COMMUNITY INVESTING IN ACTION:

CHILDCARE

A Report by the

Community Investing Program
Social Investment Forum Foundation
and Co-op America

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Community Investing Case Studies

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The Steering Committee of the Community Investing Program

Calvert Foundation:
Shari Berenbach, 301-951-4895 and Elizabeth Glenshaw, 603-643-1833
Co-op America:
Todd Larsen, 202-872-5310
National Community Capital Association:
Jeff Sedwin, 215-923-4754
Self-Help Credit Union:
Deborah Momsen-Hudson, 919-956-4487
Shared Interest:
Donna Katzin, 212-337-8547
ShoreBank:
Jean Pogge, 777-420-4672
Underdog Ventures:
David Berge, 212-777-3339

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Part 1:
EXECUTIVE SUMMARY

There is a growing crisis in American childcare today – the increasing lack of affordable childcare options. Nationwide, 14 million children under the age of six – including six million infants – are in some type of childcare arrangement every day. In 75 percent of two-parent families, both parents work outside the home. Particularly in low-income communities, parents are finding that two incomes are needed to make ends meet. Although there is a growing need for childcare, it is becoming increasingly difficult for parents to find childcare that is both high quality and affordable. Full-day childcare can cost $4,000-$10,000 per year – as much as college tuition at a typical public university.

Faced with America's deepening childcare crisis, a growing number of Americans are doing their banking and investing at "community investing" financial institutions that are playing a vital role in making affordable childcare more widely available across the nation. Community investing is financing that generates resources and opportunities (such as childcare) for economically disadvantaged people in urban and rural communities in the U.S. and abroad that are under-served by traditional financial institutions. A May 2002 Social Investment Forum (SIF) Foundation/Co-op America survey of 16 representative SIF members that take part in childcare financing included the following key findings:

- **Childcare financing by community investing institutions nearly tripled from 1998-1999 to 2000-2001.** A comparison of the two-year periods showed a jump from $6.14 million to $17.85 million, an increase of 191 percent. This money was lent specifically for childcare initiatives to create and expand facilities, as well as to provide staffing and other operating costs.

- **The number of childcare facilities supported by community investment institutions rose 189 percent from 1998-1999 to 2000-2001.** Community investing dollars allowed for creation, maintenance, or expansion of 176 facilities in 2000-2001, versus just 61 in the 1998-1999 time period.

- **Childcare financing through community investments created 212 percent more childcare slots in 2000-2001 versus 1998-1999.** A total of 12,528 children benefited from childcare slots created by community investing in 2000-2001, up sharply from the 4,009 created by community investing support in 1998-1999.

- **It takes $1,306 in community investment support to create a new slot in a childcare facility.** The Social Investment Forum data demonstrate how relatively small amounts of investment create a high impact. The data shows that for each $5,079 invested a permanent employment slot was created or maintained, and for each $1,306 invested a permanent childcare slot was created or maintained.

The dramatic growth in community investing financing of quality, affordable childcare is consistent with the overall surge in community investing in the United States. Community investing grew by 41 percent between 1999 and 2001, according to the Social Investment Forum Foundation. Assets held and invested by over 500 community investing institutions based in the United States totaled $7.6 billion in 2001, up from $5.4 billion in 1999.

Through community investing, parents, grandparents, and other concerned individuals or groups can support the creation of childcare facilities, jobs, and slots for toddlers in communities that need these services the most. Many of the options are as simple as opening a checking or savings account at a community development bank or community development credit union.

Part 2:
AMERICA'S CHILDCARE CRISIS

America is facing a critical shortage of quality childcare. Nationwide, 14 million children under the age of six – including six million infants – are in some type of childcare arrangement every day. Yet, millions of parents are not able to find affordable childcare, and demand is growing.

The American childcare crisis is a problem that touches the lives of literally millions of families across America. In 75 percent of two-parent families, both parents work outside the home. Particularly in low-income communities, parents are finding that two incomes are needed to make ends meet. It is estimated that 65 percent of those in the workforce today require childcare. Over 59 percent of married couples with children under the age of 18 are dual wage earners. More than three out of four (78 percent) of mothers with school-age children are working today. Nearly two-thirds (65 percent) of mothers with children under six are working. Over 90 percent of fathers ages 25 to 54 work outside of the home.

For parents working outside the home, it is becoming increasingly difficult to find childcare that is both high quality and affordable. Childcare options that are available frequently stretch modest family budgets. According to the Childcare Action Campaign, parents shoulder 60 percent of overall childcare costs, while the government pays 39 percent and businesses less than 1 percent. Full-day quality childcare can cost $4,000-$10,000 per year – as much as college tuition at a typical public university. Parents earning a pretax salary in the mid-$30,000s dedicate more than one out of every ten dollars of income to childcare costs. Childcare is oftentimes the third largest household expenditure, behind housing and food.

For lower-income Americans, the childcare squeeze is particularly acute. Childcare takes an even larger share of low-income working families' paychecks - up to one-quarter of the incomes of families earning less than $15,000. (More than one out of four familes with young children earn less than $25,000 per year. A family with both parents working full time at the minimum wage earns only $21,400 a year.) The number of families receiving childcare assistance from the government has grown to about two million. However, available childcare funds reach only one out of seven eligible children.

The inherent economics of childcare make it an expensive option for low-income families and contribute to its scarcity in these communities. By its very nature, childcare is a labor-intensive service and has high fixed costs. Personnel costs can account for three quarters of the total operating costs. Programs that serve infants and toddlers by necessity have a particularly low ratio of adults to children, driving up costs and fueling shortages of accessible care. In most communities, before- and after-school programs are hard to find, and second and third shift care is almost non-existent at any price.

The bottom line is that there are just not enough quality childcare facilities in America, particularly in communities that need them most. And this is a problem that will only continue to get worse. According to the U.S. Bureau of Labor Statistics, the number of children under 5 years of age in the U.S. is expected to rise gradually over the 2000-2010 period. The proportion of youngsters enrolled full- or part-time in childcare and preschool programs is likely to continue to increase, spurring demand for additional childcare services.

Part 3:
COMMUNITY INVESTING AND CHILDCARE OVERVIEW

A major key to solving the childcare crisis, particularly in low-income communities, is the creation of more childcare centers. However, low-income communities are the very ones that most lack access to resources available to address the shortage. In poor communities, capital is rarely available that would help local entrepreneurs start their own childcare facilities, bring new jobs into these communities, provide quality childcare services, and contribute to overall community revitalization.

Most traditional lenders do not understand the childcare field and may be leery of lending money to a business in a low-income community. Compounding the problem is the fact that entrepreneurs who wish to create childcare centers in low-income communities are often experts in their field, but lack formal business education, and may not be able to present a traditional business plan that conventional lenders often require.

In addition, the creation of childcare centers in low-income communities is impeded by the fact that childcare is the only government-funded human services program that does not have a companion facility or capital investment funding stream. Moreover, there are prohibitions on using program money for facilities. This hampers the development of high quality, well-designed facilities that are safe and comfortable for children and their caregivers.

THE ROLE OF COMMUNITY INVESTING

The financing of childcare is an important and growing focus of what is known as "community investing." Community investing is a vital and increasing component of socially responsible investing (SRI) – a form of investing that allows investors to incorporate their values into their investment decisions. SRI investors place money in socially responsible portfolios, including mutual funds that screen out companies with poor corporate responsibility records; take part in shareholder advocacy, where they use their role as a stockholder in a company to encourage it to adopt greater corporate responsibility; and take part in community investing.

Community investing is financing that generates resources and opportunities for economically disadvantaged people in urban and rural communities in the U.S. and abroad that are under-served by traditional financial institutions. Community investors make it possible for local organizations to create jobs, provide financial services to low-income individuals, and supply capital for small businesses, affordable housing, and vital community services, such as childcare. Community investing grew by 41 percent between 1999 and 2001, according to the Social

Investment Forum Foundation. Assets held and invested by over five hundred community investing institutions based in the United States totaled $7.6 billion in 2001, up from $5.4 billion in 1999.

Unlike philanthropy, community investing is a form of investment that pays a return to the investor, while having a tremendous impact on the targeted community or communities. Community investing also generates an enormous impact from limited investment of capital. Each dollar invested has an impact well beyond that initial dollar. Each time a loan is paid back that money is available for future lending. In addition, community investing can often provide the base for matching funds from the government and other sources. Finally, the work supported by community investing dollars not only provides childcare slots, it also provides jobs and creates additional resources available to the whole community.

Community investing institutions and individual community investors have increasingly focused their attention on childcare in low-income communities for several reasons: the lack of facilities in these communities, the acute need for affordable childcare so that parents can work and the need for jobs that these facilities create. Childcare financing is attractive because it benefits children and families, employees, and the community as a whole.

THE SCOPE OF COMMUNITY INVESTING SUPPORT FOR CHILDCARE

Detailed numbers are only now starting to be collected on the impact of community investing on childcare. Current data represents “snapshots” of sectors within the broader world of community investing. Though these figures don’t tell the whole story, they do provide some important insights into the growing role that community investing is playing in the important area of creating new childcare options around the country that provide quality care, as well as increasing entrepreneurial opportunities and job creation in low-income communities.

The following data represent information collected by two national membership organizations that promote and serve community investing institutions. The Social Investment Forum (SIF) includes 50 community investing institutions among its membership of 500 socially responsible investing professionals and institutional members. National Community Capital Association’s membership consists of 100 Community Development Financial Institutions (CDFIs). Both organizations surveyed their memberships (the SIF survey covers the years 1998-2001 and the NCCA survey covers 2000). The data collected by the two membership organizations, while not capturing the full amount of community investing financing devoted to childcare, do represent the range of institutions involved in this financing, including community development banks, credit unions, loan funds, and pooled investments. The institutions surveyed also represent geographic diversity, with institutions represented across the country that invest in both urban and rural areas.

The data show how community investments in childcare create significant increases in childcare slots and jobs, as well as entrepreneurial opportunities for local residents to develop both for-profit and nonprofit centers. In turn, the jobs and income created by new childcare facilities, as well as the opportunities created for parents who are able to benefit from the new childcare slots, benefit the entire community.

SOCIAL INVESTMENT FORUM DATA ON CHILDCARE

Social Investment Forum (Forum) data on community investing directed to childcare indicates a clear increase by its membership to this form of funding and an increase in the number of institutions benefited across the country. In May 2002, the Social Investment Forum surveyed 50 of its community investing institutional members about their childcare financing activity. More than one-third (20, or 38 percent) of the surveyed Forum members responded, and nearly a third of the total (15, or 30 percent) stated that they engage in childcare financing. The list of Forum members responding to the survey included several institutions that are most active in supporting childcare in the country.

Key findings included[1]:

- **Childcare financing by community investing institutions nearly tripled from 1998-1999 to 2000-2001.** A comparison of the two-year periods showed a jump from $6.14 million to $17.85 million, an increase of 191 percent. This money was lent specifically for childcare initiatives to create and expand facilities, as well as to provide staffing and other operating costs. In addition, $500,000 was provided in the 2000-2001 period through pooled investing, some of which is incorporated into the $17.85 million in total lending.

- **The number of childcare facilities supported by community investing institutions rose 189 percent from 1998-1999 to 2000-2001.** Community investing dollars allowed for creation, maintenance, or expansion of 176 facilities in 2000-2001, versus just 61 in the 1998-1999 period.

- **Childcare financing by community investing created 212 percent more childcare slots in 2000-2001 versus 1998-1999.** A total of 12,528 children benefited from childcare slots created or maintained by community investing

[1] Note, not all institutions surveyed provided data on the facilities, childcare slots, and/or jobs created or maintained by their financing. Therefore, these numbers are actually undercounts.

in 2000-2001, up sharply from the 4,009 created or maintained by community investing support in 1998-1999.

- **The number of childcare jobs created by community investment institutions rose dramatically from 1998-1999 to 2000-2001.** Community investing dollars allowed for creation, maintenance, or expansion of 1,173 childcare jobs in 2000-2001, compared to 263 in the 1998-1999 period.

- **It takes $1,306 in community investment support to create a new slot in a childcare facility.** The Social Investment Forum data demonstrate how relatively small amounts of investment create a high impact. The data shows that for each $5,079 invested a permanent employment slot was created, and for each $1,306 invested a permanent childcare slot was created.

NCCA DATA ON CHILDCARE

A 2001 National Community Capital Association (NCCA) study, CDFIs Side By Side – A Comparative Guide, shows how community investing organizations known as "community development financial Institutions" (CDFIs) have substantially increased their financing of childcare centers – improving the accessibility of quality childcare services for economically disadvantaged families and communities.

Several organizations in the NCCA sample of nearly 100 CDFIs initiated new childcare products and services during the year 2000. Of the 97 CDFIs in the sample, 28 provided childcare financing in fiscal year 2000 for a total of more than $15 million in loans and investments. These projects include 14 CDFIs that are primarily housing loan funds, 11 CDFIs that are primarily business loan funds, one venture capital fund and two credit unions.

Highlights of the NCCA findings include:

- **Childcare financing of $15 million in FY2000 represents 23 percent of the total $65 million in community services financing for the entire sample.** This is the largest single sector within community services financing.

- **Three-fifths (59 percent) of FY2000 childcare financing went to nonprofit childcare facilities and 41 percent to for-profits.** Housing and community facility lenders financed a large majority of the nonprofit childcare centers, while business loan funds, credit unions, and venture capital funds financed a large majority of the for-profit centers.

- **All but two of the CDFIs financed center-based childcare projects, and this financing represented more than 96 percent of total childcare**

financing in FY2000. While home-based childcare represented only a small portion of financing activity in FY2000 (3.5 percent), there were 10 CDFIs that financed home-based childcare.

HOW IT WORKS: COMMUNITY INVESTING SUPPORT FOR CHILDCARE

At the heart of community investing are the lending institutions that best know the communities to which they lend. In this regard, community investing institutions are different from other lenders that provide loans. Community investing institutions take the time to learn the needs of a community and work closely with their borrowers, often providing technical assistance. Through this careful research and relationship building, community investing institutions are able to provide loans to entrepreneurs in low-income communities that traditional lenders often overlook, and are able to do so in a manner that benefits the borrower, the community, and their investors.

In supporting childcare program development, community investing institutions will work with potential borrowers within their communities to assess the needs of the community and to ensure that the borrower has a viable business plan. The community investing institution works closely with the borrower in providing loans to address a wide-range of needs from creating a start-up, to managing business expenses, to making real estate purchases, to construction and improvement, to expanding services. Because community investing institutions are willing to invest time and effort in lending to borrowers who may have no credit history or past problems, they are able to help people who otherwise would have no chance of becoming entrepreneurs start for- or nonprofit childcare centers and provide a vital service for their community.

Community investing financing also paves the way for traditional lenders to become more involved in lending to low-income communities. In the past, community investing institutions demonstrated to traditional lenders that low-income borrowers were good credit risks for housing loans, creating an opening for greater lending to these communities. The same is proving to be true of lending to childcare providers.

What does that mean in “real people” terms? Consider the following cases:

- **Tom and Christy File of Wilson, N.C.** founded the Land of Learning Center for children through a loan from Self-Help Credit Union. They were not satisfied with available childcare options for their three children, so they decided to start their own center. "No bank would talk with me without the support of Self-Help," says Christy. Their loan from Self-Help helped them leverage additional lending from a traditional bank. Together, these loans financed the construction and expansion of their center, which nurtures 272 children ages six weeks through 12 years. The loan to the Land of Learning Center is part of an overall Self-Help effort to serve childcare providers in North Carolina. To date, Self-Help has provided loans to providers that have created or preserved almost 14,000 childcare spaces across the state.

- **Ezzard Charles** of **Chicago, IL**, was able to found the Ezzard Charles School thanks to assistance from the Illinois Facilities Fund (IFF). The school serves infants, toddlers, and school-age children from low income families in the Auburn Gresham and Englewood communities of the city. The agency owns and operates two childcare centers (located across the street from one another). One site serves 73 children and the other serves 24 infants and 26 toddlers. IFF's first loan to Mr. Charles allowed him to purchase and renovate a facility to serve an additional 50 children and provide infant care.

- **Diana Blang** was able to remodel and expand her Loving and Learning Childcare Center in **Yelm, WA** with the help of the Cascadia Revolving Fund. A loan from Cascadia has allowed the Center to become licensed for an additional 20 children and will help create three new jobs at the Center.

- Prior to working with the Enterprise Corporation of the Delta (ECD), **Little Darlings**, a childcare center in **Leland, MS** serving predominantly low-income children, experienced difficulty paying monthly bills and making quality improvements. After being turned down for financing from a traditional lender, the center director approached ECD for other options. ECD worked with the director and was able to provide a financing package that allowed Little Darlings to make the monthly loan payments, and to pay the monthly bills. Little Darlings used the loan to restructure high interest debt, to purchase a computer and for working capital. Additionally, ECD brokered technical assistance with a third party to build the business management skills of the director. As the director, an expert in childcare, has worked with the technical assistance provider, she has developed a more sophisticated understanding of financial issues and become more confident with the business side of her center. Since ECD's involvement, Little Darling's enrollment has grown from 55 to 70 children.

INCREASING ASSETS FOR THE FUTURE

There are several mechanisms in place or being developed that will work together to make it easier for investors to place increasing assets into community investing organizations that work to develop childcare. The following efforts could collectively create a dramatic increase in childcare financing in low-income communities.

- **The Social Investment Forum has launched a "1 percent in Communities" campaign that encourages all investment professionals**

and institutions to direct at least 1 percent of their assets under management to community investing. The goal of this campaign is to triple the year 2000 level of community investing, which was approximately $5 billion, by the year 2005.

- **The New Market Tax Credit – scheduled to begin implementation in 2002 – will provide tax credits to the private sector to make investments into for-profit community investing institutions.** These institutions, in turn, will make investments in qualified businesses and nonprofits. Childcare facilities are within the scope of the program and can receive loans.

- **The Childcare Facilities Finance Act.** This legislation has been introduced in the U.S. Senate (S. 1217) and would provide for up to $50 million in annual federal grant funding to finance childcare facilities and technical assistance in low-income communities across the country. These grants would require matching funds form other sources.

- **National Community Capital Association has developed a childcare financing program with the generous financial support and collaboration of Providian Financial Corporation.** The program is designed to provide funds to CDFIs that are involved in childcare lending. The following types of support are being offered to NCCA's community development financial institution (CDFI) members:

    - Childcare financing packages consisting of debt and equity are available to CDFIs with childcare expertise and a sound lending history.

    - Program development grants of $5,000 to $10,000 are available to help CDFIs develop new programs to finance and support childcare providers who can increase the accessibility of quality childcare services for disadvantaged families and communities. These grants are limited.

Part 4:
HOW CONSUMERS CAN SUPPORT CHILDCARE THROUGH COMMUNITY INVESTING

Through community investing, parents, grandparents, and any concerned individuals or groups can support the creation of childcare facilities, jobs, and slots for toddlers in communities that need these services most. Many of the options are as simple as opening a checking or savings account at a community development bank or community development credit union.[2] These institutions are committed to strengthening low-income communities across the country. In addition to checking and savings accounts, CDs and IRAs can be provided through a community development bank or credit union.

It is easiest to look locally for a community development bank or credit union. If one is not nearby, it is easy to bank at a community development bank or credit union in another neighborhood or state using ATMs, mail, and online banking.

There are several other options available:

- **Many loan funds are open to direct investment from individuals who can provide a loan to a local loan fund, which in turn will re-lend the money to create childcare.**
- **Investors can also become involved through a pooled approach, where investors' assets across the country are pooled and then disbursed to loan funds and other community investing institutions in communities that need them the most.**
- **Several socially responsible mutual funds direct a portion of their assets to community investing.**

By opening an account with a community investing institution, a consumer's money goes towards strengthening community development. Community investing institutions use the consumer's deposits and investments to provide financing to communities that are overlooked by traditional lenders, creating resources and opportunities for people who need them most. Community investing helps provide communities with affordable housing, childcare, locally owned and minority-owned businesses, jobs that pay a living wage, health care, and education.

A detailed listing of community investing institutions can be found online at http://www.communityinvesting.org/search.htm. There, community investing institutions are categorized as: community development banks, community development credit unions, mutual funds with community investing components, community development loan funds, international loan funds, membership &

[2] These options are federally insured up to $100,000.

trade organizations, and nonprofit foundations. A shorter list of community investing institutions that support childcare financing are included in this report as Appendix A.

Part 5:
ABOUT THE AUTHORS AND RESEARCH PROVIDERS

The Social Investment Forum Foundation is a national nonprofit organization providing information and educational programs on socially responsible investing. It provides cutting edge research on the trends, practices, performance, and impact of social investing. The Forum also provides information and resources for investors interested in community investing, shareholder advocacy, and portfolio screening for social and environmental impact.

Co-op America is a national nonprofit consumer, business, and investor education resource that helps people use their money to promote social justice and environmental sustainability. Co-op America harnesses the power of consumers and investors through marketplace strategies to address some of today's most pressing social issues such as sweatshop labor, deforestation, and other threats to the health and well being of people, communities, and the planet.

The Community Investing Program began in 2000 as a joint venture between the Social investment Forum Foundation and Co-op America. The five-year goal of the Community Investing Program is to encourage all investors to direct at least 1 pwecwnt of their assets to community investing, tripling the assets available to create new jobs, homes, and vital social services in communities that need them most.

National Community Capital is a network of over 100 private-sector community development financial institutions (CDFIs). The network invests in individuals, small businesses, quality affordable housing, and vital community services that benefit economically disadvantaged people and communities across the United States.

APPENDIX A

Community Investing Institutions Financing Childcare

The following are Social Investment Forum members
with a significant amount of childcare financing.

Boston Community Capital
http://www.bostoncommunitycapital.org/
56 Warren Street
Boston, MA 02119-3236
Phone: 617-427-8600

Calvert Social Investment Foundation
http://www.calvertfoundation.org/
4550 Montgomery Avenue
Bethesda, MD 20814
Phone: 800-248-0337

Cascadia Revolving Fund
http://www.cascadiafund.org/
1901 NW Market Street
Seattle, WA 98107
Phone: 206-447-9226

936 SE Ankeny, Suite 1
Portland, OR 97214
Phone: 503-235-9635

Cooperative Fund of New England
http://www.cooperativefund.org/
P.O. Box 412
Hartford, CT 06141-0412
Phone: 910-395-6008; 800-818-7833

Enterprise Corporation of the Delta
http://www.ecd.org/
308 East Pearl Street, Suite 400
Jackson, MS 39201
Phone: 601-944-1100

Illinois Facilities Fund
http://www.nccic.org/ccpartnerships/profiles/ilfacilities.htm
300 West Adams St.
Chicago, IL 60606
Phone: 312-629-0060

Leviticus 25:23 Alternative Fund, Inc.
http://www.leviticusfund.org/
928 Mc Lean Avenue
Yonkers, NY 10704
Phone: 914-23-3306

Louisville Community Development Bank
http://www.morethanabank.com/
2901 West Broadway
Louisville, KY 40211
Phone: 502-778-7000

Nonprofit Finance Fund
http://www.nonprofitfinancefund.org/
70 West 36th Street, 11th Floor
New York, NY 10018
Phone: 212-868-6710

Northeast South Dakota Community Action Program
http://www.nesdcap-nesdec.org/nesdcap.htm
414 Third Avenue East
Sisseton, SD 57262
Phone: 605-698-7654

Ohio Community Development Finance Fund
http://www.financefund.org/
42 East Gay Street Suite 1000
Columbus, OH 43215
Phone: 614-221-1114; 800-959-2333

Self-Help Credit Union
http://www.self-help.org/
301 W. Main Street
P.O. Box 3619
Durham, NC 27702-3619
Phone: 919-956-4400; 800-476-7428

Shorebank
http://www.sbk.com/
South Shore Bank of Chicago
7054 S. Jeffery Boulevard
Chicago, IL 60649
Phone: 800-669-7725

Shorebank of Cleveland
540 E. 105th Street
Cleveland, OH 44108

Shorebank of Detroit
14533 Mack Avenue
Detroit, MI 48215

Southern Development Bancorporation
http://www.southerndevelopmentbancorp.com/
605 Main Street, Suite 202
Arkadelphia, AR 71923
Phone: 870-246-3945

Sustainable Jobs Fund
http://www.sjfund.com/
400 West Main Street, Suite 604
Durham, NC 27701
Phone: 919-530-1177

620 Chestnut Street, Suite 560
Philadelphia, PA 19106
Phone: 215-923-8870

Vermont Community Loan Fund
http://www.vclf.org/
7 Court Street, P.O. Box 827
Montpelier, VT 05601-0827
Phone: 802-223-1448