

MEMORANDUM

TO: WHATCOM COUNTY COUNCIL

FROM: TARA SUNDIN, CITY OF BELLINGHAM, COMMUNITY & ECONOMIC DEVELOPMENT MANAGER
BILL ZIELS, WHATCOM FAMILY YMCA, EXECUTIVE DIRECTOR
DAVID WEBSTER, OPPORTUNITY COUNCIL, DIRECTOR, EARLY LEARNING & FAMILY SERVICES

DATE: May 5, 2021

RE: COUNTY COUNCIL CHILDCARE RESOLUTION

Thank you for seeking feedback as the County Council considers a Resolution that would direct a considerable investment in American Rescue Plan Act (ARPA) funds toward long-term strategic investments in childcare. We are aware that other agencies are providing input to you regarding additional investments that could strengthen this industry.

This memo will focus on these two items highlighted in Barry Buchanan's letter dated April 27, 2021:

A. County owned facilities. These would be high quality designed to promote early learning and meet the requirements to qualify for the maximum level of state reimbursement.

B. Private facilities. Could be modeled along the lines of that portion of a facility dedicated for child care is funded via a low interest, loan program (subordinate to any bank finance), which would be repaid when the child care ceases to be provided or upon sale.

We began discussing a very similar concept when we learned that Kids World was going out of businesses. At that time, the YMCA and the Boys & Girls Club discovered that the business model, with its historical level of State subsidized children, was not working, even if purchased by a non-profit. We appreciate you are considering the use of ARPA funds to tackle this problem.

We support investing in childcare facilities county-wide. In Bellingham, our non-profit housing developers have been working to secure sites for affordable housing development. With concerns over childcare capacity, several of these developers are planning or exploring incorporation of childcare facilities into those mixed-use development projects:

- Barkley Village: YMCA, Barkley Company and Mercy Housing Partnership are replacing and expanding the Y's Barkley Early Learning Center.
- Samish Way: BHA has designed a modest childcare facility into Samish Commons.
- Downtown/Forrest Street: The Opportunity Council is planning a modest childcare facility into their building.
- Waterfront District: Mercy Housing is designing a childcare facility into its mixed-use building.
- Confidential location: Lydia Place is expanding its transitional housing into a new building and is including a licensed early learning and care space on the first floor. While Lydia Place clients will have highest priority, there may be excess capacity available for the public.

In addition, the Bellingham Public Schools' new administrative building in the Barkley Village area will also have an early learning and care facility included. The exact mix of district employees' children and public spaces is yet to be determined.

Be advised as well that at least two other north county land parcels have been identified by ownership as possible future sites of affordable housing with early learning and care spaces built in for residents and the public at large.

In addition, the Center for the Retention and Expansion of Child Care, a partnership of Opportunity Council and the Bellingham Regional Chamber of Commerce, is currently working with several significant local or out-of-area providers who are looking to site operations in Whatcom County, so, in sum, there are numerous projects that could be viable for capital or operational support.

We used the YMCA's new Barkley Early Learning Center as a case study for providing feedback to you on the draft Resolution. Please consider this feedback preliminary as there are many details to explore and every project is unique.

Attached is a proforma with several financing scenarios. YMCA Barkley Early Learning Center case study takeaways:

- This location will operate at a deficit if the balance of the cost of the facility is financed through a bank. This is the current challenge - to date, an \$800,000 grant from the State and a \$200,000 grant from the City has been secured. The Y is hoping to receive another \$200,000 grant from the City next year and \$300,000 in private fundraising. If this \$1.5M is raised, another \$3M will need to be borrowed.
- A long-term low interest rate loan from the County as opposed to private financing would mean the facility would (barely) cash-flow. The County would not be able to add any other conditions to the project - no additional subsidized slots and no wage increases. The site operates with 22% of slots subsidized.
- A long-term low interest rate loan/grant combination from the County would allow for additional subsidized placements and/or increased wages.
- As the grant amount increases, the ability to increase subsidized placements and/or wages grows.

Recommendations:

1. We applaud your leadership and ask that you continue your work to create a loan/grant program. We are willing to assist county project management and legal staff in this work. We think this model might work well for large centers.
2. While ARPA funds are one-time funds, we hope you will consider building a program that can be replicated if other funds were made available in the future (State, Federal or Local).
3. Consider a land trust model where the County owns the land, and the operator owns the structures. We think this model might work better for smaller operators because it would bring a cash infusion to the operator to invest in facility upgrades/start-up costs and reduce monthly

payments without adding complexity of public funding. It would also allow for the ownership to accrue wealth through appreciation of the built assets.

4. With or without a land trust option, consider investing in start-up costs, which are often prohibitive even for smaller licensed family homes who are well-suited to meet niche market needs throughout the county. These usually modest investments can add permanent capacity on shorter timeframes and without the need for large tracts of land.
5. Direct staff to develop a program that incorporates public benefits such as increased wage rates and/or increased subsidized placements without being prescriptive at this time. This Y's case study does not work - even with a non-profit securing grants and having fundraising events. Any added public-benefit (wages, subsidized kids) needs to be offset by additional subsidy.

We recommend the removal of the following items in ***italics and bold*** and instead, replacement with general policy direction on public benefit:

- ***A minimum of 60% of the child care spots shall be prioritized for families at or below the ALICE (Asset Limited, Income Constrained, and Employed)....***

The industry best practice is to have between 20% -40% of subsidized children in a program.

- ***The fees the Lessee charges all parents shall be based on the state reimbursement rate...***

Yes, we want affordability, but the “full rates” paid by non-subsidized customers also allow providers to offer scholarships and sliding fee scales to families just above the subsidy eligibility rates. Non-profits can raise money thru donations to do same, but for-profits—the largest number of providers—cannot. Some NPOs might use full freight customer income to do similar things for access/affordability.

- ***To ensure the children are likely to be cared for by qualified staff the Lessee must pay employees at or above market wages...***

We encourage the Council state the desired public benefits (i.e. a financially viable childcare facility, increased wage rates, increased subsidized childcare slots) and encourage staff to develop a program/application process based upon those public benefits, instead of prescribing requirements. Please consider an application process where the applicant proposes public benefits based on a financially feasible business model as each operation is unique.

The City of Bellingham, YMCA and Opportunity Council are available to support you and your team in developing these programs.