EARLY LEARNING FACILITIES
DEVELOPMENT PROPOSAL

For King County and the Puget Sound
Taxpayer Accountability Account

Submitted by the Early Learning Facilities Stakeholder Group
December 20, 2018
EXECUTIVE SUMMARY

There is no better time to maximize the long-term benefits of education than the first 5 years of a child’s life. Multiple studies show that academic, social, and life outcomes improve when children have high-quality early learning opportunities. High-quality early learning is also proven to help close the opportunity gap for children from low-income households and children of color.¹

Unfortunately, while there has been public investment in subsidized early learning for children from low-income households, public resources to provide infrastructure for early learning programs are scarce. Lack of funding for early learning facilities limits the number of children who benefit from high-quality early learning programs.

Used strategically, Puget Sound Taxpayer Accountability Account (PSTAA) funds could catalyze expansion of early learning programs in communities where the opportunity gaps are greatest. Capital investments in early learning facilities would require one-time PSTAA funding, but the benefits would endure as each new or expanded facility serves more children over time.

The Early Learning Facilities Development Proposal for King County and the Puget Sound Taxpayer Accountability Account provides recommendations for how King County could use PSTAA funds to expand access to early learning, especially for communities with the most need. It provides a detailed analysis of where early learning facilities are most needed in King County. It also provides recommendations for how to set up an early learning facilities fund, which are informed by lessons learned from other efforts to address similar needs across the country. Combined with the existing public investment in early learning subsidies for children from low-income households, PSTAA funds could materially decrease the opportunity gap for low-income children in King County.

The Need

Currently, many King County children who need and are eligible for subsidized high-quality early learning are not able to access it, largely because geographic pockets of King County lack early learning facilities. Our analysis estimates that more than 4,500 eligible children in King County do not have access to subsidized early learning.

Parts of King County have wide gaps between need for and supply of early learning. Children of color disproportionately live in geographic areas—known as “access deserts”—where children who qualify for subsidized early learning services are systematically underserved. This proposal targets expansion of early

¹ Research shows that children of color enter Kindergarten an average of 7 to 12 months behind in reading skills and 9 to 10 months behind in math skills, with even larger gaps for children from low-income households. These opportunity gaps tend to extend throughout primary and secondary education, resulting in poorer life outcomes for children of color and children from low-income families than their peers.
learning facilities to access deserts, but it also recommends expansion in other parts of King County where children who qualify for subsidies do not have access to high quality early learning.

The shortage of early learning facilities in parts of King County is due primarily to three barriers facing early learning providers: limited available and affordable real estate, thin profit margins that limit access to capital for facilities’ expansion, and general lack of expertise and capacity related to capital projects.

**Proposed Solutions**

This proposal models two investment scenarios for how PSTAA funding could be used to address the need for early learning in King County:

- **50% of available PSTAA funds ($150 million).** This model assumes that the entire investment is used to address the need for early learning facilities in access deserts. This level of investment would address 54% of the unmet need in King County.

- **85% of available PSTAA funds ($263 million).** This model assumes half of the funds would be directly targeted to access deserts ($131.5 million) and the other half would be distributed across all King County where there are facilities gaps (including access deserts). This investment would address 88% of the unmet need in King County.

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2. S3I estimates the total available PSTAA funds to be $311.5 million, based on estimated the schedule of PSTAA funds disbursement provided by Sound Transit in April 2017, and the current population of King County relative to Pierce and Snohomish Counties, which will also receive PSTAA funding. This figure also accounts for the fixed $20 million portion of overall PSTAA funds that are required to be set aside for affordable housing. Because this fixed requirement is subtracted from the variable funds allotted for Early Childhood Facilities, the available funds for facility expansion do not exactly equal 85% or 50% of all PSTAA funds. Also note that the current analysis applies no discount rate to these funds, which are distributed through 2036, but it does account for increased development costs through an annual inflation rate of 1.6%.
Return on Investment

The following table shows the potential return on investment (ROI) of these investment scenarios:

<table>
<thead>
<tr>
<th>Amount</th>
<th>$150 million</th>
<th>$263 million</th>
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<tbody>
<tr>
<td>% of King County PSTAA Fund</td>
<td>50% of King County fund</td>
<td>85% of King County fund</td>
</tr>
<tr>
<td>$ of Scenario Reserved for Access Deserts</td>
<td>$150 million</td>
<td>$131.5 million and a portion of the remaining half, based on unmet need</td>
</tr>
<tr>
<td>% of Unserved Eligible Children Who Will Have Access to Subsidized Early Learning by 2036</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Children Ages 0-2</td>
<td>44% of eligible population</td>
<td>73% of eligible population</td>
</tr>
<tr>
<td>Children Ages 3-4</td>
<td>63% of eligible population</td>
<td>100% of eligible population</td>
</tr>
<tr>
<td>Total Eligible Children</td>
<td>54% of eligible population</td>
<td>88% of eligible population</td>
</tr>
<tr>
<td>Total Spaces Created by 2036</td>
<td>2,443 spaces</td>
<td>3,951 spaces</td>
</tr>
<tr>
<td>Distinct Children Served by 2040</td>
<td>21,549 children</td>
<td>36,909 children</td>
</tr>
<tr>
<td>Distinct Children Served by 2050</td>
<td>41,581 children</td>
<td>69,307 children</td>
</tr>
</tbody>
</table>

Given the scale of the early learning shortage in King County and the opportunity for PSTAA funds to address that shortage, the Early Learning Facilities Stakeholder Group (ELFS) recommends structuring a PSTAA Early Learning Facility Fund (PSTAA-ELFF) around three guiding principles:

1. Identify the areas with the highest need for early learning and address barriers—the most significant of which is affordability—to expanding early learning facilities in these areas.
2. Safeguard the investment of public dollars to ensure an Early Learning Facilities Fund continues to serve the purpose for which it was intended.
3. Set and adhere to rigorous performance targets to demonstrate ROI.

Finance

To distribute PSTAA funds, ELFS recommends the PSTAA-ELFF first assess the feasibility of all potential development projects through pre-development technical assistance (TA). Grants for pre-development TA would range from $5,000 for minor renovations to $90,000 for new construction. The goal of pre-development TA is to approve qualified applications (or reject unsuitable projects) before initiating more expensive development. Grants for pre-development TA are appropriate because early learning providers, regardless of need and location, do not have the resources or funds to accomplish or pay for this step on their own.
King County should then distribute PSTAA funds for those projects it approves through one of three financial instruments. The choice of which financial instrument to use would depend primarily on the level of resources in targeted geographic areas, as follows:

1. In locations where there are existing early learning providers, grants could be used to renovate or expand existing early learning facilities. Estimated costs range from $55,000 to $310,000 per investment.

2. In locations where there are opportunities to leverage existing resources, expertise, early learning capacity, and other funding, forgivable loans and/or grants could be used to finance renovation/expansion of existing early learning facilities and direct shared investments in development projects, such as schools or affordable housing. King County would not directly own the facility; instead it would facilitate development, construction, and maintenance in partnership with other organizations. The loans or grants would need to include provisions to safeguard the purpose of the investment over time. The estimated cost ranges roughly from $840,000 to $1.7 million per investment.

3. In locations where community need is great, but resources and market opportunities are sparse—such as access deserts—direct ownership may be the best option. With direct ownership, King County would be the sole or majority owner of the facility and/or property. This option would provide King County the most control over where and how facilities are developed, enabling King County to target investments in areas with the most need. The estimated cost ranges from $1 million to $4.2 million in new construction per investment.

Managing the PSTAA-ELFF portfolio would involve evaluating the needs and existing resources in target areas and determining which financial instrument would be the most appropriate. While a definitive recommendation of a specific entity to manage the PSTAA-ELFF is beyond the scope of this proposal, a new Public Development Authority (PDA) seems worthy of further analysis as long as the scale and related benefits are sufficient to justify the costs of its creation. Other possible options and partners include the King County Housing Authority and non-profit financing organizations, such as Community Development Finance Institutions (CDFIs).

**Eligibility**

In line with King County’s commitment to equity and social justice and investing in a child’s early development, and considering the high cost of living in King County relative to other parts of the U.S., the ELFS recommends that PSTAA-ELFF distribute funding to potential recipients who meet the following eligibility requirements:

- A minimum level of children served from households that qualify for Head Start, Early Education and Assistance Program (ECEAP), or Working Connections Child Care (WCCC) subsidy as determined by King County in consultation with stakeholders (other funds require as high as 50%
minimum, though the minimums vary). This minimum level should be updated regularly, based on market factors.³

- The County should set a target number for additional children served up to 300% of federal poverty level (FPL), based on analysis of community need and feasibility.
- The remaining early learning spaces could serve children from households at any income level.

In addition to meeting these eligibility criteria, ELFS recommends prioritizing grant and loan recipients to serve children with the most need, address opportunity, and incorporate cost factors into decision making. These three criteria should be highest priority:

- Located in an access desert (where applicable, depending on the investment option selected);
- Proposes to expand the number of spaces by the minimum required to fill one classroom; and
- Meets ECEAP, Head Start, and/or WCCC eligibility standards.

These following criteria (including other criteria listed in Chapter 2: Recommendations) should also be priorities for eligibility, but it would be up to PSTAA-ELFF leadership and key stakeholders to determine the weighting of each priority:

- Children who are homeless or in foster care, have special needs, have a disability, are at risk, or are Dual Language Learners;
- The possibility of leveraging additional resources and sharing costs, such as with co-funding/matching grants, and/or co-location with affordable housing or other public support facilities that target low-income households; and
- An affordable cost per seat created (per investment category, since the cost per seat for a small renovation would be lower than the cost per seat for new construction, in most cases).

**Technical Assistance**

Based on benchmarking of early learning facility funds across the U.S., early learning providers require extensive technical assistance because their professional focus rarely includes training or expertise on planning and financing new facilities. Developers and nonprofit property managers would require TA for early learning classroom design and licensing requirements. As such, ELFS recommends investing in technical assistance, especially during the early phases of development, to ensure funded projects are successful and cost-effective.

³ There is also precedent for a lower threshold (20%), but the fund should start with a higher requirement and only revisit it if fund goals are compromised due to this prerequisite.
ABOUT THIS REPORT

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* denotes individual is no longer associated with listed institution, but was at the time of their contribution to this report

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Working in Partnership with Community Stakeholders

Third Sector Intelligence’s (3SI’s) work to develop this report has been in partnership with a range of stakeholders. The need for early learning facilities, documented in the Facilities Needs Assessment for Early Childhood Education and Assistance Program (ECEAP) Expansion (Washington State Department of Early Learning, 2016), illustrated the need to expand the state preschool program, but stakeholders have had broader dialogue around facilities for early learning—including child care—for many years.

The Puget Sound Taxpayer Accountability Account (PSTAA) offers an opportunity that galvanized an advocacy coalition in King County. When voters passed Sound Transit 3 in November 2016, a small group of early learning stakeholders began discussing this unique opportunity. Recognizing that making the case to invest PSTAA funds in expanding early learning facilities required a clearer understanding of the facilities’ needs specific to King County, 3SI was contracted to do an initial needs assessment. 3SI’s work focused on facilities needed in King County for low-income families served by the ECEAP and Working Connections Child Care (WCCC) subsidies. 4 3SI completed this needs assessment in July 2017.

Stakeholders began to meet in the summer of 2017 to discuss the outcomes of the needs assessment and potential impact of the PSTAA funds. This group has grown to over 30 entities and includes individual child care providers, larger nonprofits that provide early learning and other services, affordable housing organizations, Child Care Resources, the Washington State Association of Head Start and ECEAP, and education and advocacy nonprofits.

This group, called the Early Learning Facilities Stakeholder Group (ELFS), has advocated to King County and the Washington State Legislature for investments in early learning facilities. ELFS meets on a monthly basis, with more frequent updates and individual communication as needed. This ongoing collaboration enables the group to proactively engage in advocacy and inform 3SI’s work.

King County issued a Request for Information (RFI) in July 2018, which asked for proposals for how to allocate the PSTAA funds. The ELFS, with funding support from the Bill and Melinda Gates Foundation and the Ballmer Group, has partnered with 3SI to:

- Address the King County July 2018 RFI;
- Expand the July 2017 3SI needs assessment to identify access deserts, described later in this document;
- Conduct scenario modeling to determine what return on investment King County could expect if it invests PSTAA funds in early learning facilities;
- Conduct benchmarking of early learning facility funds across the U.S.; and
- Develop recommendations for how King County could structure an early learning facility fund.

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4 For the purpose of this document, “low-income” household refers to households with annual incomes at or below 200% of the FPL for 2018, or $50,200 for a family of four. This definition of low-income is consistent with eligibility requirements for subsidized early learning. In a high-cost of living area like King County, families with incomes at 200% of the FPL are still functionally poor.
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## Glossary

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<th>Definition</th>
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<tr>
<td>Access deserts</td>
<td>Geographic areas where few to no quality early learning options exist for children from low-income households who quality for the Early Childhood Education and Assistance Program (ECEAP), Head Start, or Working Connections Child Care (WCCC) subsidies. Specifically, access deserts are clusters of zip codes with statistically-significant gaps in access to high-quality early learning services for children from low-income households. Children of color in King County are disproportionately likely to live in access deserts.</td>
</tr>
<tr>
<td>Benchmarking</td>
<td>A measurement of the quality of an organization's policies, products, programs, and strategies compared to standard measurements or similar measurements of its peers. The objectives of benchmarking are to analyze how other organizations achieve high performance and use this information to improve performance.</td>
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<td>Clawback provisions</td>
<td>Provisions to ensure the funder can recover funds should a loan or grant recipient stop meeting the conditions of the loan or grant.</td>
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<td>Early Learning</td>
<td>Quality care and education for young children, especially during the critical early stages of their growth and development. For the purpose of this report, early learning includes infant and toddler care (generally birth to age 2) and preschool (generally ages 3 and 4). Note that age requirements for program eligibility are more nuanced: some children older than 4 will be served by preschool-aged programs if they turn 5 prior to entering Kindergarten.</td>
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<td>Kindergarten Readiness</td>
<td>An assessment of a child's preparedness for Kindergarten, based on outcomes of an individual child's Washington Kindergarten Inventory of Developing Skills (WaKIDS) assessment. WaKIDS is a teacher observation tool measuring student proficiency in six areas of development: Social-emotional, Physical, Cognitive, Language, Literacy, and Mathematics. The majority of students are Kindergarten-ready on any one of the areas of development, but most students are not proficient in all areas of development.</td>
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<tr>
<td>Low-income households</td>
<td>For the purpose of this analysis, low-income households are defined by eligibility for federal government safety net programs. For most households, eligibility for these programs is based on household income as a share of area median income or percent of the federal poverty level (FPL). Families qualifying for these programs based on household income have annual household incomes less than 200% FPL ($50,200 for a family of four). In some cases, children may qualify for programs based on other risk factors (e.g., abuse, neglect, special needs, homeless, foster care, etc.). The benchmarked funds include these children as well, but for the sake of expedience, this report uses the term “children from low-income households” to capture all children eligible for federal safety net programs.</td>
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<tr>
<td>Term</td>
<td>Definition</td>
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<tr>
<td>Public Corporation/Public Development Authority</td>
<td>Washington State law authorizes special purpose quasi-municipal corporations known as “PDAs.” The law allows cities, towns, and counties to establish “public corporations, commissions, or authorities.” The purpose of a public corporation under these statutes is to improve the administration of authorized federal grants or programs, government efficiency and services, or the general living conditions in the urban areas of the state. Local examples of PDAs include Meydenbauer Center in Bellevue and 4Culture in King County.</td>
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<td>Saturation</td>
<td>The point at which all children eligible for Head Start, ECEAP, or WCCC subsidies and likely to enroll are being served.</td>
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<td>Slot</td>
<td>For the purpose of this report, “slot” refers to a subsidize placement in an early learning classroom. Note that, because some subsidy programs provide separate slots for morning and afternoon early learning, a classroom with a maximum capacity of 12 children would serve up to 24 slots.</td>
</tr>
<tr>
<td>Space</td>
<td>For the purpose of this report, an early learning “space” refers to physical space in a classroom to serve a distinct child at any given time. In the early learning world, “space” and “seat” are sometimes used interchangeably, but because “seat” is awkward when referring to infant child care, this report uses the word “space.” Note that a single space may provide more than one “slot,” as some subsidy programs provide part-day early learning. In such cases, a single early learning space could provide for a morning slot and an afternoon slot, ultimately serving two children.</td>
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<td>Uptake</td>
<td>The fraction of children who are eligible for services and would, if a space was available, attend preschool or enroll in infant/toddler care.</td>
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<td>Value chain</td>
<td>A high-level model that describes the process by which businesses receive raw materials, add value to the raw materials through various processes to create a finished product, and then sell the finished product to customers.</td>
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<tr>
<td>Workout</td>
<td>A financial term whereby the lender or landlord explores alternatives to replacing a non-compliant early learning provider, beyond what is already stipulated in contractual agreements.</td>
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### ACRONYMS

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<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>3SI</td>
<td>Third Sector Intelligence, Inc.</td>
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<tr>
<td>CDFI</td>
<td>Community Development Financial Institution</td>
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<td>CRA</td>
<td>Community Reinvestment Act</td>
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<tr>
<td>DCYF</td>
<td>Department of Children, Youth, and Families</td>
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<td>DEEL</td>
<td>Seattle Department of Education and Early Learning</td>
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<tr>
<td>DEL</td>
<td>Washington State Department of Early Learning</td>
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<tr>
<td>DLL</td>
<td>Dual Language Learners</td>
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<tr>
<td>ECEAP</td>
<td>Early Childhood Education and Assistance Program</td>
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<td>EHS</td>
<td>Early Head Start</td>
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<td>ELDS</td>
<td>Early Learning Data Store</td>
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<td>ELFS</td>
<td>Early Learning Facilities Stakeholder Group</td>
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<td>ESA</td>
<td>Early Start Act</td>
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<td>FPL</td>
<td>Federal Poverty Level</td>
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<td>ELPM</td>
<td>Early Learning Property Management</td>
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<td>IEP</td>
<td>Individualized Education Program</td>
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<tr>
<td>KPI</td>
<td>Key Performance Indicator(s)</td>
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<tr>
<td>LIIF</td>
<td>Low Income Investment Fund</td>
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<tr>
<td>LISA</td>
<td>Local Indicators of Spatial Association</td>
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<td>LISC</td>
<td>Local Initiatives Support Corporation</td>
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<td>NIEER</td>
<td>National Institute for Early Education Research</td>
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<td>PDA</td>
<td>Public Corporation/Public Development Authority</td>
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<td>PSTAA</td>
<td>Puget Sound Taxpayer Accountability Account</td>
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<td>QRIS</td>
<td>Quality Rating Improvement System</td>
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<td>RFP</td>
<td>Request for Proposals</td>
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<td>RICCELFF</td>
<td>Rhode Island Child Care and Early Learning Facility Fund</td>
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<td>Return on Investment</td>
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<tr>
<td>RTT-ELC</td>
<td>U.S. Department of Education Race to the Top-Early Learning Challenge</td>
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<td>SPP</td>
<td>Seattle Preschool Program</td>
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<td>TA</td>
<td>Technical Assistance</td>
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<td>WaKIDS</td>
<td>Washington Kindergarten Inventory of Developing Skills</td>
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<tr>
<td>WCCC</td>
<td>Working Connections Child Care</td>
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1 BACKGROUND

1.1 Benefits of High-Quality Early Learning

What do communities gain by investing in early learning? Studies conducted over several decades in the U.S. have found that high-quality early learning provides significant and persistent benefits for children's learning and development, including improved school progress and educational attainment, employment and earnings, socialization and social behavior, and health outcomes.\(^5\) Researchers have identified positive effects of large-scale public early learning programs on children's language, literacy, math, and executive function. High-quality early learning programs have also resulted in reduced school failure as indicated by fewer incidences of grade repetition and special education placements, and reduced delinquency and crime.\(^6\)

The following three studies combine rigorous research design and longitudinal analysis to provide specific examples of these benefits:

- The HighScope Perry Preschool Program study, the most commonly cited study of preschool programs, examined the effects of high-quality preschool from age 3 through adulthood. The study found that participants in the Perry Preschool had significantly better outcomes on academic achievement through elementary and secondary school and were more likely to graduate from high school. The study also reported that, as adults, participants were more likely to be employed and receive higher annual wages. Participants demonstrated less risky behavior and lower rates of delinquency and crime than the control group. Taking all of this into account, researchers estimated an economic return of between $6.00 to $15.00 for every dollar invested.\(^7\)

- Children who participated in the Abecedarian Study (a randomized controlled trial of early education) scored higher on IQ tests and assessments of reading and math through the age of 21.\(^8\) Participants were more likely to hold a higher-skill job at age 21 and have better health outcomes at age 30.\(^9\)

- Multiple studies evaluating participants in the Chicago Child-Parent Center demonstrated increased cognitive readiness in Kindergarten and better reading and math test scores than their counterparts who did not participate in the program.\(^10\) Like the studies listed above, long-term


\(^6\) Camilli, et al., 2010; Gorey, 2001; Guralnick & Bennett, 1987; McKey, Condelli, Ganson, Barrett, McConkey & Planz, 1985; Nelson, Westhues & MacLeod, 2003; Ramey, Bryant & Suarez, 1985; White & Casto, 1985.

\(^7\) Belfield, Nores, Barnett, and Schweinhart, 2006; Heckman, Moon, Pinto, Saveliev & Yavitz, 2010.


effects included lower arrests, incarceration, and conviction rates, and increased college attendance rates and lifetime earnings among participants.\textsuperscript{11}

These examples, as well as an increasing and wide-ranging body of research, support the finding that high-quality early learning confers clear benefits to children well into adulthood. The following sections describe the benefits of statewide commitment to fund early learning in the context of Washington State.

\subsection*{1.1.1 Washington State Commitment to Fund Early Learning}

Washington State has committed to meeting the early learning needs of all children, with a stated goal of “90% of children ready for Kindergarten by 2020, with race and family income no longer predictors of success.”\textsuperscript{12} The State has made a concerted effort over the last decade to ensure that all children are prepared to learn and succeed in school.

The Washington State Department of Learning (DEL) was founded in 2006 to offer programs and services that support healthy child development and school readiness.\textsuperscript{13} Less than 5 years later, Washington State received a $60 million U.S. Department of Education Race to the Top – Early Learning Challenge (RTT-ELC) grant to improve the quality of early learning in the state. A central objective was to increase access to high-quality early learning for children in low-income and disadvantaged families through a comprehensive range of activities including, but not limited to, participation in a Quality Rating Improvement System (QRIS). The QRIS includes a child care rating process, coaching and professional development, financial incentives to obtain higher levels of quality, and information sharing.

As the RTT-ELC grant ended its funding cycle, the Washington State Legislature approved the Early Start Act (ESA) to maintain quality improvement in the early care and education system and provide a sustainable source of funding for activities initially funded by RTT-ELC. The stated purpose of the ESA is to provide an opportunity for “all children to arrive at school ready to learn; for families to break the cycle of poverty; and for state communities to reap the rewards and the ROI we know comes from high-quality early learning.”\textsuperscript{14} ESA funds Early Achievers and mandates that providers that receive Early Childhood Education and Assistance (ECEAP), Head Start or Early Head Start funding, or Working Connections Child Care (WCCC) subsidies maintain a minimum high-quality Early Achievers rating.\textsuperscript{15}


\textsuperscript{13} https://del.wa.gov/what-we-do.

\textsuperscript{14} https://www.dcyf.wa.gov/about/government-community/legislative-federal-relations/early-start-act.

\textsuperscript{15} All existing early learning providers must meet this requirement by December 31, 2019. For more information on Early Achievers ratings, see: https://www.dcyf.wa.gov/services/earlylearning-childcare/early-achievers/rating-system.
1.1.2 Local Context

For children from households with low-incomes in King County, there are multiple programs that subsidize their early learning.

Washington State offers WCCC, which provides funding to eligible low-income families to access child care.\(^\text{16}\) The federal Child Care Development Block Grant funds this program, which has a current limit of 33,000 families in Washington State\(^\text{17}\). This subsidy serves infants, toddlers, preschool and school-aged children from families earning up to 200% of the federal poverty level (FPL) ($50,200 for a family of four).\(^\text{18}\) Families receiving WCCC must also meet a work requirement: they must be employed or participating in qualifying work training programs. By December 2019—before Puget Sound Taxpayer Accountability Account (PSTAA) funding would be invested in King County for early learning facility expansion—all facilities serving children receiving WCCC will be required to be rated high-quality through Early Achievers.

ECEAP provides high-quality early learning opportunities for the state’s most vulnerable 3- and 4-year old children whose families earn up to 110% of the FPL.\(^\text{19}\) Research shows that children enrolled in ECEAP make progress during the school year in the key areas in which ECEAP programs are evaluated: health outcomes, social-emotional development, and learning outcomes. ECEAP also closes the school readiness gap among children of color, Dual Language Learners (DLL),\(^\text{20}\) and their white peers, and serves a disproportionately high number of children experiencing homelessness.\(^\text{21}\) The legislature has mandated that ECEAP serve all eligible children by the 2022/2023 school year, which would require an additional 7,160 slots, bringing the total slots available to serve ECEAP children to 20,651.\(^\text{22}\)

In addition, Head Start, a federal program, serves children from low-income households below 130% of the FPL.\(^\text{23}\)

\(^\text{17}\) The Washington Department of Children Youth and Families included a decision package in its 2017-2019 budget request that focused on eliminating the current cap of 33,000 families, but it was not funded. This cap remains in place but could be removed based on budget decisions in the future. [https://del.wa.gov/sites/default/files/public/PL-A6-Eliminate%20Subsidized%20Child%20Care%20Waitlist.pdf](https://del.wa.gov/sites/default/files/public/PL-A6-Eliminate%20Subsidized%20Child%20Care%20Waitlist.pdf)
\(^\text{18}\) Note that this analysis only considers infants, toddlers, or preschool aged children eligible for or receiving WCCC, consistent with the focus on children 0 to 4 years old.
\(^\text{19}\) To be eligible for ECEAP, children must be 3 or 4 years old by August 31 of the school year, not simultaneously enrolled in Head Start, and meet one of these requirements: (1) qualified by their school district for special education services under RCW 28A.155.020, (2) receiving Child Protective Services under RCW 26.44.020(3) or Family Assessment Response Services under RCW 26.44.260, or (3) live in a household with income at or below 110% of the federal poverty guidelines established by the U.S. Department of Health and Human Services. Source: [https://del.wa.gov/node/520](https://del.wa.gov/node/520).
\(^\text{20}\) For purposes of this report, children who are sometimes classified as English Language Learners are classified as DLLs, in recognition that, in early learning, all children are learning language. 3SI recognizes that children in this classification may be learning more than two languages. [https://del.wa.gov/sites/default/files/public/ECEAP/ECEAP_Outcomes_2016-17.pdf](https://del.wa.gov/sites/default/files/public/ECEAP/ECEAP_Outcomes_2016-17.pdf).
\(^\text{21}\) Note that multiple ECEAP slots may represent a single space in a classroom, as ECEAP serves part-day, full school day, and extended day care. 3SI frames the analysis of unmet need as well as the forecasted impact of PSTAA funding scenarios using spaces, as they are more closely tied to infrastructure investments. These forecasts of expanded slots are subject to change, due to shifts in demographics and policy, and will change from year to year. For more information about DEL’s analysis of ECEAP expansion needs statewide, see: [https://del.wa.gov/sites/default/files/public/ECEAP/ECEAP%20Expansion%20Plan%202017-2018%20Final%202012-23-18.pdf](https://del.wa.gov/sites/default/files/public/ECEAP/ECEAP%20Expansion%20Plan%202017-2018%20Final%202012-23-18.pdf)
\(^\text{22}\) The vast majority of children served by Head Start are below 100% FPL, as Head Start grantees are required to document that there are no eligible children below 100% FPL before serving those from 101% to 130%. Early Head Start (EHS) also serves infants and toddlers from low-
Table 1-1 summarizes the three statewide subsidy programs available to children under 5 years of age in Washington.

Table 1-1: Target age groups and income levels of statewide early learning subsidy programs in WA

<table>
<thead>
<tr>
<th>Program</th>
<th>Age Group</th>
<th>Household Income Level$^{25}$</th>
<th>Household Income (for family of four)</th>
</tr>
</thead>
<tbody>
<tr>
<td>WCCC</td>
<td>0-4</td>
<td>≤ 200% of FPL</td>
<td>≤ $50,200</td>
</tr>
<tr>
<td>ECEAP</td>
<td>3-4</td>
<td>≤ 110% of FPL</td>
<td>≤ $27,610</td>
</tr>
<tr>
<td>Head Start</td>
<td>3-4</td>
<td>≤ 130% of FPL</td>
<td>≤ $32,630</td>
</tr>
</tbody>
</table>

In addition to statewide programs, the City of Seattle offers the Seattle Preschool Program (SPP), which provides affordable, high-quality early learning opportunities to children from low-income households in Seattle. In November 2014, voters approved a $58 million Seattle Preschool Services Levy to fund a 4-year pilot program. In 2018, voters approved an additional $342 million to expand the program.

These coordinated public investments create an opportunity to provide high-quality early learning for children from low-income households. Despite these investments, however, the need for subsidized high-quality early learning persists across Washington State. Fewer than half of students are Kindergarten-ready when they start. Furthermore, a readiness gap exists between students of color and white students. For example, at the beginning of the 2018/2019 school year, only 51% of students of color were ready for Kindergarten in King County, compared to 66% of white students. As Figure 1-1 shows, the proportion of students in King County who are Kindergarten-ready varies by race/ethnicity, and is even lower among children experiencing homelessness.

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$^{24}$ For additional details on children eligible for and served by these programs, see Appendix D: Additional Analysis of Unmet Need in King County.

$^{25}$ Note that, in addition to the family household income requirement, WCCC requires parents/guardians be working or in a qualifying WorkFirst program for their children to be eligible for the program.

$^{26}$ http://www.seattle.gov/education/for-parents/child-care-and-preschool/seattle-preschool-program

$^{27}$ http://seattle.legistar.com/View.ashx?M=F&ID=6287134&GUID=A1E55A3D-7561-4EE5-80B7-30F0D0883F93

$^{28}$ In 2017-18, 47% of students were Kindergarten-ready based on their WaKIDS assessment.

$^{29}$ WaKIDS data is currently unavailable at finer gradations of race/ethnicity designation.

$^{30}$ Kindergarten readiness is also shown to vary by other demographics. For example, only 31% of DLL are Kindergarten-ready. Source: Washington State Budget & Policy Center. Bringing High-Quality Early Learning to Kids and Families in Washington State, 2013. Note that WaKIDS scores are not reported for all sub-populations within King County, due to small cell size suppression.
1.2 The Challenge and Opportunity

The research overwhelmingly demonstrates the substantial benefits of high-quality early learning programs to all children, regardless of their color, socio-economic status, or English proficiency. Washington State has committed to funding such programs and ensuring that all children have access to them.

While funding is available to subsidize high-quality early learning programs, the supply of early learning facilities to house these programs is limited. Unfortunately, King County does not have enough high-quality early learning centers to serve all children from low-income households. This bottleneck in infrastructure particularly affects children of color and children from low-income households.

1.2.1 Lack of Early Learning Facilities

Even as Washington State continues towards its commitment to full entitlement for ECEAP by the 2022/2023 school year, King County is not able to fulfill the need for subsidized high-quality early learning

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31 Source: OSPI. “WaKIDS Scores by State,” (2018). [http://reportcard.ospi.k12.wa.us/DataDownload.aspx](http://reportcard.ospi.k12.wa.us/DataDownload.aspx). 3SI used raw WaKIDS scores disaggregated by race/ethnicity and school district, and then aggregated the counts for the 19 school districts used throughout this analysis that are mostly contained within King County.

32 While there remains work to improve the availability of sufficient funding to ensure high-quality early learning providers (in terms of work force training, compensation, etc.) there is focused work happening to support that outcome. This report is focused on addressing an explicit and urgent need for early learning facilities in general. As noted in the Chapter 2: Recommendations and elsewhere in this report, King County can help ensure that facilities developed with support of PSTAA funds are delivering high-quality programs to children by requiring that these facilities be compliant with Early Achievers.
because it lacks the facilities. This shortfall in service is due primarily to three barriers facing early learning providers:

- **Availability of real estate.** The current competitive real estate market creates a host of challenges for early learning providers.
- **Thin profit margins.** The thin profit margins of early learning providers serving children from low-income households mean that they do not have the resources to pay market rents or repay loans, particularly in King County’s expensive real estate market.
- **Lack of technical experience with real estate development.** Because early learning providers are experts in teaching and child development, rather than real estate, they may not have the technical knowledge or experience necessary to oversee facility development.

The challenge of real estate prices in King County has played out differently from one neighborhood to the next, but the trend has been that real estate countywide has become less affordable in the last 10 years (see Figure 1-2). As an extreme example, in zip code 98126 (a central corridor of West Seattle along 35th Ave SW), retail rents have more than doubled since 2008. After years of these increases, rents for commercial space have stabilized, but this may be due to lower quality and functionality of vacant space.

**Figure 1-2:** Relative increase since 2008 in retail rental prices (by selected King County zip code)

Source: Mayor Ed Murray’s Commercial Affordability Advisory Committee Recommendations Report

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34 The thin profit margins are in-part because current subsidy rates are insufficient. This results in not only lack of funding for facilities infrastructure, it also creates a systemic barrier to ensuring adequate compensation in the field. For more details on subsidy rates and compensation for public programs see Report to the Legislature: Early Learning Compensation Rates Comparison.

The early learning community in Washington has been working to address a critical early learning facilities shortage for the past few years. Across the country, governments have sought to expand high-quality early learning, but the lack of facilities poses a significant barrier. Chapter 3: Benchmarking describes how other communities across the U.S. are addressing these issues.

The PSTAA is slated to provide $315 million to King County. Investing a portion of these funds in early learning facilities that serve King County’s neediest children is a compelling opportunity.

1.2.2 Analysis of Unmet Need

The number of children eligible for the three early learning subsidies vastly exceeds the number of subsidized early learning spaces available. Two studies—Facilities Needs Assessment for ECEAP Expansion (Washington Department of Early Learning, 2016) and Expansion Opportunities for King County Early Childhood Programs: Head Start, Early Childhood Education Assistance Program, Child Care Subsidy (Bill and Melinda Gates Foundation, King County, and Thrive Washington, 2017) found the gap is largely due to a lack of early learning facilities. Analyzing the gap between the number of children eligible for the three early learning subsidies and how many spaces are available is a first step in determining where and how many early learning facilities are needed.

This chapter includes an analysis of the unmet need. The analysis considers that a degree of overlap exists between programs, as some children are eligible for—and served by—multiple programs. The eligible child population is based on data from the Early Learning Data Store (ELDS), which integrates population-level census data with available administrative data on children served by program and provider characteristics.

This analysis of unmet need also considers that some eligible families may opt not to enroll their child. This reality is accounted for in rates of program “uptake.” Uptake is defined as the proportion of children who are eligible for services and would, if a space was available, attend preschool or be enrolled in infant/toddler care. Uptake rates vary by age group and are informed by prior Washington State Department of Children, Youth, and Families (DCYF) studies and other sources (see Appendix C: Methodology of Cost and Scenario Models for further details). Uptake rates used for this model also adjust for the overlap in the counting of children who may be eligible for multiple programs. The uptake rates used in the analysis are as follows:

- Head Start/ECEAP: 85% of eligible children;
- WCCC subsidy for children ages 3 to 4: 75% of eligible children; and
- WCCC subsidy for children ages birth to 2: 48% of eligible children.

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36 Families in Seattle may participate in the SPP, which is set to expand as a result of passage of the 2018 Families, Education, Preschool, & Promise Levy. 3SI did not analyze the gap between the need for and availability of SPP spaces for two reasons: (1) the data were not readily available; and (2) at the time of the analysis, which took place prior to the November 2018 election, the future of the SPP was uncertain.

37 ELDS is a data model operated by 3SI and supported by DCYF, the Bill and Melinda Gates Foundation, and others. For more information about ELDS modeling methodology, see Appendix A: Methodology of Child Count Estimates.
After accounting for uptake, the estimated total number of eligible children who are not able to access subsidized early learning for the 12-month period from July 2017 to June 2018 is 4,509.\(^{38}\)

Figure 1-3 show the gap between the number of the children eligible for early learning subsidy programs and the number of children served, adjusted for program- and age-specific uptake rates. The analysis shows there are geographic pockets throughout King County with wide gaps between need for and supply of early learning. Children of color and children from households with low incomes are much more likely to live in these geographic pockets than white children and children from higher-income households. Therefore, expansion of early learning facilities should be targeted, first and foremost, to these areas to maximize ROI in facility development for concentrated areas most in need.

The largest unmet need is in the geographic areas served by the Highline School District (811 children), Seattle Public Schools – South Seattle (719 children), and Federal Way Public Schools (600 children).\(^{39}\) Seattle Public Schools – North Seattle and the Renton and Auburn school districts also have hundreds of eligible but unserved children. A review of the gap as a share of children eligible for subsidy programs finds that a third of eligible children are unserved in the Highline and Renton school districts. Just over a quarter of eligible children are unserved in the Federal Way and Auburn school districts and Seattle Public Schools – South Seattle. In Seattle Public Schools – North Seattle, nearly half of eligible children are not served, although this is still a smaller number of unserved children than South Seattle because North Seattle has a lower population of children from low-income households.

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\(^{38}\) This estimate of unserved children is significantly lower than the figure of 8,002 unserved children reported in the prior analysis, *Expansion Opportunities for King County Early Childhood Programs: Head Start, Early Childhood Education Assistance Program, Child Care Subsidy*, presented on July 6, 2017. This change is due to many methodology changes to the underlying data model as well as input assumptions and decision rules, such as program uptake. The most significant methodology changes entail (1) the application of more stringent requirements to estimate the population eligible for subsidized early learning services (which is to some extent offset by a higher estimate of program uptake) and (2) increased model stability due to improved estimates of child residential location (which greatly limits the number of program “surpluses” that were floored in the 2017 model. For a more comprehensive discussion of these methodological changes and their impact on these estimates, refer to Appendix A: Methodology of Child Count Estimates and Appendix C: Methodology of Cost and Scenario Models. As noted earlier, 3SI did not include SPP in its analysis.

\(^{39}\) Because of Seattle Public School’s relative size and geographic diversity, we divide it into two geographic areas: North Seattle and South Seattle. Note that ELDS methodology, which leverages inferential techniques, produces estimates of unmet need as fractional child counts. Total reported child counts may therefore differ slightly depending on context, due to rounding of fractional counts.
Figure 1-3: Estimated unmet need (adjusted for service uptake) for subsidized early learning programs by school district (2018)

Source: June 2018 ELDS data extract

Breaking down this gap by age group, we find:

- Birth to age 2: 2,050 spaces are needed. The greatest need is in the geographic areas served by Highline (376 spaces) and Seattle Public Schools – South Seattle (328). Federal Way and Auburn school districts also require more than 200 subsidized infant/toddler spaces.

- Ages 3 to 4: The greatest need is in Highline (436 spaces). Seattle Public Schools – South Seattle and the Federal Way and Renton school districts each require more than 300 early learning spaces.\(^{40}\)

See Appendix D: Additional Analysis of Unmet Need in King County for details by program and child age group.

\(^{40}\) The inferential approach that underlies these estimates produces fractional counts that lead to rounding errors. For further details on ELDS methodology, see Appendix A: Methodology of Child Count Estimates.
Gap analysis alone does not address the question of whether children are being served in high-quality early learning facilities. Although children from low-income households may be served in a licensed early learning center that serves children receiving subsidies, the center may have not yet obtained an ESA-mandated minimum high-quality Early Achiever rating that is required to provide Working Connections, ECEAP, Early Head Start, and/or Early Head Start programs.  

Just because a center has not yet received an Early Achiever quality rating does not mean it is not a high-quality environment. As such, when modeling access deserts, 3SI assumed that unrated early learning providers would receive quality ratings at the same proportion as rated providers. The following section presents findings from 3SI’s analysis of access deserts, which identifies those areas in King County where a gap exists between children who are eligible for subsidized early learning programs and high-quality spaces operated by providers participating in subsidy programs.

**Early learning access deserts in King County**

As noted above, more than 4,500 King County children under 5 years old are estimated to be eligible for subsidized high-quality early learning but unable to access it. While this figure is significant, PSTAA funds have the potential to meet much of this facility’s need over time. As these funds are disbursed over many years, however, it is reasonable to consider whether some communities are in greater need than others, with the expectation that funding can be prioritized to meet the highest need first.

One approach to assessing the areas in King County with the greatest need is by defining early learning access deserts. Access deserts are clusters of zip codes with statistically-significant gaps in access to high-quality early learning services. Note that high-quality early learning services are important; a region may offer enough child care services, but if most of those programs are not high-quality (based on the Early Achievers’ definition of quality), it could be an access desert.

3SI applied an access desert methodology to King County at the zip code level. Each zip code identified as an access desert meets several criteria:

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41 Many providers are not yet rated, as the ESA gives a grace period until December 31, 2019 for existing providers to be rated in Early Achievers.

42 In other words, if 25% of rated early learning providers had a QRIS rating of 1, 25% had a rating of 2, and so on, 3SI’s model assumed the same proportions for unrated providers.

43 The foundation of access desert methodology is the common LISA framework, developed by Dr. Luc Anselin in 1995. The application of LISA techniques to the early learning space has been pioneered by Erin Hardy, a Research Fellow at Brandeis University. Special thanks to Erin Hardy for her advice on how to apply LISA to this analysis. See Appendix B: Methodology for Defining Access Deserts for further information on access desert methodology in general and with regards to its particular application in King County. Note that access desert methodology assumes that unrated providers are as likely as currently rated providers to be high-quality.

44 As will be discussed in Chapter 2: Recommendations, the proposed use of PSTAA funding to expand child care facilities in King County would only fund high quality child care. The framing of access deserts as a shortfall of high-quality child care capacity is therefore aligned with the overall strategies presented in this proposal. Early Achievers rates facilities as Level 1 if they are licensed, Level 2 if they are Early Achievers participants, and Levels 3 to 5 if they demonstrate a high-quality rating. Source: [https://www.dcyf.wa.gov/services/earlylearning-childcare/early-achievers/rating-system](https://www.dcyf.wa.gov/services/earlylearning-childcare/early-achievers/rating-system).

45 Zip codes are used in access deserts (rather than school districts) to estimate need in smaller, more targeted geographic locations. This is because a primary component of access desert methodology is identifying geographic clusters with lower levels of service, which would not be as meaningful or actionable at the school district level.
• **A statistically high unmet need.** Unmet need is the difference between all eligible children living in a zip code and eligible children living in that zip code who receive high-quality early learning, even if they go to another zip code to receive service.46

• **A statistically high constrained supply.** Constrained supply is the difference between all eligible children living in a zip code and eligible children who receive high-quality early learning in that zip code, even if they live somewhere else.

• Proximity to at least one other zip code meeting both conditions, meaning that the significant gap in access spans more than one contiguous zip code.

The net result is a cluster of zip codes that share similar characteristics of unmet need and constrained supply. These geographic clusters demonstrate such consistently low availability of high-quality service as to suggest (within a reasonable level of certainty) that random fluctuations cannot explain this gap. In other words, these access deserts represent regions that are systemically underserving children who would otherwise qualify for subsidized early learning services. Figure 1-4 overlays the zip codes identified as access deserts with school district boundaries.

**Figure 1-4:** Access deserts in King County, by school district

![Map of King County with access deserts highlighted](image)

*Source: 3SI analysis and June 2018 Early Learning Data Store (ELDS) data extract*

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46 For purpose of this report, the analysis of unmet need estimates that children are served within 3.6 miles of their residence. Future analysis and modeling might consider more nuanced behaviors and demand for child care (e.g., demand near parents’ place of work, etc.).
Access deserts are concentrated in a handful of school districts in King County. 3SI estimated the number of children living in access deserts, by school district. The districts with significant populations living in access deserts are: Auburn, Enumclaw, Federal Way, Highline, Kent, Renton, and Tukwila school districts, and Seattle Public Schools – South Seattle. Except for the western edge of Enumclaw, which borders Auburn, all of the districts with significant access deserts fall within the King County Road Map Project geographic boundaries.47

Beyond just the location of access deserts, it is useful to know more about the children who live in them.48,49 Children of color are much more likely to live in access deserts in King County than white children. White and Asian children are the least likely to live in access deserts—only about 15% of White and Asian children live in these areas.50 Conversely, non-Asian children of color are more likely to live in access deserts.51 Black and Hispanic children are twice as likely to live in access deserts with 30% of Black children and 33% of Hispanic children living in access deserts. Nearly half of children who identify as American Indian/Alaskan Native or Native Hawaiian/other Pacific Islanders live in access deserts. Figure 1-5 compares the percent of children living in access deserts, by race/ethnicity.

47 The King County Road Map is a collection of school districts (and, in the case of Seattle Public Schools, portion of the district, defined by school catchment areas in south Seattle) in south King County. The Road Map Project defines this area as having particularly-high need for early learning and K-12 investments. For more information see https://roadmapproject.org/data-dashboard/.
48 All unmet need is counted for children who qualify for Head Start, ECEAP, or WCCC subsidy, so access deserts, as currently defined for this analysis, are expected to have many at-risk children and children from low-income households living in them.
49 It is important to note that DCYF data is not currently available at the child demographic level, so while this approach is accurate in describing children expected to live in these areas, it does not speak directly to the relative rates at which children of varying demographics are actually served.
50 Race/ethnicity data originate from U.S. Census Bureau American Community Survey (ACS) table B17020 and associated sub-tables, and categorizes children by the following designations: White, Asian, Hispanic, Black, American Indian/Alaska Native, Native Hawaiian, or Pacific Islander. While many relevant differences exist between sub-populations within these categories, data on these sub-populations are unavailable at the zip code level. Nevertheless, important insights can be gleaned from the general comparison of these broader categories.
51 Because U.S. Census data used for this analysis does not disaggregate the Asian category, this data may mask subgroups of Asians who face barriers to service at similar rates as other children of color noted in the analysis.
Access deserts have statistically-significant gaps in access to high-quality service relative to the rest of King County, and a disproportionate number of children of color residing in these communities. This situation presents an even greater justification for addressing the need in these areas.

Chapter 2: Recommendations describes the extent to which PSTAA funds can address this need.

### 1.3 Scenario Models

PSTAA funds, if invested strategically, could meet the need for early learning facilities in access deserts. In addition, depending on the amount invested, PSTAA funds could also close much of the facility gap in other King County areas where children are eligible for Head Start, ECEAP, or the WCCC subsidy but are not being served because of a lack of available early learning spaces. ELFS recommends an eligibility strategy that allows some spaces in funded facilities to be made available to children from moderate-income households. This approach would make it more economically feasible for early learning providers to serve low-income children and allow a wider range of families to benefit from these investments. In addition, research shows mixed-income classrooms improve child outcomes.52

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3SI modeled scenarios to estimate the degree to which PSTAA funding would meet the current need for early learning facilities. After running model simulations, 3SI selected two scenarios that represent distinct choices for King County. The first considers an investment of 50% of available PSTAA funds ($150 million), and the second considers an investment of 85% of available PSTAA funds ($263 million).\textsuperscript{53}

In the $150 million investment scenario, the model assumes the entire investment is used to address the need for early learning facilities in access deserts.\textsuperscript{54} In the $263 million investment scenario, half of the PSTAA funds invested in early learning facilities ($131.5 million) would target access deserts, where facility shortages are the most severe. The other half would be distributed across all King County school districts with facilities gaps (including those with access deserts). \textit{Chapter 2: Recommendations} describes the expected impact of these two scenarios.

Note that, although current funding only allows for two scenario models, the model has the flexibility to run new scenarios and conduct sensitivity analysis for multiple variables simultaneously. This would allow for the testing of additional assumptions and support future analysis of program costs and expected outcomes. For a summary of key inputs and considerations used to model these scenarios, see \textit{Appendix C: Methodology of Cost and Scenario Models}.

\textsuperscript{53} 3SI estimates the total available PSTAA funds to be $311.5 million, based on estimated schedule of PSTAA funds disbursement provided by Sound Transit in April 2017, and the current population of King County relative to Pierce and Snohomish Counties, which will also receive PSTAA funding. This figure also accounts for the fixed $20 million portion of overall PSTAA funds that are required to be set aside for affordable housing. Because this fixed requirement is subtracted from the variable funds allotted for early childhood facilities, the available funds for facility expansion do not exactly equal 85% or 50% of all PSTAA funds. Also note that the current analysis applies no discount rate to these funds, which are distributed through 2036, but it does account for increased development costs through an annual inflation rate of 1.6%.

\textsuperscript{54} Each school district is ranked based on the presence of access deserts in that district (see explanation of access deserts in the above section of this chapter and \textit{Appendix B: Methodology for Defining Access Deserts} for further details on access desert methodology). Provisionally, any presence of access deserts in the district is weighted equally, but future analysis could model finer prioritization. Under the $150 million investment scenario, the model assumes that the fund saturates demand in access deserts before moving on to build facilities in other districts without access deserts (though with current model inputs, this scenario would not fully saturate the need in these areas). This design optimizes model operation and permits it to calculate the number of spaces created in each year, but it is not meant to dictate how King County should allocate resources.
2 Recommendations: PSTAA Early Learning Facility Fund

More than an estimated 4,500 King County eligible children under 5 years old do not have access to subsidized early learning. Earlier analyses commissioned by the Washington Department of Early Learning and the Bill and Melinda Gates Foundation, King County, and Thrive Washington found this gap is due primarily to a shortage in early learning facilities. With the resources from PSTAA funding, King County has the opportunity to make significant progress towards closing this gap. By expanding early learning spaces through the construction or improvement of facilities and prioritizing areas with the greatest need, King County would achieve positive outcomes for children that would continue to pay dividends over the course of their lifetimes.

Given the scale of the early learning shortage in King County and the opportunity for PSTAA funds to address that shortage, the ELFS recommends structuring the PSTAA Early Learning Facility Fund (PSTAA-ELFF) around three guiding principles:

1. Identify the areas with the highest need for early learning and address barriers—the most significant of which is affordability—to expanding early learning facilities in these areas.

2. Safeguard the investment of public dollars to ensure it continues to serve the purpose for which it was intended.

3. Set and adhere to rigorous performance targets—such as number of early learning spaces created for children from low-income households—to demonstrate ROI.\(^\text{55}\)

Based on these key themes, ELFS recommends the PSTAA-ELFF use three strategies for funding early learning facilities expansion. PSTAA-ELFF would need to mix and match these three strategies depending on the need, number of existing early learning providers, and opportunities to partner with affordable housing providers or other organizations in a specific school district. King County and stakeholders would need to collaborate to determine the appropriate mix of these strategies. Table 2-1 summarizes these three strategies:

\(^{55}\) Chapter 2: Recommendations list performance indicators King County should use to demonstrate ROI. Chapter 3: Benchmarking describes performance indicators used by other early learning facility funds.
Table 2-1: Potential funding strategies for facility expansion in King County

<table>
<thead>
<tr>
<th>Funding Strategy</th>
<th>Competitive fund to expand spaces in existing early learning centers</th>
<th>Direct investment partnerships</th>
<th>Direct ownership and management of facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recipient</strong></td>
<td>• Existing early learning providers</td>
<td>• Nonprofit and for-profit property managers</td>
<td>Establish a new public development authority in King County</td>
</tr>
<tr>
<td><strong>Facilities Expansion Activities</strong></td>
<td>• Expand or renovate existing early learning facilities</td>
<td>• Commercial tenant improvements within existing school or affordable housing facility</td>
<td>New construction Improvements at County-owned properties</td>
</tr>
<tr>
<td><strong>Return on Investment (ROI)</strong></td>
<td>• Cost-effective expansion, Quickest, Limited potential to scale</td>
<td>• Organizations with experience in facilities development reduce learning curve, Ability to add new facilities with greater number of early learning spaces more rapidly, Requires partnering and coordination</td>
<td>Outright ownership and control reduce risk of property being repurposed for activities other than early learning, Potential economies of scale, Potentially necessary in order to renovate/build facilities in a persistent access desert where current capacity is insufficient</td>
</tr>
<tr>
<td>Funding Strategy</td>
<td>Competitive fund to expand spaces in existing early learning centers</td>
<td>Direct investment partnerships</td>
<td>Direct ownership and management of facilities</td>
</tr>
<tr>
<td>------------------</td>
<td>---------------------------------------------------------------</td>
<td>--------------------------------</td>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td><strong>Finance</strong></td>
<td>• Forgivable loans and/or grants with clawback provision</td>
<td>• Forgivable loans and/or grants with clawback provision</td>
<td>Direct ownership</td>
</tr>
<tr>
<td></td>
<td>• Grants for Pre-Development up to $15,000</td>
<td>• Grants for Pre-Development up to $100,000</td>
<td>$1 million – $4.2 million for new development and construction depending on the number of classrooms created</td>
</tr>
<tr>
<td></td>
<td>• Grants or forgivable loans up to $800,000 for development and construction, with provisions to recoup investment if recipient ceases to provide subsidized early learning services to children from low-income households</td>
<td>• Total renovation costs ranging from $54,840 - $308,504 per project for renovations and $840,958 - $1.7 million per project for commercial tenant improvements</td>
<td>Land costs of $235,688 - $942,752 per facility for new development and construction</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• $1 million – $4.2 million for new development and construction depending on the number of classrooms created</td>
<td></td>
</tr>
<tr>
<td><strong>Eligibility</strong></td>
<td>• Existing providers that serve or commit to serve children from low-income households</td>
<td>• Commitment to lease to early learning providers that serve children from low-income households</td>
<td>Lease to early learning providers who commit to serve children from low-income households</td>
</tr>
<tr>
<td><strong>Technical Assistance (TA)</strong></td>
<td>• Outreach to recruit existing early learning providers</td>
<td>• Outreach to recruit property managers</td>
<td>Not applicable, but the PDA will need to develop internal capacity</td>
</tr>
<tr>
<td></td>
<td>• Intensive support in Pre-Development and Facility Financing Phases</td>
<td>• Guidance on early learning licensing requirements</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• TA for Development, Construction, and Operations will be included in capital grant or loan</td>
<td>• Facilitate partnerships with providers</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Support in Pre-Development and Facility Financing Phases for feasibility studies</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Possible TA for Development, Construction, and Operations, which could be included in capital grant or loan</td>
<td></td>
</tr>
</tbody>
</table>

56 Source: BERK Study and 3SI model. See Appendix C: Methodology of Cost and Scenario Models for further details.
57 Source: BERK Study and 3SI model. See Appendix C: Methodology of Cost and Scenario Models for further details.
The benchmarking study analyzed six Community Development Financial Institutions (CDFIs) that are active in early learning facilities development, property managers who specialize in early learning and childcare facilities, and state-led programs to expand preschool access. The following recommendations are based on lessons learned from other early learning facility funds. See Chapter 3: Benchmarking for more details about the methodology and outcomes from the benchmarking work.

### 2.1 Return on Investment

Given the potential scale of PSTAA funding, King County is poised to invest in an early learning facility fund that is much larger than the funds reviewed in the benchmark study. King County will be in a position to set—and achieve—ambitious goals for service saturation. Table 2-2 shows the ROI King County can expect to receive under the two different investment scenarios:

<table>
<thead>
<tr>
<th>Amount</th>
<th>$150 million</th>
<th>$263 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of King County PSTAA Fund</td>
<td>50% of King County fund</td>
<td>85% of King County fund</td>
</tr>
<tr>
<td>$ of Scenario Reserved for Access Deserts</td>
<td>$150 million</td>
<td>$131.5 million and a portion of the remaining half, based on unmet need</td>
</tr>
<tr>
<td>% of Unserved Eligible Children Who Will Have Access to Subsidized Early Learning by 2036</td>
<td>44% of eligible population</td>
<td>73% of eligible population</td>
</tr>
<tr>
<td>Children Ages 0-2</td>
<td>63% of eligible population</td>
<td>100% of eligible population</td>
</tr>
<tr>
<td>Children Ages 3-4</td>
<td>54% of eligible population</td>
<td>88% of eligible population</td>
</tr>
<tr>
<td>Total Eligible Children</td>
<td>2,443 spaces</td>
<td>3,951 spaces</td>
</tr>
<tr>
<td>Total Spaces Created by 2036</td>
<td>21,549 children</td>
<td>36,909 children</td>
</tr>
<tr>
<td>Distinct Children Served by 2040</td>
<td>41,581 children</td>
<td>69,307 children</td>
</tr>
<tr>
<td>Distinct Children Served by 2050</td>
<td>51,918 children</td>
<td>89,717 children</td>
</tr>
</tbody>
</table>

To maximize ROI, King County should prioritize funding for the neediest communities in King County’s access deserts. Chapter 1: Background describes these access deserts and Appendix B: Methodology for Defining Access Deserts provides details on the methodology for identifying access deserts in King County.

By directing at least $150 million to access deserts, PSTAA-ELFF will be able to make progress in improving coverage for children from low-income households, as well as some other children from mixed-income households who live in access deserts. These funds could also lower facilities costs for early learning providers, allowing them to invest needed funding into staffing and compensation, training, and
potentially allow them to serve a larger proportion of low-income children. Based on the scenario models, $150 million is the minimum investment necessary to meaningfully address access deserts.

In addition to addressing access deserts, the higher investment scenario of $263 million would allow King County to provide high-quality early learning to families whose incomes are too high to qualify for subsidized early learning, but too low to afford high-quality early learning. The $263 million investment scenario includes both targeted investments in access deserts and more widely and equitably distributed funding across all of King County Legislative Districts. Thus, it reaches additional children across geographies, which should allow King County to leverage more partnerships than it could in access deserts alone (the $150 million investment scenario). This approach would allow for rural communities, which may have less concentrated need, but still face access challenges due to availability and transportation barriers, to also benefit from the PSTAA-ELFF.

2.1.1 Meeting the need: Scenarios

3SI conducted a scenario analysis to estimate the degree to which PSTAA funds would meet the current need for early learning facilities, based on the two levels of investment: $150 million (50%) and $263 million (85%).

In the $150 million investment scenario, the model assumes all funding is directed to access deserts, where the shortage of early learning spaces for children who are eligible for subsidy is most severe. The investment scenarios in this model fund disbursement by school district geographic boundaries, reserving funds for the Auburn, Enumclaw, Federal Way, Highline, Kent, Renton, Seattle, and Tukwila school district areas. This scenario would address 76% of the unmet need in access deserts. Although $150 million does not fully address the unmet need in these geographic areas, this investment would be sufficient to convert these areas from access deserts into neighborhoods with more reasonable levels of high-quality early learning.

The $263 million investment scenario targets expansion of service both in access deserts and in all other regions with unmet need. The fund would prioritize $131.5 million for access deserts and divide the

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58 Income levels vary by subsidy, but in general, annual household income needs to be less than $50,200 for a family of four to qualify for subsidized early learning. For some subsidies, such as Head Start and ECEAP, annual household income needs to be $32,630 or less. A single parent with two children working a full-time job at $15 per hour (minimum wage in Seattle) makes too much to qualify for ECEAP.

59 Each school district is ranked based on the presence of access deserts in that district (see explanation of access desert methodology and definition in Appendix B: Methodology for Defining Access Deserts). Provisionally, any presence of access deserts in the district is weighted equally, but future analysis could model a finer prioritization rubric. Under the low-investment scenario, the model then assumes the fund saturates demand in access deserts before moving on to build facilities in other districts without access deserts. This design optimizes model operation and permits it to calculate the number of seats created in each year, but it is not meant to dictate how King County should allocate resources.

60 While the scenario model assumes the investment is to be split between school districts within King County, this is not an indication of which areas would ultimately receive these funds; that decision would be up to King County. For the purposes of this analysis, the Seattle school district is split into North and South Seattle, in accordance with the Road Map Project, which identifies areas of greatest risk and need within King County (further information available at: https://roadmapproject.org/data-dashboard/). See Chapter 1: Background and Appendix C: Methodology of Cost and Scenario Models for additional details on modeling assumptions and methodology.

61 Though unmet need would still exist within access deserts in the $150 million investment scenario, the gap in access to high-quality providers would not be disproportionately low compared to the rest of King County. As such, these clusters of zip codes would no longer meet the definition of access deserts.
remaining $131.5 million amongst school district regions with unmet need, including those school districts with access deserts. As such, the total amount invested in access deserts would be about the same as in the $150 million investment scenario.

The $263 million investment scenario could also allow King County to do more to improve early learning access for families with moderate-incomes who do not qualify for subsidized early learning and yet cannot afford quality care. Although their operational costs might not be as heavily federally- or state-subsidized, facilities that receive PSTAA-ELFF funds to expand service for children from households with moderate incomes (200% to 300% of the FPL, or up to $75,300 for a family of four) would still benefit from the cost-savings associated with reduced capital expenses, allowing them to provide more affordable care to moderate-income families. Allowing fund recipients to allocate spaces to families with moderate incomes makes it more economically feasible for early-learning providers to serve children from low-income households. Furthermore, research shows benefits of mixed-income classrooms on child outcomes.

The tradeoffs associated with each investment scenario pertain to the degree to which the investment level is sufficient to meet the need and the extent to which other needy communities can and should be served by these funds. It is ultimately a task for King County, stakeholders, and the broader community to weigh these tradeoffs to determine the optimal path forward.

To ensure that PSTAA-ELFF continues to invest in the areas with the greatest need, King County should update a needs assessment that maps access deserts annually to account for changes, such as early learning centers opening or closing, demographic shifts, and policy changes that could affect the supply and estimates of the uptake (the number of eligible children who would use early learning subsidies) in a district’s geographic area.

2.1.2 Safeguarding the investment: Ensuring long-term service to children from low-income households

As Table 2-2 shows, King County would serve an estimated 21,549 to 36,909 children from low-income households by 2040. However, investments in facilities would create capacity to serve children well beyond the life of the fund, as long as the facilities continue to serve children from low-income households.

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62 Scenario modeling methodology assumes that 28% of preschool (ages three and four) seats and 33% of infant-toddler (birth to 2 years old) seats created through the PSTAA-ELFF would be available to children not qualifying for Head Start/ECEAP/subsidy child care. This assumption can be adjusted in future analysis.

63 As discussed, Chapter 1: Background, the SPP covers operational expenses for populations that would otherwise be ineligible for Head Start/ECEAP/WCCC, offering sliding scale fees to families as high as 500% of the FPL.


65 3SI’s scenario model makes an allowance for an average annual fund expense of $100,000 dedicated for outside contracts for monitoring and evaluation, data management, and analysis, and an additional $30,000 for updated needs assessment (likely lumped periodically over the lifetime of the fund). For further details on the estimate of annual fund expenses, see Appendix C: Methodology of Cost and Scenario Models.
households. Given operational costs for ECEAP and WCCC come from separate funding sources, investment in facilities would pay increasing dividends over time.\textsuperscript{66}

The cumulative count of children served by new early learning spaces would increase each year the facilities operate, increasing the value of initial investment and providing a lasting legacy in King County. This would also result in the cost to serve an individual child decreasing over time. For example, using a time horizon of 2036, the expected net present cost per child served is $6,778 and $6,512 under the $150 million and $263 million investments scenarios, respectively.\textsuperscript{67} Extending the horizon of analysis by only 3 years to 2039 decreases the facility development cost per child served by roughly 30%, to $4,694 and $4,632.\textsuperscript{68} This sensitivity underscores the benefit of a fixed cost investment that continues to serve more children over time, thereby driving down the cost per child as each year passes.\textsuperscript{69}

In order to realize long-term benefit, King County will need to safeguard the investment to ensure facilities continue to be utilized for high-quality early learning programs. 3SI addresses this topic in more depth in recommendations on financing.

\textbf{2.1.3 Measuring performance: Impact of the PSTAA-ELFF}

The performance of a facility fund is best measured in terms of the benefits it delivers to the community net of the costs to achieve these gains. PSTAA-ELFF should collect data to conduct cost-benefit assessments and measure progress to ensure continuous improvement during the lifetime of the fund. Table 2-3 provides an initial list of measures that King County should consider using to assess the performance of the investments of PSTAA-ELFF. Please note that this table represents only a preliminary, illustrative list and should be refined further once King County has made decisions about the total amount to invest, among others. Indicators in bold are the most important indicators, also called key performance indicators (KPIs).

\textsuperscript{66} Based on expected tenure of children in ECEAP and WCCC, the number of distinct children served annually is expected to be somewhat lower than the number of seats created. On average, a new space is expected to serve 0.82 new distinct children per year. See Appendix C: Methodology of Cost and Scenario Models for details about the estimated translation of spaces and space-years to the annual and cumulative counts of distinct children served.

\textsuperscript{67} Based on estimate of cumulative distinct children served through 2036 in conjunction with the Net Present Value of expected funds awarded, adjusting for 3% annual discount rate, totaling $103.8 million and $183.5 million for the $150 million and $263 million investment scenarios, respectively.

\textsuperscript{68} Based on annual distinct children served by the new seats created by the PSTAA-ELFF by 2036. This figure estimates that operating costs (covered by State subsidies) and rent charged to providers by the PSTAA-ELFF would account for any additional costs to maintain facilities.

\textsuperscript{69} These cost estimates account for the modeled investments made by PSTAA-ELFF for facility development, and do not consider variable operating and maintenance costs from year to year, which will be passed along to providers as rent, and may increase over time.
<table>
<thead>
<tr>
<th>Category</th>
<th>Performance Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Investment</td>
<td>• Number of early learning spaces created for children from low-income households(^{70})</td>
</tr>
<tr>
<td></td>
<td>• Number of early learning spaces preserved for children from low-income households</td>
</tr>
<tr>
<td></td>
<td>• Number of early learning spaces filled</td>
</tr>
<tr>
<td></td>
<td>• Cost per space created</td>
</tr>
<tr>
<td></td>
<td>• Cost per space preserved</td>
</tr>
<tr>
<td></td>
<td>• Saturation of early learning spaces serving children from low-income households</td>
</tr>
<tr>
<td>Finance</td>
<td>• Percent of funds in active investments (versus funds available)</td>
</tr>
<tr>
<td></td>
<td>• Percent of funds requested, awarded, budgeted, and invested</td>
</tr>
<tr>
<td></td>
<td>• Number of defaults and renegotiated contracts (versus total active contracts)</td>
</tr>
<tr>
<td></td>
<td>• Other resources leveraged (philanthropy, fundraising, private capital)</td>
</tr>
<tr>
<td>Eligibility</td>
<td>• Number of children from low-income households served</td>
</tr>
<tr>
<td></td>
<td>• Number of children served with additional eligibility requirements (such as children with disabled, children with special needs, homeless, foster, and DLL children)</td>
</tr>
<tr>
<td></td>
<td>• Percent of pre-development grantees that are awarded a capital investment</td>
</tr>
<tr>
<td>Technical Assistance</td>
<td>• Share of funded projects completed on time</td>
</tr>
<tr>
<td></td>
<td>• Share of funded projects completed on budget</td>
</tr>
<tr>
<td></td>
<td>• Time invested in assisting grantees/borrowers at each phase</td>
</tr>
<tr>
<td></td>
<td>• Costs of TA provision by service</td>
</tr>
<tr>
<td></td>
<td>• Satisfaction of TA recipients, as measured by surveys</td>
</tr>
</tbody>
</table>

While this list of performance indicators is informed by 3SI’s benchmarking, a final list of performance indicators should be the result of a collaborative exercise among program stakeholders. The group should consider PSTAA-ELFF’s objectives as well as political and other considerations.

PSTAA-ELFF should start with a facilitated collaborative exercise that brings staff, partners, parents, and policymakers together to confirm the goals of the fund; identify short-term goals (less than 1 year), medium-term (1 to 5 years), and long-term (more than 5 years) and performance indicators; and

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\(^{70}\) Children served should be disaggregated by the eligibility criteria of various subsidies: Head Start = 130% of FPL, ECEAP = 110% of FPL, WCCC subsidy = 200% of FPL, and children from households at or below 300% of FPL, as well as children served who pay privately because their families are not eligible for subsidy. While ELDS does account for this overlap to some extent, further analysis is needed to better understand the population of children served between these overlapping categories.
determine the methods of data collection. This collaborative group should also develop a process for reviewing and revising these performance indicators over time—with community advisory support and approval from King County to be responsive to lessons learned and external factors outside the control of the PSTAA-ELFF (such as policy changes that affect early learning and shifts in the real estate market).

2.2 Finance

ELFS recommends specific financial instruments that address barriers to expanding early learning facilities in the areas with the most need, safeguard the public purpose over an appropriate time horizon, and support performance monitoring of the investment.

Chapter 3: Benchmarking describes the range of financial instruments to fund early learning facility expansion. The various financial instruments are reflective of a diverse set of goals, funder priorities, geographic parameters, and other elements related to early learning. For King County, the primary goal is to increase access to high-quality early learning facilities for low-income and vulnerable families. King County does not seek a financial return other than to ensure the investment continues to serve this public purpose. Therefore, what is most important is that the selected financial instruments are affordable for the recipient, encourage investment to meet specific needs in specific locations, and protect the investment over time with legal and financial recourse if performance measures are not met.

2.2.1 Meeting the need: Structuring funding appropriately

PSTAA-ELFF should offer three basic forms of funding as described below.

Grants

Traditional grants would fund TA during the Pre-Development and Facility Financing phases. The TA recommendations address these in more detail. King County should expect that not all projects that receive initial grant funding can be successfully converted to facility capital investments. The outcome of the grant should be a go/no-go decision regarding whether to finance a specific early learning facility. Traditional grants are appropriate because early learning providers, regardless of need and location, do not have the resources or funds to accomplish or pay for this step on their own.

Forgivable loans and/or grants with clawback provisions

Forgivable loans and/or grants with clawback provisions would finance renovation/expansion of existing early learning facilities and direct shared investments in development projects (such as affordable housing). This would allow King County to leverage existing resources, expertise, early learning capacity, and other funding. In both cases, King County would not directly own the facility; instead it would facilitate its development, construction, and maintenance in partnership with other organizations. King County does not necessarily need a financial return on investment but does need to build in legally-enforceable performance parameters that safeguard the asset for the intended purpose (i.e., high-quality early learning).
3SI anticipates these types of instruments would be necessary in both the $150 million and $263 million investment scenarios. However, because grants and forgivable loans leverage other organizations and resources, they would likely be more prevalent in the $263 million investment scenario.

Since it is in King County’s and the target community’s interest to leverage existing resources, to the extent possible, King County should prioritize using forgivable loans in access deserts. Partnering on the project and sharing the cost with other (mostly mission-oriented) organizations and funders would encourage more community ownership and help dollars stretch further than with stand-alone investments. However, the caveat is that the goals of PSTAA-ELFF investment cannot be compromised for the sake of partnering alone. For example, King County might be faced with an enticing offer to co-finance a large early learning facility that would reach a lot of children, but with the stipulation that the site be located outside of an access desert where more resources are available.

In most cases, King County would need to ensure that partnering is used in circumstances where partners can meet fundamental eligibility and geographic requirements. There may be some situations that warrant exceptions, however, because they align with King County’s equity and social justice goals. For example, King County may consider modifying eligibility and geographic requirements to accommodate partnering opportunities where developments are intended to address or reverse gentrification that has dispersed cultural communities.

Ownership (equity)

Ownership (equity) to finance direct investments where King County is the sole or majority owner of the facility and/or property. Ownership would likely be necessary in some locations where community need is great but resources and market opportunities are sparse. For example, access deserts are lower-income, lower-resource population centers; as such, they may not have partnering opportunities or existing facilities to leverage. Therefore, King County would need to play a more prominent role financing any facility to ensure it is developed, constructed, and maintained over time in these targeted areas of need.

2.2.2 Safeguarding the investment: Financial provisions

The financial provisions of these instruments should be developed to protect the asset for its intended purpose over time within legally-enforceable performance parameters. Please note that while these recommendations are grounded in empirical research of similar investments in Washington State and other states, the legality must be further explored within the specific context of King County. 3SI was not scoped (and is not qualified) to provide formal legal counsel and guidance on these topics.

Because the terms will vary based on the type of instrument and associated investment, specifics are outlined as follows:

Grants

Grants for Pre-Development activities should include performance milestones based on specific deliverables. Deliverables should include a feasibility study, business plan, or other discrete activities (refer to TA recommendations for more information). The most important outcome of these grants is that
King County and/or its agent can make a go/no-go decision about whether the project should advance to Development and Construction. King County could choose to disburse grant funds in increments and release payments for future Pre-Development activities upon the successful completion of a prior deliverable. The reason for sequencing payments is because not all Pre-Development efforts will lead to capital investments, so King County could save some money by not committing and releasing all of the grant funds up front until more is learned regarding a specific investment opportunity.

That said, the administration of multiple payments and related performance measurement may not be cost effective given the relatively low dollar amount of these grants. In addition, some of these activities are not sequential and may occur simultaneously, which would further complicate the administration of a grant structure with multiple payouts. Ultimately, King County will need to balance these considerations when executing this aspect of the fund.

**Forgivable loans or grants with clawback provisions**

Forgivable loans or grants with clawback provisions contain similar financial terms in several key respects despite being technically different financial instruments. Forgivable loans appear to be more commonly used and understood in the field, and as such, may be more easily implemented. Furthermore, loans are an important engine for economic development even in distressed communities, and the opportunity to leverage loans for early learning facilities should be welcomed, especially for centers that are part of larger housing and community infrastructure projects. Forgivable loans offer the advantage of subjecting proposed development projects to credit analysis and underwriting standards. The disadvantage of loans, even those that are forgivable, is that borrowers must be creditworthy, which usually requires collateral and a demonstrated ability to repay the loan.

Grants with clawback provisions may be more acceptable to providers who would otherwise be reticent to take on debt (even if it is forgivable). King County should preserve some flexibility to do both in order to facilitate deal flow and maximize its options.

The following represent key parameters that should apply, regardless of the financial instrument:

- The payment of principle and interest is either forgiven in part or in whole (in the case of a loan) or not required (in the case of a grant) as long as the early learning provider continues to serve children from low-income households and meet other eligibility requirements, such as creating new spaces for children in centers that meet a specified quality standard.

- There are clear covenants in the loan contract or legally-enforceable clawback clauses in the grant that would stipulate when an early learning provider is out of compliance with the instrument’s terms. These covenants or clauses would also stipulate the required actions the provider must take, along with the duration, to rectify the situation and resume compliance. Compliance in this case primarily means adherence to a:
  - Minimum Early Achievers high-quality rating. King County should align its contractual terms with state regulations already in place. For example, Early Achievers mandates that all providers that serve families using WCCC maintain a minimum high-quality rating.
Minimum percent of children from low-income households served. Terms could also be structured to match more diverse loan or grant recipients; for example, a share of the loan forgiven could be equivalent to the share of children from low-income households enrolled in the program. These flexible terms could encourage organizations to build early learning centers without fear that gentrification could make it difficult to meet an either/or condition of a minimum number of children from low-income households enrolled in the center. Based on ELFS experience, new providers entering the market sometimes have difficulty attracting enough children from low-income households to meet a minimum threshold. As such, King County should consider a provisional period of 12 to 18 months when, as long as the provider is making incremental progress on serving children from low-income households, the PSTAA-ELFF does not initiate clawbacks.

King County should ensure that direct investment partners incorporate similar provisions into their lease agreements. Please refer to recommendations regarding eligibility for more detail.

- The duration of these provisions should ideally be 25 years or more. The rationale for this longevity is due to the magnitude and relatively long distribution period of the PSTAA fund. In other words, King County should avoid a scenario where it invests in an early learning facility near the beginning of the distribution period (i.e., 2021), only to lose the asset to a non-early learning purpose near the end of the distribution period (i.e., 2035). In addition, the magnitude of the public investment should secure additional high-quality early learning capacity for King County residents in perpetuity, not just for 10 or 20 years.

While a 25+ year duration should be a standard, it should not necessarily be a hard requirement. First, in the case of renovations of an existing building owned by an established provider, it is unclear whether that provider would agree to such a condition; it may be that a 15 to 20-year term would be more appropriate given that King County would have less leverage in that circumstance. Second, in the case of shared investments, King County may have an opportunity to engage with community partners in a multi-use shared resource such as extended learning opportunities or before and after-school care, within an affordable housing complex. In these cases, an extensive and overly stringent early-learning requirement for such a long time period may inadvertently prevent what otherwise may be a suitable investment that also serves children from low-income households.

It could be argued that, for these reasons, King County would be better off owning as many facilities as possible, because it would retain the option to divest of the asset when necessary and then purchase another building in a geographic area more suitable for the intended purpose of the fund. While this would be true in certain situations, an ownership-only fund would likely decrease the number of facilities and geographies King County could invest in because it would have to pay more per facility (because it would not leverage other assets and resources). This would reduce the number of children King County could serve. Therefore, it is in King County's interest to partner with and leverage community assets with forgivable loans and/or grants, in addition to outright ownership, to help expand its impact.

- If non-compliance persists, the fund should have prescribed parameters in the original terms of the instrument to take control of the facility and repurpose it for its intended use. It must also
insist that leases to early learning providers contain similar language. This situation could mean either a conversion to outright ownership or placement within a temporary receivership until a new owner and/or early learning tenant can be identified and installed. Please see the next section (ownership) for a more extensive discussion of this topic.

Ownership (equity)

Ownership (equity) safeguards the building (and possibly the land itself) because it gives King County complete control of the facility. In these cases, the fund must provide for property management, maintenance, and investment. These provisions should be tailored to ensure normal management of a tenant, the building, and associated land (such as playgrounds) to preserve its good standing as a high-quality early learning facility.

For ownership, the risk associated with safeguarding the asset is entirely related to the provider’s ability to remain compliant with a minimum Early Achievers high quality rating and a minimum percentage of children from low-income households served. In cases where the provider either is not compliant and/or can no longer continue operations, King County should:

- **Be prepared to perform a “workout”** to leverage at least some or all of the early learning assets already in place. A workout is a financial term whereby the lender (or in this case, the owner) explores alternatives to replacing the non-compliant early learning provider, beyond what is already stipulated in contractual agreements. For example, King County may:
  - Reduce or suspend the need to pay rent for a certain extended period,
  - Lengthen the time necessary to regain compliance, and/or
  - Negotiate a change in leadership or with specific staff.

The above list is not comprehensive but represents traditional levers associated with a workout negotiation. No matter what the specifics entail, King County must require a viable operational plan that clearly outlines what issues must be addressed, how, and by when to mitigate whatever set of circumstances are causing the problem(s). TA would likely be necessary in this situation. The provider must lead and own the operational plan and the plan must represent an easier, faster, and/or more likely path to restoring the facility for its intended use than a complete operational shutdown and restart. We anticipate workouts may be preferable in many situations because the activities associated with identifying and restarting a provider from the ground up are numerous and would take more time. It should also be noted that this type of negotiation would be similar regardless of whether the instrument is a forgivable loan or equity, because in both cases the goals are the same (i.e., the provider must maintain a minimum high-quality rating, a minimum percentage of enrolled children from low-income households, and operational/financial viability).

Plan between 6 to 18 months to identify and install another provider to resume operations. This reflects the time required for King County to identify another provider, who would have to recruit and hire appropriate staff, develop operational infrastructure, apply for and be awarded a license,
and enroll eligible children. Given the level of effort required to replace a non-compliant fund recipient, all other options should be exhausted first before taking this step.

- **Exit the investment and sell the asset.** This scenario could occur if market shifts and gentrification prevent the minimum enrollment of children from low-income households over a 2 to 3-year period, or the asset cannot be maintained for its stated purpose over a 2 to 3-year period despite best efforts to do so (workout, restart, etc.). One caveat to this directive is a situation whereby the investment results in a successful early learning center, but this center cannot recruit enough children from low-income households and cannot afford to purchase the property. King County may want to avoid a scenario where closing the facility would remove early learning capacity for middle income families. A potential remedy could be for King County to sell the asset with the stipulation that the new owner maintain the property as an early learning center for a period, as long as the early learning provider remains in good financial standing. A similar approach would be to continue leasing the property with an option to purchase, although there would have to be stipulations to prevent the provider from purchasing the property at below-market values and reselling at market value. These remedies are not perfect, but it would give the early learning provider time to either stabilize its tenancy with the new owner, and/or find another suitable location.

### 2.2.3 Performance management: Options for oversight of PSTAA-ELFF portfolio

The final consideration is performance management of the fund. This report has already discussed performance management at the transactional level (i.e., managing the performance of individual facility capital investments). What is clear from the prior section are the numerous trade-offs PSTAA-ELFF must balance in pursuit of its goals. These trade-offs include:

- **Leveraging partnerships and sharing costs in higher-resource areas (but having less control) versus owning in lower-resource areas (but paying more).**
- **Offering flexible enough financial and contractual terms to attract co-funders and providers, but not so flexible as to compromise the core goals of the capital investment.**
- **Performing the necessary negotiations to restructure terms for assets and providers in distress, but not so much as to continue investing time and resources in a provider or asset that is unrecoverable (i.e., a sunk cost).**
- **Constructing financial instruments that are customized enough to meet the overall goals of the portfolio, but not so much that this variation prevents some efficiencies and economies of scale.** In other words, the fund must have some ability to replicate portions of each transaction repeatedly to save staff time and money; otherwise, the size and variability of the fund will be difficult to manage.
- **Balance these considerations as the market evolves over a 15-year period.**

The good news is that the overarching goals of the fund are tangible and objective: capital investments in facilities that serve children from low-income households with a specific Early Achievers quality rating. In
addition, a significant share of the performance management cost is borne by the State: DCYF mandates, monitors, and enforces Early Achievers quality ratings, and multiple government agencies pay for and monitor the subsidization of early learning programs and providers.

What remains is fund management for the financing and/or ownership of the real estate itself. Given this focus, King County should designate an umbrella organization to be responsible for the performance and management of the fund. Like any fund of this type, the investment must be managed cohesively as a portfolio, not as a collection of unrelated individual transactions. Therefore, one entity (and ideally one person within that entity) must be appointed the portfolio manager, empowered to make investments and risk-return decisions as previously described, and held accountable for overall fund performance.

The portfolio of PSTAA-ELFF investments would need ongoing management, even after the PSTAA-ELFF funds have been disbursed. Therefore, King County should plan to maintain some funding of this umbrella organization and its activities after the disbursement of PSTAA-ELFF funds. The portfolio would generate some revenue by this time period, but it is unclear how much revenue would be necessary to manage the portfolio until PSTAA-ELFF is partially invested. While a financial return on invested assets is not the goal of the fund, the portfolio could be allowed to generate a return for select transactions to help subsidize its own cost, as long as the overall mission and goal of the funds are not compromised.

The most likely fit for an umbrella organization is a PDA, which allows cities, towns, and counties to establish what is essentially a public corporation to improve the general living conditions in the urban areas of the state. PDAs are often used for non-traditional endeavors, which for a variety of reasons, the parent municipality would not want to undertake itself.71

PDAs also:

- Own and sell real property, which would be important when addressing the early learning facility shortage in access deserts, where there may not be many opportunities for existing providers to expand their facilities or potential partnerships to leverage.
- Contract with individuals, associations, corporations, the State of Washington, and the U.S. government.
- Loan and borrow funds.
- Transfer funds, real property, property interests, or services.
- Are often created to manage the development and operation of a single enterprise, if the parent municipality determines it is best managed outside of its traditional bureaucracy and lines of authority. The enterprise may be entrepreneurial in nature and intersect with the private sector in ways that would strain public resources and personnel. For example, the Pike Place Market is a City of Seattle PDA and acts as the landlord to retail establishments and nonprofit services provided in historic buildings. The City of Seattle has determined that day-to-day operations of such an enterprise is best managed by professionals independent of the City, given the

untraditional nature of the enterprise and the importance of responding to the unique needs of the private retail marketplace.

- Tend to be more entrepreneurial than their sponsoring municipality, involving private sector participants as board members or partners. PDAs allow municipalities to participate in projects that they may be otherwise disinclined to partake in due to project risks and competing priorities of the municipality.

- May borrow funds or issue tax-exempt bonds. Despite broad authority to undertake various projects, PDA financing is generally project specific. To facilitate access to the financial markets, PDA project financings are often backed by a city or county guarantee, typically in the form of a contingent loan agreement. The parent municipality may adopt an ordinance authorizing the transfer of property or funds to a PDA. Property and funds frequently transferred to a PDA include real property and operating funds.²²

A potential alternative would be partnering with a CDFI or nonprofit lender to manage this option (see Chapter 3: Benchmarking for details on the operation of CDFIs). CDFIs have the most financial experience and expertise but would need to increase capacity considerably to manage a fund of this size. A CDFI does not normally own or sell property, so it would need to partner with an entity that can own and manage public assets.

Another alternative could be the King County Housing Authority (KCHA), an independent municipal corporation created by the State of Washington in 1939 to provide affordable housing and related services. KCHA owns and manages properties that provide more than 10,000 housing units, and it administers the federally-funded Section 8 program that assists another 10,000 households with rent on the private market. KCHA covers operating costs through rents charged to tenants and federal funding, raises capital funds by issuing bonds, and is self-sustaining (i.e., it does not rely on King County for funding to cover operating costs). KCHA’s annual consolidated budget is $301 million, and it has approximately 400 full-time employees.

King County could also explore creating and managing the fund itself, and there is some evidence supporting this approach from other states, although not at this scale. Several potential challenges exist that would require further investigation before proceeding:

- King County would need to create and manage a unique, entrepreneurial, quasi-market-based investment fund that, by its very nature, is not standard government practice. While validating the feasibility of such an endeavor is beyond the scope of this report, it is reasonable to question whether King County is set up to successfully develop and execute this type of fund (either in-house or through a housing authority).

- Even if King County can start and manage the fund in-house or through a housing authority, the question of whether it should do so is separate and equally important. Because many trade-off decisions would need to be made between properties, locations, providers, etc., King County seems better served creating an arms-length distance from these decisions. Otherwise,
communities might (justifiably or not) question whether these decisions are politically motivated and/or not in alignment with the mission and purpose of the fund. In addition, it would be more straightforward to hold a separate entity accountable for fund performance; if the fund is managed in-house, internal politics could influence and negatively affect fund management and performance.

- With KCHA, the biggest question is whether the existing infrastructure, which is appropriately aligned to support affordable housing, would be nimble and focused enough to set up and execute an early learning capital fund. A bureaucracy that is built for another purpose might inadvertently create additional cost, time, and execution challenges when repurposing this administration for a mandate it was not intended to support.

With the caveat that King County should explore the legality and viability, a PDA (or a combination of a PDA and a CDFI) seems like the most promising vehicle to successfully develop the investment fund and manage performance as a portfolio. If a PDA were to be created, for the purpose of managing this program, it would likely need to manage all PSTAA funds to justify its creation, create economies of scale to distribute fixed administrative costs, and unify a management team to properly execute the portfolio. A PDA may need to partner with a CDFI or other nonprofit with lending experience to support credit review and underwriting activities. Another avenue to explore may be whether a PDA could work in coordination with an associated 501(c)3 to raise additional funds.

Even after the PSTAA-ELFF is initially invested, some portion should be held in reserve to enable the PDA to continue operating to cover overhead, maintenance, and capital reinvestment. King County should also reserve funds for and appoint a separate and independent third-party evaluator to monitor and report on fund performance relative to goals.

2.3 Eligibility

2.3.1 Meeting the need: Targeting funding to address highest needs

In line with King County’s commitment to equity, social justice, and investing in a child’s early development, and considering the high cost of living in King County relative to other parts of the U.S., the ELFS recommends that PSTAA-ELFF distribute funding to facilities based on the following eligibility requirements:73

- A minimum level of children served from households that qualify for Head Start, ECEAP, or WCCC subsidy as determined by King County in consultation with stakeholders (other funds require as

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73 This recommendation is informed by the eligibility limits reported by the benchmarked funds. See Chapter 3: Benchmarking for more detail. The Fund for Quality requires that its partners serve at least 50% children from low-income households, whereas LIIF only requires that 20% of the children be from low-income households. In practice, most funds serve a much higher share of children from low-income households. Seattle DEEL reported that 70% to 80% of the children enrolled were from families that qualified for full subsidy, meaning they had low incomes. Early Learning Property Management leases to Head Start providers, so all served children are from low-income households.
high at 50% minimum, though the minimums vary). This minimum level should be updated based on market factors on a regular basis.74

- The County should set a target number for additional children served up to 300% of FPL, based on analysis of community need and feasibility.
- The remaining spaces could serve children from households at any income level.

In addition to income criteria, PSTAA-ELFF should extend eligibility requirements of early learning facilities expansion projects to include additional children who qualify for ECEAP, Head Start, or WCCC. For example, children on Individualized Education Programs (IEPs) for special education may also qualify for ECEAP and children experiencing homelessness qualify for Head Start. If eligibility requirements for these programs change, the PSTAA-ELFF should adapt eligibility requirements. This should be done with input from the early learning community to ensure that the goals of the PSTAA-ELFF are met.

To allow for maximum flexibility to meet the need, especially in access deserts, ELFS also recommends extending eligibility to institutions that qualify to manage ECEAP, Head Start, Early Head Start, or WCCC programs.75 Examples include early learning providers, nonprofit property managers, affordable housing developers, community and technical colleges, Educational Service Districts, local governments, and tribes in the state. In particular, the fund should be opportunistic about co-locating with affordable housing or partnering with early learning facilities projects that can match funding, given the obvious synergy and cost savings associated with such a partnership.

2.3.2 Safeguarding the investment: Aligning requirements

PSTAA-ELFF funding would be directed toward providers that meet Early Achievers/WCCC, ECEAP, and/or Head Start program quality standards. As such, PSTAA-ELFF eligibility requirements should be aligned with these program eligibility standards where applicable. For example, in order to qualify for WCCC funding, facilities must receive an Early Achievers minimum high-quality rating of at least Level Three. To qualify for ECEAP funding, sites must receive an Early Achievers minimum high-quality rating of Level Four. The Early Achievers minimum high-quality rating specifies standards regarding indoor and outdoor space, restroom access, safety, minimum square footage per child for indoor and outdoor areas, and maximum number of children (18 to 20) per classroom, among other requirements.76

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74 There is precedent for a lower threshold (20%), but the fund should start with a higher requirement and only revisit it if fund goals are compromised due to this prerequisite.

75 Early Head Start is not considered in this analysis or the modeled investment scenarios, due to its small program size and uncertainty regarding scalability in Washington State. Early Head Start serves a similar low-income population considered in this proposal, however, so King County should consider potential investments leading to Early Head Start partnerships and expansion.

76 3SI models an average of 90 square feet per child, based on BERK estimates of 60 to 110 square feet per child. BERK estimates are based on Washington Administrative Code (WAC) and NAC Architecture’s experience building early learning facilities. BERK also assumes a maximum classroom size of 18 children for preschool-aged settings, even though WAC allows up to 20 children. For various reasons, including costs as well as child-to-teacher ratio, BERK assumes this lower classroom size of 18 children per preschool-aged classroom, and 3SI’s model aligns with this estimate. Source: “Facilities Needs Assessment for ECEAP Expansion;” BERK Consulting, NAC Architecture, and Columbia City Consulting, September 2016.
Some providers operate multiple programs at one site and align standards between programs to ease the burden on providers. Developing common and/or aligned standards across and between programs is a work in progress, so PSTAA-ELFF must be careful to develop its standards in concert with these programs and Early Achievers and update its standards when necessary to remain in alignment with eligibility requirements for all programs supporting children from low-income households.

As already discussed in the Finance recommendations, allowing eligible institutions to dedicate a maximum percentage of early learning spaces to children from households with higher incomes would help ensure financially sustainability of funded early learning centers. Families that pay the full (unsubsidized) cost for child care will support the solvency of these facilities. This maximum amount should be set in consultation with stakeholders to ensure external factors such as the current child care subsidy rate are considered.

### 2.3.3 Measuring performance: Targeting quality, need, and opportunity

Organizations that serve children in ECEAP, Head Start, and/or WCCC already have to meet minimum quality requirements to participate in these programs. There is an opportunity to fund institutions that would achieve a higher quality rating with renovations. As such, ELFS recommends all other eligible providers meet Early Achievers quality ratings of at least Level Three or demonstrate they will meet this threshold with the proposed renovations.77

In addition to meeting the eligibility criteria above, ELFS recommends prioritizing grant and loan recipients according to other factors. The following list prioritizes serving children with the most need, addressing opportunity, and incorporating cost factors into decision making.

These three criteria should be highest priority:

- Located in an access desert (where applicable, depending on the investment option selected).
- Proposes to expand the number of spaces by the minimum required to fill one classroom.
- Meets ECEAP, Head Start, and/or WCCC eligibility standards.

These six criteria should also be priorities, but it would be up to PSTAA-ELFF leadership and stakeholders to determine the weighting of each priority:

- Number of children served who are homeless or in foster care, have special needs or have a disability, are DLL, or otherwise at-risk;78
- Opportunity to co-locate with affordable housing or other public support facilities that target low-income households;

77 Early Achievers is the quality rating improvement system (QRIS) in Washington State.

78 ECEAP defines at-risk to include children in the child welfare system, children from families receiving child-protective services, DLLs, children with parents deployed to a combat zone, homelessness, and special needs.
• Co-funding/matching grants;
• A cap on cost per space created (per investment category, since the cost per space for a small renovation would be lower than the cost per space for new construction, in most cases);
• Number of spaces preserved; and
• The provider could meet the Early Achievers quality rating with additional investment in facilities (and demonstrates interest in qualifying for ECEAP or WCCC subsidy programs).

2.4 Technical Assistance

2.4.1 Meeting the need: Aiding successful proposals and projects

Investing heavily in TA during the Pre-Development and Facility Finance phases would help maximize the number of high-quality, fundable proposals in areas with the most need. (See Figure 3-1 of Chapter 3: Benchmarking for each phase of and activity in early learning facility development.) Early outreach and TA would also help PSTAA-ELFF generate a pipeline of fundable projects.

PSTAA-ELFF should conduct outreach to all eligible early learning providers at least in some capacity. The breadth of outreach to early learning providers would, in part, depend on whether King County opts to fund the $150 million investment scenario, in which case outreach would be focused on existing or potential providers in access deserts, or the $263 million investment scenario, in which case outreach would include early learning providers across King County. DCYF would be able to provide PSTAA-ELFF with contact information for early learning providers in King County as well as their Early Achievers quality rating, licensed capacity, and whether they serve children eligible for Head Start, ECEAP, or WCCC subsidy. Outreach to early learning providers should include coaching (for the application process); making staff available to answer questions about the Request for Proposals (RFPs); and offering tools like a webinar, published program guidelines, and frequently asked questions.79

PSTAA-ELFF should also conduct outreach to organizations with the capacity to build early learning centers, such as nonprofit property managers, affordable housing developers (for-profit and nonprofit), public school districts, and PDAs to gauge their interest in partnering to build early learning facilities.80 These organizations are less likely to have experience with early learning facilities, so converting outreach into successful partnerships would require more early investment in relationship building and due diligence, but could provide greater opportunity for scale over time.

These recommendations are based on benchmarking findings that early learning providers require extensive TA during the Pre-Development and Facility Finance phases, because their professional focus

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79 Washington’s Early Learning Facility Fund is setting up the infrastructure to provide similar TA to providers, which could potentially support this need. Pending further definition of the scale and scope for PSTAA-ELFF, King County could consider leveraging this infrastructure.

80 Enterprise Community Partners Home and Hope project facilitates the development of affordable housing and early childhood education centers on underutilized, tax-exempt sites owned by public agencies and nonprofits in King County. Because of this ongoing work, they could be a natural partner in outreach.
rarely includes training or expertise on planning and financing new facilities. Developers and nonprofit property managers would require TA for early learning classroom design and licensing requirements.

### 2.4.2 Safeguarding the investment: Early support for later success

Some competitive processes fund only the Development and Construction phases, but 3SI believes this approach is suboptimal and introduces too much risk into the process, especially for a fund of this scale. Proposals could be of low quality, infeasible, lack the financial planning necessary to complete the project on budget, or lack the business planning to be financially sustainable over the long term. PSTAA-ELFF should use TA in the Pre-Development phase to identify and cull infeasible projects as early as possible. The umbrella organization for PSTAA-ELFF—regardless of the entity type—should be engaged in Pre-Development, because information gleaned during this phase should inform whether a project should move to Development and Construction. A feasibility study should occur before final funding is approved to reduce project risk.

ELFS recommends that PSTAA-ELFF provide an initial round of grant funding for Pre-Development to support the following TA activities:

- Feasibility study,
- Financial planning to fully fund the project,
- Business planning to ensure that future operations can cover maintenance and rental costs, and
- Assistance with applying for and securing capital funds.

The umbrella organization for PSTAA-ELFF would also need to prepare guidelines for developing, designing, and building early learning facilities. It could partner with a CDFI to put together these guidelines. For example, the Low-Income Investment Fund (LIIF) has experience in San Francisco guiding applicants through the Pre-Development process where constructions costs, dense urban space, and seismic requirements are similar to King County’s. Enterprise Community Partners, through its Home and Hope program, is developing a strategy to help guide facility development and construction in Washington.

Unless the umbrella organization already has the internal capacity to provide TA, it would be easier to limit its activities to oversight and review and outsource technical and legal TA to qualified professionals and consultants. The umbrella organization would need to develop and vet a list of qualified professionals and monitor the quality of services rendered.

The benchmark study found that funds allocate between $5,000 and $100,000 in Pre-Development TA, depending on the scale of project. PSTAA-ELFF should budget for the following costs for Pre-Development TA grants:

- Renovations to existing facilities would require $8,000 to $15,000 for Pre-Development TA.
- Full commercial tenant improvements would need up to $30,000 for Pre-Development TA.
• New construction would require as much as $100,000, because the feasibility studies that go into the go/no-go decision are more complex (see the TA section of Chapter 3: Benchmarking for details).

The 5% allocation of PSTAA-ELFF resources assumed in the scenario model reflects these cost estimates. Appendix C: Methodology of Cost and Scenario Models explains this further.

### 2.4.3 Measuring performance: Monitoring and support

Because spaces filled by children from low-income households would be a key performance indicator and critical to achieving the projected return on PSTAA-ELFF investment, King County should be prepared, if needed, to provide TA once a facility is licensed and operating to ensure that classrooms are filled. TA at this stage could include guidance for outreach, marketing, and recruitment to families to fill their spaces. Any additional support in this phase should be limited in scope, but PSTAA-ELFF should continue to monitor the facility to track performance indicators and compliance with eligibility criteria.
3 BENCHMARKING

3.1 Methodology

Organizations interested in learning which activities will lead to superior results conduct benchmarking. Benchmarking is the process of comparing against a standard to learn how to improve performance. This benchmarking identified and evaluated organizations engaged in expanding early learning facilities to determine which activities led to improved access to high-quality early learning.

3.1.1 Value Chain

A common first step in a benchmarking analysis is to identify the discrete value-added activities for an industry, product, service, etc. A value chain—which is a model that describes the process of taking a product from inception to post-sales service—is a useful tool for organizing and illustrating these activities. Multiple organizations can be involved with the steps of a value chain.

3SI partnered with Enterprise Community Partners to develop a value chain for expanding early learning facilities. 3SI modified the value chain to incorporate the practices of other early learning facility funds. Figure 3-1 shows the phases, such as Fund Planning, and processes, such as the Market Analysis/Needs Assessment, associated with expanding early learning facilities. This graphic is included here to illustrate the breadth of the value chain; this chapter explores these phases in detail. The scenario model includes aspects of this value chain and are described in detail in Appendix C: Methodology of Cost and Scenario Models.
Figure 3-1: Value chain for early learning facilities expansion

**Fund Planning**
- Organizational planning and strategy
- Market analyses/needs assessment
- Develop financial instruments (loans and grants)
- Goal setting and portfolio planning
- Cultivate roster of qualified architects and contractors/develop internal capacity

**Pre-Development**
- Issue Requests for Pre-Development Proposals and recruit potential applicants
- Technical assistance (design and feasibility study, financial and business planning)
- Site selection and feasibility study
- Developers, property managers, and early learning providers prepare capital investment proposal
- Go/No Go
- Award funding

**Facility Financing**
- Technical assistance (apply for and secure funding for project)
- Secure additional outside funding as needed
- Review proposals
- Technical assistance (facility design)
- Pre-construction planning

**Development**
- Site acquisition
- Hire architect and contractor
- Technical assistance (zoning, permitting, project management)
- Permitting
- Pre-construction planning

**Construction**
- Construction
- Technical assistance (zoning, permitting, project management)
- Construction monitoring
- Facility licensing

**Operations**
- Contract with early learning providers (developers and property managers only)
- Technical assistance (recruit families)
- Recruit children and families
- Property management
- Portfolio management, monitoring, and data collection
This value chain includes fund-level activities, shaded in reddish brown, and project-level activities, shaded in white. An early learning facility fund would not be expected to perform all activities in this value chain. For example, a construction contractor would implement construction, while an early learning provider may be responsible for child and family recruitment. Note that this value chain is not intended to demonstrate a strictly linear process: some phases—such as the Pre-Development and Facility Financing phases—may overlap. Also note that each fund included in the benchmarking has a slightly different order in which they approached these activities; this graphic intends to show one way in which these activities could occur.

### 3.1.2 Selecting Funds to Benchmark

3SI identified criteria for identifying early learning facility funds to include in the benchmarking:

1. The fund resulted in an expansion in the number of early learning spaces available.
2. Grant funding is available.
3. Loans are available to complement grant funding.
4. The fund has trained staff and/or consultants who provide TA to early learning providers and developers.
5. The fund has additional resources to help early learning providers, such as guidebooks and training documentation, to supplement TA.
6. The fund provided phased support to improve planning and reduce risks.
7. The fund focuses on serving children from low-income households.
8. The fund has sustained over time (i.e., it continues to operate and has had multiple rounds of funding).
9. The program funds facilities that provide infant/toddler childcare (0 to 2 years old).
10. The program funds facilities that provide preschool (3 to 4 years old).

3SI assembled an initial list of 20 early learning facility funds and ranked them based on how many of these criteria they met. 3SI assigned a value to each of the 10 criteria: one if the early learning facility fund met each criterion, 0 if it did not. Eight programs met at least five criteria, including the expansion of the number of early learning spaces. Appendix E: Early Learning Facility Fund Selection and Information Gathering shows the rankings for Early Learning Facility Funds.

3SI interviewed seven early learning facility funds that were among the highest ranked:

- Enterprise Community Partners Home and Hope Project (Washington State);
- The Fund for Quality (Philadelphia, PA and District of Columbia);
- Local Initiatives Support Corporation (LISC – nationwide);
- Low Income Investment Fund (LIIF – San Francisco and other regions in California);
• The Massachusetts Child Investment Fund (Massachusetts);
• Seattle Department of Education and Early Learning (Seattle DEEL – Seattle, WA); and
• The Washington State Early Learning Facility Fund (Washington State).

One early learning facility fund did not respond to requests for an interview. See Appendix E: Early Learning Facility Fund Interview Information Requests for the interview protocol template and a brief description of the intent behind these questions.

Following these interviews, 3SI held additional conversations with experts in the field—Carl Sussman of Sussman Associates, a consulting practice that supports capacity building and strategic planning, and Dr. Ellen Frede of the National Institute for Early Education Research (NIEER). These experts provided more information about early learning facility funds in general. They also offered specific insights into two other funds: Early Learning Property Management in Atlanta, GA and the New Jersey Abbott Preschool Program (a program administered through New Jersey’s Department of Education and the Department of Human Services to provide early earning to children in 31 of New Jersey’s poorest urban school districts).

3.1.3 Measuring Performance

For each activity in the value chain an early learning facility fund would undertake, the benchmarking sought to answer the question, “Does one early learning facility fund outperform the others, and if so, what practices are responsible for this performance?” To qualify as a best practice, a practice must be something that other funds could replicate. In other words, if reasons for superior performance could not be replicated by other funds, these would not be considered a best practice. Similarly, if no fund is found to exhibit superior performance, or if no fund is engaged in a distinctly different set of activities to achieve objectively superior performance, these activities should not be characterized as best practices.

3SI developed a set of performance indicators that could be used to compare relative performance of each fund. For example, the number of and size (in dollars) of applications to the facility fund could be used to compare how successful funds were in recruiting potential applicants to the fund. The ROI section of this chapter provides a list of performance indicators used by the benchmarked early learning facility funds. Appendix F: A Value Investment Ratio for Measuring Facility Fund Performance outlines how these performance indicators can be combined to compare overall fund performance with that of other funds.

3SI sent a data request to target funds, asking them to report the following annual figures:

• Budget and expenses for grants and loans;
• Number of applications and awards for grants and loans;
• Number of early learning spaces preserved, created, and filled; and
• Number of early learning spaces lost to provider turnover.

See Appendix E: Early Learning Facility Fund Interview Information Requests for a full accounting of the data request sent to funds participating in the benchmarking.
Two funds provided data to calculate performance indicators and compare fund performance. Two funds—Enterprise Home and Hope Program and the Washington Early Learning Facility Fund—were unable to provide data because these two funds have only recently initiated operations. 81 3SI did not send a data request to the Children’s Investment Fund and Early Learning Property Management because it became evident that the data from other funds would not be forthcoming, thereby negating the purpose of the exercise.

3SI can only speculate on the reasons why funds did not provide data. One possible explanation is that when funding is scarce and variable, early learning facility funds may find it difficult or less meaningful to report year-over-year performance indicators. As a result of a fragmented and erratic funding landscape, funds are unable to prioritize more systematic performance management, collecting and reporting data, and transparency. As a result, funds may not have the ability or incentive to invest significant resources in these activities (and/or report them to 3SI).

This lack of data itself is a key finding: early learning facility funds can likely be improved (or at least better assessed) primarily through more sustainable and consistent funding sources, and through a more systematic, rigorous, and standardized program of data collection, transparency, and performance measurement. PSTAA-ELFF is well positioned to satisfy both of these conditions and has the potential to become a national leader in this arena, setting best practice standards for others to follow.

Although most of the funds were not able to provide the data 3SI requested, all of them set and pursued performance targets. The following summary of outcomes incorporates lessons learned on performance management and all other aspects of early learning facility funds from 3SI’s qualitative research. Because of the gaps and inconsistencies in how each fund provided data to 3SI, however, 3SI was unable to draw quantitative comparisons across funds.

### 3.2 Summary of Outcomes

Although none of the benchmarked funds explicitly characterized it this way, most funds structured their approach according to three guiding principles:

1. Identify the areas with the highest need for early learning and address barriers—the most significant of which is affordability—to expanding early learning facilities in these areas.

2. Safeguard the investment of public dollars to ensure it continues to serve the public purpose for which it was intended.

3. Set and adhere to performance targets to demonstrate ROI.

As described in *Chapter 2: Recommendations*, this proposal recommends adopting these as guiding principles for a PSTAA-ELFF.

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81 It would be preferable to benchmark only organizations that have been doing this work long enough to generate year-over-year measurable results. However, Enterprise Home and Hope and Washington Early Learning Facility Fund are local programs that have experiences and insights relevant to King County. To the extent possible, 3SI benchmarked these funds, understanding that some of their activities are emerging.
With the resources from the PSTAA funding, King County has the opportunity to close the gap between the need for and access to subsidized early learning capacity. By expanding early learning spaces through the construction or improvement of facilities and prioritizing areas with the greatest need for early learning facilities, King County can achieve rapid, targeted impact that will pay dividends as children are served in these communities.

As explained in Chapter 1: Background, more than an estimated 4,500 King County eligible children under 5 years old do not have access to subsidized early learning due to a shortage in early learning facilities. Given the scale of the early learning shortage and the opportunity for PSTAA funds to address that shortage, King County should structure its fund around the three guiding principles described above.

This chapter benchmarks how other early learning facility funds structured their ROI, financing, eligibility, and TA to address these three guiding principles, along with other insights that inform recommendations to King County.

### 3.2.1 Return on Investment

ROI measures the amount of return on a particular investment—in this case, number of early learning spaces for children from low-income households—relative to the investment’s cost. The following paragraphs describe how benchmarked funds set goals, prioritized investments, and managed their performance to achieve ROI.
Meeting the need: How funds set goals and priorities

**Goal setting**

Each fund sets goals, based on the local need and funding levels. Almost all funds set a goal to increase access to early learning for children from low-income households.

For some funds, goals are driven by priorities other than need. For example, one fund set a goal of improving the quality of existing early learning facilities irrespective of the income levels of children enrolled. In another example, public policy or politics resulted in a goal of distributing resources evenly across a geographic area, regardless of its relative need.

None of the funds set a goal of attaining a specific level of service saturation (the point at which all children eligible for subsidized early learning and likely to enroll are served), closing the gaps in high-need areas, or establishing universal preschool. This is because early learning facility funds generally do not have sufficient funding to achieve these goals. States that are in a position to set and achieve ambitious goals for universal preschool have relied heavily on their public schools for classroom space.

**Prioritization**

LIIF and the City of San Francisco prioritize their activities based on detailed needs assessments conducted by the San Francisco Child Care Planning and Advisory Council. This group commissioned an Early Care and Education Needs Assessment to identify the demand for early learning spaces (3,300 spaces in 2017). LIIF was the only fund reporting that it used estimates of the number of spaces needed to serve all eligible children from low-income households.

The Fund for Quality also uses data on supply and demand for early learning to inform decision-making. The sidebar describes how they collect, report, and use these data.

**Using data to inform decision-making.**

The Fund for Quality in Philadelphia, which stands out for its emphasis on using data to inform policymakers, providers, and parents, developed a mapping tool—**Childcaremap.org**—that overlays poverty data with certified early learning facilities. It provides parents with information to identify early learning providers near their home or workplace. Providers can use the tool to identify the level of demand for their services. Policymakers can overlay socioeconomic census information to determine if marginalized populations are being served. The Fund for Quality also displays information about vacant, City-owned, for-sale, and tax-delinquent properties, as well as previously-licensed childcare centers. Although this tool takes substantial time and resources to administer, staff at the Fund for Quality feel it is worth the expense because it informs their strategy for meeting the needs of Philadelphia’s children.

**Childcaremap.org**
Most funds do not conduct systematic needs assessments.\textsuperscript{82} This is because the magnitude of the need is much larger than the funds’ capacity to address it, so a needs assessment would not inform decision-making.

Instead of a needs assessment, some funds target capacity development to high-poverty school districts. Some use applications to competitive funds to gauge demand for early learning facilities. Other funds use census data and proxy indicators as high-level estimates of demand for early learning spaces that serve children from low-income households. Proxies for demand include Title I school districts, poverty levels in a given zip code, or the number of children in a district receiving free or reduced-price lunches.

**Safeguarding the investment: How funds monitor of fund recipients**

For multiple reasons, including thin profit margins for early learning providers, some form of subsidy is required to address barriers to expanding early learning facilities in areas with the highest need. When public funds are involved, though, it is essential that the investment continues providing the intended return. Several funds structured their funding instruments to ensure that when they invest in developing an early learning facility, it continues to serve the intended purpose of serving children from low-income households.

All benchmarked early learning facility funds reported monitoring funded projects from the Development and Construction phases to ensure the facility is properly designed and built and, at the end of construction, it provides access to quality early learning for children from low-income households.

Loans allow the funds to maintain a stake in the funded property and safeguard the investment. For example, when an early learning facility development is funded by loans, the early learning facility fund places a lien on the property to safeguard its investment.

Each fund uses a different approach for safeguarding their investment in grant-funded properties. While a few funds have no provisions for recovering grant funds, some funds institute binding legal agreements guaranteeing that the facility continue to provide early learning classrooms for periods of 5 to 15 years.

Most funds provided TA to help safeguard their investment over time. For example, several funds provide TA to help potential recipients develop sound financial and business plans or fill their classrooms once projects are completed.

The Finance section of this chapter provides more details on how funds structure loans and grants to safeguard their investment. The Technical Assistance section of this chapter provides more details on the TA.

\textsuperscript{82} A systematic needs assessment identifies the actual number of children who need high-quality early learning and are not able to access it, as well as their location.
**Performance measurement: How funds track return on investment**

Whether funded by philanthropic or public dollars, most of the benchmarked funds are expected to demonstrate ROI. For example, the Fund for Quality is only able to draw down funding from their donor when they demonstrate the creation of new spaces. Funds use a variety of metrics to measure performance and ROI, based on their specific goals, funding levels, and local context. Table 3-1 summarizes key performance indicators for each fund.

**Table 3-1: Goals and indicators for measuring return on investment**

<table>
<thead>
<tr>
<th>Goal</th>
<th>Indicator(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve quality of existing early learning facilities</td>
<td>• Facility improves quality rating</td>
</tr>
<tr>
<td>Increase access to early learning</td>
<td>• Number of spaces created</td>
</tr>
<tr>
<td></td>
<td>• Number of spaces preserved</td>
</tr>
<tr>
<td></td>
<td>• Square footage developed</td>
</tr>
<tr>
<td></td>
<td>• Number of classrooms built</td>
</tr>
<tr>
<td>Increase access to early learning for children from low-income households</td>
<td>• Percent of children served that are from low-income households*</td>
</tr>
<tr>
<td>Distribute early learning resources across a geographic area</td>
<td>• Number of facilities built in target geographic areas</td>
</tr>
<tr>
<td></td>
<td>• Number of spaces created in target geographic areas</td>
</tr>
<tr>
<td>Sustainable early learning facilities</td>
<td>• Number of new classrooms at capacity</td>
</tr>
</tbody>
</table>

*The exact income level varies with the type of subsidy that the student receives.*

Funds that measure the number of spaces preserved are typically concerned about the fate of early learning spaces in rapidly gentrifying areas or when policy changes affect available space for early learning facilities.83

Not all funds that track the percent of children from low-income households served set hard targets. One fund requires that funded facilities reserve a minimum of 50% of available early learning spaces for children from low-income households, while other funds have no targets or are flexible in their targets.

Only one fund collects provider-level data (number of jobs created and salary data). None of the funds track information about provider turnover at facilities.

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83 For example, policy changes that mandate smaller class sizes or full-day Kindergarten have resulted in public schools terminating contracts with early learning providers.
Key return on investment takeaways for King County and other communities

Meeting the need – Lessons learned from benchmarked funds

None of the benchmarked funds set goals for achieving service saturation in high need areas, because they do not have the resources to meet these goals. Given the potential scale of PSTAA funding, King County is poised to invest in an early learning facility fund that is much more ambitious than any fund reviewed in the benchmark study. King County would be in a position to set—and achieve—ambitious goals for service saturation and establish an example for others to follow.

As with the Fund for Quality’s map described earlier in this section, geospatial analysis can help pinpoint areas where gaps in early learning persist.\(^4\) Given the variation in demand for early learning services across King County, efforts to identify access deserts where children from low-income households lack options for quality care would permit policymakers to better target public resources to achieve policy objectives.\(^5\) By estimating need gaps between the number of children eligible for Head Start, ECEAP, or WCCC subsidies and those who are served, a needs assessment can identify regions where additional early learning facilities should be built. A needs assessment that combines race, income, and other demographic variables and identifies gaps in the availability of early learning spaces can improve resource allocation by balancing a focus on the greatest need with specific equity considerations. For example, the gap analysis and access deserts described in Chapter 1: Background and Chapter 2: Recommendations illustrate the need for early learning facilities in 16 school districts in King County and speak to the disproportionate number of children of color living in these underserved areas.

As King County increases its investment over time, it will need to be more precise about where it places facilities to avoid overlap and suboptimal facility placement. By continually updating its needs assessment, King County would be able to reprioritize early learning facilities construction in access deserts and accelerate the rate of progress toward meeting the need. This adaptive approach would allow the PSTAA-ELFF to respond to shifting demographics and unmet need throughout King County and, if necessary, adjust its funding strategy.

Even though the unmet need may inform priorities, it is not the sole determinant of early learning facilities expansion. If PSTAA-ELFF were to distribute PSTAA resources evenly across King County, early learning facilities would be expanded outside the areas of the greatest need. This would limit the fund’s impact for children from low-income households.

Safeguarding the investment – Lessons learned from benchmarked funds

Safeguarding PSTAA-ELFF investments will be critical, given the significance of public funds invested over 15 years. As the value proposition of PSTAA-ELFF is predicated on one-time investments in facilities that would serve children for many years, the provisions to secure these investments are ever more important.

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\(^4\) The annual ECEAP and Head Start Saturation Study also identifies where additional early learning facilities should be created by prioritizing gaps in services.

\(^5\) Chapter 1: Background provides an explanation of access deserts.
To ensure a positive ROI, King County must, like other funds, take precautions to secure benefits to children over time. These precautions include:

- Placing a lien on the property for any loans.
- Setting provisions to require repayment of any grants if the funded organization stops serving its intended purpose or meeting key performance indicators.
- Providing funds to help an early learning provider stay in a rapidly gentrifying or high-property value market (as long as the need for subsidized early learning services persists).
- Providing TA to ensure early learning providers can buy or rent the needed real estate, especially in a high-property value market.

The Finance section of this chapter describes these strategies in more detail.

**Performance management – Lessons learned from benchmarked fund approaches**

To ensure public funds result in the highest ROI, PSTAA-ELFF should monitor the cost per space created, including capital investment, staff time, and TA. Over the lifetime of the fund, insight into the relative cost-effectiveness of PSTAA-ELFF investment strategies would allow PSTAA-ELFF to optimize and adapt its implementation strategy to meet changing needs in King County.

That said, King County must be careful to avoid making faulty comparisons between investment categories. For example, a renovation to an existing early learning facility would cost less per space than if King County has to develop and construct the entire building. However, new construction may be the only option in an access desert where there are no existing early learning centers or partnership opportunities. It would be inappropriate, therefore, to compare the cost per space between these two investment strategies, as King County is making a deliberate decision to pay more per space to serve children living in access deserts.

### 3.2.2 Finance

Funding expansion of early learning facilities that serve children from low-income households poses a formidable challenge for multiple reasons:

- Early learning providers who serve children from low-income households must comply with stringent facility requirements to qualify for a government subsidy, but the subsidy is often not enough to cover the costs of constructing or renovating facilities to meet these requirements. This is especially true in a King County’s real estate market, where the cost of acquiring a property and/or improving it to meet early learning standards can be prohibitive.

- When state subsidies for early learning for children from low-income households are high and stable, loans can be an option for funding facilities expansion. However, when subsidies are low
or variable, lenders are less confident in providers’ ability to repay loans, and providers are reticent to borrow because their profit margins are inadequate to service loans.\footnote{During the Great Recession, many state governments froze subsidy-levels and have only recently begun to increase them.}

- Because most early learning providers rent their space, they also lack collateral to secure loans.

Therefore, any expansion of early learning facilities requires some form of subsidized funding. Table 3-2 lists some of the most common approaches to funding early learning facility expansion.

Table 3-2: Funding instruments for early learning facility expansion

<table>
<thead>
<tr>
<th>Funding Instrument</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td>• Capital loans (facilities and equipment)\footnote{The Small Business Administration, a federal agency that provides financing and technical assistance to small businesses, provides up to $5 million in loans for early learning centers and a 25-year amortization for centers with a strong financial position; however, most providers serving children from low-income households would not qualify for this loan program.}</td>
</tr>
<tr>
<td></td>
<td>• Bridge loans to improve cash flows</td>
</tr>
<tr>
<td></td>
<td>• Loans to fund feasibility studies</td>
</tr>
<tr>
<td></td>
<td>• Planning and Pre-Development loans</td>
</tr>
<tr>
<td>Grants</td>
<td>• Planning grants that result in a plan of action to finance and build facilities</td>
</tr>
<tr>
<td></td>
<td>• TA grants to address specific skill gaps, such as project management</td>
</tr>
<tr>
<td></td>
<td>• Facilities and equipment grants</td>
</tr>
<tr>
<td></td>
<td>• Recoverable grants are structured as short-term loans (or bridge loans) that may be forgiven if the project falls through, reducing the risk for the provider</td>
</tr>
<tr>
<td>Credit Enhancements</td>
<td>• Loan guarantees to pay a debt if the borrower defaults</td>
</tr>
<tr>
<td></td>
<td>• Subordinated debt designed to address provider’s lack of collateral and improve access to commercial lending</td>
</tr>
<tr>
<td></td>
<td>• Buy-down of interest rate on loans to make repayment more affordable</td>
</tr>
<tr>
<td></td>
<td>• Government contracts for early learning services to guarantee loan repayment</td>
</tr>
</tbody>
</table>

The following paragraphs describe how benchmarked funds structured finance to address barriers to expanding early learning facilities in the areas with the most need, safeguard their investments, and manage performance.

**Meeting the need: How funds designed financial instruments to overcome barriers**

All funds designed financial instruments to address barriers to expanding early learning facilities in the areas of highest need, especially in locations with limited resources.
Loans

Most of the benchmarked funds had relatively few loans in their early learning portfolios. Loans may be sourced from the CDFI that serves as the umbrella organization for the early learning facility fund or through commercial banks. Typical loans are 5- to 7-year terms, rather than long-term mortgages. To make the payments affordable for the client, the client may only be required to pay down a portion of the principal. If, at the end of the loan term, the borrower has been making loan repayments on time, the hope is that a commercial lender will assume the loan. If not, some funds will refinance the loan.

The four benchmarked funds that shared details about their loans reported interest rates from 3.89% to 8% (at the time of the benchmarking, prime was 5.25%). The Enterprise-managed Regional Development Initiative Fund for Puget Sound, which offers low-cost financing for affordable housing and mixed-use projects that provide community facility and/or nonprofit space, had the lowest interest rate.88

Some funds provide developers, especially those active in affordable housing, with low-cost loans. In turn, developers lease the space to early learning providers at below-market rates. Developers may be better equipped than early learning providers to build early learning facilities because they have knowledge of construction and are typically better positioned to access and repay loans. The challenge is that, without subsidies, below-market rents would not cover the investment required to meet state licensing standards, and early learning providers serving children from low-income households would not be able to afford market-rate rents.

Grants

The thin profit margins of early learning providers serving children from low-income households mean that they do not have the resources to pay market rents or repay market-rate loans. Some benchmarked funds observed that, even if they could access low cost loans, many early learning providers are reticent to borrow because they worry about being able to repay the loans. Therefore, many funds use grants when early learning providers are the recipients of the funds.

Developers have access to credit, but as explained earlier, most early learning providers serving children from low-income households would not be able to afford market-rate rents. Therefore, developers serving this market may also require grants to justify the expense of building early learning facilities.89

Grant funding sometimes leverages loan resources to make scant government and donor funding go further, so creditworthy organizations that wish to develop early learning facilities are incented to co-fund a portion of the facility through borrowing. Several funds use grants in this manner to ensure that loans can be repaid with operating funds.

88 In the case of Enterprise-managed $4 million REDI loan fund, the fund assists developers in acquiring property to build affordable housing. The government takes the first loss should the borrower default rather than losses being charged to all creditors equally.

89 The costs of investing in early learning facilities are higher than for other commercial properties because licensing requirements result in properties that are over-improved. In other words, the owners cannot recoup the full cost of facilities development through rents or sale of the property because the changes necessary for early learning programs are not necessarily what another tenant would want or need.
Credit enhancements

The benchmarking study identified several financial mechanisms to fund early learning facilities that have been tried or are currently in the planning stages. Credit enhancements and loan guarantees can make loans more accessible and affordable. Governments and donors may contribute to funds that provide loan guarantees for borrowers who lack collateral or buy down interest rates, lowering the cost of the loan. Multiple funds have tried loan guarantees and credit enhancements, but they are complex, and the benchmarking study did not find evidence that they address barriers to expanding early learning facilities. This is because loan guarantees assume the central problem to funding early learning facilities is a lack of collateral when, in fact, thin profit margins are the major barrier to financing early learning facilities through credit markets. Early learning providers are just as reticent to borrow as banks are to lend to them.

In-kind gifts

To lower the costs of early learning facilities development, governments may provide surplus land for free. Enterprise seeks to build affordable housing facilities on underutilized public land and works in partnership with affordable housing developers and government agencies to identify, secure, and develop this land. Some local governments provide long-term leases for nominal amounts or grant underutilized, publicly-owned land outright to early learning centers. The District of Columbia is investing in redeveloping three public buildings, which will be made available to early learning providers to lease at below-market rates. More commonly, early learning centers co-locate within a religious organization where, because of its social justice mission, rent may be below-market rate.

Safeguarding the investment: How funds ensured investments continue to meet intended purpose

Funds set up their strategies to help ensure their investment will continue to meet the purpose for which it was intended.

CDFIs and governments take precautions—such as taking over a lease or finding another provider—to ensure an early learning facility funded with grants or low-cost loans remains in operation should the initial provider exit. However, the time period over which CDFIs and governments monitor these grants or loans varies greatly from 3 to 20 years. When smaller grants are involved, the fund may not guarantee that the facilities continue to be used for early learning. This is largely because of budgetary constraints—funds may not have the resources to monitor the facility long-term because most donors and governments have limited time horizons.

In San Francisco, LIIF requires that grant recipients commit to delivering early learning services for 15 years. Although LIIF reports that turnover is rare, when properties are sold, most buyers maintain the leases of early learning providers. In the exceptional case that a buyer does not maintain the lease, or when a building that houses a funded facility is torn down, LIIF requires reimbursement of a prorated portion of the grant.

In Washington, D.C., the Fund for Quality makes forgivable loans with 5-year terms at 0% interest to developers, and it places a lien on the property to ensure it continues to serve as an early learning facility.
Each year, the borrower must demonstrate it is serving children from low-income households, and the Fund for Quality forgives 20% of the loan.

As mentioned earlier, credit enhancements and loan guarantees are one way to ensure loan repayment. An alternative approach to guaranteeing a loan is for providers to present a business plan and/or use contracts with Head Start or other government agencies as evidence that they can repay loans. CDFIs that work directly with providers invest significant time and resources in providing TA for financial planning to ensure loan recipients have a sound plan for repaying loans and maintaining the property. For example, LIIF supports a mixed-income strategy for early learning centers, which allows for a cross-subsidy between children from low-income households and those paying full tuition. This approach helps ensure borrowers can generate enough revenue to repay their loans.

**TA to improve financial planning**

Most funds offer grants to pay for TA. Funds recognize that providing TA increases the likelihood that a facilities expansion is feasible and will be completed on time and on budget. LISC, for example, provides TA to support facilities with loans on their books; they have been monitoring some loans for more than 10 years. This benefits the fund, ensuring a better ROI. The TA section of this chapter provides more detail about the benchmarking of TA.

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**Low Income Investment Fund’s (LIIF’s) work in San Francisco highlights the value of a long-term commitment to early learning facilities expansion.** LIIF’s early childhood facilities portfolio operates in three regions: California, the District of Columbia, and New York City. LIIF’s two-decade partnership with the City and County of San Francisco exemplifies the benefit of long-term commitments to early learning facilities development, the importance of sustainable sources of funding, and the value of local engagement.

The City and County fund early learning facilities through CalWORKS (a state welfare-to-work program), the general fund, and impact fees from large construction projects, although funding sources have changed over time. LIIF implements the San Francisco early learning facility fund through a contract earmarked for facility development for children ages birth to 5.

The San Francisco Child Care Planning and Advisory Council conducted a needs assessment that informs LIIF’s approach to facilities development.

The LIIF grant application process helps assess and prioritize investment in early learning facilities, including pre-development, new construction, remodeling, and repairs. In San Francisco, gentrification may put centers at risk for sale, so to preserve early learning spaces, LIIF has begun facilitating acquisitions by owners who are willing to preserve the intended use of the property for early learning.

Early learning expansion in San Francisco prioritizes centers that serve children who receive childcare subsidies, and 20% of students must be from low-income households. Centers that
have a higher number of children from low-income households may be eligible for additional grant funding.

TA is critical to success. LIIF staff provide TA to assist early learning providers and developers in the grant application process. Developing a feasible facilities proposal can take several months, requiring staff time of 5 to 10 hours per applicant. Once a grant is approved, LIIF provides Pre-Development TA for construction planning. During the Pre-Development phase, LIIF retains consultants to assist with financial planning and design review. Additional TA is provided for project startup and business management. LIIF provides an additional 20 to 40 hours of TA over the life of the grant.

Long-term monitoring is feasible in partnerships such as that between San Francisco and LIIF. Once the center is up and running, LIIF continues to monitor projects for the life of their contract. For example, in San Francisco, grants may require monitoring for 10 years for grants up to $100,000 and up to 30 years for grants that exceed $1 million. If LIIF lends to the center, they will monitor it throughout the life of the loan. As a result, they have been monitoring some centers in San Francisco for 20 years.

Performance management: How funds set and monitor performance

Few funds managed performance by structuring financial instruments to incentivize attainment of desired outcomes. The Fund for Quality is an exception: as mentioned, the Fund for Quality requires borrowers in the District of Columbia to report on the number of low-income children served and their licensing status, among other factors. If the provider is meeting these performance requirements, the Fund for Quality forgives up to 20% of the loan. Over 5 years, the entirety of the loan can be forgiven. Loan forgiveness is a taxable event, so the Fund for Quality works with the borrower to understand tax implications.

Although few of the benchmarked funds had grants with provisions designed to recoup funds should the grantee fail to meet key performance indicators over time, it is legally possible. According to a 2007 white paper by the University of Chicago Center for Economic Development, grants can be designed to include clawbacks that require the recipient to meet certain key performance indicators—such as number of children from low-income households served—or pay back a portion of the grant. These provisions need to be structured carefully, with the guidance of legal counsel, to ensure they are not overburdening the recipient to the point that a court would not enforce the contract. For example, a clawback clause that requires the grantee to pay back the entire grant if they miss a performance indicator for 1 year may not be enforceable.

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90 LIIF also provides resources and trainings on facilities development, financial management, capital campaigns, and other areas of operations.

91 LIIF monitors other aspects of early learning in San Francisco where it has been hired to evaluate providers as Head Start contracts come up for bid.

Intermediaries

Funding for early learning facilities expansion may be awarded by the government itself or through a variety of intermediaries. Similarly, the ownership, operation, and management of early learning facilities can reside with the government, intermediaries, or with child care providers themselves. For example, King County can (directly or through a PDA) hire developers for the Construction phase and lease centers to early learning providers while retaining ownership of the facilities themselves.

Community Development Financial Institutions (CDFIs)

Most of the funds included in the benchmarking are CDFIs. Managing funds from philanthropic foundations and government through CDFIs is a way that many funds provide innovative financing, capital, and TA to early learning providers. CDFIs invest in low-income communities and communities of color. As such, early learning facility development targeted at children from low-income households aligns with the mission of CDFIs.

Some CDFIs are active in the development of early learning facilities and are well positioned to support facilities expansion with a mix of lending, grants, and other sources of funds. In contrast to CDFIs, governments may not have the capacity to leverage funds from other sources. The opportunity to leverage resources alone does not justify a CDFI-led approach, however. Enterprise cautioned that identifying co-funding is time consuming and requires an additional level of analysis, demands, and due diligence.

According to Rhode Island Child Care and Early Learning Facility Fund (RICCELFF), CDFIs have been critical partners in expanding early learning facilities because they are familiar with construction and early learning licensing requirements. CDFIs typically provide TA through staff and consultants. TA builds the capacity of the provider to develop well-planned projects that are based on sound financial analysis and detailed project plans, increasing the likelihood that the facilities development project will advance smoothly and meet licensing requirements. CDFIs may also provide TA to schools that are expanding preschool and building and/or remodeling classrooms for this purpose.

When financial analysis suggests that loans may be feasible, the CDFI staff who lead TA also inform lending decisions, based on their analysis of the business and project plans.

CDFIs receive funds from investors, philanthropic foundations, and governments and distribute the funds through loans, grants, and other financial vehicles. CDFI expenses include operations to support lending and grantmaking. CDFIs are nonprofit, but they still need to generate revenue to repay investors, which requires that they lend to creditworthy clients who are capable of repaying their loans. Some CDFIs reported reinvesting their retained earnings to match grant funds. Figure 3-2 illustrates the flow of funds through a CDFI.

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93 Banks invest in CDFIs to comply with their obligations under the Community Reinvestment Act.
Although all CDFIs reported working collaboratively with governments and donors to determine the framework for funding early learning facilities development, the governments and donors decide how grants are awarded and the activities that grants may fund. Moreover, governments and donors determine whether early learning facilities receive consistent funding. The benchmarking exercise reveals that most governments and donors have limited time horizons and funding for early learning facilities is inadequate to meet all the demand for services among children from low-income households.

**Nonprofit and existing public institutions**

Governments may fund facility development directly. This can be a relatively straightforward proposition when the public schools house the needed classrooms. Most school districts have experience in facility remodeling, construction, and maintenance, and they can manage many facets of early learning facility development, although they may call upon CDFIs and other industry experts to provide specific guidance on building standards specific to early learning.

When public school districts experience declining enrollment, some convert unused classrooms to early learning facilities. For example, when governments in New Jersey and New York City opted to provide universal preschool through their public schools, the school districts used bonds or the budget allocation process to fund facilities expansion. Classrooms were built or remodeled for early learning, and the school district retained ownership of the property. In Seattle, the public schools lease space to early learning providers, thus retaining ownership, but rising enrollments in grades K-12 and a mandate for smaller class sizes have resulted in some public schools terminating contracts with providers.

When investing in private facilities for a public purpose, some governments have run into challenges. For example, Seattle DEEL had not created the legal framework for investing in facilities housed in and owned
by religious institutions. In New Jersey, the State struggled with how it could hold an interest in a building that was owned by a private party. In Washington State, ECEAP has guidelines for funding early learning centers that require that materials and equipment be free from religious representation and providers avoid religious activities in the curriculum. Therefore, ECEAP sites can be, and are, located in churches.

Private providers also face risks when expanding their early learning programs. In Connecticut, the effort to expand early learning facilities through private providers was undermined by the introduction of universal preschool at no cost through the public schools. Parts of Massachusetts are facing a similar situation. As families move their children from private to publicly-funded preschool, private early learning providers are finding they need to convert their facilities to serve younger children in order to stay viable.

Other models for developing early learning facilities

The non-government sector—including philanthropic and for-profit institutions—has contributed to early learning facilities development through direct investment, ownership, and property management of facilities that are rented or leased out to early learning providers. For example, in Fulton County, Georgia, philanthropic organizations and community leaders combined efforts to form Early Learning Property Management, a nonprofit organization that has remodeled or built 15 early learning centers since 1998. Early Learning Property Management owns the properties and leases them to Head Start early learning programs for $5 to $6 per square foot. The rental income covers Early Learning Property Management’s administrative costs (19%), maintenance expenses (49%), and funds capital reinvestment for major repairs (32%). Early Learning Property Management’s costs have been kept low by a small staff that is supplemented by volunteer time and contractors who support Early Learning Property Management’s mission and give discounts for services rendered.

Kaplan Early Learning, a for-profit company that provides educational products and services, has built 170 early learning centers in 35 states for private early learning providers and Head Start programs. Kaplan acquires land and builds the centers according to the specifications of the early learning provider. The early learning provider contributes 40% of the upfront costs and leases the property for 20 to 25 years with an option to renew if principal remains outstanding. Providers may opt for a financial lease that pays down principal so they may eventually own the property.

Both the Early Learning Property Management and Kaplan models demonstrate that early learning facilities expansion and construction does not have to be provider-led.

Key finance takeaways for King County and other communities

Generally speaking, the benchmarked funds addressed two of the three guiding principles with their funding strategies:

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95 Early Learning Property Management has also built facilities under contract to other providers.
1. Funding strategies for early learning expansion address the key barriers of affordability and expansion into areas where there is the most need.

2. They use covenants and provisions to safeguard the investment and ensure the funded facilities continue to fulfill the intended public purpose.

Most of the benchmarked funds did not consistently address the third guiding principle in their funding strategies: performance management.

Meeting the need – Lessons learned from benchmarked funds

The gap between supply of, and demand for, early learning varies widely across King County. Within some school district boundaries, there are nearly a thousand children who are eligible for ECEAP or WCCC subsidy living in access deserts where there are not enough quality early learning spaces to serve them. Creating the 4,500 spaces needed to provide all children eligible for Head Start, ECEAP, or WCCC subsidy will require public investment. This public investment in the high-impact early years is critical to King County’s workforce development and future economy.

None of the benchmarked funds had a funding strategy that perfectly fits with King County’s context. Three funding strategies emerged from lessons learned in the benchmarking, that, if combined appropriately, could help King County address barriers to locating early learning facilities in the areas with the most need.

1. **Strategy 1**: Working with early learning providers to expand their existing facilities—the fastest, simplest, and lowest cost strategy—would help meet need in some areas but would not be adequate in access deserts. Provider surveys indicate that only 14% of early learning providers have the capacity to expand their facilities with renovation, so achieving saturation of service for early learning for children from low-income households would only be possible through commercial tenant improvements or new construction.96

2. **Strategy 2**: Partnering with nonprofit property managers, affordable housing developers, school districts, or existing PDAs should provide an opportunity to invest in new, larger facilities.97 Other advantages include leveraging partners’ existing capacity and expertise in construction, accessing land that partners may already own for low or no cost, and saving money by sharing infrastructure by adding onto an existing school building or affordable housing development. On the other hand, partnering requires a lot of coordination, which is complex and time consuming. Furthermore, this strategy still affords only limited control over where King County can locate the facility, so it is unclear whether partnering alone would address the need in access deserts. This is especially true given the magnitude of PSTAA-ELFF funding, which may stretch the capacity of key partners in early learning facilities expansion.

3. **Strategy 3**: King County invests in and owns properties directly, through an intermediary like a PDA. This is the most expensive and time-consuming option, but it gives King County the most control and flexibility to target sites for early learning facilities construction in access deserts. It

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97 The benchmark study did not identify any property managers in King County who focus exclusively on early learning facilities.
also could give King County the opportunity to leverage economies of scale; for example, some funds developed a few sets of architectural plans that they used over and over again. This strategy also allows for centralization of operations and maintenance.

Table 3-3 summarizes these three funding strategies:

<table>
<thead>
<tr>
<th>Funding Strategy</th>
<th>Potential Intermediary (not exhaustive)</th>
<th>Funding Instrument by Phase</th>
<th>Estimated Cost per Space</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renovations of existing facilities</td>
<td>CDFI, nonprofit lender</td>
<td>Competitive grants</td>
<td>$2,100 to $6,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Forgivable loans or grants with clawback provisions</td>
<td></td>
</tr>
<tr>
<td>Direct-investment partnerships</td>
<td>CDFI, nonprofit property managers, affordable housing developers, PDAs, school districts</td>
<td>Grants (competitive or solicited)</td>
<td>$15,750 to $27,500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Forgivable loans or grants with clawback provisions</td>
<td></td>
</tr>
<tr>
<td>Outright ownership</td>
<td>PDA, nonprofit property manager</td>
<td>N/A</td>
<td>$27,500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>N/A</td>
<td></td>
</tr>
</tbody>
</table>


Rather than develop complex financial mechanisms to address the affordability of loans or the lack of collateral, a combination of grants and forgivable loans, depending on the phase of facility development and type of beneficiary, helped other funds overcome barriers to expanding early learning facilities:

- Traditional grants are best used to support Pre-Development activities. These activities are crucial to the design, financial planning and analysis, and other activities that inform a go/no-go decision to move forward with development and construction. Grant funding for this phase ensures good stewardship of public resources by reducing the risk of funding infeasible projects.

- Because early learning providers are often reticent to take on debt due to limited capacity to pay it back or a lack of creditworthiness, they may not pursue loans—even forgivable loans. As such, if early learning providers are the intended recipient, King County should retain the option of offering both forgivable loans or grants with clawback provisions, depending on the circumstances. Grants with clawback provisions require the grantee to pay back a prorated portion of the grant if it ceases to operate as an early learning facility or does not serve children from low-income households. The benchmarking study found that grants of this type to early learning providers for development and construction varied from $100,000 to $800,000.  

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98 Note that the figures in this column represent the cost to create a single space, but each space will serve many children over several years. As such, the cost per child served is considerably lower and will continue to drop over time.

99 Further legal review is required to determine how forgivable loans or grant covenants would apply on school property.

100 This strategy would cost between $15,750 per space for commercial tenant improvements to $27,500 per space for new construction.

101 The Washington State Early Learning Facility Fund had a grant award limit of $800,000 and Seattle DEEL had an award limit of $500,000.
• Nonprofit property managers, affordable housing developers, or PDAs tend to build larger projects and are better equipped to qualify for and pay back loans. If an early learning center funded with loans meets certain conditions, principal and interest could be forgiven. Loans offer the advantage of securing an interest in the property long-term through a lien, ensuring that it will continue to operate as an early learning facility and giving the lender leverage to require the borrower to meet certain key performance indicators.

If nonprofit property managers, affordable housing developers, school districts, and existing PDAs do not have the interest in or capacity to build facilities in areas of greatest need, a final option is to create a new PDA that invests directly in building new early learning facilities that it owns and manages. While creating a new organization would introduce some complexity, because many trade-off decisions will need to be made, King County seems better served creating an arms-length distance from these decisions. Otherwise, communities might (justifiably or not) question whether decisions are politically motivated and not in alignment with the mission and purpose of the fund. In addition, it will be more straightforward to hold a separate entity accountable for fund performance; if it is managed in-house, internal staff politics could influence, and possibly negatively affect, fund management and performance.

Safeguarding the investment – Lessons learned from benchmarked funds

Grants or forgivable loans to early learning providers must include provisions to safeguard the investment of public dollars and ensure funded facilities continue to serve the intended public purpose. Grants could include covenants that require prorated repayment of the grant if a facility no longer provides quality early learning services to children from low-income households. The conditions for such a clawback would be determined by the length of the lease between owner and early learning provider, the size of the investment, and the conditions of the local commercial real estate markets. The details would require legal counsel to draft.

 Forgivable loans at market interest rates are preferable to below-market rate loans primarily because they are more affordable. In the case of improvement to existing buildings, the provider is already paying rent, and it is highly unlikely that the provider can afford to absorb any increase in rental rates (even if those rates are below market) to pay for building renovation and expansion. Therefore, a forgivable loan allows for this expansion but does not burden the provider with additional costs as long as performance objectives are met. In the case of new development and construction, it is equally unlikely that the provider can afford monthly payments of both principal and interest at market rates. The provider would still pay rent, but this rental income would not cover the total cost of development and construction, so some amount of the loan would still have to be forgiven.

Whatever the loan type, King County will need to be careful to insert strict, legally-enforceable covenants to ensure it weeds out those who want access to forgivable loans but do not intend to serve the public purpose for which PSTAA-ELFF funding is intended. Regardless of the loan type, loans should include a lien on the property (or some equivalent provision) for the life of the loan that allows PSTAA-ELFF to step in, if necessary, to ensure that the facility continues to operate as an early learning facility serving children

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102 Forgivable loans could generate a taxable event, especially in the case of for-profit developers. Legal experts should be consulted to ensure that the loans qualify for charitable purpose exemptions.
from low-income households. Legal counsel would need to draft grant covenants or liens that secure its interest in properties to comply with Washington State and federal tax law.

Another way to ensure facilities will continue to provide early learning spaces to children from low-income households is owning the facility outright. Provisions to safeguard the investment, if owned, are discussed at length in Chapter 2: Recommendations section.

**Performance management – Lessons learned from benchmarked funds**

While most of the benchmarked funds did not tie funding to performance requirements, performance management is essential to ensuring ROI (as discussed in Section 3.2.1 of this chapter). Tying performance management to the funding instrument gives the fund more leverage to ensure funded projects are meeting key performance indicators.

As previously discussed, with forgivable loans, this can be done by forgiving a portion of the loan every year as long as the borrower meets specific performance objectives. A grant could be structured with a carefully worded clawback provision that requires the grant recipient to meet certain key performance indicators—such as number of children from low-income households served—or pay back a portion of the grant.

### 3.2.3 Eligibility

The following paragraphs describe how funds structured their eligibility requirement to expand early learning facilities in the areas with the most need, safeguard their investments, and manage performance.

Funds typically have two categories of eligibility:

- Eligibility based on the children served by the program; and
- Other qualifications, such as meeting quality standards or community fit.

Table 3-4 reports the minimum eligibility criteria for benchmarked funds. Most of the criteria are related to a number or proportion of children from low-income households served by the early learning facility. Funds also consider other factors, including quality, community fit, geography, and whether a provider is associated with a specific early learning subsidy program.
### Table 3-4: Eligibility requirements to achieve fund goals

<table>
<thead>
<tr>
<th>Fund</th>
<th>Geographic Focus</th>
<th>Eligibility Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abbott Preschool Program</td>
<td>New Jersey</td>
<td>Targeted underfunded, low performing, low-income districts&lt;sup&gt;103&lt;/sup&gt;</td>
</tr>
<tr>
<td>Enterprise</td>
<td>Pacific Northwest</td>
<td>Serve children from low-income households</td>
</tr>
<tr>
<td>Early Learning Property</td>
<td>Fulton County, GA</td>
<td>Must be a Head Start program</td>
</tr>
<tr>
<td>Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Fund for Quality</td>
<td>Philadelphia, PA</td>
<td>• Serve at least 50% children from low-income households</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• High-quality rating</td>
</tr>
<tr>
<td>LIIF CCFF</td>
<td>San Francisco, CA</td>
<td>Serve at least 20% children from low-income households</td>
</tr>
<tr>
<td>LIIF</td>
<td>Washington, DC</td>
<td>Serve children ages 0 to 3 from low-income households</td>
</tr>
<tr>
<td>RICCELFF (LISC)</td>
<td>RI (Statewide)</td>
<td>Serving State-defined high-need and high-risk areas&lt;sup&gt;104&lt;/sup&gt;</td>
</tr>
<tr>
<td>City of Seattle DEEL</td>
<td>Seattle, WA</td>
<td>• High-quality rating</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Serve children from households earning up to 300% of the FPL, and up to 500% FPL with sliding scale</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Priority was given to expansion of facilities in areas where public elementary schools have records of low achievement and at least 40% of children are from low-income households (Title 1 schools)</td>
</tr>
<tr>
<td>Washington State</td>
<td>WA (Statewide)</td>
<td>• Exhibit community fit: speaking the language of the community, diversity, broad geographic distribution (across the state)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Hold a quality rating (Level 3 for sites that receive subsidy and Level 4 for sites that receive ECEAP funding)&lt;sup&gt;105&lt;/sup&gt;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Serve WA State subsidy programs</td>
</tr>
</tbody>
</table>

### Meeting the need: How funds set eligibility standards to meet needs

All benchmarked funds reported that they focus on serving children from low-income households. Some set targets for the share of children served from low-income households, while others prioritize expansion...


<sup>104</sup> Rhode Island Kids Count uses Early Learning Development indicators in its 2018 Factbook. Infants born at-risk are born to mothers who are low-income, single, under 20 years old, or who lack a high school diploma. [http://rikidscount.org/Portals/0/Uploads/Documents/Factbook%202018/Individual%20Indicators/infants%20born%20at%20Risk.pdf](http://rikidscount.org/Portals/0/Uploads/Documents/Factbook%202018/Individual%20Indicators/infants%20born%20at%20Risk.pdf)

<sup>105</sup> Licensed early learning centers not currently participating in ECEAP, but who intend to do so were allowed to submit proposals.
of early learning facilities in areas where large numbers of children from low-income households reside. For example, the Fund for Quality is available to programs that serve a minimum threshold of children from low-income households. When the Seattle Preschool Program launched operations, Seattle DEEL focused on providers in Title 1 school catchment areas. New Jersey funded universal preschool in low-income school districts, and other governments that have launched universal preschool programs target low-income neighborhoods. It is notable that in these cases, the facilities funds identified an area with a concentration of low-income children and then expanded to serve all children (including some children from moderate- to upper-income families) within these target areas.

Some funds limit eligibility to programs that serve only children receiving subsidy, while others include families with household incomes that are too high to qualify for subsidies, but not high enough to afford quality early learning. For example, only Head Start providers, which serve children from low-income households exclusively, are eligible to lease facilities owned by Early Learning Property Management in Atlanta, GA. On the other hand, Seattle DEEL funds centers that allow families to receive full subsidy for early learning when they earn up to 300% of the FPL.

Some funds—typically those with more limited resources or scope—limit eligibility to early learning providers. Larger funds or those with a broader scope or geographic reach tend to be more expansive and extend eligibility to a range of institutions. For example, Seattle DEEL’s pilot program only invested in facilities that house Seattle Preschool Program providers. The Washington Child Care Facilities Fund, which has a statewide focus, extended eligibility to wider range of institutions, include early learning providers, developers of housing and community facilities, community and technical colleges, Educational Service Districts, local governments, federally-recognized tribes, and religious-affiliated entities, so long as those institutions serve children receiving ECEAP or WCCC services. Most benchmarked funds would consider working with for-profit early learning facilities if they serve children from low-income households, but no funds reported partnering with for-profit facilities.

Making eligibility requirements more rigorous, or different from the requirements of subsidy programs, could limit the number of eligible providers and make it more difficult to meet the need, especially in access deserts. One fund (which asked not to be named) observed that because of their stringent eligibility requirements, they may soon run out of eligible providers with whom to work.

**Safeguarding the investment: How funds set eligibility standards to ensure investment continues to serve intended purpose**

Some funds allow for flexibility in the proportion of children from low-income households served to enhance financial sustainability of the fund recipients. Because subsidies may not cover the full cost to serve a child, admitting families who pay privately may offset the “loss” and contribute to the long-term financial sustainability of the facility.

Funds also evaluate business management capacity when making funding decisions. They look for a strong business plan, sound governance, and strong internal controls, as well as the organizational capacity to

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106 School districts have a different pathway to receive Washington State funding.
manage the proposed expansion. Because many early learning providers may not have the capacity to
develop these plans or controls on their own, funds have designed TA programs to build the capacity
necessary to successfully execute facilities expansion and improvement programs. The Technical
Assistance section of this chapter provides more detail.

Benchmarking yielded only limited information to inform eligibility requirements for a minimum number
of early learning spaces, overhead staff, or rates. The methodology section of this chapter discusses
potential reasons for this scarcity of information. Opinions vary on the minimum size of the center
necessary to ensure financial sustainability, but the estimates of the number of classrooms necessary to
pay typical overhead range between four and six. The Fund for Quality requires that their investments
create a minimum number of early learning spaces to qualify for grant funding. Seattle DEEL funds a few
one-classroom facilities at community centers, but this arrangement is financially feasible because they
are sharing infrastructure with the community center. Funds generally do not provide awards to family
home providers, because they would not be able to create enough early learning spaces to make the
investment financially worthwhile, and due to the complications arising from public capital investments
in private residences.¹⁰⁷

Many subsidy programs have different facility and/or classroom requirements for different age groups,
which translates to different development and construction plans for the two age groups. To mitigate for
this, Early Learning Property Management builds its centers with flexibility in mind to ensure all
construction meets licensing requirements for both infant/toddler and preschool classrooms. Specifically,
all classrooms are built for the maximum number of children permitted by Head Start Preschool programs,
even if they will initially serve infant and toddlers. This approach allows providers to address fluctuations
in their student population and maintain financial sustainability.

Performance management: How funds set eligibility standards to contribute to better
performance

Funds also consider other eligibility factors that contribute to better performance of the investment,
including quality and community fit.

Some funds require recipients to meet quality standards before they can receive funds. Some funds allow
lower-rated facilities to participate while setting the clear expectation that awards be invested in quality
improvements that result in a higher rating for the center.

Funds look for community fit when setting eligibility standards, but requirements vary. A few funds look
at job creation (for both provider staff and parents of children), language services offered, and services
for children with disabilities or children who are deemed at-risk.¹⁰⁸ Funds may also seek to co-locate
facilities where other services are available to low- to middle-income families (e.g., health and nutrition
training, parent support). The Washington Early Learning Facility Fund assessed community fit when it

¹⁰⁷ In some cases, funds provide small awards to family home providers.
¹⁰⁸ Definitions of at-risk children vary depending on context. For reference, ECEAP defines at-risk to include children in the child welfare system,
children from families receiving child-protective services, DLLs, children with parents deployed to a combat zone, homelessness, and special
needs.
distributed 17 awards for early learning facilities expansion. Specifically, they considered whether recipients are serving the unique needs of their communities, such as hiring teachers who speak languages spoken in their communities and addressing the needs of DLLs.109

**Key Eligibility Takeaways for King County**

**Meeting the need – Lessons learned from benchmarked funds**

To meet a minimum level of need in King County, PSTAA-ELFF should set eligibility requirements that include a minimum threshold of children from low-income households served. Furthermore, because families that earn up to 300% of the FPL may still not be able to afford high quality early learning in King County, a region with one of the highest costs of living in the U.S., eligibility requirements should consider encouraging additional enrollment of families with household incomes up to 300% of FPL.

Given the potential scale of PSTAA-ELFF and breadth of the need, especially in access deserts, King County will need to be more expansive in its search for intermediary partners, such as nonprofit property managers, affordable housing developers, school districts, and existing PDAs. This will be especially necessary to achieve targeted levels of service within access deserts.

With rapid gentrification in some neighborhoods, the demographics of students who need early learning will evolve over time. PSTAA-ELFF must refresh its needs assessment, including data on student enrollment by household income or subsidy status, to determine where access deserts and gaps persist and whether modifications to student eligibility requirements are necessary to continue meeting the need over the lifetime of the fund.

**Safeguarding the investment – Lessons learned from benchmarked funds**

To safeguard its investment, PSTAA-ELFF eligibility will need to account for the financial sustainability of its fund recipients. For example, while eligibility requirements should include a minimum threshold of children from low-income households served, eligible early learning facilities should have the ability to serve some children from higher-income families who can pay full tuition and help ensure the facility’s financial sustainability. This approach will have the added benefit of helping to address the demand for child care services among middle-income families. Further, research suggests that mixed-income classrooms benefit child outcomes.110

Ultimately, the number of early learning spaces, overhead staff, and rates should depend on the size of the facility and the characteristics of the community. For example, in outer suburban access deserts, it may be necessary to build a facility with a smaller student-to-administrative staff ratio than in more densely-populated urban areas. Given this variability, it is essential that eligibility requirements include a


sound financial and business plan to determine if an early learning facility is viable before awarding funding. The Technical Assistance section of this chapter addresses this in more depth.

To further ensure financial sustainability of fund recipients, PSTAA-ELFF should consider funding expansion projects that meet facility square footage standards for both infant/toddler (birth to age 2) and preschool (ages 3 and 4) early learning. This will help fund recipients keep their early learning facilities fully enrolled, even when unexpected demographic shifts occur.

Although the benchmarked organizations did not fund family child care providers, King County may want to consider whether increasing access to high-quality early learning for a particular cultural community or language group necessitates some family child care investment.

Performance management – Lessons learned from benchmarked funds

As discussed throughout this benchmarking, expectations for ROI of PSTAA-ELFF will be high. As such, the fund would have minimum requirements for percentage of low-income children served although there should be an opportunity to fund institutions that would serve low-income children with renovations.

It is essential that PSTAA-ELFF require that all projects it funds meet these requirements to ensure that state and local subsidy programs continue to provide operational funding for child care. By aligning facility requirements with those of Early Achievers quality ratings (including class size, square footage allotment per child, and other requirements), PSTAA-ELFF would set new facilities up for sustainable operation and service to children from low-income households, further safeguarding its investments.

3.2.4 Technical Assistance

As the focus of early learning providers is on teaching and child development, rather than real estate, they may not have the technical knowledge and experience necessary to oversee facility development. In addition, nonprofit property managers, affordable housing developers, school districts, and PDAs may not be familiar with the requirements of developing commercial space to meet state licensing requirements for an early learning facility. To address this lack of capacity, most funds complement grants or loans for capital investments with grants for TA. TA improves the planning process, streamlines construction, and contains the costs of building facilities that meet early licensing requirements.

There are two ways that benchmarked funds typically provide TA. One way is to provide staff, hire a contractor, or refer the recipient to a contractor to provide technical services. An example of this is drafting an architectural design of a potential project site on behalf of an early learning provider. Another way to provide TA is to provide support to a fund recipient to perform a key activity, such as developing a financial and business plan.

TA takes on different forms depending on the phase and fund recipient.
Table 3-5: TA activities by phase

<table>
<thead>
<tr>
<th>Phase</th>
<th>TA Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Development</td>
<td>• Perform outreach to recruit potential fund recipients</td>
</tr>
<tr>
<td></td>
<td>• Support potential fund recipients with Pre-Development activities, such as</td>
</tr>
<tr>
<td></td>
<td>conducting a feasibility study and developing a financial and business plan</td>
</tr>
<tr>
<td>Facility Financing</td>
<td>Assist potential fund recipients in applying for and securing funding for a project</td>
</tr>
<tr>
<td>Development</td>
<td>Hire a licensed architect to develop a facility design or train developers and nonprofit property managers in the specific requirements of early learning facility design</td>
</tr>
<tr>
<td>Development and</td>
<td>Hire licensed contractors to help manage zoning, permitting, and project</td>
</tr>
<tr>
<td>Construction</td>
<td>management</td>
</tr>
<tr>
<td>Operations</td>
<td>Teach providers how to market their centers and recruit families</td>
</tr>
</tbody>
</table>

TA is now widely considered best practice in early learning expansion. Most early learning providers stand to benefit from TA throughout the facility development process, especially during Pre-Development when many questions need to be answered to determine if a project is feasible. Developers, nonprofit property managers, school districts, and PDAs may only need TA to understand early learning licensing requirements.

The following paragraphs describe how benchmarked funds provide TA to address barriers to expanding early learning facilities in the areas with the greatest need, safeguard their investment, and manage performance.

**Meeting the need: Outreach to attract potential projects in target areas**

Providing outreach and TA during the Pre-Development and Facility Financing phases make it possible for funds to expand early learning facilities, especially in areas with limited resources.

Some funds start with outreach to recruit potential fund recipients and fill their pipeline with potential expansion projects. This is especially important when funds are working to expand facilities in areas with limited existing resources. The Washington Early Learning Facility Fund recently concluded a competitive grant cycle where it held a webinar to introduce the funding opportunity to potential applicants, which was open to all licensed early learning providers in Washington State.
Providers need TA in the earliest stages of facility development. Washington State allocated $11 million for early learning facilities in 2018 to create and preserve early learning spaces for children from low-income households across the state. Half the fund, approximately $5.6 million, has been granted by the State to providers through a competitive process. The Washington DCYF and the Washington Department of Commerce worked with a steering committee to design Washington Early Learning Facility Fund. The program contacted licensed providers and ECEAP contractors and the State offered TA in the application process. Staff held a webinar, published program guidelines, responded to all inquiries, shared questions and responses on their website, and the Department of Commerce posted details about the fund on its list of available grants. In addition, staff were available for 30-minute TA sessions to respond to specific inquiries, usually about proposal requirements and terminology.

Providers who intended to apply for a facilities renovation or construction grant often realized, through the TA process, that they would be better served by a Pre-Development grant (up to $10,000) before receiving a capital grant for Development and Construction (up to $800,000).

DCYF staff are exploring strategies to further develop TA in the Pre-Development phase. Key topics of concern include project finance, navigation of zoning and permitting issues, and transition to the Development and Construction phases.

The Fund for Quality requires that grant applicants contact them first to have a conversation about their plans and goals to assess whether the provider’s interests align with the fund’s objectives. LIIF, in San Francisco, leverages a smaller grant program that provides early learning centers with funds for needed repairs. This can become a first opportunity to build a relationship and recruit early learning providers to apply for larger expansion projects.

Seattle DEEL took a different approach to develop a pipeline of preschool expansion projects: it hired architects who worked with early learning providers to scope approximately 20 potential projects. Only a handful were feasible and advanced to the Development and Construction phases, but this approach of casting a wide net at the beginning allowed Seattle DEEL to identify the challenges faced by early learning providers considering facility expansion. In many cases, renovation and improvement of early learning facilities either would have been too costly and/or would not meet licensing requirements.

The Fund for Quality reported that approximately 80% of projects that received Pre-Development TA proceeded to the Development and Construction phases. TA during Pre-Development helped transform projects that were initially considered too costly into projects that could proceed to Development and Construction.
**TA to structure sound, yet ambitious projects.** The Fund for Quality provides TA and capital in Philadelphia through grants up to $300,000. The CDFI that implements the fund can lend up to $10 million for capital projects in the communities that it serves. However, they reported that providers often limit their request to just under $300,000 to qualify for a grant. During the grantmaking process, the providers often realize that the costs of their projects exceed grant limits. Rather than abandon the project, the Fund for Quality works with partners to forge a plan that would allow the center to add 20 to 40 early learning spaces. The Fund for Quality helps providers find alternative sources of funding and connects them to consultants when necessary to support capital campaigns, the loan application process, grant writing, and crafting plans to improve their quality rating and obtain a higher reimbursement rate. The result is a more ambitious but feasible project.

Most funds reported that the quality of building stock is a challenge, and many providers cannot find suitable and affordable sites. Building requirements for childcare facilities that provide infant/toddler care are more rigorous, requiring, for example, first-floor access or Americans with Disabilities Act (ADA) compliance. On the West Coast—particularly in King County—the cost of real estate is a considerable barrier to facility development. On the East Coast, funds reported it is hard to find buildings that are properly zoned and have the potential to be remodeled for child care facilities at a reasonable cost. Enterprise has developed a website that identifies underutilized publicly-owned property; this website could be repurposed to help prospective early learning facilities developers identify potential locations.

**Safeguarding the investment: Using pre-development to increase likelihood of advancing successful projects**

Most funds invest in TA during the Pre-Development phase to help ensure projects that eventually receive funding are feasible and financially sustainable in order to safeguard their investment. They typically make grants or small loans for Pre-Development. Only when a well-developed and financially feasible project plan is in place do they provide funds for Development and Construction.

Investment in TA for the Pre-Development phase reduces the risk that infeasible projects move to the Development and Construction phases. TA during Pre-Development helps funds identify infeasible projects, and it can help potential fund recipients make changes to their projects to make them feasible and sustainable. TA can also help potential fund recipients identify additional sources of funding if needed, although benchmarked funds report that providing this type of TA takes substantial staff time.

TA in the Pre-Development phase can reduce costs through business and financial planning, structuring of finance, fundraising, and sound project management that reduces the risk of cost overruns. For example, some funds encourage early learning providers to enhance their financial sustainability by reconsidering their revenue model, improving their marketing, taking a mixed-income approach to recruiting families, or improving their quality rating for a higher subsidy reimbursement. As explained in the Finance section of this benchmarking, the number of early learning spaces, number of overhead staff, and rates should be determined by the size of the center and the specific needs and context of the
Because of this variability, many funds provide TA to conduct business and financial planning prior to making a go/no go decision about whether to advance a project to the Development and Construction phases.

Enterprise plans to take a different approach to Pre-Development TA. Because it works mainly with developers and affordable housing nonprofits, it plans to place early learning facilities in affordable housing developments. Enterprise will provide TA to developers and nonprofits to help them navigate topics of early learning design, financial programming (including tax issues), construction, and licensing requirements. Enterprise plans to invest more in Pre-Development than other CDFIs because many of its projects involve real estate acquisition as well as a comprehensive site analysis (e.g., soil quality, geological stability, etc.), all of which must be completed before the final go/no-go decision to proceed to the Development and Construction phases.

Performance management: Using TA to help meet performance goals

In the Operations phase, most funds will provide some TA to help make sure a funded early learning facility is able to secure a license for the new expansion or new construction. The Fund for Quality continues to provide TA to grantees post-construction to ensure that early learning spaces are filled and that facilities meet key performance indicators.

Staff and resource requirements

Most funds invest significant staff time in the Pre-Development and Facility Financing phases. Grants for Pre-Development vary in size from $5,000 to $15,000, not including staff time. Enterprise is an outlier, investing approximately $90,000 in TA during Pre-Development for more new construction, which requires site selection, more complex feasibility studies, and real estate services. Renovations and commercial tenant improvements are unlikely to need these services, so they will require less TA. The investment in TA for Pre-Development reduces the risk that infeasible projects move forward to the Development and Construction phases. During Development and Construction, fund recipients continue to need assistance of a technical nature—such as project management and construction—but the cost of this assistance is incorporated into the capital investment.

Internal staff typically provide some TA during Pre-Development and Facility Financing phases. For example, LIIF reported its internal staff provided each potential grant recipient with 5 to 10 hours of TA prior to grant application. In the Pre-Development phase, funds also rely on architects and financial planning consultants to provide TA. In the Development and Construction phases, internal fund staff play a smaller role in TA, but funds closely monitor projects through all phases of facility development.

Government funds tend to collaborate with other government agencies to provide TA. For example, the Washington Early Learning Facility Fund, administered through the Washington Department of Commerce, teamed with DCYF to provide construction-related TA to potential fund recipients. Seattle DEEL enlisted the Seattle Department of Construction and Inspections and Seattle Division of Financial and Administrative Services to provide TA to its recipients. In addition, Seattle DEEL staff provided legal and administrative TA.
A core staff of three to five is typical for early learning facility funds that administer five to ten concurrent projects. Most funds also cultivate a list of vetted consultants or government agency partners to address technical, legal, and financial questions.

Key TA Takeaways for King County

Meeting the need – Lessons learned from benchmarked funds

To expand access in the areas of highest need, especially access deserts where there are fewer existing resources, King County will need to be proactive in recruiting potential fund recipients. This starts with broad and extensive outreach to early learning providers, developers, nonprofit organizations, and other potential fund recipients. Like some of the benchmarked funds, King County can leverage existing tools and resources to identify these potential fund recipients. Early Achievers and ECEAP staff and the ELDS all represent sources of information to identify suitable early learning facilities across the County. In addition, King County is fortunate to have many foundations, affordable housing developers, and nonprofit organizations that could serve as partners in early learning expansion.

PSTAA-ELFF would need to gauge the appetite of nonprofit property managers, affordable housing developers, school districts, and PDAs to partner on these types of projects. Nonprofit property managers or PDAs that own or manage affordable housing developments may be interested in adding early learning facilities to their communities. School districts may not have surplus classroom space, given rising enrollments and mandated smaller class sizes, but they may have land available for development. PSTAA-ELFF should have an outreach strategy to engage these potential partners to determine the degree to which early learning facilities can be developed to meet existing need, especially in access deserts.

Because early learning providers would need different TA than nonprofit property managers, affordable housing developers, school districts, PDAs, and other potential fund recipients, King County would need to create a program that addresses TA for multiple topics. In the Fund Planning phase, King County would need to cultivate a list of vetted consultants with subject matter expertise in architecture, financial planning, and construction with experience in early learning facilities development.

Table 3-6 provides a detailed list of the TA topics, by project phase and fund recipient, that will likely be important to PSTAA-ELFF recipients.

111 The ELDS data model, maintained by 3SI, served as the foundation for the analysis of unmet need presented in the Background Chapter. Further information ELDS data sources and methodology can be found in Appendix A: Methodology of Child Count Estimates.
Table 3-6: TA related activities by project phase and fund recipient

<table>
<thead>
<tr>
<th>Phase</th>
<th>Processes</th>
<th>Early Learning Provider</th>
<th>Nonprofit Property Managers, Affordable Housing Developers, School Districts, and PDAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Development</td>
<td>Outreach strategy</td>
<td>• Identify suitable providers</td>
<td>Cultivate relationships with potential partners</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Invite potential applicants to participate/issue Request for Proposals where applicable</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Grant application support</td>
<td>Help navigate the fund application process for Pre-Development (e.g., scope project, identify constraints)</td>
<td>Introduce and match partners to early learning providers who could lease facilities</td>
</tr>
<tr>
<td></td>
<td>Feasibility studies</td>
<td>Determine project feasibility through:</td>
<td>Conduct site-feasibility study, etc.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Project planning</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Financial planning to fully fund project</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Business planning to assess revenues</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Analyze zoning and leasing issues</td>
<td></td>
</tr>
<tr>
<td>Facility Financing</td>
<td>Shepherd provider through the capital investment grant and loan application process</td>
<td>Partners are assumed to have this capability</td>
<td></td>
</tr>
<tr>
<td>Development</td>
<td>Assist in the hiring of:</td>
<td></td>
<td>Partners are assumed to have this capability (with the exception of specific requirements for early learning facilities)</td>
</tr>
<tr>
<td></td>
<td>• Architect</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Contractor</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Project manager</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>Address licensing and permitting issues (usually the role of the contractor or architect)</td>
<td>Partners are assumed to have this capability (except specific requirements for early learning facilities)</td>
<td></td>
</tr>
<tr>
<td>Operations</td>
<td>Support marketing and outreach strategy to recruit families</td>
<td>Facilitate ongoing contractual relationship with early learning provider if needed</td>
<td></td>
</tr>
</tbody>
</table>

It is unlikely that there are enough qualified professionals in King County who are equipped to provide all the TA that PSTAA-ELFF would need. Therefore, King County may need to cultivate and facilitate shared
learning and a community of practice in TA to build capacity (e.g., help architects become familiar with early learning facility design requirements).

**Safeguarding the investment – Lessons learned from benchmarked funds**

As other funds recognized, it would be important for King County to invest heavily in TA during the Pre-Development phase. A primary objective of Pre-Development TA would be to create well-structured financial and construction plans. This approach helps ensure projects that advance to Development and Construction are financially feasible and sustainable, thereby safeguarding King County’s investment. Not all potential projects that receive grants for TA during Pre-Development will proceed to Development and Construction, but the cost of these grants (and loss, for those projects that do not proceed to the next phase) is relatively small compared to the potential loss King County could face if it advances projects that are not feasible or sustainable.

Early learning providers would require TA on multiple topics to guide them through each phase of the facilities planning and construction. The Pre-Development phase should ensure that facilities expansion or improvement projects are well-planned. In addition, the funds should facilitate partnerships between early learning providers and architects, contractors, and project managers who can execute the Development and Construction phases. By front-loading investment in Pre-Development TA, fund staff are able to reduce their time commitment considerably during the Development and Construction phases. Funds should, however, continue to monitor facilities early in the Operations phase to determine if they need more TA to ensure that early learning spaces are filled.

Developers, school districts, and nonprofit property managers should be able to manage construction and financial planning, but they may require TA to design early learning facilities that meet licensing requirements. PSTAA-ELFF would also need to facilitate links to early learning providers who could lease the facilities.

In addition to providing TA and coordinating the work of consultants, PSTAA-ELFF staff would need to assess business plans and financial statements.

**Performance Management – Lessons learned from benchmarked funds**

Similar to a few of the benchmarked funds, King County’s commitment to ROI means it would need to stay engaged with fund recipients post construction in some capacity to ensure the expanded early learning facilities are successful and have the tools they need to meet key performance indicators. This would likely mean providing targeted TA to ensure early learning centers recruit children from low-income households to fill new early learning spaces, for example.
4 APPENDICES
APPENDIX A: METHODOLOGY OF CHILD COUNT ESTIMATES

Early Learning Data Store methodology overview

In order to produce estimates of unmet need for subsidized early learning services, 3SI, in partnership with the Department of Children, Youth, and Families (DCYF), the Bill and Melinda Gates Foundation, and Thrive Washington, has developed a data model that combines administrative program data from Washington DCYF with publicly-available population data to estimate counts of children by geographic region meeting various criteria. The level and quality of service provided to children is matched with best-available estimates of child characteristics (e.g., age, family income level, program eligibility, race, and location of residence) to determine segments of the population who are served or unserved, and by which programs. The Early Learning Data Store (ELDS) aims to align estimates with existing methodologies and models from DCYF and others where relevant. It should also be noted that the ELDS is dynamic, and as such, ELDS development seeks to constantly improve source data, estimates of the child population in King County, and methodological and analytical techniques. For these reasons, some results and analysis of the opportunity for PSTAA funds for facility expansion may not necessarily match prior estimates.112

Data sources

3SI integrates data from numerous sources in the ELDS, loosely categorized within several groups:

- **Population data**
  - Office of Financial Management (OFM) population estimates of children under 5 for County, Census Tract, Legislative District, and School District geographic units
  - American Community Survey (ACS) 5-year estimates of child and family characteristics
    - Table B17001: Poverty Status in the Past 12 Months by Sex by Age (This table also provides proportional population estimates of children under 5 by zip code which are scaled to match the OFM statewide estimate of the number of children under 5)
    - Table B17020 (A through I): Poverty Status in the Past 12 Months by Age
    - Table B17024: Age by Ratio of Income to Poverty Level in the Past 12 Months
    - Table B23008: Age of Own Children Under 18 Years in Families and Subfamilies by Living Arrangements by Employment Status of Parents

- **DCYF provider and administrative data**
  - Licensed child care providers and licensed capacity
  - HS/ECEAP slot counts
  - Subsidy (WCCC) warrant records

112 3SI presented its prior analysis, “Expansion Opportunities for King County Early Childhood Programs: Head Start, Early Childhood Education Assistance Program, Child Care Subsidy,” in July 2017 to King County and other stakeholders.
• **Other data sources**
  - Washington State Caseload Forecast Council estimates of the number of 3- and 4-year-olds in Washington State (out of the total number of children under 5) and income distribution assumptions about ECEAP participants
  - Child Trends data on income distribution of children served by Head Start
  - DCYF (formerly Department of Early Learning) provider Market Rate Survey (use described in “Supply of Service” below)

The manner in which these data sources are integrated and reconciled with one another is described below.

**ELDS data processing rules**

3SI integrates the numerous data sources outlined above through a series of processing steps. This process ingests and transforms raw data, ultimately exporting several output data tables designed for flexible analysis at multiple levels of data granularity.\(^{113}\) Data processing primarily takes place in a SQL environment, but also employs data transformation using the Python and R coding languages as well as ArcGIS and Google Geocoding API geocoding services.\(^{114}\) As this process is syntax-based and represents significant complexity, only a high-level explanation of ELDS methodology can be summarized here. Figure 4-1 is a visual representation of the two-fold process by which (1) overall population data and (2) administrative data on children served are estimated.

**Total population.** Need for service (population data) is anchored by OFM population estimate totals and then stratified by child and family characteristics based on geography-specific proportions originating from ACS data. These data can then be used to estimate the number of children that are eligible to receive service for a number of programs, based on program-specific eligibility requirements (in terms of income, family work status, and other risk factors). This segmentation of eligible children accounts for overlap between program eligibility, noting which children are eligible for either Head Start, ECEAP, or WCCC, or all programs.

**Supply of Service.** Supply of service (counts of children served by program) are derived from a mixture of warrant-level and provider-level data, which are linked by unique provider ID. ELDS modeling stratifies the counts of children served by program based on hierarchical logic in order to account for children who may receive multiple services. Stratification of served children by program type and child characteristics is inferred based on the eligibility requirements for the program as well as known income distributions of children receiving service, as well as provider-level reporting of unused capacity in the Market Rate Survey. Lastly, as child-level data is not currently available for all data inputs, children are presumed to be served within a fixed radius of their actual residence, in order to account for mobility of families when selecting care.

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\(^{113}\) While 3SI has performed the current analysis at the school district level, ELDS processes data at the following levels of geographic granularity: census tract, zip code, legislative district, King County Council District, Elementary School Catchment Area, and County.

\(^{114}\) SQL (Structured Query Language) is a common database platform and coding language.
Estimates of Unserved Children. Based on the characteristics of children and families both in total within a geography as well the number estimated to be served in that geography, ELDS computes the population estimated to be unserved in that geography. Any surplus of capacity within a given geography is assumed to be non-transferrable to other geographies. The presence of such a surplus effectively equates to a flooring of what would otherwise be a negative count of unserved children (which would not be practically meaningful). The potential for the flooring of negative counts is a primary factor in the decision to model data at the school district level, as modeling at fine levels of geographic granularity would increase the likelihood of this flooring effect, thus distorting the overall count of unserved children. (The other primary factor leading to this decision is the desire to keep the scenario model from being overly-specific in its assumptions about siting of facility development projects in ways that would be prescriptive and introduce false precision into the model.) The effect of flooring negative counts is minimal with the current model, which is a substantial improvement over prior analysis.\textsuperscript{115}

Figure 4-1: Overview of ELDS processing logic for served and total population

Designation of families meeting WCCC work requirement. WCCC subsidy requires that parents or guardians be employed (or engaged in WorkFirst activities that would prepare them for employment) in order to be eligible for program benefits. ELDS derives the likelihood that children under 6 come from families that meet this work requirement from ACS Table B23008, which estimates the count of children

\textsuperscript{115} The effect of flooring negative counts tends to inflate the overall number of unserved children, as was noted in the prior analysis ("Expansion Opportunities for King County Early Childhood Programs: Head Start, Early Childhood Education Assistance Program, Child Care Subsidy"). This distorting effect was significant in the prior analysis and explains, along with numerous other methodological changes and revised model assumptions, the significant reduction in the overall estimate of unserved children in the current model.
based on how many parents they have who are working or unemployed. The model assumes that a fraction of parents or guardians counted as unemployed are still eligible based on WorkFirst activities. For each geography, the model computes the average expected percent of children coming from families meeting the work eligibility requirement. This percentage is then applied to counts of children by age and income level to determine eligibility specifically for WCCC subsidy.

**Construction of new geographies through areal averaging.** While school districts serve as a convenient level of analysis for the current model, they do not, in all cases, represent meaningful distinctions in terms of demographics or historical levels of early childhood service saturation. In particular, the population of South Seattle school district is notably different from North Seattle school district in both demographics and in the level and quality of service. ELDS defines South Seattle first as a collection of the zip codes, and then constructs the new geography from the aggregate total of these zip codes. In the case of zip codes that span outside of Seattle school district, the common approach of areal averaging is applied, in which case the percent of the zip code, by area, falling inside the Seattle school district boundary is used to prorate the counts of that zip code. Finally, ELDS logic caps South Seattle counts to ensure that the combined total of South Seattle and North Seattle do not exceed the Seattle school district total for any count.

**Limitations of ELDS data model**

The limitations of current ELDS modeling capabilities should inform the interpretation of results from this analysis. While ELDS methodology attempts to mitigate estimation error, a level of uncertainty is inevitable when combining datasets from disparate source systems and at different levels of granularity. The following, known limitations of ELDS modeling are not exhaustive, but are representative of the tradeoffs associated with this modeling approach.

- **Program income distribution estimates**
  - WCCC subsidy child counts are split by income by the proportion of the geography's lower two income levels. This may not account for participation bias, i.e., if children below 110% FPL are more/less likely to participate than children between 110% and 200% FPL.

- **Child count estimates**
  - ECEAP data is from a previous school year (December 2017). Updating ECEAP figures to the current school year is currently in process.
  - WCCC subsidy child counts for providers with ECEAP, Head Start, or Early Head Start slots are zeroed out. This is under the assumption that all subsidy recipients served by providers offering ECEAP, Head Start, or Early Head Start would be co-enrolled in that other program, and those programs are given precedence in the model over WCCC subsidy. This approach has the potential to undercount subsidy children.
  - Child residence location estimates are currently based on random, a really-uniform scattering within a 3.63-mile radius of the provider. Future versions of this model could move from this approach.

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116 ELDS has defined the South Seattle school district boundary in alignment with the Road Map Project (https://roadmapproject.org/), which defines the region based on school catchment areas.
random scattering to a more sophisticated method that takes additional real-world factors into account, e.g., road networks, drive time, population density, etc., or leverage child-level location data, eliminating the need for this process of estimation.

- **Population income/work requirement estimates**
  - Population income distributions are based on two ACS tables: B17001 (children <5 split by income <100% FPL and >=100% FPL) and B17024 (children <6 with multiple income breaks). Some loss of accuracy may be introduced in the process of blending these tables.
  - Work Factor estimates depend in part on probability estimates that an unemployed adult would be eligible for WCCC subsidy via WorkFirst activities. More research could refine this probability estimate.
**APPENDIX B: METHODOLOGY FOR DEFINING ACCESS DESERTS**

Access deserts are an application of a geostatistical method called Local Moran’s I, a specific type of Local Indicator of Spatial Association (LISA). LISAs examine the influence (or lack of influence) of geography on a group of contiguous geographic areas of the same type. In this analysis, the all contiguous zip codes in Washington State are used, though only King County zip codes are shown in the analysis. Five zip codes were discarded from the analysis because they had no contiguous neighbors.¹¹⁷

Access desert methodology occurs in several steps, summarized below in Figure 4-2. While access deserts are the result of two distinct LISA analyses, each using a different measure, consider first the example of only unmet need.¹¹⁸

Each zip code has an unmet need value and, collectively, these values comprise a distribution of values. For each zip code, LISA assesses the likelihood that its unmet need value is spatially random (that geography is not an influencing factor). This is done by comparing the primary zip code’s unmet need value to that of its neighbors (defined in this analysis as the zip codes that are immediately contiguous to the primary zip code) and assigning a probability to the primary zip code’s unmet need value that it would occur at random; if only 10% of unmet need values in the overall distribution are as high as that of the primary zip code, the primary zip code’s value has a 10% chance of occurring. This analysis is done for each zip code—each zip code in turn is treated as primary and its unmet need value is assigned a probability score.

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¹¹⁷ Excluded zip codes: 98070, 98262, 98281, 98297, 98353. Of these five, only 98070 (Vashon Island) is in King County, the implication of which is that it cannot be labeled an access desert, regardless of the state of its child care access. However, ELDS data indicate fewer than 10 unserved children on the island who would be eligible for ECEAP/WCCC subsidy, so it is unlikely analysis would designate it as an access desert anyway.

¹¹⁸ Unmet need: the delta between the number of children in the zip code eligible for subsidized service and the number of children served at quality who live in that zip code (regardless of where that child is served).
Assigning these probabilities based on only one map, however, would not create a robust analysis. So, for each zip code, the primary value is fixed and all other values are permuted randomly to create other hypothetical maps (in our analysis this is done 999 additional times). This allows for comparison of the primary zip code’s unmet need value to 1,000 different sets of neighbors which, in turn, allows for a much more robust estimation of the probability that each zip code’s unmet need value occurs at random.

There are five possible outcomes for each zip code in a LISA analysis:

1. **Not significant**: The zip code’s unmet need value falls within the range of probabilities that suggest it is likely to have occurred by chance.
2. **High-low**: The zip code’s unmet need value is high enough to suggest it is unlikely to have occurred by chance but the same is not true of any of its neighbors.
3. **Low-high**: The zip code’s unmet need value is low enough to suggest it is unlikely to have occurred by chance but the same is true of at least one of its neighbors.
4. **Low-low**: The zip code’s unmet need value is low enough to suggest it is unlikely to have occurred by chance and the same is true of at least one of its neighbors.
5. **High-high**: The zip code’s unmet need value is high enough to suggest it is unlikely to have occurred by chance and the same is true of at least one of its neighbors.

In the last of these cases (high-high), the zip code is part of a spatial cluster. A cluster of high values is colloquially called a “hot spot.” If a zip code is part of a hot spot, both for unmet need and constrained
supply (after running a LISA analysis using constrained supply as the non-spatial measure), that zip code is considered to be part of an access desert.\textsuperscript{119}

3SI is grateful to Erin Hardy, a Fellow at the Institute for Child, Youth, and Family Policy (ICYFP) at the Heller School for Social Policy and Management at Brandeis University, for her advice on how to apply LISA to this analysis.

\textsuperscript{119} Constrained supply: the delta between the number of children in the zip code eligible for subsidized service and the number of children served at quality in that zip code (regardless of where the child lives).
APPENDIX C: METHODOLOGY OF COST AND SCENARIO MODELS

Overview

The cost modeling employed for this proposal is composed of two parts. The first part is the original model (the “Original Model”) developed in 2017 for estimating expansion opportunities for King County Early Childhood Programs; it calculated the present value (in 2016 dollars) of the cost for additional early learning facilities and compared this cost against the present value of future PSTAA fund allocations, in order to predict the degree to which PSTAA funds could address previously unserved populations. The second part is a longitudinal study (the “Longitudinal Model”) built upon the output from the Original Model. Rather than discount future cash flows to a present value, the Longitudinal Model creates an annual forecast of early learning facility expansion by geographic unit, i.e., by school district boundaries, from 2019 to 2036. It also incorporates additional cost elements related to facility fund management that are not included in the Original Model.

The two models are designed to work together, projecting PSTAA receipts from 2019 to 2036 totaling $311.5 million, multiplying receipts by the percentage indicated above for each investment scenario, subtracts administrative and TA expenses, and ultimately arriving at the amount of funding available for investment in facilities. Using construction cost data reported in the 2016 Facilities Needs Assessment for ECEAP Expansion report, the models calculate the number of early learning spaces created in each school district over the course of the PSTAA funding.

The Original Model drew heavily from assumptions presented in a 2016 study (the “BERK Study”) of the facility expansion requirements for a statewide expansion of ECEAP and applied the same logic to Head Start and subsidy child care programs. Costs for managing and implementing an early learning facility fund were not included in the BERK Study and were left out of the Original Model. Other considerations, such as the option to prioritize access deserts, were not relevant in the BERK Study. The Longitudinal Model was built to address these considerations and inform this proposal on the following elements:

1. Projections for the number of expansion projects required (and funded) in King County;
2. The projected timing for these projects, based on annual PSTAA fund allocations, by community;
3. The number of additional children that could be served each year; and
4. The cumulative population served by community, from 2019 to 2036.

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120 “Expansion Opportunities for King County Early Childhood Programs: Head Start, Early Childhood Education Assistance Program, Child Care Subsidy;” Third Sector Intelligence, Inc., July 6, 2017.

121 The $311.5 million is the expected value of all fund receipts available to King County, based on Sound Transit’s expected disbursement schedule provided by Sound Transit in April 2017. The 2017 analysis of the PSTAA opportunity to fund childcare facility expansion in King County took the net present value of future tax receipts as the basis for its exercise and compared with present day (unadjusted) costs. The current model takes the reciprocal approach – taking the future value of available funds and comparing them to current development/construction costs, adjusted for 1.6% annual inflation.


123 School districts are used throughout this analysis as a means of estimating scenario outcomes at a community level, but this approach does not suggest that funds will be awarded directly to, or be managed by, the school districts in King County.
Basic Mechanics

Original Model

The Original Model was built to replicate the cost calculations presented in the 2016 BERK Study and extend the methodology in two ways:

1. It would allow the user to run analyses along different geographic units, including county, school district, legislative district, and census tract. Multiple selections could be made. For example, estimates of facility needs could be developed for only King County, and summarized by King County school districts.

2. It would allow the user to run analyses for other programs (in addition to ECEAP), including Head Start, subsidy preschool care, and subsidy infant-toddler care. The model contained information on eligible child populations, existing children served, and existing facilities for each of these programs.

In a 2018 update to the Original Model, modeling options were expanded to allow the model to simultaneously address multiple programs: a “Combined Preschool” option combined classroom needs for Head Start/ECEAP preschool and subsidy preschool; and a “Concurrent” option combined facility needs for Head Start preschool, ECEAP preschool, subsidy preschool care, and subsidy infant-toddler care.124

The Original Model used four steps to estimate King County facility costs and coverage under different PSTAA funding scenarios. The steps and modeling considerations are presented in Figure 4-3.

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124 The Concurrent option sums separately derived classroom needs for infant-toddler and preschool programs.
Figure 4-3: Original Model

Step 1 – Estimate unserved children in need of service in King County
Step 2 – Estimate a range of additional classrooms and facilities required to meet demand
Step 3 – Model a range of costs to build classroom capacity
Step 4 – Model the degree to which PSTAA funding can address the need for additional capacity

Considerations
- Eligibility
- Expected uptake
- Existing level of service
- Classroom type
- Facility size
- Mix of renovations versus new facilities
- Renovation mix by severity of improvements
- New facility mix by severity of construction
- Unit costs per child, classroom, and facility
- Growth in unserved population over PSTAA timeframe
- Inflation of costs over PSTAA timeframe
- Share of PSTAA funds allocated to King County
- Share of King County funds allocated to early learning facility expansion
- Distribution of funds over time
- Present value of funds

Longitudinal Model

The Longitudinal Model uses the Original Model output as its inputs from Steps 2 and 3 in Figure 4-3 and replaces Step 4 with an alternative calculation for facility expansion costs (illustrated as Step 5 in Figure 4-4). It begins with the annual PSTAA funding projections allocated for early learning facility expansion and subtracts the annual cost of managing the fund and providing TA. Fund management costs reflect all activities dedicated to ensuring that a pipeline of facility projects is built that meets the predicted need for additional facility capacity. TA activities guide fund participants through Pre-Development, Financing, Development, Construction, and the operation of early learning facilities, and are dedicated to ensuring that the facility expansion effort is sustainable.

After deducting annual costs for fund management and TA, the remaining PSTAA funding allocations are considered available for facility awards. Additional assumptions allow these funds to be enhanced, either through supplemental loan income (if such income is collected) or financial leverage, i.e., other sources of funding secured by fund recipients to finance facility expansion projects.

The resulting (enhanced) funds available for facility expansion are then allocated to the geographies selected in the Original Model (e.g., each school district in King County). Each geography has its own outstanding facility needs, and when it has received sufficient funds to fully finance a facility project, the funds are deducted from its cumulative allocation, the new or expanded facility is identified, and the
number of new early learning spaces created is recorded. The Longitudinal Model outputs from one year—the remaining outstanding facility needs and available fund balances—carry over as inputs for the next year. When 100% of the facility needs within a geography are met, it no longer receives any PSTAA fund allocations.

The Longitudinal Model allows for two methods for allocating funds, which are labeled “Equitable” and “Priority” allocations. Equitable allocations distribute available PSTAA funds each year to all geographies based on their share of the total unserved children (after uptake) in the Original Model (see Figure 4-4). Priority allocations concentrate funding on a subset of geographies identified as having the highest (remaining) priority, and allocate funds based on each geography’s share of the total outstanding facility costs in their priority grouping.

Equitable allocation shares are fixed (on a percentage basis) until one or more geographies meet 100% of their facility needs. When this happens, the geographies no longer require PSTAA funding and their share is split proportionately among the remaining geographies. Similarly, Priority fund allocations will not progress to lower-priority geographies until 100% of the facility needs of the highest (remaining) priority group are met. For example, if King County has 20 school districts (or in the case of North and South Seattle, sub-districts) and wanted to concentrate Priority funds within eight district boundaries it identified as access deserts, it could then identify these eight as the first priority and the remaining 12 districts as the second priority. Or, at the extreme, King County could force-rank all 20 districts from 1 to 20: the #1 ranked district area would receive all Priority funds until its facility needs were met, then Priority funds would shift to be within the #2 ranked district, and so on. The Longitudinal Model allows for a mix of Equitable fund and Priority fund allocations, which could be adjusted with future analysis.
Modeling Assumptions

The Original Model and Longitudinal Model include a large number of assumptions, which can be classified as either explicit or implicit in nature. Explicit assumptions include model inputs designed for input/selection by the user. Implicit assumptions, also known as “decision rules,” concern the logic built into model calculations. The following sections broadly outline these assumptions and how they are used. Further details on selected assumptions follow at the end of this section.

Explicit Assumptions and Model Inputs

Step 1 of the Original Model contains assumptions for estimating the number of unserved children to be addressed through facility expansion. The user is asked to select a geographic unit and the geographies to be included in the analysis, as well as an uptake percentage, which is the percent of eligible children who are expected to participate in a program (regardless of existing capacity). The model then asks the user how many of these unserved children will be served through facility expansion. Table 4-1 summarizes the explicit assumptions in Step 1.
Table 4-1: Assumptions for Step 1 of the model

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Value</th>
<th>Aligned with BERK Study?</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uptake % (Head Start/ECEAP preschool)</td>
<td>85%</td>
<td>N/A</td>
<td>See comments in “Selected Details on Model Assumptions and Methodology”</td>
</tr>
<tr>
<td>Uptake % (subsidy preschool)</td>
<td>75%</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Uptake % (subsidy infant-toddler care)</td>
<td>48%</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td># of Expansion slots allocated to part-day (two sessions), if applicable</td>
<td>0</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td># of Existing part-day slots converted to full-day, if applicable</td>
<td>0</td>
<td>N/A</td>
<td></td>
</tr>
</tbody>
</table>
Steps 2 and 3 of the Original Model contain a number of explicit assumptions determining the mix of facility expansion projects and the cost per project (within each geography). These assumptions, which are mainly based on information presented in the 2016 BERK Study, are summarized in Table 4-2.

Table 4-2: Assumptions for Steps 2 and 3 of the model

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Value</th>
<th>Aligned with BERK Study?</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average # of children per 'Class' (ECEAP)</td>
<td>18</td>
<td>Yes</td>
<td>Source: BERK, Appendix C</td>
</tr>
<tr>
<td>Average # of children per 'Class' (subsidy infant-toddler care)</td>
<td>12</td>
<td>N/A</td>
<td>Based on WAC 170-295-2090 (average of infant-toddler age groups)</td>
</tr>
<tr>
<td>Average # of children per 'Class' (subsidy pre-K)</td>
<td>18</td>
<td>N/A</td>
<td>Based on WAC 170-295-2090</td>
</tr>
<tr>
<td>% of class comprised on ‘Eligible’ children (by program)</td>
<td>70%</td>
<td>N/A</td>
<td>Source: Facility fund benchmarking (King County Technical Plan)</td>
</tr>
<tr>
<td>% of additional classrooms created through renovations</td>
<td>12.8%</td>
<td>Yes</td>
<td>Source: BERK, based on 8% to 15%; 617 to 1,085 slots statewide</td>
</tr>
<tr>
<td>Typical # of new classrooms per facility added through renovation</td>
<td>2</td>
<td>No</td>
<td>Not addressed in BERK study</td>
</tr>
<tr>
<td>% of classroom (facilities) renovations characterized as minor</td>
<td>27%</td>
<td>Yes</td>
<td>Source: BERK, Exhibit 3</td>
</tr>
<tr>
<td>% of classroom (facilities) renovations characterized as mid-range</td>
<td>7%</td>
<td>Yes</td>
<td>Source: BERK, Exhibit 3</td>
</tr>
<tr>
<td>% of classroom (facilities) renovations characterized as major</td>
<td>53%</td>
<td>Yes</td>
<td>Source: BERK, Exhibit 3</td>
</tr>
<tr>
<td>% of new facilities characterized as new construction</td>
<td>40%</td>
<td>Yes</td>
<td>Source: BERK, scenario descriptions on page 10</td>
</tr>
<tr>
<td>Square feet per additional child FDE for renovations</td>
<td>60</td>
<td>Yes</td>
<td>Source: BERK, Appendix C</td>
</tr>
<tr>
<td>Cost per square foot for minor renovations</td>
<td>$35</td>
<td>Yes</td>
<td>Source: BERK, Appendix C</td>
</tr>
<tr>
<td>Cost per square foot for mid-range renovations</td>
<td>$60</td>
<td>Yes</td>
<td>Source: BERK, Appendix C</td>
</tr>
<tr>
<td>Cost per square foot for major renovations</td>
<td>$100</td>
<td>Yes</td>
<td>Source: BERK, Appendix C</td>
</tr>
<tr>
<td>Separate facilities premium for renovations</td>
<td>$1,000</td>
<td>Yes</td>
<td>Source: BERK, Appendix C</td>
</tr>
<tr>
<td>Assumption</td>
<td>Value</td>
<td>Aligned with BERK Study?</td>
<td>Comment</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
<td>-------</td>
<td>--------------------------</td>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Square feet per child FDE for new construction</td>
<td>110</td>
<td>Yes</td>
<td>Source: BERK, Appendix C</td>
</tr>
<tr>
<td>Cost per square foot for new construction</td>
<td>$250</td>
<td>Yes</td>
<td>Source: BERK, Appendix C</td>
</tr>
<tr>
<td>Square feet per child FDE for full commercial tenant improvement</td>
<td>90</td>
<td>Yes</td>
<td>Source: BERK, Appendix C</td>
</tr>
<tr>
<td>Cost per Square foot for commercial toddler-infant care</td>
<td>$175</td>
<td>Yes</td>
<td>Source: BERK, Appendix C</td>
</tr>
<tr>
<td>Playground cost per child for commercial toddler-infant care and new construction</td>
<td>$600</td>
<td>Yes</td>
<td>Source: BERK, Appendix C</td>
</tr>
<tr>
<td>Project development factor for new construction</td>
<td>37.9%</td>
<td>Yes</td>
<td>Source: BERK, Appendix C</td>
</tr>
<tr>
<td>Site development cost per new classroom for new construction</td>
<td>$75,000</td>
<td>Yes</td>
<td>Source: BERK, Appendix C</td>
</tr>
<tr>
<td>Separate facilities premium for full commercial toddler-infant care and new construction</td>
<td>$3,000</td>
<td>Yes</td>
<td>Source: BERK, Appendix C</td>
</tr>
<tr>
<td>Total land required per classroom typical new facility construction (square feet)</td>
<td>7,856</td>
<td>No**</td>
<td>Source: BERK, based on 0.75 acre for a four-classroom facility</td>
</tr>
<tr>
<td>Land costs for typical new facility (cost per square foot)</td>
<td>$30</td>
<td>No**</td>
<td>Source: BERK study, midpoint of cost estimate of $2 to $60 per square foot</td>
</tr>
<tr>
<td>Hazardous materials abatement cost per classroom for new commercial toddler-infant care facility</td>
<td>$0</td>
<td>Yes</td>
<td>Excluded both from BERK and 3SI modeling</td>
</tr>
<tr>
<td>Additional operations cost per child FDE related to renovation or construction</td>
<td>$0</td>
<td>Yes</td>
<td>Excluded both from BERK and 3SI modeling</td>
</tr>
<tr>
<td>Additional location factor for construction cost differences by geography</td>
<td>1.00</td>
<td>Yes</td>
<td>Excluded both from BERK and 3SI modeling</td>
</tr>
<tr>
<td>Annual inflation assumptions (costs)</td>
<td>1.6%</td>
<td>NA</td>
<td>Not addressed in BERK Study</td>
</tr>
<tr>
<td>Annual growth rate in total # of eligible children</td>
<td>0%</td>
<td>NA</td>
<td>Excluded both from BERK and 3SI modeling</td>
</tr>
</tbody>
</table>
Explicit assumptions in Step 4 are used in both the Original Model and Longitudinal Model and involve the estimation of annual PSTAA funds available for an early learning facility fund.

**Table 4-3: Assumptions for Step 4 of the model**

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Value</th>
<th>Aligned with BERK Study?</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>ST3 sales tax projections for PSTAA by year from 2018 to 2035</td>
<td>(Various)</td>
<td>N/A</td>
<td>ST3 Funding figures provided by Sound Transit, April 2017</td>
</tr>
<tr>
<td>% of PSTAA Funding allocated to early learning vs. K-12 and higher education</td>
<td>100%</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>% of PSTAA Funding allocated vulnerable children eligible for Head Start/ECEAP or subsidy care</td>
<td>100%</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>% of PSTAA Funding allocated to population currently living in King County</td>
<td>61%</td>
<td>N/A</td>
<td>ST3 Funding figures provided by Sound Transit, April 2017</td>
</tr>
<tr>
<td>Annual population growth for King County (Puget Sound Population Share)</td>
<td>1%</td>
<td>N/A</td>
<td>ST3 Funding figures provided by Sound Transit, April 2017, speculate revenue allocation based on population growth</td>
</tr>
<tr>
<td>Annual population growth for Snohomish County (Puget Sound Population Share)</td>
<td>0.5%</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Annual population growth for Pierce County (Puget Sound Population Share)</td>
<td>0.5%</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>% of PSTAA Funding allocated for construction/renovation of facilities</td>
<td>(Various)</td>
<td>N/A</td>
<td>Key variable in scenario modeling</td>
</tr>
<tr>
<td>King County share of $20 million PSTAA Funding affordable housing requirement</td>
<td>(Various)</td>
<td>N/A</td>
<td>Allocated based on share of population growth in Puget Sound</td>
</tr>
<tr>
<td>Discount rate on present value calculations</td>
<td>3%</td>
<td>N/A</td>
<td></td>
</tr>
</tbody>
</table>
The Longitudinal Model uses explicit assumptions in Step 5 to establish the annual PSTAA fund allocations available for new or renovated facility awards and the timing by which these funds are distributed (and spent) by geography, i.e., by school district. Table 4-4 summarizes the explicit assumptions contained within Step 5.

**Table 4-4: Assumptions for Step 5 of the model**

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Value</th>
<th>Aligned with BERK Study?</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Facility fund expenses</td>
<td>$955,000</td>
<td>N/A</td>
<td>Maximum annual funding, based on five FTEs, plus benefits, overhead, and outside contracts</td>
</tr>
<tr>
<td>% of PSTAA Fund allocations committed to TA (and Pre-Development)</td>
<td>5%</td>
<td>N/A</td>
<td>Roughly averages to $100,000 per new/expanded facility</td>
</tr>
<tr>
<td>Annual facility churn rate (loss of new facilities to attrition)</td>
<td>0%</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Leverage: PSTAA facility funding as a % of PSTAA and other funding sources</td>
<td>90%</td>
<td>N/A</td>
<td>On average, 10% of funding would come from other sources</td>
</tr>
<tr>
<td>Loan Income: % of PSTAA funds structured as loans</td>
<td>0%</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Interest rate on PSTAA loans, if applicable</td>
<td>5.5%</td>
<td>N/A</td>
<td>Not applicable to cost model if 0% loan income is assumed</td>
</tr>
<tr>
<td>Balloon payment term on PSTAA loans</td>
<td>10 years</td>
<td>N/A</td>
<td>Not applicable to cost model if 0% loan income is assumed</td>
</tr>
<tr>
<td>Amortization term on PSTAA loans</td>
<td>25 years</td>
<td>N/A</td>
<td>Not applicable to cost model if 0% loan income is assumed</td>
</tr>
<tr>
<td>% of PSTAA funds to be allocated equitably</td>
<td>(Various)</td>
<td>N/A</td>
<td>Key variable in scenario modeling</td>
</tr>
</tbody>
</table>
### Assumption Table

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Value</th>
<th>Aligned with BERK Study?</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priority Allocations: Priority level by school district: (\text{Sorted by number of unserved children in access deserts})</td>
<td></td>
<td>N/A</td>
<td>3SI analysis (10/15/18); eight school districts are identified as higher priorities and will share any Priority fund allocations until 100% of their early learning facility needs are met (at which time Priority fund allocations will be shared by the remaining 12 school districts)</td>
</tr>
<tr>
<td>Kent school district</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highline school district</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Way school district</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Seattle school district</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auburn school district</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Renton school district</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tukwila school district</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enumclaw school district</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>North Seattle school district</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bellevue school district</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issaquah school district</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lake Washington school district</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mercer Island school district</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Northshore school district</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Riverview school district</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shoreline school district</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skykomish school district</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Snoqualmie Valley school district</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tahoma school district</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vashon Island school district</td>
<td>2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Implicit Assumptions and Decision rules

Implicit assumptions are “hard-wired” into the formula logic of the Original Model and Longitudinal Model but can also be reviewed and edited, if necessary. For example, the two models often round up classroom and facility counts to the nearest integer, which can result in a projected count of total spaces that exceeds the number of additional spaces to be addressed through expansion. The Longitudinal Model also assumes implicitly that the most inexpensive projects available are completed first, in which case minor renovations are the first to be addressed through facility fund awards and new construction facilities are the last. This order can be changed by resequencing the calculations contained within the Longitudinal Model. The treatment of Equitable fund and Priority fund allocations is also subject to implicit assumptions. Table 4-5 summarizes the decision rules built into the Original Model and Longitudinal Model.
### Table 4-5: Decision rules for Original Model and Longitudinal Model

<table>
<thead>
<tr>
<th>Model</th>
<th>Modeling Step</th>
<th>Implicit Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Original Model</strong></td>
<td>Step 1</td>
<td>Negative values for estimated need after uptake assumptions are not allowed; any geography deemed to be “overserved” (i.e., existing slots exceed estimated need after uptake) is treated as 100% served and the extraneous slots are not applied to meet the need in other geographies.</td>
</tr>
<tr>
<td></td>
<td>Step 1</td>
<td>The number of expansion slots allocated to part-day are further allocated by geography based on share of overall additional children to be served.</td>
</tr>
<tr>
<td></td>
<td>Step 1</td>
<td>The number of existing part-day slots converted to full-day is allocated by geography based on share of existing part-day slots.</td>
</tr>
<tr>
<td></td>
<td>Step 1</td>
<td>The number of additional full-day slots (or equivalent) required in a geography, resulting from converting existing part-day slots to full-day, is calculated by first assuming part-day slots not served in two consecutive class sessions are converted, as this does not require an increase in full-day slots; if there are not enough such slots, then the remainder is met by part-day slots served in consecutive class sessions. For every two such slots, one slot can keep the existing space and a new space must be created for the other.</td>
</tr>
<tr>
<td></td>
<td>Step 1</td>
<td>When combining Head Start/ECEAP and subsidy preschool counts, any calculated excess of existing slots, based on uptake assumptions, is not applied to the other program, i.e., an excess of Head Start/ECEAP slots within a geography cannot be applied to a deficit of subsidy preschool slots.</td>
</tr>
<tr>
<td></td>
<td>Step 1</td>
<td>Preschool and infant-toddler classroom counts are independently derived and then summed under the Concurrent Model option.</td>
</tr>
<tr>
<td></td>
<td>Step 2</td>
<td>The number of additional classrooms created by geography prioritizes renovations first (over Commercial Tenant Improvements or New Construction) and does not allocate renovations to geographies with no existing facilities.</td>
</tr>
<tr>
<td></td>
<td>Step 2</td>
<td>The number of classrooms added per facility through renovation uses same decision rule as in 2016 BERK study: less than or equal to 50 children, one classroom, less than or equal to 200, two classrooms, or else four classrooms.</td>
</tr>
<tr>
<td></td>
<td>Step 2</td>
<td>The number of renovations rounds-up calculations to the nearest integer, and prioritizes minor renovations first, mid-range renovations second, major renovations third.</td>
</tr>
<tr>
<td>Model</td>
<td>Modeling Step</td>
<td>Implicit Assumption</td>
</tr>
<tr>
<td>-----------------------</td>
<td>---------------</td>
<td>-------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>Step 2</td>
<td>The number of new facilities rounds-up calculations to the nearest integer, and prioritizes new construction first, and commercial tenant Improvement second.</td>
</tr>
<tr>
<td><strong>Longitudinal Model</strong></td>
<td>Step 5</td>
<td>Facility fund awards using anticipated annual loan income are issued at the beginning of calendar year.</td>
</tr>
<tr>
<td></td>
<td>Step 5</td>
<td>Facilities lost due to churn are assumed to be lost at the end of the year.</td>
</tr>
<tr>
<td></td>
<td>Step 5</td>
<td>Upon facility turnover, the remaining loan principal is repaid to the Facility fund if PSTAA funding awards are structured as loans.</td>
</tr>
<tr>
<td></td>
<td>Step 5</td>
<td>Equitable funding is allocated based on a geography’s share of unserved children after uptake, and geographies fully served would no longer participate in such allocations.</td>
</tr>
<tr>
<td></td>
<td>Step 5</td>
<td>Within each geography, less expensive facility projects are prioritized and completed first, in the following order: Minor renovations (least expensive), mid-range renovations, major renovations, new facilities through Commercial Tenant Improvement, and new facilities through new construction (most expensive).</td>
</tr>
<tr>
<td></td>
<td>Step 5</td>
<td>Priority funding is allocated based on a geography’s share of outstanding facility costs within the same priority grouping, and geographies fully served would no longer participate in such allocations.</td>
</tr>
<tr>
<td></td>
<td>Step 5</td>
<td>Equitable funds and Priority funds are combined in order to determine whether sufficient funding is in place to complete a facility expansion or construction project within a geography, and insufficient funds are rolled over to the next calendar year.</td>
</tr>
<tr>
<td></td>
<td>Step 5</td>
<td>Previous year ending balances of Equitable plus Priority funds for geographies with no remaining outstanding facility needs are allocated to the other geographies using the same rules developed for Equitable and Priority funds allocations.</td>
</tr>
</tbody>
</table>

**Selected Details on Model Assumptions and Methodology**

**Uptake of Service.** As noted in the 2017 analysis, service uptake among eligible populations is a primary driver of model sensitivity. As the underlying methodology to produce child counts has improved significantly (as outlined in *Appendix A: Methodology of Child Count Estimates*), it is essential to revisit

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125 For a discussion of model sensitivity to service uptake, see slides 26 and 27 of 2017 analysis: “Expansion Opportunities for King County Early Childhood Programs: Head Start, Early Childhood Education Assistance Program, Child Care Subsidy,” Third Sector Intelligence, Inc., July 6, 2017.
uptake rates in light of these methodology changes. The following is a brief summary of these considerations relative to service uptake specific to program and age group:

- **Preschool ECEAP (Uptake of 85%)** - DCYF’s estimates suggest a blended uptake across 3- and 4-year olds of 67%. However, those estimates consider all children who qualify for Head Start/ECEAP, even though some could be (and are) served by WCCC subsidy. Within the population eligible for Head Start/ECEAP, ELDS modeling effectively counts any children served by WCCC subsidy as effectively served, removing them from the count of eligible children. 3SI therefore expects the uptake of remaining children - including children for whom subsidy is not an option - to be higher than for the entire population eligible for both programs.

- **Preschool WCCC subsidy (Uptake of 75%)** – A major methodology change since prior analysis is that ELDS factors in parent work status explicitly in its definition of the eligible population. This factor was captured in the uptake estimate used in the 2017 analysis, so it is necessary to back that component out of the uptake calculation to avoid double-application of this effective ‘work factor’. Doing so, data from the Urban Institute suggests an uptake of 59% for 3- and 4-year olds. However, similar to the reason described above for ECEAP uptake, since ELDS has already limited the population to that not also eligible for Head Start/ECEAP, 3SI would again expect preschool WCCC uptake to be somewhat higher (since they do not have any other options).

- **Infant-Toddler WCCC subsidy (Uptake of 48%)** - Similar to above, the appropriate uptake estimate should assume that children’s families meet the work requirement (rather than deducting for the fraction that do not in the uptake assumption itself). This results in a higher uptake than in the 2017 analysis – in this case, data from the Urban Institute suggests an uptake of 48%. Since there is no significant program overlap in the infant-toddler age group (as there is between Head Start/ECEAP and subsidy for preschool-aged children, noted above) this number does not need to be further adjusted.

**Concurrency of Pre-K and Infant-toddler Investments.** In both the high- and low-investment scenarios, the model assumes PSTAA-ELFF expands services for children ages 3 and 4 (Head Start, ECEAP, and WCCC) concurrently with expansion of WCCC infant-toddler services. The model assumes that 55% of funds are distributed to expand services for children ages 3 and 4, and the remaining 45% is to expand services for infant-toddler. These proportions could be revisited in future analysis.

**Family Home Providers.** While the analysis of unmet need accounts for existing capacity served by licensed family home providers, the benchmarking study did not identify a scalable strategy to fund renovation of private homes to expand child care capacity. The scenarios do not currently model any funds awarded to – or child care spaces created with – family home providers. King County could and should further consider the possible benefits, particularly related to reaching specific language or cultural communities related to allocating PSTAA-ELFF funds to family home providers.

**Distinct Children Served.** A space can serve a variable number of distinct children over the course of time, depending on child tenure (the length of time a child is actively served by a space), mobility, aging into and out of programs. For example, a child could be served in ECEAP for 2 years (ages 3 and 4) – by occupying a space for 2 years, that space effectively serves 0.5 distinct children annually. Transfer of service for a given child between facilities is common, though provider-level reporting would capture this as additional children served per space, which would overstate the distinct count of children served from
a wholistic perspective. While it is difficult to reliably model these factors, available program data (Head Start Program Information Reports data for 2016/2017 and 2017/2018) suggests that children are served for an average of 1.22 years.\textsuperscript{126} This implies an effective adjustment factor of 0.82 to the count of space-years to estimate the number of distinct children served by new spaces created through these funds.

**Annual Fund Expenses.** In early years of fund disbursement, available PSTAA funds are expected to be less than the modeled annual fund expenses. In these years, the fund expenses are capped by the funds available, and are modeled to grow year-over-year until annual fund expenses are funded in full. This period represents a phased-in on-boarding process as the fund becomes fully operational. Once the fund is in full operation, annual fund expenses are estimated at $955,000 and adjusted for inflation in subsequent years. The annual spending is allocated as follows:

- **Staffing and overhead**
  - 5 full-time employees at a competitive professional salary
  - Benefits and payroll expenses of 50%
  - Overhead to cover office space and equipment
- **Contracts**
  - $100,000 total in third-party contracts for monitoring and evaluation, data management, and analysis
  - $30,000 to update landscape analysis to reassess priorities

**Technical assistance** is critical to ensure that construction of early learning centers proceeds smoothly and stays within budget. The model assumes that 5% of PSTAA fund costs are invested in Pre-Development TA activities, including the design, financial and construction planning, addressing legal and zoning matters, and site review.\textsuperscript{127}

**Fund Leverage.** The model assumes that PSTAA receipts will fund 90% of all construction costs, and only 10% comes from other sources. Additional funding could come, for example, in the form of land or classrooms. The recommendations suggest that funding decisions should prioritize proposals with generous co-funding; however, 3SI has opted for conservative expectations of leverage potential within the model.

**Construction and land costs** were estimated based on the *2016 Facilities Needs Assessment for ECEAP Expansion* report. The study assumed renovation of existing licensed early learning facilities would only meet 12.8% of the need for subsidized slots. As renovation and commercial tenant improvement entail modifications to existing structures, the model assumes that new construction projects are the only

\textsuperscript{126} Data from Head Start Program Information Reports (PIR) can be accessed at: [https://www.acf.hhs.gov/ohs/reports](https://www.acf.hhs.gov/ohs/reports)

\textsuperscript{127} Some of the categories that are defined as technical assistance in the benchmarking study are classified by the BERK Study as development/construction costs. While a fraction of these costs may be counted as both TA and development costs, any double counting is expected to be offset by the reality that TA will be invested in projects that are ultimately deemed infeasible (resulting in higher costs per completed project). The differences in classification of these activities is therefore expected to have a negligible effect on the overall modeled costs.
projects with an associated land cost. The model utilizes $30 per square foot for average land costs, which it arrived at by taking the midpoint of land costs from the 2016 Facilities Needs Assessment for ECEAP Expansion report. While this figure is highly variable, it (1) only applies to projects estimated to be completed through new construction, and (2) is preferable to exclusion of these costs altogether. The model applies land costs uniformly across all new facilities construction even though land could be an in-kind contribution or facility investment may be limited to commercial tenant improvements.

**Facility size.** The 2016 study assumed that the vast majority of facilities would have four classrooms, but 20% of facilities would be just two classrooms. Classrooms are assumed to accommodate 18 spaces for Pre-K and 12 spaces for infant-toddler care and meet all licensing requirements. The proportion of service that is full- or extended-day (versus part-day) has a direct impact on the number of children that can be served by a space in a new classroom. This effect is modeled explicitly in terms of the mixture of ECEAP slots expected to be part-day. The scenarios described above assume that all new construction creates full-day ECEAP spaces, while preserving the existing part-day capacity.

**Fund rollover.** The model allocates most monies received in the calendar year are to pay fund expenses or invest in facilities development. In many instances, modeled funds available to a given school district may be insufficient in a given year to complete a new project. If such funds remain, they are rolled over into the next year budget and allocated to facilities investments or expenses. These funds are available to be rolled over, and moreover, are expected to be usable for pre-construction costs (TA, pre-development, etc.), essentially initiating facility development in the year in which they are allocated.

**Funding mechanisms.** Under the current scenarios, all funds are either invested directly by a new public entity, created by King County, given as grants, or as forgivable loans. Assuming provider compliance with the eligibility requirements for loan forgiveness, no loan income is expected. Future analysis could incorporate loan income into the analysis, with the options to specify whether loans are interest-only, interest rates, years of amortization, and calculating balloon payments. While lease income is expected in the case of direct facility development/management by King County (in which case the fund will manage facilities and lease them to providers), the model assumes net zero rental income in both scenarios, assuming rental income to only cover operating costs.
APPENDIX D: ADDITIONAL ANALYSIS OF UNMET NEED IN KING COUNTY

The following analysis expands on the analysis of unmet need presented in the Chapter 1: Background, showing finer granularity (by program and age group) of the unserved population, as well as details on the eligible population likely to take up service, and the children currently served by these programs. Due to ELDS modeling of fractional counts of unserved children, the total number of unserved children will not exactly match the subtotals by program and age group. This analysis is subject to the limitations and caveats outlined above in Appendices A and C.
Figure 4-5: Number of infants-toddlers eligible for WCCC subsidy by school district (after 48% uptake)

- This map represents the estimated infant toddler population that are eligible for WCCC subsidy and who would enroll if seats were available.
- Darker blue areas represent districts with the largest eligible population of Infant Toddlers.
- The largest need is concentrated in the southwest corner of King County.

Source: June 2018 Early Learning Data Store (ELDS) data extract (see Appendix A for further information)
Figure 4-6: Number of infants-toddlers served by WCCC subsidy by school district

- This map represents the population of infants and toddlers that are served by WCCC subsidy.
- Darker gray areas represent districts with the largest number of infant toddlers served.
- Kent School District has the most children served, though this does not speak to high-quality service.

Total Children Served: 4,753

Source: June 2018 Early Learning Data Store (ELDS) data extract (see Appendix A for further information).
Figure 4-7: Number of infants-toddlers eligible for WCCC but unserved by school district

- This map represents the estimated number of unserved children that are eligible for the WCCC Infant/Toddler subsidy and who would likely enroll if seats were available.
- Darker red areas represent districts with the largest eligible population.
- The largest need is concentrated in western King County.

Total Eligible but Unserved Children: 2,050

Source: June 2018 Early Learning Data Store (ELDS) data extract (see Appendix A for further information)
Figure 4-8: Number of preschool-aged children eligible for WCCC by school district (after 75% uptake)

This map represents the estimated number of preschool-aged children that are eligible for WCCC subsidy and who would enroll if seats were available.

- Darker blue areas represent districts with the largest eligible population.
- Consistent with Infants and Toddlers, the largest need is concentrated in the southwest corner of King County.

Total Eligible Children: 3,346

Source: June 2018 Early Learning Data Store (ELDS) data extract (see Appendix A for further information)
Figure 4-9: Number of preschool-aged children served by WCCC by school district

- This map represents the population of preschool-aged children that are served by the WCCC subsidy
- Darker gray areas represent districts with the largest number of children served
- Service is concentrated in the southwest corner of King County

Total Children Served: 2,058

Source: June 2018 Early Learning Data Store (ELDS) data extract (see Appendix A for further information)
Figure 4-10: Number of preschool-aged children eligible for WCCC but unserved by school district

• This map represents the estimated preschool-aged unserved population that are eligible for WCCC subsidy and who would likely enroll if seats were available
• Darker red areas represent districts with the largest eligible but unserved population
• The largest need is concentrated in Highline

Total Children Eligible but Unserved: 1,311

Source: June 2018 Early Learning Data Store (ELDS) data extract (see Appendix A for further information)
Figure 4-11: Number of children eligible for ECEAP and Head Start programs by school district (after 85% uptake)

This map represents the estimated population of preschool-aged children that are eligible for Head Start and ECEAP and who would enroll if seats were available.

- Darker blue areas represent districts with the largest eligible population.
- South Seattle has the largest concentration of need for these programs.

Total Eligible Children: 7,196

Source: June 2018 Early Learning Data Store (ELDS) data extract (see Appendix A for further information)
Figure 4-12: Number of preschool-aged children served by ECEAP and Head Start programs by school district

This map represents the population of preschool children served by ECEAP and Head Start Programs. Darker gray areas represent districts with the largest number of children served. South Seattle has the most children served, though, again, this does not speak to high-quality service.

Total Children Served: 6,228

Source: June 2018 Early Learning Data Store (ELDS) data extract (see Appendix A for further information)
Figure 4-13: Number of preschool-aged children eligible for ECEAP and Head Start programs but unserved by school district

This map represents the estimated preschool-aged population that are eligible for Head Start and ECEAP and who would likely enroll if seats were available.

- Darker red areas represent districts with the largest eligible but unserved population.
- The largest unmet need is concentrated in South Seattle and Renton.

Total Children Eligible but Unserved: 1,145

Source: June 2018 Early Learning Data Store (ELDS) data extract (see Appendix A for further information).
APPENDIX E: EARLY LEARNING FACILITY FUND SELECTION AND INFORMATION GATHERING

Fund Identification

Funds were identified through research and partnerships with national experts, including, but not limited to, those at Enterprise Community Partners and the National Institute for Early Education Research (NIEER), as well as through references by the Early Learning Facility Stakeholder (ELFS) coalition. The funds to interview were identified by their relevance to the potential investment in King County and to early learning facility expansion in general (i.e., a focus on expanding slots, a focus on new slots for children from low-income households, etc.). 3SI assigned a point system to the initial list of funds (see Table 4-6) based on these fund characteristics in order to identify funds likely to benefit the benchmarking exercise, and selected all funds that are either local to King County or Washington State or which have 5 points or more on this point system. Note that 3SI did not have complete information at the time of this ranking, which was used strictly for the purpose of gauging fit for the benchmarking exercise.
Table 4-6: Preliminary ranking (based on early scans of publicly-available data) of funds selected for benchmarking

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Service Area</th>
<th>Funding limits</th>
<th>Expands slots</th>
<th>Grants</th>
<th>Loans</th>
<th>TA</th>
<th>Guides &amp; Training</th>
<th>Phased support</th>
<th>Low Income</th>
<th>Sustained over long-term?</th>
<th>Childcare</th>
<th>Pre-K</th>
<th>Total</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund for Quality</td>
<td>Philadelphia</td>
<td>$300,000</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>10</td>
<td>Min slots of 20, ideally 40</td>
</tr>
<tr>
<td>CCFF</td>
<td>San Francisco and Alameda</td>
<td>$200,000</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>LISC’s Early Childhood facilities</td>
<td>Nationwide</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>6</td>
<td>233 new facilities 23,617 children</td>
</tr>
<tr>
<td>IFF</td>
<td>Detroit and Chicago</td>
<td>$2,000,000</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td></td>
<td>5</td>
<td>759 slots in 2017; over 30 years, 6,133 slots created</td>
</tr>
<tr>
<td>Children’s Investment Fund</td>
<td>MA</td>
<td>$1,000,000</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Washington Early Learning Facility Fund</td>
<td>WA</td>
<td>$800,000</td>
<td>1</td>
<td>1</td>
<td></td>
<td>1</td>
<td>1</td>
<td></td>
<td>1</td>
<td>4</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RICCELFF</td>
<td>RI</td>
<td>$5,000,000</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Home and Hope</td>
<td>King County</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td></td>
<td>1</td>
<td>2</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deutsche Bank Pre-K Capacity fund</td>
<td>NYC</td>
<td>$50,000</td>
<td>1</td>
<td>1</td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liifund (LIIF)</td>
<td>CA and NYC</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td>1</td>
<td>5</td>
<td>1</td>
<td></td>
<td></td>
<td>269,000</td>
</tr>
</tbody>
</table>
Through its benchmarking inquiry, 3SI also collected data from existing funds on the number of staff needed to manage the fund. (It is important to note that fund staffing approaches may differ greatly, based on the scope of activities covered by the fund as well as which activities are served by internal staff, as opposed to being outsources or hired as contractors.)

The staffing levels of these funds, summarized in Table 4-7, informed but did not dictate 3SI’s recommended levels of administrative overhead. For instance, note that scenario modeling, aligned with methodology from the BERK Study, reserves a proportion of each project’s budget to account for a ‘Development Factor’, which would include some activities that could potentially be performed by fund staff.\(^{128}\) The figures below are, therefore, only one piece of a larger set of considerations necessary to plan the staffing levels of a new facilities fund.\(^ {129}\)

Table 4-7: Staffing levels for TA and everything else at each fund

<table>
<thead>
<tr>
<th>Fund</th>
<th>Geographic Focus</th>
<th>Staffing Needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Fund for Quality</td>
<td>Philadelphia</td>
<td>2.5 at the Reinvestment Fund 2.5 Fund for Quality Public Health Management Corporation</td>
</tr>
<tr>
<td>LIIF CCFF</td>
<td>San Francisco</td>
<td>4 staff</td>
</tr>
<tr>
<td>LIIF</td>
<td>DC</td>
<td>2 staff</td>
</tr>
<tr>
<td>LIIF</td>
<td>NYC</td>
<td>1 staff</td>
</tr>
<tr>
<td>RICCELFF (LISC)</td>
<td>Rhode Island</td>
<td>3 staff, 2 of whom were hired with state funds</td>
</tr>
<tr>
<td>City of Seattle DEEL</td>
<td>Seattle</td>
<td>1 staff with significant support from other city departments 1 architect consultant</td>
</tr>
<tr>
<td>Washington State</td>
<td>Statewide</td>
<td>3 staff + 100% administrative markup</td>
</tr>
<tr>
<td>Enterprise (Home and Hope Initiative)</td>
<td>Washington State</td>
<td>2 staff and 1 to be hired</td>
</tr>
</tbody>
</table>

Based on the full list of potential funds as well as referrals, 3SI was ultimately able to interview the experts and fund representatives indicated in Table 4-8.

\(^ {128}\) BERK Study uses a Development Factor of 37.9%, which grosses up actual construction costs to account for activities such as architect/engineering, testing, and inspection costs, among many others. Source: “Facilities Needs Assessment for ECEAP Expansion;” BERK Consulting, NAC Architecture, and Columbia City Consulting, September 2016.

\(^ {129}\) LIIF reported that facilities investment at family-based early learning centers requires an additional staff because the requirements are very different.
<table>
<thead>
<tr>
<th>Institution</th>
<th>Person</th>
<th>Title</th>
<th>Subject discussed</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIIF</td>
<td>Rachel Bluestein</td>
<td>VP Strategic Initiatives &amp; Programs</td>
<td>Interview protocol and follow up questions</td>
</tr>
<tr>
<td></td>
<td>Kim DiGiacomo</td>
<td>Deputy Director, Early Care &amp; Education Programs</td>
<td></td>
</tr>
<tr>
<td>LISC</td>
<td>Ewa Rainer</td>
<td>Deputy Director</td>
<td>Interview protocol</td>
</tr>
<tr>
<td></td>
<td>Cindy Larson</td>
<td>Deputy Director</td>
<td></td>
</tr>
<tr>
<td>RICCELF</td>
<td>Cindy Larson</td>
<td>Deputy Director</td>
<td>Interview protocol and follow up questions</td>
</tr>
<tr>
<td>Seattle DEEL</td>
<td>Cameron</td>
<td></td>
<td>Interview protocol</td>
</tr>
<tr>
<td>NIEER</td>
<td>Ellen Frede</td>
<td>Co-Director and Research Professor</td>
<td>Modified interview protocol focused on UPreK</td>
</tr>
<tr>
<td></td>
<td>Karin Garver</td>
<td>Early Childhood Education Policy Specialist</td>
<td></td>
</tr>
<tr>
<td>WA DCYF</td>
<td></td>
<td></td>
<td>Interview protocol</td>
</tr>
<tr>
<td>Fund for Quality</td>
<td>Bevin Parker-Cerkez</td>
<td>Senior Director Early Childhood Education and Program Director</td>
<td>Interview protocol and follow up questions</td>
</tr>
<tr>
<td></td>
<td>LaToshia Sanders</td>
<td>Project Manager</td>
<td></td>
</tr>
<tr>
<td>Enterprise</td>
<td>James Madden</td>
<td>Senior Program Director</td>
<td>Interview protocol</td>
</tr>
<tr>
<td>Kaplanco</td>
<td>Hal Kaplan</td>
<td>CEO and President</td>
<td>Kaplan’s Build-to-Suit-Lease model</td>
</tr>
<tr>
<td>Sussman Associates</td>
<td>Carl Sussman</td>
<td>Principal</td>
<td>Review findings to date</td>
</tr>
<tr>
<td>CIF MA</td>
<td>Theresa Jordan</td>
<td>Director</td>
<td>Modified interview protocol</td>
</tr>
<tr>
<td>Early Learning Property Management</td>
<td>Kara Portnell</td>
<td>Executive Director</td>
<td>Modified interview protocol</td>
</tr>
</tbody>
</table>
Interview Protocol

3SI created an interview protocol to better understand the mechanics of funding in each context and to set the stage for a data request. Four key research questions with a focus on ROI, eligibility, financing and TA, informed the interview protocol. The research questions were developed using primarily the scope of work, the value chain, and 3SI research. The interview protocol contained nine open-ended questions (with probes) that were customized for each fund based on available research. The protocol also contained 10 quantitative data collection questions that were in a follow up document. A general interview protocol is below.

Interview Protocol Template

Orange text= 3SI organization

Thank you for taking the time to speak with us. As we mentioned in our introductory email, 3SI is working with the Bill and Melinda Gates Foundation to benchmark best practices in the development of child care and Pre-K facilities.

First phase. In the first phase of our work, we researched strategies for expanding the number of slots available and funds like yours appear to play a [critical advisory role in addition to providing resources] to increase access to child care and Pre-K.

Second phase. We will begin with a general set of questions and follow up with specific data requests. We will take your responses and consolidate them into one database together with responses that we receive from other fund managers. We would then like to follow up with an additional conversation to address questions that may have arisen from the interview process or to fill in any data gaps that remain.

Confidentiality. We appreciate your sharing information with us so that we can identify best practices, and please alert us if you would like to maintain confidentiality over specific details.

Report. Lastly, we will be sharing our final report with you.

Questions. Do you have any questions before we begin?

I. We are learning about your strategy for increasing the number of childcare slots at the portfolio level as well as the planning process that facilitates strategy implementation. This set of questions is about your strategy and possibly your planning process.

1. Strategy and planning. Do you have an annual planning process to determine how to distribute resources be it through lending or grantmaking?

   a. We understand you focus on low-income communities. Is that correct? Do you consider geography? Demographics of students served (such as DLLs or students of color?)

   b. How do you determine the size of the average grant/loan in the planning process? What is the average grant/loan size?

   c. How do you balance the scale of the problem versus quality issues (i.e., children in need of child care or Pre-K versus the quality of the program?)
2. **Indicators.** Do you have key indicators to quantify success? (e.g., ROI, long-term impact on children served, share of the problem addressed)
   a. How do you calculate them?
   b. Or do you focus primarily on indicators like number of students served? If so, what do you measure and what are the results?
   c. Do you calculate number of new slots created by your funding? If so, what do you measure and what are the results?
   d. Do you calculate number of new slots that will serve low-income students? If so, what do you measure and what are the results?
   e. Do you calculate the percentage of slots that are filled? If so, what do you measure and what are the results?
   f. How do you incorporate these results in assessing future grantmaking/lending opportunities?

II. Next, we are going to ask you some questions about how you determine the eligibility of your fund recipients. Eligibility criteria vary widely among the child care facility funds we identified, and we want to understand how you make decisions.

3. **Eligibility Requirements.** What are your eligibility requirements?
   a. How do you identify which fund recipients best fit within your strategy?
      i. Do you fund child care and Pre-K providers exclusively?
      ii. Do you ever make loans/grants to landlords or developers?
      iii. Do you fund any other institutions (e.g., public schools, community centers, churches, etc.) that commit to providing child care or Pre-K services?
      iv. Do you focus on organizations that have a proven ability to execute (i.e., track record of executing funds, accounting systems, resources managed)?
   b. Do you have more demand than you can fund? If so, what is your process to select recipients?
   c. Do grantees/borrowers apply or do you reach out to them?
   d. Were you able to execute all your funds in 2017? In other words, did supply outpace demand?
   e. If you have more funds available than grant/loan requests, what action will you undertake to generate more demand? Do you have an outreach program?
   f. Do you have a diversity of providers (heterogeneity versus homogeneity of providers)?

4. **Are there regulatory barriers** that make executing the portfolio a challenge? If so, what are they?
   a. Have state rules regarding licensing been a challenge to recruiting providers/making loans to providers?
   b. Do zoning rules limit the supply of real estate available for child care and Pre-K facilities?
   c. Are there any other barriers?
III. We have seen technical assistance as a key element of child care and Pre-K facilities development. In this section, we will ask you about technical assistance.

5. Do you provide **Technical Assistance** to borrowers/grantees? What kind of technical assistance do you offer/fund?
   a. Please tell us about the mechanisms you employ to ensure that borrowers/grantees are successful in:
      i. Fundraising
      ii. Leadership
      iii. Project management/project planning and predevelopment
      iv. Permitting
      v. Real-estate consulting
      vi. Etc.

6. (If yes) Do all receipts receive the same technical assistance (i.e., workshop, guidelines, etc.)? Or, do you tailor services offered through, for example, consulting services?
   a. If you tailor, how do you determine what the borrower/grantee needs?

7. Do you introduce borrowers/grantees to **Technical Assistance** providers or do you provide it yourself?

8. How much does **Technical Assistance** cost ($) or %)? How is that financed?

IV. Now we would like to discuss some of the specifics of how you fund the development of child care and Pre-K facilities. This section has some open-ended questions, like those we have discussed, and some specific benchmarking questions.

9. Do you leverage existing resources (e.g., public funding, philanthropies, and non-profits) to maximize your impact?
   a. If so, how do you do that?
   b. What is the relationship of your fund with state and local governments? Does the fund or its grantees/borrowers receive public subsidy? If so, at what level?
   c. Do you provide to long-term funding?
   d. Or, do you limit your funding to short-term funding such as bridge loans or pre-planning loans?
   e. Do you have access to long-term funding (i.e., patient capital, grants, etc.)? Public/private partnerships?
Please note: We have a set of specific questions regarding impact, costs, revenue model. These are our benchmarking questions. I will ask you them now. If you do not have the answer at your fingertips, perhaps I could email you the questions and you could get back to me.

Note: some of these may be answered in the interview, in which case, do not ask again. Similarly, if the interviewee starts talking hard metrics, refer to these questions and start asking earlier.

Market information:

10. Volume. How many:
   a. Awards completed?
   b. Dollars awarded?
   c. Centers created?
   d. Classrooms created?
   e. Slots created?
11. What is the average total development cost for early learning centers?
12. What is the average cost per classroom?
13. Do the centers rent or own the facilities?
   a. What level of rent (or mortgage loan) are facilities paying?
14. What are typical revenues and operating expenses for these centers? Do facilities have any net operating income that could support debt?

Financial product details:

15. Are awards structured as:
   a. Grant?
   b. Recoverable grant (zero interest loans)?
   c. Amortizing debt
      i. Capital loans (facilities and equipment)
      ii. SBA loans
      iii. Bridge loans
      iv. Feasibility loans
      v. Planning and pre-development
      vi. Working capital
      vii. Loan Guarantees
   d. Cash flow conditional, aka subordinate, aka soft debt
16. If debt, what are typical
a. Interest rates?
b. Sizes?
c. Terms?

Fund sustainability:
17. What are the operating costs of the fund?
18. How many full-time employees are needed?
19. How does the fund pay for its operations?
   a. Public funds
   b. Philanthropic grants
   c. Loan fees
   d. Interest earned
   e. Endowment
   f. Other

Quantitative Data Collection

At the conclusion of the interview, 3SI emailed the interviewees a data collection template. The template was created to answer quantitative benchmarking questions. The template was a generic template that fund representatives could customize based on their data collection. 3SI followed up with interviewees to provide assistance and answer questions. It appears, based on our conversations, that most funds do not collect quantitative data on costs, spaces created, or spaces retained.

The data collection form is show below.
### Figure 4-14: 3Si’s data collection form issued to Early Learning Facility Funds

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<td>Number of new seats created by a funded facility award in the 12-month period, reported in the first year the facility began operations (do not include awards for applications received prior to 2007). “Seats” refers to the number of children that can theoretically be served in a full-day setting by a facility based on its classroom capacity, assuming no child turnover.</td>
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<td>The number of seats retained reflects seats that would have been lost without funding. Seats retained does not reflect class duration, i.e., it is indifferent to whether the classes are part-day or full-day.</td>
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<td>Number of seats lost from facilities receiving facility fund awards because a provider closed or went out of business, reported in the year that operations ceased (do not include seats created from applications received prior to 2007). Seats lost should not exceed the number of seats created by the facility fund (only seats created by funding awards can be counted), please note, the number reported should align with the number of seats lost in Row 30.</td>
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**3Si Contact:** Joelle Gruber or Diana Grusczynski at 206.695.2496

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*Note:* The number of seats retained reflects seats that would have been lost without funding. Seats retained does not reflect class duration, i.e., it is indifferent to whether the classes are part-day or full-day.
APPENDIX F: A VALUE INVESTMENT RATIO FOR MEASURING FACILITY FUND PERFORMANCE

A method for comparing facility fund performance can be developed using a Value Investment Ratio (VIR) approach. This ratio is similar to the classic ROI formula, except that it applies the concept of present value in order to capture the effects of time on investment inputs and outputs. The VIR for facility funds can be expressed with the following formula:

\[
VIR_{\text{Facility Fund}} = \frac{\text{Present value (Gains to Community)} - \text{Present value (Fund Expenses)}}{\text{Total Fund Budget}}
\]

When comparing two or more funds, the fund with the highest VIR has delivered the greatest gains to its target communities relative to its expenses and overall budget (i.e., committed capital).

**Present Value.** A present value calculation allows for the direct comparison of funds, even when one fund has been operating for a longer period of time or chooses to invest differently than another. The denominator does not require a present value (PV) calculation, because any delay in investment—which is turn delays the construction of new facilities—is already addressed by the present value calculation in the numerator. Furthermore, applying a present value to the denominator would reward investment delays by partially offsetting the decrease in the numerator and artificially inflating the VIR calculation.

**Community Gains.** In order to compare the impact to communities, gains must be expressed in the same units as fund expenses. This is resolved upon recognizing that the community does not realize a benefit (from the total funds invested per space created) until the space is filled, and then only in each year the space remains filled. If a space is unfilled (or lost if a facility closes), then the community no longer realizes the gain. Therefore, it is important to measure new spaces created, spaces filled, and dollars invested by new facility on an annual basis. These become Key Performance Indicators (KPIs) for the facility fund, and the present value of the gain to the community can be summarized by the following equation:

\[
\text{Present value (Gains to Community)} = \sum_{i=0}^{n} \left\{ \frac{\# \text{ of seats filled}_i - \# \text{ of seats filled}_{i-1}}{(1 + \text{discount rate})^i} \right\} \left[ \sum_{k=0}^{i} (\$FF \text{ invested}_k + \$OF \text{ invested}_k) \right] \frac{\# \text{ of seats created}_k}{\sum_{k=0}^{i} \# \text{ of seats created}_k}
\]

Where “\(i\)” is the year, “\(n\)” is the number of years the facility fund has been in business or else the number of years included in the evaluation of fund performance, and “\(k\)” refers to years between 0 and \(i\). “\$FF\” stands for facility fund dollars (i.e., invested from its own funds), and “\$OF\” stands for other funding dollars (obtained from other sources); a fund that is highly effective in attracting co-investment from other sources can better leverage its own spending and should be rewarded with a higher VIR.

---

Other methods for determining investment returns suffer from deficiencies. A typical ROI formula does not take the timing of gains and costs into account, meaning that a fund that takes 20 years to build a single facility will be measured as equal to a fund that take 3 years. An Internal Rate of Return (IRR) will give multiple results when values (gains net of costs) change signs from year to year. A Modified IRR (MIRR) addresses the limitations of the classic IRR but requires the use of two separately derived discount rates.
Discount Rate. A discount rate must be chosen for use in the present value calculations. A Social Discount Rate (SDR) can be employed, although it may be difficult to derive. However, if the purpose of the VIR is to compare the performance, then a solution lies in varying the discount rate within a reasonable range (10% to 20%) while observing the impact on the assessment of relative fund performance.

Fund Expenses. Fund expenses (FF expense $) include annual management and administrative costs related to the fund, as well as other spending not directly related to development and construction costs for new facilities. Spending on TA, for example, should be included in fund expenses and not in $FF invested. Higher fund expenses, including TA costs, are justified when the result is a greater number of spaces created and filled. The present value for fund expenses can be summarized by the following equation:

\[
\text{Present value (Fund Expenses)} = \sum_{i=0}^{n} \frac{\text{FF expense } S_i}{(1 + \text{discount rate})^i}
\]

Fund Budget. The total fund budget is simply the sum of capital committed to the fund. It includes money spent of fund expenses (including TA), money invested in the development and construction of new facilities, and committed capital available to the fund that remains unspent. A fund may not invest all of the capital under its management, and in this case, it should not necessarily be viewed as equivalent in performance to one that has achieved 100% investment. In addition, a fund may spend a disproportionate amount of its budget on expenses, which may be justifiable, and this needs to be included in the denominator of the VIR.

Applying the total fund budget to the denominator of the VIR serves to normalize returns across different sizes of funds. However, a minimum fund size should be identified when selecting other funds for benchmarking. Otherwise, a very small fund could theoretically outperform a very large fund simply because the larger fund faces a more complex undertaking or was too large for its market. The formula for total fund budget is fairly straightforward:

\[
\text{Total Fund Budget} = \sum_{i=0}^{n} \text{FF budget } S_i
\]

Performance Measurement. Combining the equations for community gains, fund expenses, and fund budget yields the final form of the VIR for facility funds:

\[
\text{VIR}_{\text{Facility Fund}} = \frac{\sum_{i=0}^{n} \left( \frac{\# \text{ of seats filled}_i - \# \text{ of seats filled}_{i-1} \left( \sum_{k=i}^{n} \left( SFF \text{ invested}_k + \text{SOF invested}_k \right) \right)}{\sum_{k=i}^{n} \# \text{ of seats created}_k \left( 1 + \text{discount rate} \right)^k} \right)}{\sum_{i=0}^{n} \text{FF budget } S_i} - \sum_{i=0}^{n} \frac{\text{FF expense } S_i}{(1 + \text{discount rate})^i}
\]

Clearly, the variables (KPIs) identified in the facility fund VIR require annual measurement, but this investment in performance evaluation is justified. Facility funds are often significant in size—and such an economic undertaking should be held to the same level of scrutiny as other large investments in the public and private sector. Otherwise, a lack of accountability arises in how the fund is managed, how well the target community benefits, and the interplay between these two important issues.