

ANALYSIS

Housing and Community Services Department Affordable Housing Co-location with Early Learning

Analyst: Michelle Deister

Request: Acknowledge receipt of a report on development of a grant program that supports gap financing for affordable rental housing projects that are co-located with child care or early learning centers; allocate a \$10,000,000 special purpose appropriation from the Emergency Fund to support identified projects; and increase Other Funds expenditure limitation by \$2,000,000.

Analysis: The Housing and Community Services Department (HCSD) was directed to report on the development of grant program that facilitates affordable rental housing that is co-located with childcare or early learning centers. The text of the budget note, which was included in the budget report for HB 5011 (2021), is as follows:

Affordable Housing and Child Care Center Development Proposal

The Housing and Community Services Department is directed to develop a 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 child care or early learning centers. The Housing and Community Services Department will work with the Department of Education to identify opportunities, considerations, partnerships, financing options, and funding sources that should be incorporated into such a development, and shall report to the Interim Joint Committee on Ways and Means or appropriate legislative committee by February, 2022 on the potential for offering a competitive funding opportunity for rental housing developments that include child care or early learning centers. The report shall include information on the following:

- Assessment of need for developments of this sort;
- Sources and anticipated amounts of funding that may be leveraged to finance these developments;
- Amenities, security or safety considerations that should be incorporated into such a development;
- Location considerations;
- Criteria for project selection;
- Estimated award size;
- Characteristics of populations likely to be served by the development; and
- Potential development timelines.

HCSD contracted with the Low Income Investment Fund and ECONorthwest to perform an analysis and formulate recommendations for program design. The report notes that a statewide shortage of both affordable housing and safe, reliable, affordable childcare contribute to economic instability, inequitable educational outcomes, and adverse health impacts for lower income families.

Several challenges to co-located facilities are identified in the report, including the difficulty of matching for-profit housing developers to interested early learning and childcare providers. Complex

financing required for these projects is also an issue. Affordable housing developments and rehabilitations typically require multiple sources of financing, including low interest loans, grant funding, tax credit financing, anticipated rental income and associated subsidies, and, when applicable, rental income associated with commercial spaces. The mix of loans to grants varies depending on location, construction costs, and the extent to which prevailing wage requirements are deemed to apply. Early learning centers and childcare providers may also require financial assistance due to costs associated with safety and amenity requirements required for licensure. The development timelines associated with new or renovated facilities and stability of tuition payments available to the provider also influence whether co-location is ultimately deemed feasible.

In an acknowledgement of the unique characteristics of any project of this type, the report suggests that the \$10 million General Fund set aside in a special purpose appropriation to the Emergency Board for these efforts be distributed as follows:

- 50% of funding as low interest loans to developers and early childhood education providers, leveraged with private, philanthropic and other public sources of capital;
- 40% of funding as grants to early childhood education providers for development, acquisition and fit out costs; and
- 10% of funding as grants to family childcare providers for renovation and repair costs.

Further, the report recommends that a program to fund projects supporting co-located facilities be administered by a not-for-profit third-party organization. Recommended project selection criteria include:

- Projects that meet demand for both affordable housing and child care, based on demographic data;
- Sustainability of the partnership;
- Shared mission and equity priorities between partners;
- Project readiness; and
- Capacity for partners to leverage other sources of funding.

The report does not identify specific projects to which funding may be applied but does describe typical co-location scenarios and highlights some case studies. While data-driven evaluative methods to measure program efficacy are recommended, such metrics have yet to be determined and adopted.

Recommendation: The Legislative Fiscal office recommends acknowledging receipt of the report and deferring consideration of the budget request until later in the 2022 legislative session or at a future meeting of the Emergency Board.



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January 14, 2022

Senator Elizabeth Steiner Hayward, Co-Chair
Representative Dan Rayfield, Co-Chair
Interim Joint Committee on Ways and Means
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairpersons:

Nature of the Request:

Oregon Housing and Community Services Department (OHCS) is requesting to appear before the Joint Ways and Means Committee to submit a proposal for a grant program that supports child care or early learning centers co-located with affordable rental housing, as directed by a Budget Note in HB 5011 (2021).

Agency Action:

OHCS contracted with the Low Income Investment Fund (LIIF) to conduct a study on the best practices for co-locating early learning or child care centers with affordable rental housing developments. The Department of Education, Early Learning Division provided funding to support the costs of hiring a third-party contractor.

LIIF is a national leader in co-location of affordable housing and early learning. In 2020, LIIF refined its mission to focus on mobilizing capital to build communities of opportunity, equity and well-being by putting racial equity at the center of investments. Additionally, LIIF has policy expertise on complex federal funding streams and the needs of low-income families.

The study will be finalized at the end of February and will address the topics included in the Budget Note, including:

- Assessment of need for developments of this sort;
- Sources and anticipated amounts of funding that may be leveraged to finance these developments;
- Amenities, security, or safety considerations that should be incorporated into such a development;
- Location considerations;
- Criteria for project selection;
- Estimated award size;
- Characteristics of populations likely to be served by the development; and
- Potential development timelines.



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Action Requested:

OHCS requests that the Committee acknowledge receipt of the report and release \$10 million from the Special Purpose Appropriation to OHCS. Due to the length of time required to complete construction projects, OHCS also requests authorization to transfer the General Fund appropriation to the General Housing Account so the funds can be used in the 2023-25 biennium. We expect the funds to be fully awarded to development before the end of this biennium, but not fully expended. We anticipate expenditures of \$2 million in 2021-23 and the remaining \$8 million in 2023-25.

Legislation Affected:

Additional General Fund appropriation of \$10 million, Chapter 556, Section 1, Oregon Laws 2021.
Additional Other Funds limitation of \$2 million, Chapter 556, Section 2, Oregon Laws 2021.

Sincerely,

A handwritten signature in black ink, appearing to read "MS", followed by a long horizontal flourish.

Margaret Salazar, 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