Cultivating Connections…

Between Economic Development & Child Care

Financing Child Care: Banking Finance and Federal Community Development Funds

Finance is a challenge in the child care sector. This issue brief details how public and private funds can be used to support child care in New York State. Two types of funding are detailed:

- Banking finance, including community development financial institutions, and
- Federal community development funds, including Community Development Block Grants (CDBG), USDA Rural Development Loans and Appalachian Regional Commission (ARC) Funds.

Banking Finance

Banks and credit unions can be key partners in child care finance. The Community Reinvestment Act (CRA) of 1977 requires that banks, specifically mortgage-lending institutions that are federally insured, conduct assessments of their communities and provide loans with affordable interest rates to local organizations and services that provide a "community need." This Act motivates lending by rating financial institutions by their level of community contribution, and can restrict a bank's ability to expand if it under-contributes, based on the needs of its locality. Child care has been defined under the Act as a community need. (http://www.carnegie.org/starting_points/startpt3.html)

Community need is sometimes difficult to determine for large, national financial corporations whose services extend across the country to a number of different communities. Intermediaries can help these institutions address community need.

Providian Financial, a large credit card company, provided $11.7 million to the **National Community Capital Association** (NCCA) for child care initiatives, particularly those serving low-income communities. NCCA is a national intermediary (now known as the **Opportunity Finance Network** http://www.opportunityfinance.net/) to local

<u>Collaborators:</u> The Alternatives Federal Credit Union (AFCU) and the Drop-In Children's Center of Ithaca, New York

The AFCU is a local CDFI that provides financial assistance to both center and home-based child care providers through line of credit financing for payroll expenses, facilities maintenance and upgrades.

<u>Payroll Expense</u>: One of the highest costs involved in maintaining a child care center is payroll expense. By providing revolving credit to the Drop-In Children's Center, AFCU is able to bridge the gap of time between the center having to pay its staff and being reimbursed by grant money or child care subsidies.

<u>Low-interest Loans for Facilities Expansion</u>: AFCU also aided the Drop-In Children's Center by helping finance its building expansion with Providian Financial funds from the National Community Capital Association. This funding arrangement was based on future payments of pledges to pay off the loan and allowed the center to proceed with its facility expansion all at once.

<u>Home-Based Child Care</u>: In some instances, AFCU has been able to aid home-based child care providers by linking loans to the asset of the house from which their program operates. By piggybacking child care loans to home equity loans, houses can be financed and brought up to code. Yet these have been limited investments, due to cash flow, as these family child care provider programs sometimes last only three to four years due to the provider's own life path choices.

To find a credit union in your area, visit http://www.creditunionsonline.com/

For more information on collaborating with credit unions, contact Michael Culotta at mculotta@alternatives.org

Prepared by Janaki Parthasarathy of the Cornell Linking Economic Development and Child Care Project for the New York State Child Care Coordinating Council, May 2006. http://economicdevelopment.cce.cornell.edu

Community Development Finance Institutions (CDFIs) throughout the country. CDFIs are financial institutions whose missions are to revitalize communities through their credit service. NCCA used Providian funds to create financial packages that increased the ability of CDFIs to provide capital to their local child care providers. In New York, the Alternatives Federal Credit Union received funds for loans, technical assistance and planning. The planning funds were used by the Day Care and Child Care Development Council of Tompkins County to hire a half-time person to write a business plan for a community scholarship fund.

The Cornell 2006 Survey on Economic Development and Child Care revealed fourteen communities in New York State where banks and/or credit union finance have partnered with child care providers to help them access funding. From Erie County in the west to Orange County in the east and Franklin County in the north, these banking partnerships are found in both rural and urban communities. Rural Opportunities, Inc., a nonprofit economic development corporation, has assisted local lenders with financing for child care centers by providing working capital loans and "taking a subordinated collateral position behind the primary bank lender."

Federal Community Development Funds

The **Community Development Block Grant** program is administered at the federal level by the U.S. Department of Housing and Urban Development. These funds are dedicated toward providing housing, creating and enabling employment and promoting community development. CDBG funds are distributed at the state and local level, and those who apply for these funds must include citizens' viewpoints in the formation and implementation of any project. The creation of child care facilities is an acceptable use of CDBG funds. (http://www.hud.gov/offices/cpd/communitydevelopment/ programs/index.cfm)

There are two types of CDBG grants:

- State Administered or "Small Cities" grants are competitive grants that can be used for:
  - Stimulating economic development
  - Financing public facilities
  - Financing public services

  Allocation decisions are made at the local level.

Collaborators: The Drop-In Children's Center and the City of Ithaca (Ithaca Urban Renewal Agency)

In 2003 the City of Ithaca, New York did not meet the requirements for the Entitlement Community CDBG, so its planning department, in collaboration with the Drop-In Children's Center, wrote a grant proposal for a Small Cities CDBG.

Strategy: Economic development projects tend to be the most attractive for New York State. Therefore this partnership focused its grant proposal on two key factors: the creation of jobs for low-income residents, and the creation of child care services for low-income residents. For every full time job created (or full time job equivalent, i.e. two part-time jobs) the Small Cities CDBG allows awards of up to $35,000. By framing its grant in economic development terms and packaging it with economic development loans, this partnership negotiated a number of different funding streams, including $340,000 in CDBG funding, to help with facility expansion for the Drop-In Children's Center in 2003.

For more information on using CDBG funds, contact your city's department of planning and development.

Collaborator Contact Info: Sue Kittel, Deputy Director of Community Development at the Ithaca Urban Renewal Agency at suek@cityofithaca.org or Lynne Jackier, Executive Director of the Drop-In Children's Center at (607) 272-7117.

- Entitlement Community grants are awarded to regions that meet specific demographic requirements.

The Cornell 2006 Survey on Economic Development and Child Care showed that at least eight New York State regions have successfully used CDBG funds for child care: The City of Olean in Cattaraugus County, the Town of Hempstead in Nassau County, the Towns of Schroeppel and Pulaski in Oswego, New Rochelle, Mount Vernon, Westchester, and the City of Syracuse.

USDA Rural Development funds are grants and direct and guaranteed loans that fund construction, renovations and the purchase of equipment for child care centers while promoting economic development in rural areas. As the USDA grants are spread thin over a wide population of eligible organizations, USDA direct and guaranteed loans are a much more likely source of funding. Direct loans are paid back at 4.5% interest over 30 years. Guaranteed loan rates & terms are determined by the lender.

To qualify for the loan, an organization must be:

- A nonprofit corporation or a public body.
- Able to show financial history of the organization from the past five years to prove viability/sustainability. Therefore the most likely candidates to receive funding are those that are already established and are looking to move or expand.
- Able to provide a projected five-year financial plan.

USDA LOAN APPLICATION TIPS:

Having the funds that you are requesting already matched by businesses and employers indicates a commitment by the local businesses to enable funding on an ongoing basis.

- Include letters of support from supporting businesses, employers and city officials in the municipality where the facility is located.

Ties to other community organizations that create financial or program linkages are also looked upon favorably:

- Combine teacher trainings with those of area school district.
- Combine resources to add on to an already existing facility.

For more information on USDA direct loans, grants and guarantees, contact your regional USDA Rural Development Service Center. http://offices.sc.egov.usda.gov/locator/app?state=us&agency=rd

The Cornell 2006 Survey on Economic Development and Child Care showed that at least two New York State regions have successfully used USDA Rural Development funds for child care in the Southern Tier.

The **Appalachian Regional Commission** (ARC) is a federal-state-local partnership created by federal legislation in 1964 to revitalize the economy and alleviate poverty in the Appalachian region. The counties that fall under ARC jurisdiction within New York State include Allegany, Broome, Cattaraugus, Chautauqua, Chemung, Chenango, Cortland, Delaware, Otsego, Schoharie, Schuyler, Steuben, Tioga, and Tompkins Counties. In 2005, the ARC set forth strategic economic development goals that included increasing job creation and income and empowering the people and the regional infrastructure to enhance the area's economic competitiveness. This included an objective to "Increase Access to Quality Child Care and Early Childhood Education" by supporting the creation, expansion and access to quality early childhood education programs at the local and regional level.

Funding criteria and use of funds:

- Up to $150,000 can be accessed per project, but the grant has to be matched (usually by parent fees) within a year. A "match" for the grant need not be monetary, though—this can also include in-kind resources such as staff training.
- The funds must be used by a nonprofit or governmental organization.
- The funds can be used for the creation of a new nonprofit, but cannot fund activities previously or currently undertaken with other federal, state or local funds. Expansions of previous activities can be funded only to the extent of the expansion.
- Specifically, these funds can be used to renovate

Collaborators: Corning Glass and the Appalachian Regional Commission

In the 1990s, two of the three child care centers that receive funding from Corning Incorporated received ARC funding. One project funded a move from the basement of a church to a new facility that Corning had built. The ARC grant paid for the costs associated with an expansion in the number of child care slots, including additional staff training, equipment and curriculum modifications.

The second facility was built by Corning in an area with a fast-growing population. The nonprofit that was selected to run the center requested and received funds from the ARC.

a site (i.e. bringing a facility up to code), train teachers, purchase equipment and help with curriculum development.

Putting It All Together: Public/Private Partnerships in Financing

Community Investment Collaborative for Kids (CICK) is an organization created by the Local Initiatives Support Corporation (LISC) that brings community stakeholders together to discover new ways of financing quality child care. This includes providing capital, training and technical assistance for providers. CICK brings together public and private funds in finance packages that can create and sustain quality child care sectors in communities throughout the U.S. CICK helps local child care providers identify and draw the attention of potential stakeholders and allies (such as those listed in the box below) in order to create feasible finance packages linking private and public sector funding. CICK centralizes the coordination of donations, loans and funding among all involved stakeholders. (http://www.liscnet.org/resources/2002/05/facilities_785.shtml)

Potential financing partners and funding sources suggested by CICK include:

- Health & Human Services Head Start equity grants
- Health and Human Services Office of Community Services equity (this is useful in that it sponsors community economic development projects that create employment)
- Community Development Block Grants and Section 108 loan guarantees
- Empowerment Zones/Enterprise Communities
- Private Foundations
- Public Corporations
- Religious Institutions
- Low-interest loans
- Donated property
- Landlord concessions

Involving Economic Development Professionals

The Cornell 2006 Survey on Economic Development and Child Care revealed that almost 60% of economic developers recognized a lack of affordable, quality child care in their communities. However, the majority were not aware of the various public funding sources that can be used for child care. Three fourths were not aware of any bank finance for child care, and 80% were not aware of any federal community development funds being used for child care. Given that more than 80% agreed that child care should be a part of economic development policy, there is an excellent opportunity to build collaborations between child care and economic development leaders.

Source: New York State Survey on Economic Development and Child Care, (2006) Cornell University. Accessed from http://economicdevelopment.cce.cornell.edu

Other Useful Contacts:

USDA Rural Development Loans
Mrs. Michaela Sergent (Batavia Office) at (585) 394-0525, ext. 104
Gail Giannotta (Syracuse Office) at (315) 477-6429

Appalachian Regional Commission Funds
Marcia Weber, Executive Director, Southern Tier Regional Planning and Development Board at (607) 962-5093, ext. 208