


- Free media coverage;
- On-site workshops and lectures;
- A listing in the Yellow Pages;
- An open house, and
- An overall effort to make a good first impression!

C. Coordinating the steps

Coordinating site-specific tasks, the process of securing financing, and management of construction can be chaotic. However, the process will run more smoothly if the development team members meet frequently to discuss roles, responsibilities, and deadlines. The development timeline below provides a basic snapshot of the development process.

Child Care Facilities Development Timeline

	Planning Phase	Predevelopment Phase	Development Phase
Feasibility	Organizational Capacity Market Demand Financial Feasibility	Site Selection Site Control	
Permits/ Licensing	Zoning/Building/ Environmental/ Traffic/Site Control and Approval/ Community Care Licensing		
Design/ Construction	Schematics	Project Design Securing a Contractor	Construction Preparing to Move In
Financing	Secure Planning & Predevelopment Financing	Secure Financing for Development	Gap/Bridge and Start-up Financing
Costs			

Section Four: Start-up Phase

The start-up phase is the time to launch the program, or the expanded services, once the facility project is complete.

A. Phase-in staffing and children

If the business is just starting, or if it has just completed an expansion, it is important to remember that the program will need to build up to full capacity. In other words, it won't start with a full staff or full enrollment the day its doors open.

One way to encourage higher enrollment early on is to start up in the early fall (August/September) or at the beginning of a new year, because these are times when parents are most likely to make changes in care arrangements since they correlate with breaks in the school schedule.

As enrollment builds up it is imperative to maintain the program's image and publicity efforts, even after the facility is up and running. For example, bring business cards with you whenever you go out with the children, make T-shirts for the children to wear on field trips, and make sure your services are well known throughout the community. If the program does reach full enrollment, a waiting list should be established because child care enrollment can fluctuate easily and it is important to fill vacancies as quickly as possible to ensure regular cash flow for the business.

B. Program sustainability

Even after the facility project is complete, it is essential to maintain relationships with funders and to build relationships with new funders consistently. This is important even when the program doesn't need money, because down the road it will be easier to raise money based on preexisting, or maintained relationships rather than on new ones.

To ensure the sustainability of a program it is best to establish an operating reserves budget to prepare for unexpected expenses and cash flow inconsistencies.

Also, though it can be difficult, especially after developing close relationships with families, it is crucial to be realistic about the fees charged for care and to adjust them over time as the program's expenses change.

Above all, program sustainability hinges on balancing service obligations with business obligations. Simply put, without attending to the business matters of a child care program high quality services cannot be maintained.

Though the financial piece plays a particularly large role in the facilities development process, without maintaining and continuing to develop the financial side of a child care program once it is up and running, it won't be able to survive as a viable business.

Appendix A:

Where to Go for Help

There are a variety of resources, from books to individual counseling, available in California to offer assistance in budgeting, developing pro formas, determining debt capacity, business planning, and facilities development. Though some of the resources listed below are specific to the State of California, out-of-state readers can use this section as a guide to the types of assistance that may be available in other states as well.

Building Child Care

Building Child Care (BCC), a collaborative funded by the California Department of Education, is designed to improve child care providers' access to financial resources for facilities development projects in California. Along with the assistance and input of many others across the state, the four collaborative partners on this project have combined their experience, resources, and expertise to build a clearinghouse of information and assistance specifically for people interested in acquiring, building, renovating, or expanding child care center and family child care facilities. To learn more about BCC and its services call 888-411-3535, or visit www.buildingchildcare.org.

Nonprofit Support Centers

Nonprofit support centers, which exist throughout the country, are dedicated to providing management and financial training as well as consulting services to other nonprofit organizations. To find a nonprofit support center near you, contact the Alliance for Nonprofit Management at (202) 955-8406 or visit www.allianceonline.org.

Small Business Administration (SBA)

The SBA has a variety of management and technical assistance programs to assist both new and expanding businesses. Its primary mission is to serve for-profit businesses, but some of its services are available to nonprofits as well. The SBA has offices located throughout the country. For the nearest location, look in the telephone directory under U.S. Government, or call (800) 8-ASK-SBA. The SBA also maintains an extensive Internet site at www.sba.gov. Below are four examples of SBA programs that exist throughout the country and can offer you assistance in your local community.

Service Corps of Retired Executives (SCORE)

SCORE is an SBA-sponsored, management counseling program comprised of active and retired business executives who volunteer their time counseling and advising small business owners on how to start and manage their businesses. SCORE volunteers offer a free one-on-one counseling session about financial statements. SCORE services are available for both for-profit and nonprofit organizations. There are SCORE offices located throughout the country. To find a local office, call (800) 634-0245 or visit www.score.org.

Small Business Development Centers (SBDCs)

The purpose of the SBDC program is to further economic development by providing management and technical assistance to small businesses. SBDCs provide current and prospective business owners with counseling, management training, conferences, referrals, and reference libraries. They also frequently offer workshops on developing business plans. For information on the nearest location of an SBDC office, contact the SBA at (800) 8-ASK-SBA or visit www.sba.gov/sbdc.

Women's Business Centers (WBCs)

WBCs provide a wide range of services to women entrepreneurs at all levels of business development. Their purpose is to teach women about the principles of finance, management, marketing and how to start a home-based business. The WBC maintains an excellent Internet site (www.onlinewbc.gov) that has helpful information on financial management, marketing, developing a business plan, and a specific section about starting or expanding a child care business. More information about Women's Business Centers can be obtained by contacting the Office of Women's Business Ownership at (202) 205-6673, or by visiting www.sba.gov/womeninbusiness/wbcs.html.

Business Information Centers (BICs)

BICs provide a one-stop resource where current and future small business owners can receive assistance and advice. BICs have the latest computer technology (hardware and software) with an extensive small business reference library of hard copy books and publications and current management video tapes to help entrepreneurs plan their businesses, expand an existing business or venture into new business areas. Most BICs are stand-alone centers in Empowerment Zones. In addition to the self-help hardware, software, and reference materials, BICs have on-site counseling provided by SCORE. More information about BICs can be obtained by visiting www.sba.gov/bi/bics, or by calling (202) 205-6665.

Community Colleges and Universities

Check with your local community college or university for courses on budgeting, accounting, or basic financial statements. Some programs may offer courses specifically for nonprofits. Some SBDC's are located on college campuses.

Regional Resource Centers (RRCs), funded by the California Department of Education, provide assistance to new and established child care providers intended to increase their capacity to deliver services to children and their families. The RRCs are located in ten different regions across the state. Your RRC can provide training, technical assistance and information about how to access sources of public and private funding and other forms of support in your community. To find the RRC that covers your county call (916) 323-4601, or visit www.buildingchildcare.org and look at the Community Resources section of the site.

Resource and Referral (R&R) Agencies, funded by the state Department of Education, are community-based organizations charged with the mission of serving parents, providers, policy makers, businesses and communities throughout California by providing information, data, and support to build and improve the supply of quality child care. There is at least one R&R in every county of California. Your local R&R can provide county-specific information about the current supply of licensed child care, local demographics, the local demand for care, and market rates for child care costs and staff wages. R&R agencies also help providers with licensing and help make their services known in the community. They also provide low-cost or free trainings on a range of subjects. To find the R&R in your community call 1-800-KIDS-793, or visit www.rnetwork.org.

Local Child Care Planning Councils (LPCs) are responsible for determining local community child care needs, identifying priorities for the allocation of Federal Child Care and Development Block Grant Funds, and preparing county wide child care plans. For the purpose of writing a business plan, Local Planning Councils can be particularly helpful in providing information about the greatest needs for child care in the county and about the local priorities designed to meet those needs. To find the LPC in your area you can call (916) 322-6233, or visit www.buildingchildcare.org/community.htm.

Appendix B: Glossary of Terms

Accounts Payable: Amounts owed to suppliers for goods and services purchased in connection with business operations.

Accounts Receivable: The amount owed to a business for services already performed.

Accrual: An accounting system that records income when it is earned, and expenses when the obligation to pay arises, regardless of when payment is made.

Amortization: The period of time on which the repayment of loan principal and interest is based. Sometimes loans may have different amortization schedules and terms. There are three basic ways to repay a loan: (a) in equal installments, each containing a blend of principal and interest; (b) in varying but regular payments which result from paying off principal plus interest on the amount actually borrowed; and (c) in very irregular principal payments often incorporating a larger final payment (see Balloon Payment).

Assets: Anything a business owns that has monetary value.

Balance Sheet: Reflects the current financial position of the business at a given time. It lists assets and liabilities. For nonprofits, the Balance Sheet is called a "Statement of Financial Position."

Balloon Payment: The final payment of a loan that has a longer amortization period than term. For example, if a monthly payment is based on a period of 10 years, but the actual term is 5 years, a large payment (roughly half of the loan amount) is due with the final payment at the end of 5 years.

Break-Even Point: The point at which revenues equal expenses.

Bridge Loan: Short-term loan made in anticipation of long-term funding or financing.

Budget: A business' financial "blueprint" for the coming months or years expressed in monetary terms.

Building and Real Estate Costs:

- a. Soft Costs – Expenses, other than hard costs, incurred in developing a real estate project, including legal and lending fees, architectural and design fees, permits, etc.
- b. Hard Costs – The direct costs to construct a building or structure, otherwise known as "bricks and mortar" costs, including acquisition of property, construction, equipment, etc.
- c. Hidden Costs – Less visible costs associated with the facilities development

- process, such as staff and board time and attention.
- d. **Contingency Costs** – A portion of the construction costs set aside to cover unexpected “hard” costs.

Building Reserve: A capital improvement reserve fund. Money set aside to pay for facilities upkeep: where the amounts can be large, the ultimate need a certainty, but where the exact timing is uncertain. These are often big-ticket items, like replacing the roof, which are difficult to accommodate in a single year’s budget.

Cash Balance: Total cash available minus total cash paid out.

Cash Basis Accounting: A system that records income only when it is received and expenses only when they are paid out.

Cash Flow Projections: Projects the cash in-flow and out-flow for a business.

Cash Receipts: Includes cash from parent fees, loan or cash injections, or income from the food program, government programs, private sources, foundation grants, or fundraisers.

Collateral: The property a borrower pledges to a Lender to secure repayment of the loan. Collateral could include: a lien on your house, equipment from your business, or a bank account. If the borrower defaults, the lender has the legal right to seize the collateral and sell it to pay off the loan.

Current Assets: Cash and other assets like accounts receivable or grants that can be converted into cash. Current assets also include prepaid expenses such as the goods, benefits or services that a business buys or rents in advance.

Current Ratio: Expresses the relationship between current assets and current liabilities.

Debt: Money, goods or services that one party is obligated to pay another in accordance with an expressed or implied agreement.

Debt Service: A borrower’s periodic payment comprising repayment of principal plus payment of interest on the unpaid balance. Also referred to as a loan payment.

Debt Service Coverage or Debt Coverage Ratio: A calculation a Lender uses to determine ability to repay a loan. This calculation is typically expressed as a ratio. Most Lenders have minimum debt service coverage requirements ranging from 1.05: 1.00 (i.e. the net income must be projected to be 5% in excess of the loan payment) to 1.25: 1.00 (i.e. the net income must be projected to be 25% in excess of the loan payment).

$$\text{DSC or DCR} = \frac{\text{Net Income (after all expenses excluding debt service)}}{\text{Total Loan Payment}} = 1.10 : 1.00$$

Depreciation: A sum representing presumed loss in the value of a building or other real estate improvement, resulting from physical wear and economic obsolescence, and deducted annually from net income to determine net profit.

Equity: In real estate, the difference between fair market value and current indebtedness usually referred to as the owner's interest.

Expenses: The cost of assets consumed or services used in the process of earning revenues.

Fees: Charges by a Lender for making the loan. Fees can include a range of costs.

Fixed Assets: Includes all resources a business owns or acquires for use in operations and not intended for resale. Fixed assets, except for land, are listed at cost less depreciation.

Fixed Expenses: Expenses that do not fluctuate as services are expanded.

Forgivable Loan: A loan made with the understanding that if the borrower meets certain requirements, repayment of the loan will not be required.

Guarantee: A promise by one party to pay a debt or perform an obligation contracted by another if the original party fails to pay or perform according to a contract. Loan guarantee, or loan insurance programs are designed to make certain loans less risky for lenders, such as loans for community economic development projects and for small businesses like child care.

Income Statement: Identifies the sources and uses of funds. It is a very useful statement because it shows what a business actually earned and what it cost to earn that amount. For nonprofit organizations, the Income Statement has been renamed "Statement of Financial Activities."

Interest: The cost of using loaned money, usually expressed as an annual percentage, that a lender charges a borrower for the use of the principal over time.

Interest Rate: The amount a Lender will charge for the use of their funds. Interest rates vary greatly from loan to loan and are frequently tied to industry measures such as Prime Rate. For example, if Prime Rate were 4.75%, then a "Prime Plus Two Percent" rate would mean a loan with a 6.75% interest rate.

Leasehold Improvements: Renovations to leased space to suit the renter's needs. These may be paid for either by the landlord or the tenant.

Liabilities: Liabilities are the amounts owed by a business.

Lien: A claim a Lender may place on property in return for making a loan. If a borrower is unable to make loan payments as agreed, it gives the Lender the right to try and collect repayment of the loan through selling the borrower's property. If the lien is placed on real property such as a house, this lien is often referred to a "Mortgage" or a "Trust Deed."

Line of Credit: A set amount of money available for the Borrower to borrow as needed. The borrowed amounts are then paid back in installments determined by the Lender. A line of credit is distinct from a loan because after the money is paid back a borrower can access it and use it again, which makes it similar to a credit card.

Liquidity: The ability to pay for current obligations or liabilities.

Loan: Transaction wherein a Lender allows a Borrower the use of a sum of money for a specified period of time at a specified rate of interest.

Loan Amount: The amount of a loan is determined by how much the Borrower needs to complete the project and the Lender's assessment of the Borrower's ability to repay. Some Lenders may have minimum and maximum loan amounts.

Loan-to-Value Ratio: The ratio of money a Lender is willing to loan relative to the appraised value of the property or other security.

Mortgage: Security instrument by which the Borrower (mortgagor) gives the Lender (mortgagee) a lien on property as security for the repayment of a loan.

Net Operating Income: The difference between effective gross income and operating expenses, including taxes and insurance. The term is qualified as net income before depreciation and debt service.

Net Profit: Total revenues minus total expenses.

Net Working Capital: Current liabilities subtracted from current assets.

Net Worth: The difference between all assets and all liabilities. Net worth is equal to the business' equity.

Notes Payable: The balance of principal to pay off short-term debt for borrowed funds. This also includes the current amount due of total balance on notes whose terms exceed 12 months.

Operating Reserves: Funds set aside annually to be used to offset possible operating losses due to unexpectedly low revenues or unusually high expenses.

Payroll Accrual: Salaries and wages currently owed.

Permanently Restricted Net Assets: The part of a nonprofit's net assets that carry donor restrictions that can never expire. The most common example of a permanent restriction is an endowment, in which the gift itself may never be spent but the interest earned on the gift may be.

Points: An up front fee a Lender may charge for a loan, expressed as a percentage of the loan

amount. "One point" equals one percentage of the loan amount. Thus, one point on a \$10,000 loan is \$100 ($\$10,000 \times .01$).

Prime Rate: The rate, as announced from time to time by commercial banks, as the prime rate. (See "Interest Rate" definition).

Principal: The original amount of money borrowed, and the amount that the Borrower must pay back, not including interest.

Pro Forma Cash Flow Statement: Projects what a business needs in terms of dollars for a specific period of time. It also helps identify when cash is expected to be received and when bills must be paid.

Pro Forma Income Statement: A preview of the amount of income generated each month and for the business year, based on reasonable predictions of revenues and expenses.

Pro Forma Statements: Financial projections based on what is predicted to happen in the future. They are an essential business planning tool that assist in fiscal strategizing and are also required by many financial institutions.

Revenues: Total amount received or to be received later from parent fees, state contracts, grants, or foundation awards. Revenues are often classified by source and nature in order to reflect the change in revenue composition.

Statement of Activities: Identifies the sources and uses of funds for nonprofit businesses. It is a very useful statement because it shows what is actually earned and what it cost to earn that amount. It is very similar to the Income Statement used by for-profit businesses.

Statement of Financial Position: Reflects the current financial position of the business at a given time, listing both assets and liabilities. For-profit businesses refer to this as a Balance Sheet.

Temporarily Restricted Net Asset: The part of a nonprofit's net assets that has donor-imposed conditions or restrictions that either expire by passage of time or can be fulfilled and removed by actions of the organization.

Term: The agreed upon period of time for which a loan is made. A loan provided for 10 years has "a 10 year term."

Unrestricted Net Asset: The part of a nonprofit's net assets that does not have any restrictions and can therefore be used freely by the business.

Variable Expenses: Expenses that fluctuate as services are expanded.

Note: Definitions provided by the Low Income Investment Fund and the Nonprofit Finance Fund are used in this glossary.

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