

Community Investment
Collaborative for Kids

Resource

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Community Investment
Collaborative for Kids

Guide



Developing Early Childhood Facilities



2

Designing Early
Childhood Facilities




3

Equipping and Furnishing
Early Childhood Facilities



4

Creating Playgrounds for
Early Childhood Facilities

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1 Guide

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The author and publisher are solely responsible for the accuracy of the statements and interpretations contained in this resource guide.

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“Child care is a group process. Changes always involve others, whether moving a piece of furniture or building an addition. The more extensive the change, the more individuals are involved. There are those who may have to sanction, approve, or ratify change - administrators; funders; fire, safety, health, and licensing regulators; insurers; and others in authority. There are those who have to effect the change - purchasers, builders, staff and so on. And finally, there are those who have to live with the change - staff, parents, children and community. All come to the process with different perspectives, desires and roles to play.”

Quoted from Jim Greenman, “Caring Spaces, Learning Places, Children’s Environments that Work”

Introduction

Child care **facility projects*** come in all sizes and shapes.¹ They can be as modest as renovating a single classroom or installing playground equipment, or as ambitious as constructing an entirely new building.



A **FACILITY PROJECT** can be defined as any planned investment to improve or expand a building, equipment or site used by a child care program. The project can be:

- new construction on vacant land.
- the renovation of an existing building for child care use.
- the improvement of an existing child care site.

Whether large or small, these projects take time and money so it is important to do them right. This guide will show you how.

Reasons to improve child care facilities typically include:

- **Health and Safety.** Programs are often in older buildings that may suffer from things such as lead paint contamination, splintering flooring and handrails, poor ventilation or unsafe play equipment.
- **Quality.** The way that a facility is designed and configured can have a big impact on the quality of your program. Some examples include bathrooms

adjacent to classrooms, toilets, sinks and counters at child-height, physically divided spaces for groups of children, good natural light, adequate storage, and space for adults to plan and meet.

- **Stability.** Too often programs in low-cost space face eviction from their landlords. Many programs share space with other services, such as a Sunday school, and constantly have to pack and unpack classroom supplies and equipment.
- **Expansion.** Programs that maintain long waiting lists may consider expanding to a larger facility. Facilities currently serving only certain age groups such as preschoolers may want to expand to incorporate children of other ages such as infants and toddlers, or adapt their space to be serve children with special needs.

Once you decide to pursue a facility project, it's easy to get swept up in the excitement and neglect to devote enough time and attention to the type of careful planning that is needed. This guide identifies all the steps in the process, and will help you turn your idea for new or improved space into a successfully completed project.



¹ This resource guide uses the term “**CHILD CARE**” to refer to all types of early education and care for children ages birth through five, and is also relevant for school-age child care programs.



THE **5** BIG HURDLES

Almost every facility project faces a series of five daunting hurdles.

This guide describes these hurdles and proven strategies for clearing them.

1. Project Feasibility. Section 1 of this guide outlines the steps you need to take to determine whether your project is feasible and can move forward. To be successful, you will need to have a strong project concept, demonstrate a need in the local market, have enough organizational capacity to take on a time-consuming and ambitious effort, and be able to build sufficient support inside and outside your organization.

2. Building a Team. Successful projects happen because they are supported by the right people – from friends and supporters to architects, lawyers, contractors and fundraisers. *And* because you have learned how to work effectively with them. Section 2 of this guide focuses on the experts and supporters you will need to complete your project, as well as how to select, hire and manage them.

3. Securing a Site. Section 3 of this guide walks you through the process of selecting, evaluating and acquiring an appropriate site for your project and

getting the permits and approvals you will need to proceed.

4. Raising Money. Probably no barrier seems larger than raising the money you will need to build or improve your facility. Section 4 of this guide tells you how to determine the cost of your project and how to develop a successful fundraising strategy.

5. Construction. The construction process is complicated and filled with uncertainties. Section 5 outlines the steps in the construction process, problems you may encounter along the way, and how to resolve them to help you complete your project.

As you face these hurdles, remember that a facility project has many rewards and can be well worth the demands it places on you and your program. Unlike many other efforts you make to enhance your program, facility improvements will last many years and can have a positive impact on children, parents and teachers every single day.

Section 1

Getting Ready: Steps for Early Feasibility and Planning

This section takes you through the very first phase of your facility project: early feasibility and planning. “Getting ready” involves developing a project concept and testing its soundness; preparing your organization to undertake a complicated and time-consuming effort; and beginning to understand the real estate development process. Use the *Child Care Facility Project Readiness Worksheet* at Appendix 1A to determine whether your organization is ready to move forward or whether you need to devote more time to this early planning stage.

WHAT'S INSIDE GETTING READY:

1. Create a Strong Project Concept

2. Test Project Feasibility

- Market Need
- Sufficient Funding
- Suitable Site
- Qualified Help

3. Assess Organizational Capacity

- Financial
- Management

4. Generate Support

5. Understand the Real Estate Development Process

I. CREATE A STRONG PROJECT CONCEPT

Start by crafting a “project concept” - a concise and compelling case that can motivate your staff, board members, community leaders and potential funders to support the project. Involving many of these stakeholders early on in the planning stages is the best way to ensure their future support.

Ask yourself: Why undertake the project?
What problems are we trying to solve?
What outcomes do we want to achieve?
Ideas might involve:

- Expanding to serve additional families or populations you don't currently serve such as children with disabilities;
- Creating a permanent home for your program; or
- Improving upon your existing space.

Regardless of the size or scale of your effort, promote a concept that will attract support. Once your overall vision is set, fill in with specific details about your approach to help potential stakeholders understand the full scope of your project and its goals, such as:

- How many children will be served, and from what age groups?
- What will distinguish your center from others in the area?
 - Will you offer space for infants and toddlers or serve children with special needs?
 - Will you have special features like a parent resource room or a state-of-the-art playground?
 - Are you collaborating with any local organizations to offer additional family services or supports?

2. TEST PROJECT FEASIBILITY

It is important to motivate people with your vision, but it's equally important to convince them that the project can succeed. There are several aspects of feasibility that you will need to address:

A. DEMONSTRATE A MARKET NEED

Funders and other supporters must be convinced that there is a compelling need for your project. This is especially true when developing a new center or expanding to serve more children. Conduct a *market study*, which describes four things:

1. Your **target market**, which is the geographic area from which you expect to draw most of your children, and the population you plan to serve. Most market studies draw information on age, income and employment by zip code from U.S. Census Bureau data.

Source: American Factfinder <http://factfinder.census.gov/home/saff/main.html>

2. The **existing supply** of child care in your market area. To accurately describe this you will need to learn how many other providers there are and who they serve. State licensing departments and child care resource and referral agencies should be able to provide a list of centers and regulated homes and their enrollment capacity. Remember to consider informal care arrangements provided by family or friends. But it's not enough simply to find out which other providers serve your area. You will also need to know:

- Are other providers filled to capacity? Do they have a waiting list?
- What type of services do they provide? Look at things such as ages of children served, hours of operation, fees charged and special services offered. How do these services compare with what you are proposing for your center?

Even if some centers are not full, they may only serve certain age groups or populations. For example, the area may not need more preschool slots, but may have a high demand for infant and toddler care.

Sources:

- The **National Child Care Information Center** provides a profile for each state including contact information for state agencies and child care resource and referral organizations: www.nccic.org/statedata/statepro/index.html.
- In some states, **Kids Count** provides information on child care enrollment by community as well as other early childhood indicators that may be relevant to your study: www.kidscount.org.
- **Calls to other providers** may be your most accurate source of information on whether programs in your market area are fully enrolled, if they maintain a waiting list, and how many children of what ages are on the list.

3. The actual **demand** for your services, which refers to the number of children who you can reasonably expect to enroll in your facility. While many families may *need* child care, some may not be eligible for state subsidies or able to afford fees. Others may prefer relative care or family child care. To better understand demand, check with other providers, resource and referral agencies, and most importantly of all, talk directly with parents about their preferences, willingness and ability to pay for services.

Source: Administer a questionnaire to parents with young children. Ask where they live, the kind of child care arrangements they use, its cost, and what they like and dislike about it. The questionnaire is a way to test your ideas about what parents need and may not be receiving from the market.

4. Your **“competitive advantage”** in the market. Most businesses succeed by delivering a high quality service that is not otherwise available and is hard to duplicate. You can most effectively establish your competitive advantage by considering the needs of your target families and how to accommodate them. For example, you might have longer hours for working families who want an earlier drop-off or later pick-up time or offer services for infants through school-age for families in need of care for multiple children. Think about what can distinguish your program from others.

B. PROVE THAT A SUITABLE SITE CAN BE SECURED

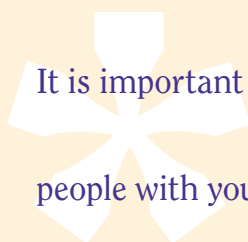
You will need to convince your supporters that you can find a site in your target area that is appropriate, affordable and feasible to purchase or lease and renovate.

- **Appropriate.** You will likely need to look at many sites before finding one that meets all of your requirements for size, location and other features. Specific characteristics of a site, such as the features of an existing building, the location, or neighboring uses, might disqualify a potential property from consideration. Early market research on the availability and costs of potential sites will help you make a more convincing case on the feasibility of the project with potential supporters.

- **Affordable.** It is very common to find a promising site only to discover that it is too expensive to acquire or develop. An important element of your planning is to determine what you can realistically afford and assess the likelihood of finding a site within your price range in your target real estate market.
- **Feasible.** Most likely the site you identify and can afford will not be perfect. For example, you may need to get a zoning variance for child care use, you may find hazardous materials on the site or in the building that need to be removed, or you may need to make significant renovations to the building to meet all relevant codes and meet the needs of your program. Before you make a decision about whether a site is suitable, you will need to determine whether these conditions can be resolved within the confines of what you can afford.

You may need the help of an experienced commercial real estate broker to explain the local market to your stakeholders and walk them through your strategy for identifying an appropriate site, or the feasibility of one or more sites that have been identified.

For more detailed information on the site selection process and how to determine whether a site is feasible, see Section 3 of this guide.



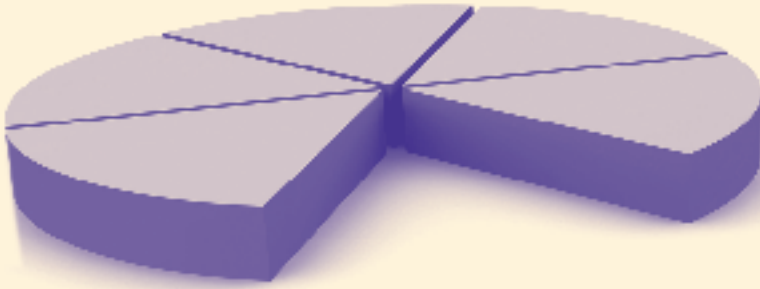
It is important to motivate

people with your vision,

but it's equally important to

convince them that the project can succeed.





C. SHOW THAT YOU HAVE A PLAN TO RAISE SUFFICIENT FUNDING

You need to be able to lay out a reasonable plan for how you will get the money to renovate or construct a new center. Ideally this will include resources that you have in hand to apply toward the project, such as agency or personal assets or external funds that have already been raised.

In addition, describe which foundations or public sector sources you might approach for a capital grant. To be credible:

- determine that these funders offer capital grants and that your project is consistent with their mission;
- identify a typical capital grant or loan range for each source; and
- make sure the total exceeds your cost estimate because you should not expect all potential sources to commit funds.

Speak with foundations, donors, banks or other agencies that make grants or loans to see whether they might support your project, including funding for some of the early planning costs. While many of your fundraising goals may be longer term, don't forget the more immediate funding you will need to pay professionals such as architects, lawyers or accountants as you evaluate or acquire a site.

D. DEMONSTRATE YOUR ABILITY TO SECURE QUALIFIED HELP FOR THE PROJECT

All facility projects require real estate expertise – architectural, legal, and other technical know-how to help with negotiating a lease or purchase, securing zoning approvals and building permits, and designing the center. Assure potential supporters that:

- you understand the range of professionals you must recruit to your team;
- appropriate technical experts are available to work with you; and
- you have a plan to pay for them.

Relying heavily on “pro-bono” or volunteer services or proposing to carry out these tasks without qualified professional help will probably not be credible to outside organizations. Do some early interviewing to identify potential candidates as a way of demonstrating the caliber and qualifications of your prospective team.

3. ASSESS YOUR ORGANIZATION'S CAPACITY TO CARRY OUT THIS TYPE OF PROJECT

A facility project poses enormous challenges because of the time it requires, the expense involved, the support that must be generated, and the additional responsibilities for staff and board members. Before moving ahead with a project it is critical to do an honest assessment of how “ready” your organization is.



ORGANIZATIONAL READINESS means:

- Your organization is **A) FINANCIALLY STABLE** enough to take on the risk associated with the project.
- Your organization can **B) EFFECTIVELY MANAGE** its existing program and obligations along with the new demands of a facility project.

A. FINANCIAL STABILITY

Most funders will consider an organization to be financially ready to undertake a facility project if it has:

- 1. A sound financial accounting system and practices:** Many funders and most lenders will require an annual audit. At a minimum, they will want to be sure that your internal accounting system has been reviewed by an outside accountant. This audit or review should verify:
 - year-end assets/liabilities and revenues/expenses.
 - adequate accounting procedures and internal controls.
 - a history of good financial practices and performance.

- 2. Sufficient cash on hand to support ongoing operations:** An organization can be generating a surplus on paper but be unable to meet its day-to-day financial obligations. For example, if an organization is lax about

collecting parent fees, it may lack the cash to meet payroll and other bills. Your accountant can help calculate the amount of cash your organization needs and confirm whether you have sufficient funds on hand to operate.

- 3. More revenues than expenses over time:** An organization may sometimes have an operating deficit at the end of the year – a common occurrence among child care providers. If so, it should not be more than 2-3 percent of the overall operating budget. Also, in reviewing the previous three years, the organization should generally end the year with more revenues than expenses, even if you occasionally have a “bad” year. The trend over the past several years should show the financial position generally improving with each passing year.

- 4. Adequate financial reserves for emergencies or unexpected situations:** Having a “rainy day fund” affords some flexibility when faced with unforeseen expenses. Your accountant or auditor can determine whether you have a sufficient cushion to absorb the financial setbacks that all organizations encounter such as low enrollment in a child care center or emergency capital repairs.

B. EFFECTIVE MANAGEMENT

Managing a facility project can become a nearly full-time job. Moreover, people heading up these projects usually have limited experience with building design, construction and real estate finance. Your plan must enable you to manage the project without becoming inattentive to other responsibilities. Look at three strategies for handling all these managerial responsibilities:

- 1. Carefully consider who you will hire as part of your “development team” of technical professionals and what roles they will play.** There are certain experts that almost every facility project will need, such as an architect and lawyer, but other professionals can be secured to carry out much of the day-to-day project-related

work if there is no one on staff who can take on these additional responsibilities. If the project is especially large or complex, you are likely to need a project manager to handle daily oversight of the project. (See the next section of this guide for details on who is on the real estate development team and how to recruit them.)

- 2. Consider forming a project oversight committee** of volunteer advisers, especially if your project is an ambitious one. This advisory team could be a board subcommittee created to assist with the project. Supplement this group with several longstanding supporters from the community, staff members, or others with relevant technical expertise such as architects, engineers, contractors and people with fundraising experience. Only include people who will be committed to the project enough to attend meetings and lend their support.
- 3.** The project will increase your organization's workload and could prevent the director and staff from performing all the routine duties required to keep your program running smoothly. To make time for the facility project,

consider whether any responsibilities can be shifted at least temporarily to other staff within the organization.

Also consider "outsourcing," since it may be more cost-efficient to have a payroll service or outside bookkeeper do some of the accounting duties. Or, if the director fills in for teachers, expand your list of substitutes so that the director can spend more time on project oversight.

Management readiness means that you, the board and the staff have gone through this type of assessment and have come up with a realistic plan for managing the organization's ongoing activities and the facility project.

4. GENERATE SUPPORT FOR YOUR PROJECT

Building a facility starts with building a network of supporters. That's why a compelling vision is so important to a project's success. The first step is to **build support among people within your organization**, including staff, board members and parents. If you are a private, for-profit child care organization that does not have a board of directors, consider forming a group of advisors to support you with this process.

Your board of directors, a body of committed volunteers, is a huge potential resource. Select a chairperson who is passionate about your mission and can motivate other directors to work on behalf of the project. If your current board cannot support this type of undertaking, recruit new board members with the right skills or relationships to help. If no openings on the board are available, recruit individuals for board committees or as special advisors.

Once these "internal stakeholders" are committed to the project, **reach out and expand your network of project supporters.** Identify and cultivate new friends – potential funders, professionals who will volunteer as advisors, elected officials, and even the contractor you hire to do the construction.



5. PREVIEW OF THE REAL ESTATE DEVELOPMENT PROCESS

Now that you have done the preliminaries, you are ready to launch into the development of the physical space. This is the perfect point to look ahead at the facilities development process, which we describe in four phases. Keep in mind, though, that there are many overlapping activities and tasks that stretch across more than one phase:



1 PHASE

Phase 1 is early feasibility – figuring out whether your project makes sense to undertake.

This initial phase of testing the feasibility of your project involves:

- Creating and “selling” your project concept.
- Testing the project’s feasibility .
- Building support among key stakeholders.

If your organization determines that it is ready to move forward with its project, you move into Phase 2.

2 PHASE

Phase 2 includes building a team, finding a site, and putting together a fundraising plan:

Recruit the first members of your development team, usually the architect and the real estate lawyer, described in Section 2 of this Guide, “Building a Team.” The other two major activities that occur during this phase are finding an appropriate site (described in Section 3, “Identifying and Securing a Site”) and putting together a fundraising plan (outlined in Section 4, “Raising Money”).



When you have secured a site and have a well-thought-out financing plan, you will move into the next phase of work.

3 PHASE

Phase 3 is when the facility is designed and fundraising continues.

Once you have identified a site, your architect will develop increasingly detailed designs and specifications for the contractor to use during construction. You will use these architectural drawings to solicit bids from potential contractors. During this phase you will also focus intensely on fundraising, including meeting with prospective donors, completing proposals and preparing financing applications. Two companion volumes to this guide series, Volume 2 on child care center design, and Volume 4 on outdoor playgrounds, will be helpful during this phase.



Phase 3 ends when the contractor is hired, and you have raised enough money to begin construction.

4 PHASE

Phase 4: Construction is the final phase of the process. As outlined in Section 5, you and your team will be making sure that construction proceeds according to plan, is completed on time, and costs remain within budget.

HOW LONG WILL IT TAKE TO DEVELOP THE FACILITY?

Depending on the size and scope of your project, it could take several years. Remember, many factors involved in developing a facility are beyond your control: it might take longer than anticipated to identify a site, or you may discover an unforeseen zoning problem. This may be your organization’s greatest single investment, and the process can’t be rushed.



APPENDIX IA: FACILITY PROJECT READINESS WORKSHEET

Use this worksheet to determine whether your organization is ready to move forward or whether you need to devote more time to the early planning stage.

| CREATING A PROJECT CONCEPT | | | |
|--|---|---|-----------------------|
| 1. Does your organization have a project concept that effectively captures your reason for undertaking the facility project and the outcome you hope to achieve? | Y | N | NOTES: _____ _____ |
| 2. Does your project concept include specific details so that potential stakeholders can fully understand your goals, such as: | Y | N | NOTES: _____ _____ |
| <input type="radio"/> <i>Number and ages of children</i> | Y | N | _____ |
| <input type="radio"/> <i>Proposed location</i> | Y | N | _____ |
| <input type="radio"/> <i>Types of services</i> | Y | N | _____ |
| 3. Do you believe that your project concept will motivate people outside your organization – city officials, funders, and others – to help complete the project? | Y | N | NOTES: _____ _____ |
| 4. Can others within your organization, such as board members and staff, accurately articulate your proposed project concept? | Y | N | NOTES: _____ _____ |

| PROJECT FEASIBILITY | | | |
|--|---|---|-----------------------|
| A. MARKET NEED | | | |
| 5. Have you identified your target market? | Y | N | NOTES: _____ _____ |
| 6. Have you completed preliminary research which indicates that there is unmet demand for your proposed project and program? | Y | N | NOTES: _____ _____ |
| 7. Are you prepared to make a convincing case to others inside and outside of your organization that there is a need for this project? | Y | N | NOTES: _____ _____ |
| B. SUITABLE SITE | | | |
| 8. Can you identify a site that meets your needs and is affordable? | Y | N | NOTES: _____ _____ |

PROJECT FEASIBILITY *(continued)*

C. SUFFICIENT FUNDING

| | | | |
|--|---|---|---|
| <p>9. Have you spoken with funders to determine if you'll have access to enough funding during the project planning phase to cover the cost of professional services from an architect and lawyer, for a deposit to hold a site, and other expenses in the months or years before you begin construction?</p> | Y | N | <p>NOTES: _____ _____ _____ _____</p> |
| <p>10. Can you identify sources for the money you will need to renovate or construct a new center?</p> | Y | N | <p>NOTES: _____ _____</p> |
| <p>11. Have you done enough research on potential funding sources to feel confident that you have a reasonable chance of raising sufficient funds?</p> | Y | N | <p>NOTES: _____ _____ _____</p> |

D. QUALIFIED HELP

| | | | |
|---|---|---|--|
| <p>12. Do you have experts identified to help with the day-to-day project work, such as a lawyer, architect, etc.?</p> | Y | N | <p>NOTES: _____ _____</p> |
| <p>13. If you have identified a potential site, do you know what steps you will need to take to obtain zoning and other permitting for your proposed site, and which experts can help you at each stage?</p> | Y | N | <p>NOTES: _____ _____ _____</p> |

ORGANIZATIONAL READINESS

| | | | |
|---|---|---|--|
| <p>14. If this facility is part of a start-up business or will house a new program within an agency, has a business plan been developed?</p> | Y | N | <p>NOTES: _____ _____</p> |
| <p>15. Is your organization financially stable enough to take on this project? After consulting with your auditor or outside bookkeeper, are you satisfied that your organization has:</p> | Y | N | <p>NOTES: _____ _____ _____</p> |
| <p><input type="radio"/> <i>A sound financial accounting system and good accounting practices?</i></p> | Y | N | <p>_____</p> |
| <p><input type="radio"/> <i>Sufficient cash on hand to support ongoing operations?</i></p> | Y | N | <p>_____</p> |
| <p><input type="radio"/> <i>More revenues than expenses over time?</i></p> | Y | N | <p>_____</p> |
| <p><input type="radio"/> <i>Adequate financial reserves for an emergency situation or other unexpected events?</i></p> | Y | N | <p>_____</p> |
| <p><input type="radio"/> <i>Adequate cash flow to support debt should it be required to complete the project?</i></p> | Y | N | <p>_____</p> |

ORGANIZATIONAL READINESS

| | | | |
|---|---|---|------------------------------|
| 16. Can your organization manage its existing work along with the new demands of a facility project? | Y | N | NOTES: _____ _____ |
| 17. Do you have a reasonable management plan to reallocate responsibilities of key staff while the facility project is being planned and built? | Y | N | NOTES: _____ _____ |
| 18. Do you have staff and consultants with the necessary expertise in place to carry out the work of the project? | Y | N | NOTES: _____ _____ |

GENERATING SUPPORT

| | | | |
|---|---|---|------------------------------|
| 19. Are the members of your board enthusiastic about the proposed project? | Y | N | NOTES: _____ _____ |
| 20. Do you have individuals on your board who have the necessary expertise to support this project? | Y | N | NOTES: _____ _____ |
| 21. Are your board members committed to assisting with implementation and have the time to devote to it? | Y | N | NOTES: _____ _____ |
| 22. Are your staff members enthusiastic about the proposed project and have they had the opportunity to provide input? | Y | N | NOTES: _____ _____ |
| 23. Are the parents of children who would use the new center enthusiastic about the proposed project? | Y | N | NOTES: _____ _____ |
| 24. Are external friends and potential supporters willing to support your plans and prepared to help through donations or by volunteering their time? | Y | N | NOTES: _____ _____ |

 **JUDGING READINESS: IF YOU ANSWERED “NO” TO ANY OF THE ABOVE READINESS QUESTIONS, SLOW THE PROCESS DOWN UNTIL YOU TAKE THE NECESSARY STEPS TO PREPARE YOURSELF AND THE ORGANIZATION FOR PURSUING A FACILITY PROJECT.**

Section 2

Building a Team



The development team is made up of the staff and professional consultants who work on your facility project.

You need a team for two reasons:

1. Facilities projects require a lot of work – too much work for any one person.
2. You will need expertise not available through your organization's staff.

This section of the Guide answers three questions:

1. **Who's** on a development team?
2. **When** do you need each member?
3. **How** do you recruit and select them?

WHO'S ON A DEVELOPMENT TEAM

Your primary team consists of individuals or businesses that handle the essential roles in a real estate development project. The size and experience of your organization and the type of project you are pursuing will determine who you will need on your development team.

PROJECT SPONSOR

That's you—the most important member of the team. Whether making minor renovations to a leased facility or buying a parcel of land and building a new center, it is *your* project. Remember:

- Everyone who works on the project works for you.
- You are the final decision-maker.
- Your job is to hire the right professional help and make sure their work results in a successfully completed project.

PROJECT LAWYER

You will need an attorney to negotiate contracts to purchase or lease property, hire other professional experts, and negotiate regulatory and other approvals with local government officials.

- **When to hire:** The attorney should be identified early on in the project so that you can receive sound legal advice before executing contracts with other members of the team or negotiating any real estate agreements. Unlike the architect and the project manager who have ongoing involvement in the project, your lawyer will be called upon periodically throughout the project to assist with specific issues, contracts or transactions.

- **Key tasks:**
 - Draft, review and negotiate lease or purchase documents for a facility site.
 - Review and provide advice on the contract terms for other members of the team.
 - Navigate title, zoning and other legal issues relating to the suitability of potential sites.
 - Review loan agreements.
 - Help prepare contractor bid package and provide advice during construction contract negotiations.
 - Review the final “closeout” of the construction contract to make sure the contractor has fulfilled all of his financial obligations.
 - Advise on any unforeseen legal problems identified during construction.

- **What to look for in a lawyer:**
 - Licensed to practice law in your state.
 - Experience in real estate law.
 - Experience working on projects similar to yours.
 - Experience representing other developers in the same jurisdiction where your center is planned.
 - A good reputation in the community.

PROJECT ARCHITECT

An architect is trained and licensed by the state to design and oversee the construction or renovation of buildings. Typically you will want to contract with an architectural firm that can carry out both design and construction oversight services. As part of the architectural contract, and depending on the size and scope of the project, the firm may also retain additional subcontractors, such as structural and mechanical engineers; cost estimators; and environmental, code compliance and geotechnical consultants. If the project includes an outdoor playground, your architect may consult with a landscape architect with specialized knowledge about how to address issues of drainage, ground cover, grading, elevation, plantings, etc. If the project *only* involves a playground, you might want to use a landscape architect as the lead design expert.

- **When to hire:** Ideally the architect’s participation begins before the site is selected and extends throughout the construction phase. Early on, the architect can help assess possible sites and estimate project costs.

- **Key tasks during project planning:**
 - Help determine the amount and type of space will need to realize your vision.
 - Lead the site assessment process, including environmental, zoning, regulatory and other technical issues.
 - Prepare design drawings that describe the physical requirements of the site.
 - Prepare bid packages for potential contractors, which will include detailed, near-final construction drawings and specifications for the building.
 - Help evaluate contractor bids.

- **Key tasks during construction:**
 - Help the contractor interpret the architectural plans for the building during construction.
 - Monitor the construction process, including regular site visits and participation in project team meetings.
 - Sign off on contractor’s requests for payment.
 - Resolve design issues with the contractor.
 - Consult on any changes in the construction plans.
 - Advise the project sponsor when construction is completed.

- **What to look for in an architect:**
 - Prior experience in child care facility design.
 - Familiarity with all relevant local code and regulatory requirements.
 - Prior experience with projects that are the same size and scope as your proposed facility.
 - Good references from other child care centers or community organizations.
 - A design style that fits well with your vision.
 - Construction administration experience.
 - The ability to listen to your preferences but offer honest advice.

PROJECT MANAGER

The project manager is responsible for the day-to-day management and oversight of the project. Sometimes a staff member from the sponsor organization, such as the executive director, child care director or facilities manager, serves as the project manager, especially on smaller projects. On larger or more complex projects, you may need to hire an experienced consultant to serve as the project manager.

- **When to hire:** The project manager should join the team early on, as soon as you have concluded that the proposed project is reasonably feasible and the decision has been made to proceed.
- **Key tasks:**
 - Serve as liaison for the project sponsor (you).
 - Coordinate the activities of the development team on behalf of the project sponsor.
 - Assemble documents for development team members.

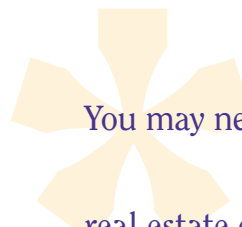
- Complete funding applications and prepare and revise budgets.
- Schedule meetings.
- Facilitate communications and decision-making to keep the project moving efficiently.

- **What to look for in a project manager:**

- Prior real estate experience.
- Responsible and well-organized.
- Good interpersonal and communication skills.
- Prior experience working on projects similar to yours.

REAL ESTATE DEVELOPMENT CONSULTANT

If your project is large or complicated and you plan to rely on internal staff to be the project manager, you may need an experienced real estate development professional to provide technical advice on all the steps involved in financing and building a facility. This type of consultant has more in-depth technical know-how in real estate development and financing, and can supplement the abilities of your project manager by handling more sophisticated budgeting, negotiations with property owners or city officials, etc.



You may need an experienced

real estate development professional

to provide technical advice on all

the steps involved in financing and

building a facility.



- **When to hire:** If a real estate development consultant is needed, retain their services when you have decided to move forward with your project and need help putting together a financing plan or analyzing potential sites.
- **Key tasks:**
 - Prepare detailed construction budgets.
 - Help develop a project financing strategy and assemble funding applications.
 - Work with other development team members on zoning and regulatory issues.
 - Coordinate the work of the development team, help evaluate its performance and flag issues for the project sponsor.
- **What to look for in a development consultant:**
 - A successful track record either developing and financing real estate or being the lead consultant or project manager for a developer.
 - Familiarity with the type of financing sources you will try to tap for the project.
 - Strong references that confirm the consultant's reliability, flexibility, and ability to work well with a diverse set of people.

CONSTRUCTION MANAGER

A construction manager has specialized construction expertise and understands how building design can affect construction costs. Hiring a construction manager to review architectural plans as they evolve can often result in construction cost savings without sacrificing quality. The construction manager can sometimes replace the development consultant when construction begins. During the construction phase, a construction manager can serve as the project sponsor's eyes and ears at the construction site.

- **When to hire:** The construction manager should join the team while the architect is refining the design, but before detailed construction drawings are finalized. At this point, it can be helpful to consult an expert with construction experience who is

independent of both the project architect and the contractor. A good construction manager is:

- More knowledgeable about the construction process and techniques than the typical architect.
- Independent of the architect and contractor.
- In a good position to be your eyes and ears on the project and help resolve any disputes that may develop between the architect and contractor.

- **Key tasks before construction:**

- Advise the architect on how the design plans can be modified to minimize construction costs.
- Assist the architect with the preparation of construction bid documents, evaluation of potential contractors and negotiation of the construction contract.

- **Key tasks during construction:**

- Can sometimes replace a development consultant when the project moves into construction to take advantage of their specialized expertise in construction.
- Can take on the major role in construction supervision instead of the architect, to ensure that the contractor builds the structure according to the plans and contract (although the architect should still participate in regular project meetings).

- **What to look for in a construction manager:**

- Prior construction experience with various building types and construction techniques.
- Familiarity with estimating construction costs.
- Experience working on construction sites as a contractor or working for a contractor.
- Strong interpersonal skills, since their role involves an independent and sometimes critical review of the architect and contractor's work.



GENERAL CONTRACTOR

The construction company you hire to build or renovate the structure is typically a general contractor. This firm takes responsibility for constructing the building and completing the project within budget, on time, and to your specifications. The word “general” means that the company hires and manages a variety of more specialized subcontractors for carpentry, electrical, roofing and the other construction trades.

- **When to hire:** The contractor is usually the last member to join the development team, after you have found a site, an architect has developed plans, and funding is in place. This typically happens a few months before construction begins. In addition to hiring the best-qualified builder, closely managing the contractor is the only way to ensure that the project is completed on time and within budget. (Section 5 provides more information on the construction stage, including the process of hiring and managing the contractor.)
- **Key tasks:**
 - Secure the building permit to begin work.
 - Hire and manage all subcontractors.
 - Meet regularly with the project sponsor and development team members.
 - Carry out all aspects of construction and renovation, including: site preparation, demolition, foundation and framing work; installing mechanical, plumbing and electrical systems; and all other tasks required to prepare the structure for occupancy.
 - Perform the final walk-through with the project sponsor and turn over operating manuals, warranties, and any surplus building material.

■ **What to look for in a general contractor:**

- Successful track record of completing projects on time and within budget.
- Prior experience constructing buildings of a similar size and scope to your proposed facility.
- Good references from prior clients.
- A competitive price.
- A reputation for productive working relationships with clients and members of their development team.
- Reliable subcontractors.
- Trustworthiness.

FUNDRAISING CONSULTANT

Soliciting capital grants for a facility project is different and more time-consuming than raising money to support ongoing program operations. Capital campaigns for building projects seek large one-time gifts from foundations, corporations, and wealthy individuals and are generally more successful when supported by a fundraising consultant.

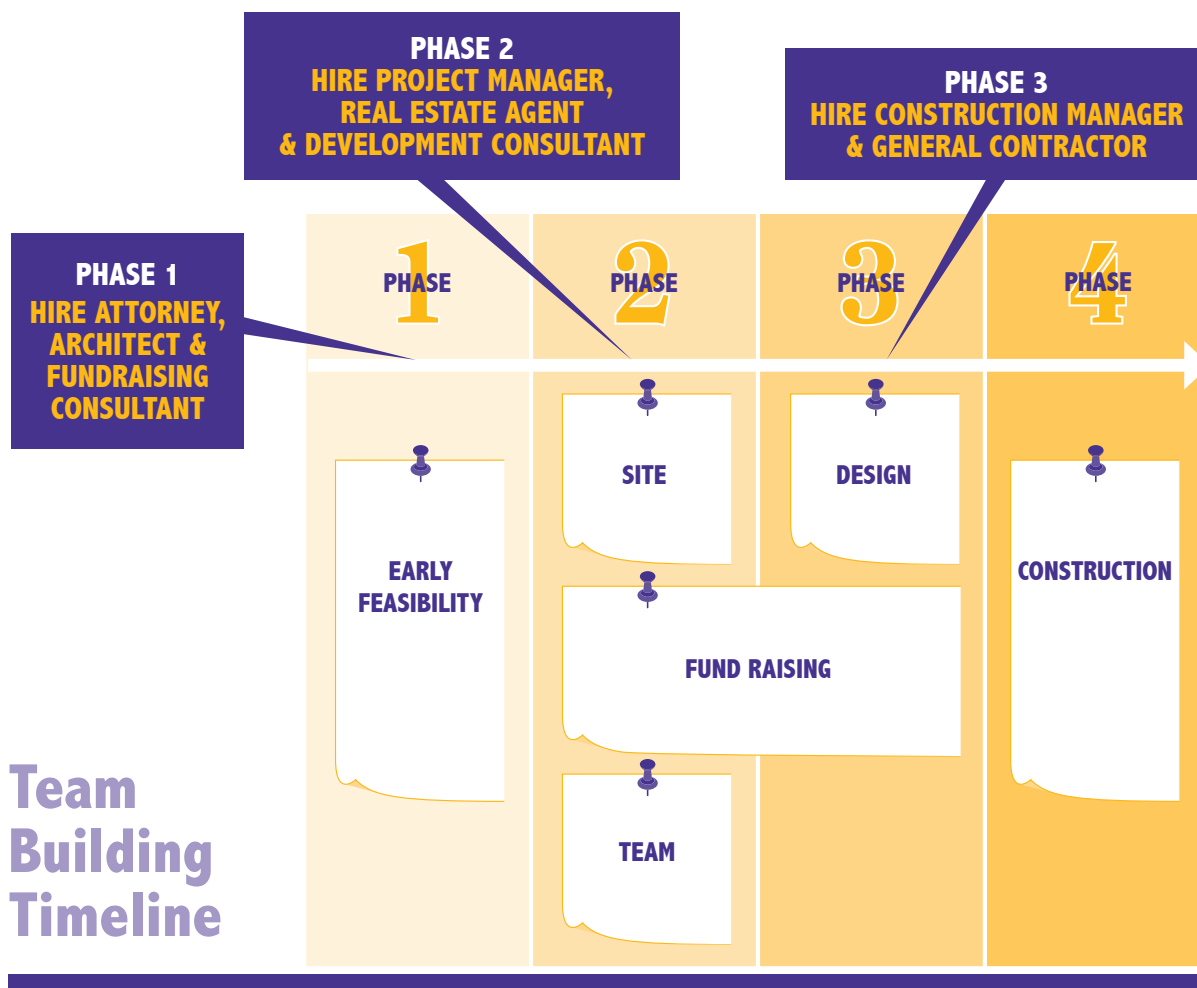
- **When to hire:** A fundraising consultant should become involved early in the financial planning because of their expertise in assessing the feasibility of a capital campaign. Sometimes it makes sense to hire this type of consultant as early as possible in the feasibility phase, to see whether it will be possible to put together the required resources before deciding to move forward with the project. The consultant can help train staff, board members or other volunteers who will approach potential funders or prepare campaign materials.

- **Key tasks:**
 - Conduct a fundraising feasibility assessment early on to determine the viability of the plan.
 - Carry out research on potential donors.
 - Draft funding proposals.
 - Follow up with funders on proposals submitted.
 - Develop promotional materials, such as a brochure or a project description.
 - Assist in identifying volunteer leadership for a capital campaign.
 - Help support and nurture relationships with certain key funders.
 - Conduct training for center staff or board members who will make the “asks.”
- **What to look for in a fundraising consultant:**
 - A history of successful fundraising with similar projects and organizations.
 - Good communications and interpersonal skills.

- Enthusiasm for your mission.
- A member of the Association of Fundraising Professionals who follows their code of ethics.

REAL ESTATE AGENT

A commercial real estate agent or broker can help identify potential sites. Look for a state-licensed real estate broker who is knowledgeable about the local real estate market, including properties available for sale or lease, property values, information about zoning and other regulatory restrictions, etc. The broker will be most helpful once you know what kind of site you need – its size, location, the type of structure, and whether you are renting or purchasing. Realtors are generally paid a commission on the sale or lease, rather than a flat fee. Additional information on real estate brokers and tips for hiring can be found in the Site section of this guide.



RECRUITING AND SELECTING YOUR DEVELOPMENT TEAM

Selecting the most qualified individuals or firms is one of the most important things you can do to influence the project's outcome. Devote the time and attention this requires, and make sure the process is formalized and carefully followed. A good consultant selection process:

- Attracts the best qualified and most appropriate candidates for the job;
- Provides a sound basis for comparison among candidates; and
- Promotes fairness and objectivity in your decision-making.

Be sure to read the box on using **DONATED PROFESSIONAL SERVICES** on page 21 and the **HIRING TIPS** on page 22.

The best way to understand the recruiting process is to walk through it, step by step. Let's use the example of hiring an architect since almost every project will require one. The architect is particularly important because he or she will work with you from initial site selection to the day the contractor hands you the keys to your finished space, and other than the builder, will be the most costly of the various professionals working on the project.

START BY MAKING A LIST

While it is easy to assemble a long list of architects from the Yellow Pages or the local society of architects, it is harder to develop a short list of individuals and firms best qualified to do a good job for you:

- **Call child care programs that have used an architect's services.** Architects with experience creating child care environments and working with clients like yourself would be good candidates for your list, especially if they are recommended by your colleagues.

- **Confer with technical assistance organizations.** Local technical assistance providers such as LISC and community foundations often maintain lists of professional consultants, including architects, who work with nonprofit organizations or may have specific experience with child care providers.
- **Use your social networks.** If you, your staff, or your board knows architects or real estate development professionals, contact them and ask for referrals. Even if they don't have an architect to suggest, they may know others who do.

After spending time speaking to people about architects they know or have worked with, you will discover a number of things:

- Hearing firsthand experiences will teach you a lot about what to look for in an architect.
- It is likely that the names of a small number of architects will be repeatedly mentioned during your search, including those who:
 - have designed similar projects to the one you are planning;
 - have worked for similar clients; and
 - come highly recommended.

This is your list of prime candidates. Similar networking can be used to develop a list of construction managers, fundraising consultants or other members of your development team.

SOLICIT INTEREST

As you settle on your list of potential architects, contact each one by phone. Tell him or her who referred you. Use the call to "size-up" the consultant as well as to sell your project: What do you offer that might interest a consultant who may be very busy with other assignments? Ask for materials about their experience and firm. Tell them to expect your request for proposal (RFP).

DEVELOP AN RFP

Draft a request for proposal, or RFP, to send to all the potential candidates. Include information about your organization and program, the proposed project, the services you seek and the desired qualifications, and the deadline for submission. The RFP should also let the recipients know what you expect from their proposals, including the background and experience of the firm and specific expertise with child care facility design. A sample RFP can be found in Appendix 2A.

Make follow-up calls to each of the prospective architects to make sure they received the RFP and to urge them to submit a proposal. Let them know you are available to answer any questions they may have.



EVALUATE THE PROPOSALS

Once the completed proposals arrive, follow this process for evaluating them and selecting a consultant:

- 1. Create a Hiring Committee:** Put together a committee to help conduct interviews and make hiring decisions. Select key staff, board members and any advisors with relevant real estate development experience. This group's role is advisory: In most cases these key decisions should be made by the board of directors based on the executive director's recommendation.
- 2. Read and Rate the Proposal**

Submissions: You and members of your committee should thoroughly review each submission. Have each reader prepare a consultant rating sheet (see Appendix 2B for a sample). The committee should discuss each proposal and decide which candidates to interview.
- 3. Develop Selection Criteria:** Before the interviews, develop a list of selection criteria so that you are sure to ask relevant questions. Your criteria list should include:

 - relevant professional experience and competence.
 - reputation for integrity.
 - timeliness of work.
 - responsiveness to clients.
 - compatibility and chemistry with you as a client.

DONATED SERVICES

To support a worthwhile endeavor some professionals provide their services on a **PRO BONO** basis, which means without charge or at a reduced rate. Carefully consider the pros and cons of the offer before accepting pro bono services. The benefit is obvious: saving money.

However, will you receive the same service as if you paid full price? Your work may be postponed to meet the demands of other paying clients. Would you feel you could sue for damages if the consultant was negligent?

The one exception to this caution is large law firms where pro bono work is seen as a professional obligation and is carefully monitored. Once the assignment is accepted by the firm, you should receive the standard level of service.

IN ANY CASE, IF YOU ACCEPT PRO BONO SERVICES:

1. be just as careful about selecting pro bono consultants as those charging a market rate fee;
2. be clear at the outset and throughout the project that you demand the same level of service as a paying client; and
3. if you are disappointed with the service, replace the consultant with one who can perform to your satisfaction.

HIRING TIPS

DON'T PLAY FAVORITES. Avoid the friend of a friend, brother-in-law, or other personally connected professionals. Choose a consultant based strictly on his or her qualifications and performance, not on personal relationships or loyalties.

DON'T SELECT BASED ON PRICE ALONE. Cost is an important consideration. But it is the consultant's expertise and quality of work that matter the most. If you hire the least expensive consultant based solely on the price, you may end up spending more in the long run by hiring additional, more qualified professionals to resolve problems.

UNDERSTAND YOUR FUNDING SOURCE REQUIREMENTS.

Be aware that accepting financing from certain sources, especially from government programs, may require special bidding procedures and hiring requirements. For example, some funders may require you to accept the lowest bid. Be sure your lawyer fully understands the requirements of each funding source and that the bid package and process fully comply.

AVOID CONFLICTS OF INTEREST. It is a conflict of interest when someone involved with your center (like a staff or board member) can benefit personally, financially or professionally from any project-related decision you make. For example, if your contractor is married to your board president, that would be a conflict of interest for your organization.



A very important consideration in any professional services agreement is **CHEMISTRY** – how well you and your consultant will be able to work together. The interview is an important place to assess that chemistry. But chemistry cannot replace competence. You need both.

4. Prepare Interview Questions: Prepare a list of questions for each interview. Be sure that your questions relate directly to your plans and address any specific concerns with each proposal. A list of questions to use during an interview can be found in Appendix 2C.

5. Conduct Interviews: Interview at least three firms. Leave a minimum of an hour for each interview and set aside at least half an hour for the review team to discuss each interview immediately afterward. Discuss the candidate's strengths and weaknesses and identify any telephone follow-up questions for

the architect or questions to ask during the reference checks. The consultant rating sheet, found in Appendix 2B, can be used to record results of the interview process.

- 6. Conduct Reference Checks:** For consistency, only one person should do the reference checking. That person should keep very detailed notes of each conversation. Remember that your candidates will provide references that they believe will speak favorably about them. Whenever possible, don't limit yourself to those names: If you know others who have worked with a candidate, call them too. You should also visit facilities the architect has designed to see their work firsthand. Also, ask specific questions:
- Was work done on a timely basis?
 - Was the architect reasonable about making as many revisions to the plan as needed to satisfy you?



When hiring members of your development team, you should seek the advice of a lawyer who is familiar with real estate law ... You want an agreement that is fair to both parties.

- Was the architect flexible about producing renderings or models to support your fundraising efforts?
- Every design process has its problems; which ones did you encounter with the architect?
- Did your issues and concerns receive the kind of attention they deserved?
- Describe a difference of opinion you had with the architect. Were you satisfied with both the resolution and the process of reaching that resolution?

7. Make a Decision. Share the results of the reference checking with the members of your hiring committee. If you're not enthusiastic about at least one of your candidates, consider reopening your search. More likely, you will have a few good choices, each with their strengths and weaknesses. The entire committee should participate in evaluating and prioritizing each candidate. If your board of directors will be making the decision, formulate a recommendation and convey the committee's input to your board.

8. Contract for Services. The final step is to contract for services. Most architects will give you a standard contract drafted by the American Institute of Architects. Not surprisingly, it tends to favor the architect rather than the client. You should seek the advice of a lawyer who is familiar with real estate law and has dealt with this type of

contract. You want an agreement that is fair to both parties.

Keep these factors in mind:

- If the relationship does not work out, you want to be able to terminate the agreement quickly and with minimal cost to you or disruption to the project. You also want to be able to receive all of the work products, such as consultant studies or drawings, and have the right to give them to another consultant if necessary.
- If there are problems, you want liability to be fairly allocated. For example, you would not want the agreement to protect the architect from legal liability for costs you incurred because of their error.
- The fee structure should be reasonable and minimize your financial risk. For example, if a pending zoning decision might force you to abandon the site you have selected, you should be able to postpone further design work without incurring additional costs until the uncertainty about the site can be resolved.

ALTHOUGH THE STEPS OUTLINED ABOVE ARE GEARED TOWARD THE SELECTION OF THE PROJECT ARCHITECT IN PARTICULAR, A SIMILAR PROCESS COULD BE FOLLOWED FOR HIRING ANY OF THE KEY MEMBERS OF THE DEVELOPMENT TEAM.

ALTERNATIVE APPROACHES TO PROJECT DEVELOPMENT

If you don't want to be the developer who hires each member of the team, consider two other approaches. **“Turnkey”** or **“design-build”** approaches can simplify the process because these firms assemble their own development team.

TURNKEY DEVELOPER

You can hire a real estate developer to build a facility for you. A developer-for-hire is often referred to as a “turnkey” developer because all you have to do is turn the key to open the front door when the project is completed. The turnkey developer hires the architect, contractor and project manager, and also handles many of the other “pre-construction” challenges such as dealing with zoning and other regulatory reviews.

■ **PROS:**

- Once you have a site and have raised the capital for the project, a turnkey developer does the rest.
- There is some flexibility too. In negotiating the contract, you can retain certain rights, such as participating in the selection of the architect and approval of the final design.

■ **CONS:**

- You are handing over a good deal of control of day-to-day decisions. Unless you can anticipate in advance all the decisions you may want to make and can make your programmatic requirements clear in sufficient detail up front, the developer may make decisions (often in good faith) that differ from the ones you might make.
- The interests of the developer and the child care provider may be in conflict. For example, a decision to substitute a less durable floor covering might be an easy decision for a developer who wants to complete a project within budget. A child care provider will be more concerned with the long-term cost of maintaining the facility, and might choose a more expensive and durable floor covering while cutting costs somewhere else.

In a leased property, the landlord may agree to pay a “build-out” allowance for renovations. Often the landlord acts as a turnkey developer, hiring the architect and supervising the contractor. You can also negotiate to hire your own architect or contractor, although the landlord may reserve the right to approve your architect's plans.

DESIGN-BUILD

In the design-build model, a single company combines the design and construction services in one agreement and manages all aspects of the project from early design through construction. A construction company may hire an architect or engineer as a subcontractor, or a project may be a joint venture between a construction company and an architectural firm.

■ **PROS:**

- The main benefit of design-build is that it simplifies the project for an organization without prior real estate development experience.
- With a carefully negotiated contract, design-build can be a cost-efficient means of developing a facility, since you are hiring your team within one firm.

■ **CON:**

- The primary downside is that the client can lose control over many of the day-to-day decisions that are made, some of which involve trade-offs between cost and quality.

Despite these drawbacks, both turnkey and design-build methods can work if you select the right partner and have good legal advice as you contract for services. With either approach, it would be particularly useful to identify a firm with child care experience.



REQUEST FOR PROPOSAL: ARCHITECT FOR CHILD CARE FACILITY PROJECT

BACKGROUND

Little Tots Child Care Center is a private, nonprofit organization incorporated in 1985 to provide child care services in Kid City. Little Tots serves 80 children in two facilities located about one mile from each other. One facility serves infants and toddlers, the other serves preschoolers. Little Tots wants to consolidate its services into a single building for easier access and continuity of care for neighborhood families, as well as for cost efficiencies.

SCOPE OF SERVICES

Little Tots is seeking an experienced architect to assist with all phases of site evaluation, design, and construction oversight. The scope of services includes:

- Once a site is selected, meet with the executive director and other staff to clarify space needs and develop a space program for the new site.
- Work with the executive director and development team to evaluate zoning regulations, special conditions, building codes, site conditions, and state licensing requirements.
- Provide alternative schematic design layouts, and review options with Little Tots staff.
- Provide a cost estimate for the project.
- Provide presentation materials such as color renderings of the proposed project, to be used for fundraising purposes.
- Prepare construction documents.
- Assist with preparing the contractor bid package and evaluating potential contractors.
- Monitor the construction process.

DESIRED QUALIFICATIONS

- Prior experience in the design of child care facilities.
- Experience working with nonprofit organizations.
- Prior experience working on a project of similar size and scope.
- Licensed to work in the state of (your state).
- Excellent references.

PROPOSAL CONTENT

Proposals submitted in response to this RFP should include the following:

1. **Statement of Qualifications:** Please provide:
 - a. A description of your practice or firm, including the qualifications of the principal of the firm, as well as the architect who will serve as the day-to-day project manager. Please indicate which tasks will be subcontracted, and how subcontractors will be selected.
 - b. An overview of the respondent's specific prior experience in the design of child care facilities, including a list and description of similar projects.
 - c. Plans, renderings, and photographs of other projects that reflect relevant experience.
 - d. Three references who can comment on the respondent's qualifications based on previous experience as clients on a similar project.
2. **Cost Proposal:** Please provide a cost proposal that includes a breakdown of hourly or daily costs for each component of the scope of services.

RESPONSES

Please submit two copies of your response to this RFP by (Date) to the following:

Executive Director, Little Tots
123 Children's Place
Kid City

APPENDIX 2B: CONSULTANT RATING SHEET



CONSULTANT RATING SHEET

Consultant: _____

Rater's Name: _____ Date: _____

RATE EACH OF THE FOLLOWING:

Qualifications:

Very Weak Weak Moderate Strong Extremely Strong

Experience with similar projects

Very Weak Weak Moderate Strong Extremely Strong

Experience with similar clients

Very Weak Weak Moderate Strong Extremely Strong

Cost and other business terms

Very Weak Weak Moderate Strong Extremely Strong

Compatibility (will be easy to work with)

Very Weak Weak Moderate Strong Extremely Strong

Availability (seems interested in project and available to work in your time frame)

Very Weak Weak Moderate Strong Extremely Strong

Notes on overall **STRENGTHS**: _____

Notes on overall **WEAKNESSES**: _____

Additional questions or concerns that need further clarification: _____

Reference check information: _____



INTERVIEW QUESTIONS FOR AN ARCHITECT

CHILD CARE FACILITIES DESIGN EXPERIENCE:

- “How many child care facilities have you designed?”
- “Can you give us the names of other clients you have worked with to design child care facilities?”
- “Has your experience included getting zoning and other regulatory approvals from public agencies in this local jurisdiction?”
- “What would your ideal child care center look like?”
- “What experience do you have designing outdoor play spaces?”
- “Have any of your previous projects been similar to ours in any way?”
- “Does our project present any particular design or other challenges?”

THE CLIENT/ARCHITECT RELATIONSHIP:

- “What steps do you take with a client to create an initial design?”
- “What will our role be in making design decisions?”
- “How have you resolved disagreements over design decisions in the past?”
- “What design approach would you take to our project?”
- “What kind of information can we provide to help you understand our space needs?”
- “Who in the firm will be responsible for designing the project? Will that person be our day-to-day contact?”
- “What is your firm’s role during construction? Do you provide construction oversight services?”

BUDGET AND COST:

- “How do you determine your fee for a project like ours?”
- “Does your fee include the work of subcontractors, or will that be an additional cost?”
- “Will you provide us with design options until we are satisfied, or is there a limit to the number of design schemes you will develop if we are not happy with the initial set?”
- “Will there be an extra cost for renderings or models if we need them for our fundraising efforts?”
- “Have any of your previous projects gone over budget? If so, what were the reasons?”

Section 3

Identifying and Securing a Site

Finding a site that is appropriate for child care use, affordable to your program and feasible to develop is a big challenge.

This section walks you through the three steps required to secure a site.

Step 1: Finding a site

Step 2: Evaluating a potential site

Step 3: Acquiring a site



REMINDER: Before you purchase or lease a site you will need funds to cover the cost of architectural and legal services to evaluate the site and negotiate an option, lease or purchase agreement. You will also need funds on hand to make a cash deposit to bind a purchase or lease agreement. Refer to Section 4 for more information on raising money.

STEP 1: FINDING A SITE

DEFINING YOUR SPACE NEEDS

Hire an architect before you identify a site. An architect experienced in designing child care facilities can create a “space program” or “architectural program” to help translate your needs into square feet, acres and other specific physical characteristics. You can share this information with real estate brokers and others to target your site search.

REMINDER: Details on the different phases of the design process and how to work with an architect to create a space program can be found in Volume 2 of this guide series on designing facilities.

THE SITE SEARCH

If your center is a nonprofit organization with a community-oriented charitable purpose, it might be able to secure a site at a below-market price, and perhaps even for free. Many programs begin their search with this as their goal. Approach local government, which sometimes has abandoned, surplus or tax-foreclosed properties to sell or lease. It is helpful if you have good connections with an influential city council member, the mayor or other public agency officials.

State and federal agencies may also have surplus property. Some religious, educational and health care institutions are substantial owners of land and buildings. Because of their mission or support for your charitable purpose, these institutions may sell or lease property – possibly at a reduced price or with more generous terms, such as granting your organization a longer period of time to raise money and arrange financing.



HINTS FOR SELECTING A COMMERCIAL REAL ESTATE AGENT:

- **LOOK FOR AN AGENT WHO:**
 1. primarily deals with properties in your geographic area and understands the local market;
 2. specializes in *commercial* real estate;
 3. understands the local regulatory environment, including the zoning board, building codes and land use issues, and is familiar with the municipality's building inspectors and city planners;
 4. handles transactions of a similar size and scale to your project; and
 5. has a reputation for integrity.
- **CONSULT WITH YOUR ATTORNEY** before signing an agreement with a real estate agent.
- **INDEPENDENTLY VERIFY** the information you receive from the broker about the property. Keep in mind that a real estate agent is paid only when a sale or lease occurs, so his or her interest is in completing the largest real estate transaction possible, as soon as possible.

If you can't find an inexpensive site, consider sites that private owners are selling or leasing. Newspapers and specialized publications typically include commercial real estate listings.

Identify a commercial real estate broker familiar with your area. A child care center is considered a "commercial" real estate use because it is a business, rather than a residence. Be sure any real estate agent or broker you select satisfies the criteria listed in the sidebar on "Hints for Selecting a Commercial Real Estate Agent."

STEP 2: EVALUATING A POTENTIAL SITE

When you find a site that interests you, consider the size and location of the site, what properties and businesses are nearby, and how the neighborhood might react to a new child care center. Walk around the neighborhood, and visit the site at various times of day and in different weather conditions. A complete site evaluation checklist can be found in Appendix 3A.

Your architect should make an initial physical inspection to make sure the site is large enough to accommodate your program, and that there are no major structural, site or other conditions that would make the project infeasible. The architect can also determine whether the property is or could be zoned for child care use, and might prepare some quick sketches to show design options. If the owner will allow it, and a licensor or building inspector are able to visit the site at this stage, they may be able to identify any obvious concerns with developing the property for child care use.

Once you are interested in purchasing or leasing the site, get access to the property so your architect and lawyer can do more thorough research to be sure that the location will work for you. To do so, you need to gain "*site control*."



RENOVATE OR BUILD NEW?

Should you renovate an existing structure or build new? The three considerations are timing, cost, and design quality. But in the final analysis, it is impossible to say that any one building method is always going to be quicker, less expensive or of higher quality. For example:

- **TIMING:** Renovating an existing building should take less time than constructing a new building. But unexpected structural problems like weak supporting beams or hazardous materials such as lead or asbestos can be discovered during the renovation process. These are issues that can cause long delays.
- **COST:** Depending on the structure, renovating an existing building for child care can sometimes be more expensive than creating an entirely new facility, since most existing residential or commercial buildings are not well laid out for child care use. It can be very costly to reconfigure these spaces into a highly specialized early childhood center. Also, during the renovation process the contractor may find unexpected structural damage that needs repair or hazardous materials that need to be remediated. These can be costly to address.
- **DESIGN TRADE-OFFS:** The design of a renovated building is constrained by the building's existing layout: Some buildings lend themselves to child care use more easily than others, such as those with large open spaces and fewer load-bearing walls that cannot be reconfigured.

The decision to renovate or build new depends on the availability and features of each specific site. During the site selection process, be sure to engage your architect, lawyer, and other members of the development team to make a case-by-case decision about each site.

SITE CONTROL

Site control is a legal agreement with the property owner that takes the property off the market temporarily and prevents other buyers from purchasing or leasing it while your project team checks it out. This removes the pressure to acquire the property immediately or risk losing it.

Your lawyer can advise you on all aspects of gaining site control. *Do not sign anything that will prevent you from changing your mind about purchasing or leasing a space before you can determine whether your plans can be realized on that site.* Sellers and brokers are always eager to close a sale and may put a lot of pressure on you to complete a purchase, even before you have evaluated the site and investigated the seller's claims about its status and condition.

You can establish site control in two ways – through an *option* or through a *purchase or lease agreement*.

1 Option: An “option” agreement means the owner agrees to take the property off the market while you decide whether you will purchase (or lease) it. When the agreement expires, you have the “option” to either back out or proceed to purchase or lease the property. An option agreement has the following key features:

- **Term:** The option provides a period of time during which the property is withdrawn from the market. When the option expires, you either have to purchase (or lease) the property, allow the owner to place the property back on the market, or negotiate an extension to the option agreement to give you more time to decide or complete your project planning.
- **Option Payment:** The site control agreement will specify the amount of the option payment. This payment compensates the owner for taking the property off the market.
- **Price or Lease Terms:** The agreement will have a purchase price or lease terms that both parties agree to in the event that you exercise your option to purchase or lease the property.

2 Purchase or Lease Agreement: By executing a purchase or lease agreement you legally obligate yourself to purchase (or lease) the property by a specified date. Unlike an option, you have only a few specific time-limited grounds for withdrawing from the transaction. The typical escape hatches or “contingencies” that allow you to back out of the deal include:

- **Financing:** The financing contingency releases you from the obligation to purchase the property if, after a good faith effort, you fail to raise the money you need.
- **Inspection:** The inspection contingency allows you to walk away from the proposed purchase without financial penalty if you uncover undisclosed problems that might prevent you from completing your plans, such as the presence of hazardous materials that will make construction prohibitively expensive, or evidence that the building is not structurally sound.
- **Other:** If the market is soft the owner might agree to other contingencies. For example, if you know that you will need a zoning variance, the owner may agree to make the sale contingent on the city’s approval of the variance.
- **Contingency Deadline:** The contingencies in the purchase or lease agreement will expire on a date or dates that you agree to with the seller or landlord.

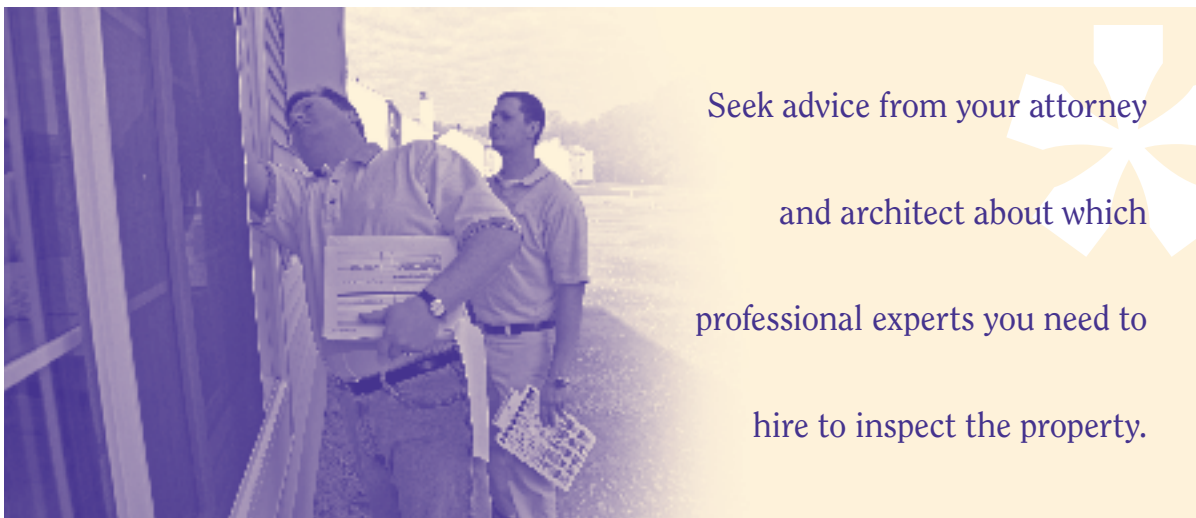
SITE EVALUATION

Before moving forward with a purchase, seek advice from your attorney and architect about which professional experts you need to hire to inspect the property, such as an environmental consultant or structural engineer. These specialists can uncover certain obstacles that might prevent you from realizing your plans. Your attorney, architect, and other specialists they might identify will help you:

- independently verify what you have been told by the owner or others about the property;
- learn about any undisclosed conditions or circumstances (such as the presence of environmental hazards or structural weaknesses that might prevent you from proceeding); and
- determine how much it will cost to move forward with this site.

This research is typically referred to as “due diligence.” Your due diligence is complete when you can answer all of the questions on the Checklist, are aware of all the risks, and can decide whether or not they are manageable and affordable.

Use the **SITE EVALUATION CHECKLIST** in Appendix 3A to help with your careful assessment of a potential site.



Seek advice from your attorney
and architect about which
professional experts you need to
hire to inspect the property.

SHOULD YOU PURCHASE OR LEASE YOUR PROPERTY?

ADVANTAGES OF PURCHASE:

- Provides a stable home for your program without the danger of eviction.
- Gives you more control over annual expenses by protecting you against periodic rent increases.
- Is generally easier to obtain financing since you will have collateral.
- Over time will be an asset for the organization.

DISADVANTAGES OF PURCHASE:

- The upfront cost is high – you must be able to pay the full cost of the property with savings, grants and loans.
- You assume the responsibility and cost of building maintenance and repair.
- As an owner you will have more liability for accidents and injuries that occur on your property, although even when you lease space you will need to acquire liability insurance.

On balance, many centers prefer ownership if they can afford it. But for child care programs suitable sites can be hard to find, so the decision to buy or rent may be a very practical one: What is the most desirable property available, whether for lease or purchase? Can you afford it? Can you raise the capital to purchase? Can you secure a long-term lease at a favorable rate?

ADVANTAGES OF LEASING:

- You have the freedom to relocate at the end of each lease term without the inconvenience or uncertainty of selling the property.
- If the property does not need major renovation, you will not need as much money up front.
- The landlord may be willing to build the expense of renovation into your monthly rental payment to help you stretch costs over time.
- It may be easier to locate a suitable property to lease than to purchase.

DISADVANTAGES OF LEASING:

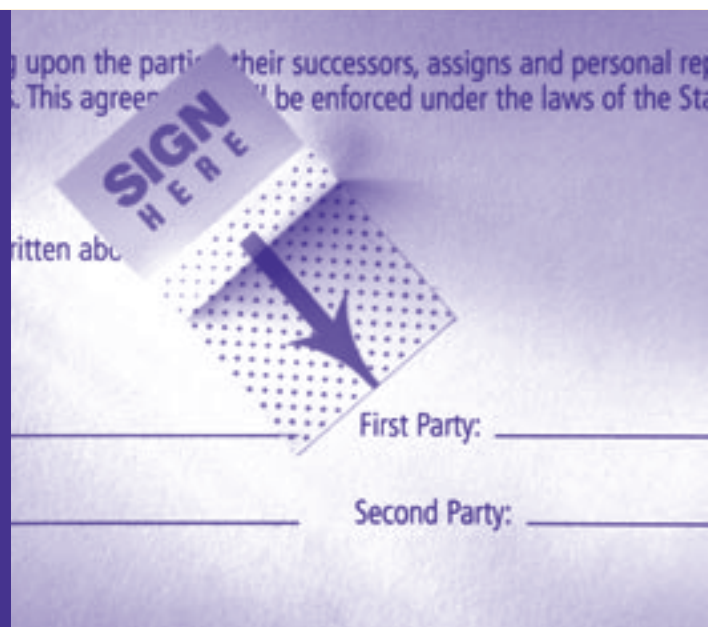
- You may be forced to relocate when your lease term expires.
- You can expect periodic rent increases based on market conditions and the cost of operating the building.
- You may be unwilling or unable to make extensive improvements to the site to make the space more appropriate for child care. The landlord may not allow certain changes. Or, if you have a short-term lease, it may not be worth making a financial investment in the site.

STEP 3: SITE ACQUISITION

After completing the necessary due diligence, your attorney should coordinate the closing for your purchase. If consultants identify any undisclosed issues, you may be able to renegotiate the price. For example, if your team finds structural problems or environmental hazards, your site control agreement should give you the right to withdraw from the transaction. Rather than placing the property back on the market, where the next buyer will probably discover the same problems, the seller may be willing to lower the price.

Complete the sale or lease close to the start of construction so you won't incur the costs and liability of owning or leasing the property for longer than necessary. Once you own it, you're responsible for paying "holding costs" – property taxes, insurance, security, and other property-related expenses. If you are purchasing the site and don't yet have the money, temporary "bridge" financing may be necessary to buy the property and complete your design work, fundraising and contractor selection. A bridge loan is a "temporary" loan to purchase a site or hire professional experts for early planning while you raise additional funds or close on a construction loan.

CONSIDERATIONS FOR NEGOTIATING A LEASE AGREEMENT



TERM AND RENEWAL:

- If you can negotiate a favorable rent, try to secure as long a term as possible.
- Given the high cost of relocating, try to secure the right to renew the lease for one or more additional terms. The renewal clause should provide guidance on future rent increases based on market conditions at the time of renewal.
- If you are making a large investment in tenant improvements, it is in your interest to have a long-term lease and the option to renew.

RENT TO BE PAID:

- “Useable square feet” is the actual space occupied by the program and “rentable square feet” is the amount of square feet used by the program plus a proportion of the building’s common area used by multiple tenants (such as elevators, hallways, or the lobby). Rent is typically calculated based on the higher “rentable square feet” figure.
- Rent usually includes a per square foot price plus one or more of the following:
 1. Triple Net Lease: A prorated portion of the building’s overall operating costs, such as utilities, maintenance, insurance, and real estate taxes.
 2. A “rent escalator” that provides for future rent increases.

USE:

The lease should describe how the tenant will use the space so that it is clear that the landlord is approving of the child care use.

TENANT IMPROVEMENTS:

If the space needs renovation, you will need to negotiate with the landlord over how much they will invest in the “*build-out*.” The lease often includes a “*work letter*” that includes what the landlord will provide in terms of materials or dollars (a per square foot amount or a percentage of the total), and indicates who is responsible for hiring the architect and builder and approving the plans. If the landlord is making the improvements, the lease should include financial penalties if the space is not ready for occupancy when promised. If the landlord will be doing the build-out, be sure to ask your attorney to propose language for the lease agreement that ensures your satisfaction with the quality of the work and materials.

SERVICES:

The agreement will specify which building services (such as custodial) are provided by the landlord and the hours of building operation.

OTHER ISSUES:

The lease should specify the type and amount of insurance each party will carry, and the liability each will have in a variety of situations.

APPENDIX 3A: SITE EVALUATION CHECKLIST

| LOCATION | | | |
|---|---|---|---------------------|
| 1. Is the site convenient for your target families? | Y | N | NOTES: _____ |
| <input type="radio"/> <i>Walking distance or easy car ride from target family residences or places of work?</i> | Y | N | _____ |
| <input type="radio"/> <i>On public transportation route(s)?</i> | Y | N | _____ |
| <input type="radio"/> <i>Easy to get to and from (near highway access, not near congested intersection, etc.)?</i> | Y | N | _____ |
| <input type="radio"/> <i>Located near other key neighborhood destinations such as schools, workplaces, shopping, etc.?</i> | Y | N | _____ |
| 2. Is the site suitable for use as a child care center? | Y | N | NOTES: _____ |
| <input type="radio"/> <i>Sheltered from unappealing or potentially dangerous features (such as major highways)?</i> | Y | N | _____ |
| <input type="radio"/> <i>Neighboring properties offer complementary uses? (For example, schools, libraries, small retail, parks etc. might be complementary whereas major industrial or strictly residential uses might not.)</i> | Y | N | _____ |
| <input type="radio"/> <i>Neighborhood perceived as safe?</i> | Y | N | _____ |
| <input type="radio"/> <i>Neighbors would be supportive of child care on the site?</i> | Y | N | _____ |
| 3. Does the zoning permit a child care use? | Y | N | NOTES: _____ |
| | | | _____ |
| | | | _____ |
| | | | _____ |
| NOTE: <i>Your real estate lawyer or architect can make this determination.</i> | | | |
| 4. Will the increased traffic or parking pose any potential problems? | Y | N | NOTES: _____ |
| | | | _____ |
| | | | _____ |
| 5. Is there any reason to believe that there are potential hazards, such as fuel storage tanks, near the site? | Y | N | NOTES: _____ |
| | | | _____ |
| | | | _____ |
| | | | _____ |

SITE CONDITIONS (when evaluating land only)

| | | | |
|---|---|---|--|
| 6. Is the site large enough to house: | Y | N | NOTES: _____ _____ _____ _____ |
| <input type="radio"/> A building large enough to meet programmatic needs? | Y | N | |
| <input type="radio"/> Sufficient playground space? | Y | N | |
| <input type="radio"/> Sufficient parking and circulation space? | Y | N | |
| <input type="radio"/> Required setbacks? | Y | N | |

NOTE: Use these guidelines for evaluating whether there is sufficient square footage: the overall site should have about 400 square feet per child; the building should have about 100 square feet per child; and the outdoor playground should have about 75 square feet per child for 50% of the total center population. However, these guidelines might not apply in highly congested urban settings where land costs are prohibitively high and on-street parking may be allowed.

| | | | |
|---|---|---|--|
| 7. Are there likely to be any hazardous materials on the site such as: | Y | N | NOTES: _____ _____ _____ _____ |
| <input type="radio"/> Lead | Y | N | |
| <input type="radio"/> Asbestos | Y | N | |
| <input type="radio"/> Arsenic | Y | N | |
| <input type="radio"/> Oil tanks | Y | N | |

NOTE: Your architect will help you hire an engineering firm to do a "Phase I" environmental assessment to research what activities have previously occurred on the property (and adjoining properties). More extensive site review may be needed based on the results.

| | | | |
|---|---|---|---------------------------------------|
| 8. Is major site work required to be able to build, such as: | Y | N | NOTES: _____ _____ _____ |
| <input type="radio"/> Clearing of forests? | Y | N | |
| <input type="radio"/> Blasting of ledge? | Y | N | |
| <input type="radio"/> Significant grading of land? | Y | N | |

| | | | |
|---|---|---|--|
| 9. Does the site have access to needed utilities, including: | Y | N | NOTES: _____ _____ _____ _____ |
| <input type="radio"/> Electrical? | Y | N | |
| <input type="radio"/> Phone? | Y | N | |
| <input type="radio"/> Gas or Oil? | Y | N | |
| <input type="radio"/> Water? | Y | N | |
| <input type="radio"/> Sewer? | Y | N | |

| | | | |
|--|---|---|------------------------------|
| 10. If there is no municipal water source, is it reasonable to assume that a well adequate for the high level of use by a child care center can be drilled? | Y | N | NOTES: _____ _____ |
|--|---|---|------------------------------|

| | | | |
|---|---|---|------------------------------|
| 11. If there is no municipal sewer source, is it reasonable to assume that a septic system which can accommodate the high level use by a child care center can be built? | Y | N | NOTES: _____ _____ |
|---|---|---|------------------------------|

SITE CONDITIONS *(continued)*

12. Are there any environmental laws affecting construction on the site (such as setbacks due to wetlands?)

Y

N

NOTES: _____

EXISTING BUILDING CONDITIONS

NOTE: For existing buildings you will need to review all site considerations as well as the items contained in this section.

13. Is the building large enough?

Y

N

NOTES: _____

14. Is the overall site large enough and configured in a way that will allow for:

Y

N

NOTES: _____

Sufficient and convenient parking?

Y

N

A natural location for required playgrounds with sufficient square footage?

Y

N

15. Is the existing building suitable for use as a child care facility?

Y

N

NOTES: _____

Can you access all floors of the building without using stairs?

Y

N

NOTES: _____

Can you create multiple classroom spaces? (It is easiest to work with buildings that have an open interior or are sub-divided with non-load-bearing walls that can be moved.)

Y

N

Does the building have a lot of windows or the ability to create additional windows, especially windows that are low to the ground?

Y

N

Does the character and look of the building lend itself to use as a child care center?

Y

N

Does the entry to the building (both exterior and interior) lend itself to designing a welcoming character for the space?

Y

N

Is the material used on the exterior child-friendly (durable, pleasing color, etc.)?

Y

N

16. Can bathrooms be incorporated into each classroom?

Y

N

NOTES: _____

Are there a lot of existing bathrooms in the building?

Y

N

Can plumbing be moved easily through the building (such as through a basement?)

Y

N

EXISTING BUILDING CONDITIONS *(continued)*

| | | | |
|--|---|---|---------------------|
| 17. Is the building in good structural condition? | Y | N | NOTES: _____ |
| <input type="radio"/> Are there any long cracks in load-bearing walls? | Y | N | _____ |
| <input type="radio"/> Do any exterior walls “bow” in or out? | Y | N | _____ |
| <input type="radio"/> Is the roof in good repair? | Y | N | _____ |
| <input type="radio"/> Are there any signs of water or fire damage? | Y | N | _____ |
| <input type="radio"/> Are there any signs of exterior damage? | Y | N | _____ |
| <input type="radio"/> Is the structure free of any signs of rot, rodent or insect infestation? | Y | N | _____ |
| 18. Are the existing building systems (plumbing, electrical, HVAC, etc.) in good condition and able to support high volume use in a child care center? | Y | N | NOTES: _____ |
| <input type="radio"/> Is the plumbing system in good working condition? Does it meet current building codes? | Y | N | _____ |
| <input type="radio"/> If the site has a well or septic system, can it accommodate intensive use? | Y | N | _____ |
| <input type="radio"/> Is the electrical system in good working condition? Does it meet current building codes? | Y | N | _____ |
| <input type="radio"/> Will electrical outlets need to be upgraded? | Y | N | _____ |
| <input type="radio"/> Is the HVAC system in good working condition? | Y | N | _____ |
| <input type="radio"/> Can the heating be configured to allow for different zones within the space? | Y | N | _____ |
| <input type="radio"/> Is there a central air conditioning system? If not, can one be installed? | Y | N | _____ |
| <input type="radio"/> If there is a need to make major changes to building systems, can this be done easily, such as through a basement or attic? | Y | N | _____ |
| 19. Is the building exterior in good repair and relatively easy to maintain? (Materials such as brick, vinyl siding and masonry will require less ongoing maintenance than painted wood that will need regular upkeep.) | Y | N | NOTES: _____ |
| 20. Will the layout of the building allow each classroom to have access to windows and natural light? | Y | N | NOTES: _____ |
| 21. Will the layout of the building allow each classroom to have direct (or easy) access to the outdoors? | Y | N | NOTES: _____ |

EXISTING BUILDING CONDITIONS *(continued)*

| | | | |
|--|---|---|------------------------------|
| 22. If you will be renting the building, will the landlord allow child care to be provided in the site? | Y | N | NOTES: _____ _____ |
| 23. Is the building likely to be free of environmental hazards such as: | Y | N | NOTES: _____ _____ |
| <input type="radio"/> <i>Lead?</i> | Y | N | _____ |
| <input type="radio"/> <i>Radon?</i> | Y | N | _____ |
| <input type="radio"/> <i>Asbestos?</i> | Y | N | _____ |
| <input type="radio"/> <i>Mold?</i> | Y | N | _____ |
| 24. Is it likely that the building can be brought into compliance with all relevant licensing, building and fire codes? | Y | N | NOTES: _____ _____ |
| <input type="radio"/> <i>Has a state child care licensor toured the site and provided their opinion?</i> | Y | N | _____ |
| <input type="radio"/> <i>Has an architect toured the site to determine the likelihood of compliance?</i> | Y | N | _____ |
| <input type="radio"/> <i>Does the site have updated fire protection systems installed, such as sprinklers and alarms?</i> | Y | N | _____ |
| <input type="radio"/> <i>Are there any current building code violations at the site?</i> | Y | N | _____ |

NOTE: *If you are seriously considering a site, it is advisable to request that fire and building inspectors tour the site to outline what changes will be required.*

| | | | |
|---|---|---|------------------------------|
| 25. Can the building be purchased (or leased) and renovated at a cost that you can reasonably cover by raising or borrowing funds? | Y | N | NOTES: _____ _____ |
| 26. Can your program support the on-going costs of operating the building, including: | Y | N | NOTES: _____ _____ |
| <input type="radio"/> <i>Rent/Mortgage</i> | Y | N | _____ |
| <input type="radio"/> <i>Taxes</i> | Y | N | _____ |
| <input type="radio"/> <i>Utilities</i> | Y | N | _____ |
| <input type="radio"/> <i>Maintenance</i> | Y | N | _____ |

Section 4

Raising Money



Often, the biggest challenge to developing or improving a child care facility is raising enough money to pay for it. This section explains:

- **how** to determine the cost of a facility project; and
- **where** to find the funds.

HOW MUCH DOES IT COST?

The answer depends on many factors: Are you leasing or purchasing the space? Renovating an existing building or constructing a new one? How large is the project? For a ballpark figure, it may help to know the cost of other facilities in your area. But eventually you will need to develop a realistic budget based on your own program, site and building needs.

WHAT IS A CAPITAL BUDGET?

It's all of the one-time expenditures that go into the facility project, also referred to as a "*development budget*" or a "*sources and uses budget*."

The capital or development budget for the facility includes:

- property if you are purchasing a building and/or land;
- construction and landscaping including materials and labor;
- indoor and outdoor equipment and furnishings for children's and adult spaces;
- professional services for project planning and oversight, including architects, engineers and lawyers; and
- fees, taxes, insurance and other expenses before or during construction.

HARD & SOFT COSTS: A capital budget is often divided into two groups – "hard costs" and "soft costs." Land, buildings and equipment are called hard costs because they are the "hard" physical items you can touch. Professional services, taxes and other fees are considered soft costs.

A *capital budget* is different from an *operating budget*. The operating budget is probably familiar to any child care provider who prepares an annual budget. The operating budget includes program income (state operating subsidies, parent fees, etc.) as well as program expenses (staff salaries, utility bills, food, transportation, etc.) related to the ongoing delivery of the child care program. See Appendix 4A for a sample operating budget.

The *capital budget* includes only the *one-time* costs related to construction or renovation – even if the project takes several years to complete. The capital budget has two parts – "sources" (grants and loans) and "uses" (what these resources will pay for – construction, materials, professional help). See Appendix 4B for a sample capital or development budget.

| OPERATING BUDGET | CAPITAL BUDGET |
|---|---|
| ONGOING COSTS OF OPERATING THE PROGRAM | ONE-TIME COSTS FOR BUILDING OR RENOVATING A FACILITY |
| REVENUE (INCOME) <ul style="list-style-type: none"> State operating subsidies Parent fees USDA Food Program Other grants | SOURCES <ul style="list-style-type: none"> Capital grants Loans Personal or organizational equity |
| EXPENSES <ul style="list-style-type: none"> Salaries & benefits Utilities Rent Supplies Maintenance Food Transportation Etc. | USES <ul style="list-style-type: none"> Hard Costs <ul style="list-style-type: none"> Construction Land Building materials Equipment Construction contingency Soft Costs <ul style="list-style-type: none"> Professional services (architect, lawyer) Taxes and fees Soft cost contingency |

“PRE-CONSTRUCTION” RESOURCES

Some expenses occur *before* construction, including architectural fees, some legal costs, and down payments or deposits on purchase or lease agreements. Depending on the project’s size, these “pre-construction” expenses might be about 5 to 10 percent of the total project cost. Since many funding sources won’t be available until construction actually starts, you will need to raise some flexible or less restricted money to spend early in your project planning.



WHAT ARE SOME SOURCES OF PRE-CONSTRUCTION FUNDING?

- If you have **SAVINGS OR INVESTMENTS** that can be tapped for early project planning, make sure your organization has a cushion on hand for unforeseen emergencies. For-profit centers may also consider using their personal financial resources for this purpose.
- **COMMUNITY DEVELOPMENT BLOCK GRANTS** are federal funds available through cities and towns, or through the state for less urbanized communities. These grants can be used to cover pre-construction planning expenses (see page 43 for more details on this source).
- Some **FOUNDATIONS** may contribute planning funds; others may be willing to set-aside a portion of a larger capital grant to be used prior to construction to help cover planning costs.
- Some **COMMUNITY DEVELOPMENT LENDERS**, such as LISC, offer flexible bridge funding to help child care providers pay for pre-construction costs.

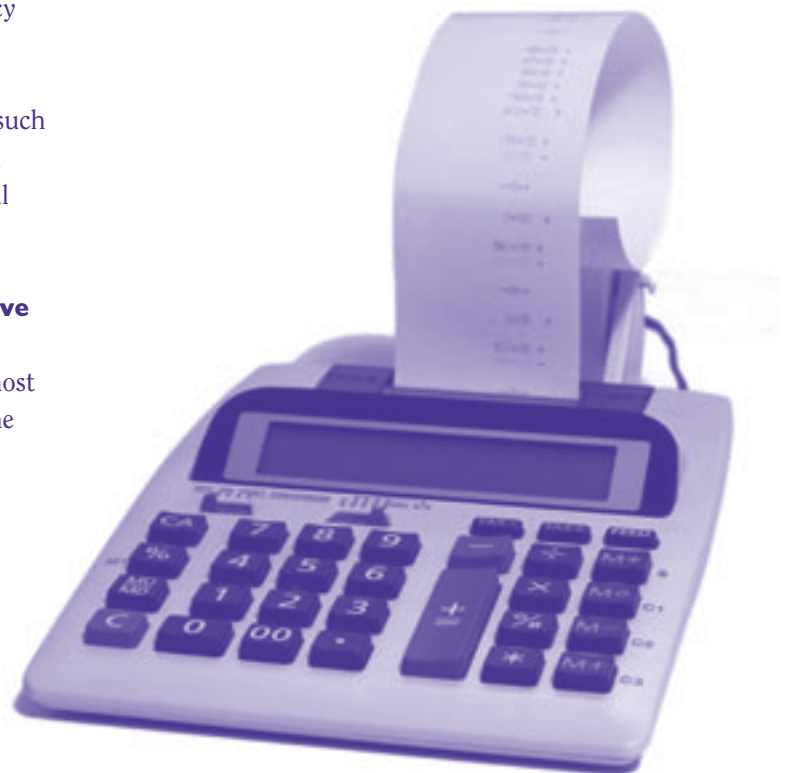
PREPARING THE CAPITAL BUDGET

The capital budget, which will be revised as you learn more about the site and decide how to design and equip the space, usually entails four steps:

- 1. Start with an initial estimate:** This early projection of costs will give you a sense of how much money you'll need and whether it's feasible to proceed. (See "Two Methods for Quickly Estimating the Cost of a Project" on the following page.)
- 2. Revise your budget when you select a site:** At this point the purchase price will be known. As your architect prepares preliminary designs and engineers look for environmental hazards or structural issues, you will learn about additional costs – such as the expense of removing asbestos or lead. At this stage, your development budget should have several large line items such as site acquisition, architectural services, other soft costs and construction. Your architect might consult a "cost estimator" to approximate the "hard" construction cost.
- 3. Revise your budget when the site is designed:** As the planning proceeds, you can increase the level of detail and accuracy of the development budget. For example, the "construction" line of your budget will expand to include more detailed expenses such as excavation, site preparation, demolition, carpentry, drywall, plumbing and electrical work.
- 4. Revise your budget when you receive bids from contractors:** Labor and material costs change constantly, so the most accurate budget will be one that reflects the construction contractor's bid.

WHEN THE CONTRACTOR'S PRICE IS HIGHER THAN YOUR BUDGET: Once contractor bids are in hand, compare the construction costs with your funding commitments. The scope of work and the price you can pay the contractor may need to be adjusted downward based on your available funds. This process is called "**VALUE ENGINEERING,**" and typically involves substituting less costly material or removing less essential design features. If you end up needing to reduce the cost of the project, be sure to carefully consider the impact on quality or durability of eliminating certain features or using particular materials.

Don't forget about a contingency: Even after construction begins, unexpected situations may lead to additional costs. For example, during excavation the contractor may discover the foundation wall from a building that previously stood on the site, and you will need to pay for the unplanned expense of demolishing and disposing of the wall. Make sure to include a construction "contingency" of at least 10 percent of the construction budget. If renovating an existing building, the contingency should be 15 percent of the construction budget, since it's more likely you'll encounter "surprises" when you begin work on an old structure rather than vacant land.



TWO METHODS FOR QUICKLY ESTIMATING THE COST OF A PROJECT

EXAMPLE A:

HINTS: State licensing requires only 35 square feet of classroom space per child, but to create quality space you should provide 45 to 55 square feet per child not counting space used by large objects like refrigerators or counters. Even more space is needed for infant and toddler rooms. Double this number to allow for non-classroom space such as multi-purpose space, bathrooms, kitchen, offices, hallways, etc. Remember, you want two estimates, a modest, low-end one and a more ambitious high-end version.

HINTS: Child care space tends to be 40-50% more expensive than other commercial space because of more extensive plumbing, child-size fixtures, built-in cabinets and counters and other specialized features. To come up with a cost per square foot, ask some architects or contractors for the "total development costs" (not just the construction cost) per square foot for commercial space in your area and multiply that by 1.5. Once again, look for a range. Use the lowest number and the highest.

To estimate the approximate cost for a major new construction or renovation project you need three figures:

| | LOW | HIGH |
|--|------------------|--------------------|
| 1. Gross square feet per child | 70 | 110 |
| 2. Number of children the facility will be licensed to serve | 100 | 100 |
| 3. Cost per square foot | 125 | 300 |
| ESTIMATED COST | \$875,000 | \$3,300,000 |

HINT: Multiply the three numbers in each column. For example, in the "low" column, multiply $70 \times 100 \times 125 = \$875,000$.

HINT: You could say that your project will cost between \$900,000 and \$3 million or pick a figure between the two but on the high side, perhaps about \$2 million.

EXAMPLE B:

To estimate the approximate cost for a small-scale renovation or improvement project:

| | | | |
|--|----------|-----------------|----------|
| 1. Collect contractor estimates | \$35,000 | \$65,000 | \$80,000 |
| 2. Average all but the lowest estimate | \$35,000 | \$72,500 | |
| 3. Build in a cushion | | 25% | |
| ESTIMATED COST | | \$90,625 | |

HINT: Eliminate the lowest estimate.

HINT: Average the remaining estimates.

HINT: Multiply the average estimate by 1.25 (that will increase the average by 25%). The result is your estimated project cost.

FUNDING SOURCES

Fundraising for a new facility requires tapping **many** sources and being creative, since few funding sources are available specifically for building or improving child care space. Potential sources fall into three major categories:

- Your organization's **financial assets** (or the personal assets of for-profit center owners)
- **grants and gifts**, and
- **loans**

FINANCIAL ASSETS

- **Real Estate Assets:** If relocating from a building you own, you can generate funds by selling the site you are vacating.
- **Savings or Investments:** Your accountant can determine whether any of your organization's own accumulated savings or investments could be invested in a new facility without leaving the program with insufficient cash to operate or a comfortable cushion to address unforeseen needs.
- **For-profit Assets:** For-profit centers must rely more on personal and family savings or organizational assets than grants or gifts, since foundations and most other grant sources provide funds only to organizations with 501(c)3 nonprofit status. Before using your own savings or real estate, make sure your financial projections are sound and the potential financial return from the project justifies the risk.

GRANTS AND GIFTS

For nonprofit organizations, grants and gifts are the most significant and sought-after source of capital funding. They come from the public sector, foundations, businesses and individuals:

Public Sector Grants: Every level of government is a potential source of grants. Here are some common examples:

- **Community Development Block Grants (CDBG):** The federal government provides CDBG funds to cities and towns. In cities with more than 50,000 people and counties with more than 200,000 people, local government distributes the funds. In more rural areas, the state administers the CDBG program. CDBG grants support a range of community revitalization projects, including child care centers. Projects must primarily benefit low- and moderate-income people. CDBG can cover the cost of renovation or construction, as well as pre-construction planning expenses such as architectural and engineering fees.

Contact: www.hud.gov/offices/cpd, then click on Quick Links – CDBG Program

- **US Department of Health & Human Services, Administration for Children and Families (ACF):** The Head Start program, managed by the Administration for Children and Families, makes facilities grants available to Head Start grantees. Head Start programs should contact their regional office of ACF to explore funding opportunities.

Contact: www.acf.hhs.gov/programs/hsb/grant/index.htm

- **US Department of Agriculture, Rural Development Community Facilities:** For communities with fewer than 20,000 people, USDA's community facilities program offers small grants for child care facility projects in addition to loans and loan guarantees (see below under Loans).

Contact: www.rurdev.usda.gov/rhs/cf/cp.htm



To identify public sector funding sources, begin by consulting your elected representatives as well as state, city or town officials.

- **Public Land Disposition:** Many local governments foreclose on properties when taxes aren't paid or because they have been abandoned. They also may own municipal facilities, like a police station or a school, that has been replaced and is no longer needed. Such properties can sometimes be acquired at little or no cost or leased at a favorable rate under a long-term lease arrangement.
- **Special Purpose Funding:** Every jurisdiction has its own special purpose funding opportunities, depending on local resources and policy priorities. For example, grants may be available to help pay for community facilities at transit hubs or to encourage use of environmentally-friendly "green building" technologies. In some cases a city councilor, state legislator, Congressman or Senator can secure a one-time appropriation or "earmark" for a specific project. Some states or cities also issue bonds to fund capital improvement projects in local districts. Your elected representative's active support is often essential to secure these capital improvement grants.

To identify public sector financing sources in your own area, begin by consulting your elected representatives as well as state, city or town officials. Enlist their support as you would a foundation executive or individual donor. Provide them with information about your program and why it makes a difference to people in the community, and invite them to take a tour. Recruit parents to welcome officials if they agree to a site visit. These officials can lead you to public sector grants and help you secure them.

- **Federal Sources to Access through a Community Development Partner:**

US Department of Health & Human Services, Office of Community Services (OCS): OCS makes grants for projects that create employment opportunities for low-income people in economically distressed areas, including both pre-construction planning grants and capital grants for construction and renovation. A child care facility project qualifies if it can demonstrate the ability to create a competitive number of new full-time jobs. In most successful applications involving child care, the child care facility is one component of a larger project that generates a substantial number of jobs. Eligibility for these funds is limited to nonprofit community development corporations (CDCs). If a CDC serves as the real estate developer for your center, these funds may be tapped on your behalf.

Contact: www.acf.hhs.gov/programs/ocs/dcdp/ced/index.html

Federal Tax Credits: The Federal Internal Revenue Code operates three tax credit financing programs – Historic, Low-Income Housing, and New Markets – that under certain circumstances can be used to raise equity for child care projects. If your project is in an historic structure or district, it may be eligible for federal Historic Tax Credits (many states have Historic Tax Credits as well). If your project is being developed in conjunction with an affordable rental housing

development, it may be eligible for Low Income Housing Tax Credits. If your project promotes economic development or creates jobs in certain low-income communities, it may be eligible for New Markets Tax Credit financing. All of these forms of tax credit financing are highly technical and complicated, requiring specialized legal and real estate development consulting advice. A child care program working with an experienced real estate developer may be able to tap into these resources to support the project.

FOUNDATIONS

Charitable foundations are at the center of every capital campaign. More than 60,000 foundations in the United States make over \$30 billion in grants each year. In addition to large national foundations, many more regional, local, community and family foundations may be interested in supporting a local project. One strategy for identifying foundation funding sources is to review the list of donors to other capital campaigns in your area.

- **National Foundations:** National foundations are more likely to support a building project if it is in their headquarter city or a geographic target area, or if the project ties directly to the foundation's special interests.

The Kresge Foundation (www.kresge.org) is the only national foundation that is dedicated specifically to making capital grants. The foundation makes “challenge” or “matching” grants, but only after a capital campaign has been initiated, has demonstrated a strong start and shows prospects of succeeding.

Rosie's For All Kids Foundation (www.forallkids.org) supports nonprofit programs serving economically disadvantaged and at-risk children in urban areas, with a special focus on Early Childhood Care and Education. Small grants, in the range of \$15,000 - 30,000, are available for upgrades to outdoor playgrounds, equipment and furnishings. There are a limited number of larger capital grants for facilities development for programs expanding their

capacity to serve low-income children; however, proposals are accepted on an invitation-only basis by the Foundation.

- **Community Foundations:** Community foundations pool funds from multiple donors and typically focus their giving on a specific geographic area. Foundation staff can also help direct grantseekers to other potential funding sources or alert one of its donors to the opportunity to support your project.
- **Family Foundations:** Wealthy individuals and families often establish “private” foundations that are typically controlled by family members who sit on the board of directors. Family foundations will often respond favorably to requests to support community projects. While some of these foundations have professional staff and operate in the same way as larger foundations, others have a more informal process of considering grant requests.

Most areas of the country are also served by regional associations of grantmakers, which can help grantseekers identify appropriate funding sources. Check www.givingforum.org/ralocator.html for the local regional association of grantmakers in your area.



THE FOUNDATION CENTER

(WWW.FDNCENTER.ORG OR 1-800-424-9836)

is a good source of information on foundations that consider capital grants, serve your geographic area or have an interest in the child care field.

As you consider different foundations, check their guidelines to determine the best way to assess their interest in your project and how to approach them. Many foundations discourage unsolicited proposals – you may need to first talk or meet with foundation staff and familiarize them with your project before submitting a request.

Businesses: Some businesses will make modest grants as a way of gaining goodwill in the local community. Banks, corporations, utility companies and large retail chain stores, for example, will often contribute to a capital campaign. Larger national chains in certain areas of the country, such as Home Depot, Lowe’s, Walmart and Target, have small community grants programs. Both large and small businesses might even provide construction materials at a reduced cost or donate furnishings or equipment. Sometimes business leaders, with their personal wealth, community prominence and important connections, can play the role of “fundraiser” in a capital campaign.

Community Service

Organizations: Kiwanis, Lions and Rotary clubs in your local area may make a contribution or help you raise funds for your project.

Individuals: Individual donations represent about 80 percent of all philanthropic giving in the United States and are an attractive source of funding for capital projects.

CAPITAL CAMPAIGNS

Many organizations needing a new or improved facility carry out a “capital campaign” – an organized effort to raise a substantial amount of one-time funding to cover the costs of a building project.

Initial “quiet” phase:

- Major commitments are sought early on, through face-to-face meetings with potential donors by the organization’s executive director and volunteer leadership including board members.
- Rules of thumb:
 - Roughly 60 percent of the total target should be raised from 15 or 20 “top” contributors.
 - The very top gift should be between 10-15 percent of the total.

“Public” phase:

- Once a significant proportion of lead gift pledges are in hand, the campaign moves into its “public phase,” when a wider fundraising drive is launched to attract numerous smaller donors.
- The public phase is usually marked by a press conference, mailings and special events.

The traditional capital campaign described above can be challenging for small child care organizations without significant individual donors or established fundraising networks.



There are three major challenges in carrying out a capital campaign:

1 Developing a compelling case and presentation. Your organization needs to make a compelling case that appeals to the interests and concerns of foundations or wealthy individuals. Be able to answer these questions about your project:

- Why is it important?
- What difference will it make?
- Will it be successful?

Prepare a concise written statement that describes the project and the campaign, and ideally includes a visual representation of the new center, perhaps through architectural renderings. Be able to convey this information in a brief spoken version during key meetings with potential supporters.

2 Identifying and getting access to prospective donors. In most cases you will need to tap other peoples' networks of friends and associates. These networks are one of the things volunteer leadership brings to a capital campaign.

3 Building the organizational resources to establish and cultivate relationships with donors.

- **Staff and consulting time:** Cultivating volunteer leadership and building relationships with donors requires a great deal of time. Most organizations venturing into a capital campaign need a fundraising consultant. In some cases, capital campaign consultants plan and staff the effort, which is expensive. More frequently, smaller organizations use "fundraising counsel" – a consultant who

advises and coaches on an hourly or part-time basis. Since the executive director will spend a lot of time cultivating contacts and making requests, other staff may have to take over certain responsibilities within the organization.

- **Tracking system:** Set up a good system or database for tracking and managing relationships with multiple donors. Since your donors can continue to provide support in the future, thank them promptly and keep them informed of progress on the project.

A good source of fundraising information for small nonprofits is the **GRASSROOTS FUNDRAISING JOURNAL**.

Reprints of a series of articles on capital campaigns by Kim Klein are available through the journal's website (www.grassrootsfundraising.org).

LOANS

Debt can be an ideal way to pay for a new facility because it allows spreading the cost of the project over many years. By paying only a portion of the cost each year rather than the entire amount up front, loans make capital expenditures more affordable. However, spreading the cost over multiple years only works if you have the income to make monthly loan payments. In other words, never borrow more than your income can support.

Since operating revenue is tight, child care providers try to minimize debt. However, if they fall short of their fundraising target or if costs rise during construction, providers often borrow a



By paying only a portion of the cost each year, loans make capital expenditures more affordable.

portion of the capital cost rather than delay the project or reduce the planned scope of renovation. In other cases, a provider may borrow funds for just a few years so that the project can move forward while multi-year funding pledges are received.

Because they are not eligible to receive tax-exempt contributions, for-profit providers find loans to be essential. Unlike their nonprofit counterparts, for-profit child care centers may be eligible for certain state and federal government-sponsored small business loans and loan guarantees such as those offered through the Small Business Administration (see below).

In addition to conventional lending institutions such as private banks, other sources of loans for child care facility projects include government programs and nonprofit community development lenders.

■ **Government Lenders**

- For rural areas with populations under 20,000, the **U.S. Department of Agriculture Community Facilities Program** can provide low-cost and very long-term loans and loan guarantees for the renovation and construction of child care facilities.

Contact: www.rurdev.usda.gov/rhs/cf/cp.htm

- **The Small Business Administration** offers numerous loan and guarantee programs to assist small businesses, including for-profit child care providers.

Contact: www.sba.gov

- Some states sponsor programs that make loans to child care providers, including loan guarantees and/or interest rate subsidies that make it easier and more economical to borrow from private lenders. One publication that describes different state facility financing programs is *Financing Child Care in the United States*.

Contact: www.emkf.org/pdf/childcare2001.pdf

■ **Community Development Lenders:**

Many areas of the country are now served by nonprofit loan funds, such as LISC. Some of these funds support a range of community revitalization projects, including housing, economic development and community facilities, while others exclusively serve providers of early childhood education or school-age care. Facility funds can be a valuable source of technical assistance as well as loans.

■ **Personal and Family Borrowing:**

A common practice among small for-profit businesses is to refinance the mortgage or secure an equity loan on the owner's home to generate cash. Many small businesses also borrow from family members to launch their entrepreneurial plans.

■ **Shopping for a Loan:**

When shopping for the most appropriate and affordable loan, a borrower should evaluate a number of factors:

- Interest rate;
- Term or Repayment Period: the number of years over which the loan is repaid;
- Principal: the amount a lender will provide; and
- Lender fees, including legal, application and appraisal fees.

Find the lowest interest rate and lender fees you can. Don't borrow more than you need or for more time than is necessary. However, remember that the longer the loan term, the smaller the monthly or quarterly payments. Look for a loan that allows you to prepay without a penalty fee if you think you might be in a position to do so. There are many free loan payment calculators available on the Internet. You can use these on-line tools to compare the monthly cost of a loan with different interest rates and repayment periods.

One such calculator can be found at:

www.realestate.yahoo.com/realestate/calculators/payment.html

■ **What Lenders Look For:**

Lenders have two main concerns:

1. Does the borrower have the ability to repay?
2. If the borrower is unable to repay the loan, is there a back-up source that enables the lender to recover its money?

When you apply for a real estate loan, the lender will seek a great deal of information about your organization or business and the property you want to buy, since it represents “collateral” to support the loan.

The lender will want to review:

- **Information about your organization’s senior staff and officers** to determine their qualifications and reputation.
- **Audited financial statements, tax returns and bank records for the previous three years** to be able to evaluate the financial performance of your business (since the center’s revenue is the source of the loan repayment).
- **Your credit history**, to see whether you have repaid prior loans on time.
- **Future financial projections showing:**
 1. your best estimate of how the business might perform in the new facility; and
 2. your ability to repay the loan over time.

In particular, lenders want to see that your organization will have sufficient revenues in the future both to repay the loan and maintain an operating surplus for emergencies or unexpected events.



MULTI-YEAR OPERATING BUDGET PROJECTIONS

Although the capital budget will be a major focus as you plan and carry out your facility project, it's equally important to have a strong handle on your program's operating budget. If you need a loan, prepare an operating budget for your new facility that includes projections for several years into the future, most likely for the number of years of your loan commitment. For example, if a bank provides you with a 10-year loan, submit operating budget projections that extend over 10 years and demonstrate that you have enough income to repay the loan each year.

Consider the following aspects of an operating budget:

- **INCOME:** How will the new facility affect your program income? Will you be serving more children or fewer? Will the ages of children be the same or different? Will you be charging different fees in the new space? Will you have income from tenants in your building?
- **EXPENSES:** Will the configuration of the new space enable you to staff your program more efficiently? Will your transportation costs increase or decrease? Will you have new or different occupancy costs? Think about expenses for insurance, taxes, utilities, snow removal, landscaping, repairs and maintenance, custodial services, etc. How will your mortgage or rental payments change?
- **INFLATE COSTS:** Because you are preparing a multi-year budget, make assumptions about the rate at which your income and costs are likely to rise. Look at trends with inflation and child care subsidy payments.
- **START-UP COSTS:** Allow for the possibility that enrollment may be slow initially, especially if you have relocated or are opening at some time other than the fall. If you raised start-up funds to help cover any early shortfalls, be sure that income is reflected in the operating budget projection for the first year.

In addition, the bank will order:

- An appraisal to determine the value of the property.
- A survey of the parcel to confirm its size and boundaries.
- A title search to make sure no one else has a legal right to the property and that the seller is the legal owner.

The cost of these assessments and surveys will be charged to the borrower.

- **Collateral:** If you are unable to repay your loan, the lender wants to have another way to recover its money. This is often done through real estate collateral: a mortgage on the property you are financing or on another piece of real estate owned by the organization or individual. If you fail to repay, the lender would have the legal right to foreclose on the property in order to recover the money you owe.
- **Appraisals:** Lenders will use a professional appraiser to determine the market value of the property that's backing up the loan. To further reduce the risk that they will not be fully repaid, commercial lenders will typically only lend up to 80 percent of the value of the property as determined by the appraisal. Community development lenders will sometimes accept more risk than private banks, and may provide a loan that is closer to 100 percent of the property's value.
- **Guarantees:** A lender can also recover its loan through a guarantee, such as those offered by the Small Business Administration (SBA) or US Department of Agriculture (USDA). With a loan guarantee, lenders will accept more risk, including lending a higher amount or offering more favorable terms.
- **Personal security:** Sometimes a bank will ask directors of nonprofit organizations to provide personal security, such as a mortgage on their homes. It is definitely *not* advisable to involve staff or members of the board of directors in providing personal guarantees to the child care center's lender.



Each project relies on a unique set of organizational strengths, opportunities and relationships and on site-specific funding.

There is no typical financing strategy for a child care facility. Each project relies on a unique set of organizational strengths, opportunities and relationships and on site-specific funding. Often, a facility project assembles funds from a wide variety of sources – including public and private (corporate, individuals and foundations), and in the form of grants and loans. In the case of for-profit providers these sources may be largely personal or family equity and small business or bank loans. Nonprofit organizations more typically secure much of the funding from grants and contributions.

APPENDIX 4A: SAMPLE CAPITAL BUDGET



ABC CHILD CARE CENTER DEVELOPMENT BUDGET

| SITE ACQUISITION COSTS | TOTAL |
|-------------------------------|-----------|
| Property Purchase | \$ |
| Total Site Acquisition | \$ |

| HARD COSTS | TOTAL |
|------------------------------------|-----------|
| General Contractor | |
| Demolition | \$ |
| Grading, Excavation and Foundation | \$ |
| Framing and Drywall | \$ |
| Roofing | \$ |
| Sprinkler & Fire Alarm System | \$ |
| Electrical and Lighting | \$ |
| Plumbing and Fixtures | \$ |
| HVAC | \$ |
| Finish Work | \$ |
| Parking and Landscape | \$ |
| Contingency (15% of Hard Costs) | \$ |
| Total Hard Costs | \$ |

| SOFT COSTS | TOTAL |
|----------------------------|-----------|
| Fees | |
| Architecture & Engineering | \$ |
| Environmental Testing | \$ |
| Development Consultant | \$ |
| Fundraising Counsel | \$ |
| Building Permits | \$ |
| Legal | \$ |
| Site Survey | \$ |
| Financing Costs | |
| Construction Interest | \$ |
| Loan/Financing Fees | \$ |
| Total Soft Costs | \$ |

| OTHER COSTS | TOTAL |
|--------------------------|-----------|
| Telephone System | \$ |
| Furnishings | \$ |
| Outdoor Play Equipment | \$ |
| Moving Costs | \$ |
| Total Other Costs | \$ |

| | |
|-------------------------------|-----------|
| TOTAL DEVELOPMENT COST | \$ |
|-------------------------------|-----------|

APPENDIX 4B: SAMPLE OPERATING BUDGET

ABC CHILD CARE CENTER INCOME AND EXPENSE PROJECTIONS

| INCOME | YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 | YEAR 5 | YEAR 6 |
|---|--------|--------|--------|--------|--------|--------|
| State Subsidy | | | | | | |
| Infants (# of children at \$X per child) | | | | | | |
| Toddlers (# of children at \$X per child) | | | | | | |
| Preschool (# of children at \$X per child) | | | | | | |
| After-School (# of children at \$X per child) | | | | | | |
| Parent Fees | | | | | | |
| Infants (# of children at \$X per child) | | | | | | |
| Toddlers (# of children at \$X per child) | | | | | | |
| Preschool (# of children at \$X per child) | | | | | | |
| After-School (# of children at \$X per child) | | | | | | |
| USDA Food Program | | | | | | |
| Fundraising/Donations | | | | | | |
| Other | | | | | | |
| Less Vacancy Allowance | | | | | | |
| Less Allowance for Uncollectable Fees | | | | | | |
| Total Child Care Center Income | | | | | | |

| EXPENSES | YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 | YEAR 5 | YEAR 6 |
|--|--------|--------|--------|--------|--------|--------|
| Personnel | | | | | | |
| Director | | | | | | |
| Head Teacher(s) (# of staff at \$X each) | | | | | | |
| Teacher(s) (# of staff at \$X each) | | | | | | |
| Assistant Teachers (# of staff at \$X each) | | | | | | |
| Teacher's Aide (# of staff at \$X each) | | | | | | |
| Other Program Staff | | | | | | |
| Food Service/Cook | | | | | | |
| Administrative Staff | | | | | | |
| Maintenance/Janitorial Staff | | | | | | |
| Benefits (Social Security, Health Insurance, etc.) | | | | | | |
| Total Personnel Costs | | | | | | |

| | | | | | | |
|------------------------------------|--|--|--|--|--|--|
| Professional Services | | | | | | |
| Accounting | | | | | | |
| Consultants | | | | | | |
| Legal | | | | | | |
| Pediatrician/Psychologist | | | | | | |
| Substitute Teachers | | | | | | |
| Other | | | | | | |
| Total Professional Services | | | | | | |

ABC CHILD CARE CENTER INCOME AND EXPENSE PROJECTIONS, *continued*

| EXPENSES | YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 | YEAR 5 | YEAR 6 |
|---|--------|--------|--------|--------|--------|--------|
| NonPersonnel | | | | | | |
| Food | | | | | | |
| Supplies and Equipment | | | | | | |
| Classroom Supplies | | | | | | |
| Kitchen Supplies | | | | | | |
| Office Supplies | | | | | | |
| Janitorial | | | | | | |
| Field Trips | | | | | | |
| Board/Parent meetings | | | | | | |
| Insurance (Liability) | | | | | | |
| Phone | | | | | | |
| Publicity | | | | | | |
| Recruitment | | | | | | |
| Staff Development | | | | | | |
| Travel | | | | | | |
| Transportation | | | | | | |
| Vehicle | | | | | | |
| Loan Payments | | | | | | |
| Fuel and Maintenance | | | | | | |
| Insurance (Vehicle) | | | | | | |
| Total Nonpersonnel | | | | | | |
| Occupancy | | | | | | |
| Mortgage or Rental Payments | | | | | | |
| Utilities (gas, electric, water and sewer) | | | | | | |
| Taxes | | | | | | |
| Insurance (Property) | | | | | | |
| Maintenance Agreements & Servicing for Building & Systems | | | | | | |
| Landscaping and Snow Removal | | | | | | |
| Capital Reserve to Replace Furniture/Equipment | | | | | | |
| Total Occupancy | | | | | | |
| Total Child Care Expenses | | | | | | |
| NET OPERATING INCOME (total Income less total Expenses) | | | | | | |

NOTE: Some child care programs may be operated as part of a larger multi-service agency. Most lenders and certain funders will request operating budgets for the full agency as well as a specific budget breakdown for the child care program.

Section 5

Construction

When construction begins the temptation is to sit back and relax while the contractor takes over. But construction is full of its own challenges and risks.

This section describes:

- **when** you are ready to begin construction;
- **what** happens during construction; and
- **how** to protect yourself against risks through planning, contractor selection and construction oversight.



PUTTING EVERYTHING IN PLACE


Construction can begin only after you have completed the following milestones:


- ✓ **Legal right to build or renovate a building:**
 - **If purchasing:** The ownership transfer must be complete so that your organization is the legal owner and has the right to carry out a construction or renovation project.
 - **If renting:** The lease will need to be fully executed and specify the owner's approval of your renovation plans.
 - **If improving a site you currently lease or if you are a "tenant-at-will" without a written lease:** You will need to renegotiate the occupancy agreement to get specific written permission to alter the owner's property.
- ✓ **Third-party approvals** to begin work may be required from some or all of these:
 - Local zoning board
 - City building inspectors
 - Environmental agencies
 - State licensing agencies
 - Health Department
 - Fire Marshall
 - Historic preservation bodies
 - Water and sewer agencies


Members of your development team – the architect, real estate lawyer, and development consultant – will help negotiate legal and regulatory obstacles and secure formal approvals.

Securing all of the necessary approvals – before and during construction – can be particularly challenging for child care facilities since building inspectors, fire marshals, child care licensors and others charged with interpreting building, health and safety codes are especially protective of children. Whenever possible it is helpful to engage the participation of these inspectors as early on in the process as possible so that their input will be reflected in the final product. You will need to work closely on this with the members of your development team. The contractor in particular is generally responsible for coordinating with the building inspector,

securing the construction permit and getting approvals throughout the construction process, including the final certificate of occupancy.

 **Construction documents completed:** The final product from the architect will be a full set of construction documents, including drawings and detailed specifications that make clear how the building will be constructed and with what materials and finishes. Although smaller renovations may involve less detailed construction documentation, the drawings and specifications must have enough information so the contractor fully understands your expectations about the scope and quality of the project.

 **Contractor Selected and Hired:** The section below on “Hiring a Construction Contractor” provides details on how to hire a contractor and negotiate a contract.

 **Financing Complete:** To begin construction, you must have enough money – both in terms of total commitments and actual cash available:

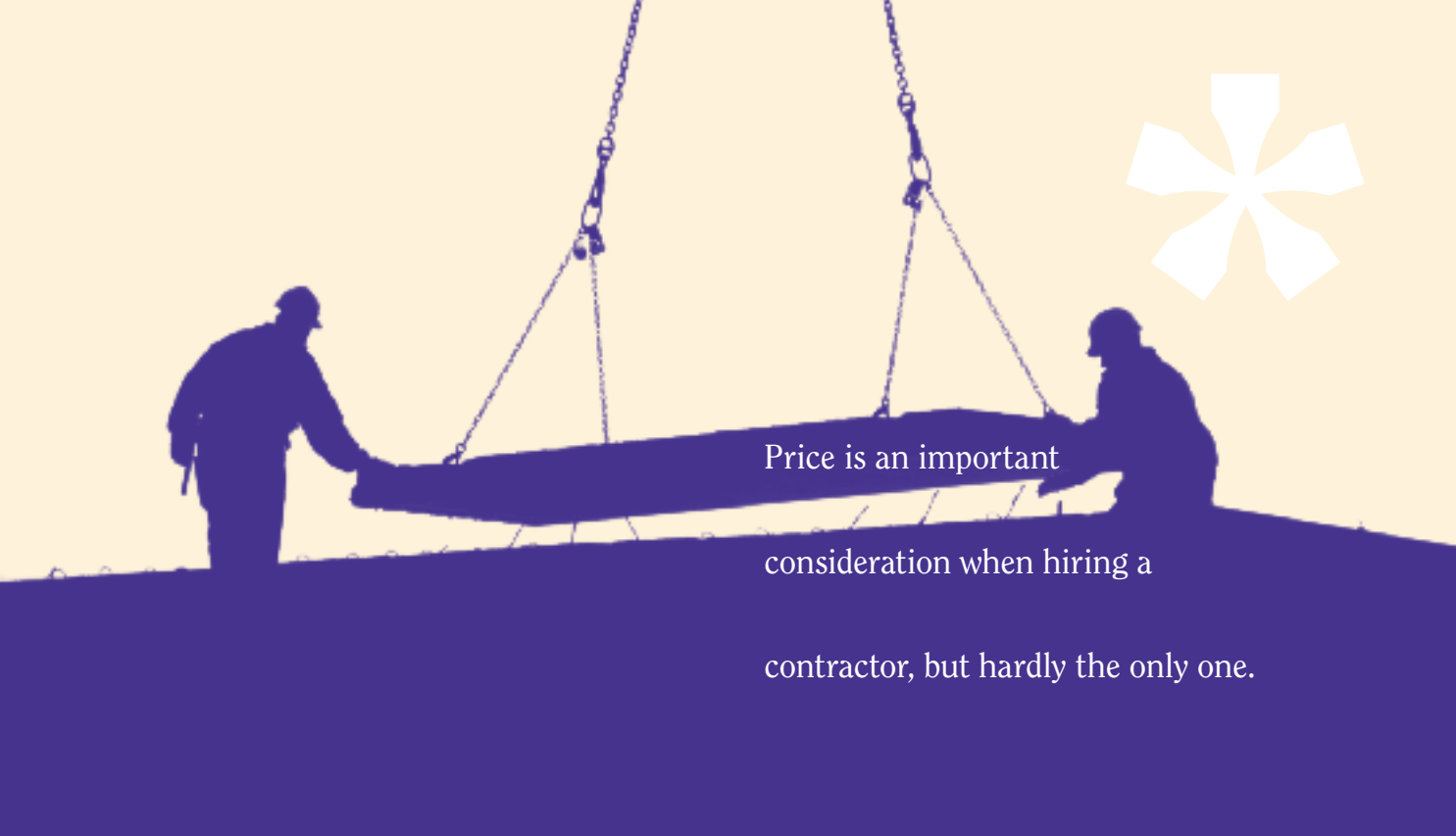
- **Adequate Funding Commitments:** All of the funds needed to complete the project must be committed before construction begins. Once you have selected a contractor and agreed on a price, you may need to revise your development budget to reflect the actual cost of the project.
- **Adequate Cash Available:** Your supporters may have *pledged* enough money to pay for the whole project, but you need to have received enough *cash* before you can begin construction. For example, some grants may be multi-year commitments, disbursed over two or three years. Or, you may have a loan commitment but the lender will not disburse funds until the construction has been completed. To fill these cash shortfalls, you may need a short-term construction or bridge loan that covers cash needs until the project is complete or until you receive grants and other funds for the project. Construction loans must be repaid when construction ends.



FIVE KEY PLANNING TIPS:

Your project will encounter unanticipated and unpredictable obstacles during construction. Good planning is the key to successfully navigating around these challenges. Follow these five steps:

- 1. CONSTRUCTION CONTINGENCY:** Provide an ample construction contingency in your development budget of at least 10 percent of construction costs for new construction and 15 percent for renovations.
- 2. ALLOW EXTRA TIME:** If you need to open at the beginning of September, the construction contract should require completion well before that date because construction delays and the licensing process will almost certainly push back your projected opening date.
- 3. HIRE A RELIABLE CONTRACTOR:** Selecting a contractor with a strong track record is one of the best ways to ensure timely completion of the project.
- 4. CONSTRUCTION MANAGEMENT:** Having a skilled professional (such as the project architect or a specialized construction manager) oversee construction can help keep the project on schedule and within budget.
- 5. BE RELIABLE:** Just as you rely on your team members, you need to be a responsible and diligent customer, for your contractor in particular. Lead by example: Attend all project meetings. Promptly follow up on all tasks. Communicate clearly and directly. Maintain a written record of meetings, decisions, and transactions among team members so that information about the project is readily available and questions can be responded to quickly.



Price is an important consideration when hiring a contractor, but hardly the only one.

HIRING A CONSTRUCTION CONTRACTOR

Hiring a contractor is similar to hiring an architect and other members of your development team. Since this will be the largest contract, price is an important consideration but hardly the only one. Here is a checklist of things to consider when you hire a contractor:

1. QUALIFICATIONS

- **Familiarity with locality:** Has the contractor successfully built similar projects in your area? If so, he or she is more likely to have a good working relationship with local building inspectors and a network of local subcontractors and reliable construction material vendors.
- **Size:** Is the square footage of your project within the typical range of projects undertaken by this contractor?
- **Construction Type:** Is the contractor experienced in the type of construction being used for your project? For example, if the contractor primarily builds steel commercial buildings and your project will be a conventional “stick built” structure, he or she may encounter unfamiliar problems or may not have relationships with the appropriate subcontractors. Similarly, if your project involves renovation rather than new construction, you would want to hire someone experienced in renovation projects.
- **Building Type:** Does the contractor have experience with this type of building? It is ideal to have a contractor experienced in child care facilities construction, but this is not very common. At the very least, the contractor should have experience with a variety of building types rather than being a specialist in just one type of facility such as homes or shopping malls.
- **Client/Team:** Has the builder worked with similar clients and teams? The project should go more smoothly if the contractor has worked for other organizations of a comparable size and structure to yours.

2. REPUTATION AND RELIABILITY

The best way to prevent problems is to find a contractor with a reputation for **integrity** and **reliable performance**. In interviews and during reference checks, probe the contractor's track record with respect to:

- **Budget:** Did the contractor stay within the budget? Many factors beyond the contractor's control can cause a project to exceed the budget. Find out whether other projects were completed within budget and if not, why not.
- **Timeliness:** Did the contractor complete previous projects on time? Delays not only drive up construction costs, they can also cause additional operating losses if the center's opening is postponed or a key enrollment window is missed.
- **Honesty:** Did other clients find the contractor to be honest and trustworthy? The contractor's integrity is often your best protection against being overcharged or underserved in any way.
- **Construction Quality:** Does the contractor do high quality work with high quality materials? The building's durability over time and through changing seasons will depend upon the quality of construction and materials used in the project.
- **Flexibility:** Construction rarely proceeds exactly as planned. How responsive is the contractor when problems arise? How helpful is the contractor at finding solutions when faced with unexpected circumstances?

3. CHEMISTRY

Reference checking about the reputation of potential contractors might provide some insight into how well you might get along and work together. But don't just rely on the experience of others. The process of interviewing a contractor, asking questions about the bid, observing his or her interactions with other members of your development team, and the contract negotiations can all help you decide whether the candidate is a good fit for

your project. Do a gut check: Does this feel like it will be a good relationship, or could it grow contentious, especially with the pressures of a tight schedule and budget?

4. PRICE

In evaluating contractor bids, keep these three things in mind:

1. Don't completely sacrifice qualifications and reputation to take advantage of a favorable price, even if all the other bids exceed your budget.
2. The bid is a starting point in a negotiation. If you like the qualifications and reputation of a high bidder, see what you can do to arrive at a price that is acceptable to you, even if the price exceeds that of other bidders.
3. After you have agreed to a price and fully negotiated the contract, check that other clauses in the contract will not expose your organization to the risk that the actual construction price might increase as the work progresses. (See below under The Construction Contract for more details on different types of contracts and pricing methods.)

Because of the construction contractor's importance to the project's success, take your time and use your staff, board and development team to help you evaluate each proposal. Since the architect plays an important role in preparing the bid documents, he or she is in a good position to help you evaluate candidates as well.

In some cases, the project architect is able to recommend one or more contractors based on previous positive working experiences. While this can be very helpful, the selection process should still be a competitive one. Use your own judgment in making the final decision based on the interview, bid and input of others.

THE CONSTRUCTION CONTRACT

The contractor selection process is not complete until you have negotiated the terms of the contract. Wait until an agreement has been reached and a contract is signed before notifying other competing bidders that they have not been selected. Your lawyer should carefully review every detail of the contract so that it is clear what tasks the contractor will carry out, and which party bears legal responsibility under different situations that might occur. Two of the most important things to clearly specify in a construction contract are the price and construction timetable.

PRICE

The two most common methods for determining the price in a construction contract are 1) a fixed or guaranteed maximum price and 2) a “cost plus a fee” price:

1. With a **Fixed or Guaranteed Maximum**

Price a fixed price for the work has been agreed to up front, and most of the risk of cost overruns falls on the general contractor. With this type of contract, make sure you have a well thought out plan with complete construction drawings that specify all details of the project. Otherwise, if costs go up, some contractors might try to cut corners. To avoid that risk, you must rely on the contractor’s trustworthiness and your architect’s construction management skills to ensure the quality of the final product. Also, be aware that with a fixed or guaranteed maximum price project the contractor often builds a cushion into the price to protect his profit margin in the event that building costs increase.

2. With a **Cost Plus a Fee** contract, you pay the builder whatever it actually costs to construct the building plus a fee. The fee component can be a fixed amount or a percentage of the project’s cost. A cost plus arrangement shifts the risk that costs will rise to the client rather than the contractor. One way to limit your risk using a cost plus pricing method is to place a ceiling on total costs and to agree to a fixed rather than variable fee.

Keep in mind that even with a fixed or guaranteed maximum price contract, your costs can rise during construction because of unexpected conditions, changes you decide to make, and even provisions in the construction contract which allow the builder to pass on certain costs to you.

CONSTRUCTION TIMETABLE

Timing is very important to a child care program, since opening dates must meet parents’ needs. The contractor will prepare a construction schedule with specific milestones to help you determine whether the project is on schedule – such as pouring of the foundation or completing the framing; or demolishing walls in an existing building.

You may want to write bonuses and penalties into the contract to give the builder a financial incentive to meet certain goals. For example, if you need to open on September 1st, offer a bonus if the project is completed by August 1st. The contractor may want provisions that protect him from penalties if a construction delay is caused by circumstances beyond his control, such as strikes by laborers, adverse weather conditions or changes made to the plans during construction.

GROUNDBREAKING

The process of planning a facility improvement project is long, challenging, and time-consuming. So it is important to mark each milestone with a celebration. Take the opportunity to pat yourself on the back and thank your supporters. Few celebrations will be as momentous as the one marking your progress from project planning to actual construction. Traditionally such an event is called a “groundbreaking” because, in a new construction project, the first step is to dig a foundation. For a renovation project you might unveil a sign announcing the construction project, listing the funders and planning partners.

DURING CONSTRUCTION

When you are ready to begin construction, organize a meeting with all the participants to formally launch the project and:

- Introduce team members to each other.
- Clarify roles and responsibilities of team members, especially if multiple representatives are from one organization. Make sure your organization designates a single point person for the other team members.
- Ensure agreement about the construction schedule, communications procedures, decision-making processes, etc.

CONSTRUCTION ADMINISTRATION

Construction administration duties can be carried out by the project architect or a construction manager, or might be shared between the two. This will depend on the size and complexity of the project and on the capabilities of your development team. Large architectural firms have staff or subcontractors who specialize in construction administration, and it is common for an architectural contract to include construction administration. If the architectural firm is small, you might need to add a construction manager to your team.

Construction administration includes:

- **Design Consultations:** The architect should be available to clarify the contractor's questions about the construction drawings and materials specified. These issues can be very time-sensitive so it is important that your architect is responsive.
- **Construction Monitoring:**
 - Regular and frequent **site visits** ensure the project is proceeding according to schedule, that the building and materials are consistent with the plans and specifications, and that the construction is of sufficient quality.
 - **Weekly project team meetings** are generally held at the construction site to review progress and address any problems or questions that arise. These meetings often deal with details such as the delivery of materials, scheduling of subcontractors, change orders and the pace of construction spending.
 - **Monthly project oversight meetings** are where the decision makers address more strategic questions that could affect the construction process – such as how to make design changes to cut costs if change orders are using up the construction contingency.

Few celebrations will be as momentous as the one marking your progress from project planning to actual construction.



DO YOU NEED A CONSTRUCTION MANAGER?

As you progress through the architectural design process, and especially when the construction documents are being prepared on a major construction project, you may want to have a construction manager consult with your development team. A construction manager can supplement your architect's construction knowledge with more detailed expertise about how design decisions can increase or decrease the cost of the project. An experienced construction manager can review the architect's plans periodically during the design process and suggest ways to reduce construction costs. After construction begins, the construction manager may also assume day-to-day project management responsibilities.

- **Punch list** preparation is when the architect, accompanied by you as the client, carefully tours the almost completed construction project and compiles a detailed list of things the builder must do before the project is considered to be complete and the disbursement of the final contractor payment can be approved. Punch list items might include: fixing a lighting fixture that was incorrectly mounted; correcting uneven paint coverage; replacing a window cracked during construction, etc. It can take the better part of a day to assemble the list.
- During the **final walk-through** you and your architect (and construction manager, if you have one) accompany the contractor on the final inspection of the finished project. If you believe that all the required work has been completed to your satisfaction, the contractor will turn over all of the operating instructions and warranties for the equipment and components installed in the building.

■ **Construction Draws:** After construction begins, the contractor submits monthly invoices or “requisitions” to draw down construction payments. See the box on Managing Construction Funds on page 62 for more information on how to manage this process.

■ **Change Orders:** The construction contract will include a procedure for dealing with the inevitable changes that occur during construction, called “change orders.” A

change may be required because the architect made a mistake, the contractor encountered an unforeseen problem, or you overlooked something you feel is important to include in the center. A change order is like a contract amendment that describes the change, and adjusts the construction and payment schedule accordingly.

■ **Documentation:**

- **Written Record:** Someone representing the owner or tenant (often the project manager) needs to maintain a written record of the construction process, including minutes of site meetings. This supports good communication and minimizes misunderstandings. If a contract dispute leads to legal action, this documentation provides a factual foundation for its fair resolution.
- **As-Built Drawings:** The architect and contractor should provide a revised set of “as-built” drawings for the client that reflects the completed project. These drawings reflect changes made during construction and can be useful for future maintenance and repairs and future renovations.

While you need people with construction expertise to help oversee construction, you or someone very senior in your organization needs to keep close tabs on what is going on. Visit the site frequently. Ask questions if something doesn't make sense. Attend weekly site meetings. You may surprise yourself by catching mistakes overlooked by the design and construction professionals.

COMMON PROBLEMS DURING CONSTRUCTION

The construction process is complicated and never problem-free. Here are a few common issues that might arise and the kind of actions you'll need to take to resolve them:

1 Problem #1: Unexpected environmental conditions are uncovered, such as an underground fuel storage tank that has leaked, contaminating the surrounding soil.

Response: *Work with your development team to discover the scope of the problem, the cost of addressing it and how it might impact the construction schedule. If you own the property you are legally obligated to address the problem. There may be state or federal grant money available to clean up environmental contamination.*

2 Problem #2: The contractor is not keeping to the work schedule, and the child care center needs to vacate its existing space before the new space is ready.

Response: *Recognize that this is a possibility before work begins and do some contingency planning: identify religious buildings, Sunday school classrooms and other facilities that might be available on a temporary basis and qualify for temporary licensing.*

3 Problem #3: Construction spending is outpacing your construction budget because of cost overruns.

Response: *There are two strategies for bringing costs back within the budget. First, explore ways to save money on the part of work not yet completed by deferring a portion of the project or substituting less costly materials. Second, contact your strongest financial supporters. Let them know what is happening and why and explore their willingness to contribute more money to the project.*

4 Problem #4: While the work is underway, you realize that some aspects of the space are not what you anticipated, either in terms of the quality of the work, or how specific features were installed. For example, the wall storage cabinets could be placed too high up on the wall to be reached.

Response: *Alert the builder, construction manager and architect immediately. They might be able to come up with a quick fix. You could dip into your construction contingency to pay for a change order. Otherwise you have the same options as you would if you are exceeding your construction budget: revise your plans to cut costs or raise more money.*



PREVENTING COMMON CONSTRUCTION PERIOD PROBLEMS

Try to anticipate potential issues in advance and minimize the likelihood and severity of problems. Also, involve yourself quickly and directly in addressing problems rather than avoiding them in the hope they will resolve themselves.

- Do a good job up front to create clear and open lines of communications among members of your development team, and especially between the architect and the contractor.
- Have a single point person representing you as the project sponsor.
- Attend all site meetings, address issues promptly and directly, and be sure to have minutes prepared and circulated in a timely way.
- Be assertive with members of the development team, and don't hesitate to ask questions if there is something you don't understand or are not comfortable with. Make it clear what you expect of them and live up to the same standard yourself.
- You may need to call in your lawyer to mediate if issues can't be resolved.

MANAGING CONSTRUCTION FUNDS

The construction contract allows for periodic (usually monthly) payments to reimburse the contractor for labor and materials. Pay the contractor on time so that work continues uninterrupted, but only disburse enough to cover the actual work completed so your funds won't be exhausted before the project is done. Construction contracts typically entitle the client to withhold a portion of the fee, generally 10-20 percent, as "retainage" until the project is completed.

When the contractor requests payments, he provides an invoice that includes receipts and bills for materials and subcontractor services. Before approving a payment request, compare the invoice and backup documentation to the physical progress at the site as reported by the architect or construction manager. Based on their inspection, they will confirm that payment is consistent with the completed work and that the work is satisfactory. If you have a construction loan, the bank will probably require you to pay for a construction inspector who works for the lender. That inspector will also need to approve each requisition.

CONSTRUCTION COMPLETION OR CLOSE-OUT

Completing construction and opening a new facility involves four steps, many of which are overlapping:

1. Substantial Construction Completion
2. Pre-Opening Preparations
3. Final Construction Completion and Payout
4. Opening

SUBSTANTIAL CONSTRUCTION COMPLETION

A project is "substantially complete" when the building inspector issues a **certificate of occupancy** to indicate that the structure is in compliance with all relevant local codes. Even though construction activity will be continuing, it will be limited to relatively minor finish work and repairs. To mark this milestone, a **certificate of substantial completion** is executed by the owner, architect and contractor. At this point:

- The contractor will have completed the clean-up of the site to prepare it for occupancy, which includes removing construction debris and leftover materials, removing any equipment or security fencing around the site, etc.
- The owner can take control of the property, and can begin to occupy the building for pre-opening set-up.
- The owner assumes responsibility for utility service, security, insurance coverage, etc.
- If the contractor has agreed to provide a warranty on the construction work, the time period covered (typically one year) begins when the project reaches substantial completion.
- The contractor, owner and architect have conducted a thorough inspection that results in the "punch list" of items the contractor must fix before the owner will acknowledge final completion and disburse the balance of the construction funds owed to the builder.
- Equipment can be moved into the facility and staff can report there for work; however, until you secure a license from the state to operate a child care program in the facility, you cannot yet open for business.

PRE-OPENING PREPARATIONS

The weeks leading up to and following substantial completion of a child care facility project are hectic ones. In advance of the opening date you must:

- Set a moving date and organize the logistics.
- Order and arrange for delivery of equipment and supplies.
- Recruit new teachers and market the program if your project involves an expansion.
- Make sure that all phone, fax and computer connections as well as electrical and plumbing services are in place.

You cannot move or even store equipment in the facility until you achieve substantial completion, so every step in the process requires close coordination with your contractor. It's helpful to designate one point person to handle pre-opening tasks. Your aim should be to secure a license as soon as possible following the project's substantial completion. Be in close communication with your licensor to enable them to inspect as early as possible. Try to schedule the inspection while the contractor is still at the site in case additional work is needed to satisfy the licensor.

FINAL CONSTRUCTION COMPLETION

Your project is considered to be complete and the contractor receives the final payment when the following tasks are concluded:

- **Final Walk-Through:** When the contractor thinks the project is complete, he will schedule a final walk-through. Your architect and project manager will accompany you and the contractor.
 - **Punch List Review:** The final walk-through is your opportunity to inspect the punch list items to determine whether they have been satisfactorily addressed.
 - **Operations and Maintenance:** During the final walk-through, the contractor will also instruct you and your staff in the proper operation and maintenance of the

facility. Be sure to schedule plenty of time. The contractor will also turn over operating manuals, spare parts and materials left over from the construction, and the warranties for the equipment and materials used in the construction.

- **Releases:** The contractor will deliver affidavits and releases from subcontractors and suppliers proving that all construction-related expenses have been paid in full. If you have a construction loan, the lender withholds the final disbursement until all the releases are provided. If subcontractors or vendors are not paid, they can place a "lien" on the property which transfers the outstanding payment obligation from the contractor to you as the owner of the center. Your lawyer should review the affidavits and releases.

When all of these steps are completed, you can make the final payment to the contractor.

FACILITY OPENING

The final step is when you have your license and the center opens. Don't expect everything to go smoothly. Equipment malfunctions and adjustments are common. For example, when winter comes you may discover that some rooms are too hot and others are not warm enough. Your contractor should help you solve these problems for at least one year following substantial completion.

Schedule a ribbon cutting. Find a prominent role for the children who will occupy the center and for all the people who helped make the project happen. Try to attract local media to get some attention for your program, especially if you still have vacancies.

One of the most important rules of fundraising is to remember to thank those who have helped make your facility improvement project happen. Include on your list the funders who made major gifts and politicians who helped you navigate some of the obstacles. Also remember to invite and acknowledge your neighbors, the construction workers, the licensor, your advisors and your staff.

ONGOING FACILITIES MAINTENANCE AND REPAIR

There are many operating budget implications of owning and even renting a new or renovated facility. Budget adequately for all ongoing maintenance services. You have invested in a quality facility and it is important to maintain the value of that investment.

Maintenance: Many building elements need to be maintained and cared for so that they function well and are less likely to need costly repairs. Postponing maintenance is a common way organizations try to save money. This practice is called “deferred maintenance,” and can lead to more and higher repair costs over time, sooner than projected replacement costs, and equipment that may not deliver the quality of service that it should.

During the final building walk-through, your contractor will give you the operating manuals for the equipment and materials used in the project. Use these for guidance in setting up a schedule of preventive maintenance for each system. Be sure to include the cost of this maintenance in your operating budgets, including the cost of service agreements. For example, a maintenance agreement on your air conditioning system will probably include the cost of an annual servicing when filters are replaced and ductwork is cleaned. Preventive maintenance like this extends the life of the system, reduces operating costs, and saves money on repairs over time.

Repairs: Repairs cost money, so budget adequately so that the building continues to look like it just opened. For the first year, you can estimate the cost of maintenance and repairs by consulting other organizations with buildings of similar size and age. In future years, your previous spending on repairs can provide a reasonable guide for budgeting. But expect repair costs to rise as the building ages.



Remember to publicly thank
those who have helped make
your facility a reality.

Replacement: As careful as you are about maintaining your facility and making repairs in a timely way, equipment and systems wear out and need to be replaced. Everything has an expected useful life: the roof material may have a useful life of 20 years, while flooring might last 12 years. Small items can be easily replaced using your repair budget, but for major expenses the best practice is to plan for them by setting aside a small amount in each year’s operating budget to fund a “replacement reserve account.” The replacement reserve is like a savings account to cover what would otherwise be a budget-breaking cost of replacing expensive items. Your architect and builder should be able to help you estimate the life of major items in your facility, and the cost to maintain and replace them. Working with your accountant, develop a plan to fund a replacement reserve in your annual operating budget.



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