MEMORANDUM

TO: TOM FREEDMAN, MARY L. SMITH

FROM: DREW HANSEN

RE: CHILD CARE FINANCING

DATE: JULY 15, 1997

SUMMARY

Obtaining financing for the construction and maintenance of child care facilities as well as for the salaries of staff and for the fees of low-income parents is a pervasive difficulty of child care providers nationwide. The following is a summary of some innovative approaches to financing child care.

1. FINANCING THROUGH AMERICORPS

Americorps members currently work in child care, Head Start, and other early learning programs. The Home Instruction Program for Preschool Youngsters (HIPPY) of Colorado employs Americorps workers as mentors and assistants to parents involved in teaching their young children. Expansion of child care volunteerism is possible under America Reads.

2. CORPORATE PROGRAMS

Many corporations provide on-site or near-site child care for their employees. *Working Mother* recently listed 100 "family friendly" companies, of which 76 provided on-site or near-site child care. Some examples:

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- Neuville Industries, a hosiery manufacturer located in Hildebran, NC, has an on-site child care center serving 79 children for its 600-employee workforce. Parents pay 60% of the cost of care and Neuville subsidizes the remaining cost and gives employees 21-26 days of free child care per year, based on seniority. Neuville also subsidizes near-site care for employees working evening shifts.

3. PARTNERSHIPS WITH MILITARY PROGRAMS

The military child care system is known for high quality standards, strong enforcement and oversight, relatively generous wages for providers, support for home care providers, and funding to make quality child care affordable.

In 1997, President Clinton issued an executive memorandum to the Secretary of Defense, directing him to use the Department's expertise to improve child care in communities across the nation through 1.) creating partnerships with civilian child care centers, 2.) providing training courses for civilian child care providers, 3.) sharing the technical expertise of the military centers (in design, financing, etc.), 4.) working with States and local governments to enable military child care facilities to be used as training locations for welfare recipients moving from welfare to work.

4. PUBLIC-PRIVATE PARTNERSHIPS

Early Childhood Investment Fund (New York)

- Supports public/private partnerships statewide to improve child care delivery. Provides planning grants of up to $10,000 to develop solutions to community child care needs, direct-service grants to start or expand child care facilities, which can be used to subsidize parents' fees, and grants to increase the quality of existing child care.
- Founded in 1992 with $100,000 from New York State and $50,000 each from the American Express Foundation and the Traveler's Foundation.
- Communities required to match funds at a 2/1 rate, low-income communities match at 1/1 rate. Most programs have exceeded this requirement and matched at 3/1.
- In first three years, the program has made 18 planning grants and 22 direct service grants, totalling $522,052 and leveraging $1,577,273 in matching funds.
- Similar programs exist in California (Child Care Initiative), Maine (Child Care Development Project), Mississippi (Child Care Campaign), Oregon (Child Development Fund), and Charlotte, NC (Corporate Champions).

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- The government sells bonds and uses the proceeds to support one-time capital improvement costs, then allocates a portion of tax revenue to pay the debt (the same process is used for financing prison expansion and public utilities). This money funds grants to public agencies (school districts, cities) to build or renovate early childhood education facilities.

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- By July, 1995 had obtained loans of $3 million.

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RE: CHILD CARE FACILITIES LOAN FUND

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SUMMARY

In 1986, the Massachusetts Industrial Finance Agency (MIFA), a quasi-public organization (although it receives no state funding) that was founded in 1978 to stimulate private investment and job creation through a variety of financing incentives for growing businesses and institutions, established a Child Care Facilities Loan Fund to provide low-interest loans to corporations to build their own child care facilities. At the time, the Fund was an outgrowth of Governor Dukakis' Day Care Partnership Initiative, a program began in 1985 to create a model day-care system in cooperation with schools, businesses, and local government.

PROBLEM

The Child Care Facilities Loan Fund was established to address two related problems:

1. Need for child care for the children of all working mothers. In 1987, 50% of Massachusetts mothers of children under 6 were employed, and 70% of Massachusetts mothers of all school-age children were employed.

2. Need for child care for the children of mothers who have recently left welfare. The Massachusetts Employment and Training Program (ET) provides job training and placement to former welfare recipients. In order to enable former welfare recipients to work, ET subsidizes the child care costs of program participants so that the participant pays $1/day in child care costs while the program pays the remaining $24/day.

STRUCTURE

The Child Care Facilities Loan Fund provides low-interest loans of up to $250,000 to businesses to build on-site child care facilities for their employees. The loans are structured like mortgages with a 5-year maturity.

Between 1986 and 1988, the original $750,000 capitalization was committed to six projects, including a $30,000 loan to Greico Brothers, a men's clothing manufacturer, to create an on-site child care center, a $20,000 loan to Logan International Airport for the construction of a 20-child center, and a $250,000 loan to Ramco Fabrics for the construction of a 125-child center. The Fund also supported child care facilities for Central Massachusetts Job Training (a nonprofit corporation), New England Baptist Hospital in Boston, and Barrington Bear Care in Pittsfield. In response to these commitments, MIFA added another $750,000 to the Fund in 1988.

EFFECTIVENESS

The financial details for the construction of the Greico Brothers child care facility reveal that the Fund's loan was a minor though important component of the financing for the facility: $50,000 of the facility's financing was provided by Greico Brothers itself, $20,000 by a nearby mill, $20,000 by non-profit foundations, $10,000 by the Lawrence City Council, and $21,000 by the employees themselves through their union. The Dukakis administration agreed to subsidize low- and moderate-income parents' fees totaling $298,297 per year. The $30,000 loan from the Fund put the project "over the top", according to the company's vice president for manufacturing. In 1988, the Congressional Caucus for Women's Issues cited Greico Brothers as one of 43 U.S. companies that has combined management capital and employee contributions to aid workers with child care needs.

The Logan Airport center was completed in 1988, with the financial backing of American International Rent A Car, a tenant of the building where the center is located. About half of the center's original clientele came from mothers who were participating in the ET program.

In 1995, MIFA merged with the Massachusetts Government Land Bank to form the Massachusetts Development Finance Agency. After the merger, they have moved away from financing child care centers because of pressure on resources in other areas.

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Obtaining financing for the construction and maintenance of child care facilities as well as for the salaries of staff and for the fees of low-income parents is a pervasive difficulty of child care providers nationwide. The following is a summary of some innovative approaches to financing child care.

1. FINANCING THROUGH AMERICORPS

Americorps members currently work in child care, Head Start, and other early learning programs. The Home Instruction Program for Preschool Youngsters (HIPPY) of Colorado employs Americorps workers as mentors and assistants to parents involved in teaching their young children. Expansion of child care volunteerism is possible under America Reads.

2. CORPORATE PROGRAMS

Many corporations provide on-site or near-site child care for their employees. *Working Mother* recently listed 100 "family friendly" companies, of which 76 provided on-site or near-site child care. Some examples:

- Nations Bank has spent $25 million assisting its 65,000 employees in their child care needs. Nations Bank subsidizes child care expenses for its employees, and encourages them to choose high-quality care by subsidizing licensed providers at a higher rate than non-licensed providers.

- Neuville Industries, a hosiery manufacturer located in Hildebran, NC, has an on-site child care center serving 79 children for its 600-employee workforce. Parents pay 60% of the cost of care and Neuville subsidizes the remaining cost and gives employees 21-26 days of free child care per year, based on seniority. Neuville also subsidizes near-site care for employees working evening shifts.

3. PARTNERSHIPS WITH MILITARY PROGRAMS

The military child care system is known for high quality standards, strong enforcement and oversight, relatively generous wages for providers, support for home care providers, and funding to make quality child care affordable.

In 1997, President Clinton issued an executive memorandum to the Secretary of Defense, directing him to use the Department's expertise to improve child care in communities across the nation through 1.) creating partnerships with civilian child care centers, 2.) providing training courses for civilian child care providers, 3.) sharing the technical expertise of the military centers (in design, financing, etc.), 4.) working with States and local governments to enable military child care facilities to be used as training locations for welfare recipients moving from welfare to work.

4. PUBLIC-PRIVATE PARTNERSHIPS

Early Childhood Investment Fund (New York)

- Supports public/private partnerships statewide to improve child care delivery. Provides planning grants of up to $10,000 to develop solutions to community child care needs, direct-service grants to start or expand child care facilities, which can be used to subsidize parents' fees, and grants to increase the quality of existing child care.

- Founded in 1992 with $100,000 from New York State and $50,000 each from the American Express Foundation and the Traveler's Foundation.

- Communities required to match funds at a 2/1 rate, low-income communities match at 1/1 rate. Most programs have exceeded this requirement and matched at 3/1.

- In first three years, the program has made 18 planning grants and 22 direct service grants, totalling $522,052 and leveraging $1,577,273 in matching funds.

- Similar programs exist in California (Child Care Initiative), Maine (Child Care Development Project), Mississippi (Child Care Campaign), Oregon (Child Development Fund), and Charlotte, NC (Corporate Champions).

Smart Start (North Carolina)

- Gives grants to leverage other funds for a broad variety of child care needs. Many counties use the grants to decrease the waiting lists for subsidized child care or to increase the income eligibility levels and provider reimbursement rates for existing child care.

- Proposed in 1993, in 1995-1996 had $57 million in funds, raised $9.5 million in corporate matching funds, and had local matching funds/in-kind donations totalling $4.8 million.

Teacher Education and Compensation Helps (T.E.A.C.H.) (North Carolina)

- Provides educational scholarships for child care teachers, center directors, and family child care providers.

- Piloted in 1990, by 1995 2,000 providers in the program. Used between $850,000 and $1 million in federal funds for each of the last three years.

- Similar programs exist in Georgia, Florida, and Illinois.

Rochester/Monroe County Early Childhood Development Initiative (New York)

- Supports a broad variety of child care initiatives, including start-up costs for new facilities, assisting accreditation, staff development, etc.

- Started in 1990. Total funds are $74 million, with $6 million from the federal government (including Head Start funds), $20 million from state and county, $6.4 million from school districts, $2 million from city child care funds, $4 million from the Rochester United Way, $2 million from the Diocese of Rochester, $400,000 from foundations, and an estimated $35 million in parent fees.

- Similar programs exist as the United Way/Oregon Community Foundation and the Charlotte-Mecklenburg Children's Services Network (North Carolina).

5. PUBLIC FINANCING -- GRANTS

General Obligation Bonds (Minnesota)

- The government sells bonds and uses the proceeds to support one-time capital improvement costs, then allocates a portion of tax revenue to pay the debt (the same process is used for financing prison expansion and public utilities). This money funds grants to public agencies (school districts, cities) to build or renovate early childhood education facilities.

- Allocations of about $2 million in 1992, 1994, and 1996.

Tax-Exempt Bonds (Illinois)

- The Illinois Facilities Fund borrows funds through tax-exempt bonds and uses the funds to construct five child care centers and renovate two.

- The Fund has borrowed $13 million since 1992, and providers had to raise 10% of construction costs. Providers have attracted $24 million in other funding.

Child Care Center Start-up and Health and Safety Grant Programs (New York)

- Provides pre-development planning grants of $75,000/project, child care center start-up and expansion grants of $100,000 for a full-day center and $25,000 for a part day center, and health and safety grants of $10,000 for an existing center.

- Since 1984, it has provided $750,000 in planning grants, $1.8 million in start-up grants, and $900,000 in health and safety grants.

- Similar programs exist in about 21 states.

Family Child Care Start-up and Health and Safety Grant Program (New York)

- Provides grants of up to $500/home for child care facilities caring for up to 8 kids and group facilities caring for up to 14 kids.

- Established in 1987, in 1996 had a $2.6 million budget.

6. PUBLIC FINANCING -- LOANS

State Loan Guarantee Program (Maryland)

- Assists day care centers (for children and the elderly) in obtaining loans by guaranteeing up to 80% of a loan. Has guaranteed loans from $15,000 to $1.6 million.

- Established in 1984 with a $750,000 appropriation, now can guarantee up to $6.2 million in loans.

- Similar programs exist in Arkansas, California, North Carolina, and Tennessee. In New York, the state mortgage agency guarantees loans through the Chase Community Development Corporation.

Child Care Facilities Direct Loan Program (Maryland)

- Makes loans at or below the prime lending rate on a 20yr. repayment schedule for up to 50% of the cost of building or renovating a child care facility.

- Established in 1988 with $1.75 million, now has $1.8 million. Makes loans from $35,000 to $350,000; average loan is $200,000.

- Similar programs exist in Virginia, and under generic "business development" headings in New York and North Carolina.

Small Child Care Revolving Loan Fund (Maryland)

- Makes small ($1,000 to $10,000), short-term loans for minor renovations..

- Established in 1992, was allocated Child Care Development Block Grant funding of $62,000 in FY '95-'96, down from $125,000 in FY '94.

- Similar programs exist in Virginia. North Carolina and Maine allocate resources for the same purposes to community-based organizations.

Community Development Financing (North Carolina)

- The Center for Community Self-Help takes money from deposits to their credit union and makes grants for capital financing and program-related investments (zero- or low-interest loans, etc.)

- The Center was established in 1980 and began targeted child care in 1993, it has loaned $3.5 million for child care facilities to date, ranging from $500 to family child care providers to $850,000 to build a new child care facility.

- Similar programs exist in many states with "community development" organizations.

Community Development Finance Fund Linked Deposits (Ohio)

- Deposits funds in conventional lending institutions to encourage banks to loan at a reduced rate to a specific borrower (i.e. a child care provider). The same strategy has been used in providing funds for low-income housing.

- By July, 1995 had obtained loans of $3 million.

- Also helps with technical assistance, funding child care "micro-enterprises", and providing "gap financing" to cover the gap between a mortgage and the total cost of construction or renovation of a facility.

Commercial Lender Public-Sector Partnership (D.C.)

- The Center for Policy Alternatives encouraged 20 banks in the D.C. area to pool resources to develop child care loans. Loans are in three categories: "mini" micro-loans (up to $1,500) for family child care, micro-loans (up to $25,000) for non-profit child care organizations, and real estate mortgage lending of up to $1 million for major renovation or construction.

- Banks contributed $350,000 for the "mini" loans and $2 million for the larger loans. D.C. guaranteed the "mini" loans with $75,000 of Child Care Development Block Grant funding. Banks donated $70,000 for administration costs, and D.C. donated $75,000 of CCDBG money for technical assistance and training.

- Began in May, 1995 and "mini" micro-loans were available in 1996. The other loans are still in the planning stages.

- Similar programs exist in Ohio and Portland, Oregon.