



CHILD CARE LAW CENTER

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IMPROVEMENTS TO THE CHILD CARE FACILITIES REVOLVING LOAN FUND MARCH 2008

California faces a critical lack of quality facilities for the care and education of young children. There is licensed care for only 27% of young children with parents in the work force.¹ In addition, the California Department of Education has identified the lack of ready-to-operate child care facilities as one of the main causes for the ongoing inability of the Department to spend child care funding that has been authorized and budgeted but remains unspent.²

The California Department of Education's Child Care Facilities Revolving Fund (CCFRF) provides a modest commitment towards addressing this shortfall. However, the resources in CCFRF have never been fully utilized, due, in part, to flaws in program implementation. This leaves the unused CCFRF funds vulnerable to reallocation to other state programs, especially during tough budget times. For example, at the beginning of 2008, the CCFRF had \$37.7 million in available funds. In response to the budget deficit, the Legislature and Governor agreed to mid-term budget adjustments, including a \$25 million transfer out of the CCFRF fund, reducing the amount of remaining available funds to \$12.7 million. Previous years have included similar reallocations. Between 2002 and 2006, a total of \$93.2 million was reallocated to the General Fund.³

CCFRF currently provides loans of up to \$210,000 to eligible qualified child care and development providers contracted with the Department of Education. The loan recipient must repay the interest free loan over 10 years, at which point the ownership of the facility is transferred from the state to the state-contracted provider. To date, all the facilities have been newly purchased relocatable buildings.

The statute creating the CCFRF in 1997 limited the use of its funds to the purchase of new child care facilities to school districts and contracting agencies that provide child care and development services.⁴ In 2000, the Legislature specifically expanded the use of the CCFRF for the "renovation, repair, or improvement of an existing building."⁵ Despite this, the Department continued to provide CCFRF loans solely for relocatable buildings.

¹ California Resource and Referral Network, 2007 Child Care Portfolio, p. 5.

² California Department of Education, Child Development Division and Fiscal and Administrative Services Division, Report on Unspent Child Care Funding, April 1, 2007, Executive Summary.

³ See Building Child Care Collaborative, Child Care Facility Development and Financing: Report to the Legislature (Updated June 2006), p.19.

⁴ See AB 1578, CA Statutes 1997, c. 299, sec. 9 (1997).

⁵ See AB 2907, CA Statutes 2000, c. 1058, sec. 10 (2000).

Pursuant to the 2000 legislation, the Superintendent of Public Instruction was required to submit a plan to the Department of Finance and the Legislative Analyst's Office specifying the application procedures to request funding for the renovation, repair or improvement of an existing building. However, the Legislature repealed this requirement in 2001, prior to a plan being submitted. Thus, the Department has never issued a plan or guidance for potential applicants interested in using CCFRF funds to improve an existing building, even though the Legislature specifically expanded the coverage of the CCFRF to provide loans for these purposes.

Developers of child care facilities and organizations working to expand the capacity of child development services have identified a number of problems which contribute to the CCFRF funds never having been used to improve an existing facility. Chief among these challenges is the limitation of loans to relocatable buildings and the lack of technical support in applying for and maintaining the loans. Developers and advocates anticipate that these problems will continue to hamper child development and preschool expansion efforts unless there are changes in the implementation of the CCFRF. Under existing law, much could be done to improve CCFRF implementation, including the following recommendations:

1. Permit funds to be used for the renovation and expansion of existing, stick-built facilities.

The statute authorizing the CCFRF permits the use of funds for renovation, improvement or expansion of existing facilities.⁶ However, the Fund has not provided loans for the renovation of permanent stick-built facilities used for child care. To date, only modular units have been financed. The Department has not issued any regulations or guidance to inform operators of non-modular facilities of the existence of this resource, nor of the process for obtaining a loan. Without clear regulations and guidance regarding the use of CCFRF funds for renovation of permanent facilities, and information alerting contractors to the availability of CCFRF funds for this purpose, the funds will continue to be used solely to renovate existing public school facilities to accommodate state child development and preschool programs.

2. Clarify that CCFRF funds may be used to administer the program.

Administering CCFRF requires the Department to commit staffing resources to the review of applications, assessment of the financial risks involved in extending a loan, and monitoring of existing loans. The CCFRF imposes workload demands on the Department without explicitly providing adequate resources. This is particularly true because the CCFRF requires the Department to combine lending expertise with responsiveness to the unique concerns of facilities housing child care programs, which differ significantly from facilities serving school-age children. The Department should issue regulations, or if necessary, the Legislature should provide a statutory amendment, that make clear the Department's costs in administering the Revolving Loan Fund should be absorbed by the CCFRF.

⁶ California Education Code section 8278.3(a)(1).