Ideas for Increasing Capital to Childcare Centers During COVID-19 Outbreak

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Palmetto Associate, ICS

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The Institute for Child Success (ICS) is an independent, nonpartisan, nonprofit research, policy and planning organization dedicated to the success of all young children.

4 areas of focus:

- Propose and implement savvy research-based policies
- Advise governments, nonprofits, foundations & other stakeholders on strategy
- Facilitate knowledge sharing & ideation
- Accelerate impact through solution building
SC Quick Facts & Childcare Survey

SC Quick Facts

✓ 290,000 children <5
✓ ~200,000 of those live in households where all guardians worked
✓ Avg salary of childcare professional: $21,000
✓ ~22,500 families received childcare assistance

Childcare Survey

✓ 1/3 of centers cannot weather closure of any kind
✓ 48% of centers closed
✓ Overall sector serves 33% of all enrollment
✓ Average financial loss per center, $50k
Poll #1

1. These findings were from April. Do they still represent your observations and experience in the field two months later?

Yes (10) 83%

No (2) 17%
The Issue: Capital & the Economy

- Without capital, the childcare sector cannot function
  - Cannot hire/re-hire workers
  - Cannot purchase additional items (PPE) to meet DHEC standards
  - Have no financial incentive to reopen

- Without childcare, the economy cannot function at capacity
  - "Re-opening" the economy will fall short
  - Government costs will rise (unemployment, SNAP, Medicaid, etc.)

- Goal: find ways of putting capital in hands of workers with children, OR directly to childcare sector
Individual Family Solutions
CDCTC

- Make the Federal Child & Dependent Care Tax Credit (CDCTC) fully refundable for a period of time
  - Nonrefundable (only impacts amount owed)
  - Currently, 20%-35% of costs up to $3k per dependent or $6k for 2+ dependents
  - Only applies to children up to 13 and/or dependents physically/mentally incapable to self-care
## CDCTC Potential

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Fed, 100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family (1 child) earns:</td>
<td>$43,000 annually*</td>
<td>$43,000 annually</td>
</tr>
<tr>
<td>Total annual childcare costs:</td>
<td>$6,300**</td>
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<tr>
<td>CDCTC</td>
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<td>$6,300</td>
</tr>
<tr>
<td><strong>Net</strong></td>
<td><strong>+$5,100</strong></td>
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*maximum income threshold
**approx. avg. SC childcare cost
^20% would equal $1,260, but cap is $1,200
SC CDCTC

- Increase SC CDCTC for a period
  - All South Carolina taxpayers who qualify for the federal credit are automatically eligible, except for spouses filing separately.
  - 7% of child care expenses eligible for the federal CDCTC. I.e., If you claimed $3000 on Federal, you would get $210.
## CDCTC Potential

<table>
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<tr>
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<tr>
<td>SC CDCTC</td>
<td>$84</td>
<td>$600</td>
<td>$441</td>
<td>$3,150</td>
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<tr>
<td>Net</td>
<td>$1,284</td>
<td>$1,800</td>
<td>$6,741</td>
<td>$9,450</td>
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Benefits of Increased CDCTC

- Offers financial incentive for parents to use childcare
- Helps parents get back to work/improves economy
- Increases enrollment in centers
- Child development stabilizes
SC Child Care Program Credit

- Currently, businesses receive a non-refundable tax credit to provide child care for their employees at their site or at a site of their choice. They receive:
  - 50% startup costs back in initial year
  - After starting operation, they get the lesser of 50% their operating expenses OR $3000 per employee benefiting
  - If employees use it for off-site, it is only allowable for non-profit centers

- Expand this credit to:
  - Be refundable
  - Include Qualitative Information Reporting System (QIRS) enrolled centers
  - This is effectively employers buying "employee insurance"
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<tr>
<td>Net</td>
<td>$3,744</td>
<td>$3,960</td>
<td>$6,531</td>
<td>$7,950</td>
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** approx. avg. SC childcare cost

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Poll #2

1. Please choose all that apply, in order of most impactful. Your first choice should have the biggest impact and subsequent choices less impactful. (Multiple choice)

- Federal CDCTC (11/12) 92%
- State CDCTC (6/12) 50%
- SC Child Care Program Credit (8/12) 67%
Childcare Sector Solutions
CDTC & Angel Investor Credit

- **Community Development Tax Credit (CDTC)**
  - For taxpayers who invest in qualifying "community development corporations" or financial institutions
  - 33% credit of equity investments
  - 50% of qualifying donations
  - Must be authorized by Department of Commerce

- **Angel Investor Credit**
  - For angel investors who invest in qualified businesses that have been certified by the Secretary of State
  - 35% credit of equity investments
  - Cannot exceed $100k
  - Must be approved by Department of Revenue
CDTC & Angel Investor Credit

- Expand both credits to include childcare centers

- Benefits to centers:
  - Incentivizes investment and donations into childcare centers
  - Childcare centers receive much needed capital
  - Income sources are diversified

- Benefits to investors/donators:
  - Diversification of portfolio in foundational needed economic sector that is needed in perpetuity
  - Investment into a sector whose market is projected to grow rapidly
  - Investment into a sector that does not currently meet demand
Loan Forgiveness

- Expand Loan Forgiveness Program for childcare workers
  - Program was created to attract and retain more highly trained individuals in the early childcare profession
  - Borrowers who meet the criteria for this program can have 20 percent of their total loans forgiven after two years of service
  - An additional 20 percent is forgiven after a borrower completes a third consecutive year of qualifying service
  - Amount rises to an additional 30 percent after each of the fourth and fifth consecutive years of service
Private Public Partnership

- Combine interests of three stakeholders: philanthropy, banks and childcare sector
  - Banks put up low-interest loans (<4%) for childcare centers
  - Philanthropies (foundations, United Ways, other funders) co-sign loans with childcare centers and use their large endowments as collateral
  - Childcare centers make payments in earnest, but also work out agreement with philanthropies
Poll #3

1. Please indicate all that apply, from the biggest impact to the smallest. (Multiple Choice)

- Community Development Tax Credit: (11/13) 85%
- Angel Investor Credit: (9/13) 69%
- Loan Forgiveness: (11/13) 85%
- Private Public Partnership: (11/13) 85%
Questions

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