FUNDING SOURCES

Fundraising for a new facility requires tapping **many** sources and being creative, since few funding sources are available specifically for building or improving child care space. Potential sources fall into three major categories:

- Your organization's **financial assets** (or the personal assets of for-profit center owners)
- **grants and gifts,** and
- **loans**

FINANCIAL ASSETS

- **Real Estate Assets:** If relocating from a building you own, you can generate funds by selling the site you are vacating.
- **Savings or Investments:** Your accountant can determine whether any of your organization's own accumulated savings or investments could be invested in a new facility without leaving the program with insufficient cash to operate or a comfortable cushion to address unforeseen needs.
- **For-profit Assets:** For-profit centers must rely more on personal and family savings or organizational assets than grants or gifts, since foundations and most other grant sources provide funds only to organizations with 501(c)3 nonprofit status. Before using your own savings or real estate, make sure your financial projections are sound and the potential financial return from the project justifies the risk.

GRANTS AND GIFTS

For nonprofit organizations, grants and gifts are the most significant and sought-after source of capital funding. They come from the public sector, foundations, businesses and individuals:

Public Sector Grants: Every level of government is a potential source of grants. Here are some common examples:

- **Community Development Block Grants (CDBG):** The federal government provides CDBG funds to cities and towns. In cities with more than 50,000 people and counties with more than 200,000 people, local government distributes the funds. In more rural areas, the state administers the CDBG program. CDBG grants support a range of community revitalization projects, including child care centers. Projects must primarily benefit low- and moderate-income people. CDBG can cover the cost of renovation or construction, as well as pre-construction planning expenses such as architectural and engineering fees.

Contact: www.hud.gov/offices/cpd, then click on Quick Links – CDBG Program

- **US Department of Health & Human Services, Administration for Children and Families (ACF):** The Head Start program, managed by the Administration for Children and Families, makes facilities grants available to Head Start grantees. Head Start programs should contact their regional office of ACF to explore funding opportunities.

Contact: www.acf.hhs.gov/programs/hsb/grant/index.htm

- **US Department of Agriculture, Rural Development Community Facilities:** For communities with fewer than 20,000 people, USDA's community facilities program offers small grants for child care facility projects in addition to loans and loan guarantees (see below under Loans).

Contact: www.rurdev.usda.gov/rhs/cf/cp.htm

To identify public sector funding sources, begin by consulting your elected representatives as well as state, city or town officials.

- **Public Land Disposition:** Many local governments foreclose on properties when taxes aren't paid or because they have been abandoned. They also may own municipal facilities, like a police station or a school, that has been replaced and is no longer needed. Such properties can sometimes be acquired at little or no cost or leased at a favorable rate under a long-term lease arrangement.

- **Special Purpose Funding:** Every jurisdiction has its own special purpose funding opportunities, depending on local resources and policy priorities. For example, grants may be available to help pay for community facilities at transit hubs or to encourage use of environmentally-friendly "green building" technologies. In some cases a city councilor, state legislator, Congressman or Senator can secure a one-time appropriation or "earmark" for a specific project. Some states or cities also issue bonds to fund capital improvement projects in local districts. Your elected representative's active support is often essential to secure these capital improvement grants.

To identify public sector financing sources in your own area, begin by consulting your elected representatives as well as state, city or town officials. Enlist their support as you would a foundation executive or individual donor. Provide them with information about your program and why it makes a difference to people in the community, and invite them to take a tour. Recruit parents to welcome officials if they agree to a site visit. These officials can lead you to public sector grants and help you secure them.

- **Federal Sources to Access through a Community Development Partner:**

  US Department of Health & Human Services, Office of Community Services (OCS): OCS makes grants for projects that create employment opportunities for low-income people in economically distressed areas, including both pre-construction planning grants and capital grants for construction and renovation. A child care facility project qualifies if it can demonstrate the ability to create a competitive number of new full-time jobs. In most successful applications involving child care, the child care facility is one component of a larger project that generates a substantial number of jobs. Eligibility for these funds is limited to nonprofit community development corporations (CDCs). If a CDC serves as the real estate developer for your center, these funds may be tapped on your behalf.

Contact: www.acf.hhs.gov/programs/ocs/dcdp/ced/index.html

  Federal Tax Credits: The Federal Internal Revenue Code operates three tax credit financing programs – Historic, Low-Income Housing, and New Markets – that under certain circumstances can be used to raise equity for child care projects. If your project is in an historic structure or district, it may be eligible for federal Historic Tax Credits (many states have Historic Tax Credits as well). If your project is being developed in conjunction with an affordable rental housing development, it may be eligible for Low Income Housing Tax Credits. If your project promotes economic development or creates jobs in certain low-income communities, it may be eligible for New Markets Tax Credit financing. All of these forms of tax credit financing are highly technical and complicated, requiring specialized legal and real estate development consulting advice. A child care program working with an experienced real estate developer may be able to tap into these resources to support the project.

FOUNDATIONS

Charitable foundations are at the center of every capital campaign. More than 60,000 foundations in the United States make over $30 billion in grants each year. In addition to large national foundations, many more regional, local, community and family foundations may be interested in supporting a local project. One strategy for identifying foundation funding sources is to review the list of donors to other capital campaigns in your area.

- **National Foundations:** National foundations are more likely to support a building project if it is in their headquarter city or a geographic target area, or if the project ties directly to the foundation's special interests.

  The Kresge Foundation (www.kresge.org) is the only national foundation that is dedicated specifically to making capital grants. The foundation makes "challenge" or "matching" grants, but only after a capital campaign has been initiated, has demonstrated a strong start and shows prospects of succeeding.

  Rosie's For All Kids Foundation (www.forallkids.org) supports nonprofit programs serving economically disadvantaged and at-risk children in urban areas, with a special focus on Early Childhood Care and Education. Small grants, in the range of $15,000 - 30,000, are available for upgrades to outdoor playgrounds, equipment and furnishings. There are a limited number of larger capital grants for facilities development for programs expanding their capacity to serve low-income children; however, proposals are accepted on an invitation-only basis by the Foundation.

- **Community Foundations:** Community foundations pool funds from multiple donors and typically focus their giving on a specific geographic area. Foundation staff can also help direct grantseekers to other potential funding sources or alert one of its donors to the opportunity to support your project.

- **Family Foundations:** Wealthy individuals and families often establish "private" foundations that are typically controlled by family members who sit on the board of directors. Family foundations will often respond favorably to requests to support community projects. While some of these foundations have professional staff and operate in the same way as larger foundations, others have a more informal process of considering grant requests.

Most areas of the country are also served by regional associations of grantmakers, which can help grantseekers identify appropriate funding sources. Check *www.givingforum.org/ralocator.html* for the local regional association of grantmakers in your area.

THE FOUNDATION CENTER (WWW.FDNCENTER.ORG OR 1-800-424-9836) is a good source of information on foundations that consider capital grants, serve your geographic area or have an interest in the child care field.

As you consider different foundations, check their guidelines to determine the best way to assess their interest in your project and how to approach them. Many foundations discourage unsolicited proposals – you may need to first talk or meet with foundation staff and familiarize them with your project before submitting a request.

Businesses: Some businesses will make modest grants as a way of gaining goodwill in the local community. Banks, corporations, utility companies and large retail chain stores, for example, will often contribute to a capital campaign. Larger national chains in certain areas of the country, such as Home Depot, Lowe's, Walmart and Target, have small community grants programs. Both large and small businesses might even provide construction materials at a reduced cost or donate furnishings or equipment. Sometimes business leaders, with their personal wealth, community prominence and important connections, can play the role of "fundraiser" in a capital campaign.

Community Service Organizations: Kiwanis, Lions and Rotary clubs in your local area may make a contribution or help you raise funds for your project.

Individuals: Individual donations represent about 80 percent of all philanthropic giving in the United States and are an attractive source of funding for capital projects.

CAPITAL CAMPAIGNS

Many organizations needing a new or improved facility carry out a "capital campaign" – an organized effort to raise a substantial amount of one-time funding to cover the costs of a building project.

Initial "quiet" phase:

- Major commitments are sought early on, through face-to-face meetings with potential donors by the organization's executive director and volunteer leadership including board members.

- Rules of thumb:
  - Roughly 60 percent of the total target should be raised from 15 or 20 "top" contributors.
  - The very top gift should be between 10-15 percent of the total.

"Public" phase:

- Once a significant proportion of lead gift pledges are in hand, the campaign moves into its "public phase," when a wider fundraising drive is launched to attract numerous smaller donors.

- The public phase is usually marked by a press conference, mailings and special events.

The traditional capital campaign described above can be challenging for small child care organizations without significant individual donors or established fundraising networks.

There are three major challenges in carrying out a capital campaign:

1 Developing a compelling case and presentation. Your organization needs to make a compelling case that appeals to the interests and concerns of foundations or wealthy individuals. Be able to answers these questions about your project:

- Why is it important?
- What difference will it make?
- Will it be successful?

Prepare a concise written statement that describes the project and the campaign, and ideally includes a visual representation of the new center, perhaps through architectural renderings. Be able to convey this information in a brief spoken version during key meetings with potential supporters.

2 Identifying and getting access to prospective donors. In most cases you will need to tap other peoples' networks of friends and associates. These networks are one of the things volunteer leadership brings to a capital campaign.

3 Building the organizational resources to establish and cultivate relationships with donors.

- **Staff and consulting time:** Cultivating volunteer leadership and building relationships with donors requires a great deal of time. Most organizations venturing into a capital campaign need a fundraising consultant. In some cases, capital campaign consultants plan and staff the effort, which is expensive. More frequently, smaller organizations use "fundraising counsel" – a consultant who advises and coaches on an hourly or part-time basis. Since the executive director will spend a lot of time cultivating contacts and making requests, other staff may have to take over certain responsibilities within the organization.

- **Tracking system:** Set up a good system or database for tracking and managing relationships with multiple donors. Since your donors can continue to provide support in the future, thank them promptly and keep them informed of progress on the project.

A good source of fundraising information for small nonprofits is the ***GRASSROOTS FUNDRAISING JOURNAL.*** Reprints of a series of articles on capital campaigns by Kim Klein are available through the journal's website (www.grassrootsfundraising.org).

LOANS

Debt can be an ideal way to pay for a new facility because it allows spreading the cost of the project over many years. By paying only a portion of the cost each year rather than the entire amount up front, loans make capital expenditures more affordable. However, spreading the cost over multiple years only works if you have the income to make monthly loan payments. In other words, never borrow more than your income can support.

Since operating revenue is tight, child care providers try to minimize debt. However, if they fall short of their fundraising target or if costs rise during construction, providers often borrow a

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portion of the capital cost rather than delay the project or reduce the planned scope of renovation. In other cases, a provider may borrow funds for just a few years so that the project can move forward while multi-year funding pledges are received.

Because they are not eligible to receive tax-exempt contributions, for-profit providers find loans to be essential. Unlike their nonprofit counterparts, for-profit child care centers may be eligible for certain state and federal government-sponsored small business loans and loan guarantees such as those offered through the Small Business Administration (see below).

In addition to conventional lending institutions such as private banks, other sources of loans for child care facility projects include government programs and nonprofit community development lenders.

- **Government Lenders**
  - For rural areas with populations under 20,000, the **U.S. Department of Agriculture Community Facilities Program** can provide low-cost and very long-term loans and loan guarantees for the renovation and construction of child care facilities.

Contact: www.rurdev.usda.gov/rhs/cf/cp.htm

  - **The Small Business Administration** offers numerous loan and guarantee programs to assist small businesses, including for-profit child care providers.

Contact: www.sba.gov

  - Some **states** sponsor programs that make loans to child care providers, including loan guarantees and/or interest rate subsidies that make it easier and more economical to borrow from private lenders. One publication that describes different state facility financing programs is *Financing Child Care in the United States.*

Contact: www.emkf.org/pdf/childcare2001.pdf

- **Community Development Lenders:** Many areas of the country are now served by nonprofit loan funds, such as LISC. Some of these funds support a range of community revitalization projects, including housing, economic development and community facilities, while others exclusively serve providers of early childhood education or school-age care. Facility funds can be a valuable source of technical assistance as well as loans.

- **Personal and Family Borrowing:** A common practice among small for-profit businesses is to refinance the mortgage or secure an equity loan on the owner's home to generate cash. Many small businesses also borrow from family members to launch their entrepreneurial plans.

- **Shopping for a Loan:**

  When shopping for the most appropriate and affordable loan, a borrower should evaluate a number of factors:
  - Interest rate;
  - Term or Repayment Period: the number of years over which the loan is repaid;
  - Principal: the amount a lender will provide; and
  - Lender fees, including legal, application and appraisal fees.

  Find the lowest interest rate and lender fees you can. Don't borrow more than you need or for more time than is necessary. However, remember that the longer the loan term, the smaller the monthly or quarterly payments. Look for a loan that allows you to prepay without a penalty fee if you think you might be in a position to do so. There are many free loan payment calculators available on the Internet. You can use these on-line tools to compare the monthly cost of a loan with different interest rates and repayment periods.

One such calculator can be found at: www.realestate.yahoo.com/realestate/calculators/payment.html

- **What Lenders Look For:**
  Lenders have two main concerns:
  1. Does the borrower have the ability to repay?
  2. If the borrower is unable to repay the loan, is there a back-up source that enables the lender to recover its money?

  When you apply for a real estate loan, the lender will seek a great deal of information about your organization or business and the property you want to buy, since it represents "collateral" to support the loan.

  The lender will want to review:
  - **Information about your organization's senior staff and officers** to determine their qualifications and reputation.
  - **Audited financial statements, tax returns and bank records for the previous three years** to be able to evaluate the financial performance of your business (since the center's revenue is the source of the loan repayment).
  - **Your credit history**, to see whether you have repaid prior loans on time.
  - **Future financial projections showing:**
    1. your best estimate of how the business might perform in the new facility; and
    2. your ability to repay the loan over time.

In particular, lenders want to see that your organization will have sufficient revenues in the future both to repay the loan and maintain an operating surplus for emergencies or unexpected events.

MULTI-YEAR OPERATING BUDGET PROJECTIONS

Although the capital budget will be a major focus as you plan and carry out your facility project, it's equally important to have a strong handle on your program's operating budget. If you need a loan, prepare an operating budget for your new facility that includes projections for several years into the future, most likely for the number of years of your loan commitment. For example, if a bank provides you with a 10-year loan, submit operating budget projections that extend over 10 years and demonstrate that you have enough income to repay the loan each year.

Consider the following aspects of an operating budget:

- **INCOME:** How will the new facility affect your program income? Will you be serving more children or fewer? Will the ages of children be the same or different? Will you be charging different fees in the new space? Will you have income from tenants in your building?

- **EXPENSES:** Will the configuration of the new space enable you to staff your program more efficiently? Will your transportation costs increase or decrease? Will you have new or different occupancy costs? Think about expenses for insurance, taxes, utilities, snow removal, landscaping, repairs and maintenance, custodial services, etc. How will your mortgage or rental payments change?

- **INFLATE COSTS:** Because you are preparing a multi-year budget, make assumptions about the rate at which your income and costs are likely to rise. Look at trends with inflation and child care subsidy payments.

- **START-UP COSTS:** Allow for the possibility that enrollment may be slow initially, especially if you have relocated or are opening at some time other than the fall. If you raised start-up funds to help cover any early shortfalls, be sure that income is reflected in the operating budget projection for the first year.

In addition, the bank will order:

- An appraisal to determine the value of the property.
- A survey of the parcel to confirm its size and boundaries.
- A title search to make sure no one else has a legal right to the property and that the seller is the legal owner.

The cost of these assessments and surveys will be charged to the borrower.

- **Collateral:** If you are unable to repay your loan, the lender wants to have another way to recover its money. This is often done through real estate collateral: a mortgage on the property you are financing or on another piece of real estate owned by the organization or individual. If you fail to repay, the lender would have the legal right to foreclose on the property in order to recover the money you owe.

- **Appraisals:** Lenders will use a professional appraiser to determine the market value of the property that's backing up the loan. To further reduce the risk that they will not be fully repaid, commercial lenders will typically only lend up to 80 percent of the value of the property as determined by the appraisal. Community development lenders will sometimes accept more risk than private banks, and may provide a loan that is closer to 100 percent of the property's value.

- **Guarantees:** A lender can also recover its loan through a guarantee, such as those offered by the Small Business Administration (SBA) or US Department of Agriculture (USDA). With a loan guarantee, lenders will accept more risk, including lending a higher amount or offering more favorable terms.

- **Personal security:** Sometimes a bank will ask directors of nonprofit organizations to provide personal security, such as a mortgage on their homes. It is definitely *not* advisable to involve staff or members of the board of directors in providing personal guarantees to the child care center's lender.

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There is no typical financing strategy for a child care facility. Each project relies on a unique set of organizational strengths, opportunities and relationships and on site-specific funding. Often, a facility project assembles funds from a wide variety of sources – including public and private (corporate, individuals and foundations), and in the form of grants and loans. In the case of for-profit providers these sources may be largely personal or family equity and small business or bank loans. Nonprofit organizations more typically secure much of the funding from grants and contributions.