EXECUTIVE SUMMARY

The Childcare Facilities Toolbox:
An Analysis of Gaps and Opportunities in New Mexico

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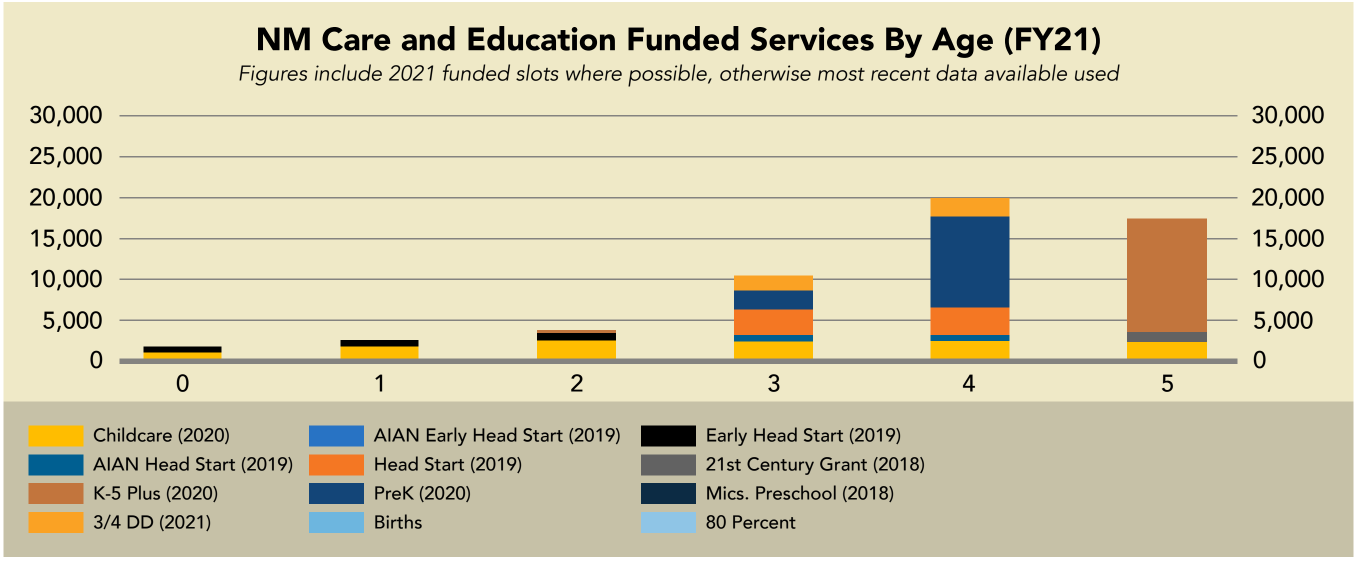
High quality early learning opportunities are the foundation upon which lifelong educational gains are built. Childcare is also an economic driver; it enables families to remain employed and pursue education and is associated with higher rates of employment. Moreover, receiving high-quality early care has been associated with greater educational attainment and higher wages later in life. However, more than half of New Mexican children aged zero to three cannot benefit from this important foundation because there are insufficient high quality affordable slots available to them. The Legislative Finance Committee's August 2022 LegisSTAT report on "Medicaid Home Visiting and Prekindergarten" found that while the supply of seats to four and five year olds meets the definition of "full enrollment" at nearly 80% of total population, the availably of funded seats for 0-3 year olds is under 50% of the total population.[1]

[1] Expanding Home Visiting and Prekindergarten Services.pdf (nmlegis.gov/Entity/LFC/Documents/Expanding Home Visiting and Prekindergarten Services.pdf)



Source: New Mexico Legislative Finance Committee

The problem of expanding the number of slots across the state is multidimensional – New Mexico is in a human capital crisis and both inflation and COVID have been punishing to families and childcare operators. One element key to increasing the number of accessible slots is developing the physical space in which providers can operate high quality programs.

Barriers to Facilities Development in New Mexico from the Perspective of 78 Childcare Providers

A survey of 78 early learning providers conducted by Homewise and The New Mexico Association for the Education of Young Children (NMAEYC) in September 2022 points to a need for a comprehensive childcare facilities development strategy. Specifically, providers assert that childcare financial model cannot adequately support debt service and that operators require technical assistance to navigate the complex facilities development process.

Who responded?

Seventy-eight (78) providers from across the state responded to the survey[2]

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

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

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

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

Almost half of respondents (43%) were interested in expansion to another site, 29% were unsure, and 29% were not interested. When asked to rank eight reasons for not expanding, 54% listed attracting and retaining educators as the top two most significant barriers. Additionally, 35% of respondents ranked "finding a director" in top two barriers to expansion. Many institutions across the state – ECECD, Santa Fe Community College, Growing Up New Mexico, University of New Mexico, to name a few - are working diligently to make investments in human capital, training new talent into the labor market.

Childcare providers reported that the business model cannot support debt associated with expansion. A quarter of respondents (25%) reported that inability to pay development costs while not collecting revenue (during construction) was the primary reason for not expanding. Additionally, 27% reported "the financial model cannot not support debt" was one of the first two reasons they could not expand.

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

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

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

Only 3.7% providers who exclusively rent[3] facilities pay less than 5% of operating budget in occupancy costs, compared with ten-times as many providers (33%) who exclusively own facilities. While this finding suggests the financial benefits of ownership over leasing are significant, the costs of occupancy for many owners and renters are high. One in five (20%) providers who exclusively rent and 22% of providers who exclusively own dedicate more than 20% of their operating budget to occupancy related costs.

Current State of Financing Child Care Facilities in New Mexico

There is no systematic process by which the public sector funds expansion, repairs, or new construction of child development facilities or homes in New Mexico. The reality is that many community-based providers finance capital improvements with a unique combination of loans, grants, savings, investments, good will, and charitable contributions. Additionally, the "anti-donation clause" in the New Mexico Constitution complicates the ability of New Mexico state government to act on a comprehensive facilities funding strategy.[4]

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

4 See the full-length paper for a more in-depth analysis of the New Mexico Constitution's "anti-donation" clause.

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

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

Increasingly, nonprofit community lenders – community development financial institutions (CDFIs) – have entered the childcare facility development space. These lenders, many of whom administer large and complex funding sources like tax-exempt bonds and New Markets Tax Credits, are able to qualify childcare operators and offer loans and leases with favorable terms. Importantly, these CDFIs also fill the important role of providing technical assistance to childcare providers as they embark on development projects.

Models for Financing Childcare Facilities Development

Increasingly, states and local jurisdictions across the United States have identified facilities development as one of the key barriers to expanding access to high quality early learning opportunities. Some, like Maryland, Connecticut, Iowa, New Jersey, and New Mexico have leveraged American Rescue Plan Act (ARPA) funds to build either permanent or temporary opportunities for providers to expand seats by repairing and expanding, through minor renovations, childcare facilities. In this executive summary, we present examples from San Mateo, California and Washington State. Refer to the full-length paper for additional examples from California, Illinois, and Massachusetts.

Location: San Mateo, California

Name: Child Care Development Fee

Type: Forgivable Loans

Fund Size: At the end of 2021, the Childcare Development Fee fund had over $2.1 million dollars available.[5]

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

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

Summary: Many localities across the United States impose development impact fees on new commercial and residential developments to compensate for the increased strain placed on public infrastructure after a community's new growth. In 2004, the City Council of San Mateo, California, passed through resolution the Child Care Development Fee to "mitigate the impact of commercial development on the need for childcare facilities."

The City of San Mateo has dedicated these funds to the development and construction of child-care facilities with a timely, equitable, and flexible deployment strategy that ensures the supply of seats can be responsive to the severely unmet demand. City staff prioritize projects that provide the highest number and/or most enduring number of designated spaces for children from families with incomes less than 80 percent of the Area Median Income (AMI) and that have the highest levels of project readiness. Eligible childcare institutions include nonprofit and for-profit providers, faith-based organizations, the City of San Mateo itself, and other governmental agencies like school districts. The regulations are intentionally broad to ensure that both existing and new childcare providers can access the funding to cover a wide variety of construction related costs and childcare types. Eligible projects include acquisition of land, new construction or tenant improvements to existing structures, expansions of existing centers, improvements to small family childcare homes, and construction of centers within corporate campuses, existing commercial developments, or housing developments.

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

Example of a facility it helped support:

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

Location: State of Washington

Name: The Early Learning Facilities Program

Type: Grants

Fund Size: Approximately $45 million annually

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

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

Acknowledging that the State could only be responsive to the overwhelming demand for seats by supporting expansion through a mixed delivery system (one in which the private, nonprofit, and public sectors all provide early learning opportunities), the Legislature ensured that funding was open to nonprofits, public entities, K-12 schools and districts, tribes and for-profit businesses.

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

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

Example of a facility it helped support: In the 2022/2023 loan cycle[6], The Washington State Department of Commerce received 143 applications requesting a total of $72.9 million. Sixty-nine (69) projects projected to create over 3,500 new seats received loans totaling over $41 million, including the Berta Artiga Daycare Center. This home daycare that historically has served up to 12 infants, received an award of $1,000,000 for new construction of an early learning center that will serve 80 children.

6 https://www.commerce.wa.gov/wp-content/uploads/2022/04/CCF-ELF-Final_Press-Release_21-23-ELF-Awardees-1.pdf

Recommendations:

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

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

3) Explore existing structures within New Mexico state government that could administer capital development grants or forgivable loans that do not conflict with anti-donation provisions.

4) Pursue amendments to the anti-donation clause in the New Mexico Constitution.

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