Strong Foundations:

Strategies for Child Care Capital and Supply-Building Solutions

APRIL 2025

EXECUTIVES PARTNERING TO INVEST IN CHILDREN

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Acknowledgements

This report was developed with the generous support of Gary Community Ventures, Buell Foundation, and Colorado Gives Foundation. It was authored by Alethea Gomez of Executives Partnering to Invest in Children (EPIC) and Beth Melton of Melton Strategic Solutions, LLC with additional review from EPIC staff and members.

Thank you to Nim Patel of Colorado Enterprise Fund, who lent his technical expertise to the development of the proposed models and helped to review drafts.

Special thanks to those who provided information or feedback on this report including Laura Kohn, Mission Driven Finance; Leah Curtsinger, Daniels Fund; Kelly Dunkin, Colorado Gives Foundation; Paul Bunyard, PNC Bank; Angela Ben Zekry, Colorado Department of Early Childhood; Cindy Willard, Impact Charitable; Bevin Parker Cerkez, Local Initiatives Support Corporation; Steffanie Clothier, Gary Community Investments; Chelsea Carver, Mile High United Way; Melissa Mares, Colorado Children's Campaign; and Kate Krebs Lyda, Staro Insights.

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Child Care is an Essential Service

Child care is an essential, yet persistently under-resourced support for workforce participation and economic success. Addressing the needs of this sector is critical in Colorado and across the country as a reliable and sustainable child care system becomes an increasingly urgent necessity for community well-being.

Despite its significance, the child care business model is stressed and often untenable, with the cost to provide services exceeding what most families are able to pay. The child care ecosystem largely relies on private service providers who are operating small businesses on extremely thin margins, creating significant and ongoing challenges with operational growth and sustainability, including access to funding and financial resources.

With the end to Federal stimulus funding, Colorado is at risk of falling behind from leader to laggard in addressing the capital needs of child care businesses and serving the needs of families and the workforce. To stabilize and grow the supply of child care in Colorado, a multipronged strategy is needed to support the financial stability of the sector.

A Strained Business Model

Many publications have illustrated the challenges of financially operating child care, including EPIC's 2022 report co-authored with the Common Sense Institute, The Growing Strain on the Child Care Business Model. This data highlights that the cost to provide care far exceeds the revenue collected from tuition, resulting in little to no profit, and inequitably excluding many from financial opportunities and products in the market.

Most child care operators are unable to provide high-quality care, pay livable wages for staff, and charge tuition that is affordable for parents without losses and/or outside public and private financial support[1]. Additionally, due to unique health and safety considerations for children, both labor and facility costs are high on a per-user basis compared to many other industries, placing further stress on the ecosystem as a whole.

Limited Access to Capital

Compounding these challenges, most child care businesses are small, women-owned and -operated, with many owned by women of color. These business owners report a significant lack of access to knowledge on how to access and navigate financial support and development opportunities that may be available to them. Both the business model and historical barriers to accessing the financial system create significant challenges for child care operators in acquiring critical capital for both real estate and operations to start, sustain, and expand their businesses. New models and approaches are called for to ensure child care is available to families.

Currently, a child care provider attempting to access capital will navigate a complex patchwork of grants and high-barrier loans with only the largest and most sophisticated business owners finding success. While small grants may be available to providers, they are not typically sufficient to meet the business capital needs and can lack long-term sustainability. Given the tight margins of a child care business, providers have extremely limited ability to take on loan debt, and banks have a constrained ability to qualify child care businesses for loans through the methods banks typically use to evaluate the risk of lending.

Expanding Opportunity

Despite the challenges, opportunities to innovate do exist. Many of the concepts in this paper focus on new and expanded roles for state partners, as well as other mission-driven organizations funding and financing child care in Colorado, such as Community Development Finance Institutions (CDFIs) and private foundations. The recommendations leverage available capital assets, expand technical assistance for operators and promote sustainable capital funding approaches for child care development.

These recommendations include:

- Invest in and protect real estate for child care
- Include child care in public infrastructure
- Create a revolving loan fund in Colorado
- Streamline access to financial opportunities and fund capital programs

Future work will elaborate on these recommendations and design implementation steps based on the concepts illustrated in this report.

Tools that Fund and Finance Child Care

Addressing the broad capital needs of child care is complex, where no single funding or finance tool can be relied upon alone to provide a solution. The child care business model is often difficult to evaluate under the traditional risk calculations of lenders, and the needs of child care providers can be a mismatch with the requirements and limits of many grants. This contributes to denied funding requests, lengthy capital campaigns, and a critical shortfall for the capital needs of child care.

Below are common approaches to fund and finance child care needs. These most often support start-up operational and facility costs, ongoing operational subsidies, and expansion of existing sites and businesses, including both licensed family child care homes and center-based facilities.[2] The mechanism for each is described as well as typical entry points or funding sources. Then, key advantages and challenges of each are listed, in addition to models being implemented in other states where applicable.

Grants

Child care operators rely on grants for both startup and ongoing operations. Typically, grant funds have specific application, performance or reporting requirements and do not necessarily apply to all child care operators.

ADVANTAGES

- *Do not need to be repaid*
- *May be available only for programming, not capital or facility costs*

CHALLENGES

- *Can be used to support operational and programmatic needs*
- *Providers must navigate various requests, timelines, and requirements from multiple sources to access sufficient funding*

How it's working in Colorado

There are several grantors in Colorado who focus giving on early childhood care and education. Like many states, Colorado enacted child care facility investments through pandemic stimulus funding as well as increases in State General Fund spending that provided much needed resources. This included Emerging and Expanding Grants, Employer-Based Child Care Grants, and others. However, these grants have come to an end and renewed options are needed to ensure ongoing access to critical capital funding.

Models from other states

California

California offers grants through the California Child Care and Development Infrastructure Grant Program for improving child care quality and expanding access to care.

Maine

Maine invested $15M in federal funding in the Child Care Infrastructure Grant Program (CDFI) through two key initiatives. The Office of Child and Family Services (OCFS) is administering the program in partnership with a local CDFI.

Oregon

Oregon provides funding through the Child Care Infrastructure Fund that expands access to child care in underserved areas, often in conjunction with workforce development programs aimed at helping parents return to work.

Donations

Donations are a primary funding source for many nonprofit child care providers, however cannot be solely depended upon for the stability and growth needs of child care. When building or expanding a facility, child care providers often fundraise through a capital campaign which is then used to support development and makes this funding type an integral part of local expansion efforts. Contributions come from individuals, foundations, or corporate donors.

ADVANTAGES

- *Funding may be unrestricted or committed to specific capital projects*
- *Do not need to be repaid, and can help to cover critical costs for new or expanding providers*

CHALLENGES

- *Fundraising is a resource-intensive activity as relationships with donors must be cultivated and individual funding asks made*
- *Many donations may be small dollar amounts, and this mechanism is not typically available to most family child care homes and many small for-profit centers*

How it's working in Colorado

Colorado Child Care Contribution Tax Credit

Colorado taxpayers (individuals or businesses) who make contributions to eligible child care facilities, including capital campaigns, can receive a 50% income tax credit up to $100,000 per year (for a $200,000 donation). This tax credit incentivizes $60 million in donations to child care each year in Colorado and motivates donors to use their philanthropic dollars for child care purposes.

Note: Including In-Kind Real Estate Donations as eligible for the Child Care Contribution Tax Credit could incentivize potential land and building owners to support affordability and donate/lease their space for the use of a critical community service like child care. Their contribution would qualify for a 50% tax credit up to $100,000, creating an opportunity for regions and communities where land and real estate can have higher availability and lower values.

Lending

Many child care operators are small business owners, yet they lack access to traditional small business loan products. Some are unaware of this option, while many smaller providers are screened out. Larger and multi-site providers tend to have more access to lending because they have a structure that aligns with traditional lending requirements. Child care projects and financial documentation may look different from other businesses, so loans and risk assessment should be evaluated and structured differently in order for them to participate.

ADVANTAGES

- *Funding can be used for startup costs, real estate acquisition or expansion*
- *Funding may be available in larger amounts than other mechanisms*

CHALLENGES

- *Traditional lending programs and products can be inaccessible inaccessible for many providers and may only benefit a small group of well-resourced providers*
- *Interest rates and repayment terms can be unaffordable and unsustainable for some businesses.*

How it's working in Colorado

A review of Small Business Administration (SBA) loans to child care businesses in Colorado between 2017-2021 conducted by the Reinvestment Fund and EPIC showed that the majority of these loan types above $250,000 went to corporate or franchised child care businesses, which have balance sheets and collateral that align with typical business loan requirements, whereas smaller or mid-size businesses or ownership structures received much smaller loans on average, many below $50,000.

The amounts of these loans also are indicative of debt used for deferred maintenance and operating shortfalls, rather than facility construction or expansion. Colorado can address this challenge by increasing access to lending to a wider range of provider types[3]. While some of these figures were reflective of COVID and should be updated to align with current trends, these figures are consistent with national data, illustrated below:

Small Business Administration Loans Data: Room for Reform

According to the Small Business Administration in 2024, nearly all firms in the childcare industry are small businesses (source). However this data shows that these and other providers are either unaware of or do not qualify for funding and lending opportunities on the market, calling for products and services more tailored to fit their needs like some of those mentioned in this paper.

Between 2016 and 2020, over 250,000 Small Business Administration (SBA) loans were originated under the 7(a) program, of which 3,454 (about 1%) went to child care businesses.

The SBA 504 loan program, over the same period, originated 29,000 loans, of which 778 went to child care businesses.

Models from other states

Michigan

Michigan has a program called the Child Care Facilities Fund that offers low-interest loans to help child care providers with costs related to building, expanding, or renovating facilities.

North Carolina

Through the North Carolina Child Care Subsidy Program, child care providers can apply for loans to support the development of new facilities or enhancements to existing centers.

California

The California Child Care Facilities Financing Program partners with CDFIs to provide low-interest loans for child care providers in underserved areas.

New York

The New York State Child Care Facilities Financing Program helps fund new child care facilities or expansions and provides low-interest loans for construction and renovation.

Community Development Finance Institutions (CDFIs): A note on non-traditional lenders

CDFIs are specialized lenders that focus on providing financing to businesses, projects, and initiatives in underserved communities, which may include child care. Some CDFIs (see LIIF, LISC, IFF, and Reinvestment Fund) have initiatives specifically supporting child care, although none of these are active in Colorado. CDFIs are crucial in helping child care providers that may have difficulty accessing funding through traditional financial institutions, as CDFI loans are often structured with lower interest rates and longer repayment periods than conventional loans. They may also have more flexible credit requirements.

However, CDFIs face unique challenges that require additional community/financial support to deploy the large amounts of capital needed to make a meaningful difference in child care. CDFIs do not have the same level of access to federal deposit insurance or large-scale liquidity sources such as deposits, credit cards, or other products utilized by traditional lenders to offset the often-unprofitable business of small business lending. Backstops provide the cushion needed to extend larger loans for projects with high community benefits. Without backstops such as Loan Loss Guarantees, CDFIs might be forced to issue smaller, lower-risk loans, limiting their impact to child care businesses.

Investments

Investors may also provide capital to child care businesses in exchange for a generated return. While traditional investment is an option for some very large child care organizations that have higher margins, other types of investors are motivated to support child care as a function of their mission or goals. For example, non traditional lenders like CDFIs may provide equity investments when child care providers want to expand and need a larger infusion of capital but want to avoid taking on debt. Impact investors may provide equity capital that is focused on generating returns in the form of social outcomes while also generating a modest financial return.

Foundations or philanthropic organizations can make a similar investment in the form of a Program-Related Investment (PRI) which has a goal aligned with their charitable purpose. The investment generates some interest income, but it is not the primary purpose for the investment. Finally, employers are increasingly investing in child care to support their employees (and therefore their bottom line) and broader community needs. The return on investment is most often in the form of increased employee recruitment and retention, future talent pipeline development, and brand equity.

ADVANTAGES

- *May not require debt repayment*
- *Provides cash flow for the provider*

CHALLENGES

- *Monetary returns on investment can be difficult to achieve without compromising the quality of care provided*
- *Non-traditional returns may be difficult to track and measure*

Examples

Federal Employer-Provided Childcare Credit (45F)

Employers can receive a tax credit of up to $150,000 per year to offset 25% of qualified facility expenditures and 10% of child care resource and referral expenses[4]. The tax credit can be used to acquire, construct, rehabilitate, or expand property or operate a child care facility. This tax credit helps incentivize employers to invest in child care for their employees.

Tax Credits

Tax credits create some unique opportunities for raising capital for child care facilities in a mixed-delivery system.

New Markets Tax Credits (federal): The goal of this federal program is investment in community development and economic growth. Community Development Finance Institutions (CDFIs) receive these credits and then are able to facilitate program access. Child care facilities generally are a good fit for the requirements, however, significant upfront legal and other application costs mean that these credits are typically only feasible for larger-scale operations and/or those that are co-located with another eligible use (like affordable housing).[5]

Tax Credits In Action: Sunnydale, San Francisco

An example of effective deployment of New Market Tax Credits (NMTC) for an early childhood education project is the Sunnydale community center in San Francisco. This development is located in the historically under-resourced southeastern part of the city. LIIF provided $13.6 million NMTC allocation authority to finance the construction of a 28,000-square-foot, multi-tenant community facility with an ECE tenant that will annually serve 72 children. Additionally, the San Francisco Boys and Girls Club has space for 135 children and additional community space that can accommodate 200 low-income residents. Rents are heavily subsidized, with the ECE center and Boys and Girls Club each paying just $1 per year in rent (100% below the San Francisco market rate of $30 per square foot.)

Low-Income Housing Tax Credits (federal/state): The Low-Income Housing Tax Credits (LIHTC) program is a tax credit program for building affordable housing. Tax credits are issued to and administered by the states (in Colorado, they are administered by CHFA, the Colorado Housing and Finance Authority). The only direct application of LIHTC credits for child care is as a service for residents in transitional or supportive housing in qualified census tracts. However, there is a trend of affordable housing developers co-locating child care, and creatively leveraging financing models developed with LIHTC credits to help share some of the overall costs of development, reducing costs for child care facilities.

Tax Credits in Action: Ascent at Hover Crossing in Longmont, Colorado

This development is a collaboration between Pennrose and the Longmont Housing Authority, featuring 75 affordable housing units and an on-site Early Childhood Education center. The project secured both federal and state LIHTC allocations to support its construction and is expected to welcome residents in winter 2025.[6]

Funding Tools and Common Sources

Source	*Philanthropy*	*Traditional Finance Institution*	*CDFI*	*Impact Investor*	*Government*	*Employers*
Grants	✓		✓		✓	
Loans		✓	✓	✓		
PRI and other Investments			✓	✓		✓
Tax Credits			✓		✓	
Additional Support Roles	*Technical assistance*		*Technical assistance*		*Real estate purchase Subsidy*	*Real estate purchase Subsidy*

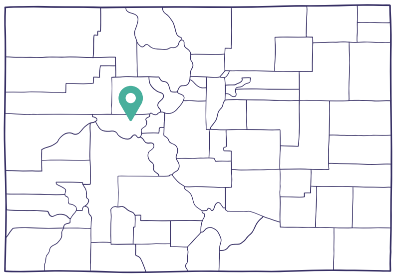
A Closer Look at Colorado Projects

In Colorado, many communities and organizations are taking action to stabilize existing supply and develop new child care facilities in innovative ways. While progress has been made, access to sufficient capital remains the primary challenge to success and true growth. Colorado may fall behind in leading the national standard if actions are not taken to secure and protect funds for child care for the workforce and economic and future of the state.

Examples of recent Colorado efforts to invest in child care infrastructure needs are summarized below:

Stott Mills Development

Town of Basalt exactions on Private Development



Steps Taken

The Town of Basalt required the developer of a proposed mixed-income residential subdivision to provide a Childcare Center Community Benefit as part of the land use approvals. The developer met this requirement with a 4,000 SF building shell that required tenant finishes. The space was advertised to childcare providers over four years but proved cost prohibitive. The Town of Basalt and Pitkin County partnered to finish the space to overcome the financial hurdle and secure a childcare provider.

The Approach

The total estimated cost to complete tenant improvements in the space was just over $1.4M. The Town of Basalt received an $800,000 Employer Based Child Care Facility Grant from the State of Colorado to help support the construction costs, which enabled the activation of matching funds from the Town and County budgets (including American Rescue Plan Act (ARPA) funds) as well as a local foundation to supplement the remainder of the construction and development costs. Through negotiations with construction and other project partners, additional significant fee reductions were secured, keeping both the development process on schedule and the project on budget. Other success factors described below were critical to the success of this work.

Key Success Factors

In-Kind Service Donations: Both the design and construction firm offered in kind services and/or significantly reduced the fees for the design and build processes as high as 40%, significantly reducing the cost of preplanning and startup activities to the local government partners and child care operating partner.

State Grants Activating Local Dollars: Without the support of the Employer Based Child Care Facility Grant award, the Town and County would not have been able to pursue this effort with their budget dollars alone. Their participation in the Employer Based Child Care Design Lab, offered by EPIC in partnership with the Colorado Department of Education, provided additional technical assistance through their planning process and enabled them to develop a clear governance structure and path forward.

Partnering with a Local Operator: The team selected a local and experienced provider to design the operational approach, acquire staff and implement programming and community engagement strategies. This appointment had a measurable impact on the quality and efficiency of this effort, and helped ensure that the child care environment was reflective of parent, family, and community needs and preferences.

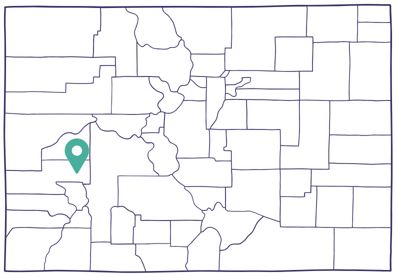
Reflections from Project Partners:

We're lucky here that our local municipality and County partnership acknowledged the importance of this to the community - we came as close to "fast tracking" this work as possible which cleared the path for this project to be successful...the Town of Basalt did not have a dedicated funding source for anything child care related; to have 90% of the build out come from the [Employer Based Child Care Facility] grant was the only way that this was possible; and also why the building remained vacant for the last 4 years; cost and resources prohibited operators from completing the site on their own."

- Michelle Thibault, Town of Basalt

Rural Homes Early Childhood Initiative (Ouray County)

Investing in Family Child Care and Home Ownership



Steps Taken

The Rural Homes Early Childhood Initiative (RHECI) aims to simultaneously address the housing and childcare shortages of the region through integrating new affordable home construction with new family home childcare operations. The RHECI has done this by running an accelerator program that provides budding Family Child Care Home Providers (FCCHPs) with all the right tools to start stable businesses in new pre-licensed home childcare homes within the Rural Homes Waterview Development in Ouray, CO. This initiative packaged direct services into an integrated program for potential FCCHPs with all the training and resources to rent or buy and home, and start and grow new licensed family child care home businesses.

The Approach

The RHECI started in the form of a strategic plan and a key advisory committee made of statewide and national experts in the fields of Early Childhood education and key local stakeholders including Bright Futures, the regional early childhood council. This team, led by a project manager from Rural Homes, spearheaded the planning, design, programming and staffing for the RHECI.

A bilingual staff member was brought on to recruit and train prospective and hopeful FCCHPs through a accelerator “bootcamp,” covering the necessary components of early childhood care and education, business operations expertise, and coaching and training on how to start and grow a FCCHP operation using the All Our Kin national curriculum. Once trained, the final two providers were interviewed, selected and given the opportunity to move into one of the two homes.

The two homes were purchased by Mission Driven Finance as a childcare friendly landlord that gives the selected providers the eventual opportunity for home ownership. Each of the three-bedroom homes — considered four-bedroom because of the child care area – were sold to Mission Driven Finance for $479,000 each, far below their cost of construction. The rent for the providers is well below market rate to allow the providers to grow their business from a start-up to up to the large license capacity of 12 children each while they increase their capacity for homeownership.

Key Success Factors

Key Partnerships: The RHECI key partners included:

- The RHECI Executive Committee: Bright Futures, Donnell Kay Foundation, Homegrown, Mission Driven Finance and Rural Homes
- Funder Partners: Saul Zaentz Foundation, The Colorado Trust, Gary Community Ventures, Gates Family Foundation, the Littlefield Foundation and Rural Homes
- Support and Thought Leaders: Colorado Department of Early Childhood, Boettcher Foundation, and EPIC

Capital Support: The RHECI was made possible by capital collaboration, in which the RHECI received over $400,000 in grants from a range of nonprofit partners across Colorado (mentioned above). These funds were used strategically to ensure that the homes were not only built in a way that best served two new FCCHPs both logistically and financially (making them attainable for a provider), but also to recruit, train and support the Providers who would fill the homes. Additionally, this grant funding has and is being used to analyze this model and assess its capacity for scaling across the State and Country.

Cutting the Cost of Construction: The RHECI was also made possible by Rural Homes’ ability to lower the cost of building new homes through low cost financing (from State and Colorado foundation partners), donated land, and efficient modular construction methods.

Reflections from Project Partners:

We have a very close relationship with the state who had adopted this All Our Kin business series specific to family child care home providers in an effort to really professionalize the industry and give them the business tools they need"

- Kathleen Merritt, Bright Futures

When executing an innovative approach such as the RHECI, flexibility has been key. The process has been dynamic, but we have continued pushing forward with the trust that with the right partners, we will achieve our north star of standing up successful FCCHPs while simultaneously alleviating the shortages of childcare and affordable homeownership."

- Sheamus Croke, RHECI Project Manager

For more information on the RHECI or the Rural Homes Model, visit the website or reach out to info@ruralhomesproject.co

The above case studies illustrate several key drivers behind the need for optimized models for child care, including the high start up costs of child care developments, and emphasize the importance and impact of local partnerships to address critical and complex challenges like child care.

Blended Finance Structures to Optimize Funding

This paper will make recommendations to optimize existing funding tools that support capital needs for child care through blended finance structures. Blended finance refers to the coordinated or combined use of philanthropic funds, public funding, and private capital to achieve a social impact while also providing financial returns where possible.

Key Blended Finance Structures:

1. **Loan Guarantees (Backstop)** – Private contractual obligations to fund loan losses in a risk sharing model with investors help reduce the risk for mission driven lenders and unlocking large amounts of debt capital.
2. **Equity Investments** – Banks or donors offer equity investments to make projects more viable.
3. **Reduce the Cost of Loan Capital** – Reduce debt costs to providers through interest rate buydowns to ensure lowest cost debt possible when necessary (or, provide access to low cost, long term debt to mission driven lenders which allows MDLs to lower their interest rates to child care providers.)

To guide planning and implementation efforts, there are three pillars of financial success that address unique needs of child care within blended finance structures:

Three Pillars of Financial Success

- **Modify Terms for Loan Capital**: Capital with longer terms and repayment periods, or "patient capital" is needed to balance financial return with the risk of the child care sector. Traditional lending frameworks will not work for child care businesses that need time and often additional financial support to sustain their business model in the short and long term while remaining accessible for families.
- **Support Operational Subsidies for Providers**: Child care operators need time to enroll children and families, ideally without high up-front costs and high debt to repay. Impact investors and other blended funding streams are needed to help support loan costs so that dollars can reach those that need it most. *Example: Covering subsidized interest and/or loan origination and servicing fees typically collected on traditional small business loans.*
- **Loan Backstops and Guarantees**: A key difference between lending and grant making in this sector is that lending will lead to longer term impact through the ability to revolve the funds multiple times in any given community. Investors who will provide funds for loan loss guarantee coverages (a "safety net" for the lenders) are needed to maintain the amount of capital available to revolve, as well as account for the higher risk nature of child care lending.

Loan Guarantees

One of the key barriers to funding child care facilities are the perceived and measurable risks, especially when it comes to financing providers in underserved or economically challenged areas. A loan guarantee for a child care facility can play a crucial role in securing financing for the business. It involves a third party promising to repay the majority of the loan (75% to 85%) if the borrower (the child care facility operator) defaults. This reduces the risk for lenders, making them more likely to approve a loan for the business. Reducing the cost of loan capital to providers and increasing capital distributions through loan guarantee programs.

A Loan Loss Guarantee Pool (LLGP) is a blended finance structure that provides a safety net for lenders in the event of borrower defaults. It typically involves a reserve or pool of funds set aside to cover the losses that may arise from loans that cannot be repaid. The purpose of the loan loss guarantee pool is to reduce the risk for lenders, particularly in markets or sectors where borrowers may be perceived as higher risk (e.g., small businesses, underserved communities, or certain industries like child care).

What Can Funding Partners Do?

Sample Approach*: A community foundation or fund could set up a $5 million credit enhancement fund for child care providers. If a child care provider needs a loan, the foundation or fund would guarantee a portion of the loan (e.g., 80%), reducing the risk for the lender and helping the provider secure financing at favorable terms.*

Reduce the Cost of Loan Capital

Child care providers often need loan capital to open, expand, or renovate facilities when grants and other funding sources fall short of their capital goals. However, most providers struggle under market interest rates, making it difficult to afford loan payments. Non-traditional lenders, foundations, or impact investors can:

- **Buy down interest rates** on loans to child care providers, reducing their monthly payments
- **Offer temporary buydowns** to help providers ease into loan payments as enrollment grows
- **Provide permanent buydowns** to make long-term financing more sustainable

Mission-Driven Equity Investments

Philanthropic organizations can provide investments alongside lending. Subordinated debt, such as an unsecured second loan, carries more risk in the ability to repay the loan but can be a crucial tool to help child care providers secure traditional financing from banks or other financial institutions. Philanthropic organizations can take an equity stake in the land or real estate that houses a child care business, helping them protect the real estate assets and support community needs.

***Sample Approach**: A philanthropic investor may purchase a site, commercial building or residential home, allow the child care provider to operate in the space at little or no cost, then refinance the purchase within a 10 year period, realizing a 4-5% ROI on their initial investment. This allows the provider to reach a sustainable operational level, attract other sources to subsidize and help support the operator, including public and private funding streams, and protect the property for the use of child care during that term.*

The approaches above, while they do not encompass every possible solution, help address the diverse and increasing capital needs of child care. They will continue to inform solutions in Colorado as critical supply gaps and other industry challenges are pursued by state and local leaders.

Recommendations for Colorado

Colorado can begin planning solutions with key partners in the short term. The recommendations below aim to reduce costs and cumbersome processes for providers, maximize existing assets and programs, and think differently about how we stabilize and expand child care supply across the state.

Fund Capital Programs for Child Care

Currently one of the most effective ways to impact child care stability and growth in the short term is by **investing capital into funds for grants and improvements**. Local or state grants and funds are an easy tool for a wide range of potential public, private, and philanthropic investments.

One of the most direct ways to impact this opportunity is contributing capital to existing programs and funding streams, such as the local government planning and capital facility grant programs to be implemented through HB 24-1237 on Programs for the Development of Child Care Facilities, administered through the Department of Local Affairs between 2024 and 2028. Programs like these are often eligible for gifts, grants and donations, leverage additional funds, and can be the driver behind additional partnerships at the local and state level. It is critical to advocate for funding streams and regulatory actions that provide incentives for investors, developers, child care educators and operators to stay and grow in communities where workforce and residents continue to be needed.

Invest in and Protect Real Estate for Child Care

Children need space to run, learn and play. The success of child care businesses will always be dependent on the availability of affordable real estate. Other industries with similar needs, such as affordable housing, have created unique real estate investment models to address this.

When impact investment dollars, private or public, are placed in the facility and land that houses the child care operation, it can provide both incentives for diversified and higher-level investments through the potential returns from the real estate appreciation. These dollars also provide the critical time an operator needs to ramp up their operation to a sustainable level through ideal enrollment and staff levels. The Dearfield Fund at Gary Community Ventures invests in real estate to support black wealth building and home ownership, purchasing assets and supporting emerging home owners, a concept that aligns well with the unique needs of child care owners and businesses. This may involve additional subsidies through the community, such as employer, foundation or other support or tools such as land trusts. This sets a precedent that could be modified to other entrepreneurs and business types such as child care providers.

Colorado could be a prime market to consider this approach as a stable and growing real estate equity market can often produce reliable returns over 5-10 years[7], and philanthropic organizations that traditionally utilize their investment dollars in markets apart from real estate can contemplate a new use of funds with social and economic impacts.

Sample Approach: *Support with Buying or Renting a Child Care Facility*

An existing child care operator has the opportunity to purchase a $500,000 building but has no resources for down payment. The building may be sold to someone else or used for another purpose if not acquired by the child care center.

An equity investor provides a 20% down payment.

A CDFI provides a mortgage loan to a child care provider with 25-year amortization and a five-to-seven-year balloon payment.

Note: *This model assumes that a child care operator can obtain traditional financing after the five-to-seven-year period, which can be supported by ensuring technical assistance that help operators become financially and operationally sustainable during that period. The provider refinances with conventional bank financing and the equity investor is repaid. The provider benefits from the appreciation over this time period and continues to benefit from appreciation over the life of the loan and ownership of the property.*

Sample Approach: *Lease to Own*

In this model, an investor provides low-cost capital to a CDFI, allowing the CDFI to purchase real estate and then structure a lease-to-own model for the provider without any requirement for a down payment.

After 24 to 36 months of consistent lease payments (equal to mortgage payments), the structure shifts whereby the operator is now the owner of the property (subject to the continued mortgage). The mortgage is structured as a 25-year amortization with a 7-year balloon.

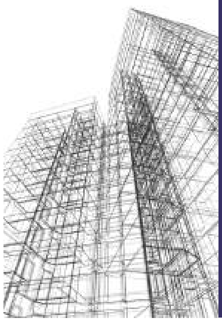
The operator refinances after 7 years, and the CDFI has the funds to either pay back the investor or support additional building purchases through a revolving fund.

Promising Models in Residential Investment

For family child care home providers, the child care facility is also their home. ***Investing in home ownership*** *for these providers is a promising opportunity to support both home ownership, economic mobility and entrepreneurship for family child care providers. See Mission Driven Finance's CARE project as an example.*

Include Child Care Facilities in Public Infrastructure

Child care facilities should be included in planning efforts for public infrastructure, where land and buildings that house child care services are acquired, developed and maintained by local governments and select community partners.



Cities, counties, and local governments investing in their community build out space that is child care ready, including permitting and compliance for their local jurisdiction.

The public entity could then put out an RFP for a child care operator to operate the facility at reasonable, below-market lease rates. This allows the operator to step in and begin operations without the high upfront cost burden. A low-interest working capital loan from a lender backed by private dollars or contributions can support other start up needs.

Note: *This approach can be especially useful in counties and municipalities where there are unused or underutilized property or land holdings that can be reimagined for critical community services like child care.*

Create a Revolving Loan Fund for Colorado

A critical element of deploying large amounts of capital consistently is ensuring that fund has a mechanism to revolve and address supply gaps and other child care needs on a wider scale.

The SBA has identified child care as a sector that needs extra support and has shown flexibility in approving child care loans with lower collateral and debt service coverage requirements. Low-cost capital with longer repayment periods combined with a Loan Loss Guarantee Pool (LLGP) can further reduce risk by leveraging the Small Business Administration (SBA) 7(a) program, which provides 75% guarantees on loans.

As stated, most child care operators would not qualify under traditional 7(a) lending through banks; however, CDFIs and certain other mission lenders provide 7(a) loans up to $350,000 through the Community Advantage (CA) program. A CA lender's loans must be 60%+ in underserved communities, a model which could be expanded and modified to better fit capital needs of child care.

In this model, the LLGP Investor Group provides guaranteed backstop funding for child care loans.

Program Related Investor Group provides 0% to 1% capital to a CDFI with interest-only payment terms for 10 years.

CDFI provides the child care loan through the SBA 7(a) CA program and receives a 75% guarantee.

What if the Loan Defaults?

If a $100,000 loan has to be charged off when the principal balance is $90,000, the first 75% of that loss ($67,500) is covered by SBA, 5% of the loss ($4,500) is covered by the CDFI and 20% ($18,000) is the covered by the LLGP.

If the Loan is Repaid

Alternatively, with the combined guarantees on a $100,000 loan that is fully paid off, the $100,000 can be recycled into supporting another child care facility.

Note: *Future strategies might involve these loans being repaid by local employers, funding streams or other funding sources.*

Streamline Access to Financial Tools and Technical Assistance

Efforts to raise capital are often led locally, yet draw on multiple different funding sources up to the state and sometimes federal level. Because there is no centralized source to house these various opportunities and make them easy to access and navigate, the process is often resource- and time-intensive, and results in opportunities being missed, abandoned or denied. **A web platform or other digital interactive resource** that maps child care funding tools and organizations is needed in Colorado, coupled with a direct line to financial technical assistance programs and vendors to provide child care operators with the critical support they need to create and successfully implement a plan to start or grow their business. State departments, community leaders, and financial institutions that already offer some of these programs should collaborate to expand and formalize this opportunity and work to scale in the future.

While grantmaking organizations and other stakeholders in early childhood share important tools and have localized knowledge of available dollars, additional supports are needed to ensure all those who need funding know where to access and manage financial supports.

Solution planning to address this challenge should identify an ideal structure for a dedicated capital resource hub to be housed with an appropriate statewide organization. This will allow all providers and child care business owners to gain equitable access to support, as well as designate an organization at the state level to house and update this resource. Equitable access to funding resources is crucial because it ensures that child care operators and entrepreneurs, regardless of their background or personal circumstances, have a fair opportunity to start and grow their businesses.

What Can Funding Partners Do?

Child care business owners, while experts in their field, do not always have the knowledge or capacity within their organization to navigate a complex financial system, stay connected to ongoing deadlines, and manage other requirements. They need improved tools to access and manage funding sources and opportunities. This will help ensure child care business owners and funding recipients can begin to build financial knowledge, sustainability and growth. It is critical to pair financial programs with technical assistance for providers, empowering child care providers by increasing their access to resources and business sustainability.

A variety of lending and small business support organizations could offer dedicated tailored technical assistance and business development services, such as the child care focused support program housed in the Small Business Administration. Paired with capacity-building grants to help prepare child care centers for securing traditional financing, providers enter into business ventures better prepared with a clear pathway to support immediate and ongoing operational needs. In addition, capacity-building grants can help child care centers improve facilities, acquire new equipment, or meet new regulations, enhancing their ability to qualify for grants or traditional loans, or manage the financial requirements of their development.

Potential Risks of New Approaches

New approaches to funding and financing child care in Colorado are sorely needed as child care supply continues to fall short of community needs. While the recommendations above have significant potential to address longstanding gaps in the child care sector, there are critical considerations that must be addressed to ensure the viability of any new model. Many of these considerations were identified through the subject-matter expert interviews conducted in preparing this report.

POTENTIAL RISKS	MITIGATION STRATEGY
There is not sufficient funding available to implement one or more recommended models. Philanthropic organizations and public agencies prioritize other sectors or other ways of supporting the child care sector. Funders or investors are unwilling to make long-term financial commitments.	Work in partnership with potential funders and investors to plan and design a model that meets their needs. Secure commitments prior to launching any new model. Identify innovative uses of endowment funds to generate investment returns.
Adopted financing model(s) benefits larger providers that can afford to take on debt or navigate complexities at the expense of smaller, community-based programs, exacerbating inequities within the sector and harming those providers most in need of support.	Develop models in partnership with child care providers, investors, and lenders to ensure they are specifically designed to address the needs of smaller-scale providers, woman- and BIPOC-owned businesses, and providers serving low-income children.

POTENTIAL RISKS	MITIGATION STRATEGY
The back-stop guarantee is inadequate and additional risk mitigation measures are required, increasing costs or slowing implementation.	Complete appropriate modeling to build a backstop guarantee that ensures an affordable product for providers.
Many smaller providers lack sufficient financial literacy or operational capacity to navigate grant and loan applications, limiting uptake of available resources.	Pair robust technical assistance with financial products and create new models with a focus on reducing navigational requirements on providers.
Child care providers that operate with slim profit margins are unable to access credit, even with backstop guarantees and interest rate buy-downs; or providers cannot afford to repay a loan, even with very favorable terms.	Engage with providers during program design to ensure alignment with their needs and realities.
Providers in under-resourced or rural areas may face barriers to participation, leading to uneven benefits.	Develop outreach, education, and awareness strategies and technical assistance programs to ensure equitable access.

Conclusion and Next Steps

Child care is not just a family issue; it's an economic necessity for the ability of our communities to grow and thrive in the future. Child care is a critical driver for expansive priorities, impacting housing, educational outcomes, and the workforce at large, supporting parents in entering and staying in the workforce.

Without access to affordable and reliable child care, many parents – especially those in low- and middle-income households – are forced to reduce their work hours or leave their jobs altogether. This limits their earning potential and contributes to a loss in overall productivity. A robust child care system enables more parents, particularly women, to participate in the labor force, driving economic growth.

By investing in child care, local and state economies benefit from a more productive workforce, job creation, poverty reduction, and the development of a future skilled workforce. Supporting the capital needs of child care is a vital part of supporting overall economic prosperity in Colorado and beyond.[8] Additional public funding investment will be needed to support a strong industry, but the recommendations below will help optimize the current opportunities and lay the groundwork for a strong supply of child care.

Utilizing concepts introduced in this paper, Colorado organizations that have experience and knowledge in supporting capital needs for child care can contemplate collaborative approaches that achieve the following objectives:

- ***Invest in existing programs and capital streams*** *for child care.*
- ***Design equitable pathways*** *to funding for all child care business sizes and types, including both center- and home-based care providers.*
- ***Reduce debt*** *incurred by child care providers.*
- ***Streamline access*** *to funding and finance opportunities.*
- ***Enhance technical assistance*** *programs and services for providers.*

To move forward and assess the feasibility of these recommendations, funding and finance partners must engage in the following next steps:

1. ***Develop a plan*** *to launch new funding and financing opportunities for child care by November 2025.*
2. *I**dentify and engage state departments, non-traditional lenders, philanthropy and other investment partners with the interest** and administrative capacity to lead recommended solutions and activities.*
3. ***Secure commitments for a minimum of $10 million***[5] *in public, private, and philanthropic funding sources that can be committed to the implementation of new models.*
4. ***Direct resources*** *to areas of highest need to pilot best fit approaches.*

This thoughtful design work in partnership with key stakeholders at the state and local level will allow for the creation of new opportunities that build on existing tools. In doing so, new child care supply can be created, building sustainable child care businesses, reducing care burdens on families and increasing the availability of child care for the workforce at large.

Endnotes

[1] The 'Iron Triangle': Why child care programs struggle to break even (2023, April 12). First Five Nebraska.

[2] Family child care homes are licensed facilities that are operated out of the residence of the provider. Center-based facilities are either standalone or co-located child care businesses.

[3] While this analysis was conducted pre-pandemic, current trends and patterns in child care lending and indicate that the data is likely unchanged.

[4] Child Resource & Referral (CCR&R) is activity that facilitates access to information about child care options and availability for families.

[5] Ali, A. (2024). Pairing the New Markets Tax Credit with Early Care and Education Centers. : Low Income Investment Fund (LIIF).

[6] Developments receiving award reservations. (n.d.). Colorado Housing and Finance Authority.

[7] Castro, T. (2024, October 14). Impact Investing In Real Estate: Aligning Financial Returns With Social Good. Forbes.

[8] Ryan, T., Anderson, C., Gomez, A., Riehl, N. (2024, October 31). Unlocking Work: Impacts of Improving Access to Affordable Child Care. Common Sense Institute Colorado.