

# designing options for California's young children

## Early Childhood Facilities — Local Challenges and What's Working LEARNING FROM FOUR COUNTIES



American Institutes for Research and University of California, Berkeley  
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### Summary

Constructing new facilities is one linchpin in California's effort to widen children's access to early care and education. Policy leaders in the state capital have approved over \$700 million in the past two years to expand or renovate facilities that host preschool or kindergarten, along with family child-care homes. Schools, for the first time, may include pre-k facilities in the state's \$15 billion construction program, if approved by voters.<sup>1</sup>

But what is the capacity of local agencies to construct and renovate early care and education (ECE) sites? What's already working to expand facilities as local leaders build or renovate classrooms? These questions motivated our field work, conducting interviews and visits to four California counties.



*Groundbreaking for construction of a new preschool, South Bay Union School District, San Diego, July 2019.*



BERKELEY  
EARLY CHILDHOOD  
THINK TANK



<sup>1</sup> *Early care and education* (ECE) in this report refers to preschool and family child-care (FCC) facilities. New funding for kindergarten facilities, including Transitional Kindergarten serving 4-year-olds, has become available to local school districts as well.

**What’s working locally?** A handful of ECE providers has built new preschool centers or renovated classrooms over the past decade. Among the four counties that we studied, new construction efforts can be steadily observed in San Diego and San Francisco—financed by municipal revenues, First 5 California, local philanthropies, and the state education department’s (CDE’s) earlier loan fund. Federal Head Start programs have invested in new pre-k facilities as well. School districts at times co-finance new facilities with revenues from K-12 construction bonds. Smaller grants to licensed family child-care homes (FCCs) have improved indoor and outdoor spaces and helped to grow enrollments of infants and toddlers.

Getting projects “shovel-ready”—beyond acquiring essential capital—requires ECE leaders to find an affordable private or (excess) public space, engage an architect, obtain necessary permits from municipal agencies, and synchronize new operational funding for additional child slots. Few providers have experience in assembling these pieces of the puzzle. Overall, we find that intensive capacity-building work will be required to design and implement construction projects locally. Capacity to build is most limited in regions with very scarce ECE supply.

Going forward, the state faces a tandem challenge: Moving new dollars to providers who can steadily carry-out construction projects *and* working with providers who presently have little capacity to build or renovate facilities. So, capacity-building efforts are key, if policy makers are to stay focused on equalizing preschool access among California counties. This includes the Central Valley and fast-growing working-class suburbs, where demand far exceeds supply.

**What factors limit construction to expand children’s access?** Beyond scarce funding for facilities, additional constraints limit the capacity of local ECE providers to build. The cost of new space to lease or purchase ranges from high to prohibitive. Agile providers in certain real estate markets have negotiated lower costs with landlords. Tapping surplus publicly-owned space is another possible avenue, along with renovating classrooms in districts now experiencing shrinking enrollment. We have little data on the feasibility of these strategies.

We heard much in the four counties on other constraints: lack of knowledge about design and construction steps; uncertainty over securing new teachers and operational dollars to finance additional child seats; uneven or weak cooperation from school districts; numerous regulations pertaining to building permits, fire safety checks, and approvals by the state’s child-care licensing department.

**How to move steadily forward at state and local levels?** New facilities funding from Sacramento is being received warmly by ECE and school leaders. How the funding streams will fit together locally—flowing from the capital to full-day kindergarten (including Transitional Kindergarten), community-based preschools, and FCCs—remains confusing. That said, gaining

momentum on the facilities front and getting local projects underway offers a welcome challenge for the local leaders that we interviewed.

Based on our research in the four counties – Contra Costa, Fresno, San Diego, and San Francisco – we offer the following recommendations. The report’s midsection details findings from our field work that lead to these suggestions for moving forward.

### **Get new projects underway with local cooperation**

- The state could expedite the funding of “shovel-ready” projects within a prompt and competitive process, while building capacity in counties that hold less construction experience and suffer from scarce child-care options.
- Stronger incentives are required to encourage collaboration between ECE providers and school districts, especially those with shrinking K-12 enrollments. Recent budget language prioritizing construction in districts that already host pre-k programs offers a key first step.
- The state could offer incentives to builders and municipalities to include preschool centers in large residential, commercial, and mixed-use developments, as already done in San Francisco and Contra Costa County. This could give developers a choice—mitigating a proposed development’s impact on child care needs—by contributing to a local fund or directly including an ECE facility in their new development.

### **Financial intermediaries to build local capacity and fold-in private capital**

- State partnership with a financial intermediary(ies) to help design and construct new facilities, as urged by the legislature and governor, could foster local capacity in the construction arena and accelerate the creation of new child slots.
- The California Department of Education (CDE) should synchronize new operational dollars for ECE programs that engage in new construction, in concert financing additional child slots. This collateral program support is made possible by the legislature’s funding of at least 10,000 new child slots beginning in the current fiscal year.
- Local school districts can play a growing role in serving 4-year-old children, as the legislature and governor have increased K-12 facilities funding to expand the reach of kindergarten, including Transitional Kindergarten, statewide.

- The acceleration of new projects could be achieved by sifting through the accretion of regulations that neither protect the safety of children nor ensure greater quality—rules tied to municipal permits, fire protection, and Community Care Licensing. The recent easing of red-tape and fees that slowed expansion of large FCCs offers a promising start.

### **Pinpointing local areas with scarce child-care and preschool facilities**

- The state’s Master Plan for Early Learning and Care should pinpoint counties and neighborhoods that display scarce supply of ECE slots, informing geographic targeting of new facilities dollars. Local planning councils might track implementation and alert the state when their areas of scarcity continue to be ignored.
- Sacramento’s efforts to expand access for infants and toddlers will require new FCCs and improved facilities in existing child-care homes. To promote accountability and quality, state and local agencies might consider linking FCC qualifications to facility grants. This could be done via non-profit FCC networks or the Quality Rating and Improvement System (QRIS).
- To ensure that cities plan for family-friendly communities, Sacramento should consider including ECE as a legal element in the state general plan, then spotlight how local development plans must consider child-care needs. The state requires local specificity on land use, housing, conservation and open space, noise, and safety concerns. Early care and education infrastructure could be added to the state general plan, a move that has been implemented in at least two Bay Area municipalities.<sup>2</sup>

### **Building equity in civic organizations and reducing state costs**

- State policy makers might consider the benefits of building equity in the ECE sector by easing the ability of community organizations to purchase their facilities. This would reduce the long-term cost of leasing pre-k facilities year after year, borne largely by the state.
- A parallel strategy would permit ECE providers to use state operational dollars to design new facilities and consider necessary permitting, prior to seeking capital for new construction. Cash reserves and carry-over dollars – say, for the California State Preschool Program or General Child Care – might be used in this manner. Support of early design work, prior to developing a bid for a facility, would avoid costly false starts and improve the quality of proposals coming to Sacramento.

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<sup>2</sup> For details, see Anderson, K.M. (2006). *Planning for Childcare in California*. Solano Press.

The vitality of ECE providers – especially their capacity to widen access for additional children – depends upon public investment and parent contributions to a colorful “mixed market” of state preschool centers, federal Head Start, public vouchers (Alternative Payments), family child-care homes, and for-profit companies. Collaborating organizations already contribute to the construction of facilities in many counties. These partners include private banks, municipal officials, school districts, financial intermediaries, even the U.S. Navy.

Indeed, if California is to expand access for new families, it must be all hands on deck. Innovative partnerships will be key in raising sufficient funding locally, efficiently utilizing public and private spaces. And state agencies must hold the resources and creativity to encourage local investment, leveraging and extending the impact of new state dollars.

## **INTRODUCTION — STUDY AIMS AND FIELD WORK**

California’s capacity to expand access to early care and education (ECE) depends on building new or renovating old classrooms. Improving facilities in licensed child-care homes would create additional spaces for young children, including infants and toddlers, as well. Harking back to World War II, nonprofit preschool providers and school districts have received episodic support for construction efforts. The state education department has operated a modest loan fund in recent years.

Still, capital for building new classrooms or FCC-bases slots remains scarce. The arrival of new state dollars over the past two years—to expand kindergarten options and preschool facilities—is viewed as a welcome development by local leaders in the early education field.

This build-up will not be easy, it will take time. We know that the supply of ECE facilities is distributed unequally among counties and neighborhoods. The contemporary cost of land or suitable space has become daunting in urban centers. New construction remains so rare that few providers locally hold the requisite know-how to design and build new facilities.

Still, many early care and education providers—whether based in nonprofits, for-profits, or school districts—have been erecting or renovating facilities for young children. Little is known about their success, along with best practices for clearing the many technical hurdles that ECE providers confront. Our research team conducted fieldwork in four counties in 2019 to learn about the regulatory and technical hurdles that ECE providers face in constructing new facilities and to obtain the providers’ ideas on what the state could do to strengthen the ECE infrastructure locally.

Our collaborative research team—including the American Institutes for Research and the University of California, Berkeley—spent several days in each of the four counties and

conducted scores of interviews in-person or by phone with key stakeholders. This report details what we found, including vivid success stories and uneven capacity to build.

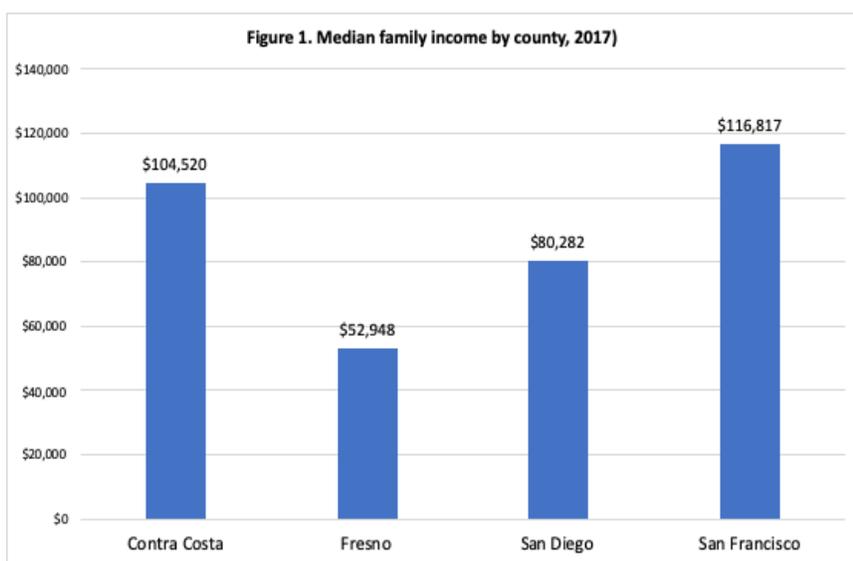
### Selecting Four Diverse Counties

We first describe the economic and demographic context that may affect the demand for and the supply of ECE facilities in each of the four sampled counties. We then detail what’s working to expand facilities and how distinct factors contribute to the success of several ECE providers. Finally, we turn to major challenges confronting each county as differing providers—school districts, nonprofit and for-profit center providers, and FCCs—struggle to build-out new spaces for additional children.

We aimed to learn from diverse counties that host varying local conditions. Our criteria in sampling four regions included (1) contrasting demographic and economic conditions, such as child population trends and levels of unmet need for ECE, (2) varying experience and organizational capacity in designing new facilities, and (3) differing governance arrangements that may shape flows of local revenues for ECE, prior experience of county agencies and political leadership that may buoy construction efforts. After gathering data on key variables, we decided to conduct field work in Contra Costa, Fresno, and San Diego counties, along with the city-county of San Francisco.

### How Counties Differ — Economic, Demographic, and Institutional Conditions

The selected counties vary in the basic economic conditions in which families work, raise children, and possibly search for child care and preschool programs. Figure 1, for example, shows that median family income varies dramatically between, say, Fresno at \$52,948 in 2017, and San Francisco, with an estimated median family income of \$116,817. A large share of upper middle-income and affluent families resides in Contra Costa County.<sup>3</sup>



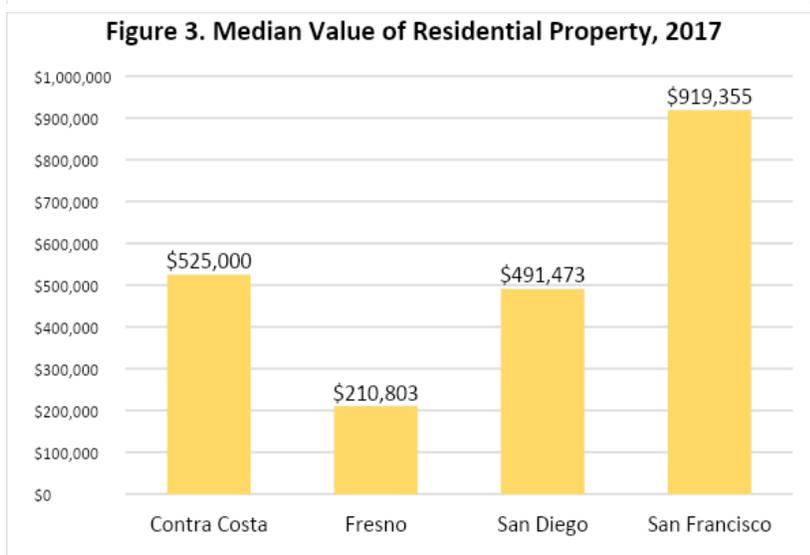
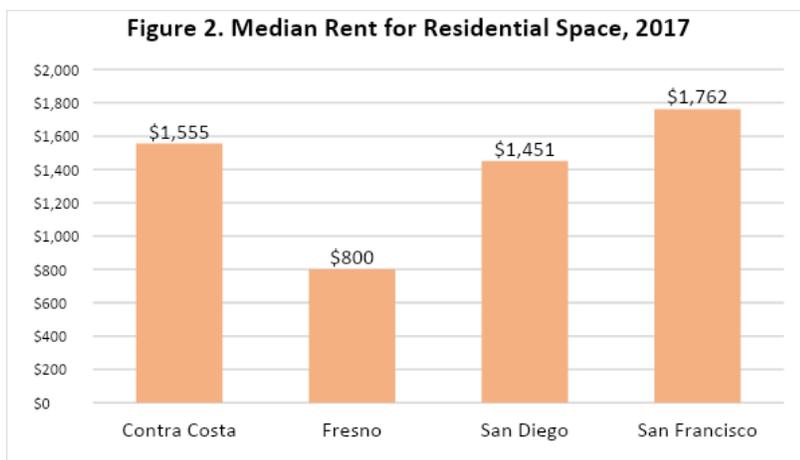
<sup>3</sup> Economic data are drawn from the American Community Survey estimates by the U.S. Census Bureau, and compiled by the AIR-Berkeley research team.

Family income ranges higher when both parents work outside the home, and two-parent working households also increase demand for child-care or preschool services. Thus, the scarce supply of ECE programs in areas such as Fresno this may stem from weak demand, in turn driven by lower levels of maternal employment. At the same time, the scarcity of affordable child-care options likely keeps parents out of the paid labor force, undercutting economic security and resources in the home that contribute to children’s early growth.

Another key factor shaping the supply of ECE facilities is the market price of land or commercial property. The market price affects both the cost of leasing or purchasing new classroom space. Prices vary dramatically among the four sampled counties. The median price of available commercial space—appropriate for building an ECE facility—can be six times higher per square foot in San Francisco than in San Diego County. Such variability highlights the need for *locally* sizing-up and for designing new facilities projects and state recognition of differing price structures.

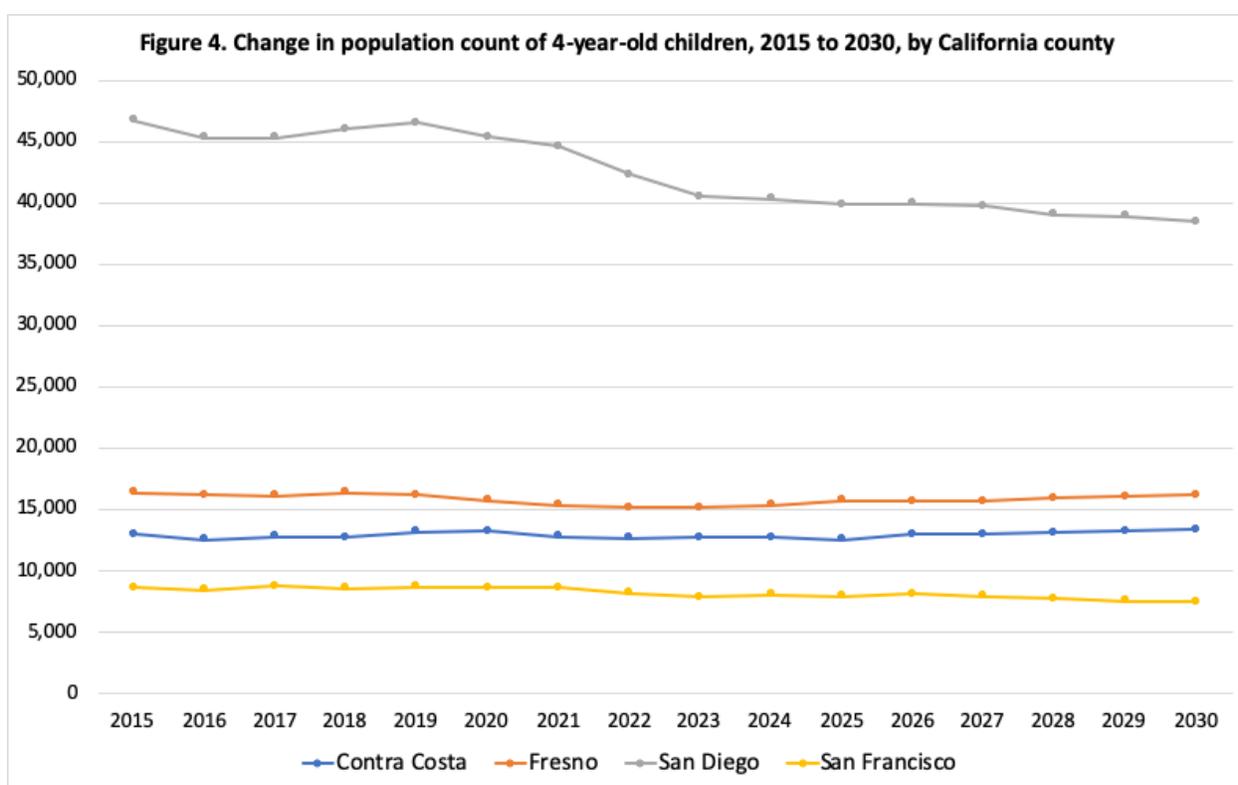
One proxy for comparing price structures is the cost of residential space, for which comparable figures are available from the U.S. Census Bureau. Median rents for residential space (Figure 2) differ along the lines seen for family income. Renting an apartment or residential unit costs more than twice as much in San Francisco as in Fresno County.

These differences are equally stark when looking at the cost of buying residential property (Figure 3). Again, San Francisco is the outlier, where the market price of residential property is nearly twice that of a similar residence in San Diego County. At the same time, building or renovating a facility in Fresno County will cost less, given the lower price structure for residential and commercial property as detailed below. We will return to how some property owners see the utility of including child-care programs in commercial spaces, office parks, and retail malls as firms compete for workers.



The four counties differ on one key demographic feature as well: Trends in child population counts. Figure 4 displays the changes in the population of 4-year-old children between 2015 and (projected) 2030. We see that San Diego, host to the largest number of young children, is forecasted to lose about 12% of this population by 2030. Counts of young children will drift downward in San Francisco, while inching upward in Contra Costa.<sup>4</sup>

These patterns have implications for likely levels of excess (or overcrowded) classroom space in public schools. Other counties, not included in this study, are forecast to experience moderately steeper growth in child populations, placing demands on school districts to expand facilities for older children, from kindergarten forward. In these districts, finding space to expand preschool or Transitional Kindergarten (for 4-year-olds) will be more difficult.



### Learning from Four Counties

Let’s next turn to what we learned in each of the four counties, based on interviews with ECE providers, county leaders in the early education field, and municipal officials involved in permitting and approving construction projects. Our inquiry focused on learning what is working inside counties to expand or renovate facilities, and what factors enhance or constrain providers’ capacity even to consider the feasibility of facilities projects.

<sup>4</sup> Demographic trends estimated by the California Department of Finance, demography unit. Online: <http://www.dof.ca.gov/Forecasting/Demographics/Projections/>

We focused primarily on the recent experiences of non-profit preschool centers, while interviewing school district leaders and several FCC providers in each county. We also interviewed several directors of for-profit centers regarding their construction experience. In two counties—San Diego and San Francisco—we discovered financial intermediaries (including the U.S. Navy), which have helped bundle financing and design new facilities. In Contra Costa and San Francisco, we interviewed city and county planners knowledgeable about child care impact fees and incentives for developers to invest in child care facilities. The Appendix includes our interview protocols for the differing actors with whom we met.

## CONTRA COSTA COUNTY

### Section A. County Landscape

Contra Costa County is the state’s ninth largest by population—spread over 800 square miles, 19 cities, and multiple unincorporated areas. County residents are spread over three major regions, including the Richmond-San Pablo (western) area; Concord-Walnut Creek (central); and Antioch-Pittsburg (eastern) regions.

Although Concord hosts the largest municipal population, no single city dominates, and the county has 18 separate school districts. From the standpoint of challenges to building leadership for ECE facility expansion, Contra Costa County presents an interesting contrast to San Francisco, where the county, city, and school district are one.

#### Children and Families—Demographic Trends

Contra Costa County’s population in 2019 is estimated to be 1,144,863, with a growth rate of under one percent (0.7%) over the previous year.<sup>5</sup> The population will continue to grow to 1.2 million, or about 5%, by 2027.<sup>6</sup> While statewide the number of infants and toddlers is expected to continue to decline, the number of infants and toddlers children ages birth to 2 is projected to grow in Contra Costa County nearly 7% by 2027, as is the number of 3- and 4-year-olds.<sup>7</sup>

The county’s poverty rate is just under 10%, the lowest of the four counties reviewed in this report. Median family income is \$104,520, up from \$98,983 in 2016. But while the poverty rate based on the federal poverty level is relatively low, the cost of living has also increased

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<sup>5</sup> <https://worldpopulationreview.com/us-counties/ca/contra-costa-county-population>

<sup>6</sup> Brion Economics, Inc., with Davis Consultant Network and Nilsson Consulting, for the Contra Costa County Local Planning Council for Early Care and Education, First 5 Contra Costa, Contra Costa County Office of Education and Contra Costa County Conservation and Development Department; *Contra Costa County Comprehensive Countywide Child Care Needs Assessment, 2017–2027*. (2018, August).

<sup>7</sup> Brion Economics, Inc., with Davis Consultant Network and Nilsson Consulting(2018).

substantially. Thus, the self-sufficiency wage for a family with one adult, an infant, and one preschool child has increased 13% since 2014, to \$123,877.<sup>8</sup>

### **Organizational Landscape—ECE Providers and Unmet Demand**

According to the county's Comprehensive Child Care Needs Assessment (2017) the overall ECE supply included 348 licensed centers, 71 license-exempt centers (school district and Head Start), 491 small family child-care homes, and 333 large FCCs. The assessment estimated a shortage of 9,970 infant-toddler spaces, 2,654 preschool spaces, and 22,741 school-age spaces.<sup>9</sup> If no new spaces are created, the unmet need is projected to increase to 10,903 infant-toddler spaces, 4,135 preschool, and 25,400 school-age slots by 2027.

Shortages vary considerably by city, with the greatest shortages in the eastern part of the county in Antioch (shortage of 5,420 spaces), Pittsburg (short 3,497 spaces), and Oakley (short 2,887 spaces).<sup>10</sup> Scarcities in this part of the county are exacerbated by the long distances that parents must commute to work, according to John F. Jones, executive director of CocoKids, the county's child care resource and referral agency. But no city has a surplus in the total supply of ECE providers for children, ages birth to 12. In the western part of the county, Richmond has an estimated shortage of 4,505 spaces; and in the central-southern section, San Ramon, a shortage of 3,334; Concord is short 2,644 child slots.

Shortages also vary by age group. Just one-quarter of estimated need for infant-toddler care is met, with the next highest unmet need displayed for school-age care. There are more options for child care for preschool-age children, but it should be noted that the unmet need estimates only take into account children of working parents, and many families want to enroll their 3- and 4-year-olds in preschool even if one parent is not working.<sup>11</sup> Nearly half the requests to the local child care resource and referral agency were for children under age 2.<sup>12</sup>

In addition, the balance of center-based and FCC providers is shifting in the county. Between 2014-2017, according to the California Child Care Portfolio, there was a 2% reduction in the overall supply of center-based care and an 18% reduction in the supply of family child care county-wide. Meanwhile, there was an 8% increase in center-based care for infants, yet a 4% drop in center care for 2 to 5-year-olds.

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<sup>8</sup> Self-Sufficiency Standard Report for California, 2018; Center for Women's Welfare, University of Washington, <https://www.insightcced.org>, as cited on pp. 19–20 of Contra Costa County Employment and Human Services Department, Community Services Bureau, 2019–2021 Community Needs Assessment.

<sup>9</sup> Brion Economics, Inc., with Davis Consultant Network and Nilsson Consulting, Table 2-10.

<sup>10</sup> Brion Economics, Inc., Table 2-8.

<sup>11</sup> Brion Economics, Inc., p. 9.

<sup>12</sup> [https://rrnetwork.org/assets/general-files/Contra\\_Costa\\_06-18.pdf](https://rrnetwork.org/assets/general-files/Contra_Costa_06-18.pdf)

Also notable is that Head Start enrollment has dropped from 2,089 in 2010 to 1,283 in 2018. The reduction in Head Start enrollment was partially offset by an increase in Early Head Start enrollment, from 547 in 2010 to 704 in 2018.<sup>13</sup> In part, the reduction may be explained by a reduction in the number of income-eligible children.<sup>14</sup>

### School Enrollment Trends and District Facilities

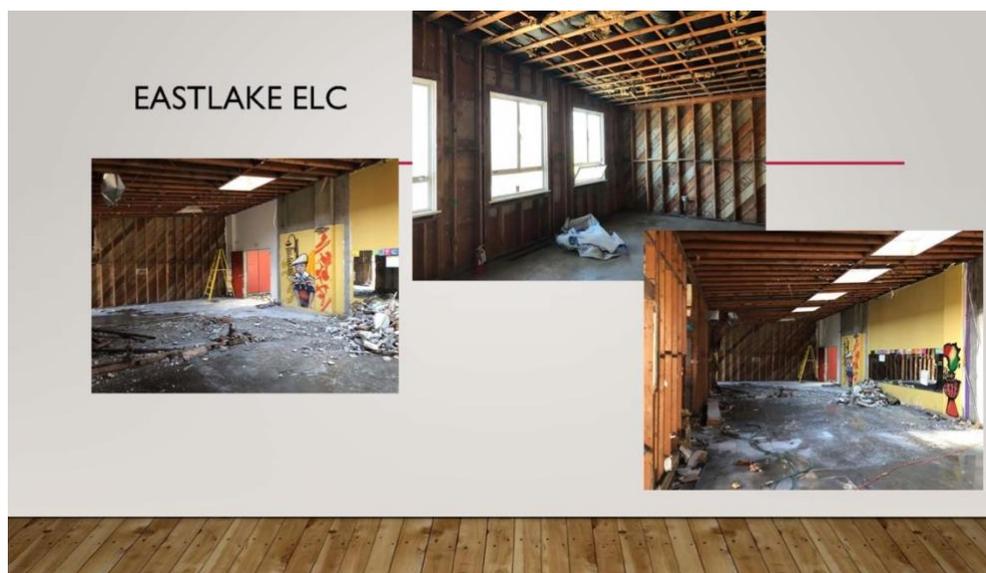
Unlike in San Francisco, public school enrollment continues to grow in many parts of Contra Costa County. Enrollment in K–12 schools grew gradually, from 168,228 students in 2010-11 to 178,060 students in 2017-18, equaling a 6% increase. The racial and ethnic composition of school enrollment is shifting to a higher share of Asian, Latino, and multiracial students.<sup>15</sup>

However, we also observed untapped potential for addressing family demand for ECE programs in several school districts. Sixteen of the county’s 18 school districts could potentially contract with the California State Preschool Program (CSPP) to offer pre-k services. But presently just four do so—Oakley Union Elementary District, Mt. Diablo Unified, West Contra Costa Unified, and San Ramon Valley Unified (the latter as a subcontractor of the Contra Costa Employment and Human Services Department, the Head Start grantee).<sup>16</sup>

Four school districts—Canyon, Contra Costa County Mauzy, John Swett Unified, and Pittsburg Unified—have expressed interest in expanding pre-k offerings.<sup>17</sup> Most of these, along with

Bryon Union, indicated they have potential rooms, modular buildings, or land that might be converted for early education programs.<sup>18</sup>

Based on responses to a Brion Economics survey, two school districts



*Reconstructing Eastlake Early Learning Center, YMCA of the East Bay, with federal Head Start funding*

13 Contra Costa County Employment and Human Services Department, Community Services Bureau, 2019–2021, p. 77. a

14 Contra Costa County Employment and Human Services Department, Community Services Bureau, 2019–2021, p. 80.

15 Contra Costa Employment and Human Services Department, Community Services, 2019–2021 Community Assessment.

16 Susan Jeong, LPC coordinator (personal communication with Susan Muenchow, April 2019).

17 Brion Economics, Inc. with Davis Consultant Network and Nilsson Consulting (2018), p. 59.

18 Brion Economics, Inc. with Davis Consultant Network and Nilsson Consulting (2018), p. 58.

(Acalanes Union High and the Contra Costa Community College District) provide on-site care for infants and toddlers.

### Recent Progress on ECE Facilities

Progress related to ECE facilities has taken two forms: investment in research on the status of facilities, and actual expansion or renovation of structures. Two online surveys of ECE providers have been recently conducted as part of the county needs assessment cited above. One survey was directed to center directors and one to licensed FCCs. Fifty-eight percent (58%) of the 445 centers responded, and 32% of the FCCs with known email addresses.

Among the reporting sites, 58% have some public funding, including four State Preschools, three Head Start programs, and 45 other sites that offer state-subsidized care through CalWORKs or Alternative Payment (AP voucher) programs. While survey respondents may overrepresent better established providers, the study highlighted several factors favorable to expansion as well as areas to address in order to further both expansion and renovation.

The survey revealed surprisingly high levels of ownership and stability. Two thirds of the responding centers and nearly three quarters of responding FCCs own their facilities. Most of these were converted residential buildings or faith-based campuses. Ten percent (10%) were housed by a school district, 3% by a city-owned facility, and 3% situated in a community college or federal building. Ownership is important, since significant equity lowers the risk felt by lenders when sizing up new construction efforts.

For providers who do not own their facilities, reported rents ranged from \$1 to \$15,474 per month, with an average of \$1.71 monthly per square foot. Two centers reported that they were losing their leases, and another seven centers had concerns that their lease may not be renewed.<sup>19</sup> Meanwhile, the average tenure of reporting centers in a single location was 23 years with the greatest stability in faith-based and privately owned facilities. The average tenure of FCCs equaled 12 years.

Survey results also revealed significant interest in expanding facilities. More than a third (36%) of centers and FCCs combined would consider expansion, including nine center directors who self-identified on the survey form. When asked “by when,” nine said within a year, 12 within two years, eight within two to five years, and 18 were not sure. Of the nine sites considering expanding within the year, the most anticipated challenge was difficulty in finding an affordable space, followed by finding qualified teachers. The next most anticipated challenges were having the time or expertise to manage the expansion (a common refrain in all four counties visited).

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<sup>19</sup> Brion Economics, Inc. with Davis Consultant Network and Nilsson Consulting, p. 41.

Several providers expressed interest in expanding infant-toddler care. For example, a provider located in a faith-based site mentioned wanting to add a room for infants, ages 6 weeks to 12 months, but start-up costs were too high for the board overseeing the facility to take on the project. Not only did the survey show provider interest in expansion; it underlined the need for repair and renovation. About 7% of center directors reported a pressing need to address structural issues; one-fourth of the FCCs reported facility renovations already under way.

Actual expansion of facilities and child slots was reported during our field work in Contra Costa County. The scope of projects was modest when set against levels of unmet family need, as detailed above. Among sites participating in the survey, 13 had expanded in the past five years, yielding 76 additional infant-toddler spaces, 38 preschool slots, and 205 school-age spaces.

Expansion-related expenses included permitting fees in the \$500 to \$600 range; furnishings in the \$1,000 to \$10,000 range; the cost of temporarily renting facilities; and retrofitting for required electrical and plumbing upgrades. Each of these areas may suggest relatively “small ticket” item as compared with actual construction of new facilities. But financial support is pivotal, making the difference between adding new child slots or not.

Finally, as will be discussed below, some large publicly funded providers have succeeded in leveraging federal and state funds to expand or renovate facilities. In some cases, child care “impact fees” have made a sizeable difference in cities, or when included within county plans for unincorporated areas (Section B below).

## Section B. What’s Working in Contra Costa County?

### Child Care Facility Ordinance, Gauging Impacts of Development

Contra Costa County, since 2001, has utilized a child-care facility ordinance (82-22) to advance expansion within unincorporated areas of the county.<sup>20</sup> The ordinance illustrates how county authorities can be effective in promoting ECE access even when municipalities display less interest. The county ordinance aims to encourage the development of affordable child care in new developments where scarce supply is verified. Developers pay \$200 per condominium or townhouse for child-care mitigation, or to build a child-care facility on-site. In addition, non-residential projects with 100 or more employees must provide an on-site or off-site facility or proof that child care needs of families are otherwise mitigated.

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<sup>20</sup> [https://library.municode.com/ca/contra\\_costa\\_county/codes/ordinance\\_code?nodeId=TIT8ZO\\_DIV82CERE\\_CH82\\_22CHCAFA](https://library.municode.com/ca/contra_costa_county/codes/ordinance_code?nodeId=TIT8ZO_DIV82CERE_CH82_22CHCAFA).

Before filing an application for a land use permit, the developer must confer with the community development department concerning child care needs that may result from the proposed project. The application must include a survey or assessment of child care needs and affordability. If there is a shortage of care determined, the developer may build an on-site facility, contribute funds to centers adjacent to an elementary school, support FCC providers by purchasing equipment, or pay into a fund that supports child-care providers nearby.

Overall, the ordinance encourages cooperative efforts with public and private schools as the preferred method for off-site child care and coordinated use of recreation or common areas within projects, churches, parks or community facilities. That is, the ordinance encourages the placement of child care options within the broader community development framework.

Although the ordinance applies only to unincorporated areas of the county, it has spurred significant investments in ECE facilities. In Dougherty Valley, a development with 11,000 housing units inside an unincorporated area (when the project began) two developers helped pay for programs in which schools contracted with a provider to offer child-care services yielding several hundred slots for infants, toddlers, preschoolers, and school-age children.<sup>21</sup> This development has since been annexed by the City of San Ramon.

According to Kristine Solseng, Principal Planner for the county's Department of Conservation and Development, the resulting Dougherty Valley child care facilities include a mix of early care and education settings. The San Ramon Valley Unified System contracts with The Growing Room, a non-profit, to provide before and after-school care for more than 400 children in sites developed in four elementary schools. For many years, the Growing Room paid \$1 a year to lease the space in each school, according to Jim Larson, president of the Board of Directors, which helped the program thrive. While in recent years the schools have increased the lease payment to \$5,000 per month, Larson notes that the location on school property continues to be a major positive factor, because parents prefer not having to transport their school-age children to another location.

Other facilities resulting from the developer investments in Dougherty Valley, according to Solseng, include centers at the Cornerstone Apartment Complex, where the YMCA provides child care for 74 preschool age children, and at Canyon Creek Presbyterian Church, which serves 24 infants, 125 preschoolers and 57 school age children. Finally, one developer of Dougherty Valley paid the Contra Costa Child Care Council (now, CocoKids), the county's child care resource and referral agency, to recruit, support, and monitor family child-care providers in Dougherty Valley. As a result, an estimated 29 in-home FCC facilities were established.

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<sup>21</sup> Interview with Kristine Solseng, Principal Planner, Department of Conservation and Development, Martinez, June 17, 2019.

Frequently, the ordinance results in developer contributions to mitigate a housing project's impact on child care. For example, a needs assessment accompanying the MetaHousing Corporation's plan for 193 homes in Bay Point on the edge of Richmond, an area with a higher-than-average poverty rate, identified the need for 47 new child care spaces. Rather than construct new child care facilities, the developer agreed to pay \$38,600 to the county fund to mitigate the housing project's impact on child care.

The Department of Conservation and Development administers the ordinance, which is tied to zoning and construction permitting processes as well. Much of the success of the ordinance seems to stem from the requirement that a child care needs assessment, typically conducted by CocoKids, be submitted with the developer's application.

Limitations of the county ordinance include that most developments in unincorporated areas of the county are smaller than the Dougherty Valley project and do not generate much revenue for child care. The fund holds about \$2 million at any one time, according to Solseng, but can only be used in the immediate area of where impact assessments are conducted. Most important, of course, the ordinance only applies to new developments and does not address unmet child care needs in existing neighborhoods. We have more to learn about how developer fees (discussed below for San Francisco) and Contra Costa's approach to impact fees might be enacted in other municipalities.

### **Developer Fees and Density Bonuses**

Several cities in Contra Costa County have enacted similar legal mechanisms that require developers to mitigate the resulting needs for new child care facilities. These ordinances include developer fees and incentives for builders to address child care needs in exchange for the right to increase the density in a project.

Such policy strategies are pursued by the City of Concord, which has attempted to scaffold new facilities under a child-care ordinance since 1985. It generates support for early care and preschool options, especially for lower income families. The city collects a fee equal to 0.5% of the development cost of commercial projects.<sup>22</sup> These revenues—which currently total about one-half million dollars—finance grants under the same review process as for the Community Development Block Grants, according to Brenda Kain, Concord's municipal housing manager.<sup>23</sup>

Not limited to facilities support, these revenues support recruitment and training of FCC providers and the provision of after-school programs in five elementary schools and two middle

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<sup>22</sup> City of Concord Municipal Code, Article III. Child Care Program, Sections 78-61, 78-62-, 78-63, and 78-64. 1965 4932; Ord. No. 85-25; Ord. No. 85-58.

<sup>23</sup> Interview with Brenda Kain, Housing Manager, City of Concord, October 15, 2019.

schools.<sup>24</sup> Planning has begun on using a portion of these funds to remake an old community center into a child-care and preschool facility. The county is also looking ahead to the development of the Concord Naval Air Station (dubbed the Concord Reuse Project). This project remains on the drawing board, yet it will likely involve about 12,000 new housing units, one-fourth of which must consist of affordable housing. The overall effort will spark a huge need for additional ECE facilities.

While Concord's developer fee only applies only to new commercial development, local officials are reviewing all impact fees and that could result in extending the child-care impact levy to residential development as well. San Ramon has approved an impact fee for school-age child care. An economic impact study must be conducted by developers to gauge the number of new employees and families required by a new commercial development, along with projected child care needs. The city adjusts the fee for each project, based on the type of new structure erected (e.g., commercial, retail, hotel, industrial, single family or multi-family residential).<sup>25</sup>

Other cities—Clayton, Pinole, and Walnut Creek—provides incentives for developers to include child-care facilities within new residential developments. A “density bonus” allows additional dwelling units per acre, along with floor area ratios or heights, which generally gives builders the ability to build more housing units within a given property's footprint.

Despite the promise of these developer fees and incentives, it is unclear whether they are effectively applied to all new development, whether residential or commercial. Moreover, more information is needed on whether the magnitude of the fees collected, or of the incentives offered, is sufficient to significantly impact the child care supply. The state could play a role in assessing and comparing the role of similar levies in municipalities and other counties.

Looking forward, county and city planners in Brentwood, Concord, Oakley, and Pleasant Hill have identified several planned or in-construction projects that may include child-care facilities. Municipal officials also have their eye on city-owned properties that could feasibly host new housing and facilities for a variety of ECE providers.<sup>26</sup>

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24 Contra Costa.ca.gov/DocumentCenter/view/36627/Concord-FY-2015/16-ConsolidatedPlanActionPlan?bid1d=7/ 31/2015.

25 Interview with Lauren Barr, Manager, Planning Services Division, City of San Ramon, October 9, 2019.

26 Brion Economics, Inc., p. 58.

## Earlier Department of Education Facilities Fund

The county's Head Start grantee—the Community Services Bureau (CSB) of the Employment and Human Services Department—operates 14 centers that serve about 2,200 children. Funded programs include not only Head Start but also the California State Preschool Program (CSPP), Early Head Start, General Child Care, and CalWORKs vouchers. From 2007 to 2012, the agency was successful in obtaining an average of \$200,000 per year from the California Department of Education's (CDE's) Facility and Renovation Repair Fund.

Local grants from this state fund to the county agency supported facility renovations required under the federal Americans with Disabilities Act, an effort that could not have proceeded without significant state revenue. "The grant was simple to understand and manage," said Camilla Rand, Community Services Bureau director. Funds were also used to address the following other major health, safety and security concerns:

- Re-topping pour-and-play fall cushioning
- Replacing roofs and broken floor within modular buildings
- Leveling yards on playgrounds
- Repairing deck support and applying nonstick coating
- Installing playground structure
- Installing carbon monoxide detectors at all centers
- Installing bullet-resistant film

In 2012, the state converted the grant program, which was rapidly being depleted, into a loan fund. Then, in summer 2019, legislation was approved to fold the loan fund back into a new and larger facilities grant fund.

The Community Services Bureau's experience with the former grant fund underscores the importance of a grant versus a loan program for facilities. Without the grants for repair and renovation, according to Rand, the program would either have had to close or reduce services to children. In contrast, Rand indicated that she never considered applying to the CDE Loan Fund, since making a commitment to pay back the loan "creates an undue burden and uncertainty on the financial viability of the child-care program... with the rising operational costs and the threat of funding reductions during an economic downturn providers assume great risk in complying with the obligation to pay the interest on the amount loaned."<sup>27</sup>

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<sup>27</sup> Camilla Rand's response to Legislative Analyst Office Facilities questions, November 8, 2018.

Should grant funds become available, Rand said her top priority would be to expand services in the city of Pittsburg in the eastern part of the county, where low- and moderate-income families are moving to seek affordable housing and population growth is most robust.

Funding under the county's Quality Rating and Improvement System (QRIS) offers additional, small-scale funding for pre-k efforts.<sup>28</sup> The West Contra Costa School District, for instance, runs a state preschool (CSPP) program and Transitional Kindergarten. Because the district's CSPP program is rated at four-stars, they received First 5 California block grants, equaling \$49,000 in the last fiscal year to make quality improvements. "The QRIS money has really helped us furnish all the State Preschool classrooms," said Olanrewaju (Lanre) Ajayi, the district's Early Learning Coordinator, reflecting modest facility improvements.

### Leveraging Head Start Funding for Facilities

Innovative ECE providers—supported by both California State Preschool Program dollars as well as federal Head Start—have learned how to leverage federal resources to upgrade facilities and open new child care slots. For example, according to Pamm Shaw, director for early childhood at the YMCA of the East Bay, that agency has typically received about \$50,000 annually for repairs from Head Start and up to \$2 million in start-up



*Cherryland Early Learning Center, built by the YMCA with co-financing from Head Start*

funds. The resulting facility gains benefit not only the children solely enrolled in Head Start but also those jointly enrolled in Head Start and State Preschool to create extended day services.

Utilizing Head Start improvement funds, the Contra Costa Community Services Bureau is planning to construct a central kitchen to provide food for all of its ECE locations. This construction project will cost \$3.2 million, eventually preparing 40,000 meals each month, according to Camilla Rand. The San Ramon school district contracts with the Community Services Bureau—the Head Start grantee—to provide state preschool services. This partnership has helped to fund upgrades in playground structures and minor renovations.<sup>29</sup>

<sup>28</sup> First 5 Contra Costa, Supporting Kindergarten Readiness: District Preschool Programs in Contra Costa County, September 2019, p. 3.

<sup>29</sup> First 5 Contra Costa, *Ibid.*, p. 6.

Knowledge of the funding landscape plays an important role in making facilities expansion or renovation possible. While less adequate than Head Start start-up funds, the California State Preschool Program (CSPP) does allow 15% of approved budgets for start-up purchases, say for classroom furniture and outdoor facilities. A change in state policy that would offer, similar to Head Start, more generous start-up funds, a realistic allotment for repair and renovation, and the opportunity to roll over unspent funds to apply toward facilities would make it much easier for State Preschool providers to improve and expand facilities.

## Section C. Major Challenges in Contra Costa County— Expanding and Renovating Facilities

### Challenge 1: Financing Affordable Space

In the late 1990s, as ECE programs were expanding in robust fashion, the county's Head Start grantee purchased a facility called the Balboa Center from a local school district. It was the last of five centers built in that era, costing \$5.5 million in 2004. But now, according to Camilla Rand, it would cost \$2 million just to get the playgrounds and existing classrooms up to what they should be. The cost of facilities is huge—\$400 to \$500 per square foot in many parts of the county. The estimated cost to build four to five new classrooms is \$3 million.

This pre-k provider had to cut its operating budget by \$800,000 in 2016 in order to free-up resources for essential facilities renovation. And facilities costs, like staffing costs, have risen significantly in recent years, equaling a 6% jump in 2016-17, then climbing 33% increase in 2017-18. Another challenge, according to Rand, is that there are more buildings available in the western part of Contra Costa County, but few in the eastern part of the county, where population growth is most rapid.

Land remains available in many parts of the county, according to Ruth Fernandez, deputy director of the local First 5. “The barrier is more a financial challenge of not having the money,” she says. New child slots could be built in several large developments: the revamped Naval Weapons Station in Concord; a waterfront project in the eastern part of the county; new projects in tribal areas of west county.

The BART extension to Pittsburg offers another opportunity for child-care growth, as does the Bishop Ranch residential project for 4,500 new family homes in San Ramon (pitched by the Sunset Development Company). “But child care has to be part of the proposed development plan,” says Fernandez. And it's unclear whether any of these plans is far enough along to prompt assessments of child-care impacts. Nor is it clear how or from whom the political urgency for including child-care options will emerge.

For established ECE providers, more than a third of these centers and FCCs would consider expansion, as revealed in the needs assessment discussed above. But the barriers of organizational know-how, ties with architects, and how to synchronize increases in operational funding persist. The time and capacity required to coordinate with municipal officials and developers bring related constraints.

## **Challenge 2: Accessing Classrooms in Public Schools**

Only four of the 18 school districts in the county house State Preschool programs (CSPP), as discussed above. “Schools have expanded Transitional Kindergarten but not State Preschool,” according to Fernandez. In some cases, districts that formerly offered space for preschool services have taken the space back for other purposes. For example, the Antioch School District previously housed a center run by the Antioch Kids Club, but the district displaced them, eliminating about 300 subsidized child slots.

One barrier to expanding pre-k on school campuses is that K-12 runs a shorter day, dissuading providers from operating full-day or full-year. In Richmond, the YMCA operates programs on two school sites. A third site at Richmond High shut down. “We chose to leave, because they wanted us out of the center on school holidays and every day by 5 p.m.,” says Shaw.

Many parents prefer full-day pre-k, according to Ajayi, the Early Learning Coordinator at the West Contra Costa district. Yet, currently only two of the district’s CSPP programs operate full-day. The major barrier is the state Title 5 rule that full-day programs operate 246 days per year. “We would have many more full-day programs except that the school district cannot accommodate that long a school year because of overhead and getting the school ready for the regular school year,” says Ajayi.<sup>30</sup> Teacher-union rules also limit the number of days staff can work, though the district has managed to find substitute teachers for the additional days for the two full-day programs.<sup>31</sup>

Another barrier to expanding full-day programs, according to Ajayi, is the Title 5 rule for parental work requirements for full-day programs. “If the parent’s work does not begin until 10 or 11 a.m. in theory the child is not eligible for a program that begins at 8:15 a.m., which means the child misses out,” says Ajayi. “Why are we not expanding?... The major obstacle is state rules on full-day, full-year programs.”

Then, there’s the lack of shortage of district space, according to Ajayi. Five of her 15 CSPP sites programs are located in portables, and it’s difficult to find enough space inside these structures to, for instance, spread-out cots at nap time. Also, elementary-school playgrounds are not

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<sup>30</sup> Interview with Olanrewaju Ajayi, Early Learning Program Coordinator, West Contra Costa School District, May 29, 2019.

<sup>31</sup> First 5 Contra Costa, Supporting Kindergarten Readiness: District-Operated Preschool Programs in Contra Costa County, September 2019.

always conducive to preschool-age children. Some lack shade in hot months. Ideally, says Ajayi, “there would be one whole school site devoted to State Preschool and Transitional Kindergarten with all of the children on the same site.” On the other hand, offering pre-k options on differing school sites provides wider access to diverse families.

### **Challenge 3: Aging Facilities**

Beyond the lack of ECE facilities, many existing centers require significant renovation and facility upgrades. The YMCA of the East Bay has renovated all four of its west-county centers, which possess an average age of about 30 years, says Shaw. Some renovation dollars come from Head Start, as discussed above.

Renovation needs can arise with considerable urgency. In Rodeo, sewage recently seeped into one YMCA center that serves infants and toddlers. Insurance covered much of the refurbishing costs, after factoring-in a \$10,000 deductible. Even the renovation of modular buildings can be expensive. Based on an architect’s advice, the YMCA chose to refurbish two portables, going down to the original frames, rather than construct new classrooms. “It was cheaper to refurbish the portables, less than half of the cost and time that would have been required to construct new facilities,” Shaw reported. Permits were less costly, and less money was needed for an architect. “We are changing the roof, bathroom fixtures and the plumbing,” she said.

### **Challenge 4: Lack of Organizational Capacity and Technical Assistance**

Although providers of large ECE programs, such as Camilla Rand of the county’s Head Start and Pamm Shaw of the YMCA, employ or have many years of experience with designers and builders, most ECE providers do not. This organizational capacity is built over years: it does not result from one off-site technical assistance workshop. “If the State doesn’t do that [build organizational capacity],” Shaw added, “we will be bombarded before we begin. There’s not a list of contractors or architects to guide early childhood leaders who want to expand or renovate facilities. Finding a good architect with experience in child care and licensing is huge.”

One bright spot, say county ECE leaders, is a new integrated “Birth to 12” license which is scheduled to debut in January 2021. This may reduce the paperwork associated with applying for a child care license, though programs will still need to meet the requirements for serving each age group. Until the rules for the integrated license are promulgated, providers must still obtain separate licenses for infant-toddler and preschool-age children.

Still, providers interested in building facilities will confront a maze of permitting officials, fire departments, designers, and building contractors. In Richmond, Shaw points out, the fire marshals involved in licensing are different than those who assess construction. And these

steps must be followed in the design of projects to avoid investing in inadequate sites or facility designs. Established providers talk of less experienced centers that don't hold this know-how.

### **Challenge 5: Facilities Aid for Family Child Care.**

Expanding access to family child care—which declined over the past decade statewide—could potentially help address the shortage of child care, especially for infant-toddler care. “That’s where the babies and the children with special needs are,” according to Margaret Wiegert-Jacobs, the Learning Institute Director at CocoKids.<sup>32</sup> FCC providers are better positioned than centers to offer care during odd-hours and weekends for working parents, including those whose hourly schedules change frequently. But FCC providers, especially those in low-income areas, need help with start-up costs such as the purchase of cribs, furniture, play structures, and home repairs.

Family child-care providers express relief over legislative approval of Senate Bill 234. Under this legislation, supported by the Child Care Law Center, large FCC homes will receive the same exemptions under local neighborhood zoning and permitting available to small FCC homes. In addition, the new law directs the Department of Social Services to inform child care providers that they can file for protection under the Fair Employment and Housing Act if they are treated unfairly by their landlords.

Prior to the enactment of the statute this year, says Benu Chaabra, who runs a large family child care home in Concord, some cities in the county were charging large FCC providers \$10,000 business license fees. This legislation illustrates how permitting and licensing hurdles—with no relation to child safety or provider quality—can be lowered to ease recovery of the FCC sector.<sup>33</sup>

### **Challenge 6: Coordinated Planning**

As in most local jurisdictions, no one agency in Contra Costa County holds responsibility for ensuring that child care facilities are taken into account when child care gaps are identified in existing neighborhoods or when new residential or commercial areas are developed. The Contra Costa County Child Care Facility Ordinance, administered by the Department of Conservation and Development, comes closest to offering a formula for estimating the existing number of facilities near new developments and the unmet need for child care.

But the resulting developer fees by definition apply only to new developments, and only to those in unincorporated areas of the county. Among the cities, certain impact fees apply to

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<sup>32</sup> Interview with Margaret Wiegert-Jacobs, CocoKids, October 2019.

<sup>33</sup> The legislation also prohibits cities from imposing a business license, fee or tax on large family child care homes, a provision that until this year only applied to small FCC homes.

residential developments, others only to commercial building, and fee levels remain modest and vary significantly. While Contra Costa’s Department of Conservation and Development tracks the implementation of developer fees in unincorporated areas, it does not hold the authority to track similar efforts across the various cities.

At least nine cities include child care in their general development plans.<sup>34</sup> For example, the City of Concord’s General Plan 2030 calls for continuing “to respond to the growing need for child care facilities... as a result of new residential, office, commercial and industrial development, and allow child care in all zoning districts” except for downtown pedestrian areas.<sup>35</sup>

While promising, the Concord plan does not yet contain the level of detail provided for public schools. For kindergarten to grade 5 students, the same plan tracks the number of elementary schools in every neighborhood and uses a formula of estimating 0.62 students per single family home to project a need for schools. This formula, for example, calls for schools to serve 4,360 new students pegged to development of the former Naval Weapons Station. Despite such specificity for K-12, municipalities do not make estimates for child care and pre-k demand.

In the absence of a statewide push to include child care in municipal general plans, cities may not be able to prioritize such needs, nor track how local policies affect the supply of ECE options. That realization seems to be behind the Advancement Project recommendation for adding an eighth legal element, Early Care and Education Infrastructure, to the state general plan guidance for localities.

What may be needed, according to John Jones, director of CocoKids, are required child care needs assessments for both new and existing neighborhoods in every city, followed by detailed strategies, collaborating with developers, to address the rising need for child care for families.<sup>36</sup> The State Master Plan for Early Care and Education might consider such a requirement, at least if the Newsom administration recommendation for targeted universal access to preschool becomes a provision of that plan. Then, local officials will have more information and knowledge of the benefits that may already stem from existing revenues as they try to determine how to finance further expansion of ECE facilities.

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34 Brion Economics, Inc., p. 56.

35 Concord 2030 General Plan, Section 8 Public Facilities and Utilities, Policy PF-2.2.3, p. 8-18.

36 Interview with John Jones, Executive Director, CocoKids, April 24, 2019.

### Section A. County Landscape

Fresno County sits in the Central Valley of California, a major hub for agriculture and related trade. It's the largest county in the Valley, offering a window into the economic and institutional conditions that constrain the supply of child care and preschool in this region.

#### Children and Families—Demographic Trends

The county's population is growing incremental, rising 4% between 2010 and 2017. Thirty-one percent (31%) of the population is below 20 years-of-age, as fertility rates remain high relative to declining child populations in coastal and urban counties. The number of children under 5 years-of-age is projected to grow by about 2% through 2030 (Figure 4 above).<sup>37</sup>

Just over half the county's population (52%) identifies as Latino or Hispanic. The remaining population is largely non-Latino White. Families comprise 73% of all households.<sup>38</sup> One in four county residents live below the federal poverty line (24%), nearly twice the poverty rate statewide.<sup>39</sup> Poverty levels are associated with lower rates of maternal labor force participation, which likely softens family demand for nonparental forms of child care. According to recent data, nearly 60% of children under 5 come from families that are at or below the state median income (SMI), eligible for state child-care or preschool subsidies.<sup>40</sup> Only 55% of all 4-year-olds and 24% of 3-year-olds are currently enrolled in a licensed child-care program.

#### Organizational Landscape—ECE Providers and Unmet Demand

Various kinds of facilities house early-childhood programs across Fresno County, including preschool centers, school-based programs (mainly in portable units), and licensed FCCs. These options are located in private homes, churches, and city-owned buildings.

**Rents and property values.** Of our sample, Fresno County has the lowest rents and property values. Median household income is \$52,948, equaling about half the median income of Contra Costa residents. This difference is echoed in residential rents and home values. Despite relatively low property values and leasing costs, most ECE leaders we interviewed confirmed an overall scarcity of facilities.

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37 Manship, K., Jacobson, L., & Fuller, B. (2018). *Achieving fair access to early education: Fewer children, regional gaps across California*. (Policy Brief). Berkeley, CA: University of California, Graduate School of Education, Early Childhood Think Tank.

38 <https://www.towncharts.com/California/Demographics/Fresno-County-CA-Demographics-data.html>

39 Poverty rates reported by the U.S. Census Bureau: [https://factfinder.census.gov/faces/nav/jsf/pages/community\\_facts.xhtml?src=bkmk](https://factfinder.census.gov/faces/nav/jsf/pages/community_facts.xhtml?src=bkmk).

40 Needs assessment report from the Fresno local planning council (2013).

**School enrollment trends and district facilities.** Reflecting the county’s growing population, enrollment in Fresno County schools continues to inch upward. School enrollments have climbed 7% over the past decade, from 192,892 students in 2007-08 to 206,418 in 2018-19. Yet, the population of children under 5 is beginning to level-off, or grow more slowly as female educational attainment rising and fertility rates fall, especially in the Latino community.

Little is known about the availability of vacant classroom space in public schools. If child population growth slows, vacant classroom space may become available. If space becomes available, local districts may expand Transitional Kindergarten and Expanded TK, filling otherwise empty classrooms.

## Section B. What’s Working in Fresno County?

### Grants Available to Support Facilities Renovations

Overall, we did not observe in Fresno the same level of new construction as we learned about in San Diego or San Francisco. However, some projects have moved forward. The Low Income Investment Fund (LIIF), a financial intermediary, has assembled the necessary capital to build environmentally friendly (green) buildings in Fresno County. LIIF recently provided more than \$50,000 to make energy-efficient improvements for Franklin Head Start (pictured below) and the 24 additional ECE sites operated by Fresno’s Economic Opportunity Commission (EOC).<sup>41</sup>



*Franklin Head Start, Fresno County, receives support via the Low Income Investment Fund to increase energy efficiency (courtesy of LIIF)*

Fresno County also offers modest grants that may be used for renovating facilities, tied to the Quality Improvement Rating Scale (QRIS), when programs reach threshold quality levels. We spoke with one family child-care provider who used these funds to renovate her backyard and installed play equipment appropriate for special-needs children. Funds from the QRIS block grant program are not presently sufficient to finance new construction of centers or major renovations sufficient to create new slots for additional children.

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<sup>41</sup> <https://www.liifund.org/projects/green-buildings/franklin-head-start/>

## Reducing Financial and Administrative Obstacles

Fresno County has made some progress in trimming unnecessary regulatory snags for construction and renovation projects. The Child Care Law Center successfully advocated for the City of Fresno to dramatically reduce its permit fees for family and center-based care. Municipalities will no longer be permitted to treat large FCCs as small businesses for permitting purposes, under the new legislation. The duplication previously required when submitting building plans to the state and municipal authorities has been eliminated as well.

This local case of lowering regulatory barriers, without compromising child safety, points to the importance of pinpointing barriers related to municipal permitting, fire safety reviews, and procedures of Community Care Licensing that slows the design and implementation of ECE construction projects. A careful review of regulations and ways of expediting approval of design plans could ease the pathway toward getting projects shovel ready. Similar efforts in the housing field are farther down this track, while safeguarding safety and construction quality.

## Section C. Major Challenges in Fresno County— Expanding and Renovating Facilities

### Challenge 1: Persisting Lack of Facilities

Despite relatively lower real estate costs in Fresno, we heard that finding affordable facilities to lease or purchase—especially buildings that meet state licensing requirements—remains difficult. One facilities specialist told us that vacant spaces are common across the county, but much of this property is not for sale. He speculated that in a strong statewide economy, commercial property owners await appreciation of land or commercial space. No agency we spoke with was aware of vacant publicly owned space suitable for care or preschool facilities.

Another ECE leader, situated at the county level, shared his frustration with the difficulty in finding affordable facilities. His working assumption was that most vacant facilities would require considerable investment to get up to licensing standards. This raises the issue of whether facilities investments in FCCs might be more cost-effective in counties like Fresno, especially given the vast shortage of infant-toddler care and the potentially larger role for FCCs. Overall, we know little about the comparative returns to investing in FCCs versus centers when it comes to expanding child slots at adequate levels of quality.

Similarly, one large CBO-based provider abandoned plans to build a new facility, given unaffordable costs, given very scarce funding in Fresno County. “Our families need these

programs,” he reported. “As a state, we need to do a better job of encouraging facilities development where our children need it most.”

### **Challenge 2: Long-term Cost of Expanding Infant-Toddler Care**

At the same time, we heard from several actors in Fresno about the relatively high operating costs associated with expanding infant-toddler slots. Caring for infants requires a ratio of one adult provider for every four children in the care setting. Here too, the upfront cost of building center-based classrooms for infants and toddlers is also significant, followed by downstream operational costs. Given both high operating and capital costs, some providers were hesitant to make the investment, despite a great need for new infant-toddler slots.

These providers were encouraged by the recent increase in the state reimbursement rates for infant-toddler care. Still, how to synchronize the flow of new facilities *and* operational support—via reportedly cumbersome state allocation procedures—is a collateral issue that we heard across the four counties.

This conversation in Fresno pertained largely to the subsidized sector: how to expand infant-toddler care for lower-income parents. Similar obstacles pertain to families that share the cost of care, especially those falling just within or outside eligibility thresholds. “The cost of child care is a huge obstacle” for these parents, one interviewee emphasized. Whether to utilize state facilities dollars for private centers, which partially serve non-subsidized children, is another issue that policy makers might consider.

### **Challenge 3: Lack of Local Municipal Revenues for Child Care and Preschool Facilities**

We did not hear about any local sources of revenue for ECE facilities in Fresno County, whether from municipal taxes or developer fees, as were reported in Contra Costa and San Francisco. More research is required to understand how school districts are raising revenues for kindergarten or preschool expansion. ECE leaders did not report any recent bond issues that benefited district-based growth of early education.

Conversations are beginning in Fresno regarding the possibility of a “children’s tax,” similar to San Francisco’s, which could help capitalize new or renovated facilities. However, stakeholders acknowledged that this would be more difficult in Fresno than in the Bay Area, given the lower wealth levels. So, Fresno prompts the question of how the state can (a) progressively focus facilities dollars on counties that can afford less tax effort to expand ECE programs, compared with wealthier counties, or (b) incent municipalities to boost levies to support the sector.

Given the imperative of building new housing, raising developer fees may become less viable politically. Yet, San Francisco waives such fees when residential or commercial developers include child-care spaces in new structures. This could be a reasonable compromise in Central Valley counties that suffer from especially scarce supplies of child care and preschool, while experiencing ongoing growth in child populations.

#### **Challenge 4: Licensing Requirements**

One option for increasing access to early-childhood services is for small FCC providers to expand their facilities to become licensed as large FCCs, raising their child capacity to a maximum of 14 children. We spoke to FCC providers, however, who preferred not to engage state licensing or municipal permitting agencies to attempt such an expansion.

Prior to approval for expanded service, the licensing office will audit the area surrounding the FCC that is applying for a new permit. Often the licensing office denies requests if there are too many large FCCs in the area. But as the state appropriates new dollars for child-care vouchers (“alternative payments”), such expansion of FCCs could serve additional low-income families. Here the local planning council could work with Community Care Licensing to determine where expansion would not jeopardize the viability of existing FCCs.

Less is known about how much of a deterrent municipal licensing and fire safety reviews represent. These reviews during the initial scoping-out of a project can be invaluable, saving potential costs downstream. And this planning process can be facilitated if a skilled financial intermediary is in place, as we observed in San Diego and San Francisco. But this kind of design intelligence, along with early engagement of municipal agencies, was not apparent in Fresno, where experience with construction appeared to be more limited.

The nagging dilemma is that—to equalize family access to quality child care and preschool—we need to construct new facilities in counties like Fresno, as the Central Valley is one of the parts of the state that suffers from the greatest scarcities of program and thinnest organizational capacity to take on new, large construction efforts.

#### **Challenge 5: Thin Technical Capacity to Implement Construction Projects**

These contextual factors thus bring us to the final challenge apparent in Fresno County: the lack of capacity to plan, finance, and implement construction efforts. Providers were not consistently aware of the education department’s (CDE’s) earlier loan fund. Even local grants available via the county’s QRIS initiative were not known by some family child-care providers with whom we spoke. The LPC coordinator noted that the council may help direct providers to appropriate agencies for assistance, but the council doesn’t provide assistance itself.

We met ECE providers in the other three counties who had built ties with architects, designers, building contractors, banks and financial intermediaries—essential partners in mounting renovation or new construction endeavors. But ECE leaders in Fresno typically held limited experience in this domain, and no public agency facilitates this process. Even with new state dollars for ECE facilities, *long-term* technical assistance will be required.

## SAN FRANCISCO

### Section A. County Landscape

San Francisco offers a compelling case for how municipal leaders can provide funds, partner city agencies with private banks, and oversee construction of new child-care and pre-k facilities. Political leaders—backed by city voters—have levied local taxes and fees charged to developers, which generate nearly \$5 million annually to support ECE facilities. This includes FCCs, along with infant, toddler, and preschool centers. The city then contracts with a financial intermediary, the Low Income Investment Fund (LIIF), to oversee all steps of implementation—moving a new design to being “shovel-ready” and then following construction to completion.

We first review the demographic and institutional landscape of San Francisco. Then, we report on how this collaborative model—interweaving public and private-sector interests—unfolds in this compact yet economically vibrant city.

#### Children and Families— Demographic Trends

The count of young children continues to decline citywide. The number of children ages 0 to 4 is projected to fall by 12%, from about 43,000 to 37,000 youngsters over the coming decade, according to state demographers.<sup>42</sup>



*Christina Maluenda Marchiel, codirector of Mission Kids, just before groundbreaking, June 2019. Construction of a new preschool center is under way on a rare triangular lot, Mission District, San Francisco.*

<sup>42</sup> California Department of Finance demographic projections, accessed July 2019.  
<http://www.dof.ca.gov/Forecasting/Demographics/Projections/>

This downward trend is driven by declining fertility rates among certain groups, along with the rising cost of living, especially for young families.

### Organizational Landscape—ECE Providers and Unmet Demand

San Francisco enjoys a rich supply of centers for preschool-age children, compared with all other California counties. One recent study found that enrollments in licensed facilities for children 3–4 years of age exceed their population count within the city limits. This finding suggests that many working parents drive into the city for work and drop-off their child in a San Francisco program. (Double-counting of kids attending more than one programs is likely.)<sup>43</sup>

Center-based programs hosted slots for about 22,000 children in 2017, along with just over 7,000 spaces in licensed family child-care homes (FCCs). School-age children filled a portion of these slots. At the same time, the count of FCCs has been declining over the past decade, victims of rising housing prices and the falling count of families living in San Francisco. Infant and toddler care also remains scarce. The count of FCCs has declined by more than one fifth in the wider Bay Area since 2008.<sup>44</sup>

Less than one fifth of children, 0 to 2 years-of-age, attend a licensed FCC or center.<sup>45</sup> This scarcity persists even as efforts are made to expand the availability of center-based programs. Gentrifying parts of the city may rekindle rising demand for child-care and preschool. The Mission District, south of Market Street (SOMA), and more affluent areas like Glen Park, are attracting rising counts of young families. Whether these parents will remain in San Francisco and express demand for ECE options —felt in the fee-for-service or subsidized subsectors—is not well understood. A needs analysis by the Mayor’s Office of Early Childhood Education (OECE) details a shrinking middle class, with stable poor and well-off families who do express demand for child care and preschool.

**Rents and property values.** San Francisco remains one of the most expensive places worldwide to acquire residential or commercial property. In 2018, the price of downtown office space climbed to \$81 per square foot—more than 4 times the cost posted in San Diego.<sup>46</sup> Rents for residential property hit an all-time high in 2019, according to multiple realtors. The median price of renting a one-bedroom housing unit climbed to \$3,720 per month in June.<sup>47</sup>

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43 Manship et al. (2018).

44 Data from the California Child Care Resource and Referral Network. <https://rrnetwork.org/assets/general-files/Decline-of-FCC-Supply.pdf>

45 Additional data for San Francisco appears at <https://rrnetwork.org/research/child-care-data>. Information compiled by the California Child Care Resource and Referral Network.

46 As reported by the *San Francisco Chronicle*, October 3, 2018. Discussed online in the *San Francisco Business Times*. <https://www.bizjournals.com/sanfrancisco/news/2018/10/03/sf-office-space-record-high.html>

47 Several estimates are summarized by Curbed, an online real estate firm. <https://sf.curbed.com/2019/7/2/20677850/rent-prices-sf-san-francisco-median-prices-june-2019>

If you are in the market for a single-family dwelling, the median asking price was \$1.3 million in spring 2019, the highest price structure of any city nationwide.<sup>48</sup> The average yearly salary for wage earners in San Francisco equals “only” \$88,000 (well above the state median income), while homeowners must earn about \$172,000 annually to cover housing costs.

Living amidst stratospheric property prices, of course, affects leases and construction costs for ECE providers. Such prices likely contribute to the decline of FCCs as well. Building an entirely new preschool center can cost upward of \$7 million, according to Graham Dobson, who oversees the construction section of OECE.



*Mission Child Care Consortium purchased and renovated its center serving 225 children, thanks to financing from San Francisco and the Low Income Investment Fund (LIIF).*

Many providers face rising rents because landlords realize attractive options with potential tenants or buyers. The mayor’s office has helped to finance the purchase of previously leased facilities, working alongside LIIF. We return later to the case of the Mission Child Care Consortium, which purchased its facility after the landlord insisted on raising the rent from \$28,000 to \$42,000 monthly. These purchase arrangements eliminate the long-term cost of rent for providers and the state, while bolstering the equity of nonprofit organizations.

**School enrollment trends and district facilities.** Just one school district operates in the city, the San Francisco Unified School District (SFUSD). Enrollments in K–12 schools (including charter schools) are projected to hold steady at current counts, equaling about 62,000 students, according to the state Department of Finance.<sup>49</sup>

The district argues that enrollments will inch upward in coming years. Yet, this enrollment projection may be optimistic, given the declining count of preschool-age children. Gentrification and expansion of dot-com firms may bring an offsetting increase in school-age children. The likely growth of charter and private schools may erode demand placed on public schools.

Little is known about how enrollment trends may be opening up vacant classroom space in public school facilities. The district’s early education director reports that few classrooms are vacant during the regular school year. And San Francisco Unified has assertively expanded Transitional Kindergarten seats in many elementary schools.

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48 Reported in June 2019, Business Insider. <https://www.businessinsider.com/san-francisco-housing-market-facts-rent-2019-5>

49 K–12 public school enrollment projections, California Department of Finance, demographics unit. [http://www.dof.ca.gov/Forecasting/Demographics/Projections/Public\\_K-12\\_Graded\\_Enrollment/](http://www.dof.ca.gov/Forecasting/Demographics/Projections/Public_K-12_Graded_Enrollment/)

Two leaders of ECE nonprofits reported empty public school classrooms in their neighborhoods. Yet, we have located no independent evidence to substantiate this claim. At the same time, SFUSD leaders have historically built few links with the nonprofit child-care or preschool providers, as reported by both sides of the sector. Despite the shortage of infant-toddler care in the city, little collaboration to address this problem is reported.

### Recent Progress on ECE Facilities

The city's leaders—despite little vacant land and out-of-sight prices—continue to make progress on the construction or renovation of pre-k centers, along with upgrading FCCs. Some planners report “vast swaths” of in-fill spaces and underutilized land in the city limits. Empty storefronts certainly dot various parts of San Francisco. Two pivotal features mark the city's institutional landscape: Local leadership and collaborative ties with private lenders can, together, power fresh construction of ECE facilities.

A series of city mayors, going back to Willie Brown, have backed local taxation or fees paid by developers to finance child-care and preschool facilities. Steady political leadership then motivates collaboration between private banks and municipal agencies, including the mayor's ECE directorate, city planning and fire departments, and Community Care Licensing.

This collaboration occurs through the Child Care Facilities Interagency Committee — coordinated by LIIF—which meets monthly and reviews the pipeline of new and expanded facilities projects, coordinates permitting processes, and approves new grant applications. At the same time, without a collaborative process, along with buy-in from and incentives for private lenders, political action alone would not ensure steady construction.

Three kinds of projects stand out in San Francisco: construction of new centers, buying-out of facilities previously leased, and the upgrading of FCCs. These strategies produce differing effects in terms of expanding the count of child slots and what age groups are better served, from infants and toddlers to preschool-age youngsters.

**Building new centers.** The nonprofit Mission Kids exemplifies construction of an entirely new preschool, animated by a \$2.7 million loan packaged by LIIF and city authorities. This modest nonprofit reveals how steady relationships among these players are required to expand enrollment capacity over several years. Initially operating an FCC, Mission Kids moved into a church facility, winning a \$75,000 grant from the mayor's office in 2009 to bring a single classroom up to building code. A second grant followed in 2012 to expand child enrollments.

Still, Mission Kids was leasing its growing classroom space from the church, which decided that it needed the floor space occupied by the center. So, this nonprofit pursued a deeper relationship with LIIF, beginning in 2017, says Mission Kids co-director Christina Maluenda Marchiel. This kicked off weekly planning meetings focusing on locating available land or real estate, designing a new center, and packaging the necessary financing. Marchiel sees three parts to LIIF, pegged to the chronology of the steps required before breaking ground:

- *Initial design work* under a “pre-development grant” of \$30,000 from the city via LIIF. This included locating a feasible site on which to place the center buildings, conducting environmental reviews, receiving initial approval from the fire department and determining financial feasibility.
- *Property acquisition* supported through a second small grant, as Mission Kids brought on a project manager, contracted with an architect, and negotiated terms with the land owner to purchase the site. Director Marchiel reports being lucky that the nonprofit located a triangular lot in the Mission District, bordered by an old railroad spur, a patch of land unsuitable for new apartments or commercial development.
- The *loan package* that enabled groundbreaking in June 2019 was in place about two years after Marchiel began discussing her dream with LIIF and municipal funders. The LIIF-city package will leverage about \$7 million in total funding for construction and outfitting the new facility with play equipment outdoors and furniture inside.

The financing package—along with the capacity of the intermediary to collaborate with private lenders—offers instructive lessons. The municipal revenue sources, stemming from small increases in property taxes and fees charged to residential and commercial developers, allow the LIIF-city authority to award grant dollars for early design of projects. This approach guards against costly misfires when a provider intends to build a new facility, only later to hit insurmountable permitting or fire regulations.

LIIF then pulls in a variety of public incentives and private capital to supplement municipal funding. These supplements include New Market Tax Credits, federal chits awarded to financial intermediaries to foster capital investment in communities that “have suffered due to... dormant manufacturing facilities, inadequate education and health care services, vacant commercial properties, and lower property values,” as reported by the U.S. Treasury.<sup>50</sup> In turn, the tax bill of banks is reduced when they lend to nonprofits at below-market rates.

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<sup>50</sup> The federal Community Development Financial Institutions (CDFI) Fund of the U.S. Treasury Department is described. <https://www.cdfifund.gov/programs-training/Programs/new-markets-tax-credit/Pages/default.aspx>

Financial intermediaries—including LIIF and the Local Initiatives Support Corporation (LISC) in San Diego—receive credits and disperse them among cooperating banks. These banks include Wells Fargo, the financial partner for the new Mission Kids center. This nonprofit engaged in a capital campaign and charges parents who can afford to pay fees. At times, small business loans contribute to such finance packages. Housing agencies and Community Development Block Grants may provide additional pieces to the financing puzzle. LISC presently helps to finance public organizations, assembling \$75 million in capital from the health care and technology industries last year, matched with philanthropic capital.



*Renovated preschool classroom at Mission Child Care Consortium, San Francisco, aided by loan package via Low Income Investment Fund.*

**Purchasing facilities, building equity.** A second strategy is to help ECE providers buy their current facility. This approach does not necessarily lead to new slots for additional children, but it does relieve providers from paying expensive or rising rents, along with improving their equity position. San Francisco is making progress on this front as well.

Take the case of the Mission Child Care Consortium, operating in the Excelsior District for nearly 40 years. They moved from the Inner Mission to a vacant warehouse in 2007. Dollars from the city’s Community Development Block Grant supported renovations: installing new exits and ceiling sprinklers to meet fire codes, building out classrooms, and transforming the rear lot into a colorful playground for toddlers and preschool-age children.

This renovation work required that director Joe Martinez locate an architect “who understands all the licensing requirements.” A long-time activist in the Latino community, Martinez “dealt directly with the mayors Jordan, Willie, Agnos, Newsom.” A poster-size tribute to the late mayor Ed Lee adorns one hallway at Mission Child Care. It was Lee who lent urgency to Martinez’s most recent problem—coping with the skyrocketing cost of leasing his three-story, fully renovated facility.

Martinez’s landlord in 2016, with gentrification sweeping across this slice of the city, saw the profitable prospect of redeveloping the property. So, the landlord raised the cost of leasing by 50% in just one year. Martinez simply couldn’t afford to pay more than a half million dollars in yearly rent. He was being forced out. Where could he find such a large facility with outdoor space in the built-out confines of San Francisco?

Mayor Lee, along with county supervisor Norman Yee, helped to mobilize resources via the city’s established process, directed by OECE and facilitated by LIIF. The local First 5 commission

and the Housing and Community Development Office contributed capital as well. The financing package that emerged from LIIF provided a loan at submarket interest. Martinez’s monthly payments are \$8,000 less than his previous lease; his nonprofit accumulates equity in its facility.

To expand access to additional families, Martinez argues, new types of space must be found in San Francisco. His top prospect: “wasted classroom space” maintained by the school district but remaining vacant. “Why doesn’t First 5 work with the school board to cooperate with [nonprofit] providers” to widen child-care and preschool options?

## Section B. What’s Working in San Francisco?

### Public Finance and Community Development

San Francisco has levied taxes and fees to support ECE programs for nearly three decades. In 1991, local voters approved creation of the Children’s Fund, financed via a portion of property taxes each year. Voters then passed in 2004 the Public Education Enrichment Fund (PEEF), sending one third of these revenues to provide “universal preschool” for all 4-year-olds in the city. In addition, revenues from the city’s general fund and developer fees (at about \$1.20 per square foot of construction) top-up the Children’s Fund.<sup>51</sup>

Public support for early childhood programs continued into 2016, when nearly three quarters of the electorate voted to approve a 26-year extension of both PEEF and the Children’s Fund, ensuring that revenues grow in proportion to gains in the city’s discretionary budget. Then, a hotly contested measure in June 2018 barely passed (50.9% of the vote), surviving a court challenge from business interests. This measure put in place additional taxes for any firm that leases commercial or warehouse space—a levy that’s waived if the landlord provides space for a child-care or pre-kl facility.<sup>52</sup> This creative use of taxation incentivizes landlords and developers to cooperate with ECE providers to expand the count of slots for additional children.

Inspections and approvals at times feel endless through the eyes of ECE providers: Planning and building inspectors must issue permits and sign-offs on construction; Parks and Recreation is consulted for required outdoor spaces for children; the fire department must approve design of egress and regress pathways, along with sprinklers and fire doors; Community Care Licensing reviews plans to meet health and safety and quality standards set by the state.

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<sup>51</sup> San Francisco Unified School District produced a historical fact sheet prior to the November 2014 election. <http://www.sfusd.edu/en/assets/sfusd-staff/PEEF/PEEF/prop-c-factsheet.pdf>

<sup>52</sup> Corporate accountants in San Francisco advise clients on these tax measures. See, for example, <https://www.bpmcpa.com/News-Events/155401/San-Franciscos-New-Early-Care-and-Education-Commercial-Rents-Tax-Ordinance>.

Winning cooperation from these agencies and engaging them early in a project can dramatically lower costs and ease implementation. The Planning Department in San Francisco has devised a variety of innovations—for example, allowing the use of courtyards in new apartment buildings for child-care play spaces when a center is sited inside. Safe and clean public parks can be allowed to meet state child-care standards. Revision of the entire planning code has made it more friendly to ECE facilities, “making planning one of the easiest places to gain approval,” as planner Sheila Nickolopoulos told us.

Developers often contact OECE to explore opportunities for embedding new facilities in commercial or residential developments. This approach can advance “mixed use” on the first floor of new buildings, making the area more walkable and lively, as cafés, retail shops, and perhaps a preschool bring residents together in shared urban spaces. Several key actors told us that, while the community development framework offers a nice concept, few developers have worked with ECE providers to include centers or FCCs in new buildings, opting instead to pay the developer fee.

New construction, such as the Mission Kids center now under construction, will improve neighborhood aesthetics, going in next to a new condominium development. Property values will likely rise as well. But much work remains to collaborate with residential and commercial developers to include ECE facilities in their building designs. Each square foot of income-producing space yields such strong returns in San Francisco.

One emerging priority on the financing front is how to backstop and expand FCCs to serve additional infants and toddlers. Some formal centers may expand in this subsector, but reimbursement levels for low-income families may fail to cover the center’s actual costs. So, how to deploy these differing revenue streams to renovate or expand the licensed capacity of child-care homes has become a pressing issue. The OECE office does offer grants to about 220 FCCs that participate in the city’s quality network.

**Key role of financial intermediary.** A shift in mindset—seeing facilities support as different from operational dollars for ECE—remains key in San Francisco. Even large nonprofits running multiple centers typically hold little knowledge about financing or construction of new facilities. And expertise in each arena is necessary to design, permit, and construct a new facility. Significant renovations, with an eye toward serving additional children, depend upon feasible financing, sound design, and effective general contractors.

LIIF provides such expertise—a nonprofit financial institution, one with its heart behind ECE initiatives and the capacity to technically guide construction. Leading the monthly interagency facility meetings—under contract with and trust from the OECE office—LIIF organizes proposal

reviews, mentors local providers in the design phase, assembles necessary financing, and offers coaching on how to select and build with a construction manager.

The interagency committee oversees about 30 projects in the pipeline at any one time, says Dobson at OECE. These projects range from initial proposals from ECE providers to architectural designs. Dobson's office works with LIIF to track differing kinds of providers and neighborhoods that benefit from their grants and loans. FCCs may apply for emergency grants to fund repairs, or rough plans may come from a pre-k center serving middle-income families. There's the question of balance and equity, aiming to mount construction efforts that serve San Francisco's diverse communities, according to Dobson.

LIIF advises partner agencies, such as the city's housing and economic development shop, about how they might include new child-care or preschool facilities in mixed-income housing units or commercial developments (monitored by city planning office). Each agency may bring some capital to the table. Yet, without ECE facilities revenue and private lending, the range of new projects not be feasible. San Francisco General Hospital, for instance, plans to provide on-site child care but lacks the expertise and funding to implement. LIIF fosters necessary partnerships, then proceeds to test feasibility on financing and construction fronts.

One key dynamic is how banks aim to lower the risk of lending to child-care organizations. When LIIF seriously commits to a project, private lenders see this commitment as providing credibility and much less risk. In turn, LIIF smooths access to New Market Tax Credits and related incentives felt by banks. The steady stream of local revenues from taxes and fees provides hard cash within most financing packages, further reducing any one bank's exposure.

**Steady political support.** San Francisco enjoys a long history of activism related to child-care and family-friendly policies, going back to public support of preschools during the second world war. The state's early childhood programs for low-income households were championed from the 1960s forward by Bay Area legislators, including the forceful head of the state assembly, Willie Brown, who later served as mayor.

Local advocacy groups and parent associations have moved top city officials to back the string of tax measures that fuel the Children's Fund and PEEF dollars going to public schools and early childhood programs. Sizable shares of each revenue stream offer stable support for new or renovated ECE facilities. Leadership from county supervisor Norman Yee and others sustains efforts around developer fees and tax incentives for builders and landlords to work collaboratively with pre-k providers.

For-profit providers, such as Bright Horizons, also benefit from the public-private partnerships that the mayor's office and LIIF help to cement, provided the site serves a requisite count of low-to-moderate-income families. San Francisco aims to foster growth of both subsidized and fee-for-service programs, both centers and family child-care homes.



*Local leadership matters. A tribute to the late Ed Lee, one San Francisco mayor who supported the purchase of preschool facilities by nonprofits, appears in the hallway of the Mission Child Care Consortium.*

## Section C. Major Challenges in San Francisco— Expanding and Renovating Facilities

The high cost of property, whether to buy or lease, remains the most severe challenge in San Francisco. An equally daunting frontier is how to expand infant and toddler care. This also stems from high property values in many parts of the city, which discourage growth of FCCs that could potentially serve additional infants and toddlers. Moving forward, the following constraints and challenges persist in San Francisco.

### **Challenge 1: Finding Affordable Space, Fostering Ties With Public Schools**

Expanding ECE programs into vacant spaces requires refurbishing aging buildings or situating centers and FCCs in new developments. Brand-new structures could include public buildings (e.g., San Francisco General Hospital, mentioned earlier), or private commercial and high-density residential projects. These initiatives unfold within broader redevelopment efforts and evolving patterns of gentrification in certain parts of the city.

The Mission Kids Co-op exemplifies how vacant properties do come onto the market, even within a largely built-out environment like San Francisco. This strategy of relocating a center to a new site helps to ensure growth in the number of child slots, at least for preschool-age children. Vacant or redeveloping parts of the city offer similar opportunities to expand centers in new facilities. At the same time, several informants reported difficulty when trying to embed new centers or FCCs in larger developments, since builders see robust profit in every square foot of occupiable space. Whether the city's evolving taxes and fees yield sufficiently strong incentives for developers to consider ECE facilities is a question deserving further analysis.

Another strategy is to renovate or purchase existing ECE facilities with an eye toward expanding the count of child slots. The Mission Child Care Consortium accomplished this strategy over a 15-year period, as sketched earlier. This approach may require building-out a larger footprint to accommodate new classroom space. Some landlords will oppose expansion of existing facilities, given the opportunity cost of being unable to charge higher rents. Another option is to secure or install classroom space inside publicly held property.

Another option, suggested by some, is to identify vacant space held by the San Francisco Unified School District (SFUSD). The OECE office estimates that the district operates about half of all preschool slots in the city. The district's early education director, Meenoo Yashar, reports operating some 80 pre-k classrooms citywide, run on school campuses with support from the California State Preschool Program (CSPP). Many of these programs operate part of the day and close down in the summer. The district has steadily grown TK and Expanded TK classrooms that serve 4-year-olds and financed through K-12 funding from the state.

SFUSD has also expanded options for parents of children with special needs, currently operating 14 classrooms for this population. The district decided not to pursue state facilities funding, recently made available for disabled preschoolers, given modest funding levels and the short submission deadline set by the state, according to Yashar.

The other constraint facing SFUSD in trying to expand pre-k slots: a shortage of qualified teachers in the Bay Area. Yashar reports that it remains difficult to fill even classroom aide positions in their CSPP-funded program, in part given low wages. TK and ETK programs, on the other hand, follow the salary schedules for public school teachers and staff. Earlier school-bond revenues contribute to classroom renovations.

Greater cooperation between the nonprofit sector and district officials might lead to stronger utilization of vacant classroom space (where it's available on school sites). We will see below how such collaboration has proven fruitful in San Diego County. This is one arena in which municipal leadership in San Francisco could foster mediate closer ties between CBO leadership and district officials.

## **Challenge 2: Scarcity of Infant and Toddler Care**

How to widen access for young children, 0 to 2 years-of-age, remains challenging as well. Less than one fifth of all infants and toddlers benefit from care by a licensed provider (FCC or center) in San Francisco, as detailed in an earlier analysis.<sup>53</sup> This enrollment rate equals just above 30% for low-income families who qualify for infant-toddler subsidies.

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<sup>53</sup> Manship et al. (2018).

Nearly three fifths of all calls for child-care pertain to children 2 years of age or younger, as reported by the city’s resource and referral agency. The count of licensed slots did grow incrementally from about 6,500 to 7,000 between 2014 and 2017.<sup>54</sup> OECE actively networks family child-care homes around the city, along with funding quality improvements via small facilities grants. As property values continue to climb, many observers worry that the supply of FCCs will level off or decline, as seen in other counties in recent years.

The cost of center-based programs for infants and toddlers remains quite high, given rich staffing ratios and quality standards maintained by the state. Recent gains in reimbursement rates may guard against further decline in infant-toddler centers (another empirical gap in knowledge). FCCs remain a key piece of the puzzle in how the city might better serve families with infants or toddlers.

### **Challenge 3: Stretching It Thin—Financial Expertise and Private Capital**

The pace of ECE construction remains modest in San Francisco, even with the city’s local revenues and robust governance mechanism. Additional capital would help, both from public revenues and private lending. But the logistics of gaining cooperation from developers requires labor-intensive organizing, along with sufficient economic incentives. Carving out ECE spaces in new buildings—both residential and commercial—would greatly aid families. The city has mandated this kind of development in the South of Market (SOMA) area. Yet, doing this through regulation could add to costs faced by developers, further escalating the price of real estate. On the other hand, large corporations may prefer to house ECE facilities at worksites, given the labor shortage faced by dot-com and city-centered firms.

The lowest hanging fruit may be vacant classroom space in aging public schools, along with space in publicly owned buildings. An inventory of such available property would be a useful next step. San Diego Unified leases excess classrooms to nonprofit providers. Vista Unified provides free pre-k classrooms, which are then operated by a well-known nonprofit provider, as detailed below. The newly available funding for construction by nonprofits and school districts may help to accelerate design and construction.

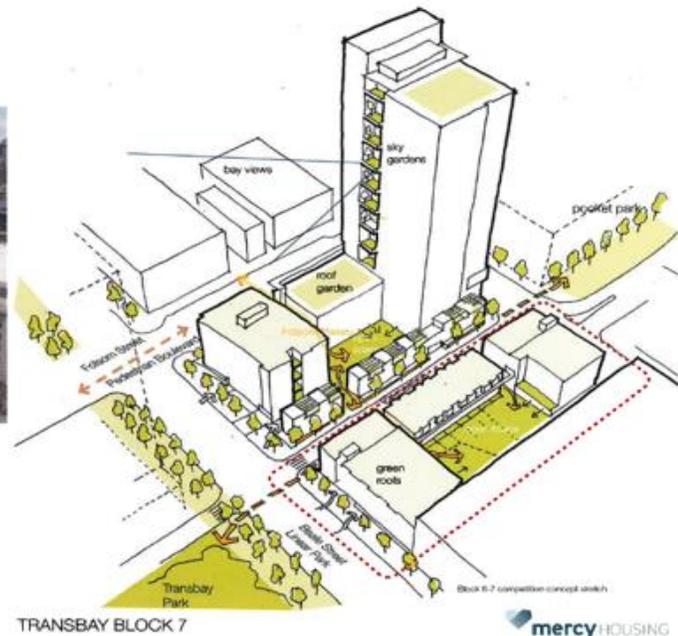
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<sup>54</sup> Data reported by the Child Care Resource and Referral Network. <https://rrnetwork.org/assets/general-files/San-Francisco06-18.pdf>

SCHEMATIC DESIGN UPDATE 18 August 2015  
Transbay Block 7



Construction under way on Block 6; Block 7 to the right.



James Prescott and Associates

*South of Market pre-k center built for low and moderate income families, co-financed by the Low Income Investment Fund*

At the same time, expanded staffing may be required even in counties like San Francisco — inside municipal agencies and via a financial intermediary—to prepare additional projects for an already ambitious pipeline. State grant dollars from Sacramento may sweeten financial packages and lower risks faced by private lenders. But coordination among municipal agencies may require a strong locus of authority.

#### **Challenge 4: Findings Teachers — Synchronizing With Operating Demands**

New state funding will support additional child slots in coming years, which could aid San Francisco’s efforts to serve more infants and toddlers—that is, if qualified teachers and caregivers can be found. The shortage of staff persists in the context of a wider K–12 teacher shortage. Clicking on “Preschool Teacher” inside online sites, one sees more than 200 openings for leads and classroom aides in the immediate Bay Area. The worry is that new infant-toddler or preschool spaces are built, only to go unfilled because new teachers cannot be found.

Debate continues over the extent to which recent gains in reimbursement rates, set in Sacramento, will ease the teacher shortage. State spending on early care and education will equal about \$4.3 billion statewide in 2019-20 (excluding Transitional Kindergarten, another \$1 billion). These augmentations have included higher reimbursement rates.<sup>55</sup> San Francisco has been able to incrementally grow more center slots since 2014, despite labor scarcities, according to resource

55 Shelton, G., Hajela, A., & Fuller, B. (2019). *Financing early care and education in California: Revenue options*. Berkeley, CA: University of California, Graduate School of Education, Early Childhood Think Tank.

and referral data. Little is known about how providers utilize reimbursement gains. The assumption is that salaries rise as growing payments arrive.

SFUSD has assertively expanded TK at many elementary schools. The liberalization of Expanded TK by state lawmakers may pull additional 4-year-olds into San Francisco classrooms. This will help buoy teacher salaries as district employees. But the spread of TK also thins out child-staff ratios for 4-year-olds. Collaboration with nonprofit providers could enrich staffing and improve the quality of TK classrooms with braided funding. Meanwhile, nonprofit providers could expand infant-toddler and preschool slots at comparatively low cost.

We heard a list of bureaucratic chores that nonprofits must accomplish to maintain their operational funding from the state. This is a broader conversation than just facilities, and one heard in the other counties that we visited. But time-consuming demands from contract monitors in Sacramento cut into staff time and revenues locally, resources that might be better used improve facilities and attract new families.

The burden of annual proposal submissions, for instance, is often reported by established providers with decades of history with the CDE. Post-recession restrictions on the use of cash reserves limit funding available for minor renovations, which could help expand the count of child slots. Providing new funding for full-day programs and easing the interweaving of multiple funding sources are welcome changes in Sacramento, potentially freeing-up resources that might be used on deferred maintenance and modest renovations.

## SAN DIEGO COUNTY

### Section A. County Landscape

#### Children and Families—Demographic Trends

Data on demographic trends and family demand for early childhood options are regularly updated by ECE leaders in San Diego County. The region continues to expand overall, totaling 3.3 million residents in 2016, as population growth equals 1.5% annually.<sup>56</sup> At the same time, the count of young children is projected to decline in the coming decade.

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<sup>56</sup> Population and child-care provider data are compiled by San Diego County resource and referral agencies and reported by the California Child Care Resource and Referral Network, 2017 Child Care Portfolio, San Francisco. <https://rrnetwork.org/research/child-care-portfolio>

The county hosted about 223,000 children, 0 to 4 years-of-age, in 2016, likely declining to 188,000 children by 2026.<sup>57</sup> The county labor force has been growing faster than the total population, suggesting that child populations may shrink at a lower rate than currently projected. Fertility rates continue to decline among Latina mothers, similar to statewide trends.

Household income is skewed toward better-off families in San Diego County. Nearly two fifths (37%) of all families earned over \$100,000 in 2016. In contrast, the same proportion earned less than \$50,000 yearly. (California's median income equaled \$71,000 that year.<sup>58</sup>) The mean income of families served by the state preschool program (CSPP) equaled \$27,036 in 2016. Just under one fifth of all children, 0–5 years-of-age, were being raised in poverty in 2016, equaling 40,566 children. The total count of children enrolled in subsidized ECE slots was 23,017, which includes an unknown number of children in homes above the poverty line.

### **Organizational Landscape—ECE Providers and Unmet Demand**

The county hosted 4,534 center-based slots for children under age 2 and 52,196 slots for children ages 2–5 in 2016, whether financed by parents or government. These counts represent enrollment rates of just 5% and 28% of children in the respective age groups. Another 32,914 licensed slots operated in FCCs, although a portion of these slots went to school-age children.

These dimensions of supply mirror levels of unmet demand in certain subsectors. Two fifths of child-care requests coming into resource and referral agencies, for example, are for infants and toddlers, children under 3 years-of-age. Just over two fifths (42%) of parental requests relate to care for children, ages 2–5. The remaining one-fifth of requests is for after-school care.

More than 80% of all parent requests are for full-time care arrangements, rather than for part-day slots. About one in six parents is seeking care for nontraditional or unpredictable work hours. Two-fifths of all parents contacting a resource and referral agency in San Diego County speak a language other than English.

**Rents and property values.** The purchase or rental of commercial property is significantly more expensive in San Diego, relative to statewide averages. Many ECE providers lease space from commercial property owners or school districts. And the supply of family child-care (FCC) providers may be sensitive to home prices. We heard in San Diego that some FCC providers are selling their homes for strong capital gains, then leaving the field. We have much to learn about how FCC providers in single-family dwellings view these property options and the extent to which the recent loss of providers is sensitive to gains in the real estate market.

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<sup>57</sup> California Department of Finance demographic projections, accessed July 2019.  
<http://www.dof.ca.gov/Forecasting/Demographics/Projections/>

<sup>58</sup> Income and cost-of-living data appear in County Office of Education (2018). *A study of San Diego County local child care needs and barriers*, San Diego.

The current (2019) median home value in San Diego equals \$632,000, rising 2.3% over the past year, according to Zillow. Median rents for residential property are currently pegged at \$2,700 monthly in the City of San Diego, along with the greater San Diego-Carlsbad metro area.<sup>59</sup> Prices for commercial property continue to rise -- climbing more than 5% over the past year. One analyst estimates an average cost of \$15 to \$60 per square foot for office space in the City of San Diego, with lower prices in North County and even less in low-income parts of Chula Vista and City Heights.<sup>60</sup>

### **School Enrollment Trends and District Facilities**

Public school enrollment will likely decline in the coming decade as fertility rates fall and older adults comprise a rising share of the county's population. Total K–12 enrollment is projected to fall from 508,000 students in the 2018–19 school year to 496,000 in 2026–27. This reduction likely will free up classroom space.

We visited one YMCA center that operates on a school site maintained by the San Diego Unified School District, offering infant-toddler care. Another nonprofit, Educational Enrichment Systems, Inc. (EES), offers several part and full-day preschool programs on multiple sites of the Vista Unified School District, located in the North County region. As various districts -- experiencing declining enrollment and unoccupied classrooms -- advocates for charter schools have been requesting space as well.

### **Recent Progress on ECE Facilities**

The count of center slots for infants and toddlers did grow by about 7% between 2014 and 2016 in San Diego County, according to the resource-and-referral data. Yet, the number of slots for preschool-age children declined slightly. We did hear of several facility projects undertaken in recent years. A portion of these renovated classroom space inside K–12 facilities in order to upgrade the facility or serve additional children.

The county First 5 office, going back over a decade, helped to co-finance facilities expansion or renovation through several major projects. This included refurbishing three classrooms for the San Ysidro School District, leading to effective braiding of CSPP and Head Start funding for preschool-age children. First 5 also helped finance two pre-k centers in cooperation with the

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<sup>59</sup> For details on prices of commercial and residential property, see <http://www.noradarealestate.com/blog/san-diego-real-estate-market/>.

<sup>60</sup> Different commercial property agents post prices of properties of varying quality and location. <https://www.cityfeet.com/cont/san-diego-ca/commercial-real-estate-for-lease?l=3-23508>

U.S. Navy. Entirely new centers were constructed in Murphy Canyon, five miles north of downtown, and near the Coronado-Naval Air Station. This pair of centers, completed four years ago, was spurred by the Navy-San Diego School Readiness Coalition, pushing to enhance the school readiness of military children, 0-5 years of age. Together, these centers host 286 child slots for full-day care, largely for Navy-affiliated families. This offers a promising model for collaborating with the Navy on pre-k construction, serving a mix of military and civilian families. The Navy continues to report a waiting list of some 3,000 children of active personnel in the San Diego region. It will issue a request-for-proposals this spring to encourage collaboration with school districts and community providers.



*Design of Hilltop Pre-K in Chula Vista, San Diego, built by Child Development Associates*

Another notable effort comes from the South Bay Union School District, stemming from voter approval in 2018 of \$18 million in revenue bonds (winning a 68% majority) to expand preschool and Transitional Kindergarten offerings. This financing will be supplemented by a \$1 million loan from CDE's earlier lending program. South Bay Union serves more than 600 preschool-age children across three centers.

With K–12 enrollments in decline, this district sees ECE as a potential area of growth. South Bay Union, like other districts, currently relies heavily on portable classrooms to house early childhood programs, situated on school sites. The district broke ground this past July to rebuild its 27-year-old Village Preschool facility—inventively housed on property shared with a charter school and located in Imperial Beach.

Child Development Associates (CDA), a long established community-based provider, finished construction of a new preschool alongside an elementary school. Built six years ago, the pre-k campus currently serves 3 and 4-year-old children. Securing a loan from CDE in 2013, CDA president Rick Richardson collaborated with the Chula Vista school district in designing the project. This held two advantages: district officials had ties to architects and general contractors, and Richardson's construction proposal went to the Office of Public School Construction for review in Sacramento, rather than moving through municipal permitting agencies. Richardson emphasized that CDA's strategy relied not simply on obtaining necessary

funding -- steady involvement of community members helped in crafting the center's design, while volunteers aided in the construction and upkeep of the new facility.

Educational Enrichment Systems (EES) – an equally respected nonprofit provider – has been renovating classrooms within Vista Unified in recent years, opening pre-k program across 11 elementary campuses. This cooperative effort puts private dollars on the table, contributed by local philanthropies, along with capital from CDE's loan program. Voters in the North County region also approved \$247 million in facility bonds for Vista Unified in 2018. This funding will upgrade classrooms across the district over several years, including kindergarten blocks and enhanced elementary facilities.

Construction of a new preschool center inside a Chula Vista shopping mall offers another inventive effort. Kids on the Go, a local nonprofit, is expanding out to the growing count of military families moving southeast of downtown San Diego. This provider serves subsidized and fee-paying families. Lynn Twork, executive director, took out a second mortgage on her own home as collateral for a commercial loan. This case may be instructive for the state: a well-established provider with a long waiting list in a growing community. And a situation where commercial lenders show interest in co-financing new construction.

For-profit firms spearhead other inventive facilities projects. Children's Paradise, also centered in North County, combines private capital with public incentives to build facilities in low-income areas. This expanding firm obtains loans in private capital markets, while exploring incentives tied to empowerment zones in the North County area. Children's Paradise has also drawn on state preschool start-up dollars and small-business loans to finance new classrooms, creating over 600 child slots in the past four years.

This provider works with banks—that must meet Community Reinvestment targets—to locate sites in economically depressed areas of the county. At another new site, Children's Paradise collaborated with a local church to renovate classroom space, again serving additional children. The CEO of Children's Paradise, Julie Lowen, reports successful negotiations with shopping center developers to co-finance renovations, yielding attractive preschool centers that attract families and customers to commercial developments.

## Summary

The county faces high levels of demand for center-based care among families with children, 3 to 4 years-of-age. About two fifths of these families have no access to licensed programs, including family child care. Shortages of providers are more severe for infants and toddlers. At the same time, excess classroom space will continue to expand in public schools, as child populations shrink. Several organizations have been able to finance and build new facilities or

renovate classroom space in school districts. We return below to how technical know-how regarding pre-k construction remains scarce outside local education agencies.



*Site excavated by Educational Enrichment Systems Inc. in San Diego, making way for the new Jacobs child development center*

## Section B. What's Working in San Diego?

### **Sporadic Finance, Interest in Community Development**

Taking into account the community context has proven key in assembling necessary financing and partnering with others to construct ECE facilities. We have mentioned occasional financing by First 5, private philanthropy, the Navy, along with CDE's earlier loan fund. First 5 also has awarded small grants to FCCs to modestly upgrade facilities.

Another financing strategy relies on raising capital privately to expand or renovate facilities. The for-profit provider, Children's Paradise, has been able to borrow from banks to build new centers. This firm is guided by one co-owner who is a civil engineer, helping to speed design steps and municipal permitting. New sites may be financed under favorable lending terms if located in economic development zones where private banks can meet their federal requirement to invest in these urban areas.

Julie Lowen, executive director, emphasizes that facilities investments can be situated in a wider community development strategy. This approach is shared by commercial banks, encouraged through federal incentives, that offer favorable loan terms for organizations that lift low-income neighborhoods. This ECE firm's high credit rating further reduces risk for banks and lending costs. A new center, built in partnership with a commercial developer in Oceanside, will open 64 new infant-toddler and 120 preschool slots next year.

Kids on the Go also spotlights the role of private lenders. Lynn Twork, introduced above, started as licensed family child-care (FCC) provider. She then opened a small, two classroom center about five ago in Chula Vista. Pent-up demand for ECE options continues to grow as young military families move into this growing community, filled with apartments and modest homes southeast of downtown.

Kids on the Go is about to open a large, 11,000 square-foot center built into a shopping mall, one that sports the typical variety of “anchor stores”. Still, consumer demand has flagged in recent years, allowing Twork to negotiate affordable terms to expand and began construction last year, knocking out walls that once separated three retail stores. She faces competition from a nearby for-profit provider, but argues that “we are really connected to the community.” She raised her own kids within a military family and understands the challenges these parents face.

The existing Kids on the Go center serves both subsidized and fee-paying parents and offers full-day, year-round care for Preschool and school-age children. Some parents receive alternative payments (vouchers) to pay for care. This alternative payment includes vouchers distributed to military families through Child Care Aware. Otherwise, she has saved revenue and qualified for private equity loans to pay for the new center. Twork benefits from modest donations of neighboring firms, including support for a new playground on a grassy area next to the shopping mall.

Given Twork’s proud history in the community, she benefits from strong political support. Chula Vista’s mayor helped in pushing through required permits; the local fire department sponsors her annual Easter egg hunt. Overall, Kids on the Go is seen by municipal leaders as providing a pivotal service for Chula Vista families. And Twork’s pre-k facilities are inventively folded into this city’s wider commercial growth.

In summary, public investment in ECE facilities has occurred in San Diego County over the past decade, although funding has been episodic, resulting in modest growth of new child slots. First 5 has made occasional forays, resulting in the construction of new or renovated centers. The CDE loan fund has helped with public capital from Sacramento. And a few school districts have pushed local school bonds to help renovate kindergarten or pre-k facilities. The South Bay district remains a key model, as these educators push to expand the number of preschool seats.



*Director Lynn Twork of Kids on the Go, inside her new, emerging 11,000-square-foot preschool center, Chula Vista, May 2019*

**Leadership in collaboration with school districts.** San Diego County hosts 42 separate districts. The commitment of each to early-childhood programs, along with their financial capacity, varies among these districts. San Diego Unified has pared back support of ECE programs, worried that low reimbursement rates fail to true operating costs. This district has, however, rented space to nonprofits that operate infant-toddler or preschool centers, including programs operated by the YMCA. Some providers express concern that San Diego Unified aims to gain revenue through leasing agreements, while no longer assuming leadership in the field.

Leaders of the Vista school district, situated in North County, have formed a fruitful collaboration with Educational Enrichment Systems, as introduced above. EES pays for the cost of renovating vacant classrooms to serve additional preschoolers. Voters in Vista approved a \$247 million bond issue in November 2018 that provides bond revenues to renovate K–12 facilities districtwide. This includes overall campus improvements, TK and conventional kindergarten classrooms.

Vista Unified shares a fraction of capital costs when facilities are upgraded by EES, redoing parking lots, adding drop-off lanes, and improving campus esthetics. The renovation of classrooms at each school—creating the necessary indoor space, bathrooms, pathways, and furniture—is financed by EES, costing up to \$130,000 per site. District staff advise parents on their preschool options. Parents reportedly prefer full-day and year-round programs (8 to 10 hours daily), requiring schools to be open beyond the normal schedule.

But Vista Unified does not operate the growing preschool program unfolding on its campuses. That’s done by EES, working alongside the district’s early education and facilities staff. The nonprofit raises the financing, pulls in architects, and oversees the renovation of classrooms. Overall, EES has built a strong track record in constructing new facilities, along with packaging state loan and grant dollars with private contributions.

This nonprofit, under CEO Robin Layton, had earlier built a large center adjacent to the University of San Diego. This land was leased from the city. EES then raised the necessary financing. This included revenue from private donations and funds borrowed from a bank, a loan initially guaranteed by the Packard Foundation. This latter piece offered one inventive use of capital accumulated by one large foundation. The loan, after several years, was then fully assumed by the original lender.

Beyond a heartfelt commitment to early learning programming, what incentives do Vista Unified officials report that spur their collaboration with EES? One early education leader emphasized that the district “wants to establish relationships as early as possible,” and expanding pre-k is one key strategy. District staff added that there is a deliberate push to

expand opportunities for early childhood learning, leveraging excess classroom space in an effort to close children’s learning gaps before they appear.

EES leaders also emphasize that collaborating with a school district avoids lengthy municipal permitting. Since campus renovations are submitted to Sacramento (Office of Public School Construction), EES can focus on design issues with their architect, then Vista Unified gains approval for agreed upon construction plans.

Not everyone will agree that school districts are well positioned to foster broader community development. Yet the Vista Unified case demonstrates how partnerships with nonprofits can advance the district’s position in its community. Families are eager to find affordable child-care and preschool options. Public schools hold credibility among varying neighborhoods. And by collaborating with EES, district leaders can respond to parental demand while minimizing costs, working with a nonprofit to provide quality programs.

**Key role of intermediary organizations.** Two kinds of intermediary actors have bridged the gap between pre-k providers and the worlds of finance and construction. First, formal institutions—such as the U.S. Navy—may oversee the design and construction of new centers. In San Diego, the two recently built centers were sited on Navy property, minimizing city inspections and permitting. The military licenses and regulates its own centers -- meeting very high quality standards.

Second, entrepreneurial ECE leaders search out and find the necessary architect, civil engineer, and construction manager to implement renovations or new construction. The leaders of EES and Children’s Paradise, for instance, deployed their networks of expertise. We saw, however, no evidence that smaller ECE providers can access key players or manage construction activities in the absence of focused technical assistance.

LISC San Diego is one respected financial intermediary in southern California, assembling more than \$230 million grant and loan capital over the past three decades. LISC leaders focus on low-income neighborhoods in San Diego, placing public services in a wider community development strategy. It’s the nation’s single largest financial intermediary, deploying \$60 million for ECE facilities in recent years. LISC runs a statewide early learning facility program in Rhode Island, one that could inform California’s use of financial intermediaries.

**Political leadership and local revenues.** Civic leadership on early childhood issues has been rather episodic in recent years. San Diego Unified steadily cut back its programs and staff in the sector. Only recently have municipal leaders begun to highlight challenges facing young families. Key staff at San Diego’s huge naval base have been vocal in urging city and nonprofit leaders to do more, to expand child seats out to military families.

Over the past year, the San Diego city council has hired a child-care director, aiming to integrate ECE programs into urban development efforts. City council members Chris Ward and Chris Cate, who recently became fathers, have pressed community development officials to fold in new facilities that would serve city employees and other families downtown. Aging urban blocks will see major renovation, and council members are seeking ways to include new pre-k facilities.<sup>61</sup>

Whether political leadership will emerge at the county level remains to be seen. The Local Planning Council coordinator is housed with the County Office of Education, which offers helpful analytic support. This one-person shop does not hold expertise in facilities design, finance, or construction. Yet, the county office does track facilities development—along with expansion of child slots—that occurs inside school districts. Dezerie Martinez, the county coordinator, tracks collaborations between districts and nonprofits that run ECE programs.

Leadership can arise from local educators. The campaigns by Vista Unified and South Bay Union to gain voter approval of construction bonds are two recent cases. Still, we discovered no jurisdiction that dedicated local tax revenues or developer fees to the early-childhood sector, as seen in Contra Costa and San Francisco counties. The Preschool Development Grant over the past year has funded a variety of activities, including specific identification of county-level needs and opportunities for leveraging funds across public and private sectors.

### Section C. Major Challenges—Expanding and Renovating Facilities

Promising construction projects that expand child slots have been completed in recent years. New renovation activities are underway, at times uniting nonprofits with school districts. But these success stories remain small in number, typically dependent on private donors, and they surface with irregularity. The arrival of new state funding for ECE facilities may help focus county leaders and incentivize the blending of public and private capital.

Still, we observed three major challenges, even when new construction activities move forward. These hurdles include (1) finding and financing affordable space; (2) assembling a strong management team; and (3) synchronizing construction with new operational costs, especially given the state’s emphasis on expanding child slots. Leaping high to clear these hurdles requires new and trusting partnerships. We did discover in San Diego a few nonprofits and school leaders with the agility to build ties with banks, designers, and contractors.

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<sup>61</sup> Council member Cate said recently that new expertise is required inside city government to increase “the supply [of childcare facilities], [and] offer policy recommendations to the city... to help address the shortage that we have.” And he urged that the new staff lead be situated in the economic development office. <https://www.kpbs.org/news/2019/jun/06/san-diego-considers-hiring-city-childcare-coordina/>

## Challenge 1: Finding Space, Financing, and Collaborative Partners

The first challenge deals with finding land or commercial property that's affordable and fits the requirements for building a pre-k center. Again, this challenge can be eased by collaborating with a school district—renovating vacant classrooms and avoiding municipal permitting. One ECE leader reported considerable underutilized space in public buildings and churches, which could be usefully detailed as new facilities dollars become available.

But most nonprofit ECE providers must either go it alone or work through a financial intermediary to assemble the financing, locate an architect (familiar with state licensing requirements), gain necessary permits, and manage a general contractor. Once financing pieces are in place, the next task is to locate a suitable and affordable space for a new center or perhaps build-out from a current location.

Partnerships, financing, and construction options are intertwined. Kids on the Go, situated in the Chula Vista mall, discovered a landlord who was eager to blast out walls and lower square-footage costs for a long-term lease with this pre-k provider. The City of Los Angeles is currently taking inventory of available facilities, which may result in lowering the cost of acquiring or leasing space for preschool expansion. These strategies may help ECE providers cushion the market price tied to office space or new parcels of land.

That said, a handful of providers have gone into the open market to lease or construct additional facilities. True market prices, of course, can be expensive in built-out urban areas.<sup>62</sup> The purchase of office space, convertible to a preschool facility, can easily cost more than \$2 million in working or middle-class areas of San Diego County. Leasing commercial space, then negotiating renovations with the landlord, may be more feasible, depending on financing.

Exploring these differing options requires specialized expertise: real estate agents who understand differing locations and prices; architects who can weigh the adequacy of differing property footprints and advise on permitting; contractors who can compare the cost of developing differing parcels or renovating commercial property.

Then comes the challenge of pinning down sufficient financing. This is a complicated exercise, even for an experienced ECE provider or school district. This is why financial intermediaries play such a pivotal role in San Francisco and several cities around the nation, drawing on design and finance services of LISC, LIIF, or similar bank-like nonprofits.

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<sup>62</sup> Varying real estate websites offer a glimpse of the variety of land parcels and commercial property that may be appropriated for new construction or renovations of Preschool centers. See, for example, <https://www.loopnet.com/for-sale/office-buildings/2/?sk=3e9e0c09000af40b388ecf864599f5c5>.

Moving forward, CDE could distribute grants for new facilities or renovation projects, then leave design and construction management to each provider. After our discussions in San Diego, however, three concerns arise with simply mimicking this award process that's habitually used by CDE in distributing state preschool grants to contractors.

First, we found few providers in San Diego who hold the necessary expertise to implement a construction project, unless collaborating closely with a school district. Second, simply distributing grants would forgo the chance to leverage private capital with the state's new grant funds. San Francisco has shown how uniting ECE providers with a financial intermediary can attract private capital. Third, without careful targeting of facilities dollars to regions of California that face a shortage of ECE options, the state could inadvertently reinforce disparities in access for families among counties.

Overall, the challenge is how to find the necessary expertise to assemble financing and locate appropriate sites or scope out feasible renovation projects. The state's priority is to serve more children and families. At the same time, older facilities need renovation. A few providers in San Diego have a track record and the capacity to do this. But a larger network of ECE organizations would require intense and sustained assistance from an intermediary.

## **Challenge 2: Who Manages Construction Projects? Getting to "Shovel-Ready"**

A portion of new construction in San Diego is managed by construction experts situated inside, or contracted by, school districts. This includes the reconstruction of an existing preschool center at South Bay Union, along with EES's ambitious renovation of vacant classrooms in collaboration with Vista Unified. But ECE providers who go it alone must devise ways to manage the series of necessary steps: assembling financing, locating a feasible site, working with a designer or architect familiar with licensing requirements, gaining permits from municipal agencies and Community Care Licensing, and synchronizing with a general contractor to get the project shovel-ready. And that's all before breaking ground.

Children's Paradise, discussed earlier, draws on the knowledge of a civil engineer who is familiar with municipal permitting details. Another example, leaders of Educational Enrichment Systems have worked with the same architectural firm over the years, one that's familiar with city and child-care regulations. One FCC provider obtained a small loan from her brother, then found a contractor to upgrade backyard play structures and a picnic gazebo.

New state funding might build from this local capacity and informal networks of expertise to expand facilities, necessary for raising enrollment rates countywide. Still, an ambitious construction program, funded with state dollars, will require intense technical assistance to bring other ECE providers up to speed. We saw in San Francisco how this approach can work

with a wider set of pre-k centers or FCC providers, but it may require two years of working collaboratively with an intermediary to devise a new project before breaking ground. In San Francisco, LIIF serves as dispatcher to ensure that finance, design, and execution of construction remain in sync.

### **Challenge 3: Synchrony with Operating Budgets, Finding Additional Teachers**

One clear message rang out in San Diego during our visits: Even if we built new centers, we may not be able to find new teachers, ECE leaders kept repeating. The shortage of well-qualified teachers—even substitutes—has become a major stumbling block in efforts to expand slots, according to the Local Planning Council.

Planning Council coordinator, Dezerie Martinez, described how private agencies now broker deployment of substitute teachers for K–12 schools and preschools. But when providers call to get a substitute teacher, even one with simply a child-development permit, there is often no one available to fill-in. When an insufficient number of teachers and aides arrives to work, the program must operate out of compliance with licensing rules or shut down.



*A new backyard gazebo for art projects, meals, and children's play at a San Diego licensed family child-care provider.*

The expansion of Transitional Kindergarten and Expanded TK for younger 4-year-olds offer parents new options, yet perhaps exacerbating the teacher shortage. As the state legislature eases the interweaving of CSPP and school district dollars, this may improve salaries paid to pre-k teachers. In turn, stronger teachers may be attracted to the field. Yet, how state policy makers weave together credentialing requirements, funding of TK programs, and reimbursement rates will combine to ease or worsen the shortage of classroom staff. This may condition the extent to which pre-k providers feel confident that new child slots – when built – will be financed on the operating side over time.

We also heard concern over how local providers must spend days rebidding for existing or new funding each year. How does this process relate to facilities? The opportunity cost, through the eyes of San Diego providers, is that staff time spent negotiating Sacramento's maze takes away from serving new families and renovating aging facilities. Then, since providers are unable to

expand enrollments, money must be returned to the state. A related issue stems from the recession era, when the state reduced ECE providers' ability to maintain cash reserves and constrained allowed uses of these funds. These limitations may further restrict providers' ability to upgrade facilities, attract additional families, and expand county enrollment rates, as reported by San Diego providers.

Moving forward, we may need to rethink how Sacramento distributes child-care and preschool funding to local providers. Funding for K–12 schools stems from yearly enrollment counts, taken at two points during each year. This includes funding for TK programs: this billion-dollar-a-year effort is financed outside CDE's cumbersome procurement process. Once a small and centralized program, CSPP has also grown to become a billion-dollar effort, supporting thousands of local contractors, while meticulously regulated from Sacramento. This structure may work against building a robust and agile nonprofit sector—a network of organizations that gain financial equity and the capacity to expand their facilities. A half-century-old regulatory structure may work against nimbly growing to serve additional families.

## MAJOR LESSONS AND RECOMMENDATIONS

We have reported on lessons learned by local stakeholders, gleaned from our field work. We also flagged implications for state policy makers and program managers who will soon begin distributing facilities dollars. The executive summary appearing at the top of this report distilled key suggestions for proceeding with careful implementation. We close by spotlighting key next steps for state and local stakeholders, prompted by our research in the four counties.

### 1. Get local projects underway and build momentum statewide

In 2019, California's governor and legislature invested more resources in early care and education facilities than at any time since World War II. The state's initial investment this year—one-time funding for ECE facilities in the community-based sector and kindergarten expansion in public schools—includes over \$700 million in new support. Additional long-term facilities support will arrive if voters approve the school bond initiative slated for the March 2020 statewide ballot.

The success of these efforts may rest on gaining momentum with implementation and demonstrating vivid success in building pre-k spaces for additional children. Lawmakers will certainly face competing spending priorities. A possible recession could slow progress. The mechanical steps required to distribute the facilities dollars—involving cooperation among at least four state bureaucracies—will take time as well.

One strategy is to quickly support “shovel ready” projects, new construction and renovation efforts designed and ready to go. This could help ensure early success in building-out seats for new preschoolers and their families. The state, of course, must execute a fair and competitive process for distributing dollars long-term. At the same time, focusing on projects that are already planned for, and could be initiated with due speed, would ensure that sound and quality construction efforts are soon underway.

Both the legislature and the Newsom administration support the idea of a financial intermediary, possibly more than one, either centrally or locally positioned. Our findings suggest that such intermediaries would contribute to (1) quick reviewing project designs and moving toward shovel-ready status, (2) identifying areas of the state where preschool supply is most scarce, and (3) providing varying levels of technical assistance to build local capacity in targeted counties where ECE supply is particularly scarce.

We emphasize this tension within the state’s fledgling infrastructure effort. Established providers in urban areas hold strong experience and exhibit eagerness to build or renovate facilities. But the counties with the greatest scarcities of child care and pre-k host providers with the least experience in designing and building facilities. While the first group can move expeditiously, the second group will require intensive capacity building. So, the state may consider a two-fold approach – investing in projects that have the capacity to expand access quickly, while building organizational know-how in high-scarcity areas.

## **2. Incentivize collaboration among municipalities, schools, and the nonprofit sector**

The incremental expansion of pre-k options currently occurs in *public schools* (e.g., Transitional Kindergarten, many State Preschool programs) and in the *nonprofit* or *for-profit* sectors. Discouragingly, we heard much about competition between among these pre-k sectors. Many school districts hold onto excess classroom space, which could be equipped for preschool or infant-toddler programs. This, despite stories of mutually beneficial cooperation between community-based providers and school districts, such as Vista Unified in San Diego County.

Other innovative districts contract with nonprofit organizations to run their State Preschool programs. San Diego Unified leases out classrooms to community providers at very low cost. This past budget season in Sacramento, Assembly leaders urged that dollars for new kindergarten facilities go to districts that cooperate with nonprofits in renovating classrooms to serve infants, toddlers, and pre-k children. Such incentives could foster greater cooperation.

We also reported on how cooperation between municipal agencies and preschool providers yields big dividends. San Francisco offers a useful, where city planning, fire officials, and Community Care Licensing meet monthly to review construction proposals and track implementation of construction project. Political leadership from the mayor's office is key, ensuring that these agencies pursue a common cause.

A mindset that accents community-wide development can pay off as well. Cities may work to embed new child-care facilities in commercial and residential developments—especially as state and local officials work to ease California's housing shortage. One example is seen in San Diego, where interested council members currently frame ECE facilities within a broader urban redevelopment effort. A state requirement for cities to include child care in their municipal plans might spur more activity of this sort, especially if accompanied by needs assessments for child care, both for new developments and existing neighborhoods.

The state might commission a study of regulatory hurdles that have little to do with child safety, while slowing design and construction schedules. Recent legislation that prohibits municipalities from considering large FCCs as businesses, which had necessitated costly permitting, offers a refreshing step forward. Quicker and coordinated permitting in the design phase could speed construction downstream and the opening of new slots for families.

### **3. Synchronize and simplify the distribution of new operational dollars**

We heard in all four counties the worry that new operational funding would not necessarily follow investment in facilities. There's also the uncertainty of finding additional teachers to staff newly built classrooms. This argues for greater synchrony between how CDE funds operational programs and, soon, new facility projects. Funding for additional Title 5 slots could be coordinated or assured for providers that invest in expanding their facilities.

Many local leaders welcome the shift toward funding for full-day or full-year programs. Recent increases in the reimbursement rate for infant-toddler providers offers another positive sign, as reported by local ECE leaders. But providers also said they could not take the risk of investing in expanded facilities, given the uncertainty of obtaining operational funding in parallel fashion.

### **4. Incentivize generating local revenues for ECE facilities**

Local agencies are devising ways of raising their own revenues to fund preschool and child-care facilities. The best established devices include parcel taxes and local revenue bonds, as we saw at South Bay Union School District in San Diego. Local taxpayers felt so strongly about expanding pre-k offerings, they approved a bond issue dedicated to that purpose. Los Angeles Unified earlier pressed successfully for construction bonds that financed cores of early learning

centers. The new \$15 billion state bond could take this option to a larger scale, if approved by the state’s voters and if local educators cooperate with community-based pre-k providers.

We also learned of developer fees and local property taxes—in Contra Costa and San Francisco—that help finance new facilities. These counties are inventive with their levies, allowing developers to avoid the fee by including a child-care facility within a new commercial or residential structure. The press for additional housing statewide may work against higher developer fees, but this avenue may prove feasible in some cities or counties.

## **5. Pinpoint local areas with scarce child-care and preschool facilities**

We know that ECE options remain acutely scarce in some counties and neighborhoods. Pinpointing locales with the greatest scarcities and targeting long-term capacity building will be key—if policy makers are to equalize access to quality care and early education. Local planning councils might track implementation and alert the state when their local areas of scarcity remain ignored by Sacramento.

The availability of infant and toddler care remains especially limited statewide. Offering one-time grants for facility improvements in family child-care homes, or spurring the growth of new FCCs, may be a cost-effective way of expanding infant-toddler care. Giving priority for facility grants to centers that anticipate converting from serving only preschoolers to serving infants and toddlers is another promising strategy.

## **6. Building equity in civic organizations, reducing state costs**

A final long-term question is whether the state and municipalities can help build equity in the nonprofit sector. Sacramento spends untold millions of dollars each year on leasing facilities run by nonprofits. These small-scale firms contribute direct services and social cohesion to many communities in California. Broadly speaking, the vitality of the nonprofit sector has long been a key feature of America’s civic life. But when it comes to human-scale organizations serving young children—whether pre-k centers or licensed homes—long-term equity remain thin.

One alternative, as the state invests in facilities, is to better capitalize nonprofit organizations that display a strong track record in serving children and families – helping these firms purchase their facilities instead of renting in perpetuity. This would lower long-term state costs, to the extent that mortgage costs approximate long-term rental payment costs. Ongoing rental costs, felt by contracting pre-k providers locally, are largely paid by state agencies year after year. □

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## Appendix — Features of Financial Intermediaries in States and Municipalities

	STATE INTERMEDIARIES		CITY INTERMEDIARIES	
	Massachusetts	Minnesota	San Francisco	D.C.
1. <i>Organization</i>	Children's Investment Fund	First Children's Finance	Low Income Investment Fund	Low Income Investment Fund
2. <i>Institutional positioning:</i> - Tie to government - Intermediary's position viz. gov't - Structuring pass-thru of dollars			- Contractor to the city of San Francisco. - Coordinates an interagency council, reviewing and monitoring construction projects. - Grants and so publicly repayable loans to providers.	- Contractor to D.C. government for 3 years. - Networks finance institutions, providers, and government.
3. <i>Financing:</i> - Public revenue flows - Private capital or guarantees - Managing debt - Who holds leases, property title?			- Municipal revenue, mainly from developer fees, local budgets. - Bundles local revenue with federal credits, bank capital. - Loans to NGOs, but payable by public authority if remains in operation. - No requirement that new slots be created.	- D.C. public funds, federal tax credits with banks, private lenders, and foundations. - Facilities grants to providers who commit to new slots. - 'Tenant allowances' at times aid co-financing. - Fund CBO providers, with joint siting on school grounds at times. - Small grants to child-care homes.
4. <i>Finding available space:</i> - Identifying vacant public space - Ties to real estate market - How to incent growing new slots?			- Works with municipal agencies to identify vacant, city-owned space. - Planning department aware of new commercial and residential construction projects.	- Works with D.C. government to identify vacant, city-owned space. - Two-fifths of grantees are new child-care, pre-k providers.
5. <i>Technical assistance:</i> facilitating project development, design, contracting construction			- Intensive TA to providers as they articulate expansion options, find affordable space, aid with permitting, contracting for construction.	- Intensive TA to providers as they articulate expansion options, find affordable space, aid with permitting, contracting for construction. - Collaboration with D.C. to locate surplus public space
6. <i>Accountability:</i> serving public purposes over time, allowable costs, gift of public funds			- Care in avoiding private benefits to private residents (FCCs). - Incentives to remain operating. - Subsidized and Title 22 centers. - Debt risk shared by provider and local public agencies.	- Providers must commit to opening, maintaining new slots. - Must meet prevailing wage standards, construction codes. - Avoid gift of public funds concerns, private benefits. - Small grants to FCCs.
7. <i>Brokering</i> with municipal agencies: licensing, zoning, fire			- Planning/zoning department sits on interagency council. - Intermediary advises on fire and child-care regulations, okay's.	- D.C. added a planning staffer to work full-time on permitting for ECE construction projects. - Intermediary helps to broker these relationships.
8. <i>Evaluation and policy analysis</i> for state and local agencies			- Ongoing feedback to municipal leaders via the interagency council and direct project experience.	- Steady reporting out of results, progress to public agencies. - Little local work in policy, although steady feedback to government, city council.