# A Community Win-Win:
## Co-Locating Child Care with Affordable Housing in San Diego County

CHILDREN FIRST COLLECTIVE SAN DIEGO

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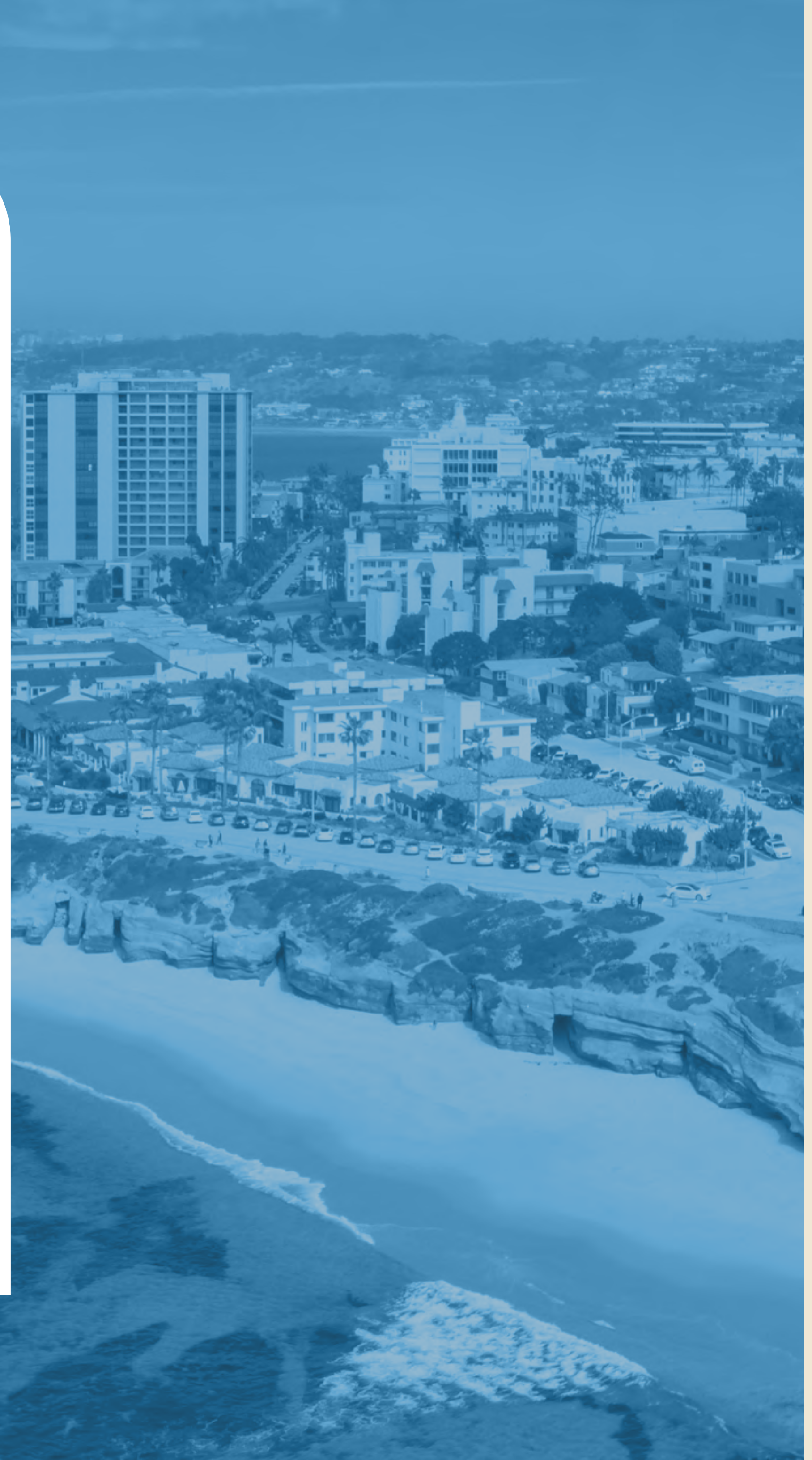
Like many communities across California and the United States, San Diego County's housing and child care challenges are uniquely intertwined. The County needs to add more than 170,000 additional housing units by the end of the decade, and recent estimates suggest that 48% of working parents lack access to a licensed child care slot. Limited supply in both sectors drives up costs. In 2022, San Diego renters needed to earn nearly three times the minimum wage to afford average rent, often forcing families with young children to settle for substandard living or care arrangements as child care for one infant in a licensed center is more than $19,000 per year.

**Intersection of the two issues paints a clear picture: making the San Diego region friendly to children and families requires deliberate, coordinated, and scalable interventions that leverage resources and expertise of both the housing and child care sectors.** Increasingly, local officials and funders have expressed interest in efforts to jointly build supply of housing and child care through co-located developments.

Co-located development is rooted in evidence of what young children and their families need to thrive, but it has broad benefits beyond individual households. In addition to the well-established ways access to stable, reliable child care and housing supports child development and family economic stability, infusing housing and community development resources into the child care sector also opens up new opportunities for the predominantly women- and women of color-owned small businesses that provide most child care across San Diego County. By stretching existing resources further to help with the build out of spaces for child care, individual programs that operate on thin margins can better plan for the future and appropriately compensate their staff. Locating child care facilities within residential developments is also a direct climate resilience intervention, reducing long commutes and increasing abilities of residents to walk, bike, or take public transit to bring their children to care.

Despite promise, challenges persist. Developers and child care providers lack technical support for navigating complex, often misaligned state and local policies governing the two sectors. Added difficulties identifying financial resources for child care facilities projects diminish the County's ability to make co-location the norm rather than the exception. Agencies and policymakers are thinking creatively – as evidenced through the approval of Measure H in the City of San Diego, recent incentives for developers to create space for child care on publicly owned lands, and the establishment of a new County department with a mandate for child and family well-being – but more dedicated focus and resources are needed.

This guide seeks to demystify the child care sector for housing developers, identifying resources, technical supports, and possible solutions to pain points in efforts to co-locate. It is the product of an extensive, San Diego-specific stakeholder engagement and interview process and is meant to be a companion to bold, collective efforts to fulfill our region's promise to future generations of families and children.



# Co-Locating with Center-Based Providers

Center-based child care (CCC) occurs in commercial or educational facilities and typically divides children into groups or classrooms by age. Centers can be operated by for- or non-profit organizations and range in size, some serving 15–20 children across one or two classrooms and others caring for more than 100–150 children across tens of thousands of square feet of space. These programs are regulated by the California Department of Social Services (CDSS) and must meet health and safety requirements to operate. CDSS issues various types of licenses to child care centers that govern the number of adults that must be present in classrooms, the ages of children than can be served, and the space and design of facilities.

**Space requirements |** In California, total licensed capacity of a child care center is a function of the size of the facility: for every child served there must be 35 square feet of indoor space and 75 square feet of outdoor space. However, these requirements do not account for the gross space needed in a facility to make a child care program operational. The table below includes more robust estimates of space needed by providers to accommodate quality learning environments, adult and common rooms, and non-assignable corridors and storage space.

**To set a program up for quality and success, developers should try to identify at least 100 square feet of indoor commercial space per child.**

Outdoor licensing requirements are often sufficient and can be reduced in places where space comes at a premium. Child care providers can generally apply for waivers from CDSS to stagger the number of children who are outside at any point in time. This can allow up to two-thirds reductions in outdoor play space required. A moderately sized center designed to accommodate 75 children would therefore need at least 7,500 square feet of indoor space and 1,876 square feet of outdoor space, plus room for sufficient employee parking and parent dropoff.

**Business sustainability and planning** | Child care operates on uniquely thin margins, and smaller programs can struggle to remain financially viable over time because of high, fixed operating costs. Developers should seek to create at least 5,000–6,000 square feet of indoor commercial space so that eventual child care operators can enroll enough children to be sustainable. Although this may represent more space than a typical commercial tenant requires, accommodating a child care center offers developers a unique value proposition. Child care is an essential service for families with young children, and high capacity providers with robust public subsidy for enrolling low- and moderate-income families can be more stable commercial tenants than other types of businesses that are directly beholden to local market conditions.

**Indoor Square Feet Needed Per Child for Child Care Centers Co-Located with Affordable Housing**

| Quality Level | Primary Activity Space | Secondary Activity Space | | | Adult and Common Space | Non-assignable Space | Total Building Square Footage | | |
|---|---|---|---|---|---|---|---|---|---|
| | All | Infant | Toddler | Pre-K | All | All | Infant | Toddler | Pre-K |
| Minimum | 35 | 50 | 23 | 20 | 15 | 17.5 (25%) | 117.5 | 90.5 | 87.5 |
| Workable | 42 | 50 | 23 | 20 | 18 | 20 (25%) | 130 | 103 | 100 |
| Better | 46 | 50 | 23 | 20 | 22 | 26 (30%) | 144 | 117 | 114 |
| Best | 50 | 52 | 25 | 22 | 24 | 29 (30%) | 155 | 128 | 125 |

Many child care providers rely on a mix of funding streams to cover the cost of operations, and developers seeking to co-locate should be mindful of how different revenues align with affordability levels of the housing they are working on. A purely market rate program, for example, may be too expensive for families living in the building or in the surrounding community, and in certain parts of San Diego County, a Head Start program may be misaligned with affordability limits on workforce housing. The table below compares LIHTC affordability in San Diego County with state child care assistance and Head Start income eligibility criteria, which are set based on state median income and federal poverty levels. Programmatic misalignments across funding streams can diminish the value of co-location and long-term business operations of child care programs, and developers should seek out operators capable of blending various funding streams to meet families at varying income levels.

**2022 Income Eligibility Comparison of LIHTC Units and Child Care Subsidy Programs in San Diego County for a Family of Four**

| Percent of Income Measure | Low Income Housing Tax Credit Units (Area Median Income) | State Child Care Programs (State Median Income) | | Head Start (Federal Poverty Line) | |
|---|---|---|---|---|---|
| | Actual | Actual | LIHTC Unit Comp | Actual | LIHTC Unit Comp |
| 20% | $26,020 | $20,313 | 15.6% | $5,550 | 4.3% |
| 40% | $52,040 | $40,627 | 31.2% | $11,100 | 8.5% |
| 60% | $78,060 | $60,940 | 46.8% | $16,650 | 12.8% |
| 80% | $104,800 | $81,253 | 62.5% | $22,200 | 17.1% |
| 85% | $110,585 | $86,332 | 66.4% | $23,588 | 18.1% |
| 100% | $130,100 | $101,567 | *78.1%** | $27,750 | *21.3%*** |

*To qualify for state child care assistance from the California Department of Social Services, families generally must earn less than 85% of state median income, which for a family of four in 2022 was $86,332 or the equivalent of a LIHTC unit at 66.4% AMI.
**Head Start eligibility is set by the federal poverty line, which for a family of four in 2022 was $27,750 or the equivalent of a LIHTC unit at 21.3% AMI.

**Finding an operator** | When co-location of housing and child care is done well, both developers and operators benefit. The child care program gets access to a high-quality, often affordable space in a community with significant need, and the developer has a long-term, committed partner that provides a public service to residents and the surrounding community. However, the success of these partnerships depends on the planning and preparation done initially by each party to evaluate mission alignment and set clear expectations. For developers, this typically occurs through the following steps:

1. **Assessing Community Need and Exploring the Local Child Care Pipeline** – Though there is not currently an entity monitoring housing and child care development pipelines simultaneously in San Diego County, developers should reach out to the YMCA Childcare Resource Service as the region's Child Care Resource and Referral agency (CCR&R) once they have selected a site to learn more about supply and demand of child care in the local community and for help identifying operators who might be interested in moving or expanding.
2. **Reviewing Mission and Operational Alignment** – Before formally deciding to partner, housing developers and child care operators should ensure they are aligned in mission and target service populations. This should include a discussion of target service populations, program history and track record, secured funding streams, and goals for the project.
3. **Conducting a Financial Evaluation and Determining Lease or Mortgage Affordability** – Both parties should also request and review relevant financial documents from one another, such as income and expense statements, recent financial audits, proformas or cash flow projections for the new space, business plans for the space, and proof of any state or federal contracts to support operations and enrollment of low-income children.
4. **Agreeing to an MOU** – During pre-development, the developer and child care provider should agree to a Memorandum of Understanding (MOU) that establishes the structure and framework for the relationship to advance the project through the LIHTC application process and varying Notices of Funding Availability (NOFA) rounds. The MOU should cover topics of ownership, fit-out responsibilities, financing, lease structure, child care services to be provided, tenant population to be served, and workouts to future challenges.
5. **Assembling a Design and Development Team** – The developer and child care operator should collaboratively support the selection of architects, general contractors, and consultants for the build-out of the child care facility. Experience in child care facilities is an important prerequisite to selection, and early childhood design and capital campaign consultants can help ensure appropriate selections and represent the child care operator throughout these processes.

## Scenario 1: Child Care Center on Coordinated Timeline with Housing

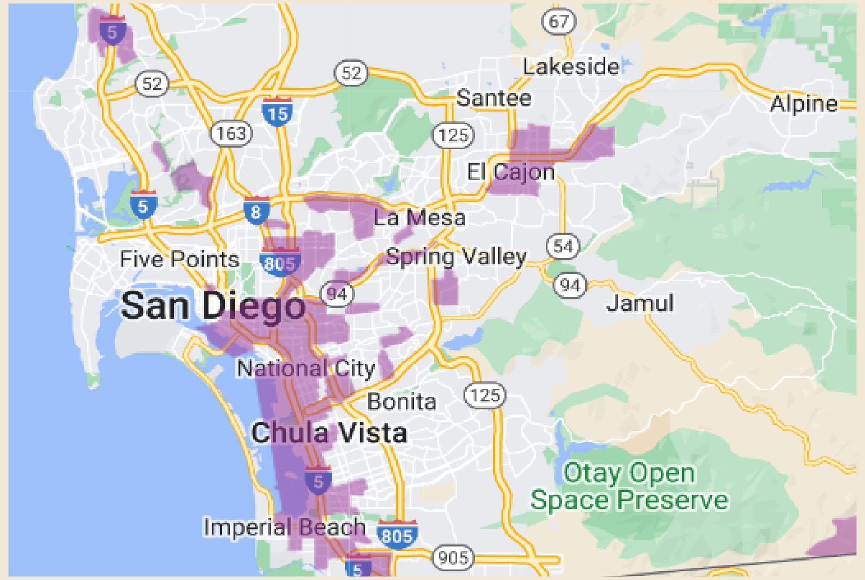
Sometimes developers have a clear interest in co-locating with child care from the onset and seek to establish partnerships with operators during pre-development stages to account for the space needs, building code requirements, and financing of the center in conjunction with that of the housing project. Space, programmatic, and partnership best practices identified above apply throughout this scenario, and developers should seek to identify a partner and assemble their design team as early in the development process as possible.

**Financing and legal structures |** Most affordable housing construction in California and nationwide occurs primarily through equity developers gain from the Low Income Housing Tax Credit (LIHTC) program, with additional support from other state and local affordable housing development subsidies.  LIHTC can be used in innovative ways in this scenario to create commercial space in ground floor or attached space to accommodate a child care center. Three general financing and legal structures for coordinated development of housing and center-based care include:

1. **Construction of the child care center as a Community Service Facility**

The U.S. Department of Housing and Urban Development (HUD) designates certain areas of concentrated poverty as **Qualified Census Tracts (QCTs)[1].** Developers proposing LIHTC projects in these places are eligible for 30% more value in LIHTC equity, and this bonus in construction subsidy can be used to develop Community Service Facilities (CSFs) within eligible tax credit basis. To limit compliance risk, developers often legally structure this type of LIHTC deal as a "master lease," whereby the development company signs a lease to rent and complete the build-out of the commercial space.

**Qualified Census Tracts in Metro San Diego, 2023**




*Shaded census tracts in this map represent federally designated areas of concentrated poverty that may be eligible for additional LIHTC equity that can support the development of child care centers. For a full searchable map of QCTs, visit: [https://www.huduser.gov/portal/sadda/sadda_qct.html](https://www.huduser.gov/portal/sadda/sadda_qct.html)*

CSFs are meant for third parties to use and can serve a mix of residents and non-residents of the development so long as services are affordable to individuals at or below 60% AMI.[2,3,4,5] **Inclusion of child care centers in LIHTC projects as CSFs can fully or mostly cover the build-out of the child care component, in many instances covering 60-90% of the development costs of the facility. For developers using LIHTC equity to cover construction of the child care center as a CSF, it is important to pass on that subsidy to providers in the form of an affordable, long-term lease**. The best case scenario for providers is a nominal fee (e.g., $1 per year) for 30 or more years.

Notably for developers, there are incongruencies in incentives for developing CSFs and state LIHTC incentives set by the California Tax Credit Allocation Committee (CTCAC) in the state's Qualified Allocation Plan (QAP) for disbursing housing construction resources. CTCAC prioritizes developers proposing housing in "High Resource Areas," which are rarely aligned with areas of concentrated poverty like QCTs. In the current context, development of a child care center as a CSF works well for individual sites, but a change in CTCAC regulations that adds scoring criteria or allows for boosts in housing credits to developers proposing to co-locate with a child care center regardless of geography might allow for significant scaling of this scenario.

## The Incentive Trap

There is more demand for LIHTC dollars than there are resources available, so the California Tax Credit Allocation Committee (CTCAC) sets criteria through the Qualified Allocation Plan (QAP) to prioritize developers proposing projects that align most with state priorities. Scoring is highly competitive, and winners and losers are often only separated by a few total points. CTCAC prioritizes developers in "High Resource Areas," which rarely align with areas of concentrated poverty like QCTs. This mismatch shrinks the number of projects eligible to develop Community Service Facilities. A change in CTCAC regulations that adds scoring criteria or allows for boosts in housing credits to developers proposing to co-locate with a child care center regardless of geography might allow for significantly more opportunities to co-locate child care with affordable housing.

[1] A Qualified Census Tract (QCT) is an area where at least 50% of the population is below 60% of the area median income.

[2] CSFs must be available to residents but can be intended for use by non-residents so long as proposed services are affordable to individuals earning 60% or less of AMI.
[3] See IRS Revised Ruling 2003-77: https://www.novoco.com/sites/default/files/atoms/files/rr_03_77.pdf
[4] IRC. Section 42(d)(4)(C)(ii).
[5] See pp. 62-64. Co-Locating Early Care and Education Facilities with Affordable Housing in Oregon (2021). LIIF & ECONorthwest.

**2. Development of the child care center as rentable commercial space**

In areas outside of QCTs, financing the child care component of a co-located development can be more difficult and requires resources beyond the realm of LIHTC and other typical housing development programs. Developers exploring sites not eligible for Community Service Facility construction can still include certain elements of the shell (e.g., walls, wiring and electrical, plumbing, etc.) of a commercial space in LIHTC eligible basis, which can produce some cost savings for the overall facility. Once the shell is developed, a commercial tenant will sign a lease with the developer and complete the furnishing and fit-out of the space. For child care, these development costs can range from $20,000 – $60,000 per child care slot created ($200–600 per square foot).

Developers often underwrite commercial spaces in affordable housing buildings to account for a 30–50% vacancy rate over the lifespan of a program. It is important to consider the reliability of established, high-functioning child care providers, who rarely leave the spaces they occupy if they are high-quality and designed with their needs in mind. Even though child care businesses may have less ability to afford purely market-rate commercial lease terms, slight reductions in rents may be beneficial overall for developers who will be less likely to see turnover in the space.

**3. Development of the commercial space as a legally separate condominium for rent or purchase**

Another option developers often pursue to finance the child care center is to legally separate ownership of the residential components of a building from the commercial space via a condominium declaration. Similar to the development of attached rentable commercial space, developers can include certain components of the shell of the facility in LIHTC eligible basis, but the vast majority of development and fit-out costs must be covered by external sources.

Development of the child care center as a condominium requires some additional planning up-front but can offer added flexibility for developers over the lifespan of a building. This structure allows developers to either rent out the space to a commercial tenant or sell it to a buyer not affiliated with the development company. It also minimizes tax credit compliance risk on residential components of the project and allows developers to earn income from the space.

**Land use and regulatory considerations** | For all types of projects in this scenario, developers must carefully consider whether individual sites are well-suited for mixed-use development and the operation of a child care facility. Although child care and mixed-use development is ministerial and allowed by-right in a growing number of places throughout San Diego County, large swaths of the County still bar or require lengthy conditional use permit (CUP) processes for approval of housing that includes commercial elements like child care, which in some jurisdictions can take 12–18 months to complete. This is a particular challenge for developers in this scenario because the California Tax Credit Allocation Committee (CTCAC) requires that funding proposals have permits in hand before being eligible for LIHTC and other housing awards. This requirement can cause developers to avoid explicitly proposing child care for local review processes and seeking approval for the child care component later, disrupting planning and partnership opportunities.

Developers should review broad municipal and land use codes governing child care centers in their communities to determine additional possible barriers to development. For instance, the City of San Diego restricts the development of child care facilities within 1,000 feet of businesses that contain hazardous materials and flammable gases and liquids, a policy that may make approval difficult in large swaths of the City – particularly places where officials would like to spur development or where significant residential construction is already occurring – because of presence of businesses like gas stations, dry cleaners, and so on. [6]

[6] See City of San Diego Municipal Code §141.0606 Child Care Facilities. Section (c)(1)(A–C).

## Scenario 2: Child Care Center on Staggered Timeline from Housing

Many developers create blank space for commercial tenants in ground floor or adjacent spaces of affordable housing buildings without specific commercial tenants in mind. This scenario operates similarly to planned development for child care as a tenant of rentable commercial space but may have added construction complexities and costs to retrofit a space for child care. High-quality child care spaces have centrally located HVAC and plumbing systems to reduce overhead costs, sufficient windows at child height to support classroom activities and child development, substantial outdoor space and direct exit doors from classrooms to play areas, among other design and construction techniques.[7]

For typical blank slate commercial spaces, these elements may be rare.

However, like the planned rentable space structure in Scenario 1, there may still be aggregate cost savings given the fact that the shell of the facility in this scenario is already constructed. Because the building is already developed, the only costs associated with this form of co-location come from retrofitting the space for the child care provider.  The scenario is also likely to have shorter timelines and less significant regulatory hurdles given that the housing has already been developed as a mixed-use project. Developers should ensure that child care is an allowable use of property at the site, though, and review local building and land use codes as identified in Scenario 1.

Leases in this and other center-based scenarios are often structured as triple-net (NNN), a common commercial real estate tool requiring the child care provider as a tenant to pay base rent along with property taxes, building insurance for the space, and common area maintenance (CAM) costs. Full-service leases can also be used, whereby the child care provider pays a base rent, and the developer is then responsible for covering the expenses of maintaining and operating the commercial space.

**Timelines and Support Resources** | The timeline below is organized around driving questions and key resources and support organizations available to help developers co-locating with child care centers throughout the development process.

[7]For more information on design, see LIIF's Quality Environments for Children: A Design and Development Guide for Child Care and Early Education Facilities.

## Other forms of financing beyond LIHTC

Unlike with affordable housing construction, no equivalent of LIHTC exists for the development of child care facilities. This means developers and providers must often be creative in identifying pieces of their capital stacks to support the construction and build-out of commercial facilities. Although processes can be cumbersome and competitive, some other sources of capital that can be used for construction of child care facilities include: New Markets Tax Credits (NMTC), Community Development Block Grant (CDBG) awards, California's Child Care and Development Infrastructure Grant Program, US Department of Agriculture (USDA) rural facilities loans, and grants and loans from philanthropic organizations, Community Development Financial Institutions (CDFIs), and banks.

| | Site assessment & pipeline review | Forming a partnership | Entitlements & financing | Finalizing design | Construction | Opening & start-up |
|---|---|---|---|---|---|---|
| Scenario 1 | 0-6 months | 3-6 months | 6-18 months | 2-3 months | 18-36 months | 6-12 months |
| Scenario 2 | 0-3 months | 0-3 months | 0-6 months | 2-3 months | 6-18 months | 6-12 months |
| **What to Ask** | Is mixed-use development and child care allowed by-right? By conditional use?<br>Does the site have a community plan in place requiring provision of child care?<br>Is there sufficient space to accommodate indoor and outdoor square footage requirements?<br>Is the site eligible for any extra incentives? | Which possible partners have co-located before? Have any completed successful facilities projects or capital campaigns?<br>Which possible partners best aligns with my mission as a developer?<br>Will there be any mismatch in housing eligibility and child care eligibility? | How much will it cost me to develop the child care center after factoring in what I can include in eligible basis?<br>Where can I find gap financing?<br>Can my partner afford debt? Do they qualify for facilities funding that I might not qualify for? | Have I sufficiently consulted with my child care partner to ensure design of the facility matches their vision and operating realities? | How often am I meeting with my child care partner throughout the development process?<br>What processes are in place for responding to challenges or delays during construction? | Does my child care partner have sufficient support for start-up expenses? If not, can I help?<br>Can I support outreach and marketing for the new program? |
| **Where to look for help** | CDSS Child Care Licensing Division<br>County of San Diego Child and Family Well-Being Department<br>Municipal Planning Department<br>YMCA Childcare Resource Service<br>Children First Collective San Diego | Child Care and Development Planning Council<br>Children First Collective San Diego<br>YMCA Childcare Resource Service | Local or regional child care facilities funders (e.g., San Diego Community Foundation, CDFIs like LIIF and LISC San Diego) | California Department of Social Services Child Care Licensing Division | Child Care Partner<br>Children First Collective San Diego<br>Municipal Planning Department | Child Care and Development Planning Council<br>Children First Collective San Diego<br>YMCA Childcare Resource Service |

**Scenario 1**: Child Care Center on Coordinated Timeline with Housing

**Scenario 2**: Child Care Center on Staggered Timeline from Housing

# Co-Locating with Family Child Care Homes

Family Child Care (FCC) takes place within the homes of individual providers and typically serves between 4 and 14 children per home depending on the size of license a provider has. FCCs are regulated by the California Department of Social Services (CDSS), but state law classifies this type of business as residential use of property, exempting programs from often onerous additional business licensing fees and land use policies that may make mixed-use development challenging.[8] The 2019 Keeping Kids Close to Home Act mandates that licensed FCC of any size be allowed by-right in any residentially zoned neighborhood, whether the housing a provider lives in is a single-family home, duplex, or multifamily apartment building. Homes must still comply with basic health and fire safety requirements, and in order to obtain a large FCC license, a home must have at least two exits leading directly outside.

[8]See California Senate Bill 234 (2019) and Know the Law About Zoning and Business Protections for Family Child Care Homes in California. (n.d.). Child Care Law Center.

About 32% of children enrolled in licensed child care programs in San Diego County are served in FCC programs. They are attractive to parents because they are often more affordable than center-based care, more likely to care for infants, based in smaller settings that tend to be closer to home, typically are able to accommodate after-hours or non-traditional hours care, and allow for siblings of different ages to receive care in the same setting.

FCC is well-suited for intentional co-location with affordable housing. Home-based child care providers are among the lowest compensated professionals nationally, and many meet income requirements to qualify for affordable housing. Supporting FCC providers offers developers multiple benefits: it reduces housing costs for essential workers, supports outcomes of children and families living in their buildings, and can help low-income tenants launch and grow businesses. It also can require less planning and resources than co-location with centers because FCC is fundamentally residential. Developers can typically include costs of the homes in tax credit basis just as they would developing a typical unit of housing. Costs of minor design tweaks and situation of FCC units require minimal additional costs, particularly when only applied to one or two units.

**Best practices in design of FCC units tend to include the following criteria[9]:**

1. **Expanded indoor floor plans** – Children served in FCCs benefit from having ample room to play individually, participate in group activities, or rest. For units designated as FCCs, developers should seek to allocate at least 50 square feet per child of usable play space to ensure quality of care.
2. **Durability of materials and appliances** – Spaces that serve children may wear and tear faster than normal living spaces. Developers may want to select higher quality and easier to clean materials and equipment to reduce maintenance issues later, such as granite or quartz kitchen counters and wood or tile flooring in play space.
3. **Noise and insulation** – In selecting materials for FCC units, developers may also seek to add insulation and sound-absorbing elements to reduce background or street noise in the program space. Particularly for FCC providers that serve infants, having cozy, quiet space is critical.
4. **Separation of living and care spaces** – Where possible, FCC units should allow some separation of living spaces and areas where children will be served to reduce burnout among providers and ensure business sustainability. For example, attaching a bathroom with child-sized fixtures directly to play areas can help providers mark off personal spaces from those related to the program. Beyond floor plans, home design should also include plans for extra storage space to ensure sleeping cots, toys, and other materials can easily be put away at the end of the day.
5. **Lines of sight and sound** – Units should be as open as possible to ensure providers can effectively supervise

[9]See Including Family Child Care in Affordable Housing: Policy, Design, and Financing Considerations (2022). LIIF.

children while they cook, take individual children to the bathroom, supervise during naptime, or do laundry. Partitions in FCC homes should be shorter than those in typical homes to ensure sight lines across rooms or spaces, especially the kitchen and living room or program area.

6. **Natural light and ventilation** – FCCs should be in corner units or homes that receive ample sunlight. At least some windows should also be positioned at child-height or be in places where providers could install safe platforms or lofts for children to look outside. If possible, windows should also be able to open to bring fresh air and ventilation into the program space when appropriate.
7. **Easy exits and fire safety** – Developers should seek to strategically place child care units on the ground floor so that they have at least two doors with direct outdoor access and clear exit plans in case of fires or other emergencies.
8. **Engaging and accessible outdoor areas** – Beyond compliance with basic fire safety protocols, FCC units should be located so that providers can seamlessly incorporate outdoor learning and play activities into their programs. In multi-family buildings where outdoor space may be at a premium, developers may consider allowing providers to reserve common spaces or building playgrounds during certain times of the day, and small private patios or courtyards should be made available immediately off the child care units. Especially in places with harsh weather and high temperatures, adding shade structures to both private and shared outdoor play spaces is also critical.

The two typical scenarios for co-locating with FCC come with significantly different approaches for financing, finding providers to partner with, and legal considerations, as addressed below.

## Scenario 3: Family Child Care Home(s) on Coordinated Timeline with Housing

In this scenario, developers take deliberate steps during design and pre-development stages to identify one or two units in a multifamily LIHTC building to designate for FCC providers. Units are typically 2-4 bedrooms, have at least two bathrooms, and are located on the ground floor with direct access to private or shared outdoor play areas. FCC units also tend to have more square feet in living and dining areas or are attached to an additional room meant to be used for flexible indoor play space. Because these changes only apply to a couple of units in the planned building, additional costs are marginal and can usually be covered in LIHTC eligible basis or by developers themselves using developer fees or very small gap financing mechanisms.

Once a building nears construction and developers launch the leasing process, they typically create two separate applicant pools: one for ranking all applicants based on income and other general tenant selection plan preferences and another for ranking those who identify as licensed FCC providers. Once the highest ranking FCC providers are assigned to units, those remaining in the child care pool are moved to the general tenant selection waiting list and assessed against all applicants.

Importantly, to ensure compliance with fair housing regulations, the FCC units cannot be set aside or only available to providers.[10] If no qualified individuals with FCC businesses apply, the child care units must be rented to the next eligible individual from the general waiting list, regardless of whether they intend to provide child care. FCC providers must also meet household size requirements outlined in the tenant selection plan and may not receive special approval to occupy a larger unit than needed. For instance, if a tenant selection plan had a minimum mandated ratio of one person for every one room, an otherwise qualified FCC provider with a two-person household would not be eligible to rent a three-bedroom unit.

Individuals selected to rent the FCC units in this scenario usually have addenda in their lease agreements stipulating that they must begin to operate their business shortly after occupying the unit. Additional language may be included to justify transferring the individual to a vacant, non-FCC unit in the building if they lose their license or choose to stop operating their business. Lease agreements for LIHTC units also usually require that residents verify their incomes with property managers annually. So long as the tenant qualified for the unit during lease-up, though, they cannot be evicted later for exceeding income eligibility. Monthly rent payments can increase – but are still required to be affordable to tenants – as incomes increase up to 140% of the area's current median income levels, which in San Diego County in 2022 was more than $182,000 for a four-person household. If a tenant exceeds 140% of AMI for their household size, building owners can usually then begin to charge "fair market rent" on the unit, but rates must be pre-published and are often still more affordable than units in nearby, nonsubsidized buildings.

[10]Note: Sections of this guide covering fair housing laws and federal tax credit compliance are meant to be general guides and should not be construed as legal or tax advice. Developers should consult with attorneys to ensure projects comply with all federal and state laws.

## Scenario 4: Family Child Care Home(s) on Staggered Timeline from Housing

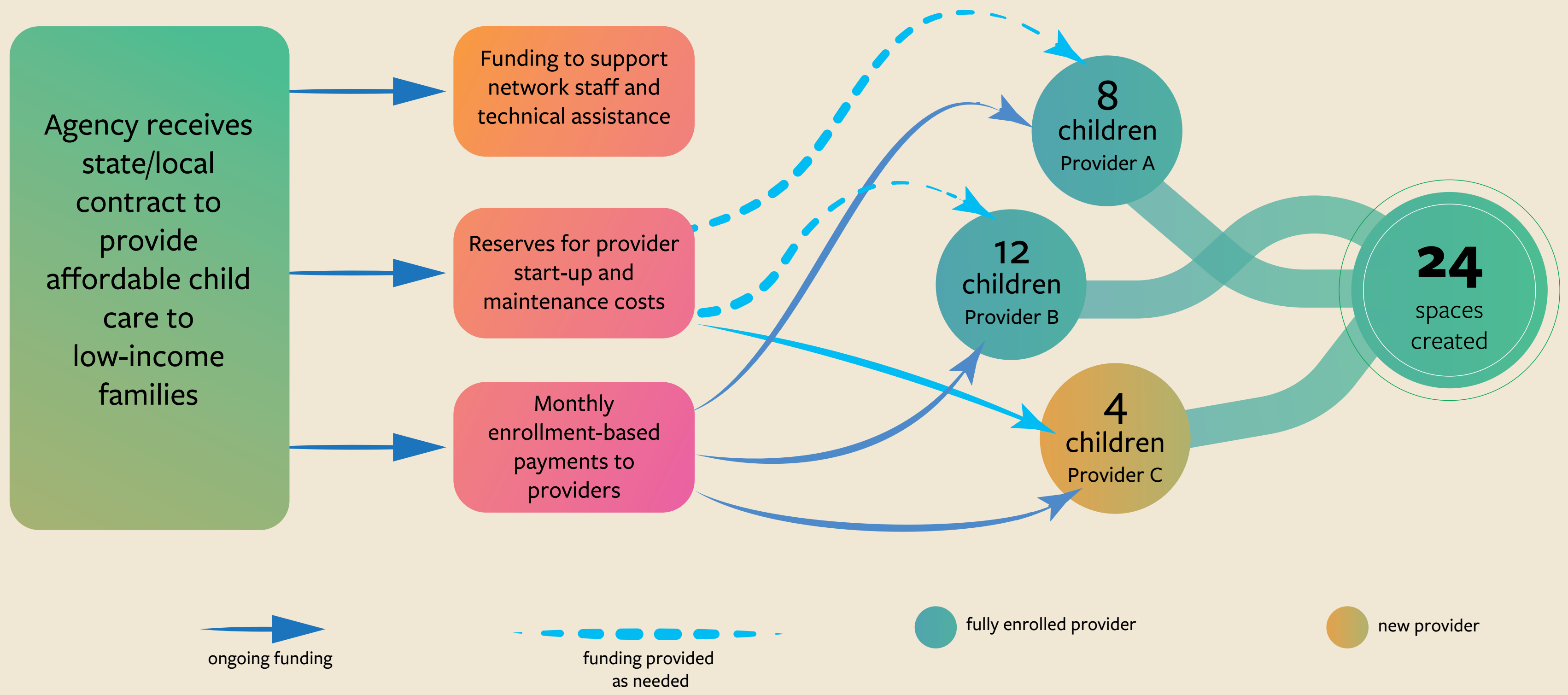
Most affordable housing was not intentionally designed with child care in mind. Regardless, almost every building where low- and moderate-income families live likely has some type of formal or informal care for young children occurring in the homes of residents, often referred to as Family, Friend, or Neighbor (FFN) child care. And a [recent report] from the RAPID Survey Project demonstrates considerable need for stable, affordable housing for FFN child care providers. Therefore, another form of co-locating FCC with affordable housing can occur after a building is constructed and units are filled.

Like Scenario 3 presented above, the housing itself in this scenario is typically built using LIHTC equity and other affordable housing construction resources, but without as many of the design or legal considerations during planning and lease-up. Although design tweaks to units to accommodate FCC providers are helpful to providers and can bolster program quality, the fundamentally residential nature of FCC means that licensed care can occur in most homes so long as there is sufficient floor space and proper outdoor exits. Therefore, developers can construct a typical family-oriented, rental building and intervene to help residents become licensed child care providers after lease-up. The most interested residents tend to be active FFN providers living in the building, or those who may have young children of their own and are unemployed or underemployed because of difficulties finding and affording care.

This scenario is most effective when nonprofit developers are part of larger social service agencies, or when standalone developers partner with a Staffed Family Child Care Network or Shared Services Alliance. Staffed FCC networks have dedicated personnel who provide services and technical assistance to a group of FCC providers in a city or neighborhood to help them get licensed, maintain steady enrollment, and ensure program quality. Shared services alliances do much of the same but tend to help more with essential business functions, allowing very small businesses to outsource things like accounting, personnel management, billing, and so on. In California, these types of umbrella organizations can qualify for child care subsidy programs that lower tuition costs for families.

The **graphic below** represents how a developer-supported FCC network operates in practice.[11] In the example, Provider C has been newly recruited and recently completed licensing. She receives a regular monthly payment from the FCC network for the four children she enrolls, as well as a guaranteed stipend to support one-time startup expenses such as toys and child-sized furnishings, a subscription to a budgeting software, a laptop, and so on. After a few months, Provider C may begin to look more like Providers A and B, increasing her enrollment and receiving periodic maintenance stipends from the FCC network. FCC network staff provide ongoing support to all three providers to ensure they are fully enrolled and able to provide high-quality child care. The developer has helped create legitimate businesses and pathways to economic wellbeing for three of its low-income households and is supporting dozens of other residents with affordable child care opportunities close to home.

### Sample Developer-Supported Staffed Family Child Care Network




[11]This graphic was originally developed for LIIF's 2022 report, Including Family Child Care in Affordable Housing: Policy, Design, and Financing Considerations.

**Timelines and Support Resources** | The timeline below is organized around driving questions and key resources and support organizations available to help developers co-locating with family child care homes throughout the development process.

| | Design & planning | Financing | Finding providers | Program Start-up & construction |
|---|---|---|---|---|
| | 0-6 months<br>0-2 months | 6-18 months<br>0-1 month | 0-6 months<br>0-3 months | 0-3 months<br>0-6 months |
| **What to Ask** | • How many ground floor units will I have?<br>• What tweaks can I make to a few units to help a child care provider?<br>• Do the child care units have two direct outdoor exits?<br>• If I have already leased the building, can I easily retrofit any units for child care? | • How much will it cost to tweak designs to accommodate providers?<br>• Can I include additional costs in eligible basis? If not, where will funding come from? | • Can I collaborate with a Family Child Care Network or other support organization to recruit and train providers?<br>• Have I developed any relevant lease addenda and processes for lease-up?<br>• Do property managers understand child care regulations and income review processes? | • How will I inform other residents of the program(s), and can I help with marketing and recruitment of families? |
| **Where to look for help** | • CDSS Child Care Licensing Division | • Local or regional child care facilities funders (e.g., San Diego Community Foundation, CDFIs like LIIF and LISC San Diego) | • Chicano Federation<br>• Price Philanthropies – STEPS Program<br>• UDW/CCPU<br>• YMCA Childcare Resource Service | • YMCA Childcare Resource Service<br>• Community Planning Group |
| | **Scenario 3**: Family Child Care Home(s) on Coordinated Timeline with Housing | | **Scenario 4**: Family Child Care Home(s) on Staggered Timeline from Housing | |

# Challenges and Opportunities in San Diego County

Major inhibitors to co-location in San Diego County generally fall into one of three buckets: costs and financing, regulatory misalignment, and matchmaking and technical assistance. Clarity about these barriers outlines a roadmap for incentivizing and streamlining future affordable housing developments that incorporate child care. This section includes brief overviews of challenges in the county and presents opportunities for change.

## Costs and Financing

Resources for developing child care facilities are limited, and thin operating margins the sector relies on make qualifying for debt financing or affording market-rate leases difficult. Such challenges can deter developers from considering child care as a viable partner or tenant, particularly center-based providers seeking commercial space that can cost $20,000 – $60,000 per child care slot to construct.

### *Momentum and Areas for Growth*

- **Public lands for development:** Public agencies across the San Diego County region are increasingly taking stock of excess or underused lands and properties that could be redeveloped for housing, transit, child care, or other public goods. The San Diego County Office of Housing and Community Development and the San Diego Metropolitan Transit System (MTS) have both recently issued Requests For Proposals (RFPs) from developers for sites to build on with nominal or no acquisition or ground lease costs. With incentives and scoring criteria prioritizing proposals that plan to add child care, public assets can be used to jointly build housing and child care supply.

- **Mission Driven Finance's CARE program:** The Care Access Real Estate Investment Trust (CARE) that will launch soon in San Diego County is an initiative by Mission Driven Finance (MDF) to purchase commercial and residential properties, lease them to center- and home-based child care providers at affordable rates, and eventually transfer ownership from MDF to providers through a share of the equity accruing on the home over time. This program is well-suited for co-location with center-based providers, particularly for developers seeking to develop and sell commercial space as a condominium.

- **Public and philanthropic revenue generation:** Diverse funders across the San Diego region are actively considering their roles in supporting co-located developments. Both the County and City of San Diego have considered whether Community Development Block Grant (CDBG) funds can be used to support the build-out of child care facilities. Further development of a pipeline of projects could help agencies make awards to qualifying, shovel-ready child care projects that are co-located with housing and avoid tight federal timelines for use of funds. The Build Better SD initiative in the City of San Diego to more equitably share more than $200 million in unused development impact fees and the San Diego Foundation's Regional Housing Impact Fund, which seeks to support the development of 10,000 affordable housing units, both also offer opportunities to support child care facilities projects in housing developments.

### *Other Policy Solutions*

- **Create dedicated County and municipal fund(s) for child care facilities development**. With reliable, ongoing grants and affordable debt financing available for the acquisition, renovation, expansion, or construction of child care facilities, developers and providers could more easily commit to partnerships and create new, high-quality spaces for child care.

- **Identify areas of partnership with other funders, particularly CDFIs, banks, and large employers.** Community Development Financial Institutions (CDFIs) and banks can be important financiers of affordable housing projects and child care facilities, particularly through required activities of the Community Reinvestment Act (CRA). County officials could usher in new capital to both sectors with training for lenders and direct requests for low-cost debt and gap financing from the private sector to support co-located facilities. Public officials may also be able to identify ways for large employers – such as the United States military and biomedical and life sciences – to jointly support their employees and community housing and child care projects with investments in facilities or operating supports for providers.
- **Consider the County's ADU Finance Program as a tool for building supply of Family Child Care.** As the County of San Diego seeks to build supply of missing middle housing through its Accessory Dwelling Unit (ADU) Finance Program, funders should consider ways to package small grants with the $200,000 loans already available for homeowners seeking to create ADUs that can accommodate FCC providers.

## Regulatory Misalignment

Housing developers are uniquely sensitive to timelines, and even minor delays in land use reviews, permitting, and construction can stall ongoing or planned developments in a pipeline. Plans to add child care to a housing development project can bring new regulations and agencies into the mix, often deterring developers because of actual or perceived timing delays and added costs.

### *Momentum and Areas for Growth*

- **Expediting housing permitting timelines**: In early 2023, City of San Diego Mayor Todd Gloria signed an executive order directing City agencies to approve affordable housing projects within 30 days, a considerably expedited timeline from the 6 months it takes to currently have such proposals approved. This work could pave the way for similar efficiencies in review of mixed-use projects.
- **Creation of the County of San Diego Child and Family Well-Being Department:** The County of San Diego formally established the Child and Family Well-Being Department in the Health and Human Services Agency in February 2023. This new agency will support the rollout of the County's Child Care Blueprint and long-term vision of the Child Care and Development Planning Council with support from a team of full-time staff members. There is clear momentum for these positions to liaise with other agencies in support of mixed-use, co-located development as the County undergoes reorganization.
- **Facilitating denser housing construction:** San Diego was one of just six communities across California to earn a Prohousing Designation from the state Department of Housing and Community Development (HCD) because of plans to upzone certain areas for construction of denser housing and use of density bonuses to support affordable housing construction. Despite progress, more than 80% of land in San Diego County remains zoned only for single-family residential development. Jurisdictions throughout the County can make co-located development easier by carrying forward recent success in planning efforts by making dense housing and mixed-use development easier and faster through updates to zoning and land use codes. The City of El Cajon offers additional density bonuses beyond those provided through the State's Density Bonus Law for inclusion of child care facilities as part of development projects.
- **Regional planning efforts and climate action**: Policymakers in California and San Diego County continue to identify methods for prioritizing development projects for incentives and funding based on the ways in which proposals mitigate or respond to growing issues of climate change. Programs like the state Affordable Housing and Sustainable Communities (AHSC), for example, prioritize communities and projects based on anticipated reductions in Vehicle Miles Traveled (VMT). The San Diego Association of Governments (SANDAG) sets regional planning priorities based on VMT projections, and momentum in this area should include projections and analysis of ways in which reduced commutes to and from child care supports overall climate goals.

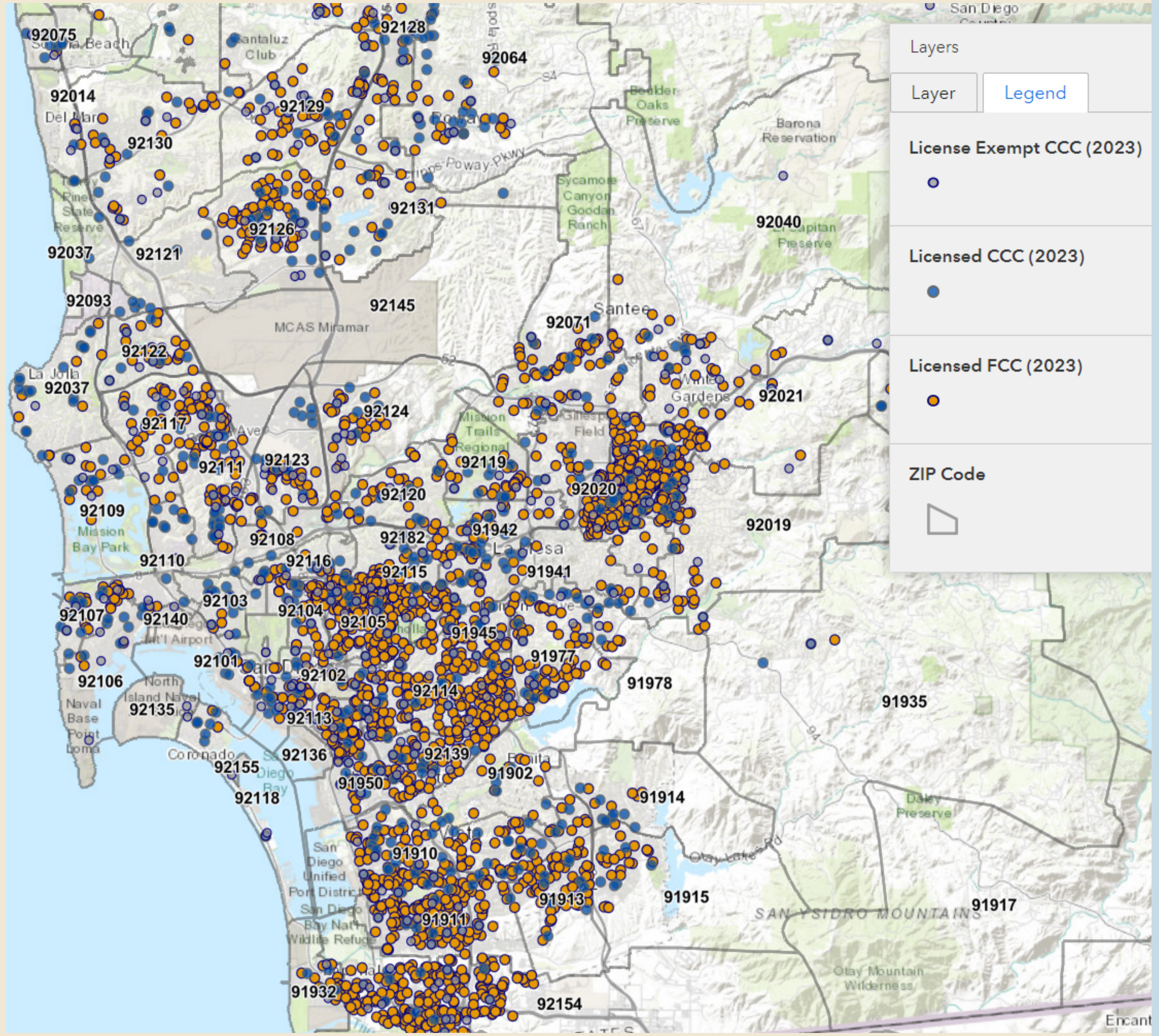
### *Other Policy Solutions*

- **Allow child care facilities and mixed-use development by-right in more places and seek out ways to reduce conditional use permitting timelines for co-located developments**. Without entitlements for a development in hand, developers are often unable to apply for state affordable housing financing. This is an obvious area for regulatory efficiency, and municipalities throughout the County would be well-served to identify more ways to promote mixed-use development – particularly that which proposes child care – with minimal and expedited review processes**.** In addition to adding 12-18 months to development timelines, fees associated with obtaining a conditional use permit, business license, and other relevant approval can cost up to $14,000, a major barrier to child care programs that struggle to secure start-up dollars.
- **Forge partnerships between planning, building, fire, and child care licensing agencies with navigators and dedicated staff.** Such efforts have been successful in the City of Oceanside, for example, where a streamlined Child Care Facilities Permit was created to ease the process for providers and developers seeking permits and reviews from various local agencies. Oceanside has also waived fees for processing applications and appeals for the Child Care Facility Permit.

Matchmaking and Technical Assistance

Many developers have general interest in co-locating with child care but are deterred from doing so because they do not know where to look for providers interested in expanding or for technical help throughout the development process. This can prevent efforts to co-locate from starting at all or threaten the financial viability of partnerships.

*YMCA of San Diego County Child Care Supply Map*




*Momentum and Areas for Growth*

- **Assessing sites for co-location with EDC Mapping Tool:** The San Diego [Regional Economic Development Corporation](#) (EDC) will release a new mapping tool in 2023 that could help facilitate partnerships between housing developers and child care providers. The tool maps existing supply of licensed child care facilities against local housing pipelines, city- and county-identified sites for development of child care, and other key metrics. Developers and technical assistance providers in the County could use the tool, in addition to the YMCA Child Care Resource and Referral's [supply mapping tool](#), when beginning to assess feasibility of projects and looking for partners to co-locate with.

## Momentum for Co-Location at the State and Federal Levels

State and federal government can play an important role in supporting local efforts to build supply of child care and create opportunities for partnership with affordable housing developers. Recently proposed national and state legislation that would aid efforts in San Diego County include:

- **Build Housing with Care Act** (introduced by Rep. Suzanne Bonamici, Oregon): A bill that would invest $500 million in the build-out of co-located child care facilities nationally over 5 years.
- **California Senate Bill 352** (introduced by Senator Steve Padilla): Using an updated living wage methodology, this bill would set an hourly rate all workers must make to afford basic housing.
- **California Assembly Bill 1287** (introduced by Assemblymember David Alvarez): This bill would amend California's Density Bonus Law to encourage developers to create both affordable and middle-income housing with approvals of denser development proposals.
- **California Assembly Bill 835** (introduced by Assemblymembers Alex Lee, Christopher Ward, and Scott Weiner): This bill instructs the California State Fire Marshal to research and propose construction standards for certain single-exit, single stairway multifamily residential buildings.

- **Chicano Federation's Family Child Care Network:** The Chicano Federation has expertise in both child care operations and property management of affordable housing, and could be uniquely suited to work with housing developers in San Diego County to support co-location with Family Child Care providers. Chicano Federation staff already manage an FCC network that helps both licensed and unlicensed home-based providers with operations, business training, start-up costs, enrollment and accessing state subsidy programs. More coordination between networks like this one and the affordable housing community could expand supply of licensed FCC in affordable housing throughout the County.

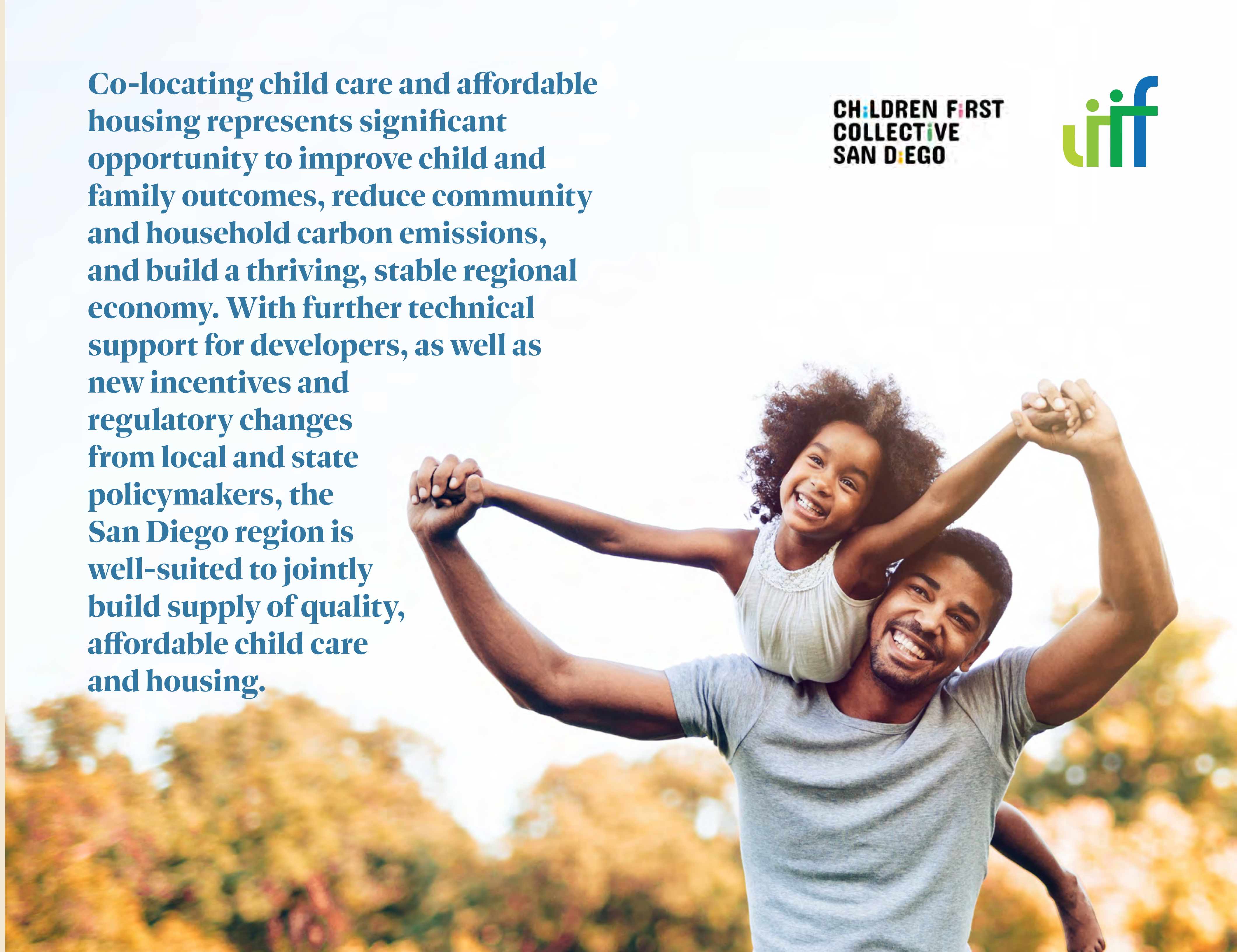
*Other Policy Solutions*

- **Create a child care facilities pipeline coordinator position in a County agency or partner organization.** As the County of San Diego continues to examine its role in the development of child care facilities, having a dedicated staff or team to provide technical assistance to developers, track and monitor development pipelines, and help providers find resources to navigate complex state and local systems would significantly expand capacity. Riverside County recently created a position for this purpose in its First 5 agency, and the City of Los Angeles is building a team to support child care facilities projects.

- **Expand on progress made through the City of San Diego's Measure H to identify publicly and privately owned spaces suitable for child care.** Developers commonly cite challenges related to attracting and maintaining commercial tenants in affordable housing developments. Taking stock of these spaces in coordination with the development of a local pipeline of operators ready to expand could facilitate quick, shovel-ready spaces for co-location in developments where commercial shells already exist and permitting and land use review processes are likely minimal.

- **Identify a core set of contractors, architects, and other technical experts to support nuanced design and construction of co-located child care facilities**. Co-locating affordable housing and child care requires some specific architecture and design and general contractor qualifications that developers do not typically seek out. In nearby Riverside County, the First 5 agency recently worked with Abode Housing to commission a set of sample architecture schematics to help architects of record on co-located projects understand best practices in design and planning. Pairing these types of resources with a pool of vendors with expertise in various components of co-located development could streamline processes and ensure quality.





**Co-locating child care and affordable housing represents significant opportunity to improve child and family outcomes, reduce community and household carbon emissions, and build a thriving, stable regional economy. With further technical support for developers, as well as new incentives and regulatory changes from local and state policymakers, the San Diego region is well-suited to jointly build supply of quality, affordable child care and housing.**

CHILDREN FIRST COLLECTIVE SAN DIEGO