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Childcare Facility Financing: Perspectives from Three Decades of Supporting Childcare Centers

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Interview | Childcare | Community Development

As part of the Federal Reserve Bank of Chicago's [Spotlight on Childcare and the Labor Market](#), this article focuses on the ways in which the lack of access to childcare is a barrier to employment in the Seventh District. We spoke with [Joe Neri](#), CEO of IFF, a community development financial institution (CDFI) that has served the Midwest childcare sector for more than 30 years. During our conversation, Neri highlighted four points he said are pivotal to financing childcare for working families:

- Childcare is a facilities-intensive industry, and capital is critical to creating childcare facilities.
- Supporting sustainable childcare businesses means providing data and technical assistance.
- A fragmented childcare policy framework creates obstacles for expanding access to childcare.
- And investments in early childhood care and development, which include paying childcare workers sustainable wages, are vital to our economy.

The interview, edited for length and clarity, follows.

Q. Can you share how IFF, as a CDFI, originally became interested in childcare and how its involvement in this sector has evolved over time?

A. The very first loan IFF made was to a childcare center and it was indicative of the challenges with the childcare business model and broader ecosystem that are still prevalent today. In 1988, the City of Chicago, to make childcare centers safer, passed new regulations that required many centers to install new, expensive fire alarm systems. Working with the thinnest margins, these childcare centers could not afford the systems, and banks were simply not going to make leasehold or facilities improvement loans to childcare providers that did not increase the appraised value of their buildings, especially for a business they did not understand.

IFF was created to make low-interest loans to nonprofits like these childcare providers—essential human service providers with little to no collateral to support borrowing, but who needed to invest in their buildings to keep existing childcare center capacity stable. Later, IFF would also help those same centers to purchase and own their facilities, allowing them more control of the facility where they provided care. We are still deeply involved with this same challenge today, but the economics of childcare providers taking on debt actually have worsened as the cost of quality care has only increased.

Q. What are some of the major milestones in IFF's childcare history?

A. There are three primary milestones that come to mind:

First, in 1992, just four years after we were founded, the State of Illinois asked IFF to develop a program to create several state-of-the-art, continuity of care centers in high-need communities across the state. These are centers designed to serve children of all ages—infants through age five and hopefully school-age children, too—with afterschool care and enrichment programs. Seven new centers were developed under this program, with IFF responsible for both the financing and real estate development. Unfortunately, because of leadership changes, the state did not renew the program for the long term.

This state program, however, demonstrated a second essential component of IFF's value proposition—our real estate consulting and development services. It proved that financing alone was insufficient to solve for the facilities challenges faced by childcare providers. They needed direct supports to help plan and build their facilities, too.

Second, during those early years at IFF where I mostly focused on childcare, we also realized that there was little data on the need for subsidized childcare, both in Chicago and throughout the state. Because of this, we engaged in childcare needs assessment—taking snapshots of the supply of and demand for childcare—and that work pushed IFF to create its research division, which we still have today.

Third, in 2000, the City of Chicago asked IFF to create the Children's Capital Fund, through which we developed and renovated 14 childcare centers in the highest need communities, as identified by our needs assessment. Again, IFF was responsible for the planning, financing, and construction of these facilities, leveraging substantial city grant funds. It wasn't just the typical CDFI lending. It also included our real estate consulting and data analytics, which meant that we were bringing all of these powerful tools together. The Children's Capital Fund was a \$50-million fund—back in 2002—and every one of those 14 centers was in one of the top 20 highest need communities in Chicago. Not a dollar was spent in a community that wasn't high-need, which was one of the primary recommendations from our needs assessment.

Q. What challenges do you see in sustaining or expanding the financing of childcare?

A. We do not have a national childcare policy; we have 50 state policies. And each state creates its own regulations on eligibility, reimbursement, quality, and safety, which means that those regulations are all over the place.

Also, fundamentally, we must understand that we are chronically under-funding basic childcare, let alone achieving the quality early education and care we say we need. I've been doing this work for almost 30 years now, and the problem has gotten worse. When you read stories about how baristas make more money than childcare workers, you are reading a story about the broken economics of the childcare business—and that story is about workforce, about the quality of our early education, and about facilities, too.

Centers simply cannot pay their workforce competitive wages. Period. All the money a center has goes to wages. Any increases in revenues, including via government subsidies, goes to fill the wage hole. There is no money for facilities, beyond perhaps the essentials of maintaining the current facility.

There are real counterintuitive forces at play here. In better economic times we see more of the workforce have better job opportunities—like the baristas I mentioned—and, thus, fewer people are interested in low-paying childcare jobs. This means that the supply of childcare goes down even though the demand for it may be increasing. These economic forces are completely separate from the concerns providers have about facilities, but they greatly affect an agency's ability to take on debt to expand care and improve their facilities.

Not since the 1990s have I heard so many economic development professionals, chambers of commerce, and business leaders complain about the lack of childcare.

Q. How would you want to see the childcare industry evolve?

A. In 1971, Congress passed the Comprehensive Childcare Development Act, which basically supported full-service care and education for working parents to reconcile the care and education movements into a single, coherent system that effectively established childcare as an entitlement for all children, regardless of economic, social, or family background.

That bill, which was vetoed by then President Nixon, was based on the Lanham Act, where during World War II the U.S. government paid for childcare and developed childcare facilities across the country so that women could go to work in factories to manufacture airplanes and ships, because most men were fighting in the war. They built childcare centers all over the country, and they got nursery schoolteachers—education professionals—to operate them, providing quality care and education for the nation's children. And subsidies were made available for everybody to use the centers, and the system worked beautifully.

So, as we did during World War II, I wish we could just simply recognize that early care and education should be an integrated system in supporting working families. Quality facilities would then be an integral part of that.

Q. How do you imagine IFF's engagement will continue?

A. We're doing more childcare center improvement work than ever, but the bigger demand for our work is on the real estate consulting side, not through our lending.

True expansion in facilities is happening with government subsidy dollars showing up in a different form (as a result of funding from the American Rescue Plan Act). For example, in Michigan through the Caring for MI Future: Facilities Improvement Fund, the state has provided \$59 million in grants for minor facilities improvements or expansions.

We are also working actively to improve centers in Detroit through funding from the Kellogg and Kresge Foundations and in Cleveland through a program with the city called Pre4CLE. Similar work is also being done in Milwaukee with support from the Greater Milwaukee Foundation, as well as in St. Louis and Kansas City with other partners and funders.

Q. What keeps you hopeful in this work?

A. Our continued forward progress keeps me hopeful, as state and local governments, along with foundations, keep investing in facility development and improvements to existing facilities. As I mentioned, this is occurring in Detroit, Cleveland, Milwaukee, St. Louis, Kansas City, and conversations have begun with the state of Indiana, too. There is deep interest in childcare as both foundations and the business community are beginning to put more money into this.

Much of that work is increasing the quality of facilities. Some of the work is helping with conversions, where we help turn a classroom built for three-to-five-year-olds into one that can serve infants and toddlers. There are multiple things that go along with that—such as changes to the plumbing and bathrooms—but it increases infant and toddler care, which is a critical need. And those things make me hopeful.

So, great projects are possible. There has to be a lot of intentionality. And again, it's not as straightforward as just making a loan. It may be New Markets Tax Credits, with grant dollars for the leverage and using foundation money to support leveraged loans in different ways. So, great projects are possible, but they may not be highly scalable.

But as a bigger macroeconomic issue, until we deal with creating a more unified national policy around this, we're not going to move the needle very much—Joe Neri, CEO of IFF.

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