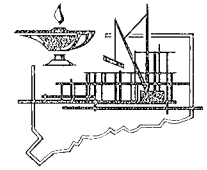


CHEFA

CONNECTICUT HEALTH AND EDUCATIONAL
FACILITIES AUTHORITY



TO: Her Excellency, M. Jodi Rell, Governor
The Honorable James A. Amann, Speaker of the House
The Honorable Donald E. Williams, Jr., Senate President Pro Tempore

FROM: Richard D. Gray, Executive Director, CHEFA
Commissioner Mark K. McQuillan, State Department of Education


Richard D. Gray

DATE: December 31, 2007

SUBJECT: Early Childhood Facility Plan

The attached interim report pertains to the legislative requirement that the Connecticut Health and Educational Facilities Authority and the State Department of Education develop and submit to the Governor and the General Assembly, no later than January 1, 2008, a plan to increase capacity in school readiness programs (June 2007 Special Session, Public Act 07-3, Section 45).

The *Early Childhood Facility Plan* will be presented through two reports. The attached "interim report" concentrates on an evaluation of Connecticut's current facility development programs, and offers a first set of proposals that could enhance existing programs and accelerate development. Several low-cost/no-cost proposals that offer a clear benefit are already being implemented, and are reported here. Proposals requiring legislative action are then listed. Finally, time-sensitive opportunities for facilities to provide support to the broader early childhood agenda are then explored, including issues raised in the Cabinet's draft *First Words, First Steps Systems Framework*¹ for infants and toddlers, the ongoing Sheff litigation, and challenges posed by the federal No Child Left Behind statutes.

After conducting community outreach and research, the final report in June 2008 will evaluate the options defined in the interim report and present them as a set of recommendations. The cost implications of each recommendation will be provided, and an implementation timetable proposed. The Early Childhood Cabinet has committed \$600,000 of its biennial budget to support the development and implementation of the facility plan. Funds will be used to enhance current facility development programs, and fund the work necessary to develop this plan.

Thank you for the opportunity to submit this interim report. If you have any questions pertaining to the content, please contact David Wasch at 860-761-8416 or at dwasch@chcfa.com.

CC: Dr. Janice M. Gruendel, Governor's Senior Policy Advisor, Children and Youth
Commissioner Michael P. Starkowski, Department of Social Services
Secretary Robert L. Genuario, Office of Policy and Management
David M. Nee, Executive Director Graustein Memorial Fund
Clerk of the Senate
Clerk of the House
State Librarian, Connecticut State Library
Executive Director, Office of Legislative Research
Director, Office of Fiscal Analysis

¹ A summary of the draft *First Words, First Steps* framework was presented to the Cabinet on December 10, 2007. Online at --
www.ecpolicycouncil.org/docs/2007-12-10/First_Words_First_Steps.pdf

Interim Early Childhood Facility Plan Report

Executive Summary

In October 2006, the Early Childhood Education Cabinet and Connecticut State Department of Education published *Ready by Five, Fine by Nine: Connecticut's Early Childhood Investment Framework*¹. The report sets forth a set of action items that research has shown can improve early childhood success and provide for improved life chances for these children even into adulthood. One of the Cabinet's first and top priorities was to support "high-quality preschool for all 3- and 4-year-olds in families at or below 185% of the Federal Poverty Level."

Connecticut has a rich history of support for early education, starting with the federal Head Start program in 1965, continuing with State-Supported Child Care Center Program in 1967, and more recently legislation creating the Connecticut School Readiness Program in 1997. Each of these programs includes essential components for what will become, through the work of the Cabinet, a true early childhood education "system." School Readiness Councils, quality enhancement Grants, and a spectrum of facility financing options, are just a few innovations introduced as part of this evolving set of executive policies and legislative action.

To promote cross-income enrollment of young children in our most educationally challenged communities, the School Readiness legislation sought to provide access to *all* children in Priority School Districts. Legislative action also created a funding source for preschool access to low-income children in Competitive School Districts. Also, by proposing that early education funds be portable, the Cabinet has identified a means of ensuring that all children at risk of poor educational outcomes, due to family income poverty, can achieve access to quality preschool programs statewide.

By the end of June 2008, the Early Childhood Education Cabinet estimates that about 11,400 preschoolers (includes 2,400 Department of Social Services preschool slots) will be supported with *state* funds to receive access to a center-based early education program, an increase of about 1,000 in the present fiscal year. Of note, the Cabinet is now reviewing a report, presented in December 2007, indicating that an additional 2,000 low-income preschoolers could be served in 2009 within the existing SFY 09 state budget across both the Priority and Competitive School Districts.²

The *Ready by Five, Fine by Nine* report estimated that in 2006 about 13,000 low-income preschoolers eligible for preschool services did not have access to programs. Of these, up to 3,000 may be able to be served over the current biennium, SFY 08 and SFY 09, as described above.

The *Connecticut Early Childhood Investment Plan (Part 1)*,³ prepared by the Governor's Early Childhood Research and Policy Council⁴ in November of 2006, reported that estimates for additional center-based

¹ Online at -- www.ecpolicycouncil.org/cabinet.php.

² The Cabinet is guiding the development of the Accountability Plan and the Early Childhood Facility Plan. The Governor's Early Childhood Research and Policy Council is guiding development of the ECE Workforce Plan and the Quality Rating and Improvement Systems Plan.

³ Online at -- www.ecpolicycouncil.org/docs/CTEarlyChildPlan_2007_FINAL.pdf.

⁴ Governor M. Jodi Rell established the Early Childhood Research and Policy Council in February 2006 through Executive Order #13. The Order itself, including the charge to the Council and its membership, can be found online at -- www.ecpolicycouncil.org/docs/council_docs/Executive_Order_No_13.pdf.

space to house these children range from nearly 4,000 more spaces to as many as 7,700 more spaces. Both program and facility expansion were planned to be accomplished over a five-year period, by 2012.

State-supported early education in Connecticut is primarily full-day/full-year, and providers must be accredited by the National Association for the Education of Young Children (NAEYC). This sets Connecticut apart from other state supported efforts, and imposes challenges on the expansion of our early education programs. Both NAEYC and Connecticut state law require a highly educated workforce,⁵ and suitable facilities must be available throughout the year. Since workforce and facility development require long-term investment, these two components can create challenges that impede expansion.

Recognizing that assuring *both* program quality improvement and program expansion are needed to achieve these goals, the 2007 Connecticut General Assembly required the Cabinet and its partner agencies to prepare and deliver a set of key planning reports:

- *An Early Care and Education Workforce Development Plan* (due by December 2008)
- *A Plan for a Quality Rating and Improvement System* (due by December 2008)
- *An Early Childhood Education Cabinet Accountability Plan* based on the Results-Based Accountability (RBA) framework (due of December 2008), and
- *An Early Childhood Facility Expansion Plan* (due by January 1, 2008).

While these strategic planning efforts are all connected and are being developed concomitantly, this report relates to the expansion and improvement of facilities that serve the early education needs of Connecticut's preschool-aged children.

Connecticut offers a variety of programs to address facility development for early education. In addition to general obligation debt, School Readiness legislation created the Child Care Facilities Loan Fund (CCFLF), which offers three loan programs to address the needs of a wide range of early education providers. Since inception, the CCFLF has built or renovated nearly 7,000 spaces. However, development must accelerate.

Facility development must be well planned. As can be seen in wide-ranging estimates cited above, the amount of demand for early education services is not clearly understood, nor is the available supply of classroom space. In order to successfully meet the needs of Connecticut's varied communities, a comprehensive, strategic analyzing and planning process is required.

The *Early Childhood Facility Plan* will be presented through two reports. This "interim report" concentrates on an evaluation of Connecticut's current facility development programs, and offers a first set of proposals that could enhance existing programs and accelerate development. Several low-cost/no-cost proposals that offer a clear benefit are already being implemented, and are reported here. Proposals requiring legislative action are then listed. Finally, time-sensitive opportunities for facilities to provide support to the broader early childhood agenda are then explored, including issues raised in the Cabinet's draft *First Words, First Steps Systems Framework*⁶ for infants and toddlers, the ongoing Sheff litigation, and challenges posed by the federal No Child Left Behind statutes.

After conducting community outreach and research, the final report in June 2008 will evaluate the options defined in the interim report and present them as a set of recommendations. The cost implications of each recommendation will be provided, and an implementation timetable proposed. The Early Childhood

⁵ PA 05-24.

⁶ A summary of the draft *First Words, First Steps* framework was presented to the Cabinet on December 10, 2007. Online at -- www.ecpolicycouncil.org/docs/2007-12-10/First_Words_First_Steps.pdf.

Cabinet has committed \$600,000 of its biennial budget to support the development and implementation of the facility plan. Funds will be used to enhance current facility development programs, and fund the work necessary to develop this plan.

Summary of Proposals

The proposals developed in this report are briefly summarized below. The first set involves planning, policy and program improvements that can be accomplished *without legislative action*. Those already being implemented are so indicated. Further detail for each is included within this first report.

1. Implement a two-step development process for Tax-Exempt Financing; the loan amount should be approved only after necessary pre-development work is complete. (Being implemented)
2. Pre-qualify architects and project managers for CCFLF programs. (Being implemented)
3. Fund technical experts to help borrowers develop Tax-Exempt Financing projects. (Being implemented)
4. Secure early pre-development funding for Tax-Exempt Financing projects. (Being implemented)
5. Provide an architectural review of Tax-Exempt Financing projects.
6. Develop a “Community Needs Based Approach” to allocating loan resources. (Being implemented)
7. Offer turnkey development for Tax-Exempt Financing projects.
8. Offer centralized ownership of Tax-Exempt Financing projects.
9. Develop model architectural designs for early education.
10. Provide slot subsidy commitments to providers seeking facility expansion.
11. Co-locate early education within public schools.
12. Co-Locate early education within public housing and other State projects.
13. Provide incentives to business for the development of early education space.

Legislative and/or regulatory action will also be required to further support both facility and program expansion, as envisioned in both the *Ready by Five, Fine by Nine* framework and the *Early Childhood Investment Plan (Part 1)*. These proposals are summarized below, with further detail to be provided in the full report in June 2008. A fiscal analysis of these proposals will be required, as well as alignment of these proposals with emerging Early Childhood Education systems development through the state Results-Based Accountability process.

1. Increase both the School Construction Bonus and Reimbursement Rates.
 - a. Legislative changes to the 5 percent PK and 10 percent K school construction bonus.

- b. Regulatory changes to PK-K space and facility standards for State Department of Education reimbursement (i.e., maximum square footage; reimbursement rate for maximum square footage in PK-3 schools).
2. Expand state reimbursement to include “lease” options (currently only available for purchase option).
3. Accept tax-exempt financing as “local match” for School Construction Grant Funds.
4. Expand early childhood education initiatives for poor children into additional districts.
 - a. Permit reimbursement for preschool construction in Sheff districts, federal schools in need of improvement, districts where poor students reside, and preschool programs in high schools (current reimbursement only for priority school district *elementary* schools).
5. Authorize CHEFA to develop elementary public school space as part of a comprehensive early education facilities planning and implementation.
 - a. Permit CHEFA authorization beyond PK and school readiness development to include such areas of involvement as:
 - o Involvement in K-3 and infant/toddler program facility development; and
 - o Expansion of CHEFA debt service support beyond school readiness sites.
6. Fund “portable early childhood slots” so that eligible families may enroll their children in quality programs that already exist outside of their town of residence (for example, in the towns in which parents are employed).
7. Provide full-day kindergarten support:
 - a. for program continuity with full-day preschool for children;
 - b. to enable communities to plan and meet both their early childhood and kindergarten facility needs; and
 - c. to reduce racial isolation and improve student outcomes.
8. Reduce/eliminate early childhood magnet school tuition to encourage cross-income enrollment and reduce racial/ethnic isolation.
9. Permit both public *and* private preschool facilities development.
 - a. Private development state reimbursement when cost, efficiency and effectiveness basis outweighs use of public space.
10. Recommend changes to state approval process time for school construction grant planning and state authorization (currently two to three years for state approval).
11. Create a common early childhood slot “cost model” for targeted communities (i.e., both Priority and Competitive Districts).

Interim Early Childhood Facility Report: The Details

Legislative Authorization

At the June 2007 Special Session, Public Act 07-3 was enacted. Section 45, shown below, requires and authorizes development of this facilities plan:

The Connecticut Health and Educational Facilities Authority, under chapter 187 of the general statutes, and the Department of Education shall develop a plan to increase capacity in school readiness programs under chapter 164 of the general statutes. Such plan shall include recommendations concerning needs for facility expansions and new facilities, professional development and changes to grant formulas for such programs. Not later than January 1, 2008, the authority and the Commissioner of Education shall report such plan, in accordance with the provisions of section 11-4a of the general statutes, to the Governor and the General Assembly.

The Office of Legislative Review (*Facilities* (§ 45) provides further information on the required plan.

The act requires the Connecticut Health and Educational Facilities Authority and SDE to develop a plan to increase capacity in school readiness programs. The plan must include recommendations on facility needs, professional development, and grant formula changes. The education commissioner and the authority must report the plan to the governor and the General Assembly by January 1, 2008.

The Early Childhood Education Cabinet, at the request of DSS Commissioner Starkowski, added DSS as a partner to the facility plan deliberations. Dr. Janice Gruendel, Senior Policy Advisor to Governor Rell for Children and Youth, also serves on the Leadership Team, as does Mr. David Nee, Executive Director of the Graustein Memorial Fund.

Historical Context for Early Education Facilities in Connecticut

Prior to School Readiness Legislation, early childhood providers in Connecticut had three options for funding the development of early education facilities⁷:

1. Federal funding through Head Start and the Community Development Block Grant;
2. State funding through general obligation bond debt; and
3. Private loans.

Programs dependant on state operating subsidies lacked the financial strength required by private lenders, reducing their options to two. It is not surprising that very few providers were able to secure financing, and most settled for rented space, often in buildings ill suited to the provision of quality early childhood education.

Connecticut's School Readiness Legislation is comprehensive in its scope, establishing support for enhancing the quality of programs, including improved facilities (CT General Statutes, Sections 10-16p, 10-16q, 17b-749c, 17b-749g, 17b-749h and 17b-749i). Section 17b-749c identifies the need to help providers become accredited by the National Association for the Education of Young Children (NAEYC),

⁷ In addition to the three funding options, CHEFA will also investigate possible tax credits to employers that may be available through the State Department of Revenue Services.

and establishes Quality Enhancement Grants. These funds can be used to address a variety of needs: equipment and training, and even health and safety problems in facilities.

The greatest impact of the law on early education facilities, however, comes from Sections 17b-749g, 17b-749h and 17b-749i, which establish the Child Care Facilities Loan Fund (CCFLF). The CCFLF brings together the State Department of Social Services (DSS), State Department of Education (SDE), and the Connecticut Health and Educational Facilities Authority (CHEFA) to address the needs of a variety of child care providers through the following programs.

Small Direct Loan Program. This program provides loans of up to \$25,000, which are principally targeted to home-based, and programs that are just opening. DSS funds a loan protection account, a fund that guarantees the loans should the borrower default on their debt. To date, this program has helped develop 1,400 childcare spaces.

Guaranteed Loan Program. This program provides loans up to a suggested maximum of \$2,000,000 for established early education providers for the renovation or development of facilities. Borrowers may be for-profit or not-for-profit. CHEFA subsidizes the interest rate on these loans out of the Authority's operating budget, in order to make them more affordable. DSS and CHEFA together fund a loan protection account for the program, which guarantees the loans. This program has also developed approximately 1,400 childcare spaces.

Pooled Tax-Exempt Financing Program. This program was specially designed for early education providers who are dependant on state operating subsidies, and it has become the principal engine generating facilities in Connecticut. Nearly 4,200 spaces have been developed through this program. Borrowers developing facilities for infant/toddler care must be 501(c)(3) not-for-profit organizations, but borrowers developing preschool facilities can be 501(c)(3) organizations, as well as municipalities, local boards of education, regional school districts and regional educational service centers (RESCs). The program provides access to low-interest loans through the municipal bond market, and the Office of the State Treasurer, per direction of DSS, directly pays at least 80% of the debt service on these loans.

Facilities and Early Education Expansion Efforts to Date

Quality facilities have been consistently recognized as a critical component of early childhood education expansion efforts. In October 2005, the Early Childhood Alliance published *Meeting the Need, Accepting the Challenge: The Connecticut Early Care and Education Cost Model*. One of the five sections in the policy brief focused exclusively on facilities.

The *Ready by Five, Fine by Nine* report established broad policy goals “aimed at giving all Connecticut children the best possible foundation for success in formal schooling.”⁸ The report recognizes access to quality facilities as critical for children's access to services. It also sets expansion efforts within a Results-Based Accountability (RBA) framework. The development of this Facility Plan is an extension of these efforts, and each recommendation will be evaluated through an RBA analysis.

Over the fall of 2006, the Governor's Early Childhood and Research Council prepared the *Connecticut Early Childhood Investment Plan (Part I)* to support the *Ready by Five, Fine by Nine* framework. The *Investment Plan*, presented to Governor M. Jodi Rell in early December 2006, includes a preliminary

⁸ Ready by 5 & Fine by 9, p. 20

analysis and recommendations regarding space expansion, including two methods to improve the efficiency of the development process:

- Enhancing pre-development support, and
- Offering alternative ownership models of development.

Connecticut's current biennial budget reflects a renewed commitment to the expansion of early education, and facility development is strongly supported. SFY 09 includes an additional \$4 million annual commitment to debt service, which will result in approximately \$80 million in loans to finance development.

The Early Childhood Education Cabinet's budget, adopted in July 2007,⁹ includes funds to implement facility expansion efforts through CHEFA and SDE: \$275,000 in SFY 2008 and \$325,000 in SFY 2009. These funds are to enable CHEFA to move forward on issues raised in the Early Childhood Investment Plan (Part I), including: (a) exploration of new ways of taking preschool space development to scale while reducing time needed from idea to opening; (b) continued TA to local communities in the preschool facilities development process; and (c) development of the required plan.

Development Challenges: Slow Facility Expansion and Complex Requirements

Well-designed facilities support a quality early education in a variety of ways. Most importantly, they provide a healthy and safe environment in which children can learn and grow. Health problems related to asthma and allergies can be reduced. Adequate space for gross-motor play can reduce obesity.

A child's ability to learn is also enhanced through thoughtful design. Adequate space allows for multiple activity areas supporting multiple modes of learning. Children have the room to work together cooperatively, or find a quiet place for solitary activities. Child-height sinks and toilets help children develop independence. Additionally, features such as bathrooms in each classroom, free teachers from having to frequently leave the classroom and contribute to more frequent and meaningful teacher/child interactions.

Unfortunately, many of the challenges of facility development create significant barriers to early education providers seeking a quality facility for their young children. Real estate development requires significant investment, much of which is required at the start of the development process. Few early education providers have the financial resources to pay for the critical pre-development work that is needed. Building a facility also requires a broad range of specialized knowledge. Everything from zoning approvals to environmental clearances to contract negotiation must be successfully navigated. Once a facility is built, it will remain essentially the same for 50 or more years (tax-exempt loans allow for a 30-year repayment period). Future needs have to be anticipated as much as possible, to ensure that the facility can continue to effectively serve its purpose.

The particular demands of early education space add to the complexity of developing facilities. The very design elements that create a quality early education environment make the space more expensive to develop and make it difficult to find architects and other professionals knowledgeable in their design. The highly regulated field of early education, which is currently undergoing a significant change in standards makes the anticipation of future needs that much more difficult.

Early childhood directors, already used to playing the role of teacher, manager, accountant and fundraiser, must also develop the skills of a developer and project manager to effectively move a project forward. Programs struggling to balance their budgets need to find the resources to secure land, hire architects and

⁹ Online at -- http://ecpolicycouncil.org/docs/2007-07-30/Cabinet_Budget_Presentation7-30.pdf.

lawyers, and plan for construction cost overruns. Unfortunately, affordable financing alone is not enough to bring quality facilities to all providers. A series of supports throughout the development process need to be available.

Resources Currently Available for the Development of Early Education Space

A variety of resources are available for the development of early education facilities, each suited to a particular type of project and circumstance. This specialization, combined with the scarcity of most sources of funds, means that the mix of funding sources will vary considerably from project to project. In most cases, more than one source of funds must be combined to support a project. Providers are advised to cast a wide net, and not to depend on any single source of support.

Financing mechanisms available through the private market are out of reach for most early education providers. Equity, the share of project costs that the borrower must pay in advance, can be 20% of the total cost of the project, or more. Loan repayment, even when interest rates are low, is often too expensive without a deep subsidy.

Federal Facility Assistance Programs

A variety of federal programs are available to help not-for-profit organizations develop facilities. Although each of the programs offers certain advantages, most cannot fund a facility without other funding sources.

- Small Business Administration supported loans are readily available, but are not suitable for larger scale development, since they are not affordable to most early education providers.
- Head Start capital grant funds, although an excellent source of low-cost capital, are in short supply. Restrictions of the use of funds, such as Davis Bacon wage restrictions, can increase the cost of development.
- USDA Loans feature a 40-year term and are available at low interest rates. The cost of repayment can still be prohibitive for programs dependant on state operating subsidies.
- USDA Grants are an important resource in rural communities; however, they are also in limited supply.
- Providers in higher population centers, where larger allocations of the grant are available, frequently utilize Community Development Block Grants.
- Low Income Housing Tax Credits can be utilized for the development of early education; however, current state policy does not provide incentives for developers to make use of this funding source.

State Facility Assistance Programs

Connecticut offers three principal alternatives for the development of early education space: general obligation bonds, school construction grants, and the three programs offered within the Child Care Facilities Loan Fund. All three of these options provide the deep subsidies necessary to develop early education facilities, but each are suited to a specific type of project¹⁰.

¹⁰ In addition to the three funding options, CHEFA will also investigate possible tax credits to employers that may be available through the State Department of Revenue Services.

General Obligation Bonds. Connecticut offers a variety of programs providing general obligation bond grant funds. The Office of Policy and Management is currently offering grants through the Local Capital Improvement Program (LoCIP) and the Small Town Economic Assistance Program (STEAP). State agencies often are allowed to manage general obligation bond projects depending on annual legislative actions. For example, DSS has managed a variety of childcare facility bond projects for municipalities, state agencies and community-based organizations. Funds are limited and there is considerable competition for awards, as both programs can be utilized for a wide range of capital projects.

School Construction Grants. School Construction Grants can be utilized for the development of pre-kindergarten space (i.e., space for three- and four-year-olds). The state and local municipality share the cost of developing the project. The percentage of cost borne by the municipality is determined by its wealth rank. Current legislation provides a 5% bonus for pre-kindergarten space. Unfortunately, many municipalities are struggling with the capital costs of updating public school space, and may not have the local support needed to develop early education space. Additionally, it can take several years to finalize approval for projects, since the local funding share requires a referendum, and projects must be submitted to the State Legislature one full year prior to approval.

Child Care Facilities Loan Fund (CCFLF). School Readiness legislation created the Child Care Facilities Loan Fund (CCFLF), which offers three loan programs specifically designed to address the needs of early education providers. Each of the programs is suited to a specific type of provider; the Tax-Exempt Financing Program is best suited for the demands of large-scale development.

- Small Direct Loans are principally for small projects, and are targeted to home-based programs.
- Guaranteed Loans fund the renovation or development of facilities. Borrowers may be experienced for-profit or not-for-profit providers.
- The Tax-Exempt Financing Program was specially designed for large-scale development by education providers who are dependant on state operating subsidies.

The Tax-Exempt Financing Program is affordable to providers, since the state directly pays at least 80% of the debt service on behalf of providers. But it is also a relatively affordable option for the state, since the cost of development is spread over the lifetime of the loan, and the provider repays a portion of the debt. Because of this, the Tax-Exempt Financing Program has been the principal engine developing early education space over the past ten years, leveraging a \$3.5 million annual appropriation to develop \$70.8 million in projects.

Current Development Timeframe – CCFLF Tax-Exempt Financing Program

The total development process of the CCFLF Tax-Exempt Financing Program, from application to the closing of the loan takes from 12 to 18 months. A summary of the development steps is listed below. A flow-chart of the process will be included in the appendices of the June 2008 final report.

Applications include:

- School Readiness/Mayor's Office Support Letter
- Existing Program Background
- Proposed Project Narrative
- Project Site Identification
- Marketing Analysis
- Preliminary Development Budget
- Three-Year Financial Projection

Preliminary Application Review (2 weeks)

- The following Items are Checked in the Application
 - Qualified Applicant (Municipality or 501(c)(3), Qualified district)
 - Application Completeness
 - Reasonable Operating Budget
 - Financial Viability
 - Site Identified
 - A Verifiable Source of Equity

DSS/SDE Review and Selection (2 weeks)

- The current selection process is objective, based on the priority level of towns
- Towns in which three or more Tax-Exempt Financing projects have been funded are moved to the bottom of the list

Project Early Pre-Development (3 to 12 months)

- Architect Selection
- Preliminary Construction Cost Estimate
- Fundraising for Required Equity (must be >10% of project cost)
- Purchase Contract for Land Executed
- Zoning and Environmental Evaluation of Site

CHEFA Board Preliminary Review of Projects Requiring the Following (1 month)

- Preliminary Project Cost Estimate
- Sources of Equity Identified
- Refined Cash-Flow Analysis
- Environmental Evaluation of Site

Project Pre-Development Requirements (1 to 6 months)

- Budget Finalized
- Zoning/Environmental Clearances Gained
- All Equity Committed
- Guaranteed Maximum Contract (GMP) Executed
- Payment and Performance Bond Executed

CHEFA Preparation for Closing (1 month)

- TEFRA public hearing must be prior to CHEFA Board Review of Credit Memos
- Legal Document Review/Due Diligence
- CHEFA Board Review/Approval of Credit Memos
- Mailing of Official Statement (OS)
- Bond Pricing

Near-Term Alternatives or Options

Connecticut's drive to expand access to early education means that some space will have to be developed flexibly, and quickly. One option for quickly developing space is the rental or conversion of temporary space. Childcare providers that have not previously received slot subsidies need to be brought into the

system. Both of these options will demand funds for the renovation and improvement of classroom space. Small-scale renovation funds are needed to ensure that short-term space is of high quality. New financing mechanisms need to be developed to quickly disburse funds, and ensure that all necessary renovations are completed.

Lessons Learned

Ten years of experience developing facilities, as well as feedback from early education providers, advocates, and development professionals, has provided valuable information that can improve the performance of the CCFLF Tax-Exempt Financing Program. Success cannot just be measured by the number of classrooms developed; the program must adequately support quality programs and be responsive to early education providers and communities. Since the needs of communities and the early education field are changing, programs must adapt.

Even under the best of circumstance, unexpected events can lead to considerable delays and cost overruns. Early education providers typically have very limited experience in real estate development, and operate with marginal funding. These conditions can combine to exacerbate problems when they arise. Below are examples of the types of challenges that can arise in CCFLF Tax-Exempt Financing projects.

Loss of Site. Many providers lack the resources to secure land before closing the loan. By not signing a firm contract for the purchase of the site, providers risk losing it to another buyer. This can result in a rush to find another site that may not be as suitable for the project. The CCFLF Tax-Exempt Financing program can address this by requiring firm site control, but this can have the unintended consequence of excluding programs that cannot afford to conduct a site review and enter a contract up front.

Environmental Issues. Underground storage tanks, wetlands, and pollution can significantly add to the cost of developing a site, or even make the project not feasible. Since many providers lack funds to conduct a full environmental review prior to receiving a state commitment to the project, unexpected environmental issues are a substantial risk. Providers are now required to conduct an Environmental Assessment as part of their application, but some programs may not be able to afford the combined cost of securing the site and conducting the assessment.

Underestimated Development Budget. Past applicants to the CCFLF Tax-Exempt Financing program developed their project budgets without the help of a professional estimate. Underestimated costs can delay projects or lead to a substantial reduction of the scope of the project. Professional support can be expensive, however, and may discourage providers from applying to the program.

Inadequate Design. Few architects understand the specialized field of early education design. Poor designs can constrain early education programs.

Over-extended Management. Some providers need quality space, but do not have the time or resources to develop a project, or even maintain a facility.

Feedback from CCFLF Tax-Exempt Financing Providers

Feedback from early childhood providers that have developed facilities through the CCFLF Tax-Exempt Financing Program has led to a better understanding of the challenges faces by applicants to the program. It has also confirmed what types of assistance are most helpful.

Early education providers clearly benefit from guidance and technical support, and the earlier in the process assistance is provided, the better. Since the architect plays such an important role throughout the pre-development process, providers have benefited from early guidance on the selection of their architect. Workshops on design best practices, where the provider and architect can participate together, ensure there is a common base of understanding, and set the tone for future work. Workshops and best practices guides provided by the Children's Investment Partnership, a not-for-profit supporting quality facility development, have been well received, and have had a positive impact on facilities built.

Providers and advocates have also voiced an interest in more flexibility in development options. Some communities prefer to have their municipality or board of education own a facility that can then be leased to providers. There is also a strong interest in ensuring a high level of quality in programs over the long term.

Planning for Expansion

In addition to providing space for pre-kindergarten school readiness programs, facilities can provide support to the broader early childhood agenda: ensuring that all children reach the fourth grade with the supports they need to succeed. Early education facilities can be designed to serve infants and toddlers, offer health screenings, and provide after-school space. They can complement other state investments in housing and business, or be combined with kindergarten and early elementary school facilities. The thoughtful placement of facilities could facilitate racial and economic integration, and help communities "in need of improvement" under No Child Left Behind.

Facilities represent a long-term investment, and once they are built, modifications can be expensive. By taking into account the full range of services an early education facility can provide a community, flexibility can be built in. One example of this is care for infants and toddlers. Although expansion infant/toddler services in the near term may not be possible, classrooms can be designed so that they can be easily converted to serve younger children in the future.

Several communities, including Bridgeport, Hartford and Norwalk, have developed 'blueprints' or plans for marshaling resources to meet the needs of their children. *Uniformly, high-quality* facilities play a part in the implementation of these plans; engaging a broad range of stakeholders in the facility development process will help ensure that the programs meet the needs of the families they serve and the community in which they reside.

Executive Director David Nee of the William Caspar Graustein Memorial Fund shared at the December 2007 Early Childhood Education Cabinet meeting, some of early recommendations resulting from community early childhood planning efforts (supported, in part, through Graustein philanthropic funds). Mr. Nee affirmed that communities value a "mixed system" of new facilities in both school buildings and community-based organizations¹¹. He added that not-for-profit community based providers appear to give more flexibility to the system overall "as to hours, shifts and year-round coverage than school based programs traditionally have done in the past."

Mr. Nee also recommended that consultants hired to examine early childhood facilities planning also consider more effective ways to use existing state funds and funds available through the Children's Investment Partnership (a private philanthropic effort) so that "all families in poverty can have a chance for their children to attend high quality early care and education, if they desire." The Graustein Memorial Fund has committed \$1.175 million to support development efforts for the current five-year period, in

¹¹ Online at -- www.ecpolicycouncil.org/cabinet.php; December 10, 2007.

addition to \$200,000 in place from community foundations. Matching dollars may also be available for facilities planning and development through national/federal agencies and organizations.

Enhancing Facility Development through the CCFLF Tax-Exempt Financing Program

Since the CCFLF Tax-Exempt Financing Program represents the State's largest investment in early education facilities, the following proposals are presented to address the evolving needs of communities and providers, and to reflect lessons learned over the years.

Proposal #1: Implement a two-step development process for Tax-Exempt Financing.

Many providers need some level of commitment from the Tax-Exempt Financing program before they can commit the funds necessary to adequately develop an application. A two-step development process would first accept the provider into the program, based on the quality of the early education program, the plausibility of the project, and evidence of community support. The provider would make the investment necessary to develop a solid application, including taking the following steps:

- A professionally prepared scope and cost estimate;
- Identified sources of equity;
- Evidence of site control; and
- Phase I environmental assessment.

The current round of the Tax-Exempt Financing Program establishes higher standards for the application, but does not yet give the preliminary commitment smaller providers need to feel confident investing in early pre-development.

Proposal #2: Use of Pre-qualified architects and project managers for CCFLF programs.

Selecting an architect or project manager can be a difficult process, and providers can benefit from a list of qualified professionals to supplement their search. SDE, DSS and CHEFA developed an RFQ for architects and project manager and created a list of firms that expressed an interest in the program, categorizing them by their experience in early education.

Proposal #3: Fund technical experts to assist applicants through the development process.

Through the support of the Early Childhood Education Cabinet, a technical assistance organization will be available to assist providers throughout the development process. The Cabinet is providing \$50,000 in SFY 08 and \$100,000 in SFY 09. The technical assistance organization will:

- Develop presentations on facility development and development best practices;
- Evaluate the quality of the provider's current facility;
- Provide a preliminary assessment of project space needs, including unmet need, and cost;
- Guide the provider through the steps in the real estate development process;
- Examine the feasibility of potential sites, assessing their relative advantages and disadvantages;
- Assist providers in the development of operating pro forma;
- Guide the provider in the recruitment of a team of real estate development professionals; including architects, contractors and others as needed;

- Share best practices on good facility design with the provider and architect;
- Evaluate the preliminary design and offer cost-effective modifications to improve the quality of the facility; and
- Act as liaison between development team and provider, when necessary.

Proposal #4: Secure early pre-development funding for Tax-Exempt Financing projects.

Funds are needed for the pre-development work necessary to adequately develop an application. In order to assist providers with the least financial resources, the pre-development funds must be in the form of a Technical Assistance Recoverable Grant (TARG). A TARG is essentially a grant that is repaid at the time the project loan closes. Since projects may fail after the TARG funds are spent, replacement funds need to be available to repay the grant if the project does not get to the project loan closing.

The Early Childhood Education Cabinet is providing \$100,000 in FY08 and \$100,000 in FY09 to be retained as a Protection Account for Pre-Development Lenders providing Technical Assistance Recoverable Grants (TARGs). This relatively modest Protection Account can support up to \$2 million in Technical Assistance Recoverable Grants, or 20 projects

Proposal #5: Provide an architectural review of Tax-Exempt Financing projects.

Well-executed design is a critical component of facility development. DSS, SDE and/or CHEFA, in collaboration with the State Department of Public Health, should be responsible for a review of the facility designs. Design guidelines also can be developed, as long as they provide adequate flexibility.

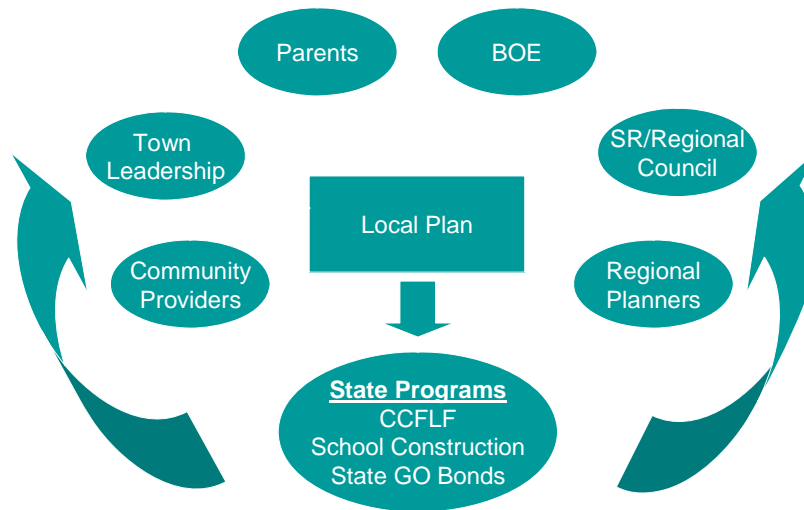
Proposal #6: Develop a “Community Needs Based Approach” to allocating loan resources.

Applications to the Tax-Exempt Financing Program have always required a letter of support from the School Readiness Council or mayor. However, CHEFA, DSS and SDE are exploring new ways to collaborate with communities in order to ensure that the state’s investment fits within the fabric of the municipality. This will also help ensure that providers accepted into the program have strong community ties and will continue to provide quality programming into the future.

The final version of the Facility Plan will include feedback from communities on their needs and challenges as they look to develop early education facilities. The Early Childhood Education Cabinet is providing \$50,000 in SFY 08 and \$50,000 in SFY 09 to hire a consultant(s) to provide outreach to targeted cities and towns and to accomplish the following:

- Interview Town leadership (i.e., including Board of Ed, executive leadership and local School Readiness Councils), community providers, parents and regional planners regarding municipal, local School Readiness Council, school board and community interest, barriers to the development of early education facilities, and possible solutions/alternatives;
- Visit and evaluate existing Board of Education early education space and vacant public/private space (e.g., schools, colleges, corporate) that may be converted to early education space; and
- Examine short-term alternatives including the potential for developing temporary space.

An Illustration of a Community Needs Approach



Proposals for Alternative Development and Ownership Models for Tax-Exempt Financing

The following proposals expand on what the Tax-Exempt Financing program offers, in order to meet the needs of a wider range of providers.

Proposal #7: Offer “turnkey” development for Tax-Exempt Financing projects.

Some highly quality early education providers are not interested in taking the lead in the development process, but are in need of improved or expanded facilities. By offering a “turnkey” development option, these providers will have a pathway to own a quality facility. CHEFA can contract with an independent development agency to manage the day-to-day development work.

Proposal #8: Offer centralized ownership of Tax-Exempt Financing projects.

Another pathway to facility development that should be explored is coordination of development and ownership through a single agency. Early education providers that are not interested in owning their facility could have the option of leasing an affordable space. Centralized development offers the benefits of an impartial evaluation of sites, potential economies of scale in the hiring of architects and general contractors, and a single entity that would be accountable for the success of multiple facilities. Another benefit is that continued building maintenance would be assured.

Proposal #9: Develop model architectural designs for early education.

Most commercial chain stores are built using a standard set of designs that are modified to suit site conditions. A set of model early education facility designs could be developed for providers. Some benefits of standardized design include the incorporation of best practices in quality design, and potential architectural cost savings.

Proposals for Multi-Agency Coordination

State agencies must coordinate their efforts to address early education facility needs in Connecticut. The work of the Early Childhood Education Cabinet demonstrates the benefits of working across agencies for a common goal. Early education is most effective when it is incorporated into the fabric of public services available to families.

An important component of coordinating efforts across CHEFA, SDE and DSS is the hire of a consultant(s) who will provide staff support for the development and implementation of the facility plan. The consultant(s) will provide a linkage between SDE, CHEFA and DSS. In support of the Early Childhood Facility Plan, the Early Childhood Education Cabinet allocated \$75,000 in SFY 08 and \$75,000 in SFY 09 for this service. The consultant(s) will:

- Assemble and analyze inter-agency and community data on space availability and need, including unmet need (existing and new facilities);
- Recommend data development agenda;
- Provide recommendations on legislation and regulation applicable to early childhood facility development, facility standards and grant formulas;
- With the guidance of project staff, draft the facility plan report; and
- Track action steps necessary for the implementation of the plan (e.g., data development, inter-agency actions).

Proposal #10: Provide slot subsidy commitments to providers seeking facility expansion.

In order to commit CCFLF Tax-Exempt Financing funds to a project, the provider must demonstrate that they have a commitment from the state for the slots necessary to operate the facility. At the same time, providers are unable to receive a commitment for additional slots until they have the necessary classroom space. The situation makes it difficult for providers to expand programs, and in the worst cases, state funds are returned to the state unspent.

The situation can be resolved if state subsidized slots could be committed to providers as they pursue a new facility. These slot subsidies would be unspent as the provider develops the facility, but CHEFA and the provider could be confident that the additional slots would be available once the facility is complete.

Proposal #11: Co-locate early education within public schools.

Early education classrooms currently exist within public elementary schools. This arrangement provides a parent of multiple children a single point of pick-up and drop-off in a facility with which the parent is familiar. Opportunities exist for additional arrangements. Many communities lack full-day kindergarten; facilities dedicated to pre-kindergarten and kindergarten could bridge the disconnect between full-day pre-k and a lack of kindergarten services. The co-location of Infant/toddler care with high schools, supports the education of teen mothers. This arrangement also can provide needed supports to new mothers and their children.

Proposal #12: Co-locate early education within public housing and other State projects.

Other state supported projects provide opportunities for co-location of early education. Low Income Housing Tax Credits (LIHTC) can be utilized to develop early education space. This route of facility development is untested in Connecticut because many housing developers are not aware of the ability to

blend LIHTC and early education. In order to stimulate co-location, projects including early education could receive a higher priority of development. Other institutions including senior housing, colleges and hospitals could be encouraged to utilize a portion of their facilities to build space for early education.

Proposal #13: Provide incentives to business for the development of early education space.

Several of the larger corporations in Connecticut occupy buildings that are underutilized and have vacant space. Tax-credits and other incentives could tap this resource, which could benefit the employees of the corporation and integrate it into the surrounding community.

Legislative Alternatives

Legislative and/or regulatory action will be required to further support both facility and program expansion, as envisioned in both the *Ready by Five, Fine by Nine* framework and the *Early Childhood Investment Plan (Part 1)*. These proposals are summarized below, with further detail to be provided in the full report in June 2008. A fiscal analysis of these proposals will be required, as well as alignment of these proposals with emerging Early Childhood Education systems development through the state Results-Based Accountability process.

1. Increase both the School Construction Bonus and Reimbursement Rates.
 - a. Legislative changes to the 5 percent PK and 10 percent K school construction bonus.
 - b. Regulatory changes to PK-K space and facility standards for State Department of Education reimbursement (i.e., maximum square footage; reimbursement rate for maximum square footage in PK-3 schools).
2. Expand state reimbursement to include “lease” options (currently only available for purchase option).
3. Accept tax-exempt financing as “local match” for School Construction Grant Funds.
4. Expand early childhood education initiatives for poor children into additional districts.
 - a. Permit reimbursement for preschool construction in Sheff districts, federal schools in need of improvement, districts where poor students reside, and preschool programs in high schools (current reimbursement only for priority school district *elementary* schools).
5. Authorize CHEFA to develop elementary public school space as part of a comprehensive early education facilities planning and implementation.
 - a. Permit CHEFA authorization beyond PK and school readiness development to include such areas of involvement as:
 - o Involvement in K-3 and infant/toddler program facility development; and
 - o Expansion of CHEFA debt service support beyond school readiness sites.
6. Fund “portable early childhood slots” so that eligible families may enroll their children in quality programs that already exist outside of their town of residence (for example, in the towns in which parents are employed).
7. Provide full-day kindergarten support:
 - a. for program continuity with full-day preschool for children;
 - b. to enable communities to plan and meet both their early childhood and kindergarten facility needs; and

- c. to reduce racial isolation and improve student outcomes.
8. Reduce/eliminate early childhood magnet school tuition to encourage cross-income enrollment and reduce racial/ethnic isolation.
9. Permit both public *and* private preschool facilities development.
 - a. Private development state reimbursement when cost, efficiency and effectiveness basis outweighs use of public space.
10. Recommend changes to state approval process time for school construction grant planning and state authorization (currently two to three years for state approval).
11. Create a common early childhood slot “cost model” for targeted communities (i.e., both Priority and Competitive Districts).

Proposed Appendices

The following appendices will be included in the June 2008 final report:

- Early Childhood Facility Related Sections of the CT General Statutes
- Relevant Connecticut Health and Educational Facilities Authority Statutes
- Relevant State Department of Education Statutes
- Relevant State Department of Social Services Statutes
- Photos of Components of Quality Design
- Town Category Chart
- Schedule of Early Childhood Facilities Planned with School Construction Funds
- Flow-Chart of the Tax-Exempt Financing Process