

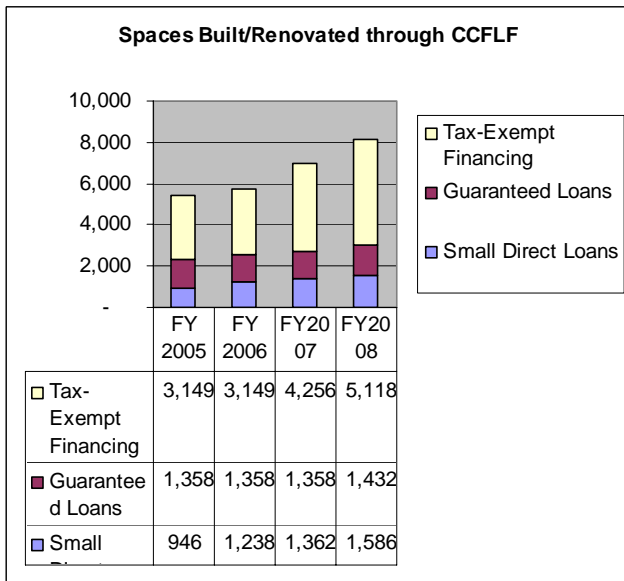
## Connecticut Appropriations Committee RBA Template Part II, Program/Agency/System Accountability Summary

**Program:** Child Care Facility Loan Fund (CCFLF) Program/Connecticut Health and Educational Facilities Authority (CHEFA)/Department of Social Services

**Quality of Life Result:** All children healthy and ready for school success by age 5. The CCFLF provides resources to early care providers to build and renovate facilities, so more children can have access to safe, quality early education programs.

**Program/Agency/System Purpose:** The CCFLF was created through Public Act 97-259, establishing three separate programs to finance the construction of child care facilities: The Tax-Exempt Financing Program, Guaranteed Loan Program and Small Direct Loan Program. The CCFLF is managed by CHEFA through a memorandum of agreement with the Department of Social Services.

### Performance Measure 1

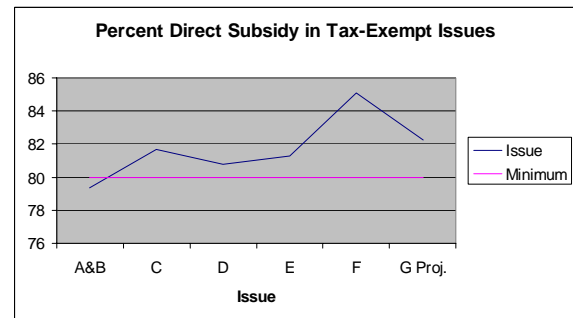


#### Story Behind Measure 1

The CCFLF has steadily increased the inventory of early education space in Connecticut, adding an average of about 900 spaces per year.

Additional funding for the Tax-Exempt Financing Program in this biennial budget will result in approximately 4,000 additional spaces over the next few years.

### Performance Measure 2

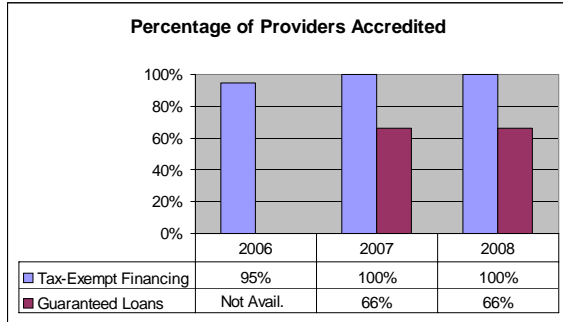


#### Story Behind Measure 2

Providers have received an average 82% subsidy over the life of the program (an 80% minimum subsidy is required by the bond insurer). The rise in subsidy for Issue F was due to one of the original providers, with a low rate of subsidy, opting out of that issue. CHEFA expects subsidies to return to a lower level.

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Performance Measure 3



Story Behind Measure 3

The most desired outcome arising from the development of early education space is the readiness of children for school. Accreditation through the National Association for the Education of Young Children (NAEYC) is considered to be critical for the achievement of that goal.

Turning the Curves: What do you propose to do over the next two years and why?

1. Pursuant to P.A. 07-3 of June Special Session, develop a school readiness expansion plan for Connecticut, focused specifically on facilities.
2. \*Tax Exempt Loan Program: CHEFA, in collaboration with DSS and SDE, has developed a list of qualified architects, which will be made available to applicants to the program.
3. \*Guaranteed Loan Program: Negotiate with seven participating banks to increase their participation and reduce guarantee requirements.
4. \*Small Direct Loan Program: Examine the potential of using additional SBA lenders to participate in this program.

\*No-cost/low-cost action steps.

<b>Key Budget Information</b>	
Total Current Program Year Funding	\$7.063,000
Funding as Percent of All Funding for Population Result	100%
Program Funding As Percent of Total Agency Budget	9.7%
<b>Funding Distribution</b>	
Total Federal Funds	
Total State Funds	\$6,500,000
Capital Projects Subtotal	\$6,500,000
Other Funding	563,000
Percent of Total Current Funding Contracted to Third Parties	10.7%

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**Program:** Child Care Facility Loan Fund (CCFLF) Program/Connecticut Health and Educational Facilities Authority (CHEFA)/Department of Social Services

<b>Program Purpose</b>	
The CCFLF was created through Public Act 97-259, establishing three separate programs to finance the construction of child care facilities: The Tax-Exempt Financing Program, Guaranteed Loan Program and Small Direct Loan Program. The CCFLF is managed by CHEFA through a memorandum of agreement with the Department of Social Services.	
<b>Contribution to Population Result</b>	
In the Early Childhood Framework (“Ready by Five, Fine by Nine), the Early Childhood Education Cabinet identifies a lack of quality space as one of the key barriers to providing “high-quality preschool for all 3- and 4-year-olds in families at or below 185% of the Federal Poverty Level.” The CCFLF provides resources to early care providers to build and renovate facilities, so more children can have access to safe, quality early education programs.	
<b>Key Budget Information (<i>Dollars reported in millions</i>)</b>	
Total Current Program Year Budget	\$7,063,000
Funding as Percent of All Funding for Quality of Life Result	100%
Program Funding as Percent of Total Agency Budget	9.7%
Budget Distribution:	
Federal	-0-
State	
General Fund	-0-
Capital Project Funds	\$6.5 million
Other State Funding	-0-
Other Funds (Not Federal or State)	\$563,000
Percent of Total Current Funding Spent on Direct Service	66.6%
Percent of Total Current Funding Contracted to Third parties	10.7%

**Basic Program Facts**

The Connecticut Health and Educational Facilities Authority (CHEFA) was created in 1965 and is a “conduit” issuer of tax-exempt bonds, issued on behalf of non-profit healthcare institutions, higher education and private secondary schools, child care facilities, long-term care facilities, cultural institutions and various other qualified non-profit institutions pursuant to Connecticut General Statutes Chapter 187, Sections 10a-176 through 10a-198. These tax-exempt bonds are financial/debt obligations of the institution

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on whose behalf the Authority issues the bonds. The issuance of tax-exempt bonds provides funds for new construction projects, the refinancing of long-term debt obligations to reduce borrowing costs, and Debt Service Reserve Funds, which are typically required for all fixed interest rate bond issues at an amount equal to one year's maximum annual debt service.

Since its formation, CHEFA has issued approximately \$9.4 billion in tax-exempt bonds with approximately \$5.4 billion currently outstanding. During fiscal year 2007, CHEFA issued 24 series of bonds totaling \$833 million. This included 1 bond issue for assisted living, 1 bond issue for early education, 7 bond issues for healthcare institutions, 8 for higher education, 6 for private secondary schools, and 1 for long-term care.

The Tax Exempt Financing Program was specially designed for early education providers who are dependant on state operating subsidies, and it has become the principal engine generating facilities in Connecticut. Borrowers developing facilities for infant/toddler care must be 501(c)(3) not-for-profit organizations, but borrowers developing preschool facilities can be 501(c)(3) organizations, as well as municipalities, local boards of education, regional school districts and regional educational service centers (RESCs). The program provides access to low-interest loans through the municipal bond market, and the State directly pays at least 80% of the debt service on these loans.

The Guaranteed Loan Program provides loans up to a suggested maximum of \$2,000,000 for established early education providers for the renovation or development of facilities. Borrowers may be for-profit or not-for-profit. CHEFA subsidizes the interest rate on these loans out of the Authority's operating budget, in order to make them more affordable. DSS and CHEFA together fund a loan protection account for the program, which guarantees the loans. This program has also developed approximately 1,400 child care spaces.

The Small Direct Loan Program provides up to \$25,000 loans to home-based and center-based child care providers for start-up costs and equipment. Borrowers must demonstrate that they are unable to obtain other funding due to their lack of capital and poor credit history. The Department of Social Services funds the 80% loan guarantees for the program.

Together, these three programs have been extremely effective in increasing the supply of high-quality preschool facilities, resulting in nearly 7,000 spaces developed:

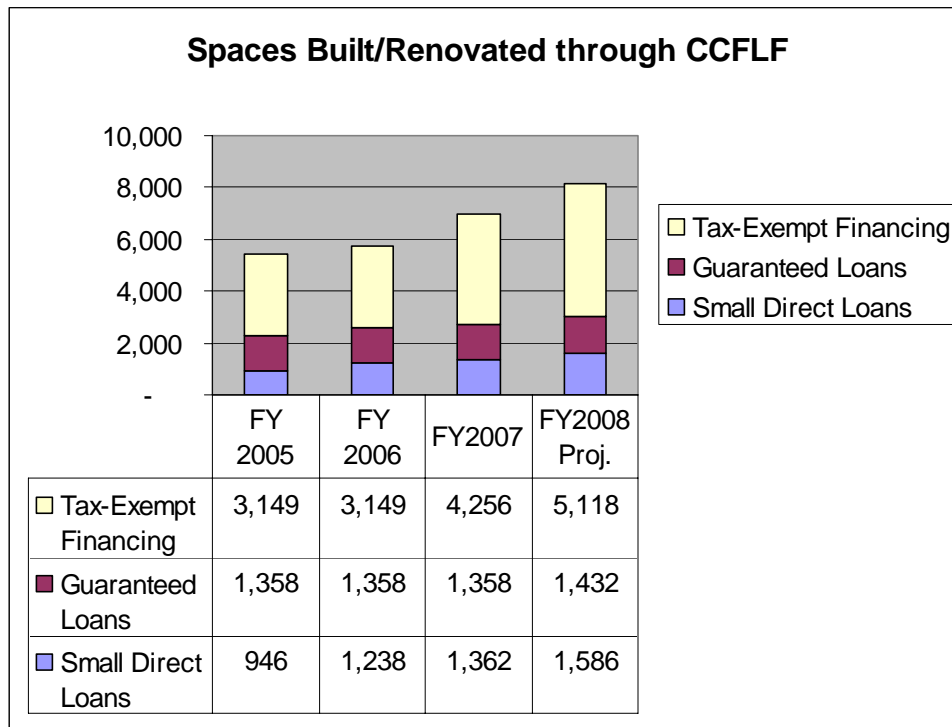
- Development of spaces has been steadily increased, and will accelerate in the coming years
- The quality of programs is established by their accreditation in NAEYC and Montessori; programs are required to be maintain accreditation
- Space built though the CCFLF would probably have not been developed without the support of the program.

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## Performance Measures and Story Behind the Baselines

### Performance Measure 1

Cumulative Spaces Benefiting from the CCFLF, by program and in total



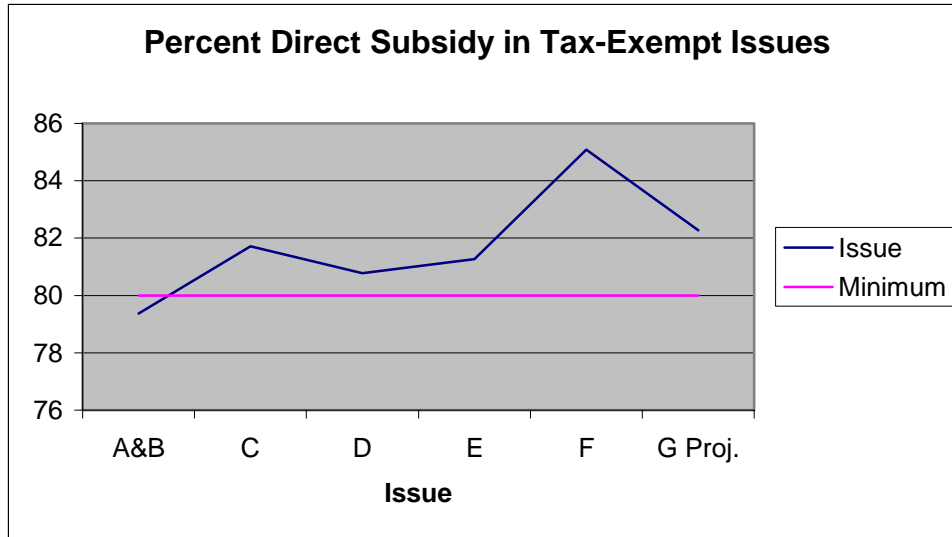
### Story Behind Measure 1

The CCFLF has steadily increased the inventory of early education space in Connecticut, adding an average of about 900 spaces per year. Additional funding for the Tax-Exempt Financing Program in this biennial budget will result in approximately 4,000 additional spaces over the next few years. The Small Direct Loan Program has grown by over 22% per year. The Guaranteed Loan Program remained flat in FY 2005-07; however, a new manager for the program from People's United Bank is increasing production, and is expected to close his first loan this year.

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Performance Measure 2

Direct Subsidy Utilized for Tax Exempt Financing Development



Story Behind Measure 2

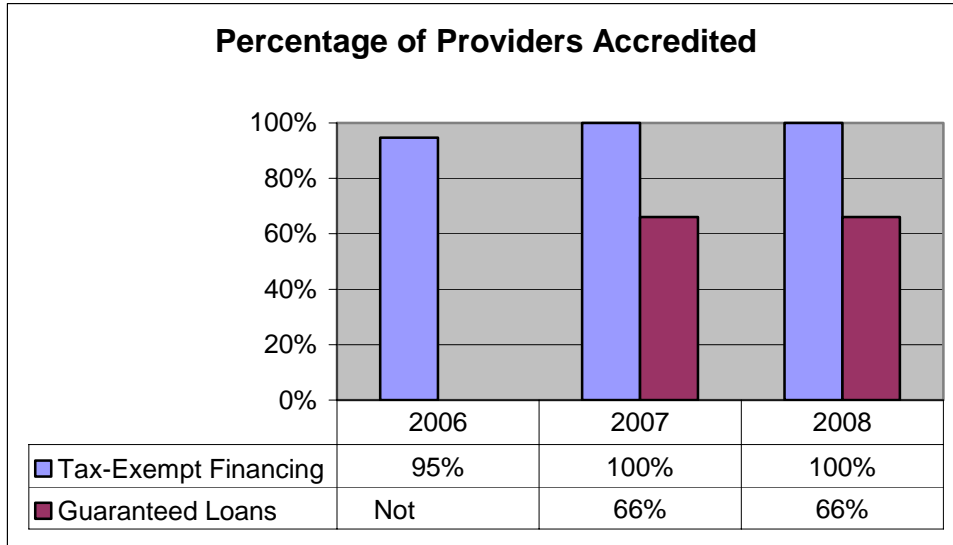
Tax-Exempt Financing is available only to 501(c)(3) not-for-profit early education providers and municipalities, local boards of education, regional school districts and regional educational service centers (RESCs). Providers have required at least 56% subsidy in order to be able to afford the loan, and have received an average 82% subsidy over the life of the program (an 80% minimum subsidy is required by the bond insurer). The rise in subsidy for Issue F was due to one of the original providers, with a low rate of subsidy, opting out of that issue. CHEFA expects subsidies to return to a lower level.

The Guaranteed Loan Program, a loan protection account supported by the State and CHEFA, provides a guarantee of repayment that enables private banks to provide loans under more favorable terms than would otherwise be available. Guarantees can range from 0-50% of the outstanding balance of each loan. The average guarantee percentage for outstanding loans is 36%

The Small Direct Loan Program is for small start-up businesses and home-based providers who would otherwise not be able to finance the cost of opening or improving their program.

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Performance Measure 3



Story Behind Measure 3

The most desired outcome arising from the development of early education space is the readiness of children for school. Accreditation through the National Association for the Education of Young Children (NAEYC) is considered to be critical for the achievement of that goal. The Tax-Exempt Financing Program and Guaranteed Loan Programs require that early education programs maintain NAEYC accreditation or risk default. Three borrowers in the Guaranteed Loan Program have allowed their accreditation to lapse, but should be in compliance in the next year.

Partners and Their Roles

- Department of Social Services – DSS works collaboratively with CHEFA in all aspects of the CCFLF as defined by an MOA between the agencies. Matters related to policy and procedures are defined in the MOA and Underwriting Guidelines developed for the CCFLF.
- State Department of Education – SDE participates in the Tax-Exempt Financing Program of the CCFLF, as defined by an MOA between CHEFA and SDE. SDE collaborates with DSS to determine which towns receive priority for funding. In the event of a provider failing to meet School Readiness or CHEFA performance requirements, SDE, DSS and CHEFA work together with the provider to develop a plan for improvement.

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- School Readiness Councils- Each application to the Tax-Exempt Financing Program must provide a letter of support from the local School Readiness Council. The Early Childhood Facility Plan, currently being developed by CHEFA, SDE and DSS will include input from School Readiness Councils regarding their challenges in developing facilities and changes they would like in CCFLF programs.

### What do you propose to do to improve performance in the next two years and why?

1. Recognizing the need for the adequate long-term planning of facility development, the State Legislature called on the Connecticut Health and Educational Facilities Authority (CHEFA), and State Department of Education (SDE), to develop a school readiness expansion plan for Connecticut, focused specifically on facilities. After conducting community outreach and research, the final report in June 2009 will recommend a variety of policy options intended to increase the efficiency and outcomes of CCFLF programs.
2. Tax Exempt Loan Program: CHEFA, in collaboration with DSS and SDE has developed a list of qualified architects, which will be made available to applicants to the program. We anticipate that the list will contribute to a faster predevelopment process, and potentially lead to cost savings. The average time from application to closing is now 18 months.
3. Guaranteed Loan Program: Negotiate with seven participating banks to increase their participation and reduce guarantee requirements. The average guarantee for outstanding loans is now 36%, and if reduced, would increase the loan amounts available under the program.
4. Small Direct Loan Program: Examine the potential of using additional SBA lenders to participate in this program, in order to expand production and state coverage of the program.

### Appendix A, Data Development Agenda

1. As part of the Early Childhood Facility Plan, CHEFA will undertake an evaluation of the demand for early education in several communities. Utilizing a survey, CHEFA hopes to determine parent preference for early education alternatives, such as length of program day, location of facility, and demand for infant/toddler services. Utilizing this information, CHEFA can better align the construction of early education space with parent need.