



## **County of Santa Cruz Board of Supervisors**

### **Agenda Item Submittal**

**From:** Human Services Department

**Subject:** Schedule a Public Hearing to Consider CCDF Rate Increase

**Meeting Date:** June 10, 2025

**Formal Title:** Schedule a public hearing on August 5, 2025, at 9:00 am or thereafter, to consider a proposed rate increase to the Child Care Developer Fees, and take related actions

### **Recommended Actions**

1. Schedule a public hearing for August 5, 2025, at 9:00 a.m. or thereafter, to consider adopting a proposed five-year graduated rate increase to the Child Care Developer Fees, pursuant to Santa Cruz County Code Section 15.04;
2. Approve the Notice of Public Hearing and direct the Human Services Department to mail the Notice to any member of the public who has requested to receive notice of a meeting on new or increased fees or charges, at least 14 days before the August 5, 2025, public hearing; and
3. Direct the Clerk of the Board to publish the Notice of Public Hearing once a week for two weeks before the hearing in a newspaper of general circulation.

### **Executive Summary**

Recommendations regarding a potential graduated five-year rate increase to the County of Santa Cruz Child Care Developer Fee, pursuant to Santa Cruz County Code Section 15.04 and based on recommendations included in the 2024 Child Care Developer Fee Nexus Analysis and Capital Improvement Plan, shall be considered at a public hearing.

### **Discussion**

In 1991, the Santa Cruz County Board of Supervisors (Board) adopted the Child Care Fees and Exactions Ordinance for the expansion, construction, or renovation of child care facilities in Santa Cruz County. Subsequently the Board adopted guidelines, codified in Chapter 15.04 of the Santa Cruz County Code, specifying that revenues derived from Child Care Developer Fees (CCDF) be used for projects to offset the costs of increased child care needs generated by new development in Santa Cruz County, otherwise borne by the child care system.

### ***CCDF Fee Structure and Rate Increases***

The Board last reviewed the fee structure and adopted a graduated CCDF rate increase on June 19, 2018. That adopted rate and fee structure created residential and non-residential development fee categories that align with Affordable Housing Development categories, as well as a process for considering a maximum impact fee level and for applying an annual inflation index.

On October 29, 2024 ([DOC-2024-843](#)), HSD deferred a public hearing to review the child care developer fees and proposed rate increase, to align with the completion of a comprehensive fee study and analysis of other county impact fees. That comprehensive study is still ongoing, with a later completion date expected. Thus, HSD is

recommending a public hearing be scheduled on August 5, 2025, to review the child care fee rates, in accordance with County Code, which requires the Board review and potentially adopt any potential augmentations to the fee every five years.

The proposed increased fee rates were determined based on the last Child Care Facility Impact Fee Study (nexus analysis), adopted by the Board on October 29, 2024. The adopted nexus analysis analyzed the relationship between new development and child care demands in Santa Cruz County, the cost of mitigating those impacts, and the maximum fee level that could be set for the County's CCDF.

The nexus analysis examined two methods for establishing the maximum fee level that may be applied to the CCDF. One method is the Existing Level of Service (LOS) analysis, which quantifies the existing level of service of child care in Santa Cruz County. The other is the Equilibrium LOS analysis, which quantifies the link between new development and childcare demand. The Equilibrium LOS is the recommended method of determining maximum fee levels since it directly relates to the impact of new development on childcare demand, compared to the Existing LOS analysis which reflects an existing deficit in childcare services. The study demonstrated an ability to apply a fee increase for both residential and non-residential developments.

HSD recommends a 5% Single-Family Dwelling residential fee rate increase to the current \$0.88 per square foot fee, starting on January 1, 2026, in Fiscal Year (FY) 2025-26. The rate would then increase annually from FY 2026-27 through FY 2029-30, by applying the most recently published California Construction Cost Index (CCCI) annual percentage to the prior year's rate. HSD recommends the non-residential fee rates increase no more than 1.5% in FY 2025-26, and then by the CCCI annually in the subsequent fiscal years.

The Multi-Family Dwelling residential fee rate is recommended for a four-year graduated increase to gradually bring it up to 50% of the single-family dwelling rate, which would be in closer alignment with other jurisdictions. To do this, the rate would begin increasing to 35% of the Single-Family Dwelling rate in FY 2025-26, 40% of the Single-Family Dwelling rate in FY 2026-27, 45% of the Single-Family Dwelling rate in FY 2027-28, and finally increasing to 50% of the Single-Family Dwelling rate in FY 2028-29. It is recommended to then allow the 2029-30 rate to increase annually by applying the most recently published CCCI annual percentage to the prior year's rate. The recommended adjustments to increase the impact fees are included in the public notice attached for the Board's review.

### ***CCDF Loan Program Update***

On December 10, 2024 ([DOC-2024-956](#)), when bringing the FY 2023-24 CCDF annual report to the Board, the Board directed HSD to return with an update on how funds were distributed to providers.

Since 1991, HSD has run a forgivable loan program using CCDF funds, allowing child care providers to apply for capital improvement loans that do not require repayment if project conditions are met. CCDF funds are restricted to capital projects to improve or augment the child care system. The funds cannot be used for operating or staffing costs.

Priorities for funding are for projects that improve or augment high quality childcare

through increased enrollments; make improvements to the health, safety or general welfare of kids in care and demonstrate the provision of care to children, from birth through age 11, in low-income families. HSD works with childcare system experts from First 5, the Child Care Development Resource Center (CDRC), and Childhood Advisory Council on CCDF loan program development. This year, HSD provided an update on the process to the First 5 Commission and the Childhood Advisory Council, with both advisory bodies being provided an opportunity for questions and feedback.

The last loan cycle ran from December 2019 when applicants signed loan agreements, through early 2021 when applicants received the final half of the awarded forgivable loan funds. Due to rising construction costs, the current cycle was pushed out to 2025 to allow for fee growth and the completion of the 2024 nexus analysis impact fee study adopted by the Board. The child care impact fees must be allocated every five years, and HSD is preparing to open the opportunity for child care providers to apply for the forgivable loans in the next few weeks.

Family home providers and child care centers will be eligible to apply for funds to support capital improvements to improve or augment the supply of licensed child care in our county. To be eligible for funding, applicants must be located in and serve families who live and/or work in Santa Cruz County, possess or have pending a valid state child care license, and be registered in the CDRC database administered by the Santa Cruz County Office of Education.

Criteria for awarding applicants with a loan are based on state and local requirements and are established each cycle by a collaborative CCDF Loan Program Planning Committee comprised of staff from HSD, First 5 Santa Cruz County, and the County Office of Education's CDRC. Applications that meet the minimum criteria requirements will reviewed by an Application Review Committee (ARC).

As a forgivable loan program, loan fund recipients must complete their approved project and provide continued child care services for the length of time noted in their approved application, after which time the recipient is no longer required to repay either the loan's principle or interest.

For the 2025 CCDF loan program application cycle, a simplified, updated application packet has been completed that provides family child care home providers and child care center-based applicants with better clarity on providing state licensing information, limits on uses of approved funding, and fund allocation amounts. HSD has also engaged with long-standing partners to conduct outreach and education to engage and support applicants, and to begin scheduling time for ARC members to review applications once the application deadline is reached. Application packets are expected to be released in mid-June, with an application closing date of August 1, 2025.

### **Financial Impact**

A graduated five-year increase to CCDF fees is necessary to support the impacts residential and non-residential development have on the demand for child care. At the proposed rates, total annual revenue for the CCDF is projected to be between \$124,404 and \$136,252 per year (GL Key 390109 – 40258).

### **Strategic Initiatives**

Operational Plan - Dynamic Economy, Operational Excellence

**Submitted By:**

Randy Morris, Director of Human Services

**Recommended By:**

Carlos J. Palacios, County Executive Officer

**Artificial Intelligence Acknowledgment:**

Artificial Intelligence (AI) did not significantly contribute to the development of this agenda item.