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## Financing Childcare Facilities with Bonds



**BNY MELLON**

# Financing Childcare Facilities with Bonds



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# Financing Childcare Facilities with Bonds



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NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY

# Investing in our Economic Infrastructure

## Child Care Facilities Improvement Program

December 19, 2023





# About NJEDA

The New Jersey Economic Development Authority (NJEDA) serves as the State's principal agency for driving economic growth.

The NJEDA is committed to making New Jersey a national model for **inclusive and sustainable economic development** by focusing on key strategies to help build **strong and dynamic communities**, **create good jobs for New Jersey residents**, and **provide pathways to a stronger and fairer economy**. Through partnerships with a diverse range of stakeholders, the NJEDA creates and implements initiatives to **enhance the economic vitality and quality of life** in the State and **strengthen New Jersey's long-term economic competitiveness**.

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**NJEDA**

ECONOMIC DEVELOPMENT AUTHORITY

HELPING TO BUILD A  
**STRONGER AND FAIRER**  
NEW JERSEY ECONOMY

# Child Care is two-generational workforce issue

Parents need child care to enter or remain in workforce

Setting the foundation for next generation of workforce

Quality of child care matters

Results in labor shortage and closure of small businesses

# CHILD CARE RFI

Click to edit Master text styles

Second level

Third level

Fourth level

Fifth level



Existing child care business support landscape



Opportunities for partnership in shared service models



Child care business operations challenges



Barriers to accessing public and private capital

*We received 34 responses*

# CHALLENGES IDENTIFIED IN RFI RESPONSES



Access to  
Capital



Bureaucratic  
Navigation



Business  
Knowledge



Staffing



Cost of Care

## Key themes emerged from the RFI

- Child care is an economic development imperative and a workforce enabler, parents are not able to return to work without safe, reliable child care.
- Child care providers are, at the core, small business owners, but most entered child care as caretakers first and business owners second. Providing them with business education and training to remain operational is crucial for the long-term sustainability and growth of child care businesses
- Child care providers struggle to access existing sources of capital (public and private) to support and grow their business, making their businesses even more financially tenuous
- Child care facilities need an upgrade, but most providers do not have or are unable to secure the funds to make necessary facility improvements that could benefit their business and the quality of care for children

# Child Care Revitalization Act signed by Gov. Murphy in July 2021

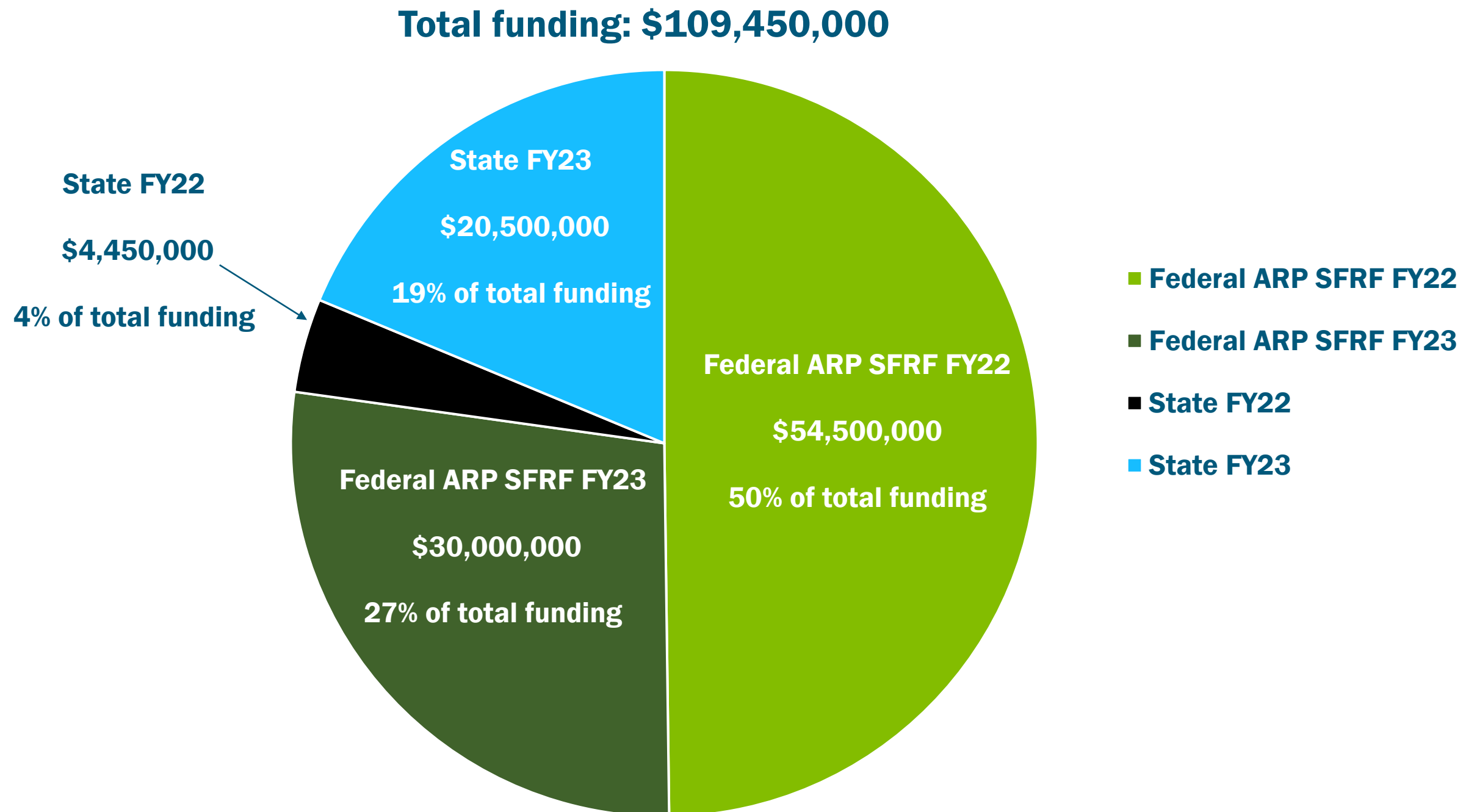


The legislature passed, and Governor Murphy signed into law appropriating \$100M through the federal American Rescue Plan State and Local Fiscal Recovery Fund.

- ▶ \$15.5M to NJ Department of Children and Families (DCF) to create **WORKFORCE DEVELOPMENT SUPPORTS** and conduct a **CHILD CARE LANDSCAPE STUDY**;
- ▶ \$30M to NJ Department of Human Services (DHS) to provide grants to licensed or registered child care providers or their employees for **RETENTION** and **HIRING**; and
- ▶ \$54.5M to NJEDA to provide technical assistance and grants for **FACILITIES IMPROVEMENTS** to licensed child care providers and family child care homes

# NJEDA's Investment in Child Care:

Total Funding of \$109.45 Million Including \$84.5M in Federal ARP SFRF (77% of total)



# NJEDA's Programs are Key Elements in Murphy Administration's Comprehensive Strategy to Strengthening the Child Care Sector

## Child Care Facilities Improvement Grant

Grant program for child care centers and registered family child cares to make facilities improvements that will contribute to high quality early childhood learning environments.

### PROGRAM GOALS

- Support businesses – including many minority- and women-owned businesses and those in Opportunity Zone eligible census tracts – that normally don't have access to fund facility improvements.
- Promote child care developmentally and age appropriate environments and support providers impacted by the COVID-19 pandemic to remain viable and available to service families and children
- Support childcare providers to provide infant-toddler care along with the expansion of Universal Pre-K (UPK).
- Engage providers to participate in Grow NJ Kids (GNJK), New Jersey's Quality Rating and Improvement System (QRIS).
- Target resources in Opportunity Zones and serve children receiving Child Care Assistance from the New Jersey Department of Human Services (NJ DHS) Child Care Assistance Program.





- ▶ Grants will be made for prospective (future) costs for facility improvement projects totaling **\$50,000 - \$200,000**. **The funding does not need to be repaid.**
- ▶ Grants will also account for up to 15% of projected costs for **unanticipated cost overruns**
- ▶ **Phase 1** is only **open to licensed child care centers**; in future phases this will be available to registered family child care homes
- ▶ Providers must currently enroll, or have enrolled in the past 12 months, **at least 1 child receiving subsidy** through the Department of Human Services Child Care Assistance Program
- ▶ 40% of funds will be **set aside for applicants located in Opportunity Zone eligible census tracts**
- ▶ There is **no cost or fee to apply for this funding**

# Child Care Facilities Improvement Program – Phase 1



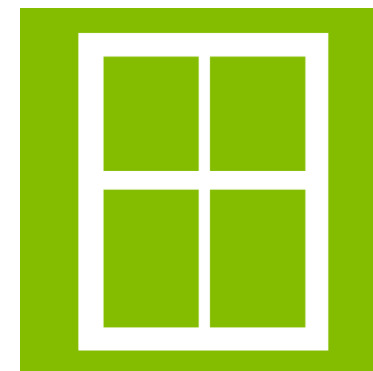
# What is considered a project?

What is **a project**?  
All construction, all labor, all Furniture, Fixtures & Equipment and all soft costs at one location

What is an **eligible use**?  
All the activities making up the project.

- For example: Happy Kids Child Care center would like to
1. replace all the windows
  2. paint all their classrooms
  3. replace the flooring
  4. install a shed for their outdoor toys and materials.

1  
project



4  
eligible  
uses



# ELIGIBILITY OVERVIEW



## APPLICANT ELIGIBILITY

Grant program for child care centers and registered family child cares to make facilities improvements that will support the development and creation of infant and toddler slots.

Must agree to enroll in Grow NJ Kids



## PROJECT ELIGIBILITY

Can include multiple improvements with total project cost between \$50,000 - \$200,000

Must start within year of executing grant agreement; must complete construction within 1 year of starting

Must ensure compliance of DCF requirements during construction



## CONTRACTOR ELIGIBILITY

Must hold a Dept. of Labor Public Works certificate and meet prevailing wage and affirmative action requirements

More information about eligible uses can be found at <https://www.njeda.gov/child-care-improvement-program/>

# Demand for the Child Care Facilities Improvement Grant: Phase 1 (Centers), grants of \$50K-\$200K

Data as of November 16, 2023

## APPLICANT INTEREST\*

Licensed child care centers in NJ:  
**Approximately 4,000**

Total applications started:  
**1,169**

Total applications submitted by deadline:  
**749**

## WORKFORCE IMPACT\*

Total number of teaching staff **12,500 +**

Total number of administrative staff **2,800 +**

**Total Workforce Employed at Centers Applying for Grants** **15,300+**

## ENROLLMENT BY AGE GROUP\*

Infants: 8,366	Toddlers: 16,239	Preschool: 29,566	School-age: 6,398
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## TOTAL ENROLLMENT\*

# of Children Enrolled at Centers Applying for Grants: **60,569**

## COUNTY REPRESENTATION\*

All 21 Counties

# Examples of proposed projects from applicants

“We are **concerned that water in the walls of the building will lead to a buildup of mold and therefore, many health concerns for the infants and children we serve.** Since **87% of the children we serve receive the subsidy** from the (NJ DHS) NJ state child Care Assistance Program. Presently, we **keep one classroom area empty** in order to allow us to have a place to move children when cleanup is necessary. So far, only one side of the building leaks at a time. **Each rain storm or snow tends to have its different wind direction.** We can clean up one classrooms water damage with children on the other side temporarily. “

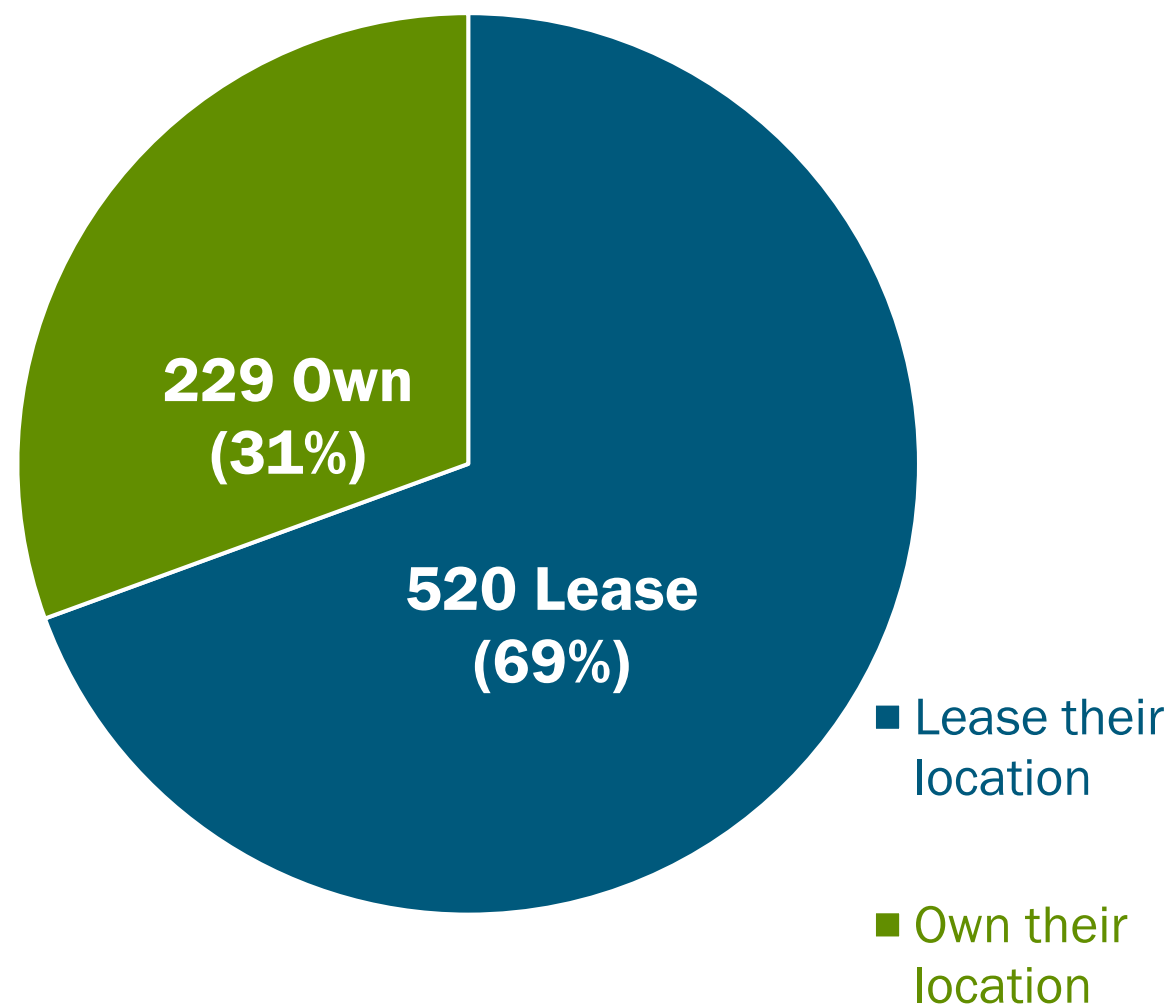
“One of the projects we are very excited about is **having a sprinkler system put in place. This will hopefully allow us to change our license from accepting 2 1/2-year-olds to accepting infant.** The demand for infant care is very high in our area and because we do not have a sprinkler system, we cannot take infants at the moment. “

“**This project will greatly increase enrollment by approximately 20%. In our expanded space, we are anticipating registering an additional 30-50 children, ages primarily infants to 24 months.** This added enrollment is imperative to our community as we **receive numerous calls each day of parents who are held back from work due to a lack of childcare slots for their children.** Up until now we have had to turn down all these desperate callers due to a lack of space. This expansion will therefore be a tremendous service to our community.”

“The **bathrooms have been in place for more than 40 years.** As a result of this aging infrastructure, the toilets and sinks are often leaking and in need of hard-to-address repair. Some partitions between stalls and tiles are chipped and could present a safety hazard. Our children deserve a clean, safe place to use the bathroom in dignity. The bathrooms in their current state need to be addressed to avoid further deterioration. **Without this funding, the problem cannot be addressed as the limited resources that we have, do not fund facility improvements.** Without this funding, the potential health hazard could not be addressed. **This facility improvement will provide capacity to enroll up to 20 additional children.**”

# More than \$151 million requested, nearly a third of applicants are in Opportunity Zones, the vast majority lease their locations

**Vast Majority of Applicants Lease their Location**



Total Funding Requested:  
\$131 Million

Total Funding Requested with 15% Cost Overruns:  
\$151 Million

Funding Requested in Opportunity Zones:  
31%

Average Funding Request:  
\$175,333

# Across the centers applying for funding, enrollment is below licensed capacity (approx. 75%)

	<b>Current licensed capacity</b>	<b>Current enrollment</b>	<b>Difference between enrollment and capacity</b>	<b>Percentage of capacity currently utilized</b>
Infants	8,298	6,049	2,349	72%
Toddlers	14,536	11,548	2,988	79%
Preschool	26,656	20,972	5,684	77%
School-age	7,793	4,540	3,253	58%
<b>Total</b>	<b>57,283</b>	<b>43,109</b>	<b>14,274</b>	<b>75%</b>

\* All data based on submitted applications as of 07.26.2023

# Approvals to date\*: 112 centers for \$23M and counting!

**As of December 5, NJEDA has approved:**

- **112 child care centers**
- **Requests for \$20,178,926**
- **Total funding earmarked is \$23,205,765 to allow for 15% cost overruns**
- **These 112 centers currently enroll 10,323 children including 4,854 infants and toddlers**



Thank you!

Learn more at

<https://www.njeda.gov/child-care-improvement-program/>



**Alex Himmel**

Director, Child Care

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# Financing Childcare Facilities with Bonds



## Kristine Flynn

Partner

Hawkins Delafield & Wood LLP



# Financing Childcare Facilities with Bonds



## David Handler

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# Introduction

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- 1) The Bond Financing process is unlike conventional bank loans as it involves multiple parties and is subject to State and Federal Securities and Tax Laws
- 2) End result is designed to give the Borrowers the lowest cost of capital for the longest term with the most flexible terms



# Principal Parties

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The principal parties to a conduit borrower bond issue are:

- 1) Borrower
  - The end-user of the bond proceeds
  - A not-for-profit corporation formed under laws of a state
  - Recognized by the IRS as an exempt organization under Section 501(c)(3) of the Code meaning no “private person” benefits in the net earnings of the organization
  - 501(c)(3) status provides significant tax savings to the organization at a cost to the U.S. Treasury
  
- 2) Conduit Issuer
  - State or Local Agency, created by Statute, powers limited by Statute
  - Necessary for Tax-Exemption
  - Policies vary, covenants and disclosures may be required
  - Conducts proceeding relating to bond approval



# Principal Parties (continued)

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- 3) **Underwriter/Direct Purchaser**
  - Establishes Plan of Finance
  - Establishes Rates and Sells Bonds
  - Subject to Laws and Regulations in Sale of Securities
  - Acts as a Principal, not an Agent of the Borrower
  
- 4) **Bond Trustee**
  - Commercial Bank with Trust Powers
  - Receives and Disburses Funds
  - Agent for Bondholders
  
- 5) **Advisors and Other Professionals**
  - Financial Advisor – serves as agent to Borrower
  - Attorneys:
    - Bond Counsel – renders approving opinion and tax-exemption opinion
    - Borrower’s counsel – enforceability, not-for-profit status and securities law opinion on behalf of borrower
    - Underwriter’s counsel – prepare sale documents and opines to underwriter
  - Accountants (procedures relating to financials in official statement)



# Key Documents

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- Authorizing Resolutions
- TEFRA Notice
- Bond Indenture
- Loan Agreement
- Bond Purchase Agreement
- Tax Agreement
- Forepart of Official Statement\*
- Appendix A\*
- Continuing Disclosure Agreement\*
- Closing Documents

\*public offering only



# Basic requirements for tax-exempt bonds

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- End-user must be a tax-exempt eligible entity
- Use of Proceeds (project) must be qualified under the Internal Revenue Code of 1986, as amended
  - Not less than 95% of the proceeds must be for “qualified capital costs”
  - No more than 2% of proceeds may be used for “costs of issuance”
  - Assets financed must have an economic life to support the bond maturity and amortization
  - Generally, investments can not exceed the bond yield
- Borrower must covenant to the above for the life of the bond issue



# Bios



Dave Handler  
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Dave primarily serves as bond counsel, underwriters' counsel and borrower's counsel in connection with revenue bond financings for hospitals, nursing homes, assisted living facilities, retirement communities, colleges, universities, preparatory schools and cultural institutions. Throughout his career, Dave has represented various state-wide and local issuers of tax-exempt bonds, a multitude of not-for-profit corporations and most national and regional public finance investment banking firms throughout the United States.

With a focus on conduit borrower bond financings, Dave has extensive experience in negotiating and drafting various bond-related documents, including authorizing resolutions, public notices, bond indentures, loan agreements, offering documents, bond purchase agreements, remarketing agreements, continuing disclosure agreements, master trust indentures and other deal specific instruments.

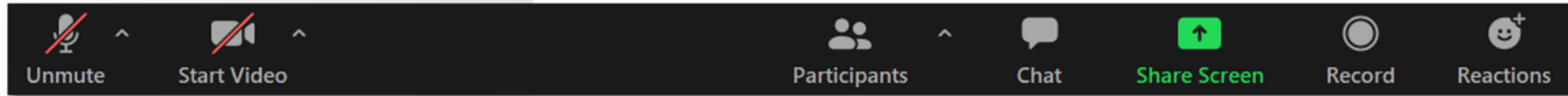


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Kristi has over 25 years of experience serving as bond counsel, underwriters' counsel and borrower's counsel in connection with health care, educational and cultural facility financings of varied types, sizes and structures throughout the country. Kristi also serves as bond counsel to several municipal issuers in connection with the full range of municipal financing activities, including general obligation financings, certificates of participation, public offerings and direct placements, lease purchases and revenue-backed financings.

Kristi's clients range in size and scope from large, national health care systems, leading higher education institutions and preparatory schools throughout the country, to community hospitals, local health and social service providers, cultural organizations and municipalities.

# Audience Questions



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January 16 // 2:00 – 3:00 PM Eastern

### **Fundamentals of Economic Development Finance WebCourse**

January 24-25 // Daily: 12:00 – 5:00 PM Eastern

### **Intro Bond Finance WebCourse**

March 4-5 // Daily: 12:00 – 5:00 PM Eastern

### **Advanced Bond Finance WebCourse**

March 6-7 // Daily: 12:00 – 5:00 PM Eastern

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