nebraska early childhood
COLLABORATIVE

From Banks to Blocks: How Access to Capital Shapes the Child Care Sector in Nebraska

A report developed by First Children's Finance on behalf of the Nebraska Early Childhood Collaborative

First Children's Finance

Owners of child care centers and family child care homes are entrepreneurs who provide a critical community service, create jobs, and spur innovation in their field. They invest their passion and countless hours into their businesses. They also invest their available financial resources: contributing their life savings, cashing out retirement accounts, gathering loans and gifts from family and friends, and offering their personal homes and other assets as collateral. Yet, for many child care entrepreneurs, these personal resources fall short of the money needed to fund business startup, weather downturns, or take advantage of opportunities to expand.

In focus groups, a majority of family child care providers reported cashing out 401ks from previous jobs to fund the start-up of their business.

Child care has one of the highest rates of women and minority business ownership across all industries. [1,2] Yet, persistent race and gender wealth and wage gaps impact entrepreneurs' ability to self-fund the start-up and expansion of their businesses. [3] These gaps also contribute to lower credit scores for women and people of color. [4] Women and people of color typically have fewer affluent contacts within their social and business networks capable of offering personal gifts or loans. [5] The low wages and slim profit margins pervasive in the industry further limit current and potential child care entrepreneurs from accumulating the resources needed to launch and grow their businesses. [6,7]

We define "access to capital" as money or resources entrepreneurs can use to start or grow their business or weather emergencies and downturns. Capital can take many forms including savings, grants, loans, donations, and credit cards.

Facilitating access to capital for child care entrepreneurs is an important step in building a child care system that meets the needs of Nebraska's children and families. Lack of capital can prevent child care businesses from ever starting or from scaling up to meet community demand. 84% of Nebraska's counties are child care deserts, and eleven counties lack a single licensed facility.[8]

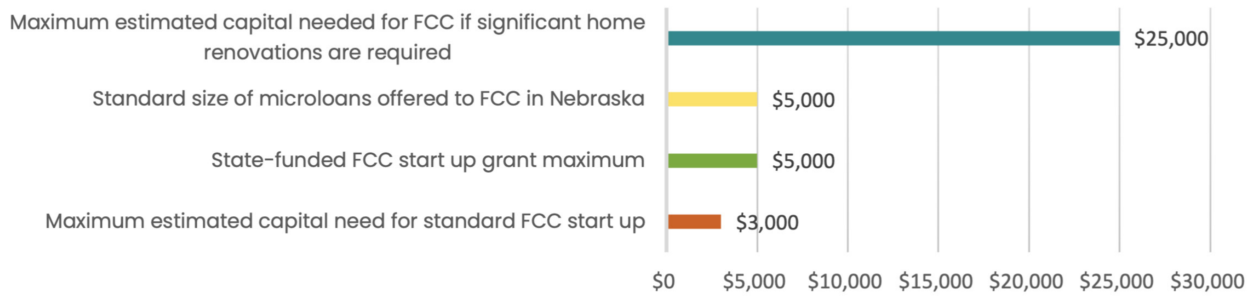
First Five Nebraska estimates that these deficits in reliable, affordable, and quality care cost the state nearly $745 million annually in direct losses.[9]

From Fall 2020 to Spring 2021, First Children's Finance (FCF) mapped the capital landscape for child care entrepreneurs throughout Nebraska to determine what capital was available, who knew about it, and who was successful in accessing it. The work focused on conventional and nonprofit banks, state grants, philanthropy, and economic development funding programs. FCF also analyzed recent COVID-19 relief grant and loan programs for lessons that could inform future capital initiatives. The following pages illuminate the many gaps and barriers that prevent child care business owners from being successful or ever getting started at all, but they also highlight current promising practices, potential partners, and opportunities for high-impact interventions.

To complete this analysis, FCF conducted focus groups in English and Spanish with 13 child care business owners, including center and family child care providers. FCF interviewed 45 stakeholders representing banks, economic development agencies, nonprofit organizations, foundations, state administrators, ECE regional coordinators, and community leaders. FCF analyzed and mapped datasets of loans and grants provided by the Nebraska Department of Health and Human Services and the Nebraska Children and Families Foundation, as well as publicly available data from the U.S. Small Business Administration.

What We Heard About Family Child Care (FCC) & Access to Capital

What capital do family child care providers need?



Summary of Findings

Most FCC business owners "go it alone," "make do," and "bootstrap" starting and operating their businesses. Savings, family contributions, and 401k withdrawals are the most common means of funding FCC business start-up. To the extent banks are involved, it is primarily through consumer products such as credit cards and home equity lines of credit (HELOCs).

Some FCC business owners in the Omaha metro area reported increasing difficulty finding rental units that permit child care businesses. If homeownership becomes a de facto requirement to starting a FCC business, this could significantly increase the price of entry to the FCC industry.

The CARES Act grants were the first loan or grant program many providers had accessed for their businesses. Some FCCs have maxed out credit cards and depleted savings during the pandemic.

Outside of conventional banking, there are grants and loans available to meet or exceed the relatively low capital needs of most FCC businesses, but access is limited. DHHS grants are perceived as onerous and intimidating and FCCs have fears about the strings attached. Microloans for FCC are available from nonprofit lenders, but these organizations have limited funding and serve only a small segment of the FCC business landscape.

Multiple sources of philanthropic and economic development capital are available to community child care initiatives, but LB 840 is a unique funding mechanism that can benefit individual child care entrepreneurs (including FCC, if properly designed).

Access to Capital Needs for Family Child Care

Relationship-Based Capital Support: Because FCCs may not need external capital to launch their business, they are less likely to have business banking relationships. FCCs need support accessing grants or low-interest business loans when they need them, to avoid relying on high-interest capital for emergencies or expansions. FCC businesses need support connecting to sources of capital through culturally competent, multilingual, multi-modal (online and in-person) outreach and technical assistance designed to directly address information, language, technology, and trust barriers. FCC entrepreneurs particularly need support, streamlined guidance, and templates to increase access to DHHS grants.

Inclusion in Community Development: FCCs may increasingly need support securing rental housing that allows them to operate their businesses. Many stakeholders shared that affordable housing has been at the forefront of community development initiatives in Nebraska for the last 5-10 years. Meeting the needs of FCC businesses should be considered a critical component of this work. Economic development stakeholders may need education and training on the ways zoning, HOA, and rental policies can create barriers to creating and maintaining child care supply. Communities need guidance on allowable LB 840 plans that are effective in increasing child care supply and inclusive of FCC homes.

Entrepreneurial Pipelines: FCC business owners have invaluable experience caring for children in group settings but only rarely accumulate enough savings to facilitate the transition to center ownership. While this is not the goal of all FCC businesses, intentional training, business technical assistance, and capital are needed to support those interested in making this challenging transition.

What We Heard About Child Care Centers & Access to Capital

What capital do child care centers need?

Capital needs for center start up and expansion can include:

- Mortgages and start-up loans for leases, furniture, and materials.
- Working capital to cover salaries and ongoing costs until the business breaks even.

Capital needs to sustain child care centers can include:

- Reserves or lines of credit to cover emergencies, downturns, and Title 20 reimbursement delays.
- Lenders that offer flexible repayment.

Summary of Findings

Conventional banks are most likely to finance the expansion of existing centers and view other child care center lending as high risk. At least 8 mission-oriented Community Development Financial Institutions (CDFIs) and nonprofit loan funds lend to a small number of child care businesses in Nebraska, but child care business owners are largely unaware of these resources.

Child care centers commonly experience 1-2 years of losses before they stabilize enrollment and break even. Funding for operating expenses during this period is the most challenging capital to acquire. When entrepreneurs start up without significant reserves or working capital loans, their businesses are vulnerable to closure or they may enter a cycle of expensive debt that is hard to escape.

Real estate is a central cost driver for child care center start up. When licensable, leasable space is available, the cost to start up a child care center is accessible to a larger number of entrepreneurs. Leasable space may be more available in Omaha and Lincoln but hard to find elsewhere. Capital campaigns to build a new child care facility can be easier for communities and foundations to rally around, but expectations for the new program to have a positive cashflow right away can be out of step with the realities of the costs of high-quality care.

Access to Capital Needs for Child Care Centers

Relationship-Based Capital Support: Access to capital supports should not be siloed from broader child care business technical assistance. Child care entrepreneurs need holistic support that can take into consideration (1) entrepreneurs' personal finances, experiences, and ability to access capital, (2) the array of funding options available, and (3) the development of sound child care business models within the context of community needs. Entrepreneurs then need support and matchmaking to connect them with the grants, loans, and partners that are right for them. These coordinated supports must be provided by culturally responsive navigators who can address language, technology, and trust barriers.

Facility Development: Child care entrepreneurs need support selecting, building, and renovating appropriate facilities that meet licensing and quality requirements and match community demand. There may be opportunities to partner with economic and community development organizations to create inventories of developable land/facilities and incorporate space for child care within development projects. Partnerships are needed to develop cost-effective co-located child care facilities within employer worksites, community facilities, and new housing developments to reduce start up and operating costs, especially in rural communities.

Strengthened Knowledge and Capacity of Financial Institutions: Banks need guidance on child care underwriting best practices and connections to CDFIs interested in investing in child care. Awareness raising is also needed about the advantages of supporting child care through CRA investments. Nonprofit loan funds and CDFIs need increased capacity to lend to a higher volume of child care businesses.

Access to Capital from the Conventional Banking Sector

Conventional banks in Nebraska represent an almost $82-billion industry[10], but this capital is perceived as out of reach for many child care business owners and potential entrepreneurs.

Banks and Child Care Entrepreneurs: A Mutual Need for Knowledge and Relationship-Building

FCF heard from child care entrepreneurs, bankers, and business technical assistance providers that when it comes to making loans to child care businesses, denials and discouragement were common. Many child care entrepreneurs are so sure of rejection that they will not approach banks for business capital (and may end up using credit cards and higher interest personal loans instead). Others lack the credit scores, collateral, or seed capital to proceed past initial loan screening. Finally, many who do make it past initial screens are unprepared for the requirements of business lending, such as detailed business plans and financial projections. In particular, stakeholders working in the Latinx community described widespread distrust of banks. Child care sector stakeholders also expressed that because there were so many banks with different policies and priorities, it was hard to compare them; even if a bank in Nebraska did have a helpful program, they would be unlikely to know about it.

Similarly, some bankers shared that many of their peers do not really understand the child care industry. Bankers uniformly described child care as a risky investment and pointed to low profit margins and fluctuating revenues as serious concerns. They also mentioned concerns ranging from the viability of rural child care businesses, owners closing their child care businesses once their own children aged out of care, and the possibility of losing licensure. Closer relationships with child care experts could help bankers understand the probability of these risks as well as industry best practices to address them.

Engaging Community Banks Around Child Care as a Driver of Local Economic Vitality

FCF heard from many stakeholders that Nebraska is a strong community banking state. The existence of community banks is impactful because they have been shown to make loans that require local knowledge and relationships that national or regional banks might avoid. [11] Community

> *I've mostly given up on referring child care providers to traditional banks… I know two child care providers [who expanded into centers] and worked with banks. They got better support from small community banks than from the big banks.*
>
> **-Child care business consultant**

banking stakeholders in Nebraska shared that there is a growing understanding among their peers that child care access is necessary to attract workers and increase the economic vitality of their community. Community bankers shared that they and their peers would go out of their way to lend to a viable child care business, but these opportunities were uncommon. Small community banks may make only one or two small business loans a year. These bankers have fewer opportunities to learn about child care lending best practices.

Regional Banks: Building Partnerships and Capacity through Community Reinvestment Act (CRA) Investments and Small Business Administration (SBA) Loan Programs

Regional banks, which include banks with branches throughout regions of Nebraska and those that spread into neighboring states, are more likely to have staff dedicated to supporting small business lending programs. Because they do a higher volume of small business lending, regional banks are much more likely than community banks to have Small Business Administration (SBA) loan specialists on staff, giving their clients an advantage in accessing this important resource (see more information on the next page).

Larger banks also have more extensive requirements under the Community Reinvestment Act (CRA) than small banks. Large banks are assessed on their investments and their service to the community in addition to their loan-making. Banks with CRA investments in nonprofit banks, then have connections in place to partner on financing for mission-aligned projects like child care. Although CRA investments are not a significant source of capital for child care lending in Nebraska currently, there is growing interest in better leveraging CRA dollars for child care nationally and among Nebraska child care advocate. [12]

Many regional banks named by child care business owners as trusted resources currently or previously offered specialized programs to address barriers faced by entrepreneurs of color. First National of Omaha was cited by stakeholders as the first Nebraskan bank to hire Spanish-speaking bankers and develop lending programs for undocumented borrowers. American

National Bank, and the Carver Legacy Center initiative to promote African American entrepreneurship, was named by many African American child care business owners in Omaha as a trusted source for loans and financial information.

Guarantees and Gap Financing: A critical piece of the puzzle for financing child care

> *Collateral is always an issue with child care loans. Kids' toys don't really cut it!*
>
> **-Nebraska Lender**

For banks, risk reduction is central to small business lending. To reduce their risk, banks may ask entrepreneurs to contribute a significant portion of the money needed to start up or expand the business (as high as 50% in some cases) as well as ask for collateral in the form of business and personal assets that meet the value of the loan or more. These requirements create significant barriers for many entrepreneurs. Additionally, because child care furniture and materials have a low resale value, banks often have heightened requirements for personal capital and collateral, because collateral in the business is minimal. Even child care centers, which hold land value, can be challenging to underwrite because property improvements to meet licensing requirements and quality best practices are generally not useful to other businesses and therefore are unlikely to add to a property's resale value. [13]

> *The business owner typically doesn't know about CDFIs or about the SBA. The bank is the one that pulls in [those resources]. It is something they will do if they feel like they are close to having a deal, but not quite there. The banker must be willing to take this extra step. It really comes down to banks that are civic-minded and see the value for the community.*
>
> **-Nebraska Lender**

Guarantees and gap financing are important tools to lower risks to banks while enabling them to work with child care entrepreneurs who lack large personal assets.

Guarantees

Through the Small Business Administration (SBA) 7(a) and 504 programs, the federal government guarantees 75-90% of the value of a small business loan, significantly reducing a bank's liability and, as a result, lowering the amount of capital the bank asks from the entrepreneur. In Nebraska, SBA lending to child care businesses is concentrated in Omaha, Lincoln, and along the I-80 interstate corridor.

Example financing package with loan guarantee:

Gap Financing

Another way for banks to reduce risk is to share it with financing partners. Gap financing meets the gap between what entrepreneurs can contribute and what the bank wants to lend. It typically reflects only 20% to 40% of the total loan value, but gap financers often take on more of the risk by taking a subordinated position on the loan. In Nebraska, CDFIs and economic development agencies provide gap financing to increase economic opportunity and development throughout the state.

Example financing package with gap financing:

Partnering with another financial institution or applying to an SBA loan program takes time and is complex for both the bank and child care entrepreneur. Facilitators who can communicate the importance and impact of these initiatives for communities and provide technical assistance to help meet the additional administrative burden are critical for these tools to be used to support the child care industry widely and equitably.

Child Care Businesses Need Information and Alternatives to Avoid Predatory Lending

Prior to the ballot initiative passed in November 2020, which placed limits on the interest payday lenders could charge, business consultants shared that it was not uncommon for them to work with clients paying up to 450% interest rates on payday and title loans. Stakeholders worry that, without more education and alternatives, informal “street lending” and online banks, which use partnerships with banks outside of Nebraska to avoid state-imposed limitations on interest rates, will continue to fill the void payday lenders left behind.

Nonprofit Banks Address Capital Access Barriers but Have Limited Capacity, Connect with Child Care Entrepreneurs Primarily Through Word-of-Mouth

Nonprofit financial institutions exist to provide capital for borrowers with barriers to accessing funding from conventional banks. These institutions include Community Development Financial Institutions (CDFIs), Minority and Women Owned Financial Institutions and Low Income Credit Unions (MWLI institutions), as well as nonprofits with revolving loan funds. Each has their own mission and clientele they are seeking to serve. The following Nebraskan CDFIs have provided loans to child care entrepreneurs in recent years

- **Nebraska Enterprise Fund (CDFI)** offers loans ranging from $5,000 to $150,000 and regularly partners with conventional lenders on larger transactions. They lend to small businesses across Nebraska and have worked with both child care centers and homes. NEF provides technical assistance including business training, tax preparation, and credit counseling.
- **The Center for Rural Affairs (CDFI)** lends primarily in low-income rural areas and Latinx communities. CRA provides loans up to $150,000 and regularly partners with banks to provide gap financing. CRA lends to centers and homes. CRA recently completed the first cohort of its Child Care Academy, which was offered exclusively in Spanish, and provided financial literacy, business planning, and child care-specific health and safety training to 16 entrepreneurs. Approximately half of the participants also received micro-loans of $1,000-3,000 to start their business.
- **Community Development Resources (CDFI)** offers microloans ranging from $1,000 to $50,000 to small businesses and has lent to child care centers. It is unique for its specialization in the 504 SBA guarantee program

What is a Community Development Financial Institution (CDFIs)?

CDFIs are federally certified, mission-driven organizations defined by the targeted clientele they seek to serve. In addition to making loans, CDFIs often offer technical assistance to support borrowers in developing financial and business skills. This technical assistance, sometimes coupled with more holistic underwriting or flexible repayment terms, enables them to lend to borrowers that conventional banks would avoid. However, CDFIs are still rigorous in their underwriting processes and can be conservative with their lending, often out of a concern for saddling borrowers with debts they cannot afford.

which can provide up to $5 million dollar loans for the acquisition, construction, or renovation of real estate.

- **Midlands Latino Community Development Corporation (CDFI)** has operated cohort-based child care training and micro-lending for over a decade, focused on the Latinx community. It has also offered the Refugee Family Child Care Microenterprise program, funded through the Office of Refugee Resettlement, to refugee communities from Asian and African countries. Through both programs the organization offered microloans of$1,000-5,000 dollars. It also offers small business loans up to $50,000.

Minority Depository Institutions (MDIs)

As of December 2020, Nebraska did not have any listed minority depository institutions." [14] However, the recently launched Carver Legacy Center may fill this gap.

The Carver Legacy Center is located in the historic site of the first Black-owned bank in Nebraska, the center will offer loans and technical assistance to Black entrepreneurs and business owners in North Omaha. The center will focus its investments on child care as one of four target industries and plans to provide business services like tax preparation, help with technology, networking events, and trainings.

Other Revolving Loan Funds for Entrepreneurs

Several nonprofits offer small revolving loan funds to child care entrepreneurs. Two stand out for their scale and unique models:

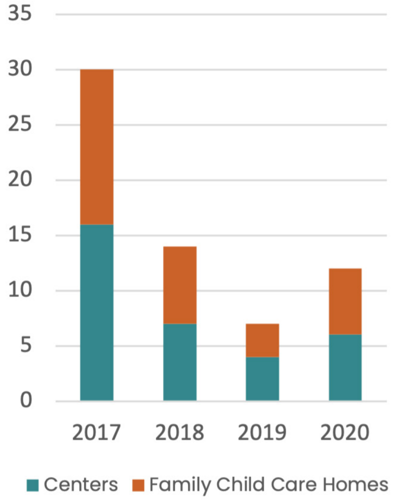
Lending Link is a philanthropically funded Omaha-based lender that began operating in late 2019 with the goal of offering an alternative to payday loans to the Latinx community. Their loans are typically small, have a flat interest rate of 5%, and require minimal underwriting.

Grameen, the Nobel-winning microfinance innovator founded in Bangladesh in 1976, has operated a branch in Omaha since 2009[15]. Grameen focuses on serving women entrepreneurs living under the poverty line through a group lending model.

Although each of these organizations lends to child care businesses, most child care business owners were not familiar with them. These organizations report primarily finding clients through word-of-mouth so awareness may be centralized among specific communities. In making funding decisions, each organization has their own loan types, priority clients, geographies, and risk profiles which may be confusing for entrepreneurs to navigate. These institutions also vary significantly in size. Nonprofit loan funds lending to child care entrepreneurs in Nebraska range from $100,000 to over $12 million in total assets, and for some, availability of capital is a concern.

Access to Capital through State Grants

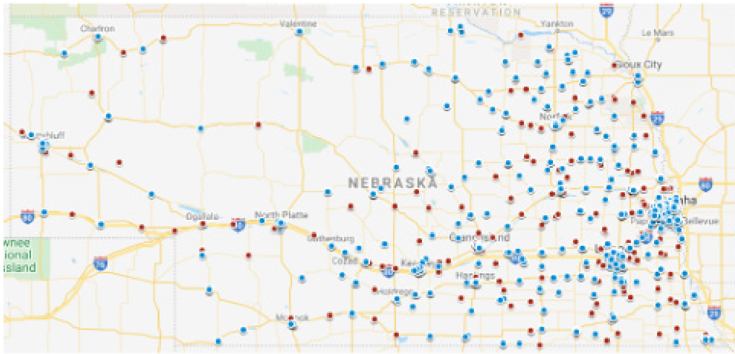
The primary source of capital developed specifically for child care business owners in Nebraska is the suite of grants administered by the Nebraska Department of Health and Human Services (DHHS). The grants are funded through the federal Child Care and Development Block Grant (CCDBG) and are designed to increase the supply and quality of child care businesses that serve families participating in the state subsidy program. Once a business receives a DHHS grant, they are expected to continue operations and continue serving families on the subsidy program for the next three years. In recent years, $150,000 per year has been allocated to this grant program. However, it has never been utilized in its entirety, and no grant application has ever been rejected due to lack of funding.



Start-Up and Expansion Grants Are Hard to Apply for, Have Differing Impact for Centers and Homes

Child care start up and expansion grants are the largest grants offered by DHHS. These are designed to cover purchasing and minor repair costs for businesses going through the initial licensing process or expanding their capacity or license type. The maximum award for family child care homes is $5,000, and the average awarded grant is $4,051. For family child care homes, a $5,000 award should cover most start-up costs; barring a need for significant construction or repair. However, stakeholders who work with family child care homes described these grants as being extremely difficult for providers to access, particularly due to the requirement to include a community needs assessment as part of the application. The maximum award for child care centers is $10,000, and the average grant size is $9,605. For centers that are starting up or expanding, $10,000 does not go far. Multiple stakeholders used the example that it was helpful for putting up a new fence but not much more than that.

Location of DHHS Grant Awards 2017-2020



Start up and expansion grant awards are dispersed across the state. Only five of the 63 grants made during this period were awarded within the Omaha metro area. Awareness of the program, including in rural areas, was high. However, many stakeholders shared there was significant skepticism of these grants. They shared that from the perspective of some child care business owners, the nonallowable uses for the funding felt arbitrary and confusing, and they had concerns about funding being clawed back if they stopped operating or stopped serving families receiving child care subsidy.

Access to Capital from Philanthropy

Philanthropy plays a critical role in child care in Nebraska. Systems level philanthropic investment can be seen in the Sixpence Early Learning Fund, First Five Nebraska, NECC, and many other institutions. However, in focus groups and conversations with child care business owners and the stakeholders who support them, the overwhelming consensus was that, prior to COVID, there were few philanthropic grants available to help start, grow, or sustain child care businesses.

One way to approximate the likely impact of philanthropic funding on daily program operating budgets is to look at the percentage of child care programs that operate as nonprofits. Through exploration of several business databases, FCF found fewer than 40 standalone child care programs incorporated as nonprofits statewide, confirming stakeholder beliefs that few child care leaders in Nebraska incorporate as nonprofits. Community initiatives to develop child care, which typically have greater resources and ties to foundations, more commonly developed nonprofit programs.

Nebraska Community Foundation: Advocating for sustained, grassroots philanthropic investment from local foundations

> *"It's easier to wrap your arms around a capital campaign to build a child care facility than accept that a high-quality program is going to need ongoing unearned income... but we need to turn our attention to what is going on inside the building.*
>
> **-Philanthropic stakeholder**

Nebraska's 573 Community Foundations can play a significant role in initiating and supporting community solutions for child care. However, they rarely support for-profit child care businesses unless they have come together through a community planning process to make a shared ask. The Nebraska Community Foundation encourages local foundations to make early childhood a funding priority, however big or ongoing investments in child care may still be viewed as risky.

Communities for Kids: Building local capacity for raising capital

The Nebraska Children and Families Foundation (NCFF) operates a wide variety of programs to support child and family wellbeing in Nebraska, including the Communities for Kids (C4K) initiative, which most directly addresses access to capital for child care businesses. Through C4K, NCFF manages $2.5 million dollars that passes through to communities to support a rigorous, but self-paced planning process for communities to design initiatives that address their local child care needs. Five community mentors provide guidance on how to survey communities, develop project budgets, and fundraise from child care funders, community foundations, community banks, and individual donors. FCF found that C4K sites blended foundation funding, community fundraising drives, and state and federal economic development funding in increasingly intricate and innovative ways, learning from each other as they went. Stakeholders were quick to note these were not quick-moving projects. Many arose from planning processes that started as far back as 2012. One stakeholder shared, "*when it comes to rallying a whole community around child care, you need to move slow to move fast.*"

Access to Capital from Economic Development Initiatives

Federal and state funds designed to support economic and community development in rural and low- and moderate-income communities can be a powerful mechanism for financing child care programs. However, these programs can be difficult to apply for and costly to administer. Communities need support in understanding the benefits and challenges associated with pursuing these funding types.

Overview of State and Federal Economic Development Funding Used for Child Care in Nebraska

Communities in Nebraska are currently using the Community Development Block Grant (CDBG), the Rural Economic Development Loan and Grant Program (REDLG), and Community Facilities Grant funding opportunities to develop child care facilities. The Nebraska Department of Economic Development also encourages communities to explore Civic and Community Center Financing for their child care initiatives. These programs are described in more detail on the next page.

	Community Development Block Grant	USDA REDLG	USDA Community Facilities Grant	Civic and Community Center Financing Fund
Loan or Grant	Grant	Zero interest loan	Grant	Grant
Maximum Funding	$400,000	$300,000	$50,000	$1,125,000 (2)
What type of child care programs benefit?	Nonprofit organizations only	Nonprofit organizations only (1)	Municipal facilities and nonprofits	Municipal facilities

(1) Nonprofits must be recipients of the initial loan. As this loan is repaid, it becomes a revolving loan fund, which may lend to for-profit businesses. (2) Grant size varies widely. Represents total contribution to larger facilities project (e.g., a community center) that could include space for child care

Community Development Block Grants (CDBG) are the largest source of economic development funding that can be used directly for child care development projects. However, CDBG requirements can increase the complexity and expense of child care facility construction. In most communities, child care programs using CDBG must document that they serve at least 51% low- and moderate-income families.

USDA Rural Economic Development Loan and Grant Program (REDLG) relies on a rural utilities provider to act as an intermediary who receives funding from USDA and then administers an interest-free, 10-year loan to a local, eligible nonprofit. Identifying an eligible intermediary willing to take on this responsibility on behalf of a child care initiative is critical to utilizing this funding stream.

USDA Community Facilities Program offers loans and grants to purchase, construct, or improve facilities, including child care centers. The community facility loan program offers fix rate loans with up to forty-year terms. Grants of up to $50,000 are also offered. Designed to support low-income, rural areas, the portion of the funding offered as a grant is determined by community size and median household income.

Nebraska Civic and Community Center Financing Fund (CCCFF) funds municipalities to build or improve municipally owned facilities that could provide space for child care (e.g., a community center or library). Recent grants range in size from $6,000 to $1,125,000. [16]

Overview of Tax Instruments Used to Support Child Care in Nebraska

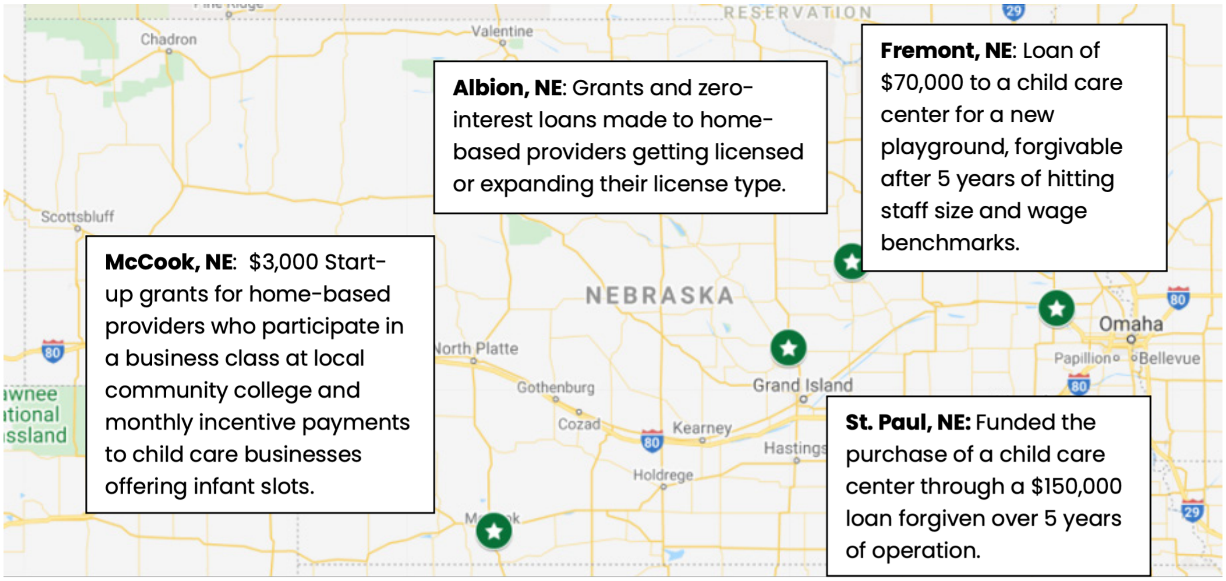
Levying a local tax or offering tax relief is another mechanism for states and communities to fund the start-up or operation of child care programs. The following tax instruments have been deployed to support child care in Nebraska, but many stakeholders viewed them as underutilized.

	LB 840	Nebraska Community Development Assistance Act Tax Credit	Nebraska Advantage Micro-Enterprise Tax Credits	Tax increment financing
Administered by	Local municipalities	State	State	Local municipalities
Type of Capital	Varies based on local design	Incentivizes private donation	Up to $10,000 refundable personal tax relief for entrepreneurs	Varies based on local design
What type of child care programs benefit?	For profit businesses	Nonprofit organizations only	Group child care providers and small centers	New child care facilities or co-located in a new development

LB 840: A Promising, Flexible Tool for Funding Child Care: Needs Increased Awareness and Evaluation

Many stakeholders, including state senators, shared enthusiasm about the momentum surrounding the local option municipal economic development program, widely referred to as LB 840, as a critical piece of the puzzle for financing child care in Nebraska. Originating over thirty years ago, LB 840 provided local governments with a sales tax mechanism to support local for-profit businesses in creating and retaining high paying jobs. The child care sector's eligibility for LB 840 funding was in question until state legislation passed in 2019 explicitly defined child care as a qualifying business. Eligible supports funded under LB 840 must help businesses start, expand, or hire additional employees. What this looks like in practice varies for each community (see below). Other municipalities may be using LB 840 to support child care, however the hyper-local nature of these initiatives makes it hard to share and compare models and outcomes. Additional communities are on the lookout for tested LB 840 plans to support child care. Communities primarily served by unincorporated family child care homes may need additional support leveraging this funding due to requirements that LB 840 fund businesses rather than individuals.

Locally Designed Supports for Child Care Through LB 840



Nebraska Community Development Assistance Act Tax Credit provides a 40% state tax credit to businesses and individuals that make eligible cash contributions or provide services and materials to approved municipal and nonprofit initiatives.

Nebraska Advantage Micro-Enterprise Tax Credits provide a refundable individual tax credit on 20% of the increase in new investment or new employment at a microbusiness. Businesses must have five full time equivalent employees or fewer to qualify at the time of application. Microbusiness owners can apply over multiple two-year periods and receive a lifetime maximum of $10,000. Nebraska sets aside $2 million dollars a year for this program, and unused funds rollover. Although group child care providers and small or start-up centers would qualify for this program, few seem to use it, likely due to the complicated application process and need to anticipate expansion at least a year ahead.

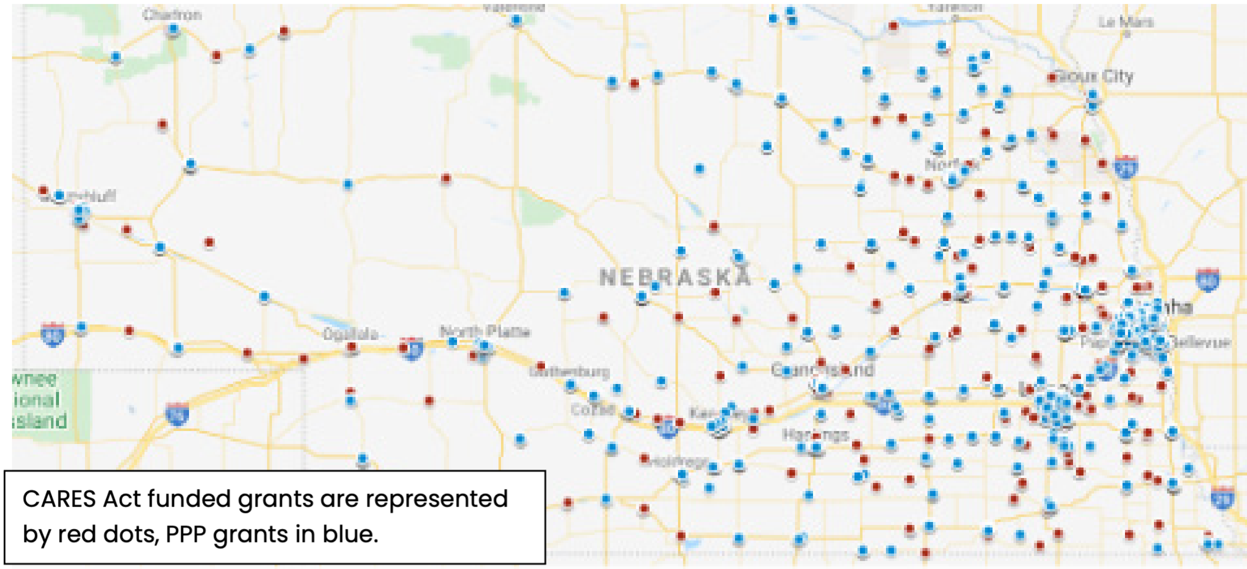
Tax Increment Financing (TIF) is in place in 140 municipalities in Nebraska. Only one Nebraska community reports using TIF funds for child care: Holdrege, NE, used it to fund the conversion of an abandoned trailer court into a new child care center. [17]

COVID Relief and Recovery Capital

The COVID-19 pandemic has had a profound impact on Nebraska's child care businesses. Two major types of relief funding have been deployed to address this crisis: federal small business aid in the form of the Paycheck Protection Program (PPP) and Economic Injury Disaster Loan (EIDL) program and child care specific aid funded in Nebraska through a blend of philanthropic dollars and CARES Act CCDBG dollars (hereafter "CARES grants"). Many smaller grant and loan programs were also launched throughout the state by nonprofits, community foundations, and other sources.

Although these programs were one-off, crisis response initiatives, understanding how they were deployed and who they reached provides valuable insight for future capital initiatives. To encourage participation in these programs, organizations built communication and business support infrastructure that did not previously exist in Nebraska. Stakeholders reported that many child care business owners received grants or loans for the first time through these programs. This presents an opportunity to understand child care business owners' attitudes about capital and how they may be changing. Finally, understanding who received these supports and what they did and did not cover will be necessary for addressing urgent capital gaps during the recovery period to come.

How CARES Act-Funded Grants and the Paycheck Protection Program were Distributed to Nebraska Child Care Businesses



CARES Act funded grants are represented by red dots, PPP grants in blue.

Although uptake of the PPP and CARES grants were significant, they did not cover the added costs of operating during the pandemic for many child care businesses. Many business owners report putting expenses on credit cards over the last year and may be maxed out. Stakeholders reported disinterest in new loans because many business owners were already struggling to pay existing debts incurred over the last year. Some stakeholders were quick to point out that operating with a maxed-out credit card was a fact of life for many child care businesses prior to the pandemic as well.

Equitable Access to Capital for Child Care

Create a Team of Capital Navigators

Access to capital supports should not be siloed from broader child care business technical assistance. Provide holistic support that takes into consideration entrepreneurs' personal finances, experiences, and ability to access capital; the wide array of available funding and community resources; and the development of sound child care business models within a community's context and demand for care. Offer matchmaking to connect them with the grants, loans, and partners that are right for them and technical assistance to put together fundable business plans and grant applications. These coordinated supports must be provided by culturally responsive navigators who can address language, technology, and trust barriers. While many organizations fill a piece of this puzzle, there is tremendous value in one organization taking on this multifaceted, network-building role.

Educate Banks in How to Successfully Finance Child Care Businesses

Create a set of child care underwriting principles and offer trainings to banks on how to successfully lend in child care. Partner with the Nebraska Bankers Association, Nebraska's CDFIs, and other financial institutions to create regular opportunities for banks to learn the "hows" and "whys" of financing child care, including building connections with gap financing partners and sharing models for CRA investments in child care.

Shape the Banking Landscape with Grants, Guarantees, and Investments

By strategically deploying grants, philanthropic loan guarantees, or program-related investments, philanthropy can shape the capital market, promote and encourage engagement with its child care underwriting principles and child care navigators, and develop close partnerships with local and regional banks and nonprofit funders..

Create a DHHS Grant Application Toolkit

In addition to support from navigators, offer templates and examples for completing the DHHS grant to minimize confusion and time spent on the application and increase use of this funding stream.

Promote LB 840 Models that Benefit Child Care Centers and Homes

Track and distribute active models supporting child care and offer guidance to municipalities as they determine which models fit their community needs. In particular, child care organizations should offer support to communities served primarily by unincorporated family child care providers where an LB 840 plan's "eligible business" definition could create a barrier. Support could include education about FCC as a business, creating LB 840 plans that are inclusive of unincorporated FCC, or offering support to incorporate local FCC providers.

Partner with Economic Development Agencies

Several of Nebraska's economic development districts are mobilizing to support child care. Close partnerships with these agencies not only bring financing resources, but also can ensure the needs of children, families, and child care business owners are considered early and often within broader conversations on community and economic development. Centering child care within larger projects can result in exciting initiatives such as housing developments designed with family child care licensing in mind or integrating small child care center spaces into mixed-use or community facility development in rural areas where leasable space is rare.

Endnotes

1 Office of Economic Research. (2016, September 14). Minority Business Ownership: Data from the 2012 Survey of Business Owners. United States Small Business Administration. https://cdn.advocacy.sba.gov/wp-content/uploads/2016/09/07141514/Minority-Owned-Businesses-in-the-US.pdf

2 Office of Economic Research. (2017, May 31). Women's Business Ownership: Data from the 2012 Survey of Business Owners. United States Small Business Administration. https://cdn.advocacy.sba.gov/wp-content/uploads/2017/05/22154543/Womens-Business-Ownership-in-the-US.pdf

3 Office of Economic Research. (2017, May 31). Access to Capital for Women- and Minority-owned Businesses: Revisiting Key Variables. United States Small Business Administration. https://www.sba.gov/sites/default/files/Issue%20Brief%203%20Access%20to%20Capital.pdf

4 Racial Justice and Equal Economic Opportunity Project. (2016, May). Past Imperfect: How Credit Scores and Other Analytics "Bake In" and Perpetuate Past Discrimination. National Consumer Law Center. https://www.nclc.org/images/pdf/credit_discrimination/Past_Imperfect050616.pdf

5 Federal Research Division, Library of Congress (2018, March 1). Understanding the Landscape: Access to Capital for Women Entrepreneurs. National Women's Business Council. https://cdn.www.nwbc.gov/wp-content/uploads/2018/03/28215658/NWBC-Report_Understanding-the-Landscape-Access-to-Capital-for-Women-Entrepreneurs.pdf

6 McLean, C., Austin, L.J.E., Whitebook, M., & Olson, K.L. (2021). Early Childhood Workforce Index – 2020. Berkeley, CA: Center for the Study of Child Care Employment, University of California, Berkeley. https://cscce.berkeley.edu/workforce-index-2020/report-pdf/

7 Workman, S. (2018, February 14). Where Does Your Child Care Dollar Go?: Understanding the True Cost of Quality Education. Center for American Progress. https://www.americanprogress.org/issues/early-childhood/reports/2018/02/14/446330/child-care-dollar-go/

8 Sarver, S.L., Huddleston-Casas, C., Charlet, C., & Wessels, R. (2020, January). Elevating Nebraska's Early Childhood Workforce: Report and Recommendations of the Nebraska Early Childhood Workforce Commission. Omaha, NE: Buffett Early Childhood Institute at the University of Nebraska. workforce-commission-report-pages-final.pdf (nebraska.edu)

9 Bureau of Business Research, University of Nebraska-Lincoln. (2020, August 4). The Bottom Line: Economic Impacts of Inadequate Child Care Access in Nebraska. First Five Nebraska. http://www.firstfivenebraska.org/uploads/Bottom_Line_Report-FINAL.pdf

10 Federal Deposit Insurance Corporation. (2020, Fourth Quarter). State Profile: Nebraska. Federal Deposit Insurance Corporation. https://www.fdic.gov/bank/analytical/stateprofile/kansascity/ne.pdf

11 Federal Deposit Insurance Corporation. (2020, December). FDIC Community Banking Study. Federal Deposit Insurance Corporation. https://www.fdic.gov/resources/community-banking/report/2020/2020-cbi-study-full.pdf

12 Grunewald, R. & Horowitz, B. (2021, January 5). How Early Care and Education Intersects with the CRA: Banks and early care and education providers can mutually benefit under the Community Reinvestment Act. Federal Reserve Bank of Minneapolis. https://www.minneapolisfed.org/article/2021/how-early-care-and-education-intersects-with-the-cra

13 Grunewald, R. & Horowitz, B. (2020, June 19). What Works in Supporting Early Care and Education: CDFIs tackle market challenges. Federal Reserve Bank of Minneapolis https://www.minneapolisfed.org/article/2020/what-works-in-supporting-early-care-and-education-cdfis-tackle-market-challenges

14 Federal Deposit Insurance Corporation (2020, February 17). Minority Depository Institutions List. Federal Deposit Insurance Corporation. https://www.fdic.gov/regulations/resources/minority/mdi.html

15 Grameen America (2021). Our Impact. Grameen America. https://www.grameenamerica.org/impact

16 Nebraska Department of Economic Development. (2021). Civic and Community Center Financing Fund Awards 2004-2020. Nebraska Department of Economic Development. https://opportunity.nebraska.gov/wp-content/uploads/2017/04/CCCFF_Awards-2004-2020.pdf

17 Property Assessment Division, Nebraska Department of Revenue. (2020, March 1). Community Redevelopment Tax Increment Financing Projects Tax Year 2019. Nebraska Department of Revenue. https://revenue.nebraska.gov/sites/revenue.nebraska.gov/files/doc/pad/research/TIF_Reports/TIF_REPORT_2019.pdf

First Children's Finance

Founded in 1991, First Children's Finance is a national nonprofit organization based in Minneapolis, Minnesota with regional offices in Iowa and Michigan. First Children's Finance works to stabilize, improve and expand high-quality child care businesses serving low and moderate-income families.

First Children's Finance provides financing, child care business training and consulting, and build partnerships that connect child care businesses with the resources and expertise of the public and private sectors.

First Children's Finance understands the issues and challenges child care businesses face in today's world. We have industry-specific expertise and a shared commitment to the success of child care.

In addition, First Children's Finance aligns its work with child care leaders, businesses and regional initiatives that are committed to quality. We define quality as the creation of environments that support healthy brain development for young children to enhance early learning. First Children's Finance brings a unique perspective, approach, and experience to providing business, planning and financial assistance to our child care and economic development partners.

For more information about First Children's Finance visit www.firstchildrensfinance.org