Hartford Mayor’s Cabinet for Young Children
Policies and Guidelines

Commitments to CT Health & Educational Facilities Authority (CHEFA) Financed Tax-Exempt Loans (A-04)

In 1997, Public Act 97-259, *"An Act Concerning School Readiness and Child Day Care,"* established the child care facilities program at CHEFA and the loan guarantee program and the direct revolving loan program at the Department of Social Services (DSS). From the three programs, DSS in partnership with CHEFA and the state’s major commercial banks created the Child Care Facilities Loan Fund program (CCFLF) to provide loans at low cost to eligible childcare providers for land acquisition, site development, construction or renovations. This program is now administered by the CT Office of Early Childhood.

The information and guidance in this GENERAL POLICY pertains to the Tax-Exempt Loan Program. Eligibility for the Tax-Exempt Loan program is limited to Internal Revenue Service designated 501(c)(3) non-profit child care providers, municipalities, local boards of education with the approval of the municipal legislative body, regional school districts, regional educational service centers and charter schools. **An applicant without a CT Office of Early Childhood Child Day Care contract or School Readiness, Head Start or Charter School grant may *NOT* be considered for the tax-exempt program**. In general, loan amounts start at $500,000 and have a term of 30 years.

The CT Office of Early Childhood has designated the Connecticut Health Educational Facilities Authority (CHEFA) as the program manager of CCFLF. Section 17b-749i of the C.G.S. permits the Office of Early Childhood, via the State Treasurer, to pay ***"actual debt service, comprised of principal, interest and premium"*** on loans provided by CHEFA, under section 10a-194c.

1. **The Loan application Process**: Hartford eligible applicants must submit a two-part application to CHEFA inclusive of programmatic, child and family demographic information and in Part II, agency organizational /demographic information, current and historical financial/loan specific site information. When both parts are received, CHEFA staff review the request for completeness, loan suitability, commitment from the Mayor’s Cabinet for Young Children and project cost.

Based on the information provided in Part I of the application and the recommendation of CHEFA, the Office of Early Childhood determines whether, and at what percentage, the state will cover debt service on the proposed loan. Debt service is the amount of principal and interest payable over the life of the loan. CHEFA, (1-800-750-1862) is the point of contact for all those seeking loans under the Childcare Facilities Loan program.

2. **Expectations of the Mayor's Cabinet for Young Children and its Department of Families, Children, Youth and Recreation's Division for Young Children**: All Hartford loan applicants must provide CHEFA with a commitment letter from the Mayor's Cabinet for Young Children. In order to receive such a letter, a request must be submitted in writing to the Division for Young Children with a copy of the CHEFA two-part loan application to initiate the local CHEFA loan request process. Following extensive review and approval, the Mayor's Cabinet for Young Children shall provide a commitment letter that includes the following:

   - Signatures of the Mayor and Superintendent;
   - Identification of the childcare provider being supported;
   - Identification of the facility being supported;
   - Acknowledgement of the Cabinet's understanding that for loan recipients funded by the Office of Early Childhood, for the term of the loan, the Office of Early Childhood will intercept from the School Readiness allocation, the portion of debt service payment **NOT** to be borne by the state. For Office of Early Childhood funded childcare contractors, for the term of the loan, the Office of Early Childhood will intercept from grant funds provided to the loan recipient, the portion of debt service payment **NOT** to be borne by the state.
   - Specific identification of the minimum number of School Readiness spaces committed to the childcare provider for the identified facility and that such commitment is guaranteed for the term of the loan and may not be reduced except as permitted in this policy.
   - Attached copies of the "commitment" proposal presented at the Cabinet meeting and the portion of the meeting minutes confirming the Cabinet decision, including the final vote.

3. Expectations of Loan Recipients
   Loan recipients are expected to ensure space utilization is in compliance with the loan provisions. Any discrepancies in space utilization should be reported to CHEFA and any of the following entities that are applicable to the particular facility:
   - School Readiness Liaison (DFCYR Assistant Director)
   - Child Day Care Contractor
   - Child Day Care Program Manager
   - State Head Start Program Manager
   - Smart Start Program Manager

4. CHEFA Loan Oversight and Space Reassignment
   A loan recipient is provided certain guarantees as presented in this policy as defined in Special Act 13-16. Thia provision ensures the investments made to this facility will continue to benefit the residents of the State of Connecticut. Despite this provision, non-compliance with loan provisions or default may result in the remedies set forth in the loan agreement and/or the requirement of a replacement entity to manage program operations at the loan facility.

   The Child Day Care Contractor or the Mayor's Cabinet for Young Children may request approval from the OEC and CHEFA to reduce or reconfigure the slot commitment for the remaining term of the loan agreement if the following conditions exist:
   - If the slots are School Readiness, Child Day Care, State Head Start, or Smart Start, the slots can be reduced only to the extent of spaces in excess of the number set out in the commitment letter for the CHEFA program. However, the original number of spaces set out in the commitment letter for School Readiness may be reconfigured as Child Day Care spaces and vice versa.
   - At least six months of space utilization issues have been documented.
   - Appropriate technical assistance to correct non-compliance issues has been sought by the loan recipient and offered by the Department of Families, Children, Youth and Recreation, CHEFA, and/or the OEC.
   - The reduction or reconfiguration of the space commitment does not reduce the funds needed by the loan recipient to repay the non-state supported debt service of the loan.

5. SCHOOL READINESS
   The Mayor's Cabinet for Young Children must ensure that the Liaison or the DFYC Early Childhood Monitors review space utilization for its contracted programs and shall document the following conditions in order for the Mayor's Cabinet for Young Children requested space reassignment to be considered by the OEC and CHEFA:
   - That at least six months of noncompliance can be demonstrated;
   - That the loan recipient has been notified successively of the non-compliance and has failed to correct the problems;
   - The appropriate technical assistance to correct noncompliance issues has been offered and provided to the loan recipient.

6. OTHER PERTINENT INFORMATION:
   - Debt service Intercept

     CHEFA has been able to offer attractive interest rates on the Tax-Exempt Program by requiring the full debt service payment from the state paid directly to the Bond Issue Trustee. The partial reimbursement of the State's payment of debt service out of the borrower's operating subsidies is referred to as the "intercept".

     Depending upon the OEC funding sources the facility receives, the intercept may be withheld from one of the following:
     - OEC Child Day Care Contract payments
     - OEC School Readiness Grant to communities, which then withhold the intercept from the specific facility
     - State Head Start supplement
     - Charter School funds

     The timing and amount of the intercept will depend upon the loan amount and the funding source.