housing Tax Credit (see below).

• *Low Income Housing Tax Credit*

The Low Income Housing Tax Credit provides corporate investors with a credit against their federal tax obligations for investment in qualified low-income housing projects. The credit, created in the 1986 Tax Reform Act, has become the primary vehicle for the financing of low income housing development throughout the country, and has been used to finance the construction of over 500,000 housing units in the last 6 years. While the Bush Administration vetoed the 1993 tax package which included the credit, the incoming Clinton Administration has pledged to reenact it.

A recent change in the tax credit proposed by LISC would encourage incorporating Head Start classrooms in tax-credit housing projects. This change would permit collocated community services space, such as Head Start classrooms, to be included in the tax credit eligible basis of low income housing projects. This change could generate private equity amounting to as much as 30-35% of the cost of constructing community services space.

ATTACHMENT I

HEAD START FACILITY FINANCING WORKSHEET

Estimated Facility Development Costs

Assume:	75	Children
	2	Half-day sessions
	100	Square feet per child (1)
	$70	Total Development Cost per square foot (2)
	7,500	Total facility square feet (3)
	$525,000	**Estimated Total facility cost**

Proposed Facility Financing (Occupancy Costs Including Debt Service)

Debt:	$393,750	75% debt
Equity (4):	131,250	25% equity (Head Start alteration & renovation grant)
Interest Rate:	8.00%	
Term of Loan:	7	Years
Debt Service:	$75,629	Amortization of principal & interest
Other Occupancy Cost	30,000	Estimate at $4.00 per SF (5)
		(includes heat, utilities, insur, etc)
Total Facilities Cost:	**$105,629**	**Annual Cost for first seven years**

Current Head Start Program Budget

	$3,400	Per child per year (6)
	150	Total Children Served
	$510,000	**Total Current Program Budget**

Current Rent Costs (7)	$34,680
Current % Rent of Program Budget	**6.80%**
Proposed Rent:	105,629
Proposed % Rent of Program Budget	**20.71%**

Required Increase:

$105,629	-	34,680	= 70,949
Increase as % of Total Program Costs			**13.91%**

Note 1) Minimum of 35 sf classroom space per child plus ancilliary spaces (offices, multi-purpose room, kitchens and common areas. Play area space at 75 sf per child is not included.

Note 2) Blends current new construction and rehabilitation estimates for New York City and reduces costs by 1/3 (because New York City is a high cost area.) Assumes expense includes a modest renovation of outdoor space.

Note 3) Four classrooms, excludes play area.

Note 4) Equity could come from Head Start alteration & renovation grant, syndication proceeds, or other sources such as state child care/Head Start grants programs.

Note 5) Estimated base rent costs could vary widely over regions.

Note 6) The national average for 1/2 day program 9 months per year. In urban settings this cost can be much higher.

Note 7) from Head Start Facilities Report prepared by Ray Collins for NHSA. 1992, page 15.

Children's Defense Fund

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Testimony of the Children's Defense Fund

Committee on Labor and Human Resources

SUBCOMMITTEE ON CHILDREN, FAMILY, DRUGS

AND ALCOHOLISM

Written by:

Helen Blank
Senior Child Care Associate
CHILDREN'S DEFENSE FUND

March 9, 1990

The Children's Defense Fund appreciates the opportunity to submit testimony concerning Head Start. CDF is a privately-supported public charity that advocates for the interests of low-income children.

Since Head Start begin in 1965, it has remained one of the few programs that comprehensively addresses the needs of children and families. Head Start's approach to helping low-income children and families is grounded in common sense. If children are provided breakfast and enough to eat during the rest of the day, they will be better able to concentrate in school and generally, will be more likely to thrive. Children who receive regular health care will have better attendance records, more energy, heightened attention when they are in class, and improved performance on these measures through their school careers. With special help, parents who are trapped in poverty can become partners in their children's learning experiences and take steps toward self-sufficiency themselves. Low-income communities can be strengthened when given the opportunity to shape and run their own programs.

Head Start now enjoys tremendous support throughout America. It has been hailed by President Bush as a program "near and dear to all of us... that will help make sure that our kids are ready to learn the very first day they walk into the classroom." Former Presidents Carter and Ford, in their joint recommendations for the incoming Bush Administration in early 1989, called Head Start "a model that works," and urged expanded funding for the

program.

Recognizing that the dwindling size of the future work force makes it all the more important for every American youngster to get off to a strong start, the business-led Committee for Economic Development (CED) recommends that the nation expand Head Start until every eligible child has a chance to participate.

Despite this heightened recognition of the critical need for comprehensive high quality programs, the federal government has failed to build upon Head Start's impressive record of success by expanding the size of the program to serve the growing number of poor children and families. Due to a nearly 100 percent increase in the cost of living since 1978, as well as an increase in the number of poor three-to five-year olds (from 1.5 million in 1978 to 2.4 million in 1988), the $500 million increase proposed by President Bush for FY 1991 still will leave Head Start with fewer inflation-adjusted dollars per poor child than in 1978.

The reauthorization of Head Start this year coincides with the program's 25th anniversary. It presents a unique opportunity to offer a Head Start experience to every eligible child. Equally important, it provides an opportunity to bolster the quality of Head Start in ways that have been urged repeatedly by policymakers and early childhood development experts over the past decade. If Head Start is to remain an effective program that meets the needs of children and families in the 1990's warning signals about the federal government's failure to preserve program quality -- raised by a blue-ribbon commission

that reviewed Head Start at the beginning of the 1980s, by a similar group convened by the Children's Defense Fund in the mid-1980s, and once again by the Silver Ribbon Panel convened to re-examine Head Start as it enters the 1990s -- must finally be heeded.

The Changing Needs of Head Start Families

Head Start must continue to respond to the changing needs of its families. When Head Start was initiated in 1965, few women worked outside the home, making a part-day program a sensible approach to meeting the needs of low-income families and children. In 1980, the blue ribbon commission's report, Head Start in the 1980's: A Report Requested by the U.S. President, highlighted the changing demographics and its impact on Head Start families:

> "Budgetary constraints have not only limited Head Start's ability to serve more eligible children; they have also prevented Head Start from keeping pace with the changing characteristics of the target population. At a time when demand for services for children from the prenatal period through age three is escalating rapidly, the basic Head Start program continues to focus on children ages three to five. It is not that Head Start lacks the knowledge or the expertise to reach out to younger children. On the contrary, Head Start's experimental initiatives not only demonstrate the program's effectiveness in working with infants and toddlers and their parents; they also demonstrate the vital importance of beginning service to children at this younger age."
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> "Similarly, due primarily to budgetary constraints, Head Start services have not been able to keep pace with the increase in single-parent and two-parent working families. Full-day Head Start programs have declined from about one-third of the participating programs in 1972 to about 15 percent in 1979. In other words, Head Start has been moving

away from meeting the day care needs of the working poor at the very time that the labor force participation of women with preschool children has been increasingly rapidly."

Between 1980 and 1987, when the Children's Defense Fund convened a group of Head Start experts to review the program and recommend new directions, the need for services to younger children and for full-day programs had mushroomed, and families in poverty needed a more intensive set of services. Programs are facing new challenges as the Head Start parent population is shifting to include a greater number of working parents, single parents, younger parents, and substance-abusing and homeless parents. There also is a general perception among program directors that more families include three generations in one home, making it more difficult to define and encourage parental responsibility.

The changing nature of Head Start families also was noted by the U.S. Department of Health and Human Services (HHS) in a 1989 Commissioner's Task force Report on Social Services in Head Start:

> "The National Head Start Bureau, Regional office staff, and especially local programs have become acutely aware of the changing needs of the families in the Head Start community. In a 1987 report from the Office of the Inspector General, it was noted that Head Start programs nation-wide were recruiting and serving many of the neediest of the needy families. With this influx of multiple problem families... programs are being faced with more severely affected families."

What are the implications of families' changing needs on Head Start? For one, programs must intervene early and retain the flexibility built into Head Start which allows them to design

their services to meet the needs of families in their community. Lisbeth Schorr, author of Within Our Reach: Breaking the Cycle of the Disadvantaged, examined successful approaches to working with low-income families. She found that effective programs are comprehensive and intensive, design their services to fit the distinctive needs of those at risk, and intervene at early ages when possible. Other research on family support programs indicates that both comprehensive services and early intervention are key to helping poor families.

How has the Bush Administration responded to clear evidence that poor children need intensive services and that they need them early? Instead of widening their vision, they have worked to narrow the scope of Head Start, seeking to limit the program's services to four-year-olds. Early this year, HHS issued program guidelines to give priority for expansion funds to four-year-olds, an apparent violation of Head Start legislation. In 1986, as a result of pressure from Congress and the Head Start community, the Reagan Administration retreated from similar plans to issue regulations that would have narrowed the program's focus.

The Need to Strengthen Program Quality

The need to strengthen the quality of Head Start is a pressing issue that has been ignored for many years. Head Start in the 1980's identified the quality of Head Start as the first priority for attention:

"Based on our review of Head Start and the challenges facing the program in the 1980's, our first priority is to protect Head Start's quality, which has always been the program's hallmark. Head Start personnel must receive cost-of-living increases, salary incentives and employee benefits comparable to those of personnel performing similar tasks in the community. As another quality control measure, more emphasis should be placed on program and managerial resources.

"Inflation is also worsening Head Start salaries. Head Start teachers receive an average salary of $6,865 a year, with a very high percentage receiving minimum wage. In 1972 Head Start turnover was 15 percent annually; at present it is estimated in excess of 20 percent. Nationwide, a FY 1980 study of the turnover among Head Start directors revealed that one-third leave annually (Impact of Inflation Memorandum, 1980). Excessive staff turnover not only disrupts the child's continuity of care; it also increases staff training costs, since newly trained staff frequently leave for better paying jobs.

"Finally, inflation has greatly increased the cost of transporting children to and from the Head Start center. Transportation costs are further escalated by the implementation of higher safety standards at the state level, and the inclusion of handicapped children who have special transportation needs. To offset these rising transportation costs, some grantees are narrowing the geographic area which they serve. As a result, some of the rural and isolated families who most need Head Start are excluded from the program."

Despite these warnings of deteriorating program quality, Head Start grantees during the 1980s repeatedly were pressured to spread their federal dollars too thinly, maintaining or modestly expanding enrollments at the expense of salaries, training, adequate transportation and other essential program improvements. The cost per child in Head Start today is less in real dollars than it was in 1977.

Low Salaries Plague Programs

Head Start programs across the country report that because of the low salaries that they must pay, they cannot find qualified staff to fill either classroom, support staff, or administrative positions. Children suffer as a result. In some cases, fewer children can be served because teachers cannot be hired. A high turnover means that the children enrolled in Head Start, who often have a great deal of uncertainty in their lives, must readjust to a continuous stream of caregivers.

Today low salaries and inadequate, if any, benefits are an even greater threat to program quality than they were a decade ago. Programs must now compete with a growing number of public school-based, state funded preschool programs which offer higher salaries and benefits.

A 1988 study conducted by the Administration for Children, Youth and Families revealed that 47 percent of Head Start teachers earn less than $10,000 a year, with average salaries in the range of $12,900 annually. The same study also indicated that a beginning Head Start teacher with a Bachelor's Degree in Early Childhood earns 63 percent of the average salary paid for comparable positions in public school kindergartens. Similarly, CDF found that the entry wage for a public school teacher in Providence, Rhode Island in 1987 was $17,500, whereas a Head Start teacher with a B.A. started at $9,000 a year and could only reach a maximum annual salary of $12,000 a year.

Many Head Start programs also do not offer adequate employee benefits, including health insurance and retirement plans. Those that have attempted to do so face soaring increases in the cost of such benefits. Programs report increases of 80 to 129 percent over the span of a few years. Some have been forced to change insurance companies opting for less health and dental coverage.

Low salaries and poor benefits also make it difficult to recruit the support staff which are so essential to helping Head Start families. For example, a Patterson, New Jersey program has advertised for a Health Coordinator since August, 1989 without receiving a single application because the salary offered is at least $8,000 lower than that offered for comparable work at other institutions. Head Start directors frequently worry about losing nutritionists and other specialists to higher paying jobs, knowing that they will not be able to find equally competent replacements at current salary levels.

Support Staff Carry too Heavy a Caseload

Many current support staff are being asked to carry extraordinarily high caseloads of multi-problem families, often with little if any training. Important Head Start positions in health, parent involvement, and social services have been combined or caseloads have been increased to meet budget constraints. Nationwide, according to ACYF, 71 percent of Head Start programs had social service caseloads greater than 60:1 in contrast to a recommended caseload of 35:1. One in six Head

Start grantees lacked a full-time social service coordinator and the same proportion lacked a full-time Parent Involvement Coordinator.

The need for additional support to families was recognized by the panel of Head Start experts convened by CDF in 1987. They recommend that ACYF develop a staff-child ratio for both parent involvement staff and social services staff, and allow local programs the flexibility to increase their parent involvement staff when parents experience a greater number of problems. Most importantly, they recommended that local programs be allowed greater flexibility in the cost they spend per child because the need for support services had intensified with the growing number of severe problems such as substance abuse and homelessness.

Staff Training Efforts Fall Far Short of Need

Frequent turnover, exacerbated by low salaries in Head Start programs has increased the importance of staff training. Training is widely recognized by child development experts as the single most critical determinant of a high-quality early childhood program. The link between quality and training is especially significant to Head Start because of its unique employment strategy which provides work opportunities to parents and others in the local community. In 1989, almost 36 percent of staff were parents of current or former Head Start children, with an additional 443,000 parents providing volunteer services to local programs.

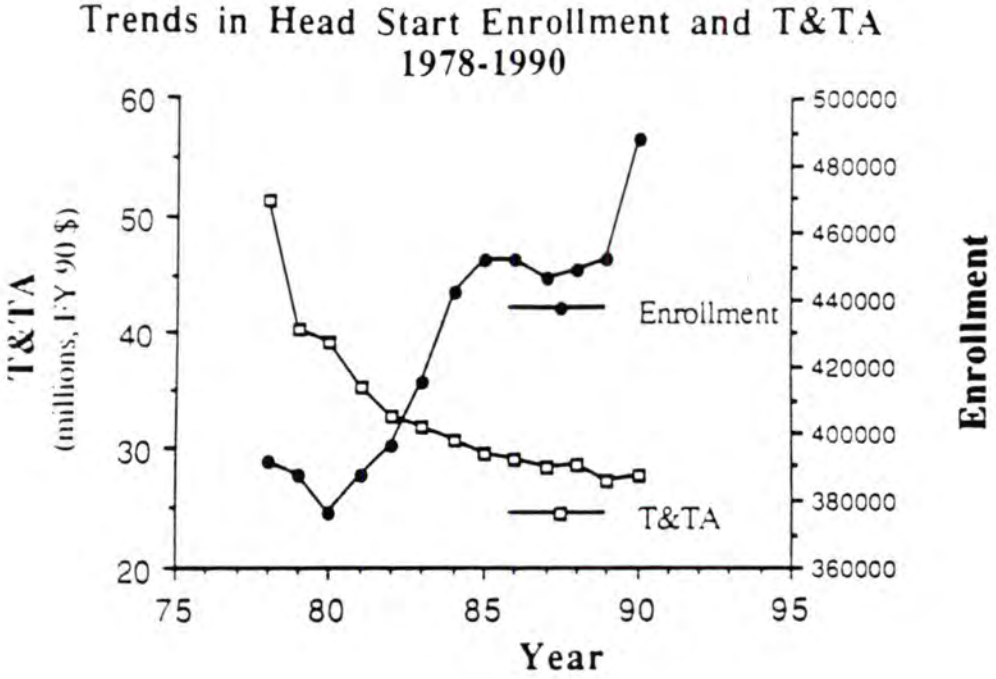
Through Resource Access Projects, Head Start training and technical assistance funds provide special services to teachers and other staff working with handicapped students, who currently comprise 13.5 percent of Head Start children. Appropriate training experiences also provide teachers and administrators with the special skills necessary to provide high quality services in bilingual and multicultural classrooms, as well as to the migrant and American Indian programs.

The U.S. Department of Health and Human Services has recognized the importance of trained teachers and issued proposed regulations which would require that every classroom have at least one teacher with at least a Child Development Associate (CDA) credential by 1992. Even with no program expansion beyond that proposed by President Bush, approximately $23 million in new training dollars will be needed just to enable Head Start programs to meet this new requirement. While the CDA strategy is important, staff also must have access to training opportunities beyond this competency based credential. Head Start staff seeking to improve their skills by earning two or four year early childhood development degrees should be able to receive help through Head Start.

Training of support staff is as critical as training of classroom teachers. These Head Start staff must work with a dramatically increasing number of troubled children and families. One Head Start program estimates that the number of abused children in their program has doubled in recent years, that at

least 45 percent of their children require special services, and that at least 50 percent of their families are affected by alcohol and substance abuse. Because of the intense needs of their children and their families, Head Start needs qualified and experienced staff who receive on-going training and support from mental-health coordinators and skilled social service directors. Highly specialized training must be available for teachers and support staff working with homeless children, HIV positive children, abused children, as well as children at risk of developmental delay. Yet, little attention has been devoted to the need for adequate training of social service, health and mental health care providers, and staff skilled at involving parents.

Lisbeth Schorr stresses that in successful programs staff have the time, training and skills to build relationships of trust and respect with children and families. Over the past decade, the federal government's response to the need for improved training opportunities for Head Start staff has been dismal. While Head Start enrollment has increased by 25 percent since 1978, training and technical assistance funds have decreased by almost half. Training and technical assistance funds for teachers of handicapped children have shown a similar pattern. In 1989, Head Start served approximately 20,000 more handicapped children than in 1978, while funding for the Resource Access Projects, which provide training to teachers of handicapped children, have decreased by 23 percent.



Another serious problem which affects the quality of Head Start programs is the shortage of adequate facilities. Many Head Start programs operate in facilities that are inappropriate for early childhood programs, and in some cases unsafe. As the need for child care has grown, many churches have opened their own child care facilities in spaces that once housed Head Start programs. In addition, the growth of state-funded preschool programs, many of them located in the public schools, also has eliminated space that was previously used by Head Start agencies.

Head Start administrators spend much of their time just "keeping a roof over our heads." Classrooms are moved frequently, sometimes twice in one year often after costly renovations have been made. Directors report facilities that are

in jeopardy of being condemned, ceilings that are caving in and walls, floors, or heating systems that need replacement. A Washington, D.C. program recently closed a facility located in a public housing project because they could not afford to make repairs. The Mississippi Head Start Director's Association has estimated that 25 percent of the facilities used by Head Start programs in the state should be replaced.

1990 is the Year to Signal a New Direction for Head Start

S. 2229 as introduced by Sentors Dodd and Kennedy, in combination with S. 5, which increases funds for child care for children so that they could receive full-day, full-year child care services, offers a significant opportunity to address the needs of Head Start families and to strengthen program quality. The bill's funding levels would allow all eligible three- and four-year-olds as well as some five-year-olds to participate in Head Start by FY 1994. It also preserves the flexibility for programs to reach down and serve younger children as needed. The quality improvements set-aside will finally insure a more reasonable balance between expansion and maintaining a strong program for children and families. Given the positive impact of a high quality early childhood program on the lives of low-income children, expansion and quality are equally important. We urge the Committee to maintain the funding levels and the quality improvement set-aside in S. 2229 as the bill moves through the mark-up process.

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1993: Our 20th Anniversary Year!

CDF Reports

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Head Start moves into the 1990s

"Head Start began as a demonstration. It still is, and I hope it will be forever." That's how Arvern Moore, former Head Start parent, current executive director of one of the nation's largest Head Start programs, and president of the National Head Start Association (NHSA), sums up the unique early childhood program that has changed the lives of millions of children and families.

From its beginning in the summer of 1965, Head Start broke new ground, taking an approach to early education that was very different from the common practice of the day:

Instead of concentrating just on improving children's basic skills — as important as that is — Head Start also made sure the children were healthy and well-fed, giving them health checkups and treatment and feeding them a nutritious hot meal every day.

Photo © Rick Reinhard

Instead of focusing only on the child, Head Start focused on the whole family, making sure parents received help with a wide range of family needs, from housing to employment to parenting education.

And instead of relying completely on teachers and other professionals to staff and run the programs, Head Start trained parents to help in the classrooms and asked parents to help administer the programs.

Head Start kept on innovating throughout the 1970s. To meet the growing need for trained classroom teachers, Head Start initiated the Child Development Associate program, which allowed parents and others without a college degree to work toward a competency-based credential for teaching in early childhood programs. And Head Start developed the Home Start program, which makes home-based services available to homebound children and children in rural areas.

Intensified need for services

In the past decade, the challenge to innovate has intensified as economic and social changes have placed more and more young children in jeopardy. Today, 55 percent of Head Start children live with a single parent, often a very young mother. Many Head Start children grow up in violent, drug-infested neighborhoods; some are homeless, and a significant number live with a parent who has a drug problem.

NHSA President Moore, who heads the Institute of Community Services, the Head Start grantee in Holly Springs, Mississippi, says he senses more hopelessness today than 25 years ago among the families Head Start serves. In his area, he says, more jobs were available in the early days, even though they weren't good-paying jobs. And fewer children had severe emotional disturbances.

Karen Brown, with 22 years' experience as a Head Start teacher in York, Pennsylvania, says she too sees many more fragile families and more children who require a lot of special attention. "I have parents with no parenting skills at all," says Brown (see story, page 5).

Recently Brown's classroom has included several four-year-olds who had been so severely neglected that they couldn't talk and were still in diapers when they arrived at Head Start. It took a year before one little boy began to speak, says Brown. Another child, whose mother had been sent to prison, seemed to be in such emotional pain that "it was like he was losing his mind," says Brown. "I don't know what would happen to some of these children without Head Start," she says.

Faced with these realities, almost every Head Start director feels pressed to provide more family support services. Helen Taylor, who heads a Head Start agency

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