

# Co-Locating Early Care and Education Facilities with Affordable Housing in Oregon

A Report to the Oregon Joint Committee on Ways and Means



*Prepared by the Low Income Investment Fund and ECONorthwest on behalf of Oregon Housing and Community Services (OHCS) and the Oregon Department of Education, Early Learning Division (ELD)*

February  
2022

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*Cover images:*

*Ochoco School Crossing (Prineville, OR) ECE facility and affordable housing development, provided by NeighborImpact and HousingWorks.*

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# Executive Summary

The State of Oregon has acute housing and Early Care and Education (ECE) needs in nearly every corner of the state. This report was developed in response to a \$10 million budget note in 2021 Oregon House Bill 5011 that seeks to respond to both challenges simultaneously, building spaces for ECE providers to serve children and families within or on the grounds of affordable housing developments. This model – known formally as ‘co-locating’ ECE facilities with affordable housing – has been successful in Oregon and beyond. However, programmatic challenges and misalignments, incongruous land use and wage policies, and limited funding have historically hampered large-scale, statewide attempts at co-location. This report identifies many of those challenges, makes broad recommendations for improving the abilities of housing developers and ECE providers to co-locate, and offers rationale for how the state might design the Oregon Co-Location Fund, to be initially supported with HB 5011’s \$10 million seed investment.

**What are the benefits of co-locating ECE with affordable housing?** Efforts to co-locate early care and education with affordable housing are rooted in evidence of what young children and their families need to thrive. Analysis in this report affirms the state of Oregon’s decision to incentivize co-located developments as a tool for achieving five critical policy goals:

1. **Responding to severe housing and child care shortages** – Prior research suggests Oregon currently needs 30,000 more child care slots to meet base demand and will need 600,000 new housing units over the next two decades. Co-located development provides an opportunity to meet both ECE and housing supply needs simultaneously.
2. **Promoting healthy child development** – Affordable, high-quality housing and ECE opportunities are key determinants of short- and long-term development of young children. Efforts to improve housing stability and early childhood experiences in tandem ensure future generations are supported in critical early years.
3. **Ensuring economic growth and resilience** – Parents of young children struggle to maintain steady work and advance professionally when there are housing and ECE shortages. Supply-building efforts can boost economic output and increase maternal labor force participation rates.
4. **Supporting coordinated and smart regional planning efforts** – Streamlined efforts to bolster supply of housing and ECE simultaneously can make neighborhoods more family-friendly and help local officials identify ways to make land use planning and regulation an efficiency.
5. **Efficiently using public resources** – Despite tremendous need, virtually no federal or state funding exists to support construction and expansion of ECE facilities. Identifying cross-sector financing tools for building supply represents responsible and efficient use of public dollars.

**Where in Oregon are co-located developments needed?** Every county in the state of Oregon needs expanded ECE and housing supply. This report uses a framework for evaluating where needs might be most significant because of both lagging supply and significant proportions of Black, Indigenous, and People of Color (BIPOC) populations, low-income children, and children living in limited English proficient (LEP) or single-parent households. These groups tend to be most negatively impacted by housing and ECE supply shortages, but also could serve to benefit most from targeted investments and new developments. Counties with the highest proportions of target populations range in size and geographic classifications.

**How does co-location typically work?** Case studies and interviews with stakeholders conducted to inform recommendations revealed several common approaches to including an ECE facility on-site at an affordable housing development. Co-located developments generally occur through three broad scenarios, each of which could apply to a center- or home-based ECE facility<sup>1</sup>:

1. New construction of the housing and ECE together;
2. Preservation or rehabilitation of an existing building or plot of land for the development of housing and/or an ECE facility; or
3. Tenant improvements (TI) to an existing space in a housing development to retrofit it as an ECE facility.

To finance these scenarios, developers typically use the Low Income Housing Tax Credit (LIHTC), which is by far the largest subsidy for affordable housing construction. Certain costs beyond constructing housing – such as including common areas or space for resident or community services – can be covered with tax credits if the property is located in areas of concentrated poverty. Outside of these areas (known as Qualified Census Tracts), securing financing for the build-out of the ECE facility through LIHTC is more legally and programmatically challenging, leaving developers and ECE partners the difficult task of securing additional funds.

**What are the biggest barriers and challenges?** This report addresses various barriers and challenges developers and ECE providers face in efforts to co-locate, ranging from financing to the logistics of finding and forming a partnership. Cost is by far the biggest inhibitor to co-location in Oregon, as affordable housing construction can exceed \$400 per square foot and quickly consume the supply-building subsidies that do exist across a fraction of the projects in need of funding. ECE facilities are also complex, nuanced, and expensive construction projects that include regulations often unknown to housing developers and can cost \$40,000 - \$60,000 per child to complete. Recent regulatory interpretations regarding prevailing wage rates (PWR) further add to cost and make co-location difficult financially even with significant subsidy. The state exempts most affordable housing projects from having to pay higher wage rates to contractors because of the severe need for housing, but when any commercial space is added to plans – whether it be an ECE center or residential family child care home – developers must pay PWR on all elements of the project, including residential space. This can make co-location prohibitively expensive for developers, in some cases adding 10-20% to total development costs that already range from \$20 million - \$40 million.

Even when developers can work out financing, they often struggle to find ECE operators ready, able and willing to expand or open a new facility. ECE is an under-resourced sector that often must patch together various public and private funding streams to enroll children, especially those from low-income families. Difficult business models make a provider's ability to wait out long land use, permitting, and construction timelines an even greater challenge. A pool of providers interested in expanding operations does exist in Oregon, but developers struggle to know where to look to find partners, especially those with contracts to consistently enroll low-income children, such as Head Start or Preschool Promise. Both housing developers and ECE providers need significant technical assistance (TA) to help make connections and

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<sup>1</sup> Home-based or family child care (FCC), takes place in the primary residence of providers and serves a smaller number of children across age bands. Center- and home-based ECE facilities are both licensed, quality forms of care.

navigate complex legal and regulatory environments, but few -- if any -- organizations are capable of match-making and providing TA across two historically disconnected sectors.

**What can Oregon do to encourage more co-location of ECE and affordable housing?** Despite challenges, Oregon has substantial opportunities and avenues for expanding the number of co-located developments in the state. The figure below includes recommendations on design and management of the Oregon Co-Location Fund, with significant rationale in the body of the report, for why the state should consider contracting with an intermediary organization, such as a community development financial institution (CDFI) to manage all aspects of the fund. CDFIs are adept in leveraging public, private, and philanthropic funds, and they have unique experience in both affordable housing development and ECE facilities projects. Working with a CDFI would also help the state create and maintain a formal pipeline of developers and ECE providers seeking partners, a structure critical in equitably allocating funding to the highest-impact projects that may be least likely to qualify for other forms of capital.

<b>HB 5011 Oregon Co-Location Fund Recommendations</b>	
<b>Core Recommendations</b>	
<p><b>1)</b> Contract with an intermediary organization, such as a community development financial institution (CDFI) to manage the fund, track development pipelines, and provide technical assistance.</p> <p><b>2)</b> Create and monitor a state pipeline of ECE operators and developers interested in co-locating. Deploy funds throughout the pipeline based on project readiness and potential impact. Evaluating impact should focus on the development's commitment to serving low-income and BIPOC families, rural communities, and other areas with severe housing and ECE supply shortages.</p>	
<b>Program Design Recommendations</b>	
<b>Low-Interest Loan Fund</b> <i>(To be funded with \$5 million in seed funding from HB 5011 and leveraged with private, philanthropic, and other public sources of capital)</i>	<b>Eligibility:</b> Any affordable housing developer or ECE provider.
	<b>Financial Products:</b> Low-interest loans (0.5 – 4.0% interest)
	<b>Intended Uses:</b> Any pre-development, acquisition, construction, or fit-out costs related to newly constructed, preserved or enhanced, or retrofitted ECE facilities in affordable housing projects.
	<b>Award Caps and Formulas:</b> No definitive caps but subject to fund availability, stage of development, and anticipated impact of project.
<b>ECE Facilities Grant Pool</b> <i>(To be funded with \$4.5 million in seed funding and possibly supported by additional fundraising)</i>	<b>Eligibility:</b> Any licensed ECE provider.
	<b>Financial Products:</b> Grants
	<b>Intended Uses:</b> Any pre-development, acquisition, construction, or fit-out costs related to newly constructed, preserved or enhanced, or retrofitted ECE facilities in affordable housing projects.
	<b>Award Caps and Formulas:</b> Caps of \$120,000 (pre-development) and \$2 million (full build-out). Grants for full build-out should be capped at \$40,000 – 60,000 per child for new construction and \$25,000 - \$50,000 per child for tenant improvement.
<b>Family Child Care Repair and Renovation Grants</b> <i>(To be funded with \$500,000 in seed funding and possibly supported by additional fundraising)</i>	<b>Eligibility:</b> Affordable housing developers or FCC providers.
	<b>Financial Products:</b> Grants
	<b>Intended Uses:</b> Any cost associated with improving indoor or outdoor space of an existing unit of affordable housing to accommodate a Family Child Care provider.
	<b>Award Caps and Formulas:</b> \$20,000 - \$50,000 (\$2,000 - \$5,000 per child)

Even beyond funding specific to co-location, this report finds evidence of broader policy measures legislators and state agencies could take to naturally incentivize coordinated development. The *Policy Recommendations to Support Co-Location Beyond HB 5011* figure is organized by sector and includes a standalone for PWR policy considerations given the magnitude of financing challenges created by these policies.

Policy Recommendations to Support Co-Location Beyond HB 5011		
<i>Early Care and Education</i>	<i>Housing and Community Dev.</i>	<i>Prevailing Wage Requirements</i>
Create a dedicated stream of grant funding for ECE operators to develop, expand, or improve physical facilities regardless of co-location.	Add co-location with ECE as a scoring criterion in the state's Qualified Allocation Plan (QAP).	Offer a blanket waiver to PWR for developers interested in co-locating with all types of ECE facilities.
Redirect some Employment Related Day Care (ERDC) funds to offer grants and contracts to ECE providers.	Make co-located developments eligible for LIHTC 30% basis boosts.	Offer a waiver to PWR specifically for developers co-locating with Family Child Care homes.
Create a pilot program through state ECE subsidy programs to offer project-based ECE vouchers to developers seeking to co-locate.	Streamline other affordable housing gap financing programs to support co-located developments.	Allow for split PWR determinations in mixed-used developments that include housing and ECE facilities.
Continue to increase child care subsidy reimbursement rates so that providers receive sufficient funding.	Prioritize co-located ECE facilities during Community Development Block Grant (CDBG) funding rounds.	
Update state licensing regulations to allow Certified Family Child Care homes in denser housing.	Consider earmarking local or regional tax revenue for investments in the state Co-Location Fund.	
Take state or local action to make ECE an allowable use "by right" in residential and commercial land use zones.		
Dedicate funding to ECE network organizations to support provider business training.		
Continue to explore methods for helping ECE operators blend and braid subsidy contracts.		
Efficiently allocate federal funds for replacing lead pipes and paint in ECE facilities and K-12 schools		

# Overview and Purpose

Oregon [House Bill 5011](#), approved by the state legislative assembly during its 2021 Regular Session, appropriates and provides expenditure authority of more than \$2.9 billion for the Housing and Community Services Department over two years.<sup>2</sup> The appropriation supports the agency in continuing to respond to immediate housing needs – made worse by the Covid-19 pandemic – and ensuring long-term financial viability of capital and housing development projects statewide. At the intersection of these two overarching goals is a one-time, \$10 million budget note intended to support affordable rental housing developments that include early care and education (ECE) facilities on-site.<sup>3</sup>

This report was prepared on behalf of OHCS & the Department of Education, Early Learning Division by the Low Income Investment Fund (LIIF) and ECONorthwest in response to the Oregon Joint Committee on Ways and Means' request in HB 5011 for a study and formal set of recommendations on how the state might best use funding to support co-location. Following a brief literature review below on the rationale behind efforts to co-locate ECE facilities with affordable housing, the report is organized in four core sections:

1. **Assessing the Field** – Results of case study analysis, review of demographic data, and stakeholder interviews on need and commonalities in Oregon related to co-location.
2. **What Does it Take to Co-Locate?** – Overview of the systems and policies influencing co-located development, as well as a presentation of basic design, financing, and other considerations housing developers and ECE operators should consider when pursuing such projects.
3. **Program Design Recommendations** – Recommendations on how the state might use the \$10 million appropriation in HB 5011 to incentivize co-located developments.
4. **Other Policy Recommendations** – Steps and considerations Oregon officials might consider beyond HB 5011 to support co-location of affordable housing and ECE.

## Benefits of Co-Locating ECE Facilities with Affordable Housing

Low-income families and communities of concentrated poverty face systemic barriers that are rarely specific to one policy issue. But too often, poverty alleviation efforts take place in vacuums, responding to specific education, housing, or other needs while failing to recognize the holistic and compounding nature of poverty. The \$10 million appropriation in HB 5011 focused on “co-locating” ECE facilities with affordable housing developments takes important strides to mitigate this problem. Co-location models in community development seek to combat poverty through the power of proximity – siting a new train or bus stop next to a major employment center, bringing green space or healthy food options to growing residential corridors, or in this case, making space for child care and early learning providers within residential housing developments. Complementing housing and ECE investments in communities that

<sup>2</sup> Although HB5011 uses HCSD as the acronym for the Housing and Community Services Department, this report will primarily use the more common acronym OHCS (Oregon Housing and Community Services) when referencing the agency.

<sup>3</sup> Early care and education (ECE) includes all licensed care, learning, and educational arrangements for children from birth through age 5. A robust ECE system includes center- and home-based child care, preschool, infant and toddler care, full- and part-day programs, etc.

have too often missed out on public works and wealth-building programs help ensure that all of Oregon's children and families have the opportunity to live, play, and work in thriving, intentionally designed neighborhoods.

Affordable<sup>4</sup>, high-quality housing and ECE opportunities are key determinants of short- and long-term development of young children. Research suggests that periods of housing instability, which are often driven by cost burden on families with young children<sup>5</sup>, can reduce a child's academic potential in the long-run and cause behavioral and social-emotional challenges.<sup>6</sup> Housing challenges often correlate with difficulties affording quality ECE opportunities, which are shown to lead to outsized academic, social, and physical benefits for low-income children, in particular.<sup>7</sup> Despite significant challenges, states and jurisdictions have the capacity to improve long-term outcomes for future generations with investments and focus on the cornerstones of early years – healthy and supported families, thriving neighborhoods with abundant supply of affordable housing, and developmentally appropriate care and learning environments for young children.

Support for both housing and ECE is critical for parents' and families' abilities to maintain schedules and gainful employment. The Bipartisan Policy Center (BPC) estimates that unmet child care needs of all families, regardless of income, results in annual national economic losses between \$142 billion and \$217 billion.<sup>8</sup> Conversely, full federal funding of child care for babies and infants would increase national GDP by 5 percent, or more than \$1 trillion.<sup>9</sup> In states and jurisdictions that more adequately address child care needs, families and children benefit. Washington, DC, saw its maternal labor force participation rate increase by at least 10 percentage points in the two years following its rollout of a universal preschool initiative, and national research has found that stable parental employment early in a child's life leads to enhanced socio-emotional functioning, especially for low-income Black and Latino children.<sup>10,11</sup>

Public investments in multifamily rental developments that seek to simultaneously address ECE and housing needs of families are warranted for these reasons, as well as limited supply and high costs statewide. Research suggests that even before the Covid-19 pandemic caused many existing ECE providers to close their businesses, Oregon needed nearly 30,000 child care slots just to meet base demand.<sup>12</sup> Population projections and analysis of existing housing supply further complicate this challenge, as the state also needs to create 600,000 new housing units to account for current and anticipated demand over

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<sup>4</sup> Thresholds for determining affordability of housing and ECE are 30% and 7% of monthly household income, respectively.

<sup>5</sup> The term "young children" is used often in this report and generally applies to non-school-age children under 5.

<sup>6</sup> Sandstrom & Huerta. (2013). *The Negative Effects of Instability on Child Development*. Urban Institute.

<sup>7</sup> Rice, Schmit & Matthews. (2019). *Child Care and Housing: Big Expenses with Too Little Help Available*. Center on Budget and Policy Priorities [CBPP].

<sup>8</sup> Bipartisan Policy Center. (2021). *The Economic Impact of America's Child Care Gap*.

<sup>9</sup> Bovino & Gold. (2017). *The Key to Unlocking U.S. GDP Growth? Women*. S&P Global, Inc.

<sup>10</sup> Coley & Lombardi. (2013). *Does Maternal Employment Following Childbirth Support or Inhibit Low-Income Children's Long-Term Development?* Child Dev. 84(1): 178–197.

<sup>11</sup> Center for American Progress. (2018). *The Effects of Universal Preschool in Washington, D.C.*

<sup>12</sup> Pratt & Sektan. (2021). *Oregon's Child Care Deserts 2020: Mapping Supply by Age Group and Percentage of Publicly Funded Slots*. Oregon Child Care Research Partnership. Oregon State University.

the next two decades.<sup>13</sup> Co-located developments provide an opportunity to meet both ECE and housing supply needs simultaneously and to achieve broader state goals of fostering healthy childhood development and increasing family economic stability.

Efforts to co-locate ECE with affordable housing also help communities achieve healthy planning and growth goals. City and regional planning offices are responsible for setting long-term community development goals, often by projecting and outlining where new residential development should occur and what services should accompany it. However, recent momentum to coordinate housing, employment, and transportation planning initiatives for sustainable community development consistently left out ECE needs of communities.<sup>14</sup> Streamlined and coordinated efforts to bolster supply of housing and ECE simultaneously can make neighborhoods more family-friendly and help local officials identify ways to make land use planning and regulation an efficiency, rather than an inhibitor to development. There are also major benefits to parents and the local economy when less travel is required to move from home to child care settings.<sup>15</sup>

Finally, co-location represents efficient use of public resources. Virtually no dedicated federal funding exists to support construction and expansion of ECE facilities, so more than 20 states nationwide have moved to formally incentivize affordable housing developers who work to stretch public dollars further and support the child care needs of their residents.<sup>16</sup> Such steps help achieve clear state and local equity priorities, most notably by supporting ECE businesses that overwhelmingly employ and are run by women, people of color, and immigrants.<sup>17,18</sup> Decades of discriminatory banking and lending policies prevented much of the child care industry from building credit and wealth, a reason why ECE businesses are less likely than other industries today to receive small business and other loans to support capital projects.<sup>19</sup> Stewarding resources for housing developers – who have unique training in managing capital construction projects – to simultaneously support ECE businesses is an economically efficient and justice-oriented approach to building supply of high-quality, needed community assets.

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<sup>13</sup> ECONorthwest. (2021). *Implementing a Regional Housing Needs Analysis Methodology in Oregon*.

<sup>14</sup> Anderson. (2006). Planning for Child Care in California.

<sup>15</sup> Hodgson. (n.d.) *Child Care and Sustainable Community Development*. American Planning Association [APA].

<sup>16</sup> Hammond. (2021). *Building Better for Families: Policy Strategies for the Co-Location of Early Care and Education Facilities and Affordable Housing*. Low Income Investment Fund and National Children's Facilities Network.

<sup>17</sup> McManus. (2016). *Minority Business Ownership: Data from the 2012 Survey of Business Owners*. US Small Business Administration.

<sup>18</sup> Park et al. (2015). *Immigrant and Refugee Workers in the Early Childhood Field: Taking a Closer Look*. Migrant Policy Institute.

<sup>19</sup> Rosch et al. (2022). *Capitalizing Child Care: The National Landscape of Grants, Loans, and Community Development Capital in Early Childhood Education*. Reinvestment Fund.

# Section 1: Assessing the Field

Recommendations in this report are made primarily in response to results of a three-pronged research agenda that included: (1) case studies on existing co-located facilities in the state, (2) a county-level review of data on need for ECE and housing investments, and (3) an analysis of key themes from a stakeholder engagement and feedback process.

## Typical Co-Location Scenarios and Case Studies

The actual financing, partnership structures, and site specifics of housing developments and ECE facilities can vary substantially from project to project. Rather than making assumptions about capacities and focus areas of every individual developer or ECE operator in the state, this report is organized around five core case studies on existing or planned co-located projects that represent broad trends, best practices, and potential pitfalls in the development process. Figure 1 identifies each case study presented in this section. Brief analysis of major trends and commonalities across geographic contexts are presented initially to frame scenarios covered in each case study.

Figure 1. Co-Location Case Studies			
Project	Partners	Location	Scenario
PCC/Killingsworth	Home Forward, Portland Community College, and Native American Youth & Family Center (NAYA)	Portland	New construction (center-based)
Ochoco School Crossing	HousingWorks and NeighborImpact	Prineville	Preservation/rehab (existing structure)
Beatrice Morrow	PCRI, Gerding Edlin, and Ladybugs Academy	Portland	Tenant improvement
Leander Court	Rose CDC and licensed Family Child Care providers	Portland	New construction (home-based)
Castle Rock Apartments	Umatilla Housing Authority and Oregon Child Development Coalition (OCDC)	Boardman	Preservation/rehab (new structure)

## Typical Co-Location Scenarios

The five case studies presented below are indicative of broader trends in efforts to co-locate ECE facilities with affordable housing. In fact, through an extensive stakeholder interview protocol, developers and providers shared dozens of examples of other co-located facilities that follow similar patterns and approaches to those addressed in this report's case studies.

Co-located developments generally occur through the three broad scenarios presented in Figure 1: (1) new construction of the housing and ECE together, (2) preservation or rehabilitation of an existing building for the development of housing and/or an ECE facility, or (3) tenant improvements (TI) to an existing space in a housing development to retrofit it as an ECE facility. Most new construction and preservation/rehab projects are funded through a mix of Low Income Housing Tax Credits (LIHTC) and other state and local affordable housing development subsidies. LIHTC is by far the largest subsidy available to affordable housing developers, and certain costs beyond constructing units of housing – such as including common

areas or rooms for services to be provided for residents – can be covered using tax credit equity.<sup>20</sup> The easiest way to do this for an ECE facility occurs on sites that are located in Qualified Census Tracts (QCT), Housing and Urban Development (HUD) designated census areas of concentrated poverty where 50% of the population is below 60% of the area median income.<sup>21</sup> Developers working in QCTs can include the cost to construct Community Service Facilities (CSFs) in LIHTC eligible basis. CSFs are meant for third parties to use and can serve a mix of residents and non-residents so long as services are, “affordable to individuals at or below 60% area median income.”<sup>22,23,24</sup>

A common approach used by developers to co-locate and limit general compliance risk is to use LIHTC to structure a “master lease,” whereby the developer signs a lease to rent and complete the build out of the commercial space. This allows the housing developer, represented as the project’s General Partner, to also become the tenant and pay a set rent (below the LIHTC income restriction on commercial space) back to the partnership. The developer is then able to rent out the space to an ECE provider. This approach can enable an affordable housing developer to include the commercial space in the project’s eligible basis provided that it is located in a QCT and the use qualifies as a CSF.

In areas outside of QCTs, covering the full build-out of ECE facilities with LIHTC dollars is much more challenging and generally can only serve residents of the building.<sup>25,26</sup> These scenarios generally require developers to separate the residential units from the commercial component of the building via condominium declaration.<sup>27</sup> This involves the developer legally excluding ownership of the ECE facility from the affordable housing. The development costs of the ECE facility in this scenario cannot be included in the LIHTC equity calculation (eligible basis) and the developer must finance it separately. However, the developer is free to earn income on the space without jeopardizing the tax credits on the residential portion of the project.

Mixed-use affordable housing projects typically follow one of two approaches to co-location agreements:

1. **Pre-development partnerships** – Establishing a partnership during pre-development enables a co-located project in the design and development phase to account for the space needs and building code requirements of the ECE facility. These partnerships typically involve the developer

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<sup>20</sup> The amount of tax credits developers are awarded depends on construction costs and other formulas that contribute to a project’s “eligible basis,” or the amount of costs that can be covered with subsidy.

<sup>21</sup> A map of QCTs maintained by the US Department of Housing and Urban Development (HUD) is available here: [https://www.huduser.gov/portal/sadda/sadda\\_qct.html](https://www.huduser.gov/portal/sadda/sadda_qct.html).

<sup>22</sup> CSFs must be available to residents but can be intended for use by non-residents so long as proposed services are affordable to individuals earning 60% or less of Area Median Income (AMI).

<sup>23</sup> See IRS Revised Ruling 2003-77: [https://www.novoco.com/sites/default/files/atoms/files/rr\\_03\\_77.pdf](https://www.novoco.com/sites/default/files/atoms/files/rr_03_77.pdf)

<sup>24</sup> IRC. Section 42(d)(4)(C)(ii).

<sup>25</sup> LIHTC program rules: 1) The cost to construct non-residential space must not add up to more than 10 percent of a project’s eligible basis. 2) Income from the commercial space must not exceed 20 percent of a project’s total income, otherwise it will then be considered a non-residential project by the Internal Revenue Service. See IRC §42(d) (5) (B) (ii) for additional details.

<sup>26</sup> IRC §42(d)(5)(B)(ii)

<sup>27</sup> See the following link for additional information on condominium ownership:

[https://www.oregon.gov/rea/land\\_development/Pages/condominium\\_form\\_of\\_ownership.aspx#:~:text=The%20owner%20of%20a%20condominium,siding%2C%20roofs%2C%20stairways%2C%20utility](https://www.oregon.gov/rea/land_development/Pages/condominium_form_of_ownership.aspx#:~:text=The%20owner%20of%20a%20condominium,siding%2C%20roofs%2C%20stairways%2C%20utility)

delivering the shell of the ECE space but exclude any interior fit-out costs and may or may not provide a Tenant Improvement (TI) allowance. ECE providers will then fund either fully or partially the fit-out costs needed to create a functioning space for their business.

The lease rates identified in pre-development partnerships for co-located ECE facilities are typically nominal (i.e., basically no-cost, or substantially below market). This is common in partnerships with nonprofit providers or community development organizations who are contributing to a broader mission. Leases are often structured as triple-net (NNN), a common commercial real estate tool requiring the ECE provider (tenant) to pay base rent along with property taxes, building insurance for the space, and common area maintenance (CAM) costs, basically incurring all expenses related to the ECE space. Full-service leases can also be used, whereby the ECE provider pays a base rent, and the developer is then responsible for covering the expenses of maintaining and operating the commercial space.

2. **Lease post-construction** – The other common approach to structuring agreements is for ECE providers to lease vacant ground floor commercial space from an existing affordable housing development. This often requires ECE providers to seek out a line of credit to finance the fit-out costs of the ground floor commercial space partially or fully, depending on whether the developer was willing to offer a tenant improvement (TI) allowance. In most of these instances, the ECE provider is looking to add a second facility to their business or grow out of a smaller space into a larger facility. This model tends to mirror lease structures cited above.

The physical siting of the ECE facility in co-located projects can vary depending on the geographic context of the development. For instance, co-location in urban areas tends to occur by the ECE operator leasing or owning ground-floor retail space underneath an apartment complex. In suburban and rural settings where land is less of a premium, space for ECE facilities is more often detached from the housing itself. This can make it easier for the addition of the ECE facility to occur post-construction of housing and can often involve up-front donations of land or space by developers or local governments.

# Case Study 1: PCC/Killingsworth

**Location:** Portland, Oregon

**Year Built:** 2023

**Developer:** Home Forward in partnership with Portland Community College (PCC)

**ECE Provider:** Native American Youth and Family Center (NAYA)

**Overview |** Currently in pre-development, Home Forward and PCC are jointly developing a four-story mixed-use project at the corner of NE 42<sup>nd</sup> Avenue and Killingsworth Street in Portland. The site is the current location of PCC Metro, the community college's workforce training center. The project will provide an entirely new work force training center facility as well as 84 units of affordable housing and 4,200 square feet for ground floor community space. Home Forward will lease the community space to NAYA to operate an ECE center open to both residents and non-residents.

PCC/Killingsworth Rendering



Source: Home Forward

**Project Details |** The development will be located on a roughly 2.8-acre site and will contain 83,575 gross square feet of residential space (68,810 sq. ft. of residential units; 14,765 sq. ft. of common areas). The ground floor will feature a 4,200 square foot ECE center available to both residents and non-residents (actual ECE programmatic details have yet to be determined). Home Forward will deliver a shell to NAYA for the ECE facility. NAYA will then pay for the fit-out costs needed for a functioning and licensed ECE facility, which it hopes will be operationally supported by a Head Start contract through Oregon Child Development Coalition (OCDC). The fit-out costs are not yet publicly available, however, NAYA has indicated that it hopes to be supported by state American Rescue Plan Act (ARPA) dollars to help pay for at least a portion of the costs. Once the improvements on the space are complete, Home Forward will create a ground floor commercial area condominium to separate the residential and the commercial space and donate the commercial area to NAYA. The residential portion of the building will consist of 84 affordable units. The units are a mix of Studios (18 units); 1-bedrooms (6 units); 2-bedrooms (45 units); and 3-bedrooms (15 units). The development will average 47 percent of the Area Median Income (AMI), with 28 units set-aside for households earning 30 percent AMI or below.

**Co-location Considerations |** The ECE facility is included in the project's LIHTC basis, which enables it to raise equity for the development of that space. This is allowable because the site is located within a Qualified Census Tract, and the ECE facility meets federal LIHTC regulations for a Community Service Facility. Community Service Facilities in QCTs allow developers to open up services to non-residents. However, in doing this, the project triggered the Oregon Bureau of Labor and Industries (BOLI) prevailing wage law, increasing the costs of construction. Additionally, the agreement between NAYA and Home Forward provides no additional income to the project, limiting the project's ability to leverage a larger first position mortgage from a private bank. NAYA plans to use some federally appropriated emergency relief funds (ARPA) to cover fit-out costs for the ECE facility. These funds will support demising walls, plumbing fixtures, finishes, and other tenant improvements. Without one-time federal funds, NAYA would have to either launch a substantial, long-term fundraising campaign to cover such costs or identify a lender to provide a business or construction loan.

**Cost |** The total project cost (excluding the fit-out costs of the ECE facility) is \$38 million, which amounts to \$455 per square foot. Approximately 71 percent of the project costs are for construction, while 29 percent are for soft costs, paid developer fee and reserves. The project has been awarded a 4 percent Low-Income Housing Tax Credit (LIHTC) allocation and qualifies for a 30 percent basis boost for being in a Qualified Census Tract (QCT).

**Figure 2. PCC/Killingsworth Uses**

	Total	Per Unit	Per Sq. Ft.
Acquisition	\$0	\$0	\$0
Construction	\$26,945,718	\$320,782	\$307
Soft Costs	\$6,041,993	\$71,928	\$69
Developer Fee	\$4,607,779	\$54,855	\$52
Operating Reserve	\$443,956	\$5,285	\$5
<b>Total</b>	<b>\$38,039,446</b>	<b>\$452,851</b>	<b>\$433</b>

Source: Home Forward

**Financing |** The sources indicate that the project will be financed through a variety of affordable housing funding mechanisms. The largest source of funding, \$17.5 million of the project cost, is 4 percent Low Income Housing Tax Credit (LIHTC) equity. The cost of the ECE facility was included in LIHTC basis. Financing for the development also includes: a Bank Loan (\$7.2 million) with a 4.5% interest rate; a Portland Housing Bureau (PHB) Metro loan (\$6 million); OHCS LIFT financing (\$3.5 million); developer contributions (\$2.6 million) which include a deferred developer fee and a sponsor's loan; and Non-OHCS Grants (\$1.1 million) which include a System Development Charge (SDC) waiver and Construction Excise Tax (CET) exemption. NAYA has indicated that at least a portion of the total fit-out costs for the ECE facility will be covered by ARPA funds. The total cost to fit-out the ECE facility is not yet publicly available.

**Figure 3. PCC/Killingsworth Sources**

	Total	Per Unit	Per Sq. Ft.
4% LIHTC Equity	\$17,542,593	\$208,840	\$200
Bank Loan	\$7,200,000	\$85,714	\$82
PHB Metro Loan	\$6,006,000	\$71,500	\$68
OHCS LIFT	\$3,525,000	\$41,964	\$40
Developer Contributions	\$2,646,716	\$31,509	\$30
Non-OHCS Grants	\$1,119,137	\$13,323	\$13

Source: Home Forward

# Case Study 2: Ochoco School Crossing

**Location:** Prineville, Oregon

**Year Built:** 2018

**Developer:** HousingWorks

**ECE Provider:** NeighborImpact

**Overview |** Ochoco School Crossing is located in an old elementary school building in Prineville, Oregon, that has been rehabilitated as low-income apartments, a community center, and a Head Start facility. After a new school was built, HousingWorks, the housing authority for Deschutes, Crook and Jefferson counties, acquired the retired elementary school from the Crook County School District and transformed it into much needed affordable housing and community amenities. The site was an ideal location for NeighborImpact which needed a new location for a Head Start program. HousingWorks structured a long-term master lease with NeighborImpact through which NeighborImpact pays \$1.00 per year for the use of the ECE facility as the occupying tenant. HousingWorks acts as the master tenant. The community center and some outdoor space, which includes a playground, is leased to the Crook County Parks and Recreation Department and is available to residents and the wider community.

**Project Details |** The development is located on a roughly 6-acre site and contains 33,266 gross square feet of residential space (23,320 sq. ft. of residential units; 9,946 sq. ft. of common areas). The property has two buildings: the old school building contains 29 apartments and the former school's gymnasium houses a community center. Of the 29 affordable apartment units, there is a mix of Studios (2 units at 550 sq. ft.); 1-bedrooms (8 units averaging 690 sq. ft.); 2-bedrooms (16 units averaging 845 sq. ft.); and 3-bedrooms (2 units of 1,090 sq. ft.). All units are restricted to 50 percent of the Area Median Income (AMI). The second building houses the Head Start classroom, repurposing the school cafeteria. It has a commercial kitchen and two classrooms, and will be managed by NeighborImpact, the local Head Start provider that also has an Oregon Preschool Promise contract. The ECE facility is about 9,400 sq. ft.

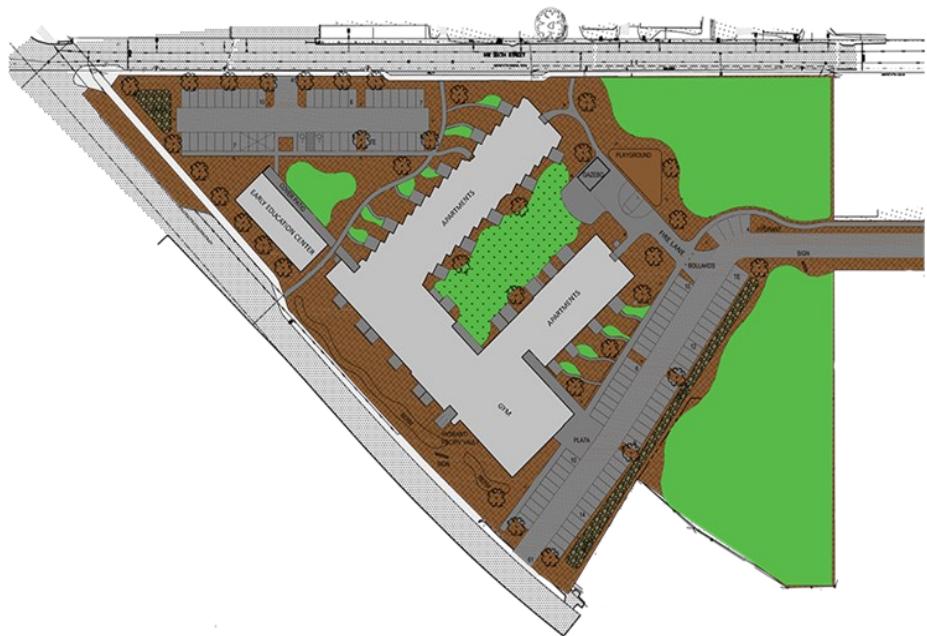
*Ochoco School Crossing ECE Center and Apartments*



Source: NeighborImpact (top) and HousingWorks (bottom)

**Co-Location Considerations |** In this case, the ECE facility provides no additional income to the developer, as NeighborImpact received a long-term lease rate of \$1.00 per year. NeighborImpact cited this as a huge boost in its ability to serve children, as comparable spaces in the region can cost \$1400 - \$1600 per month to rent. The facility also blends Preschool Promise and Head Start dollars, allowing NeighborImpact to dilute its total reliance on federal funds and avoid potential problems with federal Head Start requirements governing how much of program support can come from in-kind or other donations. Despite the master lease structure, the project does not land in a qualified census tract and therefore the ECE facility could not be included in LIHTC eligible basis as a Community Service Facility. The relatively low cost of the project made rehabilitation of the ECE building financially feasible, requiring very few funding sources. These sources did not trigger the Oregon Bureau of Labor and Industries (BOLI) prevailing wage law, as it received less than \$750,000 in public funding other than LIHTC and the project was wood-frame and below four stories.

### Architectural Plan for Ochoco School Crossing



Source: HousingWorks

**Figure 4. Ochoco School Crossing Uses**

	Total	Per Unit	Per Sq. Ft.
<b>Acquisition</b>	\$597,368	\$20,599	\$14.00
<b>Construction</b>	\$6,468,481	\$217,611	\$151.62
<b>Soft Costs</b>	\$937,958	\$32,343	\$21.98
<b>Developer Fee</b>	\$815,000	\$28,103	\$19.10
<b>Operating Reserve</b>	\$70,000	\$2,414	\$1.64
<b>Total</b>	\$8,888,807	\$306,510	\$208.35

Source: HousingWorks

**Financing** | The largest source of funding on this project, almost \$7.5 million of the project cost and more than 84 percent of total cost, came from 9 percent LIHTC equity. The cost of the ECE facility was excluded from LIHTC basis and was funded through a federal grant of \$87,000 NeighborImpact received from federal Head Start capital funds and a developer loan of \$249,000 to the project to cover the funding gap. The developer loan will be repaid through the cash flow of the entire project. Financing for the development also includes HOME funds (\$500,000) and a deferred developer fee (\$498,266).

**Figure 5. Ochoco School Crossing Sources**

	Total	Per Unit	Per Sq. Ft.
<b>9% LIHTC Equity</b>	\$7,483,780	\$258,061	\$175.4
<b>HOME</b>	\$500,000	\$17,241	\$11.8
<b>Developer Loan</b>	\$249,000	\$8,586	\$5.8
<b>Deferred Developer Fee</b>	\$498,266	\$17,181	\$11.6

Source: HousingWorks

# Case Study 3: The Beatrice Morrow

**Location:** Portland, Oregon

**Year Built:** 2019

**Developer:** Portland Community Reinvestment Inc. (PCRI) and Gerding Edlen

**ECE Provider:** Ladybugs Academy

**Overview |** The Beatrice Morrow is a five-story affordable housing development located on Martin Luther King Jr. Drive in Northeast Portland. The project site was a former warehouse, redeveloped by Portland Community Reinvestment Inc. (PCRI) and Gerding Edlen into 79 units of affordable housing for households earning less than 60 percent of AMI with a community room and a ground floor commercial space. In the first few years after construction, the commercial space was underused or remained vacant. The owner of Ladybugs Academy was running an existing family home but had a desire to expand and open a center-

based program in the ground floor commercial space of the Beatrice Morrow. The development was the first built under the North/Northeast Portland Right to Return preference policy, which prioritizes affordable housing for households who can prove their families were displaced from the area during urban renewal programs in the 1960s and 1970s. The City of Portland owned the vacant parcel and put out a direct request for developers to build on the site.

**Project Details |** The development is located on a roughly 0.75 acre site and contains 82,221 gross square feet of residential space (62,084 sq. ft. of residential units; 20,137 sq. ft. of common areas) and 5,637 square feet of commercial space on the ground floor. The property is five stories containing 80 units and is LEED Gold certified. Of the 79 affordable units, 68 are affordable to households earning 60 percent of local median family income (MFI); 7 are affordable at 50 percent of MFI; and 4 are affordable at 30 percent of MFI. The units are a mix of studios (4 units at 415 sq. ft.); 1-bedrooms (31 units averaging 599 sq. ft.); 2-bedrooms (32 units averaging 841 sq. ft.); and 3-bedrooms (12 units averaging 1,184 sq. ft.). An unregulated 1-bedroom manager's unit is also onsite. The ground floor offers a community room, bike room, a computer lab for residents, and the commercial space that is occupied by Ladybugs Academy.

**Co-Location Considerations |** Beatrice Morrow was not originally intended to be co-located with an ECE facility. PCRI expected the ground floor commercial space to attract a market rate retail or entertainment use. However, the timing of project completion and the struggles of commercial real estate during the Covid-19 pandemic have limited commercial-retail rents and increased vacancy. With assistance from Craft3, a CDFI and nonprofit small business lender, Ladybugs Academy identified the commercial space at the Beatrice Morrow as a desirable location for the expansion of its business. The lease arrangement required that Ladybugs Academy cover the cost of the necessary improvements of the unfinished commercial shell. After receiving bids, technical assistance and a line of credit from Craft3, the cost to fit-out according to code for Ladybugs Academy was approximately \$750,000 for the 3,400 square feet of space, equal to \$220 per square foot. CoStar indicates that Ladybugs Academy is paying nearly \$18 per square foot in rent for the space.



Source: CoStar

**Cost |** The total project cost is \$25.2 million, which amounts to \$289 per square foot. Approximately 77 percent of the project costs paid for construction, with 23 percent paying for soft costs, developer fee, and reserves. The 5,637 square foot shell commercial portion of the project cost \$1.22 million and was excluded from LIHTC eligible basis as part of a condominium declaration to separate the commercial use from residential. Fit-out for Ladybugs Academy space cost \$750,000 and was covered by the ECE provider with a loan from Craft3. The project received a 4 percent LIHTC allocation and qualified for a 30 percent basis boost for being in a Qualified Census Tract (QCT).

**Figure 6. Beatrice Morrow Uses**

	Total	Per Unit	Per Sq. Ft.
Acquisition	\$7,487	\$95	\$0.09
Construction	\$18,526,938	\$234,518	\$225.33
Soft Costs	\$4,266,361	\$54,005	\$51.89
Developer Fee	\$1,120,000	\$14,177	\$13.62
Operating Reserve	\$260,000	\$3,291	\$3.16
<b>Total</b>	<b>\$24,180,785</b>	<b>\$306,086</b>	<b>\$294.09</b>

Source: PCRI

**Financing |** The largest source of funding on this project, almost \$10.1 million, came from 4 percent LIHTC equity. The cost of the commercial space was excluded from LIHTC eligible basis. Financing for the development also includes: Tax Exempt Bonds (\$5.5 million); OHCS Weatherization funds (\$158,000); Portland Housing Bureau (PHB) Tax Increment Financing (TIF) funds (\$7.3 million); a deferred developer fee (\$800,000); and a grant from Meyer Memorial Trust (\$250,000). The commercial space was condominiumized and financed separately from the LIHTC development budget.

**Figure 7. Beatrice Morrow Sources**

	Total	Per Unit	Per Sq. Ft.
4% LIHTC Equity	\$10,147,685	\$128,452	\$115.5
Tax Exempt Bonds	\$5,475,000	\$69,304	\$62.32
OHCS Weatherization	\$158,000	\$2,000	\$1.80
PHB TIF	\$7,350,000	\$93,038	\$83.66
Developer Fee	\$800,000	\$10,127	\$9.11
Meyer Memorial Trust	\$250,000	\$3,165	\$2.85
GP Equity	\$100	\$1	\$0.00

Source: PCRI

## Case Study 4: Leander Court

**Location:** Portland, Oregon

**Year Built:** 2007

**Developer:** Rose Community Development Corporation (Rose CDC)

**ECE Provider:** Two Registered Family Child Care providers

**Overview |** Leander Court is a three/four-story affordable housing development located in the Powellhurst-Gilbert neighborhood in Southeast Portland. The project has 37 apartments including a mix of two, three and four-bedroom units. The U-shaped building encloses a courtyard and provides protection and security for the two outdoor play areas for children. Each unit's living room has direct views of the courtyard to allow parents to observe their children playing. The ECE component consists of two in-home child care facilities that were designed to offer appropriate functionality for the ECE providers while enabling the residential units to be leasable to non-ECE providers should Rose CDC be unable to find an in-home child care provider to rent the space. Leander Court was named Oregon's Best New Affordable Housing of 2008 by OHCS.

**Project Details |** The development is located on a roughly 1 acre site and contains 49,446 gross square feet of residential space (41,445 sq. ft. of residential units; 8,001 sq. ft. of common areas) and 1,214 square feet of commercial space on the ground floor attached to the Family Child Care units that was excluded from LIHTC eligible basis. Of the 37 affordable units, 29 are affordable to households earning 50 percent AMI; 7 are affordable at 30 percent AMI; and 1 is affordable at 40

percent AMI. 1 The units are a mix of 2-bedrooms (3 units averaging 809 sq. ft.); 3-bedrooms (27 units averaging 1,105 sq. ft.); and 4-bedrooms (7 units averaging 1,260 sq. ft.). Two of the 3-bedroom units on the ground floor are attached to 600 square foot rooms with separate entrances from the courtyard for the home-based child care businesses to use as classroom space. The space generates \$8.90 per square foot (\$10,800 in annual income), growing at 2 percent per year per the project's underwriting.



Source: CoStar

**Co-location Considerations |** The ECE tenants had to income-qualify for their units, and business earnings are associated with the commercial space, which was excluded from LIHTC eligible basis and generates income to the project. The developer does not offer subsidies for residents to use the child care, and providers serve a mix of families from the building and the broader community. Notably, Leander Court was developed before Oregon's Bureau of Labor and Industry (BOLI) changed its policy on offering split determinations for commercial and residential components of mixed-use affordable housing projects. Other developers consulted with for this report exploring similar models to create small flex spaces for home-based child care providers have been told that doing so would trigger prevailing wage rates on the entire development if they used more than \$750,000 in public funding other than LIHTC like Leander Court did. Rose CDC's approach is innovative and equity-minded, as many low-income families and families of color prefer Family Child Care settings for their children, and adding some additional classroom space for home-based providers is best practice in design. However, such a development may be infeasible today given the increase in total development costs that would come with higher construction wages on the entire residential development.

**Cost** | The total project cost was \$7.23 million. Approximately 70 percent of the project costs were for construction, with the remaining 30 percent going to soft costs, developer fee, and reserves. The 1,214 square foot commercial portion of the project for ECE providers cost \$75,000. The project received a 9 percent Low-Income Housing Tax Credit (LIHTC) allocation but was not located in a Qualified Census Tract (QCT) so did not qualify for a 30 percent basis boost for being in a Qualified Census Tract (QCT).

**Figure 8. Leander Court Uses**

	Total	Per Unit	Per Sq. Ft.
Acquisition	\$542,964	\$12,973	\$9.47
Construction	\$5,061,620	\$138,801	\$99.91
Soft Costs	\$1,064,366	\$28,767	\$21.01
Developer Fee	\$385,091	\$14,177	\$13.62
Reserves	\$175,763	\$4,750	\$3.47
<b>Total</b>	<b>\$7,229,804</b>	<b>\$195,400</b>	<b>\$142.71</b>

Source: Rose CDC

**Financing** | The largest source of funding on this project, almost \$4.23 million, came from 9 percent LIHTC equity. Financing for the development also included: Network for Oregon Affordable Housing (NOAH) loan (\$1,354,680); Portland Housing Opportunity Grant from the City of Portland (\$550,000); Portland Development Commission (now Proper Portland) gap financing (\$548,169); Federal Housing Financing Agency Affordable Housing Program grant (\$250,000); Housing Development grant (Trust Fund) from OHCS (\$100,000); and a small grant from the OHCS Low-Income Weatherization Program (\$56,083). The commercial space for the two Family Child Care facilities was condominium-ized and financed with the project's non-LIHTC sources.

**Figure 9. Leander Court Sources**

	Total	Per Unit	Per Sq. Ft.
<b>9% LIHTC Equity</b>	<b>\$4,237,424</b>	<b>\$114,525</b>	<b>\$83.64</b>
<b>NOAH</b>	<b>\$1,354,680</b>	<b>\$36,613</b>	<b>\$26.74</b>
<b>Portland Housing Opp. Grant</b>	<b>\$550,000</b>	<b>\$14,865</b>	<b>\$10.86</b>
<b>PDC Gap Loan</b>	<b>\$548,169</b>	<b>\$14,815</b>	<b>\$10.82</b>
<b>FHLB AHP Grant</b>	<b>\$250,000</b>	<b>\$6,757</b>	<b>\$4.93</b>
<b>Trust Fund</b>	<b>\$100,000</b>	<b>\$2,703</b>	<b>\$1.97</b>
<b>LI Weatherization Program</b>	<b>\$56,083</b>	<b>\$1,516</b>	<b>\$1.11</b>

Source: Rose CDC

# Case Study 5: Castle Rock Apartments

**Location:** Boardman, Oregon

**Year Built:** Housing, 2010; ECE facility, 2018

**Developer:** Umatilla Co. Housing Authority & Oregon Child Development Coalition

**ECE Provider:** Oregon Child Development Coalition  
Migrant Head Start

**Overview |** Castle Rock Apartments is a low-income apartment community serving migrant agricultural and farm working families in Boardman, Oregon. The housing portion, originally constructed in 2010, provides 40 units to households earning 45 percent of the median income. The unit mix consists of 8 one-bedroom units; 8 two-bedroom units; 17 three-bedroom units; 6 four-bedroom units; and 1 three-bedroom manager's unit. In 2014, the Umatilla County Housing Authority struck a deal with OCDC to sell a portion of the site's excess land for the development of a Head Start facility to serve the migrant worker community. The land was sold as part of the deal for \$50,000. OCDC subsequently moved forward to design, secure funding, and construct an 8,000 square foot facility.

**Project Details |** The ECE facility is located on a roughly 2-acre site and contains an 8,000 gross square feet modular construction building with dedicated on-site surface parking. The facility can accommodate 65 – 80 children depending on the ages of children served. The building was designed to offer convertible classrooms that feature two large preschool rooms with partitions to create up to 4 separate rooms to allow the space to adjust based on the age of the children registered for the program. The adjacent residential development has 40 units available to households earning 45 percent AMI (43,584 sq. ft. of residential units; 2,454 sq. ft. of common areas).

*Exterior (top) and Interior before/after fit-out (bottom) of OCDC Head Start Facility*



Source: OCDC

**Co-location Considerations |** Migrant/Seasonal and Tribal Head Start programs have significantly more access to capital from the federal government than do Region 10 Head Start programs, which serve more general populations. Interviews with other Head Start providers funded by Region 10 indicated that the national program may no longer provide loans for the development or renovation of facilities, largely due to limited overall resources. Head Start programs must fundraise to secure enough equity to support any debt needed to construct or rehabilitate a facility. Additionally, it is rare for cities to dedicate or assist with the application to receive a CDBG award. Head Start programs (in Regions 1-10) would need to raise funds to make a similar down payment contribution or apply for a variety of grants to reach an equity contribution of 50 percent or more of a total project cost.

**Cost** | The total project cost was \$3.5 million, which amounts to \$437 per square foot. Approximately 50.3 percent of the project costs paid for construction, 48.3 percent paid for soft costs, and 1.4 percent paid for land acquisition. OCDC conveyed that state and local regulatory review of modular construction added significantly to the project's soft costs, explaining the mismatch with line items and totals in Figure 10.

**Figure 10. Castle Rock ECE Facility Uses**

	Total	Per Sq. Ft.
Land Acquisition	\$50,000	\$17.96
Construction	\$1,760,000	\$194.45
Soft Costs	\$1,690,000	\$48.20
<b>Total</b>	<b>\$3,500,000</b>	<b>\$437.50</b>

Source: OCDC

**Financing** | The ECE facility received a Community Development Block Grant (CDBG) award from the City of Boardman. This was the largest source of funding (\$2 million) covering 57 percent of project costs. The remaining funding (\$1.5 million) was a loan for the facility provided using federal Head Start funds for migrant-seasonal child care providers.

**Figure 11. Castle Rock ECE Facility Sources**

	Total	Per Sq. Ft.
CDBG	\$2,000,000	\$250
Region XII Head Start Loan	\$1,500,000	\$187.5
<b>Total</b>	<b>\$3,500,000</b>	<b>\$437.5</b>

Source: OCDC

## Location Considerations

Case studies presented above identify common challenges and opportunities for co-locating ECE facilities with affordable housing in Oregon. To assess potential need for similar future models and how state funds might best be targeted to areas in need of most support, this section provides a high-level overview of how the need for ECE and affordable housing is distributed across the state, beginning with a county-level demographic analysis of the state's 0-5 year-old population. Pairing these data with measures of existing ECE capacity help to define the state's "child care deserts"—regions where the existing ECE capacity could serve less than one-third of the region's children. Both existing and newly developed affordable housing sites provide opportunities for co-located ECE facilities. A regional assessment of need for new affordable housing characterizes these opportunities. This section concludes with a brief discussion of additional geographic considerations policymakers should evaluate when funding co-located ECE development.

### Population Characteristics

The American Community Survey (ACS), conducted annually by the United States Census Bureau, provides the most consistent and comprehensive data available to quantify the potential need for child care within and across regions. Information presented in the text, tables, and figures below about the size and characteristics of children in Oregon are derived from the 2015-2019 ACS five-year estimates.

Not every family with young children necessarily seeks child care outside of the home. Similarly, not every family that needs child care has access to quality, affordable options. However, each characteristic examined below has a plausible connection to demand for ECE and a demonstrated association with limited access to ECE. These characteristics of Oregon's children ages 0-5 include: geography, race/ethnicity, family income, family structure, and ability to speak English (due to limitations in the data, some statistics reflect characteristics of age ranges other than 0-5).

These characteristics provide a high-level overview of potential need for ECE in each Oregon county and a starting point for prioritizing program funding within and across regions of the state. They do not cover all pertinent characteristics relevant to ensuring equitable access to ECE. For example, the state's early learning hubs have selected priority populations that reflect the interests and needs of families in each hub's region. Priority populations generally include populations defined by economic conditions (family income or employment status), race and ethnicity, and in some cases characteristics less readily available in Census data, such as disability status or foster care involved youth. Age, income, and other details of priority population definitions vary from hub to hub. ACS data can provide sub-county information that could guide site selection for co-located facilities to receive state support through HB 5011.<sup>28</sup>

In all, the ACS estimates indicate that about 275,000 children aged 0-5 live in Oregon. About 2.4 percent live in one of ten Oregon counties identified as "frontier" by Oregon's Office of Rural Health, 13.7 percent live in 13 rural counties, and the remaining 83.9 percent live in 13 urban counties. Figure 16 categorizes each county in Oregon using these classifications. Although the frontier counties encompass a relatively small share of the population, the remoteness of these counties from urban centers presents qualitatively different child care and housing development challenges than those faced by families and developers

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<sup>28</sup> E.g., See the community-level analysis in Pratt et al. (2020).

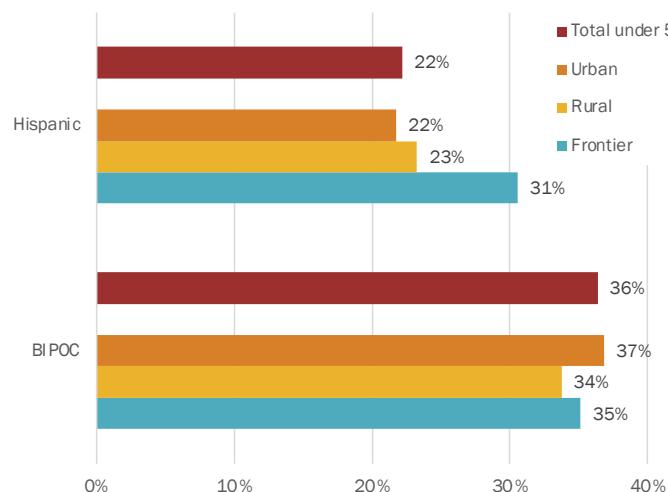
closer to urban centers (for example, limited or no access to public transportation, relative concentrations of agriculture or natural resource-based employment).

Overall, the state's young children are more diverse than the full population: the share of young children identified as Hispanic and the share identified as Black, Indigenous, and people of color (BIPOC), including individuals of Hispanic origin, are at least one-and-one-half times that for the full Oregon population (22 percent Hispanic children vs. 13 percent total Hispanic population and 36 percent BIPOC children vs. 24 percent total BIPOC population). Overall, urban counties have a greater share of young children identified as BIPOC, but frontier counties have a relatively higher share of Hispanic children (see Figure 12).

Language can also present a significant challenge for families seeking child care. Although county-level data about language ability of family members of young children are not available in the ACS, data are available for children aged 5 to 17. The share of these children living in households where no household member speaks English well ("limited English proficiency household" or "LEP household") serves as a useful proxy for the likely conditions of children five and younger. Statewide, 3.8 percent of children live in such households. The data suggest that rates are slightly higher in urban counties (4 percent) than in frontier counties (2.2 percent) or rural counties (3.1 percent).

Children living in more rural areas are, on the other hand, more likely to live in low-income families than their peers living in more urban settings. Children in Oregon's 10 frontier counties are almost twice as likely as children in the 13 urban counties to live below the federal poverty level (FPL) and less than half as likely to live in families that earn more than three times this level (see Figure 13), suggesting relatively greater need for both affordable housing and access to low-cost, quality ECE. BIPOC children have a higher-than-average likelihood of living in poverty across all geographies (see Figure 14).

Figure 12: Race and ethnicity of Oregon's child population age five or younger, by rurality (2015-2019)<sup>29</sup>



Source: 2015-2019 ACS five-year estimates

<sup>29</sup> Figure 12 Note: Due to small population sizes, not all comparisons to the statewide average are statistically significant at conventional levels.

Figure 13: Ratio of income to poverty level of children age five or younger, by rurality (2015-2019)<sup>30</sup>

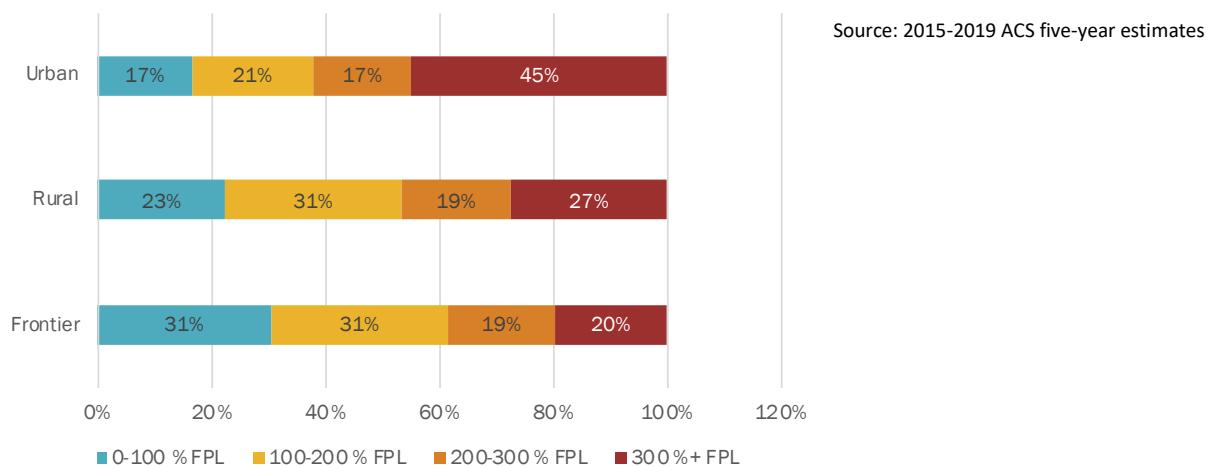
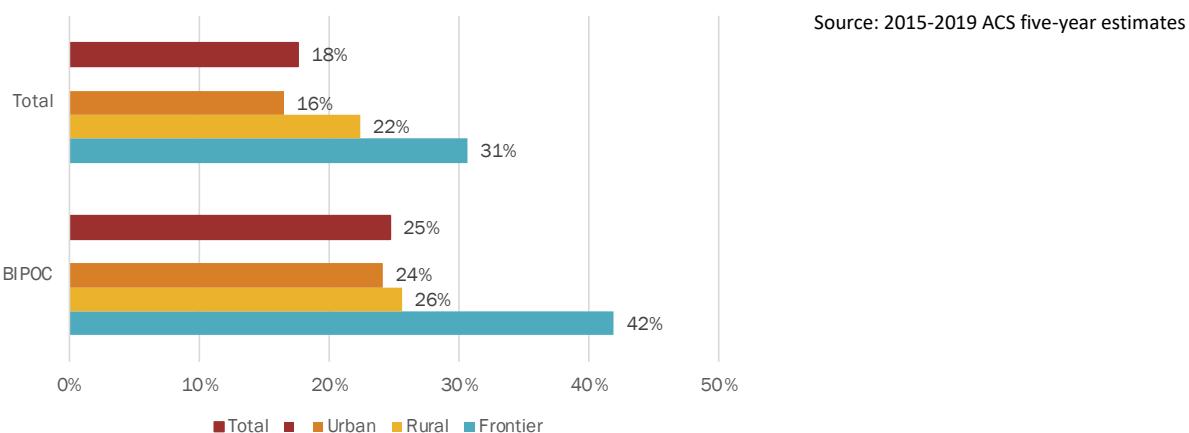


Figure 14: Poverty status of children age five or younger, by rurality (2015-2019)<sup>31 32</sup>



Labor force participation of a child's parent or parents is also an important metric for understanding demand for child care, as well as burdens child care supply shortages place on working families. Statewide, about 64 percent of children live in either single-parent families with a parent in the labor force or in a family with two parents and both in the labor force. This represents a baseline for understanding the proportion of households in need of child care. Of course, many more families with a parent not currently in the labor force will also seek ECE opportunities, and limited supply may be a reason some parents choose not to work or work only sporadically. Labor force participation trends are mostly consistent across the three broad regions of the state defined by rurality, but the data suggest a meaningful difference in

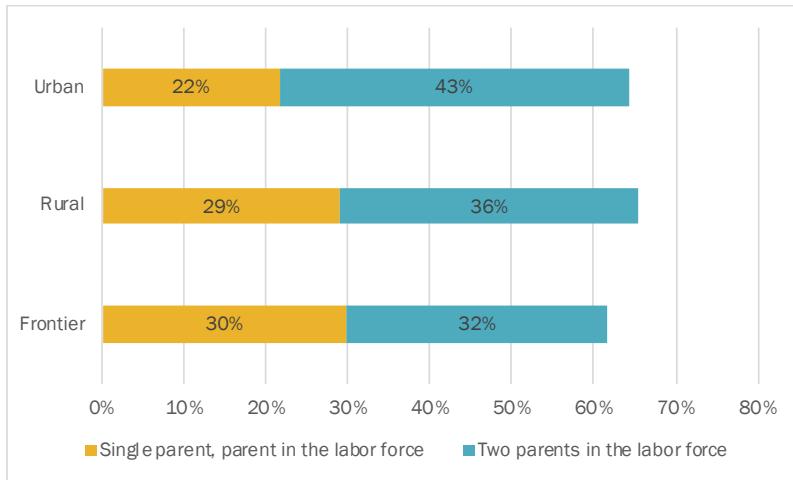
<sup>30</sup> Figure 13 Note: Reflects status for all individuals five and younger for whom poverty status is determined. Due to small population sizes, not all comparisons to the statewide average are statistically significant at conventional levels.

<sup>31</sup> Figure 14 Note: Due to small population sizes, not all comparisons to the statewide average are statistically significant at conventional levels.

<sup>32</sup> Figure 14 Note: Reflects status for all individuals five and younger for whom poverty status is determined. Due to small population sizes, not all comparisons to the statewide average are statistically significant at conventional levels.

the share of children living in working, single-parent families by geography. Children in rural and Frontier counties are about one-third more likely to live in this type of family than their peers in urban counties (see Figure 15). Children in households with only one parent face unique burdens and are more likely to be low-income than peers with two parents.<sup>33</sup> Therefore, this population serves potentially to benefit most from initiatives that pad monthly incomes with housing and ECE cost supports.

*Figure 15: Labor force participation of parents of children five or younger, by rurality (2015-2019)<sup>34</sup>*



Source: 2015-2019 ACS five-year estimates

Figure 16 illustrates the county-level variation in each of the characteristics described above – the proportions of children who are BIPOC, living in LEP households, living in households of low or moderate incomes, or who have only one parent provider. This type of information can serve as a foundational input when developing a statewide plan for supporting ECE facilities co-located with affordable housing developments. Notably, 20 of the state's 23 rural or frontier counties have a greater than the statewide average share of children living below 200 percent FPL and 16 of 23 have greater than average share of children living with a single parent provider. The last column of Figure 16 displays the total number of factors on which counties exceed statewide averages.

<sup>33</sup> National Women's Law Center [NWLC]. (2019). *National Snapshot: Poverty Among Women and Families: 2019*.

<sup>34</sup> Figure 15 Note: Due to small population sizes, not all comparisons to the statewide average are statistically significant at conventional levels.

Figure 16: Population characteristics of children five or younger, by county (2015-2019)<sup>35</sup>

County	Rurality	Number of children 0 to 5	County is above statewide average			% living with single parent, parent in labor force	Number of characteristics above statewide average
			% BIPOC*	% in LEP household**	% <200% FPL		
Baker	Frontier	1,008			Yes		1
Gilliam	Frontier	89				Yes	1
Grant	Frontier	412			Yes		1
Harney	Frontier	504			Yes		1
Lake	Frontier	476			Yes	Yes	2
Malheur	Frontier	2,517	Yes		Yes	Yes	3
Morrow	Frontier	946	Yes	Yes	Yes	Yes	4
Sherman	Frontier	78			Yes	Yes	2
Wallowa	Frontier	429			Yes	Yes	2
Wheeler	Frontier	108			Yes		1
Clatsop	Rural	2,335			Yes		1
Coos	Rural	3,734			Yes	Yes	2
Crook	Rural	1,439			Yes	Yes	2
Curry	Rural	1,148					0
Douglas	Rural	6,567			Yes	Yes	2
Hood River	Rural	1,746	Yes	Yes			2
Jefferson	Rural	1,720	Yes		Yes	Yes	3
Klamath	Rural	4,647	Yes		Yes	Yes	3
Lincoln	Rural	2,727			Yes	Yes	2
Tillamook	Rural	1,585		Yes	Yes	Yes	3
Umatilla	Rural	6,243	Yes	Yes	Yes	Yes	4
Union	Rural	1,871			Yes	Yes	2
Wasco	Rural	2,028	Yes	Yes	Yes	Yes	4
Benton	Urban	4,467					0
Clackamas	Urban	26,350					0
Columbia	Urban	3,259				Yes	1
Deschutes	Urban	11,784			Yes	Yes	2
Jackson	Urban	14,051			Yes	Yes	2
Josephine	Urban	4,983			Yes		1
Lane	Urban	21,901			Yes	Yes	2
Linn	Urban	9,002			Yes	Yes	2
Marion	Urban	26,521	Yes	Yes	Yes	Yes	4
Multnomah	Urban	52,411	Yes	Yes			2
Polk	Urban	5,629			Yes		1
Washington	Urban	43,429	Yes	Yes			2
Yamhill	Urban	7,209		Yes	Yes	Yes	3
Statewide (total or average)		275,353	36%	4%	40%	23%	

Source: 2015-2019 ACS five-year estimates

## Need and Demand for Co-Located Facilities

As noted above, the metrics displayed in Figure 16 suggest potential barriers faced by families with young children that could exacerbate difficulties finding and affording high-quality ECE. Evaluating the need and potential demand for new ECE facilities also requires an examination of the existing supply. Oregon State University's Oregon Child Care Research Partnership has recently completed several studies relevant to assessing Oregon's ECE market. These include an annually updated report on the distribution of ECE

<sup>35</sup> Figure 16 Notes: \*Based on characteristics of under 5 population; \*\*Based on characteristics of 5 to 17 population. Due to small population sizes, not all comparisons to the statewide average are statistically significant at conventional levels.

facilities and “child care deserts” across the state, and studies of child care access, supply, and demand completed for Oregon’s Early Learning Division.<sup>36,37</sup> The market supply description below draws heavily from these reports. The most recent report on child care deserts, published in 2021, identifies supply as of March 2020. Since that time, pandemic-induced changes in the labor market and regulatory environment have threatened the operational viability of many ECE providers. Policymakers should anticipate further disruption in the near term as the labor market responds to the evolving pandemic.

Pratt and Sektnan (2021) explored a variety of data sources to develop estimates of child care capacity across Oregon, ultimately identifying a total of 67,981 regulated childcare slots available to serve a population more than four times as large. Although the available data likely underestimate actual capacity, the methods provide a consistent means for tracking trends in ECE capacity over time (the report contains a detailed discussion of these methods and their limitations). The figures below summarize child care capacity in Oregon, based largely on findings in the report.

Figure 17 provides the main metric for assessing availability: the number of identified slots expressed as a share of the relevant population. Following Pratt and Sektnan, and others in defining a “child care desert” as a region where there are at least three children per available slot (i.e., the slots per population ratio is less than 33 percent). Considered individually, all 36 counties in the state are deserts for ages 0-2; 25 counties are deserts for ages 3-5; 33 counties are deserts when considering ages 0-5 as a group; and 25 counties are deserts in all three categories (see Figure 19). Availability in rural areas averages a few percentage points lower than that in Oregon’s urban counties.

Figure 18 describes the results of a simple calculation that demonstrates the magnitude of the gap in supply assuming that a system where - fewer than three children per slot defines sufficient supply. This threshold of availability seems a reasonable benchmark considering the fact that, as illustrated in Figure , more than 60 percent of children ages 0-5 live in families where all parents are engaged in the labor force (though not all of these families necessarily need or want licensed child care).

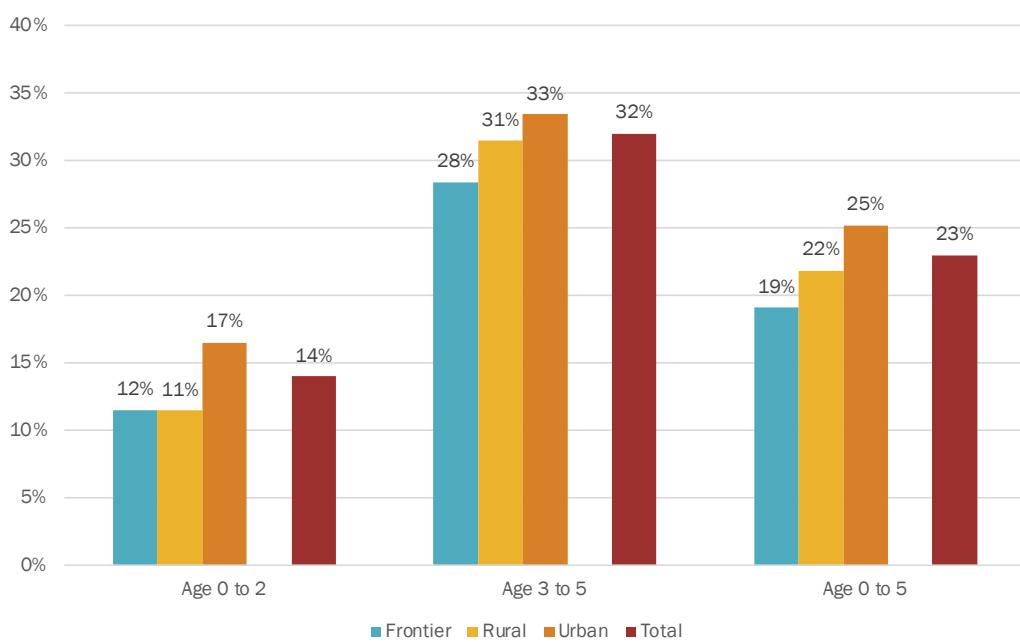
The gap is calculated by determining the number of additional slots necessary at each age group to eliminate desert status for each county. The calculations are approximate and are not intended to identify the optimal child care capacity—the capacity measures are not perfect and data that directly measure unmet need are not available. Nonetheless, they can provide insight into geographic variation in potential need. Based on this method, the state would have needed about 28,000 additional regulated child care slots, an increase of more than 40 percent over the identified total. The most additional capacity is needed for infants and toddlers (ages zero to two). Figure 19 provides county-level information on child care availability and the apparent gap calculated as just described.

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<sup>36</sup> Pratt and Sektnan. (2021). *Oregon’s Child Care Deserts 2020: Mapping Supply by Age Group and Percentage of Publicly Funded Slots*. Oregon Child Care Research Partnership. Oregon State University.

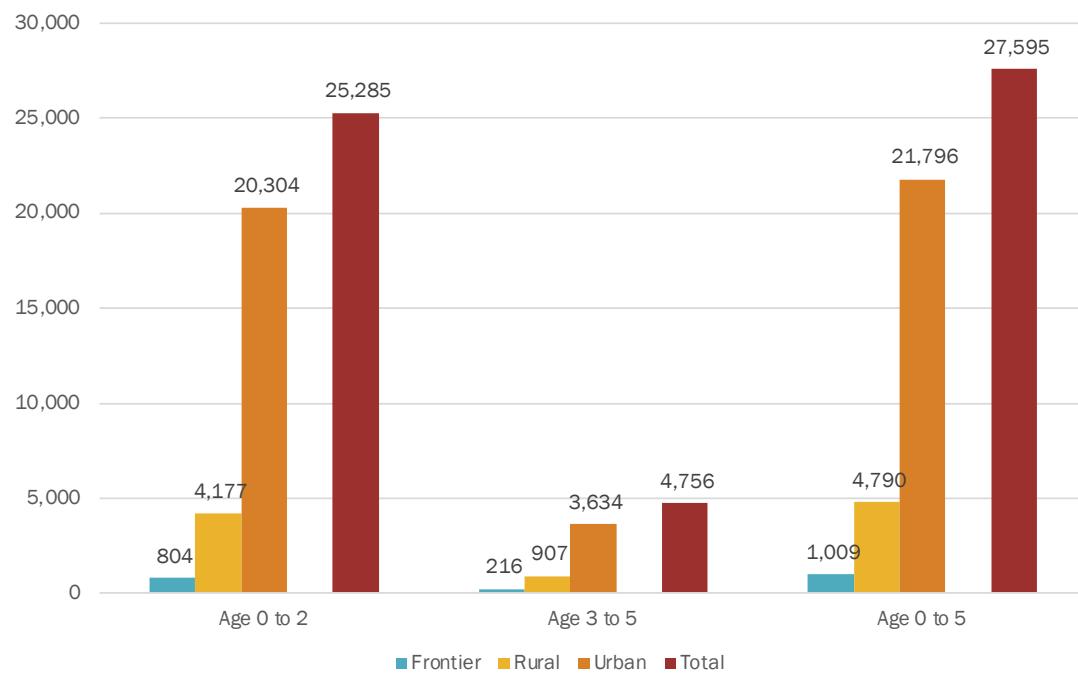
<sup>37</sup>Pratt and Sektnan. (2021). *Oregon’s Child Care Deserts 2020: Mapping Supply by Age Group and Percentage of Publicly Funded Slots*. Oregon Child Care Research Partnership. Oregon State University; and Pratt, Chandler, Barrett-Rivera, Thogmartin, and Weber. (2020). *Barriers to Accessing Child Care Subsidies in Oregon*. Oregon State University.

*Figure 17: Available ECE slots as a share of population, by age and rurality (circa 2020)<sup>38</sup>*



Source: Pratt and Sektan (2021); ECONorthwest

*Figure 18: Slots needed to eliminate child care deserts, by age and rurality (circa 2020)<sup>39</sup>*



Source: 2015-2019 ACS five-year estimates; Pratt and Sektan (2021); ECONorthwest

<sup>38</sup> Figure 17 Note: Estimated assuming indicated availability and population.

<sup>39</sup> Figure 18 Note: Estimated assuming indicated availability and population.

Figure 19: ECE slots and additional slots needed to eliminate ECE deserts, by age and county (circa 2020)<sup>40</sup>

County	Rurality	Number of Children 0 to 5*	Available childcare slots as a share of the population for**			Estimated number of slots needed to eliminate childcare deserts***		
			0 to 2 years old	3 to 5 years old	0 to 5 years old	0 to 2 years old	3 to 5 years old	0 to 5 years old
Baker	Frontier	1,008	5%	24%	13%	162	41	204
Gilliam	Frontier	89	88%	29%	39%	-	3	3
Grant	Frontier	412	3%	16%	11%	43	48	91
Harney	Frontier	504	3%	15%	9%	74	49	123
Lake	Frontier	476	0%	16%	8%	77	42	119
Malheur	Frontier	2,517	17%	29%	24%	179	62	241
Morrow	Frontier	946	7%	37%	18%	161	-	161
Sherman	Frontier	78	13%	52%	36%	7	-	7
Wallowa	Frontier	429	10%	39%	22%	57	-	57
Wheeler	Frontier	108	6%	77%	31%	19	-	19
Clatsop	Rural	2,335	7%	32%	19%	324	11	336
Coos	Rural	3,734	11%	29%	21%	391	78	469
Crook	Rural	1,439	6%	19%	13%	172	114	286
Curry	Rural	1,148	5%	22%	12%	194	53	246
Douglas	Rural	6,567	12%	26%	19%	683	237	920
Hood River	Rural	1,746	21%	51%	38%	98	-	98
Jefferson	Rural	1,720	21%	41%	32%	101	-	101
Klamath	Rural	4,647	11%	38%	25%	498	-	498
Lincoln	Rural	2,727	4%	27%	16%	369	94	463
Tillamook	Rural	1,585	5%	22%	16%	174	107	281
Umatilla	Rural	6,243	11%	30%	20%	702	100	802
Union	Rural	1,871	9%	27%	19%	216	58	274
Wasco	Rural	2,028	26%	44%	35%	70	-	70
Benton	Urban	4,467	21%	40%	31%	257	-	257
Clackamas	Urban	26,350	16%	30%	23%	2,291	478	2,769
Columbia	Urban	3,259	11%	24%	17%	356	164	520
Deschutes	Urban	11,784	15%	35%	26%	948	-	948
Jackson	Urban	14,051	10%	31%	20%	1,619	190	1,809
Josephine	Urban	4,983	14%	28%	21%	487	142	629
Lane	Urban	21,901	14%	33%	24%	2,119	16	2,135
Linn	Urban	9,002	8%	19%	14%	1,059	695	1,755
Marion	Urban	26,521	11%	27%	19%	3,033	803	3,835
Multnomah	Urban	52,411	22%	43%	33%	2,969	-	2,969
Polk	Urban	5,629	12%	25%	18%	667	210	877
Washington	Urban	43,429	22%	35%	29%	2,243	-	2,243
Yamhill	Urban	7,209	14%	25%	19%	686	324	1,010
Statewide		275,353	16%	33%	25%	23,506	4,119	27,625

Source: 2015-2019 ACS five-year estimates; Pratt and Sektan (2021); ECONorthwest

The current population forecast from Portland State University suggests relatively slow growth in the population of children aged 0-5. The forecast suggests growth of about six percent by 2040 (0.3 percent per year), compared to an increase of about 20 percent (0.9 percent per year) for the population overall.<sup>41</sup> Nonetheless, without additional support for existing and prospective providers, even a slowly growing population could exacerbate existing, severe shortages of childcare slots.

<sup>40</sup> Figure 19 Notes: \*ACS estimates; \*\*Pratt & Sektnan; \*\*\*Estimated assuming indicated availability and population. Shaded cells identify childcare desert status.

<sup>41</sup> Portland State University. (2022). *Population Forecasts*.

A demonstrated need for additional ECE capacity to serve at least one-third of the state's young children does not by itself imply a need for co-location. And, at present, there is no comprehensive list of existing co-located ECE facilities. However, the apparent community interest in such facilities, the advantages of co-location to residents of affordable housing developments and the broader community articulated elsewhere in this report, and the anticipated need for affordable housing across the state suggests the potential benefits of encouraging co-location.

*Figure 20: Need for new housing units over the next 20 years, by region and income (circa 2020)<sup>42</sup>*

Median family income	Total	Portland Metro	North Coast	Willamette Valley	Southwest	Deschutes	Northeast	Southeast
Total	583,559	294,853	17,335	146,589	49,761	55,887	17,630	1,503
120%	209,381	110,257	6,444	42,745	18,098	23,462	7,972	403
80-120%	101,121	49,862	2,828	25,998	7,602	11,412	3,210	209
Affordable								
50-80%	101,462	51,759	3,054	26,791	9,073	8,143	2,477	166
30-50%	72,852	36,666	1,743	20,558	5,944	5,994	1,796	152
0-30%	98,742	46,309	3,265	30,498	9,044	6,877	2,175	573
Affordable units as a share of total	47%	46%	47%	53%	48%	38%	37%	59%

Source: ECONorthwest (2021), "Implementing a Regional Housing Needs Analysis Methodology in Oregon".

Figure 20 describes the anticipated need for new housing units across Oregon over the next 20 years. Notably, affordable housing units (those serving families with 80 percent or less of their region's median family income) account for almost half of all needed units statewide. Regionally, every area in the state requires at least more than one-third of new housing to be affordable. This report does not attempt to estimate the number or age of children likely to be housed in new or existing affordable housing units. However, Figure 13 suggests that a large share of the state's young children would currently benefit from living in an affordable unit, and this will likely remain true in the future.<sup>43</sup> Development of many of these units will present opportunities to evaluate the desirability of including co-located ECE. Depending on the types of projects Oregon's co-location fund will support, existing affordable housing projects could also present opportunities to better serve tenants and the broader community through retrofits to accommodate ECE.

### Geographic Considerations and Challenges

Policymakers and developers will need to consider additional geographically-specific attributes in prioritizing the type of projects funded through HB 5011. The viability of proposed ECE capacity will depend on whether the facility can successfully meet the needs of tenants and surrounding communities. Relevant factors include hours of operation that respond to characteristics of the local employment base, type of facility (e.g., center versus home-based care) that respects local preferences, and potential sustainability if the tenant base has low turnover and children age out of the ECE facility. As addressed later in this report, some potentially desirable co-located structures may not be financially viable under current circumstances.

<sup>42</sup> Figure 20 Note: The regions identified in the table are comprised of the following counties. Portland Metro: Clackamas, Multnomah, Washington; North Coast: Clatsop, Columbia, Lincoln, Tillamook; Willamette Valley: Benton, Lane, Linn, Marion, Polk, Yamhill; Southwest: Coos, Douglas, Jackson, Josephine; Deschutes: Deschutes; Northeast: Baker, Crook, Gilliam, Grant, Hood River, Jefferson, Morrow, Sherman, Umatilla, Union, Wallowa, Wasco, Wheeler; Southeast: Harney, Klamath, Lake, Malheur.

<sup>43</sup> Note that the FPL levels in Figure 13 are not directly comparable to the median income levels in Figure 20.

Evaluating proposed developments with co-located ECE facilities should also include consideration of proximity to public transportation and other amenities. For rural and frontier areas in particular, proximity of a proposed facility to priority populations will be a critical factor due to the lack of public transportation. In addition, ongoing state tracking of “affordable housing deserts,” and connection to data on child care deserts described above will provide more targeted information about the overlap of potential need for ECE capacity and affordable housing.

## Stakeholder Interview Trends

Recommendations in this report are also informed by an extensive stakeholder engagement process that included in-depth interviews and surveys of housing and early care and education experts in Oregon and nationally. Appendix A includes a full list of organizations that participated in interviews or responded to surveys. This section presents high-level themes and commonalities across interviews and survey responses, but additional stakeholder input is weaved throughout various other sections of the report. Overarching themes derived from interviews are grouped into five categories: the landscape of existing co-located developments, financial barriers to development, capacity constraints, the need for collaboration and technical assistance, and shared equity priorities.

### Co-Located Developments to Date

A number of developers interviewed have successfully completed and are considering future affordable housing developments co-located with ECE facilities. Existing properties with this type of mixed-use share common characteristics and challenges, particularly:

- Most were developed prior to 2012-2013, and newer developments generally required significant gap financing from a public agency, philanthropy, or motivated private developer. This is largely because of changes in policies regarding state prevailing wage rates (PWR) that make mixed-use affordable housing developments cost prohibitive for many developers without financial support. Within the last decade, the state’s Bureau of Labor and Industry (BOLI) changed its interpretation of mixed-use prevailing wage determinations such that adding commercial space to most affordable housing projects triggers higher wages on otherwise exempt residential components.
- ECE operations in co-located developments that serve low-income children commonly use Head Start, Oregon Pre-K (OPK), or Preschool Promise dollars. These programs are attractive to operators and developers because they guarantee base funding levels that are more predictable despite day-to-day or month-to-month fluctuation in enrollment. The few instances found of private, unsubsidized ECE providers operating within housing developments involved high tuition rates and were primarily catered to middle- and upper-income families.
- Nonprofit developers and housing authorities tend to own most of the co-located properties around the state. Several for-profit affordable housing developers interviewed expressed strong interest in co-locating ECE, but have experienced troubles related to financing gaps, identifying providers to partner with, and navigating Low Income Housing Tax Credit regulations related to community service facilities.

Despite challenges to co-location, developers and ECE providers alike see the value in the model and have strong interest in pursuing such projects. Philanthropic organizations also shared their desires to support

both affordable housing and ECE facilities and could be important sources of capital once the state's co-location fund is formalized.

### Financial Barriers to Development

In most instances, financial barriers are the primary reasons why housing developers choose not to pursue co-located developments with ECE providers. Prevailing wage restrictions are the most significant barrier, as the Oregon Bureau of Labor and Industry (BOLI) now mandates that affordable housing developers setting aside commercial space for an ECE facility pay higher prevailing wage rates to contractors for the entire development, not just the commercial components. This policy can add 10-20% to the total cost of developments that already require tens of millions of dollars of subsidy. This is a break from past policy, in which BOLI allowed for split determinations through which construction of commercial space garnered prevailing wages and residential spaces did not.

Developers and policymakers expressed varying levels of understanding of the extent to which the cost of building out space for ECE facilities in Low Income Housing Tax Credit (LIHTC) properties can be covered with public funding. LIHTC is the primary vehicle for constructing affordable housing, and the complexity of determining what aspects of a development are eligible to be subsidized can deter developers from pursuing commercial elements altogether. Also, few LIHTC developers have seriously considered setting aside units for Family Child Care providers, who care for smaller cohorts of children within their own homes. Those who have considered taking this step shared concerns with LIHTC regarding confirmation of income eligibility, potential fair housing challenges, and other operational considerations related to leasing individual units.

Some projects that lease space to an ECE provider include build-out of facility interior by the developer, while others may require the ECE tenant to provide these tenant improvements. ECE operators face severe challenges related to financing the physical construction of all types of facilities. No dedicated state or federal funding exists within ECE programs to support facilities development, requiring providers to search for capital from more generic sources like small business loans or grants from private individuals or foundations. ECE is an exceptionally difficult industry, as providers have significant staffing and overhead costs and operate on tight margins, especially if they are serving low and moderate income families. Qualifying financially for traditional forms of financing is therefore difficult and these challenges are underscored by historical patterns of race- and gender-based discrimination in lending and banking. Facilities projects for ECE serve clear public interests but can cost millions of dollars. ECE operators, as well as policymakers and lenders, conveyed the need for substantial public investments to support facilities development and improvements to ensure new borrowers and businesses, that are mostly women- and BIPOC-owned, can access and secure capital for all stages of development.

### Capacity Constraints

In addition to and because of challenges with financial capacity, ECE operators also struggle to co-locate with housing providers due to organizational capacity constraints. Most operators cannot afford to commit to a project multiple years before it will physically be developed, especially since most providers have limited case reserves and contracts for operations subsidies tend to only be issued a few months in advance of facility opening. Challenges with timelines are intensified by arbitrary local land use and

building code policies that can require months or years to designate certain areas as allowable for ECE facilities.

Many ECE providers entered the field because they are passionate about children and education, not construction, fundraising and business administration. Certain regions and coordinating agencies have been successful in offering tailored business training to providers, but this is not present in all parts of the state and often leaves out capacity supports related to facilities development. Housing developers are rarely tapped into these types of business support networks and cite issues finding providers with the skills, knowledge, and time to navigate complex legal agreements, cash flow modeling, and intensive design and construction processes.

Housing developers and ECE providers also shared capacity challenges unique to development in rural parts of the state. Construction and development can be slow and costly in areas where finding qualified contractors is difficult. This is especially true for co-located developments that need architects and general contractors with expertise in both housing and early learning. There are also fewer ECE providers or developers to partner with in less populated parts of the state. Even if a housing developer were to receive state funding, it may be difficult to find an ECE operator with capacity and interest in expanding or moving its operations.

### Need for Collaboration and Technical Assistance

Capacity and financial barriers are made worse by the fact that no centralized agency in the state is currently tracking development pipelines or providing technical assistance specific to co-location projects. Nearly every individual interviewed suggested that new state investments to encourage co-location must come with technical support for developers and ECE providers alike. Housing developers need help understanding how to design facilities that are well-equipped to serve young children legally and effectively, and operators require support navigating the basic development processes and how they apply to mixed-use projects.

The process of finding a partner is difficult, in part because developers do not have clear helpers to reach out to who are keeping lists of ECE businesses that may be interested in expanding. Capacity and supply are concerns, but these businesses do exist. Potential partners rarely know which developers are evaluating which sites in their communities for affordable housing.

### Shared Equity Priorities

Interest in co-locating ECE facilities with affordable housing is rooted in shared, overlapping equity priorities of stakeholders and organizations interviewed and surveyed. Even with public, private, and philanthropic commitments to social justice initiatives, inequity persists across the state and is often most apparent in support systems for children and families. BIPOC children are consistently overrepresented in social welfare, ECE, and affordable housing programs. ECE providers, developers, and policymakers shared concerns with lingering inequity, but saw ECE in particular as a unique, cross-sector issue for addressing racial inequities. Many owners, operators, and employees of early learning providers and child care businesses are women and BIPOC, and they are often serving disproportionate numbers of low-income and BIPOC children. Supporting ECE systems as a whole can be a unique tool for investing in historically discriminated communities at both the child and provider levels.

Many stakeholders addressed intersecting barriers associated with rural development and racial inequity that Native American tribes face in efforts to co-locate. However, all of the nine federally recognized tribes in Oregon have dedicated funding to support affordable housing development and child care subsidy. Five of the nine also operate Head Start and/or Early Head Start programs for tribal families. Despite challenges to co-located development on tribal lands, stakeholders shared overarching reason for optimism and suggested HB 5011 funds could be leveraged easily with standalone funding streams only available to tribes. Tribes have a unique combination of the infrastructure and funding to support these projects, and capacity to serve children and families in culturally responsive ways.

Emerging state-supported systems for advancing racial and socioeconomic equity through co-located development were also cited regularly. Both OHCS and the Early Learning Division (ELD) are committed, through policy and practice, to improving racial and social justice in Oregon. The two agencies have missions to serve populations that have historically been furthest from opportunity. OHCS has recently crystalized this commitment by making Equity and Racial Justice one of the key priorities of their Statewide Housing Plan and by developing its Racial Equity Analysis Toolkit. ELD has published an Equity Lens tool to ensure that diversity, equity, and inclusion are prioritized in all efforts. Interviewees reported that these tools could be helpful in guiding current and future co-location efforts so that priorities are offered to those focused on addressing and eliminating racial barriers. These tools and missions align well with critical, trusted intermediary organizations across the state that have been focused on poverty alleviation and anti-racism initiatives for decades. Culturally specific and other community-based organizations can and should be allies in state investments in co-located developments.

# Section 2: What Does it Take to Co-Locate ECE with Affordable Housing?

This section seeks to contextualize the project-specific, demographic, and interview research trends presented above with information on state regulations and national best practices that inform technical aspects of the housing and ECE facilities development processes. The section is organized around four typical elements of the co-location process – evaluating sites for development, formalizing a partnership, designing the facilities, and securing financing. State-specific information to inform developers and policymakers is woven throughout each step.

## First Steps in Evaluating Base Site and Space Requirements

Housing developers have in-depth knowledge of the land use, fire and safety, and other regulations governing where they can physically develop housing. But interest in co-locating with an ECE facility brings with it a new set of requirements and policies that determine the fitness of a plot of land for development. An important first step in the co-location process is thus assessing how ready an identified site is for mixed-use development and navigating any local or state processes for ensuring the eventual project will comply with all codes and regulations.

### Child Care Licensing

Oregon's Early Learning Division (ELD) manages the state child care licensing process, a system for ensuring ECE operators meet critical health and safety standards and maintain quality operations and learning environments. Child care licensing requirements are likely new terrain for housing developers, as they have specific standards providers must meet to legally care for young children in the state.

Which requirements apply to an ECE provider depends on the number of children they intend to serve and the type of space they will occupy. Housing developers interested in co-locating at an identified site should start by ensuring adequate space exists for the type of ECE facility they would like to partner with. In Oregon, there are two primary types of licensed child care: **child care centers and family child care homes.**<sup>44</sup> A Certified Center (CC) is usually a larger business with multiple employees operating in a commercial building. Family child care homes serve fewer children and are typically located in the primary residence of providers, with care and business operations occurring within an individual's home. ELD issues two types of family child care home-based licenses, Registered Family (RF) and Certified Family (CF), that influence how many children can be served and various space requirements. Figure 21 identifies requirements relevant to each type of license that developers should consider when evaluating and selecting a site.

ELD has a team of child care licensing specialists located throughout the state available to support for- or non-profit entities interested in opening or expanding ECE facilities. To reduce complications during planning, construction, and facility opening, developers are encouraged to reach out to regional licensing specialists proactively for support and feedback throughout the process. Licensing specialists can also lend

<sup>44</sup> Some ECE programs are exempt from licensing, but for the purposes of this report only those requiring licenses are identified.

support and make connections to other agencies involved in site evaluation and design, including fire marshals, building codes, county health boards, and zoning and planning commissions.

<b>Figure 21. Examples of Oregon Child Care Licensing Requirements Relevant to Co-Location</b>			
	<b>Child Care Center (CC)</b>	<b>Certified Family (CF)</b>	<b>Registered Family (RF)</b>
<b>Typical Location</b>	Commercial space	Primary residence of provider (Must be constructed as a single-family dwelling or townhome). With ELD approval, may use a non-primary residence.	Primary residence of provider (Any type of residence)
<b>Maximum number of children served</b>	Dictated by available indoor/outdoor square footage/number of toilets	16 (max. 10 ages 0-5)	10 (max. 6 ages 0-5)
<b>Indoor space</b>	35 sq. ft. per child	35 sq. ft. per child (if fewer than 12 children); 50 sq. ft. per child (if 12-16 children)	No square footage requirement
<b>Outdoor space</b>	75 sq. ft. per child using the area at one time (Note: If staggered outdoor schedules, this requirement is met with 75 sq. ft. per 1/3 of the CC's capacity)  Waivers may be available if there is a park or green space nearby, but space must be fenced  Must be fenced	75 sq. ft. per child using the area at one time; waivers available if park or green space nearby  Must be fenced	No square footage requirement; "outdoor opportunities" required, but can use shared spaces  No fence requirements
<b>Exits</b>	Depends on fire and building codes. Best practice is an external exit in every classroom	Must have at least one "usable exit" to outdoors; All rooms used by children must have two exits	Must have at least one "usable exit" to outdoors; All rooms used by children must have two exits
<b>Plumbing</b>	Required ratios: <ul style="list-style-type: none"><li>• 1 toilet per 10 toddlers (must be in or adjacent to the classroom)</li><li>• 1 toilet per 15 children older than 36 months</li><li>• 2 sinks per 1 toilet</li></ul>	At least 1 toilet and 1 sink (if 12 or fewer children)  Additional toilet required if more than 15 children	At least 1 toilet and 1 sink

## **Fire Safety, Building, and Environmental Health Codes**

ECE facilities must meet all state and local fire safety and building codes, but many of these requirements are already considered by housing developers interested in new construction or various preservation projects as they approach site evaluation and selection. Requirements can vary by jurisdiction, and developers are encouraged to reach out to fire marshals for consultations early in the development process. The state recently responded to a major issue for developers seeking to co-locate with home-based providers. A 2021 rule change ([ORSC R101.2.1](#)) initially mandated that all new family child care homes seeking licensure have residential fire sprinkler systems within their homes. This can be cost prohibitive if home-based ECE providers are required to pay to add a sprinkler system. ELD and the Oregon Building Codes Division (BCD) recently released guidance to mitigate these concerns that gives providers a choice between installing a sprinkler system or meeting various requirements related to building exit access and safety documentation and protocols.<sup>45</sup>

Developers considering working with ECE providers to retrofit an existing commercial space as a child care facility should also ensure they are aware of all change of occupancy, conformance, and accessibility standards required by state and local building codes. For instance, converting a commercial space to an ECE facility from a restaurant or office can trigger a formal review by local building departments and require approval of plans for the space. Meeting these standards and others related to accessibility and fire safety in older buildings can be costly and delay projects. County health boards also conduct reviews of new or renovated ECE facilities to ensure they meet environmental health standards prior to opening.

In all fire, building code, and health reviews, developers and their partners are strongly encouraged to reach out to child care licensing specialists and local partners as soon as a site is selected or being considered. This can ensure an architect's plan for facilities proactively addresses any local code issues and development timelines are not delayed by correspondence with and reviews by regulators.

## **Local Land Use Policy**

In addition to regulatory requirements cited above, housing developers interested in co-locating with ECE operators must also consider local zoning and land use policies that may go beyond those impacting residential-only developments. In many local zoning codes, the presence of a commercial component such as an ECE facility, necessitates a higher on-site parking requirement, which can reduce the amount of land available for both the ECE facility and affordable housing. Additionally local zoning may restrict specific uses. Most recently, 2021 Oregon Senate Bill 8 ([SB 8](#)) requires local governments to allow affordable housing developments by right on land that may not be zoned for residential development. This builds on a series of bills ([2019 HB 2001](#) and [2017 SB 1051](#)) to reduce artificial barriers to housing development by mandating that most jurisdictions across the state allow denser forms of housing in single-family residential zones and review applications for needed housing construction permits in a timely fashion.

Momentum to reform land use regulations influencing housing development has not yet reached the landscape of zoning policies governing ECE facilities, complicating attempts to co-locate. Even in jurisdictions that have substantially reformed the types of residential construction allowed with certain

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<sup>45</sup> Oregon Building Codes Division. ([2022](#)). *Residential Fire Sprinklers or Other Safety Measures for New Child Care Facilities*.

zones (e.g., easing requirements around single-family homes to allow the development of more apartment buildings), conditional use permits are often required for anyone interested in developing an educational or commercial facility. The process for applying for these permits is the most significant and common land use barrier to co-locating.

Developers interested in co-locating should start their site searches in areas that allow child care facilities “by right” to reduce lengthy review processes for waivers to residential zoning laws. Co-location is still possible if a site is identified in a zone where ECE centers are “conditionally” allowed, but it can be a months-long process to have development permits approved that involves submitting plans to zoning commissions, undergoing local development and traffic pattern reviews, participating in public hearings and information sessions, and formal voting processes. The timeline for this process is by far the most significant in the Portland-metro area, where developers, ECE operators, and policymakers suggest the process can take between 8-18 months. In rural areas, this may be less of a problem given fewer zoning restrictions, but if a conditional use permit is required for mixed-use development, even officials in small coastal towns cite timelines of around 6 months. Timeline delays are not the only problem identified, at the end of long review processes developers can have their applications denied for subjective reasons around issues like preferred design characteristics of a neighborhood. These barriers tend to be driven by vocal groups opposed to new development or changes to their neighborhoods, often colloquially referred to as “Not In My Backyard” or NIMBYism.

Regulated Family Child Care homes are significantly less restricted by local land use policies than centers, largely because state statute ([ORS 329A.440](#)) defines these businesses as residential uses of property. Cities and counties are required to allow home-based child care in all residential dwellings, regardless of whether the property falls in a commercial or residential zone. However, state land use policies are incongruent with those governing child care licensing. State administrative rule ([OAR 414-350-0000](#)) indicates that licenses can only be obtained by Certified Family Child Care (CF) homes if they are operating in a single-family dwelling. This rule does not apply to smaller capacity Registered Family Child Care (RF) homes, but limits potential impact of co-location strategies between apartment buildings and larger home-based providers.

## Forming a Partnership

Many developers and ECE operators in Oregon share broad interests in co-locating, but few know how to adequately find and assess development partners. To ensure project success, it is important that parties on both sides know where to look for partners, how to ensure alignment of missions and service populations, what to review during financial evaluations, and how to establish mutually beneficial legal structures for partnership.

### Pipeline Challenges and Where to Look for Partners

Currently, there is no central authority tracking simultaneous affordable housing and ECE facility development pipelines. This delays timelines and appetite for co-location among housing developers that may otherwise be interested in co-locating. During research and interviews, many housing developers admitted to limiting their searches to Head Start providers because they are well known beyond ECE circles and are seen as partners with consistent funding streams and capacity to support facilities development. This trend severely limits potential for partnerships between other nonprofit, private, or

publicly funded ECE programs and housing developers. A centralized agency or intermediary tracking all housing developers and ECE operators statewide interested in co-location would be best practice for identifying gaps and needs, brokering partnerships, and deploying capital.

Though a statewide pipeline tracking tool may not exist yet for Oregon, there are regional and state agencies that have detailed local knowledge about existing child care and early learning providers and the “pipeline” or capacity within their region for expansion. They can act as docents or match-makers for housing developers, or other interested parties, seeking information about ECE supply and demand. Some examples of such organizations include: [Child Care Resource and Referral](#) (CCR&R) agencies, [Early Learning Hubs](#) (including the tribal EL Hub, launching in 2022), the [Oregon Head Start Association](#), and the [Oregon Association of Relief Nurseries](#).

Many CCR&Rs, EL Hubs, and other organizations around the state are also working to provide business supports and training to ECE providers interested in or planning for expansions.<sup>46</sup> These tailored, business-focused networks could be important connectors for housing developers seeking out ECE operators ready to take on expansion, renovation, or new construction projects. Such efforts are tailored to the unique challenges and difficult business models in the ECE sector. The three leading examples identified below highlight structures and funding for this type of training and technical assistance:

- **Multnomah County** – The county’s Preschool for All program is partnering with Micro Enterprise Solutions of Oregon (MESO) to offer business-focused cohorts with one-on-one coaching, credit building, business and financial planning, and navigation-support for small businesses to expand, increase quality, and work to become eligible for Preschool for All funding. Cohorts are focused on Black, Indigenous and other providers of color.
- **Douglas County** – The CCR&R, Small Business Development Center, and NeighborWorks Umpqua provided a year-long cohort for child care owners in the county aimed at improving program quality and developing sustainable business practices. The cohort met weekly, received one-on-one coaching, was offered matched Individual Development Accounts, did credit building, and received incentives upon completion. The Ford Family Foundation helped to fund this effort along with CCR&R dollars.
- **Central Oregon** – The CCR&R and Central Oregon Community College received funds for a Child Care Business Accelerator program that will provide education, technical assistance, business advising, and start-up grants for new child care operators. The Accelerator, along other child care investments in Deschutes County, are being supported, in large part, by American Rescue Plan Act funds.

### Mission and Operational Alignment

Before formally deciding to partner, housing developers and ECE operators should ensure they are aligned in mission and target service populations. Perhaps the most important consideration in this evaluation is assessing whether populations to be served by the housing development and the ECE center align. One developer consulted in the Portland metro area developed a co-located property, but the ECE operator they chose to partner with primarily served wealthy families. This created a structural disconnect between

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<sup>46</sup> See examples as of 2020 on pp. 50-55 in the Regional Solutions and Early Learning Division Child Care [Workgroup Report](#).

the families living in the housing and the ECE center, and even made families who were eligible for ECE subsidies and could have sent their children to the center shy away from doing so. This can also be a problem in the other direction if a Head Start provider fills the space and housing residents exceed income eligibility thresholds for the center.

The figure in Appendix D includes income eligibility thresholds for common funding streams supporting ECE operations that may be useful to developers in understanding the characteristics and compatibility of housing residents with an identified operator. Many of the operational funds identified in the table can be blended with one another – allowing children of varying incomes to be served in one facility – but this is an important conversation for developers to have with operators.

Housing developers should also talk to ECE operators they seek to partner with to ensure they are licensed or in the process of becoming licensed, and they may want to consult Oregon’s ECE quality rating system ([Spark](#)) to better understand the quality of care to be provided. It is also important for developers to know whether the ECE operator will provide a preference on waitlists for families living in the housing development.

### Financial Evaluation

Both developers and ECE operators seeking to co-locate should also request and review relevant financial documents from one another before formally entering into agreements. ECE businesses often run on tight margins and have difficulty securing traditional forms of capital, but developers should reasonably be able to request to see at least the following documents from providers:

- Income and expense statements from at least the last two fiscal years, including those for any other facilities held by separate entities;
- The organization’s most recent audit;
- A proforma or cash flow projection for the new ECE facility;
- A business plan for the ECE facility; and
- Proof of any state or federal contracts to support operations and enrollment of low-income children.

Proof of experience in prior facilities projects is also a plus in helping developers understand the financial capacity of a potential partner. However, developers should not be deterred by operators with no facilities construction or expansion experience. Many of the most motivated and committed partners may be those who currently only run one center or Family Child Care Home. Oregon’s co-location fund could help address various equity concerns by prioritizing these types of small business providers, many of whom are women and people of color struggling to break through in a difficult industry. ECE providers must prove they are financially ready to expand, but if the state were able to offer flexible grants or low-interest loans to developers seeking to co-locate with smaller providers – rather than large chains that operate hundreds of facilities across the nation – it could meet broader small business and equity priorities.

### Development and Lease Structures

To formalize the partnership between the ECE operator and housing developer, both sides should also proactively make commitments through development agreements and consider what types of lease

structures will fit the needs of both parties. The priority for both parties should be to create a Memorandum of Understanding (MOU) during the pre-development period to establish the structure and framework for the relationship and to advance the project through the LIHTC application process and varying Notices of Funding Availability (NOFA) rounds in order to leverage other public funding mechanisms for the project. Establishing the parameters of the partnership during pre-development can help to prevent and/or solve any major issues early in the development process and make projects more competitive in NOFAs, which often have priorities around resident services and equity-oriented interventions. The MOU between the ECE provider and developer should consider several factors:

1. **Ownership:** Agreement on which party owns what elements of the development and whether control is defined by a condominium structure or a master lease.
2. **Fit-out:** The MOU should define who is responsible for the fit-out costs of the ECE facility and who will manage the project. Since developers tend to have more construction expertise, ECE providers may simply prefer to contribute partially or fully for the fit-out costs and have the developer manage the work.
3. **Financing:** Both parties must have a clear understanding of who will be responsible for securing financing for the ECE facility and which party should handle Operations and Maintenance (O&M) responsibilities post-development. For example, the ECE provider may prefer to have the developer handle O&M related to the ECE space through a full-service lease, but the developer may want a higher base rent to account for any risks associated with managing operations.
4. **Lease structure:** The MOU should outline the annual per square foot rent and the direction of the lease, as well as when any increases in rent may occur. This should include details on the formal structure of the lease, such as whether it will be a triple-net (NNN) lease or a full-service lease. These structures determine the responsibilities of each party in maintaining the property and paying necessary utilities, taxes, fees, or other expenses associated with the commercial space. ECE providers should have a solid understanding of their business model and their ability to execute the structure of a lease.
5. **ECE Services:** The partnership should lay out the type of early care and education services offered by the ECE provider and any enrollment priorities of the Developer/Owner.
6. **Tenant population:** Partners should ensure that populations served by the housing portions of the development align with eligibility for target service populations of the ECE facility. This will ensure residents can take advantage of services.
7. **Workouts:** The MOU should discuss the means to solve any potential challenges or issues between the developer and the ECE provider, should they arise. This includes detailing the liability of each party for various situations, as well as responsibilities and provisions for failure to fulfill the terms of the agreement.

The MOU should also lay out key development milestones to ensure adequate time for each party to raise money, obtain financing, and gain local approvals. The considerations mentioned above are just some important factors both parties need to consider in pursuing a mixed-use development. The specific details of any MOU will depend on each party's desires, needs, and capacities.

In the event that the ECE facility is part of a separate condominium structure whereby the ground floor commercial space is carved out into a different legal entity, the developer may or may not decide to retain ownership of the commercial condo. If the developer chooses to retain ownership, they may lease that space to an ECE provider. If the developer decides to sell, the ECE provider may have an opportunity to purchase the space, if it is offered and the ECE provider has the means to purchase the condo. In either event, it is important in any agreement to spell out the sale price or lease rate and structure of the deal and to delineate responsibilities of each party to maintain, operate, and pay for certain expenses.

## Facility Design

Designing high-quality ECE facilities often requires much more than the base child care licensing and other requirements cited above for assessing a site's readiness for development. The design phase for a co-located development is likely to require support and skills from architects and other contractors not normally involved in residential – or even mixed-use – housing developments. This section is not meant to be comprehensive of the many components of designing and constructing an ECE facility.<sup>47</sup> Rather, it covers overarching nuances and processes housing developers should consider that may differ from their traditional design and construction phases. This section primarily focuses on the design of ECE centers in housing developments but concludes with some brief information on how to approach the design of housing units for accommodating Registered Family Child Care homes.

### Assembling a Design and Development Team

Various steps in assembling partnerships between developers and ECE operators are addressed in the previous section, but the partners identified below are also critical for designing and constructing a co-located facility. Regardless of whether the housing developer manages the full build out of the ECE facility, or if they plan to provide a warm shell for the operator to make tenant improvements, a collaborative design and development team with expertise in ECE facilities is critical.

- **Architect and Landscape Architect** – Although hiring an architect for indoor and outdoor spaces is a typical component of housing development, finding a firm or individual with expertise in ECE facilities can be challenging. The architect should be brought on during the site assessment phase and is responsible for producing all drawings and renderings throughout development. Architects are especially important during pre-development phases of projects, but ECE operators and developers often struggle to cover these costs before significant capital is raised.
- **General Contractor** – The contractor should be hired as early in the development process as possible and is crucial for providing feedback to architects and developers on what to reasonably

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<sup>47</sup> See LIIF's [Quality Environments for Children](#) guide for more specific information on best practices in designing high-quality ECE facilities.

expect in terms of construction costs and timelines and procurement of materials and subcontractors.

- **Early Childhood Design and Capital Campaign Consultants** – A number of developers and ECE operators who have successfully completed co-located projects strongly recommended hiring an early childhood consultant throughout the full arc of development. These individuals can help represent the ECE operator in the partnership and ensure that the way spaces are designed and developed fit the vision of the operator and meet all legal requirements. They can also support architects and contractors if they are less familiar with designing ECE facilities.

### Typical Design Process

Once a site meeting base requirements for a mixed-use development with an ECE center is identified, the in-depth process begins for designing and constructing the facility. In general, this process includes the steps identified in Figure 22.

Figure 22. Steps in the Facility Design Process	
Design Step	Primary Components
Concept development	Site assessment, hiring an architect, market demand analysis, and financial feasibility.
Programming and schematic design	Programming design: Outlining proposed pedagogy and functions of the ECE facility and considering the uses of space based on desired facility function.
	Schematic design: Renderings of all aspects of the center, including access and exits, interior walls, parking, size, amenities, security, etc.
Design development	Adding details to the schematic, such as formal dimensions of interior and exterior space, location of doors and windows, plumbing hookups, etc.
Value engineering	Comparing durability, safety, and product quality needs for all aspects of the center (e.g., equipment, utilities, plumbing and bathrooms, etc.) to corresponding cost estimates.
Construction documents	Instructions for contractors to ensure physical development matches planning.
Schedule of values	Contractor-provided budget for the project, which in co-located projects is best separated out between the ECE facility and the rest of the development.
Construction	Physical construction of the site.
Fit-out and furnishings	Adding all classroom and play equipment, furniture, etc. to the facility.

### Design Criteria and Best Practices for Co-Located Developments

Each subsection below includes considerations and best practices for designing ECE facilities within affordable housing. This is not an exhaustive list, as actual design and siting elements can vary substantially by project and local requirements.<sup>48</sup> Appendix B includes sample schematics from LIIF's ECE Facilities Design Guide for a co-located ECE center with classrooms for preschoolers, infants, and toddlers.

<sup>48</sup> This section draws from best practices primarily identified in three sources: [LIIF and BRIDGE Housing's Co-Location Handbook](#), LIIF's [ECE Facility Design Guide](#), and Enterprise Community Partners' [Home & Hope report](#).

### *Square Footage Best Practices*

Although base licensing requirements set absolute minimums for which ECE facilities must be designed, best practice is to provide more square footage per child to allow for developmentally appropriate environments conducive to caring for young children. Licensing requirements also only cover classroom space. It is important for developers to consider total building square footage needed per child like those displayed in Figure 23, an adaptation of a visual in LIIF and BRIDGE Housing's Handbook on Co-Located facilities that displays industry standards and best practices for indoor building plans designs.<sup>49</sup> The table offers guidance for preschool classrooms, but more primary activity space is needed in classrooms serving infants and toddlers (typically around 85 sq ft/child for infants and 60-70 sq ft/child for toddlers).

**Figure 23. Best Practice in Building Size for ECE Facilities Serving 3-5 Year Old Children**

	<b>Primary Activity Space</b>	<b>Secondary Activity Space</b>	<b>Adult and Common Space</b>	<b>Non-assignable space</b>	<b>Total square footage</b>
Minimum	35 sq ft/child	20 sq ft/child	15 sq ft/child	17.5 sq ft/child (25%)	88 sq ft/child
Adequate	42 sq ft/child	20 sq ft/child	18 sq ft/child	20 sq ft/child (25%)	100 sq ft/child
Better	46 sq ft/child	20 sq ft/child	22 sq ft/child	26 sq ft/child (30%)	115 sq ft/child
Best	50 sq ft/child	22 sq ft/child	24 sq ft/child	29 sq ft/child (30%)	125 sq ft/child

### *Facility Design and Layout*

Designing the physical flow and layout of an ECE facility can be done in a way that maximizes limited space without sacrificing quality. For instance, in facilities serving multiple age bands with different space requirements, age-alike classrooms should be located near one another to reduce personnel and other space needs. The physical shapes and sizes of classrooms should also be designed deliberately to allow for subdividing if teachers want to incorporate a mix of large and small group activities with children.

Other important considerations for the layout of the facility include:

- Reducing unnecessary circulation space.
- Creating food preparation spaces that can be used by multiple classrooms simultaneously without giving up lines of sight and sound for staff.
- Planning for interior doors that connect individual classrooms, as well as exterior emergency exit doors from each classroom.
- Bringing in natural light where possible, as well as light from internal corridors through interior windows.
- Focusing extensively on the acoustics of the facility to ensure playtime in one classroom will not disrupt naptime in another.
- Planning for trash collection and janitorial spaces that are not accessible to children or disruptive to care.

<sup>49</sup> Source: <https://www.liifund.org/wp-content/uploads/2011/03/30-BRIDGE-Child-Care-Handbook.pdf>.

### *Safety and Security*

Incorporating a center serving young children in a residential development brings additional security and safety considerations for both developers and ECE operators. For the physical structure as a whole, architects should plan for clear delineations and separations between housing and ECE facilities. This is especially important if the center seeks to serve families beyond the housing development and is often achieved by having one clear entrance and exit that staff, families, and children all use. Although best practice is to have an emergency exit door in each classroom that directly leads outside, these doors should always remain locked.

Classrooms should also be intentionally designed to ensure clear lines of sight and sound for both safety and staffing reasons. Children in primary activity areas should be visible to teachers and aides even if they are changing diapers, preparing food, taking individual children to bathrooms, or helping children in napping areas.

### *Physical Location Within Housing Developments*

Oregon's child care licensing requirements usually require a ground floor space, dependent on what is approved by the fire marshal for commercial buildings or how many exits are leading to the ground floor in family child care. In addition, this is often the easiest and most cost-effective approach for developers, especially because regulations do require that parents park and walk their children to the entrance of the facility during drop-off. Consideration for siting the ECE facility within the development related to parking and drop-off include:

- Proximity to the facility's main entrance, parking spots, and curb cuts or driveways.
- Ability to accommodate around 12% of all families for drop-off and pick-up at a time in 15-minute increments. This may be difficult in dense urban areas and should not be a complete deterrent for developers if many families walk or travel by public transit. However, developers must ensure compliance with required local codes around setbacks from the street.
- Sufficient parking for staff that meets local code requirements. Parking requirements for commercial facilities like ECE centers are generally assigned as a ratio based on the number of employees, number of children, or gross floor area of the space.

Developers should also seek to site the ECE facility in the context of nearby traffic patterns, in ways that maximize daylight in classrooms, to insulate spaces for children from street or other exterior noise, and so that outdoor play areas are protected from wind and rain.

### *Kitchens, Bathrooms, and Utilities*

ECE facilities have special needs and requirements related to kitchens, bathrooms, and utility hookups that developers should plan for regardless of whether they are fully constructing the facility or just creating a warm shell for the operator to design and fit out. Elements to plan for include:

- **Kitchens** – Developers should work with ECE operators during pre-development to determine whether food will be prepared on-site, brought in from elsewhere, or only warmed on-site. These decisions can affect whether the facility will need a commercial kitchen, which adds expense but may increase long-term value of the facility.
- **Bathrooms** – ECE facilities need both adult and child bathrooms and must meet at least base per child bathroom requirements outlined in Figure 21, but it is also important to account for space

for diapering, handwashing, and food prep sinks. Developers should seek to centralize plumbing as much as possible for the entire development but must also consider that failing to include individual child bathrooms in each classroom can add cost to the center's operations if it has to hire additional staff to escort children to bathrooms in other areas of the building. Common bathrooms for adults can be space-conserving mechanisms so long as they are proximate to classrooms.

- **HVAC** – Staff should be able to manage temperature controls within individual classrooms, but HVAC systems are often loud and disruptive and should be placed so that children are not disturbed in nap or other quiet spaces. Smaller ECE facilities can use split system heat pumps, which are often more efficient but require high levels of maintenance. In larger facilities, these systems are often cost prohibitive, so developers should consider other options like radiant heat and cooling towers.
- **Laundry** – Having immediate access to laundry facilities is of enormous value to ECE providers, but it should be kept separate from all spaces accessible to children, as well as food preparation spaces, kitchens, and janitorial rooms.
- **Utilities** – How utilities are metered and paid for should be covered in lease or development agreements between partners. Although there are often additional costs for separate metering of utilities, it can be beneficial for managing costs and operations between the ECE facility and residential building. For mid-sized and larger centers, the biggest initial expense with split metering tends to be procuring and finding space for a separate water heater.

#### *Outdoor Spaces and Shared Amenities*

Sufficient outdoor space is necessary for program quality and fostering healthy child development but can sometimes be a deterrent for housing developers building in places where land comes at a premium. Two possible solutions to this problem include the following, but each may add burden and operational complexity for ECE providers to solve for:

- ECE operators can stagger outdoor schedules so that only one-third the center's capacity is outside at any given time, a method for reducing the amount of outdoor space required by the facility.
- Child care licensing is often amenable to outdoor space waivers in areas with a nearby park that the facility can easily access for outdoor play.

While state licensing does not require specific equipment or design elements of outdoor spaces, children benefit when outdoor play areas are intentionally designed in the same ways indoor ones are. This involves creating engaging spaces for play and learning activities that brings in varying light and shade elements, climbing structures, plants and vegetation, etc. Outdoor equipment should also be developmentally appropriate for the different ages that are to be served by the center. For instance, a climbing structure may be well-equipped for 3- and 4-year-olds, but inappropriate for younger children.

Developers and ECE operators must also consider the extent to which housing residents, center staff, and children will have access to various amenities at the development. There are many approaches that can fit with the physical design of the building, but partners should formalize expectations through lease agreements or MOUs. Some common building amenities to consider in these processes include:

- **Community rooms** – Affordable housing developments often have community rooms for residents to use or reserve for various purposes. These are commonly vacant during working hours and could be used as flex space for children on rainy days when outdoor play is difficult. If partners agree on this approach, design schematics should try to site the community room close to the ECE center.
- **Outdoor play areas** – Agreements can be made so that children living in the housing development can use the ECE facility's outdoor space during evenings and weekends when the facility is closed. This requires significant planning and expectation-setting and should include clear space and plans for storage of outdoor equipment (e.g., shovels and buckets, tricycles, etc.) that belong to the ECE operator and are not to be used by others.
- **Common bathrooms** – If the building has common bathrooms for residents on the ground floor, the developer may want to make them available to staff or parents at the ECE center.

### **Considerations for Family Child Care Homes**

Although this section has focused primarily on co-location with center-based providers, developers may also want to incorporate child care into a building by intentionally designing one or two units for Family Child Care providers to use as their home and their business. The design elements identified below are not required for an individual to operate a Family Child Care home, but they may improve the provider's ability to serve children and appease any concerns of other residents in the building.

- **Durability** – Spaces that serve children may wear and tear faster than normal living spaces. In units developers intend to lease to FCC providers, they may want to select higher quality materials and equipment to reduce maintenance issues later.
- **Noise and insulation** – In selecting materials for FCC units, developers may also seek to add insulation and sound-proofing elements to protect other residents in nearby units from noise disturbances.
- **In-unit washer and dryer** – Most affordable housing developments have shared laundry facilities, but FCC providers require easy access to washers and dryers that do not take away from their abilities to physically supervise children. If this is not possible, siting units for FCCs next to or near the communal laundry facility could help.
- **Separated living and care spaces** – Where possible, FCC units should allow for some separation of living spaces and areas where children will be served. Rose CDC in Portland intentionally designed units for FCC providers with doors separating 500 square feet of care space from the provider's living space. This can add to cost and lease complexity but represents how developers might approach delineating space.
- **Lines of sight and sound** – Units should be as open as possible to ensure providers can effectively supervise children while they cook, take individual children to the bathroom, supervise during naptime, or do laundry.
- **Access to outside** – Siting FCC units on the ground floor is not technically required but can be helpful to providers and encourage more outdoor activities. Including a private patio or small yard off the unit is best practice.
- **Access to shared playgrounds** – Developers should work with FCC providers to set specified times and rules for accessing shared playground facilities. These are common in family-oriented housing

developments – even those without a larger ECE center on the ground floor – and should be easily accessible by any home-based providers living in the property.

## Financing the Development and Ensuring Program Sustainability

### Assembling a Capital Stack

The Low Income Housing Tax Credit (LIHTC) is by far the most common source of funding for affordable housing development in Oregon. LIHTC awards are made through two primary mechanisms: “4 percent” bond deals that typically cover 30-40% of a project’s capital stack and “9 percent” awards that amount to 60-70% of the total development costs needed by a developer. Most co-located ECE and affordable housing projects that are newly constructed facilities have capital stacks comparable to typical LIHTC projects.

Once a developer receives a LIHTC award, they generally seek out other forms of capital to complete the total funding needed to finance the project. The next source is typically tax-exempt bonds or a bank loan covering 15-25% of development costs. Sources after this can vary substantially by project cost, need, and location of the project. Denser, more expensive mixed-use projects will often have local gap financing from a city or county government. This second position mortgage can sometimes be a higher contribution than the tax-exempt bonds or bank loan. The second position mortgage typically represents 15-30% of a project’s capital stack. Additional state or federal housing development programs can help developers cover an additional 0-10% of capital needed, some including the federal HOME Investment Partnerships (HOME) program and Oregon’s Local Innovation and Fast Track (LIFT) program. Smaller projects may rely on programs like LIFT more substantially and see a greater portion of such programs in their capital stacks. Appendix C includes brief overviews of state and philanthropic sources of financing that can help cover small gaps in capital, but how individual deals are paid for varies significantly from project to project. Finally, deferred developer fees, local System Development Charge (SCD) waivers, public and philanthropic grants, or developer loans to the project account for the sources typically needed to close any remaining financing gaps on a project. These sources are often small with each funding amount covering less than \$1 million of a project’s capital stack.

Any funding mechanism designed to support the development of an ECE facility within an affordable housing project, should leverage as many public and private sources available to ensure that the funds go as far as possible to incentive and support co-location. However, depending on the project there may be limits on the ability to leverage existing sources. For example, preservation projects and projects where a stand-alone ECE facility is planned within an existing affordable housing development may not qualify for capital funds due to the separate structure. Consequently, ECE providers may need direct access to capital and credit to pay for the fit-out costs of an existing space or to construct a standalone building. Any funding program for co-location should consider these disparities in funding to support the variety of projects and facility needs that exist across the state.

A major inhibitor to new co-located developments in Oregon is a 2011 change in the state’s Bureau of Labor and Industry’s (BOLI) standards around prevailing wage requirements (PWR). PWR apply to contractors and workers supporting publicly subsidized capital projects, and generally require government agencies and private entities using public funds to pay higher than private market wages.

Low Income Housing Tax Credit (LIHTC) supported projects are typically exempt from PWR requirements because BOLI does not classify tax credits or passthrough bonds as “funds of a public agency.” However, developers can be subject to PWR unless the developer plans to: (1) build a mixed-use project where the commercial component provides fee-based services to non-residents, (2) use more than \$750,000 in other public funds to finance the development; or (3) have fewer than 60% of units in a development that average 60% AMI.

In the last decade, BOLI has tightened its policy around “split determinations” for mixed-use affordable housing projects.<sup>50</sup> Developers proposing commercial space were previously eligible to only pay PWR on the commercial elements of the project and choose to pay private wages on all residential elements. Now, any inclusion of commercial space – including child care centers or residential units designed to be occupied by family child care providers – triggers PWR on the entire development. In some instances, this can add 10-20% to the total development cost of the project.

### ECE Operations and Program Sustainability

Analysis of the operations funding that will support the ECE facility is critical for ensuring operators can cover any debt, pay for ongoing repairs and maintenance, and make on-time rent payments to the developer. In co-located developments, the ECE facility should enroll at least a percentage of low-income children, which often requires use of state or federal funding, including child care subsidies. Appendix D includes brief overviews of these programs, as well as a table for understanding income eligibility and target populations by form of subsidy.

Preschool Promise, Head Start, Oregon Pre-K (OPK), and Employment Related Day Care (ERDC or “vouchers”) are the four most common and viable ECE operations subsidies for co-located facilities statewide, though relief nurseries in central and southern Oregon are stepping into the child care sector now, as well. Although some programs are funded exclusively by these programs, many operators also blend and braid funds in order to serve children from varying socioeconomic backgrounds. This can be programmatically challenging, as programs like Head Start may pay providers at higher rates per child than other programs or require additional services not available to children and families whose slots are funded by other ECE programs. However, the practice of blending funds is especially helpful for ECE operators seeking to co-locate, as it

## Co-Location Opportunities with Multnomah County Preschool for All

Voters in Multnomah County recently approved a local universal preschool plan, Preschool for All (PFA), which guarantees free preschool slots for all 3- and 4-year-olds in the county. The County hopes to allocate funding for 500 initial slots in Fall 2022 and ramp up to all children over the next decade. PFA will have a dedicated, annual pot of at least around \$5 million to support physical facilities.

PFA could be an accelerator of co-located development in the county. Housing developers with vacant or planned commercial space are looking for tenants that can consistently pay rent and provide a service to residents. Especially as PFA rolls out facilities funding, developers throughout the county will search for partners to retrofit existing commercial spaces for early learning or help them build out centers at new developments. Guaranteed operations funding will also support ECE providers in building credit, taking on debt, and leading facilities projects on their own, regardless of whether developers have capital to contribute.

<sup>50</sup> See [ORS279C.810](#) (2)(d)(C)(iii)(D) which states that the “[BOLI] commissioner may consider different definitions of residential construction in determining whether a project is a residential construction project.”

can allow them to serve children from varying income brackets and ensure both families living in the housing and the nearby community qualify for the program.

Programs like Head Start, OPK, and Preschool Promise are especially valuable to ECE operators seeking to co-locate with housing developers because they are contract-based and ensure consistent month-to-month revenue. These programs also offer limited start-up funds to support the acquisition of classroom equipment and supplies that can be helpful with fit-out of the facility. Relying on private pay or vouchers to cover costs can lead to significant fluctuation in revenue for providers because these models rely on actual enrollment of families and payments from the state can occasionally be delayed. If a family has two children enrolled in an ECE facility one month but moves or decides to find a new provider closer to home the next, the original provider loses revenue and has to scramble to quickly enroll two new children to ensure consistent operations funding. In an industry with already slim margins and limited reserves, this can make monthly rent payments to a developer far from a guarantee.

Most ECE providers around the state do not have contracts to enroll children through Preschool Promise or Head Start, and instead set tuition rates that families must pay to enroll their children. While many private providers accept state Employment Related Day Care vouchers that help low-income families afford private tuition, they rarely cover the actual cost of care. This is especially true in rural and frontier Oregon, where, according to a 2020 report, providers receive a significantly smaller subsidy when compared with urban providers.<sup>51</sup> This is an issue because the costs of care for providers are very similar regardless of geography. The current method, known as “market analysis,” for calculating subsidy rates in Oregon naturally inflates urban subsidies and deflate those in rural and frontier counties. However, the state is in the process of shifting from its current method to an alternative method which should increase the subsidy rates starting in 2024 in a way that is equitable across the state.

## Development Timelines

### New Construction

As discussed in the Local Land Use section above, conditional use permits are often required for anyone interested in developing an ECE or commercial facility. The land use objective of an ECE provider when looking for a location is to identify sites where an ECE provider can operate “by right” under the current zoning. However, affordable housing developers cannot be as selective as market rate developers for land. Consequently, co-location opportunities may often exist in areas where local zoning does not allow an ECE provider to operate and thus requires a conditional use permit. This can take between 6-18 months depending on the local jurisdiction. In addition to permitting, the development process for a mixed-use multifamily new construction project is also long and at times complicated, regardless of the jurisdiction.

Any multifamily development of 10 units or more anywhere in the state must entertain a lengthy design, review, and approval process. If successful, a developer and ECE provider must then seek out its financing sources. The need for subsidy layering on affordable housing projects requires submitting applications often according to strict timelines. Not having an application prepared and submitted for a funding round can set a project back many months and sometimes a whole year. If financing is secured, the project can

<sup>51</sup> Stoney. (2020). *Child Care in Rural Oregon: Bold Approaches to Address Systemic Inequity and Rebuild Child Care*. Ford Family Foundation.

then move into construction. On larger multifamily projects, construction can last between 1-2 years. Once completed, it must be then inspected to ensure that it meets building code before moving then into marketing and leasing the units. The entire timeline for a single development project can take between 2-5 years depending on the complexity, size and whether the project is allowed “by right.”

### Tenant Improvements

Assuming the local zoning allows for an ECE provider to lease the space in an existing ground floor of multifamily affordable housing project, tenant improvement projects offer a swifter timeline for co-location. Affordable housing projects that are already operating may have vacancy in the commercial space or have an underused community facility. If an ECE provider finds the space suitable, the developer and the ECE provider will work out a lease and Tenant Improvement (TI) agreement provided that the lease and improvement abide by LIHTC compliance rules, should they still apply to the project.<sup>52</sup> Sometimes TIs are fully or partially funded with a TI allowance that is provided by the developer to upgrade the space for a prospective tenant. For affordable housing developers, a TI allowance may not be financially feasible, particularly if the base rent is below market rents for comparable space. Without a TI allowance, the ECE provider will then have to seek out bids from contractors to do the improvements and then secure financing. If the ECE provider has a good credit history then securing financing should require a minimum amount of time depending on the scale and cost of the project. The provider will also have to come up with a down payment and collateral to secure a loan for the TI project. Once secured, the project can move into construction. Assuming no conditional use permit is required, a TI process could take 1-2 years to complete.

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<sup>52</sup> LIHTC compliance period lasts 15 years and may extend to 30 years.

# Section 3: Program Recommendations: Oregon's Co-Location Fund

This section includes recommendations on how the State of Oregon might design and implement a fund incentivizing co-location of ECE facilities with affordable housing using the \$10 million appropriated under HB 5011. Figure 24 depicts overarching recommendations. Rationale for each is provided throughout the rest of the section through the (1) Fund Management and Technical Assistance, (2) Fund Design and Financial Products, (3) Criteria for Selection, and (4) Program Evaluation subsections.

<b>Figure 24. HB 5011 Oregon Co-Location Fund Recommendations</b>	
<b>Core Recommendations</b>	
<b>1)</b> Contract with an intermediary organization, such as a community development financial institution (CDFI) to manage the fund, track development pipelines, and provide technical assistance.	
<b>2)</b> Create and monitor a state pipeline of ECE operators and developers interested in co-locating. Deploy funds throughout the pipeline based on project readiness and potential impact. Evaluating impact should focus on the development's commitment to serving low-income and BIPOC families, rural communities, and other areas with severe housing and ECE supply shortages.	
<b>Program Design Recommendations</b>	
<b>Low-Interest Loan Fund</b> <i>(To be funded with \$5 million in seed funding from HB 5011 and leveraged with private, philanthropic, and other public sources of capital)</i>	<b>Eligibility:</b> Any affordable housing developer or ECE provider. <b>Financial Products:</b> Low-interest loans (0.5 – 4.0% interest) <b>Intended Uses:</b> Any pre-development, acquisition, construction, or fit-out costs related to newly constructed, preserved or enhanced, or retrofitted ECE facilities in affordable housing projects. <b>Award Caps and Formulas:</b> No definitive caps but subject to fund availability, stage of development, and anticipated impact of project.
<b>ECE Facilities Grant Pool</b> <i>(To be funded with \$4.5 million in seed funding and possibly supported by additional fundraising)</i>	<b>Eligibility:</b> Any licensed ECE provider. <b>Financial Products:</b> Grants <b>Intended Uses:</b> Any pre-development, acquisition, construction, or fit-out costs related to newly constructed, preserved or enhanced, or retrofitted ECE facilities in affordable housing projects. <b>Award Caps and Formulas:</b> Caps of \$120,000 (pre-development) and \$2 million (full build-out). Grants for full build-out should be capped at \$40,000 – 60,000 per child for new construction and \$25,000 - \$50,000 per child for tenant improvement.
<b>Family Child Care Repair and Renovation Grants</b> <i>(To be funded with \$500,000 in seed funding and possibly supported by additional fundraising)</i>	<b>Eligibility:</b> Affordable housing developers or FCC providers. <b>Financial Products:</b> Grants <b>Intended Uses:</b> Any cost associated with improving indoor or outdoor space of an existing unit of affordable housing to accommodate a Family Child Care provider. <b>Award Caps and Formulas:</b> \$20,000 - \$50,000 (\$2,000 - \$5,000 per child)

## Fund Management and Technical Assistance

An important pre-requisite for setting parameters and intended uses of this fund is determining which agency or partner will manage day-to-day operations and provide technical assistance to grantees and borrowers. To most effectively manage funds set aside for co-location in HB 5011, this section recommends the state contract with an intermediary organization, such as a community development financial institution (CDFI), to manage the fund, track development pipelines, and provide technical assistance to beneficiaries.

### Best Practices from Peer States and Cities

Many states and localities nationwide have developed public sector loan and grant funds to support development, expansion, and renovation of ECE facilities. The most successful of these programs are generally managed not by state education or social service divisions, but instead by agencies or financial intermediaries with technical capacity around physical development and construction, leveraging various funding streams, and tracking and supporting development pipelines. Examples of such models from other states and cities include:

- 1) The **Washington Early Learning Loan Fund** ("WELL Fund") serves the State of Washington and is jointly managed by three financial intermediaries: Enterprise Community Partners, Craft3, and the Washington Community Reinvestment Association. The WELL Fund was launched in 2020 with a combination of \$5 million in seed funding from state government, philanthropic investments, and private financing from banks seeking to meet Community Reinvestment Act obligations. Since launching, King County (Seattle) has also contributed some local sales tax revenue earmarked for ECE facilities to the WELL Fund to leverage and invest within county limits.

Enterprise Community Partners provides technical assistance to anyone interested in using the fund and tracks a statewide pipeline of ECE operators who are interested in or currently undergoing expansion or development of facilities. Funding opportunities include business loans with low interest rates for ECE providers up to \$500,000, real estate loans for ECE providers or developers up to \$5,000,000, and grants for pre-development and planning expenses. In 2020, the WELL fund leveraged \$3.5 million of its public funding with \$4.1 million in private financing for a total investment of more than \$7.6 million.

- 2) The Low Income Investment Fund (LIIF) manages a contract with the City and County of San Francisco to operate the **Child Care Facilities Fund** (CCFF) for center- and home-based ECE operators. LIIF staff evaluate applications and administer funds through various grant and loan programs supporting pre-development, repair and renovation, and capital new development. CCFF is funded by the San Francisco Office of Early Care and Education, but LIIF regularly convenes an interagency working group of partners from housing, community development, and social service agencies to evaluate applications for funding and track a citywide pipeline of ECE operators interested in opening new facilities or expanding current ones. Pipeline monitoring has allowed LIIF and public partners to broker new partnerships between ECE operators and affordable housing developers for co-located facilities.

As the fund manager, LIIF also regularly offers group workshops and provides one-on-one technical assistance to ECE operators and developers on capital projects, business operations, and program

sustainability. LIIF staff provided nearly 1,600 hours of individualized technical assistance to ECE programs and trained 1,090 individuals through CCFF programming in 2021 alone.

- 3) The State of Massachusetts contracts with Children's Investment Fund (CIF), an affiliate of the Community Economic Development Association Corporation (CEDAC), to provide capital and technical assistance to ECE operators through the **Early Education and Out of School Time Fund** (EEOST). EEOST was created by the Massachusetts legislature in 2013 as part of a larger appropriation for state affordable housing and capital investments. Massachusetts originally appropriated \$45 million over five years to the state Department of Early Education and Care and reauthorized the program in 2018 at the same funding level for an additional five years. Since inception, CIF and CEDAC have helped the state administer 73 grants and loans to ECE centers, creating more than 1,200 new ECE slots and leveraging \$234 million in additional public and private investment.

### Technical Assistance and Pipeline Tracking

With Oregon's co-location fund, the need for technical expertise is perhaps even more acute than with general ECE facilities funds because all awards will require formal partnerships between ECE operators and housing developers. CDFIs are unique intermediaries in that many have in-depth experience lending and providing grants to both affordable housing developers and ECE operators. If Oregon were to partner with a CDFI to manage its co-location fund, CDFI staff could offer specialized group and individual trainings to anyone interested in using funds to support a co-located development. The CDFI could also maintain and publish pools of approved architects and other contractors to support housing developers in designing and fitting out ECE facilities in co-located projects.

CDFIs are also adept in creating, adding to, and continuously tracking development pipelines. Some nonprofits or coordinating bodies (e.g., Early Learning Hubs) are tracking regional development pipelines related to affordable housing or ECE facilities, but no one currently has the capacity to track both sides for the state. The CDFI managing the fund could regularly walk the line between agencies aware of housing and ECE development pipelines. For co-located projects in particular, this work is critical. Housing developers often have a broad interest in providing space for an ECE facility, but do not know where to look for providers interested in expanding or moving into a new space. The CDFI managing the co-location pipeline would have a pulse on both sides throughout the state and could help lead developers to sites favorable to a local ECE provider or make formal connections between two parties interested in development. Pipeline management would also ensure limited funding is

### What is a 'pipeline'?

The Center for Community Investment succinctly [defines](#) a community development pipeline as, "a set of deals and projects that help achieve a community's shared priority." Shared priorities could be developing more affordable housing, improving and expanding ECE facilities across a city or state, or both.

Agencies and intermediaries tasked with tracking pipelines generally keep a running list of all projects in a focus area that can be sorted by amounts of capital raised to date, the stage of development, partners involved, etc. This allows managers of capital funds to look holistically across a service area and make connections between investors and project managers. It also ensures efficient and equitable stewarding of public resources by deploying capital and recruiting partners to areas with the greatest need for development.

approached with a statewide and need-based perspective when deploying capital.

### Equity Commitments and Capacity to Leverage Funds

CDFIs are federally certified financial intermediaries with commitments to expanding economic opportunity and access to capital in low-income communities and communities of color. They share commitments to ensuring public and private investments in historically marginalized and under-invested places, and often have the capacity to take on greater risk when making loans.

By contracting with a CDFI to manage Oregon's co-location fund, the state could also serve to substantially expand the total amount of funds available to ECE providers and housing developers. Figure 25 identifies some possible additional investments that could be leveraged with the state's initial \$10 million in seed funding, matching the public statewide investment at a rate potentially exceeding 3:1. CDFIs have unique expertise in leveraging public, private, and philanthropic funds to take greater risk in lending and buy down interest rates to make loans more favorable for borrowers. Particularly with ECE providers, who are predominantly women and people of color with often under-resourced businesses, the ability to take risks and offer favorable financing are good business and a clear equity-oriented intervention.

Figure 25. Possible Framework for Use and Leverage of Oregon's \$10 Million Co-Location Fund			
Low-Interest Loan Fund		Grants	
<b>State appropriation</b>	<b>\$5 million</b>	<b>State appropriation</b>	<b>\$5 million</b>
<i>Private investments</i>	<i>\$5 million</i>	<i>City/county investments</i>	<i>\$0-0.5 million</i>
<i>Oregon Impact Fund</i>	<i>\$3 million</i>	<i>Other philanthropy</i>	<i>\$0-0.5 million</i>
<i>Other philanthropy</i>	<i>\$1-5 million</i>		
<i>City/county investments</i>	<i>\$2-10 million</i>		
<b>Est. Leveraged Total</b>	<b>\$15-28 million</b>	<b>Est. Total</b>	<b>\$5-6 million</b>

Figure 25 offers a framework for how CDFIs often leverage initial public investments like Oregon's co-location fund with other dollars, primarily through:

- **Private financing from banks** – Many banks have obligations to the federal banking regulators through the Community Reinvestment Act (CRA) to invest in communities that have been historically discriminated against and denied traditional forms of capital. Banks often provide financial support to CDFIs as a tool to receive positive credit on their CRA examinations. CDFIs help steward these investments by buying down conventional interest rates (e.g., 4-6%) from banks with low-interest public or philanthropic funds (e.g., 0-1%) and re-lending blended rate (e.g., 1-2.5%), larger pots of funding to borrowers – like ECE operators – who may struggle to be approved for higher interest debt.
- **Philanthropic investments** – Philanthropic organizations, including a number in Oregon, commonly make grants or offer flexible capital through mission or program related investments to support both affordable housing and ECE facilities. These can be used for direct grants to providers, or to re-lend with very low interest rates to certain industries. The Oregon Community Foundation's Oregon Impact Fund, for example, provides awards of up to \$3 million to CDFIs in the state working in housing, small business development, or education to leverage and lend on its behalf at low interest rates.

- **Additional public funds from other agencies or smaller jurisdictions** – State or federal investments to launch a CDFI-managed fund can open the door to smaller jurisdictions contributing their own money into an existing pool with certain additional parameters. Oregon's co-location fund could theoretically use capital funds from a city or county ECE program, such as Multnomah County's Preschool for All initiative, to support co-located facilities within the boundaries of the jurisdiction contributing funds. Washington's WELL Fund is currently taking this approach with locally appropriated dollars from King County to support ECE facilities in the Seattle metro area. This can be an attractive model for local entities seeking to stand up ECE facilities funds but that may not have technical capacity to support and monitor borrowers and grantees themselves.

### Possible Challenges and Other Considerations

Perhaps the biggest potential challenge to an approach by which a CDFI or intermediary manages the co-location fund is state procurement processing times, which various state agencies have cited as taking between 3-9 months, on average. If the state chooses to pursue this fund management approach, it should work to expedite the procurement process, as development timelines could further delay short-term deployment of funds. Possible alternatives to intermediary management might include:

1. The state may be able to expedite procurement if it were to grant funds to a philanthropic organization to then contract out to a CDFI. This scenario might also allow the foundation to add in some of its own dollars to the loan pool through its own procurement process.
2. OHCS could manage the fund, but this may reduce the extent to which dollars could be leveraged with private or philanthropic support. This approach would also still require OHCS to hire a staff person to manage the program full-time or contract out technical assistance services with a nonprofit or other organization capable of supporting ECE operators and housing developers as they navigate the complexities of co-located developments.

## Fund Design and Financial Products

As represented in Figure 25 in the section above, Oregon could substantially stretch the total pool of funds available to support co-located developments by partnering with a CDFI and leveraging even half of the \$10 million with private and philanthropic dollars. Loan pools are easier to leverage, but at least a portion of funds should be reserved for direct grants to ECE operators, who often face discrimination or structural barriers to taking on debt. The suggested framework for designing Oregon's \$10 million co-location fund outlined in this section balances the need for flexible, varied financial products that meet the needs of both housing developers and ECE providers.

### Low-Interest Loan Fund

With \$5 million of the \$10 million dollars appropriated for co-location in HB 5011, Oregon should consider establishing a blended, low-interest fund supporting business loans and gap financing for co-located developments. If managed by a financial intermediary, the fund could blend public-, philanthropic-, and private-funded loans to expand the available pool of funds and buy down conventional interest rates, if it makes a project financially feasible.

### *Eligible Applicants*

The loan fund should be open to any affordable housing developers or ECE operators exploring or currently developing a co-located facility. Developers and operators could be for-profits, private nonprofits, or public sector agencies including any of the federally recognized Tribes in Oregon.

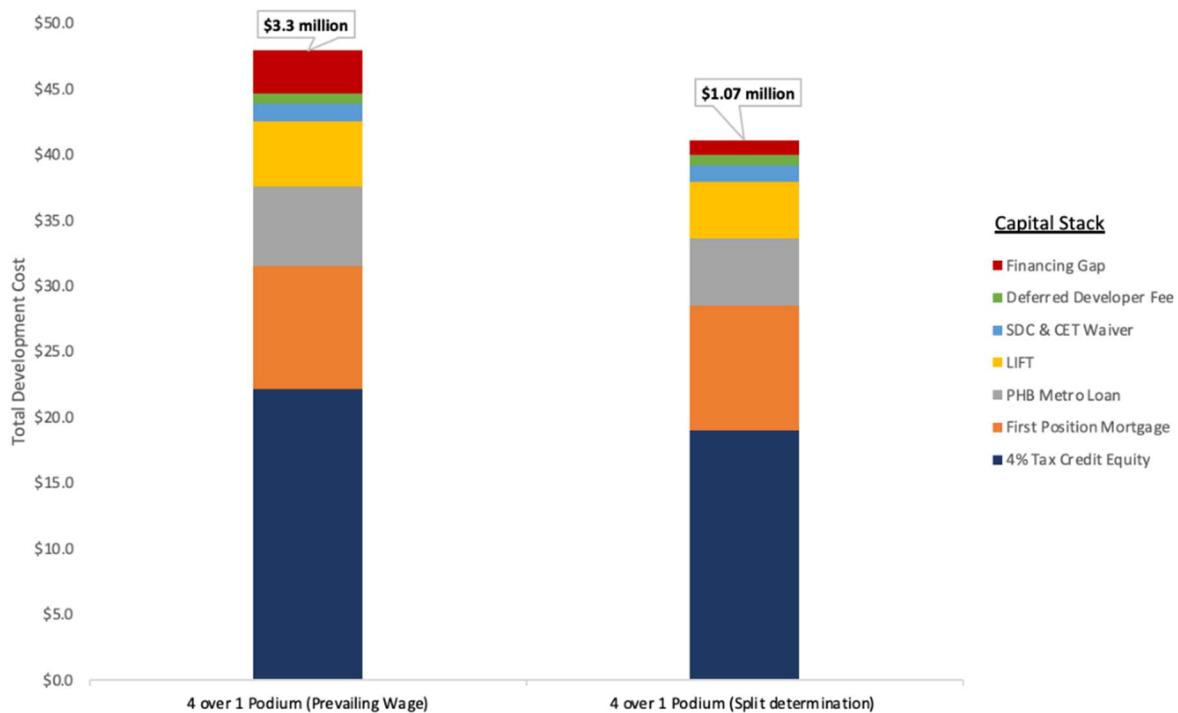
### *Intended Uses of Funds*

So long as an applicant meets organizational and project-based criteria, loans should be available for any planning, business, land acquisition, or capital cost associated with developing housing and ECE facilities. The three most likely scenarios for borrowers include:

1. **New construction projects** – These are likely to be recently awarded or current applicants of 4 percent or 9 percent Low Income Housing Tax Credits that plan to build a new ECE facility and affordable housing development. Loans for these projects would likely help cover any financing gaps associated with the costs to construct the ECE facility space and the resulting PWR cost increase on the development budget.

This type of project is likely the most expensive and least feasible in Oregon's current policy and regulatory landscape. The combination of prevailing wage requirements and the need to build a more expensive construction type (type III wood frame construction over a concrete or steel podium) for the ground floor commercial space, results in a much more expensive project. Figure 26 below demonstrates the potential financing gap associated with a 100-unit mixed-use wood frame over podium construction project that includes space for an ECE facility. One scenario evaluated the entire project subject to prevailing wage, while the other considers split determination, applying prevailing wage only to a standard 5,000 square foot commercial (ECE) component of the project. Assuming prevailing wage accounts for 15 percent higher project costs, the full prevailing wage project is approximately \$6.8 million more expensive. In other words, the finance gap is nearly \$2 million less if a project were to have split determination.

Figure 26 – Capital Stack of a Mixed-Use Type III Podium New Construction Project<sup>53</sup>



Source: ECONorthwest

2. **Preservation projects** – Similar to the case study on the Ochoco School development in Prineville, these projects involve converting an existing building to affordable housing with an ECE center or extending the affordability period on an older LIHTC project that may be approaching the end of its 15-30 year compliance period. Loans for preservation projects could be used to finance the renovation or conversion of an existing ground floor commercial space or separate building within a complex into an ECE facility. Similar to new construction projects, low interest soft debt could be provided to projects with an established MOU between a developer and an ECE provider to fund any financing gap associated with the commercial space and the associated prevailing wage costs (should they apply) regardless of whether the commercial space is included in LIHTC eligible basis.

Preservation projects typically are less expensive than new construction, especially in rural parts of the state but have many of the same funding challenges as new construction projects and similarly are subject to the same prevailing wage requirements. The size of the financing gap for preservation projects will vary quite widely. It will depend on the cost of the project, whether it receives a 4 percent or 9 percent LIHTC award, and the availability of other sources such as LIFT and other local funding programs to finance portions of the project. Any soft debt awarded to incentivize the co-location of an ECE facility and affordable housing on a preservation project should, whenever possible, seek to cover the cost of the ECE facility and associated soft and indirect costs, which may include a portion of the project costs triggered by prevailing wage.

<sup>53</sup> Figure 26 Note: Both scenarios analyze a 100-unit mixed use project with a 5,000 sq. Ft. ECE facility. Costs were gathered from new construction case studies.

3. **Tenant improvements to existing commercial space in affordable housing** – In much of the existing inventory of affordable housing across Oregon, there are vacant or underused commercial spaces that could be retrofitted as ECE facilities. Although ECE operators could be the primary borrowers in the two prior scenarios, tenant improvement projects are the more likely scenario for lending to either housing developers *or* owners of child care businesses. Loans for tenant improvements could support any stage of development, from design and pre-development to construction and fit-out of a physical space.

TI projects may be the most expedient and cost-effective use of co-location funds given Oregon's current requirements around prevailing wage rates. In most cases tenant improvements occur in existing vacant retail spaces attached or adjacent to affordable housing. These projects can require slightly elevated fit-out costs but much lower – if any – costs associated with constructing the core and shell of the facility. Financing 100 percent of costs is not always the most effective approach to leveraging other sources. The state may want to commit to a total cap or a per square foot maximum loan amount and partner with a nonprofit lender to mix public and provide debt to bring down the interest rate on the loan, similar to the sample scenarios outlined in Figure 27 below. This will help ECE providers access low-cost debt and credit and enable them to grow their capacity.

#### *Blending Loans and Leveraging with Other Funds*

With a seed investment of \$5 million and capable manager of the loan pool, the state could realistically double or triple the total funds available to support co-located developments. In other words, for every up-front dollar the state puts in the fund, it could expect to see at least one additional dollar available for lending.

Co-location loans would likely be awarded as two or three separate notes issued to borrowers simultaneously. Figure 27 displays two scenarios for how this process allows for expanding total funds available and offering capital at interest rates significantly lower than private small business loans. Recruiting private investors is common practice of CDFIs when blending state-sponsored loan pools that involves helping banks meet Community Reinvestment Act (CRA) requirements and spreading loans out across 12-15 banks to reduce risk.

<b>Figure 27. Possible Scenarios for Administering Blended Loans to Support Co-Located Developments</b>					
Scenario 1: Blending Public and Private Dollars			Scenario 2: Blending Public, Private, and Philanthropic Dollars		
Source	Principal	Interest	Source	Principal	Interest
State	\$1 million	0.5%	State	\$1 million	0.5%
Private investments	\$1 million	4.0%	Private investments	\$0.5 million	4.0%
			Philanthropic	\$0.5 million	0.0%
<b>Total/Blended Rate</b>	<b>\$2 million</b>	<b>2.25%</b>	<b>Total/Blended Rate</b>	<b>\$2 million</b>	<b>1.25%</b>

Scenario 1 in Figure 27 represents a total loan to a developer or ECE provider valued at \$2 million with a 2.25 percent interest rate. The full value is a combination of two equally valued loans, one provided using

state funds at a 0.5 percent interest rate and the second from private investments at 4.0 percent.<sup>54</sup> Scenario 2 displays how low- or no-interest philanthropic funds invested in the pool could further buy down interest rates. Even if philanthropic investments came with interest rates of 2-3 percent, it could lead to significant savings for borrowers and enhance the ability of the state to stretch funds. Lower interest rates like those outlined in Figure 27 are often critical for ECE providers but may not always be necessary for housing developers, many of whom have significant, reliable cash flow and might be able to support interest rates of 2-4 percent on additional soft debt.

In addition to favorable financing for borrowers, this model could help open up capital to “riskier” borrowers who may not always meet credit and underwriting criteria for private banks. This would be especially beneficial to smaller ECE providers who need help expanding. The WELL Fund in Washington state typically requires that borrowers meet a more standard debt service coverage ratio<sup>55</sup> (DSCR) of at least 1.25 if private dollars are involved, which can be difficult for some ECE operators. To make riskier awards with lower projected DSCRs, the WELL Fund allows borrowers to automatically defer first year payments on state-funded loans as they ramp up enrollment. Lenders can also choose not to use private dollars and instead deploy only public funds blended with philanthropic dollars that may have more risk tolerant underwriting standards.

The proposed loan fund could expand further if city and county officials chose to invest locally generated revenue to support projects within specified jurisdictions. For instance, Multnomah County could give a portion of any dedicated Preschool for All facilities funding to the intermediary to leverage and administer to co-location projects in the Portland metro area. Other jurisdictions across the state with local funding from the American Rescue Plan Act (ARPA) could follow suit by even putting in small allocations of \$1-2 million for the fund administrator to leverage with private financing and re-lend at a larger dollar amount or to multiple projects.

#### *New Construction & Preservation Award Caps*

Flexibility is important when determining an award for any soft debt commitment. Projects costs and financing gaps will vary widely by construction type, geography, level of property renovation or rehabilitation need, and the commitments of other affordable housing and ECE funding programs. Setting a formal cap on a loan program may result in either very few awards or a concentration of co-located developments in specific geographic areas where the right mix of rents, low-density, low land prices, and available public funding exist to make co-location soft debt the most viable path to a feasible development. For new construction and preservation projects, an evaluation of each project’s ability to leverage federal, state, and local sources should take priority. This should help to identify the projects that can make co-location work without the need for any co-location specific soft debt to move forward. This will also help to preserve the funding source for projects that truly need this soft financing.

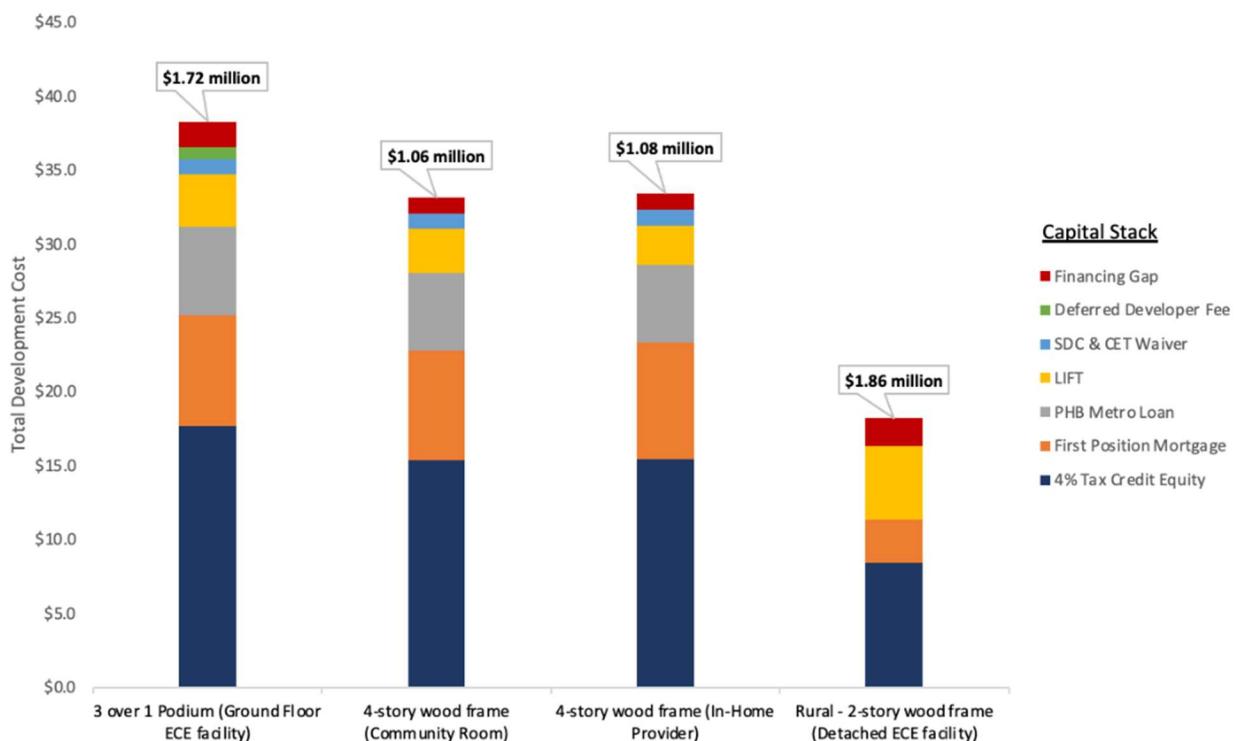
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<sup>54</sup> Note: These interest rates are approximations and would depend on rates to be set by the state and private banks or credit unions.

<sup>55</sup> A debt service coverage ratio (DSCR) is a common measure for assessing an organization’s capacity to take on and cover debt payments calculated as: Net Operating Income / Total Debt Service.

To demonstrate the need to be flexible in award size and the need to leverage other funding sources, Figure 28 below illustrates the financial feasibility of a variety of co-located projects. These scenarios assume prevailing wage requirements. Each scenario assumes no revenue generation from the ECE facility but does assume that it is included in LIHTC eligible basis for being in a QCT. The funding sources included are common to each construction type and its associated geographic region (higher density projects assumed to be located in Portland; lower density suburban or rural). Each scenario with a dedicated ECE facility assumes 5,000 square feet whether it is attached or detached from the housing. Unit counts vary by scenario (3 over 1 podium and 4 story wood frame projects have 80 – 90 units averaging 2-bedrooms; Rural 2-story wood frame project has 47 units and averages 2-bedrooms).

*Figure 28. Financing Gap by Construction Type and ECE Scenario – Full Project Prevailing Wage, QCT<sup>56</sup>*



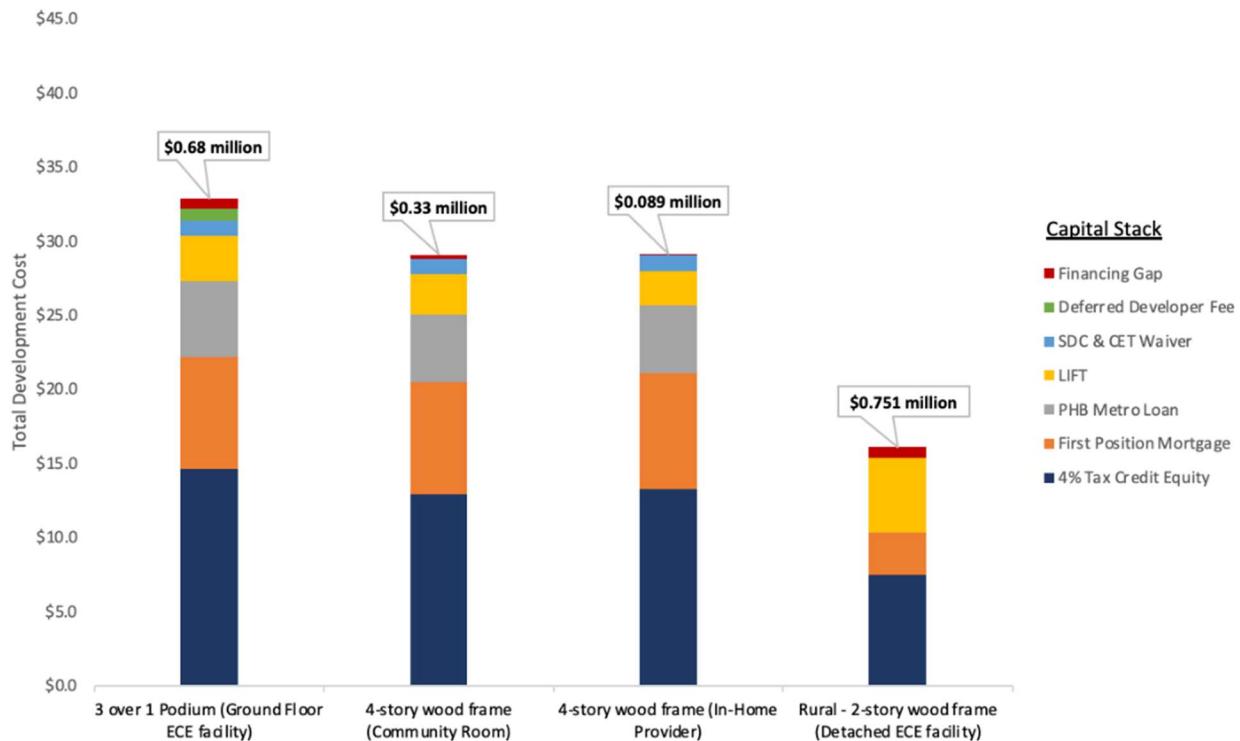
Source: ECOnorthwest

As Figure 28 demonstrates, the financing gap varies moderately ranging from \$1 - \$2 million and in some instances an additional source such as a deferred developer fee or an increase in the LIFT award could help close the size of the gap without a specific co-location funding source.

<sup>56</sup> Figure 28 Note: Assumes 60% AMI rents and 30% basis boost. LIFT funds align with an actual allocation in Portland and for the rural project a near average award based on 2021 OHCS awards. First position mortgage assumes a debt service coverage ratio of 1.2.

Figure 29 evaluates the same typical projects under a different set of assumptions. In this model, the ECE space is excluded from LIHTC basis because developments are assumed to not be located in QCTs. But each project is presumed to still have received the state-provided 30% basis boost for being located in another designated area that OHCS incentivizes development within (i.e., transit oriented district). Unlike Figure 28, this model applies split determination, allowing prevailing wage rates only to be paid on the commercial elements (ECE facility) of the project and not the full mixed-use development.

*Figure 29. Financing Gap by Construction Type and ECE Scenario – Split Determination, Basis Boost<sup>57</sup>*



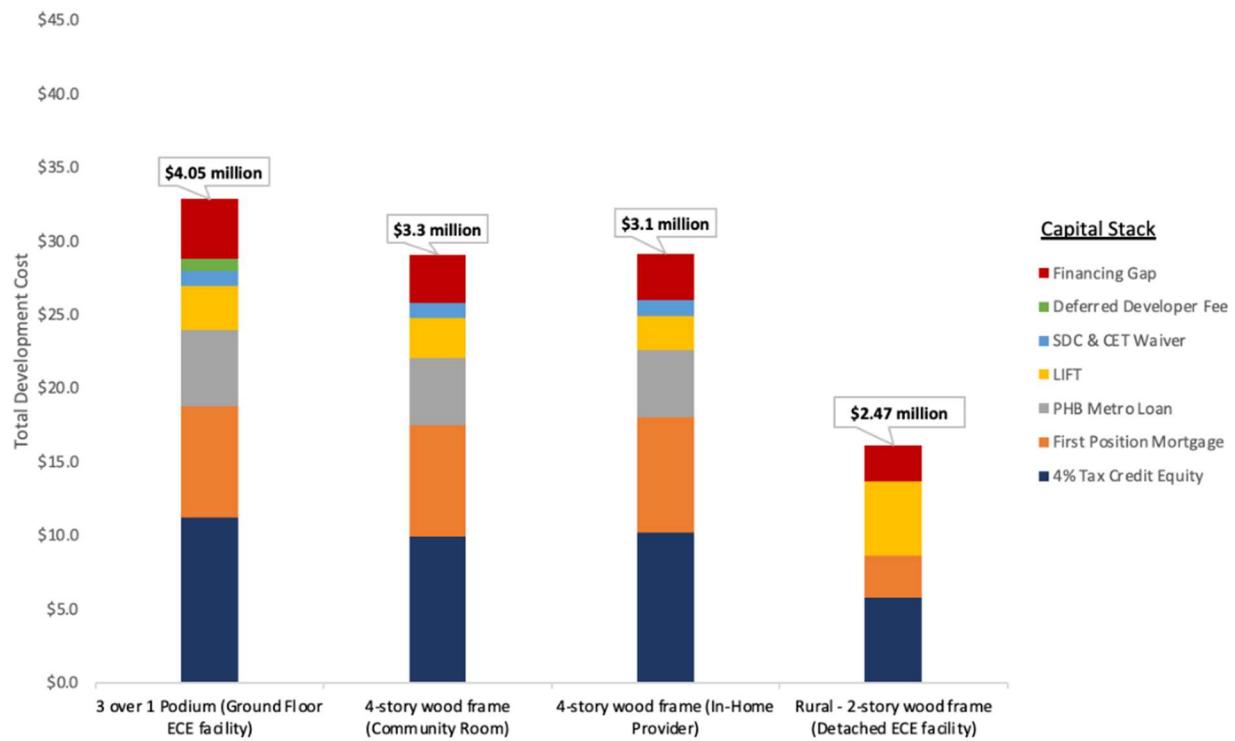
Source: ECONorthwest

Even if the ECE facility is excluded from eligible basis, split determination dramatically reduces the size of the financing gap across all scenarios to a range that is very viable to fund using various gap financing vehicles, whether it is a co-location fund loan, an increase in the award of the existing source, or a small deferred developer fee.

However, as depicted in Figure 30, if these projects were not to receive the 30% boost in eligible basis for being in a designated qualifying area, the size of the financing gap swells to \$2.5 - \$4 million, risking feasibility across all scenarios and requiring additional sources beyond co-location funds to make the scenarios viable. The gap is even more sizable if prevailing wage is applied to the entire projects.

<sup>57</sup> Figure 29 Note: First position mortgage assumes a debt service coverage ratio of 1.2.

Figure 30. Financing Gap by Construction Type and ECE Scenario – Split Determination, No Basis Boost



Source: ECONorthwest

These scenarios demonstrate the need for any gap financing for co-located developments to be flexible in application and award amount for new construction and preservation projects. They also convey the importance of complementing state policies in determining the financial viability of mixed-use affordable housing developments that include ECE facilities. Offering preferences for co-location through LIHTC basis boosts and/or providing for split determination when making prevailing wage determinations could dramatically expand the pool of developers with capacity and funds to reasonably use co-location gap financing.

#### Tenant Improvement Award Caps

The state should approach tenant improvement (TI) loans with similar flexibility to new construction and preservation deals, but total need for these projects will likely be much less. This is primarily because TI projects occur in already built spaces and thus would not require significant new project costs related to paying prevailing wage rates to cover the full cost of a residential building. PWR would only apply if the TI work used more than \$750,000 in public funds. Some projects may be able to stay under this threshold, but even for larger facilities with needs in the \$1-4 million range, PWR would pose much less risk to the financial viability of the project. Rather than setting hard caps on TI co-location loans, the fund manager should evaluate a full proposal and need for soft debt. Skilled lenders with a built out pipeline of projects could then reasonably prioritize projects that balance costs per square foot (e.g., \$200-500) with a project's likelihood of having a high impact in a region with severe supply shortages or that intends to serve high-need populations.

## **Grant Pool**

The other half of state co-location funds should be used for passthrough grants the intermediary can send primarily to ECE operators for two primary purposes: (1) any reasonable costs associated with pre-development, land acquisition, design, or construction of co-located facilities and (2) repair and renovation of existing units of affordable housing to accommodate Family Child Care homes.

## *Eligible Applicants*

For this fund, the state should consider restricting grants to ECE operators seeking to expand or open new facilities within housing developments. This supports equity priorities, as operators struggle much more than developers do in finding and securing capital to support facilities projects. It also gives ECE operators a source of leverage in negotiating with developers to ensure they are involved in and helping lead the design and planning phases of the development. Repair and renovation grants for Family Child Care homes could flow to operators or developers but may be easier for developers to manage given the residential nature of the facilities and the ownership stake they likely have in the properties.

## *Intended Uses of Funds*

The initial \$5 million tranche of funds for this grant pool should primarily be used for grants supporting facilities projects of providers, as this presents a much more significant cost than minor repairs and renovations to existing housing units likely do.

1. **Co-location development and fit-out grants (\$4.5 million)** – A persistent need identified throughout interviews and stakeholder engagement was the need for grants to support ECE operators throughout all parts of facilities projects. This pool of funds would be used for direct grants to providers to cover any design and pre-development, land or building acquisition, construction, or fit-out costs exploring or working on co-location projects. Grants are meant to cover the full range of needs for providers, from hiring an architect to support facility design to paying contractors to retrofit commercial spaces as ECE facilities. Other possible uses of funds might include: Assessing a site for development, covering legal or other fees associated with zoning and permitting processes, paying for equipment and construction costs, purchasing furniture and supplies before opening, etc.

These grants to providers could also be packaged with loans provided through the co-location loan fund. For example, the fund manager could offer a small grant to a provider to use for a down payment on a loan, addressing a major up-front barrier for small or BIPOC providers while also helping them build credit history and development experience for future work. With only \$4.5 million available, grants could be used on a small number of projects or spread out across many different ones. There are obvious benefits to fully funding the construction of a new facility that would otherwise not be built, but the state should also be sure reserve some of these funds to help with smaller pre-development and under-the-radar costs that can often prevent providers from even considering the possibility of expansion.

2. **Family Child Care Home Repair and Renovation (\$500,000)** – These would represent much smaller awards to help cover minor expenses for affordable housing developers seeking to recruit a new FCC provider to a development or support one currently operating at one of their buildings. Developers could use grants to cover various costs to improve the abilities of FCC providers to care for children,

such as purchasing a washer and dryer for the unit, adding insulation or sound proofing materials, upgrading kitchen facilities, or enhancing outdoor space for children. In order to receive funds, developers would need to commit to leasing the upgraded unit to a current or prospective tenant with a home-based child care business for at least 5 years.

#### *Fundraising to Expand*

Like the loan fund, the fund manager could raise additional public or philanthropic funds to expand this pot of money. For instance, a philanthropic organization focused on a particular service area (e.g., rural communities) could provide funds for additional passthrough grants for pre-development or FCC repair and renovation, or a city could appropriate some general funds to a specific project to cover fit-out costs.

#### *Award Caps*

Need for facilities grants among ECE operators will range dramatically given the proposed projects. Typical pre-development costs could range from \$60,000 - \$120,000 depending on scope of services and need.<sup>58</sup> Estimating construction or fit-out costs depend heavily on the square footage of the facility and estimated child capacity. Figures 31 and 32 show results of a cost model for newly constructed ECE facilities and tenant improvement projects, respectively.<sup>59</sup> Both models assume an ECE center that intends to serve 50 children and display a range of total estimated project costs from low to high.

Although estimates for base licensing are displayed in each figure, the state should seek out projects that meet at least the “workable quality” level, which provides more indoor and outdoor space for children and ensures sufficient room for developmentally appropriate and high-quality activities. Each model intends to estimate typical costs of ECE facility development before accounting for any costs that may be eligible to include in LIHTC basis, an important factor for fund managers to consider given that some new construction co-located developments that do not qualify as Community Service Facilities or for 30% basis boosts may need to cover full costs depicted in Figure 31. Tenant improvement projects are unlikely to be included in LIHTC basis, so figures presented in Figure 32 represent projected capital providers and developers might need to raise to complete the build out.

**Figure 31. ECE Facility Cost Estimates for a Center Serving 50 Children, New Construction<sup>60</sup>**

	Base Licensing		Workable Quality		Best Quality	
	Low	High	Low	High	Low	High
<b>Indoor</b>	\$1,140,000	\$1,900,300	\$1,300,000	\$2,167,000	\$1,585,000	\$2,642,150
<b>Outdoor<sup>61</sup></b>	\$128,750	\$362,500	\$250,000	\$708,333	\$500,000	\$1,416,667
<b>Total</b>	\$1,268,750	\$2,262,800	\$1,550,000	\$2,875,333	\$2,085,000	\$4,058,817
<b>Per Child</b>	\$25,375	\$45,256	\$31,000	\$57,506	\$41,700	\$81,176

<sup>58</sup> Source: 2022 pre-development grant caps for the San Francisco Child Care Facilities Fund (CCFF).

<sup>59</sup> Combined indoor and outdoor gross facility square footage estimates for Figures 30 and 31 are: Base Quality (6900), Workable Quality (10,417), and Best Quality (17,083). Both models assume staggered outdoor schedules so that outdoor square footage is only required to accommodate one-third of the center’s total capacity.

<sup>60</sup> Low estimates in Figure 30 assume indoor construction costs of \$300 per square foot and outdoor of \$145 per square foot. High estimates assume \$500 per square foot indoor and \$425 per square foot outdoor.

<sup>61</sup> Outdoor costs include play equipment, green space and landscaping, and parking.

**Figure 32. ECE Facility Cost Estimates for a Center Serving 50 Children, Tenant Improvement<sup>62</sup>**

	Base Licensing		Workable Quality		Best Quality	
	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
<b>Indoor</b>	\$840,000	\$1,398,600	\$960,000	\$1,598,400	\$1,152,000	\$1,918,080
<b>Outdoor</b>	\$109,250	\$302,260	\$212,500	\$591,200	\$425,000	\$1,182,400
<b>Total</b>	\$949,250	\$1,700,860	\$1,172,500	\$2,189,600	\$1,577,000	\$3,100,480
<b>Per Child</b>	\$18,985	\$34,017	\$23,450	\$43,792	\$31,540	\$62,009

Both Figures 31 and 32 show how much construction and building costs can vary for ECE facilities, and even the high estimates may not fully reflect actual costs in expensive regions like Portland.<sup>63</sup> In designing the co-location fund, the state should therefore be flexible considering actual needs of facilities and seek out high-impact projects (see the Criteria for Selection section on how to evaluate impact) that may otherwise struggle to secure capital for the build-out of an ECE facility. To ensure sufficient spread of funds across the state, though, fund managers should consider capping grants for build-out of an ECE center around \$2 million. For smaller or larger centers than those depicted in the above models, the state could use a per child formula to award grant funds, potentially capping per child allotments at \$40,000 - \$60,000 for new construction projects and \$25,000 - \$50,000 for TI projects.<sup>64</sup>

Given cost estimates and current resources, the co-location grant pool might support the build out of 2-5 ECE centers, but the fund manager should ensure to reserve a portion of the pool (at least \$500,000 total) to provide pre-development awards in the range of \$25,000 - \$100,000. Such awards will be critical in laying the ground work for future projects in the development pipeline. Especially if Oregon were to appropriate a broader ECE facilities grant program for all providers – regardless of whether they are seeking to co-locate with a housing developer – the purpose of these funds could be adjusted to almost exclusively support pre-development costs.

Family Child Care home renovation and repair grants will likely be more difficult to determine caps for, but a formula could assume costs of \$2,000 - \$5,000 per child for repair and renovation of units. A reasonable total award cap for these funds might therefore fall in the \$20,000 - \$50,000 range, assuming mostly Registered Family Child Care homes (RF) will be eligible and have a maximum capacity of 10 children. These funds should be allocated based on actual costs of repairs.

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<sup>62</sup> Figure 31 mirrors cost assumptions in Figure 30 but assumes limited or no costs associated with the development of a core and shell for the facility. Fit-out costs in TI and adaptive reuse projects tend to be higher than new construction, so the model assumes 20% hikes in indoor costs per square foot for indoor construction that is required.

<sup>63</sup> Of note, indoor ECE construction costs in similar cities like San Francisco have recently shown to max out at \$600-800 per square foot.

<sup>64</sup> Note: Some TI projects may require additional expenses to retrofit or upgrade the building's core and shell, a factor not accounted for in the model shown in Figure 31. In these instances, the fund manager might consider making exceptions to increase per child formula caps.

## Criteria for Selection

A common theme shared by stakeholders in developing this report was the need to maintain flexibility when designing and setting criteria for Oregon's co-location fund. Development timelines can be unpredictable, and the ability of an intermediary to track a statewide pipeline and make awards against all other projects in need of funding offers a unique opportunity to flexibly evaluate projects based on which will occur in areas of most substantial need, development timelines, and other factors. This section includes considerations on setting preferences for applicants the fund manager should use to holistically evaluate the state's pipeline of co-located projects.

### *Commitment to Serving Low-Income Families*

Anyone seeking to borrow or secure grant funding from Oregon's co-location fund should be required to commit to serving a significant portion (at least 20-30%) of low-income families at the ECE facility. Projects proposing to serve more low-income families or that make strides to integrate ECE classrooms with low- and moderate-income children should be prioritized.

### *Preference for High-Impact Projects*

Without setting formal scoring criteria for applications, the fund should preserve flexibility by prioritizing pipeline projects with at least the following benchmarks:

- **Areas with severe housing and ECE needs** – Proposed developments in jurisdictions with large populations of vulnerable children and families, or which have significant ECE and housing supply deficits, should be prioritized. Figures 16, 19, and 20 in the *Location Considerations* section of this report outlines a potential initial methodology for evaluating a county's need for high-quality ECE and housing facilities. However, even more localized data should be used to account for within-county variation (i.e., to still prioritize certain smaller high-need jurisdictions in counties with relatively less need overall).
- **Commitments to serving target populations** – Projects in the statewide pipeline that plan to serve large proportions of BIPOC and limited English proficient (LEP) families and children, households below 200% of the federal poverty line, single-parents, infants and toddlers, and/or children living in rural communities should generally be prioritized.
- **Co-Location with Family Developments** – The state should also ensure that the fund manager considers the unit mix and type of housing, specifically by mirroring OHCS' stated priority for allocating LIHTC funds to family-oriented developments with larger units and more three- and four-bedroom apartments.
- **Tenant Improvement Projects** – At least within current context of prevailing wage policies and land use regulations, projects proposing tenant improvements to existing commercial space in affordable housing are likely to proceed on much faster and more affordable timelines. This may not be a preference outlined in statutory design of the program, but lenders should prioritize immediate child care facilities needs and look for tenant improvement projects as potential quick vehicles for supply-building.

### *Project Readiness*

In evaluating the development pipeline and selecting projects for funding, the state should also instruct the fund manager to preference those that are closer to "shovel ready." Some characteristics for assessing how close a project is to breaking ground include:

- **LIHTC allocation or soft commitment** – Projects that have been awarded LIHTC allocations or soft commitments for funding but that are still in need of additional gap financing.
- **Tenant improvement projects** – Proposals for retrofitting existing commercial spaces for ECE facilities that have secured other forms of financing, conducted fire and child care licensing inspections or meetings, and/or have signed formal MOUs.
- **Zoning** – Project proposals or existing developments located on sites where ECE facilities and mixed-use residential buildings are allowed by-right, or where the developer has made significant progress in applying for conditional use permits.

## Program Evaluation

The legislature and other stakeholders should require meaningful reporting on the activities and successes of projects funded through the HB 5011 fund and any similar future funding streams. Developing a robust evaluation plan depends critically on program priorities and goals—the details of which have yet to be determined for this fund. Nonetheless, planning for good evaluation should begin as soon as possible. The broad arc of evaluation design should follow three key steps:

1. **Conceptualize the monitoring and evaluation system.** This would involve collaboration with program staff to articulate a vision for the program evaluation, including detailed performance metrics, key audiences for monitoring and evaluation products, and the benefits the system should deliver (for example, is a continuous improvement process needed or simply a report to the legislature?). This work would include several components, some of which could proceed in parallel:
  - **Operationalize key goals identified for the fund.** The goals may embody a range of specificity and ambition and may require similar variation in outcome metrics. The focus should be on defining outcomes that are measurable given anticipated data availability while acknowledging the possibility of better measurement with enhanced data collection. Example metrics could include the number of projects and child care slots enhanced, preserved, or created; and the amount and type of additional funding leveraged. Output from this process should include a logic model that links the theory of change suggested by the fund's origins to a draft set of concrete outcomes to be monitored.
  - **Seek community input.** A robust community outreach phase to collect input from a broad cross-section of affordable housing tenants, developers, ECE providers, and other stakeholders and priority populations would help confirm the validity and utility of the logic model.
  - **Develop a communication plan.** At a minimum, monitoring should inform program staff about possible successes and potential areas for program improvement (e.g., lessons learned from each award cycle), while more-rigorous evaluation could help internal and external stakeholders understand the value of the fund. Ideally, this design phase would include focused conversations with program staff and other stakeholders to define the intended users of evaluation reports and how each group (legislators, OHCS staff, ELD staff) should interact with, and act upon, these outputs.
2. **Identify data sources and collect baseline data.** The state already has a wealth of information on ECE capacity and affordable housing need, although holes remain. Confirming the availability and quality

of data identified as necessary in earlier steps is critical to successful evaluation. This work might identify feasible improvements to existing data sources that would strengthen monitoring and evaluation. Draft outcome measures calculated from available data could also suggest adjustments to the plan (e.g., if results are difficult to interpret or counter-intuitive).

3. **Draft a data collection and analysis plan.** A detailed plan for data collection, management, and analysis that anticipates both short- and long-term needs will support successful implementation of the evaluation. A variety of evaluation methods may prove feasible (e.g., qualitative interviews regarding program operations and quantitative evaluation of co-located ECE performance metrics such as funded facilities' financial positions or slot vacancy rates). Consideration of the strengths and weaknesses of potential evaluation methods will help to align methods with the goals of the evaluation. This step could also include drafting sample evaluation reports and piloting them with intended audiences to solicit input on making these products as simple, understandable, and actionable as possible.

# Section 4: Other Policy Strategies to Encourage Co-Location

Even beyond direct appropriation to co-located developments, Oregon has various other tools for incentivizing partnerships between affordable housing developers and ECE operators. This section includes various policy recommendations beyond the design of the co-location fund that might make the use of funds more efficient and the landscape for co-locating easier even without new public funding streams.

## Prevailing Wage Determinations

A clear barrier to co-location is the added costs associated with the physical construction of mixed-use developments. In general, affordable housing construction in Oregon is exempt from prevailing wage requirements (PWR) if it is under four stories and has no commercial space. Adding any space in a development for commercial purposes triggers PWR on the entire development, which can raise total development costs by millions of dollars or 10-30%. The state's Bureau of Labor and Industry (BOLI) considers all ECE facilities commercial space, including home-based child care. This often makes co-location prohibitively expensive on its own and could cause inefficiencies in the state's distribution of the \$10 million co-location fund.

Prevailing wage laws have historically and continue to serve legitimate and important purposes in ensuring governments do not misuse purchasing power to drive down wages on major public works projects like bridges and roads. However, the scope of these projects differs greatly from an ECE facility, of which there is an extreme shortage and anticipated provider profit margins – especially in facilities serving low-income families – are unlikely to be exorbitant.

Some potential remedies to barriers and inefficiencies related to PWR include:

1. **Offer a blanket waiver to PWR for developers interested in co-locating with all types of ECE facilities.** ECE facilities operate on tight margins and provide clear public services for young children and their families. BOLI could update policies so that mixed-use housing developments proposing to partner with any kind of ECE facility can pay market rate wages to contractors. Parameters could be set to tailor waivers so that only nonprofit providers or providers using public funds to enroll large proportions of low-income children are eligible for waivers.
2. **Offer a waiver to PWR specifically for developers co-locating with Family Child Care homes.** Child care licensing and state and local land use authorities across the state classify home-based ECE facilities as residential entities, but BOLI has ruled that any additional accommodations to specific units for Family Child Care providers trigger PWR on the entire development. Even if commercial center-based providers continue to trigger PWR, waivers could be provided for developments including marginally altered units for Family Child Care providers, which generally do not require additional space other than the residential units already being developed.

3. **Allow for split PWR determinations in mixed-use developments.** Many affordable housing developers made clear in interviews that they are not deterred by PWR on the commercial space in mixed-use developments but applying requirements across the entire project makes financing difficult. BOLI could bring back its former standard of offering split determinations to mixed-use affordable housing developments so that developers could pay PWR on the commercial space (ECE facility) but not on the residential space (units of housing).

## Housing and Community Development Policy

The state of Oregon continues to be a national trailblazer in investing in and supporting affordable housing programs. With tweaks to some existing programmatic priorities and policies, it could further incentivize co-location of ECE and affordable housing through housing programs.

1. **Add co-location with ECE facilities as a scoring criterion in the state's Qualified Allocation Plan (QAP), which governs funding rounds for Low Income Housing Tax Credit awards.** Twenty other state housing finance agencies across the country have made this type of regulatory tweak to broadly encourage co-location in affordable housing development and/or proximity to ECE facilities.<sup>65</sup> Especially to complement OHCS' focus on incentivizing projects with larger, family-oriented units, adjusting QAP scoring criteria to support those that provide space for ECE facilities could be a natural evolution in policy.
2. **Make co-located developments eligible for LIHTC basis boosts.** Basis boosts allow OHCS to increase eligible subsidy provided to developers for LIHTC projects by 30%, ensuring that tax credits cover more of the total project costs for developers proposing projects in priority areas or planning to offer certain services to residents. The state already identifies a host of priorities for which it awards these boosts to LIHTC allocations.<sup>66</sup> Adding co-located developments to this list would make projects that add needed affordable housing and ECE facilities outside of QCTs and areas of concentrated poverty more financially feasible.
3. **Streamline other forms of state affordable housing gap financing to support co-located developments.** Flexible gap financing programs, such as LIFT, GHAP, and HDGP, could prioritize projects with funding needs that are proposing space for or build out of ECE facilities.
4. **Prioritize co-located ECE facilities during Community Development Block Grant (CDBG) funding rounds.** Especially in rural parts of the state, CDBG funds have proven to be valuable sources of capital for ECE operators seeking to co-locate with housing or open new facilities. Large CDBG allocations can also have a domino effect for providers in regions with limited development, helping investors and potential partners see the potential of a development and expanding an

<sup>65</sup> Hammond. (2021). *Building Better for Families: Policy Strategies for the Co-Location of Early Care and Education Facilities and Affordable Housing*. Low Income Investment Fund and National Children's Facilities Network.

<sup>66</sup> See p. 30 of the [2022 Oregon QAP](#) for a full list of basis boost priorities. Notable priorities include: rural and tribal developments, preservation projects, affordability for very low income individuals and individuals experiencing homelessness (e.g., permanent supportive housing), and sites located near transit or in low-poverty areas.

operator's ability to raise additional funds. Business Oregon manages state CDBG funds and could update funding guidelines to support ECE facility development.

5. **Consider earmarking revenue from local or regional tax ordinances for investments in the state Co-Location Fund.** Similar to how King County, Washington, has set aside a portion of anticipated new sales tax revenue from transit expansion projects, localities across the state changing revenue policies or expecting growth in tax rolls should consider setting aside portions of funds to invest in co-located facilities via Oregon's Co-Location Fund. Locally appropriated dollars would be restricted to certain geographic areas but could be significantly leveraged and stretched within the proposed fund structure.

## Early Care and Education Policy

Various changes to existing ECE funding programs and coordination across local early childhood systems and initiatives could further expand the appetite for developing affordable housing and ECE facilities in tandem. Some that state and local entities might consider include:

1. **Create a dedicated stream of grant funding for ECE operators to develop, expand, or improve physical facilities regardless of co-location.** ECE businesses face severe barriers to accessing traditional forms of capital to help with facilities improvements, a trend that a growing number of states have recognized and responded to by appropriating millions of dollars for facilities. Oregon's \$10 million co-location fund is a valuable start for state support of ECE facilities, but the fund will be restricted to specific types of facilities projects, and much more is needed to expand supply of high-quality early learning facilities statewide. A dedicated pool of grant funds for ECE operators to support pre-development, construction, and other aspects of facilities development would also serve to enhance the impact of co-location incentives by elevating the number of providers around the state with the capacity and financing to partner directly with housing developers.
2. **Redirect some Employment Related Day Care (ERDC) funds to offer grants and contracts to ECE providers, prioritizing those interested in expanding to a co-located facility.** Oregon currently uses most of its federal Child Care Development Block Grant (CCDBG) funds to support individual families with child care subsidy vouchers they can use at centers or home-based programs of their choice. This makes financial planning difficult for ECE providers, as subsidy payments are made based on a child's enrollment. A number of states have begun to offer contracts to providers to set aside slots for subsidy-eligible children.<sup>67</sup> This makes funding more consistent for providers and allows the state to use child care voucher dollars to incentivize certain types of programs, such as those that serve infants and toddlers, meet quality benchmarks, or are co-located with

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<sup>67</sup> Workman. (2020). *Grants and Contracts: A Strategy for Building the Supply of Subsidized Infant and Toddler Care*. Center for American Progress.

affordable housing developments.<sup>68</sup> The state should consider using more of its ERDC funds to offer contracts to providers seeking to enroll low-income children.

3. **Create a pilot program through ERDC, Preschool Promise, or other state ECE programs to offer project-based ECE vouchers to housing developers seeking to develop co-located facilities.** Even for ECE providers that are able to secure a public contract for enrolling income-eligible children, awards are often given long after they have found a facility to use. This makes planning for facilities development difficult, especially those within larger residential projects that can take years to finish. Housing developers interested in co-location also struggle to finalize plans without commitments from providers. Oregon should consider investing in a pilot program that mirrors project-based housing voucher initiatives which involve awarding contracts for housing vouchers to developers during planning processes. With a project-based ECE voucher program, state agencies could award ECE operating contracts to housing developers during pre-development and design so long as they find an ECE provider to use the contract in their facility once construction is complete.
4. **Continue to increase child care subsidy reimbursement rates so that providers receive sufficient funding that covers the true cost of providing care.** Oregon is in the process of transitioning to an approved alternate rate setting structure for setting the rates of its child care subsidies. By 2024, the state plans for rates to be determined by operating costs rather than market price. This policy change aims to benefit families and more equitably reimburse child care providers, regardless of their geography, for the actual cost of providing quality care.<sup>69</sup>
5. **Update state child care licensing regulations to allow Certified Family (CF) Child Care Homes in apartments and denser housing developments.** Licensing requirements currently state that larger Family Child Care homes must be located in single-family dwellings. For most affordable housing developers, this reduces total potential impact of plans to co-locate with home-based providers by a capacity of at least 6 children per unit. The state should allow CF providers to use any spaces that meet licensing requirements, regardless of whether they are in single-family subdivisions or dense apartment complexes.
6. **Take state or local action to make ECE an allowable use “by right” in residential and commercial land use zones.** Zoning and conditional use permitting processes artificially constrain the appetite for developing co-located facilities by adding months and potentially hundreds of thousands of dollars to development plans. Similarly strict parking code standards often mandated through local zoning can increase the cost of co-location. The Oregon legislature could pass a bill synonymous for ECE providers with 2021 SB 8, which requires that affordable housing be allowed by right statewide in all residential and many non-residential zones. Localities could also change policy specifically to allow ECE facilities to be developed in all residential and commercial zones

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<sup>68</sup> Administration for Children and Families. (2016). *Using Contracts and Grants to Build the Supply of High Quality Child Care: State Strategies and Practices*. National Center on Child Care Subsidy Innovation and Accountability and State Capacity Building Center.

<sup>69</sup> Oregon Department of Education Early Learning Division. (2022). *Child Care Cost of Quality Study and Impacts of HB 3073*.

and reduce parking requirements. The City of Seattle set a nationwide precedent for this in 2020 with its *Child Care Near You* ordinance, allowing ECE facilities by right in all residential zones.<sup>70</sup> This would reduce long delays and uncertainties associated with applying for conditional use permits for co-located developments.

7. **Dedicate funding to Early Learning Hubs, Child Care Resource and Referral agencies, or other intermediaries to support ECE provider business networks.** As noted throughout this report, networks to support business models and expansion planning can be of enormous value to smaller providers. Small levels of state funding to support these networks could aid in broader co-location efforts by building capacity and connecting motivated, high-quality ECE providers to housing developers interested in partnering.
8. **Continue to explore methods for helping ECE operators blend and braid subsidy contracts to ensure alignment with housing programs.** The state should continue to examine and study how ECE operators use Preschool Promise, OPK, and Head Start together to fund multiple classrooms and slots for children from varying income bands. Guidance and technical assistance on innovative use of various funding streams could help providers seeking to co-locate prove to housing developers that target populations align with those of the housing development.
9. **Efficiently allocate federal funds for replacing lead pipes and paint in ECE facilities and K-12 schools.** Congress recently approved the Infrastructure Investment and Jobs Act, which funds the Reducing Lead in Drinking Water and Lead Contamination in School Drinking Water programs states will administer to support health and safety in education facilities. Various philanthropic organizations in the state have invested heavily in these arenas to support pipe replacements and lead abatement programs in child care facilities. Swift and effective rollout of federal dollars for these purposes could free up philanthropic funds to support broader ECE facilities projects, including those that are co-located.

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<sup>70</sup> Seattle Council Connection. ([2020](#)). *Councilmember Strauss' Child Care Near You Ordinance Passes*.

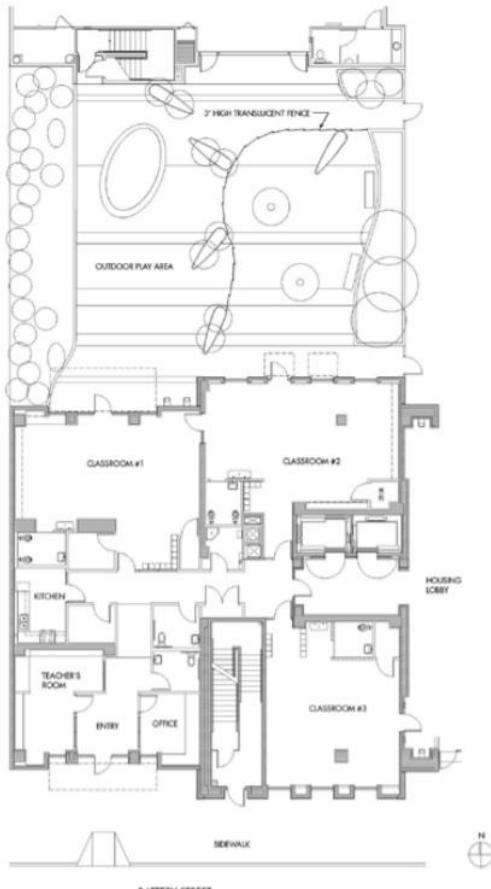
## Appendix A: Stakeholder Interview and Survey List

Findings and recommendations in this report are informed by a stakeholder engagement process that occurred through both in-depth interviews and surveys. This appendix includes a full list of organizations that participated in interviews or who gave feedback through surveys.

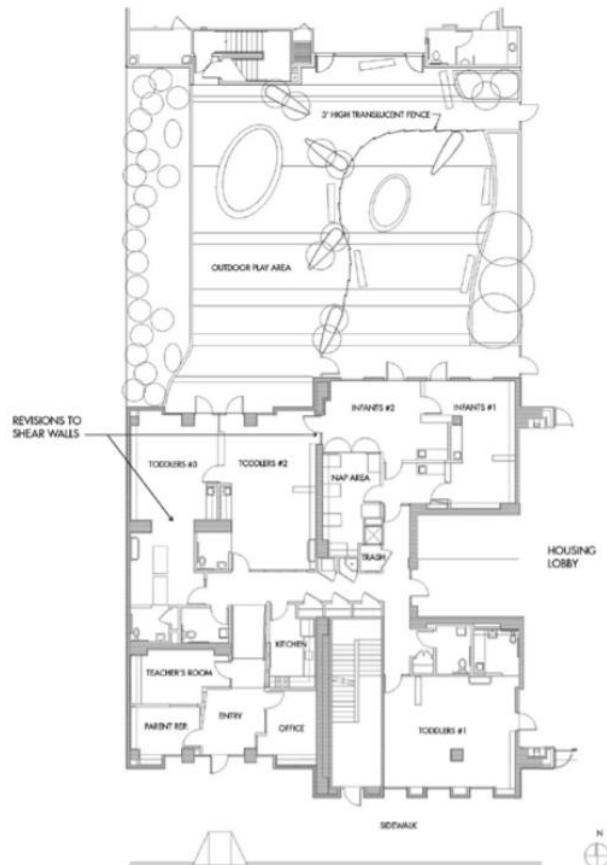
- AllCare Health CCO
- Blue Mountain Early Learning Hub
- Burns Paiute Tribe
- Child Care Partners (Resource and Referral Agency of Gilliam, Hood River, Sherman, Wasco, and Wheeler counties)
- Children's Institute
- Child Care Resource and Referral of Clackamas County
- Community Action Washington County
- Confederated Tribes of the Grand Ronde
- Confederated Tribes of the Umatilla Indian Reservation
- Coquille Indian Tribe
- Craft3
- Douglas Education Services District Child Care Resource and Referral
- Early Learning Hub of Clackamas County
- Early Learning Multnomah Hub
- Early Learning Washington County
- Eastern Oregon Child Care Resources
- Enterprise Community Partners
- Family Nurturing Center
- Ford Family Foundation
- Hacienda CDC
- Harney Education Service District
- Head Start of Lane County
- HomeForward
- Housing Development Center
- HousingWorks Innovative Housing, Inc.
- Oregon State Legislature, District 5
- James and Marion Miller Foundation
- Katie's Daycare
- Kozy Kids Enrichment Center
- Lane Early Learning Alliance
- Lora and Marin Kelley Family Foundation
- Marion County Housing Authority
- Mid-Columbia Housing Authority
- Mid-Willamette Valley Community Action Agency
- Miss Ann's Kiddie Korner
- Multnomah County Preschool for All
- Native American Youth and Family Center
- Neighborhood House
- NeighborImpact
- NeighborWorks Umpqua
- Northwest Regional Child Care Resource and Referral
- Oregon Community Foundation
- Oregon Head Start Association
- Oregon Impact Fund
- Oregon Child Development Coalition
- Oregon Department of Land Conservation and Development
- Oregon Bureau of Labor and Industry
- Oregon Early Learning Division
- Oregon Housing and Community Services
- Oscar and Elsa Mayer Family Foundation
- Rogue Community Health
- Rose CDC
- Roseburg Professional Child Care
- Roundhouse Foundation
- Social Venture Partners
- South Coast Regional Early Learning Hub
- Southern Oregon Early Learning Services
- Umatilla County Housing Authority
- Umatilla-Morrow Head Start, Inc.
- United Way of the Columbia-Willamette
- Washington Community Reinvestment Association
- Wishcamper Development Partners
- Yamhill Early Learning Hub

## Appendix B: Sample Schematics for Co-Located ECE Facilities

Schematics below show sample indoor and outdoor design of co-located facilities serving infants, toddlers, and preschoolers. Designs are pulled from the Low Income Investment Fund's (LIIF) ECE Facilities design guide, [\*Quality Environments for Children\*](#).



Sample Preschool Plan



Sample Infant/Toddler Plan

## Appendix C: Housing and Other Programs to Support Co-Location

This appendix includes brief overviews of some public programs that can be used to support the physical development of co-located ECE and affordable housing facilities.<sup>1</sup> The Low Income Housing Tax Credit (LIHTC) is by far the largest source of subsidy in Oregon and nationally for constructing affordable housing, but other resources identified on this page could be important forms of gap financing to make units affordable at lower income bands, ensure housing for certain high-need populations, and support construction in communities where construction and land costs may exceed state averages. The list also includes a handful of resources not identified in Appendix D that could support ECE facilities in co-located developments, in particular.

**Low Income Housing Tax Credit (LIHTC).** The largest federal affordable housing development program, LIHTC is a dollar-for-dollar tax credit for affordable housing investments. Developers seeking to construct, rehabilitate, or preserve affordable housing compete for tax credit awards based on priorities and scoring criteria of state housing finance agencies, generally outlined in a state's Qualified Allocation Plan (QAP). Investors purchase tax credits from developers in exchange for up-front capital needed to physically construct housing. Depending on the type of project and funding round, LIHTC awards are designed to cover 30-70 percent of total development costs.

**Local Innovation and Fast Track (LIFT) Rental Program.** LIFT is a state gap financing loan program designed primarily to support LIHTC-funded projects. Awards are used to help developers overcome financial barriers associated with constructing affordable housing that is family-oriented (e.g., with larger units), located in rural communities, or intended to house historically underserved populations (e.g., communities of color). When awarded with LIHTC, LIFT funds mirror LIHTC requirements.

**General Housing Account Program (GHAP).** Grants and loans are provided through GHAP to fill financing gaps and support pre-development expenses for housing construction or rehabilitation projects designed to serve low and very low income households.

**Housing Development Grant Program (“Trust Fund”).** Trust Fund awards support affordable housing construction with grants up to \$500,000. Developers seeking to provide innovative services for residents – including child care – are generally prioritized.

**Community Development Block Grant (CDBG).** The US Department of Housing and Urban Development (HUD) provides annual CDBG award allocations to state and local public agencies to sub-grant for public works, housing, and community development projects that primarily serve low and moderate income individuals. The state of Oregon manages the CDBG grant application process for small jurisdictions, and many larger urban cities and tribal communities (through the Indian Community Development Block Grant program) receive their own awards.

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<sup>1</sup> Note: this list is not meant to be inclusive of every state resource supporting affordable housing development. Overviews of all OHCS programs for affordable housing can be found [here](#).

**Indian Housing Block Grant (IHBG).** Federally recognized tribes and their tribally designated housing entities receive annual housing funds from HUD to support housing development, rehabilitation, housing services for families and individuals, and other activities relevant to developing and supporting affordable housing for Native Americans.

**New Markets Tax Credit (NMTC).** The US Department of Treasury allocates New Markets Tax Credits to bring private investments in business, housing, health, education, child care, etc. to low-income communities. NMTC operates by allowing individual and corporate investors to receive tax credits against federal income tax liabilities in exchange for providing up-front equity to community development entities and intermediaries (e.g., CDFIs).

**Metro Housing Bond.** Approved by voters in 2018, metro housing bonds provide financing for affordable housing development in Washington, Clackamas, and Multnomah counties. The program aims to create more than 12,000 permanently affordable homes with the \$652.8 million bond measure.

**American Rescue Plan Act (ARPA).** Congress passed the American Rescue Plan Act of 2021 to support families, communities, and essential businesses recover from the pandemic. While many of the state and locally allocated ARPA funds have been committed, many jurisdictions have remaining dollars initially provided through the State and Local Fiscal Recovery funds. These funds can and have been used to support child care facilities and co-located developments. Recently, the Deschutes County Commission approved a \$6.6 million disbursement of county ARPA funds to construct several new ECE facilities and expand capacity in existing ones.<sup>2</sup>

**State Discretionary Lottery Funds.** A portion of revenue generated from the Oregon Lottery that is not directly earmarked for public programs is available at the discretion of the Oregon Legislature to be used by members for special projects in their own districts. Various members have used discretionary lottery funds in recent years to support housing developments or ECE facilities projects with one-time grant awards as large as \$2 million to individual developers or operators.

**Business Oregon Programs.** The Oregon Credit Enhancement Fund and Capital Access Program support lenders by providing loan insurance and low-interest loan pools for various small business loan products. These funds generally cannot support residential construction but may be open to ECE operators in certain co-location scenarios. Business Oregon's Entrepreneurial Development Loan Fund provides direct loans to start-ups and small businesses.

**Small Business Administration Loans.** The US Small Business Administration (SBA) has various loan and grant programs to support economic development, growth, and capital projects of small businesses. ECE

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<sup>2</sup> Deschutes County. ([2021](#)). *Deschutes County invests an additional \$6.6 million to expand access to child care and train more than 275 new child care workers.*

operators often cite difficulties accessing these loans, but they can be helpful forms of capital for providers seeking to undertake capital projects.

**Oregon Impact Fund.** The Oregon Community Foundation launched the Oregon Impact Fund in 2018 with a \$20 million pool of funds available to CDFIs and other intermediaries to leverage and re-lend for health, housing, and education purposes. Awards range from \$500,000 to \$3 million over 5-10 years but are generally leveraged with additional private and public dollars by beneficiaries in the process of re-lending.

**Other Philanthropic Housing and ECE Facilities Funds.** A number of philanthropic organizations around Oregon provide individual grants and loans to affordable housing developers and ECE operators that could be important forms of capital for co-located developments. Funders such as the Ford Family Foundation, Social Venture Partners, and the Lora and Martin Kelley Family Foundation have experience with grantmaking in both sectors.

## Appendix D: ECE Operating Supports

This appendix includes brief overviews of common forms of ECE operating supports that help providers pay rent, personnel, and other costs associated with serving children whose families may struggle to pay market rate tuition costs. The figure at the end of the section identifies income eligibility by program and notes whether operating funds come with any forms of capital improvement or expansion budgets.

**Region X Head Start and Early Head Start.** Region X (WA, OR, AK, ID) Early Head Start serves pregnant woman and children up to age 3 with comprehensive child development service in home-based and/or center-based setting. Head Start provides comprehensive child development services for 3- and 4-year-olds in center-based settings.

**Region XI American Indian/Alaska Native Head Start and Early Head Start.** Same programmatic elements as Region X, above, with a culturally specific target population. In this case, Alaska Native and American Indian children and families.

**Region XII Migrant and Seasonal Head Start and Early Head Start.** Same programmatic elements as Region X, above, with specific target population of children of migrant and seasonal farmworkers.

**Oregon Prenatal to Kindergarten (OPK).** OPK is a state-funded early childhood program modeled directly after Head Start/Early Head Start so organizations can more easily braid and blend state and federal funds.

**Preschool Promise.** Preschool Promise is a state funded, mixed-delivery preschool program serving 3-and 4-year old children. Mixed-delivery means that Preschool Promise can be offered in a variety of settings: Head Start, Relief Nursery, licensed home-based or center based child care, community based non-profits, or elementary schools.

**Relief Nursery.** Relief Nurseries, unique to Oregon, receive state and private funds to serve parents with children up to age five who are at high risk for abuse or neglect. Their services include: therapeutic classrooms, home visiting, mental health care, drug/alcohol recovery support, and more.

**Preschool for All.** Preschool for All, launching in Sept. 2022, is a mixed-delivery preschool program serving 3- and 4-year olds in Multnomah County (see Preschool Promise for definition of mixed-delivery). The program will start with services for children with the least access to high quality preschool and grow to serve all children in the county.

**Oregon Department of Human Services (ODHS) Employment Related Day Care.** This program subsidizes the cost of child care for eligible working families; it is not meant to cover the entire cost of care, so families usually have a co-pay. The subsidy varies by family size, income and where they live (metro, suburban, or rural). Subsidy is paid to the child care provider.

**Other ODHS Child Care Subsidies.** ODHS administers several other child care subsidy programs for families, including families who: participate in the Jobs and Opportunities & Basic Skills Training (JOBS) program, receive Temporary Assistance To Needy Families (TANF), and families that provide foster care for children. None of these programs require a co-pay.

**Tribal Child Care Development Fund (CCDF).** Each of the nine Federally Recognized Tribes in Oregon receives Tribal CCDF. The funds are administered and regulated by the Federal Administration of Children and Families. Tribal CCDF must support family financial stability and foster healthy child development; Tribes choose approaches that best meet their culturally-specific needs while still meeting federal guidelines.

Common Programs for Supporting ECE Operations in Oregon			
Program	Funding Source(s)	Eligibility	Capital funds available?
Region X Early Head Start/Head Start	Federal	Prenatal-to-age 5; at or below 100% Fed Poverty Level (some exceptions)	Rarely (and pool of funds may be diminishing)
Region XI American Indian & Alaskan Native Early Head Start/Head Start	Federal	Prenatal-to-age 5; at or below 100% Fed Poverty Level (some exceptions); tribal members prioritized	Yes
Region XII Migrant and Seasonal Early Head Start/Head Start	Federal	Prenatal-to-age 5; at or below 100% Fed Poverty Level (some exceptions); for migrant & seasonal farmworkers' children	Yes
Oregon Prenatal to Kindergarten	Oregon	Modeled after Head Start	Occasional funds available
Preschool Promise	Oregon	Children 3-5 at or below 200% of the Fed Poverty Level	One-time funding during start-up usually capped around \$20,000
Baby Promise	Oregon	Children 0-3 at or below 185% of the Fed Poverty Level	One-time start-up funding with similar caps to above
Relief Nursery	Oregon	Children 0-5 at high risk for abuse or neglect	No
Preschool for All	Multnomah County	Children 3-5 starting with children furthest from opportunity	Dedicated annual "facility fund" is forthcoming
Employment Related Day Care	Federal and Oregon	Working families with children ages 0-13 below 200% federal poverty level	No
Tribal Child Care Development Fund	Federal	Tribal members with children	Yes
ODHS Temporary Assistance to Needy Families	Federal	For families in the TANF program with children	No
ODHS JOBS	Federal	For families in the JOBS program with children	No