

ANALYSIS

Item 29: Housing and Community Services Department Early Learning Affordable Housing Co-Location Pilot

Analyst: Michelle Deister

Request: Allocate \$10,000,000 General Fund from a special purpose appropriation made to the Emergency Board for a grant program that supports gap financing for affordable housing rental projects co-located with child care or early learning centers.

Analysis: HB 5011 (2021) included a \$10 million special purpose appropriation to the Emergency Board for a program to provide gap financing for affordable housing projects co-located with child-care or early learning centers. Further, a budget note required the Housing and Community Services Department (HCSD) to report to the Joint Committee on Ways and Means on a programmatic framework, which the agency did in February 2022. HCSD contracted with the Low-Income Investment Fund and ECONorthwest to perform an analysis and formulate recommendations for program design. The report recommended that the funds be administered by a Community Development Financial Institution, which will evaluate and select proposed projects that meet specified criteria, pursuant to the report that is linked to HCSD's request letter.

Program design assumes that 50% of available funding will be allocated for low-interest loans and 45% will be available for grants that can be used for co-located early childhood education (ECE) facilities-related costs, with per-project caps. The remaining 5% of funding would allow for family child-care repair and renovation grants.

HCSD estimates that approximately 10% of funds would be needed for administration and expenses associated with initiating the program, building community and investor contacts, philanthropic fundraising, providing technical assistance, publicizing the funding opportunity, evaluating proposals, awarding funds, and monitoring results. HCSD is currently in the process of crafting a request for proposal for a third-party program administrator, which is expected to be released in early fall of 2022. HCSD notes that Washington administers a program utilizing a similar third-party administrative framework (called WellFund) and cites this as evidence of the viability of both concept and market for the financial products that would be offered.

Recommendation: The Legislative Fiscal Office recommends that the Emergency Board allocate \$1,000,000 General Fund from the special purpose appropriation made to the Emergency Board to the Housing and Community Services Department for administrative expenses associated with program start-up for a grant program that supports gap financing for affordable housing rental projects co-located with child care or early learning centers, and that the Housing and Community Services Department return to the Emergency Board to request remaining funds when a third-party program administrator has been selected and solicitation for project proposals is ready to proceed.

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Housing and Community Services Department
Webb

Request: Allocate \$10.0 million from the Special Purpose Appropriation made to the Emergency Board to fund a grant program that supports gap financing for affordable housing rental projects co-located with child care or early learning centers.

Recommendation: Approve the request.

Discussion: House Bill 5011(2021) included a \$10.0 million Special Purpose Appropriation for the Oregon Housing and Community Services Department (OHCS) for a pilot program that provides grant funds for gap financing related to early learning or child care centers co-located with affordable housing projects. OHCS developed a proposed framework, in collaboration with the Oregon Department of Education’s Early Learning Division, to implement the Colocation of Affordable Rental Housing and Early Care & Education program and submitted its report to the Interim Joint Committee on Ways and Means in February 2022.

Based on the proposed framework, funds will be split into three categories:

- \$5.0 million to seed a low interest loan fund for pre-development, acquisition or construction costs, among others, of early learning and education facilities residing on the same sites as affordable rental housing projects.
- \$4.5 million to fund a grant pool for pre-development, acquisition or construction costs, among others, of early learning and education facilities residing on the same sites as affordable rental housing projects.
- \$0.5 million for family child care and renovation grants to fund the cost of improving an indoor or outdoor space of an existing affordable rental housing unit for a Family Child Care provider.

OHCS intends to use a third-party Community Development Finance Institution (CDFI) to administer the pilot program, distribute program resources, provide reporting on metrics and program evaluation, and offer technical assistance. The selected CDFI will leverage state funds with private and philanthropic investments, at a projected one to one ratio, to expand the reach of the program. OHCS estimates the cost of administering the program will be approximately 10 percent.

A request for proposal (RFP) process will be initiated in the Fall 2022 and the third-party CDFI contractor will be selected 30 days after the RFP submission deadline. Once funds are transferred from OHCS to the third-party CDFI contractor, the program is expected to begin distributing funds to recipients within six months.

Legal Reference: Allocation of \$10,000,000 from the special purpose appropriation made to the Emergency Board by chapter 556, section 8(1), Oregon Laws 2021, to supplement the appropriation made by chapter 556, section 1, Oregon Laws 2021, for the Housing and Community Services Department, for the 2021-23 biennium.



Oregon

Governor Kate Brown

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May 2nd, 2022

Senator Peter Courtney, Co-Chair
Representative Dan Rayfield, Co-Chair
Joint Emergency Board
900 Court Street NE
H-178 State Capitol
Salem, OR 97301

Dear Co-Chairs:

Nature of the [Emergency/Request]

The Oregon Legislature allocated \$10 million in a Special Purpose Appropriation, through House Bill 5011 (2021), to be released to the Housing and Community Services Department (OHCS) upon development of a comprehensive study and a pilot proposal, in cooperation with the Department of Education, Early Learning Division, for a grant program that supports gap financing for affordable rental housing projects that are co-located with childcare or early learning centers.

The Co-location of Affordable Rental Housing and Early Care & Education (CARE) development framework is attached to this letter, and the full study can be reviewed [online](#).

OHCS requests that the Emergency Board release the \$10 million special purpose appropriation to implement the CARE development framework.

Agency Action

OHCS commissioned a report to identify opportunities, considerations, partnerships, financing options, and funding sources that should be incorporated into a potential competitive funding opportunity for rental housing developments that include childcare or early learning centers. OHCS submitted the final report to the Interim Joint Committee on Ways and Means in February, 2022 as required by HB 5011 (2021).

Drawing from the recommendations in the report, program staff have prepared the attached framework to deploy the \$10 million in special purpose appropriation funds. Agency staff are developing a Request for Proposals (RFP) as recommended by federal experts in the complex intersection of affordable housing and early learning and care. The attached framework includes

additional information on strategies OHCS plans to utilize to leverage private funds with this modest state investment.

Action Requested

OHCS is requesting that the Emergency Board release the \$10 million Special Purpose Appropriation to OHCS to implement the CARE framework.

Legislation Affected

Increase by \$10 million the General Fund appropriation in Chapter 556, Section 1, 2021 Laws.

Sincerely,

A handwritten signature in black ink, appearing to be 'AB', written over a light blue horizontal line.

Andrea Bell, Executive Director
Oregon Housing and Community Services

cc: Laurie Byerly, Legislative Fiscal Office
Michelle Deister, Legislative Fiscal Office
George Naughton, Chief Financial Office
Alisa Webb, Chief Financial Office

Program Framework

Colocation of Affordable Rental Housing and Early Care & Education (CARE)

Overview:

Co-Location is an emerging concept that brings together the disciplines of affordable housing development and early learning and education (ECE). In the [2019 Statewide Housing Plan](#), Oregon Housing & Community Services (OHCS) reported that the State was experiencing a housing crisis and OHCS intended to triple development of affordable housing over the next 5 years. Estimates are that nearly 600,000 new housing units are needed to account for the current and anticipated housing demand over the next two decades (all housing types). At the same time, childcare is also experiencing a similar crisis. Every county in Oregon is considered a childcare desert for children aged 0-2 (defined as a region where there are at least three children per available regulated childcare slot) and 33 of Oregon's 36 counties are childcare deserts for children ages 0-5.

No dedicated source of state or federal funding exists within ECE programs to support facility development resulting in ECE operators facing severe challenges related to financing the physical construction of all types of facilities. Considering the need for ECE and affordable housing, the public benefit both of these disciplines provide, and the benefit residents within affordable housing may receive from having quality childcare on site, utilizing affordable housing developments as a means to create additional childcare opportunities was recognized as an effective and efficient means to make a positive difference in local communities throughout Oregon by the 2021 Oregon Legislature.

Program Framework Intent:

The 2021 Oregon Legislature (HB 5011) requested that the benefits of co-location be explored culminating in a report to determine if an incentive program could be developed to support co-location developments. The report was conducted by the Low Income Investment Fund (LIIF) and a series of recommendations including delivery, funding set asides, policy considerations and barrier identification were outlined to accompany an outlined program framework for a possible co-location incentive program. In addition to their extensive experience and research into national promising practices around ECE and co-location, LIIF conducted extensive engagement with Oregon stakeholders including developers, ECE operators, community development groups, advocacy organizations, and more to inform their final recommendations.

The report was commissioned by Oregon Housing & Community Services (OHCS) and the Oregon Department of Education, Early Learning Division (ELD). It is being used as the foundation for this framework which is designed to outline draft parameters of a possible

incentive program if funding is authorized by the Oregon Legislature for this purpose. The framework is being distributed to facilitate conversation amongst stakeholders, including affordable housing developers and early learning professionals to determine if the incentive program, as outlined by the report and interpreted by OHCS and ELD, will provide the support necessary to overcome the current obstacles associated with the developing co-located affordable housing and ECE facilities.

Program Design:

The CARE program is eligible to be seeded with \$10 million dollars if the program framework and delivery concepts are approved by the Oregon Legislature Emergency Board. In alignment with the recommendations set forth in the LIIF study, the CARE program would utilize this investment in the following three ways:

1. Low-Interest Loan Fund - \$5 million

This 5 million dollar investment would be used to loan resources for any pre-development, acquisition, construction, or fit-out costs related to newly constructed, preserved or enhanced, or retrofitted ECE facilities located in or on the same site as an affordable rental housing project.

The Low-Interest Loan Fund would actively seek partnerships from additional investors to enhance loan resources including private, philanthropic and other public sources of capital. This means state funds of \$5 million could spur additional investments.

The CARE program would not require any caps on the Low-Interest Loan Fund, but loans would be subject to fund availability, stage of development, and limits tied to the anticipated impact of project.

It is anticipated that the public dollars in this loan fund would revolve and be utilized again once returned to the program.

2. ECE Facilities Grant Pool – \$4.5 million

CARE would allocate \$4.5 million dollars for grant purposes to use for any pre-development, acquisition, construction, or fit-out costs related to newly constructed, preserved or enhanced, or retrofitted ECE facilities locate in or on the same site as an affordable rental housing project.

The ECE Facilities Grant Pool would actively seek local, state and federal partnerships in addition to philanthropic capital to increase grant availability in this fund. Again, state funds

could spur additional investments. These grants could also be packaged with loans provided through the Low-Interest Loan Fund.

The CARE program would cap pre-development dollars to \$120,000 per project and full build-out costs to \$2 million. Additional resource caps include no more than \$40,000 - \$60,000 per child for new construction and a \$25,000 - \$50,000 per child cap for tenant improvement developments. Program administrators will determine caps on a project-by-project basis using locational comparisons, current construction cost models and other applicable data yet to be determined.

3. Family Child Care Repair and Renovation Grants – \$500,000

CARE would allocate \$500,000 for grant purposes to use for any costs associated with improving indoor or outdoor space of an existing unit of affordable housing (OHCS restricted) to accommodate a Family Child Care provider.

The ECE Facilities Grant Pool would actively seek local, state and federal partnerships in addition to philanthropic capital to increase grant availability in this fund and leverage limited state resources.

Award caps would be imposed on this fund capped at \$2,000 - \$5,000 per child with a maximum award of \$50,000. Program administrators will determine caps on a project-by-project basis using locational comparisons, current construction cost models and other applicable data yet to be determined. Funds should be allocated based on the actual costs of repairs.

Additional investments from the State (if applicable) may be layered into this funding formula or modified depending upon availability, need, and outcomes.

All program funding may be prioritized based on a number of factors including but not limited to:

- Project readiness
- Potential impact on the community
- The development's commitment to serving BIPOC families, rural communities, and other areas with evidenced severe ECE supply shortages
- Percent of ECE slots dedicated to residents of co-located affordable housing
- Project viability
- Geographic considerations
- The developer and/or ECE provider's commitment to equity and diversity within their workforce

Program Delivery:

Citing best practices, the report recommends that any approved resources be distributed by a third-party Community Development Finance Institution (CDFI) as opposed to administration by State Government. OHCS and ELD agree with this recommendation based on the following factors:

1. Technical assistance involves two disciplines that are clearly separated in state government: affordable housing finance and ECE. A third-party contractor would be best situated to assist with the interdisciplinary technical issues associated with this type of incentive program;
2. State government is not well suited to manage an investment fund which is essentially what the Low-Interest Loan Fund is. CDFIs are uniquely situated to work with financial institutions, governments and philanthropic entities to enhance the State's investment with additional resources increasing the availability of ECE.
3. The report recommends a development tracking system that would match new developments with ECE providers on a communitywide basis. This type of work is community based and difficult for a state organization to do. In addition, this matchmaking will likely evolve into technical assistance needs which, again, are best provided by a third party.

The third-party management entity will be required to do the following:

1. Manage and track the program funds, track the development pipeline and provide technical assistance.
2. Create and monitor a state pipeline of ECE operators and developers interested in co-location. This should be updated regularly.
3. Work with private, philanthropic, and other public sources of capital to grow loan and grant pools. OHCS would anticipate the loan pool investment dollars could be matched (at a minimum) and the grant pools might also increase through fundraising activities.

Program Administration:

OHCS and ELD propose that, pending approval of the funding, a Request For Proposals (RFP) be issued inviting CDFI entities to propose program establishment around the parameters established in this framework. A proposal would then be chosen to manage the fund based upon a number of factors including but not limited to:

- Experience in providing technical assistance for these two disciplines;
- Experience and outcomes in managing and growing similar investment funds;
- Experience in working with funding organizations and community partners (including developers and ECE operators) in Oregon and the greater Pacific Northwest;
- Program design response including how the program will be emphasizing low-income and BIPOC families, rural communities and other areas with severe housing and ECE supply shortages;

- Program evaluation design that would provide OHCS and researchers the ability to determine the program's impact on:
 - o ECE expansion
 - o Development of affordable housing
 - o BIPOC families served
 - o Rural Communities served
 - o Outcomes of Low-income family who utilize the ECE projects (well-being, self-sufficiency, etc.)
 - o Targeting of ECE and affordable housing supply to areas with the greatest need/shortage
 - o Programmatic changes to enhance program delivery and outcomes

The winning proposal will outline data gathering and reporting points designed to provide feedback to OHCS, ELD and the Legislature. Reporting points should not be limited to, but at a minimum must, include ability to evaluate program impact as outlined in the list above.

Process and Reporting:

The RFP will include additional proposal requirements designed to allow staff to select the most qualified, experienced, and capable CDFI entity interested in managing this program. The RFP is expected to be released in early Fall of 2022 if funding for the program is released. OHCS and ELD anticipate a 30-day period between when the RFP is published, and submissions are due.

OHCS and ELD will establish a review panel to select the best proposal within 30 days following submission deadline. Proposals will include scope of work and project timelines necessary for the organization to set the program up, perform outreach and solicit partnerships, and to implement and operationalize the program. It is OHCS and ELD's hope that the program could be open for business within 6 months of monetary transfer (from OHCS to third party), though initial set up, investment outreach and partnership development could take more time.