Building Better for Families:

Policy Strategies for the Co-Location of Early Care and Education Facilities and Affordable Housing

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About the Low Income Investment Fund (LIIF)

The Low Income Investment Fund (LIIF) is a national nonprofit community development financial institution with $900 million in assets under management. LIIF's mission is to mobilize capital and partners to achieve opportunity, equity and well-being for people and communities. Since 1984, LIIF has deployed more than $2.7 billion to serve more than two million people in communities across the country from its five offices. An S&P-rated organization, LIIF innovates financial solutions that create more equitable outcomes for all by building affordable homes, quality educational opportunities from early childhood through higher education, health clinics, healthy food retail and community facilities.

About NCFN

The National Children's Facilities Network (NCFN) is a coalition of more than 30 nonprofit Community Development Financial Institutions (CDFIs), financial and technical assistance intermediaries, and child care stakeholders dedicated to helping ECE providers develop high-quality physical learning environments and sustainable business models. By providing technical assistance and financing to early learning providers, we seek to address capital needs and business capacity challenges that limit working family's ability to gain equitable access to high-quality ECE programs.

NCFN works to generate federal resources that support the development and improvement of early childhood facilities in underserved communities nationwide. The Network collaborates with other children's advocacy leaders concerned with addressing the supply and quality of early childhood facilities across the country. For more information, visit ***www.ncfn.org*** and follow NCFN on Twitter @ECEFacilities.

Making Space: Leading Perspectives on Child Care Facilities: This paper is the second in a series of thought leadership pieces produced by National Children's Facilities Network (NCFN) Members. The Making Space series explores the importance of high-quality child care facilities, challenges to financing and accessing this vital infrastructure, and the role of intermediaries in achieving innovative solutions to increase the quality and affordability of child care facilities.

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1. Executive Summary

The United States currently faces a severe shortage of both quality early care and education (ECE) options and housing that is affordable to families across the income scale. Prior to the pandemic, 20.4 million renter households were considered rent burdened, meaning they spent more than 30 percent of their monthly income on rent, and 2.7 million children across 25 states did not have access to an ECE slot despite needing one.[1,2] The economic consequences of the COVID-19 pandemic have caused many ECE providers to close their doors or downsize their businesses, constraining an already tight supply of care. At the same time, the nation's already vast shortage of affordable housing has continued to grow as more families face unemployment and reduced wages, resulting in 5.7 million households – or 14 percent of all renter households – behind on their rent and facing the risk of eviction as pandemic protections are lifted in the future.[3]

Co-locating ECE facilities with affordable housing developments is a promising strategy to support low income families by improving family access to two vital sources of household stability and economic mobility. Access to high quality care supports child development during their critical early years; it is also a cornerstone of economic stability for families by allowing parents to participate in the workforce while knowing their child is cared for in a safe environment. Co-location is also a practical strategy to work across silos and deliver two critical community amenities in an efficient, sustainable and user-friendly manner.

There are many reasons to encourage the co-location of ECE facilities with affordable housing developments, and in several places across the country there are successful examples to look to for guidance. However, there remain many logistical and financial challenges that impede the ability to complete more of these projects in communities where families would benefit from the co-location of these two necessities. Although no single policy change will result in a sudden surge of co-location developments, a combination of local, state and federal policies can lead to more intentional co-location efforts that ultimately make these developments more common practice.

Local policies to support co-location

1. Include ECE space as a requirement in RFPs for city or county land and NOFAs for affordable housing developments.
2. Foster open communication between departments, such as the departments of education, housing and planning.
3. Create co-location friendly zoning laws.
    a. Award developers with density bonuses for including ECE facility space in their plans.
    b. Award developers with height bonuses for including ECE facility space in their plans.
4. Include ECE in Community Benefit Agreements.

State policies to support co-location

1. Amend state Low-Income Housing Tax Credit (LIHTC) Qualified Allocation Plans (QAP) to include points for developments that include ECE space.
    a. If a state already includes points for on-site amenities, advocate to include ECE facility space as a qualifying amenity.
    b. If a state already includes points for proximity to amenities, advocate to include ECE facility space as a qualifying amenity.
    c. Require that ECE providers are licensed by the state to ensure quality.
2. Create a funding stream dedicated to ECE facilities.
3. Increase voucher reimbursement rates so providers can pay rent, pay employees a living wage and continue to serve children from low income families.
4. Reimburse providers based on enrollment rather than attendance.
5. Provide technical assistance support for providers seeking to expand their facility.
6. Provide technical assistance support for developers engaging in co-location projects.

Federal policies to support co-location

1. Provide flexibility in the designation of Qualified Census Tracts to help facilitate successful use of community service facilities in LIHTC developments.
2. Increase Child Care and Development Block Grant (CCDBG) funding such that states can fund voucher programs that cover the full cost of care.
3. Enact a dedicated source of federal funding for ECE facilities that can be used to fund the child care space in a co-located development.

Areas for future research

This report paints a broad picture of co-location efforts highlighting strengths and opportunities for policy change. The space is new and evolving, and research should continue in five areas:

1. Tracking co-located developments: Gather more data on co-location developments that have been completed or are under construction to identify trends. Further, additional information on family child care programs co-located in affordable housing developments should be collected.
2. Income eligibility requirements: Understand the interaction of affordable housing and child care voucher income eligibility limits.
3. Application to suburban and rural settings: Co-location may not be the right approach for affordable housing built outside of metropolitan areas, but there are other strategies that could apply.
4. Other housing and community development funding opportunities: Investigate other community development funding sources such as HUD 221(d)(4) mortgages and the Capital Magnet Fund. Follow the progress of the American Jobs Pan and American Families Plan.
5. Project execution strategies: Collect and share guidance to help developers execute housing projects that co-locate ECE programs.

2. Context

Co-location pairs ECE facilities with affordable housing

Co-location of housing and ECE is the inclusion of child care facility space in affordable housing developments with the goal of improving access to quality care for low-income families. Co-location projects are generally completed in one of two ways: the facility is included in the ground floor retail space of a mixed-use apartment building, or the facility is included as a stand-alone building or as part of a stand-alone building in a garden-style housing complex. It is important that families residing in a development are able to enroll their children in the co-located care, but the ECE facilities are generally open to the surrounding community as well. This report focuses primarily on mixed-use buildings because the primary examples of co-location projects already completed have occurred in mixed-use developments. Since this is still a relatively new and growing field, it is important to understand the opportunities and challenges associated with what currently exists before delving into other models.

Co-location can support economic sufficiency

Co-location recognizes that quality ECE is both a critical source of support for families and a broader community amenity that contributes to the strength of the local economy. From decades of experience in both the affordable housing and ECE sectors, LIIF supports the strategy of providing child care within affordable housing developments to reduce financial stress on families and provide greater opportunity and mobility. Parents that have access to both high quality child care and housing that is affordable have an easier time balancing work and meeting the diverse demands of raising a family.

Access to high quality ECE is also essential for a child's development. Studies have shown that children with access to quality ECE have better health outcomes over time and earn higher wages.[4] Learning and achievement gaps emerge between children before they enter kindergarten, with low-income Black and Hispanic children less likely to be prepared than their white peers.[5] Enrollment in high quality ECE has been shown to reduce these economic and racial gaps, and researchers estimate that universal ECE for three- and four-year-old children could reduce the Black-white readiness gap by up to 20 percent and the Hispanic-white readiness gap by up to 36 percent.[6,7]

Further, the physical quality of the ECE facility is an important element of ensuring children have access to a high-quality early learning experience. Limited public funding for the ECE sector results in many programs being located in less than ideal locations, such as basements, in an attempt to minimize costs. Black children are twice as likely as white and Hispanic children to attend a child care facility that has a "low quality" rating.[8] Incorporating ECE programs in new affordable housing developments not only increases community access to this critical amenity, but also ensures children and educators can learn and teach in a high-quality environment.

Co-location is an important element of comprehensive community development

Co-location complements other efforts aimed at improving affordable housing. Including child care where families live removes one stop on a parent's commute to work, thus helping reduce congestion and supporting community health, environmental and transit-oriented efforts. Co-location also supports community building in the areas where developments are located. Since child care is generally also available to families who do not live in the affordable housing, the positive impact of development extends into the community beyond the people living in the units. In addition to providing care for families in the community, the presence of ECE facilities can improve the sense of safety and quality of life in a neighborhood.

The United States faces a critical ECE shortage

Although there are several community facilities that could be co-located with affordable housing, child care is a particularly important service since it is both critical for child development and for parent workforce participation. Further, there is a critical need for more high quality ECE facilities across the United States. 51 percent of Americans live in a child care desert, or a census tract with at least 50 children under age five and fewer than one licensed child care spot for every three children.[9] This disproportionately effects Hispanic, American Indian and Alaskan Native families. 60 percent of American Indian and Alaskan Native families live in a child care desert and 57 percent of Hispanic families live in a child care desert.[10] Furthermore, low-income areas are more likely to be child care deserts than higher income areas, suggesting that co-locating ECE with affordable housing in these areas may be especially important to build opportunity in the community.[11]

In a 2018 study, the Center for American Progress found that nine percent of parents across the country have to "quit a job, not take a job, or greatly change their job" due to problems related to child care each year. This disproportionately affects women, who have been three times more likely than men to not work due to child care demands since the onset of COVID-19.[13] The data demonstrate a disproportionate impact on Black and Hispanic mothers of young children, who were more likely to be unemployed at the start of 2021 than were white mothers of young children.[14] This chasm existed before the pandemic as well, with one third of women who reported wanting a job but not looking for one due to family responsibilities.[15]

ECE facilities also need to be safer. An audit of child care facilities conducted by the U.S. Office of the Inspector General across 10 states found that 96 percent of child care programs had one or more instances of potentially hazardous conditions during an unannounced visit.[16] This included hazardous substances within reach of children, exposed wires, sharp and rusted items in play areas, gates insecurely closed and other health and safety concerns. The construction of new, co-located facilities provides an opportunity to ensure children are cared for in safe environments.

The dearth of high quality ECE has only grown since the onset of COVID-19. Between April and October 2020, the child care industry shrunk by 17 percent with over 166,000 jobs lost.[17] Over 4.5 million child care spots have been or are at risk of being permanently lost.[18] The COVID-19 pandemic has shed light on the essential role child care providers play across the country, and ensuring parents have access to care for their children will be critical as they return to work.

Cribs and child care supplies left on a street corner in Emeryville, *CA*. *Photo by Erika Weissinger*

3. Methodology

Findings from this report are based on the following:

- Semi-structured interviews conducted with a cross-section of stakeholders
- A systematic review of the literature
- An in-depth analysis of each state's Qualified Allocation Plan (QAP), which determines the allocation of each state's funding sources and Low-Income Housing Tax Credits (LIHTC) to affordable housing developments.

This paper is primarily focused on policy changes that could incent developers to incorporate ECE facilities in housing developments. As such, I conducted interviews with affordable housing developers, employees at state housing and finance authorities, third party partners of co-location projects and related subject matter experts. A full list of interviews can be found in Appendix A.

Since this paper was produced during the COVID-19 pandemic and the ECE sector has been disproportionately impacted by the public health and economic crises, I did not directly interview any ECE providers but instead spoke with other stakeholders involved in the industry. Future research should expand on this report by focusing directly on the ECE provider perspective of co-location. This research should be conducted in a manner that acknowledges and seeks to counteract the compounding inequities facing this sector.

I spoke with both for profit and nonprofit housing developers. Some have completed co-location developments in the past and spoke to the challenges of such a development, what ultimately made it work for them, and policies that would help them complete more of these developments in the future. Some of the developers had not completed a co-location development before but have looked quite extensively at the possibility. These developers spoke to the challenges that led to their decision not to pursue a project and what they would need to complete a successful project in the future.

Each state has its own Housing Finance Agency (HFA). I spoke with individuals who work for HFAs in California, Colorado and Georgia to gain a better understanding of how they approach LIHTC policies and what altering their QAPs to incent co-location would look like.

The subject matter experts I interviewed provided valuable information about the mechanics of LIHTC and financing for affordable housing developments. They also spoke to the needs of ECE providers looking to move into a co-located facility.

When reviewing state QAPs, I was primarily interested in learning how the point system worked. I noted every place where an affordable housing developer could earn points for including ECE space on-site or for being located within a certain distance of an existing ECE facility. I used the search function to find words such as "child care," "childcare," and "day care" to ensure I did not miss any mentions.

4. Opportunities and Challenges

Opportunities associated with co-location

Organizations and developers recognize the value of co-location

Interviewees for this report recognized the value of co-locating ECE facilities with affordable housing. There are developers, such as BRIDGE Housing on the west coast and L&M Development Partners on the east coast, and other community development stakeholders, such as Enterprise Community Partners, committed to making such developments work. It is encouraging that co-location developments are already being completed across the country without significant infrastructure in place to support them. Furthermore, increases in public sector investments in both affordable housing and ECE proposed by the Biden-Harris Administration present an ongoing opportunity to leverage capital for additional co-location developments.[19]

Individuals interviewed who work in the ECE sector spoke confidently about being able to find high quality providers that would fit into the type of facility a developer is thinking about building. They view new facility development as an empowering opportunity for providers and as a strong opportunity to ensure the physical ECE space is a high-quality environment. Since there is such a deficit of available care, advocates in the ECE sector are highly motivated to share their expertise and make co-location projects successful.

Plaza Roberto Maestas

4. Opportunities and Challenges (cont'd)

Community Development Financial Institutions (CDFIs) are also a strong source of support for co-location projects. The National Children's Facilities Network (NCFN) is a growing coalition of more than 30 CDFIs, financial and technical assistance intermediaries, and child care stakeholders dedicated to helping ECE providers develop high-quality physical learning environments and sustainable business models. CDFIs in particular can provide financing for the build-out of ECE facilities that meet the unique needs of ECE providers and which may not be available through private lenders.[20] For example, CDFIs have offered no-interest and forgivable loans to help providers grow their businesses while serving low-income families.[21]

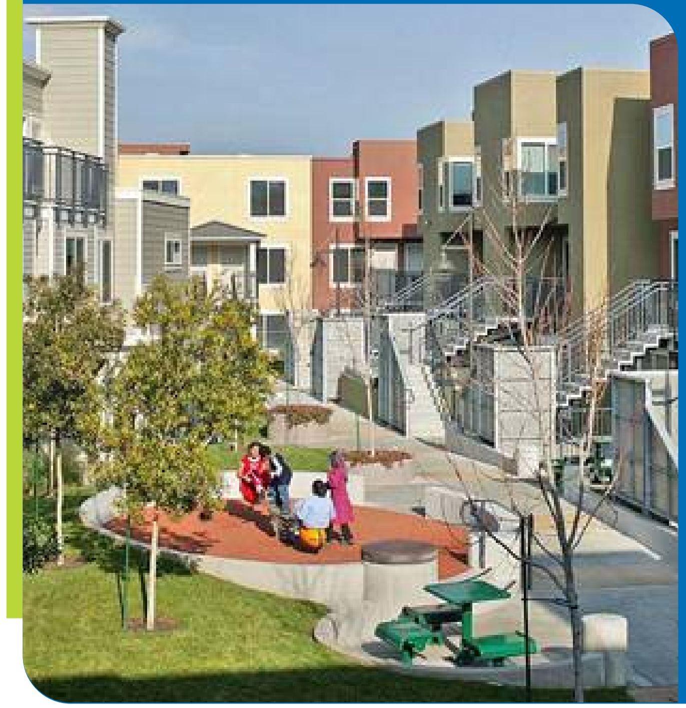
Case Studies

The following graphics show examples of co-location developments in Seattle, San Francisco and Chicago.

Plaza Roberto Maestas[22]

Location: North Beacon Hill - Seattle, Washington
Developer: El Centro de la Raza
Provider: Jose Marti Child Development Center
Classrooms: 7
Ages Served: 15 months to 5 years
ECE Slots: 128
Year Completed: 2016
Funding Sources: 9% LIHTC, Washington State Housing Trust Fund, City of Seattle Office of Housing and Human Services, construction loan, capital campaign, office condominium sale, and permanent bank debt
Details: El Centro is a nonprofit organization that runs over 40 community programs in the Seattle area. The organization manages a child care center and decided to build affordable housing on adjacent land that they owned to build in additional supports for the community. The site is also a transit-oriented development, located across the street from a light rail station. Enterprise Community Partners was a key contributor to the development, providing funding and technical assistance through their Home & Hope initiative.

North Beach Place[23]



Location: San Francisco, California
Developer: BRIDGE Housing
Provider: Kai Ming Head Start
Classrooms: 2
Ages Served: 3-5 years
ECE Slots: 40
Year Completed: 2004
Funding Sources: HUD, San Francisco Housing Authority, City of San Francisco Mayor's Office of Housing, Citibank, Centerline Capital Group, Federal Home Loan Bank of San Francisco. LIIF provided a total of $66,000 in grant funding to support start up, capital and quality costs at Kai Ming.
Details: This development is located in the North Beach neighborhood, which is home to many Chinese immigrants. The Head Start center is a dual language program. BRIDGE designed the development such that the center courtyard is also the outdoor space used by Kai Ming. This solved a common co-location problem of where to include the required ECE outdoor space and connected the center to other residents who call North Beach Place home.

Trianon Lofts[24]

Location: Woodlawn Park - Chicago, Illinois
Developer: Preservation of Affordable Housing (POAH)
Provider: Teeny Tiny University
Classrooms: 6
ECE Slots: 100
Ages Served: 6 weeks to 5 years
Year Completed: 2017
Funding Sources: New Markets Tax Credit, City of Chicago Neighborhood Stabilization Program, HUD Choice Grant, private construction loan
Details: The owner of Teeny Tiny University was previously operating out of her home and was looking to expand her business. Aspects that made the development successful were an SBA loan for the build out, an architect with deep experience in child care regulations and an adjacent playground to meet the outdoor space requirement. Woodlawn Park was selected as a HUD Choice Neighborhood grant recipient, and the Trianon Lofts building is one of multiple affordable housing developments constructed using the grant.[25]

4. Opportunities and Challenges (cont'd)

A variety of ECE providers can operate in a co-location project

There are four categories of providers to consider when discussing ECE, and each has unique considerations in regards to a co-location project. The first three are center-based providers, and the final type of provider operates out of their own home. Information about each type of provider can be found in the following table.

Provider Types	
Head Start	Federally funded by the Administration for Children and Families in the Department of Health and Human Services, Head Start provides care free of charge to children ages five and younger from low income families.
City Contract	Some cities, such as New York, contract with and provide funding for providers to operate ECE facilities. Similar to Head Start, these services are provided at little or no charge for eligible families.
Private	In private pay programs, parents are responsible for the cost of their child's care. Private pay programs range from national chains such as Bright Horizons to small businesses with one location.
Family Child Care (FCC)	FCCs provide care in their own homes. They are licensed and generally care for a smaller number of children.

Low-income families may qualify for child care vouchers to help them pay for a private provider. Any private provider selected for a co-location project should accept vouchers to ensure that the families living in the affordable housing development are financially able to enroll their children. The main source of voucher funding is the Child Care and Development Block Grant (CCDBG). Federal law sets eligibility at income levels of 85 percent of the State Median Income (SMI) or below. States have discretion to lower the eligibility threshold. Providers are reimbursed based on state guidelines and a variety of factors including: child age, provider type, length of time in care (full-day, half-day, etc.) and provider quality ranking. Parents are often required to make a co-payment.

Head Start and city contracted providers are attractive to developers because they have a guaranteed source of funding and contracts are set for multiple years at a time. Head Start contracts are for five years, and city and state contracts range in length. Developers look for reliable tenants who will be able to pay their rent, and a provider with a guaranteed stream of revenue from the federal government is appealing. Longevity in a child care business is also important, as developers expressed concern about potentially losing a tenant after one or two years.

Instead of or in addition to including ECE space as ground floor retail, some developers have built specific units in their developments for FCC providers. These units are slightly larger, have clear lines of sight, have extra storage closets, and are on the ground floor with outdoors access. While a promising idea, these types of units are not the focus of this report. FCC providers, however, should not be overlooked when considering co-location. There are FCC providers who have been operating out of their homes and wish to expand to a larger space where they can care for more children. These FCC providers may be interested in moving into the child care space in an affordable housing development.

Since FCC providers have been operating out of their homes, it is important to consider their ability to fund the buildout of a commercial facility through cash or loans and their capacity to plan for the expansion well ahead of time. Considerations that a provider must plan for include plumbing, furniture, and other physical fixtures that are sized appropriately for children, as well as HVAC and ventilation, lighting, outdoor space and other amenities specific to the needs of children and that meet state licensing requirements. All of these considerations are costly and require coordination with multiple stakeholders, including architects, developers, local regulatory agencies, contractors and more. Affordable housing developments can also take multiple years to build. The long timeline can be helpful for FCC providers, as it gives them time to create a business plan and organize their finances to be able to take on debt to outfit the space. It also requires, however, that the provider's revenue stream remains stable and any contracts for expansion are awarded as expected.

Equity must also be front of mind when thinking about the type of ECE provider that will fill a space – particularly racial equity. FCC and small ECE business operators are predominantly women and often women of color.[26] 89 percent of child care businesses are owned by women, and 60 percent of child care businesses are owned by people of color.[27] Decades of policies and practices have explicitly and implicitly excluded people of color and women from accessing or participating in our nation's financial services industry and other formal institutions that promote business ownership and entrepreneurship. Minority-owned businesses are more likely to be declined for loans, receive smaller loans and pay higher interest rates.[28] One interviewee noted the importance of empowering providers to expand their business and move into one of these new spaces.

It is also important to consider equity within the type of child care businesses prioritized in a co-location development. If steps are not taken to proactively reach out to smaller, community-based providers, developers may end up working with larger companies only and exclude small business owners from the market.

Challenges associated with co-location

While we have seen successful co-location developments across the country, many challenges stand in the way of continuing to execute these projects successfully and to increase the number that are completed. These challenges fall under two main categories: administrative burden and financing.

Administrative burden

Co-location developments unite two complicated sectors, and there is an expertise mismatch when affordable housing developers and ECE providers are brought together. Developers do not always know how to find ECE providers with the resources or capacity to join the project, nor are they familiar with ECE facility regulations. ECE providers, on the other hand, have likely never overseen the construction of a new facility, especially FCC providers who have been operating out of their home. They are also unlikely to be familiar with the process of building an affordable housing development or the various moving parts a developer is managing. As a result, when the two parties come together to work through the planning process, there is often a steep learning curve. Technical assistance intermediaries, such as CDFIs and other members of NCFN, can help to bridge this divide, but it is still a challenge for parties looking to undertake a co-location development for the first time.

Affordable housing developers must also work across multiple approval authorities throughout the development process. Developers expressed that different city departments that approve permits and license facilities, such as planning and education, have varying standards they must meet, so they must know what the standards are and then ensure they meet whichever is most restrictive. Approval processes can be lengthy, and anything that expands the timeline for a development increases financing costs for developers.

4. Opportunities and Challenges (cont'd)

Financing

Some developers have already executed co-location developments and are looking to do more. Others understand the value add of including facilities such as ECE space in a development, but are wary of doing so. Whether or not a developer has worked with an ECE provider before, they all express concern over the capital required to fund the build out of a facility and a provider's ability to contribute. Building out a facility – including installing child-sized plumbing, kitchens that meet local regulations, classroom furniture and fittings, access to the outdoors, and other elements specific to a child care center -- requires significant funds, and if a developer is building the housing using the Low Income Housing Tax Credit there are only limited scenarios in which the tax credit can finance the ECE facility. This means developers often want the provider to finance the outfitting of the space. Many providers do not have the financial capacity to immediately take on this requirement, particularly since it usually requires them to take on debt. A sample budget for the build out of a 4,200 square foot center serving 60 children can be found in Appendix B.

Long-term viability of providers as tenants is an additional concern. Providers operate on narrow margins, and small setbacks could hinder their ability to pay rent, making them a relatively risky tenant for a developer. Developers interviewed for this report stated that it can take anywhere from five to ten years for a commercial space to break even. If the provider leaves after year two or three, the developer is in the hole and left with a space that is outfitted specifically for child care. Some developers did indicate that they do not view an ECE provider as any riskier than a coffee shop, clothing boutique or restaurant that may rent commercial space.

The idea of creating an affordable housing development that is a mixed-use site with any type of ground floor retail is also something that is relatively new to certain developers, especially in particular areas of the country. Although it varies across geographies, affordable housing developers often seek out inexpensive sources of land to help limit overall project costs. These less expensive areas do not necessarily coincide with areas where families would prioritize child care. When considering retail tenants, developers must be mindful of the local market. If a development is not built with easy street access in mind, it may not be an effective use of space to include ground-floor retail.

5. The Low-Income Housing Tax Credit

LIHTC is the largest source of affordable housing financing

As the primary federal financing tool used by developers to build affordable housing, LIHTC offers a valuable avenue to explore co-locating more child care programs with affordable housing. As such, this report focuses on LIHTC, and future research may consider opportunities to accomplish the same goal using other federal housing subsidies.

Since its inception in 1986, 48,672 developments have been financed via LIHTC, creating 3.23 million housing units.[29] Nationally, hundreds of affordable housing developments financed by LIHTC are completed each year. In 2017, the most recent year with complete data, 633 developments were completed. [30] 383 of these were targeted to families.[31] There were approximately 33,800 units across the 383 developments.

States are allocated tax credit authority from the Department of Treasury on a per capita basis which amounts to $10.9 billion in credits allocated annually.[32] Each state housing finance agency then awards housing developers 9% and 4% tax credits following the process outlined in their Qualified Allocation Plan (QAP). For the 9% credit, this process involves a competitive points system, with state housing finance agencies scoring developers based on certain aspects of their proposed development. The 4% process is not competitive, with each qualifying development receiving credits. The 9% credit is primarily used for new construction, and the 4% credit is primarily used for the acquisition of existing buildings to be renovated or new construction receiving financing through tax-exempt bonds.

The 9% LIHTC covers up to 70% of eligible construction costs for a developer, and the 4% LIHTC covers up to 30% of eligible construction costs for a developer. As such, any changes made to LIHTC program requirements can be a motivating force for developers. This report focuses primarily on the 9% credit because the competitive nature of the credit and the point systems are intervention points for policy changes that could incent developers to pursue co-location. Further, the higher subsidy associated with the 9% credit means developers are less reliant on

debt than when using the 4% credit, providing more flexibility to the project's financing. Eligible costs include all hard construction costs and depreciable soft costs such as architectural and engineering costs, developer fees, and loan interest.[24] Hard construction costs must be related to the building of housing units. In the case of ground floor retail, the shell of the retail units could be included in eligible costs because they are part of the frame of the entire development. Costs that are not depreciable are excluded from the eligible basis and include land, amortized costs, taxes and reserves.[25] Developers want to classify as many of their costs as possible under the eligible basis in order to maximize tax credits allocated to the project.

Ohio's QAP

The following lists the areas each new construction development applying for a 9% credit in Ohio is evaluated on. Point values are listed in parentheses, and there are multiple ways to earn full points within each category.

Local Partner (10):
- Developer partners with a nonprofit, housing authority, community housing development organization, or in-state partner.

Sustainable Development (5):
- Development achieves green building certification.

Resident Amenities (5):
- Development includes health, fitness, or wellness activities.
- Development includes features for residents such as dishwasher, garbage disposal, washer/dryer hookup, high speed internet, security cameras, secured parking, extra storage space, or private balconies.

Income Diversity (10):
- Development commits to a percentage of units that will be affordable to households at or below 30% AMI.
- Development has a commitment of a project-based rental subsidy.
- Development promotes economic integration by providing at least 5% of units that are not income restricted.

Housing Need (10):
- Development is in a census tract with fewer than 100 affordable rental units per 100 very low-income renters.
- Development is located in a county with a high percentage of severe housing problems for renters.

Accessible Design (10):
- Development incorporates Universal Design components, such as adequate lighting and hallway widths.
- Development provides twice as many 504 mobility units as required.

Cost Efficiency (10):
- Development is requesting housing tax credits per affordable unit below certain thresholds.
- Development utilizes grants or soft financing from sources such as: Federal Home Loan Bank Affordable Housing Program, local HOME funds, historic tax credit equity, CDBG funds, New Markets Tax Credit, or donated land.

After developments are evaluated on the above, they are broken into sub-pools based on tenant groups (seniors, opportunity housing, and general occupancy) and urbanicity. An Urban Opportunity Housing development would be rated on the following:

Transit (5):
- Development is in a census tract with a minimum transportation connectivity index score.

Education (5):
- Development is in a school district with various performance grades of "B" or higher.

Number of bedrooms (5):
- Development includes units with three or more bedrooms for large families.

Inclusive tenant section plan (5):
- Development has committed to furthering Fair Housing by adopting screening criteria that provides second chances to formerly incarcerated individuals

Proximity to amenities (10):
- Development is located within one mile of amenities such as a full-service supermarket, pharmacy, medical clinic, public library, public park, or public recreation center.

Low poverty area (5):
- Development is in a census tract with a poverty rate below 15% or 10%.

Job access (5):
- Development is in a concentrated job center with at least 3,000 jobs within a one-mile radius.
- Development is in a census tract with high access to entry level jobs.

Due to the strict rules as to what can be included in a development's eligible basis, the build out of an ECE facility is only an eligible cost if the development is in a QCT and meets the requirements to be classified as a community service facility. If the development is not in a QCT, the financing for the facility outfit must come from another source.

Calculating the 9% credit[35]

Annual Credit Claimed = 0.09 * Qualified Basis

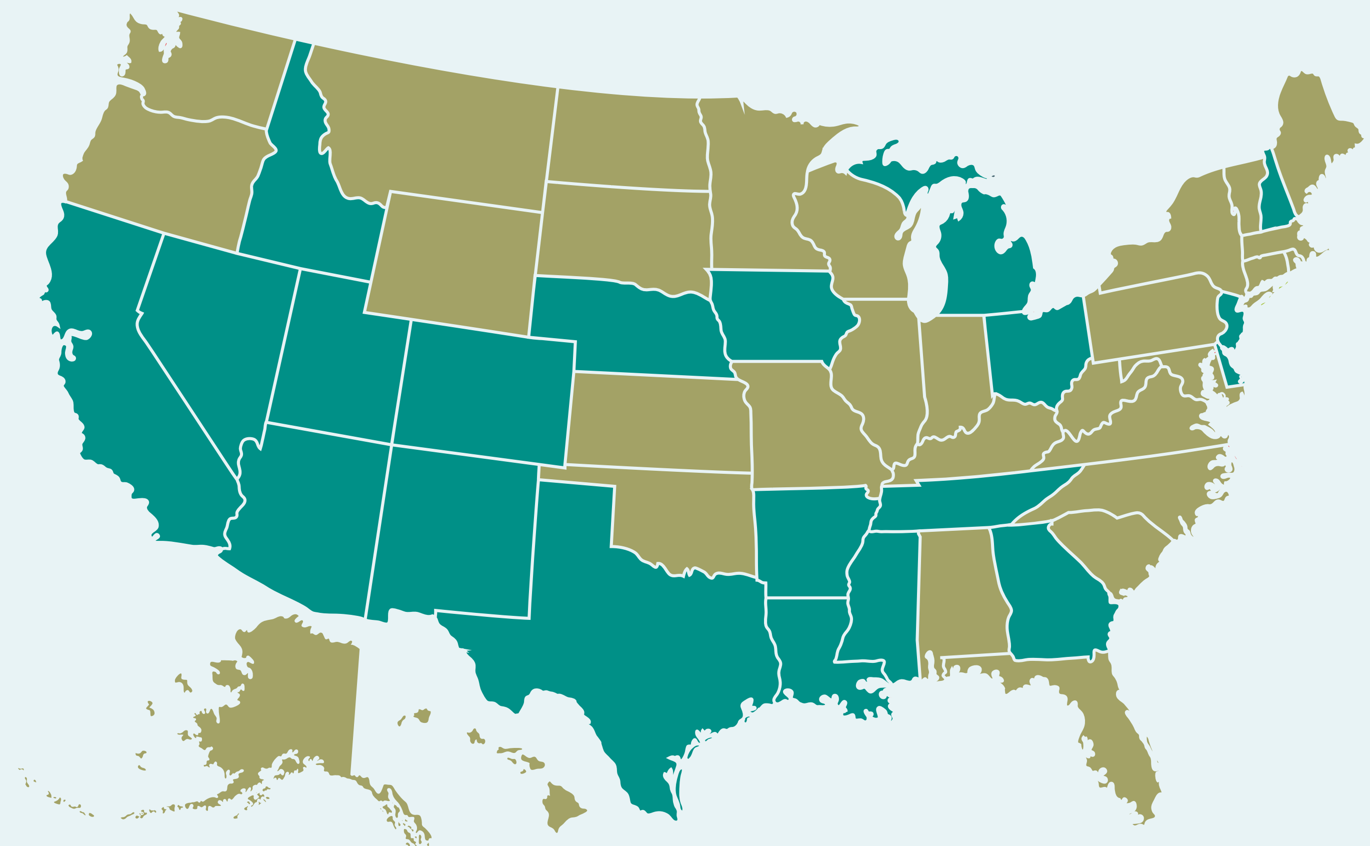
A developer will receive a tax credit worth nine percent of the qualified basis each year for ten years. This discounted present value is equal to 70% of the qualified basis. The qualified basis equals the fraction of the cost of the development rented to tenants who meet the income test. The income test can be met one of three ways:

1. At least 20% of the units are occupied by tenants with an income at or below 50% AMI.
2. At least 40% of the units are occupied by tenants with an income at or below 60% AMI.
3. At least 40% of the units are occupied by tenants with incomes averaging at or below 60% AMI and no units are occupied by tenants with incomes greater than 80% AMI.

QAPs are a key intervention point

Since QAPs oversee the allocation of the LIHTC to selected housing developments, any changes made to the QAP can result in developers taking direct action to modify their application and development plans. Amending state QAPs to allocate points to developers that propose to co-locate child care in their housing development is a potentially valuable policy option, particularly if the developer can identify a local market need or demand for child care. Twenty states explicitly award points for project activities related to child care.[36] Most commonly, developers can receive points for a proposed development's proximity to a variety of amenities, including child care. Distance requirements range from within a quarter mile of a site to up to five miles. Some states, such as Michigan and Utah, provide points for having a licensed child care provider onsite.[37, 38]

Figure 2: States that include ECE in their QAP



Green states include points in their QAP for developments that include ECE on-site or have an ECE facility within a certain radius of the development.

While each state has a QAP and allocates points to proposed developments in some manner, each state is unique in how it ultimately awards credit. There are states, including Colorado, that require developers to meet a point threshold before then turning to a qualitative analysis of the developments to determine who will receive funding.[39]

Vermont strays the farthest from a point system by simply allocating one or two check marks in thirteen evaluation areas for the Vermont Housing Finance Agency Board to use in consideration. Vermont's QAP states that: "Housing Credit Awards will be based upon the experience and capacity of the project team."[40]

In California, there is a point system, but many developers obtain the maximum amount of points available each year, and awards are allocated based on a tie breaker. Most states have a tiebreaker established should multiple developers receive the same number of points. California's first tiebreaker for the 9% credit is how much leverage accompanies the project. Developments that have the highest proportion of their building costs covered by debt score best on the tiebreaker because this means the project requires fewer tax credits and the state can use those resources to fund more LIHTC developments.[41] Other common tie breakers include cost per unit and income level served. In states where credit allocation ultimately comes down to the tiebreaker each year due to developers maxing out on points, any changes to the rest of the QAP to include co-location would likely have only a nominal impact.

Any policy change targeted at QAPs should be carefully tailored at the state level. For states that already allocate points based on proximity to amenities, the question must be raised as to whether proximity meets the goal of ensuring access to high quality ECE or if states should be encouraged to change the requirement to onsite amenities. In addition, an analysis of how often these points are claimed should be conducted. If a developer needs to claim only three or four amenities for points, and ECE is just one of twenty amenity options, it could very well be that ECE is never claimed and developers have little incentive to include it.

Some states, such as Alabama and Connecticut, include points for proximity to amenities such as grocery stores and pharmacies, but do not include child care as an option.[42, 43] Advocacy efforts could be directed towards encouraging states such as these to include child care as a qualifying amenity. Other states such as Hawaii and Kentucky do not include any points for proximity to or inclusion of amenities.[44, 45] In this case, first steps should be targeted towards adding points to a state's QAP for the inclusion of amenities and ensuring that ECE is an eligible amenity.

Developers building in QCTs have additional opportunities

A promising part of LIHTC is the funding it provides for community service facilities in developments that are built in a Qualified Census Tract (QCT). Under IRS code, costs related to building community service facilities may be counted as up to an additional ten percent of a development's qualified basis so long as the services provided are primarily for individuals whose income is 60% or less of AMI.[46] An ECE facility could be eligible under this provision, along with other services such as job training programs or navigation services. **A child care program that is built as an eligible community service facility in a LIHTC development could ease the financing burden on the ECE provider by funding the program build out through LIHTC equity.**

Developers have run into trouble with this aspect of the IRS code when QCTs change. The number of QCTs in a Metropolitan Statistical Area (MSA) are capped and the designation is based on the percentage of households with incomes below 60% area median income (AMI). As the income levels of a census tract's residents change, so can its designation as a QCT. If the designation changes after a development is proposed, a developer can maintain the QCT designation so long as they are allocated a credit within two years of submitting their application.[47] Even with this two-year period, developers have still faced situations where they have lost QCT designation. Allowing a proposed development to maintain its QCT designation for a longer period may make it less risky for developers to consider including community service facilities.

Future research could also examine the potential impacts of modifying IRS code such that community service facilities could be included in areas outside of QCTs.

LIHTC has unique equity considerations

LIHTC can also be a tool to increase equity in communities. State QAPs have a significant influence on the location of affordable housing developments, as well as the type of housing provided (e.g. family-oriented housing, senior housing, veterans housing, etc.) and any potential services or amenities attached to the development. Affordable housing is targeted at low-income populations by design, but several states have started to proactively locate new affordable housing in higher opportunities areas – communities with lower poverty rates and more amenities such as jobs, transit and healthy food – in an effort to mitigate the concentration of poverty and increase resident access to opportunity.

While the development of affordable housing in high-opportunity areas is an important policy objective, it is also important to continue investing in lower income areas and build greater opportunity and economic mobility in historically underserved communities. When building affordable housing in low-income areas, providing on-site amenities like ECE and other comprehensive services is particularly important to ensure the community has access to broader social and civic supports beyond housing. For example, low-income areas are more likely to be child care deserts than higher income areas, suggesting that co-locating ECE with affordable housing in these areas may be especially important to build opportunity in the community.[48] These opportunities to promote increased equity should be pursued.

Changes to LIHTC may not be the best lever to incent the co-location of ECE with affordable housing

QAPs vary widely by state, and the process for making changes to QAPs is long and politically difficult. States update their QAPs every one or two years and release a draft to the public. After the draft is released, there is a period during which housing finance agencies receive public comments on what changes stakeholders would like to see.[49] Developers are the most common group to comment, but advocates representing transportation, public health and environmental groups often comment as well. After comments are received, housing finance agencies review the comments and send their proposal to a board and then the governor for approval. A sustained effort that has the support of other entities making comments can lead change. With this in mind, ECE advocates could submit comments each year advocating for the inclusion of points related to ECE facilities in QAPs.

State HFAs also want as much of their LIHTC equity to go towards housing as possible, so co-location advocates will need to persuade state officials that ECE is a valuable amenity in a housing development. Those looking to increase the affordable housing stock across the country face dire circumstances, with more than twenty million households paying thirty percent or more of their income in rent each month, making them rent burdened.[50] Employees at housing associations expressed that affordable housing already faces many competing interests. On top of affordable housing, advocates want developments to be eco-friendly, transit-oriented and now family and child friendly as well. There is a strong case to be made that ECE co-location is part of an eco-friendly development with broader benefits to residents and the community, but given the many competing demands placed on the LIHTC program, it is important for advocates to explicitly articulate the value of incorporating child care to HFAs.

Because LIHTC is the nation's primary tool to develop affordable rental housing, it is a valuable resource that must be considered when seeking to co-locate child care with affordable housing developments. While LIHTC can successfully finance the affordable housing development, there are only limited circumstances in which a developer could finance the child care space using LIHTC equity. **The remaining financing gap to build out the child care program space must be filled by other sources. In the absence of resources dedicated for this purpose it is often economically inefficient for developers to designate space for a child care program.** Mission-based, non-profit housing developers have successfully financed co-located developments, but this approach often foregoes rental revenue from the child care tenant which is not a solution that can be widely scaled.

6. Targeted State and Local Policy Options

Beyond the potential LIHTC interventions noted above, advocates may have more success pursing targeted state and local policies to incent co-location, as it is state and local policies that have the greatest influence over where and how affordable housing is built. These policy solutions fall under three categories:

1. Developer-oriented policies that incent or require developers to include ECE facilities in affordable housing developments.
2. ECE provider-oriented policies that make providers more attractive and sustainable tenants for developers.
3. Broader ECE policy changes that would benefit co-location.

Developer-oriented policies

Include ECE requirements or preference in Request for Proposals (RFPs) for city land and Notices of Funding Available (NOFA) for affordable housing developments.

A promising trend across the nation has been cities including ECE as a requirement in RFPs for city land. Cities acquire land through a mixture of purchases, transfers, tax foreclosures, eminent domain and disposition of assets no longer needed. In California, state law requires that surplus land must be reserved for affordable housing, and cities such as San Francisco often include ECE requirements in RFPs.[51] This provides an opportunity for ECE advocates to encourage cities to include ECE when awarding sites to developers. Local market assessments should be conducted to analyze the availability and need for ECE in a given community.

In Denver, for example, the city put out an RFP for land they owned to create a mixed-use development with affordable housing and child care. The development, 8315 East Colfax, is being built by Mercy Housing who is partnering with Mile High Early Learning, a local ECE operator.[52] Mercy Housing is in charge of the facility build out and has embarked on a $1.2 million capital campaign for funding. Individuals and organizations that donate to the campaign can claim Colorado's Child Care Contribution Tax Credit, which is a 50% credit against state income tax.[53] There are examples of other cities including ECE requirements in housing and commercial building RFPs, which is an immediate policy action that cities can take that can also have direct results. It will have a smaller scale impact due to the location specific nature of this intervention, but it is an action that any city with surplus land could consider. Cities could also consider adding a local funding stream to assist with the build out of the ECE facility.

Include ECE in Community Benefit Agreements

Communities can also consider including ECE in Community Benefit Agreements (CBAs). CBAs are agreements among elected officials, community coalitions and developers that detail how a developer's project will benefit a community in exchange for discretionary project approvals.[54] They range from affordability requirements to local hiring agreements. Affordable housing and community facilities such as ECE centers are both common components of a CBA, so ECE advocates should make sure they are at the table when CBAs are negotiated.[55] CBAs do not require any legislative action but they do require community organizing efforts and are most effective with large projects where the developer is motivated to garner community support.[56] Groups looking to undertake a CBA should reference toolkits from the ***Partnership for Working Families*** and ***Action Tank*** for a comprehensive guide to the process.

The following table provides an example of a CBA that included childcare in Nashville, Tennessee.

Stand Up Nashville Community Benefit Agreement[57, 58]

In 2018, Major League Soccer (MLS) announced that Nashville SC would be joining the league. The expansion includes the construction of a new $275 million stadium and the development of a 10-acre mixed-use development on adjacent land. Stand Up Nashville, a community coalition, negotiated a CBA with the team's owners, Nashville Soccer Holdings (NSH). The stadium and adjoining development, expected to be completed in 2022, will bring the following benefits to the community:

- 20% of housing units will be set aside as affordable units
- Housing units will include three-bedroom units to meet the needs of families
- 4,000 square foot child care facility
- 4,000 square feet of micro-unit retail spaces for artisans and local small businesses
- Direct hiring of stadium employees who will be paid a minimum wage of $15.50 an hour
- Hiring of minority contractors
- Construction careers for individuals with barriers to employment

Create zoning policies that support ECE

Finally, localities can create friendly zoning policies within their planning departments that allow for retail space, and specifically ECE facilities, in new developments.

Planning departments can provide density bonuses for developers planning to include ECE space in their project. Zoning codes are written such that developers are limited to building a certain number of residential units in a given lot. California already has density bonuses across the state for developers proposing affordable housing projects and could incorporate the ECE bonus into existing infrastructure, but it is unclear how often developers use this option to obtain a bonus. For other places across the country, density bonuses would be a new addition to local policy. Density bonuses are attractive to developers because they allow more units to be built, thus increasing potential revenue and making a project more profitable. Cities and states should both consider including density bonuses for ECE co-location and ensure it is widely advertised to developers.

Planning departments can provide height bonuses for developers planning to include ECE space in their project. Areas are zoned such that developers are not allowed to build over a certain height. Similar to density bonuses, height bonuses are attractive to developers because they may allow more units to be included or provide other flexibilities that increase value to the developer, thus making a project more profitable.

When considering height and/or density bonuses, localities should conduct a local market analysis to capture the need for both additional housing units and child care seats and set bonuses accordingly.

Provide technical assistance

A critical barrier to overcome in supporting the execution of more co-location projects is educating developers on how to successfully create space for ECE facilities and work with providers. Interviewees expressed that affordable housing developers who have never worked with an ECE provider before are wary of doing so due to the many regulations surrounding child care facilities. A common theme across successful developments discussed in interviews was the involvement of a contractor and an architect with significant experience building ECE facilities.

Technical assistance for housing developers should be provided in the following areas:

1. Explanation of city and state regulations surrounding child care facilities including but not limited to square footage, outdoor play space, life safety systems, plumbing and pick up and drop off zones.
2. Connection to organizations that can help identify a high quality provider interested in the space.
3. Description of business models for ECE providers such that developers understand their ability to pay rent.

Local planning departments or housing finance agencies are two groups that could be tasked with compiling these materials for developers since they work so closely with them during any affordable housing development process. These groups should leverage CDFIs who can provide valuable expertise in this area. San Francisco, for example, funds CDFIs such as LIIF to provide technical assistance support to child care programs. CDFIs like LIIF that are engaged in the child care sector have experience coordinating across architects, contractors, and finance related services, and many CDFIs are also deeply engaged in the affordable housing sector. Local governments may find it valuable to partner or contract with a CDFI that can efficiently manage these varying stakeholders and layers of compliance. In addition to seeking out the small number of CDFIs that currently specialize in child care developments – many of which are members of NCFN – states and localities can support policies that grow CDFI participation in the child care sector.

Facilitate communication across departments

When a developer is planning and building an affordable housing project, they must interact with multiple local government departments, including the departments of housing and planning, as well as others depending on the locality. Including ECE in a project can add education and human services departments as well. While developers are likely used to working across housing and planning departments, adding child care-specific regulatory requirements to the mix is often a new challenge. CDFIs such as LIIF can help ease this administrative burden. For example, LIIF's Washington, DC team works across several agencies such as the Office of the State Superintendent of Education (OSSE) and the Department of Consumer and Regulatory Affairs (DCRA) to provide coordinated technical assistance to child care operators navigating the regulatory and permitting process associated with establishing and/or expanding a child care business in the District.

Developers interviewed for this report expressed that different city departments, such as planning and education, have varying standards they must meet, so they must both know what the standards are and then ensure they meet those that are most restrictive. Local government departments should compare their regulations and align them such that developers do not have to sort out these differences for themselves, and where appropriate, advocates may identify state or federal-level policy changes that would help align disparate standards in various funding streams.

Provider-oriented policies

An integral part of incentivizing developers to pursue co-location projects is ensuring they see ECE providers as attractive tenants in commercial space. There are multiple ways to support ECE providers demonstrate their strength to housing developers, including ensuring providers have relevant knowledge and financial support going into a project. Supporting providers also has important equity implications. Large chains have years of experience in opening new facilities and undergoing the construction process, which may not be the case for ECE operators who are primarily women of color and whose communities have faced decades of underinvestment and continue to face systemic barriers to accessing traditional financing from lenders.[59] Technical support and bridge funding are two avenues to ensure providers have the knowledge and financing needed for a co-location development.

Provide technical assistance

Once a provider determines they are interested in pursuing new facility space, they need to navigate relationships with developers, contractors, architects, lenders and others. Navigating the build out of a new facility is a complicated endeavor and requires specific expertise. Providers focus much of their time and efforts on providing high quality care, so a technical assistance intermediary would be beneficial in helping them manage a new build. This is especially important if the provider is a small business owner or an FCC provider since these providers typically operate on thin margins and are disproportionately likely to have experienced systemic barriers to the capital markets. Minority-owned businesses are more likely to be declined for loans, receive smaller loans and pay higher interest rates.[60] Managing the construction also takes considerable time. NCFN has a network of CDFIs who are well equipped to provide technical assistance to providers, and localities should work to identify and fund the services CDFIs provide.

Technical assistance for ECE providers should be provided in the following areas:

1. Financial literacy and loan assistance: Helping providers prepare financial statements and projections to be included in loan applications.
2. Lease negotiations: Knowing what terms they are financially able to accept and how to communicate this with the developers who will be their landlords.
3. Facility design: Linking providers to architects and contractors who are experienced in ECE facility regulations such that providers receive licensing approval from their state agency.

Create bridge funding sources

While providers may be able to combine several sources of funding to fund the build-out of a new facility, the timelines of these funding sources may not align. For example, many grant programs have annual cycles or only distribute funding after a project has been partially completed. This can lead to longer project timelines, which makes financing more expensive. Providers typically combine funding from CDFI loans, equity grants from private or public organizations, Community Development Block Grants, local child care funds, volunteer labor, in-kind donations and the amortization of improvements through lease payments.[61] Establishing a source of bridge funding to help providers manage these gaps may lead to shorter project timelines and an overall reduction in costs. If developers know providers have access to these funds, they will be more confident in the providers' ability

The Washington Early Learning Loan (WELL) Fund[62]

Launched in 2017, the WELL fund provides funding in the form of loans and grants to develop ECE facilities and grow the supply of ECE slots in the state. The WELL Fund is operated by Enterprise Community Partners in partnership with Craft3 and the Washington Community Reinvestment Association. Initial funding of $5 million spread over five years came from Washington's Department of Commerce, and matching funds were raised from The Ballmer Group, The Gates Foundation, and The Seattle Foundation. In 2020, the WELL Fund provided $5.8 million of funding that created 118 classrooms and 1,772 child care slots.

to complete the build out of the ECE space. The Washington Early Learning Loan (WELL) Fund table above provides information about a fund created in Washington that other states could replicate.

Broader ECE policy changes

There are a number of broader ECE policy changes that could be made to better support providers and strengthen their business models. Some of these proposals would directly impact co-location projects, as they would increase financial security for providers, thus making them more attractive tenants for developers and enabling them to finance the build out of a new facility. Two important policies in this area are improving reimbursement rates and increasing the value of child care subsidies.

Increase subsidy rates

Providers receive inadequate reimbursement rates through existing subsidy programs. Voucher values should be high enough so providers can pay rent, pay employees a living wage, and continue to serve children from low income families. In California, for example, 58% of ECE employees receive benefits from social safety net programs, and the state assembly released a report calling for higher reimbursement rates as a method for increasing wages.[64] A study from the Center for American Progress found that only three states (Hawaii, South Dakota, and Indiana) have reimbursements rates set high enough to cover the full cost of child care for an infant, while other states leave a monthly gap of up to $900.[65] This leaves parents to foot the bill for any cost differential charged by a center and forces low income families out of the ECE market if they cannot afford to make up this difference. Additionally, providers committed to serving low income families either take less money when families are unable to pay, thus reducing their income, or find themselves relying more and more on families who are able to pay the full cost of care and are not able to serve low income families to the extent they would like to.

Changes to subsidy rates would require action from both the federal and state governments, as CCDBG is funded at the federal level as a block grant to states, with states having authority over implementation. Increasing CCDBG funds at the federal level would give states more resources to devote to workspace supports, such as increasing subsidy rates for providers. The recent $50 billion investment in the ECE sector through federal COVID relief efforts provides an opportunity to begin working towards systems change that reflects the true cost of care.

Reimburse providers based on attendance, not enrollment

Currently, providers are reimbursed by most subsidy programs based on child attendance, not enrollment. This means that if an enrolled child does not show up on a given day, a provider does not get paid. Since families generally enroll their children in a program for a certain period of time to ensure they have a reserved spot, providers are not able to make up for this lost revenue by immediately finding another child to fill an empty spot. This leads to financial difficulty for providers who serve low income families and depend on subsidy payments to stay in business.

Some states have started shifting their reimbursement policies in response to the pandemic. After the onset of COVID-19, providers were under severe financial strain when families began sheltering in place and stopped bringing their children to child care programs. Many states temporarily changed their regulations so providers were paid based on enrollment instead of attendance. This change increased stability for providers, many of whom saw attendance decrease drastically due to the pandemic. Nationally, average attendance was down 67% as of July 2020.[66] If states act to permanently reimburse providers based on enrollment, providers will have greater financial stability. For co-location purposes, this means providers would be more likely to reliably pay rents and be better able to budget appropriately for a facility build out.

Enact a dedicated source of funding for ECE facilities

The physical environment of an ECE facility is critically important for ensuring children's safety and improving learning and development, yet providers face barriers in maintaining high quality spaces.[67] Providers operate on thin margins and often lack the capital to make necessary facility improvements. Thin margins also make it difficult to support debt on a property. Enacting a dedicated source of funding for ECE facilities would take this costly burden off of providers and enable them to update existing facilities and build new ones. These funds could be used to construct co-located facilities and fund the build out of the interior, which is otherwise a major barrier to achieving co-located developments.

7. Summary of Recommendations

Co-location projects are impacted by policies at the local, state and federal level. Below are recommended policies that can be made at various levels of government to incent developers to include ECE facility space when building affordable housing. A given city or state may not be able to feasibly implement all of the recommendations, and they are presented here as starting points for promoting co-location. A successful strategy for co-location will include policies at all levels of government, and agencies should leverage CDFIs who already have extensive knowledge in this space.

7. Summary of Recommendations (cont'd)

Local policies to support co-location

1. Include ECE space as a requirement in RFPs for city or county land and NOFAs for affordable housing developments.
2. Facilitate open communication between departments, such as the departments of education, housing and planning.
3. Create friendly zoning laws.
    a. Award developers density bonuses for including ECE facility space in their plans.
    b. Award developers height bonuses for including ECE facility space in their plans.
4. Include ECE in Community Benefit Agreements.

State policies to support co-location

1. Amend QAPs to include points for developments that include ECE space.
    a. If a state already includes points for on-site amenities, advocate to include ECE facility space as a qualifying amenity.
    b. If a state already includes points for proximity to amenities, advocate to include ECE as a qualifying amenity.
    c. Require that ECE providers are licensed by the state to ensure quality.
2. Create a funding stream for ECE facilities.
3. Increase voucher reimbursement rates such that providers can pay rent, pay employees a living wage and continue to serve children from low income families.
4. Reimburse providers based on enrollment rather than attendance.
5. Provide technical assistance support for providers seeking to improve or expand their facility.
6. Provide technical assistance support for developers seeking to seeking to co-located an ECE facility.

Federal policies to support co-location

1. Provide flexibility in the designation of Qualified Census Tracts to help facilitate successful use of community service facilities in LIHTC developments.
2. Increase CCDBG funding such that states can fund voucher programs that cover the full cost of care.
3. Enact a dedicated source of federal funding for ECE facilities that can be used to fund the child care space in a co-located development.

8. Areas for future Research are Numerous

This report paints a broad picture of co-location efforts highlighting strengths and opportunities for policy change. The space is new and evolving, and research should continue in five areas:

Tracking developments: Gather more recent data on co-location developments that have been completed or are under construction to identify trends. Further, additional information on family child care programs co-located in affordable housing developments should be collected.

Income eligibility requirements: Understand the interaction of affordable housing and child care voucher income eligibility limits.

Application to suburban and rural settings: Co-location may not be the right approach for affordable housing built outside of metropolitan areas, but there are other strategies that could be considered.

Other housing and community development funding opportunities: Investigate other community development funding sources such as HUD 221(d)(4) mortgages and the Capital Magnet Fund. Follow the progress of the American Jobs Plan and the American Families Plan.

Project execution strategies: Collect and share guidance to help developers execute housing projects that co-locate ECE programs.

Tracking projects

While there is national interest in co-location, it is still a relatively niche topic with a dearth of prior research. Advocates should work to gather more data on co-location projects to answer questions such as the following:

1. Which affordable housing developers are completing co-location projects?
2. Where are these projects happening - both nationally and within cities?
3. How are co-location projects leased and financed?
4. How many co-location projects have been completed?
5. Which, if any, organization(s) provided technical assistance?
6. What do co-located projects look like a few years after completion? Is the initial provider still the tenant? How many tenants are benefiting from the services?

Additional information with help identify trends in the successful execution of co-located developments. Each state licenses providers, so licensing agencies could be the group to consult first in collecting this information. Additionally, child care resource and referral agencies have a record of ECE providers at a county level, so they could also aid in collecting this information.

Income eligibility requirements

The income eligibility requirements for affordable housing and child care vouchers are a pain point when considering co-location efforts. Affordable housing eligibility varies by development, but is tied to AMI. Child care voucher eligibility varies by state and type of provider but is tied to SMI or the federal poverty line. Given these differences, families living in an affordable housing development may not always be eligible to enroll their children in the co-located program for free or reduced-price care. Future research should investigate how to ensure that families living in such a development can afford to enroll their children in the child care center of their choice.

Application to suburban and rural settings

Much of the information included in this report applies to urban developments, and the link to sub-urban and rural developments is less clear. In a rural area, would the ECE provider serve families who do not live in the affordable housing? Additionally, do suburban parents want their children in care near their home or near their job that may be an hour's commute away? Co-location may not be the right approach for affordable housing built outside of metropolitan areas, but there are other strategies that could apply. Communities could consider co-locating ECE facilities alongside elementary schools, libraries or large employers in suburban and rural areas.

Additional housing and community development funding opportunities

Two funding streams that were not investigated for this report but warrant further research are HUD 221(d)(4) mortgages and the Capital Magnet Fund (CMF). Section 221(d)(4) provides mortgages to developers constructing multifamily rental housing for moderate income families, the elderly and the handicapped.[68] Currently, up to ten percent of the mortgage value can be used for construction costs related to commercial space, which could include ECE facilities.[69] CMF is a competitively awarded grant program for CDFIs and nonprofit housing developers to support affordable housing and economic development activities in conjunction with housing.[70] CMF has awarded approximately $100 million in grants annually over the last few years, and future award rounds are expected to provide increased resources through the program.

Project Execution Strategies

Affordable housing developers and other stakeholders will benefit from practical guidance that demonstrates successful development and financing strategies to execute co-located developments. Future research should explore practical financing strategies that have been used to successfully co-locate child care in affordable housing, and provide recommended strategies that other developers could follow in their own community. Additional research may be particularly relevant to better understand the opportunities and challenges associated with community service facilities in LIHTC developments.

9. Conclusion: Historic investment in ECE anticipated

This report is being written during an historic period for investment in ECE and affordable housing across the country. The American Rescue Plan included $24 billion for a new child care stabilization fund, $15 billion for CCDBG and $1 billion for Head Start.[71] The Biden-Harris Administration's proposed American Jobs Plan calls for $25 billion for upgrading existing ECE facilities and to increase the supply of ECE slots across the country, as well as more than $300 billion to increase the supply of affordable housing.[72] Additionally, Representative Katherine Clark (D-MA) has introduced the Child Care is Infrastructure Act to invest $10 billion in ECE facilities over five years; Ways and Means Committee Chairman Richard Neal (D-MA) has proposed $15 billion to invest in child care child care facilities; and Senate Democrats have proposed creating a new $5 billion per year permanent grant program to improve child care supply, quality and affordability.[73]

This increased attention and funding for ECE suggest much-needed changes are in store for this cornerstone resource. Ongoing research should examine the potential increase in co-located developments given the significant increase in resources across both the child care and housing industries. Quality ECE is a critical source of support for families, essential for a child's development and a broader community amenity that contributes to the strength of the local economy. The COVID-19 pandemic has shed light on the essential role child care provides play across the country, and ensuring parents have access to quality care for their children is critical.

10. Appendices

Appendix A: Interview Guide

List of Interviewees

- Juanita Salinas-Aguila (Program Director, Early Learning), Enterprise Community Partners, February 17, 2021
- Spencer Orkus (Managing Director, Affordable Housing) and Joseph Milone (Director of Commercial Real Estate), L&M Development Partners, February 22, 2021
- Susan Neufeld (Vice President, Evaluation and Resident Program Design), BRIDGE Housing, February 22, 2021
- Josh Russell (Partner), Medici Consulting Group, February 25, 2021
- Andrea Ponsor (President and CEO), Stewards of Affordable Housing for the Future, March 4, 2021
- Linda Smith (Director), Sarah Tracey (Associate Director), and Frances Einterz (Senior Policy Analyst), Bipartisan Policy Center - Early Childhood Initiative, March 4, 2021
- Gabrielle Ritter, The Community Builders, March 11, 2021
- Carissa Connelly (Assistant Office Director, Georgia Office of Housing Finance), March 11, 2021
- Konrad Schlater (Vice President), Preservation of Affordable Housing, March 11, 2021
- Kathryn Grosscup (Manager, Housing Tax Credit), Colorado Housing and Finance Authority, March 12, 2021
- Kristen Anderson (Child Care Planning and Policy Consultant), March 26, 2021
- Jennifer Schwartz (Director of Tax and Housing Advocacy) and Yvonne Hsu (Senior Housing Policy Specialist), National Council of State Housing Agencies, April 2, 2021
- Cindy Larson (National Program Director or Child Care and Early Learning) and Bevin Parker-Cerkez (Senior Program Officer), Local Initiatives Support Coalition, April 6, 2021

In addition to the above interviews, I consulted with the following LIIF staff throughout the duration of the project:

- Olivia Barrow – Policy Manager
- Angie Garling – Vice President, Early Care and Education Programs
- Kirsten Shaw – Director, Northeast and Mid-Atlantic Regions
- Ericka Erickson – ECE Policy and Program Officer
- Leila Ahmadifar – Vice President, National Markets
- Kim DiGiacomo – Western Region Director, ECE Programs
- Lucy Arellano Baglieri – Chief Strategy Officer and Senior Vice President
- Hannah Taylor – Senior Communications Officer
- Laura Jackman – Deputy Director, Early Care and Education

Interview Questions

Interviews were semi-structured. I worked from a set list for each type of interviewee. I also had specific questions for each interviewee based on their work.

Developer Questions

1. Would you mind giving a broad view of how you approach co-location?
    a. Why do you do it?
    b. What are some challenges?
    c. What are some benefits?
    d. How does it fit into your organization's broader plan/goals/mission?
2. Facility specifics
    a. Do you prefer to work with specific types of providers? (Head Start, Pre-K/city contract, or mixed private pay and vouchers)
    b. Is there a "typical" facility for you in terms of size of space, ages served, etc.?
    c. How do you go about meeting the outdoor space requirement?
3. What are the biggest pain points for you in a co-location project? What type of policies would make you want to/would make it easier for you to build such developments?
4. [State developer works in] does/does not include points for including child care space in the development in its QAP.
    a. Is this motivating for you? Do you often claim these points?
    b. If it were to be added to the QAP, would it be an incentive?
5. If applicable, what are the biggest differences for you when looking at a suburban or rural development when compared to an urban one?
6. Tell me about [affordable housing development]
    a. How did you find a provider?
    b. What challenges did you face?

Housing Finance Agency Questions - Discussions were primarily around LIHTC

1. Your state currently includes points related to ECE. [state specifics for state of interviewee]
    a. How often do developers claim these points?
2. Do developers tend to max out on points for the 9% credit? How often is it a tiebreaker?
3. Do you view access to facilities such as child care as an important thing for affordable housing going forward?
    a. Is this putting too much on developers?
4. Do you see many developers who are proposing a mixed-use site with ground floor retail?
5. LIHTC is just one avenue I'm pursuing as a part of this report. Do you see other opportunities or policy options people use to bring services/amenities to affordable housing sites?

Other Stakeholder Questions

1. What are some examples of successful co-location projects you are aware of and what were the keys to their success?
2. It seems one way to make co-location more attractive to developers is to make providers more attractive tenants.
    a. What's your take on improving providers' capacity to take on debt/financing?
3. Facility specifics
    a. Is there a "typical" provider you think of when looking at colocation projects? (Head Start, Pre-K/city contract, or mixed private pay and vouchers)
    b. Is there a "typical" facility for you in terms of size of space, ages served, etc.?
    c. How have you seen people go about meeting the outdoor space requirement?
4. Do you see many developers who are proposing a mixed-use site with ground floor retail?
5. What are the biggest differences you see when looking at a suburban or rural development when compared to an urban one?

Appendices (cont'd)

Appendix B: Facility Construction Costs

The table below shows typical expenses faced when building out a new ECE facility. Price estimates are for a 4,200 square foot facility with sixty slots. This budget was created by the Low Income Investment Fund.

	Estimated Cost	Per Square Foot	Per Child	Percent of Total
Hard Construction Costs				
Construction Contract	774,434	184	12,907	60.6%
Play Yard Construction	70,000	17	1,167	5.5%
General Contractor Fee (6%)	47,547	11	792	3.7%
City Taxes	2,478	1	41	0.2%
General Contractor Bond	12,572	3	210	1.0%
Hard Cost Contingency (10%)	84,443	20	1,407	6.6%
Subtotal: Hard Costs	*991,474*	*236*	*16,525*	*77.5%*
Soft Costs				
Architecture & Engineering	105,629	25	1,760	8.3%
Construction Management	20,000	5	333	1.6%
Local Permits & Fees	50,000	12	833	3.9%
Marketing/Lease-Up Costs	1,500	0	25	0.1%
Classroom furniture and equipment	20,000	5	333	1.6%
Construction Loan Interest (12 months)	23,400	6	390	1.8%
Loan Origination Fee	12,500	3	208	1.0%
Loan Legal/Documentation Fee	5,000	1	83	0.4%
Construction Representative	4,000	1	67	0.3%
Soft Cost Contingency (10%)	15,203	4	253	1.2%
Moving costs	5,000	1	83	0.4%
Initial Operating Reserve	25,000	6	417	2.0%
Subtotal Soft Costs	*287,231*	*68*	*4,787*	*22.5%*
TOTAL DEVELOPMENT COSTS	**$1,278,706**	**304**	**21,312**	**100.0%**

Appendix C: QAP Review

The following table lists each state, indicates if they included points for ECE in their most recent QAP, and indicates whether the ECE related points are for proximity to the affordable housing development or for services provided on-site. States identified as having "opportunity" are those that currently award points for amenities but do not list ECE as a qualifying amenity.

State	Includes ECE	Proximity	On-Site	Opportunity
Alabama				✓
Alaska				
Arizona	✓	✓		
Arkansas	✓	✓		
California	✓		✓	
Colorado	✓			
Connecticut				✓
Delaware	✓	✓		
Florida				
Georgia	✓	✓		
Hawaii				
Idaho	✓	✓		
Illinois				✓
Indiana	✓	✓	✓	
Iowa	✓	✓		
Kansas				✓
Kentucky				
Louisiana	✓	✓		
Maine				
Maryland				✓
Massachusetts				✓
Michigan	✓		✓	
Minnesota				
Mississippi	✓	✓		
Missouri				✓
Montana				✓
Nebraska	✓		✓	
Nevada	✓	✓		
New Hampshire	✓	✓		
New Jersey	✓	✓		
New Mexico	✓	✓		
New York				
North Carolina				✓
North Dakota				
Ohio	✓		✓	
Oklahoma				
Oregon				
Pennsylvania				✓
Rhode Island				
South Carolina				
South Dakota				✓
Tennessee				
Texas	✓	✓	✓	
Utah	✓		✓	
Vermont				
Virginia				
Washington				
West Virginia				
Wisconsin				
Wyoming				✓

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