INVESTING IN THE FUTURE

CHILD CARE FINANCING OPTIONS FOR THE PUBLIC AND PRIVATE SECTORS

Child Care Action Campaign • Center for Policy Alternatives

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A Joint Publication by
the Child Care Action Campaign and
the Center for Policy Alternatives

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About the Child Care Action Campaign:

The Child Care Action Campaign (CCAC), formed in 1983, is a national coalition of leaders from a wide range of American institutions: the media, government, corporations, unions, women's groups, academia. Our overall mission is to stimulate and support the development of policies and programs that will increase the availability of quality, affordable child care for the benefit of children, their families and the economic well-being of the nation.

To accomplish this, CCAC provides information and original research to the public, government and corporate policymakers about the needs of families with children, and the connection between these needs and national prosperity.
We also advocate for additional investments in child care by employers, labor, and federal, state and local governments.

CCAC welcomes individuals and organizations who share our goals to become members of the organization.

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The Center for Policy Alternatives (CPA) is a non-profit center for progressive policy for state and local government. Since 1975, the Center has provided policy models, direct technical assistance and a broad range of publications for government officials and the public. Current programs focus on public capital, democratic participation, economic development, the environment, family and work, sustainable agriculture and women's economic justice.

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EXECUTIVE SUMMARY

American children live in a world drastically different from the one in which their parents were raised. Sweeping changes in the American economy, in the makeup of the labor force, and in family structure have altered both the family and the workplace, and have changed the way society must respond to family needs.

Our response to these changes has been slow. Families have been left to struggle on their own to balance work and family demands with the needs of their children. The supply of child care is inadequate, especially for school-age children and for infants. Even in those areas of the country where quality care is available, many parents cannot afford to pay the full fees for such care.

Public officials and corporate leaders have begun to look for ways to expand and improve child care both to improve the quality of life in their communities and to serve the needs of their employees. Child care has moved from an exclusively private concern to a public issue. The overriding question remains: "Where will the money come from to expand and improve child care programs?"

In November 1990, the Child Care Action Campaign and the Center for Policy Alternatives held a Financing Roundtable in New York City. Attending the Roundtable were leading experts in public finance, housing, health care, higher education, business and child care. Experts discussed financing strategies that have worked in their areas and explored the feasibility of adapting these strategies to child care.

Investing In The Future: Child Care Financing Options For The Public And Private Sectors presents a summary of the ideas generated at the roundtable along with an array of case studies that highlight alternative child care financing strategies through both public and private initiatives in communities throughout the country.

RECOMMENDATIONS

The following recommendations outline steps state government, the private sector, and the child care community can take to help improve child care in their communities.

Options for State Government

States have a wide variety of options for improving the supply and quality of affordable child care. By properly targeting their resources, states can be an important catalyst for private sector initiatives. By designing programs that leverage taxpayer dollars with private investment, states can create new cost-effective approaches. State policymakers could:

1. Take A Leadership Role

• Establish a task force of government officials, business leaders, child care professionals and advocates to assess the child care problems in their state and recommend financing strategies to solve them.

• Create legislative initiatives to encourage the participation of the private sector in child care, and encourage the private sector to use one or more of the financing mechanisms identified in our report to invest in quality child care.

• Create a state office to coordinate child care delivery or enhance the capacity of an existing agency -- such as a statewide Resource and Referral Agency or an office in a state department or in the Governor's Office.

The office should serve as a clearinghouse, providing the child care community, government and the private sector with information on the availability, affordability and demand for child care, and on the availability of government money for child care -- to make such funds easier to tap. Additionally, this office should provide a forum for communication among the private sector, government and child care community.

• Streamline child care licensing and regulatory policy to facilitate the expansion and improvement of child care services. For example, make regulations for child care consistent with building codes.

• Evaluate the possible coordination of child care programs and facility development with existing child care programs and current housing, education and health care policies, programs and funding.

• Use federal funding from the 1990 Child Care Development Block Grant to assess and improve state programs and policies related to child care.

2. Create Initiatives To Encourage Private Investment

• Maintain and increase state subsidies to help parents pay for care. This will ensure that all families can get the services they need. It will also have the effect of stabilizing providers' income and making them eligible for others forms of investment.

• Provide grants and/or loans for child care providers.

• Issue bonds to finance grant and loan programs and encourage the bundling of child care services with larger capital development projects, such as hospitals or schools.

• Provide outreach to and educate employers about the benefits of investing in child care services.

• Make child care start-up construction and renovation funding available to employers.

• Create employer tax credits for businesses that establish or subsidize child care facilities.

• Encourage real estate developers to construct and/or subsidize child care facilities through linkage legislation and bonuses.

• Evaluate the possibility of creating a child care trust fund with public and private contributions.

• Use small business programs, especially those targeting women business owners, to help support small-scale child care providers.

• Become a model employer by providing child care options for public employees.

3. Enhance Private Sector Lending

• Develop specific state Community Reinvestment Act (CRA) standards that make child care a priority and include participation in a child care lending consortium as an activity falling within state CRA guidelines.

• Implement linked-deposit programs that reward investment in child care.

• Support community-lending programs by developing long-term loan programs, loan guarantees and other risk-sharing programs for the construction and/or renovation of child care facilities. This would include reevaluating state programs to ensure that they are compatible with private financing and address financial needs not covered by federal subsidy programs, such as Title XX, Child Care Block Grant funds, and Title IV-A "At-Risk Child Care" funds.

• Explore the use of public pension funds by creating and investing in a secondary market for child care loans.

Options for Private Action

Private sector initiatives are another important part of a community's approach to addressing its child care needs. Groups within the private sector such as employers, real estate developers, lending institutions and community development corporations are finding that investing in child care can be a good business decision. We've outlined the ways a variety of private groups can get involved in child care finance:

1. Banks

• Recognize the community reinvestment potential in child care.

• Examine alternative lending strategies for child care such as:
  - training special loan officers within the commercial loan division
  - creating a bank-held Community Development Corporation
  - working through independent Community Development Corporations
  - participating in public/private loan consortia

2. Real Estate Developers

- Include child care in commercial and residential developments.

3. Community Development Corporations

- Incorporate child care facilities in housing developments.

- Incorporate child care career development in their job training programs.

- Institute wrap-around Head Start programs.

4. Intermediaries

- Package state subsidies with private loan funds for providers.

5. Employers

- Provide a direct child care service in the form of an on- or near-site child care center, a consortium center, or a family child care home.

- Direct supply building resources to the communities in which employees live and work. Work with the local child care community and invest money in child care facilities, Resource and Referral agencies, provider training and initiatives to improve quality, affordability and/or supply of child care.

- Add business dollars to Dependent Care Assistance Plans.

Options for the Child Care Community

Providers of care, child care advocates and Resource and Referral agencies too have a role to play in improving the financing of child care. The child care community can:

- Learn to work with the private sector and the government to form partnerships.

- Advocate for legislative action to direct greater private sector investment into child care facility development.

INVESTING IN THE FUTURE: CHILD CARE POLICY OPTIONS FOR THE PUBLIC AND PRIVATE SECTORS

I. INTRODUCTION

American children live in a world drastically different from the one in which their parents were raised. Sweeping changes in the American economy, in the makeup of the labor force and in family structure have altered both the family and the workplace, and have changed the way society must respond to family needs.

Our response to these changes has been slow. Families have been left to struggle on their own to balance work and family demands with the needs of their children, and, increasingly, their elderly parents. The supply of child care is inadequate, especially for school-age children and for infants. Even in those areas of the country where quality care is available, many parents cannot afford to pay the full fees for such care.

Public officials and corporate leaders have begun to look for ways to expand and improve child care both to improve the quality of life in their communities and to serve the needs of their employees. Child care has moved from an exclusively private concern to a public issue. The overriding question remains: "Where will the money come from to expand and improve child care programs?"

The Reason For This Report

The Child Care Action Campaign (CCAC) and the Center for Policy Alternatives (CPA) have been actively involved in the search for ways to increase public and private investments in child care. Since 1989, the Child Care Action Campaign has examined creative financing strategies such as employer tax credits, real estate developer initiatives, grants and loans, and public/private partnerships. The Center for Policy Alternatives, too has looked at how the private sector, and banks in particular, can channel money to child care providers. [See Bibliography, page 61, for a list of reports issued by both organizations that deal with these topics].

Investing In The Future: Child Care Financing Options For The Public And Private Sectors is a direct result of a Child Care Financing Roundtable that was co-sponsored on November 28th, 1990, in New York City. At the roundtable, financial specialists [see Appendix II, page 57 for a complete list of the attendees] from a variety of backgrounds, including municipal finance, banking, higher education, health care, housing and child care, discussed successful financing strategies in their fields and explored the feasibility of adapting these strategies to child care. This policy brief presents a summary of the ideas discussed at the roundtable.

II. FINANCING CHILD CARE

Child care is the adult, non-parental, supervision of preschool children, and of school-age children during the non-school hours. Today, more children than ever before are spending significant parts of their days in a child care center or family child care home. [See Chart 1 and 2, page 4].

The Parent's Perspective

What parents can pay primarily determines the kind of child care arrangement they can make. Child care is not affordable to many families. On average, child care consumes approximately 10% of a family's budget.[1] Poor families pay substantially more -- over 20%, and other studies have found that some families are paying close to 50% of their income on child care.[2]

The price that parents pay depends on the type of arrangement, age of the child, geographic location and the number of hours in care. Typically, the younger the child and the more urban the location, the higher the price. A national study of care for three year olds in for-profit centers found the average weekly price for child care to be $95 in New York City, $109 in Boston, $87 in Washington D.C. and $50 in Little Rock, Arkansas.[3] Data from the 1990 National Child Care Survey shows that parents of children under five living in urban areas are spending, on average, $65.79 a week. Parents in rural areas, who spend an average of $46.64 a week.[4] Data from the 1989

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1 Garment Industry Development Corporation. "A Child Care Study of the New York City Garment Industry." Prepared for the New York City Department of Business Services, New York: NY, November, 1991.

2 Garment Industry Development Corporation. "A Child Care Study of the New York City Garment Industry." Prepared for the New York City Department of Business Services, New York: NY, November, 1991.

3 Based on a three-year old who spends 40 hours a week in a for-profit child care center. Data from Runsheimer International, Rochester, Wisconsin, 1990.

4 Hofferth, Sandra L., April Brayfield, Sharon Deich, and Pamela Holcomb, "National Child Care Survey", A National Association for the Education of Young Children Study, Urban Institute Report 91-5, The Urban Institute Press, Washington, DC, 1991.

National Child Care Staffing Study indicate that these prices enable parents to purchase barely adequate quality while the child care staff are seriously underpaid."[5]

Nationally, shortages of infant, toddler, before-and after-school programs and care for mildly ill and disabled children are acute -- and the nature of these shortages vary by community. However, current research reveals that poor quality and affordability are central to today's child care crisis. No national regulations exist to monitor the provision of child care. Licensing of child care staff and in-home providers varies from state to state, as do standards for programming content, and child health and safety.

5 Whitebook, M., Howes, C., Philips, D. "Who Cares? Child Care Teachers and the Quality of Care in America". Child Care Employee Project, Oakland: CA, 1989.

Chart 1

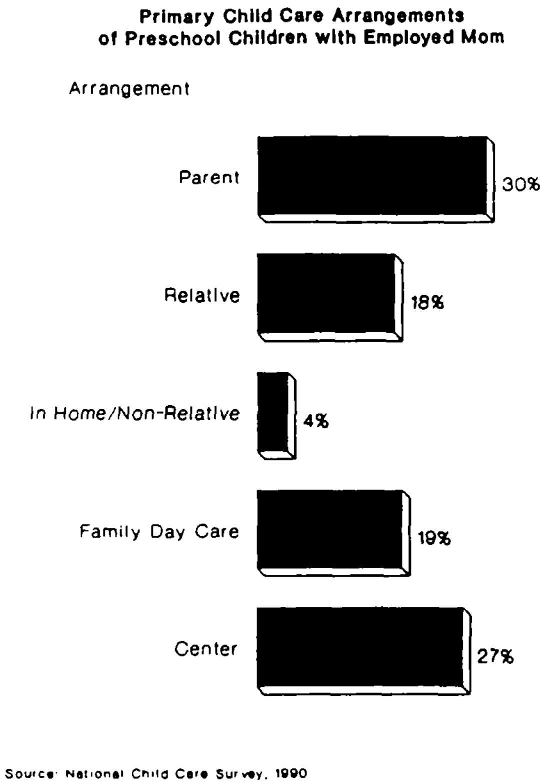
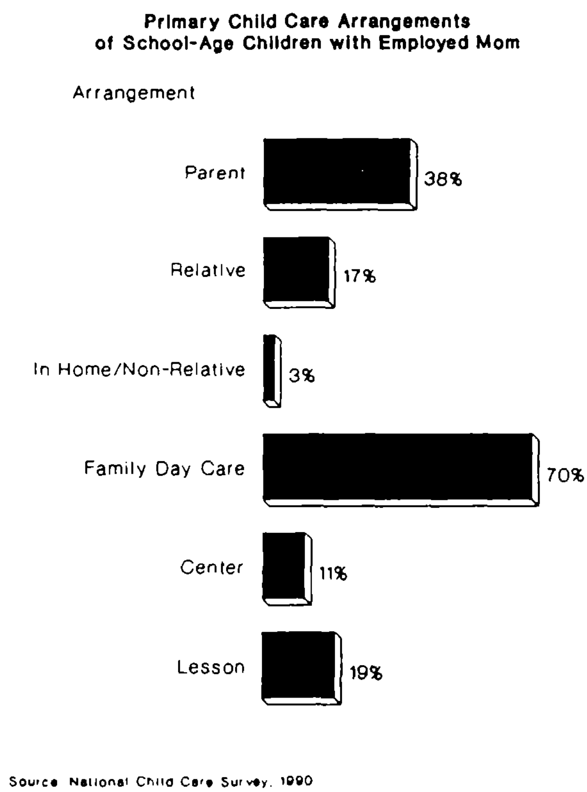


Chart 2



Center and Family Child Care Home Costs

Child care centers -- facilities in which large groups of children receive care -- and family child care homes, homes in which providers care for a small number of children (typically under six) -- are the two common market-based forms of care. Both center-based and family child care home providers need start-up and operating dollars to run their business.

Centers need money for start-up or capital costs to pay for construction and/or renovation of a facility. Operating costs for centers consist of such ongoing business expenses as salaries, utilities and maintenance. Table 3 page 9 lists both common start-up and operating expenses for child care centers; and Table 4, page 10 lists expenses for family child care providers.

On-going operating expenses are an even bigger problem because parent fees often do not cover costs. For a typical center they may range from $50 to over $200 a week per child. For a family child care provider, operating expenses per child may range from $20 to $200 a week, depending on the region of the country and the quality of the program.[6]

According to Kathy Modigliani, director of the Family Child Care Project at Wheelock College, a family child care provider's start-up costs may range from practically nothing to $1,000 while operating costs per child could range anywhere from $20 to $200 a week.[7] "Although $20 a week is a very low amount, there are providers, particularly in the south, that charge this fee. Typically, when the provider spends more per child, it is most likely because the provider is spending more on quality....purchasing new equipment or improving some aspect of care," says Ms. Modigliani.

Center operators and family child care home providers alike have had difficulty finding the start-up monies to create new programs or to improve existing ones. Both types of providers find conventional financing difficult to obtain. Even if they are able to obtain such financing, the cost of amortizing the debt adds to the already high cost of operating the program.

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6 Unpublished state data collected by the Child Care Action Campaign in 1990.

7 Interview, March, 1992, Kathy Modigliani, Director Family Child Care Project, Wheelock College, Boston, Massachusetts.

The True Cost of Care

The true cost of providing quality care is greater than the fees most parents pay. In part, the costs are dependent on state regulations, which typically include staff supervision, the most expensive part of the operation.

The National Association for the Education of Young Children (NAEYC) reports that the average annual cost per child in NAEYC accredited centers, (which maintain high staff/child ratios and provide the type of program that the field associates with quality) is $4,070.[8] However, if staff salaries were to be raised to a level comparable to other professionals with similar training and responsibilities, such as school teachers, the annual cost of providing such care would approach $8,425 per child.[9] In effect, child care workers are subsidizing the relatively low cost of care.

Nancy Kolben, deputy director of Child Care Inc., a New York City Resource and Referral agency, warns, "The full cost of providing such quality care in some urban areas is even higher than the $4,070 stated by NAEYC. In New York City, that cost would be $7,500."[10]

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8 NAEYC accreditation is based on specific staff/child ratios and developmentally appropriate program content.

9 National Association for the Education of Young Children (NAEYC), "Reaching the Full Cost of Quality in Early Childhood Programs," 1990.

10 Interview, Nancy Kolben, deputy director, Child Care Inc., New York, New York, January, 1992.

Table 1: FULL COST OF CARE ESTIMATES

These estimates of the full cost of providing high quality early childhood care are based on a program serving 84 children, a 40-hour work week for 52 weeks per year, and for children of all ages.[11] These estimates also assume that salaries are competitive with similar professions, such as elementary school teachers. It is important to note that the cost of care will fluctuate greatly by state (due to regional cost differences and state licensing or regulatory requirements).

<u>Teaching Staff:</u>

1 director @$40,000
2 master teachers @$33,000
3 teachers @$29,000
5 assistant teachers @$23,000
5 teaching assistants. @$17,500

<u>Total Educational Salaries</u>= $395,000

<u>Total Budget</u>= $707,734

<u>Annual Center Cost Per Child</u>= $8,425

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11 Calculated by the National Association for the Education of Young Children. Although the cost of providing care varies according to the ages of the children, with infant care the most expensive, no national estimates currently exist to capture this.

TABLE 2: MARKET COST OF PROVIDING CHILD CARE BY TYPE OF SETTING (per child per year)

The following data is from a study of selected child care facilities in Colorado.[12] The numbers reflect the yearly market cost of providing child care in these facilities.[13] In all child care settings, staffing consumes the largest percent of providers' costs.

	Family Day Care	For Profit	Non-Profit	Infant Care	Head Start
Full Production Costs (Yearly)[14]	$6,456	$5,304	$8,281	$14,268	$6,756
Total Yearly Market Cost[15]	$3,732	$3,852	$5,138	$7,356	$5,664
Costs by Category					
Labor[16]	$1,992	$2,052	$3,684	$5,052	$3,960
Facilities[17]	$648	$972	$756	$1,500	$624
Food	$540	$216	$396	$324	$456
Program[18]	$552	$600	$300	$468	$624
Percentage Breakdown					
Labor	54%	53%	72%	69%	70%
Facilities	17%	25%	15%	20%	11%
Food	14%	6%	8%	4%	8%
Program	15%	16%	5%	6%	11%

12 According to the authors of the study, sites were chosen on the basis of reputed high quality (as reported by members of the study's advisory committee) or, for some types of settings, on willingness to participate in the research. Therefore, one should not assume that these facilities are equal with regard to such quality indicators as program content, child/staff ratios and group size.

13 Culkin, Mary, Suzanne Helburn, and John Morris, "The Costs of Child Care and Education," Report to the Ford Foundation, Denver, Colorado, January 29, 1991.

14 Full production cost represents the cost of providing care if staff were not paid less than their market value.

15 The market cost is defined as the full production cost, including donations in the form of in-kind supplies, food and volunteers.

16 Labor costs include staff salaries and an estimated value of volunteer in-kind subsidies. Non-profit centers devoted the highest percentage of resources to labor.

17 Facilities costs include those associated with space for child care.

18 Program costs include such expenses as play and office equipment, and workshops and training seminars.

TABLE 3: CHILD CARE CENTER EXPENSES

EXAMPLES OF CENTER START-UP COSTS

1. **Purchase/Lease of Real Estate**
    land
    building/facility

2. **Facility Costs**
    construction
    renovation
    design/architect fees

3. **Staff**
    director(s)
    teachers
    aides/assistants
    custodians
    nurse
    cook

4. **Equipment/Supplies**
    playground/games
    tables/furniture
    toys

5. **Operating Capital**
    (minimum of one month's
    operating expense)

6. **Administrative Costs**
    legal fees
    accounting fees
    licensing fees
    contingencies
    training
    outreach/brochures/open house

EXAMPLES OF CENTER OPERATING COSTS

1. **Staff**
    regular staffing
    substitutes
    benefits

1a. **Staff Development**
    conferences
    workshops
    training/quality seminars
    professional dues
    publications

2. **Utilities**

3. **Equipment/Supplies**
    toys
    desks/chairs/sleeping mats
    office machinery/paper/notebooks

4. **Food**

5. **Rent**

6. **Insurance**

7. **Administrative Costs**
    advertising
    licensing
    taxes
    accounting fees
    legal fees
    contingencies

8. **Maintenance**

TABLE 4: FAMILY CHILD CARE HOME OPERATING EXPENSES

EXAMPLES OF COMMON FAMILY CHILD CARE EXPENSES

1. Staff
- assistants
- substitutes
- benefits

1a. Staff Development
- conferences
- workshops
- training/quality seminars
- professional dues
- publications

2. Utilities

3. Equipment
- furniture
- swing sets and other large toys
- high chairs/cribs
- VCRs/television

4. Equipment/Supplies
- office supplies
  - computer-related materials/fax and copier paper/notebooks
- household supplies
  - cleaning supplies/paper goods
- program supplies
  - art materials/books/toys/sand
  - postage

5. Maintenance and Repairs
- renovation

6. Food

7. Property Expenses
- rent or mortgage
- property taxes

8. Insurance

9. Administrative and Miscellaneous Costs
- advertising
- legal fees
- accounting fees
- taxes
- contingencies

10. Business gifts and entertaining

11. Transportation costs related to travel

III. BARRIERS TO FINANCING CHILD CARE

Current methods of financing child care are clearly inadequate, relying primarily on parent fees and some categorical subsidies from state governments and tax credits. [See Appendix I, page 51 for an outline of major federal child care programs]. The alternative need not be an exclusively public nor private mechanism. Rather, a "third-sector" approach, a partnership among government, the private sector and the community that is strong enough to overcome the barriers to financing the quality and quantity of child care that both families and our economy need.

Many of those barriers presently preclude the cost sharing and flexibility necessary for government, providers, employers, business leaders, financial institutions and other private-sector groups to work together. Some barriers relate to the capacity of child care providers to manage a more complex third-sector enterprise. Some barriers are political, reflecting the lack of commitment on the part of elected officials and taxpayers to invest public resources in child care. The following section summarizes these barriers so that we can later address them with options for policy change.

A. Operating Income Cannot Secure Long-Term Financing

Increasingly, bankers are willing to make long-term commitments of capital for child care facilities, but then providers must have a reliable stream of income to repay the debt. Child care providers have learned to piece together operating income from diverse sources: parent fees, foundation and individual contributions, government grants, loans, vouchers and employer contributions. While often substantial, these funding sources are rarely enough to entice banks into lending for capital construction and improvement.

B. Inflexible Underwriting Standards

Traditional standards for both public and private lending programs can serve as obstacles for individuals trying to obtain start-up and operating capital for child care projects. Such standards focus on business expertise, credit history, and personal and business assets.

Bankers have developed underwriting standards to reduce their risk of default; however, standards that were developed for loans to commercial real estate developers may screen out otherwise viable child care providers. For example, a traditional bank loan would require a child care provider to contribute at least 40 percent of the value of the project. A child care provider may be able to contribute 20 percent of the value of the project in cash, but would need to use in-kind contributions or long-term subsidies to make up the balance of the equity. Banks may frown on this non-traditional approach to underwriting.

Another difficulty arises with the use of collateral to secure a commercial loan. Many banks require loans to be backed with assets greater than the value of the loan. While a provider's cash flow may be sufficient to support the debt, s/he may not have the additional capital needed for collateral.[19]

The leading child care lenders, such as Nations Bank, have found that a more flexible approach can support lending decisions without increasing the risk of loan defaults by providers.[20]

These barriers should not be insurmountable for lenders or providers.

C. Bank Aversion to Small or Complex Loans

Some financial institutions are averse to making small or complex loans. Banks affiliated with holding companies are the most frequently cited examples because such initiatives are committed to an upscale corporate market and view the transaction costs as too high to justify the loan.[21] There are numerous examples of banks that, after being acquired by a holding company, have terminated lines of business credit below $50,000 to $75,000.[22] Even small banks that specialize in small loans report that they lose money on business loans below a certain level, which varies with the bank.[23]

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19 See Boggs, Sorenson and Isserman, Commercial Bank Lending Patterns and Economic Development in West Virginia. Mountain Association for Community Economic Development, at 90 (1988).

20 Interviews with Dabney Smith, Vice President, Nations Bank, March 20, 1992 and Linda Whitney, Loan Officer, National Cooperative Bank, March 24, 1992.

21 See Survey of Small Business Banking Needs, National Federation of Independent Business (1989).

22 See for example, McKee, Testimony Before the North Carolina General Assembly Legislative Research Commission on Interstate Banking (November 16, 1988), at 2-5.

23 This level was reported at approximately $14,000 for banks in New England. Markley, the Impact of Financial Deregulation on Rural Commercial Credit Availability in Four New England States: Empirical Evidence and Policy Implications

Child care loans that involve government programs or complex sources of income are likely to involve higher transaction costs. Innovative development banks and non-profit intermediaries have overcome this barrier by specializing in packaging more complex loans and by subsidizing the higher transaction costs with support from foundations and other sources.

D. Provider Inexperience in Management and Financial Matters

Many child care providers have little or no business or financial management experience. They cannot offer a banker or funding agency a track record or cash-flow history to support a loan application. Some non-profit financial intermediaries have met this challenge by combining business training to providers with first-time loans resulting in a stronger provider with a financial track record.[24]

E. Bureaucratic Complexity

Public funding for child care programs may come from several layers of government. To access the public resources, a child care provider or banker would have to file a complicated application that would require a lot of time to prepare. Government accounting procedures usually require that public funds be segregated from other income sources, further complicating the management process for a provider.

Short of reforming the bureaucracy, several options have evolved to overcome this complexity: a one-stop state government child care agency; state-funded resource and referral programs; and a non-profit intermediary that combines training and business assistance with its role as broker of public funds.

F. Political Barriers

1. Child Care Is Not Viewed As A Public Concern

To some, child care is an entirely private matter that should be resolved in the family, the well-being of children is not a public concern.

Society has been slow to discern how child care can enhance a child's development while, at the same time, can enable families to escape from the welfare rolls to

(Report to the Ford Foundation, April 1990).

24 See Annual Report of Coastal Enterprises, 1991.

economic self-sufficiency. Further, employers, and some government leaders are beginning to realize that child care is an economic issue -- that children who receive poor child care or who are forced to live in poverty are at high risk of failure in school and in their later work lives.

2. Child Care Must Compete For Public Resources

Child care has to compete for resources with other social services and with health and education agencies. Child care is beginning to be identified as a finance priority as private-sector leaders realize the economics of child care -- child care enables parents to work, thereby enhancing a company's productivity and a state's economic vitality. Additionally, leaders are realizing that quality child care supports the first national education goal, that children enter school ready to learn.

3. Governmental Programs Can Be Difficult to Tap

Even when there is adequate and reliable public funding for child care, providers are not always aware of the funds that are available to them. Those who attempt to get public financing have found the application process too burdensome and too slow to be useful.

IV. OPTIONS

As the existing sources of funds are insufficient to provide quality child care, state and local government officials must, together with private sector leaders, develop new, innovative financing strategies for child care. In this section, alternative public and private financing options for child care are described and then illustrated with examples of programs in operation across the country. Some of these financing strategies for child care are widely employed, while other options are used to a lesser degree. Still others have not been tested on child care at all, but have been used successfully to finance other social services, such as education, housing and health.

Public financing options for child care include the following state, local and community-based initiatives:

- **Grants and Loans**
- **Bonds**
- **Employer Tax Credits**
- **Linkage Ordinances and Zoning Bonuses**

Private sector initiatives include:

- **Bank Loans**
- **Community Development Corporations**
- **Investment Funds**
- **Pension Fund Investments**
- **Employer Funds and Partnerships**

PUBLIC FINANCING OPTIONS

A. STATE GRANT AND LOAN PROGRAMS[25]

State grant and loan programs use government funds to improve the availability, affordability and quality of child care. By assisting small entrepreneurs, providers and employers with their capital and construction expenses, these programs increase the supply of child care. They also subsidize the cost of care, thereby making it affordable to more parents, and improve the quality of care by providing funds for staff training and facility renovation.

Grant and loan programs help to channel greatly needed resources to the child care community and to leverage private financing by increasing a provider's collateral and guaranteeing its bank loans.

In 1992, 21 states operated 27 different grant programs, and 9 states operated 14 loan programs for child care.[26] (See Charts 3 and 4, pages 18 through 20.)

1. Grants

A grant is a monetary award to an entrepreneur, child care provider or employer that does not have to be repaid. While most grant programs are funded with general state revenues, these programs may also be funded with a dedicated revenue stream. One such source is a state liquor tax. In 1992, grant awards ranged in size from $100 in Wisconsin to $330,000 in Arkansas, and state appropriations for grants totaled $55.9 million.

Child Care Equipment and Renovation Program: New Jersey

The New Jersey Division of Youth and Family Services awards grants to child care centers under contract with the state to provide care to low-income children. Grant recipients may use the grants to make life/safety improvements, such as the installation of fire alarms, fire extinguishers, smoke detectors, fences, safety gates and minor renovations and repairs. No major capital improvements can be made with these funds.

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25 The Child Care Action Campaign is preparing a report that describes and analyzes the background, costs, and experiences of state child care grant and loan programs that have been instituted across the country.

26 Several states have more than one grant or loan program.

In 1990, the state awarded $100,000 to 19 providers, with awards ranging from $2,000 to $25,150. Although $100,000 was allocated for grants in 1991, no awards were made because of the state fiscal crisis; however, in 1992, the program was allocated another $100,000 and has awarded grants to 14 providers. Over 2,000 children have been served by this program.

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The Child Care Fund: Minnesota

Minnesota created the Child Care Fund as a flexible grant program that could be tailored to the needs of different communities. Grant committees in each of the state's 11 economic development regions conduct a needs assessment before distributing the request for proposals so that the committees can target current child care needs. Funds from this grant program have supported a range of activities: purchase of supplies and equipment; staff development and training; improvements to meet national accreditation standards; recruitment of family child care home providers; program expansion; and facility improvement.

In FY 91-92, the Fund was allocated $2.3 million in general state revenues. Twenty-one Resource and Referral agencies received two-year grants totalling $1 million for quality and staff development and training improvements. Another $1 million was divided among 175 child care centers for facility improvements and staff development and training, and 1,350 family child care providers who received mini grants of up to $1,000 each.

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Chart 3: State Grant Programs FY91

The following is a list of 21 states (27 grant programs) with grant programs as of June 1992. Total state appropriations amount to $55.9 million.

State	Program Name	Amount Appropriated FY91
Alaska	Child Care Grant Program	$2,400,000
Alaska	Day Care Assistance Program	$12,700,000
Arkansas	Child Care Grant Program	$16,000
Arkansas	Arkansas Better Chance	$5,000,000
Arizona	Arizona At Risk Preschool Pilot Project	$1,000,000 (1)
Connecticut	Grants for State Funded Centers	$19,635,988
Connecticut	Before and After School Care Grant Program	$513,909
Florida	State Child Care Training Grant	$1,043,955*
Hawaii	Grant Program for Renovations and Facilities	$225,000+
Hawaii	Family Child Care Training Project	$275,000+
Iowa	Iowa Child Day Care Grants Program	$760,000
Kansas	Child Care Training Opportunities (KCCTO) KanWork Family Day Care Home Scholarship Program	$104,774 (2)
Kentucky	Human Services Construction Pool	$2,000,000**
Maine	Employer Subsidized Child Care Grant Program	$179,000
Minnesota	The Child Care Fund	$2,300,000 (3)
New Jersey	Mini Child Center Project	$275,000
New Jersey	Child Care Equipment and Renovation Program	$0 (4)
New York	Regional Economic Development Partnership Program (grant and loan)	$1,000,000***
Ohio	Ohio Child Care Development Project	$200,000+
Oregon	Cooperative Network Child Care Statute	$120,000++
Pennsylvania	Governor's Model Child Care Project	$800,000
Vermont	Child Care Grant Program	$50,000
Virginia	Planning and Demonstration Project	$530,000
Washington	Child Care Facility Fund (grant and revolving loan fund)	$1,000,000++

Washington	State Employer Facility Grant Fund	$600,000++
Wisconsin	Child Care Improvement Project Mini-Grant Program	$17,000+
Wyoming	Wyoming Educational Trust Fund	(5)

(1) Funding levels are for FY90-91. This program is jointly funded by the state and a private foundation.

(2) For the period 6/1/88-6/30/92.

(3) Funding levels are for FY90-91, the program received $475,000 in federal aid.

(4) In FY91 the funds for this program were never dispersed. Funding for FY90 was $100,000 and similar funding is expected for FY92.

(5) The Educational Trust Fund is funded on the basis of the school year. For the school year 1991-92, the trust fund was appropriated $3.3 million.

* In FY91 this program received $856,033 in state funds and $187,922 in Child Care Development Block Grant Funds.

** This program, to be funded in FY91 and FY92 only, was appropriated $8 million over the two fiscal years, $2 million of which was earmarked for child care.

*** In FY90-91 this program received $7 million in funding, $1 million of which was earmarked for child care.

+ Funding is for FY90-91

++ Funding is for FY89-91

Chart 4: State Loan Programs FY91

The following is a list of nine states (14 loan programs) with loan programs as of June 1992. Total state appropriations amount to $25.5 million.

State	Program Name	Amount Appropriated FY91
Arkansas	Child Care Facilities Loan Guarantee Fund	$200,000
Illinois	Child Day Care Loan Program	(1)
Illinois	Illinois Facilities Fund Child Care Program	$12,000,000 (2)
Maine	Child Care Development Project Revolving Loan Fund	$1,400,000
Maryland	Child Care Facilities Direct Loan Fund	$1,000,000
Maryland	Child Care Facilities Loan Guarantee Fund	$1,950,000
Massachusetts	Massachusetts Industrial Finance Agency Direct Loan Program/Child Care Facilities Loan Fund	$1,500,000
New Hampshire	Interest Free Revolving Loan Fund for Child Care Providers	$50,000
New Hampshire	Guaranteed Loan Program for Child Care Providers	$300,000
New York	Job Development Authority Direct Loan and Loan Guarantee Program	$600,000*
New York	Minority Revolving Loan Fund	$3,500,000*
New York	Regional Economic Development Partnership Program (grant & loan)	$1,000,000**
Tennessee	Child Care Facilities Loan Guarantee Program	$1,000,000
Washington	Child Care Facility Fund (grant and revolving loan program)	$1,000,000***

(1) The Illinois Day Care Loan Program is funded out of a larger loan fund known as the Build Illinois Revolving Loan Fund.

(2) In 1992 the Illinois Facilities Fund Child Care Program, a one time only fund for the construction of child care centers in Illinois, will disperse $12 million for the construction of these centers.

* While child care has been funded out of this program, there is no specific amount of money set aside for child care and applicants for child care loans compete equally with other applicants. Funding for these programs is for FY90-91.

** This program was funded $7 million in FY90-91 with $1 million earmarked for child care.

*** Funding levels are for FY89-91.

2. Loans: Direct Loans and Loan Guarantees

In direct loan programs, recipients borrow money from the state at an interest rate generally lower than the market rate offered by private lending institutions. The state outlay is recouped when recipients repay the loans.

Some states operate revolving-loan fund programs. After an initial state outlay to establish the fund, the fund is self-financed through loan repayments and interest charged on the loans.

Loan guarantee programs provide state backing to applicants for bank loans. The applicant benefits by becoming eligible for loans he/she might not have been considered for, and the bank benefits by reducing its risk loan default.

In 1992, nine states operated loan programs ranging in size from $50,000 in New Hampshire to $12 million in Illinois, with total state appropriations for child care loans amounting to $25.5 million.

Child Care Facilities Direct Loan Fund: Maryland

The Child Care Facilities Direct Loan Fund offers child care providers up to 20-year loans at below-market interest rates. With the $1 million appropriated, Maryland awarded $600,000 to six providers in 1990 and $350,000 to an additional six providers in 1991. According to Charles McGee, Loan Officer for the Maryland Department of Economic and Employment Development: "The program has been a major success for providers. New child care slots have either been created or kept open because a center was able to receive funds to continue operations."

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Charles McGee
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Maryland Department of Economic & Employment Development
Day Care Financing Programs
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Baltimore, Maryland 21202
(301) 333-4308

Interest-Free Revolving-Loan Fund: New Hampshire

In 1990, New Hampshire appropriated $50,000 for an Interest-Free Revolving-Loan Fund for non-profit child care providers. Providers are eligible for five-year loans of up to $10,000. In 1991, two providers received loans from the state. After the initial appropriation, state officials expect the fund to be self-financing through loan repayments.

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Carol Mooney
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Child Care Facilities Loan Guarantee Fund: Arkansas

The Arkansas Child Care Facilities Loan Guarantee Fund, currently funded at $350,000, guarantees loans for child care centers and family child care providers, up to a maximum guarantee of $25,000 or 80 percent of the total loan. Guarantees have ranged from $3,200 (on a $4,000 loan) to $25,000 (on a $69,000 loan). The guarantees are provided for loans for start-up, expansion and renovation. The terms of the loan, such as the interest rate and repayment schedule, are set by the bank or other lending institution. To date, 13 providers have received loan guarantees, five in FY 90 and eight in FY 91.

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3. Loans to Women and Minority Business Owners

A number of state, county and local governments operate loan and technical assistance programs for women and minority entrepreneurs. Child care providers may be eligible to participate.

Merced County Family Day Care Demonstration Project: California

In 1987, the Merced County Office of Economic and Strategic Development, Merced College and the Merced Community Action Agency initiated a pilot project to spark child care entrepreneurship and increase the supply of child care in the county. The program was funded in part from the State Office of Economic Opportunity's low-interest revolving-loan fund. Twenty-three economically disadvantaged individuals participated in a 10-month training program to become self-employed family child care providers.

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B. BONDS

Historically, bonds have played a major role in the financing of state and local governments' capital projects. While tax-exempt bonds are usually issued to underwrite large-scale construction and development projects, governments may incorporate the start-up costs for child care centers in the bond-funded project.

1. Grant and Loan Programs

Although most government grant and loan programs are financed with general revenues, several state and local governments use bond proceeds instead.

Child Care Facilities Loan Fund: Massachusetts

The Massachusetts Industrial Finance Agency (MIFA) is an independent public agency created in 1978 by the state legislature in response to federal enabling legislation, to stimulate economic development, in particular, private investment and job creation. In 1985, the agency, recognizing that child care is an economic development issue, created the Child Care Facilities Loan Fund to increase the supply of work-site child care. This revolving-loan fund provides below-market rate loans of up to $250,000 to companies, developers or non-profit organizations for the acquisition, construction, renovation and equipping of on-site child care facilities. The program is funded out of MIFA's own reserves, created with fees on bond transactions. As of 1991, 10 loans totalling $1.2 million have been made to 10 recipients for centers providing care to 700 children.

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Illinois Facilities Fund Child Care Program: Illinois

Through its Child Care Program, the Illinois Facilities Fund (IFF), a non-profit corporation, together with the Illinois Department of Children and Family Services, will build 10 neighborhood child care centers serving up to 2,000 children of low-income working parents. IFF, which will select non-profit operators to operate these centers, will finance the $12 million in construction costs through tax-free bonds that the Illinois Development Finance Authority will issue in the fall of 1992.

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The Illinois Facilities Fund
Child Care Program
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Chicago, Illinois 60606
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2. Tax-Exempt Bond Issues

Child care projects may also be financed through tax-exempt bonds issued by government on behalf of a non-profit entity, such as a university, health care facility and housing organization, which repays the loan at below-market rates.

This form of financing may be complicated, with high transaction costs and complex payback mechanisms. Federal, state and local regulations may also limit tax-exempt debt financing for special projects like the construction of child care centers.

Downtown Child Care Center: New Britain, Connecticut

New Britain has embarked on an extensive education and public facility capital improvement program, financed primarily with short- and long-term tax-exempt bonds.

In 1990, the city decided to finance the construction of a new city hall and the renovation of other public buildings with a bond issue. As part of this bond-funded project, the local YMCA was awarded $800,000 at below-market interest rates for the construction of a downtown child care center.

The center, which opened in 1990, serves 145 children from infancy through grade 5. Programs include a half-day kindergarten, two nursery school sessions, school-age child care and respite care for children of families in crisis. About 40 percent of the children come from low-income families; families of all income ranges pay lower rates than in other centers because of private and government subsidy of the center.

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New Britain, Connecticut 06051
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C. EMPLOYER TAX CREDITS[27]

State governments use employer tax credits to increase the supply of child care. Tax credits, directed primarily at capital costs like real estate and start-up expenses, reduce the total tax liability of a business on a dollar-for-dollar basis. Fourteen states currently offer employers a tax credit for child care expenses; six states have tax-credit legislation pending. [See Chart 5, page 29].

From a state's perspective, employer tax credits are attractive because they are an off-budget item, not debated annually as child care appropriations usually are.

Companies that take advantage of tax credits generally already provide child care benefits to their employees and want to expand their benefits.

Because of these problems, tax credits, to date, appear to have a negligible effect on the supply of child care. However, fewer than 1% of eligible businesses in these states actually claim the tax credits. They say that the credits, as they are currently structured: 1) provide an inadequate financial incentive to invest in child care; 2) should be applicable to operating as well as construction and start-up costs; 3) may increase a firm's federal tax liability; and 4) provide no benefit to employers already exempt from paying state income taxes, like non-profit organizations.

State of Connecticut Tax Credit Program

Established in 1981, Connecticut's employer tax credit program currently offers a tax credit of up to $20,000, or 40 percent of the capital costs of an on-site center, whichever is lower, and up to $75,000, or 50 percent of purchased care expenses. The state caps the total credits it can offer at $1 million. In 1990, 48 companies filed for the purchased care credit at a state cost of nearly $718,000.

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27 For more information, see CCAC publication, "Employer Tax Credits for Child Care: Asset or Liability?"

Corporate Perspective: Apple Computer Company

Although Apple Computer Company decided to provide child care for its employees before the state of California enacted a tax credit program in 1988, the company now claims a tax credit for expansion of its child care center. To date, Apple has received a tax credit of almost $100,000, equal to over 20 percent of its costs. Commenting on this benefit, Paul Proett, Manager of Family Services, states: "The [tax credit] program helps, not only in meeting costs, but in appeasing managers who are skeptical about the cost of establishing a child care program."

Other California companies are also benefiting, claiming tax credits of about $700,000 in tax year 1989.

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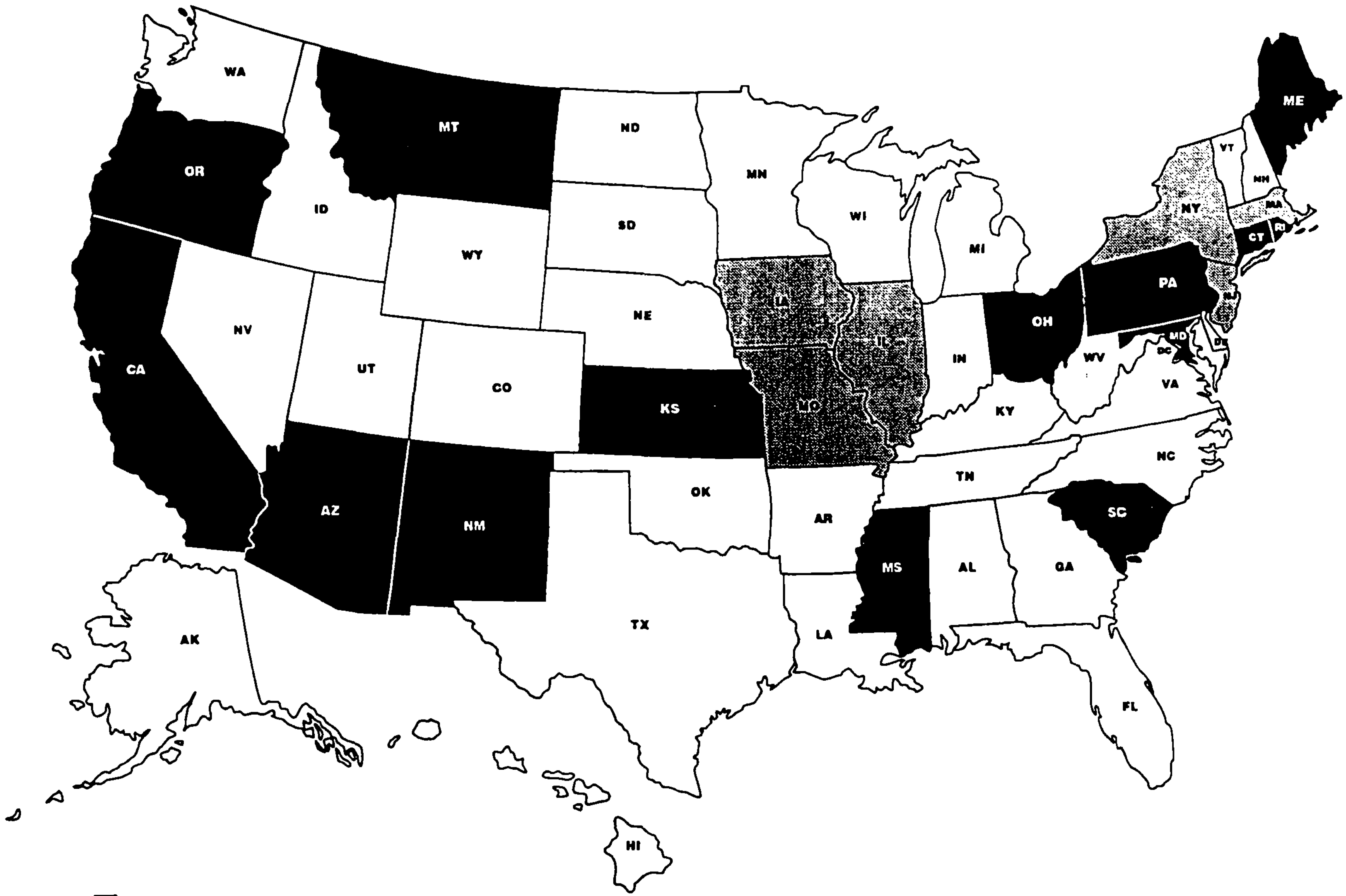
Chart 5

Employer Tax Credits: The State of the States in 1991



■ **States with tax credit laws**

▩ **States with pending tax credit legislation**

In 1989, 14 states had tax credit legislation pending. They were: Colorado, Hawaii, Illinois, Indiana, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, New Jersey, New York, North Carolina, Vermont, and Washington.

D. LINKAGE ORDINANCES AND ZONING BONUSES[28]

Governments are increasingly turning to real estate developers to assist with the construction or financing of key community services. Two of the most popular initiatives directed at developers are linkage ordinances and zoning bonuses. (See Chart 6, page 34).

While developer-targeted initiatives can be one prong of a community's approach to increasing its child care supply, these programs should not be the sole financing source. Because of the time lags inherent in the development process, such initiatives must be considered a long-term approach to addressing a community's child care needs. Additionally, because developer initiatives are effective only in areas experiencing significant growth, these initiatives may only benefit new employees or residents of the new development projects, leaving pre-existing child care needs in the community unmet.

1. Linkage Ordinances

Advocates of linkage ordinances believe that developers who profit from community development should bear some of the attendant costs, such as the need for increased, quality child care. As enacted, these ordinances generally mandate that commercial or residential developers provide on- or near-site child care facilities or pay a fee into a community child care fund.

In 1985, the first linkage ordinances were passed in California in the City of Concord and in the City and County of San Francisco. Currently 10 other cities have adopted linkage ordinances, and legislation is pending in four other communities, including New York City, New York and in Davis, Pasadena and Sacramento, California. Nationally, linkage ordinances have generated 59 new child care centers, serving over 1,947 children.

Concord, California

A pioneer in linkage ordinances, Concord uses the $70,000 in developer fees it collects annually to sponsor provider training and development classes. Since its implementation, over 300 child care providers have received training through the program free of charge. In evaluating the linkage ordinance, Lydia DuBorg, director

28 For more information, see CCAC publication, "Building Links: Developer Initiatives for Financing Child Care."

of the Concord Urban Resources Division, stated: "We have... a committed funding source for child care which would not have been there otherwise."

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San Ramon, California

In 1987, San Ramon enacted a linkage ordinance to address the shortage of school-age child care. Fees, which are determined by a needs assessment, are collected for all commercial development over 2,500 square feet in size, and for all residential construction of units with at least one bedroom. To date, the $252,000 in linkage fees collected have funded three school-age child care centers serving 150 children.

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Contra Costa County, California

Enacted in 1988, Contra Costa County's ordinance linking commercial and residential developments in the unincorporated areas of the county to child care addresses the lack of quality child care facilities in the county. Developers may opt to build new child care facilities, expand existing ones or fund the recruitment and training of new child care providers. Before embarking on any of these choices, developers must have their proposals approved by the Community Development Department and the Child Care Broker. Since this legislation was enacted, 522 child care spaces have been created or enhanced through the program.

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2. Zoning Bonuses

The primary goal of zoning bonuses is to increase the supply of child care in a community. Bonuses encourage developers to offer child care voluntarily by allowing their projects to exceed the square footage permitted by zoning ordinances. Some bonuses stipulate who should benefit from the new child care center, for example, employees or low-to-moderate-income families, and who shall operate the center, either a non-profit or a for-profit provider, while other bonuses leave such decisions to the developer's discretion. The most effective zoning bonus programs are those that set the bonus amounts high enough so that it is in a developer's interest to select them.

Few developers oppose the bonuses, as most prefer a voluntary program to a legislative mandate. Developers take advantage of the bonus because they believe that providing child care gives them a competitive edge in attracting and retaining tenants.

Formal bonus programs exist in Cincinnati, Ohio; Hartford, Connecticut; Irvine, California; Pittsburgh, Pennsylvania; Portland, Oregon; and Seattle, Washington and the state of Massachusetts. In these communities, 10 child care centers, serving 640 children are expected to be built.

Seattle, Washington

Seattle's child care zoning bonus aims to stimulate the supply of affordable child care for employees and low-income residents of the downtown area. For every square foot of child care provided, developers may receive a bonus of between 3.5-16 square feet of floor area. Widely publicized by city officials, the downtown bonus program is very successful. Since 1985, it has generated three child care centers, with a total capacity of 120 children. Equally importantly, however, the bonus has educated developers about the need for child care and stimulated the voluntary construction of additional child care space in the downtown area.

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Cincinnati, Ohio

Enacted in 1987, Ohio's bonus program for child care allows developers to receive a bonus of one and a half square feet for every square foot devoted to child care. The developers must allow the center to remain in the building for a minimum of 40 years and can receive rental fees from the center. The bonus has led to the creation of one child care center with the capacity to care for 78 children.

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CHART 6 WHERE HAVE DEVELOPER INITIATIVES BEEN IMPLEMENTED?

Location	Linkage	Bonus
California:		
Central City West, Los Angeles, CA	✓	
Clayton, CA	✓	
Concord, CA	✓	
Contra Costa County, CA	✓	
Danville, CA	✓	
Irvine, CA		✓
Martinez, CA	✓	
Sacramento, CA	✓	
San Francisco, CA[a]	✓	
San Ramon, CA	✓	
Santa Cruz County, CA	✓	
Connecticut:		
Hartford, CT		✓
Massachusetts:		
Boston, MA	✓	
Massachusetts:		
Massachusetts[b]		✓
Ohio:		
Cincinnati, OH		✓
Oregon:		
Portland, OR		✓
Pennsylvania:		
Pittsburgh, PA[c]	✓	✓
Washington:		
Seattle, WA		✓

WHERE ARE DEVELOPER INITIATIVES UNDER CONSIDERATION?

Location	Linkage	Bonus
California:		
Davis, CA	✓	
Los Angeles, CA		✓
Pasadena, CA	✓	
Sacramento, CA[d]	✓	
New York		
New York City, NY	✓	

a This initiative is being implemented in both the city and county.
b This initiative is being implemented in the entire state.
c This program is a joint linkage and bonus program. While developers are required to dedicate a certain amount of space for child care, they are also eligible to take advantage of the bonus offered by the city.
d This initiative will cover private sector development.

PRIVATE FINANCING OPTIONS

A. BANK LOANS

Banks can demonstrate their commitment to community revitalization and develop new consumer markets by offering loans to develop and expand child care facilities. State officials can encourage such private-sector financing by instituting a variety of community-lending initiatives and by using state funds to leverage private financial investment. The following private funding options are described and illustrated in this section: Community Reinvestment Activities, Linked Deposits, Community Programs, Bank Consortia and Private Bank Initiatives.

1. Community Reinvestment Activities

Under both federal and state Community Reinvestment Acts (CRA), bank regulators can stimulate lending for child care facility development.[29] Using these statutes, regulators assess banks' performance in, among other categories, their ascertainment of community credit needs and their contributions to community development.

In 1990, Jill Considine, New York State superintendent of banks, set regulatory precedent by declaring that lending for child care would be examined during New York State bank reinvestment evaluations. The Federal Reserve Bank of New York followed the State's lead in 1991 by issuing a report that identified child care lending in economically distressed communities as an appropriate reinvestment activity.

Currently, 32 states have their own reinvestment policies. When child care is clearly defined as a community credit need, the state promotes lending for child care purposes. For example, New York identifies child care financing for its state-chartered banks as a priority credit need. The New Jersey Department of Banking makes available to the public the CRA evaluations of all banks in the state.

Twenty-one states have adopted a CRA-type review of interstate banking activities in their states. In Michigan, bank regulators used their interstate banking law to negotiate a $950 million community-based development program among five banks.

29For more information about CRA, linked deposits, bank consortia, and intermediaries see CPA publications "Reinvesting in Child Care" and "Reinvesting in Communities: Policy Options for New Jersey."

2. Linked Deposits

Annually, state and local governments deposit over $106 billion in private financial institutions, accounting for over four percent of all bank deposits. Eighteen states and 11 major cities use their "deposit power" as a non-regulatory incentive for banks to establish socially beneficial, community-lending programs. For instance, Illinois now has linked-deposit programs for women-owned businesses, affordable housing and lead-paint abatement.

Cities that make their deposit decisions based on a published rating of banks' community-service activities may provide the strongest incentive. After the first such public report in Boston, community developers reported that additional banks were contacting them to start new lending programs.

New York City

New York City has a highly developed linked-deposit program. Annually, the Department of Finance evaluates banks that seek to do business with the city, assigning 10 percent of a bank's total rating for its community service initiatives. Banks voluntarily complete questionnaires covering the following activities: banking services, branch activities, affordable housing lending, participation in state and federal housing programs, small business lending, and state and federal CRA ratings. New York City completed its first round of ratings in 1990 and made the ratings public with press releases and public statements.[30] The City is the first to base part of its CRA evaluation on lending for child care.

3. Bank Consortia

Child care loans do not always fit common patterns and credit standards. Government inducements, while crucial, can complicate lending packages, adding time and legal requirements. Because of the need for special underwriting expertise with child care loans, states may encourage banks, through linked-deposit programs, to form consortia to pool their resources and share the risks. The consortium can be purely private, comprised of banks and lending institutions, or a public/private consortium that includes government agencies.

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30 Community Banking Ratings, City of New York, Department of Finance, 1990.

Renaissance Capital Corporation: Atlanta, Georgia

The Atlanta Economic Development Corporation, a private, non-profit business corporation founded by the City of Atlanta and Central Atlanta Progress, established the Renaissance Capital Corporation (RCC) as a private, for-profit venture capital company. The RCC was designed to make prudent investments, primarily in the greater Atlanta area, in businesses that are at least 51% minority owned and to provide alternative financing for businesses that traditionally are hampered in obtaining capital. RCC investors include more than 29 corporations and banks in the metropolitan Atlanta area. Loans range from $50,000 to $300,000, with interest rates, terms of repayment and collateral requirements determined through negotiations between the applicant and the RCC.

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4. Private Bank Initiatives

Some banks may opt to create their own community lending departments to handle lending for special projects, such as low-income housing and child care, and to assist small business entrepreneurs with the development of their business and financial plans.

National Cooperative Bank: Washington, DC

The National Cooperative Bank provides financing for both the start-up and operating expenses for child care facilities. As a specialized lender, its interest is with centers controlled by the direct or indirect users of the center, such as parents, employers, and/or communities. Available from National Cooperative Bank are term loans for start-up expenses, equipment purchases, expansion, leasehold improvements and working capital needs. To date, the bank has lent nearly one million dollars to seven child care centers.

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B. COMMUNITY DEVELOPMENT CORPORATIONS

Community development corporations (CDC) are non-profit community-based organizations working to revitalize the economic and social base of low-income urban and rural communities across the United States. Nationwide, there are approximately 5,000 CDCs, whose activities include: real estate development; human resource development; provision of social services; job creation enterprises; assistance with business start-ups and expansions; development and operation of loan and equity funds; and technical assistance.[31] An estimated 17 percent of all CDCs offer child care in their projects.[32]

Eastside Community Investments: Indianapolis, Indiana

Eastside Community Investments (ECI) is a 16-year-old CDC operating in a neighborhood where 25 percent of all households are headed by a single parent and over 42 percent of children under 18 live in poverty. Spurred by a Joyce Foundation grant in 1987, ECI surveyed community residents and found that child care was an insurmountable problem for them. Residents claimed that child care problems forced them to lose or quit their jobs and miss work on a regular basis, and that they feared the poor quality of care affected their children's health, safety and welfare. After determining that the supply of care was adequate but quality, reliability and affordability were problems, ECI set up a self-employment project to help existing family day care providers meet licensing standards, purchase housing and receive training in quality care and business skills. As part of the Eastside Day Care Homes Cooperative, 10 family day care providers now serve 70 children.

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31 Stokely, Jan, "The Challenge of Child Care For Community Development Corporations," A Special Publication from the National Economic Development and Law Center," Oakland, California, 1990.

32 Interview, Avis Vidal, Professor of Management and Urban Planning, The New School for Social Research, New York, New York, January, 1990.

Drew Economic Development Corporation: Compton, California

The Drew Economic Development Corporation (DEDC) is a non-profit community development corporation that seeks to provide housing, jobs and training opportunities for residents of a community in south central Los Angeles that is 53 percent African-American and 47 percent Latino. Formed in 1988, DEDC is involved in the construction of a 6,000 square foot child care facility to serve 60 children residing in Drew's low-income housing complex and the students and employees of the nearby Drew University School of Medicine and Science. The center, whose construction will begin in July 1992, is expected to attract residents to the housing complex. Subsidized by the California Department of Education, the center will be charged a below-market rent.

Contact:
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Coastal Enterprises, Inc: Wiscasset, Maine

Coastal Enterprises, Inc. (CEI) is a private, statewide, non-profit community development corporation whose mission is to create social and economic opportunities for Maine residents, businesses and communities. In 1988, CEI launched its Child Care Development Project, a demonstration project designed to provide financial training and technical assistance to new and existing child care providers. The goal was to improve the availability and affordability of quality child care for working parents, help employers attract and retain a stable workforce and improve the economic self-sufficiency of child care providers.

CEI set up a revolving-loan fund with $1.4 million provided by the state of Maine, Ford Foundation, federal government and businesses. Between FY 1988 and 1991, CEI approved loans or provided technical assistance to 45 centers and family day care homes.

Contact:
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CEI
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Water Street
Wiscasset, Maine 04578
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Child Care Facilities Development Program: New York, New York

The Child Care Facilities Development Program (CCFDP) is a three-year demonstration project, begun in 1991, that involves a partnership among: the Local Initiatives Support Corporation (LISC), a national non-profit organization that provides grants, loans and technical assistance to community development corporations; Child Care, Inc., a New York City Resource and Referral agency; local community development corporations; and the city of New York's Human Resources Administration.

To foster the development of new child care centers, CCFDP has identified 11 potential child care sites in new low-income housing developments. New York City plans to commit funds for start-up and operating expenses and for long-term rental guarantees to the local community development corporations who will create the centers. LISC, Child Care, Inc. and the participating community development corporations will secure up to $2 million in philanthropic funding, design a financing plan and raise construction capital for the centers. Construction should begin in 1993.

Contact:
Mark Jahr
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LISC
733 Third Avenue
New York, New York 10017
(212) 455-9800

C. INVESTMENT FUNDS

A child care investment fund is a new and promising financing option, whereby foundations and private, voluntary agencies pool funds for expansion and improvement of child care.

Child Care Capital Investment Fund: Boston, Massachusetts

The Child Care Capital Investment Fund (CCCIF), a newly formed organization that assists non-profit child care providers in the Boston metropolitan area, is sponsored by the Child Care Initiative Funding Collaborative, a partnership of local and national funders initiated by the United Way of Massachusetts Bay. To date, nearly $3.5 million has been raised to support the CCCIF's activities.

CCCIF offers mini-loans of $1,500-$5,000 at a 5 percent interest rate to non-profit providers who serve low-income children, for capital improvements like new carpet or equipment. Other loans of up to $100,000 at a 5 percent interest rate are available for large capital expenses and for technical assistance in planning projects. Technical assistance grants are also provided to help child care professionals strengthen their financial management skills. To date, CCCIF has made 15 loan commitments totalling $600,000 to 12 child care organizations.

Contact:
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Child Care Capital Investment Fund
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Boston, Massachusetts 02110
(617) 728-3028

D. PENSION FUNDS[33]

More than 450,000 public and private pension funds in the U.S. have assets of nearly $3 billion. Since 1978, pension assets have ballooned by 500 percent and are expected to double again in the 1990s. In addition to traditional lenders such as banks, pension funds can also be a source of financing for the development of child care facilities.

When pension funds are dedicated to a socially useful activity, they are called Economically Targeted Investments (ETI). The are designed to earn a competitive rate of return while responding to social needs that are not adequately financed by more traditional lending.

Community Reinvestment Fund: Minneapolis, Minnesota

The Community Reinvestment Fund (CRF), serves as a secondary market for community development loans. CRF purchases loans from non-profit organizations that operate economic development programs and provide services in moderate-income neighborhoods. CRF then pools these loans and partially guarantees payment so they can be sold to investors. In effect, this recapitalizes community based organizations and provides them with cash for new initiatives. CRF purchases only performing loans that have been repaid for at least a year. Since 1989 CRF has purchased $3.2 million in loans and has contracts to purchase $1.5 million in 1992. CRF has worked with 19 organizations in four states.

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Community Reinvestment Fund
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Minneapolis, Minnesota 55402
(612)338-3050

33For more information about pension funds see CPA publications "Reinvesting in Child Care" and "Reinvesting in Communities: Policy Options for New Jersey."

Community Preservation Corporation (CPC): New York City

The Community Preservation Corporation (CPC) has created an intermediary to invest in low- and middle-income housing rehabilitation. Since 1974, over 9,000 housing units have been rehabilitated through CPC financing. This initiative not only improves the housing stock of New York City but creates construction and rehabilitation jobs for small contractors. CPC invests pension funds at market rates by mixing them with one percent loans from the New York City housing authority. This allows CPC to offer developers an interest rate that is lower than the rates on conventional mortgages. Over 9,000 units of housing have been refinanced in this manner.

Contact:
Nancy Feldman
Vice President
Community Preservation Corporation
5 West 37th Street
New York, NY 10018
(212) 869-5300

Commonwealth Capital Strategies, Inc: Cambridge, Massachusetts

Commonwealth Capital Strategies, Inc., is a national newly formed investment financial intermediary that targets investments for the country's largest pension funds to promote economic development opportunities across the country. They are interested in projects that create affordable housing, jobs, and child care facilities. Commonwealth Capital is a national Economically Targeted Investment pool that takes advantage of state and federal guarantees. Risk is further reduced through regional diversification -- public pensions "cross-invest" in each other's states, guarding against losses occasioned by economic downturns in any one state's economy. For example, each of five states may pool one million dollars to invest in child care. By pooling the dollars, each state owns one-fifth of the investment, protecting against regional downturns.

Contact:
David Sand
President
124 Mount Auburn Street
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Cambridge, MA 02138
(617) 576-5858

Excelsior Capital Corporation: New York

The Excelsior Capital Corporation (ECC) was established in 1991 by the state of New York to identify and develop ETIs for consideration by public and private pensions and other institutional investors. ECC acts as an intermediary between state pension funds and investment opportunities in New York State that will stimulate the economy and provide funding for non-traditional community-based programs. Investments must hold the promise of an attractive rate of return for the level of risk, and must yield tangible collateral benefits to the New York State economy. ECC is currently looking for investment opportunities.

Contact:
Donald Reed
Director of Policy and Planning
Excelsior Capital Corporation
1515 Broadway
51st floor
New York, NY 10036
(212) 827-6186

E. EMPLOYER INITIATIVES[34]

Demographic changes in the U.S. labor force -- a declining pool of skilled entrants coupled with a growing number of mothers of young children -- are compelling employers to develop strategies that will enable them to attract and retain skilled workers. Employers who have created a child care benefit and other family-friendly workplace policies report that these policies help them maintain a competitive edge and improve productivity.

Today, an estimated 5,600 employers out of 6,000,000 nationwide offer their employees some form of child care, representing a 500% increase since 1978.[35] There is an array of child care options from which an employer may choose, including: provision of a child care center or family day care home; financial assistance to employees in the form of subsidies or pre-tax payroll deductions; information and referral services to help parents locate the care they need; and flexible scheduling and parental leave policies that enable parents to manage their work and family responsibilities better.

In addition to these options, employers can become involved in community-wide strategies to improve the supply and quality of child care in those communities in which their employees live and work. Two of the most popular new ways that employers are becoming involved in community child care strategies are supply building and public/private partnerships.

1. Supply Building

Supply building involves a capital commitment by a company or group of companies, based on a community needs assessment, to expand the supply and improve the quality of child care offered in the community. For example, a needs assessment may reveal a shortage of infant care in a community. The sponsoring

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34 For more information see CCAC publications "Not Too Small To Care: Small Employers and Child Care," "Public and Private Partnerships in Child Care," and CCAC information guides. Also see CPA publication "The Child Care Challenge: Creating Solutions Through Employer-Supported Programs and Public-Private Initiatives."

35 Galinsky, E., Friedman, D., & Hernandez, C. (1991) "Corporate Reference Guide To Work-Family Programs," Families and Work Institute, New York: NY.

company may then issue a request for proposal to community child care centers to see who will expand their services to infants. Or if a needs assessment reveals a lack of quality child care, the employer may then invest in a community accreditation/training program to improve the skills of teachers.

IBM Corporation

In 1989, IBM announced its $25 million Funds for Dependent Care Initiatives with $22 million designated for child care and $3 million for elder care. With the child care funds, IBM is investing in building the supply and improving the quality of child care in those communities across the country where its employees live and work, with particular emphasis on forms of care that are typically in short supply, such as backup, mildly ill and infant care. To date, IBM has targeted more than $250,000 to assist centers in meeting quality standards and receive accreditation from the National Association for the Education of Young Children. The company is also looking for opportunities to collaborate with other businesses in various communities.

Contact:
Ted Childs
Director, Workforce Diversity Programs
IBM Corporation
2000 Purchase St.
Purchase, NY 10577
(914) 697-6842

AT&T

With $10 million to be distributed over a three-year period (1990-1992), the AT&T Family Care Development Fund was established to increase the supply and improve the quality of child care and elder care services in communities where AT&T employees live. To date, grants have been made for center expansion, before- and after-school programs, staff training and quality improvements for centers and family day care homes. A proposal for Fund money must be sponsored by an AT&T employee(s) in an effort to mobilize AT&T employees to become involved in their communities.

Contact:
Deborah Stahl
Director, Family Care Development Fund
AT&T
1 Speedwell Avenue - West Tower, Room 414
Morristown, NJ 07962-2204
(201) 898-2228

DuPont: Wilmington, Delaware

In 1984, in response to an employee survey that indicated that nearly three quarters of DuPont's employees with young children (or 25 percent of its total work force) use some form of child care outside the home, DuPont decided to establish a statewide resource and referral service in Delaware where a large percentage of its employees live. In addition, the company has provided an estimated $2 million to fund the expansion of Delaware's supply of child care. The Wilmington division has opened a sick child care program. More recently, DuPont has become involved in the establishment of a national child care and elder care resource and referral service for its employees, serving over 5,000 people in its first year.

Contact:
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Nemours Building
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Wilmington, Delaware 19898
(302) 774-1000

2. Public/Private Partnerships

A public/private partnership is a joint venture of public agencies (federal, state, county and/or local governments), business and the voluntary sector organized to address their respective child care concerns. Public/private partnerships are different from employer-supported child care benefits as the latter are generally targeted to the employer's own work force, while public/private partnerships are usually directed at the community at large.[36]

36 Euben, Donna, and Barbara Reisman, "Public Private Partnerships for Child Care," Child Care Action Campaign, NY: 1991.

Corporate Champions Initiative: Charlotte, North Carolina

In 1987, Bill Lee, Chief Executive Officer of Duke Power Company, encouraged representatives from some of Charlotte's largest employers to explore what could be done to address the child care issues of the expanding county workforce. Nearly 20 businesses committed approximately $330,000 over a three-year period (1988-1991) to a Corporate Champions Fund. The Corporate Champions Task Force of business leaders and child care advocates was created to develop a county-wide strategy to facilitate the expansion of quality child care and to make the funding decisions. In 1992, over $100,000 in new money was donated to continue the child care expansion project.

To date, the Corporate Champions Initiative has helped to distribute nearly $200,000 to center and family day care providers for the creation of over 700 child care spaces, and $100,000 to improve the quality of care. In addition, the Initiative played a key role in prompting city and county government to lease public land to child care facilities at a nominal cost. Corporate Champions also served as the catalyst for an anonymous contribution of $1.3 million for the construction of a new YMCA center, creating 148 more child care spaces in the community.

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APPENDIX I: Federal Financing Of Child Care

Over the past decade, the federal role in child care has shifted from a focus on supply-side subsidies for programs such as Head Start and the Social Services Block Grant that provide grants directly to programs, to demand-side subsidies such as the Dependent Care Tax Credit and Dependent Care Assistance Programs where public funds are given to parents who then purchase services.

Major Federal Programs For Child Care:

Program: **Child and Dependent Care Tax Credit**

Administering Agency: Internal Revenue Service

Amount Spent, 1990: $2.55 billion

Program Goal:
Provides refundable income tax credit to taxpayers with children under 15 years of age or disabled dependents. Families can offset their federal tax bill by deducting a portion of their child care or dependent care expenses.

Program: **Child Care and Development Block Grant (CCDBG)**

Administering Agency: Department of Health and Human Services

Amount Spent, FY 1993: $893 million

Program Goal:
Provides funds to states for direct child care assistance to low- income parents for children under age 13, and to improve the supply of quality child care.

Program:	**Social Security Block Grant (Title XX)**
Administering Agency:	Department of Health and Human Services
Amount Spent, FY 1993:	$2.8 billion

Program Goal:
Provides funds to states to subsidize child care for low and moderate-income families; the state's discretion, Title XX dollars may also be used by states for other social service programs.

Program:	**Head Start**
Administering Agency:	Department of Health and Human Services
Amount Spent, FY 1993:	$2.776 billion

Program Goal:
Funds part-day preschool programs for low-income three- and four- year-old children. The goal of the program is to improve the learning skills, nutrition and health status of low-income children before they start school.

Program:	**Child and Adult Care Food Program**
Administering Agency:	Department of Agriculture
Amount Spent, FY 1993:	$1.273 billion

Program Goal:
Funds nutritious meals and snacks for children in public and private non-profit and in some for-profit child care centers and family day care homes.

Program: **Family Support Act JOBS–Title IV- A Child Care Assistance and Transitional Child Care Program**

Administering Agency: Department of Health and Human Services

Amount Spent, FY 1993: $479 million

Program Goal:
Provides guaranteed child care assistance under the Title IV-A component of this program to AFDC parents who are employed or who participate in education or training programs. Families who leave AFDC are entitled to one year of transitional child care assistance under the transitional care component.

Program: **Title IV-A At-Risk Child Care**

Administering Agency: Department of Health and Human Services

Amount Spent, FY 1993: $300 million

Program Goal:
Provides child care to non-AFDC low-income families in need of child care in order to work, and who otherwise could be "at-risk" of becoming eligible for AFDC. In this voluntary program, states must match the federal funds at the Medicaid matching rate.

Program: **Aid To Families With Dependent Children (AFDC)**

Administering Agency: Department of Health and Human Services

Amount Spent, FY 1993: $857 million

Program Goal:
Offers federal matching funds for state programs of cash assistance to needy families. The child care component requires states to deduct child care expenditures from the earned income of a family in determining the amount of assistance to working AFDC

parents. States may deduct up to $200 a month for children under 2 years and $175 a month for children over 2 years. This is called an "earned-income disregard."

Program:	**Child Development Associate (CDA) Scholarship Associate Program**
Administering Agency:	Department of Health and Human Services
Amount Spent, FY 1993:	$1.4 million

Program Goal:
Funds state scholarships to needy individuals who are candidates for the CDA training credential.

Program:	**Special Education Preschool and Infant/Toddler Grants**
Administering Agency:	Department of Education
Amount Spent, FY 1993:	$495 million

Program Goal:
Funds state programs serving preschool handicapped children between the ages of three and five years. The infants and toddlers program provides funds to assist states in developing statewide, comprehensive, coordinated, interagency systems of early intervention services for handicapped children aged birth to 2, and their families.

Program:	**Chapter 1**
Administering Agency:	Department of Education
Amount Spent, FY 1993:	$6.125 billion

Program Goal:
Provides funds to local school districts for compensatory education for disadvantaged children, preschool through secondary levels. The above number reflects the estimated two percent of all Chapter 1 monies that are spent on preschool education.

APPENDIX II: Participants in the Constructing Care Financing Roundtable sponsored by: The Child Care Action Campaign and The Center for Policy Alternatives

New York City
November 28, 1990

Gina Adams
Senior Program Specialist
Children's Defense Fund

Tom Cochran
Senior Vice President
Lehman Brothers

Caroline Eichman
Research Director
Child Care Action Campaign

Dana Friedman
Co-President
Families and Work Institute

Fred Goldman
Associate Professor
New School for Social Research

Elinor Guggenheimer
Founding President
Child Care Action Campaign

Rebecca Haag
Vice President
Work/Family Directions

Heidi Hartman
Director
Institute for Women's Policy Research

Anne Hoskins
Coordinator, Public Capital Programs
Center for Policy Alternatives

Mark Jahr
Program Director
Local Initiatives Support Corporation

Alfred Kahn
Professor Emeritus
Columbia University School of Social Work

Nancy Kolben
Deputy Director, Child Care Inc.
President, NACCRRA

Elliot Lehman
Chairman Emeritus
FEL-PRO, Inc.

Lynn Manfredi
National Association for Family Day Care

Bart Naylor
Policy Analyst
American Federation of State, County, & Municipal Employees

Ronald Phillips
President
Coastal Enterprises,Inc.

Barbara Reisman
Executive Director
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Mareanita Reynes
Community Service Specialist
Enterprise Foundation

Anne Shkuda
New York State Office of Economic Development

Hildy Simmons
Vice President
J.P. Morgan & Co.

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Jan Stokely
Attorney
National Economic Development & Law Center

Richard B. Stolley
President
Child Care Action Campaign

Donna Talbert
Program Director
Center for Policy Alternatives

Linda Tarr-Whelan
President and Executive Director
Center for Policy Alternatives

APPENDIX III: NATIONAL RESOURCES

For additional information on alternative financing mechanisms for child care, child care regulations, state and federal funding opportunities, or quality standards for child care, call or write:

CHILD CARE ACTION CAMPAIGN
330 7th Avenue, 17th Floor
New York, N.Y. 10001
(212) 239-0138

A national non-profit public education, research, and membership organization that provides information and original research to the public, government and corporate policymakers about the needs of families, and the connection between these needs and national prosperity.

CENTER FOR POLICY ALTERNATIVES
1875 Connecticut Avenue, N.W.
Suite 710
Washington, D.C. 20009
(202) 387-6030

A national non-profit center for progressive policy for state and local government that provides policy models, direct technical assistance and a broad range of publications for government officials and the public. Provides model child care finance policy models.

CHILDREN'S DEFENSE FUND
25 E Street, N.W.
Washington, D.C. 20001
(202) 628-8787

A national organization that monitors the development and implementation of federal and state policies and provides technical assistance and support to state and local child advocates.

FAMILIES AND WORK INSTITUTE
330 7th Avenue, 14th Floor
New York, N.Y. 10001
(212) 465-2044

A research and planning organization that conducts research on business, government and community work and family efforts.

NATIONAL ASSOCIATION OF CHILD CARE RESOURCE AND REFERRAL AGENCIES (NACCRRA)
2116 Campus Drive, S.E.
Rochester, Minnesota 55904
(507) 287-2020

A national organization of community-based child care resource and referral agencies.

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN (NAEYC)
1834 Connecticut Avenue, N.W.
Washington, D.C. 20009
(202) 232-8777

A membership-supported organization that provides books and resources on topics related to early childhood education.

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Child Care Action Campaign
Board of Directors