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Booklet, "Small Business Administration Borrower's Guide," 29 pages

U.S. Small Business Administration
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Championing America's Entrepreneurs

U.S. Small Business Administration

SBA

Championing America's Entrepreneurs

BORROWER'S GUIDE

Eligibility Requirements

Virtually any type of for-profit small business is eligible for the MicroLoan Program. The form of the business, whether a proprietorship, partnership or corporation, is not a determining factor. It must, however, meet the SBA's size standards at the time of application (generally, borrowers applying for this type of loan will fall well within these standards).

Use of Loan Funds

MicroLoan funds may be used for working capital or to purchase inventory, supplies, furniture, fixtures, machinery and/or equipment. These funds may not be used to purchase real estate, to provide a down payment on a project in excess of $25,000 in value, or, with limited exceptions, to refinance existing debts.

Loan Terms

Under the MicroLoan Program, the maximum loan amount is $25,000. The average is around $10,000.

The maximum term allowed for a loan is six years. However, loan terms vary according to the size of the loan, the planned use of funds, the requirements of the intermediary lender, and the needs of the small business borrower.

Interest rates vary, depending upon the intermediary lender. Rates are generally competitive.

Credit Requirements

MicroLoan applicants must meet the credit requirements of their local intermediary lender. Generally, however, applicants will be expected to demonstrate good character, a strong commitment to their business idea, and a credit history that demonstrates a reasonable assurance that the loan will be repaid. In addition, applicants should have some management expertise or be willing to participate in training designed to strengthen management skills.

Collateral Requirements

As with credit standards, collateral requirements for the MicroLoan Program are set by the local intermediary lender. In most cases, loans are at least partially collateralized by equipment, contracts, inventory or other property. Lenders may also require personal guaranties.

Applying for a Microloan

The first step in applying for a microloan is to contact your local intermediary lender. The lender in your area may be listed on the back of this brochure. The intermediary will provide the details on applying for a loan or receiving technical assistance.

The MicroLoan Program is a pilot program and not available everywhere. If no intermediary lender is listed on the back of this pamphlet, contact your nearest SBA office to find out if one operates in your area.

For More Information

Information is power. Make it your business to know what is available, where to get it and, most importantly, how to use it. Sources of information include:

U.S. Small Business Administration

- SBA District Offices
- SBA OnLine (electronic bulletin board)
- Business Information Centers (BICs)
- One-Stop Capital Shops (OSCSs)*
- Service Corps of Retired Executives (SCORE)
- Small Business Development Centers (SBDCs)
- U.S. Export Assistance Centers (USEACs)*
- Women's Business Centers (WBCs)*

** Inquire at your local SBA office as to availability.*

The SBA has offices located throughout the United States. For the one nearest you, look under "U.S. Government" in your telephone directory, or call the SBA Answer Desk at (800) U-ASK-SBA or (800) 827-5722. To send a fax to the SBA, dial (202) 205-7064. For the hearing impaired, the TDD number is (704) 344-6640.

To access the agency's electronic public information services, you may call:

SBA OnLine:

electronic bulletin board (modem and computer required)

- (800) 697-4636 *(limited access)*
- (900) 463-4636 *(full access)*
- (202) 401-9600 *(D.C. metro area)*

Internet:

using uniform resource locators (URLs)

- *SBA home page:* www.sba.gov
- *SBA gopher:* gopher.sba.gov
- *File transfer protocol:* ftp.sba.gov
- *Telnet:* telnet.sba.gov
- *U.S. Business Advisor:* www.business.gov

You may also request a free copy of *The Resource Directory for Small Business Management*, a listing of for-sale publications and videotapes, from your local SBA office or the SBA Answer Desk.

Other Sources of Information

- State economic development agencies
- Chambers of commerce
- Local colleges and universities
- Libraries
- Manufacturers and suppliers of small business products and services
- Small business or industry trade associations

Did You Know

that the SBA —

- has a portfolio guaranteeing over $29 billion in loans to 200,000 small businesses that otherwise would not have had such access to capital?
- guaranteed over 52,700 loans totaling $10 billion to America's small businesses in fiscal year 1996?
- extended management and technical assistance last year to nearly 850,000 small businesses through its 950 small business development centers and 13,000 SCORE volunteers?
- provided nearly 38,000 loans totaling $987 million to disaster victims for residential, personal-property, and business losses in fiscal year 1996?
- has 7,000 private-sector lenders as partners providing their capital to small buisnesses?
- has increased its venture-capital program with more private capital in the past two years than in the previous 15 years combined?
- provides loan guaranties and technical assistance to small business exporters through U.S. export assistance centers in 15 cities?
- can respond to written small business questions through the U.S. Business Advisor on the Internet (www.business.gov)?

that America's 22 million small businesses —

- employ more than 50 percent of the private workforce?
- generate more than half of the nation's gross domestic product?
- are the principal source of new jobs?

that the MicroLoan Program —

- has provided over 6,000 loans of $25,000 or less since 1993?
- has loaned more than $60 million to start-up, newly established and growing small businesses?
- has assisted other microbusinesses in obtaining over $24 million in loans from nongovernment sources?

Your local MicroLoan Program contact:

All of the SBA's programs and services are provided to the public on a nondiscriminatory basis.

FS0068 (07/97)

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U.S. Small Business Administration

SBA

Championing America's Entrepreneurs

The Facts About ...

Micro Loans

The MicroLoan Demonstration Program combines the resources and experience of the U.S. Small Business Administration with that of locally based nonprofit organizations to provide small loans and technical assistance to small businesses. Under the MicroLoan Program, the SBA makes funds available to qualified nonprofit organizations, which act as intermediary lenders. The intermediaries use the funds provided by the SBA to make loans to new and existing small businesses.

Under the MicroLoan Program, a small business can borrow up to $25,000 from an intermediary lender, which also provides management and technical assistance designed to help ensure success.

United States Senate
Committee on Banking, Housing, and Urban Affairs

S. 2178, The "Childrens Development Commission Act"

Tuesday, October 6, 1998
11:00 a.m.

WITNESS LIST

PANEL 1

Senator Herb Kohl (D-WI)

Representative Carolyn B. Maloney (D-NY)

Representative Richard H. Baker (R-LA)

PANEL 2

Ms. Mildred Wurf
Director of Public Policy
Girls Incorporated
Washington, DC

Ms. Melinda Green
Director
African-American Early Childhood Resource Center
National Black Child Development Institute
Washington, DC

Ms. Faith Wohl
President
Child Care Action Campaign
New York, NY

Ms. Cheryl Luce
Prospective Child Care Provider
Boothwyn, PA

Hearing Memo

For: Members and Staff, Senate Banking Committee
From: Majority Staff
Re: October 6 Hearing on Children's Development Commission Act (S. 2178)

On October 6, 1998 at 11:00 am, the Senate Banking Committee will hold a hearing on The Children's Development Commission Act (S. 2178). S. 2178 was introduced on June 16, 1998 by Senator Herb Kohl and Senator Alfonse D'Amato. A companion measure, H.R. 3637, was introduced in the House by Representatives Richard Baker and Carolyn Maloney on April 1, 1998.

The following Members and witnesses are expected to testify:

Senator Herb Kohl (D-WI)
Representative Richard Baker (R-LA)
Representative Carolyn Maloney (D-NY)

Faith Wohl, President, Child Care Action Campaign (New York)
Melinda Green, Director, African American Early Childhood Resource Center of the National Child Development Institute (Washington, D.C.)
Mildred Wurf, Director of Public Policy, Girls Incorporated (Washington D.C.)
Meredith Wagner, Senior Vice President for Public Affairs, Lifetime Television (New York)

The hearing is expected to cover the following topics: (1) the merits of S. 2178; (2) the lack of available private financing for child care improvement and start-up costs; (3) the need for increased federal support for affordable, quality child care; and (4) the importance of quality child care on early child development.

Statement of Problem

S. 2178 was created in response to the growing need for affordable, quality child care throughout the nation. A number of factors account for the lack of availability and affordability of child care. Among these are a rapid expansion of demand, driven in part by the prevalence of two-earner couples and the enactment of welfare reform, and a restricted supply exacerbated by a lack of private mortgage credit. For example, in 1970, 30% of American children under 6 lived with working parents. In 1997, the same figure rose to 63%.

The high cost of child care impacts directly on families. For example, in New York, child care for one four-year-old child in a child care center cost an average of $5,612 per year in 1995. Nationally, the majority of working women (55%) provide more than half of their household income and one out of three children of working women are living in poverty or would be if their mothers did not work. The lack of decent, high quality child care also impedes the development of critical learning skills these children will need in order to succeed later in life.

Lack of affordable quality child care impacts not just families, but the economic health of the entire country. The amount U.S. employers lose due to child care-related absences is estimated at $3 billion.

S. 2178

The Children's Development Commission Act would:

I. Authorize a one-time $10 million appropriation for the start-up costs of the 'Children's Development Commission' (known as "Kiddie Mac"). The Commission will be self-sustaining after this initial appropriation.

The Kiddie Mac Commission would: (1) certify child care facilities as eligible for FHA mortgage insurance; (2) establish standards for mortgage insurance eligibility; (3) issue micro-loans of up to $50,000 to child care facilities for new construction or physical repairs of child care centers; and (4) establish a research foundation to support and disseminate research relating to child care and to fund programs to test innovative improvements in child care.

II. Create authority for HUD's Federal Housing Administration to offer mortgage insurance for the new construction or physical improvement of child care facilities.

The availability of federal insurance should reduce lender risk and spur the provision of private capital for:

- the construction of new child care centers;
- the improvement of existing facilities; and
- the cost of purchasing and installing fire prevention and safety equipment.

Copies of the bill are available in 534 Dirksen. Any questions should be referred to David Hardiman at 4-9384, or Melody Fennel at 4-3223.

U. S. Senate Committee on Banking, Housing, and Urban Affairs
Hearing on S. 2173
October 6, 1998

SUMMARY
Statement on behalf of Girls Incorporated and National Collaboration for Youth

When considering child care in the United States, attention must be paid to the vast needs of children ages 5 - 14, five million of whom are left with unstructured, unsupervised time in the out-of-school hours. The hours of 3:00 to 8:00 pm are peak times for juvenile crime and for children to feel threatened by violence, street gangs, easy access to drugs, and other dangers. These empty hours are also a wasted opportunity for children to participate in constructive, supervised activities that support emotional growth, improve academic performance, build and maintain healthy bodies and develop their capacity for responsible adulthood.

The problem is not in wondering what to do with this time; it is in making well-established programs available to kids in need. The supply of center-based child care does not increase to meet this demand because revenues earned in the marketplace are too small, costs for most families are too high and the capital investment needed is often too great. S. 2173 can provide help with the latter.

A new national poll conducted for the Mott Foundation reveals 93% of all Americans support afterschool programs, even to the point of 80% being willing to have their taxes raised for this purpose.

Public schools should be fully utilized and the resources provided by community-based youth development organizations must be involved in the planning and delivery of services. Many such agencies now provide most of the out-of-school care available in this country and examples are provided in the testimony. The type of financial help for renovation and expansion of facilities offered by S. 2173 could be a first step to increasing availability of services. Much greater sums than proposed are needed, however.

The federal government has many important roles to play in meeting the crisis in the need for child care including: encouraging partnerships between schools and community-based organizations; assuring the availability of funding to local coalitions to provide diverse programs, for renovation of facilities and for the screening and training of staff and volunteers; ensuring that facilities make consistent appropriate space available and programs available during normal working hours whenever schools are closed; providing incentives to employers to increase access to quality and affordable school-age child care; funding for transportation; and establishing rewards and incentives for adherence to recognized standards such as those developed by the National School-Age Child Care Alliance and other accrediting bodies.

S. 2173 can be a first step toward the provision of adequate quality afterschool child care. The need for this care is widely understood by the public and the overwhelming parents and non-parents alike supports efforts to meet that need.

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girls inc.®

Helping girls become strong, smart and bold℠

STATEMENT

of

MILDRED KIEFER WURF

on behalf of

GIRLS INCORPORATED

and

NATIONAL COLLABORATION FOR YOUTH

Before
U.S. Senate
Committee on Banking, Housing and Urban Affairs

October 6, 1998
538 Dirksen Senate Office Building

Mr. Chairman and Members of the Committee;

Good afternoon and thank you for the opportunity to share our views on child care in this country, as you consider S. 2178, "Children's Development, Commission Act". My name is Mildred Kiefer Wurf and I am appearing here today on behalf of Girls Incorporated® and the National Collaboration for Youth.

Girls Incorporated is a national youth-serving organization dedicated to inspiring all girls to be strong, smart and bold. Founded in 1945, Girls Incorporated serves 350,000 school-age children most whom are girls 6-18 years of age, at over 1,000 program sites nationwide. Some know us under our former name, Girls Clubs of America. I serve as the Director of Public Policy and am located in Washington, D.C. Our national headquarters is in New York, our National Resource Center is in Indianapolis, and our affiliates are located throughout the country.

The National Collaboration for Youth includes 27 of the nation's leading youth development organizations, including Girls Incorporated, the YMCA of the USA, Campfire Boys and Girls, the YWCA, Boys and Girls Clubs, Big Brothers and Big Sisters, 4-H, Boys Scouts and Girls Scouts, and the American Red Cross. The members of the National Collaboration for Youth comprise the nation's largest providers of programming for young people in the out-of-school hours. Collectively, the organizations serve 40 million young people each year, with 6 million volunteers and 100,000 full time staff members. I chair the Washington Support Group of the Collaboration, that is, the public policy directors of the agencies.

Often, when the subject is about child care, we picture providing supervision and safety for infants and toddlers who could not manage on their own. Today, I want to focus on the needs of the those who are a little older, those between the ages of 5 and 14, who need care and supervision and who are old enough to look for trouble when left alone.

The after-school hours can be some of the most dangerous times for school-age children in this country and millions of children are on their own during much of that time.

Consider these facts, in the United States:

- Twenty-five million children have parents who work outside the home.

- Each week, five million school-age children are left with unstructured, unsupervised time in the out-of-school hours.
- Children spend more of their out-of-school time watching television than any other single activity. The most cursory look at today's programming reveals considerable emphasis on violence, sexuality, and impulsive behavior.

Many adults remember their out-of-school hours as time to play with friends, explore the neighborhood, or ride bikes. Then, as young people, they entertained themselves, secure in the knowledge that a neighbor or relative was nearby. They remember feeling safe. Today, school-age children say they do not feel safe in their neighborhoods or even in their homes. Gangs, street violence, easy access to drugs, and other dangers threaten their health and safety.

The after-school hours are also "prime time for unsupervised children to experiment with drugs, alcohol, sexual activity, vandalism, or truancy. The FBI reports that juvenile crime peaks during the hours of 3:00p.m. and 8:00p.m.

Researchers have found that school-age children who are engaged in organized programs during these non-school hours are less likely to drop out of school, smoke cigarettes, use other drugs, and become a teen-age parent. Common sense tells us that these children are also safer when trained and caring adults are close by and responsible for children's safety.

The empty hours they have each day also represent a wasted opportunity, so well described in the Carnegie Council on Adolescent Development's report *A Matter of Time.*

Like the Carnegie Council, the National Collaboration for Youth and Girls Incorporated recognize the rich opportunity that out-of-school hours provide for school-age children to participate in constructive supervised activities. These activities can introduce youth to new interests, support emotional growth, improve their academic performance, build and maintain healthy bodies, and develop healthy relationships with their peers and caring adults. Children can build their capacity for responsible and successful adulthood. The out-of-school hours can give children, especially those who may not excel in the formal classroom, another opportunity to grow. However, the major message of *A Matter of Time* is that there are not enough opportunities available for all children. Millions of school-age children are on their own when not in school. Someone described this as "Zoo children in the room, with a million peering through the window."

The lack of affordable, organized, school-age programs during the non-school hours presents a problem that cuts across economic, racial, and regional lines. Basic childcare, can cost $4,000 to $10,000 a year. Many parents face great difficulty finding childcare options they can afford and feel good about leaving their children in. But the supply of center-based child care does not increase to meet the demand because the revenues earned by providers are too little and the capital investment needed is often too great. S. 2173 begins to address this aspect of the problem.

"The need and demand for high-quality after-school programs is tremendous," said US Secretary of Education, Richard Riley. "From every state in the nation, from large cities to small rural areas, parents, teachers and children say they need before and afterschool programs to help keep young people in safe places, out of trouble and engaged in positive learning experiences."

The results of a new national poll sponsored by the Mott Foundation were released just two weeks ago. The poll found strong support for afterschool programs across party lines and among parents and non-parents alike. Ninety-three percent of all respondents said they favor making safe, daily enrichment programs available to all children. The crucial finding was that Americans overwhelmingly endorse the expansion of afterschool programs, including 80 percent who said they would be willing to raise their taxes to offer programs to children.

National efforts to increase the supply of school-age care should emphasize the expansion of the existing out-of-school programs that have been shown effective.

As detailed in *"A Matter of Time"*, a rich variety of existing youth development programs that increase academic readiness, decrease delinquent behavior, and increase individual responsibility. The same findings reported in studies by The Eisenhower Foundation, Public Private Ventures, The Kaufman Foundation and many others. Again the difficulty is that such programs are not available to all young people who need and want them. While S. 2178 does not directly address this larger question of the need for a vast increase of availability, it does offer targetted help that can be seen as an opening legislative wedge to a solving the problem of an inadequate supply of services- the nose of the camel in the tent, if you will.

The public school system should be fully utilized, but simply having schools stay open past 3:00 p.m. on school days is not a quick fix. Children need programs in the non-school hours that offer a safe, inclusive, predictable, and informal environment. That environment should respect and encourage the power of play and interpersonal relationships. Programs must be available on days the school is closed, including summers, winter vacations, parent-teacher days and other times when school is not in session.

School buildings offer substantial potential for providing this environment but these facilities also present many challenges. For example, the typical school insurance policy may not cover programs and activities during the non-school hours, which means requiring an additional insurance policy. At a time when many schools face cutting academic classes due to budgetary concerns, schools may be reluctant to open their doors for extended hours. Doing so means paying the custodian time-and-a-half to care for the building or hiring additional security for the safety of participants and school grounds; it means additional heating and lighting. Some school buildings are not air-conditioned because they have never been open during the summer months.

Private, community-based organizations must play an integral role in planning for and providing services and supervised, out-of school programming to school-age children. They should be recognized, supported, and tapped as a resource as the nation struggles with child care issues.

Trained caregivers or program coordinators offer age-appropriate and enriching activities that acknowledge a child's unique personality and interests. Youth development agencies offer experience and expertise in training youth workers, in providing quality programs, and in working with school-age children. Agencies typically have established relationships with community leadership and funding agencies through their volunteers, board members, and funding base. In addition any community based organizations have facilities appropriate for out-of-school care, which can offer the feature of choice to families seeking services. Private, community based organizations are valuable community resources and must be included in the community-wide planning and delivery of services to school-age children.

Here are a few real-life examples of services provided by non-profit youth agencies:

Girls Incorporated of Shelbyville (Indiana) offers a full-time summer program and weekday after-school programs for girls until 8:30 p.m. Each day one hundred and thirty girls ride the school bus to Girls Inc. to participate in supervised activities that help them develop new skills and interests. During school holidays, summer vacation, and parent-teacher conference days, Girls Inc. opens its doors at 7:00 a.m. Working parents in Shelbyville count on Girls Inc. to help fill in the gaps between the non-school hours and their work schedules.

Funds from the Child Care Development Block Grant (CCDBG) support these Girls Incorporated programs. Executive Director Barbara Anderson worries about their ability to continue offering child care services. Local councils control the distribution of CCDBG funds. Without a specific set-aside for school-age care and for community-based organizations, many councils designate the money predominantly for early childhood care or in-home babysitters. She sees Indiana moving in that direction, threatening a major source of funding for their school-age programs that offer services needed in the community.

Parents of school-age children in Birmingham, Alabama send their children to public, private or parochial schools—and each school has a different academic calendar. **Girls Incorporated of Central Alabama** partners with parents to keep their school-age youth out of unsafe neighborhoods and away from the dangers of unstructured unsupervised time by offering quality, fun programs.

When a few schools in Birmingham adopted a "continuous calendar" working parents became worried—how will they ensure their school-age children are safe, supervised, and happy during the new two-week breaks in October, December, and April? Girls Inc. responded quickly by opening their doors for expanded hours during these breaks and offering age-appropriate, fun, and enriching activities for the children. However, opening the center for extra hours means extra costs.
Girls Inc. of Central Alabama consistently has a waiting list roughly equivalent to 10 percent of their enrollment. During the summer months, they must turn away parents and girls in droves due to space and staff limitations. Executive Director Ellen Rae Smith Grady notes that many local funders are eager to fund programs and activities, but not "keeping the lights on" and other operational costs.

Based in Syracuse, NY **the Camp Fire Boys and Girls Council** serves low income children in the city itself and surrounding rural areas. As part of a diversified youth development program, they provide all day child care at their Camp Fire Camp during the school breaks in February and April as well as all summer. Called Child Care at Camp, this program provides rare opportunities for these youngsters to learn about nature and experience the fund of canoeing, swimming, hiking and other outdoor activities. It is collaborative in nature, for example the Council secures bus transportation for rural children to go to "Child Care at Camp" from the Onondaga County Opportunities program, which functions with state and federal money. The program cannot serve all children who apply but in order to expand, the camp site needs additional restroom facilities. The Director would welcome the kind of low-income loan that which would be provided through Kiddie Mac.

Responding to community requests, the **YWCA of Kansas City** began offering programs at three schools during the non-school hours.

The YWCA offers structured and fun activities until 7:00 p.m. every evening. The children who attend come from low-income homes. If the YWCA charged more for their services or stopped offering their programs, these children would be home alone or out on the streets.

They moved their programs to schools to circumvent transportation obstacles that prevented some youth from participating in their programs. The move, however, brought many challenges. The YWCA and the schools must constantly find the funds to pay for the additional maintenance, janitorial, and security costs associated with keeping the school open extended hours. Government and foundations fund their programs and volunteers serve as staff, but the YWCA must look to the school to cover some of the additional facility costs.

The Virtual YMCA is a cooperative venture among the **YMCA of Greater New York,** the New York City Board of Education, and the United Way. This unique program, now in 67 elementary schools throughout the city's five boroughs, operates five days a week from 3 to 6 p.m. throughout the school year. The long-term plan is to bring the program to 200 of the most under-served schools.

Each program site follows a standard curriculum, developed by the staff of the YMCA, that focuses on improving the literacy skills of second, third, and fourth grade students. In addition, the curriculum includes recreational activities as well as activities related to values.

Funding for salaries and supplies for each site comes through sponsorships provided by businesses and individuals in New York City. The administrative portion of the program is funded by foundations and government. The New York City Board of Education covers the cost of operating fees for each site as well as the cost of building security.

These are a few examples that show how community-based organizations are essential resources for school-age children, their parents, and the community and how they often depend on government funds for part of the costs of operating child care services. Further, in every case, more children could be served if more funds were available. In many cases, the money proposed by Kiddie Mac would greatly assist an expansion of service.

I think you can begin to see some of the issues communities face in providing school-age child care. The setting for out-of-school programs could be a school, a community center, or the facility of a community-based organization. Regardless of where it is, working parents need to know that their child is safe, well supervised and engaged in stimulating activities that they can afford.

The federal government should play a significant role in addressing the problem of child care by helping to insure that school-age children have accessible, affordable, high quality care during the non-school hours.

Child care legislation should:

- Encourage meaningful partnerships between schools and community-based organizations in order to provide a wide range of activities in non-school hours, enabling young people to meet their basic physical and social needs by building individual assets and competencies they need to participate successfully in adolescence and adulthood;

- Assure that funding for school-age care programs is accessible to coalitions of youth-serving entities and organizations at the local level so that programs can meet the diverse needs of families in each respective community and respect parental choice;

- Stipulate those facilities that house school age programs should make consistently available appropriate spaces for such programs;

- Provide funding opportunities to renovate existing facilities as necessary to ensure appropriate after-school care use;

- Help assure that school-age child care programs are designed around the normal working hours of parents and are available during the summer and other periods when schools are closed. Incentives to schools to open their facilities to community-based organizations during the non-school times, including summers are one way to accomplish this;

- Provide incentives to private employers, including private, not-for-profit employers, to increase their employees' access to quality and affordable school-age child care, perhaps offering subsidies to parents or community-based organizations;

- Include funds for transportation, perhaps giving incentives to schools to use their buses to provide services. Access to transportation should be given special emphasis in low-income communities and in rural areas;

- Provide funding for after-school programs to screen and train staff and volunteers;

- Establish rewards and incentives for adherence to recognized standards of quality, such as those developed by the National School-Age Care Alliance and other accrediting bodies.

Finally, there is a great need for "glue" money to establish community-wide systems, linking new and existing programs together to provide choice and support for families, rather than continuing to operate programs in isolation with parents left on their own to sort out the loose strands.

S. 2178, the Children's Development Commission Act, is one piece of legislation that can contribute to finding new ways to meet the enormous need for child care. Establishing a commission to serve as a catalyst for private-sector construction and development lending can improve the number and quality of child care facilities nationwide. It is essential that these funds be available to community-based organizations as well as public agencies and that funds be available in an amount that meets the need, a far greater sum than is proposed. We believe that S. 2178 is a valuable idea to get the ball rolling.

We would be pleased to work with you as you develop legislation to expand child care by addressing the financial issues inherent in this expansion, such as incentives, subsidies and direct loans for renovation, construction and certification fees. Such financial assistance can overcome many of the obstacles to providing sufficient child care to meet the needs of our country's families, a need recognized by 90% of America's population. We are encouraged by the innovative first step represented in S. 2178.

American parents need expanded opportunities for school-age care during the out-of-school hours. Community-based organizations stand ready to offer their expertise, training, programs, and resources to provide opportunities for young people during the out-of-school hours.

NATIONAL
BLACK
CHILD
DEVELOPMENT
INSTITUTE, INC.

TESTIMONY OF THE NATIONAL BLACK CHILD DEVELOPMENT INSTITUTE (NBCDI)

SUBMITTED TO

THE U.S. SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

ON

S. 2178, THE CHILDREN'S DEVELOPMENT COMMISSION ACT

OCTOBER 6, 1998

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SUMMARY

The Children Development Commission Act's (S. 2178) Role in Increasing the Availability of High-Quality Child Care

NBCDI supports the objective of the Children's Development Commission Act (S. 2178) to increase the availability of quality child care. This is a critical need given: 1) the developmental needs of young children; and 2) the demand for child care among working parents, exacerbated by the work requirements of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193).

S. 2178 would expand the availability of quality child care by making loans more readily available to child care providers for the construction, expansion and improvement of child care and development facilities. In addition, the legislation offers reasonably priced liability insurance to child care providers to prevent the cost of insurance from becoming a barrier to starting a child care facility. NBCDI is pleased that the legislation provides mechanisms for improving the quality of child care. These mechanisms include: 1)the establishment of federal standards and requirements by the Department of Housing and Urban Development regarding child care and development facilities, designed to ensure that mortgage insurance is provided only for safe, clean and healthy facilities that provide appropriate care and development services for children; 2) the requirement that the Children's Development Commission must certify that child care facilities are in compliance, or will be within 12 months, with local, state and federal child care standards as a condition for HUD to insure mortgages; 3) the provision of small purpose loans to help child care facilities improve the quality of their care; and 4) the establishment of a foundation to support research relating to child care and development facilities, to fund pilot programs to test innovative methods for improving child care, and to engage in public education activities and publish materials to guide those interested in mortgage insurance and other assistance provided by the Commission. These provisions begin to respond to the pressing need to improve the quality of child care.

The quality and safety of child care varies widely between states (*Working Mother*, 1997). Research indicates that "states ... with more demanding licensing standards have fewer poor-quality centers; centers that comply with additional standards beyond those required for basic licensing (such as those required for funding or accreditation) provide higher quality services" (Helburn, et al., 1995).Therefore, NBCDI supports the provision of S. 2178 (Section 3 (d)(1) and (d)(2)) that establishes that no mortgages may be insured by HUD unless the Children's Development Commission certifies that the child care facility is in compliance or will be in compliance within 12 months with: 1) state and local licensing and registration requirements; *and* 2) standards and requirements regarding child care and development facilities established by the Secretary of Housing and Urban Development that are designed to ensure that mortgage insurance is provided only for safe, clean and healthy facilities that provide appropriate care and development services for children. The authorization of the establishment of "standards and requirements regarding child care and development facilities" in Section 5(c)(2), offers a precious opportunity to ensure that facilities receiving loans through this legislation offer high quality child care, regardless of their individual states' licensing and registration requirements.

Recommendations for Improvement to S. 2178

I. Model Federal Child Care Standards After National Accreditation Systems to Ensure that Participating Child Care and Development Facilities Provide High Quality Child Care

NBCDI recommends that the Secretary of Housing and Urban Development adopt the accreditation system of the National Association for the Education of Young Children. This is a professionally sponsored national, voluntary system that represents the consensus of the early childhood profession regarding the definition of a high quality program for young children (NAEYC). In addition, NBCDI recommends that the Secretary of Housing and Urban Development also establish standards regarding family day care that reflect a national, voluntary accreditation system such as the one being developed by the National Association for Family Child Care and the National Family Child Care Accreditation Project at Wheelock College.

II. Expand Function and Requirements Regarding Small Purpose Loans

NBCDI recommends amending Section 5 (c)(3) to expand the function of small purpose loans to include helping facilities comply with state licensing and registration standards and federal standards that meet NAEYC's accreditation requirements. Additionally, this subsection should be amended to state that loans shall be made only for such facilities that will comply with these standards of quality no later than 12 months after certification of compliance by the Children's Development Commission. These changes, combined with the current language of the subsection, will ensure that small purpose loans will function to improve the quality of child care.

NBCDI is pleased that the House Banking Committee is discussing increasing the length of maturity of the small purpose loans from 7 to 15 years in the House version of the Children's Development Commission Act. This is an improvement we strongly recommend for S. 2178. Extending the maturity of the loan will make it more affordable for child care providers.

III. Provide Technical Assistance to Child Care and Development Facilities

NBCDI is pleased by the technical assistance provisions being discussed by the House Banking Committee; but we have some additional recommendations for strengthening them.

Equally important as providing loans to child care facilities is providing technical assistance to help providers: 1) qualify for loans, and 2) use the loans to effectively manage child care and development facilities and increase the quality of child care. Child care providers typically know more about caring for children than financial management, fund-raising, or facility construction and renovation (Mitchell, Stoney, Dichter, 1997). **NBCDI recommends that a mechanism is**

provided in S. 2178 for the provision of technical assistance to child care providers seeking loans. This technical assistance should be provided by stakeholders in the community in which the child care facility is or will be located, and who have expertise in early childhood education, and the fiscal and legal aspects of child care.

The value of technical assistance lies in its ability to: 1) strengthen child care facilities financially through the development of a sound business plan; and 2) improve the quality of child care through staff development and training.

There are five phases of technical assistance provided by the Child Care Collaboration, an ongoing New Jersey project that provides technical assistance and low-interest loans through a revolving loan fund to child care centers, that NBCDI recommends using as a guide for the development of technical assistance provisions in S. 2178: 1)selection of child care and development facilities, 2) diagnosis and evaluation of child care and development facilities, 3)staff development and training, 4)ongoing technical assistance, and 5) evaluation of outcomes. A description of each phase is included in the body of the testimony.

IV. Conclusion

Child care facilities in general, particularly nonprofit programs in low-income neighborhoods, have difficulty securing loans. There are several reasons. First, many facilities are operating in space occupied at reduced rent, thereby allowing them to charge reduced fees to parents. Incurring debt means they would have to raise fees or receive increased reimbursement rates from the government. Second, child care programs often do not have the equity needed to secure a loan. Third, often child care providers know more about teaching children than they do about managing a loan (Mitchell, Stoney, Dichter, 1997). Therefore, it is critical that additional legislation is enacted to provide grants, rather than loans, to child care providers, particularly in low-income communities.

I am Melinda Green, director of the National Black Child Development Institute's (NBCDI) African American Early Childhood Resource Center. I am pleased to provide testimony on the Children's Development Commission Act (S. 2178) on behalf of the National Black Child Development Institute. For the past 27 years, NBCDI and our nationwide affiliate network have worked to improve and protect the lives of African American children and families by focusing on the areas of early care and education, health, child welfare, and education. NBCDI and our affiliates provide our constituents with direct services, public education programs, leadership training, and research.

NBCDI supports the objective of the Children's Development Commission Act (S. 2178) to increase the availability of quality child care. This is a critical need given: 1) the developmental needs of young children; and 2) the demand for child care among working parents, exacerbated by the work requirements of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193). In 1994, the most recent year for which Census Bureau data are available, more than half of children under age 5 (10.3 million) were in need of child care while their mothers worked (Casper, Lynn, 1994). The labor force participation rate of women with children under 6 increased from 39 percent in 1975 to 65 percent in March, 1998 (U.S. Dept. of Labor). Parents need access to affordable, high quality child care to stay in the work force.

S. 2178 would expand the availability of quality child care by making loans more readily available to child care providers for the construction, expansion and improvement of child care and development facilities. In addition, the legislation offers reasonably priced liability insurance to child care providers to prevent the cost of insurance from becoming a barrier to starting a child care facility. NBCDI is pleased that the legislation provides mechanisms for improving the quality of child care. These mechanisms include: 1)the establishment of federal standards and requirements by the Department of Housing and Urban Development regarding child care and development facilities, designed to ensure that mortgage insurance is provided only for safe, clean and healthy facilities that provide appropriate care and development services for children; 2) the requirement that the Children's Development Commission must certify that child care facilities are in compliance, or will be within 12 months, with local, state and federal child care standards as a condition for HUD to insure mortgages; 3) the provision of small purpose loans to help child care facilities improve the quality of their care; and 4) the establishment of a foundation to support research relating to child care and development facilities, to fund pilot programs to test innovative methods for improving child care, and to engage in public education activities and publish materials to guide those interested in mortgage insurance and other assistance provided by the Commission. These provisions begin to respond to the pressing need to improve the quality of child care.

The Need to Expand the Availability of High Quality Child Care

Eighty-seven percent of the centers studied in a 1995 national study, *Cost, Quality and Child Outcomes in Child Care Centers*, provided mediocre- or poor-quality services. Seven in ten centers provided mediocre care which may compromise children's ability to enter school ready to learn. Forty percent of the infant and toddler rooms studied endangered children's health and safety (Helburn, et al., 1995). Lack of quality of child care provided in the homes of providers has also been documented (Galinsky, et al., 1994).

This is particularly troubling within the context of brain development research that confirms the first three years of life are critical to the healthy development of children. Lack of a stimulating environment during these early years can have a long-lasting impact on children's development (Carnegie Task Force on Meeting the Needs of Young Children, 1994). On the other hand, research indicates that higher quality child care for children ages 0 to 3 is consistently related to high levels of cognitive and language development (NICHD Early Child Care Research Network, 1997; Child Care Bureau, 1998).This points to the need to ensure that every child has access to high quality child care.

The quality and safety of child care varies widely between states (*Working Mother*, 1997). Research indicates that "states ... with more demanding licensing standards have fewer poor-quality centers; centers that comply with additional standards beyond those required for basic licensing (such as those required for funding or accreditation) provide higher quality services" (Helburn, et al., 1995).Therefore, NBCDI supports the provision of S. 2178 (Section 3 (d)(1) and (d)(2)) that establishes that no mortgages may be insured by HUD unless the Children's Development Commission certifies that the child care facility is in compliance or will be in compliance within 12 months with: 1) state and local licensing and registration requirements; *and* 2) standards and requirements regarding child care and development facilities established by the Secretary of Housing and Urban Development that are designed to ensure that mortgage insurance is provided only for safe, clean and healthy facilities that provide appropriate care and development services for children. The authorization of the establishment of "standards and requirements regarding child care and development facilities" in Section 5(c)(2), offers a precious opportunity to ensure that facilities receiving loans through this legislation offer high quality child care, regardless of their individual states' licensing and registration requirements.

Model Federal Child Care Standards After National Accreditation Systems to Ensure that Participating Child Care and Development Facilities Provide High Quality Child Care

NBCDI recommends that the Secretary of Housing and Urban Development adopt the accreditation system of the National Association for the Education of Young Children. This is a professionally sponsored national, voluntary system that represents the consensus of the early childhood profession regarding the definition of a high quality program for young children (NAEYC). In addition, NBCDI recommends that the Secretary of Housing and Urban Development also establish standards regarding family day care that reflect a national, voluntary accreditation system such as the one being developed by the National Association for Family Child Care and the National Family Child Care Accreditation Project at Wheelock College.

Expand Function and Requirements Regarding Small Purpose Loans

NBCDI recommends amending Section 5 (c)(3) to expand the function of small purpose loans to include helping facilities comply with state licensing and registration standards and federal standards that meet NAEYC's accreditation requirements. Additionally, this subsection should be amended to state that loans shall be made only for such facilities that will comply with these standards of quality no later than 12 months after certification of compliance by the Children's Development Commission. These changes, combined with the current language of the subsection, will ensure that small purpose loans will function to improve the quality of child care.

NBCDI is pleased that the House Banking Committee is discussing increasing the length of maturity of the small purpose loans from 7 to 15 years in the House version of the Children's Development Commission Act. This is an improvement we strongly recommend for S. 2178. Extending the maturity of the loan will make it more affordable for child care providers.

Provide Technical Assistance to Child Care and Development Facilities

The importance of providing technical assistance as an integral part of child care financing has been supported by my own experience in the child care field, as well as by research based on financing strategies for child care facilities.

NBCDI is pleased by the technical assistance provisions being discussed by the House Banking Committee; but we have some additional recommendations for strengthening them.

Equally important as providing loans to child care facilities is providing technical assistance to help providers: 1) qualify for loans, and 2) use the loans to effectively manage child care and development facilities and increase the quality of child care. Child care providers typically know more about caring for children than financial management, fund-raising, or facility construction and renovation (Mitchell, Stoney, Dichter, 1997). **NBCDI recommends that a mechanism is provided in S. 2178 for the provision of technical assistance to child care providers seeking loans. This technical assistance should be provided by stakeholders in the community in which the child care facility is or will be located, and who have expertise in early childhood education, and the fiscal and legal aspects of child care.**

As the former executive director of Child Care Connection, Inc., a child care resource and referral agency in New Jersey, I led the organization in a collaboration with other organizations to expand the number of child care slots serving low income families and to strengthen the management capability of existing centers. The collaboration, called The Child Care Collaboration or Building Stronger Centers, is an ongoing project that provides technical assistance and low-interest loans through a revolving loan fund to child care centers. The Child Care Collaboration has served 16 centers in New Jersey and receives public and private funds.

The current focus of the Child Care Collaboration is on centers. Because of their larger and more formal structure, centers have historically served as a major provider of high quality child care for low income families. The Child Care Collaboration plans to expand to serve family day care (care provided in the home of providers for small groups of children) in the future.

Centers served by the Collaboration receive technical assistance prior to the disbursement of loans to promote effective use of the loans. **NBCDI strongly recommends that this technical assistance model be adopted by S. 2178. The value of technical assistance lies in its ability to: 1) strengthen child care facilities financially through the development of a sound business plan; and 2) improve the quality of child care through staff development and training. It is important to note that although the Child Care Collaboration focuses on centers serving primarily low-income populations, NBCDI recommends adopting this technical assistance model for centers and family day care serving moderate income families as well.**

There are five phases of technical assistance provided by the Child Care Collaboration that NBCDI recommends using as a guide for the development of technical assistance provisions in S. 2178: 1)selection of child care and development facilities, 2) diagnosis and evaluation of child care and development facilities, 3)staff development and training, 4)ongoing technical assistance, and 5) evaluation of outcomes. A description of each phase follows.

<u>Selection of Child Care Centers</u>
The selection criteria used by the Child Care Collaboration, which could be applied to S. 2178, include threshold and weighting criteria. Threshold criteria have to be met in order for an applicant center to be eligible and include: low income population served, ability to demonstrate near term potential to expand, capacity to carry out expansion, identification of need, commitment to participate, and qualifications of director of child care center. Weighting criteria indicate additional considerations for final selection for the project. They include: financial condition, program philosophy, marketing strategy, track record, community-basedness, future operating strategy, and strategy to link parents to jobs (applicable to community development agencies). In making the final selections, consideration was also given to achieving a mix of child care centers served to include urban, suburban and rural centers.

<u>Diagnosis and Evaluation</u>
Diagnosis and evaluation of the facilities is needed to determine the needs, strengths and weaknesses of each center in order to develop viable financing and quality-enhancement strategies.The Child Care Collaboration uses this information to help fashion the training and follow-up technical assistance work.

<u>Staff Development and Training</u>
Staff education is intimately tied to quality of child care (Helburn et al., 1995). Yet, only one-quarter of centers included in a recent study by the Center for the Child Care Workforce required a bachelor's degree for teachers and only 19 percent required any college course work for

assistants. Further, there is some indication that the average educational background of child care teaching staff may be decreasing (Whitebook, Howes, Phillips, 1998). This points to the need to include staff development and training within the technical assistance structure that leads to a credential or degree such as a Child Development Associate or baccalaureate.

Ongoing Technical Assistance

As child care facilities prepare to expand and improve the quality of their care, they will need ongoing technical assistance to meet their individual needs. Sustained technical assistance is needed to support positive outcomes for centers.

Outcome Measures

NBCDI recommends that outcomes relating to participating child care facilities are assessed to determine: 1) whether quality of child care is being improved, 2) whether the financial health of the facilities is being improved, and 3) the populations being served. This will help guide the development of future policies regarding child care financing strategies. The Child Care Collaboration uses the following outcome measures.

Short-Term: Based upon participation in the year-long initiative, each center should come away with:

- a complete business plan (including a marketing, financing and operational strategy) to position it to thrive and increase its low income population base;
- a plan for expansion of an existing center or development of a new center that will increase the number of quality, low income slots, including a plan for obtaining financing or secured financing; and
- a facilities assessment, and a plan to improve and expand facilities as needed to improve efficiency and implement expanded service to low income children.

In addition, the Child Care Collaboration aggregates summary data to: 1)illustrate how the participating centers are surviving and growing in a welfare reform environment; and 2) develop a plan for advocacy of specific needs at the state and/or federal level.

Long-Term: Over the long-term, there are several outcome measurements that the collaboration tracks:

- improvement in quality (developmentally appropriate curriculum, etc.) of care;
- creation of better jobs for child care providers (training, pay, benefits, hours, opportunities for advancement);
- service of additional children (total);

- service of additional children (low income);
- survival of centers serving low income children;
- improvement of financial health of centers;
- improvement of physical facilities of centers; and
- development of more reliable and rational income streams to support future operations.

Conclusion

S. 2178 takes an important step toward increasing the federal government and private sector roles in child care financing. However, NBCDI maintains that our recommendations delineated in this testimony are critical to ensuring that the Children's Development Commission Act promotes the healthy development of children. Equally important as increasing the supply of child care, is improving the quality of care.

Child care facilities in general, particularly nonprofit programs in low-income neighborhoods, have difficulty securing loans. There are several reasons. First, many facilities are operating in space occupied at reduced rent, thereby allowing them to charge reduced fees to parents. Incurring debt means they would have to raise fees or receive increased reimbursement rates from the government. Second, child care programs often do not have the equity needed to secure a loan. Third, often child care providers know more about teaching children than they do about managing a loan (Mitchell, Stoney, Dichter, 1997). Therefore, it is critical that additional legislation is enacted to provide grants, rather than loans, to child care providers, particularly in low-income communities.

In closing, the National Black Child Development Institute looks forward to working with the Senate Committee on Banking, Housing, and Urban Affairs to strengthen the Children's Development Commission Act (S. 2178) so that it is able to improve the availability and quality of child care.

CCAC
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TESTIMONY OF CHILD CARE ACTION CAMPAIGN (CCAC)

SUBMITTED TO THE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

ON S. 2178, THE CHILDREN'S DEVELOPMENT COMMISSION ACT

OCTOBER 6, 1998

My name is Faith Wohl, and I am president of Child Care Action Campaign, a national nonprofit advocacy organization based in New York City. Child Care Action Campaign works to strengthen families, improve education and advance the well being of children with good quality, safe, affordable child care.

I am pleased to speak today on behalf of S. 2178, The Children's Development Commission Act, which we believe would help improve the quality of child care in the United States. Good quality child care and early education are strongly linked to school achievement and the development of social skills that enable a child to grow into a happy, productive adult. Such child care has been used successfully to prepare at-risk children for successful school performance. Good quality child care also improves educational and social development for children from middle- and low-income families. (Berrueta-Clement, Schweinhart, Barnett, Epstein & Weikart, 1984; Burchinal, Lee, & Ramey, 1989; Campbell & Ramey, 1994; Carnegie Corporation of New York, 1994; Doherty, 1991; Hayes, Palmer, & Weikart, 1980; Lazar, Darlington, Murray, Royce, & Snipper, 1982; Schweinhart & Weikart, 1980).

Poor quality child care and early education can harm children. Their intellectual and social development can be stunted. In extreme cases, children have been harmed physically; some have even died. Saddest of all, care that is poor or mediocre in quality is far more common than good quality care. The landmark Cost, Quality and Child Outcomes study found that 80% of child care in centers is poor to mediocre (Helburn, Culkin, Howes, Bryant, Clifford, Cryer, Peisner-Feinberg, Kagan, et. al., *Cost, Quality and Child Outcomes in Child Care Centers*, 1995) The Carnegie Corporation's Starting Points Task Force, citing new scientific research on brain development in the first three years of life, found that "an adverse environment can compromise a young child's brain function and overall development, placing him or her at greater risk of developing a variety of cognitive, behavioral, and physical difficulties. In some cases these effects may be irreversible. But the opportunities are equally dramatic: a good start in life can do more to promote learning and prevent damage than we ever imagined." (Carnegie Corporation, Starting Points, abridged, p.4, 1994).

The quality of child care and early education affects parents as well. When working parents are confident about their child care choices, they are more productive on the job. When care is inadequate, parental stress mounts and work performance suffers. Child Care Action Campaign has estimated that American businesses lose more than $3 billion annually in child care-related absences (Child Care Action Campaign, *Child Care: The Bottom Line*, 1988). Poor quality child care arrangements are more likely to fall apart, causing parents to miss work and even to lose their jobs. (Galinsky, et.al., *The Changing Workforce*, 1993; Fernandez, *Child Care and Corporate Productivity*, 1986)

While we know what constitutes good quality child care and early education, how to provide it, and what its benefits are, we also know that it costs far too much for most parents to afford. While parents pay on average $4100 per year for child care per family, good quality child care costs about $8000 per year per child to provide (Casper, "What Does it Cost to Mind Our Preschoolers?" Census Bureau, 1995; Willer, *Reaching the full cost of quality*, NAEYC, 1990). So while some parents struggle to find any kind of child care at all in their communities, those who do find good quality care most often discover they cannot afford it, and settle for care they can afford — often unlicensed and developmentally inappropriate care.

Overall, about $40 billion is spent annually on child care, most of it by parents, with the balance provided by governments at all levels in the form of subsidies, and less than one percent paid by the private sector (Mitchell, Stoney, & Dichter, *Financing Child Care in the United States: An Illustrative Catalog of Current Strategies*, 1997). Though parents find child care fees high, child care providers try to keep fees at a level that parents can afford, and earn salaries far below what their training should command. With salaries averaging less than $7 per hour, with few benefits, it is no wonder that staff turnover tops 30% a year among providers, with resulting damage to the attachments children form to caring adults. This huge staff turnover directly impairs the quality of care that children receive. (Whitebook, Howes, & Phillips, *Worthy Work, Unlivable Wages: The National Child Care Staffing Study*, 1988-1997).

One impact of chronically low wages is the inability of providers to secure the financing they need to start new child care facilities or improve or upgrade those they already have. The Children's Development Commission Act would offer insurance security to lenders who want to help providers build new facilities or upgrade existing ones to improve safety or meet higher standards, even including facilities in which to train child care providers.

The private sector doesn't want to take risks on child care providers; this bill would help stimulate the private sector into meeting the growing demand for child care. Since the supply of good quality care is one of the nation's most pressing needs, especially since the implementation of welfare reform, helping providers open or upgrade facilities would be a great help to parents nationwide. In addition, the Act's inclusion of books, curricular and program materials in its definition of "equipment," is welcome news, since one of the hallmarks of poor quality care is a lack of toys and other stimulating materials that encourage development in child care rooms.

Child Care Action Campaign has long championed innovative child care financing programs and public-private partnerships in particular to improve the accessibility and quality of child care for all children. In concert with local advocates, we have undertaken programs in Indiana and Florida that successfully spurred such partnerships, with payoffs in direct improvements to child care. We have also observed the excellent efforts of facilities funds that now provide low-cost capital in Illinois, Massachusetts and Maryland.

While this bill would be a positive step for Congress to take to help improve child care and early education in this country, a few improvements would make it even better. If the legislation could contain incentives for state governments to follow the federal lead in establishing loan guarantees, that would increase the benefits. And funds to help the providers assisted by these guaranteed loans operate the centers they have built or improved would go a long way towards making child care more affordable and improve its quality.

The Children's Development Commission Act is not the large, comprehensive bill we need to improve child care and make it more affordable for America's working families. Ten million dollars in loan guarantees against an annual child care expenditure of $40 billion seems very small, especially when many child development and early education experts say we actually need to spend $80 to $200 billion per year to provide good quality child care to all American children.

American families need a bigger, more comprehensive approach to child care. They need a multi-faceted approach that would help dedicated, professional child care providers earn a living wage and stay in their beloved professions. They need a bill that would radically improve the quality of the early care and education our children desperately require if they are to compete in the demanding global workplace of tomorrow, one that would help all low-income children with the subsidies they need to enter good quality programs and one that would help working parents with the leaves and flexibility they now lack to spend time with their children and help them succeed.

But this bill is a step, and an important signal to American's working families that the Congress of the United States is aware of their need for good quality child care. A recent poll sponsored by CCAC and the Children's Defense Fund demonstrated huge support by voters, and especially families with young children, for federal action on child care. So we cannot fail to take a step forward when the possibility is presented, even if it is a small step. Child Care Action Campaign hopes you will be able to make the necessary improvements in this bill, and move it forward. As Representative Maloney has said of her bill, "It's going to do a lot with a little." We urge the Senate to do a lot for America's youngest children. Thank you for the opportunity to speak to you today.

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OPINIONS ON CHILD CARE
Detailed Tabulations

1. Overall, how difficult do you think it is for most American families today to find affordable, good quality child care? Do you think it is...

	Respondents %	Households w/Children Under 12
Extremely difficult	29%	38%
Very difficult	29	28
Somewhat difficult	29	26
Not very difficult	4	3
Not difficult at all	3	2
DON'T KNOW	6	3

2. How likely would it be that you would vote for a candidate for office who supports helping low-income families afford the high cost of good quality child care? Would you be...

	Respondents %	Households w/Children Under 12
Extremely likely	23%	30%
Very likely	29	27
Somewhat likely	29	29
Not very likely	7	6
Not likely at all	6	4
DON'T KNOW	5	5

I am now going to read you several types of after-school programs. For each program, please tell me if you would be extremely likely, very likely, somewhat likely, not very likely, or not likely at all to vote for a candidate for office who supports increased funding for that after-school program...

3. After-school program that helps keep school age children from being home alone after school lets out?

	Respondents %	Households w/Children Under 12
Extremely likely	33%	42%
Very likely	36	34
Somewhat likely	20	17
Not very likely	5	2
Not likely at all	4	4
DON'T KNOW	3	2

4. After-school program that helps keep teenagers engaged in constructive activities on and off the streets

	Respondents %	Households w/Children Under 12
Extremely likely	32%	36%
Very likely	37	39
Somewhat likely	21	19
Not very likely	4	2
Not likely at all	3	3
DON'T KNOW	3	2

(over)

OPINIONS ON CHILD CARE
Detailed Tabulations

	Respondents %	Households w/Children Under 12

I am now going to read you several other programs. For each program, please tell me if you would be extremely likely, very likely, somewhat likely, not very likely, or not likely at all to vote for a candidate for office who supports that program...

5. Child care so that all children can enter school ready to learn

	Respondents %	Households w/Children Under 12
Extremely likely	31%	37%
Very likely	37	35
Somewhat likely	19	18
Not very likely	5	4
Not likely at all	4	3
DON'T KNOW	3	3

6. *Preschool activities so that all children can enter school ready to learn*

	Respondents %	Households w/Children Under 12
Extremely likely	32%	36%
Very likely	36	36
Somewhat likely	20	18
Not very likely	5	4
Not likely at all	4	3
DON'T KNOW	3	3

7. If Congress provides new tax breaks for middle income families, do you think they should ALSO provide child care assistance for low-income working families?

	Respondents %	Households w/Children Under 12
YES	80%	87%
NO	15	11
DON'T KNOW	6	2

8. Since the federal government provides working families with financial assistance to help pay for their children's college tuition, would you support having the government provide financial assistance t working families to help pay for child care?

	Respondents %	Households w/Children Under 12
YES	73%	84%
NO	21	14
DON'T KNOW	7	3

Prepared by:
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child care and
early education

GOOD QUALITY CHILD CARE AND EARLY EDUCATION: A DRAMATIC OPPORTUNITY TO PROMOTE LEARNING AND PREVENT DAMAGE IN OUR YOUNGEST CHILDREN

The social, emotional, and cognitive development of as many as 12 million children under the age of six is dependent on their access to safe, reliable child care and early education that provides them with the opportunity to form stable relationships with caring adults and other children and to engage in interesting and stimulating activities. Such good quality child care and early education is strongly linked to school achievement and the development of social skills that enable a child to grow into a happy, productive adult. Such child care has been used successfully to prepare at-risk children for school. It also improves educational and social development for children from middle- and low-income families (Berrueta-Clement, Schweinhart, Barnett, Epstein, & Weikart, 1984; Burchinal, Lee, & Ramey, 1989; Campbell & Ramey, 1994; Carnegie Corporation of New York, 1994; Doherty, 1991; Hayes, Palmer, & Weikart, 1980; Lazar, Darlington, Murray, Royce, & Snipper, 1982; Schweinhart & Weikart, 1980).

Poor quality child care and early education can harm children. Their intellectual and social development can be stunted. In extreme cases, children have been harmed physically. The Carnegie Corporation's Starting Points Task Force, citing new scientific research on brain development in the first three years of life, found that "an adverse environment can compromise a young child's brain function and overall development, placing him or her at greater risk of developing a variety of cognitive, behavioral, and physical difficulties. In some cases these effects may be irreversible. But the opportunities are equally dramatic: a good start in life can do more to promote learning and prevent damage than we ever imagined" (Carnegie Corporation, *Starting Points*, abridged, p.4, 1994).

Most child care and early education is not of good quality

Tragically, several recent studies have documented that the quality of most child care and early education available to working families in the United States is mediocre to poor. Independent observers for *The Cost, Quality, and Child Outcomes Study in Child Care Centers* (Helburn, Culkin, Howes, Clifford, Cryer, Kagan *et al.*, 1995) found that in 40 percent of the infant and toddler rooms, caregivers did not follow basic sanitary practices. In these poor quality settings, children were rarely held, cuddled, or talked to by their providers. The rooms lacked toys and other materials that encourage development. *The Study of Children in Family Child Care and Relative Care* by the Families & Work Institute in 1994 found that "only nine percent of the [family child care] homes in the study are rated as good quality (meaning growth-enhancing), while 56 percent are rated as adequate/custodial (neither growth-enhancing nor growth-harming), and 35 percent are rated as inadequate (growth-harming)."

The quality of child care and early education affects parents as well. When working parents are comfortable with their child care arrangements, they are more productive on the job. When care is inadequate, parental stress mounts and work performance suffers. Poor quality child care arrangements are more likely to fall apart, causing parents to miss work and even to lose their jobs (Galinsky *et al.*, *The Changing Workforce*, 1993; Fernandez, *Child Care and Corporate Productivity,* 1986).

What does good quality child care and early education look like?
In good quality child care and early education, children learn how to share, play with, and get along with each other. They are read to, and encouraged to talk and create their own stories. There is a lot of warmth and support for all children. Babies are held when they are fed. They receive a lot of attention from caregivers who understand their cues. They are hugged, talked to, and comforted when they are fussy. Toddlers and preschool children are engaged in interesting, age-appropriate, safe activities both indoors and out. They can play at the sandtable with other children, or build a tower on their own. When they are finished with one form of play, they are encouraged to explore something else.

Essential ingredients of good quality child care and early education:

- Providers who *want* to care for and work with children.
- Providers who are *trained* in the stages of child development, health, and safety.
- Providers who are *paid* a salary commensurate with their skills, training, and experience.
- Low staff turnover (a product of above conditions), which helps children experience secure attachment to caring adults.
- High staff:child ratios, which ensure each child is safe and gets enough attention.
- Policies and practices that encourage parental involvement in children's education and development.
- Stimulating activities that help children develop cognitive and social skills through play.

Poverty-level wages undermine quality work force
Although demand for good quality child care and early education remains high and is certain to increase with the implementation of welfare reform, child care teacher and provider salaries still hover at or near the poverty level. Low salaries lead to a high turnover rate; nearly one-third of all child care center teachers and one-half of all family child care providers leave their jobs each year. (National Center for the Early Childhood Work Force, *National Child Care Staffing Study Revisited*, 1993).

Between 1993 and 1994, real wages for the lowest paid teaching assistants, the fastest growing segment of the child care center work force, actually declined. At the same time, real wages for the highest paid teaching staff in centers, who constitute a very small segment of the work force, increased by only 66 cents per hour. The *Cost, Quality, and Child Outcomes in Child Care Centers* study surveyed teaching assistants and teachers in early 1995 and found that the average wage was $6.89 an hour, or $12,057.50 a year. The same study found that health care benefits were offered in 64 percent of centers for full-time teachers, in 49 percent of centers for full-time assistants, and in 13 percent of centers for part-time staff. The National Center for the Early Childhood Work Force reports that only 63.7 percent of the staff of child care centers receive paid vacation (Whitebook *et al.*, *National Child Care Staffing Study Revisited: Four Years in the Life of Center Based Child Care*, Oakland, CA: Child Care Employee Project, 1993).

Cost of good quality child care and early education is out of reach for most

Most working families cannot afford to pay what it costs to *produce* good quality child care and early education. This is true despite the fact that the wages of child care providers, which account for 60 to 70 percent of the cost of producing child care, are below what individuals with similar education and experience earn in other settings (*Cost, Quality, and Child Outcomes*). Families who pay for child care spend, on average, about $3,700 per year for one or more preschool children (U.S. Census Bureau, "What Does it Cost to Mind Our Preschoolers?," in *Current Population Reports*, September 1995). By contrast, national experts peg the cost **of providing** good quality care at $6,300 to $8,500 **per child per year** (National Association for the Education of Young Children, "Estimating the full cost of quality," in *Reaching the full cost of quality in early childhood programs*, 1990). The latter figures represent 26 to 44 percent of the gross income for a family of four earning the median income and paying for child care for two children.

Providers struggle, too often unsuccessfully, to get by on fees that parents can afford. Whether in a center or family child care home, revenue from parent fees alone do not allow the typical child care provider to offer children the trained staff, small group sizes, and low child-to-adult ratios that encourage frequent, responsive adult interactions with each child that are at the heart of good quality child care and early education.

Parents need help paying for good quality child care and early education

Parents need help bridging the gap between what they can afford and what good quality child care and early education cost. There are a number of ways that federal, state, and local governments can help more parents pay for good quality child care: by expanding the Dependent Care Tax Credit, and making it refundable; by extending child care subsidies to a broader range of working families; by extending tax incentives to employers who provide child care subsidies or on-site child care; and by linking child care with public school systems to improve the quality of the child care and early education our youngest children receive.

Businesses benefit when they play a role in helping parents find and pay for good quality child care and early education. The most important role for business is as a partner of local or state public agencies for investment in child care and early education resources, so that all families have good quality child care choices they can afford in their communities. Public-private partnerships of this nature sustain child care and early education growth and improvement in communities. Businesses also can provide employees with the Dependent Care Assistance Plan pre-tax payroll deduction, link parents with child care resource and referral agencies in their communities, or invest directly in child care and early education resources in or near the work site for their employees.

Choices for children and parents

More and more emphasis has been placed on consumer education: arming parents with the knowledge that they need to make informed decisions regarding child care and early education. But, parents often feel that they do not have a choice about the care they use. Sixty-two percent of parents using family child care and relative care said that they had looked for alternatives to the child care they presently use. Sixty-five percent of these same parents said they found no other acceptable options (Galinsky *et al.*, *The Study of Children in Family Child Care and Relative Care*, 1994).

Public support for standards to protect children

There is strong public support for the setting and enforcement of regulations that establish basic health and safety standards to protect consumers of child care. According to a March 1995 poll by prominent Republican pollster Vince Breglio of R/S/M, Inc., 54 percent of all Americans oppose efforts to eliminate federal requirements that states set minimum health and safety standards for child care facilities.

Overall, large gaps exist in state regulations of child care in centers and family child care homes, which helps determine the minimum quality and safety of the care in each state. *The Cost, Quality, and Child Outcomes Study in Child Care Centers* found that "states with more demanding licensing standards have fewer poor quality centers " (Helburn *et al.*, Executive Summary, p.4). A study by the Children's Defense Fund (CDF) found that 43 percent of all children in out-of-home care are unprotected by state regulations due to exemptions. For example, a number of states specifically exempt child care located in or provided by churches and schools (CDF, *Who Knows How Safe?* 1990).

- Fewer than half of all states regulate group size. Nearly all set staff:child ratios for centers, but many allow staffing ratios that exceed levels that have been shown to produce good quality child care (*Ibid.*).
- Although at least three-fifths of the states require ongoing training for teachers, most require only 12 hours of training or less per year (Morgan *et al.*, *Making a Career of It*, Center for Career Development in Early Childhood Education, Wheelock College, 1993).

Regulations make a difference in the quality of child care and early education

It is clear that regulations make a difference. In a study that compared regulated family child care providers with those who were not regulated, the regulated providers were more likely to be sensitive and responsive to children in their care (Galinsky *et al.*, *The Study of Children in Family Child Care and Relative Care*). In states that regulate family child care, standards are usually less demanding than for child care in centers. For family child care providers, ongoing annual training is required in only 19 states (Morgan *et al.*, *Making a Career of It*). The Families & Work Institute found that when family child care providers participate in intensive workshops and general courses in child care, their commitment to their jobs increases and they seek out additional training; this leads to higher quality for children and families (Galinsky *et al.*, *The Family Child Care Training Study*, 1995).

Choosing to meet higher standards of quality through accreditation

Accreditation is another way to ensure that children are receiving good quality child care and early education. Accredited centers and family child care homes voluntarily strive to attain higher standards of quality that have been established by national child care organizations and that exceed minimum state licensing standards. The National Academy of Early Childhood Programs, a division of the National Association for the Education of Young Children, is the largest accrediting body for child care and early childhood centers. As of April 1995, nearly 5,500 programs have been accredited by NAEYC. Health and safety, staffing, staff qualifications, physical environment, and administration are all reviewed during the accreditation process, with primary consideration placed on the quality of the interactions between staff and children and the developmental appropriateness of the curriculum. Family child care providers (as well as providers in centers) can have Child Development Associate credentials, meaning that they have completed a 6 to 18-month course of study. They also may be accredited by the National Association for Family Child Care, which assesses the provider's skills as well as the home in which the care is provided (Families & Work Institute, *Child Care Aware: A Guide to Promoting Professional Development in Family Child Care*, 1995).

DEPARTMENT OF THE TREASURY
Office of Legislative Affairs
1500 Pennsylvania Avenue, NW
Washington, DC 20220

To: NICOLE RABNER
Addressee's fax number: 456-2878

FROM: VICTORIA P. ROSTOW
DEPUTY ASSISTANT SECRETARY
(LEGISLATIVE AFFAIRS AND PUBLIC LIAISON)

Telephone: 202/622-1910
Fax: 202/622-0534

DATE: JUNE 19, 1998

PAGES TO FOLLOW: 7

FYI

To: Distribution

Date: 6/18/98

Department of the Treasury
Office of the
Assistant Secretary
(Financial Institutions)
Office of Government
Sponsored Enterprise Policy

Subject: Kiddie Mac Hearing

Attached is Scott's summary of the Kiddie Mac hearing held by Rep. Baker on Tuesday. Also attached, for your information, is a status update on the Kiddie Mac issue as of June 12th.

Ed DeMarco

Distribution: Assistant Secretary Carnell
Deputy Assistant Secretary Baer
Deputy Assistant Secretary Rostow

Edward J. DeMarco
Director
Room 3025
622-2792

Summary of Kiddie Mac Hearing

Issue

On June 16, 1998, the Subcommittee on Capital Markets, Securities, and GSE's (chaired by Richard Baker) held a hearing on H.R. 3637, the Children's Development Commission Act. The legislation, also known as Kiddie Mac, is co-sponsored by Rep. Baker (R-LA) and Rep. Maloney (D-NY).

H.R. 3637 authorizes HUD (through the FHA) to issue guarantees to private lenders for the construction or rehabilitation of child care and development facilities. Program participants are required to be certified by a newly established Children's Development Commission (or Kiddie Mac).

Attendees

Chairman Baker (R-LA), Rep. Kanjorski (D-PA), Rep. Maloney (D-NY), and Rep. Lazio (R-NY). Rep. Vento (D-MN) arrived during the deliberations.

Opening Statements

Chairman Baker opened the hearing by thanking all the participants and supporters of H.R. 3637. He then went on to briefly describe the proposal. Baker also thanked Rep. Lazio for allowing this hearing to be held in the capital markets subcommittee, rather than that for housing.

Representative Kanjorski noted that Kiddie Mac is the first legislative attempt to work on the supply side of the child care problem. He discussed the bill and drew parallels to a program operated by HUD that targets housing for senior citizens. Kanjorski emphasized that the assistance in this bill should benefit all sectors -- not just white, suburban, dual-income families. To this end, he suggested higher guarantees for those institutions serving the underserved.

Representative Maloney began her statement by citing several statistics in support of her contention that affordable, quality child care is in short supply. She went on to describe the bill in detail and outline its place as a small piece of the broader child care puzzle.

Representative Lazio reiterated the importance of affordable, quality child care -- citing personal experience. However, he did mention a degree of concern with the loan guarantees.

Panel 1

The first panel consisted of Sen. Herbert Kohl (D-WI) and Sen Alfonse D'Amato (R-NY), co-sponsors of a similar measure in the Senate. While neither Senator appeared before the committee, their statements were entered for the record.

In his statement, Senator Kohl stressed the importance (and shortage) of quality child care -- likening it to the necessities of food, shelter, and clothing. The Senator also noted that recent welfare reforms have exacerbated existing shortages -- citing statistics for Wisconsin and New York. Kohl went on to describe Kiddie Mac as a "market-based, small-government approach to moving capital toward investments that will remedy these unsustainable shortages of quality child care."

Senator D'Amato discussed the need for affordable, quality child care. He also remarked that "the day care shortage is reaching the crisis level" and that "Kiddie Mac could make a life or death difference for a child." Later, D'Amato likened Kiddie Mac to the other GSE's because the government would not get directly involved in the activity. Rather, the government is simply reducing barriers and providing incentives to the private marketplace.

Panel 2

Melinda Green (Director of the African-American Early Childhood Center of the National Black Child Development Institute) stated that her group strongly supports H.R. 3637. However, she outlined several additional recommendations, including: (1) modeling the federal child care standards after existing national accreditation systems; (2) expanding the function and requirements regarding micro-loans; and (3) providing technical assistance to child care and development facilities.

Jim Wunderman (Vice President of Corporate Affairs, Providian Financial Corp.) cited instances in which his company was involved in providing child care in underserved areas. He noted that securing credit for these businesses is difficult because: (1) the buildings are often single-use; (2) there is generally little equity (i.e., these are often high loan-to-value mortgages); and (3) cash flows are tight -- making debt service difficult. Mr. Wunderman also noted that the Small Business Administration does provide loans for child care facilities, but only those operating for-profit.

Trinita Logue (President, Illinois Facilities Fund) mentioned that her association works with non-profits to build and operate child care centers. She echoed Mr. Wunderman's assertions concerning the difficulties these small firms face in raising capital.

Donna Klein (Director of Worklife Initiatives for Marriott International) discussed the overall paradigm shift in public perception of the child care problem from a family paradigm (i.e. child care is private concern) to a workplace paradigm (i.e., onsite daycare and flexible schedules) and ultimately to a community-wide model. She then described the difficulties that Mariott faced in obtaining financing for a child care center via a non-profit affiliate.

Mildred Wurf (Director of Public Policy, Girl's Inc,) said that the groups she represented worked primarily with school-age children (such groups include the YMCA and Campfire Boys/Girls). She then went on to talk generally about the social problems facing young people in our society today.

Questions and Answers

Chairman Baker opened the question and answer session by trying to relate child care quality with cost – citing price differentials for the care of youngest children (under three years) with older ones. Responding, Ms. Logue missed his point. However, she did state that no one should pay more than 10 percent of their income in child care. Chairman Baker then asked Mr. Wunderman if there was anything else that could be included in H.R. 3637 to entice lenders to extend credit to child care centers. Mr. Wunderman responded that financial training and technical assistance for the operators of the centers.

Representative Maloney then asked the panel whether child care centers were bad risks? And if not, why can't they get credit? Ms. Logue responded that these firms generate little revenue and thus can't service the debt – noting that 80 percent of the cost of child care goes to salaries. She recommended that existing block grants be allowed as equity for child care centers seeking loans. Rep. Maloney then went on to cite statistics demonstrating that New York City doesn't have space for all children needing daycare by 2001.

Representative Vento expressed some concern with national standards – particularly with respect to insurance provision. He also noted that the bill, as drafted, assumes that the program will be self-sustaining. Rep. Vento then cited the government's experience with student loan and FHA multifamily programs.

Representative Baker then discussed problems for these centers in obtaining liability insurance. He also kicked around the idea of offering direct, guaranteed loans to individuals – presumably similar to student loans. Rep. Maloney then suggested a separate hearing focusing exclusively on liability insurance for child care centers.

Kiddie Mac Update

June 12, 1998

Issue

On April 1, 1998, Representative Carolyn Maloney (D-NY) and Representative Richard Baker (R-LA) introduced the Children's Development Commission Act (H.R. 3637) was introduced by. This bill is also often referred to as the Kiddie Mac bill. The bill's provisions were included in the broader child care legislation introduced by House Democrats on June 9.

H.R. 3637

H.R. 3637 authorizes the Secretary of HUD to insure mortgages and construction loans related to child care and development facilities and establishes a Children's Development Commission. The Commission will be charged with certifying child care and development facilities for insurance and for other purposes. The bill also requires the Treasury to: (1) submit three nominees for the Children's Development Commission; (2) submit a report to Congress concerning the possibility of creating a secondary market for child care and development facility loans; and (3) submit a report to Congress (following the program's expiration in 2005) evaluating the need for continued mortgage coverage.

Treasury Staff Concerns with H.R. 3637

- ***No Evidence of a Market Failure*** There is little evidence to suggest that (potential) child care facility operators (either large or small) face different capital constraints than other types of businesses of like size.

- ***Structure Provides an Indirect, Untargeted Subsidy*** The federal guarantee lowers the credit risk to participating lenders on loans made to certified facilities. It is unclear how much of this subsidy will pass through from lenders to the facilities, and how much would then pass on to consumers. Also, because there is no targeting, it is unclear what group of consumers, if any, would ultimately benefit. And, the program favors center-based, institutional care over other forms of child care.

- ***Degree of Government Guarantee*** HUD fully insuring what are essentially commercial property loans with loan-to-value ratios up to 90 percent (95 percent for non-profits) may not provide sufficient private sector incentives to underwrite reasonably good credits. Poor underwriting or excessive federal guarantees would increase the government's potential risk exposure. The Small Business Administration has achieved favorable loss mitigation results by decreasing its maximum risk exposure from 100 percent to 90 percent, and losses were further decreased when its maximum risk exposure was decreased to 75 percent. We therefore recommend that the degree of government guarantee in this proposal be reconsidered.

- ***Program Location*** Mortgage loans for child care and development facilities are commercial real estate loans. Therefore, it's not clear that HUD is the appropriate programmatic agency for this proposal. Indeed, HUD does not want the program for this reason. (It is possible that this program may be more appropriately administered by the Small Business Administration.)

- ***Children's Development Commission*** The new Children's Development Commission raises several concerns. First, by establishing national child care standards for program participants, could serve to actually increase the cost of child care by creating another regulatory layer. Second, the $10 million proposed budget for the Commission (only $2.5 of which is to be used for administrative expenses) is likely to be insufficient to operate the Commission as currently designed. Third, the proposed micro loan program places all of the credit risk associated with these loans squarely on the government. It also duplicates other current federal programs, such as the SBA's micro loan program. Lastly, the proposed research foundation is unlikely to be "independent" of the federal government -- particularly if it ultimately relies on it for funding. We recommend that this section of the bill be eliminated.

- ***Treasury Study of Secondary Markets*** The proposed Treasury study revolves around the issue of a secondary market for insured commercial real estate loans for child care and development facilities. While no secondary market exists for these loans (exclusively), they may (on occasion) be packaged as part of a commercial mortgage-backed security. If the proposal is adopted, it's possible that a small secondary market could arise for the guaranteed portions of these loans -- potentially increasing credit availability and lowering the cost of such loans on the margin. However, due to relatively small loan volumes and geographic dispersion, this would likely require a large, nationwide originator (or originators) with consistent and transparent underwriting standards to dominate this program. We recommend eliminating this requirement on the grounds that it likely would be infeasible to provide firm answers to the proposed questions given data limitations.

Administration Response

A child care working group comprised of representatives from the Domestic Policy Council, the First Lady's Office, the Council of Economic Advisors, Treasury (Economic Policy and Tax Policy), Health and Human Services, and others has been working over the past year on various child care policy issues. Representative Maloney's initial drafts of what became H.R. 3637 envisioned Kiddie mac as a GSE. Thus, in March, the Treasury's Office of GSE Policy became involved in these deliberations.

Scott Frame from our staff attended two working group sessions concerning Kiddie Mac. He, along with others from Treasury and the CEA, presented the staff concerns described above. [Also of note is that HUD staff spoke out against the bill in its current form at these meetings.] After the second meeting, the working group concluded that a recommendation would be made to withhold Administration support for H.R. 3637. Following this meeting, we provided extensive comments on the bill to the Office of General Counsel, which the Executive Secretary had assigned the responsibility of drafting a response for Secretary Rubin to send to Representative Maloney.

In late May, the working group reconvened via conference call to further discuss the issue. It had come to the group's attention that the sponsors of H.R. 3637 intended to include it as part of a broader piece of child care legislation to be introduced by the House Democrats. At the conclusion of this meeting, the interagency group asked that Ed DeMarco and Scott Frame meet with Ian Fried (from Rep. Maloney's staff) and Ted Beason (from Rep. Baker's staff) to discuss Maloney's objectives and the group's findings. Further, Administration clearance of Treasury's response to Representative Maloney would be put on hold until this meeting took place.

On June 4, Penny Rostow, Ed DeMarco, and Scott Frame met with Ian Fried and Ted Beason. Penny delivered the message that the Administration could not support H.R. 3637 in its present form. She also mentioned that a forthcoming response letter to Representative Maloney would outline our specific concerns with the bill. Both staff members expressed interest in receiving the letter. To date, this letter has not been cleared.

On June 10, Penny Rostow, Ed DeMarco, and Scott Frame participated in another working group conference call. Ed argued for sending a Treasury letter to get on record with Representative Maloney that we have serious concerns with the bill. He noted that the Treasury letter already suggests where changes need to be made and he volunteered to modify the letter to also suggest other avenues -- such as existing Small Business Administration programs. (The SBA participated in the call and said the Kiddie mac proposal overlaps several existing SBA programs.) Penny and others want to delay the letter pending more research on the SBA front and another meeting with Representative Maloney's staff.

Looking Ahead

Representative Baker has scheduled a hearing for June 16 on H.R. 3637. While the Kiddie Mac provisions have been included as part of broader child care legislation by the House Democrats, it does not appear that the legislation will move forward this year.

Office of Government Sponsored Enterprises Policy
Room 3025 - Main Treasury Bldg.

Date: June 22, 1998.

Addressee Name (s):

Nicole Rabner / Jennifer Klein.

*[One copy for each]

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THE WHITE HOUSE

WASHINGTON

June 12, 1998

MEMORANDUM FOR DISTRIBUTION

FROM: NICOLE RABNER
DOMESTIC POLICY COUNCIL

RE: "Kiddie Mac" Proposal

Per our recent conference call on the "Kiddie Mac" proposal, attached please find information from the Small Business Administration about SBA programs that assist child care businesses. Please circulate as appropriate. We will arrange another conference call or meeting sometime next week. Feel free to call me at 456-7263 with any questions.

DISTRIBUTION:

Jennifer Klein, DPC
Emil Parker, NEC
Jennifer Friedman, OMB
Melissa Benton, OMB
Gus Faucher, Treasury
Ed DeMarco, Treasury
Scott Frame, Treasury
Penny Rostrow, Treasury
Maria Pataris, HUD
Mary Bourdette, HHS
Joan Lombardi, HHS
Carmen Nazario, HHS
Mary Ellen Taylor, SBA

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

MEMORANDUM

DATE: June 12, 1998

TO: Nicole Rabner
Domestic Policy Council

FROM: John Gray, John T. Gray
Associate Deputy Administrator, Capital Access

SUBJ: H.R. 3637, "Children's Development Commission Act" (Kiddie Mac Bill)

Thank you for giving SBA the opportunity to provide information relative to H.R. 3637, "Children's Development Commission Act" (Kiddie Mac Bill). SBA has a history of providing capital to Child Care Businesses. We have collected data regarding the SBA 7(a) General Business Loan Guaranty Program and the Certified Development Company Loan Program (504 program).

During the ten year period beginning in 1989 and continuing through the present, SBA guaranteed 4,620 loans to child care businesses under the 7(a) loan program. The total amount of 7(a) loans provided is $1.026 billion.

During the same ten year period, SBA guaranteed 591 loans to child care businesses under the 504 loan program. The total amount of 504 loans provided is $144.5 million.

In addition to these two lending programs, SBA has provided loans to child care businesses through the Microloan Program. We have requested data regarding the number and amounts of child care loans made under this program, which began in 1992. However, this data is not available at this time.

In addition to the financial assistance described above, SBA has the capability to increase financial assistance to child care providers and provide industry specific technical assistance through four specific initiatives. These are:

- Targeted marketing of 7(a) loans to for-profit child care centers

- Expansion of the Microloan Program in accordance with recently enacted legislation that allows microloans to be made to non-profit child care centers. (This is a unique capability as with all other loan programs there is a prohibition against loans to non-profit businesses.)

- Distribution of the "Dollars and Sense: Child Care Business Skills Training," a handbook produced in collaboration with the SBA Women's Business Development Centers to provide viable commercial child care. In addition, SBA is expanding its online Women's Business Center (www/onlinewbc.org) with specific information on how to start and operate child care businesses.

- Expanded marketing of loans and distribution of printed materials and child care business training through the SBA resource partner network. This network currently includes 69 SBA District Offices, 1,000 Small Business Development Centers, 63 Women's Business Centers, 389 SCORE Chapters, 129 Microloan Program sites, 46 Business Information Centers, and 15 One Stop Capital Shops.

Again, thank you for the opportunity provide information on the level and types of financial assistance the SBA has been providing to the nations small child care businesses for many years.

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

MEMORANDUM

DATE: June 12, 1998

TO: Nicole Rabner
Domestic Policy Council

FROM: John Gray, John T. Gray
Associate Deputy Administrator, Capital Access

SUBJ: H.R. 3637, "Children's Development Commission Act" (Kiddie Mac Bill)

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IAN M. FRIED
LEGISLATIVE ASSISTANT

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House of Representatives
Washington, D.C. 20515

MEMORANDUM

JENNIFER KLEIN:

KATHY BONK SUGGESTED I SEND YOU KIDDIE MAC INFO. WE WOULD LOVE YOUR COMMENTS.

WE WILL HAVE A HEARING ON JUNE 10TH — IF YOU HAVE ANY QUESTIONS, PLEASE CONTACT ME.

— IAN FRIED

CAROLYN B. MALONEY
14TH DISTRICT, NEW YORK

1330 LONGWORTH BUILDING
WASHINGTON, DC 20515-3214
(202) 225-7944

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May 4, 1998

Dear Friend:

I thought you might be interested in a bill I introduced to Congress earlier this month which is aimed at encouraging the creation of more and higher quality child care facilities. As you know all too well, the availability of good child care is not matching the need. As more parents enter the workforce and as each state implements welfare reform, we all must find ways to address

The bill itself is really a new concept in how to tackle the lack of quality places for kids. It authorizes HUD to sell guarantees to financial institutions which wish to lend to child care providers. The idea is that with a guaranty on their loans, lenders are more likely to give loans to projects involving child care which are currently perceived as being too risky.

In order for HUD to authorize the guaranty, the bill creates the Children's Development Commission, or "Kiddie Mac," as the certifying authority. Kiddie Mac will make certain that the borrower meets all the necessary criteria. The Commission will have twelve months to determine: federal standards for providers who seek the loans, as well as a method for providing affordable fire and liability insurance. In addition, Kiddie Mac will provide micro-loans to child care providers who need some capital to fund the necessary changes in their facility in order to meet licensing standards.

The focus of this legislation is to stimulate the private sector into meeting the growing demand for child care. But another reason for this design is to have a place in the federal government which is totally focussed on the issue of providing quality child care. To this end, the legislation also asks the Commission to set up a not-for-profit foundation which will work on assisting research and training programs related to child care.

I am very optimistic about the future of this legislation. I am working with my cosponsor, Rep. Richard Baker of Louisiana, on hearings to be held shortly. When we return from recess, a similar bill will be introduced in the Senate by Senator Herb Kohl of Wisconsin.

I have enclosed the bill, as well as some information sheets about the legislation. I would appreciate your thoughts, comments, questions and suggestions. Please contact me, or my staffer working on the issue, Ian Fried, at 202-225-7944.

Thank you for your time and I look forward to hearing from you.

Sincerely,

Carolyn B. Maloney

CAROLYN B. MALONEY

KIDDIE MAC SUMMARY

Legislation introduced by Rep. Carolyn Maloney (NY) and Rep. Richard Baker (LA)

H.R. 3637

GOAL: ***To fill the unmet need for quality, affordable child care, the Children's Development Commission ("Kiddie Mac"), will be created as a government entity which will be a catalyst for private-sector construction and development lending.***

THE BASIC ELEMENTS:

1. **The Concept**: The private sector now hesitates to provide loans for construction or operation of child care facilities because it perceives a high risk of borrower liability in running such centers. Kiddie Mac will reduce that perceived risk to lenders, thus encouraging loans for the construction and opening of child care facilities. Using a combination of products, Kiddie Mac will spur private lending to child care providers, give small loans to get facilities up to licensing standards, and provide affordable fire and liability insurance.

2. **Guaranty Insurance=Low-Cost Loans:** Kiddie Mac will, through HUD, offer guaranty insurance to lenders for potential child care facility builders and operators. Currently, while the private sector appears to want to do something in this area, the perceived risk is too high. A guaranty should be enough security to spur lending with reasonable terms. In order to prevent the cost of insurance from becoming a barrier for starting a facility, Kiddie Mac will also offer reasonably priced liability insurance and fire insurance to qualifying child care providers.

3. **Start-up Costs and Rent**: Besides actual facilities being built or rehabilitated, often what is needed is money for start-up costs and rent. Kiddie Mac will offer mini-loans to qualifying child care providers for these costs. These loans will also be available for a facility which needs to make certain improvements in order to meet licensing standards.

4. **Foundation:** With the money made from its other activities, Kiddie Mac will establish a foundation that will research issues in early childhood development, fund pilot programs and produce educational materials. It will also provide materials and activities to guide applicants through the Kiddie Mac process.

SPECIAL CHARACTERISTICS OF KIDDIE MAC:

1. Executive salaries will be capped.

2. An annual report to Congress and hearings on activities and performance will be required, similar to the Humphrey-Hawkins hearings the banking committees hold with the Federal Reserve Chairman.

3. Total lending and guaranty activity will be limited to $2 billion. If a need is found beyond this amount, Congress may increase the ceiling.

Common Questions about KIDDIE MAC

"Child Development Commission Act"-- H.R. 3637
Introduced by Rep. Carolyn Maloney (NY) and Rep. Richard Baker (LA)

1. Why is Kiddie Mac Necessary?

A: The United States is falling behind in meeting the needs of its children for high-quality care. Other nations understand the critical role that child care plays in early development, but the quality and quantity of child care space in this country are below acceptable levels. While demand is enormous and growing for trustworthy infant and pre-school slots nationwide, the need is not being met.

2. Do we really need federal participation to do this?

A: YES. Such a commission is necessary when private-sector market mechanisms fail for some reason to address a major demand. Child care is an example of a broad demand that profit-seeking firms have been unwilling to meet.

Current market conditions discourage private sector investment in child care facility development. Clearly, with the heightened need for care for America's children, and relief for America's working parents, the capital markets need to be encouraged to contribute toward the care and devlopment of our kids.

Lenders have concerns about risk and the threat these risks pose to safety and soundness to their institutions. Like any financial institution or governmental-sponsored corporation, these institutions need the reliability of the federal government backing them up.

3. How would Kiddie Mac work?

A: Kiddie Mac would certify requests for loans so the Department of Housing and Urban Development (HUD) could then sell *guaranty insurance* to the lenders. Many private lenders want to invest in child care facilities but are uncomfortable with the risks. Kiddie Mac will provide guaranty insurance for mortgages, loans and some other debts, encouraging private lenders to invest in the needs of our children.

4. Will Kiddie Mac help someone who wants to convert a building to child care, add to existing facilities or bring a center up to licensing standards?

A: Yes. Kiddie Mac will provide small-facilities loans for improvements to existing centers for the purpose of meeting licensing standards, or to improve the quality of care and/or increase the number of children who can take part. A family-run child-care home, for example, could qualify for one of these loans to make the changes needed for licensing.

5. Who will pay for Kiddie Mac?

A: After a small appropriation to fund its initial incorporation, Kiddie Mac will be funded by the premiums paid by the lenders who purchase the insurance, *never costing the taxpayer anything more*.

6. Who will have access to Kiddie Mac?

A: Anyone who is currently licensed or who can demonstrate the ability to be licensed can use Kiddie Mac's services. This includes community organizations, not-for-profit groups, community development financial institutions, for-profit businesses, family-home facilities, churches and other employers.

7. Will those operations be competing against private businesses?

A: Private businesses which want to develop child care facilities, nursery schools or after-school programs are allowed to access Kiddie Mac just like anyone else. As for private lenders, since the problem in child care has been that the needs are not being met by the open market. Kiddie Mac is needed to fill this role.

8. How about churches and synagogues? Aren't they banned from taking government money?

A: If a church or synagogue or any other religious body can qualify to be licensed as a child care provider, Kiddie Mac's services are available.

9. Will Kiddie Mac help in addressing some of the other problems of child care and child development?

A: Yes. Using some of the funds generated by its financial activity, Kiddie Mac will establish a foundation to research problems in child care and child development, fund pilot programs and educational materials, and find ways to make the Kiddie Mac process efficient and accessible to as many people as possible.