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Preschool Policy Brief

Building Early Childhood Facilities

What States Can Do to Create Supply and Promote Quality

by Carl Sussman with Amy Gillman

The early care and education field continues its decades-long expansion, experiencing a new phase of educationally oriented growth. Most states now fund preschool programs and enrollment continues to rise. Yet the field remains fragmented and insufficiently resourced. It lacks the institutional frameworks necessary to address basic challenges to continued growth and development. The design, development, finance and maintenance of facilities are key issues. State governments will need to more actively stimulate facilities investments —building the *supply* of facilities and making sure these spaces are designed to support programmatic *quality.* Otherwise, the benefits of early education—academic achievement and long-term savings in remedial programs to name just two—will not be fully realized.

What We Know:

- Well-designed facilities enhance child development and program quality.
- An adequate supply of facilities is needed to support rapidly increasing preschool education programs.
- The quality and location of the facilities can encourage enrollment and parent involvement.
- Facilities can help promote a positive workplace in an industry challenged to retain experienced teachers.
- Child care program income is typically meager, especially when compared with the full cost of delivering quality early education services.
- The cost of constructing facilities designed specifically for young children is relatively high when compared with standard commercial space.
- Few centers have the experience or personnel to handle the complexities of real estate development tasks.

Policy Recommendations:

- Facilities development policies need to address issues related to financial barriers, design and real estate development, and the policy and regulatory environment.
- Capital subsidies must be available in order for child care programs to substantially renovate or construct a state-of-the art facility.
- If providers use debt to raise capital, it must be affordable to preschool programs with limited means.
- Technical capacity needs to be developed —organizational, real estate development, and architectural to build early education facilities.
- Facility standards that address program quality, in addition to health and safety, need to be in place.
- A reliable system and supportive policy and regulatory environment are needed to enable the early education field to meet its physical capital needs.

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The Need for Comprehensive Facility Policies

This policy brief examines facility issues related to financial barriers, design and real estate development practices, and the policy and regulatory environment. It is a summary of a longer, much more comprehensive online report located on the NIEER website. The online report lays out each strategy in much more detail and discusses the advantages and disadvantages of each policy option. To view the online report with full references, go to http://nieer.org/resources/research/facilities.pdf.

Today, preschool programs have moved beyond the role of child care, acquiring another compelling early education function. Where economic necessity, welfare reform and women's increasing participation in the workforce fueled child care's growth during the last half of the 20th century, science and economics stoke its successor: high-quality early education programs. Relying on strong research findings of the developmental benefits for children and substantial economic gains for society from an "invest early" strategy, families, educators, policymakers and business leaders are driving the current movement to improve the quality of preschool education programs. Early education has also become a staple reform strategy for underperforming schools. For all these reasons, early education has moved toward the center of the public policy stage.

States are increasingly taking responsibility for addressing the need for high-quality early education programs—now engineering policies for blending funding streams, standardizing reimbursement policies, designing professional development systems, and setting quality standards. Facilities, the physical places that house early care and education programs, are a key "infrastructure" issue that states have either begun to address or will need to address as they build an early care and education system.

Comprehensive public policies are needed to ensure an adequate supply

of facilities. Equally important, specially designed facilities can support child development and program quality. To encourage enrollment and parent involvement, the quality and location of the facilities are key. And finally, in an industry challenged to retain experienced teachers, facilities can contribute to a positive workplace environment, enhancing job satisfaction.

The need for sufficient physical space is obvious. Classroom space needs to be available to house growing enrollment. Lack of supply can force policymakers to trade quality for access by shortening the program day or funding lower quality programs. Moreover, available space, such as in elementary schools with declining enrollment, requires modifications to accommodate outdoor play needs, different drop-off and pick-up arrangements, and classrooms organized around activity areas.

Well-designed facilities enhance child development and program quality. Young children learn through play and by exploring and interacting with their environment, both social and physical. They need classrooms and outdoor play space that are markedly different from conventional elementary school classrooms and playgrounds. Preschool programs subdivide classrooms into well-defined activity areas. Achieving this type of environment requires architectural elements specifically designed and constructed to support active learning.

The National Association for the Education of Young Children (NAEYC) accreditation acknowledges the importance of a quality environment.

"The physical environment sets the stage and creates the context for everything that happens in any setting—a classroom, a play yard, a multipurpose room. It is a place where children and staff spend long hours each day; where routine needs are met; where relationships develop, skills are learned, abilities are enhanced and attitudes toward school and learning are formed. For all these things to happen well, program planners must carefully design the physical environment."

—NAEYC

To promote parent engagement, programs need to be located where parents will use the services—near homes, workplaces and commuting routes. If not, parents may forgo the opportunity to enroll their children or substitute lower quality for more convenient child care arrangements. Further, facilities need to appeal to parents who naturally want their children to attend safe, physically attractive and well-maintained centers. Moreover, centers that feature space where parents can linger and interact with staff and other parents and provide places to confer privately with teachers are much more conducive to parent involvement. Increasingly centers include parenting resource rooms and windows between corridors and classrooms so that parents can observe their children at play without disrupting the class.

Facilities policies can also promote workplace satisfaction. Staff retention is one of the greatest challenges early care and education programs face. Low compensation is the most obvious reason the industry has difficulty retaining experienced staff. Improved wages and benefits will help attract and hold more highly qualified teachers. Another strategy to foster retention is through better quality facilities, creating physically and psychologically comfortable workplaces and facilitating professionally rewarding interactions with young children, parents and coworkers.

Because facilities play such an important role in achieving educational objectives, public policies designed to build a system of quality early education cannot afford to overlook them.

Facility Policies

State early childhood facilities development policies need to address financial barriers, design and real estate development practices, and policy and regulatory issues. The most obvious policy challenge is to bridge the gap between the cost of quality facilities and the tough financial realities of delivering early care and education services. A second and less apparent challenge is the limited organizational capacity and real estate development, design and construction expertise in facility development for early education programs. Few centers have either the experience or the personnel for the time-consuming and frustrating complexities of a major building project.

Finally, it is not enough for state facilities policies to make possible the construction of isolated projects. The objective is to create a reliable system —an infrastructure—and a supportive policy and regulatory environment that enable the early education field to meet its physical capital needs. Thus, facilities policies should address the full spectrum of capital, technical and regulatory barriers that prevent the development of a sufficient supply of quality early care and education settings.

Research on the Early Childhood Environment

In an influential review of research on early childhood development, Jack P. Shonkoff and Deborah A. Phillips conclude that "the positive relation between child care quality and virtually every facet of children's development that has been studied is one of the most consistent findings in development science." The research has found correlations between positive outcomes for children and specific program characteristics such as adult-child ratio and group size, to name just two.

However, as Shonkoff and Phillips note,"…other dimensions of quality…are rarely measured…" and "are, in all likelihood, important ingredients along with the structural dimensions of care that dominate the research literature." The physical environment is certainly one of these. As the authors go on to say, "Without attention to some of these subtle, but potentially powerful, influences on quality, it is difficult to predict how much can ultimately be accomplished by policy actions that focus on only one or two structural dimensions of care."[1]

Although the major research studies in the early childhood field have neglected the physical environment as a critical contributor to the quality equation, there is evidence to support this proposition. The fields of environmental psychology and architecture have produced numerous applied research studies demonstrating correlations between school design attributes and both student achievement and teacher retention. Much of this literature is available on the U.S. Department of Education's National Clearinghouse for Educational Facilities web site and in collections of academic journal articles such as *Spaces for Children: The Built Environment and Child Development* edited by Carol Simon Weinstein and Thomas G. David (1987).

Among the many studies linking early childhood settings to positive behavioral and developmental outcomes for preschoolers are a number asserting that the widely accepted 35-square feet per child standard for preschool classrooms is neither supported by research nor sufficient.[2]

Many other aspects of the physical environment have been scrutinized. For example, a Pacific Oaks Occasional Paper written in 1976 by Elizabeth Prescott and Thomas G. David explores the effects of the physical environment—acoustics, density, climate control, lighting, bathrooms, sleeping areas, room layout and much more—on child care. The much admired Reggio Emilia preschools treat the physical space as one of the defining characteristics of its pedagogy. Finally, based on field observations, academicians and practitioners in the child development field have concluded that the physical environment exerts an obvious influence on program quality and teacher job satisfaction. Perhaps the most noteworthy example of expert opinion applied to the physical environment is Anita Rui Olds' 2001 book, *Child Care Design Guide*.

[1] Jack P. Shonkoff and Deborah A. Phillips, Editors, *From Neurons to Neighborhoods: The Science of Early Childhood Development*, National Research Council Institute of Medicine, National Academy Press, Washington, DC 2000, p. 318-320.

[2] Randy White & Vicki Stoecklin, "The Great 35 Square Foot Myth," 2003, White Hutchinson Leisure & Learning Group, http://www.whitehutchinson.com/children/articles/35footmyth.shtml

Overcoming Financial Barriers

The most obvious barrier to facilities development is financial. The challenge is on both sides of the financial ledger: revenue and expense. On the revenue side, with the exception of niche markets where operating margins are healthy, child care program income is typically meager, especially when compared with the full cost of delivering quality early education services. This section describes various state policy responses, which involve anything from a very shallow to a very deep capital subsidy.

On the expense side of the ledger, the cost of constructing facilities designed specifically for young children is relatively high when compared with standard commercial space. The early care and education industry has long faced a difficult problem: without access to scarce grants or fortuitous sources of additional funding to supplement parent fees and modest public operating subsidies, programs make painful trade-offs, economizing in ways that compromise quality. As a result, most centers contain just enough space and receive only those modest improvements required to satisfy minimum licensing standards.

Exceptions to this pattern exist, such as centers serving relatively prosperous families, larger nonprofit organizations with the capacity to mount a major fundraising campaign, some Head Start grantees, and large businesses that provide on-site child care to attract and hold employees. Access to capital—either in the form of grants and internal subsidies (like those provided by a corporation to their on-site child care centers) or a revenue stream to support long-term debt—is the key difference between those organizations and businesses that invest and achieve significantly higher quality standards for facilities and those that do not.

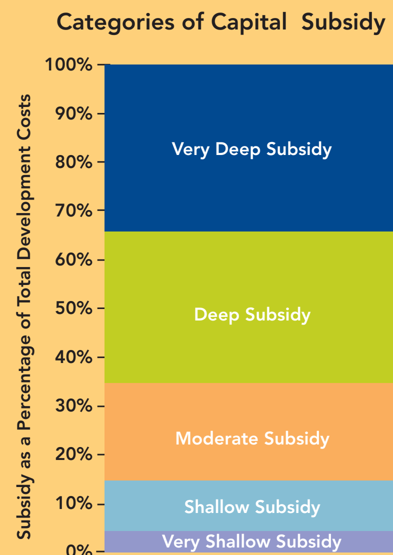
To substantially renovate a building or construct a state-of-the-art facility requires ***access*** to a substantial amount of capital. To the extent providers use debt to raise that capital, it must also be available on terms that are ***affordable*** to preschool programs with limited means.

Capital takes the form of *equity* or *debt*. "Equity" sources include selling shares in a company, fundraising by nonprofit organizations, and investing business, personal, or organizational assets. "Debt" includes borrowing funds and repaying the lender over time through periodic loan payments. An important distinction between the two types of capital is that loans impose an operating cost in the form of monthly principal and interest payments while equity does not.

Access. Organizational size, ownership structure, and sources of operating revenue are important factors influencing access to capital. For example, a for-profit company can issue stock while a nonprofit cannot, and a nonprofit can receive tax-exempt gifts while a for-profit cannot. A large organization is more likely to accumulate net assets whereas a small organization is less likely to. Early education programs serving a high proportion of publicly subsidized children have tighter operating budgets than those catering to children from high-income households. Public school-based programs can sometimes tap tax revenues and access tax-exempt bond debt. In general, nonprofit organizations, especially smaller ones and those serving lower-income populations, are less likely to qualify for debt than programs that are larger, serve higher-

What Level of Capital Subsidy?

The ability of centers serving lower-income communities to support debt is extremely limited. One method nonprofits use to reduce debt is to substitute equity in the form of grants and donations. However, most child care centers have a very limited ability to mount a successful capital fundraising campaign. As a result, early care and education programs commonly face a financing gap between the amount of capital they can generate and the cost of a facility. The only way to fill the gap is with a significant public sector capital subsidy. Policymakers often refer to the level of capital subsidy as being "deep" or "shallow." How does one define deep and shallow? One way to think about the level of capital subsidy is to calculate it as a percentage of a facility's total development cost. Deep and very deep capital subsidies are the most effective way to make the development of early care and education facilities affordable.



income children, or operate on a for-profit basis. After setting policy objectives, public leaders need to design financing programs that overcome the unique debt and equity barriers faced by the various types of organizations targeted for assistance.

Affordability. Whether a child care program owns or rents its space, to support quality programming most centers need to make significant capital investments. The high cost of facility projects and their long useful life make loans a logical and necessary component of any financing package. But many child-serving organizations are unable to afford debt. "Affordability" in this context refers to the impact loans have on the borrower's operating budget.

The same three factors that a homebuyer considers in arranging a mortgage influence facility loan affordability: The principal amount of the loan; the interest rate charged on the loan; and the term of the loan. Policymakers can combine these measures. For instance, financing programs can substitute equity or equity-like capital for debt to lower monthly loan payments. They can also decrease the impact of debt on the usually tight operating budgets of early childhood programs by extending repayment schedules and providing interest rate subsidies.

Policy Response: Offer Grants. A grant is the simplest means of providing capital and reducing the effect of a major facility investment on a center's future operating budget. Since improving real estate is expensive, grants need to be large in relation to the total project cost to have a significant impact.

States can design grant programs to create the desired level of subsidy. However, because grant makers disburse funds in a "lump" sum, upfront, grant programs have a large budgetary impact relative to the number of centers assisted. As a result, capital grant programs can be politically and fiscally challenging. Nonetheless, from time to time, the political will exists to make capital grants for facilities.

Between 2002 and 2004, the Pennsylvania Departments of Community and Economic Development and Public Welfare collaborated in making Child Care Challenge Grants totaling $10 million per year. Providers were required to match the state's grant with one-quarter of the project's cost. During the first year, grants could be up to $1 million. In subsequent years, the maximum grant was $500,000. The program resulted in the construction or renovation of 55 centers licensed to serve 3,365 children.

While capital grants are straightforward, as a matter of capital finance it makes more sense when possible to use debt to finance construction projects: Debt is a tool used to spread the cost over a capital project's long useful life.

Policy Response: Access to Private Debt. Offering grants has the greatest short-term fiscal impact on public sector budgets while assisting centers to access commercial sources of debt has the least. But commercial loan underwriting standards make it hard for many early childhood programs to qualify for large loans. A vehicle frequently used to bring conventional bank debt within the reach of marginally creditworthy businesses is to offer lenders a loan guarantee. Without removing all of the lending risk, some state agencies guarantee part of a loan (typically 50-80 percent) to reduce the bank's risk. Well-designed loan guarantee programs can be economical for the state. The primary purpose of a loan guarantee is to reduce risk enough to induce a lender to make an otherwise marginal loan. In doing so, the guarantee should also translate into a very shallow interest rate subsidy because interest rates are in part a function of risk.

Self-Help, Inc., a non-profit community development finance institution, partnered with the state of North Carolina to construct a creative way to guarantee child care loans using the Child Care and Development Fund, which is the federal government's child care subsidy block grant. The state guarantees Self-Help's loans to small center-based and home-based child care businesses. The state requires that the borrowers serve children whose care is subsidized by the state. By augmenting the collateral available from borrowers, North Carolina's guarantee enables Self-Help to relax its underwriting standards and absorb greater

risk. While this produces slightly greater loan losses, it also produces more loans, most of which succeed and would not otherwise have been made. Since 1994, Self-Help has used the state's assistance to make 214 loans totaling $10 million.

As the North Carolina experience demonstrates, under the right set of circumstances, loan guarantees can be a cost-effective tool. However, a loan guarantee is only helpful in those cases where the center has the financial ability to support debt: Most major facilities investments require a far deeper subsidy than a loan guarantee provides. As a result, even with the benefit of a guarantee, many early care providers cannot qualify for a loan large enough to complete a major facility development project.

Policy Response: Provide Debt. It is good public policy to encourage early education organizations to take on debt, *to the extent that they can afford to do so.* First, it allows the state to minimize its capital subsidy outlays. Second, debt is the preferred method for raising large sums of capital for long-term investments: it gives borrowers immediate access to the capital they need while creating, through monthly "debt service" payments of principal and interest, a mechanism through which they can spread the cost over future years. Since a newly constructed or renovated center has a useful life that spans decades, loans enable the facility owner to evenly allocate a portion of the cost to succeeding annual operating budgets.

A more aggressive approach to providing access to debt than through guarantees is to make loans directly to child care enterprises. In those states that make direct loans, a state economic development agency can serve as the lender. Unlike loan guarantees, the state as lender absorbs the entire repayment risk. However, the borrower still bears the full capital costs through loan payments. The public subsidy is once again quite shallow.

As part of their economic development programs, most states offer small business loans, and for-profit child care businesses are typically eligible. However, relatively few states have loan products targeted specifically to the early care and education industry. Maryland is an exception.

Since 1988, Maryland's Department of Business and Economic Development has made child care facility loans and loan guarantees to nonprofit and for-profit center-based programs. Its direct loans can be as large as necessary but cannot exceed the "hard" construction costs. The state seeks private bank participation in the financing, and if the center can support the debt, it will subordinate its loan to the private lender's. The state charges market or slightly below market rates and writes the loans for 15 to 20 years. While the department has received many inquiries, probably because of the challenges child care programs face in supporting debt, demand tends to be weak.

Policy Response: Subsidizing Debt. Conventional lenders set loan interest rates based on the cost of money and the credit risk associated with each loan – adjusting the rate up or down depending on the perceived risk of a loan default. As a result, lenders charge a higher rate to those borrowers least able to support debt. States can create programs to reduce the interest rate burden on less creditworthy borrowers to make repayment more likely and increase the chance that the loan amount will be sufficient to meet the child care industry's capital needs.

The Connecticut Health and Educational Facilities Authority (CHEFA) partially guarantees private sector child care loans to improve the creditworthiness of loan applicants who would not otherwise qualify for financing. CHEFA has also sought to increase the feasibility of child care borrowing by combining an interest rate subsidy with its loan guarantee. Thus, if the banks make a loan at 8 percent, CHEFA provides a 3 percent interest rate subsidy, reducing the borrower's rate to 5 percent. CHEFA covers the difference between what the bank charges on the loan and what the borrower pays.

Subsidizing debt is the right solution in a limited number of situations, but most often it will be too shallow to bridge the significant financial gap between the cost of securing quality space and the revenue available to most nonprofit centers.

Policy Response: Performance-Based Loan Principal Forgiveness. A less common form of capital subsidy in the early childhood industry involves forgiving loan principal to reward a provider for meeting stated public policy objectives. Loan forgiveness programs can be structured to create the desired subsidy level.

The Self-Help Child Care Revolving Loan Fund in North Carolina funded a loan forgiveness program to spur child care programs to use borrowed capital to rebuild child care facilities damaged by Hurricane Isabel and to create an incentive to improve program quality, Providers who maintain or increase the quality of their program, as measured by the number of stars awarded under the state's Quality Rating System, are entitled to have 30 to 50 percent of their loan forgiven after four years. If program quality deteriorates, the provider bears the full cost of the improvements. This tied the subsidy to the public policy objectives based on future program performance.

Loan forgiveness provides an attractive incentive to improve the quality of early care and education. However it only benefits providers who qualify for loans, leaving out many providers who might be equally deserving based on the quality of their program.

Policy Response: Debt-Service Support. The strengths and drawbacks of the various policy responses reviewed thus far suggest that because of the economics of early education programs, the importance of reaching low-income children, and the significant need for and high cost of new quality facilities, states will have to combine deep subsidies and debt financing. To achieve scale while dramatically reducing the immediate

budgetary impact, a few states have provided capital subsidies by making long-term commitments to "debt service support." Using this mechanism, the state's annual investment is modest relative to the capital cost of the facilities because they pay annual debt service rather than the total upfront cost of the new facilities. But the states are able to deliver a deep or very deep subsidy to the child care field by paying a significant proportion of the facility debt on behalf of nonprofit early care and education programs until the loan is completely repaid. The proportion of public debt service support determines the depth of the subsidy.

Illinois and Connecticut have implemented this model using tax-exempt bond debt to achieve an especially low interest rate and long loan term. This enables providers with limited financial capacity to repay enough debt to support a modest proportion of the bond debt. The capital subsidy in these examples is very deep – covering 100 percent of project costs in Illinois and roughly 70 percent in Connecticut—enough to induce providers to invest in facilities and encourage other public and private entities to contribute equity.

Illinois, in partnership with the nonprofit Illinois Facilities Fund (IFF), pioneered the debt service support model in 1992. Through a pilot Child Care Facility Development Program, the state made a one-time commitment to service 100 percent of the debt to retire a ten-year tax-exempt bond issued on behalf of seven nonprofit agencies serving low-income children. With IFF's assistance, each agency constructed or renovated a center.

Five years later Connecticut enacted the School Readiness Act that statutorily created a debt-service support program patterned on Illinois' pilot. Connecticut used tax-exempt bonds and secured bond insurance to guarantee the lowest interest rates available. Moreover, by issuing 30-year bonds that permitted a long amortization period, the state's modest $2.5 million annual debt service appropriation resulted in the immediate construction of a significant number of facility projects. Low monthly payments mean providers can shoulder a share of the debt, and in turn, their debt payments allow the state's investment to support more projects. For a typical center, Connecticut covers 70 percent of the capital cost. Meanwhile, each of the preschool programs pays the remaining 30 percent, including roughly 12 percent in project equity raised from philanthropic and public sector grants and gifts. The combined state and provider debt payments supported $41.6 million in bond proceeds and yielded 18 high-quality centers serving 3,150 children in some of the state's most distressed communities. Since that initial appropriation, the state twice increased spending on the program by $1 million, bringing the annual debt service support for early childhood facilities to $4.5 million.

Policy Response: Rate Enhancements. States are increasingly adopting rating systems to reward child care program quality. In some states, centers receive an annual grant based on the level of quality they have earned.

In Maine, providers who have earned a "quality certificate" are eligible for a variety of state financing incentives as well as a 10 to 15 percent bonus over the state child care subsidy fee.

States could apply the same concept to facilities financing. By offering selected providers a facility development rate enhancement, states supply a supplemental revenue stream with which to secure and service a loan. The rate enhancement might be awarded competitively based on a center's quality rating and the need to expand supply or improve physical environments in a particular geographic area. For the program to translate into new borrowing capacity, states would need to provide the rate enhancement for a period of years equal to the term of the loan the borrower takes out to pay for facility improvements. Without a multi-year commitment from the state to provide the rate enhancement, a loan slated to be repaid with that revenue would become too uncertain and a lender would be less likely to extend credit to the child care program.

Policy Response: Public School Finance. Growing public support for early education rests on the now well-established link between quality preschool experience and later school achievement. There are now a growing number of preschool programs operating in public schools. To house these programs, school districts often need to build new facilities or renovate existing ones to meet the needs of younger children. To institute these changes, districts turn to established school financing mechanisms. Many states subsidize school construction, with programs that vary considerably from state to state. Covering the cost of preschool classrooms under state school financing programs makes sense given the contribution early education programs make to the educational mission of public schools. At least one state that subsidizes school construction has gone one step further for preschool classrooms.

Connecticut's School Construction Program includes a 5 percent bonus on the proportion of the costs attributable to early childhood classrooms. The bonus is in addition to the state's routine school construction grants.

A Final Word on Financing. The state financing programs described in this section are illustrative of the tools policymakers can assemble to make facilities development possible. In designing a subsidy program, states need to be sure that the approach provides the depth of capital subsidy needed given the size, location and character of the programs building the facilities. And, as with any long-term capital investment, borrowing much of the money needed for these facilities makes sense: it spreads the cost over the useful life of the new facilities and over multiple state fiscal years.

Promoting Sound Design and Real Estate Development Practices

The need to address the capital side of the facility development equation is obvious. Less apparent, however, are the demand side barriers to facilities development. However, there are two problems. First, because of a lack of resources in the early childhood field, most directors have learned to "make do" with physical space that complies with minimal licensing requirements but falls short of meeting best practices in quality design. Second, because of historically weak market demand for child care facilities, developers with appropriate experience are scarce. Once a provider decides to renovate, relocate, or expand, they must either supervise the project themselves or manage a developer without prior early childhood facilities experience. There is a similar lack of architects experienced in designing buildings to meet the developmental needs of young children or familiar with the functional requirements of a high-quality early education program. This section reviews strategies for addressing these paradoxical barriers to facilities development.

Creating Effective Demand

A sufficiently deep capital subsidy will generate applications for funds. However, given the small size of many early care programs and the lack of real estate development expertise, will the pool of applicants be sufficiently broad to ensure state resources produce the highest public return? What "pump-priming" measures should be taken to stimulate demand? This section outlines some proposed policy responses to create effective demand for facilities capital and ensure more strategic use of public resources.

Policy Response: Training and Awareness Campaign.

Professional development opportunities that expose early childhood educators to well-designed facilities and emerging research about the relationship between facilities and quality can help kindle a vision of quality that leads to action. States seeking to stimulate facilities development or planning to offer capital subsidies should accept the need to spur interest in order to ensure a broad-based pool of quality providers competing for its financial resources.

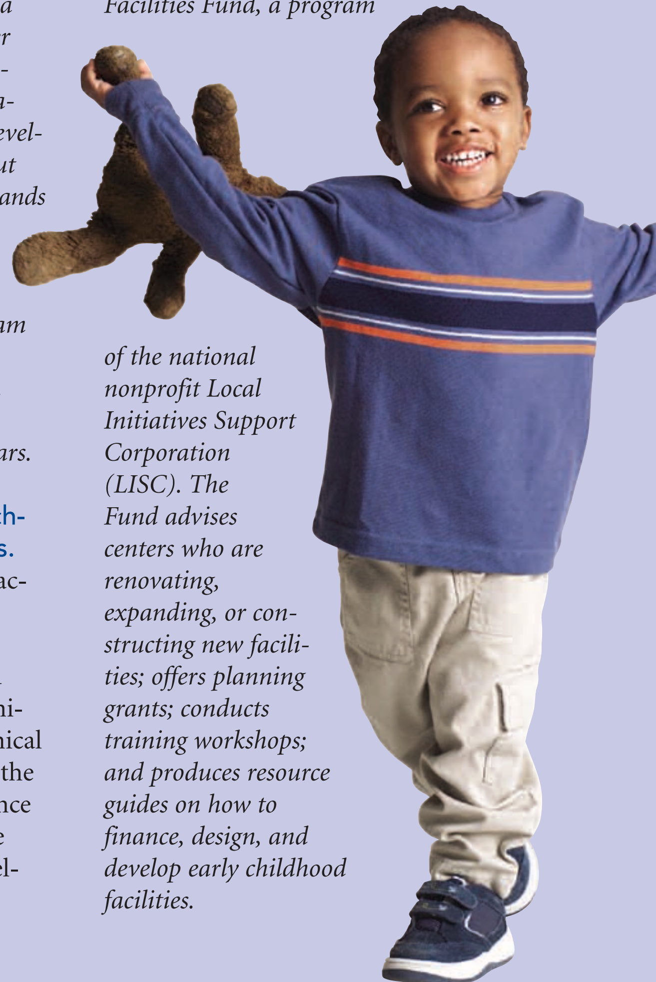
The Children's Investment Fund in Massachusetts, a nonprofit affiliate of a state quasi-public authority, adopted a concept pioneered by New Jersey Community Capital and offers an intensive, one-week, off-site training institute for teams from child care and Head Start centers. The Fund aggressively solicits applications, and conducts site visits and interviews before accepting organizations into the program. In addition to teaching facilities development skills, the curriculum emphasizes leadership abilities, organizational development, and financial management skills. Participants view slide presentations of quality facilities, visit a model center, hear from other center directors who have successfully completed major construction or renovation projects, meet architects and development consultants, and learn about the development process and its demands on organizational time, energy, and resources. Although Massachusetts does not offer any capital subsidy, 50 percent of program participants complete a significant facility improvement project within three years of the training institute, and 70 percent do so within five years.

Policy Response: Funding Technical Assistance Intermediaries.

To stimulate provider interest in facilities and introduce the technical resources needed to guide their efforts, some states have identified and supported intermediary organizations capable of delivering technical assistance tailored to the needs of the early childhood field. The experience to date indicates that, with outside training, existing community development intermediaries are strong candidates to become a state's early childhood facilities intermediary. A few states devote a portion of the 4 percent quality enhancement set-aside from their federal Child Care and Development Fund grant to contract for the services of a technical assistance intermediary.

Vermont contracts with the statewide nonprofit Vermont Community Loan Fund to provide facilities development-related technical assistance to center- and home-based child care and Head Start programs. The contract includes the administration of a capital grant program funded by a modest annual state appropriation and sales of a special "Building Brighter Futures" child care license plate.

In Rhode Island, a public-private funding collaborative that includes the state's human services agency, foundations, corporations, and individuals, supports the Rhode Island Child Care Facilities Fund, a program of the national nonprofit Local Initiatives Support Corporation (LISC). The Fund advises centers who are renovating, expanding, or constructing new facilities; offers planning grants; conducts training workshops; and produces resource guides on how to finance, design, and develop early childhood facilities.



The Real Estate Development Function

How facility development is carried out can influence the rate at which facilities are completed; the quality of the final product; the state's ability to meet policy objectives; and the cost-effectiveness of the capital program.

Policy Response: The Public Works Approach to Development. An established mechanism for planning, developing and operating public real estate projects like airports, bridges and redevelopment districts is the special-purpose quasi-public authority. States can adopt the same approach to develop, lease and maintain early childhood facilities. By centralizing the development function in this manner, a state can realize savings by contracting simultaneously for multiple projects. However, creating a new development authority for child care facilities can be complicated and controversial, lead to bureaucratic standardization, and discourage creativity and variety.

Policy Response: The Do It Yourself Approach to Development. A do-it-yourself or bootstrapping approach puts the burden of developing facilities primarily on child care providers. Providers participating in Connecticut's School Readiness financing program and Pennsylvania's Challenge Grant program have been expected to put together their own development teams.

While this mechanism gives providers greater control over the final product, it is unrealistic to expect early childhood educators to bear so much of the real estate development responsibility without access to well-resourced and capable technical assistance intermediaries. Connecticut has recently funded technical assistance and Pennsylvania is addressing this need in its current policy planning.

Policy Response: The Turnkey Approach to Development. The turnkey approach theoretically offers the advantage of balancing the provider's influence over key development decisions while offering the comfort of having experienced real estate developers oversee planning and construction activities. Because few early educators have experience with complex real estate transactions, retaining a nonprofit developer, especially one familiar with early childhood education, can be less risky since the missions of the partners may be more closely aligned. The Illinois Facilities Fund played this role for seven nonprofit child care centers that participated in the debt service reimbursement program described earlier in this paper.

Physical Design Practices

States currently investing in early childhood facilities are on the leading edge of a new specialty in the building industry. Once states commit to provide capital subsidies for early childhood facilities, they need to ensure a thoughtful and well-informed design process. States can tap the expertise of specialized nonprofit technical assistance intermediaries to support all the following activities.

Policy Response: Professional Development Workshops. States should themselves, or through collaborations, conduct professional development workshops for architects and even require attendance for those hired to design state-financed centers.

Policy Response: Design Reviews. The state's process for awarding deep capital subsidies should incorporate design reviews conducted by architects experienced in early childhood facility development.

Policy Response: Practice-Oriented Research and Resource Development. The state agency administering the facilities development program should commit resources to design research and knowledge development.

Creating a Supportive Policy and Regulatory Environment

It will take decades to expand and upgrade the existing supply of center-based programs. Therefore, policymakers should focus on long-term strategies and financing structures and on institutionalizing the capacity to develop high-quality facilities over time.

Policy Response: Integrated Early Childhood Policies. A state's overall approach to expanding and improving the early care and education system should incorporate facility development policies. Moreover, facilities should be initiated at the earliest possible stage of early childhood policy development because of the time it takes to develop them. Further, state policies should create an orderly system for determining the appropriate mix of public schools and community-based programs.

Facilities development takes years and an enormous investment of organizational effort and money. Therefore, to generate a flow of projects and achieve scale, states must fashion a sustainable process. Therefore, facility development policies should be legislated, not funded as temporary or one-time initiatives. Finally, to be most effective, facility development policies need to be comprehensive, providing the institutional infrastructure—financing agencies, technical assistance intermediaries, policy frameworks, and interagency planning bodies—with clear public

mandates and resources to produce high-quality programs and facilities.

Policy Response: Quality Rating Systems. A very important trend in the early care and education arena is the adoption of state-administered rating systems that grade program quality. Facility standards should be incorporated into these *Quality Rating Systems* to encourage early childhood programs to aspire toward facilities that exceed regulatory minimums. Rhode Island prioritized the inclusion of facilities standards in the development of its Quality Rating System. It is currently the only state that has included a set of specific guidelines related to the physical structure and design of the facility.

Policy Response: Setting Higher Program or Regulatory Standards. States should also revise licensing regulations to raise minimum standards for facilities and reflect the ways in which facilities can promote a child's emotional and cognitive development. States should also ensure that inspectors appropriately interpret and consistently enforce existing and revised requirements.

Conclusion

The most straightforward approach to improving the supply of early childhood facilities would be to fund early education and care at a level that reflects the full cost of quality. If program revenues were sufficient to hire and retain well-trained and experienced teachers and to build centers that are larger, better equipped, and designed specifically to meet the needs of young children, market forces would accomplish those objectives. However, despite evidence of increased state government action to make quality preschool experiences more broadly available, full funding remains a distant prospect.

States are intervening at multiple points with incremental measures designed to create greater coherence and quality in the emergent early education system. From the patchwork of public programs and private initiatives to improve early childhood physical environments, states can stitch together the elements of a comprehensive strategy.

Comprehensiveness in this context constitutes a strategy that includes a sustained effort and mix of deep capital subsidies; gap-filling design and development capacity building; and a regulatory and standards-setting framework that consciously changes expectations of an optimal quality early childhood environment. This multi-pronged strategy has the potential to transform the industry's physical infrastructure over time and to bring about meaningful improvements in quality.

Investing in the physical capital needs of this growing industry is part of the process of building a system of quality early care and education. State facility policies are in their infancy. However, stimulated by the national trend toward expanded state-supported preschool education and the emphasis on elevating program quality, early facility development efforts, such as those described in this policy brief, will continue to be replicated and adapted state by state. These measures, along with new state administrative structures and better-funded professional development systems, are forming an emerging infrastructure that will gradually change the face of the fragmented and unevenly resourced array of publicly supported child care, Head Start, and early education programs. That system will be incomplete without public policies and investments that result in facilities purposefully designed to support quality programming and to house a growing number of young children who need and deserve the very best services.

by Carl Sussman with Amy Gillman

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