Home & Hope:
Creating Early Learning and Affordable Housing Together

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July 2018
Acknowledgments

This research was made possible through the generous support of the Bill & Melinda Gates Foundation. We also appreciate the contributions of dozens of practitioners who were interviewed, attended roundtable discussions and/or participated in surveys as part of the research process. Finally, we would like to thank the City of Seattle and King County (Washington), and the Washington State Department of Early Learning for their support in offering insight and shaping this report.

Additional thanks are due to the following people for their contributions and assistance:

- Robin Amadon, LIHI
- Ken Astrein, City of Seattle, Human Services Department
- Claudia Baldacci, King County Council
- John Bancroft, Columbia City Consulting
- Luba Bezborodnikova, WA Department of Early Learning
- David Bley, Bill & Melinda Gates Foundation
- Nesley Brava, Skyway Solutions
- Tim Burgess, former-Mayor City of Seattle and City Councilman
- Tom Byers, Cedar River Group
- Brian Chu, Yesler Community Collaborative
- Lori Chisholm, City of Seattle Department of Parks and Recreation
- Cameron Clark, City of Seattle Department of Education and Early Learning
- Magan Cromar, King County Best Starts
- Joan Davis, Roosevelt Neighborhood Association
- Suzanne Davis, Third Place Design
- Leah Davis, MITHUN
- Sloan Dawson, Sound Transit
- Leslie Dozono, Elty Consulting
- Susan Duren, Washington Community Reinvestment Association
- Rennie Elliott, Framework
- Mahnaz Eshetu, Refugee Women’s Alliance
- Lincoln Ferris, Seattle Central College
- Sibyl Glasby, Seattle Housing Authority
- Pippi Handy, Third Place Design Co-operative
- Tony Hanson, WA State Department of Commerce
- James Heugas, WA Charter School Development
- Gordon Hicks, Seattle Department of Construction and Inspections
- Aaron Hoard, UW, Regional & Community Relations
- Bevette Irvis, Wellspring
- Doug Ito, SMR Architects
- Brianna Jackson, Launch
- Ellen Kissman, Yesler Community Collaborative
- Sally Knodell, Environmental Works
- Doris Koo, Yesler Community Collaborative
- Jennifer LaBrecque, City of Seattle, Office of Housing
- Kris Lambright, YWCA
- Rehana Lanewala, Launch
- Jan Laskey, Bank of America
- Joanne LaTuchie, Mercy Housing Northwest
- Sarah Lewontin, UW, Runstad Center
- Lanzi Li, Heartland
- Alison Lorig, BRIDGE Housing
- Sandy Lowe, Wellspring
- Elizabeth MacPherson, MITHUN
- Miguel Maestas, El Centro de la Raza
- Hilda Magana, El Centro de la Raza
- Michael Majeed, Skyway Solutions
- Tiernan Martin, Futurewise
- Laura McAlister, Sound Child Care Solutions
Acknowledgments

• Brian McWatters, City of Seattle, Department of Construction & Inspections
• Geri Morris, Office of Councilmember Rob Johnson
• Leslie Morishita, InterIm CDA
• Jaclyn Moynahan, King County DCHS
• Villette Nolon, Imagine Housing
• Uche Okezie, HomeSight
• Judith Olsen, Impact Capital
• Laurie Olson, City of Seattle, Office of Housing
• Peter Orser, UW, Runstad Center
• Cindy Proctor, Beacon Development Group
• Victoria Quinn, Key Bank
• Noni Ramos, Enterprise Community Loan Fund
• Mike Rooney, Mt. Baker Housing
• Bill Rumpf, Mercy Housing Northwest
• Kristin Ryan, Barrientos RYAN
• Mark Santos-Johnson, City of Renton, Community & Economic Development Department
• Siri Smith, Heartland
• Genevieve Stokes, WA Department of Early Learning
• Judy Summerfield, Sound Child Care Solutions
• Tory Taylor, Forterra
• Loren Tierney, Housing Development Consortium
• Tony To, HomeSight
• Nathan Torgelson, City of Seattle, Department of Construction & Inspections
• Sarah Valenta, HomeSight
• Ed Walker, King County Assessor
• Steve Walker, City of Seattle, Office of Housing
• Afton Walsh, Walsh Construction
• Kimbra Wellock, US Bank
• Jeremy Wilkening, Capitol Hill Housing

• Hillary Wilson, Forterra
• John Wilson, King County Assessor
• Lisa Walters, Seattle Housing Authority
• Susan Yang, Denise Louie
• Rose Yu, Advocate for Adults with DD

Photo credits:
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Stable, affordable housing and quality education set the foundation for economic opportunity. From the growing Puget Sound region to farmworker communities, Washington state needs more of both. Families in the region face high housing cost burdens and are often displaced from high opportunity areas. Early learning centers are similarly being displaced, and there is already a shortage of classrooms to serve all eligible children. In response, Enterprise Community Partners launched the Home & Hope initiative to accelerate the development of affordable housing with early learning centers on underutilized public and tax-exempt land.

This report presents a summary of feedback received from workgroups focused on (i) design, construction & licensing and, (ii) the finance & development of affordable housing with early learning centers. It combines the workgroups’ findings with research and publications from similar efforts in other states.

The report is organized to guide users through the project development process, from site selection to finance, design and, finally, operation. This report includes policy recommendations aimed at improving the delivery of this type of mixed-use development.

Choosing the Right Site
- Does the site need to be close to jobs, transit, homes? Are special populations served?
  Are funding resources tied to specific locations?
- Two important space considerations: Vehicular circulation/parking and outdoor play space

Choosing the Right Partners
- Who will be served by the proposed development?
- What is the demonstrated financial capacity/viability of either partner?
- Is your early learning operator licensed?
- Does your developer/operator have sufficient development experience?
- Are you ready to partner?

Choosing a Development Program & Legal Structure
- Ownership: Clear agreement on which party will own the land and improvements and how control of the non-residential space is established through condominium and/or lease.
- Build-out: How will the build-out of the early learning facility be funded? Who is responsible for tenant improvements within the space? Who will manage the design, permitting, and construction processes?
- Financing: What are the respective responsibilities of each party for securing capital financing?
- Operations and maintenance: Which party is responsible for providing services and maintaining the property? How will utilities, repairs, insurance, taxes and other maintenance expenses be split?
- Rent Payment: Amount and terms of rent and any common area maintenance charges
- Provider Services: Understanding the scope of early childhood education services offered by the Provider and any enrollment priorities of the Developer/Owner.
- Resident population: Who is envisioned as the target population[s] for the residential portion of the building?
- Conflicts: It should address how any potential conflicts should be resolved and how liability should be shared between partners.
Site & Building Design

- What are the important and often overlooked considerations beyond state licensing requirements?
- Guidance here not only includes basics such as state licensing and essential life-safety features but also best practices in the design of center-based child care facilities.

Assembling Capital Finance

- In cases where early learning facilities are built with housing, developer/owners become critical partners in helping to secure debt financing and should ensure they understand the operator’s business model.

Getting Licensed

- Timing is critical to the successful development of an early learning facility, even more so when co-located with affordable housing. Developers should consult with the Washington Department of Early Learning (DEL) and local agencies early, during feasibility, to get feedback on plans, and again at the end of conceptual design/beginning of schematic design phase.

Consider Operating Finances

- Developer/owners underwriting an early learning business should ensure they possess a thorough understanding of the operator’s business model and structure the relationship to mitigate against the risk of cash flow challenges.

Suggested Policy Changes

1. As part of implementing a new licensing pre-approval process, DEL should include a milestone schedule aimed at minimizing uncertainty surrounding date of license issue. Such a schedule would enable providers with Certificates of Occupancy to resolve outstanding DEL licensing requirements well before September 1, the typical start date for many early learning programs.
2. Reduce ambiguity around subjective concepts of safety by codifying requirements where possible
3. Implement staff training to achieve greater consistency and reasonableness in DEL inspector interpretations
4. Allow greater flexibility for open space size requirements where smaller, denser sites do not permit direct access to outdoor space from classrooms
5. Create new funding sources that work for mixed-use developments proposing affordable housing and early learning
6. Prioritize funding for early learning centers that are in high capacity transit areas
Investing in early childhood education creates clear long-term benefits for families and communities, from attaining higher levels of education to increased lifetime earnings, as well as greater workforce participation and earnings for working mothers. And this impact reaches even further than children and their families, extending to our wider society – we see a reduced crime rate, less welfare dependence and a reduction in wealth and racial gaps in language comprehension and numeracy.

The research here is clear. Longitudinal studies, such as the Lifecycle Benefits study by Heckman et al. 2016, indicate that every dollar invested in high-quality preschool for disadvantaged children from birth-to-five years delivers a 13 percent per annum return on investment.1

Early learning centers co-located with housing close to transit create significant benefits for working families, including more stability because of shorter commutes. However, the business models of early learning providers are highly sensitive to operational capacity and available subsidy. Securing financing is often a difficult obstacle for small businesses who wish to develop and/or preserve high-quality facilities. Because providers are often entirely focused on delivering quality education, they may lack the necessary expertise to grow their capacity.

Early learning centers are a desirable amenity for both residents and the surrounding community, which makes them complementary and mission-compatible for affordable housing developers pursuing mixed-use projects. The developer landlord delivers stability, affordability and attention to design, while the educational provider brings a much-needed service to residents and generates a revenue stream for the project.

During the winter of 2017-2018, Enterprise hosted a series of workgroup meetings amongst nonprofit housing developers, early learning providers, architects and public funders to learn how they had created affordable homes and classrooms together in their recent projects. The workgroups aimed to help stakeholders effectively respond to the unique difficulties that often occur when co-developing homes and classrooms.

This report presents a summary of feedback received from workgroups focused on (i) design, construction & licensing and, (ii) the finance & development of affordable housing with early learning centers. It combines the workgroups’ findings with research and publications from similar efforts in other states. The report is organized to guide users through the project development process from site selection to finance, design and, finally, operation. Included in the report are policy recommendations aimed at improving the delivery of this type of mixed-use development.

Additional reference to specific regulations and design standards can be found in Appendices which follow the report.

Recommendations

1. Choosing the Right Site

Location can make all the difference for the viability of an early learning center and of a residential building. Understanding the priorities of the early learning provider and of the housing developer will help to refine the site selection process. Does the site need to be in close proximity to jobs, transit, or homes? Are there special populations to be served? Are funding resources tied to specific locations?

Early learning facilities have special needs for space, making location and size critical factors in site selection, especially in dense, urban environments with high competition for land. More space intensive uses in early learning centers include:

Vehicular Circulation & Parking
Developers should plan for adequate vehicular circulation for on-site drop-off and pick-up areas located close to the primary entry, including an easily accessible pathway with a focus on safety and minimizing impact on traffic.

Consideration should be paid to parking accommodations for early learning center staff. Local rules on parking will vary, and it is important to ensure that all your developments’ users’ needs are met. If parking within the development is not desirable or feasible, employee parking may be accommodated off-site in an adjacent property through a formal parking agreement. It may also be possible to share parking between building residents and staff who may need to store their vehicles for different portions of the day and night.

Outdoor Play Space
DEL requires a minimum 75-net square feet of outdoor play space per child (net square footage does not include circulation or required exiting if fenced). This requirement applies only to the maximum number of children planned to be outside at any one time, so it is important to think through daily scheduling. Planning for outdoor space has been cited as one of the largest challenges to creating new early learning centers in urban areas. Those sites unable to satisfy the above-mentioned requirement could alternatively partner with an outdoor preschool program where possible. Creative solutions in dense parts of Seattle have included a rooftop playground at Hirabayashi Place or within a ground floor setback at Astro Apartments. More discussion on play space is included in the design section of this report on page 14.

If your project is the adaptive reuse of an older building rather than ground-up new construction, it is very important to consider the particular needs of early learning centers. The health and safety requirements for early learning are usually much higher than what was constructed in old buildings, and bringing those buildings up to newer, higher standards can be expensive. Adaptive reuse projects should plan for a development schedule that includes extra time for consultation with relevant permitting and licensing authorities. Among other siting criteria, DEL specifies that early learning providers must not expose children to environmental hazards which include those found within older buildings such as lead-based paint; asbestos; plumbing and fixtures containing lead or lead solders; arsenic, lead or copper in the soil or drinking water, etc.2

In their child care handbook ‘We Care’ Bridge Housing lists the following key considerations in choosing a site for an early learning center:

- Land-use zoning allows an early childhood facility;
- Size of lot(s) or existing building (if applicable) will accommodate program needs (interior and exterior);
- Access to public transit;
- Ease of vehicular access and sufficient area to accommodate any required parking, drop-off areas and associated drive aisles;
- Compatibility with surrounding building and property uses;
- Overall noise levels of adjacent roadway and property uses;
- Effect of play yard noise on adjacent property uses;
- Well-drained soils in outdoor play areas;
- Solar orientation (for daylighting in classrooms as well as sunny and dry outdoor play areas);
- Potential for future expansion (if desired);
- Proximity to targeted clientele (ease of access for families and staff);
- Proximity to local emergency services;
- Condition of land and any existing structures – environmental assessment to identify if remediation is necessary (removal of hazardous materials), and feasibility of removal of any identified hazardous substances e.g. lead, asbestos, PCBs, otherwise contaminated soils, etc.
- Proximity to heavily traveled roads/presence of vehicular pollution

- Availability of existing utilities (water, power, sewer, gas, telephone, cable);
- Capacity of utilities to adequately serve the new facility;
- Purchase or leasing costs.

Your choice of location will also affect the project’s potential eligibility for funding incentives such as the Qualified Census Tract (QCT) for Low Income Housing Credits, New Market Tax Credit (NMTC) or Opportunity Zones.

Another local consideration in site selection is the proximity to incompatible uses. In Washington state this could include marijuana businesses. Sites within a one-thousand-foot radius of vice businesses should be avoided as this may create licensing problems. Recent legislation allows local governments to reduce the 1000-foot buffer requirement to 100 feet around all land uses except elementary, secondary schools and public playgrounds. The presence of liquor licenses nearby has reportedly been considered by individual licensors from WA Department of Early Learning in their overall safety assessment but there is no rule specified in Washington Administrative Code (WAC).

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3. [BRIDGE Housing, 2006]
4. See Appendix A for details on public funding resources.
2. Choosing the Right Partners

Parties interested in developing an early learning center in conjunction with affordable housing should perform thorough due diligence on all potential partners. This will help ensure that in moving ahead all partners not only share similar mission-based values but also confidence that the project can be delivered successfully. When choosing partners, a good rule of thumb is to seek those with experience with the type of development program being envisioned. An RFP, RFQ, or a list of questions for initial meetings can serve as a useful tool for gathering information to compare providers. Good due diligence of your development partners should help provide answers to several questions including the following:

Who will be served by the proposed development?
- Development partners should make best efforts to communicate their individual programmatic requirements from the development process early during feasibility.
- Consider whether the children to be served by the early learning center, the residents to be served by the homes, the neighborhood, and the providers’ approaches are compatible.
- Does the affordable housing intend to serve special populations, and would those special populations be compatible with an early learning center?
- Is the provider willing to provide a preference for housing development residents?
- Are there needs for services in multiple languages, and will they be provided? Center providers that have a mission-based and/or special population focus e.g. low-income or foreign language, may have more complicated operating budgets.

What is the demonstrated financial capacity/viability of either partner?
- Partners ask each other to verify:
  - Income and Expense Statements for the organization for the last two years
  - Any audits for the organization
  - Cash flow projections and business plans / rent roll or lease up strategy
- Developers should ask providers to verify:
  - Cash flow projection and business plan for proposed center
  - Copies of any subsidy contracts, such as Head Start, ECEAP, etc.
  - Copies of Income and Expense statements for any centers held by separate entities

Is your early learning operator licensed?
- What have been the results of the provider’s state licensing inspections for the last two years?
- Are there any deficiencies or violations? Were any of them violations of life safety issues? When did the deficiency or violation occur?
- Has the provider ever had a license revoked or are they on probation awaiting a hearing?
- Have corrections been made to address identified problems?

Does your developer/operator have sufficient development experience?
- Has the developer created an early learning center before?
- Does the early learning operator run centers in mixed-use buildings?
- Does the architect have experience designing early learning centers and mixed-use buildings?
Are you ready to partner?

- Do you both understand the timelines of each other’s business model?
- What is the quality and availability of technical assistance?
- Does the operator have staff capacity to handle each aspect including design input, fundraising, center licensing, and marketing?
- Does the operator have a realistic business plan?
- Are you committed to giving input at each phase of the development and to communicate in a timely and effective manner?

DEL and Child Care Aware are considering developing matching services for providers and available spaces. Providers developing their first center may need technical assistance to avoid pitfalls especially when co-locating in a mixed-use building. When using debt financing for the early learning center, an experienced early learning operator is strongly recommended.
3. Choosing a Development Program & Legal Structure

The development program and legal agreements should meet the needs of both the developer and the early learning provider. Developer/owners should structure legal entities to separate project financing sources and risk where possible. Creating a Memorandum of Understanding (MOU) between parties as early as possible is encouraged to clearly identify responsibilities to be upheld by each party. These decisions can change ideal building design, so it is best to have an understanding before the schematic design stage. Basic elements that should form part of the MOU may include:

- **Ownership:** Clear agreement on which party will own the land and improvements and how control of the non-residential space is established through condominium and/or lease.
- **Build-out:** How will the build-out of the early learning facility be funded? Who is responsible for tenant improvements within the space? Who will manage the design, permitting, and construction processes?
- **Financing:** What are the respective responsibilities of each party for securing capital financing?
- **Operations and maintenance:** Which party is responsible for providing services and maintaining the property? How will utilities, repairs, insurance, taxes, and other maintenance expenses be split?
- **Rent Payment:** amount and terms of rent and any common area maintenance charges.
- **Provider Services:** understanding the scope of early childhood education services offered by the Provider and any enrollment priorities of the Developer/Owner.
- **Resident population:** Who is envisioned as the target population(s) for the residential portion of the building? Some housing programs – such as housing for formerly homeless or incarcerated individuals – may cause some licensers to question the safety of the early learning center. However, developers or architects are within their right to challenge the licenser’s position for basis in the WAC.

- **Conflicts:** It should address how any potential conflicts should be resolved and how liability should be shared between partners.

Setting timelines with milestones as part of the MOU allows each party to gather more information, secure financing commitments, obtain necessary approvals or permits which altogether demonstrate good faith actions toward delivering a development.

There are different forms of ownership and operating structures which could be employed depending on the roles, responsibilities articulated in the MOU. A cross-default provision for failure to uphold or fulfill agreement term(s) should be included irrespective of the structure eventually used.

**LEASE AGREEMENT**

Leases should be carefully structured to achieve both housing and early learning center’s goals. If the lease will include service-related provisions, these should be separated from occupancy-related provisions to keep obligations clear and discrete. Developers should also ensure to incorporate into the lease agreement any requirements of its lender or funding sources passed on to the operator (lessee).

Key lease terms to tailor to the needs of each partner include:

- **Base rent:** What is a fair rent to ensure ongoing operations for both the early learning center and the building? Does the rent change over the term of the lease? By how much and when?
- **“Triple net” (NNN) or “Gross” rent?** How are operating costs such as shared utilities, taxes, and common area maintenance
If the project is conceived as a condominium structure, an air rights declaration would separate the housing and ground floor early learning uses as legal entities before/at plenary finance closing. The as-built condo declaration and approach creates one legal entity which later splits and conveys financing onto the respective portion of the project at the time of that declaration’s recording. The developer/owner can retain ownership of the commercial condo and lease that space to tenants. Or, the early learning provider could purchase the space. In a purchase scenario, it is even more important to have common area maintenance charges, utilities, and other responsibilities clearly delineated in the condominium agreement.

In a condominium + sale situation, the parties also need to negotiate these important documents:

- **SERVICES AGREEMENT**: specifies the rights and obligations of both parties in the facilitation of the provision of early learning services to the development.
- **DEVELOPMENT SERVICES AGREEMENT**: specifies the tenant improvements to be completed by the developer’s contractor as prescribed in the operator’s program statement. Alternatively, the developer could provide a building “shell” leaving the provider responsible for all tenant improvements. Depending on the desired design specifications and allowed budget, an operator may request a “cold shell” or unfinished space typically lacking HVAC, ceilings and interior wall finishes, opting to use their own architect to make final fit-out decisions.
- **PURCHASE & SALE AGREEMENT**: used by an operator to either purchase raw land underlying to the development and/or the tenant improvements built by developer. The purchase and sale agreement is used in conjunction with a ground lease if the operator wishes to only purchase the tenant improvements and not the underlying land.

Sample leases from this region show it is common for early learning centers to pay rent ranging between $1-$19 per square foot annually in a triple net lease agreement in which operating costs of the property are passed on to the tenant. Some local early learning centers have used capitalized lease payments in which the full multi-year term of the lease is paid up front through a subsidy program such as the Seattle Preschool Program.

**CONDOMINIUM AGREEMENT**

Condominium agreements can be used to legally separate different uses within a single development for the purposes of separating risk and obligations.

(CAM) charged? Triple net rent adds a CAM charge on top of rent that is reconciled at least annually to charge or refund the tenant to reflect actual operating costs. Gross rent includes these operating costs in the base rent payment, which may add predictability for the tenant but risks over- or under-charging based on actual operations.

- **Term** – How many years is the lease in effect? Does the tenant have an option to renew? What are the conditions on renewal?
- **Tenant Improvement Allowance** – How much will the landlord contribute to the construction and fit-out of the tenant’s space? What is the right balance between low rent or additional tenant improvement allowance to ensure feasible projects for both sides?
- **Signage** – What types and sizes of signs are allowed?
- **Hours of operation**
- **Use of shared spaces** – Can the parties share parking, community facilities, open space, etc.? What are the rules for sharing?
- **Insurance** – How much of what sorts of insurance do the landlord and tenant each need to maintain?

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Examples of mixed-use projects in King County, Washington:

**Development Name – Housing Partner/Early Learning Partner**
- Lake Washington Apartments – SEED/Denise Louie
- Village Square – SCIDPDA/Denise Louie
- Artspace – Artspace/Sound Child Care Solutions; Vietnamese Friendship Association
- Plaza Roberto Maestas – Beacon Development Group/El Centro de la Raza
- Hirabayashi Place – InterIm CDA/El Centro de la Raza
- YWCA Family Village at Issaquah
4. Site & Building Design

Design matters. Children require special consideration for safety, mental and physical development. High quality, evidence-based design practices can improve early learning outcomes. This section describes practices that go beyond standard licensing requirements for early learning facilities. Whereas Chapter 1: Choosing the Right Site offers a general discussion of preferred site locations, careful site planning and building design are also crucial to planning a successful development.

To begin the design process, developer/owners and child care providers should prepare detailed and thorough program statements defining project goals and design criteria for both the early learning center and affordable housing. Clear direction on space needs will create better outcomes with your design team.

Developers are encouraged to select architects with specialized knowledge and experience in early learning environments. Providers may choose to work with the developer’s chosen architect or hire their own architects to work with the developer architect in the design and fit-out of the early learning space. Initial layouts should be completed during feasibility to cross check programmatic and square footage requirements.

When the project reaches the schematic design phase, it is helpful to engage DEL and other funders/licensers in conversation to review the schematic drawings to identify any major changes which may be required. Pre-application consultations with permitting jurisdictions are recommended for both land use and building code issues. Make sure to document meetings to inform later conversations.

Cost estimates and value engineering should be performed routinely throughout the development process but typically occur after the schematic design phase and design-development phases. Value engineering is the process of analyzing all designed building features, systems, equipment and material selections for achieving essential functions at the lowest life-cycle cost while maintaining required performance, quality, reliability and safety. The goal of the value engineering process is to remove unnecessary cost and improve overall value. To avoid any compromises of safety and/or quality of the early learning facility, all value engineering proposals and project budget should be discussed early on between the architect, developer, and operator to ensure that all expectations are aligned.
The following are important and often overlooked considerations or licensing requirements in the design of center-based child care facilities.

**CLASSROOMS**
- Identify programmatic items for the philosophy of the early learning center e.g. Montessori, as these may inform the design of the learning spaces above and beyond licensing requirements.
- Locate like ages together to allow for efficiencies in staffing and plumbing (e.g. jack and jill bathrooms)
- Provide doors to interconnect classrooms
- Provide windows from corridor into classroom
- Provide art sinks
- Doors to child restrooms must maintain visual and auditory connection to main classroom and must not lock

**LAYOUT**
- Provide separate staff restrooms and break room so that adults and children have their own spaces
- Trash and delivery
  - Locate a dedicated trash collection area accessed from the rear of the building
  - Provide areas for multiple waste streams where possible i.e. compost, recycling, trash
  - Galvanized trash receptacles with lids are preferred over plastic
  - Ensure circulation to loading docks or other shared facilities is secure
- Acoustic separation
  - Ceiling assembly, floor assembly, and/or wall assembly should be designed for acoustic separation between residential and educational uses. Utilize hanging clips, staggered studs, acoustic sound batts, or equivalent to prevent sound transmission between spaces.
Typical Preschool Classroom Layout

TYPICAL SET OF PRESCHOOL CLASSROOMS
SHARED BATHROOM EXAMPLE

MINIMUM REQUIRED SQUARE FOOTAGE CALCULATION
700 Net Square Feet (NSF) REQUIRED
20 Children @ 35 NSF per child minimum licensing requirement

BEST PRACTICE SQUARE FOOTAGE CALCULATION
1,000 NSF SHOWN
20 Children @ 50 NSF per child is best practice for many providers
LAYOUT (cont.)

- Plan carefully for both loud and quiet functions e.g. building mechanical systems and napping, to minimize potential disruptions.
- Within the early learning center, doors and glass help to reduce sound. Plan for acoustic sound batts in classroom demising walls and at classroom to corridor walls.

- Avoid cold floors on ground floor with proper insulation, a heated plenum in underground parking structures, radiant slabs or other appropriate design.

KITCHENS

- Does the child care program include cooking from scratch? If so, providers must decide whether to use a domestic or commercial kitchen. Commercial kitchens generally improve the marketability of early-learning programs.

  - International Mechanical Code requires a Type 1 exhaust hood if early learning provider plans to fry, steam, or sauté food. This applies to both new construction and retrofit.
  - Type 1 hoods may need acoustic isolation to reduce noise levels below 65 decibels to upper floor residential or outdoor rooftop space.
  - If adding an early learning center to an existing building, check to make sure an exhaust shaft exists or can be added. For some older buildings, adding a shaft can be prohibitively difficult.

- Early learning centers that only warm food on site are less expensive to build because they may not require a commercial kitchen. Check with jurisdiction early in feasibility stage to verify requirements.

- Grease separators may be required regardless of cooking methods due to risk of drain clogs from milk, formula, etc. Check with jurisdiction early in feasibility stage.

- If teaching cooking skills is part of early learning program, design kitchen to be conducive for that requirement.

- Plan for adequate storage e.g. storage racks

- Allow space for storage of food delivery carts

- Separate “clean” and “dirty” areas for food preparation and washing.

- Handwashing sink located directly inside the entry door and between “clean” and “dirty” areas.

JANITORIAL SPACE

- Janitor room must have separate exhaust

- Cannot be combined with laundry room

LAUNDRY

If laundry is done on-site:

  - It must have a separate exhaust duct and vent
  - It cannot be combined with Janitor room
  - It must be inaccessible to children
  - It must be separated from kitchen and food preparation areas

UTILITIES

- Developers and providers must consider how building utilities will be handled as part of general operating costs. Are common utilities infrastructure part of the design?

- Utilities and meters should be separated to ensure utility bills are discrete from the start.

- Consider installing sub-metering systems to identify actual usage of any utilities that are part of a shared system, such as water, sewer, or gas.
PLUMBING/WATER HEATERS

- Early education facilities require many plumbing fixtures throughout the facility. A typical toddler or preschool classroom will have a minimum of one adult sink, two children’s sinks and two children’s toilets.
- When building on a post-tensioned concrete deck (such as above a parking garage), it is important to set coring locations early.
- Consider installing two hot water heaters, one set to the recommended temperature for fixtures accessible to children, and another providing the higher sanitizing temperature required for laundry and dish-washing.
- Other options include using mixing valves at appropriate locations, or purchasing appliances with internal heaters.
- Specify fixtures heights and sizes appropriate for each age group/classroom.

SAFETY & SECURITY

- Design for separation between residential and early learning uses.
- Be aware of sight lines within the classroom so that teachers can easily watch over children.
- Pay special attention to fire protection i.e. sprinklers and alarm requirements when developing adaptive re-use or retrofit projects. Many old buildings do not meet today’s safety standards.
- Reconciling the need for providing adequate natural lighting while also screening for privacy can be difficult. Use of frosted glazing or electrically operated roller shades are two effective solutions.
- Early learning programs are discouraged from using blinds or other window coverings that have pull cords, inner cords, or other features that may form a loop and pose a strangulation risk to young children. Cords must be secured in a manner that prevents tampering by children.
- Electrical vaults should not be located close to classrooms and outdoor play areas.
- Understand the difference between the terms Maximum Capacity, which is set by the WAC, and Maximum Occupancy, which is set by the Fire Code:
  - Maximum Capacity is the maximum number of children a licensee can be licensed to enroll based on the amount of usable square footage or the space left over after deducting space for elements in the room that are generally considered fixed. This has impacted final licensed capacity and can impact overall financial feasibility if the expected capacity is lower than licensed. The licensee may be licensed for less than the maximum potential capacity. A licensee may not be licensed for more than the maximum potential capacity.
  - Maximum Occupancy early learning centers must conform to the requirements of Groups E as defined in the Chapter 3 of the International Building Code. Refer to the Washington State Fire Marshal for specific guidance on occupancy requirements.

STORAGE

- Open cubbies versus closed cabinets versus plastic boxes versus baskets?
  - DEL requires providers to provide accessible individual storage space for each child’s belongings to prevent the spread of diseases or parasites such as scabies and lice.
Example Floorplan
SHARED USES

- Early learning centers require exclusive space for the safety and security of children. However, you should think carefully about what amenities in your development can be shared or made available for occasional use by the early learning center. Examples include shared community rooms that can be used for meetings or events, shared play areas (interior and exterior), or shared adult restrooms in common corridors.

- Removable wall systems allow classrooms to be combined for other uses e.g. parent resource area, however there are concerns about safety elements or expense. Shared use of residential community space may be preferable if available.

OUTDOOR PLAY SPACE

- Research indicates that larger sites have provided up to 100 square feet usable outdoor play space per child, however DEL requires 75 square feet usable outdoor space per child, not including circulation\(^9\). Scheduling specific age groups in the outdoor space throughout the day can be one way to meet reduced space requirements. Simultaneous use of outdoor play-space by early learning children and residents would need to include stringent requirements for supervision and be designed to prevent any direct or indirect harm to children’s health or safety. If this is a constraint, it should be identified and explored during the feasibility period.

- Direct access to outdoor play space from each classroom is preferred where possible. Where space allows, plan for infant, toddler and preschool play areas to be separate.

- For sites lacking the required outdoor space, providers may explore the possibility of using an adjacent park to satisfy requirements, but they must demonstrate safe operations and plan for use. Providers considering this alternative should consult DEL early on to confirm whether this is in fact feasible.

- DEL regulations for centers and family home providers require the fencing of outdoor play areas. DEL regulations allow for school age programs to have an “identified boundary” if they do not have a fence or boundary. DEL regulations for centers and school age programs do not specify fence heights for center-based providers however home-based providers must have fences that are at least 4 feet tall. Picket fences should be spaced less than 3 inches apart to avoid head entrapment. Chain link fencing is a cheaper but a less secure and thus less preferred alternative.

Assembling Capital Finance

Child care and early learning providers often face difficulties in securing financing for the construction and operation of their facilities. These challenges invariably force providers to rely upon multiple capital equity sources to minimize the amount of debt needed to fill funding gaps. In cases where early learning facilities are built with housing, developer/owners become critical partners in helping to secure debt financing and should ensure they understand the operator’s business model.

Debt & Equity

Debt finance to build out commercial space can be difficult to obtain. Many early learning centers are small businesses with limited ability to carry debt. Capital loans can instead be made to the development partner and underwritten by rents rather than being made to the early learning partner and dependent on operating cash flow. Some early learning subsidy programs will include rent as an allowable expense but not debt service.

Many early learning centers serving low-income families rely upon fundraising and philanthropy for equity capital. However, most lenders have trouble underwriting capital campaigns for the purposes of making a loan.

Developers should choose wisely when considering a construction debt partner. A single construction lender willing to make two parallel loans to both housing and early learning entities is preferable. Find a single general contractor able to manage two construction contracts and requisitions to housing and early learning entities to legally segregate costs.

Work closely with your construction lender to ensure that it can accept commitment from the early learning operator’s take-out financing. If the early learning center will depend on subsidy, such as the Seattle Preschool Program, it will be important to work with the lender to ensure they can properly underwrite the funding commitment. In some circumstances, the early learning center may provide a capitalized lease payment at the commencement of the lease term which may be relied on as the take-out source for the construction loan.

In mixed-use affordable housing developments, it is likely that the developer is utilizing the Low-Income Housing Tax Credit (LIHTC) to attract equity investment. LIHTC proceeds are highly regulated and must be focused on the residential development. However, there are two scenarios in which they can be utilized by developers to assist with early learning center development within the project:

1. If early learning or child care facility is to be used as a community facility for the residents rather than a commercial venture, LIHTC may be used as a development source

2. If the housing units above are to be structurally supported by the shell – which will be the case in virtually all mixed-use buildings – LIHTC proceeds can be used for the development costs of the commercial shell space.

Capital Subsidy Sources

There are a limited number of programs and dollars available in Washington State to subsidize the creation of new early learning facilities. However, new programs are being rolled out currently, and advocates are working to create more. Furthermore, Washington State Department of Commerce is implementing a new early learning facilities fund in 2018-2019.

Public capital subsidy programs bring many requirements, including rules related to procurement, wage rates, design, and operations which must be properly managed to avoid breaking the project’s budget. The 2014 Seattle Preschool Levy allocated $8.5 MM through the SPP Facilities Capacity Building Fund to provide for facilities improvement, expansion, and renovation over the four years of the SPP Levy. Allocations from this fund are made in the form of grants tied to specific commitments to provide SPP
services. Electing to access SPP funding means fulfilling required service commitments to the City of Seattle which include participation in the SPP by any classroom improved using this funding. By extension, participation in SPP requires providers to pay lead teachers in SPP classrooms at a higher rate than non-SPP classrooms, which has created challenges for some local providers. More information on SPP Service Requirements can be found through DEEL’s website. Washington State Department of Commerce will begin providing grants for planning, predevelopment, acquisition, renovation, and/or construction of early learning facilities in 2018 because of 2017 legislation HB1777. These capital subsidies are aimed at helping expand the ECEAP program, and providers will be required both to participate in the ECEAP program as well as the state’s quality improvement Early Achievers Program.\(^\text{10}\)

Some counties and cities may use Community Development Block Grant (CDBG) or other programs to assist. Using CDBG funding for capital finance requires any procurement to be open solicitation and triggers Davis-Bacon prevailing wages\(^\text{11}\). Not adhering to these rules from the very start of the project could cause problems later.

Use of the federal Head Start program for capital subsidy is possible but generally discouraged. Using Head Start subsidy funding also triggers Davis-Bacon wages and procurement approvals of purchases greater than $5,000. It also uses cash accounting, which does not consider depreciation of the real estate assets, fixtures, and equipment.

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11. Davis-Bacon wages: In accordance with the Davis-Bacon Act, contractors and subcontractors working on federally funded or assisted contracts in excess of $2,000 for the construction, alteration, or repair (including painting and decorating) of public buildings or public works, must pay their laborers and mechanics employed under the contract no less than the locally prevailing wages and fringe benefits for corresponding work on similar projects in the area. [https://www.dol.gov/whd/govcontracts/dbra.htm](https://www.dol.gov/whd/govcontracts/dbra.htm)
6. Getting Licensed

Timing is critical to the successful development of an early learning facility, even more so when co-located with affordable housing. The Washington Department of Early Learning (DEL) encourages parties interested in opening an early learning center to plan at least twelve months ahead of the proposed center’s opening date. When undertaking a mixed-use development that combines affordable housing and early learning, space and accessibility quickly become primary factors in site selection. However, these mean little if developers and providers fail to develop a strict timeline that allows for the successful delivery of the proposed development.

Applicants are encouraged by DEL to apply for local permits including Certificates of Occupancy three to six months before scheduled opening. A Certificate of Occupancy must be issued prior to receiving an initial operating license. Applicants should plan to submit license applications three months prior to the scheduled opening of the center. As most centers aim to launch programs on September 1st, June 1st would be the target date for submitting license applications to DEL. License applications can be submitted prior to receipt of Certificates of Occupancy, however they should be submitted to DEL promptly to avoid opening delays. Certificate of Occupancy, licensure and, fire inspections are not always well aligned to school and business cycles, so developers should give themselves plenty of time to resolve any issues that could delay opening. Parents often prefer September 1st start dates for child care programs, thus child care providers are motivated to meet this expectation or risk operating below capacity and losing overall viability.

Under state law passed in 2017, DEL has been mandated to create a process by which projects can be preapproved under existing licensing standards related to facility requirements. The licensing standards accepted in the preapproval will be the same licensing standards that must be met when the project is complete. DEL must review existing licensing standards and eliminate potential barriers to licensing while still ensuring the health and safety of children in early learning programs in the newly created preapproval process. This will enable developers/owners to gain preliminary approval and avoid costly problems typically encountered later in the development process.

Developers should consult with DEL and local agencies early during feasibility to get feedback on plans and again at the end of conceptual design/beginning of schematic design phase. Local jurisdictions and Fire Departments also encourage scheduling consultations early in the development process. Developers are encouraged to meet with land use and building permitting authorities to resolve more complex issues. In situations where unfair bias or lack of cultural understanding are demonstrated by licensing inspectors, developer partners are urged to report incidents to their respective regional DEL administrator. Contact DEL for information on the administrator for your jurisdiction. Developer partners are also free to ask inspectors to cite Washington Advisory Code (WAC) and should consult their architect in resolving contentious design-related licensing matters.

12. See RCW 43.31.567.
7. **Consider Operating Finances**

Escalating operating costs challenge center providers to continuously seek new funding sources. Estimates provided by a Seattle-area early learning operator put operating expenses for center staff at approximately 75 percent of total operating budget while facility maintenance accounted for another 12-15 percent. To maintain viability, child care providers must often mix and match operating subsidy programs with private pay. A longstanding public subsidy contract and good fundraising track record tend to be signs of the most fiscally sound early learning providers. Subsidy programs each come with their own set of requirements. Developer/owners underwriting an early learning business should ensure they possess a thorough understanding of the operator’s business model and structure the relationship to mitigate against the risk of cash flow challenges.

Material needed to assess the financial health of an operator and financial viability of a new center includes:

- Income and Expense Statements for the organization for the last two years
- Audit for the organization
- Copies of any Head Start or other subsidy contracts
- Income and Expense statements for any centers held by separate entities
- Cash flow projection and business plan for proposed center

Developers and providers must also consider how building utilities will be handled as part of general operating costs. Utilities should be separately metered to ensure utility bills are discrete from the start. If a utility is unable to separately meter, the project should install sub-meters to identify actual usage of any utilities that are part of a shared system, such as water, sewer, or gas. The lease or condominium agreement should specify which expenses are included within Common Area Maintenance (CAM), and CAM expenses should be reconciled periodically with a refund or additional bill to reflect actual usage. Common CAM expenses include trash collection, landscaping of common areas, snow removal, taxes, insurance and any shared utilities such as natural gas, water, and sewer.
Early learning providers, developers, architects, and funders participating in workgroups for this report were asked what policy changes in Washington State would ease the creation of new early learning centers. Suggestions included:

1. As part of implementing a new licensing pre-approval process, DEL should include a milestone schedule aimed at minimizing uncertainty surrounding date of license issue. Such a schedule would enable providers with Certificates of Occupancy to resolve outstanding DEL licensing requirements well before September 1st, the typical start date for many early learning programs.

2. Reduce ambiguity around subjective concepts of safety by codifying requirements where possible.

3. Implement staff training to achieve greater consistency and reasonableness in DEL inspector interpretations.

4. Allow greater flexibility for open space size requirements where smaller, denser sites do not permit direct access to outdoor space from classrooms.

5. Create new funding sources that work for mixed-use developments proposing affordable housing and early learning.

6. Prioritize funding for early learning centers that are in high capacity transit areas.
Additional Resources


- We Care: A Guide for Developing Child Care Facilities with Affordable Housing. Bridge Housing Corporation. 2006

- Seattle Department of Construction and Inspections (SDCI)

- DEL Child Care Licensing Rules
  - [https://del.wa.gov/providers-educators/information-providers/del-child-care-licensing-rules](https://del.wa.gov/providers-educators/information-providers/del-child-care-licensing-rules)

- Qualified Census Tracts (QCT) and Difficult Development Areas (DDA) map tool:
  - [https://www.huduser.gov/portal/sadda/sadda_qct.html](https://www.huduser.gov/portal/sadda/sadda_qct.html)

- New Market Tax Credit Program online map tool:
  - [https://www.cdfifund.gov/Pages/cims3.aspx](https://www.cdfifund.gov/Pages/cims3.aspx)

- Opportunity Zones