Innovative Financing Solutions to Expand Quality Early Care and Education in Nebraska

For philanthropies, businesses and governmental entities

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First Five Nebraska

Children's Funding Project

Introduction

Generating and providing adequate funding to support early childhood care and education has historically proven to be not only challenging but also critical for states and communities' ability to position themselves for economic growth and prosperity. The COVID-19 pandemic made evident what many early childhood stakeholders have understood for years: without appropriate public and private investment, the early childhood system will continue to remain incredibly fragile.

Federal COVID-19 emergency funds provided to the states have helped stabilize the system; at the same time these funds also present an opportunity to strengthen the foundation on which the early childhood system sits. However helpful the emergency federal funding commitment for early childhood proves to be, these funds are just that – emergency funds that will not exist into perpetuity. It is important that states and localities examine their own financing infrastructure for early childhood and identify additional funding options that may exist to sustain these investments.

The following brief offers insights into a variety of innovative financing methods Nebraska can explore to generate dedicated funding to support early childhood systems. These methods are divided into two categories: those that require state action and partnership, and those that require private/non-governmental partnership. There is no single method that will fully fund all investments needed, so it is recommended that multiple methods be explored to fill known gaps in quality, access and equity of services.

Methods that require state action and partnership

Impact fees

Impact fees are collected by local governments in conjunction with property development, with the revenue dedicated for a specific use, such as addressing the need for additional child care capacity or other infrastructure. Impact fees vary significantly from state to state regarding the types of public facilities that can be financed, whether they are enabled by the state legislature, and time limits and implementation requirements. While most states use impact fees to finance road, water, sewer, storm water and parks, some states also permit use of impact fees for financing school, library, fire and police facilities. For a comprehensive look at each state's impact fee laws and authorizing acts, go to impactfees.com.

Impact fees in Nebraska

Nebraska does not have an impact fee enabling act. However, municipalities have an implied authority to charge impact fees by case law. In 2003, the City of Lincoln started its impact fee program. More than $34.3 million of impact fees have been collected to fund streets, water, sewer systems, and parks in the fastest growing areas of the city. Read more in "Financing Tools for Urban Redevelopment" (Omaha by Design, 2013).

Documentary Stamp Tax / Real Estate Transfer Tax

The documentary stamp tax is a tax upon the seller of real property or transfer of beneficial interest of real property located in Nebraska. The tax is based on the value of the real property being transferred and is due when a deed is presented for recording, unless the sale is considered exempt. In many instances the documentary stamp tax is paid as part of the transaction closing process.

In 2018, Richmond, Calif., voters passed [Measure E](), dedicating a portion of general city funds for youth programs and services. A provision of Measure E was that the collection of funds is contingent on the passage of a general tax measure afterward. Later that year, voters passed [Measure H](), authorizing an increase in real estate transfer tax rates for properties with a sales price of over $1 million.

The Children's Funding Project found no examples of states using these taxes for children's services outside of pre-K. However, many states dedicate these funds to specific purposes. For example, Oklahoma dedicates some of their documentary stamp tax revenue to the modernization of local government technology. See more examples of documentary stamp/real estate transfer funding.

Nebraska's documentary stamp tax became effective January 1, 1968. With the tax already in place, it would be possible to allocate a portion of these funds to support early childhood programs and services statewide.

Documentary stamp tax rates in Nebraska

In 1965 Nebraska adopted a documentary stamp tax to become law upon repeal of the federal documentary stamp act. The Nebraska Documentary Stamp Tax Act became effective January 1, 1968.

- *November 18, 1965, through September 5, 1985: $0.55 per each $500 of value or fraction thereof.*
- *September 6, 1985, through December 31, 1992: $1.50 per each $1,000 of value or fraction thereof.*
- *January 1, 1993, through June 30, 2005: $1.75 per each $1,000 of value or fraction thereof.*
- *July 1, 2005, through current: $2.25 per each $1,000 of value or fraction thereof.*

In 2019 LB289 called for an increase in the documentary stamp tax from $2.25 to $3.25 as part of the much larger property tax legislation of the Revenue Committee. Although it did not pass, distribution of this additional $1 was to be credited to the property tax relief fund.

Neighborhood Assistance Program (NAP)

NAP offers tax credits annually for distribution by not-for-profit corporations in select states. Organizations use NAP tax credits as an incentive to help them leverage more contributions from individuals and businesses for certain neighborhood-based programs and projects.

Virginia offers tax credits to over 500 organizations in the state, including the Arlington Food Assistance Center. For a minimum gift of $500, an individual donor may be eligible to receive a 65% tax credit against his or her Virginia state income tax. Unlike a tax deduction, a tax credit reduces a donor's tax bill dollar-for-dollar.

Social Impact Bonds (SIBs)

Also known as the "Pay for Success model", SIBs are public-private partnerships with private dollars used as capital for funding programs or interventions and public dollars used to repay the investors if the program or intervention has improved a predetermined social outcome. States can be part of the negotiations and contribute to the 'pay back' when set metrics are achieved.

In 2013, Utah High Quality Preschool Program was launched in Salt Lake County, Utah, to provide preschool to children from low-income communities. Private investors included Goldman Sachs and the J.B. and M.K. Pritzker Family Foundation. Evaluation of the preschool model was based on studies conducted between 2006 and 2012, ultimately showing that the preschool program could reduce expected special education placements. The public payers included Salt Lake County and United Way of Salt Lake for the first year of the project and the State of Utah for subsequent years.

State-Issued Bonds

States can issue bonds for the purposes of supporting services or programs for children and youth.

In 2021, voters in Rhode Island supported authorization of up to $15 million in state-issued bonds for the Early Childhood Care and Education Capital Fund, used for improvements to and development of early childhood facilities.

Similar state ballot initiatives for K-12 education are common. Measures for early childhood specifically have appeared in California (1990) and Rhode Island (1982). Cities and counties have also used bond ballot initiatives to raise money for early childhood education services at the local level.

In-Kind Facilities Usage

Governments can support child-serving organizations by providing existing public facilities for youth services free of charge or at a discounted rate, which can help to serve more children by saving on the high costs of overhead. This is an option to consider for the many office spaces/buildings that are now vacant due to COVID-19.

Metro Nashville Public Schools matched $400,000 of city funding with in-kind facilities usage, transportation, and staff support to help the Nashville Afterschool Zone Alliance open a new 'zone' in 2010.

Methods that require private/non-governmental partnership

Community Reinvestment Act (CRA)

CRA agreements are between community organizations or governing bodies and financial institutions that pledge a multi-year program of lending, investments, and/or services from the bank toward CRA-approved activities for the community.

Grow Up Great by PNC Bank is a $500 million, multi-year, bilingual initiative that began in 2004 to help prepare children from birth to age 5 for success in school and life. To date, the program has supported 7 million children. See more Community Reinvestment examples from the Federal Reserve Bank of Pennsylvania.

Community Benefit Agreement (CBA)

CBAs are contracts between community groups (including coalitions, city councils, or governing bodies) and developers that detail how the developer's new project will benefit the community. While typically a method for local advocacy organizations to pursue, a local government can contribute to a CBA by incentivizing use of CBAs during negotiations and/or enforcing the contract once the CBA is finalized.

Advocacy organization Elevate ESTL in St. Louis, Mo., has created this sample ordinance that requires execution of a CBA for any development project seeking public investment above a certain threshold, including certain exemptions. See a comprehensive list of CBA examples by the Partnership for Working Families.

Employer-Offered Child Care Assistance

Employers can establish dependent care Flexible Spending Accounts and offer particpation during open enrollment periods. Employers may choose to directly subsidize their employees' child care bills or contribute to their employee's flexible spending accounts and receive a tax break. Employers can also negotiate priority placements with a select list of partner-dependent care providers.

Union Pacific in Omaha offers a child development center for its employees.

Three percent of more than 3,000 U.S. employers surveyed by the Society of Human Resources Management offered subsidized child care in 2018, according to Family Forward NC.

Revolving Loan Fund (RLF)

A revolving loan fund is a pool of capital from which loans are made and to which the loan repayments are returned and lent out again. Multiple organizations offer RLFs to schools, nonprofits, and providers to improve early childhood education.

In 2015, The American Federation of Teachers, along with its partners including Invest in Us and Amalgamated Bank, committed to launch a $100 million loan fund to renovate 350 existing classroom facilities and build an additional 250 new classroom facilities nationwide, impacting 36,000 children over the next three years.

Program-Related Investments

Program-Related Investments are investments by a charitable foundation at below-market rates to support organizations that are addressing social or community concerns. PRIs often take the form of loans, promissory notes or equity investments. They are similar to grants in that they support organizations and activities that advance the foundation's mission; however, they are different from grants in that they must be repaid.

The Jessie Ball duPont Fund invested $2 million in the Florida Community Loan Fund. The majority of those dollars are to increase affordable housing, however up to 25% of the investment can be used for other community projects like child care centers and health clinics.

Conclusion

Pursuing any innovative financing method will take effort and coordination, and no one of the above methods will fully fund a system of accessible, equitable, and high-quality early childhood services. However, some methods are better suited based on the specific needs or gap in funding, and the existence or opportunities for particular partnerships.

Factors to consider when deciding which methods to pursue and for what specific early childhood service should include:

- Amount of money the method would generate
- Ease and timing of implementation
- Additional partners and stakeholders needed
- Sustainability of funding

FIRST FIVE NEBRASKA promotes fiscally responsible, far-sighted public policies to advance high-quality early care and education opportunities for our state's youngest children.

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