



Washington State Department of
Early Learning



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Facilities Needs Assessment for ECEAP Expansion

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Executive Summary

The Early Childhood Education and Assistance Program (ECEAP) is Washington's pre-kindergarten program that prepares three- and four-year-old children from low-income families for success in school and life. The Washington State Legislature acknowledged the importance of quality pre-kindergarten for achieving equitable outcomes in education by making ECEAP an entitlement for all eligible children by the 2020-21 school year through [RCW 43.215.456](#). To ensure that ECEAP is available to all eligible children who wish to enroll, this needs assessment estimates the statewide need for additional early learning facilities and makes recommendations to broaden facility capacity for the early learning system.

The purpose of the needs assessment is two-fold:

- Estimate the statewide need for additional early learning facilities and the cost of establishing an adequate number of facilities to serve all eligible children in ECEAP by the school year 2020-21.
- Recommend strategies to make investments in facilities that are feasible for current and potential ECEAP providers.

The study is based on interviews of early learning providers who have recently undergone or are considering expansion, survey responses of 1,026 early learning providers from across Washington State, including 231 ECEAP sites (64 percent of all ECEAP sites), and professional architectural estimates of facility costs.

FACILITY NEEDS ASSESSMENT FINDINGS

Washington needs more early learning facilities.

The availability of quality early learning services does not meet the current demand for those services, particularly for moderate- and low-income families. Most providers fully utilize their existing space and operate at full facility capacity and will not be able to serve the anticipated demand within their existing facilities. These facility constraints will be compounded by reduced availability of classrooms in public schools due to the expansion of full day kindergarten and kindergarten to 3rd grade (K-3) class size reductions. In addition, more classrooms will be needed as ECEAP moves toward increasing classroom time from an average of three hours per day (part day ECEAP slots) to six hours per day (full school day and extended day slots). In all, sufficient facilities do not exist to support the ECEAP entitlement.

Approximately 400 new early learning classrooms will be needed by 2020.

In 2016, ECEAP serves 11,691 three- and four- year-olds. The [Caseload Forecast Council](#) estimates 19,068 slots will be needed by the 2020-21 school year to serve all eligible children who are likely to enroll. This is an additional 7,377 enrollment slots by 2020, which will necessitate approximately 400 new classrooms.

Additional capacity for ECEAP facilities can be delivered in one of three ways: renovation to expand current early learning facilities, creating new early learning facilities through tenant improvements within commercial or other structures, or through ground-up new construction. Based on early learning provider feedback, we estimate that only 8-15 percent of the additional slots required to meet the 2020 demand can be accommodated through renovating existing early learning facilities. The remaining facilities will need to be developed through recruiting child care providers to provide ECEAP to eligible children in their care, creating new early learning facilities through renovation or tenant improvements in existing structures, or through new construction.

Early learning providers face many barriers to creating new early learning facilities.

Early learning providers face many challenges in expanding ECEAP services. Many ECEAP services are provided in space available to them at below market prices, such as public school facilities, donated space, community facilities, and other arrangements. Typically, early learning providers do not have the capital reserves or sufficient financial resources to fund facility renovations or construction. Additionally, limited revenue and organizational finances prevent many early learning providers from using debt to support facility development or expansion.

ECEAP is provided by the Department of Early Learning (DEL) through biannual contracts with school districts, educational service districts, community colleges, local governments, and non-profit organizations. By contracting services to these organizations, DEL can focus on monitoring performance and ensuring quality. However, it also creates risks associated with long-term capital investments for early learning providers. The contracting cycle does not align well to long-term facility planning and expansion. Facility improvement and development require a long lead time prior to service delivery. Early learning providers may be reticent to make significant capital investments without reassurance of ECEAP funding once the facilities are built. Early learning facilities do not easily convert to other uses. Landlords may be reluctant to invest in tenant improvements for tenants whose revenue is reliant on contracts from a sole source. Lending institutions may be hesitant to provide loans given that providers' ECEAP funding is based on contracts that must be renewed every two years.

In addition to financial barriers, early learning providers typically do not have experience or skills in facility expansion or development. Current staffing models generally do not support the overhead costs of managing a significant building project. Outreach and technical assistance will be necessary to support those early learning providers that are interested in building or renovating facilities to expand their capacity.

Current ECEAP providers alone cannot meet the anticipated demand for ECEAP by 2020. Continuing to support the mixed-delivery system of ECEAP from a range of provider types, including adding new providers, will facilitate rapid expansion of the program and encourage families to participate in ECEAP.

Costs for creating the necessary facilities to meet full ECEAP entitlement are \$200-\$400 million, not including costs for purchasing land.

Cost estimates are subject to wide variations across building type, location, and partnering arrangements. Cost estimating considers three approaches to providing the necessary facilities to meet anticipated demand for ECEAP: renovation, tenant improvements, and new construction. Initial estimates indicate the cost to supply the necessary facilities could range from \$200M to \$400M, depending on the methods used to create the additional ECEAP capacity and the number of slots that could be offered through renovation of existing facilities. These estimates are likely conservative and do not account for the cost of land associated with new construction or environmental abatement costs.

Funding and financing options for early learning facilities are limited. Providers will need financial assistance to expand their capacity.

Currently, there is no dedicated state or federal funding available to renovate or construct facilities dedicated to early learning. The State has established the entitlement for ECEAP for eligible families and funding is needed to enable providers to create the facilities to provide ECEAP ([RCW 43.215.456\(5\)](#)). A key focus of the recommendations is to establish funding for early learning facilities, as opposed to favorable financing options. The key constraint faced by most early learning providers is limited revenue and most will be unable to afford debt service without significant upfront capital awards to add or create space to serve more children.

RECOMMENDATIONS

The Facility Needs Assessment identified that there are insufficient early learning facilities to support ECEAP expansion. Additionally, existing facilities are under increasing pressure due to high demand for child care, mandated reduction of K-3 classroom sizes, and conversion of some early learning classrooms to state-funded full day kindergarten. There are currently more than 5,000 licensed child care facilities in Washington. To reach full entitlement by 2020, Washington State will need continued participation from all types of early learning providers including the K-12 system; large education-focused non-profit organizations; small, independent non-profit groups; and individual proprietors.

Given the diversity of early learning providers and settings, a variety of funding mechanisms and strategies will be necessary to ensure successful ECEAP expansion by school year 2020-21. These funding mechanisms and strategies vary based on the early learning provider. Based on the analysis, we recommend the following actions:

K-12 System

- **Advocate for funding for early learning facilities for ECEAP-eligible children that can be distributed to school districts through the School Construction Assistance Program or a similar grant program.** The Office of Superintendent of Public Instruction (OSPI) administers state funding to construct and modernize existing school facilities through the School Construction Assistance Program (SCAP). OSPI could administer new capital resources through SCAP or a new funding process to provide funds to school districts for facilities for ECEAP. If SCAP is modified to support early learning classrooms under specific conditions, it must include additional capital resources to support the added ECEAP function.

High Capacity Non-Profit Organizations

- **Work with the Legislature, the Washington State Department of Commerce, and the Washington State Housing Finance Commission, to recapitalize or expand program funding opportunities currently available to non-profit developers.** The State has two established programs designed to help eligible non-profit organizations undertake capital projects, the Building Communities Fund Program and Capital Plus!. The Building Communities Fund Program provides grants and the Capital Plus! Program issues below-market rate loans. These programs could be recapitalized and expanded to support more early learning providers and issue funds and financing more frequently.

Small, Independent Early Learning Providers

- **Work with the Legislature to establish a grant program for small, non-profit early learning providers.** The Legislature could award funds to a state agency to administer and provide grants to providers to help defray the cost of renovation and tenant improvements that providers need to undertake to create space for additional ECEAP slots.
- **Advocate for the Legislature to amend the law regarding the Child Care Facility Fund (CCFF) and recapitalize the Fund.** DEL could advocate for the Legislature to fund the administrative structure necessary to operate the program and to increase the amount of funds CCFF has available for loans. Additionally, the Department of Early Learning could request that licensed family home child care providers are allowed to apply for grants from this fund and that the funds are permitted to pay for construction costs.

- **Provide information and technical assistance for current or future ECEAP providers seeking pre-development assistance and affordable financing for facility construction.** Undertaking a large scale renovation or expansion is overwhelming for many early learning providers who have little or no experience with the development, renovation, and construction of facilities. DEL could help connect current or future ECEAP providers seeking pre-development assistance with information and technical assistance.

Introduction

High quality early learning provides a strong foundation for a child's development and future success. Investments in early learning provide significant returns, particularly for children from low-income households. Washington's ECEAP program provides this critical service to 11,691 low-income children across the state and the State Legislature has made ECEAP a statutory entitlement for children from families with incomes at or below 110 percent of federal poverty level by 2020.

The Department of Early Learning (DEL) conducted this Facility Needs Assessment to plan for and propose capital expenditures to meet future classroom needs. The Facilities Capital Estimate for ECEAP Entitlement is the estimated capital cost of establishing additional classrooms necessary to facilitate statewide entitlement.

PROBLEM STATEMENT

An adequate number of early learning facilities are needed across the state to prepare for a successful expansion to meet ECEAP entitlement. Availability of adequate and licensed facilities is a factor that limits the supply of quality early learning opportunities. In expanding ECEAP, DEL does not want to meet the demand for new ECEAP facilities by displacing other quality early learning programs from existing facilities. Facility constraints will be compounded by reduced availability of classrooms in public schools due to the expansion of full day kindergarten and K-3 class size reductions. As ECEAP moves toward increasing classroom time from an average of three hours per day to six hours per day, more classrooms will be needed to support the conversion from part day ECEAP slots to full school day and extended day slots. Sufficient facilities do not currently exist to support the full ECEAP entitlement.

The [Caseload Forecast Council \(CFC\)](#) estimates that the State will need an additional 7,377 ECEAP enrollment slots to meet anticipated demand by 2020, an increase of 66 percent. Assuming 18 children per classroom, this amounts to approximately 400 new early learning classrooms in just four years.

Early learning providers face many barriers to creating or expanding early learning facilities including financial, technical, and organizational barriers. Neither DEL nor any other Washington State agency dedicates funds to renovate or construct early learning facilities.

APPROACH

This Facility Needs Assessment estimates the funding necessary to establish the additional classrooms needed for statewide ECEAP entitlement. The analysis draws on interviews with providers who have recently undergone or are undergoing facility expansion, a review of existing funding and financing options, survey responses from 1,026 early learning providers, and professional architectural cost estimations. Findings are presented in the following section. Details on definitions, methods, detailed survey analysis, and assumptions are presented in the appendices.

Facility Needs Assessment Findings

ANTICIPATED ADDITIONAL DEMAND FOR ECEAP

Assuming 51 percent of eligible three-year olds and 77 percent of eligible four-year olds will participate, the CFC estimates demand for an additional **7,377 ECEAP slots by 2020**. However, the current level of service and expected additional demand for ECEAP varies on a county-by-county basis. DEL estimates the distribution of the 7,377 slots across counties based on 1st and 2nd grade free school lunch participation, as a proxy for the number of young children in low-income families, and current ECEAP service levels. For the purposes of estimating facility costs, the analysis builds on DEL's [ECEAP and Head Start Saturation Study](#) to estimate each county's proportional share of new classrooms. Counties not included in the following table are assumed to have enough capacity within current facilities to absorb additional ECEAP demand.

Exhibit 1: Allocation of Projected Statewide Need to Counties

Additional classrooms needed by county, 2020. Assuming 18 children per classroom.

County	Classrooms	County	Classrooms
Adams	6	Lewis	1
Benton	28	Lincoln	1
Chelan	11	Mason	7
Clark	28	Pierce	60
Cowlitz	3	Skagit	4
Douglas	8	Snohomish	33
Franklin	18	Spokane	16
Grant	23	Thurston	16
Jefferson	3	Whatcom	2
King	80	Yakima	62
Kittitas	1		

Source: BERK Consulting, 2016.

The allocation assumptions presented in **Exhibit 1** are for estimating the need for new facilities and does not reflect DEL's intention for future slot allocation. DEL will make slot determinations based on the Head Start ECEAP Saturation Study along with other information such as waiting lists, provider readiness, location, and infrastructure.

CURRENT ECEAP FACILITY MODELS

Providers use a variety of settings to offer ECEAP services. The following are common ways providers secure suitable facilities for delivering ECEAP.

Public School Buildings

Twenty-seven percent (27%) of current ECEAP contractors are school districts. School districts can use state school capital funding to develop early learning classrooms for special education preschool. They can also use their other capital funds raised through levies and bonds to build facilities for early learning, including ECEAP.

The Washington State Constitution requires that voters approve all school district levies and bonds by a “supermajority” of 60 percent.

Through Partnerships

Some ECEAP providers secure classroom space and financing for facilities through partnerships with organizations that have similar missions or serve similar populations. Inspire Child Development, Neighborhood House, and the Puget Sound Educational Service District (PSESD) have created new facilities through partnerships that enable access to non-traditional funding sources to cover a portion of renovation or construction costs. Examples of these approaches are:

- **Partnering with public housing authorities.** As part of Seattle Housing Authority’s (SHA) High Point redevelopment in West Seattle, Neighborhood House partnered with SHA, which used HOPE VI grant funds (federal housing funds) to pay \$2.5 million for the land and \$2.5 million toward the construction of Neighborhood House’s Early Learning Community Center. Support from these sources also contributed to Neighborhood House’s early learning sites at Rainier Vista, New Holly, and Yesler Terrace. King County Housing Authority (KCHA) directed \$5 million of New Market Tax Credits it was awarded toward the Educare Early Learning Center site in White Center, where the PSESD now operates the birth to five center.
- **Partnering with affordable housing developers on a site-by-site basis.** Hirabayashi Place in Seattle’s International District was recently completed by InterIm Community Development Association and provides 96 units of affordable housing with a child care program located on the ground floor operated by El Centro de la Raza. Funding for this project came from: City of Seattle Office of Housing, City of Seattle Human Services Department, Washington State Housing and Community Development Program, Enterprise Community Investment, Washington State Housing Finance Commission, JPMorgan Chase Bank, North Lot Development LLC, and Impact Capital.

The owner/developer secured financing for the entire project and the early learning provider leases space from the property owner.

- **Working directly with city governments to obtain and increase facilities.** Inspire Child Development uses this model in two locations. In Wapato, the city government owns the land and six modular buildings that are rented to Inspire Child Development. In Grandview, Inspire Child Development owns the land, while the city owns the modular buildings.

Early learning providers also operate out of commercial space. However, few ECEAP and Head Start providers operate out of market-rate commercial real estate due to limited revenues.

Additionally, early learning is currently provided by and located within property owned by religious organizations. The Archdiocese of Seattle has expressed interest in expanding opportunities for early learning providers to provide ECEAP in education spaces located in churches and other education spaces it owns. The Archdiocese has vacant classrooms, buildings, lots, and portable classrooms that could be used as ECEAP classrooms, many of which are located in the neighborhoods of children eligible for ECEAP. The space may not meet current ECEAP licensing requirements and would require renovations to meet building code for ECEAP use. According to the [ECEAP Performance Standards](#), ECEAP environments must be “free from religious representations” and “contractors must not plan religious activities in the curriculum.” DEL could work with the Archdioceses, and other partners, to explore partnerships to enable ECEAP to be provided within church-owned facilities.

OPTIONS FOR NEW FACILITIES FOR ECEAP EXPANSION

To reach ECEAP entitlement by school year 2020-2021, the State must work to rapidly expand facility supply over the next four years. Facilities for new ECEAP slots can be offered by increasing the capacity of existing licensed early learning facilities through renovation or expansion, creating new licensed early learning facilities, or supporting quality improvement and facility modifications to allow childcare and other non-licensed early learning providers to be eligible to provide ECEAP.

To assess the potential of creating new capacity for ECEAP through renovation or expansion of existing early learning facilities, we surveyed early learning providers across the state to collect feedback on their ability and interest to add or expand ECEAP services. The survey was sent to over 5,000 DEL contacts, including 3,630 licensed family home child care providers, 1,525 licensed child care centers, and ECEAP contractors representing 363 sites. Partners were encouraged to distribute the survey to their early learning communities. We received survey responses representing a total of 1,026 provider sites, 231 of which currently provide ECEAP service.

Exhibit 2: 2016 DEL Survey Respondents, by Provider Type

Provider Type	All Sites	Current ECEAP Sites
School District	102	64
Educational Service District	37	31
Private Provider (For-profit)	223	15
Family Home Child Care Provider	385	21
Non-profit Organization	216	77
Other Government Agency	9	5
Other	54	18
Total	1,026	231

Source: BERK Consulting, 2016.

Providers were asked if they would be willing to provide new or additional full school day or extended day ECEAP slots, approximately how many slots they could offer, and what level of renovation their facility would require to support new or additional slots.

POTENTIAL SUPPLY ASSESSMENT

The potential supply estimates are based on providers' self-reported ability to add or expand ECEAP services and their assessment of the number of new children that could be accommodated with renovation or expansion. Providers' assessments of their potential additional capacity were not verified by architectural expertise.

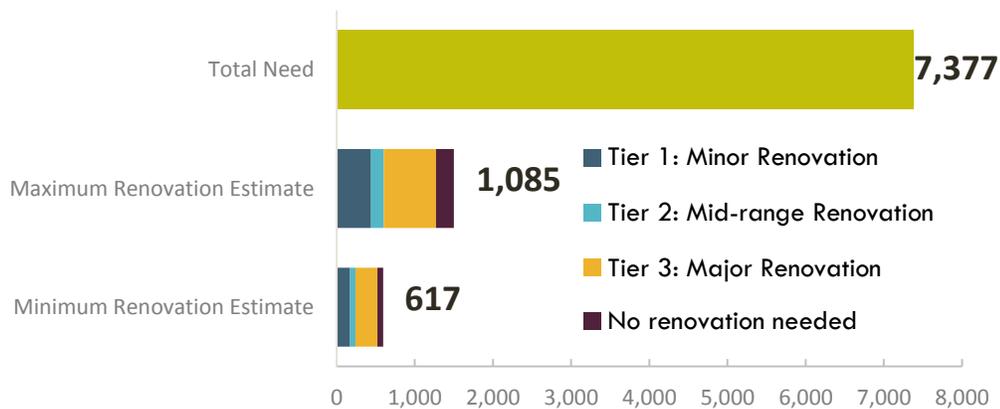
Providers that were interested in adding or expanding ECEAP services were asked to describe the magnitude of renovation necessary to provide new ECEAP slots without displacing other children. Guidance was provided on assigning a category of renovations ranging from minor to major renovations. Providers were also asked to provide a high and low estimate of how many new ECEAP slots could be accommodated with the specified renovations.

There is limited ability to accommodate new ECEAP slots through renovation of existing licensed early learning facilities.

Most providers are currently fully utilizing their existing facilities and cannot accommodate new ECEAP children, even with renovations.

Based on providers' non-technical assessment of the capacity of their current facility, we estimate that at least 617 and a maximum of 1,085 new or additional full school day or extended day slots could be provided in existing early learning facilities. A total of 33 ECEAP provider sites (14 percent of ECEAP sites that participated in the survey) and 14 non-ECEAP provider sites (2 percent of non-ECEAP sites that participated in the survey) indicated they could provide full school day or extended day slots through renovation of their current facility without displacing current students. This represents approximately 8 to 15 percent of the needed 7,377 slots by 2020.

Exhibit 3: Potential Expansion Capacity (Slots) in Existing Facilities, by magnitude of renovation



Source: BERK Consulting, 2016.

Additional outreach and recruitment will be necessary to increase provider interest and participation in ECEAP.

A total of 47 providers, both current ECEAP and non-ECEAP providers, from 14 counties indicated they would be interested in offering additional full school day or extended day slots and could do so without displacing current children.

The Department of Early Learning has an opportunity to support current and potential ECEAP providers offering new or additional ECEAP slots through various means, including education, technical support, outreach, and financial support.

- The most common challenge is providers believe their facilities are at maximum capacity and do not have space for expansion. DEL could perform outreach to encourage providers to consider alternative ways to offer additional slots, either through renovation or relocation. DEL could establish resources to support early learning providers through the capital acquisition and construction processes. DEL could also work with the Legislature and community partners to offer financial assistance to providers interested in expanding.
- Non-ECEAP providers expressed an interest to learn more about ECEAP before deciding if they would like to be ECEAP providers. DEL is currently building capacity to provide ECEAP orientation training and technical assistance to licensed child care providers through a two-year pilot project designed to

offer this service across the state. The project doesn't currently have the financial resources to reach all interested providers at this time, however, DEL continues to work with key partners to strategize ways to make it more widely accessible.

- Multiple providers stated they do not believe there are enough children in the community who need ECEAP services to justify adding new or additional slots. DEL could conduct additional outreach to families and promote the benefits of ECEAP and encourage families with ECEAP-eligible children to enroll.

ESTIMATED FACILITY COSTS TO MEET STATEWIDE ECEAP ENTITLEMENT

To create a statewide estimate of facility costs to meet ECEAP entitlement by school year 2020-2021, the analysis assumes new slots are created through the following methods:

- Renovation of existing licensed early learning facilities to expand capacity
- Construction of new facilities within existing building or shell space (Commercial Tenant Improvement)
- Construction of new facilities from the ground up (New Construction)

Two combinations of the supply options were assessed. Scenario assumptions are based on provider survey responses, standards established by administrative policies, and NAC Architecture's professional experience.

The least expensive option is to renovate existing early learning facilities. Both scenarios assume full utilization of the additional capacity available through renovation based on provider feedback.

Scenario A relies heavily on creating new early learning facilities for ECEAP through tenant improvements in commercially leasable space in buildings that are up to code and do not require major system upgrades.

Scenario B assumes communities need to rely more heavily on new construction to create space for new ECEAP slots.

Both scenarios are estimated twice, to reflect providers' low and high estimates of the capacity that could be created through renovation of existing facilities. Total costs are more sensitive to whether new slots are created through tenant improvement (less costly) versus new construction (costlier) than difference between the minimum or maximum estimates of new slots provided through renovation. **Exhibit 4** presents the total cost estimates. **Exhibit 5** presents cost estimating assumptions. Additional details about the cost estimating approach are presented in [Appendix C](#).

Exhibit 4: Facility Cost Estimates for ECEAP Expansion (2016 dollars)

	Maximum Renovation	Minimum Renovation
A. Renovation, Tenant Improvement, and Minimal New Construction		
Full Commercial TI	\$110,300,000	\$120,300,000
New Construction	\$86,700,000	\$86,800,000
<i>Construction and TI Subtotal</i>	<i>\$197,000,000</i>	<i>\$207,100,000</i>
Scenario A Total	\$202,600,000	\$210,400,000
B. Renovation, New Construction, and Minimal Tenant Improvement		
Full Commercial TI	\$1,800,000	\$1,800,000
New Construction	\$367,800,000	\$393,800,000
<i>Construction and TI Subtotal</i>	<i>\$369,600,000</i>	<i>\$395,600,000</i>
Scenario B Total	\$375,200,000	\$398,900,000

Source: BERK Consulting, 2016.

Exhibit 5: Summary of Cost Estimating Assumptions

Variable	Assumption	Source and Notes
Estimated Need		
2015-16 & 2016-17 School Year ECEAP slots	11,691	Source: Department of Early Learning
Additional ECEAP slots needed by 2020	7,377	Caseload Forecast Council
Conversion of Slots to Facility Assumptions		
Supply Provided Through Renovations		
Low Estimate	617	Source: ECEAP Facilities Provider Survey
High Estimate	1,085	ECEAP Facilities Provider Survey
Minimum Slot Threshold for Supply Options		
Commercial TI	10	
New Construction	30	
Other Assumptions for Converting Slots to Facility Needs		
Typical Classroom Size	18	Note: DEL allows a maximum of 20 children per classroom based on maximum staffing ratios. However, plumbing requirements do not align to staffing ratios. The 18 children per classroom assumption reflects current facility planning standards for early learning spaces.
Conversion of part-time slots to full-time	0%	
Percent of new slots that are part-time	0%	
County Need Threshold for Facility Size		
2 classroom facility	50	
4 classroom facility	200	
Cost Assumptions		
<i>All costs in 2016 dollars</i>		
	Building Costs (per s.f.)	Separate Facility Premium
Renovation Tier 1	\$35	\$1,000
Renovation Tier 2	\$60	\$1,000
Renovation Tier 3	\$100	\$1,000
Full Commercial Tenant Improvement	\$175	\$3,000
New Construction	\$250	\$3,000
		Area Per Seat
		60 s.f.
		60 s.f.
		60 s.f.
		90 s.f.
		110 s.f.
Project Development Costs		
State Sales Tax	8.6%	Playground Construction Cost Per Child
Design Contingency	6.0%	600
Testing and Inspections	2.0%	Site Development Costs per Classroom
Architect/Engineering Fees	12.0%	\$75,000
Builder's Risk Insurance	0.8%	
Construction Management	2.0%	Relevant WAC Sections:
Permits	3.0%	WAC-170-295-0080 – Minimum Area per Child
Utility Fees	0.5%	WAC-170-295-2090 – Staff to Child Ratios
Furnishings & Equipment	3.0%	WAC-170-295-2130 – Play Areas
		WAC-170-295-5100 – Toileting and Sinks
Total	37.9%	

Source: NAC Architecture, 2016.

FUNDING AND FINANCING OPTIONS

Most publicly-funded, non-profit, and private early learning providers do not have the financial resources to invest in facility expansion and their budgets do not support loan payments for renovation and construction projects. Additionally, commercial lenders, concerned about the financial strength of early learning providers, are reluctant to make loans for this purpose.

There are no dedicated state or federal capital funds available to renovate or construct early learning facilities. Neither ECEAP nor Head Start have provisions for facility development in their funding parameters. As part of the needs assessment we assessed several funding and financing sources for their potential in meeting the need for new early learning facilities for ECEAP. Case studies of successful funding and financing strategies for early learning facilities are presented in [Appendix D](#).

Federal Funding Options

- USDA Rural Development Community Facilities Guaranteed Loan Program and Direct Loan and Grant Program.** This program supports projects in rural areas with high concentrations of low-income families. It provides low-interest direct loans, grants, and a loan guarantee program. These may be combined with commercial financing to fund one project if all eligibility and feasibility requirements are met.

Interest rates are set by the USDA. The rate is fixed for the term of the loan and is determined by the median household income of the service area and the population of the community. Loan repayment terms equal the lesser of the useful life of the facility or 40 years.

Funding priorities are based on population and median household income. Top priority is given to projects that serve communities with a population of 5,500 or less and are low-income (defined as 80 percent or less of the state non-metropolitan area median household income). The grant amount may equal up to 75 percent of the total cost of the project.

Constraints: These funds are only available to organizations within cities and towns with a population no greater than 20,000 residents.

- New Market Tax Credits.** The New Market Tax Credit program (NMTC) was designed to increase the flow of capital to low-income communities (census tracts where the individual poverty rate is at least 20 percent or where median family income does not exceed 80 percent of the area median income) by providing tax incentives to private investors. Awards are provided to specialized corporations and partnerships called Community Development Entities (CDEs). CDEs are required to offer financing with non-traditional or more flexible terms than conventional financing, allowing borrowers to benefit from below-market interest rates and favorable underwriting terms. Investors get a 39 percent tax credit over a seven-year period. The federal government authorizes the NMTC through the US Department of the Treasury, which awards tax credit allocations through the Community Development Financial Institutions Fund.

Constraints: While New Market Tax Credits have generated funding for a small number of early learning facilities in Washington, primarily in public housing developments, it is also considered to be one of the most complex application and development processes in the public sphere. The grants are highly competitive and due to their financial and legal requirements will likely only be attainable by large early learning providers. While NMTCs have been effective in supporting new early learning facilities in some cases, they have limited ability to support rapid expansion. Additionally, the program is only available within qualifying communities.

State Funding Opportunities

- Washington State Department of Commerce - Building Communities Fund.** The Department of Commerce administers the Building Communities Fund (BCF), which provides capital grants for non-residential community and social service projects. It is financed entirely through the sale of state bonds.

Small and rural projects are encouraged to apply. There is no minimum or maximum total grant award amount. The award can equal up to 25 percent state match of eligible project costs. Any capital projects for construction, acquisition, and renovation that involve the expenditure of more than \$500,000 in state funds must list the Department of Commerce on the deed of trust or leasehold deed of trust and provide title insurance. Eligible projects must be in a “distressed community,” defined as:

- A county with an unemployment rate that is 20 percent above the state average for the immediate past three years.
- A school district in which at least 50 percent of local elementary children receive free and reduced-price meals.
- An area within a county designated as “eligible” under the US Department of Treasury’s Community Development Financial Institutions Fund’s New Market Tax Credit Program ([RCW 43.63A.764](#)).

Constraints: BCF funding is highly competitive, with relatively few projects reaching the state’s capital budget. To qualify, organizations must be located in a distressed county, own their project site, or have a long-term lease (15 years or more), and have an active capital fundraising campaign or secure enough non-state funding needed to complete the project.

- **Washington State Department of Commerce - Child Care Facility Fund.** The Child Care Facility Fund (CCFF) was created in 1990 to provide financial assistance through loans and grants to employers and child care businesses. The mission of the fund is to increase the availability of quality, affordable, and convenient child care for working families. Applicants must either be a licensed child care center in the State of Washington or be actively involved in the process of becoming licensed through DEL. The Department of Commerce manages the CCFF, with application evaluation assistance from DEL. Applicants may be a for-profit business or a non-profit organization.

The maximum loan amount is \$100,000 for up to 10 years at a fixed rate of 5 percent. The borrower must match the grant on a dollar-for-dollar basis with cash, goods, and/or paid services. Borrowers must provide collateral, either business or personal.

Constraints: The Department of Commerce is not accepting applications for the Child Care Facility Fund because the state budget does not provide administrative funding for this program and the account has limited resources with a current balance of just over \$1.2 million. In addition, the fixed rate of 5 percent is now higher than some commercial rates.

- **Washington State Housing Finance Commission (WSHFC) – Streamlined Tax Exempt Placement Program.** This program is available to 501(c)3 non-profit organizations seeking loans more than \$700,000. Banks working with non-profit organizations seeking a commercial loan to finance a project can purchase tax-exempt bonds from the WSHFC. The lender then passes the tax savings on to the non-profit organization in the form of a lower interest rate on the loan.

An example of a non-profit loan fund is Capital Plus!, a \$7.5 million fund for Washington 501(c)(3) non-profits seeking below-market interest rate loans for facilities and equipment owned and operated by the non-profit. Organizations must serve or provide community services to lower income persons or persons with special needs to qualify for the program. The maximum loan amount is \$700,000, for up to 10 years with interest rates as low as 4.75 percent.

Constraints: WSHFC programs can be beneficial for constructing early learning facilities by lowering the interest rate organizations pay on commercial loans. However, many providers will not be able to access these loans because many non-profit programs cannot afford to carry debt, even at a reduced interest rate. Non-profit loan funds do not provide sufficient assistance to most small providers to repay loans they could qualify for. Historically, providers have struggled to receive loan approvals from the underwriters and from other lenders due to their “bankability.”

K – 12 System

- School districts can raise capital funding for early learning facilities through **local levies**. While Washington school districts receive state funding through OSPI to assist with school construction, these funds are limited to providing space for K-12 and district-operated special education preschool. School districts receive no state funding to provide facilities for early learning outside of special education preschool. However, districts have a wider degree of flexibility on how they spend their local funds. [RCW 28A.215.010](#) broadly authorizes school boards to operate early learning programs, including ECEAP-contracted programs, in their school districts. [RCW 28A.320.330](#) spells out the allowable expenditures for school district capital funds, which can include non-special education early learning programs. Specifically, [RCW 28A.530.010](#) allows districts to issue bonds to fund facilities for purposes authorized by state law. The Washington State Constitution requires that voters approve all school district levies and bonds by a supermajority, 60 percent of voters.

Constraints: School districts only levy or bond funding for facilities as a last resort when their district budgets and SCAP funding are insufficient to finance the buildings they need to serve their current and any increasing enrollment. Since their primary legal obligation is to assure that K-12 and special education preschool services are provided, facilities for early learning programs become a lower priority. In addition, many voters may question using levy and bond funding for early learning facilities, making it difficult to reach the 60 percent approval threshold.

Local Programs

- City of Seattle Preschool Program (SPP).** In November 2014, Seattle voters approved a four-year, \$58 million levy to fund an early learning demonstration project with the objective to serve 2,000 children in 100 classrooms by 2018. SPP is a voluntary program, free for children from families earning less than 300 percent of the federal poverty level. Tuition is on a sliding scale for families earning more than 300 percent of the federal poverty level, with some level of subsidy for all families.

SPP set aside \$8 million (almost 15 percent of the total four-year levy) to provide capital for construction and tenant improvements to assure a sufficient supply of high quality classrooms for the program. The funding is generally allocated in two ways:

- Direct investment: The City funds a developer to build early learning classrooms and dedicates the space on a long-term basis to a SPP provider.
- SPP Provider Facilities Program: SPP providers apply for capital funding to implement their own facility expansion projects.

Constraints: The program is only available to providers in Seattle. Other cities and jurisdictions around the State may be unable to pass local levies for the purpose of funding operational and capital costs of their own early learning programs. City representatives report significant legal complexities of mixing funding sources, while protecting the City's financial interest.

Private Funding Opportunities

- Community Development Financial Institutions.** Community Development Financial Institutions (CDFIs) provide credit and financial services to communities underserved by mainstream commercial banks and lenders. They receive funding from the United States Treasury Department's CDFI Fund. Local CDFIs include non-profit and for-profit entities including community development banks, community development credit unions, community development loan funds, community development venture

capital funds, and microenterprise loan funds. They address the capital needs of the community by providing community developers access to both debt and equity financing. Examples of CDFIs include the Local Initiative Support Corporation, Enterprise Community Loan Fund, and Low Income Investment Fund.

- Local Initiatives Support Corporation.** The Local Initiatives Support Corporation (LISC) is a national non-profit intermediary specializing in financing affordable housing, community facilities, neighborhood grocery stores, and health centers. In Washington, LISC partners with Impact Capital, which provides financing for affordable housing. LISC also funds the Early Childhood Facilities program (also known as the Community Investment Collaborative for Kids or CICK), which works nationally to expand and promote access to early childhood education by investing in high quality, age-appropriate settings for these programs.

The program offers financing tools to bring low- or no-cost capital to early childhood facilities projects, including partnerships with state governments to create facilities funds. They provide specialized technical assistance, innovative financing, and public policy initiatives. LISC has invested \$56 million in planning and developing over 200 new early learning facilities.

- The Enterprise Community Loan Fund.** CDFIs such as the Enterprise Community Loan Fund (ECLF) address the capital needs of communities throughout the U.S. by providing community developers access to both debt and equity financing. The ECLF provides low-cost facilities loans to early learning centers primarily underwritten as business loans on the strength of the borrower. Loans are for an intermediate term (5-7 years), providing a maximum of 80 percent loan-to-value. ECLF may require a guarantee or partial debt service guarantee to cover construction and repayment risks. ECLF treats the loan as an unsecured loan until after construction completion. At that point, Enterprise Community Partners will have a leasehold mortgage or condo lien against the property.

New Markets Tax Credits (described above) are frequently combined with debt to provide up to 30 percent investment equity for child care facilities located within eligible census tracts.

- The Low Income Investment Fund (LIIF) Model.** Another CDFI, LIIF has invested \$56.5 million in planning and developing 202 new early learning facilities serving 21,500 children in low-income urban and rural neighborhoods across the country through specialized technical assistance, innovative financing, and public policy initiatives. This investment has generated an additional \$233 million in matching funds from public and private resources for these early learning centers.

The **Child Care Facilities Fund** is a LIIF program and is not associated with the Department of Commerce's Child Care Facility Fund. The Child Care Facilities Fund is a public-private collaboration that uses flexible capital and technical assistance to expand and improve both center- and family-based child care facilities in the City and County of San Francisco and Alameda County. The Child Care Facilities Fund supports allow child care providers to create, enhance and preserve quality child care spaces. LIIF's partnership with CCFF is a national model for addressing the shortage of affordable child care for low-income families.

Recommendations

The Facility Needs Assessment identified that there are insufficient early learning facilities to support ECEAP expansion. Additionally, existing facilities are under increasing pressure due to high demand for child care, mandated reduction of K-3 classroom sizes, and conversion of some early learning classrooms to state-funded full day kindergarten. Early learning facilities are a unique real estate use subject to significant and specific regulatory restrictions limiting the ability of market approaches for generating new early learning facilities.

There are currently more than 5,000 licensed child care facilities in Washington. To reach full entitlement by school year 2020-2021, Washington State will need participation from all types of early learning providers including the K-12 system; large education-focused non-profit organizations; small, independent non-profit groups; and individual proprietors.

DEL faces three challenges to ensure the necessary early learning facilities are available to support ECEAP expansion. These are:

There are no dedicated revenues to fund early learning facility improvements for ECEAP expansion.

Funding and financing sources to finance the development and construction of new early learning facilities are limited, competitive, and only accessible to a small subset of early learning providers. The key constraint faced by most early learning providers is limited revenue and most will be unable to cover debt service without significant upfront capital awards. Thus, a focus of the recommendations is to establish funding for early learning facilities, as opposed to favorable financing options.

Most early learning providers lack architectural and construction expertise.

Undertaking a large scale renovation or expansion is overwhelming for many early learning providers who have little or no experience with the development, renovation, and construction of facilities. Providers otherwise interested in offering additional ECEAP slots may be reluctant to expand because they are unsure of how to navigate the development and construction process.

DEL could help connect current or future ECEAP providers seeking pre-development assistance with information and technical assistance.

The majority of early learning providers have limited resources and face barriers to adding or expanding ECEAP services.

Feedback from current ECEAP providers suggests limited ability to expand their participation in ECEAP at this time. While many non-ECEAP providers express interest in learning more about ECEAP, many felt that their current service models or clients would not qualify for ECEAP. Outreach to existing providers and recruitment of new ECEAP providers will be necessary to build the supply of early learning facilities to meet anticipated demand.

The following recommendations describe options that DEL can take to increase the feasibility and interest of early learning partners to invest in current or new facilities to meet the expected increase in demand for ECEAP. Recommendations are organized by the three main categories of early learning providers: The K-12 system, large non-profit organizations, and independent early learning or child care providers.

K-12 SYSTEM

ECEAP supports the educational mission of public education. High-quality early learning, particularly for low-income children and those with environmental or developmental risk factors, is critical to achieving the desired outcomes for the K-12 system.

The K-12 system is a critical partner in achieving statewide ECEAP expansion. The K-12 system is situated to provide services across the state and has an existing funding and financing structure that could be augmented to efficiently distribute funds to communities in need of early learning facilities for ECEAP. School districts have financial tools at their disposal including bond capacity and expertise in managing 40-year capital investments that could provide significant support to the State's long-term expansion goals for ECEAP. In addition to revenue options, the K-12 system also has an apparatus for providing technical assistance and capital facilities expertise through OSPI. Leveraging the K-12 regulatory and administrative system offers the most feasible approach to increasing early learning facilities, particularly in the short-term.

We recommend the administration of the majority of new ECEAP capital funding through the K-12 system, especially in the short term, to capitalize on the efficiencies of the established administrative structure.

Recommendation 1

Advocate for funding for early learning facilities for ECEAP-eligible children that can be distributed to school districts through the School Construction Assistance Program or similar program.

OSPI administers state funding to construct and modernize existing school facilities through the School Construction Assistance Program (SCAP). The funds a district receives are based on a formula that considers the current number of students relative to the existing facilities. We recommend that OSPI administer new ECEAP capital funding either through modifications of the SCAP program or establishing a new funding program to administer ECEAP capital funds to districts. Expanding the SCAP formula to include early learning classrooms for ECEAP-qualified children, or expanding the constitutional definition of student, pupil, or child to include three- and four-year olds, would enable school districts to use SCAP funds to build facilities for ECEAP. Many school districts already offer early education as part of their educational program and fund early learning space using local levies. There are currently no state bond dollars that can be used for early learning facilities. This change would improve the ability of school districts without strong local funding ability that serve a significant low-income population to offer additional ECEAP capacity.

The expansion of SCAP to include early learning classrooms under specific conditions must include additional capital resources to support the added ECEAP function.

HIGH CAPACITY NON-PROFIT ORGANIZATIONS

Large non-profit organizations throughout the state provide ECEAP services to local communities. For example, affordable housing developers in King County have leveraged governmental incentive programs to develop facilities that house ECEAP and other services. Expanding established governmental programs to provide more capital funding opportunities for developers with missions aligned to ECEAP is more expedient than creating new funding mechanisms directly for early learning providers to undergo renovation and construction.

Recommendation 2

Work with the Legislature, the Washington State Department of Commerce, and the Washington State Housing Finance Commission, to recapitalize or expand funding opportunities currently available to non-profit developers.

The State has two established programs designed to help eligible non-profit organizations undertake capital projects, the Building Communities Fund Program and Capital Plus!. The Building Communities Fund Program provides grants and the Capital Plus! Program issues below-market rate loans. These programs could be recapitalized and expanded to support more early learning providers and issue funds and financing more frequently. The amount of money that should be directed to these programs will depend on the number of eligible non-profit providers that are interested in undergoing capital improvements to expand their ECEAP capacity and, in the case of the Capital Plus! Program, the number of eligible providers who are able to assume debt to expand. DEL could provide additional support to early learning providers by connecting them to potential partners, providing information on joint development projects, or negotiating longer-term ECEAP contracts to increase the desirability of early learning providers as partners in community development efforts.

SMALL, INDEPENDENT EARLY LEARNING PROVIDERS

ECEAP slots are also provided by smaller non-profit organizations, licensed centers, family home child care providers, and private providers. Most early learning providers do not have the financial resources to invest in facility expansion and their budgets do not support loan payments for renovation and construction projects. Additionally, commercial lenders, concerned about the financial strength of early learning providers and the unique space requirements (purpose built space that cannot easily be re-leased), are reluctant to make loans for this purpose. The State could provide grants and technical assistance to help smaller early learning providers support the costs of commercial tenant improvements in new space and undergo renovation or expansion in existing facilities.

Recommendation 3

Work with the Legislature to establish a grant program for small, non-profit early learning providers.

The Legislature could award funds to a state agency to administer and provide grants to providers to help defray the cost of renovation and tenant improvements that providers need to undertake to create space for additional ECEAP slots. The program could be available to all early learning providers or be limited to those who meet defined criteria. Qualification requirements could include the provider must be located in low-income or underserved communities or that the provider commit to a minimum number of additional ECEAP slots.

Recommendation 4

Advocate for the Legislature to amend the law regarding the Child Care Facility Fund and recapitalize the Fund.

As of 2016, the CCFF is not accepting loan applications due to lack of administrative funding. In addition, CCFF's funding is just over \$1.2 million, a substantial part of which has already been used to make loans. DEL could advocate for the Legislature to fund the administrative structure necessary to operate the program and to increase the amount of funds CCFF has available for loans. Additionally, the Department of Early Learning could request that licensed family home child care providers be allowed to apply for grants from this fund and that the funds are permitted for use on construction costs.

Recommendation 5

Provide information and technical assistance for current or future ECEAP providers seeking pre-development assistance and affordable financing for facility construction.

Establish a state clearinghouse of information. The clearinghouse could be operated by DEL or an independent entity, supported by private philanthropic funding, and would help early learning providers understand what is required to undergo a renovation or expansion. The clearinghouse could also provide early learning providers with access to professionals, including architects, attorneys, and lenders, who are willing to provide services pro bono or at a reduced price. If DEL operates the clearinghouse it is likely additional resources, including new staff and funding, will be required.

Contract with a national organization. Coordinate with a national organization that specializes in providing state governments with technical expertise on state early learning facilities financing programs. An example is the Community Investment Collaborative for Kids, the national financing arm of the Local Initiatives Support Corporation, which consults nationwide.

APPENDIX A

List of Terms

Term	Definition	Source
Extended Day model	10 or more hours per day, five days per week, and year round.	DEL
Facility	The building and surrounding area where ECEAP classrooms and playgrounds are located.	DEL
Full School Day model	An average of six hours per day (5.5-6.5), a minimum of 1,000 hours per year and at least four days per week.	DEL
New Construction	Construction of a new early learning facility from the ground up, including all building structure, walls, roof, fixtures, finishes, playground, utility connections, and services.	NAC Architecture
New Facility	A new early learning facility that meets DEL's licensing standards. Can be created with new construction or tenant improvements.	NAC Architecture
Part Day model	<ul style="list-style-type: none"> For slots funded prior to July 1, 2015, a minimum of two and a half (2.5) hours per class session, 320 hours per year, and 30 weeks per year. For slots funded July 1, 2015 or later, a minimum of three (3) hours per class session, 360 hours per year, and 30 weeks per year. 	DEL
Renovation	Modifications to an existing early learning facility, including expanding the physical footprint of the facility. Assumes that the facility is already in operation and has adequate building systems and program areas necessary to provide ECEAP services including restrooms, kitchen, classrooms, office space, and playground space.	NAC Architecture
Site	A location at which there are ECEAP classes.	DEL
Slot	State-funded spaces for enrolled ECEAP children. More than one child may occupy a slot in the course of a school year, as children leave the program and new children are enrolled.	DEL
Commercial Tenant Improvement	Construction of a new early learning facility within an existing building or shell space. Assumes that exterior walls, roof, building structure, utilities, and building systems are available and functional.	NAC Architecture

APPENDIX B

ECEAP Facilities Provider Survey

BERK designed and administered a survey of current early learning providers to assess interest and capacity to expand or add ECEAP services. Providers were asked about their current facility, services and model, subsidy use and service contracts, community demand for ECEAP services, and to estimate the number of new ECEAP slots that could be created through renovation of existing early learning facilities. This appendix presents information on the survey approach and results.

SURVEY ADMINISTRATION

The survey was sent to early learning providers across the state to collect feedback on the ability of current ECEAP providers to provide new slots and other early learning providers to begin providing ECEAP. The survey was sent to over 5,000 DEL contacts, including 3,630 family home child care providers, 1,525 licensed child care centers, and ECEAP contractors representing 363 sites. Partners were encouraged to distribute the survey within their early learning communities as well. We received survey responses representing a total of 1,026 provider sites, 231 of which currently provide ECEAP service.

Exhibit 6: 2016 DEL Survey Respondents, by provider type

Provider Type	All Sites	Current ECEAP Sites
School District	102	64
Educational Service District	37	31
Private Provider (For-profit)	223	15
Family Home Child Care Provider	385	21
Non-profit Organization	216	77
Other Government Agency	9	5
Other	54	18
Total	1,026	231

Source: BERK Consulting, 2016.

BERK distributed the survey via email to providers, contractors, and partners in April and May of 2016. BERK contacted contractors, school districts, and educational service districts directly and asked if they would prefer to respond to the survey request for their current ECEAP sites or if they would prefer we survey their sites individually. Contractors that asked to respond for all of their sites were sent a data sheet, to enable them to provide information about all sites on one survey. We sent survey links to each site for contractors who asked us to survey their subcontractors directly. BERK staff sent reminder emails and called providers to offer technical assistance on answering questions. DEL and partners reached out to providers directly to encourage survey participation.

SURVEY FINDINGS

Providers were asked if they would be willing to provide new or additional part day, full school day, or extended day ECEAP slots, approximately how many slots they could offer, and what level of renovation their facility would require to support new or additional slots.

Part day, full school day, or extended day ECEAP slots

For purposes of estimating the capital cost of increasing ECEAP capacity, we assume all new slots will be full school day or extended day slots. Given the demand for full day early learning and emerging evidence its effectiveness, DEL hopes to expand full school day and extended day slots in order to maximize the time students are exposed to high quality educational opportunities. Currently 80 percent of ECEAP slots are part day. If all 7,377 additional slots are either full or extended day, and there is no conversion of part-day to full- or extended-day slots, 51 percent of ECEAP slots will remain part-day in 2020.

Additional ECEAP slot capacity

Providers were asked to estimate the new or additional slots they could provide using ranges. For estimation purposes, it is assumed if a provider answered “more than 30,” they could offer a minimum of 31 slots and a maximum of 54 slots.

Exhibit 7. Additional ECEAP Slot Capacity Potential

Range Option	Minimum	Maximum
1 - 5	1	5
6 - 10	6	10
11 - 15	11	15
16 - 30	16	30
More than 30	31	54

Source: BERK Consulting, 2016.

Renovation needed to expand ECEAP capacity

Respondents were then asked to estimate the scope of renovation work that would likely be required to create this additional capacity. Respondents were given a choice of three tiers, as defined in **Exhibit 8**.

Exhibit 8: Renovation Tiers and Examples

Tier	Examples
Tier 1: Minor Renovations	<ul style="list-style-type: none"> • Add or replace interior finishes. • Add or replace built-in cabinets. • Purchase additional furniture and classroom supplies. • Improve playground.
Tier 2: Mid-range Renovations	<p>Includes Tier 1 plus any or all of the following:</p> <ul style="list-style-type: none"> • Demolish or construct a few interior walls. • Add interior doors. • Add sinks or lavatories. • Replace exterior doors or windows within existing openings.
Tier 3: Major Renovations	<p>Includes Tier 2 plus any or all of the following:</p> <ul style="list-style-type: none"> • Construct additional toileting or restroom facilities. • Expand or construct additional kitchen or food service areas. • Install new exterior doors or windows. • Make significant modifications to building structure such as moving columns or masonry walls. • Construct stairs or ramps. • Add a sprinkler system.

Source: BERK Consulting, 2016. NAC Architecture, 2016.

Of those who responded to the survey, 101 current ECEAP providers (44 percent of ECEAP sites that responded to the survey) are interested in expanding ECEAP and 294 non-ECEAP providers (43 percent of non-ECEAP sites that participated in the survey) indicated interest in providing ECEAP. This includes providers interested in offering part day, full school day, and extended day slots.

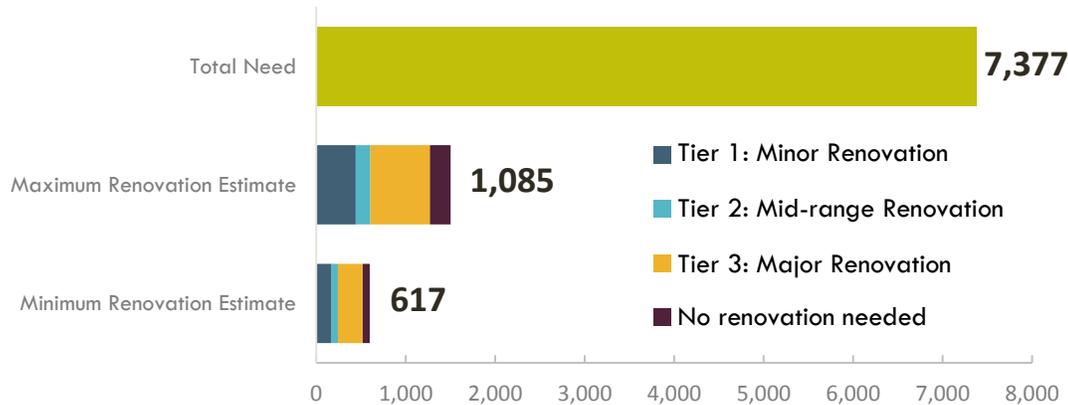
Most of those interested in expansion noted their facilities would require some level of renovation to offer new slots. Some providers may be able to offer new ECEAP slots within their existing facilities, while others would need to acquire increased space through new construction or by relocating to a different facility.

The overall goal is to increase early learning supply rather than expand ECEAP at the expense of fee-paying children or children receiving other sources of funding. Therefore, this analysis assumes that all new slots are added capacity for the provider, without converting non-ECEAP slots to create ECEAP capacity.

Based on providers' non-technical assessment of the capacity of their current facility, we estimate that at least 617 and a maximum of 1,085 new or additional full school day or extended day slots could be provided in existing early learning facilities. A total of 33 ECEAP provider sites (14 percent of ECEAP sites that participated in the survey) and 14 non-ECEAP provider sites (2 percent of non-ECEAP sites that participated in the survey) indicated they could provide full school day or extended day slots through renovation of their

current facility without displacing current students. This represents approximately 8 percent to 15 percent of the needed 7,377 slots by 2020.

Exhibit 9: Potential Expansion Capacity (Slots) in Existing Facilities, by magnitude of renovation



Source: BERK Consulting, 2016.

PROVIDER CHALLENGES TO EXPANSION

The survey asked providers about the barriers they face to adding or expanding ECEAP services. The survey provided six predetermined reasons and a space for providers to offer additional reasons.

Exhibit 10: Reasons for Not Expanding or Adding ECEAP Services

Reason	ECEAP Providers	Non-ECEAP Providers
Our facilities are not adequate and we have no space for expansion.	34 (14% of ECEAP sites that participated in the survey)	61 (9% of non-ECEAP sites that participated in the survey)
ECEAP is not aligned to our mission or our business model	N/A	33 (5%)
ECEAP requires too many standards and reporting requirements.	15 (6%)	30 (4%)
Reimbursements are too low and do not cover our costs.	12 (5%)	29 (4%)
We do not have the resources to start a new or expanded program.	10 (4%)	23 (3%)
Human resource constraints.	4 (2%)	1 (0%)
Other.	30 (13%)	31 (5%)

Source: BERK Consulting, 2016.

Other reasons include lack of demand for ECEAP in their community and that the children they serve do not qualify for ECEAP. Some non-ECEAP providers indicate they would like to learn more about ECEAP before deciding if they want to participate and they do not believe their site would meet ECEAP requirements

The Department of Early Learning has an opportunity to support current and potential ECEAP providers through various means, including education, technical support, outreach, and financial support.

Facility constraints are the most frequently cited barrier to provider interest in adding or expanding ECEAP services.

The most common challenge to expanding reported by providers is their facilities are at maximum capacity and they do not have space for expansion. DEL could perform outreach to encourage providers to consider alternative ways to offer additional slots, either through renovation or relocation. DEL could establish resources to support early learning providers through the capital acquisition and construction processes. DEL could also work with the Legislature and community partners to offer financial assistance to providers interested in expanding. Additional discussion of funding and financing options are provided in the Funding and Financing Options section.

Lack of knowledge about ECEAP and its requirements is an obstacle for non-ECEAP early learning providers.

Non-ECEAP providers expressed an interest to learn more about ECEAP before deciding if they would like to be providers. DEL could provide orientation sessions and materials to non-ECEAP providers interested in becoming ECEAP providers.

Demand for ECEAP is not visible to some providers.

Multiple providers stated they do not believe there are enough children in the community who need ECEAP services to justify adding new or additional slots. DEL could engage families across the state to educate them about ECEAP and encourage families with ECEAP eligible children to enroll.

APPENDIX C

Cost Estimating Approach

This section estimates the costs associated with creating the ECEAP facilities necessary to meet full entitlement in 2020. Feedback indicates that few existing licensed early learning providers and current ECEAP providers have additional facilities capacity to meet the anticipated demand for ECEAP. Consequently, the majority of additional ECEAP children must be accommodated through creating new early learning facilities.

To estimate the statewide facilities cost of ECEAP expansion we consider how many new children are likely to participate in ECEAP in 2020 (Demand) and how many of those can be served by current ECEAP and non-ECEAP early learning providers within existing facilities (Supply). The gap between demand and supply will be addressed through renovating existing early learning facilities, creating new early learning facilities in existing structures through tenant improvements, and ground-up new construction.

Demand

In 2016, ECEAP provides 11,691 enrollment slots. The [Caseload Forecast Council](#) estimates that 19,068 slots will be needed by the 2020-21 school year to serve all eligible children who are likely to enroll in ECEAP, an addition of 7,377 enrollment slots.

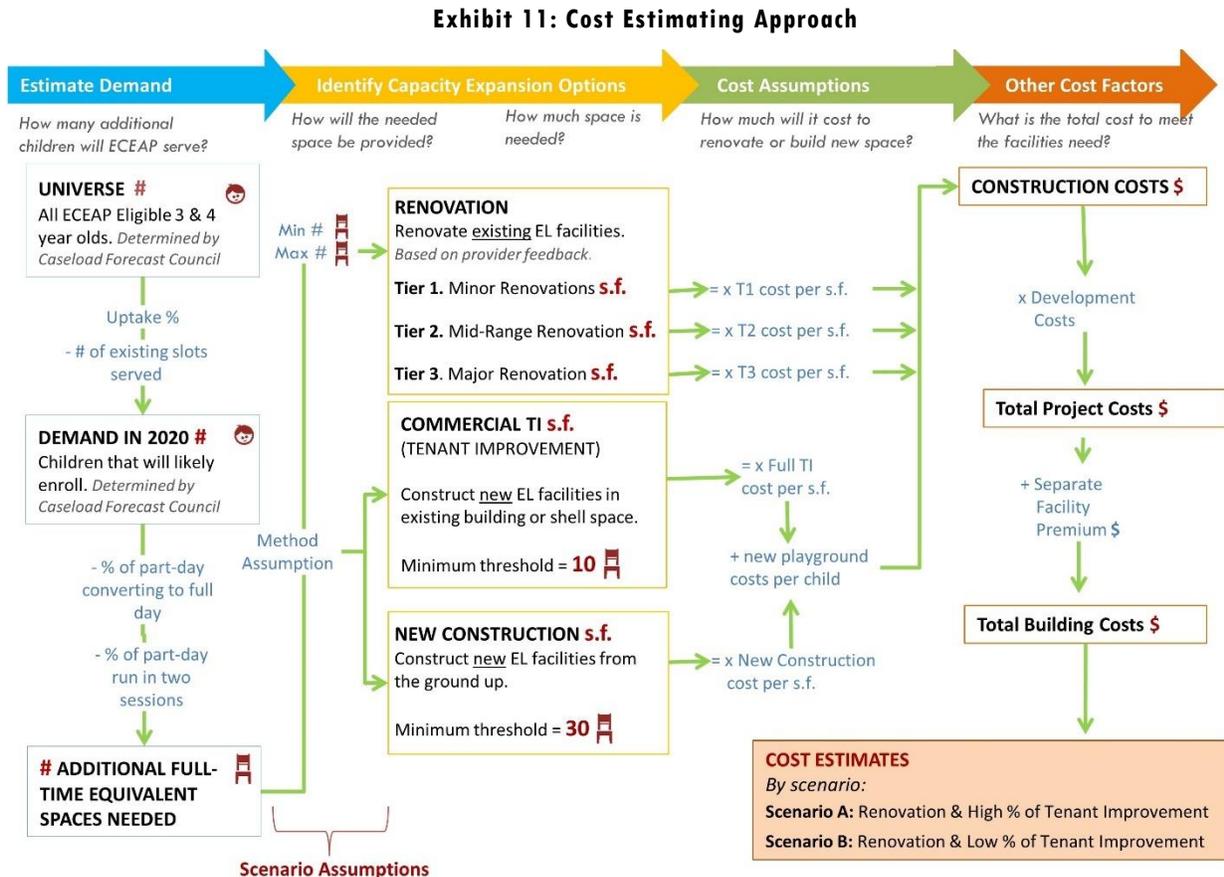
Costs are estimated on a classrooms-per-county basis. To estimate the number of new classrooms needed in each county, the analysis apportions the estimated 7,377 additional slots to counties in proportion to the unserved demand identified in DEL's [ECEAP and Head Start Saturation Study](#). See Exhibit 1 for the estimated allocation of statewide need to counties.

Supply

To meet the school year 2020-2021 ECEAP entitlement, an adequate number of early childhood education facilities are needed across the state to serve more children. Based on survey responses, we estimate 617 to 1,085 new slots (8-15 percent of the slots required to meet the 2020 demand) could be produced through renovation of existing facilities. To meet the remaining demand, all other new ECEAP slots would need to be located in new early learning facilities created in existing structures through tenant improvements or through ground-up new construction. See [Appendix B](#) for additional detail of survey responses.

METHOD

Estimates of the statewide cost of facilities for ECEAP expansion are based on CFC and DEL caseload estimates, Washington State Administrative Code and the Revised Code of Washington, provider feedback, RS Means construction cost estimating tools, and recent estimates and competitive bids on projects designed by NAC Architecture. **Exhibit 11** illustrates the cost estimating approach.



Source: BERK Consulting, 2016. NAC Architecture, 2016.

Construction Costs Per Slot (Full School Day or Extended Day Slots)

The basic cost per slot is composed of three elements and is calculated as follows:

$$\begin{aligned} & (\text{Square Feet per child} \times \text{Construction Cost per Square Feet}) \\ & + \\ & \text{Playground Cost per child (where applicable)} \end{aligned}$$

First, we consider the cost of renovation per child, based on the method of slot creation. Cost per child is based on the required square feet per new child (slot) and the cost per square foot. Square feet per child is based on minimum requirements from [WAC 170-295-0080](#) and on NAC Architecture’s experience designing early learning facilities. Cost per square foot is based on RS Means construction cost estimating tools and from recent estimates and competitive bids on projects designed by NAC Architecture.

Exhibit 12: Cost per Slot Estimate Formula (Full School Day or Extended Day Slots)

Construction Costs	Cost per Square Foot	×	Square Feet per Child	=	Cost per Slot (Full School Day or Extended Day)
Renovation					
Tier 1	\$35		60		\$2,100
Tier 2	\$60		60		\$3,600
Tier 3	\$100		60		\$6,000
Full Commercial TI	\$175		90		\$15,750
New Construction	\$250		110		\$27,500

Source: NAC Architecture, 2016.

Playground Cost is a nominal allowance for constructing a simple playground or outdoor area. A flat \$600 playground construction cost per child is applied only to slots created with tenant improvement and new construction.¹ Existing early learning facilities are assumed to have outdoor play areas. The renovation tiers allowed for some funds to update or expand an existing playground.

Project Development Costs, also known as soft costs, include a ‘project development’ factor to account for costs associated with designing and developing a new facility that aren’t directly related to the physical construction process. **Exhibit 13** provides the soft costs assumed in the estimate.

Exhibit 13: Project Development Costs

State Sales Tax	8.6%	Construction Management	2.0%
Design Contingency	6.0%	Permits	3.0%
Testing and Inspections	2.0%	Utility Fees	0.5%
Architect/Engineering Fees	12.0%	Furnishings & Equipment	3.0%
Builder's Risk Insurance	0.8%		
Total			37.9%

Source: NAC Architecture, 2016.

Site Development Costs. When constructing a new freestanding early learning facility (in contrast to tenant improvements in an existing building), all site improvement costs associated with the land must be accounted

¹ **Basis of playground construction cost per child:** The \$600 playground construction cost per child is based on NAC Architecture’s professional experience. Budgeting \$1,000 per child when planning a new playground is an industry standard. For reference, a mid-sized piece of play equipment that can accommodate approximately 30 children can cost between \$10,000 and \$15,000. However, a playground at an early learning center does not need to be designed to accommodate all children at the facility at one time. It is also possible to reduce playground costs by relying less on manufactured equipment and incorporating natural elements like tree stumps, logs, boulders, and existing topography, and by limiting the use of rubber and synthetic play surfacing. Consequently, \$600 per child is a conservative but feasible budget for ECEAP planning.

for in addition to the building costs. A new facility constructed from the ground up will likely require a parking lot, sidewalks, and landscaping, along with other less visible features and improvements such as:

- Tree and brush removal
- Demolition of existing structures
- Site grading
- Storm water detention ponds or vaults
- Site lighting
- Curbs and paving
- Trenching
- Utility connections
- Electrical vaults
- Landscaping
- Signage
- Bicycle racks

Site development costs can vary widely among projects depending on site conditions. A generalized rate of **\$75,000 per classroom** is used to estimate site development costs for new construction.

Separate Facilities Premium. The separate facility premium reflects cost efficiencies that can be realized by building one large facility instead of several smaller ones. This premium helps account for contractor mobilization costs and construction efficiencies related to building on multiple sites. A flat **\$1,000 premium** is applied to renovation projects and a **\$3,000 premium** is added to full commercial tenant improvement and new construction projects.

Children per classroom. Cost estimates assume new ECEAP classrooms will have a maximum of 18 children. This assumption is based on recent bid results for small educational facility projects performed by NAC Architecture. Early learning classrooms are often planned for 17 or 18 students per room. [WAC 170-295-2090](#) allows for a maximum of 20 children per classroom. However, 10 students to one teacher is not always the preferred ratio from an educational perspective. Additionally, WAC requires facilities have one toilet for every 15 students ([WAC 170-295-5100](#)). Some additional, and costly, toilet fixtures can be avoided in larger facilities by limiting the number of students per room to 18.

Facility size. In order to incorporate an economy-of-scale factor, we estimate the number of facilities that will be built in each county. We assume counties requiring fewer new slots by 2020 will build smaller facilities to allow for more equitable distribution of services across geographic areas. We determine the county’s likely new facility size based on the number of additional slots the county will need in 2020. The number of slots was divided by the number of children in the county’s typical facility to arrive at an approximate number of facilities.

Exhibit 14: Slot to Facility Ratio Threshold

Additional Slots Needed	Typical Facility Size
≤ 50	1 Classroom
51 – 200	2 Classrooms
≥ 201	4 Classrooms

Source: NAC Architecture, 2016.

PROTOTYPICAL EARLY LEARNING FACILITY

To provide a point of reference and verify assumptions, an estimate for a prototypical new construction early learning facility project was developed.

This prototype is based on a four classroom structure, as a four classroom configuration produces a cost effective and manageable early learning facility. The estimate takes into account the fact that not all municipalities or regions have enough demand to justify a four classroom facility. In general, paired classrooms with shared toileting areas are preferable from a cost standpoint, but a single classroom may be all that is required in a rural area.

Similarly, while facilities larger than four classrooms are certainly possible (and greater consolidation of services is likely to reduce both construction and operations costs), they are not accounted for in this study. It is worth noting that in practice, many ECEAP providers combine other early learning programs and services with ECEAP in a single facility. A facility that has four ECEAP classrooms serving three to four year olds may also have several infant and/or toddler rooms, resulting in a total facility size of six or more classrooms. Quantifying the cost impacts of a combined facility is beyond the scope of this study.

Prototypical Early Learning Facility

4 Classrooms with 18 children per class

Building			
Space	Qty	Size	Total
Classrooms	4	750	3000
Shared Toilets	2	150	300
Shared Studio	2	300	600
Community Room	1	700	700
Kitchen	1	500	500
Office/Reception	1	350	350
Staff/Adult Restroom	2	70	140
Storage/Workroom	1	300	300
Subtotal			5890
Grossing Factor		32%	1885
Total			7,775 SF

Playground		
Children		Area per child
72	x	75
		5,400 SF

Parking		
# of Stalls		Area*
30	x	300
		9,000 SF

*Area includes the parking stall plus part of the adjacent drive aisle

Other Site Components	
Driveway	2000
Sidewalks	3000
Landscape Area	4000
Dumpster Area	150
Storage Shed	100
9,250 SF	

Site Total	31,425
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1 Acre = 43,560 SF

Source: NAC Architecture, 2016.

EXCLUSIONS

The facilities capital estimate does not account for the following factors. Inclusion of these factors will increase the capital cost of ECEAP expansion.

- **Land costs.** The estimate does not include the cost of commercial lease, rent costs, or land purchase costs. The cost of land varies widely across the state. A June 2016 survey of active commercial real estate listings in Washington indicated that land costs for half to five acre parcels range from as low as \$2/sf to \$60/sf or more. Additionally, many current ECEAP providers pay less than market rates for their space.
- **Future growth.** This cost estimate is based on the CFC 2020 ECEAP caseload forecast. The estimate does not account for any additional capacity necessary beyond 2020.
- **Inflation or construction cost escalation.** The estimate is reported in 2016 dollars. Both the construction costs and inflation will change between now and the time of construction. Inflation rates are currently at approximately 2.74 percent a year. Construction costs are growing more quickly than inflation.
- **Hazardous materials abatement.** There is potential for encountering hazardous materials any time construction involves an existing structure. The cost impacts vary greatly, depending on the age and condition of the building, and are difficult to estimate.² In many cases, hazardous material abatement may make new construction more affordable than tenant improvements.
- **Operations costs related to renovation or construction.** The estimate does not account for any of the following: Staff time needed to oversee construction, additional staff needed to provide adequate supervision of children during a renovation, temporary facility accommodations during a renovation, etc.
- **Location factor.** Localized factors such as labor rates and equipment rental costs can vary in different parts of the state. RS Means calculates construction cost indexes to compare the construction costs across metropolitan areas but does not calculate an index to compare the cost of construction in rural areas to metropolitan areas. Because of this, we cannot adjust the cost of construction for all communities in Washington.

COST ESTIMATE

Exhibit 15 provides the cost estimate for creating the additional classrooms needed to support statewide entitlement for ECEAP. Maximizing the number of slots created by renovating existing early learning facilities will reduce the overall cost. Tenant improvement is a less expensive method to create new facilities than new construction. We estimated two scenarios, assuming different proportions of facilities created through tenant improvement and new construction.

² Abatement costs vary significantly depending on the age and condition of the building being renovated or 'built-out'. A commercial building constructed 10 years ago will probably have no abatement required, whereas an older structure could require removal and abatement of asbestos containing materials, lead paint, and/or other toxic materials. If the building was originally a factory or other industrial space, there may be additional environmental and health hazards requiring expensive abatement procedures. There is no way to predict the conditions of the buildings that providers are likely to be able to lease or purchase in the future.

Scenario A – Renovation, Tenant Improvement, and Minimal New Construction

Scenario A relies heavily on creating new early learning facilities for ECEAP through tenant improvements in commercially leasable space in buildings that are up to code and do not require major system upgrades. Calculation assumptions include:

- Renovate existing early learning facilities to expand capacity.
- In counties with demand greater than 30, it is assumed the county will build at least one new facility.
- In counties with demand greater than 400, it is assumed the county will build at least 2 new facilities.
- Create remaining capacity exclusively through commercial tenant improvement.

Scenario B – Renovation, New Construction, and Minimal Tenant Improvement

Scenario B assumes communities need to rely more heavily on new construction to create space for new ECEAP slots. Calculation assumptions include:

- Renovate existing early learning facilities to expand capacity.
- In counties with demand greater than 30, all new capacity is created with new construction.
- In counties with demand greater than 10, but less than 30, all new capacity is created with tenant improvement.

Both scenarios are estimated twice to reflect providers’ low and high estimates of the capacity that could be created through renovation of existing facilities. Total costs are more sensitive to whether new slots are created through tenant improvement (less costly) versus new construction (costlier) than the difference between the minimum or maximum estimates of new slots provided through renovation.

Exhibit 15: Estimated Facility Costs for ECEAP Expansion (in 2016 dollars)

	Maximum Renovation	Minimum Renovation
A. Renovation, Tenant Improvement, and Minimal New Construction		
Full Commercial TI	\$110,300,000	\$120,300,000
New Construction	\$86,700,000	\$86,800,000
<i>Construction and TI Subtotal</i>	<i>\$197,000,000</i>	<i>\$207,100,000</i>
Scenario A Total	\$202,600,000	\$210,400,000
B. Renovation, New Construction, and Minimal Tenant Improvement		
Full Commercial TI	\$1,800,000	\$1,800,000
New Construction	\$367,800,000	\$393,800,000
<i>Construction and TI Subtotal</i>	<i>\$369,600,000</i>	<i>\$395,600,000</i>
Scenario B Total	\$375,200,000	\$398,900,000

Source: BERK Consulting, 2016. NAC Architecture, 2016.

APPENDIX D

Case Studies

In [Building Early Childhood Facilities, What States Can Do to Create Supply and Promote Quality](#), the National Institute for Early Education Research (NIEER) states “the ability of centers serving lower-income communities to support debt is extremely limited.” It goes on to point out that community-based providers have a very limited ability to mount successful capital campaigns. It concludes that in most cases, “the only way to fill the gap is with a significant public sector capital subsidy” which will need to cover a substantial part of total cost of most new early learning facilities. NIEER recognizes that there is not often the political will to provide sufficient resources for such stable and secure funding.

In its absence, there are other strategies states can follow in an attempt to get high quality facilities built:

- **Debt-service support.** According to NIEER, capital subsidies for a substantial portion of total construction costs are most likely to be successful when combined with debt-service support for the remaining cost of the project.
- **Issue tax exempt bonds,** which provide a deep capital debt subsidy by allowing for low rate, long term loans.

The following section provides detail of strategies to overcome the financial barrier to early learning facility development and illustrative case studies of successful development efforts.

K-12 SYSTEM

- **Sumner School District’s (SSD)** successful 2016 bond issuance, combined with some OSPI funding, will fund the construction of a new Early Learning Center that will house all of the district’s early learning including full school day ECEAP, child care, and preschool special education, as well as all of its kindergarten classes. In addition to serving these children, the project will result in 10-12 classrooms in elementary schools being vacated, which will provide space to address the district’s anticipated growth. In order to pass this bond measure, the district carefully crafted messages about why funds should go for early learning classrooms.
- **Educational Service District 112 (ESD 112),** which serves southwest Washington has several early learning programs, primarily housed in portables on local school district property. Recently, they have completed larger projects developing facilities the ESD owns and continue to provide support to school districts constructing their own facilities. ESD 112 purchased a 10,000 sq. ft. community swimming pool at a cost of \$150,000 and then invested \$1.4 million to renovate the building, which became the Haugh Early Learning Center. ESD 112 used agency reserve funds to finance the projects.

LOCAL PROGRAMS

- **City of Seattle Preschool Program (SPP).** In 2016 the City allocated \$100,000 in grants of up to \$10,000 to cover some of the facility pre-development costs of providers who receive funding for SPP slots and need to make some facility renovations for the space to be used for SPP. This allows providers to “self-screen” the feasibility of their facility proposals as well as provide an opportunity for the City to evaluate proposals before it grants more substantial funding to any project. Both gain information on site control, engineering, and environmental issues.

For its next round of facilities development funding, SPP has initiated a competitive process to provide smaller grants that assist in the development of early learning facilities. With \$1 million remaining for 2016, SPP will have two funding rounds, prioritizing grants under \$250,000, while allowing a maximum of \$500,000. Not only will this allow the City to assist more projects, but will also minimize the legal complexities that could be barriers to participation by community groups. For grants under \$250,000, the building's owner has to commit to leasing space to an SPP provider for eight years. For grants over that amount, the City would need to have a partial legal interest in the building.

Three examples include:

- **New construction at Lake City Fire Station.** The Low Income Housing Institute is owner/developer of this 40-unit housing development, and will build and lease out the commercial/retail space. The City of Seattle is investing \$1.8 million for tenant improvements (complete build out) creating a 4,500 square foot early learning facility with four classrooms, plus circulation hallways, bathrooms, and administrative offices. This city funding is a combination of SPP funds, Community Development Block Grant funding, and a General Fund allocation.
- **Miller Annex in Capitol Hill.** Program space located in a Seattle Parks and Recreation facility was converted, resulting in a four-classroom early learning center. SPP is contributing \$1.9 million toward this project.
- **Community Center Initiative.** The City of Seattle Department of Education and Early Learning has formed a partnership with the City Parks Department to improve community centers spaces across the city and to bring more licensed pre-K classrooms to the community. SPP providers apply to operate out of the centers through a competitive process.
- **Seattle's Department of Human Services** may provide child care bonus funds, generated from new construction in certain zones, via a capitalized lease payment. This program can fund birth to five centers whereas levy funds can only be allocated for preschool.

PRIVATE FUNDING EXAMPLES

The Low Income Investment Fund (LIIF) Model

The following section details the San Francisco LIIF program, which focuses on providers that serve children ages 0-5 with at least 20 percent from low-income households.

- **Pre-Development Grants** may be used for planning and pre-development costs including feasibility studies, business plan development, permits, architectural services and related costs, as well as consultant(s) to assist with physical development/licensing of a facility. Grants are awarded in amounts up to \$20,000 per facility.
- **Renovation and Repair Grants** preserve the supply of quality, licensed child care provided by non-profit child care centers. The program also increases the accessibility of center-based care to children and families with special needs. Grants of up to \$100,000 per facility are available.
- **Capital New Development Grants** may be used for planning and pre-development costs, building purchases, construction costs, renovation costs, or equipment purchases that increase or maintain the number of child care slots. Grants up to \$200,000 per facility are available.

- **Move-In Grants** are one-time funding grants intended to assist with the initial costs of equipping and furnishing brand new early learning classrooms which increase enrollment in preparation for licensing and, ultimately, expanding access to the program.

All grants in San Francisco are administered by the Child Care Facilities Fund (CCFF), and are funded by the City and County of San Francisco.

OTHER STATE EXAMPLES

The Illinois Facilities Fund (IFF) established the Child Care Facility Development Program. The State made a one-time commitment to service 100 percent of the debt to retire a ten-year tax-exempt bond on behalf of seven non-profit agencies serving low-income children. IFF served as the real estate developer and owner, developing centers simultaneously for the seven child development organizations, which were involved in the design of their facility. IFF retained ownership of the centers until the State retired the revenue bond used to finance the construction. At that point, IFF turned the properties over to the centers operating them.

Connecticut used tax-exempt bonds to secure bond insurance that guaranteed the lowest interest rates available. Initially, the State budgeted \$2.5 million to pay off debt service on the 30 year bonds that were issued. This state subsidy covered 70 percent of the loan payments, while the remaining 30 percent was covered by center budgets. The combined state and provider debt payments supported \$41.6 million in bond proceeds, yielding 18 high quality centers serving 3,150 children. Since the initial appropriation, the State twice increased spending on the program by \$1 million, bringing the total debt service support to \$4.5 million

Another example from Connecticut includes bonuses to school districts that construct early learning classrooms. When Connecticut revised the state's **School Construction Program**, it included a 5 percent bonus on the proportion of the school costs attributable to early childhood classrooms. The bonus is above and beyond the amount the district would receive from the state's regular school construction grants. Programs are run by either the district itself or by a subcontracting community organization.

Massachusetts established its **Early Education Capital Funding Program** in 2013. It provides grants of up to \$1 million to private non-profit organizations operating early learning programs in which at least 25 percent of the children are from low-income families. In 2015, the State budgeted \$7.5 million for this program. It is administered in partnership with the Children's Investment Fund (CIF) of Massachusetts, a non-profit affiliate of the Community Economic Development Assistance Program, a state quasi-public authority. CIF also offers an intensive, one-week, off-site training institute in facilities development skills and other organizational and management skills for organizations and managers embarking on enhancement and expansion of early learning facilities.