THE CHILDCARE FACILITIES TOOLBOX:

AN ANALYSIS OF GAPS AND OPPORTUNITIES IN NEW MEXICO

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Acknowledgements:

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INTRODUCTION:

More than half of young children aged zero to three are unable to access high quality subsidized early childhood learning opportunities in New Mexico simply because there are not enough seats available. Childcare facility development - building, repairing, and expanding childcare facilities – is an important tool for increasing the number of early childhood seats across the state. New Mexican families acutely feel the pinch of the lack of high-quality early learning opportunities. New Mexico is one of the nation's poorest states. High inflation, a housing crisis, and an unprecedented global pandemic have left the state's families with even less disposable income to spend on childcare expenses. Even as the New Mexico Early Childhood Education and Care Department (ECECD) has made significant financial interventions to prevent center closures due to the pandemic, childcare facilities continue to experience significant declines in enrollment as operators and families struggle with the pandemic's continuing impacts. Over 1-in-5 of childcare homes and centers across New Mexico experienced at least a 75% decline in attendance between May 2021 and May 2022.[1]

Without accessible low-cost capital and meaningful technical assistance, high quality childcare providers cannot expand classrooms or build new facilities in order to offers services to more families. Operators also frequently have to delay repairs or occupy suboptimal facilities. Developmentally appropriate and safe physical spaces are critical elements to high quality early learning settings. "Good enough" is simply not good enough.

In this paper, we present the current landscape for facilities development in New Mexico, highlighting the gap between supply and demand of seats and current financing opportunities.

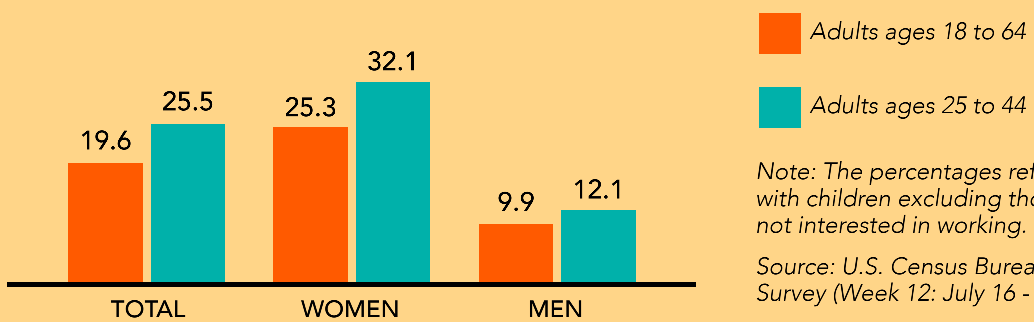
[1] Parolin, Z. (2022, June 14). U.S. Database of Child Care Closures during COVID-19. https://doi.org/10.17605/OSF.IO/K3T98

We also share the results from a facilities-focused survey conducted by the New Mexico Association for the Education of Young Children (NMAEYC). Looking to possible solutions, we present summaries of the approaches to early childhood facility funds that five other jurisdictions across the US have taken.

WHY INVEST IN EARLY CHILDHOOD?

The case for expanding access to high quality early childhood opportunities is multi-dimensional. During the first five years, a child's brain is at its most flexible, making this a critical period for learning and growth. Children who receive a high quality early childhood education are proven to perform better in kindergarten, but the gains extend into the future. These children are also more likely to earn higher wages, live healthier lives, avoid incarceration, raise stronger families and contribute to society. Additionally, access to stable, high-quality childcare is a strong economic development driver. It helps parents improve their labor productivity by allowing them to increase work hours, miss fewer workdays and pursue further education. In 2020, one in five (19.6%) of working-age US adults who were in the labor force but not working said the reason they were not working was that COVID-19 disrupted their childcare arrangements.[2]

Percentage of Adults With Children by Age Group Who Are Not Working Due to COVID-19 Related Child Care Issues



Note: The percentages reflect non-working adults with children excluding those who are retired or not interested in working.

Source: U.S. Census Bureau, Household Pulse Survey (Week 12: July 16 - July 21, 2020)

A STAGGERING GAP IN OPPORTUNITY

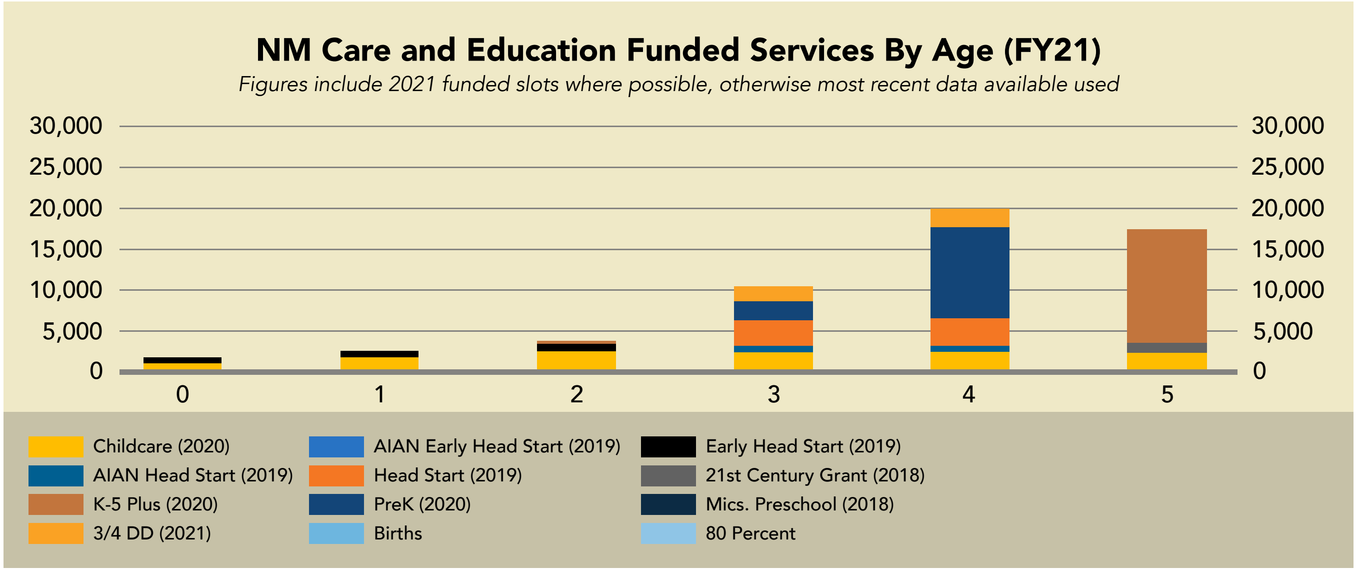
More than half of New Mexico's children aged 0-3 do not have access to high quality, affordable early childhood opportunities. In its Four-Year Finance Plan (2023-2026), The New Mexico Early Childhood Education and Care Department (ECECD) reported that in the current fiscal year 2023, there are over 60,000 kids between the ages of zero and three years old, yet 850 providers only are able to offer 27,479 seats[3]. This finding is echoed in the Legislative Finance Committee's August 2022 LegisSTAT report on "Medicaid Home Visiting and Prekindergarten." While the supply of seats to four and five year olds meets the definition of "full enrollment" at nearly 80% of total population, the availably of funded seats for 0-3 year olds is under 50% of the total population[4]. In the state capital of Santa Fe, in 2019 there were only enough high quality (defined as FOCUS levels 4 and 5), center-based slots for approximately 7% of the babies born.[5]

2 U.S. Census Bureau, Household Pulse Survey (Week 12: July 16-July 20, 2020).

3 ECECD-Four-Year-Finance-Plan-12.9.2021.pdf (nmececd.org)

4 Expanding Home Visiting and Prekindergarten Services.pdf (nmlegis.gov)

5 Solving the Puzzle 1.22.19.indd (webflow.com)



Source: New Mexico Legislative Finance Committee

New Mexico public school enrollments have been declining for years, a dynamic that is creating excess physical capacity in many of the state's public schools. Additionally, in 2021, New Mexico's public charter schools were authorized to access capital funds through the NM Public School Capital Outlay Council (PSCOC). The public school capital outlay process is the primary way traditional public schools finance capital improvements, including pre-k classroom retrofits. While these developments present potential opportunities to create new physical capacity for public school and community-based pre-k providers, they do not address the acute statewide shortages of infant and toddler care.

FINANCING CHILDCARE FACILITY DEVELOPMENT IN NEW MEXICO

While the staggering gap between the number of seats available and the number of children is a multi-faceted problem, one of the key tools for closing this gap is facilities development. There is no systematic process by which the public sector funds expansion, repairs, or new construction of child development facilities or homes in New Mexico. The reality is that many community-based providers finance capital improvements with a unique combination of loans, grants, savings, investments, good will, and charitable contributions. Additionally, the "anti-donation clause" in the New Mexico Constitution complicates the ability of New Mexico state government to act on a comprehensive facilities funding strategy.

Providers can pursue either commercial or residential loans from banks, depending on whether they are operating a home or center. Commercial loan terms vary widely across industry types and projects, but typically have shorter terms than the 30-year fixed-rate loan that is the standard for residential mortgage lending. Some childcare operators will opt for a balloon loan, in which the lending institution may offer a repayment schedule for a 10-year loan that is based on a longer amortization period. While a balloon loan lowers the monthly payments of principal and interest (relative to a standard commercial loan) making it appealing to a childcare business whose financial model cannot support significant debt on a month-month basis, the borrower is still required to pay the remaining principal and interest at the conclusion of the loan period.

One of the biggest barriers to childcare providers taking out bank loans is that the business model – the combination of families who pay private tuition fees and those who are eligible for childcare subsidy – does not support debt service. Simply said, there is frequently not enough income available in the childcare business model to cover debt. The Low Income Investment Fund estimates that facilities projects usually require 40% to 50% subsidy to make the cost of construction affordable to the provider.

The Early Childhood Education and Care Department (ECECD) - a cabinet level agency new to New Mexico in 2020 – administers childcare assistance, licensing, and quality compliance for all public and private centers, schools, and home-based early learning and pre-k programs. The agency also is responsible for executing a statewide childcare workforce strategy and associated investments. ECECD recently committed 10 million dollars from the American Rescue Plan Act (ARPA) Child Care Stabilization Administration Funds to support the New Mexico Child Care Supply Building Grant. This grant opportunity focuses on building high quality childcare seats supply throughout New Mexico, especially in "child care deserts." This grant opportunity supports providers who want to maintain and improve childcare facilities with minor renovations and cover short-term labor costs associated with expansion. Minor renovations include things like painting with non-toxic paint, updating sidewalks, replacing windows and doors, and roof repair. Because of the Federal restrictions associated with this funding source, providers are restricted from used awards for any major renovations like new construction of classrooms, land acquisition, or leasing space.

ECECD also recently led the country in setting subsidy rates by estimating the true costs of running high quality early childhood care and education programs. This analysis[6], which involved surveying providers across the state, included an estimation of occupancy costs, which include rent/lease or mortgage, real estate taxes, maintenance, janitorial, repairs, and other occupancy-related costs. The cost model approximates annual occupancy costs to be $20,350 per classroom for a childcare center and $5,140 for a small or large family childcare home. While these new rate calculations certainly address the ongoing costs of running childcare facilities and programs, the issue of accessing capital for new seats still looms.

Increasingly, nonprofit community lenders – community development financial institutions (CDFIs) – have entered the childcare facility development space. These lenders, many of whom administer large and complex funding sources like tax-exempt bonds and New Markets Tax Credits, are able to qualify childcare operators and offer loans and leases with favorable terms. Importantly, these CDFIs also fill the important role of providing technical assistance to childcare providers as they embark on development projects. Most providers lack prior real estate development experience – navigating entitlements and zoning, assembling capital-funding stacks, working with architects and regulatory agencies, and managing general contractors. Some CDFIs, notably IFF in the Midwest, The Center for Community Self-Help in North Carolina, the Low Income Investment Fund (LIIF), and Local Initiatives Support Corporation (LISC), have built strong technical assistance programs that support providers through the development process.

In the following section, we present results from a survey of 78 early learning providers from across the state, examining the demand for and barriers to expansion. The survey also illustrates the mixed delivery system for early childhood services in New Mexico – private, public, nonprofit, and faith-based providers alike provide services.

[6] https://www.nmececd.org/wp-content/uploads/2021/08/P5FS_NMReport_v.3d_forWeb.pdf

While the "anti-donation clause" in the New Mexico Constitution, which we discuss in detail in Box 5, complicates the ability of New Mexico state government to direct funding towards private operators, if we want to expand seats in the state, we must find a way to direct funds to various provider types.

BARRIERS TO FACILITIES DEVELOPMENT IN NEW MEXICO FROM THE PERSPECTIVE OF 78 CHILDCARE PROVIDERS

In September 2022, with the intention of understanding the barriers to facilities development from the perspective of childcare providers, Homewise and The New Mexico Association for the Education of Young Children (NMAEYC) collaborated to administer a survey of providers across the state. While a large fraction of providers expressed interest in expansion, limited availability of human capital and inability to support debt in the financial model make growth unattainable for many. Providers identified technical assistance and access to low-cost or free capital as the mechanisms that would enable growth. While the data suggests a clear benefit of owning over renting a facility, nearly one in five renters and owners report to be paying more than 20% of operational budget in occupancy costs. The demographics section below ("Who Responded") points to an important caveat of this analysis: the inferences we are able to make from this data mostly apply to center-based providers. Deeper exploration of the experience of home-based providers is an important next step to developing a comprehensive facilities funding strategy.

WHO RESPONDED?

Seventy-eight (78) providers from across the state responded to the survey[7]

Mostly center-based providers responded: Sixty-one (61) child development centers, eight (8) home based providers

Sixty-five percent (65%) of respondents have one location, and Eighteen percent (18%) have four or more locations

A mix of provider types: 8 affiliated with a public school, 14 with Head Start / Early Head Start, 10 with a faith-based organization, 8 with a higher-education institution, 1 tribal center, 12 standalone centers

Almost half of respondents (43%) were interested in expansion to another site, 29% were unsure, and 29% were not interested. When asked to rank eight reasons for not expanding, 54% listed attracting and retaining educators as the top two most significant barriers. Additionally, 35% of respondents ranked "finding a director" in top two barriers to expansion. One provider captured this sentiment: "If we thought there would be adequate number of staff we could hire, we would consider expanding. But we have a huge challenge of keeping our current facility fully staffed." Many institutions across the state – ECECD, Santa Fe Community College, Growing Up New Mexico, University of New Mexico, to name a few - are working diligently to make investments in human capital, training new talent into the labor market.

[7] NMAEYC sent this survey to all childcare providers on its email distribution list; it includes providers who are NMAEYC members and those that are not

Childcare providers reported that the business model cannot support debt associated with expansion. A quarter of respondents (25%) reported that inability to pay development costs while not collecting revenue (during construction) was the primary reason for not expanding. Additionally, 27% reported "the financial model cannot not support debt" was one of the first two reasons they could not expand. Respondents deprioritized parts of the development process that are further "down-stream," like engaging with architects and local regulatory agencies. One possible interpretation of this finding is that providers cannot imagine pursuing development projects without adequate human capital and access to low-cost or free capital, so down-stream issues are less germane. Notably, providers who responded to the survey were not concerned about being able to fill seats if they were to expand; only 7% of respondents listed "We don't know if enough families will be able to attend" as the primary reasons for not expanding. Below are some of the quotes from open-ended responses that are reflective of what providers who have expanded see as realistic ways to pay for development costs:

"The last time we built a building was right after the Great Recession, and we built a building with two classrooms for only $400,000. We raised money for this last Capital Campaign and did not take on any debt."

"We wrote grants and did other fundraising events."

"I have remodeled and changed some things with funds that the state offered."

"Our current program took over an existing building and used grant money to renovate. The building is too old to keep renovating, so new construction will be best."

Providers also reflected on the supports they would need to expand into additional homes or centers. Comments centered on the need for cheap or free capital as well as technical assistance to blend capital sources and navigate the development process.

"Guidance on how to start a new facility."

"Grants to help with the cost of building materials [and] land. Low interest rates."

"If I had a contact to ask questions to and who has went through the process, I would feel more empowered to do it. I have the space square footage wise at my house. Also, [I would need help navigating] the zoning regulations etc."

"Grant funding for the building of a new center."

Only 3.7% providers who exclusively rent[8] facilities pay less than 5% of operating budget in occupancy costs, compared with ten-times as many providers (33%) who exclusively own facilities. While this finding suggests the financial benefits of ownership over leasing are significant, the costs of occupancy for many owners and renters are high. Twenty percent (20%) of providers who exclusively rent and 22% of providers who exclusively own dedicate more than 20% of their operating budget to occupancy related costs.

As a follow-up to this analysis, Homewise and The New Mexico Association for the Education of Young Children (NMAEYC) intend to conduct 1:1 qualitative interviews of providers who responded to the survey and were willing to speak about their experience expanding or the barriers they perceive in pursuing expansion.

PROVIDER SPOTLIGHT:

KOALA LEARNING ACADEMY BUILDS A NEW CENTER IN BARELAS, ALBUQUERQUE

Homewise, a New Mexican nonprofit and CDFI focused on building wealth through homeownership, jumped headfirst into supporting the development of an early learning center in Barelas, Albuquerque after hearing from residents that it was a needed neighborhood amenity. At Homewise, we use a participatory planning approach to guide our development decisions. At its core, this approach is all about listening to residents as we plan for and construct new development projects. In 2020, Homewise conducted a nationally vetted NeighborWorks America resident survey in Barelas, one of Albuquerque's oldest neighborhoods. In response to learning that residents identified childcare services as a priority need for the community, we engaged in a commercial redevelopment project with a childcare development center. In Barelas, the median household income is $27,669 and eight total infant spaces [exist] across the entire neighborhood. One resident's story captures the effect of low supply of childcare seats in this neighborhood:

8 In the data, providers could classify themselves as renting, owning, using shared space or some combination of the three if they ran multiple centers.

"My wife and I welcomed our baby girl into our family and community in 2016. At the time, my wife was a schoolteacher and I was working at a marketing firm. Because of the lack of childcare facilities in the area who are able to provide room for infants, I was forced to quit my job and become a Stay-At-Home Dad, while my wife continued to teach. Now, don't get me wrong, I wouldn't change the first four years of my daughter's life for anything. My time with her was an absolute blessing that I am forever grateful for. But it also wasn't a choice. There was nothing else we could do; I simply had to stay home to be with her. So while it's true that I'm thankful for the opportunity to be a SAHD, it's also true to say that my family suffered financially because of the lack of childcare options in the area."

This early learning center will occupy 3,432 square feet and will serve roughly 60 children, from infants up to age five. The project doubles the number of infant spaces available in the neighborhood. Additionally, this operator intends to hold over 50% of the slots for low-income families who use state subsidy to pay for their services.

The costs of this building rehabilitation are significant, totaling over $1.5 million. We hired a planning firm to assist with a zoning change, we spent hours engaging with and addressing concerns by local neighborhood associations, and we hired an architect who had experience building early learning facilities. As a large nonprofit developer with experience in accessing large subsidy sources, we were able to secure 25% subsidy on the project through a New Markets Tax Credit award. We have raised additional philanthropic subsidy, and the childcare operator is in the process of applying for a Supply Building Grant from ECECD.

Homewise is covering taxes and insurance. However, with a remaining 25% gap between total cost and what was affordable to the operator in monthly rent, Homewise will take a significant loss on this project. We continue to seek ways to make this project pencil out financially but are committed to the mission of ensuring that families in Barelas have greater access to high quality early learning opportunities. This experience piqued our interest in this work. We asked ourselves, "If Homewise, a large CDFI that's able to cross subsidize its work to make a project like this feasible, finds it difficult, how are operators across the state able to finance expansion and building facilities?"

PROVIDER SPOTLIGHT:

FIRST PRESBYTERIAN CHILD DEVELOPMENT CENTER IN SANTA FE, NM

First Presbyterian's Child Development Center in Santa Fe serves eighty children, ages twelve months to five years, and provides developmentally age-appropriate, child-centered programs that focus on the process of learning through play and discovery. The Child Development Center earned a five-star national accreditation mark from the National Association for the Education of Young Children in 2017. The Center's Director, Anne Liley, has worked at the school for over 10 years. Director Liley responded to some questions about her partnership with First Presbyterian Church and her experience with facilities and expansion:

1) Can you tell us about your partnership with First Presbyterian Church?

At First Presbyterian, the preschool is an integral part of our organization and our largest mission. Legally, we are one entity, and we treat the church staff and preschool staff in the same way regarding benefits (pension, medical, etc.) and general HR policies. Financially, we are also one entity; however, we do separate the preschool's revenue and expense as its own "department" because the preschool is such a large component of First Presbyterian. The church congregation is very dedicated to the preschool. We have had some type of school associated with our church since its founding in 1867, and people give generously to support scholarships for the students who are unable to pay as well as gifts through unspecified donations. The church even made the preschool scholarship fund a part of a large capital campaign a few years ago to ensure that the preschool can support all members of our community for many years to come regardless of ability to pay tuition. It has also been the CDC's mission to access all available grants from the state of New Mexico both through Child Care Subsidy and mixed age PreK grants (3-5 years old) so that as many families as possible can access our program at no cost. Over time, the preschool has been able to finance more and more of its variable expenses, to the point where in 2023 it will be expected to pay all its variable costs. This level of financial independence has been due to the efforts to establish a 5-star NAEYC Accredited preschool, which is funded at a higher level and can attract grants (through the persistent and dedicated efforts of our preschool director). Further, the preschool is an integral part of the work of our volunteers. The HR committee works with church staff and preschool director to establish the HR policy manual and update benefits each year. The volunteer treasurer works with the director to establish and monitor the budget and to budget for grants and contracts. The facilities committee works with the director to accomplish specific projects for preschool as well as maintain the heat, air conditioning, and maintenance of the space occupied by the preschool.

2) How do your occupancy costs show up in your financial model?

The church provides the space for the preschool without any rent charges. First Presbyterian owns the building outright and has no mortgage expense, but does incur general building expenses such as maintenance of air conditioning and heating systems, landscaping, roofing, external repairs, etc. For 2023, the preschool will be covering the variable expenses including those related to the building (utilities, custodial, parking, for example). This later step was made possible because the preschool acquired five apprentices so we could reduce the overtime and substitute budget.

3) On your website, it currently states that, "Due to full capacity and a long waiting list, the Child Development Center is not adding families to the waiting list at this time." What are some of the biggest barriers you have experienced when considering adding more classrooms or expanding to another building?

The Child Development Center at First Presbyterian Church has been dedicated to meeting the childcare needs of Santa Fe residents for many years, but we have been mostly focused on meeting the dire need for increased infant/toddler care for the last ten years. We have investigated purchasing/renting space to set up a new infant center but regulations pertaining to fire suppression and sprinkler systems and high market rent in Santa Fe were too much of a burden financially to make those options feasible. The very few number of infants that can be served in a space and the large number of staff needed also makes it very hard for infant centers to be profitable. We have recently focused our expansion plans on a partnership model similar to what we have with First Presbyterian Church but other entities that were approached such as the County (requested space in the new County building during the construction process on Grant St), the City of Santa Fe (looked at a variety of existing city owned buildings but they needed a full remodel) and other businesses like the hospital have all come to a halt due to the expense of remodeling existing space and the commitment to provide space rent free while operational. Other burdens have been the inability to find enough qualified staff (we believe this is being addressed with the new Aprende Apprentice program at Santa Fe Community College) and other administrative burdens such as having to have another director for each site.

PROVIDER SPOTLIGHT:

A TAOS HOMEBASED PROVIDER STRIVES TO WEATHER THE HOUSING MARKET

An anonymous provider in Taos, NM, who has 25 years of experience providing early childhood services, spoke with our team about her experience running a small early childhood family home for the last eight years. After a number of childcare centers based in Taos shuttered a decade ago, this provider responded to her community's need and opened a small licensed childcare home in a casita. When her lease ended, she moved the operation into her rental home where she serves six children a day. She shared how difficult this work has been; she earns minimum wage while serving a mix of families who pay privately and who receive public subsidy, all while having very little physical separation between her living space and the spaces in which she provides care. Additionally, the sight lines are inappropriate, and making accommodations for COVID safety were difficult in a small space, even with the generous grant awards she received from ECECD over the course of the pandemic.

Recently, the property owner increased rent and utility costs; she was able to pass on a portion to the families she serves but was concerned about their ability to pay for more increases. Additionally, the property owner has a vision, influenced by growing population, tourism, and the booming housing market, to convert the unit into a short-term rental. The writing was on the wall; it was time for the childcare provider to start thinking about different locations for her business.

The operator explored the rental market, but most property owners were concerned about the liability of renting to a childcare business. The for-sale housing market felt completely out of reach, as prices were soaring and out-of-town investment was flooding the market. With savings, a sale of a family owned property, and the support of a family that worked in real estate, the provider purchased a piece of unimproved land from the Taos Community Foundation. She has a vision to build a duplex with an apartment on one side she can live in and another in which she can run her business.

When she approached a local credit union for new construction financing, they indicated she would need a well on site to qualify for the loan. She's launching a "Go Fund Me "campaign to raise money, is getting pro-bono help from a parent who works in resource development, and is in conversations with WESST, a statewide nonprofit and SBA micro lender, about applying for a small loan or grant for the well, though they do not traditionally make residential loans. It is uncertain if credit union will even qualify her for a loan because of how slim the margins are on her business. With a few years of balance sheets inflated by all of the generous COVID stabilization support ECECD provided, she is hopeful that the credit union will look upon her loan request favorably.

The future of this provider who has a quarter century of experience is uncertain, and if the project fails, Taos will be yet another provider short in an environment where families are struggling to find quality early learning opportunities. How can we make sure that providers like this have every opportunity to stay open, or better yet, expand?

ENTITLEMENTS REFORM SPOTLIGHT:

SANTA FE CITY COUNCILOR JAMIE CASSUTT OF DISTRICT 4 TACKLES LOCAL ZONING BARRIERS TO BUILDING CHILDCARE FACILITIES

Jaime Cassutt, a City of Santa Fe Councilwoman, public health professional, and single mother, has experienced firsthand and through her constituents the short supply of early learning opportunities in Santa Fe. According to a 2018 analysis and mapping project by The Center for American Progress, roughly half of Santa Fe is considered a "childcare desert" (a community with more than (3) three children for every licensed childcare slot). In partnership with the City's Land Use Department, she took on some of the administrative barriers that make it difficult for operators to open early learning centers and homes. Historically in Santa Fe, an early learning operator that served over six children needed to apply for a "special use permit" in order to open a home or center in any residential or commercial zone. This entitlements process is expensive and time consuming. In order to apply for a special use permit, an operator would likely hire a planning consultant (~$3,000), send mailers to neighbors in advance of an early notification meeting (~$200), and pay the city a fee for the early notification meeting ($150) as well as the fee for the Special Use Permit application ($1,000). The special use permitting process take about two and a half months, and there is no guarantee of approval. Frequently, neighbors who are concerned about traffic or water use will show up at public early notification meetings to oppose special use permits for childcare facilities. This entitlements hurdle precedes building permits and licensure from the ECECD.

In order to clear this red tape and simplify the process for early learning providers who want to occupy new spaces, Councilor Cassutt worked with the Land Use Department to draft and pass a legislative fix to the land-use development code: today, early learning facilities of all sizes are permissive in all districts except for industrial ones. Santa Fe Montessori Childcare Development Center was the first to open its doors under the newly permissive code.

For Councilor Cassutt, this is only the beginning of the work to support increased access to early learning opportunities. Currently, registered homes and centers across the state are required to have fire sprinkler systems, which are extremely costly to purchase and install. However, recent changes to the International Fire Code have expanded the types of interventions that childcare providers can use to address fire safety, including lower cost interventions like adding egress points to existing facilities. Councilor Cassutt is advocating for the State of New Mexico to adopt this updated fire code.

She is also working closely with the Land Use Department as they rewrite the land-use development code. Currently, new residential developments of a particular size have park requirements. A more broadly defined "community responsive use" requirement could incentivize developers to build other community amenities like early learning centers.

MODELS FOR FINANCING CHILDCARE FACILITIES DEVELOPMENT

Increasingly, states and local jurisdictions across the United States have identified facilities development as one of the key barriers to expanding access to high quality early learning opportunities. Some, like Maryland, Connecticut, Iowa, New Jersey, and New Mexico have leveraged American Rescue Plan Act (ARPA) funds to build either permanent or temporary opportunities for providers to expand seats by repairing and expanding, through minor renovations, childcare facilities. In March 2021, Rhode Island voters overwhelmingly approved the Early Childhood Care and Education (ECCE) Capital Fund, which the Rhode Island Department of Human Services will administer in partnership with the Local Initiatives Support Corporation (LISC) of Rhode Island. Childcare operators can apply for small renovation and repair projects that address urgent health and safety needs, quality improvements and space reconfiguration. The agencies administering this fund have dedicated a larger portion to supporting major and new construction, rehabilitation of vacant or blighted properties, and large-scale expansions that create new, high quality spaces. In the following section, we present models from four states and a city, summarizing how each funding source supports providers in repairing, expanding, and building facilities.

Location:
San Mateo, California

Name:
Child Care Development Fee

Funding Source: The City of San Mateo collects the Childcare Development Fee on commercial and residential projects. The City charges a per square foot fee on new commercial and residential construction, additions of square footage to existing developments, and tenant improvements requiring planning approval. Many localities across the United States impose development impact fees on new commercial and residential developments to compensate for the increased strain placed on public infrastructure after a community's new growth. In the context of childcare, the argument the City of San Mateo is making is that childcare infrastructure must accompany new residential or commercial sector growth because some fraction of those new residents or employees will have children who need childcare.

Type: Forgivable Loans

Fund Size: At the end of 2021, the Childcare Development Fee fund had over $2.1 million dollars available.[9]

[9] https://www.cityofsanmateo.org/DocumentCenter/View/86636/2020-21-AB-1600?bidId=

Minimum and Max Grant/Loan Size: No minimum or maximum loan size.

Link:https://www.cityofsanmateo.org/DocumentCenter/View/66989/Interim-Child-Care-Fund-Guidelines---Revised-2022?bidId=

Summary: In 2004, the City Council of San Mateo, California, passed through resolution the Child Care Development Fee to "mitigate the impact of commercial development on the need for childcare facilities." The childcare availability crisis in San Mateo was significant but only worsened over the next decade; by 2015, San Mateo County identified a shortage of 10,800 early childhood education spaces for children ages four and younger. Additionally, the County had to turn down a significant amount of operational funding support from the State of California because there was a lack of facilities to house early education programs.

The City of San Mateo has dedicated these funds to the development and construction of childcare facilities with a timely, equitable, and flexible deployment strategy that ensures the supply of seats can be responsive to the severely unmet demand. City staff prioritize projects that provide the highest number and/or most enduring number of designated spaces for children from families with incomes less than 80 percent of the Area Median Income (AMI) and that have the highest levels of project readiness. Eligible childcare institutions include nonprofit and for-profit providers, faith-based organizations, the City of San Mateo itself, and other governmental agencies like school districts. The regulations are intentionally broad to ensure that both existing and new childcare providers can access the funding to cover a wide variety of construction related costs and childcare types. Eligible projects include acquisition of land, new construction or tenant improvements to existing structures, expansions of existing centers, improvements to small family childcare homes, and construction of centers within corporate campuses, existing commercial developments, or housing developments. The City forgives loans of $200,000 or less after five years and forgives loans over $200,000 after ten years. Childcare providers are required to submit annual reports that include the number of subsidized and private pay seats (without specific requirements), proof of licensure, and tax returns. Finally, the City is required to obligate any dollars raised through the Child Care Development impact fee within five years of imposing the fee on a given commercial project.

Fund Administration: The Community Development Department within the Planning & Building Department administers the Child Care Development Impact Fee. This department holds Notice of Funding Availability meetings, assesses the fees on eligible development projects, awards projects, and manages reporting. Recently, the department has begun to develop a technical assistance program including, most notably, a collaborative site assessment process, pulling in multiple city departments to ensure that applicants have a complete understanding of the municipal restrictions and requirements on a given development site.

Example of a facility it helped support: In 2020, The Community Development Department made its first three loans under the Child Care Development Impact Fee program. Beresford Montessori, a privately owned center owned by a husband and wife team, was expanding to a second location. Through a $235,000 award, they were able to retrofit a newly purchased second location in order to accommodate for parking and outdoor space requirements.

Peninsula Family Services, an existing nonprofit provider, received $100,000 to add an infant room, which increased the number of infant spaces by six.

Finally, St. Andrews Lutheran Church was awarded $465,000 for tenant improvements so it could lease its space to Footsteps, a nonprofit early learning provider.

Limitations: While the City of San Mateo began assessing the development impact fee in 2004, there were not enough funds to make significant loans until January of 2020, when the Community Development Department made the first three awards. Development impact fees are sensitive to market conditions; high construction prices (like what we have experienced during the COVID pandemic) and recessions reduce the volume of commercial and residential construction, which in turn shrinks the level of revenue the City collects through development impact fees. Additionally, The State of California requires that public dollars spent on capital infrastructure projects meet prevailing wage standards, which can almost double the cost of labor. The Community Development Department has found it difficult to find small contractors who are willing to comply with prevailing wages because of the burdensome reporting requirements.

POLITICS SPOTLIGHT:

ANTI DONATION IN THE NEW MEXICO STATE CONSTITUTION

The New Mexico constitution prohibits most direct grants to private entities, regardless of the entity's charitable or otherwise beneficial purpose. Therefore, implementing many of the funding strategies discussed in this report will require either a constitutional amendment or a sea change in how New Mexico courts interpret the constitution's anti-subsidy provisions, both of which are possible, but neither of which are likely to happen in the relatively near future.

Article 9 Section 14 of the New Mexico Constitution, often referred to as the "anti-donation clause" strictly prohibits government entities from making donations to private individuals or entities. In this context, "donations" are essentially gifts or pledges of credit for which the government receives no consideration. Art. IX, § 14 states: "neither the state nor any county, school district or municipality, except as otherwise provided in this constitution, shall directly or indirectly lend or pledge its credit or make any donation to or in aid of any person, association or public or private corporation." Over the years, several exceptions to the anti-donation clause have been adopted via constitutional amendment and enactment of enabling legislation, allowing governments in New Mexico to 'donate' funds for: (1) the care and maintenance of sick or indigent persons; (2) veterans' scholarships; (3) loans to healthcare practitioners; (4) transfers authorized by the Local Economic Development Act; and (5) affordable housing. Outlays of public funds to private entities absent consideration that do not fall within one of these exceptions are prohibited.

The anti-donation clause dates back to adoption of the New Mexico constitution in 1912. Its primary intent, like that of similar provisions in other state constitutions, was to protect public funds from rampant fraud perpetuated by the railroads as they expanded westward during the 19th century. Forty-five state constitutions contain anti-aid provisions,[10] some of which correspond closely to New Mexico's.

10 Mitchell, MD, Currie, R., and Ghei, N. (2019). A Summary of the History and Effects of Anti-Aid Provisions in State Constitutions. Retrieved from: https://www.mercatus.org/system/files/mitchell_-_policy_brief_-_outlawing_favoritism_the_history_of_anti-aid_provisions_in_state_constitutions_-_v1.pdf

However, in many states, these provisions have been challenged and weakened over time.[11] For example, the Colorado state constitution, like New Mexico's, contains language banning both donations (art. XI, § 2)[12] and appropriations to private corporations (art. V, § 34),[13] however the state's courts have interpreted these provisions to allow Colorado's General Assembly broad flexibility to appropriate public monies so long as the "public purpose" of those appropriations outweighs any benefits to private entities.[14] New Mexico is among a minority of states that have adhered to a fairly strict interpretation of its anti-aid provision.[15] The more literal interpretation favored by New Mexico courts precludes donations, regardless of the worthiness of the cause.

New Mexico's Anti-Donation Clause does not forbid government entities from making transfers to other government entities. It is through this mechanism that capital funds appropriated by New Mexico's legislature currently make their way to private non-profits via local government intermediaries. The state legislature makes capital appropriations to local governments which then use these funds to pay for specific capital improvements on behalf of specific private entities, but the improvements themselves remain the property of the local government. This system, although cumbersome, works for large well-established non-profits, but is not well suited to small, privately owned childcare businesses.

This system for administering state capital outlay has been criticized by many of its non-profit beneficiaries as burdensome, inefficient, and lacking in transparency.[16] Efforts to pare down the scope of the anti-donation clause by creating additional carve-outs emerge periodically and one – Constitutional Amendment 2 Authorizing Funds for Residential Services Infrastructure - is currently on the ballot for the November 2022 general election. This provision, which would authorize the state legislature to appropriate state funds for "infrastructure that provides essential services" defines essential services as "infrastructure that allows internet, energy, water, wastewater or other services provided by law."[17] Ambiguous language notwithstanding, if this amendment were it to pass, is unlikely to be interpreted to provide a means by which to directly subsidize capital improvements on behalf of private childcare providers.

11 Mitchell, MD, Riches, J. Thorson, V. & Philpot, A. (2020). Outlawing Favoritism: The Economics, History, and Law of Anti-Aid Provisions in State Constitutions."Mercatus Working Paper. George Mason University. Retrieved from: https://www.mercatus.org/publications/corporate-welfare/outlwing-favoritism-economics-history-and-law-anti-aid-provisions

12 https://ballotpedia.org/Article_XI,_Colorado_Constitution

13 https://ballotpedia.org/Article_V,_Colorado_Constitution

14 Office of the Attorney General Colorado Department of Law (1991, 3 June) Opinion No. 91-4. Retrieved from: https://casetext.com/case/no-220

15 Hall, A (2014, May). Understanding the Anti-donation Clause: A Historical Perspective. Rodey, Dickason, Sloan, Akin & Robb, P.A.. Albuquerque, New Mexico. Retrieved from: https://www.rodey.com/wp-content/uploads/2022/05/rodey_anti_donation_clause_history.pdf

16 Council of Nonprofits. Retrieved from: https://www.councilofnonprofits.org/trends-policy-issues/being-the-unstoppable-force-the-face-of-immovable-object

17 New Mexico Legislature (2022). HJR1 Retrieved from: https://www.nmlegis.gov/Legislation/Legislation?chamber=H&legType=JR&legNo=1&year=22

Location:
State of Illinois

Name:
Illinois Early Childhood Construction Grant

Funding Source: The State of Illinois first established the Illinois Early Childhood Construction Grant program in 2009 and renewed it in 2019 as part of Rebuild Illinois, the state's $45 billion capital plan.

Type: Grant

Fund Size: $100M

Minimum and Max Grant/Loan Size: The Capital Development Board caps individual grants at $10 million and have a very reasonable matching requirement from 3% - 10%.

Link: https://www2.illinois.gov/cdb/professionalgrowth/grants/Pages/ecgp.aspx

Summary: In 2019, Illinois Governor Pritzker signed a $45 billion capital budget that included a $100 million commitment to the Illinois Early Childhood Construction Grant (ECCG) Program, an initiative focused on investing in high quality early childhood education facilities. The goals of the program include both adding new seats across the state and addressing deferred maintenance, critical renovations, and site upgrades of existing facilities.In an effort to support childcare providers that the state had some financial leverage over and that serve low-income families, only nonprofit providers and public school districts are eligible to apply for funding. The State of Illinois places a lien on each facility for a period of 10 years after the date of the grant award. The state agency that administers this fund – the Capital Development Board - prioritizes applications from communities with the most children in need of early childhood education services. Specifically, the Capital Development Board considers prioritization in marginalized communities and where populations of children 0-3 years old exceeds the number of spots designated for their age group. Eligible providers can apply to cover a broad list of costs including acquisition, new construction of a facility, renovations or additions to an existing facility, new or replacement equipment for a facility, architectural and engineering costs, site improvements in support of a bondable project, and construction management and oversight of a bondable project.

Fund Administration: The Capital Development Board (CDB), the independent state agency that oversees construction of State facilities and other public purpose capital projects, administers the fund.

Example of a facility it helped support: In 2014, Children's Home + Aid, a childcare provider in Carpentersville, IL, built a new 27,000 square foot building, expanding the number of children served by the center by 130%. IFF, a Midwestern CDFI that helps childcare providers build and finance the centers and homes they work in, managed the approximately $8.5 million project and helped secure $5 million award from the Illinois Early Childhood Construction Grant.

Limitations: Privately owned childcare providers are not eligible for this funding opportunity.

Location:
State of California

Name:
Child Care and Development Infrastructure Grant Program

Funding Source: ARPA and General Funds

Type: Grant

Fund Size: $250 million

Minimum and Max Grant/Loan Size: None

Link: https://www.cdss.ca.gov/inforesources/child-care-and-development/infrastructure-grant-program

Summary: In 2014, the California State Legislature established The Child Care Facilities Revolving Fund, which was intended to support the expansion of publically provided childcare seats across the state. This fund provided for the "renovation, repair, or improvement of an existing building to make the building suitable for licensure for child care and development services, and for the purchase of new relocatable child care facilities for lease to school districts and contracting agencies that provide child care and development services." The structure is uniquely Californian – because of the size of the state, individual providers could not apply directly for loans. Rather, only city and county level agencies that administered childcare programs and subsidies are eligible to apply for funds either to renovate or repair existing facilities or to purchase and construct relocatable and leasable facilities like manufactured and modular units. Upon full repayment, the State of California transferred the title to the agency that initially purchased the relocatable facility. Agencies that borrowed under this program were required to repay the interest-free loan over a ten-year period. The funds, once repaid, were "recycled" and lent to another borrower; thus the name "revolving loan fund."

The Legislature raided this $163 million loan fund during COVID, leaving a major gap in facilities funding for early learning providers. This also provided an opportunity to revamp a program that many perceived as overly complex and ineffective in achieving the goal of creating new seats across the state. On July 23, 2021, the Legislature enacted the Child Care and Development Infrastructure Grant Program, a $250 million investment in the physical childcare infrastructure across the State of California, administered in the form of grants by the California Department of Social Services (CDSS) in partnership with the Low Income Investment Fund, a national Community Development Financial Institution. The program dedicates $150 million of General Fund dollars towards new construction and major renovations of existing buildings and another $100 million in ARPA dollars for minor renovations and repairs related to meeting licensing requirements or health and safety standards. Operators who work in leased or owned homes and centers are eligible to receive funding awards as long as they provide services to families who receive the childcare subsidy. The deployment timeline is aggressive; The Department of Social Services must spend down all $250 million by June of 2024.

Fund Administration: While the State of California's Department of Social Services manages the Child Care and Development Infrastructure Grant Program, it has turned over the day-to-day operations and management of the fund's deployment to the Low Income Investment Fund.

Example of a facility it helped support: As of Fall of 2022, the Low Income Investment Fund has reviewed approximately 5,100 applications for the minor construction and renovation grant. The State must deploy these $100 million in ARPA funds by September of 2023.

Limitations: The funding sources are both one-time and have aggressive spend-down timelines. Eligible projects must be "shovel ready," which means that providers who are in an earlier stage of the development process – in the process of acquiring a property or designing a space – might not be eligible for an award.

Location:
State of Massachusetts

Name:
Early Education and Care and Out of School Time Capital Fund

Funding Source: General Obligation Bond

Type: Grant

Fund Size: $45 million

Minimum and Max Grant/Loan Size: While awards have been historically capped at $1 million, the current round of FY22 funding targets awards between $100,000 and $250,000.

Link: https://cedac.org/cif/financing/eeost-capital-fund/

Summary: In 2013, An Act Financing the Production and Preservation of Housing for Low and Moderate Income Residents established the Early Education and Care and Out of School Time (EEOST) Capital Fund, providing $45 million in general obligation bond funding over five years to finance new construction and renovation of early education centers in Massachusetts. This was the first time a general obligation bond was the mechanism used to develop a fund for financing early education facilities. Much of the messaging during the public general obligation bond campaign centered on the connection between early educational opportunities and long-term health outcomes and sustainable community growth.

With an intention to focus deployment to high quality childcare providers that serve low-income families, The Massachusetts State Department of Early Education and Care considers only non-profit center based programs eligible for these funds. Applicants must demonstrate that at least 25% of the program's enrollment is issued is utilized by families who are eligible for public subsidy. Finally, in order to direct funds towards higher quality programs, applicants must be already licensed and in good standing with the childcare regulatory agency.

While the grant guidelines change slightly each year based on the conditions to which The Massachusetts State Department of Early Education and Care is responding, generally the funding source targets the creation of new seats across the state and allows for safety and security upgrades to facilities that have deferred maintenance. Eligible costs include acquisition, design, construction, repair, and renovation, recovery from a natural disaster, rehabilitation, or other capital improvement or deferred maintenance. The funding allows a provider to include both soft and hard development costs of an eligible project. Notably, the regulations allow providers who lease space to apply for financing that essentially act as tenant improvement grants. In the years between 2020 and 2022, the Department of Early Education and Care has focused grant making on addressing health and safety concerns related to the COVID-19 pandemic.

Fund Administration: The Massachusetts State Department of Early Education and Care holds the funds and collaborates with the Community Economic Development Assistance Corporation (CEDAC), a local Community Development Financial Institution, and their affiliate, the Children's Investment Fund, to award grants of up to one million dollars. The EEOST Capital Fund grants provide matching funds that leverage private investment.

Example of a facility it helped support: In 2021, The West Springfield Boys and Girls Club received a $250,000 award to both add space to the facility so they could accommodate more families and make security upgrades. The club has installed security cameras both inside and outside of the building and addressed "dead areas" like showers and locker rooms that are no longer utilized. The award made up nearly half of the total renovation costs.

Limitations: Childcares in residential facilities, for-profit centers, and centers run by school districts are ineligible.

Location:
State of Washington

Name:
The Early Learning Facilities Program

Funding Source: Appropriations

Type: Grants

Fund Size: Approximately $45 million annually

Minimum and Max Grant/Loan Size: The Early Learning Facilities Program makes grant awards in three categories: pre-design ($20,000 award limit); minor renovation and pre-development ($200,000 award limit); and new construction and major renovation ($1 million award limit).

Link:
https://www.commerce.wa.gov/building-infrastructure/capital-facilities/early-learning-program/[9]

Summary: In 2015, the Washington State Legislature passed the Early Start Act, which made Pre-K for three and four year olds an entitlement. It became quickly clear that there were not enough seats available across the state for the families who wanted to enroll their children, so the legislature responded by passing the Early Learning Facilities Program in 2017. This program provides grants to eligible organizations to construct, renovate, or acquire property for the purpose of expanding early learning capacity.

Acknowledging that the State could only be responsive to the overwhelming demand for seats by supporting expansion through a mixed delivery system (one in which the private, nonprofit, and public sectors all provide early learning opportunities), the Legislature ensured that funding was open to nonprofits, public entities, K-12 schools and districts, tribes and for-profit businesses. There are funding rounds for each entity type held annually. The Washington State Department of Commerce, which administers the program, prioritizes projects where high fractions of children served are from low-income families and are in childcare deserts. The Department also prioritizes projects in places where there is risk of capacity being lost. The state has most acutely experienced this loss of capacity during the COVID19 pandemic; as of August 2020, over 18% of childcare facilities across the state had shuttered.

The vast majority of providers have never engaged in a construction project with the regulatory complexity and design considerations of an early learning center. For this reason, the Department of Commerce also funds the Department of Youth and Families as well as a number of local Community Development Financial Institutions at the tune of $5 million annually to provide technical assistance to childcare providers who are applying for and deploying funds on capital projects.

Grants made under the program are for reimbursement of capital projects only. Providers have to front costs of construction unless they are working with a development partner that is taking on a financing role. Eligible costs include acquisition, design, engineering, third-party construction management, and construction and capitalized equipment costs associated with building early learning facilities.

Fund Administration: The Washington State Department of Commerce administers the fund, in collaboration with the Department of Children, Youth, and Families and CDFI partners, who the state contracts with to leverage private match dollars and support operators through the application, design, and construction process.

Example of a facility it helped support: In the 2022/2023 loan cycle[18], The Washington State Department of Commerce received 143 applications requesting a total of $72.9 million. Sixty-nine (69) projects projected to create over 3,500 new seats received loans totaling over $41 million, including the following:

- YMCA of Pierce and Kitsap Counties was awarded $20,000 for predesign of a new early learning facility
- House of Prayer Foundation in Tacoma received an award of $200,000 in predevelopment costs to create 15 new childcare slots
- Berta Artiga Daycare Center, a home daycare that historically has served up to 12 infants, received an award of $1,000,000 for new construction of an early learning center that will serve 80 children

18 CCF ELF Final Press Release_21-23 ELF Awardees

Limitations: No significant limitations on this funding source.

RECOMMENDATIONS

1) Explore the possibility of directing funds from New Mexico Legislature to local government agencies that have the capacity to re-grant dollars to a statewide CDFI or private and nonprofit early learning operators directly.

Capital outlay sets a precedent for the NM State Legislature to direct funds to local municipalities for the purposes of supporting physical infrastructure development directly towards private and nonprofit entities, especially in sectors that support economic development. This approach relies on the willingness of local governments to prioritize childcare infrastructure development. In this scenario, a CDFI would have efficiency gains by centralizing the provision of outreach, technical assistance, and deployment.

2) Explore the leveraging of philanthropic resources to develop a statewide pilot fund for early childhood facility development, to be administered by a CDFI or regional philanthropic institution.

The philanthropic sector can direct funding to infrastructure development more nimbly and without the restrictions of the NM constitution. A CDFI or regional philanthropic intermediary could take on the role of providing outreach, technical assistance, and deployment of capital.

3) Explore existing structures within NM State Government that could administer capital development grants or forgivable loans that do not conflict with anti-donation provisions. The New Mexico Finance Authority has been active in private lending since 1994 with the establishment of the Primary Care Capital Fund. Explore the feasibility of the New Mexico Finance Authority administering a forgivable loan product.

4) Pursue Reforms to the Anti-Donation clause in the New Mexico State Constitution. Pursue a constitutional amendment authorizing the state legislature to appropriate state funds for the provision of essential services provided by law, explicitly defining Pre-K and care for 0-3 as "essential services."

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Homewise is a New Mexico based nonprofit organization that helps people achieve financial stability through affordable and sustainable homeownership. We offer a comprehensive suite of homeownership services that includes financial education and coaching, real estate services, affordable mortgage lending and down payment assistance, loan servicing, refinance and home improvement lending.