



FINANCING CHILDCARE: Innovative Approaches

by Jodi Nishioka, Planner, Project Lift-Off; City of Seattle

This article will highlight ways banks are investing in childcare as a partner in resolving one of the nation's biggest crisis, the availability of high-quality affordable childcare. Approximately 68 percent of three-year-olds, 78 percent of four-year-olds and 84 percent of five-year-olds receive some form of childcare on a regular basis. This translates to more than 6.8 million pre-schoolers in childcare.¹ There are another five million children under three years of age in the care of other adults while their parents work.² Yet, only one in seven childcare centers provides a level of care that promotes healthy development and learning, with one in eight providing such poor care that the health and safety of our children are actually threatened. The situation for infants and toddlers is even worse. Eight percent of childcare programs for infants and toddlers are considered good quality, while forty percent are considered poor quality.³

WHY INVEST IN CHILDCARE?

High-quality childcare is a major determinant in resolving our national education crisis. Many children arrive at kindergarten unprepared to learn because they have not received appropriate development and learning opportunities before they reach kindergarten. Children who attend higher quality childcare centers perform better on measures of both cognitive and social skills. The results of a long-term study revealed that the quality of childcare affects children's success in kindergarten and, for many, their development through the second grade.⁴

Affordability is also a major childcare issue for many American families. Nationally, poor families—defined as earning 50 percent or less of area median income—with small children

spend an average of eighteen percent on childcare, compared to seven percent spent by wealthier families. In Seattle, families of all income levels spend on average fifteen percent of their median income on childcare for one child in the first three years of the child's life. Many families have more than one young child in childcare, which means approximately thirty percent of a family's income is spent on childcare alone.

Availability is another major problem in childcare. Many families experience difficulty finding childcare and are on waitlists so long that their children outgrow the childcare they are waiting for. There is clearly a shortage of childcare slots in most cities around the country. In Seattle, there is a fifty percent shortage of slots for infants and

1 West, Wright, & Hausken (1995). *Childcare and Early Education Program Participation of Infant, Toddlers, and Preschoolers*. Washington, DC: U.S. Department of Education, National Center for Education Statistics.

2 Carnegie Task Force on Meeting the Needs of Young Children (1994). *Starting Points Meeting the Needs of Our Youngest Children*. Carnegie Corporation of New York.

3 Cost, Quality & Child Outcomes Study Team (1995). *Cost, Quality and Child Outcomes in Childcare Centers*. Denver, Colorado: Department of Economics, University of Colorado at Denver.

4 Cost, Quality & Child Outcomes Study Team (1999). *The Children of the Cost, Quality and Outcomes Study Go to School*. Frank Porter Graham Child Development Center, University of North Carolina at Chapel Hill.

a twenty-five percent shortage of slots for toddler and preschool-age care.

The dearth of childcare availability also has a major impact on our economy. It is a common misconception that childcare is a small cottage industry. In fact, it is estimated to be a \$50 billion industry in this country, affecting hundreds of thousands of workers and millions of working parents. With welfare reform and unemployment at record low levels, we have more mothers in our workforce than ever before. All working parents must leave their children in the care of someone while they are at work, creating a great demand for high-quality childcare in this country. Without accessible and affordable childcare, there is an incredible strain on our workforce and ultimately our economy.

WHAT CHILDCARE INVESTMENTS ARE BANKS MAKING IN THE UNITED STATES?

Throughout the country, banks are collaborating with a host of concerned partners to address the needs and gaps of childcare providers. These initiatives vary in complexity depending on the partners involved and the specific audience they are designed to serve. While this list is by no means exhaustive, the diversity of programs presented will hopefully spur innovative thinking about how banks can invest in childcare initiatives.

CRA LENDER PARTNERSHIP (WASHINGTON, D.C.)

In Washington D.C., a consortium of eight banks, led by Riggs National Bank, has partnered with two community development corporations to expand the number of licensed neighborhood childcare spaces in Washington, D.C. This effort is in response to the increase in working mothers that have resulted from welfare reform.

The program provides micro-loans up to \$1,500 to family home childcare providers for a term typically of three years, technical assistance on how to

run a business and other workshops on providing quality childcare. Typically, the loans are used to purchase playground equipment, smoke detectors, and other items to meet licensing requirements.

The consortium was started in April 2000 and already has funded fourteen childcare programs. The eight banks made initial pledges to contribute a total of \$60,000. Additionally, they waived any administrative or servicing fees. The local government contributed \$200,000 to cover administrative costs, including the staff costs related to providing technical assistance and training to the borrowers.

This program is in its first phase with plans to expand its lending capacity to serve childcare centers and facilities development in the future. The program was three years in the planning stage to get up and running.

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OHIO CHILDCARE CAPITAL FUND

The Ohio Childcare Capital Fund, managed by The Ohio Community Development Finance Fund (Finance Fund), is a resource for *Head Start*⁵ agencies in the financing of real estate projects. The Finance Fund is a housing and economic development agency whose programs target under served communities. In 1996, as a result of a four-year lobbying effort to increase *Head Start* dollars, the Ohio State legislature made a one-time budget allocation of \$3 million to *Head Start* to leverage funds for childcare facilities in Ohio.

The \$3 million was used to buy a certificate of deposit (CD), which generated an additional \$3 million from the

sale of the CD's revenue and future principal payments. The approximately \$6 million of funds are used as *linked deposits* to help lower the costs of funds available to childcare programs for facilities development, resulting in sixteen projects so far. *Linked deposits* are funds placed in conventional lending institutions that enable them to make loans at a reduced rate to specific borrowers, such as childcare providers. The interest earned on the deposited funds is used to subsidize the interest charged on below-market rate loans.

The Finance Fund also administers a grant fund that can be used for pre-development "soft costs" associated with acquisition, rehabilitation/addition and new construction of childcare facilities such as a feasibility study, architectural and engineering work. The grants are available to nonprofit organizations that provide childcare services to low-income populations—non-*Head Start* programs—and who generally do not have experience in property development. Banks might think about identifying similar grant programs in their area to locate childcare providers who are considering expanding their facilities.

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MASSACHUSETTS CHILD CARE CAPITAL INVESTMENT FUND

The Child Care Capital Investment Fund (CCCIF) pools funds from public and private sources and re-lends them to nonprofit childcare providers serving low-income children in Massachusetts. The fund was initiated in 1992 by the United Way with a significant contribution from the Ford Foundation, raising \$2.5 million for the initial pool.

5 *Head Start is a federally funded early care and education program for low-income families.*

Recently, CCCIF received a million dollars in “participation loans” from four local banks: Citizens Bank, Fleet, Boston Private Bank and Wainwright Bank, with each lender contributing \$250,000. Their participation was stimulated by an offer from the Federal Home Loan Bank to use funds from a special program to support this community effort.

CCCIF distributes \$1.2 million annually in loans ranging from \$10,000 to \$300,000. The loans are given at a fixed rate of seven percent interest for a term of ten years, with six to eight loans outstanding at any given time.

One of the most important features of the Child Care Capital Investment Fund is the extensive technical assistance given to each borrower. Recognizing that childcare providers are not in the business of real estate development, CCCIF staff provide an average of 40-50 hours of technical assistance which includes assistance to identify architects and contractors, manage financing and business expansion and determine the borrower’s debt service capacity.

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SAN FRANCISCO CHILDCARE FACILITIES FUND

The San Francisco Childcare Facilities Fund (CCFF) is a public-private partnership whose goal is to increase the quantity and improve the quality of childcare in San Francisco. Since its inception in 1998, \$15 million has been raised for childcare facilities already benefiting 120 family home providers and 30 centers. To date, over 2000 childcare spaces have been financed, including 1400 new spaces, through grants and loans totaling almost \$7 million.

The San Francisco Childcare Facilities Fund offers three core programs:

- 1) The Family Childcare Assistance program provides grants of \$1,000 to \$5,000 to meet one-time capital expenses of family (in-home) childcare providers.
- 2) The Childcare Center Assistance Program provides pre-development and planning grants, grants for equipment, working capital to stabilize business and construction to permanent loans through the award winning Section 108 Community Development Loan Program.⁶
- 3) Technical assistance is also provided to boost the facilities expertise and business management skills of childcare providers.

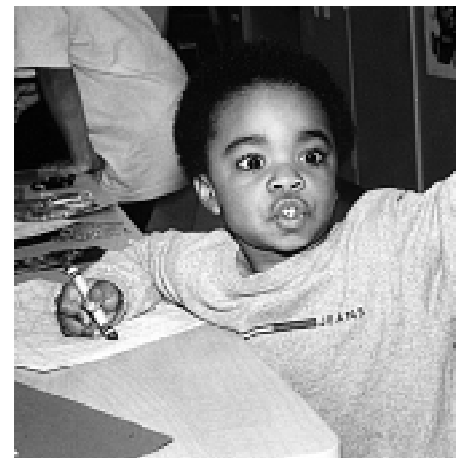
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CASCADIA REVOLVING FUND

Cascadia is a certified CDFI that provides loans, bookkeeping and technical assistance to businesses that do not qualify for traditional bank financing. Their support of start-up and existing childcare businesses has contributed to both the capacity and profitability of this highly specialized sector. Cascadia’s loans enable childcare providers to renovate or expand their facilities, and make other improvements such as purchasing playground equipment or installing a fence for an outdoor play area. Their loans also help providers increase the number of kids they are certified to serve, which positively impacts the provider’s annual income and improves the availability of licensed care for parents. Loan amounts range from \$1,000 to \$150,000 with low interest rates and a two percent loan fee plus closing costs.

⁶ *Section 108 is a HUD program that enables States and local governments to obtain federally guaranteed loans to support large economic development and revitalization projects. Current and future CDBG funds are pledged as security for the loans. Funding childcare facilities is one of the most unique uses of this program, with CCFF being perhaps the only example.*





ABOUT THE AUTHOR

JODI NISHIOKA is planner for Project Lift-Off, a community-based initiative that seeks to create a system of early care, education and out-of-school-time activities that are affordable, easy to access and highly effective for the children of King County, Washington. She co-staffs the Project Lift-Off working group whose aim is to “revolutionize the financing of child care and out-of-school-time programs,” along with other components of the Project Lift-Off action agenda. As part of her work in childcare finance, she is helping the Federal Reserve Bank of San Francisco facilitate a childcare finance initiative with Washington bankers. Ms. Nishioka has a bachelor’s degree in finance from Boston University, and a law degree from George Washington University. Ms. Nishioka practiced law for six years, primarily representing women and children, before leaving the practice of law to focus her efforts on advocating for women and children outside of the courtroom.

Cascadia manages its high-risk lending successfully. Eighty percent of their borrowers are still in business and their loan loss rate is less than one percent. These impressive figures are largely the result of the technical assistance and personal attention the staff provides to their borrowers. Its loan funds come from individuals and institutions that invest in Cascadia at below market rates. This approach offers banks a convenient, lower risk way to make CRA eligible small business loans to childcare providers.

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BANK OF AMERICA CHILDCARE PLUS

Bank of America has shown leadership in addressing work and family issues for their employees. Depending on the employee’s eligibility, Bank of America will reimburse up to \$152 a month per child. They have found that helping employees pay for childcare has decreased turnover by fifty percent for those employees using the program. The savings to the bottom line created by the lower turnover, more than justifies the \$22 million this benefit costs Bank of America annually. Bank of America also offers inclement weather and summer care programs at some locations and near-site childcare centers in some cities.

CHILDCARE FACILITIES FINANCING PROGRAM (CALIFORNIA)

The California Department of Housing and Community Development (HCD) offers loan guaranties up to 80% to encourage private sector lenders to finance childcare facility development. Because priority is given to applicants who are primarily serving children from “welfare to work” or other low-income families as one of the criteria, banks can be cer-

tain that the loans would be eligible for CRA Lending Test credit.

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THE VALUE OF TECHNICAL ASSISTANCE

The biggest barrier to expanding childcare services may very well be the childcare providers themselves. While the programs discussed above have helped a number of childcare providers and created many new slots for children in their communities, it remains a struggle to encourage childcare providers to take out loans. Technical assistance can provide the information they need to make a wise and practical decision to borrow funds for their childcare program.

Childcare providers are reluctant to take on the responsibility of servicing a loan commitment because they either cannot afford the monthly loan payments, are intimidated by the lending process or are afraid to incur additional debt. Yet, many childcare providers use high-interest credit cards to pay for playground equipment and improvements to their facilities. Programs that offer grants report a great demand for these funds. Bundling loans with grants is a way of leveraging these limited funds by enticing childcare providers to explore the possibility of borrowing.

Many banks that have undertaken loans to childcare providers have expressed a need for outreach and education about budgeting, financial management, as well as ongoing assistance for the borrower once they embark on a facilities project. The lending programs discussed above are administered by nonprofit intermediaries whose supplemental support from foundations, municipalities and other concerned parties enable them to provide such assistance. Investing through intermediaries is a cost effective and efficient way to support childcare. **CI**