

# Increasing the Supply of Early Child Care Education Facilities in Washington State

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## Introduction

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Expanding the supply of affordable early child care education (ECE) programs and facilities will require public and private partnerships born of shared commitments, solutions, and vision. A major challenge to scaling child care is the availability and affordability of ECE facilities. The child care industry consists primarily of small businesses providing labor-intensive, highly regulated services for young children. Low teacher-to-child ratios are essential for quality and safety, but without adequate public subsidies to cover the true costs of quality care, providers operate on thin profit margins and teachers earn low wages — particularly at independent ECE providers that lack economies of scale and cash reserves.

At the same time, child care is unaffordable for many families, especially in communities with high market rates. For a two-income family, the market rate for full-time care of an infant and a preschooler can equal 35% or more of a family’s income.<sup>1</sup> In Washington state, 63% of families live in a “child care desert,”<sup>2</sup> where demand for child care outstrips the supply of licensed spots by 3:1, and the services that are available for children often cost more than a monthly mortgage or university tuition.

### Licensed vs. Unlicensed Child Care

The focus of this memo is on licensed, regulated child care centers and family homes, and does not cover the many informal or license-exempt child care arrangements in WA, such as preschool co-ops, Family, Friend, and Neighbor (FFN) care;<sup>3</sup> in-home nannies and au pairs; preschool programs for 2.5-5 years old that operate fewer than four hours per day, and any program operated by a unit of government. Licensed child care facilities can vary widely in their size depending on the type: in Washington state, “centers” are larger group settings with an average capacity of 68 children, while “family home” providers serve fewer children (12 or less) and operate from their residence.<sup>4</sup>

## Intent of this Summary Memo

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This document summarizes Enterprise's research on the barriers and opportunities to develop child care facilities in Washington. Reframing child care in the U.S. as a "public good" and essential infrastructure—rather than a private market "amenity" as it's currently categorized in land use planning—will require a paradigm shift in how the state plans, partners, and funds child care across the public and private sectors. This shift applies to both the operating model—increasing public subsidies for teacher wages and family tuition support—and to how we plan, finance, and develop the facilities themselves.

As part of this research, Enterprise convened roundtables with leaders across sectors that don't typically collaborate on child care issues, including land use planners, architects, real estate developers, employers, child care providers, and policy experts. The goal was to spark new ideas and conversation while exploring challenges and opportunities to expand the availability of child care facilities.

This document also summarizes Enterprise's landscape assessment of strategies for ECE facilities expansion, blog series with Municipal Research Services Center (MRSC), and interviews with roundtable participants and other experts in the field.<sup>5</sup> Many of the topics summarized here could benefit from further research and implementation, and can serve as a foundation for discussion, integration, and refinement.

The findings are grouped into four broad categories of strategies to expand the supply of ECE facilities.

- **Regulatory Systems:** Land use planning, permitting reforms and exemptions, and regulatory alignment
- **Financing Options:** Accessible capital sources and financial incentives for development
- **Affordable Real Estate:** Ownership and leasing models for child care facilities
- **Technical Assistance and Project Management:** Supports for ECE providers, developers, property owners, employers, and building trade professionals



## Summary of Findings

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### Regulatory Systems

- **Coordinate and streamline across regulating agencies and funding sources**

Child care centers and family homes have significant regulatory and infrastructure requirements that span disparate state and local government agencies, including child care and business licensing, zoning and land use, fire and life safety, health, and building codes. State agencies that oversee ECE facilities need to establish ongoing working relationships in order to streamline regulations, develop standard codes and model ordinances based on best practices, and establish systems-level coordination and communications. Additionally, alignment among ECE facilities funders would reduce capacity barriers in accessing disparate funding sources and could include a combined or common online application and/or alignment of deadlines and reporting requirements across ECE and affordable housing funds for co-location projects.

- **Integrate child care into local land use comprehensive plans and fund staff to implement**

In the U.S., local governments and land use planners control how land is used through their permitting authority. However, they are not required or funded to plan for child care because it is not considered a "public good" like roads, libraries, K-12 schools, and parks. Because child care is often provided by private businesses, planners are not charged with assessing whether supply meets demand, even though child care demand is tied to areas they must plan for, such as housing, transportation, and employment. Meanwhile, existing land use policies, regulations, and fees increase the cost of care and directly impact child care businesses' ability to expand. This lack of intentional planning is apparent in many comprehensive plans, which often contain little to no mention of child care facilities or services.

Long-range plans (e.g., comprehensive and subarea plans) set the framework for regulatory and programmatic change, so it's important to evaluate these plans for areas that may need more policy support for child care facilities. These policies can take many forms, like stating that the city or county should allow child care in more zoning districts to address the growing community need and can be located in various plans, including comprehensive plans. Once policy support has been established, planners can start to explore ways in which their land use codes can be updated to support child care facilities.

Zoning and development regulations that severely limit where these facilities can be located (e.g., prohibiting them in certain zoning districts) and under what circumstances (e.g., through a conditional use permit) can add time, expense, and uncertainty to a project. ECE needs to be elevated to a priority and intentionally planned for in both comprehensive planning documents that set overall land use goals and identify how public facilities are used, as well as in the development regulations that stipulate zoning and permitting requirements for ECE facilities.

American Planning Association’s 2022 Equity in Zoning Policy Guide asserts that zoning has the potential to create or perpetuate inequity by creating difficulty in accessing certain services such as child care and that the “serious shortages of convenient child care have a disproportionate impact on single-parent, often female-headed, households.” An approach to community planning that prioritizes child care would also encourage co-location opportunities within affordable housing, at public schools, in community buildings, or through employers.<sup>6</sup> While some local governments have begun to plan for and facilitate development of ECE facilities, continued work is needed to fully understand and address child care needs. Local and state governments should understand their unique supply and demand constraints and work to address them through supportive policy and regulation.

Funding may also be needed for regulating agency staff positions to enforce these requirements and provide technical assistance. To encourage these reforms, cities and counties need more examples of best practices and guidance for ECE facilities. This includes sample language for comprehensive plans, best practice zoning and development codes, and model ordinances for child care facilities. With these resources, more jurisdictions can amend their comprehensive plans and development codes to reduce barriers and intentionally support the expansion of child care facilities. These resources would support city planners in updating dated, one-size-fits-all fees and permitting regulations for child care, create more consistency across jurisdictions, and align codes with state licensing requirements.



- **Waive, reduce, or cover local development and impact fees for ECE facilities**

Impact fees are defined as one-time fees imposed by jurisdictions in Washington state on new development projects. As new development brings in additional residents and employees, it increases the demand for infrastructure and public services. Impact fees are intended to recover a new development's fair share of the cost of the facilities needed to serve the development.

In Washington, the Growth Management Act (GMA) allows jurisdictions to impose impact fees, the proceeds of which may be used for public facilities directly related to the new development and must be proportional to the impact of the development. Since child care facilities are not defined as "public facilities" under the GMA, many local governments charge the same impact fees for child care facilities as they do for other more intensive uses, which can then pose a barrier to the establishment of new or expanded child care businesses.

In 2021, Washington adopted changes to RCW 82.02.060 in support of impact fee exemptions for ECE facilities. This law gives cities the discretion to provide exemptions from impact fees for low-income housing or child care facilities that serve low-income children.



Given the large discrepancies in the type and amount of impact fees that are being imposed on child care businesses across cities in Washington, it would be helpful to provide guidance on what constitutes a fair and proportional impact fee for child care uses at the local level. Given recent changes in “middle housing” options as a result of state legislation that increases the supply and affordability of smaller housing units (condominiums, accessory dwelling units, and co-living housing),<sup>7</sup> the Washington State Department of Commerce is developing guidance on proportional impact fees and system development charges for these types of residential developments. Similar guidance and best practices on proportional impact fees would be helpful for child care uses.<sup>8</sup>

### Case Study

Olympia provides 80% and 100% exemptions for early learning facilities under certain circumstances,<sup>9</sup> and the City of Mountlake Terrace waives all traffic impact fees for child care providers who serve low-income children, as certified by the Department of Commerce ELF Fund or the WELL Fund.<sup>10</sup> Prior to the City Council’s decision, for example, Traffic Impact Fees in Mountlake Terrace could cost child care centers upwards of \$250,000 in certain zones.

- **Offer expedited review processes for ECE facilities permit applications**

Cities and counties can develop a dedicated queue for child care permit applications so they are able to be expedited. Permitting departments can be given shorter timeframes to complete reviews and specific training on ECE facilities. This process could also aim to pre-schedule interviews to ensure the entire process, rather than just plan review, is expedited.<sup>11</sup> These changes would require an increase in dedicated staff to prioritize child care permit applications. Expedited permitting can also serve as an incentive for developers to include ECE facilities in their projects, given the high costs and risks associated with long and uncertain permitting times.



### Case Study

Child care and affordable housing projects will be able to move forward faster and with lower costs because of new prioritizations in the King County permitting process for these kinds of applications. King County’s Department of Local Services recently added child care and affordable housing to its list of priority projects, meaning these receive priority review at the Permitting Division. This can help projects get approved faster thus lowering costs and helping these vital projects get up and running sooner.<sup>12</sup>

At the state level, some states like California have laws (e.g., SB 35 and AB 2011) that require expedited or “by-right” permitting for qualifying housing projects, and some cities extend similar models to child care and essential facilities. In Oregon, the state Building Codes Division can expedite plan reviews for certain projects (e.g., hospitals, schools, affordable housing) upon request. For state licensing, some states like Oklahoma allow for a six-month permit option for new child care centers, family child care homes, drop-ins, and other types of programs, which allows the facility to begin operations (and contract for subsidies, food program reimbursements, etc.) while ongoing evaluation and compliance continues. <sup>13</sup>

- **Modify zoning codes to make it easier to site and develop ECE facilities**

Cities and counties should modify their zoning codes to allow both smaller and larger ECE facilities outright in nearly all zones except those that are incompatible, like open space and heavy industrial areas. For example, Seattle’s Childcare Near You Ordinance (CNY), passed in August 2020, allows child care centers and family home providers in nearly all zones without a Conditional Use Permit, including neighborhood residential zones. The ordinance also removed the city’s cap of 12 children in home-based child care facilities. This limit was redundant since the state’s Department of Children, Youth, and Families (DCYF) already regulates capacity, and maintaining separate city limits could create regulatory discrepancies if the state’s standards change.

Meanwhile, other cities in Washington have regulations that enforce conditional use permits (CUPs) on child care centers, or on centers over a certain size (e.g. 25 children), which creates additional financial and logistical barriers for child care businesses, especially small-scale centers that are often not financially viable with fewer than 50 children. With all the state laws and regulations that child care centers already have to comply with, the issues a local planner needs to mitigate via CUPs are usually narrow, and if needed can be accomplished through an “administrative” or “minor” CUP that does not require hearings and costs far less. CUPs are challenging because they can take several months to approve, require a public hearing, and often cost thousands of dollars, creating additional barriers for child care providers.

### Land Use Reforms that Allow for Adaptive Reuse of Buildings for ECE

Land use changes can also help facilitate child care center development in urban areas that are experiencing high post-pandemic vacancy rates, like downtowns and urban villages. Seattle’s CNY Ordinance allows for child care centers at the street level along key pedestrian streets in mixed-use zones, and doesn’t count child care uses toward floor area ratio (FAR) limits in buildings, which can facilitate adaptive reuse of ground floor spaces that are well-suited to child care. Furthermore, Seattle’s Department of Construction and Inspections now has “navigator” staff assigned to support child care providers throughout the permitting process.

In response to these barriers, the Washington State Legislature enacted ESSB 5509 in 2025, which requires cities, towns, and code cities to allow child care centers outright (permitted without special review and approval) in all zones except industrial zones, light industrial zones, and open space zones. Cities can allow child care centers in other zones, and they must provide for a conditional use approval of an on-site child care center in industrial or light industrial zones, except in or around high-hazard facilities.

While these new requirements limit the ability of cities and towns to restrict where and how child care centers are allowed, cities may still impose reasonable restrictions on the permits for these facilities, including those related to pickup and drop-off areas to allow for safe and efficient flow in and out of the site. Cities and code cities planning under the Growth Management Act (GMA) must incorporate these requirements into their development regulations by ordinance with their next plan update, or by July 27, 2027. The bill's fiscal note provides the Washington State Department of Commerce with funds to develop guidance for cities and counties on the implementation of this new legislation, likely to be published in a year.<sup>14</sup>

- **Clarify and simplify zoning and regulatory requirements for Family Child Care Homes**

More guidance is needed from the state on the implementation and enforcement of RCW 26.70A.450, which provides that “no county or city...may...prohibit use of a residential dwelling, located in an area zoned for residential or commercial use, as a family day-care provider’s home facility.” The law also states that zoning conditions cannot be more restrictive for family homes than for other residences in that zone, but many jurisdictions continue to require Conditional Use Permits (CUP) for family homes in order to enforce compliance with local licensing, codes, or neighbor notification requirements. While this may be in compliance with the law, it is repetitive and burdensome to require a CUP process since licensed family home providers are already reviewed for public safety and compliance by state and local regulators, and CUPs can have the unintended consequence of precluding family child care providers from getting established.

In addition to clarifying RCW 26.70A.450 and updating local codes to be in compliance, where needed, state law could go further to treat family child care providers as residential property in the application of all local regulations, not just zoning, thereby simplifying regulatory complexity, cost, and delays for family home child care providers. This approach is demonstrated through Colorado’s recent bill HB 21-1222, which treats family child care homes as residential property for zoning, fire and life safety, building codes, etc.

- **Consider updates to landlord tenant laws to better enable child care uses**

In 2023, the Washington State Legislature approved House Bill 1199, which prevents homeowner associations and landlords from unreasonably restricting family home providers from condominium buildings. However, this bill does not go as far as other states in broadly preventing landlords from restricting their tenants from opening and operating home-based child care programs.

In Connecticut, HB 6590 also prevents landlords from restricting their tenants from opening and operating home-based child care, but also lends protections to landlords whose properties are used as licensed child care programs, ensuring that they will not be held liable for any accidents or lawsuits that arise from the child care program.

## Case Study

In California, SB234 prohibits local governments from requiring family child care providers to get a zoning permit or business license, and it says that landlords cannot refuse tenants who are interested in opening and operating a child care program in the property, nor can they evict tenants for doing so. The City of San Diego recently authored an ordinance to strengthen awareness and enforcement of SB234 by requiring information about the law in any rental agreements signed in the city.



- **Unlock upper floor and basement spaces for ECE, where feasible**

Due to regulatory requirements, locating child care anywhere except the ground floor can be extremely difficult if not impossible, despite more affordable real estate being available in the upper and lower floors of a building. Some cities and states are looking to change this.

In New York City, second floor commercial real estate rents per square foot were 27 percent lower than first floor commercial rents and tend to have lower demand for other uses. But those spaces are often passed over by center-based care providers due to unclear approval processes. The NYC Departments of Fire, Buildings, and Health and Mental Hygiene will develop guidance on siting child care in higher floors and basements, helping property owners market their space and child care providers open new programs while maintaining health and safety standards.

In 2023, the city of Boston removed zoning restrictions on the development of ECE facilities above the ground floor, and other barriers related to the amount of space they can take up on a property, which did not align with state regulations.<sup>15</sup>

The state of Colorado recently enabled child care on upper floors through regulatory changes and alternative evacuation plans for fires or emergencies – similar to protocols in children's hospitals, where neonatal units are located on higher floors for security reasons.

- **Remove minimum parking standards required by counties, towns, and cities**

Minimum parking requirements are often too restrictive for child care facilities, since most parents drop off and pick up and don't stay at the facility for more than 30 minutes when they park. Where parking mandates are in place, they often vary widely by jurisdiction, without a clear rationale behind the requirements. Most jurisdictions require excess parking, which creates unused parking spaces and unintended consequences. These requirements prevent construction of buildings typical in historic walkable neighborhoods, reduce housing development, increase home prices and rents, and create barriers for businesses, including child care providers.



It is possible for local governments to reduce or waive off-street parking requirements for ECE facilities, especially in areas that are served by public transit and/or if there is ample on-street parking nearby. Austin, Texas is an example of a city that eliminated on-site parking requirements for child care centers. Spokane, Washington recently proposed a package of zoning reforms that will make parking optional for all uses citywide, including child care.<sup>16</sup>

Recognizing the many benefits of parking deregulation, in 2024 the Washington State Legislature passed SB 6015 – the state’s first standalone parking bill, which provides flexibility for parking configurations. Building on this landmark legislation, the legislature passed another parking bill in 2025, SB 5184. This time, the bill is aimed at minimum parking standards required by counties, towns, and cities fully planning under the GMA. The new legislation limits how much parking local governments can require for certain residential uses and commercial spaces, including child care facilities. Local governments can no longer require a minimum number of parking spaces for child care centers (as defined in RCW 43.216.010) that are licensed or certified by the Washington State Department of Children, Youth, & Families. This bill does not affect family home-based child care providers. For these home-based facilities, many cities require a space for non-resident staff and choose not to require additional on-site parking. Cities and counties with a population between 30,000 and 50,000 must implement the requirements by July 27, 2028, and cities and counties with a population of 50,000 or greater must do so by January 27, 2027. The bill includes several exceptions, including for accessible parking spaces and local governments with a population of 30,000 or less.<sup>17</sup>

### Parking regulations vary widely across localities

Washington state child care licensing requires centers to provide 75 square feet of outdoor play area per child, and local governments currently add on an average of 87 square feet of parking per child. However, there are large discrepancies across cities and counties. For example, a center serving 50 children requires 4.5 parking spots in King County; 12 in Pierce County, and 36 in Puyallup.<sup>18</sup>



- **Support licensing flexibility for ECE facilities in diverse settings, including public parks**

As noted earlier, Washington child care licensing requires 75 square feet of outdoor space per child. In many cities it is difficult for ECE providers to find facilities that satisfy these requirements, especially in urban areas. Exceptions to these requirements can be granted to providers if they develop alternate plans to use off-site play spaces that are able to meet the intent of the outdoor space licensing requirements (see WAC 110-300-0145 (2)). Approval is at the discretion of the Department of Children, Youth, and Families (DCYF) and takes into consideration health and safety aspects of the individual proposed plan. DCYF works with the provider toward remediation of any identified health or safety concerns for off-site plan approval, but there is a level of risk and uncertainty for providers during the planning stages when off-site approval requirements are not clear upfront, go beyond what is stated in the WACs, and/or the timing of approval from DCYF is uncertain or takes many months. There's an opportunity to formalize and communicate a broader range of acceptable, standardized alternatives to on-site outdoor spaces within child care licensing rules, including through partnerships with Parks and Recreation Departments (local parks and playgrounds), as is currently done in San Francisco.<sup>19</sup> Alternative strategies could include co-op models where child care providers share outdoor playgrounds and public/community spaces, and flexible indoor/outdoor play spaces for inclement weather or unhealthy air conditions.



- **Provide exemptions for conversion of existing buildings for child care uses**

When child care is added to an existing building, it often requires a Change of Use Permit that mandates bringing the entire building up to current energy code — even when the child care program occupies only a small section, typically the ground floor. These requirements can be prohibitively expensive for a project. This is a similar issue for affordable housing development, and recent legislative changes have created exemptions for conversion of commercial buildings to residential. For example, in 2023 the Washington State Legislature passed ESHB 1042, which promotes the conversion of existing commercial and mixed-use buildings to multi-family housing. It provides several regulatory exemptions. When new dwelling units are added to an existing building, it allows the State Building Code Council to amend the State Energy Code in order to waive the requirement that unchanged portions of the existing building used for residential purposes must meet the latest energy code requirements. However, if any portion of an existing building is converted to new dwelling units, those new units must still meet the current code.

The law also prohibits denial of a building permit based on certain existing nonconformities for the building, unless a city official with decision-making authority makes findings that the nonconformity is causing a significant detriment to the surrounding area. In 2025, HB 1757 expands on RCW 35A.21.440 to include existing buildings used for residential purposes in residential zones (in addition to commercial and mixed-use, as noted above), and states that a city may not require a Change of Use Permit for the conversion of an existing building to residential purposes<sup>20</sup> Similar building code and State Environmental Policy Act (SEPA) exemptions could be made for child care uses in existing commercial or residential buildings, or when a family home provider is establishing a business from their home when they are already permitted for residential use (they are sometimes also required to get a Change of Use Permit).

Other exemptions to SEPA could be made to facilitate the development of more child care facilities in existing buildings. For example, California recently created 10 new exemptions to the California Environmental Quality Act (CEQA) for a range of projects, including those that affect child care centers – such as AB 130 and SB 131. These exemptions are designed to accelerate permitting and shield developers from years of costly and uncertain litigation, which are often driven not by environmental concerns but by groups seeking to block change.<sup>21</sup> The changes could, for instance, make it easier to convert a vacant shopping center into condos and apartments by reducing government hurdles.<sup>22</sup>



Recognizing there is a “public benefit when communities can use existing buildings rather than permitting new buildings to be built on open land,” in 2025 the Washington State Legislature passed SB 5655, which clarifies statutes so that building owners, including those of religious facilities and community buildings, would be more likely to convert existing spaces for child care facilities. It facilitates this by requiring building officials to calculate the occupancy load of a child care center based only on the areas in the building where the child care services are provided, rather than the square footage of the entire building. This new legislation builds on Pierce County’s recent amendments to their comprehensive plan, which adds policy language to support child care facilities in rural areas. Specifically, it allows civic uses (like child care) within existing civic buildings in rural areas (e.g., churches, park buildings, community centers, etc.) The bill adds a new section to RCW 19.27: State Building Code. <sup>23</sup>

- **Establish alternative licensing models that accommodate flexible program and facility sizes**

In Washington, there are currently three types of formal licensed care: Child Care Centers, Family Child Care Homes, and Outdoor Nature-Based programs. There is growing interest in the field in a “middle ground” licensing option, referred to as “microcenters,” which can provide the formality and structure of centers with the intimacy and flexibility of home-based care. This model, successfully used in other states and having precedent in Washington through the Organizational Licensing Pilot (OLP), can streamline and centralize administrative tasks like billing, enrollment, and licensing, and improve communications and monitoring. This model is already gaining traction in states like Oregon, Indiana, Massachusetts, and Tennessee, where pilot programs are exploring its potential to meet the unique needs of communities. For employers, they can support their workforce by offering on-site or near-site microcenters as part of their benefits package, leveraging available office suites and existing spaces for mixed-age child care. Currently, WA’s ONB licensing option requires two sets of licenses (indoor and outdoor) for a hybrid indoor-outdoor learning model, creating regulatory barriers and logistical challenges for families and providers. A microcenter model could help facilitate a hybrid indoor-outdoor option that allows for some of the day spent indoors, for example. At the state level, Colorado recently passed legislation that allows for ONB hybrid preschool programs that operate for at least 50% of the outdoor program’s operating hours outdoors. <sup>24</sup> While in theory microcenters could provide a flexible solution for child-care deserts, hybrid indoor-outdoor models, or employer-based settings, this licensing category does not currently exist in the State of WA.

### Microcenter Model for ECE

The U.S. Chamber of Commerce Foundation defines microcenters as “small, one-classroom child care centers located in existing community spaces managed by experienced hubs.” Microcenters provide a personalized and community-focused approach to child care, often integrating local resources and support systems, that can adapt quickly to the specific needs of the families they serve. They typically serve 30 or fewer children, allow for more flexible age groupings (similar to family homes), and can be established in available spaces like unused offices, schools, churches or community hubs. A parent or umbrella organization can oversee multiple single-classroom microcenters, supporting operations, reducing overhead costs and administrative burdens. <sup>25</sup>

## Financing Options

- **Continue to fund, expand, and improve state, regional, and local ECE facilities public funding sources**

In the absence of federal ECE facilities funding streams, states, counties, and cities have been implementing strategies to finance ECE facilities over the last several years. These efforts include state and local ECE facilities funds and technical assistance for providers, such as:

- The state's Early Learning Facilities (ELF) grant program at the Department of Commerce
- The Puget Sound Taxpayer Accountability Account (PSTAA) grant program in King County
- The Washington Early Learning Loan Fund, a public-private partnership between community development financial institutions (CDFIs), foundations, and the State of Washington
- The City of Seattle's Preschool Program (SPP) Facilities Grant Fund for city-funded preschools

While publicly-funded grant funds are critical to financing much-needed ECE facilities, they are often distributed on a reimbursement basis rather than as upfront payments to grantees. This is a major challenge for ECE providers who have limited cash flow or loan options to cover these costs. Changing to an upfront payment model or financing bridge loans to grantees would reduce this barrier.

ECE facilities grant funds have supported many successful, large-scale co-location projects between affordable housing developers and child care facilities across Washington. However, the timing of these funding processes is challenging to coordinate and manage, since affordable housing funding rounds are typically in the fall and state ELF funding rounds are in the spring, creating logistical complexity and financial risk for grantees. Aligning the timing of these funding applications and payments to facilitate co-location projects would reduce this barrier.

Finally, in addition to existing ECE facilities grant options for family home facilities, policymakers should consider innovative strategies such as a first-time homebuyer's subsidy that provides downpayment assistance to family home child care providers.



- **Expand blended financing and debt structures for ECE facilities**

Investors can play a role in developing ECE facilities by providing debt or equity investments in child care businesses and/or real estate in exchange for financial returns. These may include:

- More traditional investors who are typically interested in large child care chains with higher margins and financial returns
- Foundations and philanthropies, in the form of program-related investments that align with their charitable goals and generate modest returns
- Employers to support employees, their bottom line, and broader community needs
- Mission-driven investors and family offices, with investments for both social outcomes and modest financial returns
- Lenders like Community Development Financial Institutions (CDFIs) and the Small Business Administration

Blending funding streams from the investors and lenders noted above can help subsidize potential loan costs from more traditional financial institutions (e.g., interest or loan origination and servicing fees); modify the terms of loan capital (e.g., longer terms and repayment periods); and provide loan loss guarantee coverages or backstops (a “safety net” for lenders to account for the higher risk of lending to child care businesses).<sup>26</sup> Strategic blending of private capital with government resources through public-private partnerships can also help fill gaps in public investment.

CDFIs face unique challenges that require additional philanthropic, government, and community financial support to deploy the large amounts of capital needed to make a meaningful difference in child care capital costs. CDFIs do not have the same level of access to Federal Deposit Insurance Corporation (FDIC) or large-scale liquidity sources such as deposits, credit cards, or other products utilized by traditional lenders to offset the often-unprofitable business of small business lending. Backstops provide the cushion needed to extend larger loans, otherwise CDFIs might be forced to issue smaller, lower-risk loans, limiting their impact to child care businesses, especially around large capital costs.<sup>27</sup>

### Case Study

The Washington Early Learning Loan Fund (WELL) launched in 2020 with an initial allocation from the Washington State Department of Commerce and includes three CDFI partners: Enterprise Community Loan Fund, the Washington Community Reinvestment Association, and Craft3. WELL began operating with matched funds from several foundations, private capital, and local and county resources. To date, WELL provides technical assistance and invests flexible, leveraged funding, including \$23.6 million in low-interest loans and \$17.5 million in grants, for a total of 20 loans and 81 grants for a pipeline of 113 ongoing projects. WELL is an example of CDFIs providing catalytic, blended funding streams to grow ECE facilities in the state.<sup>28</sup>

- **Provide state and local tax exemptions and incentives to build ECE facilities**

In addition to grants, loans, and publicly available operating subsidies, many state and local governments provide tax policies and incentives that reduce the facilities-related costs to property owners, employers, or child care providers. These come in the form of tax exemptions, abatements, fee reductions, and density bonuses that reduce the financial burden of developing, retrofitting, or renovating a child care facility. Similar to recent legislation that incentivizes the development of affordable housing, policy incentives can help promote the development or conversion of existing spaces for child care facilities, especially in underutilized or vacant commercial spaces. For example, recommendations from the January 2023 New York City Office Adaptive Reuse Task Force include implementing a tax incentive to support mixed-income housing within building conversions, and a property tax abatement for retrofitting spaces for child care centers.

In Washington, property tax exemptions such as the Multi-Family Housing Property Tax Exemption (MFTE) program, which applies to multi-family and affordable housing in designated residential targeted areas, could be expanded to include child care uses. MFTE authorizes eight-year exemptions to encourage the development of multifamily housing, and 12- and 20-year exemptions to encourage the development of affordable housing. Over 50 Washington jurisdictions currently participate in the program.<sup>29</sup> For child care, exemptions could be allowed for the creation of affordable child care spaces and provided at below-market lease rates, and/or leased to providers who serve children from households with low incomes.

For many years, the city of Seattle has offered an incentive zoning program that provides density bonuses in certain urban zones for developers to either build out child care facilities on-site, or pay the in-lieu fee that is used by the city to finance ECE facilities. Similarly, Seattle's 2023 Downtown Activation Plan recommends incentivizing the development of child care and education services by allowing greater building heights when these facilities are included in new high-rise residential developments in certain parts of downtown. However, careful calibration and communication of these incentives is critical for program uptake.

Since 2019, the Washington State Legislature passed legislation that requires cities to allow additional density for long-term, income-restricted affordable housing on property owned or controlled by religious organizations, consistent with local needs, and the city of Seattle implemented a development bonus for affordable housing on religious organization land. Land use policies for faith-based communities could similarly incentivize the development of child care facilities in these buildings and land.

## Case Study

Texas recently passed Proposition 2, which creates “a constitutional amendment authorizing a local option exemption from ad valorem taxation by a county or municipality of all or part of the appraised value of real property used to operate a child-care facility.” For a child care facility to be exempt from property taxes in Texas, it must be part of the Texas Rising Star Program and at least 20% of enrolled children must receive subsidies or scholarships from the Texas Workforce Commission, and it does not apply to home-based child care facilities.

In 2019 the Department of Commerce and DCYF’s Child Care Collaborative Task Force for Washington recommended the following policy changes to increase employer support of child care. As it notes, the “Mounting Costs of Child Care” survey and report finds that lack of affordable, accessible child care negatively affects employers’ ability to recruit and retain talent, workforce participation, employee attendance, and worker productivity.

The task force recommends the state and partners provide resources, technical assistance, recognition, and tax incentives to increase employer investment in child care (see below). As of this writing these recommendations have not been implemented in Washington:

- Implement a tiered business tax incentive program to match business expenditures for provision of employee child care
- Provide a point-of-sale, sales (and use) tax exemption on consumables used in providing ECE
- Provide a retail sales (and use) tax exemption or deferral for construction, renovation, and remodeling of child care facilities<sup>30</sup>
- Note that a retail sales and use tax deferral program was established in 2024 through E2SSB 6175, which allows cities in Washington to establish, by resolution, a retail sales and use tax deferral program for the conversion of commercial buildings to provide affordable housing, under certain conditions, such as setting aside affordable units and locating development in areas of high need. The city of Seattle passed an ordinance in 2025 that creates a tax exemption (authorized by 6175) that defers 10.3% sales and use tax on the construction costs of converting commercial space to housing, to help reduce costs so that conversion projects are economically feasible. To qualify the developer is required to prove 10% of the units as affordable for households with incomes at or below 80% area median income. If the units are kept affordable for 10 years, the deferred sales and use taxes would be permanently waived for the conversion of underutilized commercial property in residential housing.<sup>31</sup>

### Tax Incentives for Employer-Supported Care

There are 25 states outside of Washington that have an employer child care tax credit or employer tax incentive for child care. These credits are designed to encourage employers to provide child care directly, contract within their community for child care for their employees, or help either expand the supply of child care or make it more affordable for their employees.



## Affordable Real Estate

- **Utilize publicly-owned land and surplus properties for ECE facilities**

While some local governments have begun to plan for and facilitate development of ECE facilities, continued work is needed to fully understand and address child care needs. Local and state governments should understand their unique supply and demand constraints and work to address them through supportive policy and regulation, including identifying existing government-owned land and buildings that are currently available and might be used for child care, and to co-locate these services with workforce, affordable housing, and other community needs.

In addition, cities, counties, and local governments can build out spaces for child care facilities, and then contract out the operation of the facility to a child care operator who can pay below-market rate lease rates. This allows the operator to step in and begin operations without the high upfront cost and time burdens of the development process. A low-interest working capital loan from a lender, backed by private dollars or contributions, can support other start up needs. This approach can be especially useful in counties or municipalities where there are unused or underutilized property or land holdings that can be redeployed for critical community services such as child care.

At the state level, Colorado developed a Public-Private Partnership office within the Colorado Department of Personnel and Administration, which controls state assets and public facilities, to identify vacant state land and buildings for child care and other civic uses. They have developed statewide inventories of non-developed State-owned Land, as well as unused facilities and properties, and a publicly-available GIS mapping tool to identify opportunities for co-location of child care facilities in areas of high need for the state, as well as for state employees in need of child care.

In Washington, the Office of Financial Management (OFM) provides an inventory of state-owned and leased facilities. The dashboard currently filters data by agency, ownership type, and geographic boundaries.<sup>32</sup> For affordable housing, the Washington State Department of Commerce provides an interactive map of state agency-owned land that has been designated as surplus to reduce land acquisition costs. The map currently provides suitability factors for affordable housing such as residential zoning, size of lot, etc.<sup>33</sup>

### Case Study

In 2018, Enterprise Community Partners developed the *Home and Hope Report* and public database, which facilitated the co-location of affordable homes and early learning centers by identifying and developing underutilized, tax-exempt sites owned by public agencies and nonprofits. The online map included filters by location, land area and use, proximity, ownership, and funding eligibility. Under each category filters looked at city or county council district, proximity to transit or early learning centers, qualified Census tracts or ownership type. This type of inventory can quickly identify parcels that are vacant or undeveloped, which is helpful in narrowing down which sites might have potential for development into affordable housing and/or child care facilities.

In Washington, RCW 39.33.010 allows any municipality or political subdivision to sell, transfer, exchange, lease, or otherwise dispose of real or personal property to other governmental entities “on such terms and conditions as may be mutually agreed upon,” which permits the transfer of property for less than its fair market value. However, RCW 43.09.210 requires that local governments receive the “true and full value” for all property transferred to another governmental entity. The state attorney general’s office has concluded that this statute can be harmonized with RCW 39.33.010 if the government agencies negotiate over the property’s value and that, depending on the nature of the property and circumstances of the transaction, “full value” can have a flexible meaning and could include non-monetary considerations (AGO 1997 No. 5). If the estimated value of the property being transferred to another government entity is more than \$50,000, the city must hold a properly noticed public hearing prior to disposing of the property (RCW 39.33.020).

Generally, donating surplus property to a nonprofit organization or other entity is prohibited as a gift of public funds under the state constitution, unless specifically authorized by law (such as transferring real property for affordable housing or transferring property to another government entity for non-monetary considerations).

However, if the recipient organization provides assistance to the “poor and infirm,” the donation could potentially be allowed under the constitutional exception for the “necessary support of the poor and infirm.” Adding a provision to the RCW that allows surplus property to be designated for ECE serving low-income children — without being considered a gift of public funds — could enable local governments and the state to provide more property for ECE. <sup>34</sup>

Finally, in order to identify child care as an approved usage for government-owned land and buildings, child care language could be added to RCW 39.33.015. This allows public agencies to transfer, lease, or dispose of surplus real property at low or no cost to a public, private, or nongovernmental body if this action is for a “public benefit.” For example, HB 1695 (2023) recently added “affordable housing and related facilities that support the goals of affordable housing development in providing economic and social stability for low-income persons” within the meaning of “public benefit,” and clarifies that it includes both rental housing and permanently affordable housing. While it could be argued that child care facilities fall under the umbrella of “related facilities,” identifying child care as an approved usage would provide further clarification.



- **Pilot alternative ownership approaches for ECE real estate geared toward independent child care provides with lower margins and less access to capital**

For real estate owners, developers, and investors, there are several additional leasing and ownership structures to consider when investing in ECE properties, summarized in the bullets below. <sup>35</sup>

To date, these structures have mainly been developed among private investors for large child care chains, so more work needs to be done to identify how and if these real estate and ownership models could be adapted to enable smaller, independent child care providers access to affordable ECE facilities without the need for these providers to be involved in the development and financing process from start to finish:

- *Sale Leaseback*: Buy property for or from an ECE operator and lease it back to them. The child care provider benefits from the additional capital, and the investor receives an income stream from a long-term tenant.
- *Operating Company-Property Company (OpCo-PropCo) Model*: Operators may separate the operating and real estate aspects of the business: the PropCo owns and leases the facilities to the OpCo, enabling the business to raise separate pools of capital and separate the operational and real estate risks.
- *Mission-Driven Equity Investments*: Philanthropic investors and CDFI's can provide investments alongside lending. Subordinated debt, such as an unsecured second loan, carries more risk related to loan repayment, but can be a crucial tool to help child care providers secure traditional financing from banks or other financial institutions. Mission-driven investors can take an equity stake in the land or real estate that houses a child care business, helping them protect the real estate assets and support community needs. <sup>36</sup>

- **Expand Real Estate Investment Trusts (REITs) for ECE Facilities**

Another innovative example of a CDFI (Mission-Driven Finance out of San Diego, CA) developing real estate ownership models for the ECE field is the Care Access Real Estate (CARE) Real Estate Investment Trust (REIT). This promising approach helps providers build wealth and make real estate for child care more accessible and affordable. CARE was launched across several states in 2022. CARE serves as a child care-friendly landlord at scale, and currently provides the opportunity for family child care providers to purchase the asset after 2+ years of renting, to share half the appreciation.

CARE is building out child care spaces within a real estate portfolio and then leasing out those spaces to vetted family home providers at affordable rates (with plans to work with commercial child care centers). <sup>37</sup> CARE partners with strong care ecosystems to provide wraparound support for providers to grow scale and quality, and blends in government funds and off-market and/or below-market acquisitions, with plans to scale its portfolio nationally. <sup>38</sup>

- **Develop a lease guarantee incentive for developers to finance ECE tenant improvements**

Tenant improvements (TI) for child care spaces can cost \$250 to \$350-plus per square foot, and upward of several million dollars per facility, making it challenging and complex for child care providers to finance and manage the development process. These deals become more compelling for developers or investors to finance if there is assurance that the child care tenant will be available long term to pay rent, given the large upfront investment in child care-specific remodels. A guaranteed lease contract over a period of time is a compelling incentive in today's commercial rental market. For example, the Department of Social and Human Services in Washington puts out a competitive RFP with specific requirements to build out their office facilities, and market-rate developers compete for the opportunity to finance the TI in exchange for the guaranteed long-term lease payments from the state.<sup>39</sup> A lease guarantee would necessitate a robust pipeline of ECE providers who are move-in ready to take over a lease, if necessary. Further discussions are necessary to determine what entities — state or local government, financial institutions, philanthropy, and/or program-related investments — could hold the lease guarantee.



- **Research and develop employer technical assistance and consortium models for ECE facilities**

For employers, developing on-site or near-site child care facilities requires a high upfront investment but also offers a major benefit for employees, and is often considered best-suited for companies with 500+ employees working on-site, especially those that need to cover all operating hours (including night and weekend shifts). While employers can support child care through other means — such as securing slots with existing providers, subsidizing tuition, or offering navigation services — investing in on-site facilities uniquely expands the total supply of child care in a community.<sup>40</sup> Some smaller and mid-sized employers are now testing "consortium" models, where multiple employers jointly develop a near-site facility to share costs, logistics, and technical assistance on financing and operations.

## Case Study

Denver-based Executives Partnering to Invest in Child Care (EPIC) runs a Child Care Design Lab that guides employers through planning and implementing child care solutions. The multi-month workshop covers needs assessment, financial modeling for on-site or near-site facilities, and implementation planning. Both individual employers and consortiums receive technical assistance to develop facilities that serve their employees.

- **Utilize cost-effective modular construction and building conversion models, where applicable**

Another option that can lower costs is to utilize prefabricated building units for child care, which are often cheaper than converting existing or building new, and can be produced quickly at scale. For example, KinderCare centers have been built using modular methods in multiple U.S. locations, and Bright Horizons centers have used modular construction for temporary and permanent child care solutions. Since many existing buildings in dense urban areas are high-rises, this strategy may be more feasible for child care located on public agency or other public lands, for companies looking to add an on-site child care facility to an existing lot or campus, or for less densely-built rural and suburban environments where new construction and standalone centers are more feasible.

Modular construction can allow for faster timelines (buildings can be installed in weeks), greener building processes (the factory-controlled process generates less waste), lower costs than traditional construction methods, customizations to child care licensing requirements (such as child-height fixtures), and the flexibility to expand, scale, and relocate, if needed. Studies estimate up to 20% cost savings, driven by factory efficiencies and reduced on-site labor.



## Technical Assistance and Project Management

- **Invest in ECE facilities-specific technical assistance (TA) and skills**

In Washington state, there are currently some state and local discretionary funding sources for grant and loan funds for ECE facilities, and these programs provide technical assistance (TA) around funding opportunities. The Department of Children, Youth, and Families (DCYF) also has some capacity for facilities TA in the form of pre-licensing support services for child care providers interested in becoming licensed. Based on a systems-level scan of the regulatory and funding agencies involved today, a better-functioning ECE facilities ecosystem will require dedicated, consistent sources of funding, as well as increased investment in technical assistance, skills, and coordination across agencies and sectors:

- Train regulatory staff and/or invest in ECE permitting roles or navigators (staff who can help child care businesses to understand and comply with permitting requirements).
- Fund project managers or owners' representatives for child care providers (staff who are experienced in the building development process and can help with project management and implementation).
- Provide TA to child care providers, real estate developers, employers, and building trade professionals (architects, land use planners, contractors, etc.).

Ongoing intermediary organizational support is needed to continue developing a pipeline of ECE providers who are looking for new or expanded facilities, and to offer providers TA on building and regulatory requirements, where needed. Real estate developers often need support in identifying and matching up with ECE providers that have sustainable business models, operate at a certain scale, and are in need of facilities. A strong pipeline of move-in ready ECE providers who can be matched with developers interested in building ECE spaces can reduce uncertainty early in the pre-development and design process for developers, building owners, and employers, and minimize the burden on ECE providers to understand and navigate all the complexities of facilities development from start to finish.



- **Explore apprenticeship pipelines for the ECE workforce in parallel with facilities development**

Given the current shortages in ECE teachers in the community, there is concern about employer-focused child care approaches “poaching” teachers from community-based child care programs. To add to the supply of child care, employers as well as other stakeholders are investing in ECE workforce development and apprenticeship programs in parallel with other efforts to develop ECE facilities. One of EPIC’s Design Lab (noted in Case Study, above) employers leveraged their Corporate Social Responsibility (CSR) program to fund an ECE workforce development pipeline program - 12 months before their on-site child care facility was planning to open - and worked with local partners to train new ECE teachers to serve the facility.

### Case Study

Machinists Institute in Washington, in partnership with the International Association of Machinists District 751 and using public funding, is planning to open a child care center in Everett in 2026 that offers nonstandard hours, including overnight care. The center is planning to be licensed for 168 children, but it will have capacity for nearly 500 children over the different shifts and will offer an apprenticeship path to aspiring teachers to help pay for their training. Providers who offer care during non-standard hours may receive a Non-Standard Hour Bonus through the state subsidy program (Working Connections Child Care, or WCCC), in addition to the base subsidy rate.



## Conclusion

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Expanding the supply of affordable early child care and education (ECE) facilities in Washington state will require coordinated, cross-sector action across public, private, and philanthropic sectors. The key findings outlined in this summary – reforming zoning and permitting processes, streamlining regulations, aligning funding sources, incentivizing public and private investments, securing affordable real estate and leases, and providing technical and project management supports – represent key levers for change. By recognizing child care as essential infrastructure and a public good, state and local leaders, developers, employers, philanthropists, and community partners can work together to remove barriers, unlock blended financing options and underused real estate assets, and create a sustainable system that supports families, providers, and the broader economy.



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- <sup>40</sup> Executives Partnering to Invest in Children, EPIC & U.S. Chamber of Commerce Foundation. (n.d.). *Employer Child Care Navigator*. Retrieved from: <https://employerchildcarenavigator.org/>