

How States Can Improve Child Care Facilities & Physical Spaces Using Federal Relief Dollars

Olivia Barrow, Lanette Dumas, Danielle Ewen, Angie Garling, Lauren Hogan, Christine Johnson-Staub, Cindy Larson, & Mary Beth Salomone Testa
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With more than **\$50 billion** in federal relief invested in the child care sector, along with additional resources for states and localities to respond to the pandemic, states have an unprecedented opportunity to create a more equitable, sustainable, comprehensive early care and education system. While investments in the workforce are the most important driver of child care quality and supply, facilities are a key element of creating a high-quality child care experience in centers and family child care homes. Children are best able to grow and thrive in a safe, healthy, and enriching environment, and educators are best able to care for and educate children in a safe space that supports their own health and well-being. However, thin operating margins and decades of public underfunding have left many child care providers with limited resources to devote to their facility infrastructure needs, a reality disproportionately and inequitably experienced by providers in communities of color.

Minority-owned businesses account for 60% of the child care and early learning industry, and of the 2 million early childhood educators in the country, at least one-fifth are immigrants.^{1,2} These business owners, and especially women of color, are more likely to be declined for loans to improve their businesses, and to receive smaller loans and pay higher interest rates than white-owned businesses.³ In addition to the impact of these inequities on the stability, security, and financial health and well-being of business owners and early childhood educators, they also result in fewer children, especially in communities served by providers of color, having access to the benefits of facilities that support high quality child care.

These challenges and inequities, including [health and safety challenges faced by providers across the country](#), have existed long before the COVID-19 pandemic, but have been exacerbated as new demands on providers require critical investments like sanitation appliances (e.g. dishwashers, portable hand-washing stations), space modifications (e.g. room dividers, drop-off and pick-up zones), and ventilation improvements (e.g. HVAC systems, windows). These and other expenditures are costly and adapting their programs places an additional burden on providers already working diligently to support children and families with care and education through a public health emergency.

Child care providers have consistently shared that facilities are a top priority and challenge. In just one of [NAEYC's pandemic surveys](#) of the child care field, 37 percent of child care centers and 30 percent of family child care homes said that they were dealing with additional costs related to facilities. As one program director described, "We had to buy sinks and washing centers for every room. We had to rebuild the classroom to accommodate the space restrictions and social distancing. We had to upgrade our ventilation system and we had to build an outdoor classroom." Another program noted that "We also installed touchless bathroom fixtures, created separate air exchanges, built an enlarged fenced area and more outdoor shaded spaces." These costs add up substantially. With more than \$50 billion in child care relief enacted to stabilize the sector, states have an important opportunity to address critical physical space improvements and improve the health, safety and quality of our nation's child care infrastructure.

1 <https://cdn.advocacy.sba.gov/wp-content/uploads/2016/09/07141514/Minority-Owned-Businesses-in-the-US.pdf>

2 www.migrationpolicy.org/research/immigrant-and-refugee-workers-early-childhood-field-taking-closer-look

3 <https://www.forbes.com/sites/forbesfinancecouncil/2018/01/22/why-minorities-have-so-much-trouble-accessing-small-business-loans/?sh=6c2e32a655c4>

Federal Relief Funding: Opportunities to Improve Physical Spaces

Since March 2020, Congress has enacted billions of dollars in urgent relief through the CARES Act, the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA), and the American Rescue Plan Act (ARPA). In addition to resources specific to the child care sector, Congress also provided states and localities with broader stimulus resources to invest in small businesses and capital projects. Many of these resources can be leveraged to strengthen the health, safety, and supply of child care facilities.

Child Care & Development Block Grant

The Child Care and Development Block Grant (CCDBG) is the nation's primary child care subsidy program.⁴ There are a wide range of activities that can be funded through CCDBG, including providing child care assistance to low income families, supporting the quality and supply of child care providers, and workforce training and development efforts.

States and territories can use CCDBG (including the \$3.5 billion in CARES funds, the \$10 billion in CRRSA funds, and \$15 billion in ARP funds for child care, as well as the regular state allocations) for minor renovations, although the funds cannot be used for major renovations or the purchase or improvement of land. Major renovation is defined as: (1) structural changes to the foundation, roof, floor, exterior or load-bearing walls of a facility, or the extension of a facility to increase its floor area; or (2) extensive alteration of a facility such as to significantly change its function and purpose, even if such renovation does not include any structural change. However, tribes are permitted to use CCDF funds for construction and major renovation. The Tribal Lead Agency must request and receive approval from the Administration for Children and Families (ACF) prior to using CCDF funds for construction and major renovation. Tribes may also use CCDF for minor renovation without prior approval.

There are many examples of CCDF resources being used to make critical facility improvements, particularly to strengthen health and safety. For example, the following [activities](#) have been considered minor renovations in different states and are applicable to implementation in centers and in family child care homes:

- › Installing new HVAC to improve ventilation
- › Installing smoke detectors, a sprinkler system, or other fire warning devices

- › Installing secure storage for hazardous materials
- › Remediating lead paint and/or lead pipes
- › Improving food preparation areas
- › Installing room dividers
- › Improving internal play space
- › Installing age-appropriate plumbing, such as child-sized toilets and sinks
- › Purchasing materials and play equipment to improve outdoor spaces

States can use their subsidy funds to support minor renovations and to upgrade child care centers and family child care programs to meet local or state child care standards, including applicable health and safety requirements. Improvements or upgrades to a [facility](#) which are not specified under the definitions of [construction](#) or [major renovation](#) may be considered minor remodeling and are, therefore, allowable.

- › **Construction:** the erection of a facility that does not currently exist;
- › **Major Renovation:** structural changes to the foundation, roof, floor, exterior or load-bearing walls of a facility, or the extension of a facility to increase its floor area; or (2) extensive alteration of a facility such as to significantly change its function and purpose, even if such renovation does not include any structural change;

Minor repair and remodeling are particularly important to meet healthy and safety standards in response to COVID-19 safety practices. For example, providers could use these resources to install plexi-glass barriers to a program entrance, make social distancing easier, and expand outdoor play and gathering spaces.

⁴ The federal Child Care and Development Block Grant (CCDBG), also known as the Child Care and Development Fund (CCDF), refers to discretionary funding and mandatory funding through the Child Care Entitlement to States (CCES). States often have their own names for their subsidy programs as well.

Family Child Care: Facility Needs & Opportunities

Family child care providers are integral to the nation's child care system and should have their unique facility needs explicitly addressed and intentionally supported. These providers experience facility needs specific to their home-based care model. Both in ordinary times and as a result of the public health crisis these providers work to keep themselves, their own families, and the enrolled families safe.

Some family child care providers, particularly those who live in predominantly Black communities, may be more likely to rent their homes due to historic [redlining policies](#) and other lending and banking inequities that have shaped neighborhoods. Home based providers who rent likely face additional barriers to making changes and improvements to the homes where they provide care.

While centers and family child care homes may need many of the same types of minor renovations listed here, considerations for installation, repair, and materials for family child care must all be appropriate for the home setting.

State decision-makers should engage the family child care and the child care center community in planning and investing in facilities improvement through CCDF dollars, including paying particular attention to reaching underrepresented communities, and those providers who do not speak English as their first language. States should also consult closely with ACF to develop and provide clear guidance on the definition of minor and major renovation in home-based child care programs.

Without providing explicit clarity, the burden is either unfairly placed on providers to determine allowable activities, or this setting type is left out altogether.

Decision-makers must also intentionally center family child care providers in defining their unique facility challenges and identifying solutions. This includes addressing broader challenges that are unique to this in-home based model, for example, local zoning rules, housing affordability challenges, landlord and/or homeowners associations, and other barriers that impede entrepreneurs from successfully running or growing their child care businesses.

Child Care Stabilization Fund

The \$24 billion Child Care Stabilization Fund enacted in the March 2021 American Rescue Plan Act presents an additional opportunity for states to invest in the health, safety, quality, and supply of child care facilities. While guidance on these funds is expected soon from the Administration for Children and Families (ACF), we know from the language of the Act that Lead Agencies will provide grants to qualified child care providers⁵ to support their ongoing operation. Child care centers and family child care providers must use the funds for at least one of the following purposes:

› Personnel costs, including payroll and salaries or similar compensation for an employee (including any sole proprietor or independent contractor), employee benefits, premium pay, or costs for employee recruitment and retention.

- › **Rent (including rent under a lease agreement) or payment on any mortgage obligation, utilities, facility maintenance or improvements, or insurance.**
- › Personal protective equipment, cleaning and sanitization supplies and services, or training and professional development related to health and safety practices.
- › Purchases of or updates to equipment and supplies to respond to the COVID-19 public health emergency.
- › Goods and services necessary to maintain or resume child care services.
- › Mental health supports for children and employees.

Funds can also be used to reimburse a center or family child care provider for money already spent on one of these eligible uses to respond to the COVID-19 pandemic.

Head Start

Congress has enacted \$2 billion in additional relief to Head Start over the last year—\$750 million in the CARES Act, \$250 million in CRRSA, and another \$1 billion in ARPA. Head Start regulations require a filing of federal interest for a [major renovation](#), which is defined as any individual or collection renovation that has a cost equal to or exceeding \$250,000. However, repairs and minor renovations do not require a filing of federal interest.

The supplemental funds enacted for Head Start provide grantees with flexibility to [respond to the pandemic](#), including renovations or other space modifications, such as room dividers. This also includes Early Head Start facilities, as well as Head Start and Early Head Start services delivered in child care centers and family child care homes.

⁵ According to the Act, a qualified child care provider is one that meets the following definition of eligible, regardless of whether the provider has previously participated in the subsidy system. "Eligible child care provider" means — (A) an eligible child care provider as defined in section 658P of the Child Care and Development Block Grant Act of 1990 (42 U.S.C. 9858n); or (B) a child care provider that is licensed, regulated, or registered in the State, territory, or Indian Tribe on the date of enactment of this Act and meets applicable State and local health and safety requirements.

State & Local Fiscal Recovery Funds

The American Rescue Plan Act also enacted \$350 billion in aid to state and local governments—\$219.8 billion in a Coronavirus State Fiscal Recovery Fund and \$130.2 billion in a Coronavirus Local Fiscal Recovery Fund. Among several eligible uses, funds can be used:

- › to respond to the public health emergency with respect to COVID-19 or its negative economic impacts, **including assistance to households, small businesses, and nonprofits**, or aid to impacted industries such as tourism, travel and hospitality; and
- › to **provide grants to eligible employers that have eligible workers who perform essential work**;

States and localities could choose to direct a portion of their fiscal recovery funds to support child care programs, many of which are small businesses, nonprofits, and/or employ workers who meet the definition of performing essential work. There is also an opportunity to draw on these resources for major renovation and/or to begin expanding the local supply of child care options by expanding existing child care facilities or investing in new spaces, including both centers and homes. Increasing the supply of child care, through both workforce investments that address compensation as well as facilities investments that address spaces, is a critical economic recovery strategy in many states and localities, particularly as many child care programs are confronting permanent closures and staffing challenges as a result of the pandemic, which squeezes an already limited supply of care options.

Coronavirus Capital Project Fund

The American Rescue Plan Act enacted \$10 billion in a new Coronavirus Capital Project Fund, which provides payments to States, territories, and tribal governments to **carry out critical capital projects directly enabling work, education, and health monitoring**, including remote options, in response to the public health emergency. The Treasury Department will distribute \$100 million to each state, with the remaining dollars distributed based on population, including the proportion of individuals living in rural areas and the proportion of individuals earning below 150 percent of the poverty line.

The Coronavirus Capital Project Fund language in the legislation is broad, and the Treasury Department will provide additional guidance. Based on the legislative text, states may be able to direct a portion of these funds to the acquisition, construction, and rehabilitation of child care facilities. It will be important for stakeholders to communicate with state officials about the importance of prioritizing child care capital projects, including center-based and family child care programs, which enable both work and education.

State Small Business Credit Initiative

The American Rescue Plan Act reauthorized the [State Small Business Credit Initiative \(SSBCI\)](#), a successful program created in 2010 that increased access to credit and capital for small businesses. The \$10 billion for the SSBCI program included in the American Rescue Plan Act will provide support to small businesses responding to and recovering from the economic effects of the COVID-19 pandemic. Small business support programs can include capital access programs, loan participation and guaranty programs, collateral support programs and more. The SSBCI program is administered by the Department of Treasury and includes set-asides for business enterprises owned

and controlled by socially and economically disadvantaged individuals, very small businesses, and tribal governments.

Many child care businesses will likely meet priority standards within the SSBCI program given that child care programs are often owned and operated by women—often women of color—and many also meet the definition of a very small business. Eligible child care businesses, including both center-based and family child care providers, could seek to access SSBCI capital specifically for facility remodeling and renovation purposes. It is important that [technical assistance](#) be available to support child care providers seeking to access these resources.⁶

⁶ CCDBG funds—including regular appropriated funds and those enacted through the CARES Act, CRRSA, and ARPA—and the Child Care Stabilization Fund can be used for TA and may complement efforts to increase the child care industry's ability to access SSBCI resources.

Strategies for States, Territories, & Tribes to Consider

States, territories and tribal governments have several options to consider as they implement recent federal relief resources.⁷ Governors, legislators, child care administrators and other stakeholders, including state and local education leaders, should examine all sources of funding from CARES, CRRSA, and ARPA and seek to invest in child care center and family child care facilities renovation and expansion wherever possible. In many cases, partnering with a Community Development Financial Institution (CDFI) to support child

care facility projects offers a valuable opportunity to access specific real estate, financial, and other forms of development expertise; leverage additional public and private sources of capital; and deliver technical assistance that builds the capacity of local providers.⁸ Opportunity Finance Network (OFN) has created an [interactive map](#) to assist stakeholders in locating CDFIs working across the country, and the National Children's Facilities Network (NCFN) lists several [CDFIs working in the child care space](#).

CCDBG Relief Funds

- › States should provide explicit guidance to center-based and home-based family child care programs on allowable uses under the minor renovation definition, and explicit guidance on allowable uses to meet health and safety guidelines. To ensure states have adequate information, ACF should also provide detailed clarification and guidance on minor renovation activities. This guidance should include broad definitions of allowable expenditures on minor renovations, and have specific information and exemplars for centers and family child care providers.
- › Tribes can use CCDBG resources to invest in the construction, acquisition, and major renovation of child care facilities. To enhance capacity and leverage additional resources, states, territories and tribes may partner with a CDFI or other intermediary that can provide technical assistance, real estate finance, and build local capacity for facility investments.
- › States should develop and distribute resources that highlight best practices in child care facility improvement, including for both indoor and outdoor spaces in center-based and family child care programs that support developmentally-appropriate early learning environments.
- › States should include facility improvements into their three-year CCDBG state plans. This approach should include technical assistance through trusted community partners such as CDFIs, resource and referral agencies (CCR&Rs), and other agencies, as well as capacity building for facilities development and supply building.

Child Care Stabilization Fund

- › States could fund the purchase of sanitation supplies and installations, or reimburse centers and family child care providers for previous such purchases. For example, purchasing new sinks or portable hand washing stations; personal protective equipment; cleaning supplies; air purifiers; a new dishwasher to sanitize dishes; and more supplies necessary to improve health and safety.
- › States could create a pool of resources to support family child care providers to cover their rent or mortgage payments, recognizing that for these providers their home is also their business and the early learning space for children.
- › States could fund the purchase of outdoor equipment like shade structures and outdoor furniture and learning environments to improve the quality, safety, and developmental appropriateness of outdoor spaces and allow for more time in fresh air at centers and family child care programs.
- › States could partner with a CDFI, CCR&R, or other experienced community-based intermediary to deploy technical assistance resources, including technical assistance specific to making facility improvements and modifications to meet health and safety standards. Intermediaries can leverage additional public and private funds to build provider capacity, and also work with providers to identify and collect necessary financial information to apply for grants and loans (if appropriate).

⁷ Providers should be fully aware of the implications associated with receiving various forms of financial support. For instance, grants may come with tax implications, and loans will often come with interest requirements that providers will need to understand when accepting the loan. States, territories and tribes must ensure providers have access to full and accurate information.

⁸ [Community Development Financial Institutions \(CDFIs\)](#) are intermediary organizations with a primary mission of community development. CDFIs can be banks, credit unions, loans funds, microloan funds, or venture capital providers. There are more than 1,000 CDFIs nationwide certified by the U.S. Treasury Department's CDFI Fund. Several of these CDFIs have developed specific expertise in supporting child care providers, including technical assistance and financial products tailored specifically to the unique needs of child care providers. For more information about CDFIs working to support the child care sector, visit the National Children's Facilities Network website: www.ncfn.org.

State & Local Fiscal Recovery Funds

- › States, counties or municipalities could create a fund to invest in the expansion of child care facilities, including acquisition, construction and renovation of child care facilities. Partnering with a CDFI or other experienced intermediary to manage the fund could leverage additional public and private resources.
- › States, counties or municipalities could use these funds to provide grants to child care providers to increase pay for essential workers, including backpay for those who have worked throughout the public health crisis, and including enabling family child care educators to pay themselves. Supporting a quality working environment for educators includes investing in the workforce.

Coronavirus Capital Project Fund

- › States could partner with a CDFI or other experienced intermediary to deploy capital dollars to child care projects, including acquisition, construction, and/or major rehabilitation projects. CDFIs provide critical real estate and financial expertise that improves the planning and development phase of child care infrastructure projects.
- › States could partner with a CDFI or other experienced intermediary to structure a low-cost or forgivable loan product for the acquisition, construction, and/or major renovation of child care facilities.
- › States could prioritize capital projects that include child care centers and family child care programs near affordable housing, transit, job opportunities, and other vital amenities. Coordinated planning is important in supporting a comprehensive approach to family stability.

State Small Business Credit Initiative

- › States can identify opportunities to increase access to credit for child care providers seeking to complete acquisition, construction, and/or major renovation of a facility. This could include states tapping CDFIs with a proven [track record](#) using SSBCI resources, and/or with a history supporting child care businesses and facility improvement programs.
 - › States should identify opportunities to support family child care businesses, which are some of the nation's smallest businesses and are essential to the care economy.
- CDFIs and other intermediaries can offer flexible, tailored financial products that family child care providers can access to strengthen their in-home care space.
- › States could dedicate a portion of their CCDBG and Child Care Stabilization Fund technical assistance resources to support child care providers to access SSBCI resources. These technical assistance resources could fund information sharing about the available funds as well as supporting organizations like CCR&Rs or CDFIs to help support child care providers access these funds.

Options to Use Stimulus Dollars to Invest in Child Care Facilities

Activity	Eligible Resources	Other Considerations
Minor renovation	CCDBG Child Care Stabilization Fund	New health and safety issues resulting from the pandemic may allow additional activities to qualify as minor renovation
Construction, major renovation, and supply building	Coronavirus Capital Project Fund State & Local Fiscal Recovery Funds State Small Business Credit Initiative CCDBG *Tribes only	Partnering with a CDFI or other experienced intermediary offers providers critical real estate and financial expertise throughout the planning and development process, as well as the ability to leverage additional sources of capital

Moving Forward: Advancing the Long-Term Quality & Safety of Child Care Facilities

The recently enacted stimulus resources present an opportunity to identify flexibilities and maximize support to improve the health and safety of early learning environments. Yet there remains a significant and urgent need to create permanent sources of financing dedicated specifically to acquiring, constructing, and renovating child care facilities, especially in communities of color that have been disproportionately impacted not only by decades of underinvestment but by the pandemic as well. The recently proposed [Child Care is Infrastructure Act](#) would invest \$10 billion to equitably improve the quality and expand the supply of child care facilities over the next five years. The proposal includes a set-aside of resources for intermediaries with experience supporting child care providers to offer technical assistance, capacity building support, and financial products tailored to the specific needs of child care facilities.

President Biden also committed to investing \$25 billion to upgrade child care facilities as part of the American Jobs Plan, a more than \$2 trillion investment in our nation's infrastructure. The American Jobs Plan also proposes \$45 billion for grants to reduce lead exposure in homes, schools, and child care facilities. Taken together, these investments reflect an important commitment from the Biden-Harris Administration to

improving the long-term health, safety, and quality of child care facilities. Additional needs including lead pipe replacement; lead paint remediation; water safety; and renovations to equitably accommodate children and parents with disabilities are particularly urgent. Other lawmakers may also consider additional legislative action in the near future to support the child care industry, which presents another opportunity to invest in the holistic sustainability of the child care sector.

In the absence of a dedicated source of federal funding to construct or renovate child care facilities, states, territories, and tribes have identified innovative ways to partner with experts and leverage resources to equitably improve the quality and supply of child care programs. Creating a permanent, dedicated source of federal financing for child care facilities would invest in the long-term sustainability of our nation's child care infrastructure and allow more programmatic resources to be devoted to higher payment rates, increased compensation, workforce development programs, and quality curriculum.

Most immediately, though, states can intentionally and equitably direct a portion of their stimulus resources to address the most urgent health and safety challenges in facilities, and partner with CDFIs and other intermediaries to help build provider capacity for future federal investments in child care facilities.

Summary of Enacted Federal Stimulus Resources

Federal Act	Program	Funding ⁹	Disbursement Timeline
CARES Act, March 2020	CCDBG	\$3.5 Billion	States must obligate funds by September 30, 2022 and make payments by September 30, 2023.
CARES Act, March 2020	Coronavirus Relief Fund—State & Local Fiscal Aid	\$150 billion	Funds are available through December 31, 2021.
Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA), December 2020	CCDBG	\$10 Billion	States were required to submit a plan to HHS by February 26, 2021. States can change plans without a waiver or formal amendment. States must obligate funds by September 30, 2022 and make payments by September 30, 2023. The Bipartisan Policy Center is tracking state use of these funds.
American Rescue Plan, March 2021	CCDBG	\$15 Billion	States must obligate funds by September 30, 2022 and make payments by September 30, 2024.
American Rescue Plan, March 2021	Child Care Stabilization Fund	\$24 Billion	States must obligate funds by September 30, 2022 and make payments by September 30, 2023.
American Rescue Plan, March 2021	Child Care Entitlement to States	\$633 million permanent increase	This is a permanent increase with an obligation period of one year.
American Rescue Plan, March 2021	Coronavirus Fiscal Recovery Fund	\$350 Billion: \$219.8 billion in a State Fiscal Recovery Fund; \$130.2 billion in a Local Fiscal Recovery Fund	Funds are available through December 31, 2024.
American Rescue Plan, March 2021	Coronavirus Capital Project Fund	\$10 billion	The Secretary must make funds available to States, Territories and Tribes by May 10, 2021. Funds are available until expended.
American Rescue Plan, March 2021	State Small Business Credit Initiative (SSBCI)	\$10 billion	States, territories, and Washington, DC have until May 10, 2021 to submit a Notice of Intent (NOI) to apply . Funds are available through September 30, 2030.

⁹ The CCDBG resources enacted in the CARES Act, CRRSA, and ARPA are in addition to the regular annual funding for CCDBG.

Contact the Low Income Investment Fund (LIIF) with questions or comments by reaching out to Angie Garling, Vice President, Early Care and Education, LIIF at agarling@liifund.org.