LISC LOCAL INITIATIVES SUPPORT CORPORATION

Local Initiatives Support Corporation Written Statement
Senate Finance Full Committee Hearing:
"Examining the State of Child Care: How Federal Policy Solutions Can Support Families, Close Existing Gaps, and Strengthen Economic Growth"
Hearing Date: July 9, 2024
Submission Date: July 23, 2024

Senate Committee on Finance
Attn. Editorial and Document Section
Rm. SD-219
Dirksen Senate Office Building
Washington, D.C. 20510-6200

Chairman Wyden, Ranking Member Crapo, and Honorable Members of the United States Senate Committee on Finance:

Thank you for your leadership on issues of importance to children, families, and local communities. Local Initiatives Support Corporation (LISC) appreciates the opportunity to submit a statement for the record regarding the July 9, 2024 Senate Finance Committee Hearing: "Examining the State of Child Care: How Federal Policy Solutions Can Support Families, Close Existing Gaps, and Strengthen Economic Growth". Quality child care and early learning programs are essential for healthy children and families, and robust local economies. We applaud you for focusing on how to best leverage federal resources to increase access to affordable and accessible care options. As the Committee explores policy mechanisms that support equitable access to affordable child care and early learning programs, we urge you to ensure that policy solutions include dedicated resources for child care facilities – a critical yet often overlooked component of high-quality child care.

About LISC
Established in 1979, LISC is a national housing and community development nonprofit and certified community development financial institution (CDFI) dedicated to working with residents and partners to forge resilient and inclusive communities of opportunity across America – great places to live, work, visit, do business and raise families. Our organization mobilizes corporate, government and philanthropic support to provide local community development organizations, nonprofits, and small businesses with loans, grants, and equity investments, as well as technical and management assistance. Our national footprint consists of offices in 37 cities throughout the country, and a rural network encompassing over 140 partners serving 49 different states. In 2023, LISC and our affiliates raised and deployed over $2.8 billion in grants, loans and equity capital into distressed urban and rural communities. Through our signature Child Care & Early Learning Program, we have invested more than $149 million in developing or improving more than 900 facilities serving 30,000 children annually in urban and rural neighborhoods across the country. That investment has leveraged an additional $518 million in public and private resources for these early learning spaces.

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Child Care Facilities Affect Health, Safety, and Access to Quality Programs

High quality child care and early learning programs are essential to healthy child development and provide working families with better job stability and overall economic security. Unfortunately, many communities across the country have limited access to quality child care options, with historically disinvested low-income communities, communities of color, and rural areas disproportionately affected.[i] It is nearly impossible to expand access to quality child care without consideration of the condition, quality and availability of spaces where care is being delivered. In addition to the core function of serving as a location for the delivery of services, indoor and outdoor spaces are also active components of the instruction and learning experience. Often referred to as the third teacher, they profoundly impact child development, program quality, and the health and well-being of children and staff.[ii] A well-designed facility's layout, size, materials and features can improve program quality and contribute positively to child development. An inadequately adapted and overcrowded space undermines learning, health, safety and overall quality of care. Poor indoor air quality, lack of natural light, and contaminants like lead, asbestos, and radon have long threatened the health and safety of young learners and program staff and detracted from positive learning experiences. In fact, an investigation in 10 states conducted by the U.S. Department of Health and Human Services Office of the Inspector General found that 96 percent of child care inspected during unannounced visits had one or more potentially hazardous conditions and noncompliance with health and safety requirements.[iii] In short, the condition, quality, and availability of child care spaces are tremendously important.

Child Care Facilities Face Financing Obstacles

Despite what is known about the importance of child care and early learning facilities, **there is no dedicated, stand-alone federal funding to support their acquisition, construction, and/or renovation, and there are no comprehensive national data on their condition, quality and availability.**[iv] Child care and early learning providers have not been adequately resourced to address the conditions of the spaces where they care for young children. Data indicate that more than 90% of child care businesses in the United States are owned by women, and 40% are owned by people of color.[v] This demographic faces an historic and industry-wide challenge of inequitable access to capital and supports needed to grow and thrive.[vi] Private financial institutions have not made significant infrastructure investments in early learning facilities – particularly in economically distressed and rural areas. Few mainstream banks, credit unions, and lending institutions are willing to finance early childhood facility projects, which tend to require relatively small, complex loans often characterized by uncertain future funding for repayment through government operating subsidies. The projects generally have little to no equity, and limited collateral value. Furthermore, private banks typically don't employ staff with specialized knowledge of the child care sector, and consequently are unable to understand the needs of child care providers or assist program directors lacking experience with real estate development and financing.

Certified CDFIs, like LISC, working in market niches that are underserved by traditional financial entities are among the small number of organizations who have made investments in child care facilities. We have a proven track record in economically challenged regions and are experienced with providing a unique range of financial products and services that spur private investment in their target markets. Unfortunately, given the limited funding available to CDFIs to carry out their comprehensive mission, demand for early childhood facilities capital far outstrips supply.

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Recommended Federal Solutions

There is recent evidence of the great demand for child care facilities resources at the state and local levels. When American Rescue Plan Act (ARPA) resources were made available to stabilize the child care sector during the coronavirus pandemic, several states and localities opted to channel a portion of their funding to address dire child care facilities needs. Many of the programs were oversubscribed within days, and only able to meet a fraction of demand. For example, the $60 million Arizona Child Care Infrastructure Grant program administered by the LISC Phoenix office filled a critical need **but met just 34% of the total funding requested by child care providers across the state.**[vii] This indicates that when federal funding is made available and is open to facilities uses, it is channeled to address longstanding critical infrastructure needs in local communities.

Across the nation, there is need for more equitable access to affordable child care and early learning options, offered in facilities that support health, safety, growth and development. As federal policies are developed to help more families and local communities access affordable, quality care, it is vitally important that they incorporate resources for facilities. LISC recommends the following:

- **Establish Dedicated Federal Funding for Child Care Facilities**
  Dedicated federal resources to support the acquisition, construction, and renovation of child care and early learning facilities would ensure that children, families, and providers in urban and rural communities utilize spaces that are healthy, safe, and conducive to high-quality care. The Building Child Care for a Better Future Act is a good example of legislation that seeks to incorporate resources for facilities in the child care entitlement funding stream. Proposals like the Infrastructure Grants to Improve Child Care Safety provisions included in the Child Care is Infrastructure Act would create a competitive child-care facilities grant program for states, administered by the U.S. Department of Health and Human Services (HHS). The provision directs a minimum of 10 percent and a maximum of 15 percent of the authorized funds to award grants of up to $10 million to intermediary organizations (including CDFIs) that have demonstrated experience in developing or financing early care and learning facilities. It also directs HHS to conduct needs assessments of early child care and learning facilities to understand the impact of the COVID-19 pandemic and evaluate the ongoing needs of child care facilities.

- **Leverage Community Development Finance Tools & Support Co-Location of Child Care Facilities with Affordable Housing**
  The facilities challenges facing child care and early learning providers require creative cross-sector solutions. The development of affordable housing in high-need communities can be leveraged to increase access to quality care for children and families and meet some of the facilities needs of child care operators. The Build Housing with Care Act would provide $500 million to help construct child care centers and support home-based child care providers connected with affordable housing buildings. Funding would be prioritized for projects located in child care deserts or rural communities, including qualified Head Start providers and providers that serve low-income children. Tax incentives can also be targeted for child care opportunities. The measured success that CDFIs have had utilizing tax credit programs (including the Low Income Housing Tax Credit and New Markets Tax Credits), discretionary funding, and debt instruments to support child care providers has largely occurred due to

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creativity and dogged mission-driven perseverance. Policies that encourage and incentivize utilization of community development financing tools to support child care and early learning capital projects and businesses are necessary to address the financing needs of providers.

- **Provide Capacity Building Resources for Early Childhood Businesses**
  Child care and early learning providers face unique financial challenges as small business operators. Programs serving low-income communities are highly dependent on unpredictable public funding streams for operations and lack a consistent and effective financing system and capital subsidies. The razor-thin profit margins of child care programs often limit provider eligibility for traditional forms of private sector financial support. Few mainstream banks, credit unions, or lending institutions have developed financial products to support child care businesses, due to the uncertainty of future funding for repayment through government operating subsidies, and because private banks typically don't employ staff with specialized knowledge of the child care sector. Additionally, as previously stated, providers confront challenges related to inequities faced by women entrepreneurs and people of color in accessing small business supports. Child care business operators deserve equitable access to small business supports tailored to meet their sector needs. LISC supports the establishment of dedicated resources to provide child care operators with small business training, technical assistance, and capacity building. We also support the establishment of a pilot program that would provide resources for intermediaries to partner with Small Business Development Centers (SBDCs), Minority Business Development Agency (MBDA) Business Centers, and Women's Business Development Centers (WBDCs) to develop innovative approaches related to child-care and early-learning marketing, financing, and business-related technical assistance and capacity building

- **Support Increased Federal Funding for Child Care Operations & Workforce**
  The child care and early learning sector is massively underfunded, resulting in care that is high cost, too few providers of high-quality programs, and a workforce of teachers and child care employees that are significantly under resourced and underpaid. In addition to increased funding for the Child Care Entitlement to States (CCES) and the Child Care and Development Block Grant (CCDBG), LISC encourages the adoption of policies that incentivize the utilization of multiple public sector resources – including but not limited to the child care tax credit, small business operating supports, and employer incentives – to support child care operations, workforce needs and affordability.

Conclusion

Quality child care and early learning programs are essential for healthy children and families, and for robust local economies – now and in the future. In the fields of early childhood facility policy, financing, and practice, LISC has been an advocate, thought leader and resource for more than two decades. We are not attempting to fix every piece of the complex ECE puzzle, but we are uniquely positioned to help place an essential piece of that puzzle: developing and financing quality physical spaces and building the capacity of ECE providers. These actions are essential to building a robust quality child care and early learning system and thriving local communities. We are eager to use our experience to promote systems-level change and be a resource to congressional leaders. Please do not hesitate to contact Bevin Parker-Cerkez, LISC National Director of Child Care and Early Learning (bparkercerkez@lisc.org) or Nicole Barcliff, LISC Sr. Policy Director (nbarcliff@lisc.org) if we can be a resource to you on these and related issues.

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[i] First Five Years Fund. *Why It Matters: Support For Working Families.* https://www.ffyf.org/why-it-matters/support-working-families/

[ii] Sussman, C.; Gillman, A. (2007). *Building Early Childhood Facilities: What States Can Do to Create Supply and Promote Quality*. https://www.lisc.org/media/filer_public/14/1e/141eb5aa-b07e-48bf-b1de-d1ef558330b4/2007_nieer_cick_facilities_brief.pdf
https://bipartisanpolicy.org/video/child-care-facilities/

[iii] Office of Planning, Research & Evaluation. National Survey of Early Care and Education 2010-2015. https://www.acf.hhs.gov/opre/research/project/national-survey-of-early-care-and-education-nsece-2010-2014

[iv] With the exception of Tribal Nations, Child Care Development Block Grant resources cannot be used to support the acquisition, construction, or major renovation of child care facilities. The demand for Head Start facilities funding outstrips available resources.
https://www.acf.hhs.gov/sites/default/files/documents/occ/ccdf_acf_pi_2020_02.pdf
https://childcareta.acf.hhs.gov/construction-and-major-renovation
https://nhsa.org/wp-content/uploads/2022/03/2021-Facility-Infrastructure-Brief.pdf

[v]Oldham, C. (2022). *Childcare Providers—Especially Women of Color—Need Our Support. Here's How We Can Help.* https://www.uschamberfoundation.org/education/childcare-providers-especially-women-color-need-our-support-heres-how-we-can-help

[vi] Larson, C., Parker-Cerkez, B. (2022). *Investing in Child Care Fuels Women-owned Businesses & Racial Equity.* https://www.lisc.org/our-stories/story/investing-child-care-fuels-women-owned-businesses-racial-equity

[vii] https://www.lisc.org/phoenix/regional-stories/65-million-arizona-child-care-infrastructure-grant-program-helps-478-child-care-providers-improve-their-facilities/

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